

GCC Asset Allocation & Volatility

August 2008

GCC Markets Reel Under Global Pressure

Research Highlights:
Suggesting asset allocation among GCC stock markets based on quantitative proprietary models developed by Markaz

Asset Allocation Review – July 2008

Table 1: Return Profile – Various Strategies

Strategies	Monthly Return (%)	MTD Out performance/ Under performance Vs SAA (%)	YTD 08 Out performance/ Underperformance Vs SAA (%)
Strategic Asset Allocation (SAA)	-4.44	-	-

Tactical Asset Allocation (TAA) Strategies

1. Momentum Model	-4.21	0.24	-6.92
2. Mean Reversion Model	-4.68	-0.24	7.36
3. Risk Model	-2.92	1.52	8.17

Source: Markaz Research, The strategies are quantitative models proprietary to Markaz Research

The GCC markets continue to reel under pressure due to the negative global sentiments. All the MSCI GCC indices ended the month of July on a negative note. MSCI Kuwait was the best performer with a monthly loss of 1.64%. Lackluster market volumes were witnessed during the month as investors remained cautious. MSCI Oman and MSCI Saudi were the top losers as both posted heavy losses of 6.7% and 6.5%, respectively. As a result, all asset allocation models performed poorly during the month. Risk model registered a loss of 2.9% and was the best performer among its peers (Table 1). SAA model recorded a monthly loss of 4.4% and underperformed the Momentum model by 0.2%. The Momentum and Mean reversion models posted MoM losses of 4.2% and 4.7%, respectively. On a YTD basis, the Mean reversion model outperformed the SAA model by 7.4%, while the Momentum model underperformed the SAA by 6.9%. Risk-based model surpassed the SAA model by 1.5% on MoM basis and 8.2% on a YTD basis. For August, while the Momentum model increased its allocation to Kuwait by 370 basis points (bps), it decreased the exposure to Saudi markets by 21 percentage points (pps) to 32%. The Mean reversion model significantly increased its exposure to the Saudi market to 72% and decreased its exposure to the Kuwait market by 190 bps to 22% (Table 2). While the Momentum model held free cash up to 20%, the Mean reversion model leveraged up to 20% of its total portfolio value.

Table 2: Recommended Asset Allocation for August-08

Strategies	Saudi Arabia	UAE	Kuwait	Bahrain	Qatar	Oman	Cash/ (Loan)	Portfolio Total
SAA	52%	13%	25%	2%	6%	3%	0%	100%
TAA Strategies								
1. Momentum Model	32%	14%	28%	1%	3%	2%	20%	100%
2. Mean Reversion Model	72%	11%	22%	3%	8%	4%	-20%	100%
3. Risk Model	28%	12%	24%	3%	9%	4%	20%	100%

Source: Markaz Research. The strategies are quantitative models proprietary to Markaz Research

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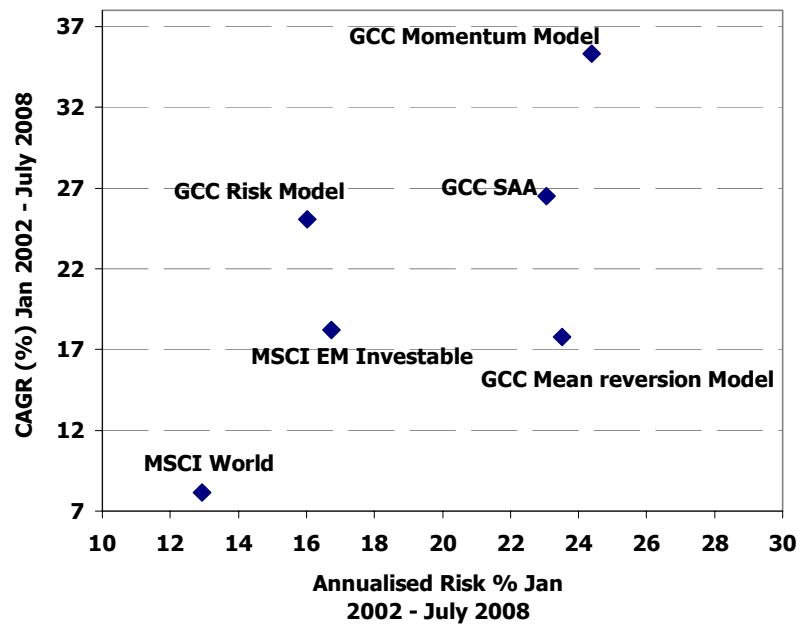
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**Figure 1: Long-term Trends of Asset Allocation Strategies
Performance of Strategies (Jan 2002 - July 2008)**

In August, the Momentum model significantly reduced its exposure to the Saudi market to 32%



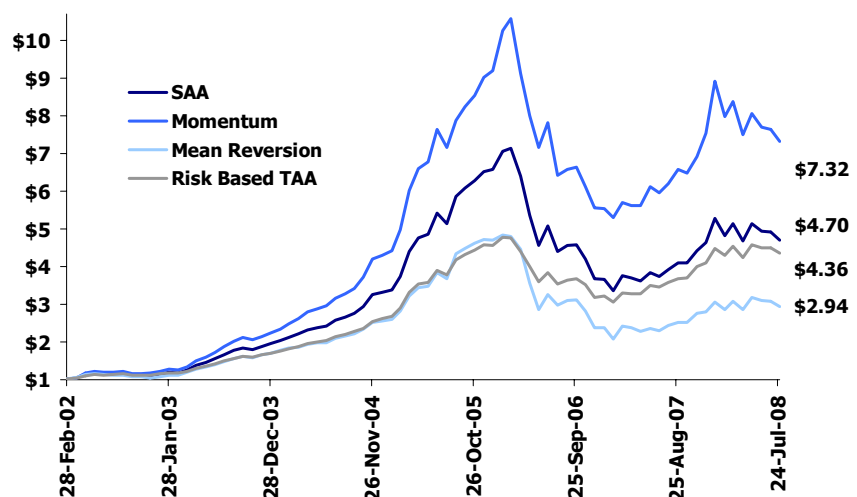
Source: Markaz Research

Due to the weak performance of markets, the compounded annual growth rate (CAGR) of returns for the Momentum and SAA models were significantly impacted during January 2002 to July 2008. On a CAGR basis, the SAA model reported a 206-basis-points (bps) rise in its annualized risk to 23.1%, while the CAGR of return declined by 103 bps to 26.5% (Figure 1). The Momentum model has outperformed the SAA, Mean reversion and Risk-based models during January 2002 to July 2008; however, since January 2008, the model has reported a profound loss of 18.0%. On a YTD basis, the Risk model is the best performer with a loss of 2.9% in July 2008. On CAGR basis, the Momentum model reported returns of 35.3% with an annualized risk of 24.4%. In July, CAGR of returns from the Mean reversion model decreased by 203 bps to 17.8%. However, it recorded an increase of 261 bps in its annualized risk to 23.5%. While the MSCI World was the least risky with an annualized risk of 12.9%; the index has recorded low returns of 8.1% on a CAGR basis.

In July, CAGR of returns from the Momentum model decreased 35.3% with an annualized risk of 24.4%

Figure 2: \$1 Performance of TAA Strategies

\$ 1 Performance of TAA Strategies Viz Strategic Asset Allocation



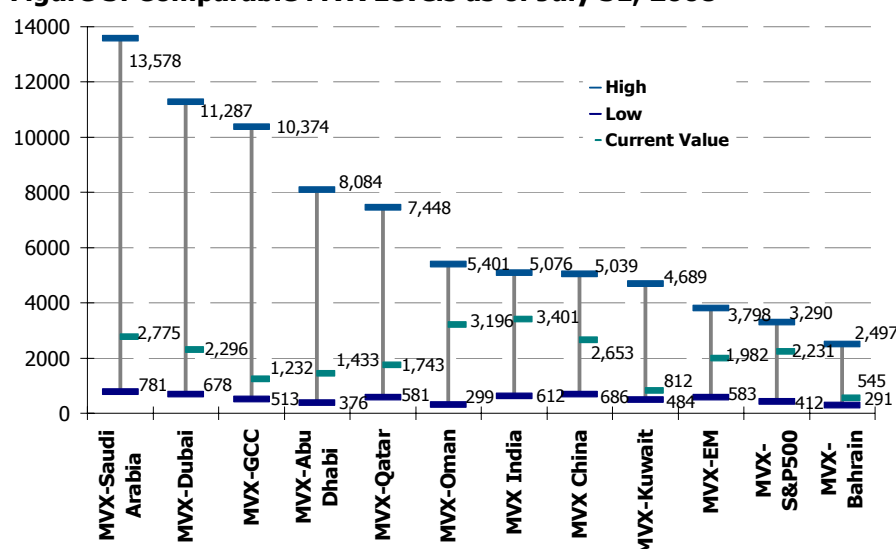
Source: Markaz Research

Volatility (as measured by the Markaz Volatility Index)

In July, Oman recorded the highest MoM increase (95%) in volatility level

In terms of volatility, GCC markets exhibited a mixed performance in July 2008. Saudi Arabia, Kuwait, UAE (Dubai and Abu Dhabi), and Oman registered an increase in volatility levels, while Qatar and Bahrain recorded a decline of 23% and 18%, respectively. Among the tracked markets, MVX Oman reported the highest increase of 95% in its volatility level to close at 3,196 (Figure 3). The volatility levels in Kuwait and Saudi markets increased significantly during the month. Volatility in Saudi rose from an increase 5% in June to an increase of 27% in July as MVX Saudi closed at 2,775. Kuwait's volatility, which declined by 15% in June, was up 47% in July. In the UAE, MVX Dubai was up 32% and MVX Abu Dhabi expanded 4% during the month. MVX India, which recorded the highest monthly increase of 70% in June, moved up 40% in July. MVX S&P 500 and MVX EM have witnessed a steady rise in volatility levels since the last two months with S&P 500 trading 12% above its 120-Day Moving Average.

Figure 3: Comparable MVX Levels as of July 31, 2008



Among GCC markets, volatility in Qatar and Bahrain fell by 23% and 18%, respectively

Source: Markaz Research

Key Trends & Inference			
Index/Country	MVX Spot as on 31 July 08	% Chg (MoM)	Inference
Bahrain	545	-18	MVX Bahrain decreased 18% in July and was trading 32% below its 120-Day MVA ² .
Kuwait	812	47	MVX Kuwait increased 47% in July as against a decline of 15% in June.
GCC	1,232	12	MVX GCC rose 12% in July; however, it was trading 27% below its December 2007 level.
Abu Dhabi	1,433	4	While MVX Abu Dhabi Index increased slightly during the month, it was trading down 39% on a TTM basis.
Qatar	1,743	-23	MVX Qatar decreased 23% in July as against an increase of 16% in June.
Emerging Markets	1,982	24	MVX EM was trading 24% higher in July and up 3% on a 120-Day MVA basis; however, it lost 5% on a TTM basis.
S&P500	2,231	20	In July, S&P500 registered its second consecutive increase in volatility and was trading 265% higher than its December 2007 levels.
Dubai	2,296	32	Dubai reported a 32% increase in July and was trading 10% below its 120-Day MVA.
China	2,653	-33	MVX China was down 33% in July compared to a 40% rise in June.
Saudi Arabia	2,775	27	MVX Saudi Arabia was trading 6% below its 120-Day MVA.
Oman	3,196	95	Among tracked markets, Oman recorded the highest MoM increase in volatility level.
India	3,401	40	MVX India, which registered the highest increase in June, was up 40% in July 2008.

Source: Markaz Research
¹ - Variation calculated on a MoM basis
² - 120-Day Moving Average

Correlation

Short-Term

Short-term correlation (August 2007 – July 2008) increased the most for Abu Dhabi and Bahrain by 283 bps, while the correlation between emerging markets and S&P 500 decreased by 172 bps to 28% (Table 3). Except Saudi Arabia and S&P 500, Bahrain's short-term correlation with all the tracked markets increased during the month. While the correlation between Bahrain and Saudi markets decreased by 19 bps, the correlation with S&P 500 declined by 45 bps. Dubai exhibited increasing correlation with all other tracked markets, except Saudi Arabia, wherein it decreased by 149 bps in July. The Kuwaiti market's correlation with the Bahrain market rose 136 bps, while that with the Dubai market increased by 32 bps. However, Kuwait's correlation with Qatar and Oman decreased by 79 bps and 56 bps, respectively. Qatar's correlation with Bahrain and Abu Dhabi increased by 177 and 188 bps, respectively, relative to the previous month.

The short-term correlation between Abu Dhabi and Bahrain increased by 283 bps in July

Table 3: Short-Term Correlation

1Y Correlation (August 2007–July 2008)									
	Saudi Arabia	Kuwait	Dubai	Abu Dhabi	Qatar	Oman	Bahrain	S&P 500	GEM*
Saudi Arabia	100								
Kuwait	16	100							
Dubai	29	24	100						
Abu Dhabi	30	30	69	100					
Qatar	19	21	36	47	100				
Oman	25	15	35	44	35	100			
Bahrain	6	22	12	12	17	12	100		
S&P 500	5	3	5	4	3	8	3	100	
GEM*	18	7	22	22	23	16	4	28	100

Source: Markaz Research; *: Global Emerging Markets

Long-Term

Abu Dhabi's long-term correlation (August 2005 – July 2008) with Qatar rose by a robust 337 bps, relative to the month of June. Saudi Arabia's correlation with S&P500 dipped 33 bps, and that with Abu Dhabi declined by 7 bps. S&P500's correlation with Kuwait increased by 10 bps, while that with Bahrain and global emerging markets rose by 25 bps and 14 bps, respectively. Except for Qatari and Omani markets, global emerging markets' correlation increased with other markets. The two markets declined by 13 bps and 35 bps, respectively. In July, global emerging markets' correlation with S&P 500 moved up 14 bps to 32% (Table 4). Though Dubai and Abu Dhabi markets have the highest long-term correlation among tracked markets, it declined by 176 bps to 55% during the month.

Qatar's long-term correlation with Abu Dhabi market increased 337 bps during the month

Table 4: Long-Term Correlation

3Y Correlation (August 2005 – July 2008)									
	Saudi Arabia	Kuwait	Dubai	Abu Dhabi	Qatar	Oman	Bahrain	S&P 500	GEM*
Saudi Arabia	100								
Kuwait	16	100							
Dubai	20	19	100						
Abu Dhabi	22	21	55	100					
Qatar	6	12	18	30	100				
Oman	9	11	15	20	22	100			
Bahrain	6	21	7	13	13	14	100		
S&P 500	(2)	2	(0)	(0)	(1)	8	4	100	
GEM*	6	5	8	8	8	10	3	32	100

Source: Markaz Research; *: Global Emerging Markets

Market Review

Except ADSMI, GCC markets performed poorly during the month of July

In July, GCC markets exhibited a poor performance with all regional markets, except Abu Dhabi Securities Market Index (ADSMI), ending the month in red. ADSMI recorded a MoM gain of 0.5% in July. The markets were largely dragged down due to selling pressure in heavyweight stocks. Saudi's Tadawul All Share Index was weak during July as it declined 6.5%, relative to the month of June (Table 5). The index reported a YTD loss of 20.8% at the end of July. The Kuwait stock market discontinued its positive trend as it fell 3.1% after seven consecutive monthly gains. On a YTD basis, the market's return was at 19.3% as at the end of July from 23.1% in June. Dubai Financial Market (DFM) declined 0.7% in July and continues to be weak in terms of YTD returns (-8.9%). On a YTD basis, Qatar's Doha Securities Market (DSM) gained 21.4% and overtook Oman's Muscat Securities Market (MSM), which increased 18.8% as it posted a significant monthly loss of 5.2% in July. DSM was down 1.9% as compared to 0.2% in the month of June. Weakening markets observed a decline in total volume and total value traded in the month of July. Total volume and value of trades decreased 30% MoM to 20,818 Mn and USD70,438 Mn, respectively. Kuwait's total volume reduced significantly to 5,425 Mn in July from 8,646 Mn in June. Saudi Arabia witnessed decline in total value traded from USD59,717 Mn in June to USD43,579 Mn in July (Table 6).

Table 5: Market Indicators

Indicators	M. Cap (USD Bn)	Last Close	July 08 %	YTD %	07 %	P/E 07	P/E 08
Saudi (TASI)	452	8,740	-6.54	-20.82	41	20	17
Kuwait (KSE)	205	14,978	-3.10	19.26	34	13	14
Abu Dhabi (ADI)	125	4,976	0.45	9.32	52	17	13
Dubai (DFMGI)	104	5,405	-0.70	-8.88	44	22	-
Qatar (Doha SM)	137	11,633	-1.94	21.43	34	17	13
Bahrain (BAX)	31	2,796	-2.21	1.47	24	8	8
Oman (Muscat SM)	27	10,737	-5.17	18.83	62	13	11
MSCI GCC	743	698	-4.86	-13.14	47	19	14

Source: Excerpt from Markaz "Daily Morning Brief" Aug 3, 2008
CY08 Estimates are Markaz Earnings Estimates

Table 6: Volume and Value Traded

Volume and value traded in GCC markets declined by 30% in July.

Indicators	Volume Traded (Mn)	% Of Volume Traded	Volume LTM Avg. (Mn)	Value Traded (USD Mn)	% Of Value Traded	Value LTM Avg. (USD Mn)
Saudi Arabia	3,995	19%	4,801	43,579	62%	51,941
Kuwait	5,425	26%	7,093	9,417	13%	12,222
UAE	10,788	52%	11,805	13,252	19%	13,950
Qatar	244	1%	342	3,462	5%	3,987
Bahrain	96	0%	132	99	0%	161
Oman	270	1%	432	627	1%	796
Total	20,818			70,438		

Source: Respective Stock Exchanges, Markaz Research; LTM refers to Last Twelve Months

Saudi Arabia

Table 7: Saudi Arabia Key Market Statistics

Key Statistics (July 2008)			
Volume Traded (Mn)	3,995	LTM Average Volume Traded (Mn)	4,801
Value Traded (USD Mn)	43,579	LTM Average Value Traded (USD Mn)	51,941
Top 5 Concentration Market Cap(%)	45	Top 5 Concentration Market Volume (%)	36

Source: Respective Stock Exchange, Markaz Research

Saudi's Tadawul posted a monthly loss of 6.5% and YTD loss of 20.8% in July

The Saudi market ended in red (-6.5%) in July as all the indices registered losses, except for the Industrial Investment index. On a YTD basis, the Tadawul lost 20.8% during the month. The Industrial Investment index posted a monthly gain of 2.7%. Banking & Financial Services index lost 6.5%, while the Insurance index declined 8.8%. The contribution of top five companies (in terms of volume) declined significantly from 55% in June to 36% in July, while that in terms of market cap reduced by 1 percentage point to 45% in July (Table 7).

Saudi Arabia's heavyweights continued to perform poorly and in line with Tadawul in July. Saudi Basic Industries Corporation (SABIC) lost 7.7% despite its net profit rising 13% year-on-year (y-o-y) to SAR14.5 Bn in H1 2008. SABIC also signed a deal with Saudi Arabian Fertilizers Co to set up a steel plant with a capacity of 1.7 Mn metric tonnes per year. Saudi Telecom Company (STC) was the only heavyweight company to post gains during the month. The company registered a monthly gain of 7.9%. STC's net profit increased 18% y-o-y to SAR6.9 Bn in H1 2008. The company plans to acquire a 25% stake in Oman Telecommunications Co after spending more than USD6 Bn on foreign expansion initiatives in the last 13 months. Al Rajhi Bank (RJHI)'s net profit grew 5% y-o-y to SAR3.3 Bn in H1 2008. Al Rajhi Group also plans to launch a Singapore-based Islamic fund worth USD300 Mn, which would invest in Asian property. Despite the positive news, RJHI's stock price declined 6.5%. Kingdom Holding Company (KINGDOM)'s net profit totaled SR838.5 Mn in H1 2008, an increase of 15.1% y-o-y. However, its stock price dipped 12.8%. Samba Financial Group (SAMBA)'s net profit decreased 5.6% y-o-y to SAR2.4 Bn in H1 2008. The fall in net profit could be attributed to decline in financial brokerage income. The stock price also declined by 13.9% in July.

Kuwait

Table 8: Kuwait Key Market Statistics

Key Statistics (July 2008)			
Volume Traded (Mn)	5,425	LTM Average Volume Traded (Mn)	7,093
Value Traded (USD Mn)	9,417	LTM Average Value Traded (USD Mn)	12,222
Top 5 Concentration Market Cap (%)	34	Top 5 Concentration Market Volume (%)	27

Source: Respective Stock Exchange, Markaz Research

Kuwait reported a monthly loss of 3.1% in July, after seven consecutive monthly gains

The Kuwaiti market declined 3.1% on a MoM basis; however, on a YTD basis, it gained 19.3%. The heavyweight stocks demonstrated mixed trend during the month. None of the Kuwaiti indices posted gains in July. Volume declined from 8,646 Mn in June to 5,425 Mn in July; however, the

contribution of top five companies (in terms of volume) expanded to 27% from 23% in June. The value traded decreased from USD14.9 Bn in June to USD9.4 Bn in July (Table 8).

Among blue-chips, Mobile Telecommunications Company (ZAIN)'s net profit decreased 0.6% y-o-y to KD147.9 Mn in H1 2008. In July, ZAIN won government approval for a USD4.5-Bn capital hike to finance its foreign expansion initiatives. ZAIN expects to provide coverage to 85% of Ghana within one year of operation. However, the stock ended flat during the month. Kuwait Finance House (KFH)'s net profit surged 35% y-o-y to KD157.3 Mn in H1 2008. KFH, along with a group of private investors, intends to build an AED11.7-Bn master planned city, Diyar Al Muharraq, on a reclaimed island city in Bahrain. The company's stock price appreciated 0.7%. National Bank of Kuwait (NBK)'s stock price rose 2.2% after its net profit grew 21.3% to KD175.1 Mn in H1 2008. The Public Warehousing Co (AGLTY) increased its stake in CF Geologistics, a Danish freight forwarder, to 100% from 29%. The US Defense Energy Support Center awarded four five-year fuel-management contracts, worth USD8.6 Mn, to a JV led by Agility Defense & Government Services. AGLTY also purchased a stake in an Indian engineering company, Bumi Geo Engineering Private Limited, for USD9.4 Mn. However, the company's stock price declined 5.0%. National Industries Group's stock price plummeted 7.4% during the month as against a gain of 6.3% in June.

In July, NBK's stock price rose 2.2% as net profit grew by 21.3%

UAE

Table 9: UAE Key Market Statistics

Key Statistics (July 2008)			
Volume Traded (Mn)	10,788	LTM Average Volume Traded (Mn)	11,805
Value Traded (USD Mn)	13,252	LTM Average Value Traded (USD Mn)	13,950
Top 5 Concentration Market Cap(%)	47	Top 5 Concentration Market Volume (%)	67

Source: Respective Stock Exchange, Markaz Research

The UAE markets witnessed increased volatility with low trading volume in the month of July. The ADSMI gained 0.5%, while DFM fell 0.7%. Most of the DFM indices were in red, except for Banking, and Real Estate & Construction indices, which gained 0.2% and 0.1%, respectively. The Insurance index plunged 2.8% during the month. For ADSMI, the Industrial and Insurance indices lost 2.3% each, while the Energy index gained 5.6%. Weakness in the Dubai market persisted as earnings of blue-chip stocks failed to attract investors. Concentration of the top five companies (in terms of volume) increased to 67% in July from 60% in June, while that in terms of market cap remained constant at 47% (Table 9).

UAE Index posted moderate gains of 0.3% in July as against a loss of 1.6% in June

Table 10: Dubai Financial Market - FII and Institutional Investors Statistics

	Foreign Institutional Investors (in AED Bn)			Institutional Investors (in AED Bn)		
	Buy	Sell	Net Sell	Buy	Sell	Net Sell
June-08	10.56	11.60	1.04	9.20	9.93	0.73
July-08	6.44	7.67	1.23	5.92	6.63	0.71

Source: Gulfbase

In July, Net sell position of Foreign Institutional Investors stood at approx. AED1.23 Bn

In terms of market activity, the Foreign Institutional Investors (FII) were more active than Dubai based institutional investors for the month of June and July. Foreign Investors bought approximately AED10.6 Bn in June as compared to AED6.4 Bn in July (Table 10). Institutional investors purchased AED5.9 Bn and sold AED6.3 Bn in June. However, foreign investors were net sellers in both the months mainly due to volatile geopolitical situation in the Gulf region. Foreign investors offloaded approximately AED11.6 Bn and AED7.7 Bn in June and July, respectively. Net sell position of the FIIs in the market reached approximately AED1,038 Mn in June, whereas in July the value increased to AED1,225 Mn. Institutional Investors also reported net sell position worth AED729 Mn and AED714 Mn, in June and July, respectively.

Heavyweight Emirates Telecommunications Corp (ETISALAT)'s net profit surged 37% y-o-y to AED5.1 Bn in H1 2008. The stock price appreciated 1.5% during the month. Emaar Properties Co (EMAAR)'s net profit increased 1% to AED3.3 Bn in H1 2008. Emaar plans to invest USD150 Mn through Emaar MGF for 20–25% stake in each of the three real estate development projects in India. However, Emaar Properties's stock price declined 3.2% in July. National Bank of Abu Dhabi (NBAD)'s stock price rose 1.9% after its net profit grew 58.3% y-o-y to AED1.9 Bn in H1 2008. DFM also signed a Depository Participant Agreement with NBAD to provide securities services to local and international investors in DFM. Dubai Islamic Bank (DIB)'s net profit grew 47% y-o-y to AED1.3 Bn in H1 2008, thereby increasing the stock price by 1.0%. Emirates NBD (ENBD)'s net profit totaled AED2.7 Bn, up 41% y-o-y in H1 2008. However, the stock price declined 1.7%. ENBD received approval from the Central Bank to set up a consumer finance company, Emirates Money Consumer Finance, and offer various loan products.

Qatar

Table 11: Qatar Key Market Statistics

Key Statistics (July 2008)			
Volume Traded (Mn)	244	LTM Average Volume Traded (Mn)	342
Value Traded (USD Mn)	3,462	LTM Average Value Traded (USD Mn)	3,987
Top 5 Concentration Market Cap(%)	51	Top 5 Concentration Market Volume (%)	52

Source: Respective Stock Exchange, Markaz Research

Qatari markets declined 1.9%, the second consecutive monthly loss in July

Qatari markets lost 1.9% largely due to the Services and Banking indices declining 4.8% and 2.7%, respectively, during the month. The markets were expected to move positively in the beginning of the month due to growing investor confidence driven by good corporate earnings. However, the DSM index witnessed a decline as foreign investors moved away from markets due to political tensions arising from Iran's missile tests. The decline in trading activity also led to a decrease in total volume traded to 244 Mn in July from 520 Mn in June. Concentration of top five companies (in terms of market capitalization) remained constant at 51% (Table 11).

Among heavyweights, Industries Qatar's stock price increased 3.0% in July as against a loss of 1.6% in June. Qatar National Bank (QNBK)'s net profit grew 54.4% y-o-y to QR1.9 Bn in H1 2008. QNBK also plans to expand in Sudan, Mauritania, Syria and Geneva in 2008. Furthermore, the bank intends to enhance project financing to other markets in GCC, the Middle

In H1 2008, Qatari Islamic Bank posted a net profit growth of 70.2% to QR852.5 Mn

East and Africa. Consequently, QNBK's stock price gained 1.9% during the month. Qatar's Ministry of Communications and Information restricted Qatar Telecommunications (QTEL)'s purchase of a 49% stake in Indonesian cellular provider, PT Indosat. As a result, its stock price declined 11.1% during the month. Despite Qatar Islamic Bank's net profit growing 70.2% y-o-y to QR853.5 Mn in H1 2008, the stock price plunged 2.7%. Commercial Bank of Qatar (CBQK)'s net profit increased 60% y-o-y to QR1 Bn in H1 2008. CBQK listed its global depository receipts (GDRs) on the London Stock Exchange to raise USD900 Mn through 24 Mn ordinary shares. However, the stock recorded a monthly loss of 7.6% in July.

Oman

Table 12: Oman Key Market Statistics

Key Statistics (July 2008)			
Volume Traded (Mn)	270	LTM Average Volume Traded (Mn)	432
Value Traded (USD Mn)	627	LTM Average Value Traded (USD Mn)	796
Top 5 Concentration Market Cap(%)	49	Top 5 Concentration Market Volume (%)	34

Source: Respective Stock Exchange, Markaz Research

Omani indices ended the month deep in negative territory. The MSM fell 5.2% in line with losses in the Banking & Investment (7.7%), and Industrial (5.7%) indices. Services & Insurance index (-2.0%) was the least affected as the Capital Market Authority released its fourth Insurance Market Review on Oman. The statistics revealed 14.6% y-o-y increase in direct premium income in 2007. Significant selling pressure in heavyweight stocks due to massive selling by foreign institutions was the prime reason for the downfall of the Omani market. The average LTM volume of trades increased to 432 Mn in July from 428 Mn in June, while average LTM value traded increased to USD796 Mn in July from USD767 Mn in the previous month (Table 12).

The heavyweights posted significant losses in the month of July. Bank Muscat (BKMB) declined 8.7% despite posting 43.7% y-o-y growth in net profit to RO57.8 Mn in H1 2008. The Oman government plans to sell its 25% stake in Oman Telecommunications (OTEL) before the end of 2008. OTEL also signed an agreement with the Middle East and North Africa Company of Egypt to install an 8000-km submarine fiber optics cable to enhance international telecommunications traffic between the country and rest of the world. The stock appreciated 2.3% in July. National Bank of Oman (NBOB)'s net profit increased 18% y-o-y to RO22.6 Mn in H1 2008. However, the stock recorded a loss of 14.6% during the month. Raysut Cement Co (RCCI)'s net profit totaled RO20.5 Mn, up 63.3% y-o-y in H1 2008. However, the stock price declined 9.2%. Bank Dhofar's stock price plunged 15.4% during the month.

Oman's MSM lost 5.2% during the month owing to selling pressure in heavyweight stocks

Bahrain

Table 13: Bahrain Key Market Statistics

Key Statistics (July 2008)			
Volume Traded (Mn)	96	LTM Average Volume Traded (Mn)	132
Value Traded (USD Mn)	99	LTM Average Value Traded (USD Mn)	161
Top 5 Concentration Market Cap(%)	58	Top 5 Concentration Market Volume (%)	79

Source: Respective Stock Exchange, Markaz Research

The Bahraini market fell 2.2% in July and recorded YTD gains of 1.5%

The Bahraini market dipped 2.2% in July, with only Hotel & Tourism index posting gains of 3.0%. The poor performance demonstrated by the Investment (-3.0%) and Services (-5.5%) indices dragged the markets into negative territory. As investors resorted to profit booking, selling pressure mounted, thereby leading to a decline in the market. Concentration of the top five companies (in terms of volume) remained the same at 79%. In terms of market capitalization, the concentration reduced to 58% in July from 60% in June. The LTM average volume traded increased to 132 Mn in July from 131 Mn in June (Table 13).

The heavyweight stocks recorded significant losses during the month. However, Al Ahli United Bank (AUB)'s stock ended flat. In H1 2008, AUB's net profit grew 40.5% y-o-y to USD211.7 Mn. Gulf Finance House (GFH)'s net profit increased 51% y-o-y to USD220.3 Mn in H1 2008. GFH also plans to set up HadeedMENA, a USD5-Bn steel firm, by partnering with Emirates International Investment Company, Khaleej Development Company, Q-Invest, and First Energy Bank. However, GFH's stock price declined 3.9%. Bahrain Telecommunications (BATELCO) recorded 2.8% rise in net profit to BD50.8 Mn in H1 2008. However, its stock price tumbled 8.3%. Arab Banking Corporation's stock price declined 4.9% during the month. National Bank of Bahrain (NBB)'s net profit rose 13.4% y-o-y to BD25.6 Mn in H1 2008. The stock price decreased 1.2%.

Appendix 1: Model Performance – Historical

Monthly performance (%)													
SAA													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2002	2.03	(0.43)	3.03	10.65	2.09	(1.43)	(0.30)	(0.07)	(3.35)	(0.22)	(1.05)	3.73	14.93
2003	4.16	(0.79)	6.46	8.80	6.65	6.10	6.98	6.51	3.86	(2.27)	4.62	3.53	69.69
2004	4.36	4.46	4.19	4.93	2.63	1.60	6.46	2.97	3.81	6.87	10.57	1.76	70.09
2005	2.10	10.68	17.61	8.07	1.93	11.47	(5.14)	14.01	3.90	3.35	3.82	0.88	98.49
2006	7.32	1.10	(10.50)	(16.18)	(15.01)	11.48	(13.39)	3.56	0.52	(8.47)	(12.36)	(0.48)	(44.49)
2007	(8.11)	11.75	(1.53)	(2.19)	6.44	(2.83)	5.04	4.59	(0.38)	8.03	5.15	13.61	44.48
2008	(8.57)	6.46	(8.78)	9.54	(3.62)	(0.73)	(4.44)						(11.08)
TAA - Momentum													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year End
2002	2.03	(0.61)	2.87	13.39	2.48	(1.01)	0.44	0.46	(3.87)	(0.68)	1.65	3.44	21.56
2003	5.44	(1.05)	5.91	10.96	7.90	7.43	8.85	7.87	4.10	(2.21)	3.54	4.39	83.61
2004	5.11	5.36	6.40	6.65	2.97	2.45	7.08	3.50	4.37	8.68	13.17	2.05	92.43
2005	2.77	12.63	21.05	9.61	2.72	12.72	(6.25)	10.03	4.65	3.54	5.67	2.03	114.27
2006	11.54	3.02	(13.84)	(12.25)	(10.44)	9.27	(18.01)	2.62	0.72	(7.72)	(9.09)	(0.30)	(39.74)
2007	(4.37)	7.61	(1.39)	(0.14)	9.01	(2.77)	4.05	6.07	(1.35)	6.80	8.90	18.32	60.91
2008	(10.57)	5.07	(10.61)	7.63	(4.62)	(0.72)	(4.21)						(17.99)
TAA - Mean reversion													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year End
2002	2.03	(0.25)	3.18	7.91	1.70	(1.85)	(1.05)	(0.60)	(2.83)	0.25	(3.76)	4.01	8.50
2003	3.46	(0.52)	7.02	6.64	5.41	4.77	5.12	5.16	3.62	(2.33)	5.71	2.66	57.47
2004	3.62	3.56	1.99	3.22	2.30	0.75	5.85	2.44	3.26	5.07	7.98	1.47	50.06
2005	1.43	8.72	14.17	6.54	1.13	10.22	(4.04)	17.99	3.16	3.16	1.98	(0.27)	83.23
2006	3.09	(0.83)	(7.15)	(20.11)	(19.58)	13.69	(8.77)	4.49	0.32	(9.22)	(15.63)	(0.65)	(49.54)
2007	(11.84)	15.89	(1.67)	(4.23)	3.86	(2.90)	6.02	3.12	0.60	9.25	1.40	8.89	28.74
2008	(6.57)	7.85	(6.94)	11.45	(2.62)	(0.75)	(4.68)						(3.72)
TAA - Risk													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year End
2002	2.12	(0.42)	2.22	6.32	2.39	(0.19)	0.87	1.05	(3.31)	0.49	0.60	2.55	15.39
2003	3.00	(0.52)	3.82	6.42	3.75	4.67	5.89	4.42	3.11	(0.66)	3.50	2.32	47.46
2004	3.28	3.92	3.45	3.91	2.21	2.04	4.97	2.73	3.06	3.87	7.85	2.97	54.25
2005	2.49	8.11	14.40	6.68	0.74	9.04	(3.16)	10.69	3.48	2.68	2.93	(0.08)	74.00
2006	4.53	(0.29)	(7.64)	(8.98)	(10.00)	6.65	(8.08)	3.34	0.60	(3.90)	(9.88)	1.36	(29.45)
2007	(4.76)	7.75	(0.80)	(0.12)	7.14	(1.53)	3.50	2.84	0.63	8.02	2.74	9.28	39.35
2008	(4.12)	5.35	(6.40)	8.06	(1.71)	(0.40)	(2.92)						(2.91)

Source: Markaz Research

Appendix 2: Volatility Model Performance – Historical

Table 1: Markaz Volatility Index (MVX)¹

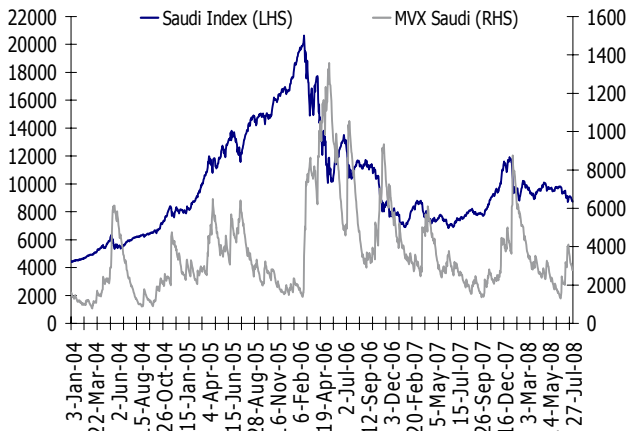
	Current Value 31-Jul-08	Historic High	Historic High Date	Historic Low	Historic Low Date	120-D Moving Average
MVX-Saudi Arabia	2,775	13,578	16-May-06	781	17-Mar-04	2,956
MVX-Kuwait	812	4,689	18-Mar-06	484	24-Oct-07	887
MVX-Qatar	1,743	7,448	12-May-05	581	8-Nov-04	2,417
MVX-Dubai	2,296	11,287	19-Mar-06	678	30-Aug-04	2,564
MVX-Abu Dhabi	1,433	8,084	9-May-05	376	29-Mar-04	1,827
MVX-Oman	3,196	5,401	23-Jan-08	299	7-Sep-04	1,918
MVX-Bahrain	545	2,497	20-Nov-05	291	29-Dec-04	805
MVX-GCC	1,232	10,374	16-May-06	513	28-Sep-07	1,211
MVX-EM	1,982	3,798	20-Aug-07	583	8-Jul-05	1,924
MVX-S&P500	2,231	3,290	20-Mar-08	412	19-Jan-07	1,992
MVX India	3,401	5,076	18-May-04	612	7-Dec-06	2,441
MVX China	2,653	5,039	24-Apr-08	686	28-Dec-05	3,509

Source: Markaz Analysis

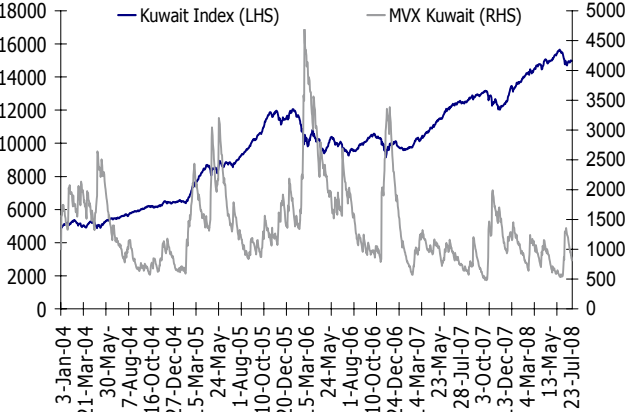
¹ Base Date Index 1000 as of 1st Jan 2004

Markaz Volatility Index (MVX)-Country Charts (Until July 2008)

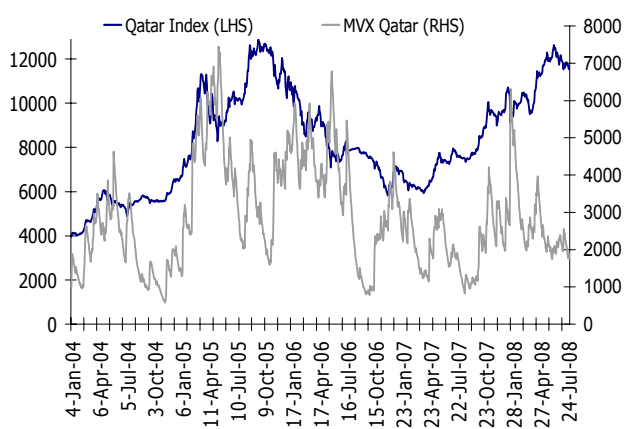
Saudi Arabia



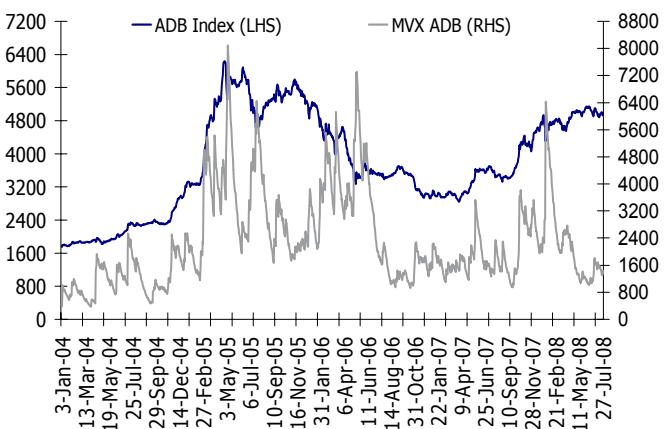
Kuwait



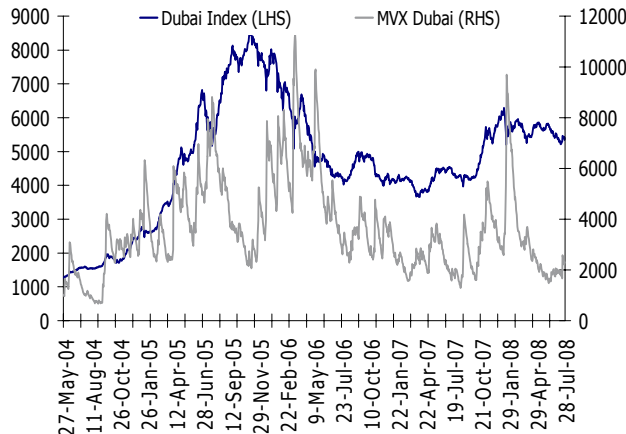
Qatar



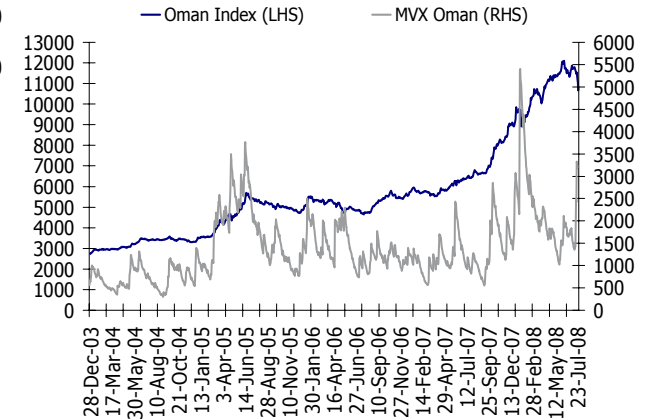
Abu Dhabi



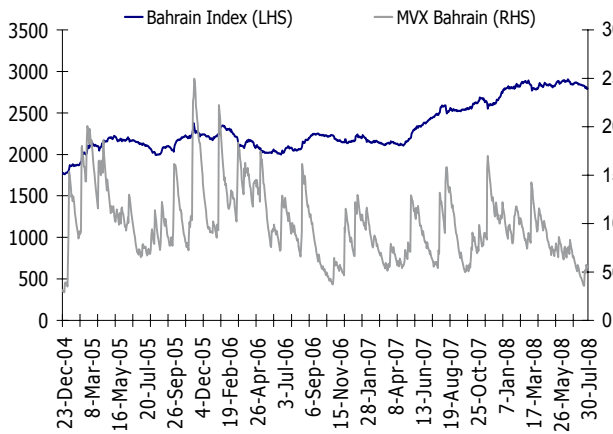
Dubai



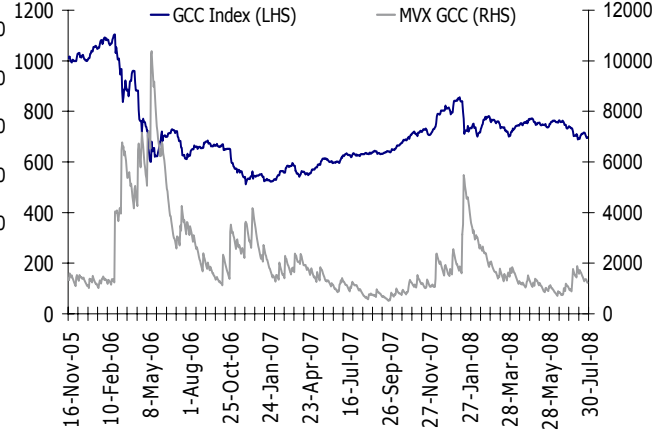
Oman



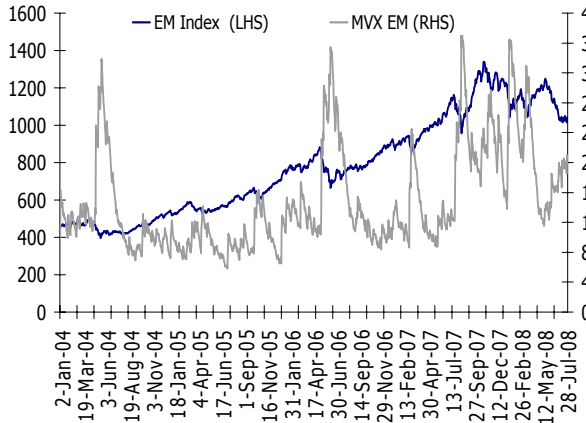
Bahrain



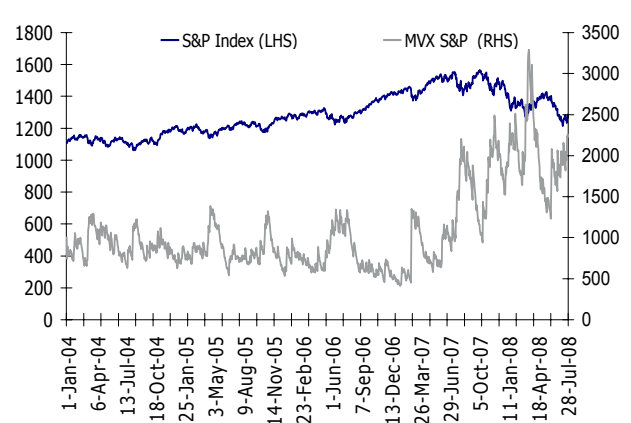
GCC



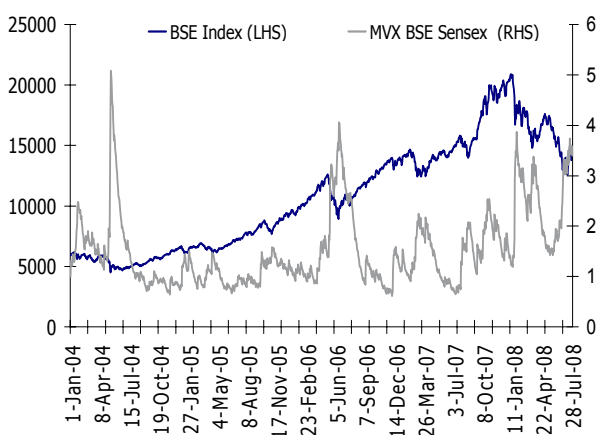
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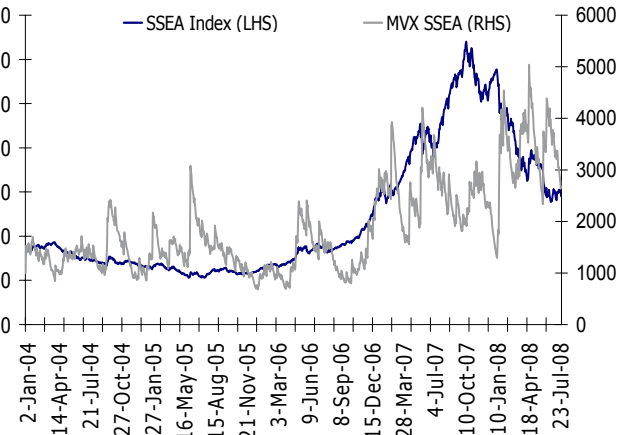
S&P500



India

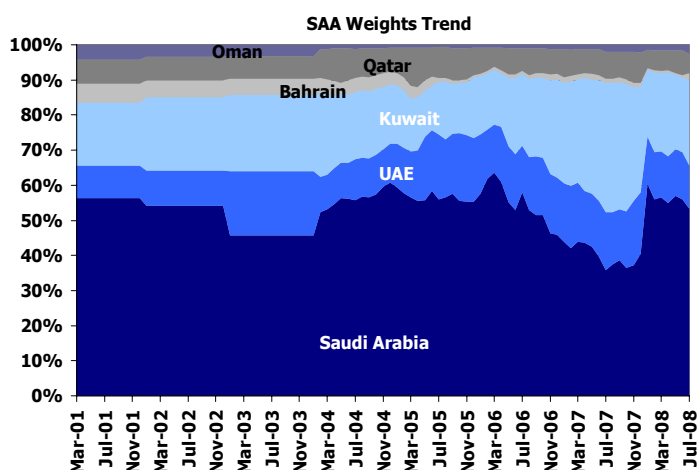
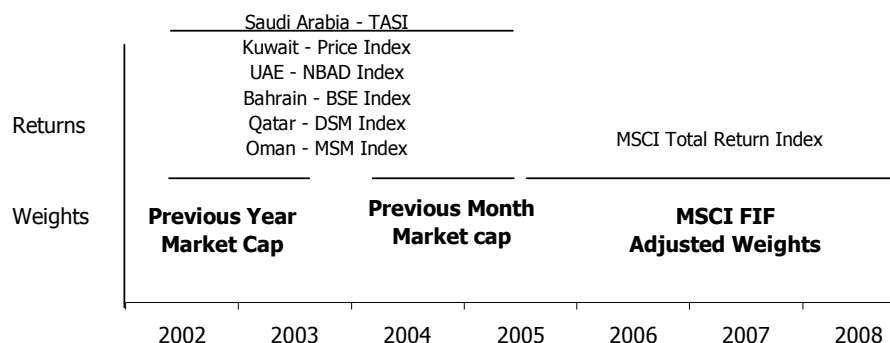


China



Appendix 3: Methodology – Asset Allocation

Strategic Asset Allocation (SAA): SAA refers to long-term policy allocation. This is a benchmark portfolio constituted based on monthly weights derived from average market capitalization of respective stock markets. SAA can be useful to investors when it is difficult to determine market direction. Our SAA is as provided below:



Tactical Asset Allocation (TAA): TAA refers to short-term changes made to SAA in order to derive return in excess of SAA. In other words, TAA assumes that we have views (positive or negative) on the respective markets and these are expressed either as underweight or overweight to the SAA. For e.g. the strategic allocation to Saudi Arabia is 56%. In a particular month, we may be bullish on Saudi Arabia and may want to increase the weight (overweight) to 70%. The stress is on short-term performance, which leaves investors' long-term risk tolerances and preferences unaffected. Our proprietary algorithm model tactically underweight and overweight GCC markets based on this trend. The nature of the movement of weights under various strategies is as provided in the table below:

S No	Strategy	Overweight If	Underweight If	No change If
1	SAA	MSCI FIF Adjusted Weight Increases	MSCI FIF Adjusted Weight Decreases	MSCI FIF Adjusted Weight remains stable
2	Momentum	markets go up	markets go down	Markets remain stable
3	Mean Reversion	markets go down	markets go up	Markets remain stable
4	Risk	volatility goes down	volatility goes up	Volatility Remains stable

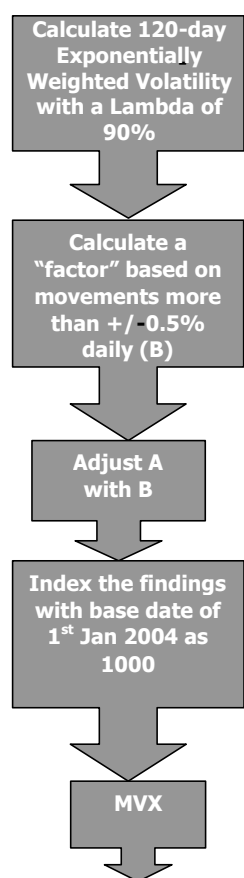
Range: Changes to TAA can be made subject to certain limits on upper and lower levels. The limits are put in place to ensure that no drastic action is incorporated in the model. It is also a tool to contain the risk of the model. Presently, the limit is set to +/- 50%. The various limits (max and min) are detailed below for various strategies:

Strategies	Decision Characteristics		
	Min	Max	Neutral/Spot
Momentum	50% of SAA	150% of SAA	SAA
Mean Reversion	50% of SAA	150% of SAA	SAA
Risk Based	50% of SAA	150% of SAA	SD Weight

Leverage/Cash Level: Our proprietary model is tuned to restrict leverage/cash level of the portfolio to a limit of +/- 20%.

Appendix 4: Methodology – Markaz Volatility Index

Markaz Volatility Index (MVX) follows the following steps for its calculation.



- The MVX has a base date of 1 Jan 2004, for all the indices which have data from 1st Jan 2004. The average of the below mentioned parameters for all the countries is taken as the base value and converted into 1000.
- MVX is calculated based on Exponentially Weighted Moving Average (EWMA) for a period of 120-days Using EWMA provides more weight to recent volatility than historic. MVX also considers a second parameter i.e., the number of days during the previous 120 trading days where index trades outside a pre-set level. Presently, this level is +/-0.5% based on historic relationships (refer table below).
- Any movement outside this band indicates heightened level of volatility.
- The second parameter is reinforcement to the first parameter and may be influenced by the first parameter. However, since the methodology is uniformly applied across all the markets, the model is strengthened by the second parameter.

% Number of days of deviation (Updated July '08)										
	Saudi Arabia	Kuwait	Qatar	Oman	Dubai	Abu Dhabi	Bahrain	MSCI EM	S&P	GCC
Less than +/-0.25%	18	33	25	36	16	25	45	24	32	27
+/-0.25% & +/-0.50%	16	25	17	23	17	19	26	21	22	21
+/-0.50% & +/-0.75%	11	18	12	14	13	15	12	18	14	15
+/-0.75% & +/-1.00%	11	12	10	10	9	10	8	11	11	12
+/-1.00% & +/-1.25%	10	5	7	8	10	8	3	7	7	7
+/-1.25% & +/-1.50%	6	3	5	2	7	5	2	7	4	5
+/-1.50% & +/-1.75%	5	2	4	2	7	4	1	3	4	2
+/-1.75% & +/-2.00%	3	1	3	2	3	3	0	2	1	1
+/-2.00%	20	2	16	3	19	10	2	7	4	7
Total	100	100	100	100	100	100	100	100	100	100

Note: Timeline observation - 30 Jun 04 - 30 July 08

Source: Markaz Research.

Note: Indices used - Saudi Arabia: TASI, Kuwait – Price Index, Qatar – Doha Market Index, Oman – Muscat SM Index, Abu Dhabi – ADI Index, Dubai – DFM Index, Bahrain – BAX Index, EM – MSCI EM, S&P – S&P 500 Index & GCC – MSCI GCC Index

Appendix 5: GCC Stock Market Returns – Monthly Performance

Saudi Arabia														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	\$1
2000	-1.88%	1.12%	-1.25%	1.55%	-0.16%	3.25%	4.19%	8.10%	1.12%	-2.30%	-1.75%	-0.72%	11.33%	1.11
2001	0.24%	-0.08%	-0.26%	0.40%	3.86%	3.70%	1.64%	5.06%	-11.27%	2.74%	-0.61%	2.96%	7.61%	1.20
2002	1.07%	-0.38%	2.69%	15.40%	-0.32%	-4.44%	-1.94%	-1.54%	-0.45%	-2.41%	-6.46%	3.92%	3.62%	1.24
2003	5.00%	-2.81%	8.14%	5.26%	10.30%	11.97%	8.16%	9.29%	0.14%	-6.37%	6.54%	4.03%	76.23%	2.19
2004	3.31%	4.99%	7.68%	5.84%	3.23%	0.88%	7.85%	2.12%	4.80%	11.61%	13.18%	-1.48%	84.93%	4.05
2005	0.31%	10.50%	15.42%	7.12%	6.87%	11.94%	-1.98%	12.65%	1.20%	3.86%	4.45%	2.46%	103.66%	8.24
2006	12.54%	3.70%	-12.52%	-23.55%	-14.12%	17.35%	-17.48%	2.43%	2.68%	-14.83%	-14.34%	-4.70%	-52.53%	3.91
2007	-11.06%	17.34%	-6.61%	-3.28%	0.32%	-7.04%	7.20%	9.54%	-4.58%	8.52%	10.74%	17.56%	39.14%	5.44
2008	-13.40%	6.13%	-11.37%	11.94%	-5.33%	-1.86%	-6.54%						-20.82%	4.31
Kuwait														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	\$1
2000	-0.99%	-1.20%	-0.88%	0.53%	4.92%	-1.32%	-2.81%	-1.60%	5.35%	-1.85%	-4.10%	-0.50%	-4.77%	0.95
2001	-0.01%	3.02%	5.32%	2.61%	5.60%	6.98%	0.43%	5.97%	-10.79%	3.74%	-0.18%	3.18%	27.57%	1.21
2002	2.72%	0.47%	5.88%	8.84%	6.12%	3.16%	-1.16%	-1.40%	-8.41%	3.70%	8.61%	6.15%	38.96%	1.69
2003	5.17%	3.51%	11.13%	20.25%	8.12%	-3.90%	3.12%	6.50%	10.57%	0.64%	3.07%	5.94%	101.67%	3.40
2004	7.29%	1.56%	-5.21%	2.07%	4.60%	3.29%	4.09%	3.97%	2.71%	1.04%	3.90%	0.67%	33.80%	4.56
2005	1.52%	3.61%	16.73%	9.94%	-4.06%	6.16%	1.84%	7.46%	6.13%	12.09%	3.47%	-3.57%	78.56%	8.13
2006	3.59%	-2.64%	-14.26%	3.42%	-3.07%	0.82%	-5.75%	2.58%	5.20%	2.88%	-6.79%	3.20%	-12.04%	7.15
2007	-3.53%	0.42%	4.81%	4.78%	7.27%	5.59%	3.45%	1.08%	1.28%	-0.64%	-5.60%	4.21%	24.75%	8.93
2008	7.49%	3.78%	1.99%	2.82%	2.20%	2.94%	-3.10%						19.26%	10.64
Qatar														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	\$1
2000	-10.06%	-2.73%	2.61%	2.53%	-0.33%	0.20%	2.16%	-0.50%	-2.19%	-1.75%	2.38%	0.03%	-8.03%	0.92
2001	-2.20%	-2.95%	1.45%	3.67%	14.89%	-3.05%	3.15%	4.45%	-2.04%	2.63%	9.55%	4.00%	37.21%	1.26
2002	-1.44%	-0.32%	1.69%	7.29%	10.85%	3.81%	8.46%	7.79%	-8.30%	2.28%	-0.02%	1.55%	37.33%	1.73
2003	6.76%	-1.72%	5.93%	10.56%	-0.97%	12.79%	9.72%	8.03%	-6.35%	2.98%	8.92%	-0.62%	69.84%	2.94
2004	3.03%	14.88%	16.34%	10.70%	-7.47%	-5.25%	3.94%	5.22%	-3.54%	0.15%	6.67%	9.23%	64.53%	4.84
2005	11.95%	29.64%	18.29%	-15.78%	-3.31%	15.49%	-3.16%	20.22%	2.51%	-0.53%	-12.07%	1.00%	70.21%	8.24
2006	-4.77%	-18.30%	3.94%	0.28%	-14.96%	0.07%	3.63%	-2.22%	-2.73%	-4.43%	-17.14%	19.79%	-35.47%	5.32
2007	-9.80%	-2.00%	-4.04%	7.70%	12.15%	0.57%	3.66%	-1.76%	8.19%	16.31%	-0.58%	2.32%	34.31%	7.14
2008	-0.99%	10.41%	-8.76%	18.15%	5.28%	-0.18%	-1.94%						21.43%	8.68
UAE														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	\$1
2000	-1.8%	-4.3%	4.8%	-0.6%	-1.05%	-6.5%	-2.5%	-0.7%	0.2%	-3.6%	-1.3%	-2.3%	-18.32%	0.82
2001	5.97%	-1.53%	0.30%	-0.67%	0.11%	-2.01%	-1.40%	1.61%	1.97%	1.41%	8.32%	7.97%	23.56%	1.01
2002	6.27%	-0.16%	-1.19%	-0.79%	-0.25%	0.93%	2.82%	5.98%	-4.81%	1.35%	2.49%	1.49%	14.51%	1.16
2003	1.23%	-0.08%	-0.73%	5.19%	-0.50%	1.63%	9.48%	1.51%	7.90%	-0.07%	1.55%	1.63%	32.08%	1.53
2004	4.89%	1.98%	-0.89%	1.53%	4.86%	8.09%	7.50%	1.96%	6.25%	-1.33%	14.96%	16.93%	88.41%	2.88
2005	4.57%	9.50%	31.54%	29.23%	-5.96%	14.04%	-19.25%	19.26%	7.42%	1.73%	-4.73%	-3.04%	102.94%	5.84
2006	-8.99%	-2.63%	-2.04%	-16.50%	-5.46%	-4.74%	-2.41%	9.72%	-1.57%	-3.75%	-12.49%	3.05%	-40.28%	3.49
2007	1.55%	1.35%	-8.84%	3.38%	14.55%	-1.07%	-3.48%	-0.96%	1.49%	20.21%	-5.05%	9.77%	33.61%	4.66
2008	-1.65%	3.33%	-5.86%	7.61%	-1.24%	-1.63%	0.28%						0.29%	4.67
Oman														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	\$1
2000	-5.80%	-4.28%	8.28%	-3.18%	-9.30%	-1.78%	-3.43%	-4.97%	0.44%	-7.01%	15.52%	-3.59%	-19.61%	0.80
2001	-3.61%	0.48%	-4.43%	-7.80%	-3.37%	-0.05%	3.53%	1.64%	-4.23%	-3.04%	-3.07%	-3.18%	-24.41%	0.61
2002	5.84%	-2.11%	5.18%	1.06%	8.65%	1.83%	1.39%	-2.55%	-1.60%	-0.20%	3.99%	2.62%	26.16%	0.77
2003	1.96%	-0.80%	3.84%	8.01%	4.70%	4.58%	4.16%	1.01%	2.71%	3.08%	1.88%	0.82%	42.12%	1.09
2004	6.83%	1.58%	0.11%	3.39%	4.78%	7.76%	-0.51%	-0.76%	2.30%	-1.37%	-1.53%	-0.51%	23.78%	1.35
2005	5.87%	1.72%	17.63%	9.34%	6.89%	9.08%	-1.75%	-3.03%	-2.26%	-1.80%	-2.96%	0.79%	44.45%	1.95
2006	11.72%	-3.33%	1.34%	-5.18%	-2.81%	-1.11%	-2.77%	7.66%	7.01%	5.60%	-4.94%	2.10%	14.49%	2.23
2007	3.38%	0.05%	-3.86%	4.41%	7.02%	2.20%	1.38%	3.48%	5.05%	14.81%	5.26%	7.02%	61.88%	3.61
2008	1.51%	12.98%	-2.51%	10.96%	3.07%	-2.00%	-5.17%						18.82%	4.29
Bahrain														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	\$1
2001	-4.02%	-7.99%	3.02%	4.13%	0.61%	0.33%	-1.68%	7.91%	-8.77%	5.68%	0.64%	-0.90%	-2.45%	0.98
2002	3.12%	-4.34%	3.60%	0.59%	0.05%	-1.90%	1.99%	0.37%	-5.21%	0.68%	5.41%	-0.47%	3.41%	1.01
2003	0.52%	-2.59%	-1.24%	2.02%	3.91%	4.62%	1.92%	0.54%	8.13%	4.80%	1.06%	2.35%	28.81%	1.30
2004	-0.91%	0.33%	-0.49%	3.27%	3.48%	0.15%	2.74%	10.04%	3.81%	4.47%	-0.38%	1.15%	30.82%	1.70
2005	5.48%	7.82%	3.02%	6.30%	-1.66%	-1.13%	-3.04%	-0.25%	1.66%	3.97%	1.98%	-1.94%	23.80%	2.10
2006	6.76%	-3.35%	-6.55%	-0.33%	-3.99%	1.00%	0.58%	6.76%	1.70%	-0.17%	-2.25%	1.70%	0.99%	2.13
2007	-2.95%	-0.36%	0.73%	-2.46%	9.69%	4.26%	6.67%	-1.61%	0.61%	4.11%	-1.98%	6.14%	24.25%	2.64
2008	1.66%	2.85%	-3.16%	1.85%	1.14%	-0.52%	-2.21%						1.47%	2.68

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