MEMBERS' CONTRIBUTIONS

ADX Achieves 98.5% in Disclosure Compliance

- ADX Press Release

Abu Dhabi Securities Exchange (ADX) announced that it has succeeded in achieving a compliance rate of 98.5% regarding the disclosure of the financial statements of its listed public joint stock companies in the 2nd quarter of 2013 within the deadline of 45 days from the end of the financial period.

64 ADX listed companies out of 65, local and foreign, disclosed their financial statements for the 2nd Quarter of 2013 within the 45 days period given. Sudatel Telecom Group Limited did not disclose its financial statement for the 2nd Quarter of 2013.

It is worthy to note that the combined net profit of all listed companies as of 30th of June 2013 has shown an increase of 8% in comparison to the same period in 2012. The highest recorded increase was in the Investment & Financial services sector with an increase of 336%, followed by the Real Estate sector with an increase of 63%.

Mr. Saif Sayah Al Mansouri, head of Listed Companies at ADX commented: "The collaboration between ADX and its listed companies has always proved to be a productive one. We look forward to further deepen our cooperation in the future."

Shifting preferences: Evidence from stock market movement across economies

- D.R. Dogra, MD & CEO, CARE Ratings

Global markets in recent times have been witness to a major shift in investor preference, away from emerging economies towards the developed economies viz. the US

markets. The rather sudden and sharp drop in the stock indices of emerging economies and the surge in the equity indices of the benchmark US stock indices and other developed economies bears testimony to this. To put it in perspective, in the Jan-Aug'13 period, the US benchmark stock index (DJIA) registered growth of 9%, while the UK equities benchmark rose 6%, the Canadian and German index grew 9% and 8%, respectively. At the same time, the benchmark indices for emerging markets such as India, Brazil, China, South Korea, Thailand, Indonesia, Hong Kong, and Singapore registered negative growth from 10- 20%.

The emerging economies have been at the receiving end of a market sell-off and have been besieged with high volatility in the last couple of months. The US equity markets in contrast have been relatively more stable. For the 8 month period, Jan-Aug'13, emerging market stock indices (i.e. China, India and Brazil) have been recording volatility (daily) of over 15%, while the comparative volatility in case of the US stock index was almost half at 8%.

The investors' movement away from emerging economies in favor of the US and other developed markets can be attributed to the improvement in the economic environment and the adverse changes in economic climate in the emerging economies that has resulted in growth fluctuations thus weakening sentiments for these markets. Another significant factor that has prompted the shift from emerging markets is the fear that the US Federal Reserve will cut down on its monthly $85 bn monetary stimulus programme as early as September'13 and eventually wind it down in a year's time.

US : Marching on

The US has been a key beneficiary of the sell-off in the emerging economies stock markets. Investors have been increasingly favoring the US markets and assets since late 2012. On a year-on-year basis, the benchmark US Dow Jones index has grow by 16%, the highest growth since 2008. With the US, the world's largest economy, seen to be recovering from the economic slowdown, it is currently being regarded as one of the 'more stable' economies globally. The prospects for the US markets too appear to be comparatively better than that of the other global economies with the US equities in recent times having emerged as being the relatively safer and preferred investment option.

Further increasing the investor movement to US assets has been the US Federal Reserve indicating, towards end-May'13, that it would be looking at cutting down on its monthly $85 bn quantitative easing or monetary stimulus programme. The US Fed's monetary easing programme, in the aftermath of the financial crisis of 2008, and the resultant influx of cheap money in the global systems can be credited with the increase across asset prices in many of the developing/emerging economies, often in divergence from the fundamentals of these assets.

The withdrawal of the Federal Reserve's monetary easing or monthly bond buying programme would necessarily result in an increase in the US interest rates. The increase seen in the US bonds yields can be regarded as a corollary to this – the US 10 year Treasury bonds have seen yield increase from 1.84% in Jan'13 to 2.8% as of end Aug'13. Investors have been altering their portfolio's away from emerging markets towards US markets in anticipation of increase in US interest rates, sending the former on a downward spiral.

Investors also expect that improving US economic data such as higher earnings growth, falling unemployment rates, stable inflation, expansion in manufacturing, etc would help prop the US stock markets even as the Federal Reserves cuts back on the availability of easy money. On the whole, investors are seen to have the view that there are prospects of better returns from US markets. This has been further propelling the US markets.

Emerging markets: investors beat a retreat

The massive fund flows which the emerging economies enjoyed since the 2000s has seen a rather sudden reversal, setting of a chain reaction across these economies. Although, all the emerging economies have seen a pull out of foreign capital, countries such as Indonesia, Thailand, Turkey, Brazil and India have been the most impacted. The domestic currencies of these markets have been hit hard with the exit of foreign investors, threatening the overall economic balance and growth of these economies.

The macroeconomic conditions in emerging markets have not helped either. They are being riddled with high inflation, low demand & output, high interest rates etc. Many emerging market economies have seen their currencies depreciate against the US dollar, by over 10-20%, since the start of the year, driven by both global and domestic factors alike. Many of these economies are being faced with widening current account deficits that has in turn been eroding the value of their currencies, further prompting foreign capital to exit these countries. The emerging economies have had to resort to a series of emergency measure to shore up their currency following the flight of capital from these markets, with limited success. To add to this, downward revision in economic growth forecasts have been dissuading investors and bearish sentiments have come to rule foreign investor decisions.

Moreover, the eurozone economies have been recording continued broad based improvements and recovery in the region is gathering pace, fuelling investor appetite and the favorable economic data for the US increases the likelihood of the US Federal Reserve scaling down on its monthly bond purchases. Thus, with no visible improvement in the conditions in the emerging economies, the exit of foreign capital from these markets is likely to continue, atleast for the near term.

Conclusion

Given that the US monetary easing has been unprecedented, the consequences of its unwinding and withdrawal on global markets cannot be accurately predicted. One can however expect markets to move more in line with economic fundamentals, which would in many cases result in lower asset prices. Countries whose dependence of foreign funds is particularly high are seen to be the most vulnerable. Economic policies of these countries need a relook and revisions. Nevertheless, developing economies retain their attractiveness given their inherent strengths and potential that has to be leveraged with the right set of policies.