

Weekly Economic Commentary – March 11, 2012

Markets

The upward trend is faltering, due to **China** which announced lower expected growth for 2012 and the waning of the relief after the **Greek deal**. Difficult decisions remain on the table with little political appetite or coherence to tackle them. Stock markets were feeble and choppy, with regional markets no different – both the **DFM and ADX** dipped on profit-taking, with the former registering the largest one-week drop since early March 2011. The euro declined in spite of the swaps agreement while positive US data helped the **dollar** reach multi-month highs against various currencies (hitting the highest in almost a year against JPY). **Oil** market halted its run while heavy trading on Friday helped **gold** regain losses made during the week.

Global Developments

Americas:

- **US non-farm payrolls** rose by 227k in Feb, with unemployment at a three-year low of 8.3%, underscoring a notable acceleration in job creation.
- The **ISM services index** rose in Feb to 57.3 (Jan: 56.8), the highest level since a year ago.
- **US factory orders** fell in Jan by 1% mom (Dec: +1.4%), due to rising oil prices and the expiration of a tax break in 2011.
- Initial **jobless claims** rose to 362k this week (Last week: 351k). The 4-week moving average inched up to 355k from 354k the previous week.
- **Trade deficit** widened to a three years high at USD

52.6bn (Dec: USD 50.4bn). Imports rose by 2.1% led by demand for foreign cars, computers and food products. Exports rose by 1.4%, on the back of a slowdown in exports to Europe (-7.5%).

Europe:

- More than 90% of bondholders accepted the haircut on **Greek sovereign bonds**, removing an obstacle that could have derailed the rescue plan.
- **Eurozone PMI** composite index dropped to 49.3 in Feb (Jan: 50.4), indicating a contraction in services and manufacturing. The data were weak across key Eurozone countries, falling to 2-month lows in Germany (53.2), France (50.2), Italy (44.7) and Spain (42.9).
- Eurozone **GDP** grew at 0.3% qoq (Q3: +0.1%) in Q4 2011, due to a fall in household consumption (0.4%) and government spending (0.2%). The euro area growth increased by 0.7% yoy, sa, in Q4 (Q3: +1.3%), bringing the full year growth to 1.4% compared to 1.9% in 2010.
- Eurozone **retail sales** posted a surprise increase of 0.3% mom in Jan (Dec: -0.5%) but remained flat from a year ago; with a notable divergence within the EU – Germany recorded a decline of 1.6% mom while France registered an uptick by 2.1%.
- **German trade surplus** increased to EUR 14.2bn, sa in Jan (Dec: EUR 13.9bn). Exports rose by 2.3% mom, sa, bouncing back from a sharp decline of 4.4% mom in Dec. German **factory orders** for Jan dropped sharply by 2.7% mom, sa (Dec: +1.6%), reflecting a decline in foreign demand for investment goods.
- **Industrial production** (IP) for Jan was released in Europe: German IP rose 1.6% mom (Dec: -2.6%) and 1.8% yoy (+1.3%); French IP data revealed a mild 0.3% uptick (-1.3%), while Italy saw a drop of 2.5% mom (+1.2%).

Asia and Pacific:

- **Chinese M2** grew at 13.0% in Feb (Jan: 12.4%), while new loans recorded a lower total of CNY 710.7 bn (Jan: CNY 738.1). Corroborating this, **inflation** in China eased to 3.2% yoy in Feb (Jan: 4.5%), continuing the five-month trend. The **PPI** came in flat for the month and 0.1% yoy.
- China's **trade deficit** plunged to decade record of USD 31.5bn as imports outpaced exports at 39.6% yoy and 18.4% yoy, respectively. High fuel prices and weak foreign demand were the main causes. Adding to the stack of weak Chinese data, Jan-Feb **retail sales** growth dropped to 14.7% yoy (Dec: 18.1%) and industrial production came in at 11.4% yoy (Dec : 12.8%).
- **Japanese Q4 GDP** contracted by 0.7% yoy and 0.2% qoq, revised up from initial estimates of a decline by 2.3% yoy and 0.6% qoq, respectively. Japan's posted a record **trade deficit** of USD 5.4bn in Jan (Dec: USD 3.75bn surplus), attributed to lower Chinese demand and higher fuel imports after nuclear plant shutdowns.
- Inflation in **Philippines** eased to a 29-month low of 2.7% yoy in Feb (Jan: 4.0%), on the back of modest increases in food and beverage prices.

Bottom line:

The macro picture remains weak as data from Germany (and Europe in general), Japan and China underscore. Moreover China downgraded its GDP growth target for 2012 to 7.5% (from 8%). This move triggered negative sentiment around the world although in the long run this development goes in the right direction emphasizing the "quality" of growth, not just the quantity. Premier Wen indeed stressed the rotation from investment and exports to consumer-led growth which would lead to a much needed normalization of the current account imbalances between China and the US.

Regional Developments

- Discussion on transforming the GCC into a Union was a key topic of discussion at the **meeting of the GCC Foreign ministers (FMs)** last Wednesday. Saudi Arabia's FM assured that the sovereign status of each country would not be compromised by this Union.
- Prospects for further GCC integration took center stage at the Jeddah Economic Forum, where joint infrastructural projects, financial markets integration, labour policy liberalization, and stronger efforts towards monetary and political union were identified as crucial to strengthen the position of GCC on global arena. A survey conducted at the forum showed that European Union was considered the most appropriate **model for GCC integration**.
- The average annual interest rate of 3- and 12-month Government Treasury Bills issued last week through the **Central Bank of Bahrain** totalled 1.74% (-0.03 p.p.) and 1.20% (+0.02 p.p.) respectively. The total volume of sales was BHD 35mn for 3-month bills and BHD 100mn for 12-month bills, as the bids exceeded supply by 221% and 137% respectively. With these issues the outstanding nominal value of Bahraini Government T-Bills reached BHD 930mn.
- The **Central Bank of Oman** reported 13% growth of banks' credit to the private sector last year. Credit to public sector in 2012 rose remarkably higher, at 58%, due to large infrastructural projects launched in the country and banks' low-risk perception of public enterprises.
- Higher oil prices led to a record budgetary expenditure in **Oman** at OMR 10.5bn last year, while fiscal surplus reached OMR 961mn. For 2012 the budget deficit is set at OMR 1.2bn with average oil price forecast at USD 75 per barrel, a very prudent assumption.
- Arab countries' tourism sector losses due to the ongoing turmoil were estimated at USD 96bn by the Arab Tourism

Organization.

- The profits of the **Kuwaiti banks** listed on the local stock exchange increased by 1.7% last year to reach KWD 566mn, while irregular loans decreased from KWD 2.3bn in 2010 to KWD 1.9bn in the end of 2011, according to the report by KIPCO Asset Management Co.
- Monetary aggregates in **Saudi Arabia** continue to expand in line with the growth of country's foreign assets: 12-month growth rates of monetary base and M3 was 27% and 13.6% respectively, while SAMA's (Saudi Arabian Monetary Agency) foreign assets grew by 22%.
- **Qatar** postponed the announcement of country's annual budgetary parameters, expected at the end of March, to the end of June, as fiscal authorities are in the process of shifting to a three year budget planning horizon.
- **Qatar** has promised to invest USD 2bn in Sudan, following the visit of the Sudanese President. The investments would be in the form of "the purchase and placement of treasury bonds in different sectors, among them mining, oil, agriculture and services", according to a QNA report.
- Delay in the adoption of 2012 **Lebanese budget**, associated with limited abilities to mobilize additional revenues from anticipated tax measures, may result in lower GDP growth due to the insufficient public expenditure, according to the Institute of International Finance.
- According to the official statistics, unemployment in **Tunisia** reached 18.9% in the end of the last year, growing 0.6 p.p. during 6-month period. The total amount of unemployed was more than 738 thousand, with around three quarters of jobless below the age of 30, while unemployment rate among women was almost twice higher than that of men's.
- According to the **Turkish** Statistical Institute, industrial production increased by 1.5% yoy in January

2012, markedly below the expected 4% growth.

- **Turkish** inflation came in at 10.43% yoy in Feb (Jan: 10.61%), hovering around three-year highs while PPI was slightly lower at 9.15% (11.13%).
- **Egypt GDP** grew 0.4% qoq in Q4 2011, following 0.2% in the preceding quarter – thanks largely to private consumption.

UAE Focus

- Total **bank deposits** in the UAE rose by 1.5% mom and 1.9% yoy in Dec 2011 to AED 1.07 trillion. Bank lending in the same period surged 3.8% yoy.
- UAE **PMI** slowed in Feb to 52 (Jan: 52.4), in spite of new export orders component hitting a 4-month high, as employment growth remained weak and output prices increased marginally.
- **Freezones in Dubai** contribute about 33% to Dubai's GDP, being home to about 19k companies and 26k employees, according to the Chairman of the Dubai Free Zones Council.
- Dubai is reportedly planning to securitise the airport's duty free revenues – to raise at least USD 500mn, according to sources familiar with the plan.
- The **first yuan bond issuance** in the region highlighted investor appetite as **Emirates NBD** announced that the dim-sum issuance of CNY 750mn was oversubscribed about 5.7 times over. Private banks allocated 43% of the issue, with fund managers and insurance 38%, banks 8% and hedge funds 5% with other investors accounting for the balance. Geographical distribution of the investors was: 57% from Hong Kong and China, 30% Singapore, 5% Taiwan, 7% Europe and 1% Middle East.
- **Dubai tourism** picked up in 2011, receiving close to 9.3mn visitors, a growth of 10% yoy, with guestnights rising 23% and the average length of stay at 3.6 days. Saudi Arabia, India and UK were the top three markets

from where visitors arrived in Dubai.