

Weekly Economic Commentary – February 10, 2013

Markets

The recent **global market rally eased** last week; European stocks opened on a negative note amid rising political tensions in Spain and Italy, and US stocks were mostly flat, hovering at a 5-year high, while China's gauge edged lower halting eight days of gains after PBoC signaled inflation concerns could be in sight. **Regional** markets recorded another good week with the exception of Saudi, which slipped to a two-week low. The **euro** neared a one-week low amid political turmoil in Italy threatening recovery and Draghi's cautious outlook; the **pound** gained after BoE signaled an end to economic stimulus. **Oil** prices rose near a 4-month high after dipping on Monday while Brent touched a 9-month high and **gold** prices settled lower compared to a week ago.

Global Developments

Americas:

- US **factory orders** rose 1.8% mom in Dec after dipping 0.3% in Nov, but non-defense capital goods orders, a proxy for business investment, fell 0.3% mom following a strong 3.3% gain in Nov and 3% in Oct.
- The ISM **non-manufacturing PMI** slipped to 55.2 in Jan following a downwardly revised 55.7 in Dec. The production sub-index fell to 56.4 from 60.8 while new orders fell to 54.4 from 56.6.
- US **trade deficit** narrowed to near a three-year low of USD 38.5bn in Dec, as oil imports fell to the lowest level since 1997. Trade gap with China however rose to USD 315bn for the full year (2011: USD 295.4bn) – the largest with any country.

- **Initial jobless claims** fell by 5k to 366k last week, with the four-week moving average at 350,500 – the lowest since March 2008 – as a result of the plunge to 330k two weeks ago.

Europe:

- Markit's **Eurozone Composite PMI** rose for the third month in Jan to 48.6 from 47.2 in Dec. Germany's gauge rose at the fastest pace in more than a year but the contraction worsened in France and Italy. The region's **Services PMI** rose to 48.6 from 47.8; contraction in France and Italy worsened while slowing in Spain. Growth in Germany was the fastest in more than a year.
- **German factory orders** rose 0.8% mom sa. in Dec after dipping 1.8% in Nov, reflecting a 7% surge in orders from the Eurozone (Nov: -0.3%). Orders outside the currency bloc fell at a slower pace of 0.4% (Nov: -6.3%) while domestic orders slumped 1.2% (Nov: 1.5%).
- **Italy consumer prices** rose 0.2% mom in Jan bringing the annual rate at 2.2% (Dec: 2.3% yoy), the slowest pace in a two years. Core inflation accelerated to 1.7% yoy from 1.6% yoy in Dec.
- Sentix **Eurozone Investor Confidence** Index improved for the sixth month to -3.9 in Feb from -7 in Jan with a large gain seen in the economic expectations sub-index.

Asia and Pacific:

- **Chinese exports** rose 25% yoy in Jan (Dec: 14.1% yoy) and imports grew 28.8% (Dec: 6% yoy). **New Yuan loans** rose to a 3-year high in at 1.07 trillion and **M2 money supply** growth accelerated to 15.9% yoy (Dec: 13.8% yoy). **Inflation** eased to 2% yoy in Jan from 2.5% yoy in Dec.
- **Japan core machinery orders** – excluding volatile components – rose more than expected by 2.8% mom in Dec following a 3.9% gain in Nov and 2.6% in Oct. Manufacturing orders rose 3% mom while non-manufacturing

orders fell 8%.

- The IMF advised that **India** maintain current **policy rates** to avoid accelerating inflation and highlighted a weaker economy amid high fiscal deficit and elevated inflation which constrain policy space. The Indian government meanwhile lowered the growth forecast to a 10-year low of 5.0%
- **Singapore manufacturing PMI** rose for the first month in 7 in Jan to 50.2 from 48.6. A separate **Electronics PMI** also improved to 49.9 from 46.6; both the new orders and new export orders sub-indexes rebounded in Jan.

Bottom line: Political tensions in southern Europe aside, data this week signaled the possibility of a Eurozone recovery supported by Germany amid widening economic divergence. After ECB policy makers maintained record-low interest rates, ECB president Draghi spoke of the possible threat a rising euro could pose to the region's recovery and alluded to further easing amid below-target inflation. Meanwhile, China released a slew of data signaling a modest recovery.

Regional Developments

- **Saudi Arabia's** non-oil activity, as recorded by SAAB-HSBC PMI, edged down in Jan to 58.1 compared to Dec's 58.9. There was an increase in new orders and new businesses from abroad increased as well, though at the slowest pace in five months.
- Foreign assets in **Saudi Arabia** surged by SAR 428bn to a record high of SAR 2485bn in 2012 on higher oil receipts. Oil prices averaged above USD110 last year and oil production in KSA was also high at 9.8mn bpd.
- According to the UN International Labor Organization (ILO), **unemployment** in the **Arab region**, at 23.2%, is the highest globally, compared to a world average of 13.9%.
- Ernst & Young's latest data on **M&A** showed a marked improvement in regional activity as MENA deals grew by 42% to USD 44.8bn in 2012. Telecoms, oil and gas and

finance were the leading sectors though deal volumes fell by 4% to 398. UAE topped the region in value of acquisitions (USD 13.5bn), followed by Qatar (USD 11.2bn) and Kuwait (USD 3.9bn).

- **Kuwait**'s trade surplus rose to KWD 6.6bn in Q3 2012 on strong oil exports (up 13% yoy to KWD 7.8bn) alongside weaker imports. Non-oil exports were up 13% yoy on higher export receipts from ethylene products.
- **Qatar**'s government budget recorded a surplus of QAR 94.6bn in the period July-Sep 2012 and compared to the QAR 18.5bn deficit recorded in Apr-Jun period. According to the Central Bank, the latest surplus is about 53.9% of GDP recorded during the same period.
- **Jordan**'s Finance Minister announced that the country had received an additional grant from Saudi Arabia – of USD 200mn – which would be used towards supporting the budget needs.
- **Oman** Society of Contractors, the association of construction firms in the Sultanate, has urged the **government to reimburse** additional cost arising from a recent mandatory rise in the **minimum wage of Omani workers** with effect from July.

UAE Focus

- The **Emirates Banks Association**, the UAE's main banking industry group, has asked the **Central Bank** to ease restrictions on **mortgage lending** issued in a recent circular, proposing a 75% loan-to-value cap on borrowing for expats and 80% for nationals.
- **UAE banks** may, this year, **repay capital** deposited by the Ministry of Finance during the financial crisis to reduce debt service costs by refinancing amid a low interest rate environment. The cost of this capital, which was converted to 7-year bonds in 2009, is substantially higher than the yield on senior bank debt.
- According to a UAE government official, several

government related entities plan to **issue debt** in February to benefit from abundant liquidity in credit markets, but no further information was provided. Last year Dubai's Electricity and Water Authority disclosed plans to issue USD 1bn in Islamic bonds to refinance debt and for new investment.

- HSBC's **PMI** for UAE dipped to 55.0 in Jan compared to 55.6 a month ago; but the strength in quantity of purchases and exports orders, the latter which rose to 58.2 – the highest in the 19-month history – is a definite positive sign for future growth.
- The FCA announced a 12% yoy growth in **UAE's non-oil trade** to AED 678bn during the period Jan-Aug 2012. Exports were up 49% to AED 112.8bn while imports grew 11% to AED 431.7bn. Re-exports however dipped by 7% to AED 133.5bn. Asia, Australia and the Pacific region accounted for about 43% of total trade, followed by Europe at 28% of the total.
- A detailed breakdown of **UAE's non-oil exports** for the first seven months of last year shows that gold exports account for about 55.75% of the total value (AED 94.7bn). The next most valuable good was polymers at AED 4.3bn compared to gold at AED 52.7bn.
- **Dubai's cost of living** rank fell two notches to 94th place among 131 metropolitan cities surveyed in the EIU's 2013 Cost of Living Index. **Abu Dhabi** moved up 8 places to 83rd place as rental prices firmed up and lower petrol subsidies drove up prices, the report said.
- **Dubai World Central** recorded a 144% increase in cargo handled through its premises in 2012 while aircraft movements almost doubled during the same period.
- The UAE Central Bank revealed a decline of 15.3% in value of **cheque defaults** (to AED 46.8bn) last year with a total of 14.1mn cheques failing (down 8.5% compared to a year ago).
- UAE's **"Going East" policy** is getting stronger: not only is the region a large trade partner, but companies like

Etihad Airlines & Emirates NBD are also strengthening ties to the region. While Etihad reported more flights to new destinations in China, Emirates NBD announced the launch of Yuan accounts for private individuals.

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