

Weekly Economic Commentary – August 30, 2009

Markets

Equity markets worldwide, in spite of some volatile trading sessions, ended largely higher over the past week. All regional stock markets were up, reflecting global sentiment, with the real estate sector rallying on the Dubai Financial Market. The dollar was weak, hitting multi-week lows against the yen and euro before recovering slightly on Friday. Sterling fell this week to an 11-week low to the euro and a one-month trough against the dollar, in spite of revised GDP numbers, given the rising levels of UK debt. Commodities prices were mixed during the week, with oil and gold prices posting small declines compared to the previous week.

Global Developments

USA

- In Jackson Hole, Bernanke, who was confirmed for an additional 4 year term as Fed president, expressed optimism that the U.S. economy has bottomed but “the recovery is likely to be relatively slow at first, with unemployment declining only gradually.”
- The recession in the US house market is easing with the Case-Shiller house price index for June up 0.8% mom, sa. Additionally, new home sales were up 9.6% mom in July, to 433k, up a cumulative 30% from the March low.
- U.S. durable goods orders jumped 4.9% mom in July, led by car and vehicles demand.
- The Congressional Budget Office released new estimates showing that the 10 year deficit would be \$2.7 trillion higher than calculated in March to reach over \$ 7

trillion.

- U.S. first-time jobless claims fell 10k to 570k in the week ended Aug. 22, with the 4-week moving average falling to 566k; continuing claims plunged by 119k in the week ended Aug. 15 to 6.13 million, a sign that the job losses are moderating.

Europe

- Q2 GDP data showed German consumer spending rising 0.7% qoq (the old car swap scheme was the main contributor to private consumption), while government spending rose 0.4%. Deflation persists with CPI down 0.3% yoy in August.
- The German IFO survey for August rose (again) to 90.5 from 87.4 in July –with market improvement in current expectations.

Asia and Pacific

- China's goods exports (\$521.7 bn) edged ahead of the world's largest exporter, Germany (\$521.6 bn), for the first time ever during H1 09, according to the World Trade Organisation.
- Singapore's industrial production rebounded strongly in July, increasing 12.4% yoy, following a 9.0% yoy decline in June.
- Malaysia GDP declined by 3.9% yoy, after declining 6.2% yoy in Q1, a solid improvement in line with other Asian economies.

Bottom line

The data have confirmed the broad improvement in the macroeconomic picture of stabilization in Q2; most likely forecasts for Q3 will be revised up all over the world as the stimulus plans in the US and part of Europe display their effects.

Regional Developments

- Algosaibi & Brothers' in a complaint filed with New York courts asserts that a loan from Mashreq Bank was used by Al Sanea "in favour of companies under his control." Algosaibi filed the lawsuit as a counterclaim after being sued by Mashreq over a failed \$75 million currency exchange deal in May. Mashreq asked a New York state judge last month to freeze \$222 million of Algosaibi's and other assets. Mashreq argues that the complaint is completely without merit. (Source: Gulf News).
- The Saudi Arabian Monetary Authority's monthly report showed a cut in foreign reserves by SAR 27bn in July.
- According to Dealogic, only \$22.8bn of syndicated loans, project finance and corporate bonds have been issued in the Middle East (compared to \$85.5bn in 2008 and a peak of \$126.9bn in 2007). Saudi banks were the most active syndicated lenders this year,

Market Intelligence on the UAE

- Dubai World owed 59 billion dollars in debts at the end of 2008, its property subsidiary Nakheel said in a financial exchange filing to NASDAQ Dubai (Source: Zawya)
- The total value of mortgages issued in Dubai rose 14.3% to AED 8bn in Q2, up from AED 7bn in Q1, as banks made it easier for real estate buyers to get credit, according to a property industry report, conducted by online real estate information company REIDIN.com, in partnership with the Dubai Land Department and RERA). However, the value of mortgages was down by 77% compared to a year earlier.
 - Data released by the Central Bank showed a decline in both bank lending and money supply in July – bank lending fell 0.2% mom to AED 1.01trn, while M1 (currency in circulation + bank deposits)

contracted 13.5%, reflecting lower consumer spending.

- The Ministry of Economy reported that the consumer price index rose by 2.9% in the first seven months of this year (i.e. an almost 6% yearly rate), while it edged up by 0.28% mom in July.