



September 27th, 2007

Oil Market	Yesterday Closing	weekly Δ
OPEC Basket	75.80	+0.02
Brent	77.30	-2.29
Dubai	74.64	+0.10
WTI Cushing	80.30	-1.66

Policy Interest Rates	
US Discount Rate	5.25
US Fed Fund Target	4.75
Euro Deposit Facility	3.00
Euro Marginal Lending Facility	5.00

LIBOR Fixing	
USD 0/N	4.88
USD 1M	5.13
EUR 0/N	4.35
EUR 1M	4.41

Commodities	Yesterday Closing	weekly Δ
Gold	727.60/8.50	-4.49
Silver	13.36/3.41	+0.11

*Closing prices of 26th Sept 2007*

## Strategy & Economics

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### Further strains on construction costs:

After the UAE Cabinet decision in July to give illegal residents three months to leave the country or adjust their status, a large pool of illegal immigrants have been taking advantage of the amnesty. It is estimated that up to 300,000 illegal residents shall leave the country by November, which marks the end of the amnesty period.

Although, the move is important to regulate the employment market and protect the workers' rights as illegal residents cannot claim any benefits, we believe this decision will have critical short-term implications on labor cost by putting upward pressure on both household labor costs as well as construction costs.

Rising construction costs will, in turn, cause lower margins and postponement of some projects. The increased costs would also put further pressure on real estate prices due to the pass through effect to customers, and due to further delays and more strains on the already tight supply bottleneck.

### The vicious (or virtuous) cycle:

Oil prices have been hovering around \$80/bbl after correcting from their highs of \$84/bbl (WTI). The main drivers for oil movement in the past weeks have been mainly:

- The storms in the Gulf of Mexico that caused evacuations of a large number of production platforms and drilling rigs, leading to a major disruption in oil and gas daily production.
- Geopolitical tensions with key producers such as Iran and fears of resumption of attacks in the Niger delta in Nigeria.
- The overall downward trend of US crude inventories, despite yesterday's good results.

Oil prices went down from their peak of \$84/bbl as soon as the weather in the Gulf of Mexico ameliorated and production went to almost normal levels. It would be interesting to observe the prices in the coming weeks in order to test whether \$80/bbl is a new support. Although prices might drop in the coming weeks, the latest price movement, in our opinion, suggests the possibility that the effects of a risk premium expansion are much greater than that of a contraction.

The jump in petroleum prices will add to the growing U.S. trade deficit putting more pressure on the value of the U.S. dollar and leading to a weaker dollar. OPEC countries are lured to raise the dollar-denominated price of a barrel of oil to make up for the dollar's fall... and so on.

Country 2007e	UAE	Qatar	Kuwait	Oman	Bahrain	KSA	Tunisia	Jordan	Egypt	Morocco	Lebanon
Moody's Rating	Aa2	Aa2	Aa2	A2	A2	A1	Baa2	Ba2	Ba1	Ba1	B3
Nominal GDP (US\$ Bn)	183.0	56.0	93.0	38.0	17.0	355.0	34.0	16.5	128.0	62.0	23.0
Nominal GDP (PPP-US\$ Bn)*	158.0	29.5	65.0	53.0	19.0	431.0	99.0	33.5	376.0	159.0	21.5
Population (Mn)	5.30	0.90	3.10	2.60	0.77	24.30	10.50	5.70	74.00	31.00	3.75
GDP per Capita (US\$)	34,528	62,222	30,000	14,615	22,078	14,609	3,238	2,895	1,730	2,000	6,133
GDP per Capita (PPP- US\$)	29,811	32,778	20,968	20,385	24,675	17,737	9,429	5,877	5,081	5,129	5,733
Nominal GDP (% change)	12.60	6.00	-2.50	6.90	9.70	2.50	10.00	12.00	16.10	8.50	3.40
Real GDP (% change)	8.20	8.00	3.50	6.00	6.90	4.70	3.00	6.00	6.70	3.50	1.00
Inflation Rate( CPI % change)	9.30	12.80	5.30	5.90	3.00	3.10	3.00	5.70	10.90	2.00	3.50
Current Account Balance (US\$ Bn)**	22.0	2.8	32.8	-0.3	2.1	69.9	-0.7	-2.3	0.9	1.3	-2.6
Current Account Balance/GDP (%)	12.0%	5.0%	35.3%	-0.8%	12.4%	19.7%	-2.1%	-13.9%	0.7%	2.1%	-11.3%
Net Foreign Direct Investment/GDP	6.10	5.40	0.10	n.a.	7.20	n.a.	7.00	15.80	6.30	2.10	3.30
Gross Official Reserves (US\$ Bn)**	32.5	6.5	16.9	4.4	2.0	255.2 <sup>1</sup>	7.5	6.1	28.5	22.5	10.4
Short Term Interest Rate	5.16	4.60	4.19	3.85	5.17	5.08	5.10	4.91	8.75	4.3	6.25
M2 (LCY Mn)	482,753	116,178	19,085	5,151	4,589	767,579	27,848	15,854	672,605	627,681	22,327,850
Exchange Rate USD	3.67	3.67	0.28	0.38	0.38	3.75	1.29	0.71	5.70	8.35	1,507.00
M2 (USD Mn)	131,540	31,656	67,678	13,413	12,205	204,688	21,554	22,330	118,001	75,171	14,816
Petroleum Production (000s bpd)	2,540	820	2,410	737	184	8600	n.a.	n.a.	665	n.a.	n.a.

Sources: IMF REQ, IMF WEO, BMI, Reuters, SHUAA Capital Analysis

\* Using the IMF Purchasing Power Parity Based Weights for the World Economic Outlook

\*\* IMF Regional Economic Outlook

<sup>1</sup> SAMA net foreign assets