

Weekly Economic Commentary – March 23, 2014

Markets

Financial markets sighted relief at the ebbing of the Crimea crisis and regained ground led by Wall Street (which had plunged in response to the Russian invasion). The Topix however did not join the party as did Oman, which was the only notable exception among positive performances of regional markets. The Fed FOMC statement cooled the bulls who detected in it a hawkish undertone and sank the 2y US Treasuries, while the dollar got a boost after weeks of sliding. The easing tensions affected also gold prices; oil prices remained buoyant as they were throughout the crisis.

Global Developments

US/Americas:

- The **US Fed** reduced for the third time by USD 10bn to USD 55bn its monthly purchases of fixed income securities (**QE tapering**). It also ditched the 6.5% unemployment target designed to provide clarity on the timing for an interest rate hike. Markets read in the final statement a hint that rates might raise earlier than previously expected.
- The **US current account deficit**, dropped 15.8% in Q4 to USD 81.1bn from USD 96.4 bn thanks to a 2.5% qoq surge in exports.
- US industrial production rebounded in Feb by 0.6% mom. Manufacturing rose 0.8%, reversing Jan 0.9% decline. Excluding motor vehicles and parts, factory output advanced 0.5%.
- **US housing starts** fell 0.2% mom to 907,000 in Feb, hit by harsh weather. Construction of multi-family units was

the main drag. On the positive side building permits rose, giving hope for a rebound in Spring.

- The **NAHB homebuilder sentiment** index remained almost stable at 47 in Mar. The present sales and prospective buyers indexes crawled up, while the future sales component declined.
- **US initial jobless claims** rose 5k to 320k. The four-week moving average fell 3.5k to 327k. Continuing claims rose 41k to 2.89mn.
- **US inflation** climbed 0.1% in Feb, i.e. 1.1% yoy, pretty much stable and unlikely to change the assessment of the Fed.
- The **US Conference Board** index of **leading indicators** rose 0.5% mom in Feb after a 0.1% increase in Jan the 6th increase in 7 months.

Europe:

- The **euro zone's consumer price inflation** eased to 0.7% yoy in Feb from 0.8% in Mar.
- The **UK public budget** cut corporate taxes and introduced a gives people the possibility to access their pensions during their lifetime, not only at retirement. In addition it reformed the individual savings account (ISA) into with a significantly higher annual limit and lower savings tax. The welfare budget will be capped and other expenditures will be reduced.
- The **ZEW indicator of German business confidence** in Mar tumbled to 46.6 vs expectations of 53.0 and 55.7 in Feb.
- **Italy industrial orders** rebounded by 4.8% mom sa in Jan, reversing a sharp fall of -4.9% mom in Dec.

Asia and Pacific:

- **Japanese exports** rose 9.8% yoy in Feb (vs forecasts of 12.5%), while imports rose 9% yoy, (vs forecasts 7.2%) leading to a trade deficit of JPY 800bn, about 70% smaller than the record USD 2.791trn in Jan. This is the

20th monthly trade deficit in a row.

- **China FDI** grew 14.4% yoy to USD 19.3bn in Jan-Feb, with the Chinese New Year celebrations causing seasonal distortions in Feb data. Outbound investment, or nonfinancial overseas direct investment, was up 37.2% in Jan-Feb at USD 11.5bn.

Bottom line: The data last week confirmed an outlook of cautious optimism. The US Fed however sparked confusion over the course of monetary policy under Yellen at a delicate juncture when clarity is paramount. In less than an hour from the release of the statement, investors were receiving a barrage of competing interpretation and hints by market economists. With the unemployment target ditched, investors focused on the dots diagram, which reports the anonymous opinions of FOMC members on where rates will be until 2016. It sends a twofold message: a) interest rates will be higher by the end of 2015; b) the transition will be anything but smooth.

Regional Developments

- **Iraq's oil output surged** by 0.5 mn barrels per day (bpd) to a 30-year high average of 3.6mn bpd in Feb. New fields coming onstream are expected to add 500k bpd of output in the next few months, according to a report by Wall Street Journal.
- The Central Bank of **Iraq's** Deputy Governor revealed that close to 40bn dinars was spent every year towards **salaries for employees**.
- Iran has announced plans to allocate USD 5bn from its National Development Fund to **Iranian contractors working in Iraq**; this follows news that commercial exchanges between the two nations had crossed a high USD 12bn in 2013.
- The **World Bank approved a USD 250mn loan towards budget support in Jordan**, to ease the nation's fiscal worries. Overall, more than USD 700mn has been provided by the

World Bank in loans and grants to Jordan – comprising medium-term budget support and emergency response to the Syrian crisis – over the past two years.

- **Kuwait**'s Capital Markets Authority is considering a **delay in the enforcement of new corporate governance rules**, which were expected to come into full force by end-2014, if there are "real obstacles". A review of the deadline is expected by Mar 31.
- **Lebanon**'s Central Bank Governor issued a circular to Lebanese banks stating that the **impact of solvency on the certificate of deposits** in dollar-denominated currency had been reduced from 100 to 50 – possibly in anticipation of a further credit rating downgrade (to CCC from B- currently), according to statements made by bankers to *The Daily Star*.
- **Oman** is likely to proceed with the **privatisation of one more state-owned company** after the IPO of Omantel is completed, according to the Minister for Financial Affairs. The first part of the government's sale of a 19% stake in Omantel was 1.99 times subscribed and is expected to raise around USD 570mn for Oman.
- Preliminary estimates reveal that **Oman's GDP** grew by 3% to OMR 30.961bn in 2013, against the government's projections for real economic growth of 5%.
- **Oman's Duqm** special economic zone authority is proposing the establishment of a holding company called Oman Company for Duqm Development, which would support its investment and commercial activities in the undertaking.
- **Foreign trade in Oman** grew 9.1% yoy to OMR 19.84bn at the end of Nov 2013, thanks to a 3.4% rise in oil and gas export commodities, while non-oil exports also increased by 7.1% to OMR 3.49bn.
- **Budget surplus in Oman** fell 35.5% yoy to OMR 269.7mn in Jan as total revenue fell 7.9% to OMR 973.3mn alongside a 10.1% rise in public expenditure to OMR 703.6mn.
- **Government spending in Qatar** rose at the fastest pace since 2008, rising 33% yoy to QAR 93.2bn during Apr-Sep

2013 – this is roughly 44.2% of the record-high QAR 210.6bn spending planned in the 2013/14 fiscal year. Revenues meanwhile dipped 19% yoy – the first decline since 2008 and resulting in surplus falling to QAR 25.2bn, down from QAR 76.1bn a year before.

- **Foreign trade surplus in Qatar** fell 1.7% yoy to QAR 36.98bn in Jan; exports increased 2.8% yoy to QAR 45.8bn while imports grew 27.5% to QAR 8.8bn. Qatar's top export partners in Jan were: Japan (QAR 13bn, 28% of total exports), South Korea (QAR 9bn, 20%), and India (QAR 6.3bn, 14%). US (QAR 1.3bn, 15%), China (QAR 0.9bn, 10%), UAE and Germany (QAR 0.7bn each, 8%) were the top import partners.
- **Qatar's deposit growth outpaced loan growth** in Feb, with the former rising 3.9% mom (Jan: +1.0% mom) thanks to a rise in public sector participation, alongside only 1.0% increase in loans (Jan: +2.9% mom); loan to deposit ratio hence dipped to 104% in Feb (Jan: 107%). Total domestic public sector loans with local banks grew by 1.8% mom (Jan: +1.7% mom).
- **Qatar's** government is expected to sign **contracts valued close to USD50bn in 2014 for construction projects** (including in transport and energy sectors) according to the central bank governor.
- **Saudi Arabia's** current central bank policy rates – repo rate at 2.0% since Jan 2009 and reverse repo rate at 0.25% since Jun 2009 – are reasonable and balanced, as per the governor's recent statements. He also mentioned that tapering of the Fed's bond purchases is unlikely to affect the nation's monetary policy direction.
- The latest edition of the **Global Financial Centres Index** saw **Qatar** ranked the top centre in the GCC at 26, driven by its rising competitiveness and perceived significance as a financial centre. Dubai was ranked 29 and Riyadh was a close 31, while Abu Dhabi gained an impressive 41 points and moved 10 places up to 32nd.
- **Qatar** is preparing to deal with any **potential sanctions**

from its GCC neighbours, reported the *Financial Times* last week, as the diplomatic stand-off continues. Sources who attended a GCC meeting revealed that Saudi demanded the closure of Al Jazeera as well as the Brookings Doha Center and the Arab Center for Research and Policy Studies.

UAE Focus

- Preliminary estimates for **Abu Dhabi GDP** reveal 4.9% yoy growth to AED 953.2bn in 2013, according to data released by the Statistics Centre Abu Dhabi. The contribution of crude oil and natural gas sector to GDP in 2013 is estimated to stand at 55%, down from 57% the year before.
- **Dubai's inflation rate** clocked in at 2.6% yoy in Feb, the highest level since 2009, with housing and utility costs, which account for almost 44% of consumer expenses, rising 4.5% yoy and 0.6% mom.
- The **UAE topped HSBC's global trade confidence index**, which is derived from a survey of 5800 persons across 23 countries. With an overwhelming 83% of respondents expecting trade volumes to increase over the next six months, of which 49% expect a significant pick-up in trade, the short-term outlook for trade in the UAE has reached an all-time high since 2009, jumping nine points to 141. The forecasts also note that in the long term, India and China will be the UAE's fastest growing trade routes until 2030, both growing at 10% per annum.
- Dubai's **Emaar Properties** plans to list its retail unit within months, according to its Chairman, while also preparing its Egyptian unit for an initial public offer in Egypt. Emaar plans to list 25% of its shopping malls and retail unit in an offer expected to raise between AED 8-9bn.
- Dubai Investments Park Development Co. listed a USD 300mn **sukuk on Nasdaq Dubai** last week, bringing the

total of new listings of sukuk in Dubai since the beginning of 2013 to USD 12.55bn.

- According to World Travel & Tourism Council estimates, the **contribution of the travel & tourism sector to the UAE's GDP** will reach 8.5% this year with a 4.5% yoy rise to AED 122.6bn. Direct contribution to GDP is likely to rise by 4.7% to AED 59.1bn.

MENA Economic Associates
 one step ahead