Weekly Economic Commentary – June 14, 2009

Global Developments

USA: A mixed picture emerges from last week's data: these indicate that the US economy is stabilising. May retail sales rose 0.5% month-on-month, but mainly as a result of the rise in gasoline prices during this period. Excluding this and auto sales, the retail sales reading was flat. New jobless claims continue to fall gradually, recording 601k in the week to June 6. US consumer confidence rose in June to its highest level in nine months. A sign of normalization in the financial sector came from ten large financial groups that have asked to repay a combined $68bn to the US Treasury.

Europe: We continue to hold a negative outlook for Europe. German industrial production dropped 1.9% mom in April, with similar results from France and Spain driving Euroland IP to fall 1.9%mom. In Europe the only improvement has been recorded in business surveys like the PMI or consumer confidence, but positive sentiment is yet to translate into better economic data. Additional worries emerged after German retailer Arcandor filed for insolvency, having failed to secure state aid. Ireland credit ratings were cut for the second time in three months (to AA with a negative outlook), amid rising worries over the cost of bailing out the country's banking sector. The Swedish Financial Supervisory Authority's stress tests showed the nation's four largest banks could absorb more than SKr150bn in losses from the Baltic region over three years. The European Central Bank has provided a EUR 3bn loan to increase the reserves of the Riksbank in order to safeguard financial stability.

Asia and Pacific: There are some mixed data releases from China. On a positive note, China recorded a big rise in investment on factories, property and roads, thanks to its CNY 4 trillion stimulus package. But trade data for May show a decline in both imports and exports. Industrial production in both China (May) and India (Apr) registered an upward tick (8.9% and 1.4%yoy respectively). Our view is that global economic recovery will be lead by the emerging markets (Brazil, China and India) increasing domestic demand to offset the decline in exports.

Bottom line: The world economy is still in intensive care with signs of improvement being more visible in Asia and to a lesser extent in the US. The G8 summit, held over the past two days in Italy, had world leaders cautiously hinting that the worst might be over given the “signs of stabilization” and moving forward to discussing “exit strategies”. Meanwhile worries on the effect of oil prices on this recovery process are spreading: China has increased oil imports by 5.5% yoy in May and the speculative long positions on oil futures in New York are at their highest since last July (when prices peaked at 140$/b) and commodity funds are recording record net inflows.

Regional Developments

- Moody’s confirmed Kuwait’s Aa2 sovereign ratings but has applied a negative ratings outlook on local and foreign currency government bond ratings and its country ceiling for foreign currency bank deposits.
- A study by Mercer has revealed that 73% of companies across the GCC have set targets for higher or similar growth in 2009 compared to 2008 and 94% believe it is “very likely” or “somewhat likely” that these targets will be met. The survey also found that 60% of companies planned to increase manpower during 2010 – some of those by up to 10%, in a powerful sign of improving business confidence levels in the GCC.
- While the Saad group is announcing its debt restructuring plans, there are reports from SABB and

Gulf News making references to another family business (Al Ghossaiby) in KSA facing financial difficulties and failing to repay bank loans availed to them. This raises questions about the extent of difficulties faced by family businesses in the region and underscores the need for better corporate governance and transparency.

- Bahrain has priced a $750mn five-year Islamic bond at 340bps over U.S. Treasuries, according to an official at one of the lead managers. The issue is larger than the earlier announcement of $500 million bond issue.
- **Bottom line**: the GCC economies are recovering, supported by higher oil prices and government intervention. However, structural reforms are required to improve corporate governance and modernize and reform the framework for dealing with insolvency and creditor rights.

Market Intelligence on the UAE:

- The UAE Ministerial Committee's risk survey undertaken to support the banking system in developing their risk management agenda concluded that the "UAE banking sector is stable and firmly on the growth path". Additionally, the committee announced the approval by the Cabinet on the revision of the bankruptcy law, the public debt law and the set up of a credit bureau, all measures aimed at strengthening the banking sector
- The refinancing of Nakheel's US$3.5 billion Islamic bond later this year will be the litmus test for how credit ratings agencies assess Dubai government-controlled companies, a Moody's analyst said during a conference.