

Positivity likely to be restored in Dec.'18

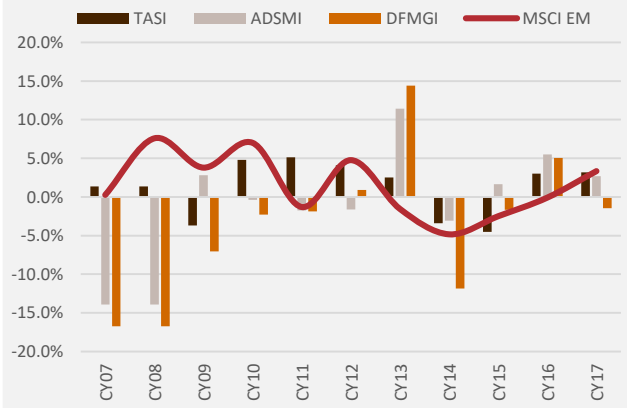
After a dull Nov.'18, investors are curious about how the different GCC equity indices (TASI, ADSMI and DFMGI) would fare in Dec.'18. In order to answer this, we have analyzed data for the past 11-yrs (CY07-17) and gauged the performance of these markets during the month of December. Additionally, we have also attempted to identify factors that were responsible for the performance and see whether these markets have followed a set pattern.

Lets have a look at MSCI Emerging Market (MSCI EM) Index before we move forward. Statistically speaking, December has been a hit and miss for MSCI EM. Looking at historical distribution (CY07-17), there is a 55% probability of a period gain. However, upon looking at last 5-yrs (CY13-17) data, the probably of a period loss reigns supreme at 80%. That said, majority (c. 62%) of MSCI EM Index's weight is concentrated in 5 countries, none of them being a GCC member. In the light of this, one cannot say that the individual GCC markets would follow trend of the broader MSCI EM Index. Therefore, we believe it is best to analyze each market in isolation.

For the purpose of analysis, we have divided the month of December into 3 intervals, of 10 days each. This is to identify the interval (part of Dec.), where there is a higher probability of market yielding an alpha and vice versa.

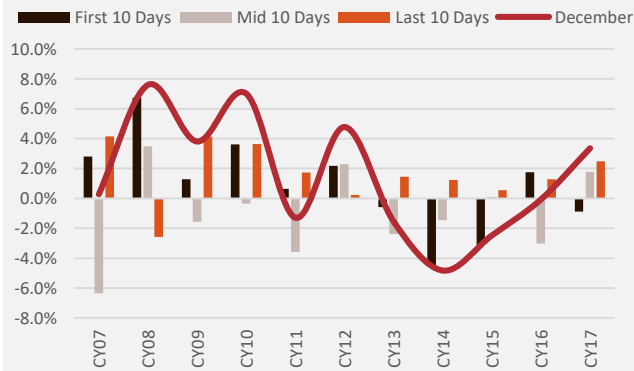
- **How would Dec.'18 be for TASI?** The month of December has always, with itself, brought joys for investors with a 73% probability of a period gain and a 23% probability for a period loss in the past 11-yrs (CY07-17).
- **Would the current negativity continue in Dec.'18 as well?** Data for the last 11-yrs (CY07-17) suggests that there is almost a two-third (64%) chance of DGMFI registering negative returns in Dec.
- **Historical numbers are not great but recent are!** There is a 55% probability of ADSMI gaining in Dec. looking at the data for the past 11-yrs (CY07-17). That said, if we consider the past 5-yrs (CY13-17), the probability of period gain rises to 80%.

Indices' Performance in Dec.



Source: Bloomberg & Alkhair Capital Research

MSCI EM Index Performance in Dec.



Source: Bloomberg & Alkhair Capital Research

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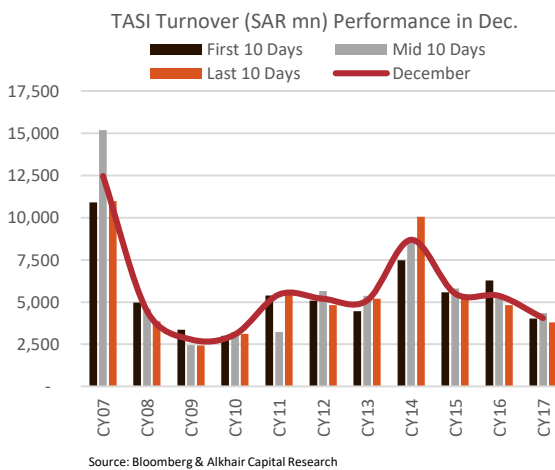
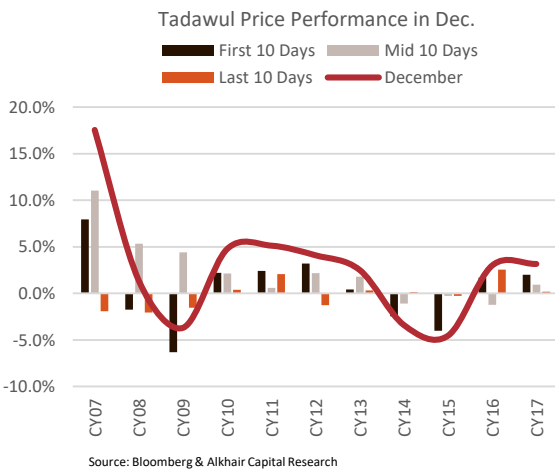
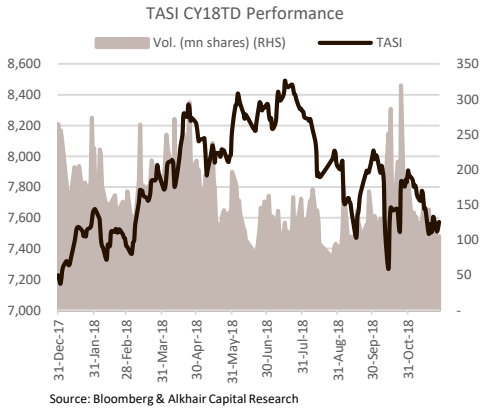
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Contents	Page
Saudi Arabia (Tadawul)	3
➤ Tadawul has lost some ground!	
➤ How would Dec.'18 be for TASI?	
➤ Where is the return concentrated?	
➤ Turnover does not always follow	
➤ Oil prices likely to provide support in Dec.'18	
United Arab Emirates (DFMGI)	4
➤ CY18TD has been a tough year!	
➤ Would the current negativity continue in Dec.'18 as well?	
➤ Things look slightly better when Dec. is deconstructed	
➤ Turnover rise has not always been aligned with gains	
➤ Its too close to call but negativity is likely to prevail	
United Arab Emirates (ADSMI)	5
➤ Things are completely different over here	
➤ Historical numbers are not great but recent are!	
➤ Pin-pointing the best 10-day interval is difficult	
➤ Turnover and index performance have not always moved in the similar direction	
➤ Outlook remains positive	
Disclosure Section	6
Analyst Certification	7

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Saudi Arabia (Tadawul)

Tadawul has lost some ground! Market has been navigating rough waters in the recent past. Oct.'18 (TASI down by 1.2%) was lost to pressure from international community on the back of a journalist's demise. While Nov.'18 (TASI down by 3.5%) fell prey to a 21.0% plunge in international oil prices. On the back of these two events, we have seen many local (retail) as well as foreign investors pull-out of the market. This move also halted the flow of foreign investment at the bourse with net outflow of US\$1.9bn in 2-months combined (data for final week of Nov.'18 not released yet).

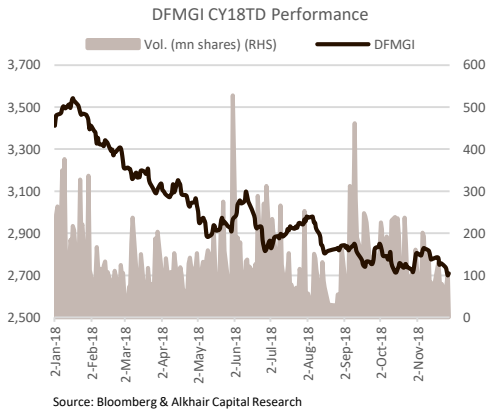
How would Dec.'18 be for TASI? The month of December has always, with itself, brought joys for investors with a 73% probability of a period gain and a 23% probability for a period loss in the past 11-yrs (CY07-17). However, upon looking at the more recent data (last 5-yrs), the probability of a negative return rises to 40% (2 out of 5 instances). Another thing worth mentioning is Tadawul's strong positive correlation of 0.95 with int'l oil prices. Upon comparing Tadawul returns for the period under consideration with oil price movement, we found that in the past 5-yrs (CY13-17) when oil prices closed in the red zone, TASI moved in the negative territory as well.

Where is the return concentrated? There is an even split between the first 10-days and the last 10-days of Dec. as far as best performing intervals are concerned. Having a 27% probability each, while there is a 45% chance of market yielding alpha in the mid 10-days. However, data for the past 5-yrs (CY13-17) suggests that there is an 80% probability of TASI experiencing its best performance during either mid or last 10-days.

Turnover does not always follow: We have seen a clear disconnect between the TASI's turnover and index movement. Only on 5 instances out of 11, TASI has risen in the similar 10-day interval where it has experienced highest turnover. This translates into a 54.5% chance of Tadawul rising amid lower investor participation. That said, the probability of a higher turnover leading to best period return rises to 60% if we only take into consideration data points for the past 5-yrs (CY13-17).

Oil prices likely to provide support in Dec.'18: Given a sudden drop in oil prices in Nov'18, an upward correction cannot be ruled out. With market having a strong positive correlation with oil prices, rise in the commodity's price is likely to form the basis of a positive return in Dec.'18. In this backdrop, we believe Tadawul will continue to follow the historical trend and will bid adieu to CY18 on a high. That said, there is a downside risk given the supply overhang, especially in index heavyweight items as the State-linked investment funds may look to liquidate positions they added in Oct.'18.

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United Arab Emirates (DFMGI)

CY18TD has been a tough year! Having lost 20.3% in 11MCY18, DFMGI (Dubai Financial Market General Index) has been the worst performing main market amongst its GCC peers. Prime reason behind this remains weakness in the emirate’s real estate market. Real estate sector has a 35.7% weight in the Index and is down by 24.6% in CY18TD. Additionally, pressure also came from thin volumes (avg. traded volume down by 55%YoY). With regional markets offering better opportunities, many investors have either completely or partially exited the market and have invested elsewhere.

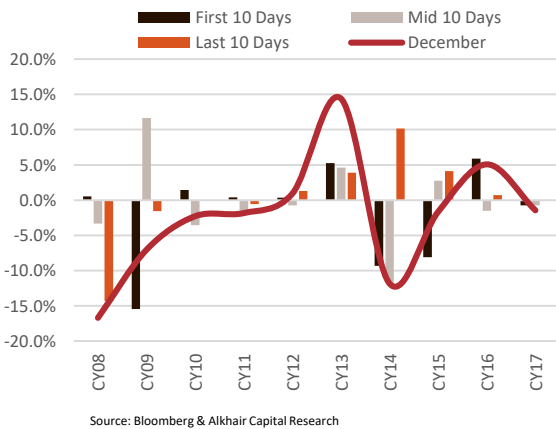
Would the current negativity continue in Dec.’18 as well? Data for the last 11-yr (CY07-17) suggest that there is almost a two-third (64%) chance of DGMFI registering negative returns in Dec. Much of this negativity was due to Dubai’s economy going through a downturn in CY08-10, owing to the CY08 property crash, when home prices dropped by 60%. That said, if we look at the data for the past 5-yr (CY13-17), the probability slightly tilts (by 4ppts to 40%) in favor of a period gain. In the past 5-yr (CY13-17), only on 2 occasions DFMGI has concluded the period under consideration in positive territory.

Things look slightly better when Dec. is deconstructed: Although there is more than a 50% probability of a period loss, things are not that negative. After further analysis of the last 5-yr (CY13-17) data, we came across an interesting trend. Despite yielding negative return in 3 of the past 5 Decembers, DFMGI advanced in the final 10-day interval on all occasions. While on the other two instances where the market had experienced a period gain in the whole month, the best performance was realized in the first 10-days.

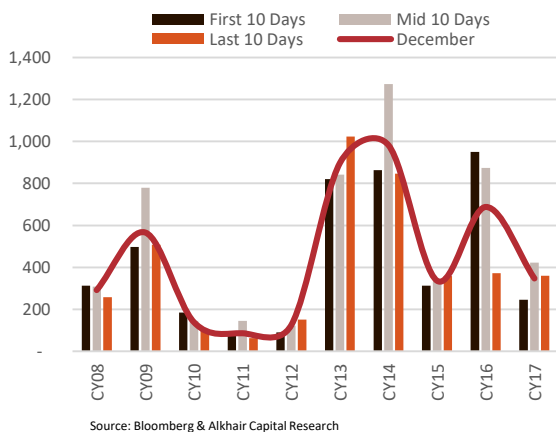
Turnover rise has not always been aligned with gains: Out of the 11 instances, on 6 occasions, market’s best period has been experienced in the same 10-day interval during which the volumes have been at their peak. This translates into a 55% probability of turnover leading the gains. However, same eases to 40% with turnover and index moving in the same direction only twice when data for the last 5 Decembers has been considered. Interestingly, on the 3 occasions the highest turnover interval coincided with the interval where DMGFI’s performance was most negative. We believe this mismatch is due to acute selling taking place during those intervals.

Its too close to call but negativity is likely to prevail: Dec.’18 is expected to follow the past trend as DFMGI is likely to post a negative closing. Besides historical statistics, we believe that lack of domestic catalysts, especially in the real estate space will be the prime factor behind DFMGI’s lackluster performance. Keeping this in mind, we advise investors to avoid exposure in the real estate sector.

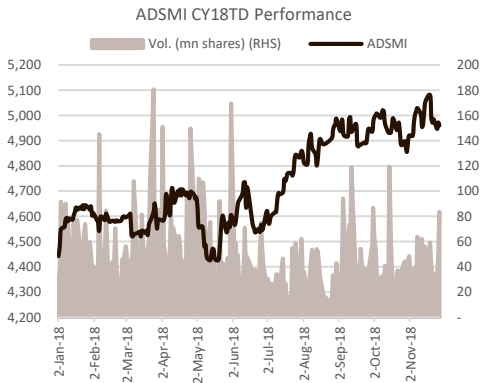
DFMGI Price Performance in Dec.



DFMGI Turnover (AED mn) Performance in Dec.

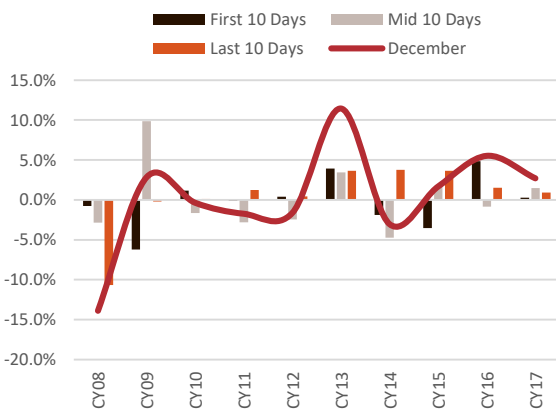


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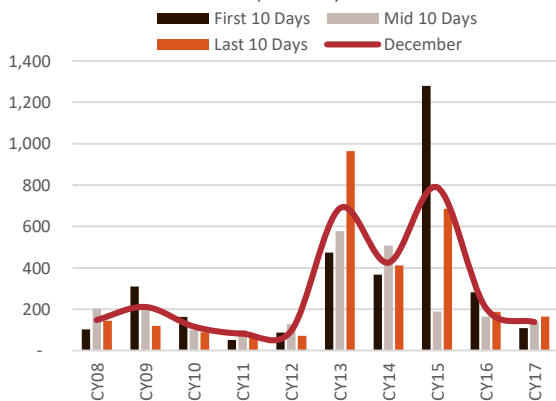
Source: Bloomberg & Alkhair Capital Research

ADSMI Price Performance during Dec.



Source: Bloomberg & Alkhair Capital Research

ADSMI Turnover (AED mn) Performance in Dec.



Source: Bloomberg & Alkhair Capital Research

United Arab Emirates (ADSMI)

Things are completely different over here: With market's weight being heavily tilted towards banking sector (representing 59.3% of index's weight), ADSMI (Abu Dhabi Securities Market Index) did not encounter same faith as DFMGI. On the contrary, it has been amongst the best performing bourse in the region, up by 11.0% in CY18TD. We believe this dream-run is due to a marked improvement in the emirate's overall economy, at the forefront of which is the Banking sector. This is evident by financial performance of Abu Dhabi's top 5 listed banks (representing Index weight of 54.9%), where their combined bottomline expended by 8.7%YoY in 9MCY18.

Historical numbers are not great but recent are! There is a 55% probability of ADSMI gaining in Dec. looking at the data for the past 11-yr (CY07-17). Though the odds of a positive return in Dec. for ADSMI are better than its neighboring emirate (DFMGI at 36% chance of a period gain), they do not fare well when pitted against the same for TASI (at 73% probability of a period gain). That said, if we take into account the past 5-yr (CY13-17), the probability of period gain rises to 80%, where barring CY14 (due to sudden fall in oil prices) ADSMI has concluded the month of December of a positive footing on 4 occasions.

Pin-pointing the best 10-day interval is difficult: A clear trend suggesting best 10-day period in Dec. could not be identified. This is mainly due to things being almost evenly split between all three intervals. In the last 11-yr (CY07-17), probability of best performance in first and mid 10-days is tied at 36% each, while the same for last 10-days is at 27%. This split becomes equal between first and last 10-days in the last 5-yr period (CY13-17) at 40% each, and the chances of ADSMI yielding alpha in the mid 10-days falls to 20%.

Turnover and index performance have not always moved in the similar direction: In fact, there is a 64% chance that superior performance 10-day interval will not coincide with an interval where highest turnover was experienced. Although, this probability edges down by 4ppts to 60% in last 5-yr (CY13-17), it is still high. In contrast to this, there is an increased chance (55%) of higher turnover leading to worse performance. We believe this is owing to brisk selling/profit-taking after experiencing gains during earlier 10-day interval.

Outlook remains positive: We foresee the recent trend continuing and expect ADSMI to register a positive close in Dec.'18. The market is likely to further solidify its already impressive 11MCY18 run. We feel the prime impetus will continue to come from banking sector, which has enjoyed a good run up till now.



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