

# Weekly Economic Commentary – July 11, 2010

## Markets

Global markets were upbeat last week as strong data boosted market confidence, also ahead of the US earnings season starting Monday. Optimism also prevailed in the regional markets which were higher compared to a week ago, with Saudi and Oman posting the largest gains. The Japanese yen gained ground last week on safe haven demand, while the euro pared gains. Commodity prices fell on fears of a double-dip recession but recovered in the latter half – with oil currently above \$75 on demand optimism and gold moving back to last week's prices.

## Global Developments

### Americas:

- US June ISM non-manufacturing index softened to 53.8 (May: 55.4) as orders and business activity declined.
- US jobless claims dropped to their lowest level in two months to 454k last week.
- A handful of large retailers reported sales gains – 28 retailers' same-store sales were up 3.1% yoy in June. Meanwhile, consumer borrowing dropped in May (\$ 9.1bn decrease) from April's revised \$ 14.9bn slump.

### Europe:

- Manufacturing sector PMI was up to 56.0 in June (May: 54.7) in the EU, pointing to an acceleration of the expansionary trend. Services PMI in the EU was also up at 55.5.

- Retail sales in the EU improved significantly in May (+0.2% mom), after a revised -0.9% mom drop in April.
- Germany's new industrial orders fell 0.5% mom over May, alongside an upward revision for April to 3.2% mom. Industrial production increased 2.6% mom in May (April: +1.2%).
- Swiss National Bank may have suffered paper losses of up to SFr10bn from huge interventions in the currency markets to restrain the value of the franc.

## **Asia and Pacific:**

- Japanese core machinery orders for May came in at -9.1% mom which translates into +4.3% yoy.
- South Korea's central bank hiked policy rates by 25bps to 2.25% after keeping a record low rate for 16 consecutive months.
- China's trade surplus grew stronger to USD 20.02bn in June (May: USD 19.5bn), as a result of high export growth. Exports rose 43.9% yoy while imports were up 34.1%.

## **Bottom line:**

Few market moving data were disclosed last week and they broadly confirmed that the recovery might have reached a plateau especially in mature economies. With fiscal retrenchment in Europe and monetary tightening in Asia the second half of the year is poised to be less upbeat and the world economy will enter 2011 on a weak momentum. The IMF raised its 2010 global growth estimates to 4.6% from April's projection of 4.2%, reflecting a stronger than expected first half, but underlined the increasing risks to recovery. The euro area forecast was kept unchanged at 1% for 2010 while 2011 prospects were reduced to 0.2%; the US is expected to grow at 3.3% in 2010. The banking sector is not out of the woods and the results of the stress tests conducted by the

banks in Europe will be eagerly watched by the markets.

## Regional Developments

- Saudi Arabia's King Abdullah has ordered a halt to oil exploration operations to save the hydrocarbon wealth in the world's top crude exporting nation for future generations, the official Saudi Press Agency reported. This is not an outright ban, but rather meant future exploration activities should be carried out at a slower pace.
- Middle East M&A activity fell 38% in H1 2010 in spite of 86% rise in volume terms, according to Zephyr. A total \$11.9 bn through 229 deals were recorded this year compared to \$11.4 bn through 132 deals in 1H 2009.
- BP has approached some regional sovereign wealth funds with a view to securing a strategic investor to fend off takeover bids while it deals with its massive US oil spill.
- Oman's inflation climbed to a one-year high of 3.2% yoy in May as food, transport and housing costs edged up. The Central bank Governor expects inflation to range between 4-5% in 2010 due to imported price pressures.
- The Saudi Credit Bureau has announced that people who issue bad checks will face arrest and imprisonment for up to 18 months. Statistics reveal that 35,859 bad checks were issued in Q1 2010 (Q1 2009: 40,565).
- S&P has raised the long-term ratings on the State of Qatar to 'AA' from 'AA-', and affirmed the 'A-1+' short-term ratings on the basis of strengthening its fiscal and external balance sheets.
- Arab Investment & Export Credit Guarantee Corp. reported foreign direct investment flow into Arab states had dropped 15.1 % in 2009 to \$80.7bn; Saudi Arabia topped the list with \$35.5 bn, followed by Qatar (\$8.7 bn).
- Foreign direct investments from the GCC to the EU leaped to EUR 63.2 bn in 2008 (2007: EUR 2.3bn), according to a

- report released by the EU's statistical office Eurostat.
- Nomura Holdings, Inc. announced that it has appointed Kuwait Finance House Malaysia Berhad as the Mandated Lead Arranger for the proposed issuance of a two-year Sukuk al-Ijarah of \$ 100mn. This issuance marks the first US dollar-denominated sukuk for a Japanese multinational corporation issued out of Malaysia.

## **UAE Focus**

- Nakheel's Board has been given the responsibilities to handle the restructuring of Dubai's Limitless debt.
- Dubai Holding's main unit, Dubai Holdings Commercial Operations Group, announced that its lenders had agreed to extend a \$555 million revolving credit facility for two months.
- Moody's downgraded to B3 from B2 the senior unsecured issuer and debt ratings of DIFC Investments LLC and Dubai Sukuk Centre Ltd. At the same time, Moody's has converted DIFCI's B3 issuer rating into a B3 corporate family rating and assigned a probability of default rating of B3, in line with the rating agency's practice for corporate issuers with non-investment-grade ratings. The outlook on all ratings is negative.
- A Dubai Chamber of Commerce & Industry report showed that UAE auto imports were presenting signs of a rebound, with positive expectations for the medium to long-term – especially for smaller, fuel efficient models.
- Mubadala Development Company has retained its position among the world's top most transparent sovereign wealth funds according to the Linaburg-Maduell Index developed by the Sovereign Wealth Fund Institute.
- The Dubai Financial Services Authority has issued final approval for the outsourcing of Nasdaq Dubai's trading, clearing, settlement and custody functions for equities to DFM. This will take place today – 11 July.

The Dubai eGovernment has launched its 'Dubai.emarat' Arabic internet domain of the official portal of the Dubai Government and corresponds to the Latin domain Dubai.ae. The development comes after the Internet Corporation for Assigned Names and Numbers (ICANN) recently adopted Arabic as the first non-Latin script to be used in writing the web address in the URL address reserved for what is known as "domain name".