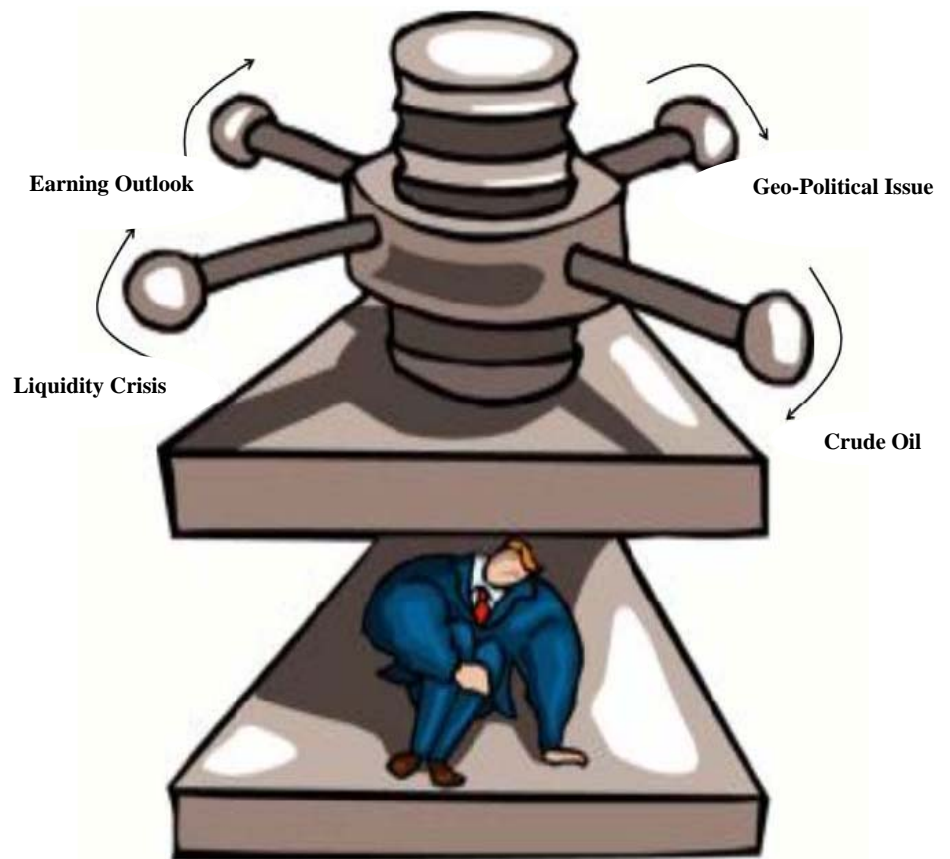




# United Securities LLC

*Investment Research*



## Research

Joice Mathew  
Swain Partha Sarathi  
Said Hassan Al Lawati  
Ghadeer Hassan

## Asset Management

Mustafa Ahmed Salman, CEO

## Management

Hassan Ali Jawad, MD  
Mohammad Hassan, GM  
Tariq Abdul Razeq, DGM

## Brokerage

Mohammed Hassan Ali  
Hassan Tawfeeq  
Adel Waleed Nasr  
Loay Al Lawati

Post Box 2566  
Ruwi, Postal Code 112  
Sultanate of Oman

Tel: + 968 24788647  
Fax: + 968 24788671  
Email: [research@usoman.com](mailto:research@usoman.com)  
Web site: [www.usoman.com](http://www.usoman.com)

*Where Does Oman Stand....*

Global stock markets are rallying on expectations that coordinated fiscal stimulus measures in Asia, Europe, America and the Middle East region will cushion the impact of the economic slowdown. But how long it will take.....

Only two days left for the dawn of 2008, with a new hope for the new year ahead, the realization counts "how much has the world changed in one year- from hope to despair, from excitement to fear, from frenzy to panic, from exuberance to distress.

The cascade of crisis has now spread as a global epidemic that poses different effect on respective economies. It has also taken its initial toll on countries such as Iceland, Belarus and (almost) Argentina in terms of bankruptcies while making recession a reality for as many as 50 countries thus far. The crisis of confidence in the financial ecosystem has compounded to a full-blown credit crisis. While the squeeze in conventional credit markets is understandable. The economies and the policy makers around have come forward for immediate remedy like reducing the interest rates, infusing liquidity and inject stimulus through fiscal spending on internal infrastructure.

But how far these activities have been successful in doing so.....

The severity of immediate worries has certainly intensified. While the world remains united on commitment to wither this crisis, it is also uniformly clueless on the path one needs to take.



### Where Does the Sultanate Stand...???

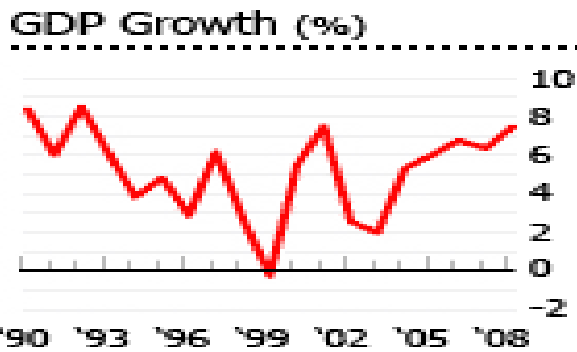
#### The Stock market & the Earning Outlook

During the month of November, Muscat Stock market was the only GCC market to post gains during November. Oman's Market (MSM) rose 1% in November after declining 26.9% in October. On YTD basis, MSM posted a loss of 30.7%. At current price levels, the market is trading at 7 times over its 2008 earnings.

The MSM benchmark index witnessed one of its most volatile months as December drew to a close posting a loss of 13.13%; the highest since the October loss of 26.89%. Post its 0.87% gain in November, the index hurtled to a low of 4998 breaking a key support of 5000 pushing the YTD loss to almost 45%; the levels not seen since May 2006. However, during the last two days of the month the index regained more than 440 points to close the year at 5441, registering a decline of 36% for the last quarter of the year. Compared to December 2007, where the benchmark index gained 7.02%, the MSM benchmark lost more than 13% in 2008.

Going forward, the 2nd half of FY2008 has been a volatile period for almost all

the sectors across the globe. At the same time, looking the Sultanate of Oman's banking sector, which was the best performing in the last quarter comparing the rest of the GCC. When the sectors across the region are witnessing a hit, most of the banks in Oman achieved their all time high growths. Commodity prices coming down with demand slow down, will lead to the slowdown in growth. But overall, we expect a better performance for the Omani corporate compared to the GCC peers.



Source: IMF

So there is no need to panic in the short term for, as Oman probably has at least \$6 bln in spare foreign assets, and relatively low debt financing costs (a huge difference to 1998). So being linked to the dollar has now helped the economy lately.

We estimate that real GDP growth will have raised to 6.4% in 2008, owing to stronger export volumes on the back of slightly higher crude oil output. We assume that the effects of the current series of enhanced oil recovery projects will begin to be felt from early 2009.

## LIQUIDITY

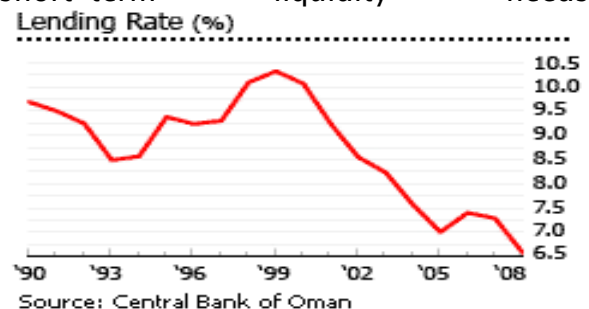
### Liquidity not concern for Oman's banking system

Oman's banking system has no direct exposure to any of the financial products or the distressed international institutions. So in this sense, it's highly insulated from the direct adverse ramifications of the global financial crisis.

In Oman there is no such problem should concern the corporate, since the banks are still strong, well capitalized, and are not exposed to the crisis affected instruments or institutions.

### CBO & the CMA

The Central bank of Oman (CBO) has also taken pre-emptive measures to stave off a possible lack of liquidity. The CBO has announced to reduce the reserve requirement by allowing CDs and cash portfolio of banks under the 8% reserve requirement up to 3%. By doing so, about OMR 270 Million would be injected back into the banking system, and that would be available to them for meeting their short-term liquidity needs.



Source: Central Bank of Oman

The lending ratio norm, which had to be tightened from 85% to 82.5% effective from November 2008 to contain fast growth in credit in the banking system,

has also been deferred till restoration of normal conditions in the international markets, so that banks could continue to lend and meet genuine credit demand in the country.

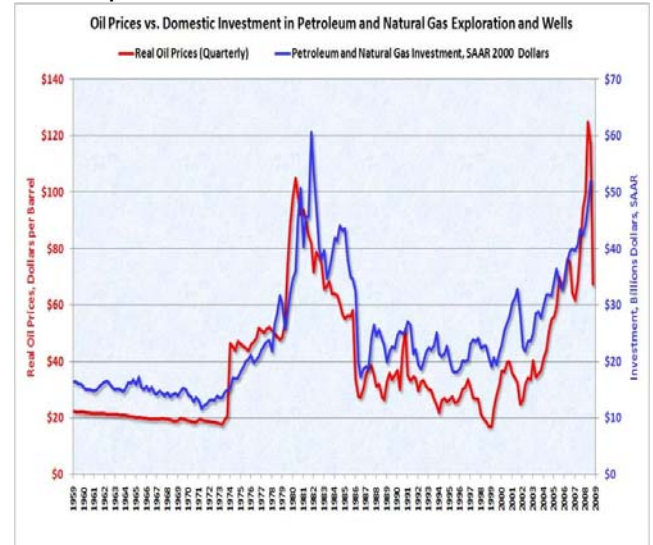
## Crude Oil

Higher oil revenues have been the main drivers of Oman's strong economy. The first half of the year has been the pouring year for the economy with strong inflow from oil and also from non-oil activities.. But now, the oil price has touched almost \$40 mark, shedding almost 70% from its peak.



So, if the oil prices continue to stick to this level (\$40-\$45) for a longer term, then obviously, the Government has to cut the spending. In a region where government-backed infrastructure and property projects are keystones of national economies, a slowdown in government spending could have serious

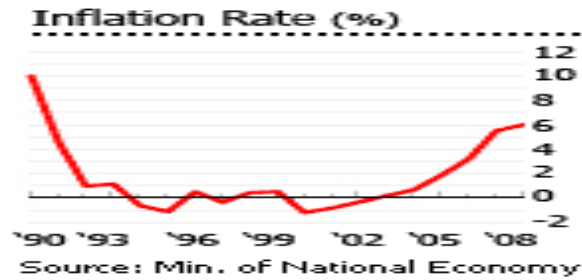
consequences.



So, we expect the OPEC and the local Governments to interfere to push the oil to the desired level. As we have seen in the recent past OPEC cutting the production and we expect the same thing to happen in the next half if the price does not stay above break-even. Hopefully OPEC has learnt that lesson well from 1998 and will move decisively to bring oil at least to \$60-\$80 by cutting (real) production.

## INFLATION

Oman has historically had extremely low or negative inflation. However, price growth has recently been on an upward trend, partly because of the weakness of the dollar (and, by extension, the riyal) against the currencies of Oman's main import suppliers, particularly the EU.



The rising cost of imports had a significant impact on local food prices. Inflation woes were also exacerbated by wage pressures, particularly as the government continued its policy of raising public-sector salaries and the minimum wage for Omanis employed in the private sector.

### Geo-Political

Oman's ties with its most important international allies, the US and the UK remain strong. The government also has good relations with its neighbours, including Iran, and will therefore continue to watch with some discomfort developments in the ongoing dispute over Iran's nuclear programme.

Oman also advocates a strong diplomatic approach to the Middle East's other political issues, including the conflicts in Iraq and Lebanon and the question of Palestinian statehood.



Oman will maintain its support for a peaceful solution to the Iranian nuclear dispute, having warned of region wide instability if the US or Israel were to resort to military action.

Going forward the long-established political structures will remain stable under the rule of the Sultan, Qaboos bin Said al-Said, over the outlook period. Oman's fixed exchange rate of is unlikely to come under pressure over the outlook period. The Central Bank of Oman remains firmly committed to the peg, which it has maintained since 1986. The outlook for Oman's external accounts and foreign-exchange asset levels is sufficiently robust to help the Central Bank defend the peg. The announcement that Oman will not join the planned GCC currency union also means that the peg is less likely to be adjusted in response to any upward revaluations of the currencies of the other Gulf States.

*To be continued in detail once the budget is announced...*