

# Weekly Economic Commentary – Sep 28, 2014

## Markets

The **S&P 500 index** rallied back late last week, thanks to US GDP data, after registering on Thur the biggest one-day decline since July. Regionally, markets were mixed with DFM touching a 3-week high before closing lower last week. The **dollar** extended gains for the 11th consecutive week, pushing to its highest level in six years against the Japanese **yen** while the ICE Dollar Index, which measures the dollar against a weighted basket of rival currencies, reached a new four-year high. As dollar grew stronger, **gold** prices dipped while **Brent** slid below \$100 mark.

## Global Developments

### **US/Americas:**

- **US GDP** grew at an annual rate of 4.6% in Q2, thanks to business spending and exports, and compares to Q1's 2.1% contraction; this is revised up from the 4.2% second estimate released last month as well as its 4% advance estimate out in Jul. After-tax corporate profits climbed at the fastest pace in two years and real personal consumption expenditure increased 2.5%, keeping with the second estimate and up from the 1.2% increase in Q1.
- **US existing home sales** unexpectedly fell 1.8% mom to an annual rate of 5.05mn units in Aug. Meanwhile **new home sales** surged by 18% mom to a sa annual rate of 504k – the biggest one-month jump since 1992 and the highest level of sales since May 2008.
- **US Sep manufacturing PMI** came in strong at 57.9, the same reading as Aug's 52-month high. Separately, the flash services PMI reading declined for the third

straight month to 58.5 in Sep (Aug: 59.5).

- **US durable goods orders fell** 18.2% mom in Aug, as aircraft purchases pulled back from July's record high; excluding the volatile transportation category, orders rose 0.7% after falling 0.5% the month before. New orders for nondefense capital goods excluding aircraft, considered a leading indicator for business investment, rose 0.6% in Aug. Orders had declined 0.2% in Jul after surging 5.4% in Jun.
- **Initial jobless claims** increased by 12k to 293k last week, with the four week moving average falling 1,250 to 293,500.

## Europe:

- **EU Markit composite flash PMI** fell to a 9-month low of 52.3 in Sep; manufacturing PMI for the euro zone nudged down to 50.5 (Aug 50.7) with output holding steady at 51 while new orders fell for the first time in over a year to 49.7 (Aug: 50.7).
- **German Ifo** survey revealed that business confidence fell for a fifth successive month, with the index dropping to 104.7, the lowest since last Apr. With German **manufacturing PMI** for Sep showing that the industry expanded at the slowest rate since Jun 2013, it is not surprising that Ifo report stated that "expectations for the next six months hit their lowest level since Dec 2012".
- **France GDP** remained flat in Q2; Household and government spending grew 0.4% each but investment fell 1.1%, with exports rising only 0.1% amidst imports advancing 0.4%.

## Asia and Pacific:

- **China HSBC manufacturing PMI** edged up to 50.5 in Sep (Aug: 50.2) though the drop in employment sub-index 46.9 was the lowest since Feb 2009. New export orders climbed to a 4.5-year high while the new orders sub-index also

rose.

- **Singapore inflation** dipped to 0.9% mom in Aug (Jul: 1.2%) on lower car costs; core inflation slipped slightly to 2.1% from 2.2% the month before. **Industrial production** was up 4.2% yoy in Aug (Jul: 3.0%); output of electronics rose 2.2% yoy in Jan-Aug, lagging the 5.0% rise in total manufacturing output.
- **Japan inflation slowed in Aug to a 10-month low:** core consumer prices, which include oil products but exclude fresh food, rose 3.1% yoy (Jul: 3.3%) and excluding the sales tax hike, annual core inflation slowed to 1.1% (Jul: 1.3%). Separately, the Markit/JMMA flash manufacturing PMI fell to a seasonally adjusted 51.7 in Sep (Aug: 52.2), remaining above 50 for the 4th consecutive month.

**Bottom line:** With the US going back to war, this time with the IS, geopolitical issues are going to dominate sentiment, what with Britain joining forces as well. On the macro front, data seem to point towards a recovery phase in the US while Europe continues to struggle – with even Germany on the back foot.

### Regional Developments

- **Two political changes** that could leave an economic impact: one, US and its Arab allies (Saudi Arabia, Qatar, Jordan, Bahrain and UAE, in spite of being hostile to President Assad) launched a strike against Syrian Islamic State militants; second was the meeting of the Foreign Ministers of Saudi Arabia and Iran – the highest-level meeting between the two countries – in the context of fighting a mutual enemy, the Islamic State.
- According to a royal order, **Bahrain's parliamentary elections** will be held on Nov 22; this would be the fourth parliamentary elections to be held in the kingdom since 2002.
- **Egypt's current account deficit**, aided by Gulf aid, declined to USD 2.4bn in the 2013-14 fiscal year from

USD 6.4bn a year ago, according to the central bank. FDI in Egypt rose to about USD 4.1bn last fiscal year and compares to USD 3.8bn in the year before.

- **Saudi Arabia** sent **Egypt** USD 3bn worth of refined oil products from April up to the first week of this month, with the total value of oil aid reaching USD 5bn since Jul 2013. Separately, the petroleum ministry signed oil and gas exploration deals worth USD 187mn with several Western companies and a Tunisian firm.
- **World Bank** agreed to grant a USD 1.5bn concessional loan to **Egypt to fund the social housing programme** and improve villages' sanitation system. This brings the total funding from the World Bank to around USD 5.4bn over 25 projects.
- **Kuwait** reported a **budget surplus** of KWD 12.9bn in fiscal year 2013/2014, the 15th actual surplus in a row and the second highest absolute number, and up 1.6% yoy. Actual expenditure, at KWD 18.9bn, was 10% below the estimated spending for the fiscal year while oil revenues, at KWD 29.3bn, accounted for 92.6% of total revenues.
- **Iran and Kuwait signed the first ever joint political document** between the two countries, with the respective ministers discussing implementation of the agreements in addition to export of gas to Kuwait, easing formality to issue visa for Iranian nationals, implementing security agreements, customs, air transport, protection of environment and boosting tourism industry.
- **Trade deficit widens in Lebanon** as imports grew 16% yoy to USD 14.057bn in Aug while exports rose by only 2% to USD 2.219bn. China, Italy, France and Germany were the top sources of imports to Lebanon in Jan-Aug while South Africa, UAE, Saudi Arabia and Iraq were the main export markets.
- **Lebanon's loan penetration** was the highest in the Arab world: IMF data show that there were 299 borrowers per 1,000 adults at commercial banks in Lebanon at the end of 2013, though it was a decrease of 4.7% yoy; there

were 558.1 loan accounts per 1,000 adults at Lebanese commercial banks in 2013, down 3.2%.

- **Oman** recorded a **budget surplus** of OMR 250mn in the first six months of this year, compared to OMR 95.3mn in the same period a year ago. Total revenue increased by 1.7% to OMR 7.19bn, with oil and gas accounting for 83% of total revenue while current expenditure surged 17.5% to OMR 3.97bn.
- **Oman's exports** declined 10.4% yoy to a total of OMR 8.3bn till May, largely due to the decline in oil and gas exports by 9.9% to OMR 5.5bn while non-oil exports were up 2.9% to OMR 1.5bn.
- **Qatar** will have to wait for another two years to see whether its **sovereign rating** will be revised, "unless there are unspecified circumstances", according to S&P.
- The value of **new infrastructure projects awarded in Qatar** is expected to hit USD 26.2bn by the end of 2014, according to data from construction project tracker Ventures Onsite. This compares to value of new projects across GCC, which is expected to surge 77.8% yoy to USD 86bn.
- **Saudi Arabia's GDP growth** eased to 3.8% yoy in Q2, the lowest rate in a year, while Q1 growth was revised upwards to 5.1% (the fastest pace since Q3 2012). In qoq terms growth dipped 3.1% in Q2, the biggest fall since the quarterly data series began in 2010. Non-oil sector grew 4.7% in Q2, following 4.6% pickup in Q1.
- **Saudi Arabian** commercial banks "are in good health" and with capital adequacy at 17.8% in Q2, meet international standards. "In addition, stress tests that the SAMA conducts regularly on commercial banks showed good results", according to the Central Bank governor.

### **UAE Focus**

- **UAE** announced the **launch of a second financial market** that will exclusively trade shares in private companies.

While the market plans have been approved by Sheikh Mohammed bin Rashid Al Maktoum, who also directed that trading should begin “over the next few months”, no details were revealed about how trading on the market would work.

- The **UAE Central Bank governor** was replaced via a Presidential Decree last week. The new governor inherits a more stable financial system that survived through the crisis amid low inflation rates, and given the peg to the US dollar, this move is likely to impact only the local markets.
- The **Abu Dhabi Exchange** (ADX) is in talks with four companies about listing on the exchange and it is likely that 2 IPOs will be launched before year-end, according to the ADX Chief Executive.
- **Dubai airport passenger traffic** touched a record 6.6mn in Aug, rising 10.8% yoy, after the airport returned to full capacity after its runway upgrade. This brings total passengers to 46.48mn persons in Jan-Aug period, a 5.7% increase compared to a year ago.
- Emirates Global Aluminium (EGA) , the world’s fourth biggest aluminium producer, revealed plans to build a USD 3bn **alumina refinery**. According to EGA’s Chief Executive, the refinery is expected to be operational by 2017 and will be done in two phases, each with a capacity to produce 2mn tonnes of alumina.

### **Media Review**

#### **Obama, Arab allies & the war against IS**

[http://www.zawya.com/story/IS\\_draggs\\_Obama\\_back\\_into\\_Mideast\\_quagmire-TR20140925nL6N0RP477X2/](http://www.zawya.com/story/IS_draggs_Obama_back_into_Mideast_quagmire-TR20140925nL6N0RP477X2/)

<http://www.economist.com/news/leaders/21620191-fight-against-islamic-state-will-help-define-americas-role-world-mission-relaunched>

#### **Europe’s austerity zombies**

<http://www.project-syndicate.org/commentary/joseph-e-stiglitz-wonders-why-eu-leaders-are-nursing-a-dead-theory>

***GCC hospitality industry to reach USD 35.9bn by 2018***

<http://gulfnews.com/business/tourism/gcc-hospitality-industry-set-to-reach-35-9b-by-2018-1.1389776>

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