

Market Review and Outlook

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

November 30, 2008

Special Focus: Who is financing the US Economy?

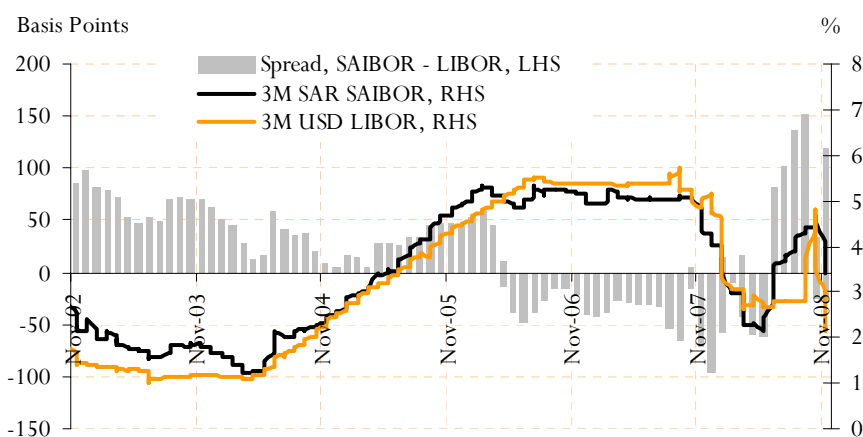
Headlines

Saudi Macro and Equity Market	How to Explain Saudi Banks' 3Q Profitability?	2
US Macro and Equity Market	Fed: Is the inflated Balance Sheet a Cure or a Curse?	3
Commodity Markets	Japan's Economy and OPEC Drag Oil Higher	4
Global Macro	Who is financing the US Economy?	5
FOREX Market	EUR/USD: Awaiting ECB's Rate Decision	6
Global Equity Markets	S&P 500 Largest Weekly gain since 1974	7

Saudi Arabia Leading Economic Indicators

	2007	Latest	Period
Average WTI, Cushing 1M, USD/bbl	72.3	105.3	08YTD
Weighted Average Arabian Light, USD/bbl	68.7	100.1	08YTD
Average 3M USD LIBOR	5.29%	3.02%	08YTD
Average 3M SAR SAIBOR	4.94%	3.44%	08YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	-35.4	32.3	08YTD
Y/Y Growth in Monetary Base (M0)	49.0%	23.5%	Sep 08
Y/Y Growth in Money Supply (M3)	19.6%	19.4%	Sep 08

Saudi Arabia Liquidity and Risk Detector



Head of Research

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

Author

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

Sources: Reuters and NCB

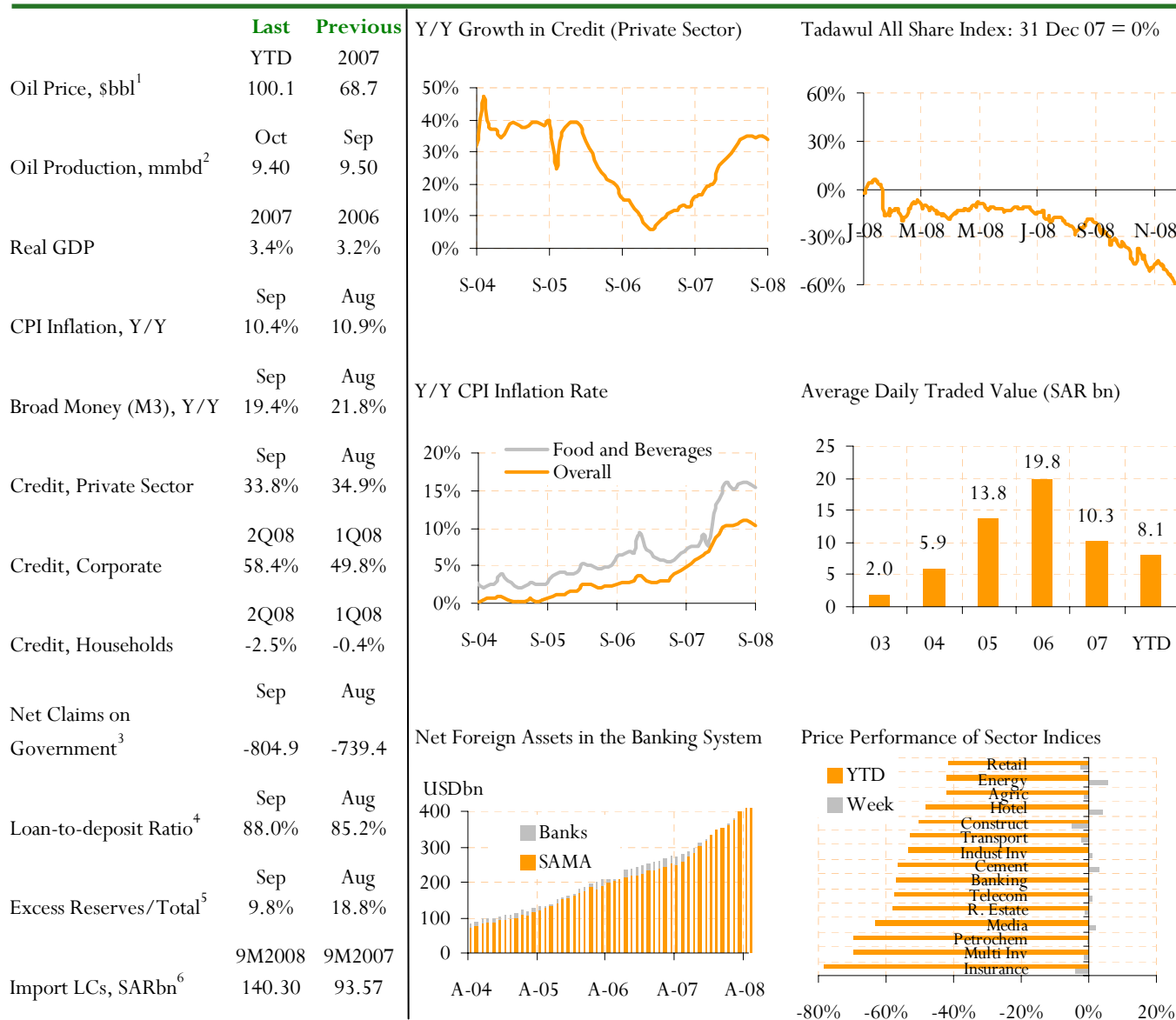
Last updated: 28 November 2008

Saudi Macro and Equity Market

How to Explain Saudi Banks' 3Q Profitability?

Since the beginning of the global financial crisis, in Aug07, it became apparent that no country, industry or individual will escape the unfolding negative repercussions, whether they emanate from the mere psychological fear or the weak macroeconomic fundamentals or both. As a result, the kingdom was no exception in being relatively impacted despite the fact that the economy continued to achieve healthy twin surpluses in the fiscal and current account balances. Accordingly, it is appropriate to view the Saudi banking performance in this current context especially that the first decline in profitability this year by 22.2% Q/Q in 3Q08 came in after positive growth rates of 29.1% and 8.3% in 1Q08 and 2Q08, respectively. From a time perspective, it is implausible to largely attribute such performance to the delayed impact of the financial crisis on Saudi banks, given the fact that most global banks had reported losses for the last 4 quarters, with most asking for liquidity injections or capital contributions. In addition, the current mark-to-market accounting standards, namely the FASB 157, do not give banks an ample room to maneuver when it comes to hiding huge losses on their trading and available for sale investments, which would have been apparent along the 15 month period of the ensuing crisis. Finally, although the SAR1.21 bn in loan loss/investment provisions had clearly weighed heavily on the 3Q profitability, it do represent an efficient way of managing profitability in times of stress rather than an implicit declaration of future losses.

Key Macroeconomic and Equity Market Indicators



Sources: SAMA, Reuters.

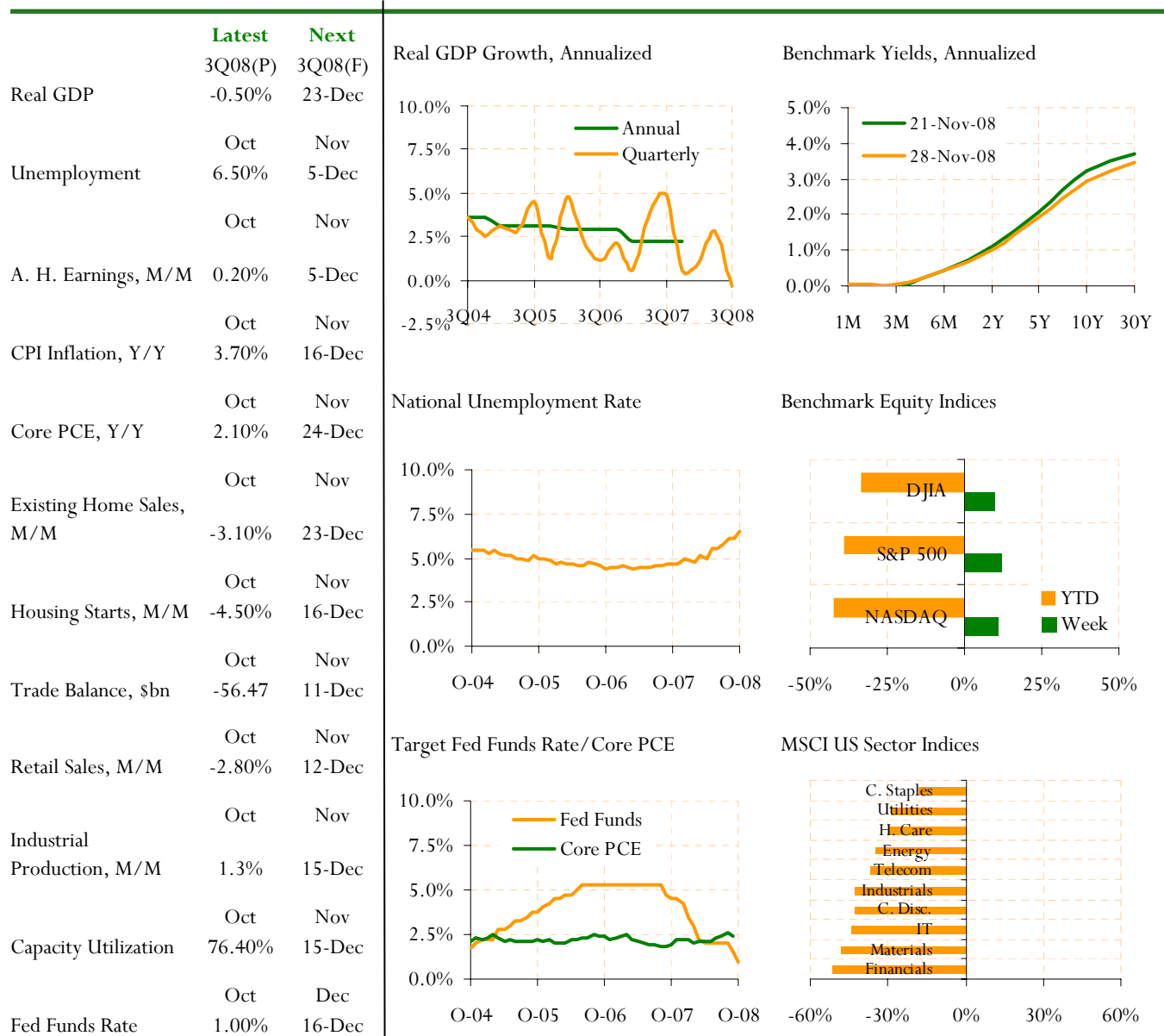
Notes: 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on 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

Fed: Is the inflated Balance Sheet a Cure or a Curse?

It is a forgone conclusion, that even if the US economy was fortunate enough to vault past this crisis, it would do so at a staggeringly high cost. The fact that the national debt ceiling was raised in Oct08 to USD11.315 tr indicates the government plan to deficit finance its way through the headwinds of recession. Accordingly, the Fed and Treasury had spearheaded such plans, bringing new programs with estimated commitments of around USD8.5 tr, of which USD3.17 tr had been utilized till date. More specifically, the Fed had expanded its balance sheet by a hefty USD1.3 tr, from USD800 bn to USD2.1 bn, in just a seven month period, which reflects the magnitude and frequency by which liquidity is injected into the system. Although the 3M USD Libor had fell to 2.22% at the end of last week, the lowest level since the 4.82% registered on 10 Oct, an expanding balance sheet did not yet entice lenders to provide credit as usual, with most opting to hold such injections as excess reserves, which increased by USD600 bn in 2008YTD. What we see is basically, a central bank that is increasingly taking on more risk with taxpayers' money in a grand scheme that could unrealistically end up bailing the whole US economy through the unsustainable usage of debt.

Key Macroeconomic and Capital Market Indicators



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

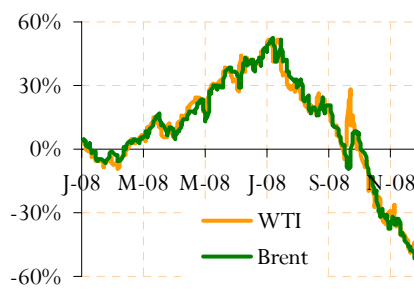
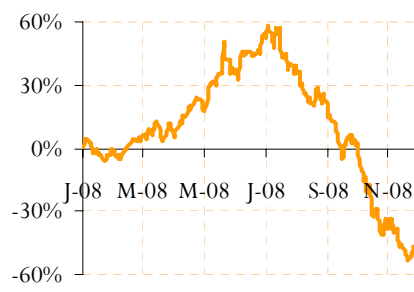
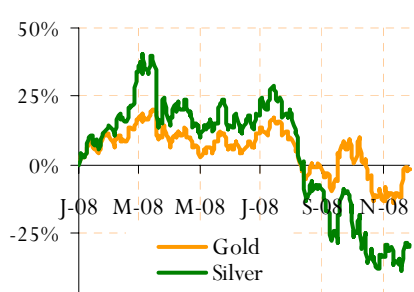
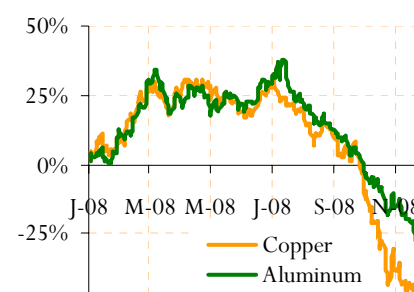
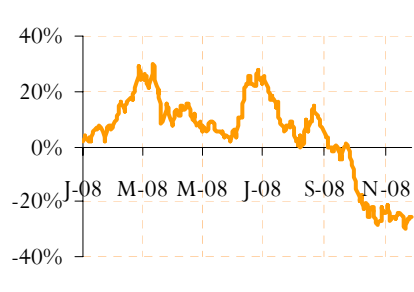
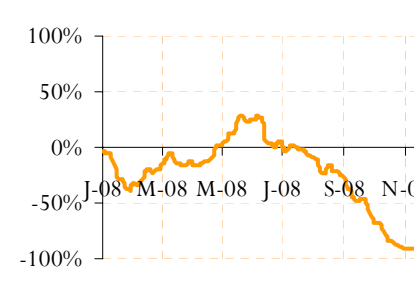
Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate.

Commodity Markets

Japan's Economy and OPEC Drag Oil Higher

Crude oil prices surged higher during the last week, with Brent, Arabian light and WTI benchmarks gaining 6.1%, 11.1%, and 12.2%, respectively. Despite these increases, the three benchmarks, which recorded yearly lows around the USD45/bbl in the last three weeks, are still leaving many analysts amazed of the extent of the slide that have reduced prices by 60% from their Jul08 peak of USD147.27/bbl. The increase in prices occurred, in spite of positive changes in fundamentals, mainly: (1) a weekly petroleum data released by the EIA (Energy Information Administration- US Energy Department), showing a significant weekly increase in the US crude oil inventories by 7.3 million bbls, and (2) a weekly rise in the US gasoline stocks by 1.9 million bbls. The dismal performance of factory output and consumer spending in Japan, the second-biggest oil importer, which fell by 3.1% and 3.8% in Sep08, respectively, had propped oil higher. However, the market was largely driven by speculation over the OPEC's ministerial meeting in Cairo and the highly anticipated one in Algeria, on 17 Dec, especially that most members have voiced their concerns on such low levels of prices.

Key Commodity Prices and Indices

	Last	Week		
	28-Nov	%	Benchmark Crude Oil Prices	Saudi Arabian Light, Asia Deliveries
WTI, Spot, \$/bbl	55.2	12.2		
Brent, Spot, \$/bbl	48.1	6.1		
Gold, LME, \$/Oz	815.5	2.1	Precious Metals	Base Metals
Silver, LME, \$/Oz	10.2	6.4		
Platinum, \$/Oz	871.0	7.2		
Palladium, \$/Oz	186.5	5.4		
Aluminum, LME, \$/t	1757.0	-1.0	Goldman Sachs Agriculture Index	Baltic Exchange Dry Index
Copper, LME, \$/t	3620.0	2.3		
Nickel, LME, \$/t	10200.0	2.0		
Zinc, LME, \$/t	1210.0	3.0		
Wheat, Mar, \$/Bushel	5.6	8.3		
Corn, Dec, \$/Bushel	3.5	3.2		
Soybeans, Jan, \$/Bushel	8.8	5.1		

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

Who is financing the US Economy?

The announcement over the last week of yet another new effort by the US government, worth USD800 bn, to tackle the ongoing global financial crisis came as no surprise to most followers of its monetary and fiscal policies. Obviously, the imploding markets had affected all participants, whether they be companies or consumers, and have necessitated numerous programs, stimuli, and bailouts to keep the credit flowing and the cycle of income and consumption revolving. However, the question that lingers with each new injection is how the US can sustain such high levels of spending in an economy that is already digging deeper into debt, with the national debt level over 200% of GDP. Simply, a closer look at the major foreign holders of US Treasury securities will shed a light on which countries are currently bailing the US out. On an aggregate level, foreigners do hold 58% of the total outstanding Treasury securities (USD4.8 bn), with China, Japan and oil exporters contributing USD585 bn, USD573.2 bn, and USD182.2 bn, respectively. In our opinion, as long as countries, with fiscal and trade surpluses, continue to buy US treasuries, the US will remain afloat by printing more IOUs to satisfy their demand.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change
	2007	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 08YTD
Europe/Japan/Oceania										
Euro Zone	2.6%	1.4%	2Q08	2.1%	Nov-08	2.0%	3.25%	-0.50%	6-Nov-08	E. Zone
UK	3.0%	1.5%	2Q08	4.5%	Oct-08	2.0%	3.00%	-1.50%	6-Nov-08	UK
Japan	2.1%	3.3%	1Q08	1.9%	Oct-08	0-2.0%	0.30%	Hold	21-Nov-08	Japan
Australia	4.2%	2.7%	2Q08	5.0%	Sep-08	3.0%	5.25%	-0.75%	4-Nov-08	Australia
New Zealand	3.2%	2.6%	2Q07	5.1%	Sep-08	3.0%	6.50%	-1.00%	22-Oct-08	NZ
Latin America/Caribbean										
Mexico	3.2%	1.6%	3Q08	5.5%	Sep-08	3.0%	8.25%	Hold	28-Nov-08	Mexico
Brazil	5.4%	6.1%	2Q08	6.3%	15-Oct-08	4.5%	13.75%	Hold	30-Oct-08	Brazil
Chile	5.1%	4.8%	3Q08	9.2%	Sep-08	3.0%	7.75%	0.50%	15-Aug-08	Chile
Asia/Southeast Asia										
China	11.9%	10.6%	1Q08	4.6%	Sep-08	4.80%	5.58%	-1.08%	26-Nov-08	China
India	9.0%	7.6%	2Q08	8.8%	15-Nov-08	5.50%	7.50%	-0.50%	1-Nov-08	India
Hong Kong	6.4%	6.7%	4Q07	1.8%	Oct-08	-	6.25%	0.25%	30-Jun-06	H. Kong
Singapore	7.7%	-0.6%	3Q08	6.4%	Oct-08	-	-	-	-	Singapore
South Korea	5.0%	3.9%	3Q08	4.8%	Oct-08	3.50%	4.00%	-0.25%	7-Nov-08	S. Korea
Indonesia	6.3%	6.3%	1Q08	11.8%	Oct-08	7.00%	9.50%	Hold	4-Dec-08	Indonesia
Thailand	4.8%	4.0%	3Q08	3.9%	Oct-08	3.50%	3.75%	Hold	8-Oct-08	Thailand
Malaysia	6.3%	7.1%	1Q08	7.6%	Oct-08	-	3.50%	Hold	27-Apr-07	Malaysia
Eastern Europe/Central Asia										
Russia	8.1%	7.5%	2Q08	11.5%	Oct-08	8.50%	10.50%	0.25%	29-Apr-08	Russia
Turkey	4.6%	1.9%	2Q08	12.0%	Sep-08	4.00%	16.25%	-0.50%	19-Nov-08	Turkey
Middle East/Africa										
Saudi Arabia	3.2%	3.4%	2007	10.4%	Sep-08	-	4.00%	-1.00%	30-Oct-08	KSA
Kuwait	9.9%	6.3%	2006	11.1%	May-08	-	4.25%	-0.25%	30-Oct-08	Kuwait
Qatar	8.0%	8.5%	2007	14.8%	Mar-08	-	5.50%	Hold	23-Jan-08	Qatar
UAE	9.4%	5.2%	2007	11.1%	2007	-	1.50%	-0.50%	8-Oct-08	UAE
Oman	7.2%	6.0%	2007	13.2%	May-08	-	1.91%	-0.17%	2-Dec-08	Oman
Bahrain	7.9%	6.5%	2006	4.4%	Oct-08	-	1.50%	Hold	27-Nov-08	Bahrain
Jordan	8.1%	6.2%	2007	13.3%	Jun-08	-	6.00%	-0.50%	1-Nov-08	Jordan
Egypt	6.9%	7.1%	2006/07	23.6%	Aug-08	-	13.50%	Hold	7-Nov-08	Egypt
South Africa	5.0%	2.9%	3Q08	13.0%	Sep-08	3-6%	12.00%	Hold	9-Oct-08	S. Africa

Notes: 1/ Growth: Real GDP Growth Rate, 2007: 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

EUR/USD: Awaiting ECB's Rate Decision

Over the last week, the Euro had gained a meager 0.8% and 0.4% against the USD and JPY, respectively, after losing most of its gains in the last trading day of the week, on heightened expectations that the ECB will cut interest rates after inflation in the region receded by the most since 1991. Inflation in the Eurozone slowed markedly to 2.1% in Nov08 from 3.2% in Oct08, bringing the inflation rate closer to the ECB's target of 2%. Obviously, the waning inflationary pressures as a result of a retrenching consumer and tumbling commodity prices will enable the ECB to cut rates further, thus, supplementing the 100 bps rate cut that was done in two moves since Oct08. In our opinion, the destiny of the EUR/USD pair in the coming weeks will be highly influenced by the ECB and the Fed's rate decisions on 4 Dec and 16 Dec, respectively. The question, however, will remain about the future strength of a USD that is being injected in excessive amounts by the US Treasury and the Fed through myriad fiscal and liquidity programs. The recent surge in the USD is based on weak foundations that will immensely impact the greenback in the longer-run.

Key Spot Foreign Exchange Rates

\$ per €	Rate versus \$	Last	Week	08YTD	
Last 1.2700 Week 1.9% 08YTD -13.0%	Europe/Oceania				
	Swiss Franc (CHF)	1.2141	0.9%		
	Australian Dollar (AUD)	0.6553	7.6%		
	New Zealand Dollar (NZD)	0.5507	5.5%		
	Latin America/Caribbean				
	Mexican Peso (MXN)	13.4604	3.7%		
	Brazilian Real (BRL)	2.3042	4.0%		
	Chilean Peso (CLP)	661.8000	0.5%		
		Asia/Southeast Asia			
	Chinese Yuan (CNY)	6.8264	0.1%		
	Indian Rupee (INR)	49.6000	1.3%		
	Hong Kong Dollar (HKD)	7.7506	0.0%		
	Singaporean Dollar (SGD)	1.5135	1.2%		
	South Korean Won (KRW)	1,470.00	2.0%		
	Indonesian Rupee (IDR)	12,100.00	0.4%		
	Thai Baht (THB)	35.5000	-1.0%		
	Malaysian Ringgit (MYR)	3.6260	0.0%		
		Eastern Europe/Central Asia			
	Russian Rouble (RUB)	27.9160	-1.1%		
	Turkish New Lira (TRY)	1.5690	10.7%		
	Middle East/Africa				
	Saudi Riyal (SAR)	3.7526	0.0%		
	Kuwaiti Dinar (KWD)	0.2736	0.3%		
	Qatari Riyal (QAR)	3.6430	0.0%		
	UAE Dirham (AED)	3.6735	0.0%		
	Omani Riyal (OMR)	0.3851	0.0%		
	Bahraini Dinar (BHD)	0.3770	0.0%		
	Jordanian Dinar (JOD)	0.7095	0.0%		
	Egyptian Pound (EGP)	5.5200	0.5%		
	South African Rand (ZAR)	10.2150	5.9%		

Global Equity Markets

S&P 500 Largest Weekly gain since 1974

US stocks reversed their downtrend that had been across the board, with the major indices gaining in the range of 10-11% over the last week. This rally in the US markets helped push the MSCI G7 index by 12.1%, which was the steepest weekly advance since compiling data in 1970. In addition, the S&P 500 had gained a 12% that capped the biggest weekly rise in 34 years, after the government had announced a new bailout plan that will be directed towards consumer-related loans. Moreover, financial and auto stocks were propelled higher due to: (1) a USD306 bn government guarantee of Citigroup's troubled assets, (2) an announcement by General Motors of plans to shed brands, as the auto industry seeks government assistance in averting bankruptcy, and (3) the decline in yields on Treasury securities, with the benchmark 10-year note's yield approaching a 2.91%, which is lower than the dividend yield of 3.4% on the S&P 500. Although the US markets had a week to remember during the ensuing crisis, volatility will surely continue to hit over the next weeks as the Christmas season weigh on retailers and as the decision on the fate of the auto industry is determined by congress.

Major Global Equity Markets and Indices, Local Currency (LC) Terms

	MSCI G7	Country/Index	Week	08YTD
Last	781.6			
Week	12.1%			
08YTD	-42.1%			
Europe/Japan/Oceania				
		UK (FTSE100)	7.0%	
		Germany (DAX30)	7.2%	
		France (CAC40)	5.7%	
		Japan (N225)	2.9%	
		Australia (All Ordinaries)	5.4%	
		N. Zealand (NZSX50)	0.2%	
Latin America/Caribbean				
		Mexico (IPC)	10.5%	
		Brazil (Bovespa)	9.6%	
		Chile (IGPA)	-2.9%	
Asia/Southeast Asia				
Last	527.0			
Week	12.7%			
08YTD	-57.7%			
		China (Shanghai-C)	-7.3%	
		India (BSE-Sensex)	3.6%	
		Hong Kong (Hang Seng)	8.4%	
		Singapore (Strait Times)	4.0%	
		S. Korea (KOSPI-C)	5.8%	
		Indonesia (Jakarta-C)	5.2%	
		Thailand (SET)	3.0%	
		Malaysia (Kuala Lumpur-C)	0.5%	
Eastern Europe/Central Asia				
		Russia (RTSI)	8.6%	
		Turkey (ISE National 100)	17.3%	
Middle East/Africa				
Last	1,429.6			
Week	8.2%			
08YTD	-40.8%			
		KSA (TASI)	-9.3%	
		Kuwait (KSEI)	-0.9%	
		Qatar (DSM20)	-0.6%	
		Abu Dhabi (ADI)	-5.6%	
		Dubai (DFMGI)	-6.0%	
		Oman (MSM30)	1.5%	
		Bahrain (All Share I)	-4.9%	
		Jordan (ASE General I)	-6.9%	
		Egypt (CASE30)	-1.3%	
		S. Africa (JSE All Share Index)	13.1%	

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

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

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

Disclaimer: The information and opinions in this research report were prepared by NCB's Economics Department. The information herein is believed by NCB to be reliable and has been obtained from public sources believed to be reliable. However, NCB makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author/authors as of the date of this report. They do not necessarily reflect the opinions of NCB as to the subject matter thereof. This report is provided for general informational purposes only and is not to be construed as advice to investors or an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or other securities or to participate in any particular trading strategy in any jurisdiction or as an advertisement of any financial instruments or other securities. This report may not be reproduced, distributed or published by any person for any purpose without NCB's prior written consent.

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