

Weekly Economic Commentary – March 10, 2013

Markets

Global **equities** continued an uptrend, supported by financials and stronger than expected US employment data, Chinese export growth and Japanese GDP. The S&P 500 rose the most in 2 months last week and traded near a record high, while Asian stocks posted their third week of gains. Tracking global counterparts, most **regional** markets rose last week with the exception of the UAE markets. **Dollar** strength, **euro** weakness and **yen**'s slump to the lowest level against the dollar in more than three years were highlights on the currency front. **Gold** was slightly up last week, ending consecutive weeks of declines, and **oil** prices were supported by easing supply concerns and stronger demand prospects following positive data from China and the US.

Global Developments

Americas:

- The US **Fed's beige book** reported the economy continues to expand at a moderate pace; consumer spending and manufacturing strengthened while bank lending remained flat on low demand.
- The **ISM non-manufacturing index** unexpectedly rose to 56 in Feb from 55.2 in Jan. New orders increased the most by 3.8 points to 58.2 while employment slipped 0.3 point to 57.2.
- US **non-farm payrolls** grew by 236k in Feb, beating expectations; the **unemployment** rate edged lower to 7.7% (Jan: 7.9%). ADP employment survey showed jobs rose 198k in Feb following an upwardly revised 215k in Jan.
- US **factory orders** fell by a less than expected 2% mom in

Jan after rising 1.8% mom in Dec. Transportation goods orders plummeted 19.8% while orders for nondefense capital goods excluding aircrafts – a proxy for business investment – rose 7.2% in Jan.

- **Initial jobless claims** unexpectedly fell by 7k to a sa 340k. The four-week moving average also dropped to a 5-year low of 348,750.
- US **wholesale inventories** rose 1.2% mom in Jan, the fastest pace in a year, following a 0.1% mom rise in Dec.
- **Mexico** cut interest rates by 50 bps to a record low of 4.0% – the first time interest rates were changed since mid-2009 – though the central bank stated that this move did not indicate the beginning of an easing cycle.

Europe:

- **Euro area GDP** declined 0.6% qoq in Q4 (second estimate), after shrinking 0.1% qoq in Q3. On an annual basis, Q4 GDP shrank 0.9% yoy and 0.6% over 2012. Weak household consumption (-0.4% qoq) and gross fixed capital formation (-1.1% qoq) were the main drag on growth.
- **Markit's Eurozone composite PMI** fell to 47.9 in Feb from 48.6 in Jan, signalling a worsening downtrend. The **services PMI** also dipped to 47.9 in Feb from 48.6; new orders fell at a faster pace while the downtrend in hiring eased. Data showed increasing country divergence; Germany indicators point to the strongest quarterly growth since 2011 while France looks to be contracting the most in 4 years.
- **Germany factory orders** rose a 0.8% mom sa in Dec after dipping 1.8% in Nov. **Industrial production** was flat in Jan after +0.6% mom in Dec.
- **Fitch downgraded Italy** to BBB+, from A-, citing inconclusive elections results and a deeper recession, also giving Italy's debt a "negative" outlook.

Asia and Pacific:

- **Japan GDP** rose 0.2% qoqann in Q4, from a previous estimate of a 0.4% drop. Corporate capital expenditures fell less than previously estimated.
- **China** extended its program allowing institutions to raise Yuan offshore for investment in China to financial institutions registered in Hong Kong and the Hong Kong units of Chinese banks and insurers. The China Securities Regulatory Commission also expanded the range of products beyond exchange-traded stock funds and bonds.
- **China** surprised with a USD 15.2bn **trade surplus** in Feb as exports rose 21.8% yoy (Jan: 25% yoy) and Imports fell 15.2% yoy. Exports to the US increased 15.7% yoy and exports to the EU were up 16.5% yoy.
- **Inflation** in **China** rose 1.1% mom in Feb and 3.2% yoy, hitting a 10-month high.
- **Singapore's manufacturing PMI** fell to 49.4 in Feb from 50.2 in Jan, falling into contractionary territory for the first time in 8 months. New orders and new export orders declined.

Bottom line: Bullishness picked up on equity markets on strong macro data ignoring political risks. The ebullience is also the result of excess liquidity which is flooding financial markets and is inflating an asset bubble, a movie that we have seen too many times since 2000, without a happy ending. China, which has been freeing up its Renminbi market, warned against competitive devaluations by the richer nations. The country is embroiled in a difficult transition with its manufacturing struggling and inflation in non-traded goods still flaming. Along the sidelines, there were two very eye-catching headlines on the oil market: a recent OECD working paper estimates that oil price will touch USD 190 by 2020; this, in comparison, is way higher than even IEA's estimates of USD 120; also, BP reserves replacement ratio was "abnormally low" at 77%.

Regional Developments

- **Bahrain's** central bank governor was quoted saying that key local lenders would be required to "take more steps to ensure their soundness", without divulging the names of the banks or the steps. He also revealed that there was at least one bank merger in the offing.
- The US has promised to provide the initial aid package of USD 190mn of the pledged USD 450mn in budget support funds to **Egypt**, after recognising the latter's "extreme needs". This announcement followed a meeting between Egypt's President & the US Secretary of State.
- **Egypt** Central Bank **foreign currency reserves** shrank USD 100mn to USD 13.5bn in Feb, a significantly smaller decline than the USD 1.4bn witnessed in Jan, but reserves remain below the central bank's critical minimum level of USD 15bn.
- Japan has announced USD 7.5mn towards supporting Syrian refugees in **Iraq**; this amount will be divided as USD 4.0mn to UNHCR for lodging, educational and health services while USD 1.5mn would be allocated to UNICEF programmes and USD 2mn towards IOM.
- IMF praised **Jordan's** sound macroeconomic policies and applauded its resilience, while forecasting growth at 4.5% and reduction of budget deficit to 3% of GDP by 2015.
- The estimated cost of subsidising wheat and barley in **Jordan** this year, at current international prices, is around JOD 290mn, according to the Minister of Industry and Trade.
- **Kuwait's** Ministry of Finance is planning to implement measures towards taxing income and remittances of foreigners residing in the country. The amount of remittance will also be curtailed to within the monthly salary mentioned in respective files at the Ministry of Social Affairs and Labour.
- **Lebanon** has submitted its 2013 revised budget after

reducing expenditure by LBP 2.0 trillion to LBP 21.23 trillion. A maximum budget deficit ceiling of nearly LBP 5.25 trillion has been estimated for 2013.

- Retail sales value in **Lebanon** fell by 12% in 2012, due to spillovers from Syria and internal political instability, according to the Beirut Traders Association-Fransabank Retail Index. Meanwhile, overall retail trade activity witnessed growth of 2.88% in 2012.
- The Central Bank of **Oman**'s monthly bulletin showed a 12.3% rise in private deposits to OMR 9.016bn while the rate of foreign currency deposits to the total deposits was 13.8%.
- **Oman** recorded a **fiscal surplus** of OMR 3.2bn in 2012 and this compares to a deficit of OMR 113.2mn in 2011. Oil export revenues rose 34% as production rose to 918k bpd from 884k bpd in 2011. Actual public expenditure rose a marginal 0.2% yoy to 10.8bn.
- **Qatar**'s Ministry of Business and Trade reported that the share of Asian investments in the businesses in Qatar was 8.4%, higher than Arab nationals (excluding GCC) at 6.9%. GCC nationals represented 4.0% while European and US investments were 2.1% and 1.0% respectively.
- **Saudi Arabia**'s PMI increased to 58.5 in Feb (Jan: 58.1) as output and new orders remained strong alongside rise in employment.
- Though **Saudi Arabia** pumped more oil in Feb (9.15mn bpd) compared to Jan (9.05mn bpd), it reduced supply to 9.16mn bpd in Feb compared to Jan's 9.26mn bpd.
- Consumer loans in **Saudi Arabia** grew by 21% to SAR 292bn in 2012, as per SAMA. Loans for purchasing cars and equipment increased 16.2% to SAR 57.4bn, while credit for purchasing real estate rose to SAR 38bn, up 29.6%.
- **SAMA**'s governor announced that foreign financing companies would be able to operate in Saudi Arabia, in accordance with the provisions of the land mortgage law, to boost real estate financing. Currently, volume of land mortgage and financing market makes up about 2% of

KSA's real estate market.

- **Saudi Arabia** reported a 61% increase in expats hired in the public sector to 110,223 and in comparison the private sector hired about 1.18 million foreigners during the previous Hijri year, according to a Ministry of Labour report.

UAE Focus

- **Restructuring agreements: Dubai Group** has reached a settlement with a group of dissenting creditors, agreeing to pay 18.5% of outstanding loans worth USD 330mn owed to the group which includes Royal Bank of Scotland. In addition, Abu Dhabi's **Al Jaber Group** has reached an agreement with its main creditors on terms to restructure nearly USD 4.5bn in debt.
- **Board approvals:** Dubai Islamic Bank's EGM approved the 100% acquisition of **Tamweel** and more than 50% of shareholders approved the **merger of Aldar and Sorouh**.
- Lower housing prices led to a dip in **UAEinflation** – the reading was 0.43% for Jan down from 0.66% in Dec.
- The **Dubai Shopping Festival** (DSF) continued to be a crowd puller: International visitors spent over USD 589mn on their Visa cards during the DSF, about 19% higher compared to a year ago. Russia, Saudi Arabia and United Kingdom were the biggest spenders, raking up purchases close to USD 82mn (+34% yoy), USD 66mn (+26%) and USD 53mn (+14%) respectively. TRI Hospitality Consulting reported that during DSF, hotel occupancy was at 89.6% (+4.2ppts) and average room rate at USD 360 (+5%).
- In a bid to secure supply of raw materials, **Dubal** has bought a 20% stake in a calciner development project in China. Calcined petroleum coke, an end-product of the calcination process, is a strategic raw material for aluminium smelting and is a main driver of cost of production.
- **DP World** announced the sale of its stakes in two

container terminals and a logistics centre in Hong Kong for USD 742mn; this move comes as the company focuses its interest and redeploys its funds into fast-growing emerging markets.

- **Dubai**'s Department of Tourism and Commerce Marketing revealed that a record 10.16mn visitors were in Dubai in 2012, up 9.3% yoy, backed by an increase in number of hotels and rooms, driving up the average room rate to AED 588 (2011: AED 563) and guestnights rising by 14% to 37.4mn.

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