

Market Review and Outlook

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

March 29, 2009

Special Focus: Why Capital Flows Will Pressure EMs?

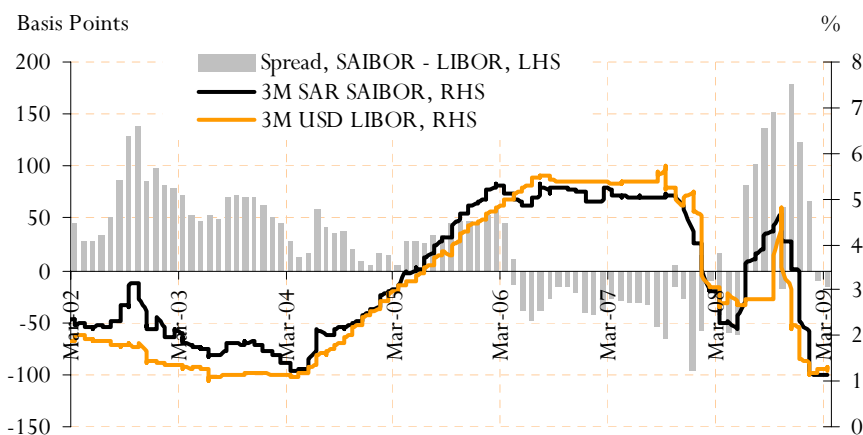
Headlines

Saudi Macro and Equity Market	LCs: How Can We Explain the Historical Declines?	2
US Macro and Equity Market	Will the PPIP Ease the Banking Constraints?	3
Commodity Markets	Wheat Declines on Favorable Weather Conditions	4
Global Macro	Why Capital Flows Will Pressure EMs?	5
FOREX Market	Will Carry Trade Currencies Mount a Comeback?	6
Global Equity Markets	East European Markets Edge Higher on Rescue Packages	7

Saudi Arabia Leading Economic Indicators

	2008	Latest	Period
Average WTI, Cushing 1M, USD/bbl	99.67	42.9	09YTD
Weighted Average Arabian Light, USD/bbl	94.8	42.3	09YTD
Average 3M USD LIBOR	2.93%	1.25%	09YTD
Average 3M SAR SAIBOR	3.37%	1.30%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	44.2	12.9	09YTD
Y/Y Growth in Monetary Base (M0)	-0.35%	17.49%	Jan09
Y/Y Growth in Money Supply (M3)	17.6%	13.9%	Jan09

Saudi Arabia Liquidity and Risk Detector



Head of Research

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

Authors

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

Dana Nammari
Economist
d.nammari@alahli.com

Sources: Reuters and NCB

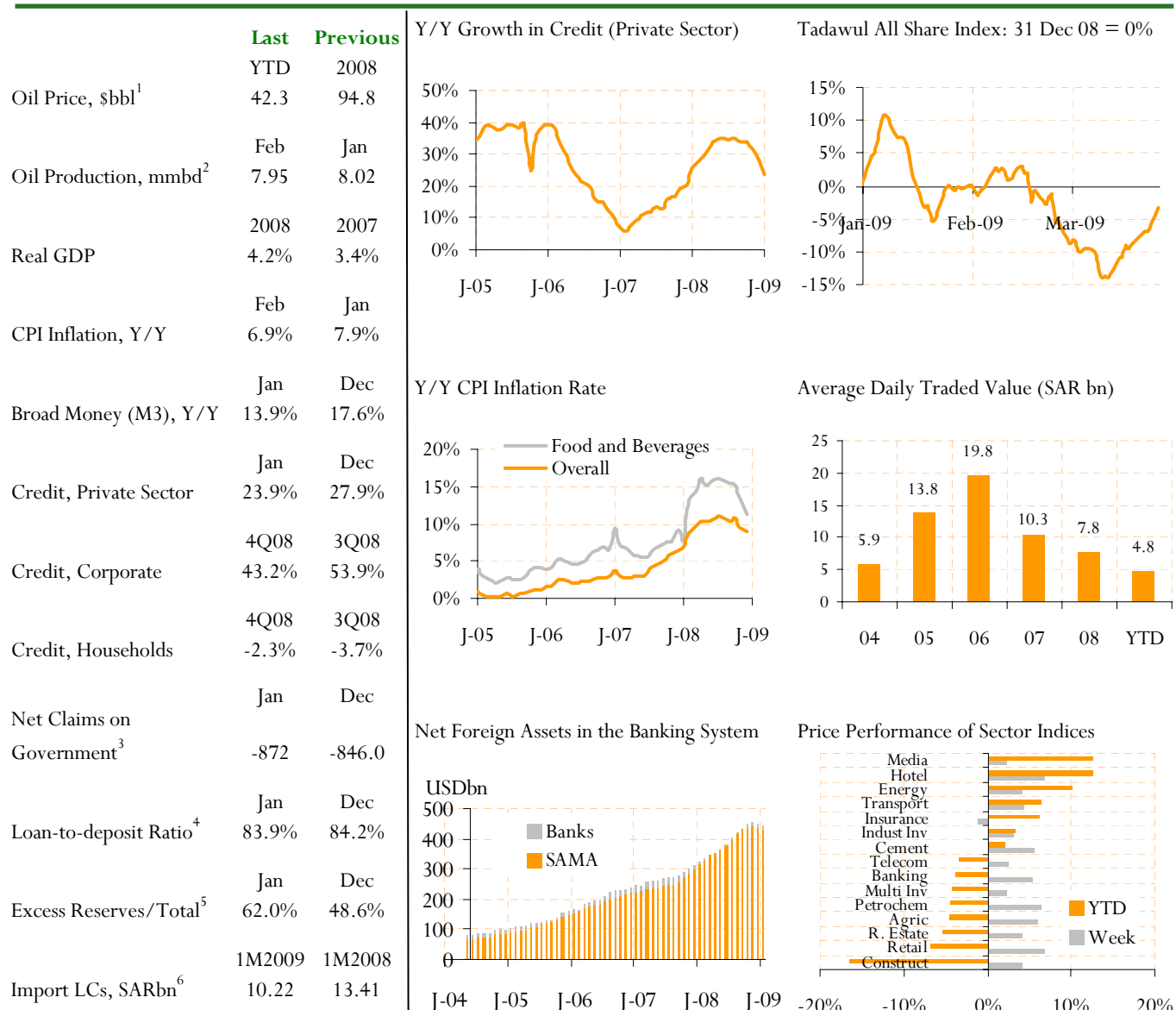
Last updated: 27 March 2009

Saudi Macro and Equity Market

LCs: How Can We Explain the Historical Declines?

In the arena of financing imports through banks, trade finance and in particular letters of credit (LCs) can provide a leading indicator on the status of domestic consumption as well as investment. This is why it is imperative to delve into the recent lows that had been registered for the total value of LCs settled and opened. During the last three months, Nov08-Jan09, the value of LCs settled posted three negative annual figures, which is the first consecutive decline since the period that spanned from May02-Nov02. In addition, the Jan09 Y/Y decline of 6.3% hit a near six-year low. As for the total value of LCs opened, the annual declines had extended for four straight months, with the figures for Dec08 and Jan09 recording historical annual lows of -39.4% and -23.8%, respectively. Foodstuffs, building materials and a category of other items had been the major contributors for the downside in the LCs settled while for the LCs opened the negative list included more items, namely textiles & clothing, machinery, and appliances. Clearly, the downtrend represents three aspects about the global and domestic economy that can be summarized as follows: (1) reduced prices for food items, (2) the first signs of moderation in demand in the domestic market, and (3) prudent importers, who are trying to avoid a supply overhang.

Key Macroeconomic and Equity Market Indicators



Sources: SAMA, Reuters.

Notes: 1/Oil price: Weighted Average Arabian

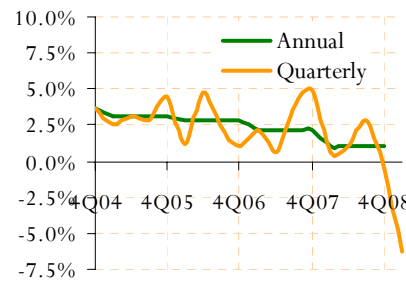
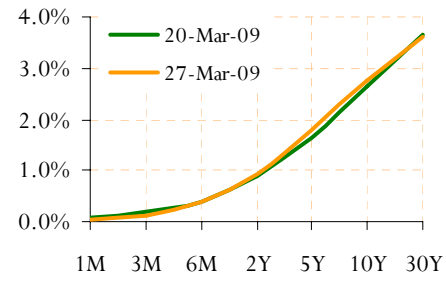
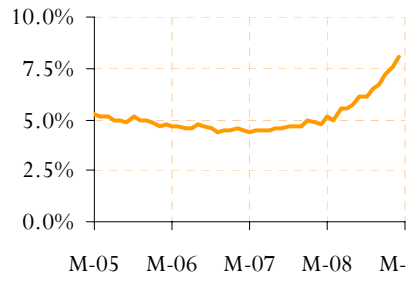
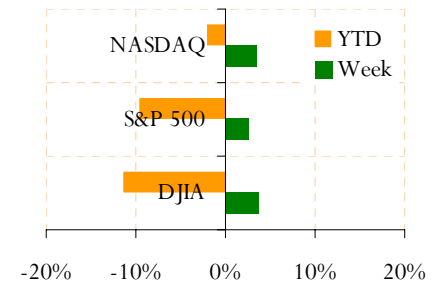
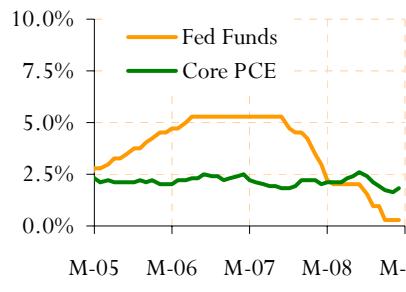
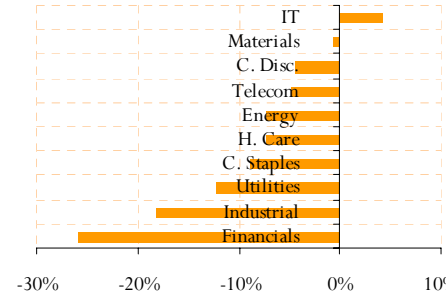
Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on the private sector (excluding investments in 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

Will the PPIP Ease the Banking Constraints?

Uncertainty about the solvency of key financial institutions still looms, deterring new lending and leaving the economy stunted. The US announced a Public Private Investment Program (PPIP) to facilitate the removal of the toxic assets and problem loans clogging up banks' balance sheets. The plan uses public institutions- the US Treasury and the FDIC- to produce public equity and non recourse loans to leverage private capital, which will be used to bid on 'legacy assets' in an auction. The treasury hopes that with investors carrying little stake, the gap between the bid and offer price on these toxic assets will narrow and that their removal from banks' balance sheets should shed light on banks' true financial position, catalyzing a recovery. To this end, the government has pledged USD 1 trn. Undoubtedly, this is a necessary step but problems remain: 1) aversion to uncertainty is at its peak, which will heavily drive down these asset prices, making a meeting point difficult to secure, 2) government financing is being provided on very generous terms, which leaves the taxpayers at risk, and 3) The possibility that after the balance sheet clean-up, insolvent as opposed to illiquid institutions will emerge.

Key Macroeconomic and Capital Market Indicators

	Latest	Next		
Real GDP	4Q08(F) -6.30%	1Q09(A) 29-Apr	Real GDP Growth, Annualized	Benchmark Yields, Annualized
Unemployment	Feb 8.10%	Mar 3-Apr		
A. H. Earnings, M/M	Feb 0.20%	Mar 3-Apr	National Unemployment Rate	Benchmark Equity Indices
CPI Inflation, Y/Y	Feb 0.20%	Mar 15-Apr		
Core PCE, Y/Y	Feb 1.80%	Mar 30-Apr	Target Fed Funds Rate/Core PCE	MSCI US Sector Indices
Existing Home Sales, M/M	Feb -5.10%	Mar 23-Apr		
Housing Starts, M/M	Feb 22.20%	Mar 17-Apr		
Trade Balance, \$bn	Jan -36.03	Feb 9-Apr		
Retail Sales, M/M	Feb -0.10%	Mar 14-Apr		
Industrial Production, M/M	Feb -1.4%	Mar 15-Apr		
Capacity Utilization	Feb 70.90%	Mar 15-Apr		
Fed Funds Rate	Jan 0.25%	Apr 28-Apr		

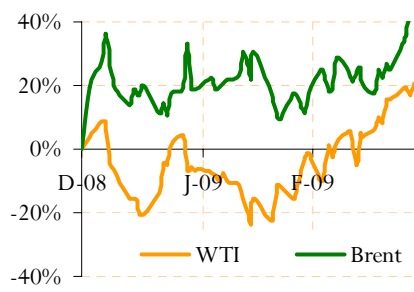
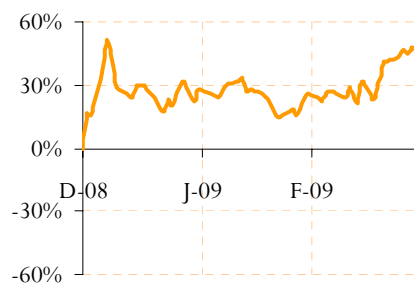
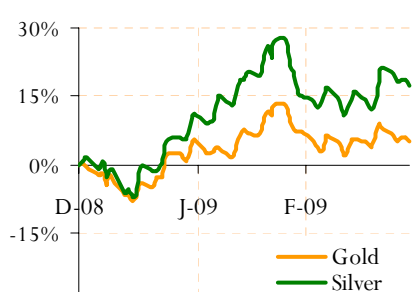
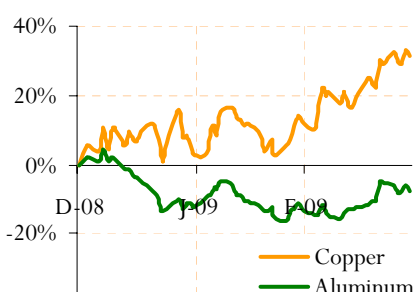
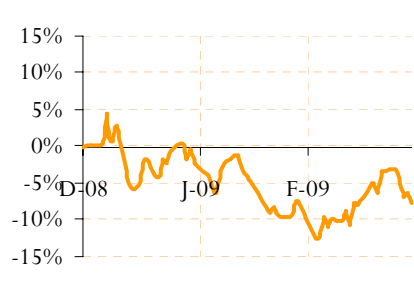
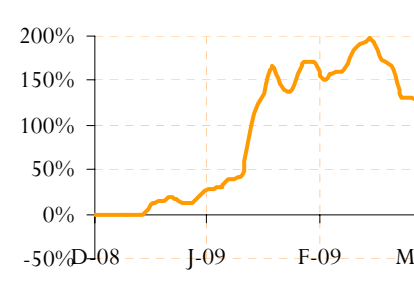
Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

Commodity Markets

Wheat Declines on Favorable Weather Conditions

Wheat prices have maintained a downtrend for most of the trading days of last week, to close at USD5.1 per bushel, the lowest level in three weeks. The significant weekly fall of 7.8% had increased the total losses of the grain to 17% in 2009YTD. The main driver behind the decline was the favorable weather conditions in the US, the world's biggest wheat exporter, which had improved the prospects of a bumper harvest. According to the National Weather Service, as much as 7.6 cm of precipitation fell in the past week on the State of Kansas, the largest US grower, thus, enhancing productivity. In addition, the historical increase in wheat production in the current marketing year to 688 mn tons had weighed heavily on prices since it eased supply concerns. It must be noted, however, that wheat had received less than 5% of the normal amount of rain in this time of the year, which can contain the downward pressures in the next couple of weeks. In our opinion, the short term outlook points to lower prices, however, the longer term outlook will be difficult to assess given the uncertainty in weather conditions.

Key Commodity Prices and Indices

	Last	Week		
	27-Mar	%	Benchmark Crude Oil Prices	Saudi Arabian Light, Asia Deliveries
WTI, Spot, \$/bbl	52.4	8.9		
Brent, Spot, \$/bbl	50.9	12.3		
Gold, LME, \$/Oz	921.1	-2.0	Precious Metals	Base Metals
Silver, LME, \$/Oz	13.3	3.0		
Platinum, \$/Oz	1123.0	6.2		
Palladium, \$/Oz	217.0	10.2		
Aluminum, LME, \$/t	1418.0	3.5		
Copper, LME, \$/t	4050.0	7.8		
Nickel, LME, \$/t	9700.0	-1.8		
Zinc, LME, \$/t	1350.0	13.4	Goldman Sachs Agriculture Index	Baltic Exchange Dry Index
Wheat, Mar, \$/Bushel	5.1	-4.3		
Corn, Mar, \$/Bushel	3.9	-0.3		
Soybeans, Mar, \$/Bushel	9.2	0.2		

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

Why Capital Flows Will Pressure EMs?

Emerging markets are increasingly feeling the heat from the global turmoil, as their exports tumble, investment slumps, and credit markets dry up. Before the ensuing crisis, most of these countries relied on cross-border flows to finance their current account deficits. However, with risk averseness dominating the capital and money markets, these countries will find it extremely difficult to stop the significant capital outflows that had strained their financial and economic systems. The recent projections for net capital flows reflect the bleak outlook for emerging countries that opened up too quickly, did not save the windfall from higher commodity prices or increased their foreign currency exposure. The recent data pertaining to net capital inflows and net bank lending can be summarized as follows: (1) net capital inflows to emerging markets, which fell from a record USD929 bn in 2007 to USD466 bn in 2008, are expected to drop even further to USD165 bn in 2009, an 82% decline from the peak in 2007, and (2) most of the substantial decline in net inflows will emanate from net bank lending that will reverse from a net inflow of USD167 bn to net outflow of USD61 bn. Obviously, the rush towards the IMF and its standby facilities reflect the fact that debt-laden emerging markets are facing critical funding challenges in the near term.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change
	2007	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 09YTD
Europe/Japan/Oceania										
Euro Zone	2.6%	0.6%	3Q08	1.2%	Feb-09	2.0%	1.50%	-0.50%	5-Mar-09	E. Zone
UK	3.0%	-1.6%	4Q08	3.2%	Mar-08	2.0%	0.50%	-0.50%	5-Mar-09	UK
Japan	2.4%	-3.2%	4Q08	0.0%	Mar-09	0-2.0%	0.10%	Hold	19-Feb-09	Japan
Australia	4.0%	0.3%	4Q08	3.7%	Dec-08	3.0%	3.25%	Hold	3-Mar-09	Australia
New Zealand	3.2%	-0.9%	4Q08	3.4%	Jan-09	3.0%	5.00%	-1.50%	4-Dec-08	NZ
Latin America/Caribbean										
Mexico	3.2%	-1.6%	4Q08	6.3%	Nov-08	3.0%	6.75%	-0.75%	20-Mar-09	Mexico
Brazil	5.7%	1.3%	4Q08	6.6%	15-Dec-08	4.5%	11.25%	-1.50%	21-Mar-09	Brazil
Chile	5.1%	0.2%	4Q08	7.2%	Dec-08	3.0%	2.25%	-2.50%	13-Mar-09	Chile
Asia/Southeast Asia										
China	11.9%	6.8%	4Q08	-1.6%	Mar-09	4.80%	5.31%	-0.27%	22-Dec-08	China
India	9.0%	5.3%	3Q08	5.6%	Jan-09	5.50%	5.50%	-1.00%	2-Jan-08	India
Hong Kong	6.4%	1.7%	3Q08	0.8%	Feb-09	-	1.50%	-0.50%	30-Oct-08	H. Kong
Singapore	7.7%	-3.7%	4Q08	1.9%	Mar-08	-	-	-	-	Singapore
South Korea	5.0%	-3.4%	4Q08	4.1%	Mar-09	3.50%	2.00%	Hold	12-Mar-09	S. Korea
Indonesia	6.3%	6.1%	3Q08	8.6%	Feb-09	7.00%	8.25%	-0.50%	4-Feb-09	Indonesia
Thailand	4.9%	-4.3%	4Q08	-0.4%	Feb-09	3.50%	2.75%	-1.00%	3-Dec-08	Thailand
Malaysia	6.3%	4.7%	3Q08	3.7%	Feb-08	-	3.25%	-0.25%	24-Nov-08	Malaysia
Eastern Europe/Central Asia										
Russia	8.1%	6.2%	3Q08	1.7%	Mar-09	8.50%	6.75%	1.00%	28-Nov-08	Russia
Turkey	4.6%	0.5%	3Q08	7.7%	Mar-09	4.00%	10.50%	-1.00%	19-Mar-09	Turkey
Middle East/Africa										
Saudi Arabia	3.4%	4.2%	2008	6.9%	Feb-09	-	2.00%	-0.50%	24-Jan-09	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	-	2.00%	Hold	4-Mar-09	Oman
Bahrain	7.9%	6.5%	2006	4.4%	Oct-08	-	0.75%	Hold	5-Feb-09	Bahrain
Jordan	8.1%	6.2%	2007	13.3%	Jun-08	-	6.00%	-0.50%	25-Nov-08	Jordan
Egypt	6.9%	7.1%	2006/07	21.5%	Sep-08	-	12.50%	-1.00%	12-Feb-08	Egypt
South Africa	5.0%	1.0%	4Q08	8.6%	Mar-09	3-6%	9.50%	-1.50%	11-Mar-09	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

Will Carry Trade Currencies Mount a Comeback?

Before the current crisis erupted in 2007, the NZD and the AUD had been the key currencies for carry trade investment. Therefore, as the crisis ravaged through capital and money markets, the two currencies lost their appeal, especially with risk averseness dominating investment strategies. Tumbling global equities, deleveraging and ailing commodity prices had forced investors to unwind carry trades, thus, negatively pressuring the NZD and AUD, which fell by 23.87% and 19.20% against the USD in 2008, respectively. Since the start of Mar09, however, the two currencies had reversed course to the upside, with the NZD and AUD rising by 14% and 8.4% against the dollar, respectively. This had prompted analysts to wonder if carry trades will mount a strong comeback and what will be the major drivers? In our opinion, three factors will determine the magnitude and longevity of this comeback, notably: (1) the reduced asset volatility, (2) an increase in asset prices, and (3) the rapid process of quantitative easing that is adopted in some of the G7 countries, which will widen the interest differential between G7 currencies and carry trade currencies. Finally, although this month represented the biggest monthly advances for the AUD and NZD in more than 20 years, it will be premature to say that risk averseness has run its course.

Key Spot Foreign Exchange Rates

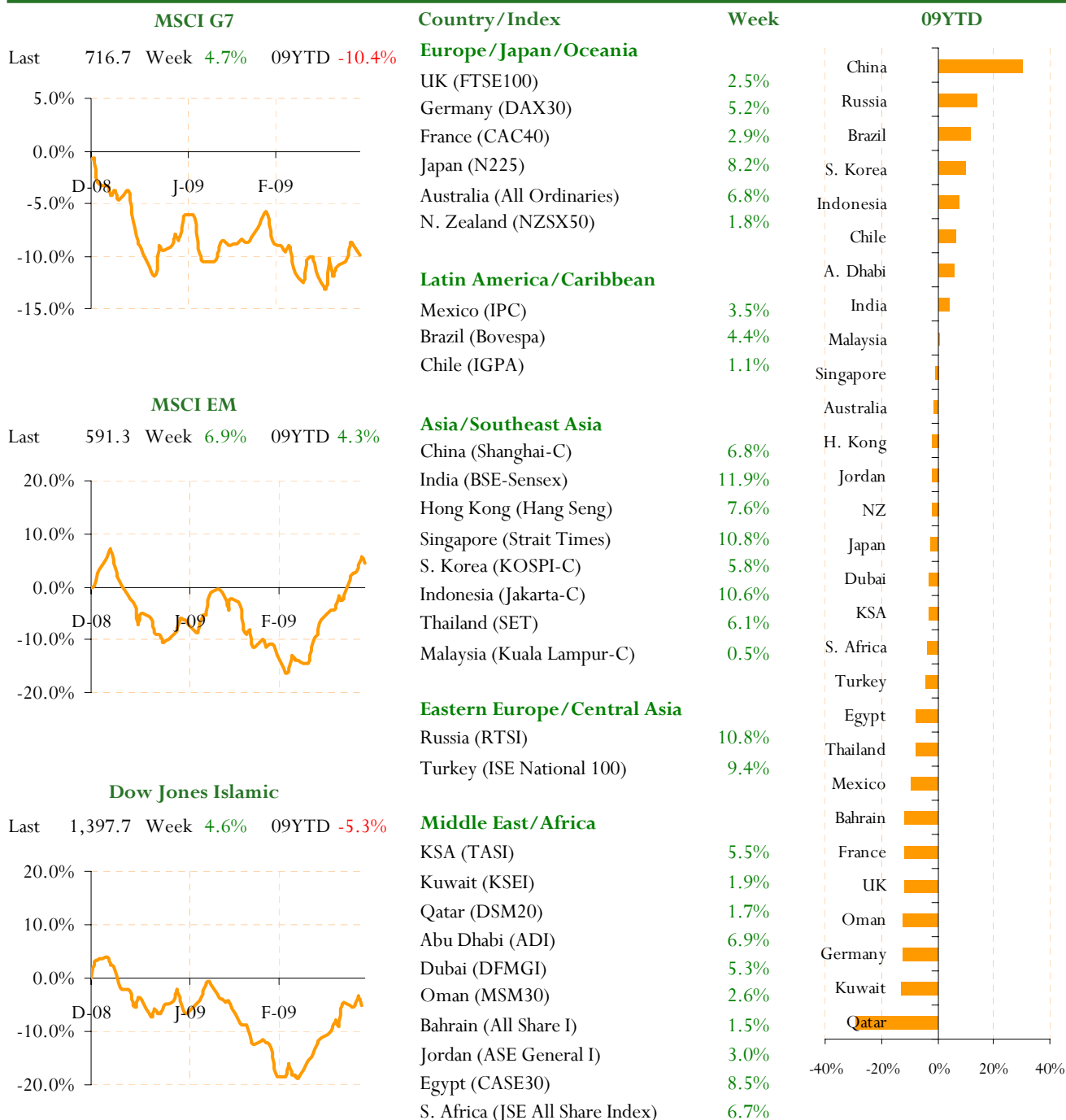
\$ per €*	Rate versus \$	Last	Week	09YTD
Last 1.3304 Week -2.1% 09YTD -4.8%	Europe/Oceania			
	Swiss Franc (CHF)	1.1444	-1.5%	CLP
	Australian Dollar (AUD)	0.6940	1.0%	BRL
	New Zealand Dollar (NZD)	0.5699	1.9%	JOD
	Latin America/Caribbean			
	Mexican Peso (MXN)	14.3500	-0.9%	SAR
	Brazilian Real (BRL)	2.2905	-0.8%	OMR
	Chilean Peso (CLP)	574.2000	2.4%	BHD
				QAR
				HKD
	Asia/Southeast Asia			AED
	Chinese Yuan (CNY)	6.8320	-0.1%	CNY
	Indian Rupee (INR)	50.5500	0.0%	ZAR
	Hong Kong Dollar (HKD)	7.7507	0.0%	THB
	Singaporean Dollar (SGD)	1.5153	0.0%	AUD
	South Korean Won (KRW)	1,346.00	4.5%	NZD
	Indonesian Rupee (IDR)	11,495.00	2.4%	EGP
	Thai Baht (THB)	35.4200	0.0%	INR
	Malaysian Ringgit (MYR)	3.6175	0.8%	MYR
				KWD
	Eastern Europe/Central Asia			MXN
	Russian Rouble (RUB)	33.7613	-0.8%	IDR
	Turkish New Lira (TRY)	1.6715	1.3%	SGD
				KRW
	Middle East/Africa			CHF
	Saudi Riyal (SAR)	3.7505	0.0%	TRY
	Kuwaiti Dinar (KWD)	0.2899	0.4%	RUB
	Qatari Riyal (QAR)	3.6410	0.0%	
	UAE Dirham (AED)	3.6739	0.0%	
	Omani Riyal (OMR)	0.3847	0.1%	
	Bahraini Dinar (BHD)	0.3768	0.1%	
	Jordanian Dinar (JOD)	0.7090	0.1%	
	Egyptian Pound (EGP)	5.6540	-0.2%	
	South African Rand (ZAR)	9.6152	0.5%	

Global Equity Markets

East European Markets Edge Higher on Rescue Packages

Eastern European economies have gradually opened up, exposing themselves more greatly to trade and capital flows, in hope to gain accession into the Euro-zone. However with the global downturn, countries have turned isolationist, leading other reliant economies to face rapidly falling exports, foreign investment, remittances and tightening credit. This has prompted the current account deficit to GDP ratio to approach the 20% mark in most Eastern European countries. The presence of these substantial shortfalls in the economic background has led to a weakening of their currencies, which is expected, as global investors flee markets and currencies seen as carrying higher risk. However, now with an emergency facility from the IMF and the EU on the way, investors were tempted back into equities. This week the Warsaw Stock Exchange and the Bucharest Stock exchange gained a hefty 4.53% and 5.69% respectively, as the market seemed hopeful that the loans will 1) reduce their current account deficits, and 2) reduce the speculative pressures that have driven down their respective currencies.

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



NCB Economics Department

The Economics Department Research Team

Head of Research

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

Sector Analysis/Saudi Arabia

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

Zulfiqar Bashir, PhD
Senior Economist
z.bashir@alahli.com

Mohamad Jomaa
Economist
m.jomaa@alahli.com

Macroeconomic Analysis

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

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

Dana Nammari
Economist
d.nammari@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