

Weekly Economic Commentary – January 29, 2012

Markets

With China closed for the New Year, stock markets continued a gradual decline (especially in Europe) which the State of the Union address by Obama and some moderately positive news from Europe (e.g. IFO & PMI) did not stem. US GDP data failed to boost markets while poor show in Europe's corporate earnings also added to the worries. Regionally, most markets were up – with Egypt riding high on political optimism; volumes in DFM for the week were the highest since mid-June 2011; Saudi markets closed at a 6-month high yesterday. The dollar fell last week as the Greek debt deal dragged on, and led to a rise in gold prices to a 7-week high. Oil prices were up after the announcement of Europe's decision to ban oil imports from Iran, but trimmed gains after the US GDP data were released; IMF meanwhile warned that crude prices could rise by almost 30% if Iran halts its oil exports.

Global Developments

Americas:

- US GDP grew 0.7% qoq and 2.8% yoy in Q4 (Q3: 1.8% yoy) – this rise was mainly a build-up of private inventories (excluding which growth was a slight 0.8% only) consumer spending (+2%) and residential fixed investments alongside a downturn in federal spending and import growth. Full year 2011 growth was 1.7%, compared to 3% in 2010 and the savings ratio declined to 3.7%, its lowest level since end of 2007.
- The Federal Reserve took the historic step of setting an inflation target, as advocated by Bernanke. The Fed, in

its first ever “longer-run goals and policy strategy” statement, said an inflation rate of 2% is best aligned with its congressionally mandated goals of price stability and full employment.

- Pending home sales declined 3.5% mom in Dec to a reading of 96.6 (+4.4% yoy), following the 19-month high (+7.3% mom) reached in the previous month. Meanwhile, new home sales dropped unexpectedly by 2.2% mom hence making 2011 one of the worst years in history for the US real-estate industry.
- Durable goods orders in Dec increased 3% mom (Nov: +4.3%), on higher capital spending and led by demand for aircraft, autos and business equipment; excluding transportation equipment, orders increased by 2.1% (0.5%).
- Initial jobless claims were higher than expected, rising 21k to 377k in the week ended Jan 21 – with volatility continuing around the holiday period; the 4-week average fell to 377,500 last week from 380k previously.

Europe:

- UK GDP fell 0.8% qoq, saar in Q4 and up 0.8% yoy. Services were flat, but manufacturing plunged. So much for the theory that the UK would do better than the Eurozone because of massive QE. Nevertheless expect more QE in February, since there is nothing else the authorities can come up with.
- The German IFO in Jan reached 108.3, from 107.3 in Dec and a low of 106.5 in October. All the gain has come in the expectations component, with the current conditions component falling, but at snail pace.
- Euro Area flash PMI for Jan was the strongest since August, with the composite regional PMI moving back above 50 (50.4), up from 48.3 in Dec. Much of this increase came from services, where the overall regional PMI rose to 50.5 (Dec: 48.8) and of course from Germany,

where the services PMI rose to 54.5, from 52.4.

Asia and Pacific:

- Japanese foreign trade was weak with December's deficit pushing the overall annual balance into deficit for the first time since 1980. Exports in Q4 were hampered by the Thai floods, the Euro-area recession and the strong yen. Q4 exports were down 17% qoq, saar, over Q3.
- The Central Bank of Thailand cut rates by 25bp, to 3%, as expected, joining Emerging Asia in the process of gradual monetary easing. India's Reserve Bank kept policy rates steady but reduced the cash reserve ratio by 50bps to 5.5%, pumping in close to INR 320bn into the economy.
- The decline in exports due to lower demand and the ongoing sovereign debt crisis in Europe resulted in a dip in South Korea's Q4 GDP. Growth was 0.4% qoq and 3.4% yoy in the fourth quarter, slowing from Q3's 0.8% qoq rise. Overall, the economy grew 3.6% in 2011, compared to 2010's 6.2% gain.

Bottom line:

Hardly anything new in the flood of end of month data. Before the US GDP fell short of market expectations, the IMF unveiled its downward revisions for the global economy. The common theme was Euro-centric pessimism, with a recession now formally forecast and more doom likely to materialize if the governance of the monetary union is left to the usual sterile bickering. The Greek saga continues, a week after announcing the agreement with the private creditors, though a deal is expected this week, according to both parties. Only Ireland seems to be going in the right direction, while in Italy a violent strike by truck drivers, wild cat revolts and a general strike have put the country on its knees. Hardly a good omen for an already difficult year!

Regional Developments

- The GCC nations have pulled out observers from Syria, where the unrest continues, following the decision of Saudi Arabia to withdraw. The Arab League has suspended its observer mission with escalation of the issue to the UN Security Council.
- Qatar SME exchange would not be a part of the main exchange and will be structured separately, but will be regulated by the QFMA and use the same trading platform, according to the Deputy Listings Director of the Qatar Exchange.
- Privatisation of the Kuwait Stock Exchange and the setting up of a new company to run the exchange grew a step closer after the Kuwait Capital Market Authority signed a deal with HSBC.
- Pension coverage has been extended to all GCC citizens – including pensioners, should they wish to enrol – after the Council of Ministers approved the Unified System for the Extension of Insurance Protection.
- Sukuk issuance in the GCC tripled, though conventional and IPO issues slowed in 2011: number of issues rose to 44 (2010:33) while its value was USD 65.8bn (USD 43.7bn), with Qatar's government the single largest issuer with a total USD 9bn.
- Dun and Bradstreet's business optimism index (BOI) for Qatar improved in Q1 2012: in the hydrocarbon sector, BOI was up to 29 from Q4 2011's 24, while in the non-hydrocarbon sector the BOI was five points lower at 40. Shortage of skilled labour and lack of availability of finance were cited as the major factors affecting business, going ahead.
- Dealogic reported that Qatar's Barzan was the world's largest project finance deal in 2011 – accounting for 2.4% of total global project financing deals.
- Oman's budget surplus increased to OMR 1.13bn in the first 11 months of 2011, compared to a deficit of OMR

155 mn a year ago. A surplus was managed in spite of the 47% yoy rise in spending to OMR 10.32bn, supported by higher oil revenues of OMR 7.96bn.

- Dow Jones reported that the IMF Chief, in her visit to the region, is expected to request Saudi Arabia's contribution towards the IMF's fundraising for Europe. It is unlikely that the contribution would be given, without a change in IMF governance, (like for example, a more significant role for Saudi in the operations of the IMF).
- Saudi Arabia exported 1.12mn barrels of oil per day to China in Dec – close to 11% of total oil pumped by the country and a touch lower than 1.17mn bpd exported in Nov.
- Cairo's benchmark index rose 7.2% to its highest close since trading was resumed in March on political optimism, while Egypt is seeking funding from the World Bank, African Development Bank (\$500 mn each) and the IMF (\$3.2 bn) to finance a gaping budget deficit of 9.8% of GDP.

UAE Focus

- Dubai Holding Commercial Operations (DHCOG) has announced that a repayment of USD 500mn in bonds, maturing on Feb 1, would be completed – Fitch Ratings has moved DHCOG from negative to stable.
- The UAE President ordered the settlement of defaulting loans of 6830 citizens (a value close to AED 2bn) with those in prison having a settlement mechanism of a deduction of 25% from their monthly salaries and an undertaking from a beneficiary not to borrow again until his loan is settled.
- The Dubai Economic Council expects Dubai GDP to grow 4.1% in Q1 2012, with the possibility of lower growth in the following quarters from an anticipated economic slowdown in the major trading partners EU members,

India, China and other GCC nations.

- UAE and Oman met with an aim to enhance and boost trade between the two nations; also discussed was the possibility of establishing an electronic link between UAE's Federal Customs Authority and Oman Customs to ensure smooth exchange of information and figures
- Passengers passing through the Dubai International Airport reached 4.69 million in Dec, taking the full year total to 50.98 million; up 8% yoy from 2010's 47.2 million. India, UK, Saudi Arabia, Pakistan, Qatar, Germany and USA were the strongest markets, while links between Dubai and Eastern Europe grew the most: +81%, from a low base.
- An Oxford Business Group report stated that the UAE Islamic financial services sector represented 30% of the global Islamic banking industry in 2011, with the Islamic banking assets in MENA rising to USD 416bn in 2010.