

Weekly Economic Commentary – Jul 5, 2015

Markets

Greece has been the overriding concern in trading rooms around developed countries, distracting attention from China's woes, which are potentially much more disruptive. The Shanghai Composite has collapsed 12.1% since Monday (and down 28.6% since the June 12 seven year peak), its third consecutive week of double-digit losses. Even the tech-heavy Shenzhen Composite has fallen 33.2%. European bourses have lost 5% (not much considering the frenzy over Greece) pulling down all other major world markets. Regional markets however were mixed and some in the GCC inched up. Currency markets were nervous but did not fluctuate much, considering the ongoing tensions; the big winner was the yen, while the euro obviously did not shine. The uncertainty hit oil prices, which recorded significant loss. Gold continued its slide.

Global Developments

US/Americas:

- **US non-farm payrolls** added 223,000 units in Jun after a downwardly revised 254,000 units in May. The unemployment rate declined to 5.3% thanks to a drop in the participation rate to 62.6% the lowest since 1977. The bigger disappointment comes from hourly wages which remained flat.
- **Initial claims for unemployment insurance** increased by 10,000 to 281,000 .The four-week moving average inched higher, rising by 1,000 to 274,750.
- **The ISM manufacturing index** rose from 52.8 in May to 53.5 in June. Manufacturing is emerging from its recent weakness but is not yet in a solid recovery. The bulk of

the improvement was concentrated in the employment index, as it rose from 51.7 to 55.5 in June.

- **The pending home sales index** rose 0.9% yoy sa to 112.6 in May, continuing its string of gains in 2015, and touching another post-recession high. **Existing-home price appreciation** slowed in the 3 months ended in Apr relative to the 3 months ended in March. **The Case-Shiller** 10-city composite index is up 4.6% yoy, compared with 4.7% mom. The 20-city index is up by 4.9% yoy, down slightly from 5% mom. Prices are driven by tight supply of housing at the lower end of the market.
- **The Conference Board Consumer Confidence Index** jumped 6.8 points in Jun, beating expectations, to reach 101.4 thereby matching its most recent high in Mar.

Europe:

- **Euro zone inflation** slowed to 0.2% yoy in Jun from 0.3% in May. The growth in prices was largely due to a 1.2% increase in food and beverage costs: **euro zone producer prices** which dropped 2% yoy in May (marginally less than in Apr) indicate that deflation is not yet conquered.
- **Euro zone's economic sentiment** indicator decreased marginally to 103.5 in Jun but remained near its long-term high reached in Apr.
- **Euro Zone Retail Sales** grew 0.2% mom (2.4% yoy) in May, against 0.7% mom (2.7% yoy) in Apr. **German retail sales** in particular increased 0.5% mom in May, following a revised 1.3% rise in Apr. **Spanish retail sales growth** weakened to 1.7% yoy in May, following a 2.5% increase in Apr.
- **Euro zone's unemployment rate** in May was 11.1%, unchanged from Apr. Among the individual countries **French unemployment** rate rose 0.5% in May after increasing 0.4% in Apr. **Italy's unemployment rate** remained at 12.4% in May, compared with Apr. **Germany's unemployment** rate remained at 6.4% for the fourth

consecutive month in Jun.

- **The UK consumer confidence** index rose sharply to 7 in Jun, up from 1 in May.
- **The UK housing Price** Index unexpectedly fell -0.2% mom (3.3% yoy) in Jun following a 0.2% mom rise (4.6% yoy) in May.
- **Russia's GDP** in Q1 was down -2.2% yoy. Private consumption plunged -9% yoy and imports fell -25%, hit by lack of domestic demand, sanctions and devaluation. Fixed investment fell -8.8%. On the other side exports rebounded 4.5%.
- **New-vehicle registrations in Germany** jumped 12.5% yoy in Jun offsetting a -6.6% decrease in May.

Asia and Pacific:

- **Japan's industrial production** fell a sharp 2.2% mom in May, reversing Apr's 1.2% gains.
- **Japan's retail sales** grew 3% yoy in May on track with Apr's 5% strong gains.
- **Japan's housing starts** elevated to 5.8% yoy in May, following 0.4% and 0.7% gains in Apr. and Mar. Consecutive gains are expected to continue as the tax hike cut seems to have come to an end.
- **Japan's Tankan index** gained 3 points reaching 15 points in Q1, suggesting Japan's largest manufacturers maintain a degree of optimism.
- **South Korea's inflation rate** rose 0.7% yoy in June, up from 0.5% in May. However, inflation remained flat on monthly basis.
- **Australia's retail sales** surprised on the upside and rose 0.3 mom in May, after a 0.1% drop in April.
- **Thailand's private consumption** fell -0.4% yoy in May, down from the previous month 0.2%. while **industrial production** continue to disappoint dropping sharply by -7.6% yoy in May.

Bottom line: In a week with few big data releases (except a

lacklustre US payroll) the Greek referendum took again center stage. The ballot will decide the direction in which the EU will evolve in the medium term. If the YES wins it will be a political asset for those who champion austerity and orthodox fiscal policy. If the NO prevails it will open the way to a Grexit. In both cases Chancellor Merkel intends to push for a stronger EU federal arrangement to form a fiscal common policy and purge fiscal profligacy from the euro area members. Meanwhile in China the burst of the stock market has hit large parts of an already shaky financial system. When the Chinese bourse was rising, pundits praised the government for its wise policies and its grip on the market. The sudden plunge has exposed the economic mismanagement and highlighted that the too timid approach to reforms is not working.

Regional Developments

- **Egypt** grew by 3% yoy in Q3 of the financial year 2014-15, up from 2.5% reported during the same period a year ago.
- The World Bank will provide **Iraq** with USD 1.7bn in loans, according to the Ministry of Finance, of which USD 1bn would be a development policy loan while USD 350mn will be set aside for reconstruction purposes.
- With **Iraq's** budget deficit at close to 12% of GDP, the country is planning to tap funds by **issuing bonds** worth USD 11bn in domestic and international bonds in the next two months, revealed the central bank governor.
- **Jordan's GDP** grew by 2% yoy in Q1 2015, with extractive industries posting a 10.1% rise in output, while the construction sector reported a negative growth.
- **Kuwait** has approved the **budget** for this year, which estimates a deficit of KWD 8.18bn, nearly half of total expenditure (KWD 19.17bn); revenues of KWD 12.2bn was calculated based on an average USD 45 per barrel oil price. The country reported an estimated deficit of KWD 2.31bn last fiscal year, after contributions to the

Future Generations Fund – its first deficit since the 1999/2000 fiscal year. Kuwait's Finance Minister was separately caught stating that it may issue bonds to finance the deficit.

- The **IMF**, after its annual **Article IV** consultation in **Lebanon**, released a statement mentioning electricity reform as a critical priority, while highlighting the need for labor reforms, improvements in public service provision, and legislation to reinvigorate private investment, including in the oil and gas sector.
- The Central Bank of **Oman** disclosed in its 2014 **Annual Report** that the agriculture and fisheries sector grew by 9.4% in 2014 compared to 8.8% growth in 2013. The agriculture sector is expected to contribute 3.1% to the GDP by 2020 with an annual growth above 4.5%, while the fishing sector aims to expand its contribution to GDP to about 2% by 2020 with a targeted annual growth of 5.6%.
- **Oman** is considering investment in fuel storage capacity in **East Africa** with the aim of boosting sales in key markets in the continent, according to a report by Bloomberg.
- **Oman's** conventional banks' **net profits** grew to OMR363m, according to the Central Bank. **Qatar's** emir has issued directives to **privatise** some government and semi-government-funded investment companies within a specific timeframe, based on the results of a study on investment firms.
- **Qatar** is the fastest growing **construction** and infrastructure market in the GCC region, according to BMI Research. BMI's 10-year forecasts reveal an annual average real growth rate of 10.2% in Qatar's construction industry, although growth is expected to be elevated in the run-up to the 2022 FIFA world cup, averaging 11.4% between 2015 and 2022.
- Foreign **trade surplus** in **Qatar** hit QAR 15.2bn in May: exports dipped by 38.9% yoy to QAR 24.8bn while imports posted a 10% yoy increase to QAR 9.6bn. Japan was the top

destination for Qatar's exports (19.3% of total exports) while US topped list of importers, with its share at 11.6%.

- **Foreign investors** bought SAR 2.63bn worth of share, or 2.33% of all shares purchased in June on **Saudi Arabia's** stock market; this compares to the purchase of SAR 1.35bn of shares in May, accounting for 0.83% of total shares bought.
- **Saudi Arabia** reported a 2.4% yoy **GDP growth** in Q1, up from a revised 1.6% growth posted in Q4 last year.
- **Foreign reserve assets** at **SAMA** fell 1% mom and 8.1% yoy to SAR 2.525trn in May – the lowest level since Apr 2013; assets had peaked at USD 737bn in Aug. Data showed that deposits with banks abroad fell 22% between August and May, while securities holdings were, in comparison, just 7% lower.
- **FDI inflows** to the **western Asian** countries fell for the sixth consecutive year in 2014, down 4% to USD 43bn, according to UNCTAD. Turkey was the largest recipient of FDI among the countries, attracting USD 12.146bn last year, followed by UAE and SAudi Arabia at USD 10.1bn and USD 8.0bn respectively. The report also added that of the USD 157bn contracts awarded by the GCC, companies in Saudi Arabia captured the highest portion of those deals at USD 66bn, followed by UAE (USD 52bn), Qatar (USD 22bn), Kuwait, Bahrain and Oman (USD 17bn).

UAE Focus

- The drafting of **corporate tax and VAT laws** are expected to be completed by Q3 this year, revealed a senior **UAE** Ministry of Finance official. While the economic and social impacts are still being studied, a recent ministry report stated that the UAE cabinet had approved versions of the two draft bills.
- **Personal loans** in the **UAE** were up 6.5% yoy to 1.3 trillion at the end of Mar this year, with Emirates NBD

and NBAD accounting for about 34% of the total. Personal borrowings accounted for about 30% of the total loans granted by UAE banks.

- The Abu Dhabi financial free zone, **ADGM**, has published **draft laws** – open for public consultation for a 6-week period – covering fund management, market operations, information disclosure and enforcement of its rules. The free zone is expected to accept its first financial services license applications by end of this year.
- The **Dubai Land Department** has disclosed that it has no plans to increase **registration fees** from the current 4% and also that it does not plan to raise the charges, which are collected from dealers to complete their real estate transactions, in the near future.
- **UAE passenger traffic** data for May showed a 23.2% yoy increase to 6.2mn people in Dubai while in neighbouring Abu Dhabi, the numbers were up 14.9% to 1.8mn passengers. Year to date, Dubai and Abu Dhabi reported a total 32.38mn (+9.4%) and 9.3mn (+18.5%) respectively.
- **DMCC** reported growth of over 10% in company registrations during the first six months of this year to over 16k companies.

Media Review

The Greek referendum minute by minute

<http://www.politico.eu/article/eurogroup-tsipras-meeting-brussels-greek-debt-crisis/>

Greece needs 60 bn euro

<http://www.ft.com/intl/cms/s/0/2ba0e056-20cd-11e5-ab0f-6bb9974f25d0.html#axzz3ephK5dqK>

The political hurdles after the referendum

<http://www.ft.com/intl/cms/s/0/5ca85a84-219b-11e5-ab0f-6bb9974f25d0.html#axzz3ephK5dqK>

China's stock market rout

<http://www.ft.com/intl/cms/s/0/dec6da5c-2157-11e5-aa5a-398b2169cf79.html#axzz3ephK5dqK>

A guide to Iranian nuclear talks

http://www.zawya.com/story/A_guide_to_Iranian_nuclear_talks-ZAWYA20150629051322/