

# Weekly Economic Commentary – February 3, 2013

## Markets

Global **markets** rounded out last week on a positive note buoyed by encouraging US payroll and Chinese manufacturing data, shrugging off disappointing US GDP growth estimates. The S&P jumped 1% on Friday while earlier in the week the Dow Jones Industrial Average closed above the 14,000 mark for the first time since 2007, China's equity gauge posted the biggest weekly gain in more than a year while among **regional** markets, UAE's ADX and DFM extended their rally. The **euro** hit its highest level against the dollar as the ECB's balance sheet shrank and US Fed said it would continue QE at its current pace. While both **oil** and **gold** prices posted weekly gains, with the latter's market also affected by the announcement that India's central bank may introduce three to four gold-linked products in the next few months.

## Global Developments

### **Americas:**

- **Non-farm payrolls** rose by 157,000 in Jan, slightly lower than expected, following a revised 196,000 in Dec and a 247,000 jump in Nov. Revisions added 127,000 jobs more than previously reported. A separate private survey (ADP) showed the US private sector added 192,000 jobs in Jan after a downwardly revised 185,000 in Dec. **Initial jobless claims** rose by 38,000 to a seasonally adjusted 368,000 last week, slightly above expectations; the less volatile four-week moving average edging up 250 to 352,000. Official **unemployment** unexpectedly rose to 7.9% from 7.8% in Dec.
- The **US economy** unexpectedly contracted in Q4 for the

first time after the financial crisis as **GDP** shrank 0.1% qoq ann after expanding 3.1 in Q3, dragged by a sharp fall in federal spending, slower inventory growth and lower exports. The headline figure masks encouraging signs; consumer spending rose at a faster rate (2.2% ann.), after-tax income increased 6.8% ann, business investment rose at the strongest pace in a year (8.4% ann) and the housing sector recovery remained on track.

- **US construction spending** rose more than forecast in Dec, increasing 0.9% mom: public spending fell 1.4% mom but private sector spending picked up the slack, rising 2.2% mom.
- The **US ISM Manufacturing index** climbed to 53.1 in Jan from 50.2 in Dec, the fourth increase in 5 months. New orders rose to 53.3 from 49.7, the highest since May, employment climbed to a 7-month high to 54 and inventory moved marginally above the 50-mark from 43.
- **Durable goods orders** rose 4.6% mom in Dec, up from Nov 0.7%. Excluding volatile transportation goods, new orders grew 1.3%. Core capital orders were up 0.2%, while shipments rose 0.3%, inventories were unchanged. Overall, a moderately rosy picture.
- The **US pending home sales index** fell 4.3% mom ann sa, to 101.7 in Dec (+6.9% yoy), but stood near its highest level since early 2010.
- The **S&P Case-Shiller home price index** showed a sustained recovery as the 20-city composite index rose 5.5% yoy in Nov after rising 4.3% yoy in Oct with gains seen in 19 out of 20 cities. On a sequential basis, prices fell 0.2% again in Nov but rose 0.6% for the 2nd month after adjusting for seasonality.
- US Conference Board **consumer confidence index** dropped to its lowest level in more than a year at 58.6 in Jan from 66.7 in Dec. The expectations subindex dropped the most to 59.5 from 68.1 in Dec.

**Europe:**

- The **euro zone M3 money supply** in Dec.grew 3.3% yoy sa, down from 3.8% in Nov underscoring that recession forces are still prevailing.
- The Conference Board **leading economic index** for the **euro zone** edged up to 105.5 in Dec from 105.1 in Nov, as both business and consumer confidence indicators improved.
- Markit's **euro area manufacturing PMI** rose to 47.9 in Jan from 46.1 in Dec as the rate of contraction slowed. Output growth in Germany was the strongest in the region, lifting its PMI gauge to 49.8 from 46. Exports supported Spain's index (from 44.6 to 46.1) and Italy's gauge (47.8 to 46.7) while the contraction in France worsened.
- **Unemployment** in the **euro area** unexpectedly held steady in Dec at 11.7% after the Nov figure was revised downwards. The jobless rate was the highest in Spain at 26.1% while France's stood at 10.6%. For **Germany**, while the EU statistics office showed unemployment stood at 5.3% in Dec, official figures reported that unemployment unexpectedly declined in Jan by a seasonally adjusted 16,000 to a 2-decade low at 6.8% (Dec: -2,000), underscoring a resilient job market. Official unemployment in **Italy** edged up 11.2% in Dec from 11.1% in Nov, hitting a record high.
- The forward looking **GfK consumer sentiment index** rose to 5.8 for Feb from 5.7 for Jan. The modest headline figure hides a rebound in the economic expectations component to -11.3 in Jan after dipping to -17.9 in Dec and an improvement in consumer's willingness to buy subindex to 35.3 from 20.1 in Dec.
- **Germany retail sales** fell more than expected by a seasonally adjusted 1.7% mom in Dec after rising 0.6% mom in Nov.

#### **Asia and Pacific:**

- **China Official manufacturing PMI** slipped to 50.4 in Jan

from 50.6 in Dec, but remained in expansionary territory for the fourth month. A separate gauge from **HSBC Markit Economics** showed manufacturing rose to a 2-year high at 52.3 from 51.5 in Dec. Both figures combined suggest a modest recovery in Chinese manufacturing. Official **non-manufacturing PMI** rose to 56.2 in Jan from 56.1, the fastest pace since Aug, supported by retailing and construction.

- In a widely expected move, the **Reserve Bank of India** cut its benchmark **interest rate** by 25 bps to 8%, the first rate cut in 9-months, but surprised with a 25 bps reduction in the **reserve ratio** expected to unlock INR 180bn (USD 3.4bn) of extra liquidity.
- **HSBC India manufacturing PMI** rose at the slowest pace in three months in Jan, slipping to 53.2 from 54.7 in Dec. Output edged up while new export orders rose for the fifth month but at a slower pace.
- **Japan retail sales** rose by a less than expected 0.1% mom in Dec after falling 0.1% mom in Nov, signalling weak consumer demand. **Industrial production** grew 2.5% mom in Dec (Nov: -1.4%) though there was a drop in production of electronic parts and devices. The government expects 2.5% **real GDP growth** in 2013 on monetary and fiscal policy easing and a rebound in export demand.
- **Korea's IP** increased for the fourth consecutive month – by sa 1.0% mom in Dec (Nov: +2.6%) – largely helped by stronger domestic demand.
- **Singapore unemployment** unexpectedly fell to a 5-year low of 1.8% in Q4 (Q3: 1.9%), suggesting more local hiring after government's foreign manpower tightening last year.
- **Thailand's industrial production** soared 23.4% yoy in Dec, following Nov's revised 82.3%. The staggering figures are due to base effects after the 2011 floods, but net of this quirk, the underlying production trend appears is upward, lifted by auto and food output.

**Bottom line:** Fed presses ahead with QE after 'pause' in growth in Q4 seen due to transitory factors and the increases on the US job front (in apparent contradiction to the dip in GDP numbers) and Chinese PMI numbers brought joy to the markets. Confidence in the Eurozone seems to be rising, with a pick-up in business confidence and PMI data though bank nationalizations continue on the side and Asia seems to be chugging along with the Reserve Bank of India the latest to lower rates after holding steady for a 9-month period.

### Regional Developments

- Fitch downgraded **Egypt's** long-term foreign and local currency debt ratings to 'B' from 'B+' with negative outlook. However the short-term debt retains its 'B' rating. Essentially the downgrade reflects political turmoil, reserve depletion and an uncertain fiscal outlook.
- **Saudi Arabia** male **unemployment** dropped to 6.1% in 2012, the lowest level in 13 years, according to the Ministry of Labour. Total unemployment among Saudi males and females stood at 12.2% in 2012.
- **Saudi Arabia's** tourism market, with 14% yoy growth, was one of the top-five fastest growing nations in 2012, as per the recent release of the UN World Tourism Organization (WTO) Tourism Barometer. However, visitors to the Middle East dipped by 5%.
- Production in **Qatar's** wholesale and retail sector grew 11% to QAR 32.15bn in 2011, as per latest data released by the Qatar Statistics Authority. Gross value added, at QAR 27.8bn, accounted for 5.1% of GDP.
- According to the IMF, **Qatar** will issue local currency **sovereign bonds** with three- and five-year maturities as part of a plan to build a yield curve for its debt market.
- **Qatar Holding** plans to invest up to USD 5bn in **Malaysia's** Pengerang Integrated Petroleum Complex over

the next three to four years, as per a senior company official.

- According to the IMF, **Qatar's currency** is currently undervalued in terms of real effective exchange rate but a projected rise in inflation (relative to major trading partners) is seen narrowing the under-valuation in the medium term.
- **Jordan's** government hiked fuel prices – unleaded 90-octane gas and 95-octane gas – by 2.6% and 2.1% to 0.8 and 0.99 per litre respectively last week; price of cooking gas cylinders were kept unchanged at JOD 10.
- **Kuwait** approved a **draft law** allowing the write-off of interest on loans taken by Kuwaiti citizens over the period 2002-08, at a cost of KWD 1.7bn. Also under the law, citizens not benefiting from the interest write-off will receive KWD 1k to be deposited in a Family Fund.
- **Kuwait** pledged USD 300mn to help fund humanitarian efforts for Syria.
- The **EU grants Lebanon** USD 4.7mn to fund its Credit for **Agricultural and Rural Development** Scheme (CARDS), a program intended to increase access to credit for small-scale farmers and agricultural cooperatives in the country.
- **Lebanon** trade deficit widened to a 5-year high of USD 16.8bn as fuel imports that are partially re-exported to Syria caused the import bill to spike to USD 21.3bn (+5.6% yoy).
- A **Moroccan** official announced that the country had received the first part of the USD 2.5bn aid package pledged by the GCC nations.
- **Oman's Shura Council** discussed proposals to include **low income families** – retirees and low-salaries employees – under the social security families benefits program. The program exempts such families from medical treatment fees, housing and education.
- UAE and Saudi Arabia recorded the **lowest total cost for remitting \$200** worldwide: the cost is around 3% of the

transaction in the UAE and it compares to an average 8.96% globally as of Sep 2012, as per World Bank data.

- According to MEED Insight, the **GCC** will invest USD 132bn in **power projects** over the next 6 years bringing total capacity in the region to 170,000 MW. The cost of the new building requirements is estimated at USD 66bn and an amount equal to that will be invested in transmission and distribution infrastructure.
- A report on **GCC family firms** issued by the UN-supported agency Pearl Initiative and PwC found that such firms continued to be very private – about 76% of the family firms interviewed produced an annual report equivalent, but mostly for internal circulation and only about 12% publicly disclosing any financial information.

## UAE Focus

- Dubai's **DED** has announced that it is studying the case for **easing restrictions for foreign businesses** – they may be able to open local businesses with a GCC national and without the support of a local partner.
- **Unemployment** among the local population is at 14% and of the 900k Emiratis in the UAE, only 0.5% is employed in the private sector. These numbers were quoted by speakers at the second Emiratisation Summit.
- Passenger traffic at **Dubai's main airport** jumped 13.2% in 2012, overtaking Hong Kong as the third busiest for international traffic in the world.
- The **Abu Dhabi Tourism & Culture Authority** announced a record 13% yoy increase to 2.39mn in the number of hotel guests in 2012; hotel revenues were up 6% to AED 4.6bn.
- **DP World** recorded a 2.4% yoy growth in its global container volumes to 56.1mn TEUs in 2012. The UAE region itself recorded high levels of operation, with the number of containers handled at 13.3mn TEUs.
- The number of 'on-hold' **real estate projects** in Dubai fell from 291 to 253 over the last 9-months of last year

as 21 projects moved to completion, according to a government new bond prospectus. The number of cancelled projects was undisclosed.

- The **Dubai Shopping Festival** (DSF) attracted more than 50mn visitors who spent about AED 117bn till the end of Jan; this works out to a per capita spending of Dh2,340 per visitor to the DSF, according to an official spokesperson.
- **Dubai's ENOC** is seeking new suppliers of condensates to replace Iran imports in a bid to avoid financial penalties in relation to US sanctions on trade with the country.

**MENA Economic Associates**  

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