

Weekly Economic Commentary – January 08, 2012

Markets

Stock markets started the year on a strong note, but then momentum faded for lack of a catalyst. Even the strong US labour data failed to cheer markets, which continue to remain depressed given the distressed Eurozone. Regional markets were mixed: low volumes prevailed even as Qatar hit an 11-month high (at close on Tues) and Saudi markets closed at the highest since Aug 1st yesterday. The dollar hit a 16-month high against the euro; gold recorded its biggest weekly gain in five weeks and Iran tensions drove up oil prices.

Global Developments

Americas:

- ISM manufacturing PMI rose to a 6-month high of 53.9 in Dec (Nov: 52.7), with increase in the measure of new orders and exports while hiring at the factories rose at the fastest pace since June.
- Factory orders increased 1.8% mom in Nov to USD 459.18bn, following two consecutive months of decline (Oct: -0.2%). The rise was a result, however, of higher demand for durable goods which grew 3.7% – largely due to gains in demand for airplanes. Orders for non-defence capital goods excluding aircraft, a proxy for business spending, fell 1.2% (-0.9%).
- The number of people paying their home equity loan on time in Q3 increased, while consumer delinquencies fell to its lowest point in four years.
- US labour market seems to be in recovery mode: The ADP employment report stated that 325k jobs were created in

Dec (Nov: 204k) in the private sector. This, combined with an increase in non-farm payrolls by 200k, brought down the unemployment rate down to a three year low of 8.5%.

- Initial jobless claims fell by 15k to 372k in the week ended Dec 24, taking the four-week moving average to 373,250- the lowest level since June 2008.

Europe:

- Eurozone services PMI for Dec was outright weak (48.8), but better than in Nov (47.5). Striking is the divergence between Germany (52.4, versus 50.3 in November) and Spain (42.1; 36.8 in Nov) and Italy (44.5; 45.8 in Nov).
- A startling difference within the eurozone was evident in employment data for Nov. as well: a 22k decline in German unemployment to a 20-year low of 6.8% while Spanish unemployment hit a record high of nearly 23% in 2011, with more than 4.42 million jobless at the end of 2011.
- The 12 month eurozone inflation dropped to 2.8% in Dec, having being stuck at 3% over Sep-Nov.
- Spain's new Economy Minister stated that banks might need to set aside almost EUR 50bn in bank provisions (roughly 4% of GDP), in line with additional reforms being implemented for the financial sector.
- News from Europe's largest economy was quite disappointing: German retail sales recorded an unexpected decline in Nov, falling 0.9% mom (Oct: -0.2%) while manufacturing orders took a hit, declining 4.9% mom in Nov (Oct: +5.0%), as foreign orders dipped by 7.8% while domestic demand fell 1.1%.

Asia and Pacific:

- A mixed bag from PMIs following upbeat sentiment in

China last week. Korea's PMI for Dec fell to 46.4 (Nov: 47.1), recording the sharpest drop in almost 3 years while India's PMI rebounded to 54.2 in Dec (51.0), the fastest improvement since June, thanks to both foreign and domestic demand.

- Singapore GDP contracted in Q4 by 4.9% qoq saar (+3.6% yoy) – largely resulting from a slowdown in the manufacturing sector which contracted 21.2% in Q4 after recording a 10.1% expansion in Q3. The full year growth at 4.8% yoy was in line with the forecast of 5.0%.
- Hong Kong retail sales increased 23.5% yoy in Nov to HKD 33.4bn with an increase in Chinese visitors by 25% in the month boosting consumer spending.
- Inflation falls across Asia in Dec: In Thailand, CPI increased 3.53% yoy in Dec (Nov: 4.19%) as food prices stabilised after the flooding; Indonesia's inflation slowed for a 4th consecutive month to 3.79% (4.15%) – a 20-month low and Philippines inflation was at an 11-month low of 4.2% (4.7%) – providing ample room for the central bank to reduce policy rates.
- Taiwan's inflation, however, unexpectedly rose to 2.03% in Dec (Nov: 1.01%), the highest in 22 months. However, the wholesale price inflation slowed to 4.32% in Dec from 4.93% a month ago.

Bottom line:

Data from the US continue to point at a rather encouraging outlook while the Eurozone remains in a quagmire. Government debt auctions in Portugal and France have attracted strong bids, but Italy's spread with Bunds remains at 500 bps. Data from Asia depict a mixed picture with China on a solid footing, India plodding but Korea and Singapore losing steam.

Regional Developments

- MENA IPOs recorded a decline of 69.3% in 2011, with the

region's capital markets raising only USD 843.9mn compared to USD 2.8bn in 2010. Saudi Arabia topped the leaderboard, with USD 460.5mn raised in 2011, closely followed by UAE with USD 271.3mn; sector-wise, both industrial manufacturing and financial sectors witnessed five IPOs each.

- Qatar's Financial Market Authority has announced the adoption of new listing and IPO rules in the secondary market to ease listings and encourage foreign capital inflow. Meanwhile, Reuters reported that Saudi Arabia, in a bid to open up its equity market to foreign investors, is planning to finalize the necessary rules by Jan 15.
- Activity in Saudi Arabia's private sector eased in Dec, according to PMI data released by SABB HSBC. It declined to 57.7 from a three-month high of 58.1 in Nov as new orders index slowed to 65.4 (Nov: 67.7) while employment increased at the fastest pace since last Aug.
- Saudi Arabia non-oil exports increased 34% yoy to SAR 42.9bn in Q3, with China topping the list of importers – receiving upto 13% of total exports, followed by the UAE (10%), Singapore (7%) and India (6%). Product wise, petrochemicals came on top, valued at SAR 15.3bn, followed by plastic products and food products.
- Oman passed a pro-job creation budget for 2012, with close to 36k jobs being created in the public sector and military (in addition to the 94k jobs created in the sector in 2011). With expenditure estimated at OMR 10bn (+9.0% yoy) and revenues slated to be OMR 8.8bn (+21%), the deficit at OMR 1.2bn is based on the assumption of oil price at \$75 per barrel (2011: \$58). Meanwhile, Oman's actual budget surplus was USD 2.2bn in Jan-Oct 2011.
- Kuwait's revenues for Apr-Nov stood at KWD 18.7bn on higher oil revenues while spending was only 36.6% of full-year's plan at KWD 7.7bn, taking the budget surplus to KWD 11.8bn, accounting for close to 33% of GDP.

UAE Focus

- Non-oil trade recorded an increase of 23% yoy to AED 814bn for the period Jan-Sep, according to data released by Dubai Customs. Imports recorded a substantial increase of 21% to AED 326bn in the same period. Gold topped the list of exports (AED 45bn) and India the largest trade partner (exports: AED 66bn or 20.25% share).
- UAE PMI fell to a four-month low of 51.7 in Dec, according to HSBC's latest report, citing weaker output and new order growth. Non-oil private sector employment's index was 50, falling from Oct's 50.9, the lowest reading since the survey began 29-months ago.
- Total credit grew marginally (+2.7%) to AED 998bn at the end of Sep, from AED 972bn at the end of 2010, according to the latest UAE central bank release. Credit to the real estate sector declined to AED 160.1bn in Sep from AED 163.1bn in 2010 while claims to the private sector rose (+2.9%) to AED 815.1bn from AED 792.1bn at end of 2010.
- The Dubai Shopping Festival in 2011 contributed AED 15.5bn, with AED 5.9bn spent by regional and international visitors, according to a report released by the Dubai Events and Promotions Establishment. A total of 884,660 regional and international visitors came to Dubai during the DSF period, with India, UK and Saudi Arabia residents accounting for 11%, 8% and 8% respectively.