January 16, 2010

FY2009 - End of an Eventful year...

MSM30 index closed on a positive note for the second consecutive month in December 2009 reporting a marginal rise of 0.18% for the month. During the December month, the market was more volatile on the back of increased risk towards the region on the back of Dubai world restructuring. The markets opened the month on a negative note due to the fall back of Debt restructuring of Dubai World. Following the compliance policies during the first trading day of the Month, Muscat Securities Market (MSM) had requested all listed banks to disclose any direct or indirect exposure to Dubai World Group. During the last quarter of 2009, MSM has declined by 3.1%. For the full year 2009, the MSM has increased by 17.04% for the year, the second best market performance in the region

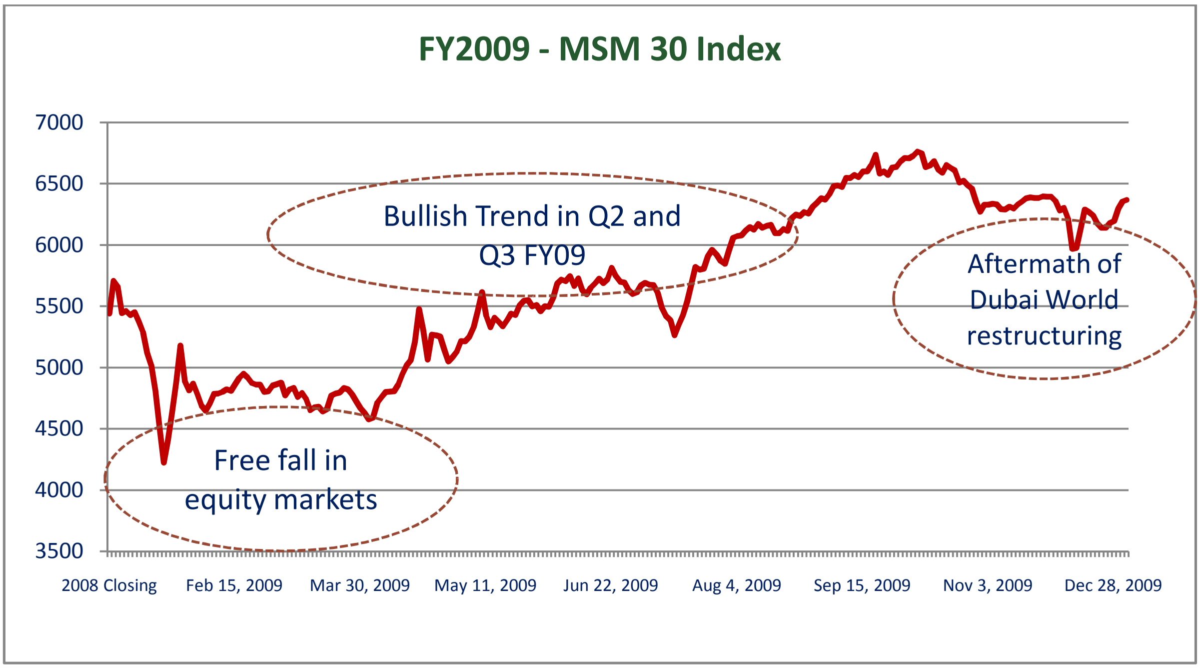
In line with its disclosure policy, three major banks in Oman had disclosed closed a total exposure of c. RO 29.55 million to Dubai World Group. BankMuscat has an exposure to Dubai World to an extent of RO 19.25 million as part of a large syndicated lending agreement and the exposure continues to be serviced. NBO has a limited exposure of approximately RO 8.7 million to Dubai World Group as part of a syndicated loan. Bank Sohar disclosed an exposure of RO 1.6 million to Nakheel PJSC, a subsidiary of Dubai World Group. The facility is part of a syndication facility, and the bank has recently received both interest and principal payments as per the agreed repayment schedule.

As per Central Bank of Oman (CBO), Omani banks need not maintain additional provisions against their loans to Dubai World, the entity which is at the heart of the present crisis after it sought a “standstill” agreement with its creditors. The amounts that have been stated are syndicated loans and none of them is part of the amount that Dubai World has announced for rescheduling. CBO also added that there will be no more surprises with regards to Omani banks’ exposure to the Dubai-based holding company’s debt.

Later during the mid of month, the benchmark index marked a strong comeback supported by valuing buying investors. The markets recovered from the fall of around 6% for the month to close on a marginally positive note (0.18%) for the month. The month witnessed relatively lower trading volumes with the markets trading more volatile during the month. With regards to sectoral performance, all the three sectors ended on a negative note. With Banking sector was the most affected reporting a decline of 4.7% for the months. Industry sector and Services & Insurance Index declined by 2.6% and 2.3% respectively. For the full year 2009,

Much Needed relief came in the form of Abu Dhabi supporting Dubai...

Abu Dhabi government has provided $10 billion for Dubai’s financial support fund to help repay obligations, including the $4.1 billion needed for Nakheel PJSC’s Islamic bond maturing 14th December 09. Dubai would use the rest of the money to pay trade creditors and contractors as well as meet interest expenses and company working capital through April 30, 2010 - conditioned on the company being successful in negotiating a standstill as previously announced, as per the e-mailed statement of the Dubai government. Nakheel’s repayment on a $3.52 billion bond was the biggest maturity for a Dubai entity since the global credit markets froze after the September 2008 collapse of Lehman Brothers Holdings Inc.



Source: MSM, GBCM Research

Sector-wise Performance – December 09

Index	Closing as on			
	31-Dec-09	26-Nov-09	MTD (% Chg)	YTD (% Chg)
MSM30 Index	6,368.80	6,357.23	0.18%	17.05%
Banks and Investment Index	9,374.73	9,832.87	-4.66%	41.59%
Services and Insurance Index	2,701.95	2,765.28	-2.29%	72.31%
Industry Index	7,446.79	7,646.29	-2.61%	6.89%

Source: MSM, GBCM Research

The market activity improved during the month with total traded volume touching 337.309 million in Dec 09 as compared 249.522 million in Nov 09. Overall market turnover for the month stood at RO 112.471 million as against RO 104.538 million in the previous month. With regards to market participation, Omanis had emerged as net buyers for the month to an extent of RO 6.892 million as compared to net buying of RO 10.664 million in Nov 09. GCC and Foreigners continued to be net sellers for the month similar to the same trend seen in the last four months. GCC and Foreigners had emerged as net sellers to an extent of RO 3.601 million and RO 3.308 million respectively.

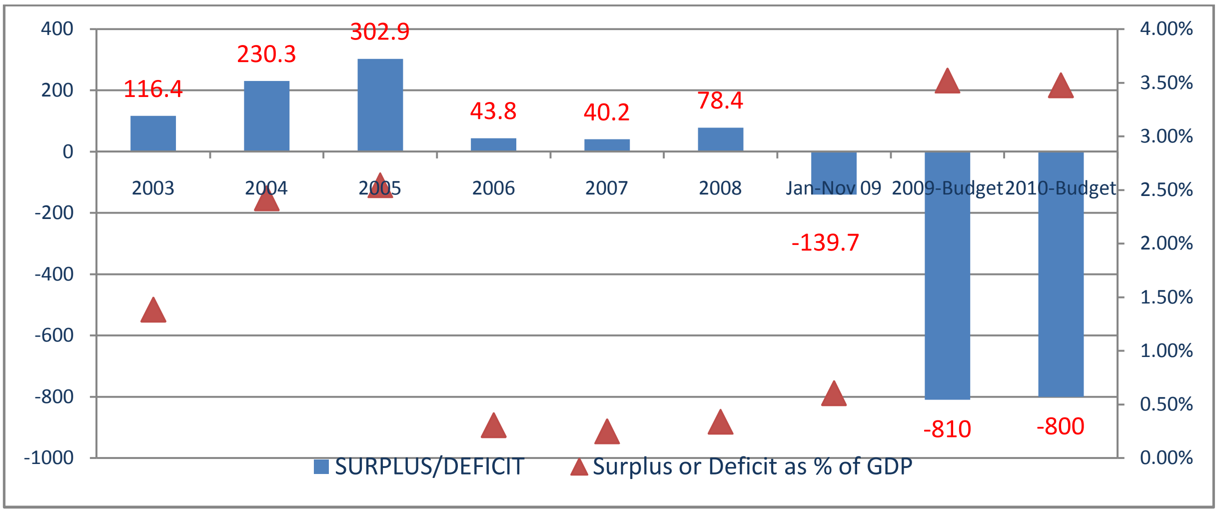
Trading Activity - Total Turnover RO 112.471 million

Fig. In RO	Buy	Sell	Net Buy / (Sell)
Omanis	90,738,719	83,846,170	6,892,549
GCC	11,868,871	15,469,664	(3,600,792)
Arabs	2,873,429	2,856,979	16,450
Others	6,990,345	10,298,551	(3,308,207)

Source: MSM, GBCM Research

Key Highlights of Budget 2010 - Development oriented Budget

FY2010 budget has assumed oil price of $50 per barrel, forecasts estimated revenue of about RO 6.38 billion against an expenditure of RO 7.18 billion, leaving a deficit of 800 million rials. General revenues for 2010 were estimated at RO 6.380 billion as against RO 5.614 billion in the 2009 budget, an increase 14% YoY. Oil revenues are estimated to amount to about RO 4,050 million, contributing about 63% of the total revenues, whereas the contribution of the gas revenues is RO 800 million, around 13% of total revenues. Current and capital revenues were estimated to about RO 1.530 billion, an increase by 8% over 2009 budget, forming 24% of total revenues. Estimated deficit for the year 2010 will be about RO 800 million, which is 13% of the revenues and 3% of the Gross Domestic Product (GDP).



Source: MoNE, GBCM Research

Current expenditures of the government civil ministries and units were estimated at about RO 2.500 billion, an increase of 15% over the estimates of 2009, representing 35% of the total general expenditures. Allocation for the health and the educational sectors amount to about RO 1,168 million, which represents 47% of the total current expenditures. Appropriations for the educational sector amount to RO 874 million representing 35% of the total current expenditures of the civil ministries. Estimates for the expenses of the production of oil and gas amount to RO 1.450 billion, represents 20% of the total general expenditures

Allocations estimated under the development budget amount to RO 950 million, an increase by 16% YoY over the approved budget for the year 2009. To cover spending on the continuing, as well as, the new development projects listed in the Seventh Five-Year Plan (2006-2010) in the various sectors. An amount of RO 20 million to subsidize the interests of the development and housing loans provided by the Development Bank, the commercial banks and Oman Housing Bank to the beneficiaries.

Total approbations for the new projects to be implemented during 2010 amounted to about R.O 937 million which includes Construction of a number of new schools at the Sultanate's various Regions, Operation and maintenance of Al Ghoubra portable desalination plant and Construction of a number of new health centres at various Regions. Key additional approbations in Budget 2010, Road sector allotment of RO 1,777 million including additional projects, Port sector allotment of RO 1,025 million for construction, development and expanding of Al Duqm Port and approbations for housing sector by RO 406 million, Allotment for airports sector by RO 882 million.

GCC Markets

GCC markets witnessed a mixed trend during the month of December 2009. The Dubai debt restructuring news had an impact on the investor confidence in the region. UAE markets had a severe impact on this with the decline of 7.05% for the month. Saudi and Qatar markets closed on a negative note with a decline of 3.68% and 3.26% respectively. Kuwait and Bahrain closed on a positive note for the month with an increase of 1.03% and 1.36% respectively. Saudi was the best performing market for the fiscal year 2009 with a gain of 27.5% for the year. Oman was the second best performing market in 2009 with a gain of 17.05%.

GCC Markets	End of Nov 09	End of Dec 09	MTD (%)	YTD (%)
Oman	6357.2	6,368.80	0.18%	**17.05%**
Saudi	6355.8	6,121.76	-3.68%	**27.46%**
UAE (DFM)	1940.3	1803.58	-7.05%	**10.22%**
Kuwait	6933.7	7,005.30	1.03%	**-9.99%**
Qatar	7193.3	6,959.17	-3.26%	**1.06%**
Bahrain	1438.7	1,458.24	1.36%	**-19.17%**

Source: Bloomberg, GBCM Research

Global Markets

US markets continued to trade firm and improved on the back of improved consumer sentiment reflected in terms of ongoing recovery in retail sales data. The markets stayed firmer after the Fed kept its bank lending rate at zero to 0.25%, a level which has been steady since December 2008. The US Fed rate kept its rates constant at exceptionally lower levels for an extended period. The Fed predicted that unemployment will remain high in the foreseeable future. The Fed took note of improving conditions for banks and said it would close most of its emergency lending facilities on 1 Feb 2010, this shows the economy was ready to pull back from the financial crisis.

Bank of England's Monetary Policy Committee unanimously backed decision to keep its key lending rate at a historic low of 0.5%. The dollar gained against the euro on improving economic outlook for the US and concerns deteriorating finances of certain Euro zone countries. China raised its 2008 growth forecast to 9.6% from 9.0% and also stated that the year's quarterly figures are expected to increase. Japan has also indicated that the economy will expand for the first time in three years and added that industrial production improved for the ninth straight month.

Global Markets	End of Nov 09	End of Dec 09	MTD (%)
Americas			
S&P 500	1,095.63	1,115.10	1.78%
Dow Jones	10,344.80	10,428.00	0.80%
Nasdaq	2,144.60	2,269.15	5.81%
Europe			
FTSE 100	5,190.68	5,412.88	4.28%
CAC 40	3,680.15	3,936.33	6.96%
DAX	5,625.95	5,957.43	5.89%
Asia Pacific			
Nikkei	9,345.55	10,546.44	12.85%
Hang Seng	21,821.50	21,872.50	0.23%
Sensex	16,926.20	17,464.80	3.18%
Shanghai	3,195.30	3,277.10	2.56%

Source: Bloomberg, GBCM Research

Commodities Performance - FY2009

Crude Oil

The year 2009 was a remarkable year for the crude oil. Crude attained a biggest annual gain of 78% by climbing to $79/bbl from $ 44/bbl (closing figure of 2008). Crude witnessed a roar back from the depressed levels seen at the end of 2008 on account of global economic crisis which sapped the demand. Oil prices made a steady climb to a high of $82/bbl in October 2009 on account of broad-based rally across commodities and equities as liquidity returned to the markets. The annual average 2009 price was $62/bbl, broadly in line with industry estimates at the end of 2008 of $58/bbl.

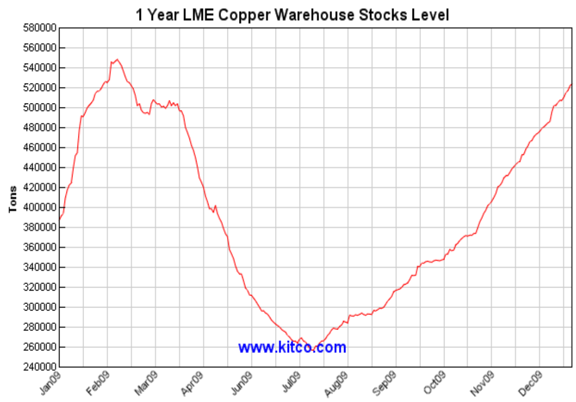
	End of Nov 09	End of Dec 09	MTD (% Chg)
Crude			
NYMEX Crude	78.66	79.36	0.89%
ICE Brent Crude	79.30	77.93	-1.73%
Crude Oil, Oman	78.68	76.42	-2.87%
Metals			
Gold Spot	1,179.60	1,096.95	-7.01%
Silver Spot	18.49	16.88	-8.73%
LME Aluminium-Spot	2,029.00	2,197.00	8.28%
LME Copper-Spot	6,902.75	7,342.00	6.36%

Source: Bloomberg, GBCM Research

Copper

At the end of the year, Copper prices closed above $7,300 level, which is 16 months high, despite defying high inventory and a stronger dollar on confidence about the trend into 2010. The global financial meltdown in 2008 pushed down the copper prices to the all time low of $2,850 levels. Copper prices started to rebound in March 2009, as the global economy started to show some signs of recovery coupled with unprecedented levels of Chinese imports, speculative fervour and threats to supply which pushed copper to a 16-month high at $7,300.

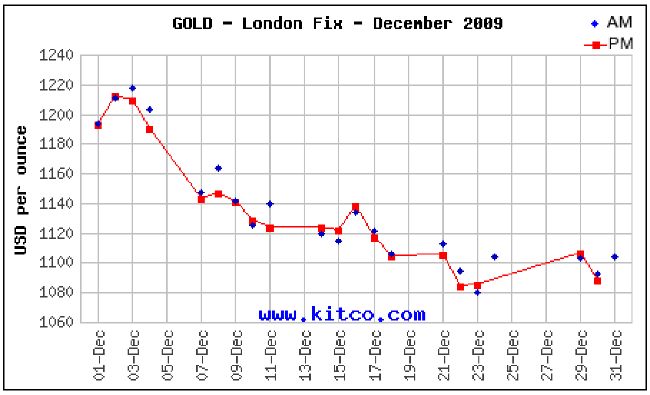
One year Spot - Copper Prices



Source: www.kitco.com, GBCM Research

Gold

It would have been a best year for the investors of Gold, as the yellow metal recorded gain for the ninth consecutive year and one of the biggest gains in the decade. The yellow metal closed the year at $1,098 an ounce increasing thereby 25.6% (YoY) after touching an all time high of $1,200 levels during the month of December. A meltdown in the global stock markets has made the investor to look for an alternative and a safe investment. During the year 2009, gold reasserted its reputation as a safe haven when the U.S. dollar is put on the defensive, attracting more investors than in previous crisis periods. Gold rallied on the back of renewed central bank interest, worries over paper currencies depreciation and long-term inflation fears due to massive economic stimulus programs.



Source: www.kitco.com, GBCM Research

Market Outlook for FY2010

In this monthly report, we have discussed about the review of economy in the GCC region for 2009 along with the market outlook for the upcoming fiscal year 2010. We wish you all the readers a happy and prosperous new year.

GCC – Impact of the Global crisis

GCC was impacted during the financial crisis with sharp decline in oil prices, contraction of global economy and sudden drying up of capital inflows. The global crisis impacted the banking sector due to sharp decline in the growth of the deposits, banks limited ability to raise capital and withdrawal of foreign financing. The presence of excess leveraging at the time of boom and inappropriate capital structuring had affected the corporate sector. The current account shrinks owing to decline in oil revenues and capital outflow and also the private sector lending decelerated due to asset value deterioration and risk aversion. The Family Business houses with international exposures in the region got impacted due to excess leverage and lack of control of operations.

In the same period, the various GCC Governments has taken initiatives to limit the crisis. GCC countries mitigated the crisis through pumping liquidity in the system in the form of commercial bank deposits and also increasing the line of facility for banks to replace the international funding. Qatar injected capital into the banking sector and bought out the tainted assets in Real Estate and Investments. Oman and Qatar Governments had intervened equity markets to protect the fall during the beginning of the current fiscal year. All the regional governments continue to increase the spending in infrastructure year after year to enhance domestic economic growth.

Economic Growth Projections

IMF-WER (Oct 2009)	2007	2008	2009P	2010P
World Output	**5.2**	**3**	**-1.1**	**3.1**
Advanced Economies	2.7	0.6	-3.4	1.3
Emerging and Developing Economies	8.3	6	1.7	5.1
Developing Asia	10.6	7.6	6.2	7.3
Middle East	**6.2**	**5.4**	**2**	**4.2**

Source: World Economic Outlook – October 2009

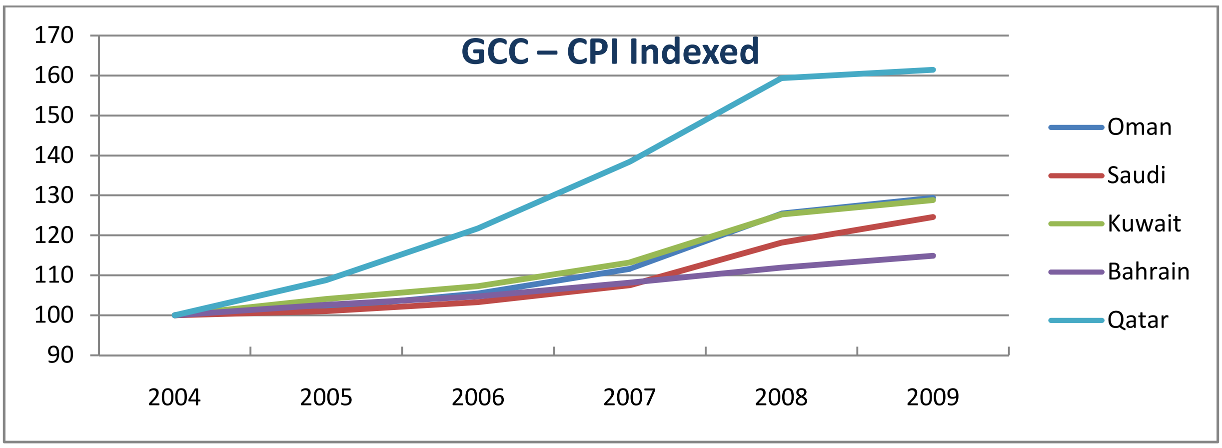
GCC Region - Nominal GDP						
(US $ bln)	**2005**	**2006**	**2007**	**2008**	**2009P**	**2010P**
Oman	30.9	36.8	41.6	59.9	52.3	59.7
YoY (% Chg)		19.10%	13.00%	44.00%	-12.70%	14.10%
Qatar	42.5	56.9	71	102.3	92.5	128.2
YoY (% Chg)		33.90%	24.80%	44.10%	-9.60%	38.60%
KSA	316	356.6	384.4	469.4	379.5	442.8
YoY (% Chg)		12.90%	7.80%	22.10%	-19.20%	16.70%
UAE	135	164.2	180.2	262.1	228.6	256.2
YoY (% Chg)		21.40%	9.70%	45.40%	-12.80%	12.10%
Kuwait	80.8	101.6	111.8	158.1	114.9	135.4
YoY (% Chg)		25.70%	10.00%	41.40%	-27.30%	17.80%
Bahrain	13.5	15.8	18.4	21.2	19.4	21.6
YoY (% Chg)		17.00%	16.50%	15.20%	-8.50%	11.30%
Total	619	732	807	1,073	887	1,044
YoY (% Chg)		18.30%	10.20%	33.00%	-17.30%	17.70%

Source: IMF Outlook

Economy on the recovery mood

The global commodity prices got stabilized during early part of 2009 and marked a strong rally during second and third quarters of last fiscal year on the back of global economic recovery and improved demand scenario from the emerging economies like China, India etc. During 2009, the Oil prices after reaching low of $36 a barrel in Feb 2009 made a bounce back to $70 per barrel during mid of 2009. As per latest EIA reports (Dec 09), the price of West Texas Intermediate (WTI) crude oil is expected to average $76 per barrel this winter (Oct 09-March 10). With the assumption that the United States (US) and the world economic conditions continue to improve in FY2010, EIA has forecasted the monthly average WTI price to drop to $75 a barrel early this year and then increase to $82 per barrel by December 2010.

With oil demand likely to increase and adequate spare capacity augurs well during the period of economic recovery. According to World economic report, the GCC region is likely to see a growth of 4.4% in Oil and 3.9% in non-oil GDP for the year 2010. The current account balance for the region is expected to bulge again as oil price recovers with increased demand. Increased banks funding sources should enable more credit; prolonged low interest rate scenario should lift the asset valuation and allow borrowers to seek for additional funds. Qatar is expected to witness highest growth in nominal terms for the next fiscal year.



Source: Bloomberg, GBCM Research

Inflation rates have continued to fall since August 2008, and are currently at sub 5% and are likely to remain at these levels for prolonged period. The base impact and limited fresh demand is likely to keep the commodity prices stable. In addition as long as dollar remains devalued the commodities are likely to remain firm or stable. Receding Inflation and relatively slower economic activities are providing space of moderation in monetary policy. The central banks are likely to relax the reserve requirement and boost credit to prop consumption.

Outlook for 2010

Oil which is averaged at $55-60/brl in 2009 is expected to average above $70/brl for FY2010. Middle East is expected to grow at a pace of 4.2% in the next fiscal year more than the world average of 3%. Oil revenue is likely to drive the broad money, but limited credit growth is likely to contain otherwise inflationary scenario. Domestic interest rates are likely to come down in the first half of 2010 owing to increased money supply and low pace of credit. However with fed rate increasing in second half of FY2010 which is likely to lift the domestic interest rates too with a lag.

Markets across the globe are in the midst of a rally owing to flow of liquidity and have seen significant re-rating in terms of multiples. The low interest rate scenario and weak dollar has pushed liquidity into the market and boosted the sentiment to look for returns in short period of time. The earnings growth expectations of the global markets are high. The stimulus package of each of the nations though is playing in the order flow and inventory reduction, the actual figures is likely to happen in the later part of next year. The regional market that is supposed to be commodity driven has clearly lagged behind. The banking sector is still on a risk aversion mood and has not boosted credit as compared to the developed world banks which has already emerged out of the crisis situation.

Market rerating on the cards

Currently, the average PE multiple of GCC market is 13.8X, the valuations looks fairly priced at the current levels on a standalone basis. Looking at the consensus earnings growth for FY2010E (an increase of 23.4% YoY), the market warrants rerating. We are positive on Oman, Saudi and Qatar markets for FY2010. Oman looks attractive with the presence of strong macro story along with relatively lower valuation multiples. Saudi and Qatar markets looks attractive on the back of strong earnings growth over the next two years, which would lead to rerating from the current levels. We are neutral on UAE, Kuwait and Bahrain. However the strategy is to go for bottom-up approach and value based investment opportunities in these countries. Though Kuwait and UAE have lower PE multiple, we are neutral on the back of lack in earnings visibility going forward.

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