

"Mayday": Markets tank, investors panic

Global and Regional Market Review

June 2010

Research Highlights:
Review of stock markets for
the month of May 2010

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"The world is awash with \$222.5 trillion of total liabilities across public and private sector claims, or 362% of global GDP. Extinguishing this debt will be deflationary even as central banks will be forced to print money as an antidote and we are really in the early stages of this deleveraging cycle." – David Rosenberg, Chief Economist¹

Global markets swung into heavy losses in May as a myriad of economic and geopolitical factors coalesced into a month of record market declines. MSCI World lost 10% in May, eradicating the gains made so far this year and taking the YTD performance to a loss of 6%.

China continues to make efforts to curb property speculation and reduce fixed-asset investment, which is likely to sour commodity demand as the economy slows. Crude Brent ended the month at \$73 per bbl, a 15% monthly decline, and the largest decline since December 2008. The Shanghai index lost 10% and is down 21% for the year as China attempts to shift to a more consumer driven economy.

The worry in the U.S. is that continued trouble in Europe would have a contagion and slow economic recovery. The S&P 500 saw its worst monthly performance since February 2009, losing 8%. Consumer spending was flat in April. Weakness in the consumer segment has fed into inflation, which continues on the downtrend to 1% in April, from 1.7% at the beginning of the year.

The picture in the GCC was just as bad as investors traded on global cues due to lack of local/regional catalysts. MSCI GCC shed 11% for the month, which is the first monthly decline since January 2010. This loss all but eradicated the gains made since the beginning of the year, bringing the YTD return to just 1%. Saudi was the top loser for the month, suffering its largest decline since December of last year with an 11% loss. All GCC markets suffered monthly declines in the mid-high single digits.

The sharp drop in crude oil prices also triggered a panic in local markets, leading to sharp monthly losses. Sabc shed a massive 15% for the month in reaction to the fall in oil prices. Additional Dubai-based entities have announced large losses and the restructuring of debt, indicating that the emirates problems are far from over and leading to enhanced caution from investors.

Liquidity was down across the GCC in May, with volume and value traded declining 17% and 2%, respectively. In terms of volume, only Saudi witnessed a monthly increase (24%) while Kuwait saw the largest decline of 37%. Likewise, for value traded, Saudi saw an increase of 15% while Kuwait was down by half. Volatility was up in almost all markets, with Saudi MVX leading the way with a tripling of risk; pan-GCC risk was up about 2.5x in May.

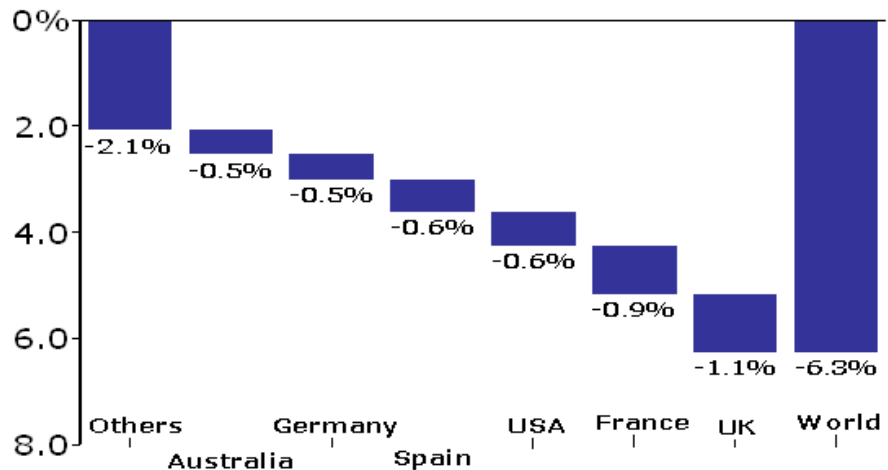
¹ Breakfast with Dave, Gluskin Sheff, May 31 2010

Global Markets Review – May 2010

World markets took a severe turn in May with MSCI World losing 10%

World markets took a severe turn south in May as a Chinese economic pullback, East Asian political tensions, a decline in crude oil prices, and continued economic uncertainty in Europe soured global sentiment. MSCI World lost 10% in May, erasing the gains made so far this year and taking the YTD performance to a loss of 6%. On a market cap weighted basis, the UK and France were the largest contributors to the loss with 1.1% and 0.9%, respectively. (Figure: 1)

Figure 1: YTD Market Cap Weighted returns of MSCI World

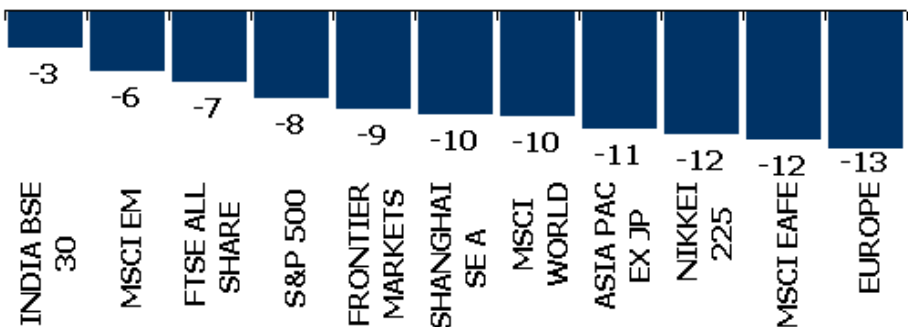


Source: MSCI Indices, Thomson DataStream

Monthly returns were sharply negative across the globe with Europe leading the way on a monthly decline of 13%; India managed to limit its monthly loss to 3% as economic growth projections are stable. The CBOE VIX index, as a result of the volatility of market returns, saw its largest monthly jump since September 2008 (Figure 10) spiking 45% in May.

Figure 2 –Returns – May 2010 (%)

Monthly returns were sharply negative across the globe with Europe leading the way with a monthly decline of 13%



Source: MSCI, Thomson DataStream

World

Global markets swung into heavy losses in May as a myriad of economic and geopolitical factors snowballed into a month of record market declines. China announced continued efforts to reign in its property bubble and reduce fixed-asset investment, which will likely have a negative impact on commodity demand as the economy slows; the moves led to a severe drop in crude oil prices. Crude Brent ended the month at \$73 per bbl, a 15% monthly decline, which is the first monthly loss since January 2009 and the largest decline since December 2008. The Shanghai index lost 10% and is down 21% for the year as China continues to announce policies which point to a shift into a more consumer driven society.

A trend has emerged globally which is a socializing of private sector losses and an inflating of public balance sheets

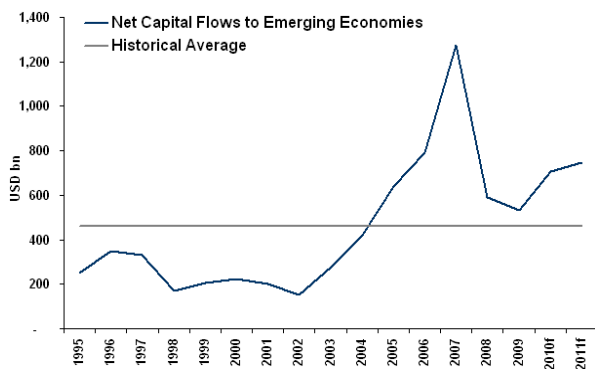
Attention in Europe has shifted to other highly leveraged nations, specifically Spain which has the third highest deficit ratio in the Union, and whether they can reduce these deficits without falling into depression. Fitch Ratings downgraded Spain's sovereign credit rating to AA+ (from triple A) stating that the country's high unemployment, debt levels and proposed USD 18 bn spending cuts would weight on the economy going forward.

The worry in the U.S. is that continued trouble in Europe (Spanish banks reportedly owe American institutions upwards of USD 198 bn²) would have a contagion in the U.S. and slow economic recovery. The S&P 500 saw its worst monthly performance since February 2009, with a loss of 8% for the month. Consumer spending stagnated in April, after showing an over 3% annualized growth in Q1, consensus points to a weaker Q2. Weakness in the consumer segment, the largest contributor to U.S. GDP, has fed into inflation, which continues on the downtrend to 0.9% in April, from 1.7% at the beginning of the year.

A trend has emerged globally which is fundamentally a socializing of private sector losses/financial troubles; the financial sector troubles of last year were shifted onto public sector balance sheets as governments bailed out banks and other financial institutions around the world. The question being raised with the difficulties in Europe is what happens when the credit crisis is at the sovereign level, which limits the governments' ability to stimulate economic growth³? This will serve to limit the global economic recovery going forward and has already shown the beginnings of an ugly domino effect.

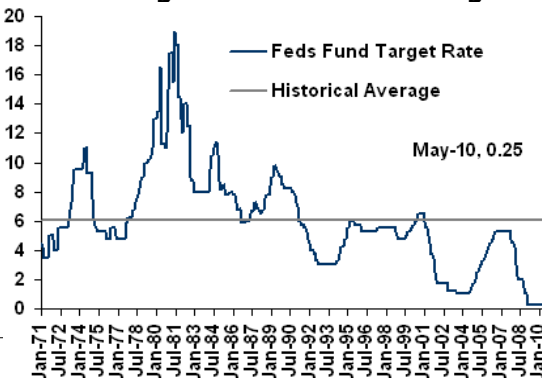
Chart Pack – Global Markets

Figure: 3 – Capital Flows to Emerging Economies



Source: Institute of International Finance

Figure: 4 - Feds Fund Target rate



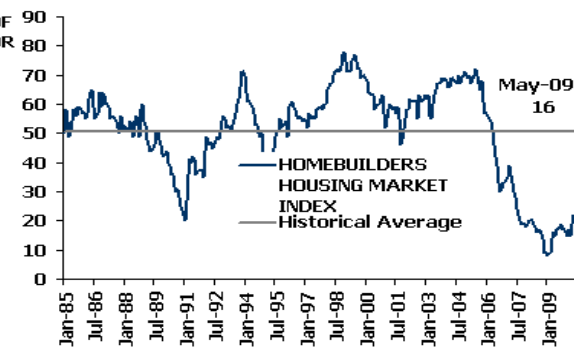
Source: Thomson DataStream

Figure: 5 - Trade Weighted Dollar



Source: Thomson DataStream

Figure: 6 -Homebuilders housing market index



Source: Thomson DataStream

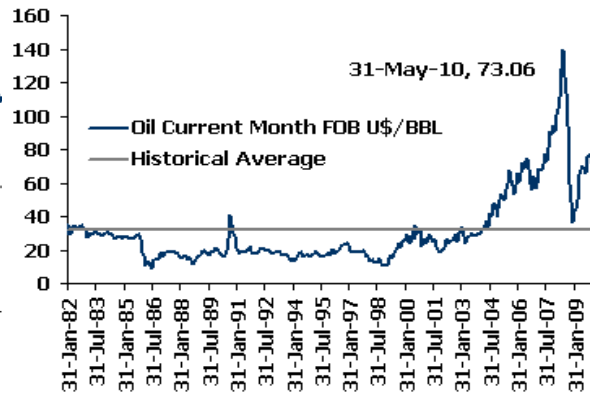
² Bank for International Settlements

³ Breakfast with Dave, Gluskin Sheff, May 31 2010

Figure 7 - US Unemployment rate (Seasonally Adj) Figure 8 - Crude Brent Oil Prices

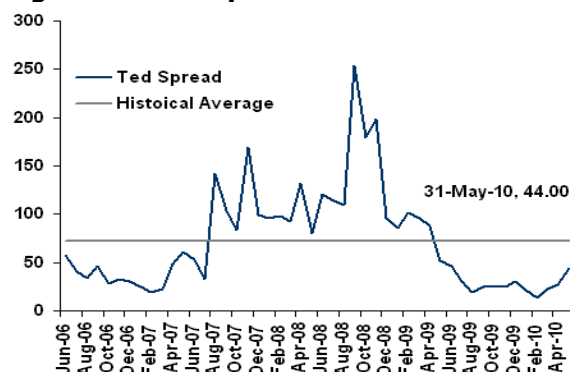


Source: Thomson DataStream



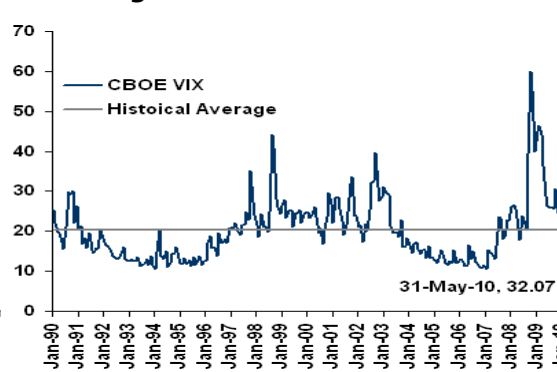
Source: Thomson DataStream

Figure 9 - Ted Spread



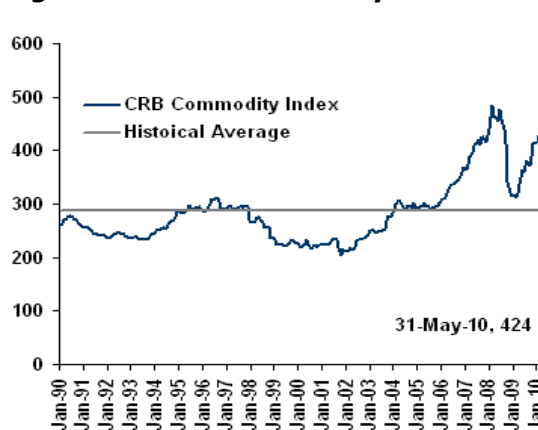
Source: Reuters 3000Xtra

Figure 10 - CBOE VIX



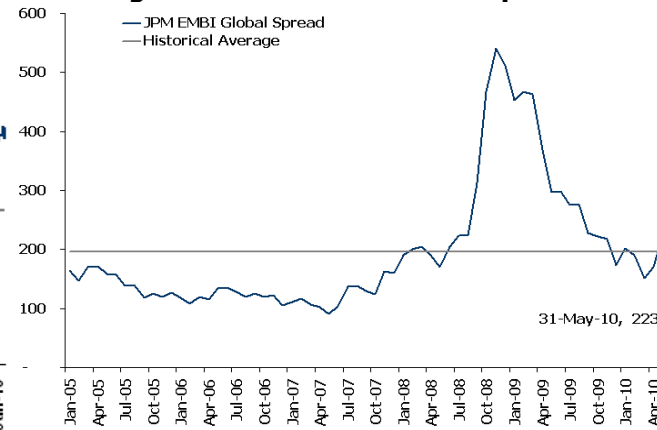
Source: Reuters 3000Xtra

Figure 11 - CRB Commodity Index



Source: Reuters 3000Xtra

Figure 12: JPM EMBI Global Spread



Source: Thomson DataStream

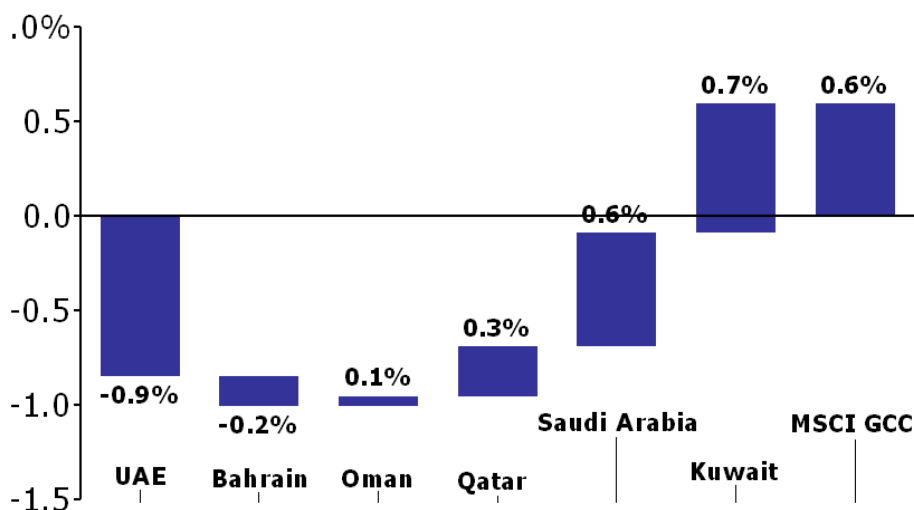
GCC Markets Review – May 2010

MSCI GCC lost 11% in May, the largest monthly loss since November 2008

GCC markets followed global cues in May; due to lack of local/regional trading stimulus in addition to the tumble in crude oil prices, leading the MSCI GCC index to an 11% monthly decline, which is the largest monthly loss since November 2008. This loss all but eradicated the gains seen since the beginning of the year, bringing the YTD return to just 1%. MSCI GCC underperformed MSCI EM and MSCI BRIC on a monthly basis, but is outperforming them in the YTD period as the indices languish in the red. The GCC loss was driven by an 11% decline in Saudi Arabia, its first monthly decline of 2010, as Sabc's tumble and crude oil price declines weighed heavily on the index. All GCC markets suffered losses in the mid-high single digits.

Kuwait contributed the most to the YTD return, on a market cap basis, with 0.69%, followed closely by Saudi Arabia at 0.6%. The UAE was the biggest drag on the index with a market cap weighted YTD loss of 0.9%.

Figure 13: YTD Market Cap Weighted returns of MSCI GCC Constituents



Source: MSCI, Thomson DataStream

Investors in the GCC had minimal local catalysts to trade on and so largely followed global cues in May

The sharp drop in crude oil prices triggered a panic in local markets, leading to sharp monthly losses. Sabic shed a massive 15% for the month in reaction to the fall in oil prices.

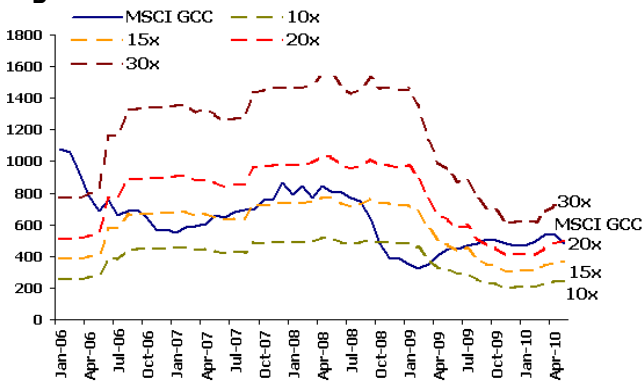
In Kuwait, trading in Zain has been halted as shareholder's approved the 2009 dividend of 170 fils/share. This was followed shortly by news that the Kuwait Investment Authority (KIA) was looking to sell its 24.6% stake in the company (worth about USD 4.5 bn).

The Dubai market, down 9% in May, continues to be battered by ongoing corporate difficulties. Dubai Holding Commercial Operations Group (DHCOG), Dubai Holding's key unit, announced a massive USD 6.2 bn loss for 2009 and may resort to asset sales. Furthermore, Drydocks World, a unit of Dubai World, announced that it had entered talks with banks to restructure almost USD 2 bn in debt which matures in late 2011, all of which indicates that the emirates financial problems are far from over.

Liquidity was down across the GCC in May, with volume and value traded declining 17% and 2%, respectively. In terms of volume, only Saudi witnessed a monthly increase (24%) while Kuwait saw the largest decline of 37%. Likewise, for value traded, Saudi saw an increase of 15% to USD 26 bn while Kuwait was down by half to USD 2.6 bn for May. Volatility was up in almost all markets, with Saudi MVX leading the way with a tripling of risk as per the Markaz Volatility Index; pan-GCC risk was up about 2.5x in May with only Bahrain witnessing a decline (7%).

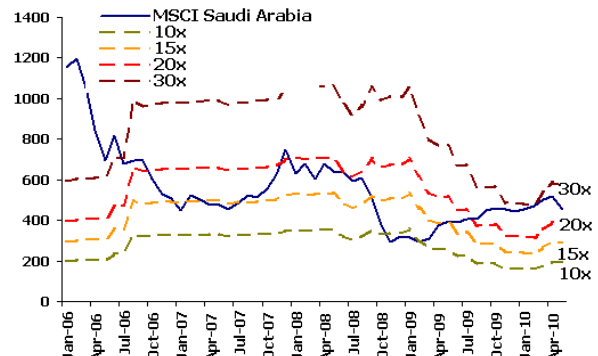
Chart Pack – GCC

Figure: 14 - MSCI GCC – PE Band



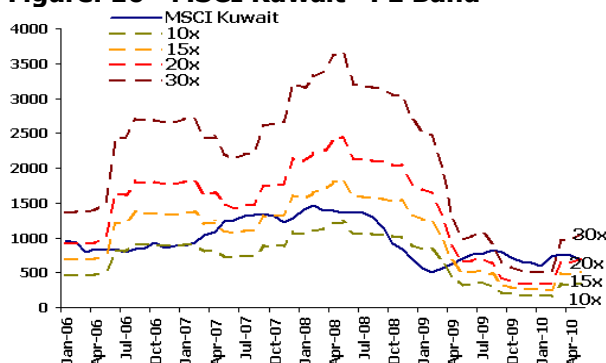
Source: MSCI, Thomson DataStream

Figure: 15 - MSCI Saudi Arabia – PE Band



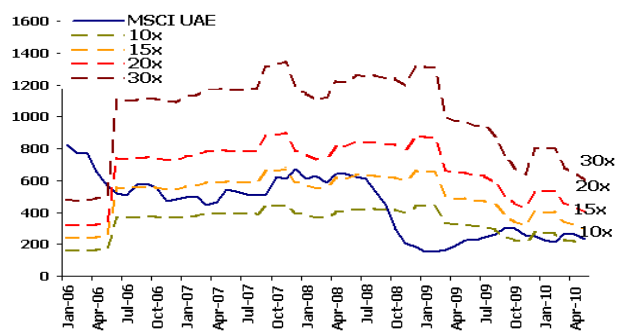
Source: MSCI, Thomson DataStream

Figure: 16 - MSCI Kuwait – PE Band



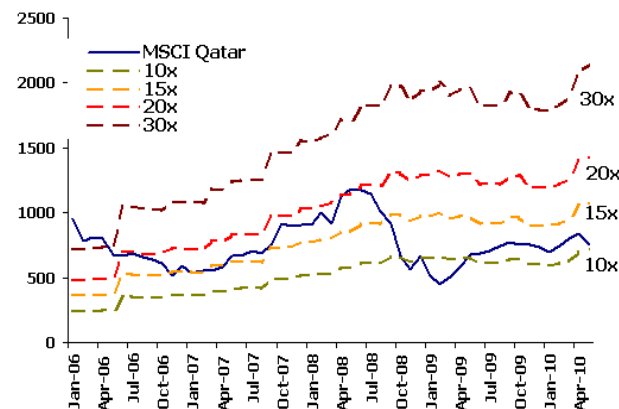
Source: MSCI, Thomson DataStream

Figure: 17 - MSCI UAE – PE Band



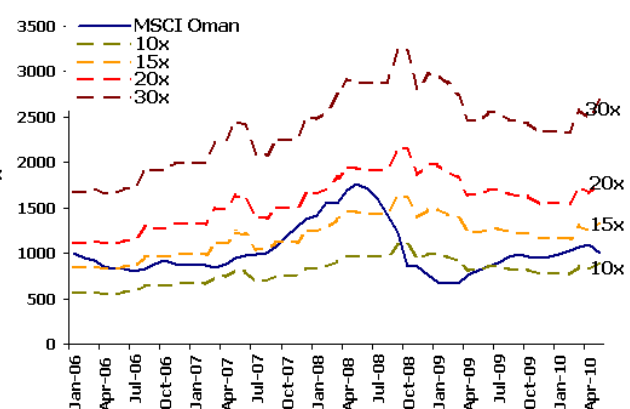
Source: MSCI, Thomson DataStream

Figure: 18 - MSCI Qatar – PE Band



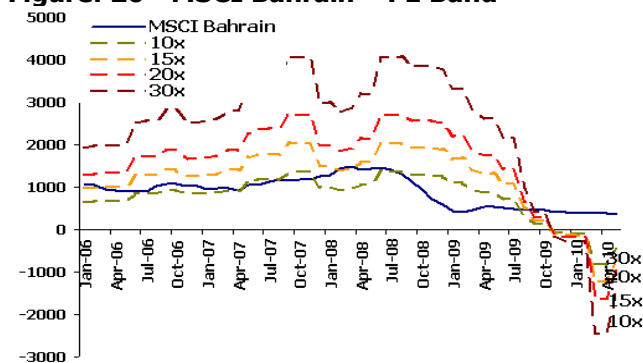
Source: MSCI, Thomson DataStream

Figure: 19 - MSCI Oman – PE Band



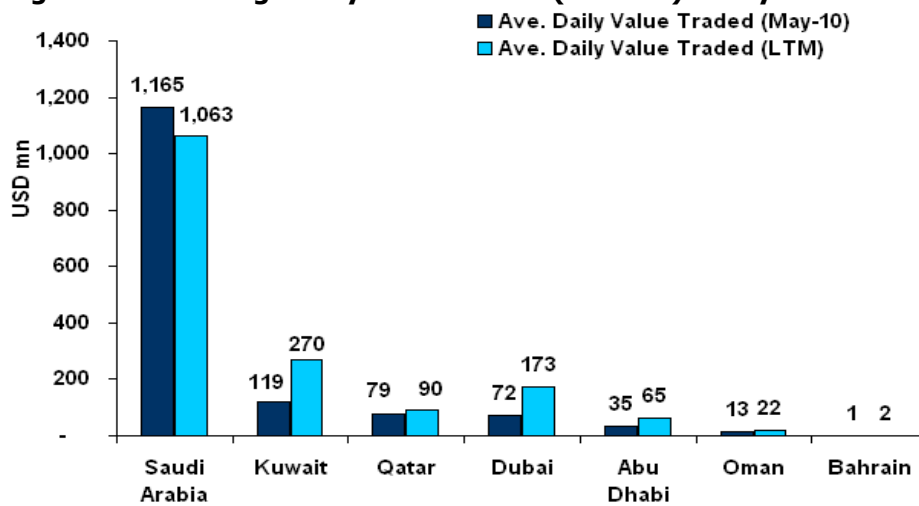
Source: MSCI, Thomson DataStream

Figure: 20 - MSCI Bahrain – PE Band



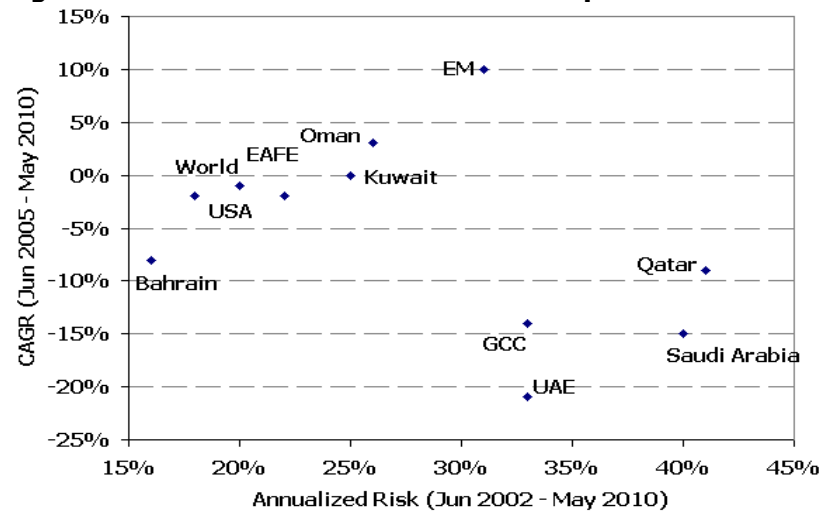
Source: MSCI, Thomson DataStream

Figure: 21 – Average Daily Value Traded (USD mn) – May 2010



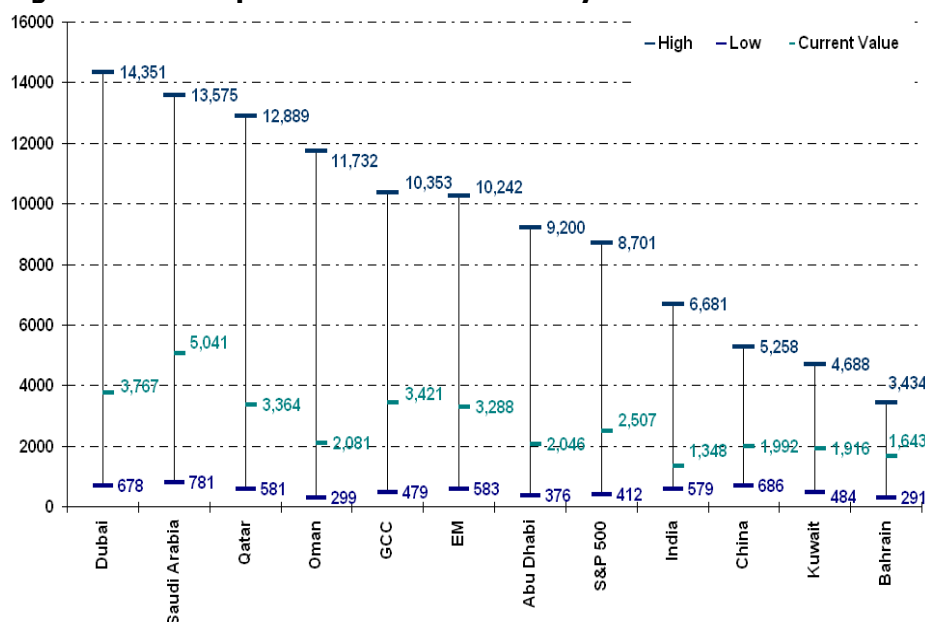
Source : Zawya Investor

Figure: 22 - Risk & Return – GCC Vs Developed & EM – June 2005 - May 2010



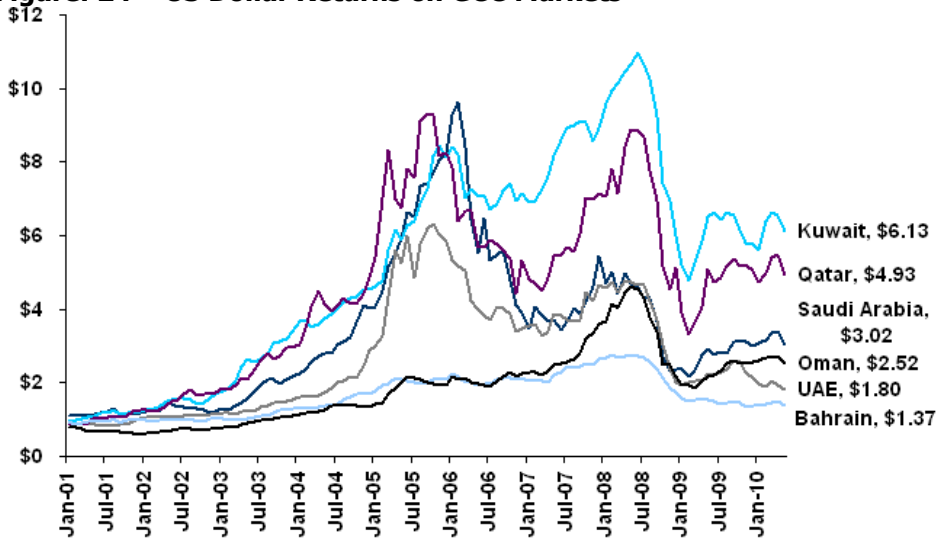
Source: MSCI, Thomson DataStream

Figure: 23 – Comparative MVX Levels – May 2010



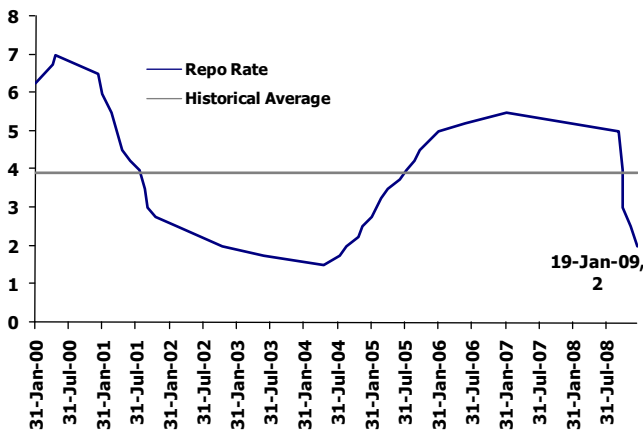
Source: MVX is a proprietary volatility index developed by Markaz Research

Figure: 24 – US Dollar Returns on GCC Markets



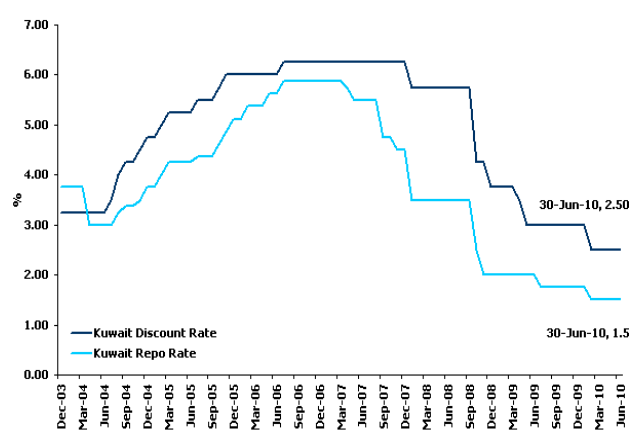
Source: Markaz Research

Figure: 25 - Saudi Arabia Repo Rate



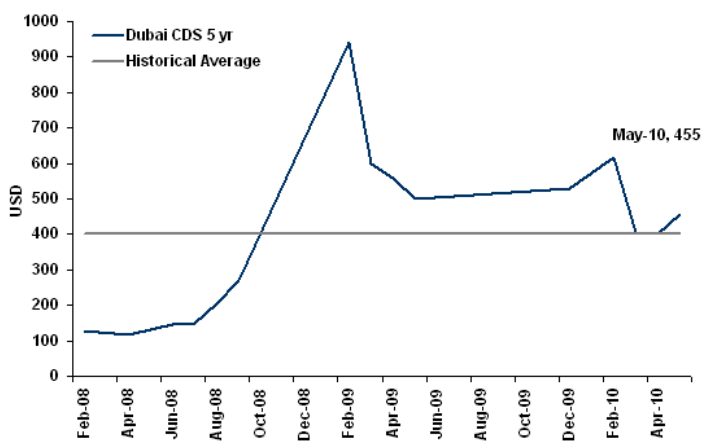
Source: Reuters 3000Xtra

Figure: 26 - Kuwait Rates



Source: Reuters 3000Xtra

Figure 27: Dubai CDS 5 yr



Source: Reuters 3000Xtra

Data Tables – GCC

Data Table: 1 - Market Indicators					
Indicators	M. Cap (USD Bn)	Last Close	May 2009 %	2009 %	P/E TTM
Saudi (TASI)	319	6121	-10.88	27	15
Kuwait SE WT.INDEX	107	407	-6.62	-10	15
Abu Dhabi (ADI)^	76	2604	-6.23	15	10
Qatar(Doha SM)	69	6786	-10.09	1	10
Dubai (DFMGI)	53	1580	-9.22	10	10
Oman(Muscat SM)	17	6294	-7.85	17	11
Bahrain (BAX)	17	1450	-8.90	-19	11
MSCI GCC Index	428	409	-11.12	18	19

Source: Excerpt from Markaz 'Daily Morning Brief' June 2, 2010

Data Table: 2 - Value & Volume Traded Indicators										
		Volume Parameters				Value Parameters				
% of Volume Traded	% of Value Traded	Volume Traded (Mn)	LTM Avg Volume Traded (Mn)	MoM Deviation (%)	Top 5 Volume Traded Concentration in Market Cap	Value Traded (USD Mn)	LTM Avg Value Traded (USD Mn)	MoM Deviation (%)	Top 5 Value Traded Concentration in Market Cap	
32%	79%	Saudi Arabia	4,303	3,432	24%	7%	26,798	22,403	15%	29%
31%	8%	Kuwait	4,085	8,041	-37%	1%	2,616	5,550	-49%	41%
33%	7%	UAE	4,367	10,089	-19%	10%	2,336	5,085	-31%	10%
2%	5%	Qatar	253	236	-3%	10%	1,745	1,920	-18%	25%
2%	1%	Oman	312	436	-9%	20%	293	448	-14%	22%
0%	0%	Bahrain	33	74	-24%	34%	19	41	-20%	43%
		Total GCC	13,353	22,308	-17%		33,808	35,448	-2%	

Source: Markaz Research

Data Table: 3 - Value traded (USD Bn)							
	2004	2005	2006	2007	2008	2009	2010
Saudi (TASI)	473	1103	1403	682	522	338	101
Kuwait (KSE)	51	97	60	131	134	75	24
Abu Dhabi (ADX)	4	29	19	48	83	19	4
Dubai (DFM)	14	110	95	103	63	48	12
Qatar (DSM)	6	28	21	30	47	26	9
Oman (MSM)	2	3	2	5	9	6	2
Bahrain (BAX)	0.4	0.6	1.4	0.9	2.2	0.48	0.16
Total	550	1371	1601	1000	860	512	151

Source: Respective Stock Exchanges

Data Table: 4 - Blue Chips Performance

Companies	M.Cap (USD Bn)	Last Close (Lc)	Monthly Change	YTD	2009 Change	P/E TTM	Q1 2010 Earnings	PAT (YoY Growth)
Saudi Arabia (SAR)								
SABIC	71	89.0	-15	8	60	17	5430	NM
Al-Rajhi Bank	31	77.3	-7	8	27	17	1680	-3
Saudi Telecom	19	35.7	-14	-19	-10	7	1770	-29
Samba Fin. Group	13	55.3	-8	9	-1	11	1210	-5
Saudi Electricity Co.	12	10.7	-5	-5	22	38	-782	NM
United Arab Emirates (AED)								
ETISALAT	23	10.6	0	6	33	10	1970	-2
NBAD	8	10.2	-15	-9	52	9	1030	34
First Gulf Bank	7	15.6	-16	-3	71	7	920	23
Emaar Properties	6	3.4	-14	-13	75	NA	760	221
Emirates NBD	4	2.8	-7	-7	6	5	1110	-12
Kuwait (KWD)								
ZAIN	20	1.3	2	31	21	26	52	-32
NBK	13	1.2	-6	14	4	13	76	20
KFH	8	1.0	-5	-3	-9	21	31	-21
Comm. Bk. Kuwait	3	0.7	-19	-20	-21	NA	-1.4	NM
Gulf Bank	3	0.4	6	38	-33	NA	0.5	-67
Qatar (QAR)								
Ezdan Real Est. Co.	22	29.5	-15	-55	144	6	72	-27
Industries Qatar	15	98.8	-14	-13	13	12	1200	-14
QNB	14	130.6	-6	14	9	11	1300	29
Q-TEL	6	152.5	-9	5	33	NA	2100	254
Qatar Islamic Bank	4	70.5	-9	-9	-6	12	300	-14

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			<ul style="list-style-type: none"> Shell Oman Marketing (Apr-10) Galfar Engineering & Cont. (Nov-08) Oman Telecommunications (Sept-08) Bank Muscat (Sept-08) Oman cement (Sept-08) Raysut Cement Company (Aug-08) National Bank of Oman (Aug-08) OIB (July-08) <p>Jordan</p> <ul style="list-style-type: none"> Arab Bank (Sept-08) Cairo Amman Bank (Oct-08) <p>Morocco</p> <ul style="list-style-type: none"> Maroc Telecom (Mar-10) <p>Egypt</p> <ul style="list-style-type: none"> Egypt Kuwait Holding (Mar-10) Commercial Int'l Bank (Oct-08) Orascom Telecom (Sep-08) Mobinil (Sep-08) Telecom Egypt (Aug-08) EFG-Hermes (Jun-08)

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	Markaz Company Research Coverage		
	MSCI Arabian Markets Conventional	MSCI Arabian Markets Islamic	Local Index
Saudi Arabia	56%	55%	76%
Kuwait	70%	68%	43%
Qatar	92%	90%	95%
UAE	79%	25%	58%
Bahrain	58%	74%	23%
Oman	63%	100%	50%
Egypt	60%	85%	40%
Jordan	39%	0%	32%
Morocco	50%	70%	24%
MENA	75%	84%	60%

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