

# Weekly Economic Commentary – November 30, 2008

## Global Developments

Two pieces of news dominate world events: the bail out of Citigroup and the terrorist attack in Mumbai.

The Citi bailout was rather generous to shareholders, but it underlines that the financial sector is still in disarray. It must be recalled that Citigroup a few weeks ago wanted to rescue Wachovia (later acquired by Wells Fargo). The Citi deal shifts pressure from US financial institutions, at least for a while. But markets are pondering who might be next. The indications again point to the eurozone. Credit default swap spreads indicate increasing differentiation between Germany on the one hand and the periphery, (Greece, Ireland or Italy or Spain) on the other hand. Some countries do not have enough resources to sustain the commitments made to support their banking sector.

The attacks in Mumbai have hit a large economy whose growth is critical for the stability of the world output and together with threats by Al Qaeda have reignited tensions over the security situation. The repercussions are difficult to gauge but considering that Thailand is also marred by civil unrest, and Pakistan is in hanging in a precarious situation, East Asia looks wobbly.

US markets were in a quiescent mood due to Thanksgiving, but on a general upbeat note following Citi's rescue. The current U.S. and global economic conditions, remain challenging. On the positive side is the appointment by President-elect Obama of an experienced economic team. But the recovery is not in sight yet and most signs still point to a sharply downward trend. The Fed has announced a US\$ 600bn plan to buy toxic assets plus US\$ 200bn to support consumer credit; meanwhile

the EU Commission has approved a 200bn euro expenditure plan equal to 1.5% of GDP.

## **GCC Markets**

Over the week end OPEC decided not to change target output deferring a decision to the December 17<sup>th</sup> meeting in Algeria. KSA Oil Minister Al Naimi indicated 75 US\$ per barrel as a target price over the medium term (following a similar indication given by HH King Abdullah in an interview), but for the time being such a level appears out of reach. WTI oil futures have rebounded to almost 55 US\$ per barrel last week and has closed at US\$53.5 on Friday more than 7% over the previous week.

The past week saw some rebound in the GCC equities in the wake of a general uplifting mood in stock markets worldwide. On Saturday the Saudi's benchmark index posted its largest jump of the past 30 months sustained by the hope that a turning point is in sight, and influenced also the markets in Qatar and to a lesser extent the DFM and Oman. Bahrain, Abu Dhabi and Kuwait remain in negative territory, compared to a week ago. However, trading is dominated by retail investors ready to cash in on short term bets. In other words these movements lack depth as foreigners and institutional investors are still wary. For example DFM disclosed that foreigners were net seller for about 20 ml US\$ in the past week.

Saudi Arabia's Finance Minister pledged to boost public spending in 2009 despite the decline in oil prices. Earlier this month King Abdullah of Saudi Arabia said that he expected investment by the public sector and state-controlled oil sector to exceed US\$ 400bn over the next five years. Meanwhile in Abu Dhabi the government has committed over US\$ 100bn over the next 4-5 years for infrastructure projects.

## **Market intelligence**

In the UAE the last few days saw a glimmer of hope as the

authorities have expressed strong optimistic views and the refinancing of sizeable loans calmed marked nervousness. The banking sector is stabilizing, but continuous news on layoffs is contributing to uncertainty.