

Weekly Economic Commentary – March 14, 2010

Markets

A week of consolidation across global equity markets, amid a quiet week – data-wise. Tokyo stocks posted their best weekly gains in more than three months. Regional equity markets were mostly positive, with the UAE exchanges performing better than others. On the currency front, the yen was in focus due to speculation that the Bank of Japan would take further steps to ease monetary policy. Crude oil prices fell compared to the week before after the International Energy Agency (IEA) revised up its global demand forecasts to reach 86.6m barrel per day in 2010 (+1.8% yoy). The IEA said Asia alone would provide more than half of global oil demand growth this year with China accounting for almost two-thirds of that region's rise.

Global Developments

America:

- Initial jobless claims fell by 6k to reach 462k, while continuing claims edged up.
- Retail sales rose 0.3% overall and 0.8% excluding autos, well ahead of expectations, pushed by electronics and appliances (+3.7%); Q1 2010 core retail sales are now on a 5.8% (annualized) growth trend.
- The Federal Budget deficit in Feb was -\$220.9bn against expectation of \$42bn, a worrisome sign of public finance deterioration.

Europe:

- German industrial production (IP) for Jan was up 0.6% mom, in spite of a sharp 14.3% drop in construction.

France and Sweden IP's were both up 1.6% mom, Italy's was up 2.6% while UK declined 0.4%.

- Eurozone Industrial Production grew 1.7% mom +1.4% yoy in Jan; 3 month growth is now close to its long term average.

Asia and Pacific:

- . China's export growth accelerated strongly in Feb (45.7% yoy), exerting more pressure on inflation and the renminbi. Import growth stays strong at 44.7%, with robust growth in domestic demand.
- . Chinese inflation picked up 2.7%yoy in Feb, with food prices contributing to the increase. Industrial production accelerated 20.7%yoy in Jan-Feb to the highest level since the series was started in 1995 while nominal retail sales rose 17.9% for the same period.
- . Japanese machinery orders for Jan fell 3.7% mom, but this comes after a 20.1% surge in Dec; machine tool orders (a leading indicator for exports) are signaling recovery in external demand, rising +267.7% yoy (Jan: +299.2%).
- Taiwan's exports retained solid growth in February increasing 32.6% yoy, while imports increased 45.8% yoy.
- Indian Industrial Production rose by 16.7% yoy in January compared to the revised 17.6% yoy growth in December.

Bottom line: Data were within expected range and do not change much the picture of strong recovery in Asia and weaker elsewhere.

Regional Developments

- Total banks' assets of 420 in the Arab world grew 3.57% to USD 2.26tn in 2009 in spite of the global financial turbulence according to the head of the Union of Arab Banks. The deposit base surged 17% to \$1.27trn and loans

portfolio grew 6% to \$1.09trn while the capital base rose 19.5% to \$239 bn in 2009.

- Gulf banks are expected to see further increases in non-performing loans during 2010, with KSA and Qatar the least affected, according to S&P. UBS estimates that UAE banks could see NPLs rising to 15% of total lending, more than triple the level reported.
- Officials from Saudi Arabia, Kuwait, Qatar and Bahrain, who form the Banking Control and Supervision Committee, are reviewing a draft law on the unification of supervision rules and common banking regulations to be enforced in the monetary union.
- Six GCC firms are expected to list on London's Plus Markets primary/secondary exchanges this year, according to its CEO Simon Brickles, as it remains attractive to medium and small enterprises and family businesses to trade on its platform with flexible rules.
- The head of the Saudi Commission for Tourism and Antiquities, said a new tourism law is almost ready and could be passed this year.

Market Intelligence on the UAE

- The UAE Finance Minister Sultan al-Mansouri stressed that the Federal Government would support Dubai to restructure \$26 bn debt and expects a quick solution. Also he expects the UAE economy will expand by 3.2% in 2010 from an estimated 1.3% last year.
- UAE's non-oil foreign trade in 2009 was AED 663bn as per the Federal Customs Authority – imports: AED 449.2bn, exports: AED 66bn and re-exports: AED 147.8bn. Overall value declined 16% yoy (from AED788.7bn) due to the global slowdown. Lower oil prices and production, amid the sharp fall in trade credit depressed trade surplus by about 59% in 2009 according to the AMF.
- Abu Dhabi's foreign trade rose to AED 112.1bn in 2009

(up 9% yoy) according to Abu Dhabi Customs statistics; the volume of re-export trade jumped 39.3% to reach AED 8.6bn. The growing role of seaports in Abu Dhabi imports was significant – 62% of imports come in through seaports, 27% through land and 12% through airports.

- Dubai's Land Dept is expected to announce a new regulation for foreign companies investing in freehold properties.
- Abu Dhabi Tabreed, a district cooling company, has secured a AED 1.3bn loan from Mubadala to help with its operating expenses this year after reporting a record loss of AED 1.1bn in 2009. According to Tabreed, the loan would be available through the end of this year and "may be converted to long-term capital," meaning that Mubadala could add to its existing 16.8% stake in the company.
- Pearl Dubai FZ LLC, owned by a consortium of investors led by Abu Dhabi's Al Fahim Group, is trying to attract international investment, with particular interest from the Far East, for its \$4 billion development, the Dubai Pearl.
- The Dubai Government has created a regulatory body for the utilities sector and will soon put a framework in place that could pave the way for the private sector to enter the power generation and utility businesses.