Weekly Economic Commentary – October 20, 2013

Markets

Global markets greeted the end of the confrontation in the US on fiscal issues with new **historical records** in the US and substantial gains in most other countries, including our region. Traders expect that the shutdown will induce the FED to further delay the QE tapering and therefore the liquidity tap will remain fully open to sustain the asset bubble. Even the riskiest fixed income securities such as in the periphery of Europe regained ground on these expectations. The **dollar** fell against major counterparts, the **euro** and the **yen** rose. Crude **oil** rose, supported by stronger Chinese growth, while **gold** fell amid a rally in risk assets.

Global Developments

Americas:

- The US Congress and the Obama administration reached a **compromise on fiscal policy**, which effectively postpones the decision by a few months. While the shutdown ended and a technical default was averted, in practice the **knots of US fiscal policy remain inextricable**. A comprehensive budget deal before the December 15 deadline is unlikely, as Democrats protect social spending and the Republicans refuse tax increases.
- The US **Fed's beige book** cited 'modest to moderate' growth in US economic activity over Sep-Oct, but highlighted subdued job growth and mounting business uncertainty in the midst of fiscal policy standoff.
- The **US NAHB housing market index** unexpectedly **fell** in Oct, slipping 2 points to 55 – the lowest level since Jun.

- US **initial jobless claims fell** 15k last week from a 6-month high of 373k, but remain elevated due to temporary IT related factors. The four-week moving average rose 11,750 to 336,500. Continuing claims fell 43k to 2.9 million, but the four-week moving average rose 17,750.

Europe:

- **Eurozone industrial production rebounded** by a more-than-expected 1% mom in Aug after dipping a revised -1% mom in Jul. Compared to a year ago production was 2.5% lower. Output in Germany grew 1.8% mom and production improved in the periphery – particularly Greece and Portugal.
- The **German ZEW investor sentiment** index unexpectedly **rose** in Oct to 52.8 from 49.6 in Sep. The economic expectations index rose to 59.1 from 58.6 while the current conditions index slipped to -60.9 from -59.7. The ZEW expectations measure for the euro zone rose to 59.1 in Oct from 58.6 in Sep.
- The **euro zone's consumer inflation slowed** to 1.1% yoy in Sep from 1.3% in Aug. Further drops are likely in the next few months.
- The **euro zone's trade surplus shrunk** to EUR 7.1bn in Aug, from a revised EUR 18bn in Jul. The trade surplus expanded from EUR 4.6bn in Aug 2012, as a result of weaker imports.
- **UK inflation rate rose** 0.4% mom but was unchanged at 2.7% yoy in Sep. Inflation is expected to wane due to a weak economic outlook. Retail sales rebounded in Sep, gaining 0.6% mom (2.2% yoy).
- **Russia's industrial output** growth **accelerated** to 0.3% y/y in September from the previous month.

Asia and Pacific:

- **Japan industrial production fell** a revised -0.9% mom in Aug, compared to an initial estimate of -0.7% mom.

- **China’s economic growth accelerated** in the Q3 after slowing for 3 consecutive quarters. Third quarter GDP rose 7.8% yoy (2.2% qoq) after slowing to 7.5% yoy (2.1% qoq) in Q2.
- **China’s CPI rose** slightly more than expected to 3.1% yoy in Sep, accelerating from 2.6% yoy in Aug as a result of a rise in food prices.
- **Foreign direct investment into China rose** 4.9% yoy in Sep to USD 8.8 bn (+0.6% in Aug) confirming a renewed interest by long term investors.
- **Industrial output in China rose** 10.2% yoy in Sep, slightly lower than a 10.4% yoy rise in Aug.
- **Singapore’s GDP grew** 5.1% yoy in Q3, faster than Q2’s 4.2% rise. The Monetary Authority of Singapore (MAS), which maintained its policy of a “modest and gradual appreciation of the SGD NEER policy band”, estimates growth between 2.5-3.5% this year and reiterated in that it “is unlikely to be significantly different in 2014″”.
- **India wholesale price inflation** continued to **rise** in Sep to 6.5% yoy as food prices jumped 18.4%. Inflationary pressures will be mitigated by bountiful crops after a good monsoon season, but import prices will be negatively affected by the devaluation of the rupee.

Bottom line: Due to the shutdown in the US macroeconomic data have not been released for two weeks, but elsewhere data support the view that stabilization is underway. Markets have quickly forgotten the woes triggered by the announcement of QE tapering and are ebullient, but the liquidity injections cannot continue indefinitely. Without more decisive measure to strengthen growth the outlook remains fragile.

Regional Developments

- **Saudi Arabia rejected the offer of a seat at the UN Security Council**, surprising many; it was one of the five elected to start a two-year term on the 15-member Security Council. A statement from the Foreign Ministry says "Work mechanisms and double-standards on the Security Council prevent it from carrying out its duties and assuming its responsibilities in keeping world peace" as the grounds for its refusal to accept the seat.

- **Lebanon**'s finance minister stated that the country **needed donations** and not loans to take care of its **Syrian refugees**. Further, the caretaker Minister of Economy and Trade revealed that talks with US and European officials regarding financial assistance to support the Syrian refugees in the country were positive, without specifying whether the donor states had pledged any specific amount of money to Lebanon. He had earlier stated that the caretaker government was not going to borrow from the market to meet the needs of the close to 1.3mn Syrian refugees.
- **Qatar** published a report on **preserving its marine ecosystem** in the long-term, with an aim to achieve "zero liquid discharge" of processed wastewater by end-2016. The report found that the total water discharge for the 16 reporting companies in Qatar was 110,733mn cubic metres at the end of 2012. One positive note is that nine companies also reported the amount of water they recycled, which totalled 7mn cu m in 2012.
- Standard Chartered reported **strong project spending** in **Qatar**, with projects valued at more than QAR 47bn awarded in H1 2013 (up 60% yoy), and another QAR 40bn expected in the second half. It is estimated that almost 85% of the projects in the pipeline are directed towards implementing and delivering on Qatar National Vision 2030 long-term targets rather than simply focusing on FIFA 2022.
- **Qatar**'s **real estate loan book** crossed QAR 80bn in H1 2013, and according to the CEO of Doha Bank, the contract financing sector loan book has reached QAR19bn during the same period, with the latter sector growing at a CAGR of 27% during 2005-2012.

- The **banking sector in Saudi Arabia continued to grow** in the past 10 years and has shown resilience during and following the global financial crisis. SAMA reported that total assets of commercial banks tripled from SAR 508bn to SAR 1,734bn during this period while private sector banking liabilities saw a near five-fold increase from SAR 206bn to SAR 999bn.
- **Trade surplus** in Saudi Arabia **jumped** 10% yoy to SAR 1005bn in 2012, as exports grew by 9% to SAR 1485bn of which the value of non-petroleum commodity exports reached SAR 183bn.
- The **GCC** is home to almost 50 **rail and transport projects** worth a total USD 140bn, according to MEED, and Saudi Arabia is the largest market (USD 50bn to be completed by 2025). Qatar is the second largest market in the GCC, with projects worth more than USD 30bn, to be completed by 2020, ahead of the World Cup 2022.

UAE Focus

- **UAE** ranks **14th globally in the International Human Rights Rank** Indicator report released by the Norway based human rights group Global Network for Rights and Development. UAE performed best in the education category with a 94% finish for ensuring top education for all children. Of the other nations in the region, Tunisia was the next best ranked 72 while Syria was at 201 (out of a total 216 countries).
- **Dubai Duty Free** reported a 12% year-to-date **increase** in sales to AED 4.65bn during Jan-Sep 2013, with sales in Terminal 3 and 1 accounting for 63% and 28% of the total turnover respectively. Arrival sales account for 10% of total and perfumes, liquor and gold were the top-selling products.
- **Dubai SME** saw a 50% **rise in membership** this year, according to its CEO. He also mentioned that more than 13k Emirati entrepreneurs were helped through various

services “ranging from incubation, subsidised start-up (fee waivers & reductions), funding, capability development, links to government procurement and business advisories to set up their businesses and developed them to the next level”.

- The Dubai Gold and Commodities Exchange (**DGCX**) reported 69% year to date **growth** in volumes to a total of 11.36mn contracts traded on the exchange till Q3 2013.

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