

# Weekly Economic Commentary – October 18, 2009

## Markets

Surging oil prices and buoyant world equities, boosted by positive corporate earnings, helped the Saudi and UAE markets to make some gains last week (DFM was up 1.1%), while the rest of the GCC markets declined. The dollar weakened further, while crude oil reached a fresh peak for 2009 (above \$78) and gold prices eased after hitting a record high earlier last week.

## Global Developments

### USA:

- Retail sales in September dropped 1.5% mom, (-5.4%yoy) dragged down by the auto sector where stimulus programs ended. Excluding vehicles, sales rose a modest 0.5%, consistent with a slow but steady recovery.
- Initial jobless claims dropped slightly to 514K providing some hope that the labor market may be slightly improving.
- The repayment by banks of most emergency liquidity borrowings from the Fed is now almost complete, signaling the end of the most acute phase of the financial crisis.
- Inflation rose 0.17% in Sep (mom, -1.3% yoy), higher than expected, but industrial production posted its third consecutive strong increase in Sep (+0.7% mom -6.1% yoy), supporting the view that the recession is ending.

## Europe:

- German investor sentiment slipped unexpectedly in Sep as optimism about the recovery in Europe's largest economy faded.
- UK September inflation fell to a five-year low of 1.1% on flat gas and electricity component, leading to speculation that interest rates would stay on hold until 2011, further weakening the pound.
- French inflation was negative on the month (-0.2%) and on the year (-0.4%), mirroring the deflation process in Germany.
- Industrial Production in Euroland was up 1.0%mom in August, below expectations but higher than levels predicted by the confidence surveys.
- The negotiation over the new German government is taking time to bridge differences over tax cuts and deficit reduction in 2010.

## Asia and Pacific:

- China's Sep trade showed a rebound in exports (-15.3% yoy from Aug -23.4%) and imports (-3.5% from -17.0%), underlining the improving growth momentum, on continued strength of the domestic economy as well as signs of external demand recovery.
- India's industrial production registered a strong 10.4% yoy growth in Aug, with a significant 8.3% rise in the capital goods index (compared to the average 1.4% growth in Apr-Jul), while the consumer durables index was up 22.3% (largely due to a lower base).
- Singapore's advanced 3Q GDP growth (provisional) shows an improvement of 0.8% yoy, implying an expansion of 14.9% qoq, sa, due to higher pharmaceutical production and consumer electronics.
- Japan Consumer Confidence stagnated in September while producer prices continued to decline due to weak demand.

## Bottom line

The first phase of the crisis, i.e. the deleveraging and the recapitalization of the banks is close to completion. The second phase, i.e. corporate bankruptcies, downsizing and rising unemployment is still displaying its effects and will take longer to sort out.

## Regional Developments

- The IMF predicts 5.2% growth for the GCC in 2010, and praised the governments of the region for the skillful cycle smoothing fiscal measures and the precautionary measures taken in the banking sector. However it added that structural reforms need to be accelerated to strengthen the economic fundamentals.
- Saudi Arabia has called on the European Union (EU) to reconsider its attitude in the negotiation of a free trade agreement.

## Market Intelligence on the UAE

- Fitch Ratings lowered its long-term issuer default rating on Etisalat by one notch, citing the weakening of the Emirate's credit profile and mentioning that this was not related to Etisalat's operational performance or financial standing.
- UAE banks have seen the strongest growth (34% yoy) in the GCC in terms of retail banking revenues for H1 2009, according to the Boston Consulting Group's (BCG) Middle East Banking Performance Index report.
- Following the resignation of Damas CEO on accusation of carrying out unauthorized transactions, the shares closed 13.51% down on Tuesday, taking the market valuation of the company to \$316.5mn.
- The \$5 billion Borouge-II petrochemical project of the Abu Dhabi Polymers Co. in Ruwais with annual capacity of

1.5 million metric tonne is now 90% complete and will be on stream by the middle of 2010.

- Standard & Poors wrote in a report that the Government of Dubai will quite likely be required to provide extraordinary financial support to some enterprises. Given the limited resources available, S&P believes that the government may be required to select carefully potential recipients.