

## **Alkhabeer Capital releases 2016 Q2 Economic Update**

- **Uncertainty persists in Europe following the UK's 'Brexit' referendum, impacting global markets across all asset classes**
- **Despite a decline in property transaction volumes since the 23 June vote, prices could still move positively amid profound housing shortage**
- **Outlook for interest rates in the US dimmed following weaker jobs report**
- **Commodities show faint signs of recovery as oil prices nudge just under US\$50**

**Jeddah, Saudi Arabia – 20 September 2016:** Alkhabeer Capital, the asset management and investment firm based in Jeddah, Saudi Arabia, released its 2016 Second Quarter Update report. Recapping major developments impacting major global and regional markets, the report benchmarks sector performance while identifying future trends and potential opportunities in the months ahead. The report provides Alkhabeer's insights into the world's key financial markets, including a number of asset classes spanning equities, fixed income, currencies and commodities.

The United Kingdom's decision to suspend its 43-year-long membership in the European Union, which left markets reeling across the globe. Despite a continued slide in the value of the British Pound, there are signs of stability as the new government, led by recently named Prime Minister Theresa May, assesses the UK's post-'Brexit' options.

"The turmoil fueled by UK's vote to leave the European Union engulfed financial markets in the second quarter and darkened the outlook for the global economy," according to the report. "The decision took investors by surprise and has ushered in a period of further uncertainty for Britain's economic outlook and its political future. The fallout from the Brexit vote caused investors to take refuge in safe haven assets such as government debt, the Japanese Yen and precious metals."

Volatility in global financial markets will persist, Alkhabeer predicts, as the UK formulates its exit plan out of the EU. Some of the firms have already announced relocating some of their UK-based operations to other locations; simultaneously, the country's trade flows are also expected to negatively impacted over the short to medium term. While the implications of the UK's vote to leave the EU will obviously be felt most acutely on the European side of the Atlantic, sentiment in the US and beyond will also be affected with potential deferment or diversion of investments into the region until a sense of certainty returns.

There are glimmers of positivity, with data from the Royal Institute of Chartered Surveyors suggesting that, despite a decline in property transaction volumes since the 23 June vote, prices could still move

positively amid a profound housing shortage. The number of people claiming jobless benefits also dropped over the past month, signaling that the labor market has weathered the initial wave of uncertainty and depicts resilience.

In addition to concerns surrounding the impact of the Brexit vote, Alkhabeer explains, a weaker jobs report in the United States has subdued the outlook for interest rates increase. Additionally, key global economies continue to face challenges in sparking price growth. Consumer prices in the Eurozone remained negative before seeing a slight uptick in June, while Japan's efforts to spur price growth have proved futile.

Closer to home, Gulf countries continue to contend with weak oil prices, and began introducing reforms and new measures to diversify government revenue streams, such as the GCC-wide Value Added Tax that is set to come into effect by 2018. Also in a bid to meet budgetary shortfalls, many Gulf countries have increased their debt levels, with the UAE, Qatar and Saudi Arabia raising a combined US\$24 billion just since late April.

Saudi Arabia's diversification plans, Vision 2030 and the National Transformation Plan 2020, drew significant attention as stakeholders assessed potential opportunities for the public and private sector. The Kingdom also announced the implementation of 2.5% tax on the value of any white land, undeveloped residential and commercial plots within urban boundaries.

The World Bank this quarter lowered its 2016 growth forecast for the GCC nations to 2.0%, the slowest pace since 2009 and compared to a 2.9% growth in 2015. Nevertheless, the reforms initiated by the GCC nations are likely to help these economies to realign their strategies to ease their dependence on hydrocarbons. The increase in debt levels and lower oil revenues resulted in many rating agencies downgrading their outlook and ratings for many GCC countries.

Analyzing separate asset classes, Alkhabeer highlights that while global equity markets staged a significant rally at the beginning of the quarter, these gains quickly dissipated and ended in negative territory before the end of the second quarter, after the UK's vote to leave the EU. Investors reduced their exposure to riskier assets and flocked to safe haven assets, causing a large outflow of funds from equity markets.

GCC bourses finished mixed for the quarter, as investors weighed the impact of the rally in oil prices and rising interest rates on corporate performance. Equity markets in Saudi Arabia, Kuwait, Oman and Abu Dhabi ended in the green, while indices in Qatar, Bahrain and Dubai nudged lower for the quarter.



Alongside other global equity markets, the Gulf exchanges witnessed a selloff near the end of the quarter, in the immediate aftermath of the UK's secession vote.

Sovereign bond markets across the globe also rallied this quarter, with yields on fixed income securities in advanced economies falling sharply amid a weakening global economic perception. In addition to a plunge in yields after the Eurozone following the UK's referendum, US treasuries were also significantly impacted by the Federal Reserve's recent tone, with the yield curve shifting noticeably lower compared to the start of the year. Following the disappointing jobs data for May, the central bank held off raising rates as widely expected. However, the details of the FED statement largely surprised markets as six officials now expect a single rate hike in 2016, compared to one official in March.

Alkhabeer presently regards currency markets as the most volatile asset class following the UK referendum, with the British Pound plunging to the lowest level against the US Dollar since 1985, which encountered increased selling pressure in the run up to the referendum, and rebounded sharply in response to the UK's vote to exit the EU. The Euro showed remarkable resistance against the US Dollar this year despite the ECB's negative interest rate policy and increased asset purchases.

Commodities showed a faint sign of recovery, with oil prices ending the first half of the year just under the US\$50 per barrel. Oil prices rose after violence in Nigeria pushed the country's oil production to near-three decade lows and wildfires in Canada's oil sands field region wiped out nearly 1.5 million barrels of daily crude production. At its recent semi-annual meeting, OPEC decided against introducing a new output ceiling, though members expressed optimism of an improving oil market. However, Alkhabeer remains cautious, as returning outputs to the market and easing demand over 'Brexit' uncertainty could limit oil price growth.

Full details of Alkhabeer Capital's 2016 Second Quarter Update report can be found here: <https://goo.gl/smBG3t>

Alkhabeer Capital is a leading asset management and investment firm, authorized by the Capital Market Authority (license number 07074-37).

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**About Alkhabeer Capital**



Alkhabeer Capital is a leading asset management and investment banking firm providing world-class investment products and services that endeavors to help institutions, family groups and qualified investors access to and/or allocate capital in ways that deliver real and enduring economic value.

It is licensed by Saudi Arabia's Capital Market Authority (CMA) under license number 37-07074. The asset management area provides investment opportunities through a large and growing portfolio of public and private funds in the areas of real estate, private equity and capital markets, while the investment banking area offers specialized Sharia compliant capital raising and M&A advisory services to businesses, private investors and families.

Alkhabeer Capital also provides advisory services on structuring Waqf entities and Waqf wealth management through its "Waqf" Program, which targets educational institutes, charitable foundations, family groups, high net worth individuals and other philanthropists who wish to establish Waqf entities.

Alkhabeer Capital has offices in Jeddah and Riyadh.

For more details on Alkhabeer Capital, please visit [www.alkhabeer.com](http://www.alkhabeer.com)

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