

# Weekly Economic Commentary – July 22, 2012

## Markets

Another week, another EU Summit. Bundeskanzlerin Merkel in a TV interview asserted that support to EU periphery without strong conditions and control over the use of resources is out of question. More concerns about faltering economic growth led to strong dip in global stocks while in the Middle East some markets were helped by strong corporate earnings results. The **euro** has oscillated wildly against the dollar and especially after Merkel's remarks, fell sharply – closing last week at a two-year low against the dollar and at the lowest against the yen since 2001. Oil prices continue to increase on tensions in the Middle East while gold prices edged up on Fri but posted a weekly loss.

## Global Developments

### Americas:

- **Bernanke** portrayed a gloomy view of the US economy saying that job creation will be painfully slow, and left the door open to additional stimulus measures.
- **Retail sales** fell -0.5% mom in June (May: -0.2%), the third consecutive monthly decline. Excluding autos, sales fell 0.4% for the second consecutive month led by gasoline station.
- **US IP** ended a dismal quarter on a stronger note, rising a better than expected 0.4% in June (May: -0.2%). Manufacturing and mining output advanced 0.7% mom, outweighing a 1.9% drop in utilities production. Overall manufacturing output slowed to a 1.4% yoy in Q2.
- On the wake of lower energy prices, the **US CPI** was unchanged in June, as expected, and marks the third

straight month the index has either slid or failed to advance. The core CPI maintained its 0.2% mom rate of increase from the past several months.

- **US housing starts** rose 6.9% to 760k annualized units in June from 711k in May. The figure compared to past norms remains depressed, but signs of bottoming out are solidifying (completions were up 2.6% mom). **Leading indicators** softened in June, as permits fell to 755k annualized, down 3.7% from May.
- **Initial jobless claims** rebounded last week, rising 34k to 384k – reversing the four-year low it had dropped to earlier this month.

### **Europe:**

- The Eurozone finance ministers have agreed to lend up to EUR 100bn towards the recapitalisation of **Spanish banks**. However, the exact amount will be known only in Sep, after in-depth audits of its banking sector to test recapitalisation needs.
- **Spain's** borrowing costs have surged, with yield at the latest bond auction almost 40bps higher than at the previous sale almost a month ago.
- The euro zone **ZEW** index of economic sentiment decreased to -22.3 in July (June: -20.1), and the measure for Germany declined to -19.6 from -16.9 previously due to the uncertainty over the sovereign debt crisis.
- The **UK** consumer price index fell 0.4% mom in June, while the annual inflation rate dropped to 2.4% from 2.8% in May. A sharp fall in the price of Brent crude/energy prices and heavy discounting by retailers during the traditional summer sales were contributors.
- The **euro zone's** CPI yoy inflation remained unchanged at 2.4% in June, in line with preliminary estimate.

### **Asia and Pacific:**

- **India's** PPI inflation cooled slightly in June to 7.3%

- yoy, in line with expectations in the wake of lower fuel and power prices. India still has an inflation overhang and central bank is unlikely to alter its policy stance.
- **China** boosted its **US Treasury** holdings by USD 5.2bn to USD 1.17 trillion in May, while strong buying from **Japan** also boosted its holdings by USD 15bn to USD 1.105 trillion.
  - Foreign direct investment in **China** fell 6.9% yoy in June (May: 0.1%), with inbound investment declining to USD 12bn. For the first half of 2012, inbound investment dropped by 3% to USD 59.1bn.
  - In a bid to protect retail investors from excessive risk, **Singapore** is contemplating lifting forex margin requirements, following Japan and South Korea's moves previously. The central bank has already prepared a consultation paper and is expected to finalise rules by Sep, looking at implementation by year-end.
  - **Singapore's** non-oil domestic exports were up 6.8% yoy and 3.2% mom in June, boosted by both electronics (1.6%, May: 3.9%) and non-electronics exports (9.4%, May: 2.8%).
  - **Taiwan's** export orders continued to disappoint, declining for the fifth consecutive month in June. Orders were down 2.6% yoy (May: -3%) to USD 36.4bn, with orders from China and Europe falling 3.63% and 0.39% respectively.

**Bottom line:** The **IMF** shaved its 2013 forecast for global growth to 3.9% from 4.1% projected in April, trimming projections for most advanced and emerging economies. The IMF expects emerging markets to be dragged down by faltering Europe. It said a drop in exports in these countries would combine with tightening measure meant to counter overheating especially in Asia. It left its 2012 forecast unchanged at 3.5%. The assessment is still quite optimistic and in fact the IMF does not refrain from pointing at "downside risks [which] continue to loom large".

## Regional Developments

- Major Middle East sovereign wealth funds (**SWFs**) are reducing international investments compared to the last three years. According to the annual study by US-based investment firm Invesco, investment in GCC related assets increased from 33% to 56% this year.
- According to Finance Minister Momtaz El- Saieed, **Egypt** will receive a USD 1bn loan from the **Islamic Development Bank** in a matter of days after signing an agreement earlier this month.
- **Saudi Arabia** plans to allow cross-listing foreign companies on its stock market within a year as part of the broader plan to open its financial sector to foreign investors.
- Remittances from **Saudi Arabia** reached USD 27.8bn in 2011, as per the latest SAMA data. This had little impact on the current account, which registered a surplus of USD 174bn on higher oil prices.
- Non-oil exports in **Saudi Arabia** increased slightly by 0.34% yoy to SAR 14.83bn in May with exports of petro-chemical products accounting for more than one-third of total non-oil exports (37.2%, USD 5.5bn), followed by plastic products (almost 30%) and foodstuff (7.9%). Saudi oil revenues meanwhile increased 48% yoy to USD 318.5bn as volumes of crude oil shipments picked up in 2011.
- **Tunisian** government issued 7-year bonds for the amount of USD 485mn backed by the US Treasury. As the US government agreed to guarantee repayment of principal and interest, the bonds yielded 1.686%, significantly lower than for the regular government securities issued by Tunisia.
- Real GDP growth in **Egypt** for the fiscal year ended in Jun 2012 was estimated at 1.8%, according to the Minister of Finance. The minister highlighted the importance of fiscal consolidation to attain sustainable

level of government debt, while subsidy reform is seen as a key pre-condition.

- **Turkey's** Minister of Finance hinted that new taxes may be introduced as fiscal stance is deteriorating.
- Consumer confidence index in **Turkey** decreased to 91.8 in June 2012 (May: 92.1), thus remaining in the pessimistic outlook zone, as per the country's official statistical agency.

## **UAE Focus**

- Barclays will leave the **Eibor**-setting 12-member panel after a mandatory 90-day notice period. This has initiated the search for another international bank to replace Barclays on the panel.
- A Merrill Lynch report identified **Dubai** as "one of the best GCC cities in which to develop business", also making a call of "buy Dubai" property, based on its view of population growth at 6.1% on average over the next eight years while supply of residences grows by only 4.9% in the same period.
- In line with the provisions of **Basel III**, the **UAE** Central Bank has announced that lenders need to hold 10% of liabilities in liquid assets which could include cash, certificates of deposit and highly rated local government bonds. This new rule would come into effect from Jan 2013 and will be replaced by a "liquidity coverage ratio" at the end of 2014.
- **Bank assets** in the UAE fell by AED 17bn to AED 1725bn in May, while deposits declined for the second consecutive month to AED 1.1bn and NPL provisions increased 2.3% mom to AED 61.7bn.
- UAE has received the necessary approvals for building its first **nuclear power plant**, with the first reactor expected to be operational by 2017, with a capacity of producing 1,400 MW of electricity.
- Data released by OAPEC showed **UAE's energy demand** went

up by 5.2% yoy in 2011. Consumption of crude oil, gas and other energy grew to nearly 1.56mn equivalent barrels per day (ebpd) from 1.48mn ebpd, second only to Saudi Arabia where it was 3.22mn ebpd.

- A new **real estate sector law** is in the offing, according to a recent Jones Lang LaSalle report, which will be geared towards protecting the investors in case of delayed handovers, violation of terms and conditions and related obligations.