

# Weekly Economic Commentary – June 16, 2013

## Markets

**Global equity** markets headed south last week: The Nikkei took another hit after the BoJ made a sudden u-turn on further stimulus, while China's gauge opened in negative territory after a long-weekend of data pointing to slower growth in Q2. US counterparts paid little heed to S&P's improved US debt-rating outlook; the Fed's QE tapering narrative remained the dominant focus. **Regionally**, Qatar and UAE markets surged on inclusion in MSCI's emerging market index, while Egypt's benchmark posted losses. The **yen** rose to a two month high and the **euro** touched a 3-month high against the greenback. **Gold** was volatile amid speculation of stronger US growth and the dollar's slide. The weaker dollar also helped support an **oil** price rebound.

## Global Developments

### **Americas:**

- **US wholesale inventories** increased a modest 0.2% mom in April after rising 0.3% mom in Mar. Auto inventories, which surged 1.9%, contributed the most to the gain.
- S&P upgraded **US debt outlook** from 'negative' to 'stable' citing the strength of the US economy and monetary system and receding recession risks.
- The **US current account deficit** rose in Q1 to USD106.1 bn from USD 102.3 bn in Q4.
- **US industrial production was flat mom in May**. Manufacturing output scored a paltry +0.1% after declines in Mar and Apr. Factory output is being hit by weak global growth and the federal budget sequester.
- The **Case-Shiller US house price index** expanded 16.7% qoq

ann. in Q1, twice as fast as in Q4, reminiscent of the heydays of the housing boom.

- US **initial jobless claims** dropped 12K to 334K; continuing claims were almost stable at 2.97mn. The Memorial Day distorted the figures which have been oscillating very widely in recent weeks.
- US **retail sales jumped 0.6% mom** in May well above expectations after a +0.1% in Apr and a -0.3% in Mar. Autos provided a stimulus with a +1.8% mom. Excluding autos sales rose 0.3% a sign that private consumption is keeping the economy going.
- Net **US long-term capital flows** were negative in Apr for the third month in a row at USD -37.3 bn, compared to USD -13.4 bn in Mar. The outflow resulted from both private and official foreign investors selling U.S. financial assets.

## Europe:

- **Eurozone industrial production** unexpectedly rose in April by 0.4% mom after rising a revised 0.9% mom. Industrial production in Germany expanded 1.2% following a 1.8% rise and France's output rebounded by 2.3% after dipping -0.6% a month earlier; Italy' IP dropped -0.3% mom after a -0.6% in Mar.
- **UK industrial production** crawled up 0.1% mom (-0.6% yoy) in Apr. Manufacturing contracted -0.2% mom and -0.5% yoy.
- **Italy's Q1 GDP** contraction was downwardly revised to -0.6% qoq and -2.4% yoy as against an initial estimate of -0.5% qoq and -2.3% yoy. Weak domestic demand and a 1.9% qoq plunge in exports was the main drag on growth.

## Asia and Pacific:

- **Japan's GDP** was revised up to 1.0% qoq in Q1 from the initial estimate of 0.9% due to an upward correction in capital spending (to -0.3% from a larger -0.7%

initially).

- The **Bank of Japan** left all policy key targets unchanged after its latest monetary policy meeting. The BoJ will aim to increase the monetary base by JPY 60 trillion to JPY 70 trillion annually.
- **Core machinery orders in Japan** tumbled 8.8% mom and 1.1% yoy in Apr (Mar: +14.5% mom), implying sluggish capital spending despite of Abe's efforts to induce higher spending.
- **India's wholesale price inflation** declined to 4.7% yoy in May from 4.9% in Apr. Food inflation is waning, dragging down also core components.
- Fitch revised **India's credit-rating outlook** to 'stable' from 'negative' citing the measures taken by the government to contain the budget deficit and boost growth.
- In an unexpected move, Bank **Indonesia** cut its benchmark interest for the first time since 2011 by 25 bps to 6%.
- **Retail sales in Singapore** fell 0.5% yoy in Apr (Mar: -7.4%) while the food and beverages sector recorded an uptick of 0.6%; on excluding motor vehicles, sales were up marginally by 0.2%.
- **Malaysia's** industrial production rose 4.7% yoy in Apr, after falling 0.1% yoy in Mar thanks to a better post election outlook.

**Bottom line:** The normalization of monetary policy remains the overriding focus of financial markets with the Fed policy signal setting the general tone. The debate centered on tapering versus tightening, and sometimes comical attempts to draw a clearer distinction between the two. The liquidity party is coming to an end and with it the artificial support for asset prices. Although nothing substantial is expected until next Wednesday's Fed meeting and press conference markets have realized that without an improvement in fundamental macroeconomic conditions the bubbly conditions will not last much longer.

## Regional Developments

- The **MSCI** announced that **Qatar and UAE** would be reclassified to emerging market status from frontier previously from May 2014. This move is likely to attract a new set of investors and additional foreign capital into the markets. All markets – Doha Exchange, DFM (which had earlier seen the largest single-day drop since Mar 2012) and ADX – witnessed significant upswings after the news. MSCI also warned that **Egypt** could be excluded from the Emerging Market Index given investors' difficulty in repatriating money.
- **Egypt's** Central Bank Governor revealed that the government was in its final stages of verifying the economic reform programme with the IMF before the USD 4.8bn loan is to be granted.
- **Suez Canal** revenues were up 1.0% yoy to USD 438.1mn in May (Apr: USD 406.1mn), not only due to the rise in toll fees but also due to an increase in tonnage of oil and container cargo vessels passing through.
- Hassan Rohani was elected President in **Iran** by a landslide, gaining over 18.6m out of more than 36.7m votes. He has underlined a moderate tone on foreign policy, pledging to tackle economic issues.
- Japan will provide **Iraq** with loans of USD 861mn to build a refinery to extract liquids out of natural gas, and another USD 408mn to rebuild Khur al-Zubair port, according to a Japanese newspaper report. The loan repayment is expected to take place over 40 years.
- **Jordan** has allocated JOD 240mn (~USD 338.9mn) towards water infrastructure development to meet rising demand, also given the additional pressure from hosting Syrian refugees. The projects, mostly funded by international donor organisations, are expected to partially meet the demand – average annual rise in water demand has almost tripled to 16% whereas the water deficit is expected at a record 600mn cubic metre this year.

- While **Jordan**'s government continues to grapple with the proposed hike in electricity prices, inflation was pegged at 7% in May, due to higher prices of fuel, transport, red meat, chicken, vegetables and fruits. This compares to 3.9% a year ago.
- Retail sales in **Beirut** plunged 14.4% in Q1 2013, according to the Beirut Traders Association-Fransabank Retail Index, with strained politics and the on-going conflicts in Syria the major reasons behind the sharp restraint in spending habits.
- Total **FDI in Oman** stood at OMR 5.9bn (~USD 15.3bn) in 2011, according to the National Centre for Statistics and Information. Investments came from 58 countries with 9 contributing 70% to the total. The UK was the largest foreign investor with OMR 2.3bn invested mostly in oil and gas followed by the UAE with OMR 980mn mostly in manufacturing.
- In its annual consultation with **Oman**, the IMF advised that 'spending restraint and non-oil revenue enhancing measures' are required to maintain longer-term **fiscal sustainability**. On spending, the IMF urged the government to ration the planned increase in workforce, cut back in goods and services spending, change subsidies and gradually raise domestic fuel prices.
- **S&P** revised upwards the outlook of three **Saudi**-based banks – Arab National Bank, Banque Saudi Fransi and the Saudi British Bank – to positive from stable, citing "their stand-alone credit profiles, their high systemic importance in Saudi Arabia, and the government's 'highly supportive' [nature] of domestic banks".
- India has requested additional oil supplies from **Saudi Arabia** in July, to meet the loss of supplies from Iran, according to company sources. India-based and state-run Hindustan Petroleum Corp will take in 84k barrels per day (bpd), more than double the 40k bpd under contract while MRPL will take in 86k bpd versus its commitment to lift 55k bpd.

- **Saudi Arabia**'s industrial cities offer a number of development projects, worth almost SAR300bn (~USD 80bn), for both domestic and international investors: of these, there are projects worth SAR 187.5bn in Jubail, SAR 93.75bn in Yanbu and about SAR 18.75bn in Ras Al Khair.
- Growing population and higher per capita incomes are likely to result in the **GCC retail market** growing at an annualised growth of 7.9% for the period 2012-2015, according to a recent Markaz report.
- **Power investments in the GCC** are likely to reach USD 250bn in the next five years according to an industry-specific report by Global Business Reports.

### **UAE Focus**

- The **IMF**, in its **Article IV** concluding statement for the **UAE**, revealed that while the country had successfully restrained spending to better manage its finances (breakeven oil prices were reduced to \$74 last year from \$84 in 2011), the possibility of another boom-bust cycle in the medium term was rising, given the sudden surge in real estate development projects. Growth is expected at 3.6% in 2013, with non-oil sector growing at 4.3%.
- **Dubai GDP** accelerated to 5.3% in Q4 2012, according to the Dubai Statistics Centre. While Q3 growth was not disclosed, growth in the period Jan-Sep was revealed to be 4.1%, taking the full year growth rate to a healthy 4.4% (2011: 4.3%).
- As the **UAE** inched one-step closer towards the **Expo 2020** bid, a EUR 150mn aid package was pledged to support Expo participants from developing nations that were financially constrained, in addition to the EUR 100mn Partnership Fund to support innovative ideas for creating opportunities, mobility and sustainability – the theme of Dubai's bid.
- The **Investment Corporation of Dubai** announced that it had raised USD 2.55bn through a syndicated loan – higher

than the USD 2.0bn it required – to refinance part of its USD 6bn facility that matures in August this year. Meanwhile, **Dubai World**'s subsidiary Economic Zones World sold the logistics warehouse developer Gazeley to a Canadian firm, with its undisclosed proceeds contributing towards the USD 1.2bn JAFZA repayment.

- Developers need to place a construction guarantee of 20% and 100% land payment before undertaking any new real estate project, according to the CEO of the Real Estate Regulatory Agency or **RERA**.
- Inflation in **Abu Dhabi** was 0.7% yoy in May, with alcoholic beverages and tobacco recording the highest increase of 8.5%, followed by furnishings and transport at 3.7% and 3.1% respectively. Inflation was 0.9% for Jan-May, with restaurants and hotels accounting for 34.7% of the increase followed by transport, at 31.4%.
- **Tourism in Abu Dhabi** is growing stronger: 2012 saw an increase of 20% in the number of in the number of hotel guests from the Gulf to 159,306 people. In the period Jan-Apr 2013, this increased by 2% to 57,300 compared to the same period a year ago,
- Citibank has withdrawn from the **Eibor panel**, prompting the Central Bank to announce that Eibor rates would be based on the submissions of the 11 banks currently on the panel.
- The recently announced **mortgage caps** by the UAE Central Bank is likely to reduce **GDP** next year by between 0.7-1.4%, according to a recent Geopolicity report. The report also highlighted that Dubai's GDP is likely to dip by up to 2.8%.