

Weekly Economic Commentary – September 16, 2012

Markets

Stock markets started the week on a soft tone then rebounded after the German Constitutional Court gave the green light to the ESM, while the **Fed** and **ECB** in apparently coordinated stimulatory moves resulted in global gains across asset classes. Global equity markets rallied, with Wall Street extending gains (DJIA hit the highest since Dec '07) and the Indian Sensex and European shares touching 14-month highs. Regionally, markets were mixed though if the rally in the rest of the world is anything to go by, a pick-up can be expected early this week. The dollar fell to a 4-month low against the euro while gold prices touched a six-month high and oil prices continued to increase on ongoing violence in the Middle East and supply concerns.

Global Developments

Americas:

- Moody's warned that the **US could lose its triple A rating** if policy makers fail to reduce the public debt to GDP ratio in 2013. Budget negotiations in the next Congress "will likely determine the direction of the US government's Aaa rating".
- The **FOMC** meeting resulted in a stimulus boost with the Fed announcing that it would buy USD 40bn worth of mortgage debt a month until the US jobs situation improves, effectively launching **QE3**.
- **Consumer price inflation, at 0.6% mom** in Aug (Jul: no chng) was the highest since Oct 09 , as a result of higher energy costs (+5.6% mom) while core CPI was up by a slight 0.1%. Energy and food prices combined led to an increase in PPI by 1.7% mom while core PPI was up 0.2% in Aug (July: 0.3%, 0.4%).

- **Industrial production fell 1.2% mom** in Aug (Jul: 0.5%), the biggest drop since March '09, as utility output and production of motor vehicles and parts dipped by 3.6% and 4% respectively. Retail sales increased by 0.9% mom in Aug (Jul: 0.6%) on higher gas prices and auto sales; excluding automobiles and gasoline, retail sales grew by a mere 0.1%.
- Initial **jobless claims grew by** a higher than expected 15k to 382k; the four-week average also registered the biggest gain in more than two months – rising by 3250 to 375k, showing continued weakness in the job market.

Europe:

- The **German Constitutional Court** rejected a petition against the creation of the eurozone's EUR 500bn rescue fund (ESM), ruling that it does not breach the Constitution, however any additional commitment must be approved by the German Parliament.
- Voters in the **Netherlands** unexpectedly trounced extremist parties paving the way for a pro-euro centrist coalition government.
- Euro zone industrial production (IP) rose 0.6% mom in July after a 0.6% contraction in June. The breakdown by country once again showed an asymmetric performance: **Italian IP** fell -0.2 % mom and -7.3% yoy after a revised -1.3% in June (-7.9%yoy); **French IP** grew 0.2% mom after zero growth in June.
- The UK headline ILO-harmonised **unemployment rate rose to 8.1%** in the three months to July, from 8% previously. The successful Olympic games have temporarily contained the unemployment figures and we expect a deterioration in the months to come.
- UK **trade deficit narrowed** to GBP 1.5bn in July (June: GBP 4.3bn) as exports to countries outside the EU increased by GBP 1.3bn to GBP 13.2bn.
- Under pressure, **France's** President Hollande has

abandoned campaign promises of lax fiscal policy and announced a plan leading to a balanced budget.

Asia and Pacific:

- **China's** Premier Wen Jiabao, in a speech at the World Economic Forum in Tianjin vowed that Beijing will step up efforts to boost growth in in the coming months. He defended the economic achievement during his tenure stressing that the government retains ample room for appropriate **stimulus measures**.
- **China recorded USD 26.7bn trade surplus** in August (Jul: USD 25.1bn) thanks to an unexpected pick up in export and a drop in imports of hard commodities. Among the host of data released for Aug, M2 grew 13.5% and banks extended CNY 703.9bn in new currency loans (July: CNY 540bn); IP hit the lowest level in three years rising only 8.9% yoy (Jul: 9.2%) alongside a 13.2% growth in retail sales.
- The **Indian** government has finally taken measures to liberalise the economy, approving the entry of multi-brand foreign retailers into the country's retail space and giving the go-ahead for foreign carriers to own up to 49% stake in India's domestic airlines. Both proposals are likely to increase FDI and portfolio flows.
- **Indian industrial production** grew just 0.1% yoy in July (Jun: -1.8%), much below expectations as it has been the case for several months now.
- **Malaysia's** industrial production expanded 1.4% yoy in July following June's 3.7%. Malaysia's export sectors are being hit by the global downturn, but a domestic investment-led stimulus has prevented a further deterioration.
- **Japan's Q2 GDP was revised down to 0.2% qoq** compared to the initial estimate of 0.3%; capital spending was up 1.4% against preliminary reading of 1.5%. Against

expectations Japan's consumer confidence increased marginally in August, hitting 40.5 from 39.7 the previous month and machinery orders were up for the second consecutive month, rising 4.6% mom in July (June: 5.6%).

Bottom line: The EU re-engineering process has passed another legal test in Germany and a political test in Holland. The next test is the Spanish public budget for 2013 and the Memorandum underpinning the request for financial assistance through the ESM. Then in all likelihood will come the analogous test for Italy. In the meantime QE3 in the US will be little more than another rain dance in the vain hope of reviving the economy. The true drive outside the crisis or towards an exacerbation of the economic decline will be decided by the Presidential elections and the fiscal policy that will ensue.

Regional Developments

- **Egypt's budget deficit widened to 11% of GDP**, way above target as unrest and strikes reduced tax revenues and led to wage increases. Meanwhile, the central bank announced a 30% yoy jump in **current account deficit to USD 7.9bn**, with portfolio investment outflows almost doubling from a year ago to USD 5bn alongside an unchanged FDI number at USD 2.1bn.
- **Turkey** said it will provide a \$2 billion **aid** package to **help Egypt** finance infrastructure projects and increase its dwindling foreign-currency reserves.
- As **Egypt** continues to negotiate the USD 5bn loan with the **IMF**, an official from the EU has stated that the country probably needs a financial package of almost USD 10bn.
- Moody's kept **Egypt's government bond rating unchanged at B2** and maintained its negative outlook, underscoring the progress in political transition towards civilian rule.
- Tourism revenue in **Jordan** increased by 19% yoy to JD

1.7bn in the period Jan-Aug, with number of overnight visitors up 7.4% to 2.9 million a partial recovery from the strong decline accompanying the onset of the 'Arab Spring' in 2011.

- The **EBRD** will fund and begin implementation of two new projects in **Jordan**, valued at USD 390mn, before end-2012. One project would involve financing exports and imports operations while the other focuses on electricity generation.
- Monetary data for July was released in **Kuwait**: credit growth dipped by KWD 28mn alongside slower deposit growth (down by KWD 963mn) while M2 fell 3%. Inflation increased slightly to 3.1% in July (June: 2.8%), with food prices accounting for most of the uptick.
- **Oman-US bilateral trade** grew by almost 20% yoy to USD 1.52bn in H1 2012, with imports growing 49% yoy to USD 874.7mn and exports witnessing a decline of 5% to USD 649.1mn.
- **Oman's national rail project** is estimated to cost about USD 5.3bn, as per an initial feasibility study, for 1,061 kms in the first phase of the project.
- Al Izz Islamic bank of **Oman** is expected to launch its **IPO** (floating 40% of its share capital or OMR 40mn) on the 22nd of this month on MSM given its CMA approval.
- **Qatar's inflation** was slightly up to 2.3% in August (July: 2.2%) as most components within the basket saw an increase except for rent, fuel and energy costs, which was down 3.3%.
- GDP growth in **Saudi Arabia** slowed to 5.5% qoq in Q2, down from 5.9% in Q1. Both the oil sector growth and non-oil public sector slowed (from 7.2% to 5.8% and 4.2% to 3.6%, respectively). Non-oil private sector expanded by 6.4% (up slightly from 6.3% in Q1), with construction (+9.3%), trade (+7.8%) and manufacturing (+6.9%) particularly perky.
- **Saudi CPI** slowed to 0.4% mom (3.8% yoy) in August, its lowest (annual) level since October 2009. Higher food

price inflation (0.9% mom), was offset by other component and was much lower than the 1.7% mom average rate recorded over Ramadan in the last 6 years.

- **Foreign assets in Saudi Arabia grew by SAR 25bn** to record a high level of around SAR 2.39 trillion in July – buoyed by investment in foreign securities and despite a fall in bank deposits.
- **Turkey** has already initiated investor meetings for its first-ever **sovereign Sukuk**, with the issue is expected this week and likely to raise up to USD 1bn, according to a Reuters report.
- **GDP in Turkey grew 2.9% in Q2** (Q1: 3.3%) on strong export growth (Q2: +19.8%) while domestic consumption fell by 0.5% and gross fixed capital formation shrunk by 7.4%. Industrial production rose more than expected by 3.4% saar in Aug (Jul: 2.7%).

UAE Focus

- FT reported last week that three banks, including **RBS**, were taking legal action and suing the **Dubai Group** after no solution was reached despite “numerous possible long-term concessions”. A Dubai Group spokesperson meanwhile stated that they continue to work towards a settlement, including with 35 other creditors.
- The **UAE central bank plans to open a new discount window** – labelled the Marginal Lending Facility – for intra-day and overnight borrowings, according to the bank’s first Financial Stability Review. The report also placed expected growth in the UAE at around 4% this year.
- **Current account surplus in the UAE quadrupled to about AED 112.69bn in 2011** despite the sharp growth in imports. However, higher government investments in overseas assets meant that there was a smaller balance of payments surplus to AED 16.6bn (2010: AED 26.9bn).
- Dubai Customs revealed that in H1 2012, **Dubai’s trade with the EU grew to AED 77.2bn** (H1 2011: AED 61.2bn).

Imports from the EU, at AED 61.2 remained almost same as a year ago, while exports were higher at AED 3.7bn compared to AED 3.2bn in H1 2011.

- The **Dubai Metro** has carried almost 184mn passengers till end-Aug., three years since it was launched.

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