

December 2009

Returns				Returns			
	Value	MTD*	YTD*		Value	MTD*	YTD*
ASE (Jordan)	2,533.50	-1.9%	-8.2%	MSM 30 (Oman)	6,368.80	0.2%	17.1%
MCSE (Morocco)	21,701.32	2.7%	-5.4%	DFM (Dubai, UAE)	1,803.60	-7.0%	10.2%
TADAWUL (Saudi Arabia)	6,121.80	-3.7%	27.5%	ADI (Abu Dhabi, UAE)	2,743.60	2.8%	14.8%
TUNINDEX (Tunis)	4,291.70	4.5%	48.4%	DSM 20 (Qatar)	6,959.20	-3.3%	1.1%
KSE (Kuwait)	7,005.30	1.0%	-10.0%	EGX 30 (Egypt)	6,208.80	5.8%	35.1%
BSE (Bahrain)	1,458.20	1.4%	-19.2%	BSI (Lebanon)	1,565.70	1.5%	32.9%

\* All returns are latest available end of day December 31, 2009  
Source: Bloomberg

## Summary

MENA equity markets fell by 1.2% in December bringing their 2009 gains down to 17.3%. Regional markets continued to suffer following Dubai World's, a state-owned holding company struggling with USD 34 billion of debt, announcement on November 25th, 2009 that it would seek a standstill agreement with creditors and an extension of loan maturities until at least May 30th, 2010. The Dubai government stated that it will not guarantee the debt of its government related entities. On December 14th, the government of Abu Dhabi injected USD 10.0 billion to the Dubai Financial Support Fund, which will be used to satisfy a series of obligations on Dubai World, most significantly the USD 4.1 billion Nakheel sukuk that matured on December 14th. The move was well received by credit markets and led to a dramatic reduction of implied credit risk premiums on Dubai sovereign and government related entities (GREs) debt. Capital markets also reacted positively to the new development, as on the day of the announcement, the DFM and ADX indices increased by 10.4% and 7.9% respectively.

Tunisia was the best performing regional market in 2009, gaining 48.4%, followed by Egypt which gained 35.1%. Bahrain ended the year as the worst performing market losing 19.2%, followed by Kuwait which fell by 10.0% in 2009. MENA markets have underperformed both emerging markets and the US market for 2009. MSCI Arabia gained 17.3% in 2009 versus 23.5% for the S&P 500 and 74.5% for MSCI EM.

## Saudi Arabia

Saudi Arabia's Tadawul Index (TASI) fully reversed the gains recorded in November, as the index was down 3.7% by the end of December. On a regional level the TASI underperformed all indices with the exception of the DFM. On a positive note, year to date gains were 27.5%, representing the third best performance regionally after Tunisia and Egypt.

In the banking sector the Head of the Saudi Arabian Monetary Agency (SAMA) announced that the Kingdom's banking sector was not endangered by the Dubai World debt crisis given the limited exposure of Saudi Banks to Dubai World's debt. The debt extended to the Dubai government-owned entity amounts to less than 0.2% of total bank's balances.

Banking stocks' performance did not reflect the positive news, with Al Rajhi Bank slipping as much as 7.8%, while Riyadh Bank ended the month down 2.2%. Meanwhile, Saudi British Bank (SABB) was hardest hit, down 15.7%. Market mover Samba Financial Group (Samba) followed suit, shedding 8.2% by the end of the month. SABB's and Samba's negative performances occurred despite Fitch Ratings Agency (Fitch) maintaining the ratings of both banks with a stable outlook.

Meanwhile, market heavyweight Saudi Basic Industries Corporation (SABIC) outperformed the market, albeit with a modest 0.9% gain during the month. This followed Fitch's affirmation of SABIC's ratings of the Long-term Issuer Default (IDR) at 'A+', the company's senior unsecured at 'A+' and its Short-term IDR at 'F1', with a stable outlook for the company's IDR.

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On the macroeconomic level, the Council of Ministers expects a fiscal deficit of SAR 70.0 billion in 2010. This compares to an actual deficit of SAR 45.0 billion recorded at the end of 2009, the first recorded budget deficit by the Kingdom since 2002. The projected budget deficit for 2010 is the largest deficit in 20 years. We are not alarmed by the projected deficit since the Kingdom is expected to finance its budget deficits from accumulated budget surpluses recorded over the past six years. Furthermore, the deficit is calculated based on the assumption that oil prices will average at USD 50.0 per barrel during 2010. Oil prices currently stand at around USD 70.0 per barrel, and if oil hovers around this price in 2010, it is likely that the Kingdom will record a surplus.

## UAE

Ongoing uncertainty surrounding the outcome of Dubai World's moratorium request, weighed down the DFM index as it fell 7.0% during the month. The ADX index managed to gain 2.8%, bringing the year to date gains for the two indices to 10.2% and 14.8% respectively.

On December 14th, the government of Abu Dhabi injected USD 10.0 billion to the Dubai Financial Support Fund, which will be used to satisfy a series of upcoming obligations on Dubai World, most significantly the USD 4.1 billion Nakheel sukuk that matured on December 14th. The move was well received by credit markets and led to a dramatic reduction of implied credit risk premiums on Dubai sovereign and government related entities (GREs) debt. Capital markets also reacted positively to the new development, as on the day of the announcement, the DFM and ADX indices increased by 10.4% and 7.9% respectively.

In addition, a meeting between Dubai World and its creditors was held on December 21st, 2009. According to a Dubai World spokesperson, the company did not ask for a standstill on its debt at the meeting and that the purpose of the meeting was to review potential strategies to move forward.

As a consequence of the Dubai World debt crisis, S&P placed Abu Dhabi Commercial Bank (ADCB) on review for a possible downgrade given the bank's large exposure to Dubai World's debt. It is worth noting that during November 2009, the rating agency downgraded four Dubai-based banks namely; Dubai Islamic Bank, Mashreqbank, National Bank of Dubai and Emirates Bank International on the back of the Dubai debt issue. Moody's also placed ADCB, Commercial Bank of Dubai, Dubai Bank and the UAE branch of HSBC Bank Middle East

Limited, all on review for possible downgrades before downgrading ADCB's Long-term Deposit Rating from 'Aa3' to 'A1' and reducing the bank's financial strength from 'C-' to 'D+'. The rating agency stated that despite the recent support extended by the government of Abu Dhabi to Dubai, banks' NPLs are expected to rise over the foreseeable future due to the difficult economic conditions in Dubai and that the Dubai World incident is expected to still have further ramifications.

On a different note, Dubai Financial Market's (DFM) acquired Nasdaq Dubai in a deal worth USD 121.0 million. The two exchanges will operate separately but will combine back office operations and share technology. The DFM stock ended the month down 4.1%.

## Kuwait

The Kuwait Stock Exchange (KSE) gained 1.0% during the month of December. Yet, on a year to date basis the Kuwait market has performed poorly, losing 10.0% since the beginning of the year; rendering Kuwait as the second worst performing market in the region, after Bahrain.

The Kuwaiti banking sector was placed under scrutiny this month amid worries as to whether the sector had any exposure to Dubai World's debt. Fears were quelled as the authorities declared that Kuwaiti banks had minimal exposure to the debt with the majority of KSE heavyweights having no exposure to the conglomerate. Consequently, the sector outperformed the KSE during December, with National Bank of Kuwait (NBK) gaining 1.8% over the course of the month. Meanwhile, Al Ahli Bank and Gulf Bank, which confirmed a combined exposure of USD 118.0 million to Dubai World still recorded positive performances, up 7.2% and 1.7%, respectively. On the other hand, Kuwait Finance House ended the month flat.

Zain Telecom, the index's heaviest constituent, was able to bounce back during December, following a poor performance in recent months, on the back of weak earnings and confusion surrounding the acquisition of a 46.0% stake in the company. Early in the month Indian state-owned Bharat Sanchar Nigam Ltd. (BSNL), which had initially planned to join the consortium planning to buy a stake in Zain, announced that it had put plans to participate in the consortium on hold. No further details regarding the status of Zain acquisition talks were provided. The stock gained 2.0% during December, following losses of 13.8% in November. On a year to date basis the stock recorded gains of 21.4%, significantly outperforming the index.

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## Qatar

As a result of the Dubai World debt crisis, the DSM 20 index lost 8.3% on December 1st, 2009, its first trading session following the Eid holidays. However, the index has been on the road to recovery ever since, recouping most of its losses to conclude 2009, with a month to date drop of 3.3%.

Performances in the banking sector have been improving lately, following an announcement made by Qatar's Finance Minister, stating that the government will buy 5% of some local banks (with the exception of Qatar National Bank) spending around USD 900 million in an effort to boost investor confidence. That mentioned, Qatar National Bank, Qatar Islamic Bank and Commercial Bank of Qatar decreased by 5.3%, 5.9% and 8.2%, respectively during December. Earlier, Qatar Islamic Bank announced that it had a USD 14.8 million exposure to Dubai World, while both Commercial Bank of Qatar and Qatar National Bank stated that they had no exposure.

Industries Qatar remained in the red, decreasing by 3.4% on a month to date basis. The telecom sector also remained in the doldrums, as both Qatar Telecom and Vodafone Qatar concluded the month with a price drop of 2.4% and 5.1%, respectively. Despite the difficulties created by the global financial crisis in the real estate sector, Qatar-based developer, Barwa Real Estate recently stated that it has repaid a USD 700 million syndicated loan and that it does not expect any complications in the future for either fulfilling its financial commitments or completing any of its key real estate mega projects. Barwa Real Estate dropped 3.5% in December.

## Oman

The Omani market ended the last month of 2009 up 0.2%, resulting in a year to date gain of 17.1%. The banking sector was under the spotlight during the month as several banks disclosed their exposure to Dubai World's debt. The Central Bank announced that Omani banks' exposure to the Dubai-based troubled company is estimated at USD 77.0 million. On an individual level, Bank Muscat announced that it has an exposure of USD 50.0 million in a syndicated loan to Dubai World while National Bank of Oman announced an exposure of USD 22.6 million. In addition, Bank Sohar also disclosed an exposure of USD 4.3 million in a syndicated loan to Dubai World's subsidiary, Nakheel. On the other hand, Oman International Bank stated that it has no exposure to Dubai World's debt. In a positive development, the Omani Central Bank announced that local banks are not required to book provisions

for their exposure to Dubai World debt as the exposure is not related to loans currently under restructuring.

## Egypt

The EGX 30 was the best performing market in the region for the month, increasing by 5.8%. The EGX 30 outperformed regional peers, as it had previously taken a severe hit due to Dubai's debt problems on the last trading day of November 2009, unlike most other regional indices that took the hit on the first trading session of December.

The index was propelled mainly by heightened activity in the telecommunications sector and by Orascom Construction Industries, as the company gained a massive 11.7% during December. Market news in December revolved mainly around Orascom Telecom Holding (OTH). The Egyptian Financial Supervisory Authority (EFSA) had approved an offer from France Telecom's subsidiary, Orange Participations, to buy up to 100% of Egyptian Company for Mobile Services (ECMS), Mobinil, at a price of EGP 245 per share, which was at a 17.6% premium to Mobinil's closing price of EGP 208.30 per share on December 10th, 2009. Following this announcement, Mobinil's price catapulted to EGP 238 per share in a single session, bringing Mobinil's month to date gains to 25.8%. That mentioned, OTH launched an appeal to protest against the EFSA's ruling on the basis that, the mandatory obligation to sell OTH's stake in Mobinil had lapsed in April 2009, and also on the fact that Mobinil's free float should not be sold at a price less than EGP 273 per share, which was the arbitration ruling price.

Due to rising concerns for OTH which included the possible sale of Mobinil and the pending tax issues in Algeria, management decided to issue the first capital increase in OTH's history. On December 27th Orascom Telecom Holding's EAGM approved raising the company's capital by EGP 4.4 billion through a rights issue.

Amid the continuing news stream, OTH concluded December 2009 with a month to date decrease of 2.5%. Telecom Egypt increased by 12.4% during the month, on the back of the news relating to Mobinil's impending buyout.

As expected, the Central Bank kept its main overnight interest rates on hold for the second time since it started a series of rate cuts in February. The overnight lending rate was kept at 9.75% and the deposit rate at 8.25%.

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## MSCI Arabian Markets Index\*

	Dec-09	Nov-09	YTD**
Return	(1.2%)	(4.2%)	+17.3%
<b>Statistics Since Inception</b>			
Return (Cumulative)			+159.0%
Volatility (Annualised)			22.8%
Maximum One-month Return			+15.2%
Minimum One-month Return			(22.3%)



\* The MSCI Arabian Markets Index was inceptioned in January 2006. All returns prior to this date are comprised of a 50% weighting in the Dow Jones DIFC Arab Titans 50 Index and a 50% weighting in the Saudi Arabia All Share Tadawul Index. \*\* Market Levels as of December 31, 2009.

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Rasmala's activities cover:

- Corporate Finance
- Asset Management
- Brokerage
- Private Equity

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