

# Weekly Economic Commentary – October 27, 2013

## Markets

**US equities rallied** for the third week amid stronger than expected Q3 results from key corporates, but the general market cheer could very well be fuelled by the view that easy money is likely here to stay a little longer. Over in **Asia** however, **markets took a tumble** following a mixed bag of corporate results and a spike in Chinese money-market rate reminiscent of that witnessed last June. **Regional stock markets were mixed**; Egypt, Morocco and Dubai gained while Qatar's gauge dipped to a 3-week low. The greenback fell against the euro for the second week, touching a 2-year low, and the yen recorded marginal gains. Crude **oil** recovered early week losses and **gold** rose near a month high on speculation of delayed stimulus tapering.

## Global Developments

### **US/Americas:**

- **US non-farm payrolls rose** by a less-than-expected 148k in Sep after adding an upwardly revised 193k in Aug. **Unemployment fell** to 7.2% from 7.3% in Aug.
- **Durable goods orders rose** 3.7% mom in Sep from Aug 0.2% rate thanks to nondefense aircraft orders, up 57.5%. Excluding transportation, new orders declined -0.1%. Core capital goods orders declined 1.1%, while their shipments fell -0.2%.
- **Sales of existing homes fell** from 5.39mn annualized units in Aug to 5.29mn in Sep. A pause was expected, but sales remain near a 6½-year high. Inventory stand at five months, signalling a tight market. The FHFA House price index increased 0.3% mom in Aug and is 8.5% yoy.

- **US construction spending** in Aug **increased** 0.6% mom and 7.1% higher yoy, continuing a moderate recovery led by private residential construction.
- The **US trade deficit increased** slightly to USD 38.8bn in Aug, from 38.6bn in July. Both exports and imports were stable at USD 189bn and USD 228bn, respectively.
- Markit's flash **US manufacturing PMI fell** to a one-year low of 51.1 in Oct from 52.8 in Sep. Output contracted for the first time in 4 years spiralling from 55.3 to 49.5 and growth in new orders slowed.
- **Initial jobless claims fell** 12k to 350k with the four-week moving average rising from 337,500 to 348,250. Continuing claims fell 8K to 2.874mn. The numbers however are distorted by the government shutdown.
- The Thomson Reuters/University of Michigan final **consumer sentiment index decreased** to 73.2 in Oct the weakest this year, from 77.5 in Sep.

## Europe:

- Markit's **Eurozone flash composite PMI unexpectedly slipped** to 51.5 in Oct from 52.2 last month. The region's service sector growth slowed as the Services PMI shed 1.3 points to 50.9. However manufacturing confidence in France improved in Oct to 98.2 from 96.6 in Sep.
- German **IFO business sentiment retracted** slightly in Oct to 107.4, from 107.7 in Sep. after five consecutive months of improvement. Current conditions index remained stable at 111.3 from 111.4 but below expectations of 111.6. Business expectations index fell to 103.6 from 104.2.
- **UK GDP in Q3 grew** 0.8% qoq and 1.5% yoy, up from 1.3% in Q2, in line forecasts. The output in the predominant services sector is now above its previous peak in 2008, but overall GDP remains 2.5% below the peak in Q1 2008.
- **Euro zone's M3** money supply growth **slowed** in Sep. to

2.1% yoy, from 2.3% in Aug, a sign of weak economic conditions ahead.

- **Italy industrial orders shrank** -6.8% yoy in Aug after falling 2.2% yoy in Jul. and consumer confidence dropped to 97.3 in Oct from more than a two-year high of 100.8 in Sep. Rising unemployment, a severe credit crunch and fiscal austerity affect negatively the mood.
- **Spain GDP expanded** 0.1% qoq in Q3, ending a 2-year recession, but GDP was down -1.2% yoy. An improvement in external demand and domestic consumption contributed to growth while investment was a drag. **Unemployment** improved somewhat in Q3, but remained at 26%.

### **Asia and Pacific:**

- The touted reflation in **Japanese inflation** has run out of steam. The CPI rose 0.7% in Sep, slightly lower than the 0.8% in August.
- **China extended its offshore Renminbi investment programme** – Renminbi Qualified Foreign Institutional Investor – to Singapore, with an aggregate quota of RMB 50bn or about USD 8bn. This move, which allows qualified Singapore-based institutional investors to use offshore Yuan deposits to buy Chinese stocks and bonds, will help move towards greater internationalization of the Yuan.
- **China took further steps to interest rate liberalisation** unveiling a new regime to allow banks to set a prime lending rate. Under the system, nine commercial banks will submit the lending rate they charge quality customers to the PBOC to create prime lending rate. However, deposit rates remain controlled.
- **South Korea GDP grew** 1.1% qoq and 3.3% yoy in Q3, a record for nearly two years, lifted by the manufacturing and construction sectors. Private consumption growth was 1.1% qoq the highest since Q3 2010.
- **Singapore's manufacturing output** surged 9.3% yoy in Sep after 4% in Aug. All sectors improved, led by

electronics.

**Bottom line: Signs of stabilization in global growth were corroborated** by Korea's, Spain and UK's GDP with Singapore industrial production and US housing market data providing additional comfort. However Europe's recovery remains fragile and Japan's Abenomics is running out of steam. Markets on the other hand are displaying an unshakable confidence of a strong 2014, helped by some positive Q3 profit results from key companies such as UPS. Notwithstanding the successive Wall Street records it is hard to dispel the idea that valuations are driven by excessive liquidity. In fact share prices climb as soon as investors receive signals that QE3 will last longer.

### **Regional Developments**

- Total loans in **Egyptian** banks excluding the central bank reached EGP 549bn by June, with loan to deposit ratio at 46.3% (Q1: 47%) while the deposits to asset ratio was at 76.2% (Q1: 75.1%). Non-performing loans declined by 0.5% to 9.5% in Q2 and the loan loss provisioning coverage ratio has risen to 98% from around 94% in June 2011.
- **Egypt**, whose central bank had received USD 2bn from **Kuwait** on Sep 26 as part of the pledged USD 4bn, will be permitted to repay the amount in five years' time as against the initially agreed one-year time frame.
- The **UAE pledged USD 4.9bn** in support to **Egypt** on Saturday, of which USD 4bn is in addition to the USD 2bn interest-free loan but includes USD 1bn cash grant paid in July. The new money is to guarantee fuel supplies and fund projects in health care, education, food, housing and transport.
- **Iraq's** Financial Parliamentary Committee announced the **2014 State budget** on the basis of oil price at USD 90 per barrel: it touched IQD 174.6 trillion (about USD 150bn), with IQD 38.9trn or 22% allocated towards energy while IQD 22 trillion was set aside for security and

defence and IQD 1.9trn for construction.

- The Ministry of Finance in **Jordan** revealed that the Ministry had received around JOD 2.98bn in **grants & loans** till Sep this year. The money – JOD 538mn in grants, about JOD 391mn in foreign loans and roughly JOD 2.05bn in local grants – was used to fund the government's central deficit which was at JOD 1.34bn.
- **IMF** statistics show the highest rate of **deposit bank accounts** in **Kuwait** among all GCC countries, with an average of 1,500 accounts for every 1,000 adult. This compares to 1,100 accounts in Oman, 938 in Saudi Arabia and 852 in the UAE for every 1,000 adults. Central Bank data also shows that savings were up 89% between 2008 and Aug 2013 and time deposits grew by 36.7% during this period.
- **Budget deficit** in **Lebanon ballooned** to LBP 3.952 trillion or 28.9% of spending in the Jan-Aug period compared to 18.48% of spending in the same period a year ago. Revenues continued to dip – declining by 2.11% to LBP 9.695 trillion – while the salary increase for government employees resulted in spending rising 12.33% to LBP 13.647 trillion.
- **Oman total credit grew** 7.6% to OMR 14.72bn in H1 2013 – credit to the private sector and public enterprises increased by 7.6% and 17.6% respectively – while total assets were up 10% to OMR 21.875bn.
- **Tourism** is expected to contribute about 8% to **Qatar's** GDP in addition to creating about 127k jobs or roughly 5.3% of total employment by 2030.
- The **Saudi** Industrial Development Fund approved 44 loans worth SAR 1.6bn in Q3 with overall **investments in projects** up 57% to SAR 3.3bn. The total loans for new projects stood at SAR 1.2bn (or 73% of the total value) while volume of investments in the new projects touched SAR 2.4bn.
- **Saudi Arabia banks** already meet **Basel III** requirements, according to the SAMA governor, and doubtful loans,

which account for less than 1.5% of the total loans, are 150% covered.

- In the GCC, as per the **Global Wealth Report 2013** published by Credit Suisse, Qatar recorded the highest average wealth per adult of USD 153,294 in mid-2013, up 2% from the same period last year while UAE was a close second with USD 126,791 (+4%) and Kuwait next at USD 119,101 (-0.3%). The average wealth per adult in Oman grew 2% from mid last year. However, in terms of total wealth, Saudi Arabia topped with an estimated USD 0.6 trillion, followed by UAE and Egypt with estimated USD 0.5 and 0.4 trillion respectively.
- The **GCC common water network** project, for which technical studies have been initiated, estimates population of 65mn by 2025 with daily per capita share of water at 21 litres. Total cost of building the network is estimated at USD 10.5bn, with USD 3bn for desalination plant construction and USD 7.5bn for pipelines, pumping stations and reservoirs.
- **IPO issuances in the GCC** are expected to rise, thanks to rising volumes, recovering valuations and increasing foreign institutional investments, according to respondents of Deloitte's Equity Capital Markets Confidence Survey.
- **Saudi Arabia** received support from the Gulf States and Egypt on its stand rejecting the UN Security Council seat.

### **UAE Focus**

- UAE **federal budget** recorded a **surplus** of AED 6.47bn in H1 2013, though a balanced budget was issued for the year, while revenues touched AED 31.82bn during H1.
- UAE **banks stand to gain from Dubai's property cooling measures**, including 2% rise in transaction fees and the planned caps for mortgage lending, according to a recent Fitch report. In general, asset quality is improving

while impaired loans slightly declined to 7.5% on average at end-H1 2013 for the largest nine UAE banks, reports Fitch, from 7.8% at end-2012, and largely consist of exposure to real estate and GRES.

- **Emirates** expect to have more than 250 aircraft serving some 70 million passengers across six continents by 2020, according to its President. It is already the largest operator of Airbus A380s and Boeing 777s, with an order book for 53 and 64 more of each aircraft type respectively.
- **Inflation in Abu Dhabi** was 1.8% in Sep, with alcoholic beverages and tobacco prices up 8.5% compared to a year ago, alongside 3.6% rise in transport costs and 3.8% rise in non-alcoholic beverages. Prices were up an average 1.4% in Q3 compared to Q2.
- **Dubai's inflation** reached 1.9% yoy in Sep, recording the fastest pace of increase since Dec 2009, with the housing and utility component rising 2.9% (the average price increase in this component till Aug was just 0.3%).
- Mobile **number portability** will be possible within the next 2 months according to the Telecoms Regulatory Authority; this move would enable greater competition between the two service providers.
- The World Economic Forum's **Global Gender Gap Report 2013** showed that the UAE was the best performing country in the region but managed only a low ranking of 109th out of 136 countries covered.