

Dubai makes JSE a 'gloomy place'

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Johannesburg - The JSE was red all over on Friday as investors cut their losses following revelations about the magnitude of debt problems in Dubai.

During mid-morning trade on Friday, the JSE All-Share Index was 2.16% down at 26 441 points. The Financial 15 and Industrial 25 indices were down 2.21% and 1.32% respectively. The rand continued its downward trend against the dollar, trading at R7.60 to the US currency from around R7.50 on Thursday.

"All of a sudden the world seems a much gloomier place as investors start evaluating the effect of what the Dubai fallout would be," wrote traders at stockbrokerage Barnard Jacobs Mellet (BJM) in a note to clients on Friday.

Dubai, part of the oil-exporting United Arab Emirates, said on Wednesday it would ask creditors of state-owned Dubai World and Nakheel to agree to a standstill on billions of dollars of debt as a first step towards restructuring.

Dubai World, the conglomerate that led the emirate's expansion, had \$59bn of liabilities as of August, most of Dubai's total debt of \$80bn. Nakheel was the builder of three palm-shaped islands off Dubai.

This prompted ratings agency Standard & Poor (S&P) to place four Dubai based banks on a negative credit watch.

"The rating actions reflect the large exposure these banks have to Dubai World and Nakheel, and more generally to Dubai-based government related entities, and the risks that the standstill agreement would pose to these banks," said Standard & Poor's credit analyst Mohamed Damak.

Damak added that S&P expected asset quality to continue to deteriorate in the coming quarters and that "this trend could be exacerbated by the direct and indirect impact of a debt restructuring by Dubai World, which represents a major pillar of the Dubai economy."

Andrew Kinsey, head of risk at derivatives trading firm Global Trader, told Fin24.com that the fallout from Dubai could have far-reaching consequences for investors both internationally and locally.

"It highlights the fact there is substantial overcapacity in just about every market you care to look at," said Kinsey.

Ernie Gruhn said investors may only have a clearer picture on Monday of the direction the markets would take, as the US markets will only trade for a half day on Friday due to the Thanksgiving holiday.