

# Weekly Economic Commentary – April 1, 2012

## Markets

After the speech by **Bernanke**, which was interpreted as an announcement of loose monetary policy and possible QE3, equity markets were marking time, with the mood generally negative especially in **Asia**. **Regional** markets were mixed though optimistic sentiment continued in the **Saudi** bourse, where the index lifted to levels not seen since the collapse of Lehman. The **euro** rallied against the dollar and the yen after Spain announced budget cuts; also, the **GBP** rose to a 4-month high and the **yen** was boosted by its fiscal year-end repatriation flows. Talks by some of the biggest global oil buyers over the possible release of emergency reserves and a ventilated intervention by Saudi Arabia spooked **oil** prices while **gold** prices rose.

## Global Developments

### Americas:

- Fed Chairman **Bernanke** warned that the marked improvement in US unemployment rate could be unsustainable unless growth picks up, a downbeat assessment stressing the divergence between stronger labour market data and weaker numbers on output and real estate.
- The **S&P/Case-Shiller** home price index fell for the fifth consecutive month by 0.8% mom in Jan (Dec: -1.1%) and slid 3.8% from a year earlier, despite recent signs of economic recovery in the US.
- US **Q4 GDP** rose by 3.0% yoy (Q3: 1.8%), recording the quickest pace since Q2 2010. The expansion was led by a rise in business spending (5.2%) and consumer spending

(2.1%).

- **US durable goods orders** rebounded in Feb (ex-transportation, up 1.6% mom, versus -3% in Jan). Net of volatility, however, the slowing in orders growth remains dominant with a 3% drop, saar, compared to Q4. Orders for core capital goods fell 6.3%, saar, in Jan-Feb versus Q4.
- **Consumer spending** rose 0.8% mom in Feb as demand for durables shot up. Adjusted for inflation, spending increased by 0.5% – the largest since Sep.
- **Initial jobless claims** dropped 5k to 359k in the week ended Mar 24, sa, another four-year low. Continuing claims fell 41k to 3.34 mn (3.38 mn).

## Europe:

- Eurozone **bank credit to non-financial firms** fell slightly mom and 0.4% yoy in Feb. The recessionary environment could change over the next few months if the ECB Long Term Refinancing Operation (LTRO) transmission mechanism kicks in.
- The Ecofin increased the **ESM endowment** from EUR 500bn to EUR 800bn, sufficient to support a country like Spain (but not Italy) in case of default.
- German **IFO** business confidence unexpectedly increased in March to 109.8 (Feb: 109.7), rising for the fifth consecutive month. **Unemployment** fell to a two-decade low of 6.7% sa, in March (6.8%).
- **Eurozone inflation** flash estimate was 2.6% in March (Feb: 2.7%). Inflation in Germany eased to 2.3% yoy (2.5%) as energy prices inflation ebbed.
- **French consumer spending** increased 3.0% mom, due mainly to higher energy bills as a result of last month's cold spell. PPI was 4.3% yoy in Feb, unchanged from Jan.

## Asia and Pacific:

- **China PMI** (estimated by HSBC) fell to 48.3 in Mar (Feb: 49.6), declining for the fifth consecutive month as new orders dipped and manufacturing output registered the second-lowest reading since Mar '09 of 47.3 (50.2).
- **Industrial output in Singapore** saw a yoy increase of 12.1% in Feb (Jan: -9.6%), although output slipped slightly by 1.1% mom (+2.3%). The rise from last year is attributed to the higher number of working days as the Lunar New Year coincided with Jan this year.
- **Thailand's trade balance** posted an unexpected surplus in Feb at USD 0.53bn (Jan: USD 1.13bn). Exports saw a mild increase of 0.91% yoy, with a much larger increase in imports of 8.2% yoy.
- A slew of Feb economic data from **Japan**: The **jobless rate** fell to 4.5%, sa (Jan: 4.6%). **CPI** inflation saw an uptick of 0.1% yoy (Jan: -0.1%) while industrial production fell 1.2% mom (+1.9% in Jan), though climbing 1.5% yoy. **Retail trade** rose 3.5% yoy (Jan: 1.8%), due to brisk car sales (21.4%).
- **Korea's industrial production** surged ahead in Feb at 14.4% yoy (Jan: -2.1%) and 0.8%, mom sa to declines in production of telecommunications, non-metallic minerals and electric equipment.
- **India's Q4 2011 current account** deficit nearly doubled to USD 19.6bn, amounting to 4.3% of GDP compared to a year ago (Q4 2010: 2.3%).
- **Myanmar** introduced a floating FX system; till now, the kyat was fixed against the dollar at a rate of around six kyats to one dollar compared to 800 on the black market.

## Bottom line:

With the waning relief following the Greek deal and the liquidity injection in Euroland, attention is again turning to

the stumbling global economy. **Bernanke** poured cold water on optimistic expectations of those mesmerized by job creation. In general global **business confidence** is consistent with a tepid expansion, which prevailed since the beginning of the year. Sentiment has improved somewhat compared to the end of 2011, when the global economy was hit by the European debt crisis and the U.S. Treasury debt-ceiling diatribe, but essentially it stands at the level prevailing a year ago.

## Regional Developments

- Standard & Poor's hinted that **Turkey's** ratings may remain stuck at current levels unless the country attains more flexibility by shifting towards net-export-driven growth, and promoting deeper social security reforms.
- **Capacity utilization** in **Turkey** increased in March to 73.1% (Feb: 72.9%). Business confidence also rose to 112.9 for the month (Feb: 107.3).
- **Turkey** held its key **interest rate** unchanged at 5.75% while keeping the overnight borrowing rate unchanged at 5% and lending rate at 11.5% amid inflationary pressure.
- According to official sources more than one million **Saudi Arabians** receive **unemployment benefits** under the recently launched "Hafiz" program, while the number of jobless citizens increases permanently due to the inability of public sector to create new jobs for the growing population of nationals. Currently government employs 90% of the 18 million working Saudis.
- **Saudi British Bank** sold a five-year SAR 1.5bn Sukuk, through a private placement.
- **Egypt GDP** expanded by 0.4% yoy in Q4 2011 (Q3: 0.2%) as a few sectors began to rebound like construction (Q4: -0.6%, Q3: -2.8%) and tourism (-6.5%, -10.4%), according to data released by the Ministry of Planning and International Cooperation. GDP contracted by 0.8% in 2011.

- **Orascom** Construction Industries, Egypt's largest publicly traded builder, said Q4 profit declined 34.1% to USD122.6mn in a sign that economic activity in Egypt is far from stabilizing.
- The **Kuwaiti** government appointed acting governor Mohammed Al-Hashel as new **governor of the central bank**, a choice outside the ruling family.
- The decision on the increase of payments to public sector employees, retirees, and beneficiaries of social assistance, made after the series of strikes in **Kuwait**, would be raised to the country's National Assembly for approval. Different scenarios put expected budget surplus in the range between KWD 10.3bn and KWD 11.7bn.
- **Inflation** in **Kuwait** accelerated to 3.8% in Feb (Jan: 3.5%) on increases in the cost of food and clothing.
- **Kuwait's** current development plan includes about 324 major infrastructure projects with investments close to KWD 3.5bn for fiscal year 2012-13, according to the Ministry of Public Works and Municipality.
- **Lebanese economy** is expected to grow by 3.5% in 2012, according to Standard Chartered. GDP growth acceleration from 1.5% in 2010 would be supported by tourism, construction, and domestic consumption.
- Overall **price level** in **Lebanon** decreased 0.8% mom in Feb, while yoy inflation was 5.8%; miscellaneous goods and services, housing services, and food and beverages were the main items adding to inflation in the last two months.
- **Oil production** in **Libya** has increased from 0.8 mn bpd to 1.45 mn bpd currently. Country's officials expect oil production recovery to pre-war levels by the end of 2012.
- Total value of **private sector bank deposits** in **Oman** in Jan 2012 increased by 12.4% yoy to OMR 8.1bn, including FX deposits of OMR 649mn.
- The **interest rate ceiling** for new personal loans in **Oman**, set by the central bank, was reduced by 1 p.p. to

7% effective Apr 1, 2012. Currently, personal loans constitute around OMR 5bn, or 40% of the Omani banks total loans.

## UAE Focus

- The Deputy Director-General of the Dubai DED announced that a feasibility study has been commissioned to analyse a potential **pension plan** for expatriates, which is expected to be completed by end of this year.
- **Mubadala** is reported to have acquired a USD 2bn stake in EBX group bent to raise cash to compete with Petrobras, Brazil's state-run oil company. The deal will open Mubadala the gate to participate in the pipeline of future investments, such as technology, cement, fertilisers and entertainment. The deal constitutes the biggest investment by Mubadala in emerging markets after smaller acquisitions in countries such as Nigeria and Russia.
- Mannai Corp from Qatar and EFG Hermes have agreed a USD 0.45 per share (9.8% above closing price on Tuesday) cash bid for **Damas** stating that irrevocable undertakings have been secured from 77.8% of Damas shareholders, with the bid valuing Damas's capital at roughly USD 445mn.
- **Abraaj Capital** in an interview with Reuters announced that it is planning an IPO as early as next year.
- **DP World** announced its intention to repay the USD 3bn loan (maturing in Oct) between April 4-10, 2012 with existing cash, hence reducing the debt of the company to about USD 4.7bn.
- **Nakheel's** acting CEO stated that there would be no need for any additional cash injections into the company to execute its projects "as we have restructured our debts".
- **UAE mortgage credit** fell 1.0% yoy to AED 161.5bn in 2011 as total credit to the private sector also witnessed a decline of 1.4% to AED 573.2bn. Meanwhile, loans to the

government rose by 2.4% and loans to the public sector increased to AED 112.4bn in 2011 from AED 91.3bn in 2010.

- **Dubai Metro** is expected to break even by 2017, on “increased metro ridership, and augmented revenues generated from stations naming rights, advertisements and rental of retail outlets” after having recovered its costs in 2016. The share of public transport in total travel rose to 10% in 2011, from about 6% in 2006.