Weekly Economic Commentary – July 24, 2011

Markets

The Greek bail-out resolution and stellar Q2 results from big firms like Apple led to an end-of-the week rally in most markets, but traders remain anxious with the tug of war between US lawmakers to find solutions to avert an unprecedented debt default on Aug 2. Upbeat global sentiment is likely to boost regional markets that were on the decline last week, mirroring Saudi's gain yesterday following the news about the liquidity support offered to Greece. The Euro rose to a two-week high against the dollar as investor confidence went up, but the rally has since faded. Both oil and gold prices were up last week, with oil hitting a 3-week high and gold surged past a historical $1600 an ounce mark.

Global Developments

Americas:

- Housing starts rose to 629k houses at an annual pace in June, up 14.6% from May's 560k, reaching a five-month high and showing the first signs of recovery for the US housing market.
- Existing homes sales news was not as positive, declining in June by 0.8% mom to 4.77 mn, reflecting unemployment levels still above 9%, and prudential requirements with stricter lending rules imposed by financial institutions.
- The labour market is still weak in the US with jobless claims rising by 10k in the week ended July 16 to 418k. These figures include the job cuts due to the Minnesota government shutdown.

Europe:

- On July 21, EU leaders agreed to a new EUR 109bn aid package for Greece, resulting in a reduction of total debt equivalent to 21% in NPV. These new measures require banks to contribute EUR 54bn. The leaders also empowered the EUR 440bn EFSF rescue fund to buy debt across stressed EU nations to avoid market speculation, similar to the one Italy experienced last week. After this announcement, the euro dropped for the first time in four days underlining the markets' view that these measures are insufficient to fully resolve the Greek debt crisis.
- Eurozone Manufacturing and Services PMI declined to 50.4 and 51.4 respectively in July to the slowest pace in almost two years.
- The ZEW index of investor and analyst six-month expectations fell to -15.1 in July from -9 in June, with a strong indication of a drop in investor confidence in Germany following the worsening of EU debt crisis.
- The Ifo institute registered a loss in confidence as well, with its business climate index declining to 112.9, the lowest in nine months, from June's 114.5.
- Italian retail sales decreased by 0.6% yoy in May.

Asia and Pacific:

- Singapore's non-oil domestic exports increased by 1.1% yoy in June (May: 7.6%), dragged down by the electronics component (-17%). Total trade rose 5.0% while imports grew 3.7% following May's 18% rise.
- Higher food prices led to rise in consumer price inflation in both Hong Kong and Malaysia. Hong Kong CPI rose to 5.6% in June (May: 5.2%), as housing prices also picked up 6.5%; in Malaysia inflation increased to 3.5% compared to May's 0.3% as food prices picked up 0.7% mom.

Bottom line:

In a week with very few data releases, the European Council's agreement on providing liquidity support from the European Financial Stability Facility has definitely brought cheer to the market. However, uncertainty still looms large over the US debt impasse, which if not resolved could lead to an adverse reaction from both credit- rating companies and financial markets and lead to a rise in US rates imperilling the already fragile recovery. In Asia, given the recent spate of softer data and higher inflation, all eyes are on the Central Banks for the next spate of tightening measures, especially in China and India.

Regional Developments

- S&P removed Bahrain from "creditwatch" to reaffirm its previous long- and short-term local and foreign currency sovereign credit ratings at 'BBB/A-3' after relative stability returned to the country.
- S&P also raised Kuwait's local and foreign currency sovereign credit ratings to AA from AA-, on higher GDP and stronger public finances.
- The Middle East and Africa region's power generation is expected to increase almost 18.5% between now to 2015 to 1,508 terawatt hours according to a report by Business Monitor International, with UAE accounting for 7.33%.
- The Saudi King's approval of six regulatory decisions issued by the Council of Civil Service will lead to an increase in civil servants salaries in several government departments.

UAE Focus

- The Dubai International Financial Centre (DIFC) reported GDP growth figures for 2010. DIFC total value added amounted to US$2.956 bn, growing by 5.2% in 2010, accounting for about 3.6% of Dubai's GDP and 1% of UAE's estimated GDP.

- Dubai Exports, an agency of the Department of Economic Development (DED), announced the manufacturing sector to be the fourth highest contributor to Dubai's GDP at 13.2%. The manufacturing sector has experienced an average growth of 8% between 2007 to 2010, with a peak of 11% in 2010.
- The National Bureau of Statistics said that the CPI rose 1.43% yoy during the first half of 2011, reflecting inflationary pressures within UAE, largely from food prices.
- According to Business Monitor International, the UAE retail sector is expected to grow by 33% in the 2011-2015, reflecting an estimated increase in GDP per capita of 18.7%. The major source of success for this sector is expected to be the buying power of country's expatriates and the growth in tourism.
- The UAE's oil production increased by 80k barrels per day (bpd) in June to 2.6 million bpd according to the International Energy Agency. The expectations for July see a slowdown from the June record, to an expected production of 2.5 million bpd.
- The Arab Monetary Fund announced that the UAE economy is expected to grow by 3.3% in 2011 mainly from an increase in oil prices and high public spending.
- According to the Ministry of Finance's statistical 2010 report on the Gulf Common Market, UAE property ownership rates and economic activity licenses had increased by 16% and 9% respectively, reflecting the UAE's attractiveness as a business hub.
- The real estate services firm CB Richard Ellis ranked Dubai as the ninth most popular business location worldwide mainly due to government initiatives and tax breaks, its integrated air and sea transport hub, and its growing importance as a financial centre.
- One of the International Takaful Summit 2011 outcomes

was a case for positioning UAE as one of the top three Takaful markets worldwide, together with Malaysia and Saudi Arabia.

- The World Travel and Tourism Council has forecast travel and tourism to account for 12.1% of UAE’s GDP in 2021 from 10.4% share in 2010, ranking UAE at 28 among 181 countries globally.