

Weekly Economic Commentary – Apr 6, 2014

Markets

US and European stock markets hit new records this week but the picture is not homogeneous. The S&P 500 touched another record on payroll data encouraging a continuing soft monetary stance. But a slide in biotech stocks then hit Wall Street with Nasdaq composite the primary victim and reverberated across global equities. The FTSEurofirst 300 touched a peak last seen in 2008 on Friday, had the ninth straight positive daily session and closed the third consecutive week of gains. Regional markets were mixed with Dubai touching multi-year highs while Egypt's gauge posted sharp losses. The dollar fell and gold surged after a weaker than expected jobs report and the euro weakened amid policy divergence.

Global Developments

US/Americas:

- **US non-farm payrolls rose less-than-expected** 192,000 in Mar, with Jan and Feb payrolls revised up by 37,000 combined. The **unemployment rate** was unchanged at 6.7%. The weather related volatility is over and the job market is on the mend.
- **US construction spending fell** -0.1% mom in Feb following a downwardly revised -0.2% mom dip in Jan. Outlays on private residential projects shrank to a 7-month low while public construction outlays inched 0.1%.
- **US manufacturing PMI fell** more-than-expected to 55.5 in Mar from 57.1 in Feb. The output, employment and new orders components fell but continue to indicate expansion. Separately, the **ISM manufacturing PMI edged up** by a less-than-expected 0.5 points to 53.7 in Mar,

rebounding from a multi-year low in Feb. Output rose sharply to 55.9 from 48.2 while employment slowed to 51.1 from 52.3.

- **US factory orders rebounded** in Feb rising 1.6% mom after a fall of -1% in Jan and -2% in Dec. Orders for core capital goods – a proxy for business investment – dipped -1.4%.

Europe:

- **The ECB** ventilated the possibility of **quantitative easing** in the eurozone through purchases of government bonds. Later press reports speculated that the operation could amount to 1 trillion euro.
- Markit's **eurozone manufacturing PMI slipped** 0.2 points to 53 in Mar but output continues to rise in all countries. The composite PMI
- **Eurozone unemployment** remained **near its peak** at 11.9%. The number of unemployed fell by a paltry 35,000.
- **German retail sales unexpectedly rose** 1.3% mom in Feb following a downwardly revised -1.7% drop in Jan.
- **German factory orders rose by a more-than-expected** 0.6% mom sa in feb after rising a downwardly revised 0.1% mom in Jan. Domestic orders rose 1.2% and orders from the euro area surged 5.9%.

Asia and Pacific:

- HSBC/Markit's **China manufacturing PMI fell** 0.5 points to 48 in Mar – an 8-month low – remaining in contraction for the third month. China's official manufacturing PMI was largely unchanged, inching 0.1 points to 50.3.
- HSBC/Markit's **China services PMI inched up** to 51.9 in Mar from 51 in Feb, boosted by strong employment. The Official services PMI slipped 0.5 points to 54.5.
- The **Bank of Japan Tankan** business sentiment **improved** by a less-than-expected 1 point to +17 in Q1 after gaining 4 points in Q4.

- **India manufacturing PMI fell** to 51.3 in Mar from a year-high of 52.5 in Feb. New orders dipped 2.2 points to 42.7 despite a surge in export orders, suggesting weaker domestic demand.

Bottom line: China continues to struggle, the US is continuing with the gradual recovery, while the ECB dovish stance and QE is seen as a game changer in Europe fluidifying the recovery in peripheral countries. The contrarian view is that when governments do not feel the pressure of markets, structural reforms drop out the policy agenda. In the long run this will be the most pronounced effect.

Regional Developments

- **A mixed picture on the banking sector in Bahrain:** The IMF has given the sector a clean bill of health stating “the banking sector is in good health; the capitalisation of the banking system is high on average, around 18% for retail banks and above 22% for wholesale banks”. Moody’s revised its banking system outlook to stable from negative, expecting banks’ capital metrics to remain broadly stable. However, a major statistical gap has emerged, with the Central Bank no longer publishing its monthly detailed statistical bulletin (with extensive data on money supply, mutual funds and aggregate bank balance sheets) for the past 6 months.
- **Presidential elections in Egypt are scheduled to take place during May 26-27;** this will be the second time the country goes to vote in a presidential election in less than two years and Abdel Fattah al-Sisi is expected to win and if so, could become president by early June.
- **Egypt’s current account** recorded a **deficit** of USD 755.8mn in H2 2013 (ie. six months up to Dec 2013); this compares to a surplus of USD 757mn in Jul-Sep, aided by the inflow of Gulf funds, and a deficit of USD 4.9bn in H2 2012.
- The **World Bank granted Egypt a USD 300mn loan** to expand

access to credit for women, youth and marginalized groups to start and grow SMEs utilizing innovative financing tools with an aim to create new job opportunities and reduce unemployment rate.

- **GDP in Jordan grew 2.8% in 2013**, slightly higher than 2012's 2.7%, with the construction sector recording the highest growth (9.4%), followed by public services providers (5.4%), social and personal services (5.1%), and the private non-profit services producers (5%).
- **Kuwait's** parliamentary committee for foreign affairs **rejected the GCC security agreement** last week; three of the five committee members said they opposed it. The government has insisted that the pact is not unconstitutional, as claimed by some opposing lawmakers.
- **Inflation in Oman fell** to 0.6% in Feb, following 1.2% recorded in Jan, as prices of food and non-alcoholic beverages, which account for nearly 24% of the basket, dipped 1.7% mom (but rose 2.1% yoy); housing and energy costs, which account for 26.5% of consumer expenses, rose 1.4% yoy but were flat in mom terms.
- The **Central Bank of Oman** is imposing a cap to improve banks' quality of assets; it has asked banks to **limit their credit exposure** to non-resident borrowers (other than banks) to 20% of the bank's local net worth. Including non-resident borrowers (i.e. banks), the cap is 30%. The banks have to meet this cap within six months or the maturity of their exposures, whichever is earlier.
- **Cumulative credit limits** issued to exporters by the Export Credit Guarantee Agency of **Oman** was OMR 332.8mn at the end of 2013 and compares to OMR 303mn in 2012.
- **Value of exports and re-exports** between **Oman-GCC** reached about OMR 3bn in 2013, with Omani products accounting for around OMR 1.5bn or 50% of the total.
- **GDP growth in Qatar accelerated** to 6.5% in 2013 (2012: 6.2%), thanks to a pick-up in the construction sector ahead of the 2022 World Cup. Q4 GDP growth slowed to

5.6% yoy, from an upwardly revised 6.9% in Q3, as oil sector output fell amidst stronger non-oil sector growth. Separately, QNB expects Qatar's real GDP growth to accelerate to 6.8% in 2014, with the non-oil sector the key driver.

- **Trade surplus in Qatar was up** 2.2% to QAR 35bn in Feb, with exports registering a 2.6% increase to QAR 43.3bn and imports rising 4.5% to QAR 8.3bn. Qatar's top export partners were Japan (29% of total exports), South Korea (24%) and India (12%).
- **Qatar welcomed 1.3 million tourists in 2013**, with regional and international visitors up 14% and 9% respectively; among regional tourists, the greatest volumes were from Saudi Arabia and UAE while there was an increase in business arrivals from Asia at 14%.
- **Producer price index (PPI) in Qatar was up** 1.4% in Jan; PPI for mining, which carries the maximum weight of 77% in the basket, was up 0.9% in Jan due to a 2.1% increase in the price of stone, sand and clay and 0.8% in crude petroleum and natural gas.
- **S&P affirmed** the long and short term foreign and local currency **sovereign credit ratings** on **Qatar** at 'AA/A-1+' with a "stable" outlook.
- **Saudi Arabia** announced the appointment of Prince Muqrin as **deputy crown prince** to provide clarity in the Kingdom's succession plans.
- A report published by **Saudi Arabia's** Ministry of Civil Service reveals there are 1.226mn Saudis working in the **government sector**. Men account for 61.64% of the workforce while there are around 73,505 foreigners working mainly in health and higher education.
- **S&P** expects **banking system in Saudi Arabia** to remain profitable and resilient, with lending volume and higher fees the main generators of banks' profitability.

UAE Focus

- **UAE PMI was buoyant** at 55.7 in Mar (Feb: 57.3) – the second-highest in series history – as new orders rose and companies increased hiring. Order intakes increased, with 46% of the 400 companies surveyed reporting an increase.
- The **Al Etihad Credit bureau completed its testing phase** – including an intensive security audit of the system, penetration testing and a complete system review – and is ready to be operational once the Bureau's by-laws are published in the Official Gazette.
- A **MEED Projects** report stated that more than USD 23bn was awarded in construction contracts in 2013, 55% of which were for mixed-use or residential developments, while also reporting that construction has resumed on previously stalled **UAE property projects** costing over USD 12bn over the past 18 months.
- The **Emirates REIT IPO** was **oversubscribed** 3.5 times, with significant interest from UAE and GCC institutional investors as well as from the UK, and the base offer was raised from USD 150mn to USD 175mn to accommodate demand.
- **UAE-France bilateral trade** crossed EUR 1.5bn last year, according to the French Business Council in Dubai. Exports from France jumped 12.2% to EUR 3.9bn (AED 19.7bn) in 2013 while exports from UAE to France rose 7.3% to EUR 1.2bn (AED 6bn).
- With rising passenger traffic at the Dubai Airports, it is no surprise to hear that the **Dubai Duty Free sales increased** 10% yoy to AED 1.75bn in Q1. Category-wise, perfumes, liquor and gold retained the top 3 spots and Terminal 3 continued to account for a major share of turnover (62%).
- **Abu Dhabi** Airports reported a 15.6% increase in **passenger traffic** to 1.41mn passengers during Feb 2014 and the top five routes were Bangkok, Jeddah, Doha, Manila and London Heathrow.

Media Review

On the Changing Face of Global Risk

<http://www.project-syndicate.org/commentary/nouriel-roubini-warns-that-even-as-many-threats-to-the-world-economy-have-receded-new-ones-have-quickly-emerged>

US home loan market has experienced its worst quarter in nearly a decade and a half

<http://qz.com/195763/us-banks-just-had-the-worst-quarter-in-mortgages-for-14-years/>

Emerging markets are increasingly unstable amid US Fed taper fallout

<http://www.ft.com/intl/cms/s/0/236c9c50-ba84-11e3-8b15-00144feabdc0.html#axzz2y5T3QPHq>

<http://www.imf.org/External/Pubs/FT/GFSR/2014/01/pdf/c2.pdf>

Europe's Addiction to Russian Gas

<http://www.ft.com/intl/cms/s/0/dacfda08-ba64-11e3-8b15-00144feabdc0.html?siteedition=intl#slide0>

Middle East SWFs to Invest in Domestic Markets?

http://www.zawya.com/story/SWFs_eye_domestic_mandate-ZAWYA20140402114827/

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