

Weekly Economic Commentary – October 04, 2009

Markets

Markets worldwide registered a slump last week, but emerging markets had a slower decline than the advanced economies. Among regional markets, only KSA was up over the previous week. The telecom and real estate sectors were the two gainers on the DFM, which registered a decline of 0.1%. Gold crossed the 1000-mark yet again last week, alongside higher oil prices – but retreated slightly after the release of weak US data on Friday. The dollar and yen gained after the announcement of weaker US jobs/payrolls data.

Global Developments

USA:

- US unemployment rate touched a high 9.8%, with 263,000 jobs being lost in Sep, a higher than expected figure, which caused investors to question the strength of the recovery.
- The Conference Board consumer confidence, fell in September contributing to upset market expectations.
- The Case-Shiller U.S. house price index jumped 1.2%_{m/m}, _{sa}, (1.6%_{m/m}, _{nsa}) in July, to be down 13.3%_{yoy}. In the last 3 months, the seasonally adjusted index is up an annualized 8.7%.

Europe:

- The E.U. measure of economic sentiment rose another 2 points, to 82.8, and is now up 18.2 points from the dark days of March. The main gains came from consumer

confidence and the service sector. Manufacturing sentiment did not improve much, and the construction sector remains depressed.

- Consumer and business confidence in Euroland continued to improve in September, the first by one unit and the latter by two.
- German inflation for Sep declined to -0.3% yoy another sign that deflation pressure is not abating.
- Russia and Romania cut rates 50bp, to 10% and 8%, respectively.

Asia and Pacific:

- China's private sector PMI was 55 in Sep, slightly lower than August's 55.1. The employment subcomponent strengthened, to 53 (Aug: 51.8).
- Japan's industrial production was up 1.8% mom in Aug while Korea's was the only one in the region which fell 1.3% mom.
- Japan's Tankan survey showed a significant improvement in business sentiment for manufacturers (-33 in Sept from June's -48).

Bottom line

Data flow was mixed, but markets which were looking for stronger signs of improvement, were disappointed and are entering into a volatile phase. The atmosphere could be cheered up by U.S. corporate reports Q3 to be released this month, but it is palpable the feeling that the rally in equities might have been overstretched.

Regional Developments

- Governor of Central Bank of Kuwait (CBK) Sheikh Salem Abdulaziz Al-Sabah said that inflation rate for the last months of 2009 will keep on slumping to reach less than 5%.

- The governor of the UAE central bank was reported by The Saudi Gazette to have said that Arab central bankers, tackling the global financial crisis and a corporate debt scandal in the GCC want a global “early warning system” for financial institutions,

Market Intelligence on the UAE

- Seven UAE banks were downgraded by Fitch which cited doubts about government support in case of insolvency.
- Provisions for non-performing loans (NPLs) in the banking sector are rising, according to Central Bank figures. Total provisions are about 3.2% of gross loans, roughly only 1% higher than last year, but NPLs might continue increasing over the next 12 months.
- Although DIFC office space continued to be leased at high rates, new free zone areas such as Jumeriah Lakes Towers and Dubai Silicon Oasis have seen a significant decline in rents, of up to 70% according to CB Richard Ellis Middle East.
- Passenger traffic at the Dubai airport jumped 10.7% yoy to 3.7 million in August, a double-digit growth for the third consecutive month, underscoring the resilience of one of the key sectors of the Emirate’s economy. DIA is the only airport among the top 10 airports in terms of international passenger traffic to still record positive growth.
- Thirteen UAE banks have exposure to the troubled Saad and Algosaibi groups, according to the Central Bank Governor speaking on the sidelines of the 33rd meeting of the Council of Governors of Arab Central Banks and Monetary Agencies (Zawya).
- It is not inconceivable” that the regulatory minimum capital ratios for some banks do come under threat. Based on the disclosed asset quality and capital ratio data Dubai Islamic Bank is the most under threat,” Robert Thursfield, Director in Fitch’s Financial

Institutions, told Emirates Business; Emirates NBD is the next followed by Abu Dhabi Islamic Bank and ACDB.

- The UAE Central Bank stated it would soon set a minimum limit of provisions to be allocated by banks against bad debt as part of an intensifying post-crisis strategy to strengthen their financial position (Zawya).