

Weekly Economic Commentary – May 15, 2016

Markets

Global stock markets recorded another mostly negative weekly performance, with the exception of Japan where Yen weakness has lifted large exporters. Since the peak of 2016, reached in mid April, the S&P 500 has retrenched to below 2050 and the FTSE 100 of European blue chips had a similar performance. From a longer term perspective the rally seems to have hit an upper bound from the peak recorded in May 2015 due to uninspiring earning prospects and a weak global growth. Regional markets were generally down with the exception of Qatar and KSA where the upward trend in the oil price is lifting sentiment. On currency markets the dollar regained some lost ground while gold after more than a month of gains lost 1%, the biggest weekly decline since March 25.

Global Developments

US/Americas:

- **US retail sales** in rose 1.3% in Apr mom, mainly driven by auto sales, compared to a 0.3% drop in Mar, the largest gain in a year.
- **The University of Michigan's consumer** sentiment jumped up unexpectedly to 95.8 in May from 89 in Apr, a record high since June last year, as both future expectations and current conditions improved, preliminary estimates showed, suggesting a strength in consumer spending.
- **US import prices** increased 0.3% mom in Apr following a similar increase in Mar but below market expectations of a 0.5% gain. Higher fuel prices (+3.3%) drove the uptick with nonfuel prices (+0.1%) also contributing to the overall increase.

- **US recorded a budget** surplus of USD 106bn in Apr down -32% from a USD 157bn surplus a year earlier, as outlays rose 5.4 % to USD 332bn while receipts fell 7.2% to USD 438 bn.
- **US initial unemployment claims** increased for the third week in a row by 20k to 294,000, touching the top since Feb 2015. On the positive side, it is the 62nd consecutive week initial claims are below 300k, the level associated with a solid jobs market. The 4-week moving average increased from 258k to 268,250 and continuing claims rose 37k to 2.161 mn.
- **US business inventories** rose 0.4% mom in Mar after recording -0.1% in Feb. Manufacturers' inventories rose 0.2%, merchant wholesalers' inventories 0.1%, and retailers 1%. Total business sales gained 0.3%.

Europe:

- **Eurozone GDP expanded 0.5% qoq**, the fastest growth in a year and up from 0.3% in Q4.
- **German GDP** jumped 0.7% qoq in Q1 after increasing 0.3% in Q4 mostly on the strength of domestic demand, proving that the large EU economy is finally firing on all cylinders.
- **Italy's GDP** beat expectations rising 0.3% qoq in Q1 following a 0.2% increase in Q1.
- **Eurozone industrial production** slid -0.8% mom in Mar after a -1.2% decrease in Feb driven down by **German industrial production** which fell -1.3% mom in March, following a revised -0.7% decrease in Feb.
- **UK industrial production** gained 0.3% mom in Mar (-0.2% yoy), offsetting its -0.2% decrease in Feb (+0.1% yoy).
- **The Bank of England** kept its main repurchase rate at 0.5% and its target for asset purchases at £375 billion in May.
- **Germany's inflation** turned negative in April to -0.1% yoy (-0.2% mom), following 0.3% yoy in Mar. **Italy's**

inflation fell -0.4% yoy in Apr, following a -0.2% drop in Mar. France inflation fell -0.2 yoy, after -0.1% in Mar. **Spain's inflation** plunged -1.1% yoy in Apr, from a -0.8% deceleration in Mar.

- **Factory orders in Germany** beat expectations rising 1.9% mom in Mar, following a -0.8% drop in Feb. It is the fastest growth since Jun 2015, driven by a 4.3% mom expansion of foreign orders.
- **The UK trade balance for goods** was in deficit by GBP -11.2bn in Mar, slightly down from the GBP -11.4bn shortfall in the previous month.
- **The UK Halifax house price index** fell -0.8% mom in Apr, after a 2.6% advance in Mar.

Asia and Pacific:

- **Industrial production in China growth** was 6.0% yoy in Apr, after a 6.8% rise in Mar and well below expectations of 6.5%.
- **China trade surplus** increased to USD 45.56bn in Apr from USD 34.13bn a year earlier. Exports fell by -1.8% yoy (vs a 11.5% growth in Mar) while imports plunged by -10.9%.
- **China's inflation was** 2.3% yoy in Apr, the same as in March confirming that price pressures are solidifying. PPI dropped -3.4% yoy in Apr, slowing from 4.3% decline in Mar.
- **Retail sales in China** grew by 10.1% yoy in Apr a significantly down from a 10.5% in Mar. It is the weakest figure since May 2015.
- **Foreign direct investment in the non-financial sector in China** increased 4.8% yoy to USD 43.5bn in the first four months of 2016, down from USD 53.8bn in the same period last year.
- **China's M2 money supply grew** 13.4% yoy in March, a notch up from 13.3% in Feb. Credit was strong, following the government's measure to counter the slowdown.

- **India's industrial production** grew 0.1% yoy in Mar, sharply down from 2% in Feb. Manufacturing production was down -1.2% yoy.
- **Inflation in India** was up 5.4% yoy in Apr from 4.8% in Mar.
- **The Japanese current account surplus** reached JPY 2,980.4bn in Mar from JPY 2,434.9.8bn in Feb. It is the 21st straight month of surplus and a record since Mar 2007.
- **Japan's tertiary activity** fell -0.7% mom in Mar, after a -0.1% fall in Feb hit by consumers' reluctance to spend in these uncertain condition. A gloomy outlook is confirmed also by the drop in **consumer confidence** to 40.8 in Apr, down from 41.7 in Mar (a level below 50 indicates that pessimism prevails).
- **Hong Kong GDP** fell -0.4% qoq in Q1 after a 0.2% increase in Q4 pushed down by exports to the mainland. Households' consumption is stagnating.
- **Malaysian GDP growth** slowed to 4.2% yoy in Q1, slightly down from 4.5% in Q4 due to weak exports and fixed capital formation, while consumption growth was strong.

Bottom line: The data from China which took center stage last week were hardly encouraging. Despite the government stimulus, FDI, exports, retail sales and industrial production failed to meet expectations and corroborated the view that the transition will not be easy. The Communist Party through a front-page editorial in the People's Daily, written by an unnamed top official, pointed at the mounting debt: "A tree cannot grow up to the sky—high leverage will definitely lead to high risks [...] Any mishandling will lead to systemic financial risks, negative economic growth, or even have households' savings evaporate." Better news came from the Eurozone, where growth seems to gain traction, while the failure of Abenomics in Japan continues to spread apprehension. Apparently, the government has convened a crucial meeting next week to assess the situation and take

decisive measures. Few are holding their breath.

Regional Developments

- **Moody's** has again downgraded the **sovereign ratings** of **Saudi Arabia, Oman and Bahrain**. Saudi Arabia's rating fell from Aa3 to A1, five notches above junk. Oman is now rated at Baa1, three notches above junk; Bahrain is two notches above junk and placed under review for further downgrades. Meanwhile, Abu Dhabi, Qatar and Kuwait were put on negative ratings outlook.
- **Urban consumer inflation** in **Egypt** jumped to 10.3% in Apr, from 9% the previous month; core inflation also picked up registering 9.5% last month from Mar's 8.4%.
- Four Egyptian banks – the National Bank of Egypt, Banque Misr, Banque du Caire, and Housing and Development Bank – are set to **lend around EGP 20bn to the state-run Social Housing Fund**. The first 3 banks are to contribute EGP 6.33bn each to the loan, while the HDB's share will be EGP 1bn, reported *Amwal Al Ghad*. This is to support the building of 500,000 housing units as part of the country's national project to build one million homes for low-income citizens.
- **Egypt** signed two **MoUs** worth EUR 320mn with the European Bank for Reconstruction and Development (**EBRD**) to support the country's transport and water sectors. One MoU aims to contribute to the rehabilitation of the Heliopolis tram link while the other focuses on the modernisation of Egypt's irrigation system to increase the efficiency and quality of services. (See: <http://www.ebrd.com/news/2016/ebrd-to-support-transport-and-water-sectors-in-egypt.html>)
- Total **assets** held by **Egypt's 40 banks** was EGP 2.485 trillion at end-Dec 2015, of which the largest five banks held roughly 60%, while the 10 largest banks held 72.4%.
- **Iraq** overtook Saudi Arabia as the **top crude exporter to**

India in Apr: Iraqi oil exports to India were 960,700 barrels per day (bpd) in Apr (+41% mom, +79% yoy) while India imported about 787,700 bpd of oil from Saudi Arabia (14% lower yoy). Last month, Saudi had lost its top spot in China, to Russia. Iran, meanwhile, became the fifth-largest oil supplier to India during the Jan-Apr period, compared to 8th last year.

- **Iraq's** central bank disclosed the **sale of local bonds** worth IQD 1.5 trillion, in an attempt to plug the rising government deficit. It is the first local bonds sale to the public since 2003, and is the first tranche of the IQD 5 trillion bond issuance announced by the finance ministry in Jan.
- **Oman's deficit to GDP ratio** will remain almost unchanged at 17.1 % in 2016 (vs 17.6% in 2015), despite subsidies cuts and lower capital expenditures, according to a senior IMF official.
- **Private deposits at commercial banks** in **Oman** at the end of Feb rose by 4.6% to OMR 11.9bn versus OMR 11.38bn a year earlier.
- The **public and private sectors** in **Oman** combined **employed** more than 167,000 male and female citizens between 2011-2015. In 2015 alone, 26,852 new jobs were created in the public and private sectors.
- **Money supply** (M2) in **Qatar** shrank for the second consecutive month in Mar, falling 3.3% yoy compared to the 4.6% decline the month before. Credit growth was 13.9% versus 17.1% the previous month.
- **Saudi Aramco** is finalising its **IPO options** and will present them to the Supreme Council "soon", according to its chief executive. The Saudi government would retain sole control over Aramco's oil and gas output levels, even post-IPO, as "production is sovereign", stated the CEO.
- The **new governor** of the **Saudi Arabian** Monetary Authority (**SAMA**), appointed last Saturday, said his main priority is to maintain monetary stability and support the

government's Vision 2030 economic reforms. The *Al Sharq Al Awsat* newspaper reported "the central bank reaffirmed that it will keep the currency peg to the dollar, supported by its monetary tools, one of which is its foreign reserves".

- **Saudi Arabian** Monetary Agency is expected to obtain a **full membership** at the Financial Action Task Force (**FATF**) in June 2018, revealed the central bank vice-governor.
- An estimated 5.798 million residents in **Saudi Arabia** went on **holiday** last year, according to the Tourist Information and Research Center at the Saudi Commission for Tourism and National Heritage. Of this, the 3.7 million Saudis spent around SAR 11.2bn, while the expatriates spent approximately SAR 1.5mn.
- **Saudi Arabia's** General Authority of **Civil Aviation** is planning to increase of the current **tariff** for flights in transit and also introduce new fees for approach services.
- **Saudi Arabia** has imposed an **annual tax on undeveloped urban land**, equivalent to 2.5% of the value of the land held by individuals or non-government entities, revealed the Housing Ministry. The details of how the tax will be applied have not yet been revealed.
- **Bahrain and Lebanon** are among the most recent **entrants** in an agreement to share financial information automatically **to tackle tax evasion**, revealed the Organisation for Economic Cooperation and Development (OECD). Such exchanges are expected to start in Sep 2018.
- The **MENA** region will need to invest USD 334bn in its **power sector** in the period 2016-20, according to Apicorp Energy Research estimates. The GCC, which represents 47% of current MENA power-generating capacity, will require USD 85bn for the addition of 69GW of generating capacity and another USD 51bn for T&D over the next five years.
- The **YPO Global Pulse Confidence Index** for the Middle

East and North Africa (**MENA**) region decreased for the sixth consecutive quarter, falling 0.8 point to 55.6 in Q1, trailing the global confidence composite score of 58.3. Confidence among the GCC nations climbed 6.3 points from Q4 2015 to 52.2, thanks to improved outlooks in Kuwait, Oman, Qatar and Saudi Arabia.

- The number of **people displaced by war and violence** hit a record 40.8 million in 2015, according to the Internal Displacement Monitoring Centre. Globally, there were 8.6 million new cases of people fleeing conflict last year within borders, an average of 24,000 a day. While half of this was within the Middle East, **Yemen** recorded the most cases of newly displaced – around 8% of its population.

UAE Focus

- **UAE growth** is expected to moderate in 2016, according to the **IMF**, with the non-oil sector growing at 2.4%. Going forward, growth pick-up will be supported by “expected improvements in oil prices, increased investment ahead of the [Dubai] World Expo2020, and more favorable external conditions”. Fiscal deficit is forecast to widen to 7.2% of GDP this year, but is expected to improve over the medium-term.
- The **Dubai Economy Tracker** Index edged up to 52.7 in Apr (Mar: 52.5) – the highest reading in five months – thanks to growth in output (55.1) and new orders (54.4). The construction sector index rose 0.7 points to 52.7, signaling the fastest rate of expansion in the sector since Nov 2015.
- *Reuters* reported that both **Emirates NBD** and **Commercial Bank of Dubai** are talking to banks to raise a combined total of up to USD 1.7bn in **loans to refinance existing debt**. Separately, **UAB** has mandated banks for a USD 150mn syndicated two-year loan, “for general corporate purposes and prepayment of an existing syndicated

facility”.

- **Mubadala** sold a USD 500mn 7-year **bond** last week, its first international issue in two years.
- **UAE banks** have till June 16 to **assess the impact of** the new International Financial Reporting Standards (**IFRS**) 9 rule, designed to improve the resilience of the banking system to shocks. This rule, to be implemented globally from Jan 1, 2018, is likely to “lead to higher provisions, more complexity and deeper risk management involvement”, according to KPMG.
- **UAE’s free zones** account for about 30% of non-oil trade, revealed the UAE Minister of Economy. Non-oil trade in UAE’s free zones reached AED 497bn in 2015, a 35% increase over 2011’s AED 367bn.
- **Passenger traffic** at **Dubai World Central** surged 79.8% yoy to more than 257k passengers in Q1 this year. More flights and increased frequencies supported this expansion.
- The **SME sentiment survey**, published by Gulf Finance Corporation, revealed that 62% of its 200 respondents experienced a rise in orders during Q1 2016, up 25% qoq. However, late payment issues amidst tightening liquidity conditions have made SMEs reluctant to hiring more staff.

Media Review

An overview on global stock markets performance so far in 2016

<http://www.yardeni.com/pub/peacockglstkytd.pdf>

India’s first national bankruptcy law passed

<http://www.ft.com/intl/cms/s/0/4faaa62c-17f7-11e6-b197-a4af20d5575e.html>

Rescaling China’s Debt Mountain

<https://www.project-syndicate.org/commentary/china-bad-loan-solutions-by-barry-eichengreen-2016-05>

Bond-buying spree in the Middle East

<http://www.bloomberg.com/news/articles/2016-05-08/bonds-buy-time-for-arab-oil-states-in-for-900-billion-shortfall>

IMF concludes Article IV mission to the UAE

<http://www.imf.org/external/np/sec/pr/2016/pr16203.htm>

<http://www.thenational.ae/business/economy/uae-urged-to-keep-public-sector-wages-in-check>

PwC's Middle East Capital Projects & Infrastructure Survey May 2016

<http://www.pwc.com/m1/en/publications/documents/cpi-survey-delivering-during-change-2016.pdf>

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