

# Weekly Economic Commentary – April 03, 2011

## Markets

Markets cheered the US strong jobs report and China PMI data in a week that began with low liquidity – a symptom of market uncertainty caused by instability in the Middle East and the continued fall out from Japan's earthquake. Regional markets showed a mixed picture, with Egypt slowly gaining ground after last week's sharp dip. Dollar rose to a 3-month high against JPY while oil prices continued to climb on concerns of Libya oil supply interruptions, while gold edged down alongside a firm dollar.

## Global Developments

### Americas:

- Core PCE price index, which excludes food and energy prices, increased 0.2% mom in Feb. Gasoline prices surged 5.8%, pushing up CPI by 0.5%, recording the biggest increase in almost two years.
- US Feb personal spending rose 0.7% mom, more than 0.3% increase in income, resulting in a decline in personal savings to USD 676.7bn (Jan: USD 710.5bn).
- The index of pending home re-sales increased 2.1% unexpectedly in Feb (Jan: -2.8%) while Jan S&P Shiller showed a decline in home prices for the sixth month in a row, highlighting slow pace of recovery.
- Nonfarm payrolls rose 216k in Mar, recording the largest increase since May while the ADP report also posted a gain of 201k for March, bringing the unemployment rate down to 8.8%, the lowest in two years.
- Initial jobless claims were down 6k to 388k in the week

ended March 26.

- Factory orders unexpectedly dropped 0.1% mom in Feb to USD 445.99bn, recording the first drop in four months, as orders for durable goods dipped 0.6%.
- ISM index fell to 61.2 in Mar (Feb: 61.4), though the production component rose to its highest level in six years underscoring the strong pace of manufacturing production.

## **Europe:**

- German retail sales fell by 0.3% mom in Feb (Jan: 0.4%) amid a dip in consumer sentiment and resulted from weaker sales of food, drinks and tobacco, which altogether were 2.0% lower at constant prices.
- German unemployment rate declined to 7.1% from 7.3% of the workforce previously as the number of people out of work fell 55k to 3.01 mn (s.a), recording the lowest since 1992.
- Eurozone confidence surveys were on the softer side as both business and consumer confidence dipped in Mar – overall economic sentiment indicator fell to 107.3 in Mar (Feb: 107.9).
- Eurozone CPI accelerated to 2.6% yoy in Mar (Feb: 2.4%), rising at the fastest pace since Oct '08.

## **Asia and Pacific:**

- Japan industrial production edged up 0.4% mom in Feb (Jan: 2.4%), with transport equipment, general machinery and chemicals the biggest drivers of growth.
- China's manufacturing activity rebounded as PMI recorded an increase to 53.4 in Mar (Feb: 52.2).
- Taiwan's central bank raised its benchmark interest rates by 0.125 percentage point to 1.75% for the fourth time in the past nine month on inflationary concerns.
- March inflation hit new highs in Asia: Thailand recorded

a 7-month peak of 3.14%; South Korean inflation rose to a 29-month high at 4.7%. However, Indonesia witnessed an unexpected dip in inflation (6.65%) on lower food prices, though comparatively across Asia, it continues to remain high.

- BoJ Tankan showed an improvement in business sentiment – headline index improved to +6 in Mar (Dec: +5). However, 72% of the responses came in before the earthquake.

## Bottom line:

The encouraging US jobs data last week came amidst Asia's high inflation data while **global industry seems to have lost a little momentum – mature economies are reporting PMI declines though emerging market PMIs are slowly accelerating.** Data flow however is not the main focus of investors and policy makers because future global economic conditions will be influenced by turmoil in the Middle East and Japan's struggle to avoid nuclear fallout from the Fukushima plant. Meanwhile, the yuan received a huge boost at the G20 meeting, where an informal agreement was reached to include the currency as part of IMF's SDR.

## Regional Developments

- Saudi Arabia's Shura Council has approved a long debated law on mortgages which, if enacted, will boost the real estate industry and lead to the creation of specialized mortgage companies.
- GCC central bank governors announced at the 10th GCC banking conference that the liquidity requirement of Basel 3 was not yet met by GCC banks.
- The GCC is trying to speed up the release of a VAT feasibility document (mapping its implementation & other processes) (Source: GCC Secretariat).
- Egyptian military rulers announced that Egypt will hold Parliamentary elections in September 2011.

- Qatar plans to invest over USD 125bn in major infrastructure over the period 2011-2016. The central bank expects 2011 real GDP growth to reach 18%.
- Kuwait has announced plans to spend USD 27bn for water and electricity utilities by 2014.
- GCC countries are establishing a supreme authority for the customs union to speed up the settlement of the outstanding issues.
- Al-Attyiah, outgoing Secretary of the GCC Council, announced that the single currency is around the corner and will be established during the tenure of the GCC monetary council.
- Aggregate loans of Saudi Arabia's banking sector rose 5.9% yoy in Feb 2011 to reach SAR 756bn, while the growth rate of credit to the private sector rose 1.1% mom to reach SAR 748bn.
- A US court ruling against Agility has dealt a blow to the company's fight against charges that it defrauded the US army in multi-billion dollar contracts.
- GCC Business Confidence Index fell in Q1, but 54% of the businesses were optimistic about revenue growth, while 27% remained neutral. 40% of respondents expected increasing trade with China in the next 6 months, followed by intra-regional trade within MENA and with Asia Pacific.

## **UAE Focus**

- Mubadala is planning to return to the USD bond market in April after completing a series of meetings with mandated banks.
- UAE's non-oil foreign trade rose 8% yoy to AED 62.1bn and imports rose 9% to AED 40.9bn through Nov 2010. Nov exports dropped 3% to AED 6.2bn while re-exports rose 10% to AED 15.4bn. (Source: FCA)
- Dubai's Damas said that it has reached agreement with its lenders and completed the restructuring of its USD

872mn debt.

- Dubai International's passenger traffic increased 5.2% yoy to 3.83mn in Feb 2011 (Feb 2010: 3.64mn), showing no signs of waning passenger traffic in spite of regional turmoil that has disrupted air travel.
- Abu Dhabi inflation stood at 3.1% in 2010 compared to 0.8% in 2009 as housing, water, electricity, gas and other fuels group contributed to more than half the rise.
- Nakheel has made payments of AED 4.6bn to its trade creditors and also said that the debt restructuring process is expected to be completed by H1 2011. The restructuring agreement will also include a Sukuk plan of close to AED 5bn.
- Emirates Airlines announced the repayment of a \$500m bond, listed on the Luxembourg Stock Exchange, in full on its maturity date Mar 24, reflecting its robust financial position.
- UAE Central Bank data shows 2.1% mom rise in bank deposits to AED 1.08 trn in Feb; total bank loans and advances increased 0.6% to AED 1.05trn, while total bank assets moved up to AED 1.66trn (+1.8%).
- The World Economic Forum's Global Competitiveness Report ranked UAE seventh in the world in terms of efficiency of government spending in the 2010-2011. Of the 139 countries, UAE has featured in the top 10 in efficiency of government spending for the second consecutive time.
- Etisalat announced its withdrawal from bidding for Syria's third mobile licence – this comes close on the heels of its backing off the \$12 bn takeover offer for Kuwait's Zain.