

Weekly Economic Commentary – December 30, 2012

Markets

The typical year-end thin trading, exacerbated intra-session volatility in global equities. All eyes were focused on the fiscal cliff show which hardly induces any clapping by investors. Hence the weakness of equities globally underscored by 5 consecutive negative closes in the US. Regionally, Bahrain and Egypt gained, with higher profit-taking leading to a dip in the other markets. The euro came under pressure while the yen fell to a 2 year low. Gold retrenched heading for its smallest annual percentage increase (5.3%) in five years as China and India, the world's top buyers, are losing interest, despite the uncertain global landscape. Oil continued its lacklustre performance.

Global Developments

Americas:

- The **Case Shiller house price** for both the 10- and 20-city indexes fell by 0.1% mom. When seasonally adjusted they rose 0.6% (+3.4% yoy) and 0.7% (4.3% yoy), respectively. Pending home sales index increased 1.7% mom to 106.4 in Nov setting a new two-year high. New single-family home sales rose 4.4% mom to an annualized rate of 377,000 units. Sales are up 15% from Nov 2011, and supply remains low at 4.7 months.
- **Chain store sales** index rose 0.7% in the week ending December 15, on the heels of a 4.3% in the previous period. On a year-ago basis, chain store sales slowed marginally, but they remain above their 3% year-to-date average. Overall consumer spending is holding up fairly well in Q4.

- Treasury Secretary Geithner ventilated a series of “creative” accounting measures to free up about USD 200bn from official borrowing to prevent the government from reaching the USD 16.4tn “debt ceiling” until end February.
- The Conference Board **index of consumer confidence** fell to 65.1 in Dec from a downwardly revised 71.5 in Nov, a four month low. Deterioration in future expectations was the main factor behind the decrease, attributable to the uncertainty over tax increase in 2013.
- **Initial unemployment claims** fell by 12K (more than expected) to 350K. The four-week moving average fell 11,250 to 356,7K, the lowest since Q1 2008. Continuing claims fell 32K to 3.21 mn. Festivities might distort the figures but it is clear that the job market is firming.

Europe:

- France’s **Q3 GDP** was revised lower to 0.1% qoq (prev. est: 0.2%; Q2: -0.1%) though household consumption recovered (Q3: +0.2%, Q2: -0.2%). **Consumer confidence** improved in Dec 2 points to 86, the highest level since May.
- **Spain retail sales** fell, for the 29th consecutive month, by 7.8% yoy in Nov as the 3% VAT hike to 21% in Sep discourages purchases.
- Business confidence in **Italy** rose to 88.9 in Dec (Nov: 88.5) after recession eased and borrowing costs stayed at a near 2-year low.

Asia and Pacific:

- **China’s** Securities Regulatory Commission has **eased rules for companies planning to list abroad**. Earlier, companies needed to have a net income of at least CNY 60mn and net assets of CNY 400mn before applying to list outside China.

- **Taiwan** industrial production shot up 6% yoy in Nov from 4.8% in Oct, boosted by electronics parts and components, the bulk of manufacturing.
- **Singapore** industrial production rose 3% yoy in Nov, offsetting in part a 5.2% drop in Oct, thanks to biomedical production, while electronics remain weak.
- **Industrial production in South Korea** showed a continuing recovery as it accelerated sharply by 2.3% mom in Nov (Oct: 0.7%).
- **Thai** industrial production, with a base-year effect due to the impact of floods a year ago, recorded a growth of 83.3% yoy (Oct: 36.0%).
- **South Korea's current account surplus** hit a record high of USD 6.9bn in Nov, taking the 11-month total to USD 41bn, surpassing the Bank of Korea's full year forecast of USD 34bn.
- **Japan** released a host of data for Nov last week: Inflation dropped to -0.2% yoy (Oct: -0.4%); industrial production dipped to 1.7% yoy (Oct: +1.6%) due to "lower production levels in the general machinery, fabricated metals and electronics equipment sectors"; retail sales grew 1.3% yoy to JPY 11.1 tr (Oct: -1.2%); housing starts increased by 10.3% yoy (Oct: 25.2%) on ongoing reconstruction efforts and as consumers rushed to take advantage ahead of the expected sales tax hikes.

Bottom line: The fiscal cliff absorbed all the attention. Markets a few days ago were stolidly expecting a quick compromise, underestimating the cohesiveness and the staunch anti-tax stance of the Tea Party. Meanwhile tensions on the euro area sovereigns eased as Italy sold EUR 5.87bn of five and 10-year bonds at rates close to two-year lows. The treasury sold the maximum EUR 3bn of bonds due in 2022 at 4.48%, slightly higher than the 4.45% it paid last month. Data from Asia confirm that in the region the recovery is broad based with the exception of Japan.

Regional Developments

- Integration was a key word that emerged from the recent **GCC Summit**. Saudi Arabia called for building a coordinated defence mechanism and security system, while Iran and its nuclear programme along with Syria's ongoing internal turmoil and related spill-over effects were also raised as matters of concern.
- **MENA IPOs recovered**, raising almost USD 2.0bn in 2012 compared to the USD 843.9mn in 2011, according to Ernst & Young's MENA Q4 update. Q4 witnessed three IPOs which raised a total of USD 339.8mn (Q3: USD 252.3mn, Q4 2011: USD 226.1mn). Overall, in 2012, Saudi raised USD 1.4bn through 7 listings, followed by UAE (USD 277mn) and Oman (USD 264.4mn).
- The new **Egyptian constitution** was signed into law by President Morsi hours after the electoral commission announced the official final results. Following this, S&P downgraded Egypt's rating and the EGP fell to an eight-year low.
- **Iraq** has reached an agreement to **extend an oil pipeline to Jordan** in a bid to increase Iraqi oil exports and to meet Jordanian demand for oil and gas. The pipeline would be capable of pumping one million barrels per day.
- **Saudi** Ministry of Finance announced a record budget for 2013 with expenditure of SR853.0 up 20% on 2012 budget estimates of SR690.
- Expenditure in **Jordan's** 2013 state budget is around JOD 7.4bn, with a budget deficit of JOD 800mn (including foreign grants) according to an anonymous official. The Finance Minister had earlier stated that the 2013 budget would focus on self-reliance and would raise domestic revenue.
- Revenues from **tourism** grew 15.3% yoy in the first 11 months of this year, according to the Central Bank of **Jordan**. Though tourist numbers were down by 7%, revenues rose to JOD 2.2bn from JOD 1.9bn during Jan-Nov 2011.

- **Kuwait banks' loan portfolios** grew at a stronger pace of 4.5% yoy to KWD 26.76bn during the Jan-Oct period compared to 1.1% a year ago. Loans to the real estate and construction sector account for 32.5% of banks' loan portfolios and grew by 3.1% or KWD 265mn.
- **Lebanon's telecom sector** has no option but to open up, according to the Telecom Minister. Along with the TRA, the Ministry has drafted a new structure (away from high government presence) which includes an "infrastructure layer" and middle layer with three to five private operators providing services and capacity for the private-sector operators in the retail sector. The proposal, which is likely to be forwarded to the Council of Ministers in the coming weeks, would enable a doubling of revenues by 2016. (*Source: The National*)
- KT Corp, South Korea's largest phone and internet operator, has submitted a preliminary bid for Vivendi's controlling stake in **Morocco's** largest telecoms operator.
- A report by NCB Capital estimates **Saudi banks' net income** or profit CAGR at 12.1% for the period 2011-2016 in spite of high provisioning. This is down from a previous estimate of 14.5% due to "expectations of tighter margins, lower fee income and increased provisions".
- **Qatar** General Secretariat for Development Planning revised up the estimate for real GDP, to 4.8% in 2013 from 4.5% calculated in June.
- **Oman's** Telecom Regulatory Authority (TRA) is looking to review its current licensing framework and stated that "the present licensing framework rules and approval processes have been identified to be a disincentive to market entry". To improve competition in the telecom sector, the TRA might consider simplifying entry procedures and the awarding of licenses.
- **Oman** Ministry of Manpower has asked the private sector to comply with the **annual increment rule** – providing at

least a 3% pay hike on the basic salaries. Covering all employees from January 2013, this “will be over and above other entitlements enjoyed by employees”.

- The Global Energy Architecture Performance Report 2013, published by the **World Economic Forum**, has ranked **Oman** at 76, also topping the list of GCC countries in the global ranking of energy systems.

UAE Focus

- A recent Dubai Economic Council report placed **Dubai's 2011 GDP** growth at 3.4%, outpacing 2.8% growth the previous year and up from a contraction of 2.4% in 2009. The report attributed the stronger growth to “fiscal and monetary stimulus packages undertaken by the UAE federal authorities as well as the Government of Dubai” as well as “the resilience” of the Emirate's top trade partners.
- Hong Kong's **trade with the UAE** touched AED 27.3bn in the period Jan-Oct, enabling total trade in 2012 to reach almost AED 34bn which would be an increase of almost 34% yoy. Meanwhile, the Wall Street Journal reported that UAE's re-exports to Iran were down 32% yoy to AED 13.28bn during the first half of 2012.
- Dubai's telecom **du secured a USD 500mn, five-year club debt facility** to fund its medium-term capital expenditure priced at a 1.75% over LIBOR confirming that international credit flows to Dubai are normalizing.
- **Outstanding provisions for bank bad loans in the UAE** fell in Oct for the first time since the global financial crisis began building in 2008, edging down slightly to AED 65.3bn (Sep: AED 65.4bn).
- **Money supply** (M0) was boosted by 4.4% mom to AED 57.2bn in Oct as per the latest release from the UAE Central Bank. **Deposits** were up 1.6% to AED 1162.3bn while loans remained almost stagnant at AED 1103.2bn. Additionally, **banks' investments abroad** rose to AED 114.9bn at end-Aug (compared to AED 83.8bn in end-2011) taking total

- foreign assets to AED 285.5bn (end-2011: AED 248.8bn).
- The **Dubai Shopping Festival** brought in revenues to the amount of AED 14.7bn during its one-month duration in **2012**. Visitors grew by 9% to 4.36mn, with almost one-fifth regional and international tourists – 28% from Europe, 23% from GCC and 16% from South Asia.
 - **Airport traffic** in Nov at both the Abu Dhabi and Dubai airports were lower compared to Oct – given the flows associated with the Hajj period and Eid holidays – but was still at a respectably high growth of 10% yoy in both emirates – to 1.21mn passengers in Abu Dhabi and to 4.88mn in Dubai.
 - **Licenses** issued by the **Dubai DED** were up 15% yoy to 1278 in Nov 2012 with the professional sector picking up a 40% increase in the number of licenses.
 - **Irena**, which has rolled out its first tranche of concessional loans (USD 50mn) in conjunction with the Abu Dhabi Fund for Development, estimates that GCC countries can achieve returns of up to USD 200bn as early as 2030 through **renewable energy** integration.