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COMMODITY

Gold recovers amidst GCC market sell off

GCC CAPITAL indices had fallen significantly in the third quarter 2015. The GCC capital indices performance till August 24, 2015 on year to date basis were Qatar was down by 13.5 per cent, Dubai down by 10.7 per cent, Abu Dhabi down by 6.1 per cent, Saudi Arabia down by 14.7 per cent, Oman down by 9.6 per cent, Kuwait down by 11 per cent and Bahrain down by 8.4 per cent respectively. The drop in oil price and concerns of Chinese economy had resulted in a sell off in both global and GCC capital indices.

The concerns about the Chinese economy are still hurting commodity prices and GCC stocks related to resources and global demand, such as steel and petrochemicals. WTI has touched 6.5 year lows near $38/ barrel and brent below $43/ barrel and have fallen by more than 26 per cent and more than 24 per cent respectively on year to date basis. Being the second largest economy and a major player in Global trade, Chinese economy can have significant impact on global economy and trade. The GCC-China trade was more than $105 billion in 2013 and is one of the significant trading partner of GCC.

By end of first half of this year WTI was at $58.83/barrel and Brent crude was at $62.90/barrel, respectively, and on year to date basis Dubai index was up by 8.2 per cent, Abu Dhabi up by 4.2 per cent, Saudi Arabia up by 8.3 per cent, Oman up by 1.3 per cent, Kuwait down by five per cent, Bahrain down by more than four per cent and Qatar was flat respectively.

WTI and Brent have dropped by more than 35 per cent and 31 per cent respectively in third quarter of 2015 and had erased the gains made in the first half of year.

The GCC capital indices during the third quarter till August 24, 2015, on quarter to date basis was Qatar was down by close to 13 per cent, Dubai was down by more than 17 per cent, Abu Dhabi down by more than 10 per cent, Saudi Arabia down by more than 20 per cent, Oman down by more than 10 per cent, Kuwait down by more than six per cent and Bahrain down by more than four per cent respectively. Qatar, Dubai, Abu Dhabi, Saudi Arabia and Oman had erased all the gains made in first-half of 2015 in third quarter. Kuwait and Bahrain continued the downtrend which they had witnessed in first half of year in the third quarter as well.

During challenging times the demand for safe haven arises as we see Gold prices which have start picking up recently after falling below $1,100/ounce. In early part of this year the Gold prices had struggled to revive on concerns of fed rate hike. The demand for gold jewellery in the Middle East declined 20 per cent and investment bar and coin consumption dropped 37 per cent in the second quarter. The increased value added tax in Iran, lower oil prices, fed rate hike concerns and currency weakness were the key factors contributing to drop in gold demand in the Middle East.

Gold demand is expected to rise due to the significant volatility in the Chinese stock market and currency and the possibility of a delayed interest rate increase by the Fed. Gold will still be pursued to hedge against inflation and for consumption. Significant drop in gold prices will also improve its demand.

The top Middle East gold jewellery buyers in second quarter 2015 were from Saudi Arabia, the UAE, Turkey, Egypt and Iran. Recently Dubai Gold & Commodities Exchange (DGCX) had also given more emphasis on spot gold contracts.

The writer is Group CEO of Doha Bank. Views expressed by the author are his own and do not reflect the newspaper's policy.

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