

Weekly Economic Commentary – March 28, 2010

Markets

International markets had a good week, especially the latter half, with the return of some investor confidence after the Eurozone agreed to a rescue package for Greece. Markets in region gained as well, after Dubai World's restructuring proposals and Dubai government's announcement of funding plans. The euro that was bogged down by a downgrade of Portugal by Fitch and other disappointing news bounced off 10-month lows on the Greece rescue package news from Brussels. Both gold and oil were down compared to a week ago.

Global Developments

America:

- The passage of U.S. health care legislation over the weekend is a politically and economically momentous event. According to the CBO, the budget implications of the legislation are deficit-reducing (\$102 billion, net in 2010-14; \$119 billion over 2010-19).
- Existing home sales slipped 0.6% in Feb; single-family sales were down 1.4% while condo sales rose. The report showed an increase in the supply of existing homes on the market to 8.6 months' worth. Most housing price measures declined slightly.
- The Richmond monthly survey of business activity was positive: "general business assessment" rose to +6, from +2 in Feb, with the biggest improvement in the employment index (to 0 from a -7 reading earlier). Expectations of future activity remained upbeat.
- New orders for durable goods posted a small gain in Feb (0.5%) with strong orders in machinery (4.7%) partly offset by a decline in orders for electrical equipment (-3.3%) and lower orders in transportation (fell 0.7%,

despite 32.7% rise in nondefense aircraft orders from a low base).

- The declines in first-time jobless claims have resumed. The 4-week moving average has fallen to 463k at the start of Jan, but then rose in February to the 470k-480k range. For the week ending March 20th, it is back down to 454k.
- GDP for Q4 2009 revised down modestly to 5.6% from 5.9%, mainly in business and residential investment accounts, reflecting weakness in construction spending.

Europe:

- Greece is poised to launch a multi-billion-euro bond issue this week in a vital test of confidence in the rescue package agreed by Eurozone leaders in Brussels. The rescue plan included the IMF and co-ordinated bilateral loans from Eurozone countries at market interest rates. Greek stocks and bonds rallied on the accord, while the euro jumped against the dollar.
- Euroland PMI for March showed a very strong manufacturing report leaving the index at its highest since 2006Q4. Activity in the services sector was also up more than expected. Still, at 53.7, they remain only moderately strong.

Asia and Pacific:

- Singapore's Feb industrial production (IP) increased 19.1% yoy (Jan: 39.2%). This registers as the third month of positive sequential growth. Taiwan's IP increased 35.2% yoy in Feb (Jan: 70.1%). To account for the Lunar New Year holidays compared to last year, Jan-Feb data are combined – this implies IP growth of 28.5% in Singapore (Dec: 15.4%) and 51.9% vs. 47.8% in Dec for Taiwan.

Bottom line: No major surprises in a light-new data release

week. Greece rescue package is likely to dominate investor sentiment in the coming days. European economic data continue to have the theme of manufacturing/exports good & domestic demand bad; Asia continues to surge.

Regional Developments

- said Sunday it revoked the securities business license of Kuwait's expatriate workforce dipped last year for the second time in a row – to 1.74 mn from 1.75 mn in 2008 – impacted by the global economic downturn.
- Construction contracts awarded in the GCC increased a total of 11.4% to reach \$142.4 bn in 2009. Saudi Arabia had the largest value of active projects in the GCC, \$618.5bn, of which 8.5% were on hold. Saudi Arabia and UAE had the largest market share of active projects, 33.6% and 30.7% respectively, followed by Kuwait and Qatar with a respective share of 13.4% and 13.2%.
- Qatar Investment Authority invested \$ 30bn in 2009 and plans to do the same this year, according to the Prime Minister Sheikh Hamad bin Jassem al-Thani. Assets include a 17% stake in Volkswagen, 7% share in Barclays and a 25% stake in Sainsbury.

Market Intelligence on the UAE

- Dubai World announced a restructuring proposal of \$23.51 bn of total financial liabilities outstanding as at 31 Dec 09. The total amount of outstanding debt, excluding the existing Dubai Financial Support Fund's claims, is \$14.2 bn. The Government of Dubai acting through the DFSF proposed to convert \$8.9 bn of debt and claims, (38% of the total amount of standalone debt and guarantees of Dubai World) into equity; in addition the DFSF will commit to fund up to \$1.5 bn of cash into Dubai World to fund the Company's working capital and interest payment commitments that will arise from the new debt facilities; non-DFSF creditors will receive 100% principal repayment through the issuance of two

tranches of new debt with five and eight year maturities.

- Dubai's government stated on Thursday that it would inject about \$9.5 bn into Dubai World and Nakheel but didn't outline details of plans to settle a debt restructuring deal with banks. Cash for Dubai World "will be funded by \$5.7 billion remaining from the loan previously made available from the Government of Abu Dhabi and from internal Dubai government resources," according to a statement by Dubai government. Dubai shares surged following the statement.
- UAE banks boosted their shareholders' equity by nearly 8.4% in the first two months of 2010 according to the central bank which gave no figures on the banks' capital adequacy. Financial analysts said they expected it to remain above 19% at the end of Feb. Specific provisions for the non-performing loans increased to AED 33.6bn in Feb (Jan: AED 33.4bn; Feb09: AED 20.9bn). NPL as a percentage of total loans is a minimal 3.3% only.
- Dubai Department of Economic Development issued 1151 licenses in Feb 2010, a 34% yoy increase. Majority of the licenses was issued in the commercial sector (887) followed by the professional sector (249), tourism (11) and industry (4).
- Moody's Investors Service confirmed the Ba2 issuer and Sukuk ratings of Dubai Electricity & Water Authority with a stable outlook and has taken them off review for downgrade.