

## Economic Report

### Global

Globally, economies are slowly recovering while adjusting to the changes they have recently made. According to the US Bureau of Labor Statistics, US unemployment in August grew at a rate of 3.19%, which is slower than the growth average of the first six months of the year of 4.74%. The high rate of unemployment might cause issues with prime mortgages because the now unemployed middle-class will find it harder to pay for their mortgages, and thus create a new problem for the US.

Oil prices have risen since April, however they have been stable for the past month. High oil inventories will keep prices stable as demand increases because supply was slow to react to falling prices, according to the IMF. Other commodities, such as steel, are also cheaper than they were in 2008, which should alleviate some of the concerns of the construction industry as well as others.

Some of the bailed-out US banks have begun repaying the government, which demonstrates their confidence and their economy's resilience. European banks still seek bailout funds because of the centralized system of the European Central Bank (ECB) and the bureaucracy involved. The ECB faces regulatory issues of who they can and cannot bailout and their jurisdiction. This delay exacerbates Europe's situation and will weaken their financial institutions as they face defaults.

Of all the Middle Eastern oil exporters, only Iran is projected to register GDP growth this year of 3.2%. Saudi Arabia, Kuwait, and the UAE are projected by the IMF to average a 0.86% decline in GDP. China is expected to realize below average growth in 2009 of 6.5%, while the rest of emerging Asia will also experience below average growth of 3.3%. Neither the Middle Eastern oil exporters nor emerging Asia will revert back to their pre-crisis growth figures by 2010, according to the IMF.

Growing leverage constraints and higher risk management standards as imposed by Basel II and central bank requirements will tame growth in the coming years. Countries will make better efforts towards lowering their large current account deficits. Rapidly aging populations, however, will force advanced economies to borrow more and possibly increase the current account deficits. Global public debt is currently 75% of global GDP, and is expected to reach 110% of GDP in 2014 according to the IMF.

### Middle East

The real estate crash has initiated a capital outflow from the region to safer economies and investment vehicles, or to new emerging markets with higher credibility. The UAE will be heavily affected by the crunch and has realized significant capital outflow, both monetary and human. Such outflows amplify the severity of the crisis and slow down recovery.

Demand for oil by the Middle East increased through 2008 to 2009 according to the IMF, while the rest of the world's demand grew slowly or declined. In 2009, the IMF projects that Middle Eastern demand for oil will increase by 4.34%, which is higher than all other regions. This indicates that the Middle East's economy is still growing and is not as severely affected by the crisis.

Inflation is declining from highs at 15.6% in the Middle East and returning to its average levels. Expansionary monetary policies, however, may stop the decline and sustain inflation at its current level of 11%. Governments are injecting liquidity and support to banks and projects to cushion the blow of the crisis and stimulate the economy. Large government projects, especially, have generally continued throughout 2009 without major hindrances.

### Kuwait

The Kuwait Investment Authority (KIA) experienced losses in February from overseas investments, and now has shifted its focus to domestic investment to bolster the economy. New investments include Warba Bank, Viva, and other investments used to support older institutions such as Gulf Bank.

Kuwait is still running at a current account surplus of 25.8% of GDP, whereas the Middle Eastern current account balance is running at a deficit of 0.6% of the region's GDP. Kuwait's surplus will not rise by much because of the world's high inventory of oil, which will moderate the effect of increased demand on the price.

According to the National Bank of Kuwait (NBK) in June, loans to securities purchases increased by KWD 46 mn, loans to construction increased by KWD 31 mn, loans to the real estate sector grew by KWD 22 mn, and loans to non-bank financial institutions increased by KWD 31 mn. Increasing borrowing indicates renewed confidence in the markets with the intent to exploit currently prices in interest rates and construction.

### Economic Opinion

There have been signs of recovery globally, however each region exhibits them to a different extent. The US must face the lingering effects of unemployment and a high budget deficit, while Europe is still in the process of bailing out its major institutions. The developed world suffered the most because of their exposure to risky assets and their interconnectedness with each other. Developing countries in regions such as the Middle East and Asia are less affected by the crisis because of their conservative economic policies and government interventions. By 2010, the global economy will have recovered from the worst of the crisis, however it will face questions on preventing a new one.

## Kuwait Stock Exchange

### Overview

The Kuwait Stock Exchange (KSE) ended as the worst performing market among its peer in the GCC region during the month of September. Also, corporate results of the KSE companies witnessed the sharpest decline amongst the GCC equity markets. KSE lost 2.43% during the month of September 2009 to close at 454.97 points on account of falling volumes. The lower trading activity during this month was due to the holy month of Ramadan and the Eid holidays. KSE realized gains during the month of August, due to the rising oil prices and improving economic signals, which reflected the positive sentiments of investors. This improved performance of KSE came after witnessing a huge decline of trading activity in the month of July on account of decreasing stock prices and the decrease in oil prices.

### Market Indices

The KSE weighted index was more volatile than the price index during the Q2 2009. In the month of August, weighted Index witnessed a rise to reach this year's highest closing levels of 7,914.3 points. This was mainly due to the active trades of a number of blue chip stocks, led by ZAIN. KSE weighted Index and the price Index declined by 1.23% and 2.43% respectively in the month of September, on account of the lower trading activities.

	September	August	July
Price Index	7,817.3	7,914.3	7,679.5
Weighted Index	454.97	466.33	437.20

Most of the Kuwait sector indices closed in the red zone as compared to month of August in which the sector indices showed improved performance. In July, all of the sector indices ended in the red zone. In September, Banking sector achieved the highest growth of 3.35%.

Sector	% Change (August – September)	September	August	July
Banking	3.35	9,135.9	8,839.7	8,754.4
Investment	(1.74)	6,568.0	6,684.6	6,555.6
Insurance	0.22	2,834.1	2,828.0	2,906.0
Real Estate	0.50	3,093.5	3,078.0	3,176.6
Industry	(1.91)	6,266.0	6,388.3	5,506.9
Services	(1.96)	15,972.0	16,291.3	15,970.2
Food	(3.36)	4,815.0	4,982.2	4,538.3
Non-Kwt.	(1.90)	8,227.4	8,387.0	8,439.0

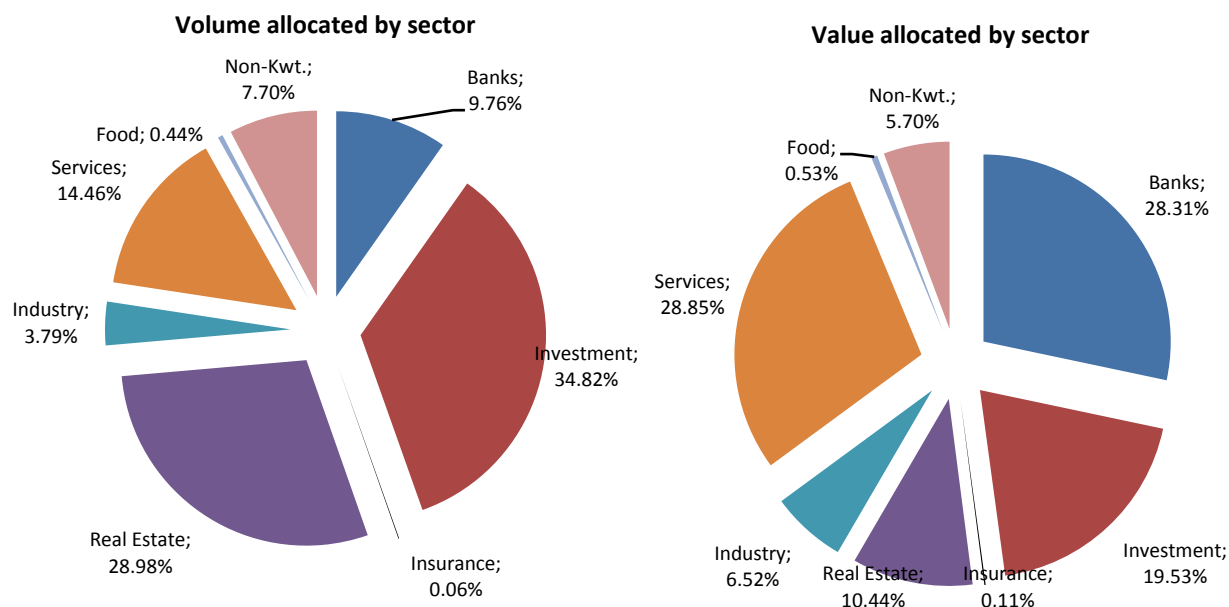
### Trading Activity

Ramadan and Eid holidays decreased the trading activity in the month of September. The trading activity declined by 29.42% and 38.00% in the volume and value traded respectively. Jeezan Holding Co, Investors Holding Group Co, Gulf Finance House and Kuwait Real Estate Co were the most active stocks during September.

Market Trading & Technical Indicators			
	September	August	July
Volume Traded (mn shares)	5,658.1	8,016.01	7,136.70
Value Traded (KWD mn)	1,417.2	2,285.85	1,793.47
No. of Trades	98,009	156,160	157,128

With regards to sector performance, Investment Sector had the highest trading volumes with a total of 1,969.95 mn shares. The Investment Sector represented 34.8% of the total trading market value. This was followed by the Real Estate sector with a trading volume of 1,639.85 mn shares, representing 29.0% of the total trading volume. In terms of value, the Service Sector shares were the highest traded with a turnover of KWD 408.85 mn, followed by the Banking sector which had a turnover of KWD 401.25 mn for the month of September.

The banking sector witnessed the highest growth in volume and value in September as compared to August. This can be attributed to the positive sentiments of the investors due to CBK's announcement that there are no Kuwaiti banks or investment houses which need the support of the financial stability law. The investment sector was not affected in the same way by this news. A number of investment companies are in the process or have completed restructuring of their debt obligations and this could be the reason for the investor's low confidence in this sector. The growth in volume and value in the service sector was most impacted, mainly driven by the volatile trading of Zain which was due to the news and rumors regarding a stake in its African operations



## Major News and Events

### Sovereign

On 6th August 2009, Fitch affirmed Kuwait's Long-term foreign currency and local currency Issuer Default Ratings (IDR) at 'AA' with a stable outlook. Even though the Kuwait has been affected by the dip in oil prices and global financial crisis, the country's fundamental strength leaves it well placed to face these challenges.

During the months of August, Central Bank of Kuwait announced the third issuance of KWD 100 mn of one year treasury bonds, which would carry a coupon rate of 1.5%. The first two issues were also for KWD 100 mn of treasury bonds with the same coupon. This was mainly done to meet the strong demand and also create investment opportunities in the market.

According to International Finance Organization and the World Bank report released in September 2009, conducting business in Kuwait has become more difficult in the last year. The report, which assesses the ease of doing business in various parts of the world, shows that Kuwait's rank has been deteriorating. This could affect the competitiveness of Kuwaiti market to attract foreign investors, which might delay achieving the government strategy to turn Kuwait into an international financial and trading center

### Corporate

During the month of August, ZAIN's shareholders approved the amendment of the company articles of association. The new article stipulates that any entity is allowed to own any amount of equity. This move by ZAIN was made as the company was in potential talks to sell its African operations. Due to the lack of transparency by the company, there was too much of speculation on the sale of ZAIN's stake and its bidders. This caused ZAIN's share price to rise by 20.63%.

## Government Report

Kuwait has posted a budget surplus of \$9.54bln. The Kuwaiti economy is primarily dependant on oil prices. However, there has been several attempts to diversify the economy with alternative energy and income sources.

The Kuwait Stock Exchange has been the worst performer in the Gulf Area in the year 2009. The International Monetary Fund expects the Kuwaiti Economy to contract by 1.2% in 2009<sup>1</sup>. Kuwait has recently suffered from a streak of job losses amongst nationals in the private sector. This has led to the Kuwaiti Parliament to pass a bill-with a majority voting- mandating the foundation of a new fund to assist the Kuwaiti nationals terminated from work. The severity of job losses, Kuwait's singular reliance on oil, the streak of downgrades of Kuwaiti banks by international rating agencies and the reports by the economic authorities including IMF; all those factors fairly conclude that Kuwait is yet to recover from the repercussions of international financial crisis.

The Central Bank of Kuwait has made several attempts to facilitate lending and thereby stimulating growth. Credit facilities extended by the Kuwaiti banks have increased by 2.8% from December 2008 to June 2009, reaching KWD 23.4bn. The discount rate has been reduced by the Central Bank:

- from 4.25% to 3.75%<sup>2</sup>,
- it has been further reduced from 3.75% to 3.5%<sup>3</sup>, and
- finally it has been reduced from 3.5% to 3.00%<sup>4</sup> in the last twelve months.

The Central Bank does not discard the possibility of further reduction in repurchase and discount rates.

The international rating agencies have been taken immediate action towards Kuwaiti banks, despite the support from the Central Bank of Kuwait:

- Moody's has downgraded Commercial Bank of Kuwait to A1/C- with a negative outlook.
- Moody's downgrades Al Ahli Bank of Kuwait to A2/D+ with a stable outlook.
- Moody's downgrades Bank of Kuwait and Middle East to A3/D+ with a negative outlook.

Moody's –along with other rating agencies- is expected to continue the downgrades amongst the Kuwaiti banks throughout the credit crisis.

Kuwait Stock Exchange performance since 01/01/2009

General Market Index	
Rate of Return	-1.32%
Volatility of Returns	0.99%
Average Daily Volume	468,504,005
Average Daily Value	100,711,630
High	8438.6
Low	6367.6

Performance analysis of the five most prominent stocks in KSE

National Bank of Kuwait	
Rate of Return	1.59%
Average Daily Volume	5,376,360
Average Daily Value	6,080,670

<sup>1</sup> The World Economic Outlook 2009 report, published by the International Monetary Fund.

<sup>2</sup> December 2008.

<sup>3</sup> April 2009.

<sup>4</sup> May 2009.

Beta	0.87
High	1380
Low	.850
<b>Zain</b>	
Rate of Return	50%
Average Daily Volume	13,890,769
Average Daily Value	15,844,658
Beta	0.71
High	1.560
Low	.640

<b>Boubyan Bank</b>	
Rate of Return	59%
Average Daily Volume	9,315,797
Average Daily Value	4,060,911
Beta	0.76
High	.630
Low	.244

<b>Agility</b>	
Rate of Return	100%
Average Daily Volume	6,479,341
Average Daily Value	5,849,937
Beta	0.81
High	1.300
Low	.475

Kuwait Finance House	
Rate of Return	-4%
Average Daily Volume	6,084,725
Average Daily Value	7,293,907
Beta	0.69
High	1.400
Low	.880