

Weekly Economic Commentary – September 05, 2010

Markets

Stock markets inverted the slump of the past few weeks and regained some ground on the wings of better than expected data all over the world. Regional markets however did not follow the global trend, and with the exception of KSA they had mixed performances. Currency markets were rather stable, with the yen at record highs and the euro making some gains. The periodic BIS survey on FX showed that global currency trading jumped by more than 20% over the past 3 years to \$4 trn a day. Oil prices are stuck around the middle of the 70-80 \$/b range which has prevailed for months. Gold was a touch firmer.

Global Developments

Americas:

- Non-farm payrolls fell by a better than expected 54k units in August pushing the unemployment rate to 9.6%. The silver lining was that the private sector added 67k jobs to offset those lost in the government sector.
- US personal incomes rose 0.2% mom in July, boosted by a 0.3% increase in wages and salaries, while personal spending grew faster than expected by 0.4% mom.
- The Case Shiller index of home prices rose 0.28% mom, saar, and 4.2% yoy in June; confirming the improvement. July's pending home sales grew 5.2% yoy after a revised 2.8% drop in the prior month.
- Chicago PMI fell by 5.6 points to 56.7 in Aug as sub-indices for new orders and production both declined by 9.4 points and by 7.4 points respectively. Consumer confidence, on the other hand, reported a 2.5-point

increase to 53.5, though the gain was all in expectations.

- ISM manufacturing index rose to 56.3 in Aug (July: 55.5), marking the 13th consecutive monthly gain, driven by a strong read in the production index while new orders fell slightly. The ISM services index registered a seven-month low in Aug (51.5, Jul: 54.3) underlining the sluggish nature of the economic recovery.
- Initial jobless claims fell 6k to 472k in the week ended Aug 28, with the 4-week average falling by 2,500 to 485k, its first decrease after four straight increases.
- Factory orders registered a slight 0.1% mom, saar increase in July to USD 409.5bn, due to a 12.9% jump in transportation orders. Excluding that sector, orders dropped 1.5% – the sharpest monthly decline since Mar09.

Europe:

- Euro area PMI for August dropped to 55.1 (July: 56.7) but nudged up from an earlier flash estimate of 55.0 as both expansion of output and new orders slowed noticeably.
- German retail sales fell unexpectedly by 0.3% mom in July, the second successive monthly decline, partly due to weak sales of food and drink.
- The EU has reached political consensus on a new supervisory framework for banks, insurers & markets.

Asia and Pacific:

- China's headline PMI rose by more-than-expected to 51.7 in August from 51.2 in July. Within the index, new orders jumped by 2.2 points to a three-month high of 53.1. All in all a reassuring signal.
- South Korea's industrial production increased 15.5% yoy in July down from 17.1% in June, confirming the solid rebound.

- India's GDP grew by 8.8% yoy in Q2, in line with consensus forecasts and up from 8.6% in Q1. Interestingly, GDP at market prices was revised to 10% on Thursday from the originally reported 3.7%: private consumption was revised up to 3.8% (0.3%), government expenditure to 14.2% (-0.7%) and investment to 7.6% (3.7%).
- Thailand's manufacturing production grew 16.3% yoy in July, down from 21.9% a month earlier, a slowdown that reflects the unresolved political stalemate.

Bottom line:

Patches of positive data such as consumer confidence in the US and China's PMI were reinforced by the US payroll data which beat expectations. The markets cheered, but a closer look fails to dispel the impression of a US economy losing traction. Talks of double dip that were making the rounds in trading floors have subsided, but a fiscal consolidation in Europe and mid-term elections expected to deliver a blow to President Obama are likely to spur market volatility in the next few months.

Regional Developments

- Mergers and acquisitions in the MENA region declined 15% yoy to USD 18.5bn in H1 2010 according to a report released by Ernst & Young. The deals' value in Q2 2010 increased by 85% qoq to USD 12bn though the number of deals was smaller. Egypt ranked highest in the region by deal value (almost 28% of the total disclosed deal value at USD 624mn), followed by Oman (23%, USD 525mn) and UAE (16%, \$372 mn).
- Kuwait's June inflation rate reached 3.4% (May: 2.9%) due to higher food prices, which rose 7.2% yoy while the price of housing services increased 4.7%.
- Saudi Arabian broad money growth slowed to 5.1% in July

(June: 6.9%) while M3 money supply growth, an indicator of future inflation, slowed to a more than seven-year low (2.3%) in July.

- Automobile sales in H1 2010 continued to rise in the UAE and Gulf markets – registering 8.0% and 12% yoy growth respectively.

UAE Focus

- The UAE Central Bank reduced its deposits with commercial banks (compared to May) by AED 15.8bn to AED 49.07bn in June, the lowest level in more than two years.
- A batch of reforms of key economic and financial laws is being finalized in a bid to improve and modernize the current legislative system and further enhance the business environment, according to UAE Minister of Economy Al Mansouri.
- Aabar Investments has applied for delisting from Abu Dhabi Securities Exchange from September 8, 2010.
- UAE's Minister of Economy Al Mansouri stated that the economy is capable of achieving 2.5% growth in 2010, compared to 1.3% last year, while inflation is expected to fall to 1.1% down from 1.56% last year.
- Emirates airlines is expected to raise USD 1.3bn through March 2011 and about USD 27bn for the following six years as it prepares to take delivery of two aircrafts each month for the next six years.