# Weekly Economic Commentary – July 11, 2010

## Markets

Global markets were upbeat last week as strong data boosted market confidence, also ahead of the US earnings season starting Monday. Optimism also prevailed in the regional markets which were higher compared to a week ago, with Saudi and Oman posting the largest gains. The Japanese yen gained ground last week on safe haven demand, while the euro pared gains. Commodity prices fell on fears of a double-dip recession but recovered in the latter half – with oil currently above $75 on demand optimism and gold moving back to last week's prices.

## Global Developments

## Americas:

- US June ISM non-manufacturing index softened to 53.8 (May: 55.4) as orders and business activity declined.
- US jobless claims dropped to their lowest level in two months to 454k last week.
- A handful of large retailers reported sales gains – 28 retailers' same-store sales were up 3.1% yoy in June. Meanwhile, consumer borrowing dropped in May ($ 9.1bn decrease) from April's revised $ 14.9bn slump.

## Europe:

- Manufacturing sector PMI was up to 56.0 in June (May: 54.7) in the EU, pointing to an acceleration of the expansionary trend. Services PMI in the EU was also up at 55.5.

- Retail sales in the EU improved significantly in May (+0.2% mom), after a revised -0.9% mom drop in April.
- Germany's new industrial orders fell 0.5% mom over May, alongside an upward revision for April to 3.2% mom. Industrial production increased 2.6% mom in May (April: +1.2%).
- Swiss National Bank may have suffered paper losses of up to SFr10bn from huge interventions in the currency markets to restrain the value of the franc.

## Asia and Pacific:

- Japanese core machinery orders for May came in at -9.1% mom which translates into +4.3% yoy.
- South Korea's central bank hiked policy rates by 25bps to 2.25% after keeping a record low rate for 16 consecutive months.
- China's trade surplus grew stronger to USD 20.02bn in June (May: USD 19.5bn), as a result of high export growth. Exports rose 43.9% yoy while imports were up 34.1%.

## Bottom line:

Few market moving data were disclosed last week and they broadly confirmed that the recovery might have reached a plateau especially in mature economies. With fiscal retrenchment in Europe and monetary tightening in Asia the second half of the year is poised to be less upbeat and the world economy will enter 2011 on a weak momentum. The IMF raised its 2010 global growth estimates to 4.6% from April's projection of 4.2%, reflecting a stronger than expected first half, but underlined the increasing risks to recovery. The euro area forecast was kept unchanged at 1% for 2010 while 2011 prospects were reduced to 0.2%; the US is expected to grow at 3.3% in 2010. The banking sector is not out of the woods and the results of the stress tests conducted by the banks in Europe will be eagerly watched by the markets.

## Regional Developments

- Saudi Arabia's King Abdullah has ordered a halt to oil exploration operations to save the hydrocarbon wealth in the world's top crude exporting nation for future generations, the official Saudi Press Agency reported. This is not an outright ban, but rather meant future exploration activities should be carried out at a slower pace.
- Middle East M&A activity fell 38% in H1 2010 in spite of 86% rise in volume terms, according to Zephyr. A total $11.9 bn through 229 deals were recorded this year compared to $11.4 bn through 132 deals in 1H 2009.
- BP has approached some regional sovereign wealth funds with a view to securing a strategic investor to fend off takeover bids while it deals with its massive US oil spill.
- Oman's inflation climbed to a one-year high of 3.2% yoy in May as food, transport and housing costs edged up. The Central bank Governor expects inflation to range between 4-5% in 2010 due to imported price pressures.
- The Saudi Credit Bureau has announced that people who issue bad checks will face arrest and imprisonment for up to 18 months. Statistics reveal that 35,859 bad checks were issued in Q1 2010 (Q1 2009: 40,565).
- S&P has raised the long-term ratings on the State of Qatar to 'AA' from 'AA-', and affirmed the 'A-1+' short-term ratings on the basis of strengthening its fiscal and external balance sheets.
- Arab Investment & Export Credit Guarantee Corp. reported foreign direct investment flow into Arab states had dropped 15.1 % in 2009 to $80.7bn; Saudi Arabia topped the list with $35.5 bn, followed by Qatar ($8.7 bn).
- Foreign direct investments from the GCC to the EU leaped to EUR 63.2 bn in 2008 (2007: EUR 2.3bn), according to a

report released by the EU’s statistical office Eurostat.

- Nomura Holdings, Inc. announced that it has appointed Kuwait Finance House Malaysia Berhad as the Mandated Lead Arranger for the proposed issuance of a two-year Sukuk al-Ijarah of $ 100mn. This issuance marks the first US dollar-denominated sukuk for a Japanese multinational corporation issued out of Malaysia.

## UAE Focus

- Nakheel’s Board has been given the responsibilities to handle the restructuring of Dubai’s Limitless debt.
- Dubai Holding’s main unit, Dubai Holdings Commercial Operations Group, announced that its lenders had agreed to extend a $555 million revolving credit facility for two months.
- Moody’s downgraded to B3 from B2 the senior unsecured issuer and debt ratings of DIFC Investments LLC and Dubai Sukuk Centre Ltd. At the same time, Moody’s has converted DIFCI’s B3 issuer rating into a B3 corporate family rating and assigned a probability of default rating of B3, in line with the rating agency’s practice for corporate issuers with non-investment-grade ratings. The outlook on all ratings is negative.
- A Dubai Chamber of Commerce & Industry report showed that UAE auto imports were presenting signs of a rebound, with positive expectations for the medium to long-term – especially for smaller, fuel efficient models.
- Mubadala Development Company has retained its position among the world’s top most transparent sovereign wealth funds according to the Linaburg-Maduell Index developed by the Sovereign Wealth Fund Institute.
- The Dubai Financial Services Authority has issued final approval for the outsourcing of Nasdaq Dubai’s trading, clearing, settlement and custody functions for equities to DFM. This will take place today – 11 July.

The Dubai eGovernment has launched its ‘Dubai.emarat’ Arabic internet domain of the official portal of the Dubai Government and corresponds to the Latin domain Dubai.ae. The development comes after the Internet Corporation for Assigned Names and Numbers (ICANN) recently adopted Arabic as the first non-Latin script to be used in writing the web address in the URL address reserved for what is known as “domain name”.

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# Weekly Economic Commentary – July 04, 2010

## Markets

Global stock markets were sharply down after Friday’s weak US payrolls data. Markets in Asia were following the decline in Chinese equity. Regional stock markets mirrored the global trend, with Saudi and DFM bearing the maximum brunt. The yen is at its highest level against the dollar so far this year as worries about the health of the global economy boost haven demand for the Japanese currency. The euro regained some lost ground to the US dollar. Gold prices bounced back after a fall, while weak data forced oil lower.

## Global Developments

## Americas:

- May personal income in the US rose 0.4% mom, while core personal consumption was 0.2% higher mom.
- Initial claims for unemployment benefits unexpectedly increased by 13K last week to reach 472K for June,

substantiating fears of a double-dip recession.

- Nonfarm payrolls fell 125,000, more than accounted for by a 225,000 drop in Census employment. Private sector added 83k jobs and non-Census government employers 17k, confirming an anemic recovery.

## Europe:

- According to flash estimate Eurozone inflation for June was 1.4% yoy, falling slightly short of May’s 1.6%. German CPI was almost flat in June (+0.1% mom).
- German unemployment fell by 21K in June, less than the -45K in May. The unemployment rate stood at 7.7%. while in Euroland it reached 10.0% in May.
- Overall economic confidence in Euroland rose to 98.7 in June (May: 98.4). Consumer confidence dropped as expected to -17.0, industrial confidence was stable at -6 and services confidence beat expectations at 4.
- The Eurozone Manufacturing PMI in June was 55.6, similar to 55.8 in May, but close to a 4-month low.
- The ECB will lend EUR111.2bn for 6 days at 1% interest rate to smooth 12m loan expiry upon the request of 78 banks. So far, banks’ borrowings from ECB touched EUR442 bn in 12m loans, the biggest amount ever by the ECB, after banks’ previous request of EUR131.9bn in 3m loans.

## Asia and Pacific:

- Japanese retail trade in May fell 2.0% mom (Apr: +0.5%). Large retailers’ sales fell 4.0% mom in May after a 3.6% mom slump in April. Household spending in May decreased by 0.7% yoy, significantly lower than expected. These figures validate the evidence on a slowdown in the Japanese economy.
- Industrial production in Japan decreased 0.1% mom in May (Apr: +1.3%). The fall is the first decrease in 3 months. Vehicle production rose 30.6% yoy in May, lower

than the 50.8% rise in April.
- South Korea's industrial production jumped in May by 2.6% mom after a 0.2% rise in April.
- China's official PMI fell to 52.1 in June (May: 53.9) reflecting slowing underlying growth and seasonality.
- Indian PMI eased in June to 57.3 from the 27-month high in May (59.0). India's central bank hiked repo and reverse repo rates by 25 bps each, citing rising inflation and growth on the upside.

## Bottom line:

This economic picture is deteriorating. Early signals of an impending slowdown have been corroborated by weaker data in China as a result of the monetary tightening and persistently high unemployment on both sides of the Atlantic. The rebound in global manufacturing is losing steam (and the fiscal stimulus is waning without having produces the expected jolt. In Europe attention is focusing on the banking system as evidence mounts that especially in Germany and France major banks will need another round of recapitalization. With fiscal retrenchment kicking in from the second half of the year across Europe, forecasts for 2011 and beyond will need to be revised down. The bright spots remain emerging Asia, other emerging markets such as Brazil and peripheral industrial countries, namely Canada and Australia.

## Regional Developments

- Preliminary GDP estimates for Q1 2010, show that Qatar's economy grew at 22.7%, yoy despite a 21.6% plunge in construction activity. Qatar's population has more than doubled since 2004 to 1.7 million, the Statistical Office announced.
- According to a recent study by Business Monitor International, GCC will invest over US$119.6 bn in infrastructure projects over the next ten years; rail

projects account for over 90% of the investment.

- Directors of GCC stock exchanges met in Riyadh and decided to establish five committees entrusted with unifying bourse laws and legislations ahead of integration.
- SAMA disclosed that the accumulated profits of Saudi commercial banks have plunged 14% during the first five months of 2010 to SAR 12.16bn riyals against SAR 14.20bn in the same period of 2009. Assets of the SAMA rose to SAR 1.61 trillion in May (Apr: SAR 1.60trn). Foreign investments in securities (~70% of total assets) continued to rise for 3 consecutive months to SAR 1.16trn.
- The Kuwaiti National Assembly passed the 2010/2011 budget which projects a massive deficit of KD 6.6 billion and a sharp increase in spending, but MPs blasted the government's economic and financial policies for failing to diversify the economy and continued dependence on oil. Revenues are projected at KD 9.72 billion with oil income at KD 8.62 billion and non-oil revenue at KD 1.1 billion. Oil income was calculated at a conservative oil price of $43 a barrel, up from $35 for the previous fiscal year.
- Qatar issued 2 bn riyals in domestic bonds with a 5.0% coupon last week maturing on June 30, 2015; this follows a sale of QR 10bn in bonds to local banks earlier in June.
- Saudi Arabia's stock market regulator has approved two IPOs to be completed before the end of the year: first, Al Jouf Cement Co will offer 50% of its shares to the public (65 million shares at 10 riyals a share), with the offer taking place from July 19-25; second, Abdullah A.M. Al Khodari Sons Co will offer over 12 million shares to the public from October 4-10 2010, representing 30%of the company.
- Qatar and Kuwait will buy up to 3.8 bn US dollars worth of Agricultural Bank of China in its upcoming share

sale, in what could be the world’s largest IPO.

## UAE Focus

- Cargo operations inaugurated Dubai World Central-Al Maktoum International (planned to become the largest airport in the world). Passenger flights are due to start at end Q1 2011.
- Dubai Economic Department issued 1,369 business licences in May 2010, highlighting a 63% yoy rise.
- The Dubai Land Department introduced a financing initiative called “Tayseer” to stimulate real estate funding for 40 selected developments in the emirate, introducing a four way partnership between the Dubai Government through the Land Department, the UAE’s leading banks, developers and investors in the sector.
- Nakheel has started making 40% cash payments, worth about AED 4bn to creditors after the developer signed “a substantial number of restructuring agreements”.
- DEWA recorded an increase of 316 MW in the annual electricity Peak Load in Dubai, a rate of 5.6% as of June 2010. The rate of water production in Dubai to date rose from 271 million gallons per day (Aug 09) to 275 million gallons per day (June 2010).
- The Ministry of Economy has enacted a reform of the Islamic insurance system (Takaful).
- Mercer’s 2010 Cost of Living Survey shows that Dubai is ranked the 55th most expensive city for expats, on par with Los Angeles. Abu Dhabi the most expensive city in the Middle East is ranked 50$^{th}$.
- Du will gain access to the network of Etisalat, enhancing of competition in the telecom industry.

# Weekly Economic Commentary – June 27, 2010

## Markets

The developed economies stock markets suffered a painful week, erasing the gains achieved in the first three weeks of June due to renewed tensions on euroarea sovereign debt. Emerging markets were less affected, but the yuan revaluation is still being digested, with ensuing reduction in global liquidity rightly perceived as a negative for stocks. Regional markets were mixed with Egypt suffering the most from contagion. The euro was broadly stable versus the dollar, but dropped against the yen. Oil and gold were broadly stable.

## Global Developments

## Americas:

- US new home sales declined 32.7% in May to an annual rate of 300,000 units, an all time low and well below market consensus. Housing Price Index showed US home prices rising 0.8% mom in April compared to a revised 0.1% mom in March, probably reflecting a surge in transactions heading into the tax benefit deadline.
- The US Fed after its regular policy meeting vowed to hold the rates unchanged for an "extended period", stressing preoccupations for a slow US economic recovery.
- New orders for durable goods fall -1.1% mom (+15.3% yoy) in May, while orders for nondefense capital goods ex aircraft rose in line with expectations. Initial and continuing claims fall as anticipated.
- Initial jobless claims fell by 19k to 457k in the week ended June 19. Continuing claims fell by 45k during the

week ended June 12, from an upward-revised level in the previous week.
- US GDP was revised to 2.7% qoq annualized from a previous 3.0% due to revisions in services consumption.

## Europe:

- The U.K. government presented its austerity budget, with planks broadly in line with expectations. The budget lays out a 5-year plan, aiming to reduce the deficit from 11% of GDP in 2009-10 to 2.1% of GDP in 2014-15.
- The UK has imposed a tax on banks amounting to GBP 2 bn. Other EU countries are expected to follow soon.
- Germany’s IFO for June exceeded expectations thanks to the current conditions component up by 7 points, to 101.7, even thought the expectations component faded. GDP growth in Q2 therefore could be stronger.
- Polish Presidential Elections confirmed that Komorowski, the acting president and candidate of the governing PO, won the first round with 41.2%. He will fight on July 4th Kaczynski, leader of the opposition.
- The EU April current account dropped unexpectedly to a €-5.1 bn deficit after a €1.5 bn surplus in March.
- Eurozone PMI manufacturing showed a 55.6 assessment, a minor decline of 0.2 points. Meanwhile, EMU Services PMI decreased significantly to 55.4 from 56.2 last May. German manufacturing PMI indicated that worsened marginally by 0.3 points to 58.1 and the services PMI offered a similar picture, down by 0.2 points.

## Asia and Pacific:

- The yuan revaluation has so far produced modest effects but it is a step in the right direction to address the global current account imbalances, stem inflationary pressure in China and reduce liquidity worldwide.
- The Japanese government outlined a 10-year deficit

reduction plan still lacking specifics and still in the mire of the political realities especially the outcome of next month's Upper House election.

- Core CPI in Japan rose above market forecast, narrowing to -1.2% yoy in May (April: -1.5%). The deflationary trend remains intact, excluding the impact from one-off effects and erratic components.
- The Japanese trade surplus was ¥324.2 bn in May from a revised ¥730.0 bn in April, below the expectations.
- Japanese All Industry Activity Index grew 1.8% mom in April, the highest climb in the last 3 months.
- Singapore's May industrial production increased 5.2% mom in May, after 17.7% in April, the sixth consecutive month of positive growth. The main driver of this jump was a surge in pharmaceutical production.

## Bottom line:

This week has brought back the attention on key unresolved issued that markets had preferred to ignore. The dramatic drop of the house starts in the US is a reminder that the real estate crisis might take another nasty turn; Fannie and Freddie will be delisted and their rescue could cost another USD400 bn. The announced stress test of the Spanish banks puts the spotlights on the volume of toxic assets still plaguing European banks. The G20 Meeting focused on financial regulation with a capitulation to the interest of large banks. No consensus view emerged on fiscal policy: the Europeans are broadly in favor of tightening the US prefer to wait and see.

## Regional Developments

- Qatar's Public Works Authority (ASHGHAL) signed a contract, valued 1.59 bn Riyals (USD 437 mn), with Turkish Yuksel Insaat and Qatari Midmac Contracting to build the seventh phase of Doha Highway.
- Oman boosted its crude production by nearly 68,000

barrels per day (+8.6%) in the first four months of 2010 pushing ahead with a drive to reverse a decline in its oilfields production.

- The Lebanese government approved, for the first time since 2005, the 2010 budget, equal to 13.33 bn USD based on relatively low 4.5 % growth, compared with the IMF's forecast of at least 8%. The deficit is projected at 10% of GDP, up from 9% in 2009 (with public debt at 153% of GDP, i.e. 50 bn USD).
- Kuwaiti Prince Basel Salem Sabah Al Sabah, 52, was allegedly shot by his uncle, Shaikh Faisal Al Jaber.
- Inflation in Kuwait fell 0.3% mom in Feb – food prices (18% of the basket) fell by 0.3% mom (Jan 0.8%); transport prices rose 0.1% (Jan:0.2%).
- According to the World Gold Council, gold held by the Saudi Arabian Monetary Agency more than doubled to 322.9 tonnes from 143 tonnes. SAMA made a cryptic reference in a footnote to its latest quarterly report that "gold data have been modified from Q1 2008 as a result of the adjustment of the Sama's gold accounts".

## UAE Focus

- Dubai exports and imports grew 14% yoy and 9% in value terms during Jan-Apr 2010 to reach AED 180.7 bn and AED 115.6bn respectively. India accounted for the largest share of the imports (AED 17.1 bn or 14.8% of total imports) while China came close with AED 10.1 bn and US at AED 7.8 bn.
- Real estate transactions registered at the Land Department totalled AED 117 bn in the first five months of 2010. The official records showed 3,462 sale transactions were registered in the period, with a total value of AED 25 billion and a combined area of 62,815 sq ft.
- Dubai airports' passenger traffic rose 13.6% yoy in May to 3.65 million passengers – the 11th consecutive month

of double-digit growth. In the first 5 months of 2010 passengers were 18.9 million, up 17.7% from the same period in 2009. Freight volumes rose 31.7% yoy to 195,221 tons in May, driven by increased activity in Asia and regional markets.

- UAE deposits fell to AED 970.8bn at the end of May, as government deposits dropped by nearly AED 15.9bn to Dh191.3bn. Money supply in the UAE rose 0.4% yoy at the end of May, in the slowest pace of growth since at least 2001, after a 2.1% rise in Apr 2010. Meanwhile, overall bank loans touched AED 1,021.2 bn, and deposits fell to AED 970.8bn.
- UAE’s balance of payment (BoP) deficit narrowed to AED 22.5bn in 2009 (2008: AED 172 bn) after a massive improvement in net capital flow and a decline in imports due to the global economic downturn. Current account remained in a surplus – to AED 28.8bn in 2009 (2008: AED 81.8bn).
- MSCI announced that it will maintain the classification of UAE financial markets as Frontier Markets. MSCI UAE Index will remain under review for a potential reclassification to Emerging Markets in 2011.
- Abu Dhabi based Aabar Investments announced it might delist from the stock market. Aabar also bought a 4.99% stake in Italian bank Unicredit, one of the largest European banks by capitalization.
- Construction company Arabtec confirmed that it has received the first payment of outstanding debt (equal to Dhs 500,000) from Nakheel.
- Dubai’s Emaar Properties has sold the rights to operate Hamptons International in the U.K., Europe and Asia to Countrywide, the U.K.’s largest estate agency and property services group.
- According to the periodic Harbor Report 50,000 new residential units will come in Dubai property market by end 2011. Prospective office tenants are refusing to consider strata titled buildings, with an average

estimated reduction in office lease rates of 50% over the last year.
- Rental values in DIFC financial district have not recorded any decline in the past three months. DIFC rents declined only 11.1 % in the past year.

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# Weekly Economic Commentary – June 20, 2010

**Markets**
Stock markets extended their rebound after a dismal May performance led by Euroland. Emerging markets interrupted their slide despite doubt looming on China's soft landing. The GCC stock index was marginally higher thanks to KSA and Qatar, but other bourses displayed negative signs. Low volumes typical of the summer period are dominating most regional markets, dragging most share prices lower and some indices to new yearly lows. The euro firmed from recent four-year lows as investors' risk tolerance rose with the set-up of the European intervention fund and euro zone industrial output data surged. Gold hit fresh record highs while oil prices advanced and are now close to $80 per barrel.
**Global Developments**
**Americas:**

- US Single-family housing starts and permits slumped in May (-10% mom), after expiry of homebuyer tax credit.
- May's producer price index declined 0.3% mom, largely from lower energy prices (-7%) while PPI ex-food and energy rose 0.2%, reflecting rise in tobacco (2.2%), lightweight vehicles, aircrafts and prescriptions prices.

- Industrial production registered an unexpectedly strong gain in May at +1.2% mom (+7.6% yoy).
- May CPI was broadly in line with expectations (-0.16% mom) – a 2.9% drop in energy prices pulled the overall index down while food prices were flat on the month.
- Jobless initial claims rose by 12k to 472k in the week ended June 12, while continual claims rose by 88k during the week ended June 5. Still no respite in sight in the weak labor market. The modest recovery is a jobless one which is likely to affect November mid-term election results.

**Europe:**

- Moody's downgraded the Greek sovereign to 'junk' (from A3 to Ba1, with a stable outlook).
- Fear of contagion from Spanish banks hit the markets, but fears subsided when the authorities promised to conduct a stress test on the banks' balance sheets (and disclose the results). Other EU countries will follow this practice.
- Eurozone industrial production shows that the recovery is robust, +0.8% mom (+9.5% yoy).
- May's inflation for the Eurozone clocked +1.6% yoy, in line with preliminary estimates.
- The Eurozone ZEW Survey on economic sentiment for June showed a steep decline to 18.8 from prior month's 37.6. More specifically, the survey for Germany surprised negatively, declining to 28.7.
- German PPI grew at +0.3% mom in the month of May and 0.9% yoy beating expectations, while UK CPI rose 0.2% mom in May, (2.9% yoy), putting pressure on the Bank of England for revising up its interest rate.
- April unemployment is down to 7.9% in UK and the claimant count decreased by -31k in May, both better than expected. Surprisingly during this recession the UK unemployment has risen only slightly.

- Ahead of the UK budget this week (June 22nd), public sector net borrowing surprised on the lower side – at £16.0 billion in May, above £10 billion in April, but below expectations of £18.3 billion.

**Asia and Pacific:**

- China has signaled to the US government that it is ready to revalue soon the Remimbi.
- Japan's industrial production grew 1.3% mom in April (+29.5% yoy).
- India's inflation (WPI) for May rose to a high 10.2% yoy, with core inflation (excluding food and fuel) also increasing sharply by 2.7% mom after an earlier decline in March.
- Singapore's non-oil domestic exports were up 24.4% yoy in May- sustained by electronics exports. Exports to China remained robust, while there were signs of moderation in exports to the US and Europe.

**Bottom line**: Manufacturing across the world continues to perform strongly across the world, but the employment situation is not improving and the banks are still under stress, especially in Europe where losses might still be concealed in balance sheets. A great deal of attention is absorbed by the soft landing engineered by the Chinese authorities through a mix of monetary tightening and administrative measures to stem real estate inflation. The proposed flexibility/revaluation of the Remimbi must be seen in this context. Meanwhile labor unrest is a sign that a boost to domestic living standards in China is becoming a political hot potato and not only a request from outsiders, eager to curtail its current account surplus.

**Regional Developments**

- According to a recent Moody's report, the year 2012 will pose a major challenge for GCC corporates as $28 bn worth of debt will mature that year, with majority held by entities based in Dubai and Abu Dhabi.

- Ernst & Young reported that the value of MENA's mergers & acquisitions dropped 59% yoy to US$6.5 bn in Q1 2010 while the number of announced deals dropped to 76 in Q1 2010 (Q1 2009: 91). Egypt, with 10 deals, Saudi Arabia with 8, and Qatar and Jordan with 4 each recorded the maximum number of deals while Qatar attracted 39% of total deal values in the region, followed by Lebanon ($450 mn) and Saudi ($381.4 mn).
- The GCC investor confidence, reported by Shuaa Capital, fell – for the second time in a row – 5.7 points to 107.4 in May. Oman and KSA dropped moderately to 107.3 and 123.6 points respectively, while Kuwait (97.9) and Bahrain (98.6) indices moved below the threshold 100 points implying overall negative sentiment.
- Oman's revenues during the Jan-Apr 2010 registered a rise of 42% yoy to OMR 2.9 billion, boosted by oil and gas revenues reaching OMR 1.9 bn and OMR 304.1 mn by April respectively.
- The appetite for Sukuk is still strong: investors from the GCC, led by Islamic Development Bank subscribed to the $1.25 bn Sukuk al-Ijara issued by the Malaysian government priced at US Treasury 5-year plus 180 basis points with yields touching 3.928% to be distributed on a fixed-rate basis annually.
- Inflation in Saudi Arabia rose to 5.4% in May (Apr: 4.9%) – the highest level since May 2009 – due to an increase in food prices and rents. Rent, fuel and housing-related services rose 9.4% yoy in May (Apr: 1.1%) while the food and beverages index was up 5.4%.
- A Doha based daily reported that Qatar's Public Works Authority plans to implement infrastructure projects worth $20 bn in the country over the next five years, with local companies awarded 30% of the projects' value.
- Saudi Arabia's Central Department of Statistics & Information revised upward data for 2009 real GDP growth: +0.6% yoy from 0.2% earlier; oil sector

contracted 6.7% (6.4 %) while the private sector grew 3.5%.

**UAE Focus**

- Dubai consumer prices rebounded in May, rising 0.78% mom, after falling for six months, boosted by rising housing costs and food prices.
- Moody’s stated that asset quality among UAE banks will remain under pressure this year. Dubai World’s recent restructuring is essential to determine the asset quality challenges to the UAE banking system.
- UAE’s oil export revenues for Jan-May 2010 rose to $28bn from $16 bn in the corresponding period last year according to figures released by the US Energy Information Administration. The figures place UAE as the third largest earner in the 12-nation OPEC after Saudi Arabia and Iran.
- The UAE Central Bank Governor was quoted saying that the UAE is likely to grow at about 4% this year and next.
- UAE’s six airports are expected to handle 41.7 million passengers by 2020 (current level: 26 mn), according to the projections by the General Civil Aviation Authority. Flight movements in the UAE are projected to grow at about 6.0% annually to touch about 997,000 by 2020.
- UAE’s Minister of State for Financial Affairs announced that the government would be issuing several new laws, compiled by the MoF in co-operation with the Securities and Commodities Authority, the Central Bank and the Insurance Authority, to regulate the UAE’s financial sector and reform the bankruptcy code.
- Dubai’s non-oil trade was up 19.0% yoy to AED 136bn in Q1 2010 according to Dubai customs.

# Weekly Economic Commentary – June 13, 2010

## Markets

Stock markets remained edgy – with the focus firmly on prospects for 2011 which appear now less buoyant than a few month ago – but had a positive week (except in Japan) rebounding from a series of losses. Regional stock markets however recorded losses with the exception of Saudi Arabia (where the index jumped up 6%) and Qatar, in line with the weakness in most emerging markets hit by a bout of risk aversion. The euro has firmed against other major currencies and the oil prices are hovering well above 70 $/bl. Gold is again on the rise.

## Global Developments

## Americas:

- The US Fed "Beige book" reports "modest" improvement in economic activity across the nation with some hints of inventory stabilization and higher lending in some areas. Manufacturing is improving gradually together with consumption and investments, but real estate, employment and lending failed to pick up.
- Brazilian Central Bank decided to increase the Selic (overnight lending rate) by 75 basis points to 10.25%. Moreover the annualized Brazilian GDP grew 9 % qoq in the first quarter, the highest rate since 1995.
- Initial Jobless Claims are down to 456K from a revised figure of 459K and Continuing Jobless Claims decreased to 4462K from a revised figure of 4717K.
- The trade balance deteriorated slightly in April to -$40.3bn from the previous month -$40.0 bn.

- US retail sales dropped -1.2% mom in May (+6.3% yoy) (median forecast +0.2% mom). The drop is linked to lower building materials sales due to the end of stimulus, but the trend in consumption is clearly waning.
- University of Michigan Consumer Confidence rose to 75.5 from 73.6 contrasting the weak retail sales figure.

## Europe:

- EU Finance Ministers set the rules for accessing the EUR 400 bn fund in support of fiscally wobbly governments and agreed that Estonia met the requirements to join the euro from next year; they also granted Eurostat more power over auditing public finance of EU states and levied a tax on banking transactions.
- Germany’s industrial production grew 0.9% mom in Apr from 4.3% in Mar. Moreover Germany factory orders came in above expectations, with a 2.8% mom increase in April after March’s 5.1%.
- The German trade balance narrowed to €13.8 bn in April from €16.9 bn in the prior month. German exports increased 19.2%, a confirmation of the competitiveness boost to Germany from a falling euro.
- Italy’s industrial production jumped up 1% mom (7.8% yoy) in Apr, while France’s IP fell 0.3% (+6.1% yoy).
- UK industrial production decreased 0.4% mom in Apr, from a 2% jump in Mar.

## Asia and Pacific:

- Japan current account shrank to Y1326.2bn in Apr. from Y2534.3bn in Mar. The trade surplus was Y859.1bn
- Japanese Current Eco Watchers survey fell in May to 47.7 compared with 49.8 a month earlier.
- Chinese Trade Balance in the month of May recorded a surplus equal to $19.53 bn, compared with the previous month $1.68 bn, exports increased 48.5% yoy and imports

48.3% yoy.

- Chinese Industrial Production decreased to 18.5% yoy from 19.1%. while CPI increased 3.1% yoy indicating that inflation pressures are subsiding.
- Japan's new Prime Minister has underlined the urgent need to reduce the fiscal debt, in a drastic change of policy focus from the previous administration.

## Bottom line:

The macroeconomic data indicate a slowdown in the US (where GDP forecasts for Q2 need to be revised down after the retail sales numbers) while emerging Asia continues to surprise on the up side. The key factor remains the fiscal crisis in Europe (Germany has unveiled a plan to bring the deficit below 3% of GDP by 2013) which is creating a sense of urgency in tackling the deficits in Japan and in the US. In the latter the effects of last year stimulus are less vigorous than expected and fiscal consolidation is emerging as a key point in the campaign for mid term elections.

## Regional Developments

- Saudi Electricity will raise tariffs for government, commercial and industrial users as of July. While the increases are modest the significance is not: KSA is planning to reduce its hefty subsidies in energy.
- Turkey, Lebanon, Jordan and Syria agreed to set up a free-trade zone, complete with a visa-free travel regime for their nationals.
- An official at the Egyptian Railway Authority (ERA) announced the launching of a 10-year plan for a development project worth LE 40 billion in the period 2011-2020, centered in the Nile Delta.
- GPSSA, the UAE pension fund, announced for the first time its figures revealing that in Q1 it collected AED 705 million in pension premia from 75,000 employees.

## UAE Focus

- Federal customs data shows imports and exports, including re-exports, increased in March by 11% and 34% respectively on the year.
- UAE & Venezuela signed double taxation agreement.
- Starting from 27th June all transactions on Nasdaq Dubai will be moved to the DFM trading platform.
- Abu Dhabi is considering a proposal to use solar-energy equipment on rooftops in the city to generate about 500MW of power, the executive director at the city's Executive Affairs Authority said yesterday.

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# Weekly Economic Commentary – June 06, 2010

## Markets

Stock markets continue to accumulate losses due to the fiscal crisis in Europe and a general reassessment of the prospects for 2011 which are looking bleaker compared to 2010. Regional markets were mostly down with the exception of Morocco due to Greece's situation and renewed sharp drops. The euro dropped to a four-year low against the dollar as worries that European banks could still face large loan losses next year. Oil price falls amid Wall Street while raised in DME and gold prices rose also.

## Global Developments

## Americas:

- US pending home sales grew 6.0% mom in April from a revised +7.1% in March while construction spending surprisingly increased +2.7% mom in April, outpacing March’s 0.4% rise.
- US initial jobless claims declined to 453k from the previous week’s revised figure of 463k. US non-farm payrolls rose 431k in May, a figure that was dominated by temporary hiring for the US Census.
- The Bank of Canada became the first G7 central bank to hike rates in the current cycle, by 25bp, to 0.5%.

## Europe:

- The ECB disclosed that it has piled up €35 billion of public debt in the past 3 weeks and revised up its estimate of bank loan losses for 2010 by €10 billion, to €135 billion. In 2011 it expects a further €105 billion of losses.
- The Euroarea unemployment rate rose to 10.1%, despite a decline in the German rate to 7.7%, down 5 ticks in the past 6 months.
- Euroarea manufacturing PMI final reading confirmed a fall from 57.6 to 55.8 (a unit lower than the flash).
- Eurozone GDP rose in the first quarter of 2010 by 0.2% qoq, a welcome rise from prior quarter’s 0.1% qoq.
- Russia’s central bank cuts rates by 25bp, to 7.75%.

## Asia and Pacific:

- China’s two PMIs (the official and private sector index) showed roughly the same profile in May: the official slipped from 55.7 to 53.9, while the HSBC-sponsored one fell from 55.2 to 52.7.
- Japan’s Prime Minister resigned after a few months in office in the wake of the discontent over the renewal of

the Okinawa US base and widespread criticism over economic policy.

## Bottom line:

The current data flow highlights that the situation in the periphery of Europe is at a difficult juncture, but also other major economies are starting to show some “recovery fatigue”. Even China, where the authorities have signaled a need to address the housing bubble and to restrict access to credit, is feeling the effects of monetary tightening. International tensions due to Israel attack on peace activists and the skepticism of the US over the Iran Turkey Brazil deal on the nuclear program might intensify.

## Regional Developments

- Legislative framework for setting up the regional central bank, launch of the single currency, principles and mechanism to select the executive president of the bank were issues discussed at the latest meeting of the governors of the region’s central banks and members of the board of directors of the GCC Monetary Council.
- Demand from the EU for removal of GCC customs duties on EU exports is the reason why the EU-GCC FTA has failed to materialize till now, according to the Director of International Economic Relations in the GCC.
- Saudi Arabia and Bahrain are expected to approve later this year the route of a new oil pipeline (which will have a capacity of 350,000 barrels a day) between the countries, costing $350 mn.

## UAE Focus

- Dubai Holding Commercial Operations Group posted a net loss of $6.2 bn in 2009 which is estimated to be equivalent to 20% of its total assets.
- Abu Dhabi Industrial and Commercial Bank of China are

willing to provide financing, export credit and advisory services for the UAE railway signaling a leap in economic partnership between the two countries.
- The Abu Dhabi Government’s investment arm Invest AD will launch a private equity fund with its Hong Kong partner to invest in the Middle East. It will close subscriptions for a separate Middle East stock fund in June.
- Moody’s downgraded local and foreign currency deposits of Commercial Bank of Dubai to A3/Prime-2.
- Tabreed is planning a $1.1 bn debt issue after it delayed payments on an Islamic bond last week.

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# Weekly Economic Commentary – May 30, 2010

**Markets**
Stock markets remain weak due to Greece’s situation and renewed Eurozone debt worries. However, the markets started to rally, especially in Asia, towards the end of the week as investors took the view that the recent sell-off had left stocks undervalued. Regional stock markets were all down compared to the week before, reflecting global cues. The euro remained under pressure, while both oil and gold rebounded after sharp drops.
**Global Developments**
**Americas:**

- U.S. Q1 GDP growth was revised down by two decimals to 3% yoy (against consensus for a 2-tick upward), as consumer spending, business equipment spending and exports were all revised down, confirming a weak recovery.

- US corporate profits grew at about 24% yoy in Q1 according to Commerce Dept, after 36% and 50% in the prior two quarters. Essentially firms' costs have fallen more quickly than prices. However, the scope for a further big increase in margins seems limited.
- Existing home sales surprised analysts with an increase to 5.77 million (+7.6% mom) units against 5.60 million expected. Also new home sales growth was solid at 14.8% to 504k from a prior month's revised 439k sales.
- The Fed's Housing Price Index increased 0.3% mom in March against consensus expectations of no change.
- Consumer confidence in May shot up to 63.3, marking three months of straight increases. Meanwhile, the Richmond Fed Manufacturing Index (May) fell to 26, in line with market consensus, from prior reading of 30.
- US durable goods orders increased 2.9% mom in April. Transportation recorded the largest increase: 16.1% up on non-defense aircraft and parts.
- Initial jobless claims disappointed, with a meager decrease to 460k on prior week's revised 474k while continuing claims surprised on the upside – with 4,607k claims filed.

**Europe:**

- Germany, Spain and Italy announced new austerity measures to cut their deficits and bring the budget deficit relative to GDP under the 3% target. The measures and spending cuts risk making recovery more problematic.
- UK estimate for Q1 2010 GDP growth was revised up to +0.3% qoq from +0.2% and -0.2% yoy.
- Industrial new orders for the Eurozone came in at 19.8% yoy for March, representing a significant increase on a revised 12.5% growth for prior month.

- Gfk consumer confidence for Germany was 3.5 for June (May: 3.7), marking the end of the index’s 2-month increase. CPI inflation in May remained subdued: 0.1% mom & 1.2% yoy.
- Citing the impact of budget cuts on growth, Fitch downgraded the public debt of Spain to AA+ from triple A.

**Asia and Pacific:**

- Japan’s April trade was up 15.8%, saar, over Q1 (when it had been up 67%, qoq saar).
- Japan’s all industry activity index fell by 0.8% mom in March – an improvement from the Feb slump of 2.3%. Additionally, retail trade improved in April, rising 4.9% yoy while April CPI fell -1.2% yoy.
- Thailand posted a better-than-expected Q1 GDP growth of 12.0% yoy (Q4 2009: 5.9%), with exports as the main driver of growth, in spite of the political uncertainties and ongoing civil strife.
- Philippines GDP for Q1 registered growth of 12.3% qoq (+7.3% yoy), on strong domestic demand up 10%.
- Taiwan and Singapore released industrial production data for Apr, 31.4% and 51.0% yoy respectively – reaffirming that the Asian economies went from recovery to boom.

**Bottom line**: The current data flow remains very robust with the exception of Europe where macroeconomic data are still pointing upwards, but where the fiscal crisis is sapping confidence and risks derailing the recovery. Austerity measures are expected to weaken domestic demand in the second half of the year and a double dip is a distinct possibility. Asian economies continue to surprise on the upside displaying exceptional growth across the board. There is a general sense that the second half of the year will be less positive in the mature economies while emerging market will continue to fare better.

**Regional Developments**

- Kuwait’s Parliament approved a spending plan of $17.30 billion in the first year of a four-year development plan that starts in 2010.
- Oman recorded a large budget surplus of OMR 421.2mn in Q1 2010, due to strong crude prices and higher oil production, and in spite of a spending increase to OMR 1.6bn, official data showed yesterday. The surplus is compared to a deficit of about OMR 16.6mn in Q1 2009.
- The SWF Transaction Database placed Qatar, with almost $13bn received in direct investments, among the top three in sovereign wealth funds transaction values in 2009. Globally, SWF direct investments grew by a third in 2009, with investments totaling $92.8 bn compared with $69.6 bn worth of investments in 2008.
- Saudi Arabia’s foreign assets edged down slightly in April for the first time in eight months given its increase in expenditure, in line with its counter-cyclical fiscal stimulus.
- Claims on the private sector by Saudi banks expanded by an annual 3.6% in April to SAR 750.63 bn, the highest rate of growth since August. However banks still remain quite risk-averse restricting credit to the private sector, (+0.4% yoy) but put more money in private security investments (3%).
- Trade data for Feb 2010 showed a 30% yoy rise in Saudi Arabia’s nonoil exports to SAR 10.1bn. Meanwhile, petroleum exports were down to SAR 24 bn compared to SAR 26 bn in Feb 2009.
- The IIF GCC regional Overview affirmed that while the financial sectors in the GCC are well capitalised, a further rise in NPLs and need for higher provisioning suggest that banks’ balance sheets are likely to remain constrained, restricting the growth in lending.

**UAE Focus**

- The UAE Economic Report 2009 by the Ministry of Economy reports a GDP growth of 1.3% in 2009, with the non-oil sector contributing to 71.6% of the GDP. The GDP at current prices for 2009 was AED 914 bn and the GDP at constant prices was AED 514.5 bn. The report forecast a 3.2% growth in 2010.

- The IMF forecasts a 1.3% growth in 2010 with a strong outlook for current account balances.
- Bank soundness indicators continued to exhibit stability according to the IIF Regional report on the GCC. The average capital adequacy ratio was above 15% for all bank sectors – well above the 8% Basel II requirement and the local regulatory minima (8% in KSA; 10% in Oman and Qatar; 12% in Bahrain, Kuwait and the UAE).
- Dubai International Capital sought to extend to Sep 30th the maturity of a $1.25 bn loan due in June to “allow the implementation of a consensual longer term plan that would enable DIC to maximize the value of its business for the benefit of all its stakeholders”.
- The Dubai Land Department is deregistering properties, which strips buyers of their title, after sending letters to those who missed payments on off-plan projects whose construction is more than 80% completed.
- Dubai’s Police Chief urged officials running the Emirate’s biggest companies to resign for their role in building up an estimated $100 billion of debt.
- Dubai infrastructure projects under construction are worth more than $216 billion (Dh792.72) and projects for an additional $270bn are in the pipeline or under bid, according to Meed Projects. However, in the UAE more than $425bn worth of construction and infrastructure projects were put on hold or cancelled since Q42008, just under $300bn of which in Dubai and $49 bn in Abu Dhabi.
- Dubai Land Dept. released Guidelines implementing ‘Strata Law’, which introduces a new regulatory framework specifying the rights, responsibilities and obligations of all parties jointly owning properties.

- Total exports by Dubai Chamber of Commerce recorded a 13% yoy jump in April, but down 10% mom.
- Fitch downgraded Dubai Bank as concerns mount that other Dubai companies to which it is connected, including its owner, state conglomerate Dubai Holding, face financial difficulties.
- The UAE Central Bank plans to launch new liquidity facilities in the next three months, based on a commodity *murabahah,* to help the Islamic banks manage cash.

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# Weekly Economic Commentary – May 23, 2010

**Markets**
Stock markets remain weak due to Greece's situation, but rebounded on Friday after positions squaring in Europe and relief in the US that the financial reform will not be harsh on Wall Street. The euro rose somewhat from its four-year dollar lows reached during the week, on talks of central bank intervention. Regional markets were mostly down from last week; however, clarity about Dubai World creditor payments lifted UAE markets on Thursday. Oil is up after a sharp drop while gold is off its recent records.
**Global Developments**
**Americas:**

- The US TIC data showed that foreigners bought in March a record $ 140.5 bn of US assets mainly as a result of "safe haven" purchase of Treasury bonds.
- Housing starts in April reached 672k compared to expectations for 650k, although building permits

disappointed at 606k vs. 680k expected.

- US April inflation was 2.2% yoy while the core index was flat mom. Additionally, PPI fell -0.1% mom, while core PPI (excluding food and energy costs) was up 0.2%.
- The Fed has revised upwards their 2010 GDP forecast to a range between 3.2% – 3.7% as opposed to the previous range of 2.8% – 3.5%.
- Initial jobless claims increased unexpectedly by 25k to 471k, the highest level in a month, in the week ended May 15. No reason was cited for this sudden jump which pushed the 4-week average of initial claims to 454k.
- Brazil job creation was the highest on record in April, with a net increase exceeding 300,000 according to a survey of the formal labor market.

**Europe:**

- The ECB revealed to have bought 16.5 billion euro of public debt from member countries, thereby pumping liquidity into the markets and helping maintain price stability.
- Eurozone CPI reading for April came in at 0.5% mom, translating to 1.5% yoy.
- Trade balance for March showed a deficit of EUR 0.6bn, against Q4 2009's surplus of EUR 3.4bn.
- German ZEW survey dropped to 45 in May (Apr: 53), portraying a darkening sentiment, while expectations regarding the current situation moved up to -21.6 (Apr: -32.9).
- Eurozone PMI declined to 56.2 in May (Apr: 57.3). Sector-wise, manufacturing was hit (May: 55.9; Apr: 57.6) while services sector still recorded an increase (56; 55.6).

**Asia and Pacific:**

- Chinese officials said inflation may rise to 3% yoy in May and June, which represents the upper limit targeted by the government for the full year. The National Development and Reform commission also predicted that inflation may average about 2.5% for the first six months of 2010.

- Thai share prices and the Baht rebounded after the government vowed to reopen talks on early elections. The major equity index gained 0.9%, and the baht stabilized. The sovereign CDS spread declined 6 bps to 159 bps.
- Japan Q1 GDP growth was 1.2% qoq thanks to higher exports, while March industrial production rose by +1.2% mom (Feb: +0.3%). Japan’s machinery orders for March posted 5.4% mom increase.
- Singapore’s GDP in Q1 jumped 15.5% yoy (Q4 2009: 3.8%) on strong domestic demand (investments +12.7% and private consumption: +5.7%).
- Taiwan Q1 2010 GDP surprised on the upside, growing +13.3% yoy (Q4 2009: 9.1%), due to a recovery in private consumption and net export growth.

**Bottom line**: News from the developed economies did not add much to the mildly positive macro picture that has prevailed in the past few months. Growth in Q1 turned out to be robust and broad based. In emerging market the situation is much better with the double digit annual growth rates becoming the norm in Asia. Even Thailand despite the unrest is performing well.

**Regional Developments**

- A deal reached with Turkey and Brazil leaves Iran enriching uranium but is unlikely to convince the West to reconsider its sanctions.
- Qatar inaugurated a $2.3 billion power plant to export electricity to its neighbors, the Energy Minister said.
- Iraq’s oil revenues in April surpassed $4 billion (i.e. 53 million barrels), according to a spokesman of the oil ministry, underscoring that significant funds are available for the reconstruction plans.

- GCC is expected to scrap a 5% customs duty on cement and steel imports (following Kuwait's proposal) in October to ease supply bottlenecks spurred by recovering domestic demand, according to a statement made by Mohammed Al Mazroui, the GCC's Assistant Secretary-General for Economic Affairs.
- The GCC Investor Sentiment Index slipped by 7.7 points in April from the year's highest index level of 120.8 in March, according to Shuaa Capital's GCC Investor Sentiment Report. The slide was largely driven by Saudi Arabia and Oman, as their indices dropped by 7.9 and 4.6 points while Bahrain was the biggest gainer (+ 2.4).
- The deputy CEO of the Saudi Railway Company has announced that the North-South Railway will begin to transport minerals this year while passenger traffic is expected to start in 2013. About 800 km of railway has been completed so far from a total of 1,486.
- A whole set of inflation numbers were released last week: UAE consumer prices were up 0.8% yoy in April as reported by the National Bureau of Statistics; Bahrain inflation rose to 2.7% yoy in April (Mar: 1.8%) while Saudi annual inflation climbed to a 10-month high of 4.9% in April (Mar: 4.7%). Kuwait also reported CPI numbers, but for Jan – inflation accelerated to 2.8% from 2.1% in Dec 2009.
- Oman's budget swung to a surplus of OMR 421.2 mn in Q1 2010, helped by higher oil prices; revenues jumped 47.9% yoy to OMR 1.996 bn while expenditures were up 15.3% to OMR 1.575 bn, the data showed.
- A.T. Kearney, in its 2010 Foreign Direct Investment Confidence Index, has identified the UAE as the fifth most attractive FDI market in the world; access to new markets and growth of economies are cited as the main reasons pushing investors to a particular country.

**UAE Focus**

- Dubai World announced it has agreed in principle with its main creditors to restructure $23.5 bn in liabilities, removing a great deal of uncertainty that was sapping the banks' willingness to lend to the private sector.
- FTSE has inserted the UAE stock markets in its benchmarks. This means that, in September, about 170 funds tracking the FTSE index of emerging markets will seek exposure to the ADX, DFM and Nasdaq Dubai.
- Dubai economic recovery hinges on the restructuring of public companies, financial support from the Federal Budget and improvements in transparency, according to a report by the Institute of International Finance (IIF).
- UAE banks provisions increased by 4.7% mom to AED 36bn in April as per data released by the UAE central bank. This is only 3.52% of total loans and advances (net of provisions).
- DEWA has announced that it will list its $1 billion five-year bond issued in April on the Nasdaq-Dubai in June (Source: Alrroya).
- The United Arab Emirates' telecoms sector contributed nearly 5% to the country's GDP in 2009, with investments in the industry totaling AED 9.5bn as per the Telecommunications Regulatory Authority. UAE mobile penetration had reached 204% and internet user penetration touched 67% last year – the total investment in the telecoms sector increased by 16% between 2008 and 2009. Mobile subscriptions grew by 14%, mobile revenues increased by 3%, number of fixed lines rose by 7% while fixed lines revenues jumped 21%.

# Weekly Economic Commentary – May 16, 2010

**Markets**

Stock markets rallied led by Europe on Monday but then dropped after an initial buoyant reaction to the €750bn emergency funding plan, investors' reaction became more skeptical. Despite finishing the week in positive territory the stock markets look fragile. A key concern is the ECB intervention in peripheral Eurozone government bonds market, contradicting its previous stance and probably violating the Amsterdam Treaty. The ECB has said it will "sterilize" these purchases, meaning it will stimulate the bond markets without expanding the money supply, but it is unclear how this can be done. Meanwhile, concerns mounted that fiscal austerity measures could seriously undermine growth in the Eurozone, after both Spain and Portugal announced fresh belt-tightening moves. A steep fall in the euro to an 18-month low against the dollar further underlined the loss of confidence. Local stock markets followed the global pattern with mixed performances across the board. Oil is retrenching while gold touched another historical peak (surpassing the €1,000 mark).

**Global Developments**

**Americas:**

- Initial jobless claims fell to 444,000 down nearly 4,000 from the prior week, but less than the 8000 analysts' expected. Continuing claims rose by 33,000 reaching 4,627,000 against an expected 4,000 drop. US labour market recovery is fragile.
- Retail sales grew by 0.4% (MoM) in April, posting a 7th straight month of gains. Sales however failed to match analysts' expectations of growing by 0.5% and moreover fell in comparison to March's figure of 2.1%. The modest growth was reportedly due to strong sale in hardware

stores and garden centers.
- IP rose by 0.8% non in April compared to 0.2% in Mar beating analysts' predictions of 0.6%. Capacity utilization rose to 73.7% in April, 0.6% higher than a month earlier.
- The Reuters/University of Michigan Consumer Sentiment Index rose to 73.3 in May compared to 72.2 in Apr.

**Europe:**

- The EU announced a package of €750 billion to debt-ridden Greece. The details of the plan are unclear, but the ECB started to buy government debt of member countries to stabilize the market.
- March IP data were released in France (+1.0% mom), Italy (-0.1%) and UK (+2.0%). Eurozone IP was up 1.3% mom, as production of capital goods and non-durable consumer goods grew 1.5% & 1.2% respectively.
- Flash estimates for Q1 2010 Eurozone GDP showed a 0.2% qoq, after 4.5% rise in capital goods and 11.7% rise in production of intermediate goods.
- The Bank of England left rates unchanged at 0.5% and kept bond buying program at GBP200 bn.
- A Conservative-led coalition government was formed in UK. The new Chancellor of the Exchequer promised a budget within 50 days including a deficit reduction plan to deal with the UK's fiscal crisis.

**Asia and Pacific:**

- Chinese inflation edged up to 2.8% yoy as the non-food prices jumped by 1.3%.
- China's IP grew by 17.8% yoy in Apr, compared to Mar 18.1%.
- Indian IP in Mar was up 13.5% yoy (vs 15.1% in Feb), with consumer goods offsetting weaker capital goods.
- Japan's Leading Economic Index rose to 102.8 in March (Feb: 98.5) – the highest since Jul07 and the

12th increase in a row.

**Bottom line:** Data continue to confirm the global recovery, but the slightly positive news are offset by the fiscal crisis in Europe which could be a harbinger of similar woes down the road also for the US. In the meantime Wall Street turned sharply lower on Friday as the Senate approved an amendment that would allow the Federal Reserve to impose limits on fees charged by banks and credit card companies, an appetizer of the battle which will be fought in the months to come on the new financial sector architecture.

**Regional Developments**

- Ernst & Young announced that regional IPOs raised $420.5 mn from six IPOs – five in Saudi Arabia and one in Qatar – in Q1 2010, recording a five-fold increase in the funds raised.
- Leaders at the 12th Consultative Summit of the GCC approved a provision to smooth the transit of trucks across borders. This will end the buildup of cargo vehicles at border posts and eventually lead to the final agreement on the Customs Union.
- The main KSA banks (of which 11 are listed) saw their profits decline in Q1 by 6.5% qoq to US$ 1.9 billion.
- Kuwait’s parliament passed on Wednesday the privatization bill allowing private ownership in the dominant public sector, but excluding oil and gas production, health and education sectors.
- KSA and other Gulf states are mulling a cut in the number of work visas, step up training of nationals and subsidizing private companies hiring local employees. Private companies tend to prefer non-Saudis because they earn much lower salaries, can be easily fired and work longer hours.
- The value of energy and energy-related projects in the GCC to be launched this year is expected to increase by 142% to $230 bn compared to an estimated $95 bn

recorded in 2009. (Source: Saudi Gazette)

- A senior official at Ventures Middle East stated that approximately $14 bn worth of contracts were awarded in the GCC from April this year for the construction of buildings, energy and infrastructure projects.

**UAE Focus**

- GDP at the DIFC for the year 2008 amounted to $2.8 bn at current prices, equal to 3.4% of Dubai GDP.
- Dubai Metro inaugurated 3 more stations, Noor Islamic (Al Quoz), Trade Center and Al Garhoud.
- Rules for enabling market participants to conduct short-selling hedging activity in local equity markets are currently in the works, according to the Emirates Securities and Commodities Authority.
- Profits for all Dubai Banks listed in DFM in Q1 declined by 22% qoq to AED 1.8 billion. All UAE banks listed in ADS & DFM recorded a 2.7% qoq decline in profit in Q1 to AED 5.5 billion.
- Real estate mortgage credit increased 1.2% mom – the biggest rise in mortgage loans in nearly 5 months – to AED 143.4bn in Jan 2010 while personal loans and lending to other sectors remained flat.
- Minister of State for Financial Affairs Obaid Humaid Al Tayer said that the Debt Management Office proposal was approved by the FNC.
- Standard & Poors have removed three Abu Dhabi based firms – International Petroleum Investment Company, Mubadala Development Co, and Tourism Development and Investment Company – from Creditwatch and reaffirmed their long and short-term ratings at AA and A-1+ respectively.
- UAE non oil foreign total trade in Mar reached AED 63 billion of which AED 40.8 billion were imports, AED 6.8 billion is exports and AED 15.4 billion was re-exports.

# Weekly Economic Commentary – May 09, 2010

**Markets**

All stock markets suffered severe blows as the feasibility of Greece's stability plan was questioned and confidence over the other highly indebted European countries plunged. Contagion is reaching the money market reviving memories of the post Lehman tsunami. Regional markets were also down on global sentiment though both UAE markets registered marginal weekly gains. Given the slump in Saudi markets on Saturday, the GCC markets looks set to follow suit. Greece pushed the euro to to a 14-month low against the USD and 8-year against the JPY. Gold peaked to a five-month high as investors moved away from risky assets while oil prices posted its biggest weekly loss in 18 months, ahead of US inventory data and worries over the global recovery.

**Global Developments**

**Americas:**

- April non-farm payrolls rose by 290k, with the increase coming largely from the private sector. Employment as measured by the survey of households continued to show large job gains as well – posting 550k increase. The unemployment rate however increased to 9.9% due to a sizeable inflow of 805K individuals in the labor force.
- Canada is feeling the push from South with payrolls up a stellar 109k in April (in "U.S. equivalent" terms, this would translate into more than a million jobs).
- March consumer spending posted a large 0.6% mom increase in nominal terms, partially due to better weather and Easter. The core index of prices for personal consumption expenditure increased only 0.08% mom.

- ISM index of activity in manufacturing rose by less than one point to 60.4 in April on sharp increases in the production and new orders. The employment index rose 3.4 points to 58.5 – its highest level since Jan 05.
- April auto sales were weaker than had been expected (11.2 million, saar), but this was above the Q1 average, so auto sales seem likely to continue to add to growth.
- Factory orders were up 1.3% in March, thanks to a strong capital goods sector.

**Europe:**

- Greece's crisis is still raging after its Parliament (and the Bundestag) approved the austerity measures. Markets disregarded the rescue plan while protests put in doubt the government's resolve to implement the budget cuts. Short term bonds which are practically guaranteed by the EU and the IMF yield more than 20%.
- The election in the UK returned a hung Parliament despite the weak performance of the Lib-Dem.
- The European Central Bank left policy rates unchanged at the meeting, though without adding any details on when and how they will address the market concerns and refused to give details on quantitative easing.
- Strong performances were recorded in the euro area PMI – at 57.6 for Apr, while Germany registered a healthy 61.3. Apr PMI for services was also strong, at 55.6 for euro area and 55 for Germany.
- German IP surged 4%mom in March; Q1 manufacturing output therefore rose 5.3% qoq, saar. Manufacturing orders which surged 5.0% mom, in Mar point at a sustained pick up in Q2.
- Other domestic demand indicators in the euro area however look quite weak. French auto sales in April were 8.7% below the Q1 level (and 19.4% below Q4 2009). German real retail sales fell 2.4% mom in March.

**Asia and Pacific:**

- Chinese monetary tightening is intensifying. The People's Bank of China announced a hike of 0.5% in reserve requirements from May 10. The current level is 16.5% for the biggest banks and 14.5% for smaller ones.
- PMIs were released by China & India – China's official version rose to 55.7 in March from 55.1 while India's index remains relatively high at 57.2.
- Reserve Bank of Australia hiked rates by 25bp to 4.5%, reinforcing the trend towards tighter monetary policy.

**Bottom line**:
The global data flow portrays a world economy stepping up the recovery pace in March-April (led by Asia, with the euro area periphery lagging).The US labor market is showing signs of life, but the road to full employment will be long and winding. However, despite the improvement, the fiscal crisis in Greece has reached a climax and threatens to disrupt the recovery, largely hinging on a massive government stimulus. Suddenly the markets have realized that current growth levels might not be sufficient to absorb quickly the swollen public liabilities, that fiscal retrenchment is an urgent priority, and that most governments have little appetite for tough medicine.
**Regional Developments**

- said Sunday it revoked the securities business license of The GCC Economic and Financial committee agreed to establish a fund for environment projects, which crucially includes Iran and Iraq.
- The GCC Secretariat is finalizing a proposal to allow all GCC citizens and companies to open branches and agencies in any GCC country, a key implementation of the Single Market principles.
- Merger and acquisition activity in the Arab Gulf is recovering after two years of retrenchment with up to $25 billion of deals expected this year, according to 27 investment banks surveyed by Zawya. M&A deals announced

in MENA dropped by 67% in value to $34 billion in 2009, according to Ernst & Young.

- Residential rental rates in Doha have dropped up to 45% from their peak in 2008, according to global property consultant DTZ. Average office rents have been holding up better falling between 20% and 30%.
- Central Bank of Oman reported a rise of 8.5% yoy in total assets of commercial banks to OMR 14.8bn, while total outstanding credit increased by 5.7% to OMR 9.9 bn.
- Saudi Arabian Monetary Authority's March bulletin reported a rise in investments in foreign securities by close to SAR 55bn in Q1 while deposits with foreign banks by SAMA fell by nearly SAR 17bn.
- The UAE ranked on top, scoring 134 against the global score of 116, in the latest edition of the HSBC Trade confidence index. 68% of traders in UAE expected emerging government regulations to benefit their businesses – this was also a top score in the survey.

**UAE Focus**

- IMF disclosed that the 2009 current account deficit was 3.1% of GDP after 10 years of large surpluses. A turnaround into a surplus of almost 8% is forecasted for both 2010 and 2011, reaching 11% in 2015.
- Dolphin Energy announced the completion of a 128-kilometer section of its Taweelah-Fujairah pipeline that will boost its daily gas transport capacity to the Eastern UAE to 350 ml cubic feet.
- Dubai Chamber of Commerce & Industry's quarterly report revealed that the export volume of its members in the first quarter of the year touched AED 50.7 billion, increasing 15% qoq. March recorded the highest monthly export total of AED 18.7 billion a 22% surge yoy. Additionally, Dubai hotels witnessed a 3.3% yoy rise in Q1 2010 revenues as per the Department of Tourism and

Commerce.

- UAE banks’ average capital adequacy ratio was 20.3% at the end of March, twice the statutory ratio, signaling that there remain concerns over worsening credit quality in the months ahead.
- The UAE was ranked 22nd out of 122 countries analyzed by the Milken Institute 2009 Capital Access Index. The evaluation comprised seven parameters including financial and banking institutions, equity market development, alternative sources of capital and international funding.
- DEWA’s CEO was quoted by a newspaper saying that they are “currently studying listing the bond issued in mid-April worth $1 billion for trading on the Nasdaq Dubai”.

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# Weekly Economic Commentary – May 02, 2010

**Markets**
International stock markets were downbeat over Greece’s fiscal situation and contagion to other eurozone countries sparked by downgrades of Greece and Portugal debt: China witnessed the worst run of losses in 16 months, while India’s Sensex shed about 1.8% on Wednesday, bringing the index close to its lowest in 6 weeks. Weak performance was also visible in the regional markets, with both main UAE indices down close to 2%. The euro dropped to a one-year low against the dollar while both oil and gold prices rose.
**Global Developments**
**America:**

- The FOMC meeting held last week left the policy rate

unchanged, as expected, with a modest upgrade in its assessment of growth and unemployment. Any hint of a rate increase was postponed to the indefinite future.
- Initial claims were down by 11k to 448k in the week ended Apr 24, while the 4-week average of initial claims remained high at 463k.
- The advance GDP estimate for Q1 2010 registered a growth of 3.2%, with the inventory investment cycle contributing to almost half the growth.

**Europe:**

- Greece's crisis deepened as the government bond markets plunged and the government said it needs EUR 9 billion before March $19^{th}$. A joint program of the IMF and EU worth 120 billion euro in exchange for draconian austerity measures has been approved by the Greek government.
- Inflation picture in Germany remains very benign and latest wage deals certainly do not pose any inflationary as the preliminary figure rose 0.1% mom in April. Eurozone inflation however edged up in April at 1.5% yoy.
- French Consumer Confidence fell unexpectedly from -34in March to -37 in April, while it edged up almost two points in Italy to 107.9.
- Eurozone's unemployment rate remained unchanged at 10.0% in Mar while Germany's unemployment rate fell to 7.8% in April (Mar: 8.0%). Germany's unemployment rate is now at its lowest level since Jan09.

**Asia and Pacific:**

- Korea's Q1 real GDP grew by 1.8% qoq seasonally-adjusted, up from 0.2% qoq in Q4. Growth was broad based with exports and government consumption the main drivers.
- Among Japan's host of data releases, the most striking

was industrial production which rose only 0.3% mom in March, not recovering much from Feb's dip of -0.6%. This took Q1 2010 IP growth to 6.7% (Q4 2009: 5.9%).

- Although China has neither moved rates nor its currency, it is taking measures to rein in lending—mostly through edict and tighter regulation, which will reduce the global liquidity and affect equity markets.

**Bottom line**: The US GDP figure confirms that a broad based recovery is underway there while in emerging Asia data continue to surprise on the upside. Europe, so far the laggard, risks another dip as a result of the Greek crisis. The agreement reached today is just a first step in a painful fiscal retrenchment process which will take a few years to complete in the midst of a deep recession.

**Regional Developments**

- said Sunday it revoked the securities business license of The 33rd Preparatory Meeting for GCC Ministries of Finance urged the finalization of the study on VAT, to be implemented later by 2012. There was no agreement regarding the Customs Union revenue sharing scheme, nor on the establishment of a joint development bank for which a further study was decided.
- The IMF highlighted that the Gulf oil producers and other countries in the Middle East should take advantage of lower inflation rates and maintain counter-crisis fiscal stimulus measures to boost growth. Stimulus measures should also remain in place to offset a sharp slowdown in bank credit because of debt default problems and a downturn in the real estate sector, especially in the GCC.
- The GCC conventional bond market recorded a poor performance in Q1 2010 (falling by some 70% in value from the average of the previous three quarters to $3.4bn) amid Dubai-linked and broader sovereign debt fears.

- The Saudi bourse watchdog fined two listed firms, Allied Cooperative Insurance Group and Saudi Real Estate Co., for not informing quickly the regulator on management changes and for disclosing their earnings late.
- UAE and Oman signed an agreement to interconnect their power grids. Oman government will invest OMR 1bn in the coming 5 years in new power generation, transmission & distribution companies, desalination.
- Saudi inflation for March edged up to 4.7% as high rents and economic recovery triggered by strong oil prices start to add upward pressure on inflation but the rate is expected to remain stifled due to slow bank credit.
- Saudi Arabia awarded development contracts worth SAR20.9 bn in Q1 2010 as part of the five-year infrastructure program. This however was a significant drop from Q1 2009’s SAR 40.6bn.

**Market Intelligence on the UAE**

- Credit granted by the 24 national banks and 28 foreign units to the private sector dropped from Dh630.7 billion at the end of 2008 to Dh607.09bn at the end of 2009, the Central Bank wrote in its bulletin. Loans to the government rose by close to 27% from Dh72.2bn to Dh91.8bn while credit to other public sector institutions climbed by nearly 28% from Dh70.1bn to Dh89.9bn.
- Nakheel said creditors had started signing deals to receive full payment in the form of 40% cash and 60% newly issued tradable security yielding a 10% annual return.
- A Central Bank circular specified that banks “are not required to provision their related exposure to Dubai World.” Hence losses, if any, will likely be reflected in the balance sheet in Q3.
- The Ras Al Khaimah Investment Authority (Rakia) has issued 263 business licenses during the first quarter of

2010, a growth of 75% yoy, to a total of 2,834 registered companies.

- Dubai Airports recorded a 21.8% rise in passenger traffic for March, with more than 3.9mn travellers, compared with the 3.2mn in Mar09. Passenger traffic was up 20.4% and cargo volumes 26.4% in Q1 2010.
- According to the Economy Minister Sultan bin Saeed Al Mansouri, growth will reach 2.5% this year as the government spends its oil revenues on infrastructure projects to prop uo the economy.
- Inflation rose for the first time in four months to 0.68% yoy, as the education component registered its biggest yoy rise, 10.46%.

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# Weekly Economic Commentary – April 25, 2010

**Markets**

International stock markets were hit by the news that Goldman Sachs is facing a fraud inquiry but Friday's strong macro data from the US triggered a Wall Street rally. Regional markets were mostly down, with the exception of Qatar as first quarter results disappointed markets. Uncertainty and doubts regarding the Dubai World restructuring also weighed heavy on market sentiment. The euro hit a one-year low against the dollar and a three-month trough against the pound as concerns over Greece's finances intensified. Oil prices continue to stay above the $80 mark, with strong US data sending crude prices up.

**Global Developments**

**America:**

- US trade balance widens in Feb, reflecting increase in imports and some stagnation in exports, suggesting start of economic recovery.
    - Initial unemployment claims fell 24k to 456k in the week ended Apr 17, but continuing claims for previous weeks were revised upwards, leaving a mixed picture of the US labour market.
    - Durable goods orders were down 1.3% mom in March, but this was largely due to a drop in aircraft orders. Orders for nondefense equipment ex aircraft – a key short-term indicator of business equipment spending – rose 4.0% in March (Feb: +2.1%)
    - New home sales increased 26.9% mom in March – the highest surge since April 1963 – to 411,000 units as buyers rushed to qualify for a government tax credit due to expire in April and the weather turned milder. Meanwhile, existing home sales were up 6.8% mom in March, an improvement on the depressed level in Feb (-0.8%).

**Europe:**

- Industrial production in Eurozone was stronger than market expectations, at 4.1% yoy, in Mar 2010.
- The ZEW Survey of economic sentiment in Germany came in higher than expected rising to a level of +53.
- Flash PMI manufacturing indices from Eurozone are positive in April (Germany: 61.3 (60.2); Eurozone: 57.5 (56.6); France: 56.7), benefiting also from the euro's slide on Greece worries.
- UK unemployment rose to a 15-year high of 2.5 million for the three months up to February 2010.
- Germany's IFO Business survey for April surprised on the upside rising to 101.6 from March's 98.8. The business climate index was upbeat in manufacturing, retail and wholesale sectors, but in construction it fell slightly

after rising for four successive months.

**Asia and Pacific:**

- As expected, the Reserve Bank of India hiked the repo, reverse repo rates and the cash reserve ratio of banks by 25 bps. The statement accompanying the policy announcement highlighted the build-up in inflation, increasing the possibility of tightening sooner than later.
- Japan’s exports rose for the fourth straight month by 43.5% yoy. The data underpins Asian robust growth evidence, offsetting weak demand and falling prices in Japan.
- Taiwan’s industrial production index increased 39.2% yoy in March (Feb: 35.5%) to a record 120.3. The strong Asian economic recovery was also reflected in the 32% rise in manufacturing sector.

**Bottom line**: The IMF’s April World Economic Outlook highlights global recovery, but at varying paces for different regions. Emerging Asia leads the recovery at 8.7% in 2010, while the Middle East is expected to grow a healthy 4.5% amidst China and India’s 10% and 8.8% growth respectively. Some positive data from US on Friday; Asian growth continues to impress and central banks continue monetary policy tightening.

**Regional Developments**

- said Sunday it revoked the securities business license of Qatar quickly reintroduced visa on arrival for citizens from 33 countries in a policy volte-face over tighter visa procedure.
- EIU forecasts a 3.4% growth in KSA in both 2010 and 2011 compared to 0.15% in 2009. Inflation is seen at 3.9% in 2010 from 5.1% in 2009, before rising to 4% in 2011.
- Saudi Telecom, the Arab world’s largest telecom company by market value, posted a worse-than-expected 29% drop in Q1 profits.

- Doha Bank reported a 4.5% drop in Q1 profit, while Commercial Bank of Qatar’s quarterly profit plunged 37%.
- Shuaa Capital’s GCC Investor Sentiment Index rose by 15.2 points in March to 120.8 – its second biggest ever gain. The rise was almost entirely driven by the positive investor sentiment towards the UAE, following Dubai World’s restructuring proposal. UAE Investor Confidence Index recoded a significant jump of 36 points to 120.4 points.
- GCC industrial investments grew by more than $30bn to $180.4bn at the end of 2009 as per data released by Gulf Organisation for Industrial Consulting as countries continued with non-oil diversification policies.
- Middle East retail banking is still under severe pressure as default rates continue to remain high according to Boston Consulting Group’s Senior Partner and Managing Director Dr Reinhold Leichtfuss. He attributed the higher defaults to rising unemployment and added that around 10% of the defaults were in the credit card business and it is expected to come down to between 2-4%.
- Qatar’s government announced a QAR 2bn initiative named Enterprise Qatar to support small and middle sized businesses – with access to financing, and offer training and consultancy services and is expected to launch within two months.
- OPEC earnings were up nearly 96% yoy in Q1 2010 to $187 bn – Saudi Arabia netted more than a quarter of OPEC’s total income while Iran and UAE were the second and third largest earners, as per figures by the Energy Information Administration.
- Egypt’s rapidly growing construction sector is expected to attract investments of around USD 7.3bn by 2015. Construction currently accounts for around 8% of Egypt’s total employment and local construction workforce of 1.2 million is Middle East’s largest. This data was estimated ahead of this year’s edition of Next Move, the

largest real estate investment and finance exhibition in Egypt.

**Market Intelligence on the UAE**

- Dubai's economy contracted 2.5% in 2009 after expanding 5.7% in 2008, according to preliminary Dubai Statistics Centre estimates.
- DU is planning to raise Dh1 billion in a rights issue to be approved by the shareholders on May 11th.
- UAE emerged as the second best capital destination in the Arab region, attracting more than $69 bn in foreign direct investment until the end of 2008, according to UNCTAD data. Saudi Arabia, the largest Arab economy, recorded top spot attracting over a quarter of the total Arab FDI inflow.
- DEWA's recent $1 bn bond issue, priced at 8.5%, has prompted banks in the Dubai World lenders group to demand higher interest on the restructured debt. "If a prominent government-related entity is willing to pay 8.5% on its newly issued debt, there should be some parity in the interest payouts on similar debt obligations," according to a senior banker from the group. (Source: Zawya)
- Consumer prices in Dubai softened for a fifth consecutive month in March (0.83% yoy; Mar: 115.47) on the back of slowing in food, housing and communications cost increases, as per data from the Dubai Statistics Centre.
- Tourism spending in the UAE is forecast to increase by almost 18% from AED 27.5bn in 2009 to AED 32.4bn by 2014 as per estimates of Euromonitor International, a global consumer market analyst. Overall visitor number will grow by more than 19% by 2014 and the tourists would mostly come from Saudi Arabia, the United Kingdom and India.
- Dubai Land Department is in the process of restructuring

its fees structure and is reducing charges for some of its services as per a senior department official. For example, the department plans to lower the fee it levies on properties registering for Ijara refinance from 2.25% of the Ijara amount to 0.25%; another is aimed at lowering the potential burden of payment for off-plan properties.

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# Weekly Economic Commentary – April 18, 2010

**Markets**

International stock markets were mixed last week, with the start of the earnings season; US earnings overshadowed a data-heavy week. Gulf markets were also mixed as the regional Q1 earnings figures failed to impress; Dubai trade was also influenced by the calling off of the Arabtec deal to sell a 70% stake to Abu Dhabi's Aabar Investments. On the currency front, Greek worries resurfaced, straining the euro yet again while the Asian currencies reached their highest levels after the crisis as expectations for monetary tightening increased. Oil prices retreated on Friday, pressured by energy demand concerns while gold continued to rise on haven buying.

**Global Developments**

**America:**

- US trade balance widens in Feb, reflecting increase in imports and some stagnation in exports. Import prices remained moderate.
- Retail sales for March were up 1.6% mom; excluding autos, building materials, and gasoline service stations, sales rose a sturdy 0.5%. March CPI came in

at a weak 0.06% mom, reflecting a weak core index reading; Energy was flat and food was up 0.2%.
- Initial claims rose by 24k to 484k in the week ended April 10; the 4-week average of initial claims also edged up to 458k, still a high level by historical standards. Industrial production data were weaker than implied by the recent manufacturing surveys, rising just 0.1% mom in March, but the weakness entirely reflected a huge 6.4% drop in utility output.

**Europe:**

- Industrial production in Eurozone was stronger than market expectations, at 4.1% yoy, in Mar 2010.

**Asia and Pacific:**

- China grew by 11.9% in Q1 2010, raising questions on overheating yet again.
- Singapore advance GDP estimates for Q1 2010 was slated at 13.1% yoy with a strong manufacturing print; the government also revised its GDP growth forecast range for 2010 – the new range is now 7.0%-9.0%, versus the previous forecast range of 4.5%-6.5%.
- The Monetary Authority of Singapore announced a revaluation of the Singapore dollar – by re-centering the exchange rate policy band at the prevailing level of the SGD NEER; and shifting the policy band to modest and gradual appreciation.

**Bottom line**: A data-heavy week for the US, but the bottomline remains that the numbers did nothing to cheer the markets, nor were they indicative of a recovery. On the other hand, emerging markets continue to impress with releases of advance Q1 GDP data amid monetary tightening rumours.

**Regional Developments**

- said Sunday it revoked the securities business license of Saudi inflation accelerated to a nine-month high of

4.7% in March, led by rent, fuel and food costs. Consumer prices rose 0.5% mom as per data released by the Central Department of Statistics.

- Qatar Islamic Bank the country’s second-largest lender by market value, will delay selling sukuk worth at least $500 million due to a blip in market confidence, according to Zawya.
    - Saudi non-oil exports surged 21% yoy in Jan 2010 to SAR 9.6bn according to a latest report by the Ministry of Economy and Planning. Petrochemicals topped list of exports in Jan – at 32% of total exports and valued at SAR 3.1bn. This comes amid news of rise in oil production elsewhere in the GCC: Kuwait national Oil Company will increase production capacity to 3 mn barrels per day in August; Oman Oil & Gas Ministry announced the oil production will reach 860 bbl per day this year.
    - A free trade agreement between the GCC and the four-member European Free Trade Association (EFTA) is ready and will come into force this year according to Trond Giske, Minister of Trade and Industry of Norway. “The EFTA nations have agreed to the free trade agreement, which is now in ratification stage in the member nations” he said, in an interview with Khaleej Times.
- Qatalum, the world’s most efficient aluminium smelting plant, was launched in Qatar with a 585,000 tonnes of premium-quality aluminium products.
- Detusche Bank and Saudi Arabian investors will form Deutsche Gulf Finance, a Shariah-compliant home financing company with an initial capital of $110 million.
- The new power grid connecting four Gulf Arab countries has so far seen about 70 power transfers since it was launched in the second-half of last year, according to senior officials. The regional electricity network is also expected to set tariffs for these transfers by

summer, as per Adnan al-Mohaisen, the chief executive of the Gulf Cooperation Council Interconnection Authority.

**Market Intelligence on the UAE**

- A new body, the Dubai Government Finance Team, will develop a medium-term financial strategy for Dubai up to 2014 to cope with real estate troubles and other woes linked to the financial crisis. It will comprise representatives from DoF, Dubai Police, RTA, Customs, Health Authority and Municipality. The team will be led by Jamal Hamed Al-Marri, director of central accounts at DoF.
- Expatriates form 93% of the total work force in the UAE's private sector, according to Dr Zaid Al Sharif, Director of Standards and Policies at the Ministry of Labour.
- Abu Dhabi trade surplus fell 12.9% in 2009 as per the latest report from the Department of Economic Development – the latest indication of the effects of last year's drop in oil prices on the emirate's economy. Abu Dhabi's surplus remained at AED 273bn, thanks to AED 313bn in hydrocarbon exports.
- Dewa's $1bn five-year bond, maturing in 2015, was priced at 8.5% semi-annual fixed coupon and was more than 11 times oversubscribed on Thursday with the final book size closed at $11.5bn.
- Nakheel aims to pay about USD 8.2bn to its creditors in June, but the developer needs approval for its March debt proposal before making the payment, as reported by Reuters. Reuters' also said that Nakheel's creditors did not unanimously approve a restructuring plan at a meeting held earlier this week.

# Weekly Economic Commentary – April 11, 2010

**Markets**
International stock markets had a mixed performance but ended the week on a positive note. Regional markets were slightly up from the week before with the exception of the UAE markets where profit-taking was the norm ahead of the quarterly earnings announcements. The euro recovered after the EU decision to help Greece, oil prices remained above $80, while gold rose as a result of haven buying.
**Global Developments**
**America:**

- Los Angeles city controller announced that the City would run out of cash on May 5 in a reminder that the fiscal crisis is not limited to the US Federal Government but runs much deeper at state level.
- The ISM services index rose by 2.4 points to 55.4 in March. The composition reinforces the strong headline: new orders surged by a striking 7.3 points (to 62.3) while business activity was up 5.2 points (to 60). The employment index rose modestly from 48.6 to 49.8 a level indicating that firms are not hiring yet.
- National Association of Realtors' index of pending home sales bounced 8.2% in Feb, rekindling hopes for a real estate rebound.
- U.S. initial jobless claims rose to 460k in the week ending Apr 3, although this may have had something to do with the timing of Easter. The 4-week average was 450k, broadly in line with where it has been in the past two weeks.

**Europe:**

- Concerns and rumors on the true extent of the Greek

public deficit in 2009 hit the euro area bond markets.
- PMI services recorded a stronger performance than anticipated by flash estimates at 54.1 up from 51.8.
- Germany manufacturing orders were flat mom in February after rising +5.1% mom in January.
- The U.K. elections will take place on May 6. Latest polls show the Conservative's lead rising again, but a hung Parliament is a concrete possibility which raises fears over the ability to cope with the economic downturn and the massive fiscal retrenchment.

**Asia and Pacific:**

- China registered a trade deficit of $ 7.2bn in Mar, the first after almost six years. Chinese officials mentioned these data as evidence refuting foreign governments' claim that the Chinese trade surpluses results from an artificially weak currency.

**Bottom line**: No major data flow this week, so our underlying views have not changed. The IIF has revised up the global growth estimates for this year and the next by 0.2% to 3.3%. US and Japan are faring better (while Europe prospects are unchanged) and emerging markets are rebounding strongly, to the point that inflation and loose monetary policy are now a growing concern.

**Regional Developments**

- said Sunday it revoked the securities business license of Kuwait set up a tribunal for financial markets which will also include a special prosecution to investigate financial crimes.
- GCC telecom operators invested more than $33 bn in cross-border M&A activity in five years, according to a report by Booz & Company. The report also places operations of gulf telecom firms in 78 foreign markets now as opposed to only six before 2004.
- Kuwait recorded a budgetary surplus of KWD 6.0bn in

2009, according to the government's latest release. In spite of the country's non-diversification efforts, the statistics show that the non-oil revenues came to no more than 6% of the total state revenue.

- Inflation in Kuwait was recorded at 4.0% yoy in 2009; this compares to the higher 10.6% in 2008. Oman's Feb inflation was 2%, up slightly from 1.7% in Jan 2010 & 7.9% a year ago.
- Saudi mobile phone penetration rate surpassed 177% in 2009, reflecting the solid 7.5% rise in telecom sector revenues to SAR 52.3bn last year. The fixed-line and broadband sectors also posted penetration rate increases of 3.9 and 9.5% respectively.

**Market Intelligence on the UAE**

- DFM suspended trade on nine Kuwaiti companies that missed a deadline to provide full audited financial statements.
- UAE central bank Governor Al-Suwaidi said the country's banking system has enough liquidity to meet the economy's needs.
- Dubai has the money to pay its share of Dubai World's rescue plan and can help other state-linked firms that may be facing "small issues", according to Mohammed Al-Shaibani, Vice chairman of the Dubai's Supreme Fiscal Committee.
- Emirates Securities and Commodities Authority CEO has called for a GCC unification of licensing (Unified Gulf License) subscription and listing procedures for public joint stock companies in a move that will boost stock market activities.
- Figures released by the Energy Information Administration showed the UAE's oil export earnings stood at USD 52bn in 2009, down 42% yoy from its record income of $87bn in 2008.
- The UAE Government cut its deposits with local banks by

nearly AED 26.8 bn to AED 179.4bn in the first two months of 2010.

- In a move to promote transparency, the UAE Ministry of Finance has initiated a study to create a Federal Credit Bureau for maintaining a database of individual and corporate credit information services.
- Moody's placed DP World's ratings at Ba1, the highest non-investment level, announcing that its previous concerns over possible contagion to DP World from Dubai World had been alleviated. "The recent restructuring proposal … has shown a renewed public commitment to safeguard healthy subsidiaries of Dubai World" said Philipp Lotter, senior VP in Moody's.
- Standard & Poor's however lowered the ratings on three Dubai-based GREs; DP World Ltd., Dubai Multi Commodities Centre Authority, and Emaar Properties PJSC were all lowered by one notch. DIFC Investments LLC and JAFZ Sukuk Ltd. remained on CreditWatch negative due to insufficient information regarding these two entities.

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# Weekly Economic Commentary – April 04, 2010

**Markets**

Reassuring data from the US lifted global equity markets last week, also increasing speculation that Fed may raise rates sooner than expected. Asian markets performed well, with South Korea hitting a 21-month high. Regional markets started the previous week on a very positive note after the Dubai World restructuring proposal while the Saudi index ended at a 17-month high yesterday. The yen fell to a 3-month low against the greenback last week, while positive US data pushed the dollar higher and oil rose above $85.

**<u>Global Developments</u>**

**America:**

- Non-farm payrolls data bounced by 162k in March, but both Jan and Feb numbers were revised up by a cumulative 62k. Additionally, the survey of households reported a third consecutive large increase in employment of 264k (cumulative increase now 1.1 million). In spite of the firmer tone of the household survey, the unemployment rate held steady at 9.7%.
- The ISM manufacturing survey was stronger (3.1 points increase to 59.6) in March – but this increase was largely due to an 8-point surge in the inventory index – to its highest level since July 1984. Construction spending for Feb however continued to remain weak.
- Initial jobless claims for the week ending March 27 declined modestly from upward-revised bases (-6k to 439k).
- Spending continues to grow at a moderate pace despite stagnation in income (personal income was flat in Feb on mom basis, +2.0% yoy). Core PCE price index posted a second consecutive “no change” reading, preserving the disinflation trend despite upward revisions to Q4 figures.
- The S&P/Case-Shiller home price index was up +0.32% mom in Jan, with the gains concentrated in previous bubble/collapse cities.
- The Conference Board index of consumer confidence rose to 52.5 in Mar, recovering the 10-point loss in Feb (46.4). However, this reading is still quite low by historical standards and against other similar indices.

**Europe:**

- The Euro Area PMI was stronger than the flash estimates (56.6 versus flash of 56.3; Feb: 54.2). Significantly, Germany jumped to 60.2 (Feb: 57.2) while Spain and

Ireland moved above 50 (51.8 and 53, respectively). The UK index jumped to 57.2 from 56.5.

**Asia and Pacific:**

- China PMI rebounded in Mar to 55.1 from 52 previously.
- Japan industrial production in Feb slowed to 0.9% mom (Jan: +2.7%) and producer shipments slowed to +0.2%; firm external demand continued to drive production. BoJ –Tankan for March pointed to ongoing improvement (-14 from -25 previously).
- South Korean IP rebounded in Feb (+19.1% yoy), after a flat reading in Jan – auto and memory device production drove the recovery, while other IT production was relatively weak. Construction and construction orders fell, with weakening public sector orders.
- South Korea's March trade numbers were above market expectations – exports excluding ships, reflecting current export demand, increased 43.9% yoy while imports rose 48.4% on a boost in demand.

**Bottom line**: Overall, a positive week – strong data releases from the US seem to have uplifted spirits (and initiated speculation about Fed moves) while numbers from Asia continue to accelerate. The range of purchasing managers indices for March seems to underscore manufacturing strength across the board, with advanced economies joining the party now.

**Regional Developments**

- said Sunday it revoked the securities business license of The head of Saudi Arabia's central bank was named the first Chairman and his Bahraini counterpart named Vice-Chairman of a council that will serve as the precursor to a regional central bank. The announcement came during the first meeting of the newly-created Gulf Monetary Council.
- Proposed and announced power projects in seven MENA countries will cost close to USD 49bn, with projected

electricity generation of 24k MW, according to a MEED report released at an energy and water summit in Abu Dhabi.

- Qatar is considering an amendment to its investment law that allows up to 100% foreign ownership in certain commercial enterprises, according to a local daily Gulf times.
- Qatar unveiled the 2010-11 budget with a surplus of USD 2.7bn from USD 35bn in revenues. The planned USD 32.3bn outlay is a 25% yoy rise, while the increase in revenues would be 44% – revenues were based on a crude oil price of $55 per barrel and USD 9.7bn is allocated for infrastructure projects (30% of public expenditure).
- The UAE floated a practical initiative aimed at integrating securities markets of all GCC states during the inaugural Meeting of the Ministerial Committee of Chairmen of GCC Regulators Board.

**Market Intelligence on the UAE**

- The UAE came top in the number of M&A deals in the Middle East region by recording 65 transactions in 2009, according to a study by Ernst & Young. However, overall M&A activities in the Middle East recorded a steep decline both in value (dropped by 67% in value to $34bn) and the number of deals (dropped 24% to 353) in 2009 compared to the previous year.
- Dubai and Abu Dhabi are in talks to merge the two emirates' stock exchanges offering the possibility of lower costs and higher trading volumes, as per Issa al-Kazim, the chief executive of Dubai Financial Market.
- The total size of UAE's non-oil foreign trade shrunk 4% in Jan 2010, as imports plummeted 10%, exports showed strong growth of 21% and re-exports expanded by 9%, statistics released by the Federal Customs Authority reveals. The overall size of foreign trade was seen at AED 55bn in Jan 2010, down from AED 57bn level in Jan

2009.

- Nakheel Properties has pledged to spend USD 1.5bn to finish stalled developments. Chris O'Donnell, the chief executive of Nakheel, said in a letter that the cash injection would "enable the business to move forward" and "it is critical that we resume delivering on our commitment to you and complete project developments that we have started". (Source: The National)

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# Weekly Economic Commentary – March 28, 2010

**Markets**

International markets had a good week, especially the latter half, with the return of some investor confidence after the Eurozone agreed to a rescue package for Greece. Markets in region gained as well, after Dubai World's restructuring proposals and Dubai government's announcement of funding plans. The euro that was bogged down by a downgrade of Portugal by Fitch and other disappointing news bounced off 10-month lows on the Greece rescue package news from Brussels. Both gold and oil were down compared to a week ago.

**Global Developments**

**America:**

- The passage of U.S. health care legislation over the weekend is a politically and economically momentous event. According to the CBO, the budget implications of the legislation are deficit-reducing ($102 billion, net in 2010-14; $119 billion over 2010-19).
- Existing home sales slipped 0.6% in Feb; single-family sales were down 1.4% while condo sales rose. The report

showed an increase in the supply of existing homes on the market to 8.6 months' worth. Most housing price measures declined slightly.

- The Richmond monthly survey of business activity was positive: "general business assessment" rose to +6, from +2 in Feb, with the biggest improvement in the employment index (to 0 from a -7 reading earlier). Expectations of future activity remained upbeat.
- New orders for durable goods posted a small gain in Feb (0.5%) with strong orders in machinery (4.7%) partly offset by a decline in orders for electrical equipment (-3.3%) and lower orders in transportation (fell 0.7%, despite 32.7% rise in nondefense aircraft orders from a low base).
- The declines in first-time jobless claims have resumed. The 4-week moving average has fallen to 463k at the start of Jan, but then rose in February to the 470k-480k range. For the week ending March 20th, it is back down to 454k.
- GDP for Q4 2009 revised down modestly to 5.6% from 5.9%, mainly in business and residential investment accounts, reflecting weakness in construction spending.

**Europe:**

- Greece is poised to launch a multi-billion-euro bond issue this week in a vital test of confidence in the rescue package agreed by Eurozone leaders in Brussels. The rescue plan included the IMF and co-ordinated bilateral loans from Eurozone countries at market interest rates. Greek stocks and bonds rallied on the accord, while the euro jumped against the dollar.
- Euroland PMI for March showed a very strong manufacturing report leaving the index at its highest since 2006Q4. Activity in the services sector was also up more than expected. Still, at 53.7, they remain only moderately strong.

**Asia and Pacific:**

- Singapore's Feb industrial production (IP) increased 19.1% yoy (Jan: 39.2%). This registers as the third month of positive sequential growth. Taiwan's IP increased 35.2% yoy in Feb (Jan: 70.1%). To account for the Lunar New Year holidays compared to last year, Jan-Feb data are combined – this implies IP growth of 28.5% in Singapore (Dec: 15.4%) and 51.9% vs. 47.8% in Dec for Taiwan.

**Bottom line**: No major surprises in a light-new data release week. Greece rescue package is likely to dominate investor sentiment in the coming days. European economic data continue to have the theme of manufacturing/exports good & domestic demand bad; Asia continues to surge.

**Regional Developments**

- said Sunday it revoked the securities business license of Kuwait's expatriate workforce dipped last year for the second time in a row – to 1.74 mn from 1.75 mn in 2008 – impacted by the global economic downturn.
- Construction contracts awarded in the GCC increased a total of 11.4% to reach $142.4 bn in 2009. Saudi Arabia had the largest value of active projects in the GCC, $618.5bn, of which 8.5% were on hold. Saudi Arabia and UAE had the largest market share of active projects, 33.6% and 30.7% respectively, followed by Kuwait and Qatar with a respective share of 13.4% and 13.2%.
- Qatar Investment Authority invested $ 30bn in 2009 and plans to do the same this year, according to the Prime Minister Sheikh Hamad bin Jassem al-Thani. Assets include a 17% stake in Volkswagen, 7% share in Barclays and a 25% stake in Sainsbury.

**Market Intelligence on the UAE**

- Dubai World announced a restructuring proposal of $23.51

bn of total financial liabilities outstanding as at 31 Dec 09. The total amount of outstanding debt, excluding the existing Dubai Financial Support Fund’s claims, is $14.2 bn. The Government of Dubai acting through the DFSF proposed to convert $8.9 bn of debt and claims, (38% of the total amount of standalone debt and guarantees of Dubai World) into equity; in addition the DFSF will commit to fund up to $1.5 bn of cash into Dubai World to fund the Company’s working capital and interest payment commitments that will arise from the new debt facilities; non-DFSF creditors will receive 100% principal repayment through the issuance of two tranches of new debt with five and eight year maturities.

- Dubai’s government stated on Thursday that it would inject about $9.5 bn into Dubai World and Nakheel but didn’t outline details of plans to settle a debt restructuring deal with banks. Cash for Dubai World “will be funded by $5.7 billion remaining from the loan previously made available from the Government of Abu Dhabi and from internal Dubai government resources,” according to a statement by Dubai government. Dubai shares surged following the statement.
- UAE banks boosted their shareholders’ equity by nearly 8.4% in the first two months of 2010 according to the central bank which gave no figures on the banks’ capital adequacy. Financial analysts said they expected it to remain above 19%at the end of Feb. Specific provisions for the non-performing loans increased to AED 33.6bn in Feb (Jan: AED 33.4bn; Feb09: AED 20.9bn). NPL as a percentage of total loans is a minimal 3.3% only.
- Dubai Department of Economic Development issued 1151 licenses in Feb 2010, a 34% yoy increase. Majority of the licenses was issued in the commercial sector (887) followed by the professional sector (249), tourism (11) and industry (4).
- Moody’s Investors Service confirmed the Ba2 issuer and

Sukuk ratings of Dubai Electricity & Water Authority with a stable outlook and has taken them off review for downgrade.

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# Weekly Economic Commentary – March 21, 2010

**Markets**
A week of consolidation in stock markets. Regional market are generally mixed but with Qatar displaying a stellar performance. The euro is down across the board and while oil price remain close to 80 $/b, gold seems to benefit from the climate of uncertainty..
**Global Developments**
**America:**

- Moody stated that risks to ratings of countries with AAA rating, including the US, have increased, finally waking up to reality.
- US FED FOMC remained committed to an extended period of zero rates, but noticed that labor market is improving and investment is picking up, while the real estate is stagnant. It confirmed the demise of special liquidity facilities, the completion of purchases of agency debt and agency MBS, and the end of all but the TALF purchases of loans backed by commercial real estate MBS.
- Core inflation was 1.3% yoy, thanks to a zero mom increase, its lowest level since early 2004. Unemployment initial claims declined for the third week; continuing claims increased and the total number of people enjoying some form of benefits remained broadly flat.

- US Industrial production up 0.1% mom in Feb as weather takes its toll. Capacity utilization improves somewhat at 72.7 but remains low relative to deterioration and capacity is itself deteriorating as machinery is phased out.
- Housing starts are -5.9% in Feb, mom, +17.6% yoy, marking a stop to the recovery path, probably due to extreme weather.

**Europe:**

- Euroland's employment fell 2.1% yoy in Q409, the same rate as in Q3, depicting a situation still far from a solid recovery.
- Euroland's inflation in Feb was 0.9% yoy after 1.0% in Jan.
- Eurogroup Ministers seemed to endorse a support for Greece if need arises, but stopped short of committing funds.
- The German ZEW index eased slightly in March to a reading of 44.3 after 45.1, but is down 10 points since end 2009.
- UK unemployment in Jan has remained stable at 7.8% the same level since Q2 09, reinforcing the view that it might have peaked.

**Asia and Pacific:**

- In the March Reuters Tankan manufacturing improved from -27 in December to -8 and signs of revival materialized at last also for nonmanufacturing, with a jump from -39 in December to -22. Overall the index went from -13 in Dec. to -8 in March.
- Singapore's Feb non-oil domestic exports increased by 23.4% yoy, after increasing 20.5% yoy in Jan led by electronics. On a sequential basis, exports increased 14.8% mom, seasonally-adjusted in Feb China was the destination with the fastest growth.

**Bottom line**: Data were overall slightly weaker than expectations. In terms of policy measures not much has happened buying time. However Moody's open remark that the fiscal situation in the US and elsewhere is a threat, has rang a bell difficult to ignore.

**Regional Developments**

- said Sunday it revoked the securities business license of The license of Ernst and Young was revoked by the KSA market regulator CMA, because of "several violations" of the capital market law and implementing regulations.
- Gulf States should carry out regular stress tests of banks' asset quality, to assess financial sector stability, the IMF suggested.
- Oman's consumer price inflation rose to a five-month high of 1.7% in Jan and its central bank officials reported inflation to nearly triple this year on imported price pressures.
- Kuwait's broad money growth decelerated to 6.7% yoy in Feb'10 (Jan: 10.3%) while banks' total claims on the private sector increased 5.2% to KWD 27.1bn.
- According to the Arab Monetary Fund Qatar's economy witnessed the highest annual real growth rate among Arab countries at 9% in 2009 thanks to expansions in oil and gas production facilities.
- Kuwait's total state earnings hit KD 16.01 billion (USD 55.5 bn) over the last 11 months, according to a report by Al Shall. Actual oil proceeds were estimated at KD 15.1 billion (approximately USD 52.5 billion) until February 28, 120% higher than estimated oil revenues for the current FY. KD 847.6 mn in non-oil proceeds were earned during the period

**Market Intelligence on the UAE**

- Saad Abdulrazak, a director of Deyaar and also a former chief executive of its parent, Dubai Islamic Bank, was sentenced by the court of first instance to three years in jail and a fine of Dh115m, indicating stiffer penalties against those found guilty of corruption.

- The UAE 1500 km rail network will cost up$11 billion. The contract for the first phase of the project is to be awarded by year end. Union Railway is also looking into the feasibility of building a high-speed passenger rail between Abu Dhabi and Dubai.
- Under a new law UAE nationals will be given the right to own land endowed to them by the government and freely use the property without "previous constraints" provided they pay 50% of its assessed value for permission.
- UAE banks loans exceeded deposits by AED 59.2 bn in Feb (up from AED 47.1 bn in Jan), underscoring a shortage of money in the banking system. Bank loans rose 0.2% in Feb from Jan to AED 1.02 tn, while deposits fell 1% over the same period to AED 958.3 bn.
- Dubai, which is gearing up to give creditors a plan on repaying $26 billion in debt, is not likely to need more help from the United Arab Emirates central bank, its governor was quoted as saying.

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# Weekly Economic Commentary – March 14, 2010

**Markets**

A week of consolidation across global equity markets, amid a quiet week – data-wise. Tokyo stocks posted their best weekly gains in more than three months. Regional equity markets were mostly positive, with the UAE exchanges performing better than others. On the currency front, the yen was in focus due to speculation that the Bank of Japan would take further steps to ease monetary policy. Crude oil prices fell compared to the week before after the International Energy Agency (IEA) revised up its global demand forecasts to reach 86.6m barrel per day in 2010 (+1.8% yoy). The IEA said Asia alone would provide more than half of global oil demand growth this year with China accounting for almost two-thirds of that region's rise.

**Global Developments**

**America:**

- Initial jobless claims fell by 6k to reach 462k, while continuing claims edged up.
- Retail sales rose 0.3% overall and 0.8% excluding autos, well ahead of expectations, pushed by electronics and appliances (+3.7%); Q1 2010 core retail sales are now on a 5.8% (annualized) growth trend.
- The Federal Budget deficit in Feb was -$220.9bn against expectation of $42bn, a worrisome sign of public finance deterioration.

**Europe:**

- German industrial production (IP) for Jan was up 0.6% mom, in spite of a sharp 14.3% drop in construction. France and Sweden IP's were both up 1.6% mom, Italy's was up 2.6% while UK declined 0.4%.
- Eurozone Industrial Production grew 1.7% mom +1.4% yoy in Jan; 3 month growth is now close to its long term average.

**Asia and Pacific:**

- · C**hina's export growth accelerated strongly in Feb (45.7% yoy), exerting more pressure on inflation and the renminbi. Import growth stays strong at 44.7%, with robust growth in domestic demand.**
- · **Chinese inflation picked up 2.7%yoy in Feb, with**

**food prices contributing to the increase. Industrial production accelerated 20.7%yoy in Jan-Feb to the highest level since the series was started in 1995 while nominal retail sales rose 17.9% for the same period.**

- **· Japanese machinery orders for Jan fell 3.7% mom, but this comes after a 20.1% surge in Dec; machine tool orders (a leading indicator for exports) are signaling recovery in external demand, rising +267.7% yoy (Jan: +299.2%).**
- Taiwan's exports retained solid growth in February increasing 32.6% yoy, while imports increased 45.8% yoy.
- Indian Industrial Production rose by 16.7% yoy in January compared to the revised 17.6% yoy growth in December.

**Bottom line**: Data were within expected range and do not change much the picture of strong recovery in Asia and weaker elsewhere.

**Regional Developments**

- Total banks' assets of 420 in the Arab world grew 3.57% to USD 2.26tn in 2009 in spite of the global financial turbulence according to the head of the Union of Arab Banks. The deposit base surged 17% to $1.27trn and loans portfolio grew 6% to $1.09trn while the capital base rose 19.5% to $239 bn in 2009.
- Gulf banks are expected to see further increases in non-performing loans during 2010, with KSA and Qatar the least affected, according to S&P. UBS estimates that UAE banks could see NPLs rising to 15% of total lending, more than triple the level reported.
- Officials from Saudi Arabia, Kuwait, Qatar and Bahrain, who form the Banking Control and Supervision Committee, are reviewing a draft law on the unification of supervision rules and common banking regulations to be enforced in the monetary union.

- Six GCC firms are expected to list on London's Plus Markets primary/secondary exchanges this year, according to its CEO Simon Brickles, as it remains attractive to medium and small enterprises and family businesses to trade on its platform with flexible rules.
- The head of the Saudi Commission for Tourism and Antiquities, said a new tourism law is almost ready and could be passed this year.

**Market Intelligence on the UAE**

- The UAE Finance Minister Sultan al-Mansouri stressed that the Federal Government would support Dubai to restructure $26 bn debt and expects a quick solution. Also he expects the UAE economy will expand by 3.2% in 2010 from an estimated 1.3% last year.
- UAE's non-oil foreign trade in 2009 was AED 663bn as per the Federal Customs Authority – imports: AED 449.2bn, exports: AED 66bn and re-exports: AED 147.8bn. Overall value declined 16% yoy (from AED788.7bn) due to the global slowdown. Lower oil prices and production, amid the sharp fall in trade credit depressed trade surplus by about 59% in 2009 according to the AMF.
- Abu Dhabi's foreign trade rose to AED 112.1bn in 2009 (up 9% yoy) according to Abu Dhabi Customs statistics; the volume of re-export trade jumped 39.3% to reach AED 8.6bn. The growing role of seaports in Abu Dhabi imports was significant – 62% of imports come in through seaports, 27% through land and 12% through airports.
- Dubai's Land Dept is expected to announce a new regulation for foreign companies investing in freehold properties.
- Abu Dhabi Tabreed, a district cooling company, has secured a AED 1.3bn loan from Mubadala to help with its operating expenses this year after reporting a record loss of AED 1.1bn in 2009. According to Tabreed,

the loan would be available through the end of this year and "may be converted to long-term capital," meaning that Mubadala could add to its existing 16.8% stake in the company.
- Pearl Dubai FZ LLC, owned by a consortium of investors led by Abu Dhabi's Al Fahim Group, is trying to attract international investment, with particular interest from the Far East, for its $4 billion development, the Dubai Pearl.
- The Dubai Government has created a regulatory body for the utilities sector and will soon put a framework in place that could pave the way for the private sector to enter the power generation and utility businesses.

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# Weekly Economic Commentary – March 07, 2010

**Markets**

A positive week across global equity markets – US stocks rallied after unemployment data beat market expectations while the FTSE 100 hit the highest level since Lehman. Asia continued to rise as Greece concerns faded and data releases continued to point toward faster growth in the emerging markets.

Regional markets were mixed with both UAE indices slightly up. Sterling and euro continued to lose ground against the dollar; but euro rose against the yen after the Japanese government's move to raise borrowing limits for forex intervention, suggesting Yen weakness. Oil and gold were both up. Baltic Dry freight index also soared last week, up 15% (up 22% from mid-Feb) with pickup of international trade.

**<u>Global Developments</u>**

**America:**

- Consumer spending started 2010 on a firm note, rising 0.5% in nominal terms and 0.3% in real terms. The small 0.1% increase in personal income hid a much more solid 0.5% increase in labor compensation (0.4% in wages and salaries) offset by a fall in asset income.
- ISM non-manufacturing survey rose by two points to 53 in Feb, as all subcomponents strengthened – the most important being the employment component that showed a sizable gain (four points to 48.6).
- February jobs report showed slow but steady improvement in the labour market – unemployment rate held steady at 9.7%; overall employment fell 36k; payroll declines in Q1 have been muted – 32k per month (2009 Q4: 90k; Q3: 261k; Q2: 477k; Q1:753k). The Fed's Beige book survey showed that labour markets remained "soft" with little wage pressure, but some districts saw rises in hiring.

**Europe:**

- Greece outlined a new set of fiscal tightening measures, estimated at EUR 4.8bn (2% of GDP), with higher sales taxes the main revenue measures and spending cuts in public sector wage bonuses and benefits.
- Euro-area non-manufacturing PMI was 51.8 in Feb (Jan: 52.5). Euro-area retail sales volumes fell 0.3% mom in Jan, and were down 1.2%, saar, versus Q4. Region-wide auto sales are also slipping, led by Germany (30% yoy in Feb) with the end of car buying cash incentives.
- German manufacturing orders soared – up 4.3% mom in Jan, with domestic orders surging 7.1% mom.

**Asia and Pacific:**

- China's PMIs slipped in Feb to 52 from 55.8 earlier – probably distorted by the Lunar New Year. By contrast, India seems to be gaining momentum – 58.5 in Feb versus 57.6 in Jan.

- South Korean trade balance returned to a surplus thanks to strong export growth of 31% yoy while a demand boost helped imports grow 36.9%. Industrial production became flat in Jan, following Dec's strong upside momentum.
- Malaysia's Central Bank hiked policy rates to 2.25% from 2%. Australia's Central Bank raised rates by 25 bp to 4.0% and signaled further hikes ahead, after 4Q GDP showed that growth accelerated to its highest level in 2 years (3.6% qoq saar).

**Bottom line:** The spate of data in the first week of March has been moderately positive, but hardly upbeat.
Europe in particular is the soft spot due to fading government stimulus and Greece's quagmire. At the opposite
in Asia the recovery is becoming stronger each week and clearly broad based by geographical and sector
distribution.

**Regional Developments**

- GCC Investor Confidence Index (Shuaa) for Feb fell 7.8% to 105.6, with UAE (-11.7 points), Saudi (-8.7) and Qatar (-5.8) indices leading the decline. The UAE Index is now just 1.9 points off of its all-time low after the Dubai World "standstill' announcement in Nov. 2009
- Kuwait's inflation eased to 4.2% yoy in Jun 09, its lowest level in more than two years, largely due to the fall in food prices.
- Figures released by SAMA showed that the net income of Saudi Arabian banks slumped by more than 20% in Jan as they maintained a tight lending position triggered by the global fiscal crisis and had to provide against debt defaults by the Saad-Al Gosaibi conglomerates.
- Indian PM's visit to Saudi Arabia led to the signing of the Riyadh declaration, an extradition treaty and

MoUs relating to science & technology and media relations. This reflects an official move towards a long-term strategic partnership.

**Market Intelligence on the UAE**

- According to the UAE Central Bank Deputy Governor, "Dubai World has been able to set up a strategy to address the crisis" and added that it has been able to successfully restructure the debt of its creditors, without providing any details.
- Abu Dhabi is preparing a series of road shows for a potential pipeline of $20 bn sovereign and quasi-sovereign debt issues, as reported by Thomson IFR Markets. DEWA also announced plans of raising up to $1.5 bn through a bond issue "for repayment and projects".
- UAE domestic banks performed well in 2009 but provisions against bad debt depressed net earnings by more than 20%. Central Bank data showed collective NPL provisions at AED 12.9bn in 2009, more than double the provisions of AED 4.5bn allocated in 2008.
- The fees for 37 customs services have been unified for the first time at the UAE level (from March 1) following a Cabinet Decision. The unification is aimed at implementing UAE's obligations under the GCC custom union and international conventions.
- Dubai's inflation slowed to 4.0% in 2009 from 2008's peak of 10.8% as price growth in housing and food costs decelerated. Consumer prices in UAE fell to 0.32% yoy in Jan, amid a rise in property rental prices alongside stable food prices.
- Dubai's government has ordered its departments to cut spending by 15% to save AED 3.7bn, with the aim of reducing the Emirate's deficit of AED 5.99bn, as per a statement from the Finance Department.
- Moody's downgraded ratings of seven Abu Dhabi-based companies it had put on review in Dec09 saying

there’s “no explicit formal” government guarantee to support them. The companies downgraded included Mubadala, Etisalat and Taqa among others.

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# Weekly Economic Commentary – February 28, 2010

**Markets**
Major stock markets remain directionless – concerns about sovereign defaults in Europe and tighter Chinese policy outweighed reassuring comments on US interest rates. Emerging markets performed slightly better on upbeat factory output data from Japan and India’s promise of high levels of stimulus spending. GCC markets were down mirroring global sentiment; the DFM was pulled down by the financial and real estate sector. The dollar and yen were clear winners last week, while the pound tumbled to a 9-month low on UK growth concerns. Oil and gold were slightly low compared to the earlier week.

**Global Developments**
**America:**

- Fed Chairman Bernanke in his Congressional testimony indicated more concern about maintaining growth than about immediate inflation threats and pledged to maintain interest rates at a low level for the foreseeable future.
- Consumer Confidence fell more than anticipated to 46 from 56 in February, the lowest level since April 2009 as the outlook for jobs diminished, a sign spending may be slow to gain traction as the economy recovers.
- Home prices rose in December for a seventh straight month. The S&P/Case- Shiller index of 20 U.S. cities increased 0.3% (sa) mom and 3.1% yoy, the smallest

decrease since May 2007. New home sales fell by 11.2% in Jan, reaching a new all-time low of 309k.

- Durable goods orders gained (3.0% mom) in Jan but bookings for nondefense capital goods ex aircraft, a key indicator for business equipment spending, fell by 2.9%. Initial claims were up 22k to 496k in the week ended Feb 20 as continuing claims also edged up.
- Small upward revision to Q4 GDP to 5.9% qoq; consumer spending was up 1.7% while inventories contributed 3.9%, up from 3.4%.

**Europe:**

- The German IFO business survey for February posted a surprising drop, from 95.8 to 95.2 as the current conditions index dipped from 91.2 to 89.9, undoing all the gains since November. French durable goods consumption was also weak in January, falling 2.7% mom.
- Greece remains the focus with an international team (EU, ECB, IMF) visiting Athens and new austerity measures sparking unrest. S&P has threatened to further downgrade the Greek public debt.

**Asia and Pacific:**

- Thailand, Malaysia and Taiwan posted strong Q4 growth rates 15.2% qoq, saar, 14.6% qoq, saar and almost 8% qoq (not annualized), respectively. Taiwan, has been one of the most violently affected economies by the global bust and boom). Hong Kong Q4 GDP was up 2.6% yoy (3Q: 2.2%) as private consumption, investment and exports all picked up.
- FDI inflows into China were $8.1 bn in Jan 2010, in line with the recent trend. Meanwhile, Chinese lenders have announced plans to raise up to CNY76bn ($11bn) through equity and bond sales, with at least CNY150bn ($22bn) of bank fundraising in the pipeline.

**Bottom line**: US and Europe continue to lose steam, possibly due to unusually bad weather conditions, but also to the end of auto sector support. Greece's woes threaten to undermine the stimulus measures in Europe. Asia is posting stronger-than-expected performances.

**Regional Developments**

- The Saudi government reported finding new gas in the northern Jalamid area, which it said could be commercially exploited. Tests showed the well in al-Sannara reservoir flowing at 12.1 million cubic feet per day (cfd).
- Saudi Arabia and Bahrain inflation for Jan were 4.1% and 1.8% respectively (from 4.2% and 1.6% in Dec respectively).
- Kuwait posted a preliminary budget surplus of USD 27.8 bn in the first 10 months of the current fiscal year on higher oil income.
- Optimistic outlook for the region from Moody's: 2010 will be about improvement as sluggish global recovery gains momentum and investor confidence rebuilds; risks include deterioration in regional political environment and sustained collapse in oil prices.
- Standard and Poors report on rated Gulf Banks showed a marked increase in non-performing loans (NPLs) – NPLs to total loans ratio reached 5.4% on average at end-Q3 2009, compared with 2.7% at end-'08. Accounting for most of the increase were Kuwait- and Dubai-based banks and exposures of some of the Gulf banks to the Al Gosaibi and Saad groups, which defaulted in Q2 2009.

**Market Intelligence on the UAE**

- IMF's Article IV consultation depicted a broadly positive view of the UAE economy, but underlined in unusually frank language the challenges ahead, especially in resolution of the DW debt restructuring. It proposed the creation of debt management office and a new corporate insolvency regime, evaluation of medium-term fiscal implications of increased infrastructure spending, design of macro prudential tools to discourage speculative behaviour, promotion of counter-cyclical bank solvency, strengthening of liquidity buffers and continuing efforts to develop statistical capacity. At the level of Dubai, the IMF stressed on effective communication, increased transparency of economic and financial data and balancing "the viability" of GREs with "need to limit contagion to the economy and the banking sector. The report showed a net external creditor position for UAE. The International Investment Position for 2009, at $437bn in assets and $132bn in liabilities, resulted in a net positive $305bn (132% of GDP).

- Moody's estimated that UAE-based banks have $15bn of exposure to Dubai World, adding that 12 rated UAE banks and the regional entity of HSBC could absorb losses of 40%. The government denies the likelihood of losses on this scale. Under such a scenario, the lenders would lose about 9% of their capitalisation at end 2009, sapping all profits made in the last two years, but retaining solvency.
- Specific provisions for non-performing loans (NPLs) by banks in the UAE have gone up by 63.7% to AED 33.4bn at the end of Jan 2010 from AED 20.4bn a year ago, according to data published by the UAE Central Bank.
- Dubai International Airport passenger traffic was up 17% yoy to 3.86 mn passengers in Jan 2010 to a new monthly record while cargo volumes surged 31.5% predicating an industry-wide rebound.
- Dubai's non-oil direct exports grew at an average 23% yoy to AED 52.4bn in 2009 (2008: AED 42.6bn) according to data from Dubai Customs. India topped the list of export markets in Dubai, with a share of 40.6% and a

value worth of AED 21.3bn.
- DEWA plans to sell 1-2 mn Certified Emission Reductions a year from 28 clean development mechanism (CDM) projects. While it is evaluating bids received for a tender floated earlier, the evaluation of one of its CDM projects shows a return of 7% on investments.

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# Weekly Economic Commentary – February 21, 2010

**Markets**
Major stock markets are experiencing volatility and choppy range bound trading with reactions provoked mainly by the vagaries of EU involvement in Greece's crisis and central banks' policy (the Chinese first and the Fed last week). This pattern spills over currency and commodities markets. Last week, the dollar climbed to an 8-month high post-Fed hike and the pound hit a 9-month low after UK posted its first deficit for Jan since records began. In UAE markets low volumes and volatility will likely continue until the cloud over Dubai World lifts. Other regional markets had mixed performances. Oil and other base metal prices rose on overall positive economic news.
**Global Developments**
**America:**

- The Fed surprised markets with a 50 bps rate hike to 0.75%. Stock futures fell in after-hours trading while the yields on 10-year Treasury notes rose about seven basis points to 3.8%.
- Foreign demand for US Treasury securities fell by a

record amount in Dec as China sold $34.2bn of its holdings of government debt, leaving Japan as the biggest holder of US government debt with $768.8bn.

- Housing starts were up 2.8% mom in Jan. This sector is still at a low level, with single-family starts at only a 484,000 annual rate and multifamily starts bouncing around the 100,000 level. Excess supply evidently continues to weigh on the market.
- Industrial production grew 0.9% mom in Jan with gains across the board in manufacturing – led by motor vehicles and parts (4.9%), consumer goods (1.1%), business equipment (0.9%). Utilization was up as a consequence, but at 72.6% still low in historical terms.
- Initial jobless claims were up 35k to 473k in week ended Feb 13; CPI in Jan was up 0.17% as energy and food prices rose while the core index showed a dip, reflecting ongoing weakness in rental costs, declines in apparel and auto prices.

**Europe:**

- The ZEW Survey of economic sentiment edged lower in Jan 2010 to +47.2 after +50.4 in Dec09. The assessment of the current situation however improved slightly less than expectations, up from -60.6 to -56.6 in January.
- Eurozone flash manufacturing PMI rose to 54.1 in Feb (Jan: 52.4) on a 3.4 point surge in the German manufacturing index as French manufacturing declined again, to 54.6 from 55.4.

**Asia and Pacific:**

- Japan's economy expanded at 1.1% qoq in Q4 2009 supported by a marked recovery in exports and improving domestic demand. However, it remains highly reliant on external demand, with net exports accounting for 0.5

percentage points of Q4 GDP expansion.

- Singapore's Jan non-oil domestic exports increased 20.8% yoy (Dec: 26.1%), the third reading of positive yoy growth since Apr08. Electronics exports increased 22.7% while volatile pharmaceutical exports fell 29.7%.

**Bottom line**: With the first rate increase by the Fed (which almost everybody expected no earlier than midyear) the phase of acute emergency is over. The data flow confirmed this week an overall positive conjuncture, but also that the main threats, labor markets, US housing sector and global current account imbalances are hardly being corrected.

**Regional Developments**

- Qatar consumer prices fell 4.9% in 2009, while Oman's inflation increased to 0.9% yoy in Dec.
- Standard Chartered said it was in advanced discussions with counterparties in the Middle East, including trading companies and government entities, to launch Islamic derivatives.
- The Central Bank of Bahrain has initiated consultations to impose restrictions on banks' credit and investment exposure including one to set the ceiling for underwriting commitments on securities' issues and syndicated loans at 30% of bank's capital for 90 days.
- Moody's raised the sovereign ratings of the Gulf state of Oman on the back of the strength of its public finances.
- KSA's oil exports to the US fell to 837,000 b/d in November, their lowest level in 21 years, according to estimates by the EIA.
- The GCC is the biggest importer of food in the world with more than 90% brought into the region as per WTO data. Estimates by Business Monitor International show UAE food expenditure at $6.7 bn in 2009; the market is forecast to grow by 2.67% in 2010.
- UAE Central Bank Governor Nasser al-Suwaidi reiterated

that rejoining the Gulf monetary union was not being discussed now. This came after SAMA's Governor told reporters that he had not lost hope for Oman and UAE returning to GMU. (Source: Reuters)

**Market Intelligence on the UAE**

- IMF in its Art. IV Staff Report forecasts UAE's overall real GDP to have contracted by about 0.5% in 2009. Hydrocarbon GDP declined by 6.25%, while non-hydrocarbon growth, which had averaged 8% in 2006-08, is estimated to have slowed to about 1%.
- The cost of insuring Dubai's bonds, through CDS which had fallen after Abu Dhabi rescue, has climbed back above $600 for every $10,000 of debt. This is the highest levels since Mar09 and above levels in Nov09, when Dubai World first announced a standstill.
- A Reuters report argues that Dubai World conglomerate is offering to pay creditors only 60 cents on the dollar after 7 years. Limitless in the meantime is said to be asking for a rollover of its debt repayment due next month." An anonymous insider commented that: "Hundreds of millions, billions, at Dubai World and at Nakheel have come due and have been rolled over already".
- According to the Dubai Statistics Centre, Dubai's inflation rate stood at 4.1% in 2009 down from 11.3% in 2008. Housing, water, electricity and gas price growth, accounting for the largest share of the Consumer Price Index (CPI) weight, stood at 2.4% in 2009.
- Construction of the Dubai Metro has resumed after a settlement with the Japanese-led consortium over about $2-3 billion in disputed payments, the Financial Times reported.

Fitch Ratings became the third agency to downgrade a unit of Dubai Holding, citing lack of information about public guarantees.

# Weekly Economic Commentary – February 14, 2010

**Markets**
Global equity markets were in a positive mood till China's move to restrain credit growth rattled markets on Friday. The sentiment was reflected in the regional markets where most stock market indices closed in the green. The dollar-index hit a 7-month high on Friday while the euro dropped to a 9 month low due to Greece's fiscal woes. Oil got support from a forecast by the International Energy Agency, over oil demand to average 86.50 million bpd in 2010, while gold was attractive given volatile currency markets.
**Global Developments**
**America:**
• Ben Bernanke laid out the Fed's vision for withdrawing liquidity from the financial system last Wednesday; while he did not reveal a timeline for policy change, he did propose the likely sequence. Fed would initially use "reverse repo", under which it sells assets for cash with an agreement to buy them back, and a "term deposit facility", a kind of certificate of deposit for banks.
• Initial jobless claims fell by 43k to 440k in week ended Feb 6; a Labor Department spokesperson claimed that the backlog of accumulated applications was cleared. Retail sales posted solid gains in Jan, at 0.5% mom, but sales ex-autos rose less than market expectations.
**Europe:**
• France and Italy industrial production declined in Dec and this was later reflected in the Eurozone IP, at -0.5% mom.
• Q4 provisional GDP data showed French growth was up 0.6% qoq, while Germany registered flat qoq growth and Italian GDP

was below expectations at -0.2% qoq; overall Eurozone GDP was up 0.1% qoq. The “only positive contribution” to Q4 growth in Germany was foreign trade while consumer spending and investment fell compared with Q3.
• Greece’s fiscal problems and need for a ‘bail-out” have weakened the euro and lowered the market’s credit risk assessment of Portugal, Ireland & Spain that face similar problems.
**Asia and Pacific:**
• In another surprise market move, China raised the legal reserve requirements for commercial banks by 50bps on Friday in an effort to control rapid lending rather than significantly tighten monetary policy.
• Chinese Jan CPI inflation was +1.5% yoy, down from +1.9% in Dec; M2 growth fell to 26.0% while M1 growth hit an all time high of 39.0% (likely due to the Lunar New Year effect – as demand for liquidity rises before the holiday season).
• China’s Jan trade registered 21% yoy export growth alongside 85.5%, taking the trade surplus to USD 14.2bn. Compared to Dec’s strong growth, Jan data seem to be relatively dim, possibly due to some distortion due to the Lunar New Year effects.
• Japan’s machinery orders for Dec came in at +20.1% mom versus the market expectation of +8.0%. Orders from manufacturers show high growth for export sectors (chemicals) but non-manufacturers (finance & insurance) were down due to weak domestic demand.
• Indonesia Q4 GDP growth was 5.4% yoy, as public consumption and investment surged while private consumption eased moderately.
**Bottom line**: The recovery in Europe has already lost steam and is marred by a fiscal crisis in the Mediterranean countries. The US seems in better shape for now, while Asia and China in particular is steadily going back on a path of expansion.
**Regional Developments**
• The GCC Monetary Council will appoint its Chief in March. Additionally, the Gulf Arab central bank governors are

expected to hold the first meeting of their joint monetary council on March 30, the next step towards monetary union.

• Oman has no plans to issue government bonds this year and banks remain liquid despite the impact of the global financial crisis, according to the Central Bank of Oman. In a similar announcement, Qatar's Central Bank governor said that Qatar does not see the need to provide more bank support after it spent $900 mn on buying bank stakes amid the financial crisis to bolster the sector.

• Omani money supply grew 4.7% yoy at the end of Dec09 from 4.5% growth in Nov09.

• Kuwait's central bank surprised markets with a 50ps cut in its discount rate to 2.5% and in two of its repo rates by 25bps: 1-wk repo rate to 1.5% and its 1m rate to 2%. The move aims to boost banks lending and lure the private sector into a 4-year development plan.

• Kuwait has forecast a deficit of KWD 7.41bn in its 2010/11 budget, with oil forecast at $43/barrel. Expenditure covers part of the KWD 30bn four years' development plan which was passed by parliament earlier this month.

**Market Intelligence on the UAE**

• The yield on Dubai's latest Islamic bonds, issued in October at 6.5%, climbed last week as high as 9%, traders in Dubai said. The cost of insuring Dubai's bonds, which had fallen after Abu Dhabi rescue, has climbed back above $500 for every $10,000 of debt.

• Dubai government injected $6.2 bn into Dubai World and it is prepared to put even more money into the conglomerate. According to an anonymous spokeswoman the money is provided on a commercial basis through the Dubai Financial Support Fund.

• UAE's growth will remain "low" in 2010, but higher than in 2009, Central Bank Governor Sultan Bin Nasser Al Suwaidi said.

• Inflation fell substantially in 2009 to a nine year low of 1.5%, as per data released by the National Bureau of Statistics.

• Dubai government announced a plan to set up a trade regulator –Joint Commercial Control and Protection

Establishment – to develop and protect the business environment and protect individuals and companies from illegal commercial practices.
• Damac has filed a motion to stop an investor’s lawsuit being heard in the DIFC. The suit claims breaches of contracts, misrepresentation of properties, fraud and improper use of funds and is a test case for the legal environment in Dubai.
• At its five-month anniversary the Dubai Metro, hit the ten million passenger mark, as per data released by the RTA.

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# Weekly Economic Commentary – February 07, 2010

**Markets**
Global **stock markets** slid sharply to a three-month low on Friday due to widespread concerns about the public finances of Greece, Portugal and especially Spain compounded by negative data on the US job market. Most GCC markets were up, with the exception of only Saudi Arabia. **Oil** fell nearly 3 percent on Friday to a seven-week low, taking its losses to 14.4% over the past month. The **euro** weakened to an 8 month low against the dollar.
**Global Developments**
**America:**

- The US payroll data showed further job losses of 20,000 units in January. The unemployment data were more positive with the rate falling to 9.7% from 10.1%, which appears to reflect a genuine move. The household measure of employment in fact rose by 541,000.
- The US ISM non manufacturing index edges back to 50.5

into positive growth territory, spurred by a gain in order but otherwise slightly disappointing expectations.

**Europe:**

- Euroland’s PMI manufacturing increased by less one point to 52.4 in January, signaling moderate growth is holding ground. The PMI services on the contrary lost almost one point to 52.5, a lackluster result.
- German industrial production fell sharply in December by -2.6% mom -6.7% yoy. Although seasonal and calendar effect might explain this weakness it is clear that momentum is waning and is not helped by weakness in the Southern part of the euro area.
- Spanish GDP fell 0.1% qoq in Q4 2009. This is the first figure to come out of the eurozone, and is not particularly encouraging. But Spain’s woes last week came under the spotlights with markets fretting about the sustainability of its fiscal position.

**Asia and Pacific**:

- South Korean exports rose 47.1% yoy, and imports 26.7% yoy in January. Exports growth was more broadly based than in December with a distinctive out-performance towards emerging markets.
- India’s export grew 9.3% yoy and import by 27.2% in December. While improvement in exports continued, non-oil imports jumped, with merchandise imports growing 22.1% qoq (sa).

**Bottom line**: Doubts about the strength of the recovery intensify in developed economy with the job market still weak and the weight of unsustainable public debts coming under scrutiny.

**Regional Developments**

- Gulf Air's ownership has been transferred to the Bahraini government from Mumtalakat earlier. According to Mumtalakat's chief executive, airline industry investment did not fit with the fund's strategy and given low-returns from such investments, its earlier role was more of a strategic nature.
- Qatar Financial Centre announced an alteration in its strategy to focus on asset management, reinsurance and captive insurance, the head of its governing body said, in a move to compete with other Gulf financial hubs.
- Shuaa Capital's GCC Investor Confidence Index dipped 2.4 points in Jan 2010; Investor sentiment towards the UAE fell into negative territory due to increased uncertainty about the six months outlook of the economy and stock markets.
- According to a new report by Kamco Research, Saudi Arabia's banks hold the largest deposit base among its GCC peers (about 38% of total GCC deposit base) or about $283 billion as of Sept09. The banking sector in the UAE followed with 30% (deposit base of $221bn), while Kuwaiti banking sector held the third largest position with 17%, equivalent to $124bn.
- The GCC railway project is expected to cost $25 billion and likely to be completed by 2017 according to an informed source at the GCC General Secretariat; tenders for an engineering study would be invited from specialized consultancy firms in Q1 2010, and the project is expected to create about 40,000 jobs. (Source: Zawya)
- Kuwait clocked in a surplus of KWD 6.32 bn in the first eight months of the fiscal year 2009-2010 from higher oil revenues; In other data released, consumer prices rose 5.2% yoy in Apr09, slowing slightly from 5.7% in the previous month.

**Market Intelligence on the UAE**

- Dubai's exports grew by 9.3% to Dh40.9 billion in the fourth quarter of 2009. Meanwhile, the total number of Certificates of Origin (COO) issued by the Dubai Chamber during the fourth quarter stood at 152,070, an increase of 1.7% from Q3.
    - Dubai's offshore oilfield is likely to begin commercial production within a year, according to the office of the Emirate's ruler. The field which is named al-Jalila will be the fifth in Dubai.
    - The Dubai Financial Support Fund gave Dubai World about $6.2 bn over the past 12 months and stands ready to provide "considerably more", according to its spokeswoman, adding that the aid was given on commercial terms. Meanwhile, uncertainty about the company's $22 billion debt restructuring is starting to weigh on the credit again – pushing up bond yields and Dubai's debt insurance costs.
    - State-owned Dubai Aluminium Co year-on-year sales volume for 2009 rose 8.7% on higher demand in the Middle East.

Dubai's Department of Economic Development announced the issuance of 11,635 business licences in 2009, as economic activities continued at similar momentum. Meanwhile, real estate transactions during Jan 2010 dropped 15% yoy according to RERA.

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# Weekly Economic Commentary –

# January 31, 2010

**Markets**
Global stock markets were mostly down last week in reaction to the proposed tax on banks announced by President Obama, but pared some losses following his populist State of the Union speech, the Fed's statement and positive news on US GDP growth. The Regional markets were mixed with KSA and Qatar down, Oman sharply up and the others mildly positive. The Euro is retreating, while oil and gold fell sharply.
**Global Developments**
**America:**
• US GDP grew 1.4% qoq or 5.7% annual rate and 0.1% yoy in Q4, due mainly to significant progress toward inventory stabilization, with final sales measures coming close to 2%. Inflation as measured by the personal consumption deflator was 1.4% yoy.
• The Federal Reserve kept rates unchanged while reiterating its promise to keep rates 'exceptionally low' for an 'extended period'.
• Existing home sales slumped in Dec (-16.7% mom) while S&P Case-Shiller index for Nov continued to show modest gains in home prices – both reflecting expectations on the part of homebuyers that the $8k homebuyer tax credit would expire on Nov30, 2009.
• New home sales dropped further in Dec (-7.6% mom) partly due to builders' poor sentiment, reflecting impact of a supply overhang.
• Durable goods orders rose +0.3% mom in Dec, (-3.1% yoy), a performance reflecting weak transportation orders.
• Initial unemployment claims rose 470k, but continuing claims dropped by -57k to 4.602 million; overall the job market prospects remain difficult.

**Europe:**

• UK 4Q GDP was up +0.1% qoq, an encouraging sign that the worst is over.
• According to the ECB's quarterly lending survey, banks are still tightening lending standards on a net basis.
• Euroland consumer and business confidence indices edged up one and two points respectively, in line with expectations.
• Germany's Jan IFO survey registered an upside surprise (95.8 – the highest since July 08), pointing towards improved sentiment regarding recovery. With the exception of retail, sentiment was higher in all sectors surveyed (manufacturing, wholesale, construction).

**Asia and Pacific**:
• Japan Industrial Production posted its 10th successive increase, rising 2.2% mom (-4.2% yoy) in December, the same as November, suggesting sustained growth. However, S&P downgraded the outlook for the Japanese economy to 'negative' and warned that it would revise the ratings of government debt if the ballooning deficit was not contained. Deflation remained entrenched with prices dropping 1.3% yoy in Dec.
• South Korea 4Q GDP was up 0.2% qoq, driven by services sector growth. On the demand side, fixed investment was up but consumption fell, reflecting the waning fiscal stimulus.
• Industrial production in Taiwan increased 47.3% yoy in Dec, the highest recorded rate. IP is now near its peak levels in early-2008. Taiwan is benefiting from strong Chinese economic growth.
• Singapore's Dec industrial production was up 14.4% yoy (Nov: -9.6%) on stronger production in the electronics sector.
**Bottom line**: Recovery is almost complete in Asia excluding Japan (where a new populist Finance Minister is unsettling the markets), while the US and Europe maintain a weaker tone. The US GDP figures were positive, but without job creation this turnaround might not last.
**Regional Developments**
• Central Bank of Bahrain announced an oversubscription of the monthly issue of the Sukuk Al-Salam Islamic securities:

subscriptions worth BHD 63mn were received for the BHD 12mn issue.

• Kuwait announced KWD 12.9bn in total revenues for first 9 months of the fiscal year – this was 59.8% more than projected revenue, but significantly lower (30.7%) compared to a year ago.

• The foreign and local workforce in Qatar grew by 7.9% in 2009 to 1.26 mn. The workforce was concentrated in the construction sector (44%), while the mining and manufacturing sector accounted for another 14%.

**Market Intelligence on the UAE**

• The IMF has revised downwards its projections for the UAE, forecasting flat growth this year due to the real estate crisis in Dubai, where output is expected to contract in 2010. The UAE economy in 2009, fell 0.7% according to the latest IMF figures

• A RERA draft law in Dubai would impose financial penalties on developers who deliver properties late and also gives investors a refund or replacement if the delivered property is defective. It would also specify provisions for cancellation of contracts.

• The National Human Resources Development and Employment Authority (Tanmia) has estimated the UAE population would rise in 2010 to 7.56 million (13.3% of which would be Emirati nationals) from 5.63million in 2006.

• Abu Dhabi municipality will develop 26 infrastructure projects this year prominent among which are the commercial area at Khalifa City, completion of roads at Zayed City and completion of projects at Al Salam, East Coast and Presidential Palace roads.

• Three Gulf investors, including Rafed Al Khorafi, chairman of the Kuwait-based AM Al Khorafi group, are suing Bank Sarasin-Alpen and Bank Sarasin & Co in the DIFC Courts for what press reports said was “negligent investment advice”.

• Both Dubai World and Emirates NBD have announced a parting of ways with S&P, on increasing tensions with the ratings agency.

• Dubai may start importing up to 37 billion cubic feet per year of natural gas from Qatar as early as Sept, 2010 according to The National.
• UAE hotels occupancy level rose to 65.5% in Dec for the first time in months. However, Dubai hotels reported the largest RevPar decline of 31.4% yoy to $163.31 in 2009, according to the hospitality research firm STR Global.

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# Weekly Economic Commentary – January 24, 2010

**Markets**
Global stock markets were mostly down hit by the impression of a tightening stance by the People’s Bank of China and concerns over US plans to rein in banks. Regional markets were down as well, with the exception of Bahrain and Kuwait. The DFM was dragged down by the real estate and materials sector. Haven demand boosted the dollar and the yen as worries over China’s monetary tightening and US banks weighed on risk appetite. Commodities – oil, gold and most base metals – fell from the previous week on dollar gains.
**Global Developments**
**America:**

- Global flows of FDI fell to nearly $1 trillion in 2009 from $1.7trn in 2008 according to UNCTAD.
- Housing starts weakened in Dec09 (-4.0% mom), but permits for construction were stronger – up 10.9% overall.
- Initial jobless claims were up 36k to 482k in the latest release, but the four-week average is roughly steady just under 450,000.

**Europe:**

- The German statistical office warned that growth might have been stalled in Q4 2009, but did not provide figures (yet).
- U.K. inflation jumped up in Dec09, to 2.9%yoy from 1.9% in Nov09. Prices were up 0.6%mom pushed by energy prices.
- The U.K. Treasury is planning to host a meeting of G7 (and IMF and FSB) on the 25th to discuss a "global insurance levy" (i.e., higher taxes on large banks).
- Euro Group Finance Ministers criticized Greece it for having failed to enact hard spending cuts. Spreads however narrowed 10bp.
- The ZEW index edged lower in Jan 2010 to +47.2 from +50.4 in Dec09. This downside surprised the markets.
- January's flash Euroarea manufacturing PMI rose to 52 (51.6 in Dec09), with Germany up to 53.4 (from 52.7). However, the services PMI was weak as it fell to 52.3 from 53.6 in Dec.
- UK retail sales were up 0.3% mom in Dec, resulting in a solid Q4, at 2.8%q/q, saar. This series has been surprisingly robust through much of the U.K. recession.

**Asia and Pacific**:

- China released a slew of data ranging from GDP to industrial production: real GDP growth accelerated to 10.7% yoy in 4Q 2009 and 3Q growth was revised up to 9.1%, taking 2009 GDP to 8.7%; industrial production slowed to 18.5% yoy in Dec (Nov: 19.2%), with steel and cement output leading to the growth. On the demand side, retail sales accelerated – up 17.5% yoy in Dec (Nov: 15.8%). Fixed investment spending also remained strong while inflation rose to +1.9% yoy, up from +0.6% yoy in November – Chinese domestic final demand growth remains strong but rise in inflation might lead to more tightening of the monetary policy soon.

**Bottom line**: The pause of reflection in global markets continues while the economic situation remains uncertain. The outlook remains clouded by two uncertainties: strength of US labor market and the exit strategy from the exceptional measure taken in 2008-09. Draghi head of the Financial Stability Board warned that the general situation "is not as good as the markets think it is…there are very substantial fragilities in the [financial] system". China is beating expectations and the authorities looks ready to push the brakes.

**<u>Regional Developments</u>**

- The outlook for corporate credit quality in the Gulf is stabilizing and might even recover albeit a slow pace, as "the worst is over", Moody's Investor Services stated in a new report. Nevertheless credit conditions in some sectors, particularly real estate, will continue to be challenging in 2010. The same also applies to **Dubai** where restructuring of certain entities is likely to be a **prolonged exercise**.
- Contracts for the GCC rail project are expected to be awarded in December while the $15.5 bn project is set to be operational by 2016, according to the GCC Secretariat.
- According to the World Bank's Logistics Performance Index (LPI) survey the UAE was placed the best performing trade logistics service-provider in the Gulf region, ranking 24 among 155 countries across the world.
- MasterCard Worldwide Index of Consumer Confidence showed that confidence in the UAE rose to 86.1 from 29.6 in the previous survey that reflected perceptions for H2 2009. Overall UAE optimism is the third highest globally,

after Vietnam and Qatar.

## Market Intelligence on the UAE

- EFG Hermes estimated that the capital market debt of the Dubai government and its entities, including bonds and syndicated loans, has risen to $96.6 bn in 2009, including funds raised by the government to meet debt obligations. The bank pointed to uncertainty, which could take the total debt to $170 bn, highlighting a lack of data on loans between Dubai Inc. entities and banks. It estimated that Emirates NBD alone is exposed for $24 bn in loans to Dubai Inc.
- Dubai Chamber of Commerce estimated that housing prices in the UAE remained flat from September to November; property rents and house prices have already bottomed out in June. Almost 30,000 new apartments and villas will be handed over in 2010. The Collier Index reported similar data with house prices in Dubai rising 1% in Q4.
- The UAE Government pumped nearly Dh18 bn into banks deposits in September, the biggest monthly increase since 2008, according to Central Bank’s figures.
- Borse Dubai announced it will exercise the one-year extension option of the current USD 2.5bn multicurrency syndicated facility.

Property developer Nakheel announced the payment of the coupon on its USD 750mn bond maturing in 2011 of USD 10.3mn. Nakheel has two bonds outstanding – a Dh 3.6 billion dirham issue maturing on May 13 and the USD 750mn deal due Jan 2011.

# Weekly Economic Commentary – January 17, 2010

**Markets**
Global stock markets were mostly down compared to a week ago. US earnings results failed to impress (banks were dragged down by the disappointing results from JP Morgan Chase) and retail sales data did not help either; Tokyo's Nikkei meanwhile hit a 15-month high. Regional markets were mostly down – only Bahrain and Saudi made modest gains. Crude retreated below $80 a barrel after cold weather failed to boost demand and the International Energy Agency left its consumption forecasts unchanged.
**Global Developments**
**America:**

- Fed's Beige book reported modest improvements in consumer spending in 2009, though well below pre-recession 2007 data. Labor market was weak while wage and price inflation remained subdued.
- Retail sales for Dec09 disappointed (-0.3% mom, +5.5% yoy); initial jobless claims were up modestly (444k in week ended Jan 9). Dec industrial production was up 0.6% mom, thanks to gains in utilities, but manufacturing was dragged down 0.1%.
- CPI inflation increased 0.13%mom in Dec( +2.7% yoy), less than expected. Core inflation (ex food and energy) increased by a modest 0.11% mom (+1.8% yoy).

**Europe:**

- France's industrial production registered a growth of +1.1% mom in Nov09, driven by strong growth in transportation (+5.3%) and electricity goods (+2.5%). Industrial production for Italy and UK (Nov09) were up +0.2% and 0.4% mom respectively.

- Eurozone's industrial production registered a stronger than expected 1.0% mom growth in Nov.
- The European Central Bank kept its refi rate unchanged at 1.0% and issued a blunt warning to high-borrowing governments that they risked a backlash from financial markets, while escalating pressure on Greece to bring its public debts under control.

**Asia and Pacific**:

- The People's Bank of China raised banks' reserve requirements by 0.5%, taking the markets by surprise. The hike confirms China's policy tightening move, after concerns about rapid expansion in bank credit in the initial weeks of 2010.
- China's December trade report, showed robust growth in exports up 70%qoq, saar and, especially, imports up 83%qoq, saar.
- China's forex reserves were $2.4 tr at end 2009, up $453 bn from end 2008. Q4 posted a gain of $126 billion ($42 bn per month).
- India's Nov09 industrial production for Nov was up 11.7% yoy, largely due to base effects while a strong pickup in motor vehicle sales and consumer durables reflect robust consumer demand.
- Japan machinery orders, a leading indicator for capex, posted an 11.3% mom decline in Nov09 – a record low. External machinery orders, a leading indicator for capital goods exports, recorded their first yoy increase, of 0.7%, since Jun08.

**Bottom line**: The outlook for the global economy remains clouded by two main uncertainties: strength of US labour market and the capital markets which are assessing whether the rally in 2009 was overstretched. Draghi head of the Financial Stability Board warned that the general situation "is not as good as the markets think it is…there are very substantial fragilities in the [financial] system”.

**Regional Developments**

- Saudi Arabia’s bank sector took a hit after Saudi Hollandi Bank made its first quarterly loss in two years while Banque Saudi Fransi and Samba Financial Group also saw profits hit by provisions.
- Gulf banks provisions for bad loans reached $9.4bn in 2009, a 40% increase over 2008 according to Kuwait’s Markaz estimates. However these provisions are a mere 1.13% of loans outstanding.
- The banking sector in KSA (11 banks including those non listed) achieved a 4.1% growth rate to reach $7.4bn net profit in 2009.
- Oman’s banks consolidated balance sheet in the first 11 months of 2009 grew by 4.2% comparing to same period of 2009.
- Oman nominal GDP of first 9 months in 2009 declined by 27% comparing to same period in 2008. Oman government expenditure of first 9 months in 2009 increased by 6.8% comparing to same period in 2008.
- Saudi non oil imports value and weight decreased by 32% and 28% respectively where Saudi non oil exports value and weight decreased by 1% and increased 24% respectively.
- HSBC’s quarterly Gulf Business Confidence Index fell from 81.4 to 80.2 between Q3 and Q4 2009. Saudi and Kuwait indices showed modest gains while UAE declined from 72.2 to 69.8.
- Estimates from the Energy Information Administration showed the combined income of Gulf oil producers fell to $302bn in 2009 from a record high of USD 522bn in 2008, due to the sharp decline in both crude prices and output.

**Market Intelligence on the UAE**

- Dubai Chamber of Commerce announced that total exports for 2009 fell by 16% yoy to AED 186.1bn, with Dec09 registering a 23% rise in total exports indicating a turnaround and a better outlook for 2010.
- The creation of a judicial panel to hear disputes between Tamweel and Amlak and their creditors could pave the way for a merge. The new panel's precise mandate has not been disclosed and lawyers fear it may be interfering with judicial courts' proceedings.
- The Dubai airport recorded +9.2% yoy growth in passengers during 2009 to a record 40.9 mn, in a period when 46 of the world's 50 busiest airports showed falls in international passenger traffic.
- Sheikh Ahmed bin Zayed al Nahayan, ADIA's managing director, stated that ADIA had switched its weightings across asset classes to reduce the impact of economic downturns over the past 18 months, adding that its allocation to global equities had averaged 40-60%. Regionally, its largest allocation was the US (35-50%), followed by Europe (up to 35%) and Asia (up to 20%).
- The UAE recorded more than $ 20bn worth of merger and acquisition deals in 2009, of which $ 15.74bn, or more than 77%, were acquisitions made by UAE-based firms, while the remainder was attributed to foreign companies acquiring UAE companies.

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# Weekly Economic Commentary –

# January 10, 2010

**Markets**

- Global stocks made further advances, while government bond prices climbed and short-term interest rate futures gained as investors bet the weak jobs market would keep inflation tame and encourage the Federal Reserve to keep lending rates near zero for a long time. The global sentiment was reflected in the regional markets, except in the UAE's DFM where the index was down 2.8% on last week, pulled down by materials and the real estate sectors.
- The biggest mover last week was the Japanese Yen after the new finance minister's calls for a weaker currency sent markets on a rollercoaster ride; the minister retracted his statement later, helping the currency to regain ground. The weak dollar story continues – it plunged against the euro on Friday after unexpectedly weak US jobs report.
- Commodity prices are on the rise: oil was up 4.3% and gold rose 3.2% from last week.

**Global Developments**
**America:**

- In December 85,000 jobs were cut, sapping expectations that the labor market was stabilizing. The unemployment rate held steady at 10%, but it did not increase sharply only because a surprisingly large number of jobseekers decided to drop from the labor force deeming that finding a job was virtually hopeless.
- The ISM manufacturing index made a new high for the cycle in December, rising to 55.9 and beating consensus (54.1) expectations. The details are generally supportive, with new orders making a new cycle high of 65.5 and the orders/inventories gap widening anew to

22.1. The outlook for manufacturing is stronger than expected and hence industrial production should show healthy growth in Q1 2010.

- The minutes of the Dec 15-16 FOMC meeting contain more comments about the likely fragility of the US recovery and lack of upward inflation pressure than opposite concerns of potential inflation problems. This suggests that an exit strategy is not even on the horizon.

**Europe:**

- Euroland PMI survey continued to rise although at a more measured pace from 51.2 in Nov. to 51.6 in Dec. Among the subcomponents, it is noteworthy the stability of the Orders index in the last 3 months. The key national data were also encouraging: German Manufacturing PMI rose to 53.1 after 52.4 while its French counterpart was stable at 54.4. In Services, the German index rose to 53.1 after 51.4 while the French index fell to 59.3 after 60.9, a mild correction of the 11.6 point increase since August. These figures are consistent with GDP growth of 0.5% qoq in Q4 2009.
- Euroland inflation rose to 0.9% yoy in Dec from 0.5% in Nov. due to energy-related factors.
- Both business confidence and consumer confidence in Euroland increased slightly in December to -17 and -16 respectively, another sign of normalization in the real economy.
- German industrial orders disppointed again in November edging only 0.2% mom higher after -1.9%. The weakness of foreign orders is difficult to explain in light of the strength of the global industrial recovery.
- Germany’s industrial output increased 0.7% mom in Nov after -1.7% in Oct, broadly in line with consensus. Despite the recovery the index is still around the same level as ten years ago.

**Asia and Pacific**:

- Singapore GDP grew 3.5% yoy in Q4 2009, however when seasonally adjusted this figure translates into a contraction of 6.8% qoq (seasonally-adjusted; annualized), versus the strong expansions of 14.9% qoq ann. and 21.7% qoq ann. in 3Q2009 and 2Q2009 respectively. The manufacturing sector's output which contracted by 38.4% qoq ann. in Q4 was the main culprit for this slowdown.
- Boosted mainly by demand from China, Taiwan's exports increased by 46.9% yoy in Dec, after increasing 19.4% yoy in Nov. much above consensus expectations.

**Bottom line**: The global economy ended 2009 with a broad based rebound, stronger in Asia, and weaker in mature economies. Pockets of weakness remain in countries such as Spain, Russia, Baltic and Eastern Europe.

**Regional Developments**

- A single Gulf currency could be launched in 2015 if GCC States speed up the process, according to Mohamed Al Mazroui; GCC Assistant Secretary-General for Economic Affairs, in the first such comment after the monetary union was endorsed last month.
- Muhammad Al-Jasser, Governor of SAMA estimated total GDP of the 4-member GCC Monetary Council at about USD 751bn, underscoring the monetary council's potential to strengthen GCC and boost their economic and commercial relations.
- Kuwait's parliament approved a bailout bill of up to KWD 6.7 bn for its indebted citizens, despite the government's opposition. It was estimated that the government would have to use up 33.5% of total deposits, or KWD 2.9bn to fund the plan.

- Oman has started the implementation of the new tax law – a tax rate of 12% was made applicable to all companies incorporated in Oman, irrespective of the nationality of the shareholders.
- Higher oil production alongside record public spending boosted Oman's economy by 3.7% in 2009, according to the country's minister of national economy. Oman's foreign trade surplus fell 32% yoy to OMR 4.4bn in 2009.
- According to the Omani Ministry of National Economy, Oman's budget spending for 2010 is estimated at OMR 7.2bn, with revenues at OMR 6.4bn, resulting in a deficit of 800 mn (3% of GDP) based on an estimate of USD 50 per barrel.
- Saudi Arabia has re-imposed 5.0% customs duty on steel bars and cement imports following an oversupply in the domestic market but the duty will only be levied on imports from non-GCC countries.
- Saudi Arabia's oil sector GDP plunged 40% to SAR 647bn riyals in 2009, as income from oil production fell to 46.7% from 60.7% in 2008. GDP from the non-oil sector increased 5% to SAR 723bn, according to data released by the General Statistics Bureau.
- Saudi Arabia's foreign assets dipped by nearly 12% in the first 11 months of 2009 as Saudi's massive investment plans gained speed. From about SAR 1.7trn at the end of 2008, the assets of SAMA tumbled to SAR 1.5trn at the end of Nov09.

**Market Intelligence on the UAE**

- Dubai approved its 2010 budget with a larger deficit – at AED 6 bn (2% of GDP) – up from the estimated AED 4.2bn for 2009 due to reduced revenue estimates. Expenditure at AED 35.4bn was down from AED 37.7bn budgeted for 2009 while revenues were set at AED 29.4bn.
- UAE consumer confidence took a hard hit in a global survey after Dubai World's call for a debt standstill

led to a negative outlook. The reading for Dec09 fell 10 points to 92, the biggest drop of the 29 markets in Nielsen’s worldwide survey.

- A decree exempting companies operating in Dubai from all fines imposed on them for not renewing their licenses on time was applauded as it reaffirmed the continued support for the business community in Dubai.
- Dubai hotels RevPAR (revenue per available room) dropped to $163.4 in the Jan-Nov09, a decline of 32.3% yoy while hotel occupancy rates dropped to 69.2%, according to the Deloitte analysis of STR Global data of hotel performances in the Middle East.
- DP World announced that it had paid coupon and profit obligations on its Sukuk and a bond issue on time. DP World also took the decision to list on the London Stock Exchange to boost liquidity, after shareholders called for the secondary listing as a means to ease trading opportunities on the global ports operator. This decision is a serious blow to Nasdaq Dubai where DP World accounts for over 90% of daily transactions.
- The UAE did not witness cancellation of collective residences in 2009 due to the impact of international financial crisis, according to the Ministry of Interior’s Assistant Undersecretary of Naturalisation, Residency and Exits Affairs. It was stated that some 21,065,229 people entered into UAE via air, land and sea outlets in 2009. The figure is higher than the one registered in 2007 and 2008. The number of people who went out the country last year totaled 20,682,623.

# Weekly Economic Commentary – November 22, 2009

## Markets

Until recently market reacted cheerfully to bad news and good news. Now the mood is more somber and risk reduction in the face of uncertainty is prevailing and all major indices concluded the week sharply down. It is unlikely that those who decide to join the party later will find much to cheer until the end of the year. Regional markets were mostly down, with the exception of Oman and Qatar; DFM index was dragged down by the telecom and financial sectors. The dollar recovered towards the latter half of last week, after the recent rally in global asset prices appeared to run out of steam. Commodities continued to gain, with the gold's run helping other metals like copper, silver and platinum reach 2009 highs. Oil remains stable at around 77$/b.

## Global Developments

## America:

- Retail sales grew 1.4% mom in Oct, while "core" retail sales (excluding vehicles, building materials & gasoline) rose by 0.5%. Given downward revision of previous months' data, this means that earlier estimates of Q3 GDP will be also revised down.
- Oct industrial production was up 0.1% mom, while capacity utilization rate edged up 0.2%.
- Producers' prices rose 0.3% mom in Oct on the back of rising energy prices but still remain muted; consumer prices were up 0.2% mom (-0.2% yoy), driven by vehicles and energy prices, while rental indexes remained flat, and apparel prices fell 0.4%.

- Housing starts disappointed, contracting by 10.6% mom in Oct (falling for the first time since April) as high vacancy rates are discouraging construction. This raises questions on the “recovery” of the US housing market.
- Initial jobless claims were unchanged, at 505k. The 4-week moving average fell to 514k, and is on a downward trend since early September of 30k per month. At this rate employment could turn positive in Q2 but it will not be enough to stabilize the unemployment rate until end 2010.

## Europe:

- UK retail sales were up 3.4% yoy in Oct; this should **translate into positive consumption and GDP growth in Q4.**
- Spain GDP fell 0.3% qoq in Q3, better than the 1.1% drop in Q2, but yet a reminder that the European periphery remains weak.

## Asia and Pacific:

- Japan’s economy grew at a stronger-than-expected annualised rate of 4.8% in Q3, as the fiscal stimulus supported consumer spending and net exports rose.
- Japan’s government announced that the economy was back in deflation, the announcement coming after the Bank of Japan kept interest rates near zero and upgraded its economic assessment.
- Singapore’s Q3 GDP grew by 0.6% yoy, after a 3.3% contraction in Q2, with improvement in both domestic demand (through government consumption) and trade.

## Bottom line:

The data last week did not add much to the patterns of global improvement. Once again Asia surprised somewhat on the upside, while in developed economies, especially the US data were lackluster at best, especially in the construction sector.

## Regional Developments

- The planned Gulf single currency was ratified by the Bahraini Parliament, while the Kuwaiti Parliament delayed voting on the monetary union to December 8. Saudi Arabia is also steadily approving a series of measure to prepare for the currency union.
- Qatar has revised the corporate income tax on foreign companies setting a rate of 10% from 2010.
- Qatar’s $7 bn global sovereign bond issue was assigned ‘AA-‘ senior unsecured debt rating by S&P. Proceeds from the four-times oversubscribed bond will be used as contingency funding for state owned/controlled entities and for infrastructure investments.
- German transport minister Ramsauer announced that Deutsche Bahn is set to sign a 17 billion euro contract with Qatar, to build a rail network and the Doha metro.
- Aggregate earnings of GCC companies continue to show a decline – GCC corporate earnings fell by 23% in Q3, with 58% companies having announced results. (Source: Markaz)

## Market Intelligence on the UAE

- The UAE Central Bank has announced that lenders will need to start complying with the Basel II regulations on capital adequacy for banks from next year.
- The exposure of UAE banks to the Saad and Algosaibi groups amounts to $2.9 bn, between 13 national banks and 7 foreign bank branches, according to the UAE Central Bank.
- Several Dubai Government-related entities are preparing new bond issues, Standard Chartered said. They could include companies such as Emirates Airways, the Roads and Transport Authority and the Dubai Electricity and

Water Authority. Emirates NBD, however announced its decision to put off a planned bond sale till Q1 2010 hoping for improvements in pricing.

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# Weekly Economic Commentary – November 15, 2009

## Markets

The main theme on global stock markets is risk reduction. Regional markets were down, except for the UAE markets which gained from Monday's speech by Sheikh Mohammed bin Rashid al-Maktoum; DFM was up 3.3% from last week. Dollar fell through key levels to fresh 15-month low on Wed. Gold hit a record high on Thur and was up 2% from last week. Crude oil prices came under pressure after US inventories data indicated a broad weakening in demand conditions. The Baltic Dry index, the global benchmark for freight costs for dry bulk commodities, outshined all other commodity indices by rising 21.2 % to 4,111 points over the week.

## Global Developments

## America:

- The latest quarterly Fed loan officers survey points to continued tightening in lending conditions but at a much slower pace than in the past and there are also signs of credit demand slowing at a much slower pace than before. Almost 60% of the responding banks saw unchanged or rising credit demand, the highest reading since July

last year
- Initial jobless claims continued to recede at a modest pace, falling 12,000 in the week ended Nov 7 to 502,000.

## Europe:

- Germany Sep industrial production (IP) was up 2.7% mom, much higher than expected; Italy's IP fell 5.3%, the worst reading since the series began in 1990. Eurozone IP rose 0.3% on German IP strength.
- Eurozone GDP turned positive in Q3 (+ 0.4% qoq), though the rebound was less strong than in the US. Exports were the main driver, while private consumption remained fragile. Q3 GDP for Spain (-0.3%), Italy (+0.6%), France (+0.3%), Germany (+0.7%).
- Rise in UK unemployment was flat in Q3 at 7.8%. Bank of England forecast uplift in growth and is widely expected to keep interest rates low. Fitch warned the UK government debt could risk losing its triple A rating.

## Asia and Pacific:

- Chinese data releases for Oct confirm strong growth led by credit fueled domestic demand. Chinese industrial production grew 16.1% yoy, the fastest in 19 months. Growth in retail sales (16.2%) and fixed asset accumulation (31.8%) continue at their recent trends; growth rate of new bank lending has slowed significantly since mid-year, with Oct lending only +0.6% mom.
- Hong Kong's Q3 GDP contracted by 2.4% yoy (Q2: -3.6%), weakened by exports of goods, while private consumption and service exports rose. GDP was up +1.6% qoq – the second quarter of positive growth after four consecutive quarters of contractions.
- Japan's current account surplus grew +0.2% mom to JPY 1,567.9 bn in Sep. Sep's core machinery orders were up 10.5%mom.

- Indian industrial production grew a strong 9.1% yoy in Sep, helped by growth in the capital goods (+12.8%).
- Indonesia Q3 real GDP growth came in at 4.2% yoy, higher than the 4.0% in Q2 but in line with the consensus.

## Bottom line:

The data flow has not produced any major surprise. Global recovery was broad based in Q3 with Germany picking up strongly among Euroarea countries. Unemployment and commodity price increase represent the main concernsD.

## Regional Developments

- Creditors get an average of 10.2 cents on the dollar if a company in the UAE files for bankruptcy, as per data from the World Bank. In MENA, only Mauritania has a lower rate of recovery, at 6.7 cents while Bahrain has the highest recovery rate, with creditors getting 63.2 cents on the dollar. A review of insolvency systems in the MENA region by A review of insolvency systems in the MENA region by Hawkamah showed they were “substandard” compared with international best practice.
- A Moody’s report estimated that global sukuk issuance surged by more than 40% in the first 10 months of this year compared to the same period in 2008. They also expected corporate entities less likely to be major issuers of new sukuk in current conditions.
- Saudi Arabia has started construction of an ambitious light-rail project in Riyadh; in the first phase a 25-km north-south route will be built. In the second phase it will add a 14 km East West route.
- Qatar and Bahrain are both contemplating new sovereign issues: Bahrain plans to issue a two-year BHD 55mn bond paying an interest of 2.75%, according to the Central Bank of Bahrain; Qatar’s bond issue is expected to target as much as $5bn.

# Market Intelligence on the UAE

- Dubai government announced the repayment of a $1 bn sukuk from the emirate's civil aviation authority which matured on Nov 4.
- Nearly three million passengers have used the Dubai Metro in the first two months at an average of 57,000 trips per day, about 40% higher than the authorities' estimates.
- Consumer confidence rose 13 points to 102 in the UAE over six months in the latest Nielsen Global Consumer Confidence Index. Job security remains the main concern in the UAE though the focus on job security has eased. Overall consumers in the UAE maintain thrifty spending habits by cutting down on new clothes and switching to cheaper grocery brands.
- Data released by the Inter-Arab Investment Guarantee Corporation showed that the UAE maintained its position as the second largest FDI destination, after Saudi Arabia in the Arab region, attracting more than $51 bn in FDI in the past four years till 2008.
- According to Mergermarket data, M&A activity in the UAE has declined to $14.8bn at the end of Oct from $20.9bn during the corresponding period of last year. This data shows that UAE firms have been more active than their international counterparts, as global M&A activity was down more than 46% though Middle East was up 18%. (Source: Business 24/7)

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# Weekly Economic Commentary –

# November 08, 2009

## Markets

The main theme on global stock markets is risk reduction. Investors seem to be satisfied with the rally and investment banks are near their fiscal year close. The dollar came under renewed pressure after a series of policy decisions from the world's leading central banks boosted investor confidence. Regional equity markets have witnessed a sharp drop last week, with Dubai falling by more than 5% on Tuesday with property stocks the biggest losers. Q3 earnings have failed to sustain Gulf markets. Gold hit a fresh peak above $1,100 an ounce, but crude oil prices fell as the rise in US unemployment fuelled concerns about the recovery prospects.

## Global Developments

## America:

- The US ISM index surged in October as production catches up with orders.
- The index of pending home sales rose further in September, to a level that is 37.2% above the lows reached in January. The homebuyer tax credit was a main factor, but normalization in mortgage credit played a role as well
- Nonfarm productivity was up 9.5% in Q3, while labor costs fell more than expected, reflecting weakness in labor compensation.
- Job losses in October were almost 200,000 and the unemployment rate rose to 10.2% a sign that the recovery is fragile.

## Europe:

- The European Commission revised up its economic growth forecasts for the first time in two years. It sees euro area growth at -4% in 2009, 0.7% in 2010 and 1.5% in 2011. The European Central Bank left the refi rate unchanged at 1.0%.
- German manufacturing orders in September rose by 0.9%mom, thanks mostly to foreign orders.
- Euroland PMI in manufacturing reached 50.7 showing that the sector is posed to post positive growth in the next months.
- UK PMI in manufacturing recorded the strongest reading in 2 years; the subindex for new orders was the strongest for 5 years.

## Asia and Pacific:

- Korea exports continued to recover in October declining 8.3% yoy. Seasonally-adjusted, qoq growth stood at 21.6%
- Purchasing Manager's Index from China strengthened in October; Singapore's PMI slipped to 50.2 in Oct, down from Sept (50.6) and a recent peak in August (54.4).

## Bottom line:

Manufacturing production worldwide has almost fully recovered and financial intermediation despite further losses from major banks such as UBS and RBS is in the process of normalization. The risk comes primarily from rising unemployment which saps consumption and from stock markets that might have reached a level out of touch with underlying economic reality.

## Regional Developments

- The IPO market in the Middle East has declined to $1.97 bn in the first three quarters of the year, compared to $12.44 bn in the same period last year, according to

Ernst &Young. A total of four companies listed in the Middle East in Q3 2009 raised $871.79 mn in Q3 2009, while 14 IPOs had raised $3.74 bn in Q3 ’08.

- The global financial crisis has not hit Islamic finance industry thanks to its sound and strong systems as Gulf Islamic investment firms still have $235 bn worth of combined assets, according to leaders at the 3rd Fiqh Conference for Islamic Finance Institutions.
- According to the Central Bank of Oman, a decline in oil sector output led to a 25.2% drop in Oman GDP in the first half of 2009.
- Oman’s revenues dropped by 27% in Jan-Aug09 to OMR 4.24 bn, largely due to a fall in oil earnings. Government expenditure increased by 1.7%, owing mainly to an 18.8% rise in investment spending.

## Market Intelligence on the UAE

- Abu Dhabi will spend US$1 trillion (Dh3.67tn) on major infrastructure, property and manufacturing projects, over the medium term, the Minister of Economy Al Mansouri said. He added that UAE growth this year would reach 1.3% thanks in part to projects underway valued at more than $100 billion.
- The IFC (part of the World Bank) listed a sukuk on Nasdaq Dubai and  Bahrain Exchange on 4th Nov, making it the the first time that a non-Islamic financial institution issues a Sharia compliant security for term funding.
- Moody’s downgraded five Dubai government-related issuers, citing the tighter conditions under which the government is likely to extend financial support.
- Abu Dhabi grew a 30% in 2008 as GDP touched AED 520bn, according to a report by the Department of Economic Development. Record oil prices boosted the emirate’s oil and natural gas sector by 37%, leading to a contribution of 64% to GDP.

- The final draft of the UAE company law, which allows foreigners to fully own a company outside free zones, will be placed before the Cabinet for approval within a month, as stated by Minister for Economy Sultan bin Saeed Al Mansouri (Zawya).

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# Weekly Economic Commentary – November 02, 2009

## Markets

Equity markets fell last week, despite better than expected figures on the US GDP. Europe was severely beaten (-5%) while Japan pared the losses (-1%). Emerging markets lost more than 5% with the GCC index only marginally better. Some of the regional indices (Qatar and UAE) recovered on Monday part of the loss which had intensified on Sunday. The dollar regained some strength as risk appetite is waning. Oil prices dropped to around 77$/b and gold lost some ground, but remains well above 1000$/on.

## Global Developments

## Americas:

- US Real GDP grew 3.5% in Q3 (qoq, annualized), but was still 2.3% lower than a year ago. The figure was better than expected, due mainly to a stronger contribution from inventories and resilient consumer spending.
- The labor market picture was mixed: initial claims for unemployment were unchanged but long term claims were

lower.

- Home prices, as measured by the S&P Case Shiller Index, increased by 1% in August, the third consecutive gain of this magnitude. October consumer confidence fell (to 47.4 from 53.4) as attitudes about job availability/ labour market conditions reached a new low. The Richmond Fed index also reported setbacks in both manufacturing activity and service sector revenues.
- Durable goods orders for Sep were up 1.0% mom (-17.4% yoy), the gain coming from less volatile components – bookings for nondefense capital goods other than aircraft – a key indicator for future business equipment spending, rose 2%.

## Europe:

- Eurozone bank lending declined for the first time signaling a weak recovery, strengthening the case for the European Central bank to keep the policy rates low. Business and consumer confidence in September continued to increase slightly.
- Germany's yearly inflation was flat in October, not surprisingly given that retail sales were down 0.5% mom in September.

## Asia and Pacific:

- South Korea's Q3 GDP grew 2.9% qoq, a seven-year high, also the first growth after three consecutive quarters of yoy decline. Private consumption and export growth rebounded to positive terms, while equipment investment remains the biggest drag.
- Japan industrial production for Sep grew by +1.4% mom, with government policies such as tax cuts and recovery in external demand driving production. Deflation is still pronounced with CPI down 2.3% yoy in September.
- The Reserve Bank of India left rates unchanged but hiked

the statutory liquidity ratio by one percentage point to 25%, surprising the market and signaling the end of policy easing.

## Bottom line:

The effect of the emergency stimulus is waning, without having had much effect on employment. As a consequence consumer confidence is sagging, which raises serious doubts on the sustainability of the recovery. Markets are extremely nervous as the gloss from corporate earning is less shiny looking forward. The world economy probably will enter 2010 in a somber mood.

## Regional Developments

- The SHUAA GCC Investor Confidence Index rose 3.8 % in Oct, with Saudi Index recording the biggest gain (11.7 %).
- Merger and acquisition deals in the Middle East until Oct23 stood at $15.66 bn, below $15.8bn in 2008, as per Mergermarket data. M&A activity remained subdued in H1 09, but with 30 deals worth more than $11bn registered in Q3, the trend has reversed.

## Market Intelligence on the UAE

- The Dubai government unveiled a fund-raising initiative for $6.5bn through a combination of $4bn euro medium-term note and a $2.5bn sukuk issue, and this may be listed on the London Stock Exchange and Dubai Financial Market.
    - Dubai sold $1.25bn of dollar-denominated, five-year fixed rate Sukuk, priced to yield 6.39 % and AED 2.5bn in local-currency floating-rate Islamic notes priced to yield 5.65%. This attracted more than $6.3 bn in orders, according to the official statement.

- The UAE Government approved the 2010 budget, with a 3.4% rise in outlay to AED 43.6bn. Social development received a boost with 22.5% of the budget to be spent on education. Infrastructure projects took a further 17.5% of spending and 6.4% will go to health.
- Emirates NBD income was up 24% to AED 8.3 bn for the first 9 months of 2009 compared to AED 6.7 bn for the same period in 2008.
- Abu Dhabi has launched a set of socio-economic indicators to provide reliable data as it moves to boost its appeal to investors.
- Abu Dhabi Commercial Bank and National Bank of Abu Dhabi set aside AED 810mn and AED 284mn respectively in provisions for losses. Emirates NBD announced that it had slowed provisioning, but warned that non-performing loans had not yet peaked.

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# Weekly Economic Commentary – October 26, 2009

## Markets

Equities in most leading economies touched highs for the year, but the positive mood seems to have been replaced by caution by Friday. Regional markets were mostly down following downbeat earnings while Kuwait's index suffered its largest one-day reverse for more than three months yesterday. Dubai DFM on Sunday has paired last week's losses on the wake of Emirates NBD stellar Q3 earnings, and KSA has reached today a 12 month high. The dollar recovered on Thur from a 14-month low as weakness on global equity markets dented risk appetite;

the pound slid after UK GDP showed an unexpected fall. Crude oil prices crossed $80/b and hit a 2009 high on Wed, in a week when other commodities like gold, cocoa, corn, soy beans, and wheat also rallied.

# Global Developments

# Americas:

- The Fed Beige Book reports that most districts show stabilization or some improvement. However, it is clear that the economy is operating at a low level, with hardly any improvement in the labor market and frozen wages. Consumer spending is flat, improvements in manufacturing are modest, improvements in residential are notable but uneven, lending remains anemic.
- Housing starts rose less than expected, with the multifamily sector dropping 15.2%, almost to its worst level ever.
- Initial unemployment claims increased 11,000 to a seasonally adjusted 531,000 in the week ended Oct. 17, after two consecutive previous weeks of decline, indicating the labor market remains fragile, despite signs of economic revival.
- Brazil introduced a tax on capital inflows to stem the flow of hot money into the local financial markets.

# Europe:

- Euroland’s purchasing managers’ index for Oct09 showed output expanding for a third consecutive month, suggesting the growth rebound seen in Q3 is posed to continue.
- German Ifo showed a slight rise in business sentiment index – to 91.9 in Oct from 91.3 in Sep. This was the highest since Sep08 but was driven largely by businesses’ hopes of better times ahead rather than a

better assessment of current conditions.

- UK economy shrank by 0.4% qoq in the third quarter, with the negative surprise coming from 'Distribution, hotels and catering', which accounts for 15% of the economy.
- Russia's GDP rose 0.6%qoq (but was down -9.4%yoy). Russia has begun to recover, but at a feebler than expected pace.

## Asia and Pacific:

- China's Q3 real GDP growth accelerated to 8.9% yoy from 7.9% (Q2), while industrial production continued to surprise on the upside, rising 13.9% (Sept). CPI for Sept was -0.8%, as a result of government's control on money and credit supply. Nominal retail sales (Sept) was up 15.5%, pushing Q3 real retails sales +17.8%, the highest in a quarter since the start of the series in 1996.
- Taiwan Industrial Production grew 1% yoy in Sep, supported by strong IT export orders.

## Bottom line

Data this week displayed some negative surprises in mature economies, (UK GDP, US initial claims) and positive ones from Asia (where the economic recovery is sustained by the rebound in world trade), lending additional credibility to the paradigm of shifting growth from West to East. The positive news from China are pushing up commodities prices, while equity markets have probably reached a plateau, as investors are awaiting to see what happens when the effects of emergency stimuli wane.

## Regional Developments

- Business people across the GCC displayed increasing confidence about the outlook for their companies in Q3 according to the HSBC Gulf Business Confidence Index (which shot up from 75.9 in Q2 to 81.4 in Q3, the highest since Oct08).

- KSA Vice Minister of Water and Electricity, Al-Awaji, stated that the first phase of the GCC-wide power grid has been completed.
- OPEC has warned that oil prices above $80 per barrel would hurt economic recovery possibly hinting that part of its 6 to 7 million barrels of spare oil production capacity could be put into the market.
- Proleads Global reported that 30% of Gulf’s hydrocarbon projects (by value) have been put on hold or cancelled, but the GCC remain the most active market in the world for oil, gas and petrochemical industries with projects budgeted at more than $690 bn.

## Market Intelligence on the UAE

- The repayment of a $1.2bn securitised bond a month early by Nakheel strengthened investors’ confidence in the ability of Dubai entities to service their debt. Dubai officials are on an international roadshow to offer investors conventional bonds and Sukuk; Dubai CDS spreads fell to their lowest this year.
- The IFC will list its first Islamic bond in the Middle East on Nasdaq Dubai and in Bahrain. The operation, worth $100 million, is the first by a non-Islamic financial institution and the first Sukuk to be listed and cleared exclusively in the GCC markets.
- Dubai International Capital managed to borrow $550 mn from international banks, providing the latest evidence that a growing appetite for risk among global investors may be easing the cash crunch facing Dubai. (Source: The National).
- Dubai International Airport recorded an increase of 19.5% in passenger traffic in September, the highest monthly growth rate since Oct07 when passenger numbers jumped 25.9%. It is also the fourth consecutive month of

double-digit growth.
- Abu Dhabi Future Energy has showcased the plan to build the world's first green city dubbed **Masdar** at a total cost of $22 bn.

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# Weekly Economic Commentary – October 18, 2009

## Markets

Surging oil prices and buoyant world equities, boosted by positive corporate earnings, helped the Saudi and UAE markets to make some gains last week (DFM was up 1.1%), while the rest of the GCC markets declined. The dollar weakened further, while crude oil reached a fresh peak for 2009 (above $78) and gold prices eased after hitting a record high earlier last week.

## Global Developments

## USA:

- Retail sales in September dropped 1.5% mom, (-5.4%yoy) dragged down by the auto sector where stimulus programs ended. Excluding vehicles, sales rose a modest 0.5%, consistent with a slow but steady recovery.
- Initial jobless claims dropped slightly to 514K providing some hope that the labor market may be slightly improving.
- The repayment by banks of most emergency liquidity borrowings from the Fed is now almost complete,

signaling the end of the most acute phase of the financial crisis.

- Inflation rose 0.17% in Sep (mom, -1.3% yoy), higher than expected, but industrial production posted its third consecutive strong increase in Sep (+0.7% mom -6.1% yoy), supporting the view that the recession is ending.

## Europe:

- German investor sentiment slipped unexpectedly in Sep as optimism about the recovery in Europe’s largest economy faded.
- UK September inflation fell to a five-year low of 1.1% on flat gas and electricity component, leading to speculation that interest rates would stay on hold until 2011, further weakening the pound.
- French inflation was negative on the month (-0.2%) and on the year (-0.4%), mirroring the deflation process in Germany.
- Industrial Production in Euroland was up 1.0%mom in August, below expectations but higher than levels predicted by the confidence surveys.
- The negotiation over the new German government is taking time to bridge differences over tax cuts and deficit reduction in 2010.

## Asia and Pacific:

- China’s Sep trade showed a rebound in exports (-15.3% yoy from Aug -23.4%) and imports (-3.5% from -17.0%), underlining the improving growth momentum, on continued strength of the domestic economy as well as signs of external demand recovery.
- India’s industrial production registered a strong 10.4% yoy growth in Aug, with a significant 8.3% rise in the capital goods index (compared to the average 1.4% growth

in Apr-Jul), while the consumer durables index was up 22.3% (largely due to a lower base).
- Singapore's advanced 3Q GDP growth (provisional) shows an improvement of 0.8% yoy, implying an expansion of 14.9% qoq, sa, due to higher pharmaceutical production and consumer electronics.
- Japan Consumer Confidence stagnated in September while producer prices continued to decline due to weak demand.

## Bottom line

The first phase of the crisis, i.e. the deleveraging and the recapitalization of the banks is close to completion. The second phase, i.e. corporate bankruptcies, downsizing and rising unemployment is still displaying its effects and will take longer to sort out.

## Regional Developments

- The IMF predicts 5.2% growth for the GCC in 2010, and praised the governments of the region for the skillful cycle smoothing fiscal measures and the precautionary measures taken in the banking sector. However it added that structural reforms need to be accelerated to strengthen the economic fundamentals.
- Saudi Arabia has called on the European Union (EU) to reconsider its attitude in the negotiation of a free trade agreement.

## Market Intelligence on the UAE

- Fitch Ratings lowered its long-term issuer default rating on Etisalat by one notch, citing the weakening of the Emirate's credit profile and mentioning that this was not related to Etisalat's operational performance or financial standing.
- UAE banks have seen the strongest growth (34% yoy) in the GCC in terms of retail banking revenues for H1 2009,

according to the Boston Consulting Group's (BCG) Middle East Banking Performance Index report.

- Following the resignation of Damas CEO on accusation of carrying out unauthorized transactions, the shares closed 13.51% down on Tuesday, taking the market valuation of the company to $316.5mn.
- The $5 billion Borouge-II petrochemical project of the Abu Dhabi Polymers Co. in Ruwais with annual capacity of 1.5 million metric tonne is now 90% complete and will be on stream by the middle of 2010.
- Standard & Poors wrote in a report that the Government of Dubai will quite likely be required to provide extraordinary financial support to some enterprises. Given the limited resources available, S&P believes that the government may be required to select carefully potential recipients.

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# Weekly Economic Commentary – October 13, 2009

## Markets

Equity markets were mostly up last week, boosted by positive Q3 profit reports. The DFM was the best regional weekly performer (+4.8%). However in the first three days of this week regional markets have retrenched and a more negative mood seems to prevail. The dollar continued to slide, but some Asian central banks intervened heavily in the currency markets on Thursday to stem the appreciation of their currencies against the US dollar. Oil and gold were generally stable around the top of their trading range.

# Global Developments

## USA:

- Survey of purchasing managers in the services sector activity rose above 50 in Sep (first time since Aug08), signaling the resumption of growth, as indexes for new orders and business activity advanced.
- Initial jobless claims continued to show a modest improvement as it fell 33,000 to 521,000 in the week ending on Oct 3. Continuing claims also showed a similar movement.
- Trade deficit narrowed unexpectedly in Aug09.

## Europe:

- German manufacturing orders continued to improve in August (+1.4% mom), though the levels are still low. Since the trough in the Feb09, orders are up 17.1% (with foreign orders growing +19.1% since Feb compared with domestic orders up +15%).
- Italy industrial production increased 7% mom in August, although it is still 18% lower than a year earlier. Strong performance was recorded also in France (+1.8% mom) and Spain (+1.1% mom).
- The European Central Bank and the Bank of England held their reference interest rates unchanged.

## Asia and Pacific:

- Taiwan trade data for Sep09 showed an exports recovery alongside slower recovery in import growth; data also showed exports to China gaining momentum.
- The Reserve Bank of Australia raised its main cash rate by a 25 basis points to 3.25%, reflecting the relative strength of the economy and becoming one of the first major nations to tighten policy rates post-Lehman.

## Bottom line

The data released last week have been in line with the view that the world economy was coming out of the recession in Q3 and momentum is strong as we enter Q4.

## Regional Developments

- UK paper The Independent reported that Gulf Arab states were in secret talks with Russia, China, Japan and France to replace the U.S. dollar with a basket of currencies in the trading of oil. Many analysts doubted it would occur any time soon. The Independent said U.S. authorities were aware of the meetings but had not discovered the details and were "sure to fight this international cabal."
- The growth in KSA money supply fell in August, but its foreign assets were up for the first time since Nov08 according to SAMA.
- Middle East mergers and acquisitions (M&A) activity for the third quarter of 2009 is up 27% yoy, with 27 deals worth $3.14 bn in Q3 (until Sep 25) compared with 49 deals worth $2.47bn in Q3 2008. The region's private equity firms are estimated to have up to $15bn in un-deployed funds, which could change the M&A landscape once the financial environment improves.
- KIPCO, the Kuwait Projects Company, has announced the completion of the issue of a $500mn bond under its $2bn Euro Medium Term Note Programme. This is the first international bond issue by a private sector corporate from the MENA region in 2009.

## Market Intelligence on the UAE

- The Central Bank Governor has called for a regional financial market to be established for the Middle East and East Asia to offer a safe haven in times of crisis.

He added that Middle Eastern countries need more developed bond markets to reduce their dependence on external financing.

- A federal law has been issued to set up a nuclear regulatory body to monitor the peaceful use of atomic energy. The UAE’s first nuclear reactor is expected to come online by 2017.
- The Higher Corporation of Specialized Economic Zones (ZonesCorp) in Abu Dhabi has announced the drastic reduction in time taken to obtain an industrial license from 90 days to 11. This will help improve the ease of doing business in the Emirate.
    - UAE inflation for the first eight months of the year touched 2.7%, according to the latest release by the Ministry of Economy. Prices fell 0.2% yoy in Aug, on lower food and housing costs.
    - Abu Dhabi Commercial Bank announced that it has agreed to issue $1 bn of bonds as the initial tranche of its $7.5 bn global medium term note programme. The bonds will mature on October 8, 2014.
    - The Central Bank Governor criticized a Saudi government panel that last month brokered a debt settlement deal between Saad Group and Saudi banks only, raising fears among international creditors they could be sidestepped, Reuters reported. He declined to answer questions on whether the central bank would buy a second tranche of Dubai’s $20 billion bond.

# Weekly Economic Commentary – October 04, 2009

## Markets

Markets worldwide registered a slump last week, but emerging markets had a slower decline than the advanced economies. Among regional markets, only KSA was up over the previous week. The telecom and real estate sectors were the two gainers on the DFM, which registered a decline of 0.1%. Gold crossed the 1000-mark yet again last week, alongside higher oil prices – but retreated slightly after the release of weak US data on Friday. The dollar and yen gained after the announcement of weaker US jobs/payrolls data.

## Global Developments

## USA:

- US unemployment rate touched a high 9.8%, with 263,000 jobs being lost in Sep, a higher than expected figure, which caused investors to question the strength of the recovery.
- The Conference Board consumer confidence, fell in September contributing to upset market expectations.
- The Case-Shiller U.S. house price index jumped 1.2%m/m, sa, (1.6%m/m, nsa) in July, to be down 13.3%yoy. In the last 3 months, the seasonally adjusted index is up an annualized 8.7%.

## Europe:

- The E.U. measure of economic sentiment rose another 2 points, to 82.8, and is now up18.2 points from the dark days of March. The main gains came from consumer

confidence and the service sector. Manufacturing sentiment did not improve much, and the construction sector remains depressed.
- Consumer and business confidence in Euroland continued to improve in September, the first by one unit and the latter by two.
- German inflation for Sep declined to -0.3% yoy another sign that deflation pressure is not abating.
- Russia and Romania cut rates 50bp, to 10% and 8%, respectively.

## Asia and Pacific:

- China’s private sector PMI was 55 in Sep, slightly lower than August’s 55.1. The employment subcomponent strengthened, to 53 (Aug: 51.8).
- Japan’s industrial production was up 1.8% mom in Aug while Korea’s was the only one in the region which fell 1.3% mom.
- Japan’s Tankan survey showed a significant improvement in business sentiment for manufacturers (-33 in Sept from June’s -48).

## Bottom line

Data flow was mixed, but markets which were looking for stronger signs of improvement, were disappointed and are entering into a volatile phase. The atmosphere could be cheered up by U.S. corporate reports Q3 to be released this month, but it is palpable the feeling that the rally in equities might have been overstretched.

## Regional Developments

- Governor of Central Bank of Kuwait (CBK) Sheikh Salem Abdulaziz Al-Sabah said that inflation rate for the last months of 2009 will keep on slumping to reach less than 5%.

- The governor of the UAE central bank was reported by The Saudi Gazette to have said that Arab central bankers, tackling the global financial crisis and a corporate debt scandal in the GCC want a global "early warning system" for financial institutions,

## Market Intelligence on the UAE

- Seven UAE banks were downgraded by Fitch which cited doubts about government support in case of insolvency.
- Provisions for non-performing loans (NPLs) in the banking sector are rising, according to Central Bank figures. Total provisions are about 3.2% of gross loans, roughly only 1% higher than last year, but NPLs might continue increasing over the next 12 months.
- Although DIFC office space continued to be leased at high rates, new free zone areas such as Jumeriah Lakes Towers and Dubai Silicon Oasis have seen a significant decline in rents, of up to 70% according to CB Richard Ellis Middle East.
- Passenger traffic at the Dubai airport jumped 10.7% yoy to 3.7 million in August, a double-digit growth for the third consecutive month, underscoring the resilience of one of the key sectors of the Emirate's economy. DIA is the only airport among the top 10 airports in terms of international passenger traffic to still record positive growth.
- Thirteen UAE banks have exposure to the troubled Saad and Algosaibi groups, according to the Central Bank Governor speaking on the sidelines of the 33rd meeting of the Council of Governors of Arab Central Banks and Monetary Agencies (Zawya).
- It is not inconceivable" that the regulatory minimum capital ratios for some banks do come under threat. Based on the disclosed asset quality and capital ratio data Dubai Islamic Bank is the most under threat," Robert Thursfield, Director in Fitch's Financial

Institutions, told Emirates Business; Emirates NBD is the next followed by Abu Dhabi Islamic Bank and ACDB.

- The UAE Central Bank stated it would soon set a minimum limit of provisions to be allocated by banks against bad debt as part of an intensifying post-crisis strategy to strengthen their financial position (Zawya).

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# Weekly Economic Commentary – September 27, 2009

## Markets

Markets are continuing in a phase of consolidation, but generally weaker as investors assess the strength of the recovery in the last part of the year and early 2010. The GCC markets have been an exception having recorded a 1.4% weekly gain with the DFM up almost 3%. Oil and gold retrenched substantially, hit by the uncertainty over the medium term macro picture. Currency markets were broadly stable with the yen gaining strength. The Pittsburgh G20 Meeting agreed to some mild regulatory reforms and the final communiqué declared that “Our forceful response helped stop the dangerous, sharp decline in global activity and stabilize financial markets. Industrial output is now rising in nearly all our economies. International trade is starting to recover”, but warned that this success should not led to complacency, as ”the process of recovery and repair remains incomplete”.

## Global Developments

## USA:

- A spate of indicators confirmed that the US economy is emerging from the slump. The Leading Indicators rose by 0.6% in August, the NY Fed Empire State survey for early September posted another healthy rise in business conditions index (+18.88), with a stronger reading in the new orders component. The Richmond Fed survey remained at 14 in August unchanged from a month earlier. Nominal U.S. retail sales were strong in August, rising 2.7% mom (+0.7% ex-auto sales).
- The Fed noted an improvement in economic conditions in its statement after the FOMC meeting, but did not change its policy stance. Both the 0-25bp range for interest rate and the commitment to “exceptionally low levels of the federal funds rate for an extended period” remain in place. The targets for the purchases of government bonds and other assets were also confirmed. The paragraph on economic conditions was more upbeat, noting that economic activity “has picked up”. It also noted that long-term inflation expectations are stable.
- Initial claims fell to lowest level since the turn of the year. Continuing claims also improved spreading cautious optimism that the labor market might be stabilizing.
- Sales of existing homes in August gave back part of the large increase reported for July (+7.2%), falling 2.7%. House price are still stagnant for the whole of 2009 and down 4.2% yoy.

## Europe:

- PMI Manufacturing index in Euroland increased to 49.0 in September from 48.2 a month earlier, which means the sector is still contracting. Employment indices were up both in manufacturing (42.3 after 39.9) and services (47.8 after 44.3) but underscore that both sectors are

still shedding labor. PMI Services index on the contrary was strong at 50.6, driven by a surge of sentiment in Germany (54.1 after 48.1), while other countries, notably Italy and Spain, are still struggling.
- The German IFO in September rose to a level of 91.3 after 90.5; compared to the PMIs the assessment of the current situation in the Ifo is less upbeat. In any case the German economy in Q3 should grow by 1% qoq.

## Asia and Pacific:

- Taiwan export orders and industrial production declined 12% yoy and 9.6% yoy respectively in August as a result of the typhoon.
- Singapore's August Industrial Production increased 12.3% yoy, having increased 17.0% yoy in July. Taking away the volatile pharmaceutical production, the index rose by 0.2% mom in August, after increasing 7.0% mom in July.

## Bottom line

Data confirm the picture of a gradual recovery in the world economy. Over the last 18 months, both economies and markets have moved in a remarkably synchronized fashion as the contagion spread sooner or later to every major country. In the expansion phase the synchronicity might break because of the different underlying strengths (current accounts, fiscal position, bank health) and the different policy actions, leading to a more pronounced decoupling of emerging markets from developed economies.

## Regional Developments

- Kuwaiti money supply growth was steady in August from the month earlier at 18.7%.
- Saudi Arabian Oil Minister Ali al-Naimi said $75 a barrel was now the baseline price for oil and that OPEC will not change production targets between now and the

next meeting in December, according to a transcript of an interview with a U.S. television channel reported by Reuters.

- Saudi Finance Minister Ibrahim al-Assaf said a government programme to invest $400 billion over five years would not be halted when the economy recovers and financial stimulus is withdrawn.

## Market Intelligence on the UAE

- The DIFC updated the Companies Law and Insolvency Law. The new regulations will help the insurance industry in offering innovative new products and services out of the financial district.

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# Weekly Economic Commentary – September 13, 2009

## Markets

Markets are in a phase of consolidation, with a few leading equity indices setting 2009 highs. Regional markets were mostly down, with the exception of the Saudi and UAE markets. The DFM was up 4.2% from last week, with the transport and real estate sectors gaining around 6% each. The Euro scored another record high for the year over the dollar at above 1.46, although the US currency recovered some ground later in the week. The weakness of the dollar helped gold close above $1000/ounce, while oil closed the week just under $70.

# Global Developments

## USA:

- Fed’s Beige Book report noted that the US economy is stabilizing. However, there is a cloud of “soft” consumer spending and a weak employment situation.
- U.S. core capital goods orders were up 23.8% in July over Q2, a leading indicator of expected recovery in industrial production.

## Europe:

- German manufacturing orders, a leading indicator of economic activity, were surprisingly strong, with monthly orders up 3.5%, led by intermediate goods, suggesting an improvement in economic activity over the next quarter. However, current manufacturing production data fell on a monthly basis, with capital goods being the weakest sector.
- UK manufacturing output increased strongly for the three months ending in July, suggesting a recovery in industrial production.
- The European Central Bank in its revised forecast is projecting a weak recovery of growth for Europe in 2010.

## Asia and Pacific:

- Recovery in Japan is weak: Machinery orders were weak in July, down 24.5% from the Q2 average and Q2 GDP was revised down to 0.6% qoq.
- A whole bunch of Chinese data releases confirmed a strong recovery story – August industrial production was up 12.3% yoy; Auto production was up 90%, cement 24% and steel 22% (all yoy); retail sales growth continued to accelerate (Aug:15.4%) while Aug fixed asset investment was up 33.6%.

## Bottom line

A major shift in inventory accumulation has driven the powerful upturn of the last few months. An important consequence of this phenomenon is a revival in world trade induced by global supply chains and commodity exports. This will be extremely beneficial to a major global trade hub like Dubai. For the rest of the year further stockpiling and additional fiscal stimulus will pull the US economy, parts of Western Europe, and most of Asia out of the recession.

## Regional Developments

- Bahrain's Central Bank is tightening its liquidity rules, in response to troubles at two Saudi-owned banks (AWAL and TIBC). Under the proposed changes, banks need to raise the amount of their liquid assets, submit to frequent checks and ensure that their long-term lending obligations do not heighten the risks of a liquidity crisis.
  - Oman's government is expected to post a surplus in 2009 thanks to oil prices above the budget assumption of $45 per barrel.
  - Kuwait's Finance Minister Mustafa Al-Shimali said on Tuesday that the GCC Custom Union was near completion. One pending issue is the calculation of custom revenues – either as percentages to member states or all revenues transferred into a special fund.

## Market Intelligence on the UAE

- A public debt management unit has been created within the Ministry of Finance to streamline all the front office and back office functions related the nation's debt issuances.
  - The UAE Government is expected to issue a revised

company law, a new industry law and an investment law soon, according to Sultan Bin Saeed Al Mansoori, the Minister of Economy. Under the modified Company Law, the ratio of the partnership between foreign and the Emirati investors would be modified.

- The Dubai Metro launched on 09.09.09 is expected to generate revenues of over AED 17bn over the next 10 years, according to Mattar Al Tayer, Executive Director of the RTA. Sources of income will include fares, advertising, stores and station naming rights (sold for AED 1.8bn). About 10% of the total Dubai population (110,000) rode the Metro in its first two days of operation as per RTA's statistics.
- UAE climbed eight places to 23rd and second in the region, according to the Global Competitiveness Report, mainly due to a more favourable assessment of institutions, combined with higher technological readiness and innovative capacity.
- The global UAE ranking in the Doing Business 2010 report by the World Bank improved strongly from 47 to 33, due to the abolishing of the minimum capital requirement for setting up a business along with other reforms. The World Bank cited the country as one of the top ten reformers in 2008-09.

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# Weekly Economic Commentary –

# September 06, 2009

## Markets

Markets are in a phase of assessment waiting for more confirmatory news concerning potential global recovery, as illustrated by the downbeat reaction to good news, especially the US ISM. Equity prices are generally weak while bond prices are consistent with rather subdued expectations. The better than expected US jobs report on Friday enabled some equity markets to compensate their earlier losses. Regional markets witnessed a similar trend with both UAE bourses almost unchanged over the week. The yen hit its highest level in nearly two months against the dollar. Commodities prices fell to one-month lows on Friday with Dubai Fateh oil around 67$/b. Gold however closed the week up 4.2%, reaching a six-month high of almost $1000/ounce.

## Global Developments

## USA:

- Consumer and business sentiment as measured by the University of Michigan and the Conference Board surveys remained subdued. Retail sales were also weak.
- The ISM survey reported the first expansion in industrial activity since Jan 2008, with orders up sharply due to inventory liquidation and a boost to auto production. Pending home sales and the residential component of construction spending were also up significantly
- Unemployment rate reached 9.7%, the highest since 1983, but the news about fewer job cuts than expected in August, overshadowed the news about the higher unemployment rate.

## Europe:

- The European Central Bank left the policy rates unchanged, but sounded a note of caution on the Eurozone's economic rebound, forecasting only a "very gradual recovery". August inflation data showed a smaller decline (-0.2% yoy) compared to July's -0.7%.
- Euroland's PMI survey increased in July, but despite the improvement of the past few months the survey still indicates recession. France is the first country with a reading above the recession threshold while Italy, Ireland and Spain are lagging. The figure in the UK was also disappointing declining again into recession territory.
- Euro area unemployment rate was up a tick to 9.5% in July. Since April the increase has moderated largely thanks to German unemployment which fell again in August after declining in July. German employers are waiting until after the election to fire workers. The unemployment situation is likely to worsen in Euroland, because so far strong labor protection laws have held back lay-offs.

## Asia and Pacific:

- India's Q2 GDP is the latest from Asia to register positive growth – up 6.1% yoy (Q1: 5.8%), with an increase in government consumption along with a decline in trade components.
- July industrial production data from Japan, Korea and Thailand show a strong start to Q3, up by about 2% mom in all three countries.
- China's PMI reading was up in August (the highest reading since Apr 08) and confirms that the recovery remains on track. Likewise, the PMI was up in India and Taiwan, showing an upbeat mood.

## Bottom line

China's performance (and its impact on the rest of Asia) and the US consumption data have become the main focus lately. The removal of loan policy accommodation by the Chinese central bank which was more forceful than expected has led to a decline in the stock market (because it restricted credit to buy shares) but is unlikely to affect real economic growth. US consumption, which is key for global recovery remains weak. In this environment equity markets need genuinely new information to move up.

## Regional Developments

- The Algosaibi and Saad distressed loan is casting a shadow on the GCC credit markets. They owe Saudi banks about US$5bn, according to Standard Chartered. HSBC estimated in July that Saudi lenders were owed between $4 and $7bn by the groups, and banks worldwide were owed $15.7bn. Standard & Poor's said last month that a sampling of 30 GCC-based banks it rated revealed exposures of about $9.6bn, which it called "significant but manageable".
- Shuaa's August GCC investor confidence index climbed to 126.3 points from 123 points in July. The UAE investor confidence index showed the steepest gain of all the indices, rising by 4.3 per cent to 118.8.

## Market Intelligence on the UAE

- The Central Bank has cut the Tier 1 capital adequacy ratio (by 4 percentage points) to be no less than 7% and amended the overall capital adequacy ratio to 11% by Sep 09. Additionally, the interest rate on the central bank's liquidity support facilities for the banks was cut to 1.5% from 2.5%. Fitch Ratings has announced that they might have to reassess banks' ratings if the CARs are lowered to the new levels.

- Minister of Economy Sultan Bin Saeed Al Mansouri stated that the UAE had come out of the global crisis with minimal losses and that economic growth would be back on track by Q4 2009 – Q1 2010. Consumer confidence was up, inflation has declined and the Federal government's efforts have produced "tremendous results, even over the traditionally slower summer months".
- Hundreds of businesses and residential areas continue to experience power outages in Sharjah due to a fault in the production unit caused by heavy summer demand.

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# Weekly Economic Commentary – August 30, 2009

## Markets

Equity markets worldwide, in spite of some volatile trading sessions, ended largely higher over the past week. All regional stock markets were up, reflecting global sentiment, with the real estate sector rallying on the Dubai Financial Market. The dollar was weak, hitting multi-week lows against the yen and euro before recovering slightly on Friday. Sterling fell this week to an 11-week low to the euro and a one-month trough against the dollar, in spite of revised GDP numbers, given the rising levels of UK debt. Commodities prices were mixed during the week, with oil and gold prices posting small declines compared to the previous week.

# Global Developments

## USA

- In Jackson Hole, Bernanke, who was confirmed for an additional 4 year term as Fed president, expressed optimism that the U.S. economy has bottomed but “the recovery is likely to be relatively slow at first, with unemployment declining only gradually.”
- The recession in the US house market is easing with the Case-Shiller house price index for June up 0.8% mom, sa. Additionally, new home sales were up 9.6% mom in July, to 433k, up a cumulative 30% from the March low.
- · U.S. durable goods orders jumped 4.9% mom in July, led by car and vehicles demand.
- The Congressional Budget Office released new estimates showing that the 10 year deficit would be $2.7 trillion higher than calculated in March to reach over $ 7 trillion.
- U.S. first-time jobless claims fell 10k to 570k in the week ended Aug. 22, with the 4-week moving average falling to 566k; continuing claims plunged by 119k in the week ended Aug. 15 to 6.13 million, a sign that the job losses are moderating.

## Europe

- Q2 GDP data showed German consumer spending rising 0.7% qoq (the old car swap scheme was the main contributor to private consumption), while government spending rose 0.4%. Deflation persists with CPI down 0.3% yoy in August.
- The German IFO survey for August rose (again) to 90.5 from 87.4 in July –with market improvement in current expectations.

## Asia and Pacific

- China’s goods exports ($521.7 bn) edged ahead of the world’s largest exporter, Germany ($521.6 bn), for the first time ever during H1 09, according to the World Trade Organisation.
- Singapore’s industrial production rebounded strongly in July, increasing 12.4% yoy, following a 9.0% yoy decline in June.
- Malaysia GDP declined by 3.9% yoy, after declining 6.2% yoy in Q1, a solid improvement in line with other Asian economies.

## Bottom line

The data have confirmed the broad improvement in the macroeconomic picture of stabilization in Q2; most likely forecasts for Q3 will be revised up all over the world as the stimulus plans in the US and part of Europe display their effects.

## Regional Developments

- Algosaibi & Brothers’ in a complaint filed with New York courts asserts that a loan from Mashreq Bank was used by Al Sanea “in favour of companies under his control.” Algosaibi filed the lawsuit as a counterclaim after being sued by Mashreq over a failed $75 million currency exchange deal in May. Mashreq asked a New York state judge last month to freeze $222 million of Algosaibi’s and other assets. Mashreq argues that the complaint is completely without merit. (Source: Gulf News).
- The Saudi Arabian Monetary Authority’s monthly report showed a cut in foreign reserves by SAR 27bn in July.
- According to Dealogic, only $22.8bn of syndicated loans, project finance and corporate bonds have been issued in the Middle East (compared to $85.5bn in 2008 and a peak

of $126.9bn in 2007). Saudi banks were the most active syndicated lenders this year,

## Market Intelligence on the UAE

- Dubai World owed 59 billion dollars in debts at the end of 2008, its property subsidiary Nakheel said in a financial exchange filing to NASDAQ Dubai (Source: Zawya)
- The total value of mortgages issued in Dubai rose 14.3% to AED 8bn in Q2, up from AED 7bn in Q1, as banks made it easier for real estate buyers to get credit, according to a property industry report, conducted by online real estate information company REIDIN.com, in partnership with the Dubai Land Department and RERA). However, the value of mortgages was downby 77% compared to a year earlier.
    - Data released by the Central Bank showed a decline in both bank lending and money supply in July – bank lending fell 0.2% mom to AED 1.01trn, while M1 (currency in circulation + bank deposits) contracted 13.5%, reflecting lower consumer spending.
    - The Ministry of Economy reported that the consumer price index rose by 2.9% in the first seven months of this year (i.e. an almost 6% yearly rate), while it edged up by 0.28% mom in July.

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# Weekly Economic Commentary –

# August 23, 2009

## Markets

Fluctuations in risk appetite continue to generate volatility in all markets, but stock indices and exchange rates stayed within limited ranges. On Wall Street the S&P 500 passed the 1000 psychological threshold and most other markets were broadly up, despite sharp fluctuations in China equity markets (down 5% one day up 4.5% the next) affecting all emerging markets, which recorded losses for the week. All regional stock markets were down, with the real estate sector weighing heavily on the decline in the DFM index. However, Saudi closed higher yesterday, following the US market rally and the oil price surge Friday. In fact, oil rallied above $70/b as a big decline in U.S. inventories ignited a rush to cover short positions. Gold continues to fluctuate mostly in tandem with the dollar which weakened marginally against major currencies.

## Global Developments

**USA:** The real estate market remains weak with new house starts down 1% mom in July, and 37% yoy. The small recovery seen in June did not last. Initial jobless claims increased to 576,000, indicating that labor market conditions are still broadly depressed.  The only silver lining for the US this week came from the leading economic indicators which were up 0.6% mom for a fourth consecutive month.

**Europe:** Surveys data were upbeat with the PMI recording the second sharpest rise on record for the services index driven by a positive surge of sentiment in Germany. The manufacturing index was also up but more moderately. The ZEW index which gauges economic expectations in Germany rose in August, taking the indicator to its highest level since April 2006. Based on past experience the data are consistent with Euroland GDP rising by about 0.2%qoq in Q3, after a drop of 0.1% in Q2.

UK inflation was flat on the month and up 1.8% yoy, a notable difference with the euro area where prices are decreasing. Retail sales increased in July confirming the resilience of consumers even in these testing times.
**Asia and Pacific**: Japan’s GDP increased by 0.9% in Q2 as a result primarily of the stimulus package which boosted consumption. Singapore’s July non-oil domestic exports fell by 8.5% yoy but the pace of decline has significantly slowed compared to large drop in January-February. Taiwan GDP fell 7.5% in Q2 which is much less than in Q1, largely thanks to a surge in domestic demand offsetting the weakness of the export sector.
**Bottom line**: The flow of data was scarce last week and it has not dramatically changed the global picture. Q2 saw an overall global improvement in economic conditions, but with striking diversity. Emerging Asia recorded generally double-digit q/q, saar, GDP growth rates, while North America continued its slump, driven by deep ongoing adjustments in the U.S. (especially the labor market) and a weak auto sector (GM and Chrysler). Europe was in the middle, with economies that resemble the U.S. (U.K., Ireland, and Spain) and countries following in the wake of Asia driven by Industrial Production (Germany, France, Poland). Q3 will see the crucial test for the global economy, i.e. whether the stabilization in Q2 will be followed by a recovery. The equity markets are heavily betting on this outcome while the bond markets foresee a continuation of easy monetary policy and weak growth. They cannot be both right.

## Regional Developments

- According to the Alroya al Eqtissadia newspaper Algosaibi & Brothers’ (Ahab) senior staff met creditor banks’ executives in Dubai apparently to show falsified documents used by The International Banking Corporation (TIBC) to obtain loans and money transfers.
- The GCC countries are likely to invest as much as $50

billion in power projects between 2009 and 2015, according to the Economist Intelligence Unit (EIU) due to buoyant economic growth, coupled with increases in population.

- Moody's gave a negative credit outlook for Bahraini financial institutions, with a likely increase in non-performing loans and exposure to construction and real estate sector raising concern.
- The GCC bond and Sukuk market is recovering, with volume reaching $18.4 bn in H1 09, increasing 37% compared to the same period last year; sovereign issuances dominated the majority of the amount raised while most Sukuk issuances were from Bahrain.
- Kuwait's budget surplus for the fiscal year ended Mar09 fell by around 70% to $9.6 bn from last year's $32.4 surplus. Though high oil prices in H1 08 boosted oil revenues to a record high, the spending of $63.6 bn reduced the surplus substantially.

## Market Intelligence on the UAE

- Independent reports by EFG-Hermes, Colliers and Landmark Properties put the drop in Dubai real estate price in a range between 44-60% depending on location and characteristic of the property (Source: Zawya). Some positive signs are nevertheless detectable for example on Palm Jumeirah, where prices are crawling up.
- The National reported that public prosecutors are investigating or bringing to court 11 cases of corruption and fraud in Dubai with 34 executives in at least 8 major firms (6 of which owned by the Dubai Government) have been indicted. The documents specify that AED 3.58 billion had allegedly been stolen or used as bribe money. The biggest case involves Dubai Islamic Bank, which officials say has been defrauded of AED 1.82bn. Analysts expect the investigations will improve investor confidence.

- A study released by Dubai Chamber of Commerce & Industry based on the first half of the year showed total export in Q2 09 was 6.5% higher than the total exports of AED 43.7 bn in Q1, with Saudi Arabia the largest market among the GCC countries.
- To lower borrowing costs, the Central Bank has allowed banks to borrow at a rate of 1% rate for up to a month against certificates of deposit compared with a limit of a week until now.
- The Ministry of Economy reported that per capita income in 2008 rose by nearly 16% to Dh196, 100.

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# Weekly Economic Commentary – August 16, 2009

## Markets

Equity markets were mixed this week – Asian markets were down mid-week following a significant sell-off and rebounded after the US Fed upgraded its assessment of the economy and pledged to keep interest rates low. All seven Gulf markets were down on Wednesday, with DFM recording the biggest one day loss since June. The dollar declined 0.6% on the week against the euro, as growth in Eurozone's two largest economies boosted sentiment. Commodities rose in line with the rising equity markets; oil has jumped above $70 on evidence of growth and recovery.

## Global Developments

**USA:** The Federal Reserve sounded more optimistic on the economy (mentioning that "economic activity is leveling out"), maintained the dovish stance on rates ("economic conditions are likely to warrant exceptionally low levels of the Federal Funds rate for an extended period") and extended the $300bn program to buy Treasury bonds until October. July retail sales were marginally lower due to a drop in building materials and gasoline. Industrial output increased in July supported by a 20% rebound in production of motor vehicles and parts. The positive news was overshadowed by a decline in consumer confidence in August.

**Europe:** Eurozone's June industrial production was down, due to weak production of consumer durables (-25% yoy), weaker than suggested by the earlier published country data earlier. Provisional second quarter GDP data released by Germany and France both rose 0.3% qoq, with consumption, public expenditures and net trade the key drivers in France. However, the Euro zone flash GDP estimates suggest stabilization, with growth easing by 0.1% qoq, less than in Q1 2009.

**Asia and Pacific**: Growth signals strengthen. China's outstanding loans and money supply moderated in July, coming a few weeks after officials cautioned against accelerated loan growth. Other data releases for July showed strong retail sales and 10.8% yoy growth in industrial production. India's industrial production for June registered the highest growth since Feb08, supported by strong growth in capital goods. This rise is in line with earlier reported PMI and motor vehicle sales data. Hong Kong GDP registered +3.3% qoq in Q2, after 4 consecutive contraction quarters (pickup in consumption and trade). Singapore's final Q2 09 real GDP fell by 3.5% yoy but there were improvements in both domestic demand and trade, with improvement in retail sales. Japan's June machinery orders increased strongly, with manufacturing up while non-manufacturing turned positive for the first time in four months.

**Bottom line**: A host of data from the US and Europe seem to indicate a stabilization – the Fed acknowledging that a "leveling" has happened; France and Germany registering positive GDP growth for Q2. Our reading is that the worst is over even if some data on retail sales and GDP (e.g. Spain) are disappointing. On the other hand, private consumption (aided by government stimulus) and trade are helping Asia recover and grow, with Hong Kong being the latest to release positive growth for Q2, suggesting that the trading nations (Singapore, Hong Kong) are recovering.

## Regional Developments

- The Central Bank of Oman has announced an issue of government development bonds worth OMR 50mn, with a three-year maturity period and a coupon rate of 4% a year. We are seeing the beginnings of a GCC debt market with more governments issuing bonds and Sukuk.

## Market Intelligence on the UAE

- An amendment to the Federal Law No 8 of 1984 abolished the minimum capital requirement of AED 150,000 for the establishment of a limited liability company in the UAE and also allows new businesses to determine the capital required for the establishment and sustainability of their companies. This provides incentives for SMEs, will lower the cost of doing business and will encourage new business formation, spur entrepreneurship, increase domestic investment and promote foreign investment.
- The Payments System Settlement Finality Law enacted last week is the first in the MENA region and paved the way for the launch of high value, Real-time Automated Payments at DIFC (RAPID), which will help financial companies and their customers in undertaking secure payments with settlement finality.
- Details about the Dubai Support Fund were announced last week, including information about the composition of the board as well as the role of the fund. An independent legal entity, the Support Fund is authorized to invest in, hold and manage debt instruments on behalf of the

Government of Dubai, to collect loan repayments and also re-invest these revenues. It can also provide loans and credit facilities on a commercial basis to Government and GREs. The announcement comforted the markets and allayed uncertainty concerning Dubai's finances.

- Moody's has placed four UAE banks on review for possible downgrade – Emirates Bank International, National Bank of Dubai, Mashreq Bank and Dubai Islamic Bank – due to their exposure to the real estate sector and overall challenges facing the financial sector including rising corporate defaults and an increase in delinquencies from retail and personal lending.
- Dubai hotels and hotel apartments received 3.85 million guests in the first half of 2009, up 5% yoy. Figures released by the Dubai Department of Tourism and Commerce Marketing also showed an average occupancy of 90% in the first week of Aug09. This suggests strength in the tourism sector, supported by demand-encouraging pricing.
- Private gross fixed capital formation shot up to a record AED 217.3bn in 2008, boosting the private sector's share of total investment to around 72%, from a low AED 47.2bn in 2005. A breakdown showed investments in the real estate sector touched AED 32.2bn in 2008 (2005: AED 13.8bn).

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# Weekly Economic Commentary – August 09, 2009

## Markets

Friday proved to be a good day for the markets, with two sets of data encouraging an increase in stock prices – rise in German exports and the fall in US unemployment rate. The positive news also led to the dollar gaining against the yen and the euro. Asian markets were mostly up, reflecting the trend of positive corporate earnings results that have buoyed most financial markets recently. Most regional markets were up last week, with the real estate sector pushing the Dubai Financial Market index. Oil fell from six-week highs on Friday, pressured by gains in the dollar following better than expected US data.

## Global Developments

**USA:** Unemployment rate fell to 9.4% in July and US non-farm payrolls showed the economy lost 247,000 jobs in July, after a sustained drop in initial claims was reported the previous day. June Personal Consumption Expenditure core index data came in with a small increase, with a sharp fall in income (as transfers from the economic stimulus package tapered off), slightly improved spending and the saving rate falling to 4.6% of disposable income. Signs of recovery were visible in July's ISM survey, which reported significant improvement in manufacturing conditions. Construction spending grew faster than market expectations, with more spending in residential , less in private nonresidential  and evidence of increased public spending (+4.6% mom).

**Europe:** There was a mixed set of data releases: German exports showed an unexpected surge and July manufacturing orders rose. But June data for industrial production in Germany increased slightly, for Italy declined (-1.2% mom) and Italy's Q2 provisional GDP figures disappointed. German retail sales for June declined 1.8% mom leading to a flat Q2 number, disappointing the upbeat sentiment among retailers. Euro zone June Purchasing Manager Index (PMI-manufacturing) showed improvement, with the 'orders' components rising to 49.8, its highest reading since Mar08.

**Asia and Pacific**: China's Central bank has ordered state banks to slow lending after new loans in the first half almost tripled from a year ago. Taiwan's July exports continued to rise with exports to the US and Europe showing strong improvements. Indian trade balance showed small improvements, with exports higher for June, while imports fell. However domestic demand continues to be relatively strong – June motor vehicle sales were up 13.5% yoy and July PMI indicating further expansion ahead.

**Bottom line**: It has been a quiet week in data terms, especially from the Asia Pacific where the strong recovery signals were very visible. Data from the advanced economies are still giving mixed signals, though "green shoots" are now more evident. We expect that data for the 3rd quarter will confirm stabilization and start of recovery in the advanced countries

## Regional Developments

- Central Bank of Oman has reported that commercial banks' total assets increased by 13% in Jun09 compared to a year ago driven by 20.8% growth in credit. Domestic credit growth slowed in Saudi Arabia in June, expanding by just 4% yoy, down from more than 35% a year earlier.
- Saudi Arabia's gross national income was the biggest in size, while Qatar had the highest per capita income of $59,000, with Kuwait second with $38,400 in the Arab world, according to the World Bank's report on 2008 per capita income. UAE's per capita income was not mentioned in the report.
- The GCC hospitality industry witnessed a sharp fall in occupancy rates and revenue per available rooms (RevPARs) in 1H09, according to a Smith Travel Research (STR) Global report. The maximum decline in occupancy rates was in Oman (-19% yoy) while UAE had the worst fall of 28.8% in RevPARs.

# Market Intelligence on the UAE

- The UAE Central Bank moved to establish an official Emirates Interbank Offered Rate (EIBOR) to serve as a benchmark for dirham denominated loans. This positive step will help lower the rates and improve liquidity. The day after this news, a few key banks (Emirates NBD, ADCB and NBAD) in the country reduced their offered rates (between 5-25bps).
- A circular issued by the UAE Central Bank on structured products requested banks to obtain a special permission to market structured financial products to their retail customers. This move will help in making such products more transparent, with investors more knowledgeable of the risks associated with structured products as these have to be described in writing to the Central Bank.
- Moody's placed the A1 ratings of DP World, DIFC Investments and Dubai Electricity & Water Authority on review for possible downgrade, because of "the still limited transparency on government policy and criteria towards the provision of support to government-related issuers in Dubai". The ratings of Jebel Ali Free Zone were downgraded by one notch to A3 from A2 and also placed on review for further possible downgrade.
- Dubai International (the third busiest cargo airport in the world) recorded only a minimal drop in cargo volumes (0.76% yoy) during the first half of this year, with smaller consignments and trans-shipment cargo helping to maintain the volume.

According to the latest passenger statistics by Centre for Asia Pacific Aviation, Dubai handled 3.36 million passengers in Jun09 (+10.3% increase), while over the past six months, passenger traffic was up by 5%.

# Weekly Economic Commentary – August 02, 2009

## Markets

Broadly positive corporate earnings boosted Asian equities last week and the weak US GDP report (i) marginally damped enthusiasm for stocks, (ii) led the dollar to its lowest for the year and (iii) caused crude oil to surge almost 4% on Friday. Meanwhile, weak oil (through most of the week) sparked selling across most GCC markets; GCC Q2 company earnings figures reported so far show a 36.25% yoy decline in net profits, with Qatar performing the best of the GCC markets, mainly as a result of the government's banking interventions.

## Global Developments

**USA:** The Fed's Beige book reported that the pace of economic decline had moderated or stabilized, with manufacturing, residential property and even employment showing some signs of improvement. There are positive signs of activity in residential construction with new home sales posting a sharp increase in June. Additionally, home prices (May) showed further stabilization – the S&P Shiller home price index was up, the first monthly increase since July 2006. However, the Conference board issued a disappointing confidence index affected by perceptions of weak labor market conditions. Real GDP declined 1.0% qoq in Q2 2009, confirming moderation in the pace of decline in US output – with strong government spending offset by low consumer spending and significant declines in both residential and business fixed investment.
**Europe:** The European Central Bank reported that Euro area

money and credit growth continued to slow sharply in June, at 3.5%and 1.5% yoy respectively. This implies continued recession. Lending to private sector shows an increase mom, reflecting mostly stronger loan growth for private households. Eurozone business and consumer confidence surveys indicated upbeat sentiment, mirroring the individual country reports. However, inflation falling into negative territory (Jul: -0.6%) stoked fears of a deflationary period ahead.
**Asia and Pacific**: Korean consumer confidence rose to a 7-year high (Jul) and June industrial production was up. India’s Central Bank left policy rates unchanged, but explicitly warned about rising inflation given the government’s huge borrowing and spending program. Singapore’s government fund, Temasek, announced a fall in the value of its portfolio by at least USD 27.7 bn in the year to March (a decline of 15% yoy) and was considering bringing in outside investors for the first time, providing an insight into the magnitude of losses made by sovereign wealth funds. Japan set a new record for core consumer price deflation in Jun (-1.8%) and unemployment hit a six-year high (5.4%)
**Bottom line**: Data from advanced economies continue to indicate move towards stabilization, with some sectors showing positive signs (US housing market, European bank lending to households etc). Meanwhile, among their Asian counterparts, higher growth (China, Korea etc.) has resulted from government stimulus. Reassured on the growth front, Asian policy makers are raising concerns about inflation: the Korean Central Bank has highlighted rising asset prices, the Indian Central Bank flagged concerns about inflation, while Chinese officials expressed concern about the risk of stock and property bubbles inflating because of an unprecedented surge in bank lending, even though the central bank announced it would maintain a loose monetary policy to support the economy.

## Regional Developments

- GCC investor confidence index (Shuaa Capital) declined in July, the fall resulting mainly from decreasing confidence in the region's financial markets.

- The Bahrain Central Bank introduced a new regulation capping Bahraini banks' exposure to real estate markets (effective Aug. 1) under which the maximum share of real estate financing would be 30% of total lending, with real estate investments by banks for their own account capped at 40% of their capital base.
- The Bahrain Central Bank announced that it has "assumed control" of the administration of Awal Bank and the International Banking Corp, after both lenders' parent companies missed debt repayments earlier this year.
- Data released by the Saudi Arabian Monetary Agency showed that new letters of credit opened by commercial banks to finance private sector imports fell by 35% to SAR 61.2 bn in 1H09. But, money supply recorded the highest growth rate in the previous 5 weeks because of increased government expenditure.

## Market Intelligence on the UAE

- The Ministry of Economy's revised GDP data showed nominal GDP for 2008 at AED 934bn, up 23% yoy. The contribution of oil and gas sector to the GDP remained dominant at 36.8%.
- The UAE annual inflation rate was 3.4% for the first half of the year, substantially lower than in 2008, largely due to the decline in housing and food prices, and turned negative in June (-0.03%) for the first time since 1990. Announcement of a reduction in food prices (up to 60% on more than 200 food items) during Ramadan will also leave a significant impact on inflation rates for the months of Aug-Sep.
- Moody's issued a report on Dubai's real estate sector highlighting oversupply in the residential property market and noted that the downward trend was unlikely to stabilize before Q2 2010, due to the seasonal summer,

Ramadan slowdown and outflow of expatriates.

- According to Proleads Global research, over 400 projects worth more than $300 billion have been placed on hold or cancelled in the UAE due to the global financial crisis.. The report identified a slowdown in new projects in the commercial and retail sector, a slowdown in leisure and entertainment and an increasing rate of cancellations in the residential sector.
- Retail sales estimates, as released by Business Monitor International, show a pick-up in retail sales per capita in 2009 to $ 26,417 from an estimated $ 23,151 in 2008. According to industry experts, a bounce back is expected in Q4 09 with consumer confidence and tourism expected to improve after Ramadan.

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# Weekly Economic Commentary – July 26, 2009

## Markets

Broadly positive corporate earnings reports, signs of stabilization in the US housing and labor markets and positive economic reports from the emerging markets added to the bullish mood in equity markets last week. All regional markets continued to rally, and the DFM reacted positively on Thursday to the announcement of the creation of the "Dubai Financial Support Fund".  The dollar had a volatile week, inching up before Bernanke's cautiously optimistic testimony, but rising stocks and renewed recovery hopes led traders to seek riskier higher-yielding assets. Oil and gold prices were up from last week, rising 4.7% and 1.5% respectively.

# Global Developments

**USA:** In his testimony to US Congress Bernanke's did not reveal any new element although the discussion of the economic outlook was more pessimistic than the policy statement issued in June. Bernanke was particularly concerned about lower household spending. The US Leading Indicator increased by 0.7% in June, lower than the 1.3% increase in May, but still a level that reinforces the expectations of stabilization.
**Europe:** Pace of decline in manufacturing order in the Eurozone decelerated in May for the first time since September; however the level is still 28.5% lower than a year ago. Lower energy prices pushed down Germany's yearly inflation to -0.2%. In France May households manufactured goods consumption posted a negative -0.2% mom, suggesting some underlying weakness in consumer demand. The Purchasing Manager Index for the Euro area in July rose to 46, from 42.6 in June and the same sentiment was reflected in July's German IFO survey where the current conditions component scored the largest monthly increase since the end of 2006. Not all news was positive though: UK GDP fell by 3.1% qoq, sapping hopes of recovery, and French consumer confidence slipped in July.
**Asia and Pacific**: Japanese Prime Minister Taro Aso dissolved Parliament and called early elections for late August. All polls predict a defeat for the ruling Liberal Democratic Party which, except for 11 months, ruled since World War 2. On the data front, signs of recovery continue – Taiwan and China's IP and export data continue to rise; increase in Japan's exports for June; Korea posted 2Q GDP up 9.7% qoq, seasonally adjusted, led by a 37.3% qoq gain in manufacturing output. Singapore's June IP however was weak,
**Bottom line**: The stabilization of the world economy in Q2 and the reduction in systemic risks, led primarily by Asia, has been confirmed by the latest spate of data, including encouraging signals from Europe. Essentially the global economy has moved from steep contraction to something closer to zero growth, but the important issue is whether this

stabilization will give rise to sustainable growth. The data so far suggest that the demand will be weak for some time in the US, Eurozone and Japan, but that growth is likely to be significantly stronger in large emerging markets such as China and Brazil.

## Regional Developments

- A poll of 1,200 people in KSA and the UAE conducted by Booz & Co. found that 28% of consumers curbed spending over the past six months, while 26% increased it. Overall, consumer sentiment and spending was better in the Gulf than elsewhere.
- Annual inflation in Bahrain slowed to 2.7% in June, its lowest level in at least 23 months, and Kuwait's annual inflation fell to 5.9% in February.
- Kuwait and Qatar have synchronized their power networks as they move towards the launch of a four-nation Gulf grid, the Saudi news agency SPA reported. The UAE is due to join the grid in 2011.
- Kuwait's central bank reduced its overnight repo rate is now 0.75% and similarly cut weekly and monthly rates by 0.25%.
- Committee on Payment and Settlement Systems in BIS added KSA'a SAMA to its members.
- The SAMA deposits with banks abroad decline by 21.5% QoQ ($18 billion) to support government expenditure.

## Market Intelligence on the UAE

- DoF Director Abdulrahman Al Saleh said the second tranche of a $20 billion bond program by the Government of Dubai will be open to local and foreign banks, Reuters reported. The government has set up the Dubai Financial Support Fund to manage the orderly and optimal allocation of the money raised from the bond.
- Money supply growth slowed to 13.5% in Q2, its lowest

level in more than 6 years, according to the central bank data which also showed the gap between bank loans and deposits increased between May and June to AED 47.3 billion from 31.2 billion.
- Central Bank data for 1Q09 showed that the UAE Government boosted its deposits with local banks by nearly AED 28bn.
- The Chamber of Commerce reported that exports from Dubai declined by 16% to AED 90.3bn in the first half of 2009 compared to a year earlier. However the data point to a gradual improvement as June recorded the highest monthly export volume (AED 17bn) while February recorded the lowest (AED 14.4bn).
- The Abu Dhabi Investment Authority may begin investing in the local market by buying bonds issued by the UAE Government and other institutions, a key Saudi bank stated to Emirates Business 24/7.
- Several real estate analysts interviewed by Reuters concurred that erratic real estate regulation, weak property rights and unclear visa rules will not help Dubai to develop a mature property market and therefore will hamper a recovery in prices.

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# Weekly Economic Commentary – July 23, 2009

## Markets

Global stock markets continued to rally in the second half of this month after broadly positive corporate earnings reports dominated the scene: of 107 companies in the S&P500, 78% are now beating earnings expectations; 7% meeting the expectations; and only 16% falling short. The few macroeconomic data releases broadly confirmed the inception of an economic stabilization phase. Regional markets continued to gain: the Dubai Financial Market index lifted after news that the UAE central bank may subscribe to the second bond issue by the government of Dubai, but from last Tuesday it has lost some ground. A positive response is expected to the announcement of the creation of the "Dubai Financial Support Fund".

The dollar weakened after news of strong Chinese growth and positive earnings surprises boosted risk appetite, pushing investors away from greenback and into riskier assets. The weakness of the dollar also led to a rise in gold and oil prices.

## Global Developments

**USA:** Retail sales rose and producer prices were up in June, with the- transportation sector being the biggest driver. The budget deficit in June was $94 billion and year-to-date, the deficit is $1.086 trillion, with outlays up 20.5% and receipts down 17.9%. It will take several years to make up for this kind of fiscal laxity.

**Europe:** Eurozone industrial production increased mildly in May, the first expansion in industrial activity since Aug08, largely from a rebound in capital goods production. The ZEW financial markets indicator rose strongly in May indicating a better outlook for the second half of 2009, while the assessment of the current situation remained broadly unchanged.

**Asia and Pacific**: More positive news from Emerging Asia. China grew at an annual rate of 7.9% in 2Q09 from 6.1% in 1Q09, fuelled by the stimulus program. Government-led infrastructure investment projects continue to be a main driver of the acceleration of fixed asset investment (in China), which accelerated 35.2% in June. Advance GDP growth estimates for

2Q09 in Singapore declined less-than-expected, at -3.7% yoy (largely contributed by the rise in biomedical manufacturing output and electronics inventory restocking), compared to the 9.6% drop in the previous quarter.

**Bottom line**: The last few months have been dominated by the stabilization in the global economic cycle and reduction in systemic risk through massive government intervention. We continue to take the view that global economic recovery depends on recovery in Asia and particularly China. The positive news on Chinese growth confirms our view. We are looking for signs over the next few months to confirm sustainability of the recovery. But until hard data become available in 2 to 4 months the horizon will remain clouded with expectations likely to shift quite wildly. The summer holiday over the next few weeks is expected to bring some lull in the markets, although one should remember that major crises (Russia, Thailand, Mexico, invasion of Kuwait) tend to erupt in August and September.

## Regional Developments

- Oman's slow progress on diversification was underscored in the Central Bank of Oman's Annual Report, given brisk activities in the petroleum sector and improvement in its GDP share to 51.3% in 2008 from an average 46.3% share in the previous four years.
- Negotiations are expected to resume between the GCC and European Union over the next few months to discuss the free trade agreement and other issues. Given that the EU is a top trade partner for the GCC, a successful agreement would be a win-win for both regions.
- Abdullah Sadiq Dahlan, Saudi Arabia's representative to the International Labour Organisation, was quoted in the Arab News paper suggesting that the country should reform the citizenship system to open the way for long-term legal residents to acquire naturalisation.

## Market Intelligence on the UAE:

- The United Arab Emirates central bank may buy into the second tranche of Dubai’s $20 bn bond programme and “start trading these bonds very soon” if the Board so decides, according to the UAE Central Bank Governor Sultan Nasser al-Suweidi (as told to Bloomberg). He also mentioned that he was reassured about the dollar by U.S. Treasury Secretary Timothy Geithner and hence “we emphasise that we will continue to peg the dirham to the U.S. dollar”.
- According to a report by the Samba Financial Group, potential investors in the new UAE sovereign bond issue could include UAE’s sovereign wealth funds (SWFs), since this would potentially open up a new source of long-term corporate finance; also meaning that the region’s SWFs could potentially depart from its long-standing tradition and begin investing in the local market.
- A report by CB Richard Ellis placed Dubai as the second most expensive office market in the Europe, Middle East and Africa region, but expected rents to fall further when more supply hits the market. The report also mentioned that occupiers of older office buildings were withdrawing from commitments to move into premium office space due to economic uncertainties in Abu Dhabi, while weakened demand from the banking sector was affecting demand for office space in Bahrain.

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# Weekly Economic Commentary –

# July 20, 2009

## Markets

Last week market sentiment was up, rallying after positive earnings news from US corporates (Goldman Sachs and Intel registering major upside surprises) and global recovery hopes from Chinese growth. Regional markets turned bullish on Wednesday, with all the indexes registering gains amid positive expectations on corporate second-quarter earnings; the Dubai Financial Market index lifted after news that the UAE central bank may subscribe to the second Dubai bond issue. The dollar weakened after news of strong Chinese growth and positive earnings surprises boosted risk appetite, pushing investors away from greenback and into riskier assets. The weakness of the dollar also led to a rise in gold and oil prices.

## Global Developments

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**Asia and Pacific**: More positive news from Emerging Asia. China grew at an annual rate of 7.9% in 2Q09 from 6.1% in 1Q09, fuelled by the stimulus program. Government-led infrastructure investment projects continue to be a main driver of the acceleration of fixed asset investment (in China), which accelerated 35.2% in June. Advance GDP growth estimates for 2Q09 in Singapore declined less-than-expected, at -3.7% yoy (largely contributed by the rise in biomedical manufacturing output and electronics inventory restocking), compared to the 9.6% drop in the previous quarter.

**Bottom line**: The last few months have been dominated by the stabilization in the global economic cycle and reduction in systemic risk through massive government intervention. We continue to take the view that global economic recovery depends on recovery in Asia and particularly China. The positive news on Chinese growth confirms our view. We are looking for signs over the next few months to confirm sustainability of the recovery. But until hard data become available in 2 to 4 months the horizon will remain clouded with expectations likely to shift quite wildly. The summer holiday over the next few weeks is expected to bring some lull in the markets, although one should remember that major crises (Russia, Thailand, Mexico, invasion of Kuwait) tend to erupt in August and September.

## Regional Developments

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reform the citizenship system to open the way for long-term legal residents to acquire naturalisation.

## Market Intelligence on the UAE:

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A report by CB Richard Ellis placed Dubai as the second most expensive office market in the Europe, Middle East and Africa region, but expected rents to fall further when more supply hits the market. The report also mentioned that occupiers of older office buildings were withdrawing from commitments to move into premium office space due to economic uncertainties in Abu Dhabi, while weakened demand from the banking sector was affecting demand for office space in Bahrain.

# Weekly Economic Commentary – July 12, 2009

## Markets

After the euphoria of the second quarter investors are focusing on labor indicators and discount good news on those sectors (e.g., industry) which are improving. There is a general sense that stocks valuations are overstretched. The onset of the US corporate earnings season heightened the growing sense of unease about the global economic outlook. Equity markets in the region were sharply down for the second week in a row; the financial sector in the Dubai Financial Market suffered heavy losses after the S&P downgraded major banks while real estate sector continued to slide down. Oil suffered a sharp correction, falling below $60 a barrel for the first time since mid-May, as bearish US supplies data took its toll on investor sentiment. Rising risk aversion also led to a volatile currency market with erratic daily movements.

## Global Developments

IMF sees the global economy emerging from the recession “but stabilization is uneven and the recovery is expected to be sluggish.” Economic growth next year may be 0.5% higher than projected in April 2009 which means 2.5% growth, but in 2009 contraction will reach 1.4%, worse than previously estimated. Emerging markets will slow sharply, growing by only 1.5% in 2009 before rebounding to 4.7% in 2010. China will see growth of 7.5% in 2009 (8.5% in 2010) and India 5.4% (6.5%).
The most concrete outcome from the G8 summit was a $20 billion aid package over 3 years for a “food security initiative”. A diverse set of topics ranging from financial regulation to a new economic stimulus were discussed, but views remained divergent on actions.

**USA:** ISM index of non-manufacturing activity grew by 3 points, with most major components rising in tandem. At 47, the index still implies contraction, but at a slowing pace. U.S. first-time jobless claims dropped 52k in the week ending July 4th, while continuing claims rose 159k – partly as a result of the auto-shutdowns in May-June. The labor market remains fragile.
**Europe:** Germany's Industrial Production rose 3.7%mom in May, a lot stronger than expected and, confirming the rebound, manufacturing orders data posted a strong 4.4%m/m rise in May. The momentum in the industrial sector has swung decisively through the first half of this year and May data from France, Sweden and Emerging Europe echoed this recovery: Hungary's Industrial Production was up 2.6%m/m, sa, Turkey's IP was up by an estimated 2% mom sa, Romania's industrial sales rose 4.9%m/m. French exports were up 4.5%m/m the strongest monthly gain since the onset of turmoil in 2007. On the negative side, UK Industrial Production was contracted by 0.6% mom in May, Italy's was flat, Holland's was down by 1.8% qoq.
**Asia and Pacific**: The strongest rebounds are evident in Asia: Taiwan exports were up 4.8%m/m in June, and were up 96%, sar, from Q1. In Q1, they had been down 60%, ar, from Q4. China reported for June a $8.25bn trade surplus, with imports jumping $12bn on the month, and exports $7bn. Imports growth is a reflection of the stronger-than-expected acceleration in domestic demand growth. India's budget for FY2009-2010 had a significant negative impact: the Sensex fell 5.8%, led by financials. The rupee was down 1.3%. Investors worry about the high borrowing levels in the new budget with deficit forecast at 6.8% of GDP for FY09/10, up from 6% in FY08/09 (and an initial estimate of 2.5% of GDP). Risks of downgrade loom if fiscal discipline proves to slip further away.
**Bottom line**: Economists are revising up growth estimates for 2010. However, they remain divided about whether the recovery will begin in the latter half of 2009 or be delayed until 2010. Consensus suggests that the U.S. economy might bottom in H2 2009 and that Chinese acceleration in H2 2009 could be more

pronounced. The outlook remains weak for Europe (especially the East) and Japan.

## Regional Developments

- MEED’s annual survey of the top 20 banks in the GCC by asset size reveals that despite the difficulties caused by the global financial turmoil, their combined assets grew by 15% last year to $752.6bn. With three exceptions – Arab Banking Corporation, Gulf International Bank and Gulf Bank – all banks on the list increased their assets in 2008.
- The Middle East economies will expand by 2%, compared to 5.2% in 2008, according to the IMF. The growth forecast for 2010 was raised 0.2% to 3.7%.
- OPEC’s World Oil Outlook 2009 forecasts that consumption of crude would not return to 31 million barrels per day (the level it averaged in 2008) until 2013, because of economic weakness and slowdown in demand.
- IPO activity in MENA declined by 87% during the first half of 2009 (1H09) compared to 2008 according to data from Zawya. IPOs raised $1.21 billion in 1H09, down from $9.3bn during the same period last year.
- According to report released by HSBC (and picked up by Reuter and Bloomberg) Saudi banks may have between USD 4-7 bn in lending exposure to troubled conglomerates Saad Group and Algosaibi. Zawya reported an unconfirmed total exposure of $40bn by the banking sector to the troubled groups.

## Market Intelligence on the UAE:

- S&P revised the credit ratings on Emirates Bank International, National Bank of Dubai and Mashreq bank down by one notch to A-minus from A. It also revised down the rating on Dubai Islamic Bank by one notch to BBB-plus. Banks’ asset quality is still expected to

deteriorate significantly, however, the rating agency said.
- Dubai’s second-largest property developer Deyaar expects to close a 500 million dirham distressed debt fund by year-end, the firm’s chief executive said on Tuesday.

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# Weekly Economic Commentary – July 05, 2009

## Markets

Global financial markets completed a second quarter that showed changes wholly consistent with an upturn in the global cycle: the S&P rose 22%, the MSCI EM index was up 51%. U.S. 10-year yields rose 63bp; and the spread of EM bonds narrowed by 239bp. Oil and other commodities have rebounded strongly. Investors are divided over the prospect that Q3 will see stabilization or a further jump up. On currency the role of the US dollar has been questioned and the green back is generally down compared to Q1 also because of fears over long term fiscal sustainability. But People’s Bank of China Governor Zhou emphasized that dollar stability was the right policy for now. A significant development came from the IMF board which approved last week a large issuance of bonds to members. The main buyers will be emerging market countries (especially in Asia) looking to diversify (slightly) away from USD.

## Global Developments

**USA**: Consumer Confidence fell to 49.8 in the month of June, following two months of recovery, with insight into some labour market deterioration (respondents stated that jobs were harder to get). The pace of job losses quickened in June, with unemployment rising to 9.5% in June (May: 9.4%) as 467,000 jobs were lost in June (more than 100,000 worse than expected). Some good news came from PMI rose to 44.8 (42.4 in May), with the production component rising to 52.3, its strongest reading since Jan08.

**Europe:** The European Commission reported that its eurozone “economic sentiment indicator” rose substantially in June. Optimism rose among consumers, in the service sector and somewhat less in industry. The predictive power of these surveys is under scrutiny, as “hard” data are still weak. Euro area unemployment rate for May was up two ticks to 9.5%. Inflation in June was negative for the first time since records started, highlighting the risk of prolonged Japanese style deflation. The ECB remained on hold, but Trichet hinted to possible new rate cuts. The Riksbank cut rates 25bp, to 0.25%.

**Asia and Pacific**: Data are generally more upbeat: Japanese industrial production was strong in May, up 5.9%mom for the second straight month. The revised manufacturing production estimate for June also posted a 3.1%m/m gain. Assuming this holds, production would end up 40%qoq, sa in Q2 (having been down 38%, saar, and 63%, saar, in the previous two quarters). Korean IP rose another 1.6% mom, sa, in May. Production has now climbed 19% since December (not annualized) with exports in June up 17% mom. PMI indices from China are above the 50 mark, confirming the return to global growth as the mature markets struggle.

**Bottom line**: Three elements will drive the global economy in the second half of 2009: a) the slow healing of Western financial institutions (with some problems likely to resurface in Europe); b) the lagged reaction of the real economy to the credit crunch, in terms of unemployment, defaults and restructuring; c) the long term reconfiguration of the economic landscape with the baricenter shifting to Emerging Markets. Last week’s data essentially confirm these trends (and our long held view) that growth will strengthen in EM especially Asia leading the rebound.

## Regional Developments

- UAE banks have "significant" exposure to Saudi groups Saad and Al Gosaibi, the UAE central bank governor said, adding that the issue of frozen accounts should be resolved in a transparent way. According to UAE banks involved in the deals, the total exposure is more than $3 bn. The vicissitudes could raise fears by international lenders on exposures to Saudi Arabia and the Middle East.
- Bahrain has endorsed a law to treat GCC nationals as citizens in running their own businesses, to attract investment and improve the business climate. Gulf nationals will be treated on par with Bahrainis in business privileges, rights and fees payments.
- Qatar's 1Q09 GDP shrank 17.5% y/y at current prices in the first quarter, soon after Oman reported a similar decline last week.
- Among GCC countries, UAE topped the Worldwide Governance Indicators (WGI) in government effectiveness; it was in the 80-90 percentile for the control of corruption, but came in low, next to Saudi Arabia on the voice and accountability parameter.
- June's GCC Investor Confidence Index, by Shuaa Capital, showed that confidence in UAE jumped by 15.7% mom. Looking forward, investors see Saudi Arabia, Qatar and the UAE as the economies most likely to improve over the next six months.

## Market Intelligence on the UAE:

- Dubai leadership has launched a plan culminating in the bid for the 2020 Olympic Games and the World Expo.
- Abu Dhabi has been selected to host IRENA the UN agency

for renewable energies which could spur a growth of alternative energy sector in the UAE and foster a market for carbon trading in the GCC.

- Dubai’s inflation rate slowed to 5.4% in the first five months of 2009, compared to 8.7% a year earlier, the head of Dubai Statistics Center (DCS) was quoted as saying.
- A federal law guaranteeing the bond sales of local banks has been passed by the Federal National Council; this would allow financial institutions to tap cheaper funds, improve investor confidence in new issuances and help develop the bond market.
- Standard & Poor’s revised down the credit ratings of DP World and Jebel Ali Free Zone by two levels to BBB+ while Dubai Multi Commodities Centre rating was cut to BB, two levels below investment grade. Similarly Moody’s announced that “The Baa1 rating of Emaar was placed on review for downgrade,” while Dubai Holding was revised down to A3 from A2. Standard & Poor’s (on Mon) revised the CreditWatch implications for ‘BBB+’ long-term credit ratings on Emaar to ‘developing’ from ‘negative’ following the merger talks with Dubai Holding’s property subsidiaries.
- Abu Dhabi’s International Petroleum Investment Company (Ipic) has signed a USD5 bn syndicated loan, increased from a launch amount of $3.5bn, banking sources revealed. It is the first major new loan in the Gulf this year. Also Abu Dhabi based developer Tourism Development & Investment Company’s $ 1bn bond issue was oversubscribed 6 times over. Both news highlight the global appetite for regional issuances, the confidence of investors and the need to speed up the creation of a debt market in Dubai.
- With the exit of private shareholders from Emirates Industrial Bank the way is open for the merger with Emirates Real Estate Bank (EREB) to create Emirates Development Bank (EDB), with a capital of Dh10 billion.

Approval of the draft bill on EDB's establishment however has been stalled by the Federal National Council which asked to conduct more studies.

- Emirates NBD has announced the conclusion of the issuance of AED 4bn Tier 1 debt securities (sole investor: Investment corporation of Dubai), enabling the bank's Tier 1 capital adequacy ratio to exceed 11% and the overall capital ratio to exceed 17%. As per the UAE Central Bank, overall capital adequacy ratio of the UAE banking system was 16.2% as of Mar09.
- **Bottom line**: The authorities are putting in place safeguards to allay fears in the financial markets while starting a process of consolidation and restructuring in key economic areas, which is entirely justified by the downgrades of key companies in Dubai.

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# Weekly Economic Commentary – June 14, 2009

## Global Developments

**USA**: A mixed picture emerges from last week's data: these indicate that the US economy is stabilising. May retail sales rose 0.5% month-on-month, but mainly as a result of the rise in gasoline prices during this period. Excluding this and auto sales, the retail sales reading was flat. New jobless claims continue to fall gradually, recording 601k in the week to June 6. US consumer confidence rose in June to its highest level in nine months. A sign of normalization in the financial sector came from ten large financial groups that have asked to repay a combined $68bn to the US Treasury.

**Europe**: We continue to hold a negative outlook for Europe. German industrial production dropped 1.9% mom in April, with similar results from France and Spain driving Euroland IP to fall 1.9%mom. In Europe the only improvement has been recorded in business surveys like the PMI or consumer confidence, but positive sentiment is yet to translate into better economic data. Additional worries emerged after German retailer Arcandor filed for insolvency, having failed to secure state aid. Ireland credit ratings were cut for the second time in three months (to AA with a negative outlook), amid rising worries over the cost of bailing out the country's banking sector. The Swedish Financial Supervisory Authority's stress tests showed the nation's four largest banks could absorb more than SKr150bn in losses from the Baltic region over three years. The European Central Bank has provided a EUR 3bn loan to increase the reserves of the Riksbank in order to safeguard financial stability.

**Asia and Pacific**: There are some mixed data releases from China. On a positive note, China recorded a big rise in investment on factories, property and roads, thanks to its CNY 4 trillion stimulus package. But trade data for May show a decline in both imports and exports. Industrial production in both China (May) and India (Apr) registered an upward tick (8.9% and 1.4%yoy respectively). Our view is that global economic recovery will be lead by the emerging markets (Brazil, China and India) increasing domestic demand to offset the decline in exports.

**Bottom line**: The world economy is still in intensive care with signs of improvement being more visible in Asia and to a lesser extent in the US. The G8 summit, held over the past two days in Italy, had world leaders cautiously hinting that the worst might be over given the "signs of stabilization" and moving forward to discussing "exit strategies". Meanwhile worries on the effect of oil prices on this recovery process are spreading: China has increased oil imports by 5.5% yoy in May and the speculative long positions on oil futures in New York are at their highest since last July (when prices peaked at 140$/b) and commodity funds are recording record net inflows.

## Regional Developments

- Moody’s confirmed Kuwait’s Aa2 sovereign ratings but has applied a negative ratings outlook on local and foreign currency government bond ratings and its country ceiling for foreign currency bank deposits.
- A study by Mercer has revealed that 73% of companies across the GCC have set targets for higher or similar growth in 2009 compared to 2008 and 94% believe it is “very likely” or “somewhat likely” that these targets will be met. The survey also found that 60% of companies planned to increase manpower during 2010 – some of those by up to 10%, in a powerful sign of improving business confidence levels in the GCC.
- While the Saad group is announcing its debt restructuring plans, there are reports from SABB and Gulf News making references to another family business (Al Ghossaiby) in KSA facing financial difficulties and failing to repay bank loans availed to them. This raises questions about the extent of difficulties faced by family businesses in the region and underscores the need for better corporate governance and transparency.
- Bahrain has priced a $750mn five-year Islamic bond at 340bps over U.S. Treasuries, according to an official at one of the lead managers. The issue is larger than the earlier announcement of $500 million bond issue.
- **Bottom line**: the GCC economies are recovering, supported by higher oil prices and government intervention. However, structural reforms are required to improve corporate governance and modernize and reform the framework for dealing with insolvency and creditor rights.

# Market Intelligence on the UAE:

- The UAE Ministerial Committee's risk survey undertaken to support the banking system in developing their risk management agenda concluded that the "UAE banking sector is stable and firmly on the growth path". Additionally, the committee announced the approval by the Cabinet on the revision of the bankruptcy law, the public debt law and the set up of a credit bureau, all measures aimed at strengthening the banking sector
- The refinancing of Nakheel's US$3.5 billion Islamic bond later this year will be the litmus test for how credit ratings agencies assess Dubai government-controlled companies, a Moody's analyst said during a conference.

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# Weekly Economic Commentary – April 26, 2009

## Global Developments

- IMF' has forecast US$4.1 trillion in losses ($3.1 trillion in the US) from the financial crisis in the banking sector worldwide, and in its new World Economic Outlook downgraded world growth to -2.5% for 2009.
- The US Leading indicator index fell by 0.3% in April after 0.4% in March. Meanwhile the initial jobless claims are still increasing by more than 600,000 and durable goods orders contracted by 0.8% mom in March.
- Secretary Geithner assertion in Congress testimony that US banks are adequately capitalized helped diminish

stress test concerns and gave a temporary boost to the stock markets.

- US real estate remains weak: existing home sales in March fell 3.0% mom and new home sales fell 0.6% mom.
- The six leading German economic institutes cut GDP growth forecasts to -6% for 2009.
- The expectations component of the German ZEW index rose in April, indicating an improvement in sentiment, reflected in a slight increase in the IFO.
- Eurozone flash Purchasing Managers' Index (PMI) showed a substantial upwards rebound in April, indicating a slower pace of contraction. The French and German flashes for manufacturing and services PMI and the Belgian Manufacturing Survey also showed a similar improvement, but overall this data are still indicating a contraction in output.
- UK GDP fell by 1.9% qoq in Q1, worse than expected, indicating that in 2009 GDP could fall by 6% or more.
- The U.K. labor report showed another rise in unemployment rate in March (to 4.5%). That measure of unemployment is now trending up at a rate of 3 ticks per month. Meanwhile UK budget deficit for the fiscal year 2009-10 has been estimated to reach 12.4% of GDP.
- Korea GDP for first quarter of 2009 showed a slight growth of 0.4% quarter on quarter, strengthening from the previous quarter fall of 18.9% qoq.
- The Reserve Bank of India cut the reverse repo and repo rates by 25basis points (bp) each, making a total of 425bp cuts in the repo rate and 275bp cut to the reverse repo rate since the rate-cutting cycle began.
- Singapore Industrial Production plunged by 34% in March yoy, much worse than expected and particularly worrisome considering that IP plummeted 24%yoy in Jan-Feb compared to the same period in 2008.

## Regional Developments

- Kuwait recorded a preliminary budget surplus of KWD 6.1billion for financial year ending Mar09, from higher oil sales. Oil revenue was 70.6% higher than budgeted while non-oil revenue was 22.2% above budget during this period.
- In an effort to accelerate economic integration, Saudi Arabia has removed previous restrictions on all GCC citizens wanting to work, buy property or study in the Kingdom.
- SABIC said it would look to cut costs as it reported a loss of 974 million riyals ($ 259.3 million) compared to a net profit of 6.92 billion riyals in the first quarter of 2008.

## Market Intelligence on the UAE:

- Lower CDS spread (fell to a low of 565 basis points from 660bps a month ago) for Dubai on rising confidence in the Emirates' finances among international investors.
- Cityscape Abu Dhabi held last week witnessed the launch of a host of projects like a housing scheme for middle income Emiratis by Aldar Properties and a multi-faceted project in Abu Dhabi with a first phase development value of Dh4 billion. However, the number of visitors was estimated at 27, 000 compared to over 50,000 participants in the previous edition.
- According to the Dubai Roads and Transport Authority (RTA), 3 major road projects worth Dh2.9 billion have been approved by the Ruler of Dubai. Additionally, work has begun to expand the combined passenger capacity at Dubai's two airports to 240 ml, from the 190 ml initially planned. All this reaffirms the commitment of the government to support infrastructure growth to sustain job creation and boost the capacity of the economy.

- Amlak and Tamweel will restart functioning as independent Islamic mortgage lenders, before the merger comes into effect. This is to bridge the vacuum in Islamic home finance firms as these two companies represented more than 60% of Dubai mortgage industry
- Etisalat added only 41,000 new mobile subscribers in Q1 2009 compared to 251,000 in Q4 2008.

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# Weekly Economic Commentary – April 19, 2009

## Global Developments

- US Retail Sales in March fell by 1.1% and ex auto by 0.9%, on the month versus expectations of a slight increase. This figure pours water on the optimistic sentiment that was taking hold in the market.
- US core PPI remained unchanged on the month confirming that deflation is not a major worry for now. The same trend was confirmed by core CPI up 0.2% mom, and 1.8% yoy.
- US Industrial Production fell in March by 1.5% mom and capacity utilization to 69.3% close to an all time low.
- Concern over credit card default is mounting in the US after Capital One announced that credit card losses have outpaced the level of unemployment. The rate of charge-offs has reached 9.3%, an all time record.
- S&P Rating Services announced that 29% of junk rated European companies could default on their debt by the

end of the year due to the credit crunch and deteriorating conditions which impact corporate earnings.

- A reminder that the crisis is far from resolved came from Switzerland where UBS announced a loss of US$1.74bn in Q1 and job cuts of 8,700 employees.
- Euroland's Industrial Production was down almost 18% on the year, confirming the prevailing negative outlook.
- Asian exports may be staging a rebound in Q2. The latest harbinger was the 10.8%m/m rise in Singapore's non-oil domestic exports in March (this came after a 1.6%m/m gain in Feb). This was not enough to stop another sharp decline in GDP: estimated to have fallen 19.7%qoq in Q1, following a 16.4%qoq, decline in Q4.
- Bullish data from China on money and credit growth – M2 growth accelerated to 25.5% year-on-year in March, up from 20.5% in Feb and a low 14.8% in Nov08. Also reported was an increase in foreign direct investment in March to $8.4 billion, from an average of $6 billion per month in the previous 4 months.
- China GDP grew by 6.1% in Q1, while Industrial Production in March rose by 8.3% on the year up from 3.8% in the period January/February. Both figures signal the start of a recovery.
- Poland announced that it will follow Mexico and draw on the IMF's Flexible Credit Line

## Regional Developments

- Kuwait's Central Bank cut its interest rate by 25 basis points to 3.5 % to stimulate the economy.
- Bahrain's Central Bank has announced plans of issuing a five-year Sukuk for $500 million on May 27, 2009. Plans of issuing another BHD 250 million three-year government bonds was also revealed, but without specifying a date. After Qatar, Kuwait and Abu Dhabi, with this move Bahrain will contribute to create an active bond market

in the region.

- Business confidence in Saudi Arabia slipped in Q2 according to a survey by Dun&Bradstreet, but businesses in the non oil sector were rather optimistic on new orders.
- March inflation in Saudi Arabia slowed to 6.0% from 6.9% in Feb09. Additionally, Saudi Arabia's central bank cut the reverse repurchase rate by 25 basis points to 0.5% to realign it with short-term rates after the ease in inflation. The benchmark repurchase rate was kept unchanged at 2.0%.

## Market Intelligence on the UAE:

- UAE Central Bank FX reserves fell 32% last year to Dh193.7 billion (US$52.7bn), down from Dh285.9 billion the year before. The outflow was due in all likelihood to the repatriation of speculative capital triggered by expectation of a revaluation of the dirham in mid 2008.
- Dubai Properties and Sama are not merging according to Hashim Al Dabal Chuaitman of Dubai Properties.
- Dewa revenues increased by 52% in 2008 on lower production cost and surging demand for utilities.
- The IMF has lowered its growth forecast for the UAE this year to 2.1% on expectations of lower oil prices and a global recession
- The Abu Dhabi Judicial Department announced the creation of courts specifically dedicated to contract and construction disputes, medical liability and negligence cases, banking and finance issues, insurance claims and compensation demands in a sweeping effort to modernize the Emirate's judicial system
- Moody's Investors Service has downgraded the long-term foreign currency and local currency issuer ratings of Shuaa Capital by two notches to Ba1 from Baa2 and its short-term ratings to 'not-prime'. The rating outlook is negative due to deteriorating fundamentals, especially

recurring profitability and weakening liquidity.

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# Weekly Economic Commentary – April 12, 2009

## Global Developments

- With Obama back from the European trip the focus shifts to the domestic front where data remain weak: initial jobless claims fell by 20k for the first week of April, but this only brought it back into the 650k range they had been in for several weeks ago.
- Euroland retail sales declined again in March by [2.4%] on an annual basis. Additionally, revised fourth quarter 2008 GDP numbers point to a dismal -1.5% quarter-on-quarter growth (the biggest contraction since 1995), with all components, except stockbuilding down, exports plummeting 7.3%qoq and capital expenditure (-4.0% qoq). The large build-up of inventories suggests lower production in first quarter of 2009.
- German Manufacturing Orders remain in recession territory in spite of the Purchasing Managers Index (PMI) signaling a stabilization in orders. Manufacturing orders in Feb were down 3.7% month-on-month (-6.7% in Jan).
- Japan on Friday announced a third stimulus package on Friday, of $150 billion – bringing the total amount of “new spending” to around 5% of GDP, also increasing Japan’s public debt (OECD forecast: 197% of GDP).
- Japan machinery orders (private sector excluding shipping and electric power) posted their first increase

in five months in February, rising 1.4% month-on-month (Jan: -3.2%). However, external orders (indicator for capital goods exports) were still showing a decline.

- China’s March trade data reported a stabilization and modest rise in exports – exports were $90.3 billion, down 17% year-on-year (the Jan-Feb09 average had been -21.6%). The trade surplus for Q1 as a whole ($62.3 billion) was up 53% from a year earlier.
- Taiwan’s March exports came in at -35.7% year-on-year (compared to -37.2% averaged in Jan-Feb09). A breakdown by country showed that the improvement in exports was mainly contributed by demand from China (-37.6% in Mar09, vs. -44.4% in Jan-Feb09) – in one of the initial signs of a possible turnaround.

## Regional Developments

- Merger and Acquisition activity in the GCC shrank by 55% to USD6.5bn in 2008 according to the Global Investment House. The largest operations were in telecommunication. Most of the decline took place in Q4.
- The GCC Heads of state are due to decide the location of the Gulf Central Bank in May according to the Head of Oman Central Bank.
- KSA has spent an estimated $400bn of SAMA foreign currency reserves to sustain its economy and its banking system in Q1 2009 according to economists analyzing the SAMA balance sheet. The effects are already visible in the banks’ profits for the first two months of 2009 which totaled SR 6bn form a SR 95ml in December.
- The proposals for building Saudi Arabia’s North-South Railway have been reaffirmed with the Saudi Binladin Group earning the SAR 1.7billion contract along with the French defence group Thales to build signaling, ticketing, communications and security systems for the planned 2300km railroad.
- Kuwait’s Central Bank issued a fifth tranche this year

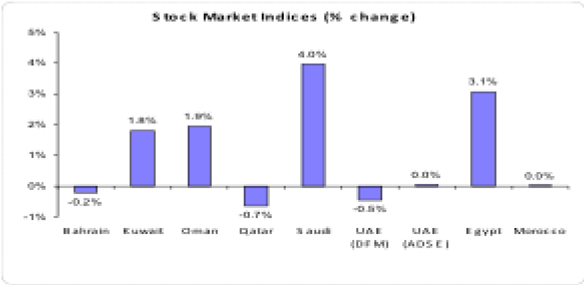
of $275ml of one year treasury bonds. It was oversubscribed by almost eight times according to the central bank.

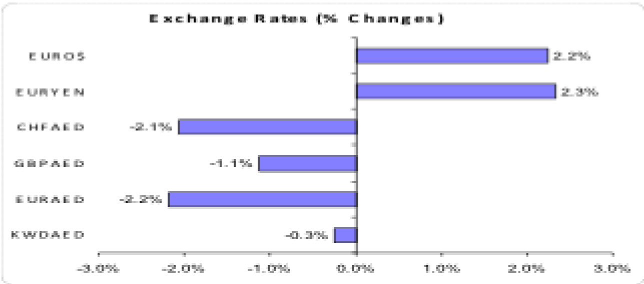
## Market Intelligence on the UAE:

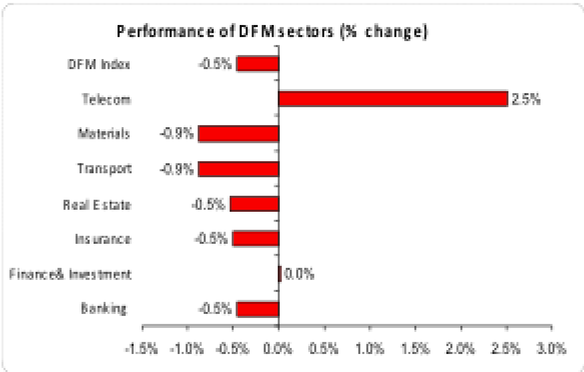
- Dubai Fly, the low cost airline is due to start operations on June 1st with two Boeing serving Beirut and Amman.
- Abu Dhabi government aims to issue an additional $7bn in bonds over the next two years according to Hamad Al Suwaidi, undersecretary at the Department of Finance.
- Abu Dhabi will be investing nearly $10bn into expanding its gas output capacity inspite of other similar projects being shelved in the GCC. This investment is expected to triple the output of Gasco (Abu Dhabi Gas Industries Company) within five years.
- Dubai jobless rate for 2008 came in lower than the UAE average at 2.4% (2007: 3.45%). However, this indicator is trivial given that (a) expatriates who are unemployed have to leave the country within 30 days and (b) those employees that are fired are no longer counted in the workforce.
- Dubai Cotton Exchange is planning to start operations on the third week of April.
- Reclamation work was completed at man-made Al Rajan Island in Ras al Khaimah according to the developer.

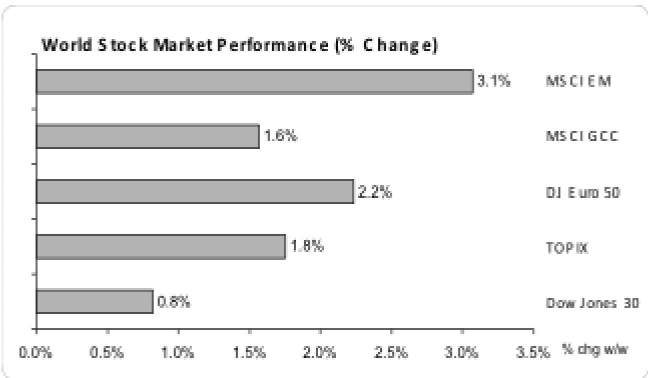
## Market Snapshot as of 12/04/2009 at 14:30 (all % figures are weekly changes from 05/04/2009)

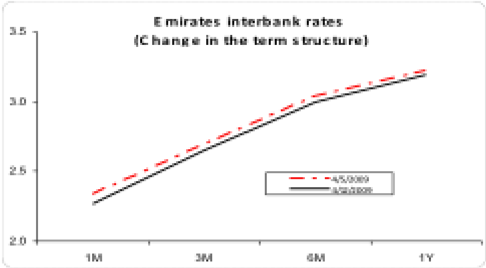
Optimism is evident in most global stock markets – with most global markets moving to (or towards) multi-month highs. Asian stocks climbed for a fifth week, the longest streak of gains since February 2007 after Japan’s third and biggest stimulus package announcement. Oil and gold prices have both declined over the past with, with gold losing its stand as an alternative ‘safe’ investment.

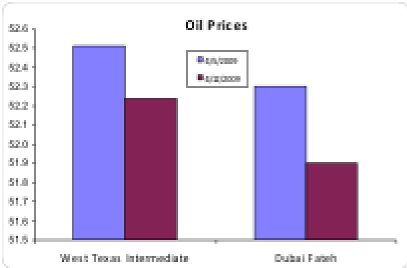


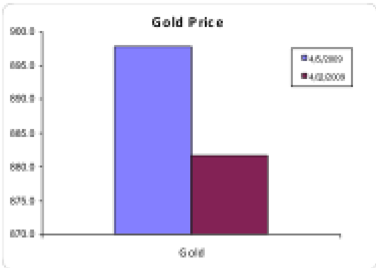






*Source: Bloomberg, DIFC Economics.*

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# Weekly Economic Commentary – April 05, 2009

## Global Developments

- The G20 meeting in London was a rare moment of international cohesion on the measures to tackle the crisis among which 1) trebling of IMF resources to $750 bn, additional funds for $250 bn to support trade finance and $ 100 bn for development banks; 2) establishing a new Financial Stability Board (FSB) with enhanced powers to provide early warnings of financial and macroeconomic instability and reshape financial markets regulations; 3) clamping down on tax havens.

- The $1.1 tr stimulus is indeed much needed: OECD has downgraded global growth forecast (-4.3% in 2009).
- The U.S., Euro area and U.K. PMIs rose somewhat (although remain very weak and still signal contraction in output). On the contrary Chinese PMI (private sector, from CLSA) fell, to 44.8 (from 45.1 last month). The Bank of Japan's Tankan survey was very weak, with the large manufacturers' diffusion index falling a massive 22 points, to -58. The best performer was India whose PMI at 49.5 is close to enter recovery territory.
- US Payroll data showed that 663,00 jobs were lost in March, with another 86,000 in downward revisions sharpening the declines already reported.
- President's Obama took a tough stance towards the auto industry. His plan gives GM another 60 days, and Chrysler 30 days, to extract more concessions from creditors and workers, or face the prospect of a bankruptcy judge forcing these concessions. The ousting of top managers and the merging between Chrysler and Fiat is a reminder that no solution is ruled out from now on.
- The ECB is still hawkish: it cut its reference rate by 0.25% to 1.25% against expectations of 0.5%.
- German March labour report showed another 69k rise in unemployment, with the rate up to 8.1%.
- Japan unemployment rate increased to . The government has swiftly announced an additional stimulus plan after the first tax cuts and new spending for 2% of GDP.
- Korean industrial production rebounded sharply in February up 6.8%m/m. Also Korean trade continues to show some signs of stabilization: exports rose in March (nsa basis), to their highest level since November.

## Regional Developments

- Qatar is projecting a slight budget deficit for the next fiscal year starting on April 1according to the Qatar Advisory Council.
- KIA will provide consistent funds to recapitalize the bank and other companies in Kuwait according to the Central Bank Governor.
- Global Sukuk issuance fell 37% to USD1.8bn in Q1 2009 compared to the same period in 2008 (Zawya)
- Two projects which would have boosted Saudi Arabia's daily oil production capacity beyond 12.5 ml barrels face delays, suggesting KSA is not rushing to add capacity as demand slumps

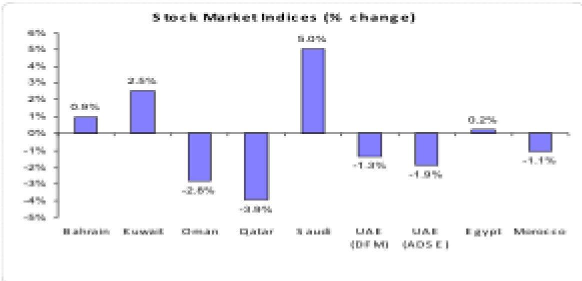
## Market Intelligence on the UAE:

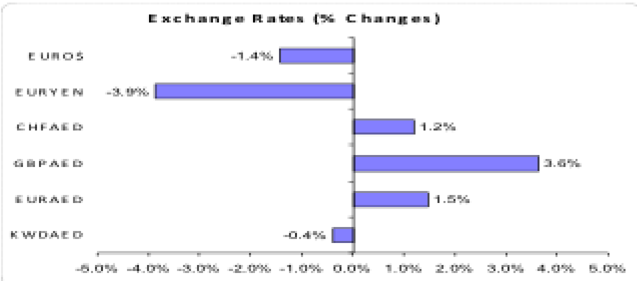
- Abu Dhabi's USD 3bn bond issue – in one five-year tranche of $1.5bn, and a second tranche of $1.5bn with a tenure of 10 years – was oversubscribed more than two times as investors offered to buy about $7bn of the bonds. This appetite shows the positive investor sentiment in the region and could prove to be the final push for the development of a regional fixed income market to create liquidity.
- Two Abu Dhabi-based banks First Gulf Bank and Abu Dhabi Islamic Bank have secured a total Dh6.7 billion in fresh capital from the emirate's government.
- Al Ghurair Group has signed a $347.2 million Islamic facility – structured in Ijara and Musharaka involving a sale and lease-back of the asset owned by the client – with a group of financial institutions, the largest to a private entity this year.
- Moody's dropped by one notch its rating for Emaar to Baa1 from A3, just two points shy of "junk" status. It cut the rating for Dubai Holding Commercial Operations Group to A2 from A1. Moody's said its negative outlook

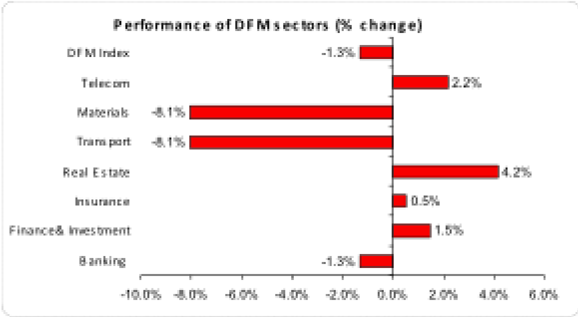
highlights Dubai’s vulnerability in the current global economy, given its reliance on volatile industries such as real estate, trade, financial services and tourism. It also cited Dubai’s swelling debt and refinancing constraints.

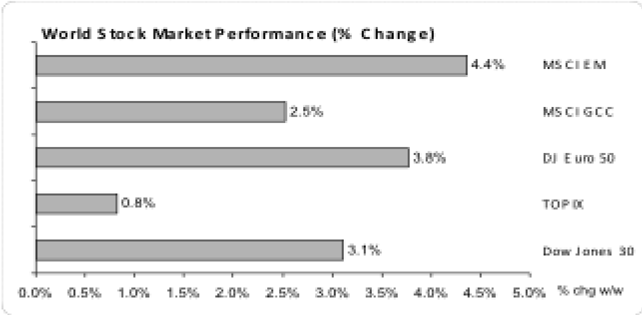
- The GCC Central Bank governors are set to meet in Muscat (April 6-7) as part of their twice-yearly meeting. The agenda includes the location of the Gulf Central bank and an alternative timetable for the single currency.
- Dubai’s DLD has announced a new amendment to Law 13 on Real Estate which is intended to clarify the rules on the termination of off-plan contract. A circular on Art. 11 of the Law issued in August had sparked controversy and contributed to the downfall in the real estate sector by sapping investors’ confidence.

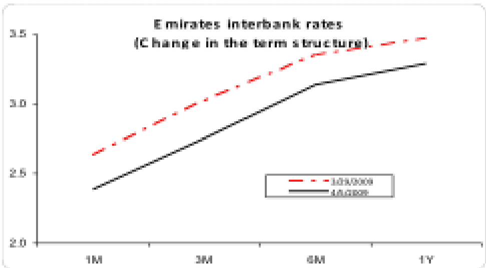
## Market Snapshot as of 05/04/2009 at 14:30 (all % figures are weekly changes from 29/03/2009)

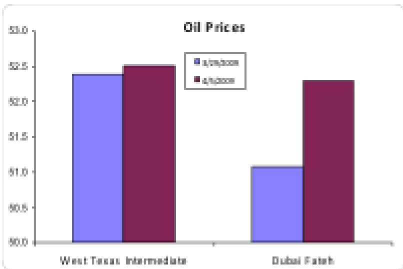


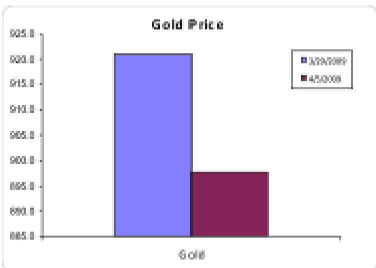






*Source: Bloomberg, DIFC Economics.*

# Weekly Economic Commentary – March 29, 2009

## Global Developments

- The US government has unveiled another bank bailout plan. Market participants have lost count of how many plans have been already presented, but essentially they all look similar to the one presented in November 2008 under the Bush Administration. Instead of fresh thinking the Geithner-Bernanke team persists in an approach that markets and logics find difficult to appreciate. As Nobel laureate Krugman has pointed out: investors, like hedge funds and private equity funds, have refused to pay more than about 30 cents on the dollar for many bundles of mortgages, even if most of the borrowers are still current. But banks holding those mortgages, not wanting to book huge losses on their holdings, have often refused to sell for less than 60 cents on the dollar. The Treasury hopes to bridge this gap with public money.
- Meanwhile the US economy, as quickly pointed out by President Obama, is showing sketchy signs of improvement: durable goods orders rose by 3.6% boosted by defense orders, new home sales in February bounced back from a January record low, increasing 4.7% annual rate and existing home sales jumped 5.1%.
- US fourth quarter GDP (for 2008) was revised downward slightly, to -6.3% from -6.2%. The composition of GDP showed a steeper decline in nonresidential construction, from -5.9% to -9.4% while trade contributed a bit more from a pullback in imports than any increase in exports.

- US Personal Consumption Expenditure (PCE) core price index indicates a small gain in real spending in the first quarter – revised numbers for real consumption in January showed a jump by 0.7%, with February registering a 0.2% decline. The core PCE price index for February increased by 0.24% (month on month) and the overall PCE index by 0.35%.
- Belgian manufacturing index, a leading indicator for the whole euro area, rose to -33 from a very depressed -36 a month ago. Despite the improvement the current level is consistent with a 2.0% drop in Euroland’s GDP.
- Japan exports plunged by half in February on the year the worst dive ever, with cars export dropping 70%.
- Oil inventories rose 2.8m barrels higher in the week ended March 20, with crude stocks up by 3.3m barrels.

## Regional Developments

- Bahrain is finalising a $500 million Islamic bond and will see economic growth halve to around 3% this year, according to the central bank governor.
- Kuwait’s government has approved the USD 5.2bn stimulus package despite the dissolution of Parliament last week. The Central Bank estimates that GDP could contract by 1% this year.
- Qatar government has purchased up to QAR 6.5bn in Qatari companies’ stocks owned by local banks in an attempt to prop up the market and recapitalize the banks.
- Nasser al Kaud, deputy assistant general for economic affairs at the GCC Secretariat has declared to Financial Times that the Gulf Monetary Union cannot be completed by Jan 1 2010, contradicting a commitment made by Heads of States in their last summit in Muscat three months ago. GCC Secretary General Al Attiyah however later reiterated that the 2010 deadline is still valid.
- The common central bank planned for the GCC will target price stability but not a specific inflation rate, as

per a statement made by the head of the monetary union unit at the GCC General-Secretariat.

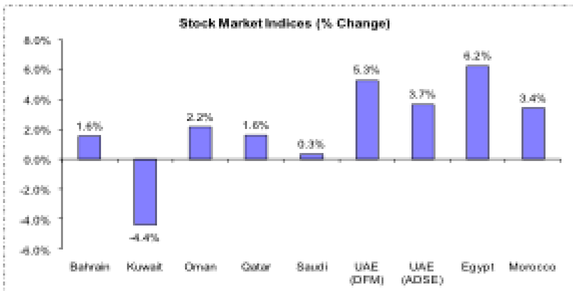
## Market Intelligence on the UAE:

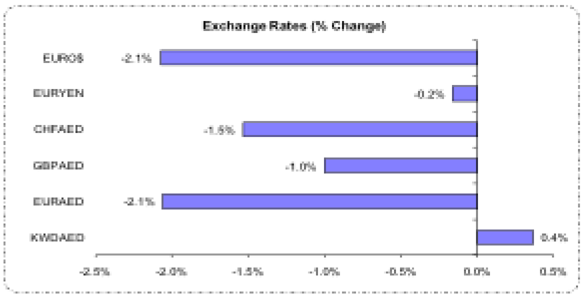
- The UAE economy has reported a growth rate of 7.4% in 2008. Data released by the Central Statistics Department announced 2008 GDP at fixed prices came to AED 535.60bn. Additionally, trade surplus of the UAE grew by 23.8% (year-on-year) to AED 184.1 billion in 2008.
- Dubai projects economic growth of 2% for 2009, as cited in an Executive Council meeting attended by the Dubai ruler (Source: Reuters).
- Abu Dhabi-based First Gulf Bank has paid off a three-year syndicated term loan facility worth USD 750mn which matured on March 16, according to a public statement from the bank.
- The Dubai Electricity and Water Authority (DEWA) is completing the refinancing of its USD 2.2bn islamic loan maturing next month. DEWA has announced its plan to invest AED 13bn in new projects this year, in line with their spending plan of AED 75bn to facilitate UAE’s future economic growth.
- Standard & Poor’s Ratings Services and Fitch have assigned a ‘AA’ long-term senior unsecured debt rating to the Abu Dhabi’s upcoming USD 10bn global medium-term note program.
- Abu Dhabi’s Aabar has acquired a 9% stake in Daimler reviving the activism of sovereign wealth entities in high profile international deals.
- UAE national banks boosted their combined net earnings by 6.2% in 2008, to around AED 19.92bn.

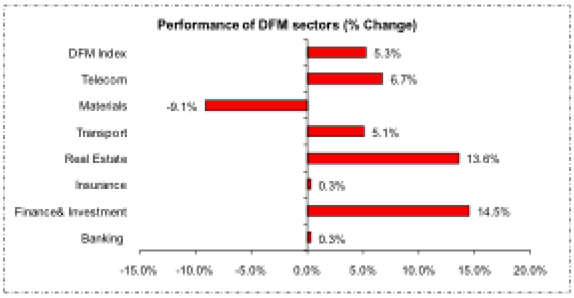
## Market Snapshot as of 29/03/2009 at 14:30

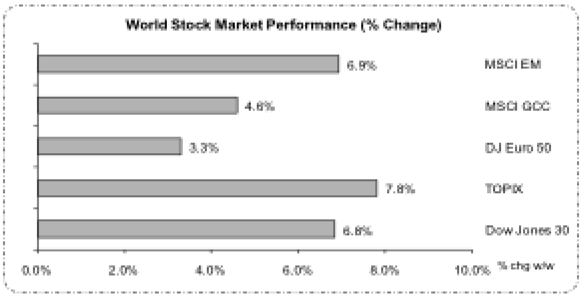
## (all % figures are weekly changes from 22/03/2009)

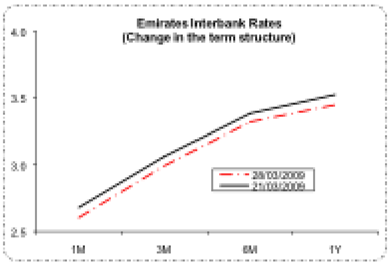
Stock markets worldwide were positively influenced by the new US plan for the banking sector. Optimism in the global financial markets was reflected in the positive sentiment in the Gulf markets last week, with the Qatar bourse performing the best of the lot – also due to the promised government support. The dollar fluctuated given Geithner’s remarks on the dollar after China commented about a new reserve currency to replace the greenback – the USD gained against the Yen, but remained a shade weaker against emerging market Asia. Oil prices have registered gains on news of better than expected economic data from the US and the Chinese economy. Gold prices are still strong when compared to the prices last year, but looks likely to lose its stand as an alternative investment with dollar strength.

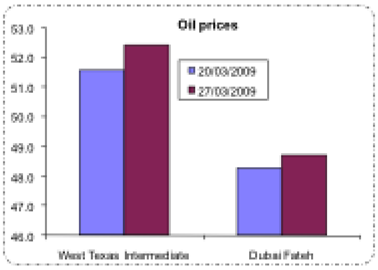


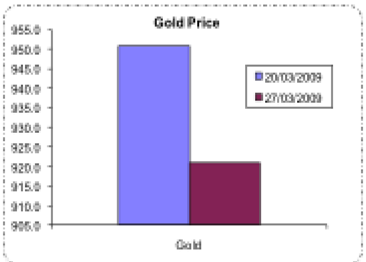






*Source: Reuters 3000Xtra, DIFC Economics.*

# Weekly Economic Commentary – March 22, 2009

## Global Developments

- The US Fed took additional quantitative easing measure (promising to buy $300 billion of US Treasuries, $750bn of mortgage backed securities and $100bn agencies' debt). For the first time in living memory the US Fed has started to operate on the long end of the yield curve having exhausted all the margins on the short end. The final statement in fact depicts a worsening scenario since the last meeting, asserting that rates will remain near zero for an extended period. The good news is that the Federal Reserve is firing all its weapons at the recession. The bad news is that the recession is severe enough that all weapons are needed. The 10-year Treasury yield fell from just over 2.9% before the announcement to under 2.6% afterwards. Mortgage rates should follow Treasury yields down and spark another refinancing wave. All in all the measures will solve the crisis quickly but represent a useful, albeit not decisive, step in the direction of revitalizing the economy.
- US Industrial production fell more than expected by 1.4% on the month and 11.2% on the year confirming that the sector is still mired in an extremely sharp slump. Capacity utilization is 70.9% marginally lower from a month earlier and approaching the all time low of 1982. A rebound remains a distant prospect.
- The US Conference Board's leading indicator fell 0.4% in February, after a 0.1% increase in January.
- Euroland employment fell by 0.3% in Q4 not a bad figure if compared with the abysmal data from the US but nevertheless a negative sign that the deterioration

might just be lagging.
- ZEW indicator fell sharply to 38 hinting at a deepening recession in Europe. The IMF also raised the alarm over a worsening outlook in Europe.
- The Bank of Japan (Central Bank) voted unanimously (on Wednesday) to hold its overnight rate target unchanged at “around 0.10%”, but lifted its purchases of government bonds to JPY 1.8trn a month.
- Singapore export, a widely observed indicator of global activity fell by almost 24% on the year.
- The IMF is reportedly ready to approve a 20US$ bn bail out plan for Romania one of the large East European countries at risk of defaulting on its debt.

## Regional Overview

- The Emir of Kuwait dissolved the Parliament and called for new elections to be held within two months appointing the Crown Prince as the new Prime Minister. Analysts observe that the polls are likely to return a new Parliament with the same composition as the one dissolved. Another consequence is the likely delay on the ratification of the agreement to form a monetary union in 2010. Moody has warned of possible downgrade as a consequence of political turmoil.
- A survey by the Saudi British Bank (Saab) for the first quarter of 2009 showed the level of business confidence in Saudi Arabia had dipped below 90 for the first time. Additionally, Saab said the business confidence could have plunged further had the country not adopted record spending for 2009 to mitigate the effects of the global crisis.
- Car sales in Saudi Arabia have dropped by around 80% in January, sources close to the car industry said.

# Market Intelligence on the UAE:

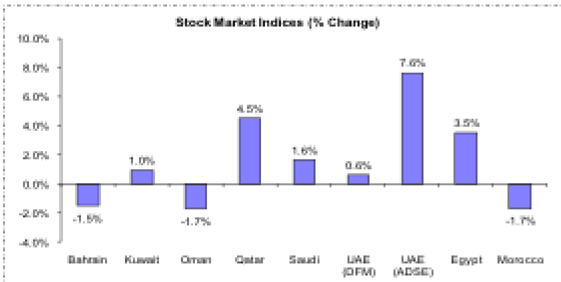
- President His Highness Shaikh Khalifa Bin Zayed Al Nahyan in an interview with Al Roya asserted that the UAE is working well, and that its decision-making process is dealing successfully with the global financial crisis. He dispelled rumors of disagreements saying “we are members in one entity, and parts in one strong, coherent body”.
- The UAE economy will contract further in the coming months, due to the impact of the global financial turmoil, according to Sultan Bin Saeed Al Mansouri, UAE Minister of Economy, as reported by Zawya.
- Standard & Poor’s downgraded the credit ratings of eight Dubai companies on Tuesday, including Emaar Properties, and expressed worries about the health of banks as the economy could shrink between 2 and 4% in real terms this year, as lower oil prices and the global financial crisis take their toll on real estate prices and equities.
- According to the Governor of the UAE Central Bank, a plan to cut interest rates will soon be introduced by the UAE Central Bank along with a number of other measures to ease the economic slowdown caused by the liquidity shortage.
- UAE banks launched the one-week Emirates Interbank Offered Rate on Monday, to meet demand for short-term liquidity. The rate was set at 1.51875%.
- Around $335 billion of UAE construction projects have been put on hold given the global financial crisis, according to the Middle East Economic Digest. The total value of projects under way in the UAE has fallen to $254 billion, according to the same source.
- A possible merger of the UAE’s largest Islamic mortgage providers, Amlak Finance and Tamweel, is in the final stages, while the liquidation option has been taken off the table, Sultan Bin Saeed Al Mansouri, Minister of

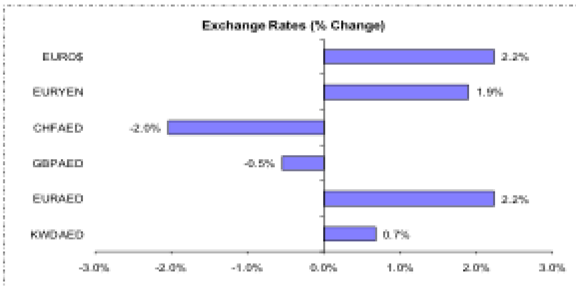
Economy, told reporters.

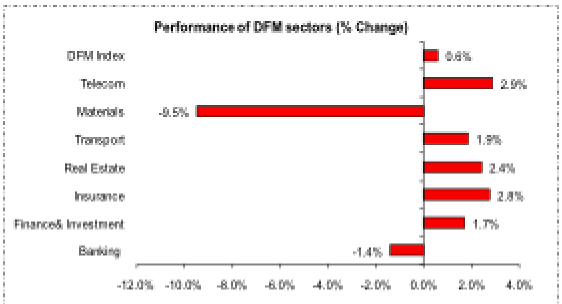
- Bank debts do not form majority of bounced cheques in the UAE, according to the Central Bank Governor. Only 15% are related to bank debts, while 85% relate to landlords and the business sector.
- Moody’s has put HSBC Middle East under review for a possible downgrade, based on a weakening UAE economy and worries over the bank’s parent company.

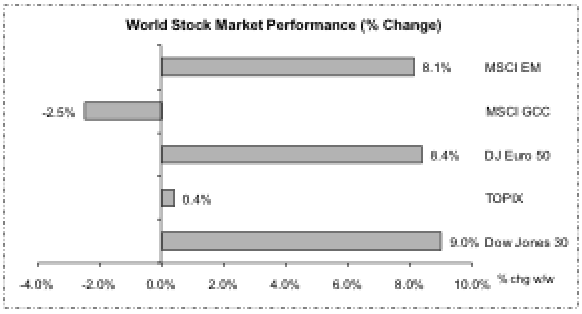
## Market Snapshot as of 22/03/2009 at 14:00 (all % figures are weekly changes from 08/02/2009)

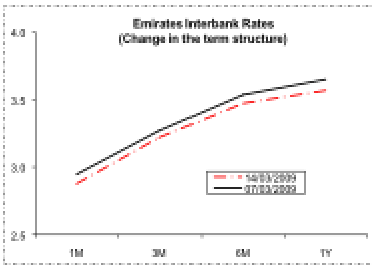
Friday proved……. Though improving from last week, oil price rose toward $46 a barrel as bearish forecasts for demand outweighed the potential for production cuts agreement when the OPEC meets today.

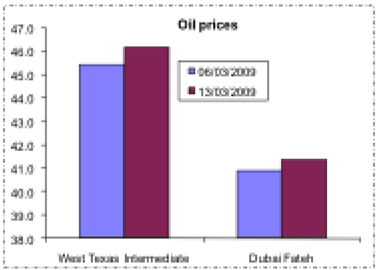


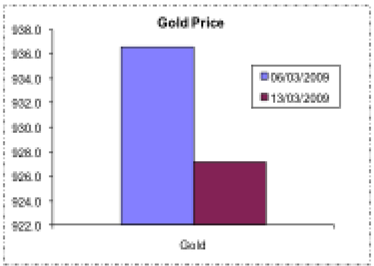






*Source: Reuters 3000Xtra, DIFC Economics.*

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# Weekly Economic Commentary – March 15, 2009

## Global Developments

- A relatively strong retail sales report for February from the US last week – total sales were down by 0.1%, but ex autos sales increased by 0.7%. However initial jobless claims rebounded and continuing claims pushed higher. Univ. of Michigan consumer sentiment (provisional) ticked upwards in March to 56.6 (Prev: 56.3).
- Euro area retail sales volumes in January were flat relative to December and were down just 1.4%, relative to the fourth quarter.
- In Germany the volume of total manufacturing orders plunged 8% month-on-month in January 2009, with capital goods orders down 9.1%.
- Japan's current account moved into deficit at Japanese Yen (JPY) -172.8 bn in January, for the first time since January 1996. Net investment income (JPY15.8 trn), which made up 97% of the current account surplus in 2008, declined 31.5% year on year to JPY992.4 bn in January from JPY1.4 trn in Jan08.
- Weak domestic and external demand were reflected in the revised Q4 Japan GDP (-12.1% quarter on quarter annualized), similar to the preliminary release (-12.7%).
- Japanese core machinery orders also fell 3.2% month on month but these numbers are in contrast to Chinese fixed asset investment data, jointly released for Jan-Feb 2009, posted a 26.5% year on year gain, broadly in line with the fourth quarter 2008 average.
- China's inflation came in at -1.6% year-on-year in February (Jan: +1.0%). This sudden drop is due to base effects largely due to a shift in Chinese New Year (CNY) (last year in Jan, this year early Feb). Another indicator affected by CNY was export growth – which fell significantly by 25.7% year on year in Feb09 (Jan: -17.5%), while imports decline rate slowed (Feb: -24.1%;

Jan09: -43.1%).

## Regional Overview

- Kuwait overnight money market rates have fallen to around 0.25% and the interbank markets are flush with liquidity. This prompted Kuwait's central bank to issue 107 million dinars of one-year Treasury bonds (carrying a coupon of 2.25%) and six-month treasury bills with a yield of 2.125% on Wednesday to drain liquidity.
- The Kuwaiti government will guarantee 50% of a maximum of 4 billion Kuwaiti dinars ($13.56 billion) bank loans to local companies in a wide range of sectors such as farming, industry, trade, construction, oil, petrochemicals, and services.
- The Central Bank of Oman reported a surge in 2008 budget surplus to Omani Rial (OMR) 1.58 billion, from strong oil prices and higher crude output. A breakdown showed a deficit of around OMR399 million in Dec from a 42% month-on-month increase in spending in Dec and revenues contracted by 73% in the same period.
- Qatar's economy grew 7.8% at current prices in the fourth quarter to 83.2 billion riyals, down from a more than 60% surge in the third quarter. The economy expanded 44% to 372.38 billion riyals at current prices for the full year 2008. Qatar's government announced on Monday that it would buy the investment portfolios of seven banks with help from the Qatar Central Bank by the end of the month. This sent the Qatar stock market up 8.9%, bolstering overall confidence.
- Saudi Arabia's annual inflation fell to 6.9% in February from 7.9% in January, according to the Central Department of Statistics.

## Market Intelligence on the UAE:

- Funds from an emergency $10 billion programme to assist

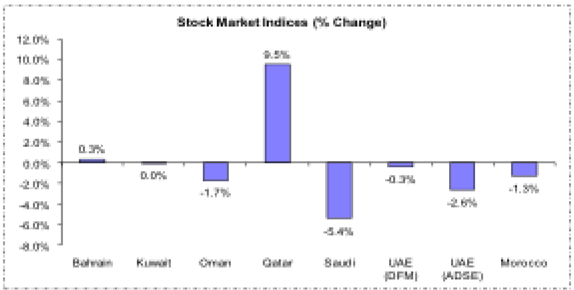
Dubai’s debt-strapped companies will flow to businesses within two weeks in the form of loans or through banks, according to Nasser al-Shaikh, head of Dubai’s finance department.

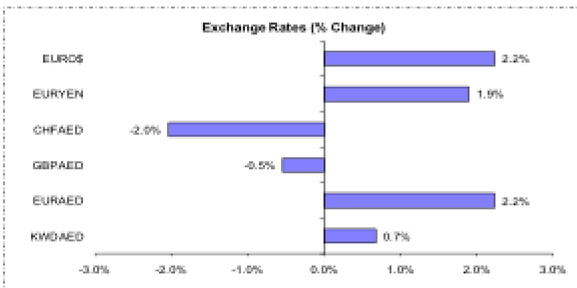
- Loans at United Arab Emirates’ (UAE) banks exceeded customer deposits by 110 billion dirhams ($29.95 billion) and the government was looking for a way to bridge the gap, as per a statement by the UAE central bank’s governor. “The current situation requires a stimulus plan for banks and the economy in view of this ‘gap’ which could be bridged in collaboration with the Ministry of Finance,” said Sultan Nasser al-Suweidi, the Central Bank governor.
- According to the Director-General of the Dubai Naturalisation and Residency Department (DNRD), the DNRD has cancelled the residency visas of about 44,000 people during February and issued more than 66,000 residency visas in the same month.
- Inflation in the United Arab Emirates is expected to fall to between 5 to 8% this year according to the Economy Minister Sultan bin Saeed al-Mansouri. (Source: Reuters)
- The merger of the Real Estate Bank and the Emirates Industrial Bank – to form Emirates Development Bank – is estimated to have Dhs 10 billion in capital and is expected to provide credit to the small and medium size enterprises.
- A draft law on credit information – to regulate bank loans provision- has been approved by the Federal National Council. It calls for the establishment of a company (affiliated to the Central Bank) to collect, file, analyse, classify, use and exchange credit information and reports.
- Transparency scores of four of the 11 sovereign wealth funds (SWFs) from the Gulf region improved, as per the Linaburg-Maduell Transparency Index created by the Sovereign Wealth Fund Institute. Abu Dhabi’s Mubadala

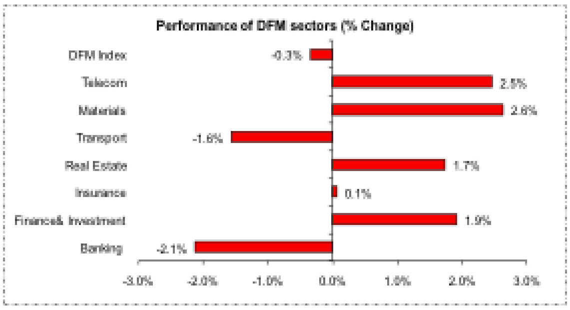
and Bahrain’s Mumtalakat shared the top slots from the region, ranking 13 and 14 among the 45 SWFs tracked.

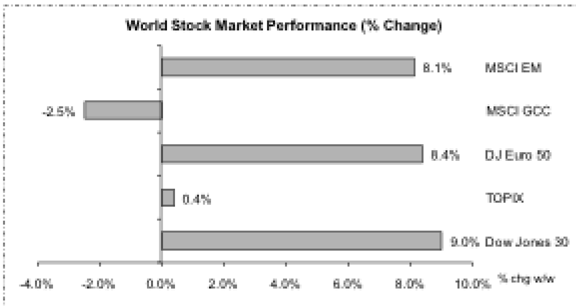
## Market Snapshot as of 15/03/2009 at 14:00 (all % figures are weekly changes from 08/02/2009)

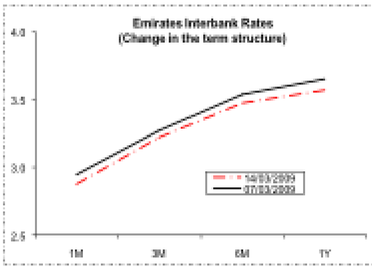
Friday proved good for the markets globally – the rally continues on the back of  announcements made by Citigroup, Bank of America and JP Morgan about earnings in Jan&Feb, improvement in US data – but the recent rebounds in most indices have generally brought them back to where they were a couple of weeks ago (i.e., the end of February). In the regional markets, (update after 2pm). Emirates interbank rate has continued its decline, closing its gap with the policy rate. Though improving from last week, oil price fell toward $46 a barrel as bearish forecasts for demand outweighed the potential for production cuts agreement when the OPEC meets today.

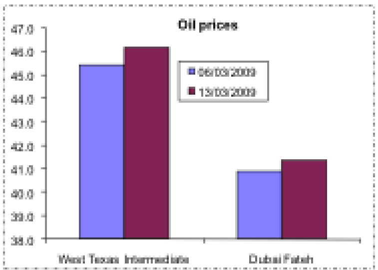


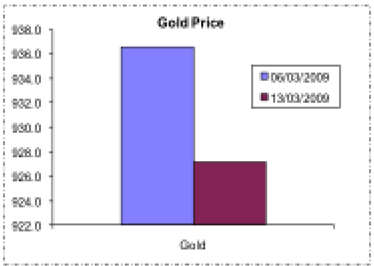






*Source: Reuters 3000Xtra, DIFC Economics.*

# Weekly Economic Commentary – March 09, 2009

## Global Developments

- US Unemployment rate soared to 8.1% in Feb, the highest in 25 years, with 651000 jobs lost last month. Initial claims dipped back down to 639k from 670k last week. Despite the decline, the numbers still point toward a weak labour market. We expect unemployment to exceed 10% in 2009.
- US ISM Manufacturing Survey for Feb ticked up slightly, with improvement in production and modest signs of inventory correction. But there were sharp corrections in construction sector data, showing continuing decline.
- Analysta are forecasting US total loan and securities losses to amount to $3.6T, half of which accrue to the U.S. banking system, or $1.8T. Capitalization of FDIC banks is $1.4T, that of investment banks as of Q3 $110bn. If projected loan and securities losses materialize, the U.S. banking system is close to insolvency despite TARP 1 of $230bn and private capital of $200bn.
- Euroland’s manufacturing PMI is showing signs of stabilising. Germany and Spain, the weakest countries, seem to have stabilised tentatively while deterioration accelerated in France and Italy.
- Harmonised flash estimate for February’s Euroland inflation was marginally higher at 1.2% from Jan’s 1.1%.
- ECB projections for Eurozone growth significantly lowered from [-1.0% 0.0%] to a range of [-3.2% -2.2%] for 2009. Accordingly the ECB cut its policy rate by 50 bps to 1.50% and recommitted to providing unlimited liquidity at the policy rate until beyond the end of

2009.

- Bank of England cut interest rates 50bps to 0.5%, a new historical low.
- China's Premier Wen Jiabao promised on Thursday to deliver 8% economic growth and record government spending this year. However, he failed to outline the new stimulus package many global investors had been expecting.
- Positive data from China included the continuing (3-month) rebound in Purchasing Managers Index (PMI), as export orders saw a large improvement.
- South Korean economic activity continued to weaken in January, driven by a further contraction in exports (-21.8% year on year) and investment weakness. Industrial output contracted by 25.6% from a year ago and weak durable goods demand led to decline in sales of consumption goods by 3.1%.
- South Korean CPI rebounded to 4.1% from a year ago in February (3.7% in January) – increase in headline inflation reflects in part an expiration of the gasoline tax relief and a spike in gold prices.
- Both India and Indonesia cut policy rates by 50bps each – India, for the 5th time since last October.

## Regional Overview

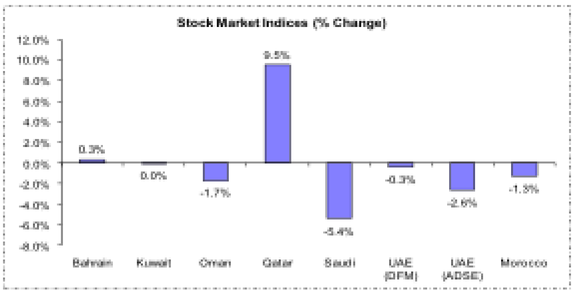
- A recent IMF study put total GCC medium-term investment project investments at $ 2.193 trillion, with evidence of diversification (massive investments in petrochemicals and industry) in the UAE, while Oman and Bahrain were focused on attracting tourism.
- Saudi Arabia's and Bahrain's January money supply growth slowed to the lowest in two years, an early indicator of slowing inflation and slower growth in the region.

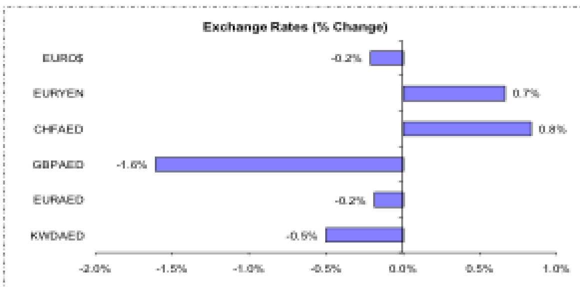
## Market Intelligence on the UAE:

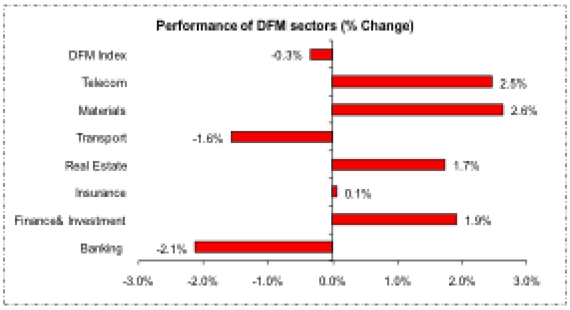
- The UAE Central bank is to set up a joint task force with banks in the country to tackle the credit crisis. The bankers also informed the Central Bank board that the recent measures to inject funds into the banking sector had a positive impact.
- Budgets in the UAE will move to a three-year term and will be based on a “zero-based” format, moving away from the current incremental budgeting.
- According to the Ministry of Economy, UAE topped GCC in foreign investment in 2008, with 60% of the foreign investment flowing into the GCC (valued at $20bn) coming into the UAE.
- Abu Dhabi Department of Finance (DoF) announced total foreign trade in 2008 for the emirate increased 37.5% year on year to Dh102.779 billion.
- Having completed the official (Article IV) annual review of the UAE economy, IMF has estimated that growth surged by around 13.9% in nominal terms and 6.1% in real terms in 2008. The oil sector grew by 24.2% to Dh305.5bn from Dh246bn a year ago, while the non-oil sector swelled by 8.4% to Dh495.5bn. Non publication by the authorities of the IMF’s Article IV will be badly perceived by the international financial markets and be viewed as lack of transparency.
- To boost the bank’s regulatory capital base and hence improve the capital adequacy ratio, Emirates NBD is planning to seek shareholder ratification to convert half of the deposits it received from the Ministry of Finance last year to Tier 2 capital. We estimate that UAE banks need to increase their capital base by some US$22 billion.

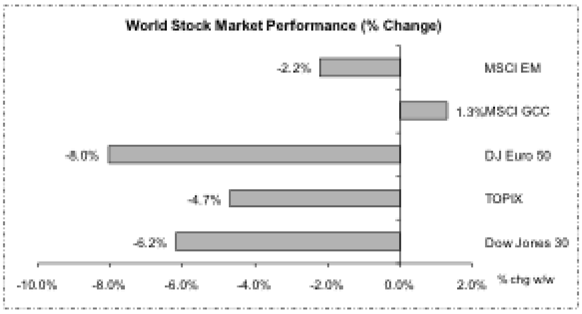
# Market Snapshot as of 09/03/2009 at 14:00 (all % figures are weekly changes from 28/02/2009)

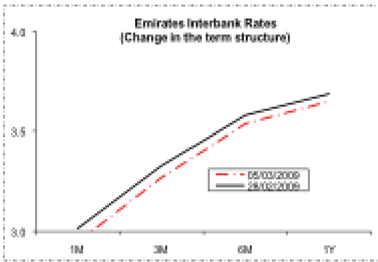
Stock markets in Asia and Europe were reeling Monday amid fresh concerns over the strength of the global banking industry as HSBC announced a 70% fall in profits and the U.S. government said it would pump $30 billion into ailing insurance giant AIG. US Stocks tumbled, driving the S&P 500 to its lowest level since 1996 (down 4.3% to 683) and the DJIA fell by 4.1% to 6,594, after Moody's said it may cut JPMorgan's credit rating and China quelled speculation the government will add to its stimulus plan. The situation has worsened with news about the near-bankruptcy of General Motors. The weak sentiment globally has rubbed off on the regional markets also; only Qatar has seen a positive change from last week. Oil rose above $45, gaining support from a weak dollar and OPEC meeting later this month. Gold prices have started to rise after falling earlier this week, as investors flocked to gold as a safe haven, on volatility in other assets.

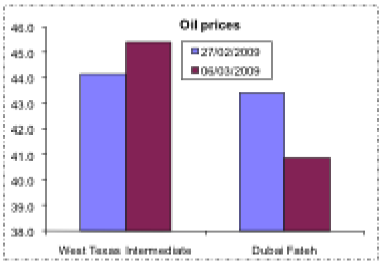


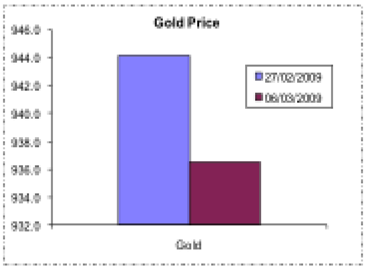






*Source: Reuters 3000Xtra, DIFC Economics.*

# Weekly Economic Commentary – March 01, 2009

## Global Developments

- Fourth quarter US GDP was revised downward to a contraction of 6.2%. The surprise factor was consumption, down to a 4.3% decline from a 3.5% decline (from nondurable goods) while revisions to net exports and inventories confirmed their lower contribution to GDP growth.
- The Obama budget for 2010 ($1.75 trillion deficit or 12.3% of GDP) called for huge shifts in spending – toward programs like health care, education and energy, and paying for some of it through taxes on the rich, and cuts in farm subsidies.
- The stimulus package proposed by the US government was defended by President Obama in his first speech to Congress in which he stressed that new funds would be made available to banks and other troubled sectors like the auto industry.
- More weak data on US durable goods and initial jobless claims – orders sank by 5.2% in Jan, an acceleration from the 4.6% decline in Dec while initial jobless claims increased to 667k from the 630k's earlier. The only good news was the contraction in inventories, which could set up for increased production from inventory restocking down the road.
- The German IFO survey in February slipped to 82.6, having risen in January, but future expectations continue rise, which is not more than a silver lining in Euroland, though noteworthy. The Belgian Manufacturing Index recorded another drop to -36.8 from -30.3 as manufacturing orders in Euroland fell by more than 24%

on the year.

- Signs of some stabilization in the public's mood in Euroland came from French consumer confidence (inched up to 43 from 41) and Italian consumer confidence (gained two points to 104 from a month earlier).
- The economic downturn hit both Japanese exports (which nearly halved for Jan09) and Hong Kong 4Q GDP (which contracted 2.5%). Hong Kong private consumption declined 3.2% while fixed investment suffered the largest decline among the GDP components (contracting 17.3% year-on-year after growing 3.2% in 3Q 2008).
- Bank Negara and Bank of Thailand continued rate cuts – policy easing by 50 basis points each – to support worsening growth expectations amidst receding inflationary risks.
- India rating was downgraded from stable to negative by Standard and Poors on worsening fiscal conditions. Additionally, GDP for Oct-Dec08 showed growth slowing to 5.3% year-on-year versus 7.6% in the previous quarter.

## Regional Overview

- Annual inflation in Saudi Arabia fell to a 12-month low of 7.9% in January after the pace of rise in rents and food prices eased. The Central Bank expects inflation to decline further in the first quarter.
- Bahrain plans to issue almost $800 million in bonds (in tranches over the next six months) to finance housing projects, as mentioned by the minister of housing, in an attempt to boost public spending during economic slowdown.
- Kuwait Parliament is still debating the KD1.5bn bailout package, with the final vote to be cast on Mar 3rd.
- Banks led the Doha index lower in the last two trading days as investors reacted to a Moody's Investors Service report highlighting a negative outlook for the Qatari banking system.

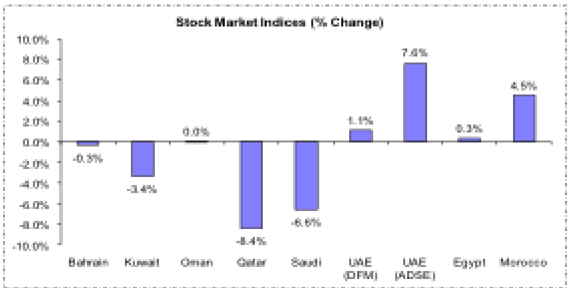
# Market Intelligence on the UAE:

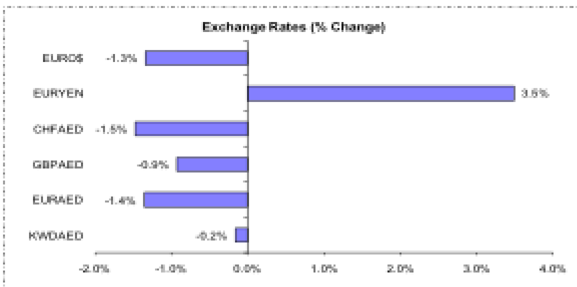
- The Dubai government issued bond for USD 20bn of which half have been subscribed by the UAE Central Bank, in a move widely interpreted as a support by the federal government to the Dubai government. Dubai entities including commercial ventures, real estate and banking and finance can access this bond fund and as a consequence markets and sentiment rallied.
- In a press conference by the Dubai Dept. of Finance, it was revealed that $10 billion in bond proceeds from the central bank would be enough to help state-linked firms settle debts and refinancing needs for this year.
- A strategy report issued by Real Estate Regulatory Agency (RERA) on Wednesday stated that Dubai developers were likely to delay the delivery of about 20% of residential units in 2009 and 40% in 2010.
- Launch of a gold-backed Islamic security is expected this week by the World Gulf Council, given the backdrop of gold as an alternate investment haven and insurance against potential future inflation.
- Nasdaq Dubai reverts back to five-day working week in order to re-focus on the Middle East region as opposed to its overlap with the Asian markets earlier.
- Dubai airport traffic was up 6% in January to 3.3 million passengers in spite of slowing air traffic globally.
- As a relief to consumers affected by the global slowdown, DP World has announced its decision to maintain 2008 tariffs at Jebel Ali ports and also provide 10 days of free storage time for all local importers starting Mar 1st.
- Abu Dhabi National Oil Co (ADNOC), the main oil supplier in the UAE, said it will sell customers less of its flagship Murban crude oil and three other main grades in April than in March.  Seen as a possible signal that

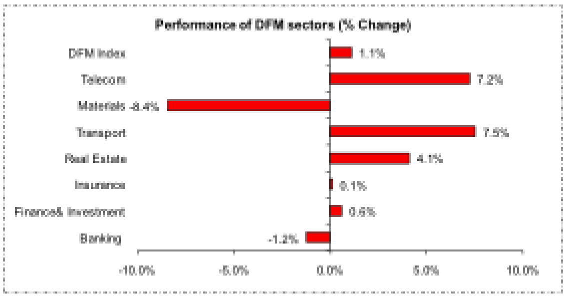
OPEC will cut output further at its next meeting in March, this led to a rally in oil prices.

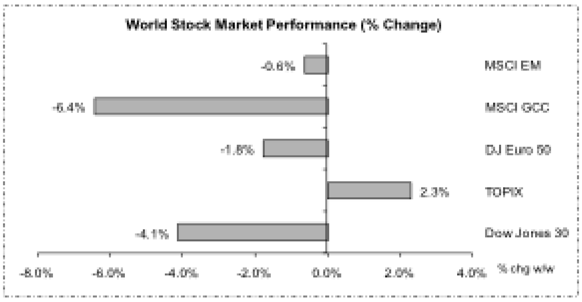
## Market Snapshot as of 1/03/2009 at 14:00 (all % figures are weekly changes from 22/02/2009)

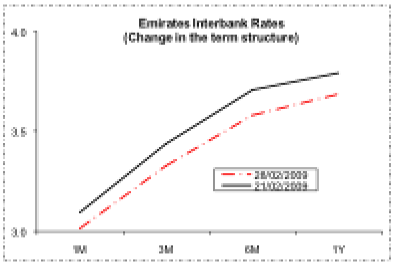
The widespread mood of equity weakness over the past two weeks has been driven mainly by two factors. One, investors appear less than enthralled with the lack of specificity coming from policy makers about the US Financial Stability Plan. Two, the economic data have been uniformly disappointing. The regional markets mirrored the global markets’ decline and widespread selling dragged all markets into the red except in the UAE where Dubai’s $20bn bond issuance led to a positive sentiment and rally. In commodities, oil showed signs of recovery on speculation about rising demand and further OPEC output cuts in March while gold fell from the previous week’s 11-month high as the dollar held onto gains against the yen. The Eibor has eased even further from last week, though still higher than the repurchase rate set by the UAE Central Bank.

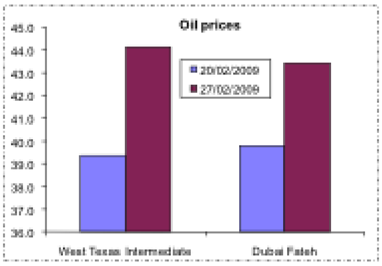


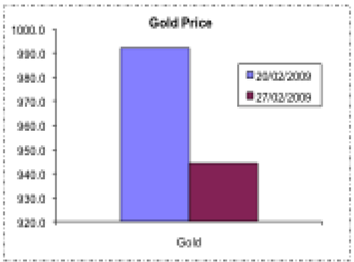






*Source: Reuters 3000Xtra, DIFC Economics.*

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# Weekly Economic Commentary –

# February 22, 2009

## Global Developments

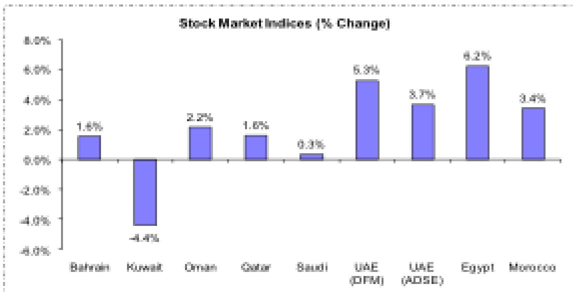
- The stimulus package proposed by the US government is still being mulled over with skepticism by

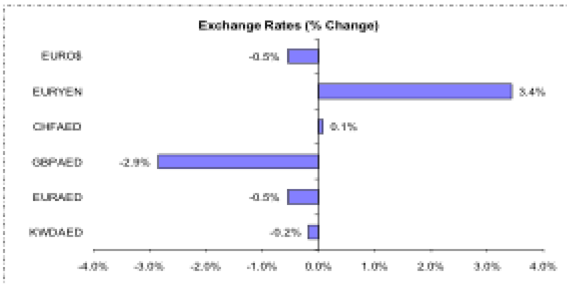
## Market Intelligence on the UAE:

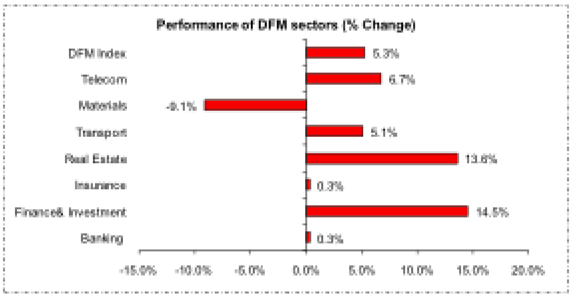
- The Dubai government issued bond for USD 20 bn  of which USD10bn  have been subscribe by the UAE Central Bank, in a move widely interpreted as a support by the federal government to the Dubai government. As a consequence markets and sentiment rallied.

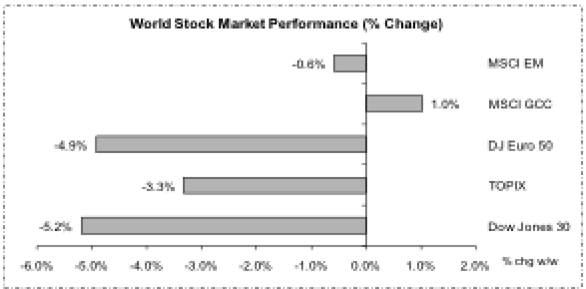
## Market Snapshot as of 22/02/2009 at 14:30 (all % figures are weekly changes from 15/02/2009)

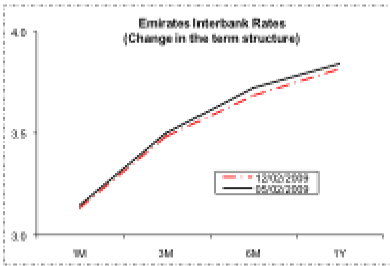
Stock markets in developed countries fell sharply on continued disappointment for the US stimulus package and concerns over Japanese banking sector. Emerging markets fared even worse. GCC markets fared somewhat better, but still with negative signs. DFM displayed a good performance with a broad based recovery led financials. In FX markets the yen was weak, but other currencies remained broadly within range. WTI gained some lost ground, but the Fateh dropped to around $40 p/b. The uncertain economic outlook is favoring gold whose price is close to 1000US$ per ounce. Eibor rates have eased significantly at the front end to near 3.0%, although the longer end remained unchanged.

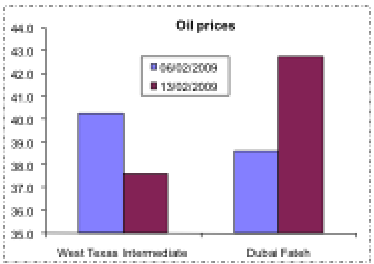

Stock Market Indices (% Change)
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
1.6%
-4.4%
2.2%
1.6%
0.3%
5.3%
3.7%
6.2%
3.4%
Bahrain
Kuwait
Oman
Qatar
Saudi
UAE (DFM)
UAE (ADSE)
Egypt
Morocco

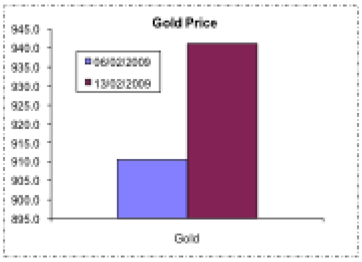

Exchange Rates (% Change)
EURO$
EURYEN
CHFAED
GBPAED
EURAED
KWDAED
-0.5%
3.4%
0.1%
-2.9%
-0.5%
-0.2%
-4.0%
-3.0%
-2.0%
-1.0%
0.0%
1.0%
2.0%
3.0%
4.0%


Performance of DFM sectors (% Change)
DFM Index
Telecom
Materials
Transport
Real Estate
Insurance
Finance& Investment
Banking
5.3%
6.7%
-9.1%
5.1%
13.6%
0.3%
14.5%
0.3%
-15.0%
-10.0%
-5.0%
0.0%
5.0%
10.0%
15.0%
20.0%


World Stock Market Performance (% Change)
-0.6%
MSCI EM
1.0%
MSCI GCC
-4.9%
DJ Euro 50
-3.3%
TOPIX
-5.2%
Dow Jones 30
-6.0%
-5.0%
-4.0%
-3.0%
-2.0%
-1.0%
0.0%
1.0%
2.0%
% chg w/w


Emirates Interbank Rates
(Change in the term structure)
4.0
3.5
3.0
12/02/2009
05/02/2009
1M
3M
6M
1Y


Oil prices
44.0
43.0
42.0
41.0
40.0
39.0
38.0
37.0
36.0
35.0
06/02/2009
13/02/2009
West Texas Intermediate
Dubai Fateh




*Source: Reuters 3000Xtra, DIFC Economics.*

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# Weekly Economic Commentary – February 15, 2009

## Global Developments

- The stimulus package proposed by the US government triggered a resounding negative reaction on the markets: Wall Street displayed the worst weekly decline since November. The plan addresses unconvincingly two of the three main issues: (1) toxic assets and (2) u

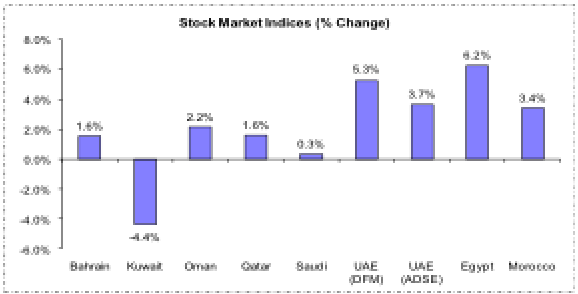
## Market Intelligence on the UAE:

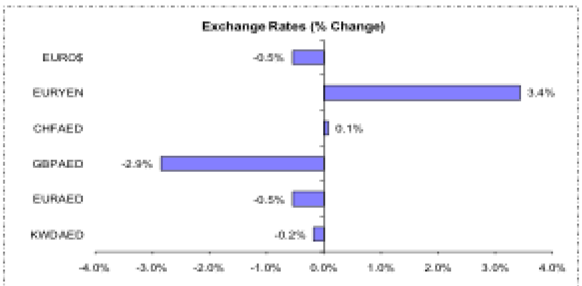
- Dubai's biggest government-linked holding companies unveiled a major restructuring, consolidating operations to cut costs as the global downturn hit at the core of the emirate's financial and property sectors.
- The UAE and Vietnam signed a trade pact aimed at boosting their economic relations.

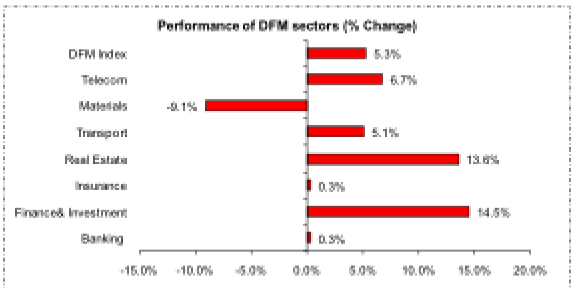
## Market Snapshot as of 15/02/2009 at 8:30

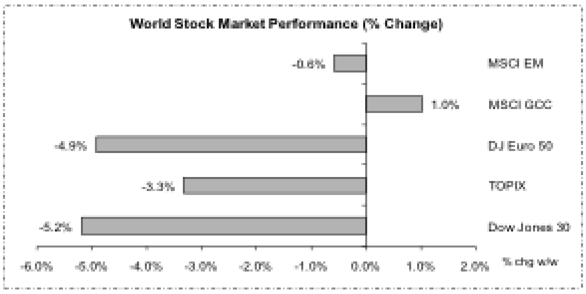
## (all % figures are weekly changes from 05/02/2009)

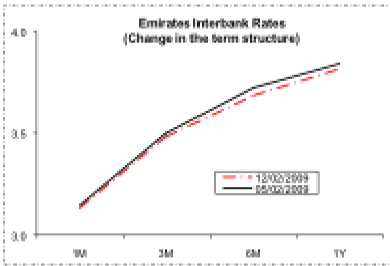
Stock markets in developed countries fell sharply on disappointment for the US stimulus package and further bad news from the banking sector. Emerging markets fared much better on signs that China’s economy is regaining some traction. Most regional markets were in the green territory except Kuwait, despite the government stimulus plan. DFM saw a broad based recovery led by the construction sector. In FX markets the yen and the pound were weak on the wake of negative data. International oil prices dropped sharply due to downward revisions of future demand forecasts by the EIA, nevertheless the Dubai Fateh gained. The uncertain economic outlook propelled the gold price above the key resistance point of 931US$ per ounce, opening the way for a test of 1000US$ per ounce.

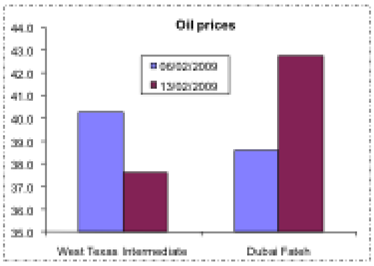


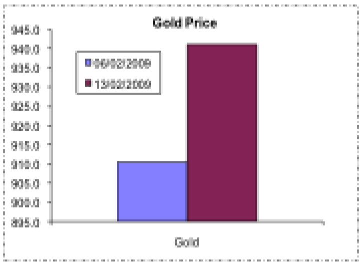






*Source: Reuters 3000Xtra, DIFC Economics.*

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# Weekly Economic Commentary – February 07, 2009

## Global Developments

- The IIF warns that after one of the most disastrous quarter for the world economy in the next few months other areas of strain will emerge extending the contagion from the financial sector to the real economy through weaker employment and capital spending; more credit deterioration, in new areas such as credit cards; and reckless push from economic policies.

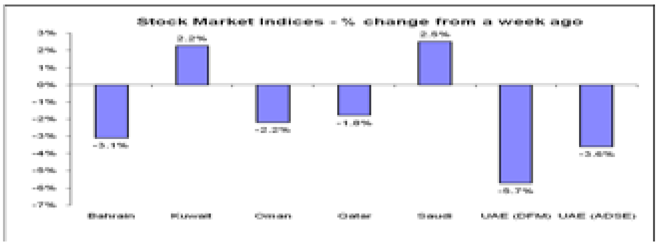
- The industrial data over the last week has been encouraging. The ISM, Ifo, UK and Euroland PMI, Chinese PMIs were all higher (albeit by not much). Services sector surveys in Euroland and the US also have stabilized, although at levels that still signal recession.

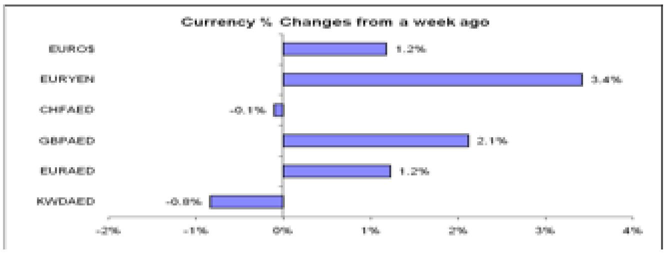
## Market Intelligence on the UAE:

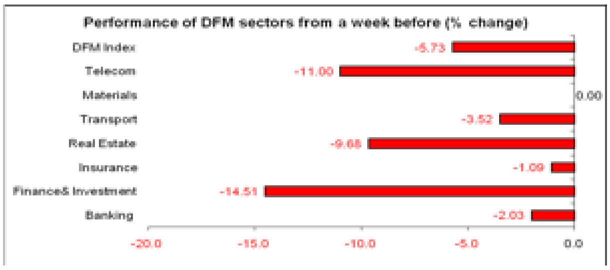
- Nearly 53% of the UAE's development portfolio, worth a combined $582bn, has been suspended according to Dubai-based market research firm Proleads. Projects worth $698bn are still in operation out of a $1.3 trillion-strong industry.

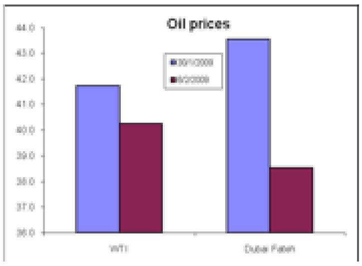
## Market Snapshot (as of 07/02/2009 from 30/01/2009) at 8:30am

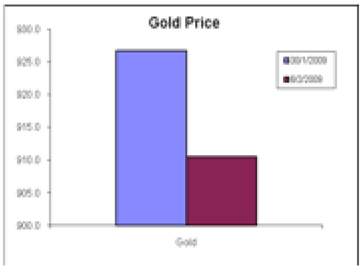
Fears over prospects in banking and property sectors kept markets in the region mostly down, with the exception of Kuwait and Saudi Arabia. Morgan Stanley's report which stated that "UAE property prices have fallen off a cliff" led to a decline in the real estate sector – down 9.7% in DFM over the past week. Interbank rates continued to decline alongside the fall in LIBOR. Oil prices continued their slide, down 3.6% week on week, with oil falling below 40 dollars a barrel ; spot gold prices also fell 1.7%, down to 910.6 (as of 6th Feb 09).

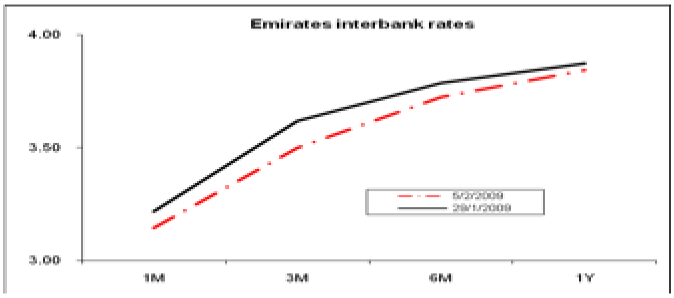

Stock Market Indices - % change from a week ago
3%
2%
1%
0%
-1%
-2%
-3%
-4%
-5%
-6%
-7%
2.2%
2.5%
-3.1%
-2.2%
-1.8%
-5.7%
-3.6%
Bahrain
Kuwait
Oman
Qatar
Saudi
UAE (DFM)
UAE (ADSE)

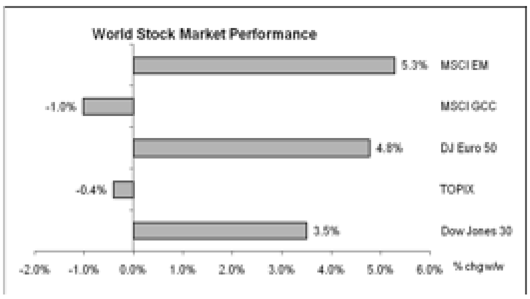

Currency % Changes from a week ago
EURO$
1.2%
EURYEN
3.4%
CHFAED
-0.1%
GBPAED
2.1%
EURAED
1.2%
KWDAED
-0.8%
-2%
-1%
0%
1%
2%
3%
4%


Performance of DFM sectors from a week before (% change)
DFM Index
-5.73
Telecom
-11.00
Materials
0.00
Transport
-3.52
Real Estate
-9.68
Insurance
-1.09
Finance& Investment
-14.51
Banking
-2.03
-20.0
-15.0
-10.0
-5.0
0.0


Oil prices
44.0
43.0
42.0
41.0
40.0
39.0
38.0
37.0
36.0
WTI
Dubai Fateh


Gold Price
Gold


Emirates interbank rates
4.00
3.50
3.00
5/2/2009
29/1/2009
1M
3M
6M
1Y


World Stock Market Performance
5.3%
MSCI EM
-1.0%
MSCI GCC
4.8%
DJ Euro 50
-0.4%
TOPIX
3.5%
Dow Jones 30
-2.0%
-1.0%
0.0%
1.0%
2.0%
3.0%
4.0%
5.0%
6.0%
% chg w/w

*Source: Reuters 3000Xtra, DIFC Economics.*

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# Weekly Economic Commentary – February 01, 2009

## Global Developments

- U.S. GDP contracted at a 3.8% (saar) clip in Q4, with real consumer spending falling 3.5% (saar), much better than expected with real consumption holding up better than expected.
- US consumer confidence dropped to an all-time new low in Jan09 – to 37.7 from 38.6, contrary to market expectations of a slight improvement.
- The US Federal Reserve FOMC in its statement stated that the Fed "is prepared to purchase longer-term Treasury securities if evolving circumstances indicate that such transactions would be particularly effective in improving conditions in private credit markets." This is a step closer than studying the option, but underscores that the ultimate objective is lower private-sector interest rates. Ultimately there was no major change in the monetary policy stance.
- US House of Representatives passed Obama's economic stimulus package.
- Ifo (Germany) business climate index went up slightly, rising to 83 points in January from 82.7 in December. Export-oriented manufacturers still predict a "very unfavorable" environment, as the manufacturing sector confidence fell to minus 40.1 in January from minus 39.9 in December.

- German unemployment, which had been falling for most of 2008, spiked up in January, rising 56k (following 33k in December).
- Euroland's harmonised inflation flash estimate for Jan was lower than expected, at 1.1% y/y from 1.6% in December – the surprisingly low inflation points to core prices falling faster.
- More weak data from Japan and Korea – industrial production for Dec08 – both falling 9.6% m/m.
- The IMF updated regional growth forecasts last Wednesday. The revised estimates reveals world economic growth slowing to 0.5% in 2009 while economic growth in the Middle East is forecast to cool to 3.9% (from 6.1% in 2008).

## Market Intelligence on the UAE:

- According to DED officials, Dubai's Preliminary GDP estimate for 2008 is up by between 13% and 16% in nominal terms and 6-8% in real terms. Wholesale and retail sectors, at 37% of the GDP, were the biggest contributors – followed by real estate and manufacturing each at 10% of GDP.
- The Central Bank, in order to scrutinize asset quality, has asked banks not to publish their audited annual accounts until the CB gives its approval. Additionally, banks have been asked to provide a detailed assessment of every loan above 10 million dirhams.
- An IMF official was quoted saying that growth in the Gulf states would reduce from 7% in 2008 to 5.1% in 2009. The IMF official update for the Middle East will be announced on Feb 3.
- Data released by the Dubai Chamber of Commerce has reported a 42% increase in export and re-export, with the total value rising to AED 240billion in 2008.
- According to the UAE Ministry of Economy annual investments in UAE's industrial sector rose 6% to AED 77

bn in 2008 from AED 72.60 bn in 2007. The number of industrial units in the UAE grew to 4,219 from 3,852 in 2007.

- DP World is putting all its expansion plans on hold and freezing new recruitment after the declining performance of the global shipping sector and uncertain 2009 growth. *(Source: Emirates Business 24/7)*
- Decline in profits reported by two of Abu Dhabi's largest property developers – Sorouh real estate and Aldar properties – underscore the hit on the real estate sector, as an effect of the global credit crisis. *(Source: The National)*
- According to RERA, the number of property developers registered in Dubai has fallen by 40% in two months. This resulted from two main factors – one, as part of a "clean-up" because certain agencies were unlikely to start their projects and two, due to liquidity worries. Also, a new system is in the pipeline that would rank the developers according to financial stability and market experience. *(Source: The National)*
- Central bank has announced that they will collect debit card statistics from banks monthly. Banks should classify the statistics according to purchases inside the country, by both nationals and expatriates, as well as purchases of debit cards outside the country. *(Source: Emirates Business 24/7)*

# Markets Overview Feb 1st 2009

The markets, both developed and emerging, have stabilized and improved given the better-than-expected earnings season. Across the Gulf all markets closed in the green, with the exception of Bahrain which was slightly down, at -0.3%. Crude oil prices remain under pressure with weakening oil demand, while spot gold prices continued to rise (an alternative safe haven for investment). Interbank rates in the UAE are continuing their fall given the lower Libor rates.

| AED Exchange Rates | Value | Weekly Pct Chng (%) |
|---|---|---|
| EUR/AED | 4.69 | -1.55 |
| GBP/AED | 5.32 | 5.03 |
| CHF/AED | 3.16 | -0.45 |
| SAR/AED | 0.98 | -0.10 |
| KWD/AED | 12.59 | 0.45 |

| UAE Interbank Rate | Value | Weekly Change in bps |
|---|---|---|
| 1M | 3.22 | -2.83 |
| 2M | 3.41 | -4.05 |
| 3M | 3.62 | -4.93 |
| 6M | 3.79 | -2.42 |
| 1Y | 3.88 | -2.36 |

| LIBOR | Value | Weekly Change in bps |
|---|---|---|
| O/N | 1.60 | 4.28 |
| 1M | 1.59 | -1.09 |
| 3M | 2.17 | -1.25 |
| 6M | 2.35 | -1.13 |
| 9M | 2.44 | -1.17 |
| 1Y | 2.48 | -1.22 |

| Major Stock Market Indices | Value | Weekly Pct Chng (%) |
|---|---|---|
| DFM General Index | 1520.2 | 3.22 |
| Banking | 1097.2 | 0.16 |
| Fin.& Inv. | 1981.8 | 6.31 |
| Insurance | 3184.6 | -0.70 |
| Real Estate | 2009.3 | 6.80 |
| Transport | 391.0 | 10.55 |
| Materials | 199.3 | -9.53 |
| Telecom | 323.6 | 7.53 |

| Major Movers on DFM | | |
|---|---|---|
| Emirates NBD | 3.30 | -2.37 |
| Emaar | 1.96 | 4.81 |
| Deyaar | 0.53 | 15.22 |
| DU | 2 | 7.53 |
| Air Arabia | 0.94 | 11.90 |

| Commodities | Value | Weekly Pct Chng (%) |
|---|---|---|
| Spot Gold | 926.75 | 3.16 |
| WTI | 41.70 | -7.58 |
| Dubai Fateh | 43.54 | -2.99 |

| Major Stock Market Indices | Dow Jones | TOPIX | DJ Euro STOXX 50 | MSCI GCC | MSCI EM |
|---|---|---|---|---|---|
| Today | 8001 | 794 | 2237 | 315 | 530 |
| A Week Ago | 8078 | 774 | 2148 | 289 | 507 |
| Weekly Pct Chng (%) | -0.95 | 2.65 | 4.15 | 9.16 | 4.38 |

| | Today | A Week Ago | Weekly Pct Chng (%) |
|---|---|---|---|
| Bahrain | 1655 | 1660 | -0.31 |
| Kuwait | 6765 | 6497 | 4.12 |
| Oman | 4814 | 4405 | 9.26 |
| Qatar | 5253 | 4815 | 9.10 |
| Saudi | 4809 | 4787 | 0.46 |
| Abu Dhabi | 2256 | 2137 | 5.58 |
| UAE (DFM) | 1520 | 1473 | 3.22 |

***Updated from Reuters3000Xtra, February 1st, 830am.***

# Weekly Economic Commentary — January 25, 2009

## Global Developments

- The Inauguration of President Obama sparked optimism, but the US stimulus package still needs to be approved and the delay is seriously hitting the hopes of a recovery by year's end.
- Global equities were markedly down as economic data continue to disappoint. Markets are likely to remain nervous, as the gloom from both macro data and corporate earnings persists.
- In bond markets G3 public debt yields are increasing, since huge fiscal deficits are becoming a concern, as governments talk of

**“bold” (i.e., large) fiscal expansion plans.**

- **Korea’s GDP fell 5.6%q/q, saar in Q4 and 3.4%yoy.**
- **Japan export fell again sharply in December -35% yoy, while consumer sentiment deteriorated further to 26.2 from 28.4; all components of the confidence survey worsened but employment was particularly bad, falling from 21.1 to 15.4.**
- **China GDP grew by 6.8% in Q4 2008 a worse than expected results that brings average growth in 2008 down to 9%, from 13% in 2007. The Head of the Statistical Bureau argued that the situation has improved given that industrial production grew 5.7% yoy in December up from 5.4% in November.**
- **Singapore output fell by 3.7%yoy in Q4 with industrial production recording a 13.5%yoy slump in December.**
- **In the U.K. Q4 GDP recorded a decline**

of 1.5%qoq, (-1.8%yoy), much worse than expected; when seasonally adjusted the decline was a staggering 5.9%qoq. Inflation remained high at 3.1% yoy in December, and unemployment rose to 6.1% from 5.7% a month earlier.

- US Weekly jobless claims jumped to 589k in the week to Jan 17. The 4-week average was 519k, the same as in mid-November.
- The European Central Bank warned in its Monthly Bulletin that the crisis could be deeper and more prolonged than previously expected.
- The Euro area flash PMI report for January (for both manufacturing and services) rose in January versus December, still very depressed (manufacturing 34.5 versus 33.9 in December; services 42.5 versus 42.1 in December), but at least one rare sign of stabilization.
- Spain unemployment rose to 13.9% in

Q3 up from 11.3% in Q2.

- Brazil's central bank cut rates aggressively by 100bp, to 12.75%.

## Market Intelligence on the UAE:

- Standard Chartered economists estimate that UAE growth in 2009 will slow down to 0.5%, with inflation at 2.5%. They also pointed out that "the central bank lacks the necessary tools (such as a fully functioning repo window on a business-as-usual basis) to manage liquidity effectively" and this among other things keep the cost of capital for businesses excessively high.
- The Department of Naturalization and Residency Dubai (DNRD) declined to comment on the figure relative to net residence visa issued, stating that every ministerial department had its own figures and talks were ongoing in

order to determine the right number. Reports of average daily visa cancellations in the order of 1500 with peaks of 2000 are stirring worries. Further job cuts are reported in all sectors, with even prominent names like Istithmar and Tatweer downsizing their payroll.

- Meanwhile, Abu Dhabi's continues to receive between 400 and 1,000 new visa applications every day, according to a senior officer at the Residency and Naturalization Department, while the number of cancellations remained stable, averaging between 50 and 200 a day.
- The UAE central bank governor instructed banks not to sell assets in order to stem the markets' fall.
- Dubai's corporate refinancing requirements in 2009 are expected to touch $15 billion (Dh55 billion), according to credit rating agency Moody's.

- There is increasing evidence that businesses are refusing to pay their loans in order to force banks to reschedule payments and reduce interest rates.

# Markets Overview Jan. 25th 2009

A series of bad news and growing concerns on corporate earnings marked another negative week for stock markets, both in developed and emerging markets. Across the Gulf all markets, with the exception of KSA recorded again heavy losses despite the gains in oil prices. The euro fell on bad economic data and lingering concerns about the public debt of some EMU countries. On the positive side interbank rates in the UAE are continuing their descent in the wake of lower Libor rates and the rate cut by the central bank.

| AED Exchange Rates | Value | Weekly Pct Chng (%) |
|---|---|---|
| EUR/AED | 4.77 | -2.38 |
| GBP/AED | 5.07 | -6.39 |
| CHF/AED | 3.18 | -3.39 |
| SAR/AED | 0.98 | 0.03 |
| KWD/AED | 12.54 | -1.22 |

| UAE Interbank Rate | Value | Weekly Change in bps |
|---|---|---|
| 1M | 3.31 | -5.69 |
| 2M | 3.55 | -4.92 |
| 3M | 3.81 | -3.18 |
| 6M | 3.88 | -3.72 |
| 1Y | 3.97 | -2.31 |

| LIBOR | Value | Weekly Change in bps |
|---|---|---|
| O/N | 1.53 | 1.45 |
| 1M | 1.61 | -3.78 |
| 3M | 2.19 | -2.93 |
| 6M | 2.37 | -3.43 |
| 9M | 2.47 | -3.54 |
| 1Y | 2.51 | -3.23 |

| Major Stock Market Indices | Value | Weekly Pct Chng (%) |
|---|---|---|
| DFM General Index | 1472.8 | -10.39 |
| Banking | 1095.5 | -5.56 |
| Fin.& Inv. | 1864.3 | -18.66 |
| Insurance | 3207.0 | -3.28 |
| Real Estate | 1881.3 | -15.53 |
| Transport | 353.7 | -11.06 |
| Materials | 220.3 | -10.98 |
| Telecom | 301.0 | -15.07 |

| Major Movers on DFM | | |
|---|---|---|
| Emirates NBD | 3.38 | -5.85 |
| Emaar | 1.87 | -13.82 |
| Deyaar | 0.46 | -13.21 |
| DU | 1.86 | -15.07 |
| Air Arabia | 0.84 | -10.64 |

| Commodities | Value | Weekly Pct Chng (%) |
|---|---|---|
| Spot Gold | 898.10 | 6.68 |
| WTI | 44.79 | 5.81 |
| Dubai Fateh | 44.88 | 7.01 |

| Major Stock Market Indices | Dow Jones | TOPIX | DJ Euro STOXX 50 | MSCI GCC | MSCI EM |
|---|---|---|---|---|---|
| Today | 8078 | 774 | 2148 | 289 | 507 |
| A Week Ago | 8281 | 818 | 2281 | 322 | 538 |
| Weekly Pct Chng (%) | -2.46 | -5.42 | -5.86 | -10.32 | -5.68 |

| | Today | A Week Ago | Weekly Pct Chng (%) |
|---|---|---|---|
| Bahrain | 1670 | 1764 | -5.37 |
| Kuwait | 6599 | 7192 | -8.25 |
| Oman | 4224 | 5121 | -17.52 |
| Qatar | 4590 | 6057 | -24.22 |
| Saudi | 4787 | 4700 | 1.84 |
| Abu Dhabi | 2137 | 2385 | -10.43 |
| UAE (DFM) | 1462 | 1698 | -13.91 |

***Updated from Reuters 3000Xtra, 8:45am***

# Weekly Economic Commentary – January 18, 2009

## Global Developments

- Global equities were again hit by a series of bad economic news particularly from the US: US consumer and producer inflation fell by 0.7%mom and 1.9%mom respectively; retail sales plunged 2.7%mom; industrial production fell sharply again by 2.0% mom and initial jobless claim recorded another dismal figure: 524,000 in a single week.
- The banking sector, despite massive government support worldwide, is still in the midst of a profound crisis: huge losses were reported by Merril Lynch (US$21.5 bn), Citigroup

(US$ 8.3 bn) and Deutsche Bank (€ 4.8bn). Barcalys shares fell 25% to less than one pound as investor fear that new injections of capital will be necessary; Commerzbank shares lost more than 30% in a week.

- The European Central Bank cut again its main rate to 2%, an all time low, amid concerns, reinforced by the EU Commission forecasts, that the eurozone is in a worse than expected recession.
- German GDP rose only 1.3% in 2008. Industrial Production in the euro area declined 7.7% yoy, the steepest drop since data started to be recorded in 1990.
- S&P downgraded Greece credit rating hinting that the same could happen to Ireland, Portugal and Spain.
- Japan core machine orders dropped by 16.2% an all time negative record while its current account balance shrank by 55.3%yoy in November.

- Chinese exports fell by 2.8% and imports by 21.3% in December, another sign that the recession is hitting also large emerging markets.
- Oil was generally weak with a widening difference between the two major benchmarks: the WTI fluctuated around 35 $/b while the Brent remained between 45 and 50 $/b.

## Market Intelligence on the UAE:

- In Dubai more than 200,000 new visas were issued in November and December 2008 while visa cancellations are far lees according to the Dubai Naturalization and Residency Department.
- Residential property prices in Dubai dropped 8 per cent in the fourth quarter of last year, the first quarterly decline since foreign ownership became legal in 2002,

according to Colliers International. The report also stated that the numbers of sales dropped 45 per cent in the last quarter of 2008.

- Moody's yesterday issued its first negative outlook on UAE banks since it began reviewing them a decade ago.
- Analysts are concerned that loans to small-scale private developers may pose the single largest threat to the health of the banks, which may suffer in a prolonged property market correction
- Nakheel has suspended the project to build the tallest skyscraper in the world.
- Abu Dhabi officials have drafted five laws to establish safeguards for property investors: a strata law, defining the roles of property owners in multiple-occupancy developments; a trust-account law similar to Dubai's escrow requirements; a law establishing a regulator; a mortgage

law to protect financiers; and a law to ensure that developers have acquired titles and permits before selling properties to the public.

# Markets Overview Jan. 18th 2009

A negative week for world stock markets both in developed and emerging markets which ended the stabilization phase started at the beginning of 2009. Economic conditions worldwide remain weak and a turn around is not in sight. Across the Gulf all markets, with the exception of Bahrain recorded heavy losses. The euro fell on concerns about the public debt sustainability of some EMU members and oil prices remained under pressure. Interbank rates in the UAE are continuing their normalization process in the wake of lower Libor rates.

| AED Exchange Rates | Value | Weekly Pct Chng (%) |
|---|---|---|
| EUR/AED | 4.87 | -1.24 |
| GBP/AED | 5.42 | -2.77 |
| CHF/AED | 3.28 | -0.47 |
| SAR/AED | 0.98 | 0.03 |
| KWD/AED | 12.70 | -2.18 |

| UAE Interbank Rate | Value | Weekly Change in bps |
|---|---|---|
| 1M | 3.51 | -2.94 |
| 2M | 3.73 | -1.42 |
| 3M | 3.93 | -0.16 |
| 6M | 4.03 | -0.31 |
| 1Y | 4.06 | 0.00 |

| LIBOR | Value | Weekly Change in bps |
|---|---|---|
| O/N | 1.51 | 0.83 |
| 1M | 1.67 | -5.31 |
| 3M | 2.26 | -5.22 |
| 6M | 2.46 | -4.61 |
| 9M | 2.56 | -4.21 |
| 1Y | 2.59 | -4.35 |

| Major Stock Market Indices | Value | Weekly Pct Chng (%) |
|---|---|---|
| DFM General Index | 1643.7 | -5.30 |
| Banking | 1159.9 | -2.75 |
| Fin.& Inv. | 2291.9 | -8.97 |
| Insurance | 3315.7 | -1.60 |
| Real Estate | 2227.2 | -10.03 |
| Transport | 397.7 | 1.35 |
| Materials | 247.5 | 0.00 |
| Telecom | 354.4 | -9.88 |
| **Major Movers on DFM** | | |
| Emirates NBD | 3.59 | -0.83 |
| Emaar | 2.17 | -9.96 |
| Deyaar | 0.53 | 0.00 |
| DU | 2.19 | -9.88 |
| Air Arabia | 0.94 | 2.17 |

| Commodities | Value | Weekly Pct Chng (%) |
|---|---|---|
| Spot Gold | 841.85 | -1.38 |
| WTI | 35.38 | -13.05 |
| Dubai Fateh | 43.01 | 10.62 |

| Major Stock Market Indices | Dow Jones | TOPIX | DJ Euro STOXX 50 | MSCI GCC | MSCI EM |
|---|---|---|---|---|---|
| Today | 8281 | 818 | 2281 | 322 | 538 |
| A Week Ago | 8599 | 855 | 2487 | 351 | 571 |
| Weekly Pct Chng (%) | -3.70 | -4.34 | -8.25 | -8.24 | -5.85 |

| | Today | A Week Ago | Weekly Pct Chng (%) |
|---|---|---|---|
| Bahrain | 1756 | 1749 | 0.39 |
| Kuwait | 7079 | 7299 | -3.01 |
| Oman | 5022 | 5453 | -7.90 |
| Qatar | 5632 | 6345 | -11.23 |
| Saudi | 4700 | 5166 | -9.01 |
| Abu Dhabi | 2385 | 2501 | -4.61 |
| UAE (Nasdaq Dubai) | 1172 | 1350 | -13.20 |
| UAE (DFM) | 1644 | 1736 | -5.30 |

***Updated from Reuters 3000Xtra: Jan 18th, 8:45am.***

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# Weekly Economic

# Commentary – January 11, 2009

## Global Developments

- Financial markets have been relatively calm due to the festive period and low volumes. This consolidation together with subdued volatility seems to indicate a willingness to look beyond the most dreadful quarter in decades and focus on the future outlook.
- The most recent economic data releases are still dismal, as they refer to the past two or three months.
- Monetary policy

## Market Intelligence on the

# UAE:

- According to a report by Credit Suisse, the UAE’s banks have the highest exposure to the real estate sector among regional peers. The report reveals that UAE banks have the highest funding gap in the region, with their average loan-to-deposit ratio being 122.8% against the central bank ceiling of 100%. Abu Dhabi Commercial Bank has the highest loan-to deposit ratio of 147.2% followed by Emirates NBD at 121.8%.

# Markets Overview Jan. 11th 2009

| AED Exchange Rates | Value | Weekly Pct Chng (%) |
|---|---|---|
| EUR/AED | 5.10 | -0.15 |
| GBP/AED | 5.31 | -0.47 |
| CHF/AED | 3.40 | 0.12 |
| SAR/AED | 0.98 | 0.01 |
| KWD/AED | 13.26 | -0.02 |

| UAE Interbank Rate | Value | Weekly Change in bps |
|---|---|---|
| 1M | 4.12 | -5.18 |
| 2M | 4.19 | -4.15 |
| 3M | 4.29 | 0.00 |
| 6M | 4.33 | 0.00 |
| 1Y | 4.22 | 0.00 |

| LIBOR | Value | Weekly Change in bps |
|---|---|---|
| O/N | 2.00 | 0.00 |
| 1M | 2.11 | -5.48 |
| 3M | 2.71 | -5.83 |
| 6M | 2.90 | -4.74 |
| 9M | 2.97 | -4.65 |
| 1Y | 3.01 | -4.67 |

| Major Stock Market Indices | Value | Weekly Pct Chng (%) |
|---|---|---|
| DFM General Index | 1636.3 | 3.10 |
| Banking | 1096.8 | 3.19 |
| Fin.& Inv. | 2430.3 | 6.43 |
| Insurance | 3336.1 | 0.29 |
| Real Estate | 2375.9 | 2.96 |
| Transport | 378.7 | 2.87 |
| Materials | 247.5 | -4.91 |
| Telecom | 351.1 | 2.84 |

| Major Movers on DFM | | |
|---|---|---|
| Emirates NBD | 3.05 | 10.11 |
| Union Properties | 0.72 | -2.78 |
| Deyaar | 0.5 | -1.96 |
| DU | 2.17 | 2.84 |
| Air Arabia | 0.89 | 5.95 |

| Commodities | Value | Weekly Pct Chng (%) |
|---|---|---|
| Spot Gold | 869.15 | -0.46 |
| WTI | 46.17 | 22.86 |
| Dubai Fateh | 41.70 | 18.80 |

| Major Stock Market Indices | Dow Jones | TOPIX | DJ Euro STOXX 50 | MSCI GCC | MSCI EM |
|---|---|---|---|---|---|
| Today | 9035 | 859 | 2536 | 351 | 581 |
| A Week Ago | 8516 | 847 | 2382 | 345 | 552 |
| Weekly Pct Chng (%) | 6.10 | 1.50 | 6.48 | 1.83 | 5.33 |

| | Today | A Week Ago | Weekly Pct Chng (%) |
|---|---|---|---|
| Bahrain | 1792 | 1824 | -1.78 |
| Kuwait | 7611 | 8043 | -5.38 |
| Oman | 5708 | 5212 | 9.52 |
| Qatar | 6936 | 6715 | 3.29 |
| Saudi | 5048 | 4687 | 7.72 |
| Abu Dhabi | 2390 | 2282 | 4.74 |
| UAE (Nasdaq Dubai) | 1256 | 1156 | 8.69 |
| UAE (DFM) | 1636 | 1587 | 3.10 |

***Updated 845am from Reuters 3000Xtra***

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# Weekly Economic Commentary – January 05, 2009

## Global Developments

- Financial markets have been relatively calm due to the festive period and low volumes. This consolidation together with subdued volatility seems to indicate a willingness to look beyond the most dreadful quarter in decades and focus on the future outlook.
- The most recent economic data releases are still dismal, as they refer to the past two or three months.
  - US Consumer confidence was substantially weaker than expected, with a drop to an all-time low of 38.0 from 44.7, driven by a very sharp decline in views of the present situation. The pessimism was highest on the labor market, with consumers viewing jobs as very “hard to get”.

- Purchasing managers' indices are down again virtually everywhere: U.S. 32.4 versus 36.2 in November; Euro area 33.9 versus 35.6; Japan 30.8 versus 36.7 (the small business survey in Japan fell to 27.8 versus 35.1). Spanish auto sales were down 50%yoy in December.
- The U.K. housing market continues its plunge, with house price deflation accelerating to the 2%-3%mom range through December.
- Korean industrial production fell 10.7%mom sa in November, while exports fell 6%m/m (nsa) in December, a 17.4%oya decline (they had fallen 19%oya in November, however). For Q4, exports were down 18.7%q/q (nsa and not annualized) versus Q3.

- Saudi Arabia will post a budget deficit in 2009 for the first time since 2002. However since 2008 revenues were 144% higher than the original budget estimate, sizeable resources are still available to boost growth. The KSA is set to boost expenditure on infrastructure projects in 2009 a move that will have important spillovers on all other GCC countries.

# Market Intelligence on the UAE:

- The Heads of States of GCC countries approved the blueprint for the Gulf Monetary Union and signed the agreement for the Monetary Council. Despite the fact that the move was hailed as a progress towards GMU, in reality it represents a serious setback for the 2010 deadline. The ratification process could take up to one year and the Statute of the Central Bank has not even been discussed. Moreover a decision on the location has been postponed. The summits gave the green light to the railways project feasibility study along with a nod to the $7 billion (Dh25.69 billion) GCC power grid.

- The U.A.E. Federal National Council has approved the federal budget for 2009, the largest in the country’s history. The new budget of AED42.2bn represents a 21% increase from the 2008 budget, but it is still a balanced one. The education and services sector have been allocated the largest proportions of the budget, 23% and 37% respectively.
- The construction sector remains the epicenter of weakness in the UAE. About 50% of property developers have put on hold their plans for lack of financing or doubts about their economic viability.
- According to Nasser bin Hassan Al Shaikh director general Dubai Department of Finance “In 2009-2010,

the supply of housing units would be much less than the earlier anticipated. No more than 28,000 units would turn out to have been delivered in 2008, contrary to estimates of 60-70,000 units.

- A senior source at the construction giant Arabtec said some 5,000 workers could be laid off in the coming weeks. Delays in payments are reported across the industry.
- The UAE Central Bank said credit growth in the country would shrink from close to 50% in the first half of this year to less than 10 per cent in 2009.
- Several banks have suspended loans to construction, real estate companies and the hospitality sector, including their employees.

# Markets Overview Jan. 5th

# 2009

**World stock markets continue their consolidation, both in developed and emerging markets. Across the Gulf, stock markets have also rebounded, with the exception of Kuwait and Bahrain. The DFM has displayed a broad based recovery across sectors with the exception of Materials. The Libor rates have normalized, while the UAE Interbank rates still indicate that tensions in the money markets have not completely abated. Exchange rates remain broadly stable and oil is regaining some lost ground in the wake of security concerns after the Israeli aggression on Gaza.**

| AED Exchange Rates | Value | Weekly Pct Chng (%) |
|---|---|---|
| EUR/AED | 5.10 | -0.15 |
| GBP/AED | 5.31 | -0.47 |
| CHF/AED | 3.40 | 0.12 |
| SAR/AED | 0.98 | 0.01 |
| KWD/AED | 13.26 | -0.02 |

| UAE Interbank Rate | Value | Weekly Change in bps |
|---|---|---|
| 1M | 4.12 | -5.18 |
| 2M | 4.19 | -4.15 |
| 3M | 4.29 | 0.00 |
| 6M | 4.33 | 0.00 |
| 1Y | 4.22 | 0.00 |

| LIBOR | Value | Weekly Change in bps |
|---|---|---|
| O/N | 2.00 | 0.00 |
| 1M | 2.11 | -5.48 |
| 3M | 2.71 | -5.83 |
| 6M | 2.90 | -4.74 |
| 9M | 2.97 | -4.65 |
| 1Y | 3.01 | -4.67 |

| Major Stock Market Indices | Value | Weekly Pct Chng (%) |
|---|---|---|
| DFM General Index | 1636.3 | 3.10 |
| Banking | 1096.8 | 3.19 |
| Fin.& Inv. | 2430.3 | 6.43 |
| Insurance | 3336.1 | 0.29 |
| Real Estate | 2375.9 | 2.96 |
| Transport | 378.7 | 2.87 |
| Materials | 247.5 | -4.91 |
| Telecom | 351.1 | 2.84 |

| Major Movers on DFM | | |
|---|---|---|
| Emirates NBD | 3.05 | 10.11 |
| Union Properties | 0.72 | -2.78 |
| Deyaar | 0.5 | -1.96 |
| DU | 2.17 | 2.84 |
| Air Arabia | 0.89 | 5.95 |

| Commodities | Value | Weekly Pct Chng (%) |
|---|---|---|
| Spot Gold | 869.15 | -0.46 |
| WTI | 46.17 | 22.86 |
| Dubai Fateh | 41.70 | 18.80 |

| Major Stock Market Indices | Dow Jones | TOPIX | DJ Euro STOXX 50 | MSCI GCC | MSCI EM |
|---|---|---|---|---|---|
| Today | 9035 | 859 | 2536 | 351 | 581 |
| A Week Ago | 8516 | 847 | 2382 | 345 | 552 |
| Weekly Pct Chng (%) | 6.10 | 1.50 | 6.48 | 1.83 | 5.33 |

| | Today | A Week Ago | Weekly Pct Chng (%) |
|---|---|---|---|
| Bahrain | 1792 | 1824 | -1.78 |
| Kuwait | 7611 | 8043 | -5.38 |
| Oman | 5708 | 5212 | 9.52 |
| Qatar | 6936 | 6715 | 3.29 |
| Saudi | 5048 | 4687 | 7.72 |
| Abu Dhabi | 2390 | 2282 | 4.74 |
| UAE (Nasdaq Dubai) | 1256 | 1156 | 8.69 |
| UAE (DFM) | 1636 | 1587 | 3.10 |

***Updated 845am from Reuters 3000Xtra***

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# Weekly Economic Commentary – December 29, 2008

## Global Developments

- **Financial markets have been**

**relatively calm due to the festive mood and low volumes. This consolidation together with subdued volatility seems to indicate a willingness to look beyond the most dreadful quarter in decades and focus on the next developments.**

- **A quiet week in major markets due to the holiday season in Western countries. In general stock markets are in a consolidation pattern waiting to fathom the policy which will emerge after the new US President takes office. Global equity markets, although on a weak tone, have become much less volatile as December has progressed. This stability however is not yet forming the basis for any sustained rebound especially in the emerging markets, including the GCC.**
- **The festive mood has not reduced the flow of bad news: in Euroland data recorded another plunge with**

manufacturing orders falling 4.5%mom and Belgian business confidence (widely seen as a leading indicator for the entire continent) falling to -36.5 a record low worse than the 1982 recession. Convention al forecast models point to a drop of GDP in Euroland of -0.7%qoq. Reluctance by Germany to provide a robust fiscal boost is sapping the prospect for a solid rebound anytime before well into 2010.

- In the US final GDP data confirmed the preliminary estimates of a 0.5%qoq drop in Q3. Existing homes sales and new home sales fell by 8.6%mom and 2.9%mom. House sales are fast approaching the lowest level of all times in the early 1980s.
- China cut rates late on Dec. 22nd, with the 1-year lending rate falling 27bp, to 5.31%. Rate cuts in China now total 216 basis points since mid-September

- Japan industrial production slumped 8% m/m in November, the worst result since the index started in 1953. Japan reported also very weak November exports (down 13.5%m/m sa) which have fallen by 22.5% from their July peak. Import values were down 11.2%m/m (sa) in November.

# Market Intelligence on the UAE:

- Stock markets are still falling sharply in the UAE, amid low volumes, as a result of uncertain prospects, lower oil prices and lack of good news. Interbank rates are easing as a result of the announced dollar-dirham swap facility set up by the Central Bank.
- Dubai home rents are decreasing according to anecdotal evidence from real estate professionals. The most hits area the upscale locations on

the Palm and Burj Dubai with declines in the order of 30%-40% (to levels which prevailed at the beginning of 2008). On the contrary mid-income locations such as International City are still holding up well.

- The property market continues to be severely affected by the reluctance of banks to extend loans and pockets of oversupply in upscale units. Investors have declined sharply while demand is mainly composed of perspective end-users, who however find it difficult to obtain mortgages.
- Consolidation among developers and construction companies is likely in the near future according to the Director of the Department of Finance, while reports that thousands of construction workers are asking for visa cancellation and that some construction companies are not being paid is fueling tension and

uncertainty.

- The EU-GCC FTA negotiations were halted. Resumption is unlikely in the near future.
- Fiscal Budgets in GCC countries will not be trimmed much in order to stem the effects of the crisis despite drop in oil revenues.
- The UAE Cabinet has approved the new organizational structure of the Ministry of Economy (MoE) which will encompass 4 departments: economic policies, commercial policies, industrial affairs and corporate & support services affairs.
- A summit of GCC Heads of States convenes in Muscat today to take key decisions on the GCC monetary union.

# Market Overview (updated Dec 29th 8:30am)

Stock markets are still falling sharply in the UAE, amid low volumes, as a result of uncertain prospects, lower oil prices and lack of good news. Interbank rates are easing as a result of the announced dollar-dirham swap facility set up by the Central Bank. In other GCC countries equities have rebounded slightly on the back of rumors that governments are stepping in to sustain prices. Exchange rates are stable, but oil prices have remained generally weak drifting down towards 35 USD p/b. Subdued activity will prevail throughout the first week of the new year.

| AED Exchange Rates | Value | Weekly Pct Chng (%) |
|---|---|---|
| EUR/AED | 5.20 | 0.66 |
| GBP/AED | 5.40 | 0.23 |
| CHF/AED | 3.47 | 0.85 |
| SAR/AED | 0.98 | 0.00 |
| KWD/AED | 13.30 | 0.09 |

| UAE Interbank Rate | Value | Weekly Change in bps |
|---|---|---|
| 1M | 4.34 | -1.14 |
| 2M | 4.37 | -1.41 |
| 3M | 4.36 | 0.00 |
| 6M | 4.37 | 0.00 |
| 1Y | 4.26 | 0.00 |

| LIBOR | Value | Weekly Change in bps |
|---|---|---|
| O/N | 2.00 | 0.00 |
| 1M | 2.24 | -4.08 |
| 3M | 2.87 | -3.55 |
| 6M | 3.05 | -3.54 |
| 9M | 3.12 | -3.24 |
| 1Y | 3.16 | -2.88 |

| Major Stock Market Indices | Value | Weekly Pct Chng (%) |
|---|---|---|
| DFM General Index | 1587.1 | -11.96 |
| Banking | 1062.8 | -10.28 |
| Fin.& Inv. | 2283.5 | -10.08 |
| Insurance | 3326.4 | -2.36 |
| Real Estate | 2307.6 | -16.56 |
| Transport | 368.1 | -11.57 |
| Materials | 260.2 | 0.00 |
| Telecom | 341.4 | -22.71 |
| **Major Movers on DFM** | | |
| Emirates NBD | 2.77 | -16.82 |
| Union Properties | 0.7 | 35.71 |
| Deyaar | 0.51 | -15.00 |
| DU | 2.11 | -22.71 |
| Air Arabia | 0.84 | -11.58 |
| **Commodities** | Value | Weekly Pct Chng (%) |
| Spot Gold | 881.25 | 1.67 |
| WTI | 34.08 | -14.52 |
| Dubai Fateh | 38.15 | 2.99 |

| Major Stock Market Indices | Dow Jones | TOPIX | DJ Euro STOXX 50 | MSCI GCC | MSCI EM |
|---|---|---|---|---|---|
| Today | 8516 | 847 | 2382 | 345 | 552 |
| A Week Ago | 8579 | 834 | 2444 | 364 | 582 |
| Weekly Pct Chng (%) | -0.74 | 1.46 | -2.54 | -5.15 | -5.24 |

# GCC Stock Markets

| | Today | A Week Ago | Weekly Pct Chng (%) |
|---|---|---|---|
| Bahrain | 1824 | 1861 | -1.99 |

| | | | |
|---|---|---|---|
| Kuwait | 8043 | 8394 | -4.18 |
| Oman | 5212 | 5942 | -12.29 |
| Qatar | 6715 | 6665 | 0.75 |
| Saudi | 4687 | 4774 | -1.83 |
| Abu Dhabi | 2282 | 2576 | -11.43 |
| UAE (Nasdaq Dubai) | 1156 | 1370 | -15.61 |
| UAE (DFM) | 1587 | 1803 | -11.96 |

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# Weekly Economic Commentary – December 21, 2008

## Global Developments

- **The US Fed cut its rates to a range 0-0.25% to fight the incumbent crisis (all economic data from industrial production to housing markets and** surveys fell sharply during the week) and the threat of deflation highlighted by falling consumer prices (-1.7%mom). This move was not followed by all GCC countries as Kuwait and Oman’s central banks cut rates, KSA cut before the Fed, but central banks in Bahrain, the United Arab Emirates and Qatar remained on hold.

- Oil prices have fallen below at some point below 35USD p/b. OPEC oil basket is today around 40 USD p/b despite the decision to cut supply by a larger-than-expected 2.2 m/b a day.
- The first step in the bail out of the US car industry cost 17bn USD but guarantees survival only for a few weeks to GM and Chrysler. The total cost might amount to 125bn USD but will be left to Obama’s decision.
- Meanwhile the incoming US administration has increased the scope of the stimulus package in an

effort to create 3 million jobs, up from 2.2 million in the original plan.

- The Bank of Japan cut its rate to 0.1% in response to a worsening outlook (Highlighted by a large drop in the Tankan business survey) and announced a full-fledged quantitative easing policy with purchases of government bonds and commercial paper.
- In Europe the economic data are worsening: France business confidence sank to the lowest level ever, the German IFO lost another three points to 82.6, its worst level since 1982. The German government remains hostile to a major stimulus package financed by public debt.
- China Industrial production slowed to 5.4%yoy in November.

# Market Intelligence on the UAE:

- Dubai has announced that it will seek a rating by mid 2009, while concerns on debt roll over have proven unfounded: all such operations by public and private entities have been completed successfully. Citibank announced that it has arranged credits to Dubai for 8 bn USD this year.
- However the ratings of several banks and a number of Dubai Inc. firms have been revised down due to worsening economic outlook and fragile conditions on financial markets.
- Mixed news from the real estate market: further job cuts might come from Arabtec (5000 units) and Tatweer. On the other hand plans at Sport City will be completed and in the controversial Dubai Lagoon the first 8 buildings are due for

delivery in March 2009.

- A survey by HSBC Holdings recorded a 4% rise in quoted real estate prices in the UAE in November, but prices fell 4% in Dubai. The survey remarked that the market might have reached a tipping point as bank credit has dried up. In fact, transactions in real estate have declined, which makes aggregate price signal less relevant to judge the overall situation. In the second week of December in freehold areas were recorded 418 sales transactions, of which 383 were for apartments for a total of 295.37 million and 35 for villas at a total of Dh175.53 million. This relatively healthy figure might be due to a backlog of purchases, but might not necessarily point to a positive outlook.
- ADIA might have suffered a loss in the order of a few hundred million USD as a result of the Mardoff scam.

# Market Overview (updated Dec 21st, 9:30am)

**GCC equity markets continued to fall last week notwithstanding some regained stability worldwide (with Emerging Markets gaining 5.5%). As a result of central bank easing, Libor has fallen sharply, but in the UAE interbank rates have actually gone up or remained stable. In exchange markets the euro has climbed against the dollar as result of the Fed move and worse than expected deterioration in economic conditions.**

| AED Exchange Rates | Value | Weekly Pct Chng (%) |
|---|---|---|
| EUR/AED | 5.11 | 4.06 |
| GBP/AED | 5.48 | -0.13 |
| CHF/AED | 3.32 | 6.64 |
| SAR/AED | 0.98 | -0.01 |
| KWD/AED | 13.34 | -0.44 |

| UAE Interbank Rate | Value | Weekly Change in bps |
|---|---|---|
| 1M | 4.39 | 1.88 |
| 2M | 4.43 | 0.57 |
| 3M | 4.42 | 0.00 |
| 6M | 4.38 | 0.00 |
| 1Y | 4.24 | 0.00 |

| LIBOR | Value | Weekly Change in bps |
|---|---|---|
| O/N | 2.00 | 0.06 |
| 1M | 2.33 | -6.61 |
| 3M | 2.98 | -6.51 |
| 6M | 3.16 | -5.71 |
| 9M | 3.22 | -5.88 |
| 1Y | 3.25 | -5.79 |

| Major Stock Market Indices | Value | Weekly Pct Chng (%) |
|---|---|---|
| DFM General Index | 1909.3 | -2.63 |
| Banking | 1215.6 | -3.72 |
| Fin.& Inv. | 2757.5 | -2.16 |
| Insurance | 3470.7 | -1.37 |
| Real Estate | 3056.5 | -2.18 |
| Transport | 446.5 | -0.81 |
| Materials | 260.2 | -4.96 |
| Telecom | 462.8 | -0.70 |

| Major Movers on DFM | | |
|---|---|---|
| Emirates NBD | 3.31 | -5.43 |
| Union Properties | 1.04 | 2.88 |
| Deyaar | 0.65 | -7.14 |
| DU | 2.86 | -0.69 |
| Air Arabia | 1 | 0.00 |

| Commodities | Value | Weekly Pct Chng (%) |
|---|---|---|
| Spot Gold | 837.60 | 2.16 |
| WTI | 39.87 | -6.69 |
| Dubai Fateh | 41.31 | -6.18 |

| Major Stock Market Indices | Dow Jones | TOPIX | DJ Euro STOXX 50 | MSCI GCC | MSCI EM |
|---|---|---|---|---|---|
| Today | 8579 | 834 | 2444 | 371 | 582 |
| A Week Ago | 8630 | 813 | 2419 | 379 | 552 |
| Weekly Pct Chng (%) | -0.59 | 2.59 | 1.04 | -2.26 | 5.50 |

| | Today | A Week Ago | Weekly Pct Chng (%) |
|---|---|---|---|
| Bahrain | 1902 | 1933 | -1.59 |
| Kuwait | 8624 | 8911 | -3.22 |
| Oman | 6081 | 6097 | -0.25 |
| Qatar | 6643 | 6421 | 3.46 |
| Saudi | 4705 | 4780 | -1.57 |
| Abu Dhabi | 2676 | 2733 | -2.10 |
| UAE (Nasdaq Dubai) | 1370 | 1391 | -1.55 |
| UAE (DFM) | 1909 | 1961 | -2.63 |

# Weekly Economic Commentary – December 14, 2008

## Global Developments

Markets remain nervous, as outbursts of optimism are followed by sudden pessimism. Most of this behavior stems from political developments with direct repercussion on the US economic outlook. Earlier last week the speech by President-elect Obama outlining a stimulus package sparked a wave stock market recovery, but on Friday the collapse of the automotive bail out sent indices sharply down. Adding to apprehension there has been the news of a

**hedge fund fraud with losses estimated at USD 50 billion. Commodity markets were also hit, with oil down $4pb, but the current level $43pb is off recent lows (a consideration that applies to most equity markets, even after Friday's declines). The dollar has begun to weaken, reflecting some hawkish comments from officials at the European Central Bank and the concerns about the depth of the recessions.**

**Economic data have been broadly negative with the U.S. economy leading the way to global weakness in Q4. PMI data were below expectations and weekly jobless claims climbed by 58k to 573k. October trade data depict falling exports, which when factored in forecasting models imply a US Q4 GDP contraction by 5% qoq, saar. Industrial production in the euro area was down 1.2% mom and 5.3% yoy. The Q4 data from China continue to look very weak with exports falling 2.2% yoy in November.**

Amid the negatives there are a few encouraging signs: the extreme volatility of stock markets in the past weeks is subsiding with the VIX is at 55.7, close to its lowest level since early October. U.S. retail sales were stronger than expected in November: ex autos and gas, sales were up 0.3% mom, (against consensus of a 0.5% drop). Chinese retail sales were up 20.8%yoy. If deflated by CPI, this figure suggests that real spending in China has actually accelerated since the early part of the year

Government bonds have undergone some dramatic developments: negative U.S. bill rates, falling U.S. long-term yields (30s are down to almost 3%) despite staggering longer-term issuance prospects which might be considered as a form of unsustainable bubble triggered by risk aversion and flight to safety. The U.S. Federal deficit in the first two months of the fiscal year has been $402 billion;

**if the cost of the new stimulus package announced by President-elect Obama is factored in the US deficit could reach 10% in 2009.**

**Central banks' easing has continued with Canada cutting rates a surprising 75bp on Tuesday, followed by Switzerland, which cut its 3m LIBOR target by 50bp to 50bp; in Asia Korea cut its benchmark rate 100bp to 3% and Taiwan, by 75bp, to 2%; finally South Africa, reduced rates by 50bp to 11.5%.**

## GCC Markets

**Gulf bourses recorded relative stability in the first 10 days of December after crashing by more than $500 billion (Dh1.8 trillion) since June. With the exception of the Saudi and Bahrain exchanges, the other GCC bourses recovered slightly, though the capitalization of all remained at a three-year low. Saudi stocks reopened on a high after the Eid Al Adha holiday, with the benchmark advancing**

4.1% on Saturday. With volatility declining across the GCC markets, the DFM is expected to close above the 2000-mark this week.

## Market Intelligence:

A further decline in oil prices and the global financial crisis will reduce GDP growth in the MENA region to 3.9% in 2009 from 5.8% in 2008, according to a recent World Bank report. While the UAE’s GDP growth is expected to slow as well, it is expected to remain above 6-7%, according to the UAE Ministry of Economy, much above the growth rates predicted elsewhere in the MENA region. Dubai’s non-oil foreign trade, including trade via free zones and customs warehouses, surged by 44.5% during the first nine months of 2008 compared to the corresponding period in 2007, according to a Dubai World’s Statistics Department report. The report listed China as the main trading partner in import (AED

40.5bn), with India following at a close second (AED 37.2bn) and the US (AED 24.9bn).

# Market Overview (updated Dec 14th, 4:30pm)

| AED Exchange Rates | Value | Weekly Pct Chng (%) |
|---|---|---|
| EUR/AED | 4.91 | 4.93 |
| GBP/AED | 5.48 | 1.22 |
| CHF/AED | 3.12 | 3.65 |
| SAR/AED | 0.98 | -0.01 |
| KWD/AED | 13.34 | 0.20 |

| UAE Interbank Rate | Value | Weekly Change in bps |
|---|---|---|
| 1M | 4.31 | 0.29 |
| 2M | 4.41 | -0.14 |
| 3M | 4.39 | 0.00 |
| 6M | 4.38 | 0.00 |
| 1Y | 4.26 | 0.00 |

| LIBOR | Value | Weekly Change in bps |
|---|---|---|
| O/N | 2.00 | -0.06 |
| 1M | 2.50 | -6.33 |
| 3M | 3.19 | -5.68 |
| 6M | 3.35 | -5.37 |
| 9M | 3.42 | -4.94 |
| 1Y | 3.45 | -5.35 |

| Major Stock Market Indices | Value | Weekly Pct Chng (%) |
|---|---|---|
| DFM General Index | 1990.8 | -0.71 |
| Banking | 1262.5 | -1.02 |
| Fin.& Ins. | 2818.5 | -2.10 |
| Insurance | 3519.0 | -0.29 |
| Real Estate | 3124.6 | 0.35 |
| Transport | 490.1 | -1.87 |
| Materials | 273.8 | -4.73 |
| Telecom | 466.0 | 4.35 |

| Major Movers on DFM | | |
|---|---|---|
| Emirates NBD | 3.50 | -2.78 |
| Union Properties | 1.07 | 0.00 |
| Deyaar | 0.7 | -4.11 |
| DU | 2.88 | 4.35 |
| Air Arabia | 1 | 0.00 |

| Commodities | Value | Weekly Pct Chng (%) |
|---|---|---|
| Spot Gold | 819.90 | 8.65 |
| WTI | 42.73 | 14.28 |
| Dubai Fateh | 44.03 | 24.24 |

| Major Stock Market Indices | Dow Jones | TOPIX | DJ Euro STOXX 50 | MSCI GCC | MSCI EM |
|---|---|---|---|---|---|
| Today | 8630 | 813 | 2419 | 383 | 552 |
| A Week Ago | 8635 | 786 | 2252 | 372 | 498 |
| Weekly Pct Chng (%) | -0.07 | 3.48 | 7.41 | 2.92 | 10.89 |

# GCC Market Overview

| | Today | A Week Ago | Weekly Pct Chng (%) |
|---|---|---|---|
| Bahrain | 1933 | 1924 | 0.45 |
| Kuwait | 8911 | 8916 | -0.05 |
| Oman | 6097 | 6138 | -0.67 |
| Qatar | 6421 | 6050 | 6.12 |
| Saudi | 4787 | 4655 | 2.85 |

| | | | |
|---|---|---|---|
| Abu Dhabi | 2733 | 2754 | -0.77 |
| UAE (Nasdaq Dubai) | 1391 | 1429 | -2.64 |
| UAE (DFM) | 1961 | 1975 | -0.71 |

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# Weekly Economic Commentary – November 30, 2008

## Global Developments

**Two pieces of news dominate world events: the bail out of Citigroup and the terrorist attack in Mumbai.**
**The Citi bailout was rather generous to shareholders, but it underlines that the financial sector is still in disarray. It**

**must be recalled that Citigroup a few weeks ago wanted to rescue Wachovia (later acquired by Wells Fargo). The Citi deal shifts pressure from US financial institutions, at least for a while. But markets are pondering who might be next. The indications again point to the eurozone. Credit default swap spreads indicate increasing differentiation between Germany on the one hand and the periphery, (Greece, Ireland or Italy or Spain) on the other hand. Some countries do not have enough resources to sustain the commitments made to support their banking sector.**

**The attacks in Mumbai have hit a large economy whose growth is critical for the stability of the world output and together with threats by Al Qaeda have reignited tensions over the security situation. The repercussions are difficult to gauge but considering that Thailand is also marred by civil unrest, and Pakistan is in hanging in a**

precarious situation, East Asia looks wobbly.

US markets were in a quiescent mood due to Thanksgiving, but on a general upbeat note following Citi's rescue. The current U.S. and global economic conditions, remain challenging. On the positive side is the appointment by President-elect Obama of an experienced economic team. But the recovery is not in sight yet and most signs still point to a sharply downward trend. The Fed has announced a US$ 600bn plan to buy toxic assets plus US$ 200bn to support consumer credit; meanwhile the EU Commission has approved a 200bn euro expenditure plan equal to 1.5% of GDP.

## GCC Markets

Over the week end OPEC decided not to change target output deferring a decision to the December 17th meeting in Algeria. KSA Oil Minister Al Naimi indicated 75

US$ per barrel as a target price over the medium term (following a similar indication given by HH King Abdullah in an interview), but for the time being such a level appears out of reach. WTI oil futures have rebounded to almost 55 US$ per barrel last week and has closed at US$53.5 on Friday more than 7% over the previous week.

The past week saw some rebound in the GCC equities in the wake of a general uplifting mood in stock markets worldwide. On Saturday the Saudi's benchmark index posted its largest jump of the past 30 months sustained by the hope that a turning point is in sight, and influenced also the markets in Qatar and to a lesser extent the DFM and Oman. Bahrain, Abu Dhabi and Kuwait remain in negative territory, compared to a week ago. However, trading is dominated by retail investors ready to cash in on short term bets. In other words these movements lack depth as foreigners and

institutional investors are still wary. For example DFM disclosed that foreigners were net seller for about 20 ml US$ in the past week.
Saudi Arabia’s Finance Minister pledged to boost public spending in 2009 despite the decline in oil prices. Earlier this month King Abdullah of Saudi Arabia said that he expected investment by the public sector and state-controlled oil sector to exceed US$ 400bn over the next five years. Meanwhile in Abu Dhabi the government has committed over US$ 100bn over the next 4-5 years for infrastructure projects.

# Market intelligence

In the UAE the last few days saw a glimmer of hope as the authorities have expressed strong optimistic views and the refinancing of sizeable loans calmed marked nervousness. The banking sector is stabilizing, but continuous news on layoffs is contributing to uncertainty.

# Weekly Economic Commentary – November 19, 2008

## Global Developments

The G20 meeting last week end failed to inject much confidence in global markets. In a nutshell, the leaders over-focused on issues related to crisis prevention (i.e., stopping the next one), rather than paying attention to measures aimed at resolving the present one. Markets took this as a sign that leaders are out of ideas and frozen until Obama takes oath. Hence global equities continue to fall in reaction to any news: for example corporate layoffs (e.g., Citi's

**yesterday) are being viewed with gloom. Asia remains downbeat after the short lived enthusiasm sparked by China’s stimulus package and the GDP numbers from Japan confirmed a drop of 0.4%, qoq saar, after a Q2 down by 3.7% qoq, saar. Across Asia trade data indicate a deepening slump in exports across the board. Markets in Emerging Europe and Euroland are generally weak with the DJ Euro 50 down more than 4% reflecting downbeat expectations on the Old Continent.**

**No catalyst for a rebound seems in sight. Essentially the transmission of the credit crisis to the real economy has just begun, so investors are uncertain on the depth and the duration of the recession. Hopes that the markets have stabilized have thus far proven premature while additional tensions might arise in the credit card market. The IMF has unveiled an estimate of 1.2 trillion USD as the magnitude of the fiscal stimulus for the world economy (2% of global GDP)**

required for rekindling growth. Earlier the IMF has worked out a series of programs with Pakistan, Serbia, Armenia and Iceland, in addition to those for Ukraine and Hungary negotiated earlier. Japan announced a commitment to provide an additional $100 billion to the IMF resources, and invited others to help to double the Fund existing liquid reserves to $500 billion.

## GCC Markets

All the GCC stock indices continued to reel under the heavy selling pressures from last week. A rebound on DFM on Sunday was sparked by rumors that the government of Abu Dhabi intended to buy shares in large Dubai based companies, but has since faded. Markets across the GCC had mixed performances this week but on a generally weakish note as the losses from last week are hardly compensated by some small rebounds. Apart from global uncertainty, falling crude oil prices and confused authorities messages (including a court order to close the Kuwait market) have contributed to deepen negative sentiment.

## Market intelligence

In the UAE despite evident resilience, a number of factors are contributing to nervousness. First, the lack of solid up to date figures on the state of the economy, its debt and its refinancing which has given way to a series of gossip and innuendos likely to have magnified negative news (such as the lay offs or hiring freeze by prominent companies like Damac and Tamweel). Second, the steep increase in interest rates by banks to clients: despite a drop in central bank rates and injected liquidity, banks are not reflecting monetary easing to their corporate and retail clients. Anecdotal evidence suggests that even prime clients have been asked a 200 bp increase on their exposure. Such behavior threatens to push on the verge of bankruptcy a score of SMEs, exacerbating the difficulties of the Dubai economy. Last a major concern regards the real estate market: media have reported house price falling by about 30% in prime locations and land prices dropping even more in sites destined for new developments such as the Waterfront. A major blow to the sector was inflicted by the “interpretation’ of the law by RERA which imposes investors to pay 30% of the value of the contract in case they renege their contractual obligation on real estate purchases. This dubious handling of a key legal aspect risks undermining the reputation of Dubai as an investment destination for years to come.

## Policy Implications

The GCC region is facing the current turmoil from a far stronger position than in the past. However, balancing the expected growth slowdown and addressing financial stress in certain segments of the banking sector, while attending to the region’s development needs, will be a challenge. Lack of data is the first aspect to tackle decisively. Second, debt management should become the primary economic policy concern with a consolidation of debt exposure by the public sector and key corporations a priority. This streamlining could be more efficiently achieved by planning a strategy of bill and bond issuances (including Sukuks) over a few years. Furthermore the public utilities projects and infrastructure financed through government bond issues should be subject to a clear identification of revenues (fee, charges) for repayment and appropriate cost benefit analysis.