

# Weekly Economic Commentary – September 27, 2009

## Markets

Markets are continuing in a phase of consolidation, but generally weaker as investors assess the strength of the recovery in the last part of the year and early 2010. The GCC markets have been an exception having recorded a 1.4% weekly gain with the DFM up almost 3%. Oil and gold retrenched substantially, hit by the uncertainty over the medium term macro picture. Currency markets were broadly stable with the yen gaining strength. The Pittsburgh G20 Meeting agreed to some mild regulatory reforms and the final communiqué declared that “Our forceful response helped stop the dangerous, sharp decline in global activity and stabilize financial markets. Industrial output is now rising in nearly all our economies. International trade is starting to recover”, but warned that this success should not led to complacency, as “the process of recovery and repair remains incomplete”.

## Global Developments

### USA:

- A spate of indicators confirmed that the US economy is emerging from the slump. The Leading Indicators rose by 0.6% in August, the NY Fed Empire State survey for early September posted another healthy rise in business conditions index (+18.88), with a stronger reading in the new orders component. The Richmond Fed survey remained at 14 in August unchanged from a month earlier. Nominal U.S. retail sales were strong in August, rising 2.7% mom (+0.7% ex-auto sales).
- The Fed noted an improvement in economic conditions in

its statement after the FOMC meeting, but did not change its policy stance. Both the 0-25bp range for interest rate and the commitment to “exceptionally low levels of the federal funds rate for an extended period” remain in place. The targets for the purchases of government bonds and other assets were also confirmed. The paragraph on economic conditions was more upbeat, noting that economic activity “has picked up”. It also noted that long-term inflation expectations are stable.

- Initial claims fell to lowest level since the turn of the year. Continuing claims also improved spreading cautious optimism that the labor market might be stabilizing.
- Sales of existing homes in August gave back part of the large increase reported for July (+7.2%), falling 2.7%. House price are still stagnant for the whole of 2009 and down 4.2% yoy.

## **Europe:**

- PMI Manufacturing index in Euroland increased to 49.0 in September from 48.2 a month earlier, which means the sector is still contracting. Employment indices were up both in manufacturing (42.3 after 39.9) and services (47.8 after 44.3) but underscore that both sectors are still shedding labor. PMI Services index on the contrary was strong at 50.6, driven by a surge of sentiment in Germany (54.1 after 48.1), while other countries, notably Italy and Spain, are still struggling.
- The German IFO in September rose to a level of 91.3 after 90.5; compared to the PMIs the assessment of the current situation in the Ifo is less upbeat. In any case the German economy in Q3 should grow by 1% qoq.

## **Asia and Pacific:**

- Taiwan export orders and industrial production declined

12% yoy and 9.6% yoy respectively in August as a result of the typhoon.

- Singapore's August Industrial Production increased 12.3% yoy, having increased 17.0% yoy in July. Taking away the volatile pharmaceutical production, the index rose by 0.2% mom in August, after increasing 7.0% mom in July.

## **Bottom line**

Data confirm the picture of a gradual recovery in the world economy. Over the last 18 months, both economies and markets have moved in a remarkably synchronized fashion as the contagion spread sooner or later to every major country. In the expansion phase the synchronicity might break because of the different underlying strengths (current accounts, fiscal position, bank health) and the different policy actions, leading to a more pronounced decoupling of emerging markets from developed economies.

## **Regional Developments**

- Kuwaiti money supply growth was steady in August from the month earlier at 18.7%.
- Saudi Arabian Oil Minister Ali al-Naimi said \$75 a barrel was now the baseline price for oil and that OPEC will not change production targets between now and the next meeting in December, according to a transcript of an interview with a U.S. television channel reported by Reuters.
- Saudi Finance Minister Ibrahim al-Assaf said a government programme to invest \$400 billion over five years would not be halted when the economy recovers and financial stimulus is withdrawn.

## **Market Intelligence on the UAE**

- The DIFC updated the Companies Law and Insolvency Law. The new regulations will help the insurance industry in

offering innovative new products and services out of the financial district.