

# Weekly Economic Commentary – August 21, 2011

## Markets

As soon as the stock markets had regained some stability and a holiday mood prevailed, German GDP data were a cold shower. This was followed by a dramatic slide towards the end of the week, with recession fears weighing high on investors' mind. Regional markets were mostly down, with Oman and Qatar closing a tad above a week ago; Saudi market fell the most in two weeks when it opened yesterday. The Chinese Yuan rose to its highest ever against the greenback as the PBoC set a fifth straight record-low dollar/Yuan reference exchange rate while the Swiss Franc continued to rise despite curbs by the SNB and the Yen's rise adds pressure on Japanese exporters. Demand for the safest assets sent the price of gold closer to \$1900 per oz.

## Global Developments

### Americas:

- US industrial production advanced 0.9% mom in July, rising across major industry groups with business equipment the biggest gainer. Capacity utilization increased reaching 77.5%, the highest since Aug '08.
- Consumer prices increased more than forecast in July, led by higher energy and food prices. The 0.5% mom increase offsets the negative trend of the previous month (-0.2%).
- Residential real-estate market continues to stagnate in the US with existing home sales decreasing by 3.5% mom and housing starts down 1.5% mom in July.
- After reaching a fourth-month low in the week ending Aug

6 at 395k, jobless claims climbed to 408k in the week ending Aug 13 as US companies continue to pare down staff. The US government has announced that it will soon unveil a package of tax cuts, construction work and help to deal with unemployment.

## **Europe:**

- Euro-area economy grew 0.2% qoq and 1.7% yoy in Q2 (Q1: 2.5%). The slowdown was largely anticipated given the lack of confidence of financial markets' operators due to the worsening sovereign-debt crisis.
- German GDP grew only 0.1% qoq in Q2, the worst since 2009, after Q1's stellar 1.3%. The German locomotive has stalled together with the rest of Eurozone – preliminary figures showing only 0.2% growth.
- Inflation rate in the Eurozone fell to 2.5% yoy in July, down from 2.7% in June as European governments reduce spending to plug budget gaps and contain the crisis.
- The ECB revealed that it bought EUR 22bn worth of Italian and Spanish 10Y bonds on the secondary markets enough to reduce the spread with bunds but not enough to bring down CDS from 400bps level.
- UK CPI inflation rose to +4.4% in July from +4.2% yoy in June, a notch above expectations, with the main contribution coming from financial services.

## **Asia and Pacific:**

- Japan Q2 real GDP growth declined -1.3% qoq annualized (forecast: -2.5%). Fukushima reconstruction should take growth into positive territory in H2, but analysts are concerned about the sustainability of future growth beyond 2011.
- Japan's business confidence (Reuters Tankan) edged up by 5 points to +6 in Aug, in spite of the debt crises in Europe and global slowdown worries as autos, precision

machinery and chemicals sectors boosted sentiment. Index for non-manufacturers rose 4 points to +7, recording its highest level since Dec '07.

- Taiwan GDP recorded a 5.02% yoy growth in Q2 (Q1: revised down to 6.16%) and full year forecast was cut down to 4.81% from 5.10% estimated last month amid rising uncertainty about the global economy.
- Malaysia's Q2 GDP slowed to 4.0% yoy growth (Q1: 4.9%) in spite of the 5.2% rise in domestic demand resulting from a sustained growth in private spending.
- The Chinese Ministry of Finance (MoF) auctioned RMB 15bn in sovereign bonds in Hong Kong, with another 5bn retail tranche to be issued later. This is the Ministry's biggest overseas issue and signals official support for the internationalisation of the Yuan.

## **Bottom line:**

US & EY macroeconomic data are confirming the descent towards a mild recession in H2. Bad as it is, however this is not the worst problem – rather it is the lack of adequate political responses. While Obama has taken a re-election bus tour, the much heralded summit between Merkel and Sarkozy to discuss the destiny of Europe ended up in a photo-op and a proposal for a Tobin tax, disappointing markets. The Japanese recovery is a temporary phenomenon unlikely to dent the acknowledgment underlying the consensus view that the rebuilding impulse will quickly ebb and leave an even more meagre growth environment than before the disaster. Asia seems to be slowing down and the Chinese are striking while the iron is hot – by issuing the largest ever MoF overseas Yuan bond issue and its buyers being offshore investors in Hong Kong.

## **Regional Developments**

- Saudi Arabia's annual inflation for July jumped to 4.9% (June: 4.7%), recording the sharpest monthly increase

since Jan 2008.

- Bahrain's Q1 GDP was down 1.4% qoq (Q4: 0.2%) as the social unrest led to a significant decline in tourism and business confidence.
- Qatar's nominal GDP rose 28.4% at annual rate in 1Q2011 to QAR 141.8 bn, led by gas exports.
- Oman's nominal GDP in Q1 recorded a growth of 15.3% yoy (Q4: 11.8%), boosted by higher oil prices and in spite of the protests.
- Credit to private sector in Oman rose 8.6% at annual rate in Jul 2011 to reach OMR 8.8bn.
- Oman's inflation edged down to 0.1% in June, from May's 0.4% as food costs, which represent more than 30% of total expenses, slowed.
- Saudi Arabia's General Authority of Civil Aviation has announced that plans are underway to open the skies to GCC based airlines, in an attempt to "improve domestic air transport services and boost the kingdom's social and economic development".
- Google has launched a service called Insights MENA – an interactive tool providing critical data about the online behaviour of urban consumers in five key MENA markets: Egypt, Jordan, Morocco, Saudi Arabia and UAE.

## **UAE Focus**

- Dubai Holding has reached a deal with lenders to roll over a USD 1.16bn loan to Dec 2016. Meanwhile, with the Investment Corporation of Dubai (ICD) scheduled to repay USD 4bn (AED 14.68bn) of loans maturing on August 21, this will lead to a substantial decline in Dubai Government's public debt from AED 115.4bn to AED 100.7bn.
- The National Bureau of Statistics reported that UAE inflation slowed to a three-month low of 1.3% in July (Jun: 1.7%) largely due to the 2.43% yoy and 1.6% mom drop in housing, fuel, electricity and water prices.

- Dubai Statistics Centre announced a modest monthly decline in inflation in July, though in year on year terms prices rose by 0.62% (Jun: 0.75%). Housing, water and electricity costs fell 3.5%, the sharpest drop since May 2010. Inflation in Abu Dhabi rose 2.3% for the same period, led by surge in food and commodity prices.
- UAE non-oil foreign trade rose 25% at annual rate to AED 297.3bn in 1Q2011, with exports at AED 34.7bn (23.7%), re-exports at AED 73bn (25.9%) and imports at AED 189.6bn (21.6%).
- Profits of the 50 companies listed in ADX rose 15% at annual rate to AED 16.3bn in 1H2011.
- The Dubai Supreme Council of Energy announced that there would be no upward revisions to electricity and water tariffs in the “next few years”.