

# Weekly Economic Commentary – September 06, 2009

## Markets

Markets are in a phase of assessment waiting for more confirmatory news concerning potential global recovery, as illustrated by the downbeat reaction to good news, especially the US ISM. Equity prices are generally weak while bond prices are consistent with rather subdued expectations. The better than expected US jobs report on Friday enabled some equity markets to compensate their earlier losses. Regional markets witnessed a similar trend with both UAE bourses almost unchanged over the week. The yen hit its highest level in nearly two months against the dollar. Commodities prices fell to one-month lows on Friday with Dubai Fateh oil around 67\$/b. Gold however closed the week up 4.2%, reaching a six-month high of almost \$1000/ounce.

## Global Developments

### USA:

- Consumer and business sentiment as measured by the University of Michigan and the Conference Board surveys remained subdued. Retail sales were also weak.
- The ISM survey reported the first expansion in industrial activity since Jan 2008, with orders up sharply due to inventory liquidation and a boost to auto production. Pending home sales and the residential component of construction spending were also up significantly
- Unemployment rate reached 9.7%, the highest since 1983, but the news about fewer job cuts than expected in August, overshadowed the news about the higher

unemployment rate.

## **Europe:**

- The European Central Bank left the policy rates unchanged, but sounded a note of caution on the Eurozone's economic rebound, forecasting only a "very gradual recovery". August inflation data showed a smaller decline (-0.2% yoy) compared to July's -0.7%.
- Euroland's PMI survey increased in July, but despite the improvement of the past few months the survey still indicates recession. France is the first country with a reading above the recession threshold while Italy, Ireland and Spain are lagging. The figure in the UK was also disappointing declining again into recession territory.
- Euro area unemployment rate was up a tick to 9.5% in July. Since April the increase has moderated largely thanks to German unemployment which fell again in August after declining in July. German employers are waiting until after the election to fire workers. The unemployment situation is likely to worsen in Euroland, because so far strong labor protection laws have held back lay-offs.

## **Asia and Pacific:**

- India's Q2 GDP is the latest from Asia to register positive growth – up 6.1% yoy (Q1: 5.8%), with an increase in government consumption along with a decline in trade components.
- July industrial production data from Japan, Korea and Thailand show a strong start to Q3, up by about 2% mom in all three countries.
- China's PMI reading was up in August (the highest reading since Apr 08) and confirms that the recovery remains on track. Likewise, the PMI was up in India and

Taiwan, showing an upbeat mood.

## **Bottom line**

China's performance (and its impact on the rest of Asia) and the US consumption data have become the main focus lately. The removal of loan policy accommodation by the Chinese central bank which was more forceful than expected has led to a decline in the stock market (because it restricted credit to buy shares) but is unlikely to affect real economic growth. US consumption, which is key for global recovery remains weak. In this environment equity markets need genuinely new information to move up.

## **Regional Developments**

- The AlGosaibi and Saad distressed loan is casting a shadow on the GCC credit markets. They owe Saudi banks about US\$5bn, according to Standard Chartered. HSBC estimated in July that Saudi lenders were owed between \$4 and \$7bn by the groups, and banks worldwide were owed \$15.7bn. Standard & Poor's said last month that a sampling of 30 GCC-based banks it rated revealed exposures of about \$9.6bn, which it called "significant but manageable".
- Shuaa's August GCC investor confidence index climbed to 126.3 points from 123 points in July. The UAE investor confidence index showed the steepest gain of all the indices, rising by 4.3 per cent to 118.8.

## **Market Intelligence on the UAE**

- The Central Bank has cut the Tier 1 capital adequacy ratio (by 4 percentage points) to be no less than 7% and amended the overall capital adequacy ratio to 11% by Sep 09. Additionally, the interest rate on the central bank's liquidity support facilities for the banks was cut to 1.5% from 2.5%. Fitch Ratings has announced that

they might have to reassess banks' ratings if the CARs are lowered to the new levels.

- Minister of Economy Sultan Bin Saeed Al Mansouri stated that the UAE had come out of the global crisis with minimal losses and that economic growth would be back on track by Q4 2009 – Q1 2010. Consumer confidence was up, inflation has declined and the Federal government's efforts have produced "tremendous results, even over the traditionally slower summer months".
- Hundreds of businesses and residential areas continue to experience power outages in Sharjah due to a fault in the production unit caused by heavy summer demand.