

Weekly Economic Commentary – July 04, 2010

Markets

Global stock markets were sharply down after Friday's weak US payrolls data. Markets in Asia were following the decline in Chinese equity. Regional stock markets mirrored the global trend, with Saudi and DFM bearing the maximum brunt. The yen is at its highest level against the dollar so far this year as worries about the health of the global economy boost haven demand for the Japanese currency. The euro regained some lost ground to the US dollar. Gold prices bounced back after a fall, while weak data forced oil lower.

Global Developments

Americas:

- May personal income in the US rose 0.4% mom, while core personal consumption was 0.2% higher mom.
- Initial claims for unemployment benefits unexpectedly increased by 13K last week to reach 472K for June, substantiating fears of a double-dip recession.
- Nonfarm payrolls fell 125,000, more than accounted for by a 225,000 drop in Census employment. Private sector added 83k jobs and non-Census government employers 17k, confirming an anemic recovery.

Europe:

- According to flash estimate Eurozone inflation for June was 1.4% yoy, falling slightly short of May's 1.6%. German CPI was almost flat in June (+0.1% mom).
- German unemployment fell by 21K in June, less than the

- 45K in May. The unemployment rate stood at 7.7%. while in Euroland it reached 10.0% in May.
- Overall economic confidence in Euroland rose to 98.7 in June (May: 98.4). Consumer confidence dropped as expected to -17.0, industrial confidence was stable at -6 and services confidence beat expectations at 4.
 - The Eurozone Manufacturing PMI in June was 55.6, similar to 55.8 in May, but close to a 4-month low.
 - The ECB will lend EUR111.2bn for 6 days at 1% interest rate to smooth 12m loan expiry upon the request of 78 banks. So far, banks' borrowings from ECB touched EUR442 bn in 12m loans, the biggest amount ever by the ECB, after banks' previous request of EUR131.9bn in 3m loans.

Asia and Pacific:

- Japanese retail trade in May fell 2.0% mom (Apr: +0.5%). Large retailers' sales fell 4.0% mom in May after a 3.6% mom slump in April. Household spending in May decreased by 0.7% yoy, significantly lower than expected. These figures validate the evidence on a slowdown in the Japanese economy.
- Industrial production in Japan decreased 0.1% mom in May (Apr: +1.3%). The fall is the first decrease in 3 months. Vehicle production rose 30.6% yoy in May, lower than the 50.8% rise in April.
- South Korea's industrial production jumped in May by 2.6% mom after a 0.2% rise in April.
- China's official PMI fell to 52.1 in June (May: 53.9) reflecting slowing underlying growth and seasonality.
- Indian PMI eased in June to 57.3 from the 27-month high in May (59.0). India's central bank hiked repo and reverse repo rates by 25 bps each, citing rising inflation and growth on the upside.

Bottom line:

This economic picture is deteriorating. Early signals of an impending slowdown have been corroborated by weaker data in China as a result of the monetary tightening and persistently high unemployment on both sides of the Atlantic. The rebound in global manufacturing is losing steam (and the fiscal stimulus is waning without having produced the expected jolt. In Europe attention is focusing on the banking system as evidence mounts that especially in Germany and France major banks will need another round of recapitalization. With fiscal retrenchment kicking in from the second half of the year across Europe, forecasts for 2011 and beyond will need to be revised down. The bright spots remain emerging Asia, other emerging markets such as Brazil and peripheral industrial countries, namely Canada and Australia.

Regional Developments

- Preliminary GDP estimates for Q1 2010, show that Qatar's economy grew at 22.7%, yoy despite a 21.6% plunge in construction activity. Qatar's population has more than doubled since 2004 to 1.7 million, the Statistical Office announced.
- According to a recent study by Business Monitor International, GCC will invest over US\$119.6 bn in infrastructure projects over the next ten years; rail projects account for over 90% of the investment.
- Directors of GCC stock exchanges met in Riyadh and decided to establish five committees entrusted with unifying bourse laws and legislations ahead of integration.
- SAMA disclosed that the accumulated profits of Saudi commercial banks have plunged 14% during the first five months of 2010 to SAR 12.16bn riyals against SAR 14.20bn in the same period of 2009. Assets of the SAMA rose to SAR 1.61 trillion in May (Apr: SAR 1.60trn). Foreign

investments in securities (~70% of total assets) continued to rise for 3 consecutive months to SAR 1.16trn.

- The Kuwaiti National Assembly passed the 2010/2011 budget which projects a massive deficit of KD 6.6 billion and a sharp increase in spending, but MPs blasted the government's economic and financial policies for failing to diversify the economy and continued dependence on oil. Revenues are projected at KD 9.72 billion with oil income at KD 8.62 billion and non-oil revenue at KD 1.1 billion. Oil income was calculated at a conservative oil price of \$43 a barrel, up from \$35 for the previous fiscal year.
- Qatar issued 2 bn riyals in domestic bonds with a 5.0% coupon last week maturing on June 30, 2015; this follows a sale of QR 10bn in bonds to local banks earlier in June.
- Saudi Arabia's stock market regulator has approved two IPOs to be completed before the end of the year: first, Al Jouf Cement Co will offer 50% of its shares to the public (65 million shares at 10 riyals a share), with the offer taking place from July 19-25; second, Abdullah A.M. Al Khodari Sons Co will offer over 12 million shares to the public from October 4-10 2010, representing 30% of the company.
- Qatar and Kuwait will buy up to 3.8 bn US dollars worth of Agricultural Bank of China in its upcoming share sale, in what could be the world's largest IPO.

UAE Focus

- Cargo operations inaugurated Dubai World Central-Al Maktoum International (planned to become the largest airport in the world). Passenger flights are due to start at end Q1 2011.
- Dubai Economic Department issued 1,369 business licences in May 2010, highlighting a 63% yoy rise.

- The Dubai Land Department introduced a financing initiative called “Tayseer” to stimulate real estate funding for 40 selected developments in the emirate, introducing a four way partnership between the Dubai Government through the Land Department, the UAE’s leading banks, developers and investors in the sector.
- Nakheel has started making 40% cash payments, worth about AED 4bn to creditors after the developer signed “a substantial number of restructuring agreements”.
- DEWA recorded an increase of 316 MW in the annual electricity Peak Load in Dubai, a rate of 5.6% as of June 2010. The rate of water production in Dubai to date rose from 271 million gallons per day (Aug 09) to 275 million gallons per day (June 2010).
- The Ministry of Economy has enacted a reform of the Islamic insurance system (Takaful).
- Mercer’s 2010 Cost of Living Survey shows that Dubai is ranked the 55th most expensive city for expats, on par with Los Angeles. Abu Dhabi the most expensive city in the Middle East is ranked 50th.
- Du will gain access to the network of Etisalat, enhancing of competition in the telecom industry.