

# Weekly Economic Commentary – March 07, 2010

## Markets

A positive week across global equity markets – US stocks rallied after unemployment data beat market expectations while the FTSE 100 hit the highest level since Lehman. Asia continued to rise as Greece concerns faded and data releases continued to point toward faster growth in the emerging markets.

Regional markets were mixed with both UAE indices slightly up. Sterling and euro continued to lose ground against the dollar; but euro rose against the yen after the Japanese government's move to raise borrowing limits for forex intervention, suggesting Yen weakness. Oil and gold were both up. Baltic Dry freight index also soared last week, up 15% (up 22% from mid-Feb) with pickup of international trade.

## Global Developments

### **America:**

- Consumer spending started 2010 on a firm note, rising 0.5% in nominal terms and 0.3% in real terms. The small 0.1% increase in personal income hid a much more solid 0.5% increase in labor compensation (0.4% in wages and salaries) offset by a fall in asset income.
- ISM non-manufacturing survey rose by two points to 53 in Feb, as all subcomponents strengthened – the most important being the employment component that showed a sizable gain (four points to 48.6).
- February jobs report showed slow but steady improvement in the labour market – unemployment rate held steady at 9.7%; overall employment fell 36k; payroll declines in Q1 have been muted – 32k per month (2009 Q4: 90k; Q3: 261k; Q2: 477k; Q1:753k). The Fed's Beige book survey

showed that labour markets remained “soft” with little wage pressure, but some districts saw rises in hiring.

### **Europe:**

- Greece outlined a new set of fiscal tightening measures, estimated at EUR 4.8bn (2% of GDP), with higher sales taxes the main revenue measures and spending cuts in public sector wage bonuses and benefits.
- Euro-area non-manufacturing PMI was 51.8 in Feb (Jan: 52.5). Euro-area retail sales volumes fell 0.3% mom in Jan, and were down 1.2%, saar, versus Q4. Region-wide auto sales are also slipping, led by Germany (30% yoy in Feb) with the end of car buying cash incentives.
- German manufacturing orders soared – up 4.3% mom in Jan, with domestic orders surging 7.1% mom.

### **Asia and Pacific:**

- China’s PMIs slipped in Feb to 52 from 55.8 earlier – probably distorted by the Lunar New Year. By contrast, India seems to be gaining momentum – 58.5 in Feb versus 57.6 in Jan.
- South Korean trade balance returned to a surplus thanks to strong export growth of 31% yoy while a demand boost helped imports grow 36.9%. Industrial production became flat in Jan, following Dec’s strong upside momentum.
- Malaysia’s Central Bank hiked policy rates to 2.25% from 2%. Australia’s Central Bank raised rates by 25 bp to 4.0% and signaled further hikes ahead, after 4Q GDP showed that growth accelerated to its highest level in 2 years (3.6% qoq saar).

**Bottom line:** The spate of data in the first week of March has been moderately positive, but hardly upbeat.

Europe in particular is the soft spot due to fading government stimulus and Greece’s quagmire. At the opposite in Asia the recovery is becoming stronger each week and clearly broad based by geographical and sector

distribution.

## **Regional Developments**

- GCC Investor Confidence Index (Shuaa) for Feb fell 7.8% to 105.6, with UAE (-11.7 points), Saudi (-8.7) and Qatar (-5.8) indices leading the decline. The UAE Index is now just 1.9 points off of its all-time low after the Dubai World “standstill’ announcement in Nov. 2009
- Kuwait’s inflation eased to 4.2% yoy in Jun 09, its lowest level in more than two years, largely due to the fall in food prices.
- Figures released by SAMA showed that the net income of Saudi Arabian banks slumped by more than 20% in Jan as they maintained a tight lending position triggered by the global fiscal crisis and had to provide against debt defaults by the Saad-Al Gosaibi conglomerates.
- Indian PM’s visit to Saudi Arabia led to the signing of the Riyadh declaration, an extradition treaty and MoUs relating to science & technology and media relations. This reflects an official move towards a long-term strategic partnership.

## **Market Intelligence on the UAE**

- According to the UAE Central Bank Deputy Governor, “Dubai World has been able to set up a strategy to address the crisis” and added that it has been able to successfully restructure the debt of its creditors, without providing any details.
- Abu Dhabi is preparing a series of road shows for a potential pipeline of \$20 bn sovereign and quasi-sovereign debt issues, as reported by Thomson IFR Markets. DEWA also announced plans of raising up to \$1.5 bn through a bond issue “for repayment and projects”.
- UAE domestic banks performed well in 2009 but provisions against bad debt depressed net earnings by more than 20%. Central Bank data showed collective NPL provisions

at AED 12.9bn in 2009, more than double the provisions of AED 4.5bn allocated in 2008.

- The fees for 37 customs services have been unified for the first time at the UAE level (from March 1) following a Cabinet Decision. The unification is aimed at implementing UAE's obligations under the GCC custom union and international conventions.
- Dubai's inflation slowed to 4.0% in 2009 from 2008's peak of 10.8% as price growth in housing and food costs decelerated. Consumer prices in UAE fell to 0.32% yoy in Jan, amid a rise in property rental prices alongside stable food prices.
- Dubai's government has ordered its departments to cut spending by 15% to save AED 3.7bn, with the aim of reducing the Emirate's deficit of AED 5.99bn, as per a statement from the Finance Department.
- Moody's downgraded ratings of seven Abu Dhabi-based companies it had put on review in Dec09 saying there's "no explicit formal" government guarantee to support them. The companies downgraded included Mubadala, Etisalat and Taqa among others.