Weekly Economic Commentary – September 29, 2013

Markets

Global **stock** markets took a pause to reflect on future directions after the Fed backed off from tapering QE3 bond purchases. The task has not been helped by members of the FOMC engaging in a verbal shootout on the state of the economy and the next moves. On the fiscal front the confrontation between Obama and the Congress will add to the uncertainty. **Regional** markets were mostly in positive territory with the notable exception of Qatar. The **euro** advanced on the dollar and the yen, while **oil** price retrenched. **Gold** inched up.

Global Developments

Americas:

- The **US** House of Representatives paved the way for a **shutdown** of the Federal government as it voted, within an emergency spending bill, to postpone Obama's healthcare reform for a year.
- US **Q2 GDP** growth was **left unrevised** at 2.5% yoy in the third and final reading. The personal consumption expenditure (**PCE**) deflator rose 1.2% yoy in Aug, compared with a revised 1.3% increase in July. Personal income gained 0.4% mom after rising 0.2% in July. Consumer spending, which increased 0.3% mom, was led by durables which advanced 0.5%.
- After the **Fed's surprise decision to postpone tapering** QE3, FOMC members have engaged in a public squabble: Fisher, president of the Dallas Fed was laconic: "I will simply say that I disagreed with the decision of the committee and argued against it", while New York Fed's Dudley countered that "the economy still needs the

support of a very accommodative monetary policy". So much for forward guidance.

- **The S&P Case-Shiller index** of housing prices in the 20 largest US cities **rose** 0.6% mom sa in Jul and 12.4% yoy ((11.9% in Jun) disappointing expectations. The 10-city composite was up 0.7% mom sa and 1.9% yoy.
- **New-home sales** in Aug **rose** at an annual rate of 421,000 units, 7.9% mom and 12.6% yoy. Supply inched down to five months, with inventories marginally up. The median price increased 0.5% yoy. **Pending home sales decreased** 1.6% to 107.7 in Aug, the third consecutive decline, but still not too far from a post-recession high. Mortgage rates have risen nearly a full percentage point since May, which had seen a 6.5 year high in pending home sales, hence deterring some buyers.
- Downbeat economic expectations pushed the **US Conference Board Consumer Confidence index down** to 79.7 in Sep from Aug 81.8.
- New **orders for durable** manufactured goods in the US **rose** 0.1% mom in Aug, up from a drop of -8.1% in July. Excluding transportation, new orders declined -0.1%.
- US **initial claims for unemployment fell** 5k to 305k. The four-week moving average declined by 7k to 308k, the level recorded in Sep 2007, before the recession started to hit.
- **Personal income in the US grew** in Aug to 0.4% mom the fastest since February. Wage income also grew 0.4%. Gains were notable in rental and proprietors' income. Nominal consumer spending growth improved by 0.3% from 0.2% in the prior month.

Europe:

- **Eurozone's s M3 grew** 2.3% yoy in Aug, (from a 2.2% in Jul), thanks to short-term deposits and less gloomy marketable instruments.
- Markit's flash composite **PMI** for the **EU increased** for

the sixth month running to a 27-month high of 52.1 in Sep from 51.5 in Aug as new orders picked up. Services PMI beat expectations, rising to 52.1, much ahead of Aug's 50.7. France's composite PMI, at 50.2, returned into "expansion" territory for the first time since Feb 2012.

- **German Ifo rose** for the fifth consecutive month in Sep, edging up slightly to 107.7 from Aug's 107.6 reading. Current business sentiment slipped to 111.4 points from Aug's 112, while the outlook barometer rose to 104.2 points from 103.3.
- **Retail sales in Italy dipped** 0.3% mom and 0.9% yoy in July, while the seasonally adjusted retail-sales index dropped to 95.3 points – the lowest level since Nov 2001.
- **Spain's real retail sales fell** 4.2% yoy in Aug, not seasonally adjusted, following a drop of 1.7% in the previous month.
- **UK Q2 GDP growth** was at the **fastest pace** in three years, rising 0.7% qoq, same as the previous reading while in yoy terms growth was revised down to 1.3% from 1.5% earlier. Business investment fell 2.7% in Q2, compared with a 0.9% rise reported earlier.

Asia and Pacific:

- **China**'s flash HSBC **PMI rose** to a 6-month high of 51.2 in Sep (Aug: 50.1). The new export orders sub-index was at a 10-month high of 50.8, up from August's 47.2 while stocks of raw material purchases and finished goods also increased.
- **China** launches today the **pilot free trade zone** (FTZ) in Shanghai extending over 29 square km, a key step forward on the road to further private business liberalization and opening to foreign capital.
- **Inflation** in **Japan increased** 0.9% yoy in Aug, its biggest annual rise since Nov 2008, and core CPI hit

0.8%. Inflation continues to be affected by the rising costs of imports, via the recent steep depreciation of JPY.

- The Reserve Bank of **India** placed **a ban on 0% interest rate schemes** for credit card purchases, aimed at consumer protection, though it is expected to dampen consumer spending ahead of the upcoming festive season.The RBI also permitted Indian companies to access overseas trade credit for imports of capital goods (previously restricted to only infrastructure companies) in an attempt to attract capital inflows.
- **Industrial production** in **Singapore grew** by 3.5% yoy in Aug, led by growth in the electronics sector (5.3%) and semi-conductors segment (12.7%), but was dragged down by weaker pharmaceuticals output. Excluding the volatile pharma, IP was up 4.8% yoy.
- **Singapore inflation inched up** to 2.0% yoy in Aug from 1.9% in Jul, exactly in line with expectations (2.0% y/y). Accommodation costs (4.2% yoy), service (2.7% yoy) and food price (2.4% yoy) led the pickup.
- **Taiwan's industrial production fell** -0.7% yoy in Aug, after +2.1% in Jul. The recovery still has shaky foundations.

Bottom line: The **main macro data came close to expectations**, but with Fed decisions on hold for now, the **US fiscal policy came under the limelight**. On Tuesday federal funds for a score of programs will run out and the shutdown of non-core functions will start in the absence of a compromise. Over a million civil servants would be furloughed from their jobs. Furthermore the debt ceiling will be hit by mid-October so the Tea Party among the Republicans will have another chance to exert pressure on expenditure cuts if the Administration uses the threat of a sovereign default. Meanwhile in Italy one of the Eurozone weakest spots, the government has collapsed after few months in office and early elections loom less than a year from the last ones.

Regional Developments

- **Iran's President Rouhani** used his debut at the UN to underline Iran's willingness to start **"time-bound" talks on the nuclear issue** with the US, but without offering new concessions. President Obama replied that the US aims to resolve the Iran nuclear issue peacefully but is determined to prevent Iran from developing a nuclear weapon.
- The **free trade zone between China and GCC** is likely to come in play by end of this year or latest by 2014, according to China's Ambassador to Oman.
- **Egypt**'s court has **banned the Muslim Brotherhood** and its assets were ordered to be seized. Meanwhile, the Central Bank confirmed receipt of USD 2bn aid from Kuwait and the return of USD 2bn from Qatar; an explanation for the latter from the central bank governor was that""it was a technical decision made due the Qatari government's noncompliance with some predetermined conditions".
- **Kuwait** has sent USD 1bn worth of **oil** products to **Egypt** as part of a USD 4 bn package pledged earlier.
- Energy company Dana Gas is **owed** USD 720mn in payments from **Egypt** and **Kurdistan**, of which USD 600mn is overdue, according to the company's CEO. The company also proposed that 65% of its receivables could be in EGP as a temporary measure to help the government.
- **Jordan** and the **Arab Monetary Fund** have signed two **loan agreements** – one compensatory and one long-term – worth USD 120mn, to support economic and financial reforms. This brings the total loans extended by the AMF to Jordan to 19 and at a total value of more than USD 0.5bn.
- Total outstanding **debt in Kuwait grew** by 18.3% yoy to KWD 7.6bn as of June (Mar: 19.3%); the net increase in loans has averaged a monthly KWD 103mn during 2Q13, compared to KWD 78mn in Q1 and KWD 93mn in full year 2012.

- **Kuwait** was the **last amongst GCC states in terms of travel and tourism competitiveness** and ranks 101 out of 140 countries globally. Kuwaitis spent over USD 5bn annually on foreign tourism, due to lack of such outlets locally, and of this 60% (KWD 962mn, +6.0% yoy) was spent on recreation while 40% (KWD 616mn, +7.8%) was spent on business tourism in 2012.
- Money exchange regulations have been tightened in **Lebanon** to **strengthen AML practices**: according to the new central bank regulation only "Exchange institutions of Category A shall be the only institutions entitled to perform Hawala cash transfers" and "the value of an incoming or outgoing Hawala transaction must not exceed $20k or its equivalent in any other currency, provided the total amount of Hawala transactions in a single year does not exceed, at any time, tenfold the capital of the exchange institution".
- Total **capital inflows** into **Lebanon grew** by USD 70mn to USD 8.859bn – roughly 19% of GDP – during the Jan-July period, according to central bank data. Nearly 60% of the inflow originates from the GCC, where it is estimated that more than 400k Lebanese live and work.
- **Lebanon**'s **tourist numbers dipped by 10%** yoy during Jan-Aug, with the number of Arab tourists down almost 18.8% due to travel warnings issued by many regional economies. Visitors from Iraq topped the list during this period, accounting for 10.3% of total tourist arrivals, followed by France (9.7%), US (8.4%) and Jordan (6.2%). Tourists from UAE fell by 70.3%, followed by Saudi Arabia (down 49.4%), and Kuwait dipping 34.3%.
- **Oman ranked 62nd** among 129 countries as per the World Energy Council's 2013 **Energy Sustainability Report** – this was a 5-place improvement in ranking compared to the previous version. Oman was among the top 20 nations in terms of energy equity – that measures the accessibility and affordability of energy supply across the population and ranked 78th in terms of energy

security, registering an improvement of 19 places. .

- **Oman** issued **new rules for part-time work**, with the conditions – working hours should not exceed 4 hours per day; maximum wage should be OMR 3 per hour; only Omani nationals should be recruited on part-time basis; only job-seekers should be recruited on part-time basis and only those who completed 16 years of age can be employed only between 6 am and 6 pm.
- **Non-oil exports** from **Oman** to India jumped 48.1% yoy to OMR 611.6mn in 2012; India was the top destination for Omani non-oil exports surpassing the UAE and Saudi Arabia.
- **Qatar**'s Financial Stability Review showed that 33.1% of total credit to the private sector went to **real estate** in 2012, compared to a share of 33.5% in 2011. Qatar Central Bank's Real Estate Price Index grew 5.7% yoy by Dec '12 and the number of sale transactions grew 23%.
- A **Qatar** Central Bank report showed that outward **remittances** through 20 exchange houses totalled QAR 36.8bn in 2012. Exchange houses account for almost three-quarter of the total outward remittance with the local banks accounting for the rest.
- **Qatar** raised USD 3.1bn through **11 issuances of bonds and Sukuk** in H1 2013, according to a report from Markaz; total issuances in the GCC amounted to USD 24.1bn, up 13% yoy.
- Total assets of the **Qatar** Exchange listed **insurers** was QAR 15.9bn last year and the total gross premium earned by these five underwriters was QAR 3.92bn or roughly 0.6% of GDP.
- SAMA data reveal that **consumer loans** – which account for nearly 80% of **Saudi** local banks' retail loan portfolio – were up 22% yoy to SAR 321bn in Q2 (Q1: SAR 307.4bn). Almost one-fifth the loans were towards purchasing car and equipment (Q2: SAR 61.8bn) while loans for real estate stood at SAR 41.47bn or 13%.
- **Saudi Arabia topped the list of countries for laws that**

limit women's economic potential, according to a recent World Bank report. The report states that 28 nations make 10 or more legal distinctions between the rights of men and women, and half of these are in MENA, followed by 11 in sub-Saharan Africa. In some of the countries, the situation has worsened: Yemen and Egypt have removed bans on gender discrimination from their constitutions.

- An Oxford Economics survey on **Saudi**-based **SMEs** show that about 63% of the total surveyed have either completed, are undergoing, or are planning a business transformation to become more competitive while about 65% are planning to enter new geographic markets, which is almost double the global average of 37%.
- **Japan is Saudi Arabia's second largest trade partner** – with bilateral trade at USD 56.5bn in 2011. Oil forms bulk of Japan's imports from Saudi (95%) while cars and trucks (32%) and steel (13%) dominate Saudi's imports from Japan. In 2010, Japan was the third largest investor into Saudi, with 59 ongoing projects valued at USD 14.6bn.
- The proposal on **GCC**-wide **unification of prices of oil products** did not raise any objections at last week's meeting of the GCC petroleum/oil Ministers. A feasibility study on this proposal is expected to be finalized soon.

UAE Focus

- The **Abu Dhabi government approved AED 15.8bn for spending on infrastructure and social welfare projects**. Almost half the amount (AED 7.4bn) is allocated towards improving road links between Saudi, Abu Dhabi and Dubai while AED 4.3bn is towards building a hospital and the rest is set aside for developing the electricity grid and waste water treatment facilities in Abu Dhabi.
- **Dubai** is currently not in any talks with Abu Dhabi for refinancing its **USD 20bn debt** due for 2014, according to

Sheikh Ahmed. He also mentioned, in conversation with the press, that Dubai is financially able to host the Expo event in 2020, should the emirate win the bid.

- The **Dubai** Supreme Council of Energy has signed an **agreement** that mandates China Sonangol International Pte Ltd **to set up a crude oil refinery** in Dubai. The refinery is expected to ensure the sustained supply of refined end products for future energy consumption.
- **Dubai** will **double the registration fees on real estate transactions** from next month to curb speculative behaviour. The fee will increase to 4% from 2% currently and the additional 2% levy is expected to add almost USD 1bn annually to Dubai's coffers.
- **Mubadala** reported a total comprehensive income of AED 2.1bn in H1 2013, compared to AED 1.1bn during the same period a year ago, after improvements in the fair value of many financial investments and other assets.
- IEA data showed **UAE's oil output fell** to 2.72mn barrels per day (bpd) in Aug from July's 2.75mn bpd. UAE had averaged an output of 2.72mn bpd in Q2 2013 (Q1: 2.67mn bpd).
- The number of passengers through **Dubai Airport surged by 23.8%** yoy to nearly 6mn in August, due to the Ramadan and Eid travels combined with strong growth in almost all markets. Year-to-date, passengers have increased 16.4% to 43.97mn.
- **Dubai** is the **preferred destination** for 26.4% people in Southern **China** and 29.4% in Central and Western China, according to "The Chinese Luxury Traveller 2013" report. Dubai is ranked eighth among Chinese billionaires as a preferred destination with their luxury travellers spending on average almost EUR 875 per trip – outspending the Russians, Japanese, and Americans.