

Weekly Economic Commentary – April 7, 2013

Markets

Most **global equity markets** slumped last week after a US payroll report showed the economy added half the number of jobs expected last month, which many saw to be a harbinger of what is to come as the sequester eats into economic growth over the year. US stocks posted their largest weekly decline this year, European markets slid the most in five months and Asian gauges retreated on Chinese bird flu concerns. Japan was the exception, posting strong gains after BoJ ramped up stimulus measures. In the **region**, markets were mixed last week with Egypt and Bahrain closing lower while all other markets gained. The **euro** rebounded as Cyprus concerns eased and the ECB policy meeting concluded with benchmark rates unchanged; the **yen** slumped on BoJ unprecedented easing and the **GBP** rose as the dollar weakened. **Gold** recovered earlier gains after a disappointing US jobs report while **oil** prices slumped.

Global Developments

Americas:

- US **non-farm payrolls** rose 88,000 in Mar, the slowest pace in 9 months but **unemployment** fell to 7.6% from 7.7%. An **ADP employment survey** showed the US private sector added 158,000 more jobs in Mar after adding 273,000 in Feb.
- **Initial jobless claims** spike by 28k last week to 385k; the four-week moving average rose by a smaller 11,250.
- **US construction spending** rebounded in Feb, rising 1.2% mom (Jan: -2.1%) to an annual rate of USD 885.1bn. Housing construction rose 2.2% and public spending rose 0.9%.

- **Markit's US manufacturing PMI** rose to 54.6 in Mar (Prev. estimate: 54.9) from 54.3 in Feb; output continued to rise but at a slower pace. Contrastingly, the **ISM manufacturing PMI** unexpectedly fell to 51.3 from 54.2 and the **non-manufacturing PMI** slumped to 54.4 from 56.0, the second drop in 3 months, highlighting the risks of looming federal spending cuts.
- US **factory orders** increased 3% mom in Feb after dipping 1% in Jan. This was due to a 1.0% increase in commercial aircraft orders while orders for core capital goods fell sharply by 3.2%.
- **Trade deficit** in the US unexpectedly fell in Feb to USD 43bn and domestic oil production drove down imports.

Europe:

- **Unemployment** in the **euro area** hit a record high of 12% in Feb, unchanged from a revised figure in Jan. **Inflation** in the euro zone fell to 1.7% yoy in Mar from 1.8% in the previous month. The ECB signalled that a rate cut is under (prudent) consideration.
- Markit's **Eurozone manufacturing PMI** fell to a 3-month low at 46.8 in Mar from 47.9 in Feb; Germany slid back into contraction and rates of decline accelerated in all other nations but France. The **services PMI** fell to 46.4 in Mar from 47.9 in Feb. The data suggests a further economic deterioration in Q2.
- **Eurozone retail sales** fell 0.3% mom in Feb and 1.4% yoy. Retail sales in France dropped 2.2% mom.
- **German factory orders** rose more than expected in Feb, rising 2.3% mom sa. after dropping a revised 1.6% mom in Jan. Export orders rose 2.3% while domestic orders rose 2.2%. Investment goods orders climbed 3.5%.
- **UK M4 money supply** shrank 0.5% mom in Feb after rising 0.9% in Jan, and was 0.5% higher yoy.

Asia and Pacific:

- The **Bank of Japan** unveiled an aggressive monetary policy easing outlining a plan to spend JPY 7 trillion a month in purchases of long-term government bonds and ETFs of all maturities which is likely to double its holdings until a target inflation rate of 2% is reached. It also alluded to an earlier than expected start to its open-ended asset purchase program.
- **Japan** will overhaul its electric power sector splitting generation and transmission while opening the residential electricity market to competition in the most radical reform of the sector since the 1950s.
- The **BOJ's Tankan survey** indicated business sentiment improved in Q1 but by less than expected, rising to -8 from -12 in Dec. However, sentiment remains in negative territory.
- **China's official manufacturing PMI** rose to 50.9 in Mar from 50.1 in Feb, remaining above the 50-mark for the 6th month. Production rose 1.5 points to 52.7 and orders rose 2.2 points to 49.8. The private HSBC manufacturing PMI rose to 51.6 from 50.4 with the largest rise seen in the new orders sub-index. HSBC's services PMI climbed to 54.3 from 52.1.
- HSBC's **India manufacturing PMI** fell from 54.2 to 52.0 in Mar. New orders rose at the slowest pace in more than a year and power outages hampered production.

Bottom line: China is confirming that a moderate recovery is underway, but other large emerging economies are struggling to regain momentum. Brazil and India slowed sharply in 2012 and remain entangled in their domestic political shortcomings. The apparent boom of the last decade appears to have been fuelled by a liquidity downpour now choked by weaker capital inflows. They have also been suffering from reduced demand for their exports. These constraints will ease in 2013, particularly in respect of capital flows, which have surged into emerging markets in the past few months as investor risk appetite has recovered.

Regional Developments

- **Egypt** plans to boost short term borrowing to USD 11.7bn in Q2 and scale back longer term borrowing by as much as 29%.
- **Egypt**'s Planning Minister announced that an agreement with the IMF regarding the USD 4.8bn loan would be reached within the next two weeks. He also clarified that the government had not asked for an increase in loan amount.
- A tax of 0.001% will be imposed on bank credit, loans and advances in **Egypt** as part of a package of tax reforms and has already been approved in principle by the upper house of Parliament.
- **Kuwait**'s parliament approved the plan to buy citizens' personal loans (taken before Mar '08), write off the interest and reschedule repayments. This will cost the government KWD 744mn and will not be sustainable in the long run, especially keeping in mind IMF's report that the country would exhaust its oil savings by 2017 if it kept spending money at the current rate.
- Tammam Salam was named **Lebanon**'s PM after receiving endorsement from at least 120 of 128 parliamentarians. He has called for "ending Lebanon's political divisions and its impact on the security situation, and averting the dangers from the neighbouring tragedy (in Syria)".
- **Morocco**'s government has reduced its investment spending by MAD 15bn (nearly 2% of GDP) this year in a bid to ease financial pressures and the cuts are expected to be proportional to the budget of each ministry.
- Total deposit accounts in **Oman** increased by 9% yoy to 2.87mn at the end of Jan 2013 – some activity was as a result of the Ministry of Manpower's mandatory rule for companies to deposit the salaries of all employees, including labourers, in their individual bank accounts.
- **Oman banking sector** assets rose 14% yoy to OMR 21.09bn in Feb. Of the total assets, credit disbursement

accounted for 67% and grew 10.9% yoy to OMR 14.18bn.

- **Qatar** announced a record-high budget for this financial year – with spending higher by 18% yoy at QAR 210.6bn. The increase was largest in the category of public projects: with an allocation of QAR 74.88, it is 40% up compared to the previous budget's QAR 62.11bn. Qatar's Finance Minister stated that government spending is expected to stay as high as this year till 2017.
- **Saudi Arabia**'s PMI increased to 58.9 in Mar (Feb: 58.5) on higher purchasing activity and rise in order book volumes.
- Nine ports in **Saudi Arabia** recorded 9% growth in container traffic to 6mn TEU during the period 2004-2011. Jeddah port alone accounted for 4mn TEU of container traffic in 2011 and was ranked 27 globally.
- **Yemen**'s central bank governor stated that the country is seeking a low-interest loan from the IMF of up to USD 450mn to support economic reforms. Last year, Yemen had received an emergency USD 94mn interest-free loan from the IMF to stabilise the economy.
- An IMF official stated that the Arab countries in transition require at least USD 30bn to finance their needs and containing fast-growing fiscal deficits is one of the major challenges.
- A UNICEF spokeswoman stated that the influx of Syrian refugees is leading to a situation where “the needs are rising exponentially, and we are broke”. Outpacing the UN's estimates, about 1.25mn has taken refuge – with 75% women and children – this figure is 10% higher than had been expected by June.
- Arab states need to invest about USD 80bn in agriculture to ensure food security; according to UAE's Finance Minister, the shortfall in food in the region would rise from a value of USD 41bn in 2010 to USD 89bn in 2020 if no additional investments are made to increase output levels.

UAE Focus

- **PMI** in UAE fell to 54.3 in Mar from Feb's 55.4 due to a moderation in new orders growth. However, output and new order growth are still robust and employment continued to pick up.
- Dubai Islamic Bank revealed the **repayment** of AED 3.8bn, which it had received in 2008 from the Ministry of Finance. The bank cited robust financial position and strong liquidity as the key factors that led to the decision of repayment in full and ahead of contractual maturity.
- The Abu Dhabi Securities Exchange (**ADX**) announced that it is enhancing the DvP process by applying Buyer Cash Compensation (BCC) settlement procedure. With this procedure, to be implemented starting May 2013, a buying investor would be paid cash compensation in the unlikely event where securities are unavailable for delivery to the buying investor on settlement date.
- Q1 volumes at the Dubai Gold and Commodities exchange (**DGCX**) were up 112% from a year ago and crossed 3mn contracts; in March alone, volumes were up 95% to over 1mn contracts.
- **Consumer spending** in the UAE is expected to rise by 4.1% yoy to AED 677bn this year, according to a report from Euromonitor International. Spending on the communication sector and housing are forecast to pick up by 7.2% and 4.2% respectively.
- Dubai Duty Free **sales** grew by 12% to AED 1.6bn in Q1, with sales in Terminal 3 alone reporting a 19% increase and accounts for 61% of total turnover. By category, liquor, perfumes and gold took the top 3 spots.
- Dubai World Central (**DWC**) **airport** announced that passenger operations would start in Oct this year with two budget airlines, and that around 25-30 airlines would be operating by 2015.

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