NEWGATE
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DUBAI DEBT FALLOUT

Many investors have expressed concern about the potential impact of the Dubai debt default/restructuring on Newgate's Emerging Markets and Global Resources Portfolios and on emerging markets generally. We do not anticipate any direct impact on Portfolio holdings. However, to the extent that Dubai's problems alter investor risk appetite, it is possible the Dubai situation will negatively impact other emerging markets. There was a very strong negative reaction to the story, with sharp declines in many emerging markets and a spike in the US dollar – a classic sign of increased fear. However, much of this activity was exaggerated due to the US Thanksgiving holiday, as well as the Eid al-Adha holiday celebrated in the Muslim world. Since then, we have seen strong recoveries in emerging markets, and the dollar has resumed its decline.

Unlike its neighbor and fellow emirate Abu Dhabi, Dubai has relatively little oil. Rather, it sought to build a tourism and financial center. It is the debt undertaken to build this capacity that is the cause of Dubai's current problems. Abu Dhabi has offered support to Dubai, which has served to stabilize the market. Both the Abu Dhabi and Dubai markets continue to fall. Neither of these countries is in the emerging markets index; all the Gulf Cooperation Counsel countries are considered Frontier Markets. This fact limits but does not eliminate any negative impact on emerging markets.

We do not believe that any debt assumption by Abu Dhabi will impact oil prices. The thesis is that Abu Dhabi will have to increase oil production to pay off the additional debt. In 2008, Abu Dhabi produced approximately 2.6 million bbl/day of oil, cut to 2.2 million bbl/day in 2009 consistent with OPEC's decision to reduce supply. Abu Dhabi had previously announced plans to build production capacity up to 3.5 million bbl/day and has engaged in a number of steps to that end. Its ability to do so is in question, as Abu Dhabi is generally a mature oil market with limited new fields. Most increase in production is likely to come from faster exploitation of existing fields. While Abu Dhabi can increase production easily back to 2008 levels, it is not clear that it can be rapidly increased beyond that. As a result, we do not believe that any increase in Abu Dhabi's production will have a material impact on the price of oil. ◈

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