

Weekly Economic Commentary – Aug 30, 2015

Markets

The Shanghai stock exchange plunged again at the start of the week but then on Wednesday Wall Street produced a rebound (helped by dovish remarks by New York Fed President Dudley and robust GDP data) ending a six days slide (this losing streak was S&P's longest since July 2012) and pulling all other bourses with the exception of Tokyo. Also most regional markets ended their sharp slide with the MSCI GCC (ex KSA) up by 4%. Overall the weekly scores indicate a reverse of the trends triggered by the Chinese stock market crash since mid August. In the FX market, for example, the dollar slide was halted, while oil prices have rebounded decisively helped by a decline in US inventories. The gold price on the contrary lost ground again.

Global Developments

US/Americas:

- **US real GDP** rose 3.7% qoq ann in Q2, according to the second estimate, up from 3.2% in Q1 and a preliminary estimate of 2.3%. Growth was driven by consumer spending, export, state and local spending and fixed investment.
- **New York Fed President Dudley** cooled expectations of a rate hike in Sep by the US central bank.
- **The US 20-city composite index** of existing-home prices in Jun was up 4.9% mom and 5% yoy. However on sa mom basis the index inched down -0.1%.
- **New single-family home sales** in Jul gained the ground lost in May and Jun, raising 507,000 sa a 5.4% mom gain and 25.8% yoy. The pending home sales index rose 0.5%

mom sa to 110.9 in Jul, regaining some of the Jun's losses.

- **Initial unemployment claims** dropped by 6,000 to 271,000, offsetting the prior week's 4,000 increase. The four-week moving average still crawled up by 1000 to 272,500.
- **Personal income growth** was steady in Jul, growing by 0.4% mom while the disposable income rose by 0.5% mom.
- **The personal consumption expenditure deflator** rose 0.1% in Jul, weaker than June's 0.2% increase.
- **Consumer confidence** eased in Aug, according to the University of Michigan sentiment index, which lost 1.2 points to 91.9 in Jul.

Europe:

- The **euro zone's economic sentiment** indicator increased marginally in Aug, to 104.2 from 104 in Jul.
- The **euro zone's M3 money supply** accelerated to 5.3% yoy in Jul from 5% in Jun.
- The **Conference Board Leading Indicator Index** for the euro zone rose to 107.7 in Jul from a revised 107.4 in Jun.
- **UK GDP** grew 0.7% qoq in Q2, following a 0.4% expansion in Q1. The **German GDP** rose 0.4% qoq in Q2, after 0.3% qoq in Q1. **Spain's GDP** grew 3.1% yoy (1% qoq) in Q2, up from a 2.7% yoy (0.9% qoq) increase in Q1.
- The **UK consumer confidence index** jumped by 3 points to 7 in Aug.
- **The UK Nationwide Housing Price Index** rose 0.3% mom (3.2% yoy) in Aug, following a 0.4% mom (3.5 % yoy) increase in Jul.
- The **German Ifo Business Climate Index** rose to 108.3 in Aug from 108 in Jul.
- **France unemployment** decreased slightly by 1,900 to 3.552 mn.
- **French manufacturers' sentiment** was 103 in Aug, 1 point above in Jul.

- **Italy's business confidence** declined to 103.7 in Aug from 104.3 in Jul.
- **Spain's real retail trade** rose 3.6% yoy in Jul, from Jun's 3.4% yoy gain.

Asia and Pacific:

- **Japan's CPI inflation** flattened at 0% yoy in Jul. after a 0.1% increase in Jun, as inflation pressures fall due to slower wage growth and a stabilisation in energy and food prices.
- **Japan's household expenditures** rose 1% yoy in Jul. reversing Jun's 0.9% fall.
- **Japan's unemployment rate** fell to 3.3% in Jul. from 3.4% the previous month.
- **Japan's retail sales** increased 1.6% yoy in Jul, following a 1% gain in Jun. Uncertainty in the labour market and limited increase in base pay rates still limit consumption.
- **Singapore's industrial production** continued to disappoint in Jun dropping even further, -6.1% yoy in Jul, from a -4.4% drop. China's slow down and weaker global demand are sapping Singapore's industry.
- **South Korea's consumer confidence index** rose to 102 in Aug, from 100 in Jul. The index recovered a 6 points decline, but the weak external environment is not lifting confidence.
- **Hong Kong's monthly trade deficit** took was recovering at HKD -28.4bn from Jun's HKD -45.8bn shortfall.
- **Philippines Q2 GDP** expanded 5.6% yoy, from Q1's downwardly revised 5% growth. Private consumption and investment remain the main growth drivers.
- Despite a 12% devaluation of the baht in 12 months, **Thailand's exports** fell in Jul -3.6% yoy the 7th consecutive monthly drop, but much better than 7.9% in Jun. **Imports** fell -12.7% yoy on Jul vs -0.2% in Jun. The **trade balance** still registered a surplus of USD 770mn,

up from USD 150mn in Jun.

- **Taiwan's industrial production** fell 3% yoy in Jul, worsening from Jun's 1.4% decline. Export orders fell 5% yoy in June, dragging on industrial production.

Bottom line: The spectacular rebound in US stock exchanges provided a relief for investors (Wednesday's S&P gain was the biggest for the index since November 2011) after a semi-panic mood risked to spread to all financial markets. For the time being the major concerns have been set aside thanks to the dovish message from the Fed and the string figures in the US GDP. However the global economy remains in the doldrums. Global trade is a major area where woes are evident. The volume of global trade fell 0.5% qoq in Q2 according to the Netherlands Bureau for Economic Policy Analysis, which compiles the World Trade Monitor. Much of this year's slowdown in global trade has been due to a halting recovery in Europe as well as a slowing economy in China.

Regional Developments

- **Inflation** in **Bahrain** was down 0.2% mom and up 1.1% yoy in Jul, with the prices of food and non-alcoholic beverages falling 0.7% yoy and dipping 2.1% yoy.
- **Egypt** President issued a **decree** lowering the top tax rate on companies and individuals from 25% to 22.5% (highest income bracket reduced to EGP 200k from EGP 250k), while also suspending a 10% capital gains tax for two years as of Aug 2015.
- **Egypt** plans to lower **unemployment rate** by 5% within the upcoming five years, at 1% per a year, according to the population minister. The national strategy also aims to lower the rate of endangered children by 2% as well as decreasing child labour to 4% from 9% in five years.
- According to a report in *Amwal Al Ghad*, a **banking consortium** comprised of 9 banks has made an offer to fund three power plants – worth EGP 10bn – for the **Egyptian** Electricity Holding Company. As per the

agreement, the company would be granted a three-year grace period and the loan would be paid back over 15 years.

- **Iraq's July oil exports** were the "highest in decades" – amounting to 96.3mn barrels with revenue generated of about USD 4.84bn.
- **Credit growth in Kuwait** grew 5.2% yoy to KWD 453mn in Jun. Separately, **inflation** rose to 3.6% in Jul, recording the highest since Apr 2012; housing costs were up 6.5% yoy and flat in mom terms.
- **Lebanon** issued a statement that the government had approved the **issuance of treasury bonds** in foreign currencies. Meanwhile, a source in the Finance Ministry revealed that the country is planning to sell a USD 1.3bn **Eurobond** in Sep – USD 200mn lower than previously announced.
- Moody's projects **Oman's fiscal deficit** in 2015 and 2016 at 12% of GDP, due to lower oil revenues. According to Moody's, Oman's fiscal breakeven oil price would be USD 105 p/b in 2015. As a result the rating agency estimates that **Oman's GDP** growth will decline to 3% over 2015-2016, from an average of 4.9% in the decade 2005-14.
- **Oman is committed to the peg** of the Rial to the US dollar, notwithstanding weak oil prices, central bank executive president affirmed.
- The number of insured **Omani citizens working in the private sector** has reached 206,348 at end-Jul.
- Short-term interest rates will likely rise in the coming months as the **Oman government issues debt** to cover its deficit drawing liquidity from the financial system. So far in 2015 the government has raised OMR 500mn (OMR300mn in Jul and OMR 200mn in Feb) through development bond issues. The Sultanate is planning to issue the country's first sovereign Sukuk worth OMR 200mn.
- **Oil companies** operating in Oman remain profitable,

according to Oil and Gas Undersecretary, as production costs average USD 12 per barrel with a range between USD 7 to USD 12-13.

- **Qatar** banks posted **loan growth** of 6.8% yoy in the Jan-Jul period while remaining flat in mom terms; deposit growth, meanwhile, dipped by 3.1% but grew 3.8% yoy.
- **Net foreign assets** in **Saudi Arabia** declined 0.5% mom in Jul to SAR 2.48 trillion (June: -1.2% mom) – the lowest level since early 2013 and following the country's issue of domestic debt to cover its deficit.
- **Saudi Arabia's** government is in the early stages of a **budget review** for next year, with plans to reduce investment spending by about 10% or more (estimated to be SAR 382bn), while there will be no reduction in public sector salaries, according to familiar sources and reported by *Bloomberg*.
- **Corporate earnings** in the **GCC** fell 7.2% yoy in H1 this year, according to a recent Markaz report. Qatar reported the highest earnings growth at 13%, with the rest of the GCC registering a decline (Kuwait: -19%, Saudi Arabia: -16%; Oman: -7%; Bahrain: -5%; UAE: -2%). Aggregate net profits were up 9% to USD 16.7bn.
- The **IFC** received a preliminary AAA rating from Standard & Poor's for a proposed USD 100mn **Sukuk** issuance.

UAE Focus

- **UAE** lowered **domestic fuel prices**, by around 8% for Sep, in line with the decline in international prices; domestic diesel price will drop 9.3% to 1.86 dirhams in Sep.
- **Registered holiday homes Dubai** is expected to jump from around 800 as of July to 1,500 by the end of this year, according to an official from Department of Tourism and Commerce Marketing.
- **Passenger numbers** travelling on **Emirates** were up 6% during summer compared to the same period in 2014,

according to a spokesperson. Separately, once Emirates begins flights to **Iran**'s second city Mashhad this week, it estimates that it can fly nearly 8,000 tonnes of freight goods to Mashhad yearly, in addition to the 17,500 tonnes it sends to Tehran already.

- **Omani tourists** into **Abu Dhabi** posted an increase of 15-16% to over 30,000 this year, as per the GCC Country Manager for the Abu Dhabi Tourism and Culture Authority.

Media Review

Saudi Arabia's resilience in the oil price war

<http://www.economist.com/news/finance-economics/21662570-kingdom-can-stand-more-pain-it-will-take-much-cheaper-oil-saudi-arabia-take-action>

The video produced by the GIC for the 50th Anniversary of Singapore's Independence

<http://www.swfinstitute.org/swf-news/wealth-fund-releases-the-gic-story/>

China seeks to calm markets

<http://www.reuters.com/article/2015/08/27/china-yuan-idusl4n1102sl20150827>

What should China do?

<http://www.project-syndicate.org/commentary/china-economic-slowdown-greater-state-control-by-michael-boskin-2015-08>

Norway SWF had a bad month

<http://www.bloomberg.com/news/articles/2015-08-27/norway-s-wealth-fund-lost-more-than-5-in-past-month-ceo-says>

Cheap oil and global growth

<http://www.project-syndicate.org/commentary/cheap-oil-and-global-growth-by-anatole-kaletsky-2015-08>