

Weekly Economic Commentary – October 6, 2013

Markets

Stock markets in advanced economies were scared at the **unpredictable consequences of the US government shutdown** and the more damaging looming confrontation on the government debt ceiling. The dive was in part attenuated towards the end of the week. Emerging markets on the other hand, remained resilient. **Regional** markets, except Kuwait made significant gains led by Qatar and Dubai. Due to the shutdown, market-relevant data from the US were not released so markets were driven mainly by political and company news. The **dollar** hovered near an eight-month low vs. a weighted basket of currencies and lost ground against most majors (except the GBP) on fears over the budget standoff. **Gold** inched down despite the potentially disruptive political tensions in US, a sign that its role as safe haven is waning. **Oil** prices on the other side remained broadly stable recouping some ground from last week.

Global Developments

Americas:

- The **US** House of Representatives resisted the pressure to compromise and the **shutdown** of non-essential government services was the inevitable outcome of the confrontation. It does not seem likely that it will be resolved anytime soon.
- **US manufacturing ISM** index **rose** from 55.7 to 56.2 in Sep, the highest since 2011. New orders were above 60 for the second consecutive month while the production index stabilized from 62.4 to 62.6. The employment index rose as well, pointing to an acceleration of GDP growth

in Q3.

- **US ISM non-manufacturing** index **fell** more than expected in Sep to 54.4 from 58.6 in Aug. Business activity fell 7.1 points to 55.1, the new orders index slipped 0.9 points to 59.6 and employment dropped 4.3 points to 52.7.
- **US trade deficit widened** to USD 39bn in Jul as exports fell 0.6% and imports rose 1.6%.
- **Initial jobless claims rose** by 1k to 308k in the week ended Sep 28, near a 6-year low, but this is likely to rise next week as the furloughed federal employees apply for unemployment benefits as the shutdown progresses.
- The **60-day delinquency rate for loans** within US commercial mortgage-backed securities **decreased** to 8.06% in Sep from 8.12% in Aug, the sixth consecutive monthly decline and lowest level since Jul 2010. The total outstanding balance of delinquent loans dropped USD 620mn to USD 41.9bn.

Europe:

- **Eurozone retail sales rose** 0.7% mom in Aug after growing 0.5% mom in Jul. **German retail sales rebounded** by a less-than-expected 0.5% mom after dipping -0.2% mom in Jul.
- **Unemployment in Germany** posted a surprise **increase** – up by 25k to 2.975mn in Sep, while in **Italy youth** unemployment reached a record high of 40.1% in Aug, up from July's 39.7%. While the **unemployment** rate in the **Eurozone** remained a **steady** 12% in Aug, there was a small decline in the number of persons unemployed: 19.178mn jobless in Aug compared with 19.193mn in Jul.
- **German manufacturing orders dropped** 2.7% mom in Jul, after gaining 5% in Jun. Foreign orders fell 4.5%.
- **Eurozone** consumer price **inflation slowed** to 1.1% yoy in Sep from 1.3% yoy in Aug. Core inflation – excluding food, energy, alcohol and tobacco – slowed to 1% yoy

from 1.1% yoy in Aug. Producer prices dropped 0.8% yoy in Aug, after a flat reading in Jul, heralding further inflation deceleration.

- **Russia's GDP grew miserably** by just 1.2% yoy in Q2, down from 1.6% in Q1, the fifth consecutive slow down, as fixed investment contracted on an annual basis and private consumption growth slowed.

Asia and Pacific:

- **China's HSBC PMI edged up** to 50.2 in Sep, from Aug's 50.1, and lower than the flash estimate of 51.2 as domestic demand remained subdued; the report stated that "new business from overseas increased for the first time in six months (albeit marginally), with panellists citing stronger demand from client bases in Europe and the US."
- **China's official services PMI hit a 6-month high** of 55.4 in Sep, from Aug's 53.9, supported by stronger demand. New orders rose to 53.4 in Sep from 50.9 in Aug, while input prices and services charges eased.
- **Abe** announced on October 1st that he would **raise the consumption tax** in April, from 5% to 8%. He also announced later a stimulus package – to be prepared for Dec, hoping to offset the tax rise including measures to boost capital investment by smaller companies, spending for the 2020 Olympics, payments to low-income earners and tax incentives for home purchases.
- Bank of **Japan's Tankan** showed a **strong reading** of +12 in Sep from +4 in Jun, setting a record high since Dec 2007.
- **Japanese industrial production weakened** in Aug, sliding -0.7% mom, and compares to the 3.4% gain in Jul; consumer spending meanwhile seems to be rising: retail sales rose 1.1% yoy in Aug and housing starts increased by 8.8% yoy, up for the 12th consecutive month.
- **Australian GDP increased** by 0.5% qoq and 2.6% yoy in Q2 pushed by investments.

- **India**'s current account deficit was USD 21.8bn or 4.9% of GDP in Q2, thanks to weak exports and higher gold imports in April-May. The **fiscal deficit**, at INR 4.05 trillion in the Apr-Aug period, 74.6% of the full fiscal year target is more **worrisome** given the run-up to national elections in May.
- **Industrial production** in **Korea** grew 1.8% mom in Aug – the fastest pace in 9 months – also rising 3.3% yoy, thanks to stronger exports in the tech and auto sectors. **CPI** fell to a 14-year low of 0.8% yoy in Aug, even below the BOK target range of 1.5%-3.5%.

Bottom line: The battle over the budget and Obamacare is intensifying. Those who had predicted a compromise after a few days of shutdown (as it was the case in 1995) were proved wrong. Treasury Secretary Lew is expected to be on up to five different Sunday morning talk shows and news programs. Most of Capitol Hill figures will be looking for any cameras or microphones in sight but the sense of urgency is not sinking in. Meanwhile macro data reserved few surprises with the exception of the HSBC PMI in China which stayed a whisker above the recession threshold.

Regional Developments

- **Transition** in **Egypt**: the Foreign Minister was quoted saying that the transitional phase should be done “by next spring” and claiming success “in establishing the principles of justice, freedom and democracy, as a basis for governance”. The Army chief also called for a quick process to organise elections, following another pro-Mursi rally at Tahrir Square – the first since July.
- **Iran's non-oil exports to Iraq**, comprising vehicles, merchandise and other goods, touched USD 2.9bn during H1 2013. Iran's overall non-oil trade hit USD 37.9bn in this period. Iraq is the second largest consumer of Iranian imports, a list topped by China at USD 3.1bn while UAE, Afghanistan and India follow at USD 1.8, 1.3

and 1.2bn respectively.

- Bank credit in **Kuwait grew** 5.9% yoy in Jul (Jun: 5.9% yoy) to KWD 27.9mn with household borrowing strong, close to the KWD 100mn monthly average so far. Money supply contracted for the second consecutive month, but advanced 10.6% in yoy terms.
- **FDI into Lebanon** is expected to **decline** by 21% in 2013, as per estimates from the head of Investment Development Authority of Lebanon. UNCTAD data show that FDI had increased by 8.3% yoy to USD 3.78bn in 2012.
- The World Bank projects that **Lebanon** will need to **create more than six times the 3400 jobs it is creating every year** to absorb the 23k persons expected to enter the labour market on average annually over the next 10 years; this excludes the recent influx of Syrian refugees.
- The Governor of the Central Bank of **Lebanon** stated that the Bank had **sold** close to USD 5bn worth of international bonds from its own portfolio to improve its foreign currency **liquidity**, with USD 1.1bn sold in Sep alone.
- **Interest rate on personal loans in Oman** was **reduced** to 6% from 7% previously, with the Central Bank's Board of Governors revealing that this was part of the periodic revision made by the bank. The decision was undertaken "to make the credit size and cost in the local market at appropriate rates which encourage saving, improve production, mobilise resources and ensure stability of price levels".
- **Oman's Muscat Airport** is expected to **handle 8.5mn** passengers by the end of 2013 against 7.5mn last year, according to its GM. The airport has received 5.7mn visitors till Sep and aims to attract 10-11% more visitors each year.
- A domestic issue of **government development bonds** worth OMR 100mn is being planned this quarter, while an international sovereign bond and an Islamic bond may be

issued next year, according to the Executive President of the Oman Central Bank.

- **Oman posted a budget surplus** of OMR 178.5mn at the end of Jul, and compares to the surplus of OMR 2.04bn registered during Jan-July last year. Total revenues touched OMR 8.23bn and spending, at OMR 6.38mn during this period, was lower than the previous year's OMR 6.7bn.
- **Fiscal surplus in Qatar** reached a **record high** USD 27.4bn or 14.2% of GDP in 2012-13, but higher investment activity in H1 2013 – proxied by the value of contracts up by 30% yoy – is likely to reduce surplus to almost 9.0% this fiscal year, estimates NBK.
- Qatar Holding **bought the NYSE Euronext's** 12% stake in the **Qatar Exchange** to become the sole owner. An official statement mentions that cooperation between the two “will continue in different fields including technology and expertise sharing”.
- **Qatar**, the third largest insurance market in the region, is the second fastest growing – having seen a compound annual growth of 17.9% over the last six years. In spite of this growth, it has one of the lowest insurance penetration in the region at 0.6% of GDP and an insurance density of USD 695.9 as of 2012, according to a Moody's report.
- **PMI in Saudi Arabia** reached a 6-month **high** of 58.7 in Sep (Aug: 57.5), with order book volumes and output levels growing at faster paces. Meanwhile, output prices rose for the first time since Jan.
- **Saudi Arabia** spends about SAR 220bn a year on **fuel subsidies**, stated a Shoura council member. An estimated 2.8mn barrels of petrol and gas a day were used during the summer season to desalinate water and to generate electricity while this drops to 2.0mn in the rest of the year.
- **Domestic tourism in Saudi Arabia** grew by 13% to 5.7mn trips during June-Aug 2013, with Makkah the top

destination – accounting for 39% of domestic tourists, according to a recent report by the Tourism Information and Research Center.

- **Korean** investors are conducting a feasibility study into the **local assembly of cars in Saudi Arabia**, it was revealed by Korea's consul general in Jeddah. Bilateral trade between the two economies is at SAR 183bn as of 2012 – an uptick of almost 40% yoy.
- **Qatar** tops the Middle East in the latest issue of the **Global Financial Centre Index**, with its rating up 11 points and rank up 6 places to 24. Dubai, still in the list of the ten centres likely to become more significant with 15 mentions, fell two ranks down to 25 with its rating lower by 4 points.
- A **World Bank report on remittances** showed that the GCC accounted for **48%** to total remittances to South Asia region and contributed 42% to the MENA region. India tops the list of global recipients with an estimated USD 71bn, followed by China at USD 60bn.
- **Sukuk** issuances are expected to **cross the USD 100bn mark** in 2013, reports S&P, despite the fact that global year-to-date issuance dipped 25% from last year to USD 77.4bn, as of Sep 22, 2013. The **Islamic banking sector** continues to outstrip conventional banking growth, with expectations that “the operating environment over the next two years [will] remain supportive for Islamic banks' credit quality”. Qatari Islamic banks are the fastest growing in the GCC followed by Saudi Arabia and UAE.
- The **GCC** is planning to set up a **common water grid**, involving large pipelines that will link all countries and supply them with desalinated water in case of shortages in their existing desalination plants. The project, to be done in 3 phases, is expected to cost USD 10.5bn with the initial phase costing around USD 2.5bn.

- The **UAE** central bank kicked off the first phase of the **Direct Debit System** on Oct 5, wherein an individual or corporate can submit a signed Direct Debit Authority to the service provider allowing automatic payments to the designated account. This will eventually facilitate payments towards services like electricity, water, credit card dues and insurance premiums also leading to lower reliance on payments via cheques.
- **UAE's PMI** touched a 29-month **high** of 56.6 in Sep, up from 54.5 in Aug, supported by accelerated rise in new export businesses and new business from abroad alongside record-fast pace of growth in order intakes.
- Though the portfolio of **infrastructure projects in the UAE** currently stands at **USD 690bn**, only 0.78% of all certified project managers in the world are based in the UAE, according to the CEO of the Emirates Nuclear Energy Corporation.
- **Dubai** has launched an ambitious **"Dubai Water Canal" project** that includes a shopping mall, four hotels and 450 restaurants and is expected to attract 20 million visitors annually. The construction of the infrastructure (bridges plus drilling of the canal course) is estimated at AED 2bn, to be completed by 2017.
- The **Dubai Land Department** revealed that total real estate transactions touched AED 5.1bn last Sunday as investors rushed to avoid the increase in transfer fees beginning tomorrow. The value of daily transactions was the highest in 52 years, with total land deals registered at AED 2bn while apartments and villas registered were worth AED 1.7bn.
- The Department of Economic Development (**DED**) in Dubai announced a **15% yoy increase** in number of licenses issued to 1148 – a sign of continued pick-up in activity, with the tourism sector witnessing a 29% rise in number of licenses, followed by professional services at 17%.

- **Adnoc** stated that a 75-year oil concession granted to a consortium of foreign partners (that currently includes BP, Total, ExxonMobil, Royal Dutch Shell and Portugal's Partex) in onshore areas will expire next year, but is unlikely to affect operations by the Abu Dhabi Company for Onshore Oil Operations (Adoc).
- Data from the Telecommunications Regulatory Authority showed that **UAE** has 14.9mn mobile users as of end-July, denoting a **high penetration ratio of 180%**. The number of internet users rose to 1.1mn and landline subscribers exceeded 2mn.

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