

Weekly Economic Commentary – May 29, 2011

Markets

Risk aversion is prevailing in most markets waiting for direction at macro level and on major policy fronts primarily fiscal, with the battle on the debt ceiling in the US and in Europe with sovereign crises which last week sunk the euro and the European bourses. Emerging markets meanwhile have rebounded, though regional markets have been down as weak Q1 results played on investor sentiment and led to a three-week low in Dubai volumes. The Yuan went past its previous peak (May 2nd) after the PBoC set a new level for the mid-point and commodity prices continued to rise, with gold surging to a three-week high on softer dollar.

Global Developments

Americas:

- US durable goods orders fell 3.6% mom in April (Mar: +4.4%), on lower demand for aircraft and motor vehicle bookings, recording the largest drop in the past six months.
- US GDP growth in Q1 remained unchanged at 1.8% as growth was driven in part by consumer spending and exports while declines in government spending and rise in imports continued to weigh in on growth.
- Initial jobless claims increased unexpectedly to 424k in the week ended May 21 while the jobless rate “remained elevated” at 9.0%.
- The PCE price index increased 0.3% mom in Apr (Mar: 0.4%) as the core PCE registered a 0.2% rise (+0.1%). Consumer spending meanwhile slowed – increasing only

0.4% from March's 0.5% gain.

- Pending home sales plunged in April – falling 11.6% from March and 26.5% from a year earlier – to a 7-month low, highlighting the slow pace of recovery in the housing market.

Europe:

- Eurozone flash PMI for manufacturing fell to a seven month low of 54.8 in May (Apr: 58) – Germany was down 3.8 points to 58.2. Meanwhile, flash services PMI fell to a five-month low of 55.4 (Apr: 56.7).
- Eurozone's March manufacturing orders fell 1.8% mom (Feb: +0.5%) – the sharpest monthly fall since Sep '10. Industrial new orders for durable consumer goods dropped 6.8% – the sharpest monthly drop since Dec '08, while non-durable consumer goods orders fell 3.5%, the biggest fall since Aug '09.
- German Ifo survey was flat – the reading unchanged at 114.2 for May, with a rise in the current conditions components offsetting a decline in the expectations component, which fell for a third consecutive month.
- UK headline GDP growth remained unchanged at 0.5% in Q1, but domestic weakness was evident with household spending contracting by 0.6% (Q4: -0.3%) and business investment falling by 7.1%.

Asia and Pacific:

- Japanese trade was weak in April – exports tumbled 12.5%, led by a slump in auto output while imports rose 8.9%, leading to a trade deficit of JPY 463bn (Apr '10: JPY 729bn surplus).
- China's PMI recorded a 10-month low in May – down 7 ticks to 51.1 (Apr: 51.8), while the manufacturing output sub-index fell to 50.9 (Apr: 51.6) indicative of a slowing Chinese economy.

- Thailand GDP grew 2.0% qoq in Q1, driven by strong domestic demand and record exports.
- Singapore manufacturing output declined 16.3% mom in April, with the decline largely from the volatile pharmaceuticals sector- excluding which the output declined 6.2%.
- Japan retail sales declined 4.8% yoy in Apr, though improving from -8.3% in Mar, as the impact of the earthquake and tsunami continue to dampen sales. Automobile sales tumbled a record 38.0%, the seventh consecutive yoy fall after a revised -32.7% in Mar.

Bottom line:

Data from China corroborate the evidence that Q2 is markedly weaker than Q1; in the US, corporate profits shrank alongside fresh signs of a slowdown in the labour and housing markets; fears of a Greek default and contagion to nearby Portugal and Spain are adding to Eurozone worries; Japan's twin disasters are dictating weaker growth – overall pointing to the global economy losing momentum entering the second half of 2011. Meanwhile, the G8 continues to throw its weight behind the “Arab Spring” movement with the latest meeting promising a total MENA package of aid and loans amounting to USD 40bn including both Egypt and Tunisia.

Regional Developments

- World Bank President Robert Zoellick unveiled a USD 6bn plan for Tunisia and Egypt of which USD 4.5bn will be spent in Egypt over the next 24 months, including USD 1bn this year in budget support and another USD 1bn next year, conditional on political and economic reforms.
- The USD 4bn aid package Saudi Arabia has pledged to Egypt will include USD 1bn deposit at the Central Bank of Egypt and USD 500mn in bond purchases.
- Qatar has announced plans to invest up to USD 10bn in

Egypt's recovery, including a stake in a new USD 9bn port near the northern entrance to the Suez Canal, stakes in joint ventures to build two new ports on the Mediterranean Sea, one at Port Said and another near Alexandria.

- It was reported that the Libyan Investment Fund lost 4.5% in market value from the previous quarter, with total assets dropping to USD 53.3bn (as of June 30 2010) on financial products sold to it by Western banks.
- Bahrain's credit rating was revised down by Moody's, to Baa1 from A3, and assigned a negative outlook.
- Inflation rate in Kuwait rose 5.3% at annual rate in Apr 2011 (Mar: 5.1%), led by food prices.
- Oman has announced plans to invest up to USD 15bn in refinery projects in Duqm.
- Qatar's Ministry of Labour has announced that it will speed up issuing labour visas for projects to within 24 hours.
- Saudi's Emaar Economic City has received a SAR 5bn loan from the Ministry of Finance for a tenor of ten years to speed up construction of the project, with the repayment commencing after three years.
- Saudi Arabia's broad money supply rose 17.2% at annual rate in Apr to reach SAR 1.175trn while private credit rose 7% to SAR 802.5bn.
- Fourteen anti-dumping cases were filed by the GCC Secretariat in WTO to protect GCC exports from predatory pricing by China and India.

UAE Focus

- The IMF's Article IV report stated that Risks to the recovery remain in the UAE, including from possible economic spill-overs of regional events. "In particular, the current re-pricing of geopolitical risk in the region could lead to more challenging market conditions". The IMF recommended that public entities

limit their borrowing, develop a risk management framework and improve their internal monitoring practices in order to increase investor confidence in their activities.

- DP World has announced that it will be trading on the London Stock Exchange from June 1st, with an aim to track a wider range of investors, who will be able to trade the stock across both LSE and Nasdaq Dubai.
- Nasdaq Dubai plans to delay the proposed market enhancement of the DVP settlement mechanism until July subject to regulatory approval, according to a statement on its website.
- UAE merchants made 7.2mn point-of-sale transactions in Q1 2011, increasing by 60.5% yoy while the amount rose 54% yoy (and 36.4% qoq) to reach AED 2.66bn, according to the UAE Central Bank.
- Labourers registered with the UAE Ministry of Labour rose by 20.4k to reach 4.161mn in Apr while labourers registered under the wages protection system through central bank declined by 380k to reach 2.665mn.
- The UAE Ministry of Economy announced that it had fixed the prices of 400 consumer commodities in a bid to rein in inflationary pressures.
- Non-oil foreign trade recorded an impressive 28% yoy growth in Feb 2011 to AED 70.9bn – this constituted a 24% rise in imports to AED 45.5bn, export growth by 54% to AED 7.3bn and re-exports reaching AED 18.1bn, growing at 29%.