

Weekly Economic Commentary – June 30, 2013

Markets

Volatile markets marked the end of this quarter, as markets slowly recovered from Fed's announcement of a potential withdrawal of monetary stimulus alongside an easing of China "credit crunch" fears and better economic data from Japan – a sign that measures to stimulate the economy are bearing fruit. The **dollar** gained against the euro and yen, while the **rupee** continued its miserable run. **Gold** prices dipped to a three-year low, also recording the worst quarterly performance since at least 1968.

Global Developments

Americas:

- US **real GDP growth** in Q1 was revised sharply **down** to +1.8% saann, from +2.4% (vs 0.4% in Q4). The major drag on growth was a sharp downward revision to consumer spending from 3.4% ann to 2.6% ann.
- US **durable goods orders** rose by a more than expected 3.6% mom in May, matching Apr's increase. Orders for durable goods excluding transportation and defence rose for the third straight month, adding 1.1% in May.
- The US **FHFA house price index** increased 0.7% mom in Apr after a 1.3% mom rise in Mar. Separately, the **S&P Case-Shiller house price index** maintained momentum with the gauge rising 1.7% mom following a 1.2% increase in Mar. US **new home sales increased** 2.1% mom in May after a 3.3% mom rise in Apr. The inventory of new homes rose 2.5% but supply remains tight.
- The Conference Board's US **consumer confidence** index **rose** to the highest level in 5 years in Jun at 81.4 from a

downwardly revised 74.3.

- **Personal income** growth got a surprising boost in May to 0.5% mom. Wage income also surprised on the upside – growing by 0.3% – but the main drivers were interest, dividends and transfer income. Tax payments climbed up again. Nominal consumer spending and real spending rose by 0.3% and 0.2%, respectively, led by durable goods.
- Initial **unemployment insurance claims fell** by 9K to 346k, partly reversing last week's rise. The four-week moving average dropped by 2,750 to 345,750. Continuing claims were marginally lower by 1K to 2.97 million.

Europe:

- **Eurozone M3 money supply eased** to 2.9% yoy in May from 3.2% yoy in Apr. The 3-month moving average held steady at 2.9% yoy.
- **Eurozone business and consumer confidence improved** to 91.3 in June, from 89.4 in May, pushed by the confidence of manufacturers, consumers and retailers.
- The **German IFO Business climate index rose** marginally in Jun to 105.9 from 105.7. The business expectations sub-index surged to 102.5 from 101.6 while the current business conditions gauge fell to 109.4 from 110.
- **German retail sales** rose 0.8% mom in May, after 3 months of declining sales, offsetting a revised 0.1% decline in Apr.
- **German unemployment** dipped to 6.6% in Jun from 6.8% last month due to a seasonal rise in job creation. The seasonally adjusted unemployment rate held steady at 6.8%. Job seekers in **France** rose for the 21st consecutive month to a record 3.26 million in May.
- **UK** suffered a much deeper recession than earlier estimated, according to the latest figures from the Office for National Statistics: **GDP** dropped by 7.2% from peak to trough, against a 6.3% fall previously recorded. GDP grew 0.3% in Q1, unchanged from the initial

estimate.

- The EU officials reached an agreement on the **2014-2020 budget for the bloc** – at EUR 960bn, this includes the first spending cuts in the bloc's history and will still need parliamentary approval. This consensus was reached (timely!) just ahead of a Summit scheduled to discuss tackling the region's youth unemployment challenges.

Asia and Pacific:

- **Japan's core CPI** – excluding food and energy prices – held steady in May (Apr: -0.4% yoy), halting 7 months of declining prices.
- **Japan's industrial production** surged 2% mom in May following a 0.9% gain in Apr.
- **Singapore's industrial production** grew 2.1% yoy in May from a revised 5% gain in April. The deceleration was expected due to a return to normal in pharmaceutical production, which had spiked in Apr. Electronics' production also performed well.
- The **Indian** rupee tumbled further and breached the 60-mark against the dollar, but regained its lost footing on Fri when it recorded the biggest one-day gain since nine months after the government showed some signs of upcoming reforms including a domestic gas price hike – the first in three years. India also released current account figures, a tad ahead of schedule, that showed deficit had narrowed to USD 18.1bn or 3.6% of GDP in Q1 (Q4: USD 31.9bn).

Bottom line: A rather scant data flow did not change much to the global outlook, with the US still on the path for a slow recovery (actually slower than first estimates of GDP had us believe) China trying to sort out the weakness in the banking sector and Europe mired in a political and economic crisis. The main surprise came from the Bank of Japan where Mr. Kuroda made blunt statement on the sustainability of the country public debt.

Regional Developments

- **Bahrain**'s Parliament approved the 2013-14 budget plan which saw a 11% rise in spending to BHD 3.62bn this year and a further increase to BHD 3.71bn in 2014. With revenues expected to decline to BHD 2.79bn in both years, from BHD 3.0bn in 2012, deficits will widen further (2013: BHD 833.2mn; 2014: BHD 914.4mn) compared to a deficit of BHD 227mn last year.
- Growing civil unrest in **Egypt** has resulted in the **5-year credit default swaps reaching a record high of 847 bps**. This implies that it would cost an investor USD 847k a year to insure exposure to USD 10mn worth of Egyptian debt for a five-year period.
- **Egypt**'s planning ministry revealed that the economy grew by 2.2% yoy in Q1 2013, unchanged from Q4 2012 and compared to 5.2% in Q1 2012. Growth in the July-March period was 2.3% yoy, up from 1.8% in the same period last year.
- Bilateral trade between **Iran** and **Iraq** touched USD 6.35bn in the calendar year ending March and Baghdad was Tehran's third largest trade partner.
- **Kuwait**'s government set a new date – July 27 – for parliamentary elections, without providing any reasons for the shift in date by two days.
- **Kuwait** recorded an employment growth of 3.2% in 2012, with nationals accounting for 17% of employment. While private sector employment accelerated to 5.9% from 1.7% a year ago, the government continued to employ over 76% of Kuwaitis.
- **Lebanon** Central Bank governor announced that around USD 466mn had been raised from the sale of eight- and 10-year Treasury bills and that this would be sufficient "meet the needs of the public sectors". However, a public sector salary hike could see further issuances as this is expected to cost around USD 1.5bn in the first year.

- World Bank expects that **Lebanon** will miss the 2.3% growth forecast this year, owing to the extended political standoff and spillovers from Syria. The debt-to-GDP ratio, which reached 134% in 2012, is expected to remain unchanged in 2013 according to their estimates.
- S&P confirmed **Oman**'s "A/A-1" long- and short-term foreign and local currency sovereign credit ratings, given its "strong net external and general government asset positions and prudent investment policies even though they are constrained by its heavy dependence on hydrocarbons and it's challenging demographic profile". S&P expects 5.0% growth and fiscal surplus at 3.3% of GDP in 2013.
- **Oman**'s higher oil-export earnings during the first four months of 2013 resulted in a fiscal surplus of OMR 1033bn, but surplus was down almost 30% compared to a year ago (Jan-Apr 2012: OMR 1469bn) thanks to the 17% yoy increase in spending this year.
- **Oman**'s first corporate sukuk, to be issued by Tilal Development Co, received regulatory approval and the five-year, OMR 50mn private placement aims to close next month, according to its lead arranger.
- India emerged as the largest market for **Oman**'s non-oil exports in 2012 (replacing UAE), with imports at OMR 611.6mn or roughly 17% of total Omani non-oil exports, according to a Central Bank report. The UAE and Saudi Arabia, at OMR 550.4mn and OMR 329.7mn respectively, accounted for 15.3% and 9.2% of total Omani non-oil exports.
- **Qatar**'s handover of power from father to son was a landmark decision and a highlight this week; however, while policy changes are not likely following this move, an important announcement in this context was the replacement of Sheikh Hamad bin Jassim bin Jaber Al Thani, who was both the PM and Minister of Foreign Affairs previously and is also the Head of QIA. FT reported that "opinion was split" whether he would

continue in the latter role.

- The planning secretariat estimates that **Qatar** is likely to grow by 5.3% this year, though a decline in population is likely to result in lower per capita incomes. Meanwhile, fiscal surplus is expected to drop to 4.7% of GDP in 2014 from an upwardly revised 8.1% this year.
- **Saudi Arabia** became the last GCC country to shift towards Fri-Sat weekend – with benefits including reduced costs and increased business activity, this move should be seen as a harbinger of increased openness and pro-market oriented reforms.
- Foreign assets in **Saudi Arabia** reached a record high of SAR 2.601 trillion in the first five months of 2013, from SAR 2.485 trillion at the end of 2012. The bulk of May's increase was due to investment in foreign securities, which grew to SAR1.862 trn (Apr: SAR 1.807 trn).
- The **Saudi** Development Fund provided SAR 4111mn to finance 24 developmental projects in 2012, according to the Minister of Finance. This brings the total to 518 development projects and programs worth a total of almost SAR 40bn since the fund became active.
- Non-oil exports in **Saudi Arabia** declined 2.1% yoy to SAR 46.8bn in Q1, with petrochemicals topping the list (SAR 16.9bn or 36.1% of total non-oil exports). China was the top importer at 12.98% of total, followed by UAE and India at 11.3% and 5.8% respectively.
- MEED Projects reported about USD 39bn worth **construction and transport sector contracts** in GCC in H1 2013. The report highlighted Qatar Rail as the top ranked awarding client (USD 8.4bn) and ABV Rock is the top ranked contractor by value of contracts.
- Investment in **renewable energy** in the MENA region topped USD 2.9bn in 2012, as per the MENA Renewables Status Report 2013. Total primary energy supply (TPES) in the region reached about 800mn tons of oil equivalent in

2010 – a 14.9% rise compared to 2007, or an average annual growth of 4.7% over the period. Among oil importers, renewable energy use increased 27.6% from 2007 to 2010 while the share of renewable energy in the MENA region's TPES remained about 1%.

- AT Kearney's **Global Retail Development Index** 2013 saw four GCC countries retain their position in the top 20 list – UAE at 5th position (up from 7th) followed by Kuwait at 9th (up from 12th), Saudi Arabia at 16th (down 2 places) and Oman at 17th (down 9 places).

UAE Focus

- The Federal National Council passed a draft law on **small and medium enterprises** (SMEs), which includes clauses like federal departments having to award at least 10% of their purchases of goods and services to such micro or SMEs and that companies in which the government holds at least 25% of equity award not less than 5% of their purchases of goods and services to SMEs.
- A **Gulf Derivatives Exchange** is in the offing, with ADX testing waters with the industry; the proposed exchange would require many new laws, rules and regulations, and even systems according to the chief executive of ADX. *(Source: The National)*
- **Dubai's real GDP** grew 5.3% yoy in Q4 2012, according to a report by the Dubai Economic Council. The report confirms data that was earlier published by the Dubai Statistics Centre and highlights growth in the real estate and tourism/ transportation sectors.
- The **Abu Dhabi Fund for Development** signed an MoU on a grant by UAE for Morocco, as part of UAE's USD 1.25bn contribution within the GCC's Gulf Development Fund initiative.
- UAE Central Bank data reveal that UAE banks provided more than AED 8bn in **personal loans** during the first four months of 2013. Personal loans increased by 3.1% to

nearly AED 269bn at end-April from AED 260.9bn in 2012 while total loans grew by 2.1% during the same period.

- Airport **passenger traffic** increased 18.9% yoy to 5.22 mn passengers in May, compared to 4.39mn a year ago. Year-to-date, passenger traffic grew by 16.8% to 27.12 mn.

MENA Economic Associates

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