

Market Review and Outlook

NCB Weekly Views on Global, Regional and Local Economic and Financial Developments

July 20, 2008

Special Focus: Turkey Between a Rock and a Hardplace

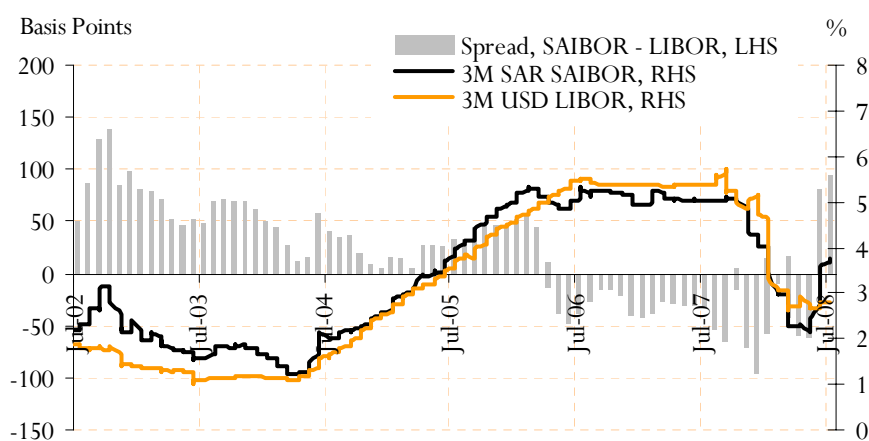
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Saudi Arabia Leading Economic Indicators

	2007	Latest	Period
Average WTI, Cushing 1M, USD/bbl	72.3	113.7	08YTD
Weighted Average Arabian Light, USD/bbl	68.7	109.0	08YTD
Average 3M USD LIBOR	5.29%	2.99%	08YTD
Average 3M SAR SAIBOR	4.94%	2.97%	08YTD
Spread, in Basis Points, SAIBOR-LIBOR	-35.4	-1.7	08YTD
Y/Y Growth in Monetary Base (M0)	49.0%	17.3%	May 08
Y/Y Growth in Money Supply (M3)	19.6%	21.6%	May 08

Saudi Arabia Liquidity and Risk Detector



Head of Research

Dr. Said A. Al Shaikh
Editor/Chief Economist
s.alshaikh@alahli.com

Authors

Tamer El Zayat
Economist
t.zayat@alahli.com

Mazen A. Tammar
Senior Economist
m.tammar@alahli.com

Sources: Reuters and NCB

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Saudi Macro and Equity Market

What does the New Multiplier Figure Reveal?

There are mounting signs of economic overheating in the Kingdom, as liquidity continues to build, fueling aggregate demand and inflationary pressures. To get a better understanding of liquidity determinants we took a closer look at the money multiplier; the ratio that relates changes in money supply (M3) to a given change in the monetary base (M0). The money multiplier, which is a function of currency in circulation, excess and required reserves, rebounded over the three-month period ending May08 to 4.97x, its highest level since SAMA commenced its reserves requirements hikes in Nov07. The reserves requirement hikes, which were intended to slow the multiple deposit creation process, and in turn, M3 growth, were countered by declining excess reserves held by banks. Between Feb08 and May08 commercial banks withdrew 60% of their excess reserves with SAMA, bringing them down to SAR34.5 bn. We expect the drawing of excess reserves to be in response to rising demand for interbank liabilities and reverse repo transactions (see MR&O dated July 6th, 08), a clear indicator of increased demand for SAR funding and liquidity expansion.

Key Macroeconomic and Equity Market Indicators

	Last	Previous	Y/Y Growth in Credit (Private Sector)	Tadawul All Share Index: 27 Dec 06 = 0%
Oil Price, \$bbl ¹	YTD	2007		
	109.0	68.7		
Oil Production, mmbd ²	Jun	May		
	9.45	9.25		
Real GDP	2007	2006		
	3.4%	3.2%		
CPI Inflation, Y/Y	May	Apr		
Broad Money (M3), Y/Y	21.6%	19.3%		
Credit, Private Sector	May	Apr		
	33.4%	32.7%		
Credit, Corporate	4Q07	3Q07		
	34.2%	27.8%		
Credit, Households	4Q07	3Q07		
	1.8%	1.8%		
Net Claims on Government ³	May	Apr		
	-560.6	-511.4		
Loan-to-deposit Ratio ⁴	May	Apr		
	84.6%	83.6%		
Excess Reserves/Total ⁵	May	Apr		
	40.6%	49.9%		
Import LCs, SARbn ⁶	5M2008	5M2007		
	74.88	48.30		

Sources: SAMA, Reuters.

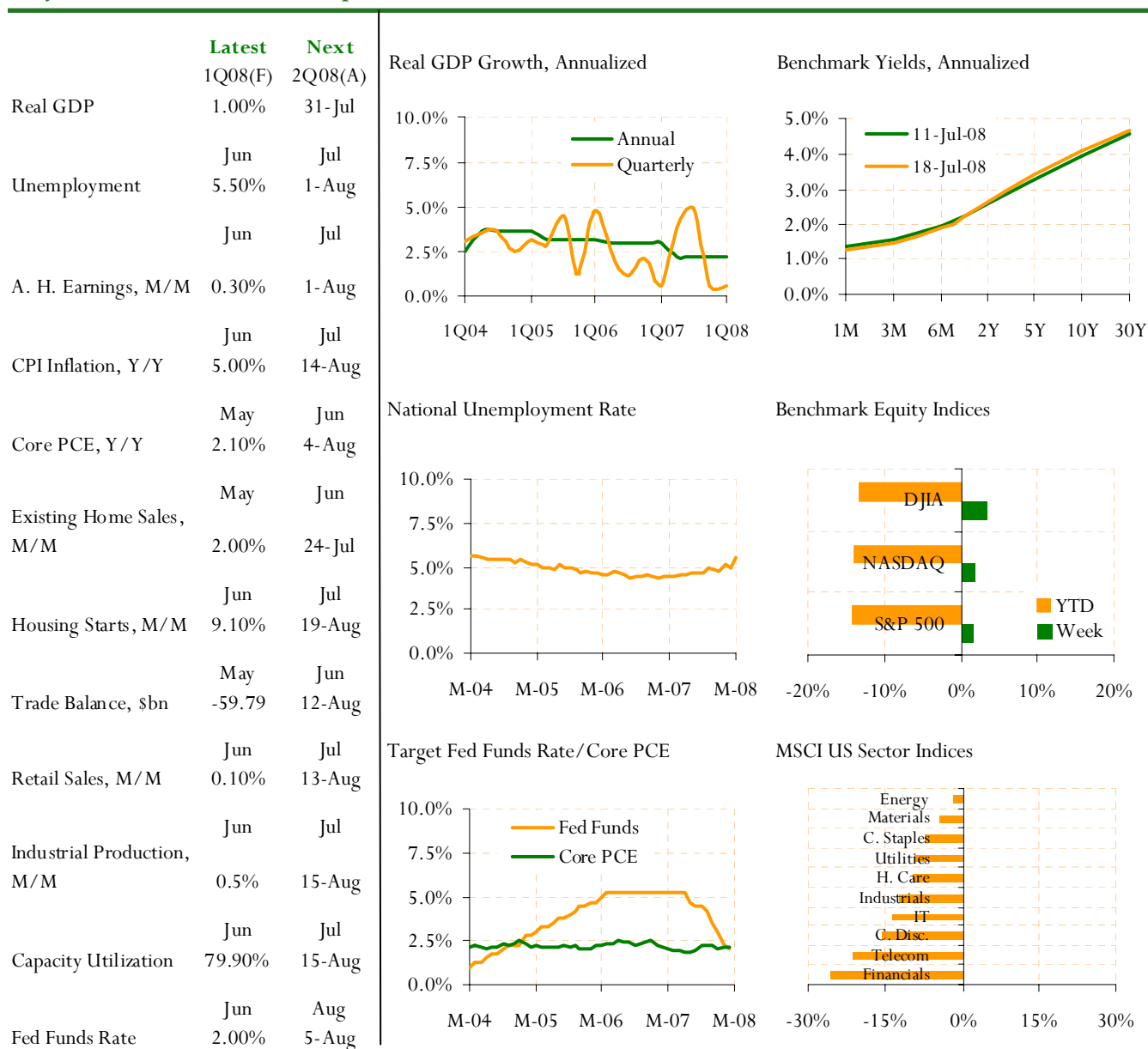
Notes: 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on the private sector (excluding investments in private securities) to total deposits, as reported on the consolidated balance sheet of banks. 5/Excess reserves/total: The ratio of excess reserves held by commercial banks in SAMA to total bank deposits in SAMA. 6/ Import LCs: The cumulative value of letters of credit opened by banks to finance private sector imports.

US Macro and Equity Markets

US Equities Rally to Halt a Six Week Slide

After a six week slide, major stock indices in the US rallied over the last week to register gains in the range of 1.7%-10%. The main driver for the surge was bank earnings, especially from Citigroup, JP Morgan and Wells Fargo, with earnings for the second quarter exceeding expectations. The results improved investment confidence in equities, and reduced concerns about the insolvency of banks after USD447 bn in losses related to the sub-prime meltdown. The banking sub-index in the S&P 500 climbed by more than 10%, to register the steepest weekly jump since the rescue of Bear Stearns in Mar08. In addition to the banking sector, a decision by the US Fed to extend and increase credit lines to Fannie Mae and Freddie Mac, assured investors that regulators will do everything possible to support the largest mortgage financiers in the country, thus, pushing Fannie Mae and Freddie Mac higher by 31% and 18%, respectively. Despite the surge, it is too early to announce a bottom out in the US equity markets especially as the macroeconomic data continue to be unstable and negative in most cases.

Key Macroeconomic and Capital Market Indicators



Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

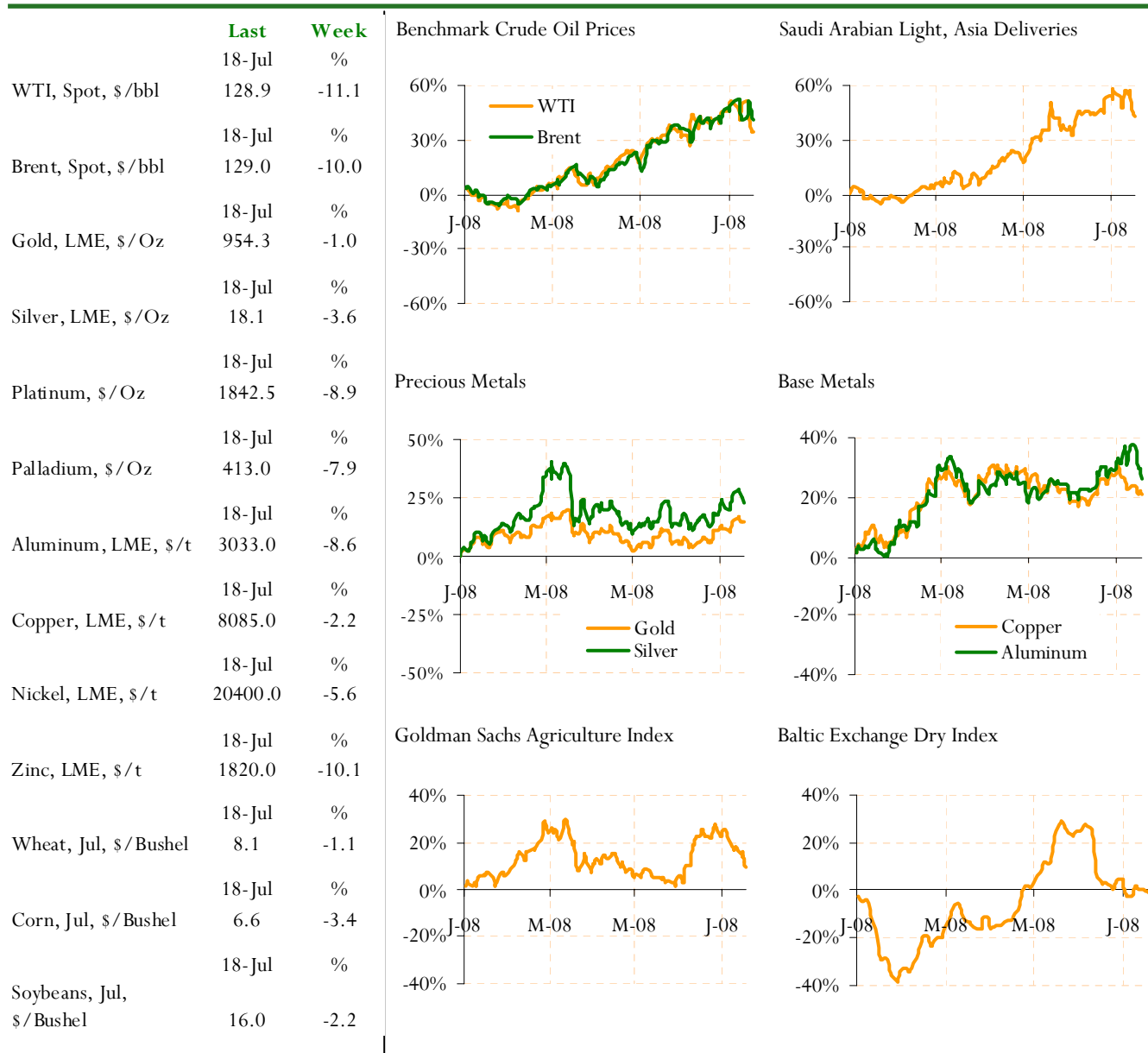
Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate.

Commodity Markets

Grains Dragged Lower by Argentina's Tax Decision

Since the beginning of the year, the prices of grains had surged to new records on the back of supply concerns and speculation from commodity funds. In particular, production and exports from the US had been affected by poor weather in the Midwest states, which added fears to an already jittery market, given that the US is one of the top producers in the world. However, over the last week, the Argentinean Congress revoked a tax bill on some grain exports, which had been introduced in Mar08 by the President in order to reduce food shortages and fiscal imbalances. The decision was instrumental in reducing the prices of a variety of grains, namely corn, soybeans and wheat. Prices of Corn, soybean and wheat had a weekly decline of 11%, 9.3% and 3.2%, respectively. We expect the increase in Argentina's exports to reduce the upward pressures on prices since Argentina is the world's second-largest corn exporter, the third-biggest-producer of soybeans, and the fourth-largest wheat exporter. In our opinion, supply concerns on these grains will be reduced and in turn speculation will ease albeit slowly.

Key Commodity Prices and Indices



Notes: All variables depicted in the charts above are rebased to 0% in the last trading day in 2007.

Turkish Economy: Caught Between a Rock and a Hardplace

Turkey, Europe's sixth-largest economy, which had undergone a period of remarkable recovery and growth after the 2001 crisis, continues to suffer from external shocks and internal instability. The economy that grew by an average of around 7% between 2001-2007 is showing signs of weakness, notably: (1) the spiraling domestic inflation rates, with CPI and PPI figures exceeding the 10% mark in May08, (2) a high level of unemployment, which stood at 9.6% in the Mar08 to May08 period, (3) a consumer confidence that fell to a record low of 75.01 points in Jun08 (100-point mark divides pessimism from optimism), (4) the contraction in capacity utilization by 1.2% Y/Y in Jun08 to 82.3%, and (5) a politically unstable environment, especially with no verdict on the closure case against the ruling AKP party. In our opinion, risks to economic growth are weighted to the downside while those to inflation are weighted to the upside. It is clear that Turkey's disinflationary growth will give in to stagflation unless the central bank and government coordinate their currently conflicting monetary and fiscal policies.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change
	2006	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 08YTD
Europe/Japan/Oceania										
Euro Zone	2.7%	2.2%	4Q07	4.0%	Jun-08	2.0%	4.25%	0.25%	3-Jul-08	E. Zone
UK	2.7%	2.3%	1Q08	3.8%	Jun-08	2.0%	5.00%	Hold	10-Jul-08	UK
Japan	2.0%	3.3%	1Q08	1.5%	May-08	0-2.0%	0.50%	Hold	15-Jul-08	Japan
Australia	2.8%	3.6%	1Q08	4.2%	Mar-08	3.0%	7.25%	Hold	1-Jul-08	Australia
New Zealand	2.0%	3.7%	4Q07	3.4%	Mar-08	3.0%	8.25%	Hold	5-Jun-08	NZ
Latin America/Caribbean										
Mexico	3.2%	2.6%	1Q08	5.3%	Jun-08	3.0%	8.00%	0.25%	18-Jul-08	Mexico
Brazil	2.9%	5.8%	1Q08	6.1%	Jun-08	4.5%	12.25%	0.50%	5-Jun-08	Brazil
Chile	4.0%	3.0%	1Q08	8.1%	Feb-08	3.0%	7.25%	0.50%	11-Jul-08	Chile
Asia/Southeast Asia										
China	10.7%	11.2%	4Q07	7.1%	Jun-08	4.80%	7.02%	0.18%	30-Aug-07	China
India	-	8.8%	1Q08	11.9%	18-Jul-08	5.50%	8.00%	0.25%	29-Apr-08	India
Hong Kong	6.8%	6.7%	4Q07	5.7%	May-08	-	6.25%	0.25%	30-Jun-06	H. Kong
Singapore	7.9%	6.7%	1Q08	7.5%	May-08	-	-	-	-	Singapore
South Korea	5.0%	5.7%	1Q08	5.5%	Jun-08	3.50%	5.00%	Hold	10-Jul-08	S. Korea
Indonesia	5.5%	6.3%	4Q07	11.0%	Jun-08	7.00%	8.75%	0.25%	3-Jul-08	Indonesia
Thailand	5.0%	6.0%	1Q08	6.2%	Apr-08	3.50%	3.25%	Hold	21-May-08	Thailand
Malaysia	5.9%	7.1%	1Q08	3.8%	May-08	-	3.50%	Hold	27-Apr-07	Malaysia
Eastern Europe/Central Asia										
Russia	6.7%	8.5%	1Q08	14.3%	Apr-08	8.50%	10.50%	0.25%	29-Apr-08	Russia
Turkey	6.0%	6.6%	1Q08	10.6%	Jun-08	4.00%	16.75%	0.50%	17-Jul-08	Turkey
Middle East/Africa										
Saudi Arabia	3.2%	3.4%	2007	10.5%	Apr-08	-	5.50%	0.30%	8-Feb-07	KSA
Kuwait	-	6.2%	2004	7.5%	Dec-07	-	5.75%	0.50%	23-Jan-08	Kuwait
Qatar	8.8%	5.6%	2Q07	13.7%	Dec-07	-	5.50%	0.25%	2-Jul-06	Qatar
UAE	-	8.2%	2005	10.9%	Dec-07	-	-	-	-	UAE
Oman	-	5.7%	2005	13.2%	May-08	-	-	-	-	Oman
Bahrain	7.1%	7.1%	2006	4.8%	Feb-08	-	-	-	-	Bahrain
Jordan	-	7.2%	2005	5.7%	Jan-08	-	8.50%	0.25%	1-Jul-06	Jordan
Egypt	6.9%	7.1%	2006/07	19.7%	May-08	-	12.50%	0.50%	26-Jun-08	Egypt
South Africa	5.0%	4.0%	1Q08	10.9%	May-08	3-6%	12.00%	0.50%	12-Jun-08	S. Africa

Notes: 1/ Growth: Real GDP Growth Rate, 2006: Y-o-Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 2/ CPI Inflation: Y-o-Y % Change in CPI, Target: Central bank/monetary authority inflation target. 3/ Policy Rate: Last: Current policy rate, Decision/Date: Decision taken in latest meeting/Date of latest meeting.

FOREX Market

TRY Higher After CBRT's Rate Decision

The New Turkish Lira (TRY) had a weekly gain of 2.7%, which had reduced its 2008YTD loss to 1.8% against the USD. The increase was attributed to the decision made by the Central Bank of the Republic of Turkey (CBRT), on 17 Jul, to increase its benchmark borrowing rate from 16.25% to 16.75%. The 50bps increase was the third rate hike this year, after the CBRT adopted a tightening bias in May08 for the first time since 2006. Rising real interest rates, while detrimental for private credit growth, will underpin the appreciation in the TRY over the near-term as the currency becomes a target for carry traders. Despite the positive financial factor, two trade-related factors will weigh downwards on the TRY in the medium-term, mainly: (1) the widening trade deficit, which rose by 17.2% Y/Y in May08, pushing the accumulated deficit to USD75.49 bn in 2008YTD, and (2) a current account deficit that increased by 28.8% Y/Y in May08. Although the abovementioned factors provide mixed signals, any new twists in the global economy and the domestic landscape might prove instrumental on the TRY's direction.

Key Spot Foreign Exchange Rates

	\$ per €	Rate versus \$	Last	Week	08YTD
Last	1.5850	Week	-0.6%	08YTD	8.6%
Europe/Oceania					
		Swiss Franc (CHF)	1.0231	-0.7%	BRL
		Australian Dollar (AUD)	0.9710	0.4%	CHF
		New Zealand Dollar (NZD)	0.7631	0.3%	AUD
Latin America/Caribbean					
		Mexican Peso (MXN)	10.1850	1.1%	CNY
		Brazilian Real (BRL)	1.5900	0.7%	SGD
		Chilean Peso (CLP)	497.0000	1.3%	RUB
Asia/Southeast Asia					
		Chinese Yuan (CNY)	6.8169	0.3%	EGP
		Indian Rupee (INR)	42.7600	0.1%	KWD
		Hong Kong Dollar (HKD)	7.8010	0.1%	IDR
		Singaporean Dollar (SGD)	1.3536	0.2%	MYR
		South Korean Won (KRW)	1,013.50	-1.3%	CLP
		Indonesian Rupee (IDR)	9,153.00	0.1%	JOD
		Thai Baht (THB)	33.3600	1.0%	SAR
		Malaysian Ringgit (MYR)	3.2460	0.0%	OMR
Eastern Europe/Central Asia					
		Russian Rouble (RUB)	23.2244	0.1%	QAR
		Turkish New Lira (TRY)	1.1914	2.7%	AED
Middle East/Africa					
		Saudi Riyal (SAR)	3.7506	0.0%	HKD
		Kuwaiti Dinar (KWD)	0.2658	-0.3%	BHD
		Qatari Riyal (QAR)	3.6420	0.0%	NZD
		UAE Dirham (AED)	3.6730	0.0%	TRY
		Omani Riyal (OMR)	0.3850	0.0%	KRW
		Bahraini Dinar (BHD)	0.3771	0.0%	INR
		Jordanian Dinar (JOD)	0.7080	0.0%	THB
		Egyptian Pound (EGP)	5.3020	0.7%	ZAR
		South African Rand (ZAR)	7.6296	0.5%	

NCB Economics Department

The Economics Department Research Team

Head of Research

Dr. Said A. Al Shaikh
Editor/Chief Economist
s.alshaikh@alahli.com

Sector Analysis/Saudi Arabia

Muhammad Y. Malick
Senior Economist
y.malick@alahli.com

Mazen A. Tammar
Senior Economist
m.tammar@alahli.com

Dr. Zulfiqar Bashir
Senior Economist
z.bashir@alahli.com

Macroeconomic Analysis

Perihan Al-Husseini
Senior Economist
p.alhusseini@alahli.com

Tamer El Zayat
Senior Economist
t.zayat@alahli.com

Management Information System

Walaa S. Shaheen
MIS Officer
wa.shaheen@alahli.com

Majed Al Ghalib
MIS Specialist
m.alghalib@alahli.com

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To be added to the NCB Economics Department Distribution List

Please contact: Mr. Noel Rotap
Tel.: +966-2-646-3232
Fax: +966-2-644-9783
Email: n.rotap@alahli.com