

Weekly Economic Commentary – Aug 9, 2015

Markets

Stock markets were mixed, with the US and emerging markets losing ground while European and Japanese indices advancing. Regional markets were also directionless, with Saudi Arabia recording substantial losses with the background of lower oil prices. Exchange rates given the summer lull remained broadly stable. Oil prices and gold prices recorded the 6th and 7th straight week of losses, respectively. Energy commodities are being negatively affected by the global economic weakness and the end of the driving season in the US.

Global Developments

US/Americas:

- **The US non-farm payroll** increased by 215k, slightly below consensus forecasts, but the figures for May and June were revised up by 14k in total. Average hourly earnings advanced by 0.2% mom following no growth in Jun. The unemployment rate and the labor force participation remained at 5.3% and 62.6% respectively as in Jun. The labor participation rate has declined to the same level of 38 years ago.
- **Initial jobless claims** rose by 3k to 270k. The four-week moving average fell 6,500 to 268,250.
- **Crude oil inventories** in the **US** were down 4.4 mn barrel against expectations of a 1.4 mn barrel drop.
- **Personal income growth** was steady in June, growing 0.4%. Disposable income rose by 0.5%, the fastest growth since Mar 2014 and up from 0.4% in May.
- **The personal consumption expenditure deflator** (which the Fed considers the key gauge of inflation) rose 0.2% mom

in Jun, matching past 3-month average.

- **The ISM manufacturing index** was weaker than expected in Jul, falling from 53.5 to 52.7 while, **the ISM non-manufacturing index** recorded a strong performance in July, rising from 56 to 60.3.
- **Construction spending** in June increased a paltry 0.1% mo and 12% yoy, well below expectations.
- **Brazil's inflation** went up to 9.6% yoy in Jul, from 8.9% in Jun despite the recession as a result of the relentless currency depreciation.

Europe:

- **Greece Prime Minister Alexis Tsipras** said on Wed that "Greece was close to concluding a deal with lenders on a multi-billion-euro bailout", which he said "would end doubts over its place in the euro zone".
- **Eurozone retail sales** fell -0.6% mom in Jun, vs 0.1% May, a signal that the recovery is still elusive.
- The minutes of the **Bank of England's monetary policy committee** showed that the decision to keep the main **refinancing rate** at 0.5% was not unanimous for the first time this year, with one member voting for a 25bp rate hike.
- The **UK industrial production** (IP) index fell -0.4% mom in Jun after climbing 0.3% in May. **German IP** contracted -1.4% mom in Jun, following a revised 0.2% increase in May. **France IP** slid -0.1% mom in Jun, following a 0.4% increase in May. **Italy's IP** deteriorated in Jun, with output falling -1.1% mom after a 0.9% increase in May. **Spain's IP** accelerated to 4.8% yoy in Jun, from a downwardly revised 3.8% in May.
- The **UK Halifax house price index** was down -0.6% mom (7.9% yoy) in Jul, following a revised 1.6% mom (9.6% yoy) rise in Jun. The **UK Nationwide Housing Price Index** unexpectedly rose 0.4% mom (3.5% yoy) in Jul, following 0.2% mom (3.3% yoy) contraction in Jun

- **German manufacturing orders** jumped 2% mom (7% yoy) in Jun, following a 0.3% mom (4.7% yoy) in May. **German retail sales** however plunged -2.3% mom in Jun, after a 0.4% rise in May.
- **Eurozone PPI** dropped -2.2% yoy in Jun, marginally more than in May, led by energy prices.
- **Consumer price inflation in Russia** accelerated in Jul, reaching 0.8% mom, against 0.2% in Jun.

Asia and Pacific:

- **Chinese exports** tumbled -8.3% in Jul, their biggest fall in four months. After the drop in exports to Europe, shipments to the US also went down.
- **Chinese consumer inflation** was 1.6% yoy in line with forecasts and slightly higher than 1.4% in Jun. **China's PPI** fell -5.4% yoy, in Jul, the worst reading since Oct 2009 and the 40th straight month of price decline which underline the parlous state of the real economy.
- **Indonesia's GDP** grew 4.7% in Q2, matching the growth achieved in Q1.
- **Australia's unemployment rate** increased to 6.3% sa from 6.1% in June.
- **Australia's retail sales** surprised on the upside and rose 0.7% mom in June, accelerating from 0.4% in May.
- **Malaysia's trade surplus** widened to MYR 8 bn in June, from MYR 5 bn a month back. Exports are growing, while imports remain on the decline even though at a slower pace.
- **South Korea's inflation** rose 0.7% yoy in July, constant as June's increase. Inflation remains outside Bank of Korea's target range of 2.5% to 3.5%.
- **Taiwan's inflation** fell -0.7% yoy in July, after Jun 0.6% decline. Low oil prices continue to drag down transportation costs.

Bottom line: The data flow did not yield any major surprises, except for China where worrisome signals are becoming the

rule. The weakness of exports and the deflationary process raise doubts on the sustainability of China's corporate debt which stands at 160% of GDP, twice that of the US. With companies trying to save on cash and postpone investments it is hard to imagine how the 7% GDP growth target could be achieved. As the situation worsens calls for stimulus measures are becoming louder, although it is hard to see what kind of measures can be conceived in an economy where debts are beyond any reasonable level and public investment projects have been already pushed to the maximum extent over the past few years.

Regional Developments

- **Bahrain** aims to raise the contribution of **SMEs** to GDP to 35% by 2030, from the current 30%, as outlined in the Bahrain Economic Vision 2030 plan. SMEs account for 37% of the private sector's employment opportunities, while investments in Bahraini SMEs also grew by almost 55% yoy to BHD 49mn in H1 2015.
- **PMI** in **Egypt** fell below the 50-point mark in Jul, with the index dipping to 49.2 from 50.2 the previous month; output fell after three months, though only slightly, while new export business declined for the second time in three months.
- **Foreign currency reserves** in **Egypt** fell to USD 18.534bn at end-Jul from USD 20.08bn the previous month.
- UAE ranked second in the list of countries **investing in Egypt**, with USD 5.8bn through 717 companies, reported the Egyptian Commercial Office in Abu Dhabi. It was also reported that bilateral trade between the two nations rose 17% yoy to USD 2.142bn in 2014.
- **Egypt's** Planning Minister revealed that more than 50% of initial agreements signed at an investor conference in Mar had been translated into **investment projects**.
- **Egypt** expects to **import** 28.6 million tonnes of crude **oil**, LNG and other oil products worth a total of almost USD 16bn in this financial year 2015-16, according to

the planning ministry. Separately, the oil ministry disclosed that the country aims to reduce its **debt to foreign oil companies** to USD 2.9bn by end-Aug, from USD 3.5bn, and would repay the rest by end of next year.

- **Foreign aid to Jordan** touched USD 1bn from the beginning of this year, as per the Planning ministry's figures. While external grants from donor nations reached USD 632.64mn, the Saudi Fund for Development and the Abu Dhabi Fund for Development were the largest donors (worth USD 256.1mn).
- **Kuwait** hit a **budget deficit** of KWD 2.7bn in the fiscal year ended Mar 31; while this year's budget is based on oil price at USD 45, to avoid any shortfall, oil prices must be closer to USD 70. Separately, news reports citing reliable sources stated that the price of petrol would remain steady until end-2016, and if at all the price of petrol was to be increased, it would not be more than 80 fils per liter.
- **Lebanon's PMI** stabilized at 49.3 in Jul; while output remained steady, employment levels went back to contraction, following two prior months of rises.
- **Oman's economic performance** remains relatively strong, but downside risks have risen due to declining oil prices, according to Capital Intelligence. The credit ratings agency said the economy is expected to continue growing at an average 3.3% during 2015-17, driven by growth in trade and infrastructure.
- The **public budget** deficit in **Oman** reached OMR1,501.1mn during Jan-May this year, against a surplus of OMR 232.9mn for the same period of 2014, mainly due to a plunge in oil prices. The government targets for the whole of 2015 a deficit of OMR 2.5bn.
- **Oman's total exports** for the first four months of 2015 declined by 32.9% yoy in value to OMR 4.53bn from OMR 6.76bn for the same period in 2014.
- **Oman** has ramped up its **oil production** to a record high in Jun, touching one million barrel per day, to

compensate in part for the drop in oil price. Total **exports of liquefied natural gas** in Jun stood at 3,809,051 Metric Tons.

- Total number of the **expatriate workforce in Oman** reached 1,623,672 workers at the end of Jun, a 0.6% mom increase.
- **Oman's Authority for Electricity Regulation** revealed that the total subsidy to final users in the electricity sector will increase 56% yoy to OMR 448.3mn in 2015 as a result of the doubling of the price of natural gas supplied to power plants from this year onwards.
- **Crude oil production in Qatar** increased to 642k barrels per day (bpd) in May from 635k bpd in Apr, according to Qatar National Bank's latest monthly report.
- **Qatar's population** grew 9% yoy to 2.34mn as on end-Jun this year, as per data from the Ministry of Development Planning and Statistics. Meanwhile, visitors into the country were up 7.3% during H1 this year, with those from the GCC making up 40.7% of total visitors.
- **Saudi Arabia's PMI** increased to 57.7 in Jul, from a record low of 56.1 the previous month; output sub-index was up to a four-month high of 65.1 (Jun: 62.1), while the new orders sub-index accelerated to 63.1 from 59.8.
- **Net foreign reserves in Saudi Arabia** declined 1.2% mom and 9.4% yoy to SAR 2.492 trillion in June – the lowest level since Mar 2013; the government last month started selling bonds for the first time since 2007, placing a SAR 15bn issue, thereby diminishing the rate of decline of reserves. It was also reported on 'Maal' magazine that the government planned to issue bonds worth SAR 90-100bn in the remaining five months of 2015 to fund the expected deficit in its budget.
- An official ceiling of 30% was imposed by SAMA on cash withdrawals from banks using credit cards in **Saudi Arabia**, in a bid to limit consumer debt problems, *Reuters* reported.
- Saudi Arabia was the most active **IPO** market in the **GCC**

last quarter (Q2), according to PwC estimates, accounting for 75% (3) of the total number of IPOs and 87% (USD 1.0bn) of total money raised.

- The **MENA Private Equity & Venture Capital** report disclosed that Saudi Arabia and the UAE together attracted more than three-quarters of MENA's investment activity by value. Total funds raised last year reached the highest level since 2008 at USD 1.2bn compared to USD 744mn in 2013 and the average close size also increased to USD 103mn.

UAE Focus

- IMF's **Article IV** report on the **UAE** continued to endorse fiscal sustainability recommending a host of measures such as spending cuts, taxation and structural reforms. The recent fuel price hike is estimated to save UAE about USD 500mn or just over 0.1% of GDP by end of this year.
- **UAE PMI** increased to 55.8 in July from a 22-month low of 54.7 in Jun, with both the output and new orders sub-indices rising to 60 and 60.2 points respectively (from Jun's 57.5 and 57.7 resp).
- HSBC data revealed that about USD 70 billion of **funds** have been firmly agreed or proposed under deals between **Egyptian and Emirati entities**, while the actual investment figures are expected to be much higher.

Media Review

The Omani oil industry faces uncertain times

https://www.zawya.com/story/Omans_oil_industry_sees_mixed_forecast-ZAWYA20150805101553/

Easy money in the Gulf will not last much longer

https://www.zawya.com/story/Gulfs_days_of_easy_money_ending-TR20150805nL5N10G29YX2/

The TPP trade agreement is stalled

<http://www.economist.com/news/asia/21660552-america-struggles-maintain-its-credibility-dominant-power-asia-pacific-70->

[year?fsrc=scn/tw/te/pe/ed/The70yearItch](#)

IMF: UAE's Article IV 2015 report published

<http://www.imf.org/external/pubs/ft/scr/2015/cr15219.pdf>

The Promise and Peril of Macroprudential Policy: Barry Eichengreen

<http://www.project-syndicate.org/commentary/macroprudential-policy-by-barry-eichengreen-2015-08>

Egypt's Suez Canal Expansion

http://www.zawya.com/story/Egypt_s_Suez_Canal_expansion_raises_hopes_and_doubts-ZAWYA20150806064527/

UAE Central Bank & Islamic Banking and Finance

http://www.zawya.com/story/UAE_Challenges_and_successes_of_Islamic_finance-ZAWYA20150803074356/