

Weekly Economic Commentary – August 25, 2013

Markets

The **Dow Jones continued its losing streak** (the longest in a year) in the first part of the week as investors remained apprehensive about the future of quantitative easing. Even though the Fed's minutes did not allay investors' concerns on the plans for reducing the amount of QE3, the Dow Jones managed to regain ground in the last part of the week, with minimal volumes. On the other side emerging markets stocks recorded a sharp weekly drop on concerns of capital outflows, but **regional markets went against the tide**; Dubai, Abu Dhabi and Qatar indices hit five-year highs while most other gauges edged up. **Gold** recorded a third week of gains while Brent and Fatah **crude oil**, unlike the WTI, scored a weekly gain. The **dollar** gained against most currencies but weakened against the **euro** and the **yen** lost further ground.

Global Developments

Americas:

- Fed minutes provided no clue on the exact timing or extent of tapering the monetary stimulus in place since 2009.
- US flash **manufacturing PMI** remained almost **unchanged** at 53.9 in Aug from 53.7 last month. The output sub-index edged down to 53.4 from 54.8 while new orders added 1 point to 56.5 and employment rose at the fastest pace in 4 months.
- US **new home sales unexpectedly dipped** -13.4% mom in Jul, (+6.8% yoy) the sharpest monthly decline in 3 years. In contrast, sales of **existing home** rose 6.5% mom in Jul to a 3-year high and the **FHFA house price index** climbed

more-than-expected by 0.7% sa mom and 7.7% yoy in Jun.

- US **unemployment claims** edged **up** 13K to 336K. The four-week moving average fell by 2.25K to 330.5K, the lowest since 2007.
- The US **Conference Board's leading indicators index**, a gauge of the outlook for 3-6 months, **increased** 0.6% mom in Jul after stagnating in Jun.
- **Mexican GDP fell** -0.7% qoq and 1.5% yoy in Q2 (0.6% yoy in Q1), another shining star in emerging markets that comes to a standstill.
- **Venezuelan** index of **private manufacturing dropped** 11.1% yoy in Mar. Private manufacturing collapsed amid shortages of foreign currency for raw materials imports, periodic blackouts, and tight government controls that have crippled the economy.

Europe:

- Markit's flash **Eurozone services PMI increased** to 51 in Aug from 49.8 in Jul, and the **composite PMI** gained 1.7 points to a 2-year high of 51.7. The German economy picked-up while France manufacturing unexpectedly stalled and its services sector weakened.
- **Lending** by **Spanish** credit institutions **contracted** -12.9% yoy in Jun, following a -12.7% in May.

Asia and Pacific:

- HSBC/Markit's **China manufacturing PMI** unexpectedly **rebounded** to 50.1 in Aug from 47.7 in Jul the biggest gain since Aug 2010, surpassing the 50-mark after 4 months. The recovery is attributed to tax breaks to small businesses and an increase in railway investments.
- **Thailand's GDP fell** -0.3% q/q in Q2 to 2.8% yoy from 5.4% in Q1 on softer domestic demand. On a quarterly basis, the economy contracted for a second consecutive

quarter, by after the previous -1.7% q/q in Q1. The main drags come from a slowdown in household consumption

- **Malaysia's** Central Bank **cut its 2013 growth forecast** for the economy from 6% to 4.5-5%.
- Japan Jul export fell -12.2% yoy in value and -1.8% yoy in volume reversing an improving trend that had been in place since the end of last year.
- In its minutes the **Reserve Bank of Australia** projected that **growth will remain below trend** for much longer, although the 200 bps cumulative rate cuts over the previous 18 months are boosting interest-rate sensitive sectors such as housing.
- **Taiwan industrial output rose** in Jul, for the first time in six months, by 2.1% yoy compared to -0.4% yoy in Jun.

Bottom line: Some signs of rebound in China and stabilization in Europe have prompted the usual choir of cheerleading, amid tensions in markets around the world bordering with hysteria when it comes to tapering of QE3 (even IMF's Lagarde went public on the issue). These reactions confirm that asset prices are sustained more by the flood of liquidity and to a lesser extent by fundamentals. What will happen when the unprecedented stimulus to the financial system is unwound and historically low interest rates will eventually be lifted is unpredictable. What we know is that with employment on an uptrend (although still weak by historical standards) the next leg of recovery must be driven by personal consumption. In the US after a few years of deleveraging the balance sheets of households are being repaired and bank credit hit its highest H1 level since 2008. By contrast in Europe, the Middle East and Africa bank credit remains at its the lowest since the crisis began.

Regional Developments

- **Egypt** continues to receive **aid from the GCC**: Qatar sent a second shipment of LNG to meet Egypt's energy needs while the Ruler of Sharjah donated USD 2mn towards the

engineering department in Cairo University and construction of new houses and mosques.

- **Oil exports** from **Iraq's** southern ports **averaged 2.34mn barrels per day** (bpd) in Aug ahead of the scheduled work in Sep which is likely to curb production to about 2.0 or 2.1mn bpd. In comparison, total exports were 2.32mn bpd in July.
- **Jordan's budget deficit declined** by 26% yoy to JOD 309.2mn in H1, thanks to an increase in **foreign grants** (JOD 433.2mn in H1 2013 from JOD 25.2mn in H1 2012) and domestic revenues. Excluding grants, deficit rose to JOD 742.4mn in 2013 from JOD 441.9mn.
- The Central Bank of **Jordan** received almost USD 4.03bn till July in revenues from tourism and expat remittances. Remittances were up 2.6% to USD 2.2bn while tourism revenues saw a decline of 8.4% due to a fall in medical tourism and number of visitors.
- **Jordan's** PM announced that the government is considering setting up a **state-owned bank to cater to SME financing**. "The proposed bank would offer easy lending conditions as well as long term loans that should carry affordable interest rates".
- **Oil imports in Jordan decreased** by about 30% yoy to JOD 1.72bn in H1 due to reduced demand alongside an increased "regular" flow in natural gas from Egypt.
- **Lebanon's public debt is projected at USD 61bn** by end of 2013 and expected to increase to USD 65bn in 2014, despite of the introduction of new taxes, according to the caretaker FM.
- **Inflation in Oman fell** to 0.98% in June – the lowest since Dec 2009 – and has averaged 1.8% in H1 2013, compared to the government's estimate of 4% for the full year.
- **Oman's** Ministry of Housing revealed that of the 3376 **property** deeds issued to GCC nationals in H1 (up 0.9% yoy), UAE nationals accounted for 50.2% and Kuwaitis about 38%.

- Moody's expects **Oman** to **grow by 4.6%** this year and 4.1% in 2014, thanks to "government's efforts to diversify the economy", strong "budget surpluses, very low levels of debt, and strong net financial asset position" alongside "high domestic savings and a healthy banking sector".
- **FDI outflow from Qatar declined** by 8.5% yoy to USD 1.8bn in 2012, according to data from UNCTAD. Inflows increased marginally by 0.6% to USD 327mn, while net purchases ie. 'cross-border merger and acquisition' reached USD 4.61bn in 2012.
- **Government spending in Qatar slowed** during the last fiscal year, with the government's annual spending undershooting its budget plan for the first time since 1990. Spending grew by a mere 2.2% to a record QAR 178.2bn – slightly under the estimated QAR 178.6bn – and compares to an average annual growth rate of 24% in 2002-2012. Thanks to rising gas revenues also, budget surplus more than doubled to a record QAR 99.2bn or 14.2% of GDP.
- **Oil production in Saudi Arabia** inched **down** to 9.642mn bpd in June (May: 9.657mn bpd) while exports fell by 6.1% mom to 7.315mn bpd, according to data from the Joint Organization Data Initiative.
- **Saudi Arabia created 2mn jobs during the period 2009-2012**, of which **only one-quarter** of the jobs went to **Saudi nationals**, according to a report by Al-Shall Economic Consultants.
- The **Islamic Development Bank** and the **Saudi Fund** for Development provided funding of about USD 21.7bn towards 90 projects last year, in the Bank's Member States in Africa, Asia, and Middle East.
- S&P reported that the **GCC insurance sector grew** to nearly USD 16bn in terms of gross premium written, with growth rates of over 10% in the region's largest insurance markets in 2012. However, the report found that a small number of well-established insurers were

reaping the benefits; for e.g. the UAE's three largest insurance companies reported over 80% of the market's profits in 2012.

- According to the latest United Nations World Tourism Organisation report, the three leading GCC nations in **international tourism receipts** were UAE (USD 10.4bn), Saudi Arabia (USD 7.43bn) and Qatar (USD 2.85bn). Oman, fourth among the GCC, crossed the USD 1bn mark, with USD 1.09bn in receipts.

UAE Focus

- Total **bank deposits** in the UAE **increased** 0.7% mom to AED 1255.6bn in June, thanks to a 0.8% rise in residents' deposits while total assets rose by 0.2% to AED 1878.1bn. M2 increased by 7.8% yoy and 1.3% mom to AED 929.8bn.
- Net **loans and advances** increased by AED 16.3bn to AED 1.14trillion during June alone – the highest rate of credit growth since Sep 2011. Personal loans to residents increased by AED 3.8bn in June, the sixth consecutive month of increases and the biggest monthly increase since three years.
- **Nearly 26,500 companies from the Indian Subcontinent operate in the UAE**, with an estimated total investment of around USD 52bn, according to the President of the Indian Business and Professional Council in Dubai. This figure is an underestimate, given that this excludes any activities conducted in the free zones.
- **Dubai Islamic Bank and the Mohammed Bin Rashid Housing Establishment** have signed an agreement to finance up to 100% of Emiratis' mortgages on new property purchases – with value of properties up to AED 2mn for tenures of 25 years.

