Weekly Economic Commentary – January 24, 2010

Markets
Global stock markets were mostly down hit by the impression of a tightening stance by the People's Bank of China and concerns over US plans to rein in banks. Regional markets were down as well, with the exception of Bahrain and Kuwait. The DFM was dragged down by the real estate and materials sector. Haven demand boosted the dollar and the yen as worries over China's monetary tightening and US banks weighed on risk appetite. Commodities – oil, gold and most base metals – fell from the previous week on dollar gains.
Global Developments
America:

- Global flows of FDI fell to nearly $1 trillion in 2009 from $1.7trn in 2008 according to UNCTAD.
- Housing starts weakened in Dec09 (-4.0% mom), but permits for construction were stronger – up 10.9% overall.
- Initial jobless claims were up 36k to 482k in the latest release, but the four-week average is roughly steady just under 450,000.

Europe:

- The German statistical office warned that growth might have been stalled in Q4 2009, but did not provide figures (yet).
- U.K. inflation jumped up in Dec09, to 2.9%yoy from 1.9% in Nov09. Prices were up 0.6%mom pushed by energy prices.
- The U.K. Treasury is planning to host a meeting of G7 (and IMF and FSB) on the 25th to discuss a "global

insurance levy” (i.e., higher taxes on large banks).

- Euro Group Finance Ministers criticized Greece it for having failed to enact hard spending cuts. Spreads however narrowed 10bp.
- The ZEW index edged lower in Jan 2010 to +47.2 from +50.4 in Dec09. This downside surprised the markets.
- January’s flash Euroarea manufacturing PMI rose to 52 (51.6 in Dec09), with Germany up to 53.4 (from 52.7). However, the services PMI was weak as it fell to 52.3 from 53.6 in Dec.
- UK retail sales were up 0.3% mom in Dec, resulting in a solid Q4, at 2.8%q/q, saar. This series has been surprisingly robust through much of the U.K. recession.

Asia and Pacific:

- China released a slew of data ranging from GDP to industrial production: real GDP growth accelerated to 10.7% yoy in 4Q 2009 and 3Q growth was revised up to 9.1%, taking 2009 GDP to 8.7%; industrial production slowed to 18.5% yoy in Dec (Nov: 19.2%), with steel and cement output leading to the growth. On the demand side, retail sales accelerated – up 17.5% yoy in Dec (Nov: 15.8%). Fixed investment spending also remained strong while inflation rose to +1.9% yoy, up from +0.6% yoy in November – Chinese domestic final demand growth remains strong but rise in inflation might lead to more tightening of the monetary policy soon.

Bottom line: The pause of reflection in global markets continues while the economic situation remains uncertain. The outlook remains clouded by two uncertainties: strength of US labor market and the exit strategy from the exceptional measure taken in 2008-09. Draghi head of the Financial Stability Board warned that the general situation “is not as good as the markets think it is…there are very substantial fragilities in the [financial] system". China is beating expectations and the authorities looks ready to push the brakes.

Regional Developments

- The outlook for corporate credit quality in the Gulf is stabilizing and might even recover albeit a slow pace, as "the worst is over", Moody's Investor Services stated in a new report. Nevertheless credit conditions in some sectors, particularly real estate, will continue to be challenging in 2010. The same also applies to **Dubai** where restructuring of certain entities is likely to be a **prolonged exercise**.
- Contracts for the GCC rail project are expected to be awarded in December while the $15.5 bn project is set to be operational by 2016, according to the GCC Secretariat.
- According to the World Bank's Logistics Performance Index (LPI) survey the UAE was placed the best performing trade logistics service-provider in the Gulf region, ranking 24 among 155 countries across the world.
- MasterCard Worldwide Index of Consumer Confidence showed that confidence in the UAE rose to 86.1 from 29.6 in the previous survey that reflected perceptions for H2 2009. Overall UAE optimism is the third highest globally, after Vietnam and Qatar.

Market Intelligence on the UAE

- EFG Hermes estimated that the capital market debt of the Dubai government and its entities, including bonds and syndicated loans, has risen to $96.6 bn in 2009, including funds raised by the government to meet debt obligations. The bank pointed to uncertainty, which could take the total debt to $170 bn, highlighting a lack of data on loans between Dubai Inc. entities and banks. It estimated that Emirates NBD alone is exposed for $24 bn in loans to Dubai Inc.

- Dubai Chamber of Commerce estimated that housing prices in the UAE remained flat from September to November; property rents and house prices have already bottomed out in June. Almost 30,000 new apartments and villas will be handed over in 2010. The Collier Index reported similar data with house prices in Dubai rising 1% in Q4.
- The UAE Government pumped nearly Dh18 bn into banks deposits in September, the biggest monthly increase since 2008, according to Central Bank’s figures.
- Borse Dubai announced it will exercise the one-year extension option of the current USD 2.5bn multicurrency syndicated facility.

Property developer Nakheel announced the payment of the coupon on its USD 750mn bond maturing in 2011 of USD 10.3mn. Nakheel has two bonds outstanding – a Dh 3.6 billion dirham issue maturing on May 13 and the USD 750mn deal due Jan 2011.