

Weekly Economic Commentary – March 17, 2013

Markets

US **equities** continued their uptrend in most trading sessions last week as better than expected US corporate earnings, retail sales and jobs data provided further evidence of a recovery but stock indexes trimmed gains on Friday after a poor consumer confidence report. In contrast Japan maintained an upbeat tone. Emerging markets dropped although most **regional** markets (except Egypt) gained; Dubai's rally lost steam. The **dollar** fell against a basket of currencies, **sterling** strengthened and the Japanese **yen** weakened further. Crude **oil** remained stable around 100 \$/b for the second week and gold rebounded on inflation concerns.

Global Developments

Americas:

- **US retail sales** jumped 1.1% in February, far surpassing expectations and suggesting consumers have not been adversely affected by tax hikes and high gasoline prices. Auto dealers also posted strong sales growth. Core sales rose 0.4%.
- **US wholesale inventories** increased 1% mom in Jan, the fastest pace in more than a year, after rising 0.3% in Dec. Sales fell 0.3% in Jan.
- **US industrial production** rose 0.7% in Feb following a flat reading in Jan. Consumer durable goods production rose the most (3.6%) while manufacturing rebounded 0.8% after falling a month earlier.
- **US CPI** rose 0.7% mom and 2% yoy in Feb (Jan: 1.6% yoy); gasoline prices accounted for most of the gain (9.1% mom). Core CPI, excluding food and energy, rose a modest

0.2% mom.

- **US Initial unemployment claims** fell for the third week, by 10K to 332K. The four-week moving average dipped to a five-year low at 347K.

Europe:

- **German CPI** inflation was flat mom in Feb. which translates into 1.8% yoy (vs 1.9% in Jan). France registered the lowest inflation among the largest Eurozone economies with 1.2% yoy, while Italy's was 2.0% (down from 2.4% in Jan).
- **Euro zone industrial production** fell 0.4% mom (-1.3% yoy) in Jan, following a revised -0.9% in Dec (-1.7% yoy). In France IP fell 1.2% mom sa, the largest drop in four months, following a 0.9% increase in Dec. The main cause was construction.
- Revisions show that **Italy's GDP** shrunk 0.9% qoq in Q4 or 2.8% yoy, after a 2.4% yoy contracting in Q3.
- **Germany's** trade surplus remained broadly stable at EUR 15.7bn in Jan from a EUR 16.8bn in Feb.
- **Cyprus** was the latest Eurozone country to request a bailout (€ 10bn) from the EU, but in exchange bank deposits were hit by a hefty expropriatory tax of 10% for deposits over €100k.

Asia and Pacific:

- **Japanese consumer confidence** rose in Feb for the second month in a row, hitting 44.3, still well below the neutral 50 level but a lot better than the sub-40 results recorded at end 2012.
- **Japan industrial production** rose more than initially estimated in Jan, expanding 0.3% mom after rising 2.4% in Dec.
- **Malaysia's** industrial production expanded 4.6% yoy in Jan from Dec's 3.5% yoy confirming an robust upward trend.

- **Taiwan** government raised 2013 GDP growth forecasts to 3.6% yoy as recent data point to a better outlook.
- Indian **industrial production** grew 2.4% yoy in Jan slightly above expectations but a notable rebound from recent disappointing data.
- Industrial production in the **Philippines** accelerated to 18.6% yoy in Jan, well above expectations and the best score since October 2012, underlining the strong performance of the economy among emerging markets.

Bottom line: Economic data did not yield major surprises. Markets maintain a bubbly mood, while the global economy remains rather subdued. The OECD composite leading indicator remained almost unchanged at 100.4 in Jan vs. 100.3 in December. Looking forward despite the resilience of the private sector, fiscal policy in the US will put a brake on growth this summer. In Europe Cyprus could be the detonator of the next round of the euro crisis: the terms of the bailout hit directly the voters' pockets and are likely to fuel a bank run in other Mediterranean countries. Greece and lenders are at loggerheads over sacking civil servants; hence the disbursement of a EUR 2.8bn aid tranche due this month is being delayed.

Regional Developments

- Moody's reported that assets of sovereign wealth funds in the **GCC** grew to USD 1.7 trillion by the end of 2012, supported by higher oil prices and this compares to the one trillion estimated in 2007 and aggregate central government debt of USD 2363bn in 2012.
- **Bahrain**'s central bank expects GDP growth close to 4% in 2013, about the same as last year.
- **Egypt**'s current account deficit narrowed to USD 3.0bn in July-Dec 2012 compared to USD 4.1bn during the same period a year ago, supported by an increase in remittances from Egyptians abroad. Trade deficit widened during the same period to USD 16.8bn from USD 15.6bn a

year ago.

- Currency controls, which were imposed after the pound fell sharply, were eased in **Egypt** – with the limit of hard currency foreigners could bring across its borders of USD 10k relaxed as long as this was declared when entering the country.
- Headline CPI inflation shot up 2.8% mom and 8.7% yoy in Feb 2013 in **Egypt**, up from Jan's 1.8% mom and 6.32% yoy. Core inflation reached 9.7% yoy.
- **Egypt** plans to raise sales taxes on cigarettes, soft drinks, steel bars, cement, mobile phone calls and alcoholic products to boost revenues by around EGP13bn (USD 2bn).
- The Costs of War project estimates that the US war in **Iraq** cost about USD 1.7 trillion in addition to the USD 490bn in benefits owed to war veterans. Because the Iraq war appropriations were funded by borrowing, cumulative interest through 2053 could amount to more than \$3.9 trillion
- The World Bank has announced it would extend a low-interest, long-term USD 70mn towards financing SMEs in **Jordan**. Another USD 100mn loan to support economic policies is in the pipeline, according to Jordanian and World Bank officials.
- Inflation surged to 7.2% by end-Feb in **Jordan** compared to 3.5% a year ago – prices of transport services were up 20.3%, while fuel and lighting and vegetable prices grew by 24.9% and 20.5% respectively.
- **Lebanon** recorded the first primary deficit since 2006 of LBP 166bn in 2012 compared to a surplus of LBP 2.505 trillion in the same period of 2011 – largely due to rise in salaries of civil servants and military personnel at the start of 2012 and a slowdown in tax/VAT receipts.
- A senior official from the Central Bank of **Oman** revealed that the country is contemplating tapping the debt market – with the issuance of about OMR 200mn in

conventional bonds and Sukuk – without announcing the actual timing, though it is expected by end of this year or start of 2014.

- **Oman**'s Foreign Capital Investment Law is currently being reviewed – this was announced in a conference which also revealed the setting up of two new additional industrial estates.
- Total **banking sector loans** rose 14.4% yoy to OMR 14.3bn in 2012, according the Central Bank of Oman monthly statistics bulletin. The average interest rate on loans fell to 5.8%.
- **Oman** Government **revenues** rose 17% yoy in Jan to OMR 1.05 bn. The rise was attributed to a 14% increase in net oil revenues and a 7.3% increase in gas revenues. The government's Jan expenditures surged 46.4% yoy to OMR 639mn.
- According to the Financial Times, **Qatar** is planning to invest GBP10bn in UK. Infrastructure and officials of the two countries have already held talks on potential projects.
- IIF reported **Qatar** as the richest nation in the world in 2012, with a per capita income of USD106k in PPP terms, ahead of Luxembourg (USD 80k), Singapore (USD 61k), and Norway (USD 54k). Qatar's 2012 GDP was estimated at USD 182bn and population was around 1.8mn.
- Inflation in Feb increased to 3.2% in **Qatar**, largely due to rising rents (+4.8%) and food prices (+2.6%). In mom terms, prices were up a minimal 0.1% only.
- **Saudi Arabia**'s consumer confidence increased in the latest edition of the MasterCard Index – rising to 95.2 from 90.9 six months ago. A breakdown by category shows that Regular Income (98.8 vs. 95.8) scored the highest, followed by Employment (97.6 vs. 96.7), Economy (97.3 vs. 96.0), Stock Market (93.5 vs. 83.6) and Quality of Life (88.9 vs. 82.4).

- **UAE**'s Minister of Economy estimates that the country will sustain a growth rate of 4% in 2013; IIF reported GDP at USD 360bn in 2012, and forecast it crossing the AED 1.5 trillion mark in 2014.
- The **UAE central bank** confirmed that the plan to set up a discount window was proceeding, although a time was not disclosed.
- **Sukuk** issuances: **Emirates** launched a USD 1bn amortising Sukuk last Tues (their second bond sale this year) while **Nakheel** issued a AED 120mn Sukuk, the fourth tranche in its restructuring plan.
- Latest data from **IEA** show that UAE's oil output for the month of Jan fell to 2.6mn bpd from 2.68mn bpd in Dec 2012. The IEA reported that "plans to expand capacity by 200k bpd were delayed from Q4 2012 and are now expected to be completed by the end of Q1 2013".
- With the Middle East's growing trade links with Asia (especially in the case of oil) comes the news that **Abu Dhabi** will invest in an oil storage facility in Malaysia. This will be built at a cost of USD 6.75bn and have a capacity of storing up to 60mn barrels of oil.
- The **MasterCard Index** revealed that consumer confidence was steadily rising – to 91.4 compared to 86.0 in the previous edition. Quality of life (95.6 vs. 88.6), Employment (95.2 vs. 88.9), Economy (94.6 vs. 89.1) and the stock market (86.9 vs. 77.0) were the more optimistic categories.
- Indian companies in **Jafza** have grown almost three times to 698 in 2012 from just around 236 in 2002, also generating close to AED 12.25bn in trade last year.