

Weekly Economic Commentary – April 21, 2013

Markets

The upward stock market trend was spooked by China and overall weaker global growth, hence dragging down global **equity** indices to the worst week since June 2012, also hitting gold (which suffered its biggest one-day drop ever) and commodities. US markets are getting very choppy which usually signals the break of a trend. **Regionally**, most markets ended lower and weaker, mirroring global sentiment. Both **USD** and **EUR** rallied vis-a-vis the **JPY** after Japanese officials stated that the G20 are not opposed to BoJ stimulus. **Gold** prices rebounded on Fri after hitting a two-year low earlier in the week and posted weekly losses, as did **oil**.

Global Developments

Americas:

- US **housing starts** rose 7% mom in Mar to an annual rate of 1.04mn units while applications for **building permits** fell 3.9% mom from a five-year high in Feb. the **NAHB housing market index** fell for the third month, slipping 2 points to 42 in Apr.
- Net long-term **capital flows** swung wildly in Feb, with net outflows from the US at USD 17.8bn, compared with a net inflow of USD 25.7bn in Jan. Treasuries in particular sold off in Feb due to rising risk appetite.
- The **Fed's** latest **beige book** indicated moderate growth in all districts in Mar. Manufacturing increased (except in defence related sectors), consumer spending grew albeit at a slower pace, the housing market improved but employment remains weak.
- US **CPI** in Mar was pushed to -0.2% mom by lower energy

prices reversing Feb strong reading. **Core inflation** remained subdued at 0.1% mom, broadly in line with recent figures.

- US **industrial production** rose 0.4% mom in Mar but headline figures are misleading as strength was due to utilities, surging 5.3%, as cold weather boosted output. Manufacturing declined 0.1% mom.
- **Initial jobless claims** rose by 4k to 352k last week – the highest level in last two months – as hiring remained modest. The 4-week moving average meanwhile increased by 2,750 to 361,250.
- In a largely expected move, the Central Bank of **Brazil** raised its **interest** rate by 25bps to 7.5% to compress resiliently high inflation that has “clearly become detrimental to growth”.

Europe:

- ZEW **German investor confidence** index fell to 36.3 in Apr from 48.5 in Mar, with the current situation plunging to 9.2 from 13.6. The expectations measure for the euro zone shrank also to 24.9 from 33.4.
- Almost two months after the **UK** lost its AAA status from Moody's, **Fitch** announced a downgrade of UK's credit rating to AA+, a move that was long overdue, on “weaker economic and fiscal outlook”.
- **UK inflation** rose 0.3% mom in Mar remaining stable at 2.8% yoy. Forecasts point at higher numbers in coming months.

Asia and Pacific:

- **Japan industrial production** rose 0.6% mom in Feb after rising 0.3% mom in Jan.
- **Beating expectations, Japan's exports** rose 1.1% yoy in Mar. The **trade deficit** narrowed to JPY 362.4bn from JPY 777.5bn in Feb but was fourfold larger in yoy terms.
- **China's GDP** growth slowed in Q1 to 7.7% yoy from 7.9%

yoy recorded in Q4, with weaker exports and domestic spending the likely drag on growth. **Industrial production** rose 8.9% yoy in Mar (Feb: 8.24% yoy) and 9.5% yoy in Q1. Retail sales grew 12.4% in Q1 (Q4: 14.5%) alongside fixed-asset investment rising 20.9% (Jan-Feb: 21.2%).

- After Fitch, **Moody's** also affirmed **China's sovereign rating** of Aa3 but cut the outlook to stable from positive, citing risk from excessive local government borrowings.
- **India's trade deficit** fell to a two-year low of USD 10.3bn in Mar, aided by falling oil prices and third-consecutive month of rising exports.

Bottom line: Fears that China is stalling are exaggerated, but ending the previous governments' public investment-led strategy (inherently unsustainable) and the transition to a modern services oriented economy implies several risks and policy hurdles that will bite in the short run. The IMF has reduced global growth estimates for 2013 but foresees an upturn in the second half. However this was exactly the same refrain in the past two years when the second half turned to be worse than the first. The current year might indeed follow the same pattern, as the backstop provided by the ECB's gave some respite to European policymakers, but they have wasted it in political squabbles and no credible medium-term fiscal policies takes shape in the US. The G20 meanwhile reaffirmed the need for fiscal discipline as a cornerstone of economic policy.

Regional Developments

- The **IMF** cut its **Middle East and North Africa** growth forecast to 3.1% in 2013 from a previous Oct forecast of 3.6%, citing prolonged oil price fluctuations, weaker global economic growth and high public spending.
- The IMF Mission concluded talks in **Egypt** and left the country last week, without reaching an agreement as the

IMF Chief stated that “there is clearly more work to be done, more numbers to be aligned, and worked on”.

- Inflation in **Jordan** is expected to touch 5.9% this year compared to 4.8% last year, according to the latest IMF forecasts. Meanwhile, the economy is forecast to grow by 3.3% this year.
- Credit to the private sector in **Kuwait** dipped to 4.8% yoy in Feb (Jan: 5.3%) though in mom terms, credit grew by KWD126mn to KWD 27.07bn – supported by an increase in credit in the nonfinancial corporate sector.
- Of **Lebanon**'s USD 1.1bn Eurobond issue last week, with average returns of 6.4%, 20% were taken up by foreign investors showing continued confidence.
- Public wage expenditures in **Lebanon** grew LBP 708bn to LBP 3.92 trillion during Jan-Nov 2012, thanks to the inflation-adjusted minimum wage hike effective Feb. The Finance Ministry also revealed that wage payments worked out to about 30% of primary expenditures in this period. No space left for necessary infrastructure spending.
- **Oman's economy** expanded by 8.3% in 2012, according to the Ministry of Financial Affairs. Non-oil GDP growth was recorded at 10.6%.
- China remains the biggest customer of **Omani** oil, with the former boosting its oil imports from Oman by nearly 26% to 28.6 mn barrels in Jan-Feb 2013. Japan slashed imports during this period, while South Korea and India imported none from Oman.
- **Qatar's PM** revealed that as part of the National Strategy 2011-2016, which aims for sustainable growth, investment in infrastructure should reach USD 160bn by 2019. Meanwhile, fiscal spending this financial year is likely to reach USD 66bn versus the budgeted USD 58bn, as per a recent QNB report.
- **Saudi Arabia**'s oil exports were at an 8-month high in Feb, with daily shipments increased to 7.45mn from 7.09mn a month earlier, according to the Joint Organizations Data Initiative.

- **Saudi**'s Prince Al Waleed bin Talal made an economic case for allowing women to drive in Saudi Arabia. He stated that if women were allowed to drive, it would help "in dispensing with at least 500k foreign drivers", hence bringing an economic and social impact in the country.
- **Saudi consumer inflation** held steady in Mar at 3.9% yoy. The cost of housing and utilities increased 3.1% while transport costs rose 7.5%.
- **3 out of 4 women are unemployed in the MENA** region, according to the World Bank; women's share of the labour market in MENA is estimated at only 2.25%, and is largely attributed to social barriers and old cultures.
- The latest BCG report on **banking performance in the GCC**, based on 2012 annual reports released in Q1 2013, showed a healthy 6.9% rise in revenues while profits grew slightly higher at 8.1%. The index includes 32 banks, which account for nearly 80% of the total regional banking sector.
- Value of announced **M&A transactions** in the Middle East touched USD 5.1bn in Q1 2013, lower than USD 5.7bn during the same period a year ago, according to Reuters. Equity issuance during Q1 raised USD 2.3bn from 6 issues – a whopping five times compared to USD 453mn a year ago.
- **GCC nations are expected to invest upto USD 300bn** in approximately 20 projects in the **power sector** by 2020, according to a report published by GOIC titled "Energy Guidebook for Industries in GCC".

UAE Focus

- **Inflation** in the UAE rose 1.0% yoy in Mar, on increases in education and "beverages and tobacco" prices of 6% yoy and 17.15% respectively.
- **UAE's revenues from hydrocarbons touched a record high of \$124.7bn in 2012**, boosted by strong oil prices amid higher output, according a recent IIF report. Breaking

the previous record of USD 119bn set in 2011, this is more than twice 2005's USD 55bn revenue.

- The UAE **federal credit bureau**, which has been in the pipeline for months, will be rolled out on a trial basis this July with 13 participating banks while complete implementation will take place next year.
- **Alternative energy** is a keyword in UAE these days: Energy Minister of the UAE stated that **nuclear power** is expected to account for as much as 25% of electricity in the country by 2020, hence reducing the dependence on fossil fuels. Additionally, the Minister of Environment and Water said that there should be a clear legal framework for investment in the **energy sector** as well as strict regulations to protect intellectual properties for innovative projects to attract more investments.
- **Masdar** has launched a solar plant in Mauritania and this largest photovoltaic solar plant in Africa is expected to boost power generation capacity by 10% during daytime.
- The **total shareholder return** (TSR) in UAE's equity markets in 2012, at 24%, was much higher than the global average of 18%, according to a BCG report entitled "Signs of Sustainable Value Creation". This compares to an average TSR of -3% in UAE during the period 2009-2011.
- The **Dubai Gold and Commodities Exchange** set a new record last week, with daily volumes crossing over 100k contracts in a single day, also setting the highest ever overall daily trading value of USD 3.8bn.