

Weekly Economic Commentary – December 06, 2010

Markets

Markets worldwide were hit by the Irish fiasco and the liquidity absorption measures in China but later in the week they recovered. Regional equities are mirroring emerging markets with Qatar stock in a celebration mood for the 2022 World Cup. A flight to safety is benefitting US Treasuries and the dollar, despite rebound of the euro and the yen, while oil and gold are again on the rise with oil closer to 90\$/b.

Global Developments

Americas:

- US employment rose less than 40K in Nov and jobless rate unexpectedly jumped to 9.8%, a 7-month high, confirming perception that the recovery is not taking roots.
- Non-farm productivity was up 2.3% in Q3. The Case-Shiller index of US house prices fell 6%qoq annualized in Q3, offsetting a similar rise through Q2.
- Canada' Q3 GDP growth surprised on the weak side scoring a meager 1% qoq, annualized. Initial jobless claims rose faster than expected by 26k to 436k in the week ending Nov 27.
- The ISM services survey sector grew for an 11th straight month in Nov to 55.0 from 54.3. The employment component rose to 52.7 from 50.9.

Europe:

- The Irish rescue plan did not allay fears of contagion and EU leaders are meeting today and tomorrow to decide

the next steps.

- The ECB bought €1.35 bn peripheral government bonds in the week to last Tuesday, double the previous week's purchases.
- Sentiment was also dented by weak demand at Italian and Belgian auctions.
- The IMF is asking EU governments to increase the EU rescue fund to € 1 trillion.
- The ECB [extended](#) the full allotment of 1m and 3m repos through 2011Q1 (pre the Irish crisis, it wanted to phase them out) to allay tensions. On Friday reportedly it bought heavily bonds from peripheral countries.
- Euro area CPI inflation was steady at 1.9% yoy in Nov, and the unemployment rate was stable at 10.1% in October, both as expected.
- German retail sales jumped by 2.3% mom during Oct, highlighting improvements in consumer spending after two months of declines – Sep's 1.8% drop and Aug's 0.4% drop, reinforcing Ifo numbers.
- EU PMI grew at its fastest pace in four months to 55.3 in Nov (Oct: 54.6) on French and German manufacturing activity.

Asia and Pacific:

- Thailand's central bank unexpectedly resumed monetary policy tightening – by raising policy rates by 25bps to 2% – to rein in expected inflationary pressures in the future. India's Q3 GDP grew 8.9% yoy, (vs 8.2% in Q2) beating forecasts, reverting to pre-financial crisis expansion pace. The performance was driven by a 9.8% yoy jump in manufacturing and an 8.8% leap in construction.
- The RBI announced further measures to stem a liquidity buildup and counter inflationary pressures.
- Moody's maintained a stable outlook on China's property market as developers are deemed able to withstand a moderate price correction next year.

- Japan Manufacturing PMI for Nov stayed below the 50 threshold – index for new export orders fell to 46.9 (Oct: 48.4) showing the fastest pace in export orders contraction in 19 months.
- South Korea's industrial output contracted for the third straight month (-4.2% mom) in October mainly due to reduced demand for semiconductors and autos, also the sharpest drop since Dec 08.
- Strong manufacturing numbers from India & China: China's Nov PMI grew at a faster pace for a fourth straight month (Nov: 55.2; Oct: 54.7).
- India's PMI expanded at its fastest pace in six months (Nov: 58.4; Oct: 57.2) on the back of robust new businesses and a sharp rise in export orders.

Bottom Line:

While the US are in political limbo awaiting the Congressional battle on tax cuts extension, Europe is sinking deeper into trouble as contagion from Ireland spreads and the disconnect between the euro area macro data and confidence indicators readings – driven by Germany's – widens. Asia is also pausing after a year of breakneck growth, with Korean industry materially weaker, Thailand in recession and Japan heading for a negative Q4 GDP growth. The global economy is entering 2011 on a weaker tone, likely to persist until late spring.

Regional Developments

- Qatar's successful bid to host the Football World Cup for 2022 will not only boost infrastructure spending in the country, but will also provide a massive stimulus for the GCC region in general.
- Egypt's parliamentary elections look set to produce an overwhelming victory for President Hosni Mubarak's ruling National Democratic Party. The US authorities commented that they were dismayed by irregularities.

- OPEC oil supply fell slightly in November according to a survey. Iraq oil output may hit 8 mn bpd by 2017.
- Kuwait plans utilities projects for KWD 6bn with priority on its beleaguered power and water systems.
- A map identifying the areas with solar radiation and wind in individual countries, and a database of renewable energy technologies are being developed by the UN Agency Irena.
- Bahrain expanded by 4.3% yoy in Q3 2010 with manufacturing and financial services contributing 8% and 6% each while Transport & communication, construction and wholesale & retail trade clocked in 6%, 5% and 5%.
- A Samba report placed the peak in Qatar's external debt at nearly USD 90bn, following the USD 10bn 2009 sovereign bonds issue while the debt-GDP ratio is expected to decline to 73% in 2010 from 2009's 81.4%.
- Middle East debt issuances in Nov were around USD 5 bn as compared to USD 6 bn in October.

UAE Focus

- Sheik Mohammed expressed confidence in the recovery potential of the Dubai economy and the effectiveness of its new strategy.
- Shaikh Ahmad Bin Saeed Al Maktoum, Chairman of the Dubai Supreme Fiscal Committee stated that privatization of companies within Dubai Inc. cannot be ruled out to strengthen the Emirate's finances.
- Sultan Al Mansouri, UAE's Economy Minister has said that the UAE is still looking forward to the GCC single currency in spite of pulling out of the Monetary Union.
- Abu Dhabi spent US\$5 bn this year on transportation infrastructure projects, including Shaikh Zayed Bridge, the upgrade of Al Mafraq Bridge, the Bani Yas-Al Heelieh road widening
- NBD, raised US\$410 mn through a multi-currency loan structured around its portfolio of syndicated loans to

corporates. The operation, fully subscribed at a 1.75% spread above reference rates, corroborates the perception that Dubai institutions have regained markets' confidence.

- The construction and real estate sectors in Dubai registered a near 5% fall in 2010, as per Sami al-Qamzi, director general of the Dubai department of economic development.
- Dubai Statistics Centre reported a 11% rise in the number of economically inactive people to 207,523 in 2009. This number included 122k women homemakers (58.8% of total, of which 18% are UAE nationals) while students comprised 32.3%. 4,089 inactive people were not willing to work (of which 57.9% were nationals).
- Dubai inflation rose 0.61% yoy at the end of Q3 2010, mainly driven by rising cost of food items. Prices of vegetables rocketed 9.49% while fruits became costlier by 6.29% alongside 11.1% rise in cost of education.
- The Dubai Government has injected USD 2 bn into [Dubai Holding](#)'s heart to stem its financial woes. [Dubai Group](#) missed two payments in Nov totaling USD 345 mn.