

# Weekly Economic Commentary – July 28, 2013

## Markets

The Great Rotation from bonds to equities has relented somewhat in conjunction with the summer mood. US **equity markets** halted four weeks of gains with the S&P ending marginally lower and the Dow barely in positive territory compared to last week. Asian shares fell as corporate earnings came in focus and the Fed's stance on stimulus remains wrapped in a cloud of ambiguity. **Regionally**, markets were more cheery as most gained for the week, with the exception of Egypt and Morocco. The **dollar** fell against most major currencies while the **yen** advanced against its peers post-election win and the euro strengthened against the dollar. **Crude** recorded a weekly drop as China growth concerns dampened demand outlook while **gold** extended gains.

## Global Developments

### **Americas:**

- Markit's US flash **manufacturing PMI rose** to a four-month high at 53.2 in Jul from 51.9 in Jun as new orders and employment improved.
- **Existing home sales** unexpectedly fell -1.2% mom in Jun to an annual rate of 5.08 mn units, after rising sharply in May and Apr. Home prices continued to rise amid tight inventories. **New home sales rose** 8.3% mom in Jun; the fastest pace in 5 years. The **FHFA house price index** increased 0.7% mom in May following a downwardly revised increase of 0.5% mom in Apr.
- US **durable goods orders increased** more than expected by 4.2% mom in Jun after an upwardly revised 5.2% in May. The gain was largely due to a surge in orders for

aircraft. Orders excluding transportation and defence rose 0.7% mom, the fourth consecutive monthly climb.

- US **initial jobless claims** rose by 7k to 343k last week. The four-week moving average fell slightly to 345.25k from 346.5k.

## Europe:

- The **Eurozone PMI rose** for the fourth month to reach an 18-month high of 50.4 in Jul, thanks to an upturn in the **manufacturing** PMI which hit 50.1. The **services** index remained in contraction at 49.6 (an 18 months high) compared to from 48.3 in Jun. As usual, **Germany lifted the overall index, while France, Italy and Spain continued to be a drag.**
- The **Eurozone M3 money supply** growth unexpectedly eased in Jun to 2.3% yoy from 2.9% yoy in May. Loans to the private sector fell -1.6% yoy after rising 1.1% yoy in May.
- The German **Ifo business climate index** rose marginally to 106.2 in Jul from 105.9 last month. The current conditions sub-index climbed to 110.1 from 109.4 but the outlook sub-index held almost steady to 102.4 from 102.5.
- The **UK's economy** expanded 0.6% qoq in Q2 and 1.4% yoy (Q1: 0.3% qoq). Industrial production and services sectors grew at 0.6% qoq while the ailing construction sector grew by a more than expected 0.9% qoq.

## Asia and Pacific:

- In **Japan**, the victory for Prime Minister Abe in upper house elections paves the way for full implementation of Abenomics. Expectations of a deep restructuring of the Japanese economy are rife but political support despite

the victory is as tenuous as ever.

- The Flash HSBC/Markit **China manufacturing PMI fell** to an 11-month low of 47.7 in Jul from 48.2 in Jun as new orders dipped. The index remains in contractionary territory for the 3rd month confirming an environment of weak domestic demand and sluggish production.
- **Japan exports rose** 7.4% mom in Jun marking the fourth consecutive month of gains. Exports to China slowed to 4.8% yoy from 8.3% in May while shipments to the EU rebounded, growing 8.6% mom after 21 months of declines.
- The Reserve Bank of **India** (RBI) introduced further steps to help in **rupee recovery**: limit for borrowing under the daily Liquidity Adjustment Facility for each bank was reduced to 0.5% of deposits from 1.0% previously; it also stated that banks need to maintain 99% of their daily cash reserve ratio requirements with the RBI instead of 70% now.
- **South Korea's economy expanded** at 1.1% qoq (2.3% yoy) in Q2 the fastest pace in two years. Shrugging the stronger won, exports rose 1.5% and manufacturing rose 0.8%, while private consumption rose 0.6%.
- **Singapore's economy grew at a faster pace** than expected in Q2, expanding an annualized 15.2% qoqsa (3.7% yoy) after growing 1.8% in Q1 (0.2% yoy). The manufacturing sector rebounded, expanding 37.6% qoq (Q1:-12%) while services and construction grew 9% qoq.

**Bottom line:** The dominant macroeconomic theme is once more the slowdown in China. Signals are intensifying that the slowdown will be deeper than expected. While this is bad news in the short run, it is part an unavoidable transition phase to a more balanced and service economy with long term benefits for China and the rest of the world. The other macro theme, away from the limelight for a few months, is the fiscal consolidation in the US. In the opening salvo for another battle between Congress and Administration President Obama blamed Republicans for the slow recovery, accusing them of

pursuing political objectives rather than growth. In particular he criticised the sequestration which cuts government programmes indiscriminately. Signs of life in European manufacturing have been cheered by many analysts as a turning point. Given the parlous state of the EU banking system, raising unemployment and the next round of bailouts, it is more reminiscent of a dead cat bounce.

## Regional Developments

- **Egypt** has initiated work on **amending the constitution** which will lead up to new elections while the interim government held its initial meeting to discuss the parlous economic state of the nation.
- **Egypt's** central bank received a five-year **interest-free deposit** of USD 2bn from **Saudi** Arabia and USD 3bn from the **UAE**, split into a USD 2bn cash deposit and a USD 1bn outright grant. This funding will boost state coffers especially as the budget deficit widened to almost half of all state spending and foreign reserves totalled just USD 14.9bn in June.
- **Egypt's Mursi** had, prior to being deposed, approved a 24.2% increase in borrowing to finance the budget deficit: this increased total government spending on energy subsidies by EGP 20bn and boosted interest payments on state debt by EGP 12.65bn.
- Moody's **affirmed Egypt's Caal government bond rating** – due to the external financial support package from KSA, UAE and Kuwait, the roadmap for return to democracy by early 2014 and “recent containment of the government’s debt-financing costs” – and is maintaining the negative rating outlook.
- **Iraq** posted a second consecutive month of **declining oil exports** due to bad weather and some sabotage acts – oil exports were 69.8mn barrels in June (May: 76.9mn barrels) and revenues at USD 6,799bn with selling price at close to USD 97.4.

- **Agricultural exports from Jordan suffered a 23.5% yoy dip** in H1, as trade with **Syria and Iraq declined** between April and June. An official provided the country breakdown: 50% of the exports were to the GCC, 21% to Syria and Lebanon and 12.7% to Iraq and other countries.
- **Jordan's public debt** touched JOD 17.3bn at the end of May, representing **71.8% of estimated 2013 GDP**. Separately, US announced an increase in additional assistance of USD 340mn annually, starting next year, hence raising the annual American financial assistance to Jordan to USD 1bn.
- **Kuwait** headed for the polls on Saturday: this is the sixth time since 2006 and second parliamentary elections in eight months, signalling **continued political uncertainty**.
- **Lebanon's** Central Administration for Statistics resumed its monthly CPI publication: it reported that prices increased 9% yoy in June, likely distorted by housing cost which recorded a 44.1% yoy rise. In comparison, data released by the Consultation and Research Institute, places CPI at 3.7% increase in June 2013, with the housing component declining by 0.8% since the beginning of 2012.
- **Projects in Oman are set to almost double in value** to USD 65bn between 2013 and 2017 compared to projects in the past 5 years. Some of the bigger projects include: BP's USD 15bn Khazzan tight gas project, the development of a USD 10bn refinery and petrochemical complex at Duqm and a nationwide railway project.
- **Oman's** mining and mineral sector has been increasing its contribution to GDP: it reached OMR 101.1mn from OMR 99.3mn in 2011 and OMR 91.7mn and OMR 82.6mn in 2010 and 2009 respectively.
- Oil revenue in **Oman** reached OMR 4.45 bn in May, slightly less than OMR 4.47bn a year before, while gas revenues touched OMR 605.9mn. The **IMF recommends that Oman needs to adjust its fiscal balance by around 10% of GDP in**

**total over the medium term**, with “an initial adjustment of 1% of GDP in 2013 by rationalising the planned increase in workforce, and restraining goods and services spending”.

- **Qatar** Holding, along with real estate company Hines, is planning to bid on the assets of the Italian real estate group Risanamento in France and its Santa Giulia redevelopment area, according to the newspaper Il Sole 24 Ore and Qatar will likely have to offer more than EUR 1.3bn for the French properties.
- The **IMF**'s report on **Saudi Arabia** states that the **private sector is unlikely to absorb new job seekers**: while total employment grew 8.5% from 2010 to 2012, employment among Saudi nationals rose only by 4.6%. It also called to reduce reliance on public sector jobs – central bank data show that **9 out of 10 Saudis worked in the public sector in 2011**.
- The **Saudi** Fund for Development signed two agreements worth USD 250mn with **Yemen** to finance King Abdullah Bin Abdulaziz Medical Project and major road intersections in Sana'a. In addition, the Fund approved opening a credit line to finance the export of national goods and services worth USD 25mn for the Bank of Cooperative and Agricultural Credit of the Republic of Yemen.
- The legalisation of workers in **Saudi Arabia** resulted in the cancellation of about 36% of construction projects, as the labour shortage hit contracts belonging to small contracting companies.
- Corporate **mergers and acquisitions in Saudi Arabia increased by 21% during H1**, according to a report in Al-Eqtisadiyah newspaper, citing the signing of 22 deals worth SAR 15.59bn this year compared to SAR 12.4bn a year ago.
- Assets under management in Middle East and South Africa increased by 12% yoy in 2012, a far cry from the 1% rise in the previous year, thanks to expansion in assets managed by the region's SWFs, recovery of local equity

markets and the investment of “local and regional money” in the GCC (especially UAE and Saudi Arabia). The study, titled “Global Asset Management 2013: Capitalizing on the Recovery”, was undertaken by BCG.

### UAE Focus

- Personal **loan growth** to residents in the UAE has **increased by 3.8% till May** this year, with total loans taken out in the Jan-May period already outstripping the increase for all of 2012. Total credit in the UAE grew by around AED 23bn in the Jan-Apr period to AED 839.8bn with credit to the private sector rising to AED 583.6bn in Apr (2012: AED 568.1bn). The **Central Bank meanwhile accused banks of violating personal loan regulations** introduced back in 2011, which stipulated that loans must not exceed 20 times the client’s monthly salary and that banks must not take 50% of the debtor’s salary among others.
- The UAE central bank has issued a notice to banks and investment companies regarding the issuance and marketing of mutual funds.
- **Nakheel** disclosed that it has settled AED 6.5bn worth of claims from the original AED 8bn – claims for cancelling projects and for delays from the previous projects – while still refinancing bank loans. It is now seeking private finance to build a AED 2.5bn shopping mall on the Palm Jumeirah, which will be developed using a build, operate and transfer mechanism – a previously successful model in the case of Dragonmart.
- **Abu Dhabi plans to almost double crude production capacity to 3.5 million barrels a day by the end of 2017.** ADNOC is currently pumping about 1.5mn bpd from its main onshore fields and is halfway through a planned USD 40bn investment to raise capacity.

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