

# Weekly Economic Commentary – June 13, 2010

## Markets

Stock markets remained edgy – with the focus firmly on prospects for 2011 which appear now less buoyant than a few month ago – but had a positive week (except in Japan) rebounding from a series of losses. Regional stock markets however recorded losses with the exception of Saudi Arabia (where the index jumped up 6%) and Qatar, in line with the weakness in most emerging markets hit by a bout of risk aversion. The euro has firmed against other major currencies and the oil prices are hovering well above 70 \$/bl. Gold is again on the rise.

## Global Developments

### Americas:

- The US Fed “Beige book” reports “modest” improvement in economic activity across the nation with some hints of inventory stabilization and higher lending in some areas. Manufacturing is improving gradually together with consumption and investments, but real estate, employment and lending failed to pick up.
- Brazilian Central Bank decided to increase the Selic (overnight lending rate) by 75 basis points to 10.25%. Moreover the annualized Brazilian GDP grew 9 % qoq in the first quarter, the highest rate since 1995.
- Initial Jobless Claims are down to 456K from a revised figure of 459K and Continuing Jobless Claims decreased to 4462K from a revised figure of 4717K.
- The trade balance deteriorated slightly in April to - \$40.3bn from the previous month -\$40.0 bn.

- US retail sales dropped -1.2% mom in May (+6.3% yoy) (median forecast +0.2% mom). The drop is linked to lower building materials sales due to the end of stimulus, but the trend in consumption is clearly waning.
- University of Michigan Consumer Confidence rose to 75.5 from 73.6 contrasting the weak retail sales figure.

## Europe:

- EU Finance Ministers set the rules for accessing the EUR 400 bn fund in support of fiscally wobbly governments and agreed that Estonia met the requirements to join the euro from next year; they also granted Eurostat more power over auditing public finance of EU states and levied a tax on banking transactions.
- Germany's industrial production grew 0.9% mom in Apr from 4.3% in Mar. Moreover Germany factory orders came in above expectations, with a 2.8% mom increase in April after March's 5.1%.
- The German trade balance narrowed to €13.8 bn in April from €16.9 bn in the prior month. German exports increased 19.2%, a confirmation of the competitiveness boost to Germany from a falling euro.
- Italy's industrial production jumped up 1% mom (7.8% yoy) in Apr, while France's IP fell 0.3% (+6.1% yoy).
- UK industrial production decreased 0.4% mom in Apr, from a 2% jump in Mar.

## Asia and Pacific:

- Japan current account shrank to Y1326.2bn in Apr. from Y2534.3bn in Mar. The trade surplus was Y859.1bn
- Japanese Current Eco Watchers survey fell in May to 47.7 compared with 49.8 a month earlier.
- Chinese Trade Balance in the month of May recorded a surplus equal to \$19.53 bn, compared with the previous month \$1.68 bn, exports increased 48.5% yoy and imports

48.3% yoy.

- Chinese Industrial Production decreased to 18.5% yoy from 19.1%. while CPI increased 3.1% yoy indicating that inflation pressures are subsiding.
- Japan's new Prime Minister has underlined the urgent need to reduce the fiscal debt, in a drastic change of policy focus from the previous administration.

## Bottom line:

The macroeconomic data indicate a slowdown in the US (where GDP forecasts for Q2 need to be revised down after the retail sales numbers) while emerging Asia continues to surprise on the up side. The key factor remains the fiscal crisis in Europe (Germany has unveiled a plan to bring the deficit below 3% of GDP by 2013) which is creating a sense of urgency in tackling the deficits in Japan and in the US. In the latter the effects of last year stimulus are less vigorous than expected and fiscal consolidation is emerging as a key point in the campaign for mid term elections.

## Regional Developments

- Saudi Electricity will raise tariffs for government, commercial and industrial users as of July. While the increases are modest the significance is not: KSA is planning to reduce its hefty subsidies in energy.
- Turkey, Lebanon, Jordan and Syria agreed to set up a free-trade zone, complete with a visa-free travel regime for their nationals.
- An official at the Egyptian [Railway Authority](#) (ERA) announced the launching of a 10-year plan for a development project worth LE 40 billion in the period 2011-2020, centered in the Nile Delta.
- GPSSA, the UAE pension fund, announced for the first time its figures revealing that in Q1 it collected AED 705 million in pension premia from 75,000 employees.

## UAE Focus

- Federal customs data shows imports and exports, including re-exports, increased in March by 11% and 34% respectively on the year.
- UAE & Venezuela signed double taxation agreement.
- Starting from 27th June all transactions on Nasdaq Dubai will be moved to the DFM trading platform.
- Abu Dhabi is considering a proposal to use solar-energy equipment on rooftops in the city to generate about 500MW of power, the executive director at the city's Executive Affairs Authority said yesterday.