Recovery not likely before Q2

The year 2009 will test the patience of GCC investors. **Snehdeep Fulzele** believes that investors will have to wait beyond the second quarter for any signs of market recovery.

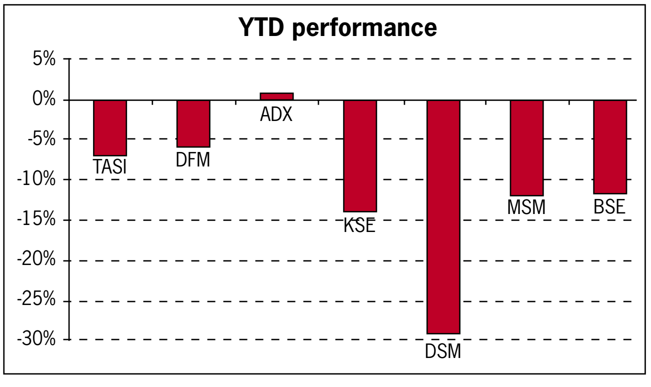
Nervous investors, deteriorating businesses and cautious bankers have marked the sentiments across GCC markets over the last month. The loss of faith in equities has also been reflected in volatile indices. Notwithstanding the recent notable recovery in oil prices, investors are concerned about the further weakening in corporate performance that has defined stock prices.

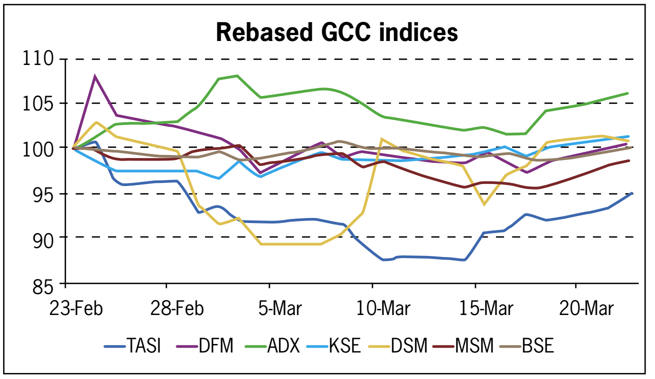
It is interesting to look at the rebased chart of market indices. For example, the Dubai Financial Market and the Doha Securities Market closed on March 22 at almost the same level as their respective values on February 22. But the variation between the two indices is markedly different. The similar divergent movements are evident across individual securities in seven GCC markets.

Big companies, especially those with substantial sales outside of the GCC, have been hugely impacted. Interaction with companies in Saudi Arabia also suggests that the concerns of investors are not without reason. The reduction in interest rates is likely to revive economic activity from the third quarter. Accounting adjustments of old inventories resulting from the sudden and sharp drop in raw material prices should be over by the end of the first quarter, which means that corporates will have cleaner balance sheets going forward.

Investors in Saudi Arabia are worried about the first quarter results of SABIC, the largest listed company in the Middle East. The company has seen dramatic erosion in demand. Its operations in North America, subsequent to the acquisition of GE Plastics, will continue to weigh down its performance, as the automobile industry – its main customer in the US – is fighting to survive. Its steel business is also under pressure.

Delays in the progress of mega projects, cautious customers and declining demand have combined to script the story in most industries. The centre of activity in the construction industry has shifted to Saudi Arabia from the UAE. The euphoria, however, has evaporated, and no one seems to be in a hurry. This situation has led to the declining of manpower charges to reasonable levels, while contractors are also available now.





First quarter results will start to trickle in during the first week of April. Companies are expected to continue the declining trend of the previous quarter, albeit with lower rates of decline. A year-on-year comparison will indicate falling sales, as selling prices have eroded substantially along with falling volumes. The bottoming out of the stock markets will not be sudden. Small trading volumes will most likely carry on into the summer.

A lot of investors are reducing equity exposure in favor of low risk assets. Commercial Bank of Qatar sold its entire equity portfolio of US$258 million to the government with a right to buy it back with certain conditions. Qatar's central bank has reportedly bought US$1.8 billion local bank investment portfolios listed on the Doha Securities Market.

The year 2009 will test the patience of GCC investors as local economies struggle to maintain their growth rates of recent years that were boosted by oil income. The UAE may see a contraction, while other countries, especially Saudi Arabia, may follow suit. Year-on-year, Saudi Arabia's non-oil exports plunged by more than 19 per cent in December because of the global financial crisis, while imports increased by a mere one per cent. In Kuwait, politics has taken the centre stage with the resignation of the Kuwaiti government.

Leading economies of the world are still showing no signs of recovery. The US, the largest economy in the world, has been in a recession since December 2007. Internationally, job losses are mounting and currencies have become more volatile. Falling inflation brings succour to consumers, but it is not enough to direct money in stocks. The GCC region has aligned more with the rest of the world since the correction in oil prices.

Markets lack near-term triggers for a change in sentiments. Investors need to wait for one more quarter for possible signs of recovery.

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