

# Weekly Economic Commentary – May 30, 2010

## Markets

Stock markets remain weak due to Greece's situation and renewed Eurozone debt worries. However, the markets started to rally, especially in Asia, towards the end of the week as investors took the view that the recent sell-off had left stocks undervalued. Regional stock markets were all down compared to the week before, reflecting global cues. The euro remained under pressure, while both oil and gold rebounded after sharp drops.

## Global Developments

### **Americas:**

- U.S. Q1 GDP growth was revised down by two decimals to 3% yoy (against consensus for a 2-tick upward), as consumer spending, business equipment spending and exports were all revised down, confirming a weak recovery.
- US corporate profits grew at about 24% yoy in Q1 according to Commerce Dept, after 36% and 50% in the prior two quarters. Essentially firms' costs have fallen more quickly than prices. However, the scope for a further big increase in margins seems limited.
- Existing home sales surprised analysts with an increase to 5.77 million (+7.6% mom) units against 5.60 million expected. Also new home sales growth was solid at 14.8% to 504k from a prior month's revised 439k sales.
- The Fed's Housing Price Index increased 0.3% mom in March against consensus expectations of no change.
- Consumer confidence in May shot up to 63.3, marking three months of straight increases. Meanwhile, the Richmond Fed Manufacturing Index (May) fell to 26, in line with market consensus, from prior reading of 30.

- US durable goods orders increased 2.9% mom in April. Transportation recorded the largest increase: 16.1% up on non-defense aircraft and parts.
- Initial jobless claims disappointed, with a meager decrease to 460k on prior week's revised 474k while continuing claims surprised on the upside – with 4,607k claims filed.

## **Europe:**

- Germany, Spain and Italy announced new austerity measures to cut their deficits and bring the budget deficit relative to GDP under the 3% target. The measures and spending cuts risk making recovery more problematic.
- UK estimate for Q1 2010 GDP growth was revised up to +0.3% qoq from +0.2% and -0.2% yoy.
- Industrial new orders for the Eurozone came in at 19.8% yoy for March, representing a significant increase on a revised 12.5% growth for prior month.
- Gfk consumer confidence for Germany was 3.5 for June (May: 3.7), marking the end of the index's 2-month increase. CPI inflation in May remained subdued: 0.1% mom & 1.2% yoy.
- Citing the impact of budget cuts on growth, Fitch downgraded the public debt of Spain to AA+ from triple A.

## **Asia and Pacific:**

- Japan's April trade was up 15.8%, saar, over Q1 (when it had been up 67%, qoq saar).
- Japan's all industry activity index fell by 0.8% mom in March – an improvement from the Feb slump of 2.3%. Additionally, retail trade improved in April, rising 4.9% yoy while April CPI fell -1.2% yoy.
- Thailand posted a better-than-expected Q1 GDP growth of 12.0% yoy (Q4 2009: 5.9%), with exports as the main

driver of growth, in spite of the political uncertainties and ongoing civil strife.

- Philippines GDP for Q1 registered growth of 12.3% qoq (+7.3% yoy), on strong domestic demand up 10%.
- Taiwan and Singapore released industrial production data for Apr, 31.4% and 51.0% yoy respectively – reaffirming that the Asian economies went from recovery to boom.

**Bottom line:** The current data flow remains very robust with the exception of Europe where macroeconomic data are still pointing upwards, but where the fiscal crisis is sapping confidence and risks derailing the recovery. Austerity measures are expected to weaken domestic demand in the second half of the year and a double dip is a distinct possibility. Asian economies continue to surprise on the upside displaying exceptional growth across the board. There is a general sense that the second half of the year will be less positive in the mature economies while emerging market will continue to fare better.

### **Regional Developments**

- Kuwait's Parliament approved a spending plan of \$17.30 billion in the first year of a four-year development plan that starts in 2010.
- Oman recorded a large budget surplus of OMR 421.2mn in Q1 2010, due to strong crude prices and higher oil production, and in spite of a spending increase to OMR 1.6bn, official data showed yesterday. The surplus is compared to a deficit of about OMR 16.6mn in Q1 2009.
- The SWF Transaction Database placed Qatar, with almost \$13bn received in direct investments, among the top three in sovereign wealth funds transaction values in 2009. Globally, SWF direct investments grew by a third in 2009, with investments totaling \$92.8 bn compared with \$69.6 bn worth of investments in 2008.
- Saudi Arabia's foreign assets edged down slightly in April for the first time in eight months given its

increase in expenditure, in line with its counter-cyclical fiscal stimulus.

- Claims on the private sector by Saudi banks expanded by an annual 3.6% in April to SAR 750.63 bn, the highest rate of growth since August. However banks still remain quite risk-averse restricting credit to the private sector, (+0.4% yoy) but put more money in private security investments (3%).
- Trade data for Feb 2010 showed a 30% yoy rise in Saudi Arabia's nonoil exports to SAR 10.1bn. Meanwhile, petroleum exports were down to SAR 24 bn compared to SAR 26 bn in Feb 2009.
- The IIF GCC regional Overview affirmed that while the financial sectors in the GCC are well capitalised, a further rise in NPLs and need for higher provisioning suggest that banks' balance sheets are likely to remain constrained, restricting the growth in lending.

## **UAE Focus**

- The UAE Economic Report 2009 by the Ministry of Economy reports a GDP growth of 1.3% in 2009, with the non-oil sector contributing to 71.6% of the GDP. The GDP at current prices for 2009 was AED 914 bn and the GDP at constant prices was AED 514.5 bn. The report forecast a 3.2% growth in 2010.
- The IMF forecasts a 1.3% growth in 2010 with a strong outlook for current account balances.
- Bank soundness indicators continued to exhibit stability according to the IIF Regional report on the GCC. The average capital adequacy ratio was above 15% for all bank sectors – well above the 8% Basel II requirement and the local regulatory minima (8% in KSA; 10% in Oman and Qatar; 12% in Bahrain, Kuwait and the UAE).
- Dubai International Capital sought to extend to Sep 30th the maturity of a \$1.25 bn loan due in June to “allow the implementation of a consensual longer term plan that

would enable DIC to maximize the value of its business for the benefit of all its stakeholders”.

- The Dubai Land Department is deregistering properties, which strips buyers of their title, after sending letters to those who missed payments on off-plan projects whose construction is more than 80% completed.
- Dubai's Police Chief urged officials running the Emirate's biggest companies to resign for their role in building up an estimated \$100 billion of debt.
- Dubai infrastructure projects under construction are worth more than \$216 billion (Dh792.72) and projects for an additional \$270bn are in the pipeline or under bid, according to Meed Projects. However, in the UAE more than \$425bn worth of construction and infrastructure projects were put on hold or cancelled since Q42008, just under \$300bn of which in Dubai and \$49 bn in Abu Dhabi.
- Dubai Land Dept. released Guidelines implementing 'Strata Law', which introduces a new regulatory framework specifying the rights, responsibilities and obligations of all parties jointly owning properties.
- Total exports by Dubai Chamber of Commerce recorded a 13% yoy jump in April, but down 10% mom.
- Fitch downgraded Dubai Bank as concerns mount that other Dubai companies to which it is connected, including its owner, state conglomerate Dubai Holding, face financial difficulties.
- The UAE Central Bank plans to launch new liquidity facilities in the next three months, based on a commodity *murabahah*, to help the Islamic banks manage cash.