

Weekly Economic Commentary – January 12, 2014

Markets

Stock markets crawled up again in the developed countries but were mixed elsewhere after a weaker than expected US jobs report dampened concerns that the Fed will accelerate stimulus cuts. **Regional** markets shared the cheer, most closing higher for the week with Oman leading the gains. But, reports suggest that the Fed is seriously concerned, as it should be, about the asset price bubble created by QE liquidity: uncertainty will persist on the course of monetary policy. The **dollar** dropped against all but one of its peers, the **yen** rose for the second week and the **euro** rebounded. **Crude oil** slipped but pared losses after a weak US jobs report and **gold** gained sharply.

Global Developments

US/Americas:

- **Non-farm payrolls** scored a **paltry increase** 74,000 in Dec (although the unemployment rate declined from 7 to 6.7%) much below expectations of a 197,000 and well over 200K in Nov. The figure casts doubts on the hopes of an accelerating economy in 2014. The three-month average for jobs growth at 172,000 and the six-month average at 170,000.
- The **ISM nonmanufacturing index** ended 2013 on a sour note, **falling** from 53.9 to 53 for December. The decline bucked our expectations for a rise, and the index is at its lowest since June. The standout was the sharp drop in new orders; the index fell from 56.4 to 49.4, below the neutral threshold of 50 for the first time since 2009. The inventory details suggest that destocking was a

larger drag on growth late in Q4.

- Bernanke told at a private meeting with US senators that the reduction in federal budget deficits and the energy outlook were “all positives” for the US economy.
- **Factory orders increased** 1.8% mom in Nov (Oct: -0.5%) to reach their highest level since '92. A 21.8% mom jump in the volatile aircraft orders drove the gains but orders rose across the board. Orders for core capital goods – a proxy for business spending – increased 4.1% mom.
- **Initial jobless claims fell** by a more-than-expected 15k last week to 330k. The four-week moving average fell by 9.75k to 349k.

Europe:

- **Eurozone inflation was stable** at 0.8% yoy in Dec, compared with 0.9% in Nov, a weak score but that will not prompt any changes by the ECB.
- **Economic sentiment** in the euro area in Dec **strengthened** by 1.6 points to 100.0, recording the eighth straight month of improvement. The index increased the most in Spain (4.0 points), while in Italy and in the Netherlands was up by 2.3 and 1.5 points, respectively. In Germany and France sentiment increased by three decimals.
- **Markit's Eurozone composite PMI increased** to 52.1 in Dec from 51.7 in Nov but indicated a diverging picture; While German composite PMI slipped 0.4 points to 55, it remains firmly in expansionary territory, but in France the contraction accelerated with the PMI dipping to 47.3 from 48.
- **German retail sales grew** 1.5% mom in Nov following a -0.8% drop a month earlier. Despite solid wage and salary growth and a low jobless rate, household spending is lackluster. Actually, private consumption growth declined in Q3 to 0.1% qoq (Q2: 0.6%).
- **German manufacturing orders grew** 2.1% mom in Nov,

following a -2.1% drop in Oct. In yoy terms, factory orders rose 6.8% after rising 1.9% in Oct. German manufacturing PMI jumped to 54.3 in Dec, indicating acceleration in the expansion of production.

Asia and Pacific:

- **China's HSBC composite PMI** eased **down** to 51.2 in Dec from 52.3, but continued to expand for the fifth month.
- **China's inflation fell** to 2.5% yoy in Dec from 3.0% in Nov, a seven-month low, at odds with typical higher prices pattern at year-end. Food prices, led the slowdown, increasing 4.1% yoy vs 5.9% in Nov. Net of food price components, inflation was rather stable at 1.7% yoy in Dec from 1.6% a month earlier.
- **Chinese** banks extended 8.9 trillion of **new Yuan loans** in 2013 and around 500 million in Dec. Yuan loan growth was 14.2% yoy for the year.
- **Chinese exports increased** a paltry 4.3% yoy in Dec which follows a 12.7% yoy rise in Nov. Imports exceeded expectations rising 8.3% yoy, up from 5.3% yoy in Nov.
- **India industrial production** fell for the second month in Nov, slipping -2.1% dragged by a -3.5% decline in manufacturing output.

Bottom line: The US non-farm payroll numbers highlight a monumental failure. In 2013 fewer jobs have been created compared to 2012: so much for QE3. Emerging market bonds posted only their third year in the red since 1998 last year, while emerging equities ended 2013 in the red for the second year in three. **China remains under scrutiny** as more details emerge on local government debt and the shadow banking system: since 2010 only 15% of Chinese local governments' new debt came from banks. Austerity measures and the central bank's steady tightening of monetary conditions are also weighing on inflation. Over the past six months, the central bank has steered money rates to higher ground, pushing banks to cut back their lending and indebted companies to reduce their

Leverage

Regional Developments

- **Saudi Arabia** SABB HSBC **PMI climbed** to 58.7 in Dec from 57.1, taking the rate of expansion to an eight-month record. Purchasing activity was driven primarily by new business.
- **Bahrain's non-oil sector appears to be strengthening** after registering 3.0% and 2.5% in Q3 and Q2 2013 respectively and the country is expected to grow at an overall rate of 5% in 2014.
- **Egypt PMI slipped** to 52 in Dec from 52.5 in Nov. The non-oil sector continued to expand, helped by stronger export demand.
- **Egypt's urban inflation slowed** to 11.7% in Dec from Nov's 13%, which was the highest annual rate in nearly four years. Meanwhile, core inflation dipped slightly to 11.91% in Dec (Nov: 11.95%).
- The Central Bank of **Egypt eased restrictions on foreign currency transfers** abroad, allowing individuals to make a one-time transfer of up to USD 100k this year. Forex reserves fell to USD 17.032bn in Dec (Nov: USD 17.766bn) and compares to the USD 36bn prior to the 2011 uprising.
- **Iraqi** officials stated that the **construction of the pipeline to Jordan and Egypt** is open for foreign investment; the 1,680km double pipeline is expected to pump 1mn bpd of crude and nearly 258mn cubic feet of natural gas from Basra on the Gulf to Jordan's Aqaba Port.
- Inflation in **Jordan increased** to 5.6% in 2013 compared to 2012, as per data released by the Dept of Statistics, driven by higher transportation and fuel and electricity costs which rose 11.4% and 19.7% respectively.
- According to 2013 data, **Kuwait is home to more Asian expatriates than Kuwaiti nationals**; population was up 2.63% yoy to 3,965,022 people in 2013. Local population

represents 31.3% of the total population compared to 37.8% Asian expatriates.

- **Budget surplus** for Apr-Sep 2013 in **Kuwait** was **down** 15% to KWD 10.72bn, thanks to increased outlays on public sector wages, while oil revenues fell.
- The **Oman** government announced plans to **merge the assets of its 10 pension funds** in an effort to save cost, enhance efficiency, and collect better returns on investments, when investing the corpus funds in stock markets.
- **Oman's non-oil exports grew** 8.5% to OMR 2.33bn during the Jan-Aug period, with UAE and Saudi Arabia its largest non-oil trade partners; non-oil exports to UAE witnessed a sharp 24.4% increase to OMR 428mn while non-oil exports to Saudi, Oman's second biggest non-oil trading partner, was up a whopping 93% to OMR 306mn.
- Inflation in **Oman** inched **up** to 0.5% in Nov (Oct: 0.3%) with education costs, food prices and housing rental, electricity, water and fuel prices rising (in mom terms) 9.9%, 2.9% and 1.2% respectively.
- To meet the 2014 budget deficit, **Oman is planning** to float OMR 200mn worth sovereign **Sukuk** in the domestic market, in addition to OMR 200mn foreign borrowing, a surplus of OMR 1bn from 2012 and another OMR 400mn financial reserve.
- **Bank credit** in **Oman** was **up** 8% yoy to OMR 15.17bn during the first eight months of 2013, with personal loans, at OMR 6.02bn, accounting for 39.7% of the total bank credit.
- Better access to mortgage finance and optimism in regional property markets has helped **Oman: total traded value of property grow** 21.5% yoy to OMR 1.94bn during Jan-Nov, with the traded value of mortgage contracts rising 18% to OMR 1.29bn.
- According to National Centre for Statistics and Information, there were 278,891 families in **Oman** mid-2013, with each household having an average of 7.5

persons. The Muscat Governorate recorded the highest average household income at OMR 1,459 per month, with an average household spending of OMR 930 per month.

- The **Qatar** Financial Centre Authority has **amended key regulations including Insolvency Regulations, the Single Family Office Regulations and Special Company Regulations**, in an attempt to simplify procedures and offer firms more flexibility in their operations.
- **Real estate** deals in **Qatar** touched 8481 in number and at a value of QAR 45.5bn in 2013 due to **surging land prices**, according to the real estate company Roots.
- **Saudi Arabia** launched an **unemployment insurance** scheme; all Saudi employees (both in the private and public sectors) will be charged 1% of their monthly salary as a subscription while their employer will pay the same amount into the scheme. The provision is such that should jobs be lost, a person would be entitled to up to 12 months of compensation, set at 60% of the average salary earned in the previous three years for the first three months and then 50% for the following nine months.
- Total **Sukuk issuances** value stood at USD 14.1bn from 126 issuances in Dec (as investors' scurried to get cheaper funding rates), taking the full-year total to about USD 120bn, according to KFH Research.

UAE Focus

- UAE **PMI declined** to 57.4 in Dec from a record of 58.1 in Nov. However the non-oil private sector index improved as new orders and staffing levels rose.
- **Consumer expenditure** in the UAE is expected to **grow** 7% yoy to about AED 766bn in 2014, according to estimates from Euromonitor, up from AED 668bn in 2012 and AED 715bn last year. As of 2012, **Dubai accounted for about 57% of total consumer spend**.
- **Sharjah's sovereign credit ratings** are well above the threshold for investment-grade debt as Moody's Investors

Service assigned an **A3 government bond rating** to the Sharjah government, while Standard & Poor's rated it A.

- **UAE's federal credit bureau** is expected to **complete agreements with banks** to provide credit information and create an electronic database by the end of January, according to its CEO. He also stated that the pilot phase testing had been successful, achieving more than 90% accuracy.
- The Securities and Commodities Authority, **SCA**, set conditions for banks and other companies to obtain licenses allowing them to issue **covered bonds**, an important stepping stone towards the creation of a local debt market. SCA also set requirements for issuers to disclose information affecting the prices of the bonds. Covered bonds are backed by cash flows from mortgages or public sector loans and are deemed relatively safe.
- SCA has introduced **new margin lending rules**, with immediate effect, whereby firms can now lend each client three times the 10% of the capital set aside for margin lending previously.
- **Emaar** Properties will **redeem** an outstanding USD 237mn **convertible bond** on Feb 6, with the conversion price for the bond at AED 4.38 per share, revealed a bourse filing. Meanwhile, **Nakheel's** intention to pre-pay part of its debts – the first tranche of AED 2.35bn by end-Feb and another AED 1.65bn later in the year – is likely to boost investor confidence.

MENA Economic Associates
one step ahead