

# Weekly Economic Commentary – September 25, 2011

## Markets

It is becoming a pattern: a week of mayhem followed by a weak rebound and then another weekly plunge. Last week was a bad one. Stock markets were falling across the board due to the usual combination of concerns over fiscal sustainability, downgrading of sovereign and bank debt, and ineffective political measures on both sides of the (North) Atlantic, with regional markets following the declines globally. Risk aversion in equity markets led to a higher dollar, with the Indian rupee one of the worst performing Asian currencies, dropping almost 5% from a week ago. Oil price dropped following most commodity prices while gold also lost its shine.

## Global Developments

### Americas:

- The US Fed announced operation 'twist' plans to sell USD 400bn of Treasuries with less than 3Y maturity and buy an equal amount of longer-term Treasury securities through mid-2012 to bring down long term rates by about 1%. The Final Statement stresses continuing weakness in labour market conditions and modest growth pace. Three FOMC members again dissented on the measures while Republican Congress leaders sent a message to Bernanke to stop ultra-loose monetary policy, as the Fed left the policy rate unchanged.
- US housing starts fell 5.0% mom in Aug, more than the consensus predicted. Single-family starts were down 1.4% and multi-family starts by 13.5%. Year-to-date single-

family starts have remained about unchanged at very low levels, whereas multi-family starts have increased nearly 50%.

- Existing home sales rose 7.7% mom to an annualized rate of 5.03 million units in Aug, a larger increase than expected. Abstracting from the volatility over the last few years, due to the impact of tax credits, home sales have regained the level of late-2007/early-2008 aided by lower home prices which are back to their 2003 levels according to Shiller-Case.
- Initial unemployment claims fell in line with expectations, by 9k to 423k in the week ended Sept 17. Continuing claims also down 28k to 3.727m.

## Europe:

- Euroland flash manufacturing PMI was marginally weaker at 48.4 in September versus 49 in August, still below the recession threshold. Services PMI also contracted, falling to 49.1 from 51.5 last month, exposing the weakness in both domestic and export markets.
- Eurozone consumer confidence fell to -18.9 in Sep (Aug: -16.5) recording the weakest reading since Aug09.
- German ZEW dropped for the seventh consecutive month, falling by 5.7 points to minus 43.3 in Sep, as recessionary fears continued on the back of the ongoing debt crisis.
- German producer prices fell 0.3% mom (5.5% yoy) in Aug, recording the first decline since Dec 09, as energy prices fell by 0.7%.
- UK recorded a fiscal deficit of GBP 15.9bn in Aug, the highest since 1993, as government spending rose by 7.2% yoy and revenues rose by only 5.9% reflecting weak income and consumption growth.

## Asia and Pacific:

- Singapore's August CPI inflation rose to 5.7% yoy from 5.4% yoy in July, confirming stickiness of the interest-rate-sensitive segments of the CPI, transport and accommodation. Low domestic interest rates push up inflation in the non-tradable sectors.
- Japan recorded a trade deficit of JPY 775.3bn in Aug, after two surplus months as imports rose by 19.2% yoy (with imports from Asia rising 16.6%) while export growth continues to be soft, rising only by 2.8%.
- South Korea's unemployment rate declined to a three year low of 3.1% in Aug (Jul: 3.3%) as hiring in the services sectors improved.
- Taiwan's data releases for Aug were positive, though signalling a slower economic expansion: industrial output rose 3.88% yoy (Jul: 3.63%), retail sales increased 3.28% due to an increase in foreign tourists. The unemployment rate was steady at 4.36%.

## Bottom line:

Attention was concentrated on the Fed FOMC meeting which came up with the "twist", i.e. a shift of purchases from the short end to the long end of the US sovereign yield curve in an attempt to lower long-term yields. It was so uninspiring that markets fell precipitously, but the rout was exacerbated by Republican leaders warning Bernanke to stop money printing. In Europe it was the downgrade of Italian debt that triggered another round of sell off which lifted interest rates into a dangerous territory for fiscal sustainability. CDS spreads reached record highs for both Italy and Spain, but more worryingly started to increase also for Germany and France. The IMF confirmed that the global economy is slowing and that the US and Europe are risking another recession. Furthermore the Eurozone banking system needs capital injections of EUR 200bn, with the anaemic recovery being derailed by political

squabbling and sovereign debt turmoil in Europe and the US.

## Regional Developments

- The IMF reduced the growth forecasts for the MENA region's oil producers by 1.0% in 2012 – taking the growth rate to 3.9% from 4.9% forecast previously on forecasts of lower oil prices.
- Kuwait has announced a fiscal surplus of KWD 5.6bn in first 3 months of the 2011-2012 fiscal year, as revenues clocked in at KWD 7.1bn, with oil revenue at KWD 6.8bn. This compares to a fiscal surplus of KWD 3.2bn in Q1 a year ago and at KWD 4.2bn in April-May.
- A court in Cayman Islands has ordered the release of USD 9.2 bn in frozen assets of Al Sanae (Saad Group).
- The central bank of Egypt, following a 26-day audit, declared that the amount of gold reserves is at 75.6 ton or \$4.4 bn, at Sep 19 gold price of \$1,789 per ounce.
- Oman' total outstanding credit rose by 13% yoy to OMR 11.576bn in July, with credit to the private sector increasing by 9.6%.
- Oman's oil output climbed 2.9% in August to 907,975 barrels per day.
- Saudi Arabia's cabinet has endorsed the implementation of the GCC railway project with an estimated cost of USD 25bn.

## UAE Focus

- The IMF, in the latest release of the World Economic Outlook, revised upwards the economic growth in the UAE to 3.8% from 3.3%.
- Sheikh Mohammed Al-Maktoum in his capacity as Ruler of Dubai has issued a new law regulating economic activity in Dubai which aims to boost investment and facilitate increased business activity. The law will establish a single portal through which various government bodies

can co-ordinate the regulation of economic activity in Dubai.

- Younis Al Khoori, the Director General of UAE's Ministry of Finance, announced that the government's scheme of deposit guarantee in the banking sector, which was started three years ago, will expire in October and a government committee will consider whether to extend the program or not.
- Abu Dhabi's economic output rose 16.8% at nominal prices in 2010 to reach AED 620.2 bn, accounting for 60% of the UAE economy's output.
- The UAE inflation rate increased 0.6% in August from a year earlier (July: 1.3%) as housing prices fell 0.74% mom while food prices increased by 0.49%.
- Abu Dhabi's non-oil external trade rose 35.3% yoy in Q2 2011 to AED 34.46bn, as imports rose 20% to AED 4.29bn while non-oil exports doubled to AED 4.31bn and re-exports recorded a 15.4% growth to AED 390mn.
- The UAE federal economic and financial committee has approved additional spending of AED 700mn taking the to the total amount of extra budget approved to AED 1.25 bn during this fiscal year and raising the total government expenditure to AED 42.2bn.
- Barclays has opened an Islamic window in the DIFC allowing it to provide banking products in compliance with Sharia law.
- Majjid Al Futtaim group, the operator of Carrefour retail chain in Middle East, incurred losses of AED 164.9mn in 1H 2011 against AED 195.9mn profits last year according to a bond prospectus.
- Industrial establishments in the UAE reached 4960 units with total investment amount of AED 101.18bn in 2010, an increase of 316 units and AED 29.24bn compared to the previous year.