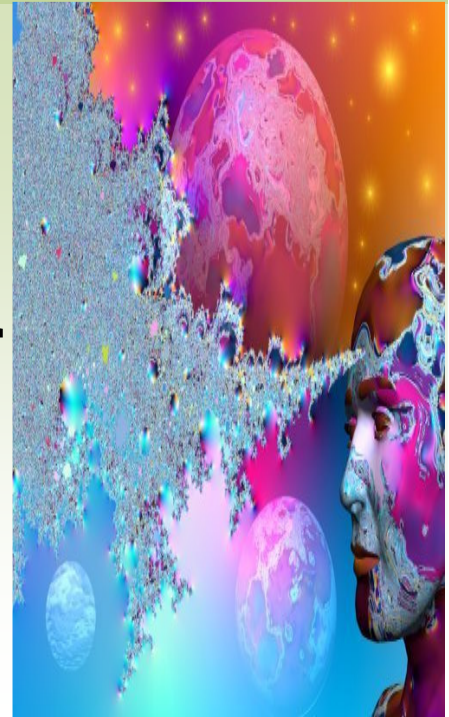




# Collection of Thoughts

## MSM Blues – HOW, WHY & WHAT NEXT



MSM decline to begin with was mainly due to a triple whammy of:

1. Liquidity drying up by changes in the reserve requirement CBO ( rightly so to check inflation) which in some estimates suggested that around US \$ 500 million was removed from the lending system;
2. Redemption calls by foreign investors which triggered sales by Foreign Institutional Investors in the local bourses.
3. Capitulation in inter bank lending transpired into drying up of local banks financing from foreign banks (\$ financing). This was mitigated by local banks by offering attractive deposit rates to lure local investors. Offer of fixed and certain income was too tempting for investors to resist resulting in a switch from uncertain equity returns to certain fixed deposit income.

All the above occurred during the period between June, July & August which traditionally is a holiday period and when most of the local investors are on vacations which meant that local support or buying to an extent was curtailed.

MSM was also affected by Regional Events:

1. first with the real estate market and valuations and corruptions news:
2. and later with some of the regional banks being found to have been exposed to some toxic assets internationally.



volatility in the local bourses.

The softening of commodity prices and narrowing of the gap between demand and supply of properties will most certainly check the inflation thus providing room for the government to relax monetary tools to release liquidity and a certain extent maintain the economic activities.

With the oil prices for the five years (2006-2010) development plan of Oman set at US \$ 30 per barrel and GCC budget surpluses expected to reach around US \$ 200 billion there is clearly a strong enough regional financial muscle to navigate and manage the economy both in term monetary and fiscal policies to mitigate the global fall out and recessionary fears and continue to generate positive growth.

Oman strong corporate governance discipline, investor education and most importantly MSM strong institutional investor base should in theory bode well to add to the fiscal and monetary policy support.

Only time shall however tell us how the in reality the events shall unfold. Investors taking positions on regressive fundamental, financial and business analysis are likely to be rewarded. After all long term investors who ignore attractive valuations are not investors at all.

More recently though the global financial crises have turned into an economic crisis with the US automotive industry appeals for a bailout and softening of oil prices (which traditionally is gauged as a barometer for the regional economic prospects and browsers performance) in all have contributed to the gloom and doom at MSM to date.

With international liquidity drying out, oil prices softening regional spending and eventual growth prospectus are being challenges and as consequences the earning growths which is a major trigger for stock valuations are being redefined and thus there is lack of confidence and increased

