

# Weekly Economic Commentary – October 17, 2010

## Markets

Asian markets were the centre of attention last week, led by China, which registered the biggest weekly gains in 18 months as banks were boosted by optimism over earnings and continuous inflow of foreign funds. Regional markets were mostly down; the Saudi index was dragged down by banks' disappointing earnings results. The US dollar tumbled against most major currencies due to the prospect of further quantitative easing by the Fed. Oil prices dipped after OPEC's decision to maintain its output target and news of a surprise drop in US crude reserves; gold continued its bull run, though closing slightly lower on Friday from midweek highs.

## Global Developments

### Americas:

- US Fed minutes signaled more monetary stimulus in the future, to prop up a faltering economy and increase inflation above its current rock-bottom levels. The approach most directly mentioned in the minutes was the purchase of Treasury bonds to expand money supply.
- US consumer price inflation held steady at 1.1% yoy, though the core rate, excluding the volatile food and energy inched down to a 49-year low of 0.8% yoy.
- US Producers Price inflation was 0.9% mom and 4.0% yoy in Sep, largely because of increasing food and fuel components. Core PPI increased a modest 0.1% mom and 1.6% yoy.
- Retail sales were up 0.6% mom in Sep, the third monthly gain in a row, led by a surge in vehicles sales. This

came on top of an upward revision of retail sales data for the past two months to 0.5% mom and 0.7% mom.

- Initial jobless claims unexpectedly rose 13k to 462k, but continuing claims plunged another 112k to 4.4 mn.

## **Europe:**

- Eurozone industrial production increased 1.0% mom to 7.9% in Aug, largely due to a rise in production of capital goods but with wide disparities across the Eurozone – Greece witnessed the highest rise at 5.6% mom while Ireland declined the most (13.6%).
- Eurozone CPI accelerated to 1.8% yoy in Sep from Aug: 1.6%
- The ECB Monthly Bulletin warned that the recovery appears fragile.

## **Asia and Pacific:**

- China's money supply growth was 18.9% yoy in Sep, while new loan creation came in stronger at CNY 595.5bn, compared to CNY 545.2bn in August, and CNY 532.8bn in July.
- Meanwhile, it was widely reported that China's central bank raised reserve requirements for six banks by half a percentage point for two months to rein in credit, though no public announcement has been made.
- The Monetary Authority of Singapore unexpectedly tightened its policy stance by allowing appreciation and, widening the fluctuation band of the SG dollar, indicating the central bank's rising concern for inflation.
- Singapore's provisional GDP for Q3 contracted 19.8% qoq following strong Q2 growth of 27.3%, with the services sector the lone bright spot (up 1.6%) as manufacturing and construction registered declines of -57% and -12% respectively.

- Industrial production growth in India dropped to a 15-month low of 5.6% yoy in Aug, largely due to the decline in volatile capital goods growth (contracting by 2.6% compared to July's revised 7.2%).
- August Japanese machinery orders, a leading indicator of business investment, increased 10.1% mom recording the largest increase since December.
- South Korea's central bank unexpectedly kept the benchmark seven-day repurchase rate at 2.25% as concerns about potential exchange rate risks to the global economy offset worries about domestic inflation.

## **Bottom line:**

The main theme on markets is the quantitative easing in the US which is battering the dollar and risks igniting a devaluation war. Furthermore, the dollar weakness is pushing up key commodities prices. The monetization of the US debt as an alternative to structural reforms and a clear course on economic policy is a strategy that carries serious risks of causing a run on the dollar with unpredictable consequences.

## **Regional Developments**

- Qatar's Q2 2010 GDP declined 4.0% qoq to QAR 98.4bn (Q1: QAR 102.5bn) though on a year-on-year basis, growth was 20.4%. Manufacturing registered a pick-up of 15.9% yoy (-1.7% qoq), mining and quarrying sector was up 36.8% yoy while electricity and water increased by about 0.6% yoy (+3.4% qoq).
- Inflation in Saudi Arabia eased in Sep to 5.9% yoy from an 18-month peak of 6.1% in the previous month; food and housing costs were up by 0.9% mom and 0.5% respectively.

## **UAE Focus**

- The UAE Central Bank Governor announced that there were ongoing discussions about new regulations to contain

credit growth and “regulate credit extension, for example, (for) mortgage loans”.

- The UAE central bank will launch Islamic certificates of deposit by the end of the year aimed at allowing better control of liquidity, with test transactions taking place as early November, according to a senior banker at Standard Chartered Saadiq.
- A flurry of bonds hit the markets after the successful Dubai issue – DEWA launched a USD 2bn two-tranche bond; RAK, HSBC Bank ME and IPIC have all announced their intention of launching benchmark bonds.
- DP World is expected to seek a dual listing in the London stock exchange soon after it publishes its financial results next March, according to its CFO.
- A proposal has surfaced in the media to merge three Islamic banks – Emirates Islamic Bank, Dubai Bank and Noor Islamic Bank. This would create an Islamic bank of substantial size, which could then bail out Amlak Finance. (Emirates Business 24/7)
- EIBOR fell to seven-month lows on Monday, showing improved liquidity in the banking sector with market watchers seeing room for a further decrease.