

Weekly Economic Commentary – March 21, 2010

Markets

A week of consolidation in stock markets. Regional market are generally mixed but with Qatar displaying a stellar performance. The euro is down across the board and while oil price remain close to 80 \$/b, gold seems to benefit from the climate of uncertainty..

Global Developments

America:

- Moody stated that risks to ratings of countries with AAA rating, including the US, have increased, finally waking up to reality.
- US FED FOMC remained committed to an extended period of zero rates, but noticed that labor market is improving and investment is picking up, while the real estate is stagnant. It confirmed the demise of special liquidity facilities, the completion of purchases of agency debt and agency MBS, and the end of all but the TALF purchases of loans backed by commercial real estate MBS.
- Core inflation was 1.3% yoy, thanks to a zero mom increase, its lowest level since early 2004. Unemployment initial claims declined for the third week; continuing claims increased and the total number of people enjoying some form of benefits remained broadly flat.
- US Industrial production up 0.1% mom in Feb as weather takes its toll. Capacity utilization improves somewhat at 72.7 but remains low relative to deterioration and capacity is itself deteriorating as machinery is phased out.
- Housing starts are -5.9% in Feb, mom, +17.6% yoy, marking a stop to the recovery path, probably due to

extreme weather.

Europe:

- Euroland's employment fell 2.1% yoy in Q409, the same rate as in Q3, depicting a situation still far from a solid recovery.
- Euroland's inflation in Feb was 0.9% yoy after 1.0% in Jan.
- Eurogroup Ministers seemed to endorse a support for Greece if need arises, but stopped short of committing funds.
- The German ZEW index eased slightly in March to a reading of 44.3 after 45.1, but is down 10 points since end 2009.
- UK unemployment in Jan has remained stable at 7.8% the same level since Q2 09, reinforcing the view that it might have peaked.

Asia and Pacific:

- In the March Reuters Tankan manufacturing improved from -27 in December to -8 and signs of revival materialized at last also for nonmanufacturing, with a jump from -39 in December to -22. Overall the index went from -13 in Dec. to -8 in March.
- Singapore's Feb non-oil domestic exports increased by 23.4% yoy, after increasing 20.5% yoy in Jan led by electronics. On a sequential basis, exports increased 14.8% mom, seasonally-adjusted in Feb China was the destination with the fastest growth.

Bottom line: Data were overall slightly weaker than expectations. In terms of policy measures not much has happened buying time. However Moody's open remark that the fiscal situation in the US and elsewhere is a threat, has rang a bell difficult to ignore.

Regional Developments

- said Sunday it revoked the securities business license of [The](#) license of Ernst and Young was revoked by the KSA market regulator CMA, because of “several violations” of the capital market law and implementing regulations.
- Gulf States should carry out regular stress tests of banks’ asset quality, to assess financial sector stability, the IMF suggested.
- Oman’s consumer price inflation rose to a five-month high of 1.7% in Jan and its central bank officials reported inflation to nearly triple this year on imported price pressures.
- Kuwait’s broad money growth decelerated to 6.7% yoy in Feb’10 (Jan: 10.3%) while banks’ total claims on the private sector increased 5.2% to KWD 27.1bn.
- According to the Arab Monetary Fund Qatar’s economy witnessed the highest annual real growth rate among Arab countries at 9% in 2009 thanks to expansions in oil and gas production facilities.
- Kuwait’s total state earnings hit KD 16.01 billion (USD 55.5 bn) over the last 11 months, according to a report by Al Shall. Actual oil proceeds were estimated at KD 15.1 billion (approximately USD 52.5 billion) until February 28, 120% higher than estimated oil revenues for the current FY. KD 847.6 mn in non-oil proceeds were earned during the period

Market Intelligence on the UAE

- Saad Abdulrazak, a director of [Deyaar](#) and also a former chief executive of its parent, [Dubai Islamic Bank](#), was sentenced by the court of first instance to three years in jail and a fine of Dh115m, indicating stiffer penalties against those found guilty of corruption.
- The UAE 1500 km rail network will cost up\$11 billion. The contract for the first phase of the project is to be awarded by year end. Union Railway is also looking into the feasibility of building a high-speed passenger rail

between Abu Dhabi and Dubai.

- Under a new law UAE nationals will be given the right to own land endowed to them by the government and freely use the property without “previous constraints” provided they pay 50% of its assessed value for permission.
- UAE banks loans exceeded deposits by AED 59.2 bn in Feb (up from AED 47.1 bn in Jan), underscoring a shortage of money in the banking system. Bank loans rose 0.2% in Feb from Jan to AED 1.02 tn, while deposits fell 1% over the same period to AED 958.3 bn.
- Dubai, which is gearing up to give creditors a plan on repaying \$26 billion in debt, is not likely to need more help from the United Arab Emirates central bank, its governor was quoted as saying.