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In this Issue:

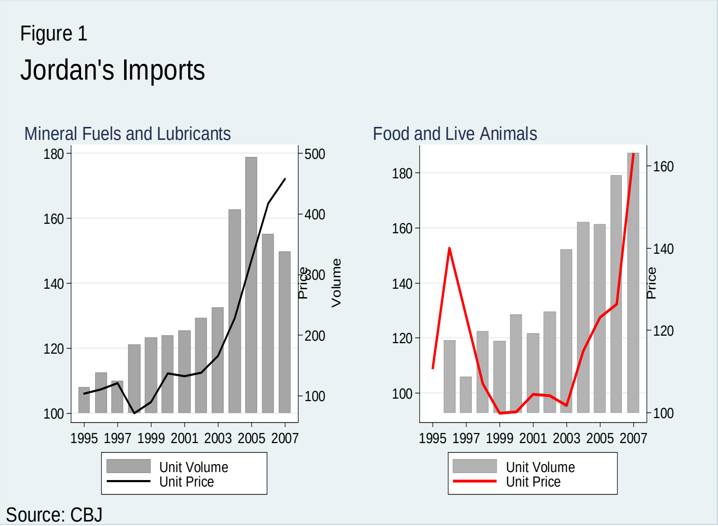
- International developments.
- Jordan & MENA
- Markets developments
- Did you know?

International

According to the IMF-produced Global Financial Stability Report, April 08, falling U.S. housing prices and rising delinquencies could lead to aggregate losses to the residential mortgage market and related securities of about $ 565 billion, including the expected depreciation of prime loans. Adding other categories of loans originated and securities issued in the U.S related to commercial real estate, the consumer credit market and corporations increases aggregate losses to about $945 billion. Global banks are likely to shoulder roughly half of aggregate potential losses, totaling from $440 billion to $4 510 billion, with insurance companies, pension funds, money market funds, hedge funds, and other institutional investors accounting for the balance[1].

Jordan and MENA

The rising commodity prices that are imported into Jordan are negatively affecting economic activities, both domestic and external. To start with, there has been a sharp escalation in import prices of such commodities as minerals fuels and food as shown in Figure 1.



As a result, the inflation rate of imported food and fuel has risen markedly. As expected, increasing fuel and commodity costs have been exerting upward pressures on the production costs of Jordanian manufacturers and entrepreneurs.

The third highly significant development is that rising commodity prices, and increasing production costs are in turn increasing the credit risk which local banks encounter as their clients, the borrowers try to extend the tenor of their loans and/or apply for additional financing.

Beyond that however, rising domestic production cost is causing marked reduction in Jordan's terms of trade, shown in Figure 2. Terms of trade are simply the ratio of the price Jordan receives for its export commodity, say potash, to the price it pays for its import commodity, say fuels.

Higher production costs also lower Jordan's cost competitiveness, relative to other suppliers of textiles. This is revealed by recent drops of exports, especially textile and apparel that are usually destined to the U.S. market. Admittedly however, the drop is reinforced by the on-going economic slow-down in the U.S.

Now, contrast Jordan's reduced exports with the recent sharp increases in imports and you reach the unpleasant conclusion that Jordan's trade deficit is increasing. Needless to say that because the government still maintains some measure of energy subsidy, increased prices of imported commodities will also affect in a negative way Jordan's fiscal balance.

In the region, massive increases in oil & gas export earnings along with increased liquidity are contributing to remarkable real estate growth. One measure of real estate demand expansion is in terms of "available gross leasable area" (GLA). During the period 2000-2007, this measure has undergone remarkable escalation in the GCC countries, by about 570%.

As well, booming real estate demand is leading land prices to soar. For example, in Amman, land prices recently averaged about 1,700 $/square meter which is cheaper than a similar land size in Riyadh, $3,400, in Beirut at $5000, in Doha at $8900 or certainly in Kuwait at $45,000- all prices are per square meter[2].

However, the booming real estate sector is exacerbating the already "strained GCC labor markets" by contributing to the shortages of project managers, site engineers and finance talent along with rising scarcity of skilled and experienced workers in general. Skill-specific shortages are causing wages to trend sharply upwards. As expected, the developments are increasing the costs of construction projects and feeding into the already rising inflationary pressures.

Because the GCC economies depend heavily on expatriate workers, the rising labor needs and costs translate into increased leakages in terms of out-flows of remittances. Already Saudi Arabia is the

[1] IMF Global Financial Report, April 2008.

[2] MEED

second largest country in the world after the U.S. in terms of the magnitude of remittances outflows. The anomaly is that unemployment rates are quite high among "nationals" of the GCC labor force. The shortages and their cost and inflation ramifications are reminders of the importance of properly aligning graduates of the education system with anticipated labor market needs so as to turn out requisite numbers, diversity and quality of domestic skills. As well, they indicate the importance of well-designed migration and labor market policy.

The rippling effects of these developments seep through to the banking sector. As construction costs increase, GCC bank borrowers find themselves in need of longer tenor and larger loans in order to meet outstanding project commitments. When inflation expectations and uncertainties about future oil and gas prices are factored in, prudence requires banks to properly price the associated credit risks.

Market Developments

Global equity markets were bullish this week, as first quarter results, despite losses, were higher than what investors expected. Yet, money markets witnessed turbulence as the three month dollar LIBOR's jump on Friday led to large reductions in bonds and interest rate swaps. In addition, the increase caused disruptions in the futures market as well[3].

Table 1 Selected Market Indices

Index	Week ending 4/18/2008	Week ending 4/11/2008	Change
Jordan	8652.00	8639.00	0.15%
KSA	9,630.37	9501.72	1.35%
Morocco	14,554.55	14789.13	-1.59%
S&P500	1,390.33	1332.82	4.31%
NIKKEI	13,476.45	13323.73	1.15%
FTSE100	6,056.50	5895.5	2.73%

Sources: Bloomberg and Official Markets

In Jordan, the ASE had surpassed 8800 points early last week supported by energy and mining shares[4]. Shares in the Saudi Exchange extended gains as the Tadawul All-Share Index (TASI) went up by 1.35%. The Saudi market became the first in the GCC to adopt a free-float methodology for its indices. The new method is expected to significantly change the rankings of the top 10 companies, in addition to reducing market concentration. It is s estimated that Arab markets have gained almost $ 65 billion in the first half of April. (Zawya)

Table 2 Selected Commodities

	Week ending 4/18/2008	Week ending 4/11/2008	Change %
Oil WTI ($/bbl)	116.69	110.15	5.94%
Gold ($/oz)	908.75	927.75	-2.05%
Natural Gas	10.200	9.97	2.31%

Source: WSJ

The dollar weakness, early last week, led to price surges in the commodities markets that culminated on Friday as crude oil broke new records at $ 117/bbl. On the other hand, and as anticipated the week before, gold and silver tumbled as precious metals continue to lose their appeal as a safe haven for investors.

The food crisis continued to escalate as rice prices climbed to a record $ 1000 a ton as importers scrambled to secure supplies. The situation is already difficult due to the export restrictions in Vietnam, Egypt, India and other rice exporters[5].

Did You Know?

- The IMF forecasts that the Jordanian economy will grow in real terms by 5.7% in the next two years. However, Business Monitor forecasts a lower rate of 4.9% (IMF).
- The IMF has moderated its forecast of global economic growth to 3.7% for 2008 and 2009.
- Over the past two decades housing prices have increased so much because lenders demanded too little returns for the mortgage risk that they were taking. In mid 1980s, the ratio of housing prices to earnings was about 4. In the mid 2007, that ratio had jumped to nearly 5.5 (IMF, 08).
- While Chinese economy expanded at 11.4% in 2007, the highest rate of growth in 13 years, power shortages hit 13 provinces in central China owing to increased demand during heavy snowfall. The shortage reached 69.3 gigawatts, just short of the entire energy output of the UK (Gabe Collins).
- According to EIA, the global market share of liquid petroleum is posited to be 34% in 2030, down from 38% in 2005.
- The "Great Moderation" is a term given to the phenomenon of reduced volatility of aggregate economic activity during the past 20 years in most of the industrialized world. Most common explanations for reduced volatility are better monetary policy, better inventory management, and perhaps good luck.

INFORMATION

AB Weekly Economic Monitor provides weekly review of information and regional development. The weekly is authored by Dr.Sulayman Al-Qudsi, Chief Economist, AB Plc. Jordan

E-mail: Dr.sulayman.alqudsi@arabbank.com.jo ,phone: +96796181733
Contributors are: Dr. Ahmad Abd Al Halim, Mr. Walid Samhouri, Hanan Marar , Shifa Obeid, Suad Dandeis, Fairs Numan, Ala' Kaloti
Research Department at AB, Jordan Headquarters.

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