

Weekly Economic Commentary – May 13, 2012

Markets

Election week created generalised turbulence in equity markets, with news on JP Morgan's loss adding fuel to fire. Asian markets had their worst ever week since Nov last year. Regional markets mirrored activity in world markets, with all markets closing lower compared to the previous week, except for Egypt where Presidential elections are ongoing. The **Greek** uncertainty led to a three and a half month low in the **euro** alongside a rise in the pound as BoE decided to put QE on hold. Gold prices recorded the biggest weekly drop this year, losing its safe haven status while oil prices were down on slowing Chinese demand concerns.

Global Developments

Americas:

- A rise in imports by 5.2% led to widening of the **US trade deficit** to USD 51.8bn in Mar (Feb: USD 45.42). The pickup in imports, the largest in almost a year, overshadowed the 2.9% gain in exports. Imports from China rose by 12%, widening the US-China trade gap to USD 31.5bn (USD 28.1bn).
- **US posted a budget surplus** of USD 59.1bn in Apr, the first since Sep 2008, as tax revenues increased alongside a drop in expenditure. Compared to a year ago, receipts rose 10% to USD 318.8bn and spending was lower by 21%.
- **Initial jobless claims** dropped by 1k to 367k in the week ended May 5, recording the lowest since end-March and the 4-week average touched 384k. Continuing claims, meanwhile, fell 61k to 3.2mn.
- The **Producers Price Index** fell slightly by 0.2% mom in Apr (Mar: unchg) as energy prices dropped by 1.4% while

the core PPI was up 0.2%.

- **U. of Michigan consumer sentiment** picked up for the ninth straight month, rising to 77.8 in May (Apr: 76.4) – also the highest level since Jan 08.

Europe:

- **German factory orders** grew by 2.2% mom in Mar (Feb: 0.6%), driven by overseas demand – domestic factory orders increased 1.3% while export orders climbed 3%, the latter driven by a 4.8% increase in sales outside the Eurozone.
- **Trade balance in Germany** recorded a **surplus** of EUR 13.7bn (sa) in Mar, unchanged from Feb, after exports grew 0.9% mom (sa) alongside a 1.2% rise in imports.
- **Industrial production** data for March was released in **Germany, Italy, France** and **UK** – with the first two recording unexpected rebounds of 2.8% mom (Feb: -0.3%) and 0.5% (-0.7%) respectively. In **France**, output slid by 0.9% mom (+0.3%) though manufacturing production climbed for the first time this year by 1.4%. In the **UK**, IP fell 0.3% largely due to a decline in oil and gas production while manufacturing output grew a higher-than-expected 0.9% (-1.1%).
- April **harmonised CPI** was released in both **Germany** and **Spain** – at 2.1% and 2% respectively, both were higher than the ECB's comfort zone of "close to but below two percent" level.

Asia and Pacific:

- The **PBoC** on Saturday announced a cut in the reserve requirement for commercial lenders again by 50bps, effective May 18. This follows Apr data on **new Yuan loans**, which dipped to CNY 681.8bn – a drop of CNY 61.2bn and CNY 328.2bn compared to a year ago and a month ago respectively.
- A host of Apr data was released in **China** last week:

trade surplus widened to USD 18.4bn in Apr as exports increased by 4.9% to USD 163.3bn and imports rose 0.3% to USD 144.8bn; **retail sales** increased at a slower pace of 14.1% yoy (Mar: 15.2%), the lowest in almost 14 months, to CNY 1.56trillion; **fixed asset investment** grew 20.2% in Jan-Apr – this was the slowest since Dec 02; **inflation** moderated to 3.4% (Mar: 3.6%) as food prices rose by 7% compared to 7.5% in Mar.

- Latest **industrial production** data released in both **China** and **India** recorded a **decline**. Chinese IP, at 9.3% yoy in Apr (Mar: 11.9%), was the lowest in three years while India's IP fell by 3.5% in Mar (Feb: +4.1%), contracting for the first time since Oct last year.
- Sluggish export growth dragged down **Hong Kong's Q1 GDP**, which eased to 0.4% yoy compared to 3% in Q4. **Indonesia**, which also released Q1 GDP data, recorded a growth of 1.4% qoq and 6.3% yoy (Q4: -1.3% qoq, 6.5% yoy) on resilient private consumption as exports and total investments declined yoy.
- **Japan's coincident index**, an indicator of current economic activity, **rose** for the third consecutive month to 96.5 in Mar (Feb: 95.2). Mar **current account** surplus, at JPY 1.589 trillion, fell 8.6% yoy though exports gained by 7.3% – the first rise in six months.
- **Central banks of Malaysia, Indonesia and South Korea** met last week and as expected, kept policy rates unchanged.
- **China, Japan and Korea** have agreed to hold talks to create a **Free Trade Area**. They account for about 20% of global GDP and 19% of exports.

Bottom line: Sentiment has been largely overshadowed by elections and their outcomes: Sarkozy losing to Hollande in France and Greece failing to form a coalition government put a big question mark as to the fate of the Eurozone and the euro. China's latest data has only added to the worries about a global slowdown.

Regional Developments

- Foreign exchange regimes with local currencies pegged to reserve currencies, mostly USD, set limits on the MENA region central banks, preventing them from running independent monetary policies. Such limited monetary policy flexibility, along with high political risks, and underdeveloped capital markets, limits some **MENA** countries' **sovereign ratings**, according to **S&P**. The agency defined Morocco as the country with the highest degree of monetary flexibility in the region.
- **Kuwait** authorities mull 160 km metropolitan road project worth USD 7bn to be implemented within a PPP framework in five stages from 2013 through 2020.
- High oil prices led to **Omani** banks' balance sheet expansion through extensive credit provision to public sector companies: while total assets of commercial banks increased 22.2% yoy as of end of Mar 2012, credit to public enterprises grew 53.8% yoy. This compares with much lower credit growth to private sector – 16.3% yoy. Such pattern of credit allocation may indicate relatively high risks associated with private sector companies, as investment in Oman central bank's CDs increased 57.8% yoy, and stock of foreign securities in the portfolio of commercial banks surged by 139% yoy.
- With the release of the **Qatari budget** for 2012-2013 fiscal year postponed to June, the Ministry of Finance revealed that the new budget may be compiled on an oil price of USD 65 per barrel. The current 2011-2012 budget was based on oil price at USD 55, while the actual price remained above USD 100.
- **Saudi Arabia** deposited USD 1bn with the Central Bank of **Egypt**, according to the agreement recently signed between the countries' authorities. Another USD 500mn for development projects, and USD 250mn for petroleum products purchase, may be provided by Saudi Arabia, according to the Egyptian government.
- **Saudi Arabia** has spare capacity of 2.5mn barrels of oil per day above its current production of around 10mn

barrels per day, according to the statement made by the country's oil minister.

- According to the press-release issued by the Central Bank of **Egypt**, headline **inflation** slightly reduced to 8.78% yoy in Apr (Mar: 9.03%); core inflation also decreased to 8.36% in Apr (8.68%).
- **Economic growth** forecast for **Turkey** was reviewed by the European Commission to increase from 3% to 3.3% for 2012, and from 4.1% to 4.6% in the next year.
- According to the data released by the **Turkish** statistical agency, country's **industrial production** index decreased to 2.4% yoy in Mar (Feb: 4.4%).

UAE Focus

- **Inflation** in **Abu Dhabi** increased by 0.2% mom and 1.8% yoy in Apr with the major contributor being the restaurants and hotels group where the prices were up a high 18.9% yoy, followed by alcoholic beverages and tobacco at 9.8% and food and beverages at 6.2%.
- The Dubai Economic Council has forecast 2012 **growth** at 4-5% in **Dubai** compared to 3% growth last year on strong trade performance and pick-up in non-hydrocarbon sector, including tourism and industry.
- **Mubadala's** committed capital spending at end-2011 was AED 29.62bn, with majority of the spending expected this year; this compares to AED 32.73bn the year before, as per an updated bond prospectus.
- **Dubai's business optimism** for Q2 was upbeat at 120.5 points, as compiled by DED's Business Confidence Index. Manufacturing was the most optimistic sector, with positive outlook for all key parameters – sales volume, selling prices, profits and employees.
- **FT** reported that **Istithmar World** has given up its control in Barneys, which it acquired in 2007 for USD 942mn.
- **Drydocks World** has asked for a delay in its Monday

hearing at the Dubai World Tribunal, in order to give sufficient notice to three creditor banks in Singapore about the proceedings.

- **Trade licenses** issued by the DED in **Dubai** increased by 27% yoy to 4343 in Q1, with tourism sector accounting for the highest increase of around 213%.