

Weekly Economic Commentary – June 24, 2012

Markets

The elections in Greece allayed fear of disruptive events, but left open all the unsolved issues that beset the governance of Euroland. Global equities were hit by Moody's downgrade of 15 of world's biggest banks in addition to weak data across the board. Regional markets were mostly down, on global cues, weaker oil prices, and as the region continued to be affected by bad news including MSCI not reclassifying UAE and Qatar and the delay in announcing Egypt's election results. The dollar gained against the euro; the yen and pound tumbled and most Asia currencies dropped, with the rupee hitting record lows. Crude oil prices picked up from the 18-month low while gold prices tumbled, as last week witnessed its biggest one-day decline since end-Feb.

Global Developments

Americas:

- The US **Fed** extended beyond June 30 the sale of short-term bonds against purchases of longer-term securities, a move aimed at "twisting the yield curve", hence the name "Operation Twist", but refrained from more aggressive QE measures. The effects on the real economy are likely to be modest. The FOMC depicted a bleaker picture than 2 months ago: US labour market weakened while stress associated with Euroland debt crisis worsened.
- **Housing starts** in the US dipped in May by 4.8% mom to 708k (Apr: 744k), dragged down by construction of apartments and **existing home sales** which declined by 1.5% mom to an annual rate of 4.55mn units (Apr: +3.4%).

Meanwhile, **building permits** rose 7.8% to 780k, the highest level since Sep 08, providing a ray of sunshine to an otherwise cloudy set of readings.

- Initial **jobless claims** declined by 2k to 387k (for week ended June 16) and the 4-week average, at 386,250, was the highest recorded this year.

Europe:

- The euro zone **ZEW** indicator of economic sentiment index tumbled in June to -20.1 from -2.4 in May. The measure for Germany showed an even larger drop to -16.9 in June from 10.8 previously.
- **Ifo** business climate index, which tracks German business sentiment, fell to 105.3 in June (May: 106.9) with outlook for future more dismal than current conditions – the business expectations sub-index fell to 97.3 (May: 100.8).
- **UK inflation** is slowly reacting to falling oil prices and weak demand: CPI increased 2.8% in May compared to 3% in April. The BoE could grab the occasion to extend QE in July.
- Euroarea's **composite PMI** sank to a 3-year low of 46.0 in June, unchanged from May, with even Germany no longer remaining immune to the trends in the rest of EU. Manufacturing dropped by the steepest since May '09 – PMI for the manufacturing sector dropped to 44.8 in June (May: 45.1). June PMI for France and Germany also disappointed, with German flash manufacturing PMI contracting at the fastest pace in 3 years to 44.7 (May: 45.2).

Asia and Pacific:

- HSBC **PMI** for China dipped to 48.1 in June (May: 48.4). At a seven-month low, this flash figure, indicates a growing contraction of industrial activity.
- Brazil and China agreed on a bilateral USD 30bn currency

swap agreement, to be used for trade or to boost reserves, seen as a move towards lower reliance on the dollar. This was announced as an initial step towards closer financial integration among the BRICS nations.

- **Taiwan's** export orders dropped 3.04% yoy to USD 36.47bn in May, registering a decline for the third consecutive month this year, indicating that Taiwan has been hit harder by weaker external demand than other Asian nations (only orders from US showed a positive annual growth).
- The stronger yen and unending eurozone crisis led to a decline in the June Reuters Tankan for **Japan**. For the first time in four months, the reading was pessimistic at -3, compared to +4 in May.

Bottom line: While most eyes are focused on **Europe**, the **US** is faltering: data on employment which constitute a reliable indicator of sustainable growth continue to deteriorate and weekly hours worked, has fallen abruptly since February, with manufacturing output flat over the past four months. Retail sales in nominal terms have decreased for the past two months and consumer confidence is waning. The Fed is paralyzed because previous massive monetary easings have proved effective at countering the emergency, but have done little to restore growth.

Regional Developments

- Announcement of the Presidential election results in **Egypt** has been delayed, with the Commission stating it is a result of the numerous complaints filed by the candidates. This along with the judicial decision that Parliamentary elections were unconstitutional has added to the reluctance of investors to trade on its exchange, invest in the country's projects and will also lead to delays in aid promised from international agencies like the IMF and WB.
- The Arab Monetary Fund has announced that it will

arrange a USD 65mn credit facility for **Egypt**, to facilitate trade with its Arab counterparts.

- The Governor of the Central bank of **Egypt** recently stated that real GDP growth is expected at around 2% in 2012, a level close to 2011's 2.3%.
- Jan-Apr 2012 trade deficit in **Jordan** increased by more than one third compared to the same period of 2011, mostly due to the surge in prices of imported energy products. Financial support has been requested from the IMF and the Fund is ready to provide such assistance; the type of arrangement is yet to be determined, according to the sources cited by the Petra Jordan News Agency.
- Broad money supply in **Kuwait** increased 8.9% yoy to KWD 29.3bn as of end of May. Breakdown of money supply components demonstrates higher growth rate for demand deposits (10.6% yoy) compared to quasi-money (8.6% yoy). Credit to private sector increased by 4.7% yoy to KWD 28.8bn.
- The Board of the Central Bank of **Kuwait** adopted guidelines on governance at the local banks that will be effective from July 2013. The new regulations, including the role of banks' boards, risk management, information disclosure and transparency, and allowances and bonuses, are in line with the international best practices, especially those promoted by the Basel Committee.
- The IMF's Article IV consultation report for **Kuwait** places real GDP growth relatively high in 2012, above 6%, mostly due to expansionary fiscal policy. Though increasing public spending might have been the appropriate response due to the adverse effects of the global financial crisis, maintaining excessively supportive fiscal policy will deteriorate the country's fiscal sustainability in the medium term.
- The yield on the **Omani** government 10-year development bonds averaged 4.75%; the bids more than twice exceeded the announced issuance at OMR 100mn, and ranged from

3.75 to 5.05%.

- **Saudi Arabia's** monetary aggregate M3 grew 6.8% since Dec-2011 to reach SAR 1307.4bn as of Jun 14th, as per SAMA's records. Separately, inflation in **KSA** remained unchanged mom at 0.2% in May 2012.
- More than 90% of **Saudi Arabia's** Islamic finance assets, estimated at USD 94bn, are concentrated in 4 banks, according to a recent report by Deloitte Middle East Islamic Finance Knowledge Center.
- Better public finance stance and current account sustainability improvement led to an upward revision of **Turkey's** sovereign credit rating by Moody's to Ba1, just one step below investment grade.
- Total **assets** of the 57 GCC banks listed at the local stock exchanges amounted to USD 1158bn, representing 83.1% of the combined assets of the 75 largest Arab banks included in the Forbes Middle East's list.

UAE Focus

- The long-awaited **MSCI upgrade** for UAE & Qatar from frontier to emerging markets failed to happen, with the MSCI stating that the index "meets all requirements besides specific market accessibility issues related to custody and clearing and settlement". The implementation of a "proper false trade mechanism" and "the formal introduction of the regulation governing SBL agreements" is expected in 2013 – when MSCI will undertake its next review.
- Moody's reported that **Tamweel** plans to raise USD 235mn from a mortgage-backed Sukuk, and its certificates would be due to mature in 2046.
- A study titled "Economic Impact of Uprisings on the Mena Region" revealed that the UAE witnessed a 15% increase in outward **remittances** during the period of the turmoil, while remittance flows to MENA countries grew only by 2.6%, with GCC accounting for about one-quarter of these

flows.

- Broad **money supply** M2 in the UAE increased by 4% in Jan-Apr '12 while deposits increased by 6.5% to AED 1138.9bn and loans and advances during the same period remained unchanged at AED 1072.3bn.
- The latest company to **refinance** its existing debt is **Arkan**, which provides integrated building products and construction materials. The 78-month term loan of AED 1.4bn will be used to fund new projects in UAE.
- Abu Dhabi Energy Company (**Taqa**) announced that it has secured **project financing** for an amount of USD 1.4bn to facilitate the 700 MW expansion of Taqa's Jorf Lasfar coal-fired power complex in Morocco.

Forbes Middle East reported that **Emirates NBD** was the **biggest lender** in the MENA region (USD 55.3bn), followed by Qatar National Bank (USD 53.2bn) and National Bank of Abu Dhabi (USD 43.4bn). Total loans of the 75 surveyed banks totalled USD 855.7bn, with UAE and KSA accounting for 6 banks each in the list of top 20 lenders.