

Weekly Economic Commentary – November 4, 2012

Markets

Most **global markets**, though subdued, ended last week on a positive note after strong data from both US and China. As US reaches closer to the polling date, investors are wary of how the next US President would tackle the looming “fiscal cliff”. Policy uncertainty is dominating markets. Regional markets were mixed with Abu Dhabi making marginal gains while Kuwait’s exchange fell to the lowest since Aug 2004 as the recent political events led to sell-offs. US job market data lifted the **greenback** to a six-month high against the yen and a 3-week high against the euro while **gold** prices were down to a two-month low amidst lower **oil** prices.

Global Developments

Americas:

- **Non-farm payrolls** increased by a strong 171k in Oct (Sep: 148k), bringing the three-month average growth in payrolls to 170k while **unemployment** rate edged up to 7.9%. Earlier in the week, the **ADP** employment report showed a rise in private jobs by 158k (Sep: 114k) – evidence of a slow pickup in the economy.
- **ISM manufacturing** was up to 51.7 in Oct – the highest since May and compared to Sep’s 51.5 – as a surge in new orders to 54.2 (Sep: 52.3) and production to 52.4 (49.5) offset the declines across other sub-components. Employment index fell to 52.1 from a three-month high of 54.7.
- Sep **factory orders**, up 4.8% mom (Aug: -5.1%), was once again boosted by the gain in volatile aircraft orders while orders for non-durable goods picked up by 1.0%

(2.2%). The gauge of business investment, orders for non-defense capital goods excluding aircraft, grew by only 0.2% (0.3%).

- **S&P Case Shiller** index of property values in Aug recorded the biggest yoy gain since July 2010 – rising by 2.0% yoy (Jul: 1.2%) and signaling a recovery in the market. Additionally, **construction spending** rose 0.6% mom to USD 851.6bn in Sep, a 3-year high, and led by an increase in residential construction.
- **US core PCE price index** increased 0.1% mom and 1.7% yoy in Sep (Aug: 0.1% mom, 1.6% yoy) while personal spending was up 0.4%.
- **Initial jobless claims** fell 9k to 363k in the week ended Oct 27 causing the 4-week moving average to also fall slightly to 367.3k.

Europe:

- Both output and new orders fell in Oct, causing the final estimate of **manufacturing PMI** in the Eurozone to **decline** to 45.4 (Sep: 46.1; Oct flash estimate: 45.3). **Euroarea economic confidence** fell to 84.5 in Oct (Sep: 85.2) – the lowest since Aug 09.
- **Spain's GDP** contracted by 0.3% qoq and 1.6% yoy in Q3, the fifth straight quarter of declines, though it was slightly better than the 0.4% dip in Q2. The PM meanwhile mentioned in parliament that Spain needs the EU's help to meet its budget goals and also said that an agreement on direct bank recapitalization was in sight.
- **Retail sales in Germany** increased for a second month in Sep, up 1.5% mom (Aug: 0.1%). In year-on-year terms, sales dropped 3.1%.
- **Euro area unemployment rate** increased to a **record 11.6%** in Sep from a revised 11.5% in Aug. Separately, Germany's jobless rate climbed for the first time in three years to 6.9% while in Italy, it touched a 8-year high of 10.8%.

- Euro zone **inflation** eased slightly to 2.5% in Oct (Sep: 2.6%), with prices of food, alcohol and tobacco rising 3.2%.
- Fewer orders and higher costs resulted in a dip in **UK's** Oct **PMI** for manufacturing to 47.5 (Sep: 48.1) while PMI construction beat market expectations and increased to 50.9 in Oct (Sep: 49.5), though new orders fell for a fifth consecutive month.

Asia and Pacific:

- **China's** official manufacturing **PMI** expanded to 50.2 in Oct from 49.8 in Sep on higher output and new orders. Additionally, services PMI grew to 55.5 in Oct (Sep: 53.7) on stronger activity in the construction and retail sectors.
- **India's** RBI meeting resulted in a cut in the cash **reserve ratio** by 25bps to 4.25% (the lowest since 1976) while the repo and reverse-repo were left unchanged at 8.0% and 7.0% respectively. This came a day after the growth forecast for 2012 as revised down to 5.8% from 6.5% and inflation forecast was raised to 7.5% from 7.0% previously.
- **Japan's** industrial production declined by 4.1% mom and 8.1% yoy in Sep, the third straight month of decline, and following August's 1.6% mom dip. Output was hit by a fall in the auto, general machinery, and steel industries. **Jobless rate** remained unchanged at 4.2% in Sep and **household spending** fell by an unexpected 0.9% yoy – the first time in 8 months.
- At its latest monetary policy meeting, the **Bank of Japan** left the policy rates unchanged and expanded its asset-purchase program for the second time in two months as the economy continues to be affected by global uncertainty and signs of slowdown in the previous quarter.
- In **South Korea**, industrial production (**IP**) grew 0.8% mom

(reversing the prior 3 months of declines) and 0.7% yoy in Sep as manufacturing sector picked up amidst contractions in the mining, electricity and gas industries; Oct **trade** surplus more than doubled from a year ago to USD 3.8bn in Oct as exports rose by 1.2% to USD 47.2bn, ending the previous three-month declines. **Inflation** increased to 2.1% in Oct (Sep: 2.0%) – the uptick a result of an increase in fruit and vegetable prices, but remains within the comfort zone of the central bank.

Bottom line: Hurricane **Sandy** and subsequent closure of the exchanges overshadowed the modest improvements in the jobs and housing markets as the US prepared to go to the polls. In Europe, data releases pointed towards weaker growth this year while Draghi's support of a **Eurozone** super-commissioner plan received little support from Spain and Italy. In **China**, not only did factory orders expand after consecutive six-month declines, but the government also pumped in almost USD 60bn into the money markets to support infrastructure spending.

Regional Developments

- The IMF has warned the **GCC** states that unless **fiscal spending** is trimmed, their combined surplus could turn into a deficit by 2017. Total GCC state spending jumped in 2011 by some 20% in dollar terms and the combined fiscal surplus reached 13% of GDP. Additionally, the IMF mentioned that countries of the region including Jordan, Yemen and Morocco required “additional financing needs”.
- **Egypt** has resumed talks with the IMF regarding the potential USD 4.8bn loan with a spokesperson mentioning that a set of economic reforms were presented to the IMF and also that these would be published later to encourage public debate.
- **Egypt** is currently in talks and **negotiating with Qatar to buy LNG** to meet the former's growing clean fuel requirements. A meeting of Qatar's Emir and the Egyptian

president discussed furthering economic ties and accelerating investments.

- The **tourism** industry in **Lebanon**, which employs about 40% of the workforce and rakes in almost USD 15bn a year, has suffered from the ongoing Arab turmoil and subsequent travel warnings. A new report estimates that tourism has dipped by almost 50% and associated businesses have made losses of up to USD 7bn this year.
- **Lebanon's** 5-year **CDS** spreads tightened to 449 in end-Sep, 29 points lower than 478 in end-Q2 but higher than Q1's 446.3. This was the ninth widest in Q3 amongst a total 69 countries – spreads were wider than Egypt but the cumulative probability of default was lower compared to Spain, Portugal and Argentina.
- **Moody's** placed a negative outlook on **Lebanon's banking sector** in light of the weak economic growth and business sentiment in 2012-13 arising from the political unrest and declining net profitability.
- **Morocco's** government announced that around 20k **housing units** would be developed for the middle class every year, with the project expected to kick-off by 2014; however, a new **solidarity tax** proposed under the draft 2013 Finance Act is likely to affect the middle class negatively.
- The IMF estimates **Oman's** 2012 **economic growth** at 5.0%, slowing from the 5.4% growth registered in 2011. **Fiscal surplus** will account for 7.1% of GDP, down from 8.1% of GDP last year.
- Al Arabiya reported that **Qatar**, in a bid to widen their investment portfolio, is currently in negotiations with up to seven European investment banks to obtain large stakes as these banks continue to suffer from the ongoing financial and debt crisis. Meanwhile, Qatar Holding received the approval to buy a controlling stake in Harrods Bank, the private banking arm of the department store.
- **Unemployment** in **Qatar** has declined to 0.5% in 2011 from

almost 3.9% in 2001, according to a Qatar Statistics Authority report. While life expectancy recorded an increase, from 74.5 years in 2001, to 78.2 years in 2010, the gender gap in terms of average wages widened – from 0.6% in 2001 to 22.7% in 2011 in favour of males.

- **Saudi Arabia** is hoping to set up a **private arbitration centre** in London to settle multi-million pound commercial disputes and hence “counter investor concerns about the Saudi Arabian legal system and thus boost foreign investment into the kingdom”.
- UAE remained **Turkey’s** top export market for the second consecutive month in Sep as Iranian buyers used the UAE/Dubai to transship gold. Iran had witnessed a surge in demand for gold to hedge against its falling currency and international sanctions. Gold sales, which form part of the “precious stones and metals” category and were the biggest export, at USD 1.6bn of sales.
- **MENA’s total energy capital investment** is expected to touch USD 740bn in the period 2013-17 of which investment is projected to reach USD 165bn and USD 107bn in Saudi Arabia and UAE respectively.

UAE Focus

- The UAE continues to follow an **expansionary fiscal policy**, with total expenditure in the 2013 budget estimated at AED 44.6bn, 6.7% higher compared to 2012’s budgeted AED 41.8bn. The balanced budget projects social spending with the largest share of 51% of the budget while education accounts for 22% and water and electricity at 12%. This budget is part of the AED 133bn plan over the period 2011-2013.
- Reuters reported that **Abu Dhabi** is expected to meet with **Asian fixed-income investors** in mid-Nov though there is no new sovereign bond issue. The meeting is being arranged by HSBC but the Abu Dhabi Department of Finance declined to comment on it.

- **UAE's oil output** reached an average 2.69 million barrels per day in Sep, according to the IEA. This compares to 2011's average of 2.5mn bpd and a sustainable oil production capacity of 2.79mn bpd amidst plans to increase its oil production capacity to 3.5mn bpd by 2018.
- **Foreign deposits** with banks in the UAE **increased by 23.6%** mom to AED 71.7bn in June, taking UAE banks' total foreign liabilities to around AED 319.7bn at end-June from AED 294bn at end-May. Foreign assets shrank to nearly AED 276bn from AED 286bn in the same period.
- Discussions with creditors were ongoing past the deadline for the USD 920mn Sukuk repayment (and the accrued profit amount of USD 18.75mn) by Sharjah-based **Dana Gas**; this remained the most actively traded share on ADX and fell almost 8.8% to 41 fils each.
- In an effort to expand its Dubai terminal's operations **DP World** has begun construction on a USD 850mn expansion which when completed in 2014 would have a capacity 4mn TEU. Additionally, it also won the terminal project in Mumbai's port – with about USD 200mn in investment and an expected completion date of 2015.
- **DEWA** announced plans for building a reservoir with a capacity of 120 million gallons for emergency purposes. Also, S&P revised upwards DEWA's credit rating from 'BBB-' to 'BBB' reflecting DEWA 's strong performance and abundant liquidity.
- Both Dubai and Abu Dhabi **airports** reported strong **double-digit passenger growth** in Sep: in **Dubai**, passenger growth surged 12.8% to reach 4.78mn while in **Abu Dhabi** it registered a 14.5% pickup to 1.2mn passengers.