

Weekly Economic Commentary – August 15, 2010

Markets

Impact of data on global equity markets were evident – weak Chinese data, tepid consumer and retail sales data from the US failed to revive investor confidence while concerns about global recovery trumped robust eurozone growth data. Regional markets continued to slide on global cues, with recovery concerns keeping investors at bay. The euro tumbled from a 3-month high on problems of government debt. Crude prices declined on demand concerns, while gold hit a 1-month high on safe haven demand.

Global Developments

Americas:

- The FOMC left interest rate unchanged at 0.25%, while downgrading its assessment of US growth prospects. The Fed has proposed to reinvest principal repayments of agency and mortgage-backed securities in buying long-term government debt, moving towards renewed quantitative easing.
- US non-farm productivity for Q2 2010 fell to its lowest since Q3 2008 (-0.9% qoq from 2.8% in Q1).
- Mortgage applications for refinance rose by 0.6% week-on-week for the week ending Aug. 6 (prior week: 1.3%) while applications for purchase rose 0.3% (1.5%) implying a slow growth.
- US retail sales rose 0.4% mom in July (Jun: -0.3%) though the gains were concentrated in gasoline station sales (+2.3%). The underlying momentum in consumer spending hence likely remains tame.

- July CPI was up 0.3% on higher energy prices while core CPI, excluding food and energy, remained at 0.9% for the fourth month in a row, matching the lowest rate since January 1966.
- Initial jobless claims rose steadily to 484k in the week ending Aug. 7 compared to 482k on Jul 31 (revised up from 479k reported previously). Continuing claims declined more than expected to 4.45 mn from 4.54 mn.

Europe:

- Eurozone growth expanded 1.0% qoq in Q2 2010, after strong performances from France and Germany.
- German economy grew at the fastest pace since the country's reunification two decades ago, rising 2.2% qoq in Q2 2010 (Q1: 0.5%). The stronger than expected data led to a rally in the euro while German 10-year bonds dipped, pushing the yield up from a record low.
- Eurozone industrial production (IP) for June fell unexpectedly due to declines from Germany and France – dropping 0.1% mom accompanied by an upward revision for May to 1.1%.
- Industrial production in France dropped to 5.7% yoy in June (May: 8.5%) due to the sharp decline in automobile production. Manufacturing meanwhile declined to 5% in June compared to May's 7.8% increase.

Asia and Pacific:

- A set of relatively weak data for July from China – nominal retail sales growth fell to 17.9% yoy (June: 18.3%) while CPI rebounded slightly to 3.3% (2.9%). Industrial production expanded at the weakest pace in 11 months in July (+13.4%), highlighting the moderation in growth triggered by government curbs including a CNY 7.5 trillion lending limit for 2010.
- India's industrial output growth in June was the slowest

in thirteen months (7.1% yoy), as many of its key sectors expanded at a weaker pace.

- Japan machinery orders edged up 1.6% mom in June, from May's sharp 9.1% decline.
- Hong Kong's government raised its full-year growth forecast to 5%-6% after Q2 GDP grew 1.4% qoq (Q1: 2.1%) on strong exports and increased domestic spending. Measures to cool the city's booming property market were also announced by the government.

Bottom line:

As the world heads into the second half of this year, global prospects seem weaker than expected. The Fed continued to remain concerned on the sustainability of US growth (especially given recent jobs data) while even EU's strong Q2 GDP failed to cheer European markets. A decline in Chinese industrial output and weak retail sales fueled global market worries about a slowdown in the economy seen as crucial to world growth prospects.

Regional Developments

- A recent report on the GCC debt capital markets highlighted a broad-based recovery in Q2 2010 – aggregate value of primary issuances in the conventional bond market increased by 33% qoq, while the number of issuances more than doubled.
- Data released by the Central Bank of Bahrain reported a rise in public debt by 47% to BHD 1.98bn (about 55% in conventional bonds) at the end of H1 2010.
- Inflation in Kuwait for May clocked 2.9% yoy with the largest rise from the sub-component of drinks and tobacco, which was up 7.8%. Meanwhile, Oman reported inflation in June up 0.3% mom to 3.5%.
- Oman's revenues were up 31% yoy to OMR 4.2bn in H1 2010 due to the robust growth in crude oil production coupled

with the rise in oil prices according to data released by the Ministry of National Economy.

UAE Focus

- Standard & Poor's affirmed its 'B+/B' long- and short-term corporate credit ratings on DIFCI in view of the \$1 billion plus restructuring program to dispose of its noncore assets.
- Dubai's inflation for July slowed to 0.4% as rents continued to decline in the emirate. The cost of housing, water, electricity, gas and other fuels declined an annual 1.9%, the highest since April.
- Unemployment among nationals was as high as 14% as per a report released by the Ministry of Economy as overall unemployment rate stood unchanged at 4.2% in 2009.
- Abu Dhabi GDP at current prices for 2009 stood at AED 546.5bn, with the contribution of oil to GDP at 49%; fixed capital formation was up 9.8% yoy to AED 79.84bn while average per capita GDP was AED 332.5k, one of the highest worldwide.
- DEWA announced that they had recorded an increase of 539 MW in the annual electricity Peak Load in Dubai, a rate of 9.6% as of July 2010.