

Weekly Economic Commentary – February 16, 2014

Markets

Stock markets scored the best week since Dec after being reassured by Yellen's testimony and regained altitude with the S&P500 getting close to the 1850 record of mid January. A similar picture prevails for European bourses. Regional markets joined the global upbeat mood. On the contrary, the Nikkei saw another weekly loss. The euro strengthened across all currencies while the dollar weakened. Oil maintained a firm tone and gold climbed above USD 1300.

Global Developments

US/Americas:

- In her first Congressional testimony **Fed new President Yellen reiterated** and did not depart significantly from the line of her predecessor. Tapering will continue at a pace of USD10bn each FOMC meeting but short term rates will remain near zero for the foreseeable future.
- The US Senate **extended the Federal government's borrowing ceiling** until March 2015, removing the vexed issue for at least a year.
- US **wholesale inventories** increased by a less-than-expected 0.3% mom in Dec after rising 0.5% mom in Nov. Inventories were below the gov't initial estimate, suggesting possible downward revisions to Q4 GDP growth.
- **The University of Michigan/Thomson Reuters** consumer confidence was **unchanged** in Feb from a month earlier, at 81.2.
- **US industrial production** in Jan **fell** -0.3% mom in Dec. with output in manufacturing tumbling -0.8% mom the largest in almost 5 years.

- **US initial unemployment claims increased** a modest 8,000 to 339,000. The four-week moving average rose 3,500 to 336,750. Continuing claims to 2.95 million, down by 18,000.

Europe:

- The **eurozone GDP grew** by 0.3% qoq (0.5% yoy) in Q4 (slightly above expectations) vs 0.1% (-0.3 yoy) in Q3. German GDP grew by 0.4% qoq in Q4, France's 0.3% qoq and Italy 0.1% qoq. The top performer in the EU was Romania with 1.7% qoq.
- **Eurozone industrial production fell** by a more-than-expected -0.7% mom sa in Dec after a downwardly revised 1.6% mom sa gain in Nov. Italy's production fell by -0.9% mom and France's by -0.3% mom.
- **Bank of England governor Carney reneged on "forward guidance"** linking interest rates to unemployment stated that UK interest rates "may need to remain at low levels for some time to come", i.e. after the elections next year.
- **Greek unemployment** reached a **fresh high** of 28% in Nov.

Asia and Pacific:

- **China** reported a 10.6% yoy **jump** in **exports** in Jan – significantly outstripping expectations – which follows a 4.3% yoy rise in Dec. Imports increased 10% yoy, accelerating from 8.8% mom in Dec. Chinese stock markets were little changed.
- **China inflation** was **stable** at 2.5% yoy in Jan, the same as in Dec. Factory gate prices fell the 23rd month in a row, with producer price inflation dropping 1.6% yoy, confirming that price pressures are minimal.
- **Chinese banks advanced** RMB 1.3 trn (USD 218bn) in new loans in Jan, nearly thrice Dec's level in a sign that the economy is not cooling much.
- **Japan's current account gap** was Y639bn (\$6.2bn), the

biggest decline on record and the third monthly deficit in a row. The previous record was Nov's Y593bn deficit.

- **Japan core machinery orders dropped** -15.7% mom in Dec, recording the steepest fall since '98. The decline was partially a pullback from Nov's 5-year-high when orders rose 9.3% mom.
- **Japanese consumer confidence** continued **plummeted** to 40.5 in Jan from 41.3 in Dec, well below the neutral 50 mark. Abenomics has so far benefited large exporters, not much households.
- **India's wholesale inflation increased** just 5.1% yoy in Jan – the slowest pace since May – vs 6.1% in Dec.
- **India's trade deficit widened** in Nov to USD 10.4 bn from USD 9.22 bn in Oct. Exports slowed to 3.5% yoy from 5.9% yoy.
- **India industrial output** unexpectedly **fell** for the second month in Nov, dipping -2.1% mom. A drop in consumer goods production was the main drag on output growth.
- **Malaysia's GDP grew** 5.1% yoy in Q4, almost the same as in Q3. Exports strengthened thanks to global electronics demand and private consumption was buoyant.

Bottom line: The main question is whether the weak data on labour market, retail sales and industrial production in the US are an effect of bad weather or if they underline a weaker economy. At a global level the OECD's monthly leading indicator reached its highest level since Feb 2011 in Dec, rising to 100.9 (Nov: 100.8), indicating that growth is firming. Clouds continue to hover over Japan, although the data from the eurozone have confirmed that stabilization is within reach. In global markets volatility should rise, and potentially overshoot, as the US exits its unconventional monetary policies. This toxic mix of rising volatility and a reversal of correlations was a main factor that derailed portfolio insurance strategies in 1987 and led to the failure of Long Term Capital Management in 1998. In current circumstances, volatility could exacerbate a systemic

liquidity mismatch. If market prices decline and interest rates rise, with banks in bad shape and investors over leveraged, the snowball effect could be substantial.

Regional Developments

- **Egypt's** EGP 33.9bn **second stimulus package** – financed mostly by the UAE – envisages nearly EGP 20bn to be spent on development projects, EGP 12bn towards financing social programmes, including a rise in the minimum wages and EGP 2bn towards developing a corridor around the Suez Canal, according to the finance minister.
- **Urban inflation rate** in **Egypt slowed** to 11.4% in Jan (Dec: 11.7% and lower than the four-year high of 13% in Nov) while the core inflation rate dropped to 11.7% (11.9%).
- A recent **Fitch** report stated that **Egypt's ratings** have “stabilised on tentative political and economic improvements”, but that rapid upgrades were unlikely.
- **Iraq** has **allocated USD 7.5bn for infrastructure** and development projects in oil-rich provinces in 2014 under a new law which provides them a share of USD 5 per barrel exported from their oilfields.
- On his visit to **Jordan**, President **Obama pledged** not only USD 1bn in loan guarantees but also the renewal of a **five-year aid package**.
- **Jordan's inflation picked up** to 3.4% in Jan, thanks to increase in rentals, prices of vegetables and fruits, transport services, education and clothes.
- **Kuwait's** state-run oil company announced its **approval of bids** worth a total of USD 12bn for major upgrades at two oil refineries, as part of the Clean Fuels project.
- **Inflation** in **Kuwait dipped to a nine-year low** of 2.7% in 2013, driven by falling food prices and the easing of ‘core’ price pressures.
- S&P affirmed **Kuwait's** long- and short-term foreign and

local currency sovereign credit ratings at 'AA/A-1+' with a stable outlook, given the nation's "high levels of wealth" and "very strong external and fiscal balance sheet positions".

- **Lebanon** formed a **new government** after 10-months of deadlock with the new PM announcing that "a government in the national interest was formed in a spirit of inclusivity".
- Given **Lebanon's** 96 trillion cubic feet of gas reserves and 865mn barrels of oil reserves, net proceeds or **oil wealth** to the government are estimated at more than USD 600bn according to Ministry of Energy sources, as published in a recent Bank Audi report.
- A report by Global Blue estimates that **UAE accounted for 15% of Lebanon's tourism receipts in Q4 2013**, followed by Saudi Arabia (12%), Egypt (8%), Syria (7%), Kuwait (6%) and Jordan respectively. The travel and tourism industry contributed LBP 6,325.5bn to GDP in 2013.
- **Senegal** raised USD500m in debt to finance **infrastructure projects**, including ports, airports and roads, according to **Morocco's** Banque Centrale Populaire.
- Rising **education costs** is a significant contributor to **inflation** in **Oman** – cost of providing education increased to 16.3% in 2013, from 3.4% in 2011 and 15.1% in 2012. The contribution of education services to overall inflation rose to 45.4 per cent during Jan-Sep 2013 from 3% and 17.4% in 2011 and 2012 respectively.
- A report in a magazine published by **Oman's** central bank envisions liquidation of assets abroad and external borrowing to support domestic spending should government spending rise during a period of lower oil prices and economic growth.
- **Oman's crude oil** and condensates **production** amounted to 29.7mn barrels, an average of 958,671 barrels a day in January 2014, up 1.48% mom, according to the Ministry of Oil and Gas. Meanwhile, total exported crude oil touched 24.6mn barrels, an average of 793,095 bpd in Jan.

- **Trade transactions between Oman and Iran** touched a **record-high** USD 600mn in 2013, up from just USD 200mn three years ago, according to the Iranian Ambassador to Oman.
- **Qatar's money supply (M2) growth picked up** to 19.6% yoy in Dec (Nov: 15.6%) while **credit growth** slowed to 11.8% – the slowest rate since May 2011. Meanwhile, new international reserves were up 27.5% yoy to QAR 151.7bn at the end of Dec 2013 (Nov: QAR 142.5bn).
- **Non-oil exports in Saudi Arabia increased** by 9.2% yoy to SAR 19.93bn in Dec 2013 and imports dropped by 6.5% to SAR 49.15bn, as per Central Department of Statistics and Information data.
- Volume of **investments by women in Saudi Arabia** exceeds SAR 60bn, or almost 21% of the overall private sector investments, revealed the deputy head of businesswomen committee at Madina Chamber of Commerce and Industry. She also stated that Saudi businesswomen retained SAR 100 billion in savings, or 75% of total bank savings nationwide.
- **Bilateral trade between Turkey and Saudi Arabia** has touched USD 8bn, with Turkish exports to Saudi Arabia growing at 20-30%, as per the Turkish consul general in Jeddah.
- Saudi citizens accounted for 43.4% of the **total GCC consumer loans** by the end of Q3, receiving close to USD 77.8bn, followed by Kuwait (USD 38.6, 21.6%) and UAE (USD 25bn, 13.9%).
- **Assets under management in the Middle East** are expected to surge to USD 1.5 trn by 2020, thanks to diversifying economies, investment opportunities and favourable regulation complemented by events like Dubai Expo 2020 and Qatar Fifa World Cup 2022 attracting capital into the region, according to a PwC report. The report also estimates that **Arabian Gulf pension funds are expected to double** to USD 5 trillion by 2020, reflecting an annual growth of about 8.8% from 2012's USD 2.4 trn to

the end of the decade.

UAE Focus

- The **UAE** was ranked first in citizen satisfaction and third overall in **digital government** – behind Singapore and Norway, placed first and second respectively – by Accenture. 10 countries were studied – Brazil, Germany, India, Norway, Singapore, South Korea, Saudi Arabia, UAE, UK and the US – in this six-month study which collected feedback from 5,000 “educated people” in each country.
- **Abu Dhabi Duty Free** reported revenues of AED 912.7mn in 2013, up 13% yoy. Sales figures touched AED 92mn in Dec – the busiest month in 2013, with popular purchases including beauty products, fragrances, watches, gold, and diamonds.
- **Dubai Empower**'s USD 600mn loan, used to back its acquisition of Palm Utilities, is being syndicated to other lenders, according to three banking sources familiar with the matter.
- Ahead of Dubai's inclusion in MSCI's emerging market index in May, **Deyaar** Development announced that its board of directors recommended allocating **49% of its share capital to non-UAE nationals**, including GCC and foreign investors, provided that the share of capital owned by foreigners not exceed 25%.