

Weekly Economic Commentary – Jun 28, 2015

Markets

Stocks, bonds and currencies last week were heavily influenced by expectations of a deal between the Trojka and Greece with sharp fluctuations during the week. Stock markets in Europe ended the week on a strongly positive note, pushed up by hopes over a positive conclusion of the negotiation. However the abrupt break up at the Eurogroup Friday night will likely spook world bourses when they reopen on Monday. Stocks in emerging markets and Japan were rather upbeat despite the Shanghai Composite Index sank 7.4% on Friday, totalling a 19% plunge since its June 12 peak. Regional markets were little changed with the exception of the UAE. Tensions were more palpable in fixed income markets: the yield on 10-year German bunds jumped six bps to 0.92%, while 10-year Treasury note rates added seven bps to 2.47%, the highest in two weeks. On currency markets the euro fell across the board. Oil prices remained largely stable, and the gold price slipped again despite a score of deadly terrorist attacks and heightened uncertainty, confirming that the precious metal has lost its role as a safe haven.

Global Developments

US/Americas:

- **The US personal consumption expenditures price index**, the Fed's preferred inflation gauge, rose a seasonally adjusted 0.3% mom in May the biggest rise in over 2 years and largely reflected higher energy prices. Food prices were flat, and prices excluding food and energy ticked up 0.1% mom. In yoy terms for the 37th consecutive month, inflation undershot the Fed's 2%

target. as prices rose just 0.2% yoy in May, unchanged from April. Core inflation slipped to 1.2% yoy in May from 1.3% in Apr. **Personal income growth** remained strong in May growing by 0.5% mom.

- **Existing-home sales** exceeded expectations in May, rising by 5.1% mom and 9.2% yoy. New-home sales accelerated in May, recording a 2.2% mom growth corresponding to 19.5% yoy .
- **US real GDP** fell -0.2% qoq sa ann in Q1, according to the third estimate. This was down from 2.2% in Q4, but substantially higher than the second estimate of a -0.7% decline.
- **Initial unemployment claims** edged higher, from 268k to 271k. The four-week moving average dropped from 277k to 273,750.

Europe:

- The **Greek drama** has reached a climax with Prime Minister Tsipras calling for a referendum on the agreement proposed by the Trojka. Such move puts Greece on a collision course with the EU governments whose leaders have refused to extend a June deadline for the payment of past dues. De facto the country is in default and the next step will likely be the exit from the eurozone.
- The German **Ifo Business Climate Index** dropped to 107.4 in Jun from 108.5 in May pushed down by expectations and the current assessment components. This is the second consecutive monthly drop, reflecting lackluster GDP growth and uncertainty over Grexit.
- The **eurozone's M3 money supply** growth decelerated to 5% yoy in May, from a 5.4% in Apr confirming that the QE by the ECB is not gaining any traction.
- The **Conference Board Leading Economic Index** for the **eurozone** rose slightly to 106.5 in May from 106.2 in Apr.
- **Italy's confidence in manufacturing** advanced to 103.9 in

Jun from 103.4 in May, corroborating the rising purchasing managers' index for manufacturing.

- **Italy's new industrial orders** jumped 5.4% mom and 7.9% yoy in Apr from a -0.3% yoy drop in Mar.
- **Italy's retail sales** jumped 0.7% mom in Apr, following a -0.1% yoy decline in Mar, supported by stronger labour data. The **unemployment rate** dropped to 12.4% in Apr from 12.6% in Mar.
- **French manufacturers' sentiment** was 100 in Jun, 3 points below May while **the consumer confidence index** remained at 94 in Jun, the same as in the previous month.
- **Russia's consolidated federal budget** recorded a deficit of RUB 827 bn in Apr from a deficit of RUB 447.3 bn in Mar. To confirm the parlous state of the economy the manufacturing **business confidence** remained in negative territory in Jun at -6, unchanged from May.

Asia and Pacific:

- **The Chinese central bank** lowered again its rate by 25bps for the fourth time since Nov setting a record low at 4.85% and lowered reserve-requirement ratios for some lenders after two weeks of sharp stocks price slump.
- **Japan's CPI** weakened to 0.1% yoy in May after a slight increase of 0.3% in Apr. The Bank of Japan may be required to ease the monetary policy even further, to put upward pressure on inflation.
- **Japan's household spending** rebounded strongly by 8.3% yoy in May after rising 1.3% in Apr.
- **Hong Kong's monthly trade deficit** widened to HKD -40.1 bn in May up from Apr's HKD -39.2bn.
- **Singapore's industrial production** recovered to -2.3% yoy in May, from 9.1% drop in Apr. Singapore's outlook (a gauge of global activity) indicates a gradual recovery, but industrial production remains weak.
- **Bank of Korea's consumer confidence index** declined to 99 in Jun down from 105 in May.

- **Taiwan's industrial production** dropped 3.2% yoy in May after rising an upwardly revised 1.3% the previous month.

Bottom line: Amid lackluster macro data, markets' attention had been absorbed by the negotiation on the Greek bail out. The news of the referendum called by Tsipras after a series of dramatic meetings of the Eurogroup, has crushed the hopes of a positive outcome of the negotiations which had prevailed last week and for most of the past months. At this point it is unlikely that Greek economy will be able to survive until next Sunday if the ECB does not extend the emergency support to the Greek banks under the ELA program. German Chancellor Merkel has made clear publicly that the referendum is about the euro and the drama, and IMF Managing Director Christine Lagarde asserted that "legally speaking, the referendum will relate to proposals and arrangements which are no longer valid" because the Greek government has unilaterally withdrawn from the negotiation.

Regional Developments

- **Bahrain** reported a slowdown in economic growth, to 2.8% yoy in Q1 this year, from 4.0% in Q4 2014.
- **Mumtalakat**, which has a current portfolio of USD 7bn through 38 portfolio companies, was looking at multiple opportunities in the GCC, Europe and the US, according to its CEO.
- **Egypt** is forecast to **grow** at 4.3% in this fiscal year, as per the World Bank; this would be more than double the 2% registered last year. Growth would be driven by "strong private consumption due to resilient remittances, higher wages to civil servants, and contained food inflation".
- Bilateral **trade** between **Egypt and India** touched USD 5.5bn in 2014; the aim is to boost this to reach almost USD 8bn by 2016.
- **Egypt's** draft 2015-16 budget set aside EGP 61bn for **fuel**

product subsidies, revealed the chairman of state-run Egyptian General Petroleum Corp; though the draft budget was passed, specific details on subsidies were not disclosed.

- **Iraq** Ministry of Oil disclosed **exports** of roughly 97.5mn barrels of oil per day in May, with revenues of about USD 5447mn.
- Reuters reported that **Jordan** is planning to raise USD 1.5bn through seven- and 10-year **bonds** backed by the United States Agency for International Development.
- **Exports** from **Jordan** amounted to JOD 1.7bn in the first four months of this year, declining by 12.1% yoy, while there was a 13.7% dip in domestic exports to JOD 1.5bn.
- **Kuwait** reported a **current account surplus** of KWD 15.1bn last year; however, at 32% of GDP, this was lower compared to the KWD 20.2bn gain the year before.
- The World Bank, in a recent report, revealed that “inadequate productive job creation has likely stymied rapid poverty reduction and shared prosperity” in **Lebanon**. It underscored that investments in infrastructure was required to create more jobs, reduce poverty and improve the quality of life.
- The Central Bank of **Oman** reiterated that the **small and medium enterprise (SME) sector**, contributing 20% to GDP, is a driving force in the country’s non-oil real GDP growth.
- **Oman’s real economic** growth is projected at 4.6% this year, despite a fall in crude oil prices, Central Bank of Oman said in its financial stability report.
- **Total crude oil production** in Oman stood at **115.7bn** barrels at the end of Apr, with a rise of 2.3% over the same period of 2014.
- The **Oman budget manual** issued by the Ministry of Finance revealed that the government is estimated to spend about OMR5.2bn on salaries, allowances and other benefits for its civilian employees in 2015.
- Bank **deposits** in **Qatar** was up 1.7% mom in May while the

loan book was broadly flat following a 0.5% decline the month before. Meanwhile, credit growth in the public sector declined ytd by 7.6%.

- **Qatar** will likely witness **infrastructure investment** to the amount of USD 200bn, according to a Samba report – which also revealed that spending explicitly linked to the world cup is about USD 15.4bn, which represents only 7.5% of the capex.
- **Non-oil exports** from **Saudi Arabia** fell 14.5% to SAR 47bn in Q1 while Saudi imports grew by 6.88% to SAR 162.5bn. China continued to be the biggest exporter into KSA, accounting for 15.18% of the total Saudi imports.
- A **Swiss National Bank** report showed that Emiratis topped the list of **deposits in Swiss banks** with savings of over USD 14.5bn, followed by Saudis (USD 10bn), Lebanese (USD 6.1bn), Kuwaitis (USD 4.1bn), Egyptians (USD 3.01bn) and Jordanians (USD 2.13bn), according to the official annual report.
- UAE featured in the top 5 countries globally under the **KPMG 2015 Change Readiness Index**, depicting the country's readiness to dealing with change brought about by factors like economic and political shocks, to long term trends such as technologies and demographics. While UAE was the only Arab country to feature in the top 5, Qatar followed close at 7th.
- **Total investment by SMEs** across GCC reached USD 15.3bn in 2014, USD 6bn of which was in small enterprises, according to the Gulf Organisation for Industrial Consulting.

UAE Focus

- **UAE inflation** was up 0.3% mom and 4.3% yoy in May, thanks to higher housing and utility costs which were up 9.4% yoy.
- **Dubai inflation** touched the highest this year, and the highest since May 2009, at 4.67% in May; housing and

utility remained a key factor contributing to the rise – up 7.8% yoy and 0.7% mom.

- **S&P** expects a moderate correction in **Dubai residential real estate prices**, to the amount of 10-20%, but expects the emirate to absorb the shock better compared to 2009, given revenue predictability and mix, product mix, and solid capital balance sheets.
- **Non-oil foreign trade** in **Abu Dhabi** touched AED 13.4bn in Mar this year, of which, AED 9.7bn were imports, AED 2.1bn were non-oil exports, and AED 1.6bn were re-exports.

Media Review

Greece's referendum

<http://www.bloomberg.com/news/articles/2015-06-28/tsipras-asking-grandma-to-figure-out-if-greek-debt-deal-is-fair>

The Chinese central bank desperate to prevent margin calls

<http://www.bloomberg.com/news/articles/2015-06-27/china-cuts-interest-rates-reserve-ratio-in-bid-to-stem-slowdown>

Snapshots on the US house market

<http://blogs.wsj.com/economics/2014/10/24/the-u-s-housing-market-in-10-charts>