

Weekly Economic Commentary – May 22, 2016

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Markets

US stock markets reacted negatively to Fed's minutes, which unexpectedly (on Monday the market-implied probability of a June hike was a mere 4%) signalled a tighter monetary policy stance. Emerging markets, (including all GCC markets, notwithstanding higher oil prices) were swept by the negative reaction. On the contrary European and especially Japanese markets were lifted by the prospects of a stronger dollar. In fact in the currency market, the greenback accelerated its rebound touching a seven-week high against major crosses. The oil continued its uptrend with Brent coming within striking distance from USD 50 per barrel helped by the security crisis in Nigeria. Gold took a hit as the more hawkish Fed weakens the case for building a hedge against inflation.

Global Developments

US/Americas:

- **The minutes of the Fed's April FOMC meeting** signalled that at the June meeting a rate hike would be on the agenda. Recently some key measures of inflation have ticked up and with the ebbing of the energy inflation, the medium-term risks are on the upside. A June hike is not a done deal as the Fed might wait for a further strengthening in the jobs market.
- **US inflation** increased to 0.4% mom in Apr, the largest gain since Feb 2013, after 0.1% in Mar. Energy and food prices rose more than anticipated.

- **US industrial production** expanded 0.7% mom in Apr, reversing a drop of -0.9% the previous month. Utilities were the major drivers, while mining continued to lose ground.
- **Existing home sales** in Apr were 1.7% mom and 6% yoy.
- **New unemployment claims** increased 20,000 to 294,000. The **4-week moving average** stands now at 268,250 from 258,000.

Europe:

- **The eurozone's current account surplus** expanded to EUR 32.3bn in Mar, not seasonally adjusted, from EUR 31.5bn a year earlier. **The trade surplus** expanded to EUR 28.6bn, from EUR 19.9bn in Mar 2015, as a result of import falling at a faster pace than exports.
- **The UK output producer price index** fell 0.7% y/y in Apr after dropping 0.9% the month before.
- **UK inflation** rose 0.3% yoy in Apr after increasing 0.5% in Mar,
- **UK retail sales** rose 1.3% mom (4.3% yoy) in Apr, up from a -0.5% mom drop (3.1% yoy) in Mar, confirming that the upward trend is holding up.
- **German PPI** fell -3.1% yoy in April, the same as in the previous month.

Asia and Pacific:

- **GDP in Japan** expanded by 1.7% qoq ann. in Q1 offsetting a -1.7% contraction in Q4, thanks in part to a leap year consumption boost, but the rebound is not strong enough to dispel concerns over a contraction in the current quarter.
- **China's M2 money** supply growth decelerated to 12.8% yoy in Apr, down from 13.4% in Mar. Credit growth slowed sharply, suggesting that the government is putting the brakes on the burst of lending seen in Q1.
- **Average new home prices in 70 Chinese cities** in Apr

climbed 6.2% yoy, up from 4.9% in March sustained by laxer credit standards.

- **Japan's machinery orders** rose 5.5% mom in Mar, following a -9.2% decline in Apr. Most of the rise came from manufacturing orders, with overseas orders also up.
- **India's wholesale price** deflation took a break, as the index increased 0.34% mom in Apr (up from a -0.8% fall in Mar), for the first time in 18 months. Most the rise stems from food prices.
- **India's trade deficit** narrowed to -USD 4.8bn in Apr, up from -USD 5.1bn in Mar.
- **Singapore's non-oil domestic exports** declined 7.9% yoy in Apr, following a -15.7% decline in Mar. The weakness was led by electronics and civil engineering products.
- **Philippines GDP** growth accelerated to 6.9% yoy in Q1 up from 6.5% in Q4.
- **Thailand's GDP** grew 3.2% in Q1, up from 2.8% in Q4 thanks to increased government spending and an improvement in exports.

Bottom line: The anemic pace of global growth underlines the fact that structural reforms are occurring at suboptimal rates in both advanced and emerging economies. Governments are reluctant to act because political and adjustment costs are front-loaded, while the benefits materialize over the medium and long term. High sovereign debts are sustainable now, thanks to aggressively accommodative monetary policy, but the situation cannot be sustained forever. On the contrary, lax fiscal policy and lack of reforms hinge on the illusion that the arrangement is semi-permanent.

Regional Developments

- **Bahrain** privately placed a USD 435mn, three-year sukuk issue last week, with a profit rate of 325 basis points over mid-swaps; this is the second time in three months that the country has tapped the dollar bond market.
- **Egypt's** cabinet approved "in principle" the long-awaited

value added tax bill; this will now be referred to the Council of State (an advisory body to the government), and then sent to parliament for discussion.

- **Egypt's financing gap** is estimated at around USD 30bn for the next three years, revealed the Minister of International Cooperation. It was also mentioned that the government is trying to diversify its sources of funding instead of relying solely on treasury bills.
- **Unemployment rate** in **Egypt** edged down slightly to 12.6% in Q1 this year, from 12.7% the previous quarter. Total labour force grew by 99k people in Q1 to 28.4mn people.
- The Islamic Development Bank (**IsDB**) has invested USD 3.7bn in **Egypt**, according to an official from the Islamic Corporation for the Development of the Private Sector.
- **Iraq** reached a **stand-by agreement** with the **IMF**, with a loan amount of USD 5.4bn at 1.5% annual interest rate. According to the finance minister, this will help Iraq secure an additional financial aid of around USD 15bn over the next three years, including via international bonds.
- **Jordan's trade deficit** widened to 13% in Q1, as exports fell by 12.7% to JOD 1.16bn alongside a 4% pick-up in imports to JOD 3.5bn.
- The **unemployment rate** in **Jordan** touched 13% in 2015 – the highest since 2008; the number of unemployed Jordanians increased by 36k to reach around 209k.
- **Fitch** report on **Jordan's banks** – which have a Negative Outlook rating – highlighted political risk, weak external finances and continued concern over the country's public finances as constraints, even though the banks maintained healthy liquidity, adequate capital ratios, and resilient profitability.
- **Kuwait's** minister of social affairs stated that around 70% of the **delay in development projects** was due to the executors; often, unavailable land and budget issues were major constraints.

- **The minimum capital** requirement to register firms (except joint stock companies) in **Oman** has been scrapped.
- **Oman's total imports** declined marginally by 1.0% yoy to OMR 11.15bn in 2015, from OMR 11.27bn a year ago, mainly on account of fall in commodity prices across the globe.
- According to EY, a 5% **VAT in Oman** could generate revenues in the order of OMR 250mn.
- **An agreement to set up a China-Oman Industrial City** in Duqm will be signed on Monday, paving the way for USD 10bn investments by 2020.
- **Qatar** reported a **trade surplus** of QAR 19.3bn in Q1 versus QAR 48.4bn in the same period a year ago. Asia remained the top trade partner, accounting for 73.1% and 33% of Qatar's exports and imports respectively. GCC's share in Qatar's exports was 9.1% and 14.9% of imports.
- *Reuters* reported that **Qatar** mandated HSBC, JP Morgan, MUFG and **QNB Capital** as global coordinators on a **potential US dollar bond**.
- **Traffic congestion** in **Qatar** is estimated to have an economic cost of between QAR 5.2-6.8bn, according to a report by Qatar Mobility Innovation Centre. The report found that each commuter spent an average 102 extra hours due to congestion in 2015.
- **Saudi Arabia** held USD 116.8bn of **US Treasuries** as of Mar 2016, according to data revealed by the Treasury Department. This is about 20% of the country's USD 587bn of foreign reserves and roughly 10% of the stockpiles of China and Japan.
- The **IMF** lauded **Saudi Arabia's** reform plan, though stating that "the reforms will need to be properly prioritised and sequenced, and the appropriate pace of implementation carefully assessed". In the statement released after the conclusion of the 2016 Article IV mission to the country, real GDP growth was projected at 1.2% this year (2015: 3.5%). (More details: <http://www.imf.org/external/np/sec/pr/2016/pr16230.htm>)

- **Saudi Arabia** plans to sell five-, seven- and 10-year, fixed-rate **riyal bonds** this week, according to a banker and reported by Reuters. The bonds are to be priced on today and allocations to be made tomorrow (Mon).
- **Saudi Arabia's** Labour Ministry revealed a national strategy for **women's employment** – this will be launched in 2 months, is expected to create 50,000 job opportunities, and will continue for two years. Working from home, and part-time employment are also being considered as options.
- The **construction firm Saudi Binladin Group** secured a SAR 2.5bn loan from local banks to ease its financial pressures. This is being used to cover redundancy costs for workers it is laying off, back salaries and severance costs, according to banking sources.
- **Privatisation plans in Saudi Arabia:** 11 airports will be privatised by 2020, stated an official from the General Authority for Civil Aviation; the health ministry plans to privatize 295 hospitals and 2,259 health centers by 2030.
- Distressed asset sales are playing a more prominent role in **M&A** deal making in the **MENA** region, largely because of a tightening of capital, according to the EY Capital Confidence Barometer. EY expects MENA's USD 50-60bn annual M&A market to remain unchanged in 2016.
- **Jordan** is expected to sign a MoU with the GCC Interconnection Authority allowing it to connect to the **GCC power grid** through Saudi Arabia. The project is expected to cost JOD 170-200mn, according to the Minister of Energy and Mineral Resources.
- It is estimated that nine out of 10 **migrants and refugees entering the European Union** in 2015 relied on "facilitation services", according to a report by Interpol and Europol. Given that about 1 million migrants entered the EU in 2015, and most paid EUR 3,000-6,000, the average turnover for people smugglers was likely between USD 5-6bn.

UAE Focus

- **UAE** Abu Dhabi Securities Exchange (**ADX**) disclosed that 64 out of its 66 listed companies had submitted financial statements for Q1 within the deadline of 45 days from the end of the fiscal period, achieving a 97% compliance rate.
- The ease of **mobile and internet banking** notwithstanding, a survey conducted by Abu Dhabi Islamic Bank (**ADIB**) revealed that 97% of respondents would still like to visit a branch and talk to a relationship manager. Transactions through ADIB's banking app increased by 71% over the year while access via the internet increased by 25% during just one quarter last year.
- **Dubai Parks and Resorts**, which is raising money to fund its Six Flags Dubai theme park, announced that investors had subscribed to more than AED 1bn of its AED 1.68bn rights issue. Overall, the company is seeking to raise a total of AED 2.67bn, through a combination of debt and equity funding.
- **DP World** is offering to buy back almost half of its USD 1.5bn sukuk offering, due to mature in 2017; the company's offer is to buy the sukuk at USD 10,555 when the face value is USD 10,000.
- Dubai-based real estate developer **Limitless** announced that it will make an **early payment** of AED 2.07bn to banks and trade creditors this month, following the recently concluded restructuring agreement. The outstanding bank debt amount of AED 4.45bn was to be paid in installments over Dec 2016, 2017 and 2018: this covers the first installment and 80% of the second.

Media Review

Liquidity crisis in Saudi Arabia?

<http://www.zerohedge.com/news/2016-05-18/saudi-arabia-admits-full-blown-liquidity-crisis-will-pay-government-contractors-ious>

<http://www.bloomberg.com/news/articles/2016-05-18/saudi-arabia-said-to-consider-paying-contractors-with-iou>

Saudi Arabia's Vision 2030: El-Erian "Economic transitions are inherently tricky, especially one of this scale and scope"

<https://www.project-syndicate.org/commentary/saudi-arabia-vision-2030-could-inspire-region-by-mohamed-a-el-erian-2016-05>

The civil war in Nigeria is disrupting oil supplies

<http://www.bloomberg.com/news/articles/2016-05-18/violent-struggle-over-oil-and-money-rattles-global-energy-market>

Kuwait SWF targets infrastructure

<http://www.bloomberg.com/news/articles/2016-05-18/oldest-mideast-wealth-fund-eyes-global-infrastructure-projects>

Iraq oil projects to face delays on spending cut requests

http://www.zawya.com/story/Iraq_oil_projects_face_delays_as_companies_resist_spending_cuts-ZAWYA20160515032443/

Investors fear Brexit, but don't think it's likely

<http://www.economist.com/news/finance-and-economics/21699133-investors-fear-brexit-dont-think-its-likely-unknown>

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