

# Weekly Economic Commentary – November 17, 2013

## Markets

Markets were mixed last week with the Dow reaching another record in mid-week and then retreating. The star performer was the Japanese Topix boosted by the data on GDP. Other markets had decent performances, with the exception of our region, where the UAE and Egypt recorded sizeable losses. The dollar weakened across the board due to lackluster macro data. Oil prices were perkily lifted by a general positive feeling on global recovery and gold regained some lost ground in directionless trade.

## Global Developments

### **US/Americas:**

- **US industrial output unexpectedly fell** -0.1% mom in Oct after rising 0.7% mom in Sep. Manufacturing output rose for the 3rd consecutive month, growing 0.3% mom in Oct following a 0.1% gain in Sep.
- **US trade deficit widened** more than expected in Sep to US\$ 41.8bn, up 8% mom; Exports fell for the 3rd month slipping 0.2% mom while imports rose 1.2% mom – the highest since level in 10 months.
- **US Initial jobless claims fell** by a less than expected 2k to 339k last week. The four-week moving average dropped 5.75k to 344k.
- **Mexico's Industrial production dropped** -1.2% mom in Sep, and -1.6% yoy hit by a plunge in construction.

### **Europe:**

- **Euro area GDP grew by a mere 0.1% qoq** in Q3, below already pessimistic expectations, which translates in

0.4% yoy. The result was due to a sharp slowdown in German growth to 0.3% qoq from its 0.7% qoq, and actual output declines in France and Italy (both -0.1% qoq).

- **Eurozone industrial production dropped** -0.5% mom in Sep after a 1% rise in Aug. The biggest drop took place in Portugal with a -11.2% mom.
- The **OECD** issued a report on **France** containing stark criticism: “many European countries have accelerated the adoption and implementation of essential reforms. This adjustment has not happened in France”. High minimum wages (80% above the OECD average), high cost of public services (27.4% of GDP), tax burden on employment (50% of wage costs) and overlapping central and local government (36,700 municipalities).
- **German consumer price growth decelerated** again in October, with the national measure of CPI rising just 1.2% y/y, down from a 1.4% increase previously. The Eurozone’s inflation fell abruptly to 0.7% yoy in Oct from 1.1% in Sep.
- **Italian industrial production rose** 0.2% mom in Sep, following a revised -0.2% contraction in Aug.
- **UK inflation dropped** sharply in Oct, just 0.1% mom i.e. 2.2% yoy from 2.7% in Sep. Lower energy prices were the main factor.

## **Asia and Pacific:**

- **Japan’s economy** expanded 0.5% qoq in Q3 (1.9% yoy), vs 0.9% qoq in Q2, as consumer spending shrank and exports weakened.
- **Consumer confidence in Japan** sunk to its lowest since Shinzo Abe became prime minister last Dec, from 45.4 in Sep to 41.2 in Oct.
- **Core machinery orders in Japan** dived 2.1% mom in Sep, i.e. -11.4% yoy.
- **The Chinese Communist Party** decided on a wide ranging set of policy issues stressing that the role of markets

will be greatly enhanced. The 30 year old **1-child policy** will be eased to start addressing the impending decline of the labour force & ageing population.

- **Chinese banks** extended a less than expected 506.1 bn of **new Yuan loans** in Oct and lower than the 787 billion extended in Sep. The M2 measure of money supply grew 14.3% yoy in Oct, up from 14.2% yoy in Sep.
- **Hong Kong GDP grew** 0.5% qoq in Q3, after 0.7% in Q2. Compared to a year-ago, the economy expanded 2.9% in Q3, down from 3.1% in H1. Foreign trade was the largest driver of growth.
- **Malaysia's GDP grew** 5% yoy in Q3, accelerating from 4.2% y/y in H1. Construction was rather strong as the government supports infrastructure investment and private consumption recording a solid performance.
- **Australia's housing market** is on a run, with Sep home loans increasing 4.4% mom.
- **Bank Indonesia** unexpectedly raised rates by 25bp to 7.5% to support the currency and tame inflation.
- **India industrial production increased** 2% yoy in Sep following a 0.6% yoy uptick in Aug. Manufacturing grew a meager 0.6% yoy while electricity surged 12.9% yoy.

**Bottom line:** The slow motion recovery is underlined by the OECD composite leading indicator that inched up to 100.7 in Sep from 100.6 in Aug. Europe has once again taken center stage after key policies are being put on hold in the US, with Germany still opposing European Commission's plan for a single bank resolution system and central fund to help the regions' weak banks. The Q3 GDP data were again disappointing. Even after three and a half years of overt euro crisis, Europe remains beset by distortions in competitiveness, indebtedness and messy economic conditions. Distortions of this sort are unsustainable. They can be cured only by structural reforms, sustained growth, adjustments in foreign exchange rates or a debt write-down. Since, under current conditions, the second solution is precluded, if structural reforms do not take

center stage, substantial debt restructuring next year is increasingly likely. In Asia, at the end of China's four-day conclave of its 205-member Central Committee, it was revealed that markets would play a "decisive" role in its reform push to be outlined in the coming weeks. In smaller economies, the pick-up is accelerating alleviating fears of emerging markets woes.

## Regional Developments

- **Egyptian** Interior Minister indicated that the **curfew and state of emergency** imposed three months ago **expired** last Thursday as scheduled. Security forces are deployed across the country to tighten control and security.
- The governor of the **Central Bank of Egypt** revealed that USD 500mn, part of the short-term loan which was deposited late last year, will be returned to **Qatar** on Dec 3, following another USD 500mn that was deposited back in early Nov.
- Urban consumer **inflation in Egypt rose to 10.4%** yoy in Oct, up from 10.1% a month earlier, thanks to increased spending on food and transport. Core inflation remained unchanged from a month ago at 11.15%.
- Osama Saleh, Minister of Investment, announced that **Egypt** is finalizing an international **tender for development of Suez Canal** by end of November 2013.
- **Egypt** is planning to build a **new Airport city** surrounding the Cairo airport, including a new free trade zone, with an area of upto 10mn sqm and costing roughly EGP 100bn. About 100k jobs will be created with completion expected in seven years, according to the country's civil aviation Minister.
- **Jordan's** proposed **2014 budget increases state spending** by 12.8% to JOD 8.1mn, with around half of the budget's capital investments relying on withdrawals from the **GCC's** USD 5bn fund set up in Dec 2011 to finance infrastructure projects.

- Diplomatic sources reveal that **Jordan** is **likely to replace Saudi Arabia's vacated UN Security Council seat** after new elections. This would still need the approval by two-thirds of the General Assembly.
- **IMF warned Jordan** from reducing policy rates further unless core inflation is clearly slowing down. Jordan had already implemented two rate cuts – in Aug and Oct – this year, citing higher foreign reserves and weaker inflationary pressures.
- The **Central Bank of Kuwait** is studying the possibility of imposing **taxes** on money **transfers** from expats, in coordination with the local banks, according to the *Al-Anba* daily.
- **Lebanon's** central bank governor revealed a **USD 800mn incentive package** for 2014 (1.8% of GDP) to support the real estate and technology sectors; the package will also enable commercial banks to offer housing loans with very low interest rates.
- Passenger numbers at **Beirut airport increased** by 6% yoy to 5.35mn this year till Oct, with monthly Oct passengers up 11% to 524.7k persons.
- **Oman's public wage bill could rise** to almost OMR 900mn next year, given the royal order on standardisation of salaries and grades across the public sector, according to the Minister of Finance.
- **Passenger traffic** through **Muscat** International Airport **increased** 10% yoy to 6,224,480 persons at the end of Sep 2013.
- The Ministry of Manpower statistics reveal that about 20,034 **Omanis** quit their **private sector jobs**, in spite of the recent wage hike and government directive for a 3% increase in annual increment, while 8,798 were laid off in the sector during the period up to Aug.
- Among regional players Saudi Arabia, UAE and **Qatar**, the latter's **Islamic banking sector** will be the fastest growing – expected to touch USD 100bn by 2017, according to a Euromoney report citing S&P, which also stated that

Islamic banks' market share in domestic credit increased from 13% in 2006, to 25% at the end of 2012.

- **Non-oil exports in Saudi Arabia increased** 4.1% yoy to SAR 17.5bn in Sep, with China (14.2%), UAE (10.5%) and Singapore (6.96%) the top non-oil export destinations while imports were down by 5% to SAR 48.5bn.
- The **cost of living index** in **Saudi Arabia increased** 1.1% yoy in Oct, with prices of beverages and cigarettes and foodstuffs and livestock the two major drivers of prices, registering increases of 6.6% and 4.2% respectively.
- **Bank provisions** allocated by **Saudi Arabia's** 11 listed banks **fell** to SAR 1.6bn in Q3 compared to SAR 2.1bn in Q3 2012. Year to date, provisions were down almost 12% to SAR 4.2bn.
- **Saudi Arabia's** Q4 Business Optimism Index **revealed a yoy rise** in optimism levels for the hydrocarbon sector though moderate in qoq terms (Q4 2013: 30; Q4 2012: 25; Q3 2013: 39). In the non-hydrocarbon sector optimism levels improved by 5 points qoq to 54, thanks to stronger expectations on volumes, new orders and profitability.
- **Saudi Arabia** was **elected to the Human Rights Council**, the UN's highest rights watchdog body, for a three-year term beginning in Jan 2014.
- About 150k **private sector jobs** were **created for nationals** in **Saudi Arabia**, following the expat status correction drive in the past 7 months, as per data from the Saudi Chamber of Commerce. There was a 33% increase in demand for administrative jobs, while demand for teachers accountants and engineers were up 23%, 18% and 12% respectively.
- The volume of **money transfers** (in foreign currencies) by expatriates in **Saudi Arabia grew** by 17.4% to SAR 112bn in Jan-Sep 2013, according to a financial report published in the *Al-Eqtisadaiah* daily.
- Given the spending habits of **oil exporting countries**,

and with fiscal break-evens at close to USD 90 per barrel for most, the **IMF** estimates that these countries are likely to post fiscal deficits as early as 2016. In the GCC, IMF forecasts spending to slow, at an average rise of just over 4% annually in 2013-2018. In an unrelated conference, Oman's oil minister made a rare statement that the ongoing heavy subsidies on oil and gas were a threat to the future.

- The **GCC**, which depends on imports for about 80-90% of their **food** demand, remains highly vulnerable to the instability in Egypt and Iran's threat to block the Strait of Hormuz, as per a Chatham House report on food security and the most vulnerable countries are the UAE, Bahrain, Qatar and Kuwait.
- According to EY's recent Business Pulse Oil and Gas report, **demand for natural gas** – from the Middle East, China, Africa and India -is estimated to account for almost 25% of the world's energy demand by 2035.

### **UAE Focus**

- **Dubai's** government has to ensure that its **property market** is driven by fundamental factors and not speculation, warned a senior **IMF** official at the release of the Regional Economic Outlook for the region. It is estimated that some USD 51bn worth projects have been announced in the Jan-Sep period.
- The **Abu Dhabi government**, in a bid to develop its capital markets and further its status as an international financial centre, stated that its **bonds** will be listed on the ADX in addition to the London Stock Exchange.
- **Moody's** upgraded the **outlook for the UAE's banking system to stable** from negative, citing better operating environment, recovery in the local real estate market and improvements in asset quality that will subsequent lead to lower loan-loss provisions.



- Data released by the Inter-Arab Investment Guarantee Corporation showed that **UAE** is the **second largest recipient of FDI** after Saudi Arabia, attracting almost USD 9.6bn in 2012 – up by more than 25% yoy. In 2012, total FDI into the Arab world grew by about 9.8% to USD 47.1bn.
- **Dubai** Land Department's **Rental Disputes Settlement Centre** will commence operations from today, with the aim of providing timely and efficient resolutions to disputes arising between leaseholders and tenants located in the emirate, including its free zones.
- Dubai's real-estate company **Damac** has begun its **book-building** process for a **London IPO** worth at least USD 500mn. A statement from Damac revealed that shareholders were expected to sell a minimum of USD 500mn of Global Depositary Receipts and up to 18.8% of the company, plus an over-allotment option representing 15% of the base offer.
- **Dubai DED has announced unified licensing to lower the cost of doing business**, which allows business owners to practice industrial, commercial and professional activities under one licence, thereby reducing costs of procuring an additional license. The additional activities can be included by signing a memorandum of association.

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