

Weekly Economic Commentary – October 7, 2012

Markets

US economic data and ECB's bond-buying pledge, ahead of quarterly corporate earnings results, led to a good streak on **equity** markets across the globe. Among **regional** markets, Abu Dhabi and Dubai gained on the reviving local property market, thanks to the upcoming real estate merger and projects launched during Cityscape. The **euro** remained close to a 2-week high while Asian currencies were at 7-month highs with the Indian **rupee**, in its fifth week of advance, leading the gainers. **Gold** prices continued to rise, hitting an 11-month high on Friday, before dropping slightly while **oil** prices posted a weekly loss.

Global Developments

Americas:

- The **US ISM** manufacturing index exceeded expectations rising to 51.5 in Sep (Aug: 49.6) pushed by new orders (up 11% mom), production (up 5% mom) and employment (up 6% mom). The non-manufacturing index rose from 55.1 in Sep as against 53.7 in Aug, marginally beating expectations. New orders surged 7.4% and general business activity 7.7%, signaling positive growth momentum. In contrast, the employment index slipped 5%.
- Volatile aircraft orders led to a -5.2% dip in US Aug **factory orders** (Jul: +2.6%); excluding transportation equipment (which tumbled by -34.9%) factory orders gained 0.7% while orders for non-defense capital goods excluding aircraft, a proxy for business spending, grew 1.1%.
- **Non-farm payrolls** increased by 114k in Sep (Aug: 142k) bringing the three-month average to 146k (vs. +123k

previously) while the unemployment rate dipped to 7.8% (Aug: 8.1%). The news cheered markets and is helping Obama's standing. Meanwhile, **initial jobless claims** increased by 4k to 367k, rising from the previous two-month low.

Europe:

- The **euroarea manufacturing PMI** improved somewhat from 45.1 in Aug to 46.1 in Sep, still firmly in contraction territory.
- The **Spanish** government plans to transfer troubled assets to a new "bad bank" which should have a 55% private capital. The main issue remains the price at which the troubled assets will be bought from the banks, and as a consequence the bill for the tax payers and the ESM.
- **UK's construction PMI** rose to 49.5 in Sept as against 49.0 in Aug, falling marginally short of expectations but remaining somewhat steady since Mar.
- **Euro area unemployment** reached 11.4% in Aug, an all-time high, but remained steady after July readings were revised upwards to 11.4%.
- The **UK Monetary Policy Committee Meeting** confirmed the existing asset purchase program and maintained rates at 0.5%.
- **Retail sales** in the euro area edged up by only 0.1% mom in Aug as higher oil prices forced consumers to cut fuel spending, which in turn spilled over onto reduced retail hours. In yoy terms, retail sales dropped by 1.3% compared to expectations for 2.0% dip.
- The **ECB** left its refi rate unchanged at 0.75% and Draghi confirmed that ECB's **bond-buying** program was ready to activate, putting the onus on the governments to request assistance and negotiate the conditions.
- **German factory orders** fell 1.3% mom and 4.8% yoy in Aug (Jul: +0.3% mom & -4.6% yoy)- on weak domestic orders (-3% mom), implying waning domestic consumption. Demand

from the Eurozone was up 2.4% though from non-EU nations, orders were down 1.4%.

Asia and Pacific:

- **China's** official **PMI** rose marginally to 49.8 in Sep as compared to 49.2 in Aug, however seasonality is likely to have impacted headline readings. An increase in the new orders and new export orders, less susceptible to seasonality, suggests an improvement in demand and positive growth momentum.
- **China's** official **non-manufacturing PMI** fell to 53.7 in Sep (Aug: 56.3) to its lowest value since Nov 2010. While the index remains at an expansionary 50-point mark, the decline suggests a spillover to other sectors, making the economic slowdown more pervasive.
- The **Indian** government continued to introduce more reforms to open the economy to foreign investors and capital – the latest include raising the limit on foreign ownership of local insurance companies to 49% from 26% and ownership of upto a 49% stake in domestic pension-fund managers. However, these Cabinet-approved measures still need the Parliamentary stamp of approval.
- **Korea's** exports beat expectations in Sep falling 1.8% yoy, compared to a decline of 6.2% yoy in Aug (Jul: -8.7%), indicating moderating declines over two consecutive months. Exports to China rebounded in Sep growing 1.1% yoy, halting seven months of declines.
- The **Malaysian** government cut its 2013 budget deficit target to 4% of GDP aiming at flat revenue and expenditure growth, while reducing social expenditure. Gross borrowing is estimated at MYR 93.5bn, almost unchanged from 2012's MYR 94bn.
- **Korea's** **CPI inflation** rebounded to 2.0% yoy in Sep (0.7% mom) from a 12-year-low in Aug 1.2% yoy, due to food supply disruptions. Core inflation remained steady, rising 0.1 to 1.4% yoy (Aug: 1.3% yoy).

- The **Japanese Tankan** business condition survey dropped 2 point to -3 in Sep from June, against market expectations of -4. The non-manufacturing component held steady at +8. Economic activity continues to be anaemic with little signs of improvement.

Bottom line: The US data surprised somewhat on the upside, including the payroll, while the first presidential debate in the US led to a rebound in the poll by the Republican candidate. While Europe tries to regain its footing amidst signs of cooling in Asia, the IMF World Economic Outlook slashed global growth forecasts, stressing “further cooling [...] in the world economy this year and next goes along with a clear increase in downward risks”; the forecasts depend on “whether decisive political steps are taken in the eurozone and the US to stabilise confidence”.

Regional Developments

- **Iran**’s currency, the rial, fell 17% on Monday, weakening to 34,700 from 29,600 the previous day. The rial lost more than 80% of its value year to date. US official stressed that the decline can be attributed to unrelenting international sanctions over Iran’s nuclear program. Iran imposed a currency cap this Saturday (according to an AFP report, which cited local money-changers) seeking to strengthen the rial by almost 25%.
- **Kuwait** reduced the interest rate by 50bps to 2%, to “make borrowing cheaper”, after being on hold since Feb 2010. The central bank governor seeks to reduce government spending; the central bank sees that current expenditure can be reduced in favor of more investment and capital expenditure and expects economic growth at 5-6% in 2012.
- **Qatar**’s real GDP grew 5.0% yoy in Q2, down from 6.9% in Q1, as strong performance in non-energy sectors including finance and construction largely offset a slacker energy sector.

- **Jordan**'s GDP growth was up 2.9% in Q2, compared to 2.4% a year ago but lower than Q1's 3% – buoyed by the services sector, while banking and insurance sector grew by 5.7%. Meanwhile, Jordan's Minister of Planning and International Cooperation stated that grants were not sufficient to cover the fuel and electricity subsidies estimated in excess of JOD 2bn.
- **Iraq** oil exports rose marginally in Sep to 2.6mn bpd as against 2.565 mn bpd in Aug and in 2013, it plans to export 2.9mn bpd.
- **Qatar** Investment Authority is in talks to acquire a majority stake in Morgan Stanley's commodities Unit.
- The breakdown of **Kuwait**'s 2012-13 budget allocates more than KWD 10bn towards public sector salaries (including hikes and allowances), while electricity, water and health subsidies amounted to about KWD 6.3bn.
- Kuwait helped in arranging **Turkey**'s sovereign USD 1.5bn ijara sukuk issuance which has a tenor of 5.5 years – the order book reached USD 8bn and the offering was over-subscribed five times indicating sufficient investor appetite.
- Trade deficit in **Lebanon** widened to USD 11.57bn (+19% yoy) during Jan-Aug period; imports grew 14% to USD 14.4bn while exports declined by about 2.4% to USD 2.83bn.
- **Oman** plans to invest USD 400mn to build three desalination plants in Duqm, Sur and Sohar to meet the country's growing demand for water.
- **Saudi Arabia**'s PMI rose to 60.3 in Sep from Aug's 58.3 – both business activity and new export orders reported strong growth.
- The proposed mortgage law in Saudi Arabia is expected to have a positive impact on the sector and will likely lead to increased home ownership. A report from NCB estimates that Saudi Arabia needs about SAR 1.3trn for constructing 2.4 mn new houses till 2020.
- About USD 800bn was the cost of the political, social

and economic **unrest in the Arab region**, according to the head of the Union of Arab Chambers of Commerce and Industry. FDI flows were also affected: it dipped to about USD 8.6bn in 2011 from USD 22.7bn in 2010 – mostly due to declines to Jordan, Egypt, Syria and the Maghreb countries.

- **Arab markets** gained about USD 40bn in the Jan-Sep period, with Saudi Arabia accounting for more than half the increase, with Dubai bourse the only declining one in the GCC during the same period.

UAE Focus

- State-owned Dubai Real Estate Corp. (DREC) has taken over the management **Zabeel Investments** (ownership remains the same), the indebted firm owned by Dubai's crown prince. Zabeel Investments owes AED 6bn (USD 1.6bn) to mostly local banks. (Source: Zawya)
- The UAE's **PMI** rose to 53.8 in Sep, from 53.3 in Aug as news orders surged at the fastest pace since Jul 2011, highlighting positive economic growth momentum.
- UAE's **non-oil trade** recorded a 2.3% yoy increase to AED 238.4bn in Q1 and trade with the Asia Pacific region, at AED 110.2bn, accounting for about 47% of total.
- The UAE **Central Bank** is in discussions with several banks about providing new soft loans to lower-income UAE citizens for housing; this would mean lesser financial burden through lower interest and extended payment plans. Meanwhile, the latest CB data shows that personal loans reached a five-year high of AED 260.4bn in July 2012. Also, specific provisions for NPLs have surged by 30.8% yoy to AED 60.3bn in July 2012 while loans have grown at a slower pace of 3.7% to AED 109 trillion.
- **Dubai** attracted AED 16.1bn in **FDI** flows in H1 2012, up 7% yoy, with 115 projects which amounted to only 1.5% of total global projects. India, USA, UK, Saudi Arabia, Qatar, Germany, Switzerland and France were the top

source countries and the top 10 accounted for 72% of total number of projects and about 94% of total value of FDI into Dubai.

- A Dubai **property dispute resolution centre** could be in the offing, going by statements from the Royal Institute of Chartered Surveyors; this could potentially lead to faster resolution of cases as currently, these are attended to by the local courts and the Dubai property court.
- After announcing **DEWA's** intention to tap markets next year, including a sukuk issue for refinancing, the CEO announced that the company plans to raise about USD 123bn in 2013.
- Increase in tourist arrivals caused a 22% yoy increase to AED 9.8bn in Dubai's **hotel revenues** during H1 2012; the period recorded a 10% rise in guests to 5.027mn while guestnights were up 18% to 19.2mn.
- Plans to build an AED 10.8bn new **airport terminal** in Abu Dhabi is in the works. This is expected to boost business and increase passenger flows to about 40mn in 2017 and compares to the 14mn passengers estimated to pass through the existing terminal in 2012.
- The **Aldar-Surouh merger** is expected to be signed "within a month", according to a Reuters report and the new company would have about USD 15bn in assets.