

# Weekly Economic Commentary – October 26, 2009

## Markets

Equities in most leading economies touched highs for the year, but the positive mood seems to have been replaced by caution by Friday. Regional markets were mostly down following downbeat earnings while Kuwait's index suffered its largest one-day reverse for more than three months yesterday. Dubai DFM on Sunday has paired last week's losses on the wake of Emirates NBD stellar Q3 earnings, and KSA has reached today a 12 month high. The dollar recovered on Thur from a 14-month low as weakness on global equity markets dented risk appetite; the pound slid after UK GDP showed an unexpected fall. Crude oil prices crossed \$80/b and hit a 2009 high on Wed, in a week when other commodities like gold, cocoa, corn, soy beans, and wheat also rallied.

## Global Developments

### Americas:

- The Fed Beige Book reports that most districts show stabilization or some improvement. However, it is clear that the economy is operating at a low level, with hardly any improvement in the labor market and frozen wages. Consumer spending is flat, improvements in manufacturing are modest, improvements in residential are notable but uneven, lending remains anemic.
- Housing starts rose less than expected, with the multifamily sector dropping 15.2%, almost to its worst level ever.
- Initial unemployment claims increased 11,000 to a seasonally adjusted 531,000 in the week ended Oct. 17,

after two consecutive previous weeks of decline, indicating the labor market remains fragile, despite signs of economic revival.

- Brazil introduced a tax on capital inflows to stem the flow of hot money into the local financial markets.

## **Europe:**

- Euroland's purchasing managers' index for Oct09 showed output expanding for a third consecutive month, suggesting the growth rebound seen in Q3 is posed to continue.
- German Ifo showed a slight rise in business sentiment index – to 91.9 in Oct from 91.3 in Sep. This was the highest since Sep08 but was driven largely by businesses' hopes of better times ahead rather than a better assessment of current conditions.
- UK economy shrank by 0.4% qoq in the third quarter, with the negative surprise coming from 'Distribution, hotels and catering', which accounts for 15% of the economy.
- Russia's GDP rose 0.6%qoq (but was down -9.4%yoy). Russia has begun to recover, but at a feeble pace.

## **Asia and Pacific:**

- China's Q3 real GDP growth accelerated to 8.9% yoy from 7.9% (Q2), while industrial production continued to surprise on the upside, rising 13.9% (Sept). CPI for Sept was -0.8%, as a result of government's control on money and credit supply. Nominal retail sales (Sept) was up 15.5%, pushing Q3 real retail sales +17.8%, the highest in a quarter since the start of the series in 1996.
- Taiwan Industrial Production grew 1% yoy in Sep, supported by strong IT export orders.

## Bottom line

Data this week displayed some negative surprises in mature economies, (UK GDP, US initial claims) and positive ones from Asia (where the economic recovery is sustained by the rebound in world trade), lending additional credibility to the paradigm of shifting growth from West to East. The positive news from China are pushing up commodities prices, while equity markets have probably reached a plateau, as investors are awaiting to see what happens when the effects of emergency stimuli wane.

## Regional Developments

- Business people across the GCC displayed increasing confidence about the outlook for their companies in Q3 according to the HSBC Gulf Business Confidence Index (which shot up from 75.9 in Q2 to 81.4 in Q3, the highest since Oct08).
- KSA Vice Minister of Water and Electricity, Al-Awaji, stated that the first phase of the GCC-wide power grid has been completed.
- OPEC has warned that oil prices above \$80 per barrel would hurt economic recovery possibly hinting that part of its 6 to 7 million barrels of spare oil production capacity could be put into the market.
- Proleads Global reported that 30% of Gulf's hydrocarbon projects (by value) have been put on hold or cancelled, but the GCC remain the most active market in the world for oil, gas and petrochemical industries with projects budgeted at more than \$690 bn.

## Market Intelligence on the UAE

- The repayment of a \$1.2bn securitised bond a month early by Nakheel strengthened investors' confidence in the ability of Dubai entities to service their debt. Dubai

officials are on an international roadshow to offer investors conventional bonds and Sukuk; Dubai CDS spreads fell to their lowest this year.

- The IFC will list its first Islamic bond in the Middle East on Nasdaq Dubai and in Bahrain. The operation, worth \$100 million, is the first by a non-Islamic financial institution and the first Sukuk to be listed and cleared exclusively in the GCC markets.
- Dubai International Capital managed to borrow \$550 mn from international banks, providing the latest evidence that a growing appetite for risk among global investors may be easing the cash crunch facing Dubai. (Source: The National).
- Dubai International Airport recorded an increase of 19.5% in passenger traffic in September, the highest monthly growth rate since Oct07 when passenger numbers jumped 25.9%. It is also the fourth consecutive month of double-digit growth.
- Abu Dhabi Future Energy has showcased the plan to build the world's first green city dubbed [Masdar](#) at a total cost of \$22 bn.