AMG Weekly Market Update

30th Nov, 2009

Dubai debt problem

Last Thursday, Dubai World, the sovereign investment vehicle of Dubai government, announced that it will ask lenders for delay in payment for its debt. The amount of debt involved is USD 26 billion.

The plan for debt restructuring raised several questions among investors. Firstly, whether it is the beginning of a sovereign debt crisis like the Russian crisis in 1998? Secondly, will Dubai World dump its investments around the world e.g. 20% ownership of London Stock Exchange? Thirdly, whether it will trigger another wave of financial tsunami?

Fortunately, it is not very likely that the worries will turn into real crisis.

First of all, the size of the liabilities owed by Dubai World is not large enough to cause major problem. Total debt of Dubai World amounts to USD 59 billion. But, it also owns some profitable businesses e.g. the ports operator in Middle East. They are able to pay the debt. As such, liabilities of the profitable subsidiaries are not included in the debt restructuring. So, the size of restructuring plan is limited to USD 26 billion. Moreover, the risk exposure and potential losses of foreign financial institutions in the region is still manageable. Take HSBC, which is having relatively high exposure in the region, as an example, the potential loss for HSBC is less than USD 700 million according to Goldman Sachs.

Fire sale of foreign investments is not likely to occur in near future either. Dubai World has already expressed that it has no intension to dump the investments for cash. And now, the talks about debt restructuring have already started. It should help to ease the pressure for fire sales of assets.

Lastly, the wealth of U.A.E. as a nation should be more than enough to support the debt of Dubai government. Total debt of Dubai government amounts to USD 800 billion. It is not back breaking burden for the whole nation considering that Abu Dhabi have more than USD 600 billion in its sovereign investment fund. Also, U.A.E. is supported by oil exports. Oil revenue for the country exceeded USD 50 billion every year since 2006 according to EIA figures. Thereby, it is unlikely that the debt problem of Dubai World will bring down the U.A.E. as a country.

All in all, the chance for debt restructuring of Dubai World to start another crisis is slim. The negative impact should be limited to emerging market debts for countries around the region. For other countries with strong government reserves such as the Asian countries and the BRIC, the shake-out should be taken as a chance for investors to accumulate related investments.

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Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
US	Durable goods orders	Mom change	Oct 2009	-0.6%	1.0%
US	Durable goods orders (excl. transportation)	Mom change	Oct 2009	-1.3%	0.9%
US	Consumer spending	Mom change	Oct 2009	-0.5%	0.7%
US	Personal income	Mom change	Oct 2009	0.2%	0.0%
US	University of Michigan consumer sentiment index		Nov 2009	67.4	66.0
US	Real GDP	Qoq change (Annualized)	Q3 2009	2.8%	-0.4%
US	New home sales	Annualized rate	Oct 2009	430K	402K
US	Existing home sales	Annualized rate	Oct 2009	6.10M	5.57M
Eurozone	Markit flash Eurozone composite output index		Nov 2009	53.7	53.0
Germany	Real GDP	Qoq change	Q3 2009	0.7%	0.7%
UK	Real GDP	Qoq change	Q3 2009	-0.3%	-0.6%
France	INSEE business confidence		Nov 2009	87	86
Singapore	Industrial production	Yoy change	Oct 2009	3.6%	-6.3%
Taiwan	Real GDP	Yoy change	Q3 2009	-1.29%	-6.85%

* All figures and information are collected from www.bloomberg.com, Markit economics, Federal Statistics Office of Germany, National Statistics Office of UK, National Institute of Statistics and Economic Studies, Statistics Singapore, National Statistics, R.O.C. (Taiwan).

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