

Weekly Economic Commentary – January 27, 2013

Markets

Global stock markets rallied, lifted by a bout of optimism. The S&P reached 1,500 points the highest close in 5 years on positive earnings results and is on the longest winning streak since 2004. **Regional** markets were mostly **up**, with the notable exception of Bahrain and KSA to a lesser extent. As **Yen** continues to fall vis-a-vis the greenback, the **euro** climbed to a 11-month high after the Ifo reading and **GBP** was affected by the dip in growth. **Gold** prices declined as risk appetite solidified, while **oil** prices were higher on a weaker dollar and growing optimism about global recovery.

Global Developments

Americas:

- **Existing home sales** unexpectedly fell 1% mom in Dec to a seasonally adjusted annual rate of 4.94 mn units but remained near the fastest pace in 3 years. Inventories of existing homes for sale fell 8.5% in Dec to a 10 year low.
- FAFH: **US house prices** rose 0.6% mom s.a. in Nov (Oct: +0.5% mom) and 5.6% yoy; prices remain well below the pre-crisis peak in '07.
- Initial **jobless claims** fell 5,000 last week to 330,000, a new 5-year low. The four-week moving average also dropped to 318,000 (Prev: 360,000).
- The **Conference Board index of leading indicators** increased 0.5% in Dec, after a flat reading in Nov, the third increase in four months.

Europe:

- The **German Ifo business index** crawled up for a third consecutive time to 104.2 in December from 102.4 in Jan.
- **ZEW Eurozone Economic Sentiment** Index increased more than expected in Dec to 31.2 from 7.6, indicating an improvement in investor 6-month outlook. **German ZEW Economic Sentiment** index also soared in Dec adding 24.6 points to 31.5.
- **German PPI** unexpectedly fell 0.4% mom in Dec (Nov: +0.1% mom). On an annual basis PPI increased 4% yoy, accelerating as against 5.2% yoy in Nov.
- Markit's flash **Eurozone composite PMI** rose for the 3rd month in Jan to 48.2 (Dec: 47.2), hitting a 10-month high. The manufacturing sector rose sharply to 47.5 (Dec: 46.1) while the services sector inched to 48.3 (Dec: 47.8). German manufacturing and services output grew at the fastest pace in a year while France reported a drop in output.
- **UK GDP fell 0.3% qoq in Q4** (+0.1% yoy), somewhat below expectations. The services sector has recovered the output lost since 2008 while construction and industrial production are lagging.
- **Italian bank Monte Paschi revealed losses** estimated at several hundred million euro on derivatives contracts concealed through operations arranged by Nomura and Deutsche Bank. The episode raises fears that the balance sheet of other European banks might hide undeclared toxic structures.

Asia and Pacific:

- **China HSBC flash PMI touched a 2-year high** of 51.9 in Jan (Dec: 50.9), above the 50 points mark. The output sub-index reached a 22-month high, employment was at the highest since May 2011 and new export orders rose to 50.1 (Dec: 49.2).
- **Bank of Japan** doubled its inflation target to 2% in a widely expected move and postponed more stimulus

measures until Jan '14 when an 'open-ended' **monetary easing** policy will take effect with a new round of asset purchases (10.3 trn yen) and rates held at near-zero levels.

- **Japan All Industry Activity Index** fell 0.3% mom in Nov after rising 0.2% mom in Oct. Construction activity rose 3.8% mom while all other industries fell. Industrial Output shrank 1.4% mom. On an annual basis, industry activity held steady at 0.1% yoy in Nov.
- **Japan reported a record-high trade deficit of JPY 6.9 trillion in 2012** – exports had been falling for the past 7 consecutive months, affected by the stronger yen and sluggish demand from Europe, with Dec posting a 5.8% dip. Imports in Dec were up 1.9%, with energy imports growing by 34%.
- **South Korea's Q4 GDP** grew 0.4% qoq and 1.5% yoy (Q3: 0.1% qoq and 1.5% yoy), and resulted in a 3-year low of 2.0% yoy for 2012 (2011: 3.6%). In Q4, exports slipped 1.2%qoq, infrastructure investment fell 2.8% and construction spending was down 1.3% while private consumption was moderately up 0.8%.
- **Taiwan export orders** rose for the 4th month in Dec, surging 8.5% yoy (Nov: 11.1% yoy). Orders from China rose 2.4% yoy and from the US climbed 10% yoy.
- **Singapore CPI** rose at a faster-than-expected pace in Dec to 4.3% yoy (Nov: 3.6% yoy), as the cost of housing and private transportation soared. Core inflation, excluding accommodation and transport, eased to 1.9% yoy in Dec from 2.0% yoy in Nov.
- **Industrial output in Singapore** in Dec was moderately upbeat, with output falling just 0.6% yoy, after a revised 2.9% increase in Nov. Tech production remains sluggish, partly offset by biomedical.

Bottom line: Data this week confirmed the outlook of a gradual global recovery led by Asia but with Europe lagging behind. The IMF trimmed global growth forecasts (2013: 3.5%,

previously 3.6%), with the euro area witnessing a severe downgrade attributed to “high uncertainty about the ultimate resolution of the crisis despite recent progress”. Growth forecast for the MENA region was also lowered to 3.4% in 2013 (previously 3.6%). As every year Davos saw a jamboree of events, more notable for the presence of socialites than for any original ideas or analysis. The mood reportedly is slightly upbeat exactly as it was last year, on hopes of a quick turnaround dashed only a few weeks later.

Regional Developments

- **Bahrain's insurance sector** posted growth in Q3 '12 with gross premiums rising 9% yoy to BHD 184.11mn. The long-term insurance sector grew most at 17% yoy, followed by the motor sector at 12% yoy. Both sectors combined represent 48% of total gross premiums.
- The **EGP** weakened further against the dollar after Tuesday's Central Bank forex auction, where a cut-off price was set at 6.6025 pounds to the dollar. The pound is about 6.8% weaker when compared to when the sales were initiated last Dec.
- The number of tourists in **Egypt** rose 17% in 2012 and **tourism revenues** rose 13%yoy to USD 9.9bn, well below the USD 12.5bn recorded in 2010 before political turmoil erupted in 2011.
- **UN made a payment of USD 1.3bn to Kuwait** over the Iraq invasion in 1990 – related to damage to Kuwait's oil wells, pipelines and equipment.
- The **proposal to provide KWD 5k to every Kuwaiti citizen** and in addition KWD 300 to every unemployed Kuwaiti female, aimed to benefit low-income Kuwaitis, will impose a burden of at least KWD 4bn on the government.
- **Lebanon's** Hotel Owners Association warned of the worsening health of the country's **hospitality sector** and asked the government take action, citing that at least two hotel chains have put new hotel construction on hold

and other hotels are shrinking existing operations.

- The **Central Bank of Oman** expects **inflation** to follow a downtrend in 2013 supported by easing non-fuel commodity prices. The price of food items, representing the bulk of Omani imports, is seen falling 2% in 2013. Inflation averaged 2.9% over the Jan-Sep 2012.
- **Residential rental prices** in **Muscat** are expected to hold steady over 2013 as demand for affordable housing outstrips supply, according to industry expert Savills.
- **S&P** forecasts a stable outlook for **Oman** in 2013, with growth “boosted by high government spending, coupled with high private consumption and investment”. Strengths include its net asset position, strong net external creditor position and “prudent” use of oil revenues. Meanwhile, **Fitch** forecasts greater competition and higher profitability for **Omani banks** in 2013.
- Passenger traffic at **Muscat International Airport** rose 16% yoy in 2012 to 7.5 million as a number of airlines introduced new flights. Cargo traffic also improved; total freight handled rose 14% yoy to 112,307 tonnes.
- **Qatar** Statistics Authority’s survey of the **transport & communication sector** show that among the 589 establishments surveyed, almost 47% were large companies, with an average per capita salary of QAR124k and total production at QAR 38.4bn (+21.9% yoy).
- **Qatar Development Bank** disbursed QAR 3bn in housing loans last year, according to a senior official, and given its focus to support the non-hydrocarbon sector, has designated QAR 1.5bn for the industrial sector and QAR 1bn for the agriculture and tourism sectors.
- The tender for **Qatar’s** Inner Doha Re-sewerage Implementation Strategy (IDRIS), the largest **drainage project** in the country, will be invited by Q2 ‘13. Work on the project is expected to begin by the end of the year and completion by 2019.
- **Saudi** Finance Minister, Al-Assaf, said that Kingdom has the ability to maintain its current level of **government**

spending in the medium term and beyond. Saudi's 2013 state budget was set at SAR 820bn, 19% higher than its 2012 budget. Additionally, a **NCB report** estimates 2013 fiscal surplus at SAR 277bn, about 30 times higher than government's projection, given expectations of oil price at USD 110 per barrel vis-a-vis the government's USD 70 budget oil price.

- A survey of **Saudi Arabia's** labour force revealed **jobless rate of 12.2%** and that nearly two thirds of the Saudi labour force was aged between 20 and 39 years, representing 66.4%, and 62.9% of them were men. Separately, the Labour Minister was quoted saying "Unemployment among Saudi women rose to 35% while the percentage among men dropped to 6.1%".
- **Saudi Aramco** will deploy an additional 30 rigs this year in search of gas to meet rising domestic demand, according to industry sources. The country's oil production is expected to remain at 12.5mn bpd.
- Saudi Arabia's crown prince called for a minimum **50% increase in the capital** of the Arab Fund for Economic and Social Development which provides funds for power, water and telecommunication projects in the region at low rates.
- **Arab world's metal exports** to Brazil rose 138% in 2012 to USD 83.72mn, according to the Arab-Brazilian Chamber of Commerce. The top three Arab metal exporters were Saudi Arabia (USD 37.34mn), Bahrain (USD 30.61mn) and UAE (USD 4.73mn).

UAE Focus

- **Dubai** raised USD 1.25bn in a two-part debt sale amid strong demand and relatively low borrowing costs. The Emirate launched USD 750mn 10-year Islamic bonds (Sukuk) at 3.875% and USD 500mn 30-year conventional bonds at 5.375%. This show of investor confidence is likely to bring more companies to the market – Emirates Airlines

and DEWA are already contemplating issuances this year.

- **UAE Central Bank** governor, Al-Suwaidi, said the Central Bank circular on **mortgage lending limits** issued earlier was merely a warning to commercial banks on rule changes expected within 6-9 months and assured that no new rules have been issued at present.
- A senior MoF official has announced that the **Federal bankruptcy law** is now being discussed with the local governments, and once an agreement is reached it would be sent to the FNC; it could see the light of day as soon as end of Q1 2013.
- **Abu Dhabi's nominal GDP grew by 29.9% to AED 1.06 trillion in 2011**, boosted by a 10% increase in gross capital expenditure to AED 123.98bn, according to data released by Abu Dhabi Statistics Centre yesterday. Oil and gas sector accounted for 41.7% of total gross output, followed by manufacturing (16.6%) and construction (15.6%).
- The **Dubai Mercantile Exchange DME** Oman futures contract will be included in a new US-based Asian **Commodities Basket Fund** (USACBF), which underscores the critical benchmarking role it plays in the growth of the Asian oil market.
- **Employment** at Dubai's main financial hub, the **Dubai International Financial Centre (DIFC)**, rose 16% to 14,000 over 2012, according to the DIFC Authority. The number of registered companies also grew, rising 7% yoy to reach 912.
- The **RTA revealed that close to a million people used public transport daily in 2012**, with a 6% yoy rise in commuters to 367.7mn. The Metro witnessed an increase of 58.7% in passengers, taxis 10.2% and buses 12.5%.
- The total value of **real estate transactions in Dubai** rose 8% in 2012 to reach AED 154bn, according to Dubai Land Department data. The total volume of transactions surged 18% yoy to 41, 767.
- **Dubai's hotel occupancy** rate over the first 11 months of

2012 averaged 80%, improving 2% over occupancy levels reported last year, according to a recent E&Y survey. Hotel occupancy improved by 3.7% yoy in Nov alone, suggesting a positive trend in the industry.

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