

# Weekly Economic Commentary – November 10, 2013

## Markets

Most **equity markets** took a pause after the successive record heights reached in previous weeks. Only the Dow Jones held up, while the MSCI for emerging markets dropped -3.2%. **Regional** markets (excluding Dubai and Morocco) were the exception in this respect with robust gains across the board. **Oil** prices were weak extending a gentle downward trend and **gold** has lost ground once again. The **dollar** has strengthened against major currencies after the ECB's rate cut.

## Global Developments

### **US/Americas:**

- **US GDP grew** at 2.8% yoy ann. in Q3 vs 2.5% in Q2. Although the figure was above expectations a disaggregated reading portrayed a much more somber situation.
- **US private non-farm payroll** unexpectedly **rose** to 212k in Oct from an upwardly revised 150k in Sep. Manufacturing jobs rose 19k and construction jobs rose 11k while federal employment fell by -12k, hence with the private sector adding 212,000.
- **US ISM non-manufacturing PMI** unexpectedly **rose** to 55.4 in Oct to 54.4 in Sep. New orders fell 2.8 points to 56.8 and employment rose 3.5 points to 56.2.
- **Orders for manufactured goods** in the US **increased** 1.7% mom in Sep after a -0.1% drop in Aug, in line with expectations.
- **US Personal income growth** was **buoyant** in Sep at 0.5% mom in line with the upwardly revised Aug figure and above the 0.3% annual average. Wage income gains rose 0.4%

after 0.5% in Aug. The boost came from proprietors' and rental income.

- Growth in **US nominal consumer spending fell** to 0.2% in September from 0.3% in Aug; nondurables led growth while durables sales fell. As a result the savings rate increased to 4.9%. Real spending grew by 0.1% mom.
- **US Conference Board's leading indicator index rose** by a more-than-expected 0.7% mom in Sep after rising the same in Aug. and the University of Michigan Consumer Confidence fell -1.2 points to 72. Respondent mentioned dim current economic conditions in Nov.
- **US initial jobless claims fell** by a less than expected 9k to 336k. The four-week moving average fell to 348.25k from 357.5k last week. But the unemployment rate rose for the first time in 3 months, to 7.3% from 7.2% in Sep.
- **Brazil's services PMI rebounded** to an eight-month high of 52.1 in Oct from 50.7 the month before. New business expanded at the fastest pace since the beginning of the year and business expectations rose to their highest level since April 2012.

## Europe:

- **The ECB cut its main rate by 25 bps** to a record low of 0.25% in an attempt to bolster the bloc's economic recovery and counter disinflationary pressures. Draghi tried to inflate confidence by asserting that "political, economic, financial uncertainties in the Eurozone are decreasing significantly".
- **Eurozone manufacturing PMI improved** to 51.3 in Oct, a touch above the 51.1 in Sep. **France's** PMI fell further below the 50-mark from 49.8 in Sep to 49.1 in Oct and **Italy's** index slowed from 50.8 in Sep to 50.7 in Oct. The **services PMI slipped** to 51.6 in Oct from 52.2 in Sep.
- **Eurozone's Retail Sales dropped** -0.6% mom in Sep after a

rise in Aug of 0.5%.

- **German manufacturing orders jumped** 3.3% mom and 7.9% yoy in Sep, following a 0.3% mom drop in Aug. In year-earlier terms, factory orders increased 7.9% after rising 3.1% in Aug.
- **German Industrial production** fell -0.9% mom s.a. in Sep after rising 1.6% mom in Aug; manufacturing output fell -1.1% mom. **Industrial production in France** decreased -0.5% mom sa in Sep following a -0.6% decrease in Aug due to dismal auto production and manufacturing.
- **UK industrial production rebounded** in Sep gaining 0.9% mom and 2.2% yoy. Manufacturing growth was even stronger at 1.2% mom and 0.8% yoy.
- **UK service PMI reached 62.5** in Oct from 60.3 in Sep, its record level since May 1997.

### **Asia and Pacific:**

- **China's** Markit/HSBC **services PMI crawled up** from 52.4 in Sep to 52.6 in Oct, thanks to growth in payrolls and surging optimism but contradicts the government PMI report that showed slowing growth in new orders.
- **China's exports rebounded** in Oct, rising 5.6% yoy after slipping -0.3% yoy in Sep. Imports rose 7.6% mom, accelerating from 7.4% yoy in Sep.
- **China's CPI rose** 0.1% mom in Oct after rising 0.8% mom in Sep. On an annual basis, the CPI accelerated to 3.2% from 3.1% in Sep.
- **Chinese industrial production** unexpectedly **increased** in Oct, gaining 10.3% mom after rising 10.2% in Sep.
- **Indonesia's GDP in Q3 surged** 3% qoq or 5.6% yoy, beating expectations although the yoy pace was somewhat slower than in Q2 and the slowest in four years.
- **Taiwan's inflation declined** from **0.83% in Q2 to 0.64%** in Q3.

**Bottom line:** The **US debt drama remains unsolved but the economy seems to be resilient despite a dysfunctional**

**political atmosphere.** The ECB surprising rate cut is another confirmation that in the Old Continent the recovery remains elusive and data this week do very little to change that perception. On the other hand **Chinese data continue to corroborate elements of stabilization.**

### Regional Developments

- **Bahrain's strong net international investment position**, at around 83% of GDP in 2012, strengthens its economy, according to Moody's. The country benefitted from the USD 10bn GCC aid package post-2011 protests and the more recent agreements worth USD 1.3bn and USD 448mn signed with Kuwait and Saudi Arabia respectively.
- The national carrier of **Bahrain, Gulf Air**, may be forced to return the BHD 185mn **bailout** package, according to a local news report which highlighted that the Bahraini parliament urged members to veto a royal decree that handed Gulf Air the bailout in Oct 2012.
- With the **Iran-Iraq gas pipeline**, Iran (Tehran) will be able to export natural gas to Iraq (Baghdad) by March 2014 – it will have the capacity to export 8-10mn cubic of gas per day to Iraq, according to the MD of Iranian Gas Engineering and Development Company.
- **Iraq's oil exports increased** to 69.84mn barrels in Oct, from 62.1mn barrels a month before; revenues were hence up to USD 7.17bn in Oct from Sep's USD 6.51bn.
- **Sinochem** Corp, when it starts its first wholly-owned refinery next year, will use **Iraqi crude** for 40% of the capacity of the new refinery, replacing a preliminary agreement to use more expensive oil from **Kuwait**. While Sinochem is likely to buy some crude from Kuwait, it being more expensive than Iraqi oil and non-tradeable, tipped the choice in favour of Iraq.
- **Bilateral trade between US and Iraq** was at USD 21.3bn, with oil exports to the US at USD 19.3bn, as per Iraq's foreign minister.

- **Growing Public debt in Jordan:** expected to touch JOD 20bn by end-2013, an increase of almost 20% from the 2012 year-end number of JOD 16.6bn. This would bring the ratio of public debt to GDP to a high 80% from July's 73.5% when the debt was JOD 17.6bn.
- **Jordan's** Planning Minister revealed that "**accommodating 1.1mn Syrians** requires a budget allocation of USD 389.2mn annually to provide subsidised items and services". According to a UN provisional overview of the funding gaps, it was estimated that Jordan required USD 2.1bn this year and USD 3.2bn next year to mitigate the impact of the Syrian crisis.
- **Japan** granted **Jordan** USD 10.2mn to support **relief efforts**, as part of the emergency aid grant of USD 60mn, and it will be used towards "purchase of equipment needed to improve water supply, wastewater management and solid waste management in the targeted governorates".
- **S&P lowered** its long-term counterparty credit **ratings on three Lebanese banks in line with rating of the sovereign** – Bank Audi, BankMed and Blom Bank – to 'B-' from 'B', with outlook on all three negative. S&P affirmed Lebanon's short-term ratings at "B".
- **Natural gas consumption in Oman increased** by 5.7% yoy to 29,534mn m3 in Jan-Sep, as per data from the National Center for Statistics and Information. Consumption has been aided by on-going enhanced oil recovery projects and rising demand from large industrial projects.
- **Oman's** biggest **Independent Power Project**, expected to have an electricity generation capacity of 3k megawatts, is estimated to cost about USD 2.4bn, according to an official from the Oman Power and Water Procurement Company.
- **Strong oil and gas exports revenue in Oman** touched OMR 6.2bn in Jan-May 2013, with oil demand from China remaining strong (China accounts for 50-60% of total exports through 2013). Revenue from non-oil exports

amounted to OMR 1.6bn in the same period.

- **Oman** posted a **state budget surplus** of OMR 339.9mn in Jan-Sep, with revenue dipping by 4.2% yoy to OMR 10.48bn while total public expenditure marginally increased by 0.9%.
- **Sep inflation** remained flat at 0.5% in **Oman**, though prices in the food, beverages and tobacco category rose 1.5%, up from Aug's 0.8%.
- Total **property transactions** worth OMR 1.5bn was registered in **Oman** during the Jan-Sep period, up 2% yoy, according to the Secretary of the Land Registry at the Ministry of Housing. Total fees collected during the same period were up 17% to OMR 22.4mn.
- **Qatar Holding** put in USD 200mn into **BlackBerry's** USD 1bn convertible debt offering, "because of the size of the coupon offered", according to a source familiar with the financing plan; BlackBerry's largest shareholder Fairfax Financial Holdings put in USD 250mn.
- **International reserves** in **Qatar** touched USD 39.3bn in Sep, up almost 18.7% ytd, from end-2012 when it was at USD 33.1bn.
- New **spending guidelines** in **Qatar**, contained in a circular from the ministry sent out in late Oct, dictate that State Owned Enterprises must now seek approval from the Ministry of Finance before undertaking any borrowing activity. Only Qatar Petroleum and its subsidiaries are exempted from this order.
- **Saudi Arabia's** Oct **PMI declined** to 56.7 from 58.7 in Sep, in spite of new export orders rising at the fastest pace in the survey's history as cost burdens increased and rate of job creation and order intakes registered a slower pace.
- The **property loan portfolio** at **Saudi** banks grew by 178.5% in a five-year period to reach SAR 41.5bn in Q2 2013 compared to SAR 14.9bn in 2008, as per the secretary general of Media and Banking Awareness Committee of Saudi Banks. He also stated that 40% of

Saudi citizens could not obtain real estate loans from Saudi banks due to their low incomes.

- About 134,281 **Indians left Saudi Arabia** during the seven months of grace period till Oct, according to an Indian embassy official, with almost 2.8mn Indians registered in the country.
- **Saudi Arabia** ranked 10th globally and first in the Arab world in terms of the lowest **poverty rate**, according to a recent World Bank poverty report.
- **Saudi Arabia's** oil exports of 2.2bn barrels during Jan-Oct 2013 raked in revenues of almost SAR 898bn, while domestic consumption during the same period was nearly 730mn barrels, or 25% of the total output.
- **GCC debt issuance was weak** in Q3 2013, with only USD 3.5bn added during the quarter. Issuance totalled USD 38.8bn during the first nine months while the stock of outstanding GCC bonds reached USD 243.5bn, according to a report from NBK.
- **Intra-regional trade in the MENA** region has the potential to double to USD 300bn by 2020, according to a senior HSBC official.
- **GCC imports of fresh produce**, at USD 2.2bn, accounts for 54% of the total imports of the Middle East. UAE tops the list importing USD 1.145bn or 52% of GCC's total fresh produce import, followed by Saudi Arabia and Kuwait with USD 825mn and USD164mn respectively.

### **UAE Focus**

- **UAE's Oct PMI dipped** slightly to 56.3 from Sep's 56.6, though the underlying data remained strong with new order intakes rising sharply and new export orders increasing at a record quick pace to 58.9.
- **Dubai's GDP grew** by 4.9% yoy in H1 2013, thanks to strong trade and tourism, according to the Dubai Statistics Centre. The hotels and restaurants sector witnessed a growth of 13.7% while manufacturing was up

13.3% amidst 4.4% growth in the wholesale and retail trade sector, real estate at 3.3% and the financial sector at 2.7% during H1.

- Banks over the limit for **exposure to the debt of state-linked entities** will have to cut their excess lending by 20% every year until they reach the limit, according to the Central Bank governor. A grace period of 5 years is expected for the banks to comply with this rule.
- Interest rates on **personal loans** are likely to gradually decline, following the issuance of the **mortgage credit law**, the UAE central bank governor revealed. He also stated that a liquidity law would be issued in less than a month and a law on banks' exposure would be enforced within a week.
- **Dubai attracted 7.94 million visitors** between Jan-Sep 2013, an increase of almost 9.8% yoy. With more than 1mn guests, Saudi Arabia topped the list of visitors, followed by India (630k), Britain (535k), US (357k) and Russia (264k). Hotel room occupancy averaged 78.6% in this period, with total hotel revenues up 17.1% yoy to AED 15.33bn.
- In a bid to attract **UAE nationals** to work in the **private sector** and with the aim of reducing the public-private sector wage gap, the Emirates National Development Programme has announced that starting 2014, the **minimum monthly salary** of Emiratis working in the private sector through ENDP will be AED 7,500.
- The IDB revealed its plans to list a USD 10bn **Sukuk** at **Nasdaq Dubai**, also stating that regulatory approval was being sought. Meanwhile, with Emirates Islamic Bank listing its two Sukuk on Nasdaq Dubai, the total value of Sukuk listed on Dubai's exchanges touched USD 12.08bn – the third largest globally.