

Monthly Economic Update – September 2011

Executive Summary

*The global economy has been witnessing strong inflationary pressures since mid-2010. Emerging economies have been the worst hit with policymakers in these countries forced to shift focus from growth to checking rising prices. In advanced economies, while the pace of price rise has been lower, it has nevertheless posed a unique problem for central bankers. Across the Eurozone and in the US as well, the direction of monetary policy remains hazy especially if rising prices are coupled with a scenario of slow growth, deteriorating public finances and strong fiscal austerity measures.*

- The inflationary situation since the last year owes its origin to strong demand growth as well as rise in commodity prices. Food and energy have been the usual culprits with the latter in particular putting a heavy burden on low-income groups across the world.

*In the Gulf Cooperation Council (GCC), rising food prices have raised fears of high commodity prices percolating into core inflation. Food inflation is a big threat to the GCC as the region imports almost 90% of their food requirements.*

- However, in a major relief to the GCC, the pressure on prices from rent-related inflation has been low. This is a far cry from the inflationary situation that developed in 2007-08 in the region when a housing bubble had contributed significantly to high consumer prices. With real estate still not significantly reversing trend since the downturn of 2008-09, price pressures from housing will remain low, thereby offsetting some of the pressure on consumer prices from food items.

*In Qatar, after two years of negative inflation, prices have been on an upward trend this year, due to strong economic growth, recovery in property prices, and rising food prices.*

- Inflation reached a 20-month high of 2.1%, in August. The recent salary hike for state government employees has also raised fears of wage-push inflation in the near future. In 2011, the Qatar Central Bank reduced its lending rate twice in an attempt to boost credit growth to the private sector and to match rate decreases in the Fed Fund Rate. This also has the potential to stoke inflation in the future.

*Among recent macroeconomic developments, the IMF has projected the Qatari economy to grow at a strong pace of 18.7% in 2011 on the back of high oil prices and LNG exports. It has, however cut Qatar's growth forecast for 2012 to 6%. Amidst expectation of slowing growth, the economy is also seen grappling with fears of an arbitrary rise in the prices of goods and services after a recent hike in the salaries of state employees. The increase in wages may also prove to be a roadblock in the government's efforts to promote greater employment of nationals in the private sector.*

**MENA**

- According to the IMF, the MENA region may record average growth of 4% in 2011 as higher oil prices are expected to benefit oil exporting economies such as Qatar, Saudi Arabia and Iraq. However, given that a number of downside risks exist, largely in terms of political instability and a slowdown in US and Europe, the region's growth is expected to drop to about 3.6% in 2012.
- **Advanced Economies**
- Despite low mortgage rates, the housing markets in the US remain subdued. New home sales in the US fell to a six-month low, dropping 2.3% in August as buyers deferred their purchase decisions and banks remained cautious about lending. Higher demand for distressed and foreclosure properties has dented appetite for new homes in US. Meanwhile, economic data out of the Eurozone also indicates a slowdown in activity, with the German IFO business climate index falling for the third straight month in September.

**Emerging Economies**

- The economic uncertainty in Europe and the US is beginning to have an adverse impact on emerging economies. China's manufacturing PMI indicated a third consecutive month of contraction. At the same time, India's economic growth slowed to an 18-month low of 7.7% in Q2 2011 from a robust 8.8% a year ago on account of aggressive monetary tightening by the central bank to combat persistently high inflation.

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Theme discussion: Inflation

Inflation: A global phenomenon

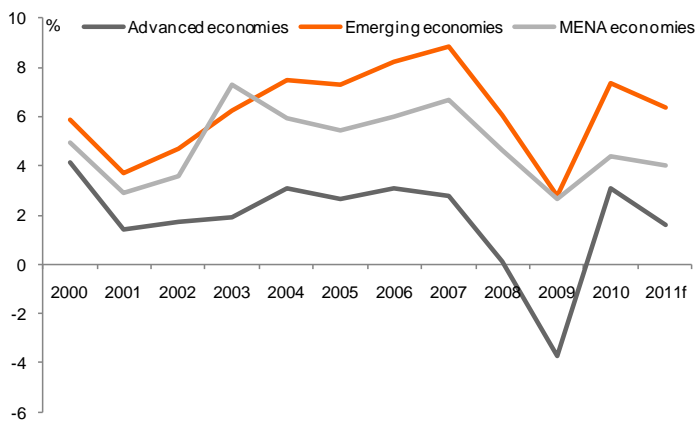
The global economy has been witnessing strong inflationary pressures since the second half of 2010. Prices have been ruling high not only in the fast growing emerging economies of Asia and Latin America but in more mature developed markets as well. This points to the strong presence of supply-side factors behind global inflationary trends – a fact borne out by the sharp revival in commodity prices post the global downturn of 2008-09. Among the former bloc of countries, China and India have been the worst affected; while China has witnessed inflation steadily edging upward to cross the 6% mark, in India inflation has been hovering about the 8-10% mark for quite some time now. In advanced economies, the UK has been the worst affected with inflation in the range of 4-5%, thereby leading to disagreements within the Bank of England (BOE) in its decision to keep monetary policy loose. In the US, a threat of deflation has loomed ever since the recovery stagnated and the Fed's second quantitative easing (worth USD 600 billion) failed to have a deep impact on growth and unemployment. However, even there economists point to supply-driven price pressures percolating down to consumer inflation (latest figure: 3.8%) with others anticipating a sharp and sudden medium-term increase in inflation expectations given an extensive period of loose monetary policy. While spiraling inflation poses the risk of destabilizing growth in countries such as India and China, in others like the Euro zone it has complicated the formulation of monetary policy especially at a time of slow growth, deteriorating public finances and strong fiscal austerity measures.

Inflation trends: Making its presence felt across the globe

During the last decade, the global economy has witnessed unprecedented economic growth with world GDP growing at an average annual rate of close to 4% during 2001-10, higher than the 3% growth recorded in the decade before. However, this rapid growth has also been accompanied by high inflation. Prices have been on a northward trajectory across the globe since 2006 and peaked during mid-2008. Contraction in economic activity in developed economies and slowing growth in emerging ones in 2008-09 meant that inflation simmered down. At the same time, speculative impact on commodities lessened considerably as financials weakened; consequently supply-side pressure on prices eased.

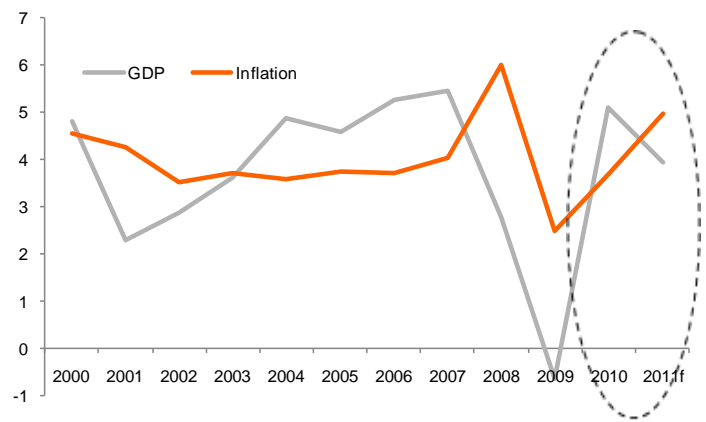
However, this no longer seems to be the case. Commodity prices have recovered with prices nudging back to the highs of mid-2008. Consequently, consumer prices have been affected with economies registering strong growth (like China, India and Brazil) faced with inflation rates way above the targets set by policymakers. Although commodities seem to have scaled back a bit due to economic uncertainties in the US and the Euro zone, nevertheless they remain high enough to destabilize monetary policy in both emerging and developing economies. In fact, the International Monetary Fund (IMF) recently stated that it expects prices to remain stubborn despite a slowdown in economic activity during the year.

Real GDP growth (%)



Source: IMF

World GDP (%) vs. World inflation (%)



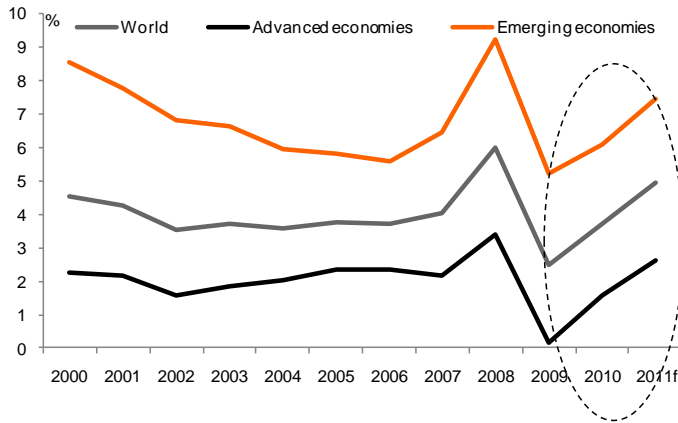
Source: IMF

Emerging economies have been the worst hit

Emerging economies have been worst hit due to the recent bout of inflationary spiral—policymakers in these countries have been forced to focus more on curtailing prices rather than supporting and stimulating economic growth. For example, in India, the Reserve Bank of India (RBI) has raised its key policy rates 12 times since March 2010, but has not been much successful in reducing prices.

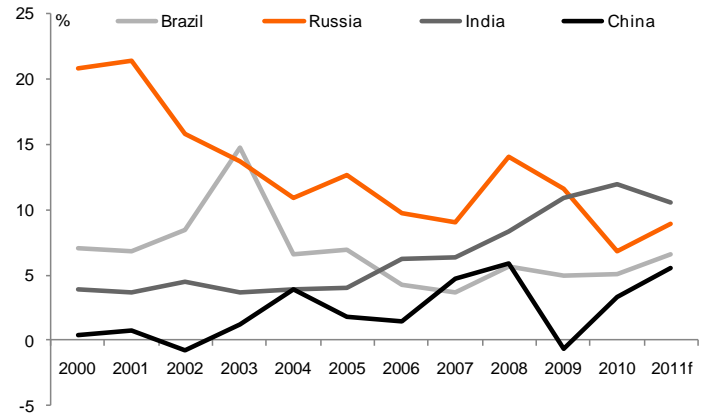
Theme discussion: Inflation

Inflation (%) across key regions



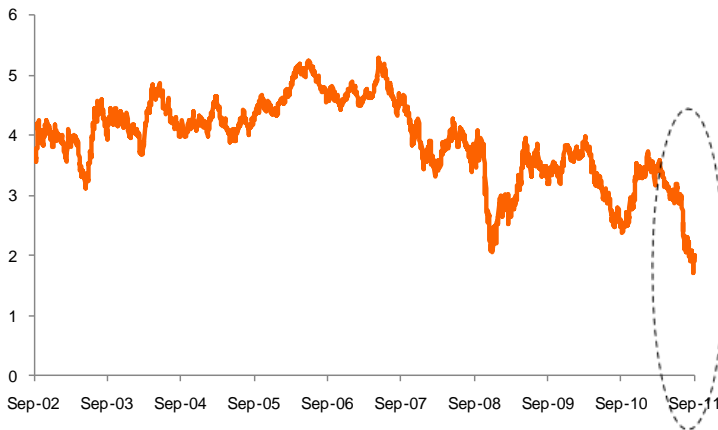
Source: IMF

Inflation (%) in BRIC economies (2000 to 2011)



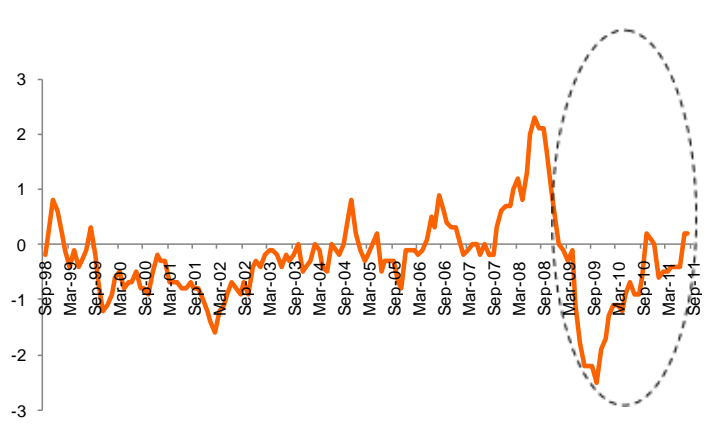
Source: IMF

Ten year US Government bond yield (%)



Source: Bloomberg

Inflation in Japan (%)



Source: Bloomberg

**Advanced economies have not been spared either**

For advanced economies, inflation was on an upward trajectory during much of the first half of 2011. For example, inflation in the UK has been higher than the Bank of England (BOE)'s target of 2% for more than a year. In the Eurozone, inflation reached a three year high of 3% in September. As a result, the European Central Bank (ECB) increased its policy rate twice this year to 1.5%, despite the looming sovereign debt crisis in some of its periphery economies.

Theme discussion: Inflation

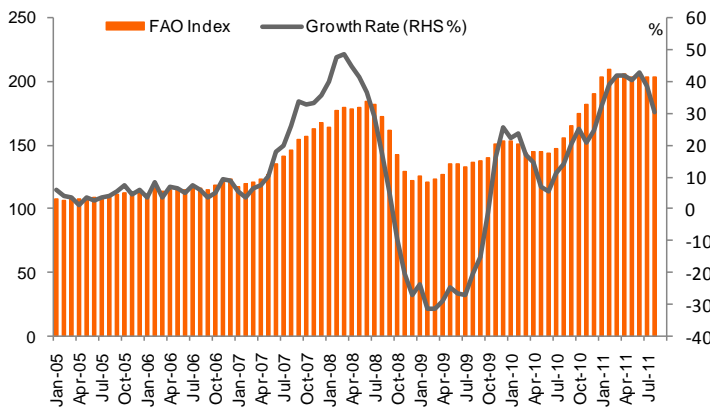
**In the US, a number of economists have voiced fears of deflation**

In the US, however, even though inflation rose to a three year high of 3.8% YoY in August 2011, there are fears of deflation arising in the medium-term given stagnating economic activity, weak consumer spending, fiscal tightening and high unemployment. The yields on ten-year treasury bonds have declined 84 basis points during the last 12 months and are currently at their historic lows. Japan, on the other hand continues to fight deflation with growth of annual consumer prices being in negative territory during the entire first half of 2011. This has prompted growth concerns in the economy.

**Both food and fuel are on the boil**

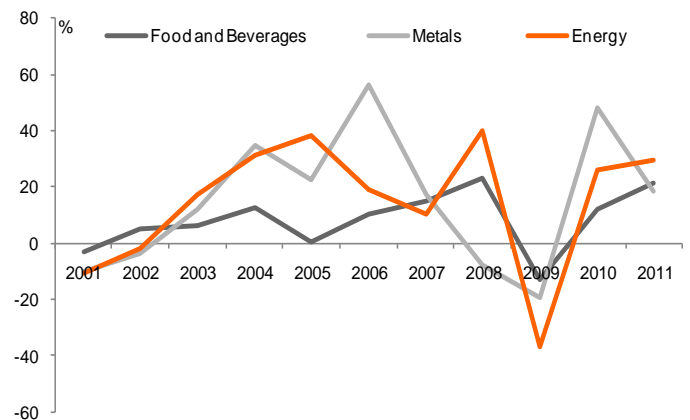
High inflation is being led by spiraling commodity prices. After peaking during mid-2008, food prices moderated significantly during 2009. However, since mid-2010, prices have been on a strong growth trend. As per the Food and Agriculture Organization (FAO), food prices have grown (YoY) in double digits since November 2009. The more worrying trend is that the price rise during 2011 has been even faster. Energy price growth has not been behind and prices are close to their mid-2008 peaks. For example, during April 2011, the spot price of a barrel of Brent crude reached USD110 compared with an average of USD85 during 2010. In 2010, the International Monetary Fund (IMF)'s overall commodity index rose 26.1% (after falling 30.1% in 2009), while the index for energy prices (which takes into account crude, natural gas and coal prices) increased 26.0%.

FAO food price index



Source: FAO, UN

Growth (%) in IMF's commodity indices



Source: IMF

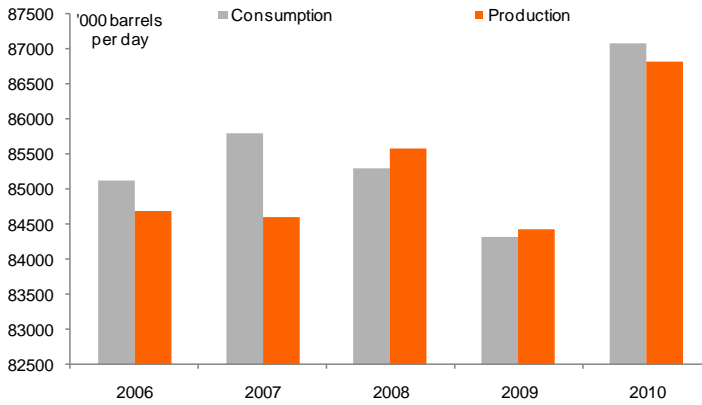
The rise in prices of both commodities (food, energy and metals) is attributable to a growing mismatch in demand and supply. For example during 2010, the difference in production and consumption of petroleum products was around 250 thousand barrels per day, compared to a surplus in production over consumption of 114 thousand barrels per day during 2009.

**Demand side pressures: Strong growth and rising affluence**

One primary reason for the rising demand is attributable to rapid growth, especially in emerging economies, which has not only raised the level of per capita income of people in these countries, but has also moved millions of people out of poverty. As a result of rise in income levels, the demand for products which were previously considered expensive have also increased, resulting in higher demand, especially for food and fuel products which tend to be more price elastic. For example, in recent years demand for protein rich products like meat, pulses, egg, milk has increased in the diets of people living in emerging economies like China, India. The increase in incomes has also raised the aspirations of people living in these countries, which is reflected in increased demand for energy intensive consumer durables, electronic gizmos, automobiles among others, this is also causing prices of fuel and energy products to move upwards. Hence, rapid growth in per capita incomes of these countries is one of the key reasons behind firming up global commodity prices. The increase in prices of food and energy products first impacts the headline inflation numbers and later on transmits to manufactured products, thereby pushing core inflation up in these countries.

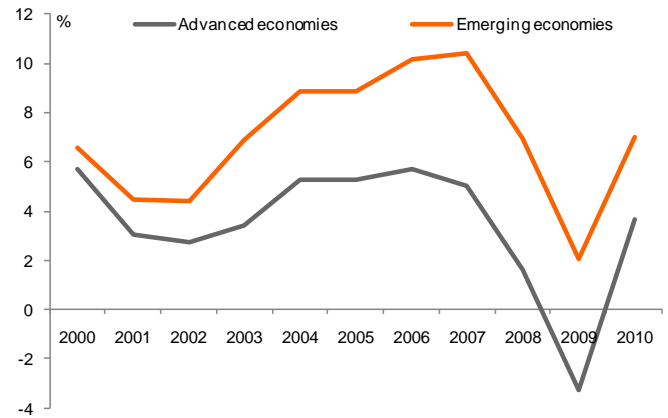
Theme discussion: Inflation

Gap in petroleum production and consumption ('000 barrels/day)



Source: US Energy Information Administration

Growth (%) in GDP per capita (PPP)



Source: IMF

**Loose monetary policy has created a significant wealth effect**

Another possible reason for rise in prices of food and fuel may be explained by the quantitative easing programs in developed countries like US and UK. Expansionary monetary policy, especially in US has prompted money in commodities and is widely blamed for increased speculation in commodities markets, as investors chase real assets and higher returns. This also led to a strong rally in assets markets in emerging countries and has had a significant wealth effect, which has led to the increase in consumer demand and hence in inflation. The wealth effect has been further strengthened by strong growth in real estate prices. For example in China the property prices are today 60% higher, than they were after the 2008 global financial crisis. The real estate bubble, is one of the primary concern for policymakers in the country.

**Supply disruptions have also contributed to price instability**

Increased concerns about supply disruptions due to political instability in the Middle East and North Africa (MENA) region have also contributed to the rise in energy prices in recent months. The political turmoil in Egypt, Tunisia and Libya has impacted oil supply; the crisis in Libya, a vital member of the Organization of Petroleum Exporting Countries (OPEC), has been particularly disruptive for energy markets. After increasing by about 13 % 2010, crude prices are expected rise by about 16% in 2011.

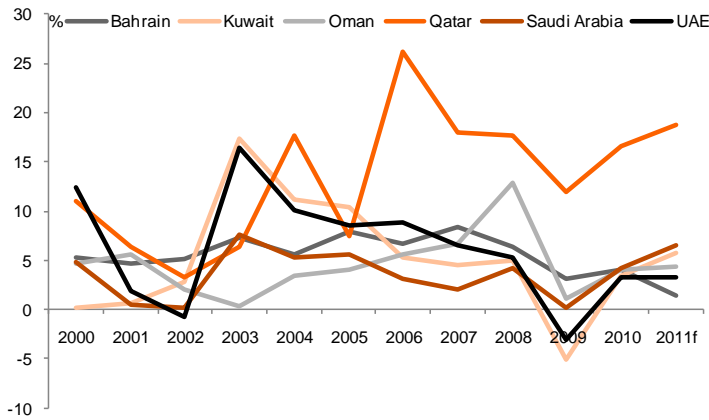
**Inflation in the GCC**

The GCC is no stranger to price spirals; in 2007-08 prices had soared at a rapid pace and even a traditionally low-inflation economy like Saudi Arabia faced rapid growth in consumer prices. A lot of inflationary pressure at that time was due to strong GDP growth in the region. In fact, average GDP growth for the region was close to 6.5% during the last decade. Credit growth was strong given strong domestic economic activity and a prolonged period of loose monetary supply in the US meant that GCC central banks did not have much leeway in tightening policy, given their currencies' peg to the US Dollar.

However, not all pressures were from the demand side. Increasing food prices and a declining greenback meant that food imports got costlier, a fact borne out by high food-related inflation. Housing-related inflation also witnessed a significant jump during that time given a real estate bubble across the region. As a result, consumer prices crept up across the six-member bloc with average inflation touching almost 5% during the last decade. The UAE faced the steepest rise in consumer prices during this time – average inflation clocked 5.2%, compared to 3.4% during the decade of 1990's. UAE was followed by Qatar, which witnessed an inflation of 4.9% during the last decade compared to an average of 2.8% during the decade of 1990's. Saudi Arabia, the region's largest economy witnessed inflation of around 2.4%, compared to 0.9% during 1990's; while Bahrain was the least affected by price pressures.

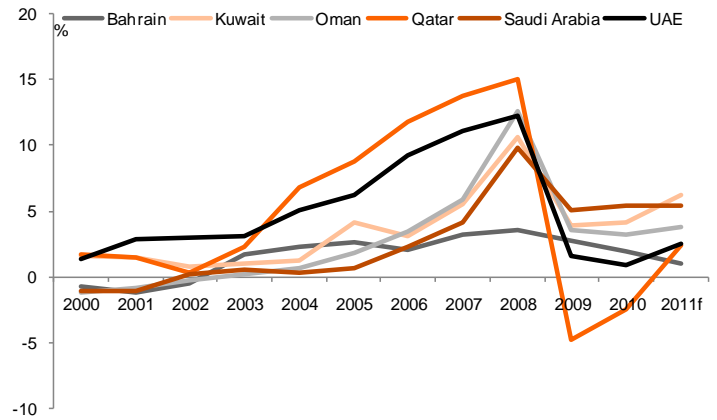
Theme discussion: Inflation

Real GDP growth (%) in various GCC countries



Source: IMF

Inflation (%) in various GCC countries



Source: IMF

**Housing boom led to high inflation during 2008**

Inflation was particularly troublesome in 2007-08 with strong GDP growth coinciding with a peaking of global commodity prices. At the same time, the housing bubble was at its peak. Consequently, average inflation in the region stood at around 6.6% in 2007 and around 11% in 2008. However, the financial crisis of 2008 had a profound impact on the real estate sector in the GCC and resulted in a significant fall in housing prices. As per IMF estimates, real estate prices in Kuwait, Qatar and the UAE plummeted 60%, 40%, and 50%, respectively, from their highs of 2008. Given the significant share of housing in the consumer price indices of GCC countries, the result was a steep fall in inflation across the region (3% in 2009). However, since mid 2010, prices have been moving upwards, led primarily by rising food prices and recovering credit growth.

**High commodity prices leading to high inflation in the region**

High prices, since mid-2010 are being led by high prices of food and fuel. While the GCC region is quite immune from high oil prices, primarily due to huge amount of subsidies which are doled out every year by the Government, high food prices have had an impact on country's headline inflation. There are also growing fears of spilling over of high commodity inflation into core inflation. High food prices are a big threat to GCC, especially because the region imports almost 90% of food requirements. The region imported close to USD 25.8 billion of food during 2010. High dependence on imports makes the GCC food supply highly vulnerable and dependent on the global food market. With prices of food products rising globally the food inflation has been high in GCC. As the levels of income rise in the region, the demand for food is also expected to go up, which has the potential to increase the prices of food.

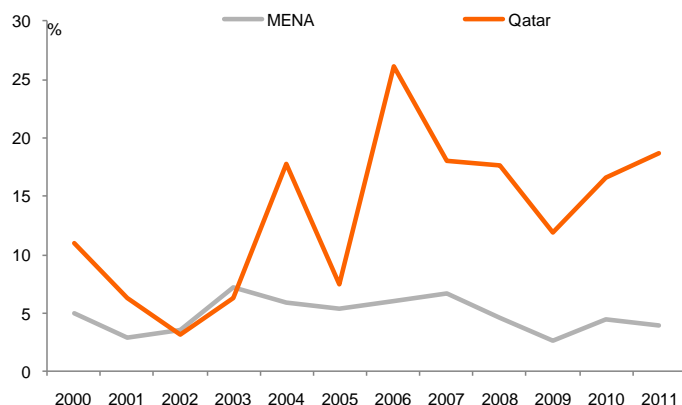
**Inflation in Qatar**

Qatar has witnessed two years of negative inflation. After dropping 4.9% in 2009, the overall Consumer Price Index (CPI) fell 2.4% the next year. Much of this decline in consumer prices can be attributed to lower rental prices, as reflected by the sharp decline in the rental component of CPI. This component of the CPI fell 12.1% in 2009, and by a further 12.7% in the year after. The sharpest fall was recorded in July 2010 when the rental sub-index fell 15.3% YoY. While fall in consumer prices is termed deflation, thankfully Qatar has not experienced the side-effects of it. Normally, a fall in prices is accompanied by lower consumption as households postpone purchases, expecting further drop in prices. This has not been the case with Qatar, as on the fiscal front the government has been proactive investing in economic diversification and infrastructure projects. Consequently, despite falling prices, GDP growth was strong in the past two years – in 2009 the economy grew by 11.9% while in the following year growth was 16.6%.

This year, the prices have shown an upward trend with strong economic growth, a recovery in property prices, an expansionary budget and rising global commodity prices together making their presence felt. Strong GDP growth has also led to higher demand-side pressures – the IMF expects Qatar's real GDP to expand 18.7% in 2011 before moderating to 6.1% next year. Accordingly, consumer prices are likely to increase 2.3% in 2011 and 4.1% in 2012. The figure, however, is likely to be lower than most of the country's peers in the MENA region. Overall inflation in the MENA region stood at 6.8% in 2010 and is likely to shoot up to a little under 10.0% next year.

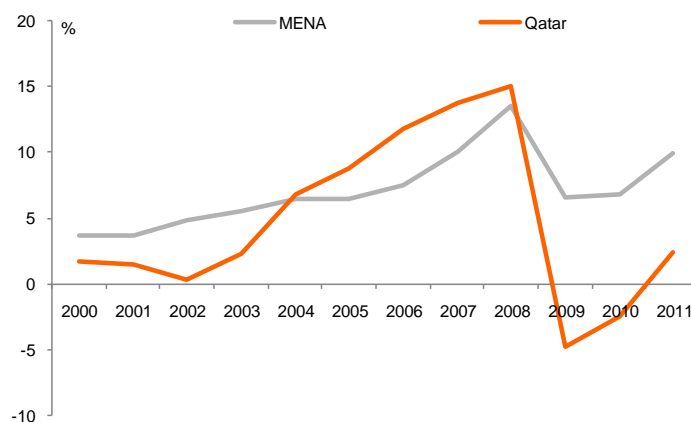
Theme discussion: Inflation

GDP growth (%) in MENA and Qatar



Source: IMF

Inflation (%) in MENA and Qatar



Source: IMF

Current trends: a look at the trend in components this year

According to the Qatar Statistics Authority (QSA), the CPI in Qatar is made up of eight components. 'Housing' is the most important component (32.2% share); followed by the 'Transport and communication' sector (20.5%) and the 'Food and beverages' sector (13.2%). According to the latest available data, inflation in Qatar reached a 20 month high of 2.1% in August, compared to 1.9% in July. The increase in CPI can be ascribed to growth in prices of 'Garments & footwear', which rose by 7.6% and 'Miscellaneous goods and services' which rose by 7.7%. On the other hand, the 'Transport and communications sector grew by 6.7%, the prices of 'Food and beverages' grew by 3.4%. The prices of 'Rent, fuel and energy' declined by 3.5% during the month.

CPI growth (%) in Qatar [January 2011 to August 2011]

	January	February	March	April	May	June	July	August
<b>CPI</b>	<b>1.5</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>2.1</b>
Food, beverages and tobacco	4.6	4.4	5.2	4.3	4.5	5.9	5.2	3.4
Garments and footwear	7.8	10.1	8.6	7.8	7.9	9.3	6.2	7.6
Rent, fuel and energy	-5.4	-5.7	-5.1	-4.5	-3.8	-4.4	-3.6	-3.5
Furniture, textiles and home appliances	1.5	1.8	2	2	2.4	1.7	2.1	1.9
Medical care and medical services	1.6	1.6	2.7	2.5	2.5	2.5	2.5	2.5
Transport and communications	5.9	7.5	6.2	5.7	5.3	5.9	6.2	6.7
Entertainment, recreation and culture	3.4	2.2	1.1	0.5	0.4	-1	-0.5	-0.4
Miscellaneous goods and services	4.6	5.4	5.2	4.4	4.8	4.6	5.4	7.7

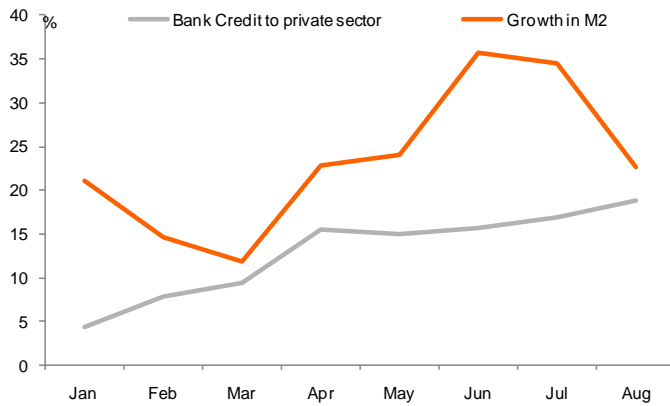
Source: Qatar Statistics Authority (QSA)

Money supply and credit growth: sustained growth could lead to price pressures

Qatar reduced its lending rate by 50 basis points to 4.5% in August. This was the second such reduction by the Qatar Central Bank this year (the previous rate cut of 50 basis points took place in April). The move is intended to boost credit growth in the private sector. Private sector credit grew just 7.6% during 2010, compared to a 38.4% rise in public sector credit. Businesses and consumers continue to remain cautious due to external economic conditions, though domestic factors are likely to prop up sentiments this year. This is already visible with a steady rise in credit growth since April 2011, partially supported by twin rate reductions by the Qatar Central Bank. Consequently, private sector credit growth grew to 18.8% in August. If this pace of increase in credit growth is sustained, it could have an impact on consumer prices towards the first quarter of next year. However, this need not be so given the completion of a number of infrastructure and gas-related projects next year. As a result, growth in credit to the public sector is likely to decline, thereby nullifying some of the impact of higher private sector credit growth.

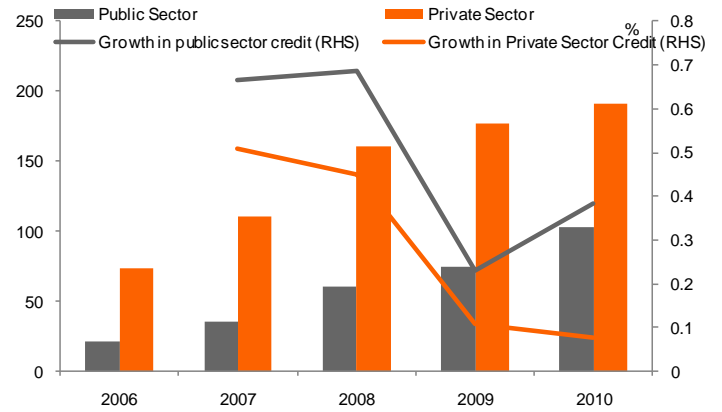
Theme discussion: Inflation

Growth (%) in M2 and private sector credit



Source: Qatar Statistics Authority (QSA)

Credit to public and private sector in Qatar (in billions of QAR)



Source: Qatar Statistics Authority (QSA)

Recent salary hike increases fears of wage-push inflation

Recently the Qatar state significantly increased the salary, pension and benefits for state employees and military workers, which is expected to cost about 10 billion QAR or USD 2.7 billion per year to the state exchequer. The increase has stoked fears of potential wage-push inflation, as this may also prompt other companies in the private sector to increase the salary of their employees.

Problems for policymakers

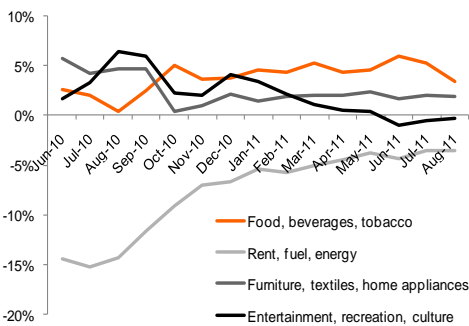
In the GCC, expectations of a high inflation have raised tough questions for policymakers. The most pertinent among them is the policy trade-off because of the peg of the region's currencies (except the Kuwaiti Dinar) with the US dollar. Although Kuwait pegs its currency to a basket of currencies, the basket is believed to be heavily weighted towards the dollar. The currency peg renders monetary policy in GCC dependent on the US Federal Reserve. The currency peg may work well, when both the economies are at similar business cycles; however it can create serious issues for policymakers, when one economy is trying to stimulate growth by lowering interest rates, while the other is fighting inflation. This was evident during 2008, when the US Federal Reserve reduced interest rates in an attempt to stimulate economic growth. The GCC at that time was witnessing high inflationary pressures. As a result it was unable to hike interest rates to fight inflation. The problem may resurface again, as inflationary pressures build up in the region and given the fact that the US Federal Reserve has indicated its intent to keep interest at zero percent at least until mid-2013.

Economic Developments

Qatar- Major macroeconomic events

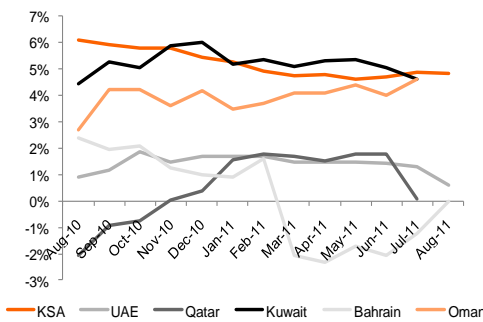
- Qatar's GDP to decelerate in 2012:** The International Monetary Fund (IMF) expects the Qatari economy to expand 18.7% in 2011 on high oil prices and LNG exports; however, growth is expected to decelerate to 6% in 2012 due to the completion of its mega gas projects towards the end of 2010. The country's LNG exports grew by at least 15% annually over the past 10 years before stabilizing at 77 million tones at the end of 2010 due to the completion of major LNG projects last year.
- Dip in real estate transactions in Qatar:** Real estate activity in Qatar declined last month due to slowing business during the holy month of Ramadan. Real estate transactions fell 6% MoM in August; transaction value stood at around QAR1.46 billion. Majority of the deals were for land plots (accounting for 81% of total transactions). The remaining transactions were in villas (8%), houses (7%), and buildings and residential complexes (2%).
- Qatar Gas plans to double LNG exports to Asia:** Qatar Gas recently announced its plans to double its long-term LNG supply contracts to Asia (from the present 11 million tons to 20 million tons). The company has already committed additional 9 million tons of short-term LNG supplies to Japan following the earthquake. China and Japan are presently the company's biggest buyers of LNG in Asia.
- S&P affirms strong ratings for Qatar:** Standard & Poor's Ratings Services affirmed its 'AA/A-1+' sovereign credit rating for Qatar with a 'Stable' outlook. The decision is based on the country's strong fiscal and external balances. In addition, Qatar's financial system remains well capitalized and has low levels of non-performing loans. This allows the nation to spend heavily on economic development even as major developed economies are forced to cut spending.
- Qatar's Barzan seeks a USD5 billion loan:** Qatar's USD10 billion Barzan gas project (a joint venture between Qatar Petroleum and Exxon Mobil) is seeking a loan of USD5 billion. The JV is looking to raise USD10 billion (USD7 billion through bonds and loans and USD3 billion in equity). Barzan, which would supply natural gas to Qatar, is the nation's largest project since Royal Dutch Shell launched a USD19 billion Pearl gas-to-liquids plant in 2006.

Inflation in Qatar



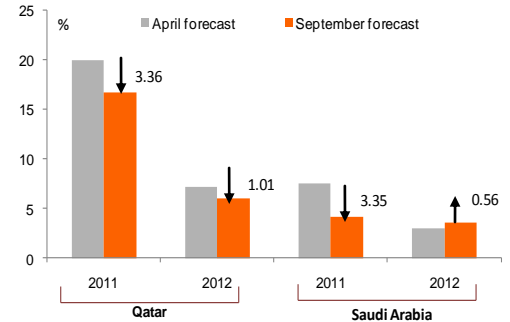
Source: Qatar Statistics Authority

Headline (CPI) inflation in the GCC



Source: Central banks of respective countries

GDP growth: change in IMF forecasts



Source: IMF

Sovereign ratings of GCC and other key global economies

Rating Agency	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	Portugal	Ireland	Greece	Spain	Germany	France	UK	US
S&P	BBB	AA	A	AA	AA-	-	BBB-	BBB+	CC	AA	AAAu	AAAu	AAAu	AA+u
Moody's	Baa1	Aa2	A1	Aa2	Aa3	Aa2	Ba2	Ba1	Ca	Aa2	Aaa	Aaa	Aaa	Aaa
Fitch	BBB	AA	-	-	AA-	-	BBB-	BBB+	CCC	AA+	AAA	AAA	AAA	AAA

Source: Bloomberg

Economic Developments

MENA

- **MENA region to grow 4% in 2011:** According to the IMF, the MENA region may record average growth of 4% in 2011 as higher oil prices are expected to benefit oil exporting economies such as Qatar, Saudi Arabia and Iraq. The IMF also highlights significant downside risks to the region's outlook, largely due to political instability in the region and slowdown in the US and Europe. Considering the uncertain global economic scenario, the region's growth is expected to drop to about 3.6% in 2012.
- **M&A deals volumes surge in the MENA region:** M&A deal volumes increased by a significant 43% QoQ in 2Q2011 (96 deals in the quarter compared to 67 in the year-ago period). However, deal value plunged 52% from USD 12 billion in 2Q2010 to USD 5.8 billion in 2Q2011. The UAE (14 deals) and Saudi Arabia (13) continued to see maximum activity in the quarter. Real estate and financial services sectors had recorded maximum number of transactions last quarter.
- **MENA region to launch nuclear projects worth USD400 billion:** MENA countries, especially Saudi Arabia, UAE, Jordan and Egypt, are proposing to launch several new nuclear construction and operation projects at an estimated value of USD400 billion. For example, Saudi Arabia's recently established King Abdullah City of Atomic and Renewable Energy (KA CARE) is proposing to establish a city that would boast zero Co2 emissions by only using an energy mix of nuclear power and other renewable sources. The cost of the project to secure 16 new nuclear units is estimated at USD350 billion.
- **Rising energy consumption in the GCC:** According to a recent research by Deloitte, per capita electricity consumption in the GCC is likely to increase at an annual rate of 2.5% during 2007–2035. GCC economies are poised to soon emerge as the toppers in per capita residential electricity consumption. This can be ascribed to higher demand from growing population in the GCC and diversion of a significant 47% of energy consumption into residential use.
- **Kuwait benefits from higher hydrocarbon prices:** Oil prices hovering around USD100 per barrel helped Kuwait cover around 35% of the budgeted revenues for the current fiscal in the first two months itself. Actual income in April and May stood at USD17.3 billion (compared to the budgeted USD48.9 billion for the whole year). Oil income of USD 16.2 billion accrued in the first two months accounted for 93% of total revenues and 36% of projected oil revenues (USD44.7 billion) for the year.
- **Inflation in the UAE declines sharply:** Consistent drop in housing rents has led to a nearly 50% decline in the UAE's CPI to 0.6% in August from 1.3% in the previous month.

IMF projections of major macroeconomic variables for Qatar and other key MENA economies

GCC economies	Qatar		Saudi Arabia		UAE		Kuwait		Oman		Bahrain	
	2010	2011F	2010	2011F	2010	2011F	2010	2011F	2010	2011F	2010	2011F
Real GDP growth (%)	16.3	16.6	3.7	4.1	3.2	3.3	2.0	5.7	4.2	4.4	4.1	1.5
Inflation (%)	-2.4	-2.4	5.4	5.4	0.9	2.5	4.1	6.2	3.3	3.8	2.0	1.0
Current account (% of GDP)	18.7	25.3	8.7	14.9	7.7	10.3	31.8	33.5	11.6	14.5	4.6	12.6
Other MENA economies	Egypt		Jordan		Morocco		Tunisia		Syria		Lebanon	
Real GDP growth (%)	5.1	1.2	3.1	2.5	3.2	4.6	3.7	0.0	3.2	-2.0	7.5	1.5
Inflation (%)	11.6	11.1	5.0	5.4	1.0	1.5	4.4	3.5	4.4	6.0	4.5	5.9
Current account (% of GDP)	-2.0	-1.9	-5.4	-6.7	-4.2	-5.2	-4.8	-5.7	-4.4	-6.1	-10.2	-14.7

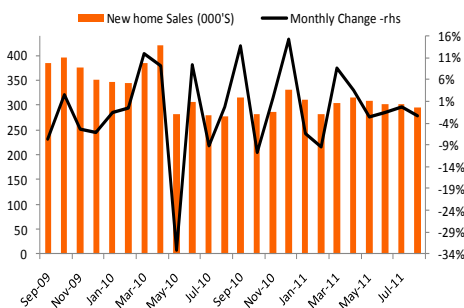
Source: IMF World Economic Outlook, September 2011

Economic Developments

Advanced Economies

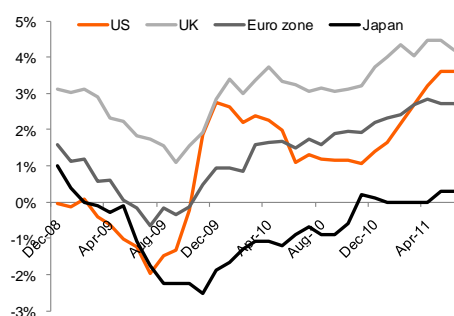
- US home sales slump:** Despite low mortgage rates, new home sales in the US fell to a six-month low in August as buyers deferred their purchase decisions and banks remained cautious about lending. New home sales dropped 2.3% in August to a seasonally adjusted annual rate of 295,000 from an upwardly revised 302,000 in the previous month. Higher demand for distressed and foreclosure properties (due to housing market crisis in the US) dented appetite for new homes. Consequently, housing starts rate fell 5% in August.
- US funds reduce exposure to European banks:** Due to intensifying debt crisis in the Eurozone, the 10 largest money market funds in the US reduced their short-term lending to European banks to just 42.1% of their total assets by the end of August. At USD 284.6 billion, exposure of the US funds to the European banking sector was the lowest since the second half of 2006 (also lower than the level seen during the peak of the financial crisis).
- Weak US labor market:** Despite bleak economic environment forcing companies to lay-off workers, initial jobless claims in the US fell modestly to 423,000 in the week ended September 17 from an upwardly revised 432,000 in the prior week. In a desperate attempt to save the US economy from once again slipping into recession, the Federal Reserve launched a new round of bond buying to lower long-term interest rates. At the same time, US President Barack Obama has been ardently promoting his USD450 billion jobs plan (which includes tax cuts and spending on infrastructure development) to create employment in the country.
- European banks to boast better liquidity profile:** The ECB is expected to consider a package of measures in its October interest rate meeting in an attempt to provide stability to European banks and boost investor confidence. The ECB has already committed to provide banks with unlimited loans lasting upto three months until early 2012. Markets expect the deadline to be extended, which would ensure adequate liquidity with banks. Besides this, markets are rife with speculations that the ECB could reintroduce 6-month or 12-month liquidity. It is also likely that the central bank would consider cutting interest rates (which have been raised twice this year) in the forthcoming meeting to ease mounting recessionary pressures.
- German IFO business confidence slumps:** As the Eurozone continues to grapple with debt woes, economic data from the region has started to indicate a severe slowdown in activity. The German IFO business climate index fell for the third month consecutively to 107.5 in September from 108.7 in August (consensus: 106.5), marking the lowest reading for the index since June 2010.
- Mortgage lending picks up in the UK:** With buy-to-let investors flocking markets, British Bankers' Association (BBA)'s latest data release shows that banks approved 35,226 mortgages for house purchases in August, implying an increase of 14% compared to the same month last year. This is the highest number of monthly mortgage approvals by banks since May 2010. However, the figure is just one-third of the average monthly mortgage approvals reported prior to the financial crisis of 2007.
- UK inflation edges upwards:** Higher clothing & footwear, petrol and energy prices pushed the UK CPI inflation up to 4.5% in August from 4.4% in July. This is well above the Bank of England's target of 2%. Meanwhile, the Retail Prices Index (RPI) rose to 5.2% in August from 5% a month ago.
- Japan's ride to recovery remains bumpy:** Data from Japan continues to reflect a fragile economic recovery after the nation was hit by a massive earthquake and tsunami in March this year. Japan's economy shrank significantly on waning private investments; the country's GDP declined at an annual rate of 2.1% in 2Q2011, well below the estimate of a 1.3% contraction. Retail sales fell (down 2.6% YoY in August) for the first time in the past three months, marking the steepest decline after the earthquake.

US new home sales



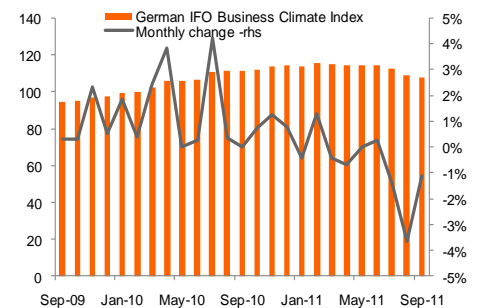
Source: Bloomberg

Inflation in advanced economies



Source: Bloomberg

German IFO Business Climate Index



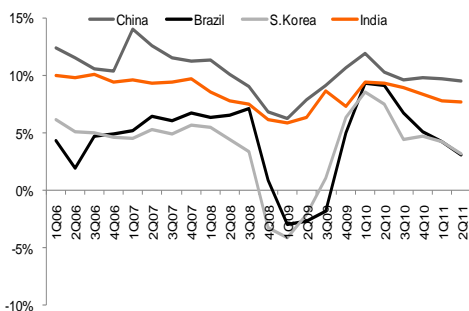
Source: Bloomberg

Economic Developments

Emerging Economies

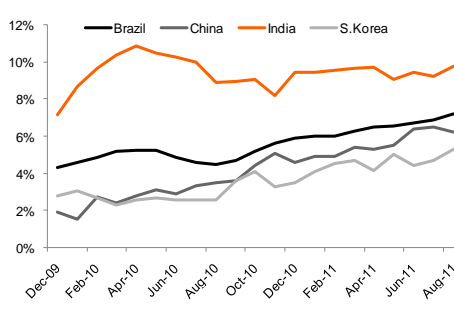
- **Slowing manufacturing activity in China:** China's manufacturing data continues to disappoint—the advance estimate of China's September Purchasing Managers' Index fell to 49.4 from 49.9 in August. This marks the third consecutive month of contraction (a reading below 50 denotes contraction, while above 50 denotes expansion) in manufacturing activity.
- **Chinese trade surplus narrows amid faltering global demand:** China's trade surplus declined 43% MoM to USD17.8 billion in August. This marked the first contraction in China's trade surplus in the last six months. Waning demand from developed economies led to a fall in China's exports to USD173.3 billion in August from a record high of USD175 billion in July. At the same time, imports hit a record high of USD155.6 billion in August (up 30.2% YoY), indicating growth in the Chinese economy continues to remain strong despite a slowdown in the West.
- **China's inflation eases in August:** China's consumer inflation slowed to 6.2% YoY in August; it had touched a three-year high in July. Easing food prices were largely responsible for the fall in inflation last month, rising 13.4% from a year ago compared to 14.8% in July. The modest rise in prices is accompanied by slower growth in GDP; the Chinese economy is expected to grow 9% this year (lower than growth of 9.6% in 1H2011).
- **India's growth slows in 2Q2011:** India's economic growth slowed to an 18-month low of 7.7% in 2Q2011 from a robust 8.8% a year ago. Reserve Bank of India (RBI)'s monetary tightening policy aimed to combat the persistently high inflation rate has slowed growth in mining, manufacturing and construction, accounting for most of the slowdown in GDP for the period. Anticipating further monetary tightening to tame inflation, IMF has scaled down India's economic growth to 7.8% this year, against the earlier estimates of 8.2%.
- **India's dismal industrial output growth:** After increasing 8.8% in June, India's industrial output grew at the slowest pace since 2009 (it expanded just 3.3% in July). This has triggered renewed concerns over the slowing pace of economic activity in the nation amid aggressive rate hikes by the RBI. The sharp fall in industrial output in July can be ascribed to a 15% YoY contraction in capital goods output. Factory output, which accounts for 76% of the industrial production index, grew at the slowest pace (up 2.3% YoY) in 21 months in July.
- **Rising inflation continues to pose a problem for the Indian economy:** India's inflation reached a 13-month high of 9.78% in August, forcing the RBI to raise its benchmark rate for the 12<sup>th</sup> time since March 2010 (latest increase of 25 bps to 8.25% in mid-September). The country has the highest inflation rate amongst emerging economies and faces the challenge of stabilizing prices amid slowing growth.
- **Brazil slashes tax on petrol imports:** In an attempt to control rising inflation, the Brazilian government has cut the CIDE tax (which applies to imports and sales of gasoline sold by Petrobras to distributors) by 16%. The measure has been taken to tackle the issue of rising inflation. Nationwide strikes in Brazil for higher pay threaten to push prices further northward.
- **IMF cuts Russia's growth forecast:** The IMF expects intensifying debt crisis in the Eurozone as well as lower oil price to adversely impact the Russian economy—the 2011 growth forecast for Russia has been cut to 4.3% from the previous estimate of 4.8%. Growth estimates for 2012 have also been reduced to 4.1% from 4.5% earlier.
- **Turkish economy posts strong growth:** Turkish economy expanded 8.8% in 2Q2011 (consensus: 6.8%). This strong growth, however, widened the current account deficit to USD50.7 billion in the first seven months of the year, marking a YoY rise of over 100%.

GDP growth in key emerging economies



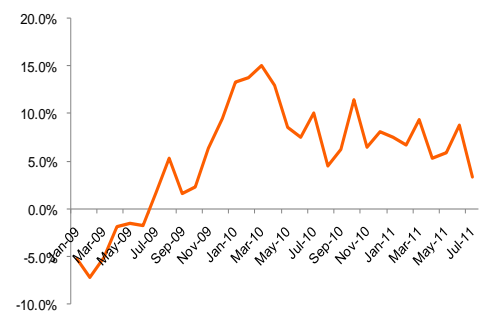
Source: Respective central banks

Inflation in key emerging economies



Source: Respective central banks

India's industrial production growth YoY



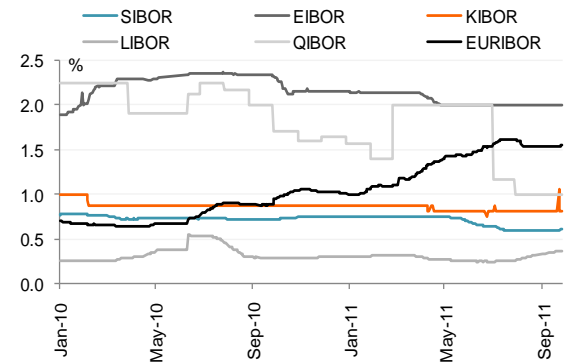
Source: Ministry of Statistics and Programme Implementation, India

Banking and Financial Services

Qatar

- Public sector lending drives growth among Qatari banks:** Strong credit growth of over 18% in August (on a YoY basis) was driven by a similar increase in the public sector lending. Qatar National Bank (QNB) and Commercial Bank of Qatar (CBQ) were the two banks that benefited the most from this rise. Public sector lending constitutes more than 50% of QNB's total loan book. CBQ has recently increased its public sector lending, thereby doubling its market share in the public sector lending segment to 7.2% in 2Q2011 from 3.3% in 1Q2011.
- Private sector credit set to grow in Qatar:** Private sector credit in Qatar (which grew to 19% in August due to strong corporate loan growth and pickup in consumer credit) is set to rise further in 2011. A cap in retail lending rates above the benchmark (introduced by the central bank in April) and a cut in benchmark lending rates have been driving lending in the private sector. Increase in wages, which would boost borrowing capacity of individuals, is likely to lend further support to retail credit growth.
- Qatar eyes stake in BNP Paribas:** The Qatari government is reported to be in talks with BNP Paribas, France's largest bank by market capitalization, to acquire a stake in the latter. Like several other French banks, the value of BNP Paribas has reduced by half since late July due to increasing concerns over the exposure of the bank to the Eurozone's sovereign debt.

Movement in 3-month interbank offered rates



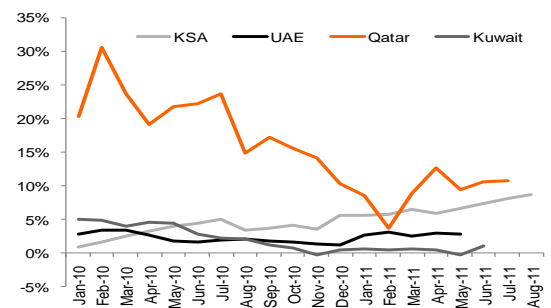
Source: Bloomberg

Average interbank offered rates in September

	1 M	3 M	12 M
Qatar	0.50	0.99	2.20
Saudi Arabia	0.37	0.6	0.86
UAE	0.98	1.48	1.93
Kuwait	0.56	0.81	1.31
USD LIBOR	0.24	0.37	0.85
EURIBOR	1.36	1.54	2.08

Source: Bloomberg

Credit growth (YoY) in Qatar and some other GCC peers

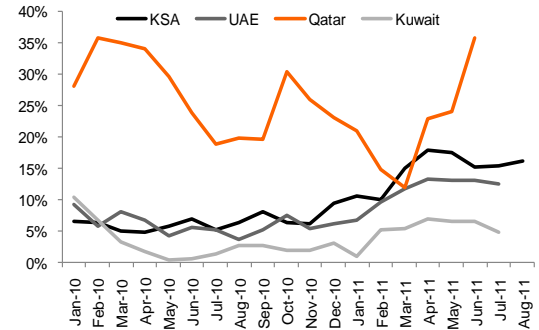


Source: Respective central banks

## MENA-Banking and Financial Services

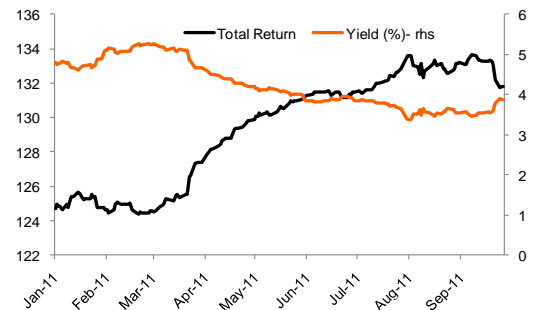
- Bank lending to private sector falls in the UAE:** Bank lending in the UAE continues to remain dismal—bank loans to the private sector declined 0.5% to AED518.39 billion in the first seven months of 2011 from AED521 billion in January as banks were hesitant to lend due to the financial crisis. The Central Bank of UAE is undertaking several measures to boost lending, especially to small-to-medium enterprises.
- Saudi Arabia boasts healthy monetary base:** With banks easing lending curbs, Saudi Arabia's monetary base (M0) expanded 20.1% YoY to SAR257.2 billion in August. A 32.7% YoY surge in currency outside banks to SAR129.4 billion accounted for a major part of the rise in M0. Also, higher oil prices have led to a 19% YoY increase in the nation's foreign reserves to SAR1,899 billion.
- Dubai World to enter online insurance market:** Dubai World's subsidiary Dubai Brokers Insure Direct has signed an agreement to provide customized online insurance products and services that would help meet the needs of trading and logistics companies using the portal [www.dubaitrade.ae](http://www.dubaitrade.ae).
- Saudi bank lending increases 9.2% in August:** Domestic credit to the private sector in Saudi Arabia surged by around 9.2% YoY to SAR837.5 billion in August, marking the highest growth since the end of 2008. Bank lending has been rising in Saudi Arabia on optimism that the nation's commercial banks would continue to ease credit curbs and perform better in 2011.
- GCC CDS on a rise:** As a sense of risk aversion swept markets, the cost of insuring Gulf debt shot up in September—Dubai Credit Default Swaps (CDS) rose to a 6-month high. Dubai's five-year CDS rose to 489.53 points on September 29 from 399.71 points at the end of August. During the same period, Abu Dhabi's CDS rose to 124.165 points from 101.540 points, while Qatar's CDS increased to 122.33 points from 102.21 points.
- Tamweel to issue a dollar denominated sukuk:** Tamweel, a Dubai-based Islamic mortgage company, hopes to issue a multi-million dollar sukuk by the end of the year. The issue is likely to be of a standard size (between USD300 million and USD500 million); it will have a maximum tenure of 25 years with a possibility of an early exit.

### Broad money (M2) supply growth (% YoY)



Source: Respective central banks

### Movements in the HSBC DIFX Sukuk Index



Source: Bloomberg

### Key MENA private equity activity in 2011

Status	Private Equity Fund Name	Size (USD million)	Geographical Focus
Fund Raising	Samena Capital Investments Company	700	MENA
Fund Raising	DB Masdar Clean Tech	290	Asia, Europe, North America
Announced	Gulf Credit Partners	250	MENA, Turkey
Announced	Invest AD and SBI Holding	100	Turkey
Fund Raising	Siraj Palestine Fund I	60	Palestinian Territories
Fund Raising	ADCM Secondary	100	Europe, MENA, US
Fund Raising	FINCORP Oman Private Equity Fund	51.93	Oman
Fund Raising	Maghreb Private Equity Fund III (MPEFIII)	204.22	Africa, North Africa

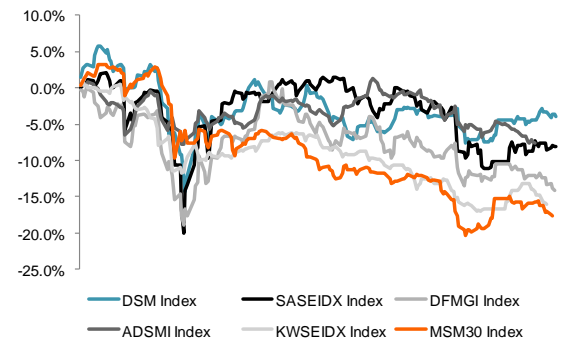
Source: Zawya

Equity Markets

Qatar

- **Qatar stocks ends flat:** Global concerns on a possible double-dip recession in the US and the Eurozone weighed on Qatari stocks as well with the country's QF Index ending only marginally higher by 42 points at 839.39 from its August close.
- **Qatar bourse to undergo a restructuring process:** Qatar's stock market plans to implement a 15% cap on index constituents for its benchmark index. As a result, Qatar National Bank's weight on the QE Index will come down to 15% from the current 21.98%. On the other hand, Industries Qatar's weight will rise to 10.98% from 10.04%. Authorities also plan to expand the sectors on the index from the current four to seven, which would include banks and financial services, industrials, transportation, real estate, insurance, telecoms, and consumer goods and services.
- **IPO plans for Qatar Airways shelved for now:** According to its CEO, Qatar Airways has dropped plans to come out with an Initial Public Offering (IPO) due to the current subdued global economic sentiment. The airlines had been thinking about a dual listing – in Doha and London. Airline stocks, which tend to be cyclical in nature, have been hit by slowdowns in the US and Europe. With valuations expected to remain low, IPO launches in the GCC as well as emerging markets are likely to slow down in the coming quarter.

Qatari and MENA equity indices (TTM, rebased)

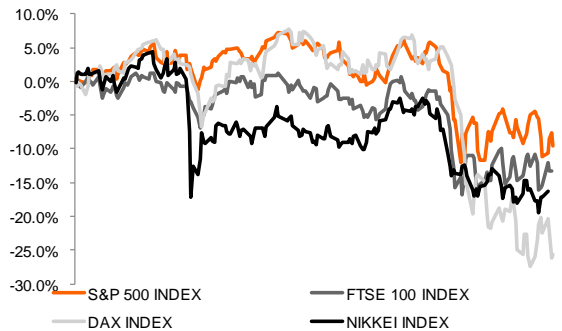


Source: Reuter 3000 Xtra

MENA

- **Gulf stocks end lower:** Most GCC stocks ended the month of September on a subdued note as global economic uncertainty kept investors on the sidelines. The focus remained on the Eurozone sovereign debt crisis even as key Europe and US economic data continued to disappoint. Bahrain's market slumped the most in September, closing 7% lower at 1165.75, while Dubai shares followed suit, finishing 4% lower at 1431.71.
- **Profits of listed GCC companies swell in 1H2011:** Listed companies in the GCC recorded a 9% rise in net profits in the first half of the current year. From around USD25.6 billion in 1H2009, the combined net earnings of more than 500 listed firms (within the GCC) rose to nearly USD27.9 billion in the 1H2011.
- **Dubai commodity bourse to start rupee options:** Amidst growing demand for currency-denominated derivatives, Dubai Gold and Commodities Exchange (DGCX) will start trading in Indian Rupee option contracts. This is the first such instance that investor's will be provided with a platform to trade in Rupee option contracts outside India.

Advanced economies' equity indices (TTM, rebased)

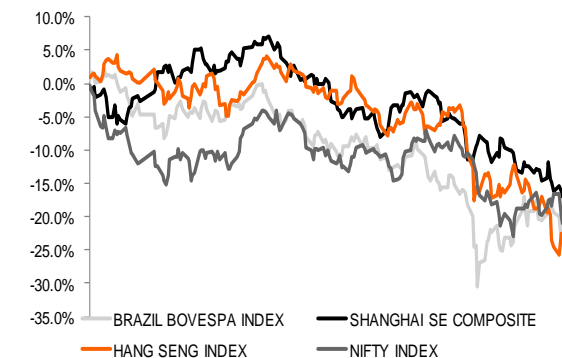


Source: Reuter 3000 Xtra

Global

- **Global market sentiment gloomy:** Most advanced and Asian markets closed lower in September, spooked by the failure of Eurozone policymakers to cough up a coherent and credible plan to counter the sovereign debt crisis in the region. Investors failed to find cheer in either the expansion of the European Financial Stability Facility or better jobs data in the US.
- **Market Performance -Asian Markets:** The Hang Seng index led the fall among Asian markets, slumping by 12% in September to close at 18011.06 on fears of slowing growth; HSBC's China PMI showed a contraction in manufacturing activity for a third straight month in September. The Nikkei 225 share average fell by around 3% to close at 8701.23 as buying by pension funds faded in September. The NSE Nifty index closed flat at 5015 level as investors remained concerned about high inflation and slowing domestic growth.
- **Market Performance - Advanced Markets:** The S&P 500 in the US led the fall among indices in advanced economies; the index closed 5.56% lower at 1151.06. The DAX 30 fell 3.64% for the month to close at 5,574.29 points. In London, the FTSE-100 closed the month lower by 3.23% at 5220.33 on account of poor performance by mining and banking stocks.

Emerging economies' equity indices (TTM, rebased)



Source: Reuter 3000 Xtra

QE 30: Top five gainers for the month

Top Five Gainers	Last Close	MTD (%)	YTD (%)
Al Meera Consum	165.2	24.7	166.5
Qatar Cinema Fil	81.0	27.0	161.3
Qatar Meat & Liv	23.3	4.3	52.0
Natl Leasing	44.3	8.3	-10.2
Qatar Islamic In	58.0	11.5	13.9

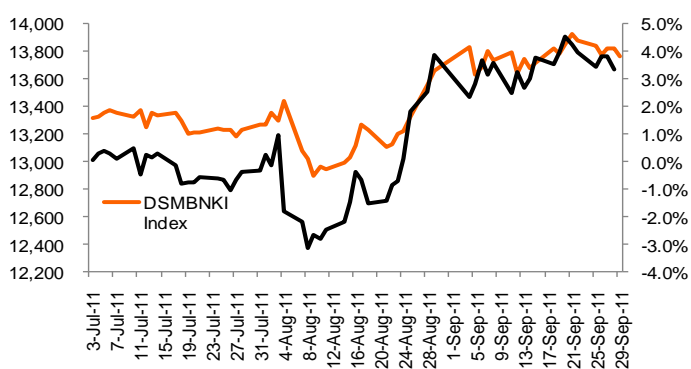
Source: Thomson Reuters Knowledge

QE 30: Top five losers for the month

Top Five Losers	Last Close	MTD (%)	YTD (%)
Al Ahli Bank	72.1	-7.0	14.6
United Development	19.4	-2.8	-16.4
Al Khaliji Bank	17.2	-0.3	2.1
Qatar Fuel Company	244.3	-0.9	27.2
Industries Qatar	124.4	-0.2	-9.9

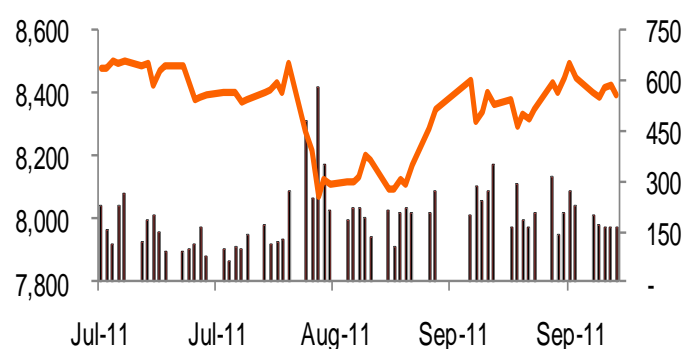
Source: Thomson Reuters Knowledge

Qatar Banking Sector Index (lhs) - MTD (rhs)



Source: Reuter 3000 Xtra

QE 30: 3 Month Movement (lhs) and Turnover (rhs)



Source: Reuter 3000 Xtra

Summary figures for MENA equity indices

Index	Last Close	MTD (%)	YTD (%)	3YR (%)	PE Ratio
Qatar (QE)	8393.9	0.5	-3.3	-9.9	11.0
KSA (TASI)	6112.4	2.2	-7.7	-18.0	14.0
UAE (DFM)	1438.4	-3.6	-11.8	-65.2	29.1
Abu Dhabi (ADSM)	4694.2	-3.8	72.6	18.6	14.9
Kuwait (KSE)	5833.1	0.7	-16.1	-54.6	NM
Oman (MSM)	5602.3	-2.9	-17.1	-34.0	7.6
Bahrain (BSE)	1165.8	-7.4	-18.6	-52.7	31.2
Egypt (CASE)	4130.2	-11.0	-42.2	-41.5	9.0
Jordan (Amman)	4545.4	-3.9	91.5	11.8	NM
DJMENA Index	471.9	-0.8	-3.2	-31.9	NM
MASI INDEX	1991.6	-2.6	-92.4	-92.5	NM

Source: Reuter 3000 Xtra

Summary figures for global stock indices

Index	Last Close	MTD (%)	YTD (%)	3YR (%)	PE Ratio
US (S&P 500)	1151.1	-8.9	-16.9	8.1	12.6
UK (FTSE)	5178.7	-8.9	-24.4	11.3	10.1
Germany (DAX)	5574.3	-5.5	-38.8	-8.0	10.0
Japan (Nikkei)	8701.2	-7.9	-29.9	-51.8	16.4
Hong Kong (HSI)	18011.1	-25.0	-43.4	1.5	8.3
S. Korea (KOSPI)	1769.3	-11.8	-27.5	43.0	12.3
Brazil (IBOV)	53270.4	-16.7	-46.3	31.5	8.2
India (NIFTY)	5015.5	0.6	-35.6	60.5	14.4
China (SCI)	2365.3	-14.9	-28.6	6.2	12.6
Turkey (ISE 100)	59625.4	21.1	-19.3	130.8	12.2

Source: Reuter 3000 Xtra

Currency and Commodity Markets

Summary figures for key commodities

Index	Last Close	MTD %	YTD %	3YR %
WTI Crude (\$/bbl)	83	-6.3%	-8.8%	-13.5%
Brent Crude (\$/bbl)	105	-7.8%	11.2%	12.1%
Nat.Gas (\$/mmbtu)	4	-7.2%	-14.6%	-47.9%
Gold (\$/oz)	1,607	-11.7%	13.9%	80.9%
Silver (\$/oz)	30	-28.2%	-2.9%	129.9%
Copper (c/lb)	324	-21.8%	-27.0%	11.1%
Aluminium (\$/MT)	2,218	-4.8%	-3.4%	4.8%
Wheat (c/bu)	647	-9.6%	-18.5%	-3.1%
Rice (\$/cwt)	16	-7.7%	16.6%	-15.9%
Corn (Usd/bu)	633	-13.1%	0.7%	23.4%

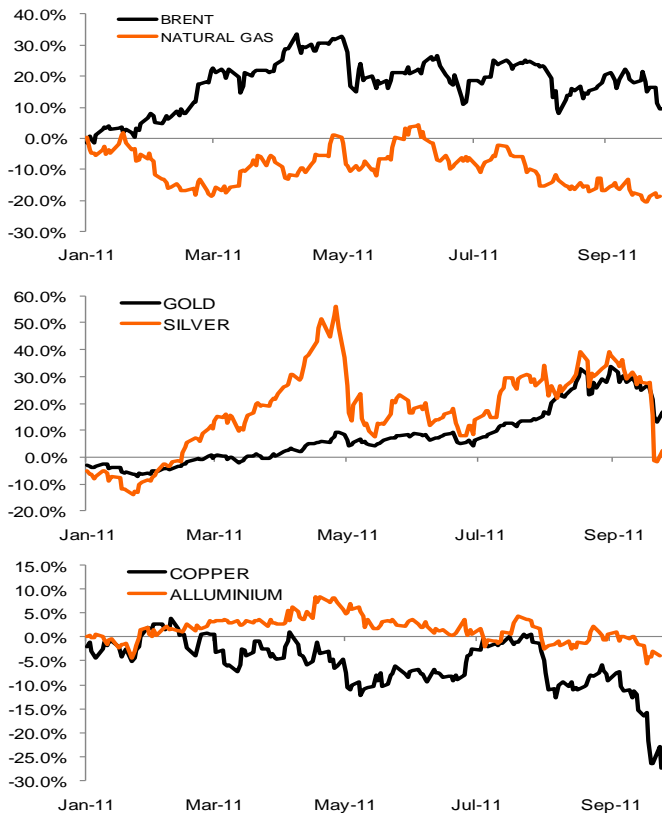
Source: Reuter 3000 Xtra

Summary figures for key currency pairs

Main Currency Pair	Last Close	MTD %	YTD %	3YR %
EUR/USD	1	-5.1%	1.2%	-6.3%
GBP/USD	2	-3.8%	0.0%	-13.9%
USD/JPY	77	-0.4%	-5.7%	-26.5%
USD/KWD	1	-11.8%	3.8%	21.0%
Emerging market	Last Close	MTD %	YTD %	3YR %
USD/INR	50	8.3%	10.3%	5.5%
USD/CNY	6	0.3%	-3.0%	-6.7%
USD/BRL	2	13.3%	11.1%	-6.1%
USD/TRY	2	8.3%	21.2%	46.0%
MENA Currency	Last Close	MTD %	YTD %	3YR %
SAR	4	0.0%	0.0%	-0.2%
AED	4	0.0%	0.0%	0.0%
QAR	4	-0.8%	-0.8%	-0.8%

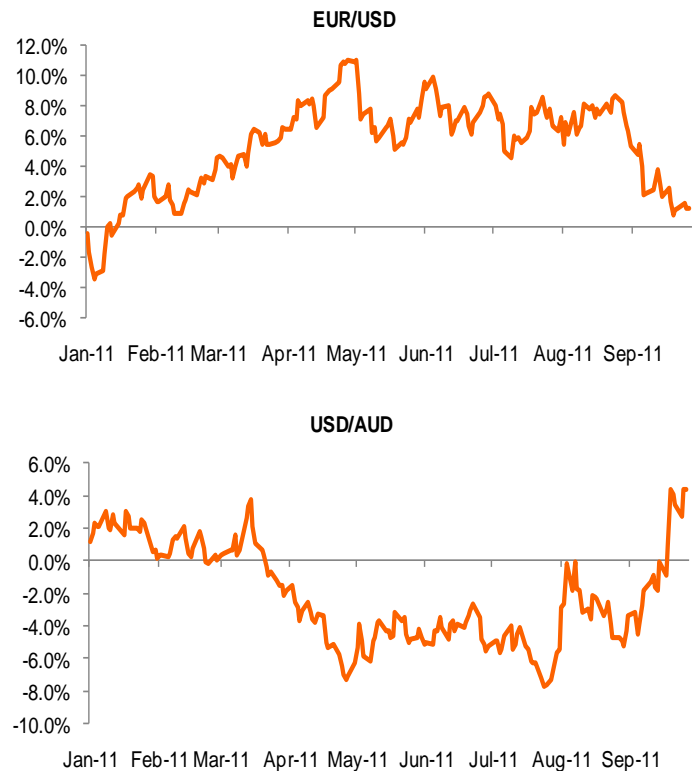
Source: Reuter 3000 Xtra

Returns (YTD) for key commodities



Source: Reuter 3000 Xtra

Returns (YTD) for key currency pairs



Source: Reuter 3000 Xtra

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