

## MONTHLY OVERVIEW

The first quarter of 2009 ended on a high note with events unfolding in March nothing short of rewriting history. In the **G20 meeting**, world leaders have committed **US\$1 trillion stimulus** to nurse the global economy faster into the recovery mode and stimulate global demand. As a Chinese proverb rightly quotes “*Only when all contribute their firewood can they build up a strong fire.*” The primary difference between the crisis of the 1930’s and the current crisis is the swiftness and the size of policy response measures; be it either in the form of interest rate cuts, bailouts, stimulus packages or quantitative easing. In the **United States**, the Obama administration has initiated the act of cleaning up toxic assets by proposing a US\$1 trillion toxic asset purchase plan. The plan proposes to incentivize the private sector in order to clean the toxic assets as for every private dollar invested, the taxpayer will provide a matching dollar of equity and up to US\$12 of other financing and investors can walk away from their debts if a deal loses money. The plan has been criticized in terms of insufficiency of size compared to the magnitude of losses. The plan also rests on the assumption that banks are willing to sell loans at a discount. However banks would hold a different perspective as selling loans at a discount would run the risk of crystallizing losses and eroding core capital. The ousting of the **CEO of General Motors** and the outrage created on the bonuses of the employees of the AIG group strongly indicate that Obama administration is tightening its self regulation. From the era of market libertarian approach of Alan Greenspan that has brought the US economy to its current condition; the pendulum of self regulation now seems to be swinging in the other direction.



The **World Trade Organization (WTO)** has predicted that the volume of global merchandise trade would shrink by 9% this year; its first decline since 1982. Between 1990 and 2006 trade volumes grew by more than 6% a year, easily outstripping the growth rate of world output, which was about 3%. **Europe** is undergoing a painful contraction as the **GDP growth** continues to shrink while unemployment is now touching record highs. **European Central Bank (ECB)** has further cut its lending rate to 1.25% to revive economies of the **European Union**. **China** has announced massive infrastructural spending in order to boost domestic demand while **Japan** is expected to announce its third stimulus to combat the threat of deflation.

Source: *The Economist*

Majority of the **global** stock markets have been positive for the month of **March** as economic indicators reflect mixed signals with optimists citing green shoots of recovery and believe that negative investor sentiment has peaked and is starting to stabilize. However, on the other side of the coin, cynics are attributing the run in the stock markets to a technical rebound or to a bear rally. The reality therefore rests on what the quarter unfolds in terms of macroeconomic numbers and major corporate numbers remains to be seen.

## GCC MARKETS

On a **MTD basis**, out of the seven GCC markets six markets posted gains ranging from 0.61% to 10%. The GCC markets ended on a positive note compared to market performance in the month of February whereby the tally of positive performance stood lower. The **Doha Stock market** remained the best performer on a MTM (Month to month) basis with gains of 10.12% while the **Muscat Securities Market** remained the only market to post a negative performance of 4.67%. On YTD basis, **Abu Dhabi** took the numero uno lead of being the only market to end positive at the close of the first quarter of 2009 while Doha finished taking the lead as the worst performing market; posting a decline of 29%.

Mirroring its Western counterparts, the **GCC governments** pledged support to their countries to fight the economic slowdown. Qatar has announced its intention to sell bonds worth US\$ 2 billion which will be used to provide contingency funds and bridge loans for government controlled entities unable to raise funds while the **Central Bank of Kuwait** has given a green signal to the stimulus bill that had earlier led to the dissolution of the parliament. Amongst other major news in the region, **Moody** downgraded credit ratings of **Emaar** and **Dubai Holdings** to notches above the junk status due to its exposure to the real estate sector and affirmed its negative outlook. The **Dubai government** has now appointed **Rothschild Investment Bank** to advise the government on its recently announced US\$20 billion bond program stating that the bank would aid the government to set up a fund to refinance **Dubai's international debt** and also to provide liquidity to state owned companies to pay off the debt.

GCC Indices	1st Week	2nd Week	3rd Week	4th Week	MTD	YTD
	5-Mar-09	12-Mar-09	19-Mar-09	26-Mar-09	(Mar 2009)	(Dec 2008 – Mar 2009)
Abu Dhabi (ADX)	-1.24%	-2.98%	2.89%	5.00%	4.69%	4.10%
Saudi (TASI)	-1.50%	-4.33%	3.05%	3.85%	7.28%	-2.07%
Dubai (DFM)	-2.08%	-1.42%	0.47%	3.04%	0.61%	-4.15%
Bahrain (BSE)	1.08%	-0.82%	0.43%	0.13%	1.16%	-11.54%
Kuwait (KSE)	2.23%	0.46%	1.48%	0.87%	4.67%	-13.31%
Oman (MSM)	-0.57%	-2.25%	2.05%	-0.15%	-4.64%	-14.93%
Doha (DSM)	-1.26%	1.01%	3.64%	8.00%	10.12%	-29.03%

Source: Zawya; United Securities Research

## MSM

The **MSM benchmark index** declined by 4.67% during the month of March can be attributed to the dividend payouts undertaken by the companies. Although market trend remained range bound during the first two weeks, the index regained momentum led by stock specific activity. **Industry sector** displaced the **Banking** sector as the best performing sector for the month. Index is currently trading near to the 12 day moving average levels and it remains to be seen whether the index will continue its hold its momentum above the 4720 levels.

Amongst the **macroeconomic headlines Standard & Poor's** Ratings Services affirmed its 'A' long-term and 'A-1' short-term sovereign credit ratings on Oman, signifying a "stable" outlook of the Sultanate's economy. However, the Governor of Central Bank of Oman asserted that Oman's real growth in gross domestic product could fall by as much as half to around 3 percent in 2009 if the financial crisis deepens and Oman would require oil prices to be at US\$60-\$70 a barrel to balance its budget. As per the **Governor** of the **Central Bank** inflation was set to fall to around 6% on average this year after hitting double digits in 2008, while credit growth was expected to ease to around 20% due to the economic slowdown. Despite decline in oil prices, **Oman's foreign assets** remain adequate to finance the fiscal deficit. Major corporate announcements include the **resignation of the CEO** of Omantel and announcement of sale of more than 80% stake held by **Bank Muscat** in **HDFC Bank**

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Muscat Securities Market	-0.57%	-2.25%	2.05%	-0.15%	-4.64%	-14.93%
Banking & Investments	-0.60%	-0.74%	1.55%	1.15%	-0.81%	-5.90%
Industrial	3.97%	3.36%	2.26%	-4.08%	6.92%	-3.88%
Services & Insurance	-0.28%	-3.13%	-0.72%	0.73%	-7.04%	-14.62%

Source: Muscat Securities Market; United Securities Research

Foreign, GCC and Arab Investors activity strengthened during the month compared February as shown in the table below.

INVESTOR SEGMENTATION	February		March	
No of Sessions	20		22	
	Bought	Sold	Bought	Sold
Foreign Investors	2	18	10	12
Arabs Investors	8	11	10	12
GCC Investors	4	16	15	7
Omani Investors	20	0	14	8

Source: Muscat Securities Market; United Securities Research

## GOING FORWARD

We would expect MSM Benchmark resilience to be tested as announcement of the first quarter numbers trickle in the month of April. Positive market momentum depends upon several factors, the foremost being the ability of oil prices to hold above US\$50 levels, fewer negative earning surprises, probability of higher reinvestment of dividends and the response to the upcoming 8% Bank Muscat bonds issue.

## Contact Details

Email: [asset.management@usoman.com](mailto:asset.management@usoman.com), Tel + 96824763352, + 96824763319

United Securities Asset Management, P.O. Box 2566, Postal Code – 112, Ruwi, Sultanate of Oman

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