

Weekly Economic Commentary – August 18, 2013

Markets

A better than expected US job market report fuelled speculation the Fed will begin tapering stimulus next month, sending US and Asian **equities** lower for the week. European stocks fared better following GDP data that indicated the emergence of the Eurozone out of an 18-month recession. Among **regional** markets, the Egyptian exchange remained shut following violence in the country while most other markets opened higher after the Eid holiday. The **dollar** rallied against major peers while the **yen** weakened against the **euro**. **Gold** extended a rally touching a 2-month high while **crude oil** rose as tensions in the Egypt escalated and supply concerns mounted.

Global Developments

Americas:

- **US retail sales rose** by a less-than-expected 0.2% mom in Jul after surging 0.6% mom in Jun. Core sales – excluding car, petrol and building materials – rose 0.5% mom; the fastest pace since Dec.
- **Business inventories** in the US remained **flat** in Jun; inventories excluding the auto sector fell -0.2% mom after rising 0.2% in May, signalling less optimistic expectations of consumer demand.
- **Industrial production unexpectedly flattened** in Jul after rising 0.2% mom in Jun. Manufacturing output shrank -0.1% after strong gains in Jun and May.
- The **NAHB builders' survey** showed a **rise** in builder confidence in Aug; the Housing Market Index rose 3 points to 59, the highest level in 8 years.

- US **housing starts rose** by a less-than-expected 5.9% mom in Jul (Jun: -9.9% mom) to a seasonally adjusted annual rate of 896k units and **building permits** rose 2.7% mom (-7.5% mom).
- **Consumer prices** in the US **rose** 0.2% mom in Jul (Jun: 0.5% mom) and 2% yoy. Core consumer prices also increased 0.2% mom and were 1.7% higher yoy.
- US **initial jobless claims** unexpectedly fell by 15k to 320k, the lowest level since '07. The four-week moving average was 332k, a fall of 4k from the previous week's revised average of 336k.

Europe:

- The **Eurozone economy expanded** 0.3% qoq (1.1% ann) in Q2 after 18 months of recession. Growth in Germany (0.7% qoq) and France (0.5% qoq) was stronger than expected and the recession in Italy (-0.2% qoq) and Spain (-0.1% qoq) eased.
- **Eurozone industrial production increased** 0.7% mom in Jun, just shy of expectations. Output in Germany grew 2.5% mom while production in France shrank -1.5% mom.
- The **ZEW investor sentiment** indicator rose **surged** to 42 in Aug from 36.6 in Jul; **signalling** economic optimism.

Asia and Pacific:

- **Japan core machinery orders fell** -2.7% sa mom in Jun following a 10.5% expansion in May, but rose 6.8% qoq in Q2.
- **India industrial output fell** by a more-than-expected -2.2% yoy in Jun after a downwardly revised decline of -2.9% mom in May. Manufacturing shrank 2.2% yoy and capital goods production fell 6.6% yoy.
- To curb the decline of the **Indian** rupee, **restrictions** were imposed on amounts its citizens and companies can

invest abroad.

Bottom line: It has been rather quiet in the US – be it on the politics or economics front, except for the recent concerns on Fed tapering – the lull before the storm that is likely to brew over the coming weeks regarding the debt ceiling, tapering off of QE and election of a new Fed Chairman among others. The Eurozone heaved a sigh of relief last week as the rebound in France and Germany brought it out of the 18-month long recession, also aided by fiscal discipline. In Asia, the bleeding Indian rupee meanwhile continues to capture the limelight: the PM's assurance that India was unlikely to face a repeat of the 1991 crisis did little to restore confidence as the Indian rupee fell to a new record low, also introducing fears of fresh capital controls.

Regional Developments

- Violence and uncertainty in **Egypt**: the interim president has declared a month-long, national **state of emergency**; the PM proposed the legal dissolution of the Muslim Brotherhood and submitted this proposal to the minister of social affairs – the ministry responsible for licensing non-governmental organisations.
- Inflation in **Jordan rose** to 6.4% in July, thanks to an increase in the prices of fuel (+24.2% yoy), vegetables (+14%), lighting (+24.2%) and transport services (+14.7%).
- **Kuwait's** inflation recorded an **increase** to 3.0% yoy in May from 2.8% in Apr though prices were unchanged in mom terms.
- **Budget deficit** in **Lebanon** has **increased** by more than 38% yoy to LBP 2.275 trillion in the first four months of this year. Total revenues declined 0.76%, with tax revenues down 1.3% including a 4.4% drop in the value-added tax revenues and a more than 13% decline in real estate registration fees.
- Unemployment in **Morocco increased** in Q2, rising to 8.8%

jobless rate compared to 8.1% a year ago. Urban unemployment rate grew to 13.8% from 12.3% while youth employment was at 18.4% (17.1%). The government is trying to introduce new measures to create jobs, while the African Development Bank granted EUR 116mn to implement employment projects.

- **Oman's potential oil reserves** are estimated at **50bn barrels**, of which 5bn barrels are ready for production, according to the undersecretary of the Ministry of Oil and Gas.
- **Women represent 49%** of the **Omani population**, according to a report published on the National Centre for Statistics and Information. The report also finds that women comprise 47% of the total Omani workforce in the public sector and 20.5% in the private sector.
- **Qatar's three proposed Economic Zones** will boost growth in the non-hydrocarbon sector and improve economic diversification. The zones are expected to house companies that produce high-value technology and manufacturing, maritime industries as well as regional and domestic logistics services. The first zone will open by end of 2016 and the third by mid-2017.
- **Inflation in Saudi Arabia** reached **3.7%** in July (Jun: 3.5%), the highest after 3.8% in May 2012. Food inflation meanwhile accelerated to 6.9% yoy in July, the highest since Dec 08.
- **Saudi Arabia** plans to spend SAR 190bn in **electricity generation** in a three-year period ending in 2015, according to a Frankfurt-based specialized firm. Meanwhile green technologies and thermal insulation approaches are being used to rationalize power consumption.
- A total USD 30.1bn worth of **debt securities** was issued in **GCC** during H1, rising 13.2% yoy, while Qatar, UAE and Saudi Arabia together accounted for 82% of the total. Issuance in the non-financial sector increased threefold, rising USD 6.7bn to USD 10.1bn, its highest

level ever. Issuance of debt securities in Qatar increased in H1 2013 to touch USD 4.7bn.

- **GCC exports to Japan** in H1 2013 **lower** at USD 74.83bn and compares to USD 81.64bn recorded during the same period a year ago. One of the main reasons for the decline is the lower oil price – it averaged \$105 in H1 this year from over \$110 in H1 2012.
- **GCC SWFs** reached an aggregate **USD 1.6 trillion in assets** at the end of 2012 (equivalent to 107% of the aggregate GDP), up from \$1.0 trillion in 2007 (105% of GDP), according to a recent Moody's report. It also ranked Saudi Arabia at the top in terms of volume of SWFs **assets** in the GCC. Assets amounted to USD 641bn in KSA, followed by UAE at USD 397bn and Kuwait at USD 395bn.

UAE Focus

- The **UAE Central Bank** has **lifted the 3-month ban** on banks from purchasing and transferring loans of the local population. However, to ensure that the financial risks are curtailed, it has imposed "three basic conditions in alignment with: the provisions of the bank loans and other services extended to individual customers, the premium shall not be more than 50 per cent of Emiratis' regular income transferred to the bank by any means and the third condition is the repayment period shall not exceed 48 months, excluding those approved by the Central Bank".
- **Barclays** Bank is **retrenching** and placed its UAE retail banking franchise for a review, ahead of a potential sale, according to the National. A Barclays spokesperson confirmed that "It is part of the transform programme", but did not include its investment banking or wealth management businesses.
- **Inflation in UAE** held **steady** at 1.3% in July, but rising rents and utility bills are leading to an increase. Cost of housing, which account for over 39% of consumer

expenses, increased by 0.4% yoy in July, with housing rent rising by 0.07% mom.

- The **industrial sector** contributes about an average of **14% to UAE's non-oil GDP** over the past decade, according to a study by Dubai Chamber of Commerce and Industry. Dubai targeted services and light industries, through JAFZA based companies while Abu Dhabi's competitive advantage was in heavier manufacturing industries, thanks to cheap energy availability.

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