

# Weekly Economic Commentary – January 15, 2012

## Markets

Stock markets were generally stable awaiting some news from the usual spate of meetings and “summits” among EU leaders and institutions. The seemingly softer German stance on fiscal discipline lifted European bourses and sovereign spreads, before another round of sovereign downgrades in Europe delivered a blow. Asia’s sentiment was helped by anticipation of a looser monetary stance in China. Regional markets were down, except Egypt which gained largely from Building & Construction and Property sectors. The euro fell further after the recent set of sovereign downgrades in the Eurozone. Oil prices, which rose on Iran’s threat to block the Strait of Hormuz, dropped after EU downgrades brought attention back to the sovereign debt crisis. Gold prices posted gains from last week – but slipped on Fri, after recording a one-month high on Thursday.

## Global Developments

### Americas:

- US retail sales increased 0.1% mom in Dec (versus +0.4 mom in Nov.) less than the 0.3% expected. Ex-autos sales declined by 0.2% against forecasts of a 0.3% increase. Core retail sales (ex-autos, gas and building materials) also declined by 0.2%. As a result, Q4 GDP might come out below estimates.
- Initial jobless claims rose more than expected by 24k to 399k. Claims are volatile at the turn of the year due to temporary positions. The 4-week moving average moved up only 5k to 380k. Continuing claims also increased, up

19k to 3.628m.

- Trade deficit widened in the US in Nov to USD 47.8bn (Oct: USD 43.3bn), as exports fell to a 4-month low from a slowdown in demand from Europe amidst higher imported oil prices.
- US consumer credit rebounded: non-revolving credit is up at 6.7%, saar in the 3 months through November.

## Europe:

- S&P downgraded a number of European sovereigns: France lost the triple A while Italy sunk to BBB+, worse than Spain's A. In addition, seven others were downgraded including Austria (by one notch), Spain and Portugal (by two notches). This will lead to higher borrowing costs for sovereigns and banks.
- The ECB left rates unchanged and Draghi crushed any hope of QE, while admitting that growth risks are skewed to the downside.
- Rumours about the new "fiscal compact" suggest that the stronger discipline to be enshrined in a new EU Treaty may be postponed until 2013.
- The German economy contracted 0.25% qoq in Q4. However it expanded by 3% yoy in 2011 as compared with 3.7% in 2010. Domestic demand was the main driver as consumption grew by 1.5% yoy—the highest in 5 years. Exports and imports increased by 8.2% and 7.2% yoy, respectively, in 2011.
- EU Industrial Production (IP) declined -0.1% mom and -0.3% yoy in Nov. (versus -0.3% mom and +1.0% yoy). National data were mixed with French manufacturing output stronger than expected, up 1.1% mom (but production in Q4 is still down 3.4%, saar, over Q3), Italy saw also a 0.4 mom increase but for Q4 to date, Italian IP is down 12.6%, saar.
- UK manufacturing production fell for the fifth month in six in Nov (not much "re-balancing" is in sight). Q4

output so far is down 4.7%, saar, on Q3.

## **Asia and Pacific:**

- Chinese 2011 trade surplus fell to USD 155bn, the lowest since 2005, due to the global slowdown, rising domestic demand and commodities imports like iron ore and crude oil. The faster growth of imports compared to exports, underscores the gradual shift from export led to endogenous growth.
- Chinese inflation stood at 4.1% yoy (consensus: 4.0% yoy) in Dec, down from 4.2% yoy in November. Inflation fell to -1.8% mom s.a. ann.
- Foreign exchange reserves of China totalled USD 3.18 trillion at the end of Dec 2011, falling USD 20.55bn from Q3 2011 – the first fall in a decade. The previous decline was during the Asian Financial Crisis in 1998.
- India's Industrial Production (IP) rose 5.9% yoy in Nov, rebounding sharply from a decline of 4.7% yoy in October. The IP data were higher than the consensus (2.1% yoy). Sequentially, IP increased by 7.7% mom s.a. in November, after a 3.2% mom s.a. fall in October.
- Central banks of both South Korea and Indonesia both held policy rates steady at 3.25% and 6% respectively, as inflation levels eased amidst risks of slowdown in domestic and global growth.

## **Bottom line:**

Nothing particularly striking in the limited data flow last week – apart from Hungary's plights and Greece's struggle to satisfy the Troika requests while agreeing to a deal with private creditors – if not, heading towards "the immediate risk of a disorderly default". In the US if the improvement in the labour market continues, the confidence effect could affect positively the real estate sector where deleveraging is in the final stage and private consumption got a lift from

easier credit. Dismal German GDP, lower than expected, confirms the recessionary headwinds in Europe.

## Regional Developments

- Asian economies are increasing visits to the region, amidst sanctions on Iran and its threats to block the Strait of Hormuz: following Japan's visit last week to sign "a memorandum of cooperation for strategic partnership" with the GCC, this week sees the visit of the Chinese Premier to diversify energy ties, and discuss the growing role of the RMB as an international currency.
- A report from UNCTAD on FDI flows in the Arab region between 1990-2010 places Saudi Arabia on top, having received USD 170.4bn (28% of overall Arab flows at USD 603bn) during the period, followed by UAE (USD 76.17bn, 12.6%) and Egypt (USD 73bn).
- Market capitalisation in the GCC fell by 7% to USD 697.4bn in 2011, as global economic woes and regional political environment led to loss in investor appetite. Qatar gained a slight 1.2% from 2010, making it the best performer while Bahrain witnessed the steepest decline (-20.15%).
- Qatar's broad money growth slowed in Nov – rising only 12.7% yoy, following Oct's 18.9% increase. Credit growth was at the fastest pace in 30 months, growing by 22.3% (Oct: 18%).
- Saudi Arabia's largest trading partners on the exports side are China (13%), followed by the UAE at 10% and Singapore at 7%. The importance of Asian trade partners is visible even in imports, with US garnering only 11% and Germany 7%, following China, India and Singapore.

## UAE Focus

- The UAE economy grew 4% in 2011, according to Abdulla

Lootah, secretary-general of the Emirates Competitiveness Council, stating that UAE's "GDP grew from AED 6.5bn in 1971 to AED 1248bn". This follows growth of 1.4% in 2010, after contracting 1.6% in 2009.

- Dubai announced a AED 12bn solar energy project last week, with a capacity to generate 1,000 megawatts of power, highlighting the move towards renewable energy. Dubai's Strategy is for renewable energy to supply 1% of Dubai's energy by 2020 and 5% by 2030.
- The Fujairah pipeline, which can mitigate the risk of Iran's threat of blocking the Strait of Hormuz, is expected to be ready for testing by May, with a capacity to transport 1.4 mn barrels per day.
- Non-oil trade in the UAE rose by 22% yoy in AED 600.1bn in the period Jan-Aug, according to data published by the UAE Federal Customs Authority. Exports and imports grew 40% and 22% yoy to AED 75.2bn and AED 386bn respectively. The value of UAE-GCC non-oil foreign trade was AED 4.8bn in Aug, with Saudi Arabia topping the list at AED 2bn.
- UAE's bank deposits rose 0.8% mom to AED 1.05 trillion in Nov while credit growth in the UAE rose 4.2% in the period Jan-Nov 2011, compared to a decline of 1.3% in the same period a year ago. Provisions for NPLs rose 20.1% during the same period in 2011.
- Inflation in Abu Dhabi fell to a two-year low of 1.9% in 2011 (2010: 3.1%); Dec CPI edged up to 1.2% yoy and 0.8% mom.
- Data released by the Dubai Land and Property Department shows that foreigners invested AED 39billion in 2011 into Dubai's property sector; Indians, British and Pakistanis formed the top three by nationality, investing AED 6.97bn (18%), AED 4.97bn and AED 2.44bn respectively.
- The industrial sector in UAE grew 11% yoy in 2011 to an all-time high of AED 141.7bn, according to a study published by Emirates Industrial Bank.

- Dubai's consumer confidence index, published by the Dubai Department of Economic Development, improved in Q4 by 15 points to 125. Respondents were optimistic about economic recovery, personal finance and job creation while rising food prices remained a key worry.