

Weekly Economic Commentary, 8 May 2016

Markets

US stocks fell for the second week as the non-farm payroll numbers disappointed and doubts over US growth prospects resurfaced. These wild gyrations in global stock markets reflect the war of attrition between a lackluster global economy and continuing liquidity injections from central banks and corporate balance sheets. Fluctuations are also exacerbated by uneven liquidity and declining earnings. The dollar fell to a 15-month low against the euro while the euro scored its longest winning streak against the greenback since 2013. On the other side the yen continued to climb. Oil prices were largely stable while gold added another round to its recovery process.

Global Developments

US/Americas:

- **The US non-farm payroll** added 160,000 jobs in Apr, against expectations of over 200,000, in line with slowing growth. The unemployment rate held steady at 5.0%, while average hourly earnings rose by 0.3% to an annual rate of 2.5%.
- **Initial claims for US unemployment insurance** rose by 17,000 to 274,000. The four-week moving average inched up to 258,000, a weekly increase of 2,000. Continuing claims fell by 8,000 to 2.12 million.
- **The US ISM manufacturing index** fell from 51.8 in Mar to 50.8 in Apr. New orders dropped 2.5 points, after a 6.8 point gain in Mar; production fell 1.1 points, while inventories dropped further from 47 in March to 45.5 in April.
- **The US trade deficit** fell more than expected, 13.9% to USD 40.4 bn in Mar as imports of goods dived to a record low since 2010.
- **US nonfarm business output per hour** fell -1% in Q1 (+0.6% yoy) indicating that the productivity gloom is not dissipating. Compensation per hour rose 3% in Q1, so unit labor costs climbed 4.1%.
- **Fitch downgraded Brazil's sovereign debt** further into junk territory to BB from BB+ with a negative outlook, as the contractions deepens and erratic fiscal targets sap an already abysmal credibility.

Europe:

- **ECB President Draghi**, in response to criticism on negative interest rates, criticized Germany for maintaining a destabilising 'savings glut' through abnormal current account surpluses.
- **Retail sales volume in the Eurozone** fell -0.5% mom in Mar (+2.1% yoy) versus 0.3% (2.7%) in Feb. The outlook is still moderately benign in line with the rest of the Eurozone performance.

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- **The PPI in the Eurozone** rose 0.3% mom in Mar, a sharp turn from the 0.7% contraction seen in Feb. This is a rare hint that deflation might be ebbing.
- The **UK Markit/CIPS PMI Apr surveys** in the UK pointed to a growth of just 0.1% in Q2. Service PMI dropped to 52.3 from 53.7 in March.
- **Spain's industrial production** rose 3% yoy in Mar from a 1.6% in Feb suggesting that the recovery is on solid ground despite (or maybe thanks) to the current political deadlock. Capital goods production, which is a powerful leading indicator, grew 9.1% yoy.

Asia and Pacific:

- **Chinese government's manufacturing PMI** was largely unchanged at 50.1 in Apr from 50.2 in Mar corroborating hopes that the recession in the industrial sector might be close to an end.
- **Taiwan's inflation** rose 1.9% yoy in Apr, down from a 2% gain in Mar.
- **Korea's inflation** remained at 1% yoy in Apr and 0.1% mom a -0.3% mom decline in Mar.
- **Indonesia's GDP** grew 4.9% yoy. The external drag on growth was heavier as Indonesia's commodities exports contracted further, while shrinking global demand thwarted other exports.
- The **Reserve Bank of Australia** unexpectedly reduced the benchmark cash rate by 25bp to 1.75% justifying it with a benign inflation outlook thanks to “very subdued growth in labor costs and very low cost pressures elsewhere in the world”.
- **Australian retail trade** grew 0.4% mom in Mar after a revised 0.1% increase in Feb.
- **Australian trade deficit** narrowed to AUD 2.2bn from Feb's deficit of AUD 3.0bn driven by rising exports, while a slight increase in imports provided somewhat of an offset.
- **Malaysia's trade surplus** expanded to MYR 11.19bn in Mar from MYR 7.35bn in Feb.

Bottom line: As soon as growth momentum in the US economy seems to take hold, it gets knocked back by recession-ahead warnings. This week the job report added to worries after a weak Q1 GDP and other data such as the ISM survey and productivity gave little comfort. In Europe and Asia the data flow was scant and the figures did not change significantly the lackluster outlook.

Regional Developments

- Around 88,300 **unaccompanied minors sought asylum** in the **European Union** in 2015, almost quadruple the number in 2014, and with 13% of them children younger than 14, according to EU data. Sweden, Germany, Hungary and Austria were the main requested destinations for unaccompanied underage asylum seekers.
- **PMI in Egypt** dipped for the seventh straight month in Apr to 46.9, though rising from Mar's 31-month low of 44.5, because of declines in new orders and output. The depreciation of the EGP led to record increases in costs and charges.
- **Net foreign reserves in Egypt** increased to a 8-month high of USD 17.01bn in Apr (Mar: USD 16.56bn). Cash increased USD 408mn to USD 13.2bn, according to the central bank.

NASSER SAIDI

— & ASSOCIATES —

- The Finance Ministry in **Egypt** announced that it would issue USD 1.25bn in 1Y **dollar-denominated treasury bills** to local banks and foreign financial institutions on May 10.
- **Oil exports** from **Iraq**'s southern region touched 3.364mn barrels per day in Apr, higher than the Mar average of 3.286 million barrels, according to the oil ministry. Revenue from oil exports was USD 3.343bn in Apr.
- The European Bank for Reconstruction and Development (**EBRD**) revealed that it had invested EUR 550mn in **Jordan** across 27 projects since 2011, spanning multiple sectors.
- **Credit growth** in **Kuwait** reported an uptick by KWD 83mn in Apr (+7.5% yoy). Government deposits with domestic banks increased by KWD 109mn while private deposits rose by KWD 734mn during the month.
- **Oman** put on hold the plans for the construction of its railroad system. The contract with a private consultant company was cancelled.
- UAE's Majid Al Futtaim's **investment** in **Oman** of OMR 515mn over the next five years in various projects (including the Mall of Oman) is expected to create 42,000 jobs.
- **Qatar** has mandated banks for a USD 5bn **sovereign bond**, reported *Reuters*. According to sources, the issue includes two tranches: one with a 5Y tenor and the other spanning 10Y.
- According to *Reuters*, **Qatar's sovereign wealth fund**, following the drop in oil and gas prices and amid the poor performance of VW and Glencore, is reducing its focus on **investments** in Europe and placing more of its money with external managers following an internal review.
- **Money supply** (M2) in **Qatar** increased by 0.23% mom to QAR 506bn in Apr.
- **Digital transformation** can result in significant growth in **Qatar's** business-to-business and business-to-consumer markets: it is expected to grow to USD 4.3bn in 2019 from USD 2.3bn in 2014, according to the Ministry of Transport and Communications.
- **Retail and office sub-sectors** in **Qatar** will benefit from the increased consumer confidence and spending alongside significant investment from the government, according to BMI.
- **Saudi Arabia's PMI** slipped to a 3-month low of 54.2 in Apr (Mar: 54.5). Though new orders and output continued to rise, despite weaker external demand, jobs growth was at a 4-month low. Falling exports - the first since data collection began in 2009 - brought down the growth of new business to the slowest rate in the survey's history.
- **Saudi created a new Energy, Industry and Natural Resources Ministry** under Khaled al-Falih, chairman of the state oil company Aramco, and appointed Majed al-Qusaibi as head of the new Commerce and Investment Ministry, and Ahmed al-Kholifey as governor of the Saudi Arabian Monetary Agency (SAMA), the central bank.
- **Saudi Arabia** announced a spate of **stock market reforms**: this includes (among others) higher foreign ownership cap of 10% for single investors, scrapping a ceiling of 10% on combined ownership by foreign institutions of the market's entire capitalisation, easing of requirements to qualify as a foreign institutional investor, and introduction of securities lending and covered short-selling to the stock market. The amended rules will be published and effective before the end of H1 2017, according to the Capital Market Authority.

- **Saudi Arabia** is working to finalise the rules for its **proposed SME bourse**, which is expected to launch in early 2017, revealed the chief executive of Tadawul.
- **Saudi Arabia** plans to introduce new set of labour quotas and incentives to reduce unemployment in line with the Vision 2030 plans, disclosed the labour minister. Cutting the jobless rate to 7% by 2030, and raising women's participation in the labor force to 30% from 22% are some of the targets under the plan. The **new Nitaqat** will be announced in 2-3 weeks time and would be effective in 5 months, according to the minister.
- **Saudi Arabia** has launched a “**Women’s Business Park**” initiative, a joint-venture of Princess Nora University and Wipro Arabia; one of its main goals is “to create 21,000 jobs by 2025”.
- **Saudi Arabia** will provide **housing** for 100k **low income families** over the next year, according to the housing ministry. The ministry also announced its intention of enabling 75% of Saudi citizens (roughly 1.5mn families) to own houses by 2020. Plans are underway to reduce the time to get a construction license from six months to two months.

UAE Focus

- **UAE PMI** eased in Apr, with the index dropping to 52.8 from 54.5 in Mar, dragged down by employment. The index for employment fell to 50, the lowest since Dec 2011, and down from Mar’s 51.5.
- **Money supply** (M2) in the **UAE** recorded a 3.4% yoy increase in Mar (Feb: 2.6%) while **bank lending** slowed to 7.6% from 7.8% the month before.
- *Reuters* reported on Sun last week that Abu Dhabi National Energy Company (**TAQA**) was **considering whether to sell its overseas oil and gas assets** to another Abu Dhabi state-owned entity; later on Wed, the company, in a brief statement to Abu Dhabi Stock Exchange mentioned that it is not in talks with any entity to sell its oil and gas assets
- **Dubai crude** (average) recorded a five-month high of USD 39.028 per barrel in Apr, according to Platts.
- After a review of existing **pension plans** the **UAE** government announced a 20% increase in pensions for the 342 retired employees not covered by the insurance coverage of the General Pension and Social Security Authority in Dubai. The minimum monthly pension is AED 10,000.
- **Trading volumes**, year-to-date, on Dubai Gold and Commodity Exchange (**DGCX**) increased by 45% yoy to cross 6mn contracts in Apr. It reported a steady Average Daily Open Interest of 109,487 contracts. DGCX also reported the highest monthly volume for Chinese Yuan futures (4,245 contracts worth USD 212mn) in Apr while the Indian Rupee Quanto recorded the second highest ever Average Daily Volume (ADV) of 27,071 contracts.
- The Dubai Health Authority projects **medical tourism** in the **Dubai** to attract 1.3mn persons by 2021 and expects revenues to increase by 13% every year in the next five years (from the AED 1bn+ recorded in 2015).

Media Review

Investing in Robots

<https://next.ft.com/content/87f44872-1080-11e6-91da-096d89bd2173>

Saudi reforms

<https://next.ft.com/content/681f0000-0de2-11e6-b41f-0beb7e589515>

Saudi ministry reshuffling

<http://www.reuters.com/article/us-saudi-reshuffle-idUSKCN0XY0DX>

Is Iran's Oil Surge sustainable?

<http://www.forbes.com/sites/christopherhelman/2016/05/05/iran-is-back/#771a71504939>

DME attracts Chinese “teapot” refineries

<https://next.ft.com/content/4a0ced3c-1122-11e6-91da-096d89bd2173>

UAE/GCC banks: asset quality & earnings pressure

http://www.zawya.com/story/UAE_banks_face_earnings_and_asset_quality_pressures-GN_01052016_020512/

http://www.zawya.com/story/GCC_banking_systems_well_positioned_to_cope_with_imbalance_sIIF-GN_01052016_020508/