

Weekly Economic Commentary – April 04, 2010

Markets

Reassuring data from the US lifted global equity markets last week, also increasing speculation that Fed may raise rates sooner than expected. Asian markets performed well, with South Korea hitting a 21-month high. Regional markets started the previous week on a very positive note after the Dubai World restructuring proposal while the Saudi index ended at a 17-month high yesterday. The yen fell to a 3-month low against the greenback last week, while positive US data pushed the dollar higher and oil rose above \$85.

Global Developments

America:

- Non-farm payrolls data bounced by 162k in March, but both Jan and Feb numbers were revised up by a cumulative 62k. Additionally, the survey of households reported a third consecutive large increase in employment of 264k (cumulative increase now 1.1 million). In spite of the firmer tone of the household survey, the unemployment rate held steady at 9.7%.
- The ISM manufacturing survey was stronger (3.1 points increase to 59.6) in March – but this increase was largely due to an 8-point surge in the inventory index – to its highest level since July 1984. Construction spending for Feb however continued to remain weak.
- Initial jobless claims for the week ending March 27 declined modestly from upward-revised bases (-6k to 439k).
- Spending continues to grow at a moderate pace despite stagnation in income (personal income was flat in Feb on mom basis, +2.0% yoy). Core PCE price index posted a second consecutive “no change” reading, preserving the

disinflation trend despite upward revisions to Q4 figures.

- The S&P/Case-Shiller home price index was up +0.32% mom in Jan, with the gains concentrated in previous bubble/collapse cities.
- The Conference Board index of consumer confidence rose to 52.5 in Mar, recovering the 10-point loss in Feb (46.4). However, this reading is still quite low by historical standards and against other similar indices.

Europe:

- The Euro Area PMI was stronger than the flash estimates (56.6 versus flash of 56.3; Feb: 54.2). Significantly, Germany jumped to 60.2 (Feb: 57.2) while Spain and Ireland moved above 50 (51.8 and 53, respectively). The UK index jumped to 57.2 from 56.5.

Asia and Pacific:

- China PMI rebounded in Mar to 55.1 from 52 previously.
- Japan industrial production in Feb slowed to 0.9% mom (Jan: +2.7%) and producer shipments slowed to +0.2%; firm external demand continued to drive production. BoJ –Tankan for March pointed to ongoing improvement (-14 from -25 previously).
- South Korean IP rebounded in Feb (+19.1% yoy), after a flat reading in Jan – auto and memory device production drove the recovery, while other IT production was relatively weak. Construction and construction orders fell, with weakening public sector orders.
- South Korea's March trade numbers were above market expectations – exports excluding ships, reflecting current export demand, increased 43.9% yoy while imports rose 48.4% on a boost in demand.

Bottom line: Overall, a positive week – strong data releases from the US seem to have uplifted spirits (and initiated speculation about Fed moves) while numbers from Asia continue

to accelerate. The range of purchasing managers indices for March seems to underscore manufacturing strength across the board, with advanced economies joining the party now.

Regional Developments

- said Sunday it revoked the securities business license of The head of Saudi Arabia's central bank was named the first Chairman and his Bahraini counterpart named Vice-Chairman of a council that will serve as the precursor to a regional central bank. The announcement came during the first meeting of the newly-created Gulf Monetary Council.
- Proposed and announced power projects in seven MENA countries will cost close to USD 49bn, with projected electricity generation of 24k MW, according to a MEED report released at an energy and water summit in Abu Dhabi.
- Qatar is considering an amendment to its investment law that allows up to 100% foreign ownership in certain commercial enterprises, according to a local daily Gulf times.
- Qatar unveiled the 2010-11 budget with a surplus of USD 2.7bn from USD 35bn in revenues. The planned USD 32.3bn outlay is a 25% yoy rise, while the increase in revenues would be 44% – revenues were based on a crude oil price of \$55 per barrel and USD 9.7bn is allocated for infrastructure projects (30% of public expenditure).
- The UAE floated a practical initiative aimed at integrating securities markets of all GCC states during the inaugural Meeting of the Ministerial Committee of Chairmen of GCC Regulators Board.

Market Intelligence on the UAE

- The UAE came top in the number of M&A deals in the Middle East region by recording 65 transactions in 2009, according to a study by Ernst & Young. However, overall M&A activities in the Middle East recorded a steep

decline both in value (dropped by 67% in value to \$34bn) and the number of deals (dropped 24% to 353) in 2009 compared to the previous year.

- Dubai and Abu Dhabi are in talks to merge the two emirates' stock exchanges offering the possibility of lower costs and higher trading volumes, as per Issa al-Kazim, the chief executive of Dubai Financial Market.
- The total size of UAE's non-oil foreign trade shrunk 4% in Jan 2010, as imports plummeted 10%, exports showed strong growth of 21% and re-exports expanded by 9%, statistics released by the Federal Customs Authority reveals. The overall size of foreign trade was seen at AED 55bn in Jan 2010, down from AED 57bn level in Jan 2009.
- Nakheel Properties has pledged to spend USD 1.5bn to finish stalled developments. Chris O'Donnell, the chief executive of Nakheel, said in a letter that the cash injection would "enable the business to move forward" and "it is critical that we resume delivering on our commitment to you and complete project developments that we have started". (Source: The National)