

Weekly Economic Commentary – Sep 21, 2014

Markets

The FOMC meeting turned out to be a non-event, with the Fed opting to leave rates unchanged while the Scottish referendum led to a ‘relief rally’ and the ECB LTR0 failed to generate interest with banks, especially given the results of the banks’ “asset quality review” just around the corner. With these providing no shock-value, markets ended on a positive note last week, with the Alibaba registering one of the biggest IPOs ever. In Asia, Nikkei soared to a seven year high while in the region also most markets gained. The dollar soared to a 4-year high vis-a-vis the euro, with the dollar index closing on a positive note for the 10th consecutive week making it the longest rally ever since the index was created in 1973. Oil prices remained below USD 100 on stronger dollar while gold prices closed lower for the third consecutive week.

Global Developments

US/Americas:

- **US industrial production** fell 0.1% mom in Aug while capacity utilization fell 0.3 percentage point to a 78.8% rate. Excluding the volatile auto sector, output was up 0.1% in both July and Aug, following 0.3% gains in the previous three months.
- **Inflation in the US** registered a surprise decline in Aug, falling 0.2% – the first decline since Apr last year – after gaining 0.1% the month before. The fall was a result of lower energy costs which offset the rise in food prices.
- **US housing starts** fell 14.4% yoy to 956k annualized rate in Aug, largely due to a setback in multi family homes.

The Aug reading comes following the revised 1.2mn pace a month before which was the strongest since Nov 2007. Meanwhile, builder confidence – as indicated by the **NAHB housing market index** – rose in Sep to 59 (Aug: 55), the highest level since 2005.

- **Initial jobless claims** fell back to a near 14-year low of 280k last week, from a revised 316k the week before, largely due to seasonal effects, with the 4-week average at 299,500.

Europe:

- Casting a downbeat outlook, the **ZEW index** of investor confidence fell to the lowest since 2012, with the Eurozone and German reading dropping to 14.2 and 6.9 respectively in Sep.
- **Inflation in the Eurozone** for Aug clocked in at 0.1% mom and 0.4% yoy, lifted by an increase in rents and car-repair prices; the annual rate of inflation remained at the lowest level since Oct 2009.
- The non-seasonally adjusted **Eurozone trade surplus** grew to EUR 21.2bn in July, up from EUR 18.0bn a year ago; exports increased 3% yoy while imports grew only 1%. Trade deficit with Russia, Europe's main oil and gas supplier, rose slightly to EUR 31.7bn during H1 from EUR 29.5bn in H1 2013, as though exports dropped sharply by 14%, value of imports was down only 6%.
- With the majority voting 'No' ie. rejecting independence, the **Scottish referendum** left no major shocking impact on the markets other than a 'relief rally'.
- **UK inflation rate** fell to 1.5% in Aug, from 1.6% a month before, as prices of food and non-alcoholic drinks fell by 1.1% – the steepest fall for more than a decade; core inflation was up 1.9%. Separately, the policy rates were kept unchanged at the BoE meeting.
- **UK retail sales** rose by 0.4% in Aug, powered by sales of

high-powered vacuum cleaners (+23.4%) ahead of a ban on the products thanks to energy saving regulations.

- The **ECB** announced that eurozone banks had borrowed just EUR 82.6bn in four-year loans from the first installment of the **targeted LTRO**, with Italy and Spain speculated to be among the biggest borrowers.

Asia and Pacific:

- **China FDI** fell 14% yoy to hit a 4-year low of USD 7.2bn in Aug (Jul: USD 7.8bn); foreign-investment levels declined last month from US, Europe, Japan and Southeast Asia.
- **Retail sales in Singapore** picked up by 5.5% yoy in Jul, largely driven by auto sales (up 41% yoy) excluding which sales was down 0.4%. July 2013 had marked the month when the temporary lifting of loan restrictions on the purchase of pre-existing stock of used cars came to an end.
- **Japan trade balance** continued in the deficit territory for the 26th consecutive month, though narrowing slightly to JPY 948.5bn in Aug, on weak demand from its export markets US (-4.4%) and China (-0.2%). Exports fell by 1.3% while imports were also down by 1.5%.
- **South Africa** became the latest country – the third non-Muslim nation – to issue a **sovereign sukuk**: the USD 500mn sale was more than four times oversubscribed; the SA Treasury said that the 5.75-year sukuk was priced at a coupon rate of 3.9%. The bond will mature in Jun 2020 and follows a Al-Ijara structure, ie. cash flows based on infrastructure assets, though no mention was made of the related assets.

Bottom line: The OECD cut 2014 growth rates for all G7 nations, highlighting the need for significant change in economic policy. This was evident from data releases this week which pointed to continued weakness in EU while in the US, two separate indicators on the housing market moved in opposite

directions. In Asia, worries about a slowing Chinese economy gained steam as FDI fell, following last week's data which showed growing weakness in industrial production, fixed-asset investment.

Regional Developments

- **Egypt's** Minister of Finance, at a conference, revealed that the government is targeting a **budget deficit** of around 11% for this fiscal year and aims to boost economic **growth** to 5-6% within three years; he also stated that the plan was to cancel 90% from the four-year targeted subsidy of petroleum products energy.
- The central bank governor announced that **Egypt** had raised the USD 8.5bn it needs to fund a project to expand the Suez Canal. The new developments are expected to raise revenues to USD 13.5bn annually by 2023 from the current USD 5bn.
- **Egypt's trade deficit** narrowed to EGP 9.09bn in June, down 63.5% yoy, as exports rose by 3.8% to EGP 18.42bn while imports declined by 35.5% to EGP 27.5bn due to the decrease in the value of commodities such as wheat and petroleum products among others.
- **Egypt** expects to receive USD 425mn from the Islamic Development Bank to develop an oil refinery in Assiut and an airport in the Red Sea resort of Sharm el-Sheikh. The first payment of USD 198mn will be used for the refinery, according to the Ministry of Finance.
- The GCC continues to invest into Egypt: volume of **Kuwait's investments into Egyptian** tourism reached USD 577mn in H1 2014, as per official sources.
- **Inflation rate in Jordan** was up by 3.2% until end-Aug and compares to 6.19% during the same period a year ago.
- **Lebanon** requires more than USD 1.5bn this year to adequately provide for the continuing inflow of Syrian refugees but received less than USD 600k, according to UNHCR statistics. UNHCR officials requested the

international community to support the nation, drawing attention to the contributions Jordan has been receiving towards the same reason.

- A Central Bank of **Oman** survey revealed that 40% of the total workforce was employed in **SMEs** where less than 5% are Omanis, while the sector's contribution ranged between 15-20% of GDP. The report identified lack of financial history or statements as the main obstacle to financing SMEs, followed by lack of business knowledge by prospective borrowers, lack of collateral and inherent failure of SME firms. Separately, Duqm Special Economic Zone Authority announced that it would allocate 10% of the value of its purchases and tenders to SMEs.
- **Oman's** Ministry of Oil & Gas revealed that **crude oil and condensates production** amounted to 29.56mn barrels in Aug, averaging 953,446 barrels per day (bpd). Total crude oil **exports** stood at 24.83mn, to average 800,878 bpd; exports were down 11.47% on a daily average basis. Asian markets imported majority of Oman Crude with China topping the list at 65% of the country's total export.
- **Qatar's** Minister of Transport revealed that more than USD 140bn was earmarked for infrastructure development projects over the next five years, including an extensive transport network (railway and roads).
- **Saudi Arabia** has pledged USD 500mn to help rebuild Gaza, according to the Palestinian Prime Minister while the full cost of rebuilding the nation is estimated at roughly USD 4bn over four years.
- **Saudi Arabia's** Supreme Economic Council is launching a study to consider whether to tax undeveloped urban land in a bid to reduce the housing shortage in the nation. According to analysts, there may be around 4bn square metres of undeveloped land in Riyadh alone.
- **Loans to the industrial sector in Saudi Arabia** hit SAR 1 trillion from the government-run financing agencies in Q2, reported the *Al-Eqtisadiah* daily. Petrochemical and chemical products' sector received the bulk of

government-support finance at SAR 458.8bn, or 45.3% of the total.

- A **KPMG survey of family businesses** showed that about 58% of Middle-Eastern businesses are seeking external finance, while three in five have previously offered equity in their business to external investors.
- **Assets of the GCC banks** are expected to reach USD 2 trillion by the end of 2015 compared to USD 1.7 trillion by the end of 2013, according to estimates released by S&P.

UAE Focus

- UAE's **Securities and Commodities Authority** (SCA) published **new rules** in a bid to develop the local bond and sukuk market. Among the new rules were a reduction in minimum issue size of just AED 10mn from the previous floor of AED 50mn, in addition to shortening the time it took to review and approve issuance applications to five days and that private placements of bonds not listed on the UAE's securities exchanges would not need SCA approval. Encouraging foreign investors was also considered, by a provision allowing clearing and settlement abroad, through institutions such as Euroclear.
- **UAE consumed nearly 1.8bn megawatt hours of energy** to generate an annual GDP of USD 377bn in 2013, reported Heliocentris, a German market leader in energy saving solutions. According to them, this amount of energy could be sufficient to power all of the nation's households for more than 15 years and around 70mn households for a whole year.
- **Inflation in Abu Dhabi** was 2.9% in the first eight months of 2014, with the "housing, water, electricity, gas and other fuels" group reporting the largest increase and contributing 39.8% to the change. CPI up 3.5% yoy in Aug.

- **Emaar** offered **2 billion shares in Emaar Malls Group** last week, representing 15.4% of the unit's share capital, and this was quickly lapped up with the company reporting it had "received sufficient orders to cover the entire tranche allocated to the qualified institutional investors at all prices within the range of 2.50 to 2.90 dirhams per share".
- The HSBC Trade Forecast report finds **India to be the UAE's top export and import market** by 2030; additionally, the fastest growing export markets will be China, Malaysia and Turkey, each of which will have the fastest growth rates between 2017 and 2030.
- **Moody's** assigned a definitive rating of A3 to the US dollar Trust Certificates issued by **Sharjah Sukuk Limited**.
- **Dubai** Land Department revealed that it had **registered** a total of 6,636 **properties** across the emirate in H1 2014.
- Nearly 20% of **UAE's SMEs** reported an expansion in their activities to new overseas markets over the past year – higher than the global average of 15%, according to global insurer Zurich's survey that interviewed 3,800 small and medium enterprises across 19 countries, including 200 companies in the UAE.

Media Review

Another 'weak' policy from the ECB + What the markets think

<http://www.ft.com/intl/cms/s/0/89b404cc-3fee-11e4-a381-00144feabdc0.html#axzz3DshSGgmH>

<http://blogs.wsj.com/moneybeat/2014/09/18/ecbs-tilt-program-analysts-roundup/>

Europe's bargain: Michael Spence calls for Eurozone members to cut public sector liabilities

<http://www.project-syndicate.org/commentary/michael-spence-calls-for-eurozone-members-to-cut-public-sector-liabilities-while-hiking-public-sector-investment>

Alibaba's blockbuster IPO

<http://online.wsj.com/articles/alibaba-shares-trade-higher-in->

[ipo-1411142120](#)

South Africa joins the Sukuk bandwagon

<http://www.ft.com/intl/cms/s/0/0c468e00-3e73-11e4-a620-00144feabdc0.html#axzz3DshSGgmH>

Jordan clears the way for Sukuk issuance

http://www.zawya.com/story/Jordan_clears_the_way_for_Sukuk-ZAWYA20140916060258/

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