

Weekly Economic Commentary – August 12, 2012

Markets:

In the first part of the week equity and bond markets held onto the gains achieved in the previous Friday's session, awaiting some indication from macro indicators or policy makers. Inflation data from China which fuelled expectations of additional monetary stimulus from Beijing, led to a rally in Asian shares. Investors in essence are cautiously shedding safe havens and adding risk. This trend benefited also regional bourses where Saudi shares reached their highest since May. The euro was down (again!) while the dollar and yen gained and among Asian currencies, the rupee was one of the largest gainers. Gold prices gained as stimulus talks strengthened while oil prices fell after IEA's reading of weaker global demand.

Global Developments

Americas:

- **Trade deficit** narrowed to USD 42.9bn in June (May: USD 48.0bn) – the lowest since Dec '10 on lower oil prices, causing imports to dip by 1.5% while exports were up 0.9% to a record high USD 185bn. Exports to China fell 4.3% in June, while for the first half of 2011, exports grew 6.7%.
- Federal **budget** recorded a deficit of USD 69.6bn in July (June: – USD 129.4bn), taking total deficit for the Oct-Jul period to USD 974bn – which was lower by 11.5% compared to the same period a year ago.
- Initial **jobless claims** unexpectedly dropped last week, by 6k to 361k while the four-week average was at 368,250.

Europe:

- **Italian GDP** dropped -0.7% qoq (-2.5% yoy) in Q2, following a -0.8% contraction in Q1 (-1.4% yoy). Industrial production fell -1.4 % mom (-8.2% yoy) in June after a revised 1% increase in May (-6.7% yoy). The recession is proving deeper than forecasts envisaged by governments and international agencies, and leading indicators do not point to a turn around.
- **German** industrial production fell 0.9% mom in June, following a revised 1.7% rise in May. The future does not look promising as manufacturing orders shrank 1.7% mom in June (May: +0.7%) due to the deepening of the crisis in the main trade partners in the Eurozone. This was evident from the dips in both exports and imports growth of -1.5% mom and -3% respectively (May: +4.2%, +6.2% resp.) though trade balance was at a surplus EUR 17.9bn in June (May: 15.6bn).
- **UK** Industrial Production plunged 2.5% mom (-4.3% yoy) in June after a 1% increase in May. UK trade deficit widened to a record GBP 4.3bn in June (May: GBP 2.7bn) – the largest since 1997. Exports of goods fell 8.4% mom in June to GBP 23.5bn and imports were down 1.2%.
- The **Bank of England** cut its growth forecast for 2012 to below zero while also lowering its 2013 forecast to 1.7% growth from 2.1%.

Asia and Pacific:

- **Chinese inflation** fell to 1.8% yoy in July, the lowest in 30 months, from 2.2% in June, as domestic factories struggled to sell output. **Retail sales** grew a slower 13.1% yoy in July compared to June's 13.7% and trade growth also disappointed – **export** growth plunged to 1% in Jul (Jun: 11.3%). New bank lending in Yuan also dipped in July to CNY 540bn from CNY 919.8bn in June.
- **Industrial production** weakened in both India and China: in **India**, June IP fell 1.8% yoy after manufacturing slumped by 3.2% (May: +2.5%) while **Chinese** IP hit a

three-year low of 9.2% in Jul (June: 9.5%).

- **Indonesia's Q2 GDP** beat expectations rising 6.4%, yoy after 6.3% in Q1. Most of the performance stemmed from a surge in investment, driven by record level of foreign direct investment.
- **Japan trade** deficit widened to JPY 2.5trillion in H1 2012 – five times more than the deficit of JPY 500bn recorded a year ago, after higher oil prices and falling exports left a negative impact. Machinery orders for June meanwhile rose 5.6% mom a month after recording a decade-high drop of 14.3%.

Bottom line: The August lull is sinking in, while after a gloomy H1 2012 recessionary forces remain entrenched. Only minimal signs of life spring out occasionally. Most of the adjustment necessary to revive growth in mature economies involves controversial political decisions – primarily the governance of the Eurozone and the fiscal cliff in the US – which are unlikely to be sorted out before next year. Policy uncertainty is dominating markets and investors' expectations.

Regional Developments

- The central bank of **Bahrain** issued 3- and 6-month treasury bills for the total amount of BHD 65mn; both issues were oversubscribed, and the weighted average interest rate on 6m government securities increased to 1.36% (from 1.25% at the previous action), interest rate on 3m T-bills remained practically unchanged (marginal increase to 1.24% from 1.23% at the previous auction).
- According to official statistics, urban inflation in **Egypt**, backed by lower prices of foods and beverages, declined and totalled 6.4% yoy in Jul 2012 (7.3% yoy in Jun).
- **Iran's Rial** sank in the free market against the US dollar after the central bank announced a change in the currency's official exchange rate, as the economy suffers from international sanctions.

- **Jordan**'s budget deficit in H1 2012, excluding foreign grants, was at JD 441.7mn – lower than JD 575.1mn recorded in the same period of the previous year. However, when accounting for foreign grants, budget deficit has increased to JD 416.5mn in H1 2012 (JD 260.1mn in H1 2011).
- In light of disruptions in **Kuwait**'s Parliament and strong protests from the Opposition, the controversial electoral Law has been referred to the constitutional court by the government.
- Close on the heels of the Bank Nizwa IPO, Al Izz islamic bank – **Oman**'s second Islamic bank currently under formation – is expected to tap the IPO market by end-September. It is expected to float 40% of its share capital or OMR 40mn.
- The IMF reported that the outlook for the **Saudi** economy is “broadly favourable” with GDP rising 6% in 2012, after 7.1% in 2011.
- **Saudi Arabia**'s **foreign assets** increased to an all-time high of around SAR 2,263bn at the end of June (end-2011: SAR 2057bn) – buoyed by the increase in deposits with banks abroad to SAR 522bn and investments in foreign securities to SAR 1523bn.
- **PMI** in **Saudi Arabia** continued to improve, with the index at 58.1 in July – though at slower rates given the weaker pace of new orders and output growth.
- **Aramco** sharply increased its September official selling prices (OSP) on all its crude grades loading from the Egyptian port of Sidi Kerir.
- **Saudi Arabia** cut its **oil output** by 300k barrels per day (bpd) from June to 9.8mn bpd in July -with 9.7mn bpd hitting the markets and 10k set aside as storage.
- **Saudi Arabia** has announced its intention of setting up an industrial city dedicated to women entrepreneurs, and this plan has already received the approval of the Minister of Municipal and Rural Affairs
- **Turkish** deputy Prime-minister has hinted that it may be

difficult for his country to reach the targets on real GDP growth (4%) and budget deficit (TL 21bn, or 1.5% of GDP), that were set for the current year, referring to the deterioration of the global economy outlook.

UAE Focus

- UAE passed new laws on **investment funds**, tightening the light-touch approach but raising concerns over new layers of bureaucracy. The law will also be applicable for funds in the DIFC, which were operating previously under offshore laws. Under the new regulations, these are now labelled “foreign funds”, implying that offerings must go through a local promoter i.e. licensed by the UAE central bank.
- The UAE central bank’s **foreign currency assets** rose to AED 186.5bn (USD 51bn) in June from AED 179.5bn in May. Deposits grew by 1.6% to AED 1,107bn while loans and advances kept equal pace, growing by 1.5% to AED 1,090.4bn.
- During the period Jan-May 2012, **US exports to the UAE** touched USD 27.4bn – increasing by more than half compared to a year ago according to the US ambassador to the UAE. He also stated that about 1000 US companies operate in the UAE compared to 750 about 18 months ago.
- Total **land transactions** in **Dubai** increased by 21% yoy to AED 63bn in H1 2012 with sales and mortgage transactions almost neck and neck. There were 14,652 sales transactions worth AED 30.8bn (49% of total) alongside 3363 mortgage transactions worth AED 29.6bn (47.6% of total) while Burj Khalifa alone generated AED 2.04bn in revenue from apartment sales.
- The **Dubai World Tribunal** (DWT) is aiming to settle cases by mid-2013 and might continue to exist in a dormant stage afterward, according to the chairman of the Tribunal. There are currently no cases scheduled on DWT’s calendar after March 3, 2013.

- Abu Dhabi's **Khalifa Port** is expected to open next month, with the flagship Mina Zayed port reaching almost full capacity – underscoring the continuing strong growth in trade.