

# Weekly Economic Commentary – July 25, 2010

## Markets

Global markets were mostly higher compared to a week ago, with the EU stress test results easing concerns about the financial soundness of the banking sector. Regional markets mirrored the global trend, as UAE Q2 earnings lifted market confidence. The pound surged after UK's strong Q2 GDP results, while the euro fell (rising only against the yen and franc) on concerns that stress tests failed to identify the sources of bank weakness. The Baltic Dry freight index continues to move down sharply – it fell about 32% in the past three weeks, and has fallen about 60% since end-May. Oil prices were up, while gold was down from previous highs.

## Global Developments

### Americas:

- Existing home sales fell by 5.1% mom in June, while the home price index was up 0.5% in May.
- Initial jobless claims reversed last week's decline, rising +37k to 464k in the week ended July 17 confirming continued weakness of the US labor market.
- The Bank of Canada has raised rates again by 25bps to 0.75%, while also reducing their growth forecasts for this year to 3.5% from 3.7%, and to 2.9% from 3.1% for 2011.
- Ben Bernanke maintained a cautious tone in his Congressional testimony, mentioning that outlook is "unusually uncertain" and auguring continuing monetary easing.

## Europe:

- Seven banks out of 91 failed the Euro Area stress test, including five Spanish ones that were hit hard by housing market worries. These seven banks need to raise a combined EUR 3.5bn of capital to maintain a Tier 1 capital ratio of at least 6 percent in the event of a recession and sovereign-debt crisis.
- Eurozone's July PMI improved to 55.6, as both France and Germany beat expectations, climbing to 59.9 (59.6) and 59.3 (56.7) respectively in July (June).
- The German Ifo business-climate index rose to 106.2 in July (June: 101.8), the largest increase since German reunification. Business climate brightened across the board, with most optimism in manufacturing sector.
- UK retail sales volumes rose 0.7% mom in June and were up 1.3% yoy, likely due to a temporary boost from the World Cup, due to the increased demand for consumer electronics.
- UK Q2 GDP surprised markets rising +1.1% qoq, the fastest expansion since Q1 2006, leading to a pound rally. Construction sector surprised, rising 6.6%, the biggest rise since 1963, while services output rose 0.9%. it is not clear that the output growth will be sustained.

## Asia and Pacific:

- Taiwan's industrial production increased 24.3% yoy in June (May: +30.7%), in line with the latest easing of export orders data.

## Bottom line:

The data flow was rather limited this week and did not change the mixed picture that has prevailed in the past three months. The US economy, as Bernanke underlined, is not in good health

and the labor market continues to disappoint. Germany is the only bright spot in Euroland, while the UK is rebounding. All in all for the second half of 2010 downward risks are prevailing and markets movements remain erratic, notwithstanding good Q2 earning results.

## Regional Developments

- A recent MEED Projects study placed the combined value of the GCC's 100 largest projects that have been either completed or underway during the last two years at more than \$1.3 trillion, with Saudi Arabia (31 ongoing projects) and UAE (35) taking the lion's share.
- Middle East private equity shrank substantially in 2009. Activity levels declined to those experienced in 2004/2005 – only 19 transactions totaling \$561 mn, compared to \$2.7 bn from 55 transactions in 2008.
- Prices of petrol and related products are being reviewed in Kuwait after a report submitted to the Higher Petroleum Council, a 5-10% hike in petrol prices seems likely by end-August (Report in *Al-Seyassah*).
- Consumer prices in Bahrain rose 2.3% yoy (0.1% mom) in June, the slowest since March, mainly due to higher transport costs. Bahrain's economy is expected to grow by slightly more than 4% this year, according to the Economic Development Board. The EDB also announced that Q1 2010 GDP grew 5.2% yoy and +1.4% qoq.
- The Saudi government has handed out construction contracts worth SAR 71.5bn in the December 18-June 12 period according to the Finance Ministry. SAR 10.5bn (14.7%) were spent on roads and telecommunications and the same amount on education facilities, while about SAR 6bn (8.4%) went to water and sewage projects and SAR 5.6bn (7.8%) to urban developments.
- Oman issued a five-year \$260mn government development bond with 4.0% coupon and average yield 2.37%.

## UAE Focus

- UAE banks total loans grew to AED 1025.6bn in June (May: AED 1021.2bn), while deposits increased to AED 985.4bn (AED 970.8bn), narrowing loan-deposit ratio while capital adequacy ratio was high at 20.4%.
- UAE inflation in June rose 0.95% yoy (H1: 0.43%) on increased transportation fares and housing rentals. Abu Dhabi and Dubai announced higher June inflation at 3.38% (May: 3.02%) and 0.51% (0.48%) respectively.
- Dubai World met with creditors on Thursday (July 22) to offer details on its multi-billion dollar debt restructuring, the first session to include all lenders since December 2009. DW later announced that it “was an informational session and no resolution was sought in the meeting”.
- Abu Dhabi is expected to post a budget deficit of AED 84.9bn in 2010, based on an oil price of \$60 a barrel, according to a prospectus issued last week by local aircraft leasing and investment firm Waha Capital. Expenditure is slated at AED 207.5 bn, 17.6% less than the 2009’s AED 251.7bn.
- UAE’s first IPO for the year (expected in June 2010) is likely to be delayed to early Q4, according to its lead manager Shuaa Capital. Banking sources speculate it is an Abu Dhabi infrastructure company.
- UAE air traffic movements grew by 11.3% yoy in June, reaching 52k air traffic movements, with Dubai ranked on top with 45.8% of total. Meanwhile, Dubai announced an increase by more than 1 million in total number of passengers (through all Dubai entry points) to 7,176,864 in H1 2010 compared to the same period last year.
- Etisalat is currently in talks to acquire a 26% stake in India’s Reliance Communications.
- India and China were the UAE’s dominant exporters in 2009, accounting for nearly a quarter of total imports.

Meanwhile, Iran remained the largest market for UAE's re-exports (mostly from Dubai), receiving around a-fifth of UAE's total non-oil re-exports, as per data released by the National Bureau of Statistics.

- A study by the Dubai Chamber of Commerce and Industry has revealed that construction projects worth \$714.8 bn are currently either at design stage or underway in the UAE.