

Weekly Economic Commentary – January 09, 2011

Markets

Equity markets started the year on a soft note as the festive period ebbed. Markets that were lifted by the ADP report dipped after US non-farm payrolls data disappointed; meanwhile, sovereign debt fears are dragging down markets in Europe. Regional markets had a good start to the year: Saudi's index hit an 8-month high yesterday; Oman hit a 38-week high on Thurs on news of increased government spending and Dubai is at 3-week high. Dollar benefitted from optimism about US recovery and also hit a four-month high against the euro. The stronger dollar also led to a drop in commodity prices – both gold and oil. The UN warned about the record high increase in global food prices potentially leading to social unrest.

Global Developments

Americas:

- US ISM for Dec came in at 57.1 (Nov: 55), pointing towards an expansion in the manufacturing sector. Meanwhile, non-manufacturing sector grew at its fastest pace since May' 06 as pace of new orders in the service sector surged to 63 in Dec, its highest level since Aug 05 and up from 57.7 in Nov.
- Factory orders showed an unexpected rebound in Nov, rising 0.7% mom following a 0.7% decline in Oct, on gains in demand for consumer products such as household appliances, furniture and computers.
- US private sector employment jumped 297k in Dec (Nov:+92k) as employment in the service-providing sector rose by 270k, the eleventh consecutive monthly gain and

the largest monthly increase in the report's history.

- Initial jobless claims increased 18k to a seasonally adjusted 409k for the week ending Jan 1, bringing the four-week average to 410,750 – the lowest since Jul '08, suggesting an improvement in labor market conditions.
- Non-farm payrolls increased by 103k in Dec while the unemployment rate fell to 9.4% (Nov: 9.8%) the lowest since May 09.

Europe:

- German unemployment rose in Dec by a seasonally adjusted 3k to 3.15mn for the first time since June 2009. However, the unadjusted jobless rate was unchanged at 7.5%.
- German manufacturing orders rose 5.2% mom in Nov (Oct: 1.6%), registering the biggest gain since Jan last year, after export orders jumped 8.2%, driven solely by a 14.8% gain in demand from non-euro countries.
- German industrial production fell 0.7% mom in Nov (Oct: 3.0%), as both manufacturing and construction output dropped 0.6% and 1.1% respectively.
- German retail sales also unexpectedly declined dropped 2.4% mom in in Nov (Oct: 0.1%) as consumers cut back on spending as the euro region's worsening fiscal crisis eroded export demand.

Asia and Pacific:

- Singapore's Q4 GDP grew by 12.5% yoy (Q3: 10.5%) taking the full year growth to 14.7% according to advance GDP estimates showing strong recovery from the effects of the global recession.
- India's WPI increased further to hit a high of 18.32% yoy during the week ended 25 Dec 2010, from 14.44% in the previous week, amidst rising prices of onion and other essential items.

Bottom line:

The New Year seems to have brought some confidence in the US economy with key indicators depicting a rosier picture though payrolls data released on Friday disappointed. Europe remains trapped in a two-speed recovery phase with Germany and its neighbors benefitting from the global rebound while the periphery is struggling. Emerging markets continue to be concerned about capital inflows – China's State Administration of Foreign Exchange issued a warning that more measures would be taken to control "hot money", while Brazil introduced a permanent 60% cash (non-interest bearing) reserve requirement on short-USD positions, which will be binding depending on the size of the bank and the level of its net USD exposure.

Regional Developments

- Under a new tax provision, henceforth US contracts with foreign companies will be subject to a 2% tax if the goods or services purchased come from countries such as the UAE, Kuwait and China that are not part of the WTO Agreement on Government Procurement.
- Bahrain introduced its 2011-12 draft budget, the largest in its history, with an expectation of BHD 4.4bn revenues in 2011 and 2012, based on an oil price of \$80 per barrel (2009-10: \$60). Total expenditure is estimated at BHD 5.3 bn, including BHD 4.2 bn on recurring expenditures and BHD 1.1 bn for projects.
- Qatar's Q3 GDP registered 21.1% yoy growth to an estimated QAR 111.25bn. Sectors with high growth were manufacturing (15% qoq; Q2: -1.7%), finance, insurance, real estate & business services (11.3%), electricity & water (11.2%) while construction maintained 3% growth in Q3 and Q2.
- Oman plans to spend OMR 30bn in its new five-year economic plan to 2015. Public revenue for the fiscal year 2011 is estimated at OMR 7.3bn (2010: OMR 6.4bn),

with oil and gas contributing 81% of total revenue (oil at \$58 per barrel). Public expenditure is estimated at OMR 8.1bn, with an increase of OMR 950mn.

- Kuwait's prime minister survived by a thin margin a no-confidence vote in parliament, but the opposition is unrelenting in its campaign to unseat him. The row focuses on claims by opposition MPs that the government ordered a violent police action at a rally to stifle public freedoms.
- Kuwait's authorities declared that there is no need to increase OPEC oil production.
- Qatar Telecom announced it has acquired Orascom Telecom Holding's remaining 50% share in Orascom Telecom Tunisie for USD 1.2 bn.
- Bahrain's issue of a BHD 200mn 7-year development bond at a fixed coupon rate of 5% was fully subscribed; only banks operating in Bahrain were eligible to subscribe to the bond issue.
- SABB HSBC Saudi Arabia Purchasing Managers' Index clocked in at 61.3 in Dec, down from Nov's record high of 62.2. Nevertheless, there was a considerable gain in the non-oil private sector.
- Yemen completed accession to the WTO according to the Yemen Trade Minister.

UAE Focus

- The HSBC UAE Purchasing Managers' Index was almost flat at 53 points in Dec, from 52.9 in Nov.
- The six-month EIBOR has dropped to an 11-month low indicating improved liquidity in the UAE's banking system. On January 5, the 6-month Eibor touched 2.372%, it's lowest since Feb 17, 2009 when it was 2.371%. The one-month Eibor is also at a year-low.
- The UAE central bank's monthly statistical bulletin for Oct 2010 showed an increase in foreign liabilities by 0.13% mom to 267.4 bn while bank credit declined by 0.3%

to AED 789.6bn.

- UAE banks' loans and advances increased 0.3% mom in Nov 2010 and by 2.3% during the first 11 months of 2010. The loan-to-deposit ratio declined to 99.1 in Nov 2010 from 104.8 in Jan 2010 revealing an increase in the deposit base and improving liquidity conditions.
- Dubai Financial Market reported that its turnover fell 60% in 2010. Meanwhile, the value of equities traded on NASDAQ Dubai increased by 22% to USD 1.3 bn in 2010, from USD 1.1 bn in 2009.
- Moody's downgraded bonds of Dubai Holding Commercial Operations Group to B3 reasoning that a deal with banks to convert a USD 555mn revolving credit facility to a five-year term loan puts banks in a preferential position versus the bondholders.
- DFM announced the implementation of an electronic system of distributing the dividends called E-Investor.
- Arabtec CEO, Riad Kamal, was banned by ESCA from trading UAE shares for six months.
- Dubai Duty free announced double digit sales growth for 2010 with turnover reaching a record Dhs4.66 billion (US\$1.27 billion), representing a 14% increase over 2009 figures.