

# Weekly Economic Commentary – November 22, 2009

## Markets

Until recently market reacted cheerfully to bad news and good news. Now the mood is more somber and risk reduction in the face of uncertainty is prevailing and all major indices concluded the week sharply down. It is unlikely that those who decide to join the party later will find much to cheer until the end of the year. Regional markets were mostly down, with the exception of Oman and Qatar; DFM index was dragged down by the telecom and financial sectors. The dollar recovered towards the latter half of last week, after the recent rally in global asset prices appeared to run out of steam. Commodities continued to gain, with the gold's run helping other metals like copper, silver and platinum reach 2009 highs. Oil remains stable at around 77\$/b.

## Global Developments

### America:

- Retail sales grew 1.4% mom in Oct, while “core” retail sales (excluding vehicles, building materials & gasoline) rose by 0.5%. Given downward revision of previous months' data, this means that earlier estimates of Q3 GDP will be also revised down.
- Oct industrial production was up 0.1% mom, while capacity utilization rate edged up 0.2%.
- Producers' prices rose 0.3% mom in Oct on the back of rising energy prices but still remain muted; consumer prices were up 0.2% mom (-0.2% yoy), driven by vehicles and energy prices, while rental indexes remained flat, and apparel prices fell 0.4%.

- Housing starts disappointed, contracting by 10.6% mom in Oct (falling for the first time since April) as high vacancy rates are discouraging construction. This raises questions on the “recovery” of the US housing market.
- Initial jobless claims were unchanged, at 505k. The 4-week moving average fell to 514k, and is on a downward trend since early September of 30k per month. At this rate employment could turn positive in Q2 but it will not be enough to stabilize the unemployment rate until end 2010.

## Europe:

- UK retail sales were up 3.4% yoy in Oct; this should **translate into positive consumption and GDP growth in Q4.**
- Spain GDP fell 0.3% qoq in Q3, better than the 1.1% drop in Q2, but yet a reminder that the European periphery remains weak.

## Asia and Pacific:

- Japan’s economy grew at a stronger-than-expected annualised rate of 4.8% in Q3, as the fiscal stimulus supported consumer spending and net exports rose.
- Japan’s government announced that the economy was back in deflation, the announcement coming after the Bank of Japan kept interest rates near zero and upgraded its economic assessment.
- Singapore’s Q3 GDP grew by 0.6% yoy, after a 3.3% contraction in Q2, with improvement in both domestic demand (through government consumption) and trade.

## Bottom line:

The data last week did not add much to the patterns of global improvement. Once again Asia surprised somewhat on the upside,

while in developed economies, especially the US data were lackluster at best, especially in the construction sector.

## **Regional Developments**

- The planned Gulf single currency was ratified by the Bahraini Parliament, while the Kuwaiti Parliament delayed voting on the monetary union to December 8. Saudi Arabia is also steadily approving a series of measure to prepare for the currency union.
- Qatar has revised the corporate income tax on foreign companies setting a rate of 10% from 2010.
- Qatar's \$7 bn global sovereign bond issue was assigned 'AA-' senior unsecured debt rating by S&P. Proceeds from the four-times oversubscribed bond will be used as contingency funding for state owned/controlled entities and for infrastructure investments.
- German transport minister Ramsauer announced that Deutsche Bahn is set to sign a 17 billion euro contract with Qatar, to build a rail network and the Doha metro.
- Aggregate earnings of GCC companies continue to show a decline – GCC corporate earnings fell by 23% in Q3, with 58% companies having announced results. (Source: Markaz)

## **Market Intelligence on the UAE**

- The UAE Central Bank has announced that lenders will need to start complying with the Basel II regulations on capital adequacy for banks from next year.
- The exposure of UAE banks to the Saad and Algosaibi groups amounts to \$2.9 bn, between 13 national banks and 7 foreign bank branches, according to the UAE Central Bank.
- Several Dubai Government-related entities are preparing new bond issues, Standard Chartered said. They could include companies such as Emirates Airways, the Roads and Transport Authority and the Dubai Electricity and

Water Authority. Emirates NBD, however announced its decision to put off a planned bond sale till Q1 2010 hoping for improvements in pricing.