

Weekly Economic Commentary – May 01, 2011

Markets

Stock markets are at a three year high – shrugging concerns on macroeconomic outlook and fiscal uncertainty, cheering buoyant Q1 results in US; the concern remains mainly over the continuation of QE2 and loose monetary policy which was duly confirmed by the Fed and touted in the first interview by Bernanke. On the regional front, markets were mixed: UAE markets rose on strong Q1 earnings but dropped significantly on Thurs following the extension of when brokerages have to switch to the new DvP settlement system. While the dollar index touched three-year lows, both gold and silver broke records as oil closed at \$125 per barrel.

Global Developments

Americas:

- Bernanke confirmed that the Fed is not contemplating withdrawing the monetary stimulus, but once the Fed finishes its USD 600bn bond-purchase program in June, it will “continue to reinvest maturing securities [...] so the amount of securities that we hold will remain approximately constant”.
- Real GDP grew 1.8% yoy in Q1, weaker than 3.1% recorded in Q4, on a sharp upturn in imports, a larger decrease in federal government spending, decelerations in non-residential fixed investment and in exports.
- PCE index rose 3.8% in Q1 (Q4: 2.1%) while the core index, excluding food and energy prices, gained 2.2%, after rising 1.1% in Q4.
- Case-Shiller US home price index declined -0.18% mom and

3.3% yoy in Feb suggesting that real estate sector is far from stabilizing. Sales of US new homes rose by 11.1% mom to an annualized rate of 300k units in Mar, partly reversing a large drop in Feb.

- Durable goods orders rose 2.5% mom in Mar (Feb: +0.7%) as demand for machinery, computers and automobiles increased in line with demand from emerging economies including China.
- Conference Board consumer confidence showed slight improvement in Apr, rising to 65.4 after falling to 63.4 in Mar (from 72 in Feb, which had been the highest level in three years).
- Jobless claims increased by 25k to 429k in the week ended April 23, the most since late Jan.

Europe:

- UK output grew by 0.5% qoq in Q1, compared to a contraction of similar magnitude in Q4 2010. Construction was still retrenching while manufacturing and services both rose by roughly 1% qoq.
- Germany retail sales plunged 2.1% mom in March, recording the biggest monthly drop since Jan '09, as rising prices left a dampening impact.
- Eurozone's new industrial orders increased by 0.9% mom in Feb, recording the fifth consecutive monthly rise. Capital goods orders rose by 3.3% while durable consumer goods gained 1.9%.

Asia and Pacific:

- S&P cut its outlook on Japan's long-term sovereign debt rating from "stable" to "negative," citing fiscal pressures associated with reconstruction costs estimated at around JPY 30 trillion.
- Singapore's Mar headline inflation registered 5.0% yoy, the second consecutive month of below-expectations

figures, which some are tempted to interpret as a sign that inflation pressures are abating.

- Asian Mar industrial production (IP) data was out: Taiwan IP rose at a healthy 13.3% yoy; South Korean IP expanded at the slowest pace in 6 months – rising 8.7% yoy in Mar (Feb: 9.2%); Japan's IP dropped 15.3% mom, giving an first glimpse of the damage from the earthquake.
- South Korean GDP grew 4.2% yoy (1.8% qoq, the fastest pace in three quarters) in Q1 with exports of manufactured goods as the main engine of growth.
- China's PMI kept near a 7-month low at 51.8 in Apr.

Bottom line:

Fed stance remained close to market expectations while US growth data and jobless claims highlighted concerns about economic recovery. Meanwhile, inflation in the Eurozone rising above ECB's target and more evidence of extreme weakness in Japanese data for March is in sharp contrast to emerging markets stronger growth picture.

Regional Developments

- The IMF Regional Economic Outlook highlighted the financial windfalls for the region from higher oil prices while suggesting that political uncertainty should be used as an opportunity to pursue fundamental reforms. GCC GDP growth is expected to improve to 7.8% in 2011 from an estimated 5% growth in 2010.
- Saudi Aramco's CEO said KSA is not comfortable with current oil prices, echoing the words of the Oil Minister a week earlier.
- Bahrain Stock Exchange has listed BHD 200mn Islamic bonds and notes issued by the Bahrain central bank on behalf of the Bahrain government.
- Saudi non-oil exports rose 12% yoy in Nov'10 to reach

SAR 11.245bn as imports rose 9% to SAR 27.8 bn.

- Yemen oil exports rose by \$ 652 mn to reach \$ 2.65 bn in 2010 with 79.8 average oil prices.
- Inflation in Saudi Arabia rose 5% yoy in 1Q2011, led by surge in rents price (8%) and food prices (5.8%).
- Monetary statistics released by Saudi Arabia placed growth in broad money supply at 6.4% qoq to SAR 1.2 trn in 1Q2011. Meanwhile, credit rose 2.8% at quarterly rate to SAR 764bn in the same period.

UAE Focus

- The IMF's regional economic outlook expects UAE's GDP to accelerate by 3.5% reaching USD 363.8 bn in 2011. Dubai is estimated to grow at 3.0% this year, on robust trade, logistics and tourism sectors.
- UAE central bank statistics showed a 5.2% qoq increase in provisions in 1Q to AED 46.6bn, while deposits rose 5.3% to AED 1.1 trillion and loan to deposit ratio declined to 94.8.
- UAE inflation rose at an annual rate of 1.44% in 1Q2011, led by a 4.53% surge in food prices.
- Q1 balance sheets of 14 national banks showed an increase of 4.7% in net earnings to around AED 5.72bn, as banks benefited from higher investment with the central bank, return from services and commissions and slower growth in bad loan provisions.
- New unified banking rules, imposed by Central Bank of the UAE which regulate loan eligibility, will come into effect from today – May 1st.
- Dirham future contracts recorded lowest rate since last 11 months due to liquidity improvements.
- Dubai's population was around 1.929 mn at the end of March, with males outnumbering females by almost three times and nationals forming only 9% of the total population.
- Emaar Properties posted a 45% drop in Q1 net profits,

missing analyst's forecasts, as revenue dipped and losses from associate firms rose.

- Developer Nakheel said it has stopped selling new properties and is focusing on consolidation.
- Two former Dubai Islamic Bank executives and four businessmen were sentenced to 10 years each in prison and fined AED 1.8 bn, the amount they were accused of embezzling from the bank.