

Weekly Economic Commentary – April 22, 2012

Markets

Markets were volatile and choppy. **US** Shares rallied for most of the week, buoyed by corporate earnings, while **Eurozone** worries persist in the background, somewhat alleviated by increased **IMF** funding of \$430 bn. Regional markets were mixed, with **Saudi's** Tadawul rising the most from a week ago on strong Q1 profits. **Euro** had a good week, helped by **German** IFO & ZEW numbers, while the **yen** fell on speculation of additional stimulus from the **BoJ**. **Oil** price was gliding down while **gold** posted a weekly drop.

Global Developments

Americas:

- **Industrial Production** (IP) for March was unchanged mom for the second consecutive month, rising 3.8% on a yoy basis (Feb: 4.0%). Manufacturing, which constitutes 75% of IP, saw an increase of 4.8% yoy. **Capacity utilization** dipped marginally to 78.6%.
- **US housing** starts dropped unexpectedly by 5.8% mom to 654k, saar in March (Feb: 694k), a five month low; housing starts were up 10.3% yoy. Building permits surged to their highest level since Sep 2008, rising 4.5% mom to 747k (715k). Existing home sales decreased 2.6% mom to 4.48mn, saar.
- **Retail sales** rose 0.8% in March, lower than the previous month's 1% increase.
- **Initial jobless claims** for the week ended Apr 14 stood at 386k, a 2k drop from last week's revised 388k. Continuing claims rose 26k to 3.3mn, sa, in the week ended Apr 7.
- **Argentina's** government expropriated the energy giant YPF from Repsol, a desperate move in a country headed

towards a hard landing, with no international capital market access.

Europe:

- **German producer prices** accelerated in March to 3.3% yoy (Feb: 3.2%), owing to higher energy prices.
- **ZEW** indicator for Germany rose to 23.4 in Apr (Mar: 22.3), signalling that market analysts are positive on the prospects for German firms. The **IFO** German Business Confidence Index rose for the sixth consecutive month to 109.9 in April (Mar: 109.8), the highest reading since July last year.
- **Euro area** seasonally adjusted **trade surplus** contracted in Feb to EUR 3.7bn (Jan: EUR 5.3bn) as month-on-month import growth outpaced exports at 3.5% vs. 2.4%.
- **Eurozone inflation** stood at 2.7% yoy in March, unchanged from Feb, led by energy inflation of 8.5%. Greece recorded one of the lowest rates at 1.4%, while German and French inflation came in at moderate levels of 2.3% and 2.6%, respectively.
- **UK** posted a small uptick in March **inflation** to 3.5% yoy (Feb: 3.4%), the first rise after a steady five-month drop. The **Retail Price Index** slipped slightly to 3.6% yoy for the month (Feb: 3.7%). ILO-measured **unemployment fell** to 8.3% in the three months to Feb, compared to 8.4% in the three months to Jan, the first drop in nine months. Jobless claims in the UK rose 3.6k to 1.61mn in March.
- **UK retail sales** were up 1.8% mom in March (Feb: -0.8%) as demand surged for clothing, footwear and gardening supplies on account of warm weather.
- The **Italian** government reneged the promise of balancing the budget by 2013 and revised its GDP growth forecast downwards to -1.3% (versus -1.9% by IMF)

Asia and Pacific:

- **Home prices in China** slid in 37 of the 70 cities surveyed declining on average by 1.5% yoy in March, potentially straining credit conditions. An IMF-led stress test of Chinese banks suggested that a mild slowdown would result in non-performing bank loans in excess of 5%, while a more dire scenario had the estimate at 8%.
- The **Hong Kong Exchange** has announced plans to offer **renminbi futures**, widening its role as an offshore centre for the Yuan and a step further for the internationalisation of the currency.
- **Japanese Industrial Output** dropped a revised 1.6% mom in Feb on account of a slowdown in machinery and auto output, compared to an earlier estimate of 1.2%. Capacity utilization slipped 1.7% mom in Feb, revised down from a 3.4% rise.
- **Japanese Exports** rose 5.9% yoy in March due to a 33.6% hike in car exports, while imports rose 10.5% yoy led by higher oil and gas purchases.
- The **Reserve Bank of India** surprised markets by an aggressive 50bps cut in the repo rate to 8.0%, reversing 3 year hiking cycle in the hope of countering a slowing economy.
- **India's inflation**, measured by the Wholesale Price Index, came in at 6.89% yoy in March (Feb: 6.95%). Core inflation dipped below the 5% mark for the first time since March 2010. Consumer prices rose 9.47% yoy for the month (Feb: 8.33%) on the back of rising food prices.
- **India** recorded its highest ever **trade deficit** for Apr 2011-Mar 2012 of USD 185bn. The 21% on-year expansion in exports was dwarfed by the 32.1% surge in imports, driven by imports of crude oil and precious metals.
- **Malaysia's March inflation** saw a 2.1% yoy increase (unchanged from Feb) due to higher food and non-alcoholic beverage prices.

Bottom line: Very little of substance came from the few

economic news and data releases. Attention was all on the IMF-WB Annual Meetings. The G20 financial leaders have committed USD 430bn in new funding to the IMF. In its Global Financial Stability Report, IMF warned that European banks looked set to shrink their balance sheets by USD 2.6trn (€2tn), i.e. could offload almost 7% of their assets by end 2013. This deeper-than-anticipated balance sheet clean up would exacerbate the contraction in the Eurozone. The World Bank appointed Jim Yong Kim as its next president, ending a controversial selection process harshly criticized by the US nominee's main rival and emerging economies.

Regional Developments

- Real **GDP** growth in the **MENA** region is projected to accelerate to 4.2% in 2012 from 3.5% in 2011, according to IMF's World Economic Outlook. This is 0.6 p.p. higher than the projection outlined in the January 2012 edition. Output growth in the MENA countries is expected to decrease to 3.7% (-0.2 p.p., when compared to the previous WEO edition) in 2013.
- **GCC's real GDP** is projected to grow 5.3% in 2012 by the IMF, mostly driven by Saudi Arabia, where output is expected to increase by 6%. Relatively high levels of real GDP growth are also projected for Qatar (6.0%) and Kuwait (6.6%) in 2012. The mentioned countries, except for Kuwait, are expected to have inflation at levels higher than the average for the whole GCC area, which is projected at 3.8% for 2012.
- **Projects in Middle East and Africa** increased by 16% yoy to 1530 in 2011, while capital investments were slightly down by 1%, according to fDi Intelligence. South Africa was ranked highest, while the negative impact of the Arab Spring was quite evident: projects in Libya, Yemen, Egypt, Syria and Tunisia were down by 80%, 80%, 29%, 26% and 14% respectively.
- Middle East **debt issuance** totalled USD 11.0bn in Q1 2012, compared to USD 5.7bn in Q1 2011, as per Reuters

data. M&A recorded an increase of 22% to USD 4.9bn and the telecoms industry accounted for about 36% of the activity.

- Global **Takaful premiums** increased by 19% to USD 8.3bn in 2010, with GCC accounting for 68.4%, led by Saudi Arabia which remains the largest market (USD 4.3bn) followed by Malaysia (USD 1.4bn) and the UAE (USD 818mn).
- MasterCard Worldwide Index of **Consumer Confidence** recorded a three-point rise in Middle East consumer confidence from the previous six-month period, bringing the index to (85.7), significantly higher than Africa (73.8) and Asia Pacific (52.1).
- The last issuance of short term Islamic leasing bonds, Sukuk Al-Ijara, offered for sale by the Central Bank of **Bahrain**, on behalf of the government, on a monthly basis, was oversubscribed by 195%. The volume of sale was BHD 20mn, and the expected return reached 1.34%.
- Core **inflation** in **Egypt**, increased 1.12% mom, and 8.68% yoy in March 2012, while headline inflation growth rates were slightly higher at 1.22% mom, and 9.03% yoy, respectively.
- **Lebanese** monetary aggregate **M2** (currency in circulation + deposits in local currency) increased 10.7% yoy, to reach LBP 62073 bn as of April 5th, 2012.
- **Oman's** economy is expected to expand by 6.4% in 2012, according to the Institute of International Finance (IIF), with the non-hydrocarbon sector contributing to 70% of this growth.
- **Inflation in Oman** inched higher to 3.72% yoy in Feb (Jan: 3.65%), primarily due to the base effect of certain components such as personal care and educational services. Food, beverage and tobacco prices declined 2.5% in Feb.
- Annual **inflation** in **Qatar** was 1.2% in March 2012, while overall price level practically did not change, when compared to the previous month, according to the data released by the Qatar Statistics Authority.

- **Qatari** authorities plan to invest around USD 125bn in construction and energy projects in the next six years, which is seen as a good opportunity for the private sector to expand its role.
- Diversification risks for the banking sector of **Saudi Arabia** were highlighted in a recent IMF report. The recommendations are aimed to encourage SAMA to implement a set of measures to enhance risk management in the local banks, for example, by limiting large exposures to 25% of banks' capital.
- According to the **Tunisian** central bank, it has finalized a borrowing from Qatar in an amount equivalent to USD 500mn. The credit was extended for 5 years at 2.5% per annum.
- **Turkey** has developed regulations necessary for the issuance of **Islamic rent certificates**, according to the Deputy PM. These certificates, which are expected to be traded at the local exchange, are considered an important step towards Turkey's financial market deepening and diversification.
- **Turkish unemployment** for Jan 2012 stood at 10.2%, a 1.7% drop from Jan 2011. Youth unemployment dropped to 18.4% for the month, from 22.0% a year earlier.
- **Budget deficit** in **Turkey** amounted TL 5.5bn in the first quarter of 2012. The major part of the deficit was observed in March 2012, when budget expenditure exceeded revenues by TL 5bn.
- **Yemen's** approved **budget** for 2012 will see expenditure expand by 50% to USD 12.56bn in the light of increased initiatives to create jobs and social services following last year's violent political protests. To meet its fiscal needs, Yemen has been seeking financial assistance including a recently secured USD 93.7mn IMF loan.

UAE Focus

- IMF estimates real **GDP** growth in the UAE at 2.3% in 2012, with relatively low inflation at 1.5%.
- IIF forecast a decline in **Dubai's GDP** growth to 2.6% this year, from 3.2% in 2011, citing "weaker global prospects and the sanctions on Iran, which would adversely impact trade activity". Medium-term prospects would, however, be underpinned by "excellent infrastructure and its prime location as a global hub for trade and tourism".
- **Dubai's foreign trade** touched a total of AED 1.1 trillion in 2011, an increase of about 22% from a year ago, according to Dubai Customs. Imports were up 21% to AED 442bn, higher than exports, at AED 98bn, which was an increase of 44% and re-exports grew 18% to AED 161bn.
- UAE and India have signed an amended **Double Taxation Avoidance Agreement**, allowing for exchange of information about tax matters and expected to encourage bilateral investment flows.
- UAE was ranked top in the Middle East and Africa region by fDi Intelligence for attracting the highest number of **projects**, at 328. In terms of outward flows, UAE-based companies invested in 169 projects – a decline of 3% compared to a year ago, as interest in real estate projects dipped by 57%. Capital investment overseas also declined by 43%.
- **Aldar** Properties has secured a AED 4bn 3-year credit facility from National Bank of Abu Dhabi.