

Weekly Economic Commentary – March 06, 2011

Markets

With Middle East tensions weighing in on investors worldwide, even the optimistic US jobs data failed to cheer traders who remained more concerned by the oil price surge. As European markets remained subdued on inflation worries and Trichet's unexpectedly hawkish stance, emerging markets performed well. Regional markets were mostly down, as protests widened to some GCC countries. The Swiss franc climbed to a 29-month high while the dollar eased to a four-month low. Both oil and gold prices rose, with the latter hitting an all-time record of \$1,440.4 an ounce during trading in London on Wed.

Global Developments

Americas:

- US PCE core index grew 0.1% mom in Jan, in a month where the tax cut saved consumers roughly USD 66.3bn and helped boost incomes by 1.0% (Dec: 0.4%). However, rising food and fuel prices accounted for almost one-fifth of consumer spending, with energy prices up 2.3% and food costs rising 0.7%.
- Pending home sales declined 2.8% mom to 88.9 in Jan (Dec: 91.5), recording the second consecutive monthly decline and the slowest pace since last Oct.
- Construction spending dropped by 0.7% mom to USD 791.8bn in Jan, the lowest since Aug – with private construction falling 1.2% and spending on public construction declining 0.1%.
- ISM manufacturing rose to 61.4 in Feb (Jan: 60.8), recording the highest level since May '04, with large

gains in both employment and production. Meanwhile, the services ISM index edged up to 59.7 in Feb (Jan: 59.4).

- Feb non-farm payrolls showed a 192k jobs addition while the ADP private sector jobs increased by 217k, leading to an optimistic view of jobs market recovery. Combined, private sector gains more than offset layoffs by the government, leading to a decline in unemployment rate to 8.9%, the lowest level since Apr 09.
- Initial claims for unemployment benefits fell nationally by 20k to 368k in the week ending Feb. 26; this reading is the lowest since May '08.

Europe:

- Inflation in the Eurozone quickened to 2.4% yoy in Feb, the fastest acceleration since Oct 2008.
- The ECB left its benchmark rate unchanged, also announcing a raise to 1.75% by the end of this year. Trichet was unexpectedly hawkish, stating that "strong vigilance is warranted" indicating a rate rise coming soon.
- EU manufacturing growth accelerated the fastest in more than 10 years – to 59 in Feb from 57.3 in Jan.
- Euro-area GDP final estimates showed a 2% yoy growth in Q4 (Q3: 1.3%), with slowdown in exports and further increases in consumer-spending.

Asia and Pacific:

- Thailand's CPI increased 2.87% yoy in Feb while current-account surplus narrowed in Jan by \$0.66 bn mom.
- China's manufacturing PMI dropped to a 7-month low of 51.7 in Feb (Jan: 54.5) on weaker overseas demand.
- Japan's Q4 capital investment went up 3.8% yoy, signaling confidence in the nation's economic recovery.
- The budget for 2011-12, starting April, forecast economic growth will hit 9.25% and allowed foreign

individuals to invest in Indian mutual funds. Meanwhile, exports reported a 32.4% yoy rise to \$20.6 bn in Jan.

- South Korean inflation rose to a two-year high in Feb (4.5% yoy), breaching the central bank's 4% ceiling for a second month and bolstering the case for an interest rate increase.

Bottom line:

Food prices hit 20 year high in Feb, according to the UN and this is expected to increase further on rising oil prices stemming from the unrest in Libya and the Middle East. As turmoil in the Middle East fails to subside, global investors switched from EM equities into shares in developed markets – EM equity funds recorded a 6th straight week of outflows, extending their longest losing streak since Q3 2008 as outflows totaled USD 2.5bn in the latest week, bringing the YTD outflows to more than USD 21bn; however this is not mirrored by EM bonds, which have avoided a major sell-off.

Regional Developments

- Bahrain government announced new 20k jobs in public sector to contain the unrest situation in the country. Bahrain CDS spreads start to decline (now at 313) amid investors' hope of reduced political tensions.
- Oman's Sultan reshuffled the cabinet twice last week – replacing six ministers first and another two yesterday – to calm the uprising in the country. This was in addition to the directive to employ 50000 citizens, provide an unemployment allowance of OMR 150 per month and increased grants for students at public colleges.
- Saudi King has ordered permanent state jobs for citizens working by temporary labor contracts while also banning public demonstrations after limited rallies in the country.
- Forwards on the Saudi riyal touched its lowest level in

- two years due to contagion fears from Arab revolution.
- Bahrain inflation rate rose slowed to 0.7% yoy in Jan, the lowest rate since 2007.
 - The Central Bank of Oman directed banks to reduce the profit distribution to 40% from 45%.
 - The GCC custom union committee defined a timeline and set a deadline “not exceeding three years” for meeting all requirements necessary for the Union.
 - Qatar inflation rate slowed to 0.9% mom in Feb from 1.55% in Jan.

UAE Focus

- The UAE ruler has announced USD 1.6bn towards infrastructure development (water and electricity networks) in the Northern Emirates. The investment will include water pipelines costing AED 1.2bn and a new power transmission station costing AED 500mn, according to WAM.
- The UAE Central Bank’s new set of regulations with respect to bank loans cover car loans, overdraft facilities and credit cards and require the banks to disclose the interest rates charged on loans and facilities; repayment installments should not exceed 50% of the borrower’s gross salary or any regular income from a specific source. These will come into effect one month after being published in the official gazette.
- UAE bank deposits rose 0.7% to AED 1.06 trillion in Jan 2011 while loans and advances rose 1.2% to touch AED 1.04 trn, keeping loan to deposit ratio at 98. Total bank assets reached AED 1.63 trillion, up 1.4%.
- The UAE Central Bank’s balance sheet has shown that foreign assets grew by AED 35bn or 29% yoy to AED 155.4bn in Jan 2011, with most of the increase in investments in foreign securities.
- The HSBC UAE Purchasing Managers’ Index rose to 54.3 points in Feb, recording the highest level since the

series began in Aug '09, with substantial increases in new orders and current output.

- DED announced a 17% yoy increase in the number of licenses issued in 2010 to 13817. Professional sector topped the list (20%) followed by the commercial sector (17%), industry (12%) and tourism (10%).
- The Department of Tourism & Commerce Marketing reported a 6.5% increase in tourism revenue to AED 13.2bn with a rise in hotel guests to 8.6mn in 2010 (+10.3%), an addition of 30 new hotels while hotel occupancy rate remained flat at 70%.
- The Insurance House IPO, launched last week and ongoing till Mar 9, has received "a promising demand", according to the four participating banks, denoting a healthy investor appetite in the region.