

# Weekly Economic Commentary – Aug 24, 2014

## Markets

The FOMC meeting minutes, weak EU data and worsening Ukraine tensions threw a spanner into the works by the end of last week, causing the **S&P 500** to retreat from a record high while other global markets paused to take stock of the situation and gold prices hit a near two-month low. Regionally, the **Tadawul** touched a 6.5-year peak early last week while foreign investors purchased AED 1.1bn worth of shares on DFM. The **dollar** index was up 0.2% at 82.31 after setting a 2014 high of 82.456 following Yellen's speech which was less dovish than usual. **Oil** prices eased on better supplies and the stronger dollar.

## Global Developments

### **US/Americas:**

- Homebuilder sentiment, denoted by the US **NAHB housing index** rose in Aug to 55, its highest level since Jan, and from 53 the month before. Furthermore, **building permits** jumped 8.1% and **housing starts** surged 15.7% in July suggesting that the housing market recovery was back on track.
- **Existing home sales** grew 2.4% mom in Jul, rising to the highest level in 10 months, while distressed sales fell to a 6-year low.
- **CPI** in the US edged up slightly by 0.1% mom in July after rising 0.3% the previous month as declining energy costs partially offset increases in food and rents. Meanwhile, core CPI ticked up 0.1% after registering a similar gain in June.
- **FOMC minutes** spooked financial markets after it was

revealed the committee was prepared to raise rates sooner than later, though without mentioning by how much or how soon. The minutes stated that “many” committee members felt that a quicker than expected “convergence” toward inflation and labor market goals might make it “appropriate to begin removing monetary policy accommodation sooner than they currently anticipated.”

### Europe:

- **EU's composite flash PMI** fell to 52.8 in Aug from July's 53, dragged down by slow business growth in Germany (Aug: 54.9; Jul: 55.7) alongside a stagnant France reading (Aug: 50; Jul: 49.4).
- **UK inflation** fell to 1.6% in July from 1.9% in June after as the cost of clothing and footwear, food and non-alcoholic drinks eased.

### Asia and Pacific:

- **Japan's leading economic index** rose for the first time in five months, rising to 105.5 in June from 104.8 in May, which was the lowest since Jan 2013.
- **Japan's exports** rose for the first time in three months in July though the trade deficit widened unexpectedly to JPY 964bn from JPY 822.2bn the month before.
- **China's FDI** during the Jan-Jul period fell 0.4% to USD 71.1bn – for the first time in 17 months. The country attracted only USD 7.8bn in July alone, the least in the past two years, though officials dismissed this dip as a mere anomaly.

**Bottom line:** The FOMC meeting minutes and Yellen's Jackson Hole speech were the main market movers last week as data releases were scant and geopolitical worries continued. Euro zone continues to display signs of gradual recovery though it remains uneven across the countries.

### Regional Developments

- **Qatar** has reportedly refused to sign the final report prepared by a GCC technical committee that was set up to resolve the ongoing GCC **diplomatic spat**. While Qatari officials maintained their stance that they had fulfilled all the requirements, a senior Gulf official said that Bahrain, Saudi Arabia and the UAE insisted on evidences and actions that supported the Qatari claims. Foreign ministers are to meet on Aug 30 to further discuss this report and its findings.
- **UAE tourists in Egypt** grew by 35% to 10,250 during the Jan-May period, according to the Egyptian Tourism Authority.
- **Humanitarian aid shipment** consisting of 16 containers with goods worth USD 1.9mn left Jebel Ali ports for Iraq last week, according to the UN High Commissioner for Refugees
- The capacity of **Iraqi** Kurdistan's **independent oil pipeline** is expected almost double to at least 200k barrels per day (bpd) by the end of this month. According to sources, capacity could climb to 250k bpd in two to three months' time.
- **Trade deficit in Jordan** widened by 10.5% yoy to JOD 5.35bn in H1, on a higher oil bill (up 27% to JOD 2.26bn) combined with greater consumption (imports were up 9.2% to JOD 8.3bn billion dinars), with the influx of Syrian refugees adding to the burden.
- **Remittances by Jordanian expatriates** during the Jan-Jul period rose 1.4% yoy to USD 1.2bn, according to the Central Bank of Jordan.
- **Tourism** continues to pick up in **Jordan**: overnight visitors into the country increased 3% yoy to 2,305,870 tourists during the first seven months of this year. During this period, overall tourism revenues rose by 10% to around JOD 1.8mn.
- **Kuwait nominal GDP** grew by 2.3% yoy to KWD 49.8bn in 2013, aided by the non-oil sector which reported a strong growth of 10.6%, according to a report by the

National Bank of Kuwait. Manufacturing (excluding refining, but including petrochemicals) sector posted a 33.5% rise, alongside 'government and other services' which gained 10.9% and the trade sector which gained 12.3%.

- **S&P** affirmed its "AA/A-1+" long- and short-term foreign and local currency sovereign credit ratings on **Kuwait** with "a stable outlook", thanks to the nation's fiscal and external positions, backed by oil revenues.
- The Central Bank of **Oman** reported a healthy **banking sector**, due to "robust growth in both deposits and credit". Total assets of commercial banks increased 12.4% to OMR 24.6bn in June 2014 while credit disbursement accounted for 66.5% and increased by 11.2% to OMR 16.4bn.
- **MSCI** announced the increase of weightings of three **Qatari** companies – Qatar National Bank, Industries Qatar and Qatar Islamic Bank -in its emerging market index, citing changes to the ceilings on foreign ownership.
- **Foreigners** expecting to invest in **Saudi Arabia**'s Tadawul are likely to face many **restrictions** including a 20% ceiling on combined foreign ownership of any listed stock, reported the *Asharq al-Awsat* newspaper quoting unnamed sources.
- **Saudi Arabia produced** 10mn barrels per day (bpd) of **oil** in July (June: 9.78mn bpd) of which 9.66mn bpd was supplied to the domestic and export markets.
- **Saudi Arabia** reported a 4% yoy drop in **non-performing loans** to SAR 16bn by end-Q2 while accumulated provisions grew by 1% to SAR 26.5bn, reported the *Al-Eqtisadiah* daily.
- The **MENA region** received USD 2.5bn in **funds from the IFC** last year, of which Egypt received the lion's share of 45% or approximately USD 1bn.

## **UAE Focus**

- **UAE's** Nakheel revealed that it was repaying its bank debt of AED 7.9bn four years ahead of schedule, with the final instalment of the debt to have come due in Mar 2018.
- **Inflation in Abu Dhabi** reached 2.8% in the first seven months of this year, with the housing, water, electricity, gas and other fuels' group accounting for about 38.4% of the change. In July alone, CPI was up 3.2% yoy though down marginally by 0.1% mom.
- According to the Federal Customs Authority, **UAE's non-oil trade** reached AED 256bn in Q1, with imports accounting for 65% of total. Saudi Arabia remained the country's top regional trade partner with bilateral non-oil trade touching AED 8.3bn or 36.2% of total GCC trade during the period.
- Indians, British and Pakistanis continued to be **top expatriate investors in Dubai's real estate sector** during H1 this year, investing AED 10.5, 5.8 and 2.4bn respectively. Jordanians were the top Arab investors (outside of the GCC) with 640 transactions worth AED 1.347bn, followed closely by the Lebanese at AED 1.235bn.
- **UAE-Japan bilateral trade** was up 4.43% yoy in H1 this year; Japan's exports to the UAE increased 13% to USD 4.59bn during this period while imports grew by 2.76% to USD 21.34bn, according to the Japan External Trade Organisation.
- The volume of **announced and planned projects in UAE** is expected to be worth USD 315bn this year, and as of May 2014, about USD 212bn worth of construction projects were under construction, according to estimates from EC Harris.
- **S&P's** recent report underscored the edge **Islamic banks** have with respect to the **Basel III requirements**. Over the past two years three UAE based Islamic banks such as Abu Dhabi Islamic Bank, Dubai Islamic Bank and Al Hilal Bank have opted for Tier 1 sukuk issuance totalling USD

2.5bn. Issuers of these sukuk say that they qualify as Additional Tier 1 (AT1) capital under Basel III.

- **ADX** revealed that it had achieved **99% compliance** to the submission of financial results within the 45-day deadline after the close of the quarter, denoting good corporate governance. The 64 listed companies that submitted Q2 results posted a combined net profit of 19% yoy.
- **Dubai's households spend** between AED 37-85k each year bringing the average spend close to AED 53k per year, according to data from Colliers International.

### **Media Review**

#### **China's Fire**

<http://www.project-syndicate.org/commentary/yu-yongding-warns-that-unless-officials-stem-the-rise-in-corporate-leverage-economic-crisis-is-inevitable>

#### **Iran and Saudi Arabia have the greatest potential to change the Middle East**

<https://www.project-syndicate.org/commentary/volker-perthes-explores-the-short-medium-and-long-term-factors-shaping-developments-in-the-middle-east>

#### **The changing landscape of portfolio investment in emerging markets**

<http://www.voxeu.org/article/new-breed-global-investors-and-financial-stability>

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