

Weekly Economic Commentary – Oct 26, 2014

Markets

Strong corporate earnings results helped **equity** markets, with the MSCI's all-country world equity index and S&P 500 reporting the best weekly gain since Jul 2013 and Jan 2013 respectively. Regional markets mostly recovered, with the **DFM** posting its strongest performance in fifteen weeks. The **dollar** continued on a strong note while the **euro** trended weaker ahead of the banks' stress test results. **Brent** prices were little changed on the week, though US crude oil futures continued to slide while **gold** prices posted a weekly loss.

Global Developments

US/Americas:

- **US existing home sales** increased 2.4% to a 5.17mn annualized rate in Sep; first time buyers accounted for 29% of the market for a third month in Sep, below the historical average around 40%. **New home sales** gained a modest 0.2% mom to a 467k annualized pace in Sep while the Aug numbers were revised down 7.5% to 466k; the rate of Sep purchases represented a new six-year high, but only because of the big Aug revision.
- **US inflation** edged up 0.1% mom and 1.7% yoy in Sep (Aug: 0.2% mom) as food and shelter costs offset the drop in energy prices.
- **Initial jobless claims** rose to 283k last week – lowest reading since the week of April 15, 2000 while the 4-week moving average fell to 281k from 284k last week, the lowest level for this average since May 6, 2000.

Europe:

- Bloomberg reported that around 25 banks from the EU have **failed** the **ECB's stress tests**, on the basis of a draft communique of the final results while 105 banks passed the review. Of the 25 failed banks, 10 are likely to face capital shortfalls according to an unnamed source
- **Flash EU Markit Composite PMI** edged up marginally in Oct, touching a 2-month high of 52.2 (Sep: 52). Manufacturing output expanded at the fastest rate for three months, while growth of service sector activity was unchanged on the six-month low seen in Sep.
- **German producer price index** dropped 1% yoy in Sep (Aug: 0.8%) while remaining unchanged at 0.1% mom.
- **UK GDP** grew 0.7% qoq in Q3 (Q2: 0.9%) with the services sector rising by 0.7% (Q2: 1.1%) and output grew by 0.5% in production, 0.8% in construction and 0.3% in agriculture. Separately, **retail sales** fell 0.3% mom in Sep, the weakest since Jan, while prices in store fell 1.4% yoy – their steepest decline in more than five years.

Asia and Pacific:

- **China Q3 GDP** grew 7.3% (Q2: 7.5%), the slowest since Q1 2009. Among other data releases, **factory output** was the sole bright spot, rising 8.0% yoy in Sep, up from Aug's 6-year low of 6.9% while **fixed asset investment** rose 16.1% in the first 9 months compared to 16.5% in Jan-Aug and **retail sales** grew 11.6% (Aug: 11.9%).
- **China HSBC PMI** edged up to a 3-month high of 50.4 in Oct (Sep: 50.2), with growth in new orders at home and abroad slowing and falling producer prices, pushing factory inflation to a seven-month low.
- **Japan exports** grew in Sep by 6.9%, thanks to a weaker Yen and a surge in output but **trade deficit** edged up by 1.6% to JPY 958.3bn as imports rose by 6.2%. Separately, **PMI** touched a 7-month high of 52.8 in Oct (Sep: 51.7), with the index for new domestic orders jumping to a

preliminary 55.1 in Oct, the highest in eight months.

- **South Korea GDP** grew 3.2% yoy and a seasonally adjusted 0.9% qoq in Q3, thanks to private consumption and construction spending while exports fell 2.6% qoq in the first quarterly decline since Q3 2013 when they dropped 1.1%.

Bottom line: US seems to be on a faster road to recovery though next week is important with the release of Q3 GDP in addition to readings on income, consumer spending, and durable goods while in Europe economic stagnation is likely to continue with ECB's stress test results pointing to some banks being still burdened by substantial capital shortfalls. Asia is readjusting for lower demand from Europe: Chinese growth is slower, but there are positive signs in manufacturing activity.

Regional Developments

- **Egypt** will introduce two **cash benefits programmes** next year to counter the impact of subsidy cuts, revealed the Minister of Social Solidarity; the schemes are expected to target about 2mn people in Upper Egypt, the impoverished rural south, at an initial cost of EGP 2.5bn.
- **Egypt's credit ratings outlook** were raised to stable from negative by Moody's, citing a more stable political and security situation amidst signs of economic recovery; the credit rating, at Caa1, was kept unchanged.
- **Lebanon's** plans for a USD 1.0bn **economic stimulus package** in 2015 (this follows the USD 800mn aid this year) was revealed by the central bank governor at a conference last week; he also revealed that foreign reserves reached a historic high of over USD 38bn while gold reserves were at USD 13bn.
- In a bid to meet funding needs, **Lebanon** plans to **issue** a USD 450mn **Eurobond** by the end of this year and to sell a

further USD 4.4bn in Eurobonds over the next three years (for which Parliamentary approval is expected by Nov), according to the country's finance minister.

- **Exports in Oman** fell 9.6% yoy to OMR 10bn in H1 2014, largely due to the drop in value of oil and gas exports (down 9.7% to OMR 6.6bn) while non-oil exports grow by 3.3% during the same period and total imports declined by 13.6% to OMR 5.58bn.
- The decline in oil prices are likely to lower production costs, as providers of related services like drilling logistics and supply of chemicals will have to reduce costs, according to **Oman's** undersecretary in the Ministry of Oil and Gas. The country has no plans to reduce government expenditure on infrastructure projects next year in line with the drop in oil prices, but is studying ways to limit spending, stated the undersecretary in the Ministry of Finance.
- **Qatar's gross national income** grew 8% yoy but dipped 1.3% qoq in Q2, as per statistics released by the Ministry of Development Planning and Statistics; gross savings expanded 6% yoy while lower 4% in qoq terms.
- **Qatar Investment Authority's** total **asset** size reached USD 450bn, reported *Al Sharq*. Foreign investments into UK, France and Germany stood at an estimated total of USD 80bn.
- **Loan growth in Qatar** was up 4% mom and 10.1% ytd in Sep, thanks to public sector loans which was up 23% mom in Sep alone; private sector loans gained by 2.4% mom and are up 13.5% ytd.
- The gross written premium of **Qatar's** five listed **insurance** companies stood at USD 1.4bn in 2013, reported the central bank in its 'Financial Stability Review'. Additionally, the insurance sector density increased to USD 686 in 2013 from USD 599 a year ago, indicating an increasing coverage.
- Food and housing costs raised **inflation** in **Saudi Arabia** to 2.8% yoy in Sep; the contribution of food and rent

and housing-related services rose to 54% in Sep compared to 48% in the previous month.

- Investment bank Saudi Fransi Capital says three **IPOs** of over SAR 1bn each are in the pipeline in **Saudi Arabia**; these include Sulaiman Al-Habib Medical Group, a private healthcare provider; water and power project developer ACWA Power; and Petromin, a lubricants producer.
- **Saudi Arabian** airlines plans to raise around SAR 10bn through the listing of its ground-handling, cargo and maintenance units to finance aircraft orders and operating costs. The SAR 2bn IPO of Saudi Ground Services is expected to happen in the “coming weeks”, while the listing of 30% of the cargo unit is planned for next year, and the 30% listing of maintenance unit is set to be floated in 2017.
- The number of Internet users in **Saudi Arabia** reached 18.3 million this year while subscriptions for broadband services across mobile networks reached approximately 20.7 million subscriptions.
- The **GCC** could face a **shortage of more than 1mn homes by 2018**, given the surge in population and related demand, according to a Strategy& report. Only 35% of Saudi households own their homes, based on some estimates, while in the UAE, home ownership rate is roughly 48%.
- Three **GCC banks** – Qatar National Bank, National Bank of Abu Dhabi and National Bank of Kuwait – were among the **top 5% of banks rated by Moody’s globally**, thanks to gain in profitability and asset quality.

UAE Focus

- **CPI in the UAE** rose 0.93% mom and 2.91% yoy in Sep, with education costs increasing the maximum by 3.84%. Other increases were reported in housing (1.51%), textiles and clothing (0.95%) and food and drinks (0.92%).
- **Arabtec** plans to launch the first phase of a major **housing project in Egypt** before the end of this year;

the company had announced in Mar that it would build 1mn homes in Egypt in a USD 40bn project backed by the Egyptian and UAE governments.

- UAE ranked 15th in the HSBC's annual **Expat Explorer 2014 survey**, a list topped by Switzerland, Singapore and China and with Bahrain ranking 5th. Though better job prospects and higher salaries worked in favour of UAE, "significant challenges due to the rising cost of living and expenses related to raising children" dragged down the overall ranking.

Media Review

China's future growth

<http://www.economist.com/news/finance-and-economics/21627627-new-study-asks-how-long-chinese-economy-can-defy-odds-even-dragons-tire>

Time for a new macroeconomic strategy: one based on sustainable, investment-led growth, writes Jeffrey Sachs

<http://www.project-syndicate.org/commentary/declining-investment-in-rich-countries-by-jeffrey-d-sachs-2014-10>

A healthy challenge to the old guard of global finance

<http://www.ft.com/intl/cms/s/0/13fb738c-583f-11e4-a31b-00144feab7de.html?>

Tunisia's elections

<http://qz.com/286409/tunisias-elections-will-show-whether-its-still-the-model-country-of-the-arab-spring/>