

# Weekly Economic Commentary – July 21, 2013

## Markets

**Stock markets remained skittish** after comments made by Bernanke on the future course of monetary policy. In the US, stocks ended the week with gains while concerns over financing available to property developers weighed on Chinese stocks and Japan looked volatile ahead of Upper-House elections. Most **regional markets** edged higher, Dubai and Abu Dhabi leading the gains, while Bahrain and Saudi were mostly unchanged. The **dollar fell** against most of its peers, the **euro** climbed against the pound and the **yen** pared its weekly slide against most major currencies. The WTI rose to a 16 month high, causing the **WTI-Brent** spread to narrow to under a dollar for the first time since late-2010.

## Global Developments

### **Americas:**

- In a Congressional testimony, Bernanke stated that the **Fed's asset purchases** “are by no means on a preset course” adding that “if the data are stronger than we expect, we’ll move more quickly [to reduce purchases]”. If data “do not meet the kind of expectations we have about where the economy’s going, then we would delay that process or potentially increase purchases for a time”. The Fed Chairman also stressed that the unemployment rate was not the only measure of labour market health.
- **Housing starts fell** 9.9% mom in Jun after rising 6.8% mom in May. Single-family starts held steady, slipping 0.8% mom while multi-family starts plummeted 26.6% mom. **Building permits** were **down** 7.5% in Jun, following a dip

of 3.1% in May.

- The **NAHB housing market index** rose 6 points to 57 in Jul, the third consecutive month of gains. The current expectations component rose 5 points to 60 (the highest level since 2006) and the expectations component gained 5 points to 45.
- **Industrial production** in the US **increased** 0.3% mom in Jun, recording the fastest pace since Jan, following stagnant growth in May. Manufacturing output gained 0.3% mom in Jun after rising 0.2% mom in May. **US business inventories** edged up 0.1% mom in May after downwardly revised 0.2% Apr gain.
- US **retail sales rose** by a **less than expected** 0.4% mom in Jun following a downwardly revised 0.5% mom in May. Core sales – excluding cars, petrol and building materials – rose a marginal 0.1%; the weakest gain since Jan.
- **Consumer inflation accelerated** in the US to 1.8% yoy in Jun from 1.4% yoy in May, edging closer to the Fed target. The CPI gained a more than expected 0.5% mom in Jun following a 0.1% rise in May.
- The **Fed's Jun/Jul beige book** indicated that the US economy continued to grow at a 'modest to moderate' pace over the period. The report highlighted strong residential construction demand and an improvement in new orders in factories across many of the 12 districts.
- US **initial jobless claims fell** 24k to 334k, the lowest level since May and the four-week moving average fell 5,250 to 346k.

## **Europe:**

- The **Greek Parliament** narrowly approved a host of **new austerity measures** including layoffs and wage cuts for civil servants, further budget cuts and a new tax code aimed at fighting evasion. This has paved the way for the release of additional financing from IMF and the EU.
- **Eurozone inflation** accelerated mildly to 1.6% yoy in Jun

from 1.4% in May. A weakening economy and subdued commodities prices are likely to continue to exert downward pressure.

- The **ZEW German indicator of economic sentiment fell** to 36.3 in July from 38.5 in June while the ZEW indicator for the current situation increased to 10.6 from 8.6. Nothing dramatic here, just a confirmation that even the core of the Eurozone is hardly buoyant.
- The **BoE MPC** stated that an investigation of additional policy options would make it unwise to expand QE at the moment.
- **Inflation in the UK** crawled up to 2.9% yoy in June (-0.2% mom) from 2.7% in May. In month-ago terms, the CPI fell 0.2%.

### **Asia and Pacific:**

- **China's GDP growth slowed** to 7.5% yoy in Q2 from 7.7% yoy in the first quarter, in line with expectations. Other economic data indicate the slowdown is broad-based: **industrial output** fell to 8.9% yoy in Jun from 9.2% in May; **fixed asset investment** came in below expectations in Jun and the contribution of **domestic consumption** to GDP fell to 45.2% in H1 2013 as compared to 60.4% in the same period last year.
- **China's** central bank **removed controls on bank lending rates** – a major market-oriented reform that could lower financial costs for companies and eventually pave the way for **internationalisation of the Renminbi**. The PBoC however left the ceiling on deposit rates unchanged at 110% of benchmark rates.
- The **IMF Staff Report on China** stresses the need for a shift in the growth strategy towards private consumption and calls for the PBoC to adopt interest rates as its key policy instrument, rather than administrative measures.
- The Reserve Bank of **India**, unexpectedly **raised short-**

**term borrowing costs**, restricted funds that banks could access and said it would drain cash from the market via a INR 120bn bond sale. While this move was meant to create demand for the rupee which had been hitting record lows in the past weeks, it hit sharply both stocks and bonds

- **India raised FDI limits** in key sectors including 100% in telecoms, insurance at 49% and in the production of state-of-the-art defence equipment at 26%. The reforms were widely welcomed amidst the deteriorating business environment and sinking rupee.
- **India's wholesale price inflation** in June gained momentum (against expectations for a decline) to 4.9% yoy from 4.7% in May as food price rises rekindled.
- **Singapore** retail sales were up 3.2% yoy and 2.1% mom in May and excluding vehicle sales, retail sales were up 3.1%. All retailers, excluding petrol service stations and sellers of furniture and household equipment, recorded higher sales in May.

**Bottom line:** Detroit's bankruptcy filing was overshadowed by the attention given to Bernanke's 2-day testimony last week. Some USD 19.7bn was invested in global equity funds in the past week, the most for six months and US also witnessed the largest weekly equity fund inflows since June '08. In the Eurozone, it seems that the politics have once again stolen the spotlight from economic woes with German elections approaching fast this Sep. China and India meanwhile sent strong signals of further market liberalisation with the former freeing lending rates and the latter raising FDI limits: how much these measures would help growth is something we need to keep our eyes open for.

### **Regional Developments**

- **Egypt's interim government was sworn in** with Hazem al-Beblawi the new PM, under the interim President Adly Mansour and the army chief Gen Abdel Fattah al-Sisi, who

led the ousting of Mohammed Morsi, becoming deputy PM and defence minister.

- Foreign aid from GCC countries would carry **Egypt** through its transition period, according to the new Planning Minister, hence making it **unlikely that the new government would engage in restarting negotiations with the IMF**. It also seems futile to approach the IMF without political stability that would be required for initiating reforms.
- Unconfirmed diplomatic sources revealed that **Egypt's** deposed President Morsi rejected a political deal brokered by the European Union with opposition parties in April aiming at mutual recognition and new elections.
- **Bilateral trade** between **Iran** and **Iraq** has touched a record balance of USD 13bn; it was also revealed that Iraq is importing over 25 billion cubic meters of gas from Iran currently.
- **Jordan's trade deficit fell** by 2.6% yoy to JOD 4.0bn in May, with the energy bill falling by a whopping 31.4% yoy to JOD 1.6bn. Exports to the GAFTA and NAFTA partners remained strong though exports to Asian non-Arab countries (eg. India) and Europe registered declines.
- **Investment** volume in **Jordan increased** by 21% yoy to USD 887mn in H1. The largest increase in investments was seen in the tourism sector, which grew by 128% yoy while industrial investments accounted for about 60-70% of the total investments.
- **Interest payments** on public debt in **Jordan** will consume around 10.7% of this year's JOD 7.4bn government spending. Interest payments are expected to touch a trillion by 2015, compared to an estimated JOD 800mn this year. Public debt in Q1, at JOD 16.8bn, represents about 70% of GDP.
- **Kuwait** has sent crude oil and diesel worth USD 200mn to Egypt, as part of the USD 4bn package announced the previous week, according to a Kuwaiti newspaper.

- Trade deficit in **Morocco** fell by 5.3% yoy to MAD 97.5bn in H1; overall, energy products imports dropped 8.3%, tourism receipts rose 2.1%, and remittances from the 4.5 million Moroccan migrants decreased slightly, by 0.5%.
- **Qatar** CPI increased by 0.5% mom and 3.4% yoy in June, thanks to the hikes in transport and communications (+1.2% mom), entertainment, recreation and culture (+0.9% mom) and food, beverages and tobacco (+0.8% mom).
- In its latest country assessment report on **Qatar**, S&P estimated an average 0.5% decline in real GDP per capita growth over 2013-2016 owing to the tapering off of the investment programme to improve LNG production capacity. Reliance on foreign bank funding had been reduced after the government and semi-government entities raised their deposits with the local lenders – net banking external debt represented about 19% of total domestic loans at end-2012 and was 15% in May 2013. The report also identified **severe exposure to real estate sector** and aggressive expansion plans as weaknesses of the banking sector.
- **Residential sales** in **Qatar** touched a **three-year high** in Q2, led by increased freehold purchase demand in prime locations; interestingly, though the number of transactions increased, price points have remained flat compared to the previous quarter.
- **GDP growth** in **Saudi Arabia** was 2.1% in Q1, **substantially slower** due to fall in oil output, and compares to 4.4% growth in Q4 and 6.6% in Q1 2012. Non-oil GDP growth was up 4.4% while the non-oil public sector expanded 4.9% yoy, and the oil sector contracted by 6.3% – the lowest quarterly reading for which data is available.
- **Inflation** in **Saudi Arabia eased** to 3.5% in June (May: 3.8%) and core inflation fell to 2.2% (May: 2.6%). Though food inflation slowed to 6.1% in June from 6.4% the month before, it still remains the largest single contributor to overall inflation, adding 1.4 percentage points.

- In H1 2013, Middle Eastern **investment banking** fees reached USD 356.6mn while Middle Eastern companies raised USD 3.2bn in equity capital from 12 issues, according to Reuters.
- **Moody's** downgraded the subordinated debt ratings of 12 GCC banks, driven by the view that "the risk profile of junior debt instruments has increased, given global regulatory trends of imposing losses on junior creditors as part of bank bailouts orchestrated by governments".
- The **GCC Interconnection Authority** announced the launch of electronic system to **manage** and sell surplus **energy** produced by the **GCC power grid**, with its main benefit being the ability "to find markets for the surplus capacity of electricity plants and reduce dependence on gas and fuel for energy generation". There is a possibility of energy trading with European nations, given the differences in peak-time electricity loads.
- The **hotel development** pipeline in the Middle East and Africa region consists of 491 hotel building, together accounting for about 120,795 rooms in total, according to a report by STR Global. Dubai has the largest number of rooms under construction – roughly 8.6% of the total.

### **UAE Focus**

- The **UAE Banks** Federation has put forward a proposal seeking a five-year grace period and the exclusion of "marketable" bonds and Sukuk from the planned central bank rules that placed a cap on exposure to government entities.
- **Real estate** seems to have boarded the **bus to recovery** in Dubai: property and construction contributed 21% of Dubai's growth in Q1, according to a recent Dubai Economic Council report. This is also evident from Nakheel CEO's latest statement that their current pipeline of development projects is worth between USD 2.2 – 2.5bn (AED 8-9bn).

- **Property** worth AED 108bn changed hands in **Dubai** during H1 2013, an increase of nearly 30% yoy, according Dubai Land Department. Nearly three quarters of the total transactions were paid for in full rather than through a mortgage. The mortgage rush before the proposed central bank limits kick-in is also evident: buyers using mortgages bought 6,050 properties worth AED 51.3bn – roughly double the number of purchases recorded last year and a two thirds increase in the total value.
- Dubai **Chamber of Commerce and Industry** reported a 7% rise in its members' export and re-export activities to AED 145.2bn in H1 2013. During this period, the Chamber welcomed 7153 new members – which represented a 5.5% increase compared to a year ago.
- **Food prices** went up by 1.9% in the first week of Ramadan in comparison to same week from the previous month, according to the first-ever weekly report undertaken by Statistics Centre of Abu Dhabi. Compared to a week before, prices were up by 0.6%.
- **UAE** was **ranked second globally**, after China, in AT Kearney's 2013 **Retail Apparel Index**. The index, developed using market attractiveness, retail development, and country risk for their clothing retail industries as the main factors, also placed Kuwait and Saudi Arabia at 4 and 6 respectively.