

# Weekly Economic Commentary – September 13, 2010

## Markets

Global stock markets were up last week while the new Basel regulations are being welcomed by traders this morning. Regional markets were closed a few days for Eid – the last trading session on the DFM before Eid saw the benchmark index climbing to a three-month high, supported by favorable cues from Asia-Pacific markets. Dollar continued its ascent against major currencies while the Euro suffered after the German Banking Association said that the country's 10 biggest lenders may need another EUR 105bn additional capital. [Improving economies lifted oil to a month high](#) alongside weaker gold prices after IMF's gold sale to Bangladesh drew limited support.

## Global Developments

### Americas:

- The US Beige book showed “widespread signs of deceleration” in mid July through August as the rate of growth slowed in many regions of the US.
- Initial jobless claims dropped 27k to 451k, the lowest level in almost two months, in the week ended Sept. 4. However, this is likely due to discouraged potential workers dropping out of the labour force.

### Europe:

- German manufacturing orders unexpectedly dropped 2.2% mom in July, their steepest rate in more than a year, as demand in the euro region weakened – export orders were

down 3.7%, domestic sales fell 0.3%, demand for investment goods dropped 5.5% and orders for consumer goods fell 1.0%.

- Industrial production data for July was released across the Eurozone: Germany announced an increase by 0.1% mom; in Spain, it declined 1.6% yoy (Jun: +3.2%); France output rebounded (+0.9% mom; Jun: -1.7%) while in Italy it slowed sharply, registering 4.8% yoy rise against June's 8.1%.

## **Asia and Pacific:**

- China's monetary data showed a "strong" pickup in money supply growth (rising 19.2% yoy), while new lending rebounded in August – the first acceleration in four months.
- An unexpectedly high 35.2% yoy increase in imports led to a drop in China's trade surplus to USD 20bn during August, though exports to both US and EU picked up pace.
- China's industrial value-added output growth accelerated to 13.9% yoy in August (July: 13.4%), while India's industrial output rose 13.8% in July (June: 7.1%) due to a sharp increase (63%) in capital goods production.
- The Japanese government unveiled a USD 10.9bn stimulus package (roughly 0.2% of GDP) on Friday. The second preliminary data on Q2 GDP showed a rise of 0.4% qoq while the announced stimulus package is expected to lift GDP by about 0.3%.
- Japan's machinery orders were up 8.8% mom in July, the largest rise in seven months, as overseas demand bolstered corporate sentiment.

## **Bottom line:**

The Bank of International Settlements announced the Basel III regulations. Under the new rules to be phased in from 2013, banks would be required to hold more reserves by January 1,

2015, with Tier 1 capital raised to 4.5% from 2.0% at present. In addition, banks would be required by January 1, 2019 to set aside an additional buffer of 2.5% to “withstand future periods of stress”, bringing the total core reserves required to 7.0%. This additional reserve will help ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Banks will be tapping the markets and their shareholders over the next two years in order to comply with the new Basel II requirements. Meanwhile, in the Asia Pacific, it was a week of central banks – Japan, Australia and South Korea – keeping interest rates on hold.

## **Regional Developments**

- The GCC Council failed to reach an agreement regarding the Customs Union due to differences over sharing tariff revenues and rules inconsistent with World Trade Organisation standards. However, the Council agreed on establishing an electronic clearing mechanism for settling customs duties between the GCC states.
- A recent report from Markaz estimated that the GREs in the region have suffered an aggregate loss of \$118bn as a result of the crisis, assuming that no new investments were made by these entities and they did not exit any existing ones.
- The World Economic Forum’s Global Competitiveness Report 2010-2011 ranked Qatar at 17th globally, ahead of its GCC counterparts with Saudi and UAE following at 21 and 25 respectively. It is noteworthy that the UAE has regressed on previous years.
- August inflation in Saudi Arabia increased to 6.1% (July: 6%) due to increases in food prices, transport, and rents, according to data released by the Central Department of Statistics & Information.
- Kuwait announced the appointment of its first

independent regulatory body, the Capital Market Authority, to oversee its stock exchange.

## **UAE Focus**

- In an investor confidence building move, Dubai World (DW) announced over 99% support (representing more than 99% of the debt to be restructured) for its proposal to restructure around USD 24.9bn of debt on Friday. Under the restructuring plan, DW is expected to first repay interest rates on loans to its creditors, with repayment staggered over 5 to 8 years.
- A survey conducted by the Foreign Investment Office of the Dubai Department of Economic Development revealed that Dubai continues to be the top destination for MENA investors. The responses of 1000 global and regional investors showed that 54% of the respondents already have a presence in the city while an additional 16% planned to enter Dubai in the next three years.
- UAE will account for nearly 86% of total tourism-related projects investments in the region by 2018 (around AED 858bn), as per a study conducted by RNCOS.