

# Weekly Economic Commentary – August 29, 2010

## Markets

The summer lull might be coming to an end with global markets generally moving downside. A sign of prevailing pessimism is the muted and often negative reaction even to positive economic news. Few region-specific market-moving factors can be detected at this juncture, so GCC bourses follow the global trend, although at these depressed levels some occasional bargain hunting is taking place. The yen surged to a 15-year high last week as investors sought safe havens amid a stream of poor US economic data. Both oil and gold prices were up compared to a week ago and remained within ranges for most of the summer.

## Global Developments

### Americas:

- US GDP for Q2 2010 was sharply revised down to 1.6% qoq annualized from its previously reported 2.4% due to a significant drop in the contribution of trade.
- US existing home sales tumbled in July by 27.2% mom (7.1% yoy) much below even the most pessimistic expectations (consensus was for a 13.7% drop), after the expiration of homebuyer tax credit.
- US durable goods orders increased in July only 0.3% mom and 8.6% yoy, much worse than expected. Orders were roughly flat, but only thanks to a large increase in orders for civilian aircrafts. Demand for machinery fell sharply, with capital goods orders erasing much of the gains recorded since May.
- Initial unemployment claims fell 31k to 473k and

continuing claims also declined by 62k to 4.456 mn which provides some relief from the deterioration recorded a week earlier.

- Brazilian consumer confidence rose to a new high in August, and is now 20% above the end 2006 level.

## **Europe:**

- Euro area PMI manufacturing surveys declined modestly from 56.7 to 55. In Q3 to date, the manufacturing PMI is averaging 55.9, versus 56.3 in Q2 when GDP rose by 4%qoq, and IP by 10%qoq.
- The breakdown of the German GDP confirmed that a big push came from exports which rose 8.2%qoq, while import grew 7.0%. But also domestic demand fared well thanks to a 4.7% rise in investments.
- The UK economy grew at its fastest pace (Q2: +1.2%) in 11 years as construction output was revised up to 8.5% from 6.6% reported previously while the services sector was revised down to 0.7%.
- August's IFO survey edged higher to 106.7 (July: 106.2), as assessment of current conditions showed another strong increase (Aug: 108.2 July: 106.8).
- Germany's budget deficit performance in 2010H1 was a better-than-projected 3.5% of GDP.

## **Asia and Pacific:**

- The Thai economy slowed sharply in Q2, due to political disruptions and global influences. GDP was up 0.8% qoq, compared to a 12% annual rate over the previous 4 quarters. The central bank raised policy rate by 25 bps to 1.75% citing future inflationary pressures.
- Singapore's July industrial production slowed down to 9.9% yoy (June: 29.5%) on the volatile pharmaceuticals sector as manufacturing output remained unchanged from a month ago.

- Japan Prime Minister has promised some bold action on policy including on foreign exchange.

## Bottom line:

The data flow has confirmed the loss of momentum in the global economy. Some of this was expected as a result of the Chinese monetary tightening, but the deterioration in the US has come largely as a surprise. In Europe Germany has had a strong performance but the periphery is still struggling and the downgrade of Ireland's debt is a reminder that the fiscal crisis will not be resolved quickly. Bernanke in Jackson Hole was confident that **"the preconditions for a pickup in growth in 2011 appear to remain in place"**, but has indicated another monetary stimulus to revive the economy: "I believe that additional purchases of longer-term securities, should the FOMC choose to undertake them, would be effective in further easing financial conditions".

## Regional Developments

- The GCC ministers are expected to meet in Jeddah this Wednesday to discuss the full implementation of the GCC Customs Union in particular eliminating any remaining obstacles by early next year.
- Bahrain was downgraded from A2 to A3 by Moody's as a result of woes in the banking sector and reduced fiscal flexibility.
- The total assets of commercial banks in Oman increased by 11.5% yoy in June to OMR 15.27bn while total outstanding credit increased by 5.5% to OMR 10.17bn.
- Saudi inflation continued to rise for the sixth month in a row peaking at 6% in July, due to a 1.4% rise in transport and communications, health care by 1.1%, foods and beverages by 0.8% and home rent by 0.3%.
- Saudi Arabia's economic outlook remains "broadly positive" and the banking system is "fundamentally

sound”, although vulnerabilities remain from volatile oil prices, the IMF stated after concluding its latest Article IV.

## **UAE Focus**

- According to the UAE central bank, bank deposits held by all UAE banks have reached AED 1trillion. Deposits increased by 13.5bn mom in July and by 34.8bn yoy cutting down the loan-to-deposit gap to 26.6bn in July from 40.2bn in June indicating an increase in investor confidence.
- Dubai trade with the GCC countries recorded 10% yoy growth to AED 11bn in H1 2010, with re-exports reaching AED 4.8bn while the exports and imports stood firm at AED 2.3bn and AED 3.7 bn respectively.
- The UAE’s federal budget for 2010 is AED 43.37bn and H1 budget was ‘balanced’ with a slight increase in revenues. H2 budget is also expected to remain ‘balanced’.
- Oil companies endured a loss of 35 fils per litre due to heavy subsidizing by the UAE government. Total losses on retail sales amounted to AED 3bn in 2009. Additionally, Abu Dhabi’s oil investments dropped by 12% in 2009 for the first time in 3 decades as the oil production decreased to AED 9.27bn from 10.56bn in 2008.
- Dubai free zone companies have recorded exports and re-exports of AED 122bn in 2009 which is 40.7% of Dubai’s total exports.
- Dubai international airport activity surged by 14.3% yoy as it handled 4.31 mn passengers in July against 3.77 mn a year ago while the Abu Dhabi airport experienced an increase of 9.2% yoy crossing the 1 ml target.
- ADIB has provided AJES, a subsidiary of ADNOC a \$300ml (Dh 1.1 bn) loan for the Shah sour gas field development project which will help Abu Dhabi meet its rising demand for gas.

- The Government of Sharjah issued law No (5), which will limit UAE nationals' and GCC nationals' right to own property in the Emirate.