Press Release
FOR IMMEDIATE RELEASE

ALKHABEER CAPITAL PRESENTS 2015 MARKET INSIGHT

Global economic stability will be put to the test in 2015; with US performance in the limelight

Weak oil prices will force GCC governments to either curb expenditure or draw up on their reserve buffer; Qatar and Kuwait are the least vulnerable

Jeddah, Saudi Arabia – 2 Feb 2015: Alkhabeer Capital, a leading asset management and investment firm based in Saudi Arabia, and authorized by the Capital Market Authority (license number 07074-37), has released its market insight for the global economy in 2015. The report looks at the growth prospects one of the largest and most influential economies in the world in line with 2014 performance and economic trends.

Global Economy Overview: A resilient US, chaotic Eurozone and fatigued emerging markets characterized the global economy in 2014
According to Alkhabeer, the global economy has managed to muddle throughout 2014, driven by the US economy's resilience and continuous show of strength while the rest of the world still struggled with slowing growth and deflationary conditions. The Eurozone remained muted during most of 2014, underpinned by the failure of policymakers to reach agreements on the fiscal and monetary fronts.

Declining energy prices which threw the world in turmoil recently, will negatively impact oil-producing economies such as Russia, Brazil, South Africa and some GCC countries; in contrast, benefiting consumption-linked nations such as India, Indonesia and Turkey.

US Economy: Healthy Recovery Backed by Robust Consumer Spending and Improved Labour Market
The US economy has witnessed a good rally in the second half of 2014. Third quarter growth was revised upwards to 5.0% from an estimate of 3.9% underpinned by high consumer spending and an improved labor market.

The reinvigorating developments from the US economy started presenting a strong case for higher interest rates in 2015. In its latest post-monetary policy statement, the Fed highlighted the central bank's rising intent for reversing its ultra-loose policy stance. However, the lift off in US benchmark interest rate would not come without its challenges and could leave the US corporations dealing with higher borrowing costs.

Eurozone: Headwinds Continue to Persist. Recovery, if any, Could be Expected but at a Snail's Pace
In its sixth continuous year of slump and economic recession, the Eurozone performance was expectedly disappointing, with the European Commission lowering its growth outlook to 0.8% from 1.2% for the region. Germany, Italy and France witnessed a manufacturing activity contraction, weighing heavily on economic activity in the region. Additionally, low inflation rates which are creeping towards zero, high unemployment levels, a cloudy investment climate and plunging oil prices could force the ECB to initiate an early intervention and introduce further monetary easing.

Emerging Markets: Still Considered Global Growth Drivers
Global monetary trends have been majorly affecting the performance of Emerging Markets ("EMs") in recent years. Positive activities witnessed by emerging countries were largely supported by easy monetary policy in the developed world, especially the US, which attracted large fund inflows into the EMs.

In 2014, China registered growth but at the weakest rate since May, while India posted the fastest growth since June. Russia and Brazil both registered sharp declines.

Alkhabeer believes that a rise in US interest rates coupled with low oil prices and slowing Chinese economic growth, which is expected to drop to 7%, will be the major themes influencing EM performance in 2015. The OECD expects India to grow at an average of 6.7% over the 2015-19 periods with reforms having the potential to boost it further.

GCC Outlook: Large Reserves Could Save Oil Exporting Companies against the Sharp Dip in Oil Prices
In September's GCC Budget Analysis report, Alkhabeer cautioned about the changing global oil supplies and their impact on the overall fiscal position in the GCC whose economies are hugely dependent on hydrocarbon revenues.

Two possibilities arise as the most likely scenarios that the government may adopt in light of falling oil prices. The first is to curb spending, while the second would be to continue spending and draw up on the vast reserves built up over the years.

The Saudi Ministry of Finance has determined to go with the second option considering that the second option would most likely prevail considering the large reserve buffers and low debt levels, which would help them, endure budget deficits. The UAE's most recent statement to refrain from cutting production even if oil prices fall is proof of the cushion that these countries have. Qatar and Kuwait are expected to be the least vulnerable to price swings, given their huge surpluses and low break even prices.

It is highly expected that the non-oil sector will be the GCC's growth driver in 2015 supported by key infrastructure projects such as projects for the FIFA World Cup 2022 in Qatar, Expo 2020 in Dubai and ambitious rail network projects and economic cities in Saudi Arabia.

Weakening Oil Price: Subdued Global Demand and Higher Supply Maintain Pressure on Prices
Crude oil was the worst performer amongst all asset classes, having plunged 44.5% YTD in 2014. Rising production in the US, higher incoming supply from Iraq, West Africa and elsewhere, coupled with anemic global demand growth began pushing crude oil prices lower from its peak of $115 in June.

Active geopolitical conflicts in the Middle East especially in Libya and Iraq, in addition to Western sanctions on Iran, had taken more than 3 million barrels per day off the market, compensating for the production increases from the US and Canada. Surprisingly, OPEC, led by Saudi in its most recent meeting refrained from production cuts and prompted a large sell-off in the market pulling prices down to levels not seen in the last 5 years.

Alkhabeer Capital remains "Neutral" on this asset class on expectations that the global demand will remain subdued. Nevertheless, any significant cut in OPEC production and demand growth from Asia and Europe could be surprising on the upside.

US Equities: The positive performance of the US equities, combined with upbeat data has calmed down investor anxiety about sustainability of economic growth without government support. Strengthening fundamentals are helping the US economic growth to outpace other advanced economies.

European Equities: European equities witnessed gains during the first two quarters of 2014 as investors turned optimistic about Eurozone amid expectations of monetary stimulus by the ECB. With equity valuations at lower levels compared to the historical average (and compared to the US), improving corporate earnings outlook cannot be overlooked despite the wider economic gloom being witnessed.

Emerging Market Equities: In 2015, performance amongst emerging markets is anticipated to diverge as a result of substantial changes in commodity prices. Slowing growth, imbalances and geopolitical concerns are expected to remain a major drag on many of the EMs.

GCC Equities: GCC markets performed exceptionally well during the first half of 2014 supported by higher oil prices, positive corporate earnings, new IPOs such as National Commercial Bank and Emaar Malls. News of opening up the Saudi market to foreign investors and inclusion of Qatar and UAE markets in the MSCI emerging markets index also cheered market sentiment. The steep decline in oil prices forced a more than 10% slump in some of the major indices.

US Fixed Income: Encouraging signals from the US economy far outweighed any threats of a prolonged period of slowdown, offering sufficient room for the central bank to abandon its ultra-loose monetary policy stance. A tighter monetary policy in 2015 will be a gradual process as the central bank remains vigilant to economic trends.

Eurozone Bonds: Economic growth in the Eurozone is likely to remain subdued, with fears of deflation raising the prospects of the region's economy sliding into a recession in 2015. Few of the peripheral Eurozone economies have already slipped into recession, while core European economies have not displayed significant signs of pickup in economic activity.

Currencies; USD Continues Gathering Momentum: With monetary policy in the US poised to display a radical change in 2015, Alkhabeer believes that the rally in the **USD** is likely to continue to outperform other G7 currencies. The absence of essential structural reforms and an unfavorable political environment is likely to hurt the **Euro** in the upcoming period.

Continued resilience in Britain's growth in the second half of 2014 could put the BoE in a better position to abandon its accommodative policy stance, offering scope for the **British Pound** to gain traction in 2015.

The economic environment in Japan remains uncertain, exposing the **Japanese Yen** to a wide array of challenges, forcing the Yen to head lower against most of the G7 currencies.

Full details of the report can be found here

-Ends-

About Alkhabeer Capital

Alkhabeer Capital is a leading asset management & investment 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 # 07074-37. 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 has offices in Jeddah and Riyadh.

For more details on Alkhabeer Capital, please visit www.alkhabeer.com

Contacts

Tariq Hayat
Alkhabeer Capital
Tel: +966 12 612 9394
t.hayat@alkhabeer.com