جدوى للإستثمار
Jadwa Investment

29 January 2011

Regional troubles hit Saudi markets

Financial markets in Saudi Arabia are expected to remain volatile in the current period of regional political unrest. The TASI fell by 6.4 percent on January 29 in response to civil unrest in Egypt. Other financial indicators such as exchange rate forwards and credit default swaps have also moved sharply. We viewed the Saudi stock market as attractively valued prior to the recent fall, but think that investors should be cautious given the rapidly evolving events.

The fall in the TASI was not a surprise after regional and global markets were hit by the problems in Egypt over the weekend. It has wiped out all of the gains in the market since mid-October and pulled the price-to-earnings ratio to below 15. At present the turbulence elsewhere in the region has not impacted directly on the Kingdom's economy or the prospects for most listed companies, but it has definitely rattled confidence, particularly of foreign investors. In addition, it has directly hit some Saudi investors; Saudi investors were net buyers of $126 million of Egyptian stocks in 2010.

Moves in other financial indicators over the Saudi weekend illustrate foreign investor caution. One-year exchange rate forwards jumped to their highest level in two years. Usually, exchange rate forwards suggest an appreciation of the riyal over the next year, but currently they are indicating a depreciation (see chart on next page). The price of sovereign credit default swaps also jumped. These provide insurance against the government defaulting on its debt and on January 29 were at their highest level since August 2009. In neither case are these moves serious; events elsewhere in the region will not alter the Kingdom's exchange rate policy and with no external sovereign debt and minimal domestic debt, there is little meaningful trading in the Kingdom's credit default swaps.

A more positive side effect was a rise in oil prices. Troubles in the region generally cause short term rises in oil prices and this was the case on January 29, with WTI jumping by 4.3 percent, though Brent was up by just 0.7 percent. Although events in Egypt, Tunisia, Yemen and elsewhere, have not directly affected the global oil market, oil prices are likely to have an upward bias while tensions continue.

It is far too early to determine what, if any, direct impact there will be on the Kingdom's economy. Egypt is one of the larger markets for the Kingdom's non-oil exports. Total non-oil exports to Egypt were $1.3 billion in 2009, 4.2 percent of the total. As Egypt is an oil producer, its share of total Saudi exports was much lower, at just 1.2 percent (the total was $2.2 billion). Saudi imports from Egypt were $1.4 billion in 2009, 1.5 percent of the total.

TASI

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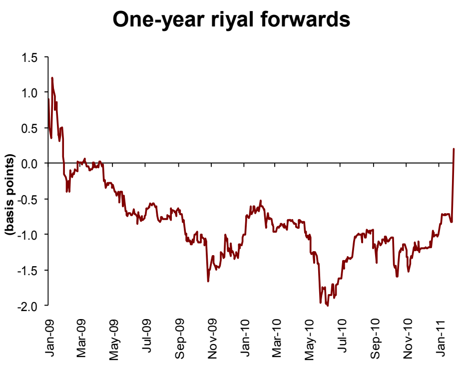

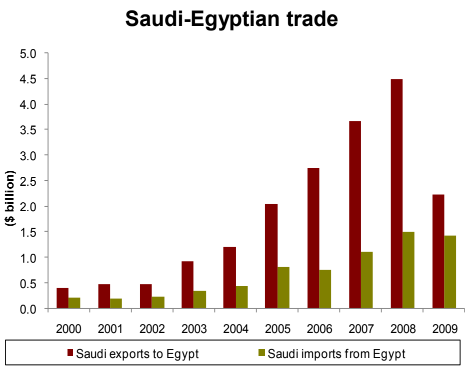

Direct exposure to Egypt is an issue for some Saudi companies that have bought into Egyptian companies and established production facilities, though we do not think that Saudi bank exposure is a concern. Egypt is not a large source of foreign direct investment into the Kingdom. A further economic link is the large number of Egyptian migrants that work in the Kingdom. According to recent data Egyptians accounted for around 15 percent of new work visas; if they constitute a similar proportion of the expatriate population, there would be around 1.1 million in Saudi Arabia. Uncertainty at home may well affect the amount of money Egyptian expatriates remit from the Kingdom.