

# Weekly Economic Commentary – January 22, 2012

## Markets

Stock markets reacted positively to China's growth data with ripples around the rest of the world, but after some directionless sessions the week ended on a softer tone in Europe and the US. European spreads came down somewhat but Portugal's 10yr yield reached 13.81%. Among regional markets, ADX fell to a five month low last week, while Saudi Arabian shares gained the most in more than five weeks yesterday, on strong Q4 corporate earnings. Euro fell from a two-week high against the dollar on Friday while emerging market currencies had a much favourable week. Oil prices dropped in spite of the tensions in Iran, on expectations of lower demand and ahead of the outcome of the Greek deal. Gold prices were up 1.7% compared to a week ago, though prices eased on Friday.

## Global Developments

### Americas:

- Lower food and energy costs (both declining 0.8% mom) drove wholesale prices down in Dec – falling 0.1% mom, while core prices were higher at 0.3% – the largest gain since July. CPI remained steady in Dec, though core prices rose 0.1% (Nov: 0.2%); inflation was lower as gasoline prices fell 2.0% amidst a modest 0.2% rise in food prices.
- US industrial production in Dec increased 0.4% mom, compared to -0.3% in Nov. Factory production rose 0.9% mom- the most in a year, despite a 2.7% plunge in utilities. Meanwhile, capacity utilisation rose 78.1% from Nov's 77.8%.

- Housing starts unexpectedly weakened 4.1% in Dec to 657k (Nov: 685k), as the multi-family segment fell 20.4%. Existing home sales increased 5% to 4.61mn, the highest since Jan 2011.
- Initial jobless claims fell 50k to 352k in the week ended Jan 14, the lowest reading since April 2008.
- Brazil's central bank cut rates another 50bp (as expected), in an attempt to boost the economy from the zero growth rate recorded at end 2011.

## **Europe:**

- The EFSF was downgraded to AA+ as a consequence of the downgrade of Austria and France.
- Greek debt deal talks were suspended after the term to maturity of the new replacement bonds and the rate of interest to be paid remained points of contention, while the haircut –likely to be 70%- has been agreed upon by the international private creditors.
- German ZEW was up to a record high in Jan – rising to -21.6 (Dec: -53.8) – the largest single monthly increase since the survey started in 1991.
- The Italian government approved a sweeping decree introducing more competition in various sectors, from energy to law firms.

## **Asia and Pacific:**

- China's economy expanded 8.9% in Q4 (the weakest pace since Q2 2009), leading to growth at 9.2% in 2011, down from 10.4% in 2010. Additionally, industrial production in Dec increased 12.8% and flash PMI for Jan recorded a reading below 50, at 48.8 – as both output and new orders components declined.
- Chinese retail sales recorded an increase of 18.1% yoy in Dec (Nov: 17.3%) – rising 17.1% to CNY18.1 trillion, for full year 2011, slower than 18.4% growth in 2010.

- Some good data from Japan: Consumer confidence gave some signs of life increasing to 38.9 in December from 38.1 a month earlier. Japan machinery orders registered an uptick of 14.8% in Jan – the highest increase since Jan 2008.
- India mulls the launch \$35bn of public investment stimulus to counter the declining growth rate and widespread criticism of policy paralysis.
- Singapore's non-oil domestic exports grew 9% yoy in Dec (Nov: 1.4%), with electronic exports contracting 4.6% while non-electronic exports increased 16.7%, helped by the volatile pharmaceuticals sector which was up 38.6%.

## **Bottom line:**

The winter of discontent is descending on emerging markets, China in particular. The World Bank has warned that global growth will be weaker than previously expected in 2012; the IMF will join the choir next Tuesday with new downward outlook forecasts. Europe continues with its own obscure gyrations: Greece has not yet signed an agreement with creditor banks despite an announcement that the deal had been closed on Friday. Monti had a meeting with Cameron where nothing of substance was tackled and Sarkozy cancelled a meeting in Rome with Merkel and Monti. Europe is looking for a clear compass reading.

## **Regional Developments**

- Egypt has requested a \$3.2bn standby facility from the IMF after a year of uncertainty and political turmoil that has discouraged FDI, tourism and hit exports and remittances.
- The GCC countries have been asked to contribute in the effort to raise USD 500bn increased funding for the IMF.
- The Chinese Premier, in his visit to the UAE, called for speedy resolution of and the signing of the GCC-China

Free Trade Agreement, given that negotiations have been ongoing for the past seven years.

- Qatar Exchange has announced the “readiness of technical and regulatory infrastructure” to cater to Small and Medium Enterprises, in line with the announcement by Supreme Council for Economic Affairs and Investment earlier this year.
- Citi group’s latest report on construction in the Gulf showed a pipeline of projects with a value of almost USD 1.8 trillion, with projects down 16% yoy in 2011. Saudi Arabia, with USD 660bn in projects remained the leader, closely followed by UAE at USD 592bn.
- Sabic, the world’s top chemical producer by market value saw its profit drop 10% in Q4 despite rising sales, as prices fell for most of its products.
- Saudi Transport Ministry has allocated SAR 10.78bn for 2012 to 284 projects including the construction of 4154 km of highways, secondary and branch roads plus studies and design of additional 2139 km of roads.
- Saudi government is aiming to keep oil prices at about \$100 a barrel, according to the FT a third above its previous public target, in a sign that KSA needs higher oil revenues to sustain a big rise in public spending.
- Oman’s oil production increased 7% mom in Dec, with the average reaching 894,664 barrels per day. Asian markets remain the largest importers of Omani oil: China purchased close to 50%, followed by Japan and South Korea at 10.86 and 9.23% respectively.
- European Union members are inclined to set a July 1 deadline to implement the embargo against Iranian oil, a timescale that would align the bloc with US plans to impose related restrictions.
- Inflation in Kuwait for Dec increased 4.8% yoy, driven by a rise in food prices (+9.6%) while housing costs were up 4.3%.

## UAE Focus

- UAE signed a currency swap agreement with China, worth RMB 35bn, in a bid to facilitate payments and boost trade and investment. This was in addition to the agreements signed to boost 'green' ties, renewable energy (solar power) and develop upstream projects.
- Dubai launched solar power projects for AED 12bn in a drive to boost renewable production by 1000 MW. The project, which will extend over 40 sq km along the Dubai-Al Ain road, is expected to start by Q4 2013.
- UAE's non-oil trade grew by 23% yoy to AED 676.3bn during the period Jan-Sep 2011, with exports and imports rising 36% and 22% to AED 84.1bn and AED 436.7bn respectively.
- Lower rent prices dragged down inflation in both UAE and Dubai. UAE inflation stood at 0.9% in 2011, with lower food prices also playing a key role while in Dubai depressed schooling costs also helped to bring down inflation to a four-year low of 0.52%.
- The UAE, following the creation of a AED 10bn fund in Nov to help citizens with lower pay to clear their debt, has announced that close to 91,000 state low-income employees would receive higher pay and aid from this month onward.
- Total mobile subscribers in the UAE reached 11.54 mn in Nov attracting nearly 614k during the first 11 months of 2011. This takes the GSM penetration rate to 144% – meaning close to 1.5 phones per user.
- In 2011, volumes at the Dubai Mercantile Exchange (DME) rose 19% while the highest monthly Average Daily Volume was also recorded since it began trading in 2007 at 3,505 contracts per day. The DME also delivered more than 145 million barrels of crude oil in 2011.