

Weekly Economic Commentary – February 9, 2014

Markets

The week started with a rout in stock markets led by Asian shares (on Tuesday the Topix posted a 4.2% loss, the largest since June and the Nikkei 225 tumbled 3% a fifth successive weekly loss.) but then by midweek the US and Europe rebounded (the S&P 500 is just below 1800 after touching a high of 1,850 on January 15). Volatility and uncertainty remain entrenched as US data did not lift the fog over what is increasingly looking like a loss of momentum in the economy. Regional markets were mostly stable, but Dubai scored a whopping 6% gain. Some good news came from sovereign bonds where Spanish and Italian yields touched an 8-year low. The euro rebounded after the decision by the ECB to hold rates and the German constitutional Court ruling while the yen was on the back foot. Oil remains well bid on the shorter dated futures but has weakened substantially on the long dated contracts. Gold was lifted by the uncertain global outlook.

Global Developments

US/Americas:

- **Nonfarm payrolls increased** by a disappointing 113,000 units in Dec far short of the 180,000 forecast after 75,000 in Nov. The **unemployment rate fell** to 6.6% from 6.7%.
- The **ADP employment survey** showed the US private sector added 175k workers in Jan, in line with the 2013 monthly average but lower than a downwardly revised 227k job additions in Dec.
- **US initial jobless claims fell** by a more-than-expected 331,000 last week, offsetting the previous week's sharp rise. The four-week moving average rose to 334,000.
- The **US ISM manufacturing index declined** from 56.5 to

51.3 for Jan. The index was below forecast, with new orders down significantly, and inventories below the expansionary threshold of 50 for the second consecutive month. Conversely, the **ISM non-manufacturing index** beat expectations rising to 54 from 53 in Dec. The new orders index rose 0.5 points to 50.9 and employment gained 0.8 to 56.4.

- **US construction spending increased** 0.1% mom in Dec, slowing from a 0.8% mom rise in Nov. Private construction spending remained near a five-year high while public construction outlays continued to be a drag.
- **US factory orders fell** -1.5% mom in Dec, weighed down by a -9.7% mom plunge in the highly volatile transportation orders. Orders ex-transport rose 0.2% mom, following a gain of 0.3% and 0.1% in Nov and Oct, respectively. Orders for nondefense capital goods – a proxy for business spending – fell a downwardly revised -0.6% mom.
- **US trade deficit** in Dec **widened** 10% to USD 38.7bn as a result of -1.8%mom decline in exports.
- **Industrial production in Brazil was down** in Dec a -3.0% mom sa loss the largest since 2008 which took the yearly rate down by -2.3%.

Europe:

- **Germany's constitutional court** handed the case concerning the ECB's outright monetary transactions (OMT) to the European Court of Justice, (setting a key precedent), but underscored pointed legal challenges to the legality of the plan deemed to breach the central bank's mandate. After the ECJ's ruling, the German court will consider the implications and could still block, limit or delay Germany's role in the OMT.
- The **eurozone manufacturing PMI increased** 1.3 points to 54 in Jan suggesting that manufacturing sector expansion is gaining momentum with improvement in the periphery.

Germany's PMI surged to 56.5 from 54.3 as output rose at the fastest pace in 32 months, France's gauge inched up but remained in contractionary territory and manufacturing in Greece expanded for the first time in two years.

- The **composite eurozone PMI**, measuring both manufacturing and services activity, for Jan came in 55.5, **slightly higher** than in Dec. The French and Italian services sectors are still shrinking and Germany's posted the worst figure in services activity for three months.
- **German industrial production** unexpectedly **fell** in Nov, dipping -0.6% mom sa after rising 2.4% mom in Nov. **Factory orders** shrank -0.5% mom dragged by domestic demand which fell -1.6% while export orders rose 0.4%.
- **U.K. industrial production increased** 0.4% mom (1.8% yoy) in Dec after a -0.1% mom in Nov, and even beleaguered **Spain's index** for Dec climbed 1.7% yoy, following a 2.4% increase in Nov.
- The **European Central Bank** left interest rates on hold, despite a frenzy of expectations for some move; likewise the **Bank of England** kept rates constant without indications on changes to "forward guidance".

Asia and Pacific:

- **China's services PMI slowed** to 50.7 in Jan, from 50.9 in Dec hovering above the 50 mark that indicates expansion.
- The **Markit/HSBC India manufacturing PMI increased** to 51.4 in Jan from 50.7 in Dec led by faster growth in new orders.
- **Indonesia GDP grew** 5.7% yoy, somewhat above estimates. For 2013 GDP growth was 5.8%, the slowest since 2009, and below the 6.2% growth in 2012.
- **Australia's trade balance** recorded an AUD 468m **surplus** in Dec against expectation of a AUD 200m deficit, due to surging food exports.

Bottom line: Since January the data flow in the US and

elsewhere has disappointed expectations and cast doubts on the sustainability of the recovery. The stock market turmoil brought Japan under scrutiny where the aggressive monetary easing over the past year has led to a sharp decline in the yen, but actual export volumes have stagnated, as companies kept overseas prices unchanged to increase profits. Meanwhile, imports have surged. The US labor market maintains a weak tone and other indicators do not lend support to rosy forecasts. Europe on the other side seems to have found a floor and albeit painfully and slowly, some signs of recovery are solidifying.

Regional Developments

- **Egypt** received **petroleum products worth USD 4bn** from the Gulf States during July-Dec 2013, according to the Petroleum Minister; he did not specify the countries, but in Nov the government had revealed that it had received USD 2.48bn worth of petrol aid up to end-Nov as part of the aid package.
- **Foreign reserves** at the **Egypt** central bank were USD 17.05bn as of end-Jan, compared to USD 17.03bn a month ago, USD 15.015bn in Dec 2012 and USD 36bn prior to the 2011 uprising.
- The **budget deficit in Egypt narrowed** during H1 of the fiscal year 2013 to EGP 89.4bn or 4.4% of economic output, compared to EGP 91.472bn in H1 of the last fiscal year (5.1% of output), reported the state news agency, quoting the Finance Ministry.
- **Iraq's** Ministry of Oil revealed that **oil production had increased to 3.524mn bpd**. Meanwhile, exports fell to 2.228mn bpd in Jan compared to 2.341mn bpd exported last Dec. There was also a report (citing an unnamed Jordanian official) that all supplies of Iraqi oil to Jordan were stopped, due to the security situation in Anbar province.
- **Kuwait's** sovereign wealth fund plans to **invest EUR 500mn in Italian companies**, along with the country's strategic

fund, according Prime Minister Enrico Letta. Kuwait and Italy will create a company with capital of EUR 2.5bn, of which 80% will come from Italy's strategic investment fund, the FSI, and the rest from the Kuwait Investment Authority.

- **Public sector revenue in Oman grew** 4.5% yoy to OMR 14.08bn in 2013 (2012: OMR 13.48bn) while expenditure declined 19.7% to OMR 10.89bn, according to data published by the National Center for Statistics and Information.
- **Oman** Power & Water Procurement Company is planning to introduce a **spot market for electricity** in a bid to promote competition among the nation's power producers.
- Two more **IPOs** are likely during H1 2014, according to a senior **Oman** CMA official, stating that the process was already initiated with two energy companies Al Sawadi Energy and Al Batinah Energy with issuance of more than OMR 20mn for each company.
- **Qatar** plans to spend as much as USD 205bn on **infrastructure** between 2013 and 2018, according to the acting head of project finance at QNB.
- **Yields** at **Qatar's** monthly T-bill auction **dipped to multi-month lows** last week on liquidity surge, thanks to government rolling over only part of a huge debt maturity, also highlighting the lack of flexible liquidity management (or open market operations).
- While the size of the investment remained undisclosed, **Qatar** announced plans to make huge **investments in Italy's** various sectors including energy, healthcare and tourism.
- **Foreign assets in Saudi Arabia increased** SAR 258bn to a record high of SAR 2738.7bn in 2013, thanks to the rise in investments in foreign securities, which shot up to a record high of SAR 1,952bn at the end of 2013 (2012: SAR 1,670bn).
- **Saudi Arabia attracted** USD 141bn in **FDI** during the past five years, topping the Middle East, and additional

government spending of USD 718bn has enabled economic growth in the country, stated the Commerce and Industry Minister at a meeting of the Saudi-British Business Council.

- **Saudi Arabia's SME financing** guarantee program "Kafalah" issued a total of 7,280 guarantees for a total sum of SAR 3.589bn from its inception in 2006 till last year; in addition, participating banks provided funding facilities of around SAR 7.184bn for about 4082 SMEs.
- **Inflation in Saudi Arabia was higher** at 3.6% in the first 10 months in 2013, driven by food and housing costs.
- The number of **government-supported loans in the GCC countries for industrial projects** stood at 133 valued USD 1.64bn by the end of 2012, according to a report published by the GCC Secretariat. Saudi Arabia, providing 92 loans worth USD 1.51bn or 92.3% of the total loans topped the list followed by UAE and Qatar with loans at USD 61bn and USD 25bn respectively.
- **Middle East** airlines recorded the **strongest increase in passenger traffic** in 2013, up 12.1% from the previous year (though lower than 2012's 15.4% growth), according to the International Air Transport Association.

UAE Focus

- **UAE's** Minister of Economy revealed (at the "UAE Economic Outlook 2014" forum) that **FDI** is expected to touch AED 44bn in 2014, alongside **exports** at AED 1 trillion, while also projecting **growth rates** of 4.5-5% between 2015 & 2018, bringing GDP closer to AED 1.7 trillion by 2018.
- **UAE PMI slipped** marginally in Jan to 57.1 (Dec: 57.4) though non-oil private sector order intakes increased at the second-quickest pace in the series' history while workforce numbers rose at a slower pace than seen in Dec.
- The total expenditure **budget** approved for the Roads and

Transport Authority (**RTA**) amounts to USD 1.92bn in 2014. According to RTA's Chairman, "the approved **projects'** budget is estimated as USD 986mn, which will be allocated for constructing around 99 projects; comprising 50 new projects to be undertaken in roads, marine transport and public transport sector".

- **DIFC** contributed 12.1% to Dubai's 2013 GDP, while the contribution of financial services sector remained over 15%, according to the DIFC Governor. The number of active registered companies stood at 1039 in 2013, and combined workforce jumped by 11% yoy to 15,600.
- **US-UAE bilateral trade** grew 8.5% yoy to AED 98.7bn in 2013, according to the US Census Bureau's Foreign Trade Division figures. Transportation equipment was the largest component of US exports to the UAE at USD 9.4bn or 38% of total exports.
- **S&P** raised its **long-term rating of Emaar to BBB-minus**, the lowest investment grade, from BB-plus, citing "the sound performance of Emaar's high-quality, Dubai-based leasing and hospitality assets, which constitute a large share of total earnings"; the ratings agency had reduced Emaar to junk status in 2009.
- **DP World** announced that its **consolidated container volumes** fell to 3.8% yoy in 2013 after the sale of one of its Hong Kong assets, but gross volumes – which include more terminals – rose slightly by 0.7% in like-for-like terms.
- **Dubai Pearl** revealed last week that it had **sold property assets** worth USD 1.9bn to a Hong Kong-based investor – this could mark a new wave of interest from the Chinese in Dubai's real estate market.