

Weekly Economic Commentary – June 26, 2011

Markets

Equity markets got some respite from the confidence vote in Greece and the expectation that the new funds will be disbursed by the IMF and the EU. Nevertheless, European markets continued their decline for the eighth consecutive week while the Asian markets were up after Wen Jiabao's comments on taming inflation boosted sentiment. Regional markets were mostly down – MSCI delaying their decision on Emerging Market status for UAE and Qatar led to a 1.8% decline in the DFM the day after – its biggest decline in four weeks. The euro continues to be dragged down by the Greek crisis while rising risk aversion boosted the dollar. Oil declined to a 4-month low of \$104 a barrel as the IEA announced that it will release 60mn barrels of oil next month after Libya's supply disruption. Gold prices fell sharply as well and hit the lowest price in a month.

Global Developments

Americas:

- The FOMC lowered its short-term outlook to reflect the latest data, but did not announce changes to monetary policy. Revisions to the forecast mean the Fed may shelve its exit strategy for a while, but is not yet envisaging a QE3.
- US durable goods orders rebounded 1.9% mom in May (Apr: -1.7%) on gains in non-defence aircraft (36.5%) and motor vehicles and parts (0.6%) while core capital goods orders was also up 1.6%.
- GDP growth in Q1 was revised upward to an annual rate of

1.9% (Q4: 3.1%) as businesses restocked inventories and trade gap narrowed.

- PCE index revised up to a 3.9% rate from a 3.8% increase announced previously (Q4: 1.7%) while the core PCE index advanced at a 1.6% rate, the highest since Q4'09, rather than 1.4% reported last month.

Europe:

- Euroarea industrial orders recorded a growth of 0.7% mom in Apr (Mar: -1.5%), with durable consumer goods up 2.6% (-5.9%) and capital goods rising by 1.7%. German orders grew 2.4% amid declines in both France and Italy, the former gaining from Asian demand.
- Germany's ZEW Indicator of Economic Sentiment dropped by 12.1 points to minus 9.0 point in June, with the crisis on Greek refinancing requirements dragging down sentiment.
- Eurozone's flash PMI slowed in June, to its weakest pace in 20 months, down two points to 53.6. German manufacturing PMI index stood at a 17-month low of 54.9 while the new orders index, a leading indicator of future activity, fell more than four points to 51.5.
- The German Ifo provided an unexpected relief as business confidence climate index rose to 114.5 in June (May: 114.2), with the current conditions component at a 20-year high at 123.3 (121.4).

Asia and Pacific:

- China's PMI came in at 50.1 in June – a touch above the contraction threshold and down from 51.6 in May. The expansion is weakening across the board with new orders, employment, backlogs, and quantity of purchases all posting slowing growth in line with official efforts to cool the economy & inflation.
- Japanese exports fell 10.3% yoy in May, and with imports

picking up by 12.3%, the deficit totalled JPY 853.7bn – recording the country's second-biggest trade deficit. The auto industry continued to suffer, with exports dropping 38.9%, but it is significantly lower compared to the 67% slump in April.

- Inflation rose in May in both Singapore and Malaysia on higher costs of housing, transport and food. CPI was up 4.5% yoy in Singapore; in Malaysia, it accelerated at the fastest pace in two years to 3.3% yoy.
- Singapore's industrial production tumbled 17.5% yoy in May (Apr: -9.5%; the first time IP had fallen since Nov09) as the volatile biomedical manufacturing fell 42.1%. Ex-biomed, IP was up 2.3%.
- Industrial production in Taiwan rose 7.8% in May (Apr: 7.2%) on strong global demand for Taiwanese electronics, metals and machinery products.

Bottom Line:

Until recently equity analysts were selling the story that fundamentals could be stronger than macroeconomic headwinds. With the Fed cutting growth forecasts on expectations of unemployment, consumer spending and lower home values, no indication (yet) of QE3 and the Greek saga on-going with no end in sight, the world is relying on its emerging markets: this was seen in Wen Jiabao's rescue/pledge to buy billions of euros of European debt. One should read the Chinese PMI release as a sign of a soft patch (growth moderation) in the offing in the EMEs, what with the spate of monetary & credit tightening from most EME central banks.

Regional Developments

- The Saudi Transport Minister announced that the Kingdom plans to raise the capacity of its second-largest port in Dammam and may invest up to USD 613mn on an overall port expansions program.

- KSA non-oil exports rose 24% at an annual rate to reach SAR 12.3bn while imports increased 6% to reach SAR 33.8bn in April 2011.
- Oman launched a package of incentives for the free zones including tax exemption, simplified licensing procedures, exemption from lower investment rate condition and no restrictions on labour.
- Egypt's Finance Minister has announced that Egypt will not borrow from the World Bank and IMF – this came on the heels of a budget revision with lower spending growth and reduction in forecast deficit.
- HSBC GCC Business Confidence increased by over two points in Q2, with companies maintaining a positive attitude towards both investment budgets and hiring.
- The latest World Wealth Report findings indicate that the Middle East had one of the highest growth rates of High Net Worth Individuals (HNWI) after Africa, with HNWIs population rising by 10.4% to 440k, and their combined wealth increasing by 12.5% to USD 1.7trillion.
- The Central Bank of Oman's annual report showed that remittances increased 7.3% to OMR 2193mn in 2010. Expatriate workers in private sector grew 9.3% and were mostly employed in the construction sector, according to the report.

UAE Focus

- Goldman Sachs analysts downgraded ADCB to “sell” from “buy,” Dubai Islamic Bank to “sell” from “neutral,” and Emirates NBD Bank to “neutral” from “buy” to account for negative the impact of newly introduced tighter consumer finance regulations.
- The foreign ownership limit will continue to remain at 49% in the new Companies Law, according to the undersecretary at the Ministry of Economy.
- MSCI has delayed the reclassification announcement for both Qatar and the UAE till December, “in order to give

additional time for market participants to assess recent enhancements implemented on the Qatari and Emirati markets”.

- DEWA debt was rated investment grade by S&P.
- The UAE Central bank has started providing Murabaha facilities, guaranteed by Islamic CD, according to the official release last Thursday.
- Abu Dhabi public debt management office is studying to set a ceiling limit for debt by Government Related Enterprises.
- Abu Dhabi stock exchange is conducting a study to introduce a new category for private joint stock companies like PJC companies.
- Nakheel announced last Monday that it had made payments of AED 5bn to its trade creditors. “This step marks a significant progress in the recapitalization plan, following on from the initial payments to trade creditors of Dh500,000 or less, which commenced in March 2010”, according to the statement.
- Dubai Media Office announced that the Dubai Government debt offering was oversubscribed by three times and had cost 1.1% lower interest rate compared to the previous public note issued last year.
- UAE inflation rate rose to a three month high of 1.39% at annual rate in May (Apr: 1.1%), on higher food prices.