

# Weekly Economic Commentary – September 13, 2009

## Markets

Markets are in a phase of consolidation, with a few leading equity indices setting 2009 highs. Regional markets were mostly down, with the exception of the Saudi and UAE markets. The DFM was up 4.2% from last week, with the transport and real estate sectors gaining around 6% each. The Euro scored another record high for the year over the dollar at above 1.46, although the US currency recovered some ground later in the week. The weakness of the dollar helped gold close above \$1000/ounce, while oil closed the week just under \$70.

## Global Developments

### USA:

- Fed's Beige Book report noted that the US economy is stabilizing. However, there is a cloud of "soft" consumer spending and a weak employment situation.
- U.S. core capital goods orders were up 23.8% in July over Q2, a leading indicator of expected recovery in industrial production.

### Europe:

- German manufacturing orders, a leading indicator of economic activity, were surprisingly strong, with monthly orders up 3.5%, led by intermediate goods, suggesting an improvement in economic activity over the next quarter. However, current manufacturing production data fell on a monthly basis, with capital goods being the weakest sector.

- UK manufacturing output increased strongly for the three months ending in July, suggesting a recovery in industrial production.
- The European Central Bank in its revised forecast is projecting a weak recovery of growth for Europe in 2010.

## **Asia and Pacific:**

- Recovery in Japan is weak: Machinery orders were weak in July, down 24.5% from the Q2 average and Q2 GDP was revised down to 0.6% qoq.
- A whole bunch of Chinese data releases confirmed a strong recovery story – August industrial production was up 12.3% yoy; Auto production was up 90%, cement 24% and steel 22% (all yoy); retail sales growth continued to accelerate (Aug:15.4%) while Aug fixed asset investment was up 33.6%.

## **Bottom line**

A major shift in inventory accumulation has driven the powerful upturn of the last few months. An important consequence of this phenomenon is a revival in world trade induced by global supply chains and commodity exports. This will be extremely beneficial to a major global trade hub like Dubai. For the rest of the year further stockpiling and additional fiscal stimulus will pull the US economy, parts of Western Europe, and most of Asia out of the recession.

## **Regional Developments**

- Bahrain's Central Bank is tightening its liquidity rules, in response to troubles at two Saudi-owned banks (AWAL and TIBC). Under the proposed changes, banks need to raise the amount of their liquid assets, submit to frequent checks and ensure that their long-term lending obligations do not heighten the risks of a liquidity crisis.

- Oman's government is expected to post a surplus in 2009 thanks to oil prices above the budget assumption of \$45 per barrel.
- Kuwait's Finance Minister Mustafa Al-Shimali said on Tuesday that the GCC Custom Union was near completion. One pending issue is the calculation of custom revenues – either as percentages to member states or all revenues transferred into a special fund.

## **Market Intelligence on the UAE**

- A public debt management unit has been created within the Ministry of Finance to streamline all the front office and back office functions related the nation's debt issuances.
  - The UAE Government is expected to issue a revised company law, a new industry law and an investment law soon, according to Sultan Bin Saeed Al Mansoori, the Minister of Economy. Under the modified Company Law, the ratio of the partnership between foreign and the Emirati investors would be modified.
  - The Dubai Metro launched on 09.09.09 is expected to generate revenues of over AED 17bn over the next 10 years, according to Mattar Al Tayer, Executive Director of the RTA. Sources of income will include fares, advertising, stores and station naming rights (sold for AED 1.8bn). About 10% of the total Dubai population (110,000) rode the Metro in its first two days of operation as per RTA's statistics.
  - UAE climbed eight places to 23rd and second in the region, according to the Global Competitiveness Report, mainly due to a more favourable assessment of institutions, combined with higher technological readiness and innovative capacity.

- The global UAE ranking in the Doing Business 2010 report by the World Bank improved strongly from 47 to 33, due to the abolishing of the minimum capital requirement for setting up a business along with other reforms. The World Bank cited the country as one of the top ten reformers in 2008-09.