

Weekly Economic Commentary – May 26, 2013

Markets

Bernanke spooked global **equity** markets with the hint that QE in the US will not last indefinitely. The Nikkei lost 7.3% in a day on Thur (also hit by bad PMI data from China) while European bourses suffered losses around 2%. Wall Street was mostly unaffected, but emerging markets (including those in our region) were retrenching. It is everclearer that financial markets are abnormally dependent on abnormal monetary measures that have inflated a bubble in several asset classes given that the global economy is not strengthening. The **yen** regained ground against major currencies while the **euro** suffered. **Oil** prices were also weak due to fears of global slowdown and the downtrend in **gold** prices had some respite.

Global Developments

Americas:

- US **existing home** sales rose 0.6% mom to a seasonally adjusted annual rate of 4.97 mn in Apr, rebounding from a -0.6% mom dip in Mar. Inventories increased 12% mom, in time for the spring buying season, but remain tight. Sales of **new homes** rose 2.3% mom to seasonally adjusted 454K. The 60-day-plus delinquency rate for loans & commercial mortgage-backed conduit/fusion securities fell to 8.82% in Apr from 9.15% in Mar.
- US **durable goods orders** increased by 3.3% mom in Apr (Mar: -5.9% mom). Orders for nondefense capital goods, a proxy for business spending plans, rose by a more than expected 1.2% mom.
- Markit's US **flash manufacturing PMI** fell from 52.1 to 51.9 in May, the lowest level in 6 months. New orders

improved but employment slowed.

- US **initial jobless claims** dropped 23K last week to 340K. The four-week moving average fell by 500 to 339.5K, near a five-year low confirming a slow improvement in the labour market.

Europe:

- Markit **eurozone combined PMI** index for both manufacturing and services sectors edged up to 47.7 in May from 46.9 in Apr, somewhat above market expectations but firmly in contraction territory. The **German** figure, 49.9, indicated stagnation while the **French** index was unchanged at 44.3 confirming continued recession in Q2. Employment fell for the 17th consecutive month, with the rate of job losses rising at record since Feb.
- The **German IFO** business climate index unexpectedly rose to 105.7 in May from 104.4, the first gain in 3 months. German GDP rose 0.1% qoq in Q1 vs a revised down -0.7% in Q4.
- The **Eurozone's current account surplus** widened in Mar to EUR 24.8bn (Feb: EUR 11.5bn) – its second-largest level since 1997.
- **Inflation** in the **UK** was 0.2% mom in Apr pushing down the yearly rate to 2.4% yoy from 2.8% in Mar.
- **UK retail sales** dropped 1.3% mom in Apr (+0.5% yoy). Food sales were sapped by bad weather, but also high street sales struggle.
- **French manufacturers' confidence** index rose to a three-month high of 92, from 88 in Apr, a rare positive sign from Euro land these days.
- **Italy industrial orders** rose 1.6% mom in Mar but plunged -10% yoy. Export orders increased 3.6% mom (-6.1% yoy) and domestic orders inched up 0.2% mom (-13.2% yoy).

Asia and Pacific:

- HSBC's **China manufacturing PMI** fell from 50.4 to 49.6 in

May, signalling a contraction for the first time in 7 months.

- The **Bank of Japan** did not act further on its monetary measures, as the huge stimulus unveiled in April was deemed sufficient to move inflation up.
- **Japan** recorded a **trade deficit** of JPY879bn in Apr, an increase of 70% yoy as rising shipments of cars and metal products were offset by much higher bills for fuel, food, clothing and semiconductors. Export value rose 3.8% yoy to JPY5.78tn, while imports' value increased 9.4% yoy to JPY6.66tn.
- **Singapore's GDP** unexpectedly expanded by an annualized 1.8% qoq in Q1 (-06%yoy) after growing an upwardly revised 3.3% qoq ann. in Q4 (Prev. estimate: -1.4% qoq ann.). Separately, **industrial production** picked up by 4.7% mom ann. in Apr after dipping 3.8% mom in Mar.

Bottom line: The dichotomy between macroeconomic fundamentals and asset valuations is starting to be questioned and a more prudent attitude might be sinking in global markets over the summer. The US continues to post relatively healthy data in the key areas of labour market and real estate, but everywhere else figures depict a less cheerful picture. The sputtering of China's economy – while underscoring a difficult transition to a more modern service economy rather than a recession – casts its shadow on Asian emerging markets.

Regional Developments

- US Secretary of State John Kerry urged **Egypt** to pass economic reforms to secure a USD 4.8 bn IMF loan, which would also open the way for further aid from the U.S. Congress and international institutions.
- **Egypt's** customs duties rose to EGP 13.5bn (USD 1.9bn) between July 2012 and May 2013, roughly 65% of the target for fiscal year 2013.
- **Egypt's** highest court ruled that parts of the new electoral law were unconstitutional, leading to further

delay in the ballot for the lower House.

- The transfer of USD 3bn in aid pledged by the UAE for **Egypt** in 2011 will “take time”, according to the UAE Finance Minister.
- **Turkey** will provide a badly needed credit line worth USD 250mn for the **Egyptian** government via Turkish Eximbank, in addition to a previously agreed credit facility of USD 1.0bn.
- Tourist arrivals in **Egypt** picked up by 11.8% yoy in Jan-Apr 2013, after having fallen by almost a third soon after the uprisings. Arab tourist arrivals in Q1 2013 grew by 7.5% yoy to 520k, with the list being topped by Saudi Arabia, Kuwait and Qatar.
- Former **Iran** President and opposition-backed presidential candidate Akbar Hashemi Rafsanjani was banned from next month’s elections.
- **Iraq**’s oil revenues touched USD 7.764bn in Apr (Mar: USD 7.772bn), after selling oil at a price of USD 98.7 per barrel (Mar: USD 103.8).
- World Bank announced a financial support package for **Jordan** worth USD 150mn for assistance to refugees from Syria.
- Kafalat loans to SMEs in **Lebanon** declined by almost 25% yoy to USD 33.5mn in Jan-Apr 2013, with the agricultural sector dominating loans, accounting for 37.5% of the total.
- Commercial banks in **Lebanon** will not be allowed to provide PPP financing, according to the Central Bank Governor given that with Basel III, banks will be required to maintain high quality liquid funds. However, the Governor encouraged the involvement of investment banks, financial institutions and brokerage firms in investments into PPP.
- The World Bank expanded the coverage of **Lebanon**’s National Poverty Targeting Program from 93,900 to 160,700 people over the next five years, while also providing a soft loan of USD 30mn to support the

initiative.

- Q1 revenues touched OMR 3.456mn (~USD 8.98mn) in **Oman**, resulting in a budget surplus of OMR 931mn year-to-date or 3.1% of 2012 GDP. However, increased spending during the period (up 28% yoy to OMR 2.525bn in Q1 2013) meant that the surplus was down almost 17% yoy.
- **Qatar** will set up a USD 1.0bn **energy infrastructure fund** that will invest in power generation projects overseas. The fund, to be named Nebras Power, will be owned by 3 state-owned companies: Qatar Electricity and Water Company will hold 60%, Qatar Petroleum International will own 20%, with the remaining 20% with Qatar Holding.
- **Tunisia** and **Qatar** have been negotiating a deposit in Tunis' central bank "with easy conditions" according to Tunisia's PM. while the actual amount was not disclosed, some official sources mention a figure close to USD 1.0bn.
- A fund for Health and Education – with capital of QAR 360bn (~ USD 98.9bn) – has been established in **Qatar**. This fund will be under the direct control of HH the Emir with investments handled by the QIA and the capital will be paid from the government revenues in annual instalments.
- The **Saudi Arabian Monetary Agency** (SAMA) is mulling over regulations to unify and fix mortgage rates among banks and financial companies.
- The IMF expects **Saudi Arabia's** economic **growth** to slow to 4.4% yoy in 2013 from 6.8% in 2012, citing expectations of lower oil prices and slower government spending. It also warned of an overheating danger. Meanwhile, **food price inflation** accelerated to an all-time high of 6.2% yoy in Apr from 5.3% yoy in Mar.
- **Saudi Arabia's** Aramco is expected to import up to 8.9mn barrels of diesel in June – a near-record high – to meet demand, up from an estimated 6.7 to 7.5mn barrels in May while the volume is expected to remain steady or higher in July during Ramadan. Traders also expect gasoline

imports to rise by 45% yoy to 4.5mn barrels in June.

- Of the reported 1.8mn SMEs in **Saudi Arabia**, only 71% of them are actually operating. Of these, 48% are in trading, 11% in manufacturing and 10% in services according to the Chairman of Kafala program.
- **Chevron** is in late-stage talks to sell the bulk of its downstream assets in Egypt and Pakistan, according to Reuters, for about USD 300mn.
- **FDI** into the Middle East and Africa (MEA) region fell in 2012, according to the fDi report 2013, but was the only region that reported a rise in outward FDI (+9% yoy). Much of the FDI into the Middle East came from within the region, underscoring its role as a regional player. UAE was the top destination country, with 291 projects, ahead of South Africa, Saudi Arabia and Oman. Not surprisingly, Syria witnessed a massive decline in the number of inward FDI projects by 92.86% in 2012.
- Total investments in **MENA power projects** are expected at USD 283bn for 2014-18, according to a study by Apicorp. Fast-growing electricity demand and lagging supply makes these projects necessary, but they are facing obstacles because of poor funding resources.
- **Middle East construction** disputes have dropped by 42% to USD 65mn, but still remain the highest in the world, according to a report titled "'Global Construction Disputes: A Longer Resolution". It takes 14.6 months to settle a dispute in the region compared to the global average of 12.8 months.
- The IFC, along with other international organisations including the EIB, Agence Française de Développement and the European Commission, announced the launch of an investment facility of USD 400mn towards **SME funding in the Middle East**.

UAE Focus

- **UAE real GDP** grew 4.4% yoy in 2012 to AED 1.025trillion

(USD 0.28trillion) supported by higher oil prices and non-oil sector expansion, according to official data.

- **Industrial sector** contribution to GDP will be increased to 25% in the coming years, stated the UAE Minister of Economy at a recent media briefing. Investment in the industry sector increased to AED 114.5bn (~USD 31.17bn) in 2011 from AED 72.6bn in 2007. Gulf investors accounted for 3.4% of the investors while foreign investors contributed AED 9.4bn (8.3%).
- The **Abu Dhabi** Executive Council has approved and allocated AED 330bn (~USD 89.8bn) towards major development projects across the Western Region over the next 5 years.
- Population in **Abu Dhabi** is increasing by one person every 2 minutes 48 seconds according to the Abu Dhabi Statistics Centre and has reached 2.5mn this year.
- **Dubai metro** passengers in Q1 2013, increased to almost 33.34 million.
- Dubai trails London as the second largest **retail destination**, as tracked by a CBRE report which also placed Abu Dhabi fourth on the list of new locations for luxury brands.

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