

Weekly Economic Commentary – September 23, 2012

Markets

Upbeat market sentiment post-QE3 and stimulus announcements from various CBs was short-lived as markets re-awakened to weak global activity data. In the MENA region, markets remained subdued as the wait is on for quarterly earnings reports. The euro fell for the first time in six weeks, while the yen gained against all major currencies (in spite of the BoJ stimulus) and dollar fell as the buzz of Spain's potential bailout became stronger. Stimulus measures (both actual and potential) benefited gold prices nearing their record 2012 highs. Oil prices dipped almost 7% earlier in the week, but rebounded towards the end of last week on supply concerns.

Global Developments

Americas:

- **Housing starts** in the US grew 2.3% mom in Aug to 750k (Jul: -2.8%, 733k), the strongest pace since April 2010, supported by single-family homes (up 5.5% mom) as both multi-family home projects and building permits fell by 4.9% and 1% respectively.
- **Existing home sales** increased 7.8% to an annual 4.82mn units in Aug (Jul: 4.47mn); this is the fastest rate recorded since May 2010. Distressed sales accounted for about 22% of the sales while inventory of existing homes, available for resale, rose 2.9% to 2.47mn – this, however, would meet market supply for only 6.1 months, as opposed to 6.4 in July.
- Initial **jobless claims fell 3k** to 382k in the week ended Sep 15, while continuing claims dropped by 332k the week before to 3.27 mn.

- The **US Misery Index** (rates of unemployment + inflation) stood at 9.79% in September down some 24% from a peak of 12.87% in Oct & Nov 2011, strengthening the chances of Obama's re-election.

Europe:

- Euroarea **PMI** data pointed towards a worsening outlook, with composite PMI dropping at the fastest pace in three years to 45.9 in Sep (Aug: 46.3) in spite of a better show in Germany (Sep: 47.3) and French manufacturing PMI, at 42.6 (Aug: 46), showed an unexpected decline in the index for business expectations. Manufacturing PMI in the euro area rose to 46.0 (Aug: 45.1), but continued in the contraction territory for the 13th consecutive month.
- Budget cuts, high levels of unemployment and inflation caused the **Eurozone consumer confidence to fall** for the fourth consecutive month in Sep to -25.9 (Aug: -24.6) – the lowest level since May 2009.
- Growth outlook was revised down by the **Italian** government – the current expectation is for a decline of 2.4% this year, down from a contraction of 1.2% expected previously; for 2013, growth is pegged at -0.2% compared to +0.5% before.
- **Balkanisation of banking** continues in the Eurozone with deposit outflows (Bloomberg data) of about EUR 326 bn pulled out from banks in Portugal, Ireland, Greece and Spain in the year up to July 31; partly also a result of German and French banks' reduced exposure.
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- **German** ZEW index improved and rose to -18.2 in Sep compared to Aug's -25.5, reversing the downward dip in

the past five months.

Asia and Pacific:

- **China PMI** picked up slightly to 47.8 in Sep from the nine-month low of 47.6 in Aug while the output sub-category dipped to 47.0 – the lowest in past 10 months.
- The **Indian** central bank meeting led to no changes to key policy rates (repo & reverse repo) but the cash reserve ratio was reduced by 25bps to 4.5%, hence releasing almost INR170bn into the economy.
- In a rare move, the **Indian** PM did a televised address to the nation last week, defending the latest spate of reforms and price hikes – outlining the necessity and need for these, after key allies withdrew support from the government leaving it slightly vulnerable. This happened alongside the announcement of a new **tax incentive aimed at boosting equity markets**: investors earning less than a million a year (USD 18,739) and investing INR 50k in the equity market, will receive a 50% deduction from their taxable income of the sum invested.
- The **Bank of Japan**, in its monetary policy meeting last week, announced plans to inject about JPY 10 trillion additionally into the banking system (to JPY 80 trillion), increase liquidity, increase domestic demand, weaken the Yen and hence lift exports.
- Exports from **Japan** weakened in August, dipping by 5.8% yoy causing **trade deficit** to widen to JPY 754.1bn (Jul deficit: JPY 518.9bn). Japanese exports to China fell 9.9% while exports to the second top-most destination of US was up 10.3%.
- Reuters **Tankan**, capturing manufacturer's sentiment in Japan, declined to -5 in Sep, registering the lowest since Feb

Bottom line: Fears abound about weaker global activity given the latest PMI data from euro area and China and trumped the

bullish sentiment from the QE3 announcement last week. Conditions in the Eurozone remain uncertain with the Greek coalition failing to agree on the austerity package again last week. Ongoing uncertainty in Europe also led to the World Trade Organisation lowering its trade growth forecasts for 2012 and 2013 to 2.5% and 4.5% respectively, which is less than half of the previous 20-year average. One bit of positive data was from EPFR Global which placed equity fund inflows at 4-year highs – almost USD 17bn in new cash entered equity funds worldwide after the Fed QE3 announcement; funds holding emerging market stocks and commodities gained USD 4.3bn (compared to USD 447mn a week before) and USD 2.6bn (most this year) respectively in inflows. This is a temporary boost: weak real economic fundamentals will prevail.

Regional Developments

- The **World Wealth report** 2012 places the size of Middle East millionaires at 450k (an increase of 2.7%) while their aggregate wealth rose 0.7% to USD 1.7 trillion. Though share of wealth is highest in the North America region (USD 11.4 trillion), Asia Pacific lays claim to the maximum number of HNWI's (3.37 mn).
- A recent S&P report forecasts that the USD 1trillion **Islamic Finance** industry would double in size during the 2011-2015 period, growing at about 20% – led by Malaysia in Asia and KSA in the GCC.
- Deloitte **Private Equity** (PE) Confidence Survey showed a positive outlook for PE the MENA region. While education, healthcare and oil and gas sectors remain the most attractive to investors, about 75% of the survey respondents expect investment activity to gather pace in the coming 12 months and Saudi is seen as the most attractive in terms of deal activity.
- **Qatar's** central bank governor announced that a domestic rating agency would be established within a year to boost capital market infrastructure. With many issues of

short-term Treasury bills in the pipeline, Qatar could be the first in the GCC to build a yield curve – these statements were made on the sidelines of a conference to discuss debt market development in the GCC.

- Four months after the **EBRD** announced their plan to investment about EUR 1bn into the “emerging Arab democracies”, the EBRD’s board of directors has approved 3 projects in Tunisia, Morocco and Jordan, including a USD 30mn trade finance line for InvestBank.
- The IMF article IV report, citing the **Saudi** Ministry of Finance, revealed that about one-fifth of total aid (or around USD 3.7bn) promised by the country has already been disbursed to Arab states: Jordan and Egypt received USD 1.4bn and USD 1.5bn respectively.
- The IMF issued its Article IV report on **Saudi Arabia** last week: real GDP growth is expected at 6% in 2012, with greater private sector growth as the economy pursues economic diversification. It also forecast that budget balance could turn turn negative by 2017 given the spending boom and as average Saudi oil price declines to about USD 84 per barrel by 2017 compared to about USD 97.6 currently.
- **Egypt** continues to receive aid and the latest entrant is Turkey; Egypt’s MoF stated that about USD 2bn would be received as aid from Turkey to “to support foreign reserves and fund infrastructure projects”
- **Lebanon** is looking at a period of **recession** ahead, according to the latest report from the IIF. Q3 growth is expected to contract by 0.5% following the 0.2% dip recorded in Q2 (as published by Byblos Bank) citing “lower transit trade, plummeting tourist arrivals and weak foreign direct investments”. Meanwhile, **World Bank** has offered to provide Lebanon both financial and technical assistance, in the most recent visit from the Bank’s VP for MENA.
- **Lebanon** sold its first **10Y currency debt**, enabling banks to attract more deposits given the higher-yielding

securities. The nation will pay an 8.24% coupon – the highest rate paid on domestic debt since July 2009 – on the LBP 1.15 trillion it sold.

- **Oman** posted a **budget** surplus of OMR 2.04bn in the first seven months of the year; this compares to the surplus of OMR 442mn during the same period last year. Revenues were up 38.4% to OMR 8.7bn, buoyed by higher oil and gas prices. Meanwhile, the MoF announced that the budget spending for 2012 would be revised up by 14% to OMR 11.4bn, without divulging the allocation for the additional amount.
- Of the USD 149bn **rail projects** in the pipeline in GCC, **Qatar** leads the pack with an estimated USD 41.8bn. (Source: Zawya)
- **Turkey's** central bank reduced its **lending rates** by 25 bps – the first time in seven months – and hinted at more easing ahead. Additionally, the upper boundary of the interest rate corridor was slashed by 150bps to 10%, more aggressive than market expectations.

UAE Focus

- **UAE's non-oil foreign trade** grew 5% yoy to AED 76.6bn in Feb 2012, with non-oil exports up by almost 62% to AED 12.1bn as per preliminary statistics released by the Federal Customs Agency (FCA). Total non-oil trade stood at AED 78.3bn in Jan 2012 and Saudi Arabia topped the list of bilateral trade partners within the GCC, with total trade at AED 2.3bn, followed by Oman at AED 1.6bn.
- The establishment of **pension funds for expats** is one of the key projects included in the strategic plan of the DED, according to the Deputy Director-General for Planning Affairs and Development, after the World Bank's recommendation in a study undertaken for the DED.
- **DP World's** contract to maintain & manage two container terminals in the strategic port of Aden (**Yemen**) has come under the radar as the new regime reviews previous

deals. The dispute could mean losses for DP World if it has to exit after just four years into the 30-year management deal.

- **Emirates** stated that it is not interested in obtaining stakes in any Indian airlines, following the move which allowed foreign airlines to buy up to a 49% stake in local carriers. It already operates 185 flights per week more than any foreign carrier & has 20% of total outbound traffic.
- UAE **inflation** ticked up by 0.33% mom and 0.95% yoy in Aug on higher food costs (+1.91% mom, +4.68% yoy). By emirate, Abu Dhabi witnessed a mom decline in prices by 0.9% while all others saw slight increases including Dubai, where inflation was at +0.44% mom.
- A two-year residency visa can now be obtained by **property** owners in Dubai of property valued over AED 1mn and having no outstanding mortgage on it. In addition, overseas property owners are also permitted to open a savings accounts in the emirate.

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