

Weekly Economic Commentary – May 22, 2011

Markets

Commodities markets remain a key to development in equity markets as large investors had set up strategies based on a double play hinging on continued global growth. Signs of slowdown in the world economy, the end of QE2 in June and the uncertainty over the handling of fiscal crises in Europe put in question the wisdom of those strategies. Regional markets were mixed with Egypt gaining the most last week as the dollar surged and the euro plunged towards the end of the week. Oil prices were volatile – crude futures fell after the IEA called for increased oil output to tackle the problem of high prices, coming close under the heels of a rally after the US Department of Energy announced that US crude stockpiles had failed to rise as expected in the week to May 13 – while gold prices closed higher at the end of the week.

Global Developments

Americas:

- President Obama delivered a major policy speech on the new prospects of the Middle East after the Arab Spring. From the political point of view stressing that Israel should to withdraw within the pre-1967 borders marked a notable change of position. On the economic front the mini-Marshall plan for weaker economies facing a challenging transition, primarily Egypt and Tunisia underlines the strategic importance the US attaches to the region. Stakeholders will wait for policy action resulting from the speech.
- US industrial output was unchanged in April (Mar: 0.7%

mom), led by a drop in auto production.

- Housing starts fell by 10.6% mom, with declines concentrated in the multi-family sector (down 24.1%). On the positive side, starts in March were revised up sharply in the multi-family sector (to 170k from 127k previously). Building permits also declined, down 4% mom. Apr existing home sales dropped -0.8% mom.
- China trimmed its holdings of US Treasuries for a fifth straight month in March as American lawmakers squabbled over the government debt legal limit.

Europe:

- The EU Finance Ministers for the first time admitted they might ask private creditors to extend the maturities of the Greek public debt. Greece could become the first Western European country to restructure its debt since Germany in 1948, but EU ministers ruled out imposing large write offs before 2013.
- EU Finance Ministers endorsed a EUR 78 bn bailout for Portugal.
- The current account deficit in the euro bloc narrowed to EUR 4.7bn in March (Mar: EUR 6.5bn deficit).
- UK inflation accelerates to 4.5% yoy to April, boosted by a jump in travel costs during the Easter holidays.
- Italy's outlook was downgraded from stable to negative by S&P, on concerns about political stability after Berlusconi scored poorly in local elections.
- German ZEW economic expectations index decreased for the third month to 3.1 in May from 7.6 points in April, below consensus forecasts of 3.5.
- Bank of Italy Governor Mario Draghi was nominated as President of the ECB by the Eurogroup. The decision is expected to be ratified by the EU Council.

Asia and Pacific:

- Japan recession was already deep before the cataclysm of March 11, with GDP plunging 3.7% qoq annualized in Q1, after a contraction of 3% in Q4.
- Taiwan's economy grew 6.5% in Q1 confirming the strong performance of those economies well integrated in China's supply chain.

Bottom line:

Data, including US data indicating a slowdown and weak German investor confidence, are confirming the doubts over the global economic recovery, which has been shrugged off for too long. With Japan in recession even before the earthquake and Germany cooling (according to its Ministry of Finance after a stellar Q1), concerns about the global economic outlook and over Eurozone sovereign debt are taking the centre stage. Fitch was the latest agency to sharply cut the Greek debt rating, while Athens missed the deadline to present its reform proposals to the IMF and the EU.

Regional Developments

- President Obama launched a new initiative for the Middle East dubbed "Cairo 3" proposing a fund for development of several billion dollars to support the new democratic movements and stabilization in the region.
- The Saudi government introduced economic aid package in the form of soft loans, deposits and grant reaching USD 4bn to Egypt.
- Yemen's President and opposition have agreed on a GCC-brokered deal for a transition of power also supported by U.S. and European diplomats.
- Saudi Arabia will overspend its budget by up to 15% this year due to construction and job-creation measures according to Finance Minister Ibrahim Al-Assaf. The

kingdom has pledged to spend an estimated \$130 billion, or around 30% of GDP on new houses, creating jobs, unemployment benefits and other measures. Earlier forecast put Saudi economic growth this year at over 4%, up from 3.8% in 2010.

- Saudi Arabia's public pension agency invested 2 billion riyals (\$533.3 million) in the domestic stock market in March, according to its governor.
- Saudi's Capital Market Authority has announced ongoing discussions with leading index providers, including MSCI, to be included in the emerging markets category.
- Omani authorities gave the green light to the first Islamic bank in the country.
- Oman oil production rose 3.7% at annual rate to reach 887,100 in 1Q2011
- Qatar Central Bank injected T-bills worth QR2bn to local banks to help manage their liquidity.
- Net profit of listed companies in Qatar Stock Exchange rose 12.6% in Q1 2011 to reach QAR 9bn.

UAE Focus

- Dubai's government took control of Dubai Bank to prevent a collapse which would have damaged the entire banking sector. Dubai will inject an unspecified amount of capital into the bank and protect depositors' interests. The DFM reacted sharply by falling to a 5 week low.
- UAE balance of payments recorded a surplus of AED 27bn in 2010 after recording a deficit of AED 22.5bn in 2009. Outward remittances increased 11% to AED 39bn while trade recorded a surplus of AED 186.8bn (+ 21%).
- UAE Ministry of Economy has announced that it will launch a legislative initiative to boost investment spending including FDI, competition, trademarks, regulating industry and arbitration.
- UAE's total trade of UAE rose 14% yoy to reach AED 1.1trn in 2010, with imports at AED 754.3bn and exports

and re-exports clocking in at AED 352.8bn. Meanwhile, the free zones reported an increase of 23% to AED 352.8bn in 2010 (imports: AED 201.4bn; exports & re-exports: AED 151.4 bn).

- Dubai Customs data for Jan-Feb 2011 highlighted a 48% increase in total trade to AED 13.2bn, with re-exports rising 40% to AED 29.6bn and imports rising 26% to AED 70bn for same period.
- Salik revenues netted AED 2.9bn in the three years till 2010 according to a spokesman of the Dubai Road and Transport Authority.
- The RTA will open the infrastructure sector for private participation once the ongoing study on the state of current infrastructure is completed.
- Net profits of UAE's listed insurance companies' increased 2% yoy to reach AED 447mn in Q1 2011.