

Weekly Economic Commentary – May 12, 2013

Markets

The rally continues across global **equity** markets, with both Dow Industrials and S&P 500 at new historical record highs; MSCI's world equity index touched a 5-year high. **Regional** markets were mostly higher amid positive sentiment with Egypt leading the group. The **dollar** index surged and the **yen** hit a 4.5 year low against the greenback. The firmer dollar led to a dip in **gold** while **oil** prices held up.

Global Developments

Americas:

- **Initial jobless claims** unexpectedly dropped by 4K to a 5-year low of 323K. The four-week moving average touched a 6 years low of 336.75K suggesting gradual labour market recovery.
- US **Consumer credit** growth came below expectations at \$8 billion in Mar sustained by auto and student loans. Households remain wary of swiping their credit cards.
- **Brazil's inflation** in Apr reached 6.5% yoy, after 6.6% in Mar. Monetary conditions remain relaxed but less expansionary, so it is widely expected that the uptrend in inflation from end 2012 has run its course. Stimulus measures have failed to boost production while exerting pressure on prices.
- **Canada's PMI** tumbled to 52.2 (seas adj.) in Apr from 61.6 in Mar.

Europe:

- Markit's **Eurozone composite PMI rose marginally** to 46.9 in Apr from 46.5. Germany's services sector contracted

for the first month in 6 while contractions accelerated in France, Italy and Spain.

- **German industrial production** accelerated its pace to 1.2% mom in Mar from Feb 0.6%. **Factory orders** rose by 2.2% mom, as in Feb. Export orders rose 2.7% mom with orders to the euro area surging 4.2%.
- **German exports fell** 4.2% yoy sa in Mar after dropping 2.8% in Feb. Imports fell by 6.9% yoy so the trade surplus dropped slightly to EUR17.6 bn.
- **French industrial production dropped** by a more-than-expected 0.9% mom in Mar after a +0.8% in Feb. Industrial activity shrank 3.2% yoy in Q1.
- **UK industrial output** beat forecasts increasing 0.7% mom in Mar (Feb: 0.9%), partly due to a surge in electricity and gas production.

Asia and Pacific:

- **Chinese exports rose** 14.7% mom in Apr, exceeding expectations, following a 10% rise in Mar.
- **Consumer prices inflation in China accelerated** to 2.4% yoy in Apr from 2.1% yoy in Mar lifted by food items.
- **China** added 792.9bn **Yuan loans** in Apr, exceeding expectations, but lower than the CNY 1.06 trillion added in Mar. M2 money supply growth accelerated to 16.1% yoy from 15.7% yoy in Mar.
- **Industrial production in India** rose 2.5% mom in Mar after inching 0.5% in Feb. Capital goods production rose 6.9% yoy and basic goods increased 2.6% yoy but intermediate goods fell 0.2% yoy.
- The Kuala Lumpur stock market rallied on the news that **Malaysia's** long ruling coalition won a tight **election**, but the results nevertheless were contested by the opposition which widened notably its electoral base in urban areas.
- The Reserve Bank of **Australia** cut its benchmark interest rate by 25 bps to 2.75%.

- The Bank of **Korea** unexpectedly cut its rate by 25bp to 2.50%, citing uncertain external environment, low inflation and sluggish domestic demand.
- **Indonesia**'s Q1 GDP growth held up at 6% yoy, compared to 6.1% in Q4. Domestic demand is sustained by robust investment and a private consumption, while external demand is subdued.

Bottom line: The limited data flow in the second week of the month did not change much the outlook. The informal meeting of G7 Finance Ministers ended without an official communiqué but participants stressed that there was a broad agreement not to pursue currency depreciation policies for domestic gains. On other issues positions remain distant. In particular German Finance Minister Schäuble opposes pressure to boost German growth through public spending, insisting that such measures would destroy confidence. He insists that every country must put its finances in order; while others stress that imposing austerity in all countries simultaneously would depress growth.

Regional Developments

- Net International Reserves in **Egypt**, for the first time since Oct, increased by around USD 1.0bn to USD 14.4bn in Apr thanks to a Libyan deposit of USD 2.0bn at the Central Bank of Egypt.
- **Egypt**'s budget deficit grew to 10.1% of GDP or EGP 175.9bn (USD 25.3bn) in the nine months to Mar, according to the new Finance Minister. Meanwhile the Investment Minister was quoted saying that 2012/13 budget deficit would rise to 11.5% of GDP by June.
- Urban inflation in **Egypt** was up 1.5% mom and 8.1% yoy in Apr (Mar: 7.6%) on higher food prices, a weaker EGP and energy shortages.
- **Qatar** will provide **Egypt** with up to 24 cargoes of almost 3.3bn cubic feet of natural gas each from end-May to meet its energy needs.

- The head of USAID revealed that the organisation had spent almost USD 9bn in **Iraq** since 2003.
- **Jordan** and the US are in negotiations to finalise USD 200mn financial assistance plan; the signing is expected over the next two weeks.
- Kuwait will finance energy projects in **Jordan**, valued at USD 215mn and to be implemented by 2016. This is part of Kuwait's USD 1.25bn contribution towards the USD 5bn GCC grant to the country.
- **Lebanon**'s Energy Minister stated that its offshore fields show reserves of 30 trillion cubic feet of natural gas and 660mn barrels of oil.
- In a move to tackle unemployment, the Central Bank of **Oman** issued a new rule stipulating that commercial banks' **loans to SMEs** shall not fall below a minimum of 5% of its total loan portfolio. Banks have until Dec 2014 to achieve this target.
- **Oman** floated the possibility of issuing **dollar denominated bonds** in 2014 if required by adverse oil price fluctuations, the Minister responsible for financial affairs stated. More clarity around the decision will come in Oct this year amid government budget preparations, he added.
- S&P's maintained a stable outlook for **Qatar**, citing its "high economic wealth and strong fiscal position" outweighing its "institutional shortcomings, limited monetary flexibility, and its banks' likely increasing dependence on external financing".
- **Qatar** Petroleum is planning to list four of its subsidiaries on the Qatar Exchange in the coming years; the IPOs are estimated at about USD 50bn.
- **Saudi Arabia**'s non-oil exports fell 5.9% in Mar to SAR 17bn (USD 4.6bn) largely due to a drop in petrochemical exports. UAE received the largest share – about 14% – of Saudi's non-oil exports in March, followed by China (10.8%) and Singapore (6.3%).
- PMI in **KSA** fell slightly to 58.0 in Apr (Mar: 58.9) –

the lowest in five months – but, anecdotal evidence points to improvements in operating conditions.

- **Saudi Arabia recorded the world's third largest financial reserves**, behind China and Japan and rising by 21.5% to USD 541bn, thanks to the higher oil prices and output last year.
- The Head of **Saudi Arabia's** CMA revealed that a new regulatory framework was being discussed which would allow for foreign stock ownership, to attract technical expertise and professional competencies.
- The **Saudi** Commission for Tourism and Antiquities has proposed a SAR5bn (USD 1.33bn) fund for tourism projects in the Kingdom. There are also plans to ease tourist visas.
- **Travel and tourism** in the Middle East is expected to pick up by 4.2% this year, contributing almost USD 76.6bn directly to GDP, as per the World Travel & Tourism Council Economic Impact 2013 outlook.
- The GCC nations are spending close to AED 1150bn (USD 313bn) in airport development, with the UAE spending more than AED 85bn (USD 23bn) of which Dubai accounts for AED 58bn (AED 15.8bn) for its two airports. IATA expects that Middle East airlines would post more than 50% rise in profits to USD 1.4bn in 2013.

UAE Focus

- **Dubai Group** has agreed with creditors to restructure USD 6bn of loans, finally ending uncertainty over one of the emirate's biggest debt hangover. Bloomberg meanwhile reported that the Investment Corporation of Dubai will increase the size of a planned syndicated loan to USD 2.45bn from the original USD 2bn value. Additionally, the Dubai government repaid a AED 3.3bn (USD 0.9bn) debt upon maturity, hence reaffirming the commitment of the government to honour outstanding debt obligations.
- UAE **PMI** was at a 5-month low of 54 in Apr (Mar: 54.3);

HSBC stated that while overall new orders were still strong alongside rising employment and higher output, softer exports were still a concern.

- **Foreign assets** of UAE banks increased by 23.3% yoy to AED 306.5bn (USD 83.4bn) at the end of 2012, due to rise in securities abroad, deposits with foreign banks and due from headquarters and branches, while foreign liabilities grew by 8.6% to AED 315bn (USD 85.8bn).
- IFC is cooperating with the UAE Ministry of Finance to draft a **moveable assets law** that would enable companies would be able to use machinery and other assets to back loans, hence improving financing conditions.
- **Dubai Expo** is likely to create close to 77,149 jobs between 2013-2021, with about 40% in the travel and tourism sector, according to an Oxford Economics report. 90% of the total projected 277,149 employment opportunities would occur during 2018-2021 and thanks to the demand generated by the 25mn expected visitors.
- The **Abu Dhabi** Executive Council has approved **infrastructure projects** valued at AED 1.5bn (USD 0.41bn), with focus on Khalifa City (A), Sheibat Al Watah Housing Project and the Zayed City-Ghayyath Highway; housing projects for nationals also remains a top priority, according to the officials.
- Dubai World Central (**DWC**) reported a 7.8% increase in cargo volumes to a total of 53,974 tonnes while air traffic movements at the airport rose 16.8% to 4,104 in Q1 2013.