

Weekly Economic Commentary – November 15, 2009

Markets

The main theme on global stock markets is risk reduction. Regional markets were down, except for the UAE markets which gained from Monday's speech by Sheikh Mohammed bin Rashid al-Maktoum; DFM was up 3.3% from last week. Dollar fell through key levels to fresh 15-month low on Wed. Gold hit a record high on Thur and was up 2% from last week. Crude oil prices came under pressure after US inventories data indicated a broad weakening in demand conditions. The Baltic Dry index, the global benchmark for freight costs for dry bulk commodities, outshined all other commodity indices by rising 21.2 % to 4,111 points over the week.

Global Developments

America:

- The latest quarterly Fed loan officers survey points to continued tightening in lending conditions but at a much slower pace than in the past and there are also signs of credit demand slowing at a much slower pace than before. Almost 60% of the responding banks saw unchanged or rising credit demand, the highest reading since July last year
- Initial jobless claims continued to recede at a modest pace, falling 12,000 in the week ended Nov 7 to 502,000.

Europe:

- Germany Sep industrial production (IP) was up 2.7% mom, much higher than expected; Italy's IP fell 5.3%, the

worst reading since the series began in 1990. Eurozone IP rose 0.3% on German IP strength.

- Eurozone GDP turned positive in Q3 (+ 0.4% qoq), though the rebound was less strong than in the US. Exports were the main driver, while private consumption remained fragile. Q3 GDP for Spain (-0.3%), Italy (+0.6%), France (+0.3%), Germany (+0.7%).
- Rise in UK unemployment was flat in Q3 at 7.8%. Bank of England forecast uplift in growth and is widely expected to keep interest rates low. Fitch warned the UK government debt could risk losing its triple A rating.

Asia and Pacific:

- Chinese data releases for Oct confirm strong growth led by credit fueled domestic demand. Chinese industrial production grew 16.1% yoy, the fastest in 19 months. Growth in retail sales (16.2%) and fixed asset accumulation (31.8%) continue at their recent trends; growth rate of new bank lending has slowed significantly since mid-year, with Oct lending only +0.6% mom.
- Hong Kong's Q3 GDP contracted by 2.4% yoy (Q2: -3.6%), weakened by exports of goods, while private consumption and service exports rose. GDP was up +1.6% qoq – the second quarter of positive growth after four consecutive quarters of contractions.
- Japan's current account surplus grew +0.2% mom to JPY 1,567.9 bn in Sep. Sep's core machinery orders were up 10.5%mom.
- Indian industrial production grew a strong 9.1% yoy in Sep, helped by growth in the capital goods (+12.8%).
- Indonesia Q3 real GDP growth came in at 4.2% yoy, higher than the 4.0% in Q2 but in line with the consensus.

Bottom line:

The data flow has not produced any major surprise. Global

recovery was broad based in Q3 with Germany picking up strongly among Euroarea countries. Unemployment and commodity price increase represent the main concernsD.

Regional Developments

- Creditors get an average of 10.2 cents on the dollar if a company in the UAE files for bankruptcy, as per data from the World Bank. In MENA, only Mauritania has a lower rate of recovery, at 6.7 cents while Bahrain has the highest recovery rate, with creditors getting 63.2 cents on the dollar. A review of insolvency systems in the MENA region by Hawkamah showed they were “substandard” compared with international best practice.
- A Moody’s report estimated that global sukuk issuance surged by more than 40% in the first 10 months of this year compared to the same period in 2008. They also expected corporate entities less likely to be major issuers of new sukuk in current conditions.
- Saudi Arabia has started construction of an ambitious light-rail project in Riyadh; in the first phase a 25-km north-south route will be built. In the second phase it will add a 14 km East West route.
- Qatar and Bahrain are both contemplating new sovereign issues: Bahrain plans to issue a two-year BHD 55mn bond paying an interest of 2.75%, according to the Central Bank of Bahrain; Qatar’s bond issue is expected to target as much as \$5bn.

Market Intelligence on the UAE

- Dubai government announced the repayment of a \$1 bn sukuk from the emirate’s civil aviation authority which matured on Nov 4.
- Nearly three million passengers have used the Dubai Metro in the first two months at an average of 57,000

trips per day, about 40% higher than the authorities' estimates.

- Consumer confidence rose 13 points to 102 in the UAE over six months in the latest Nielsen Global Consumer Confidence Index. Job security remains the main concern in the UAE though the focus on job security has eased. Overall consumers in the UAE maintain thrifty spending habits by cutting down on new clothes and switching to cheaper grocery brands.
- Data released by the Inter-Arab Investment Guarantee Corporation showed that the UAE maintained its position as the second largest FDI destination, after Saudi Arabia in the Arab region, attracting more than \$51 bn in FDI in the past four years till 2008.
- According to Mergermarket data, M&A activity in the UAE has declined to \$14.8bn at the end of Oct from \$20.9bn during the corresponding period of last year. This data shows that UAE firms have been more active than their international counterparts, as global M&A activity was down more than 46% though Middle East was up 18%. (Source: Business 24/7)