

Weekly Economic Commentary – May 15, 2011

Markets

Stock markets suffered after investment strategies focusing on rising commodity prices were severely hit after oil prices tumbled because of a dollar rally and data suggesting demand was slowing in the US and China, the world's biggest energy users. Oil has recovered since, but stock markets have been weak since last week. Among regional bourses, Qatar surged to a new one-month high on Wed on hopes of a possible index upgrade and Egyptian stocks rebounded on a report of USD debt relief worth USD 1bn for the country. The EUR gained some ground end of last week as expectations rose for an ECB raise while Asian currencies were weak. CNY recorded its sharpest weekly decline in two months as China raised bank reserve-requirement ratios; KRW dropped to a three-week low after Bank of Korea unexpectedly left interest rates unchanged.

Global Developments

Americas:

- US trade deficit widened in March to USD 48.2bn (Feb: USD 45.4bn) as rising oil prices led to higher imports bill while the falling dollar helped exports.
- Initial jobless claims fell 44k to 434k in the week ended May 7, following the previous week's surge.
- Apr producer price index grew 0.8% mom (Mar: 0.7%), intermediate goods climbed 1.3% and core was up 0.3%.
- US petroleum inventories rose by 3.8mn barrels, more than double the 1.6mn forecast by a Platts survey of Wall Street analysts. Gasoline stockpiles grew by 1.3mn barrels against estimates for a 300k barrels drop.

Europe:

- Greece has been downgraded to B from BB- by Standard and Poors due to rising rescheduling risk amid increasing concerns that the country will be unable to cope with its debt levels.
- Eurozone GDP grew 0.8% qoq in Q1 due to growth in Germany and France (at 1.5% and 1.0% respectively) compensating debt-ridden Portugal (-0.7%), Greece (+0.8%) and Spain (+0.3%).
- Eurozone industrial production declined by 0.2% mom in Mar (Feb: +0.6%) on weak capital goods and energy output – dipping 0.9% and 0.7% respectively.

Asia and Pacific:

- China raised banks' reserve requirements for the fifth time in 2011 by 50bps to 20% as both inflation and lending data exceeded market expectations. Chinese April inflation declined slightly to 5.3% (Mar: 5.4%) as food inflation dropped to 11.5% from 11.7% while non-food inflation stayed flat at 2.7%.
- China's April trade balanced returned to a surplus USD 11.4bn, after recording an overall deficit in Q1. The surplus in Jan-Apr 2011 thus totalled USD 10.3bn, down by close to 40% from USD 16.3bn in the same period last year.
- China recorded weaker growth in Apr industrial production as output rose 13.4% yoy compared to 14.8% in Mar, partly caused by power shortages which in turn led to a decline in heavy industry sector.
- Both Indonesian and South Korean central banks left policy rates unchanged at 6.75% and 3% respectively at the meetings last week.
- India industrial production was up 7.3% yoy in Mar (Feb: 3.65%) in spite of the aggressive tightening measures from the Central Bank.

- Hong Kong's Q1 GDP rose 2.8% qoq on strong export growth (Q4: 1.5%), enabling the government to revise its full year growth forecast for 2011 to 5-6%.

Bottom line:

The word stagflation seems to be gaining ground with growth forecasts being revised downwards as inflation starts to spiral. US and Chinese data releases point toward slower Q2 demand while two-speed growth was confirmed in the Eurozone. Additionally, a new fund injection for Greece has not calmed fears that the situation resembles the pre-Lehman period when bank exposure to a defaulting institution heightened counterparty risk. If Greece defaults, the rug is pulled from under a complex web of cross-border relationships that could trigger a ripple effect of unknown proportions. Data from Asia (especially China) shows increasing chances for a slower Q2 – on higher oil prices and more tightening from EM central banks.

Regional Developments

- It was announced at the Summit of the GCC leaders in Riyadh that bids from Jordan and Morocco to join the GCC bloc was welcomed.
- Impact of the turmoil in the region is clearly evident in the real estate investments in North Africa. Data for Q1 2011 published by Zawya showed that out of USD 150bn worth of projects, more than USD 23bn (15%) were on hold in North Africa.
- April inflation in Saudi Arabia came in at 4.8% annual rate (Mar: 4.7%) led by rise in food and rent prices.
- Assets of Oman banking sector rose 5% at monthly rate while credit growth to private sector rose 6% in Mar 2011.
- Qatar Statistical Authority's FDI survey for 2009 recorded an increase of QAR 46bn to QAR 171.4bn, which

accounts for a staggering 47.9% of GDP.

UAE Focus

- Real GDP of UAE rose 1.4% at an annual rate in 2010 while it declined 1.6% in 2009 according to the National Statistics Center.
- The FDI inflow in UAE reached AED 55bn in 2010 – at 13% of GDP – according to the Ministry of Foreign Trade.
- The UAE Public Debt Bill is at final stage of approval according to the UAE State Minister of Finance.
- The Ministry of Labor has announced that it is working on an unemployment insurance draft.
- DP World is set to list on the London Stock Exchange by the end of May: share consolidation is scheduled for May 19, with free float remaining unchanged at 19.55% and shares issued being reduced to 830mn from 16.6 bn.
- Number of registered companies in Dubai Multi-Commodity Free zone reached 3000 entities as of Mar 2011.
- Share of individual investments in Nasdaq Dubai rose 8.9% at monthly rate in April 2011.
- Dubai Chamber of Commerce estimates that 61,545 real estate units will enter the market by end-2011.
- Abu Dhabi Economic Development Department issued 2309 licenses in 1Q2010 to reach a total 104372.
- UAE insurance authority intends to issue four regulations in current year including damage assessment, regulating insurance brokers, regulating insurance in banks and regulating investment activity by insurance.