

Weekly Economic Commentary – June 05, 2011

Markets

Risk aversion was partially offset by the strong results of the US Treasury auction at the beginning of the week, but a spate of dismal data sunk Wall Street as investors dumped stocks and poured into Treasuries, driving benchmark yields to below 3.0% for the first time since Dec. Regional markets were mixed with UAE and Oman outperforming others; Saudi dipped by almost 2% on Sat, pulled down by petrochemicals. The dollar slipped on weak US data while optimism about Greece aid revived the euro which hit a four-week high. Commodities were volatile last week, with oil prices lower and gold gaining from its safe haven attribute.

Global Developments

Americas:

- US non-farm payrolls increased by only 54k in May (Apr: +232k) on weakness in manufacturing (-5k vs. +24k), retail trade (-9k, +64k) and leisure/hospitality (-6k, +32k). Unemployment rate was higher at 9.1%.
- The ISM index dropped to 53.5 in May (Apr: 60.4), the slowest rate since Sep'09 – dropping below 60 for the first time this year. Chicago PMI plunged 11 points to 56.6 in May, the fourth largest crash since 1967.
- ISM services survey for May was the lone positive – rising to 54.6 from April's 52.8 as sub-indices for employment, new orders and supplier delivery times increased.
- The Conference Board consumer confidence unexpectedly dropped in May to 60.8 from 66.0 in Apr. Weakness was

concentrated in the expectations component.

- The Case-Shiller house price index fell by 0.2% mom seasonally adjusted or 3.6% yoy. The index reached a new cyclical low showing that house prices declined at least 33.1% from their peak.

Europe:

- The Euro zone's inflation rate dipped unexpectedly by one decimal in May to 2.7%, the first decline for nine months, but remains well above the ECB's 2% target.
- Germany's adjusted jobless rate fell by 8,000 units to a record low in May just below three million confirming a two-speed European recovery.
- German retail sales rose by 0.6% mom in April (Mar: -2.7%, revised down from -2.1% initially).
- Despite weak domestic demand, Russian central bank hiked overnight rates on the liquidity absorbing facility by 25bp to 3.50% and on 7 days deposits to 5.5% to belatedly offset inflationary pressures following central banks moves in most emerging markets.
- Eurozone manufacturing PMI dropped to a seven-month low of 54.6 in May (Apr: 58) on slower growth in output, new orders and employment. Services PMI dropped to 55.4 (56.7), taking the composite PMI to 55.4 (57.8), with Germany and France still outshining the EU periphery.

Asia and Pacific:

- India GDP grew 7.8% yoy in Q1 (Q4: 8.3%), dragged down by fixed investment growth at 0.4% (7.8%). The data suggest that activity peaked in H1 FY11 and has been on a downtrend since.
- Japan April industrial output grew +1.0% mom while the jobless rate increased marginally to 4.7%. However Moody's placed Japan's Aa2 sovereign ratings on review for possible downgrade.

- Korean industrial production growth decelerated in April to 6.9% yoy, against market expectations of 9.2% due to weaknesses in the tech, auto and chemical sectors.
- China PMI continued to slow in May, declining to 52.0 (Apr: 52.9) – with new orders index, backlog orders index and raw material inventory index all posting declines of more than 1 percentage point.
- Thailand's Central Bank raised its benchmark interest rate by 25 bps to 3.0% at the fifth consecutive meeting to stem rising inflationary pressures. Core inflation meanwhile accelerated to 2.48% in May (Apr: 2.07%), edging closer to the upper end of the inflation target band of 3.0%.

Bottom line:

Another week of essentially downbeat data releases. Evidence of a soft patch in mid-2011 is by now sinking in even in the most optimistically inclined minds. The sore spots in the US, house markets and labour demand remain in quasi-recession territory, while manufacturing, a rare bright spot, is now slowing as well. Asian economies are taking a break induced by tighter monetary conditions. In Europe authorities are discretely evaluating the various options for an orderly sovereign default/debt rollover by Greece which will impact the banking system balance sheets and pension funds for the next 6 to 12 months.

Regional Developments

- Egypt will introduce a 10% capital gains tax and a 5% increase in the corporate income tax for all businesses with revenues above 10 million pounds.
- Former Egyptian President Mubarak will stand trial in August for the killing of protesters a charge that could carry the death penalty.
- Saudi Arabia plans to limit the number of work permits

given to foreigners to try to increase employment among Saudis with larger firms required to meet higher quotas. The Minister of Labour announced a 6 year cap on workers visas.

- Qatar's bourse has announced that it plans to set up a market for small-to medium-sized businesses to help them access funding.
- The World Bank's latest report forecasts GCC growth to exceed 5% in 2011.
- The IMF revised upward its forecast for Saudi Arabia's growth to 6.5% in 2011, due to increasing in oil output and expanding fiscal expenditure.
- Qatar inflation rate slowed to 1.5% at annual rate in April 2011 (Mar: 1.8%), led by a fall in food prices.
- The Central Bank of Kuwait released balance of payment statistics for 2010. Data indicate that current account surplus rose 42.3% to reach KWD 10.5bn, financial account rose 31% to reach KWD 9.9bn recording an overall BOP surplus, which increased 40% to KWD 10.5bn.
- Gulf Monetary Council discussed the harmonisation of statistics and building of statistical capacity and framework in its quarterly board meeting last week.

UAE Focus

- Emirates Airline issued a 5-year USD 1bn bond well received in markets, in an upsized offering which was priced at 330 bps over mid-swaps, with a coupon of 5.125%, close to the lower end of the initial range.
- Abu Dhabi Commercial Bank converted its AED 4.8bn bonds, issued in 2008 and bought by Abu Dhabi Government as part its bailout package, into 785.6mn shares, thereby raising its capital base.
- The foreign assets of UAE banking sector rose by AED 22.8bn in first two months of 2011, following the AED 14.8bn drop in Q4 2010.
- The National Election Commission approved the

composition of sub-election committees across the UAE.

- Abu Dhabi's Department of Economic Development has launched an Abu Dhabi business cycle indicator – a timely indicator monitoring economic changes/trends – the details will be released this week.
- UAE Ministry of Economy has introduced fines for price manipulation upto AED 1mn against dealers trying to raise prices without prior official permission.
- The UAE central bank has announced that it will tighten liquidity regulations effective September.
- UAE Minister of Economy stated that the UAE GDP is expected to grow 3% to 3.5% in 2011. Meanwhile, data from UAE Statistics Bureau showed that UAE real non-oil GDP rose 4.8% in 2010.
- RTA received AED 1bn as first payments of SALIK securitization project (Source: Dubai Media Office press release).
- UAE Central Bank Governor stated that the ratio of non-performing loans to total loans reached 6.6% in April 2011.
- Assets of Islamic banks rose 11% to AED 269bn in 2010 accounting for 17% of banking sector assets (Source: UAE Central Bank).