

Weekly Economic Commentary – October 24, 2010

Markets

Global equity markets rose last week, as corporate earnings were better than expected, boosting investor confidence. Almost $\frac{3}{4}$ of companies in the MSCI World Index that reported earnings since Oct. 7 have beaten estimates, according to data compiled by Bloomberg. Regional markets however painted a mixed picture. Dollar sank to a 15-year low against the yen after figures from the Swiss National Bank showed its holdings of yen increased from CHF 8.7bn in Q2. Oil was slightly lower compared to last week while gold continued to rise on the back of concerns of a growing „currency war? among the world?s central banks.

Global Developments

Americas:

- Against expectation for a 0.3% increase, US Industrial production recorded a -0.2% mom broad-based drop in Sep (+5.4% yoy), although partially attenuated by upward revisions to prior data. Capacity utilization remained constant at 74.7% in Sep.
- The Fed monthly Beige Book indicated that economic activity continued “to rise, albeit at a modest pace,” during Sep and early Oct. Manufacturing expanded, but hiring was sluggish. Consumer spending was “steady to up slightly [...] mostly limited to necessities and nondiscretionary items”.
- US housing starts were marginally up by +0.3% mom in Sep (+4.1% yoy), but permits fell -5.6% mom (-10.9% yoy). Multi-family buildings permits, a key indicator for

- future housing activity, dropped 20% yoy.
- Initial unemployment claims decreased by 23k to 452k for the week ending October 16. The previous week's figure was revised higher from 462k to 475k. Claims are still depicting entrenched weakness in the labor market.
 - US leading indicators rose 0.3% in Sep for the third straight month, signaling a modest recovery into 2011.

Europe:

- The German ZEW confidence index lost three points in Oct. to -7.2 confirming that the recovery appears fragile. German IFO business climate index rose modestly to 107.6 in Oct (Sep: 106.8), helped by a push from manufacturing (especially exporting firms) and construction sector business climate outlook.
- Eurozone's October PMI rose to 54.1 (Sep: 53.7) as manufacturing activity rose (boosted by new orders via export sales) alongside a decline in services sector activity (O: 53.2, S: 54.1).
- UK Finance minister, George Osborne, announced the deepest spending cuts since WWII: nearly half a million public sector jobs would be lost and the retirement age will be brought to 66 by 2020.

Asia and Pacific:

- China's central bank raised its key rates by 25bps to cool the economy and offset domestic inflationary pressures. It was the first rate hike for about 3 years. Deposits rates at 2.5% remain negative in real terms and the overall stance is largely accommodative, tempered mainly by administrative tools.
- China's Q3 GDP increased 9.6% yoy, which in saar terms translates into 8.8% up from 8.2%. Inflation inched up to 3.6% yoy in Sep. Food price inflation rose to 8.0% from 7.5% yoy in Aug. Non-food price inflation continued

to soften to 1.4% yoy in Sep from 1.5% yoy in Aug.

- Japan Tankan manufacturing survey improved to +19 in Oct from +17 in Sep. but the three-month forward projection dropped to 0 signaling a decisive loss of momentum due to the termination of eco car subsidies, yen appreciation, and slowing growth in emerging markets.

Bottom line:

A mid-autumn blues is spreading to the global economy. The pull by emerging markets is fading and the largest developed economies, USA in primis, are losing steam month after month. The G20 Meeting in Seoul discussed how to stop the devaluation war which risks triggering a series of “beggar thy neighbour” policies. The American proposal for caps to current account deficits was not well received by Japan and Germany and is unlikely to force the necessary structural reforms in domestic economies (social security and higher consumer spending in China, infrastructure investments and financial reforms in the US, freer labor markets and pension reforms in Europe).

Regional Developments

- GCC countries are providing 60% out of \$2 billion spent on projects to link their electric grids, to ensure stable power supplies and cut operation costs. Completion of connection among 18 Arab electricity networks is expected for 2015 with further plans for links to Europe due to create a massive electricity market.
- The Iranian Atomic Energy Organization announced that it has produced 30 Kg of 20% enriched uranium.
- According to Giovanni Bisignani, chief executive of IATA, over the last decade, the carriers of the MENA region have grown from 5% of global traffic to 11%.
- Total Omani employment in the private sector reached 199,386 as opposed to 1.1 million expats (15.3% of the

total), according to the Ministry of Manpower Bulletin for September 2010.

UAE Focus

- The UAE will maintain the current system of sponsorship for foreign workers and aims to transform itself into a knowledge-based economy in the next 10 years, according to the Federal labor minister.
- Dubai International Airport recorded a 25% yoy passenger traffic growth in Sep, while freight volume went up by 24% yoy.
- The Central Bank appointed Dr Robert Mundell, Dr David Dodge, Dr Joseph Yam, and Sir John Bond to an International Advisory Council to provide independent advice on matters relating to monetary policy, macro prudential policies and the overall management of the financial system.
- Tamweel is liquidating four of its subsidiaries set up in 2007 to target Saudi Arabian market but which never started any substantial operations.
- A survey by Kershaw Leonard for 2010-2011 found that rents for a three-bedroom apartment in Dubai currently range from Dh80k to Dh180k, a steep fall from the highs of Dh300k in 2008. A three-bedroom apartment in Al Barsha can now be rented at 17% less than in Sep09. The survey also highlights the disparity in rental costs between Dubai and Abu Dhabi where a three-bedroom apartment may cost anywhere between Dh135k and Dh240k.
- Etisalat financial results for the first nine months of the year showed a 23% drop in Q3 profit figures.
- Private schools fees in the UAE continue to increase. Dubai came top among UAE cities with an International Baccalaureate school charging over AED 90,000.