

Weekly Economic Commentary – January 20, 2013

Markets

Global **equity** markets continued to gain, with S&P 500 at 5-year highs and MSCI's index of leading world shares hitting a 20-month high on Friday, after positive data releases from both the US (labour, housing) and China (GDP). **Regionally**, most markets performed well as the earnings season gets underway, and the DFM index hit the highest level since Nov 2010. The **yen** was near a 31-month low against the dollar, ahead of the BoJ meeting this week while the **euro** slipped after touching a 11-month high vis-a-vis the greenback on Monday. Both **gold** and **oil** prices gained from a week ago – the latter on IEA's higher global demand forecasts for 2013.

Global Developments

Americas:

- **Retail sales** rose more than expected in Dec by 0.5% mom (Nov: 0.4% mom) suggesting momentum in consumer spending despite 'fiscal cliff' uncertainty. **Core sales** (excluding autos, gasoline and building materials) were up 0.6% mom (Nov: 0.5% mom). Compared to 2011, sales increased 5.2% yoy.
- **Business inventories** picked up by 0.3% mom in Nov, at the same pace as Oct, suggesting marginal restocking. **Business sales** rebounded by 1% mom in Nov after dipping 0.3% in Oct, leaving the inventories to sales ratio unchanged.
- US **producer prices** fell 0.2% mom in Dec (Nov: -0.8% mom) and rose 1.3% yoy. **Consumer prices** held steady in Dec, rising 1.7% in 2012 (2011: +3%); core consumer inflation – excluding food and energy prices – remained muted,

rising 0.1% mom and 1.9% yoy.

- **Industrial production** rose 0.3% mom in Dec (Nov: +1% mom, downwardly revised); **manufacturing** output rose 0.8% mom, after a sharp 1.3% rise in Nov, signalling positive momentum.
- **Housing starts** surged 12.1% in Dec to an annual rate of 945,000 units (Nov: 851,000 units, downwardly revised), the fastest pace since Jul '08. Multi-family units, an especially volatile component, led the expansion.
- **Initial jobless claims** fell by 37k last week to 335k, the lowest weekly level since Nov '07. The four-week rolling average fell to 359,250 from the previous week's 366k.
- The Thomson Reuters/University of Michigan **index of consumer sentiment** unexpectedly fell in Jan from 72.9 to 71.3, its lowest level in a year.

Europe:

- **German GDP** shrank 0.5% qoq in Q4, the sharpest decline in more than 3 years, as exports and investments slowed. Germany's annual growth decelerated to 0.7% yoy in 2012 after growing 3% yoy in 2011. Despite the slowdown, Germany's **budget** swung to a surplus of 0.1% of GDP in 2012, as against a deficit of 0.8% of GDP in 2011, supported by record employment levels.
- **Eurozone industrial production** fell for the 3rd month in Nov but at a slower pace of 0.3% mom (Oct: -1% mom), intensifying concerns of a recession in Q4. German industrial production rebounded 0.1% mom while production in Italy fell 0.1% mom.
- **Eurozone international trade** surplus widened to EUR 13.7bn in Nov from EUR 9.3bn in Oct (downwardly revised). Exports increased a 0.8% mom s.a. while imports fell 1.5% mom s.a. Over the Jan-Oct period, the Eurozone recorded a trade surplus of EUR 75.5bn as against a deficit of EUR 23.7bn last year; exports grew

by 8% yoy over the period while imports grew a marginal 2% yoy. Exports from **Greece and Italy** increased 13% yoy and 4% yoy, respectively, while imports declined 9% yoy and 5% yoy, indicating low domestic demand.

- **Eurozone consumer inflation** grew 0.4% mom in Dec but annual inflation steady at 2.2% yoy.
- **Italy industrial production** fell 1% mom in Nov after dropping 1.1% in Oct. The **Central Bank of Italy** cut its economic **growth forecast** projecting a steeper contraction of 1% in 2013 as compared to a previous estimate of 0.2%, citing the global economy and weak domestic demand as a drag on growth.
- The **IMF** agreed to disburse EUR 3.2bn of **financial aid** to **Greece** after the country approved new austerity measures and conducted a bond-buyback to reduce debt.

Asia and Pacific:

- **China's GDP** grew by 7.9% in Q4 (Q3: 7.4%), taking full year 2012 growth to 7.8%, the lowest since 1999 and significantly lower compared to 9.3% the previous year.
- **Retail sales** in **China** recorded a 15.2% pick up in Dec (Nov: 14.9%) while **IP** grew by 10.3% in Dec (Nov: 10.1%). For the full year 2012, retail sales grew 14.3% and IP picked up by 10%. **Inbound FDI** fell 4.5% yoy in Dec to USD 11.7bn (Nov: -5.4% yoy). Over 2012, inward FDI fell 3.7% yoy to USD 111.7bn.
- **India's WPI** decelerated to 7.18% yoy in Dec (Nov: 7.24% yoy) as food and fuel inflation eased. Core inflation fell to 4.2% in Dec from 4.5% in Nov. Lower than expected inflation gives room for more monetary easing.
- **Japan machinery orders** rose more than expected in Nov surging 3.9% mom, following a 2.6% increase in Oct. A separate report showed an index of **consumer sentiment** fell to 39.2 in Dec from 39.4 in Nov, suggesting households remain cautious.
- **Singapore non-oil exports** fell more than expected in

Dec, dipping 16.3% yoy. The decline was led by electronics exports which shrank 19.1% yoy after falling 16.5% yoy in Nov. A separate report showed **retail sales** unexpectedly fell in 0.8% mom in Nov after rising 0.5% mom in Oct. On an annual basis, retail sales fell 1.1% yoy in Nov, at the same the same as in Oct.

Bottom line: The World Bank expects global growth forecasts at 2.4% in 2013, slightly higher than 2012's 2.3%, but substantially lower compared to their relatively optimistic 3.0% projection for 2013 last June. In its Dec beige book, the US Fed maintained a cautiously optimistic stance highlighting that economic activity had picked up in all districts but the job market continues to remain weak, hence leaving more room for QE. Eurozone data continue to point to a worsening situation on falling imports and a shrinking German economy in Q4. China's higher-than-expected Q4 growth is likely to quieten "hard landing" proponents, but proxies of domestic demand need to be carefully monitored to gauge economic momentum going forward.

Regional Developments

- The **GCC** is expected to award **oil, gas and petrochemical projects worth USD 27bn in 2013** and projects worth USD 50bn in 2014, according to MEED insight. Developments in Kuwait and Oman will determine whether forecast will be achieved as the total expected includes Kuwait's USD 18bn clean fuels program and Oman's USD 6bn Duqm Refinery.
- **OPEC** lowered its 2013 demand forecast by 100K bpd to 29.65 mn bpd due to higher supply from rival producers. OPEC expects world oil supply to comfortably outstrip demand over the year, even after **Saudi** cut oil production in Dec.
- **Islamic Development Bank** will lend **Egypt USD 388mn** to finance a number of projects in the country. Of the total, USD 250mn will finance the development of a

1,950-megawatt electricity station south of the country, USD 50mn will support local SME's and USD 32.2mn will fund the country's agriculture development program.

- While an IMF Mission in Egypt is "realigning" the economic measures linked to the loan package announced in Nov, **Moody's** announced that it was putting **Egypt's B2 government bond ratings on review for possible downgrade**.
- **Jordan's** Prime Minister Abdullah Ensour said his **government** plans to **resign** after the parliamentary elections to be held on Jan 23rd.
- **Jordan's** Central Bank stated that the **tourism sector** grew 15.3% in 2012 to USD 3.5bn as against USD 3bn a year earlier. A separate report from the Department of Statistics showed **inflation** accelerated to 4.8% yoy in 2012 as against 4.4% in 2011, driven by food and transportation price. CPI rose to 0.8% yoy in Jan '13 after rising 7.8% yoy in Dec '12.
- The **Kuwaiti government** proposed the imposition of **Value-Added Tax (VAT)** for the first time in the country. Details of the proposed legislation were not provided. Other draft laws proposed and subject to debate at the national assembly include the establishment of a telecommunications commission, a road and transport authority, a food authority and civil aviation authority.
- **Kuwait banking sector credit** rebounded in Nov adding KWD 188mn after dipping in Oct. Year-to-date credit growth stood at KWD 1.3bn, representing 5.2% yoy increase.
- **Lebanon's** central bank has asked banks to allocate up to USD 1.45bn through active lending to "productive sectors" at low interest rates and with up to 10 years maturity.
- **Morocco's trade deficit** increased by 7.9% yoy to MAD 197.2bn in 2012 due to weakness in the Eurozone – a top trade partner. Energy and food imports surged by 14.8% and 7.1% respectively. Declines in tourism receipts and

remittances affected forex earnings. Forex reserves, at MAD 138.3bn, cover only about four months of import needs.

- **Oman** ranked 13th out of 45 emerging markets in Agility's Emerging Market **Logistics Index** 2013. Oman, Qatar and UAE stand out among countries that are smaller markets with good economic prospects and easy market entry, according to the report.
- **Qatar's GDP** grew 3.9% qoq in the third quarter and 5.8% yoy over the first 9 months of 2012. Over Q3, the hydrocarbon sector shrank 0.8% yoy while manufacturing surged 13% yoy.
- The **IMF** expects **Qatari inflation** to accelerate from 3% in 2013 to 5% by 2016, driven by a surge in infrastructure activity and a narrowing of the supply-demand gap in the real-estate sector. Qatar's Economic Planning Board had in Dec warned against rising inflationary pressure in 2013 expected to reach 3.5%.
- Dec **inflation in Saudi Arabia** clocked in 3.6% as prices of tobacco and transport were up 12.8% and 7.5% respectively.
- **Saudi Arabia** publicly rejected media reports suggesting that the drop in the Kingdom's Dec **oil production** was aimed at raising crude prices stating that fluctuations in production are driven by a range of domestic, regional and international factors.
- The IMF is negotiating a loan deal with **Tunisia** and its progress will be revealed in Feb, according to a senior IMF official. Tunisia had requested for a USD 2.5bn loan from the IMF last year.

UAE Focus

- The **UAE** Ministry of Economy expects **real GDP** growth at 4% in 2013 to AED 1.39 trillion, fuelled by strong crude prices, an expansion in trade and industry and a recovery in the real estate sector.

- **Abu Dhabi plans to invest AED 330bn to fund capital projects** during the next five years. The projects are expected to create 5,000 new **job opportunities** over 2013 for Emiratis in various sectors.
- **Consumer prices** in the UAE increased 0.66% yoy in 2012. The prices of food, beverage and tobacco rose over the year while housing prices fell. The Ministry of Economy said it plans to **fix prices** of 2,000 food items over 2013 as compared to 1,600 over 2012.
- With no further announcements from the **UAE central bank** with respect to the **mortgage** sector, two sources revealed that more regulations regarding mortgage lending were expected by June this year and this will also include uniform criteria for housing finance.
- The IIF reported a boost in **assets of the UAE's SWFs** to a record high of USD 451bn in 2012. Strong oil prices, complemented by higher output led to oil export earnings of USD 124bn and enabled the country's SWFs to gain nearly USD 25bn in 2012.
- **Dubai's exports and re-exports** rose 9% yoy in 2012 to reach AED 268bn, according to data from the Dubai Chamber. The Chamber plans to open three representative offices in Saudi Arabia, China and India in 2013 to improve the emirate's competitiveness internationally.
- **Etisalat** is looking to acquire a stake in Morocco's Maroc Telecom; the company has submitted a "preliminary expression of interest" for the 53% currently held by France's Vivendi. Qatar Telecom might also be submitting a bid for the stake.