

Weekly Economic Commentary – February 26, 2012

Markets

Eurozone's backing for the **Greek** debt deal failed to stimulate the markets much; but, positive data released helped **US** stocks reach the highest level since 2008 while **Asian** markets rallied. Regionally, the **Abu Dhabi** and **Saudi** markets hit 5-month and 3-year highs respectively last week, boosted by recent oil price trends and improved global sentiment. Among currencies, euro gained to reach a 11-week high against the dollar while the yen was at a 7-month low. Oil surged to a nine-month high after an unsuccessful IAEA visit to **Iran**, while gold prices also rose, despite dollar's weakness.

Global Developments

Americas:

- US existing home sales rose to their highest level since May 2010, climbing 4.3% mom in Jan 2012, while new home sales declined for the first time in five months by 0.9% mom (Dec: +1.9%) to 321k.
- Initial jobless claims were unchanged at 351k somewhat below the consensus. The 4-week moving average glided to 359k, the lowest since March 2008. Continuing claims fell by 52k to 3.39 million corroborating the picture of gradual improving conditions.

Europe:

- Eurozone finance ministers approved the EUR 130bn **bailout for Greece**, subject to strict conditions and austerity measures.

- **French CPI** fell 0.4% mom in Jan, due to a seasonal quirk in clothes and shoes (-10.9% mom); in **Italy**, inflation rose 0.3% mom and 3.2% yoy.
- **Flash PMI** dipped to 49.7 in Feb from 50.4 in Jan, fuelling concerns about Eurozone's prospects; this resulted from a drop in **German PMI** to 50.1 (Jan: 51.0) while **French PMI** rose to 50.2 (48.5).
- **Industrial orders in Italy** rose 5.5% mom, sa, 4.3% yoy in Dec (Nov: 0.2% mom), with domestic orders rising 5.8% and foreign orders up 5.1%.
- German **IFO business index** rose in Feb to 109.6 (Jan: 108.3), pointing at a more resilient picture for growth in Q1 2012.

Asia and Pacific:

- **Chinese PMI** increased to 49.7 in Feb (Jan: 48.8), in spite of a fall in new export orders, as manufacturing output rose to 50.1 (47.6).
- More **Q4 GDP** data from Asia: **Thailand's** Q4 GDP declined by 9% yoy (Q3: +3.7%) as the negative impact of the severe floods continued to haunt the already weak exports. **Taiwan's** economy contracted in Q4 by 0.15% qoq, sa (Q3: -0.05%) and 0.59% yoy, sa (Q3: -0.2%), leading the government to revise the growth forecast for 2012 down to 3.85% from 3.91% previously.
- **Japan's trade deficit** widened in Jan to JPY 1.48 trillion (Dec: 205bn), largely on weaker global demand and as the stronger yen hurt exports. Exports declined 9.3% yoy while imports rose 9.8%. **Reuters Tankan**, tracking Japanese manufacturing sentiment, recorded -11 for Feb (Jan: -5) – the lowest value since Mar '11.
- **Taiwan's** current account surplus reached USD 12.1bn in Q4 (Q3: USD 10.2bn) – an increase of 28% yoy and the highest since Q1 2009.
- **Malaysia's** CPI rose 2.7% yoy and 0.3% mom in Jan 2012 (Dec: 3% yoy), from a significant gain of 4.8% yoy in

food and beverages.

- Inflation in **Singapore** touched an eight-month low of 4.8% yoy in Jan (Dec: 5.5%), with the largest contributor being housing costs (+10%). Industrial production for Jan 2012 declined 8.8% yoy (Dec: +25.2%), attributed to weaker electronics output and lower activity due to the Chinese New Year.

Bottom line:

The deal over the debt restructuring in **Greece** and the second bailout program were not mistaken as the end of the ordeal, like happened in previous occasions. The notion that there is no silver bullet for a crisis of such magnitude in Euroland is probably the most positive outcome of the process so far. The data flow confirmed that the slowdown spread to Asian economies at the end of 2011, although policymakers in the region have more ammunition and fiscal space to revive growth.

Regional Developments

- **Yemen** voted in Abd Rabu Mansour Hadi in a single-candidate presidential election, marking the historic end of the 33-year rule of Ali Abdullah Saleh.
- A team from the International Atomic Energy Agency failed to reach an agreement during its two-day visit to Iran, potentially exacerbating the mounting tensions between **Iran** and many Western nations.
- A major Islamic bank will be launched in 2012, based in **Bahrain**, with almost USD 600mn of the total paid-up capital of USD 1bn being contributed by the Arab region's Islamic banks.
- According to QNB Capital, growth rate of **GCC population** is expected to decrease from 5.9% in 2004-2008 to 3.2% in 2009-2013, however remaining at a level much higher than the world average. GCC population will reach 50 million in 2013 with **Saudi Arabia** and **UAE** holding the

largest shares – 61% (down from 68% in 2004) and 18.2% (up from 11.3% in 2004) respectively.

- **Bahrain's** CPI fell 0.2% yoy and 0.1% mom in Jan, due to a fall in the food and beverages index by 1.1%.
- **Kuwait's** Minister of Commerce announced the intention of privatizing its seaports, while assuring that a plan to establish a cargo terminal at the Shuaiba Port was ongoing.
- In **Kuwait** five MPs of the opposition Popular Action Bloc, including the Assembly Speaker submitted a petition asking the government to scrap loan interests and pay every citizen KWD 1000. Kuwait Times reported unconfirmed sources that expected such a move from the government this week.
- **Kuwait's** budget surplus totalled KWD 13.1bn in Apr-Dec 2011, while revenues reached KWD 21.4bn and expenditure – KWD 8.3bn. The nine months revenues are already 60% higher than the expected full year due to the higher oil prices compared to the conservative forecast of USD 60 per barrel. In the last 3 months of the current fiscal year Kuwait is expected to significantly increase public spending, as budget surplus is projected to decrease to KWD 9-10bn for the whole fiscal year.
- Total assets of **Kuwait's** banks increased by 6.5% in 2011 to reach KWD 44.1bn, while credit growth was slow at 1.6% as compared to private sector deposit growth – 8.1%. Monetary aggregate M2 (money supply) increased by KWD 2.2bn and reached KWD 27.8bn by the end of 2011.
- **Oman's** average oil production increased marginally to 884,900 barrels per day (bpd) in 2011, compared to 864,600 in 2010 though the state-run Petroleum Development Oman's production declined slightly last year due to rain and labour unrest. Meanwhile, new oil and gas discoveries, in addition to an increase in reserves by 450 million barrels of oil equivalent is likely to increase production levels in 2012.
- **Qatar's** tourism sector benefited significantly from the

Arab turmoil – the Qatar Tourism Authority announced a 50% yoy increase in tourists from the GCC and a 12% jump in international visitors (of which 58.5% were Asian) in 2011.

- **Saudi** non-oil exports saw a 25% yoy surge to USD 4.14bn in 2011, with China the largest importer (12% of total exports or USD 503mn), and then UAE (USD 431mn). Interestingly, plastic products topped exports list (34%, USD 1.39bn), closely followed by petrochemicals (USD 1.35bn).
- Public debt of **Saudi Arabia** is expected to decline to its lowest level since 1980s amid strengthening international investment position as foreign assets are expected to reach SAR 694bn by the end of 2012. According to a Jadwa Investments report, public debt may shrink to SAR 115bn or 5.6% of 2012 GDP.
- **Turkey**'s Construction Industry Confidence Index growth was highest in Feb 2012 at 6.6%, compared to the growth of services and retail trade sector confidence indices – at 1.5% and 1.3% respectively. Despite the growth, indices remained in the pessimism zone (below 100): 98.8 for services, 99.7 for retail trade, and 89.6 for construction.
- The **Egyptian** government expects to enter into a new arrangement with the IMF on a loan for USD 3.2bn equivalent in March, according to the country's finance minister.
- The **Lebanese** finance minister presented amendments to the 2012 budget which needs to be approved by the government and Parliament to come into force. According to the amendments, budget deficit would expand to reach LBP 5.3 trillion mainly due to the increased expenditure on salaries in the public sector. It is also proposed to increase the VAT rate by 1 p.p. from the existing level of 10% (initially increase in VAT rate was to be by 2 p.p. to 12%), while tax rate on corporate profits in real estate sector and tax on bank deposits interest may

be increased.

- The **European Parliament** approved an agricultural agreement with **Morocco** despite the strong resistance from Spanish lobby. The agreement will ease access for the Moroccan agricultural products to the European market.

UAE Focus

- **UAE foreign trade** grew 25% yoy to AED 1.0 trillion in 2011, with exports rising by 36% – this data, however, excludes trade in the free zones, which grew by almost 19% yoy.
- **Federal bonds issuance** strategy will be submitted to the cabinet within the next two weeks, enabling the country to issue its first federal bonds – while the federal public debt management office is being put in place and ahead of the signing of the Public Debt Law by the President.
- The UAE Ministry of Finance hinted that it may introduce **new fees to attain federal budget consolidation**. The fees may be enforced next year, however the source at the ministry mentioned that the economic and social implications of the new fees would be taken into consideration, and agreements with the local governments should be obtained before policy enactment.
- **UAE's CPI** hit a six-month high, reaching 116.9 in Jan 2012, up 0.7% yoy and 0.3% mom. Higher inflation resulted from increases in housing (0.75%) and clothing (1.6%) prices.
- **Foreign direct investment** inflows into Dubai are expected at AED 27 bn (USD 7.4bn) in 2012 with growth of at least 10% over the previous year. These estimates are based on the increasing number of investment applications from European countries submitted to the Dubai's Department of Economic Development.
- **Dubai's population** grew by almost 100k people (+5.1%

yoy) to 2.003mn in 2011 from 1.9 mn at the end of 2010 – growing at almost triple the average global growth rate and accounting for nearly a quarter of UAE’s population.

- **Emirates NBD** has announced its plans to issue **CNH** (offshore Chinese renminbi) bonds under its USD 7,500 medium term note (EMTN) programme, offering an alternative source of funding.
- A **dual currency financing** of USD 675mn for the USD 1.08bn tram project has been completed – according to Dubai’s Department of Finance.