

# Weekly Economic Commentary – July 14, 2013

## Markets

US **stocks** gained momentum heading into earnings season and received a boost reaching record highs when Bernanke asserted that the US economy still needs stimulus, lifting all world bourses. In Asia, China's index led the gains after weak export data fueled speculation the government is mulling a set of expansionary measures. **Regionally**, trading volumes dipped across most markets with the beginning of Ramadan, missing the global euphoria. The **dollar** fell sharply against the **euro** and the **yen**, conversely gold prices got a jolt from Bernanke's dovish statement. Oil remained well bid: despite the uncertain global outlook, since the beginning of the year oil prices have displayed a remarkable resilience, falling only 2%.

## Global Developments

### **Americas:**

- Bernanke remarked that the **Fed** will continue to pursue a “**highly accommodative monetary policy**” to support the US economy for the “foreseeable future”, in essence a scaling back, or “tapering”, of QE3 will not entail a drastic policy tightening.
- US **wholesale inventories unexpectedly dipped** in May, falling -0.5% mom (Apr: -0.1% mom) but **sales** rose by a more than expected 1.6% mom (the fastest pace since Nov).
- **Initial jobless claims** rose 16k last week to a two month high of 360k. The four-week moving average rose by 6k to 351,750.
- **Venezuela's inflation** rate **accelerated** to 4.3% mom in June amid widespread shortages of basic goods and

surging import prices. Annual inflation reached 37.3% in June, up from 33.7% in the previous month and the highest since mid-1998.

- **Brazil's** Central Bank **raised its benchmark interest rate** by 50bps to 8.5% in an effort to curb rising inflation.

## **Europe:**

- **S&P downgraded Italy's sovereign debt** once again to BBB with negative outlook, arguing that the fiscal policy is not credible and the political situation remains confused. The government countered that the downgrade was based on a backward looking analysis, hardly a compelling argument.
- EU finance ministers approved the **entry of Latvia** as the 18th member of the **Eurozone** from January 1; however membership remains unpopular with a majority of Latvians.
- **Eurozone industrial production fell** -0.3% mom in May after rising a revised 0.5% mom in Apr. **German** industrial production fell -1% mom in May, following a 2% mom increase in Apr. Production in **France** fell by a less than expected 0.4% mom in May following a 2.2% mom surge in Apr. In **Italy**, output rose 0.1% mom following a -0.3% mom dip in Apr.
- **UK industrial output** in May remained **flat** mom and declined 2.3% yoy. Manufacturing tumbled -0.8% mom.
- In **Russia** a new **law**, to be enacted in Sep, will endow the **central bank** responsibility for nearly the entire financial system, while the monetary policy mandate assumes the broader task of pursuing 'sustainable growth'.

## **Asia and Pacific:**

- **China's trade data** came out much **below expectations** in June. **Exports** dropped -3.1% yoy, the first negative print since January 2011 YoY exports performance in

China since October 2009. **Imports** declined 0.7%. The trade balance was in surplus for USD 27.1bn. Overall the figures confirm the general slowdown although officials justified the result with the crackdown on fake exports.

- China's **new Yuan loans increased** 28.9% mom in Jun to 860.5 bn. Money supply (M2) rose 14% yoy in Jun, slowing 1.8% from May's growth rate.
- **China's CPI** held **steady** mom in June after falling 0.6% mom in May. On a yearly basis, inflation accelerated to 2.7% yoy in June from 2.1% yoy in May.
- **China's PBoC relaxed rules for RMB cross-border activities** in efforts to internationalise its currency. The latest step is to allow non-financial companies to use Yuan held within their organizations in China to extend loans to overseas affiliates. The PBoC notice also asked Chinese domestic banks to settle offshore cash withdrawals made by Yuan bank-account holders in Yuan with their overseas counterparts. Separately, China's regulators almost doubled the quota for the qualified foreign institutional investor (QFII) program to USD 150bn from USD 80bn.
- **Japan key machinery orders** rebounded strongly in May rising 10.5% mom following a -8.8% mom drop in Apr.
- Japan **industrial production** increased 1.9% mom in May after a downwardly revised 2% mom rise in Apr.
- Japan's **consumer confidence in June fell** to 44.3 against expectations for a mild increase, the first deterioration since Dec.
- **Industrial production in India** in May **fell** -1.6% yoy, worse than expected hit by infrastructure bottlenecks and anaemic demand.
- **Bank Indonesia hiked its rate** by 50bps to 6.50% after a 25 bps hike in June, taking markets by surprise, to stem the depreciation of the rupiah.
- **Malaysian industrial production decelerated** to 3.4% yoy in May (vs 6% in Apr). Public spending on infrastructure is supporting demand offsetting weak electronics output.

**Bottom line:** In Europe the drama of the week was twofold: 1) The downgrade of Italy sovereign debt two notches above junk; 2) The German government opposition to the bank resolution proposal by the EU as a number of German banks are in dire straits and would not pass a serious scrutiny. The global outlook was again clouded by additional evidence of slowdown in China and raising fears of hard landing. The IMF revised the global projections contained in the April's WE0: the world economy is expected to grow by 3.1% in 2013, down two decimals from the previous forecast. China's 2013 growth is expected 0.25% lower to 7.75%, while Japan's is expected at 2% from 1.5%. Growth in 2014 will be 3.8%, lower than April's prediction of 4%. The IMF stressed headwinds for emerging market economies, a persistent recession in the Eurozone and weaker than expected expansion in the US. In this regard for all the hype on the labour market pick up after five and a half years after the December 2007 peak, real payroll disbursements are still down by nearly 1% as 2.8 million of new jobs are low paid part-time positions. Taking a longer term perspective, in January 2000 there were 61.5 mn full-time breadwinner private sector jobs in the US. In June 2013 there were just 56.5 mn.

### Regional Developments

- Interim **Egyptian** President Adli Mansour issued a **constitutional declaration**, promising a Constituent Assembly over the next 14 days, a referendum on a new Constitution by October, general elections by February followed by presidential elections six months later. The timetable is generally deemed to lean on the optimistic side.
- Unrest in **Egypt** seems to have been stabilized with the appointment of an **interim government** where all conflicting parties are represented led by liberal economist Hazem al-Biblawi and the issuance of a plan (see above) that would restore civilian rule in a year.

Al Baradei a long time diplomat, respected by factions opposed to Morsi was named Vice-President.

- President Obama held telephone conversations with UAE Crown Prince Mohammed bin Zayed and Qatari Emir Tamim bin Hamad al-Thani – to discuss the situation in Egypt.
- **Funding for Egypt from GCC:** Saudi Arabia and UAE have pledged USD 5bn and USD 3bn respectively to Egypt in a mix of cash grants, central bank deposits and oil products. Kuwait joined the effort with additional USD 4bn, a deposit USD 2bn in the central bank, a grant of USD 1bn and USD 1bn in oil and oil products. Reuters reported that part of the funding could be converted into tradable bond securities – similar to the conversion of USD 1bn earlier this month, part of the funds received from Qatar previously. These would imply a rise in external public debt.
- **Unemployment rate in Jordan** touched **12.6%** in Q2, with vast disparities among male and female; joblessness rate among men was 10.6% and for females, this was higher at 22.4%; it was around 17% among holders of university degrees. Inflation was 6.5% yoy in H1, with higher costs in transport services (15.8%) and energy (24.5%) among others.
- **Oman banking sector assets increased** 9.5% yoy in May to OMR 21.9 bn. Total credit rose 6.2% yoy to 14.5 bn.
- **Qatar** reported a 0.5% yoy **increase in May trade surplus** to QAR 31.3bn, with exports rising 1.8% to USD 39.6bn (in spite of a drop in hydrocarbon exports) – Japan (29%), South Korea (16%) and India (10%) top export destinations – while imports grew by 7.3% to USD 8.3bn.
- **Qatar's** plans to invest about **USD 140bn in transport infrastructure** were highlighted in a Deloitte report, and this will likely result in an increased demand for accommodation alongside development of commercial units; environmental sustainability was also being improved upon.
- **Around 86% of the total 9.2mn expatriate workers in**

**Saudi Arabia earn less than SAR 2000**, according to a Ministry of Labour study. The study also placed unemployment rate around 12% and reported that the private sector provided Saudi nationals with 3mn jobs between 2008 and 2013.

- **Remittances** from **Saudi Arabia** are likely to reach SAR 109bn this year, compared to more than SAR 700bn during the last 10 years, local media reported quoting an economic expert. World Bank ranks KSA third globally by volume of remittances (USD 28.4bn) to developing nations.
- **Saudi Arabia's non-oil exports increased** by 5.9% yoy to SAR 16.02bn in May while the value of imports was up 2.8% to SAR 52.5bn. The UAE (15.6% of total), China (12.8%) and Singapore (7.4%) were top importers from KSA.
- The **Turkish central bank** intervened in the market to **support the lira**. Between USD1.5bn and 2.5bn were spent in a single day establishing a new record for intraday intervention.
- PWC reported that **IPO activity** in the GCC increased to USD 48mn from 3 issues in Q2, a decline of 86% compared to Q1's USD 337mn from two listings. Saudi Arabia topped IPO activity with two out of three listings.
- The first meeting of **GCC-Turkey** Joint Sub-Committee on Economic and Financial Issues, held last week, likely discussed means of bolstering bilateral trade and also possible solutions to control inflation rates from the Turkish experience.
- The **perception of corruption has increased in the Arab region**, as per respondents to a survey undertaken by Transparency International. On being asked if corruption has increased in the past 2 years, 37% of total respondents in Egypt replied in the affirmative compared to about 61% in Tunisia, 57% in Algeria and 29% in Libya.

## UAE Focus

- **Dubai Holding** could raise as much as USD 1bn from **sales of minority stakes** of 26% and 35% in telecom firms Axiom and Tunisie Telecom respectively, according to a research note by JP Morgan. The bank has valued the Tunisie Telecom stake at USD 650mn compared to USD 2.25bn – the value at which the stake was bought for in 2006.
- **Inflation in Abu Dhabi edged up** to 0.9% yoy in June, with price increasing across the board: alcoholic beverages and tobacco (+8.5%), furnishings and household equipment (+3.4%), transport (+2.9%), and restaurants and hotels (+2.4%). Overall, inflation in H1 was recorded at 0.9% yoy.
- Bilateral **trade** between **South Africa and UAE** is valued at USD 3bn, as per a statement by the South African Ambassador to the UAE. The UAE is the 24th largest investor in South Africa and is the largest trading partner of South Africa in the GCC region. Agricultural exports constitute a large fraction of exports to the UAE while crude oil forms one of the largest import commodities.
- **Abu Dhabi guest nights increased 22.8%** yoy to 2.1mn in Q1 this year, helping to boost the total revenues of hotel establishments by 15.1% to AED 1.4bn, according to the Statistics Centre Abu Dhabi.
- **Dubai accounts for 30% of the luxury market in the Middle East**, with “local consumption, intra-region tourism and the strong historic relevance of hard luxury and perfumes/cosmetics” key drivers, according to a Bain & Company report.