

Weekly Economic Commentary – Aug 2, 2015

Markets

Stock markets were severely hit on Monday by the plunge of the Chinese bourses despite exceptional measures taken by the authorities. When the dust settled indices displayed a divergent performance, with mature economies recording limited gains, while emerging markets ended up in negative territory. Overall the main equities markets had a good month with the S&P 500 showing its best performance since February. Regional markets, with the exception of Egypt and Morocco, fell led by Saudi Arabia hit by the oil price woes. In currency markets the movements were minimal among major crosses. Oil prices fell again to touch multi month lows and gold continued its slide down.

Global Developments

US/Americas:

- **US Real GDP** rose 2.3% qoq ann in Q2, from a 0.6% gain in Q1. Private consumption, exports, state and local spending, and residential fixed investment supported growth, while inventories, imports and federal government spending were drags.
- **The FED's FOMC** left its option open as to when the central bank will begin normalizing interest rates, stressing that the decision will depend on the data. The statement indicated a slightly better economic outlook and minimal changes to the assessment of inflation.
- **Existing-home price** appreciation accelerated in the three months ending in May relative to the same period in April. The 10-city composite index is up 4.7% yoy and with 4.6% mom. **The pending home sales index** dipped 1.8%

between May and June to 110.3. However the index stays close to a post-recession high and up 8.2% over the year.

- **The US Conference Board's Consumer Confidence** Index decreased 8.9 points from June's 99.8 to a 10-month low of 90.9.
- **The University of Michigan consumer sentiment index** lost 3 points in Jul to 93.1 from 96.1 in Jun. The current conditions subcomponent fell slightly, but it was a sharp decline in expectations that hit most on the top-line figure.
- **Initial claims for unemployment** insurance benefits rose by 12K to 267K. The 4-week moving average rose to 278,5K, from 275,5K a week earlier. Continuing claims increased by 46K to 2.262mn.

Europe:

- **Greek Prime Minister Alexis Tsipras** said on Wed that his government would not implement reform measures beyond what was agreed with lenders at a euro zone summit earlier this month. Former Finance Minister Varoufakis admitted an **illegal project** he masterminded to prepare for the exit from the euro area, sparking outrage in Greece and abroad.
- **Euro zone inflation** was 0.2% yoy in Jul, unchanged from Jun. However expectations from the index bond markets indicate that the 5-year forward breakeven inflation rate has risen around 30bps to 1.8% since mid-Jan.
- The **Conference Board Leading Economic Index** for the **euro zone** rose to 107.1 in Jun from a revised 106.7 in May.
- The **annual growth** of the **euro zone's M3 money supply** remained unchanged in Jun at 5% yoy indicating that the recovery remains weak.
- The **euro zone's economic sentiment indicator** increased to a new high of 104 in Jul.
- **Euro zone inflation** flatlined yoy in Jul, compared with

consumer prices increasing 0.2% yoy in June.

- The **euro zone's unemployment rate** in Jun was 11.1%, same as in May. Among the individual countries, The number of **French job seekers** remained unchanged in Jun after increasing 0.5% in May and **Germany's unemployment** rate also unchanged at 6.4% in Q2. On other hand, **Italy's unemployment** rate rose to 12.7% in Jun from a revised 12.5% in May.
- **Economic growth in the U.K.** accelerated in Q2, as real **GDP** grew 0.7% compared to 0.4% in Q1.
- The **U.K. consumer confidence index** decreased by 3 points to 4 in Jul.
- The **German Ifo Business Climate Index** rose to 108 in Jul from 107.5 in Jun driven by improvement in the current assessment subindex.
- **German bank loans to nonfinancial corporations** declined -1.1% yoy in Jun but rose 0.1% from in May. Meanwhile, loans to **households** increased 0.3% mom and 2% yoy in June.
- The **Bank of Russia cut the rate** by 50 bp, to 11%. The slower normalization pace is due to risks of inflation, after the depreciation of the ruble and hikes on utilities prices.
- **French PPI** fell -1.9% yoy in Jun following a revised -1.6% decrease in May and **Italy's PPI fell** -2.3% yoy in Jun, following a 1.9% yoy decline in May.

Asia and Pacific:

- **Japan's CPI** rose 0.1% yoy in June, in line with May's increase, well below the target set by the authorities.
- **Japan's industrial production** rose 0.8% mom in Jun, recovering from 2.1% decline in May.
- **Japan's housing starts** surged 16.3% yoy in June, following 5.8% in May and 0.4% in April. The positive trend initiated in March is expected to extend over the rest of the year.

- **Japan's unemployment rate** reached 3.4% in Jun, after remaining constant at 3.3% in the previous two months.
- **Thailand industrial production** fell -8% yoy in Jun, down from a drop of -7.6% in May. **Thailand's private consumption** fell 0.6% yoy in Jun after a slight increase in May. Interest rate cuts have proven ineffective so far to stimulate the Thai economy.
- **Taiwan's GDP** grew 0.6% yoy in Q2, down from Q1's 3.4% hike, due to falling exports to China, while domestic demand remained the key driver.
- **Singapore's unemployment rate** reached 2% in Q2, up from 1.8% earlier as the effects of slower GDP growth begin to affect the pace of hiring.
- **South Korea's industrial production** surprised beat expectations rising 1.2% yoy in Jun versus May's -3% decline. **South Korea's Retail Sales** fell -3.7% yoy in Jun, following a -0.1% fall in May.

Bottom line: The US GDP figure caused a much needed sigh of relief in a global economy that fails to gain momentum. The difficult situation in Europe is being exacerbated by the burst of the Chinese stock market bubble, which affects the domestic real economy and the South East Asian countries exporting to China. In such a precarious situation it is not surprising that the Fed is so wary of raising rates. It is not only a matter of timing (a Sep move seems rather unlikely) but also of pace. Although markets expect that monetary policy will be normalized only gradually, in the past 20 years often the first step has been highly disruptive to financial markets with severe consequences spilling over economic activity.

Regional Developments

- **Egypt's** central bank kept **policy rates** steady at 9.75% for lending and 8.75% for deposits, given high inflation rates (May: 13.1%). Money supply (M2) was up 16.4% yoy to EGP 1.77trillion by end-Jun.
- **Electricity prices** in **Egypt** have been increased for the

mid to high households by an average of 19% for the 2015/2016 fiscal year.

- **Tourism revenue** in **Egypt** rose 3.1% yoy to USD 3.3bn in H1, while tourist numbers were up 8.2%.
- Work on the **new Suez Canal** has been completed, revealed its overseer; the new canal is expected to raise revenues by 2023 to USD 15bn and reduce navigation time for ships to 11 hours from about 22. A senior US official stated that this will also result in lowering oil prices.
- **Trade deficit** in **Jordan** narrowed 14.8% yoy to JOD 3.6bn during the first five months of this year; exports were down 12.2% and imports declined 13.4%.
- **Jordan** has been allocated USD 21.3mn in **humanitarian assistance** as part of the UN World Food Program (via USD 65mn donation from the US), which feeds nearly six million Syrians and refugees from Syria every month.
- **Kuwait's** finance minister revealed, in a Q&A session via Twitter, that the country was preparing **legislation** for **Sukuk issuances** to help finance the budget deficit.
- **Inflation** in **Kuwait** increased 0.4% mom and 3.5% yoy in June, rising to the highest since Apr '12. Housing costs rose 6.5% yoy and 0.8% mom while food prices were up 3.6% yoy and 0.7% mom.
- The total traded value of **real estate properties** in **Oman** reached OMR 2.23bn in H1 this year, a 45.9% yoy rise compared to OMR 1.53bn recorded during the corresponding period of 2014. The value of sales contracts increased 4.7% to OMR 649.6mn.
- An **Omani delegation** is in **Tehran** to finalise procedures for gas import to Oman, according Iranian media.
- The **Omani population** is expected to reach 4mn by 2040, up from the current 2.34mn, according to the National Centre for Statistics and Information's latest baseline estimate for 2015-40.
- **Qatar** central bank's **real estate price index** rebounded 23.5% to a record high of 284.0 points in Jun.

- **Trade surplus** in **Qatar** declined 52.5% yoy to QAR 14.9bn in Jun, with exports down 40.4% to QAR 24.1bn and Japan, Korea and India the top three export destinations.
- Pakistan confirmed that it is scheduled to sign a deal next month to import **gas shipments** (between 200 and 400mn standard cubic feet per day) from **Qatar** for the next 15 years, reported Reuters.
- **Saudi Arabia's non-oil exports** dipped 16.7% yoy to SAR 15.2bn in May, with its three largest exports – plastics, chemical products, and base metals – all registering massive declines. Its largest trade partners (China and UAE at 12.6% and 12.5% respectively), account for over a quarter of the Kingdom's demand for non-oil exports.
- The US State Department approved the possible sale to **Saudi Arabia** of USD 5.4bn in **missiles**, according to the Pentagon – a move following the nuclear agreement with Iran.
- **Saudi Arabia** and **Egypt** signed the “Cairo declaration”, a pact to boost economic and military ties. It calls for increased military cooperation, including the formation of a joint Arab military force for interventions in regional crises, and for increased economic ties through “mutual investment” in energy and transport.

UAE Focus

- **Fuel prices** in the **UAE** have been revised from Aug 1 – petrol prices have gone up by roughly 20% – on the basis of its recently announced fuel deregulation policy. The Ministry of Economy has issued a statement that the price hike will not have an adverse impact or lead to any increase in the prices of consumer goods. Lower diesel prices are likely to reduce costs to industrial users and transport costs of consumer goods.
- **UAE consolidated government revenues** are expected to decline by 22.4% yoy this year, as per the central

bank's recent economic bulletin, partly due to lower oil prices and other declined revenue streams. The central bank is projecting a decline of 4.2% in consolidated spending to AED 460.6bn this year: subsidies are projected to fall 34% to AED 13bn and grants were down 48% to AED 11.3bn. This is estimated to lead to a deficit of AED 30.6bn or 2.4% of GDP this year.

- **Passenger traffic** through the **Dubai** airport grew 16.7% yoy to 5.91mn at end-Jun, bringing the total to 38.3mn in H1 this year. In **Abu Dhabi**, meanwhile, traffic was reported to be up 17.2% yoy in H1 to 11.11mn.
- The **Abu Dhabi Securities Exchange** issued a **new law** for trading, clearing and depository system for its investors last week.
- **Real estate transactions** in **Dubai** touched AED 129bn in H1 through 23k transactions, according to Dubai Land Department's annual report; mortgages accounted for more than AED 65bn. A JLL report, citing government data, revealed that the total value of **residential property transactions** in the emirate fell 66% to AED 12.7bn and the volume of sales plunged 69% in H1.
- **DP World** has announced the start of the building of a new USD 1.6bn container terminal in Jebel Ali, the 1st phase of which is expected to be completed by 2018, thereby boosting total capacity at DP World's flagship port to 22.1 million twenty-foot equivalent units (TEUs).

Media Review

The US rig count increases

<http://www.artberman.com/rig-count-increases-by-19-as-oil-prices-plunge-what-are-they-thinking/>

Letting China's Bubble Burst

<http://www.project-syndicate.org/commentary/china-equity-bubble-correction-by-michael-spence-2015-07>

Dubai: The nuclear deal's other winner

<http://www.economist.com/news/middle-east-and-africa/21659760->

[many-firms-looking-do-business-iran-will-go-through-dubai-nuclear-deals](#)

Iran sets out to reassure wary Gulf Arabs

http://www.zawya.com/story/Iran_sets_out_to_reassure_wary_Gulf_Arabs-ZAWYA20150727040525/