

Weekly Economic Commentary – November 20, 2011

Markets

A dismal week for markets despite positive data from the US, as Eurozone's political tensions continue to hurt investor sentiment and Spanish elections take centre stage. This was reflected in regional markets as well with most indices down almost 1% from a week ago. Dollar strengthened (dollar index up +1.5%) and the euro came under pressure while haven demand helped the pound; Indian rupee fell to a 32-month low sliding to 51.20 against the dollar. Commodity prices were mostly lower last week, with gold down by almost 4%.

Global Developments

Americas:

- Obama stated the US wants to sign what he dubbed the “next-generation” trade agreement with nine APEC nations by the end of 2012.
- US PPI declined by 0.3% mom sa and 5.9% yoy in Oct (Sep: +0.8% mom) on lower energy and automobiles cost while core PPI remained unchanged (for the first time since Nov 2010).
- Inflation unexpectedly fell 0.1% mom in Oct (3.5% yoy; Sep: +0.3%) as energy costs fell by 2% from Sep and food prices rose at a minimal 0.1%; core inflation was 0.1%, same as a month ago.
- Retail sales increased 0.5% mom in Oct (Sep: 1.1%) on purchases of electronics and appliances (3.7%), food and beverages (1.1%), motor vehicles (0.4%) while clothing store sales fell 0.7%, registering the largest decline since Dec 2010.

- Housing starts fell 0.3% mom (+5.1% yoy) in Oct to 628k annual rate while building permits, a proxy for future construction, increased 10.9%.
- Initial jobless claims fell to a 7-month low of 338k for the week ended Nov 12 while the number of people continuing to collect jobless benefits decreased to a 3-year low of 3.61 mn in the week ended Nov 5.
- The IRS has issued proposed regulations relating to the taxation of foreign government entities – clarifying and modifying the determination of whether a “Controlled Entity” is engaged in commercial activities- that would exempt them from taxation.

Europe:

- Italy’s Mario Monti formed an emergency government led by technocrats.
- Germany grew 0.5% qoq in Q3, higher than 0.3% growth recorded in Q2 while France expanded 0.4%, following a 0.1% decline the previous quarter – both countries growing on stronger private consumption. Eurozone GDP gained a modest 0.2%, on the strength of France and Germany as Spain and Belgium stagnated while contractions were seen in both Portugal and Netherlands.
- Eurozone industrial production dipped to a 21-month low in Sep, falling 2% mom (+2.2% yoy; Aug: +1.4% mom), with the core, Germany and France, declining by 2.9% and 1.9% respectively. Slumps in industrial orders as well signal further contraction in the coming months.

Asia and Pacific:

- Japan posted 6% qoq, saar, GDP growth in Q3, broadly in line with expectations. Earthquake rebuilding which has started in earnest should sustain growth at 2.5% for the next 3 quarters. The BoJ left policy rates unchanged at the recent meeting, also agreeing to leave the credit

and asset-purchasing program unchanged, after it was boosted by JPY 5trn to a total JPY 55trn in Oct.

- Singapore non-oil domestic exports (NODX) fell 16.2% yoy in Oct (Sep: -4.6%) with electronics taking the biggest hit. Exports to the US plunged 51% and it dropped by 31% to both Europe and Hong Kong, while NODX to China rose by 3.1%.
- Indonesia's Central Bank has revised its growth forecasts for 2012 to 6.5% from a previous estimate of 6.7%, on expectations of slower export growth to the developed US and Eurozone countries, while also revising the Q4 2011 estimates by 0.1% to 6.6%.
- Malaysia's Q3 GDP was stronger than expected, rising 5.8% yoy (Q2: 4.3%) on stronger domestic demand (+9% yoy) through higher household, business and government spending. Gross exports were up 11.4% and investment expanded by 6.1%.

Bottom line:

The Eurozone debt crisis still looms large, with Spain now the cause of anxiety after the change of government in Italy. As Spain heads to the polls today, it is likely that the global outlook will be dependent more on political developments as opposed to macroeconomic issues. Meanwhile, a recent World Gold Council report estimated that central banks were net buyers of gold (148.4 tonnes) in Q3 2011, led by emerging market central banks intent on diversifying their growing foreign exchange reserves – which can also be read as “distrust in the dollar”.

Regional Developments

- Syria called for an emergency Arab League Summit last week, after the country was suspended from the organisation given the government's stand in spite of the continuing anti-government protests. This call was

rejected by the GCC – making it difficult for this proposed Summit to be held, given that 15 of the League's 22 members would have to approve in order to hold a summit.

- Egypt's market regulator eased the rules and regulations for small and mid-cap investments on Nilex last Sunday – e.g. it will not need a minimum capital requirement, with the maximum ceiling set at EGP 50mn; additionally, an independent judge was assigned to oversee the finances of the market and ensure that all companies are abiding by trading rules.
- Refinancing risk will be the biggest concern for maturing debt in the coming years, according to S&P. Estimates indicate that about USD 25bn in bonds and Sukuk will mature in the GCC in 2012, the figure rising to about USD 35bn in 2014.
- The uncertain global outlook (especially the fate of the Eurozone) combined with oil price volatility and increased domestic spending could cause the regions' SWFs to become selective in investments abroad, after having lost close to 25% of their wealth during the recent financial crisis "buys".
- S&P has upgraded Oman's Banking Industry Country Risk Assessment rating to group '4' from group '5.' with 1 signifying the lowest risk banking system, citing factors like "regulator's good track record, and adequate regulation and supervision, which are increasingly aligned with international standards".
- Increased spending during the pilgrimage season is likely to drive up inflationary pressures in Q4 in Saudi Arabia, according to SAMA.
- Kuwait's reduction in work permits is an indicator of the decline in expatriate population, which has come down to about 1.2mn from 2 million a few years ago.

UAE Focus

- The Dubai air show event ended with close to USD 63.3bn in orders for aircraft, maintenance services and flight training programmes, with a record 56,548 attending the event.
- Boeing won its single largest ever commercial aircraft order when Emirates, which will buy at least 50 twin-aisle Boeing 777 long-haul aircraft worth a record \$18bn at list prices.
- Inflation for October rose to a 3-month high of 0.3% yoy in Dubai, on food costs (+0.5% mom) while transportation costs dipped by 0.1% mom and housing prices remained unchanged.
- In Abu Dhabi, inflation slowed to a 22-month low of 0.9% yoy and 0.3% mom in October, as transportation costs fell 0.2% mom alongside a 1.3% hike in food prices.
- UAE's real GDP grew 1.4% to AED 977.3bn in 2010 (2009: -1.6%), with non-oil contribution to GDP increasing to 69% from 66% recorded in the previous year, highlighting increased economic diversification. Meanwhile, Abu Dhabi's nominal GDP increased 15.9% to around AED 620bn in 2010, also causing the per capita income to increase to AED 315,300 from about Dh293,100 in 2009 (+ 7.6%).
- UAE continues to remain a safe haven for businesses, given the FDI inflow into the country in 2010, according to a senior government official. Abu Dhabi alone attracted USD 2.7bn last year, also ranking as the second most attractive city for FDI in the Middle East in 2010 as per FT rankings.