

Weekly Economic Commentary – November 02, 2009

Markets

Equity markets fell last week, despite better than expected figures on the US GDP. Europe was severely beaten (-5%) while Japan pared the losses (-1%). Emerging markets lost more than 5% with the GCC index only marginally better. Some of the regional indices (Qatar and UAE) recovered on Monday part of the loss which had intensified on Sunday. The dollar regained some strength as risk appetite is waning. Oil prices dropped to around 77\$/b and gold lost some ground, but remains well above 1000\$/on.

Global Developments

Americas:

- US Real GDP grew 3.5% in Q3 (qoq, annualized), but was still 2.3% lower than a year ago. The figure was better than expected, due mainly to a stronger contribution from inventories and resilient consumer spending.
- The labor market picture was mixed: initial claims for unemployment were unchanged but long term claims were lower.
- Home prices, as measured by the S&P Case Shiller Index, increased by 1% in August, the third consecutive gain of this magnitude. October consumer confidence fell (to 47.4 from 53.4) as attitudes about job availability/labour market conditions reached a new low. The Richmond Fed index also reported setbacks in both manufacturing activity and service sector revenues.
- Durable goods orders for Sep were up 1.0% mom (-17.4% yoy), the gain coming from less volatile components –

bookings for nondefense capital goods other than aircraft – a key indicator for future business equipment spending, rose 2%.

Europe:

- Eurozone bank lending declined for the first time signaling a weak recovery, strengthening the case for the European Central bank to keep the policy rates low. Business and consumer confidence in September continued to increase slightly.
- Germany's yearly inflation was flat in October, not surprisingly given that retail sales were down 0.5% mom in September.

Asia and Pacific:

- South Korea's Q3 GDP grew 2.9% qoq, a seven-year high, also the first growth after three consecutive quarters of yoy decline. Private consumption and export growth rebounded to positive terms, while equipment investment remains the biggest drag.
- Japan industrial production for Sep grew by +1.4% mom, with government policies such as tax cuts and recovery in external demand driving production. Deflation is still pronounced with CPI down 2.3% yoy in September.
- The Reserve Bank of India left rates unchanged but hiked the statutory liquidity ratio by one percentage point to 25%, surprising the market and signaling the end of policy easing.

Bottom line:

The effect of the emergency stimulus is waning, without having had much effect on employment. As a consequence consumer confidence is sagging, which raises serious doubts on the sustainability of the recovery. Markets are extremely nervous as the gloss from corporate earnings is less shiny looking

forward. The world economy probably will enter 2010 in a somber mood.

Regional Developments

- The SHUAA GCC Investor Confidence Index rose 3.8 % in Oct, with Saudi Index recording the biggest gain (11.7 %).
- Merger and acquisition deals in the Middle East until Oct23 stood at \$15.66 bn, below \$15.8bn in 2008, as per Mergermarket data. M&A activity remained subdued in H1 09, but with 30 deals worth more than \$11bn registered in Q3, the trend has reversed.

Market Intelligence on the UAE

- The Dubai government unveiled a fund-raising initiative for \$6.5bn through a combination of \$4bn euro medium-term note and a \$2.5bn sukuk issue, and this may be listed on the London Stock Exchange and Dubai Financial Market.
 - Dubai sold \$1.25bn of dollar-denominated, five-year fixed rate Sukuk, priced to yield 6.39 % and AED 2.5bn in local-currency floating-rate Islamic notes priced to yield 5.65%. This attracted more than \$6.3 bn in orders, according to the official statement.
- The UAE Government approved the 2010 budget, with a 3.4% rise in outlay to AED 43.6bn. Social development received a boost with 22.5% of the budget to be spent on education. Infrastructure projects took a further 17.5% of spending and 6.4% will go to health.
- Emirates NBD income was up 24% to AED 8.3 bn for the first 9 months of 2009 compared to AED 6.7 bn for the same period in 2008.
- Abu Dhabi has launched a set of socio-economic indicators to provide reliable data as it moves to boost

its appeal to investors.

- Abu Dhabi Commercial Bank and National Bank of Abu Dhabi set aside AED 810mn and AED 284mn respectively in provisions for losses. Emirates NBD announced that it had slowed provisioning, but warned that non-performing loans had not yet peaked.