

Weekly Economic Commentary – March 31, 2013

Markets

Global **equity** markets were mixed last week due to the Easter lull with US and Asian stocks gaining on better than expected US economic news while European markets were largely down in a rather subdued reaction to the political stalemate in Italy and banking system crisis in Cyprus. **Regional** markets were mostly subdued – Egypt's new tax spooked investors, but on the other hand NBAD's early repayment announcement was well-received. The **euro** remained near a 4-month low, **GBP** was at a 2-month high against the EUR while the yen firmed ahead of the BOJ's policy meeting on April 3-4 under the new Governor. **Oil** prices edged up, while **gold** weakened.

Global Developments

Americas:

- The final estimate of **US GDP** growth in Q4 showed the economy expanded at 0.4% qoq ann. as compared to a prev. estimate of +0.1%. Stronger construction activity and exports supported growth while lower business inventories and cuts to fiscal spending were a drag.
- **US consumer spending** and income continue to be volatile: in Feb spending recorded the largest rise in 5 months, 0.7% mom after a 0.4% increase in Jan, but in real terms it was only 0.3%. Personal income jumped 1.1% in Feb partially reversing the Jan's drop. Nominal wage income rose 0.6%.
- **US durable goods orders** increased 5.7% mom in Feb following an upwardly revised 3.8% decline in Jan. Excluding transportation goods, factory orders fell 0.5% mom. Orders for nondefense capital goods increased 10%

mom, the largest gain in 5 months.

- **US new homes sales** fell by 4.6% mom sa. in Feb, worse than expected after rising 13% in Jan. **The S&P Case-Shiller home price index** continued an uptrend for the 10th month; the 20-city composite grew 8.1% yoy (Dec: 6.8% yoy). On a mom basis, the 20-city composite inched 0.1%.
- **US initial unemployment claims** rose by a more than expected 16K to 357K last week. The four-week moving average rose 2,250 to 343K.
- **Argentina** challenged a US federal court which has ordered to repay in full sovereign debtors by offering one sixth the money awarded by the court. This case could reopen the default terms Argentina imposed on investors and set the stage for another crisis.

Europe:

- Large depositors in **Cyprus's** biggest bank might lose up to 60% of their savings over EUR 100,000, according to the island's central bank.
- **Eurozone** 3 month average **M3 money supply** growth fell to 3.3% in Feb from a prior reading of 3.5%. On a seasonally adjusted annual basis, M3 money supply shrank 3.1% yoy in Feb from 3.5% yoy in Jan, confirming the parlous state of banks' balance sheets and credit market.
- **German retail sales** unexpectedly rose for the second consecutive month, gaining 0.4% mom sa. following a revised 3% rise in Jan.
- **Italy industrial orders** fell for the third month in Jan, dipping 1.4% mom. Domestic orders fell 3% mom while export orders rose 1.3% mom.
- **UK house prices** were stable mom in Mar (0.8% yoy), after a +0.2% mom in Feb (flat yoy). The UK housing market is slowly gaining traction.

Asia and Pacific:

- **Japan industrial production** unexpectedly fell 0.1% mom in Feb (Jan:+0.3%). **Core CPI**, excluding food items, fell 0.3% yoy in Feb, remaining far below the government's 2% goal.
- **India** reported a record-high current account deficit of USD 32.6bn in Q4 (Q3USD22.3bn), roughly 6.7% of GDP due to the USD 59.6bn trade deficit. The balance of payments, however, was in surplus thanks to heavy overseas borrowing by Indian companies and a surge in foreign investment in local stocks and bonds.
- **South Korea** reported a 2% yoy GDP growth in 2012 (2011: 3.7%; Q4: 0.3% qoq and 1.5% yoy) – the slowest in three years – due to lower exports, investment and private spending. The Finance Ministry lowered its 2013 GDP growth forecast to 2.3%, from 3%. The government announced a stimulus package in Apr. Industrial output shrank 0.8% mom in Feb (Jan: -1.2%) as manufacturing output declined 1.2% mom and 9.8% yoy.
- Inflation in **Singapore** accelerated to an 8-month high of 4.9% in Feb (Jan: 3.6%), after a spike in car ownership costs. Industrial production dropped by 16.6% yoy in Feb, partly due to the Lunar New Year holidays alongside a 21.1% and 20.3% dip in electronics and pharma production.

Bottom line: The Easter mood helped to stem the reactions from the Cypriot banks collapse, but the banking crisis in Europe is bound to resurface somewhere else during 2013. The scant macro data flow this week highlighted that even in Asia the picture is not as rosy as many would like to believe. OECD's interim global growth outlook reported an improvement in overall growth, with emerging markets the driving force while Europe remains the biggest drag.

Regional Developments

- **Egypt's** general elections could be delayed till Oct, according to President Morsi, after the Court cancelled

the presidential decree setting a four-stage election process starting in late Apr. This would provide enough leeway to resume talks with the IMF, expected to resume in the “first days of April”.

- The decision to impose a capital markets tax of 10% on the recent takeover of National SocieteGenerale Bank by Qatar National Bank in **Egypt** spooked investors and led to Cairo’s benchmark index falling to the lowest level since Dec. Though plans to impose a 10% tax on major transactions on the stock market, including IPOs and takeovers, had been announced in Dec, there was no timing given for its introduction.
- The Oil Ministry in **Egypt** will pay USD 1.0 bn owed to foreign energy firms within two weeks, following a similar USD 1.0 bn payment made earlier this year. Libya’s Deputy Oil Minister stated that it planned to supply 1.0mn barrels a month to Egypt on credit, for an unspecified period.
- Revenue from the **Suez Canal** reportedly fell by 7.4% mom and 1.6% yoy to USD 375.3mn in Feb.
- **Egypt** increased customs duties to between 10-40% from 5% on more than 100 luxury goods items ranging from food import items like mango, shrimps to accessories like watches, sunglasses etc.
- **Iraq**’s new budget has been approved by the Presidency, according to Shafaq News, citing unnamed sources in the Presidency. This year’s Federal budget, at USD 138bn, is the largest ever and sets aside USD 55bn for investments and USD 83bn for operations.
- **Jordan**’s Cabinet approved an increase in the capital of the Central Bank to JOD 48mn from JOD 18mn currently, on recommendation from its Economic Development Committee. It would further be doubled to JOD 96mn by year end.
- **Jordan** is now home to more than 450k Syrian refugees and given the rate of almost 3k refugees entering the country per day, it is estimated that roughly over one million Syrians would be hosted in Jordan by end 2013.

- **Kuwait**'s budget surplus reached KWD 17.2bn in the first 10-months of the fiscal year, on high oil prices. Revenues touched KWD 27bn at the end of Jan – up 11.6% compared to the same period a year ago and almost twice the budget projections for full year revenue of KWD 13.9bn.
- Real estate sales dropped by 19% in **Lebanon** during Jan-Feb 2013, in spite of higher demand from wealthy Syrian nationals. The total value of real estate transactions fell 21.13% to USD 920mn from USD 1.16bn over the same period a year ago.
- **Qatar** economy expanded by 0.1% qoq and 6.6% yoy in Q4 2012 (Q3: 1.7% qoq), taking full year growth to 6.2%. Overall 2012 growth was supported by construction and finance sectors which grew by 34% yoy alongside manufacturing which expanded by 28%.
- Revised estimates released by the **Qatar** Statistics Authority showed Qatar's real GDP increased by 13% in 2011 (2010: 16.7%) and nominal GDP grew by 37% (27.9%).
- Bank assets touched an all-time high in **Saudi Arabia**, rising to SAR 1742.6bn in Jan, from SAR 1734.2bn in Dec 2012. Assets are nearly 62% higher than their level at the end of 2007, when it was at around SAR 1075bn.
- A recent BCG report on **Middle East banks** places revenue growth at 6.9% and profits a tad higher at 8.1%. The report, which includes 32 banks from across GCC capturing about 80% of total regional banking sector, is based on 2012 annual results published by banks in Q1 2013.

UAE Focus

- The **UAE** Central Bank's revised **mortgage caps** to stand at 80% of the home's value for UAE nationals and 75% for expatriates while subsequent second and third homes would be capped at 65% and 60% respectively for nationals and expatriates. This was the outcome of a

high-level meeting between senior CB officials and representatives from UAE's banks; the official announcement is likely to come shortly.

- **Non-oil foreign trade** in **Dubai** increased by 13% yoy to AED 1.235 trillion in 2012, according to Dubai Ports, Customs and Free Zone Corporation. Non-oil exports grew by 47% to AED 163bn, imports 12% to AED 737bn alongside 5% rise in re-exports to AED 334bn. Direct trade accounted for 65% of total trade while the rest was attributed to free zones (34%) and customs warehouses.
- **Dubai** FDI – the investment office within the Department of Economic Development – reported a 16.6% rise in **foreign investment** into the emirate in 2012. Having helped 119 new companies to set up in 2012, the emirate attracted close to AED 4.2bn in investments, with its economic impact estimated at AED 18.3bn; this compares to 2011's inflow of AED 3.6bn and economic impact of about AED 16bn.
- The National Bank of Abu Dhabi (**NBAD**) announced that it would be repaying Tier-2 funds it had received in 2008, of AED 5.6bn, in full to the government – four years ahead of schedule.
- **Dubai airports** international passenger traffic, at 4.8mn in Feb, resulted in the emirate surpassing Paris' Charles de Gaulle airport (4.7mn passengers) to become the second busiest airport internationally, after London's Heathrow (5.6mn passengers) according to figures released by Airports Council International .
- **Abu Dhabi airport** witnessed 13% yoy growth in passengers to 1.2 mn in Feb, while aircraft movements grew 7.5% yoy and cargo volumes grew by 16.7%.
- An annual survey of business confidence conducted by the **Abu Dhabi** Department of Economic Development showed an increase in 2012: the index rose 4 points to 52, supported by an improving economic outlook.
- **Dubai Silicon Oasis** Authority reported net profits of AED 165.4mn in 2012, up 26% yoy. The number of companies

grew by 32% yoy to 711 in 2012 (32% European, 21% Asian, 11% American) and recorded gross revenues and operating revenues at AED 682.2mn and AED 159mn respectively.

- Women investors accounted for 23% of **Dubai's real estate market** in 2012, according to data released by the Dubai Land Department. About 5,434 women invested AED 13.3bn in 2012 compared to 4,704 females making investments worth AED 10.5bn a year before.

MENA Economic Associates
one step ahead