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From: Farkas, Andrew L.
Sent: Thur 4/30/2009 6:02:06 PM
Subject: FW: Dubai Woes

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To: Farkas, Andrew L.; Garrison, Frank; Aston, Jim; Carleton, George; Levy, Marc
Subject: Dubai Woes

Dubai's Economic Woes Just Got Worse

• By ANDREW CRITCHLOW

Green shoots in the desert? Not so fast. Hopes that Dubai's economy was starting to recover have been dashed by Standard & Poor's, which has put six of the Gulf emirate's major government-related entities on negative watch ahead of a possible downgrade to junk. That creates fresh doubts about Dubai's ability to raise funds on the international markets, raising the possibility it will need another bailout from Abu Dhabi.

S&P's move comes as a shock since it follows a barrage of recent reassuring statements from Dubai officials -- including ruler Sheik Mohammed bin Rashid al Maktoum -- that the emirate had its financial difficulties now under control. Earlier this year, Dubai secured a \$20 billion emergency bailout program underwritten by the Abu Dhabi-based central bank. Abu Dhabi has already stumped up the first \$10 billion, with international investors expected to provide the rest. That no longer looks so likely.

The S&P action suggests Dubai's economic problems could be much worse than initially thought. What prompted the effective downgrade was confirmation that real-estate developer Nakheel and parent company Dubai World, whose other investments include port operator DP World, may have to restructure their debts amid plummeting revenues. Foreign contractors have also complained of delays in payment.

Bankers say that S&P's action was already priced into the market on Nakheel's debt and credit default swaps on Dubai's debt moved little after the downgrade threat. But this latest blow to confidence is bound to make international investors wary of subscribing to the second half of the \$20 billion emergency bond program.

That would leave Dubai with no option but to go back to Abu Dhabi for the rest of the money. But that won't be easy. Its larger neighbor has its own economic problems. Its sovereign wealth funds are losing money. Last week, Mubadala Development Co. acknowledged it lost more than \$3 billion last year. And with oil prices rooted around \$50 a barrel, Abu Dhabi will have to dip into its foreign reserves to help its federal partners.

In the desert, green shoots often turn out to be mirages.

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