

Weekly Economic Commentary – June 3, 2012

Markets

Disappointing data across the board – US jobs, growth concerns in China and India – added to the existing fears of a global slowdown and sent **equity** markets sliding. **Ireland's** positive vote on the EU fiscal compact was the only cheerful note for European markets. **Regional** markets were no different with most markets down with the exception of **Oman** (it hit a 3-week high after Bank Nizwa's IPO and almost 11 times oversubscribed). The **euro** hit a 23-month low against the **dollar** and fell to its weakest in more than 11 years against the **yen** (safe haven). Crude **oil** prices are the lowest since Oct 2011 as worries about weaker global demand led prices tumbling down while **gold** price rose as investors flocked to safe-haven assets.

Global Developments

Americas:

- Weak jobs report: **non-farm payrolls** in the US increased by 69k in May (Apr: 77k), much lower than market expectation of 150k, while **ADP** private sector employment increased by only 133k (Apr:113k) and **unemployment** rate rose to 8.2%.
- Initial **jobless claims** rose 10k to 383k for the week to May 26, with the four week average at 374,500 – still lower than Apr's 384,250.
- **Q1 GDP** was revised downwards to an annualised rate of 1.9% from a previously announced 2.2%, on a decline in private inventory investment and non-residential fixed investment amidst pick-up in imports.
- Both consumer spending and incomes increased in Apr by 0.3% (Mar: 0.2%) and 0.2% (0.4%) respectively. **Core PCE**

rose by less than expected in Apr: 0.1% mom and 1.9% yoy; and savings rate fell to a 4-year low of 3.4%.

- The **Case-Shiller** 20-city house price index increased by 0.1% mom in Mar (Feb: 0.15%), slightly less than expected. However, earlier months' data were revised upwards. The index has been crawling up in 2012 but overall real estate remains mired in a post-bubble depressed state.
- **Pending home sales** fell unexpectedly in Apr, falling by 5.5%, compared to Mar's 3.8% gain. Sales of **existing homes** meanwhile increased 3.4% to a 4.62mn annual rate.
- Chicago **PMI** continued on a downward trend, slowing to 52.7 in May (Apr: 56.2), as new orders fell to 52.9 (57.4) – the lowest since Sep 09.
- **ISM** factory index fell to 53.5 in May (Apr: 54.8), indicating that manufacturing was growing at a slower pace; the silver lining was the expansion in orders, which climbed to 60.1, the highest since Apr 2011 (Apr 2012: 58.2).
- **Brazil's Central Bank** last week reduced its benchmark Selic overnight rate, for the seventh consecutive time, by 50 bps to a record low of 8.5%. This follows the more aggressive 75bps cut in Mar and Apr and the Selic rate is now down 400bps compared to Aug 2011.

Europe:

- **Unemployment** rate in the Euro area increased to 10.9% mom in Mar (Feb: 10.8%). Spain had the region's highest unemployment rate, at 24.1% while the lowest jobless rates were recorded in Austria and the Netherlands, at 4% and 5% respectively. The unemployment data showed that the number of people out of work in the euro area rose by 169k in Mar to 17.4 mn; from a year earlier, unemployment increased by 1.73mn.
- **German retail sales** rebounded in Mar as declining unemployment, slowing inflation (the lowest level in

more than a year) and higher wages bolstered households' purchasing power. Sales, adjusted for inflation and seasonal fluctuations, rose 0.8% mom (Feb: -0.9%) and 2.3% yoy.

- **German** EU-Harmonized May **CPI** declined by a greater-than-expected 0.3% mom as energy prices eased. It rose by 2.1% in yoy terms.
- **Economic confidence** in the euro area declined in May to 90.6 (Apr: 92.9), registering the lowest since Oct '09. A gauge of sentiment among European manufacturers fell to -11.3 (-9) while the indicator of services confidence dropped to -4.9 (-2.4) alongside sliding sentiment in construction as well.

Asia and Pacific:

- China's **PMI** continued to slide in May, dropping to 50.4 from April's 53.3, with a decline in the sub-index for new orders.
- **China** accelerated the **internationalisation** of the **Yuan**: China and Japan set up a facility to settle trade in Yuan in a move also expected to boost both bilateral trade and investment, and reduce transaction costs substantially.
- **India** GDP expanded 5.3% yoy in Q1 (vs. Q4 6.1%), the lowest quarterly rate in 9 years, led by sharp declines in both manufacturing and agriculture. Annual GDP growth hence fell to 6.5% for the financial year 2011 from 8.4% growth in 2010.
- **Philippines** Q1 GDP increased 2.5% qoq and 6.4% yoy (Q4: 0.9% qoq, 3.7% yoy) on robust exports, and higher government spending.
- A host of data for Apr was released in **Japan: retail sales** continued to rise, up 5.8% yoy (Mar: 10.3%) thanks to car subsidies; **industrial production** showed a slight uptick, 0.2% mom (Mar 1.3%), as an increase in inventories led to a pull-back by some manufacturers.

- Industrial production in **South Korea** for Apr registered an increase of 0.9% mom (Mar: -2.9%) while trade surplus in May widened to USD 2.4bn (USD 2.1bn), in spite of another drop in export growth (May: -0.4% yoy, USD 47.2bn). Exports to the Middle East and Latin increased 38% and 22.4% respectively while exports to the US, EU and China recorded double-digit declines.
- May **CPI** was mixed in Asia: in **Indonesia**, inflation was almost stable, 4.45% yoy from 4.5% in Apr as basic food prices dropped during the harvest season; in **Thailand** it picked up to 2.5% on higher food prices and lower farm produce (2.47%); in **South Korea**, inflation was unchanged at 2.5% yoy.

Bottom line: The **US labour market** improvement is faltering as we see more signs of weaker global growth in emerging markets, with disappointing India GDP and China PMI numbers. As the world awaits elections in Greece and France, there were opposite signals from Europe: **Ireland's** referendum on the EU fiscal compact and Eurozone austerity rules resulted in a "Yes" from 60.3% of the voters. In **Greece**, Alexis Tsipras, leader of leftist Syriza, denounced the austerity measures and stated that the bailout package will be reneged if his party comes into power. As global activity drops, inflation retrenches.

Regional Developments

- Establishment of a new **regional statistics centre**, to "provide comprehensive and comparable statistical data", is the latest initiative being discussed by GCC Ministerial Committee for Planning and Development.
- Inflation in **Kuwait** was 3.3% yoy in end-Apr 2012, mainly driven by food prices growth at 10% yoy.
- S&P affirmed **Kuwait's** sovereign credit ratings for long- and short term debt in both local and foreign currencies at AA level with a stable outlook, on strong external and fiscal positions, despite internal political and

geopolitical risks, and dominance of public sector, which is highly dependent on oil revenues.

- At the last auction of 91-day Sukuk Al-Salam Islamic securities, regularly held by the central bank of **Bahrain** on behalf of the government, the expected returns reached 1.18%; the issuance for the amount of BHD 18mn was oversubscribed by 178%.
- The central bank of **Egypt** eased its required reserve ratio for local currency deposits from 12 to 10%, effective from June 26th, to provide additional liquidity. Annual inflation rate remained relatively stable in the range 10-12% during the last 36 month period ending in Mar 2012.
- **Egypt's** Hosni Mubarak was sentenced to life imprisonment yesterday as the country continues without an elected President; more than a year after the turmoil began.
- **Jordan** hiked both fuel and electricity prices (premium petrol was hiked by almost 25%) in a bid to rein in the burgeoning budget deficit, expected to touch USD 4bn this year.
- Inflation in **Lebanon** increased to 3.5% yoy as of end-Apr 2012: food and non-alcoholic beverages prices increased 6.3%, while housing prices remained practically unchanged.
- S&P revised the outlook for **Lebanon** to negative, citing the ongoing conflict in neighbouring Syria and "heightened domestic tensions in Lebanon".
- At the weekly tender held by the Central Bank of **Oman**, local commercial banks purchased certificates of deposits for the amount of OMR 98mn; average interest rate for these 28-day securities amounted 0.08%.
- Foreign direct investment into **Oman** totalled OMR 6.2bn as of end-2011, of which OMR 800mn was attracted during 2011, according to a Ministry of National Economy official, cited by the local media.
- **Qatar** plans an expansionary budget this fiscal year, boosting government spending by 27% to USD 48.9bn though

a substantial amount has been set aside for public sector salaries, which are up 48% yoy to more than USD 10bn; budget is based on average crude price of \$65 per barrel.

- **SAMA** added USD 11bn to reserves in April, despite lower oil prices, taking total holdings to USD 580bn.
- IMF, in its concluding statement after the Article IV mission to **Saudi Arabia**, cautioned that while inflation is likely to remain at around 5% in 2012, monetary authorities have to carefully track developments and detect overheating signs in order to avoid acceleration of inflation. Output growth was estimated at 7.1% in real terms for 2011, with 8% growth in non-oil sector. Strong external and budget positions will be maintained, as measured by current account and fiscal surpluses at 27 and 17% of GDP, respectively.
- **Turkey's** exports for Jan-May 2012 increased 10.3% yoy to USD 59.8bn. These data support government's plans to meet medium term economic growth target at 4%, according to the Ministry of Economy.

UAE Focus

- **Dubai's GDP** recorded an increase of 3.4% yoy to AED 306.2bn in 2011, propelled by strong performances in the trade and tourism sectors. The non-oil sector grew by 5.8% in the last year, with exports surging by 44.3% and supported by 13.9% rise in the hotels and restaurants sector.
- The UAE **Central Bank's** Annual Report for 2011 showed that there was a significant outflow of capital to AED 95bn, the highest outflow since 2008, from AED 10bn in 2010 – this could be interpreted as debt repayments and/or an increase in investments abroad by UAE entities, including the SWFs.
- The **Fujairah oil pipeline**, which could serve as an alternative to the Strait of Hormuz, is expected to open

in June and will have an initial capacity of about 1.5mn bpd, which can increase upto 1.8mn bpd.

- A study by the Dubai Chamber of Commerce finds that **inflation** will gradually increase in the second half of 2012, as fall in international food prices and a stronger dollar will help keep prices in check in spite of wage increases putting pressure on demand.
- The **UAE** government announced that it would be **extending food subsidies**, usually given during Ramadan to the local population, to the full year. This would enable a savings of close to AED 13k as opposed to AED 1.5k saved previously.
- **Jafza** announced that its USD 7.5bn **Sukuk**, originally set to mature this Nov, will be repaid ahead of time, after consent was received from holders of 89% of the Sukuk.

Promising **disclosure** rate of 97.5% in UAE markets: as per the **SCA**, 80 listed PJSCs issued corporate governance (CG) reports in H1 2012 and 71 companies had submitted the 2011 CG reports in approved formats.