Weekly Economic Commentary – September 18, 2011

Markets

This was a week of relative relief for stock markets, which gained some ground thanks to reported progress on the Greek front and a central bank swap facility set up to provide dollar liquidity to European banks. The situation remains tense and fragile. Regional markets were also broadly stable. Eurozone tensions moved to the FX market with euro declining. Oil prices almost remained unchanged at $88 amid signs of weak demand while the gold prices reached $1810 compared to $1855 last week amid increasing efforts to contain the European debt crisis.

Global Developments

Americas:

- US Industrial production rose 3.4% at annual rate in August with manufacturing output rising 3.8%, while the output of mines moved up 5.8% and the output of utilities decreased 2.4% as temperatures moderated.
- US CPI inflation moderated in August to 0.37% mom, due to falling energy price inflation (from 2.8% to 1.2%). Core consumer prices however, continued to rise by 0.24% mom. US Producer prices remained flat in August: a fall in energy prices compensated an increase in food prices and a small uptick (0.1% mom) in the core.
- US Retail sales were unchanged in August, while a small gain was expected. “Core” retail sales (ex-autos, gas and building materials) were also unchanged after an increase of 0.3% in July. Part of this result could be attributed to Hurricane Irene, but overall weakness is

evident.

- Initial jobless claims unexpectedly rose to 428k in the week ending September 10, up from a revised 417k in the previous week. Irene did not affect much the figure, hence claims returned to around the level that prevailed in June, consistent with near zero job growth.
- US current account balance was almost constant at -$118bn in Q2. The goods and services deficit widened slightly, offset by net investment income. In other hand, the U.S. government’s budget deficit reached $1.23 tn in August, down slightly from $1.260 tn last year, attributing to improvement of income-tax collections and cut spending.

Europe:

- Moody’s downgraded two French banks on fears that holdings of European sovereign debt threaten their solvency.
- Euro-zone industrial production jumped by +1% mom in July, (-0.8% mom in June). This was weaker than the consensus expectations and hides great variation. Germany and Netherlands had strong numbers while Italian Industrial Production fell -0.7% mom and -1.6% yoy in July.
- In Euro Area, the industrial production jumped 4.2% at annual rate in August, led by 11.7% growth in production of capital goods and major market groups grew 10.4% in Germany. Annual inflation was 2.5% in August 2011, driven by surge in transport (5.6%) and energy (11.8%) prices. The external trade surplus reached euro 4.3 bn in July compared with euro 4.7 bn in July 2010. Exports and imports rose by 5% and 6% respectively. However, the current account recorded a deficit of 28.5 bn n 2Q2011 compared with a deficit of 18.6 bn in 2Q2010.
- In Germany, foreign trade exports jumped 14.7% at annual rate to 525.6 bn in 1H2011.

- In France, the current account deficit reached 4.5 bn in July. Inflation rate rose 2.2% from a year earlier in August.
- UK CPI inflation rose marginally from +4.4% yoy to +4.5%yoy in August – in line with consensus expectations.
- Italy's sovereign credit rating remains under review for a possible downgrade for the first time in almost two decades by Moody's.

Asia and Pacific:

- The Reuters Tankan survey of Japanese manufacturing improved only 2 points, to +8, as production was restored after the quake. The non-manufacturing survey fell to +3, from +7 in August. Both sectors have lost steam after quake reconstruction; hence they are now hit by the global slowdown.
- India's Industrial Production growth dropped to 3.3% yoy in July, (8.8% in June vs. consensus 6.2%). Sequentially, IP declined by 1.8% mom sa in July, compared to 1.7% in June. IP has declined on a qoq basis for the last two months, due to weak capital goods index, down 12.3% mom in July.
- The Reserve Bank of India increased the repurchase rate to 8.25% from 8%, in order to contain India's inflation rate which is the highest among the BRICS nations at 9.78% (YoY) in August.
- Singapore August non-oil domestic exports grew by 5.1% yoy versus a fall of 2.8% yoy in July, beating expectations, but the core items (excluding volatile items) continue to portray weakness in the external sector which is the harbinger of a technical recession in Q3.
- Foreign direct investment in China climbed 11.1% in August from a year earlier as Investment from overseas totaled $8.45 billion last month.

Bottom line:

The scant data flow this week was notable only because they confirmed the marked global slowdown. Singapore’s exports, a gauge of global activity, are slowing. It is becoming ever more evident that the slide will not be halted by normal countercyclical measures. In Japan a JPY 10 trn supplementary budget is in the cards, and there should be some support for domestic demand from public works etc. in the disaster zone, but nothing that could sustain domestic demand. In the US the Obama plan has some merits but is not a catalyst for a V-shaped recovery. In Europe confusion at EU level prevails, with Germans torn between resentment towards the Club Med and fears of impending mayhem if the euro area breaks up.

Regional Developments

- The Monthly Bulletin from the Oman Ministry of National Economy shows moderate economic growth accompanied by modest inflation. Oil price had averaged USD 78.45/b in 2010 against a budget assumption of USD 50/b and the outlook remains supportive. For the 2011 budget the government has projected oil price of $58/b, while the average price is so far is USD 106.58/b.
- UAE foreign trade ministry said that the foreign trade agreement between GCC and EU is around corner and 99% of agreement articles/agendas have been finalised.
- KSA inflation rate rose 4.8% at annual rate in August, led by surge prices in commodity & services (8.2%) and rent (7.8) expenditure group.
- The 11th meeting of the GCC Monetary Council board agreed to create ‘Gulfstat’, a regional statistics initiative and finalizing the headquarters agreement between the GCC Monetary Council and the Government of Saudi Arabia and the Council’s Financial Regulations.

UAE Focus

- Abu Dhabi Inflation rate rose 2.4% in first 8 months of 2011.
- The General Pension and Social Security Authority revealed that the number of pensioners reached 75,000 while the GPSSA total investment reached AED 25 bn of which AED 22 bn as deposits in local banks and the rest as external investment with limited low risk.
- DIFC has Signed MOU with Pudong Financial Services Bureau for Financial Services Exchange and Development. This is the second agreement after the MOU with Chengdu Financial City Investment and Development Co. (CFCID)
- NPL in banking sector jumped 29.8% (YoY) to reach AED 48.4 bn or 4.6% of total loans in July, while total loans increased 2.6% for the same period.
- Nakheel returned to profit (Dh58.2 million) in 1H2010 after losing $20.85 bn in 2009 according to its bond prospectus. The prospectus revealed that Dubai property prices almost declined 50% between the height of the property boom and 2010. The prospectus also revealed that Nakheel had reduced its workforce from 3,818 to 986 employees or by 74%.

Annex: ADIA Portfolio highlights

- ADIA manages a diversified global investment portfolio, across more than two dozen asset classes and subcategories, including quoted equities, fixed income, real estate, private equity, alternatives and infrastructure.
- Approximately 80% of ADIA’s assets are managed by external fund managers whose activities are monitored daily.
- Approximately 60% of ADIA’s assets are invested in index-replicating strategies.
- In U.S. dollar terms, the 20-year and 30-year annualized

rates of return for the ADIA portfolio were 7.6% and 8.1% respectively, as of 31 December 2010. Performance is measured based on underlying audited financial data and calculated on a time-weighted return basis.

Portfolio overview By Asset Class