

Weekly Economic Commentary – December 8, 2013

Markets

Stock markets last week began moving lower but a surprisingly strong ADP jobs report led a recovery that trimmed earlier losses. Faced with more corroborating evidence supporting an earlier than forecast end to US QE stimulus, European and Asian markets fared much worse. *Paradoxically when US growth is perceived as stronger, the market falls because of the QE tapering scare.* This phenomenon is a symptom of vulnerability in the stock valuations. Over in the **region**, Dubai's index rallied to cross a five-year high and stocks rose in Abu Dhabi and Egypt, while all other markets were little changed. The **dollar** fell against major peers despite strong payrolls data, the **euro** extended a rally after the ECB refrained from more stimuli and the **yen** fell on concerns more stimulus will be required to stem deflation. The WTI **crude oil** prices climbed, and the spread with Brent narrowed while **gold** price fell to the lowest level since July early last week before recovering.

Global Developments

- **The WTO meeting in Bali concluded with an agreement on trade facilitation** which if successfully implemented would mean export gains of \$1 trillion; 21 million jobs supported; and GDP increases of \$960 billion.

US/Americas:

- The second reading of **US GDP** was **substantially higher** at 3.6% qoq ann in Q3 (vs. 2.8% reported preliminarily) and 2.5% in Q2. The acceleration came from slower gains in imports and faster increases in state and local government spending. It is noteworthy that a major increase came from business inventories, which at USD

116.5 bn is highest since Q1 1998.

- The **US** economy added a better-than-expected 203k **non-farm jobs** in Nov (Oct: 200k). The unemployment rate fell to 7% from 7.3%.
- The **US Fed Beige Book** in Nov reported “**modest to moderate**” growth as it did in Oct. Manufacturing activity continued to expand, especially vehicles and high-technology industries. Hiring showed a modest increase or was unchanged but difficulty was reported in finding high-skilled workers; pressure on wages and prices was minimal. Manufacturers expressed optimism about near-term prospects. Freight volume showed signs of strengthening.
- **US ISM manufacturing** beat predictions **increasing** from 56.4 in Oct to 57.3 in Nov. All key components, i.e. production, new orders and employment were on the rise.
- The **ISM non manufacturing index fell** from 55.4 in Oct to 53.9 in Nov its lowest since Jun, as business activity and employment lost around 4 points. New orders held up well, remaining above 56. Not an exciting figure overall, but not particularly worrisome either.
- The **US ADP report** recorded 215k **net new private payrolls** in Nov against expectations of 170k.
- **Initial unemployment claims dropped** from 321K to 298K a cumulative decline of 46K over the past three weeks. Seasonal factors might be a key driver due to Veterans Day and Thanksgiving. The four-week moving average fell from 333K to 322,250. Continuing claims fell 21K to 2.744 mn.
- **US construction spending** in Oct **increased** 0.8% mom (vs -0.3% in Sep) and 5.3% yoy, a pace that although still positive is gradually declining.
- **The US trade deficit narrowed** slightly to USD 40.6bn in Oct with goods exports improving significantly.
- The **University of Michigan's consumer confidence** in Dec **gained** 7.4 points to land at 82.5 a six year high.
- Orders for **US manufactured goods fell** 0.9% mom in Oct vs

1.8% in Sep.

- **Brazil's GDP declined** -0.5% qoq sa in Q3, but still increased 2.2% yoy vs 3.3% in Q2. Lack of reforms, mismanagement of the FIFA World Championship and derailed fiscal policy are suffocating the private sector. Inflation meanwhile reached 5.5% in Nov.

Europe:

- The **ECB** left the **interest rate unchanged** but signaled that a new liquidity injection in banks is being considered, on condition that banks will not use liquidity for the carry trade hinging on sovereign bonds.
- The **Eurozone's composite PMI increased** scoring 55.4, boosted by the fast rate of new business growth since June 2011. Services PMI growth climbed up to 55.7. Employment rose strongly and business optimism about outlook for the year ahead was the highest since March. The results were pushed up by Germany while France and Italy dropped again below 50 at 48 and 47.2 respectively. The only bright spot was the Spanish services sector.
- **German manufacturing orders fell** -2.2% mom in Oct (+1.9% yoy), following a 3.1% mom rise (7.8% yoy) in Sep. Probably this was a normalization after a stellar figure in Sep, but hardly an encouraging signal.
- The **UK service sector** continued to **perform strongly** in Nov as the PMI was at 60, down 2.5 points from the 16-year high recorded in Oct.
- **EU retail sales fell** again in Oct by -0.2% mom, after -0.6% in Sep.
- **Spain's** industrial production **disappointed** in Oct dropping 0.7% yoy, after an encouraging 1.2% increase in Sep.

Asia and Pacific:

- **China's Nov exports surged** 12.7% yoy after rising 5.5% yoy in Oct while imports slowed to 5.3% yoy from 7.6% yoy.
- **Japan** approved a JPY 18.6 trillion **stimulus package** to bolster the economy out of deflation. The headline figure includes loans by government-backed lenders and spending by local governments that were already scheduled. Excluding these amounts, the core stimulus package is JPY 5.5 trillion.
- **Australia GDP grew** 0.6% qoq in Q3 and 2.4% yoy, a slight increase from 2.3% in Q2. Consumption disappointed and mining investment retrenched.

Bottom line: The data flow was dominated by the **US** where the **economy is confirming its upward trend**. How this will translate into asset price movements however is not clear. The average duration of the S&P 500 Bull Run since 1928 was 57 months and the average return was 165%. Last week the Bull Run which is in place since March 2009 has reached 57 months and 164%. The bull run after the great depression i.e. 1932-37 lasted 57 months but exceeded 350%. It took 5 years and a World War to ignite the next bull run of 1942-46. A major boost to the global economy could come from the new WTO agreement. It could pave the way for greater trade facilitation leading to \$1 tn in trade expansion.

Regional Developments

- The **tourism** department in **Bahrain** revealed that Saudi tourists accounted for about 52% of total 8mn tourists to the country in 2012 – with 73% using the Causeway and the rest 22% travelling via air.
- The Central Bank of **Egypt** unexpectedly **cut its key policy rates** – overnight deposit rate and overnight lending rate by 50 bps each to 8.25% and 9.25% respectively – stating that “downside risks to the GDP outlook outweigh the upside risks to the inflation outlook”.

- While **Egypt's** PM promised to pay USD 1.5bn (of total USD 6bn) it owes foreign oil companies, statements from various high ranking officials including the Central Bank governor suggest that there are high expectations of attracting additional funding and investors from the Gulf states.
- **Egypt's** Deputy PM revealed that the country received USD 8bn out of the USD 12bn aid package promised by Saudi Arabia, UAE and Kuwait, hence enabling the country to **postpone its decision on the IMF's much-delayed USD 4.8bn loan**. Meanwhile, a central bank official clarified that Egypt returned USD 500mn to Qatar – the second such deposit to be returned to Qatar in the past month – on Dec 2.
- As part of the aid package, Saudi Arabia, UAE and Kuwait provided USD 2.48bn worth of **fuel** to **Egypt** from July to end of Nov, with USD 1bn coming from Saudi Arabia alongside USD 820mn and USD 660mn from UAE and Kuwait respectively.
- Revenues from **Egypt's Suez Canal increased** by 5.2% yoy to USD 466mn in Oct (Sep: USD 442bn), according to the state information portal.
- **Iraq's** Oil Minister revealed that the country **plans to raise its 2014 average oil exports** to 3.4 million barrels per day (bpd), including 400k bpd from its northern Kurdish region. In comparison, nearly 2.4mn bpd were exported in Nov.
- **Jordan** was elected to the **UN Security Council** last week, receiving more than 90% votes and meeting the two-thirds majority, to the seat rejected by Saudi Arabia earlier this year.
- **Kuwait Airways may issue bonds or Sukuk** to finance a deal with Airbus to buy 25 new aircraft and lease 12 other new planes, according to an adviser to the airline – though neither the value of the agreement nor the value of prospective issuances were revealed.
- **Kuwait** is proposing to impose **taxes** on Kuwaiti nationals

owning more than two cars – with charges beginning at KWD 100 and escalating as the number of cars increase – and foreign nationals with more than one car (charges to be decided later).

- **Oman's exports to India soared** 91% during Apr-Oct 2013, with bilateral trade touching USD 3.56bn and including USD 2bn worth of Omani exports to India, according to the Indian Ambassador in Oman.
- India revoked the anti-dumping duty on **polypropylene imported from Omani suppliers** which was imposed in Nov 2010.
- The **average income of the Omani family** has **increased** from OMR 860 in 2006 to OMR 1,172 in 2010, an increase of OMR 78 per year, according to the National Centre for Statistics and Information.
- Program by the Omani government to pour billions into infrastructure to help support long-term economic diversification is benefiting the **Oman construction sector**, with some USD 56bn worth of projects scheduled to be carried out between this year and 2017, and a further USD 56bn worth of developments through 2022.
- The Export Credit Guarantee Agency revealed a 109% surge in **Omani non-oil exports to US market** in 2012, also underscoring the benefits from the US-Oman FTA.
- **Qatar** Chamber received the preliminary approval for its proposal to establish the QAR 2bn private company – which will provide **support to the non-oil industrial sector**, including for startup firms. The capital will be raised through an IPO restricted to Qatari businessmen and the company might later be listed on the Qatar Exchange, stated the Vice-Chairman of Qatar Chamber, promising more details later.
- **Qatar's** central bank plans to issue QAR 3bn worth of **local currency government bonds** and QAR 1bn of Sukuk this week, including three-year and five-year tranches of both conventional and Islamic bonds, it was revealed on the central bank website.

- Outward **remittances** from **Qatar** increased 3.8% yoy to touch QAR 49.3bn in 2012 (2011: QAR 47.5bn), according to central bank figures.
- **Saudi Arabia's GDP increased** by 3.19% yoy and 1.1% mom in Q3 (Q2: 2.7% yoy; Q3 2012: 5.7%), supported by construction (+9.76%) and downstream industries (+7.87%). A slowdown was evident in sectors that were dependent on cheap imported labour – growth in transport and storage slowed to 3.2% from 6.8% a year earlier while in the wholesale, retail, hotels and restaurants sector, growth slowed to 2.7% from 7.1% a year ago.
- The Ministry of Housing in **Saudi Arabia** approved SAR 6.03bn in **home loans** to build 14,480 residential units – the fifth tranche of loans this year and the Real Estate Development Fund will pay the money to the new applicants.
- **Foreign assets of Saudi Arabia increased** by SAR 237bn in the first 10 months of this year to SAR 2,722bn. Bulk of the rise can be attributed to investment in foreign securities, which gained nearly SAR 266bn and touched their highest level of around SAR 1,936bn at the end of Oct.
- SAMA revealed that **Saudi banks' liquidity ratios eased** to 11.79% in Oct (Sep: 12.35%) as a result of a 5% mom drop in bank reserves held in the form of cash in the vault or as deposits with SAMA outpacing the 0.2% dip in total bank deposits.
- **Saudi Arabia's investments in Egypt** are estimated to be around SAR 100bn – nearly SAR 13bn in the real estate sector, SAR 50bn in Egypt's exchange and the rest in industrial, farming and tourism ventures – and failing projects are estimated at around SAR 16bn and its related court cases have cost about USD 500mn to the Saudi investors and the Egyptian government.
- A simplified GCC-wide regulatory environment and new bankruptcy protection laws are necessary to support the development of **regional SMEs**, stated the head of Abu

Dhabi's Trade and Export department, ahead of the SME Congress & Expo that will place next week.

UAE Focus

- **UAE's PMI rose** the fastest in Nov, rising to a record high of 58.1, from Oct's 56.3, supported by pickup in activity in the non-oil sector and as new orders expanded at the fastest rate in the survey history alongside a record high rate of growth in new export business.
- **DEWA** announced that its **2014 budget** had been **increased** by AED 6.7bn to AED 20.56bn, with expenditures on projects and purchases estimated to reach AED 7.057bn.
- Real estate developer **Damac** said it raised USD 348mn, from the sale of 28.39mn shares, during its London share offer last week. The original plan was to raise USD 500mn, with the sale of global depositary receipts, but the deal size was later reduced to USD 400mn and the final price was fixed at USD 12.25, at the bottom of the price range.
- On the occasion of the **UAE's** 42nd National Day, the President announced an additional AED 20bn in **development spending** and launched a new scheme to build 10k houses for UAE citizens.
- The **IIF** estimates that hosting the Dubai **Expo 2020** will add at least 1.5 percentage points per year to real GDP during 2014-2020 and will also likely increase debt to USD 168.5bn by 2020 from 2012's USD 142bn. While some support can be expected from the Federal and Abu Dhabi governments, the Dubai government may also need to tap global capital markets for funding the Expo given the recently announced constraints on lending to state governments and GREs.
- A senior **DEWA** official stated that **electricity and water consumption is likely to increase by 20%** as the emirate gears towards hosting the Expo in 2020. Part of the

demand will be met from the Sheikh Mohammed bin Rashid Al Maktoum Solar Park, the first phase of which is already operational, according to the official.

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