

# Weekly Economic Commentary – April 10, 2011

## Markets

Markets have regained ground as the effects of the Japan earthquake fade and the Middle East tensions are factored in. Regional markets are still mixed but valuations in most Gulf bourses are extremely attractive, with Dubai among the cheapest in the world in terms of fundamentals. Dollar hit a 15-month low last week while ECB's hike pulled back the Euro from its 14-month high. Commodities continued to rally as the dollar weakened – oil prices hit a fresh 2-year peak of \$124.84; gold rose to a record high above \$1,470 per ounce; silver was at a 31-year high of \$40.46 an ounce and tin hit a record high at \$33k per tonne.

## Global Developments

### Americas:

- The ISM for the service sector in the US fell in March to 57.3 from 59.7 in Feb less than forecast, showing higher fuel costs are raising concern sales will cool the recovery momentum.
- Initial jobless claims dropped to a seasonally adjusted 382k in the week ending April 2, registering a decline of 10k from the prior week – continuing to hold below the 400k mark (since Feb).
- Consumer credit posted gains, increasing by USD 7.62bn in Feb to record its fifth straight monthly increase.

### Europe:

- The ECB raised interest rates by 25bps as widely

expected.

- Portugal paid a hefty price to complete its EUR1 billion short-term debt auction after the country's banks threatened to stop buying public debt and after Moody's downgrade to Baa1 with negative outlook. Five-year CDS spreads on Portugal are now trading wider than those of Ireland for the first time since August.
- German manufacturing orders rose 2.4% in Feb, much above expectations, as growth in Europe's largest economy seems resilient to any adversity. A group of leading economic research institutes raised its forecast for Germany's economic growth to 2.8% for 2011.
- Euro-zone governments are bowing to the idea of restructuring Greece's sovereign debt, as it is unlikely a return to international bond markets next year.
- UK industrial production suffered its biggest fall in 18 months in Feb, wiping hopes that the sector sustained GDP growth in Q1.
- European PMI manufacturing growth dropped to 57.5 in Feb (Jan: 59), led by fall in German output to 60.9 (Jan: 62.7).

## **Asia and Pacific:**

- China hiked (for the second time this year) the 1-year lending rate and 1-year deposit rates by 25bps each to 6.31% and 3.25% respectively, the announcement coming ahead of the CPI release for March.
- Japan's Central Bank held the benchmark overnight rate at a range of zero to 0.1%; BoJ also unveiled a JPY 1.0 trillion lending program to help recovery in areas damaged by the earthquake.
- Taiwan's CPI rose 1.41% yoy in Mar (Feb: 1.33%) on higher food and energy prices.

## Bottom line:

Monetary policy was the focus of markets last week – both the ECB & China hiked policy rates on rising inflationary pressures as Japan held steady; the Bank of England held off from raising interest rates while the dovish views from FOMC members led to fresh declines in the dollar. The Eurozone continues to be burdened by Portugal's woes – the latest being the uncertainty surrounding financial assistance to Portugal as the Middle East tensions continue to influence commodity prices, especially oil.

## Regional Developments

- Qatar central bank unexpectedly cut its main policy rates by 50 bps in a bid to stimulate bank lending. The overnight lending rate is now at 5.00% and the overnight deposit rate at 1.00%.
- Gulf states' Foreign Ministers voiced concern over Iranian interference in their affairs after Iran criticized the dispatch of Saudi troops to Bahrain and a spying row raised tensions.
- Egypt net foreign reserves dropped to USD 30.11bn at end-Mar from USD 33.32bn in Feb with the government deficit expected at 9.5% of GDP in 2011/12.
- The recent rise in political risk has led to a downgrade in Bahrain's Long-term Foreign and Local Currency ratings to 'BBB+' from 'A', with a "negative" outlook, according to Capital Intelligence.
- Qatar's Q4 GDP recorded QAR 129.67bn (\$35.59bn) at current prices, up 28.7% yoy and 9.2% qoq, with restaurant and hotel business as well the financial services, insurance and real estate sectors surging. Construction activity grew by 13.7% yoy and 7.5% qoq.
- Based on Kuwait's new development plan, real non-oil GDP is expected to grow by an annual rate of 7.5% from 2010/11 to 2013/14 while real GDP will grow at an annual

rate of 5.1% for the same period.

- Saudi Finance Minister Ibrahim Al Assaf mentioned that the recent spending programs announced by King Abdullah could lead to inflationary pressures in the kingdom, while its benefits would lead to a longer-term positive outcome.
- According to NCB, the Saudi Arabian fiscal initiative has boosted confidence and this could be seen from the 14.3% rise to SAR 32.6bn in Letters of credit issued in the first two months of 2011.
- Saudi's Assistant Minister of Defense and Aviation Prince Fahd bin Abdullah has announced that foreign airlines may be allowed to operate domestic flights in the Kingdom. The Shoura Council has already commissioned a study on allowing Gulf airlines to operate within the Kingdom.
- A recent BSF report has raised 2011 state expenditure forecast by 24.5% to SAR 842.4bn – this represents an overspending of 45% on the expenditure target set out in this year's budget – recording the fastest pace of overspending in the past 3 decades.

## **UAE Focus**

- Dubai's department of finance has announced that a six-year dual currency financing will be launched to raise \$800m to fund transportation infrastructure. This debt instruments would be backed by future revenues from road tolls (Salik), which amassed Dh800m in revenues last year.
- Data in a report published by the National Bureau of Statistics puts UAE population at 8.3mn by mid-2010, which is an increase of almost 65% in mid-2006. This was largely due to the influx of foreign workers as the proportion of Emiratis fell to 11.5% from 15.4% in 2006.
- A recent WTO report placed UAE as the world's 13th largest exporter in 2010, with USD 235bn – 2% of the

total merchandise exports; also ranked the 18th largest importer at USD 170bn (1.4% of the world's total imports).

- Federal Customs Authority has released 2010 UAE trade data – non-oil foreign trade grew 14% yoy to AED 754.4bn, with imports up 8% to AED 485.4bn, exports up 27% to AED 83.1bn while re-exports grew 26% to AED1859bn.
- As per a statement by the CEO of RERA, there are 257 projects (many of which have yet to even start construction) with a total of up to 90,000 units which are facing government scrutiny and possible cancellation to stop property prices from plummeting further.
- The HSBC UAE PMI rose to 54.7 points in March (Feb: 54.3), reaching its highest level since the series began in Aug 09, as new orders and output rose sharply and job creation gained further momentum.
- Dubai's 5-year CDS has dropped to about 380 basis points on positive economic and financial investment sentiment – reaching close to the levels in Nov 09, before the announcement of the DW debt standstill.
- ADCB has announced that it will start writing back loan provisions (AED 1bn) on DW loans. In an agreement with DW, the credits will be paid in eight years with yearly installment of AED 120mn each.
- DED recorded a 6% growth in number of licences issued in Q1 2011 compared to the previous quarter, driven by commercial and professional applications.