



COLUMN

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Is the financial market a gambling ground?

THE OPTIMISM in manufacturing data in the US, Germany and China, the successful bond auctions in Europe, the approval of the Greece austerity measures and bailout plan, drop in inflation in India and monetary easing measures from developed countries central banks and from the People's Bank of China have contributed to significant rally in the global capital markets since the beginning of the year.

Despite the approval of Greek austerity measures and bailout plan and improved outlook in US economy, the markets will continue to focus on the euro crisis in the forthcoming weeks and their ability to handle the austerity measures.

In the regional capital markets, Dubai (more than 16 per cent) and Abu Dhabi (over five per cent) have

also rallied due to better performance from banking and construction industry. Saudi Arabia has also rallied by more than eight per cent on account of plans for opening foreign investment and improved global economic outlook. The Qatar exchange has dropped a bit due to reduction in dividend payouts by Qatari banks. Kuwait is close to the 6,100 mark, while the Oman market has dropped mainly due to a drop in industrial sector stocks.

These rallies support more the speculators instead of the long-term investors. However, fundamentally sound companies can be researched and can be entered if significant correction happens. Long-term investors need to exercise some caution in these markets.

In the currency market, the euro had touched 1.32 against dollar

this year after the austerity measures were approved. The British pound has also recovered and has reached 1.58 against the dollar. The Japanese yen has significantly weakened close to three per cent on account of the Bank of Japan's (BoJ) move to boost its asset buying and lending scheme by ¥10 trillion to ¥65 trillion to support the recovery of Japan's economy. The dollar index is at 79 after the yen weakened due to measures from the BoJ and marginally down after retail data. The swings in currency markets continue to provide opportunities for investors.

On the commodities market, we saw that WTI is now at \$104/barrel and Brent crude at \$120 a barrel due to tensions in Iran, Chinese manufacturing data and US job data. These developments out-

weigh the huge inventories with US natural gas around \$2.6 on account of low heating demand. Gold has rallied by 10 per cent above \$1,740 an ounce and silver by almost 20 per cent above \$33 an ounce since the beginning of the year on account of Iran tensions and also due to decision of the US Federal Reserve to keep rates low till 2014. Commodities will continue to rise if any weakness is noticed in the

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dollar. GCC sovereign yields still remain at high levels due to the euro crisis. Qatar five-year CDS is at 136, Bahrain five-year CDS is at 400, Saudi five-year CDS at 138, Dubai five-year CDS at 402 and Abu Dhabi five-year CDS at 138.

Though we have not seen the solution to many major issues of the global crisis, markets have quickly risen on witnessing short term progress. The speculators have driven the financial markets and have made it their gambling ground. The excess liquidity in the global market can continue to drive the markets unless any adverse development comes.

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