

Weekly Economic Commentary – December 9, 2012

Markets

Global **equity** markets gained after a strong US payrolls report (and DAX was at a five year high) but the underlying tone remains cautious as investors await developments on the US fiscal cliff debates and ahead of the FOMC meetings this week. Regionally, **Saudi and Oman** markets were in the green, with **Egypt** on the slippery slope with ongoing protests. The **euro** fell against the dollar for the first week in five after the ECB followed Germany in scaling back growth forecasts. **Gold** prices continued to drop for the second consecutive week and weaker **oil** prices prevailed, given demand concerns, volatility in the Middle East and the stronger dollar.

Global Developments

Americas:

- **Non-farm payrolls were up 146k in Nov** (Oct: 138k) with the labour market having shrugged off any negative effects from Hurricane Sandy. **Jobless rate fell to 7.7%** – the lowest since Dec 2008.
- **Initial jobless claims fell for a third consecutive week:** claims were down 25k to 370k in the week ended Dec 1 with the four-week average also distorted by effects Hurricane Sandy. Continuing claims fell by 100k to 3.21mn in the week ending Nov. 24.
- **ISM manufacturing PMI** fell to 49.5 in Nov (Oct: 51.7) dragged by employment and inventories while new orders and production expanded. **Markit's manufacturing** index reported a conflicting reading, rising to a 6-month high to 52.8 (Oct: 51.0). Meanwhile, the **ISM non-manufacturing PMI** rose 54.7 (Oct: 54.2) as new orders

- surged 3.3 points and employment fell.
- **Construction spending** rose 1.4% mom and 9.6% yoy in Oct (Sep: 0.5% mom) to an annual rate of USD 872.1bn, the highest level in 3 years. Private residential construction surged 3% mom and 19.4% yoy, reflecting an improving housing market.
 - **New orders for manufactured goods** rose more than expected by 0.8% mom in Oct (Sep: 4.5%), revised upwards from an initial flat reading. New orders for **durable goods** rose 0.5% mom (Sep: 9.1% mom) for the 5th consecutive month.
 - **Non-farm labour productivity** rose 2.9% saar qoq in Q3 (Q2: 1.9%), higher than an initial reading of 1.9%. **Non-farm unit labour costs** fell 1.9% saar qoq in Q3 (Q2: -0.5% revised downward) but rose 0.1% saar over the last 4 quarters.
 - HSBC's **Brazil manufacturing PMI** rose to 52.2 in Nov (Oct: 50.2) at the fastest pace in almost 2 years on strong expansion in new orders while new export orders declined.

Europe:

- Eurostat confirmed that **Eurozone's Q3 GDP** had contracted by 0.1% qoq, with exports the only saving grace. **Bundesbank's** revision of **German growth forecasts** was more severe – Germany is expected to grow at 0.4% in 2013, down from its previous estimate of 1.6%.
- Markit's **Eurozone composite PMI** rose to 46.5 in Nov (Oct: 45.7), but remains firmly in contractionary territory with no sign of an imminent improvement. The **services PMI** rose to 46.7 from a low in Oct: 46.0. France, Italy and Spain continued to drag while Germany's declines moderated significantly.
- **German factory orders** surged 3.9% mom in Oct (Sep: -2.4%, revised) for the first time in 3 months, rising the most in more than a year. **Export sales** rose 6.7% mom

- and **orders** from outside the euro area surged 8.5% mom.
- **Eurozone** volume of **retail trade** recorded its sharpest decline in 6 months, falling 1.2% s.a. mom in Oct (Sep: 0.6%), dragged by **non-food less fuel** sales which dipped 1.4% mom s.a.
 - **Eurozone IPP** index decelerated to 0.1% mom in Oct (Sep: 0.2%) and 2.6% yoy. Excluding the energy sector, producer prices rose 1.5% yoy.
 - **Unemployment** in **France** continued to rise, reaching 10.3% in Q3 (Q2: 10.2%). Youth unemployment rose to 24.9% from 22.7% in Q2. **Greece's** Jobless rate climbed to a record 26% in Sep (Aug: revised 25.3%) while youth unemployment hit a staggering 56%.
 - Halifax **UK house prices** jumped more than expected in Nov gaining 1% mom (Oct: -0.1%). However, over the 3 months to Nov, prices fell 1.3% yoy.

Asia and Pacific:

- **China CPI** increased to 2.0% yoy in Nov from the 33-month low of 1.7% recorded in Oct, as food prices increased (+3.0%).
- HSBC's **India manufacturing PMI** rose to 53.7 in Nov (Oct: 52.9) on a strong pick-up in **new orders**, the fastest since June, and an expansion in **export sales** for the 3rd month.
- **Singapore manufacturing PMI** rose slightly in Nov to 48.8 (Oct: 48.3) but remained in contractionary territory for the 5th month as new orders and production slumped. Singapore's **electronics PMI** weakened, marginally, to 47.4 (Oct: 47.5).
- **South Korea Q3 GDP** was revised down to 0.1% qoq ann. (Q2: 0.3% qoq ann.) from an initial reading of 0.2%. BoK had kept policy rates unchanged last month. HSBC's South Korea **manufacturing PMI** rose 48.2 in Nov (Oct: 47.4), improving slightly.
- **Thailand consumer inflation** decelerated to 2.7% yoy sa

in Nov (Oct: 3.3%), as CPI fell 0.35% mom. **Core CPI**, excluding energy and food, rose 1.9% yoy.

- **Australia's** central bank cut its **benchmark rate** by 25bps to 3.0% on signs of economic weakening. A day earlier, data showed **retail sales** were flat in Oct, falling short of estimates as consumers cut spending on household goods.

Bottom line: The latest PMI data released across US, Europe and Asia reconfirm **the divergent growth paths as Asia slowly recovers**, Europe falls into a technical recession, ECB and Bundesbank revise growth forecasts and the "fiscal cliff" is but less than three weeks away. With ECB shying away from an interest rate cut, the focus is now on this week's FOMC meeting for any major announcements, given Operation Twist's expiry on Dec 31st as well as the barrage of data from China.

Regional Developments

- **Egypt's Morsi** has reversed most of the "expansionary powers" decree which had sparked protests; the referendum over the draft constitution "will go ahead on time" on Dec 15, according to the vice president.
- **Assets under management in Bahrain's** investment business companies recorded a 72.4% yoy increase to **USD 16.46bn** at end-Sep, as reported by the Central Bank of Bahrain, likely due to increase in asset flows from Saudi.
- **Iraq** announced a tender to **buy 30K tons** of rice from the US, Uruguay, Thailand and Argentina.
- **Kuwait's ruler** accepted the **government's resignation** and re-appointed Sheikh Jaber Al-Sabah as **Prime Minister**. Under constitutional rules, a new cabinet must be elected before the first session of the new parliament on Dec 16.
- **Lebanon trade deficit eased** 5.5% yoy in Jan-Oct to reach USD 14.1bn. Imports rose 5.3% yoy USD 17.8bn, but growth has been slowing since Feb on weak domestic demand. The central bank expects **GDP growth** at 2%, **inflation** at 6%

and a **BoP deficit** of USD 2bn in 2012.

- **Lebanon real estate transactions fell** 10.7% yoy to 59K in the period Jan-Oct and **construction permits** granted over the Jan-Sep period shrank 13.4% yoy to 10.7 sqm.
- **Customs revenue in Lebanon picked up** by 3.2% yoy to USD 1.305bn in the Jan-Oct period, while revenues from value-added tax dipped slightly by 1.8% to USD 1.229bn.
- **The listing of Al Izz Bank on MSM** failed to generate much interest, with analysts citing the lack of clarity on Islamic banking regulation and the long gap between the bank's IPO and listing as a few factors negatively affecting the listing.
- **Oman's** Financial and Administrative Audit Institution has initiated steps to improve **transparency** – this includes filing of a personal Financial Disclosure Statement by government officials in a bid to protect public funds, avoid clash of interests or misuse of office or post.
- **Qatar** Central Bank's statistics reveal that outward **remittances touched QAR 47.5bn in 2011**, growing 27% yoy in volume, with India the largest recipient followed by the Philippines and the US.
- **PMI in Saudi Arabia dropped to 57 in Nov** (Oct: 59.8), with new businesses on the rise though at the slowest pace in more than a year.
- **Foreign assets rose to a record high SAR 2392bn** in Oct 2012 in **Saudi Arabia**, recording an increase of 16.2% in the 10 months of this year.
- **Saudi Arabia** plans to invest SAR 500bn (USD 133bn) in **power projects** over the next 10 years to meet rising power demand. **Power consumption** rose 9% yoy in H1 2012 outpacing GDP growth.
- The **GCC Summit**, expected to take place on Dec 24-25 in Manama, is unlikely to discuss the GCC Union as "some GCC countries have requested some time for the sake of a deeper study of the issue", according to Bahrain's state minister for foreign affairs.

- Transparency International's "**Corruption Perceptions Index 2012**" places Qatar and UAE as least corrupt in the GCC, ranking 27 (in a list of 174 nations), followed by Bahrain at 53 and Oman at 61. Lebanon came in at 128th globally and 14th out of 21 Arab countries measured, with a score of 30 that was below the global average of 43.

UAE Focus

- **UAE's PMI** remained flat in Nov, at 53.7, with new projects driving up export orders – HSBC revealed that more than 20% of respondents indicated higher export orders.
- **Abu Dhabi** National Energy Company (**Taqat**) signed an agreement to buy a majority stake in **Iraq's Atrush block**, which it plans to operate. Operation of the block is expected to begin in Dec.
- **Dubai's** recently announced **development projects** will continue to support economic diversification and boost the tourism and hospitality sector, according to UAE's Minister of Economy. While details of the project costs and funding remain under wraps, a leisure property agent Team Leisure issued a study finding that the theme parks alone could attract up to 10mn visitors a year, each spending close to USD 100 daily hence generating almost USD 1.0bn in revenue.
- The IEA announced that **UAE's Sep oil output** was 2.67mn barrels per day (bpd) – 0.74% lower compared to a month ago and compares to the average 2.5mn bpd produced in 2011.
- **Population in Abu Dhabi** grew by an annual average of 7.7% in 2005-2011, significantly higher than the 4% registered during the 1995-2005 period, but lower than the record rate of 10.4% hit during the oil boom of 1975-85. Total population was 2.12mn at the end of 2011 (2010: 1.96mn).

- The **UAE bankruptcy law**, which has been in the news since 2009, is unlikely to be issued before the end of 2013, according to a source involved in the drafting of the legislation. The Law will simplify the process of bankruptcy and also enable companies in distress to restructure, but it would still be difficult to seize assets as land ownership is restricted to UAE citizens.
- **UAE** is forecast to become the **6th largest freight market by 2016**, as per a statement released by the International Air Transport Association (Iata). Global freight volume is expected to grow at 3% pa to 34.6mn tonnes in 2016, of which the UAE would have contributed 2.5mn tonnes.
- **Moody's** has downgraded Emirates NBD, Commercial Bank of Dubai and Mashreq while giving all three a "negative" outlook, citing the build-up of bad loans and as the banking sector in Dubai "continue(s) to face persistent asset quality pressures".
- There has been a considerable surge in the number of **double taxation treaties** signed by the UAE. With almost 40% rise in the past four years, this year saw new treaties signed with Japan, Mexico, Fiji, Panama and Latvia.

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