

Weekly Economic Commentary – November 13, 2011

Markets

The markets continued to be volatile in the backdrop of the dramas in Greece and Italy, with Italy's 10-year debt soaring dangerously close to and above 7% last week – also driving euro to its lowest level against the dollar in a month. Risk appetite gradually improved on Friday with indications of political change suggesting greater likelihood of reforms, including austerity packages, leading to a market rally as Eurozone debt fears eased. Regional markets were mostly down last week, but the positive sentiment in Saudi market yesterday is likely to reflect in its regional counterparts' behaviour today. The euro was down almost 0.3% compared to a week ago, while gold and oil prices were helped by the softer dollar.

Global Developments

Americas:

- US initial jobless claims declined by 10K to 390k vs. forecast of 400k. Continuing claims also fell more than anticipated, by 92k to 3.615m. It is too early to conclude that improvement in labour market will persist.
- The US trade balance unexpectedly improved to -USD 43.1bn in September from -USD 44.9bn in August as exports surged 1.4% to USD 180.4bn, outpacing the slim 0.3% rise in imports to USD 223.5bn.

Europe:

- Italy's outgoing government managed to pass the 2012

budget law encompassing some of the structural measures requested by the EU and the ECB. Berlusconi resigned yesterday and former EU Antitrust Commissioner Mario Monti will preside over a technocratic executive entrusted with a heretofore Mission Impossible: regaining the markets' confidence with tough budgetary discipline.

- In Greece, former ECB Vice President Lucas Papademos, the newly appointed Prime Minister, is due to attempt a similar Greek Mission Impossible as Monti.
- German industrial production declined 2.7% mom in Sep (-0.4% revised up from -1.0% in in Aug). Manufacturing output was down 3.0% mom after -0.4%, while construction eased 0.8% after -1.7%. IP is still up 1.7% qoq, a bit higher than 1.5% in Q2, but the latest figure point decisively downward.
- UK Sep manufacturing output was slightly stronger than expected at 0.2% mom (Aug: 0.3%) and 2.0% yoy, while IP was unchanged mom and -0.7% yoy – the weakness due to falling extraction of oil and gas.

Asia and Pacific:

- China Oct inflation fell to 5.5% yoy from 6.1% yoy in Sep. (2.1% mom s.a. ann. in Oct down from 4.0% mom s.a. ann. in Sep). Food price inflation fell to 11.9% yoy (Sep: 13.4%), continuing in the declining path already detectable in the summer. Non-food price inflation came in at 2.7% yoy in Oct (Sep: 2.9%).
- China's IP growth slowed to 13.2% yoy in Oct, (lower than consensus at 13.4%, down from 13.8% in Sep). This implies a sequential growth of 6.2% mom s.a. ann. in Oct, down from 17.9% mom s.a. ann. in Sep.
- China's trade surplus fell 36.5% yoy to USD 17.03bn in Oct as trade with the EU, US and Japan continued to slow compared to a year ago while emerging market trade partners grew stronger. Overall, exports and imports in

the first 10 months increased 24.3% yoy to reach USD 2.97 trillion.

- Indonesia's GDP rose 6.54% yoy in Q3 (Q2: 6.52%) on strong domestic activity: consumption and investment. Private and government consumption advanced 4.8% and 2.5%; investment was up 7.1%.
- Indonesia's central bank meeting resulted in an unexpected lowering of policy rates by 50bps to 6.00%, following the 25bps cut in Oct as global uncertainties took centre stage. Meanwhile, the central banks of Korea and Malaysia left rates unchanged at their respective meetings.
- The Nov Japan Tankan manufacturing survey was +1, down from +6 in Oct. The outlook also dropped to -5 from +1 in Oct. Thai floods appear to be somehow a factor in the drop. The non-manufacturing survey was +3, up from +1 in Oct, with the outlook at +2, virtually flat mom.
- India's IP growth fell sharply to 1.9% yoy in Sep lower than the 3.6% yoy in Aug. The reading has been the lowest ever since Sep 2009.
- Hong Kong Q3 GDP expanded by 4.3% yoy, (vs 5.3% in Q2) in line with expectations. On a sequential basis, GDP growth increased 0.4% qoq annualized after contracting 1.6% qoq and in Q2.

Bottom line:

The data confirm a global slowdown, including emerging markets resulting in commodity price retrenchment and translating into declining inflation. All real and survey indicators of activity are highlighting poor business and employment sentiment as global headwinds and policy indecisiveness & uncertainty in mature economies continue to hurt. The hangover from past excess is likely to remain severe in 2012. While attention is focused on the austerity packages in Europe the next focal point will be the US Congressional Deficit Reduction Super Committee in charge of setting the planks of

medium term fiscal policy. The committee is supposed to present its plan by Nov. 23. Congress must vote on the whole package by Dec. 23.

Regional Developments

- The IIF forecasts an increase in the combined GDP of the GCC nations to nearly USD 1,380bn in current prices – its highest level ever and far above the previous peak GDP of USD 1,138bn in 2008, given the rise in average oil price to USD 109 up from the previous average record price of \$98 in 2008. Current account surplus is also expected to rise to an all-time high of around USD 293bn this year (2010: USD 151bn) but will decline to USD 213bn in 2012.
- A railway project linking Saudi Arabia with Iraq, Syria and Jordan at an estimated cost of USD 5bn was proposed at the G20 summit in a bid to boost infrastructure and network linkages.
- The Arab League on Saturday suspended Syria until President Assad implements a deal to put an end to violence against rioters, and pressed for economic sanctions and transition talks with the opposition.
- Qatar's Financial Markets Authority has issued a draft on new rules for IPOs by small- and mid-sized businesses – e.g. relating to the minimum required capital, the number of shareholders and the number of shares that can be issued through such an offering.
- A recent report from the National Commercial Bank placed total GCC bond issuance during the first nine months at USD 20.9bn in 2011. This compares to USD 21.5bn issued in the same period last year. Q3 was one of the weakest ever for regional bond markets –affected by the crisis in the international sovereign debt market- with only four issues with a total volume of USD 157.3mn – a sharp drop from USD 3.4bn in 2Q11 and USD 9.6bn in 3Q10.
- Tax rates in the Middle East and the GCC region have

fallen over the last few years and were favourably positioned compared to tax rates globally, according to KPMG's annual Corporate and Indirect Tax Survey for 2011. Their view is that it is unlikely that the GCC nations implement VAT before 2014.

UAE Focus

- The UAE market regulator, Securities and Commodities Authority, has published new draft rules on short-selling and borrowing, in a bid to attract foreign investment and boost trading.
- Supreme Council Member and Ruler of Ajman HH Sheikh Humaid Bin Rashid Al Nuaimi decided to distribute 40 new houses to needy citizens in his Emirate.
- Dubai's ruler issued a decree allowing Dubal, now renamed Dubai Aluminium Corp., to form a Board, invest outside the UAE and issue bonds.
- MENA's M&A activity is expected to pick up in 2011, thanks to energy sector developments, as reported by Apicorp. Deals include Qatar Holding's USD 3bn investment in Spain's Iberdrola utility company and the Abu Dhabi-based International Petroleum Investment Company (IPIC)'s USD 5.4bn acquisition of the remaining shares in CEPSA, Spain's second biggest oil firm.
- Foreign trade accounted for more than two-thirds of UAE's GDP last year (69%), helping reaffirm the UAE's position among the world's top 30 economies ranked by the World Trade Organisation, according to Sheikha Lubna Al Qassimi, UAE Minister of Foreign Trade.
- Data from the International Energy Agency shows that UAE's oil output increased 0.8% mom to 2.55 million barrels per day in Sep – in a bid to compensate for Libya's supply. UAE's oil output averaged 2.53 million bpd in Q3 (Q2: 2.48 million bpd), according to the IEA, also adding that the UAE will have a sustainable production capacity of 2.74 million bpd by the end of

this year.

- The Arab Spring has led to a substantial increase in tourism in Dubai, as per the latest figures released by DTCM – Dubai's hotels accommodated 6.64 mn guests in the first three quarters of 2011 (11% yoy); guest nights rose by 26% to reach 23.68 mn, while the average length of stay increased by 14%, leading to an increase in revenues of hotels and hotel apartments by 19% to AED10.96bn.
- UAE's national banks have increased their loan provisions by 16.6% yoy to about AED 11.9bn in the first nine months of 2011, with Emirates NBD making the highest provisions of nearly AED 4bn compared with AED 3bn in the same period a year ago.