

GCC Markets feel the impact of trade war

Concerns of global economic slowdown weigh on regional stocks

GCC markets ended the month of August in negative territory, losing 5.8% for the month, affected by the weakening of oil prices amidst growing concerns surrounding the U.S.-China trade war. Except Oman, all other GCC markets registered a decline in August. Despite a fall of 2.9% during the month, Kuwait continues to be the best performing market in the GCC region during 2019 with YTD gain of 21.3% at the end of August. The MSCI EM status has brought the regional markets closer to the global markets and are therefore more responsive to global market movements. Globally, MSCI World index yielded negative returns of 2.2% while U.S. S&P 500 declined by 1.8%.

We see the following four issues as key developments during the month of August:

- Kuwait Blue chip company Q2 performance review:** Kuwait blue chip companies have had a very successful year so far with most companies registering double-digit growth in their share price performance in 2019. Despite macroeconomic headwinds looming large, majority of Kuwait's blue chips were able to sustain the positive performance witnessed in previous quarters.
- Kuwaiti banks' credit exposure by sectors:** Kuwaiti Banks' credit exposure to personal facilities continue to account for the largest share, followed by the Real Estate sector. Going forward, personal loans could be the primary driver of credit growth, supported by the increase in borrowing limit for individuals.
- GCC Banks Liquidity Risk analysis:** Effective liquidity management is important to promote macro-financial stability. In the GCC countries, fixed exchange rate regimes provide reliable nominal anchors, but when combined with open capital accounts, they result in limited independence of monetary policy. Overall, GCC banks are in a good position to meet the enhanced capital requirements as laid down by Basel III.
- M&A trends in the GCC:** M&A activity during the first half of 2019 have mimicked global trends, which saw an increase in larger sized deals amidst declining deal volumes. Geopolitical and Economic uncertainties surrounding the global economy due to escalation of trade tensions between U.S. and China along with Brexit have affected business confidence, hindering companies to pursue potential deals.

GCC Market Commentary

GCC Market Trends – August 2019

Index	M. Cap (USD Bn)	Last close	2018 %	Aug- 19	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
S&P GCC	893.6	112	8.4	-5.8	4.5	0.111	N.A	14.8	2.0	3.4
KSA	507.1	8,020	8.3	-8.2	2.5	0.064	1,328.4	17.1	1.9	4.0
Abu Dhabi	143.6	5,166	11.7	-2.9	5.1	0.093	47.2	13.1	1.4	4.9
Qatar	137.9	10,233	20.8	-2.6	-0.6	0.081	61.3	13.9	1.4	4.3
Kuwait	113.0	6,859	7.8	-2.9	21.3	0.021	89.6	14.0	1.4	3.6
Dubai	76.1	2,759	-24.9	-5.5	9.0	0.115	37.4	7.6	0.9	4.4
Bahrain	25.1	1,533	0.4	-0.9	14.6	0.043	1.7	11.3	0.9	4.6
Oman	13.1	4,005	-15.2	6.5	-7.4	-0.003	26.1	8.2	0.7	7.1

Source: Reuters, Zawya, Note: * Average Daily Value Traded ** - 3-year daily return correlation with S&P 500 index

The S&P GCC composite index, a comprehensive benchmark that covers stocks from all GCC countries, declined by 5.8% for the month. Saudi Arabia was the major contributor which declined by 8.2% for the month. Except Oman which surged by 6.5% in August, all other countries ended the month downwards. Dubai, Kuwait, Abu Dhabi, Qatar and Bahrain closed the month down by 5.5%, 2.9%, 2.9%, 2.6% and 0.9% respectively.

Monthly returns heat-map of S&P GCC Composite index

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014	3.4%	3.7%	2.7%	2.8%	3.2%	-7.4%	8.1%	6.4%	-1.4%	-6.8%	-10.9%	-4.4%	-2.6%
2015	2.8%	4.4%	-6.9%	10.1%	-2.3%	-3.5%	0.1%	-13.2%	-1.1%	-2.7%	-2.3%	-2.4%	-17.3%
2016	-10.7%	3.7%	1.9%	5.7%	-5.1%	1.1%	-0.1%	-1.2%	-3.9%	2.2%	7.9%	4.2%	4.3%
2017	1.6%	-0.8%	-1.5%	-0.4%	-1.4%	3.2%	-0.4%	0.9%	-0.6%	-2.7%	-1.5%	3.4%	-0.4%
2018	5.3%	-2.5%	3.4%	2.9%	-0.4%	1.1%	2.2%	-2.5%	0.2%	0.1%	-2.0%	0.7%	8.5%
2019	6.8%	-1.0%	2.8%	4.4%	-5.6%	2.5%	1.1%	-5.8%					4.5%

Source: Reuters

Kuwait equity market ended the streak of seven consecutive month of positive performance. Despite a decline in August, total YTD gains of Kuwait's All Share index stood at 21.3% while Premier market index's return stood at 28.5% as of August. Kuwait continues to be the best performing market in the GCC region in 2019. In August however, some of the gains were wiped out. Agility and Boubayan Bank were the top losers among the blue chips, falling by 5.9% and 5.1% respectively. While majority of the sectoral indices posted a monthly decline, Technology index surged by 12.7% to become the top performing index for the month. Basic material sector was the worst performer, declining by 6.6%.

After a forgettable year in 2018, Dubai Stock Exchange showed intermittent signs of recovery in 2019. However, in August, negative sentiments globally and falling oil prices lead to a reversal of the rally that was earlier witnessed in July. YTD gains of Dubai index at the end of August were reduced to 9%. Its counterpart - Abu Dhabi Index ended the month of August with a decline of 2.9%. In its latest efforts to attract foreign investment, the UAE government is preparing a draft law that would allow foreigners to own up to 100% of businesses in the maritime industry in accordance with specific criteria. As interest towards the Saudi Tadawul index tapers after the country's inclusion in the MSCI EM index, investors are now looking towards the UAE to offers the higher potential returns in the coming months. First Abu Dhabi Bank and Abu Dhabi Commercial Bank were the top performing blue chip companies with a rise of 7.6% and 7.5% for the month of August.

Among GCC blue chips, National Commercial Bank was the top loser, declining by 13.2%, followed by Al Rajhi bank that declined by 12.1%. DP World further extended its losses in August and become the top loser among UAE blue chips with a price decline of 9.1%, followed by First Abu Dhabi Bank which declined by 3.9%. Saudi Basic Industries Corporation (SABIC), the largest company by market cap among GCC countries also declined by 7%. Meseid Petrochemical Holding Co was the top gainer, surging by 9.2% for the month.

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