

# Weekly Economic Commentary – March 16, 2014

## Markets

Stock markets plunged in both developed countries and emerging markets with Japan recording almost a 6% tumble, after another weak score of macro data from China. Regional markets had a less disastrous performance as the GCC is emerging as an area of resilience and Egypt managed to post a notable gain, an indication that the situation is stabilizing. The euro strengthened consistently then tumbled on Thursday after European Central Bank President Mario Draghi said it was becoming “increasingly relevant,” only to rebound on Friday. The yen also firmed on the dollar but not on the euro *uber alles*. Gold continues to benefit from global uncertainty and the crisis in Ukraine. Oil prices seem are stuck in a narrow range.

## Global Developments

### **US/Americas:**

- **US retail sales** rebounded in Feb rising a more-than-expected 0.3% mom after a -0.6% mom drop in Jan. Core retail sales also rose 0.3% mom.
- **US wholesale inventories** rose by a more-than-expected 0.6% mom in Jan after a revised 0.4% mom gain in Dec. Inventories excluding autos – used in GDP calculations – rose 0.4% mom. Wholesaler sales unexpectedly plunged -1.9% mom following a gain of 0.1% mom in Dec.
- The **Thomson Reuters/University of Michigan consumer confidence** index unexpectedly fell to 79.9 in Mar from 81.6 a month earlier. It appears that US consumers have doubt on the resilience of recent gains in financial wealth and home values.

- **US initial jobless claims** fell by 9,000 last week to 315,000 sa. The four-week moving average fell by 6,250 to 330,555.

## Europe:

- **ECB President Draghi** stated that a strong euro over the past one and a half years has had a significant impact on the inflation rate, hence it is increasingly relevant in the assessment of price stability and monetary policy.
- **Eurozone industrial production** fell by a more-than-expected -0.7% mom in Dec following a downwardly revised 1.6% rise in Nov. Average industrial output rose 0.3% qoq in Q4. Output fell -0.7% mom in Germany, -0.3% mom in France and -0.9% in Italy.
- **Irish GDP** fell -2.3% in Q4 against market expectations for a 1% expansion and a 2.1% increase in Q3.
- A sharp fall in exports sank the **UK trade balance** in Jan. The overall trade deficit was GBP 2.6bn, up from GBP 0.7bn in Dec.

## Asia and Pacific:

- **Chinese banks** extended 644.5 billion **new yuan loans** in Feb, shrinking from a four-year high of 1.32 trillion in Jan. M2 money supply growth decelerated to 13.3% yoy from 11.4% in Jan.
- **Chinese retail sales** slowed to 11.8% yoy in the combined Jan-Feb period, from 13.6% in Dec. Even necessities such as clothing, household appliances and petroleum displayed single-digit growth.
- **China industrial production** rose 8.6% yoy – the slowest pace in 5 years.
- **Japan key machinery orders** plunged -15.7% mom in Dec – the largest drop since 2005.
- **Japan industrial production** rose by a more-than-expected 3.8% mom in Jan, following a 0.9% mom rise in Dec.
- **Consumer confidence in Japan** improved somewhat in Mar to

43.2 from 42.1 in Feb.

- **India industrial production** unexpectedly rose 0.1% yoy in Jan after four months of declines. Manufacturing was the major drag, dipping -0.7% yoy.
- Wholesale **price inflation in India** slowed to 4.7% yoy in Feb from 5.1% in Jan. with most of the slowdown accounted by fuel and power.

**Bottom line:** The stock markets appear overstretched, but investors are caught in a no man's land where they are torn between harsh reality and a leap of faith that future growth will validate the valuation. For example in the aggregate European listed companies display profit margins below their long-term average and most firms are not investing; actually directors of large companies Nestlé, Unilever, Lafarge are cautious on their forecasts for 2014. The OECD composite leading indicator remained stuck at 100.8 in Jan, highlighting that risks remain skewed to the downside. Furthermore, every time data on China confirm the wobbly macro picture, fear of a credit meltdown intensify and financial markets stumble. Chinese Premier Li Keqiang underscored that the government is comfortable with the prospect of debt defaults in the shadow banking sector, but this will hardly reassure investors that have channeled money into these opaque vehicles.

### Regional Developments

- **Egypt's urban inflation rate** eased for the third consecutive month, slowing to 9.8% in Feb, from Jan's 11.4%, after reaching its highest rate in nearly four years in Nov.
- The **Central Bank of Egypt** revealed that it had covered 50% of foreign investors' **repatriation backlog** "by direct sales to the investors' custodians". The repatriation scheme was initiated in March last year, with the aim of restoring confidence by guaranteeing foreign investors in Egypt's stock and government bond markets access to dollars despite shortages of the

foreign currency.

- **Dubai's Arabtec** and largest listed construction firm, has signed an agreement with **Egypt's** Defence Ministry to build one million "affordable" houses in a project worth EGP 280bn; work is expected to begin in Q3, with the first delivery date in early 2017, and to be completed by 2020.
- A **bilateral agreement** signed between **Jordan and Japan** pave the way for two additional grants worth USD 32mn that will not be part of the bilateral aid to the former nation. The grants include a USD 24.5mn package to increase the efficiency of the water sector in the northern governorates that are hosting Syrian refugees and a USD 7.5mn is anticipated to provide medical equipment.
- **Jordan** has signed an agreement worth USD 2bn with the Saudi Arabian Corporation for Oil Shale, under which the Saudi company has been granted the **right to extract and develop the Oil Shale resources** in the Attarat Um-AL-Ghudran region covering an area of 11 square kilometers. The project, to be developed through two main phases, is expected to provide 2500 direct job opportunities.
- **Female participation** in economic activity in **Jordan**, at 14.1% in 2012 and down from 14.7% in 2011, continued to remain below the average of 30% in Arab and developing nations countries, and 50% globally. Additionally, female unemployment touched 19.9% in 2012 and compares to 10.4% among men.
- More than 800 companies in **Jordan** benefitted from the initial tranche of **World Bank's loan** of USD 48mn; the Central Bank stated that 60% of companies that benefitted from the loan were located outside Amman, of which 57% were owned by women and 21% by young Jordanians.
- **Lebanon** dropped to 10th among 11 Arab countries (from 9th place in 2012 & 2013) ranked by EFG Hermes in terms of **macroeconomic risks** in 2014. The report underscored the role of the country's robust banking sector, steady

capital inflow and adequate foreign currency reserves which helped contain some macroeconomic risks.

- The number of **passengers** at **Lebanon's** international airport dipped 7% yoy to 376,106 in Feb. Flights dropped by 15.96%, thanks to a drastic decline of 93.56% in transit flights alongside increases in incoming (+1.21%) and outgoing (+0.21%) flights.
- **Oman** signed an initial **agreement** with **Iran** to build a USD 1bn **submarine pipeline to import gas** – during the first day of a visit by Iranian President Hassan Rouhani. It is expected that the project would be completed by the end of 2017 and is estimated to cost around USD 1bn.
- **Moody's** report placed **Oman's fiscal breakeven oil price**, estimated at close to \$100 a barrel in 2014, as the second highest in the GCC after Bahrain, as its public expenditure increase outpaced new revenue. The report states: “Bahrain, Saudi Arabia and Oman, the three countries with the lowest GDP per capita in the GCC, saw their fiscal break-even oil prices rise by more than USD 50 bpd,...between 2003 and 2014”.
- **Oman's** Minister Responsible for Foreign Affairs downplayed the ongoing **GCC rift** – between Saudi Arabia, UAE and Bahrain on one side and Qatar on the other – stating that while “there may be some minor differences among the siblings of the Arabian Peninsula”, it “won't affect the growth of the GCC countries”.
- **Qatar** last week dismissed its GCC counterparts demands for change in its **foreign policy** stance, stating that “the independence of Qatar's foreign policy is simply non-negotiable” as the Foreign Minister stated that “Qatar is to take decisions, and follow a path, of its own”.
- **Qatar banks** remain “well capitalised and profitable”, stated the IMF, after its central bank's stress tests revealed “resilience to plausible shocks”; but the IMF also warned that the authorities should “continue

carefully monitoring vulnerabilities” through an “enhanced early warning system”.

- The **IMF** expects **Qatar** to register **GDP growth** of about 6% this year, given a pickup in its public investment program, while non-hydrocarbon growth is expected to hover around 10%. **Inflation** is likely to remain benign at the 3-4% mark in the coming years, given the expected decline in food prices.
- Feb **PMI** for **Saudi Arabia** revealed an expansion in the non-oil sector, with output, new orders, and employment all continuing to rise though growth rates were a little softer, reflected by a fall the headline PMI to a three-month low of 58.6 (Jan: 59.7). Data also indicated that inventories of purchases rose to the greatest degree for 11 months.
- **Inflation** in **Saudi Arabia** edged down to 2.8% yoy in Feb (Jan: 2.9%), as prices of food and beverages picked up 4.6% yoy, while housing and utility costs increased 4.0%.
- **Bank credit to Saudi Arabia's construction sector** surged to SAR 76.5bn in 2012 from SAR 37.8bn in 2006, representing a CAGR of 10.6%, according to a report by NCB. Meanwhile, the share of bank credit to the building and construction sector relative to total bank credit jumped from 6.1% in 2009 to 6.8% in 2012.
- **Fitch** Ratings upgraded **Saudi Arabia's rating** from AA to AA+, citing stronger sovereign and external balance sheets while also awarding a stable outlook to the Kingdom.
- **Commercial debt issuance** by 12 sovereigns in the **MENA** region is expected to exceed USD 56bn in 2014, of which 67% or USD 38bn will be towards refinancing maturing long-term commercial debt, according to a recent **S&P** report. The report also estimates total commercial borrowing from the region to be up 27%, net borrowings (total debt issuance minus refinancing existing debt) at USD 18bn and outstanding short-term commercial debt at

USD 145bn at year-end 2014.

- **Ernst & Young's** Global Oil & Gas Transactions report revealed that **UAE, Oman and Iraq combined represent 60% of regions' upstream oil transactions**. Overall, the number of transactions in the region fell by 40%yoy to 26 in 2013 (2012: 44), whereas the overall transaction value increased to USD 3.1bn in 2013 (2012: USD 2.7bn).
- **Insurance sector** in the **GCC** have been outpacing some developing counterparts, states a report from AM Best: gross premiums written in the GCC had a CAGR of 21% from 2002 through 2012, the same as Brazil and China, while Russia was at 18% and India at 16%. Premium volumes in GCC are heavily skewed to non-life business, with life accounting for only 14% of premiums. Five-year cumulative profits in the GCC was just USD 5bn, compared to USD 74bn for China and USD 560bn in the developed nations.

### UAE Focus

- **The Abu Dhabi Department of Finance and the UAE Central Bank have signed separate agreements with Dubai to refinance USD 20bn in loans and bonds;** with the former, part of the Government of Abu Dhabi, the agreement is to refinance the USD 10bn loan, with a new tenure of 5 years renewable and with a fixed interest rate of 1% through the entire tenure while the Central Bank has agreed to extend the tenure of bonds issued by Dubai Government of USD 10bn under the same tenure and interest rate conditions.
- **Inflation** in **Abu Dhabi** touched 2.6% yoy in Feb, bringing the rate to 2.3% for the Jan-Feb 2014 period. Food and non-alcoholic beverages group accounted for the largest yoy rise in the index during Jan-Feb 2014, contributing 29.7% to the change.
- **Emirates Airlines** President revealed that the company may be looking towards a new **sukuk issue** as a possible

financial vehicle to raise funds towards its USD 99bn order book at last year's Dubai Airshow.

- A Dubai FDI report estimates **retail sales** to grow by 32.9% to AED 151bn in 2015 from 2012's AED 114bn, hence highlighting that "the vital role of retailing in economic development along with the constant growth in demand makes the sector one of the most lucrative foreign investment prospects in Dubai".
- The **US and UAE** governments are in the process of signing the **FATCA** Intergovernmental Agreement shortly, under which UAE's banks and financial institutions will be required to annually compile data for submission to the UAE regulatory authorities, following which the UAE Ministry of Finance would then send this data to the US Internal Revenue Service. Non-compliance could lead to sanctions that could include withdrawal of US dollar clearing rights with correspondent banks. According to the schedule, the search for existing accounts is to be completed by June 30, 2014, and the first reporting date for accounts will be September 30, 2014.

**MENA Economic Associates**  

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