

Weekly Economic Commentary – January 13, 2013

Markets

Markets were moderately upbeat with shares of European banks surging on news that lenders have won more flexible Basel liquidity requirements. **Equity funds** last week were boosted by the largest inflow in five years. Regional markets had a good week and the **DFM** reached a 10-month high. The **euro** hit a nine-month high after Draghi's comments almost ruled out any near-term interest rate cuts while yen weakness continued. Both **gold** and **oil** prices eased on Friday but gold recorded a slight gain on the previous week while Brent oil price had risen (earlier in the week) on news of a cut in Saudi oil production.

Global Developments

Americas:

- **Consumer credit** rose for the 4th month adding USD 16.05bn in Nov (Oct: USD 14.08bn). Most of the increase was in non-revolving credit – auto and student loans – while revolving credit growth slowed, highlighting cautious consumer spending.
- **Trade deficit** in the US widened and touched a 7-month high of USD 48.7bn in Nov, in line with output recovery. Imports grew by 3.8% to USD 231.3bn and exports recorded a slower growth of 1% to USD 182.6bn while exports to Europe dipped by 1.3%.
- **Budget deficit** grew by USD 260mn in Dec – the best Dec result since 2007 as tax revenues were boosted by 12% to USD 270bn, led by a surge in individual income tax revenues; however, the last 3 months of 2012 recorded a USD 292.37bn shortfall.

- **Initial claims** rose 4k to 371k, the fifth consecutive week in which claims have risen. The four-week moving average rose 6,750 to 365,750. Continuing claims fell 127k to 3.1 million.

Europe:

- **Germany factory orders** fell more than expected in Nov, dipping 1.8% mom following a sharp 3.8% mom rise in Oct. **Industrial production** rose 0.2% mom in Nov (Oct: -2.0%, revised); energy output (-3.3% mom) and consumer goods (-2.2% mom) dragged while manufacturing output rose 0.4% mom. Even **German trade** data showed a slump in exports by 3.4% mom in Nov (Oct: +0.2% mom), the sharpest drop in a year, on weaker euro area demand while imports fell 3.7% mom.
- **Eurozone unemployment** rose to a record high of 11.8% in Nov (Oct: 11.7%). The jobless rate was highest in **Spain** at 26.6% (Oct: 26.2%) and **Greece** at 26% (Oct: 25.4%); **German** unemployment remained among the lowest and steady at 5.4%. Youth unemployment rose to 24.4%.
- **Eurozone Economic Sentiment Index** rose 1.3 point in Dec to 87.0. Sentiment improved among consumers and businesses across all sectors but retail. The Eurozone **Business Climate Indicator** improved only marginally to -1.12 (Nov: -1.17).
- **Italy headline unemployment** held steady in Nov at 11.1% but youth unemployment climbed for the 3rd month to a record 37.1%.
- **France industrial production** rebounded slightly 0.5% mom in Nov after falling 0.6% mom in Oct. **Manufacturing** rose 0.2% (Oct: -0.8%).

Asia and Pacific:

- **Chinese exports** surged 14% yoy in Dec (Nov: +2.9% yoy) while **imports** rose 6% yoy after a flat Nov. The **trade surplus** widened to USD 31.6bn from USD 19.6bn in Nov.

Exports to the US and EU recovered strongly. On an annual basis, exports rose 7.9% yoy, slower than the 20% recorded a year earlier, and imports rose by a modest 4.3% yoy compared to 12% in 2011.

- **Inflation in China quickened to a 7-month high** of 2.5% in Dec (Nov: 2.0%) on higher food prices (Dec: +4.2%), especially vegetables (Dec: 14.8%).
- The PBoC revealed that **China** extended CNY 454.3bn in new **Yuan loans** in Dec, down from CNY 522.9bn in Nov while **Dec money supply** grew by 13.8%. **Foreign exchange reserves** in 2012 grew by the least since 2003 – to USD 3.31 trillion in end-Dec, compared to USD 3.29 trn three months before and USD 3.18 at end-2011.
- **Japan** plans to inject JPY 12 trillion of additional **fiscal stimuli**, allocating around JPY 5-6 trillion to public works. Prime Minister Abe expects stimulus measures to be compiled within a week. Ahead of the stimulus came news that Japan's **current account slid into the second-largest ever deficit** of JPY 222.4bn in Nov as the stronger yen weakened exports.
- **India's** industrial production fell by 0.1% yoy in Nov, slightly worse than expectations. Manufacturing slowed sharply and mining fell, while production of capital goods contracted sharply.
- **Trade deficit in India narrowed in Dec** to USD 17.7bn (Nov: USD 19.3bn) as exports fell for the eighth straight month (Dec: -1.9% yoy, USD 24.88bn) and imports grew 6.3%. Total trade deficit for Apr-Dec period widened to USD 147.2bn compared to USD 137.3bn a year ago.

Bottom line: In a week without major data releases China seems to have dispelled concerns over a hard landing. The situation in the euro area seems to be worsening with contagion from the periphery extending to the core in a more virulent form than previously envisaged. Meanwhile in emerging markets capital flows are making an impact, but not necessarily positive. The

yield of the JP Morgan EMBI+ index recently fell to its lowest ever level, prompting fears that a bubble is forming in dollar-denominated emerging market bonds.

Regional Developments

- **Bahrain's** Economic Development Board stated it attracted 40 international businesses in 2012; these companies are expected to create 900 jobs over the next 3 years in financial services, logistics, and renewable energy among others.
- **Passenger traffic** at the **Bahrain** International Airport rose 8.8% yoy in 2012 to 8.48 million despite ongoing political protests.
- **Egypt Central Bank** said **foreign reserves** barely changed in Dec, falling to USD 15.015bn from USD 15.036bn in Nov. It sold USD 60mn to banks at its latest foreign currency auction, USD 75mn less than what it offered at each of its 4 auctions last week. Days later, the **Egyptian pound** fell to a record low but remained in line with the central bank's interbank trading band.
- **Egyptian president** Mohamed Morsi appointed former deputy central banker Hisham Ramez as the new **Central Bank Governor**.
- **Qatar** announced it will extend **Egypt** an additional USD 2bn in lending and USD 500mn in outright grant, to aid the country in battling its currency crisis. Egypt Central Bank sub-governor said that the USD 2bn in new loans had arrived at the bank in Dec, implying the money has already been spent. Qatar's prime minister publicly dismissed claims by Egypt that his country was seeking dominance over Egypt's politics and economy.
- **Egypt's urban CPI** increased to 4.7% in Dec from 4.3% in Nov while on a mom basis, prices rose by only 0.2%. Prices of food and drinks increased 5.8% yoy but were down 0.2% mom.
- Unemployment in **Jordan** increased to 12.5% in Q4 2012

compared to 12.1% a year ago. While the jobless rate was 10.8% for men and 19.9% for females, university graduates unemployment rate was about 16%.

- **Inflation** in **Oman** decelerated to 2.7% yoy in Nov as food and tobacco prices eased.
- **Oman's non-oil exports** increased 14.6% yoy in the first 8 months of 2012 to OMR 2.18bn. Re-exports rose 11.3% yoy over the period and UAE remains the main export and re-export destination while exports to India surged 46.8% over the period.
- **Saudi non-oil exports** fell 5.6% yoy in Nov to SAR 13.6bn. Petrochemical products accounted for 39% of non-oil exports while plastics made up 36%. The US, China and Germany were the largest importers of Saudi non-oil products.
- **Saudi Arabia** cut its **oil production** by 5% mom in Dec to 9.025mn bpd. Although no official announcement has been made, this reduction in production suggests the Kingdom has raised its **oil target price** from \$100 to \$110 per barrel, according to Reuters.
- **Saudi** King Abdullah issued a royal decree allocating a 20% quota for **women in the Shura** council, a first in the history of the Kingdom.
- **Saudi's** ministries of Labor, Economy and Planning and Civil Service Affairs plan a joint-effort to **nationalize jobs** in the industrial sector. According to the Kingdom's department of statistics, 588k Saudis are unemployed.
- The UAE and Saudi Arabia have already completed 200km of rail road towards the **inter-GCC rail project** while the feasibility study for the estimated USD 16bn project will be completed only by Q1 2014.
- Saudi Arabia remained the largest market in the region with projects valued at USD 790bn, according to **Citi's Mena Construction Projects Tracker**. Though UAE projects received a boost, it topped the list of delayed or cancelled projects – at about USD 703bn – compared to a

total of USD 1.5 trillion.

UAE Focus

- **UAE mortgage credit** picked up in Q3 – growing 4.4% qoq to AED 251.4bn and accounting for about 22.7% of total loans disbursed during the quarter. Meanwhile, there has been no official statement following the expatriate **mortgage cap** announcement, even after banks met with the UAE Central Bank to request for a delay in implementation and/or a revision of the cap. In the short-term, the mortgage cap is likely to hurt the budding real estate recovery leading to a fall in demand for property, lower volumes of transactions, a shift towards more rentals and eventually a dip (or lower inflation) in property prices until an equilibrium state is reached. Real activity and employment in the construction and property sector and related services sector will be negatively affected. By dampening demand for real estate the mortgage cap ratio will also mean lower inflows of foreign capital for investment in real estate.
- Dubai Electricity and Water Authority (**DEWA**)'s Chief Executive announced that the company planned to issue up to USD 1bn of Sukuk in Q1 2013, in order to refinance existing debt and invest in its projects.
- Dubai's latest initiative to foster **Islamic economy activities** – including the creation of an Islamic finance council to regulate Sharia-compliant equity and fixed-income products intends to help diversification and also attract FDI into Sharia compliant activities.
- Citi's MENA Construction Tracker report places the value of Dubai's new **real estate projects** at about USD 110bn in Nov; this takes total value of projects in the UAE to USD 199bn (Oct: USD 88bn).
- Dubai **taxi revenues** were up 3.3% yoy to AED 1.093 billion in 2012 as cabs completed 37.25mn trips (2011:

33.56mn), ferrying almost 74.5mn passengers (2011: 67.12mn).

- Occupancy rates in **Dubai's hotels** were close to 90.8% in Nov and the average room rate was around USD 116.81 (up 1.6%), leading to a gross operating profit per available room to USD 297.15 – this was the highest level reached in the past three years and also the highest in the region for the month.
- The **UAE industrial sector** – underscored by activity in petrochemicals, aluminium and steel – contributed about 16% to GDP in 2012 and is likely to grow further by 3% in 2013, according to a statement by the UAE Minister of Economy.
- **Demand for oil** globally is likely to grow by 900k barrels per day, with majority of the demand coming from non-OECD countries, as per the UAE's governor for OPEC nations.
- Reuters reported, citing familiar sources, that the deal for the **merger between Abu Dhabi's Aldar and Sorouh** is expected to be signed in the coming weeks. If merged, the new company would have a combined market cap of AED 9.3bn and assets worth about AED 15bn.

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