

Weekly Economic Commentary – February 13, 2011

Markets

Developed stock markets were mixed but emerging markets took a hit due to risk aversion spurred by the Egyptian crisis, monetary tightening in China and rotation in asset management. There is a feeling that stock market in EM have run their course for now, but this feeling has not involved regional which have seen some substantial rebound. Exchange rates were little changed with the euro a little weakened. Oil was marginally higher and gold essentially stable.

Global Developments

Americas:

- Initial jobless claims decreased 36k to 383k in the week ended Feb 4. Earlier in the week, a Labor Department report had showed a decline in job openings in Jan by 139k to 3.06 million, the fewest since Sep last year.
- US Federal budget deficit in Feb was USD -70 bn, 10 bn higher than expected and up from 42.6 bn in Jan.
- US Trade balance widened by USD 2.2bn in Dec to USD 40.6bn , in line with expectations, due to oil imports.

Europe:

- German Industrial production for Dec was down 1.5% mom (Nov: -0.6%), on a slump in construction sector (-24.2%). Overall Q4 manufacturing output was up 10.3% qoq, saar, largely due to gains in Oct.
- Spain's GDP growth showed some signs of life increasing 0.2% qoq after a flat reading in Q3.

- Italy's Industrial Production grew by a modest 0.2% mom in Dec bringing the yoy figure to 5.5%. In France IP fell 0.5% mom in Dec but on a yearly basis at 5.7% was on par with Italy's figure. In the UK the mom growth for IP was 0.5% translating into 3.7% yoy.

Asia and Pacific:

- China's central bank hiked the one year lending rate and the deposit rate by 25bps each to 6.06% and 3.00% respectively, in an attempt to rein in inflation risk (Dec inflation: 4.6%). However the magnitude of the move is insufficient to cool the pace of the economy.
- Japan's Dec core machinery orders rose a modest 1.7% mom (Nov: -3%), first rise after four months of slump.
- Philippines central bank held policy rates at 4%, while South Korea's central bank left rates unchanged in a decision likely to spark controversy given the inflationary pressures building.
- India Industrial Production increased 1.6% yoy in Dec.
- Taiwan's Central Bank will control its total supply of currency as part of the government's effort to dampen inflation, according to the Deputy Governor.
- Indonesia's GDP increased 6.9% in Q4, in acceleration on Q3 when it rose 5.8%

Bottom line:

Last week saw very few data releases and the figures were hardly surprising. The macroeconomic outlook remains moderately positive on the US with the labor market marginally better and confidence regaining tractions. Asia is at last reluctantly coping with inflation in energy and food commodities. Europe is enjoying a truce from the markets on the fiscal crisis while waiting for the EU Council of Ministers to unveil the next scheme in support of highly indebted countries. With the departure of Mubarak one hot spot

of political unrest in the Middle East has been removed and the tensions on the oil markets might, as a consequence, abate.

Regional Developments

- A committee set up by the GCC Secretariat to study the possibility of issuing unified GCC visas to foreigners had now been asked to frame rules and regulations, fast-tracking the process of traveling under a unified visa.
- Qatar's central banks circular asking conventional lenders to close down their Islamic operations by Dec 2011 shocked the banking sector, raising the question if other regional central banks would follow suit.
- Reuters quoted an Omani official stating a 6% rise in GDP growth in real terms for 2010. He also mentioned that the government spent 7% more than budgeted for, thanks to higher oil prices. Meanwhile, a Ministry of Economy report announced a 28.3% growth in nominal GDP to OMR 16.3bn for Jan-Sep '10.
- Oman's fiscal deficit widened almost 105.7% yoy to OMR 276.4mn in Jan-Nov 2010, largely due to buoyant spending – current expenditure was up 5.3% to OMR 3.8bn.
- Remittances from Saudi residents were up 22.5% yoy to SAR 58.6bn in H1 2010, according to SAMA data.
- Inflation in Saudi Arabia fell to a 9-month low of 5.3% in Jan 2011, as the decline in food prices more than offset the rise in rents and transport costs.
- The Saudi King has announced that housing loans of SAR 585mn granted to 3276 people who died in debt be written off. The waiver calls for all loans granted to citizens who died before Sept. 11 '07 to be forsaken.
- Intervention from Egypt's central bank led to a strengthening of the Egyptian Pound, the sharpest since Nov.
- A public-private-partnership project deal in the

wastewater sector was completed in Bahrain, with HSBC advising the government on its Muharraq STP and Sewer Conveyance System Project – expected to be commence operations in Aug '13, with costs projected at USD325 mn.

- A census carried out in Apr '10 indicated that foreigners (54%) outnumbered local residents (46%) of a total population of 1.234mn in Bahrain. Asian nationals made up 84.3% of foreign residents and 45.5% of the total.
- The merger between the London Stock Exchange and its Canadian counterpart, TMX, will dilute Borse Dubai and Qatar Investment Authority stakes in LSE, currently at 20.6% and 15.1%, respectively.

UAE Focus

- The UAE economy is expected to grow at 3% this year, boosted by the tourism sector, according to Saif Al Shamsi, senior executive director of the UAE Central Bank's treasury department.
- DME's average daily volumes rose to the highest ever (3570 contracts, equivalent to 3.5mn bpd) in Jan. This comes after trading levels increased 35% yoy in 2010, underscoring the confidence in DME Oman contracts.
- The Khalifa Fund has announced its intention to fund around ten projects worth AED 52.5mn to attract local entrepreneurs to contribute to develop and enhance Abu Dhabi's industrial sector's performance.
- MEED quoted a Dubai Airports official mentioning that the launch of passenger flights from the new Al Maktoum International Airport will be moved to end-2011 from March as previously announced.
- Dubai's direct foreign trade surged 21% yoy in Q3 2010 to AED 145.8bn, with growth in all three sectors: exports (34.8% to AED 17.5bn), re-exports (25.2% to AED 36.8bn) and imports (16.7% to AED 91.5bn).

- Provisions for non-performing loans of UAE banks increased 36% yoy to AED 44.3bn in 2010. Loan to deposit ratio remained under 100 for the third consecutive month – loans were up a marginal 1.3% to AED 1.03 trillion, while deposits rose 6.8% to AED 1.04 trillion at the end of 2010.
- The UAE cabinet approved an increase in its share of the IMF's capital, making the share of the country the largest among Arab nations.