

Weekly Economic Commentary – March 30, 2014

[The Weekly Economic Commentary includes a new section called Media Review from this issue onwards, tracking some interesting articles on the international press.]

Markets

Stock markets got a boost from the insinuations that China might launch a stimulus package to revive the economy. The main beneficiaries were Japanese and European stocks, while the US indices remained almost unchanged. Regional markets benefitted by the upbeat mood in Emerging and frontier markets with the exception of Bahrain and Egypt (where the announced candidature of Sisi revamped opposition rallies). In the currency markets the main pairs were stable but the GBP jumped up. Oil prices were on the rise, while gold reverted to its downward trend after the situation on the ground in Ukraine stabilised, leading to a de facto compromise.

Global Developments

US/Americas:

- **Federal Reserve revised bank stress test results** due to 'inconsistent' assumptions of banks' capital plans. Notably Citi again failed the test.
- **US pending home sales index, fell** 0.8% mom to 93.9 in Feb, the lowest level since Oct 2011. **New home sales** fell -3.3% mom sa in Feb after a strong gain in Dec.
- The **S&P Case-Shiller** 20-city composite **home price index increased** 0.8% mom sa in Jan and 13.2% yoy. Separately, the **FHFA house price index** rose 0.5% mom and 7.4% yoy in Jan, extending a two year rally.
- **US durable goods orders rebounded** 2.2% mom in Feb a

-1.3% drop in Jan. Ex transportation, which includes big-ticket items, new orders grew 0.2%. Total shipments gained 0.9% and inventories grew 0.8%. Core capital orders declined -1.3%, while shipments rose 0.5%.

- **Markit's US flash manufacturing PMI** fell more-than-expected in Mar to 55.5 from 57.1 in Feb but remains above Jan's low. New orders slipped 1.6 points while output and employment held steady.
- The **Univ. of Michigan consumer sentiment** index **slipped** to 80 in Mar from 81.6 in Feb.
- **US initial unemployment claims** fell 10k to 311k. The four-week moving average also declined, by 9.5k to 317,750. Continuing claims more than reversed the prior week's increase, falling 53k to 2.82mn, confirming the gradual improvement of the job market.

Europe:

- The **euro zone's M3 money supply** in Feb **grew** 1.3% yoy, after 1.2% in Jan. The contraction in marketable instruments slowed, offset by a rise in the currency in circulation.
- The **eurozone PMI** in Mar was almost **unchanged** at 53.2, from 53.3 in Feb. The services PMI was the weaker component at 52.4 points, with manufacturing held steady at 53. France's composite PMI reached a 31 month high of 51.6 in Mar from 49.7 in Feb, while Germany's composite PMI fell to 55 points from 56.4 in Feb.
- The **euro zone's current account surplus narrowed**, in Jan to EUR 6.4bn from a revised EUR 28.2bn in the previous month.
- The **German Ifo business climate index** **fell** to 110.7 in Mar from 111.3 in Feb. The current assessment sub-index added 0.8 points while the business expectations gauge shed -1.9 points.
- The Conference Board **leading indicator** for the euro zone was practically **flat** at 111.1 in Feb from 111 in Jan.

- **UK retail sales** in Feb **increased** 1.7% mom and 3.7% yoy suggesting revived consumer spending.

Asia and Pacific:

- The **HSBC Flash PMI for China fell** from 48.5 in Feb, to 48.1 in Mar, the lowest since July. The manufacturing output component dipped to an 18 month low of 47.3.
- **Japan core CPI increased** 1.3% yoy in Feb, maintaining its Jan and Dec pace.
- **Taiwan's industrial production increased** 7.7% yoy in Feb, rebounding from Jan's -1.8% fall. Averaging the two months to remove seasonality from the Lunar New Year gives a gain of 2.6%, a modest improvement on Q4 2.1%.
- **Singapore's industrial production grew** 12.8% yoy in Feb, accelerating from 4.4% yoy in Jan. Production grew across all sectors, although the Chinese New Year altered the seasonal factor.

Bottom line: A **lackluster sense of muddling through dominates the global macroeconomic outlook**. Against this backdrop asset prices, sustained by central bank policies are hovering around record levels. Among the main economic areas China's is considered the soft underbelly (rising credit risk led Haitong to lower the 2014 GDP growth estimate to 7%), Europe remains unconvincing in its recovery, and Japan appears to be struggling to deliver on its promise of programme-inspired acceleration.

Regional Developments

- With the diplomatic stand-off still unresolved, tensions were evident at the latest **Arab Summit**. While Kuwait had offered to mediate, government officials said Kuwait's emir did not carry out any mediation attempts on the sidelines of the main meeting.
- **Abdel Fattah al-Sisi** stepped down from the military, paving the way for his **Presidential nomination** in **Egypt**.

His largely anticipated win will bring back a “military man” into power.

- **Egypt** is **expected to grow at 3-3.4% in the next fiscal year**, as per targets announced by the Minister of Planning. GDP growth was a meagre 2.1% last fiscal year and the finance minister revised growth forecasts this year to between 2-2.5% from a previously estimated 3-3.5% growth.
- The Minister of Planning and International Cooperation in **Egypt** announced that new comprehensive reform plans to **restructure the wage system** – including fixing of a minimum and maximum wage – would be under way within 3 to 5 years.
- **Majid Al Futtain** received official endorsement from **Egypt's** PM for its **five-year investment plan** in Egypt worth EGP 16.5bn.
- **Egypt's Industrial Development Authority** revealed that it had issued 6000 industrial registrations all over the last 16 months; it was also noted that multiple protocols worth almost EGP 3bn was signed recently, aiming to utilize around 35 new industrial zones across the country.
- **Iraq's March oil exports** average 2.47mn bpd from the southern terminals during the first 25 days of the month – almost on a par with Feb's southern exports of 2.50mn bpd, the highest since 1979 – but sabotage in northern Iraq shipments is likely to lower total exports in the month.
- **Iraq** is planning to use a USD 4.5bn **15-year soft loan from Japan** mainly for the development of power sector and port infrastructure this year.
- **Jordan's energy imports** of oil derivatives, gas and electricity **grew** by 46.6% yoy to JOD 418.8mn in Jan, thanks to a surge in imports of diesel by 430% yoy to JOD 155.8mn (Jan 2013: JOD 29.4mn).
- **Lebanon** announced a **revision in the calculation of CPI**: weight attributed to the food and nonalcoholic beverages

was adjusted to 20.6 (before: 19.9), transportation raised to 13.1 (12.3), housing, water, electricity and gas component to 28.5 (25.7) while weight for health care component was raised to 7.8 (6.8).

- **Oman** has established a “**financial stability committee**”, based on IMF’s recommendations, comprising of the chief executive of the Capital Market Authority, representatives from the finance ministry and the ministry of commerce and industry, and the head of the central bank’s financial stability unit. The committee is expected to coordinate authorities’ fiscal and monetary policy and prudential supervision, as well as the actions of regulators and supervisors.
- **Budget surplus in Oman narrowed** to OMR 269.7mn in Jan 2014, thanks to a 9% yoy dip in government revenue to OMR 973.3mn and 10.4% decline in the net oil revenue; meanwhile, government’s total spending rose 10.1% to OMR 703.6mn.
- **Foreign trade statistics for 2013 in Oman** reveal 8.2% yoy growth in exports to OMR 21.7bn while non-oil exports increased by 5.9% to OMR 3.8bn, alongside imports rising by 22.1% to OMR 13.2bn.
- **Qatar’s 2014-15 budget** will have higher allocation for infrastructure, logistics, education and health sectors, according to statements by the Finance minister, in a bid to encourage increased participation from the private sector.
- **Qatar** announced **military contracts** worth USD 23bn with about 20 global companies, including US firms that were awarded deals worth USD 7.6bn.
- **Saudi Arabia**’s cabinet approved the creation of a new company, **Saudi Arabian Company for Industrial Investment**, to invest in manufacturing industries; the company will have capital of SAR 2bn and will focus on “conversion industries that rely on petrochemicals, plastics, fertilisers, steel, aluminium and basic industries (and) that achieve economic diversification”.

- **Saudi Arabia's Haramain railway project** linking the holy cities of Makkah and Madinah has only been 50% completed so far, and is hence likely to be delayed until 2016 vis-a-vis the previous expected date of completion of Dec 2015.
- **Bilateral trade between GCC and Germany** touched EUR 26.5bn in 2013, with the UAE accounting for close to 40.6% of total trade, it was revealed at the GCC-Germany Business and Investment Forum in Berlin.
- The number of **mobile subscribers in the GCC** is expected to reach 100mn by 2020, from nearly 84mn last year, an increase of 18.76%, according to a recent Global Investment House report.

UAE Focus

- With an installed capacity of 9700 megawatts and a peak load capacity of 6500 MW last year, **DEWA** seems to have sufficient **excess capacity** to meet **energy demands** ahead of the Expo 2020, according to its CEO. In addition, plans are to invest close to AED 20bn in the emirate's energy sector before the Expo – including a clean coal plant and the solar park, among others.
- **Planning** ahead of the **Expo 2020** includes: a widening of urban area by a further 25k hectares from an existing 93,106 hectares; an addition of 1.8mn square metres of office space in addition to the 5.1mn sqms in 2010; retail floor space to increase to 6.5mn sqm (2010: 5.3mn sqm).
- **Passenger traffic** was **up** for the 7th consecutive month in **Dubai airports**, with passengers up 11.7% yoy to 5.67mn in Feb 2014, and year-to-date passenger traffic grew 13.5% to 12.07mn passengers.
- **Hotel occupancy** in the **UAE** touched 84.1% in Feb and compares to occupancy of 67.4% in MEA, according to STR Global data, with UAE's daily average rate up 3% to AED 882.9 and revenue per available room rising 3.5% to AED

742.25.

- **Dubai Investments** plans to **lift the foreign ownership limits** up to 35% of its total capital, according to the company. Currently, foreign investors hold 13.7% of Dubai Investments' shares out of the total 20% allowed.
- According to Dubai Chambers data, **Dubai's export and re-exports with its GCC** counterparts accounted for 58% of the total trade at a value of AED 13.7bn in Feb 2014. Saudi Arabia was the largest export market for Dubai, with trade value of AED 6.8bn or 49% of the total trade. Meanwhile, exports and re-exports to Iraq increased by 7% mom while dropping by 46% yoy.

New: Media Review

On China's Reforms

<http://www.ft.com/cms/s/0/deb39ac8-b2bd-11e3-8038-00144feabdc0.html>

GCC Economic outlook

http://www.zawya.com/story/GCC_Analysis_All_pretty_quiet_on_the_Eastern_front-GN_22032014_230322/

The water conundrum in the GCC

http://www.zawya.com/story/For_GCC_water_more_precious_than_oil-ZAWYA20140324111217/

On-line shopping in KSA

http://www.zawya.com/story/Saudi_shoppers_turn_to_online-ZAWYA20140324115808/

Where is the Oil Market heading?

<http://www.cnbc.com/id/101442133>

Unsustainable Public Debt in Japan?

<http://www.ft.com/cms/s/0/1ccc6df2-a86f-11e3-a946-00144feab7de.html>

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