

# Weekly Economic Commentary – April 11, 2010

## Markets

International stock markets had a mixed performance but ended the week on a positive note. Regional markets were slightly up from the week before with the exception of the UAE markets where profit-taking was the norm ahead of the quarterly earnings announcements. The euro recovered after the EU decision to help Greece, oil prices remained above \$80, while gold rose as a result of haven buying.

## Global Developments

### **America:**

- Los Angeles city controller announced that the City would run out of cash on May 5 in a reminder that the fiscal crisis is not limited to the US Federal Government but runs much deeper at state level.
- The ISM services index rose by 2.4 points to 55.4 in March. The composition reinforces the strong headline: new orders surged by a striking 7.3 points (to 62.3) while business activity was up 5.2 points (to 60). The employment index rose modestly from 48.6 to 49.8 a level indicating that firms are not hiring yet.
- National Association of Realtors' index of pending home sales bounced 8.2% in Feb, rekindling hopes for a real estate rebound.
- U.S. initial jobless claims rose to 460k in the week ending Apr 3, although this may have had something to do with the timing of Easter. The 4-week average was 450k, broadly in line with where it has been in the past two weeks.

### **Europe:**

- Concerns and rumors on the true extent of the Greek

- public deficit in 2009 hit the euro area bond markets.
- PMI services recorded a stronger performance than anticipated by flash estimates at 54.1 up from 51.8.
  - Germany manufacturing orders were flat mom in February after rising +5.1% mom in January.
  - The U.K. elections will take place on May 6. Latest polls show the Conservative's lead rising again, but a hung Parliament is a concrete possibility which raises fears over the ability to cope with the economic downturn and the massive fiscal retrenchment.

### **Asia and Pacific:**

- China registered a trade deficit of \$ 7.2bn in Mar, the first after almost six years. Chinese officials mentioned these data as evidence refuting foreign governments' claim that the Chinese trade surpluses results from an artificially weak currency.

**Bottom line:** No major data flow this week, so our underlying views have not changed. The IIF has revised up the global growth estimates for this year and the next by 0.2% to 3.3%. US and Japan are faring better (while Europe prospects are unchanged) and emerging markets are rebounding strongly, to the point that inflation and loose monetary policy are now a growing concern.

### **Regional Developments**

- said Sunday it revoked the securities business license of Kuwait set up a tribunal for financial markets which will also include a special prosecution to investigate financial crimes.
- GCC telecom operators invested more than \$33 bn in cross-border M&A activity in five years, according to a report by Booz & Company. The report also places operations of gulf telecom firms in 78 foreign markets now as opposed to only six before 2004.
- Kuwait recorded a budgetary surplus of KWD 6.0bn in

2009, according to the government's latest release. In spite of the country's non-diversification efforts, the statistics show that the non-oil revenues came to no more than 6% of the total state revenue.

- Inflation in Kuwait was recorded at 4.0% yoy in 2009; this compares to the higher 10.6% in 2008. Oman's Feb inflation was 2%, up slightly from 1.7% in Jan 2010 & 7.9% a year ago.
- Saudi mobile phone penetration rate surpassed 177% in 2009, reflecting the solid 7.5% rise in telecom sector revenues to SAR 52.3bn last year. The fixed-line and broadband sectors also posted penetration rate increases of 3.9 and 9.5% respectively.

### **Market Intelligence on the UAE**

- DFM suspended trade on nine Kuwaiti companies that missed a deadline to provide full audited financial statements.
- UAE central bank Governor Al-Suwaidi said the country's banking system has enough liquidity to meet the economy's needs.
- Dubai has the money to pay its share of Dubai World's rescue plan and can help other state-linked firms that may be facing "small issues", according to Mohammed Al-Shaibani, Vice chairman of the Dubai's Supreme Fiscal Committee.
- Emirates Securities and Commodities Authority CEO has called for a GCC unification of licensing (Unified Gulf License) subscription and listing procedures for public joint stock companies in a move that will boost stock market activities.
- Figures released by the Energy Information Administration showed the UAE's oil export earnings stood at USD 52bn in 2009, down 42% yoy from its record income of \$87bn in 2008.
- The UAE Government cut its deposits with local banks by

nearly AED 26.8 bn to AED 179.4bn in the first two months of 2010.

- In a move to promote transparency, the UAE Ministry of Finance has initiated a study to create a Federal Credit Bureau for maintaining a database of individual and corporate credit information services.
- Moody's placed DP World's ratings at Ba1, the highest non-investment level, announcing that its previous concerns over possible contagion to DP World from Dubai World had been alleviated. "The recent restructuring proposal ... has shown a renewed public commitment to safeguard healthy subsidiaries of Dubai World" said Philipp Lotter, senior VP in Moody's.
- Standard & Poor's however lowered the ratings on three Dubai-based GREs; DP World Ltd., Dubai Multi Commodities Centre Authority, and Emaar Properties PJSC were all lowered by one notch. DIFC Investments LLC and JAFZ Sukuk Ltd. remained on CreditWatch negative due to insufficient information regarding these two entities.