

Weekly Economic Commentary – March 27, 2011

Markets

Optimism was the key word last week on global markets: S&P 500 breached the 1,300 barrier, India's Sensex had the strongest week in 20 months and even the Eurozone debt concerns failed to dampen market sentiment. Regional markets were slightly up as well, excluding Egypt which was down 10.8% decline after the market reopened on Wednesday following a seven-week closure. The dollar continued to act as a safe-haven option given Middle East violence, Japan's nuclear crisis and euro zone debt issues. Both oil and gold posted weekly gains but continued to be volatile – gold rallied to an all-time high \$1,447.4 on Thursday but closed lower.

Global Developments

Americas:

- US existing home sales dropped 9.6% yoy to 4.88 mn while new homes purchases dropped by 16.9% mom in Feb, sending prices to the lowest level since 2002 – all indicating that housing market is struggling to recover.
- The US economy grew at a 3.1% yoy in Q4, revised up from 2.8% earlier, driven by consumer spending. This upward revision took the full year growth to 2.9% in 2010 after a 2.6% decline in 2009.
- US Durable Goods orders fell 0.9% mom in Feb (vs expectations of +1.2%) after a revised up 3.6% mom in Jan putting in doubt the recovery in investment outlays. Non defense capital goods orders also fell 1.3% mom.
- The deflator of US personal consumption grew 0.4% qoq, confirming that inflation is not picking up.

- Mortgage applications in the US climbed 2.7% on purchases in the week ended March 18.
- Initial jobless claims in U.S. dropped by 5k to 382k in the week ended March 19.

Europe:

- The EU Council finalized an agreement to boost the funds available to support indebted countries but a solution to the economic and fiscal framework for the euro area remains too vague.
- Portugal government resigned after its budget proposal was voted down by Parliament. S&P downgraded Portugal's debt for a second time and warned of further cuts, leading to new highs in Portuguese bond yields.
- European manufacturing PMI declined to 57.7 in Mar, after Feb's 59, the fastest level in a decade. Consumer confidence in the Eurozone declined to -10.6 in Mar, as a result of oil high prices and Japan's earthquake.
- European loan growth accelerated 2.6% yoy in Feb, as a recovering economy boosted credit demand.
- UK inflation quickened 4.4% in Feb, the fastest pace in two years, adding pressure on the Bank of England to increase its benchmark rate.
- French economy expanded 0.4% qoq in Q4 (Q3: 0.2%), as household spending picked up, posting 1.5% overall growth in 2010.

Asia and Pacific:

- Japan's export growth accelerated in Feb by 9% yoy, while trade surplus widened 2.5% to JPY 654.1bn.
- Hong Kong's inflation rose to a 30-month high of 3.7% yoy in Feb; meanwhile, trade data for Feb showed a surge in exports by 24.9% and imports increasing by 25%, leaving a trade deficit of HKD 25.1 bn.
- Singapore's inflation declined to 5% in Feb, declining

from the two-year record increase of 5.5% clocked in Jan, but still holding above the 4.5% mark as transportation, goods and housing costs climbed.

- Singapore's industrial production growth slowed to 4.8% yoy in Feb (Jan: 10.5%).

Bottom line:

Few major data releases this week, but the flow of positive news from the US continues, amidst tensions in the Middle East and nuclear worries in Japan, while the Eurozone seems to be moving towards the next spate of debt fears as the Portuguese crisis overshadowed the EU summit. European leaders reached a consensus on the set of measures to tackle the Eurozone crisis while agreeing on a Euro-Plus stability pact at a summit last week but had to delay increasing their rescue fund and faced problems from Portugal's government collapse.

Regional Developments

- GCC Central Bank governors have called for developing local currency debt markets at the 10th Banking Conference for GCC Countries. It was also announced by the Prime Minister of Qatar and the Board of Gulf monetary union that the implementation of a single currency is just around the corner.
- GCC countries have decided on the allocation and implementation details of the GCC development fund, which is a \$20bn fund that was launched two weeks ago to offer financial support to Oman and Bahrain (\$10 bn for each country spread over ten years).
- The Government of Algeria has introduced additional funds into its public finances in the latest action to contain the uprising.
- Electricity generated from oil in Saudi Arabia rose 33% to reach 0.55 million barrel per day in 2010.
- KSA inflation rate rose 4.9% yoy in Feb 2011 on a surge

in food and rent prices – this is however the lowest rate in the last ten months.

- Saudi Arabia's King Abdullah has ordered the creation of a new Ministry for Housing in the kingdom and named Shuwaish Al-Duwaihi as Housing Minister, in a bid to meet rapidly rising domestic housing demand.

UAE Focus

- Dubai World has signed a final agreement with its creditors to restructure \$24.9 bn in debt last week.
- Dubai Government has announced that it is going to release a number of amendment laws to allow private investments in public infrastructure and energy sector.
- The UAE has inaugurated the Federal railway company under the name "Etihad Rail", formerly known as Union Railway. The \$40bn project will now be completed in three phases – with plans for a dedicated passenger link between Abu Dhabi and Dubai suspended, while continuing with freight lines instead.
- DP World is proceeding with a listing on the London Stock Exchange as the company submitted its financial statements to the latter.
- Mubadala has released its financial results for 2010, recording net profits for the year at AED 1.1bn, as revenue increased 22% yoy to AED 16bn and total assets increased by 14% to AED 101.5bn.