

Weekly Economic Commentary – November 21, 2010

Markets

A mixed week for markets worldwide: European markets are awaiting the decision on a possible Irish bailout plan by end of this week. The rise in Chinese bank reserve requirements weighed on investor confidence while TOPIX advanced on the weaker yen, closing above 10000 for the first time in 5 months. Regional markets were closed most of last week for Eid. The euro advanced last week on the expectation of the Irish bailout package while commodity prices (oil and gold) declined compared to a week ago on demand concerns.

Global Developments

Americas:

- US retail sales for October registered an uptick of 1.2% mom showing the largest increase since March. Excluding motor vehicles, however, retail sales rose at a more modest pace of 0.4%. Industrial production remained unchanged in Oct (-0.2% mom) as a sharp decline in utilities production outweighed a strong increase in the manufacturing sector. Capacity utilization also was steady at 74.8%. Oct producer prices index was up 0.4% mom as the prices of raw materials increased 4.3%, the highest rise since Jan this year. Meanwhile core PPI decreased 0.6%, the largest since July 2006. October CPI edged up 0.2% mom on rising gasoline prices, while core inflation remained flat for the third straight month. Housing starts in October plunged to a near-record low as construction on new homes dropped nearly 12% mom to an annual rate of 519k units while the pace

of construction was the weakest since April 2009. Initial jobless claims increased by 2k to a seasonally adjusted 439k while the four-week average fell to 443k, the lowest level for the average since Sep '08.

Europe:

- German economic sentiment (ZEW) rebounded in Nov, rising 9 points to 1.8, from -7.2 points in Oct.

Asia and Pacific:

- People's Bank of China has announced a rise in the reserve requirement ratio (the second time this month and the fifth time this year) on banks by 0.5 %-pts from Nov 29 in a bid to curb liquidity. Japan expanded at 3.9% qoq, saar, in Q3 on strong domestic demand as consumers rushed to make the most of expiring subsidies. South Korea's central bank raised policy rate by 25bps to 2.5%, citing inflation risks. Meanwhile, the government has announced that it will revive a 14% tax on foreigners' bond holdings to slow capital inflows. Singapore's Q3 GDP contracted by 18.6% qoq (Q2: +27.3%) as most sectors registered a decline in growth compared to the previous quarter: manufacturing at 14.3% yoy (Q2: 46.1% yoy); construction at 7.1% (11.5%); wholesale and retail trade at 14.4% (18.9%). Taiwan's economy registered only a 0.02% qoq rise in Q3 GDP (Q2: 0.48%) amid flattening of exports. The government raised its full-year GDP growth forecast to 9.98%, from its August estimate of 8.24% on expectations of a recovery in electronics exports and resilient domestic private investment.

Bottom line:

More evidence is accumulating of the diverging pace of growth and economic recovery: Irish banks are expected to be bailed

out by its Eurozone partners and the IMF; on the other hand, China raised reserve requirement ratio to curb liquidity and overheating economy, Hong Kong announced additional taxes and higher down payments to control asset inflation and Korea is expected to introduce taxes to control capital inflows.

Regional Developments

- Saudi Arabia's nominal GDP for H1 2010 increased by 24.1% yoy to SAR 798.5 bn on a 44% rise in the oil sector and 13.5% rise in government sector while private sector growth was relatively lower at 6.5%.

UAE Focus

- UAE's non-oil foreign trade for the first eight months of this year increased by 20% compared to the same period of 2009, while exports rose by 38%.
- A UAE Central bank circular issued last week requires that all lenders and financial institutions make provisions for toxic loans on a quarterly basis than and no longer at the end of the fiscal year. It is also expected to review banks' unclassified loans, which will "also serve as a catalyst for depicting a truly realistic financial position of banks and other financial institutions" in an apparent move to improve transparency.
- The [UAE Central Bank](#) has started issuing Islamic certificates of deposits (ICDs). It held an auction to sell 1-week and 12-month ICDs last Wednesday, adding that they are based on *murabaha*, widely practiced by Islamic banks worldwide as an alternative to interest-bearing deposits.
- Mubadala sold their 5% stake in Ferrari back to Fiat, after the latter exercised an option that gave it the right to buy back the stake Mubadala acquired in 2005.