

Investment Banks Follow Petrodollars To The Middle East

by dow-jones

SAN FRANCISCO (Dow Jones) -- With a barrel of crude costing more than \$60, billions of dollars are flowing from the U.S. to the Middle East. The biggest investment banks are following the money, hoping to cash in as the region's booming economies try to diversify their oil wealth.

On Tuesday, Bear Stearns (BSC) and a group of Saudi executives unveiled an asset-management joint venture that will offer equity, fixed-income, hedge-fund and private-equity products and develop others that comply with Sharia, or Islamic law.

Three weeks ago, Lehman Brothers (LEH) launched its Middle East business and added four executives to its advisory board for the region.

In March, Morgan Stanley (MS) and Capital Group, a Saudi investment bank, agreed to form a Riyadh-based firm providing investment-banking, capital-markets and asset-management services. Morgan Stanley has also operated in Dubai since March 2006 and has licenses to begin operating in Qatar.

"These economies are booming and it's not just petrodollars," said Mike McKeon, who advises large banks at Booz Allen Hamilton's financial-services group. "Investment bankers see the activity and will go to any area of the world where they can provide services for money."

Many countries in the region want to use their new wealth to build better infrastructure and real estate and develop a service economy that might be able to sustain itself once the petrodollars subside, McKeon explained.

Investment banks can advise on how to diversify this wealth and how best to finance businesses in new industries. They can help negotiate with governments and tax authorities, while selling investment products that put oil money to work in other areas, he noted.

They can also make investments with their own money in infrastructure, real estate and service-sector companies. Their internal trading desks could also trading commodities and securities in the region, McKeon added.

"It's a growing area and investment banks are smart about chasing growth. They'll go with the momentum," he said. "All of the top 12 firms are interested in that region and are looking at assets there."

The region also provides a different type of growth than China, another booming location for investment banking, McKeon noted.

Still, there are concerns about how well private business and the government will work together in the Middle East, he added. Most projects are still government run and if public entities are too restrictive, the private market may contract, McKeon warned.

By Alistair Barr

(END) Dow Jones Newswires 06-05-071641ET Copyright (c) 2007 Dow Jones & Company, Inc.

Investment Banks Follow Petrodollars To The Middle East by dow-jones