

# Weekly Economic Commentary – March 20, 2011

## Markets

Markets continue to hold their breath over the tragedy in Japan, even after the G7 meeting pledged to support by any means Japan to overcome the fallout. The Topix went into free fall before rebounding strongly but it is still 9% down on the week. All other major indices ended the week in negative territory but emerging markets fared better. Regional markets were affected by the global equity weakness and by the security situation in Bahrain and Yemen. The Libyan crisis added to concern of prolonged instability. The yen jumped up against the US\$ as assets are repatriated, while the oil market stabilized around recent highs. Gold maintains an upward momentum which is likely to be sustained by the heightened risks from Japan and the concerns over widespread uprisings.

## Global Developments

### Americas:

- The inflation rate was 2.1% (yoy) in Feb 2011, driven by the biggest rise in food costs since 2008 and rising fuel costs. Core inflation however remained subdued.
- Mortgage applications dropped 0.7%, as declining borrowing costs failed to spur home buying.
- Current-account deficit narrowed 9.7% to \$113.3bn (3.1% of GDP) in Q4, reflecting an increase in exports.
- U.S. jobless claims fell to 385K, the lowest since July 2008, consolidating the improvement in the labor market.
- Six-month U.S. manufacturing strengthens with 0.4 % Feb rise in output.

## Europe:

- European industrial output increased 0.3% mom in Jan, led by Germany's performance.
- Euro area inflation rate accelerated fastest since Oct 2008 to 2.4% yoy (Jan: 2.3%), adding pressure on ECB to raise interest rates.
- European payrolls increased by 0.3% yoy in Q4 as companies in Germany, France and Italy started to boost hiring.
- Portugal announced new expenditures cuts to reassure markets. However the spreads of its debt against bunds continues to widen.

## Asia and Pacific:

- South Korea's store sales increased by 5.2% yoy in Feb, slowest pace in 11 months.
- South Korea's Feb unemployment rate increases to 1-year high to 4.0% (Jan: 3.6%).
- Singapore retail sales rose 15.6 % yoy in Jan, as expansion in jobs spurred spending.
- China's Feb FDI climbed 32.2% yoy to \$7.8 billion, indicating investor confidence as Premier Wen Jiabao vows to boost household incomes.
- The Reserve Bank of India raised its repo rate for the 8th time in a year, by 25bps to 6.75%.
- Hong Kong's unemployment rate fell to 28-months low in Feb to 3.6%.

## Bottom line:

Before the Japanese earthquake the global economy was losing some momentum as a result of China's soft landing, which was felt mainly in Asian emerging markets. This new shock will inject further uncertainty and cool further the prospects of a steady rebound. The US economy is gaining traction as

highlighted by better labor market data, but is still mired in a real estate slump. The euro area leaders are trying to forge a consensus on a federal fiscal arrangement, but the resistance of Germany to bear the burden of peripheral countries' adjustment keeps market nervous. Meanwhile Portugal is getting close to requesting assistance by the IMF and EU.

## Regional Developments

- Saudi Arabia approved public expenditures worth 350 billion riyals (\$93 billion) of which only a small amount would be spent in the near future, and whose effects will be felt for years. Meanwhile Saudi Aramco and SABIC granted employees a two-month salary bonus in line with benefits announced by King Abdullah.
- A joint force composed of GCC armies intervened to quell unrest in Bahrain, while the UN Security Council approved a no fly-zone over Libya, whose implementation started immediately with a barrage of missile strikes and air raids throughout the country.
- S&P downgraded the credit rate of Bahrain Government to BBB citing the risks from further instability.
- Saudi Arabia's King Abdullah unveiled last Friday additional SR350 bn of financial support measures (21% of GDP).
- Egyptians went to the polls on Saturday to vote in a referendum on political reform, marred by an attack on presidential candidate Mohamed ElBaradei.
- Kuwait total loans and drafts reached KWD 28.1 bn as of Dec 2010, while the provisions totaled to KWD 1.6 bn (5.6% of total loans).
- Oman's banking system assets rose 8.6% mom in January 2011.
- The Qatar stock exchange adopted a standard international settlement system for stock trading, moving a step closer to acquiring emerging market status from MSCI.

- Oman security staff blocked the airport in an action aimed at obtaining a pay rise.

## **UAE Focus**

- On September 24th, the UAE will hold the second election in its history to pick half the members of its advisory national assembly, with a triple number of voters (about 20,000) compared the first election.
- VISA revealed that the retail sales on international Visa cards rose 37% during the Dubai shopping festival, reaching \$406 ml.
- Dubai Dry Docks officially launched its AED 11 bn project Dubai maritime city.
- Nasdaq-Dubai trading values in Feb rose 50% mom, reaching \$71 mill.
- UAE nominal GDP expanded 9% in 2010, amounting to AED 1 trillion.
- Dubai inflation rate rose 0.23% mom and 0.86% yoy in Feb 2011, led by a surge in food prices.
- Etisalat withdrew its \$12 bn bid to acquire Zain Group.
- UAE central bank increased its capital to AED 2.5 bn from AED 300 million.
- Dubai's financial market received AED 518 ml FDI inflow last week.
- Drydocks World expects to complete the \$2.2 bn loan restructuring by end of April 2011.