

Weekly Economic Commentary – July 26, 2009

Markets

Broadly positive corporate earnings reports, signs of stabilization in the US housing and labor markets and positive economic reports from the emerging markets added to the bullish mood in equity markets last week. All regional markets continued to rally, and the DFM reacted positively on Thursday to the announcement of the creation of the “Dubai Financial Support Fund”. The dollar had a volatile week, inching up before Bernanke’s cautiously optimistic testimony, but rising stocks and renewed recovery hopes led traders to seek riskier higher-yielding assets. Oil and gold prices were up from last week, rising 4.7% and 1.5% respectively.

Global Developments

USA: In his testimony to US Congress Bernanke’s did not reveal any new element although the discussion of the economic outlook was more pessimistic than the policy statement issued in June. Bernanke was particularly concerned about lower household spending. The US Leading Indicator increased by 0.7% in June, lower than the 1.3% increase in May, but still a level that reinforces the expectations of stabilization.

Europe: Pace of decline in manufacturing order in the Eurozone decelerated in May for the first time since September; however the level is still 28.5% lower than a year ago. Lower energy prices pushed down Germany’s yearly inflation to -0.2%. In France May households manufactured goods consumption posted a negative -0.2% mom, suggesting some underlying weakness in consumer demand. The Purchasing Manager Index for the Euro area in July rose to 46, from 42.6 in June and the same sentiment was reflected in July’s German IFO survey where the

current conditions component scored the largest monthly increase since the end of 2006. Not all news was positive though: UK GDP fell by 3.1% qoq, sapping hopes of recovery, and French consumer confidence slipped in July.

Asia and Pacific: Japanese Prime Minister Taro Aso dissolved Parliament and called early elections for late August. All polls predict a defeat for the ruling Liberal Democratic Party which, except for 11 months, ruled since World War 2. On the data front, signs of recovery continue – Taiwan and China's IP and export data continue to rise; increase in Japan's exports for June; Korea posted 2Q GDP up 9.7% qoq, seasonally adjusted, led by a 37.3% qoq gain in manufacturing output. Singapore's June IP however was weak,

Bottom line: The stabilization of the world economy in Q2 and the reduction in systemic risks, led primarily by Asia, has been confirmed by the latest spate of data, including encouraging signals from Europe. Essentially the global economy has moved from steep contraction to something closer to zero growth, but the important issue is whether this stabilization will give rise to sustainable growth. The data so far suggest that the demand will be weak for some time in the US, Eurozone and Japan, but that growth is likely to be significantly stronger in large emerging markets such as China and Brazil.

Regional Developments

- A poll of 1,200 people in KSA and the UAE conducted by Booz & Co. found that 28% of consumers curbed spending over the past six months, while 26% increased it. Overall, consumer sentiment and spending was better in the Gulf than elsewhere.
- Annual inflation in Bahrain slowed to 2.7% in June, its lowest level in at least 23 months, and Kuwait's annual inflation fell to 5.9% in February.
- Kuwait and Qatar have synchronized their power networks as they move towards the launch of a four-nation Gulf

grid, the Saudi news agency SPA reported. The UAE is due to join the grid in 2011.

- Kuwait's central bank reduced its overnight repo rate is now 0.75% and similarly cut weekly and monthly rates by 0.25%.
- Committee on Payment and Settlement Systems in BIS added KSA's SAMA to its members.
- The SAMA deposits with banks abroad decline by 21.5% QoQ (\$18 billion) to support government expenditure.

Market Intelligence on the UAE

- DoF Director Abdulrahman Al Saleh said the second tranche of a \$20 billion bond program by the Government of Dubai will be open to local and foreign banks, Reuters reported. The government has set up the Dubai Financial Support Fund to manage the orderly and optimal allocation of the money raised from the bond.
- Money supply growth slowed to 13.5% in Q2, its lowest level in more than 6 years, according to the central bank data which also showed the gap between bank loans and deposits increased between May and June to AED 47.3 billion from 31.2 billion.
- Central Bank data for 1Q09 showed that the UAE Government boosted its deposits with local banks by nearly AED 28bn.
- The Chamber of Commerce reported that exports from Dubai declined by 16% to AED 90.3bn in the first half of 2009 compared to a year earlier. However the data point to a gradual improvement as June recorded the highest monthly export volume (AED 17bn) while February recorded the lowest (AED 14.4bn).
- The Abu Dhabi Investment Authority may begin investing in the local market by buying bonds issued by the UAE Government and other institutions, a key Saudi bank stated to Emirates Business 24/7.
- Several real estate analysts interviewed by Reuters

concluded that erratic real estate regulation, weak property rights and unclear visa rules will not help Dubai to develop a mature property market and therefore will hamper a recovery in prices.