Weekly Economic Commentary – January 10, 2010

Markets

- Global stocks made further advances, while government bond prices climbed and short-term interest rate futures gained as investors bet the weak jobs market would keep inflation tame and encourage the Federal Reserve to keep lending rates near zero for a long time. The global sentiment was reflected in the regional markets, except in the UAE's DFM where the index was down 2.8% on last week, pulled down by materials and the real estate sectors.
- The biggest mover last week was the Japanese Yen after the new finance minister's calls for a weaker currency sent markets on a rollercoaster ride; the minister retracted his statement later, helping the currency to regain ground. The weak dollar story continues – it plunged against the euro on Friday after unexpectedly weak US jobs report.
- Commodity prices are on the rise: oil was up 4.3% and gold rose 3.2% from last week.

Global Developments
America:

- In December 85,000 jobs were cut, sapping expectations that the labor market was stabilizing. The unemployment rate held steady at 10%, but it did not increase sharply only because a surprisingly large number of jobseekers decided to drop from the labor force deeming that finding a job was virtually hopeless.
- The ISM manufacturing index made a new high for the cycle in December, rising to 55.9 and beating consensus (54.1) expectations. The details are generally

supportive, with new orders making a new cycle high of 65.5 and the orders/inventories gap widening anew to 22.1. The outlook for manufacturing is stronger than expected and hence industrial production should show healthy growth in Q1 2010.

- The minutes of the Dec 15-16 FOMC meeting contain more comments about the likely fragility of the US recovery and lack of upward inflation pressure than opposite concerns of potential inflation problems. This suggests that an exit strategy is not even on the horizon.

Europe:

- Euroland PMI survey continued to rise although at a more measured pace from 51.2 in Nov. to 51.6 in Dec. Among the subcomponents, it is noteworthy the stability of the Orders index in the last 3 months. The key national data were also encouraging: German Manufacturing PMI rose to 53.1 after 52.4 while its French counterpart was stable at 54.4. In Services, the German index rose to 53.1 after 51.4 while the French index fell to 59.3 after 60.9, a mild correction of the 11.6 point increase since August. These figures are consistent with GDP growth of 0.5% qoq in Q4 2009.
- Euroland inflation rose to 0.9% yoy in Dec from 0.5% in Nov. due to energy-related factors.
- Both business confidence and consumer confidence in Euroland increased slightly in December to -17 and -16 respectively, another sign of normalization in the real economy.
- German industrial orders disppointed again in November edging only 0.2% mom higher after -1.9%. The weakness of foreign orders is difficult to explain in light of the strength of the global industrial recovery.
- Germany’s industrial output increased 0.7% mom in Nov after -1.7% in Oct, broadly in line with consensus.

Despite the recovery the index is still around the same level as ten years ago.

Asia and Pacific:

- Singapore GDP grew 3.5% yoy in Q4 2009, however when seasonally adjusted this figure translates into a contraction of 6.8% qoq (seasonally-adjusted; annualized), versus the strong expansions of 14.9% qoq ann. and 21.7% qoq ann. in 3Q2009 and 2Q2009 respectively. The manufacturing sector's output which contracted by 38.4% qoq ann. in Q4 was the main culprit for this slowdown.
- Boosted mainly by demand from China, Taiwan's exports increased by 46.9% yoy in Dec, after increasing 19.4% yoy in Nov. much above consensus expectations.

Bottom line: The global economy ended 2009 with a broad based rebound, stronger in Asia, and weaker in mature economies. Pockets of weakness remain in countries such as Spain, Russia, Baltic and Eastern Europe.

Regional Developments

- A single Gulf currency could be launched in 2015 if GCC States speed up the process, according to Mohamed Al Mazroui; GCC Assistant Secretary-General for Economic Affairs, in the first such comment after the monetary union was endorsed last month.
- Muhammad Al-Jasser, Governor of SAMA estimated total GDP of the 4-member GCC Monetary Council at about USD 751bn, underscoring the monetary council's potential to strengthen GCC and boost their economic and commercial relations.
- Kuwait's parliament approved a bailout bill of up to KWD 6.7 bn for its indebted citizens, despite the

government’s opposition. It was estimated that the government would have to use up 33.5% of total deposits, or KWD 2.9bn to fund the plan.

- Oman has started the implementation of the new tax law – a tax rate of 12% was made applicable to all companies incorporated in Oman, irrespective of the nationality of the shareholders.
- Higher oil production alongside record public spending boosted Oman’s economy by 3.7% in 2009, according to the country’s minister of national economy. Oman’s foreign trade surplus fell 32% yoy to OMR 4.4bn in 2009.
- According to the Omani Ministry of National Economy, Oman’s budget spending for 2010 is estimated at OMR 7.2bn, with revenues at OMR 6.4bn, resulting in a deficit of 800 mn (3% of GDP) based on an estimate of USD 50 per barrel.
- Saudi Arabia has re-imposed 5.0% customs duty on steel bars and cement imports following an oversupply in the domestic market but the duty will only be levied on imports from non-GCC countries.
- Saudi Arabia’s oil sector GDP plunged 40% to SAR 647bn riyals in 2009, as income from oil production fell to 46.7% from 60.7% in 2008. GDP from the non-oil sector increased 5% to SAR 723bn, according to data released by the General Statistics Bureau.
- Saudi Arabia’s foreign assets dipped by nearly 12% in the first 11 months of 2009 as Saudi’s massive investment plans gained speed. From about SAR 1.7trn at the end of 2008, the assets of SAMA tumbled to SAR 1.5trn at the end of Nov09.

Market Intelligence on the UAE

- Dubai approved its 2010 budget with a larger deficit – at AED 6 bn (2% of GDP) – up from the estimated AED 4.2bn for 2009 due to reduced revenue estimates. Expenditure at AED 35.4bn was down from AED 37.7bn budgeted for 2009 while revenues were set at AED 29.4bn.

- UAE consumer confidence took a hard hit in a global survey after Dubai World’s call for a debt standstill led to a negative outlook. The reading for Dec09 fell 10 points to 92, the biggest drop of the 29 markets in Nielsen’s worldwide survey.
- A decree exempting companies operating in Dubai from all fines imposed on them for not renewing their licenses on time was applauded as it reaffirmed the continued support for the business community in Dubai.
- Dubai hotels RevPAR (revenue per available room) dropped to $163.4 in the Jan-Nov09, a decline of 32.3% yoy while hotel occupancy rates dropped to 69.2%, according to the Deloitte analysis of STR Global data of hotel performances in the Middle East.
- DP World announced that it had paid coupon and profit obligations on its Sukuk and a bond issue on time. DP World also took the decision to list on the London Stock Exchange to boost liquidity, after shareholders called for the secondary listing as a means to ease trading opportunities on the global ports operator. This decision is a serious blow to Nasdaq Dubai where DP World accounts for over 90% of daily transactions.
- The UAE did not witness cancellation of collective residences in 2009 due to the impact of international financial crisis, according to the Ministry of Interior’s Assistant Undersecretary of Naturalisation, Residency and Exits Affairs. It was stated that some 21,065,229 people entered into UAE via air, land and sea outlets in 2009. The figure is higher than the one registered in 2007 and 2008. The number of people who went out the country last year totaled 20,682,623.