To: Jeffrey Epstein[jeeproject@yahoo.com]
From: Sultan Bin Sulayem
Sent: Thur 11/19/2009 12:19:17 PM

Road to Recovery, Part I

Posted By Scott MacMillan On November 18, 2009 @ 3:42 pm In Cover Story,Regional, Special report, economy | No Comments

Bad news is often stickier than good news. Regardless of whether it's true or not, it's something that certainly holds true for the economic outlook of the Gulf. Dubai in particular has received a severe lashing from the international press since late 2008, with the UAE's largest city painted not merely as a victim of the global economic malaise but as a symbol of hubristic overreach that received its deserved comeuppance.

A growing number of economists say the pessimism has been overdone and that the picture for the Gulf is not nearly as dark as it seemed just a few months ago. Indeed, a consensus is building that not only is the region headed for robust recovery, but that the silver lining may soon eclipse the cloud itself.

Some experts say the Dubai crash, along with the lessons likely to be learned from it, may have even been the best thing that could have happened to the UAE and its neighbors, for if the 2002-2008 boom had continued, a number of much needed reforms might have been delayed indefinitely, leading to more lasting damage further down the road.

To be sure, those interested in the bad news have no shortage of stories to choose from. There's the $10 billion fraud allegation leveled against the head of Saudi conglomerate Saad Group, a scandal that suggests lending practices at Gulf banks have been less than stringent.

Or to take a more recent example, the "travel news" section of *The Times*newspaper recently reported - on tenuous grounds, citing a single unnamed property agent as its source - that Nakheel's landmark island chain development The World had been "canceled," the quoted source adding that the man-made archipelago "doesn't even look like the world" and that most of it resembles "a pile of muck." The suicide of the buyer of Ireland was offered as further evidence of The World's apparent failure.

Never mind Nakheel's assurances, published in the Dubai daily the *Khaleej Times*, that it has already handed over 33 islands to buyers, or the recent report in*Arabian Business* that Safi Qurashi, the British property developer who bought the Great Britain island for $60 million in May 2008 started building on it immediately after Ramadan. The World, rightly or wrongly, has become yet another symbol of Dubai's folly.

The case of Nakheel is emblematic of the rush to judgment in a situation more nuanced than most boosters or detractors would have it. Like many Dubai developers, Nakheel is a troubled firm. Its bonds and sukuk (Islamic bond) certificates were trading at levels that resembled junk bonds earlier this year, with yields reaching as high as 85 percent at one point. Several developments have been suspended before they even began, including another man-made island chain slated to surround The World called - what else? - The Universe, announced at the boom's tail end in 2008.

Other projects have been subjected to little or no scrutiny. Take Dubai Promenade, for instance, a million-square-meter waterfront development adjacent to Dubai Marina, notable for the building depicted on promotional drawings which resembled a donut standing on end. It was clear to anyone who visited the construction site in the spring that work had come to a halt.

Not a crane, truck or bulldozer was to be found on the vast expanse of reclaimed land, and even the on-site offices had been cleared of everything but the furniture. Dubai Promenade's Web site still promises "a sophisticated waterfront community" with "breathtaking vistas from every direction" as though the Dubai property boom was still in full swing.

In previous years, words such as those lured lenders like flies to honey, but during the first half of 2009, holders of Nakheel sukuk certificates began to get skittish about how the company would pay off its $3.52 billion in obligations due in December, sending the price plummeting.

Sentiment began rebounding over the summer, with investors becoming more bullish on Nakheel, on Dubai as a whole, and on the Gulf in general. By August, Nakheel's sukuk price had risen 46 percent from its February low of63.5 cents on the dollar, a movement Abu Dhabi daily The National called "one of the clearest indications yet that Dubai is getting the upper hand on the financial crisis."

Markets had watched the issue as an indicator of how the Dubai government would handle the emirate's $80 billion-plus debt load, and it was gradually becoming clear that the government would not allow Nakheel to default, aided as it was by the UAE central bank, which came to the rescue earlier this year by buying at least $10 billion of Dubai's $20 billion bond issue.

Whatever Nakheel's woes, there's still plenty of money to go around.

In August, Bank of America Merrill Lynch raised its 2010 growth forecast for the GCC from 3.2 percent to 3.7 percent, reflecting growing confidence that the region would emerge from the economic downturn faster and stronger than it had previously expected. Although the bank's forecast for 2009 growth remained below market consensus at -1 percent, it laid out a case for renewed bullishness next year.

For one thing, oil prices are likely to remain high, leading to sustained budget surpluses. Even at the worst of times around the New Year, oil only dipped to $35 a barrel, relatively high compared to prior downturns, and going into the fourth quarter of 2009 it was trading at roughly double that, close to the $75 per barrel deemed a "fair price" by the leaders of the region's biggest producer, Saudi Arabia.

"There is a kind of consensus - we're not there yet, but we will be in a few months time - that oil prices are going to be much higher than in any previous recession," says Turker Hamzaoglu, an analyst for Bank of America Merrill Lynch in London. "When oil exceeds $65 per barrel, which is our average budget breakeven forecast for the GCC, these countries start saving.

Since we see oil prices at $64 at the end of this year and $82 the next, this is definitely going to be supportive of fiscal balances."

Trends magazine

Sent from my iPhone