Weekly Economic Commentary – August 02, 2009

Markets

Broadly positive corporate earnings boosted Asian equities last week and the weak US GDP report (i) marginally damped enthusiasm for stocks, (ii) led the dollar to its lowest for the year and (iii) caused crude oil to surge almost 4% on Friday. Meanwhile, weak oil (through most of the week) sparked selling across most GCC markets; GCC Q2 company earnings figures reported so far show a 36.25% yoy decline in net profits, with Qatar performing the best of the GCC markets, mainly as a result of the government's banking interventions.

Global Developments

USA: The Fed's Beige book reported that the pace of economic decline had moderated or stabilized, with manufacturing, residential property and even employment showing some signs of improvement. There are positive signs of activity in residential construction with new home sales posting a sharp increase in June. Additionally, home prices (May) showed further stabilization – the S&P Shiller home price index was up, the first monthly increase since July 2006. However, the Conference board issued a disappointing confidence index affected by perceptions of weak labor market conditions. Real GDP declined 1.0% qoq in Q2 2009, confirming moderation in the pace of decline in US output – with strong government spending offset by low consumer spending and significant declines in both residential and business fixed investment.
Europe: The European Central Bank reported that Euro area money and credit growth continued to slow sharply in June, at 3.5%and 1.5% yoy respectively. This implies continued recession. Lending to private sector shows an increase mom,

reflecting mostly stronger loan growth for private households. Eurozone business and consumer confidence surveys indicated upbeat sentiment, mirroring the individual country reports. However, inflation falling into negative territory (Jul: -0.6%) stoked fears of a deflationary period ahead.
Asia and Pacific: Korean consumer confidence rose to a 7-year high (Jul) and June industrial production was up. India’s Central Bank left policy rates unchanged, but explicitly warned about rising inflation given the government’s huge borrowing and spending program. Singapore’s government fund, Temasek, announced a fall in the value of its portfolio by at least USD 27.7 bn in the year to March (a decline of 15% yoy) and was considering bringing in outside investors for the first time, providing an insight into the magnitude of losses made by sovereign wealth funds. Japan set a new record for core consumer price deflation in Jun (-1.8%) and unemployment hit a six-year high (5.4%)
Bottom line: Data from advanced economies continue to indicate move towards stabilization, with some sectors showing positive signs (US housing market, European bank lending to households etc). Meanwhile, among their Asian counterparts, higher growth (China, Korea etc.) has resulted from government stimulus. Reassured on the growth front, Asian policy makers are raising concerns about inflation: the Korean Central Bank has highlighted rising asset prices, the Indian Central Bank flagged concerns about inflation, while Chinese officials expressed concern about the risk of stock and property bubbles inflating because of an unprecedented surge in bank lending, even though the central bank announced it would maintain a loose monetary policy to support the economy.

Regional Developments

- GCC investor confidence index (Shuaa Capital) declined in July, the fall resulting mainly from decreasing confidence in the region’s financial markets.
- The Bahrain Central Bank introduced a new regulation

capping Bahraini banks' exposure to real estate markets (effective Aug. 1) under which the maximum share of real estate financing would be 30% of total lending, with real estate investments by banks for their own account capped at 40% of their capital base.

- The Bahrain Central Bank announced that it has "assumed control" of the administration of Awal Bank and the International Banking Corp, after both lenders' parent companies missed debt repayments earlier this year.
- Data released by the Saudi Arabian Monetary Agency showed that new letters of credit opened by commercial banks to finance private sector imports fell by 35% to SAR 61.2 bn in 1H09. But, money supply recorded the highest growth rate in the previous 5 weeks because of increased government expenditure.

Market Intelligence on the UAE

- The Ministry of Economy's revised GDP data showed nominal GDP for 2008 at AED 934bn, up 23% yoy. The contribution of oil and gas sector to the GDP remained dominant at 36.8%.
- The UAE annual inflation rate was 3.4% for the first half of the year, substantially lower than in 2008, largely due to the decline in housing and food prices, and turned negative in June (-0.03%) for the first time since 1990. Announcement of a reduction in food prices (up to 60% on more than 200 food items) during Ramadan will also leave a significant impact on inflation rates for the months of Aug-Sep.
- Moody's issued a report on Dubai's real estate sector highlighting oversupply in the residential property market and noted that the downward trend was unlikely to stabilize before Q2 2010, due to the seasonal summer, Ramadan slowdown and outflow of expatriates.
- According to Proleads Global research, over 400 projects worth more than $300 billion have been placed on hold or

cancelled in the UAE due to the global financial crisis.. The report identified a slowdown in new projects in the commercial and retail sector, a slowdown in leisure and entertainment and an increasing rate of cancellations in the residential sector.

- Retail sales estimates, as released by Business Monitor International, show a pick-up in retail sales per capita in 2009 to $ 26,417 from an estimated $ 23,151 in 2008. According to industry experts, a bounce back is expected in Q4 09 with consumer confidence and tourism expected to improve after Ramadan.