

Weekly Economic Commentary – September 8, 2013

Markets

The taper tantrum on markets paused as investors were baffled by a disappointing US job report. Nevertheless **stocks** posted quite strong weekly gains especially Japan, and emerging markets, as the believers in a better global outlook took the driver's seat. **Regional** markets suffered for the anticipation of military escalation in Syria, with DFM collapsing 10%. The start of normalization in monetary policy pushed yields on US and UK 10-y government bonds to 3% and 10-y Bund to 2%. The **dollar** lost a little after benefitting of its safe haven status, the yen dropped and emerging currencies stabilized. **Oil** remains well bid, while **gold** suffered the first weekly drop since July.

Global Developments

Americas:

- The **US non-farm jobs** in Aug grew by 169,000, with the private sector adding 152,000. Sharp downward revisions were made to Jun and Jul payrolls, 74,000 cumulatively. The **unemployment rate** declined to a new post-recession low of 7.3%, a statistical quirk which masks a grim reality: both the labor force and household employment fell.
- **Markit's US manufacturing PMI** fell to 53.1 in Aug from 53.7 in Jul; output grew at the slowest pace in 10 months but inventories dipped and new orders surged, suggesting a pick-up in activity. Separately, the **ISM manufacturing PMI** rose for the third consecutive month in Aug, gaining 0.3 points to 55.7 and the **non-manufacturing PMI** unexpectedly hit an all time high of

58.6 from 56.

- US **construction spending** rose 0.6% mom in Jul to after stagnating in Jun; construction outlays by businesses rose the most which countered a drop in federal construction spending.
- In its latest **Beige Book survey**, the Fed described economic growth as “modest to moderate”, highlighting that consumer spending rose in most districts, manufacturing expanded “modestly”, residential real estate rose “moderately” but bank lending slowed in some districts.
- **US factory orders** fell by a less-than-expected -2.4% mom in Jul. Orders for capital goods excluding defense and aircraft fell -4% mom, its sharpest drop in 4 months.
- **Initial claims** fell by 9K to 323K, almost a low since 2007, due to the Labor Day festivity. Continuing claims fell 43K to 2.951 million.
- Despite inflation above the 3% target, unexpectedly the **Bank of Mexico** cut rates 25bp to 3.75% to boost activity which in Q2 contracted.

Europe:

- Markit's **Eurozone manufacturing PMI** rose 1.1 points to a 2-year high of 51.4 in Aug as new orders surged but employment trailed with some countries recording a faster pace of job losses. **German** manufacturing rose to 51.8 from 50.7, **Spanish** manufacturing expanded for the first time in 27 months and **Italian** PMI rose sharply driven by new orders. In **France**, PMI continued to decline as output shrunk.
- Markit's **Eurozone composite PMI** rose to 51.5 in Aug from 50.5 in Jul. The new orders sub-index expanded for the first time in 2 years. Germany's composite PMI surged to a 7-month high while it dipped in France.
- **UK industrial production** was flat mom (-1.6% yoy) in Jul. Manufacturing rose a modest 0.2% mom but fell 0.7%

on the year

- **Eurozone's retail sales** rose 0.1% mom in Jul, (-1.3% yoy), hardly a rosy picture for the cheerleaders of recovery.
- **German industrial production** fell -1.7% mom in Jul, partly offsetting a 2% mom jump in Jun. IP dropped 2.3% yoy (vs 0.2% in Jun). German manufacturing orders fell by 2.7% mom in July.
- **Industrial production in Spain** contracted in Jul by 1.4% yoy, after a drop of 2.2% in Jun a sign that stabilization might be in sight for 2014.

Asia and Pacific:

- **China's non-manufacturing PMI** slipped 0.2 points in Aug from 54.1 in Jul. The decline was moderated by a rise in new orders.
- **HSBC's India manufacturing PMI** fell into contractionary territory in Aug for the first time in 4 years, dipping to 48.5 from 50.1. A drop in new orders, both domestic and export, led the decline.
- The Reserve Bank of **India's** new Governor Rajan resorted to verbal intervention in an attempt to prop up the rupee: "we have a range of instruments to call on. I am not going to say upfront what will be used." But unless deeds follow words markets will not be appeased for long.
- **Australia's** GDP grew 2.6% yoy in Q2, marginally beating expectations. The Liberal leader that won the election has promised a pro-market shock therapy to boost growth. Australia's prospects are currently dim: services PMI continued its decline in Aug to 39 from 39.4 in Jul.

Bottom line: The intervention in Syria dominated the G20 meeting but the positions of US, China and Russia remained highly confrontational. Obama only got 11 signatures advocating "strong action", including Spain which isn't formally part of the G20. On the economic front the meeting

reiterated the hopes of a stronger growth, but China, India and other emerging economies demanded a more gradual exit from QE3. The data this week were a mixed bag, with the US payroll clearly below expectations, but with European figures depicting a better outlook.

Regional Developments

- The Central Bank of **Bahrain**'s issue of BHD 45mn in government treasury bills was oversubscribed by an overwhelming 182%. The bills have a maturity of 91 days and had a weighted average rate of interest is 0.78% compared to the prior interest of 0.7% in August.
- **HSBC** has announced, in line with its global strategic operations review, that it will be discontinuing "sales of any new wealth investment or wealth insurance products in Lebanon, Jordan and Bahrain from Oct. 7, 2013". In addition, the company has merged its operations in Oman with a local bank as part of a three-year global restructuring.
- Net foreign direct investments in **Egypt** increased by an incredible 417% yoy to USD 1.07bn in the period Jan-Mar 2013, as per data from the Central Bank. Investment inflows declined by 12.4% during the quarter, while the value of foreign investments outflows nearly halved, falling from USD 2.27bn to USD 1.08bn.
- According to analysts and senior officials, the US could face bills of up to USD 2-3bn if aid to **Egypt** is completely stopped. The US is currently reviewing the USD 1.23bn in military assistance to Egypt, and also an additional USD 241mn in economic aid.
- Oil exports increased for the first time in **Iraq** in Aug, due to production in new fields, rising to 2.579mn bpd from 2.324mn bpd a month before and exports recorded the highest revenue this year to USD 8.3bn. Additionally, the Iraq decided to extend an oil grant to Jordan worth USD 25mn.

- **Jordan**'s Planning Minister revealed that the government had requested drawing "USD 140mn of the Kuwaiti grant, USD 100mn of the Saudi, and USD 85mn of the UAE grant". He also mentioned that those "added-value projects that can solve central issues of energy, water and transportation" were being given priority.
- **Jordan** dropped four places in the Global Competitiveness Index 2013-14 to 68 out of a total 148 nations. The nation scored a total of 4.2 out of 7, and the country performed better in the "institutions" and "infrastructure" pillars while falling to 65 from 56th place in the health and primary education category.
- The European Commission revealed that it was extending EUR 22mn in additional funding to **Lebanon** to cope with the "uncertain economic outlook and the instability caused by the crisis in Syria". The World Bank announced that it was helping Lebanon prepare an assessment of the socioeconomic impact from the Syria's spillovers, which could then help the country request international aid.
- **Lebanon**'s budget deficit rose to LBP 2.446 trillion in the period Jan-May 2013. Revenues were up 2.28%, helped by the 22% increase in income tax which offset a 3.6% dip in VAT and a more than 12% decline in real estate transactions and inheritance taxes; expenditures grew by 11.0% to LBP 8.75 trillion.
- **Morocco** announced a new programme, in collaboration with EUR 3.8mn financing from the World Bank, to tackle youth unemployment: this initiative will provide people under age 30 who have not passed the baccalaureate with adequate training to start their own small businesses.
- **Oman**'s Ministry of Commerce and Industry records show that a total of 109 new industries were registered in H1 2013. Industrial investment was around USD 25.5bn and the number of industrial facilities reached 2,539 by the end of Aug 2013.
- Subsidy to the electricity sector in **Oman** amounted to OMR 276.6mn in 2012 and according to the regulator, the

actual 'direct and indirect' benefit from the subsidy (for customers) is at OMR 884.5mn.

- Meed's Gulf Project Tracker saw **Qatar** leading growth in the value of projects planned or underway, rising by 1.3%, in the week up to Aug 27. This was due to the launch of five new projects, valued at a total USD 600mn, and revision of a construction project worth USD 2.4bn. Oman followed, with the value of its projects market rising 0.6% given the launch of eight new schemes worth a total USD 795mn.
- The Global Built Asset Wealth Index, published by EC Harris, placed **Qatar** at the fourth highest globally in per capita terms – with an estimated built asset wealth of USD 143k per person – while in terms of rate of growth in built asset wealth per person Qatar tops the list. The Index reveals that total built asset wealth in its 30 countries universe stands at USD 193 trillion – this was equivalent to almost three times the USD 68 trillion GDP of the same nations.
- **Saudi Arabia**'s Q2 GDP was up 2.7% yoy – the second-lowest quarterly growth since Q1 2011 – with growth pushed by the construction (+6.5%), wholesale and retail (+6.2%) sectors. This compares to Q1's 2.1% and 5.5% in Q2 2012. Oil sector output fell 3.7% yoy (Q1: -6.3%).
- Headline PMI in **Saudi Arabia** rose to a four-month high of 57.5 in Aug, up from July's 56.6. The Index signalled an increase in sales, and output rose at an accelerated pace, with 22% respondents reporting higher activity.
- **Saudi Arabia**'s Deputy PM revealed that the country had provided around USD 103bn in financial aid to over 95 countries in the past 30 years. He also noted that the country was active in financing clean energy projects: about USD 500mn in soft loans to finance energy projects in developing countries and USD 300mn donated for the establishment of a fund for energy, environment and climate change research.
- **Saudi Arabia** tops the list of biggest spenders when

travelling abroad, according to Visa's Global Travel Intentions Study. Saudis spend USD 6,414 followed by Australians and Chinese at USD 3962 and USD 3679 respectively; this compares to the global average of USD 2,501.

- The **GCC-Singapore Free Trade Agreement** came into place last week. Singapore is the first non-Middle East nation to enter into an FTA with the GCC. With bilateral trade at SGD 68.6bn in 2012, the GCC is currently Singapore's fifth largest trading partner and accounts for 35% of Singapore's oil imports.
- Assets of the top ten GCC banks grew by 16% yoy to USD 743bn by end-June 2013, according to a recent QNB report. The top 10 banks' remained robust: average Tier 1 Capital ratio of 16%, the average ratio of NPLs to total loans of 1.9% (excluding Emirates NBD, which had NPLs of 14%) and average profit growth at 16% yoy till end-June 2013.

UAE Focus

- **UAE** has been ranked 19th in the **Global Competitiveness Report**, issued by the World Economic Forum. The report states that "The UAE's competitiveness reflects the high quality of its infrastructure, as well as its highly efficient goods markets. strong macroeconomic stability and some positive aspects of the country's institutions – such as strong public trust in politicians and high government efficiency – round up the list of competitive advantages. The highest ranked Middle East nation was Qatar (13th).
- **UAE PMI** was unchanged at 54.5 in August. The pace of expansion in output levels accelerated to a 6-month high in Aug, thanks to increased business and improving market conditions. However, the relatively sharp drop in export orders, to 53 from 56.8 in July, is a tad worrisome.

- The UAE is likely to have a **new transport law** by next year that would facilitate the USD 25bn investment in railroads and metros, according to the Minister of Public Works.
- **UAE's oil output** averaged 2.7mn barrels per day in July (June: 2.73mn bpd), as per statistics from the International Energy Agency. This brings UAE's average crude supply at 2.69 million bpd for the first half of this year.
- The number of active registered **companies in the DIFC** increased to 979 as of June 2013. With the addition of 1000 new jobs, the total workforce in the DIFC has touched 15000. AS for the geographical distribution of the companies, DIFC revealed that companies from Europe accounted for 36%, followed by the Middle East at 27%, North America at 16%, Asia at 11% and 10% from the rest of the world.
- **Abu Dhabi** has been rated the fourth "top city" in the world to visit, work and live in in a list topped by New York, London and Sydney. The city also took number 3 slot under 'Best in Business' category, after London and New York.
- Passenger traffic in the **Abu Dhabi** international airport increased by 4.8% yoy to 1,399,695 in July.
- The UAE accounted for about 32.5% of US's total trade with the oil-rich Gulf countries in H1 2013. **US-UAE bilateral trade** increased by 23.8% yoy to AED 55.4bn during this period while UAE's imports from the US rose by about 25% to AED 50.2bn.
- Bilateral trade between **Australia and the UAE** was AUD 5.1bn in 2012. Though there has been a decline in trade, the UAE remains Australia's most important trading partner in the region and 16th overall, according to Senior Trade Commissioner and Consul-General at the Australian Consulate.
- **UAE's built wealth assets** are at USD 1 trillion currently and it is expected to grow to USD 1.69

trillion by 2022, according to the Global Built Asset Wealth Index, published by EC Harris. UAE ranks 12th globally with an estimated built wealth assets of USD 122,809 per person.

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