

# Weekly Economic Commentary – June 12, 2011

## Markets

Another week of poor performance in equity markets as investors mull over the extent of the global slowdown in the next quarters. Regionally, markets remained mixed while Saudi Arabian shares plunged to the lowest level since March on Sat, after a weak set of global data. The euro fell sharply from a 1-m high against the dollar; pound had dropped to 1-m low against the euro earlier last week after Moody's warned the UK could lose its top-tier credit rating if growth continued to slow. Oil prices fell on Fri after OPEC announced that Saudi Arabia pumped the most since 2008, reversing the spike occasioned by OPEC member disagreement.

## Global Developments

### Americas:

- Initial jobless claims showed an unexpected increase to 427k in the week ended June 4, staying above the 400k mark for the ninth consecutive week, reinforcing concerns about the slow recovery in the job market.
- April trade deficit narrowed by 6.7% mom to USD 43.7bn (Mar: 46.8bn), as decreasing demand brought down total crude imports to USD 26bn (Mar: USD 27.7bn). Meanwhile, deficit with China rebounded 19.4% to USD 21.6bn as the country continued to account for nearly half of the US trade deficit.

### Europe:

- In Portugal the centre-right opposition won the general

election beating the minority socialist administration that was unable to counter the slide towards a bail out by the EU and IMF.

- German manufacturing orders rebounded in Apr by 2.8% mom (Mar: -2.7%). The increase resulted from a 4.9% jump in orders of investment goods and a 3.6% rise in demand for consumer goods.
- German industrial production unexpectedly registered a 0.6% mom decline in April (Mar: +1.2%) as construction output suffered a setback, falling 5.7% (+5.5%).
- Inflation in Germany slowed to 2.4% yoy in May (Apr: 2.7%) as oil prices dropped, but is still above the ECB's 2% upper limit.
- Eurozone GDP was up 0.8% qoq in Q1 (Q4: 0.3%), as investment spending rose 2.1% supported by a 1.8% increase in export growth while construction rebounded by 2.9%, coming off two quarters of slump.
- The ECB left policy rates unchanged at 1.25% its latest meeting, while signalling that borrowing costs would be hiked in July, in an effort to curb inflationary pressures.

## **Asia and Pacific:**

- Indonesia's central bank left its policy rate unchanged at 6.75% while South Korea surprised the markets with a 25bps hike in its benchmark rate to 3.25% to counter inflation.
- In spite of a slight upward revision, Japan's Q1 GDP still showed the severest contraction in two years – GDP shrank at a price-adjusted pace of 3.5% yoy, revised from the previous estimate of a 3.7% drop and following Q4 2010's 2.9% decline.
- China's trade surplus widened to USD 13.05bn in May (Apr: USD 11.4bn) as exports grew 19.4% yoy, slowing down from Apr's 29.9% rise while imports increased 28.4% to USD 144.11bn.

- India's industrial production slowed to 6.3% yoy in Apr (Mar: 8.8%, Apr '10: 13.0%) as production of capital goods grew by less than half compared to Apr 2010 to 14.5% and consumer durables plunged sharply to 3.8%. The government unveiled a revised index including newer components and weights to reflect more recent production behaviour, with 2004-05 as the new base year.
- Taiwan's inflation came in at a faster-than-expected 1.66% in May (Apr: 1.32%) while May inflation also rose in the Philippines to 4.5% (Apr: 4.3%), both cases pushed up by rise in clothing, food and oil prices.

## **Bottom line:**

The lack of important data releases in the second week of the month gave investors pause for thought. The debate is raging on whether the slowdown is an "air pocket", not unusual during a prolonged recovery, or the harbinger of a new recession. Unfortunately too many experts continue to draw on analysis by applying models apt to describe a normal cyclical downturn, neglecting the evidence that crucial structural issues are at stake in the post Lehman environment: financial sector reforms, drastic revamp of key government functions, new architecture of the international monetary system and a pension systems overhaul. The uncertainty over these themes is hampering the appetite of the private sector to invest and no amount of liquidity injections or fiscal stimulus is going to offer a rapid solution.

## **Regional Developments**

- OPEC left production levels unchanged, a decision that reflects divisions and an uneasy compromise among the leading members of the cartel.
- Saudi Arabia has announced its intention of raising oil output to 10mn barrels per day from the current level at 8.5mn.

- The International Monetary Fund agreed to a USD 3bn draft financing deal with Egypt with repayment due in 3-1/4 years and completed in five years,
- Oman and Bahrain are planning massive boosts in state spending aimed at meeting demands for inclusive development. Bahrain has approved a budget of USD 16.4 billion over the next two years, a 44% rise, while Oman expects spending in 2011 to be about 20% higher than previously envisaged.
- GCC financial markets committee has approved unified draft laws for listing dual shares, IPO and bonds – enabling cross-listing in any of the GCC states that boosts financial markets integration.
- Saudi Arabian inflation rate rose 4.6% at annual rate in May, led by surge in rent and food prices.
- Saudi Arabia donated 3 million barrels of oil to Yemen as economic aid package to help its economy during the current unrest.
- Oman's central bank is discussing the impact of a potential US debt default, given that such a move would destabilize its asset reserves, mostly invested in USD securities, according to a senior official in Oman central bank.

## **UAE Focus**

- UAE Central bank board meeting discussed currency notes printing house, monetary developments and amendments to the monitoring of large exposure limits regulation.
- Deposits rose 16% at annual rate and credit rose 3.1% in April. The rapid rise in deposits sharply reduced the loan-to-deposit ratio to 0.93% at the end of April 2011 from 1.05% in April 2010. UAE money supply rose 1.9% at monthly rate to reach AED 850.5bn in April.
- UAE gross fixed capital formation rose 17.6% at annual rate to reach AED 260bn in 2010. This data is part of the breakdown of GDP released last week, showing that

UAE real non-oil GDP rose 4.8% in 2010.

- The Securities and Commodities Authority is expected to release the regulation regarding investment funds after the consultation period on the initial draft expired. Meanwhile, the SCA has approved the establishment of three investment funds.
- FDI inflow into Abu Dhabi reached AED 2.7bn in 2010 according to official data released by Abu Dhabi Department of Economic Development.
- Dubai is studying the introduction of a new residence visa system for property owners according to sources close to the government.
- UAE Central Bank's Islamic CDs, which were introduced in Nov 2010, reached AED 12bn in April 2010, accounting for 11% of total CDs.
- Dubai CDS spreads have plummeted below its pre-crisis levels, taking it off the list of top 10 sovereign with the highest risk of defaulting.
- The Department of Finance in Dubai has announced that gross Dubai government debt outstanding is AED 115.8bn (38% of GDP) as of May 2011.