

Weekly Economic Commentary – April 17, 2011

Markets

Global markets were weighed down by weak data. The G20 finance chiefs met last week, agreeing on greater coordination efforts and indicators for an early warning system. Regional markets were mixed; the UAE hit an 11-week high on bullish Q1 results and speculation that MSCI will upgrade the market to “emerging” status given the introduction of Delivery versus Payment. Dollar index hit a 16-month low as Fed officials backed its loose monetary policy – also helping gold rise higher to a record \$1,479.01 an ounce. Meanwhile oil continues to gain in spite of the IEA & IMF warning that higher crude oil prices could erode demand and threaten global recovery.

Global Developments

Americas:

- US Feb trade deficit shrank to USD 45.8bn, representing a 2.6% mom decline. Imports and exports fell 1.7% and 1.4% respectively, while trade gap with China narrowed to USD 18.8bn (Feb: USD 23.3bn).
- US PPI increased 0.7% mom in Mar, with core costs – excluding food and energy costs – rising 0.3%.
- Industrial output grew 0.8% mom in Mar – fifth straight gain – backed by stronger manufacturing and higher utility output.
- Labour Department reported an increase in jobless claims by 27k to 412k in the week ended April 9.
- Mortgage applications in the US dropped 6.7% in the week ended April 8, to the lowest level in 2 months as borrowing costs continued rising and higher standards

are applied.

Europe:

- Inflation in the Euro region accelerated to 2.7% yoy in Mar, fastest in more than 2 years, adding pressure on the ECB to keep raising interest rates.
- German inflation surged to 2.3% in Mar (Feb: 2.2%), driven by high energy prices and booming exports.
- U.K. inflation decelerated in Mar to 4.0% (Feb: 4.4%), after BoE's reluctance to tighten and coordinate policy with its European counterparts.
- U.K. jobless claims rose unexpectedly by 0.7k to 1.45 mn in Mar, as more women registered looking for work, benefiting from the recent changes in single parent eligibility criteria.
- French industrial output grew for fourth consecutive month, recording a Feb increase of 0.4% (Jan: 1%).
- Moody's downgraded Ireland's government debt by two notches to Baa3.

Asia and Pacific:

- India's industrial output growth slowed in Feb to 3.6% yoy (Jan: 3.9%), still insufficient to stop RBI from raising interest rates further.
- China's economy grew 9.7% yoy in Q1 (Q4: 9.8%), while Mar inflation quickened to 5.4% yoy and M2 rose 16.6% yoy, adding pressure for more monetary tightening.
- China's Mar trade surplus widened to USD 140mn – with 35.8% yoy and 27.3% rise in exports and imports respectively.
- Japan's M3 money supply rose 2% yoy in Mar, averaging 1086.5 tn yen, as cash and deposits were sought following the earthquake.
- Singapore Q1 GDP was up 23.5% qoq (8.5% yoy), growth coming largely from manufacturing (13.9%).

- Asian Central Banks were split on policy decisions
 - Singapore adjusted its target currency band to allow more appreciation, Indonesia and Korea chose leaving rates unchanged at 6.75% and 3%, respectively.

Bottom line:

The IMF released its World Economic Outlook last week projecting world growth at about 4.5% in both 2011 and 2012, while highlighting global imbalances, overheating, rising unemployment rates and high commodity prices as policy challenges. This came ahead of China announcing that its currency reserves exceeded \$3 trillion for the first time. Meanwhile, VIX, the volatility index, closed at its lowest level since the financial crisis as investors shrugged off concerns about Japan's earthquake impact and nuclear crisis.

Regional Developments

- Qatar is studying to allow relaxing the single importer agency to allow multiple agencies for any import item.
- Qatar government approved the budget for the next fiscal year as follows: \$ 38.4 billion in expenditure, revenues of \$ 44.6 billion and fiscal surplus \$ 6.1 billion.
- Kuwait's broad money supply grew 6.3% mom to USD 5.8bn – due to \$5.6 billion grant provided by the Al-Amir.
- KSA inflation rate declined 4.7% at annual rate in March 2011, led by drop in food prices.
- Broad money growth in Oman rose 9.7% at annual rate in January 2011
- KSA government approved increasing SME loans through government banks by 80%.
- Kuwait inflation rate rose 5.3% at annual rate in Feb 2011, while the monthly inflation rate declined by 0.1%.

UAE Focus

- Local stock exchange markets will apply new settlement mechanism called delivery versus payment (DVP) on 28th April making UAE financial markets eligible for an upgrade to emerging market status by MSCI.
- Dubai inflation rate rose 0.96% at annual rate in March 2011, led by surge in food and fuel prices while rent prices continued to decline.
- Nakheel offered to repay its creditors loans after 4.5 years with floating rate 4% above Libor. (Source: Reuters)
- Nasdaq Dubai Borse and JAFZA have signed an MOU to help companies based in JAFZA get equity finance.
- UAE airlines traffic rose 9% at a quarterly rate in end-Q1 2011 reaching 167,221 flights.
- 70% of liquidity in banking system is short term (i.e. three months and less) which restricts interbank lending and negatively impacts the development of long term of bonds and Sukuk, as per Hussein Alqamzi, CEO of NOOR Islamic bank.
- Dubai Groups, subsidiary of Dubai Holding, will reach a restructuring debt agreement with banks and other creditors by the end of Q2 2011, as per Hussein Alqamzi the CEO of NOOR Islamic bank.
- Dubai Diamond Borse, part of Dubai Multi Commodity Centre, disclosed that diamond trading volume rose 50% at annual rate to reach 268.7mn carat while the trading value doubled to reach \$ 35.1 billion.
- Dubai Mercantile Exchange's data for 1Q 2011 recorded 3,000 contracts (equivalent to three million barrels of oil per day) as average daily volumes for the Oman Contract.
- SME share in loans portfolio of Standard Chartered bank based in UAE is equal to 7% with 17,000 clients.
- Banks based in UAE expanded their recruitment by adding 908 new bankers to their payroll in H1-2010 after the

banks laid off 3,254 employees during period Jan 2008 – Jun 2010. (Source: UAE Central Bank)

- S&P latest report displays UAE as the highest Sukuk issuer among GCC with USD 10.75bn in 2010.
- Dubai summer festival visitors rose 4.7% to reach 2.2 million in 2009 while the spending increased 0.6% reaching AED 3.37 billion.