

# Weekly Economic Commentary – April 24, 2011

## Markets

Volatility has dominated trading. Global market suddenly awoke to the harsh reality of the fiscal crisis when S&P put the US public debt on negative outlook and Greek austerity plans failed convince investors. Regional markets were mixed, with DFM hitting a 19-week high on investor optimism while Qatar slipped as Q1 earnings failed to impress. Euro slid on fresh sovereign debt fears while yen benefits from safe haven effect (which is in itself rather worrying). Positive earnings reports led to a rebound in most markets, though not everybody is convinced by the optimistic mood. Meanwhile, gold broke the 1500 \$/ounce barrier.

## Global Developments

### Americas:

- S&P, although confirming its AAA rating, for the first time announced that the outlook for the US public debt negative as a result of the continuous wrangling between the administration and Congress.
- US housing starts rose 7.2% mom in Mar to 549k houses while existing home sales increased 3.7% mom to a seasonally adjusted annual rate of 5.1 mn. Data hence continue to indicate only a slow and modest recovery in the sector.
- Initial jobless claims decreased by 13k to 403k for the week ending Apr 16 – holding above 400k mark.

## Europe:

- Finland's anti-euro party obtained a success in the parliamentary election signaling voters' unwillingness to support indebted countries.
- German Ifo index dropped slightly – 110.4 in Apr – recording the second monthly fall in a row. This decline mirrored a subindex tracking business expectations which declined to 104.7 from 106.5 in Mar.
- Eurozone flash PMI unexpectedly rose in Apr – manufacturing outdid the services sector which slowed slightly as prices rose at the fastest monthly rate in three years. In contrast, Eurozone consumer confidence fell to its lowest level in eight months in April – to minus 11.4 from minus 10.6 in Mar.

## Asia and Pacific:

- The PBOC raised the reserve requirement ratio by another 50bps to a historical high of 20.5% in its continued effort to contain inflation.
- The Bank of Thailand raised its benchmark one-day repo rate at the fourth consecutive meeting by 25bps to 2.75% as inflation continued to rise.
- Malaysian CPI increased by 3% in March on higher food and transport prices, but coming in lower than market expectation. This begs the question if the central bank would hike rates the coming meeting on May 5th or hold put and hike at a later stage.
- Lou Jiwei, the head of China's \$300 billion sovereign wealth fund, has said the world economy will likely slowdown again in 2012.

## Bottom line:

Performance in Q1 could be the last dance for the sputtering recovery in mature economies as deeper austerity measures are

needed to contain fiscal imbalances and the banking sector purges its balance sheets. A spate of data has come under expectations and persistently high oil prices are starting to dent consumer spending. Furthermore China needs to cool off its breakneck expansion pace and India with inflation close to double digit has to tighten monetary policy aggressively.

## Regional Developments

- Oil minister Ali Naimi, has revealed that Saudi Arabia reduced its oil production last month by a hefty 800,000 barrels a day because of lack of demand, baffling oil traders and sparking a debate on whether this move is aimed at calming markets or is the result of a miscalculation of future demand.
- Egypt put two former top ministers on trial, widening a crackdown on graft as the ruling generals seek to show their seriousness about ending the corruption.
- Moody's outlook on Egypt's banking system has been downgraded to negative from stable, on an expected decline in tourism, foreign direct investment, incoming fund flows and private consumption due to the ongoing political unrest.
- According to Morgan Stanley on current oil prices, around USD 1-trillion of this year's oil revenue – roughly equivalent to the entire flow of U.S. net private saving, or around 2% of global equity market cap – could be in search of assets to buy worldwide.
- Oman is planning to spend USD 2.6bn to satisfy demand brought about by rallies occurring across the country.
- Saudi Basic Industries Corp reported profits of SAR 7.7bn, a 42% increase in its Q1 profits beating average analysts' forecasts of SAR 6.2bn.
- The Omani government floated a tender for the Batinah Expressway, which would extend the Muscat Expressway road all the way to the UAE border.
- In Kuwait inflation rose 5.1% yoy in March and 0.5% mom,

pushed by high food and transport prices.

- Kuwait capital market authority released two regulations one related to listing system and the second related to the fees schedule.
- Fifteen gold mines have been discovered in Al Madinah province in KSA.

## **UAE Focus**

- Law No 7 of 2011 (published Apr 21) includes amendments to number of articles in Law No 9 of 2004 that established DIFC as the UAE's first Financial Free Zone. The law also places DIFCA responsible for establishing, regulating and developing the Centre's payment systems (including a multi-country, multi-currency Real Time Gross Settlement System) in coordination with the UAE Central Bank.
- Abu Dhabi's Urban Planning Council has awarded contracts worth AED 21bn to four developers to build an additional 7.5k homes for Emirati families, taking the total number of homes to 13k.
- Dubai inflation edged up to 0.74% yoy in Q1 2011, as food and transportation costs continued to surge. This comes after Feb's increase by 0.9%, the highest level in a year.
- Abu Dhabi inflation rate rose at an annual rate of 2.8% in 1Q2011, led by food and rent prices.
- UAE has linked to the GCC electricity grid – marking the second phase of the GCC Interconnection Grid AED 5bn project sharing electricity across the GCC region.
- Dana Gas plans to list in London to attract a wider investor base and boost its stock value which has lost 15% in six months.
- Dubai Investments said it is in talks with banks for a loan of AED 1.2bn, as it looks to expand its operations. The firm has approached 4 banks, including two based in the UAE.

- The UAE central bank disclosed 572 cases were reported to the anti-money laundering unit during Q1.
- Dubai airport passengers rose 3% to reach 6.9 million passengers in Q1.
- RERA disclosed that real estate transactions in the last week reached AED 1.5bn, of which AED 398mn was mortgage loans.
- The UAE central bank issued a circular to track accounts of the ousted president of Egypt.
- SME companies in Dubai account for 1% of total exports according to Dubai export promotion agency.
- Dubai non-oil trade rose 28% at annual rate to reach AED 55bn in Jan 2011 with AED 6.6bn exports, AED 13.7bn re-exports and AED 35 bn in imports.
- ESCA announced a new market cap index will be launched for UAE financial markets at the beginning of May.