# Weekly Economic Commentary – August 5, 2012

**Markets**

The week has seen a rollercoaster on markets. After early-week gains on global markets, investors' mood turned gloomy again due to weak economic data from Asia, which has grown to become another sore point for the global economy. The gloom deepened after Draghi poured cold water on the expectations over sovereign debt monetization by the ECB. On Friday figures on the US payroll lifted the bourses and the Dow Jones scored the longest rally (4 weeks) since October. Regional markets were mostly up given strong earnings reported for Q2. The dollar fell and euro rallied on Friday on stronger-than-expected US jobs data; the euro had dropped earlier in the week on ECB "inaction". Meanwhile oil rebounded sharply and gold prices declined given that other rounds of quantitative easing are not imminent.

**Global Developments**

**Americas:**

- The US **Fed** by sticking to the status quo, disappointed those awaiting an indication of additional monetary stimulus. Another round of QE appears unlikely to see the light of the day in September and even before the November elections.
- **Non-farm payrolls** beat expectations and increased by 163k in July (June: 64k), with the private sector again accounting for all the job gains, adding 172k new positions (June: 73k) while the government payrolls declined by 9k. **Unemployment rate** edged up by 0.1% mom to 8.3%.
- **Initial jobless claims** rose 8k to 365k last week, with

the four-week moving average falling 2,750 to 365,500, the lowest in four months.

- US **ISM** manufacturing scored 49.8 in July, mostly unchanged from June's 49.7. For the second consecutive month, the index came below the threshold of 50 which separates expansion from recession. Services improved. The ISM non-manufacturing index rose from 52.1 to 52.6, which is a decent score, but still below its second quarter average of 53.1.
- **Factory orders** dropped 0.5% mom in June (May: +0.5%) with durable goods orders rising 1.3% compared to the 2% slump in non-durable orders – the latter, the biggest drop since Mar '09.
- The 20-city **Case Shiller** house price composite index was down -0.7% yoy in July, an improvement on the -1.8% drop last month.
- Consumer spending was flat in June, the second month without an increase. Personal income grew 0.5%, the fastest rate since March.
- **Brazil**ian **IP** contracted -5.5% yoy nsa in June after -4.3% in May, due to currency appreciation and anaemic external and domestic demand.

**Europe:**

- The **Eurozone** business and consumer **confidence** index fell to 87.9 in July, the lowest in almost 3 years, from 89.9 in June. Confidence among manufacturers fell to -15 (June: -12.8) while consumer sentiment was down to -21.5 (-19.8).
- **Inflation** in the **Eurozone** remained unchanged at 2.4% yoy in July; despite the recession, prices are still on the rise.
- **Retail sales** in **Eurozone** gained slightly by 0.1% mom though dropping by 1.2% yoy in June (May: 0.8% mom & -0.8% yoy). Demand was lower in many countries including Germany where retail sales fell 0.1% mom while Greece

and Spain recorded declines of 9.2% yoy and 4.3% respectively.

- The Eurozone composite **PMI** for July, at 46.5, remained at an almost three-year low, consistent with Q3 GDP decreasing -0.4-0.6% qoq.
- **Spain's** Q2 GDP contracted by -0.4% qoq in Q2 (Q1: -0.3%) while its budget deficit for H1 was at 4.04% of gross domestic product, up from 2.2% a year earlier. S&P confirmed Spain's credit ratings at BBB+/A-2 though remaining cautious on outlook.
- **Eurozone unemployment** rate was almost stable at 11.2% in June (May: 11.1%); Italy recorded almost 2.8mn people without work, with rate at 10.8% in June; German unemployment increased 7k to 2.89mn in July.

**Asia and Pacific:**

- China's official **PMI** fell to an eight-month low of 50.1 in July from 50.2 in June, suggesting the sector is barely growing. Analysts had expected it to edge up to 50.3.
- June industrial production (**IP**) data were out in Japan and Korea – both registering unexpected declines. **Japan**'s IP fell 0.1% mom (May: -3.4%) and the government downgraded its outlook to a "flat trend" for output. **Korea**n output was down 0.4% mom (+1.3%), with manufacturers' confidence also at a three-year low of 70 in Aug (July: 81).
- **South Korea**'s **trade** surplus for July was at USD 2.7bn, significantly lower compared to surplus of USD 4.9bn in June – exports slipped 8.8% yoy (Jun: +1.1%) and imports were down 5.5% (-5.5%). Meanwhile, **Turkey** and Korea signed an FTA expected to remove trade barriers and boost bilateral trade.
- **India**'s central bank left its policy rates unchanged at the latest meeting, but increased the inflation forecast (to 7% from 6.5% earlier) alongside slower growth

forecast (6.5% vis-a-vis 7.3% announced in Apr) for this fiscal year.

**Bottom line:** The macro data and the leading indicators continue to portray declining economic activity worldwide. The only major exception came from the US payroll which for once beat expectations. Markets pin their hopes on monetary measures, but their expectations have been once again frustrated. The Fed is not rushing to the printing press and the ECB has dashed all hopes of debt monetization, reiterating a hawkish message: governments need to implement structural reforms, liberalize product markets and adopt fiscal discipline. Access to ECB funding will come only after a country requests officially assistance from the EFSF or the ESM and signs a memorandum on conditions for the loan. Finally, there is no legal ground to grant the ESM a banking license. Spain is on the verge of asking for official assistance from the EU while enacting pre-emptively budget cuts exceeding EUR 100bn.

**Regional Developments**

- Ernst & Young's Q2 **MENA IPO** report reveals that the region raised about USD 1.9bn from 5 IPOs, compared to USD 374.8mn raised in Q2 2011 and substantially higher than USD 82.8mn in Q1 2012. This also compares to a global total of 206 deals which raised USD 41.8bn of which the Asian markets accounted for about 35% of funds.
- The GCC Secretary General has stated that the **Gulf Union** will be discussed again this September after a study undertaken on the initiative by the appointed commission was completed and submitted to the council of foreign ministers.
- A series of statements came from the **IMF** last week on some MENA countries: (i) The IMF Executive Board has approved a three year arrangement with **Jordan**. The amount of resources to be allocated to Jordan within

this arrangement, USD 2bn or 800% of the country's quota at the Fund, highlights the scope of economic challenges the country has to overcome to attain fiscal and external sustainability without hampering social welfare. The economic plan developed by Jordan and supported by the IMF will focus on the "medium term consolidation in the fiscal and energy sectors", which is crucial for the country suffering from the energy crises magnified by regional tensions; (ii) The Fund has opened a "precautionary" USD 6.2bn credit line for **Morocco** that can be utilized in case deteriorating external conditions lead to balance of payment problems; (iii) Economic growth in **Tunisia** for 2012 is projected at 2.7% by the Fund. The country has to review its subsidies and undertake pension system reforms to attain fiscal sustainability in the medium and longer terms, while recapitalization of local banks should help addressing country's financial sector vulnerabilities.

- **Egypt**'s exports fell by 13.9% yoy in Apr, while imports increased by 19.4% mostly due to higher prices for petroleum products and other commodities. As a result, trade deficit widened to EGP 17.5bn from EGP 9.7bn a year earlier. The country's minister of finance has recently mentioned that the **IMF**'s USD 3.2 bn loan would demonstrate confidence in the Egyptian economy, and that negotiations with the Fund on this issue would soon resume.
- CPI in **Turkey** fell 0.23% mom in Jul, though annual inflation due to the base effects increased to 9.07% yoy in Jul from 8.87% in Jun. Monthly inflation in Turkey has been falling for the third consecutive month, adding to the expectations of monetary policy easing.
- Total oil revenues of the 11 members of the **Organization of Arab Petroleum Exporting Countries** reached USD 624.8bn in 2011, from USD 450bn in 2010. In real terms, i.e. 1995 prices, this figure translates into USD 479bn in 2011. While the nominal price of OPEC's basket stood

at around USD 107 per barrel in 2011 its real value averaged about USD 88 in 1995 prices and USD 60 in 2010. In 2010, Saudi Arabia earned USD 184.4bn from oil exports, which jumped to USD 289bn in 2011.
- Saudi Arabia’s money supply growth accelerated to 9.8% yoy in June, compared with 7.7% in May.

**UAE Focus**

- **UNCTAD** data places UAE as the largest Arab **capital exporter**, with its USD 57.7bn in FDI accounting for about one-third of West Asia’s total FDI outflow. UAE also attracted USD 85.4bn in FDI in 2011, the second in the region after Saudi Arabia. This data does not however include the funds of ADIA – which still remains the world’s largest sovereign wealth fund.
- New rules for **investment funds** is outlined in **SCA** resolution No. 37 of 2012 is expected to enable the issuance of new investment products and lead to diversification of investment tools available for traders.
- **Loans** to the real estate sector dipped to AED 160.8bn in end-Mar from AED 161.5bn in end-2011, according to the latest release from the UAE Central bank. Claims on the private sector also declined to AED 726.8bn in March from around AED 730.8bn at the end of 2011.
- Exports and re-exports of the Dubai Chamber of Commerce members increased by 13.3% to AED 136.2bn in H1 2012. The Chamber also witnessed a 30% yoy pickup in new members – 7000.
- **DP World** announced a 7.5% yoy increase in container volumes to 28.2mn TEU in H1 2012, with Asia Pacific and Indian Subcontinent region the main driver of this growth (+12% yoy) hence underscoring the importance of trade to Dubai’s growth amidst global uncertainty.
- A record 27.9mn passengers passed through the **Dubai airport** in H1 2012, recording an increase of 13.7% yoy –

with the largest passenger volumes with India, Saudi Arabia, the UK, Pakistan and the US.

- Dubai DED issued 1298 new **trade licenses** in Q2, with commercial licences accounting for almost three-quarter of total; within commercial licenses, general trade was the most issued. Business activity seems to be booming and confidence seems to be high as well. Dubai’s **Consumer Confidence Index**, at 122 percentage points in Q2, was boosted by positive outlook on personal finance and strong job prospects. Meanwhile, a statement from Chairman of the Dubai Supreme Fiscal Committee reaffirms that Dubai will grow by 4.4-4.5% this year.