

Weekly Economic Commentary – November 24, 2013

Markets

A mixed week on **stock** markets, but the weekly score remains in positive territory, with the Dow Jones surpassing for the first time the 16000 mark and the S&P500 touching another record. Emerging markets were pulled up by generally positive data. **Regional** markets were mixed, but UAE and Egypt posted substantial gains. The **euro** gained ground against the majors, and oil prices were again on the rise. **Gold** on the other side suffered another consistent loss.

Global Developments

US/Americas:

- The **US NAHB housing market index stabilized** in Nov at 54 after falling for 2 consecutive months of declines.
- **US existing home sales fell** -3.2% mom to an annual rate of 5.12mn, the lowest level in since June. The median home price increased 12.8% yoy.
- **US retail sales unexpectedly increased** 0.4% mom in Oct after a flat Sep. Retail sales excluding autos, gasoline and building materials were higher 0.5% mom after rising 0.3% mom in Sep.
- **US consumer prices unexpectedly fell** in Oct, dropping -0.1% mom (Sep: +0.2% mom) on falling energy and auto prices. On an annual basis, the CPI was higher 1% yoy in Oct, slowing from 1.2% yoy in Sep. Core CPI, excluding energy and food prices, rose 0.1% mom and 1.7% yoy.
- Markit's initial estimate of **US manufacturing PMI rose** to 54.3 in Nov – the highest level in 8 months – up from 51.8 in Oct. Output and new orders expanded at a faster pace while employment slowed.

- **US initial jobless claims fell** by a more than expected 21k to 323k s.a. The four-week moving average fell 6.75k to 345.25k.
- The **Central Bank of Chile cut rates** by 25 basis points to 4.5% as inflation stayed well below target and the economy grew at a moderate pace.

Europe:

- The **ZEW economic confidence index** for the **euro zone improved** to 60.2 in Nov from 59.1 in Oct. The index for **Germany increased** to 54.6 in Nov from 52.8 in Oct, although the current situation component eased somewhat to 28.7 from 29.7 a month earlier.
- Markit's **Eurozone flash composite PMI unexpectedly fell** to 51.5 in Nov from 51.9 in Oct. The Services PMI fell to 50.9 from 51.6 while the manufacturing PMI rose to 51.5 from 51.3 indicating a 5th month of expansion. The composite PMI for Germany signalled a growing expansion while the gauge for France fell for the first month in 3.
- The **German IFO business climate index rose** more than expected to 109.3 in Nov from 107.4 in Oct, touching an 18 month high. The current business situation sub-index improved while the business expectations gauge rose to the highest level since 2011.

Asia and Pacific:

- The **Markit/HSBC China flash manufacturing PMI fell** to 50.4 in Nov from 50.9 in Oct. New orders edged slightly lower while new export orders fell from 51.3 to 49.4.
- **Japan exports increased** by a more than expected 18.6% yoy in Oct, accelerating from 11.5% yoy in Sep. The volumes of exports also rose, expanding 4.4% yoy in Oct.
- **Singapore's GDP expanded** at an annualized 1.3% qoq in Q3, better than an initial estimate of a -1% contraction, but slower than the annualized 17.4% qoq

expansion in Q2. Singapore raised its full-year 2013 growth estimate to 3.5% – 4%.

Bottom line: Few key data were released last week, but overall they were on the positive side. The key investor focus remains the tapering of QE which the Fed intends to start early next year, but without unsettling markets. The communication strategy is deemed crucial and we expect an attempt to devise a forward guidance modelled on the ECB strategy. A good deal of attention was also devoted to the hefty penalties imposed by the US authorities on banks, which belatedly signals less tolerance of future misbehaviour.

Regional Developments

- **Iran has agreed to curb some of its nuclear activities in return for about \$7bn in sanctions relief.** Reduced tension will likely result in lower oil prices and reduction in current \$10-\$15 premium.
- **Egypt's** Central Bank is set to issue USD 1.7bn **1-year dollar-denominated Treasury bills** on Nov 26, with the auction to be held a day before.
- The Deputy Governor of the Central Bank of **Egypt** stated on the side-lines of a conference that profits of banks in the country are likely to remain flat this year, thanks to lower Treasury bill yields and a lack of lending opportunities.
- The **Egyptian** Federation of Investors Association is planning to build **two industrial zones** – one estimated to cost EGP 6bn and another double the amount at EGP 12bn – in south Egypt. The first phase of the project is scheduled to begin in Q1 2014.
- **Egypt** will repay around USD 1.6bn (of the USD 6bn owed) to foreign petroleum companies operating in the country by Dec. The budget of Egypt's General Petroleum Company reveals that a total of EGP 7bn (roughly USD 1.02bn) of its debt will be repaid during the 2013/2014 fiscal year, with EGP 3.4bn going to foreign sources, and EGP

3.6bn remaining locally.

- **Egypt**'s Investment minister stated that the country had attracted EGP 150bn in **foreign direct investments** since Jan 2013 and expects this to touch a total of EGP 170bn by June 2014.
- According to the **Kurdish Investment Commission** data, about USD 3bn or 10% of total investments has been invested by Lebanese investors. Construction, followed by Lebanese banks, tourism, restaurants and aviation were sectors which attracted the investments.
- **Jordan**'s **trade deficit** widened to JOD 7.5bn in Q3 this year compared to JOD 6.79bn during the same period a year ago. Exports were down 1% yoy to JOD 4.1bn at the end of Sep, with garments and pharmaceutical exports seeing an increase in value in yoy terms.
- The Central Bank of **Jordan** data disclosed that remittances increased by 3.2% yoy to USD 3.07bn at the end of Oct.
- **Jordan**'s foreign minister announced that the country had officially applied for the non-permanent seat on the UN Security Council, which had been earlier rejected by Saudi Arabia.
- **Kuwait**'s Emir, at the opening session of the joint Arab-African summit, stated that the country would to **grant Africa USD2bn** in development loans and investments; USD 1bn would be provided in soft loans through the Kuwait Fund for Arab Economic Development over the next five years while another USD 1bn would be invested.
- Foreign trade surplus in **Kuwait** widened to KWD 6.1bn in Apr-Jun quarter (Q1: KWD 5.9bn), with exports edging down slightly by 0.6% yoy to KWD 8bn.
- The economic and financial committee of the Shura Council in **Oman** recommended that a **tax of 2% should be set on outward remittances**, also enabling revenue diversification. As per data from the Central Bank of Oman, transfers associated with outward remittances increased by 12.1% to OMR 3.1bn in 2012.

- The **Oman–India Joint Investment Fund** acquired a 4.7% stake in India's agri-commodity exchange, the National Commodity and Derivatives Exchange (NCDEX) – now owning 2.38mn of NCDEX's total 50.68mn shares.
- **Qatar's Ooredoo** has mandated five banks – Singapore's DBS Bank, Deutsche Bank, HSBC, Qinvest and QNB Capital - to manage its first Islamic bond issue, a benchmark-sized USD **Sukuk**.
- **Qatar** is reviewing its **trade policy** and the changes will be revealed at the WTO event to be held from April 22 to 24, according to the Assistant Undersecretary for Commercial Affairs at the Ministry of Economy and Commerce.
- Higher rents and rising costs of food and entertainment led to an increase in inflation in **Qatar** – to 2.8% in Oct, with the index up 0.8% mom.
- The civil aviation chief of **Saudi Arabia** revealed that an investment of about SAR 40bn would be made towards building new airports and expanding existing units in coming years.
- **Saudi Arabia's** Ministry of Agriculture and the National Committee at the Saudi Council of Chambers are currently working on deciding the **Saudisation** quota in the agricultural sector. One of the initial recommendations of the study was to decrease the ratio of job nationalization in the sector by 11%.
- **Saudi Arabia** – with an aim to use solar energy for at least 10% of its total energy needs and to generate 5 GW of solar energy by 2020 – launched the **world's largest solar power plant**, covering an area of 36k sqm.
- According to a report in the *Al-Jazirah* daily, the total volume of **property transactions** in **Saudi Arabia** reached SAR 356bn this year (Islamic year 1434H – which ended in beginning of Nov), enabling brokers to gain some SAR 8.9bn from commissions.
- The Federation of the GCC Chambers of Commerce and Industry, which had made a proposal in mid-2011 to

create joint business councils with Jordan and Morocco, has cancelled the plans to do so “as this will produce financial and administrative burdens on the GCC chambers”, states its Chairman.

- Thomson Reuters, in its second Annual **Sukuk** Perceptions and Forecast Study which is based on a survey of Sukuk lead arrangers and investors – many of whom are based in MENA and South-East Asia – found that 50% of the portfolios of the survey audience would be allocated to Islamic finance investments and 25% to 35% of which would be allocated to Sukuk.

UAE Focus

- The UAE **Central Bank** issued regulations specifying **caps on lending to State Owned and government related entities**: a bank cannot lend more than 25% of its capital to a single state-linked non-commercial entity, and cannot lend more than 100% of its capital to all such entities plus the governments of the emirates combined. Immediate compliance would hurt bank balance sheets, so five years have been set aside as a grace period for banks to comply with the regulations.
- The Governor of UAE **Central Bank** called for expediting the issuance of the **public debt law** – citing its need to kick-start a deep and liquid bond market which will provide alternatives to bank lending and also allow the federal government to issue dirham-denominated bonds and the central bank to issue short-term Treasury bills on behalf of the government.
- With **Dubai Expo 2020** bid announcement just around the corner, investor sentiment seems to be up already: **foreign institutional investors** bought USD 718.9mn worth of **UAE shares** so far this year, up from USD 202.97mn in the same period last year.
- The **Dubai Air show** resulted in several deals totalling USD 200bn, including the Emirates order for an

additional 50 A380 aircraft to expand its existing fleet.

- **Abu Dhabi** has removed the annual **5% cap on rent increases**, allowing for market forces to determine rental values based on location and neighbourhood.
- **Dubai foreign trade** grew by 16% yoy to AED 679bn during H1 2012, according to the CEO of Dubai Exports, an agency of the DED, also stating that trade is expected to grow at about 13-15% overall this year.

MENA Economic Associates

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