Weekly Economic Commentary – October 23, 2011

Markets

Stock markets received a German cold shower by Angela Merkel who expressed skepticism on a quick recapitalization of the banking system in Europe and another round of downgrade for Spain and Italian banks shook further the precarious situation. The gains recorded in the last two weeks were eroded across the globe with emerging markets being somewhat more resilient. All eyes are on the EU Summit for further direction. Regional markets however were mostly on the defensive, despite the resilience of oil prices. Currency markets were marking time while the yen hit new highs.

Global Developments

Americas:

- US industrial production grew 0.2% mom in Sep, in line with expectations and total capacity utilization was almost stable at 77.4%.
- US PPI rose by 0.8% mom and 6.9% yoy, a 5-month record, in Sep due to gasoline and food while core PPI inflation was only 0.2% mom. US CPI inflation increased 0.3% mom (3.9% yoy) in line with expectations as core inflation was somewhat lower at 0.2% mom (2.0% yoy).
- Housing starts jumped 15% yoy to 658k in Sep, the highest since Apr '10, led by apartments and multifamily dwellings.
- Initial jobless claims dipped last week – falling 6k to a seasonally adjusted 403k – and the four-week trend dropped to a six-month low.
- After his USD 447bn jobs bill was blocked in the Senate

last week, Obama began cutting the legislation into parts to stage a series of votes in Congress designed to embarrass his opponents into backing the measures. Republicans continue to balk at "class warfare".

Europe:

- EU's Finance ministers' meeting resulted in the decision that Greek bond holders might have to accept losses more than consented in July – with banks' writedown from Greece debt exposure rising up to a possible 60% and an agreement was reached to release the sixth tranche of bailout funds to Greece, with actual disbursement likely to take place in the first half of Nov.
- German ZEW fell to a three year low of -48.3 in Oct. from -43.3 in Sept, confirming the danger of the largest European economy falling into recession.
- According to BoE Governor Mervyn King, Britain's economic recovery is off-track. UK CPI was 0.4% mom and 5.2% yoy.

Asia and Pacific:

- China's gross domestic product expanded 9.1% yoy in Q3, against 9.5% in Q2,the slowest pace in more than two years, but consistent with consensus that the country is on track for a "soft landing" of moderating growth and lower inflation. Industrial production meanwhile was up 13.8% yoy in Sep (Aug: 13.5%), with production expanding by 14.2% in the first three quarters of the year.
- China's retail sales grew 17% to CNY 13.08 trillion in the first nine months of the year, with commodities retail sales and auto sales up 17% and 16% respectively in the first three quarters of the year.
- Japan IP increased 0.6% mom (0.4% yoy) in Aug down from 0.8% (0.6% yoy) in July.
- Slump in the electronics sector led to a fall of 4.5%

yoy in Sep's non-oil domestic exports (Aug: +3.9%) – the biggest fall since Oct 09; exports of electronics dropped 13.6% in Sep (-19.4%).
- Asian central banks maintained policy rates at the meetings which concluded last week: Thailand held steady at 3.5% (pausing on flood damages) and Philippines kept rates on hold at 4.5% given expectations of a weaker global economy.

Bottom line:

"Confusion will be my epitaph" sang a rock band in the early 70 and could be an apt description of the policymakers' status. Merkel underscored that the agreement on a solution to the eurozone mess in not to be expected soon, while her Minister of Finance, Schauble was quoted saying that "the time for bold decisions is now". As global leaders urge for a decision regarding the debt crisis, the EU continue to be in talks: measures being discussed include a boost in rescue funds to EUR 940bn, deeper writedowns on Greek debt and a demand that banks increase Tier 1 capital to 9% by mid-2012. Obama is trapped in a Congressional Vietnam were the Tea Party guerrilla hold back his stimulus plan. Even the UK which seemed to have somehow found the ground for a rebound is faltering. Asia remains the oasis of stability.

Regional Developments

- Tunisia's elections today and Gaddafi's death in Libya could open a whole new chapter in the Arab Spring developments.
- The GCC Customs Union and rail network integration were high on the agenda of the GCC Financial and Economic Committee meeting on Saturday. A press statement issued stated that a "number of recommendations pertaining to the finalising of the GCC Customs Union" were made at the meeting, without giving any further details; a

decision was made to prepare a case study for establishment of a GCC railway authority and also “to finalise detailed designs for the project by 2012”.

- According to the FT, banks in the Middle East are increasingly being forced to extend loans to clients to be awarded a shrinking number of bond advisory deals, bankers say. Therefore Standard Chartered and HSBC are favoured over investment banks such as JP Morgan or Barclays Capital.
- Qatar’s nominal GDP grew 30.2% yoy to QAR 46.3bn in 2010 (2009: -15.2%), with the hydrocarbon sector rising 50.3% compared to an increase of 13.8% to non-oil GDP.
- The Oman Capital Market Authority has approved a proposal to bring down trading fee for brokerage firms operating on the Muscat Securities Market.
- Ernst & Young’s Q3’11 MENA update on IPOs revealed that regional capital markets had raised USD 218.9mn in Q3 – a rise of 23.6% yoy but a 39% decline compared to Q2; with two listings in Q3, Saudi Arabia was the saving grace.
- Saudi Arabia’s cost of living index rose 5.3% yoy in Sep – goods and services sector increased 11.8%, rents, fuel and water sector rose 7.9%, food and drinks 4.9% and transport and communications 2.0%.
- Credit Suisse’s Global Wealth Report estimates that global wealth increased to USD 231 trillion in June 2011 from USD 203 trillion in Jan 2010 (+14% rise); Qatar recorded the highest average wealth per adult in the MENA region for 2011 – $146,623, a rise of 456% from 2000 while Kuwait was a close second at $134,592 (+156%) and UAE was placed third with $115,774 (+104%).
- Total FDI flows are expected to decline almost 16.7% yoy to USD 55bn, the lowest since 2005, according to the latest estimates from the Inter-Arab Investment Guarantee Corporation – with only 6 members (including UAE and Saudi Arabia) seeing a modest recovery in 2011.
- Arab foreign ministers have given Syria a 15-day

deadline to enact a ceasefire after lacking consensus on the decision to suspend Syria's membership to the Arab League.

- Dr Ramiz Al Assar, Senior Adviser to GCC Secretariat General and World Bank's senior transport specialist, stated that the construction of the GCC rail network would begin by 2014 and be operational by 2017/2018. A decision was made to link the network to Yemen via Muscat, according to him.
- Middle East online recruitment in September reached its highest level in the past 12 months, according to The Monster Employment Index compiled by the on line job site.

UAE Focus

- Monarch Alternative Capital is suing the ship-repair company in the High Court of London, according to a filing, after more than a year of talks between Drydocks and its creditors failed to reach agreement on restructuring debts of $2.2bn.
- The National Bureau of Statistics forecasts the UAE economy, driven by robust oil prices in the international market, to grow by 4.2% this year.
- Dubai non-oil trade, including re-exports, surged 24% in the first half of 2011, compared to H1 2010, surpassing the value before the 2008 downturn.
- Moody's Investors Service has upgraded Emaar Properties' corporate family rating to Ba3 from B1.
- Inflation for Q3 increased 0.62% and 1.6% in Dubai and Abu Dhabi respectively. In Dubai, transport (Q3: 6.55% yoy) and group food and beverages (5.27%) pushed up the index while in Abu Dhabi, the rise was attributed to food and housing prices.
- UAE's Federal Law No 7 was issued establishing the Emirates Development Bank, to support economic development initiatives – eg. address regional gaps

through the financing of regional infrastructure projects.