

## Weekly Economic Commentary, 29 May 2016

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### Markets

Global stock markets ended the week on a perky mood in the wake of an upward revision to US GDP growth, a speech by Yellen and another agreement on the Greek debt. Regional markets were mixed with Brent oil price reaching USD 50 and then retrenching as traders feared that higher oil prices could galvanize high-cost producers and set off a rebound in production. In currency markets, the dollar index touched a 2-month top lifted by the prospect of an imminent rate hike by the Fed. Gold lost ground, touching an 8-week low, as expectations of a tighter US monetary policy weakened the case for an inflation hedge.

### Global Developments

#### **US/Americas:**

- **The second estimate of the US GDP real growth** in Q1 was revised up to 0.8% qoq ann. from 0.5% vs 1.4% in Q4. Durables, residential investment, state and local government spending and private consumption contributed to growth, while inventories, exports, defense spending, and business investment slowed down. However data in the current quarter looks stronger, compatible with an annual growth in the order of 2.5%.
- **Fed's President Yellen** stated that higher rates in the next couple of months looked "appropriate" if growth consolidated as expected and the labour market continued to strengthen.
- **US orders for business equipment** excluding aircraft and defense plunged in Apr, as capital goods orders, fell -0.8% mom in Apr down from -0.1% in Mar.
- **US pending home sales index** increased 5.1% mom to 116.3, a level not seen since Feb 2006. New-home sales jumped in Apr by 16.6% mom and 23.8% yoy.
- **New unemployment claims in the US** unexpectedly fell 10,000 to 268,000. The four-week moving average rose by 2,750 to 278,500. Continuing claims rose 10,000 to 2.163 million while the insured unemployment rate remained at 1.6%.

#### **Europe:**

- **Greece reached a deal on EUR 10.3bn in loans** from its international creditors. Eurozone finance ministers also granted debt relief, extending the maturity and capping interest rates. There was no agreement on debt forgiveness, but the situation is now stabilized until Oct.
- **The Conference Board Leading Economic Index** for the Eurozone was 107.2 in Apr, up 0.1 point from the previous month.
- **Spain's GDP** grew 0.8% qoq and 3.4% yoy in Q1, slightly down from 3.5% increase in Q4.
- **German new-home prices** rose 1.4% yoy in Apr, after a 1.3% gain in Mar.

#### *Prepared by:*

- The **ZEW Investor confidence index for Germany** retreated to 6.4 from 11.2 in Apr. The indicator dipped further below its historical average of 24.7. The ZEW expectations measure for the Eurozone fell from 21.5 to 16.8.
- **The German Ifo Business Climate Index** rose to 107.7 in May from 106.7 in Apr, pushed up by the current assessment and business expectations sub-indexes.
- The second estimate of **UK GDP growth** was confirmed at 0.4% qoq in **Q1** (Q4: +0.6%), the 13th consecutive quarter of positive growth, thanks to household spending (+0.7% qoq). Separately, **business investment** in UK fell for the first time in three years, registering declines of 0.5% qoq and 0.4% yoy in Q1.
- **UK consumer confidence** went up by 2 points to -1 in May, but is still in negative territory for the second month in a row.

#### **Asia and Pacific:**

- **Japan's core CPI, excluding food**, fell -0.3% yoy in Apr, despite negative BoJ interest rates and massive QE. The 2% inflation target remains elusive.
- **Japan's trade surplus** rose to JPY 823.5bn in Apr, the largest surplus since Mar 2010, as imports slumped by almost a quarter (the largest annual contraction since Oct 2009) and the yen traded to its strongest level in 18 months.
- **Taiwan GDP** in Q1 plunged -0.7% yoy, after a -0.9% decline in Q4. **Industrial production in Taiwan** fell -4.1% yoy in Apr, after a -2.9% yoy decline in Mar. Pharmaceuticals had a strong performance, while electronics slumped.
- **Hong Kong's trade deficit** narrowed to HKD 31bn in Apr from HKD 47bn in Mar, as exports decreased for the 12th consecutive month.
- **Singapore's industrial production (IP)** grew 2.9% yoy in Apr, boosted by biomed, up from a revised 0.1% gain in Mar. Excluding biomed, IP contracted by a modest -0.1% yoy.

**Bottom line:** *The data flow did not reserve major surprises: the revision to US GDP has not altered the prospects of sluggish global growth and lack of a rebound catalyst. Political factors might affect this baseline scenario. In Europe the violent protests against labor market reforms are a painful reminder that governments face an uphill struggle to liberalize their economies. In less than a month the result of the Brexit referendum and the Spanish elections could set off another crisis in the EU. Meanwhile in the USA polls show that Trump has a substantial chance of winning in November thereby advancing a protectionist agenda, great naïveté on economic policy, mixed with negative attitudes towards China, Mexico, NATO members, OPEC and Muslim countries.*

#### **Regional Developments**

- **Bahrain's Mumtalakat** posted a 68.7% yoy drop in net profit to USD 76.3mn in 2015, as a result of “impairment losses recognised on goodwill”, the company said without elaborating.
- In a bid to woo tourists and investors, **Bahrain** has announced **two new types of visas**: a single entry visa issued electronically or at entry points for five days stay and a multiple-entry (only electronically issued) visa that allows for stay up to 90 days. It also extended its

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eVisa eligibility to 113 nationalities from 38 countries previously, and travellers from 66 countries can get their visas upon arrival in the kingdom.

- **GCC support for Egypt:** Egypt's cabinet approved a USD 2.5bn grant from **Saudi Arabia**, according to *Al-Ahram* Arabic news website. Egypt is set to secure USD 100mn funding from the **Kuwait Fund for Arab Economic Development** by end of this month for the development of key infrastructure projects in Sinai region, reported *Amwal Alghad*.
- **Egypt's energy subsidy bill** declined to EGP 41bn in Q1-Q3 of 2015-16 financial year, down 27% from EGP 56bn recorded in 2014-2015. The bill is expected at EGP 45-48bn for the full year while the subsidy bill for the next fiscal year is set at an ambitious EGP 35bn.
- **Egypt's Ministry of Industry and Foreign Trade** is implementing a **mid-term plan** until 2020: this aims to achieve an industrial growth of 8%, reduce the trade deficit by 40%, increase the share of industry in the GDP by up to 21%, create 3mn new jobs and increase exports by 10% annually.
- **Egypt's** stock exchange will see five new **initial public offerings** in the coming few months, disclosed the CEO.
- **Egypt** expects to raise its **natural gas production** to between 5.5-6 billion cubic feet per day by the end of 2019, according to the oil minister, up from the current 3.9bn cubic feet per day. Twelve natural gas field development projects are currently underway worth USD 33bn in investment.
- **Egypt** plans to complete linking up its **power grids** with **Saudi Arabia** by the end of 2018 or early 2019 latest, revealed the chairman of the New and Renewable Energy Authority.
- **Iraq** is pumping about 4.5 million barrels per day (bpd) now and aims to boost that to 5.5-6 million bpd by 2020, according to the head of Iraq's State Oil Marketing Organisation; this, in spite of planned spending cuts and oil companies warnings of potential delays.
- The **Islamic Development Bank** gave its initial agreement to provide USD 3bn in soft loans and grants to **Iraq**, revealed a central bank spokesperson without providing further details.
- **Jordan** auctioned its first-ever sale **Sukuk**, a five-year JOD 75mn deal to help finance purchases by state utility firm National Electric Power Company, revealed the central bank. The Sukuk attracted JOD 205mn worth of bids paying a 3.5% profit rate.
- **Jordan** received USD 716mn in **remittances from the UAE**, according to data from 'Xpress Money, a global money transfer company. World Bank placed Jordan amongst the top five remittance receiving countries in the MENA region, with around USD 3.8bn worth of cash transfers last year.
- **Kuwait's crude oil exports to China** grew by 0.9% yoy to 300k barrels per day in Jan-Apr. Kuwait exports were down 26.9% yoy to 289k bpd in Apr.
- Both Houses of the Council of **Oman** approved legislation (subject to approval by HM) to **raise the tax rate** of LNG companies to 55% from 15%, while corporate tax for petrochemical companies and exports tax of non-oil natural resources, currently at 12%, would increase to 35%.

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- **Qatar** sold USD 9bn of **bonds** in three maturities last week, the first sale in four years, and almost double the amount expected. This rings in a record H1 in terms of offerings - to USD 29.3bn - from the Middle East and North Africa. (*Read more about the arranging banks in the Media Review section*)
- **Qatar** has cut its planned spending on **building healthcare facilities** this year, awarding contracts only for 3 versus 7 planned previously and spending QAR 2.5bn (vs. planned QAR 7bn), revealed the lead advisor for contracts and project management at Qatar's Public Works Authority.
- **Property insurance** in **Qatar** is expected to remain the largest in the non-life insurance sector, supported by investment in construction projects, and likely to value QAR 6.4bn by 2019, according to Timetric.
- **Saudi Arabia** is committed to continue investing in its **energy sector** to meet future demand. This was the main message in **Aramco's** annual report, which stated "expanding oil and gas supplies...is at the core of Saudi Aramco's business". Aramco's current maximum capacity is 12 million barrels per day (bpd) and it was 9.5 million bpd in 2014; it pumped a record-high average of 10.2 million bpd in 2015. The report disclosed that Asia accounted for 65% of its total oil exports in 2015, an increase from 62.3% a year ago.
- **Saudi Arabia's** central bank governor reiterated that the agency "does not intend to change the **exchange rate policy**" and added that "there are no benefits from changing the current exchange rate".
- The **D&B Business Optimism Index (BOI)** survey for **Saudi Arabia** revealed cautious optimism for Q2 2016: the composite BOI for the hydrocarbon sector edged back into positive territory, with a reading of 3 in Q2 2016 against -12 in Q1 2016.
- **Saudi Arabian Industrial Investments Company** and **General Electric** signed a SAR 11.25bn investment pact to expand local manufacturing and innovation in water, energy, aviation, technology and other sectors starting from this year. Joint investments of USD 1bn will be rolled from this year, in addition to potential investment of USD 2 billion in 2017.
- **Saudi Arabia's** USD 16.5bn **mass transit project** planned for the holy city of **Mecca** - a metro rail system with 182 kilometres of track and 88 stations plus a bus network - has been delayed so that its financing can be restructured, according to the head of the implementing body. Due to be completed in six phases over 20 years, there is no indication of how long the delay will be, as major contracts have not yet been awarded.
- NCB's quarterly **construction contracts index** for **Saudi Arabia** reported a drop of 51% yoy and 39% qoq in new contracts awarded in Q1 this year to SAR 27.9bn. Bulk of the contracts awarded were in the private sector: 47% in oil and gas, 21% in hospitality and 16% in residential property.
- More than two-thirds of **GCC banks** reported an **increase in unpaid loans** in the first three months of the year: National Bank of Abu Dhabi, Abu Dhabi's largest bank by assets, reported 73.3% more defaulted loans over the period; analysts estimate that National

Commercial Bank, Saudi Arabia's largest bank by assets, put aside 58.8% more money to cover bad loans during the quarter.

- **GCC contracts** awarded are likely to fall 17% yoy to USD 140bn this year, according to Deloitte's 2016 Powers of Construction report. Saudi Arabia, which remains the region's single largest projects market, was severely hit with contracts down 20% to USD 40bn. The report, which estimates around USD 2.6 trn projects in pre-execution and execution stages, finds that only USD 657bn of this is currently under construction.
- **Remittances to India from the GCC** declined by 2.2% yoy to USD 35.9bn in the 12 months to Mar, according to a report from Crisil (part of S&P Global). UAE and Saudi Arabia accounted for bulk of the remittances, at 38.7% and 28.2% respectively.
- The **Family Business Council-Gulf** launched the first-ever **GCC Family Business Governance Code** which will serve as voluntary guide and help set governance structures focusing on family governance, ownership governance, corporate governance, wealth governance, and public engagement. An FBCG-McKinsey study last year had found that only 44% of businesses had an employment policy in place, 32% had clarity on roles and responsibilities, around 22% had effective training programs, while 17% had effective assessment methods for next generation succession.
- **Energy efficient buildings** can drive USD 3.5bn in savings in the **GCC**, and USD 2bn in the UAE, according to a recent report by the Middle East Facility Management Association. Energy and facilities management account for 90% of a building's costs.
- **UN** has launched a **crisis fund** to raise USD 3.8bn for schools for the nearly 75 million children, living in areas affected by war or natural disaster, who had their education disrupted last year. The fund aims to help more than 13 million children and young people over the next five years, and 75 million by 2030.

### **UAE Focus**

- **Inflation in Abu Dhabi** was up 2.4% yoy in Apr 2016, but down by 0.1% mom. Average inflation touched 3% yoy in Jan-Apr, with the 'housing, water, electricity, gas, and other fuels' sub-group recording the highest increase of 7.5%.
- **Domestic card spending** in the **UAE** grew 12% qoq in Q1 this year, according to Network International. Food and beverages witnessed a 19% yoy increase in domestic card spending, while international card spending growth came from Saudi Arabia, Egypt and Qatar.
- **DP World** launched a seven-year USD1.2bn Sukuk last week; this will be used to fund the part-repurchase of DP World's USD 1.5bn Sukuk which is due to mature in 2017. Other entities like Noor Bank, Emirates Islamic Bank and Etihad Airways and its partners have tapped the market for a total of almost USD 3bn.
- **Dubai Group**, which owns a 48.4% stake in Shuaa Capital is in the process of selling it, according to its CEO. He also disclosed that the company is also obliged to divest its holdings in EFG Hermes and Bank Muscat this year, as agreed as part of the restructuring.

- The Dubai Mercantile Exchange (**DME**) traded the first **Fujairah fuel oil futures**: the inaugural trade was for 7,000 tonnes of high sulphur fuel oil, which is used primarily in shipping.
- **Dubai** ranked 7th among global destinations in **attracting** the highest number of **new brands** to open shop last year (39 new openings vs. Hong Kong and Singapore's 73 and 63 respectively), reported CBRE. While UAE was the top choice for European and Asian brands, it lagged behind UK as the top spot for American brands.

### ***Media Review***

#### **The privatization of Aramco**

<https://next.ft.com/content/9a893492-1ccf-11e6-b286-cddde55ca122>

#### **The twilight of big oil companies**

<https://next.ft.com/content/701c3e74-23fb-11e6-aa98-db1e01fabc0c>

#### **Successful active managers are rarer than rare**

<https://www.mcleanam.com/consistently-successful-active-managers-rarer-rare/>

#### **Macroprudential Policy and Financial Stability in the Arab Region: IMF working paper**

<http://www.imf.org/external/pubs/ft/wp/2016/wp1698.pdf>

#### **Remain pegged or de-peg: that's the question**

<http://www.arabianbusiness.com/saudi-arabia-urged-keep-options-open-on-us-currency-peg-632935.html>

#### **UAE, Qatar banks better positioned**

<http://gulfnews.com/business/sectors/banking/uae-qatar-banks-better-positioned-to-face-economic-headwinds-1.1832314>

#### **Betting on Africa**

<http://www.thenational.ae/business/shipping/somaliland-project-opens-up-africa-for-dp-world>

#### **OPEC meeting this week**

<http://www.thenational.ae/business/energy/opec-forced-to-accept-new-reality-on-oil-prices>

<http://www.zawya.com/mena/en/story/TR20160526nL5N18K0EHX2/>

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#### **Gulf bond feast fails to satisfy arranging banks**

<http://www.reuters.com/article/mideast-bonds-arrangers-idUSL5N18K186>