

Weekly Economic Commentary – December 1, 2013

Markets

Another week in which Wall Street touched a new record high despite the Thanksgiving holidays. European shares were near a 5-1/2 year high and heading for a seventh week in positive territory, while the Nikkei scored its best November since 2005. Investors, including those in emerging markets, seem busy chasing the trend supported by central bank liquidity until it lasts. Regional markets on the contrary were rather mixed, with Egypt plunging almost 4%. The euro closed the week at a five-year peak against the yen and a one-month high against the dollar as the inflation data cooled expectations about further monetary easing by the ECB. Oil prices remained more or less stable, while gold recovered some losses from last week but closed the month sharply down.

Global Developments

US/Americas:

- **US building permits increased** 6.2% mom in Oct (Sep: 5.2% mom) to an annual rate of 1.03 mn units, the highest since Jun 2008. The Pending Home Sales index dropped -0.6% mom sa to 102.1 in Oct reinforcing its downward trend over the past several months.
- The **S&P Case-Shiller home price index increased** 0.7% mom and 13.3% yoy in Sep after rising 1.3% mom in Aug. Home prices remain 20% below their 2006 peak. A separate gauge by the **FHFA** showed house prices increasing 0.3% mom in Sep following a 0.4% rise in Aug.
- **US durable goods orders** unexpectedly **dropped** -2% mom in Oct after rising 4.1% mom in Oct. Orders for non-defence capital goods excluding aircraft – a proxy for business

spending plans – fell -1.2% mom after falling -1.4% mom in Sep.

- **US initial jobless claims** unexpectedly **fell** by 10k last week to 316k sa, marking 6 weeks of declines. The four-week moving average fell to 331.75k.
- The **Thomson Reuters/University of Michigan consumer sentiment index rose** more than expected to 75.1 in Nov from 73.2 in Oct. **The Conference Board's leading economic** indicator also grew by 0.2% to 97.5 in Oct, but the consumer confidence lost 2 points reaching 70.4, its lowest reading since Apr, despite the end of the standoff in Washington.
- **Canadian GDP grew** 0.7% qoq in Q3 or 2.7% yoy, up from 1.6% yoy in Q2. Growth was propelled by private consumption and investments.
- **Brazil raised benchmark rates** by 50 basis points to 10% – the sixth hike in a row.

Europe:

- **Eurozone M3 money** supply growth unexpectedly **decreased** 1.4% yoy in Oct from 2% in Sep. Loans to the private sector shrank at an annualized -2.1% following a -2% drop in Sep.
- **S&P lowered the Netherlands sovereign rating**, to “AA+” from “AAA”. Only Germany, Luxembourg and Finland in Euro land enjoy the top rating from all three leading credit agencies.
- **S&P raised the outlook for Spanish public debt** to stable from negative and upgraded Cyprus, which is markedly improving after the bailout.
- **Eurozone economic sentiment improved** for the 8th month to 98.5 in Nov from 97.7 in Oct, but the uptrend has decelerated over the past 2 months. Similarly the Conference Board leading economic index rose to 110.4 in Oct from 109.8 in Sep.
- **Inflation in the eurozone edged up** to 0.9% yoy in Nov

from 0.7% in Oct. Core inflation rose to 1% yoy from 0.8% yoy.

- **Eurozone unemployment dipped** to 12.1% in Oct from 12.2% in Sep, the first decline since early 2011.
- **German retail sales** unexpectedly **fell** -0.8% mom in Oct after falling -0.2% mom in Sep. On an annual basis, sales fell -0.2% yoy in Oct and were up 0.3% yoy in Sep.
- **French manufacturers' sentiment** remained almost **unchanged** in Nov at 98.1 from 98.2 in Oct. Consumer confidence decreased to 84 in Nov from 85 a month earlier, dragged by gloom over future savings.

Asia and Pacific:

- **China's official PMI** held **steady** in Nov at 51.4, unchanged from Oct. The gauges for export orders and factory production rose while new orders fell.
- **Japan retail sales increased** by a more than expected 2.3% yoy in Oct, led by auto sales.
- **Industrial production in Japan grew** 0.5% mom in Oct, a second month of expansion.
- **Japan's core consumer inflation accelerated** to 0.9% yoy in Oct from 0.7% yoy in Sep. Excluding fresh food and energy, the index increased 0.3% yoy, the fastest pace in 15 years.
- **Korean overseas shipments stagnated** rising by just 0.2% yoy in Nov in dollar value way below expectations of 2.8%, casting a shadow on the strength of the global recovery.
- **Singapore industrial production grew** 8% yoy in Oct, down from a 9.2% in Sep. Electronics production surged as the global tech cycle gains momentum.
- **Taiwan's industrial production** grew 0.8% yoy in Oct, after rising 1.1% in Sep, somewhat weaker than expected underscoring the gradual and bumpy recovery in Asia.
- **Thailand's industrial output contracted** 4% yoy in Oct, following a 2.9% fall in Sep, due to weaker auto,

electronics and food production.

- **India's GDP grew** slightly more than expected in Q3, expanding at 4.8% yoy following a 4.4% yoy expansion in Q2. Agricultural output underpinned growth, surging 4.6% yoy, while manufacturing dragged, rising 1% yoy.

Bottom line: Few novelties on the macro front. All indicators from Europe continue to underline a dim outlook and the downgrade of Dutch debt is the latest evidence that without deep structural reforms there is no way out of the slump. But financial practitioners seem to be excited by the prospect of an inevitable quantitative easing by the ECB; this is highly unlikely as it requires a green light from Germany. Only the forward looking indicators are recovering in Europe, but there remains a disconnect with hard data. With few data from the US, Asia came into focus with a spate of positive data (except Thailand entangled in a virulent political crisis), which bodes well for a sustainable recovery in emerging markets. The only black spot was Korean exports, which highlighted an anemic global pick up. Growth of sales to China, the US and the EU slowed, while exports to the ASEAN bloc posted the worst slump since the 2008-2009 financial crisis.

Regional Developments

- **Egypt's new draft constitution** was completed on Thursday and will be presented for **referendum** before end of Dec, according to the spokesman of the constituent assembly – contradicting the PM's comments that the referendum would be held in the second half of Jan.
- **Remittances** from **Egypt's** expats likely plummeted in 2013, with close to 300k Egyptians moving back to their homeland from Saudi Arabia since Jul. The Central Bank of Egypt data revealed that remittances by Egyptians abroad increased 7.9% yoy to USD 13.8bn by Mar 2013.
- In Egypt domestic liquidity (**M2**) **grew** 17.8% to EGP1.348 tn at end Oct compared to EGP 1.145trn a year earlier and EGP 1.335trn at end Sep 2013.

- **Iraq's five-year development plan** allocates USD 357bn to investments, with USD 54bn set aside for 2014.
- Oct **oil exports** from **Iraq** touched a total of 69.8mn barrels of oil, or 2.25mn barrels per day (bpd), resulting in overall revenues of USD 7.16bn. While this was better than Sep's 19-month low of 2.07mn bpd, it remains below Apr's peak exports of 2.62mn bpd.
- The IFC finalised a USD 221mn debt package to support the development of a 117-megawatt **wind farm in Jordan** – the country's first privately-owned renewable energy facility. The IFC provided USD 69mn in loans and helped directly mobilize another USD 79mn from other lenders.
- MEED Projects reveals that **Kuwait** is likely to award about USD 24bn in **contracts** next year, with two large projects bids – the estimated USD 16bn Clean Fuels Project and the USD 7bn Lower Fars heavy oil scheme – expected within the next 3 months.
- Dubai Holding, along with **Kuwait's** Al Fajer Re, plans to launch a **re-takaful firm** with USD 500mn of authorised capital in Jan.
- **Lebanon** recorded a **primary deficit** of USD 550mn in Jan-Sep, as spending rose (thanks to rising government wages) alongside dipping revenues. Budget deficit rose to 31.89% (or LBP 4.95 trillion) of spending during this time compared to 22.7% in the same period a year ago.
- **Trade deficit in Lebanon fell** to USD 14.0bn by end-Oct, from USD 16.8bn during Jan-Oct last year, thanks to drop in imports. Both customs and VAT revenues dipped by 20% yoy to USD 1.25bn and USD 1.17bn respectively during this period.
- **Lebanon's** Central Bank Governor revealed that 96k **housing loans** had been provided by Lebanese banks, as part of the USD 1.2bn program launched this year to provide subsidized loans.
- **Nominal GDP in Oman grew 2% during H1**, supported by the financial, industrial and tourism sectors. Non-oil activities increased 8.3% yoy to OMR 8.27bn, with most

of the increase attributed to the 11.7% pick-up in services activities to OMR 5.94bn.

- **Oman** is planning a **7-year energy investment strategy**, aiming to “to increase the sector’s value by offering 53 new investment opportunities in oil and gas field”, according to the undersecretary at the ministry of oil and gas. While no investment numbers were given, it is expected that about 10-15k jobs will be created from these projects.
- **Oman** earned USD 1.09bn from **international tourism revenues** in 2012, according to a report issued by the United Nations World Tourism Organisation. It was the 4th largest market, accounting for 2.3% of total, in the Middle East for international tourists.
- **Total assets of banks in Qatar grew** 7.7% yoy to QAR 879bn in the first nine months of this year. Customer deposits were up 19% to QAR 498bn while credit facilities increased by 6.8% bringing total domestic credit to QAR 510bn by end of Q3.
- **Qatar Tourism** Authority’s Q3 tourism report showed a positive **growth** in the sector: average hotel occupancy rate rose from 50% to 57% in spite of the addition of over 600 rooms; total revenues of 4- and 5-star hotels grew 13.8% yoy to QAR 703.1mn.
- Qatar’s **Ooredoo** successfully priced its four-times oversubscribed USD 1.25bn five-year **Sukuk** – maturing in Dec 2018, the profit rate will be 3.039%. Net proceeds from the Sukuk will be used for general corporate purposes including re-financing existing debt.
- Value of **assets under management in Saudi Arabia grew** to SAR 103.4bn, up 17.36% from 2012 year-end value, according to SAMA data. Domestic assets are SAR 79.2bn – 76.7% of the total Saudi domiciled funds’ assets, while foreign assets are SAR 24.1bn, an increase of 32% over the year-end 2012 value.
- **Saudi Arabia foreign assets declined** slightly to SAR 2660bn in Sep from Aug’s SAR 2668bn. Deposits with banks

abroad increased to SAR 479bn (Aug: SAR 471bn) while investment in foreign securities touched an all time high of SAR 1,933bn.

- Private investors from the GCC are in the forefront of establishing the **first full-fledged Islamic bank headquartered in the euro zone**, named Eurisbank. This will likely be launched in Luxembourg by Q4 2014, with an initial capital of EUR 60mn, and the bank would offer retail, corporate and private banking services.
- **Islamic banking assets** at GCC commercial banks are likely to reach USD 515bn by the end of 2013 from USD 452bn last year, led by Saudi Arabia, according to a recent Ernst & Young's Global Islamic Banking Center report.

UAE Focus

- **Dubai** won the **Expo 2020** bid, sparking a wave of bullish sentiment – a Deutsche Bank report estimated an AED 158bn infrastructure spending boom with RTA's Metro expansion plans, new Etihad rail and infrastructure upgrades along with developing Trade Centre in Jebel Ali accounting for bulk of the spending. However, most of the spending bonanza will occur closer to 2020.
- The **UAE** spent AED 309.2bn towards **development projects** in 2012, up 9.8% yoy, and with 65.3% channeled through the private sector. Real estate sector was the largest recipient of the investments, accounting for nearly 17.8%, followed by manufacturing (14.7%) and transport and communications (13.8%).
- **Dubai's** approved **2014 budget** includes an 11% rise in spending to AED 37.88bn while revenues are estimated to rise by 13% to AED 37bn, reducing deficit by 41% yoy. About 67% of the revenues are expected from the collection of fees and fines while about 37% of government spending will be towards wages and salaries. Spending on infrastructure projects will also continue,

with 17% allocated to development spending.

- **Dubai** is expected to publish **new standards for issuing and trading Islamic bonds** within a week or two, according to Essa Kazim, the Chairman of DFM.
- Ahead of the **UAE** National Day, a number of **housing initiatives** worth AED 5bn were launched to benefit over 10k Emiratis.
- **Aldar** Properties raised USD 750mn through a **5-year Sukuk**, issued at par; priced competitively at a spread of 290bps over USD Mid Swaps for a fixed profit rate of 4.348%, the issue was 3.5 times oversubscribed.
- **Dubai Airports** continued its growth streak, welcoming more than 5mn visitors for the tenth consecutive month in Oct. **Passenger traffic** in Oct grew 15.1% yoy to 5.667mn passengers, with year to date traffic rising 15.9% to 55mn.

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