

# Markets show signs of recovery

The month of April brought some hope, as certain GCC markets showed heightened activity. **Snehdeep Fulzele** believes that markets are showing some signs of recovery now.

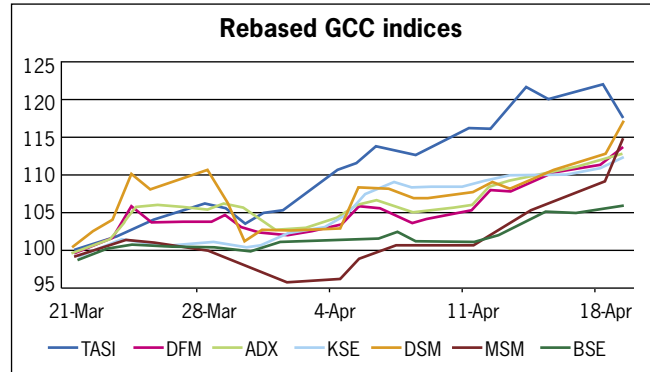
**T**he GCC markets have now left behind the tricky quarterly results season. And they have not got through unscathed, but investors have shown increasing willingness to take risks. They are gaining in confidence.

By the end of April 19, all the seven markets closed higher from their respective levels of March 21. For the year so far, their performance is mixed. Abu Dhabi stock market tops the gainers rising 13 per cent, while Qatari stocks have been the biggest loser, falling 19 per cent. Muscat Securities Market has remained almost unchanged with insignificant growth of 0.7 per cent.

In last month's edition of **MONEYworks**, I expressed concern about SABIC results.

And as it turned out the largest listed company in the Middle East announced disappointing quarterly results on April 21. The loss of SAR974 million by the global petrochemical giant was much lower than what analysts expected. The comparable net profit in first quarter of last year was SAR6.9 billion. SABIC reported a net income of SAR207 million before non-cash charge related to impairment of goodwill. The losses were the result of decline in petrochemical and steel product prices along with reduced credit availability for its customers. Global exposure of SABIC weighed on its performance. The company is dependent on the automotive, construction and electronic industries that are passing through recessionary trends right now. The gravity of the global situation can be gauged from the fact that SABIC produced and sold more quantity than the corresponding quarter last year.

But the market got over SABIC's disturbing performance quickly. The Saudi stock market bounced back to a pre-SABIC results level next day, as investors derived their confidence from stellar performances elsewhere. All Saudi banks have shown profits in the first quarter. Furthermore, barring Riyadh bank and Saudi Hollandi Bank, all banks in the Kingdom have clocked growth in net profit from the previous quarter.



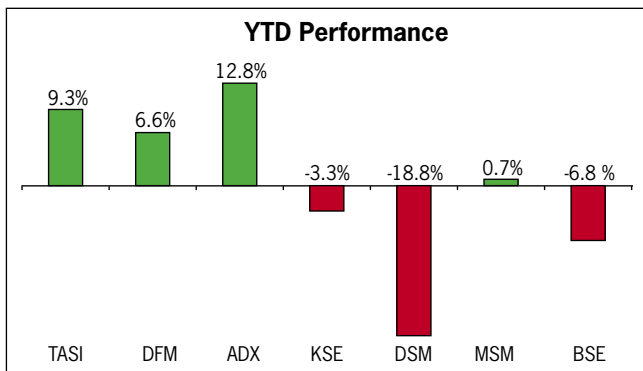
Banking is the pipeline that pumps money into an economy. If banking is doing well, rest of the economy must be on strong footing. Also, results from the Saudi retail sector have also been encouraging. Saudi consumers have retained their appetite for the good things in life despite the global financial crisis. Besides, lesser volatility in the oil market has rubbed off positively on equity investors, who have stepped in to support the Tadawul All Share Index. FALCOM Research study shows 50 per cent drop in Saudi market volatility and decline in floating stock.

The downward trend in inflation is also continuing. Saudi Arabian inflation eased in March to its slowest pace in almost a year and a half as the cost of food and imports fell. Consumer prices rose six per cent from the same month last year after climbing 6.9 per cent in February. Saudi Arabia cut its key reverse repurchase rate by a quarter of a percentage point to 0.5 per cent.

Kuwait's central bank also cut its benchmark interest rate by 25 basis points to 3.5 per cent in a bid to boost an economy that may contract this year for the first time in a decade. Dubai has begun disbursing a US\$10 billion fund it raised to battle the impact of the global credit crisis.

These developments augur well for investor sentiment. However, it would be wrong to presume that things are getting back on track again. Assets held by Kuwaiti investment companies slumped by US\$32 billion in the six months to January. A number of local investment firms have defaulted on loans estimated at US\$18 billion, including US\$8 billion owed to foreign banks.

Strong overall first quarter performance from Saudi companies has been better than expected. Regional investors would do well to take cue from the largest economy of the Arab world.



The writer is head of research at FALCOM Financial Services.