

Weekly Economic Commentary – Sep 14, 2014

Markets

Markets are in feverish anticipation of the Fed meeting, betting on a hawkish stance, while the prospect of a Scottish vote in favour of secession left a negative impact on European markets. Regionally, the **DFM** fell for the first time in 5 weeks; the exchange is meanwhile waiting for its first flotation since 2009 of Marka. The US Treasury benchmark yields posted their biggest weekly increase in over a year; the **dollar** hit six-year highs against the **yen** and extended its gain vis-a-vis the **euro** for a ninth consecutive week. The Bloomberg Commodity Index declined to the lowest since Jul 2009: **Brent** fell under the \$100 mark, recording the lowest price since July 2, 2012 and **gold** prices hit a 7-1/2 month low on a strengthening dollar.

Global Developments

US/Americas:

- **US consumer credit** registered the biggest gain since Nov '01, rising USD 26.01bn to USD 3.24 trillion, on auto loans and higher student borrowings.
- **US retail and food sales grew** by 0.6% mom in Aug after an initial estimate of flat growth, supported by lower gasoline prices and encouraging jobs growth.
- **Business inventories** gained 0.4% in Jul, following an unrevised 0.4% rise in June. Business sales meanwhile rose 0.8% after increasing 0.6% in the prior month and July's sales pace, it would take 1.29 months for businesses to clear shelves.
- **Initial jobless claims** unexpectedly rose 11k to 315k, the highest level since June with the four-week average

rising to 304k from 303,250 the week before.

Europe:

- **Eurozone industrial production** posted a strong gain of 1.0% mom and 2.2% yoy in Jul; the monthly rise was supported by the production of capital goods which rose 2.6% in July, followed by 1.2% growth in the production of non-durable consumer goods.
- **German trade surplus** hit a record high of EUR 22.2bn in Jul (Jun: EUR 16.4bn), supported by strong exports (up 4.7% mom to EUR 98.2bn). Exports to the EU were up 9.6% and exports to the 18-member Eurozone climbed by 6.2%, while exports to countries outside Europe soared by 15.9%. Separately, German **inflation** stood at just 0.8% in Aug, its lowest level since Feb 2010.
- **UK industrial production** posted a 0.5% mom and 1.7% yoy gain in Jul, recording the 11th consecutive month of yoy gains. The increase was largely due to electricity and gas, which surged 3.6% mom, while manufacturing output rose 0.3%. **Trade balance deficit** meanwhile widened to GBP 10.2bn in Jul (Jun: GBP 9.4bn), the biggest since Apr 2012. Exports were up 2.1% and imports 3.9%.
- The **UK Treasury** announced plans to issue **Yuan denominated bonds** in the coming weeks, stating that “this will be the first non-Chinese issuance of sovereign RMB debt and will be used to finance Britain’s reserves”, confirming the growing internationalization of the RMB.

Asia and Pacific:

- **China’s trade surplus** hit a record high of USD 49.8bn in Aug (Jul: USD 47.3bn), as imports fell by 2.4%, following a 1.6% dip the month before on lower domestic demand. **Industrial production**, at 6.9% in Aug (Jul: 9.0%), was at a 6-year low while **retail sales** expanded 11.9% yoy (Jul: 12.2%) and **fixed-asset investment** in

non-rural China rose 16.5% yoy in the Jan-Aug period, slower than the 17.0% rise recorded during Jan-Jul.

- **China inflation** eased to a four-month low of 2% in Aug (Jul: 2.3%), rising 0.2% mom and **PPI** declining for the 30th consecutive month in Aug, dropping 1.2% yoy (Jul: 0.9% decline). **China's new loans**, at CNY 750.8bn in Aug, nearly doubled from a month ago, while **money supply** increased 12.8% yoy to CNY 119.75 trillion.
- **India CPI** rose 7.8% in Aug (Jul: 7.96%) and **industrial output** slowed to 0.5% in Jul, down from a revised 3.94% a month before.
- **Japan's Q2 GDP contracted** at the fastest pace since 2009, shrinking an annualised 7.1% versus the preliminary estimate of 6.8%. Q2 consumption and business spending were down 5.1% after the first sales tax increase in 17 years took effect on Apr 1. Separately, the **current account balance** swung to a JPY 416.7bn surplus in July.
- **Japan** core private-sector **machinery orders** rose 3.5% mom in Jul to JPY 771.7bn; the increase in Jul, and an 8.8% rise in Jun, follow a 19.5% plunge in May.
- **Hong Kong** raised USD 1bn from its first ever **Sukuk issue**, with the five-year notes priced at a 2.005% profit rate; the debut issue attracted orders for 4.7 times the amount on offer, with investors from across the globe: 47% in Asia, 36% in the Middle East, 11% in the US and 6% in Europe.

Bottom line: All eyes are on the Fed meeting this week, where expectations the central bank will likely drop its pledge to keep interest rates low for a “considerable time, as well as the “too close to call” Scottish referendum on independence and the first of the ECB’s Targeted Long Term Refinancing Operations. Economic data showed some improvement in US, and in China, output at a 6-year low raises concerns. Japan’s struggles on the impact of its sales tax hike, with doubts now on whether Abe will proceed with a scheduled second increase

in the sales tax to 10% in October next year. Despite rising political tensions – US and EU tightened sanctions on Russia over its intervention in Ukraine – oil prices declined as the IEA trimmed its forecast for oil demand for the third consecutive month, a view echoed by the OECD in its Monthly Oil Market Report.

Regional Developments

- **Bahrain** opened books for a benchmark-sized 30-year USD 1.25bn **bond issue** last week, with proceeds from the bond sale expected to go towards general budgetary purposes. Outstanding debt grew to USD 13.2bn, at 44% of GDP, in 2013, and the IMF warned that debt could jump above USD 20bn by 2018, well above 60% of GDP – exceeding the limit stipulated by the Gulf Monetary Union scheme.
- **Egypt** signed a **USD 500mn loan with the World Bank** to connect 850k Egyptians, particularly in largely rural Upper Egypt, to a natural gas grid; the loan would be repaid over 30 years, with a five-year grace period.
- The Central Bank of **Egypt** revealed that it had raised a total investment of EGP 28bn by day 4 of selling **Suez Canal investment certificates** – with a maturity of five years and a 12% interest rate – to the public. The aim is to collect EGP 60bn for the Suez Canal extension, including six tunnels that link the east and west banks of the canal.
- **Urban consumer inflation in Egypt** increased to 11.5% in Aug (Jul: 11%), while core inflation also rose to 10.07% (9.57%).
- **Foreign direct investment into Egypt** doubled to over USD 6bn in the financial year that ended on June 30, according to the head of Egypt's investment authority; at the end of nine months of the 2013/14 fiscal year, FDI had stood at USD 4.4bn.
- The **Egyptian** government expects to attract **investments** worth EGP 500bn in the coming two years, as per the

Planning Minister. He also revealed that investments of EGP 206bn is expected from the private sector this year, in addition to EGP 131bn from the public sector.

- **Foreign reserves in Egypt** increased to USD 16.835bn in Aug, from USD 16.736bn the month before, according to the Central Bank. This is ahead of the return of USD 3bn to Qatar in two installments, in Oct and Nov.
- **Jordan's** energy minister revealed that the nation was waiting on approval for a **USD 300mn grant from the UAE**, which will "help resume several renewable energy projects and absorb new capacities", thereby expanding the capacity of its national power grid.
- **Kuwait suspended the existing offset programme** in an attempt to woo foreign investors, with new rules expected to be ready in 6 months' time. According to a 2012 US State Department Investment Climate statement for Kuwait, offset obligations were applied to military contracts of a value equal to or above KWD 3mn, civil/government contracts of a value equal to or above KWD 10mn, and downstream oil/gas contracts; winners of these big government contracts were expected to invest into the local economy.
- The Ministry of Finance in **Kuwait might lift the water and electricity subsidies given to government institutions and establishments**, reported the *Al-Anba* daily quoting sources. This move, following the removal of diesel subsidies, could reduce expenses of the government by more than 15%.
- **Oman** could issue the country's first-ever **sovereign Sukuk**, with an aim to deepen the financial market and raise about USD 200mn, early next year, according to a statement from the Central Bank's Executive President.
- **Inflation in Oman** clocked in 0.63% yoy and 0.25% mom in Jul; in yoy terms housing and utility costs rose by 1.39% alongside 6.27% rise in education, 5.72% for healthcare, and 7.28% for furniture among others.
- Aug **inflation in Qatar** touched 3.8% yoy and was up 0.7%

mom in Aug, on rising rents (7.9% yoy, 0.7% mom) and costlier food, transport and communication.

- **Qatar's Business Optimism Index** for Q3 revealed manufacturing to be the most optimistic, backed by demand from new projects and a growing population while the finance and insurance sector revealed a strong outlook. Additionally, only 24% of hydrocarbon firms and 38% of non-hydrocarbon firms plan to invest in business expansion in Q3 compared with respectively 31% and 41% firms in Q2 2014.
- An International Energy Agency (**IEA**) report stated that US shale boom has begun to impact adversely **Saudi oil imports**, stating that Saudi exports have likely run below 7mn barrels per day for the last four months, their lowest level since Sep 2011.
- Ministry of Labour data reveal that the number of **expats in Saudi Arabia** increased by 12% this year while the number of unemployed Saudis reached around 622k.
- **GCC's gross Takaful contribution** is estimated to reach around USD 8.9bn in 2014 from an estimated USD 7.9bn in 2013, according to EY. Within the region, Saudi Arabia accounts for the majority of the total gross Takaful contribution at 77%, followed by UAE at 15%.

UAE Focus

- The government of **Hong Kong** announced plans to list its first offering of **USD 1bn Sukuk** on Nasdaq Dubai. By end-H1, the total value of Sukuk listed on Dubai's exchanges was close to USD 22bn, of which Nasdaq Dubai alone accounted for more than USD 18bn.
- **Dubai World** is offering its creditors incentives to lengthen the USD 25bn **restructuring deal**, including shares in global ports firm DP World as collateral, according to sources, reported Reuters. If an agreement is reached, Dubai World is expected to repay the USD 4.4bn tranche due in May 2015 early – likely in Dec or

Jan depending on the progress of negotiations – in exchange for the USD 10.3bn 2018 payment being extended until 2022.

- **Sharjah's debut USD750mn Sukuk** witnessed high demand, with the order book about USD 7.85bn from 250 accounts; the issue priced at a profit rate of 3.764%. Half of the Sharjah issue was allocated to investors from the Middle East, while British-based investors took 20%, the rest of Europe 11% and Asia 14%.
- The **Al Etihad Bureau** began issuing credit information about consumers to banks and financial institutions; according to the credit bureau some 5.2mn credit facilities of individuals living in the UAE, representing 97% of all such facilities provided by institutions operating in the UAE, have been added to the bureau's reporting system.
- A USD 32bn expansion of the **Al Maktoum International airport** at the Dubai World Central was given the go-ahead, with construction expected to start by end of this year. The first phase of expansion will take six to eight years to build and will be able to accommodate 120mn passengers a year once completed.
- The Dubai Mercantile Exchange (**DME**) reported that **Oman Crude Oil Futures** contract sunk to a 26-month low with settlement price on Thur touching USD 95.98, the weakest since Jul 2012. The loss came after the release of an OPEC report which cut oil demand forecasts for both 2014 and 2015, while at the same time increasing supply forecasts.

Media Review

Scotland: Krugman's views + shocking markets

<http://www.nytimes.com/2014/09/08/opinion/paul-krugman-scots-w-hat-the-heck.html>

<http://qz.com/265197/scotland-clearly-rattled-the-markets-this>

[-week/](#)

Why Arab militaries would not bring much firepower to the coalition against ISIL

<http://qz.com/265286/why-arab-militaries-would-not-bring-much-firepower-to-the-coalition-against-isil/>

Facing reality in the Eurozone

<http://www.project-syndicate.org/commentary/adair-turner-hails-ecb-president-mario-draghi-s-call-for-fiscal-stimulus>

Big ambitions: big oil wants to sell US crude overseas

<http://qz.com/264713/just-as-americans-start-to-see-lower-gas-prices-big-oil-wants-to-sell-us-crude-overseas/>

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