

Weekly Economic Commentary – November 25, 2012

Markets

By midweek stock markets were ebullient with the S&P scoring the largest daily gain in two months on expectations that negotiations on the **US** fiscal cliff would yield a meaningful compromise. Almost 70% of the S&P 500 companies reported Q3 earnings above expectations, while less than half exceeded sales forecasts. With favourable PMI data on **China** and the US, risk appetite grew before the long Thanksgiving weekend in the US. Regional markets were mostly down with **Egypt**'s markets down after fresh violence over Mursi's decree which overshadowed the pick-up post the IMF provisional loan agreement. The euro rose to a three-week high against the dollar as hopes for the **Greek debt** deal and **German** confidence outweighed weak macro data. Gold prices rose above USD 1730 per oz and the oil price jumped in reaction to the violence in Palestine.

Global Developments

Americas:

- **US existing home sales** recorded a stronger-than-expected **rebound** in Oct, rising 2.1% mom to a seasonally adjusted annual rate of 4.79 mn (Sep: -2.9% mom, downwardly revised), and rose 10.9% yoy. The stock of existing homes on the market dropped 1.4% to 2.14 million the lowest since December 2002. Home-builder confidence rose to 46 in November from 41 in October, the record level since May 2006. Existing-home **sales prices** held steady in Oct but surged 11.1% yoy and 10% over the Jan-Oct period, suggesting a continued housing market recovery.
- The Conference Board's **index of US leading indicators**

(LEI) rose for the second month but at a slower pace in Oct gaining 0.2% (Sep: 0.5% revised downward), with **balanced strengths and weaknesses** among the leading indicators. The LEI rose 0.5% over the 6-months ending Oct (1% a.r.) as compared to an increase of 1.8% (3.7% a.r.) over the previous 6 months, suggesting a **sustained but modest recovery**.

- **Jobless claims** fell by 41k to 410k last week, remaining elevated in the aftermath of super-storm Sandy. The 4-week average rose by 9.5k to 396k. US labour market remains fragile.
- The US flash **manufacturing PMI** rose to 52.4 in Nov (Oct: 51.3), with **output** and the forward looking **new orders** indicators rising at the fastest pace in 5 months, suggesting a stronger US recovery. The report cautioned that reconstruction after hurricane Sandy may have had an upward bias on results.
- **Brazil's gold reserves** are at a 11-year high, after the country boosted its holdings by 17.2 tonnes to 52.5 tonnes in Oct (highest level since Jan 2001), following the purchase of 1.7 tonnes in Sep. This is raising gold prices, even as physical demand of the commodity is down in India and China.

Europe:

- **ECB, IMF and EU finance ministers** failed to reach an agreement on a **Greek debt-relief plan** for the second week running, delaying the disbursement of a second tranche of Greece financial aid. The outcome is largely unexpected after an official had earlier said an agreement was imminent. Officials informed that "there are no major political disagreements" and delays were due to "technical verifications". The meeting will reconvene next week.
- **Moody's downgraded France** to Aa1 from Aaa, in a long delayed move, and maintained a **negative outlook** for the

economy, citing an “uncertain fiscal outlook” in light of structural rigidities and subdued domestic and external demand.

- **German Ifo** surprised markets by rising unexpectedly to 101.4 in Nov (Oct: 100), following six consecutive declines, as both current conditions index and expectations index gained slightly. Meanwhile, **Germany** recorded a 0.2% qoq expansion in **Q3 GDP** (Q2: 0.3%), aided by domestic consumption and foreign demand as investment dipped.
- The **eurozone** services PMI for Nov fell to 45.7 (Oct: 46), the lowest since July 2009, while manufacturing PMI edged up to 46.2 (Oct: 45.4), taking the **composite PMI** to 45.8, slightly higher than the previous month's 45.7. More worrisome is that Germany is also weakening: services sector contracted at its fastest rate in 3.5 years to 48.0 in Nov.

Asia and Pacific:

- Preliminary reading of HSBC's **China manufacturing PMI rebounded** in Nov to 50.4 from 49.5, crossing into expansion territory for the first time in 13 months, underscoring signs of a stronger growth this quarter.
- **FDI in China** declined 0.2% yoy in Oct to USD 8.31bn, falling for the 11th consecutive month, suggesting subdued business spending amid global uncertainties. Inward FDI over the Jan-Oct period declined 3.5% yoy to USD 91.7bn (Jan-Oct 2011: +15.9% yoy). Direct investment from **European Union** shrank 5.5% yoy while investment from the **US** increased 5.3% yoy over the Jan-Oct period.
- **India** tops the list of **remittance** inflow countries in 2012, according to the latest World Bank data. As global remittances look set to hit a record USD 400bn, India is looking at an inflow of almost USD 70bn, with China a close second at USD 66bn.
- **Japan's exports** slumped 6.5% yoy in Oct and **imports** fell

1.6% yoy, bringing the **monthly deficit** to JPY 549 bn, the fourth consecutive monthly deficit this year, suggesting continued economic weakness in Q4. Exports to China, Japan's largest trading partner, fell 11.6% yoy as territorial tensions between the two nations intensified. Exports to the EU slipped 20.1% yoy while exports to the US increased 3.1% yoy.

- **Japan will inject JPY 1.0 trillion in a second round of fiscal stimulus** (after JPY 750 bn a month ago) while the BoJ is expected to further expand asset purchases in December.
- **Thailand GDP** recorded a 1.2% qoq and 3.0% yoy increase in Q3, but was slower compared to Q2's 2.8% qoq and 4.4% yoy rise on lower exports growth. However, tax reimbursement under the government's 'first car' scheme, expanded general investment in the private sector and foreign investment, and tourism expansion boosted domestic consumption.
- **Taiwan export orders** rose for the second consecutive month – picking up by 3.2% yoy in Oct (Sep: 1.9%) as ASEAN and US market demand rose by 14% and 9% respectively ahead of the year-end shopping season. **Industrial production** increased unexpectedly by 4.56% in Oct (Sep: 2.88%), supported by the construction and building sector (+20.9% yoy) and producers goods (+6.6%).
- **The RBA** kept its benchmark **interest rate unchanged** in last week's policy meeting but alluded to the possibility of **further easing** ahead due to “uncertainty about the timing and magnitude of a pick-up {in dwelling and other business investment}”.

Bottom line: As distressed US real estate properties shrink, house prices are firming and activity in construction springs up. If the PMI data are anything to go by, more disappointment is in store in the Eurozone while Asia slowly gets back on its feet. This was also the crux of OECD's South-East Asian

Economic Outlook report which forecast economic growth to return to a “robust” pre-crisis average of 5.5% over the next five years, buoyed by domestic demand with lower dependence on exports.

Regional Developments

- **Egypt** reached **preliminary agreement** with the **IMF's** technical team for USD 4.8bn in financial aid. Disbursement of the loan is subject to IMF board approval on Dec 19th, after which payment will be released over 22 months. **Fitch** followed up with a statement that the IMF agreement gives “stability, confidence and international support for fiscal consolidation and structural reform” and hence could stabilise the country’s ‘B+’/Negative rating.
- **Egypt scrapped subsidies on 95-octane gasoline** while stating that quotas would be set for other fuels – this announcement came close on the heels of the IMF agreement. This move would result in savings of almost EGP 55mn, according to the PM.
- The volume of **Iran's foreign trade with Turkey** rose from USD 5bn to USD 23bn over the past 5 years, according to Iran's Chamber of Commerce and Industry. Iran expects trade with Turkey to grow to USD 30bn over the next 2 years.
- An **Iranian** official stated that **construction of the 225 km Iran-Iraq-Syria gas pipeline had started**, and is expected to be completed by June 2013.
- **Iraq exported more oil in Oct** compared to Sep resulting in higher revenues – in Oct, about 81.3 mn barrels of oil were exported for an average of about 2.62mn barrels per day (bpd) (Sep: 2.6mn bpd). Oil revenues picked up to USD 8.578bn (at USD 105.51 per barrel) vis-a-vis USD 8.4bn in Sep.
- **Jordan** plans to review international fuel prices and **re-define prices of fuel derivatives** in the domestic market

on a monthly basis as of Jan 1st, 2013. **Jordan also** approved a draft law to **restructure existing government** institutions in an effort to increase efficiency and reduce government expenses.

- Some disappointing macro indicators were released in **Lebanon**: industrial exports fell 11.3% in the Jan-Sep period; Oct consumer price inflation was at 11.1% yoy and up 1.5% mom on higher education costs, entertainment costs and food prices; retail activity was down 8.5% in Q3, with durable goods also declining – furniture dropped 35% while electronics dipped 19%.
- **H1 nominal GDP increased by 16.2% yoy** to OMR 15.2bn in **Oman**, as per data released by the National Centre for Statistics and Information. Oil GDP grew 9.9% to OMR 7.86bn alongside a 12.6% expansion of total non-oil output to OMR 8.18bn.
- **Oman's** Authority for Electricity Regulation estimates that the **government's electricity subsidies would rise to OMR 164.5mn in 2012**, up from 2011's OMR 105.4mn. Meanwhile, fiscal surplus for the period Jan-Sep almost tripled to OMR 2.98bn compared to a year ago, as higher oil prices led to a 27% increase in oil export earnings.
- The **US** International Trade Commission has decided it **will not impose anti-dumping** and countervailing duties on imports of **steel pipes from Oman**. Al Jazeera Steel, which was named the mandatory respondent in the US investigation, will be refunded duties paid over the 6-month period of investigation.
- **Qatar** is projected to invest about USD13.1bn in the power sector in the coming eight years to keep up with the growing demand.
- **Saudi Arabia's cost of living index** rose 3.8% yoy in Oct, inching 0.7% mom driven by a rise in the cost of renovations, rents, fuel and water sub-index, up 6.7% yoy, and the food and beverages sub-index, up 4.7% yoy.
- **SAMA's new regulations** on real estate financing, leasing and supervision of financial companies are expected to

develop the mortgage market. The CB is also drafting regulations towards the establishment of a real estate refinancing company for boosting the growth of the housing mortgage market.

- **Saudi Aramco** awarded eight **EPC** (engineering, procurement and construction) **contracts** covering its USD 6bn Jizan oil refinery terminal which, when completed in 2016, will process 400K bpd.
- The government of **Saudi Arabia** awarded contracts worth SAR 2.68bn to boost the **education** sector. Contracts included the construction of engineering and science colleges around the country.
- The head of the Opposition in **Syria** has indicated that **about USD 60bn will be needed “within the first 6 months” to rebuild the economy** under any new regime.
- A **single GCC entry-visa** is expected to boost tourism in the region, according to a study submitted to the GCC Chambers Union. The study indicated that the GCC is expected to invest USD 380bn by 2018 in tourism development.
- **GCC** has been recently **acquiring arms** from US and European manufacturers reported the FT last week. About USD24.2bn was spent on four arms deals lately including transport aircraft for Saudi Arabia, a USD 9.9bn Patriot missile system for Qatar and high altitude area defence missiles for UAE.
- **MENA energy investment** should total **about USD 4 trillion by 2035** and this would represent about 10% of global requirements, according to a report from Apicorp. However, deteriorating investment climate, rising inflationary pressure and funding constraints are likely to put pressure on an average annual investment of around USD 160bn.

UAE Focus

- **Abu Dhabi's** annual average **GDP growth** is expected at

5.7% over the period 2013-2016 with growth of 3.9% this year, according to an official at Abu Dhabi Department of Economic Development. Non-oil GDP is expected to grow at 6.5% over the period.

- Construction of **Abu Dhabi airport's new terminal** is expected to be completed by 2016 and the terminal will become operational in Q2 2017. The new terminal will add a capacity of 30 million passengers per annum.
- Strong **investor appetite for bonds** issued from the region continues: NBAD raised MYR 500bn through a 15-year Sukuk priced with a coupon of 4.75%. Gulf Sukuk sales totalled USD 20.2bn, with total bond sales of around USD 34.1bn this year, and compares to 2009's record USD 36bn.
- The master plan of the **Dubai Expo 2020** site was released – equidistant from both Dubai and Abu Dhabi, the 438-hectare Dubai Trade Centre- Jebel Ali site is expected to attract close to 25 mn visitors, if the bid is accepted.
- **Dubai's latest mega-project** and part of the “Dubai 3.0” development plan, the **Mohammad Bin Rashid City** could likely encourage regional development, through higher investment and employment opportunities in addition to the positive spillovers on retail and tourism. However, it is important that this project be funded using a mix of private funding and government revenue.
- **UAE's** decision to decriminalise bounced cheques by nationals is likely to put additional strain on banks as it implies that recovery of the amounts can be done only through civil suits. Last year, more than 1.5m cheques totaling AED 55.3bn had bounced.
- TRI Hospitality Consulting's figures show a **strong performance in the UAETourism sector**. Dubai's hotels gross operating profit per available room (GOPPAR) increased 14.1% yoy to USD 160.07 in the Jan-Sep period, with occupancy rates close to 79.4%.

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