

Weekly Economic Commentary – March 2, 2014

Markets

US stock markets touched another record (the fourth weekly gain this year), despite a negative Friday session, also pulling up Europe's performance, but not Japan's. Emerging markets were perky, although regional markets displayed some minus signs. On the FX markets the **euro** continued to strengthen but the biggest surprise came from China, where the **Renminbi** last week suffered its steepest weekly fall against the US dollar since China reformed its FX system in 2005. **Gold** crawled up amid directionless trade, while the **oil** prices were mostly stable.

Global Developments

US/Americas:

- **S&P Case-Shiller home price** indices **fell** for the second month in Dec. The 20-city composite index dipped -0.1% mom after the same score in Nov. The index grew 11.3% yoy but slowed compared to Nov, adding to signs of a plateauing housing market recovery.
- **US new home sales** unexpectedly **surged** 9.6% mom in Jan to a 468k unit sa annual pace. On an annual basis, new home sales increased 2.2% yoy, but it must be kept in mind that new homes constitute a small portion of the housing market.
- **US durable goods orders fell** by a less than expected -1% mom in Jan after shrinking -5.3% in Dec. Orders excluding the volatile transportation component rose 1.1% mom after falling -1.9%, while orders for nondefense capital goods excluding aircraft – a proxy for business spending – rebounded by 1.7% after dipping

-1.8%.

- The second estimate of **US Q4 GDP** was **downwardly revised** to 2.4% qoq ann. from 3.2%, and shows an even sharper slowdown from the 4.1% pace recorded in Q3. Downward revisions to consumer spending, inventories and exports sapped growth.
- The Thomson Reuters/ Univ. of Michigan **Consumer confidence index increased** to 81.6 in Feb from 81.2 in Jan. The expectations sub-index rose from 71.2 to 72.7 – a six month high – while the current conditions category fell to 95.4 from 96.8.
- **US initial jobless claims** unexpectedly **increased** last week by 14,000 to 348,000 – a six-week high. The four-week moving average remained unchanged at 338,250.
- **Brazil's economy rebounded** in Q4 at a stronger than expected 0.7% qoq (1.9% yoy) after contracting -0.5% qoq in Q3. The central bank raised its **policy interest rates** by 25bps to 10.75%, a move which follows six consecutive 50bp hikes.

Europe:

- The **German Ifo** business confidence index, **held steady** at 110.6 in Mar, beating expectations and reassuring on the health of the German economy.
- Eurozone M3 money supply increased at an annualized 1.2% in Jan after rising 1.1% in Dec. Loans to the private sector fell by a more-than-expected -2.2% ann after falling -2.3% in Dec.
- **German retail sales** unexpectedly **surged** 2.5% mom in Jan – the fastest pace in seven years – after shrinking -2.1% mom in Dec.
- **Eurozone inflation decelerated** to 1.1% yoy with core inflation dropping to 0.8%.
- The **eurozone economic sentiment index increased** to 101.2 in Feb from an upwardly revised 101 in Jan, beating expectations. The index remained above the 100 long-term

average for the third consecutive month.

- A second estimate of **German GDP** confirmed the economy **expanded** 0.4% qoq in Q4 following 0.3% qoq in Q3. A breakdown showed domestic demand dragged down growth by 0.7% while foreign trade added 1.1% to growth in Q4.
- **Italy unemployment** touched a **record high** of 12.9% in Jan from 12.7% a month earlier.

Asia and Pacific:

- **China's official manufacturing PMI fell** less-than-expected to 50.2 in Feb from 50.5 in Jan a whisker above the expansion threshold.
- **Japan core CPI was** 1.3% yoy in Jan, maintaining Dec's 5-year-high pace and marking the eighth consecutive month of gains.
- **Japan Industrial production surged** 4% mom (10.6% yoy) in Jan – the fastest pace in 3 years – following a gain of 0.9% mom (7.1% yoy) in Dec.
- **Japan retail sales increased** by a more-than-expected 1.4% mom sa (4.4% yoy) in Jan following a 1.2% mom sa gain in Dec (2.5% yoy).
- **India's GDP expanded** at a less-than-expected 4.7% qoq in Q4, slowing almost imperceptibly from 4.8% in Q3. Manufacturing shrank -1.9% yoy while service sector rose a whopping 12.5% yoy.

Bottom line: The consistent revision of the US GDP **reinforces the doubts of those convinced that the mediocre performance in Q4 was not caused only by extreme weather.** Markets shrugged the news, but this should not provide any comfort: the leverage on the NYSE climbed to record levels, almost USD 330 bn, which smashes the previous record of USD 250 bn touched in 2007 before the crisis struck. At the G20 meeting last week, financial leaders agreed to set a goal of generating USD 2 trillion in extra output over the next five years, with the aim of also creating tens of millions of new jobs, but it is unlikely that any action will follow words. **The major policy**

theme in 2014 will not be another stimulus, but monetary policy divergence, as the Fed ends QE while the BoJ and ECB ease further. This issue will drive markets performance worldwide rather than actual growth, which remains much below escape velocity.

Regional Developments

- **Bahrain's** Economic Development Board revealed that the country attracted USD 114mn in **FDI** in 2013, up 12% yoy, attracting almost 35 international companies and expected to generate more than 800 new jobs within the next three years.
- After 7 months in office, **Egypt's government resigned**, paving the way for Al-Sissi to announce his candidacy; Ebrahim Mehleb, who served as housing Minister in the previous government, was sworn in as the new PM – in a cabinet that replaced members belonging to political parties formed after the 2011 revolt with technocrats and businessmen.
- **Egypt's bond trading platform**, that was expected to open for business in Q2, will likely open in Q3, according to the stock exchange Chairman with the reason being the central bank's delay to agree on the amount of bonds that would be offered in the bourse.
- Moody's placed a **negative outlook on Egypt's banking sector**, with continuing political tensions one of the key factors, also citing "banks' high and increasing exposure to Caal-rated Egyptian government debt" as a key risk.
- **Iraq's** government allocated USD 4.7bn to the **electricity sector** in 2014, against a requested budget of USD 12bn, to build power plants and finance existing projects.
- **Lebanon's trade deficit widened** by 31.23% yoy in Jan; exports dropped by a whopping 39.8% to USD 244mn – the lowest level since 2006 while imports increased 13.8% to USD 1.873bn.

- The number of **tourists to Oman** witnessed a 6% yoy **growth** to 2,184,000 in 2013. An official from the Ministry of Tourism revealed that the aim was to increase Oman's GDP through tourism by 3%.
- **Crude oil production in Oman** is expected to touch 940k-950k barrels per day by end 2014, according to the Minister of Oil and Gas. He also stated that challenges in the oil sector include higher production costs from rising manpower costs and increased expenditure on the removal of impurities from oil.
- With the MSCI upgrade to emerging market status starting this June, the **Qatar Exchange** expects around **USD 5bn inflow** from foreign investors, as per its acting Chairman.
- **Qatar's loan-to-deposit ratio** increased to 107% at the end of Jan compared to 105% in Dec 2013; loan growth was up 2.3% mom following a strong pickup of 13.3% yoy in 2013.
- **Trade surplus in Qatar declined** 7% yoy to QAR 33.9bn in Dec, after total exports fell 3% to QAR 43.32bn, thanks to a double-digit fall in shipments to South Korea and India.
- **Saudi Arabia's** Labor Force Survey for June 2013 revealed that the total workforce was 11.36 million, representing 54% of the country's population, and of which almost 9.6mn or close to 85% were men. The **overall unemployment rate was 5.6%**, with 632,647 unemployed workers, of which men were 42.3%.
- The **Saudi Business Optimism Index** (BOI) for Q1 showed an increase in the composite BOI for the hydrocarbon sector at 50 compared to 30 in Q4 2013 and 33 in Q1 2013 while the composite BOI for the non-hydrocarbon sector dipped by 7 points qoq to 47. While construction sector was the most optimistic among all non-hydrocarbon sectors, investment outlook looks strong as 60% of hydrocarbon sector firms and 63% of non-hydrocarbon sector firms do not foresee any negative factors impacting business

operations in Q1.

- **Inflation in Saudi Arabia** is expected to dip below 3% in Q1, according to the central bank's estimates, given the fall of global inflationary pressures in the food and beverages group. Inflation had edged down to 2.9% in January – the lowest level since early 2007.
- **Travel and tourism investments in Saudi Arabia** grew at a CAGR of 5.8% since 2001 and is estimated to have touched SAR 20.55bn in 2012, as per World Trade and Tourism Council data; it is expected to rise at an annual rate of 6.7% to SAR 33.5bn of total investments in 2020.
- A report issued by the UN, titled "**Arab Integration: A 21st Century Development Imperative**", calls for the completion of the Greater Arab Free Trade Area and the establishment of an Arab customs union among other policy initiatives that promote inclusive economic integration; the report estimates that such a unified model in the Arab region **could create 6mn new jobs by 2020 and increase regional GDP by 3%**.
- The level of reported **economic crimes in the Middle East declined** in 2013, according to PwC's Global Economic Crime Survey, with only 21% of organisations in the Middle East reporting economic or financial fraud, compared to 37% globally. However, the future seems bleak, with more than 38% of the respondents in the region expecting their firms to suffer from economic crime over the next 24 months.
- It is expected that about **80,000 railway staff** will be required in the **GCC** within five years for the 36 railway projects that are currently ongoing, under construction or in the planning stage in the region.

UAE Focus

- **Qatar** topped the list of **per capita investment in Dubai realty** in 2013, according to Dubai Land Department. At AED 6.71mn, Qatar ranked first, followed by Oman (AED

5.77mn), UAE (AED 4.56mn), Saudi Arabia (AED 3.71mn), Germany (AED 2.37mn), India (AED 2.22mn) and Britain (AED 2.11mn).

- **Loan growth in the UAE** was 7.1% as of Dec 2013, as per latest UAE central bank data; this was the fastest pace recorded since Q4 2009, as cheap financing and upbeat consumer confidence boosted demand for loans. Eibor, the interest rate at which banks lend to each other, is hovering near an eight-year low. Meanwhile, total bank deposits rose by 9.5% yoy and 0.4% mom to AED 1,278.9bn in Dec.
- **Passengers at Dubai airport** touched a record 6.4mn in Jan, up 15.1% yoy, as Dubai hosted the annual Dubai Shopping Festival during this month. Cargo volumes meanwhile reported an increase of 4.5% yoy to 197,021 tonnes.

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