Weekly Economic Commentary – December 23, 2012

Markets

Global equity had another positive week with global indices at 18 months high and emerging markets reaching an 8-month high on the wake of the post election rallies in Japan and Korea, while the US markets are mixed in the midst of squabble on the fiscal cliff. **Regional markets made modest gains** last week, with the Egyptian exchange bouncing back to levels seen about a month ago. The **euro** was lifted by a positive IFO and the **yen** sank after the BoJ gave in to political pressures on policy easing. **Gold** prices hit a 4-month low before recovering slightly on Fri, while **oil** prices ended lower on the absence of a 'fiscal cliff' deal.

Global Developments

Americas:

- The **US current account deficit shrank** by less than expected in Q3 to USD 107.5 billion (USD 118.1 in Q2), a decline of 9%. The improvement reflects a smaller trade gap offsetting a lower income surplus.
- Initial **unemployment claims rose** 17K to 361K for the first time since Nov 10, after Hurricane Sandy. However, the four-week moving average fell 13.7K to 367.7K. Continuing claims rose 12K to 3.23mn. The data are probably more affected by seasonal adjustment, than by structural causes.
- US **house prices reinforced their rebound in Q3**, as the Case-Shiller index rose 4.5% qoq (ann). However the pace of appreciation was half than in Q2. The NAHB housing market index edged up in Dec, from 45 to 47. All three subcomponents were little changed, with the current and

future sales indexes still hovering around the neutral threshold of 50. Finally foreclosure activity decreased 3% mom in Nov and 19% yoy.

- US **personal income growth slowed** to 0.5% qoq in Q3 from 0.7% in Q2 . In real terms it advanced only 0.1% in Q3.
- The **Conference Board leading indicators decreased** 0.2% in Nov after increasing 0.3% in Oct. Since April the index has oscillated monthly without giving clear signs of robust recovery.
- **Orders for durable goods rose** 0.7% mom in Nov, down from Oct 1.1%. Ex transportation, orders grew 1.6% with core capital orders up 2.7%.
- **Real GDP in Q3 was revised up a second time** to 3.1% qoq (ann), up from 1.3% in Q2 and the previous estimate for Q3 of 2.7%.

Europe:

- The German **Ifo business confidence index crawled up for a second month in a row** to 102.4 in Dec from 101.4 a month earlier.
- The Eurozone non-seasonally adjusted **trade surplus improved slightly in Oct**, to EUR 10.2bn from EUR 9.5bn in Sep.
- **Domestic lending by Spanish banks sank** 5.1% yoy in Oct after retreating 4.9% in Sep, with continuing deleveraging by banks, hardly an omen of economic rebound.
- **UK inflation** was 0.2% mom in Nov. (2.7% yoy). Most of the upward drift came from utilities and public transport price hikes. Core components were subdued and expected to remain so throughout 2013.
- **Yields on Greek 10-year sovereign bond yields fell to a 21-month low** after the ECB announced that Hellenic sovereign paper will once again be accepted as collateral and the country received EUR 34.2bn as part of the revamped rescue program.

- **Italy's consumer confidence improved** somewhat in Dec to 85.7 from 84.9 in November but stayed close to the historical low and unlikely to improve given PM Monti's resignation.

Asia and Pacific:

- Bowing to pressures from newly elected PM Abe, the Bank of **Japan** intensified its monetary easing increasing by JPY 10tn ($118bn) the size of its asset-purchasing programme, and expressed willingness to adopt a higher inflation target.
- **India**'s parliament liberalised banking regulations, allowing some of the country's most prominent business names to apply for new bank licences and paving the way for a boost to foreign investments.
- **New Zealand**'s **GDP** scored a +0.2% qoq and 2.0% yoy growth in Q3, a notch down from a downwardly revised 0.3% qoq and 2.5% yoy rise in Q2 growth. The driver of growth was exports of food commodities confirming that Asia's recovery is underway but not at stellar pace.
- **China's investment inflows declined** 5.4% yoy to USD 8.29bn in Nov – falling for the 12th time in the past 13 months. Overall, FDI flows in the period Jan-Nov 2012 has dropped 3.6% to USD 100bn.
- **India**'s latest central bank meeting offered no surprises: the repo and reverse repo rates were kept unchanged due to persistent inflation numbers, though the RBI Governor did (unusually) signal further rate cuts in the future.
- **Japan's machine tool orders fell below JPY 90bn** for the first time in 25 months this Nov – declining by 21.3% yoy to JPY 88.17bn. Domestic tool orders fell by 20.9% yoy with demand from abroad also sluggish. November's **trade deficit** came in at JPY 953.4bn – the third largest ever as overall exports fell (for the sixth consecutive month) by 4.1% while imports grew 0.8 percent to JPY

5.9373 trillion.

- **Singapore non-oil domestic exports** were down 2.5% yoy in Nov (Oct: +7.9%) as electronic exports contracted by a whopping 16.5% (-0.8%) – a matter of concern as this segment is growing in other Asian markets (including Taiwan, because of IPhone).
- **Taiwan's export orders grew** by 6.1% mom and 11.1% yoy in Nov (Oct: +3.2% yoy), bringing orders for the first 11 months to USD 401.61bn- up 0.4% yoy and reversing the negative yoy trend. US was the top source of orders at USD 10.74bn (+10.6% mom), followed by China, at USD 10.09bn (+7.5%).

Bottom line: Data flow was meagre and no surprises were recorded. The main story at global macro level is the failure to reach a compromise on the fiscal cliff. At this point it seems unavoidable that on January 1st the tax rises and program cuts agreed to overcome the debt ceiling will kick in. In itself it is not a bad outcome: politically it is easier to slash expenditures after taxpayers feel the pinch on incomes after being subjected to new taxes. In Japan post election populism is pushing for the umpteenth dose of monetary drug. After 20 years the lesson has not been learned yet. Structural reforms are required not liquidity.

Regional Developments

- The new **Egyptian constitution** was approved by a wide margin of almost two thirds according to preliminary count of the referendum vote. Egypt enters divided political arena.
- **Germany**'s previous plan of writing off EUR 240mn of **Egypt**'s debt has been put on hold after "serious reservations" about the government's policies and the government announced the cancellation of mid-Dec talks on development aid. Additionally, any future assistance was to be dependent on Egypt's progress toward democracy and the rule of law.

- Egyptian Finance Minister Momtaz el- Saeed estimated that budget deficit may widen to as EGP 200bn ($32 billion) this fiscal year in the absence of corrective measures, as revenues cover only about 60% of spending.
- The **Egyptian** Cabinet has approved, in principle, a **law on issuance of sovereign Sukuk** despite opposition by the Freedom and Justice and Al-Nour parties.
- The **World Bank has pledged USD 900mn to Iraq** in the coming four years to "to create new work opportunities, institutional support and better living standards".
- **Iraq's oil production** reached about 3.2mn bpd in Dec and the plan is for output to touch 3.7mn bpd next year followed by 4.0mn bpd capacity in 2014, according to its Oil Minister.
- IMF's latest data shows that **Iraq added gold holdings to its international reserves** for the first time in a few years – it quadrupled to 31.07 tonnes in the period Aug-Oct 2012. **Turkey**, meanwhile, **reduced its gold holdings** in Nov by 5.84 tonnes from Oct to 314 tonnes.
- **Jordan** announced that IMF is satisfied with the latest set of "positive" economic reforms and it is likely that the IMF's approval of a USD 2.05bn loan for Jordan under an agreement will be publicised soon.
- **Morocco's budget** deficit is expected at 5.6% of GDP by end of the year, from 6.1% of GDP last year. Reform of the compensation fund (which subsidises fuel and other essential goods) is high on the government's list – it currently accounts for nearly EUR 2.86 bn of expenditure.
- **Oman held its first-ever local elections on Saturday**, though the 192 elected would have only advisory powers. About 3% of the 1475 independent candidates were women.
- **Oman**'s Capital Market Authority has issued three "in-principle" **licenses for Takaful operations** and has also given initial approvals for three Omani companies including Tilal Development Company to float Sukuk in 2013.

- **Oman**'s central bank has granted final approval and a license to Bank Nizwa to start Islamic banking business starting this Sunday 23 Dec.
- **Total number of unemployed in Oman has touched 153,326**, of which 64% are women, but these numbers are not worrisome according to the Chairman of the Public Authority for Manpower Register given that 56,326 jobs were created recently for unemployed youth.
- **Qatar's GDP is forecast to ease to 4.5% in 2013** from 6.2% this year, as per the "Qatar Economic Outlook 2012-2013" report issued by the General Secretariat for Development Planning. 2013 will witness a decline in overall oil and gas volume GDP by 1.2% while non-oil and gas sector would maintain its momentum, growing about 9.5%.
- The **Saudi construction market** is expected to grow at a rate of 32-35% yoy until 2015 and plans are to invest USD 806bn in upcoming projects, planned until 2030. *(Source: Zawya)*
- **Saudi Arabia's Q3 non-oil exports fell 10.64% yoy to SAR 40.6bn** while Saudi's non-oil exports to the GCC dipped by 45.27% yoy to SAR 1.34bn in Oct. Bulk of KSA's non-oil exports went to the UAE (SAR 613mn), followed by Qatar (SAR 228mn) and Kuwait (SAR 202mn).
- The **GCC Summit this week** is likely to focus on economic cooperation and closer security cooperation, in addition to discussing the entry of Jordan and Morocco as members of the GCC.

UAE Focus

- **Emirates NBD has signed an agreement to acquire BNP Paribas' Egyptian arm** for USD 500mn, in a deal that raises much needed capital for the French bank while allowing the Emirates NBD to expand its regional presence.
- The **UAE Central Bank** has extended the deadline on three

banking reforms – new limits on exposure to government entities, guidelines on banking sector liquidity and a nationwide upgrade of security features on debit cards – by six months.

- More **development projects** announced for Dubai: one is a AED 3bn facelift for the Deira Souk area and another is a suspended canal to link Dubai Creek to Business Bay worth AED 1.5bn.
- **Inflation in UAE** was down to 0.05% mom (0.5% yoy) in Nov owing to a 0.9% decline in food and non-alcoholic beverages.
- **Industries in the UAE attracted close to AED 124bn in investments in H1 2012**, according to the assistant undersecretary for Industrial Affairs at the Ministry of Economy. Industrial products contributed AED 2.43bn to UAE's total non-oil exports in the same period.
- The **Real Estate Investor Protection law** will be issued in Q1 2013 – the draft law allows investors to get full refund if the developer fails to complete or handover a property within a certain timeframe; investors can also claim compensation for breach of any warranty or undertaking contained in the contract for sale as well as misrepresentation by the developer or investor or broker. However, law firm Hadef & Partners noted that, when surveyed, only 28% of its 8500 respondents were aware of this proposed law.
- **Dubai Duty Free** expects sales to further pick up next year to AED 6.6bn following the opening of Concourse A at the Dubai International Airport. Sales this year is expected at AED 5.9bn, with Chinese passengers accounting for about 18% of total sales while perfumes and cosmetics are the most popular (17% of total sales).
- The **Jebel Ali Free Zone** attracted 111 new firms in Q3 alone (+32% yoy), also registering a 28% growth in companies in the first nine months of the year to 347. In total, JAFZA was home to 6,812 companies at end-Sep.
- UAE will tap **renewable energy** to meet the rising demand

for electricity: it aims to produce 7% of its electricity through alternative renewable energy by 2020, with 25% coming from nuclear energy and the remaining 68% from gas. This was mentioned in a speech by Masdar’s CEO on the UAE and sustainable energy leadership.

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