

Weekly Economic Commentary – February 21, 2010

Markets

Major stock markets are experiencing volatility and choppy range bound trading with reactions provoked mainly by the vagaries of EU involvement in Greece's crisis and central banks' policy (the Chinese first and the Fed last week). This pattern spills over currency and commodities markets. Last week, the dollar climbed to an 8-month high post-Fed hike and the pound hit a 9-month low after UK posted its first deficit for Jan since records began. In UAE markets low volumes and volatility will likely continue until the cloud over Dubai World lifts. Other regional markets had mixed performances. Oil and other base metal prices rose on overall positive economic news.

Global Developments

America:

- The Fed surprised markets with a 50 bps rate hike to 0.75%. Stock futures fell in after-hours trading while the yields on 10-year Treasury notes rose about seven basis points to 3.8%.
- Foreign demand for US Treasury securities fell by a record amount in Dec as China sold \$34.2bn of its holdings of government debt, leaving Japan as the biggest holder of US government debt with \$768.8bn.
 - Housing starts were up 2.8% mom in Jan. This sector is still at a low level, with single-family starts at only a 484,000 annual rate and multifamily starts bouncing around the 100,000 level. Excess supply evidently continues to weigh on the market.
 - Industrial production grew 0.9% mom in Jan with gains across the board in manufacturing – led by

motor vehicles and parts (4.9%), consumer goods (1.1%), business equipment (0.9%). Utilization was up as a consequence, but at 72.6% still low in historical terms.

- Initial jobless claims were up 35k to 473k in week ended Feb 13; CPI in Jan was up 0.17% as energy and food prices rose while the core index showed a dip, reflecting ongoing weakness in rental costs, declines in apparel and auto prices.

Europe:

- The ZEW Survey of economic sentiment edged lower in Jan 2010 to +47.2 after +50.4 in Dec09. The assessment of the current situation however improved slightly less than expectations, up from -60.6 to -56.6 in January.
- Eurozone flash manufacturing PMI rose to 54.1 in Feb (Jan: 52.4) on a 3.4 point surge in the German manufacturing index as French manufacturing declined again, to 54.6 from 55.4.

Asia and Pacific:

- Japan's economy expanded at 1.1% qoq in Q4 2009 supported by a marked recovery in exports and improving domestic demand. However, it remains highly reliant on external demand, with net exports accounting for 0.5 percentage points of Q4 GDP expansion.
- Singapore's Jan non-oil domestic exports increased 20.8% yoy (Dec: 26.1%), the third reading of positive yoy growth since Apr08. Electronics exports increased 22.7% while volatile pharmaceutical exports fell 29.7%.

Bottom line: With the first rate increase by the Fed (which almost everybody expected no earlier than midyear) the phase of acute emergency is over. The data flow confirmed this week an overall positive conjuncture, but also that the main threats, labor markets, US housing sector and global current account imbalances are hardly being corrected.

Regional Developments

- Qatar consumer prices fell 4.9% in 2009, while Oman's inflation increased to 0.9% yoy in Dec.
- Standard Chartered said it was in advanced discussions with counterparties in the Middle East, including trading companies and government entities, to launch Islamic derivatives.
- The Central Bank of Bahrain has initiated consultations to impose restrictions on banks' credit and investment exposure including one to set the ceiling for underwriting commitments on securities' issues and syndicated loans at 30% of bank's capital for 90 days.
- Moody's raised the sovereign ratings of the Gulf state of Oman on the back of the strength of its public finances.
- KSA's oil exports to the US fell to 837,000 b/d in November, their lowest level in 21 years, according to estimates by the EIA.
- The GCC is the biggest importer of food in the world with more than 90% brought into the region as per WTO data. Estimates by Business Monitor International show UAE food expenditure at \$6.7 bn in 2009; the market is forecast to grow by 2.67% in 2010.
- UAE Central Bank Governor Nasser al-Suwaidi reiterated that rejoining the Gulf monetary union was not being discussed now. This came after SAMA's Governor told reporters that he had not lost hope for Oman and UAE returning to GMU. (Source: Reuters)

Market Intelligence on the UAE

- IMF in its Art. IV Staff Report forecasts UAE's overall real GDP to have contracted by about 0.5% in 2009. Hydrocarbon GDP declined by 6.25%, while non-hydrocarbon growth, which had averaged 8% in 2006-08, is estimated to have slowed to about 1%.
- The cost of insuring Dubai's bonds, through CDS which

had fallen after Abu Dhabi rescue, has climbed back above \$600 for every \$10,000 of debt. This is the highest levels since Mar09 and above levels in Nov09, when Dubai World first announced a standstill.

- A Reuters report argues that Dubai World conglomerate is offering to pay creditors only 60 cents on the dollar after 7 years. Limitless in the meantime is said to be asking for a rollover of its debt repayment due next month." An anonymous insider commented that: "Hundreds of millions, billions, at Dubai World and at Nakheel have come due and have been rolled over already".
- According to the Dubai Statistics Centre, Dubai's inflation rate stood at 4.1% in 2009 down from 11.3% in 2008. Housing, water, electricity and gas price growth, accounting for the largest share of the Consumer Price Index (CPI) weight, stood at 2.4% in 2009.
- Construction of the Dubai Metro has resumed after a settlement with the Japanese-led consortium over about \$2-3 billion in disputed payments, the Financial Times reported.

Fitch Ratings became the third agency to downgrade a unit of Dubai Holding, citing lack of information about public guarantees.