Weekly Economic Commentary – May 23, 2010

Markets

Stock markets remain weak due to Greece's situation, but rebounded on Friday after positions squaring in Europe and relief in the US that the financial reform will not be harsh on Wall Street. The euro rose somewhat from its four-year dollar lows reached during the week, on talks of central bank intervention. Regional markets were mostly down from last week; however, clarity about Dubai World creditor payments lifted UAE markets on Thursday. Oil is up after a sharp drop while gold is off its recent records.

Global Developments

Americas:

- The US TIC data showed that foreigners bought in March a record $ 140.5 bn of US assets mainly as a result of "safe haven" purchase of Treasury bonds.
- Housing starts in April reached 672k compared to expectations for 650k, although building permits disappointed at 606k vs. 680k expected.
- US April inflation was 2.2% yoy while the core index was flat mom. Additionally, PPI fell -0.1% mom, while core PPI (excluding food and energy costs) was up 0.2%.
- The Fed has revised upwards their 2010 GDP forecast to a range between 3.2% – 3.7% as opposed to the previous range of 2.8% – 3.5%.
- Initial jobless claims increased unexpectedly by 25k to 471k, the highest level in a month, in the week ended May 15. No reason was cited for this sudden jump which pushed the 4-week average of initial claims to 454k.
- Brazil job creation was the highest on record in April, with a net increase exceeding 300,000 according to a survey of the formal labor market.

Europe:

- The ECB revealed to have bought 16.5 billion euro of public debt from member countries, thereby pumping liquidity into the markets and helping maintain price stability.
- Eurozone CPI reading for April came in at 0.5% mom, translating to 1.5% yoy.
- Trade balance for March showed a deficit of EUR 0.6bn, against Q4 2009’s surplus of EUR 3.4bn.
- German ZEW survey dropped to 45 in May (Apr: 53), portraying a darkening sentiment, while expectations regarding the current situation moved up to -21.6 (Apr: -32.9).
- Eurozone PMI declined to 56.2 in May (Apr: 57.3). Sector-wise, manufacturing was hit (May: 55.9; Apr: 57.6) while services sector still recorded an increase (56; 55.6).

Asia and Pacific:

- Chinese officials said inflation may rise to 3% yoy in May and June, which represents the upper limit targeted by the government for the full year. The National Development and Reform commission also predicted that inflation may average about 2.5% for the first six months of 2010.
- Thai share prices and the Baht rebounded after the government vowed to reopen talks on early elections. The major equity index gained 0.9%, and the baht stabilized. The sovereign CDS spread declined 6 bps to 159 bps.
- Japan Q1 GDP growth was 1.2% qoq thanks to higher exports, while March industrial production rose by +1.2% mom (Feb: +0.3%). Japan’s machinery orders for March posted 5.4% mom increase.
- Singapore’s GDP in Q1 jumped 15.5% yoy (Q4 2009: 3.8%) on strong domestic demand (investments +12.7% and private consumption: +5.7%).

- Taiwan Q1 2010 GDP surprised on the upside, growing +13.3% yoy (Q4 2009: 9.1%), due to a recovery in private consumption and net export growth.

Bottom line: News from the developed economies did not add much to the mildly positive macro picture that has prevailed in the past few months. Growth in Q1 turned out to be robust and broad based. In emerging market the situation is much better with the double digit annual growth rates becoming the norm in Asia. Even Thailand despite the unrest is performing well.

Regional Developments

- A deal reached with Turkey and Brazil leaves Iran enriching uranium but is unlikely to convince the West to reconsider its sanctions.
- Qatar inaugurated a $2.3 billion power plant to export electricity to its neighbors, the Energy Minister said.
- Iraq’s oil revenues in April surpassed $4 billion (i.e. 53 million barrels), according to a spokesman of the oil ministry, underscoring that significant funds are available for the reconstruction plans.
- GCC is expected to scrap a 5% customs duty on cement and steel imports (following Kuwait’s proposal) in October to ease supply bottlenecks spurred by recovering domestic demand, according to a statement made by Mohammed Al Mazroui, the GCC’s Assistant Secretary-General for Economic Affairs.
- The GCC Investor Sentiment Index slipped by 7.7 points in April from the year’s highest index level of 120.8 in March, according to Shuaa Capital’s GCC Investor Sentiment Report. The slide was largely driven by Saudi Arabia and Oman, as their indices dropped by 7.9 and 4.6 points while Bahrain was the biggest gainer (+ 2.4).
- The deputy CEO of the Saudi Railway Company has announced that the North-South Railway will begin to transport minerals this year while passenger traffic is

expected to start in 2013. About 800 km of railway has been completed so far from a total of 1,486.

- A whole set of inflation numbers were released last week: UAE consumer prices were up 0.8% yoy in April as reported by the National Bureau of Statistics; Bahrain inflation rose to 2.7% yoy in April (Mar: 1.8%) while Saudi annual inflation climbed to a 10-month high of 4.9% in April (Mar: 4.7%). Kuwait also reported CPI numbers, but for Jan – inflation accelerated to 2.8% from 2.1% in Dec 2009.
- Oman’s budget swung to a surplus of OMR 421.2 mn in Q1 2010, helped by higher oil prices; revenues jumped 47.9% yoy to OMR 1.996 bn while expenditures were up 15.3% to OMR 1.575 bn, the data showed.
- A.T. Kearney, in its 2010 Foreign Direct Investment Confidence Index, has identified the UAE as the fifth most attractive FDI market in the world; access to new markets and growth of economies are cited as the main reasons pushing investors to a particular country.

UAE Focus

- Dubai World announced it has agreed in principle with its main creditors to restructure $23.5 bn in liabilities, removing a great deal of uncertainty that was sapping the banks’ willingness to lend to the private sector.
- FTSE has inserted the UAE stock markets in its benchmarks. This means that, in September, about 170 funds tracking the FTSE index of emerging markets will seek exposure to the ADX, DFM and Nasdaq Dubai.
- Dubai economic recovery hinges on the restructuring of public companies, financial support from the Federal Budget and improvements in transparency, according to a report by the Institute of International Finance (IIF).
- UAE banks provisions increased by 4.7% mom to AED 36bn in April as per data released by the UAE central bank.

This is only 3.52% of total loans and advances (net of provisions).

- DEWA has announced that it will list its $1 billion five-year bond issued in April on the Nasdaq-Dubai in June (Source: Alrroya).
- The United Arab Emirates' telecoms sector contributed nearly 5% to the country's GDP in 2009, with investments in the industry totaling AED 9.5bn as per the Telecommunications Regulatory Authority. UAE mobile penetration had reached 204% and internet user penetration touched 67% last year – the total investment in the telecoms sector increased by 16% between 2008 and 2009. Mobile subscriptions grew by 14%, mobile revenues increased by 3%, number of fixed lines rose by 7% while fixed lines revenues jumped 21%.