

# Weekly Economic Commentary – November 3, 2013

## Markets

Most **equity markets** ended the week on a **positive note** – the S&P 500 came off its record high while India's Sensex touched a record high, supported by an increased inflow of foreign capital – with earnings reports partially underway. In the **region**, most markets were down compared to a week ago, with the exception of UAE and Qatar. The **euro** fell to a two-week low against the dollar with rate cut speculation gaining traction while the dollar index saw a strong rally. **Gold** price fell about 1% – the biggest weekly loss in seven weeks and **oil** prices fell.

## Global Developments

### **US/Americas:**

- **ADP: the US private sector** added a less-than-expected 130k jobs in Oct, slowing from a downwardly revised 145k in Sep.
- The **ISM US manufacturing PMI inched up** to 56.4 in Oct from 56.2 in Sep, remaining in expansionary territory for the fifth month and the best since Apr 2011. New orders and export orders rose while employment dipped.
- **US consumer prices increased** 0.2% mom (1.2% yoy) in Sep, up from 0.1% mom (1.5% yoy) in Aug, led by a rebound in energy prices.
- **US industrial production grew** by a more than expected 0.6% mom in Sep after rising 0.4% in Aug. Manufacturing production rose 0.1% mom, down from 0.5% mom in Aug.
- **US retail sales fell** 0.1% mom in Sep, slowing from 0.2% mom in Aug, weighed by a 2.2% mom drop in auto sales. Retail sales excluding autos rose 0.4%.

- **US business inventories** were **up** 0.3% mom in Aug after rising 0.4% mom in Jul. Retail inventories excluding autos slowed to 0.3% mom after rising 0.8% mom.
- **The S&P Case-Shiller home price index** reported a 1.3% mom **rise**, slowing from 1.8% mom in Jul, but was 12.8% higher yoy (12.4% yoy). **Pending home sales** index **dropped** 5.6% mom in Sep to a reading of 101.6.
- **US initial jobless claims fell** by 10k to 340k last week, with the four-week moving average rising 8k to 356k.

## Europe:

- **German retail sales** unexpectedly **fell** by -0.4% mom in Sep after falling -0.2% mom in Aug, in spite of a robust labour market and rising real wages. Sales volumes were at their lowest level since Mar and year-to-date retail sales are up a disappointing 0.2% compared to the same period a year ago.
- **Eurozone economic sentiment** index **rose** to 97.8 in Oct from 96.9 in Sep while the business climate index improved to -0.01 from -0.19 – its highest level in more than a year.
- The **UK M4 money supply expanded** by 0.6% in Sep after rising 0.7% mom in Aug. On an annual basis, money supply grew 2.6% yoy following a rise of 2.1% yoy in Aug.

## Asia and Pacific:

- **China's manufacturing activity hit an 18-month high** in Oct, with the official PMI rising to 51.4 in Oct, from Sep's 51.1.
- The **HSBC manufacturing PMI**: in **India**, it **contracted** for the third month in Oct, remaining unchanged from 49.6 in Sep while in **China**, the final PMI index **rose** to a 7-month high of 50.9 in Oct (Sep: 50.2).
- **Japan industrial production** (IP) **rose** by a less than expected 1.5% mom in Sep after dipping -0.9% mom in Aug. In **Korea**, strikes at the top automakers' factories led

to the **IP shrinking** 2.1% mom in Sep (Aug: +1.6% mom).

- **Markit/JMMA Japan manufacturing PMI** surged 1.7 points to 54.2 in Oct, rising the most in more than a 3 years. The output sub-index rose to 57.7 from 53.8.
- The Reserve Bank of **India raised the repo rate** by another 25bps to 7.75% as inflation weighed in alongside sluggish growth. The central bank also rolled back measures introduced in July to stop the rupee slide.
- **South Korea** reported **record-high** monthly **exports** in Oct, up 7.3% yoy to USD 50.5bn, on increased demand for smartphones and automotive and posted a trade surplus of about USD 4.9bn.
- **Indonesia** unexpectedly reported a **trade deficit** of USD 657.2mn in Sep, following a small rare Aug surplus of USD 71.6mn, after exports dropped 6.9%, though a rebound in imports seems to suggest improvements in domestic demand. Inflation eased slightly to 8.3% yoy in Oct, from Sep's 8.4%.

**Bottom line:** The **US debt drama remains totally unsolved**, but doesn't seem to affect investor sentiment as equities seem to be hitting record highs. The only questions on the horizon concern central bank policies: when will the **Fed** begin scaling back its stimulus program? Will the **ECB** ease monetary policy at its upcoming meeting? In emerging Asia, the landscape is varied with manufacturing hubs China and Korea reporting strong data, while India struggles with inflation and rising rates.

### Regional Developments

- **FDI in Egypt** was **up** 51.5% yoy (or by USD 553.9mn) during Q4 of the financial year 2012-13 to USD 1.62bn (Q3: USD 1.06bn), from a low base, according to Central Bank data. **Investments from UAE**, at USD 226.7mn, was the largest that quarter from the Arab world, with Saudi Arabia second in the standings, with total investments of USD 62.2mn, followed by Bahrain and Kuwait – at USD

41.9mn and USD 13.7mn respectively.

- The **IMF** returned to **Egypt** last week, the first visit since last June, after the Finance Ministry requested support and technical assistance for a VAT system.
- In an effort to **reduce energy subsidies** in **Egypt**, which currently account for about 20% of total state expenditure, the government is planning to link about 800k households to its natural gas grid by next July.
- **Reduction in Egyptian gas supplies** over the last two months is costing **Jordan** an additional JOD 230mn. The Energy Minister revealed that this raised the projected total cost of the on-going disruptions of Jordan's primary energy resource to JOD 1.42bn.
- **Iraq's** National Development Fund has allocated USD 14bn to **oil projects**, stated the country's oil Minister.
- The UN Compensations Committee, on behalf of **Iraq**, **paid USD 1.2bn to the Kuwaiti government**, bringing total payment till date to USD 43.5bn, as part of compensations towards the 1990 Iraqi invasion. A further USD 8.9bn is still outstanding, to be paid in future.
- **Jordan** looks set to produce **atomic energy** in the next decade: it selected a Russian firm Rosatom to construct two 1,000-megawatt **nuclear power plants** east of Amman by 2022.
- Referring to **Kuwait's current "welfare state" as "unsustainable"**, the prime minister called for a "transformation" through reduced spending and oil consumption. It is possible that Kuwait may review its subsidies system after this statement, as suggested by the FM earlier.
- **Kuwait's** stock exchange will start **derivatives trading** – open for both local and international investors – during H1 2014, supported by the Nasdaq-backed trading system "X-stream", according to a senior official.
- **Lebanon's** caretaker FM stated that growth is likely to be flat in 2013, rising only by 1-1.5%, given the current political situation in both Syria and Lebanon.

He said Lebanon would need about USD 2.6bn in budget support over a 3-year period to help overcome the impact.

- The **IIF** revised down growth estimates for **Lebanon** to 0.7% this year, citing deteriorating domestic political situation and its adverse impact on tourism receipts and investment.
- **Oman** posted a **budget surplus** of OMR 234.5mn in Jan-Aug 2013 and compares to a OMR 2.6bn surplus during the same period a year ago. Revenues rose to OMR 9.3bn, of which oil alone contributed OMR 7.043bn, while expenditures surged to USD 7.239bn.
- **Oman** is expected to spend about **USD 50bn in investments**, according to the Under-Secretary, Ministry of Commerce and Industry. He stated, at a conference, that of this USD 20bn would be spent on transportation infrastructure, with another USD 17bn invested into oil and gas sector and the remaining USD 13bn in the manufacturing and industrial sector.
- **Oman's** Ministry of Manpower clarified that the **3% annual hike in private sector salaries** was mandatory only for Omani citizens.
- **Oman**, in an attempt to reorganise the domestic labour market, intends to **suspend visas for new foreign workers in the private sector** for six months starting from November, as per an official Omani news agency report; this "affects private sector workers mainly in cleaning and the construction sector" and excludes "first class" companies and those involved in consultancy activities and in government projects.
- **S&P Dow Jones** will **re-classify both Qatar and UAE** to Emerging from Frontier status, starting Sep 2014. MSCI had already announced their intention to reclassify both markets.
- **Qatar** Central Bank's **real estate index** for Q3 showed a **rise** in Sep to 178.6 points, after two prior months of declines. Peaks were touched in April and May 2013, with

183.9 and 190.4 points respectively, before dipping in June.

- The total value of **projects** that would be completed in **Saudi Arabia** during the 2013-2017 period stands at about USD 25.5bn, according to a recent Markaz report. The report revealed that USD 17.3bn was allocated for the Infrastructure and Transportation sector in the 2013 budget, of which USD 8bn would be used in development of 3,700 km of roads, up-grading of existing and construction of new ports and airports.
- With some **60% of its 20mn local citizens living in rented accommodation** in **Saudi Arabia** and with the supply of housing lagging demand, the housing sector provides immense opportunity for developers. The head of Dar Al Arkan Real Estate Development Co stated that while 1.25mn housing units were required between 2010-2014, this is likely to increase to 4mn units in the next 10 years, given the clear deficit.
- World Bank's **Doing Business 2014 report** revealed that **eight of the 20 MENA** economies implemented **at least one regulatory reform** that made it easier to do business: 14 reforms in total. Djibouti was among the top 10 nations globally to see improvement this year while during the period 2005-13, Egypt implemented the most number of reforms in the region (23 reforms), followed by Saudi Arabia and Morocco (19 and 18 respectively).
- The global **Takaful industry** grew 16% yoy in 2012, reported Ernst and Young, moderating from a 22% compounded annual growth rate (CAGR) over 2007-2011. The report went on to reveal that the market remains underutilised and states that apart from Saudi Arabia and Malaysia, "most other takaful markets and smaller Takaful operators appear to be struggling", with financial performance and managing key strategic issues the main challenges for takaful operators.
- The **GCC** nations are likely to invest about USD 155bn for the **construction of energy generating plants** from non-

traditional sources, notably solar energy, though funding challenges remain for the private sector, according to a report from Crescent Petroleum.

### **UAE Focus**

- The **UAE** Central Bank set **new limits on mortgage exposures**: based on the loan-to-value (LTV) ratio, the new regulations state that for properties valued at AED 5mn and below, the loan eligibility will be a maximum of 80% for citizens and 75% for expats. Where the property value exceeds AED 5mn, bank financing is not to exceed 70% of the value of the property for citizens and 65% for expats. For a second house or investment property, locals (expatriates) will be eligible only for mortgage up to a maximum of 65% (60%) of the property value.
- The **UAE** cabinet approved a AED 140bn **federal budget** for 2014-16, up 15% from the previous 3-year period. The 2014 budget, at AED 46.2bn, focuses on social development (51%, AED 23.5bn), governmental affairs (40%, AED 18.5%), and infrastructure and economic sector development (AED 3.3bn). Social development also includes allocation of 21% of the budget set aside for public and higher education.
- **UAE climbed three ranks** to 23 in the latest edition of World Bank's **Ease of Doing Business** report, and ranked 4th globally in the trading across borders sub-category. UAE tops in MENA in starting a business, getting electricity, registering property, paying taxes and trading across borders.
- The **IIF** revised up **UAE's GDP growth** in 2013 to 4.7% from its previous 3.9% estimate. Non-oil real GDP growth is expected to accelerate to 4.6% this year, thanks to higher government capital expenditure in Abu Dhabi and continued robust growth in trade, tourism and transportation.
- **Dubai grew by 4.7% yoy in Q2**, according to a recent



Dubai Economic Council report, with strong performance from the real estate, wholesale and retail, transportation and manufacturing sectors. The tourism sector remained robust, with about 5mn tourists visiting Dubai in H1 2013 while India, China and USA were most important trade partners.

- UAE **telecoms network sharing** is yet to reach an agreement, four years into discussions, according to du's CEO. He revealed that while technical issues to allow network sharing were already fixed, the delays in implementation were due to the associated financial terms. Du had 6.9mn subscribers as of Sep 30 and of these, 9.1% were on post-paid contracts.
- The Central Banks of **Malaysia and UAE** are working on an **investment fund passport** that would enable sales of funds from one country into the other, according to Malaysia's central bank governor. The two countries together are home to over 270 Islamic funds, representing close to a third of the entire Islamic funds sector globally.
- **Dubai DED** issued 4,459 **new licenses in Q3**, up 20% compared to a year ago – in line with rising business confidence – and with the tourism sector reporting a 42% increase in the number of licenses.
- **Passenger traffic at Dubai airport** witnessed further **growth** in Sep, increasing 13.1% yoy to 5.4 million. Year-to-date passenger traffic grew 16% yoy to 49.4mn compared to 42.6mn passengers in Jan-Sep 2012.
- **Abu Dhabi hotel** guest numbers grew 14% to 1,981,732 guests and revenues were up 18% to AED 3.7bn during Jan-Sep 2013, as per Abu Dhabi Tourism and Culture Authority data. India was largest international source market for hotel guests, followed by the UK and Germany.