Weekly Economic Commentary – May 16, 2010

Markets

Stock markets rallied led by Europe on Monday but then dropped after an initial buoyant reaction to the €750bn emergency funding plan, investors’ reaction became more skeptical. Despite finishing the week in positive territory the stock markets look fragile. A key concern is the ECB intervention in peripheral Eurozone government bonds market, contradicting its previous stance and probably violating the Amsterdam Treaty. The ECB has said it will “sterilize” these purchases, meaning it will stimulate the bond markets without expanding the money supply, but it is unclear how this can be done. Meanwhile, concerns mounted that fiscal austerity measures could seriously undermine growth in the Eurozone, after both Spain and Portugal announced fresh belt-tightening moves. A steep fall in the euro to an 18-month low against the dollar further underlined the loss of confidence. Local stock markets followed the global pattern with mixed performances across the board. Oil is retrenching while gold touched another historical peak (surpassing the €1,000 mark).

Global Developments

Americas:

- Initial jobless claims fell to 444,000 down nearly 4,000 from the prior week, but less than the 8000 analysts’ expected. Continuing claims rose by 33,000 reaching 4,627,000 against an expected 4,000 drop. US labour market recovery is fragile.
- Retail sales grew by 0.4% (MoM) in April, posting a 7th straight month of gains. Sales however failed to match analysts’ expectations of growing by 0.5% and moreover fell in comparison to March’s figure of 2.1%. The modest growth was reportedly due to strong sale in hardware

stores and garden centers.

- IP rose by 0.8% non in April compared to 0.2% in Mar beating analysts' predictions of 0.6%. Capacity utilization rose to 73.7% in April, 0.6% higher than a month earlier.
- The Reuters/University of Michigan Consumer Sentiment Index rose to 73.3 in May compared to 72.2 in Apr.

Europe:

- The EU announced a package of €750 billion to debt-ridden Greece. The details of the plan are unclear, but the ECB started to buy government debt of member countries to stabilize the market.
- March IP data were released in France (+1.0% mom), Italy (-0.1%) and UK (+2.0%). Eurozone IP was up 1.3% mom, as production of capital goods and non-durable consumer goods grew 1.5% & 1.2% respectively.
- Flash estimates for Q1 2010 Eurozone GDP showed a 0.2% qoq, after 4.5% rise in capital goods and 11.7% rise in production of intermediate goods.
- The Bank of England left rates unchanged at 0.5% and kept bond buying program at GBP200 bn.
- A Conservative-led coalition government was formed in UK. The new Chancellor of the Exchequer promised a budget within 50 days including a deficit reduction plan to deal with the UK's fiscal crisis.

Asia and Pacific:

- Chinese inflation edged up to 2.8% yoy as the non-food prices jumped by 1.3%.
- China's IP grew by 17.8% yoy in Apr, compared to Mar 18.1%.
- Indian IP in Mar was up 13.5% yoy (vs 15.1% in Feb), with consumer goods offsetting weaker capital goods.
- Japan's Leading Economic Index rose to 102.8 in March (Feb: 98.5) – the highest since Jul07 and the

12th increase in a row.

Bottom line: Data continue to confirm the global recovery, but the slightly positive news are offset by the fiscal crisis in Europe which could be a harbinger of similar woes down the road also for the US. In the meantime Wall Street turned sharply lower on Friday as the Senate approved an amendment that would allow the Federal Reserve to impose limits on fees charged by banks and credit card companies, an appetizer of the battle which will be fought in the months to come on the new financial sector architecture.

Regional Developments

- Ernst & Young announced that regional IPOs raised $420.5 mn from six IPOs – five in Saudi Arabia and one in Qatar – in Q1 2010, recording a five-fold increase in the funds raised.
- Leaders at the 12th Consultative Summit of the GCC approved a provision to smooth the transit of trucks across borders. This will end the buildup of cargo vehicles at border posts and eventually lead to the final agreement on the Customs Union.
- The main KSA banks (of which 11 are listed) saw their profits decline in Q1 by 6.5% qoq to US$ 1.9 billion.
- Kuwait's parliament passed on Wednesday the privatization bill allowing private ownership in the dominant public sector, but excluding oil and gas production, health and education sectors.
- KSA and other Gulf states are mulling a cut in the number of work visas, step up training of nationals and subsidizing private companies hiring local employees. Private companies tend to prefer non-Saudis because they earn much lower salaries, can be easily fired and work longer hours.
- The value of energy and energy-related projects in the GCC to be launched this year is expected to increase by 142% to $230 bn compared to an estimated $95 bn

recorded in 2009. (Source: Saudi Gazette)

- A senior official at Ventures Middle East stated that approximately $14 bn worth of contracts were awarded in the GCC from April this year for the construction of buildings, energy and infrastructure projects.

<u>UAE Focus</u>

- GDP at the DIFC for the year 2008 amounted to $2.8 bn at current prices, equal to 3.4% of Dubai GDP.
- Dubai Metro inaugurated 3 more stations, Noor Islamic (Al Quoz), Trade Center and Al Garhoud.
- Rules for enabling market participants to conduct short-selling hedging activity in local equity markets are currently in the works, according to the Emirates Securities and Commodities Authority.
- Profits for all Dubai Banks listed in DFM in Q1 declined by 22% qoq to AED 1.8 billion. All UAE banks listed in ADS & DFM recorded a 2.7% qoq decline in profit in Q1 to AED 5.5 billion.
- Real estate mortgage credit increased 1.2% mom – the biggest rise in mortgage loans in nearly 5 months – to AED 143.4bn in Jan 2010 while personal loans and lending to other sectors remained flat.
- Minister of State for Financial Affairs Obaid Humaid Al Tayer said that the Debt Management Office proposal was approved by the FNC.
- Standard & Poors have removed three Abu Dhabi based firms – International Petroleum Investment Company, Mubadala Development Co, and Tourism Development and Investment Company – from Creditwatch and reaffirmed their long and short-term ratings at AA and A-1+ respectively.
- UAE non oil foreign total trade in Mar reached AED 63 billion of which AED 40.8 billion were imports, AED 6.8 billion is exports and AED 15.4 billion was re-exports.