

Weekly Economic Commentary – February 24, 2013

Markets

Markets were edgy with a sharp decline following the news that the Federal Reserve is contemplating an end to its ultra-easy monetary stance. The CBOE volatility index or **VIX** – a measure of the market's expectation of stock market volatility – was up and trading at its highest level this year. **Regionally**, most markets – barring Qatar and Saudi – edged up; Abu Dhabi's index posted its 8th consecutive week of gains and Dubai's gauge rose but ended flat on Thursday. On the currency front, the British **pound** hit a 2-year low against the dollar and euro while slower-than-expected ECB loan repayment led to a six-week **euro** low. Both **gold** and **oil** witnessed big sell-offs on Thursday – the WTI prices falling to a one-month low – owing to Fed uncertainty, but rebounded on Friday.

Global Developments

Americas:

- **US housing starts** fell more than expected in Jan, dipping 8.5% mom to a seasonally adjusted annual rate of 890,000 after rising sharply in Dec. The NAHB survey showed **builder confidence** dropped one point to 46 in Feb.
- Sales of **existing homes** were stable in Jan. at 4.92 million annualized units, sales are up a scant 0.4% from Dec. The median existing-home price is up by 12.3% yoy. Overall a continuation of the positive trend, with supply tight, and prices perky.
- CPI **inflation** was flat mom in Jan. thanks to lower energy prices which fell sharply. Core CPI advanced a strong 0.3%.

- **Initial claims** for unemployment rose 20,000 to 362,000. The four-week moving average also rose to 360,750, up 8,000 over the week. Continuing claims rose 11,000 to 3.15 million.

Europe:

- **German** GDP contracted 0.6% in Q4 2012 after a 0.2% increase in Q3. The European situation remains utterly negative with contagion now hitting the core.
- The German **Ifo** business climate index rose for a third consecutive time to 107.4 in February from 104.3 in the previous month.
- Markit's **Eurozone composite PMI** fell to 47.3 in Feb from 48.6 last month. The **Services** sector PMI also contracted to 47.3 from 48.6 while the **manufacturing** gauge remained largely unchanged at 47.8 from 47.9. **Germany's** composite PMI slipped to 52.7 from 54.4; the manufacturing sector expanded for the first time in a year, moving to 50.1 from 49.8. In **France**, Manufacturing activity rose to 43.6 from 42.9, while the services sector contracted to 42.7 from 43.6.
- **Italy Industrial orders** dipped sharply in Dec by 1.8% sa (Nov: -0.5%); foreign orders declined 2.5% mom while domestic orders fell 1.3% mom.
- ZEW's **Eurozone economic sentiment** index rose more than expected in Feb, climbing 11.2 points to 42.4. **Germany's** index also improved, rising 16.7 points to 48.2.
- **Consumer inflation** in **Germany** decelerated to 1.7% yoy in Jan from 2.1% yoy in Dec. On a sequential basis, CPI fell 0.5% mom in Jan after rising 0.9% mom in Dec. **France CPI** declined in Jan to 1.2% yoy from 1.3% yoy in Dec. On a monthly basis, consumer prices fell 0.5% mom after rising 0.3% mom Dec.
- **Moody's downgrade of UK** to Aa1 – a step below its prior triple A rating – sent the pound to a two-year low. Sluggish economic growth and “challenges that subdued

medium-term growth prospects pose to the government's fiscal consolidation programme" were cited as reasons for the downgrade.

Asia and Pacific:

- The Conference Board's **China leading economic indicator** index rose 1% in Jan to 253.4 points after gaining 0.4% in Dec. Consumer expectations and estimated real estate activity increased the most.
- **India** has issued rules for private sector companies, public sector groups and non-bank finance firms to apply for **new bank licenses**; this move will not only increase competition but also inject fresh capital into the banking sector. One of the conditions laid down is that these new banks should open at least 25% of branches in unbanked rural areas.
- **Thailand GDP** grew at 3.6% qoq in Q4 (Q3: 3.0%); on a full year basis, GDP rose 6.4% yoy in 2012, boosted by stronger consumption and investment. **Malaysia's economy** grew faster than expected in Q4 at 6.4% qoqann from 5.2% in Q3, with all sectors registering positive growth. Full year growth was recorded at 5.6% yoy.

Bottom line: Economic data was largely unsurprising this week; the US housing indicators remain at a 5-year high despite temporary loss of momentum, the euro area is still ailing from low domestic demand and Asia (ex-Japan) is broadly recovering. On the policy front, minutes of the Fed's latest meeting indicate that QE may be phased out earlier than expected and before employment begins to improve. Meanwhile, it appears the BoJ is leaning towards more monetary easing, buying long-term Japanese bonds as part of its asset purchase program, but policy board members warned of a consequent deterioration of an already dire fiscal situation.

Regional Developments

- **Egypt** electoral law was passed last Thurs after amendments from the Constitutional Court, paving way for Lower House elections. Following criticism from the nation's Coptic Christian minority, election dates were moved to Apr 22 from the previously announced Apr 27 date.
- The **IMF** would be approached "within days" to discuss the loan, as per **Egypt**'s minister of planning and international cooperation and he remained "optimistic" about securing the USD 4.8bn loan. He also stated that the country had attracted EGP 112bn in **investments** so far this fiscal year, compared to EGP 250bn required for the full year, though foreign investment was almost nill in the 6 months to Dec.
- Economic growth was 2.4% in the second half of 2012, largely driven by consumer spending, according to an **Egyptian** cabinet statement.
- The Central Bank of **Jordan** has secured a USD 70mn loan from the International Bank for Reconstruction and Development to finance micro and SMEs through local banks. The funding will run through 15 years at an interest rate of 2.5% for the first year.
- **Lebanon**'s total customs revenues declined by 0.66% to USD 3.01bn in 2012. A breakdown shows that customs fees revenues grew 3.25% to USD 1.56bn while VAT receipts fell 3.95% to USD 1.45bn reflecting stagnating consumption and sales.
- **Oman**'s Dec monetary report showed a 12.7% yoy rise in total deposits to OMR 14.17bn, with public and private sector deposits up 17.3% and 12.3% respectively while public enterprises recorded a 1.1% dip in deposits to OMR 969.2mn. Broad money growth was 10.7%.
- **Bank Muscat**'s board has given the green signal for an equity investment of OMR 75mn from the **IFC**. According to the bank, "this will represent around 5.28 per cent of the share capital of the bank post the private placement"

- **Oman** ranks first as a **preferred investment destination** for Sukuk, According to a Thomson Reuters 'Sukuk Perceptions and Forecast' survey of both Sharia compliant investors and capital arrangers.
- Higher oil prices and rising domestic demand led to a 13.1% rise in **Oman's nominal GDP** during the first nine months of 2012. The oil and gas and services sectors were the largest contributors to the economy – growing 11.2% and 16.3% respectively.
- MEED Insight labels **Qatar** as the third largest projects market in the region following Saudi Arabia & UAE – with USD 14bn worth projects announced in 2012. One of the key differences is that transportation accounts for its major share of the projects vis-a-vis construction in others.
- **Qatar's** Minister of Energy and Industry stated, during his speech at the Meed Qatar Projects 2013 conference, that total petrochemical production would reach 23 tonnes per year by 2020.
- A FTSE global survey, undertaken along with QFCA, showed that Saudi Arabia, UAE and Qatar were the most **preferred investment destinations**. Another finding from the 90 institutional investors surveyed across 12 MENA countries was that investor sentiment is increasingly factoring in heightened risk.
- **Qatar**, in its attempt to attract higher foreign capital investment, has announced it is exempting non-Qatari investors from paying taxes on their share of profits in the joint stock companies listed on the Qatar Exchange.
- **Qatar** has provided Syria with USD 100mn in humanitarian aid – this is part of the first tranche of at least USD 900mn pledged by Gulf States.
- As the region pushes forward with reforms to attract more businesses, **Qatar** moves one step closer: the final draft of its revised Company Law has been submitted to Minister of Business and Trade.
- **Saudi banking sector assets** rose 12.3% yoy, or SAR

180bn, over 2012 to reach SAR 1,734bn by year-end. Assets growth last year was the largest since 2008.

- **Saudi Arabia** has issued a renewable energy roadmap – aims to install 23.9 gigawatts of renewable power capacity by 2020 and 54.1 GW by 2032 – which would make the country a leading producer of renewable electricity.

UAE Focus

- The Federal National Council has discussed and reviewed 377 articles of the new **UAE Company Law** and will meet next on March 6 to discuss further a few clauses. Once ratified, the law would be enacted three months after it is published in the official gazette.
- The Deputy Ruler of **Dubai** has ruled out any privatisation of the **water and electricity sector**, also stating that there will be no private involvement in any of DEWA's projects.
- **Bloomberg's Gas Price ranking**, that rates average retail prices in 60 countries, found that **UAE** had the fifth cheapest petrol prices at USD 1.77 per gallon. Venezuela was the cheapest (USD 0.06 per gallon) followed by Saudi Arabia (\$0.45), Kuwait (\$0.81) and Egypt (\$1.14). In comparison, Turkey was charging \$9.89 per gallon.
- As work is expected to start on 3 **Nakheel** projects currently in the design stage -the doubling of Ibn Battuta Mall, the Nakheel Mall, and The Pointe – comes news that the developer is in talks to extend an AED8bn loan due in 2015. However, Nakheel's chairman remained confident and dismissed any concerns regarding inability to honour the debt.
- **Dubai's public buses**, which cover over 88 routes and 10 intercity routes, serviced about 108 mn passengers in 2012, according to the RTA. Among these, passengers travelling the Dubai-Sharjah route were about 6.99mn.

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