

Weekly Economic Commentary – August 22, 2010

Markets

The summer mood prevails on most stock markets with low volumes, high volatility and indices stuck in ranges. Regional markets were mixed, with the UAE bourses in positive territory helped by DP World report. Currencies were stable, as well as the oil market. The gold market however recorded a strong performance.

Global Developments

Americas:

- US PPI has risen as expected to 0.2% mom (June: -0.5%) and 4.2% yoy (2009: 2.8%). Core PPI mom rose beyond expectations to 0.3% (June: 0.1%) and 1.5% yoy (2009:1.1%) indicating some mild inflation pressure.
- July's IP in the US was up 1.0% mom, (7.7% yoy) mainly due to a 9.9% increase in auto production which sustained the highest gain in a year in manufacturing (1.1%) as old machinery and cars are replaced. Capacity utilization increased to 74.8% from 74.1%.
- Initial US jobless claims have increased to 500K (Prior week: 488K; revised from 484K) the highest since Nov. 2009, against expectations of 478K. Continuing claims have eased to 4.48m (Prior 4.49m; revised from 4.45m).
- US house starts grew by 1.7%mom in July (-7.0%yoy), in line with expectations but depicting a still weak real estate.

Europe:

- Euro area GDP grew by 1.0% in Q2 2010 pushed by a strong performance in Germany.
- The German ZEW disappointed expectations of a stable reading declining to 14.0 after 21.2 in July. Current conditions however jumped to 44.3 after 14.6.
- The euro area inflation rate was up to 1.7% in July 2010 from 1.4% in June 2010, the lowest inflation rate was registered in Ireland with -1.2%.
- The euro area recorded a trade surplus of 2.4bn euro in June. Exports rose by 5.2% mom and imports by 4.3% mom. The EU's external trade deficit increased to 9.6bn euro due to energy imports.
- The euro area construction sector output rose by 2.7% mom sa in June, against a drop of 0.7% in May. The highest increase was registered in Spain with 7.2% mom.

Asia and Pacific:

- Japan has lost momentum as its Q2 GDP rose a paltry 0.1% qoq (after 1.1% in Q1), compared to a forecast of 0.6%. Meanwhile, its nominal GDP plunged by -0.9% (Q1: 1.4%)
- Hong Kong's unemployment rate for May – July eased to 4.3% against forecasts of 4.5% (April – June: 4.6%).
- FDI growth in China slowed down to 29.2% yoy (June: 39.6%), sharply below a forecasted increase of 47.5%
- Malaysia GDP growth in Q2 2010 came in at 8.9% yoy, versus 10.1% yoy in Q1.
- Australia's new motor vehicle sales decreased by 2.6% sa in July compared to a 1.2% decrease in June.
- Singapore's July non-oil domestic exports increased by 18.2% yoy, after increasing 28.5% yoy in June.
- Restrictions on Islamic banks in Indonesia may be allayed to allow a restructuring of unperforming loans.
- A sluggish growth is expected in South Korea in H2 as the export price index and import price index dropped

sharply (-0.4% and -0.5% mom resp.) in contrast to H1 (June: 3% and 2% mom respectively).

Bottom line:

The data flow has slowed to a trickle, but the few figures that came out confirmed the weak momentum of the global economy. In particular the US labor market remains a sore spot and China is slowing. Germany is unlikely to provide a further boost to euro area economies in Q2 2010.

Regional Developments

- Qatar National Bank recorded \$742 ml profit in 2010, a 30.8% increase comparing to the previous year.
- Saudi National Commercial Bank announced \$ 704 ml profit in 2010, with a raise about 18%.
- Kuwait's banks have agreed to finance a \$104bn infrastructure plan, with the government providing financial guarantees valued at \$ 35 bn.

UAE Focus

- UAE inflation rate was unchanged at 0.9% yoy in July (0.29% mom). Transportation and education were the largest contributors, 4.5% mom and 10.6% mom respectively, while the housing and clothing components declined by -0.07% mom and -5.07% mom respectively.
- As the international demand for oil declined, UAE's monthly trade deficit has expanded to \$14.1bn a seven month high.
- Nakheel will restart work on at least six key Dubai projects early next month, among which Jumeirah Park, Al Furjan, Jumeirah Village, Jumeirah Islands Mansions. Contractors last month started to receive payments.
- Dubai external trade rose by 18% in H1 2010 compared to the same period last year, to more than \$76 ml.
- DP world H1 profits rose by 10% as its net profit after

tax from continuing operations grew to \$206 ml far beyond the forecast range of \$148 – \$158 ml.