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In this Issue:

Costly Oil Sands and Bio-Fuels Firm-up Oil prices

In addition to the potential roles of industry fundamentals, speculations and geopolitics, oil prices sustained at high levels are critical for the viability of the production of oil sands[1] especially in Alberta, Canada with more than 85% of Canada's oil sands production exported into the USA; the latter considers Canada as a "energy secure, friendly and reliable" oil source. Yet high oil prices are also needed for other policy objectives, particularly the development of alternative energy technologies for the success of the US- Congress program of supporting the evolution of biofuels as alternatives to oil. The story is as follows[2]: Since 2005, the US Congress has begun requiring that an increasing portion of U.S. motor fuels come from ethanol. Because ethanol comes from plant material that is US-grown, it is hoped that this mandate will, in the long run, reduce U.S. dependency on crude oil. Originally in 2005 the US Congress required that 5.4 billion gallons of biofuels be blended with gasoline in 2008. This amount would then increase to 7.5 billion gallons in 2012. The Energy Independence and Security Act of 2007 (EISA) increased the target for 2008 to 9 billion gallons and extended the mandate through 2022, when 36 billion gallons of biofuel are to be blended. Large lands are being converted into corn production and in the process putting significant upward strains on land prices and agricultural costs of productions. Many analysts believe that the programs of US Congress will have adverse effects on the environment and on food prices worldwide and will not help achieve the desired objectives. While time can only tell, the programs are one important source that could also firm up oil prices at high levels.

IMF and Jordan

On August 22 2008 the IMF published its annual report (Article 1V) on Jordan. Among other things, the report highlights Jordan's credit expansion noting that it has been largely in local currency, reflecting prudential restrictions on foreign currency lending. Loans for real estate and to buy stocks have grown rapidly in recent years, though their pace decelerated in 2007. According to IMF, several Jordanian banks are now close to the 20 percent real estate exposure limit which includes loans to construction sector.

The IMF report notes that with the dinar pegged to the US dollar, the real effective exchange rate, REER, has depreciated by 161/2 percent relative to its peak in 2002. By the end of 2007 the REER was below its 10 year and 15 year historical averages[3].

Stock Markets: Banks and Industry Sectors of Jordan & KSA

Figure 1 below depicts daily movements of the banking and industrial indices as well as the general share index in Jordan and KSA from June 2005 to June 2008. We used the newly implemented free float share indices for Jordan. In contrast, we used the old index in KSA before the recent restructuring since the new index only goes back to 2007. It is interesting to note that the market boom and bust had a much smaller effect on industrial shares compared to banking shares in Jordan, while in KSA both sectors dropped sharply. Moreover, the industrial sector in Jordan recorded a magnificent increase in the first half of 2008, rising by 77% boosted by the incredible growth in the prices of mining shares. The banking sector is a major driver of ASE; however during the period under consideration, it grew mildly with the index rising by 8% in Jordan while declining by 20% in KSA over the same period. In general, the stock market in Jordan outperformed KSA with the ASE general index rising by 27% compared to just 0.46% for TASI in the first six months of the year.

[1] Hargreaves S: "Why oil won't fall below $100" CNNMony.com, August 22, 08.

[2] Joshua A. Byrge and Kevin L. Kliesen Ethanol: Economic Gain or Drain? FED Saint Louis July 2008

[3] IMF (August 22, 2008): "Jordan: Staff Report for the 2008 Article IV Consultation": www.imf.org

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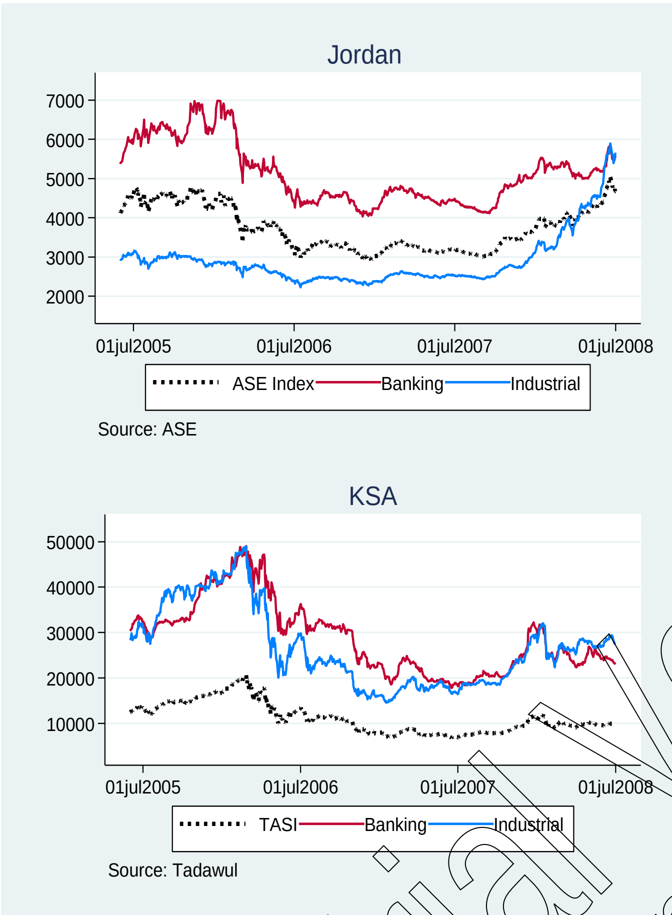
Figure 1: Stock Market Indices in Jordan and KSA



MENA Markets

Except for KSA, almost all markets in the MENA declined. The ASE registered its largest weekly decline since 2005 as panic drove investors to sell[4]. In Egypt, the stock market suffered after Fitch Ratings downgraded both the outlook and the local currency rating for Egypt as a result of the escalating inflation[5]. The Saudi market advanced as worries about the new regulations, effective since last Saturday, disappeared[6].

Table 3: Selected Market Indices

Index	Week ending 8/15/2008	Week ending 8/22/2008	Change
Jordan	4434	4040	(8.89%)
KSA	8,188.30	8,463.71	3.36%
Morocco	14,073.49	13,904.43	(1.20%)
Egypt	8,223.08	7,982.74	(2.92%)

Sources: Bloomberg and Official Markets

DID YOU KNOW?

- During the first half of 2008, M2 in KSA went up by 3.3% according to data from SAMA. While M1 increased by 7.8% for the same period, time and savings deposits declined by 2.8%. According to CBJ monthly report of July 2008, domestic liquidity in Jordan (M2) rose by 16% during the first half of 2008 compared to the first half of 2007. Net domestic assets in the banking system grew by 28.2% compared to the end of 2007 boosted by the growth in net domestic assets at licensed banks. In contrast, net foreign assets contracted by 7.1% for the same period as net foreign assets declined at both licensed banks and CBJ.

- Imbalance in the housing market of the GCC countries is triggering policy actions. UAE authorities have recently decided to allow foreigners who are not nationals of Gulf Cooperation Council (GCC) member states to own most property on 99 year leases. This move is designed to encourage foreign investment in the construction and real estate sectors, with the effect of boosting supply (OBG, August 22, 2008).

- The Canadian dollar has been highly correlated with the price of oil, with the two tracking each other with over 80% precision. As the price of oil goes up, Canadian firms benefit from greater export revenues, improving Canada's trade balance and adding to positive growth in overall national income. The relationship holds because the global price of oil is denominated in US dollars, and because the NAFTA trade agreement allows for free movement of goods and capital across the US/Canadian border (Bloomberg; August 22, 2008)

INFORMATION

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[4] Al-Rai, 23 August 2008
[5] Daily News Egypt, 22 August 2008
[6] Aleqt, 22 August 2008