

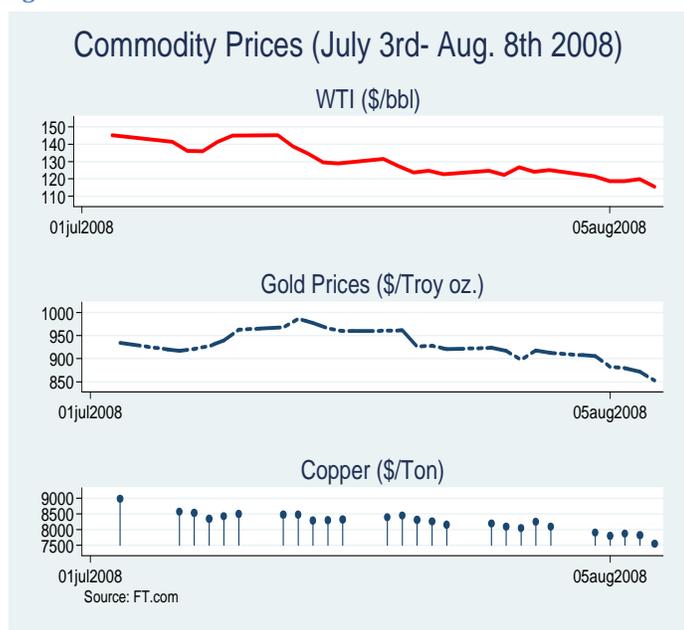
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So, oil prices have been declining!

That oil prices have been declining over the past month is illustrated in Figure 1 which plots WTI daily prices. Trending downwards too are the prices of other commodities including gold and copper, also shown in the Figure. Are these declining trends aberrant or do they represent some long-term trend? As well, what is the threshold price which, if reached, would make the WTI oscillate somewhat closely around it? These are tough questions but I think that downward is the direction that oil prices will take provided that the world continues to enjoy relatively decreasing geopolitical tensions and pressures. Media plays a role in influencing expectations on the supply and demand sides of the equation. In reality speculators play a short-term role as they sense sentiments of stakeholders and respond to “perceived” and “own expectations” of future oil price trends and act accordingly. We believe that the longer term oil price will be within the range of \$90 to 105/bl as demand responds to higher prices and as the Saudis and Kuwaitis follow through on their commitments to increase capacity and oil production.

Figure 1:



Implications to Jordan

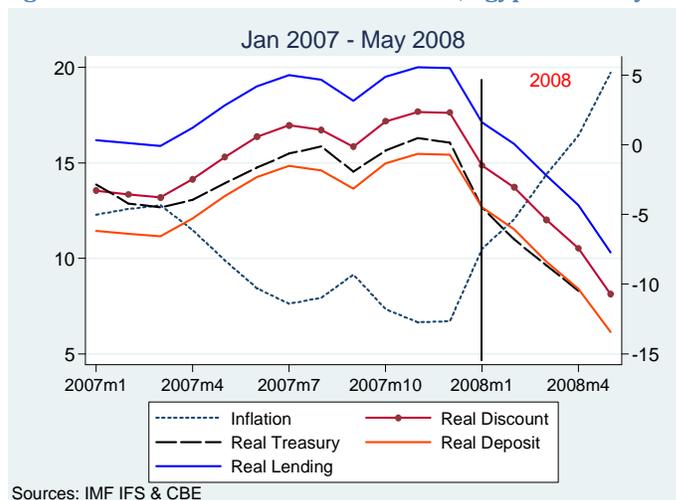
The decline in international oil prices prompted the government to lower the administratively-set domestic energy prices and Jordanian business and consumers can expect to enjoy a little break, to the tune of 5%, in the prices of gasoline and diesel and a similar mild decline in petrol prices¹. This is a little relief however since the increase in the overall consumer prices, CPI, more than doubled, to 13.3% during the first half of 2008 compared to the first half of 2007².

In terms of physical quantities, Jordan’s DOS indicate that during the first five months of 2008, the wholesale industrial production index has increased by 5.2% relative to the index during the same period of 2007. In terms of wholesale prices, DOS data revealed that the whole sale price index has increased markedly, 18.7%, during the first half of 2008 relative to the wholesale price index during the first half of 2007³.

Egypt CBE raises benchmark rate

During the past week, the Central Bank of Egypt (CBE) decided to raise its benchmark rate, the overnight deposit rate, to 11%⁴, for the fifth time this year as inflation continues to soar in the country at around 20%. Figure 2 depicts real interest rates in Egypt which we computed as: published nominal interest rates minus official inflation rates during Jan2007-May2008.

Figure 2: Real Interest Rates & Inflation, Egypt -monthly



Sources: IMF IFS & CBE

¹ Jordan Times, August 10, 2008.

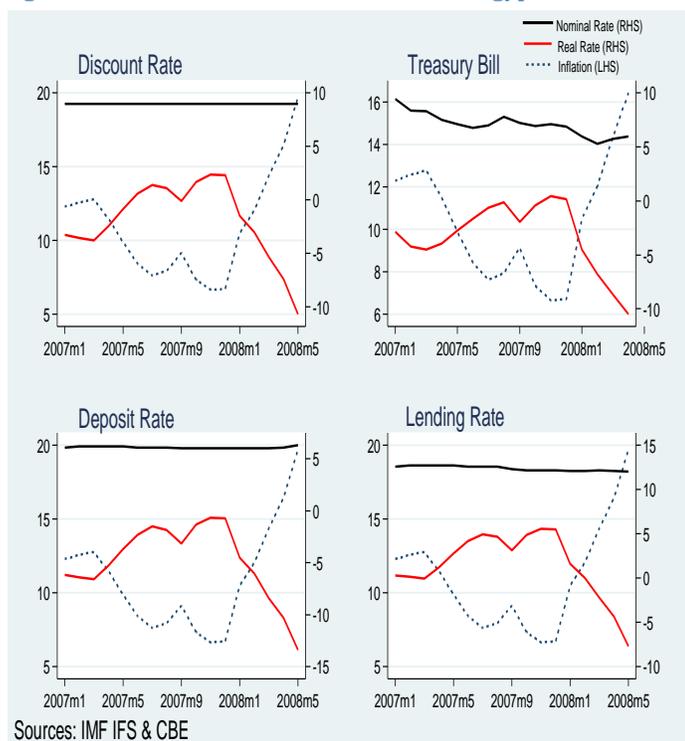
² CBJ, Recent Monetary & Economic Development in Jordan, July 2008

³ Department of Statistics, Jordan August 2008 www.dos.gov.jo

⁴ Bloomberg August 8, 2008

The discerning reader will notice that the discount rate represents the rate at which CBE discounts commercial paper to banks. Deposit and lending rates are respectively on deposits less than three months, and loans less than one year. Finally, the Treasury bill rate is the weighted average based on the last auction of the month of the 3-month Treasury bill. During May 2008, consumer prices rose by 19.72%, causing real interest rates to fall sharply. Figure 3 contrasts nominal interest rates with real interest rates. All real interest rates are negative with the rate on short-term deposits falling to -13.42% during May.

Figure 3: Real vs. Nominal Interest Rates in Egypt



MENA Markets

The ASE continues to decline despite strong corporate earnings. The Saudi exchange announced last week that the names of investors holding stakes of 5% or more in any of the 124 listed companies would be published on a daily basis from August 16. The move is aimed at bringing Tadawul in line with Western standards of market transparency, but provoked an exodus of capital as investors feared their holdings would become public knowledge. The exchange dropped 107 points on August 2, and had fallen for eight consecutive days by August 4⁵.

⁵ (OBG, August 7, 2008).

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Table 1: Selected Market Indices

Index	Week ending 8/1/2008	Week ending 8/8/2008	Change
Jordan	4629	4467.2	(3.50%)
KSA	8740.74	8,451.06	(3.31%)
Morocco	14237.85	14,161.63	(0.54%)
Egypt	9251.19	8,878.86	(4.02%)

Sources: Bloomberg and Official Markets

DID YOU KNOW?

- ❖ Food prices in Jordan constitute the largest weight among CPI components, 39.7%. Their prices (inflation) were up by 15.9% during the first half of 2008 against a rise of 10.9% over the same period in 2007 (CBJ, Recent Monetary & Economic Developments in Jordan, July 2008).
- ❖ Sales of apartments in Jordan has increased during the first seven months of 2008 by 24% relative to the same period of 2007 (Ad-Dustour, August 10, 2008).
- ❖ GCC projects market has topped \$ 2 trillion in late July 2008. Construction was the leading sector with a whopping share of 84.3% of all projects, followed by oil & gas at 6.1% and the power sector at 4.6%, petrochemicals 2.2%, industry 1.9% and waste & water 0.9% (MEED, August 2008)
- ❖ The Brazilian-stat-run oil company Petrobras has announced the discovery of yet another light crude deposit. The new find is located in Santos' ultra-deep "pre-salt" layer near the famed Tupi field, which was discovered by Petrobras in late 2006 and is estimated to hold between 5-7 million of recoverable reserves (Poten & partners, August 8, 2008).

INFORMATION

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