

Weekly Economic Commentary – July 1, 2012

Markets

The EU Summit deal led to a much needed boost in global equity markets. Though regional markets were mixed, the Presidential election results in Egypt led to a surge in the Cairo exchange. Following the Summit outcome, the euro recorded its biggest daily gain in the past eight months, oil prices increased and so did gold, with the latter posting its biggest gain in 6 months.

Global Developments

Americas:

- Both **new** and **pending home sales** rose to two-year highs in May, offering a sliver of hope of recovery in the US housing market. New home sales were up 7.6% mom to an annual rate of 369k in May (Apr: 3.3%, 343k), while pending home sales index posted a monthly gain of 5.9% to 101.1 in May (Apr: 95.5).
- **S&P Case Shiller** index of house prices declined by 1.9% yoy in Apr, following Mar's declining of 2.6% – this fell at the slowest pace since Nov 2010.
- **Durable goods orders** increased 1.1% mom in May (Apr: -0.2%), higher than market expectations, led by stronger demand for machinery, defense equipment and cars. Excluding transportation and defense, durable goods orders were down.
- Initial jobless claims fell slightly by 6k to 386k, while the four-week moving average fell to 386,750 (prev week: 387,500).
- The 3rd estimate of US **GDP** remained unrevised at 1.9%: a downward revision of household spending to 2.5% from

2.7% earlier was matched by a gain in commercial construction and lower trade deficit.

- The **PCE** price index fell 0.2% mom and core PCE increased by 0.1% mom in May (Apr: unchng, 0.1%). Personal **spending** fell less than 0.1% (0.3%), recording the first decline since last Nov while **incomes** rose by 0.2% mom (0.2%) and **savings rate** climbed to 3.9% (3.7%).

Europe:

- The **Eurozone** Summit deal paved the way for the EUR 500bn bailout fund to recapitalize ailing banks directly, without passing through national budgets and adding to countries' rising debts. However, this will be done only after a Europe-wide banking supervisory body is established later this year.
- UK PM Cameron has called for a review of inter-bank rates after the **LIBOR** scandal, in which Barclays involvement was exposed while investigations are ongoing for HSBC, RBS, Citigroup and UBS.
- **Cyprus** needs about EUR 10bn to cover fiscal requirements and it might be the fifth of the euro's 17 member states to request a bailout, following Greece, Ireland, Portugal and Spain. The request will be limited to support for Cypriot banks, in hopes of securing aid with fewer conditions than a full-fledged economic rescue package.
- **Euro-area consumer confidence** declined in June, adding to signs that the economic slump probably deepened in Q2. An index of household sentiment in the 17-nation euro area fell to minus 19.6 (May: 19.3).
- **French** consumer spending rose 0.6% mom and 0.4% yoy in March (Feb: -2.6%), higher than market consensus, as the prospect of a change in government improved household confidence.
- IMF's international **reserves** data for Q1 revealed that central banks have reduced **Euro** holdings. Dollar share

was unchanged at 62.2% while the euro's share was slightly lower at 24.9% from 25% at end-2011.

Asia and Pacific:

- **China** PMI hit a 7-month low of 50.2 in June (May: 50.4), with both orders and employment contracting. New export orders fell 2.9 pts to 47.5 and overall orders (including domestic) fell 0.6 pts to 49.2.
- **India** announced a set of reforms to arrest the slide in rupee last week, but failed to live up to market expectations. The reforms included an increase in foreign portfolio investment limits in government bonds to USD 20bn from USD 15bn previously, and to allow manufacturing and infrastructure companies with foreign exchange earnings to refinance INR debt (upto USD 10bn) with external borrowings (as long as it is intended for capital expenditures).
- **South Korea** IP grew 2.6% yoy and 1.1% mom in May (Apr: unchnng yoy, 0.9% mom). This data came after the government reduced its forecast for economic growth in 2012 to 3.3% from 3.7% estimated previously.
- **Japan's** IP declined 3.1% mom in May, recording the biggest fall since the Mar 2011 earthquake but retail sales were up 3.6% yoy and 0.7% mom in May, as government vehicle subsidies increased consumption – motor vehicle sales grew 66.3% yoy in May. Jobless rate fell to 4.4% in May, edging down from 4.6% the previous month. Rebuilding efforts in Japan saw a 9.3% yoy increase in May housing starts – the fourth straight yoy rise.

Bottom line: The EU Summit in Brussels, expected to provide no particular relief, took the spotlight last week though the optimism is likely to fade once the now sketchy details are clarified. Spain and Italy were the biggest gainers from the outcome at the Summit with lower borrowing costs, while 10-year Irish government bond yields also fell to new lows, but

the rally could fade out as more details emerge. Attention will now be on the July 5th ECB meeting. Some positive news out of the US as well, with the Supreme Court ruling in favour of Obamacare which is likely to boost his re-election bid.

Regional Developments

- Gulf **bond markets** have been very active in H1 2012, with companies of the region selling about USD 20.4bn of bonds, of which USD 12.4bn were Sukuk issues. The Saudi General Authority of Civil Aviation issued the biggest sovereign-linked Sukuk raising USD 4bn, followed by Dubai Government at USD 1.9bn.
- The government of **Kuwait** has submitted its resignation amid escalating corruption scandal, and after the opposition gained majority at the country's Parliament.
- The Central Bank of **Bahrain** has issued 10-year development bonds for the amount of USD 1.5bn. The securities were issued on behalf of the Bahraini government and received BBB rating with a stable outlook from both S&P and Fitch and the issue was oversubscribed by over 400%.
- **Omani** budget revenues demonstrated substantial growth at 39.6% yoy in Apr 2012 to reach OMR 4.6bn mostly due to the increase in oil revenues from OMR 2.4bn to OMR 3.3bn, or by 35.
- Inflation in **Oman** increased to 2.9% yoy in Apr 2012 compared to 2.8% yoy in the previous month.
- Risk adjusted capital ratio – a measure of banks' capital adequacy developed by S&P – was estimated at 12 to 13% for the **GCC** banks as of end of 2011. This level was about 5 percentage points higher than the average projected for the 100 largest banks, according to the rating agency's recently released report.
- The IMF stays ready to provide financial assistance to **Egypt**, according to the local media referring to the conversation between the fund's chief and the newly

elected president of Egypt. During its last visit to Egypt, the IMF mission discussed with authorities a new arrangement for an amount of around USD 3.2bn.

- **Egyptian** stock exchange index surged by 13% in the first 4 days after the official announcement of the presidential elections results.
- **Qatar** government domestic debt was stable at an estimated QAR 121.5bn in the 2011/2012 fiscal year, while external debt increased to USD 24.1bn (QAR 87.8bn) after the government's USD 5bn issuance of international bonds in Nov 2011. (Source: Qatar's daily Peninsula referring to the Qatar Economic Outlook).
- Overall consumer prices in **Lebanon** grew 6% yoy in May 2012. The major part of inflation growth was observed in Jan-May 2012, when prices increased by 4.7%.
- Broad money growth in **Saudi Arabia** was at a 17-month low of 7.7% yoy in May (Apr: 8%). Net foreign assets touched a record high of SAR 2.19 trn while lending to the private sector declined to 13% (13.3%).
- **Saudi** Fund for Development will open credit links of USD 210mn to finance non-oil exports to Turkey.

UAE Focus

- Dubai's Q1 non-oil foreign **trade** grew 6.6% yoy to AED 298.1bn, with imports at AED 175.2bn (5.4%) and value of exports and re-exports at AED 122.9bn (8.5%). Top trading partners were India, China and US.
- UAE personal **loans** grew 0.8% to AED 255.9bn in April, the highest level since the crisis hit. For the period Jan-April, personal loans grew by 1.5% compared to the slight 0.1% growth in overall loans.
- Nasdaq Dubai saw the listing of Jebel Ali Free Zone USD 650mn **Sukuk**, taking the nominal value of total listings on ND to USD 7.1bn. The order was oversubscribed by more than 3 times with ME investors taking up 65% of total allocation, followed by European and Asian investors at

26% and 7% respectively.

- **Adia**'s average annual investment return over the last 20 years, at 6.9%, was lower than last year but the 30-year returns remained unchanged at 8.1%. Meanwhile, in the introduction of the annual review, the chief of ADIA warned about Europe that "In the absence of clear guidance from policy makers and central banks, markets are prone to behave in unpredictable and unwelcome ways".
- Dubai **licenses** issued registered an increase of 14% yoy to 1542 in May, of which tourism licenses topped the list, followed by professional and commercial licenses.
- Net profit of UAE's **corporates** increased 11.5% to USD 3.01bn in Q1 – this compares to a rise of 12.9% in GCC companies' net income to USD 14.5bn.
- Abu Dhabi's Executive Council has sanctioned the construction of a **power plant**, to be completed by 2015, with the capacity to generate 1,500 megawatts of electricity and desalinate 53 mn gallons of water per day.