

# Weekly Economic Commentary – January 02, 2012

## Markets

Global Stock markets ended the year on a low note – posting their first annual loss since 2008, with emerging markets also closing lower: MSCI's Asia Pacific Index declined almost 18% in 2011, after closing on a slightly positive note in the last week. Regional markets were hit by lower volumes and liquidity towards the end of the year, with little to cheer given the still ongoing regional turmoil. The euro hit a historic 10-year low against the yen and recorded a 15-month low against the dollar, also closing as the worst performing currency in the year 2011, while the Renminbi was the best performing currency. Commodities had a relatively better year with gold playing its role as a safe haven asset alongside the US Treasuries and the yen.

## Global Developments

### Americas:

- S&P Case Shiller showed a decline of 3.4% yoy in Oct, falling for the sixth consecutive month. Meanwhile, pending home sales rose by 7.3% mom in Nov (Oct: 10.4%), rising to the highest level since Apr 2010.
- Initial jobless claims increased for the first time in four weeks, rising 15k to 381k in the week ended Dec 24.

### Europe:

- The ECB's deposit facility had record use as banks placed almost EUR 412bn over the Christmas holiday. This followed the previous week when more than 520 banks

borrowed EUR 489bn from the ECB under the new 3-year liquidity scheme suggesting that banks are yet to use the funding provided by the ECB.

- Italy bond auction of EUR 9bn of six-month bills – sold at an average yield of 3.25%, down from a euro-era record of 6.5% last month, led to a dip in the euro to its lowest level since September 14, 2010.
- French unemployment has touched a 12-year high with the number of registered job seekers in France rising by 29900 in Nov to reach 2.84 million.

## **Asia and Pacific:**

- China and Japan have agreed to a direct currency exchange programme which would mean that trade and investment can be facilitated in the Renminbi directly instead of relying on the dollar, as is the case currently. This will cut costs for companies, boost bilateral trade & internationalise the RMB.
- Japan is also expected to boost ties with India during the upcoming visit to the latter nation, by arranging for a Japan-India currency swap agreement. The swap line is expected to amount to USD 10bn, according to an unnamed Japanese government official.
- India has permitted the entry of Qualified Foreign Investors (QFIs) into the market, enabling foreign individual investors, pension funds and trusts to directly invest in equities, in a bid to boost capital inflows.
- Japan released a disappointing set of industrial production (IP) and retail sales for Nov data last week. IP declined 2.6% mom with automobile, information and communications electronic-equipment sectors the hardest hit as the strong yen and flooding in Thailand presented more worries. However, the Ministry of Economy, Trade and Industry announced that output is likely to improve to 4.8% and 3.4% in Dec and Jan respectively, based on

an initial survey on companies. Retail sales dipped 2.3% yoy (Oct: +1.9%) as global and domestic issues weighing in on consumer spending.

- China's PMI rebounded to 50.3 in Dec (Nov: 49), indicating a slight expansion though the export orders component within the PMI was still below 50, at 48.6, but stronger than the 45.6 in Nov.
- South Korea's industrial production fell unexpectedly in Nov, falling 0.4% mom (Oct: -0.6%) and 5.6% yoy (6.3% yoy) on lower service-sector production: output of semiconductors and related parts fell 1.8% mom while video and audio equipment production dropped 3.9%. Inflation, meanwhile recorded an increase of 4.2% yoy and 0.4% mom in Dec, on a rise in electricity prices.
- Taiwan Central Bank meeting offered no surprises as the discount rate was held steady at 1.875% on worries of weaker demand from abroad and mild domestic inflation.

## **Bottom line:**

A tumultuous year came to an end last week: the sovereign debt crisis hogged the headlines most of the year; emerging markets were not completely immune to the trails of the developed world as trade-dependent emerging markets are facing supply chain disruptions recently in a year that also witnessed several natural disasters including a tsunami and floods and China replaced US as top IPO venue. End-of-the-year fireworks were evident when the US called the Yuan undervalued and vowed to press for further appreciation of the currency – just falling short of naming China a currency manipulator. The coming year is likely to witness a stronger partnership among the emerging market economies as the developed nations struggle to find a solid footing amidst political changes and ongoing economic weakness.

## Regional Developments

- The regional customs union will be implemented from the 1st Jan, 2015 and will commence with the formation of the GCC commission comprising directors of Customs of the member states, according to the Secretary-General of GCC Dr Abdul Latif bin Rashid Al Zayani.
- Qatar has initiated the listing and trading of Qatari treasury bills on the Qatar Exchange. This initiative will help develop the local bond and Sukuk market and will eventually lead to the development of a deep and liquid local currency debt market.
- Qatar's Producer's Price Index for Q3 2011 recorded an increase of 0.6% qoq and 43.5% yoy. Compared to the previous quarter, prices were higher in the mining (+1.5%) and electricity and water sector (0.9%) while manufacturing prices registered a decline (-3.2%).
- Saudi Arabia's 2012 budget is expected to result in a decline in surplus; expenditure is projected to be SAR 690bn – an increase of 19% from 2011 while revenues, at SAR 702bn, will be heavily dependent on oil given the assumption of an oil price of \$74 per barrel. Infrastructure remains a priority as SAR 265bn was allocated to new development projects with education, transport and health infrastructure getting the bulk of the expenditure.
- Oman's commercial banks have increased investments in foreign securities, as per the latest data release by the Central Bank of Oman. Investment in foreign securities reached OMR 262.3mn in Sep 2010, compared to OMR 155.2mn in Sep 2009 – a rise of 69% yoy.

## UAE Focus

- The Government of Dubai announced a AED 32.25bn budget for 2012, with a reduction in fiscal deficit to AED 1.827bn or 0.6% of GDP. With only 7% allocated for

public services and government excellence sector, the focus is more on fiscal prudence with about 41% of the expenditure being set aside for infrastructure, education, healthcare and related economic development sectors. The UAE's non-oil foreign trade increased 23% yoy to AED 524bn in the period Jan-Jul 2011, with exports growing 45% to AED 64.7bn and gold the top export commodity (given higher gold prices). Imports for the same period rose 22% to AED 337.1bn while re-exports grew 16% to AED 122.1bn. UAE's broad money growth recorded an increase of 0.4% mom in Nov 2011, as M2 grew to AED 822.1bn from AED 818.9bn in Oct 2011. Deposits declined by 0.8% while loan growth was slightly higher at 0.1%, taking loan to deposit ratio to 101.96.

- The Government of Abu Dhabi has bought residential units from several of Aldar's developments in addition to asset transfers and reimbursements, for a total of AED 16.8bn, in a bailout to reduce the company's indebtedness.
- Passenger growth at the Dubai International Airport grew 7.8% in Jan-Nov 2011 to accommodate almost 46.28 million passengers, with a year-end target of 50 million expected. November saw an increase of 8.9% in passengers, with the most coming from the GCC countries, followed closely by South Asia, Russia and CIS and Western Europe.
- A survey conducted by the Department of Economic Development in Abu Dhabi showed that there has been an increase of 3.8% qoq in the number of Emiratis who borrowed in Abu Dhabi in Q3. Additionally, it was found that loans accounted for an average of about 19.2% of the monthly household expenditure, though down 1% from Q2.