

Weekly Economic Commentary – April 14, 2013

Markets

Stock markets were exuberant in the wake of declining risk aversion and a no-news-good-news attitude. US stocks advanced for the week sending market gauges to record highs and European counterparts posted their biggest weekly gain in a month, but in Asia markets were mixed as Chinese shares fell amid economic concerns. Over in the **region**, most markets advanced with the exception of Bahrain and Qatar – pulled by Dubai. The **yen** continued to slide for the second week, nearing a 4-year low against the dollar, and **sterling** neared a 6-week high while the **euro** advanced. **Gold** fell sharply last week after Cyprus announced plans to sell the metal to raise money and **oil** fell on disappointing US retail sales.

Global Developments

Americas:

- In a move that has few precedents Obama presented his own **budget** to Congress. It is a mere salvo in the fiscal trench warfare which has no chance of being approved.
- US **retail sales** fell 0.4% mom sa in Mar after a downwardly revised gain of 1% mom in Feb. Core sales – excluding autos, gas and building materials – fell 0.2% following a 0.3% rise a month earlier.
- US **initial jobless claims** fell by 42k last week to 346k. The four-week moving average edged slightly higher to 358k from 355k.
- Minutes of the US **Fed's latest meeting** signalled that a decision to slow down QE by year's end is becoming mainstream.

Europe:

- **Eurozone industrial production** rose by a more than expected 0.4% mom in Feb after falling a downwardly revised 0.6% mom in Jan. Production in the **UK** rose 1% mom, while **Germany** and **France** saw rises of 0.9% mom and 0.8% mom respectively. On a yoy basis, industrial production fell 3.1% in Feb.
- **German** imports fell 1.3% in Dec and exports increased 0.3% mom, bringing the full-year **trade surplus** to EUR 188bn, the second largest in history.
- **German** inflation was 1.4% yoy in March after a revised 1.5% yoy in Feb, while the EU-harmonized index growth remained unchanged at 1.8% yoy.

Asia and Pacific:

- **Inflation in China** slowed down to 2.1% yoy in Mar from a ten-month top of 3.2% in Feb as the central bank absorbed cash from the economy. Food price inflation, which had surged to 6% yoy due to the start of the Lunar Year, retrenched to 2.7%.
- **China's exports** rose 10% yoy in Mar (Feb: 21.8% yoy) and imports climbed 14.1% yoy, causing a **trade deficit** of USD 844mn after reporting a surplus of USD 15.25bn in Feb.
- **China's** banks extended CNY 1.06 trillion in **new loans** in Mar, above expectations and higher than the CNY 620bn extended in Feb. **M2 money supply** grew at 15.7% yoy in Mar; above the government's annual target of 13%.
- **Taiwan's** monthly **trade surplus** more than tripled to USD 3.2bn in Mar, from Feb's USD 900mn surplus. Exports picked up to 3.3% yoy in March, after a 15.8% plunge in Feb.
- **Singapore's economy** shrank 1.4% qoq ann. in Q1 after rising 3.3% qoq ann. the previous quarter. Manufacturing fell 11.3% qoq.

Bottom line: QE fatigue is taking hold in the US, just when it is fashionable in Japan (as it has happened periodically over

the past 23 years), but the real policy battleground remains the government budget. Ahead of the IMF Annual Spring meetings this week, OPEC trimmed world oil demand forecast by 40k bpd to 800k bpd, citing weaker-than-expected consumption in Europe and Japan. Given ongoing troubles in Europe, it is likely that the global growth forecasts will be further reduced.

Regional Developments

- Qatar has promised to provide USD 3bn to **Egypt** on top of the previous payment of USD 5bn, and would also extend gas supplies to Egypt this summer as needed, with no conditions placed in return. **Libya** has also agreed to a USD 2bn five-year interest-free loan. This assistance would reduce the pressure until an IMF deal is signed.
- **Egypt** has reversed the policy of tax on stock dividends and investment gains from takeovers, following protests and after members of parliament decided the taxes would have a “negative effect on the investment climate in Egypt”. The revenue from the 10% tax on investment gains on QNB’s takeover of National Société Générale Bank will be returned.
- Net international reserves in **Egypt** fell 0.6% mom or by USD 80mn in March to USD 13.4bn; of this, the foreign currency component was down to USD 8.8bn (Feb: USD 8.9bn)
- Reported inflation in **Egyptian** towns and cities fell to 7.6% yoy in Mar after a sharp rise to 8.2% yoy in Feb, despite the currency depreciation and economic instability.
- **Iraq**’s Ministry of Oil reported that its oil reserves had touched 150 mn barrels – an increase of 10mn barrels – possible due to the new oil bids in the past two years.
- Inflation in **Jordan** rose to 7.4% in Q1 2013, due to higher prices of transport services, fuel, vegetables, meat and poultry products, and vegetables. In mom terms,

CPI increased by 0.5% in March.

- **Jordan** and **Iraq** have signed a framework agreement relating to the extension of an Iraqi oil pipeline which will run from Basra to Aqaba port. The extended pipeline is expected to transport up to 2.25mn barrels per day.
- The IMF has approved payment of USD 385mn – the 2nd tranche of the 3-year USD 2bn loan programme – to **Jordan**; it also endorsed the efforts of the government in reducing subsidies and mentioned that the economy is “performing well”, also having mitigated the adverse impact of regional political instability, higher energy import prices, and a large influx of refugees from Syria.
- **Kuwait** inflation dropped to 2.1% in Feb (Jan: 2.3%) – the lowest in four months – due to a slowdown in increase of food, shoes, and clothes prices.
- **Lebanon**’s oil & gas exploration plans will continue on schedule and remain unaffected by the recent political change, according to its energy Minister. The pre-qualified companies from the 52 bids received last month will be announced on Apr 18, and leading up to the final agreement on exploration licences by March next year.
- Consumer confidence in **Lebanon** fell to a near record low in H2 2012, with “domestic political volatility, repeated security breaches, the wave of kidnappings, the resumption of political assassinations, increasing concerns about spill overs from the escalating Syrian crisis” the main factors leading to the dip in confidence.
- **Oman foreign trade** increased 10.7% yoy in Dec to OMR 20.04bn. Oil and gas exports rose 8.9% yoy to OMR 13.6bn while non-oil exports surged 18.5% to OMR 3.59bn.
- **Oman**’s revenue increased by 16.3% yoy by end-Feb to OMR 2.15bn, with oil and gas contributing the most – oil revenue was up 17.3% to OMR 1.8bn; gas receipts grew 25% to OMR 256mn), while expenditure grew by almost 40% to OMR 39.9bn.

- **Oman's consumer inflation** slowed to 2.3% yoy in Feb from 2.7% yoy in Feb, largely attributed to a decline in the price of personal goods (-1.8% yoy).
- **Qatar's** Minister of Economy and Finance stated that the country plans to invest about USD 200bn in infrastructure development over next 10 years, of which USD 140bn would be invested within the next five years in projects like "a new airport, seaport and a rail and metro system".
- International reserves in **Qatar** increased to USD 36bn in Feb, thanks to favourable energy prices, relatively higher production and prudent fiscal management, and compared to USD 33bn in end-2012 according to a recent QNB report.
- **Qatar's** recently launched Doha Global Investment Company will float an IPO next month. The company will have a total capital of QAR 45bn and 50% of the company's capital will be contributed by Qatar Holding, according to Qatar Exchange's Chairman.
- **Saudi Arabia** revealed to OPEC that it pumped 9.14mn bpd in March, steady from 9.15mn bpd the previous month. OPEC, meanwhile, trimmed world oil demand forecast by 40k bpd to 800k bpd, citing weaker-than-expected consumption in Europe and Japan.
- SAGIA's governor stated, after opening the Saudi pavilion at Hanover Industrial Fair that Germany had invested about USD 8bn in **Saudi Arabia**.
- A crackdown on illegal foreign workers in **Saudi Arabia** has affected tens of thousands of people and made it harder for some businesses to operate as workers do not show up for work for fear of being deported.
- A recent World Bank report on **unemployment** in the MENA region states that not only are three out of every four working-age women in Mena outside the labour force, but one-quarter of the youth population is also looking for work but cannot find it. The report also identifies three areas of action to overcome this situation: better

business climate, educational reform and labour market and social protection policies.

- The Gulf States, along with **Yemen**, are studying the feasibility of establishing the region's largest centre for water and gas desalination in the latter. This new project is expected to provide four million jobs for Yemenis within the next ten years.
- **IPOs** in MENA witnessed a twenty-fold increase in capital raised and a 25% decline in deal volume in Q1 2013, according to Ernst & Young. Q1 2013 saw 3 IPOs raising USD 1.6bn capital (2 KSA & 1 Iraq), compared to 4 IPOs raising USD 82.8mn in the same period a year ago.
- A Gulf Investment Corporation report revealed that **FDI** into the GCC countries increased by 13.8% to USD 27.9bn in 2012, after 3 consecutive years of decline. The report also stated that UAE and Saudi Arabia attracted more than half those investments, mainly from the West and Asia though no breakdown was provided by country.

UAE Focus

- The UAE **Central Bank** announced the introduction of a direct debit system from June 15. This system will allow regular, automatic payments from customers' bank accounts towards mortgage loans, credit card payments and personal loan instalments instead of using post-dated cheques. This will also enable the creation of a database for the Federal credit bureau.
- **Inflation** in Abu Dhabi rose 1.0% in Mar, with alcoholic beverages and tobacco group recording the largest increase of 9.7%; Q1 CPI rose to 1.1%.
- **Yuan-settled trade** between China and UAE grew a whopping 79% yoy to CNY 340mn in 2012 and this is likely to rise further with the internationalisation of the Yuan given that the average bilateral trade is around USD35bn between the two nations.
- The contribution of **travel and tourism sector** to UAE's

GDP is expected to rise by 4.3% annually to an equivalent of 14.6% of GDP to AED 277.8bn by 2022 from around AED 182bn at end-2012, according to a report by the World Travel and Tourism council.

- Abu Dhabi National Energy Company or **Taqa** is part of Ghana's first PPP power generation project – it fits in with Ghana's plans to double generation capacity to 5,000 megawatts by 2016, and hopes to become an exporter of electricity to its neighbours.
- The value of **gold** traded through **Dubai** touched USD 70bn in 2012 from just USD 6.0bn in 2003, according to DMCC's Chairman. He also stated that about 20% of the world's physical gold was now imported and exported through Dubai.
- **Tecom** added 160 companies in its ICT cluster last year, taking total to 1520 firms. A breakdown shows that 1,400 companies operate at Dubai Internet City and 120 at Dubai Outsource Zone with occupancy rates of 98% and 100% respectively.
- **Car sales** in the UAE increased by around 27% to 310k vehicles, according to dealers figures. With sales rising almost 23% in Jan and Feb, dealers expect sales to reach almost 380k by end of 2013. To draw a comparison, peak year 2008 saw sales of 350k cars.

MENA Economic Associates

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