

# Weekly Economic Commentary – April 8, 2012

## Markets

Easter mood did not sedate markets, which were generally weak especially after **FOMC minutes** reinforced the message that the Fed is not contemplating additional monetary stimuli. It is worrisome that stock markets are again primarily influenced by expectations of central bank liquidity injections like an addict mesmerized by the perspective of another shot, and not focusing on economic fundamentals. **Bond markets** on the contrary were retrenching to safe havens while spreads on Italian and Spanish bonds widened sharply again. The bad number on US payrolls added to gloom. **Regional markets** were mostly down, though Oman and UAE outshone their counterparts, buoyed by specific stocks. The combined effect of Fed hawkishness and Draghi remarks on 'downside risks' in Euroland hit the **euro** and lifted the dollar. Likewise **gold** tumbled after hopes of QE3 were dashed. **Oil** was hit by the dollar strength but remained broadly resilient.

## Global Developments

### Americas:

- **Non-farm payroll** employment rose 120k, sa, in March, much less than the 200K expected. **Unemployment** declined to 8.2%.
- The US **ISM manufacturing** index increased to 53.4 in March (Feb: 52.4), with mixed sub-components. The production and employment index increased to 58.3 (55.3) and 56.1 (53.2) respectively, while new orders index, the most forward-looking component, slipped to 54.5 (54.9).

- The ISM **non-manufacturing index** declined to 56.0 in Mar from 57.3 in Feb. Among sub-components the indexes for new orders and general business activity both declined. On the other hand, the employment component increased, and remains quite high at 56.7.
- US new **factory orders** increased 1.3% yoy in Feb (Jan: 1.1%), supported by business equipment.
- **Initial jobless claims** dropped 6k to 357k, from a revised 363k the previous week. The 4-week moving average slipped 4.25k to roughly 361k.

## Europe:

- **ECB** president, Draghi said risks to growth remained warning that inflation will stay above the 2% target for the rest of the year.
- **Euroland manufacturing PMI** in March worsened to 47.7 from 49.0 confirming that Q1 GDP reading will be negative.
- Euro area Feb **unemployment** was at 10.8% (Jan: 10.7%), with the highest rate in Spain (23.6%) while German unemployment was unchanged at 5.7%.
- **Producer prices** in the Eurozone inched 0.6% higher mom in Feb (Jan: 0.8%), rising 3.6% on a yoy basis (Jan: 3.8%), the lowest level since June 2010. **Producer price inflation** eased in Germany (3.2%), Spain (3.4%) and Greece (6.9%) as well.
- **Eurozone retail trade** was down 0.1% mom in Feb (Jan: +1.1%) and from Feb 2011 slipped by 2.1%. Retail trade saw a sharp decline in Germany (-2.5%) and Spain (-6.2%), on a yearly basis, rising mildly in France (+0.8%).
- **UK industrial production** dropped 0.4% mom in Jan, offsetting Dec's 0.4% gain. Industrial output fell 3.8% from the same month last year. **Halifax house prices** were 2.2% higher in March, mom (Feb: -0.4%) and were 0.6% lower in Q1 2012 on a yoy basis.

- **German industrial production** dipped in Feb by 1.3%, mom (Jan: +1.2%), as unusually cold weather dampened construction output. Factory orders in Germany saw a subdued increase of 0.3% mom, sa, in Feb (Jan: -1.8%), falling sharply from a year ago by 6.1%.
- In **Italy** the draft labour market reforms actually introduced additional burdens on firms and a spate of new taxes, with minimal modification to the major issue of labour protection.

## Asia and Pacific:

- **China**, moving forward on capital account liberalisation, announced an increase from USD 30-80bn in the total quotas in its “qualified foreign institutional investor” (**QFII**) scheme through which foreign investors are allowed to trade in China’s equity markets. Separately quotas under China’s “renminbi-qualified foreign institutional investor”, which allows renminbi funds raised offshore to be invested in domestic capital markets, were boosted from RMB 20bn (\$3.2bn) to RMB 70bn.
- **China’s** four largest state owned banks disbursed CNY 300bn in **new loans** in March, with estimates placing total new loans at close to CNY 900bn.
- HSBC **Chinaservices PMI** slowed to 49.9 in March (Feb: 51.8), moving into contraction territory on account of the fifth consecutive mom decline in new orders. **India’s** March Services PMI also slipped – to a five-month low of 52.3 (Feb: 56.5).
- The **Japan Tankan** index of business confidence remained unchanged from Dec at -4, confirming a pessimistic outlook.
- **Thai Mar CPI** was up 3.45% yoy (Feb: 3.35%), boosted by food and beverage (7.07%) while core CPI rose 2.77%. **Indonesia’s** inflation accelerated to 3.97% in Mar (Feb: 3.56%), on higher prices for spices and increased buying

ahead of the fuel price hike. Core inflation eased to 4.25% (4.31%).

## Bottom line:

The divergence between the two sides of the North Atlantic is epitomized by their labour market with Euroland close to record high unemployment (10.9%) and the US on a gradual although anaemic recovery. Spain and Italy are again under the spotlight of the markets after the reform plan met with fierce resistance by the unions. The French election next month will add to the woes of the Eurozone. By contrast, emerging Asia is slowing but displays continued healthy growth.

## Regional Developments

- Total volume of **Sukuk** issuances in Q1 2012 reached USD 43bn globally, with Malaysia topping the list at USD 31bn. Regionally, Saudi Arabia was the leader with USD 6.4bn, followed by UAE at USD 1.9bn.
- A Boston Consulting Group study of 34 **banks in the GCC** projected bank revenues to grow by 4-6% in 2012, following 7% growth in 2011. Bank revenues in the UAE increased by 6% and the sector recorded an impressive 24% rise in profits.
- Deloitte anticipates expansion of **M&A activity** in the MENA region in 2012, with Saudi Arabia, Abu Dhabi and Qatar being the most active players, given available liquidity, they are in a more preferable position compared to other countries in the region.
- MEED Projects data places the total value of **construction projects in the GCC** at USD 286bn, with Saudi markets taking the majority share at 41%, followed by UAE and Qatar at 26% and 9% respectively.
- Inability to reach consensus on external financing among **Egypt's** political parties is complicating negotiations between the IMF and Egyptian authorities on the loan

from the Fund. According to the Minister of Planning & International Cooperation, an arrangement may be reached in June.

- A senior **Muscat** Securities market official announced that there are at least 5 IPOs in the pipeline – to be floated by Bank Nizwa, Al Izz Bank International, Oman Arab Bank and Al Khalili group.
- **Oman's budget surplus** widened to OMR 964.8mn in 2011, as revenues from oil exports surged by 59% yoy to OMR 8.697bn alongside an increase in public expenditure by 8.8% to OMR 8.66bn.
- The SABB HSBC **Saudi Arabia PMI** fell to a three-month low of 58.73 in Mar (Feb: 59.62), with new orders at 66.8 the slowest since Dec.
- **Turkey GDP** in Q4 grew at 5.2% yoy, slightly above consensus estimate. The implied qoq growth however depicted a loss in momentum due to exports woes. Investment on the other side rebounded strongly compared to Q3. Annual GDP growth for the entire 2011 was 8.5%.
- **Turkish inflation** for Mar came in at 10.43% yoy, unchanged from Feb, led by increases in prices of alcoholic beverages and tobacco (18.47%) and furnishings and household equipment (11.76%). Producer price inflation slowed to 8.22% in Mar (Feb: 9.15%), the lowest since Apr 2011.
- HSBC **Turkey manufacturing PMI** remained unchanged at 49.6 in March, with the contraction led by decreases in new orders and output.

## **UAE Focus**

- Dubai **Drydocks** filed a claim at the DIFC based Tribunal seeking insolvency protection from creditors by invoking 'Decree No 57' issued in 2009. The company announced later that it had received backing for its restructuring plan from 98% of its creditors, with only one in disagreement.

- **Dubai International Corp.** a private equity arm of Dubai Holding reached an agreement to restructure debt worth USD 2.5bn. Creditors holding USD 2.15bn and USD 350mn of loans will be repaid over 5 years (at a rate of 2% cash) and 3 years (on unchanged terms) respectively.
- An unnamed source revealed that the UAE was operating at full capacity – producing 2.7mn barrels per day of **oil** in Mar (Feb: 2.6 mn bpd), as OPEC announced that its March output rose to its highest level since Oct 08.
- The Dubai **Land Department** announced a 20% yoy increase in total transactions in 2011 to AED 143bn. Asian investors accounted for more than two-thirds of total investors (68%) while Indians topped the list of new investors and UAE nationals topped the list of most active investors.
- A new initiative, labelled **Tanweer**, will be launched by the Dubai Land Department in a bid to “minimise legal disputes and protect investors’ rights”.
- Dubai **Duty Free sales** surged 14% yoy in Q1 2012, reaching AED 1.42bn, on track to achieve its 2012 target of AED 6bn. Chinese passengers continue to dominate the sale of high-end products.
- Another positive indicator of **retail spending**: Global Village reported close to five million visitors, leading to a surge in exhibitors’ profits by 13-15% yoy. The visitors, majority of who were from other GCC countries, spent an estimated AED 1.75bn or an average of AED 350 per person.
- **Inflation** in **Abu Dhabi** was 1.6% in 2011, rising from 119.3 points in 2010, with food and non-alcoholic beverages accounting for about 67.7% of the increase.
- Locational advantage of being near the **Dubai Metro** has led to higher demand, leading to an increase in property values by nearly 34% near the Metro.