

Weekly Economic Commentary – February 27, 2011

Markets

Global equity and commodity markets continue to be adversely affected by the turmoil spreading across the Middle East. Regional market performance also remained subdued given the political tensions in the region. Swiss Franc and yen gained on safe haven buying while oil and gold prices continued to rise. However, assurances from Saudi Arabia and the IEA that global oil production would not be significantly affected by the recent turmoil helped oil prices to retreat from two-and-a-half-year highs.

Global Developments

Americas:

- Q4 GDP was unexpectedly revised down: 2.8% qoq from 3.2% earlier, taking full year growth to 2.8% yoy (2009: -2.6%). Downward revision in government spending: -2.4% from -0.9% previously largely contributed to the decline.
- Existing home sales were up 2.7% mom to 5.36 mn units in Jan, though foreclosures and short sales made up 37% of all transactions. The median home price fell 3.7% from a year ago to \$158.8k, the lowest since Apr'02. Meanwhile, new home sales registered a 12.6% mom decline – down to

- a 284k-unit annual rate (Dec: 325k).
- Durable goods orders were up 2.7% mom in Jan (Dec: -0.4%), recording the largest gain since Sep – the gain was largely due to the jump in aircraft bookings. Excluding transportation, orders declined 3.6% (+3.0%).
 - Initial jobless claims fell by 22k to 391k for the week ending Feb 19, taking the monthly average down to 402k – the lowest level since July 2008.
 - The core PCE index, excluding volatile food and energy prices, fell to 0.7% in Dec, recording the lowest level since the Commerce Department started tracking the data in 1959.

Europe:

- Growth in Euro-area's services and manufacturing industries accelerated to the fastest pace since July 2006 in Feb, with composite PMI rising to 58.4 from 57 in Jan.
- German Ifo posted a record reading of 111.2 in Feb (Jan: 110.3), suggesting continued strong business conditions and confidence in the Eurozone's largest economy.
- Eurozone manufacturing orders rose 2.1% mom in Dec (Nov: 2.2%), as France and Italy helped compensate the 2.9% drop in Germany that was announced earlier this month.
- European confidence in economic outlook improved to the highest in 3.5 years in Feb, led by surging optimism in Germany, where economic confidence rose to 116.8 from 115.5 in Jan. There is a clear two-speed recovery in EU, Germany growing but UK, France and "PIGS" lagging.

Asia and Pacific:

- Thailand's economy strengthened in Q4, growing 1.2% qoq (Q3: -0.3%) on exports and consumer spending. The economy grew 7.8% in 2010, recording the strongest pace since 1995.
- Japan recorded its first trade deficit in 22 months of JPY 471.4bn in Jan as exports to Asia slowed and a surge in commodity prices pushed up import costs. Imports climbed 12.4% yoy while overseas shipments rose 1.4%.
- Hong Kong GDP rose 6.2% yoy in Q4, largely boosted by consumer spending, taking the full year growth to 6.8%. Two main challenges – inflation and the risk of a property bubble – are to be partially addressed by government plans to sell up to HK\$10 billion (\$1.3 billion) of inflation-linked bonds.
- Singapore industrial production increased 10.5% yoy in Jan, boosted by semi-conductor and electronic sector growth.
- Moody's downgraded Japan's sovereign and mega bank credit outlook to negative from stable.

Bottom line:

Growth in both US & UK were revised down last week while unrest in the Middle East continues to weigh in across all markets. As sanctions are imposed on Gaddafi (most recently by the UN Security Council), GCC governments are announcing “reforms” to pre-empt protests, ranging from cabinet reshuffles in Bahrain and Oman to expanded social safety nets and reform packages in Saudi Arabia.

Regional Developments

- Moody's, given the political turmoil, has placed the A3 Bahrain government bond ratings on review for possible downgrade; the review is expected to be completed within 3 months.
- Saudi Arabia announced a social and economic reform package totaling close to \$37bn – including unemployment benefits, housing support, inflation offsets and guarantee of payment for students overseas.
- Qatar has signaled its willingness in buying stakes in Britain's part-nationalised banks like RBS and Lloyds. Though this intention was conveyed to the British PM during his trip to the Middle East, the latter is supposed to have said it's too early to open talks on the privatisation.
- Oman's average oil production was 864,600 bpd in 2010 while the 2011 target is 900k bpd, according to Nasser Bin Khamis Al Jashmi, under-secretary at the Oil and Gas Ministry. The discovery of a large gas field and four new oil fields were also announced – roughly translating into 800 million barrels of oil equivalent.
- Investment in energy in the pan-Arab area is estimated to touch \$530 in 2015 from \$470bn currently, with Saudi Arabia allocating nearly \$130bn of the total, as per latest estimates by Apicorp.

- The EU may impose tariffs on Saudi Arabia and Oman exports of polyethylene terephthalate or PET; the argument being that EU producers may be victims of subsidies and price undercutting according to Bloomberg.
- Saudi businessmen, in an attempt to make long-term investments in Egypt while creating new job opportunities for Egyptians, have announced that they will establish a development bank in Egypt with a capital of EGP 1bn; the details would be announced in the coming two months.

UAE Focus

- Real estate loans accounted for nearly 29% of the total bank credit while mortgage lending was up 16.3% yoy to AED 164.2bn at the end of Nov 2010. This is however significantly lower than the 123% spike in real estate mortgage credit in 2008.
- Foreign banks' deposits were down to AED 43.3bn in the first 10 months of 2010 compared to AED 86.4bn in Jan-Oct 2009, as per the latest data released by the Central Bank. This compares against an all-time high of nearly AED 211 bn in April 2008 on speculative rumours of moving away from the peg to the dollar.
- VISA announced that UK, USA and China were the top three spending countries – spending \$9.2 million, \$6.2 million and \$5.4 million respectively during the first week of DSF. Spending by the Chinese rose 155% from 2010, while

Kazak visitors spending showed a record 171% yoy growth.

- According to the DSC, Dubai's population touched 1.92 mn people last week, registering an increase of 73k in just seven months; additionally, active population exceeds 2.87mn during the peak business hours of the day in Dubai.
- A new RTA study has suggested the installation of two more Salik gates to ease traffic congestions. However, no final decision has yet been made on this. The RTA announced revenue collected from Salik toll gates: around AED 800mn in 2010; AED 776mn in 2009; AED 669mn in 2008 and AED 214mn in Jul – Dec 2007.
- The RTA has finalised preparing a draft law regulating public-private partnerships (PPPs) and also announced that a provisional assessment mechanism had been developed for identifying the priorities of the infrastructure and transport services projects in which the RTA can enter in partnership with the private sector.
- Offshore companies may be allowed to register titles for freehold properties with the Dubai Land Department (DLD), in line with the MoU that already exists with Jafza – “to give the real estate market more regulation so as to achieve transparency, clarity and effectiveness in real estate transactions that relate to ownership of real estate by offshore companies in Dubai”, according to a department official.