

Weekly Economic Commentary – October 21, 2012

Markets

Global markets had a good run this week buoyed by better than expected economic data that suggested a rebound in **China**, a bottoming out in the US and expectations over the bailout for Spain. While **Greece** and its lenders have made headway in reaching an agreement, a lot of the kinks have yet to be ironed out, leaving room for further bumps to be seen in equity markets; Friday saw a slide in equities after corporate earnings results in the US disappointed alongside a dim outlook of the European debt crisis. **Regional** markets felt the positive vibes from larger bourses though Kuwait fell to a four-week low on internal political tensions. The **euro** gained substantially mid-week but dipped after Merkel's speech at the EU summit. Both **oil** and **gold** prices declined by almost 1% on Friday, after equities dipped and the dollar emerged stronger.

Global Developments

Americas:

- **Retail sales increased by 1.1% mom in Sep** (Aug: 1.2%), beating expectations, with gains across 12 out of 13 consumer goods categories. **Inventories** rose at a slower pace in Aug at 0.6% (Jul: 0.8%). Taken in combination, this data signals stronger economic growth in Q4.
- **Consumer inflation accelerated to 0.6% mom and 2.0% yoy in Sep** (Aug: 1.7% yoy) led by higher energy prices (Sep: 4.5%).
- **US Housing starts rose 15% in Sep** (Aug: 2.3%) to the highest level since July 2008, indicating a well-entrenched housing market recovery. However, Sep **existing home sales fell 1.7%** to 4.75mn units on supply

constraints.

- **The NAHB Index** of home-builder sentiment **inched up one point to a six-year high of 41 in Sep**, its sixth month of gains, suggesting a steady improvement in the housing market.
- **Industrial production rebounded 0.4% mom in Sep** (Aug: -1.4%), slightly above expectations, but capacity utilization held steady at 78.3% due to a downward revision of production in Aug.
- **Initial jobless claims jumped 46k to 388k** in the week ended Oct 13, with the four-week moving average rising by 750 to 365,500.

Europe:

- **Euro area inflation remained stable at 2.6% in Sep**, with notable cross-country disparities. **Spain's CPI hit 3.5%** in Sep (Aug: 2.7%) reflecting a hike in sales tax, whereas subdued domestic demand led **Greece inflation lower to 0.3%** in Sep (Aug: 1.2%).
- After months of deadlock, **Greece and its international lenders, the IMF and EU, agreed on core reform measures** hence moving closer towards a deal to avoid a Greek bankruptcy while expectations are for the economy to contract by 4.2% next year.
- **Moody's confirms Spain's government debt rating** at "Baa3" with negative outlook, one notch above a junk bond rating.
- **Spain downsized its bank rescue fund to EUR 90bn**, and expecting the actual deployment of funds to be well below that amount, but much depends on real estate valuations.
- **S&P downgraded Cyprus to B** from BB with a negative outlook, cautioning against further downgrades.
- **UK unemployment unexpectedly declined in Sep** by 4k and payrolls recorded its all-time highest increase of 212k.
- **UK headline consumer inflation slowed to 2.2% in Sep**

(Aug: 2.5%), the lowest annual rate in 3 years.

Asia and Pacific:

- **China's GDP expanded 7.4%yoy in Q3 (Q2: 7.6%).** Despite slower yoy GDP growth, on a quarterly basis, private sector calculations suggest that growth rebounded substantially in Q3 to 7.7% qoq saar from 7.1% in Q2. Q4 GDP growth is likely to rebound to 7.6% yoy, taking the annual average to 7.7%. Industrial production rose 9.2% in Sep (Aug: 8.9%).
- **China's consumer inflation slowed to 1.9% in Sep** (Aug: 2%), in line with expectations. Easing inflation gives more room for policy action to stimulate the economy.
- **India's WPI accelerated to 7.8% yoy in Sep** (Aug: 7.6%) while fuel inflation had surged to 11.9% yoy on account of a diesel price hike enacted by the government in mid-September.
- **Japan's government plans to draft stimulus measures next month (Nov),** utilizing up to JPY 1.3 trillion (USD 17bn) of reserves from its 2012 budget. A supplementary budget may be considered at a later stage.
- In a surprise move, **Thailand's central bank cuts its benchmark rate** by 25 bps to 2.75% "to shore up domestic demand" – just four days after the BOT Governor had stated that no easing was needed. While maintaining the 2012 growth forecast at 5.7%, the BOT expressed a "substantial degree of uncertainty" about global economic outlook and its impact on domestic exports.
- **Singapore's volatile non-oil domestic exports fell 3.4% yoy in Sep** (Aug: -10.7%), well below consensus, as electronics shipments fell 16.4% (Aug: -11%).

Bottom line: The relief provided by a few stronger-than-expected economic data points (Chinese growth, US housing market) remained short-lived as the EU Summit underscored the disparities between its largest nations, with clashes on banking and fiscal union within the EU, and the scope of ECB

supervision. On the other side of the globe, uncertainty and worsening global economic outlook is leading to rising concerns on trade and domestic demand, with Thailand being the latest to take a proactive stance.

Regional Developments

- **Egypt's** tourism minister announced that about 8.8 million **tourists** had visited over the nine months this year, bringing in almost USD 6.9bn in revenues. Prior to the turmoil, some 14.5mn tourists had visited the country in 2010 while it dipped to about 9.8mn in 2011; revenues were EGP 12.5 and 8.8 bn respectively during these years.
- **Egypt's** Petroleum Minister revealed details about its **fuel subsidies reforms** to a local newspaper. Petrol would be subsidised for only one car per family and each family would receive only 1.5 to 2 cylinders of fully subsidised butane cooking gas per month and any further would be only partially subsidised. Cutting subsidies is critical to reduce a growing budget deficit and obtaining IMF USD 4.8bn in funding.
- **Iraq removed its central bank governor following a corruption probe** by a parliamentary committee. Abdul-Basit Turki, The head of the Supreme Audit Board, was temporarily appointed central bank chief until the investigation is completed.
- **Iran's** revolutionary guards chief has **threatened to cause an oil spill in the Straits of Hormuz** in an attempt to block shipping and force the West to remove sanctions against Tehran.
- **Kuwait's Emir called for the set-up of a USD 2bn fund to support Asian development projects**, with about USD 300mn committed by Kuwait and rest to come from ACD nations' contributions; he also stated that Kuwait was ready to join the Asian Development Bank to boost cooperation between Asian nations.

- **Oman's exports to the US fell 30% to USD 911.4mn** in the first 8 months of 2012, compared to the same period last year. In 2011, Oman recorded a 186% increase in exports to the US.
- **Oman's consumer inflation fell to 2.4%** in Aug (2.9% in Jul) despite acceleration in the food, beverage and tobacco sub index to 3.7% from 2.6% in Jul.
- The value of **property traded in Oman rose 60%** to OMR 808mn (USD 2.1bn) in the first 5 months of 2012 as compared to same period last year. **Rental values** for the residential, office and industrial market have **stabilized over the year**.
- **Assets** held by the **Qatar Investment Authority** increased 15% between July and Sep to USD 115bn according to the SWF Institute. Data also showed that **Norway's Government Pension Fund**, with total assets at **USD 656.2bn**, had **displaced ADIA (USD 627bn)** from the top of the list.
- **Qatar CPI accelerated to 2% in Sep** (Aug: 1.9%) with price increases seen across the board.
- **Saudi non-oil exports fell 23% yoy in Aug** to SAR 10.8bn, the lowest level in 12 months. Top importers of Saudi non-oil goods remained UAE (12%), China (9%) and Singapore (8%).
- **Banking sector loans to deposit ratio in Saudi Arabia surged to a 3-year high in Aug to 83.2%**. Deposits rose 10% in Aug yoy to SAR 1.16 trillion while private sector lending surged 14% to SAR 93.1bn.
- **Saudi Aramco plans to invest USD 35bn over the next 5 years** to boost its spare oil production capacity and help maintain market stability. **Aramco** also expects to begin production at its Manifa field, which will **increase production by 500 K bpd in H1 2013**.
- **Saudi Arabia** is expected to award contracts for the planned construction of a **rail link between Jubail and Damman** before year-end.
- The **Swiss authorities** revealed that about **CHF 1.0bn** was **blocked in relation to stolen assets linked to dictators**

of the countries involved in the Arab Spring. About CHF 700mn was related to Egypt's former President Hosni Mubarak and his affiliates.

- **The GCC has been the main beneficiary of FDI to the Middle East region** over the past decade (2003 – 2012 YTD), accounting for 79% in terms of projects, 62% in terms of value and 65% in terms of jobs created.
- Ernst & Young's report finds that **Saudi Arabia leads Middle East FDI flows in H1 2012** and together, KSA, Qatar and UAE account for about 62% of total Middle East FDI projects. Retail and consumer products, business services and real estate, hospitality and construction were the sectors that attracted most investment. In stark contrast to previous years, **intra-regional investments trumped FDI flows from developed markets to the region.**
- A Frost & Sullivan report, released by the Dubai Internet City finds that **technology start-ups in MENA region grew eightfold in the period 2005-11**, with Jordan, Lebanon, Egypt and the UAE the more attractive markets for investments. About 32% of all start-ups in MENA region during 2006-2011 were started in Jordan while UAE accounted for 17%.

UAE Focus

- **Abu Dhabi real GDP grew by 6.8% yoy** – the fastest since 2004 – to AED 660.6bn (USD 165bn) in 2011 (2010: 3.0%) with strong activity in the non-oil sector as well, where GDP grew by 4.1% to AED 288.8bn.
- **UAE central bank assets grew by AED 17bn (68%) to AED 250bn** in the first 8 months of the year, with the largest increase seen in deposits with other banks.
- Integration of Dubai Bank and the **Emirates Islamic Bank** is on track, with the process of rebranding expected to begin in Nov, and this will lead to EIB becoming the third largest Islamic bank in the country.

- Bilateral **UAE-Japan trade was up 15%** yoy to USD 100bn in H1 2012, with UAE's exports to Japan up 10.2% including oil product exports valued AED 83.06bn.
- **Dubai's non-oil foreign trade** touched **AED 99bn** in July, with direct trade amounting to $\frac{2}{3}$ -rds of the total at AED 66bn and India the top trading partner, at AED 12bn, accounting for 12% of total Dubai foreign trade.
- **Dubai Electricity and Water Authority (DEWA)** awarded First Solar Inc. a contract to build a 13 mw solar power plant.
- **UAE remains the top capital exporter** in the Middle East, pumping about USD 57.8bn globally in 2011, according to a report from the Inter-Arab Investment Guarantee Corporation. Saudi Arabia, meanwhile, topped the list of FDI recipients attracting about USD 185.8bn, followed by the UAE and Egypt with USD 85.5bn and USD 72.6bn respectively.
- **PwC's** annual report "Cities of Opportunities 2012" labels **Abu Dhabi as "most productive"** while including it as one of the 27 "cities of opportunity". The city also came 6th in cost of business occupancy, 9th in CPI, and second lowest cost in public transport.

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