

Weekly Economic Commentary – September 15, 2013

Markets

US **stocks** shot up the most this week since January as disappointing economic data stoked expectations that any stimulus tapering by the Fed this month will not be drastic. In Asia, stock markets found cheer in better-than-expected Chinese industrial production but halted gains on Friday as Fed tapering came back into focus. **Regional stocks** rebounded on easing geopolitical tensions; UAE markets posted their largest one-day gains in more than 4 years, while gains in Saudi were more muted. The **dollar** plummeted after weak data fuelled bets against aggressive tapering this month while the **yen** continued to slide and the **euro** strengthened overall but pared gains towards week-end after disappointing Eurozone data.

Global Developments

Americas:

- **US retail sales rose** by a less-than-expected 0.2% mom in Aug, slowing from a gain of 0.4% mom in Jul. Core sales rose 0.2% mom after gaining 0.5% mom in Jul.
- **US wholesale inventories rose** by 0.1% in Jul, below expectations of 0.3%. The inventory-to-sales ratio held steady at 1.17.
- The **US budget deficit narrowed** yoy to USD 147.9bn in Aug. In the 11 months to fiscal year ending Sep, the deficit narrowed to the lowest level in 5 years at USD 755.3bn.
- **Initial unemployment claims fell** by 31k to 292k last week but the drop was caused by computer-network conversions in two states and does not reflect any

change in labour market conditions, according to the Labour Department. The 4-week moving average fell -7.5k to 321.25k.

Europe:

- **Eurozone industrial production fell** -1.5% mom in Jul, the sharpest drop in almost a year and which follows a gain of 0.6% mom in Jun. Industrial output in Germany was the major drag, falling -2.3% mom.
- **UK unemployment** unexpectedly **fell** to 7.7% in the 3 months to Jul from 7.8% in the 3 months to Apr.

Asia and Pacific:

- **China's consumer inflation** edged **up** 0.5% mom in Aug and was up 2.6% yoy on the back of higher food prices.
- **China industrial production rose** the most in 17 months in Aug, up 10.4% yoy (Jul: 9.7% yoy).
- **China's new Yuan loans increased** by 2% mom to 711.3 bn in Aug from 699.9 bn in Jul, and rose 1% yoy from 703.9 bn a year ago. **M2 money supply** grew 14.7% yoy and 0.2% mom in Aug.
- **Japan's consumer confidence fell** in Aug for a third time to 43 from 43.6 in Jul. Real wages are lower and the proposed VAT saps optimism.
- **Japan's core machinery orders** was **flat** mom sags expected: 2.4% in Jul after contracting by -2.7% in Jun. Firms are still wary and cautious.
- **India's trade deficit narrowed** to the lowest in 5 months at USD 10.9 bn in Aug. Exports rose 13% mom while imports fell -0.68% mom.
- **Bank Indonesia** unexpectedly **hiked rates** 25 bp to 7.25%, for the fourth time since June for 150 bp in total.
- **Malaysia's industrial production** beat expectations, **climbing** by 7.6% yoy in Jul from 3.7% in June.

Bottom line: While the US data flow was scant, China took the limelight with some cheerful figures that lend credibility to

a pick-up in activity. Also, Japan came into focus displaying weak data, while the debate on the VAT hike reignites political squabbles after the idyllic honeymoon of Abenomics. The OECD composite leading indicator remained almost stable at 100.7 from 100.6 in June. Stabilization in Europe is helping the index; but emerging markets offset this factor. **Monetary tightening by the US remains the overwhelming concern.**

Regional Developments

- **Egypt's** government extended the **state of emergency** by two months, till mid-Nov, given the current security conditions.
- The Central Bank governor of **Egypt** revealed that **Kuwait's** USD 2bn **aid** would be deposited at the Central Bank this week, and it would stay there for five years. Meanwhile, Qatar agreed to convert its USD 2bn deposit with the Egypt Central Bank into bonds, according to a local newspaper quoting the governor.
- **Egypt owes** foreign oil companies about USD 6bn, and discussions are underway to reach a settlement. "Reaching a settlement will lead to a rise in investment from foreign (oil) firms within two years to USD 15bn", according to the PM.
- Urban **CPI** in **Egypt fell** slightly to 9.7% in Aug (Jul: 10.3%), partly due to the curfew and the improving EGP.
- **Inflows** into **Jordan** are expected at JOD 2bn by end of this year compared to the JOD 1.6bn inflow in 2012, according to the Jordan Investment Board Chief Executive. The volume of investments reached JOD 744.4mn during H1 2013.
- **Assets of commercial banks** in **Oman** touched OMR 21.9bn in July, **up** 10% yoy, with credit accounting for 68.2% of the total assets and recording an increase of 8.1%. Also, non-financial institutions' share of the credit offered to the private sector stood at 47.5%.
- **Oman's inflation** touched 1.5% in July, with prices of

food, beverages and tobacco up 3.1% yoy and 2.8% mom. Rents and energy costs, which account for over 21% of the total basket, rose 0.9% yoy and 0.1% mom in July.

- **Revenues in Oman dipped** by 6% yoy during the Jan-Jul period to OMR 8.2bn, owing to a decline in oil and gas revenues. Oil revenues were down 3.3% to OMR 6.1bn by end-Jul while gas revenues dropped 14.5% to OMR 842mn. However, a reduction of almost 5% in spending led to a small budget surplus of OMR 178.5mn.
- Data released by **Oman's** National Centre for Statistics and Information showed that the number of Omani nationals employed in the private sector grew to 177,100 by end of July compared to 172,000 registered at the end of 2012, an increase of 3%.
- **Qatar** posted a **trade surplus** of QAR 33.8bn in July: value of exports declined by 1.6% yoy to QAR 41.3bn while imports grew 2.7% to QAR 8.4bn. Qatar's main export trading partners were Japan (28% of total exports), Korea (14%) and India (11%) while its main imports were motor cars and other passenger vehicles, telephone sets, mobile phone handsets and aircraft spare parts.
- Total assets of commercial banks in **Qatar increased** by 18% to QAR 875bn in the first half of 2013 and compares to assets of just QAR 400bn towards end-2008. Total deposits reached QAR 535bn by H1 this year compared to QAR 212bn in 2008.
- **Non-oil exports in Saudi Arabia grew** by 6.4% yoy to SAR 17bn in June. Plastics and chemical products dominate non-oil exports, accounting for 31.4% and 31.1% of the total respectively. The largest importers are US (14.9% of total), China (14.5%) and Germany (6.4%).
- **Saudi's** Ministry of Labour revealed that **foreigners accounted for 86.6% of private sector jobs** in 2012. The engineering sector employed the highest number of foreign workers – more than 3mn – compared to 149k Saudis in the same field.

- New passenger **car sales** in **Saudi** forecast to grow by 15% to 609,500 in 2014 according to a BMI report. This, combined with a 4.8% rise in new commercial vehicle sales, is expected to boost the total new vehicle market in KSA to 777,212 units (+12.6% yoy) next year.
- Investments into the **GCC rail project** is expected to exceed USD 200bn, according to World Bank's senior resident advisor at the GCC Secretariat General. The common guidelines for the integrated regional network is likely to be finalised by end of this year and construction spread over 2014-15.

UAE Focus

- Total number of **visitors passing through Dubai International** – in August, reached 3,460,000 according to the General Directorate of Residency and Foreigners Affairs in Dubai.
- **Bilateral trade between UAE and Japan** dipped by 8.8% to USD 24.8bn during H1 2013. During this period, Japan's exports to the UAE dropped by 12% yoy to USD 4.06bn and the UAE was the eighth largest trading partner for Japan (KSA 7th).
- **UAE and Russia** have signed a Memorandum of Intent for a joint investment partnership of up to USD 5bn in Russian infrastructure projects.
- The number of **licenses granted to GCC nationals** to do business in the UAE increased by 25% to 30,425 at the end of 2012; Saudi nationals received 43.2% percent of the total licenses, followed by Kuwaitis at 19.6%.
- Amendments to the existing **real estate law in Dubai** – expected to be enforced by end-Sep – will lead to faster settlement of property disputes between landlords and tenants and also provide an opportunity to appeal within three days.
- Knight Frank ranks **Dubai** on top in terms of rise in **house prices** globally: house prices in Dubai surged by

21.7% in the 12 months ending June 2013 and increased 5% qoq in Q2 2013.

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