

Equity markets

# GCC: markets outperform international peers in 2Q15

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**Most regional markets rallied in 2Q15 led by a strong performance by the UAE markets.** Following a strong market correction that was triggered by the drop in oil prices late last year, and that extended well into 1Q15, most regional markets saw a notable rebound in 2Q15 (Chart 1). Markets seem to have gained from stabilizing oil prices and a relatively calmer geopolitical climate. The MSCI GCC total return index was up 4.6%. GCC markets' capitalization stood at \$1.1 trillion, having added \$88 billion in 2Q15. Market liquidity dropped 22% with the daily traded value averaging \$2.2 billion. Typically, activity weakens in the summer and more so notably during the month of Ramadan.

**Internationally, the Greek debt issue finally took a toll on equity markets with the main market indices ending the quarter in the red.** European equities, which had been rallying since the beginning of the year, corrected in the last couple of days in June eroding most of their quarterly gains. The MSCI Europe total-return index closed the quarter up only 1%. US equities remained directionless with the DJIA and the S&P500 "flat" in 2Q15. Meanwhile, the MSCI Emerging Markets total-return index was up 1% on the quarter. Chinese equities also saw a major correction towards the end of the quarter with the MSCI China total-return index off 10% in June; though it is still up 25% ytd.

**In the GCC, the UAE markets outperformed with the DFM up an impressive 16% and the AD5M up a decent 6% in 2Q15.** The DFM was the hardest hit market when oil prices started to drop late last year. So when oil prices finally stabilized late January, the market seemed due for a rally. Tadawul came in behind DFM and ADX, having gained 5% in the quarter. The Saudi market was the only GCC market that rallied in 1Q15; surely, with the main catalyst being the decision to open up the market to foreign investors by the middle of this year. Ironically, when the decision went into effect mid-June, the market seemed to have already priced it in and the Tadawul All-Share index dropped for a few consecutive sessions afterwards. The Qatari and Omani markets also made some gains in 2Q15, up 4 and 3% respectively.

**The Kuwaiti and Bahraini markets were the only two GCC markets to lose ground on the quarter.** The Kuwait Stock Exchange (KSE) value-weighted index was down 0.4% and continued to lack a catalyst that would turn things around. The tragic June suicide-bombing had a somewhat muted effect on prices, though it surely affected market sentiment.

**In the coming months, regional markets are likely to continue to be focused on oil price developments.** Oil prices remain an important factor, especially for the markets/economies with weaker fiscal positions such as Dubai, Oman and Bahrain. The other markets with larger fiscal buffers are likely to see more limited impact of big changes in oil prices. In those markets, such as KSA, Qatar, Abu Dhabi and Kuwait, the economies appear more resilient even with the current low oil prices, as governments renew commitments to boost or maintain capital spending and are determined to move forward on their development plans.

Chart 1: Total return indices

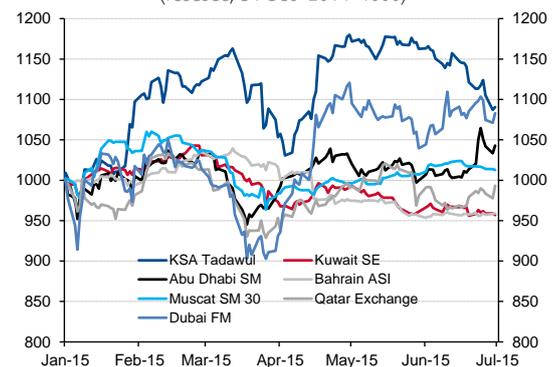
(rebased, 31 Dec 2014=1000)



Source: Thomson Reuters Datastream

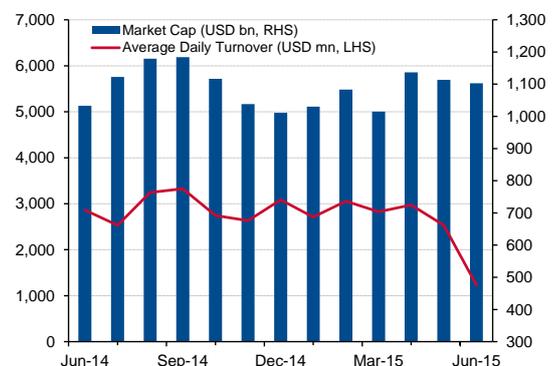
Chart 2: GCC price indices

(rebased, 31 Dec 2014=1000)



Source: Thomson Reuters Datastream

Chart 3: GCC market capitalization & turnover



Source: Zawya

**Geopolitical and security developments will also be scrutinized in the coming months.** Developments in Yemen will be in the forefront, and the Iranian nuclear program negotiations are also likely to impact markets in the coming months (including oil). Finally; any recurrent terror attacks (Egypt, Tunisia, Kuwait etc) and markets will have to factor in the added risk.

**Internationally, a stronger dollar, fear of Greek exit from the Euro and the timing of the first US interest rate hike later in the year are all market moving factors.**

**Table 1: GCC market capitalization**

	Capitalization (as of 31 June 2015)	
	USD bn	% ytd
Abu Dhabi (ADSM)	120	5.8
Bahrain (BSE)	21	-6
Dubai (DFM)	98	14.2
KSA (Tadawul)	569	17.7
Kuwait (KSE)	93	-2.6
Muscat (MSM)	25	0.2
Qatar (QE)	176	-5.2
<b>GCC</b>	<b>1,103</b>	<b>9.1</b>

Source: Zawya

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