

Weekly Economic Commentary – August 4, 2013

Markets

Stock markets were boosted by an unexpected gain in Chinese PMI and reassuring comments from the Federal Reserve that tapering will be gradual. Additionally, Thursday was one of the busiest days of the year for corporate earnings around the globe and on aggregate the results were cheerful, further boosting traders' sentiments. Wall Street scored another record but after feeble payroll data it retrenched. However from a broader perspective major stock markets performance are markedly diverging with Europe and Japan lagging behind the US and emerging markets actually struggling. Regional markets were mostly up. The dollar rallied against major peers despite the Fed's comments and weaker job growth data, the yen lost ground against the dollar and the euro. Gold held almost stable while crude oil made enough early-week gains, to offset a later drop.

Global Developments

Americas:

- The US economy expanded at an annualized 1.7% qoq in Q2 (Q1: 1.1%, downwardly revised). Consumption contributed 1.2% to growth, investment added 0.6%, housing added 0.4% while trade subtracted -0.8% and government spending declined slightly.
- The BEA revised US national income accounts going back to 1929 to include R&D expenditures as part of fixed investment and "intellectual property products", resulting in a GDP increase of \$560 bn in 2012 and adding 0.3 percentage points to 2009-12 growth rates.
- The Fed FOMC described growth in H1 as "modest" (rather

than “moderate” as in June’s press statement), underlining a dovish stance, which however is unlikely to alter the timing of tapering expected for September. The FOMC remarked also that core inflation will bounce back “in the medium term” dismissing worries on deflation.

- **US non-farm payrolls rose** by 162k in Jul (Jun: 188k, downwardly revised) cooling enthusiasm on employment. Retailers added the most to job growth, construction jobs declined and manufacturing job growth rebounded after 5 months but remained low. Private payrolls rose 161k after a revised 196k. The **unemployment rate fell** to the lowest in more than 4 years at 7.4% from 7.6% in Jun.
- **Initial jobless claims fell** more than expected to 326k from 345k in the week prior. The four-week moving average fell by 4.5K to 341.25k.
- US **personal spending rose** 0.5% mom in Jun following a gain of 0.2% mom in May. Personal income rose 0.3% mom.
- **Pending home sales fell** less than expected by -0.4% mom (but increased 10.9% yoy) in Jun, coming off the recent six-year high, as the recent increases in mortgage rates begin to dent demand. The **S&P Case-Shiller home price index** rose 1% mom in May, slowing from a 1.7% mom rise in Apr.
- **US construction spending unexpectedly fell** by 0.6% mom in Jun after 3 months of gains (May: 1.3% mom). Housing construction was flat, non-residential construction slumped 0.9% mom while government outlays fell 1.5% mom to the lowest level since 2006.
- **US factory orders rose** by a less than expected 1.5% mom in Jun following an upwardly revised gain of 3% mom in May. Orders excluding transportation fell -0.4% after a gain of 1% in May. Non-defense capital goods orders rose 0.9% mom.
- The **US ISM manufacturing PMI rose** to 55.4 in Jul from 50.9 in Jun signalling an expansion for the 5th month in

a row. New orders rose 6.4 points to 50.3 and production expanded 11.6 points to 65. Also Markit's US manufacturing PMI rose to 53.7 in Jul from 51.9 in Jun.

Europe:

- The **Eurozone economic sentiment index rose** to 92.5 in July from 91.3 in Jun, a ray of light in an otherwise dim horizon. Consumer sentiment remained stable at 17.4, while the business climate index fell from -0.67 to -0.53
- **Markit's Eurozone manufacturing PMI rose** to 50.3 in Jul from 48.8 in Jun, expanding for the first month in 2 years. Manufacturing in Germany and Italy grew while the contraction in France slowed.
- **Germany's retail sales unexpectedly fell** by -1.5% mom in Jul after rising 0.7% mom in Jun; bank **loans to nonfinancial corporations** dropped -0.1% mom (-0.8% yoy), while **unemployment** remained broadly stable at 6.8%.
- Thanks to a surge in exports, **Spain's GDP contracted at the slowest pace** in two years -0.1% qoq (-1.8% yoy) in Q2 from a -0.5% qoq (-2% yoy) in Q1 raising cautious hopes that stabilization is within reach. **Retail sales** dropped 7% yoy, so nobody expects a V-shaped recovery.
- Against expectations, **Sweden's GDP decreased** by 0.1% qoq in Q2, (+0.6% yoy), down from +0.5% qoq and 1.7% yoy in Q1.
- The **Eurozone unemployment rate** in June remained **stable** at the 12.1% recorded in May, with **inflation** steady in July at 1.6% yoy
- The government and **central bank of Cyprus** announced **more lenient haircuts** for depositors at Bank of Cyprus but hinted that it could take years before they get their funds back.

Asia and Pacific:

- **China's central bank injected liquidity** for RMB 17 bn in

the interbank market through a **reverse repo** seeking to stem a 100bps rise in **short-term rates**. Higher rates result from capital outflows and the aftermath of the June liquidity squeeze, as banks are more conservative in liquidity management.

- **China's official manufacturing PMI unexpectedly rose** to 50.3 from 50.1 in Jun, driven by improvements in export orders and production. Meanwhile, HSBC's manufacturing PMI regarded as more reliable fell to 47.7 from 48.2, indicating a mixed picture
- **Japan's industrial production plunged** -3.3% mom in Jun (-4.8%yoy) for the first time in five months, casting a shadow on the recovery.
- **Japan retail sales increased** 1.6% yoy in Jun, below expectations, but enough to claim that private consumption is not stagnating.
- **Japan unemployment rate declined** to 3.9%, from 4.1%, its lowest level since October 2008.
- **South Korea industrial production rose** in June by 0.4% mom, s.a., in line with expectations, from -0.1% in May.

Bottom line: In the week preceding the summer lull a flood of key data (and central banks' activities) was released. Two facts overshadowed an otherwise lacklustre conjuncture: a brisk GDP figure in the US and the Fed dovish statement, but were offset by the grim payroll data, cooling of real estate and mixed figures from Asia. It is important to note that the US GDP figures have been compiled after a profound methodological change (in practice a broader definition of investment, which takes into account intangible assets such as song writing). The new series shows not only that the world's largest economy is bigger by more than half a trillion than previously calculated but suggests the Great Recession of 2008-09 was not as deep either. Commodity prices have decoupled from stock prices, another symptom of bubbly asset valuations which even Obama stressed in a NYT interview. However, US companies involved in costly oil extractions

through fracking are putting downward pressure on oil prices, by selling substantial future output through long dated oil futures in order to guarantee revenues and reassure lenders.

Regional Developments

- **Iraq oil exports** reached 444mn barrels in the first 6 months of this year, with the revenues crossing USD 79mn, according to the Oil Ministry. The country also signed a contract worth USD 709mn with South Korea's Daewoo to develop a gas field.
- The **mortgage law** in **Saudi Arabia** is likely to have a limited short-term impact on the housing sector, given that it addresses demand and not supply, according to a recent NCB report. The average Saudi household size is expected to decrease to 5.28 persons per occupied housing unit by 2020 and the annual demand for housing to rise from 186,000 units in 2011 to 265,000 units by 2020.
- **Foreign assets in Saudi Arabia declined** for the first time in 5 months to register SAR 2.597 trillion in June compared to a record high of SAR 2.602 trillion in May. The decline in June was a result of a dip in deposits with banks abroad to SAR 466.2bn (May: SAR 498.7bn) while investment in foreign securities grew from around SAR 1.863 trillion to SAR 1.87 trillion in the same period.
- **Saudi Arabia's Kafala programme issued 1198 guarantees to SMEs** in H1 2013, compared to 835 during the same period a year ago, with the value of guarantees at SAR 635.6mn (H1 '12: SAR 470.2mn); the banks provided financing of SAR 1.14bn during 2013, up 29% yoy.
- Contracts valued at about SAR 53.6bn were issued in Q2 in **Saudi Arabia**, of which realty sector accounted for about 39%, followed by the oil, gas and transportation sector at 23% and the government sector at 19% among others.

- **Saudi Arabia's** King Abdullah launched a number of **development projects** worth SAR 327bn in SABIC, Aramco and other private companies in Jubail and Yanbu industrial cities.
- The International Finance Corporation (**IFC**) revealed that it had **committed USD 3bn, including USD 914mn mobilised from other investors**, to the MENA region during the fiscal year ended June 2013. This comprised infrastructure projects (USD 647mn), expanding mobile and internet services in Afghanistan (USD 65mn), support to Iraq's cement industry (USD 70mn) and supporting SMEs via MENA SME facility (USD 150mn) among others.
- **Turkey** announced the **exclusion of GCC investors from paying taxes**, aiming towards a welcoming environment, according to Turkey's Consul General in Saudi Arabia and reported by the *Al-Yaum* newspaper.
- The Central Bank of **Kuwait's** annual report for the fiscal year 2012-13 showed that **money supply had increased** by 8.7% yoy to KWD 31.1mn while the aggregate balance sheet of local banks grew by 7.6% to KWD 48.8mn.
- **Oman** registered a **small fiscal deficit** of OMR 110.4mn during the first five months of 2013, as expenditure increased sharply and in spite of an increase in oil revenues. This follows a fiscal surplus of OMR 1,033mn recorded in Jan-Apr period and was the result of spending OMR 1,435mn towards "actual expenditure under settlement". Revenues dipped even though crude oil production was up during this period as prices had declined to USD 107.3 from USD 113.5 a year ago.
- About 19-22k **Omanis** will be able to **secure jobs** at various projects being undertaken by the Ministry of Transport and Communication, according to the Minister. Statistics from the Ministry of Manpower reveal that the percentage of Omanis in transport sector is 25.69% out of a total 31,592.
- **Foreign direct investment** in **Oman** was OMR 10bn in 2011, with the value of total investments up 10.4% yoy to OMR

12.7bn as per statistics released by the National Centre for Statistics and Information. Manufacturing and the oil and gas sectors accounted for bulk of the investments – at 30% and 27.7% respectively.

- A recent Markaz report revealed that **contracting projects** worth over USD 900mn were being undertaken in the GCC, with about USD 516bn or 57.3% real estate projects alone.

UAE Focus

- The **IMF** warned that Dubai might need to intervene in its property market to prevent another boom-and-bust cycle similar to the crisis about four years back. The upturn in the economy and housing are signs of recovery, but given the strong possibility of another bubble, the IMF called for a “cautious approach to policy making” even suggesting a hike in real estate related fees to curb speculation.
- **UAE nationals** were the **top investors in Dubai property** during H1 (AED 12bn) while Indians topped the list of expat investors at AED 8bn. This compares to total investments of AED 12bn and AED 9bn for the full year in 2012 for UAE nationals and Indians respectively. Total new investment in the property sector reached AED 53bn in the first six months.
- **DP World's throughput declined** 5.8% yoy to 26.6mn TEU in H1, with its global portfolio handling more containers in Q2 compared to Q1 though there were lower volumes in the Asia Pacific, Indian subcontinent and Europe, Middle East and Africa region.
- **Passenger traffic** through the **Dubai** airport **increased** 17.5% yoy to 5.54mn people in June, taking the H1 figure to 32.66 million people (+16.9%). Freight volumes were up 10.2% to 1.2mn tonnes during the first half of this year.
- **Dubai's** Department of Tourism and Commerce Marketing

revealed that the emirate had attracted close to **5.5 mn visitors in H1 2013**, up 11.1% yoy, with hotel revenues rising 18.6% yoy to AED 11.6bn during this period. Visitors from Saudi Arabia recorded the highest growth of 31.6% to 710,472 visitors while tourists from both China and India continued to grow at around 15.8%.

- Hotel occupancy was at 86% in **Dubai** during H1 2013, with occupancy at 83.2% and 79.2% in the summer months of May and June respectively.
- **Abu Dhabi** Tourism & Culture Authority reported a 12% rise in number of guests staying in hotels and hotel apartments during H1. On average guests have stayed for 3.17 nights, implying an occupancy rate of about 71%. Year-to-date hotel revenues grew by 16% to AED 2.7bn despite a slight 3% dip in average room rate to AED 447. India overtook the UK as the largest overseas market for Abu Dhabi in H1 2013.

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