

Weekly Economic Commentary – April 15, 2012

Markets

Markets are again on the defensive. Lower Chinese growth rates spooked investors. **Regional** markets were mixed, with profit taking weighing on exchanges like Saudi while the Muscat Securities Market surged, helped by the banking and services sectors. The **euro** fell as the spike in Spanish bond yields revived debt concerns in Europe while the **dollar** gained against the CHF and JPY. **Gold** prices, which were rallying most of last week, dipped almost 1.5% on Friday after release of China's Q1 data. **Oil** prices have been fluctuating within a rather narrow band despite IEA assessment of weaker future demand.

Global Developments

Americas:

- The US **trade gap** shrank 12.4% to USD 46.0bn in Feb (Jan: USD 52.5bn), the biggest monthly decline since May '09. Exports edged slightly higher to a record USD 181.2bn, while imports dropped 2.7% to USD 227.2bn, the largest monthly drop in 3 years, largely due to a plunge in oil imports. Imports from OPEC tumbled 23.3%.
- The FED **Beige Book** reported that growth was “modest to moderate”, the same description used in the Feb report. The survey noted better retail spending and some improvement in hiring activity, but overall a subdued mood from the roundup of the Fed regional antennas.
- The **CPI** rose modestly by 0.3% mom, sa, in March (Feb: 0.4%) led by a 0.9% increase in the energy index. Over the last 12 months, consumer prices were up 2.7%.

Producer prices were unchanged from last month, rising 2.8% yoy.

- **US initial jobless claims** increased by 13K to a sa 380K, disappointing expectations for a drop to 355K. The 4-week moving average rose 4,250 to 368K. Due to the Easter break the figure might be distorted, but it corroborates signs of a weaker labour market.

Europe:

- **Eurozone industrial production** unexpectedly rose in Feb by 0.5% mom, but dropped 1.8% yoy. German IP was stable (-0.1%) in yoy comparison, while French IP slipped further by 1.3% yoy. In Spain however IP collapsed by 5.1% yoy in February, following a 4.3% decline in January.
- **UK trade deficit** widened more than expected in Feb, to GBP 8.8bn (Jan: GBP 7.9bn), as non-EU exports dropped by 8.8% mom and imports rose by 1%.
- **German exports** rose for the second consecutive month by 1.6%, narrowing the trade deficit to EUR 13.6 bn in Feb (Jan: EUR 15.1bn). The Wholesale Price Index eased to 2.2% yoy in March (Feb: 2.6%).
- **Italian** 3-year sovereign interest jumped to 3.9%, 113 basis points higher than a month ago, while 1-year interests doubled at 2.84%.
- **Greek inflation** dropped to its lowest level in seven months at 1.7% yoy in March (Feb: 2.1%). **Industrial production** also saw a sharp decline in Feb of 8.3% yoy (Jan: -6%), pointing to further contraction in the Greek economy.
- **Youth (below 25yrs) unemployment rate in Greece & Spain** is now over 50%, signalling contraction and a troubled labour market.
- **French inflation** accelerated to 2.6% yoy in March (Feb: 2.5%). Feb **trade deficit** widened to EUR 6.6bn (Jan: EUR 5.8bn) as imports outpaced exports, rising 2.8% mom

compared to 1% export growth.

Asia and Pacific:

- **China's Q1 GDP** came in below expectations at 8.1% (2011 Q4: 8.9%). The World Bank cut China's growth outlook for 2012 to a 13-year low of 8.2% from Jan's 8.4% projection. Domestic investment and consumption are expected to decelerate, along with a decline in exports owing to sluggish global economic recovery. Chinese Q1 **export growth** was 7.6% yoy, down from 14.4% in Q4. March **industrial production** rose 11.9% (Feb: 11.4%).
- Chinese **new bank loans** grew to RMB 1.01trillion (US\$160 bn) in March, smashing forecasts for RMB 800 bn, an impressive result for the efforts to avoid a hard landing through looser monetary policy and credit expansion.
- **China's inflation** was 0.2% mom or 3.6% yoy in Mar (up from -0.1% mom and 3.2% yoy in Feb vs. expectations of 3.4%), primarily due to soaring food prices (7.5% yoy). However, producer prices declined 0.3% yoy after remaining flat in Feb. March inflation data was above consensus of 3.4%.
- **Japan's current account** posted a surplus in Feb of JPY 1.178 tn (Jan: JPY 437.3 bn deficit), a fall of 30.7% from a year earlier.
- Orders for **Japanese machinery** jumped nearly 5% mom sa, beating expectations of a small decline. The increase was the second in a row and provided comfort for pull out from the recession in 2011. Japan's **retail sales** also increased in February, by 3.5% yoy, well above the Bloomberg survey median estimate of 1.4%. Automobile sales jumped 78% yoy in March.
- Bank of Japan reported that **business sentiment** was flat in April, as "continued improvement in domestic demand-oriented sectors" was offset by "lingering cautiousness in export-oriented ones".

- **Malaysia's Feb industrial production (IP)** surged ahead at 7.5% yoy (Jan: 0.3%) led by strong growth in manufacturing (9.4%) and electricity production (11.3%). **Indian IP** slowed to 4.1% yoy in Feb, up from Jan's revised 1.1% growth, sluggish on account of weaker overseas demand and high interest rates.
- **Singapore** registered a 9.9% qoq **GDP** growth for Q1 2012 (Q4: -2.5%), growing a modest 1.6% from the first quarter of 2011. Retail sales in Feb experienced a sharp 19% hike on-year (Jan: 1.8%), as vehicle sales increased.

Bottom line:

The **markets are back in global slowdown red alert**: spike in Spanish bond yields and widening CDS spreads are bringing back concerns about the state of the Eurozone, while the slower Q1 growth in China begs the question of the pace of emerging market growth. Eyes are now on US retail sales and the Reserve Bank of India meeting this week. Meanwhile, the **PBoC's** widening of the RMB-USD trading band to 1.0% from 0.5% can be read as a positive sign with efforts to improve the international role of the Yuan.

Regional Developments

- **Private sector** in the **GCC** has grown at an annual average of 15% over the past years, contributing about USD 320bn in 2010 (2005: USD 205bn) – which is roughly 33-35% of GCC's GDP, as per data released by the Federation of GCC Chambers of Commerce and Industry.
- Jones Lang LaSalle reported a 20% surge in **MENA property deals** amounting to USD 166bn in 2011 (2010: USD 138bn), although far below the 30.5% global increase for the year.
- IMF loan to **Egypt** is suspended until after the May presidential elections (with possible runoffs in June).

After rejection of a USD 3.2bn loan in June 2011, the IMF demands the backing of all political parties, as the next government will need to implement the deal, and the approval of the 2012/13 budget.

- **Inflation in Egypt** eased slightly to 9% in March (Feb: 9.2%) as food prices rose at a slower pace (10.9% vs. 12.6% in Feb).
- According to the official sources, 12-month **inflation** rate in **Kuwait** fell to 3.8% in Feb, from 5.3% a year ago. Considering the effect of the recent decision to increase salaries and allowances in the public sector of Kuwait, which has yet to be seen, analysts' estimates of inflation ranging between 4-4.4% are somewhat optimistic.
- **Kuwait** maintained **oil production** at the average level of 3 million barrels per day since September last year to meet increased global demand. According to the official sources, the country has spare capacity of around 0.15-0.20 million barrels per day.
- The government of **Oman** is mulling issuing development bonds for OMR 200mn, according to the Central Bank. Local experts believe that, while the most likely objectives of the bond issuance are to cover the anticipated 2012 budget deficit and refinance bonds maturing this year, it could be a good chance to move towards a more active government securities market, if funds are raised through a series of bond sales in the open market, instead of a single bond issue.
- Official data show 1.2% increase in the overall **price** level in **Qatar** for the period Mar 2011 through Mar 2012. Prices in category "Rent, fuel and energy" declined 5.7%, outweighing the 21.9% surge in the prices for rest of consumer basket.
- Reasonable quality of asset portfolio, stable deposit base, healthy capitalization, and ample liquidity buffers, amid strong macroeconomic position and expansionary fiscal policy, supporting economic

activity, were among the factors that helped **Qatar's** banking sector get a stable outlook from **Moody's**.

- **Saudi Arabia's** Q4 2011 **GDP** growth came in at 6.64% yoy (Q3: 5.1%) led by oil sector growth (6.13%), which accounts for a third of total GDP. Private sector growth outpaced the public sector, expanding at 9.9% versus 3.6%. Banking loans in Saudi Arabia are expected to grow by more than 10% for the year 2012 owing to steady growth in deposits.
- **Fitch** ratings reaffirmed **Saudi Arabia's** long-term local and foreign currency Issuer Default Ratings at 'AA-' with Stable Outlook.
- Annual **inflation** rate in **Saudi Arabia** was 5.4% as of end of Mar 2012. Excess demand on the housing market, as well as growing public expenditure, may lead to inflation acceleration to 7% by the end of this year, according to the economists cited by local media.
- **Turkish industrial production** gained 4.4% yoy in Feb (Jan: 1.5%), the largest contributions coming from electricity (12.4%) and mining output (6.9%), indicative of expanding economic output. Turkey's industrial turnover in Feb 2012 increased 17.3% yoy and 3.8% mom.
- **Current account deficit in Turkey** for Jan-Feb 2012 amounted USD 10.1bn, which is 15.9% lower than in Jan-Feb 2011. Automotive production in Jan-Mar 2012 decreased 8% yoy.

UAE Focus

- **Dubai Duty Free** has announced plans to raise about USD 1.1bn to fund its expansion, with the financing made up of a conventional term loan and Islamic facilities. This follows the successful Salik securitisation undertaken last year.
- **Mubadala** reported a loss of AED 4.2bn in 2011, as market fluctuations led to a decline in its investments' fair value. While this compares to the loss of AED 338mn

reported last year, the company added that it continued to “maintain a long-term financial investment perspective”.

- UAE **Central Bank**'s AED-denominated interbank local transfers will be routed through a new settlement system called the UAE Funds Transfer System, enabling the “faster execution of transactions”. The Central Bank is also in the process of revising the banking laws which have been in place since its establishment, with the new laws on retail banking expected to be issued within the next two months.
- UAE **SCA** is expected to introduce new rules and regulations by summer, with the one on short-selling to be in place before end of 2012, according to its CEO.
- The anticipated **merger** between Dubai Bank and Emirates Islamic Bank was finalised last week with Jamal bin Ghalitha named as CEO of the new establishment.
- **Consumer prices in Abu Dhabi** inched up 0.9% yoy in Q1, led by increases in food and non-alcoholic beverages. March inflation rose 1.3% yoy from rise in restaurants and hotel prices (13.4%) and alcoholic beverages and tobacco (9.5%).
- A survey conducted by the **Dubai Statistics Centre** reported a 50% decline in Dubai's **unemployment rate** last year, compared to 2009. The total number of unemployed people was only 5,632, of which Emiratis were close to 60%. The report stated that about 59.2% Emirati males are employed while females account for 31.4%.
- Dubai **hotel occupancy** declined 4.3% yoy in Feb, while the average room rate was up 2.9% to USD 312.4. Dubai's hotels posted a marginal growth of 0.9%, according to TRI Hospitality Consulting data.