

Weekly Economic Commentary – May 5, 2013

Markets

After remaining subdued most of last week on growth worries, the US jobs data sent **equity** markets on a rally across the globe, with the S&P 500 moving above 1600 mark for the first time and the Dow Jones surpassing the 15,000 mark. The positive sentiment was shared **regionally** as most markets edged higher with Kuwait leading the gains. On the currency front, Draghi's statement about deposit rates send the **euro** tumbling, the **dollar** gained on strong jobs numbers while the **renminbi** hit a record-high vis-a-vis the dollar last Thur. **Gold** prices were at a two-week high as investors rushed to buy the metal and **oil** prices rose held up.

Global Developments

Americas:

- US **non-farm payrolls** rose 165k in Apr after rising a revised 138k in Mar. Unemployment fell to the lowest level in four years at 7.5% with the decline reflecting an increase in employment rather than lower participation in the labour force.
- The S&P Case-Shiller **existing home price** 10-city composite index rose 8.6% yoy in in the three months ending in Feb, compared with the 7.3% increase reported relative to the same period in Jan. The 20-city composite was up 9.3% versus 8.1% in Jan. On a sa basis both the 10- and 20-city indexes were up 1.2% mom.
- The ISM US **manufacturing PMI** fell to 50.7 in Apr from 51.3 in Mar. New orders rose to 52.3 from 51.4, the production sub-index improved but inventory remained in contractionary territory for the second month. The **non-**

- manufacturing PMI** fell to 53.1 from 54.4; new orders gauge stabilized, production fell and inventory shot up (which prevented the index from sliding even further).
- US **construction spending** fell 1.7% mom in Mar after rebounding 1.5% mom in Feb; government construction activity plunged 4.1% – the largest drop in more than a decade.
 - US **factory orders** fell by a more-than-expected 4% mom in Mar after rising a revised 1.9% mom in Feb. Durable goods orders slumped 5.8% mom and orders for non-defence capital goods less aircraft – a proxy for business spending plans – rose 0.9% mom.
 - The Conference Board's **US consumer confidence** index unexpectedly rebounded in Apr, rising to 68.1 from an upwardly revised 61.9 in Mar. The expectations index surged to 73.3 from 63.7 while the current conditions index pointed to a marginal improvement.
 - As expected, the **US Fed** will continue buying USD 85bn a month in bonds but indicated its willingness to “increase or reduce the pace of its purchases to maintain appropriate policy accommodation”
 - Initial **jobless claims** dropped to a 5-year low of 324k last week from 342K the previous week. The four-week moving average fell by 16K to 342K

Europe:

- The **ECB** cut rates to a record low of 0.5% for the first time in 10 months responding to rising unemployment and lower inflation. Draghi promised liquidity to banks even into next year and even mentioned that they were “technically ready” to cut deposit rate from nil to negative.
- **Eurozone's inflation** fell to 1.2% yoy in Apr from 1.7% in Mar against consensus expectations of 1.5% – 1.6% as a result of stable energy prices and depressed economic conditions. Within the ECB calls for a 25 bp rate cut

will undoubtedly gain strength.

- Markit's **Eurozone manufacturing PMI** stabilized at 46.7 in Apr from 46.8 in Mar. The contraction worsened in Germany, with the gauge falling to 48.1 from 49, but remained unchanged in France.
- **Economic sentiment** in the **Eurozone** fell for the second month in Apr with the gauge dropping 1.5 points to 88.6. The **business climate** index fell to -0.93 from -0.75 in Mar, while **consumer confidence** unexpectedly rose.
- The **EU Commission** lowered its growth forecasts for 2013 to -0.4% from a previous estimate of -0.3%.
- **Deutsche Bank** is raising EUR 5bn in fresh capital, three months after asserting that a share sale was not in their investors' interests.
- **Unemployment** in the **Eurozone** rose to a new record high of 12.1% in Mar from 12% in Jan and Feb. **German** unemployment rose slightly in Apr to 7.1% from 6.9% in Mar but remains at a low level.
- **German** retail sales contracted 0.3% mom in March following a revised 0.6% decline a month earlier.
- **Spain** revised its 2013 **GDP estimate** sharply downwards to a contraction of -1.3% yoy from an original estimate of -0.5% yoy.

Asia and Pacific:

- **Japan industrial production** rose at a slower pace in Mar, up 0.2% mom after rising 0.6% in Feb.
- **China's official manufacturing PMI** unexpectedly retrenched to 50.6 in Apr from 50.9 in Mar. New orders dipped to 51.7 from 52.3 while new export orders fell into contractionary territory at 48.6 from 50.9. Growth remains sluggish despite massive new credit injected in the economy.
- HSBC's **India manufacturing PMI** fell for the second month in Apr, dipping to 51 from 52 in Mar. Output continued to slow but export orders rose.

Bottom line: With the exception of the US payroll numbers another week of mostly negative data, this time with epicenter in the US which put in perspective also the data on GDP released last week. When the inventory are subtracted from the headline GDP, the US economy's annualized growth rate shows a steady deceleration over the past three quarters, from 2.4% to 1.9% to 1.5%. Markets continue to ignore the disconnect between valuations and economic fundamentals, mesmerized by the central banks unprecedented measures (the ECB has also joined the club now). However convergence must take place. Either bubbly valuations will be underpinned by a recovery or they will collapse to levels in line with a weakening economy.

Regional Developments

- **Egypt** raised toll fees for ships passing through the Suez Canal by 5% and 2% in a bid to raise foreign currency revenues. Additionally, the oil minister stated that a new oil and gas licensing policy would be adopted to enable Egypt to partake a bigger share of the production.
- **Egypt's** leading religious authority gave the green light to Islamic bonds but said some articles of the law passed by parliament must be amended.
- Wheat purchases this year in **Egypt** is up almost 7 times from a year ago, hence boosting self-sufficiency up to 65% from 45%, according to the PM.
- **Egypt** appears to be dragging its feet vis-a-vis the IMF loan: even as the country's lead negotiator for the IMF loan and Deputy Finance Minister quit, the Parliament stopped the reading of the new income tax law raising questions as to who would be affected by this measure.
- **Iraq's** oil exports rose in Apr to 2.6mn barrels per day (bpd) according to the oil minister, still below the 2013 target of 2.9mn bpd, but nevertheless a noteworthy feat, considering that supply of 250k bpd from Kurdish fields had been suspended. Iraq's total oil production

was 3.1mn bpd in Apr.

- **Kuwait**'s State Minister for Cabinet Affairs revealed that public service charges could be hiked for expatriates, given that two-thirds of the state subsidies were consumed by them.
- **Oman** will raise the monthly **minimum wage** for nationals in the private sector by 47.7% to OMR 325 from the current OMR 220, effective 1st July.
- **Oman**'s government is likely to revamp its subsidy on fuel and food items after the panel studying the current structure submits its conclusions as to how to better target subsidies to the needy.
- **Qatar** Central Bank's governor announced that about QAR8bn in Sukuk were issued by Islamic banks in Qatar in Q1; in 2012, Qatar accounted for 12% of global sukuk issuances (USD 5.5bn out of USD 46bn). The QCB has issued sukuk worth QAR 39bn to help manage the liquidity of Islamic financial institutions to comply with Basel III norms.
- Between 2006 and 2012, expatriates in **Qatar** remitted about USD 60bn overseas, according to a report by Qatar Chamber, with some 54% routed to Asian countries (India and Philippines the top 2 destinations) followed by Arab nations at 28%.
- Water and sanitation projects worth SAR 428mn were approved by **Saudi Arabia**'s Water and Electricity Minister. The 32 projects cover water supply, sewage water, digging of wells and detection of leaks, house connections and replacement of damaged networks as well as distribution of drinking water and construction of pumping stations, treatment plants and centralized water tanks.
- Data from IATA showed that **Middle East carriers** had the strongest traffic growth for any region in Mar, of 15.6%, as the capacity of the region's carriers grew by 14.2%. In comparison, global air traffic posted a growth of 5.9% boosted by emerging market activity.

- Visa's **Global Travel Intentions** study revealed that Saudi travellers spent the most abroad – an average of USD 6,666 per trip – with Australians (USD 4,118) and Chinese travelers (USD 3,824) close behind. MENA travellers spent USD 218 per day, a tad lower than the global average of USD 239 per day.
- Alpen Capital's report on the **GCC food industry** estimates that consumption of food in the region would expand at a CAGR of 3.1% over the period 2012-17 to 49.1mn metric tonnes by end-2017. Saudi Arabia leads consumption, accounting for about 60% of the total, though growth is expected to be fastest in Qatar (+5% during 2012-17), followed by UAE and Oman.

UAE Focus

- **Abu Dhabi's new financial free zone**, officially named the Global Marketplace Abu Dhabi, will have an independent regulator, a registration bureau and its own courts, according to a statement from the Executive Council.
- The **UAE's** Economy Ministry expects that the draft law – that would allow **foreigners 100% ownership** of companies registered, thereby removing the current 49% limit – would be passed before year-end.
- The total value of **real estate** transaction in the UAE surged 63% yoy in Q1 to reach AED 44bn. Over 2012, the value of real estate transactions rose 8% yoy. Meanwhile, a Knight Frank report stated that average price of luxury homes in Dubai rose 5.4% in Q1 2013 and increased 18.3% over the last 12 months, hence ranking Dubai the 4th fastest growing among the world's luxury property markets.
- A record 5.8mn passengers travelled through **Dubai airport** in Mar, up 20.6% yoy, bringing the Q1 total to 16.4mn passengers (+15.6% yoy).
- **UK-UAE tourism** continues to thrive: about one million UK

tourists visit the UAE annually while UK plays host to around 300k tourists from UAE (of which 50k are nationals). In 2011, UAE travellers spent AED 6.6mn at Heathrow airport's retailers while UK tourists have an average per head spending of AED 2440.

- **Dubai's** non-oil **trade with Africa** increased by 700% from AED 10.6bn in 2002 to AED 84.8bn by 2011, it was revealed at the Africa Global Business Forum. Experts highlighted the win-win trade/investment links between Africa-UAE/ Dubai whereby the former can be the source of manufacturing and packaging agricultural products, while Dubai can provide the logistics and infrastructure to market and re-export these products.
- **Sharjah** has announced two road projects valued at AED 1bn; these aim to reduce traffic congestion and improve connectivity to Dubai's main roads but no time frame was revealed for this project.

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