

Weekly Economic Commentary – October 16, 2011

Markets

The markets were mostly positive last week, in spite of Spain's downgrade by S&P, given the support of Trichet's call for quick and coordinated action on bank recapitalization decided in principle between Merkel and Sarkozy (due to be finalized at the EU summit next week) and Wall Street closing on a high, boosted by optimistic data and financial results. Regional markets painted a mixed picture – with all eyes on Q3 financial results. Currencies strengthened against the dollar – the euro rallied while the yen was the weaker performer among major currencies. Oil prices jumped to a month's high on tight supply and the weaker dollar as gold prices were up 2.6% from a week ago.

Global Developments

Americas:

- The FOMC minutes of meeting revealed that QE3 was still a strong possibility: “a number of participants saw large-scale asset purchases as potentially a more potent tool that should be retained as an option in the event that further policy action to support a stronger economic recovery was warranted”.
- Initial jobless claims fell slightly by 1k to 404k, a sign that the job market is still not in recovery mode. Trade deficit for August was up by USD 17bn to USD 45.61bn, as the deficit with China increased 7.42% to a new record high (USD 29 bn for the month) & US Senate passed a bill mandating the imposition of tariffs on Chinese goods if the US Treasury determines that China

is manipulating its currency.

- Retail sales grew 1.1% mom – the fastest pace in seven months – in Sep, with strong sales of motor vehicles and parts (+3.6%) providing a big boost.

Europe:

- Eurozone industrial production was unexpectedly up 1.2% mom (5.3% yoy) though German IP contracted by 1% mom (+7.8% yoy) and the pickup was driven by smaller economies like Portugal (8.2% mom) and Ireland (4.4%) alongside Italy where IP rebounded 4.3% mom, probably due to an artifact of seasonal adjustment.
- Inflation rose to a 35-month high of 3% in Sep (Aug: 2.5%), pushed by clothing and fuel prices.
- German trade surplus grew to EUR 13.8bn in Aug (Jul: 10.6bn) as exports increased 3.5% to EUR 90.5bn while imports stagnated at EUR 76.7bn.
- Unemployment rate in the UK now stands at 8.1%, the highest since 1996 while the total number of unemployed reached 2.57 million, the highest total since Oct '94 and youth unemployment at 991,000, its highest since records began in 1992 (jobless rate: 21.3%).

Asia and Pacific:

- China's Central Huijin, the domestic arm of its sovereign wealth fund, announced it was buying shares in four of the largest state-owned banks in order to stabilize their share prices and support their operations.
- The Chinese Ministry of Commerce & PBoC have issued regulations permitting overseas investors to invest directly in China with Renminbi they have obtained legally overseas, partially liberalising capital flows.
- Indonesia's central bank surprised markets with a 25bps rate cut to 6.5% while South Korea left rates unchanged

at 3.25% amid signs that inflation is slowing.

- Japan machinery orders rebounded in Aug – rising 11% mom, the fastest increase in a year – with a 29.5% increase in demand for electrical machinery and a 74.6% jump in orders for information technology-related machinery.
- India industrial output was up only 4.1% yoy in Aug (Jul: 3.8%) given the RBI's rate hikes cycle and weakening global demand.
- China's trade surplus narrowed in Sep to USD 15.4bn, down from August's USD 17.8bn and well below July's 30-month high of USD 31.5bn, on lower export and import growth. Meanwhile, inflation eased to 6.1% in Sep (Aug: 6.2%).
- Singapore GDP grew at an annualized rate of 1.3% qoq in Q3, rebounding from a sharp 6.3% decline in Q2 while the Monetary Authority of Singapore eased monetary policy for the first time in two years.

Bottom line:

The week witnessed a surprisingly optimistic set of data releases combined with what seems to be the beginning of an easing cycle in Asia. The G20 was united in its stance pressuring the Eurozone leaders to address the current challenges and reach a resolution by the Oct 23 European Summit. Global sentiment and risk appetite seem to be improving, given the push towards a resolution of EU's debt crisis – German Chancellor Angela Merkel and French President Nicolas Sarkozy have promised a comprehensive plan by the end of the month.

Regional Developments

- A report from Geopolicity estimates that the cost of the Arab Spring for countries in turmoil (Egypt, Libya, Yemen, Bahrain, Tunisia and Syria) in terms of foregone

output and fiscal costs is some US\$55 bn.

- Amid concern of contagion and spill-over effects, the GCC states have called for an emergency meeting to discuss the situation in Syria, though no dates were proposed. The meeting is expected to address “the situation in Syria, which has deteriorated sharply, particularly in its humanitarian dimensions, and steps that could help end the bloodshed and halt the machine of violence,”.
- HSBC’s Trade Connections report predicts that MENA’s trade volumes would increase by 84.7% by 2025, which is greater than the world trade average of 73%; additionally, the report maintains that intra-MENA trade is set to grow to 13.43% of the region’s trade in 2025, from 11.3% currently.
- GCC have about 44 on-going (and due to begin in 2012) power and water projects valued at USD 31.9bn, with UAE leading the list with 11 projects worth USD 10bn.
- Egypt announced that a grant of USD 500mn was received from Qatar for budgetary support, with a budget deficit forecast at 8.6% of GDP in the financial year to June 2012.
- Inflation for Egypt eased to 8.2% in Sep (Aug: 8.5%; Jul: 10.4%) as slowing food price growth offset a faster increase in housing costs while core inflation rose to 7.95% (Aug: 6.98%).
- Saudi Arabia is expected to launch a commodity bourse in the near future; it was clarified that oil would not be traded on the exchange to eliminate speculative trades.
- Saudi Arabia’s Ministry of Labour announced a new incentive for young Saudi entrepreneurs whereby recruitment of foreign workers is granted if at least one Saudi worker is employed.

UAE Focus

- UAE’s Cabinet approved the draft budget for 2012, with a

focus on social spending and a deficit of AED 400mn. Of total spending projected at AED 41.8bn, social services sector was allocated AED 19.7bn (47.1%), the education sector AED 8.2bn (19.6%) and some AED 1.6bn dedicated to infrastructure projects.

- The takeover of Dubai Bank by Emirates NBD has been welcomed by the markets. According to the CEO of Emirates NBD, Dubai Bank will not be merged with its own Islamic unit – Emirates Islamic Bank and “will be capitalised as and when required once the acquisition process is complete”.
- Foreign deposits in UAE banks rose to AED 66.2bn by end of H1 2011 (2010: AED 51.5bn), with June witnessing the maximum increase. UAE banks’ deposits with banks abroad grew to around AED 81.2bn (AED 76.3bn) and investment in foreign securities swelled to about AED 55.6bn (AED 48.4bn).
- Data released by Dubai Land Department show that UAE nationals topped the list of land buyers spending almost AED 5.6bn, with Indian nationals topping the list of apartment buyers, having spent AED 3.3bn; Americans and Russians also feature significantly in the list of buyers of land and apartments in H1 2011.
- UAE’s Ministry of Finance signed a Double Taxation Avoidance Agreement with Switzerland in an effort to enhance economic and trade relations.
- The total value of financial transactions, conducted through UAESWITCH, decreased 2.65% qoq to AED 20.4bn, with the number of financial transactions dipping 4.68% to a total 18.231mn.
- A recent report by NCB estimates that though the Arab Spring events have reinforced Dubai’s status as a ‘safe haven’, even for property investment, there is a significant excess supply with up to 15,000 new units due to come to the market by the end of the year. The report also mentions that demand in some segments was gaining pace.