

Weekly Economic Commentary – January 30, 2011

Markets

A mixed week for markets: a few disappointing Q4 earnings (e.g. Microsoft, Amazon) led to the largest one day-fall since Aug '10 in the US while Asian markets were boosted by strong Q4 results, except for India where markets were lower on the policy rate hike. Regional markets were mostly down on fears of contagion from Egypt's political and security turmoil across the MENA region. Optimism over the easing debt crisis in Eurozone has boosted the euro. The safe haven demand for the dollar and yen are back, and oil is near the \$100 mark.

Global Developments

Americas:

- GDP for Q4 2010 rose 3.2% yoy (Q3: 2.6%) largely due to the rise in exports and consumer spending, the latter climbing to its highest rate in the past 4 years. This is in contrast to previous quarter's growth rising on businesses investing and building up inventories.
- Pending home sales has increased 2.0% mom in Dec to 93.7 (Nov: 3.1%), marking the fifth gain in the past 6 months as affordable housing is backed by modest gains in the labour market and improvement in consumer sentiment.
- Initial jobless claims surged unexpectedly by 51k to 454k for the week ending Jan 22 while the four week average was up by more than 15k to 428,750. The sudden increase was justified by weather-related backlog of claims that were processed last week, given the previous weeks' snowed in Southern states.
- Price index for personal consumption expenditures,

excluding food and energy goods, rose 0.4% in Q4 while the overall price index increased 1.8%, indicating that inflation remained tame last year.

- Total orders for durable goods fell by 2.5% mom in Dec, dragged down by a 99% decline in aircraft orders; excluding transportation, bookings increased 0.5% (Nov: +4.5%). Meanwhile, capital goods rose by 1.4% for the second consecutive month (3.1%).
- There were no major surprises from the FOMC meeting – where rates and the QE2 program were kept unchanged at previous levels.

Europe:

- Eurozone composite PMI rose to 56.3 in Jan 2011 (Dec: 55.5), the highest in six months as manufacturing gauge declined to 56.9 (57.1), while the services indicator rose to 55.2 (54.2).
- Industrial orders for the Eurozone increased 2.1% mom in Nov, led by growth in Germany as new industrial orders were up by 1.6%. New orders for capital goods increased by 1.8%, intermediate goods gained 1.3 while durable consumer goods dropped by 0.9%.
- Cost of living in Germany rose 0.2% mom in Jan 2011 (Dec: 0.5%), led by a surge in energy and food commodity prices.
- The European Commission's economic sentiment indicator for the Eurozone fell to 106.5 in Jan (Dec: 106.6), as confidence among consumers and in the services sector remained fairly depressed alongside an industrial sector, buoyant on the large pickup in orders.
- Total number of French unemployed actively looking for work touched a seven year high as jobseekers rose 27,100 to 2.725 mn in Dec 2010.

Asia and Pacific:

- Japan's sovereign credit rating was cut for the first time in nine years, from AA to AA-, the fourth highest level, on concerns that not enough was being done to curb the growing debt burden.
- Japan's unemployment rate unexpectedly dropped to 4.9% in Dec, recording the lowest rate since Sep. Meanwhile, the cost of living in Japan remained stable in Dec 2010 while the core CPI dropped 0.4% yoy.
- South Korea's GDP growth slowed to 0.5% qoq in Q4 2010 (Q3: +0.7%) due to drop in manufacturing construction and consumption as exports gained 2.4% (1.7%); but posted an annual growth rate of 6.1% for the full year 2010, an eight-year record high.
- Singapore's industrial production rose 9% yoy in Dec 2010 (Nov: 40.5%), the slowest rate in four months, expanding full year manufacturing by a whopping 29.7%. Meanwhile, Dec inflation hit a 2-year high of 4.6%, due mainly to higher prices for transport, housing and food.
- India's central bank raised the repo rate by 25bps to 6.5% as food inflation remained above 15% for a fourth straight week.

Bottom line:

Strong consumer spending led to recovery in growth in the US in stark contrast to UK's continued weakness. Rising inflationary pressures continue to worry both India and China – but interestingly, the latter is using monetary policy tools as opposed to policy interest rates like India. Meanwhile, the Bank for International Settlements has announced a 2% rise in international bank loans in Q3 2010 to almost USD 31 trillion. In the first nine months of 2010, international loans to Greece were \$184 bn, down 22%, lending to Ireland decreased 9%, and loans to Portugal dropped 13%, while Spain witnessed a decline of 16%. In addition, the BIS reported that business

was being done more in dollars compared to the euro. The crisis in Egypt has dominated market developments across MENA markets. Fear of contagion effects may trigger a selloff in global markets.

Regional Developments

- Saudi Credit Bureau statistics for 3Q2010 showed the value of returned cheques declined 12% yoy to reach SR 2.9 billion.
- Saudi labor minister in global competitiveness forum announced 10% unemployment rate in 2010.
- The net profit of Saudi listed banks dropped 1% to reach SR 21.9 billion in 2010.
- SAMA Governor in global competitiveness forum said the mortgage market is the proposed solution to control rent inflation.
- GCC council decided the path of GCC railways among countries with estimated cost of \$ 15.4 billion.
- Qatar Finance Ministry disclosed QR 9 billion fiscal surplus in the current fiscal year 2010/2011.
- Sharp increase in cost of Egypt and Lebanon CDS, Yemen and Jordan increased public wages, Morocco and Algeria subsidized food & energy commodities and Tunisia granted unemployment allowance.

UAE Focus

- The labour market has been liberalized with new labour laws announced by the UAE Ministry of Labour allowing part-time work. This will increase flexibility and mobility and allow previously excluded categories like students and housewives to participate in the work force.
- DFSA announced monitoring cash inflows from Tunisia and Algeria.
- UAE statistics center released foreign trade data for

the first nine months of 2010 compared to 2009 as follows: total trade Dh 540 billion (11%), imports Dh 350 billion (5%), export 61.7 billion (39%), re-export Dh 128 billion (18.5%).

- Abu Dhabi economic department disclosed statistics showing that 9979 new trade licenses were granted in 2010.
- DP handled 49.6 million TUE in 2010 with 14% increase and announced 30% fees cut.
- UAE central bank issued specific guidelines instructing banks to allocate quarterly provisions for NPLs.
- Abu Dhabi airport statistics shows the traffic passengers reached 11 million a 12.2% increase in 2010.