



## Seasonality in the Saudi Stock Market

### TASI trading in and around Ramadan

The holy month of Ramadan is the ninth month of the Hijri (Islamic) calendar. For a period of 29 to 30 days during the month, it is mandatory for all Muslims to fast from sunrise to sunset. Typically during the holy month, working hours are restricted, with most sectors witnessing subdued business activity. This is also the case for the Tadawul All Share Index (TASI), with both a decline in performance and traded volumes. Ramadan concludes with Eid al-Fitr celebrations, with a national holiday lasting a week, during which the Tadawul is closed.

Since the Hijri calendar has 354 days, Ramadan usually falls eleven days earlier every year in the Gregorian calendar. In 2015 (corresponding to Hijri year 1436) Ramadan will start on 18th June, three days after the admission of qualified foreign investors' (QFIs) into the Saudi Stock Exchange (Tadawul). With these two events closely following each other, we thought it would be beneficial to get a better sense of the typical trading patterns observed in and around the Ramadan period, especially for the benefit of QFIs entering the market.

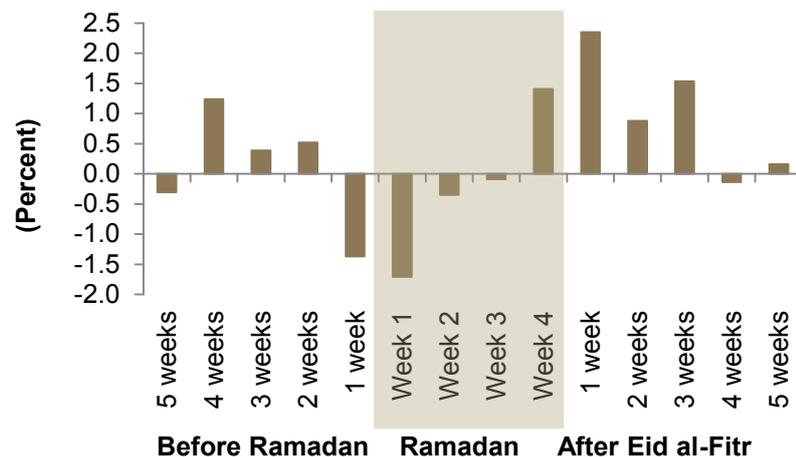
### TASI performance and Ramadan

In our analysis we compiled data for a period of five weeks before the start of Ramadan, during Ramadan and five weeks after Eid al-Fitr, over a 14 year period (2000-14). Both the average weekly performance and traded volumes of the TASI were converted from the Gregorian calendar into their Hijri equivalent.

#### Events impacting TASI during Ramadan:

Ramadan has coincided with some market developments, on both a

**Figure 1: Weekly TASI performance around Ramadan\*** (excluding 2004,2006,2008,2009,2013,2014)



\*Note: a movement of less than 0.5 percent in either direction is recorded as flat

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Ramadan has coincided with some market developments such as...

...the collapse of Lehman Brothers in 2008...

...and an announcement relating to QFI admission in 2014.

In order to get a better idea of normal trading patterns during Ramadan we stripped out certain years in our analysis.

The following trading patterns can be observed:

On average, the TASI sees a 1.4 percent drop in performance a week before Ramadan...

...the TASI continues to see negative performance during the first week of Ramadan...

global and local level, that have led to the distortions in the regular patterns observed during the month. The most notable global event occurring during Ramadan was the collapse of Lehman Brothers in 2008, which dramatically intensified the global financial crisis.

The main local events that have distorted trading patterns include a surge in the TASI throughout Ramadan in 2004 and a plunge in the market being maintained during the month in 2006. In both 2009 and 2013 Ramadan coincided with quarterly results of listed companies which affected normal trading patterns. In both these years the results were broadly positive, resulting in TASI's performance in Ramadan exceeding the average over the year. In 2014, towards the end of Ramadan, the Council of Ministers announced that the Tadawul would open to QFIs. This announcement resulted in widespread positive sentiment amongst investors and led to the TASI rising at the end of the month and after Eid al-Fitr.

In order to get a better idea of normal trading patterns during Ramadan we stripped out all years deemed to have a distorting effect on the TASI. Therefore data from 2004,2006,2008, 2009,2013 and 2014 are all excluded. The following trading patterns can be observed, in and around Ramadan, from the remaining years:

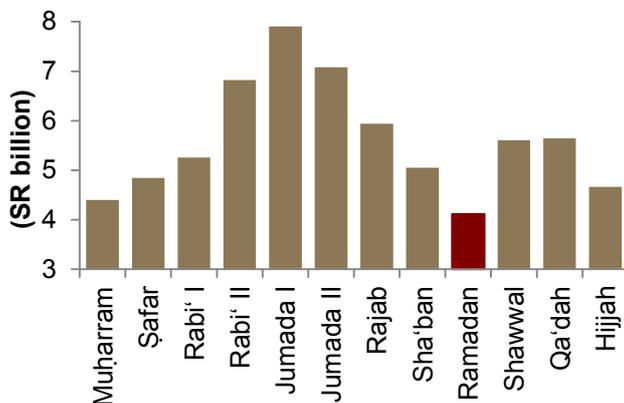
A decline over the week before Ramadan:

On average, the TASI sees a 1.4 percent drop in performance a week before Ramadan (Figure 1). We think this is caused by a combination of investors selling shares to raise money to cover higher spending during the month and other investors realizing gains in anticipation of a fall in share prices during Ramadan.

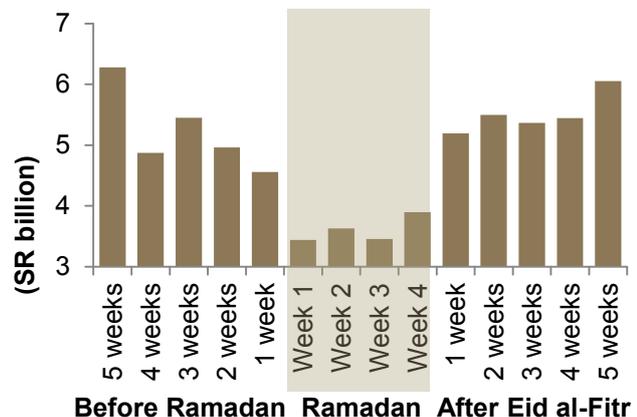
A fall in the first week of Ramadan:

The TASI continues to see negative performance during the first week of Ramadan, with flat performance recorded in the following two weeks. On average, the TASI's weekly performance was down by 1.7 percent in the first week, 0.4 percent in the second week and 0.1 percent in the third week of Ramadan. We view this drop as a result of the same factors that cause the fall in the run-up to Ramadan. An additional contributory factor is investors paying less attention to the market, and therefore investing less, as the month progresses.

**Figure 2: Average TASI traded volumes; Ramadan vs. Hijri year (2007-14)**



**Figure 3: TASI traded volumes and Ramadan (2007-14)**



...and the last week of Ramadan sees weekly increases of 1.4 percent...

...followed by a sharp rise of 2.4 percent in the first week after Eid al-Fitr.

Volumes and traded volumes are at their lowest point during Ramadan.

Some sectors invariably benefit more than others during Ramadan.

A revival in the final week of Ramadan:

On average the last week saw weekly increases of 1.4 percent, even though the fourth trading week of Ramadan is typically shorter than the other weeks.

A consistent pick up in the weeks following Eid al-Fitr:

There is a sharp rise, of 2.4 percent, in the first week after Eid al-Fitr followed by a positive performance in the following two weeks as the TASI catches up with developments in global and local markets. This is largely due to an improvement in investor sentiment stimulated by the revival in trading and the pick-up in the broader economic activity following the lull during Ramadan.

**Trading activity and Ramadan**

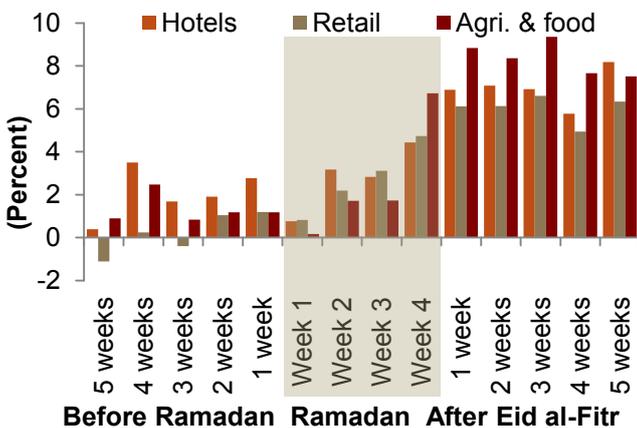
Comprehensive volume and traded volume data is only available from 2007 onwards, and it is therefore not practical to strip out the years omitted in the performance analysis above. In spite of this, we can see that factors which distort stock market performance do not necessary affect traded volumes. Between 2007-14 traded volumes averaged their lowest point during Ramadan (Figure 2). We see this as a result of a shift in lifestyles during Ramadan which makes many retail investors less focused on the stock market.

On a weekly basis, traded volumes follow a downward trend in advance of Ramadan and remain at comparably lower levels in the first three weeks of Ramadan, rising only in the last week. The value of traded shares increases sharply in the weeks following Eid al-Fitr. On average, traded volumes increase by 75 percent in the fifth week of post-Eid trading, when compared to the first week of Ramadan (Figure 3). Volumes data follows similar patterns to traded volumes on both a monthly and weekly basis.

**Sector performance and Ramadan**

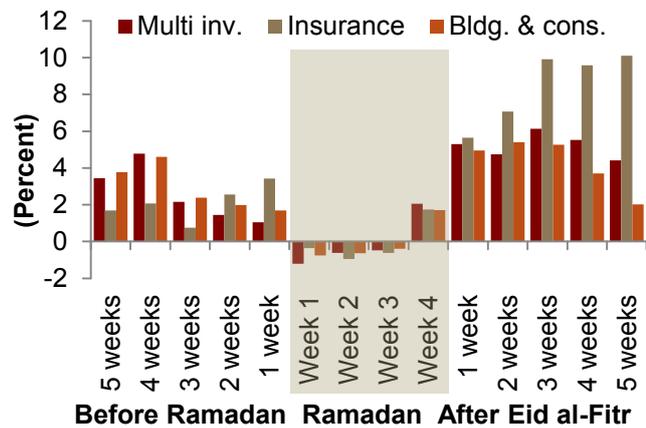
Some sectors invariably benefit more than others during Ramadan. Looking at average sectorial performance between 2009-14 the three best performing sectors are hotels, agriculture and food, and

**Figure 4: Best sectorial performance during Ramadan\* (2009-14)**



\*Note: Change from beginning of Ramadan

**Figure 5: Worst sectorial performance during Ramadan\* (2009-14)**



\*Note: Change from beginning of Ramadan

*The three best performing sectors are hotels, agriculture and food, and retail.*

*In contrast, multi investment, insurance and building and construction are the three worst performing sectors during Ramadan.*

*In every year, apart from 2011, net SWAP purchases increased on a month-on-month basis during Ramadan.*

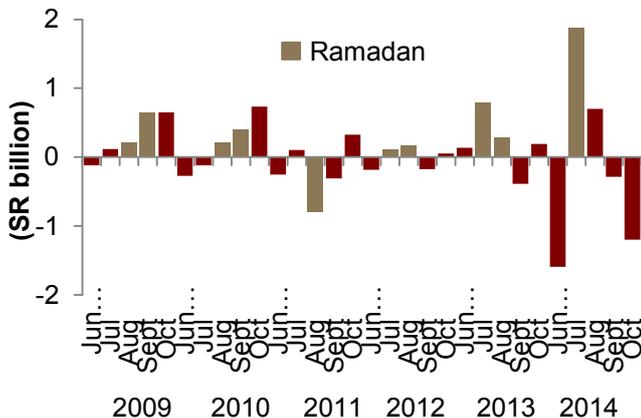
retail. Average performance in the agriculture and food sector during Ramadan is 2.6 percent higher than just before the start of the holy month. This is unsurprising considering that Ramadan represents peak food consumption in Saudi Arabia and indeed across most of the Muslim world. The agriculture and food sector, however, is not the highest performing sector during Ramadan, with both hotel and retail registering a higher performance (Figure 4). The hotel and retail sectors, on average, were up 2.8 and 2.7 percent during Ramadan, respectively. The hotel sector benefits not only from increased domestic demand, but also from a large number of foreign pilgrims visiting the Kingdom over this period, pushing hotel occupancy and room rates to peak levels in Mecca and Medina. High consumer spending at restaurants and retail stores, plus seasonal sales promotions, ensure the stronger performance of the retail sector too.

In contrast, multi investment, insurance and building and construction are the three worst performing sectors during Ramadan (Figure 5). Since the TASI's performance as a whole dips during Ramadan, it is logical that companies engaged in multi-investment across the Saudi market will follow suit. The insurance sector frequently has a higher average monthly turnover throughout the year. This is because it is a sector in which speculative trading dominates as retail investors look to make quick profits. Subdued trading activity during Ramadan, as retail investors pay less attention to the market, therefore seems to adversely impact the insurance sector. The underperformance of building and construction is a result of far less construction taking place given shorter working days (this also affects the cement sector, which records the fourth worst performance during Ramadan).

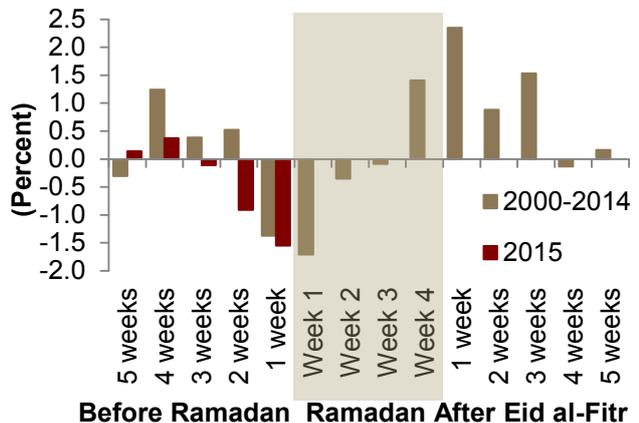
### Foreign Investors and Ramadan

Looking at historical net SWAP agreements, we can try to gain some understanding of how foreign investors tend to participate in the TASI during the Ramadan period. Data from 2009-14 shows that in every year, apart from 2011, net SWAP purchases increased on a month-on-month basis during Ramadan (Figure 6). With many Saudi retail investors selling off stocks to realize gains during Ramadan, the rise in net SWAP purchases could be a result of foreign investors taking the opportunity to consolidate their positions in the

**Figure 6: Monthly change in net SWAP purchases (June to October)**



**Figure 7: Weekly TASI performance around Ramadan (2015 vs 2000-14)**



*There are number of limitations in the use of SWAP data.*

*So far, in 2015, the TASI has followed historical trends...*

*...but three factors could potentially distort historical trends:*

- 1) *The acceptance of QFIs days before Ramadan.*
- 2) *The announcement of second quarter results towards the end of Ramadan.*
- 3) *The inability of Greece to reach an agreement with its creditors.*

market, perhaps viewing the Ramadan period as good (re)entry point.

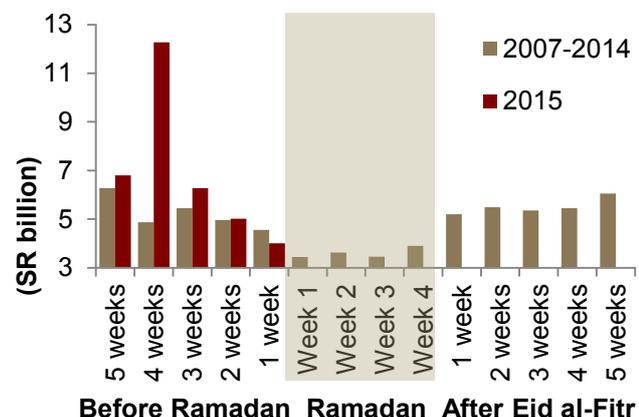
There are, however, a number of drawbacks in the use of SWAP data in making reliable conclusions on foreign investor participation. Firstly, SWAP data is only available on a monthly basis, which is less accurate than the daily data made available for the TASI as a whole. Secondly, the monthly data is in Gregorian calendar format and not Hijri, which means Ramadan often crosses into two Gregorian months. Lastly, SWAP data only goes back till 2009, since when there has been a higher proportion of years distorted by events such as the QFI announcement (in 2014) and quarterly results (in 2013 and 2009), making it more difficult to map accurate trends.

### TASI and Ramadan 2015 (Hijri calendar 1436)

So far, in 2015, the TASI has followed a similar pattern to historical trends. Latest available data shows that in the run up to Ramadan in 1436 (2015) the performance of the TASI was in line with the averages observed over 2000-14, except in two weeks before Ramadan, where the TASI was down (Figure 7). Traded volumes have been following a downward trend, as per historical patterns, despite a spike in four weeks before Ramadan (Figure 8).

As we enter Ramadan in 1436 (2015), three factors could potentially distort the historical trends outlined in the above sections. Firstly, the TASI has started accepting QFIs just before Ramadan and this unprecedented step will add a degree of unpredictability during the usually subdued trading period. Furthermore, towards the end of Ramadan, second quarter results for listed companies will start being published, which are likely to distort Ramadan trading patterns, similar to when quarterly result announcements coincided with Ramadan in 2009 and 2013. Lastly, the inability of Greece to reach an agreement with its creditors could weigh on international markets and subsequently also on the local investor sentiment.

**Figure 8: TASI traded volumes and Ramadan (2015 vs 2007-14)**



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