

# Weekly Economic Commentary – Jul 31, 2016

## Markets

*Global stock markets were in positive territory on both sides of the Atlantic despite that GDP data from the US and Europe confirmed that global growth is anemic, but in Japan shares fell after the BoJ deluded expectations of bold policy measures. Overall, year-to-date most MSCI regional indices are negative with the exception of East Asia. Regional markets were generally upbeat even though oil prices fell to new low due to weak economic growth that exacerbates an oversupply of crude and refined products. In currency markets the dollar was on the back foot, while the yen surged after the BoJ's announcement. Gold prices were pushed up by hedging strategies.*

## Global Developments

### **US/Americas:**

- **US GDP** rose by a **meagre 2%** qoq ann in Q2 against Wall Street forecast of 2.5%. Furthermore, downward revisions to Q1 GDP show that the US economy expanded at an annual rate of 1% in the first half of 2016. Personal consumption expenditures (PCE) and exports were strong but negative contributions came from inventory, nonresidential fixed investment, residential fixed investment, and state and local government spending.
- **US new home sales** continued the **upward** trend in Jun increasing by 3.5% mom and are up by 25% on annual basis, the latest sign that the housing market is gathering momentum. Single-family home sales touched their highest level in almost 8.5 years.
- **The University of Michigan Consumer Sentiment** index

- plunged** in Jul by 3.5 points to 90. Expectations are gloomy, although present conditions are viewed favorably. The **Conference Board's consumer index** was **steadier** at 97.3 in Jul after a reading of 97.4 in Jun.
- **US non-defense capital goods orders** excluding aircraft rose 0.2% mom in Jun recovering part of May's -0.5% fall and **confirming the lull** in business investment.
  - **US jobless claims** increased by 14,000 but the 4-week moving average continued to decline to 256,500 from 257,500.

## Europe:

- **The Eurozone GDP growth slowed** to 0.3% qoq in Q2 from 0.6% in Q1.
- **The ECB stress test for systemic banks** were **generally positive**, although it highlighted critical situations for a limited number of institutions in Ireland, Austria, Spain and Italy.
- **The Eurozone's M3 money supply increased** 9% yoy sa in May, up from 4.6% in Apr.
- **The Eurozone's economic sentiment** indicator dipped to 104.4 in Jun from 104.6 in May.
- **Inflation in the Eurozone** was 0.1% yoy in Jun, offsetting a -0.1% drop in Apr.
- **The German Ifo Business Climate Index** climbed up to 108.7 in June from 107.8 in May
- **German bank lending to private enterprises** increased 4% yoy in May for the sixth consecutive month.
- **German retail sales** grew 9% mom in May after a revised -0.3% drop in Apr.
- **The unemployment rate in Spain** fell to 20% in Q2 from 21% in Q1, thanks to robust economic growth. After 2 early elections in 6 months a government still is not in place.
- **The UK Nationwide Housing Price Index** increased 2% mom (5.1% yoy) in June, following the same increase in May

(4.7% yoy). The effects of Brexit will start to filter in from next month.

- **Total net lending to individuals in the UK increased** by GBP 4.3bn in May, up significantly from a GBP 1.4bn rise in Apr.
- **UK consumer confidence** remained **steady** at -1 in Jun, in negative territory for the third month in a row.

### **Asia and Pacific:**

- **The Bank of Japan announced a stimulus package** hinging on increased purchases of ETFs from JPY 3.3tn to JPY 6tn, and doubling its US dollar lending facility to USD 24bn. The interest rate and the size of the QE were left unchanged, disappointing markets' expectations.
- **Japan unemployment rate** was 3.1% sa in June, down from 3.2 % in the previous three months. It was the lowest jobless rate since July 1995. The jobs-to-applicants ratio came in at 1.37% in Jun, compared to 1.36% in May. It was the highest figure since August 1991.
- **Japan inflation dropped** to -0.4% yoy in Jun, the same as in May in line with expectations. It was the 4th straight month of decline, as prices of food increases did not offset the decline of housing and transport prices.
- **The Indian GDP grew** by 7.9% yoy in Q1, vs 7.2% growth in Q4 and market expectations of a 7.5%. This is the top performance in six quarters, boosted by private spending, while investment and exports declined.
- **Consumer prices in India** went **up** 8% yoy in Jun, driven by food items, accelerating for the third straight month to a record since Aug 2014.
- **The South Korean economy GDP grew** 2 % yoy in Q2, up from 2.8% in Q1 to reach a 6-quarter top. The result was entirely due to government expenditure, while private consumption, exports and investment declined.
- **South Korean industrial output contracted** -0.2% mom in

Jun, after a stellar 2.7% in May.

- **Profits of Chinese industrial firms in Jun increased 1%** in Q2 to USD 92.40bn thanks to government stimulus measures.

**Bottom line:** At midyear the uninspiring picture for global growth was confirmed by the GDP data from the US and the Eurozone. The US GDP figure is particularly distressing because the largest world economy was supposed to pull the rest of the G7 (and some large emerging markets) out of the doldrums in 2016. On the contrary the average annual growth rate during the current business cycle is the weakest of any expansion since WWII. Furthermore the fact that private investments are falling and firms are destocking underscores a worrisome lack of confidence in the future. The only consistently upbeat figures come from India, which continued in its growth trajectory.

### Regional Developments

- The introduction of a **5% VAT in Bahrain** will result in **an increase in revenues** by USD 568mn or about 1.6% of GDP alongside an uptick in inflation, according to IMF estimates.
- **Egypt's** finance ministry stated that it was **seeking to secure an IMF USD 12bn loan programme** spread over three years; however, the IMF stated that the size of the financing program would be determined only after a two-week mission (began on Jul 30).
- **Egypt's central bank left interest rates unchanged** at last week's meeting: overnight deposit rate is 11.75% and its overnight lending rate at 12.75%.
- A letter of intent has been signed between **Jordan and IMF**: the country stands to receive total of USD 700mn over the years of the Extended Fund Facility programme that spans over 36 months.
- A flurry of data releases in **Jordan: public debt** amounted up to JOD 25.15bn at end-May, comprising 92.6%

of GDP; **unemployment increased** by 2.8 points yoy to 14.7% in Q2, with male and female unemployment at 13% and 23% respectively; **exports were down** 8% yoy to JOD 1.706bn in Jan-May.

- The **Kuwait** government has approved an MP's proposal to impose **health service fees** on 'visitors', reported *Kuwait Times*.
- The amount of grants and loans earmarked for **Lebanon** by the **World Bank's** multi-donor trust fund will exceed USD 1.5bn over the next three years, it was disclosed at the launch of the new Country Partnership Framework for Lebanon for the period 2017-22.
- **Private deposits at commercial banks in Oman increased** by 3% yoy at end of May to OMR 12.074bn, of which 12% i.e. OMR 905mn is held in foreign currencies.
- **Oman's crude oil exports grew** by 6.3% to 164.57mn barrels in H1 2016. However, the average price of Oman Crude fell by 40.9% to \$35 per barrel in overseas markets during the first half of 2016, from \$59.3 per barrel in the same period last year.
- **Tourism will be Oman's main economic driver** over the next 10 years in terms of employment and contribution to GDP, according to the Undersecretary of Tourism; an Oman Tourism Strategy (2016-40) has been envisaged with a total budget of almost OMR 19bn.
- **Qatar's trade surplus increased** by 10.6% mom to QAR 8.3bn in Jun; **exports remained flat** at QAR 26.49bn, but **imports declined** 1% mom to around QAR 9.1bn.
- The **Producer Price Index** of **Qatar's** industrial sector **increased** by 2.5% mom to 44.9 points in May, thanks to improvements in manufacturing and mining sectors.
- The number of **tourists** into **Qatar** reached 1.28mn in Jan-May, of which around 47% were from the rest of the GCC nations, followed by Asians (23%) and Europeans (16%).
- The **IMF** expects **real GDP growth** in **Saudi Arabia** to **slow** to 1.2% in 2016, but recover to 2% in 2017 as the pace of fiscal consolidation eases. Welcoming the authorities

“timely response”, the IMF praised the reform goals and highlighted the need for “continued fiscal adjustment and reforms to strengthen and transform” the country.

- **Net foreign assets at SAMA declined** by USD 11.2bn (mom) to USD 562bn in Jun; assets shrank 15.9% yoy to their lowest level since early 2012.
- The **Saudi real estate market** witnessed a 56.7% **fall** in weekly sales value to SAR 1.9bn – the lowest drop in a decade – thanks to the low demand after implementation of the ‘white land’ fees.
- A new **unemployment insurance** system is being **planned** in **Saudi Arabia**, according to sources: the worker and employer are expected to pay 1% each of the salary toward the fund. The system will offer monthly salaries for one year from the date of release from employment provided they were on the job for at least a year.
- The **MENA Business Climate 2016** report identifies **access to finance as one of the top obstacles** to running a business in the region. Other common factors cited include political instability, corruption and unreliable electricity supply. *(The report is available at: <http://www.eib.org/infocentre/publications/all/econ-mena-enterprise-survey.htm>)*
- An AT Kearney report cautioned that “**overcapacity** looms on an unprecedented scale”: **GCC real estate projects** worth USD 1,653bn are in various construction stages as of Mar 2016; this compares to the value of completed projects of just USD 413bn in the past 10 years. The report outlines that developers need to rethink their project strategy and (i) extend the scope of a tender from one project to several projects; (ii) select participating partners based on their proven potential for innovation and collaboration; (iii) design a completely new set of incentives to encourage value creation. *(The full report can be accessed at: [http://www.middle-east.atkearney.com/latest-article/-/asset\\_publisher/l0N5I0fbQl6C/content/a-perfect-storm-for-](http://www.middle-east.atkearney.com/latest-article/-/asset_publisher/l0N5I0fbQl6C/content/a-perfect-storm-for-)*

*real-estate-in-the-gcc)*

- **Overall sovereign creditworthiness** in the MENA region continued to **deteriorate** in 2016, with the average rating now close to 'BBB', one notch lower than in mid-2015, according to Standard and Poor's.

## **UAE Focus**

- **UAE's Mubadala** becomes the largest shareholder in **Bahrain's Investcorp**, acquiring 20% of the latter firm which has around USD 11bn of assets under management. Though the transaction value was kept under wraps, the company's co-chief executive stated that valuation was "consistent" with Sep's 9.9% stake acquisition by an undisclosed Gulf institution at USD 138mn.
- The **IMF** report on **UAE** stated that the **quality of real estate loans improved** last year in spite of an 11% and 0.8% decline in Dubai and Abu Dhabi's respective average residential real estate prices. (The report is available for [download: https://www.imf.org/external/pubs/ft/scr/2016/cr16251.pdf](https://www.imf.org/external/pubs/ft/scr/2016/cr16251.pdf))
- **Dubai real estate investments in H1** saw Emiratis invest AED 14.52bn (from 4,543 deals), while Indians and British nationals retained the largest share of foreign-led deals with AED 7bn (3,656 deals) and AED 4bn (2,010 deals) respectively. From the region, Jordanians (AED 1.5bn+ from 765 deals), Egyptians (AED 1.37bn, 710) and Lebanese (AED 1bn+, 423) topped the list.
- **Dubai's shipping volumes declined** for the third consecutive quarter, down 6.2% yoy and 5.9% qoq to 3.75mn twenty-foot equivalent units in Q2 this year, reported DP World.
- **Etihad Aviation Group's economic contribution to US economy** amounted to USD 10.7bn, while supporting 108,000 jobs across the US. The research undertaken by Oxford Economics calculates the "core economic contribution" at

USD 3.8bn, supporting 30,300 jobs.

- **UAE petrol prices** in Aug are set to decline by 15 fils or 8.3% mom.

## **Media Review**

### **IMF issues UAE Article IV report**

<https://www.imf.org/external/pubs/ft/scr/2016/cr16251.pdf>

### **Middle East's renewable revolution**

<http://www.arabianbusiness.com/rising-sun-middle-east-s-renewables-revolution-640410.html>

<http://gulfnews.com/news/uae/environment/masdar-breaks-myths-associated-with-renewable-energy-1.1869198>

### **How to navigate the economic blogosphere**

<http://www.ft.com/cms/s/0/e460ba78-5379-11e6-9664-e0bdc13c3bef.html#axzz4Fyiddp00>

### **Vision 2030 to accelerate digital economy programs**

<http://www.arabnews.com/node/960746/economy>

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