

Weekly Economic Commentary – September 30, 2012

Markets

Global growth concerns kept stock bulls sedated at the start of the week; by mid-week the mood turned negative as the optimists realized that the **Spanish bail-out** will not be smooth, while central bank liquidity injections are producing increasingly weaker pain relief. Risk appetite is once again on the wane globally across most assets. **Regional markets were mostly down** except in Kuwait where speculations about changes in government provided a boost. The dollar rose while the euro fell on Eurozone worries, against Asian currencies and gold prices reporting the biggest quarterly gains in Q3 since 2010. Oil prices remained volatile, but Brent reported a 15% gain in Q3, following the steep 20% drop in Q2.

Global Developments

Americas:

- US **GDP** growth in Q2 was revised sharply down from 1.7% to 1.3 % (SAAR), while in Q1 it was 2.0%.
- The **US Case-Shiller house price index** rose by 0.44% in July mom sa and 1.2% yoy (same as in June). House prices increases continue to be broad-based, with gains in 19 of the index's 20 cities in June, FHFA house price index edged up by a 0.2% mom in July down from 0.7% a month earlier. New single-family home sales declined 0.3% mom to an annualized rate of 373,000 units. The housing market is slowly reviving (sales are up 28% from a year ago), but lack of mortgage financing remains the tallest hurdle to overcome.
- The Conference Board **consumer confidence rose** in Sep to 70.3, its top score since Feb due to rosier expectations

over future conditions.

- New orders for **durable goods tumbled** -13.2% yoy in Aug after July's 3.3% increase. Excluding transportation, new orders fell 1.6%. However, core capital goods rose 1.1% and shipments 1.7%.
- Initial **unemployment** claims were down 26,000 to 359,000 reflecting in part the recovery of activity in the South after Hurricane Isaac. The 4-week moving average fell by 4,500 to 374,000, the first decline since early August.

Europe:

- The **German Ifo business confidence index fell** unexpectedly to 101.4 in Sep from 102.3 in Aug, continuing its slide since Apr (109.8). The Ifo index is at its lowest since March 2010 underscoring that even Germany is less resilient despite progress in addressing the euro crisis.
- **German retail sales** increased marginally in Aug, rising 0.3% mom in real terms after a revised 1.0% drop in July. On an annual basis, retail sales dropped -0.8%, following July's dip of -1.6%.
- **France's** socialist government passed its **harshest budget** in 30 years, with euro 20bn in new taxes mainly on big business and the wealthy and a reduction in the rate of growth of expenditures in pensions and health outlays.
- **Spain**, which again rattled global markets this week, revised its budget: spending will be slashed by 9% in 2013 and revenues are forecast to rise from EUR 170bn to EUR 175bn, thanks to a VAT hike. The government will enact 43 new economic reform laws and establish a new budgetary authority.
- The **eurozone CPI inflation accelerated** in Sep to 2.7% yoy (pushed by energy prices) from 2.6% in Aug, much above the 2% ECB target.
- **ECB** president Draghi speaking at the Federation of German Industries stressed that bond purchases are

within the central bank's mandate.

- The eurozone **business & consumer confidence index** fell in Sep for the 6th month in a row to 85 from 86.1 in Aug the lowest in 3 years.
- **UK GDP** was revised slightly upwards – falling -0.4% compared to the previous estimate of -0.5%, leading to a strengthening of the GBP.

Asia and Pacific:

- The People's Bank of **China pumped RMB 365bn** (USD 58bn) into money markets through reverse repo, the largest weekly amount in history.
- **Asia accounted for 80% or USD 18.3 bn of IPO** activity in Q3 2012. Bourses in Tokyo, Shenzhen and Malaysia were the best performers.
- **Taiwan's** industrial production beat forecasts in August, with a 1.9% yoy growth, after a flat July. Broad based gains in manufacturing indicate a sustainable rebound. By contrast **Singapore's** IP disappointed with a -2.2% yoy drop in August due to weakness in electronics.
- **Japan's** industrial production fell to a 15-month low in Aug, down 1.3% mom (July: -1.2%) as weak global and domestic demand weigh on manufacturers. Output declined in electronic parts and devices, information and communication electronics equipment and chemicals.

Bottom line: Still no sign of an economic turn-around in major economies, with China joining Europe and US in a round of monetary easing. With little new economic data, attention last week focused once again on the Eurozone with Spain in the firing line. The government is trying to enact austerity measures so that a Memorandum with the EU authorities will be as light as possible. The budget introduces more austerity measures but fails in the critical test: **structural reforms** to reignite the incentives to invest and hire. Massive secessionist demonstrations in Cataluña and protests around Spain against budget cuts are poisoning the political

landscape.

Regional Developments

- **Iran** central bank re-introduced a three-tier currency system last used during the Iran-Iraq war and postwar period in the 1980s and early 1990s, due to a hard currency shortage and sharp tumbling of the rial. A “currency trading centre” will provide importers of staples (meat, sugar, vegetable oil, grain and drugs) with US dollars at the official rate of IR12,260, against a market rate of about IR27,000.
- News analysis from the UN General Assembly stressed that despite rhetoric, an attack on Iran nuclear facilities by Israel can be ruled out before the US elections and most likely beyond that.
- **Q1 2012 real GDP in Saudi Arabia grew 5.9%, and 16% in nominal terms**, while in 2011, growth was up 31% in current prices with GDP exceeding SAR 2.2 trillion. In 2011, non-oil exports accounted for 8% of GDP and the private sector GDP grew by 14.7% in nominal terms.
- **Rail projects** in MENA are garnering more attention with the **network set to double to 67k km** within the next three years, attracting almost USD 156bn in investments – planned or under way in the region. Iran tops the list at USD 34bn followed closely by KSA at USD 31bn. (*Source: MEED Projects*)
- In an attempt to strengthen the **Arab Free Trade Zone**, members of the Arab League are in talks to finalise a rules of origin (RO) agreement for each commodity before the end of 2012; this follows the 2007 agreement on preferential and group Arab commodities’ ROs.
- **Egypt** plans to **reduce energy subsidies** by USD 4.2bn in an attempt to boost other social spending (currently, subsidies account for about 20% of total government spending;) it is reported that the proposal was submitted to the President and the only remaining

question is on the timing of implementation – before or after parliamentary elections. (Source: *Al-Masry Al-Youm, Zawya*)

- **Jordan** tax revenues are expected to increase in 2012 to more than JOD 3bn from the previous year's JOD 2.76bn given the tax hikes on automobile, real estate, mobile calls and fuel products. Revenues collected in Jan-Aug are up 6% yoy, with income tax up 5.5% to JOD 613mn and sales tax up 7.7% to JOD 1.4bn. Aim is to cap budget deficit at 3-4% of GDP.
- France has offered EUR 150mn long-term loan to **Jordan** to help the government finance the state budget; meanwhile Qatar has discussed the focus of its USD 8.5bn grant – projects will be funded with local development projects accounting for the bulk of the grant at 60%, followed by energy (15%), transport (10%), and health and education (15%).
- Excess reserves at the Central Bank of **Jordan** reached their highest level last Sunday at JOD 2,235mn (and dropped to JOD 2,112mn on Thursday) while the volume of required reserves remained at JOD 1,148 mn last week.
- **Kuwait's** court upheld the 2006 electoral law, denying the government's attempt to amend it. There were also rumours of a meeting between the Emir and top officials from the government which led to suggestions about impending changes.
- **Lebanon's** central bank governor, in a recent interview, stated that the crisis in Syria was slowing down economy – growth is expected to be halved to 2-3% this year compared to almost 5.2% in 2011. This comes days after IMF's claims that the slowdown had more to do with weak government policies than the Syrian war (which affected Lebanon only marginally).
- **Industrial exports** in **Lebanon** declined by -9.5% yoy to USD 1.74bn in Jan-July, declining over -33% in July alone. Arab states accounted for bulk of the exports (58.8%) while Saudi Arabia, Iraq and Syria were the

biggest importers.

- **Morocco's first solar plant contract**, worth USD 1bn, was awarded to a Saudi-led consortium. The 160 megawatt solar power plant, work on which is expected to begin by end-2012 and completed by late-2014, will be the first in a series of such 5 plants to be built by 2020.
- A feasibility study undertaken by Al Izz Bank showed that Islamic bank assets in **Oman** will cross the OMR 2bn mark by 2015. The study also found that about 10% of total banking assets in Oman were Sharia compliant.
- About 30% of **unemployed** in Saudi Arabia belong to the **age group of 19-25**, according to a study by the Gulf Investment Corporation, with other countries also displaying worrisome figures, 23% in Bahrain, 24% in Oman and UAE and 12% in Kuwait.
- **Tunisia** has witnessed an increase in **tourists** by 32% yoy to 4.4mn till Sep 20 this year with revenues up 38% to TND 2bn; but, compared to 2010, both declined by 15% and 12% respectively. **FDI** increased 24% yoy in the Jan-Aug period, with 80 new companies and almost 46 projects leading to the creation of 7,501 new jobs (+3.3% yoy).
- The Arab Monetary Fund will provide **Tunisia** with three loans worth TND 180mn of which two will go towards support of balance of payments while the third will be used in projects leading to economic reform and exchange policy.

UAE Focus

- **Global Sukuk issuance looks set to cross the USD 100bn mark this year** compared to last year's USD 84.5bn, UAE (USD 5.3bn) comes in behind Malaysia (USD 51.6bn) and Saudi Arabia (USD 8.8bn) as the 3rd largest in global Sukuk issuances till July. According to S&P, GCC issuances crossed USD 19bn as of July 2012, with infrastructure accounting for about 30% compared to just 7% a year ago.

- **DEWA** will look to tap markets in 2013 by issuing Sukuk, securitisation and export credits worth AED 4bn to fund its water and power projects, according to the CEO and MD.
- A recent **Abu Dhabi** DED report forecasts the emirate's real **GDP to grow by 3.9%** this year. Non-oil GDP will grow 5.5% boosted by the private sector development projects. During 2013-16, GDP is expected to grow at a rate of 5.7% while non-oil GDP growth is expected at 6.5%.
- **Dubai's foreign direct investments** look set to **increase by 5-8%** this year to about AED 27bn, according to DED, thanks to "investment infrastructure and logistics facilities".
- **Bilateral trade between UAE and Japan** grew by 14.5% to USD 27.2bn in H1 2012 – boosted by 45.9% yoy increase in Japan's exports to the UAE (including motor vehicle exports, general machinery and iron and steel) along with a 9.7% rise in value to USD 22.6bn of Japan's imports.
- **India** continues to be the largest **trade** partner of **Dubai** – with its bilateral trade, at USD 20.5bn, accounting for almost 13% of Dubai's total trade in H1 2012. The total value of Dubai's imports from India reached USD 9.5bn in H1 2012, while exports and re-exports to India stood at USD 5.17bn and USD 5.98bn respectively.
- **CDS** spreads for **Abu Dhabi** has significantly **declined** to 99 from about 142 in May 2012, underscoring investor's confidence in the emirate.
- **Total credit growth in the UAE** grew at a **snail's pace** in the Jan-May period, rising by 0.8% from Dec 2011, with a marked disparity: lending to private sector dipped -0.8% to AED 568.5bn, offset by a 8.9% increase to AED 111.5bn in credit to government.
- Zabeel Investments, which owes about AED 6bn mostly to local banks, has been taken over by the state-run Dubai Real Estate Corp. Meanwhile, Reuters reported that ADCB

has filed a court case to claim about USD 107.13mn from Zabeel.

- **Passenger traffic** in Dubai continued to rise in Aug, **recording almost 20% yoy growth** to 4.8 million. The year-to-date total was 37.8mn (+13.4%). Cargo volumes were up 4.4% in Aug, but year-to-date, it grew by a modest 3%.

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