

# Weekly Economic Commentary – April 25, 2010

## Markets

International stock markets were hit by the news that Goldman Sachs is facing a fraud inquiry but Friday's strong macro data from the US triggered a Wall Street rally. Regional markets were mostly down, with the exception of Qatar as first quarter results disappointed markets. Uncertainty and doubts regarding the Dubai World restructuring also weighed heavy on market sentiment. The euro hit a one-year low against the dollar and a three-month trough against the pound as concerns over Greece's finances intensified. Oil prices continue to stay above the \$80 mark, with strong US data sending crude prices up.

## Global Developments

### **America:**

- US trade balance widens in Feb, reflecting increase in imports and some stagnation in exports, suggesting start of economic recovery.
  - Initial unemployment claims fell 24k to 456k in the week ended Apr 17, but continuing claims for previous weeks were revised upwards, leaving a mixed picture of the US labour market.
  - Durable goods orders were down 1.3% mom in March, but this was largely due to a drop in aircraft orders. Orders for nondefense equipment ex aircraft – a key short-term indicator of business equipment spending – rose 4.0% in March (Feb: +2.1%)
  - New home sales increased 26.9% mom in March – the highest surge since April 1963 – to 411,000 units as buyers rushed to qualify for a government tax credit due to expire in April and the weather

turned milder. Meanwhile, existing home sales were up 6.8% mom in March, an improvement on the depressed level in Feb (-0.8%).

## **Europe:**

- Industrial production in Eurozone was stronger than market expectations, at 4.1% yoy, in Mar 2010.
- The ZEW Survey of economic sentiment in Germany came in higher than expected rising to a level of +53.
- Flash PMI manufacturing indices from Eurozone are positive in April (Germany: 61.3 (60.2); Eurozone: 57.5 (56.6); France: 56.7), benefiting also from the euro's slide on Greece worries.
- UK unemployment rose to a 15-year high of 2.5 million for the three months up to February 2010.
- Germany's IFO Business survey for April surprised on the upside rising to 101.6 from March's 98.8. The business climate index was upbeat in manufacturing, retail and wholesale sectors, but in construction it fell slightly after rising for four successive months.

## **Asia and Pacific:**

- As expected, the Reserve Bank of India hiked the repo, reverse repo rates and the cash reserve ratio of banks by 25 bps. The statement accompanying the policy announcement highlighted the build-up in inflation, increasing the possibility of tightening sooner than later.
- Japan's exports rose for the fourth straight month by 43.5% yoy. The data underpins Asian robust growth evidence, offsetting weak demand and falling prices in Japan.
- Taiwan's industrial production index increased 39.2% yoy in March (Feb: 35.5%) to a record 120.3. The strong Asian economic recovery was also reflected in the 32% rise in manufacturing sector.

**Bottom line:** The IMF's April World Economic Outlook highlights global recovery, but at varying paces for different regions. Emerging Asia leads the recovery at 8.7% in 2010, while the Middle East is expected to grow a healthy 4.5% amidst China and India's 10% and 8.8% growth respectively. Some positive data from US on Friday; Asian growth continues to impress and central banks continue monetary policy tightening.

### **Regional Developments**

- said Sunday it revoked the securities business license of Qatar quickly reintroduced visa on arrival for citizens from 33 countries in a policy volte-face over tighter visa procedure.
- EIU forecasts a 3.4% growth in KSA in both 2010 and 2011 compared to 0.15% in 2009. Inflation is seen at 3.9% in 2010 from 5.1% in 2009, before rising to 4% in 2011.
- Saudi Telecom, the Arab world's largest telecom company by market value, posted a worse-than-expected 29% drop in Q1 profits.
- Doha Bank reported a 4.5% drop in Q1 profit, while Commercial Bank of Qatar's quarterly profit plunged 37%.
- Shuaa Capital's GCC Investor Sentiment Index rose by 15.2 points in March to 120.8 – its second biggest ever gain. The rise was almost entirely driven by the positive investor sentiment towards the UAE, following Dubai World's restructuring proposal. UAE Investor Confidence Index recoded a significant jump of 36 points to 120.4 points.
- GCC industrial investments grew by more than \$30bn to \$180.4bn at the end of 2009 as per data released by Gulf Organisation for Industrial Consulting as countries continued with non-oil diversification policies.
- Middle East retail banking is still under severe pressure as default rates continue to remain high according to Boston Consulting Group's Senior Partner and Managing Director Dr Reinhold Leichtfuss. He attributed the higher defaults to rising unemployment

and added that around 10% of the defaults were in the credit card business and it is expected to come down to between 2-4%.

- Qatar's government announced a QAR 2bn initiative named Enterprise Qatar to support small and middle sized businesses – with access to financing, and offer training and consultancy services and is expected to launch within two months.
- OPEC earnings were up nearly 96% yoy in Q1 2010 to \$187 bn – Saudi Arabia netted more than a quarter of OPEC's total income while Iran and UAE were the second and third largest earners, as per figures by the Energy Information Administration.
- Egypt's rapidly growing construction sector is expected to attract investments of around USD 7.3bn by 2015. Construction currently accounts for around 8% of Egypt's total employment and local construction workforce of 1.2 million is Middle East's largest. This data was estimated ahead of this year's edition of Next Move, the largest real estate investment and finance exhibition in Egypt.

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

- Dubai's economy contracted 2.5% in 2009 after expanding 5.7% in 2008, according to preliminary Dubai Statistics Centre estimates.
- DU is planning to raise Dh1 billion in a rights issue to be approved by the shareholders on May 11<sup>th</sup>.
- UAE emerged as the second best capital destination in the Arab region, attracting more than \$69 bn in foreign direct investment until the end of 2008, according to UNCTAD data. Saudi Arabia, the largest Arab economy, recorded top spot attracting over a quarter of the total Arab FDI inflow.
- DEWA's recent \$1 bn bond issue, priced at 8.5%, has prompted banks in the Dubai World lenders group to

demand higher interest on the restructured debt. "If a prominent government-related entity is willing to pay 8.5% on its newly issued debt, there should be some parity in the interest payouts on similar debt obligations," according to a senior banker from the group. (Source: Zawya)

- Consumer prices in Dubai softened for a fifth consecutive month in March (0.83% yoy; Mar: 115.47) on the back of slowing in food, housing and communications cost increases, as per data from the Dubai Statistics Centre.
- Tourism spending in the UAE is forecast to increase by almost 18% from AED 27.5bn in 2009 to AED 32.4bn by 2014 as per estimates of Euromonitor International, a global consumer market analyst. Overall visitor number will grow by more than 19% by 2014 and the tourists would mostly come from Saudi Arabia, the United Kingdom and India.
- Dubai Land Department is in the process of restructuring its fees structure and is reducing charges for some of its services as per a senior department official. For example, the department plans to lower the fee it levies on properties registering for Ijara refinance from 2.25% of the Ijara amount to 0.25%; another is aimed at lowering the potential burden of payment for off-plan properties.