

Equity markets

GCC: Saudi Arabia outperforms as other markets are off

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In 1Q15, most GCC equity markets extended a correction triggered by falling oil prices last year. The exception was Saudi Arabia, the region's largest market, which saw a strong quarter supported by plans to open up its market to foreign investors. While most markets saw a small rebound early in the quarter when oil prices seemed to bottom out in January, March saw markets resume declines across the board. The MSCI GCC total return index was up 3% year-to-date (ytd) thanks to the dominant weight of the Saudi Arabian market in the index. GCC markets' capitalization stood at \$1 trillion, having added \$4 billion in 1Q15. Market liquidity was little changed compared to 4Q14.

Internationally, the first quarter did not see a strong start to the year, with most markets eking out weak gains with the exception of the euro area. US equities (DJIA and S&P 500) were mostly flat ytd. Softening economic fundamentals in both the US and key emerging markets were partly to blame. Meanwhile, earnings did not impress and failed to boost stock prices. On the other hand, European equities saw stronger gains in 1Q15 with MSCI Europe total return index up 4% ytd, as the ECB's quantitative easing went into full swing and the quarter saw more positive economic data. The decline in the euro also provided a positive boost to equities.

In the GCC, Dubai and Qatar were the lagging performers during 1Q15. The Dubai Financial Market price index and Qatar exchange price index declined by 7% and 5%, respectively. Of course, these markets had seen the largest gains in 2014 thanks to their upgraded status to emerging market, with the more pronounced correction in 1Q15 likely reflecting higher valuations. In Dubai, worries about a softening in the real estate sector appear to have put additional pressure on equities. Other markets also saw declines, including Abu Dhabi, Oman and Kuwait.

Saudi Arabia's stellar performance was the exception in the GCC, though it was tempered slightly by the latest events in Yemen. The Tadawul general price index gained 5% in 1Q15. The main catalyst for the market was the indications that authorities will open up the market to foreign investors by the middle of this year. The market has also benefited from the recent stabilization of oil prices and recent economic data pointing to continued robust growth in the country. Nonetheless, the recent escalation across the border in Yemen has raised concerns of increased political risk.

In the coming months, regional markets are likely to continue to be moved by oil price developments. Oil prices remain an important factor, especially for markets with weaker fiscal positions like Dubai, Oman and Bahrain. Other markets with larger fiscal buffers are likely to see more limited impact of large changes in oil prices. In those markets, such as Saudi Arabia, Qatar, Abu Dhabi and Kuwait, economies appear more resilient in the current low oil price environment, as governments renew commitments to boost or maintain capital spending and move forward on their development plans.

Chart 1: Total return indices

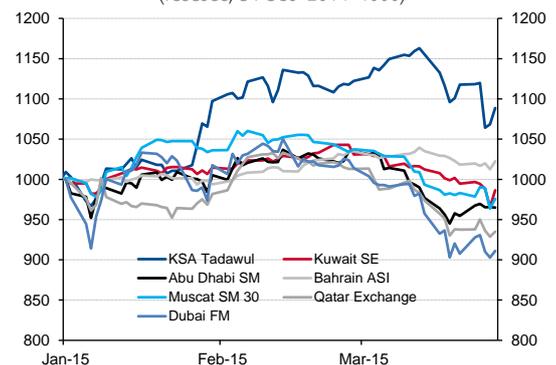
(rebased, 31 Dec 2014=1000)



Source: Thomson Reuters Datastream

Chart 2: GCC price indices

(rebased, 31 Dec 2014=1000)



Source: Thomson Reuters Datastream

Chart 3: GCC market capitalization & turnover



Source: Zawya

Geopolitical developments will also be scrutinized in the coming months. Developments in Yemen will be in the forefront, especially as countries in the region potentially become more affected by the conflict. Late in March, GCC markets reacted negatively to news of air strikes by Saudi Arabia in neighboring Yemen, though the selloff was short-lived. Meanwhile, the Iranian nuclear program negotiations are also likely to impact markets in the coming months.

Internationally, a stronger dollar, European QE and the timing of the first US interest rate hike later in the year are also factors to watch out for. Expectations of a stronger dollar may have helped regional markets, whose currencies are pegged to the US currency. However, the stronger currencies may eventually start to weigh on markets as regional equities could begin to look overvalued to investors.

Table 1: GCC market capitalization

	Capitalization (as of 31 March 2015)	
	USD bn	% ytd
Abu Dhabi (ADSM)	113	-0.6
Bahrain (BSE)	22	-0.6
Dubai (DFM)	86	0.0
KSA (Tadawul)	505	4.5
Kuwait (KSE)	91	-4.8
Muscat (MSM)	23	-4.3
Qatar (QE)	174	-6.3
GCC	1,015	0.4

Source: Zawya

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