

Weekly Economic Commentary – October 02, 2011

Markets

The weekly stock market oscillatory pattern has displayed a remarkable regularity since August and last week recorded the expected global upswing. Investors were mesmerized by the prospect of a “Mother of All Quantitative Easing” Euro 3 trillion fund, although short on details and long on rumours. Some real respite came from the approval by the Bundestag of the EFSF which eliminates some uncertainty over the most immediate future. However, regional markets did not follow the global picture with most markets except Saudi down compared to a week ago. The euro strengthened while the dollar continued to witness high demand and oil recovered sharply. Gold on the contrary is being sold to fund some liquidity which continues to be at premium.

Global Developments

Americas:

- US housing sector continues to be in the dumps: new home sales dropped 2.3% mom in Aug to a six-month low of 295k; S&P Case Shiller index showed stagnant house prices up by a meagre 0.9% mom in July.
- US Durable goods orders slipped 0.1% mom in Aug (Jul: 4.1%), largely due to the 8.5% dip in motor vehicle bookings while non-defence capital goods orders excluding aircraft rose 1.1% (-0.2%).
- The 3rd estimate of US Q2 GDP showed a slightly higher growth of 1.3%, qoq annualized, from the previous 1.1% estimate (Q1: 2.4%) after “an upward revision to personal consumption expenditures (0.7% from 0.4%), a

downward revision to imports (1.4% vs. 1.9%), and an upward revision to exports (3.6%, 3.1%)". PCE core price index rose by 2.3% qoq – the largest increase since Q2 2008.

- Initial jobless claims tumbled by 37k to 391k in the week ended Sep 24, compared to a consensus estimate of 419k – with official statements attributing the large drop to technical issues and seasonal adjustment volatility; the four-week moving average fell by 5250 to 417k.
- Personal income declined by USD 7.3bn or 0.1% in Aug (Jul: +0.1%) but despite the decline in income, personal consumption expenditures increased by USD 22bn or 0.2% (0.4%).

Europe:

- The German parliament approved the reform of the EFSF approved at EU level in July with a broader set of tools to deal with banking and fiscal crisis.
- German retail sales held steady at 4.5% mom in July (-1.6% yoy) as falling energy costs and rising employment boosted domestic spending.
- IFO business sentiment index in Germany fell for the third consecutive time in Sep – dropping to 107.5 from Aug's 108.7. Meanwhile, the expectations component deteriorated to 98 (vs. 100) in contrast with the current business situation which is still viewed positively.
- EU economic confidence fell to 95 in Sep (Aug: 98.4), dropping to the lowest level since Dec 09. Business confidence amongst manufacturers dropped to -5.9 (-2.7) while in the services sector, confidence fell to zero (3.7); consumer confidence meanwhile declined to -19.1 from (-16.5).
- German unemployment rate slipped to 6.9% sa in Sep while the unadjusted rate showed a decline to 6.6% from 7% in

Aug.

Asia and Pacific:

- Taiwan Central Bank held policy rates steady at last week, after having raised its key interest rates by 0.125% in each of the five past quarters.
- North Asian Industrial production for Aug was weak: Korea's declined 1.9% mom (Jul: -0.3%), Japan's rose 0.8% mom, less than consensus forecast.
- Korean imports grew faster (at 30.5% yoy) than exports (19.6%), due to natural gas imports. The trade surplus in Sep shrunk USD 3 bn yoy to 1.44bn.
- China's official PMI rose to 51.2 in Sep from 50.9 in Aug, though the HSBC PMI index showed a slight contraction in manufacturing.
- Japan's Finance Minister Jun Azumi authorised an additional JPY 15tn for FX market interventions, bringing the total to a record JPY 46trillion.

Bottom line:

New data did not add much colour to the grey picture of stagnating mature economies and lacklustre emerging markets. Confidence indicators are gloomy, and forecasts for 2012 are being revised down. The only news of weight is the European "plan" for a euro 3 trillion safety net for sovereigns and banks. But there has not been any official confirmation and contradictory statements came from senior central bankers and EU officials. If enacted, the plan could easily claim the crown of "**Mother of all Quantitative Easing**". You read it here for the first time.

Regional Developments

- Total value of oil investments in the Gulf region has risen to an estimated USD 739.6bn until Sep, courtesy of new investments by Iran and Saudi Arabia, according to a

report released by Markaz research.

- Oman inflation increased to 4.6% in Jul (Jun: 4%) as food prices rose 5.5% and price of personal care items surged 19.2%.
- The IMF country report on Saudi Arabia highlighted the shortcomings of the housing sector – based on Saudi official estimates of the 9th Development Plan (2010-14). The proposed solutions include “unlocking the static supply of land, accelerating the approval of mortgage laws and developing an institutional framework for medium-term lending institutions”.
- The SAMA governor revised downwards the country’s economic growth to 5% this year (previous estimate: 6%) with inflationary pressures expected to continue at a moderate pace.
- Foreign assets in Saudi Arabia fell to SAR 1984.9bn (Jul: 1990.9bn) – resulting from a fall in SAMA’s deposits with banks abroad to SAR 357.2bn (SAR 375.1bn) while investments in foreign securities rose to SAR 1356.6bn (SAR 1346.1bn).
- The E&Y Islamic Funds and Investments Report revealed a 7.6% rise in global Islamic fund assets under management to \$58 billion in 2010, led by Saudi Arabia while Sukuk issuance was at a record USD 50bn.
- Crude oil exports to Japan fell in Aug: Saudi Arabia, Japan’s biggest oil supplier, recorded a 2.7% you fall in imports to 1.02mn barrels per day (bpd) while Kuwait’s plummeted 56.2% to 127k bpd and Qatar’s shipments fell 28.7% to 348k bpd.
- According to MEED’s ‘Mena Renewable Energy 2012’ report, ten of the 14 Arab states included in the report set renewable energy targets for 2020, ranging between 5%-42% of total energy mix, to cater to the high demand.
- Fraser Institute’s Economic Freedom of the World 2011 report placed 2 GCC countries in the top 20 – Bahrain at 11th and UAE at 14th, with Oman following at 28th. The index is constructed in five broad areas: size of

government; legal structure and security of property rights; access to sound money; freedom to trade internationally; and regulation of credit, labour and business.

- Capital investments in Saudi's industrial sector rose to SAR 509bn by Q3, employing more than 617k workers while there are 2,811 industries licensed under the foreign investment scheme with a total investment of SAR 444bn.

UAE Focus

- Deposits rose by almost AED 40bn to AED 196.2bn in H1 2011 while credit growth was only around 0.9% (AED 981bn) as per the latest data released by the UAE central bank. This highlights the high levels of liquidity while banks continue to remain risk averse in terms of lending.
- Dubai's economy expanded by 2.8% in real terms in 2010, lifted by trade and retail sector growth, as per preliminary data. This is higher than the 2.4% growth as per the bond prospectus released in June this year.
- According to Saeed Mohammed al-Tayer, vice chairman of Dubai's Supreme Council of Energy, Dubai is poised to unveil a big solar power plant project as part of a push to achieve 5% of its electricity from renewable sources by 2030.
- Abu Dhabi GDP is expected to grow four times by 2030, according to senior government officials, given the large infrastructure projects planned in the Emirate: real GDP is forecast to grow from Dh382 billion in 2008 to nearly Dh1.53 trillion in 2030.
- The number of bounced cheques reached 1.45mn in the first eight months of 2011, with the bad cheques constituting 5.5% of the total number of cheques submitted.
- Given the high capital adequacy ratios of UAE banks (at 21% in Q2) the central bank is planning to create a new

system to set capital requirements for banks for compliance to Basel III. The non-existence of a highly liquid and deep bond market has been identified as the biggest hurdle to implementing Basel III.

- The Dubai Urban Development Master Plan-2020 is reported to have been approved by the Dubai Executive Council and is expected to create 950k jobs by 2020. A 'Supreme Urban Planning Council' will also be established to streamline the urban and environmental planning process in the emirate.