

# Weekly Economic Commentary – September 26, 2010

## Markets

Global stock markets recorded mostly positive performances, with markets and commodities rallying after the release of stronger US data in the latter half of the week. Regional markets mirrored global market performance, with Egypt at a four-month high, led by property developers. The US\$ fell, trading at a six-week low against the euro after the release of FOMC rate statement on quantitative easing. Gold prices touched an all-time peak of \$1,300 per oz, on fear of global inflation and debasement of paper currencies.

## Global Developments

### Americas:

- US Fed signaled to be ready to expand its quantitative easing program to buy Treasuries, to counter an already low core inflation rate (1% or so), and a marked slowdown which threatens to extend in 2011 and beyond.
- Housing starts increased by 10% mom in August (the largest increase since Nov 09) to an adjusted annual rate of 598k but the majority of the increase was from lower-value multifamily starts, which rose a whopping 32%.
- Sales of existing homes bounced back in Aug (+7.7% mom, Jul: -27.2%) to an annual rate of 4.13 mn. The median price of homes sold was \$178.6k, down 1.9% mom while a third of the homes sold were in foreclosure.
- Initial jobless claims were up 12k to 465k. The number of people receiving unemployment insurance declined but extended payments rose, which means that long term

unemployed do not easily find a new job.

- Durable goods orders fell 1.3% mom in Aug, posting the largest decline in a year as bookings for aircraft and motor vehicles tumbled. But core orders (ex transportation) rose 2.0% suggesting a healthy rebound.

## **Europe:**

- The Bundesbank noted in a report that Germany's growth has slowed dramatically in the past couple of months. Q3 GDP growth may be on track but a marked slowdown is forecast for Q4.
- Moody's re-affirmed the U.K.'s public debt Aaa rating.
- Euro Area manufacturing orders fell 2.4% mom in July (led by a drop in capital goods such as factory machinery) which offset a similar gain in June.
- Growth in Europe's services and manufacturing industries weakened as the composite index (compiled by Markit) based on a survey of euro-area purchasing managers declined to 53.8 from 56.2 in August.
- Germany IFO survey unexpectedly rose further in September (106.8 versus 106.7), as the current conditions component increased 1.5 points, though the expectations component slipped for a second month.

## **Asia and Pacific:**

- China's credit tightening may have been sharp through Q2 and into Q3, but the latest evidence suggests it could be short lived. The PBoC's quarterly survey of bankers posted a 9-point rebound in aggregate banker confidence in Q3 (to 73.1—the index has a 0-100 range, with 50 as neutral). The index had soared through 2009, but slipped in the first half of 2010, so seems to track conditions quite well.
- Singapore IP growth for August slowed to 8.1% yoy, (Jul: 9.9%) pulled down by a significant drop in

pharmaceutical production. Ex-pharma, broader manufacturing outlook held steady, up 24.8% (20.1%).

## Bottom line:

Opinions on the economic outlook are divided between those who deem the current slowdown in mature economies just a soft landing and those who fear a double dip. The data releases this week support the first hypothesis in the US and the latter in Europe. These woes are compounded by the ongoing fiscal crisis: Irish and Portuguese spreads to Bunds are reaching record highs at longer maturities (Irish spreads +23 bps 2-year; +10 bps 10-year, Portugal +28 bps 2-year; +16 bps 10-year). Market fears include potential bailout costs by the EU and the IMF, likely haircuts of subordinated (and possibly senior) Anglo Irish bank bondholders and weak GDP numbers. Meanwhile the break-down of talks between the Portuguese prime minister and the opposition over budget cuts for the 2011 budget do not help in restoring credibility.

## Regional Developments

- Greece and [Qatar Investment Authority](#) officials have signed a framework deal, paving the way for an investment of \$5 bn in the euro zone's most indebted country.
- Chiyoda Corp from Japan will participate in the construction of the world's largest helium production facility the Qatar Helium 2 project in Qatar, which will boast an annual capacity of roughly 40 ml m3.
- Inflation in Bahrain accelerated to 2.4% yoy in August, edging up slightly from July's 2.1%, owing to a 1.2% mom rise in food prices, as per data from the Central Informatics Organisation.
- Kuwait central bank data showed an acceleration of broad money growth to 2.3% in Aug (Jul: 1.2%).
- Oman's government has spent OMR 4.5bn in the period Jan-

Aug, almost 63% of the OMR 7.18bn expenditure allocated for 2010 on infrastructure and energy projects to boost economic growth. Oman's 2010 budget was set with revenues of OMR 6.38bn and a deficit of OMR 800mn based on an average oil price of \$50 per barrel.

- Oman's inflation eased slightly in July to 3.3% yoy, after hitting a 13-month high in June (3.35%), while its foreign trade surplus swelled to a two-year high (USD 1.6bn) in April on hydrocarbon exports. Prices edged down 0.1% mom on slower growth in food prices, housing costs and declines in clothing and personal care.
- Total assets of commercial banks in Oman grew by 11.7% yoy to OMR 15.3bn in the first seven months of the year, according to Central Bank data. Credit grew gradually, registering 6.4% yoy rise at the end of July.
- [Qatar Islamic Bank](#) announced that it has mandated [Credit Suisse](#), [HSBC](#) and [QInvest](#), for its first dollar-denominated benchmark Islamic bond issue, expected to be launched after investor road shows in the Middle East, Asia and Europe, beginning on Sep 24.

## UAE Focus

- Dubai's government plans to issue up to \$1 billion in bonds with a tenor of up to 7 years (issue might be as soon as this week), according to two sources. [HSBC](#) and [Standard Chartered](#) were among the mandated banks.
- UAE banks do not require support from the Central Bank any longer as conditions have improved, according to a statement by Ahmed Humaid al-Tayer, Governor of DIFC.
- Abu Dhabi's annual inflation rate shot up to 3.6% yoy in August, the highest in 20 months, as food prices rose 1.3% mom. Communication costs surged 12.6% alongside flat rents.
- Dubai Statistics Centre announced inflation at 0.59% mom in August, with rise a 3.1% rise in furnishings &

household equipment component, 2.5 in transport and food and 1.8% in non-alcoholic beverages.

- UAE inflation increased by 0.5% mom and 0.9% yoy in August, as education, transportation and food prices increased by 10.6%, 5.7% and 4.2% respectively compared to a year ago.
- [Bloom Properties](#) and [Al Maabar](#), two real estate developers in Abu Dhabi, have signed deals valued at \$66 bn with the Iraqi National Investment Commission, according to The National, quoting the Chairman of the IRIC.
- [Nakheel](#) announced that it expects to start building again on all short-term projects by October 2010 and has restarted work at its Al Furjan residential project. Meanwhile a senior company executive revealed plans to launch a five-year Sukuk by year-end, i.e. when [Nakheel](#) anticipates completing its debt restructuring.
- [Mubadala Development](#) has reported a half-year comprehensive loss of AED 4.5 billion (US\$1.22bn) due to the declining value of its equity portfolio. Revenues from its investments in aerospace, property, industrial, technology and energy sectors however rose by 36% to AED 8bn compared with the first half of last year.
- UAE needs to invest close to AED 80bn in projects in the next eight years to expand power generation capacity to meet a rapid rise in consumption, according to an official in the [Federal Electricity Authority](#).
- Dubai slipped four places to 28 in the latest issue of the Global Financial Centres Index. In past editions, Dubai was repeatedly mentioned as a centre both likely to become more significant and where new offices would be opened, but it no longer features in either, after being eclipsed by Asia's rising financial hubs.