

Weekly Economic Commentary – January 26, 2014

Markets

Stock markets finally got some long delayed injection of realism in the wake of weak earnings, Chinese malaise and an impending collapse of Argentina. The Shanghai Composite dropped at the beginning of the week below 2k, a 5.5-month low, then when the US markets reopened, after the MLK long week end, they suffered three days of losses culminating on Friday when the S&P 500 and the Dow Jones had their worst day since June 20 (when Bernanke ventilated the end of QE). Europe, Japan and emerging markets were also hit, but regional markets (apart from Morocco) displayed a remarkable resilience. The dollar lost against the major currencies on concerns about the next moves by the Fed this week. Gold prices gained for the fifth straight week on disappointing macro data but oil prices remained well bid.

Global Developments

US/Americas:

- **Markit's US flash manufacturing PMI** dipped 1.3 points to a three-month low of 53.7 in Jan. The slowdown was partially a result of disruptions in production and sales of some firms due to cold weather.
- The US **FHFA house price index** rose by a less-than-expected 0.1% mom in Nov after rising a revised 0.5% mom in Oct.
- **US existing home sales** rose an anaemic 1.0% mom in Dec, to an annual rate of 4.87 million. Despite year-end weakness 2013 was the best year for resales (just over 5mn) since 2006 at the close of the housing boom when sales reached an unsustainably high 6.5mn.

- The Conference Board's index **leading indicator index** rose by a less-than-expected 0.1% mom in Dec following an upwardly revised gain of 1% mom in Nov. Five of the ten indicators contributed to the increase.
- **US initial jobless claims** ticked up 1,000 last week to 326,000 sa. The four-week moving average fell 3,750 to 331,500, suggesting continued improvement.
- The **Argentine peso** suffered its biggest one-day fall since the financial crisis of 2002 on Thursday, after the central bank stopped intervening in currency markets to preserve FX reserves reduced by 32% in 2013. The peso sank 17.5% to 8.184 to the dollar in just two days.

Europe:

- The **euro area flash Markit PMI**, reached 53.2 in Jan, a 31-month high, increasing from 52.1 in Dec and comfortably above the 50 points mark that signal expansion in economic activity. The figure for manufacturing was 53.9, a 32-month high, while the services index touched 51.9. While Germany, Italy and Spain showed solid growth in factory output in Dec, the manufacturing PMI for France fell to a seven-month low of 47.
- The **German ZEW** indicator of economic sentiment retrenched marginally to 61.7 in Jan from 62 in Dec, while the ZEW indicator for the current situation leaped to 41.2 from 32.4, its highest score since May 2012.
- The Bank of **England** decided to drop the so-called forward guidance hinging on the 7% unemployment target for monetary policy.
- **Turkey's** central bank held rates constant despite the relentless fall of the lira now exacerbated by Argentina's maelstrom.

Asia and Pacific:

- **China GDP** growth slowed to 7.7% yoy in Q4 from 7.8% yoy

in Q3, the slowest in more than a decade. The average annual growth rate in 2013 was unchanged at 7.7%.

- **China industrial production** rose 9.7% yoy in Dec, slowing from an expansion of 10% in Nov. Similarly, output for 2013 came in at 9.7% yoy after growing 10% a year earlier.
- **Chinese fixed asset investment slowed** in Dec, with full-year expansion coming in at 19.6%, compared with 19.9% for the first 11 months of the year the slowest full-year growth since 2004.
- The Central Committee of Communist Party of **China** issued a key policy document underscoring the importance of rural reforms.
- **The Markit/HSBC flash China manufacturing PMI** fell to 49.6 in Jan from 50.5 in Dec, indicating a contraction for the first time in 6 months. New exports orders and employment accelerated their decline while new orders recorded the first drop in half a year, underpinning overall manufacturing weakness.
- **Japanese industrial production** unexpectedly fell -0.1% mom in Nov after rising 1% mom in Oct.
- A committee by the **Reserve Bank of India** recommended headline CPI as the nominal anchor for monetary policy, targeting a declining inflation to 8% in 12 months, 6% in 24 months and afterwards settle at 4%, within a +/-2% range. On governance, the committee foresaw the creation of MPC and gradual changes in the policy framework. If adopted, the inflation target would lead to higher rates in 2014.

Bottom line: The problems swept under the rug by markets throughout 2013 are resurfacing with China and Japan losing steam and the US failing to reach cruising altitude. The S&P 500 trades at 16 times forecast earnings, well above 13, the average going back to the 1970s. Since 1976, it has hardly ever surpassed 17 times forecast earnings. The main exception came during the stock bubble of the late 1990s and early

2000s. The risks were underscored by the updates of the IMF global economic forecasts (broadly unchanged from the October 2013 WEO): world GDP is forecast to be slightly higher in 2014, at around 3.7%, rising to 3.9% in 2015, largely on account of an improvement in the advanced economies. Such upward surprise however is due to higher inventory demand. In Euroland the recovery will be uneven as in 2013 with Germany in the lead and the periphery panting in the distance.

Regional Developments

- **Egypt** plans to return Qatar's USD 3bn invested in bonds once the debt matures this year; according to a source from the Central Bank, USD 500mn will be returned in Oct and another USD 2.5mn in Nov.
- The **Egyptian** Financial Supervisory Authority (EFSA) has announced the implementation of **new regulations on the stock exchange** from Feb 1 in a bid to attract more investment and boost trading – this includes ease of listing on the exchange, no permission required from the EFSA for a listed company to split shares or have to call a general assembly prior to a capital increase as long as it complies with pre-set rules and such. Additionally, it was revealed that a bond trading platform – a plan 10 years in the making – might be launched in Q2 2014.
- A report from the international human rights group Amnesty stated that **state violence** in **Egypt** was on an “unprecedented scale” since the army overthrew President Mursi last July and that about 1,400 people had been killed in political violence since then mostly due to “excessive force used by security forces”.
- **Egypt's** **tourism revenue** tumbled by 41% yoy to USD 5.9bn last year, according to the Tourism Minister. Furthermore, central bank data revealed that tourism receipts in Q1 of Egypt's financial year, which starts in July, slipped to USD 931.1mn, down from USD 2.64bn a

year ago.

- **Net FDI** in **Egypt** is expected to increase by a third – a large proportion of it is Gulf investments – to around USD 4bn this fiscal year (which ends in June) according to the Investment Minister. Prior to the 2011 revolution, the country attracted net FDI of around USD 8bn annually.
- The Planning Minister of **Egypt** stated that while the investment plan for the 2014/2015 financial year was still under study, growth is expected between 4-4.5% during this period.
- **Jordan**'s central bank data revealed that **inward remittances** increased by 4.4% yoy to USD 3.65bn in 2013; remittances were on the decline in 2011, but it has been slowly recovering since.
- **Kuwait** estimates spending of KWD 21.86bn and revenues of KWD 20.07bn (based on an oil price of \$75 a barrel) in its **draft budget** for 2014/15, reported the state news agency, based on cabinet meeting discussions.
- The **IIF** forecast **Lebanon**'s **growth** at near 1% in 2014 due to sustained political and security instability; an upbeat scenario is also provided wherein an improved domestic situation is forecast in correlation with a de-escalation of the civil war in Syria, causing growth to accelerate to as much as 5%. The IIF estimates the probability of each scenarios at 50% and as a result expect an average weighted growth of around 3%.
- **Beirut**'s international airport witnessed a 6.6% **drop in tourist arrivals** in 2013 and 40% on a cumulative basis since 2010, according to Tourism Ministry statistics.
- **Oman**'s National Centre for Statistics and Information reported a growth of 8.4% in **non-oil exports** alongside a 22.3% surge in non-oil imports during the first eight months to Aug 2013. UAE topped the list of trade partners in both non-oil imports (OMR 2.394bn, 38.6% yoy) and in terms of Omani non-oil exports (OMR 427.5mn, 24.3%).

- **Oman** is in the advanced stages of launching a **capital market for SMEs**, according to the Capital Market Authority. According to the announcement, “the objective of the exchange will be to support the development of small and medium enterprises across a wide range of growth enablers, to provide fair and attractive returns to investors and market participants, and to provide clients and suppliers of SMEs with better access to and information on the opportunities of doing business with SMEs”.
- **Real estate transactions** in **Qatar** recorded an increase of 8% yoy to QAR 46.8bn in 2013, as per one of the largest realty services firms.
- **Saudi Arabia**'s Labour Minister stated that the number of **Saudis working in the private sector** is currently around 1.5mn – roughly 101% higher compared to 30 months ago.
- A **United Nations report** on the Global Outlook and Regional Prospects estimates that Lebanon and Jordan need to grow at 2.4% and 3.9% respectively in 2014 in order to support the influx of Syrian refugees compared to growth rates of 1.3% and 3.2% in 2013 (respectively).
- **Investment banking fees** in the **Middle East** grew by 20% yoy to USD 722.2mn in 2013, the highest annual total in the region since 2010, reported Thomson Reuters. Meanwhile, syndicated lending fees rose 38% yoy to USD 303mn, accounting for 42% of the overall fee pool and the highest share since 2004.

UAE Focus

- **Dubai** registered a **growth** of around 4.9% in 2013, higher than forecasts of 4.1%, according to Sheikh Ahmed bin Saeed Al Maktoum, chairman of the economic development commission in Dubai's Executive Council. He also stated that Economic growth is expected at similar rates this year, thanks to increased demand on services, a surge in foreign investment, large infrastructure projects and

“pioneering” government initiatives.

- While **Dubai Holding** confirmed the final deal on the USD 10bn restructuring came the report of Abu Dhabi’s **Emirates Steel** being in talks with banks for a USD 1.3bn loan to help refinance an existing facility and raise cash to purchase assets from its parent firm General Holding Corp (Senaat).
- **UAE**’s energy minister raised concerns about the country’s **energy consumption**, which is currently double or triple the average of the world. Though tiered water and electricity charges were introduced at the Federal level, the country may be forced to raise prices to encourage consumers to change. He also revealed that the nationals account for less than 30% of consumption.
- **S&P**’s report on the **UAE banking sector** was positive: it stated that asset quality of UAE banks was set to improve in 2014 with a decline in non performing loan ratios and improving coverage ratios supported by asset and profit growth.
- IRENA and the Abu Dhabi Fund for Development are set to provide more than USD 41mn **financing for renewable energy projects** in Republic of Ecuador, Sierra Leone, the Maldives, Mauritania, Samoa, and Mali.

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