

The Opening of the Saudi Market to Foreign Investors; its Implications on the Arab Markets



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Many have been wondering about the implications of opening the Saudi Market to foreign investments on the Arab Markets and more specifically on the Gulf Markets. This has raised questions due to the potential inclusion of Saudi Arabia as emerging market by the MSCI index and the listing of 5% of Aramco as IPO in 2018.

When it comes to analysis, some view a positive side and others might fear some negativity which for us looks exaggerated for the following reasons:

- **Market Cap Implications:**

The fear of some analysts from the potential excessive volume increase of the Saudi Market compared to the Arab Markets vanishes once we check the following statistics; the Saudi Market currently constitutes 38% of the total market cap of Arab Markets. The increase of value of shares traded on the Saudi Market won't affect the ranking of Arab Markets in terms of market capitalization. The Saudi Market is currently in the lead ahead of the Arab Markets. Whereas, any increase in the market cap will reinforce its position up to 43% but it will not affect the Arab Markets ranking.

- **Value of Shares Traded Implications:**

Same applies to the value of shares traded on the Saudi Market which currently constitutes 78% of the total value of shares traded on the Arab Markets. This percentage might increase to reach a range of 81% to 83% of the total value of shares traded on the Arab Markets. This applies after taking into consideration the current figures, the expected IPOs to be listed as well as the turnover velocity on the Arab and Saudi Markets.

- **The Implications of including the Saudi Market to the MSCI emerging market index:**

In case of the upgrade of Saudi Market by the MSCI, it would represent approximately 3% of the MSCI emerging market index; this percentage would be deducted from the other ratios constituting this index including UAE, Qatar and Egypt Markets.

The possibility of reducing the UAE and Qatar participation in the index by about 0.028 point, and Egypt by about 0.006 point will not have a significant impact on these Markets. On the contrary, the increase of the weight of the Arab region up to 5% of this index will increase the foreign investors' interest in the whole region.

- Implications on institutional investment in Saudi Arabia and the region:
It is more likely to allocate certain percentages of the new Saudi IPOs solely to institutions.
This goes in line with the opening of Saudi Market internationally only for big institutions in order to avoid the hot money of small institutions and foreign individual investors.
Even better, it will have a positive effect on the Market investment distribution between individuals and institutions, not only on the Saudi Market, but on the entire Arab markets through attracting major international institutions to the region.

In conclusion, the opening of the Saudi Market to foreign investors and the expected process in this regard would boost the Saudi Market as well as the whole Arab region, especially that the economic and technical correlation between these Markets would lead to sharing any excess of liquidity throughout the Markets ...