

# Weekly Economic Commentary – August 09, 2009

## Markets

Friday proved to be a good day for the markets, with two sets of data encouraging an increase in stock prices – rise in German exports and the fall in US unemployment rate. The positive news also led to the dollar gaining against the yen and the euro. Asian markets were mostly up, reflecting the trend of positive corporate earnings results that have buoyed most financial markets recently. Most regional markets were up last week, with the real estate sector pushing the Dubai Financial Market index. Oil fell from six-week highs on Friday, pressured by gains in the dollar following better than expected US data.

## Global Developments

**USA:** Unemployment rate fell to 9.4% in July and US non-farm payrolls showed the economy lost 247,000 jobs in July, after a sustained drop in initial claims was reported the previous day. June Personal Consumption Expenditure core index data came in with a small increase, with a sharp fall in income (as transfers from the economic stimulus package tapered off), slightly improved spending and the saving rate falling to 4.6% of disposable income. Signs of recovery were visible in July's ISM survey, which reported significant improvement in manufacturing conditions. Construction spending grew faster than market expectations, with more spending in residential, less in private nonresidential and evidence of increased public spending (+4.6% mom).

**Europe:** There was a mixed set of data releases: German exports showed an unexpected surge and July manufacturing orders rose. But June data for industrial production in Germany increased

slightly, for Italy declined (-1.2% mom) and Italy's Q2 provisional GDP figures disappointed. German retail sales for June declined 1.8% mom leading to a flat Q2 number, disappointing the upbeat sentiment among retailers. Euro zone June Purchasing Manager Index (PMI-manufacturing) showed improvement, with the 'orders' components rising to 49.8, its highest reading since Mar08.

**Asia and Pacific:** China's Central bank has ordered state banks to slow lending after new loans in the first half almost tripled from a year ago. Taiwan's July exports continued to rise with exports to the US and Europe showing strong improvements. Indian trade balance showed small improvements, with exports higher for June, while imports fell. However domestic demand continues to be relatively strong – June motor vehicle sales were up 13.5% yoy and July PMI indicating further expansion ahead.

**Bottom line:** It has been a quiet week in data terms, especially from the Asia Pacific where the strong recovery signals were very visible. Data from the advanced economies are still giving mixed signals, though "green shoots" are now more evident. We expect that data for the 3<sup>rd</sup> quarter will confirm stabilization and start of recovery in the advanced countries

## Regional Developments

- Central Bank of Oman has reported that commercial banks' total assets increased by 13% in Jun09 compared to a year ago driven by 20.8% growth in credit. Domestic credit growth slowed in Saudi Arabia in June, expanding by just 4% yoy, down from more than 35% a year earlier.
- Saudi Arabia's gross national income was the biggest in size, while Qatar had the highest per capita income of \$59,000, with Kuwait second with \$38,400 in the Arab world, according to the World Bank's report on 2008 per capita income. UAE's per capita income was not mentioned in the report.

- The GCC hospitality industry witnessed a sharp fall in occupancy rates and revenue per available rooms (RevPARs) in 1H09, according to a Smith Travel Research (STR) Global report. The maximum decline in occupancy rates was in Oman (-19% yoy) while UAE had the worst fall of 28.8% in RevPARs.

## **Market Intelligence on the UAE**

- The UAE Central Bank moved to establish an official Emirates Interbank Offered Rate (EIBOR) to serve as a benchmark for dirham denominated loans. This positive step will help lower the rates and improve liquidity. The day after this news, a few key banks (Emirates NBD, ADCB and NBAD) in the country reduced their offered rates (between 5-25bps).
- A circular issued by the UAE Central Bank on structured products requested banks to obtain a special permission to market structured financial products to their retail customers. This move will help in making such products more transparent, with investors more knowledgeable of the risks associated with structured products as these have to be described in writing to the Central Bank.
- Moody's placed the A1 ratings of DP World, DIFC Investments and Dubai Electricity & Water Authority on review for possible downgrade, because of "the still limited transparency on government policy and criteria towards the provision of support to government-related issuers in Dubai". The ratings of Jebel Ali Free Zone were downgraded by one notch to A3 from A2 and also placed on review for further possible downgrade.
- Dubai International (the third busiest cargo airport in the world) recorded only a minimal drop in cargo volumes (0.76% yoy) during the first half of this year, with smaller consignments and trans-shipment cargo helping to maintain the volume.

According to the latest passenger statistics by Centre for Asia Pacific Aviation, Dubai handled 3.36 million passengers in Jun09 (+10.3% increase), while over the past six months, passenger traffic was up by 5%.