

Weekly Economic Commentary – December 04, 2011

Markets

Stock markets had the best week in three years on hopes that an agreement on the new governance framework of the euro area is imminent. Another catalyst for a rebound was the decision among 6 central banks, including the ECB and the Fed, to extend existing cheaper USD swap lines for banks to boost liquidity and ease strains in financial markets. Intra-euro bond spreads narrowed and were less volatile. The situation is however in a flux with developed markets in search of catalysts and emerging markets trying to decouple. Regional markets have been somewhat more resilient of late, with the expectations of an MSCI upgrade for the UAE and Qatar into emerging market status the most expected news in the coming two weeks. The euro had a positive week, rising against the dollar, while both oil and gold prices increased from a week ago.

Global Developments

Americas:

- The US Fed, ECB and 4 other central banks increased the availability of dollars outside the US, reflecting concerns about the liquidity & inter-bank credit fallout of the European debt crisis.
- Sales of new homes edged up 1.3% in Oct, a bit above consensus. Prior data were revised down, resulting in a weaker-than-expected 307k figure. Pending home sales were up 10.4% in Oct, recording the biggest monthly increase since Nov '10, as low interest rates contributed to the rise. The S&P/Case-Shiller index

dropped 3.6% yoy in Sep (Aug: -3.8%).

- Non-farm payrolls increased by 120k and the ADP report signalled increased hiring in the private sector – having added 206k jobs in Nov, taking the jobless rate down to a 2.5 year low of 8.6%. Initial jobless claims rose 6k to 402k in the week ended Nov 26.
- The ISM survey for manufacturing was at a five-month high, rising to 52.1 in Nov (Oct: 50.8), with the new orders, production, prices, and exports components all showing an increase.

Europe:

- At Italian debt auctions bids exceeded offers (1.5x for 3 year; 1.34x for 10 year). But at a 7.89% average yield for 3s (4.93% a month ago), and 7.56% for 10s, versus 6.06% a month ago) the debt service is not sustainable.
- German retail sales rose further in October +0.7% mom (Sep: +0.3%) – the biggest increase since June.
- Eurozone manufacturing PMI contracted at the fastest pace in two years, falling to 46.4 in Nov (Oct: 47.1) as new orders continued to decline.

Asia and Pacific:

- China's central bank announced a cut in banks' reserve-requirement ratio by a half-point in a move that signals the end of the tightening cycle.
- China's non-manufacturing PMI dropped 8 points to 49.7 in Nov, for the first time in 33 months, as new orders declined 5.3 points from Oct.
- Japan industrial production rose +2.4% mom for Oct versus expectations of +1.0% (Sep was -3.3%). Production increased for transportation machinery, which slumped the previous month, and for general-use machinery and chemicals.
- Japanese Oct unemployment rose again to 4.5% erasing the

drop seen since March, although the rate remains below the 5.5% peak of Jul 2009.

- India Q3 GDP growth came in at 6.9% yoy, below the 7.7% in Q3, but in line with expectations. Sequentially, growth fell significantly to 5.6% qoq (sa annualized), with Rupee hammered in the markets. All sectors suffered a slowdown, led by industry. Fixed investments took a blow, falling by 0.6% yoy.
- Korea Industrial production in Oct increased 6.2% yoy, down from the 6.9% yoy growth in Sep, better than the 5.4% yoy expected but still weak.
- The Bank of Thailand cut the benchmark 1-day bond repurchase rate by 25bps to 3.25% – following nine rate hikes since Jul '10, in an attempt to boost the economy as it continues to suffer the floods' aftermath.

Bottom line:

A climax will be reached on Dec. 9th when the new governance framework of the euro area will be submitted to the EU summit. This event has been portrayed as a make it or break it moment and this is happening as an easing cycle begins in emerging economies – with China, Thailand and Brazil lowering rates last week in response to a marked growth weakening. Global remittances, meanwhile, are estimated to have risen by 8% yoy to USD 351bn in 2011 according to World Bank – with remittance flows to all six developing regions rising – for the first time since the financial crisis.

Regional Developments

- Economic sanctions were imposed on Syria by the Arab League; the country has however been given a chance until today to sign an initiative to end the turmoil, barring which the sanctions would come into play immediately.
- MSCI will announce its decision regarding the upgrade of

UAE and Qatar to emerging market status on Dec 14th, according to its website.

- Data from Zephyr's for November show that transaction values for M&A in MENA fell for the third consecutive month in November 2011 to \$35 million – the weakest result of the last 12 months – and were 94% lower than in November 2010. Oman was the most frequently targeted country.
- The surge of nearly 50% in oil prices could double the combined fiscal surplus of GCC. Oil exports alone could fetch over USD 608 billion this year, a whopping increase of around \$143 billion over 2010.
- The number of Omanis in the private sector stood at 177,716 in December 2010 but dropped 4% to 170,605 by September 2011 while the number of expatriate workers grew 10% from 955,630 to 1.06mn over the same period.
- The Saudi banking system will be able to comply with Basel III regulatory and compliance requirements, given the current supervision environment, according to Dr. Abdurrahman A. Al-Hamidy, Deputy Governor of the Saudi Arabia Monetary Agency.
- Personal loans taken in Saudi Arabia touched SAR 217.5bn in H1 2011, with 32.8% of total loans spent on the real estate sector while total loans given through credit cards amounted to SAR 7.6bn.
- S&P has assigned a AA long-term senior unsecured debt rating for Qatar, citing the government's strong fiscal and external balance sheets.

UAE Focus

- The United Arab Emirates has granted Federal public sector salaries rises of up to 100% next year and a Dh10bn (\$2.7 billion) fund to help indebted citizens and allowed for nationality to be passed on to the children of local women who were married to foreigners.
- With access to financial markets restored, UAE companies

placed as much as USD 5 billion of bonds on the market this year, with a similar amount being considered for issue in 2012.

- The UAE Central Bank has returned to buying US Treasuries after previously pausing given low yields, according to the Governor.
- Dubai airport posted a rise of 7.3% in passenger growth in October to 4.3 mn passengers, taking the 12-month rolling total to 50 mn passengers for the first time ever. Freight, however, registered a 2.5% decline to 202k tonnes, reflecting the global economic conditions.
- There were 3.8mn foreign workers in the UAE in 2010, with almost 2 million having no educational qualifications and about 266k having university degrees, according to the UAE Labour Minister.
- UAE's oil output fell 1.57% mom to 2.51 mn barrels per day (bpd), according to IEA estimates. This follows oil output averaging 2.53mn bpd in Q3, somewhat higher than Q2's 2.48mn bpd.
- Emirates NBD is contemplating an entry into the Sukuk market with the issue of a dollar-denominated bond in the coming two weeks, according to a Reuters report. The expectation is that most of the issue will be taken up by regional GCC banks.
- DP World, in its continuing expansion into the emerging markets, has opened West Africa's largest and most modern container terminal, in Senegal.