

GCC reacts to default worries

Bad news from a couple of large Saudi business houses has affected stock market indices. Fortunately, the damage seems to be contained now, notes **Snehdeep Fulzele**.

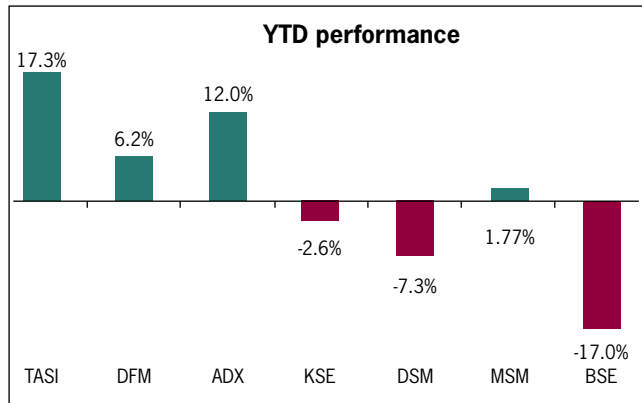
Worries over exposure of the GCC banking sector to the troubled business groups of Saudi Arabia, Maan Al Sanea and Al Gosaibi, have affected sentiments in the region. After a month, the exact quantum of assets available for creditors to settle their dues is still shrouded in mystery. Fortunately for the region, more disturbing revelations have not emerged.

These developments brought the banking sector in Saudi Arabia under close scrutiny and investors were unnerved by the concerns of substantial provisions for bad debts from banks. As a result, capital took refuge in the safety of cash. The movements of GCC indices over the past month were mirror images of the previous month.

The Dubai Financial Market (DFM), which topped the gainers with a 30 per cent jump in our previous coverage, lost the maximum among its GCC peers over the past month. From June 15 to July 16, the DFM lost 19 per cent. All seven markets closed in the red.

The UAE economy is spearheaded by real estate and banking. Job losses show no signs of abating there. According to a survey, one in ten people have lost their job in the past six months. Many have taken salary cuts. Rentals continue to fall. There are a lot of similarities among GCC economies, including dependency on oil. However, the extent of damage varies according to the depth of the problem.

A recent report from FALCOM Research analysed the second quarter performance of GCC markets. It revealed that within the region, investors benefited from low correlation among the markets in the just concluded quarter. The Tadawul All Share Index (TASI) of the Saudi market had a negative return correlation with the Bahrain All Share Index, while a maximum correlation of 0.73 was noticed with the DFM and Abu Dhabi indices. The Saudi market ranked third in daily traded volume, despite it being the highest capitalised market in the region. Kuwait topped the liquidity chart with a volume of over 685 million shares, compared to 328 million shares traded in Saudi Arabia every day. The

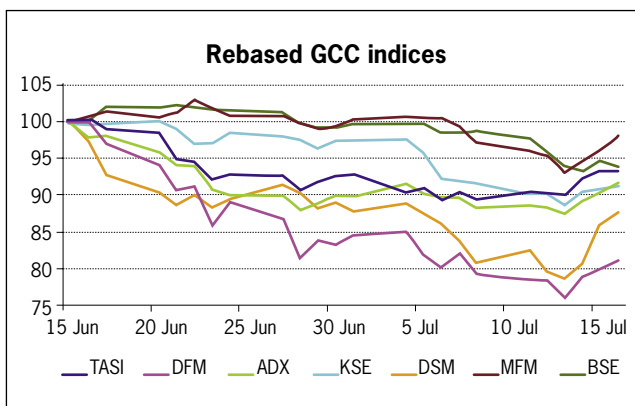


Kuwaiti market provided the best risk/return trade-off with the lowest coefficient of variation at 3.1, as against Abu Dhabi, which had a coefficient of variation at 14.9 where the risk was highest per percentage return. In the second quarter, Bahrain was the only market that closed lower, although the drop was just one per cent.

The corporate results season is in full swing. All 11 banks in Saudi Arabia, as well as the largest listed regional company, SABIC, have announced their last quarter performance. The world's largest Islamic bank, Al Rajhi Bank, announced a net profit of SAR1.77 billion, which is slightly higher than the same quarter of the previous year. The Saudi banks have put up a commendable show by announcing a cumulative profit of SAR6.5 billion, as against SAR6.4 billion in the first quarter of 2009 and SAR6.9 billion in same quarter of 2008. As a bell-weather sector of the economy, good news from the banking sector augurs well for investors. SABIC posted a year-on-year drop of 76 per cent in the second quarter when it announced SAR1.8 billion in profits, down from SAR7.5 billion in the second quarter of 2008.

There is a lesson to be learnt from the crisis that engulfed the world. It is as real as the boom times that we enjoyed for so long until not so long ago. Although cyclical ups and downs will have a huge impact in the short term, businesses are not going to quit and governments are not going to close. Equities are long-term instruments of investment. Short-term fluctuations are inherent in every stock market. In the end, those who make the right decision now will reap big rewards later. For equity investors, the decision could be easy – enter in crisis and hang on with proven managements.

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