

Weekly Economic Commentary – May 09, 2010

Markets

All stock markets suffered severe blows as the feasibility of Greece's stability plan was questioned and confidence over the other highly indebted European countries plunged. Contagion is reaching the money market reviving memories of the post Lehman tsunami. Regional markets were also down on global sentiment though both UAE markets registered marginal weekly gains. Given the slump in Saudi markets on Saturday, the GCC markets looks set to follow suit. Greece pushed the euro to to a 14-month low against the USD and 8-year against the JPY. Gold peaked to a five-month high as investors moved away from risky assets while oil prices posted its biggest weekly loss in 18 months, ahead of US inventory data and worries over the global recovery.

Global Developments

Americas:

- April non-farm payrolls rose by 290k, with the increase coming largely from the private sector. Employment as measured by the survey of households continued to show large job gains as well – posting 550k increase. The unemployment rate however increased to 9.9% due to a sizeable inflow of 805K individuals in the labor force.
- Canada is feeling the push from South with payrolls up a stellar 109k in April (in “U.S. equivalent” terms, this would translate into more than a million jobs).
- March consumer spending posted a large 0.6% mom increase in nominal terms, partially due to better weather and Easter. The core index of prices for personal consumption expenditure increased only 0.08% mom.
- ISM index of activity in manufacturing rose by less than one point to 60.4 in April on sharp increases in the

production and new orders. The employment index rose 3.4 points to 58.5 – its highest level since Jan 05.

- April auto sales were weaker than had been expected (11.2 million, saar), but this was above the Q1 average, so auto sales seem likely to continue to add to growth.
- Factory orders were up 1.3% in March, thanks to a strong capital goods sector.

Europe:

- Greece's crisis is still raging after its Parliament (and the Bundestag) approved the austerity measures. Markets disregarded the rescue plan while protests put in doubt the government's resolve to implement the budget cuts. Short term bonds which are practically guaranteed by the EU and the IMF yield more than 20%.
- The election in the UK returned a hung Parliament despite the weak performance of the Lib-Dem.
- The European Central Bank left policy rates unchanged at the meeting, though without adding any details on when and how they will address the market concerns and refused to give details on quantitative easing.
- Strong performances were recorded in the euro area PMI – at 57.6 for Apr, while Germany registered a healthy 61.3. Apr PMI for services was also strong, at 55.6 for euro area and 55 for Germany.
- German IP surged 4%mom in March; Q1 manufacturing output therefore rose 5.3% qoq, saar. Manufacturing orders which surged 5.0% mom, in Mar point at a sustained pick up in Q2.
- Other domestic demand indicators in the euro area however look quite weak. French auto sales in April were 8.7% below the Q1 level (and 19.4% below Q4 2009). German real retail sales fell 2.4% mom in March.

Asia and Pacific:

- Chinese monetary tightening is intensifying. The

People's Bank of China announced a hike of 0.5% in reserve requirements from May 10. The current level is 16.5% for the biggest banks and 14.5% for smaller ones.

- PMIs were released by China & India – China's official version rose to 55.7 in March from 55.1 while India's index remains relatively high at 57.2.
- Reserve Bank of Australia hiked rates by 25bp to 4.5%, reinforcing the trend towards tighter monetary policy.

Bottom line:

The global data flow portrays a world economy stepping up the recovery pace in March-April (led by Asia, with the euro area periphery lagging). The US labor market is showing signs of life, but the road to full employment will be long and winding. However, despite the improvement, the fiscal crisis in Greece has reached a climax and threatens to disrupt the recovery, largely hinging on a massive government stimulus. Suddenly the markets have realized that current growth levels might not be sufficient to absorb quickly the swollen public liabilities, that fiscal retrenchment is an urgent priority, and that most governments have little appetite for tough medicine.

Regional Developments

- said Sunday it revoked the securities business license of The GCC Economic and Financial committee agreed to establish a fund for environment projects, which crucially includes Iran and Iraq.
- The GCC Secretariat is finalizing a proposal to allow all GCC citizens and companies to open branches and agencies in any GCC country, a key implementation of the Single Market principles.
- Merger and acquisition activity in the Arab Gulf is recovering after two years of retrenchment with up to \$25 billion of deals expected this year, according to 27 investment banks surveyed by Zawya. M&A deals announced in MENA dropped by 67% in value to \$34 billion in 2009,

according to Ernst & Young.

- Residential rental rates in Doha have dropped up to 45% from their peak in 2008, according to global property consultant DTZ. Average office rents have been holding up better falling between 20% and 30%.
- Central Bank of Oman reported a rise of 8.5% yoy in total assets of commercial banks to OMR 14.8bn, while total outstanding credit increased by 5.7% to OMR 9.9 bn.
- Saudi Arabian Monetary Authority's March bulletin reported a rise in investments in foreign securities by close to SAR 55bn in Q1 while deposits with foreign banks by SAMA fell by nearly SAR 17bn.
- The UAE ranked on top, scoring 134 against the global score of 116, in the latest edition of the HSBC Trade confidence index. 68% of traders in UAE expected emerging government regulations to benefit their businesses – this was also a top score in the survey.

UAE Focus

- IMF disclosed that the 2009 current account deficit was 3.1% of GDP after 10 years of large surpluses. A turnaround into a surplus of almost 8% is forecasted for both 2010 and 2011, reaching 11% in 2015.
- Dolphin Energy announced the completion of a 128-kilometer section of its Taweelah-Fujairah pipeline that will boost its daily gas transport capacity to the Eastern UAE to 350 ml cubic feet.
- Dubai Chamber of Commerce & Industry's quarterly report revealed that the export volume of its members in the first quarter of the year touched AED 50.7 billion, increasing 15% qoq. March recorded the highest monthly export total of AED 18.7 billion a 22% surge yoy. Additionally, Dubai hotels witnessed a 3.3% yoy rise in Q1 2010 revenues as per the Department of Tourism and Commerce.

- UAE banks' average capital adequacy ratio was 20.3% at the end of March, twice the statutory ratio, signaling that there remain concerns over worsening credit quality in the months ahead.
- The UAE was ranked 22nd out of 122 countries analyzed by the Milken Institute 2009 Capital Access Index. The evaluation comprised seven parameters including financial and banking institutions, equity market development, alternative sources of capital and international funding.
- DEWA's CEO was quoted by a newspaper saying that they are "currently studying listing the bond issued in mid-April worth \$1 billion for trading on the Nasdaq Dubai".