

Weekly Economic Commentary – April 28, 2013

Markets

Stock markets have rebounded after last week's disappointment from China (again hit by bad PMI figures). Central bank liquidity is a river whose current carries the skeptics and induces risk taking. Even the MSCI Emerging Markets has rebounded from a 4-month low (below the 1000 threshold) last week. Tracking global counterparts, most **regional** markets edged higher with UAE indices reaching multi-year highs on earnings optimism. The **yen** advanced after BoJ refrained from further stimulus, the **euro** fell on speculation the ECB will provide more easing and **sterling** rose after the UK avoided a triple dip recession. **Gold** regained some ground above 1400\$/oz and **crude** recovered but pared gains after the US reported a disappointing GDP growth estimate.

Global Developments

Americas:

- The **US economy** expanded at a less than expected annualized pace of 2.5% qoq ann. in the first quarter (Q4: 0.4%). Consumer spending sustained the expansion in Q1, rising 3.2% qoq ann., while growth was curtailed by a 8.4% dip in federal government spending. Investments were sluggish.
- US **existing home sales** unexpectedly edged lower in Mar by 0.6% mom to a seasonally adjusted annual rate of 4.92 mn units. The median home resale price rose sharply by 11.8% yoy. **New home sales** rose 1.5% mom and 17.6% yoy in Mar while the median new-houses selling prices picked up 3% mom amid tight inventories (4.4 months of supply). The **FHFA house price** index increased 0.7% mom in Feb,

continuing an uptrend since Jan 2012.

- US **durable goods** orders collapsed 5.7% mom in Mar (Feb: 4.3%), the largest drop in 7 months. Excluding transportation, goods orders fell 1.4% mom after dropping 1.7% mom in Feb.
- The Chicago Fed National **Activity Index** fell sharply to -0.23 in Mar from 0.76 in Feb and was mirrored by a drop in the analogous Richmond Fed index for manufacturing which fell to -6 from 9.
- Initial **jobless claims** fell by a more than expected 16k last week to a six-week low at 339k. The 4-week moving average fell by 4,500 to 357.5k.

Europe:

- The net percentage of **EU** banks reporting tighter **lending conditions** for enterprises in Q1 fell again to 7% from 13% in Q2. However banks forecast tighter lending criteria to enterprises in Q2, and declining business loan demand. Lending conditions are uneven across the EU as in Italy the net percentage of banks reporting tighter conditions remained unchanged at 12.5% in Q1.
- The **German IFO business climate** index fell to 104.4 in Apr from 106.7 in Mar. Both the current business conditions and the expectations sub-indices declined.
- **Spanish house prices** declined 0.8% qoq in Q1 and 7.7% yoy. The slump in real estate prices is bound to continue, but the rate of decline has eased which opens a tenuous hope for the beleaguered banking sector.
- The **UK economy** surprisingly expanded by 0.3% qoq in Q1, avoiding a triple dip recession. The services sector grew 0.6%, manufacturing expanded by a marginal 0.2% while construction dipped 2.5%.
- The **Bank of England** will extend its Funding for Lending Scheme, making cheaper loans available to companies and consumers until Jan 2015.

Asia and Pacific:

- HSBC's preliminary **PMI index for China** in Apr dropped from 51.6 to 50.5, just a tad in positive territory but nevertheless a negative sign.
- **China's** Communist politburo met to devise the economic strategy of the new leadership and committed to boost consumption and cut red tape for private investments. It also took measures to rein in local governments' spending and cut the debt accumulated through dubious practices.
- **Japan's CPI** fell 0.5% yoy in Mar after easing 0.3% yoy in Feb, a sign that BoJ's inflation target of 2% in 2 years remains elusive.
- **Taiwan's** industrial production unexpectedly plunged 3.3% yoy in Mar, after an average 3.8% yoy growth in the first two months of 2013.
- **Singapore's** consumer prices rose 3.5% yoy in Mar, easing from a 4.9% yoy rise in Feb.

Bottom line: The flow of bad news from Europe is intensifying while the US continues its lacklustre recovery and China transition faces monumental challenges. The global economy engine is still firing on two cylinders: its performance can be tracked through the industrial production in small open Asian economies such as Taiwan and Singapore which display an erratic upward trend.

Regional Developments

- **Egypt** is expected to grow at 3.8% in this fiscal year, which begins from July, according to an optimistic forecast from the Planning Minister. He also estimates that about EGP 36.3bn will be saved via rationing the distribution of subsidised fuel using smart cards
- Mobile banking has gone live in **Egypt**, after two years of extensive study, with the service covering deposit, withdrawal and money transfer transactions. Restrictions include that banking activities can be conducted only in EGP, as part of the CBE's policy to limit demand for

dollars.

- While **Egypt** awaits a decision on the IMF's USD 4.8bn loan, after providing the latter with details on a fuel subsidies plan and new taxes, it has been revealed that the country is likely to get additional funding between USD 7-8bn from other international organisations like the World Bank, the European Union, and the African Development Bank – though conditional on meeting the IMF requirements.
- **Iraq**'s oil exports increased in Mar: exports grew to 74.9mn barrels and revenues touched USD 7.772bn, with average price of each barrel at \$ 103.765.
- **Jordan**'s oil imports bill declined by 20.9% yoy to JOD 650.5mn during the period Jan-Feb 2013, after the country began receiving regular gas supplies from Egypt hence reducing imports of crude oil, while trade deficit narrowed by 2.9% to JOD 1.53bn.
- **Morocco** grew by 4.8% yoy in Q1 2013 (Q4: 2.8%) with the 16.4% rise in agricultural activity supporting growth while the non-agricultural sector slowed by 3.3%. The budget deficit was MAD 22.9bn or 2.2% of GDP in Q1, with subsidies alone accounting for more than MAD 12bn.
- **Oman**'s Minister Responsible for Financial Affairs revealed that the economy grew by 8.3% in 2012 – above the budgeted 7% target – with non-oil GDP growth at 10.6%. Investment expenditure this year is expected to be about OMR 3bn or 24% of public expenditure while growth will continue to be robust, with about 7% growth forecast in both oil and non-oil revenues.
- Fuel subsidies provided by **Oman**'s government has hit OMR 1.3bn, prompting a review of the method of offering subsidy as well as target groups for the subsidies. The study, being undertaken by the Ministry of Finance and the Ministry of Oil and Gas, will be completed within two months and will also offer alternatives for post-subsidy.
- The **Central Bank of Oman** issued a roadmap for the

implementation of **Basel III** norms in the Sultanate. The CBO Chief urged banks to limit facilities to non-resident entities and is formulating more regulations and risk limits to mitigate the risk profile of local banking institutions.

- In anticipation of the mega-IPO by Doha Global Investment next month, **Qatar** has witnessed a high demand for bank loans of upto QAR 7bn. In addition, small investors were also selling stocks to mobilise cash ahead of the IPO.
- The International chamber of Commerce, along with the **Qatar** Chamber, has put forward 5 recommendations for WTO member countries: conclude a trade facilitation agreement; implement duty-free and quota-free market access for exports from least-developed countries; phase out agricultural export subsidies; renounce food export restrictions and expand trade in IT products and encourage growth of e-commerce worldwide. This will be delivered to G20 leaders and WTO ministers ahead of the next G20 Summit and if implemented could result in the creation of over 21 million new jobs worldwide and lead to an increase in global GDP by USD 960bn.
- The Ministry of Social Affairs in **Saudi Arabia** paid out SAR 21bn in social insurance pensions and aid in 2011, with more than 1.4mn people benefitting from the payouts.
- According to Ernst & Young's **MENA mergers & acquisitions** update, the value of disclosed M&A's in the region doubled to USD 14.6bn in Q1 13 as compared to USD 7.3bn in Q1 12, while the number of deals fell a marginal 3% from 101 in Q1 12 to 98 in Q1 2013. Within the MENA, UAE and Qatar account for 76% of total disclosed domestic deal value.
- New Zealand is likely to ratify its **GCC FTA** within the next 12 months, according to the Consul General and Trade Commissioner of New Zealand. The negotiations were concluded in Oct 2011 and "if implemented, the FTA with

the GCC will help [New Zealand's] GDP to grow by up to 1.5%".

- Saudi Arabia is the biggest consulting market in the GCC (USD 791mn, 34% yoy), while the overall GCC market grew by 18% to just under USD 1.9bn in 2011-2012. UAE was at USD 553mn, with the public sector recording the highest growth (+37%) sector-wise.
- **Sukuk issuance** reached USD 34.2bn in Q1, up 21.5% qoq, according to a report from Kuwait Finance House – which also estimates that total issuances would reach USD 275bn by end of 2013. Sovereigns accounted for 61.9% of total issuances (Q4:66.1%) while corporates and quasi-sovereign entities were at 23.2% and 14.9% respectively (Q4: 25.3%, 8.6% resp).
- **GCC food imports** is expected to touch USD 53.1bn by 2020, an increase of 105% from 2010's USD 25.8bn. Restrictions imposed by agriculture producing countries on the export of food grains is estimated to have cost food importing nations an additional USD 50bn in the past 4-5 years.

UAE Focus

- **Abu Dhabi's** new global financial centre, to be set up within the financial free zone Abu Dhabi World Financial Market, will help UAE to manage its own financial wealth domestically. The focus of this centre is likely to be on asset & wealth management as well as infrastructure finance.
- **UAE** is expected to grow at a healthy rate of above 4% this year, aided by trade, logistics and services, according to UAE's Minister of Economy. Standard Chartered meanwhile forecasts growth of around 3.5% for both Dubai and the UAE, on increased economic and investment activity.
- The **Dubai Land Department** reported more than 230 transactions per day and an increase in transaction

volumes to AED 44bn in Q1 – with sales transactions at AED 24bn, AED 17.8bn on mortgages and AED 2.2bn on foreclosures and other transactions.

- **DP World** reported a 7% decline in cargo handled during Q1 to 12.8mn TEU “as a result of lower volumes in the Asia Pacific and Indian Subcontinent region and the Europe, Middle East and Africa region”, according to the Chairman of DP World, while terminals in the Americas and Australia reported better performance.
- **Dubai Investments** aims to raise AED 700mn from asset sales this year, according to its CEO. The company expects to sell parts of its holdings in two companies by Q2 or latest by Q3 this year, he said, without disclosing names.
- The **UAE will become self-sufficient in gasoline by end-2014**, according to an ADNOC official, with Ruwais plant expansion expected to boost refining capacity. Currently, demand is at 5mn tonnes, with the UAE producing only 2.7mn tonnes and importing the rest.
- UAE has targeted obtaining at least 25% of its power from **nuclear energy** by 2021, through the operation of four nuclear power plants, according to UAE’s Energy Minister.