

# Weekly Economic Commentary – December 25, 2011

## Markets

The Christmas week brought some relief to market tensions, following the euro area's pledge to inject EUR 150bn in bilateral loans to the IMF, but especially after ECB lent a massive EUR 489.2bn (19.6% of total assets) to banks at 3-year maturity, and the stellar placement of sovereign debt in Spain. End year squaring and low liquidity however blur the picture. It was a mixed week in the regional markets, with Aldar's delisting talks bringing the UAE markets down to multi-year lows, while Saudi Arabia and Qatar closed higher compared to a week ago. In currencies, Sterling registered an 11-month high against the euro and the euro was slightly higher against USD. Oil prices are back up to last week levels, on growing tensions in Iran (tougher US sanctions) and Iraq (domestic political infighting). Gold price is meanwhile marking time waiting for the QE3.

## Global Developments

### Americas:

- US final Q3 GDP estimate was revised down to 1.8% qoq from 2.0% reported earlier. This compares to the 1.3% and 0.4% growth reported in Q2 and Q1. Lower spending on services led to a revision in consumer spending growth to 1.7% from the 2.3%. The PCE core price index rose 0.1% mom and 1.7% yoy.
- The housing market seems to be showing signs of stability: existing home sales rose 4.0% mom to 4.42mn in Nov (Oct: 1.4%, 4.25mn), the highest in last 10 months while new home sales increased 1.6% mom in Nov to

315k (Oct: 1.3%, 310k) – the fastest rise in the past seven months. Housing starts increased by 9.3% mom to 685K (Oct: 627K), the most since Apr '10.

- Durable goods orders rose by 3.8% mom in Nov (Oct: 0.0%), largely driven by transportation equipment including aircraft. Core orders, meanwhile, were up only 0.3%. Orders for non-defence capital goods, proxy for business investment fell 1.2%, following a 0.9% decline in the previous month.
- Initial jobless claims declined in the week ended Dec 17, falling to 364k – the lowest since Apr'08. The third consecutive week of decline led to a 4-week moving average of 380,250 – the lowest since Jun'08.

## Europe:

- ECB President Draghi warned of the costs of a Eurozone break-up and spooked market expectations about the ECB's role in purchasing sovereign debt or launching any quantitative easing program. He added that countries leaving the euro and devalued their currency would create "a big inflation" and fail to escape from structural reforms that would still have to be implemented "but in a much weaker position".
- The ECB lent a massive EUR 489.2bn (19.6% of total assets) to banks at 3-year maturity to revitalize credit clogged by sovereign exposure and bad loans. In its Financial Stability Report it blamed weakening macroeconomic growth on "unprecedented" loss of confidence and rise of key risks in the region.
- December Ifo German business climate indicator recorded a rise for the first time in four months and the retail and construction sectors showed resilience to the wider regional economic conditions.
- Swedish Riksbank announced a drop of 25bps to the repo rate, bringing it to 1.75%. This is the first time the rate has been reduced since 2009.

- Italy's Q3 GDP showed a contraction of 0.2% qoq (Q2: +0.3%), as both consumer and investment spending declined 0.2% and 0.6% respectively. UK growth was up 0.6% in Q3, up from previous estimates of 0.5%, due to stronger service and construction sector growth. France GDP recorded an increase of 0.3% qoq (Q2: -0.1%), as investment growth slowed to 0.2% (0.6%) while consumer spending was up 0.3% (-0.6%).

## **Asia and Pacific:**

- North Korean leader Kim Jong-Il died of a heart attack while on a train trip. South Korea's KOSPI fell 5% on the news.
- Japan's November exports fell 2.6% mom, sa (on top of the October fall of 4% m/m). October-November exports are down 18.9%, saar, versus Q3.
- Industrial production (IP) data for Nov was released in Singapore and Taiwan. In Singapore, the volatile pharmaceuticals sector led to an unexpected decline of 9.6% yoy (Oct: +24.4%) while Taiwan also witnessed a drop of 3.55% yoy (+1.41%), falling for the first time since 2009, largely owing to
- Food prices continue to add to inflationary pressures: inflation in Malaysia dipped slightly to 3.3% yoy in Nov compared to 3.4% registered in October. Singapore's inflation rose to 5.7% yoy in Nov (Oct: 5.4%) as food prices, transport costs and housing costs increased with the weakening SGD leading to pricier imports. Meanwhile, in India, food inflation dropped to a four-year low of 1.81% for the week ended Dec 10.

## **Bottom line:**

A few positive signs are notable at this year-end: Germany displayed some resilience; the real estate and labour market in the US are confirming some signs of life. More importantly

the drastic cut of expenditures in Spain has showed clearly that the crisis in Europe will not be solved by QE or debt monetization but by a multi-year plan of public sector re-engineering. The rest of Europe led by Italy and Japan are heading towards a recession. Emerging Asia is definitely growing at a faster pace than its developed counterparts; its central banks have entered the phase of either reducing interest rates or leaving them unchanged to shield their economies, though global weakness is beginning to weigh on its exports, IP and growth.

## **Regional Developments**

- The GCC Supreme Council accepted the KSA proposal to initiate the transition from Co-operation to Union. A special commission of 18 members will be entrusted by Feb 1 to study operational proposals. A preliminary report is expected by end March.
- The Emir of Kuwait issued a decree setting Parliamentary elections for next Feb. 2, 2012
- The implementation of the GCC Customs Union, expected to be completed by mid-2014, is seen as the basis for establishing the Gulf Common Market, following which the latter will be established by early 2015, according to the Kuwait's Minister of Finance and Health.
- Moody's downgrade of Egypt by one notch to B2 was largely as a result of the deteriorating political conditions, with the rating agency cautioning more downgrades if the situation did not improve.
- Fitch expects slower growth in the Middle East and Africa region in 2012 (at 4% compared to 5% this year); of all countries encompassing the region; all maintain a Stable Outlook except for the three Negative Outlooks on Egypt (BB), Tunisia (BBB-) and Lesotho (BB-).
- OPEC will accommodate rising Libyan output within a newly agreed total production cap of 30 min barrels per day, according to Secretary General Abdullah-Al-Badri.

- Oman recorded the largest fiscal surplus of OMR 830.1mn during the first 10 months of 2011, compared to a deficit of OMR 91.2mn for the same period last year. This was largely due to higher oil prices and despite higher spending (19% yoy).
- Saudi inflation stayed steady at 5.2% in Nov; monthly inflation slowed to 0.02% – the lowest since Feb'11.
- The Qatar Investment Authority is expected to inject close to USD 2bn into the Qatar Financial Centre, in a bid to attract businesses to the Centre, which is currently focusing to attract asset management, insurance, and reinsurance firms.

## **UAE Focus**

- DIFC Investments announced that a USD 200mn loan had been repaid to Deutsche Bank and “is evidence of our commitment to meet our debt obligations as and when they fall due”.
- Emirates NBD could see its Tier 1 capital ratio fall by nearly 1.1% if it is forced to absorb Amlak, HC Securities said on Sunday.
- The major Abu Dhabi government stakeholder Mubadala seems to be pondering a delisting of the developer Aldar. This news was denied by a statement from Aldar's deputy CEO.
- Dubai Drydocks World expects to complete its debt restructuring by the end of March and hopes joint ventures in Asia will bring fresh cash.
- The Asian Development Bank wants to raise \$1bn to expand a newly-completed stretch of railway in Afghanistan into a national network to export iron ore and copper, according to the FT.
- Inflation in the UAE fell 0.02% mom and 0.09% yoy in Nov, according to the National Bureau of Statistics. Total inflation recorded an uptick of 0.94% in the months Jan-Nov 2011.

- According to a report released by the Dubai Economic Council, UAE's nominal GDP for this year is expected at AED 1.25 trillion, of which share of hydrocarbon sector is 29%. This compares to GDP of AED 6.5bn and higher dependence on the hydrocarbon sector (71%) in 1971.