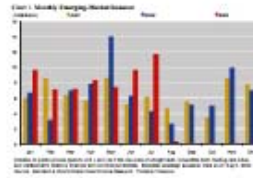




Emerging Markets Weekly



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United Arab Emirates: An Investor's Oasis

International investors are increasingly turning their attention to the Middle East particularly towards the Gulf States where elevated energy prices, higher OPEC quotas and increased crude oil production are fuelling strong economic growth. The six member states of the Gulf Cooperation Council (GCC) - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates - have similar economic structures and share many macroeconomic policy objectives. Significant economic, structural and political reforms have begun as the GCC states intend to establish a Common Market (2007) and then enter into a Monetary Union (2010).

All six GCC governments are trying to diversify their economies away from the heavy dependence on hydrocarbons, as reliance on the inherently volatile commodities has led to wide swings in economic growth and pro-cyclical fiscal spending. Yet, as the GCC states collectively possess around 40% of proven world oil reserves the temptation to rely on this income stream is too great. States such as Bahrain and the emirate of Dubai in the UAE face greater incentives to diversify than those such as Qatar and Kuwait, which possess substantially more hydrocarbon resources.

Diversification efforts have seen the introduction of competition into some sectors such as telecommunications, transport and utilities. Bahrain, the UAE, and Oman have succeeded in creating relatively open and liberal but at the same time well regulated business environments, which have attracted significant foreign investment in banking and tourism. The GCC stock market has also witnessed impressive growth over the last few years. Stock price indices in the larger markets of Saudi Arabia and Kuwait have expanded by approximately 420% and 500%, respectively while the Qatar stock exchange index has seen gains of 700%. Total GCC market capitalization increased from about \$120 billion in 2000 to \$526 billion in 2004.

A ranking (from highest to lowest) of the potential attractiveness of the GCC states reveals the following:

1. United Arab Emirates
2. Bahrain
3. Oman
4. Qatar
5. Kuwait
6. Saudi Arabia

The ranking reflects considerations of each country's economic prospects, political stability, fiscal flexibility, monetary stability and external flexibility. It is not surprising that the prospects for the UAE are perhaps the most favorable among the GCC states. This reflects the benefits of the current business friendly environment, growing investor confidence, and the increasing role of the private sector. Asset prices in the real estate and stock markets have soared, aided by stronger economic fundamentals and investor optimism. One area of concern has been ensuring that monetary policy is appropriately geared towards containing inflation.

The financial sector in the U.A.E. remains sound and its role as a regional hub continues to evolve. While the authorities have achieved good progress in improving financial sector supervision, there is need for the rationalization and

consolidation of the regulatory oversight of the capital markets and non-bank financial intermediaries. Effective coordination between the UAE Central Bank and the Emirate Security and Commodity Authority is needed to ensure that a comprehensive supervisory framework is in place for the entire financial sector.

An agreement between the UAE Central Bank and the World Bank's International Finance Corporation aims to bring the UAE's banking sector in line with the highest international standards, and is a welcome sign of the country's commitment to reshaping its business environment.

GCC 2006 Outlook
(% of GDP unless otherwise indicated)

	United Arab Emirates	Oman	Bahrain	Qatar	Kuwait	Saudi Arabia
Real GDP (% change)	5.6	3.6	5.6	6.3	5.2	2.2
Inflation (% change)	2.7	-0.5	1.0	4.2	3.5	0.6
Fiscal Balance	6.3	5.1	5.9	10.13	16.9	6.7
Ext. Current Account	26.1	6.5	15.5	19.8	34.6	22.2
Foreign Debt	13.7	7.0	n.a.	n.a.	n.a.	n.a.

Source: Business Monitor Online

FINANCIAL & ECONOMIC INDICATORS

As at 26 January 2006

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	116.44	115.40
Euro	1.22	1.21
Jamaica	64.80	64.68
Guyana	200.90	190.00

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	66.26	66.83
Natural Gas (US\$/mmbtu)	7.82	8.21
Gold (US\$/Troy Ounce)	560.65	557.80

Eurobond Indices (Returns, % YTD as of 26-Jan-06)

Lehman Brothers Global Aggregate Index	2.01
JP Morgan EMBI+	(0.07)
CMMB Eurobond Index	0.21

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Month</u>
United States	4.25	4.25
Euro Zone	2.25	2.25
Japan	0.00	0.00
Brazil	17.25	18.00
Trinidad	6.25	6.00
Jamaica	12.60	12.60
Barbados	4.75	4.75

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	4.33	4.25
US 10-Yr Treasury	4.51	4.30
3-month UK Libor	4.59	4.59
Japan 90-day T-Bill	.10	0.08
Brazil 90-day T-Bill	16.80	16.84
TT 90-day T-Bill	4.98	4.81
Jamaica 90-day T-Bill	12.82	12.91
Barbados 90-day T-Bill	6.26	6.26

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, Bank of Guyana

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