Equity markets

# GCC: Lower oil prices caused major correction in markets in late 2014

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**GCC equity markets ended 2014 on a weaker footing than at the start of the year.** Supported by a favorable economic outlook, regional markets rallied during most of the year. However, the decline in oil prices later in the year sent global and GCC markets on a major correction eroding most of their gains. The S&P 500 is up a mere 1% on the year, a far cry from the 23% gain it registered during the first three quarters of the year. GCC markets' capitalization stood at $1 trillion having added $89 billion in 2014.

**GCC markets got off to a strong start in 2014.** A positive economic outlook and the strong fiscal positions of most GCC economies supported by high oil prices made these regional markets attractive, especially when compared to emerging economies that continued to show signs of weakness. Regional markets also received a strong boost from the decision by MSCI to upgrade the UAE and Qatar to "emerging market" status from "frontier markets.

**By mid-year, markets went through what was seen as an overdue correction,** triggered mainly by growing security concerns in Iraq but also by other country and market specific factors. Nevertheless, by the end of 3Q14, GCC equities seemed to still be heading towards registering a solid performance for the year with year- to- date (ytd) gains reaching 50% and 32% for UAE and Qatar respectively and 23% for the S&P GCC index. Meanwhile, the S&P 500 and the S&P emerging markets index were up a mere 7% and 3%, respectively.

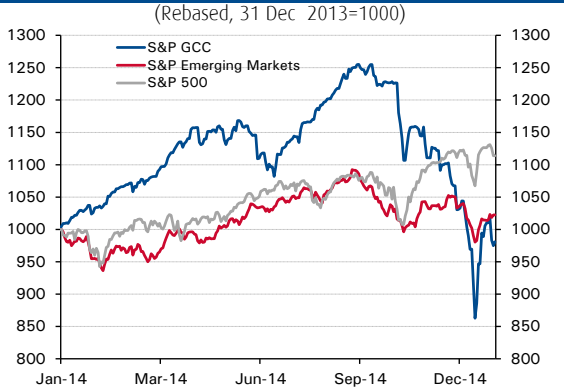
**The sharp decline in oil prices later in the year led to a more serious correction in 4Q14,** wiping out most of the gains made earlier in 2014. With oil prices falling by as much as 50%, worries about fiscal positions, breakeven oil prices and the impact on government spending became the focus of GCC investors and took a toll on regional markets. The S&P GCC shed 18% in the last quarter of the year as a result. Markets also became jittery in the last quarter of the year with unusually large daily changes. Market volatility in 4Q14 increased evidently in comparison to the previous three quarters of the year.

**All GCC markets were down in 4Q14, though not all were hurt equally.** Losses ranged between 21% in Dubai to 4% in Bahrain. Higher valuations in some markets are likely to have contributed to some of the variance in the correction of GCC markets. For example, the Dubai index had increased by 50% during the first three quarters of the year compared to a more modest 18% in Bahrain.

**Volatility also seems to explain the variance in the size of losses** incurred by regional markets in the last quarter of 2014. Most regional markets have historically had similar volatilities. In contrast, Dubai has always exhibited higher levels of volatility which seem to provide some explanation for that market's more pronounced reaction to the drop in oil prices.

**Chart 1: Price indices**

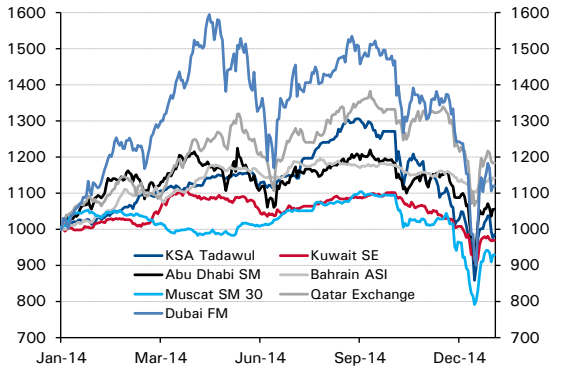
(Rebased, 31 Dec 2013=1000)




Source: Thomson Reuters Datastream

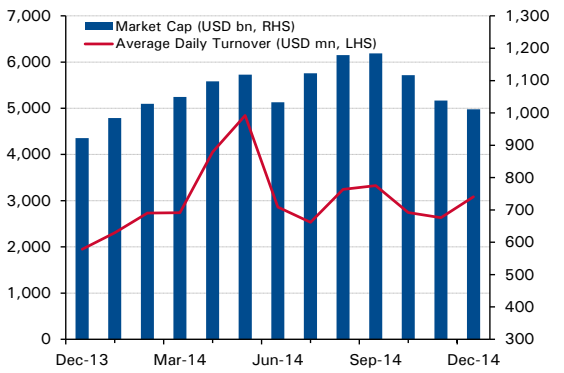
**Chart 2: GCC price indices**

(Rebased, 31 Dec 2013=1000)




Source: Thomson Reuters Datastream

**Chart 3: GCC market capitalization & turnover**




Source: Zawya

**Fiscal strength also seems to explain why some markets were more affected by the recent correction.** Generally, markets with more abundant reserves as measured by net reserves as a percent of GDP, including Qatar, Abu Dhabi, and Kuwait, which provided them with buffers against a period of lower oil prices, saw less pronounced declines than those with weaker fiscal positions, particularly Dubai and Oman.

**The importance of oil and gas companies in individual equity markets also appeared to explain some of the variance** in the magnitude of market reactions. This was particularly visible in Saudi Arabia, where oil and gas companies account for 19% of market capitalization; as a result, Saudi equities saw the second worst performance after Dubai. The Omani market also has a relatively high concentration of oil and gas companies, which might explain its rank as the third worst performer. By contrast, Bahrain saw the smallest market decline despite having one of the weakest fiscal positions, thanks in part to a more diversified economy and having no listed oil and gas companies.

**Liquidity in the market picked up in 2014.** The rise in volumes was particularly significant in UAE and Qatar as fresh liquidity entered these markets in anticipation of the MSCI upgrade. GCC daily traded volumes averaged $2.8 billion in 4Q14, up 56% compared to 4Q13.

## Kuwait equities follow regional markets, lose most 2014 gains

**The performance of the local bourse in 2014 was more or less in line with regional peers.** However, the rally and the 4Q14 correction were less pronounced than in most of the other markets. The value-weighted index closed the year down 3.1%. Smaller caps took a harder hit as evident in the performance of the price-index which was off 13.4% in 2014. The market's capitalization shed more than KD 250 million to close the year at KD 29.5 billion. Volumes were also lower in 2014 compared to the year before. On a more positive note, foreign interest in the local market saw a notable improvement, thanks to an increase in Kuwait's weight in some "frontier market" benchmarks.

**KSE had been making some decent gains for most of 2014** supported by a positive economic outlook. Economic growth is expected to maintain an accelerating trend thanks to the government's spending plans and the implementation of the new five-year development plan. Before the correction brought about by the decline in oil prices, the value-weighted index was up 9% ytd and the market had gained more than KD 3 billion in capitalization.

**In 4Q14, all indices lost ground as the drop in oil prices became more sustained.** The value-weighted index and the K15 retreated 11.2% and 12%, respectively. The price index was down 14.3%. The unimpressive corporate profit results for 3Q14 only put further pressure on the market.

**Performance across the various sectors was mixed.** The consumer goods and insurance sectors were the best performers, both up 11.3% on the year. Meanwhile, telecommunication stocks saw the weakest performance, off 17.7%. The banking sector closed the year up 0.8%.

**Trading volumes also declined in 2014**. The value of traded shares recorded a daily average of KD 29 million in 2014, down 44% from 2013's average.

**The year appeared to benefit from a decent increase in inflows of foreign money into the market.** The monthly volumes data reveals that

### Table 1: GCC markets

| | Capitalization (as of 31 Dec 2014) | | Turnover (daily average in 2014) | |
|---|---|---|---|---|
| | USD bn | % y/y | USD mn | % y/y |
| Abu Dhabi | 114 | 3 | 152 | 65 |
| Bahrain (BSE) | 23 | 18 | 2 | 4 |
| Dubai (DFM) | 86 | 28 | 407 | 133 |
| KSA (Tadawul) | 484 | 3 | 2,171 | 49 |
| Kuwait (KSE) | 96 | -9 | 86 | -44 |
| Muscat (MSM) | 25 | -0.5 | 20 | -12 |
| Qatar (QE) | 185 | 17 | 214 | 158 |
| **GCC** | **1,011** | **9** | **2,982** | **54** |

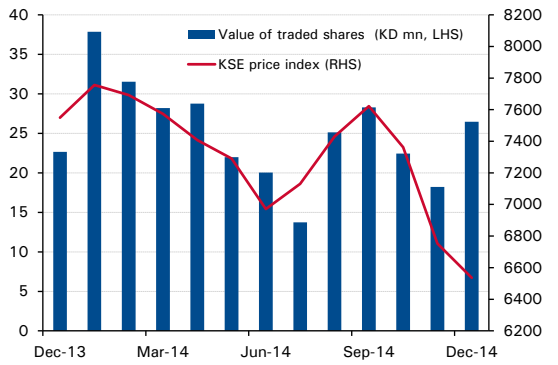
Source: Zawya

### Table 2: GCC markets

| | 2014 | 4Q14 | Net reserves | Oil and Gas |
|---|---|---|---|---|
| | % y/y | % q/q | % of GDP | % of market cap |
| Abu Dhabi (ADSM) | 6 | -18 | 284 | 0.8 |
| Bahrain (BSE) | 14 | -3 | 30 | 0 |
| Dubai (DFM) | 12 | -25 | -4 | 0 |
| KSA (Tadawul) | -1 | -23 | 102 | 19 |
| Kuwait (KSE) | -3 | -11 | 310 | 1 |
| Muscat (MSM) | -7 | -15 | 32 | 6 |
| Qatar (QE) | 18 | -11 | 140 | 5 |

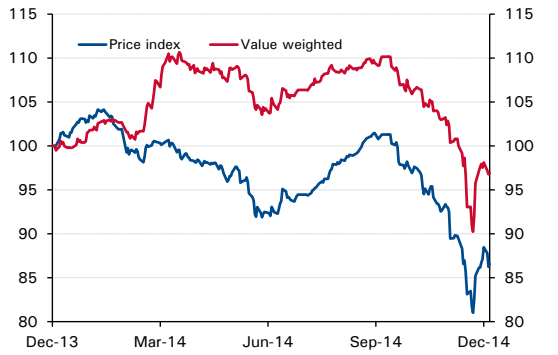
Source: Zawya / NBK estimates

### Chart 4: Kuwait stock exchange




Source: Kuwait Stock Exchange

### Chart 5: KSE market performance




Source: Kuwait Stock Exchange

the share of non-Kuwaiti buyers averaged 15% in the first eleven months of the year compared to a 9% average in 2013. Data for December is not yet available. One factor was the fact that Kuwait's share of some "frontier market" benchmarks increased, a consequence of the UAE and Qatar becoming "emerging markets".

**The year saw some positive steps towards improving the governance and regulatory structure of Kuwait's financial markets.** Revisions to the bylaws of the Capital Market Authority (CMA) and a new governance law have been seen as positive moves that will improve the overall attractiveness of the market, encouraging new investment and engendering confidence in the market.

**Chart 6: Foreign buyers (%, 3mma)**

(% share of value traded)


Source: Kuwait Stock Exchange

**Table 3: KSE performance by sector**

| | Change (% y/y) 4Q14 | | Market Cap |
|---|---|---|---|
| | Price index | Weighted index | KD mn |
| KSE | -13.4 | -3.1 | 29,462 |
| Banks | -6.3 | 0.8 | 14,592 |
| Basic Materials | -2.5 | 2.0 | 641 |
| Consumer Goods | -0.8 | 11.3 | 1,271 |
| Consumer Services | -3.4 | -9.5 | 807 |
| Financial Services | -24.6 | -6.3 | 3,125 |
| Healthcare | -10.8 | -12.4 | 184 |
| Industrials | -7.7 | -0.5 | 2,692 |
| Insurance | 4.2 | 11.3 | 358 |
| Oil & Gas | -8.2 | -8.9 | 377 |
| Real Estate | -17.6 | -7.8 | 2,363 |
| Technology | -10.1 | -13.5 | 56 |
| Telecommunications | -32.0 | -17.7 | 3,021 |
| Parallel | -7.3 | 0.1 | ... |

Source: Kuwait Stock Exchange

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