

Weekly Economic Commentary – Jun 5, 2016

Markets

Wall Street equity futures retrenched from a 7-month high after dismal US employment data pulling down most global markets, and erasing most gains achieved earlier in the week. Regional markets were also mostly down with the notable exception of Egypt, KSA and Bahrain. Meanwhile, globally, the total amount of fixed income securities yielding negative interest has surpassed USD 10. In FX markets the dollar plunged as expectations of an imminent rate hike were smashed by the payroll data. Oil prices were relatively stable waiting for the Opec meeting deliberations: as the decision not to introduce a production cap was announced, prices initially fell but then rebounded when figures showed that US crude stockpiles had fallen. Gold benefitted from the prospect of a much slower monetary policy normalization in the US.

Global Developments

US/Americas:

- **US non farm payrolls** added only 38,000 jobs in May, down from 123,000 in Apr. The figure is a cold shower for expectations of a stronger rebound and sends the Fed's rate hike plans into the dustbin of wishful thinking. On the positive side, the jobless rate fell from April's 5% to 4.7% in May, its lowest since 2007, thanks to the second monthly drop in labor force participation.
- **The ISM manufacturing index** advanced from 50.8 in Apr to 51.3 in May. New orders only slipped a little while the inventory index fell from 45.5 in April to 45 in May which suggests stockpiles will be a weight on Q2 GDP. Production weakened, falling 1.6 points to 52.6.

- **The ISM Non-Manufacturing** index in May decreased 2.8 points to 52.9, substantially below market expectations of 55.5. It is the lowest reading since Feb 2014 as business activity and new orders growth slowed and employment fell after rising the previous 2 months.
- **US consumer spending** rose 1% mom in Apr, its biggest monthly performance since 2009 when spending rose 1.3%. Personal income meanwhile rose 0.4%.
- The **Fed's Beige Book** for April through mid-May indicates that economic activity expanded at a subdued pace in most districts.
- **The S&P/Case-Shiller home price index** in the 20 major metropolitan areas was up 5.4% yoy, fueling concerns that the real estate market is once again entering bubble territory.
- **The final University of Michigan's** consumer sentiment the came in at 94.7 in May, down from 95.8 in the preliminary release but higher than 89 in Apr. Future expectations decreased while the current conditions index rose to its highest since January 2007.
- **The number of Americans filing** for unemployment benefits reached 267,000, a decrease of 1,000 from the previous week's level of 268,000, the 65 consecutive weeks of initial claims below 300,000, the longest streak since 1973.
- **New orders for US manufactured goods** advanced 1.9% yoy in Apr up from Mar's 1.7%. Nondefense capital goods orders rose 8%, whereas orders for core capital goods (nondefense excluding aircraft) fell -0.6%.
- **The US trade gap** widened to USD 37.4 bn in Apr from USD 35.5 bn in Mar. Exports increased 1.5%, a top since Dec, mainly driven by industrial supplies and materials sales. Imports rose at a faster 2.1 %, due to higher purchases of capital goods.
- **Brazil's GDP** contracted 0.3% qoq and -5.4% yoy in Q1, after a decrease of -5.9% yoy in Q4.

Europe:

- **Euro zone's economic sentiment** indicator crawled up to 104.7 in May from 104 in April
- **Eurozone's M3 money supply** increased 4.6% yoy in Apr, down from 5% in Mar.
- **Euro zone inflation** in May declined again by -0.1% yoy after the return of deflation pressures in Apr when it fell -0.2%. However **core inflation** rose from 0.8% to 1.0%. **The PPI** fell -4.4% yoy in Apr, the same drop as in Mar.
- **The euro zone's unemployment rate** was 10.2% in April, unchanged from the previous month but down from 11% a year earlier. In Germany unemployment went down to 6% the lowest since reunification.
- **The European Central Bank** did not change its stance. Later this month, it will start buying corporate bonds and provide longer-term credit at rates as low as -0.4%.
- **Eurozone's retail sales** volume were flat mom in Apr after falling -0.6% in Mar.
- **Greek retail sales** contracted -4.3% in March vs a -7.6% in Feb, the 10th consecutive monthly drop. Sales have contracted in all but one of the last 16 months.
- **The UK PMI index** grew to 50.1 in May from 49.4 in Apr, which had been the lowest reading since early 2013.

Asia and Pacific:

- **Japan's industrial production** rose 0.3% mom in Apr, but was down 3.5% yoy.
- **Japan's consumer sentiment index** rose 0.1 point to 40.9 in May, lifted by households' willingness to buy durable goods.
- **Japanese workers' household expenditure** rose 1.1% yoy in Apr following Mar's -4.9% decline.
- **Japan housing** starts rose 9% yoy vs Mar's 8.4%, driven by public sector housing, which expanded at the fastest rate in a year.

- **Japan's retail trade** declined -0.5% mom in Apr after a surprisingly strong 4.3% rise in Mar.
- **India's Q1 GDP** expanded 7.9% yoy, up from 7.2% in Q4 2016, confirming the resilience of the Asian giant despite global uncertainty. Financial, real estate and professional services performed best at 10.3% while agriculture, forestry and fishing continued to drag at 1.2%.
- **Korea's GDP** expanded 0.5% qoq in Q1, down from Q4's 0.7% qoq rise.
- **Korean Industrial production** contracted -2.8% yoy in Apr after a -0.6% decline in Mar.
- **Korea's inflation** softened to 0.8% yoy in May from 1% yoy in Apr.
- **Korean trade surplus** narrowed in May to USD 7.1bn from USD 8.8bn, pushed down by a sizeable contraction in exports.
- **Thailand industrial production** grew 1.5% yoy in Apr, down from Mar's revised 2.2% gain.
- **Australia GDP** grew 1.1% qoq (3.1% yoy) in Q1, compared to 0.6% qoq in Q4.
- **Australian monthly trade deficit** narrowed sharply to AUD 1.9bn in Apr from a AUD 3.4bn deficit in Mar.

Bottom line: The US payroll data corroborated the fear that slow growth in Q1 was not a soft patch but the harbinger of further slowdown. Other data, including the ISM and the Beige Book, were also quite downbeat, so forecasts of a 2.7% qoq growth in Q2 look optimistic. Therefore in the US concerns over equity valuations are bound to re-emerge. A sizeable group of investors is convinced that from a long-term investment standpoint, equities are overvalued, with the most pessimistic metrics displaying negative expected real returns in the S&P 500 over 10-12 years. At the same time China risks the emergence of disruptive defaults as the past credit excess is unwound. Indeed, while economic growth in China has decelerated, credit has continued to expand flowing into

obsolete and decaying industries.

Regional Developments

- **Bahrain's** GFH Financial Group and Abu Dhabi Financial Group (ADFG) and are jointly setting up a **new Islamic bank** in **Abu Dhabi's** new financial free zone with initial capital of USD 100mn. The bank will be run as a commercial bank accepting offshore deposits and dealing in dollars, according to an official from the ADFG.
- **Egypt's** PM disclosed that the **World Bank's** first USD 1bn tranche of its USD 3bn **soft loan** is subject to the passing of the VAT in Parliament.
- **Net foreign reserves in Egypt** rose to USD 17.52bn at end of May (Apr: USD 17.011bn).
- **Egypt's investment target** for fiscal year 2016/17 is set at EGP 531bn, representing 16.0-16.5% of GDP, according to the planning minister. Private investment is expected to reach EGP 292bn, reported *Al-Ahram's* Arabic news website, quoting the minister.
- **Non-petroleum exports** from **Egypt** grew by 1.6% yoy in Jan-Apr 2016 to USD 6.5bn; exports to the Arab countries was up 4% to USD 2.9bn.
- **Egypt** received an estimated USD 19.7bn in global **remittances** last year, according to the World Bank, of which USD 1.83bn originated in the UAE.
- The National Bank of **Egypt** plans to boost its **SME portfolio** to EGP 30bn by the end of financial year 2016/17 from an estimated EGP 23bn currently.
- **Fitch** Ratings affirmed **Egypt's** Long-Term Foreign- and Local-Currency Issuer Default Ratings at **"B" with a Stable Outlook**. Even though characterised by high fiscal deficit and general government debt/GDP ratio amidst low foreign reserve coverage of imports and recent political history, factors that lent support included low external debt and gradual progress in implementing an economic and fiscal reform programme.

- The central banks of **Turkey** and **Iran** have re-opened their connection on the **SWIFT** global transaction network, according to an Iranian official.
- **Iraq** is expected to supply 5 million barrels of extra **crude** to its partners in June, reported *Reuters*, citing according to industry sources familiar with the issue.
- **Inflation** in **Kuwait** slowed to 2.9% yoy in Apr, thanks to falling food prices. Food inflation eased to an almost one-year low of 2.6% yoy in Apr (Mar: 4.1%).
- **Kuwait's new airport terminal**, which will raise the capacity of the airport to 25 million passengers from the current five million, is expected to cost KWD 1.31bn and will be completed over six years, according to the country's public works minister.
- The market capitalisation for credit securities and sukuk in **Oman** reached OMR 2 bn by the end of May due to listing of government development bonds, worth of OMR 100 mn. The equity market capitalisation reached by OMR 52 mn to touch OMR 6.12 bn.
- **Money supply** in **Qatar** shrank by 1.6% yoy in Apr (Mar: -0.4%), registering the third consecutive month of declines. Total domestic credit growth, at 19% in Apr vs Mar's 13.9%, accelerated to its fastest since Apr 2013.
- **Qatar-Saudi Arabia bilateral trade** reached QAR 6.94bn in 2015. In previous years, trade was substantially higher: around QAR 8bn in 2014, which up from QAR 7.9bn in 2013.
- **Saudi Arabia's foreign assets** fell by 1.1% mom and 15.7% yoy to SAR 2.15trillion in Apr – their lowest level since Apr 2012.
- **Saudi** Aramco, with an aim to expand its global market share, has signed a contract with Poland's biggest refiner PKN Orlen. Aramco will supply PKN with 50,000 barrels of crude oil per day starting this month.
- **Uber** raised USD 3.5bn from **Saudi Arabia's** Public Investment Fund. This investment puts the company's total balance sheet, including cash and debt, at more than USD 11bn.

- **Saudi construction firms** move to new areas: given fewer development projects, about 20% of construction firms have closed down, while 50% have switched over to maintenance, operations and electrical areas over the past eight months, and 40% of the companies face serious problems due to the low oil prices and the proposed tax on unused land, according to officials of various construction/ contractors committees in the country.
- **Foreign remittances** from **Saudi Arabia** fell by 8.3% mom and 11.9% yoy to SAR 11.9bn in Apr, the lowest level recorded since 2014, reported *Arab News*.
- **GCC** announced the formation of a new agency – **Economic and Development Affairs Authority** – aimed at increasing economic cooperation. This agency “will boost coherence, integration and coordination between member states in all economic and development sectors”, according to an official statement.
- Qatar and UAE ranked 13th and 15th respectively in the **World Competitiveness** ranking compiled by the **IMD** World Competitiveness Centre. Hong Kong, Switzerland and US took the top three spots. (Rankings can be accessed <http://www.imd.org/wcc/news-wcy-ranking/>)
- **Regional e-commerce** grew by only 23% last year, reported Payfort, with the UAE representing the largest growth market, followed by Saudi Arabia and Egypt. People in the UAE spent over USD 10bn in internet transactions last year, and it is forecast to nearly triple to USD 27.13bn over four years.
- **GCC** nations have together created 17mn **jobs for expats**, a Joint GCC Cabinet official revealed at the International Labour Conference.
- The **average value of construction disputes in the Middle East** increased by 7% over the past 12 months to USD 82mn, making it the world’s costliest market ahead of Asia (where average dispute cost is USD 67mn), according to construction consultancy Arcadis. In contrast, average cost of disputes in the UK, Europe and North

America is just USD 25mn.

- **Middle Eastern carriers** posted a 12.7% **traffic increase** in Apr, the only region with a double-digit percentage increase in demand, according to the International Air Transport Association. Global passenger traffic showed demand rose by 4.6%, the slowest pace since Jan 2015.
- Over USD 750mn was invested in 450+ **tech startup deals** in **MENA** between 2013-2015, according to ArabNet's report titled "The State of Digital Investments in MENA". UAE and Lebanon together captured 65% and 15% of the value of total investments in 2015.

UAE Focus

- **Inflation in the UAE** increased by 0.4% mom and 1.6% yoy in Apr; housing and utility costs were up 3.7% yoy while food prices grew by 3.1%.
- **UAE** Ministry of Energy hiked the **fuel prices** for the month of June: petrol prices were up 4.5-5% while diesel went up by 10%. Brent crude is trading at the highest since Nov.
- **Emirates NBD** plans to **invest** AED 500mn over the next 3 years towards digital innovation and intends to launch the UAE's first digital bank for millennials, according to its CEO.
- In a bid to support **fintech growth** in the UAE, Abu Dhabi Global Market (**ADGM**) signed an agreement with the start-up accelerator Flat6Labs. Plans include the creation of a RegLab that will create an environment conducive to fintech firms (cost effective and not too stifling for small firms).
- **Etihad Airlines** and its partners' combined **direct economic contribution** will amount to USD 7.4bn this year, with Etihad contributing USD 6.8bn. Indirect contribution via tourism is a further USD 2.2bn while total contribution is expected to rise to USD 18.2bn by 2024. Together, it expects to support 91,700 **jobs** this

year, according to research undertaken by Oxford Economics.

- **Abu Dhabi** plans to issue **tenders for infrastructure** worth AED 20bn over the next 2-5 years, and these are most likely to be public-private partnerships, revealed the undersecretary of the department of municipal affairs.
- Dubai-based **Majid Al Futtaim** plans to **boost** its **investment** in UAE to AED 48bn by 2026, from AED 18bn currently. The plans includes development of 10 new City Centre-branded shopping malls (scheduled to open before 2020), six hotels, a mixed-use community, 28 cinemas and 40 Carrefour outlets, as well as expand six existing malls. The CEO stated that Dubai has room for more “quality shopping centres” and that land had already been acquired for the new developments.
- **Abu Dhabi** is facing an **over-supply of properties**, according to a senior official on the sidelines of a forum; he also mentioned “we’ll meet [the demand-supply gap] with innovative solutions to make sure there is a balance”.
- **Dubai Parks and Resorts**, which successfully raised AED 1.68 billion from a 1.6 times oversubscribed Rights Issue, also revealed that Qatar Holding had increased the stake in the company to 11%.
- **Dubai Investments** is in talks with banks for a USD 300mn loan, according to the CEO. The loan, to be finalised by the end of the summer, will support financing of the Mirdif Hills project in Dubai.
- **Arabtec**’s shareholders approved the use of AED 1bn of the company’s statutory reserves to cover around 44% of its accumulated losses, leaving a reserves balance of AED 148mn.
- The first-ever **Dubai Happiness Meter** revealed that 89% of around two million respondents who used government facilities in 28 different departments in Dubai were satisfied with the service they received. While Dubai

Customs trumped other departments to the top spot, the results also disclosed some interesting details like 10am on Tues was the “happiest hour”.

Media Review

The bulletin of oil companies bankruptcy in the US

http://www.haynesboone.com/~media/files/attorney%20publications/2016/energy_bankruptcy_monitor/oil_patch_bankruptcy_20160106.ashx

Obstacles could derail the Middle East bond train

<http://www.arabianbusiness.com/obstacles-could-derail-middle-east-bond-train-633778.html>

Payments migration in Middle East & Africa

<http://gulfnews.com/business/sectors/banking/payments-migration-to-open-up-huge-opportunities-1.1836674>

Innovation in the Arab world: dismal at best

<http://www.economist.com/news/middle-east-and-africa/21699955-how-be-creative-stifling-region-zero-not-much-more>

How technology is transforming MENA

<http://blog.euromonitor.com/2016/05/how-technology-is-transforming-business-in-the-middle-east-and-north-africa.html>

EBRD-Egypt cooperation

<http://www.dailynewsegypt.com/2016/06/01/ebd-announce-new-cooperation-strategy-egypt/>

Dubai on course for another pricing record at Mohammed bin Rashid Al Maktoum Solar Park

<http://www.thenational.ae/business/energy/dubai-on-course-for-another-pricing-record-at-mohammed-bin-rashid-al-maktoum-solar-park>

The Bitcoin resurgence?

<http://www.economist.com/news/finance-and-economics/21699932-bitcoins-resurgence-may-be-short-lived-etherised>

US politics: “Who’s really winning the Presidential race?”

<http://qz.com/698026/theres-a-clear-leader-in-the-2016-race-and-he-already-lives-in-the-white-house/>

The transformation of OECD

<https://next.ft.com/content/b0f45fb4-27d7-11e6-8b18-91555f2f4f>

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