

Large cap leadership returns

While GCC markets continue to post positive returns, leadership bias has shifted towards large caps, writes **Amrith Mukkamala**.

GCC markets continue to post positive returns and the momentum of returns looks robust. The July return of 3.05 per cent on the MSCI GCC Total Return Investable Index marked the fifth consecutive month of positive return on the back of ten consecutive months of negative returns on the index from May 2008 to February 2009. Anecdotal evidence from our discussions with fund managers points out that cash positions are continuing to get trimmed. Long-only fund managers were cash heavy in the portfolios to the extent of 35-40 per cent from February 2009 to March 2009 and are currently looking at 10-15 per cent.

In July, a very clear leadership pattern emerged in the nature of returns. Within the six geographies, Saudi Arabia, which has the highest strategic weight of 54 per cent (weight for July 2009), was providing only one-third of GCC returns when the markets turned towards their first positive return in March 2009. However, this contribution has increased close to 80 per cent. Similarly, between the large, mid and small caps, the leadership bias has shifted towards large caps. Large caps form 64 per cent of the total MSCI GCC Index and provided a paltry 31 per cent of the returns in June. This number substantially increased to close to 100 per cent in July.

Within the sectors, too, there is clear leadership emerging from some of the largest sectors in the GCC. Financials, materials and

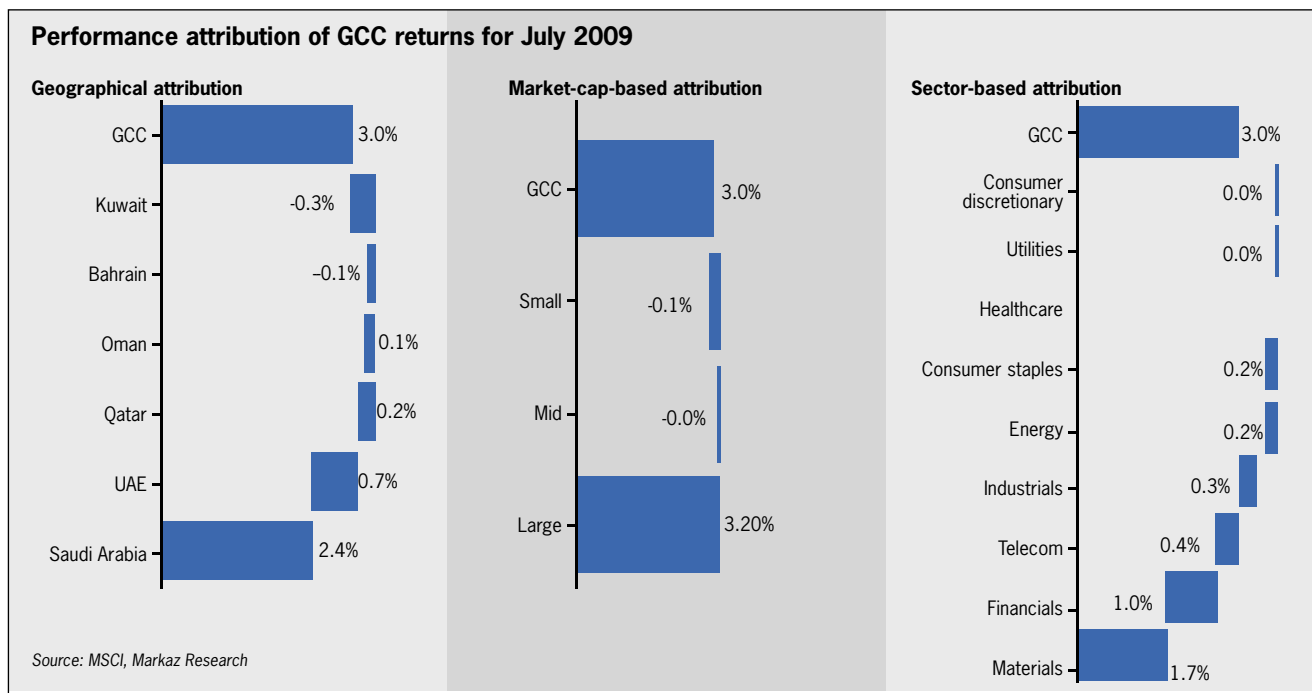
telecom, which have a combined weight of 85 per cent in the GCC index, provided 80 per cent of returns in April, when the markets increased close to 17 per cent. This number has further increased to almost 100 per cent.

The overall volume and value traded in the GCC declined by -59 per cent and -42 per cent to US\$21 billion and US\$39 billion respectively. Among the markets, Bahrain witnessed the highest decline in turnover at -85 per cent on a month-on-month basis.

Among the macro developments, the Kuwait central bank reduced its repo rate from two per cent to 1.75 per cent in July. The present rate is 4.12 per cent, lower than the peak rate of 5.87 per cent as at the end of March 2007. However, Qatar continues to increase its benchmark lending rate. In July, the central bank increased its lending rate from 5.25 per cent to 5.50 per cent.

The recently released figures in Saudi Arabia show a money supply growth of 16 per cent, which is significantly off the peak growth recorded in February 2008 at 26 per cent. The CPI figures point to an inflation growth of 5.48 per cent, which is also lower than the peak inflation growth of 11.08 per cent recorded in July 2008.

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