

# Weekly Economic Commentary – January 31, 2010

## Markets

Global stock markets were mostly down last week in reaction to the proposed tax on banks announced by President Obama, but pared some losses following his populist State of the Union speech, the Fed's statement and positive news on US GDP growth. The Regional markets were mixed with KSA and Qatar down, Oman sharply up and the others mildly positive. The Euro is retreating, while oil and gold fell sharply.

## Global Developments

### America:

- US GDP grew 1.4% qoq or 5.7% annual rate and 0.1% yoy in Q4, due mainly to significant progress toward inventory stabilization, with final sales measures coming close to 2%. Inflation as measured by the personal consumption deflator was 1.4% yoy.
- The Federal Reserve kept rates unchanged while reiterating its promise to keep rates 'exceptionally low' for an 'extended period'.
- Existing home sales slumped in Dec (-16.7% mom) while S&P Case-Shiller index for Nov continued to show modest gains in home prices – both reflecting expectations on the part of homebuyers that the \$8k homebuyer tax credit would expire on Nov30, 2009.
- New home sales dropped further in Dec (-7.6% mom) partly due to builders' poor sentiment, reflecting impact of a supply overhang.
- Durable goods orders rose +0.3% mom in Dec, (-3.1% yoy), a performance reflecting weak transportation orders.
- Initial unemployment claims rose 470k, but continuing claims dropped by -57k to 4.602 million; overall the job market prospects remain difficult.

## **Europe:**

- UK 4Q GDP was up +0.1% qoq, an encouraging sign that the worst is over.
- According to the ECB's quarterly lending survey, banks are still tightening lending standards on a net basis.
- Euroland consumer and business confidence indices edged up one and two points respectively, in line with expectations.
- Germany's Jan IFO survey registered an upside surprise (95.8 – the highest since July 08), pointing towards improved sentiment regarding recovery. With the exception of retail, sentiment was higher in all sectors surveyed (manufacturing, wholesale, construction).

## **Asia and Pacific:**

- Japan Industrial Production posted its 10th successive increase, rising 2.2% mom (-4.2% yoy) in December, the same as November, suggesting sustained growth. However, S&P downgraded the outlook for the Japanese economy to 'negative' and warned that it would revise the ratings of government debt if the ballooning deficit was not contained. Deflation remained entrenched with prices dropping 1.3% yoy in Dec.
- South Korea 4Q GDP was up 0.2% qoq, driven by services sector growth. On the demand side, fixed investment was up but consumption fell, reflecting the waning fiscal stimulus.
- Industrial production in Taiwan increased 47.3% yoy in Dec, the highest recorded rate. IP is now near its peak levels in early-2008. Taiwan is benefiting from strong Chinese economic growth.
- Singapore's Dec industrial production was up 14.4% yoy (Nov: -9.6%) on stronger production in the electronics sector.

**Bottom line:** Recovery is almost complete in Asia excluding Japan (where a new populist Finance Minister is unsettling the markets), while the US and Europe maintain a weaker tone. The US GDP figures were positive, but without job creation this turnaround might not last.

## **Regional Developments**

- Central Bank of Bahrain announced an oversubscription of the monthly issue of the Sukuk Al-Salam Islamic securities: subscriptions worth BHD 63mn were received for the BHD 12mn issue.
- Kuwait announced KWD 12.9bn in total revenues for first 9 months of the fiscal year – this was 59.8% more than projected revenue, but significantly lower (30.7%) compared to a year ago.
- The foreign and local workforce in Qatar grew by 7.9% in 2009 to 1.26 mn. The workforce was concentrated in the construction sector (44%), while the mining and manufacturing sector accounted for another 14%.

### **Market Intelligence on the UAE**

- The IMF has revised downwards its projections for the UAE, forecasting flat growth this year due to the real estate crisis in Dubai, where output is expected to contract in 2010. The UAE economy in 2009, fell 0.7% according to the latest IMF figures
- A RERA draft law in Dubai would impose financial penalties on developers who deliver properties late and also gives investors a refund or replacement if the delivered property is defective. It would also specify provisions for cancellation of contracts.
- The National Human Resources Development and Employment Authority (Tanmia) has estimated the UAE population would rise in 2010 to 7.56 million (13.3% of which would be Emirati nationals) from 5.63million in 2006.
- Abu Dhabi municipality will develop 26 infrastructure projects this year prominent among which are the commercial area at Khalifa City, completion of roads at Zayed City and completion of projects at Al Salam, East Coast and Presidential Palace roads.
- Three Gulf investors, including Rafed Al Khorafi, chairman of the Kuwait-based AM Al Khorafi group, are suing Bank Sarasin-Alpen and Bank Sarasin & Co in the DIFC Courts for what press reports said was “negligent investment advice”.
- Both Dubai World and Emirates NBD have announced a parting

of ways with S&P, on increasing tensions with the ratings agency.

- Dubai may start importing up to 37 billion cubic feet per year of natural gas from Qatar as early as Sept, 2010 according to The National.

- UAE hotels occupancy level rose to 65.5% in Dec for the first time in months. However, Dubai hotels reported the largest RevPar decline of 31.4% yoy to \$163.31 in 2009, according to the hospitality research firm STR Global.