

# Weekly Economic Commentary – May 27, 2012

## Markets

The long **Greek** journey into the night continues to send shock waves throughout the **markets** (with additional input from **Spain's** Catalonia, after **Bankia's** bail-out, needing help to refinance its debts and ongoing banking sector troubles) which have been highly volatile around a downward trend driven by entrenched risk aversion. **Regional** markets were mixed, with Egypt's exchange gaining the most amongst its counterparts on domestic elections. The **euro** hit a 2-year low against the USD on worries about a collapse in Greece and an exit from the euro zone. **Oil** slumped and **gold** has lost its allure as a safe haven.

## Global Developments

### Americas:

- Positive news from the housing sector: **existing home sales** improved by 3.4% to 4.62mn units in Apr (Mar: -2.8%, 4.47mn), showing signs of a slow recovery helped by lower prices and mortgage rates. **New home sales** also increased 3.3% mom in Apr to 343,000 (Mar: -7.3%, 332k).
- **Durable goods orders** were up 0.2% mom in Apr (Mar: -3.7%); however, the increase was driven by volatile aircraft orders while core capital goods fell by 1.9%, following a 2.2% decline in Mar. Meanwhile, the US flash **manufacturing PMI** fell to a 3-month low of 53.9 in May (Apr: 56).
- **Initial jobless claims** declined by 2k to a sa 370k with the 4-week average down 5k to 370k; **continuing claims** fell by 29k to 3.26mn.

### Europe:

- Q1 **German GDP** was up 0.5% qoq (Q4: -0.2%), underpinned

by exports, +1.7% qoq, (Q4: -1.5%) and private consumption +0.4%, (Q4 -0.2%). UK's Q1 growth was revised down further to 0.3% qoq, due to a slump in construction, -4.8%, against the previously estimated -3.0%.

- **Eurozone's flash composite PMI** was at a 3-year low of 45.9 in May (Apr: 46.7), with manufacturing PMI at 45.0, the lowest since June 2009 (45.9). **German** manufacturing PMI fell to 45.0, a 35-month low, led by a decline in both exports and new orders for goods.
- German **Ifo** survey showed a substantial dip in sentiment as the index fell to 106.9 in May (Apr: 109.9), disappointing markets and sinking the euro.
- Distressed banks continue to be bailed through **liquidity injections**: **Greece's** bank stability fund approved EUR 18bn to recapitalise its four largest banks, while **Spain** needs to inject about EUR 19bn into Bankia, its fourth largest bank pushed into insolvency by loans to real estate.

## **Asia and Pacific:**

- The **World Bank** lowered its forecast for **China GDP** growth in 2012 to 8.2%, but stressed that the country has plenty of fiscal resources to achieve a "soft landing" after the hangover of the 2008 stimulus measures. The WB predicts GDP to expand by 8.6% in 2013.
- HSBC Flash **China PMI** fell to 48.7 in May (Apr: 49.3), marking the seventh straight month when PMI reading has been under 50 i.e. in "contraction".
- **India's** fuel price was hiked by an unprecedented and steep 11% (by INR 7.50 a litre), with the state-run oil firms justifying the increase due to the recent slide in the Rupee and higher oil prices.
- Volatile pharmaceuticals and electronics sectors led to a decline in **Singapore's** Apr **industrial production** by 0.3% yoy (Mar: -3.1%). **Inflation**, meanwhile, accelerated

to 5.4% in Apr (Mar: 5.2%) as housing costs continued to increase amidst slower rise in transport and food prices.

- Both **Thailand** and Malaysia released **Q1 GDP**, with the former growing 0.3% yoy and by 11% qoq as both the industrial sector and exports bounced back after the floods last year. **Malaysia** reported 4.7% yoy growth in Q1, (5.2% in Q4), as exports decelerated due to weaker external demand.
- **Japan's Apr trade deficit** surged to JPY 520.3bn (Mar: JPY 84.5bn) as exports rose by a lower-than-expected 7.9% yoy alongside an 8% gain in imports & energy costs. This decline in exports from weaker external demand was evident in other Asian countries including Thailand, Taiwan and Philippines.

**Bottom line:** While Spain's troubles rise along with uncertainty in Greece, another inconclusive EU Summit sapped the irrational hopes that the election of Hollande would lead to a miraculous revamp of "growth". More generally, the EU crisis with a recession which is intensifying is compounded by the slowdown in China and the lacklustre data from the US. June will see political elections in Greece (again), in France and then the referendum in Ireland. A hot summer is in perspective.

### **Regional Developments**

- In the **Egyptian** Presidential elections two front runners emerged, a former General (who was the last Prime Minister under Mubarak) and the Muslim Brotherhood candidate. Meanwhile, the Saudi Finance Minister mentioned that a USD 2.7bn aid package for Egypt was being finalised.
- Egypt GDP grew an annualised 5.2% in Q1 2012 compared to a contraction by 4.3% the previous quarter.
- The ILO's Global Employment Trends for Youth report recorded a **27.5% yoy increase** in **MENA youth unemployment**

in 2011, while in the Middle East alone unemployment was up 26.5%. This compares to a 12.7% increase in youth unemployment globally, as a result of the crisis.

- Reuters reported that **Bahrain** plans to issue a USD 1.25bn bond, with 7-10 year maturity in the 2nd or 3rd week of June, citing a Central Bank official.
- Nominal value of **Bahraini** Government treasury bills in circulation reached BHD 930mn after the last regular issuance of 91-day securities for the amount of BHD 35mn. When compared to the previous issuance a week ago, the weighted average interest rate decreased by 2 basis points to 1.18%; issuance was oversubscribed by 190%.
- The US and five other countries began a round of talks in an attempt to persuade **Iran** to accept restrictions on its nuclear programme. This comes alongside a report that Iran may have sufficient uranium to build at least 5 nuclear weapons.
- The last issuance of 1-year **Kuwaiti** treasury bonds for KWD 75mn was 6 times oversubscribed; interest rate, when compared to the previous auction, remained unchanged at 1.25%.
- The **Kuwaiti** Minister of Finance resigned following hearings in Parliament where he was accused of financial violations by opposition MPs.
- According to the revised draft **Lebanese budget** for 2012, VAT and tax on deposit interest revenues may be increased by 2%, to 12% and to 7%, respectively. Also, the new 15% tax on profits from real estate transactions was proposed and will be imposed on sales of land and real estate purchased after 2009. These measures are deemed necessary due to the increased public expenditure, mainly salary hikes in the public and quasi-public sectors.
- **Oman Telecom** is expecting single digit revenue growth, although with a potentially double digit growth in profit in 2012. The balance sheet is likely to become cash rich by year end as amortization gradually

decreases. Separately, the Omani regulator has liberalized VOIP, which implies that Skype might be introduced in Q3 in the Sultanate.

- Islamic financing facilities are expanding in **Saudi Arabia**: Saudi Hollandi Bank extended SAR 480mn to an agricultural sector company as a long-term investment.
- According to **Saudi Arabia** Monetary Authority, M3 reached SAR 1297.5bn as of May 17, 2012, a 7.2% growth compared to end 2011.
- **Tunisia**'s sovereign rating was reviewed to speculative level by S&P due to political uncertainty in the medium term, and weaker than anticipated fiscal and external positions.

### **UAE Focus**

- A proposal to **reduce gasoline prices** by 60% was approved by the UAE Federal National Council, and awaits further approval by the Cabinet, according to local media. This would substantially increase already high subsidies.
- The UAE will settle **personal loans** of some 400 Emiratis with debts below AED 5mn, amounting to AED 568mn, based on the recommendation of the Supreme Committee of the Debts Settlement Fund for Citizens with limited income.
- In an effort to improve transparency, a new **rule** issued by the **Securities and Commodities Authority** now **requires disclosure of shareholdings** of spouses and children of directors.
- The UAE Central Bank's deputy governor reiterated that the new regulation setting **limit on lending to local governments** and government related entities will be applied to all banks without exemptions.
- **Dubai Islamic Bank**'s 5-year Sukuk for the amount of USD 500mn was 4 times oversubscribed at a profit rate of 4.75%.
- **Dubai Investments** announced that it may secure a loan of USD 180mn in addition to issuing Sukuks worth AED 1bn.

Total **debt of UAE's** GREs stood at USD 184.8bn in March 2012 (almost 51.3% of UAE's GDP), according to IMF estimates while Dubai's GREs owe USD 84.3bn of debt (60.4% of Dubai's GDP).

- **Dubai Duty Free**, which is tapping markets to fund its expansion, has raised the loan amount to USD 1.5bn from USD 1.1bn previously announced, on “strong interest from the banks”.