

Weekly Economic Commentary – October 13, 2009

Markets

Equity markets were mostly up last week, boosted by positive Q3 profit reports. The DFM was the best regional weekly performer (+4.8%). However in the first three days of this week regional markets have retrenched and a more negative mood seems to prevail. The dollar continued to slide, but some Asian central banks intervened heavily in the currency markets on Thursday to stem the appreciation of their currencies against the US dollar. Oil and gold were generally stable around the top of their trading range.

Global Developments

USA:

- Survey of purchasing managers in the services sector activity rose above 50 in Sep (first time since Aug08), signaling the resumption of growth, as indexes for new orders and business activity advanced.
- Initial jobless claims continued to show a modest improvement as it fell 33,000 to 521,000 in the week ending on Oct 3. Continuing claims also showed a similar movement.
- Trade deficit narrowed unexpectedly in Aug09.

Europe:

- German manufacturing orders continued to improve in August (+1.4% mom), though the levels are still low. Since the trough in the Feb09, orders are up 17.1% (with foreign orders growing +19.1% since Feb compared with

domestic orders up +15%).

- Italy industrial production increased 7% mom in August, although it is still 18% lower than a year earlier. Strong performance was recorded also in France (+1.8% mom) and Spain (+1.1% mom).
- The European Central Bank and the Bank of England held their reference interest rates unchanged.

Asia and Pacific:

- Taiwan trade data for Sep09 showed an exports recovery alongside slower recovery in import growth; data also showed exports to China gaining momentum.
- The Reserve Bank of Australia raised its main cash rate by a 25 basis points to 3.25%, reflecting the relative strength of the economy and becoming one of the first major nations to tighten policy rates post-Lehman.

Bottom line

The data released last week have been in line with the view that the world economy was coming out of the recession in Q3 and momentum is strong as we enter Q4.

Regional Developments

- UK paper The Independent reported that Gulf Arab states were in secret talks with Russia, China, Japan and France to replace the U.S. dollar with a basket of currencies in the trading of oil. Many analysts doubted it would occur any time soon. The Independent said U.S. authorities were aware of the meetings but had not discovered the details and were “sure to fight this international cabal.”
- The growth in KSA money supply fell in August, but its foreign assets were up for the first time since Nov08 according to SAMA.
- Middle East mergers and acquisitions (M&A) activity for

the third quarter of 2009 is up 27% yoy, with 27 deals worth \$3.14 bn in Q3 (until Sep 25) compared with 49 deals worth \$2.47bn in Q3 2008. The region's private equity firms are estimated to have up to \$15bn in undeployed funds, which could change the M&A landscape once the financial environment improves.

- [KIPCO, the Kuwait Projects Company](#), has announced the completion of the issue of a \$500mn bond under its \$2bn Euro Medium Term Note Programme. This is the first international bond issue by a private sector corporate from the MENA region in 2009.

Market Intelligence on the UAE

- The Central Bank Governor has called for a regional financial market to be established for the Middle East and East Asia to offer a safe haven in times of crisis. He added that Middle Eastern countries need more developed bond markets to reduce their dependence on external financing.
- A federal law has been issued to set up a nuclear regulatory body to monitor the peaceful use of atomic energy. The UAE's first nuclear reactor is expected to come online by 2017.
- The Higher Corporation of Specialized Economic Zones (ZonesCorp) in Abu Dhabi has announced the drastic reduction in time taken to obtain an industrial license from 90 days to 11. This will help improve the ease of doing business in the Emirate.
 - UAE inflation for the first eight months of the year touched 2.7%, according to the latest release by the Ministry of Economy. Prices fell 0.2% yoy in Aug, on lower food and housing costs.
 - Abu Dhabi Commercial Bank announced that it has agreed to issue \$1 bn of bonds as the initial tranche of its \$7.5 bn global medium term note programme. The bonds will mature on October 8,

2014.

- The Central Bank Governor criticized a Saudi government panel that last month brokered a debt settlement deal between Saad Group and Saudi banks only, raising fears among international creditors they could be sidestepped, Reuters reported. He declined to answer questions on whether the central bank would buy a second tranche of Dubai's \$20 billion bond.