

Weekly Economic Commentary – May 19, 2013

Markets

China **stock markets** fell the most in three weeks on growth outlook concerns and restrictions on real estate transactions to reduce house price inflation. European indices halted a rally mid-week after weak Eurozone GDP growth disappointed but corroborated speculation of further stimulus by the ECB, keeping markets afloat. **Regionally**, markets were mixed as Dubai and Abu Dhabi continued a rally and Cairo's gauge rebounded strongly while Kuwait and Saudi gained marginally. The **euro** lost ground again amid heightened speculation of further stimulus by the ECB, the **dollar** surged against major currencies while the **yen** plummeted for the third consecutive week. **Gold** fell last week in the worst decline since Feb and **crude** dipped on demand concerns amid weak Eurozone growth.

Global Developments

Americas:

- **US retail sales rose** 0.1% mom in Apr (3.7% yoy), the slowest since 2009. Excluding auto, sales fell 0.1% mom in part due to lower gasoline prices. Core sales rose 0.6% mom, the strongest pace of the year.
- US **industrial production fell** by a more than expected -0.5% mom in April after a revised +0.3% in Mar. Factory output declined -0.4% and utilities output slumped -3.7% due to milder weather.
- US **housing starts fell** sharply by -16.5% mom in Apr to an annual rate of 853K; apartment construction dropped -39%, reversing last month's +26% rise. In a more positive note, **building permits** surged 14.3% mom to the highest level in 5 years. Separately, the **NAHB housing**

market index rose more than expected to 44 in May from 41 last month. Essentially the housing revival continues despite hiccups.

- The **US consumer price index fell** for the second consecutive month by a more-than-expected -0.4% mom and 1.1% yoy in Apr (Mar: -0.2% mom). Core inflation, excluding food and energy costs, rose 0.1% mom.
- **US initial unemployment claims rose** more than expected last week, adding 32K to reach 360K. The four-week moving average rose by 1,250 to 339,250.
- University of Michigan **Consumer Sentiment index** improved in May 7.3 points from Apr to settle at 83.7, its highest level since mid-2007.

Europe:

- The **Eurozone economy contracted** for the 6th consecutive quarter with GDP falling -0.2% qoq in Q1 (-1% yoy) following a -0.6% contraction in Q4. **German** GDP expanded by a disappointing 0.1% qoq (-1.4% yoy) after shrinking -0.7% in Q4, and **France** slipped into a recession, contracting -0.2% qoq. Italy's GDP contracted by -0.5% (-2.3%yoy) marking the 7th quarter of recession, the longest since the start of GDP series.
- **Eurozone industrial production rose** at a stronger pace of 1% in Mar as against a revised 0.3% in Feb. On an annual basis, output was down 1.7% yoy and was up 0.3% in Q1 (Q4: -2.1%).
- **Economic sentiment in Germany stabilized** in May with the ZEW gauge at 36.4 point from 36.3 in Apr. The Current situation index deteriorated to 8.9 from 9.2. The ZEW **Eurozone** economic sentiment index rose less than expected to 27.6 from 24.9.
- **Eurozone consumer inflation slowed** to a 3-year low of 1.2% yoy in Apr (Mar: 1.7% yoy) mainly on a drop in energy prices.

Asia and Pacific:

- **Japan's GDP grew** at an annualized 3.5% in Q1, surpassing expectations. Private consumption added 2.3% to growth while business investment was the main drag for the 5th consecutive quarter, subtracting 0.3% from growth.
- **Japan's core machinery orders surged** 14.2% in Mar (2.4% yoy), beating expectations, after a revised 4.2% in Feb.
- **Japan's consumer confidence index fell** to 44.5 in Apr from 44.8 in Mar hit by drops in overall livelihood and planned purchases of durable goods.
- **China's industrial production increased** by a less than expected 9.3% yoy in Apr, from 8.9% in Mar due mainly to a base effect. Steel production weakness signals that the investment-driven growth is sagging.
- **China's fixed investment growth slowed** to 20.6% yoy in April, from 20.9% in Mar, as restrictions on the house purchases affect construction. Investment in public structures, autos and utilities continues apace. Credit growth data are consistent with higher investment growth after the summer.
- **China's retail sales expanded** 12.8% yoy in Apr (Mar 12.6%). Since Jan sales have been pushed by purchases of household equipment from new property owners.
- **Malaysia's GDP growth** unexpectedly **slowed** to 4.1% yoy in Q1 from 6.5% in Q2. Manufacturing slowed sharply to 0.3% (Q4: 5.7%) and mining contracted by -1.9% while private and public consumption continued to drive growth.

Bottom line: Eurozone macro data continue to come below expectations with even Germany stalling and France in recession. Nevertheless markets continue to ignore these factors and with sovereign spread between core and periphery dropping and auction of new issuance well bid. Japan economy seems to have gained some traction although it remains to be seen if it is sustainable. China's weak patch continues, but should be interpreted as an adjustment phenomenon not a long term downtrend. US data were broadly weak which is in sharp contrast with market and consumer sentiment.

Regional Developments

- The IMF has warned **Bahrain** to rein in public spending to counter unsustainable debt levels, following a boost in spending last year, post-domestic unrest. Gradual fiscal consolidation of close to 7.7% of GDP over the next 2-3 years is required, or else the country runs the risk of public debt levels reaching 61% of GDP as early as 2018 according to IMF estimates.
- **Egypt's** Parliament has passed a **new income tax** law that raises taxes on wealthy and reduces it for lower income groups, and once ratified by the President is likely to help with IMF's negotiations. Those earning more than EGP 250k would be taxed at 25% compared to 20% previously while those earning less than EGP 5k will be exempt from taxes.
- Inward **remittances** into **Jordan increased** by 3.67% yoy to USD 1,131mn in the first four months of this year, according to the Central Bank of Jordan. CBJ also reported that income from the tourism sector reached USD 1,080mn during the same period.
- South Korea has provided **Jordan** with a **loan** of USD 28mn to fund the first phase of a sewage network in southern Amman as well as establish a central water purification plant.
- **Kuwait's** construction projects are currently valued at USD 250.6bn, according to Zawya, also including the government's ambitious four-year USD 108bn National Development Plan which includes a new USD 6bn airport terminal, USD 7bn metro, new refinery and hospitals.
- A day after **Moody's revised the outlook** of **Lebanon's** sovereign bonds to **negative**, it also changed to negative the outlook on the long-term local-currency Ba3 deposit ratings of the three largest Lebanese banks: Bank Audi, BLOM Bank and Byblos Bank.
- Oman recorded **nominal GDP** growth of 11.5% to OMR 30.03bn (USD 78bn) in 2012, boosted by oil prices and higher

public spending. Oil sector GDP rose 10.9% while the non-oil sector grew even faster at 12%.

- **Consumer inflation in Oman fell** 0.3% mom in Mar. On an annual basis, the CPI rose a paltry 2.3% yoy.
- Oman **oil exports rose** 14.8 % yoy in Q1 to 74.8mn barrels. Over the period, Oman imported more fuel to meet domestic demand after a two-month maintenance shutdown of its main refinery (Orpic) cut oil output by 42%.
- Fitch affirmed its **stable rating** for seven **Qatari** banks, based on the “robust economy and the authorities’ strong track record of support for local banks” including measures to boost capital and asset purchases.
- **Qatar**’s Ministry of Awqaf and Islamic Affairs is planning to re-evaluate the size of endowments (Waqf), currently estimated at QAR 5bn (USD 1.37bn). The Ministry mentioned that new products are also likely to be developed to increase the size and assets of endowments.
- **Qatar** and Switzerland are expected to launch an investment fund valued at EUR 400mn in June, with the funds used to finance projects in specific sectors like real estate, hospitality and banking.
- International reserves in **Qatar** touched USD 38bn in March 2013, according to a recent QNB report, with USD 5bn added to the reserves in just three months up to March. Reserves at end-Dec 2012 were USD 33.1bn.
- **Optimism is on the rise** in the manufacturing, construction and business services sectors in **Saudi Arabia**, according to NCB’s Business Optimism Index for Q2.
- **Saudi Arabia**’s Ministry of Municipal and Rural Affairs has estimated that **urbanisation would reach 88% by 2025**. Additionally, a new survey by the Supreme Commission for the Development of Riyadh expects that the capital city will be home to 8.2mn people by 2030, of which 75% would be nationals and that around 680k jobs and 606k housing

units would be required to meet the future demand.

- **IFC** launched about 27 advisory projects and made a total **investment of USD 2.9bn** (including USD 700mn in mobilisation of funds) in **MENA** region in the fiscal year ending June 2012.
- The Greater Arab Free Trade Area (**Gafta**) recorded a trade surplus of USD 400bn or around 15% of GDP in 2012. However, the intra-regional share has fallen to 10.7% and further reduction of customs duties and other barriers to trade is necessary to boost intra-region trade. Hopes are on a final agreement on a unified customs regime which could lead to the implementation of a genuine free trade zone.
- Sovereign wealth funds (**SWFs**) in the Gulf have started to **shift focus to local investments**: value of assets allocated to SWFs invested locally in 2012 have increased by 10% yoy as per Invesco's Middle East Asset Management 2012 study and quoted in KPMG's latest report on SWFs.

UAE Focus

- **Eureeca.com** a CrowdFunding Platform was launched aiming to enable capital raising online by entrepreneurs, growth companies & SMEs.
- IIF reported that **UAE's GDP** growth would moderate to 3.6% yoy or USD 395bn this year (2012: 4.8%) and rise further to USD 410bn in 2014. "Higher government capital spending in Abu Dhabi and continued robust growth in trade, tourism, and transportation in Dubai has helped the expansion of non-oil economy of the UAE, lower its breakeven oil prices", according to the IIF.
- **UAE's GDP has grown more than 200 times since 1970**, with the **construction** sector contributing 10.3% to GDP in 2011 and projected to reach 11.1% and 11.5% by 2015 and 2021 respectively, according to UAE's Minister of Economy. He was also quoted saying that the **knowledge-**

- based economy** would contribute up to 5% of GDP by 2021.
- **Dubai World Central** has secured close to AED 24.5bn (USD 6.7bn) in investment so far, with AED 22bn coming from the Dubai government and the rest from private investments, according to the COO of Dubai Aviation City Corporation. Emirates Airlines is expected to invest an additional AED 500mn to train its pilots and crew within DWC.
 - **UAE's** expats sent about AED 70.5bn (USD 19.2bn) in **remittances** to their home countries last year; this accounted for almost a quarter of the total remittances from the GCC, according to a senior UAE official.
 - **Dubai's inflation** reached a two-year high of 0.9% yoy in Apr (Mar: 0.6%), but recording a muted monthly rise of 0.1%. Rental prices increased by 0.8% yoy and 0.5% mom in Apr, but the pass-through has not yet shown up in the headline numbers.
 - The Dubai Gold and Commodities Exchange (**DGCX**) crossed a significant milestone in Apr, recording a cumulative trading volume of USD 1.025 trillion in value.
 - **Business activity in Dubai** remains strong: DED revealed that in Q1 2013, it had issued 4,582 business licenses, up 4.4% yoy, with professional licenses accounting for almost one-quarter of the total.