

Weekly Economic Commentary – November 27, 2011

Markets

Last week, ending with US Thanksgiving turned out to be a disastrous one for equity markets globally – Wall Street and Asian markets recorded their the worst weekly performance since Sep, Nikkei 225 hit the lowest level since Apr 09, Dubai stocks hit a 7-year low and the Egyptian bourse closed at its lowest in more than two and a half years. Sterling fell to a seven-week low while the Indian rupee continued to be one of the worst-performing emerging market currencies against the dollar. The worsening global outlook led commodity prices down, with aluminium prices falling below \$2k a tonne for the first time since 15 months.

Global Developments

Americas:

- US GDP climbed 2% yoy in Q3 (Q2: 1.3%), but was revised down from the previous estimate of 2.5% – largely from the USD 8.5bn drop in business inventories as opposed to gain of USD 5.4bn announced earlier. The gain in Q3 came from firm consumer spending and strong export growth.
- The core PCE index – personal consumption expenditures prices excluding food and energy, declined slightly to 2.0% qoq in Q3 from 2.1% in Q2.
- Purchases of previously owned homes in US unexpectedly rose 1.4% mom in Oct (year-to-date at 4.97mn). Median house prices have fallen 4.7% and given low borrowing costs, it has become a buyer's market.
- Lower demand for aircraft and business equipment led to a decrease in orders for durable goods by 0.7% mom in

Oct (Sep: -1.5%). Europe's debt crisis and subsequent risk of slower global economy may temper purchases of US manufactured goods while a weaker dollar might help American exports.

- Initial jobless claims increased by 2k to 393k in the week ended Nov. 19 after hitting a seven-month low of 391k the previous week, indicating that the rate of firings has stabilized after slowing in recent weeks.

Europe:

- Eurozone composite PMI was 47.2 in Nov (Oct: 46.5) – below the 50 mark for the third month in a row.
- Industrial orders in Europe slumped to a 3-year low, falling 6.4% mom in Sep (Aug: +1.4%), led by France (-6.2%) and Germany (-4.4%).
- German GDP rose 2.5% yoy and 0.5% qoq in Q3 (Q2: 0.3% qoq), unchanged from the first estimate, with private consumption the largest contributor to GDP growth, rising 0.8% qoq.
- Business confidence in Germany expressed by the IFO institute's business climate index increased for the first time in five months to 106.6 in Nov (Oct: 106.4). With unemployment levels at a two-decade low, domestic consumer spending is helping to offset the waning foreign demand within the euro region.
- More downgrades from ratings agencies: S&P downgraded Belgium debt and Hungary's sovereign rating was downgraded to Ba1, a sub-investment grade, by Moody's.

Asia and Pacific:

- HSBC's flash China Manufacturing PMI hits a 32 month low of 48 in Nov (Oct: 51) indicating a contraction in the manufacturing sector and a risk to the country's economy.
- A slew of GDP releases in Asia: Singapore Q3 GDP rose to

6.1% yoy (Q2: 1.0%) with manufacturing playing a key role, rising 14.2% (-5.8%). Thailand's GDP grew 3.5% yoy in Q3 (Q2: 2.7%), but the government has reduced its growth outlook for 2011, given the impact of the worst floods in 70 years. Meanwhile, Taiwan's Q3 GDP expanded at the slowest pace since 2009 at 3.42% yoy (Q2: 4.52%) adding concern that the stumbling global recovery is threatening Asia.

- Singapore's industrial production rose 24.4% yoy and 14.2% mom in Oct with the volatile biomedical industry the biggest contributor, expanding by 112% yoy. Excluding it, IP was down 11.2% yoy.
- India opened up the multi-brand retail sector to 51% FDI – which will increase investment and is expected to create 10 million new jobs, could result also in fostering competition.

Bottom line:

A deadlock on the US budget (with the Super Committee failing to reach an agreement on reducing the deficit by \$1.2tn) along with the ongoing ratings downgrades in Europe, ECB lending to European banks hitting a 2-year high of EUR 247bn and unimpressive German bond sales indicate a gloomy path ahead. The question that is now doing the rounds is whether the Eurozone is moving towards a breakup. Asia seems to be in a wait and watch mode while some key indicators point to a potential slowdown, courtesy links to Europe.

Regional Developments

- Yemen, following the resignation of President Saleh, has set a date for presidential elections early next year.
- S&P cut Egypt's sovereign rating one level to B+, four levels below investment grade, and maintained the outlook as negative following the violence last week.
- Qatar is considering enacting a law to allow GCC firms

to operate in the country, in an attempt to help speed up the GCC Common Market. Some criteria need to be met – one, companies should be registered and operating in the country of their origin for not less than 3 years and two, it should be 100% owned by GCC national or nationals.

- The Gulf Bond and Sukuk Association have issued the “Standards for Gulf Debt Issuers” in a bid to improve transparency and disclosure, improve risk standards and provide consistent information to investors.
- The GCC nations have delayed the implementation of VAT until every member is ready with the internal systems and specialized staff required to implement such a tax, according to UAE MoF’s Younis Khouri.
- A report from Markaz estimates that GCC will spend close to USD 97bn between 2011 and 2020 on new road and rail projects, including the USD 30bn GCC rail network.
- Oman’s budget for 2012 is expected to bring in OMR 8.8bn in revenues, with oil revenues calculated at \$75 per barrel. Spending is estimated at OMR10bn, with an 18% rise in spending on education and health alongside 36k jobs being created for nationals in the public sector.
- Oman’s inflation dropped significantly to 3.7% in Sep (Aug: 5.3%) on fall in prices of essential food items.
- This week will see the beginning of jobseeker’s allowance being given to Saudi nationals who have qualified for this. The Saudi cabinet also approved several other measures facilitated to disburse the allowance to the Saudi youth as per the Royal Order issued in March this year.
- Saudi Arabia has reached the oil production target of 12mn barrels per day, hence stopping (temporarily) the USD 100bn expansion plan for oil production capacity. This follows statements from the Chief Executive of Aramco, who mentioned that pressure to raise output capacity had been “substantially reduced”.
- Letters of credit in Saudi Arabia, a proxy for consumer

spending via imports of goods, grew 27.8% yoy in Q3 to SAR 43.7bn, mainly due to the increase in “Appliances and Other Goods” and building materials and machinery category – the latter implying a booming construction sector.

- A possible change in law in Bahrain might allow the children born to Bahraini mothers and foreign fathers get citizenship. If this law is passed, about 3000 or more applicants could receive citizenship, according to the Bahrain News Agency.

UAE Focus

- The Dubai Department of Economic Development’s quarterly Business Confidence Index rose to 115 points in Q3, up from 100 in the previous quarter – with 57% of the survey respondents anticipating higher revenues (from higher volumes as opposed to prices) and 44% expecting higher profits in Q4.
- A report from the Dubai Economic Council finds that employee productivity is significantly higher in the free zones – with both sales per worker and value added per worker higher across all sectors. The study identified “motivation incentives” as the main reason behind higher productivity, with average salaries higher in the free zones.
- The Bankruptcy and Financial Restructuring Law Initiative has been referred to the technical committee in the Ministry of Justice. The law incorporates “restructuring commercial and non-commercial debt, debtor obligations regarding accumulating debt, and facilitating restructuring processes for companies and organisations” as mentioned in a press statement.
- A report prepared by the Financial Stability Unit to present to the BoD of the UAE Central Bank states that the UAE banks remain in a “good” position and unaffected by the current global turmoil.

- Some Islamic banks have raised objections to the new rules on personal and retail credit issued by the UAE Central Bank in May – mentioning that these are incompatible with Shariah-compliant banking, including overdrafts, punitive interest on debt default, increasing loans and cheque deduction.
- Inflation in the UAE rose 0.4% mom in October due to an increase in the costs of food and clothing; however on year-on-year terms, prices declined by 0.05%, recording the first drop in 20 months.
- The Al-Maktoum international airport is expected to open for passengers early next year, according to Khalifa Al Zaffin, the executive chairman of Dubai World Central. It was also announced that AED 4bn would be invested for Al Maktoum Airport while the expansion of the Dubai International Airport would entail around AED 26bn by 2020.