Weekly Economic Commentary – January 6, 2013

Markets

The deal cut between the US President and Congress to avoid the fiscal cliff was greeted by **relief with a rally in global equities** – the S&P 500 was at a five-year high and Asia posted a seventh weekly gain. Regional markets started the year on a positive note, with the **DFM** touching a 9-month high last Thursday, on higher earnings expectations. The **yen** hit a 30-month low against the greenback and the **euro** was up, rebounding from a three-week low. **Gold** prices were down for the sixth consecutive week and **oil** prices dropped on weaker demand (EIA found that demand was lagging by 2.3% compared to a year ago).

Global Developments

Americas:

- **Non-farm payrolls grew by 155k** in Dec (Nov: 161k) with strong gains across-the-board in manufacturing, health and construction sectors. **ADP** reported a 215k rise in **employment** in Dec (Nov: 148k), the largest since Feb and Dec. Unemployment reading remained flat at 7.8% with new entrants & discouraged workers returning to labour market.
- US **manufacturing PMI** rose from 49.5 to 50.7 in Dec, crawling up into expansionary territory. New orders held steady while exports rebounded and employment improved. **Markit's US factory index** rose from 52.8 to a 7-month high of 54.0.
- **ISM non-manufacturing** index rose at its fastest pace in 10-months in Dec to 56.1 from 54.7, boosted by new orders. 13 non-manufacturing industries reported growth

while 5 contracted.

- US **construction spending** unexpectedly fell in Nov, dropping 0.3% mom to an annual USD 866bn (Oct: +0.7%). Non-residential construction slumped 0.7% mom (Oct: +0.3%) while residential construction growth decelerated to +0.4% mom (Oct: +3%). Spending rose 7.7% yoy and amounted to USD 781bn year to date, 9.2% higher than 2011.
- **Factory orders** held steady in Nov after gaining 0.8% mom in Oct. Orders for nondefense capital goods excluding aircrafts, a proxy for business spending, rose 2.6% mom (Oct: +1.7% mom).
- **Initial jobless claims** increased more than expected by 10k to 372k. Closing of some state agencies during the holidays distorted the data.

Europe:

- Markit's final **Eurozone manufacturing PMI** fell more than expected in Dec to 46.1 (Nov: 46.2, prev. estimate: 46.3). The downturn accelerated in Germany and Spain but eased in France and Italy.
- **UK PMI services index fell below the 50-point mark – for the first time since Dec 2010** – to 48.9 in Dec (Nov: 50.2), due to a slight reduction in incoming new businesses. At 48.9, this was the lowest figure since Apr 09, **bringing back fears of recession.**
- **Retail sales in Germany** increased 1.2% mom in Nov (Oct: -1.3%) but fell -0.9% yoy. Retail sales for the full year are estimated to have slipped between 0.1% and 0.3%.
- **Germany's** jobless figure rose by a less than expected 3k in Dec leaving the **unemployment rate** steady at 6.9%, underscoring a resilient job market despite the slowdown in Q3.
- **Spain**'s registered **unemployment** dropped slightly in Dec, falling by 1.2% yoy – the first monthly decline since

July – on hiring in the retail sector during Christmas season. About 4.8mn people are unemployed in Spain.

- **Inflation** rate in the **EU** was 2.2% in Dec, as higher food and services prices offset slower gains in energy. Prices of food rose 3.1% (Nov: 3%) while services rose 1.8% (1.6%) while energy prices grew 5.2% (5.7%).
- **Eurozone M3 money supply growth eased** in Nov at 3.8% yoy compared to Oct's 3.9% while loans to the private sector fell by 0.8% yoy.

Asia and Pacific:

- **China's** official **manufacturing PMI** held steady in Dec at 50.6, remaining above the 50 mark for the 3rd month, while **HSBC's PMI** rose in Dec to 51.5 (Nov: 50.5). Similarly, China's official **non-manufacturing PMI** rose from 55.6 to 56.1 in Dec. The data points to a muted recovery in economic growth.
- The **Indian** Markit-HSBC Dec **PMI** rose to 54.7 from 53.7 in Nov, the fastest pace since Jan, as output surged and new orders rebounded.
- **India's ballooning fiscal deficit** for the period Apr-Nov, at INR 4.13trillion, has already touched about 80.4% of the budgeted full fiscal year 2012/13 target. The government's revised deficit target this year is at 5.3% of GDP.
- **Singapore GDP** rose more than expected in Q4 by 1.8% qoq saar (Q2: 6.3%, downwardly revised), narrowly avoiding a recession. The manufacturing sector contracted 10.8% qoq saar in Q4 (Q3: 9.9%). Growth slowed to 1.2% in 2012 as against 4.9% in 2011.
- **Indonesia's trade deficit narrowed** in Nov to USD 480mn from Oct's record USD 1.54bn. However, export growth remained soft alongside a 9.9% growth in imports.

Bottom line: The deal to avoid the fiscal cliff may have been struck, but a bigger budget showdown is looming by late Feb when Congress votes to raise the government's borrowing limit.

The fiscal cliff is being shoved down the road. For the time being it seems that the US economy however sluggishly is picking up speed, and Asia seems to be picking up faster compared to the US & EU.On the positive side, the amount of bills, notes and bonds coming due for the G7 plus Brazil, Russia, India and China will drop to USD 7.38 trillion from USD 7.60 trillion in 2012, according to data compiled by Bloomberg.

Regional Developments

- The **Egyptian pound** hit a record low after the **central bank** imposed new limits on foreign currency holdings and introduced an auction system to stem the reserve outflow and a deepening economic crisis. The central bank announced that **foreign reserves** were down to a critical level barely covering 3 months of imports. The **IMF** in a statement endorsed the curb on FX operations by domestic firms. Egyptian finance minister Mumtaz al-Saeed (dismissed on Saturday) said the pound will bottom out within 6 weeks and will not hit 7 vs. the dollar.
- President Mohamed Morsi fired his finance and interior ministers, according to cabinet sources, in a reshuffle aimed at assuaging public anger against the crisis. General Mohamed Ibrahim will become interior minister and Al-Mursi Al-Sayed Hegazy finance minister.
- According to statements by Ashraf El-Arabi, **Egyptian Minister** of planning and international cooperation the **budget deficit** could hit EGP 200bn by the end of FY2012/2013 if the government does not approve a series of financial and fiscal reforms. The **IMF**'s Middle East and Central Asia director, will hold talks in Cairo with senior officials to discuss recent economic developments and negotiate IMF support.
- **Central Bank of Bahrain**'s BHD 30mn monthly issue of **treasury bills** were oversubscribed by 203%. The weighted average interest rate rose to 1.03% as against 1.01% in

Dec.

- **Bahrain** will receive a USD 448mn **grant from Saudi Arabia** to fund development programs in the country. The grant is part of a USD 10bn GCC financial aid program endorsed following political unrest in 2011.
- **Jordan's** cabinet endorsed the **2013 budget** at JOD 7.5bn. Of the total, JOD 6.2bn will be allocated to current expenses (2.1% lower than 2012) and JOD 1.2bn ro capital expenditures. Revenues are projected at JOD 6.1bn leaving a budget deficit of JOD 1.3bn, or 5.4% of GDP.
- The **UAE** deposited USD 250mn to the Central Bank of **Jordan** – this is independent of the USD 1.25bn promised as part of the USD 5.0bn GCC grant to Jordan, according to a statement by the UAE Ambassador to Jordan.
- **Qatar real estate** transactions in 2012 surged 59% to QAR 42bn, averaging QAR 3.5bn a month and QAR 175mn a day. Experts warned this could lead to an escalation of house prices which have already surged over the year.
- **Qatar's** National Office of Statistics reported a 7.5% rise in the country's **population reaching 1.83mn in as of Dec 2012**. The figure includes both nationals and foreigners of whom 74% were male and only 26% were female.
- An Oxford Business Group report on **Qatar** has revealed that legal changes are in the offing: one, a public-private partnership law which will "permit the private sector to participate in key infrastructure projects more readily"; second, a plausible replacement of the existing sponsorship system with a contract signed by the employer and employee.
- The **GCC** pledged to provide USD 10bn in **financial aid** to fund **Oman's** OMR 6bn railway project, with annual disbursements of USD 1bn over 10 years. Minister of financial affairs, Al-Balushi, said other projects to be funded by GCC aid are currently being identified and include electrical and water networks, Al-Batinah expressway and infrastructure at Duqm Special Economic

Zone and other industrial estates.

- **Oman** passed its **2013 budget** boosting **spending** to OMR 12.9bn, 29% higher than the 2012 budget and 13% higher than the revised 2012 budget of OMR 11.4bn. **Revenues** are seen rising 27% to OMR 11.2bn, of which OMR 8bn, or 83%, will come from to oil and gas activities based on an **oil price** of $85 per barrel and daily production of 930K barrels. The **deficit** is expected at OMR 1.7bn, or 5% of GDP.
- **Oman's** government plans to create 56,000 **new jobs** in 2013, of which 20,000 will be in the public sector, Minister Al-Balushi said. In 2012, the government spent OMR 300mn creating 36,000 jobs. He added that the introduction of **GCC VAT** is not feasible given current conditions, but urged the government to reallocate OMR 1.0bn in fuel subsidies toward other areas such as training and job creation.
- **Saudi Arabia** will issue **government bonds** next year to fund construction work at airports in Riyadh and Jeddah. An increase in oil production by other producers might depress energy prices in 2013, lowering KSA's fiscal surplus, according to Finance Minister Ibrahim Al Assaf.
- **Saudi's** Public Investment Fund signed a SAR 270mn contract with US management consultancy firm, Fluor, kick-starting works on a USD7bn **railway project** linking the cities of Riyadh and Jeddah.
- **Saudi Arabia** government **debt** shrank to SAR 98.9bn as of 2012 year-end putting the Kingdom 3rd in a list of countries with the lowest debt to GDP, said a report by King Abdullah Research and Consulting Institute.
- **Saudi Ministry of Housing** announced the implementation of **housing development projects** to build 70,833 residential units in Makah and 15,980 in Jeddah.
- **Saudi Aramco** will drill 7 **gas exploration** wells in the red seas and will start gas production at its Midyan field in Tabuk. Gas from the field will be used for power generation.

- The EIU forecasts **GCC population growth** of 30% by 2020 to reach 53.5mn, pointing out the potential strain on the region's food, water and electricity supplies.

UAE Focus

- The **UAE central bank** has set a limit of 50% of the property's value on mortgages for foreigners. Prominent bankers have expressed concern regarding this rule and its negative impact on real estate market. Media reported that a meeting is expected to take place on Sunday between the CB and the heads of banks'.
- **Dubai Islamic Bank**, UAE's largest Islamic bank, **acquired Tamweel**, the largest mortgage provider last week. While this is likely to provide a much-needed boost to the mortgage market, it also underscores the need for M&A or Takeover laws as well as a well-designed Mortgage Law.
- The government of **Dubai** approved the **2013 budget** announcing revenues of AED 32.6bn and expenditures of AED 34.1bn, 6% more than last year, bringing the deficit to 0.5% of GDP. About 16% of the spending is allocated for completion of infrastructure projects while 6% has been earmarked for debt servicing.
- **Dubai's Road and Transport Authority** will allocate AED3.22bn of its 2013 budget to fund 45 new and 55 existing **infrastructure** projects.
- **Abu Dhabi's** TAQA acquired a 53.2% stake in Kurdistan's **Atrush oil block** in Iraq for USD 600mn from General Exploration Partners (GEP), making its first foray into the Middle East region.
- **Mobile phone subscribers in the UAE increased to 13.34mn**, rising by 1.6mn with new subscribers in the first 10 months of 2012 and pre-paid market share remained high at around 85%. The du-Etisalat subscriber gap has narrowed, with Etisalat ahead by about 1 mn subscribers.

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