

# Weekly Economic Commentary – September 22, 2013

## Markets

Global **stock** markets celebrated the withdrawal of Larry Summers from the succession at the helm of the Fed and later the decision of the Fed to continue its USD 85bn monthly bond purchases. All asset classes responded positively around the globe while the **dollar** dropped sharply vs. the euro but remained stable against the yen and the Yuan. These reactions confirm that the markets have become addicted to the unprecedented liquidity injections which are creating all sort of distortions. **Gold** price remained stable while **oil** eased notably.

## Global Developments

### **Americas:**

- The **FOMC stunned markets** leaving unchanged the bond purchase program under QE3 despite signals to the contrary sent in the previous months. The statement underlined that the Fed awaits stronger signs of recovery before tapering QE3.
- The **US current account deficit dropped** 5.7% in Q2 to USD 98.9 bn. from USD 105 bn in Q1, thanks to an improvement in goods trade.
- US **industrial production rose** 0.4% mom in Aug after remaining flat in Jul. Manufacturing production rebounded by 0.7% mom after dipping -0.4% mom in Jul.
- **US consumer prices rose** by a less than expected 0.1% mom in Aug, translating into 1.5% yoy from 2% in Jul. Core inflation rose 0.1% mom and 1.8% yoy (Jul: 1.7% yoy).
- The **NAHB housing market** index unexpectedly held **steady** in Sep at 58, following 4 months of consecutive gains.

- **Initial unemployment claims rose** 15K to 309K reversing half of a 29K decline attributable to seasonal factors and reporting mishaps. Continuing claims fell 28K down 481K from a year earlier.
- **Existing homes sales** in the US **advanced** in Aug to an annualized 5.48 mn units a 1.7% mom advance. The pace of sales nearly matches the post-recession recorded in autumn 2009 pushed by the homebuyer tax credits. Inventory stand at 4.9 months, indicating a tight market. The median existing-home price appreciation reached by 14.7% yoy.
- **Housing starts gained** 0.9% mom to 891,000 annualized units. Multifamily disappointed while single-family starts were up 7% mom.
- **Net long-term capital inflows into the US were positive** for the first time in six months in Jul, to the tune of USD 31.1 bn, compared with a USD 67 billion outflow in Jun. underscoring renewed interest for U.S. Treasury bonds and notes from private foreign investors.

### Europe:

- The **German ZEW economic sentiment** index **rose** by a more-than-expected 7.6 points in Sep to 49.6. The ZEW **Eurozone economic sentiment** index also unexpectedly surged from 44 to 58.6, the highest level in 3 years.
- The **euro zone's inflation slowed** to 1.3% yoy in Aug from 1.6% in Jul. A dwindling economy, rampant unemployment, and subdued wage growth constrained inflation pressures.
- **UK retail sales fell** in Aug -0.9% mom (+2.1% yoy), driven own by a sharp fall in food sales.
- **Spain's industrial orders climbed** unexpectedly 1.8% yoy in Jul (after a revised -8.1% fall in Jun), lifted by a large boost from capital goods.

### Asia and Pacific:

- **India's** wholesale **price inflation hit 6.1%** yoy in Aug

accelerating for the third straight month and its fastest pace since Feb. Food price inflation continued to rise, while core inflation and fuel price growth remained steady.

- **India's** new RBI Governor took the markets by surprise **raising the repo rate by 25bps** to 7.5%, with the aim of containing higher inflation levels. The RBI also scaled back some of "emergency" reforms issued during the rupee depreciation like reducing the marginal standing facility rate by 75bps to 9.5% to tighten liquidity.
- **Trade deficit** in **Japan** touched JPY 960.3bn in August, recording the **14th consecutive month** of deficits and up 25% yoy, as imports rose 16% yoy to JPY 6.74 trillion and exports grew by 14.7% to JPY 5.78 trillion.
- **FDI in China increased** by 0.62% yoy to USD 8.38bn in Aug, but the rate of growth was substantially lower compared to July's 24.3% yoy rise to USD 9.4bn. This brings the total FDI in the Jan-Aug period up by 6.37% yoy to USD 79.8bn, compared to a 7.1% rise in the same period in 2012.

**Bottom line: Last week's data did not change the fundamental macro picture**, but the postponement of the QE3 tapering signals that the normalization of monetary policy will be left to Bernanke's successor. Essentially the Fed has tried a gradual exit strategy, but the mere announcement of a limited reduction in the monetary drug has produced a step adjustment in global markets which preludes to a painful normalization. The central banks are caught into an unsolvable dilemma: the real economy reacts with delay to monetary measures, while financial markets anticipate the trajectory to the end point of the policy objectives, therefore disrupting all attempts of engineering an orderly transition. With Bernanke in the final leg of his tenure, the exit strategy from the de facto nationalization of bond markets is anybody's guess.

## **Regional Developments**

- **Arcapita**, a Bahrain based investment firm, **completed the Chapter 11 process** in the US, 18 months after filing for bankruptcy. The company had about USD 7.4bn assets under management globally and an outstanding Islamic loan of USD 1.1bn, of which creditors are expected to recover about 64% of their cash. The company will transfer its assets to a holding company and exit the portfolio within the next 4-5 years.
- **Egypt's PM** has set the **minimum wages in the public sector at EGP 1200 (USD 170)** per month – to be enforced from Jan 2014.
- **Oil and gas shipments for Egypt**: Qatar had agreed in May to donate five cargoes of LNG to Egypt and initial discussions were held for Egypt to buy at least 13 more; but the negotiations have not resumed with the new government, given the recent supply of fuel from other Gulf states. Egyptian General Petroleum Company CEO said that Egypt had received oil shipments worth USD 800mn from Saudi Arabia in Aug-Sep.
- **Kuwait's nominal GDP grew by 16%** yoy to KWD 51.3bn in 2012, supported by the oil sector (+19%) due to higher prices and production volumes. Non-oil sector growth (+10%) was driven by manufacturing (+28%) and “other services” (+14%), the latter within which education grew by 20% to KWD 1.9bn.
- The new commercial licenses law in **Kuwait** is currently in its draft phase and when implemented “will facilitate trade through the single-window system” and “and organises documentation required for each and every step related to issuing these licences according to a precise time-frame”, according to the Commerce and Industry minister.
- The **conflict in Syria will cost Lebanon USD 7.5bn in cumulative economic losses** by the end of 2014, according to a World Bank report prepared for an aid meeting at the UN. The inflow of Syrian refugees is expected to cut real GDP growth by 2.85% a year between 2012 to 2014,

double unemployment to above 20% and widen the deeply indebted nation's deficit by USD 2.6bn.

- **Lebanon's** caretaker PM signed a decree to **authorize the advance payment of LBP 1.2 trillion to pay the salaries of public sector employees**. The Finance Ministry has proposed tax hikes on 60 luxury goods (which the Traders Association are protesting) and raising the value added tax and customs fees to cover LBP 1 trillion of additional expenditures required to fund a long-awaited plan to boost public sector wages.
- The Central Bank Governor in **Lebanon** said that the country required **additional stimulus in 2014** – but that the package will be smaller than this year's USD 1.46bn – to maintain growth rates amidst the growing Syrian refugees' inflow.
- Total **merchandise exports in Oman grew by 10.7%** yoy to OMR 20.047bn in 2012, with oil and gas contributing OMR 13.966bn (+8.9% yoy) and non-oil exports, excluding re-exports, up 18.5% to OMR 3.594bn. China is the largest importer of crude oil from Oman last year and India was the largest market for Omani non-oil exports.
- **Oman's** Public Authority for Social Insurance revealed that the Ministry of Manpower's decision to raise the **minimum wages in the private sector to OMR 200** had affected 48,887 employees. Now, there are a total of 116,603 people earning within the OMR 225-300 mark.
- Fraser Institute's 2013 **Economic Freedom of the World** report has ranked **Oman** 46th globally, having made improvements in the Sound Money and Freedom to Trade Internationally sub-indices. **Oman is ranked behind UAE (5), Bahrain (8) and Qatar (23)** in the GCC. [Source: <http://www.freetheworld.com/2013/EFW2013-ch1-intro.pdf>]
- The number of **fixed-phone** service subscribers in **Oman rose 11%** to 337,933 in July from end-2012, according to National Centre for Statistics and Information data.
- **Qatar is committed to generate 2% of its total power from renewable sources by 2020**, according to the Qatar

Energy & Industry Sector Sustainability Report 2012. The Energy and Industry sector employed 34,710 people full-time in 2012 of which Qataris accounted for 24.6%.

- **Qatar's GDP will grow 6.5% this year** and at a higher pace of 6.8% in 2014, thanks to large-scale public infrastructure projects, as per estimates in a **QNB report**. Building up to the 2022 World Cup, infrastructure projects are expected to be worth 14.8% of GDP in both 2013 and 2014. The report also forecasts that Qatar's crude oil production will rise to 800k barrels per day by 2017, given recent investment and development plans including Qatar Petroleum's budgeted USD 6.6bn for investment in crude oil projects during 2010-14 period.
- More funding for projects in **Saudi Arabia**: the Ministry of Transport is undertaking **223 road projects covering a total length of 3,708 km** at a cost of SAR 11bn this year; the Saudi Industrial Development Fund approved 11 loans worth SAR1.1bn for the establishment of nine new industrial projects and expansion of another two existing projects.
- In the past five years, total volume of **government spending in Saudi Arabia amounted to USD 718bn while investments touched USD 141bn**, according to the governor of Saudi Arabian General Investment Authority, who was addressing the US-Saudi Business Opportunities Forum.
- **Saudi ports** reported **profits** in excess of SAR 4bn in the last fiscal year, up SAR 800mn from a year before, while container capacity has increased from 5 million TEUs in 2008 to 12 million TEUs in 2012.
- The GCC oil ministers are likely to discuss the move towards a **single price of petroleum products in GCC** when they meet this week at the the 32nd Petroleum Cooperation Committee meeting.
- **GCC has become the largest oil suppliers to China** – accounting for nearly 55% of the latter's total crude imports in 2012; exports are expected to rise to 65% by

2015, according to the GCC chambers of commerce and industry.

- Saudi Arabia, with **64 “highly wealthy” individuals possessing USD 204bn in 2013**, tops the list of **Middle East billionaires** in the Wealth-X and UBS World Ultra Wealth Report. UAE came a close second with 1,050 billionaires with a total wealth of USD 190bn (of which 37 highly rich Emiratis possessed USD 45bn), followed by Kuwait’s 845 wealthy persons possessing USD 145bn.

### **UAE Focus**

- **Dubai** will set up a **centre to settle rent disputes** swiftly in the emirate: a decree was issued establishing the Rent Dispute Settlement Centre which will be based at the Dubai Land Department. The Centre, however, will not handle disputes arising from finance lease (lease to buy) and long-term lease contracts.
- **Dubai Islamic Bank** announced that it had settled around AED 4bn of **Tamweel**’s liabilities, two years ahead of maturity. The liability obligations, set to mature in Oct 2015, were a part of a 5 year agreement with creditors made back in 2010.
- **IPO activity might be ready to resume** with the potential IPO of Just Falafel on Nasdaq Dubai, as soon as Oct this year, according to sources. The Bank of London and the Middle East, Britain’s largest stand-alone Islamic bank, had also revealed last week its plans to seek a listing on Nasdaq Dubai next month.
- **Emirates Aluminium** (Emal) **boosted production** with its third production line commencing operations three months ahead of schedule. This line is part of Emal’s Phase II expansion project, expected to boost production to 1.3mn tonnes of aluminium per year from 800k tonnes per year currently.
- **DMCChas become the largest free zone in Dubai**, overtaking Jebel Ali Free Zone and RAK Free Zone, with

