

A cautious end to a cautious year

The economic outlook for 2010 remains positive. Corporate earnings are expected to rise 16 per cent over the previous year, although real estate and banking will continue to be areas of weakness. A **Markaz** report.

GCC markets ended December in the red as a spate of negative market and political news soured markets in the final months of the year. The UAE markets, still dealing with the implications of a Dubai World debt restructuring, ended December with a monthly decline of almost seven per cent (DFM), while Abu Dhabi managed to close out the month with a gain of 2.83 per cent. The highest gain for the year was Saudi Arabia, which ended 2009 up 27 per cent, while the year's biggest loser was Bahrain, down 19 per cent.

The MSCI GCC lost nearly two per cent for December, bringing the 2009 gain to 18 per cent – well below emerging markets, which were up four per cent in December and 74 per cent for 2009 (MSCI EM). Markets have continued to

be tenuous in the New Year. Kuwait, Abu Dhabi, Dubai and Qatar are in the red so far this year, while Saudi's TASI is up 4.44 per cent year to date despite disappointing corporate results in the banking sector.

GCC markets have severely lagged in the recovery arena, despite positive economic outlooks and healthy crude oil prices (IPE Brent ended the year with a gain of 85 per cent). However, these factors, which once proved so effective in lifting investors' spirits, did not work their magic in 2009. Investors remained cautious, markets continued to lag and liquidity all but dried up on regional exchanges. Value traded across the GCC shrank by 40 per cent to US\$512 billion (i.e. below 2004 levels). The events of 2008-2009 have laid bare the GCC's

frailties in the arenas that support market recovery, such as adequate corporate governance, regulatory structure and transparency.

Having said that, the economic outlook for the GCC remains positive, with real GDP expected to grow 4.2 per cent in 2010 after contracting in 2009. Moreover, corporate earnings are expected to show an overall growth of six per cent in 2009, increasing to a 16 per cent growth in 2010. However, there remain pockets of weaknesses across the peninsula, namely in real estate, banking and the investment sectors. Specific debt events also continue to weigh on some GCC blue chips and developments concerning those issues will continue to be closely monitored for their impact on the broader market.

Market indicators

	Mid cap (US\$ bn)	Last close (Jan-17-10)	YTD	Dec-09	2009	P/E	P/E
Indicators			%	%	%	2009	2010
Saudi (TASI)	337	6394	4.44	-3.68	27	24	14
Kuwait (weighted index)	96	384	-0.56	-0.26	-5	NA	10
Abu Dhabi (ADI)	78	2674	-2.54	2.83	15	10	7
Qatar (Doha SM)	56	6691	-3.85	-3.26	1	12	10
Dubai (DFMGI)	35	1674	-7.21	-7.05	10	50	5
Oman (Muscat SM)	18	6531	2.55	0.18	17	16	11
Bahrain (BAX)	16	1473	0.99	1.38	-19	NA	13
MSCI GCC Index	454	414	1.78	-1.68	18	7	12

Source: Excerpt from Markaz 'Daily Morning Brief', January 17, 2010, January Market Review

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