

Weekly Economic Commentary – February 28, 2010

Markets

Major stock markets remain directionless – concerns about sovereign defaults in Europe and tighter Chinese policy outweighed reassuring comments on US interest rates. Emerging markets performed slightly better on upbeat factory output data from Japan and India's promise of high levels of stimulus spending. GCC markets were down mirroring global sentiment; the DFM was pulled down by the financial and real estate sector. The dollar and yen were clear winners last week, while the pound tumbled to a 9-month low on UK growth concerns. Oil and gold were slightly low compared to the earlier week.

Global Developments

America:

- Fed Chairman Bernanke in his Congressional testimony indicated more concern about maintaining growth than about immediate inflation threats and pledged to maintain interest rates at a low level for the foreseeable future.
- Consumer Confidence fell more than anticipated to 46 from 56 in February, the lowest level since April 2009 as the outlook for jobs diminished, a sign spending may be slow to gain traction as the economy recovers.
- Home prices rose in December for a seventh straight month. The S&P/Case-Shiller index of 20 U.S. cities increased 0.3% (sa) mom and 3.1% yoy, the smallest decrease since May 2007. New home sales fell by 11.2% in Jan, reaching a new all-time low of 309k.
- Durable goods orders gained (3.0% mom) in Jan but bookings for nondefense capital goods ex aircraft, a key indicator for business equipment spending, fell by 2.9%. Initial claims were up 22k to 496k in the week ended Feb 20 as continuing claims also edged up.

- Small upward revision to Q4 GDP to 5.9% qoq; consumer spending was up 1.7% while inventories contributed 3.9%, up from 3.4%.

Europe:

- The German IFO business survey for February posted a surprising drop, from 95.8 to 95.2 as the current conditions index dipped from 91.2 to 89.9, undoing all the gains since November. French durable goods consumption was also weak in January, falling 2.7% mom.
- Greece remains the focus with an international team (EU, ECB, IMF) visiting Athens and new austerity measures sparking unrest. S&P has threatened to further downgrade the Greek public debt.

Asia and Pacific:

- Thailand, Malaysia and Taiwan posted strong Q4 growth rates 15.2% qoq, saar, 14.6% qoq, saar and almost 8% qoq (not annualized), respectively. Taiwan, has been one of the most violently affected economies by the global bust and boom). Hong Kong Q4 GDP was up 2.6% yoy (3Q: 2.2%) as private consumption, investment and exports all picked up.
- FDI inflows into China were \$8.1 bn in Jan 2010, in line with the recent trend. Meanwhile, Chinese lenders have announced plans to raise up to CNY76bn (\$11bn) through equity and bond sales, with at least CNY150bn (\$22bn) of bank fundraising in the pipeline.

Bottom line: US and Europe continue to lose steam, possibly due to unusually bad weather conditions, but also to the end of auto sector support. Greece's woes threaten to undermine the stimulus measures in Europe. Asia is posting stronger-than-expected performances.

Regional Developments

- The Saudi government reported finding new gas in the northern Jalamid area, which it said could be commercially exploited. Tests showed the well in al-Sannara reservoir flowing at 12.1 million cubic feet per day (cfd).
- Saudi Arabia and Bahrain inflation for Jan were 4.1% and 1.8% respectively (from 4.2% and 1.6% in Dec respectively).
- Kuwait posted a preliminary budget surplus of USD 27.8 bn in the first 10 months of the current fiscal year on higher oil income.
- Optimistic outlook for the region from Moody's: 2010 will be about improvement as sluggish global recovery gains momentum and investor confidence rebuilds; risks include deterioration in regional political environment and sustained collapse in oil prices.
- Standard and Poors report on rated Gulf Banks showed a marked increase in non-performing loans (NPLs) – NPLs to total loans ratio reached 5.4% on average at end-Q3 2009, compared with 2.7% at end-'08. Accounting for most of the increase were Kuwait- and Dubai-based banks and exposures of some of the Gulf banks to the Al Gosaibi and Saad groups, which defaulted in Q2 2009.

Market Intelligence on the UAE

- IMF's Article IV consultation depicted a broadly positive view of the UAE economy, but underlined in unusually frank language the challenges ahead, especially in resolution of the DW debt restructuring. It proposed the creation of debt management office and a new corporate insolvency regime, evaluation of medium-term fiscal implications of increased infrastructure spending, design of macro prudential tools to discourage speculative behaviour, promotion of counter-cyclical bank solvency, strengthening of liquidity buffers and

continuing efforts to develop statistical capacity. At the level of Dubai, the IMF stressed on effective communication, increased transparency of economic and financial data and balancing “the viability” of GREs with “need to limit contagion to the economy and the banking sector. The report showed a net external creditor position for UAE. The International Investment Position for 2009, at \$437bn in assets and \$132bn in liabilities, resulted in a net positive \$305bn (132% of GDP).

- Moody’s estimated that UAE-based banks have \$15bn of exposure to Dubai World, adding that 12 rated UAE banks and the regional entity of HSBC could absorb losses of 40%. The government denies the likelihood of losses on this scale. Under such a scenario, the lenders would lose about 9% of their capitalisation at end 2009, sapping all profits made in the last two years, but retaining solvency.
- Specific provisions for non-performing loans (NPLs) by banks in the UAE have gone up by 63.7% to AED 33.4bn at the end of Jan 2010 from AED 20.4bn a year ago, according to data published by the UAE Central Bank.
- Dubai International Airport passenger traffic was up 17% yoy to 3.86 mn passengers in Jan 2010 to a new monthly record while cargo volumes surged 31.5% predicating an industry-wide rebound.
- Dubai’s non-oil direct exports grew at an average 23% yoy to AED 52.4bn in 2009 (2008: AED 42.6bn) according to data from Dubai Customs. India topped the list of export markets in Dubai, with a share of 40.6% and a value worth of AED 21.3bn.
- DEWA plans to sell 1-2 mn Certified Emission Reductions a year from 28 clean development mechanism (CDM) projects. While it is evaluating bids received for a tender floated earlier, the evaluation of one of its CDM projects shows a return of 7% on investments.

