

# Weekly Economic Commentary – February 05, 2012

## Markets

The week started with a worldwide tumble when China's bourse reopened after a week with a 1.7% drop and Asian market sentiment was influenced by lower earnings. In general, just when you were thinking that the rebound in risky assets seen at the turn of the year is turning sour and the much touted January effect is over, markets recovered and ended the week on a positive note after the release of positive employment data in the US. Regional markets followed the global trend, with Saudi reaching a six-month high though the rally in Egypt was marred by recent riots. Among currencies, the dollar rose while its Asian counterparts gained on strong fund inflows. Oil prices were up last week; gold recorded its biggest one-day loss in over a month on Friday.

## Global Developments

### Americas:

- Consumer spending fell 0.1% mom in Dec, having grown a paltry 0.1% mom in Oct and Nov. The saving rate rose from 3.5% in Sep, to 4% in Dec. PCE Core Price Index increased by 0.2% mom in Dec (Nov: 0.1%) alongside a flat reading for personal consumption and a rise in personal income by 0.5%.
- Some good news on the job market front: While the ADP data showed an addition of only 170k workers in Jan, following a revised 292k in Dec, non-farm payrolls recorded a substantial increase by 243k (with manufacturing sector pickup of +50k), taking the unemployment rate down to 8.3% – lowest since Feb 09.

- ISM manufacturing index rose to 54.1 in Jan (Dec: 53.1) as new orders grew substantially to a nine-month high (57.6 from 54.8) while inventories contracted. Non-manufacturing ISM climbed 3 points to 56.8, the highest in almost a year.
- US factory orders rise by 1.1% mom in Dec (Nov: 2.2%), to bring total orders up 12.1% in 2011, following a gain of 12.9% in 2010 which in turn followed 22.1% drop in 2009. Orders for core capital goods and durable goods increased by 3.1% and 3% respectively, while orders for non-durables were down 0.4%.
- S&P Case Shiller Index, which measures home prices, declined 3.7% yoy in Nov (Oct: 3.4%), with prices dropping in 19 out of the 20 cities surveyed.
- Initial jobless claims fell 12k to 367k in the week ended Jan 28, also taking the 4-week average down to 376k from 405k the week before.

## Europe:

- At Germany's insistence, supported by the ECB, a new EU Treaty to be signed in March mandates all governments to adopt balanced budgets and imposes near automatic sanctions on violators. Sounds like the Stability and Growth Pact on steroids, but the threat of sanctions is as empty as ever and the pact still requires ratifications by parliaments & legislative bodies.
- Markit's PMI for the Eurozone rose to 48.8 in Jan (Dec: 46.9); the Euro Area retail PMI was down to 42.9 – since 2004 this index has been weaker in only 4 months (Apr, Nov and Dec 08 and Feb 09). Meanwhile, Euro Area business confidence rose slightly in Jan to 93.4, from 92.8 in Dec and averaged 93.6 in Q4.
- In spite of the Christmas holiday season, retail sales in Germany and the EU reported unexpected declines in Dec. Retail sales fell 1.4% mom in Germany (Nov: -1%) while it dropped 0.4% mom (-0.4%) in the EU. The

latter's decline was also due to sales in France and Spain declining 0.3% and 0.8% respectively.

- Spain Q4 GDP fell -1.2% qoq, saar, which means that the fiscal targets will be missed again, jeopardising Spain's already weak credit rating.
- German unemployment fell in Jan to a record low, as total jobless decreased by a seasonally adjusted 34k to 2.849 mn. Unemployment fell to 6.7% in Jan from 6.8% in the previous month.

## **Asia and Pacific:**

- China's official PMI was slightly upbeat, rising to 50.5 in Jan (Dec: 50.3), thanks to an increase in new orders to 50.4 – a three-month high.
- Industrial production (IP) data was released in both Japan and South Korea. IP rebounded 4% mom in Dec (Nov: -2.7%) in Japan while South Korea's IP fell for the third consecutive month (-0.9%, Nov: -0.3%). While Japanese manufacturing is improving post-natural disaster hits, Korea is facing increasing pressures from weaker demand from Europe.
- South Korea's exports fell 6.6% yoy in Jan, weakening the trade balance and leading the economy to record its first trade deficit since Oct '09; Exports to the EU fell 44.8% in the first 20 days of January, according to the Ministry of Knowledge Economy.
- Philippines Q4 GDP growth was in line with expectations at 3.6% qoq, saar and 3.7% yoy – as increases in household consumption and construction sector outpaced the decline in exports. This led to a 3.7% growth in 2011, almost half of the 7.6% recorded in 2010. Meanwhile, Taiwan's Q4 GDP (Prov.) expanded by 1.9% yoy, at the slowest pace since Q3 2009, taking 2011 to 4.03%. Exports and capital formation dragged down growth in Q4.
- Malaysia's Central Bank left policy rates unchanged at 3.0%, for the fourth consecutive time. The Central Bank

also revealed new measures to encourage financial market development by relaxing foreign exchange rules and allowing licensed onshore banks to trade foreign currencies against other currencies alongside offering ringgit-based interest rate derivatives to non-bank non-residents.

- Inflation in Asia for Jan remains high (and a central bank concern) though year-on-year numbers may be slowing: Indonesian inflation was at 3.65% – the lowest since Mar 2010, largely due to decline in food inflation; in Thailand a 7.7% increase food and beverage prices pushed up inflation to 3.38% (Dec: 3.53%); South Korea's inflation dipped to 3.4% (Dec: 4.2%), recording the slowest pace since Dec 2010.

## **Bottom line:**

The US labour market continues its gradual upturn, but the European situation is spooking recovery hopes. Greece has not reached an agreement with creditors, while Germany insists on a Commissioner with pervasive powers on fiscal choices. February will be a heavy refinancing month for beleaguered sovereigns: Italy held relatively successful 4yr and 9yr auctions, but Portugal spreads are widening again. Compounding the fiscal crisis, a credit crunch, induced by a mixture of fear over sovereign default and EBA-led regulatory incompetence, is strangling the last few bank & non-bank healthy firms.

## **Regional Developments**

- A recent study by Deloitte showed that aggregate sales of the top 250 retailers touched \$3.94 trillion in fiscal year 2010, placing retailers in the Middle East and Africa on top in terms of the compound annual growth rate of all regions over the 2005-10 period.
- As the world analyses the potential threat from Iran,

reassuring statements are being made: The Secretary General of OPEC said that he does not expect Straits of Hormuz to be closed, but acknowledged that in the event of it happening, there was no alternative option available. Saudi Arabia's oil minister stated that any disruptions in global oil supplies could be countered with additional production from the Kingdom.

- Oman's new tax law, which was issued in June 2009, allowed the Minister Responsible for Financial Affairs to issue Executive Regulations (ERs) and decisions – the new ERs, comprising 8 parts and a total of 154 articles, have now been revealed and comes into effect from the tax year 2012.
- 563k beneficiaries in Saudi Arabia received unemployment benefits amounting to SAR 1.1bn – this is for the second month that payments are being meted out.
- Turkey's President Abdullah Gül accompanied by more than 100 businessmen visited the UAE last week to discuss the prospects for economic and trade development between the countries.
- Consumer price inflation in Turkey accelerated to 10.5% in 2011 from 4.9% recorded in the previous year, fuelled by above-potential output growth and Lira depreciation, which contributed to the 40% surge in import prices. Inflation was higher than the 2011 target set at 5.5%. The Central Bank of Turkey updated its inflation forecast for 2012 from 5.2% to 6.5%, and announced its forecast for 2013 at the level of 5.1%, while the IMF has recommended Turkish authorities lower the inflation target below the current 5% to promote the country's competitiveness.
- Turkey's trade deficit last year, at \$105.8 billion, was the highest in the history, with exports growth by 18.5% yoy, and imports by 29.8%, mainly due to the increased cost of hydrocarbons consumption.
- Plans on issuing Turkey's first Sukuk were announced last week by the Deputy Prime Minister. The project of

building the third bridge over the Bosphorus is estimated at \$2.5 billion, while the tender is planned for early April this year.

- Benchmark index of Cairo stock exchange increased by 3.4% during the last week despite the plunge by 4.6% on Thursday morning following the news on violence at a stadium in Port Said.
- On February 2nd, the Central Bank of Egypt released its decision to keep the overnight deposit rate and overnight lending rate unchanged at 9.25% and 10.25%, respectively, considering the uncertainties and risks related to output growth and inflation.
- IMF Managing Director, at the conclusion of her visit to Tunisia where she met with the highest level officials and monetary authorities, announced its agency's readiness to provide the country suffering from high unemployment and real output decline with financial assistance.

## **UAE Focus**

- Moody's retained the highest investment-grade ratings for Abu Dhabi by classifying the emirates long-term ratings at Aa2, citing its sound balance sheet and stable outlook, and in spite of the region's geopolitical developments.
- The International Energy Agency stated that the UAE's crude oil output increased by 60k barrels per day (bpd), or 2.38% mom, in Dec to 2.58 mn bpd. UAE on average produced 2.5 mn bpd in 2011, while having a sustainable production capacity of 2.74 mn bpd.
- Interest rates on credit cards will be capped at 18% per annum or at 1.5% per month, according to Al Khaleej newspaper, which cited unnamed sources familiar with the Central Bank's recent study and conclusions on the rules and regulations expected to be announced in Feb.
- Dubai-based real estate group Majid Al Futtaim

successfully issued a USD400m five-year Sukuk. The issue priced at par with a profit rate of 5.85% opening a potential market for other corporates.

- DP World announced another record year in 2011, with over 54.7 million TEU being handled across its global operations – a growth of 10% yoy. The UAE alone accounted for about 12% volume growth to 13 million TEU in 2011.
- A statement by Dubai FDI, an integral part of the Dubai Department of Economic Development, revealed that the office had attracted 77 companies in 2011, with these accounting for a total FDI of AED 3.44bn and a turnover of AED 16.57bn.
- Standard & Poor's latest report states that DIFC Investments (DIFCI) will need more than USD 900mn to meet its debt maturities this year. While S&P raised the possibility of government support to "very high" from "high" previously, it lowered DIFCI's stand-alone credit profile to 'ccc-' from 'ccc+' due to "further delays in asset disposals and a reassessment of the likely magnitude and timing of disposal proceeds".