

Weekly Economic Commentary – November 08, 2009

Markets

The main theme on global stock markets is risk reduction. Investors seem to be satisfied with the rally and investment banks are near their fiscal year close. The dollar came under renewed pressure after a series of policy decisions from the world's leading central banks boosted investor confidence. Regional equity markets have witnessed a sharp drop last week, with Dubai falling by more than 5% on Tuesday with property stocks the biggest losers. Q3 earnings have failed to sustain Gulf markets. Gold hit a fresh peak above \$1,100 an ounce, but crude oil prices fell as the rise in US unemployment fuelled concerns about the recovery prospects.

Global Developments

America:

- The US ISM index surged in October as production catches up with orders.
- The index of pending home sales rose further in September, to a level that is 37.2% above the lows reached in January. The homebuyer tax credit was a main factor, but normalization in mortgage credit played a role as well
- Nonfarm productivity was up 9.5% in Q3, while labor costs fell more than expected, reflecting weakness in labor compensation.
- Job losses in October were almost 200,000 and the unemployment rate rose to 10.2% a sign that the recovery is fragile.

Europe:

- The European Commission revised up its economic growth forecasts for the first time in two years. It sees euro area growth at -4% in 2009, 0.7% in 2010 and 1.5% in 2011. The European Central Bank left the refi rate unchanged at 1.0%.
- German manufacturing orders in September rose by 0.9%_{mom}, thanks mostly to foreign orders.
- Euroland PMI in manufacturing reached 50.7 showing that the sector is poised to post positive growth in the next months.
- UK PMI in manufacturing recorded the strongest reading in 2 years; the subindex for new orders was the strongest for 5 years.

Asia and Pacific:

- Korea exports continued to recover in October declining 8.3% yoy. Seasonally-adjusted, qoq growth stood at 21.6%
- Purchasing Manager's Index from China strengthened in October; Singapore's PMI slipped to 50.2 in Oct, down from Sept (50.6) and a recent peak in August (54.4).

Bottom line:

Manufacturing production worldwide has almost fully recovered and financial intermediation despite further losses from major banks such as UBS and RBS is in the process of normalization. The risk comes primarily from rising unemployment which saps consumption and from stock markets that might have reached a level out of touch with underlying economic reality.

Regional Developments

- The IPO market in the Middle East has declined to \$1.97 bn in the first three quarters of the year, compared to \$12.44 bn in the same period last year, according to

Ernst & Young. A total of four companies listed in the Middle East in Q3 2009 raised \$871.79 mn in Q3 2009, while 14 IPOs had raised \$3.74 bn in Q3 '08.

- The global financial crisis has not hit Islamic finance industry thanks to its sound and strong systems as Gulf Islamic investment firms still have \$235 bn worth of combined assets, according to leaders at the 3rd Fiqh Conference for Islamic Finance Institutions.
- According to the Central Bank of Oman, a decline in oil sector output led to a 25.2% drop in Oman GDP in the first half of 2009.
- Oman's revenues dropped by 27% in Jan-Aug09 to OMR 4.24 bn, largely due to a fall in oil earnings. Government expenditure increased by 1.7%, owing mainly to an 18.8% rise in investment spending.

Market Intelligence on the UAE

- Abu Dhabi will spend US\$1 trillion (Dh3.67tn) on major infrastructure, property and manufacturing projects, over the medium term, the Minister of Economy Al Mansouri said. He added that UAE growth this year would reach 1.3% thanks in part to projects underway valued at more than \$100 billion.
- The IFC (part of the World Bank) listed a sukuk on Nasdaq Dubai and Bahrain Exchange on 4th Nov, making it the the first time that a non-Islamic financial institution issues a Sharia compliant security for term funding.
- Moody's downgraded five Dubai government-related issuers, citing the tighter conditions under which the government is likely to extend financial support.
- Abu Dhabi grew a 30% in 2008 as GDP touched AED 520bn, according to a report by the Department of Economic Development. Record oil prices boosted the emirate's oil and natural gas sector by 37%, leading to a contribution of 64% to GDP.

- The final draft of the UAE company law, which allows foreigners to fully own a company outside free zones, will be placed before the Cabinet for approval within a month, as stated by Minister for Economy Sultan bin Saeed Al Mansouri (Zawya).