

Weekly Economic Commentary – Jul 26, 2015

Markets

Weaker than expected corporate earnings and weak manufacturing data (China, EU) have led to declines in both stock and commodity prices. Despite closing on a higher note last Monday, both S&P 500 and FTSE Eurofirst 300 indices have posted weekly losses. Closer home, the DFM reported its largest weekly advance since the end of April while the Abu Dhabi index touched an 8-month high during the week, supported by banks. The dollar edged up against most major currencies; both gold and oil prices were down in weekly terms, though the former climbed after posting a 5 ½ year low earlier in the week while the latter is at the lowest since March. Copper prices were at the lowest since Jul 2009 while commodity currencies like the Australian dollar fell to a 6-year low against the greenback. Commodity exporting countries are suffering accordingly.

Global Developments

US/Americas:

- **Existing home sales** in **US** came in at 5.49 mn annualized in June: an increase of 3.2% mom, the fastest pace in eight years, and 9.6% yoy. **New home sales** fell to a 7-month low in Jun, dropping 6.8% mom to a seasonally adjusted annual rate of 482k units.
- Flash estimates of **manufacturing PMI** in the **US** showed an uptick to 53.8 in Jul from a 20-month low of 53.6 in June, thanks to stronger rises in output and new business levels though job creation eased to its weakest since Apr.
- The **Conference Board** index of leading indicators was up

by 0.6% in June. In the six months ended in June, the leading economic index increased by 4.3% at an annualized rate. The coincident index rose 0.2% in June.

- **Initial jobless claims** fell 26k to 255k last week, with the four-week moving average dropping from 282,500 to 278,500.

Europe:

- **Greece crisis:** The ECB and IMF confirmed last Monday that they received **debt payments** from Greece. Greece is going through approval of its set of **reforms**, hoping to complete the negotiations before the Aug 20 deadline, when another payment to the ECB comes due. S&P upgraded the country's **rating** from CCC- to CCC+ with a stable outlook on Tues.
- The flash reading for **Euro area composite PMI** fell to 53.7 in July, down from a 4-year high of 54.2 in Jun. Manufacturing PMI unexpectedly fell in July to 52.2, while services PMI also declined more than estimates, to 53.8. **German composite PMI** fell unexpectedly in July, to 53.4 (vs. 53.9 estimated), with manufacturing (51.5) and services (53.7) PMI both falling more than forecasts.
- **German producer price index** declined 0.1% mom in June versus expectations for a flat reading; excluding energy, producer prices were up +0.1% mom but down 0.2% yoy.
- **Retail sales** in the **UK** unexpectedly fell in June, by 0.2% mom, with a broad-based drop in sales: food sales fell by 0.3% and those for household goods dropped 0.9%. In yoy terms, sales growth slowed to 4.0% in Jun (May: 4.7%) – the slowest annual growth rate since Sep 2014.
- **Italy retail sales** fell unexpectedly by 0.1% mom in May, with sales of food products decreasing 0.2% while non-food product sales remained unchanged.

Asia and Pacific:

- **Flash** Caixin/ Markit **PMI** reading for **China** showed that manufacturing contracted to a 15-month low and for a fifth consecutive month in July, falling to 48.2. Both domestic and external demand remained weak – new orders and new export levels were lower at 48.1 and 46.6 respectively.
- **China FDI** growth slowed sharply to 0.7% yoy in Jun (May: 7.8%), bringing FDI to a total USD 68.41bn in H1 this year (+8.0% yoy). The value of M&A activity was at USD 13.19bn, up 336.5% yoy, while its proportion of total FDI ballooned to 19.3% from 4.8%.
- **Japan trade deficit** narrowed by 77.4% yoy to JPY 1.73 trillion in H1 this year, with the month of June alone witnessing a 91.7% yoy plunge in trade deficit to JPY 69bn. Japan's exports to the key North American market were up 16.9% over H1, 5.1% to EU while exports to China rose a less robust 2.2% since Jan.
- **South Korea's Q2 GDP** growth came in at 2.2% yoy, as a result of the MERS outbreak and weak exports. GDP was up only 0.3% qoq in Q2 (Q1: 0.8%), recording a six-year low.
- **Singapore CPI**, at -0.3% yoy in Jun, edged up from May's -0.4%, but registered the eighth consecutive month of price declines; the core figure at 0.2% yoy (May: 0.1%). Food inflation increased to 2% (1.8%) while accommodation cost fell 2.6% in June (May: -2.5%).
- **Singapore's industrial production** declined in June to -4.4%, for the fifth consecutive month, driven by a slide in marine and offshore engineering output alongside weakness in electronics and pharmaceuticals production.

Bottom line: Weak data from both China and EU seem to indicate slowing growth in the global economy, with emerging economy commodity exporters suffering. While Greece is progressing with its reforms, though Tsipras is struggling to contain a rebellion in the Syriza party, a show of might came last week

from the BRICS bloc New Development Bank, which revealed that its first loan will be issued in Chinese Renminbi, and is expected to be approved by Apr 2016.

Regional Developments

- **Inflation** in **Bahrain** fell to 1.7% yoy in Jun (May: 2.4%), though food and non-alcoholic beverages recorded a rise of 3.8% yoy and 1.6% mom.
- Slowing economic growth is likely to impact **banking sector** growth in **Bahrain**, according to Moody's, but strong liquidity and capital buffers are expected to provide financial flexibility.
- A business conference in Vienna was the week's highlight in regard to **Iran**: Officials at the conference said nearly 50 oil and gas projects worth USD 185bn had been identified, to be signed by 2020. It was also revealed that the country would cut the government's role in the economy, pledged a tight monetary policy in addition to offering to sell state assets to foreigners.
- **Jordan** expat **remittances** increased by 1.5% yoy during H1 2015 to USD 1.877bn, according to the central bank. Last year, remittances reached over USD 3.66bn from its around 750k expats.
- **Labor force** participation rate in **Kuwait** touched 72% in 2014, with the highest participation rate of 86.7% recorded for the age group 25-34 (97.9% for males and 71.8% for females). Unemployment rate during the year was about 2.9%.
- Conventional banks in **Oman** reported a 9.64% yoy growth in **credit disbursed** to OMR 17.45bn for the Jan-May period. Credit to the private sector was up 9.52% to OMR 15.18bn during this period.
- The central bank of **Oman** announced the new issue of **Government Development Bonds**: with a size of OMR 300mn, it will carry a coupon rate of 3% per annum, with a maturity period of 5 years. The issue will be open for

subscription from Jul 26 and will remain open till Aug 2. Along with a previous bond issue of OMR 200mn, this bond issuance is expected to finance partly the country's budget deficit of OMR 2.5bn.

- Around 618,000 **tourists** visited **Oman** this year until end-Apr 2015, with GCC visitors topping the list (11.6%), followed by Indians, British nationals and Germans.
- **Oman's** total **subsidies** will touch USD 7.27bn this year, or 8.9% of GDP, according to IMF estimates. This compares to a subsidy estimate at USD 4.64bn for 2015 in the state budget and an actual subsidy of USD 4.36bn last year.
- **Crude oil exports** from **Saudi Arabia** in May fell to the lowest since Dec, reporting shipment of 6.935mn barrels per day (bpd) on average, down from 7.737mn bpd in April, and in spite of increased production levels. Crude production for May was at 10.333mn bpd, slightly above Apr's 10.308mn bpd.
- Jadwa Investment has raised its **GDP growth** estimates for **Saudi Arabia** to 3.3% in 2015, from the previously forecast 2.5%, with significant upward revision for oil sector predictions (+1.6%, up from previous forecast of -0.6%).

UAE Focus

- The **UAE** will **deregulate fuel prices –the first country in the GCC-** starting Aug 1, when a new pricing policy linked to global prices will be adopted. At present, a litre of petrol sells for AED 1.73 (47 US cents).
- **Abu Dhabi GDP** grew 2.2% to AED 952.6bn in 2014, revealed Statistics Centre Abu Dhabi, thanks to construction which reported a 9.6% share of non-oil GDP, while finance and insurance accounted for 7.2% of the non-oil economy.
- **Inflation** in the **UAE** increased 0.3% mom and 4.2% yoy in

Jun; among the components, housing and utility costs were up 10.2% yoy and 0.8% mom.

- **Bank lending** in the **UAE** increased at the highest rate this year, recording 8.8% yoy growth in Jun (May: 8.0%), while money supply, at 1.0%, was at the lowest since Jul 2012.
- **Jebel Ali Port** maintained its most productive port ranking in 2014, as per the JOC Port Productivity report, handling 131 moves per ship per hour, a 10% improvement on the 119 moves reported in 2013.

Media Review

Why the Greek Deal will work

<http://www.project-syndicate.org/commentary/why-the-greek-deal-will-work-by-anatole-kaletsky-2015-07>

Brazil's frail economy

<http://qz.com/463455/brazilians-have-noticed-their-economy-is-falling-apart/>

Japanese companies have swallowed up at least one foreign company a day, on average, for the last decade

<http://qz.com/463277/japanese-companies-have-swallowed-up-at-least-one-foreign-company-a-day-on-average-for-the-last-decade/>

How to think about Islamic State

<http://www.theguardian.com/books/2015/jul/24/how-to-think-about-islamic-state>

More than just sanctions hold back trade with Iran

http://www.zawya.com/story/Foreign_firms_say_more_than_just_sanctions_hold_back_trade_with_Iran-TR20150723nL5N103570X2/

Qatar's Financial Market Reforms

http://www.zawya.com/story/Qatar_progresses_with_market_reform-ZAWYA20150722041833/