

Weekly Economic Commentary – March 24, 2013

Markets

Most **stock** markets felt the ripple effects of the banking system collapse in Cyprus, with the partial exception of Japan where hopes of another round of stimulus contained the damage. **Regional** markets rounded out the week with mixed performances ahead of earnings season. Most stock indices retreated, led by Dubai, while Kuwait's and Morocco's benchmarks gained. The **euro** lost ground against the majors, while **gold** price was lifted by the flight to safety triggered by the Cyprus crisis. **Oil** prices on the contrary headed south.

Global Developments

Americas:

- The US Congress approved a stop-gap resolution, locking in the USD 85bn across-the-board spending cuts known as the sequester through the Sept. 30 end of the fiscal year. The battle on the long term fiscal stance, however is not over and is poised to intensify soon.
- US **housing starts** rose 0.8% to an annual rate of 917k sa in Feb (Jan: 910k), and **building permits** surged 4.6%, the fastest pace since Jun 08. In contrasting, the NAHB survey showed **builder confidence** index dropping for the 3rd month in Mar, slipping 2 points to 44. The FHFA **House Price** Index continued to climb steadily, gaining 0.6% mom in Jan and a separate report showed **existing home sales** rose 0.8% mom in Feb to a three-year high. Overall, the housing market is gaining momentum.
- Markit's Flash US **manufacturing PMI** rose from 54.3 to 54.9 in Mar, signalling a faster manufacturing sector expansion.

- Initial **jobless claims**, increased by 2,000 to a seasonally adjusted 336k. The four-week moving average fell by 7,500 to 340k, a five year low.
- The US Fed asserted that the US economy has improved, but it didn't change **monetary policy**. The FOMC maintained its targets, policy rates, and monthly asset purchases. Among a few tweaks to its statement stands out that fiscal policy has become "somewhat" more restrictive.

Europe:

- The **Cypriot** Parliament rejected the rescue plan offered by the EU and the IMF, but passed a sweeping reform of the banking system and debated whether to impose a levy of 20 to 25% on large bank accounts. EU Finance Ministers are meeting today in Brussels to frame a deal.
- The **German Ifo business climate** index unexpectedly fell to 106.7 in Mar from 107.4 – the first drop in 5 months. Conversely, the **ZEW investor expectations** index unexpectedly rose in Mar to 48.5 from 48.2.
- **Industrial production** in **Italy** unexpectedly rose in Jan, up 0.8% mom after falling 0.2% mom in Dec.
- The ILO-harmonised **UK unemployment rate** was stable at 7.8% in the three months to Jan. The national measure held unchanged at 4.7% in Feb. Fitch has warned it could downgrade UK's triple A next month, while Chancellor Osborne announced the recovery will be slow and borrowing higher.
- **UK** inflation was 0.7% mom reaching 2.8% yoy in Feb, after 2.7% in Jan. Further increases are on the cards while the BoE forecasts to reach its 2% target only in 2015.
- Markit's **Eurozone flash manufacturing PMI** unexpectedly fell in Mar to 46.6 from 47.9. The region's **services PMI** and **composite PMI** also slipped to 46.5 from 47.9 a month earlier. In **Germany**, the services sector unexpectedly

slowed in Mar offsetting a contraction in manufacturing activity. In **France**, the services sector contraction worsened while manufacturing activity held steady in Mar.

Asia and Pacific:

- **China inbound FDI** rose for the first time in 9 months in Feb, gaining 6.3% yoy to USD 8.21bn.
- The Reserve Bank of **India** cut its policy **repo rate** by 25 bps for the second time this year and left the bank reserve ratio unchanged stating that “the headroom for further monetary easing remains quite limited.”
- **Japan** trade deficit narrowed to JPY 777.5bn in Jan from the record pace of JPY 1.63 trillion set the previous month, but is still in deficit for the eighth consecutive month. Exports fell by 2.9%, and exports to China plunged 15.8% – affected by the Chinese New Year holidays and continued political tensions between the two nations. Imports grew by 11.9% yoy and imports of natural gas stayed at near-record levels.

Bottom line: The data flow was rather scant but the outlook is now influenced by Cyprus and, to a lesser extent, the agreement reached in the US on fiscal measures to keep the government open until September. In the meantime a few private forecasters, e.g. the Economist Intelligence Unit, are lowering their forecasts for growth a move reminiscent of the same pattern we observed last year, when an upbeat mood gave way to a more realistic assessment.

Regional Developments

- The **Saudi-Bahrain pipeline** expansion- estimated to cost about USD 350mn and be completed by 2015 – will yield about 450k bpd compared to output of 260k bpd before expansion.
- The **Egyptian** parliament approved a law allowing the

issuance of **Islamic bonds**, providing a new form of finance for the government. It would take at least 3 months to create the necessary regulations, according to the Finance Minister.

- **Egypt**'s central bank raised overnight deposit rate and lending rate by 50 bps to 9.75% and 10.75% respectively while also lifting the discount rate by 75 bps to 10.25% in an attempt to rein in inflation. Urban inflation and food prices recorded highs of 8.2% and 9.3% in Feb.
- A senior official from **Egypt**'s central bank stated that it was expecting a USD 4bn loan from Iraq "to boost the country's reserves of foreign exchange" but other details like timing of the loan were not revealed.
- About JPY 300mn is expected in grants from Japan, following a MoU signed between **Jordan**'s Planning and International Cooperation Minister and Japanese chargé d'affaires. With the aim of eliminating environment pollution, the grant would be used to buy Japanese vehicles and equipment.
- **Kuwait** is planning to halve the number of foreign workers within 10 years by reducing 100,000 annually over the next ten years. This policy is expected to "regulate the labour market, curb the phenomenon of marginal labour and restore the demographic equilibrium".
- **Lebanon**'s Prime Minister resigned on Friday, following opposition towards the creation of a body to supervise parliamentary elections and deadlock relating to the election law. He later agreed to head a caretaker government until his replacement could be named.
- Aggregate loans in **Oman** reached OMR 14.3bn in 2012, rising 14.4% yoy, with personal loans accounting for nearly 40% of the aggregate loan portfolio. Private sector deposits at end-2012 was OMR9bn, about 12.3% higher compared to a year ago.
- Data from **Oman**'s Supreme Council for Planning revealed that the number of expatriates working in the private

sector increased 1.1% mom in Jan to 1.33 million, while 0.1% more Omanis accepted private sector jobs over the month for a total of 172,187.

- **Saudi Arabia's** Central Bank plans to establish a **real estate refinancing** company with a capital of SAR 5bn through its Public Investment Fund (PIF) in a bid to develop the Kingdom's mortgage market.
- **Saudi Arabia's** Kafala program, run by the Saudi Industrial Development Fund, approved about 670 guarantees to SMEs in 2012, valued at around SAR 4.8bn. Meanwhile, volume of funding offered by the program's participating banks grew 38% yoy to SAR 1.78bn in 2012.
- Fitch affirmed **Saudi Arabia's** Country Ceiling at AA and its long-term foreign and local currency Issuer Default Ratings at AA- while revising the outlook to Positive from Stable. The government's strong balance sheet, robust external position, liquid, well capitalized and well regulated banking sector – all these factors added to the confirmation of the rating.
- **Saudi Arabia's** oil minister stated that oil-trade would continue “to be settled in dollars” amidst news that some OPEC members favour the use of a basket of currencies. He also mentioned that KSA is going ahead with exploration of its “huge” reserves of shale and other unconventional gas, that amount to about 600 trillion cubic foot.
- IIF reported that monthly inflows from foreign governments amounting to around USD 500mn supported **Syria** during its turmoil months. An official stated that “there's a significant inflow of money coming in to arm the rebels from Qatar and Saudi Arabia, while the Syrian regime is getting money from Iran and probably Russia”.
- **Turkey** has initiated construction of a USD 6.7bn road and rail project that aims to connect its capital city to Bursa, its key industrial city and is expected to reduce travel time by two hours when completed in 2016.
- Islamic banking assets in the **GCC** rose to USD 445bn in

2012, up 14% yoy from USD 390bn the year before, according to Ernst & Young estimates. **Qatar** recorded the fastest growth (+23%) and the overall 14% rise compares to 8.1% growth in conventional banking assets.

UAE Focus

- Official data revealed that **UAE banking sector** added AED 129bn of assets over 2012, bringing the total to AED 1,791.6bn at year end. Loans increased 2.6% yoy in Dec to AED 1,099bn while deposits surged 9% yoy to AED 1,167bn.
- UAE **consumer inflation** rose to 0.73% yoy in Feb from 0.43% in Jan, driven by higher food and beverage prices.
- Emirates Airlines issued a USD 1bn **Sukuk** last week to finance upcoming aircraft deals – this also supports Dubai's drive to become the hub for Islamic economy. This issuance brings the nominal value of Sukuk listings on Dubai markets to USD 10.63bn, the third largest globally.
- The Investment Corporation of **Dubai** has launched the **syndication** of its new USD 2bn conventional and Islamic financing facilities and is likely to test corporate lending market appetite; this is to refinance the remaining one third of the original USD 6bn funding package signed in Aug 2008.
- Asset sales alongside growth in emerging markets led to a 21% rise in 2012 profits of **DP World** to USD 749mn. DP World is also investing more than AED 11bn for expansion – to lead to an increase in gross capacity to 102.6mn TEU in two years vis-a-vis 86.8mn TEU currently.
- **Assets under management** in the DIFC were USD 8.6bn as of end-Sep 2012, with USD 5.9bn in portfolios and the remainder in funds, according to the MENA asset management survey undertaken by NBAD. The survey also revealed that in H1 2012, UAE domiciled fund assets in the dataset rose by 19% from end-2011.

- **Masdar**'s latest solar powerplant known as Shams1 will boost Masdar's solar power generation capacity by ten-fold and is expected to generate clean energy to power 20,000 homes in the UAE. It was also reported that Masdar produces 10% of the world's concentrated solar power and 68% of the total renewable energy produced in the Gulf region.
- The UAE Ministry of Finance has increased its **Emiratisation** target to 95% within 5 years after the first undergraduate batch of the Ministry's sponsored programme enter the workforce this year. It is expected to raise Emiratisation within the Ministry to 70% by end of this year from 63% now.

MENA Economic Associates

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