



January 6th, 2008

Oil Market	Yesterday Evening	Δ*
OPEC Basket	93.94	+8.41
Brent	97.51	+6.37
Dubai	91.61	+8.18
WTI Cushing	97.37	+9.95

Policy Interest Rates	
US Discount Rate	4.75
US Fed Fund Target	4.25
Euro Deposit Facility	3.00
Euro Marginal Lending Facility	5.00

LIBOR Fixing	
USD 0/N	4.34
USD 1M	4.52
EUR 0/N	4.09
EUR 1M	4.20

Commodities	Yesterday Evening	Δ*
Gold	858.00/8.75	+63.6
Silver	15.25/5.30	+1.02

Closing prices of January 6th, 2008
*Numbers reflect change over 1 month

Rent Index: a double-edged sword

Dubai's Real Estate Regulatory Authority (RERA) is in the process of rolling out a rent index that would specify the minimum and maximum rents for various areas of Dubai. The index range will be binding and violators would be reported to the rent committee. In addition, the rent cap was recently dropped from 7% to 5%.

Together, the rent index and the rent cap are designed to fight rent inflation - the major contributor to overall inflation in Dubai and the UAE as a whole. As an immediate effect we anticipate that these steps would limit rent inflation in the short term.

What we believe is questionable is the mid to long term effect of introducing a rent index that is binding as opposed to being indicative. Also, a too-broad index range for either an indicative or compulsory index would, at best, have a minimal effect. On the other hand, a somewhat narrow range carries the threat of creating distortions in the property market.

A tight index range, like any form of rent control, may prove to be destructive in the mid to long term. By creating a form of ceiling on rent, the range would make landlords less motivated to develop new projects and/or to invest in renovating or maintaining existing projects. The upper range of the index would discourage developers from building high quality projects that exceed existing benchmarks. Economic theory and the previous experience of markets clearly indicate that rent controls tend to create shortages in housing, decrease investments, and compromise the quality of products in the sector. Furthermore, the current system where landlords and tenants can petition the Rent Dispute Committee against under-valuation of property or over-pricing of rent, may only serve to exacerbate bureaucracy and decrease efficiency – in spite of increasing transparency.

Since the main source of rent inflation is supply shortages, we believe that such regulatory (non-free market) measures would hurt the real estate market of Dubai in the mid to long term. Also, we believe that these controls once applied should only serve for a short number of years, until the supply of properties starts catching up with demand. Ultimately, the only real solution to increasing rents in this demand pull scenario is to supply more properties across the whole range of quality and affordability, and allow market forces to push the prices down or, at least, stabilize them. ■

Kuwait's tax amendment

On a separate note, Kuwait's parliament finally removed, in late December, one of the main deterrents to foreign investment in Kuwait. A new tax law has been introduced that clearly states that foreigners investing in the Kuwaiti stock market, either directly or indirectly through funds, would not be taxed. The elimination of the 55% capital gains tax law, on top of lack of any restrictions on foreign stock ownership in Kuwait is expected to significantly increase portfolio investment from foreign institutional investors.

In addition to removing capital gain taxes, the law slashes income tax on foreign investment from 55% to 15%. This, we believe, would help Kuwait attract more foreign direct investments (FDIs) to start catching up with other GCC countries such as, Saudi Arabia and the UAE. Currently, Kuwait has the lowest level of inward FDIs in the GCC. ■

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Country 2008e	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 (USD bn)	218.05	67.50	116.42	43.28	17.52	413.51	37.78	17.63	141.63	61.45	24.92
Nominal GDP (PPP USD bn)	172.81	41.77	73.17	56.51	21.41	443.27	107.19	36.84	423.46	198.79	23.56
Population (million persons)	4.80	1.03	3.32	2.66	0.78	24.90	10.44	5.86	75.05	31.03	3.80
GDP per capita (US\$)	45,427	65,532	35,109	16,270	22,494	16,609	3,619	3,009	1,887	1,980	6,559
GDP per capita (PPP-US\$)	36,001	40,555	22,065	21,245	27,478	17,804	10,269	6,287	5,643	6,406	6,201
Nominal GDP (% growth)	15.96	14.31	6.92	13.80	7.70	13.85	9.43	10.33	12.73	7.35	6.61
Real GDP (% growth)	9.00	14.10	4.80	6.30	6.50	7.12	6.20	6.80	7.30	4.47	3.50
Inflation Rate (CPI % change)	7.6	13.73	6.2	6.8	3.1	5.3	3.0	5.7	6.9	2.0	3.5
Current Account Balance (USD bn)	42.36	16.03	57.32	5.17	1.46	90.09	-1.04	-2.07	1.22	0.17	-2.39
Current Account Balance/GDP (%)	19.43	23.75	49.23	5.17	8.34	21.79	-2.70	-11.90	0.80	0.20	-9.40
Inward Foreign Direct Investment (US\$ Mn)	8,386	1,786	110	952	2,915	18,293	3,312	3,121	10,043	2,898	2,794
Gross Official Reserves (US\$ Bn)	41.8	8.1	26.6	1.4	5.6	341 ¹	8.7	6.5	32.6	24.5	12.3
Short-term Interest Rate	4.48	2.87	3.19	3.47	4.84	4.02	5.15	6.00	8.75	4.5	6.25
Exchange Rate USD	3.67	3.67	0.29	0.38	0.38	3.75	1.29	0.71	5.7	8.35	1507
Oil Production (thousand barrels)	2,190	830	2,490	737	184	8,980	n.a.	n.a.	665	n.a.	n.a.

Sources: IMF REO, IMF WEO, IIF, Reuters, SHUAA Capital Analysis

¹ Using the IMF Purchasing Power Parity Based Weights for the World Economic Outlook

² IMF Regional Economic Outlook

³ SAMA net foreign assets