Weekly Economic Commentary – February 12, 2012

Markets

Greek troubles and S&P downgrades played havoc last week, causing the rally in Asian markets also to wind down towards end of the week even as TOPIX and Hong Kong remained near six-month highs. Regional markets were mixed, with Egypt gaining and Saudi closing at a 21-month high yesterday alongside small declines in Qatar and Abu Dhabi exchanges. Among currencies, the euro climbed after the Greek austerity plan received the go-ahead from the Cabinet but dipped on the latest uncertainty about Parliament ratification while the Indian rupee had its worst week since Dec last year. Gold prices continued to decline for a second consecutive week while oil prices spiked to a six-month peak on Thursday given the tensions in Iran.

Global Developments

Americas:

- US consumer credit expanded by 9.4% in Dec (Nov: +9.9%), with this increase of USD 19.3bn, sa, representing a growth in household borrowing through credit cards, auto loans and student loans.
- Initial jobless claims fell by 15k to 358k in the week ended Feb 4 while the four-week moving average touched 366,250 – the lowest since Apr 08.
- Trade deficit widened to USD 48.8bn in Dec (Nov: USD 47.1bn), with imports for full year 2011 rising to the highest in three years (+13.8%, USD 2.7 trillion) and deficit with China increasing to USD 295.5bn.

Europe:

- Greece’s PM obtained approval from his Cabinet for deeper budget cuts (including reduction in spending, slashing the minimum wage by 22% and cutting pension benefits) to prepare the ground for a second round of international aid.
- The UK Halifax House Prices saw a mild recovery in January as house prices rose 0.6% mom after falling consecutively in the previous two months. However, prices in the three months to January were 1.8% lower than in the same period a year earlier.
- German factory orders in Dec rose a seasonally adjusted 1.7% mom (Nov: -4.9%), with the increase attributed to demand from outside the euro area.
- German industrial production (IP) data posted a disappointing drop of 2.9% mom in Dec, far from expectations of a 0.2% gain. The drop appears to from a fall in construction of 6.4% (Nov: +3.3%). Manufacturing and capital goods production contracted by 2.7% and 3.6% respectively as well, following mild reductions in Nov. Meanwhile, Spanish IP dropped for the fourth consecutive month by 6.9% in Dec (Nov: -7%). French IP contracted 1.4% mom while Italian IP recorded a surprise increase of 1.4%.
- German trade surplus rose from EUR 158.1bn in 2011 (2010: EUR 154.9bn) though a closer look revealed a fall in exports of 4.3% mom sa in Dec – the steepest decline since Jan ‘09 – and a drop in imports by 3.9%. Exports also decreased by 4.3% qoq saar in Q4 (Q3: +8.5%).
- Worrying for President Nicolas Sarkozy was a record widening in France’s trade deficit to EUR 69.6bn in 2011 (2010: EUR 51.5bn), with the loss in competitiveness evident from the 8.6% rise in exports outpaced by a 12% increase in imports.

Asia and Pacific:

- Chinese CPI recorded an increase of 4.5% yoy in Jan (Dec: 4.1%) as food prices and prices of automobile fuel and components saw a rise of 10.5% and 5.9% respectively. The Producer Price Index, a measure of inflation at the wholesale level, on the other hand, recorded a small increase of 0.7%. Broad money growth in China was up 12.4% in Jan, the slowest growth since May 2001, while new bank loans were at CNY 738.1bn and outstanding yuan loans stood at CNY 55.53 trillion.
- Chinese trade surplus widened to a six-month high of USD 27.3bn in Jan – which was distorted by the Chinese New Year holidays – with imports falling 15.3% and exports dropping 0.5%. Meanwhile, according to customs officials, exports rose 10.3% while imports were up 1.5% after adjusting for the holiday. Chinese Lunar New Year holiday sales were muted this year: rising by only 16%, a full three percentage points behind last year's increase. It has been viewed as an indicator of Chinese consumer sentiment for the year, foretelling a slower pace of spending in 2012.
- Indonesia's Q4 GDP rose 6.5% yoy, in line with expectations, led by a 4.7% increase in domestic demand (which accounted for approximately 60% of GDP), and an 8.8% surge in private investment.
- Inflation in Taiwan reached three-year highs in Jan, rising 2.37% yoy, primarily on account of elevated vegetable prices – recording a 42% hike in Jan (Dec: 48%). Despite the highs, the government and economists expect inflationary pressures to ease in Feb. CPI in the Philippines saw a rise of 3.9% yoy in Jan (Dec: 4.2%) – the slowest increase since Dec 2010's reading of 3.6%. The data hints at a potential rate cut at the next policy meeting on March 1st.
- Japan's index of coincident economic indicators rose 2.9 points in Dec from the previous month and the index of

leading economic indicators saw a mild increase of 0.6 points from Nov. Core machinery orders fell 7.1% mom in Dec (Nov: +15%) while current account surplus contracted by 43.9% yoy to JPY 9.629trillion in 2011.

- Malaysia’s Industrial production rose by 3% on an annual basis in December, coming in higher than the revised 2.4% growth in November.
- An unexpected rate cut from Indonesia’s central bank – by 25bps to 5.75% alongside policy rates on hold by the South Korean (for the 8th consecutive month) and Australian counterparts were key meetings this week.
- India IP slowed sharply in Dec: output rose only 1.8% yoy (Nov: 5.95%) and capital goods remained weak (contracting 16.5%) while manufacturing, which constitutes about 76% of industrial output, grew 1.8%.

Bottom line:

As Greece dominated financial news and investor sentiment through the week, the downgrade of 34 Italian banks by S&P only added to the growing concerns of a downturn. Among central bank meetings, the developed countries left policy rates unchanged – policy rates were left unchanged at a record low of 1% after the ECB meeting last week while the Bank of England said it would increase its asset-purchase program by an additional GBP 50bn, citing a weak near-term growth outlook – while a surprise policy rate cut came from Indonesia. The latest set of data from China may be signalling a slowdown, but it may be too early to label it a hard landing, given the holiday distortions.

Regional Developments

- UN estimates that the Middle East and North African countries had the highest unemployment youth rates in 2011 – at 26.2% and 27.1% respectively of which was higher than the 25.5% and 23.8% recorded in 2010. This follows the International Labour Organisation's report which places unemployment in the Middle East at 10.2% in 2011 and forecasts 2012 slightly higher at 10.3%. While the world needs about 600 million jobs to be created in the next decade, the Middle East needs to create about 2 million new jobs in 2012 alone.

- Ernst and Young reported that the total number of M&A in the Middle East were up 4% to 416 in 2011 though the value of the deals were down 28% to USD 31.7bn. In both number of deals and value, UAE topped the list in the region (49, USD 3.9bn), followed closely by Saudi Arabia (44. USD 2.8bn).
- Debt issuance in the GCC was up 34.1% to AED 308bn in 2011, of which corporate issues were the biggest accounting for 78% of the total amount raised.
- The total value of projects to be completed in the GCC region from today through 2020 is expected to exceed $US 1 trillion according to the survey conducted by MEED projects.
- The Governor of Qatar Central Bank stated during a conference that "total assets of the country's commercial banks grew by 22.3% to USD 190.6bn in 2011 while customer deposits increased by more than 18.5% to USD 100bn", underscoring the strength of Qatar's banks to be able to finance more than USD 100bn in projects that are lined up as per the 2030 Vision.
- The SABB HSBC Saudi Arabia Purchasing Managers' Index increased to 60 in Jan (Dec: 57.7), indicating a strengthening of the country's nonoil private sector. However, the latest Dun and Bradstreet survey found that the business outlook in Saudi Arabia for Q1 2012 had dampened owing to Saudi Arabia's decision to reduce oil output in 2012 to allow for a recovery in Libyan oil production.
- Turkish industrial production in Dec 2011 increased by 3.7% yoy on the back of increases in mining & quarrying (6.7%) and manufacturing (2.7%).

- In 2011, total assets of the Turkish banking sector increased by 21% reaching 1218 trillion Liras or USD 648bn mainly due to the 30% loans expansion. Banks' deposits and paid-in capital also increased, however at a slower pace, by 13% and 5%, respectively.
- The Central Bank of Syria announced its commitment to defend the national currency, despite a significant depreciation of the Syrian pound at the black market. Currently is traded at 70+ per USD, while the official exchange rate is 57.5. The monetary authority argues that the unofficial exchange rate is fictional, and it has sufficient foreign exchange reserves to support the currency.
- On-going unrest and drying up of foreign exchange reserves led to the third downgrade of Egypt's credit rating in the last 4 months. Standard & Poor's lowered country's rating from B+ to B, while the negative outlook may indicate further credit rating cut.
- According to the public note issued by the IMF after the completion of Article IV consultations with Lebanon, the real GDP growth is expected to decelerate to 1-2% in 2011 from the average of 8% in the previous four years due to the prolonged process of new government formation and regional instability. The Fund expects moderate output growth acceleration in the current year to 3-4%.
- The official data released by the Foreign Investment Promotion Agency of Tunisia showed that FDI inflows in 2011 were 29.2% less than in the previous year, mainly due to the downturn in tourism sector, which suffered from foreign investment reduction by 83%.

UAE Focus

- Abu Dhabi inflation slowed to 0.3% mom in Jan as prices of “food and non-alcoholic beverages” fell by 1.6%.
- US-UAE trade increased by 26% yoy to USD 18.34bn in 2011, with the US contributing almost USD 20bn towards

the building of 4 nuclear plants.

- The GCC Mutual Fund Industry Survey 2011 showed that GCC mutual fund assets registered a 6% decline to USD 34bn in the first half of 2011, with equity fund assets falling 3% and a fall in trade ?nance fund assets by USD 1.43bn. Meanwhile, there were 480 GCC domiciled funds whose assets dropped by USD 1.97bn from end-2010.
- The SWF Institute continues to rank ADIA the highest among global sovereign wealth funds, with an estimated USD 627bn in assets. Adia's funding sources are mainly from oil, and the 20-year and 30-year annualised rates of return for the Adia portfolio were 7.6% and and 8.1% respectively at the end of 2011.
- A report by Lebanese Bank Audi stated that Dubai is likely to manage a rollover of its 2012 debt through a combination of internal cash, potential asset sales and market refinancing.
- The Dubai Department of Economic Development issued about 14630 business licenses in 2011, of which professional services accounted for the most (7%) followed by tourism (5%).
- A report by the Arab Monetary fund places domestic consumption in the UAE at USD 176.9bn in 2010, an average of roughly USD 21,577 for each of its 8.2 million people, largely outpacing other Arab nations.
- Du will pay 15% of its net profits and an additional 5% of its yearly revenue to the Federal government; this compares to Etisalat's payment of 50% of its net profits in royalty.
- The Federal credit bureau will be established within the next six months, and will make available credit profiles for individuals and companies to creditors. According to Obaid Humaid Al Tayer, "the bureau will be established with a capital of AED 200mn divided into two million shares with a nominal value of AED 100 per share and the paid-up capital will be AED 120mn".