

Weekly Economic Commentary – Jul 17, 2016

Markets

Last week saw new records on Wall Street where the S&P500 crossed 2,150 and the NASDAQ 5000. Other markets were on a roll as well especially in Japan where share prices surged after the announcement of a new stimulus by Prime Minister Abe and the election that gave a super majority in the Upper House to the ruling conservative coalition. Regional stock markets were also boosted by the global mood. The rally took also extended to the fixed income market which saw the first issuance of a 10-year German Bund with negative rates. The yen took a beating after Abe's speech, while the GBP rebounded when the BoE kept policy unchanged. The oil price has recovered but the sharp increase in the term structure steepness (contango in the traders' jargon) means that the market is oversupplied in the short term and therefore volatility is likely to prevail. Gold retrenched as the propensity towards risk depressed the attractiveness of a safe haven.

Global Developments

US/Americas:

- **University of Michigan's consumer sentiment** dropped to 89.5 in Jul, from 93.5 in Jun and well below market expectations of 93.5. It is the lowest reading since Apr as current conditions worsened and the future outlook reached the nadir since Sep of 2014.
- **Retail sales in the US** rose 6% mom, in May following a 0.2% gain in April.
- **US unemployment claims** were **stable** at 254,000 the lowest since early Apr, corroborating the view that the labour

market is buoyant. It is the 71st straight week initial claims are below 300,000, the longest streak since 1973.

- **US inflation** was 1% yoy in Jun, the same as in May. Shelter, medical care and energy prices fell at a slower pace while food inflation was lowest in more than 6 years.
- **US industrial production was up** 6% mom in May, recovering from a downwardly revised 0.3% drop in Apr and beating market expectations of a 0.2% gain. It was the best performance since July 2015.
- The **US Fed's Beige Book** showed that economic activity expanded modestly across most districts in late spring.

Europe:

- **Eurozone industrial production** dropped -1.2% mom in May after a 1.4% increase in Apr, with energy, capital and durable consumer goods accounting for the largest plunge.
- **Eurozone inflation** rose 0.1% yoy in Jun offsetting the 0.1% drop in May, thanks to a less sharp decline in energy prices.
- **The Eurozone's external trade surplus** increased in May to EUR 24.6bn, not seasonally adjusted, from EUR 18.3bn a year earlier, as imports fell while exports expanded.
- Contrary to expectations, the **Bank of England** did not take any action at its policy meeting.
- **Irish GDP growth spiked** 26% yoy, reflecting multinational activity and aircraft purchases. If we look at the NGP which takes out the effect of multinational location in Ireland GDP grew 6.5%.

Asia and Pacific:

- **China's GDP growth** reached 6.7 % yoy (1.8% qoq) in Q2, the same as in Q1 (1.2% in Q1). The figure was slightly above market expectations, driven by a faster increase in industrial output, retail sales while investment

weakened.

- **China's M2 money supply** growth remained **stable** at 11.8% yoy in Jun from May. New credit recorded a spike in the month, although this is likely a one-off.
- **China's industrial production** **increased** 2% yoy in Jun, up from May's 6%. Weak external demand and overcapacity mean that this improvement is temporary.
- **China's fixed-asset investment** **growth eased** to 9% yoy in June, down from 9.6% in May, the weakest result since March 2000.
- **China's retail sales** **increased** 6% yoy in Jun, from May's 10% thanks to a rebound in real estate market and subsidies for energy-efficient cars.
- **China's foreign trade surplus** **declined** to USD 48.1 bn in Jun from May's USD 50 bn.
- **Indian wholesale prices** **rose** 6% yoy in June, after 0.8% in May and higher than market consensus of a 1.19% increase.
- **India CPI inflation** **reached** 8% yoy in June, pushed up by food prices and accelerating for the third straight month and reaching the highest since Aug 2014.
- **Bank of Korea** **held its rate steady** at 1.25% as expected.
- **Indonesia** recorded a USD 900.2 mn **trade surplus** in June, up from USD 536.0 mn surplus a year earlier and way above market estimates of a USD300 mn. It was the largest trade surplus since Feb as exports fell less than imports.
- **Singapore GDP** **growth** was 2.2% yoy in Q2, marginally higher than 2.1% in Q1. It was the fastest expansion since Q1 2015 as a rebound in manufacturing sector offset a slowdown in construction. Growth in the services sector was steady.

Bottom line: The latest data point to a rebound in US GDP in Q2 and to an overall improving situation in the largest world economy. Also in China GDP pointed to a stabilization, with housing driving a near-term upswing, while capital outflows

remain an issue. In Japan Abe has promised once again to take action on the economy, saying he wants “the swift formulation of comprehensive, bold economic measures”. Barring new shocks (from terrorism to political turmoil, such as Brexit or the attempted coup in Turkey) the second half of 2016 presents a more stable outlook. In the oil market From Saudi Arabia to the International Energy Agency, the largest players agree that that downward pressure on prices is finally ebbing.

Regional Developments

- **Bahrain International Airport** raised BHD 107mn in financing for the modernisation of the airport.
- **Egypt’s 2016/17 budget** forecasts a **deficit** of 9.8%, according to the finance ministry. Revenues are expected to reach EGP 669.7bn while spending is estimated at EGP 974.8bn.
- **Egypt’s** central bank issued **treasury bills** worth EGP 20.25bn last week, in a bid to finance the budget deficit.
- **Urban consumer inflation** in **Egypt** **picked up** for the third straight month, rising to 10.4% in Jun (May: 12.3%); core inflation rose to 12.37% yoy in Jun (May: 12.23%).
- **Egypt PMI** recorded 47.5 points in Jun (May: 47.6), **shrinking** for the ninth consecutive month; overall input costs rose to the highest on record since the survey began in Apr 2011.
- **Iraq** is expected to **cut non-oil spending** in its 2016 budget by 15%, given an expected average oil price of USD 34.5 this year, and hopes to receive **financing** of USD 2bn in bonds plus loans from US, IMF and the World Bank.
- The **IMF approved Iraq’s Standby Agreement** granting access to a line of credit worth USD 5.34bn; an initial loan of USD 634mn will be disbursed “soon” while the rest is contingent on the implementation of a series of

economic reforms.

- **Jordan** signed **grant agreements** worth USD 82.6mn in Jan-Apr this year. Canada was the largest donor (USD 38.3mn worth projects ranging from renewable energy and agriculture to women's empowerment), followed by the Kuwaiti Fund for Arab Economic Development (grants worth USD 20mn).
- **Inflation in Kuwait** eased to 2.8% yoy in May while core inflation was marginally higher at 3.0%; local food inflation slowed to an over one-year low of 2.1% yoy in May.
- **Kuwait** is going ahead with plans to **privatise its oil sector**, stated a top finance ministry official; he also revealed that a portion of its shares will be offered to the public as part of the state's privatization program.
- **Lebanon's fiscal deficit widened** by 35.7% yoy to USD 1.44bn in Q1 2016; government expenditure was up 23.1% to USD 3.87bn while revenues grew 16.7% to USD 2.43bn. The finance minister disclosed that FDI was down 47% and called on the government to endorse the draft 2016 budget.
- **Moody's** maintained a **negative outlook on Lebanese banks**, citing increasing exposure to the growing public debt. It was noted that the private equity of Lebanese banks will remain stable in general and expects banks to maintain steady but limited profits.
- The **number of Omani nationals working in the private sector** in May 2016 **increased 6% mom.**
- **Manufacturing, logistics, tourism, fisheries and the mining sectors, will be the core receivers of Oman's investments in the coming five years**, according to the deputy secretary general of the Supreme Council for Planning.
- **Qatar** has **invested USD 30bn annually since 2010 on infrastructure, industry and housing**, stated the Minister of Municipality and Environment at a conference last week.

- **Saudi Arabia PMI** posted 54.4 in Jun, **down slightly** from 54.8 in May; output growth eased to a 32-month low while new business from abroad fell (albeit marginally) for the third successive month.
- **Saudi banks** recorded a 0.5% **decline in total deposits** in May, after decreasing by 0.7% the month before; this has contributed towards a 12-month drop of 3.4% – the largest 12-month decline in deposits since Aug 1994. Although government deposits have stabilised, rising 0.1% in May, it is still down 4.5% year-to-date.
- SAMA annual statistics showed that the number of **Saudis working in the private sector** amounted to 1.7mn (only 16% of total employees), versus 8.83mn foreigners.
- Domestic and inbound foreign **tourism revenues** in **Saudi Arabia** reached SAR 53.7bn this year, according to a report issued by the Saudi Commission for Tourism and National Heritage. The report also disclosed that outgoing Saudi tourists spent SAR 24.1bn abroad last year.
- **S&P warned Saudi Arabia of consequences of an ageing population:** age-related government expenditure on pensions and health care could surge to 14% of GDP by 2050 from 6% currently. This would put a strain on public finances, exacerbate debt levels and lead to a credit rating downgrade if reforms are not introduced, according to the ratings agency.
- The **hike in intellectual property fees** across the Gulf countries send a negative message and could hurt smaller businesses and budding entrepreneurs: in Kuwait, the official cost for registering a trademark is due to increase by 6,244% to USD 1,586 from USD 25 while in Bahrain registration fees were hiked by 728% last month to USD 1,325 from USD 160. Saudi Arabia and UAE increased its fees last year for renewing trademarks to USD 800 (from USD 80) and USD 2725 (up 99.9%). Compared to these rates, in the UK and the US it costs around USD 293 and between USD 275-325 respectively.

UAE Focus

- The **Dubai Economy Tracker Index edged up** to 54.6 in Jun (May: 54.5), supported by increase in new export orders though the month saw the lowest level for the employment index since Dec 2011.
- **Abu Dhabi GDP grew** by 7.7% yoy to AED 196.1bn in Q4 2015, with the non-oil sector accounting for 50.7% of total GDP.
- **UAE's non-oil trade** clocked in at AED 269.5bn in Q1 2016, almost unchanged from a year ago. Imports, at AED 166.1bn, accounted for more than half of UAE non-oil foreign trade in Q1 while non-oil trade with GCC accounted for 9% of the global total.
- **Abu Dhabi's** Executive Committee of the Executive Council approved **projects** worth AED 544mn last week, spanning projects across infrastructure, services, and education facilities.
- The **UAE central bank survey** on credit showed that growth in demand for business credit slowed in Q2, with the net balance measure for business lending falling to +3.1 (Q1: +13.6) while banks tightened credit standards further.
- Abu Dhabi Islamic Bank (**ADIB**) disclosed that it was **restricting new credit** due to an increase in defaults across its business lines. The bank's provisions for bad loans was up 33.6% yoy to AED 234mn in Q2.
- **Consumer confidence in Abu Dhabi fell** by 16.6% yoy to 115 points in Q1; on expectations about the economy's outlook, sentiment slightly improved to 148 from previous quarter's 146 points, though much lower than the 171 reported in Q1 last year.
- Overall **Consumer Confidence Index** for **Dubai** stood at 142 points in Q2, according to Dubai DED, and compares to a score of 138 recorded in Q4 2015. 86% of consumers in Dubai rated their personal finance scenario as excellent or good while 79% consumers said it a good time to buy

things they need and want.

Media Review

The IEA predicts that the oil market will not stabilize until 2017

<https://next.ft.com/content/4aeb76b0-3215-11e6-ad39-3fee5ffe5b5b>

Middle Eastern producers hold the largest oil market share

<https://next.ft.com/content/a36bfe6e-4367-11e6-9b66-0712b3873ae1>

Oxford Economics on the consequences of Brexit

<http://www.oxfordeconomics.com/brexit/executive-summary>

The US real estate market is not in good shape

<http://www.bloomberg.com/news/articles/2016-07-14/the-housing-market-is-waving-a-red-flag>

The US venture capital sector in 13 charts

<http://pitchbook.com/news/articles/what-you-need-to-know-about-us-venture-in-13-charts>

Sovereign investors' M&A deals fall 26% to \$14.1bn in Q2

<http://www.arabianbusiness.com/sovereign-investors-m-a-deals-fall-26-14-1bn-in-q2-637827.html>

Expo 2020, Fifa World Cup 2022 and Vision 2030 drive growth in the region

<http://www.thenational.ae/business/economy/expo-2020-fifa-world-cup-2022-and-vision-2030-drive-growth-in-the-region>

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