

Weekly Economic Commentary – February 23, 2014

Markets

Stock markets had a mixed week, with the Nikkei reaction to further monetary stimulus (the largest daily gain since August) fading within 24 hours and other major markets on the back foot especially after the dismal China PMI figure. Later in the week investors took comfort from the US manufacturing PMI surging at the fastest pace since May 2010. Overall the S&P scored a marginal weekly loss remaining close to its 1850 January top. Even in emerging markets, despite the turmoil in Ukraine and Thailand, traders are more confident that risks are ebbing and this mood blew a tailwind into regional markets. Oil prices remain resilient as they have been for more than a year with Dubai Fateh oscillating around USD 104/b. The dollar firmed against the yen but lost further ground to the euro, which was not hurt by talks of further monetary easing by the ECB. Gold touched a 3-months top on worries that the U.S. economic recovery could falter. Silver headed for the longest rally in more than four decades.

Global Developments

US/Americas:

- The **minutes of the FOMC meeting** indicate that the Fed will continue to **reduce its asset purchases** by another \$10bn to USD 55bn in Mar, despite a spate of weaker macro data.
- **Markit's flash US manufacturing PMI** added 3 points to 56.7 in Feb, **rebounding** from a 3-month low.
- **US inflation** was 0.1% mom in Jan (vs 0.3% in Dec) bringing the annual rate to 1.6%.
- **US Housing starts plunged** 16% mom in Jan to an

annualised rate of 880,000, more than triple the decline that economists had forecast. The drop follows a December decline that was revised lower to 4.8%.

- Existing **homes sales** in the US **declined** to 4.62 million annualized units in Jan a -5.1% mom drop below and -5.1% yoy. Sales have slowed to their slowest pace since July 2013. The inventory rose from 4.6 to 4.9 months. Existing-home prices increased 8.8% yoy in Oct, a tad below the Sep pace.
- The US **NAHB builders' confidence** had its biggest monthly **drop** ever, as snowstorms hit the East Coast, plunging 10 points in Feb to 46.
- An increase in **the US minimum hourly wage** to USD 10.10 would destroy 500,000 jobs by H2 2016, according to the Congressional Budget Office.
- **US initial jobless claims fell** by a less-than-expected 3,000 to 336,000 last week. The four-week moving average rose to 338,500 from 336,750.
- **Net capital outflows from the US** in Dec were USD 45.9 bn. Official foreign investors offloaded USD 12bn of US Treasury bonds and notes, compared with net purchases of USD 10.2bn in Nov.

Europe:

- **Germany flash Markit PMI Composite Output Index** scored a 32-month **high** at 56.1 in Feb (vs 55.5 in Jan) The services index at 55.4 (53.1 in January), 3-month high; but the manufacturing output index fell to 57.6 (vs 60.4 in Jan) a 3-month low.
- The **ZEW economic sentiment** for **Germany plummeted** to 55.7 in Feb from 61.7 in Jan, the lowest reading since Nov.
- **U.K. retail sales** in Jan **fell** -1.8% mom but expanded 4.2% yoy, after a strong 2.5% mom and 5.3% yoy increase in Dec.
- The **ZEW eurozone economic sentiment** index **unexpectedly dipped** to 68.5 in Feb from 73.3 in Jan. The

manufacturing PMI on the contrary advanced to 54 from 52.7 in Jan.

- Some sign of comfort in **Spain** where **new industrial orders increased** 7.8% yoy in Dec, following a -5.4% drop in Nov. However in **Italy industrial orders** in Dec plunged -4.9% mom, versus a +2.1% in Nov.
- **The Eurozone's current account surplus** reached in Dec a record **high** of EUR 33.2 bn from EUR 27.2 bn in the previous month.

Asia and Pacific:

- The **China "flash" HSBC and Markit's PMI** in Feb **fell** further into contractionary territory to 48.3 from a final reading of 49.5 in Jan, underscoring a fragile and erratic recovery.
- The **Bank of Japan** took market by surprise announcing the **extension of its bonds purchase program**, with the aim of increasing Japan's monetary base by about Y60tn-Y70tn a year, further boosting the extraordinary monetary measures amid faltering economic indicators. A separate programme for high-growth investments will be doubled to JPY 7tn. Both facilities will charge a 0.1 % rate for up to 4 years.
- The **Japan trade deficit** reached a **record** JPY 2.79trn (USD 27.3bn). Imports rose 25% yoy while exports gained 9.5% despite the yen devaluation
- **Singapore's GDP growth** was 6.1% qoq ann sa, in Q4 or 5.5% yoy slightly worse than the 5.8% in Q3. Full-year growth in 2013 was 4.1%.

Bottom line: The G20 meeting in Australia called for action to address the situation in emerging markets from where equities managers pulled USD 6 bn last year, a record since 2011; outflows from bond markets reached a whopping USD 13.1 bn, making it the worst year since the 2008 crisis. China's outlook is once again under scrutiny. The flash manufacturing PMI confirms the anemic growth momentum since Q4; the data

came just a day after the central bank drained USD 7.9bn from money markets, to stem the lending boom at the start of the year. But in China there appears to be a policy disconnect: most of the six major economic tasks for 2014 set by the recent Communist Party's Work Conference – food security, containing local-government debt, and improving coordination of regional development – have little or nothing to do with China's strategic rebalancing imperatives and in particular with pro-consumption restructuring. This leaves the impression of erratic economic policy – countless proposals, initiatives, and goals plagued by internal inconsistencies.

Regional Developments

- **Egypt** received a USD 2bn non-refundable **grant from Saudi Arabia** prior to the PM's visit to the latter nation, according to the adviser to the finance minister. As part of the USD 5bn aid package, Egypt is set to receive a further USD 3bn, mostly as petroleum products.
- **Egypt's Islamic banking sector**, which accounts for 7% of total banking assets, recorded an 11% yoy growth in assets to EGP 114bn in 2013. Deposits rose 13% to EGP 103bn while financing extended by these banks rose 6% to EGP 76.4bn last year.
- **Egypt's central bank** has announced that EGP 10bn will be allocated for **low-cost housing projects**; the money will be deposited to banks for 20 years at a low interest rate for lending to qualified citizens at a yearly interest rate of 7-8%.
- **Jordan and Iraq** began coordination meetings with companies interested in building the 1,700 kilometer-long **oil pipeline** between the two countries; this project is estimated to cost USD 18bn and will allow Iraq to export around 1mn barrel of crude oil daily.
- **Jordan** reported a 13% yoy **decline in tourists** to 5,388,917 tourists in 2013, with regional turmoil a key contributor in this drop. Arabs topped the list of

visitors (57.2% of total) while Saudis were the largest proportion among Arabs (20% of total; 35% of Arab visitors).

- **Retail activity in Lebanon declined** 13.42% yoy in Q4 2013, following a 12.3% yoy dip in Q4 2012, according to a study prepared by Beirut Traders Association and Fransabank. The drop in activity was associated to “the absence of any noticeable change in the prevailing political and security atmosphere”.
- **Preliminary GDP** data for the first 9 months of 2013 reveal a **modest nominal growth** of 2.6% yoy in **Oman**; there was a marginal 1.0% contraction in petroleum sector GDP and 7.8% increase in non-oil sector GDP. ‘Food, beverages and tobacco’ and ‘educational services’ put pressure on inflation in 2013, when average inflation clocked in at 1.1% compared to 2012’s 2.9%.
- **Moody’s rates Omani banks as stable**, stating “the outlook for Oman’s banking system remains stable, as it has been since 2007”, given sound liquidity buffers and supported by a stable deposit funding base. The rating agency also expects increased revenues from credit growth and stable provisioning requirements to offset pressure on profits from reduced interest rate margins and from rising operating expenses, as banks continue to build their Islamic banking franchises.
- **Foreign assets** of the Central Bank of **Oman increased** 11.2% yoy to OMR 6.13bn as of Dec 2013, according to central bank data. Investment in foreign securities grew 11.6% to OMR 4.76bn, while foreign asset placements abroad increased by 11% to OMR 1.22bn.
- **Oman** placed further **limits on the expatriate workforce** in the country last week, with the Minister of Manpower stating that the proportion of expatriates working in the private sector would be reduced from 39% to 33%.
- **Natural gas consumption in Oman grew** 3.2% yoy to 39,114mn cubic metres in 2013, thanks to the increased use of gas in oilfields and growing demand from

industrial projects. Oman produces about 85mn m3 per day of gas locally, while importing 5mn-7mn m3 of gas per day via the Dolphin pipeline system.

- **Qatar's inflation rate dropped** to 2.3% yoy in Jan – the lowest since Sep 2012 – with rent and energy costs rising 4.8% yoy (1% mom) and food prices rising 1.6% yoy (0.7% mom).
- Overall **economic growth in Saudi Arabia slowed** to 3.8% yoy in 2013 owing to a decline in oil output, as per macro data accompanying 2014 budget estimates. While oil production accounts for just under half the GDP, non-oil growth was up by a robust 5.0% yoy.
- Population in **Saudi Arabia grew** 2.7% yoy to 30mn in 2013, as per Central Department of Statistics and Information data. Expatriates account for one-third of total population, reported *Al-Eqtisadiyah*. As per its 9th five-year plan, KSA is trying to limit foreigners to about 26.6% of total population in 2014.
- **Saudi Arabia's electricity consumption is almost 9 times that of the four largest Arab countries of Egypt, Algeria, Sudan and Morocco**. KSA consumed on average 8,161 kilowatt an hour per individual in 2011, compared to 951 kilowatt an hour by persons in the four largest Arab countries combined, revealed *Al-Eqtisadiyah*.
- **Saudi Arabian Airlines** signed a SAR 7bn (USD 1.87 billion) **loan deal** to fund the acquisition of 17 new airplanes. This is in line with the requirement of 100 new planes through to 2020 to meet the existing demand.
- Total announced **M&A deal values** in the region **increased** to USD 50.7bn in 2013 from USD 44.8bn in 2012 (+13% yoy), according to EY. The largest deal was the merger of Dubai Aluminum with Emirates Aluminium (USD 7.5bn), followed by the acquisition of Itissalat Al Maghrib SA (Maroc Telecom) in Morocco by UAE's Emirates Telecommunications Corporation (USD 6.1bn). Data also showed that SWFs were the single largest buyer constituency in MENA contributing 29% of total deal

value in 2013. EY's latest MENA Capital **Confidence Barometer** revealed that 75% of respondents expect local deal volumes to improve and 51% consider growth their primary focus.

- The recently published **Press Freedom Index 2014** placed Kuwait 91st in the overall ranking, but top among its Arab counterparts. Lebanon (106), Qatar (113), UAE (118), South Sudan, Algeria, Tunisia, Oman (134), Morocco, Libya (137), Palestine and Jordan (141) followed in the ranking of 180 countries.

UAE Focus

- **Fitch** Ratings affirmed **Abu Dhabi**'s Long-term foreign and local currency IDRs at '**AA**' with Stable Outlooks, with its external sovereign balance sheet the third-strongest among all countries rated by Fitch, behind Luxembourg and Kuwait.
- **Dubai**'s **inflation** rate was 2.17% yoy in Jan while consumer prices in **Abu Dhabi** rose 2.1% during the same period. In Dubai, education (3.99%), housing, water, electricity, gas, and other fuels (3.87%), food and non-alcoholic beverages (3.66%) and health (2%) sectors recorded higher prices while food prices accounted for 30.7% of consumer inflation (in yoy terms) in Abu Dhabi.
- **Hotels occupancy in Dubai** remained **stable** and clocked in 80% in 2013 while average room rate grew by 6.4% to USD 278, leading revenue per available room to rise 5.9% to USD 223, according to a recent regional EY report.
- **Abu Dhabi** international airport reported a 14.5% yoy **rise** in **passenger traffic** to over 1.5mn passengers in Jan 2014.
- **Dubai** ranked **first among the MENA** countries in terms of **quality of living**, being ranked 73 globally in an annual report by Mercer, followed closely by Abu Dhabi at 78.

