

# Weekly Economic Commentary – June 2, 2013

## Markets

**Stock markets** were again aghast at the new drop in the Nikkei. US stocks fell for the week but remain near record highs, and European indices trimmed gains this month, retracting for the second week. By contrast, **Regional markets** were rather perky: Dubai's DFM rose to a 54-month high on positive sentiment, also aided by speculation of the possible MSCI upgrade to emerging markets status on June 11; except Kuwait other markets gained. The **euro** fell from a 3-week high on record unemployment in the currency bloc and weak German retail sales; the **yen** rallied against the dollar. Oil prices maintained a soft tone while gold regained some ground.

## Global Developments

### Americas:

- The **US** 10-city composite **Case-Shiller home price index increased** 1.4% mom in Mar almost stable from 1.5% in Feb. The 20-city composite was up 1.1% mom versus 1.3% in Feb.
- **US consumer confidence increased** 7.2 in May to 76.2, beating expectations after a similar gain in Apr. The index is now at a post recovery record sustained by the expectations component. However, **US consumer spending** fell -0.2% mom in Apr following a modest 0.1% gain in Mar.
- **US initial jobless claims** rose 10K to 354K with continuing claims up 63K to 2.99 mn. Claims are 27K above their Apr post-recession low. Slow labour market improvement.
- **Canada GDP** grew 2.5% qoq ann. in Q1 (1.4% yoy), the

fastest pace since mid-2011, led by stellar export performance, +6.2%.

- **Brazil's GDP** grew 1.9% yoy in Q1, +1.4% in Q4. The stimulus package has affected inflation more than output, thereby sapping consumption.

## Europe:

- **Euro zone's M3 money supply increased** unexpectedly in Apr. 3.2% yoy, from 2.6% in Mar, due to overnight deposits and money in circulation offsetting a contraction in marketable instruments.
- **Euro zone inflation rose** to 1.4% yoy in May from 1.2% in Apr. Inflation remain subdued due to the recession and anemic commodity markets.
- **Eurozone economic confidence** index **crawled up** to 89.4 from 88.6 in May. The business climate indicator improved to -0.76 from -1.04 while the consumer confidence index remained unchanged.
- **France, Spain and Holland** got a breather from fiscal discipline from Brussels. The supposedly draconian limits approved a year ago have already been dismantled with the excuse of mounting social unrest. Fiscal credibility is no longer high on the political agenda.
- The **unemployment rate** in the **Eurozone rose to a 12.2% high** in Apr from 12.1% in Mar. The number of jobless rose by 95,000.
- **German unemployment** unexpectedly rose for the 4th consecutive month in May by 21,000 units. The unemployment rate remained steady at 6.9%.
- **Germany consumer inflation** rose 0.3% mom in May, bringing annual inflation to 1.7% yoy from 1.1% yoy in Apr. **Retail sales** contracted -0.4% mom in Apr following a milder -0.1% contraction a month earlier.
- **France's consumer confidence tumbled** to 79 in May, its lowest in more than four years, from 83 in Apr hit by the personal financial situation index.

- **UK M4 money supply** rose 0.3% mom in Apr (-0.1% yoy) after dropping -0.9% mom in Mar.

## **Asia and Pacific:**

- **Japan core CPI**, which excludes food prices, rose 0.3% mom in Apr but fell 0.4% yoy.
- **Japan industrial production increased** 1.7% mom in Apr, outstripping expectations, supported by autos and electronics.
- **China's official manufacturing CPI** unexpectedly stabilized in Apr at 50.8 from 50.6 in Mar.
- **India's GDP** expanded 4.8% yoy in Q1, almost the same as 4.7% in Q4. Construction and manufacturing were buoyant, while agriculture weakened. India is stagnating compared to China and its peers.
- The **IMF** lowered **China's 2013 growth forecast** to 7.75% this week after cutting its estimate to 8% from 8.1% last month.
- **Thailand's industrial production** dropped -3.8% yoy in Apr following a +1.2% in Mar. The lackluster global environment, combined with appreciation of the Baht, are taking their toll.
- **GDP growth** in the **Philippines** accelerated to 2.2% qoq sa to 7.8% yoy in Q1 from 1.9% (7.1% yoy) in Q4 pushed by manufacturing, construction and finance.

**Bottom line:** Forecasts on the snail pace of recovery continue: OECD expects global real gross domestic product to rise 3.1% in 2013 and 4% in 2014. OECD economies are forecast to expand at the slower rates of 1.2% this year and 2.3% the next. The weakening of fiscal discipline is unlikely to spur growth in European countries characterized by a rigid labour market, a tangle of red tape and zombie banks.

## **Regional Developments**

- Revenue from the **Suez Canal** – one of the main sources of

foreign currency for **Egypt** – **dipped 6.2%** yoy to USD 406.1mn in Apr 2013 and compares to USD 407.4mn in Mar.

- **Saudi Arabia** and **Egypt** have signed a MoU on an electricity-sharing project estimated to cost around USD 2.1bn and aimed at exchanging electricity up to 3kW at peak hours.
- **Jordan**'s electricity subsidies are likely to amount to a significantly high JOD 1.3bn (USD 1.83bn) in 2013, therefore making it inevitable that electricity subsidies would eventually be lifted to curb the budget deficit, according to the PM.
- **Oman** and **Kuwait** inked a financial cooperation pact worth USD 2.5bn; provided within the framework of the GCC Development Programme, the amount (USD 250mn annually) would be used towards funding development projects in the Sultanate.
- **Lebanon**'s general elections will be postponed, after all MPs endorsed a law that extends Parliament's term till Nov 2014, making it the first time since the end of the Civil War that parliamentary elections were not held on time. Politics, governance & Syrian conflict spillover are hurting growth.
- The Central Bank of **Oman's** decision to reduce the **ceiling on personal loans** from 40% to 35% of total loan portfolio will become effective as of June 30, 2014. This came in tandem with a rule that raised ceiling on housing loans from 10% to 15% of the total portfolio.
- **Credit growth in Oman slowed** in Q1, growing by 8.7% to OMR 14.28bn (USD 37.09bn) compared to almost 20% rise during the same period a year ago. Credit to the private sector was up 9.7% to OMR 12.4bn alongside a 7.7% rise in credit to public enterprises.
- **Qatar's trade surplus widened** by 8% yoy to QAR 107.03bn (USD 29.4bn) in Q1; exports grew by 7% with Japan, South Korea and China the top export markets. Imports were up 4% yoy to QAR 22.8bn with imports of passenger cars rising 1% to QAR 2.18bn; US, China, UAE, Japan and

Germany were the top 5 import destinations.

- **Expatriates accounted for about 94% of the labour force** in **Qatar**, according to a recent QNB report, largely due to requirements in the construction sector – which is also the largest employing sector in the country. Additionally, the report revealed that the private sector accounted for 74% of total jobs while 84% of employed nationals were in the public sector.
- **S&P revised the outlook** on the long-term sovereign credit ratings of **Saudi Arabia** to positive from stable, citing stronger growth fundamentals even in the non-oil sector.
- **Total assets of commercial banks in Saudi Arabia grew** by SAR 38bn to SAR 1772bn (USD 472.5bn) in Q1 while credit growth was up 15% compared to 16.4% through 2012.
- **Women accounted for 26% of the graduating class of students from Saudi Arabia studying in the US**. Of the 1,868 female graduates, 7.4% received doctoral degrees while 63% obtained masters' degrees.
- **Saudi tourists continue to be big-ticket spenders**: spending was up 28% yoy to almost SAR 7bn in 2012 and about 74% plan to travel during the summer period.
- **Oil and gas will continue to be the major source of energy**, contributing towards almost 60% of global demand by 2040, in spite of the rise in renewable and alternate energy means according to a recent Deloitte report. It also noted that by 2025, gas would overtake oil demand with the former accounting for half of all energy demand by 2040. The report also mentions that GCC bloc aims to award gas contracts worth almost USD 68bn in the next 5 years to boost gas production.
- The **GCC** is planning to study a proposal to implement an **integrated banking system** across the region that would ease financial transactions for both individuals and companies.
- Bilateral **trade** between the **GCC and Japan** grew by 12.7% to USD 182.13bn in 2012, with crude oil comprising

almost three-quarters of the imports basket for Japan. About 58.8% of the total Japanese exports to the Gulf were motor vehicles – a fast growing sector that grew by 46.1% in 2012.

- A key topic at the Arab World Economic Forum was the state of **family-owned businesses** (FoBs): in the Arab World, these FoBs contribute almost 85% of non-oil GDP, and have been outperforming according to a recent PwC survey which showed that over 83% of the surveyed businesses recorded a growth in sales over the past year compared to 65% globally. However, corporate governance remains an issue as only 42% of such businesses have a shareholders agreement in place and almost 75% do not have any conflict resolution procedures.

### **UAE Focus**

- The UAE Federal National Council passed the **Companies Law**, and it is likely to be enacted by end of the year. The Law however does not include easing of foreign ownership restrictions as this clause is likely to be included in the **Investment Law**, which also expected to be in force by end-2013.
- The Federal **Credit Bureau** is likely to reduce borrowing costs by almost 30% once the reporting structure is in place, according to a senior Ministry of Finance official, citing World Bank statistics. To be introduced in phases, the credit bureau would initially compile a database of individual borrowers with their 2-year credit history, followed by a database of commercial companies (& including financial information on borrowing by government companies) and subsequently ratings for individuals and companies by July 2014.
- UAE Central Bank data show that **deposits increased** by 2.9% yoy in Apr (Mar: 2.6%), boosted by a pickup in residents' deposits which grew by 7.3% in Jan-Apr. Loans dipped 0.3% to AED 1.12trn, lowering loan to deposit

ratio to 91% compared to 94% a year ago.

- **Balance of Payments** surplus in the UAE hit an all-time high of AED 244.2bn in 2012 (2011: AED 187.1bn), supported by high oil prices (and hence exports) which outweighed the surge in imports to AED 814.8bn (2011: AED 717.7bn). Capital outflow was quite high in 2012, rising to AED 30.7bn (net) compared to a net inflow of AED 2.7bn the year before.
- Emirates NBD and Dubai SME have entered into an agreement to develop and implement the **Credit Guarantee Scheme** of the Mohammad Bin Rashid Fund, which has been established to help Emirati SMEs. Altogether, about AED 50mn (USD 13.6mn) is likely to be disbursed in new loans through the bank's network with risk management support provided by a credit risk team.
- **Abu Dhabi** has commenced construction of its second **nuclear reactor**, with the aim for it to be operational by 2018 and for its proposed four reactors to be fully working by 2020. Once completed the reactors will help UAE reduce up to 12mn tonnes of carbon dioxide emissions each year.
- Passenger traffic through **Dubai airport** increased by 19% in April, with a total 21.9mn passengers going through the gates in the period Jan-Apr (up 16% yoy), while freight volumes also grew by 7.3% to 199,985 tons in Apr.
- **Dubai's** Department of Tourism and Commerce Marketing revealed that tourism was up by 10.3% yoy in Q1 2013 and it is expected to grow by almost 10% annually, doubling to about 20mn tourists by 2020.
- MasterCard expects that **international visitors to Dubai** are likely to spend about USD 10.4bn this year – the eighth highest globally in a list topped by New York (USD 18.6bn) and London (USD 16.3bn). Separately, the company also ranked Dubai as the 7th highest among global destination cities in 2013, rising one place compared to 2012, and a total of 9.89mn arrivals in

2013.

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