

Weekly Economic Commentary – Jul 12, 2015

Markets

The week was dominated by the aftermath of the Greek referendum and the dramatic turn of events with the clock ticking towards Grexit. To make things worse the Chinese stock market is in free fall and half of the stocks have been suspended. Furthermore, large institutions are banned from selling shares for six months. Towards the end of the week both crises seemed to have been contained, but the situation remains tense and the negative repercussions have been felt in all bourses including the regional ones, which were under pressure due to the oil price volatility. In fact the burst of the Chinese bubble has affected all commodity markets. Furthermore oil inventories increased by 400k barrels in the US, against expectations of a 490k-barrel decline. It is increasingly likely that a bear market in energy commodities will prevail for the rest of the year. Gold on the other side was little affected, which is almost unprecedented in a period of such heightened global uncertainty. The currency market was remarkably calm considering the tensions with the euro managing to score limited gains.

Global Developments

US/Americas:

- The **ISM non-manufacturing PMI** rose to 56 in Jun, from 55.7 the previous month, with new orders up to 58.3 (May: 57.9) and exports sub-index slowing to 52.0 after it jumped to 55.0 from 48.5 in Apr.
- The **minutes** of the June 16-17 Federal Open Market Committee (**FOMC**) meeting showed policymakers were not overly concerned about the US economy's slow start this

year, but the situation in Greece wasn't sitting well – it is pertinent to note that the FOMC met prior to the call for a surprise referendum and its “No” result.

- **Wholesale inventories** rose by 0.8% mom in May, the fastest pace in six months, while Apr's inventories were upwardly revised by USD 100mn. Sales increased by 0.3%, and Apr sales were upwardly revised by USD 200 mn.
- **Initial jobless claims** unexpectedly increased to 297k last week from 282k, resulting in the four-week moving average to rise to 279,500 from 275k. The claims are the highest since the week of Feb 28 this year, but are probably influenced by the Jul 4 holiday and seasonal shutdowns.

Europe:

- **Greece** is inching closer towards an exit from the Eurozone, with last night's Euro zone finance ministers' talks also failing to result in an agreement. While discussions are to resume today at 9.00am GMT, Finland rejected any more funding for the country and Germany called for Greece to be turfed out of the currency bloc for at least five years.
- Mostly upbeat **industrial production** (IP) data: **German IP** remained unchanged in May from the previous month, following a revised 0.6% uptick in Apr. **France IP** added 0.4% mom in May, following a revised -0.8% drop in Apr. **Italy's IP** rose 0.9% mom in May, following a -0.3% decline in Apr. **Spain's IP** continued to expand in May, rising 4% yoy, following a 2.1% yoy increase in Apr.
- **German manufacturing orders** fell -0.2% mom (4.8% yoy) in May, following a 2.2% mom (1.3% yoy) increase in Apr. The country's **trade surplus** widened to EUR 22.8bn in May from Apr's revised EUR 21.5bn.
- The **UK Halifax house price index** was up 1.7% mom in Jun, following a revised 0.3% rise in May.
- The **Bank of England** kept unchanged its main **repurchase**

rate at 0.5% and target for asset purchases at GBP 375bn in Jul.

- The **UK trade balance** for goods was in deficit by GBP 8bn in May following a revised GBP 9.4bn shortfall in Apr.
- **France's fiscal deficit** widened to EUR 63.9bn in May from Apr's EUR 59.8bn while **foreign trade** deficit expanded to EUR 4bn in May from a revised EUR 3.3 bn in Apr.
- Revised residential **property prices in France** declined -0.1% qoq in Q1, following a decrease of 1.2% in Q4.
- **Russian consumer prices** rose 0.2% mom in Jun, after reporting a 0.4% increase in May.

Asia and Pacific:

- **Inflation in China** edged up to 1.4% yoy in June, rising slightly above a 1.2% increase in May. **Producers Price Index** (PPI) continued to remain deflationary – falling 4.8% yoy in June, sinking further from a 4.6% decrease in May, and recording the 39th consecutive month of declines. Monetary easing actions are expected given weak domestic demand and low inflationary pressures; this could lead to a recovery in the second half of the year.
- **Japan's consumer confidence index** increased to 41.7 in Jun up from 41.4 in May. Overall, wages negotiations have been positive, along with favorable expectations on income growth, inflation and employment situation.
- The **Reserve Bank of Australia** kept the cash rate at 2.0%, following July's policy meeting.
- **Taiwan's CPI** fell 0.6% yoy in June, in line with previous month's 0.7% drop. The Central Bank is expected to hold rates.
- **India's industrial production** increased 2.7% yoy in May, after recording a 4.1% gain in Apr. Expectations remain optimistic about growth in manufacturing, mining and electricity sectors.

Bottom line: The macro data have been sidelined for the time being as investors' attention focuses on the Greek crisis and the Chinese bubble. Two visions are battling in the markets: those who think that these problems are the tail of the global crisis initiated in 2007 and those who worry that these might be the inception of a more virulent phase of the Great Recession.

Regional Developments

- **Bahrain's budget** for 2015-16 has been passed after a six-month delay, with the changes requested by Parliament leading to the deficit rising to BHD 1.504bn in 2015 and further to BHD 1.505bn in 2016 (from the draft budget's deficit estimates of BHD 1.47bn and BHD 1.563bn this and next year respectively).
- **Egypt's PMI** grew slightly in June, after five consecutive months of contraction, with the index rising to 50.2 (May: 49.9), thanks to an increase in output, new orders and new export business.
- The central bank revealed that **Egypt's foreign currency reserves** rose by 2.7% mom to USD 20.08bn at the end of June from USD 19.56bn in the previous month.
- **Egypt's** central bank governor disclosed that the country paid back debt of USD 670mn to the Paris Club of creditor countries this month, reducing further Egypt's **total foreign debt**, which had dropped to USD 39.9bn in Q3 ending in Mar. Egypt's **debts to foreign oil companies** increased 6.1% qoq to USD 3.5bn at end-Jun, according to an official at state-owned Egyptian General Petroleum Corporation. Separately, **domestic debt** reached EGP 2.016 trillion in Q3, reflecting the government's dependence on domestic borrowing to finance debt.
- **Iraq** plans a **domestic bonds issue** of USD 5bn worth medium-term notes, with maturities of between 12-18 months, starting Q4 this year to finance its budget deficit, Reuters reported, quoting an official. The

bonds will be denominated in USD, open to local banks, other institutions and retail investors, and issued in stages based on investor demand.

- The Central Bank of **Jordan**, citing lower inflation rates, cut its benchmark lending rates by 25bps to 2.5%, while discount and overnight repo rates were lowered to 3.75% and 3.5% respectively.
- **Inflation** in **Kuwait** edged down to 3.3% yoy in May (Apr: 3.4%), in spite of an increase in food prices (May food inflation rose to 2.6% from 2.3% in Apr).
- **VAT reimbursements** to **Lebanon**'s tourists grew 7% yoy in H1 this year, according to Global Blue Lebanon, the firm that reimburses VAT to tourists at Lebanese border points. The highest share of spending (16%) was by residents of Saudi Arabia, followed by the UAE and Kuwait at 14% and 6% respectively.
- **Oman nominal GDP** grew at 4.6% in 2014 compared to 2.4% growth in the previous year. The petroleum sector contracted by 2.4% while the non-oil sector reported 10.1% growth during the year.
- **Inflation rate** in **Oman** increased 0.18% yoy and 0.51% mom in June, according to data released by the National Centre for Statistics and Information. In mom terms, prices of foodstuffs and non-alcoholic drinks group rose by 1.81%.
- **Oman**'s biggest sovereign wealth fund, **State General Reserve Fund**, has started legal action against the Bulgarian government over the collapse of Corporate Commercial Bank (Corpbank), reported Reuters, citing a source at the fund.
- **Qatar**'s **real GDP** grew 4.1% yoy to QAR 199.21bn in Q1 this year, up from 3.4% in Q4 last year, according to official preliminary estimates. Nominal GDP is however estimated to have dipped 14% yoy to QAR 173.03bn in Q1 2015.
- Moody's forecast a stable outlook for Qatar's banking system: it expects **Qatar banks** to report strong

earnings, sound capital buffers and low levels of non-performing loans in the coming 12-18 months, supported by robust government spending.

- **Qatar's crude oil production** is expected to rebound and average 709k barrels per day (bpd) in 2015, as per QNB estimates. Crude oil production rose to 642k bpd in May, up from Apr's 635k bpd.
- **Saudi Arabia** reported slower **PMI** in June: at 56.1, it was lower compared to May's 57 and at the lowest level since the survey was launched in Aug 2009, attributed partly due to the onset of Ramadan.
- **Saudi's** capital markets regulator is starting to accept applications for operating **licences** from **credit rating agencies**: a statement revealed that agencies which apply before end-Aug will be allowed to operate until they receive a licence, which will happen by end-Aug 2016.
- The number of **Syrian refugees** in neighbouring countries passed 4 million, reported the UN refugee agency UNHCR; this is expected to reach 4.27 million by the end of 2015.

UAE Focus

- Non-oil sector activity slowed in the **UAE**, with **PMI** at a 22-month low of 54.7 in Jun (May: 56.4); among the indicators, output growth dropped to 57.5 points from 62.8, while new order growth fell moderately to 57.7 (60.9).
- **Dubai** overtook Malaysia to become the leader in **listing Islamic bonds** on its exchanges. Together, Nasdaq Dubai and DFM have a total USD 36.7bn listed sukuk, from just USD 7bn in 2013, surpassing Malaysia (USD 26.6bn), Ireland (USD 25.7bn) and London (USD 25.1bn). While 56% of Dubai's listed sukuk are from UAE issuers, 22% are from Saudi Arabia. It is important to note though that about USD 69 billion of sukuk were issued in Malaysia last year – just that not many were listed.

- The **UAE** is expected to **grow** at 3.8% in 2015, according to Standard Chartered, compared to the 4.5% growth last year. For Dubai, the bank's estimates reveal that while tourism and related retail sector growth drop, trade growth is expected to remain robust.
- Frost & Sullivan estimates reveal that the **UAE logistics market** is expected to be worth USD 27bn in 2015, rising 15% from 2013, thanks to strong trade activity in addition to an uptick in local manufacturing.

Media Review

The consequences of the Chinese stock market rout

<http://www.economist.com/blogs/buttonwood/2015/07/chinas-stock-market>

The new oil bear market

<http://www.ft.com/intl/cms/s/2/cd5c91ee-248b-11e5-bd83-71cb60e8f08c.html#axzz3f8NNv2Fz>

Oil market needs stronger demand

<http://www.artberman.com/something-solid-world-oil-demand-increases/>

The economic consequences of ISIS

http://www.zawya.com/story/Arab_growth_hit_by_rise_of_Islamic_State-ZAWYA20150706080948

Egypt's fragile recovery

http://www.zawya.com/story/Egypt's_fragile_recovery-ZAWYA20150708070809/

Will Greece make it?

<http://www.project-syndicate.org/commentary/will-greece-make-it>