



Weekly Economic Note

Economics

October 11th, 2007

Oil Market	Yesterday Closing	weekly Δ
OPEC Basket	74.47	-0.19
Brent	78.90	+0.98
Dubai	73.53	+1.13
WTI Cushing	80.75	+0.81

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	4.89
USD 1M	5.11
EUR 0/N	3.94
EUR 1M	4.28

Commodities	Yesterday Closing	weekly Δ
Gold	740.00/0.80	+1.28
Silver	13.54/3.59	+0.26

Closing prices of 10th, 2007

Headlines on inflation

Inflation in **Saudi Arabia** accelerated further to 4.4% yoy in August, from 3.8% in July. The main drivers were housing which increased at a rate of 9.8% and food galloping at 6.6% yoy.

While this rate appears low compared to the levels experienced in other GCC countries, mainly UAE and Qatar, it is a high when compared to the Kingdom's own historical average of between zero to 1%.

Rent has been the major contributor to the increase in inflation. Housing prices are being pushed by surging demand as well as rising construction costs, with the costs of construction materials also increasing globally.

The rise in food prices is a global trend fuelled partly by the expanding bio-fuels industry, but mainly by the demand pressures from Asia, with India and China being the main contributors. Rising incomes in those countries, especially for households previously in lower income brackets, has meant greater demand for food stuffs in general, and high-protein foods in particular, as families can now afford to diversify and eat better.

However, the increase in the Saudi market can primarily be attributed to the sustained dollar peg policy.

SAMA has reiterated its dollar peg policy. Seen in the context of the main drivers of inflation in KSA, this policy robs SAMA of the mainstream monetary tools used to curb inflation. Given the Saudi authorities concern about the accelerated rise in inflation, it seems in our opinion, that the government, in the absence of any useful monetary tool, would most likely opt for some unorthodox measures to control inflation such as rent caps and price controls.

In the **UAE**, annual inflation in Abu Dhabi accelerated to 11.3% at the end of June compared to 8.3% at the end of 2006. The main contributors to this hike in inflation are fuel costs and, of course, the usual suspect - rent.

In 2006, inflation in the UAE hit a 19-year high of 9.3% (official number). Dubai and Abu Dhabi have since implemented rent caps in order to curb inflation. This measure seems to be somewhat efficient.

In the absence of recent official data on Dubai inflation; applicability of rent cap only to renewals, and the dollar weakness experienced this year along with its effect on imported inflation, we suspect that Dubai inflation would be only slightly lower than last year.

Consequent to Abu Dhabi's inflation data, we expect the UAE inflation in 2007, on the aggregate level, to be equal if not slightly higher than 2006 levels.

Annual inflation in **Kuwait** also rose to 4.98 %in July from 4.36 % in June similarly due to higher costs of housing. Inflation is still below the highs of April when inflation rose by 5.37% yoy, triggering the government to drop its dollar peg in May and to tie the dinar to a basket of currencies. We believe that the move to a currency basket is definitely a step forward in fighting inflation (especially imported inflation), however we need more time and data to be able to access the effectiveness of this policy shift.

Strategy & Economics

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

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 ¹	7.5	6.1	28.5	22.5	10.4
Short Term Interest Rate	5.20	4.18	4.06	3.85	5.18	5.07	5.10	6.70	8.80	4.00	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	825	2,430	737	184	8650	n.a.	n.a.	665	n.a.	n.a.

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

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

** IMF Regional Economic Outlook

¹ SAMA net foreign assets