

# Weekly Economic Commentary – December 15, 2013

## Markets

With markets heading into the end of year mood, **US stocks extended losses ahead of a Fed meeting this week, the outcome of which could trigger the start of QE tapering**. Recent economic data seems to support this expectation including this week's stronger than expected retail sales growth. **Emerging market** stocks were mostly lower; Asian shares continued a fall and India's gauge dipped amid speculation of a hike in interest rates. Over in the **region**, Dubai's market led the gains with the index touching a new 5-year high. Egypt followed closely on optimism about the new Constitution, while other markets ended little changed. The US **dollar** rebounded against majors on upbeat retail sales data, the **yen** fell to a 5-year low and the **euro** strengthened. **Gold** gained marginally this week in volatile trading while **oil** prices fell ahead of the Fed meeting and resultant tapering concerns.

## Global Developments

### **US/Americas:**

- **US wholesale inventories rose** by a more than expected 1.4% mom in Oct, following a revised 0.5% mom rise in Sep. Excluding autos, inventories rose 1.3% mom.
- **US retail sales were higher** 0.7% mom in Nov sa, marking the largest jump since June and following an upwardly revised rise of 0.6% mom in Oct.
- **US initial jobless** claims **surged** 68k, the most in a year, to 368k. The four-week moving average rose by 6k to 328.75k.
- **US Congress approved a two-year federal budget bill** with bi-partisan support, avoiding the spectre of another

government shutdown

## Europe:

- **Eurozone industrial production fell** by a more than expected -1.1% mom in Oct. This marks the largest drop in a year and follows a revised -0.2% decline in Sep.
- **German industrial production dropped** -1.2% mom in Oct (+1.1% yoy), following a revised -0.7% mom in Sep (+0.7% yoy). With manufacturing orders dropping -2.2% mom in October the outlook is bleak. **France** monthly IP was also negative (-0.3%) while **in Italy** it rose 0.5% and in the UK 0.4%.
- **Italy GDP growth was flat qoq** in Q3 (-1.8% yoy), halting two years of contraction (an earlier estimate showed a -0.1% qoq decline). Fixed investment contracted at the slowest pace since 2011 but domestic demand shrank.

## Asia and Pacific:

- **China's CPI increased** by a less-than-expected 3% yoy in Nov, decelerating from 3.2% yoy in Oct. Retail sales beat forecasts rising 13.7% yoy from 13.4% in Oct.
- **Chinese industrial production grew** slightly below expectations in Nov at 10% yoy, down from 10.3% yoy in Oct.
- **Chinese** banks extended 624.6 billion of **new Yuan loans** in Nov, overshooting expectations and up sharply compared with 506.1 billion Yuan of new loans extended in Oct. The M2 **money supply** grew 14.2% yoy, falling slightly from 14.3% yoy growth in Oct.
- **Japan downwardly revised** its Q3 **GDP** growth estimate to 0.3% qoq (1.1% ann) from a previous estimate of 0.5% qoq (1.9% ann).
- **Japan key machinery orders increased** 0.6% mom in Oct, rebounding from a decline of -2.1% mom in Sep.
- **Japan industrial production grew** 1% mom in Oct, up from an initial estimate of a 0.5% mom increase.

- **India's consumer inflation** unexpectedly **accelerated** to 11.2% yoy in Nov from 10.2% yoy on sharply higher food prices.
- **India's trade deficit narrowed** sharply, against expectations, in Nov to USD 9.2 bn. Exports grew modestly but imports plunged. Industrial production remained weak in Oct, with output falling -1.8% yoy.
- **Taiwan's monthly trade surplus** was almost **unchanged** at USD 3.51bn in Nov. Export growth was flat compared to Oct -1% yoy.

**Bottom line: US politics & the improvement in the economy** remain the driver of the global macro picture. More broadly the OECD composite leading indicator continued to crawl up to 100.7 in Oct from 100.6 a month earlier thanks to some revival in Germany, Japan and the UK. The **lacklustre performance of emerging markets** constitutes the main risk to the global outlook heading into 2014. Meanwhile, the IEA's estimates that global oil demand will rise by 1.2mn barrels per day (bpd) to 92.4 million bpd in 2014 makes a case for rise in Iranian exports, aided by the lifting of sanctions.

### **Regional Developments**

- **Egypt's forex reserves fell** to USD 17.8bn in Nov (Oct: USD 18.6bn; Nov 2012: USD 15bn) – the lowest level post inflow of Gulf funds in July 2013. Meanwhile, the Planning Minister of **Egypt** stated that the country had spent a total of EGP 7bn of the EGP 29.7bn package, in an effort to stimulate the economy.
- **Saudi investments in Egypt** is expected to touch SAR 8.5bn by the end of 2013, as revealed by the chairman of the Saudi-Egyptian Business Council, with investments largely in housing, minerals, pharmaceuticals and agriculture.
- An **economic assistance** deal, valued at EUR 85.5bn, was signed between **Jordan** and **Germany**; with this deal, Germany will extend (through the German Development

Bank) a total of EUR 74mn in the form of soft loans and EUR 11.5mn as grants to support projects to revamp sewage networks, address climate change and support Syrian refugees.

- The **IMF** reiterated that **Kuwait** must **control its public sector wage bill** and state subsidies to protect itself against a drop in future oil revenues.
- **Oman's** stand on **Gulf Union**, wherein the Foreign Minister revealed that it will "simply withdraw" from a future union of Gulf states if it ever takes place, is not expected to affect joint economic projects.
- **Iran** and **Oman** have set up a joint committee, to monitor the progress of **Tehran's gas export project** to Muscat.
- **Oman Oil exports grew** 9.7% yoy to 251.7mn barrels during the Jan-Oct period vis-a-vis 229.5mn barrels during the same period a year ago, as per the National Center for Statistics and Information. Total oil production increased 2.8% yoy to 286mn barrels while daily average production rose by 28k barrels per day to 940,800.
- **Oman tax receipts** amount to OMR 34bn, which is roughly 1% of the country's GDP while the tax revenue of OMR 350mn and customs duty of OMR 180mn together contribute only around 1.5% to the GDP, according to the Managing Partner of Crowe Horwath Oman.
- **Oman's** average **daily natural gas production** is expected to **surge** almost 10% to 113 million cubic meters per day next year compared to 103mn cubic metres per day this year.
- **Takaful Oman** Insurance, which offered 40 million shares at 102 baisas per share, successfully raised OMR 22-23mn from its **IPO** that was oversubscribed four times by retail investors and seven times by institutional investors.
- **Qatar** has launched a **joint financial sector regulation project**, including the three regulators Qatar Central Bank, Qatar Financial Centre Regulatory Authority and the Qatar Financial Markets Authority. The strategic

plan includes enhancing regulation by developing a consistent risk-based micro-prudential framework, expanding macro-prudential oversight, strengthening financial market infrastructure, enhancing consumer and investor protection, promoting regulatory cooperation and building human capital.

- **Qatar's** banks reported a **record high 25.4% growth in loans** during Q3 this year, thanks to some acquisitions; Commercial Bank of Qatar and Qatar National Bank registered higher growth in loan book of 34.0% yoy and 27.4% respectively.
- Official data revealed that **Qatar's construction sector grew** 9.3% to QAR 2.3bn in 2012 to emerge as one of the fastest growing non-oil sectors.
- **Qatar** has become the **top exporter** and second largest producer **of helium** globally, with the start-up of the QAR 1.8bn Helium 2 Plant with a design capacity of 1.3bn standard cubic feet a year.
- **Saudi non-oil exports grew** by 12.6% to SAR 17.97bn in Oct 2013, as per a Central Department of Statistics and Information report. Saudi imports registered a slight drop of 0.2% to SAR 44.2bn, with UAE, China and Singapore the top 3 importers accounting for 14.38%, 13.8% and 5.6% respectively of total imports.
- **Inflation in Saudi Arabia higher** at 3.1% in Nov, largely aided by higher food and housing costs. Food prices were up 5.4% yoy and 0.6% mom while housing and utility costs grew by 3.5% yoy and 0.2% mom.
- **SAMA** has issued the first license for **real estate and lease financing** to Riyadh Bank.
- According to **Saudi Arabia's** assistant director-general of the Passport Department, about 137,569 illegal **foreign workers were deported** until Dec. 6.
- Percentage of **female job seekers** in **Saudi Arabia's** Hafiz program increased to 77%, implying that there are about 1mn Saudi women who are actively searching for jobs, according to the deputy director general for special

programs at the Human Resources Development Fund.

- **Saudi Arabia and UAE** accounted for 46% of **FDI** flowing into the Arab countries, which totaled USD 48bn in 2012, it was stated at an Arab investment forum in Kuwait.
- The Head of the **Syrian** opposition urged the **Gulf States to create an aid fund** for the millions of **Syrian refugees**. The United Nations estimates that about 6.5 million people have fled their homes within Syria and 2.3 million have sought refuge abroad.
- Total **industrial investments in the GCC increased** to USD 338bn in 2012 from USD 81bn in 1998, according to the Gulf Organization for Industrial Consulting. The number of related firms more than doubled to 15,165 and employees rose to 1.34mn from 1998's 55k workers.
- The number of **joint stock companies in the GCC** that **allow inter-GCC share trading** increased to 644 in 2012, with a combined capital of USD 227bn. The total number of the GCC investors in these companies touched 453k in 2012 with the UAE topping the list with 212,243 investors (46.9%), followed closely by Qatar at 190,886 (42.2%).

## **UAE Focus**

- **Dubai's non-oil foreign trade** crossed the AED 1 trillion mark by the end of Q3 this year and compares to AED 992bn reached during the same period a year ago. India ranked first among trade partners, topping the list with AED 111bn trade, followed by China at AED 99bn and US at AED 65bn.
- Total **retail sales in Dubai** is expected to grow by 5.7% annually during 2013-17, reaching nearly AED 33bn by 2017, according to the Director General of Dubai Department of Economic Development.
- **Inflation in Abu Dhabi increased** to 1.8% yoy and 0.1% mom in Nov, thanks to rising food prices, which grew by 3.8% yoy.

- The total value of **infrastructure projects** being carried out by the **Abu Dhabi municipal system**, including the unified addressing and way-finding system, is valued at AED 30bn, according to a senior official at the Department of Municipal Affairs.

**MENA Economic Associates**  

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