

Weekly Economic Commentary – Sep 7, 2014

Markets

A new S&P 500 record was hit after a weaker-than-expected jobs report eased worries of a potential Fed rate hike. Regionally, markets had a good week: Qatar stocks hit an all-time high, Egypt's bourse hit a fresh six-year closing high while DFM recorded the best performance in 4-weeks. The euro reported the steepest fall in almost 3 years following ECB's unexpected rate cut while but recovered while the dollar retreated from a near 6-year high vis-a-vis the yen. Oil prices fell but stayed above the USD 100 mark while gold prices dipped to a near 3-month low.

Global Developments

US/Americas:

- **Non-farm payrolls** added just 142k jobs, much lower than expected, even as the jobless rate declined to 6.1%.
- **ISM manufacturing PMI** rose to 59 in Aug (Jul: 57.1), hitting its highest level since Mar 2011; in addition, a measure of new orders touched a 10-year high of 66.7 while the production index rose to 64.5, the best reading since May 2010.
- **Factory orders** accelerated to their highest level in 8-1/2 years, gaining a record 10.5% in Jul on robust demand for aircraft and autos, compared to a 1.5% rise in Jun; orders excluding the volatile transportation category slipped 0.8% in Jul (Jun: +0.4%).
- **US trade deficit** narrowed 0.6% to USD 40.5bn in Jul, the lowest since Jan, as exports rose 0.9% to a record high of USD 198 bn, supported by a surge in goods, automobiles, parts and engines, as well as non-petroleum

products.

- **Initial jobless claims** increased by 4k to 302k last week, with the 4-week average rising 3,000 to touch 302,750. Continuing claims are now at their lowest level since mid-2007.
- **Construction spending in the US** rebounded in Jul, rising 1.8% to an annual rate of USD 981.31bn, the highest level since Dec 2008.

Europe:

- The **ECB cut interest rates to an all-time low** with the refinancing rate falling to 0.05% from 0.15%, and the deposit rate falling from minus 0.1% to minus 0.2% while also announcing an asset purchase program. The euro remained near a 14-month low against the dollar, suggesting that markets believe the ECB's USD 1 trillion in bond-buying will kickstart growth.
- Falling investment and a drop in inventories left **EU GDP** unchanged in Q2 in qoq terms although it rose 0.7% yoy. **German GDP** shrank 0.2% qoq in Q2 (Q1: +0.7%); gross capital formation fell 0.2% on the quarter, construction investment fell 4.2%, domestic demand added 0.1 percentage point to the quarterly figure, while net trade cut 0.2 percentage point.
- **EU Markit manufacturing PMI** came in at 50.7 in Aug, the lowest in over a year and below both July's 51.8 and an earlier flash estimate of 50.8 while the output index sank to a 14-month low of 51.0 from July's 52.7 but was just ahead of the flash 50.9. Factory PMI for Germany fell to an 11-month low of 51.4 and in France, the PMI fell to 46.9.
- **Retail sales in the EU** fell 0.4% qoq in Jul, rising 0.7% in yoy terms; sales was down mainly due to falling sales of food, drinks and tobacco.
- **German factory orders** rose higher than expected by 4.6% in July, at the fastest pace in a year. Orders for

capital goods rose 8.5%, driven by a 14.6% increase in demand from countries outside the Eurozone, while contracts from EU rose just 2.9%. **Industrial production** also posted the strongest month in 2.5 years, rising 1.9% yoy and 0.4% mom in Jul.

Asia and Pacific:

- **China manufacturing PMI** slowed in Aug to 51.1 from Jul's 51.7, clocking in the first decline since Feb. Separately, the HSBC **services PMI** jumped to 54.1 in Aug – the strongest in 17 months – from a nine-year low of 50.0 in July, while the official non-manufacturing PMI rose to 54.4 from July's six-month low.
- **Japan's** firms raised **capital spending** for a fourth consecutive quarter – rising by 3.0% yoy in Q2, following the 7.4% rise the quarter before; however in qoq seasonally adjusted terms, there was a 1.8% dip. Additional data continued to reflect the impact of the tax hike: **sales** at Japanese firms rose 1.1% yoy in Q2, and **recurring profits** rose 4.5%, slowing sharply from the previous few quarters.
- **Korea CPI** grew by 1.4% in Aug, the slowest since Mar, on stable prices of agricultural goods following a good harvest.

Bottom line: The ECB's rate cut and QE-type purchase plan announcement was the biggest surprise of last week, with the ECB aiming to kickstart lending again, causing Spanish and Italian 10-year yields fall within touching distance of their record lows. While the US jobs data disappointed, markets rejoiced – bonds rallied though the dollar dipped – as it reduced chances of a potential Fed rate hike.

Regional Developments

- Revenues from **Egypt's Suez Canal** touched the highest monthly level of USD 508mn in Aug, according to the Suez

Canal Authority Chairman though official revenue figures are not yet published.

- **Egypt PMI** hit an 8-month high of 51.6 in Aug, with purchasing activity overall rising at the fastest pace since data collection began in Apr 2011. Output and new orders were strong, with clients naming European and Middle Eastern markets as sources of growth.
- **Inflation in Egypt** was revised up to 11.04% in July from 10.61% announced previously, though no reason was provided for this update.
- An **Egyptian** official revealed that **UAE** would provide Egypt with **petroleum products** worth USD 8.7bn – partly as grants and the remainder under a credit agreement that would be repaid in installments – over a year beginning this Sep.
- The Central Bank of **Egypt will repay Qatar** in two installments – settling USD 500mn in the beginning of October and another USD 2bn at the beginning of Nov this year.
- **Iraq** plans to establish a **joint bank with Iran**, according to the Iraqi Commercial Attaché to Iran, reported Iran's Fars news agency.
- **Jordanians purchased property** worth JOD 4.77bn (of a total JOD 5.09bn) in Jan-Aug 2014, as per their Department of Land and Survey – with JOD 733mn spent on land and residential properties in Aug alone.
- **Jordan's** Minister of Planning and International Cooperation stated that the country needs about USD 4.5bn in foreign aid to deal with the continuing influx of Syrian refugees.
- Projections reveal that the **population of Amman** is expected to increase from 2.4mn in 2012 to **3.6mn in 2030** and **to 5mn by 2050** if the 2012 fertility rate of 3.2 children per woman continues.
- **Kuwait inflation** eased to 2.7% in Jul (Jun: 2.9%), with core inflation outstripping the headline inflation rate for three months now on housing price pressures.

Inflation in housing services edged down slightly to 4.4% yoy.

- **Lebanon** is expected to grow at 1.5-2% this year, inspite of the constant inflow of Syrian refugees while inflation is unlikely to exceed 4%, according to the Central Bank governor. The central bank is also expected to save the day, should lawmakers not approve the issuance of new sovereign Eurobonds, through the issue of new Certificates of Deposit in foreign currency.
- **Oman's** Authority for Electricity Regulation revealed that the projected **economic cost of subsidising** power generation (and related water desalination) sector is around OMR 973.7mn in 2014, representing a 12% yoy increase.
- **Population in Oman** is projected to increase by 2.4mn by 2040, with the average age for Omanis expected to be 27 by then and working age population (15-64 years) will account for about 64-69% of the total, as per National Centre for Statistics and Information estimates.
- **Saudi Arabia's PMI** grew to 60.1 in Aug, the highest level since Jul 2011, with momentum rising across the board in output, new orders and employment.
- **SAMA's** new **consumer lending regulations** provide the central bank with the discretion to cap consumer lending and limit fees. According to the new rules, "SAMA may, at its discretion, impose a restriction on a creditor under which its consumer financing portfolio may not exceed a specified percentage of its total financing portfolio" and also state that "all fees, costs and administrative services charges" collected by banks must not exceed either 1 percent of the financing amount or 5,000 riyals, whichever is lower.
- **Saudi Arabia** awarded **contracts** worth SAR 84.9bn in **Q2**, according to a report from NCB, with the power and oil & gas sectors accounting for roughly 60% of the value of awarded contracts. This brings the total value of awarded contracts through H1 to SAR 124.6bn.

- The 2014 **Basel Anti-Money-Laundering index** places Oman at 134 rank (score: 4.77 points), while Qatar was 126 (4.96), Bahrain at 94 (5.57) along with Saudi Arabia was 87 (5.66), Kuwait at 64 (score: 6.14), and UAE at 60 (6.33) points. Finland is the least at-risk country for money laundering in the world, scoring 2.51 while Iran posed the largest money-laundering risk in the world with a score of 8.56.
- Pew Research Centre revealed that UAE has the **highest share globally of foreign-born people** (84% of its resident population) followed by Qatar (74%), Kuwait (60%) and Bahrain (55%).

UAE Focus

- **UAE PMI** hit a new record high of 58.4 in Aug, following the previous record posted in Jul (58), with new business expanding at the second-quickest pace in series history while the rate of growth in new export business clocked in an all-time high.
- **UAE topped economic rankings in the Middle East**, at 12 globally after rising seven places compared to last year, as per the latest **WEF competitiveness report**. Overall, the UAE improved its performance in 78 indicators out of 114 and ranked within the top 5 globally in 28 indicators.
- **Dubai's population** continued to grow at a consistent pace of 5% in 2013 as well, with about 75.77% of the estimated 2.2mn population male, hence bringing the ratio of men to women 313 males per 100 females. Meanwhile, the total number of active individuals during the day in Dubai is 3.2 million.
- **Passenger traffic** through **Dubai airport** dropped by 2.9% to 5.16mn people in Jul, as a result of partial closure of the runway due to construction work and the summer lull. Passenger numbers rose 4.9% to 39.83mn in the first seven months of the year. In **Abu Dhabi** airport,

meanwhile, passenger arrivals hit 1.7mn in Jul, a 21.7% increase in yoy terms and Abu Dhabi Duty Free reported record sales of AED 487.9mn in H1.

Media Review

What are the world's biggest crises?

<http://www.bbc.com/news/world-29063111>

The Exaggerated Death of Inflation

<http://www.project-syndicate.org/commentary/kenneth-rogoff-debunks-rumors-of-the-demise-of-threats-to-price-stability>

One of the world's largest cities wants to build the world's busiest airport: too good to be true?

<http://qz.com/260215/one-of-the-worlds-largest-cities-wants-to-build-the-worlds-busiest-airport-and-the-plans-call-for-only-one-terminal/>

Is Abenomics working?

<http://www.project-syndicate.org/commentary/koichi-hamada-urges-japan-s-government-to-launch-the-third-arrow-of-its-plan-to-revive-economic-growth>

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