

Weekly Economic Commentary – October 13, 2013

Markets

Global markets took some respite this week after the nomination of the new Fed chairman signaled a continuation of stimulus and lawmakers appeared to be making headway toward raising the debt limit to avoid a US debt default. **Regional** counterparts recorded muted performance with the exception of Egypt which rose to the highest level since Feb. The **dollar** gained marginally while the **yen** lost ground, losing its appeal amid US political optimism, and the euro advanced. **Crude** fell for the fourth week, pressured by forecasts of rising production in North America, and **Gold** fell to a 3 month low.

Global Developments

Americas:

- **Initial jobless claims rose** 66k to the highest level in 6 months at 374k, which, according to the labour department, is largely a result of a computer-related backlog of claims and partial government shutdown.
- **Brazil raised** its benchmark **interest rate** by 50 bps to 9.5% – its fifth consecutive rate hike – amid high inflationary pressures.

Europe:

- The **European Central Bank** (ECB) and the **People's Bank of China** (PBoC) have agreed to establish a **bilateral currency swap** arrangement valid for three years, will have a maximum size of CNY 350bn when Yuan are provided to the ECB and of EUR45 billion when euro are provided to the PBoC. The Yuan is being increasingly internationalised.

- **German factory orders fell** by 0.3% mom (+3.1% yoy) in Aug after a revised 1.9% mom drop in Jul (+2.3% yoy).
- **German industrial production rebounded** in Aug, rising 1.4% mom after dipping -1.1% in Jul. Production in **France** rose 0.2% mom after slipping -0.6% mom in Jul, while in **Italy** output unexpectedly fell by -0.3% mom following a -1% decline in Jul and **Spain** reported a -2% mom decline in Aug (Jul: -1.2% mom), the largest in six months.

Asia and Pacific:

- **Japan core machinery orders** unexpectedly **surged** 5.4% mom in Aug after 3 months of declines.
- **China's** banks disbursed a more-than-expected 711.3 billion of **new Yuan loans** in Aug as against 699.9 bn yuan in Jul, and 14.1% higher yoy. The **M2 money supply increased** 14.7% yoy.
- **China's exports** unexpectedly **fell** in Sep dropping -0.3% yoy (Aug: 7.2% yoy). The official report attributed the slowdown to a high basis of comparison last year.
- **India industrial production** grew at a **slower pace** than expected in Aug, easing to 0.6% yoy from 2.8% yoy in Jul. Manufacturing output fell -0.1% yoy.

Bottom line: The **IMF revised down its forecasts for the global economy** in its new World Economic Outlook published for the Annual Meetings. The world will “settle into a subdued medium-term growth trajectory” unless leading economies enact structural reforms to improve prospects for recovery. Global expansion for 2013 and 2014 will be more sluggish than envisaged before due to weaker prospects in emerging economies. The IMF still ventured to predict a “modest acceleration of activity” next year led by advanced economies.

Regional Developments

- A **Bahraini** official revealed that plans were underway to

build a **second causeway connecting to Saudi Arabia**, which will serve as a railway link, parallel to the existing King Fahd Causeway.

- As **Egypt** continues to receive funding from the GCC, the **IMF** chief stated that it is willing to engage with the country and its donors to “stabilize the financial and economic situation of the country”, and even “**happy to have a partnership with the Gulf on the transition**”.
- The **US decided to withhold deliveries** of tanks, fighter aircraft, helicopters and missiles as well as USD 260mn in cash from **Egypt** given the slow progress in restoring democracy and human rights. However, aid was not fully cut off: funding towards education, health and private sector development still continues as does military support for counterterrorism, counter-proliferation and security in the Sinai Peninsula.
- **Taqqa**, the Abu Dhabi based energy company, is planning to **invest** about USD 300mn in the first phase of development of a new oil block in **Iraq**: after spending USD 600mn to acquire the assets, Taqqa “would invest in drilling three production wells and the construction of a central processing facility” in phase 1 of the development.
- **Jordan’s inflation rose** 6.1% yoy in Sep, up 0.7% from Aug, with higher prices recorded in transport services, fuel, meat and poultry products, vegetables and also due to increased rent.
- The **wastage in electricity consumed** in **Kuwait** amounts to a “financial” waste of KWD 3.2bn whereas the actual electricity fees amounts to only KWD 160mn. An MP who revealed these statistics also stated that currently, consumers pay 2fils per kilowatt of electricity compared to the actual cost of 38 fils and warned it could rise to about 50 fils in the future.
- **Lebanon** recorded the **highest-ever trade surplus with Syria**, given that imports from the war-torn nation has plummeted during the year. Demand for fuel led to rise in exports to USD 391.1bn during H1 2013, with the

exports of oil derivatives to Syria at nearly USD 294.2mn.

- **Morocco's King named a new government** with 39 ministers in the cabinet (including 6 women), from 30 previously, in a bid to satisfy the four parties in the coalition. Youth unemployment, reforms of the subsidisation fund and pension systems are key issues the government will need to tackle soon.
- **Inflation in Oman fell sharply** to 0.55% in Aug, from 1.5% recorded in July, as the price of food, beverages and tobacco sub-category dipped to 0.8% in Aug compared to July's 3.1%.
- **Oman's foreign assets** fell to OMR 6.3bn in June, after touching a record-high of OMR 6.6bn the previous month, according to the Central Bank; private sector deposits increased by 7.6% to OMR 9.4bn in June.
- **Oman Oil Company** has acquired 100% of the European firm OXEA, the world's largest supplier of **Oxo chemical products** – in its bid to become a vertically integrated global chemical leader. OXEA reported revenues of about EUR 1.5bn in 2012, with about 1,406 employees across Europe, Americas and Asia.
- With focus on human rights, **Qatar** has established a State sponsorship review committee to look into the **sponsorship and exit permit system** for possible review. Another key committee has been tasked with forming what could be a core group of Qatar's first trade union.
- **Non-oil exports in Saudi Arabia grew** by 6.3% yoy to SAR 51.5bn in Q2, while imports were up 11.2% to SAR 167.3bn, as per data from the Central Department of Statistics & Information. UAE, China and Singapore were the top importers, accounting for 14.7%, 13.1% and 6.2% of total value.
- **Moody's** reported that **Saudi banking system** would benefit from the expansionary fiscal policy and that the non-oil sector – which is a key beneficiary of loans extended – would grow by around 6% this year. It also expects that

“high profitability will continue to drive robust internal capital-generation and substantial loss-absorption capacity”.

- **Women in Saudi Arabia** – some positive news: the Saudi Credit and Savings Bank revealed that it extended credits worth SAR 54.3mn to fund 450 women’s projects during the past 20 months; four Saudi women were given the license to practise law, thereby changing their status from legal consultants to attorneys; it is important to note that no restrictions were placed on the field of law they could practise.
- There are **9.2mn expats in Saudi Arabia**, with about 86% of them earning less than SAR 2k a month, according to a study conducted by the International Al-Jazeera Academy.
- **HSBC estimates** that the **GDP** of the seven worst-hit **Arab turmoil countries** – Egypt, Tunisia, Libya, Syria, Jordan, Lebanon and Bahrain – would be **around 35% lower in 2014** or about USD 800bn in lost output than if the turmoil had not happened.
- **IPOs in the MENA region plunged** 45.3% yoy to USD 138mn in Q3, as per Ernst & Young. Q3 has been a slow period for issuances historically and offerings are expected to pick up though low liquidity levels continue to remain a challenge.
- The **Middle East will pump about 30mn barrels per day** (bpd) if prices remain at current levels; however, if the prices drop, the producers are likely to add 10mn bpd to their crude output by 2030 causing output to climb to 35.8mn bpd in 2030 and further to 44.4mn bpd by 2040, according to a recent **EIA report**.

UAE Focus

- **Abu Dhabi’s population was 2.33mn in mid-2012**, with Abu Dhabi region accounting for 60.9% of total at 1.42mn, followed by Al Ain and Al Gharbia regions at 0.63mn and 0.29mn respectively, according to data published in the

Yearbook of the Emirate of Abu Dhabi-2013. Of the total population in the Emirate, only 20.4% were Emiratis. The report also showed that share of oil and natural gas in Abu Dhabi's GDP decreased to 56.1% in 2012 (2011: 58.1%).

- The **UAE Foreign Aid 2012** report revealed that the country was the **16th largest foreign aid donor globally**, committing to AED 5.83bn in grants and loans across 137 countries. About 87% of the UAE's aid went towards development projects and 6.9% to humanitarian assistance while Asia was the top recipient of funds, with AED 3.24bn of the total disbursements.
- As the **property sector in Dubai** gains confidence, projects worth AED 25bn were launched ahead of the opening of Dubai Cityscape 2013. Most of it are high-end projects, to be located in prime areas and at a premium price.
- **Nakheel World** will repay the Saudi-owned property developer Al Falak AED 89.4mn (USD 24.3mn) and will in addition pay AED 5.7 mn in interest and will be charged daily interest at an annual rate of 2.72% until it has repaid all money owed, as per a settlement decision.
- Data from the Dubai Chamber of Commerce shows **Saudi Arabia to be the largest destination for exports from Dubai** during the period Jan-Aug 2013. Exports to the GCC touched AED 58.7bn, of which Saudi dominated with 54%, followed by Qatar and Kuwait at 16% and 12% respectively.