

# Weekly Economic Commentary – May 08, 2011

## Markets

After hitting multi-year record levels stock markets took a pause which not even the killing of Osama Bin Laden could interrupt. After a brief euphoria investors focused on fundamentals which hardly support bulls. Regional markets were down, with Dubai slipping to a three-week low with volumes at a 15-week low. The dollar rebound, euro continued to decline and CNY passed the 6.5 mark for the first time ever. Oil lost some ground after US inventories data showed robust build up and finished the week \$16 lower on demand worries and a move by investors to slash commodities exposures. The same trend hit precious metals: gold declined in volatile trade while silver prices tumbled by more than 10% on Thurs, the biggest one-day drop since 1980.

## Global Developments

### Americas:

- ISM services index declined to 52.8 in Apr (Mar: 57.3), with the new-orders component falling 11 points – the fastest decline on record. Meanwhile, ISM manufacturing output expanded to 60.4 in April (Mar: 61.2) in spite of the high oil prices and boosted by a weak dollar.
- Factory orders rose by 3% mom in Mar (Feb: +0.7%) to USD 463bn, as orders for non-defense capital goods excluding aircraft increased by 4.1% – the strongest rise in investment plans since last Aug (5.1%).
- Non-farm payrolls jumped by 244k in April with the private sector recording its strongest gain since 2006, while unemployment rate edged up to 9.0% from 8.8%.

- Initial jobless claims unexpectedly rose to an 8-month high rising by 43k to 474k (highest since mid-Aug) on one-off events like a new emergency benefits program and auto shutdowns from Japan's earthquake.

## **Europe:**

- ECB in a more dovish undertone signalled that interest rates would be held, causing the euro to drop from a 17-month high against the dollar. Inflation rate in EU meanwhile edged up to 2.8% in Apr (Mar: 2.7%).
- Retail sales in the Eurozone declined 1% mom in Mar (Feb: +0.3%) – the most since Apr '10 as consumer spending was curbed by the government's austerity measures and higher oil prices.
- Portugal's bailout by the EU and the IMF worth 78bn euro has been approved. In exchange the deficit will have to be cut to 5.9% of GDP this year, 4.5% in 2012 and 3% in 2013.
- German factory orders unexpectedly declined 4% mom in Mar (Feb: 1.9%), as foreign factory orders dropped 4.3% and domestic orders were down 3.5%.
- UK manufacturing PMI for April posted a 2.1 point decline to 54.6, while March numbers were revised down to 56.7 from 57.1 earlier.
- German industrial production increased by 0.7% mom in Mar (Feb: 1.7%) as construction surged 6.2% and production of investment goods gained 0.8%.

## **Asia and Pacific:**

- The Reserve Bank of India took an aggressive stance hiking the repo rate by 50bps to 7.25% in an attempt to combat inflation with the Governor sounding more hawkish than normal.
- The State Bank of Vietnam raised its rate for open market operations to 14% from 13% in an effort to stem

inflationary pressures. Central banks in the Philippines and Malaysia raised rates 25bps, to 4.5% and 3%, respectively along the lines of other Asian counterparts.

- Inflation rose to a 15-month high in Apr (4.04% yoy) in Thailand and in Philippines to a year's high of 4.5% while it slowed in South Korea to 4.2% (Mar: 4.7%) and in Indonesia to 6.16% (6.7%).
- India's service sector PMI rose to 59.2 in Apr (Mar: 58.8), reflecting buoyant business activity.
- Indonesia's Q1 GDP growth was up 6.6% yoy and 1.8% qoq, driven by strong household consumption and investment.

## **Bottom line:**

The gain in non-farm payroll data was the only silver lining to waning momentum in the US. In the Eurozone, intra-Euro debt tensions remain high as Portugal reached agreement on a program with the EU/IMF (totalling EUR 78bn, of which EUR 12bn will be earmarked for bank support) while additional aid to Greece remains a possibility and most recent data pointing to signs of downside risks in Germany. On the other side of the globe, more emerging markets are joining the party – hiking policy rates to combat inflation.

## **Regional Developments**

- It was agreed at the meeting of GCC financial & economic committee that a GCC customs union Authority would be established to implement the project by 2015. This proposal is awaiting Supreme Council's approval.
- According to the IIF, the economies of Egypt, Yemen, Tunisia and Syria are heading towards a recession in 2011 as activity falls sharply following the uprising. Egypt in particular is forecast to contract by 2.5%.
- The Iraqi government approved a USD 37bn programme to upgrade infrastructure, still mostly damaged after the

war and sanctions. The plan requires the Parliament's approval. The biggest share goes to transport infrastructure, with USD 10bn allocated, with additional USD 1.5bn for highways.

- Finance Minister Samir Radwan announced Egypt is in talks with the IMF for a financial assistance program of up to USD 4bn. Egypt is seeking USD 10bn in funding from international lenders and rich nations to cope with the repercussions of the unrest and political fallout.
- Data released by SAMA show that Saudis are spending millions on big-ticket purchases such as new cars and home appliances, with point of sale transactions in March growing 22.6% mom to SAR 7.5bn.
- KSA utility company SEC has awarded General Electric contracts worth more than USD 500mn to add 1,680 megawatts of generation capacity. Demand for power in the kingdom is forecast to triple by 2030.
- As per Zephyr M&A database, April's number of deals with Middle East-based targets fell to a 12-month low while value declined for the third consecutive month (USD 484mn), the lowest level since July'10.
- Construction work of the Bahrain-Qatar causeway is expected to start before the end of 2011 and conclude in 2015 with an estimated cost of USD 5bn.
- S&P announced a "broadly stable" credit quality outlook for the GCC infrastructure sector – with stable credit quality for companies in the telecommunications and commodities sectors while negative creditworthiness trends are anticipated in real estate and construction.
- Kuwait's fiscal surplus for 2010-11 fiscal year rose by KWD 6.5bn with public expenditure at KWD 12.4bn and public revenue at KWD 20.9bn.
- H.H. Sultan Qaboos of Oman has allowed for opening up the financial sector to practice Islamic banking.

## UAE Focus

- The UAE central bank governor forecasts up to 5% growth this year and sees no significant change in capital flows due to regional unrest. It was also announced that the UAE will not join the Monetary Union.
- The CHF 250mn three-year bond from Dubai Holding will be repaid on time in June. Dubai Holding also has three other bonds outstanding: a USD 500mn floating rate note due 2012, a EUR 750mn bond due 2014 and a GBP 500mn offering due 2017.
- HSBC's UAE PMI rose 57.5 in April recording the highest level since the series began in Aug '09 as new orders and output increased alongside a pickup in while job creation.
- Nakheel announced that its operational plan is fully funded by the Dubai government and allows it to sell assets and properties over a 5 years horizon.
- DIFC Investments, which had pledged USD 3bn but paid only USD 13.6mn to Dubai Pearl, has announced that the company has "no further commitment beyond the USD 13mn invested in the project".
- Tamweel is due to resume trading on the Dubai Financial Market from this week after the company made more money during Q1 2011 compared to the full year 2010.
- The Khalifa Fund has allocated USD 440mn to boost the Emiratisation drive in the UAE, given that close to 200,000 jobs need to be created in the coming 10 years.
- The profit of ADX listed banks rose 8% at yearly rate to reach AED 3.9bn in 1Q2011 while DFM listed bank profits rose 13.8% to reach AED 2.14bn for same period.