

Weekly Economic Commentary – February 17, 2013

Markets

US **stocks** recorded a 7th week of gains while European markets were mostly flat this week, shrugging off a sharper than expected eurozone contraction and halting a 2-week slide. Asian shares dipped for the first week in three. Regionally, most markets were up and UAE's DFM reached a 38-month high last week helped by a push from overseas investors. The **euro** dipped and the **pound** hit a 7-month low on weaker data. Both **oil** and **gold** prices fell last week, with the latter also recording the biggest weekly drop since last May.

Global Developments

Americas:

- The US surprised by recording the first **budget surplus** in 5 years in Jan at USD 2.88bn (Dec: USD 260mn) as compared to a deficit of USD 27.4bn in Jan '11. Revenues rose 16.1% yoy while spending rose 2.9% yoy.
- US **retail sales** rose a modest 0.1% mom in Jan after a 0.5% rise in Dec suggesting a slowdown in consumer spending. Core sales also rose 0.1% following a 0.7% gain in Dec.
- US **business inventories** edged up 0.1% in Dec, at a slower pace than expected, after rising 0.2% in Nov, suggesting subdued consumers spending as tax increases take effect.
- **Industrial production** in US slipped 0.1% mom in Jan, halting two months of solid gains (Dec: 0.4%, Nov: 1.4%), dragged by a 3.2% drop in auto and auto parts production.
- US **Initial unemployment claims** fell by 27K last week to

341K (Prev. week: 368K). The four-week moving average rose to 352.5K, up 1.5K from the previous week.

Europe:

- The **Eurozone economy** contracted more than expected in Q4, shrinking by 0.6% qoq (Q3: -0.1%); its third consecutive quarterly decline. The recession worsened in **Italy** (Q4: -0.9%, Q3: -0.2%) and **Spain** (Q4: -0.7%, Q3: -0.3%), infecting the bloc's core economies as **German** GDP shrank 0.6% (Q3: +0.2%) and **France's** output dipped 0.3% (Q3: +0.1%).
- **Eurozone industrial production** rose 0.7% mom in Dec, recovering from a 0.7% dip in Nov, but production slumped at the sharpest pace in 3 years in Q4 by 2.4% qoq following a 0.2% rise in Q2.
- The **Eurozone external trade surplus** shrank to EUR 11.7bn in Dec as against a surplus of EUR 8bn in Nov; seasonally adjusted exports fell 1.8% mom and imports dipped 3% mom in Dec. Over 2012, the region recorded a trade surplus of EUR 81.8bn (2011: EUR 15.7bn deficit); exports rose 7% yoy and imports gained 2% yoy.

Asia and Pacific:

- **Japan GDP** shrank for the third consecutive quarter, dipping an annualized 0.4% qoq in Q4 (Q3: 3.8%, downwardly revised). Exports fell 14% qoq ann, imports dipped 9% qoq ann and private capital outlays contracted for the fourth consecutive quarter slipping 9.9% qoq ann. **Industrial production** rose 2.4% in Dec (Nov: -1.4%).
- **India's industrial production** fell 0.6% yoy in Dec after shrinking 0.8% yoy in Nov, dragged by a contraction in manufacturing output.
- **Singapore retail sales** dropped by 1.5% yoy in Dec, with telecommunication and computer items recording the largest fall of 12.1%. In sa terms, retail sales were

down 0.9% mom while excluding motor vehicles, sales fell 0.8% mom.

Bottom line: As a few Asian nations welcomed the New Year, the G20 Summit gained much focus from the media: though the promises of no currency wars (“refrain from competitive devaluation”), crackdown on tax avoidance by MNCs and “commitment to a credible medium-term fiscal strategy” did not outline any corresponding specific goals or targets.

Regional Developments

- **Bahrain's economy** grew 4.4%yoy in the first 9 months of 2012, according to Bahrain's Economic Development Board. Full year GDP growth is expected at 3.9% yoy and forecast at 6% yoy for 2013.
- **Bahrain** has the highest **public debt burden** among its GCC peers at 34% of GDP followed by Qatar at 29% of GDP, according to Standard & Poor's. Other GCC countries carry a minimal debt burden not exceeding 10% of GDP.
- **Egypt's** PM announced that a revised economic plan had been drawn up in a bid to return to negotiations with the IMF for the USD 4.8bn loan. Meanwhile, **Moody's** cut Egypt's rating citing weakening external payments position as well as its ability to secure the IMF loan.
- The rationing of fuel subsidies in **Egypt**, expected to start in April, has been delayed a further three months, as per the country's Oil Minister. Energy subsidies in H1 of 2012-13 cost around EGP 55bn while the full year amount is expected at EGP 120bn, up 5% from a year ago.
- The 91,000 Small and Medium sized Enterprises (**SME's**) operating in **Oman** contribute around 13.8% to the country's GDP, according to a government official.
- **Oman's** Ministry of Transport and Communicated floated a **tender** for the preliminary design of the OMR 6bn **national railway project**. Last month, the government agreed to a diesel-based mode of locomotion, abandoning an earlier decision to operate on electricity.

- In light of the development projects in **Qatar**, two state-led initiatives for investment – Infrastructure Investment Company and Doha Global Investment Company – were announced last week. While no details were provided, it is expected that both these would be listed on the Qatar Exchange, with at least 30% open for subscription through IPOs.
- **Inflation** in **Qatar** increased by 0.7% mom and 3.4% yoy in Jan, driven up mainly by the rise in cost of education training services. Prices picked up across the board except in the garment and footwear segment, where prices dropped by 0.9% yoy.
- SAMA data for 2012 shows that overall assets of **Saudi Arabian** domiciled funds reached SAR 88bn, up 7.15% yoy. Domestic assets accounted for 79.3% of the total and grew by 8.2% while foreign assets grew by 3.36%.
- The **Saudi private sector** offers the lowest **salaries** in the GCC and EU countries at an average of SAR 6,400, a study by the World Bank and Saudi Ministry of Planning showed. The GCC national average salary stands at SAR 15,200.
- **Saudi consumer inflation** accelerated in Jan to 4.2% yoy as against 3.9% yoy the previous month driven by higher food prices. Core inflation also accelerated to 2.2% yoy from 2.1% yoy in Dec.
- S&P's latest report concludes that **GCC sovereign ratings** continue to be constrained by limited monetary policy flexibility and underdeveloped political and institutional frameworks.

UAE Focus

- According to UAE's PM & Dubai's ruler Sheikh Mohammed bin Rashid Al Maktoum, around AED 30bn (USD 8.2 bn) of **funds flowed** into the **UAE** over the past two years from countries such as Egypt, Tunisia, Syria and Yemen seeking refuge from political unrest following the Arab

Spring.

- UAE's Minister of Economy has stated that **4 new laws** would be issued in 2013 – companies' law, the foreign investment law, consumer protection law, and Small and Medium Enterprises (SME)'s law – in a bid to boost the economy via the development of new businesses.
- Reuters reported that the “up to 100% foreign ownership outside the Free Zones” clause, inserted within the draft **UAE Company Law**, was rejected by the Federal National Council. However, a version of this clause has since then been moved to the draft Foreign Investment Law, which will be submitted to the FNC by June, to be debated after the summer break.
- The **Investment Corporation of Dubai** is in talks with banks for the USD 2bn repayment scheduled for Aug. Banking sources expect refinancing to be the top option given that the market is available; meanwhile, ICD's CEO had mentioned in May that it would pay off the loan.
- The **UAE's trade with Japan** rose 6%yoy in 2012 to AED 195bn from AED 184bn last a year earlier. UAE exports to Japan grew 3% to AED 161.9bn and imports from Japan surged 21% to AED 32.9bn.
- **Japan** signed a deal to provide USD 3.0bn loan to Adnoc in return for guarantees of oil supply; the loan would be provided by Japan Bank for International Cooperation (similar to previous loans in 2007 and 2010) but no amount was specified regarding the volume of oil. Ten additional agreements were also signed in diverse fields relating to education, health care, research, human resources and industry.
- **UAE** has become the largest regional trade partner for **Singapore**, overtaking Saudi Arabia, according to the new Ambassador to the UAE. With imports and exports rising by almost 25% yoy, total bilateral trade touched USD 25.5bn in 2012 compared to USD 20.3bn a year ago.
- **Dubai Land Department's** data show that Arabs accounted for only about 9% of the total property investment of

AED 58.6bn made in 2012. Among the Arabs, Lebanese were the most active – purchasing AED 984mn worth – while UAE nationals were the top investors and Indians topping the list of expat investors.

- Two more **Salik gates** are to open in Dubai from Apr 15 – while these would bring in additional revenue to the government coffers, it is also expected to ease congestion on one of the busiest Al Ittihad road. It is estimated that about 9% of total vehicle traffic uses this road.

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