

Weekly Economic Commentary – January 23, 2011

Markets

Stock markets painted a mixed picture last week – falling jobless and rising prices data in the US were accompanied by reports of strong Q4 earnings from GE & Google, while Asian markets came under pressure as China's robust growth numbers fuelled fears of more tightening. Regional markets were mostly down with the exception of DFM that gained a slight 0.5%, coming off a 19-week low last Sunday. The euro gained from the strong Ifo report and Sterling hit a 2-month high against the greenback. While oil continued to test the \$100 mark, both oil and gold closed lower – in line with the broad slump in commodities prices.

Global Developments

Americas:

- Global demand for US financial assets grew in Nov, with net purchases of long-term assets at \$85.1 bn, compared to a net buying of \$28.9 bn in Oct.
- Housing starts fell 4.9% mom to 529k in Dec 2010 (Nov: +3.8%), alongside a 16% increase in permits for future starts. The unexpected increase in permits is most likely due to attempts to obtain approvals before building codes changes take effect this year, rather than a strong indicator of a rise in future housing starts.
- Initial jobless claims dropped 37k to 404k in the week ending Jan 15, 2011 with the previous week's numbers revised down to 441k from 445k. Continuing claims also fell 26k pointing to a slow improvement in job

prospects.

- Existing home sales increased 12% yoy to 5.28 mn in Dec – registering the highest increase since May, on lower prices and mortgage rates.

Europe:

- The ZEW's expectation index for Germany rose 11.1 points to +15.4 in Jan, its strongest one-month gain since Aug 2009 underscoring the confidence of investors and market participants on the EU's largest economy.
- The Ifo business confidence for Germany hit an all-time high, having climbed to 110.3 in Jan (Dec: 109.8).
- The European Financial Stability Facility has announced plans to issue a EUR 3-5bn benchmark issue later this month as part of financial assistance to Ireland.

Asia and Pacific:

- China announced that GDP grew 9.8% yoy to CNY 39.8trn in Q4 (Q3: 9.6%). Overall growth reached 10.3% in 2010, the fastest in three years, while inflation for Dec fell to 4.6% (Nov: 5.1%), bringing full year average to 3.3% – higher than the 3% target. This has initiated speculation of more tightening measures from the PBoC and a rise in interest rates.
- China also released more data: Retail sales grew 19.1% yoy in Dec (Nov: 18.7%; 2010: 18.4%), partly boosted by inflation; industrial production rose 13.5% (13.3%; 15.7%); producer prices jumped 5.9% (6.1%); urban fixed-asset investment rose 24.5% yoy in 2010.
- Reuters Tankan, that tracks Japanese manufacturing sector sentiment, showed an improvement in the index to +11 in Jan (Dec: +7). Non-manufacturers also improved to -2 from -12 in the previous month.

Bottom line:

The Chinese President Hu's visit to the US was rivaled in importance last week by China's announcement of its impressive 10%-plus growth in 2010. While the two Presidents discussed issues relating to trade and investment – signing new business deals, creating new jobs for US workers – all eyes were on currency policy. Barring Hu's comment that restrictions that limit currency trading should be relaxed (leading to a rise in yuan), both parties steered clear of public announcements on the same. In this context, the statement from Yi Gang, deputy governor of the People's Bank of China and director of the State Administration of Foreign Exchange, who suggested that China will "gradually achieve currency convertibility during its next five-year plan (2011-2015), was significant and timely.

Regional Developments

- SAMA's monthly statistics for Nov 2010 showed that the deposit to lending ratio had reached 80.27, the lowest level since Dec 2009, reflecting low growth in new lending.
- Kuwait's Ministry of Finance announced a \$25 bn budget surplus for the first 9 months of fiscal year.
- Qatar Investment Authority has completed buying 10% shares of listed banks worth QAR 5.5 bn.
- The local currencies and CDS of North African countries are under pressure from fears of contagion of Tunisian political instability.
- Qatar petroleum marketing company, Woqod, has announced a 10% rise in price of fuel.

UAE Focus

- UAE cost of living dropped 0.9% yoy in 2010, recording the lowest inflation rate since 1990, while the cost of

living in Dubai rose 0.55% led by surge in commodity and service prices.

- Dubai Bank is negotiating a merger with Emirates Islamic and Noor Islamic bank, according to sources familiar with the matter (Source: Alrroya).
- RERA has disclosed that the total value of mortgage transactions in 2010 was AED 123bn, of which AED 27bn (21.9%) were mortgage loans.
- UAE and Bangladesh signed a double taxation treaty and protection & promoting the investment.
- The unemployment rate among locals is 14.4%, as announced by the Dubai Police Commander-in-Chief at the international human resources conference 2011, without specifying the reference year.
- The UAE civil aviation revealed 11% yoy rise in aircraft traffic in UAE in 2010.
- The Securities and Commodities Authority has announced that it will test the capital market liquidity before the IPOs in the pipeline are given the green light. (Source: Alrroya)
- The value of Dubai's auto sales rose 20% yoy last year, despite the opening of metro, according to the Dubai Chamber of Commerce.
- Nasdaq Dubai has proposed changes in its listing rules to reduce the requirements and encourage the listing of SMEs and F0Es.
- Electricity consumption rose 7% yoy in 2010, according to a release from DEWA.