

# Weekly Economic Commentary – September 1, 2013

## Markets

The end of the summer lull was welcomed by a sell off on most **stock markets** in response to the US involvement in Syria, which sent investors on risk-off mode, combined with ongoing hysteria on QE3 tapering. For the Dow Jones and the S&P 500 August was their worst month since May 2012. **Regional markets** sunk in reaction to the security situation, while **oil prices** were lifted to a 5 month high, but later retracted. The US **dollar** (together with **gold**, which remained stable) benefitted from safe haven effect, gaining against most major peers; the **euro** fell to a one month low but the **yen** strengthened against the greenback.

## Global Developments

### **Americas:**

- The US **GDP** Q2 growth was revised substantially from 1.7% qoq ann. to 2.5% (vs 1.1% in Q1) on higher non residential investments, lower imports and stronger export. Public expenditure continued to exert a drag.
- US **durable goods orders** in Jul recorded their biggest drop -7.3% mom (+3.9% mom in Jun) in almost a year due to volatile commercial aircraft orders, but also computers and electrical equipment plummeted. Excluding transportation, new orders declined -0.6% mom. Excluding aircrafts capital orders fell -3.3%
- The **S&P Case-Shiller home price index** rose 0.9% mom sa in Jun after gaining 1% mom sa in May, signalling the pace of price growth may be slowing. On an annual basis, home prices rose 12.1%. The pending home sales index declined 1.3% mom to 109.5 in July.

- The Conference Board's index of **consumer confidence** rebounded to 81.5 in Aug from 81 in Jul after touching a 5-year high of 82.1 in Jun.
- The final reading of the Thomson Reuters/University of Michigan survey of **consumer sentiment slipped** from 85.1 in Jul to 82.1 in Aug.
- **Initial US jobless claims fell** 6k to 331k. The four-week moving average remained almost stable (from 330,500 to 331,250). Continuing claims fell 14,000 to 2.989 million, confirming the steady recovery in the labour market.
- **Canada's GDP** grew by 1.7% qoq ann. in Q2, down from 2.2% in Q1. Growth was sustained by consumer spending while business investment, inventories and exports slowed.
- In a much anticipated move, **Brazil** raised its **rate** to 9% from 8.5% in an effort to curb inflation exacerbated by a plunging currency.
- **Brazil's economy** expanded more than expected in the second quarter adding 1.5% qoq (Q1: 0.6% qoq)) to an annualized 6% and 3.3% yoy.

## Europe:

- Ifo index of **German business confidence** increased for a fourth consecutive month in Aug to 107.5, compared to 106.2 in July. The current conditions index reached 112.0 from 110.1.
- **German retail sales** unexpectedly fell -1.4% mom in Jul after dipping -0.8% mom in Jun.
- **Eurozone M3 money supply** rose by an annualized 2.2% in Jul, exceeding expectations but slowing from Jul's 2.4% annualized gain.
- In **Italy**, **consumer confidence** climbed to 98.3 in Aug from 97.4 in Jul, while the business confidence index rose to 82.2 from 79.8.

## Asia and Pacific:

- **Japan's core CPI** rose for the second month in Jul, accelerating to 0.7% yoy – close to a 5 year high – from a 0.4% yoy rise in Jun.
- **Japan's retail sales** dropped -0.3% yoy in Jul compared to a 1.6% jump in Jun.
- The official **Chinese** PMI climbed to 51 in Aug (a 16-month high) from 50.3 in July beating expectations.
- **India GDP** grew only 4.4% yoy in Q2 (Q1: 4.8% yoy), the lowest in four years, hit by a 1.2% contraction in factory output. The Indian rupee continued to slump, recording the biggest one-day slide in 18 years last week, before the Reserve Bank intervened to correct the fall.
- **Japan industrial production** rebounded by a less than expected 3.2% mom in Jul after contracting -3.1% mom in Jun.
- Bank **Indonesia** lifted its rate by 50bps to 7.00%, in an effort to prop up the rupee and counter inflation, but the effects will likely be limited.
- **Philippines'** GDP expanded 7.5% yoy in Q2 after 7.7% in Q1, marking the fourth straight quarter of above 7% growth. The services sector grew 7.4%, while construction and manufacturing took off with 17.4% and 10.3%, respectively.
- **Singapore's industrial production** rose 2.7% yoy in Jul, after a -4.2% drop in Jun thanks to a pickup in electronics and a recovery in pharmaceuticals.

**Bottom line:** The optimism over the pickup in H2 is giving way to a more mixed picture. The US continues to fare better, while the hopes of stabilization in Europe are premature and emerging markets are coping with lower growth rates and weaker currencies. China seems to gain traction, on the back of government targetted measures and a pickup in credit since the start of the year which is displaying its effects. However global fragility is not dispelled: according to the OECD, trade across the major economies slowed in Q2 with merchandise

imports and exports down by -1.4% for the G7 countries, and -1.8% for Brazil, Russia, and India (the worst hit with imports down -4.5% and exports by a -8.1%).

### Regional Developments

- **Egypt**'s cabinet approved the EGP 22.3bn (USD 3.2bn) economic stimulus plan, which includes spending on investment projects, bringing the total government investment in this year's budget to EGP 120bn. Even with the new spending, the interim government aims to cut deficit to 9% of GDP from 14% in 2012/13.
- Money supply (M2) in **Egypt** accelerated by 19.4% yoy – the fastest pace since Apr 2008 – to EGP 1.316bn in July. This is seen to be a result of the increase in direct government borrowing from the central bank and restrictions on transferring funds abroad.
- **Oman**'s natural gas consumption increased by 5.1% to 19,308mn cubic metres in H1 2013, thanks to increased use in oil fields and growing demand from industrial projects, according to statistics released by the National Center for Statistics and Information.
- Cost of living in **Qatar** increased to 3.1% yoy in July due to higher rents (+6.5% yoy & 0.1% mom), alongside costlier entertainment (+9.3% yoy & 1.2% mom) and medical services (+2.5% yoy & 0.2% mom). In mom terms, prices were flat.
- Average monthly salary in **Qatar** has increased by almost 20% in the last 15 months: men earned QAR10k and women QAR 8k in Q2, as per data from the Ministry of Development Planning and Statistics. Qataris accounted for less than 10% of the total 1.7mn people in working age groups in Q2.
- The latest regulation from the CMA outlining stricter disclosure rules in **Saudi Arabia** can be read as a sign that the Tadawul may be closer to opening up for foreign investors. The announcement also mentioned that

companies have to give a reason if they did not provide details on the financial impact of any large announced development.

- **Saudi Arabia** ranks second globally in SWF's total assets under managements. Saudi Arabia's SAMA, with USD 675.9bn, follows Norway's pension fund whose assets are valued at USD 737.2bn, and is ahead of UAE's ADIA which stands third with USD 627bn, according to estimates from the SWF Institute.
- Unemployment among **Saudi** women in the private sector increased by 2.3% to 358,000 in 2012. The unemployment rate for males stood at 6.1% in 2012, while strikingly at 35.7% among females. Meanwhile, the Ministry of Civil Affairs revealed that about 13% of public sector jobs were vacant.
- The Islamic Development Bank (**IDB**) aims to boost its Sukuk medium-term note program by more than 50% to USD 10bn by the end of this year given growing demand from member countries like Morocco and Turkey, as per a statement from its VP of finance.
- A total 1.6mn work visas were issued in **Saudi Arabia** during 2012, of which 90k or about 58% were towards the building and construction sector workforce, according to the Ministry of Labour.
- **Arab tourists** made purchases worth GBP 1.3bn out of a total tourist spending of GBP 4bn in **London** during the summer season, according to the British Commercial Association. The average spending of a Saudi tourist was reported to be about GBP 2,487, followed by UAE at GBP 2,395, and then Kuwait at GBP 1965 per person; Russia and Singapore were at GBP 1169 and GBP 980 per head respectively.
- **Middle East investors** spent close to EUR 5.7bn buying commercial properties in **Europe** during H1 2013, rising almost 90% yoy, as per a CBRE research report. Nearly half the investments came from SWFs in the region, and London was the main focus of the investment.

- A Booz & Co report stated that **GCC gas shortage** is likely to become more pronounced by 2015, after rising power consumption, depleting oil fields, gas exploration and long-term gas export commitments reduced significantly the supply in the region. The report calls for the region's governments to "invest in new developments to increase production, increase local gas prices steadily to encourage efficiency, and expand the use of alternative sources in the energy mix".
- A unified **GCC tourist visa** is likely to become a reality by 2014 and currently a computer system is being set up to deal with data exchange, according to the assistant secretary-general for economic matters at the GCC.
- **Remittances** outflow from the GCC touched USD 74.5bn in 2011, of which India topped the list of recipient countries, with its expats sending home nearly USD 29.7bn or 39.9% of the total. Saudi Arabia topped the list in terms of volume, at USD 28.5bn, followed by the UAE and Kuwait at USD 18.2bn and USD 11.8bn respectively.

### **UAE Focus**

- A board was appointed for the recently formed **Abu Dhabi financial free zone** where the financial centre is expected to launch in Q4 2013.
- The UAE **Central bank's deposits** with other banks has more than doubled to AED 90.9bn (2012: AED 43.6bn) in the Jan-May period. Meanwhile, the "held-to-maturity investments", which form the bulk of Central Bank assets, dipped by 14.2% to AED 158.9bn.
- **Nakheel** announced that it had paid AED 197mn to its creditors towards interest and profit payments.
- **UAE's oil income** was revealed to be USD 48bn from exports during H1 2013, according to estimated from the EIA. Earnings from oil had hit USD 100bn in 2012 – which was roughly 10% of OPEC's total income. However UAE

lagged behind Saudi Arabia in terms of income, and was way behind Iran in terms of crude oil production.

- **Dubai Airports** reported 6.1% yoy growth in passenger traffic in July to 5.31 million, taking the year to date passenger traffic to 37.97 million, up 15.3%. The strong growth was attributed to the expansion of flydubai and Emirates airlines into the region.
- **DP World** recorded a net profit of USD 264mn in H1, rising 9.1% yoy, and in spite of volumes lower by 5.8%. The company also announced its commitment towards capital investments of USD 3.7bn until 2015, generated by cash flow and external financing.
- **Dubai tourism** was boosted during the Eid weekend with large number of visitors from the Gulf countries: hotel occupancy rates were reported an average 85%.
- UAE's **MasterCard Index of Consumer Confidence** touched a highest ever score of 94.7. The index recorded an increase in all but one indicators compared to 6 months ago: the economy (96.8 vs. 94.6), employment (96.1 vs. 95.2), regular income (93.1 vs. 84.7) and the stock market (92.8 vs. 86.9) rose, but quality of life remained within the optimistic territory (94.5 vs. 95.6).

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