

Market Review and Outlook

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

August 2, 2009

Special Focus: US: A Bitter-Sweet Recovery

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Saudi Arabia Leading Economic Indicators

	2008	Latest	Period
Average WTI, Cushing 1M, USD/bbl	99.67	53.4	09YTD
Weighted Average Arabian Light, USD/bbl	94.8	52.8	09YTD
Average 3M USD LIBOR	2.93%	0.96%	09YTD
Average 3M SAR SAIBOR	3.41%	1.05%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	48.2	9.3	09YTD
Y/Y Growth in Monetary Base (M0)	-0.35%	20.87%	June09
Y/Y Growth in Money Supply (M3)	17.6%	16.4%	June09

Head of Research

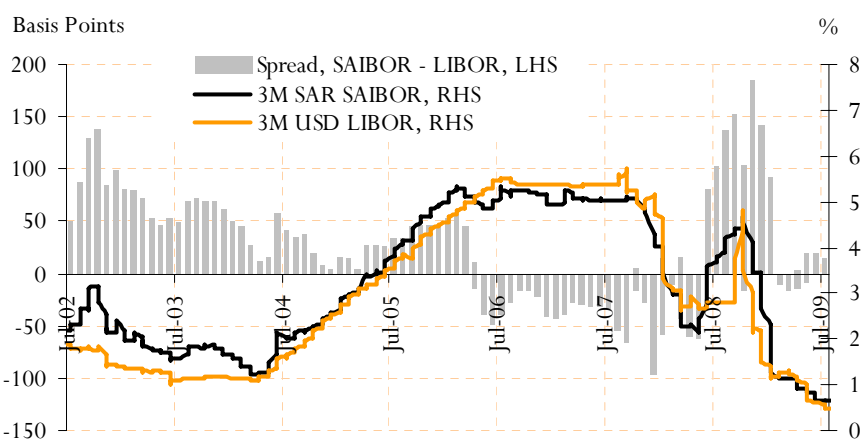
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Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB

Last updated: 31 Jul 2009

Saudi Macro and Equity Market

Waves of Positive 2Q Results Boosts Investor Sentiment

The waves of 2Q09 results announced by 127 of the 130 Saudi listed joint-stock companies boosted investors' hopes for a rebound in the equity market and expectations for yet another year of positive economic growth, while TASI is maintaining an upward path in line with a slight pick up in bank credit in 2Q09. The 2Q09 positive earnings were reported by 95 companies with a combined total of SAR17.20 bn, while those of 32 firms reported losses totaling SAR1.34 bn, thus producing an overall positive balance of SAR15.87 bn in 2Q09. The 2Q09 positive earnings were 53.3% higher when compared with the 1Q09 figures of SAR10.35 bn. However, the upbeat earnings picture of 2Q09 overturns if the first-two quarters results were collated across 127 reporting companies. Accordingly, net-earnings across 127 firms totaled SAR26.22 bn and dropped 44.2% in 1H09 over 1H08 with the largest drop reported by Energy & Utilities (-136.5%), followed by Petrochem. Industries (-90%). Meanwhile the sectors that reported positive earnings growth were Industrial Investment (13.1%), followed by Hotels & Tourism (514%), and to a lesser extent Insurance (28%).

Key Macroeconomic and Equity Market Indicators

	Last	Previous	Y/Y Growth in Credit (Private Sector)	Tadawul All Share Index: 31 Dec 08 = 0%
	YTD	2008		
Oil Price, \$bbl ¹	52.8	94.8		
	Jun	May		
Oil Production, mmbd ²	8.02	7.98		
	2008	2007		
Real GDP	4.5%	3.4%		
	May	Apr		
CPI Inflation, Y/Y	5.5%	5.2%		
	Jun	May		
Broad Money (M3), Y/Y	16.4%	16.9%		
	Jun	May		
Credit, Private Sector	5.8%	8.0%		
	1Q09	4Q08		
Credit, Corporate	25.0%	43.2%		
	1Q09	4Q08		
Credit, Households	-2.6%	-2.3%		
	Jun	May		
Net Claims on Government ³	-731	-736		
	Jun	May		
Loan-to-deposit Ratio ⁴	77.2%	77.9%		
	Jun	May		
Excess Reserves/Total ⁵	59.3%	65.1%		
	6M2009	6M2008		
Import LCs, SARbn ⁶	61.19	93.68		

Sources: SAMA, Reuters.

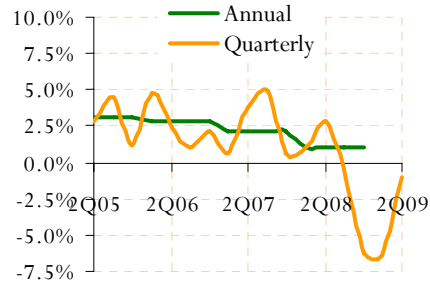
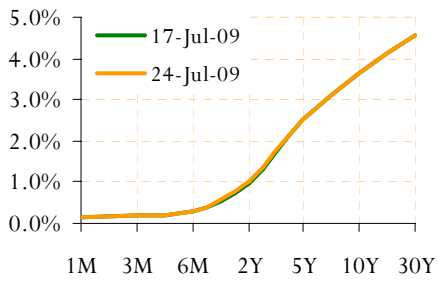
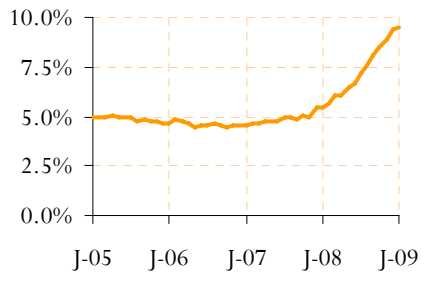
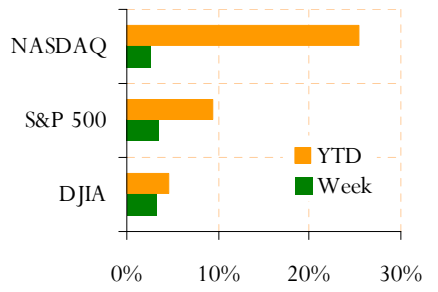
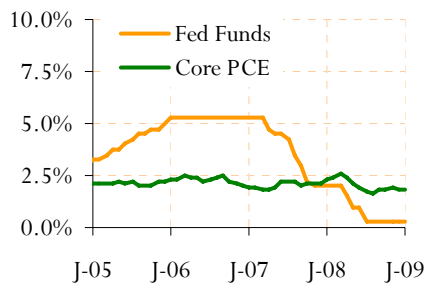
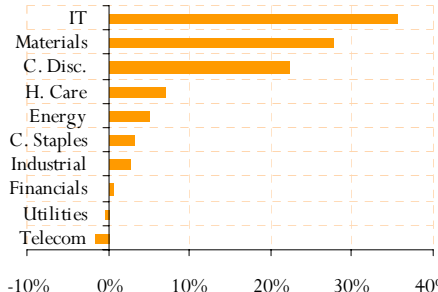
Notes: 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on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

A Bitter-Sweet Recovery

The US economy is bottoming out. Following a downwardly revised dive in GDP of 6.4% in 1Q09, the economy is estimated to have contracted a more moderate 1% annualized in 2Q09. Encouraging, is that the pace of decline has eased in categories central to the economy's recovery. Firstly, business investment fell by 8.9% in 2Q09 after plunging 39.2% in the previous quarter. Moreover, business stockpiles declined a record USD141.1 bn, as firms continued to stall production in order to reduce inventories. Although this subtracted 0.83% from GDP, it bares positive implications for the upcoming quarter. Secondly, exports, traditionally a pillar of economic growth in the US, fell by 7% following a hefty decline of 29.9% in 1Q09. This alludes to an improvement in global demand, a vital condition to lift the US out of the recession. Thirdly, 2Q09 saw a moderate improvement in residential investment, the sector at the core of the crisis, declining by 29.3% after a drop of 38.2% in 1Q09. Nevertheless, consumer demand, the key component of GDP, doubled the pace of its decline to 1.2% this quarter. This in conjunction with the still-elevated financial strains on the economy will keep growth sluggish in 2H09.

Key Macroeconomic and Capital Market Indicators

	Latest	Next		
	2Q09(A)	2Q09(P)		
Real GDP	-1.00%	27-Aug	Real GDP Growth, Annualized	Benchmark Yields, Annualized
	Jun	Jul		
Unemployment	9.50%	2-Aug	National Unemployment Rate	Benchmark Equity Indices
	Jun	Jul		
A. H. Earnings, M/M	0.00%	2-Aug	Target Fed Funds Rate/Core PCE	MSCI US Sector Indices
	Jun	Jul		
CPI Inflation, Y/Y	-1.40%	15-Aug		
	Jun	Jul		
Core PCE, Y/Y	1.80%	4-Aug		
	Jun	Jul		
Existing Home Sales, M/M	3.6%	21-Aug		
	Jun	Jul		
Housing Starts, M/M	3.6%	18-Aug		
	Jun	Jul		
Trade Balance, \$bn	-25.96	10-Aug		
	May	June		
Retail Sales, M/M	0.60%	13-Aug		
	Jun	Jul		
Industrial Production, M/M	-0.4%	14-Aug		
	Jun	Jul		
Capacity Utilization	68%	14-Aug		
	Jun	Jul		
Fed Funds Rate	0.25%	12-Aug		
	Jun	Aug		

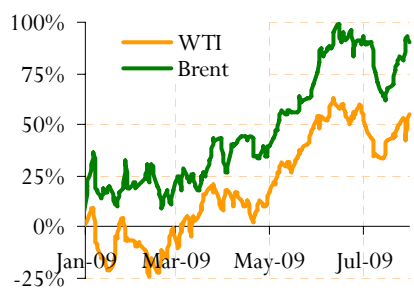
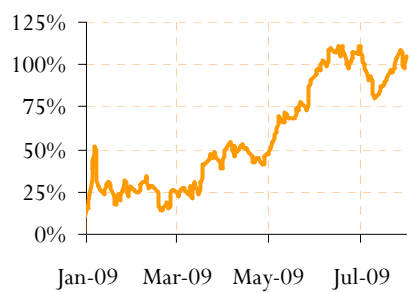
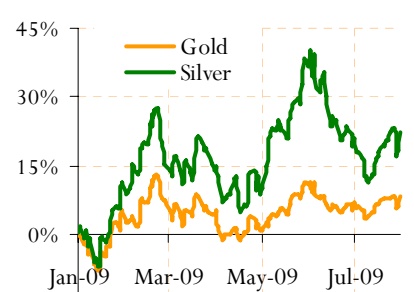
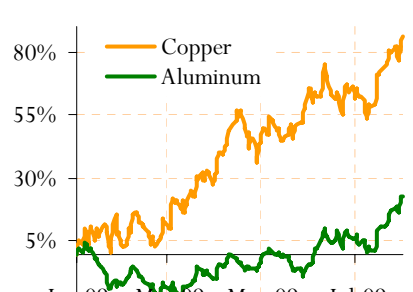
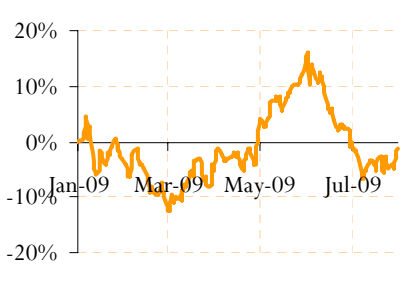
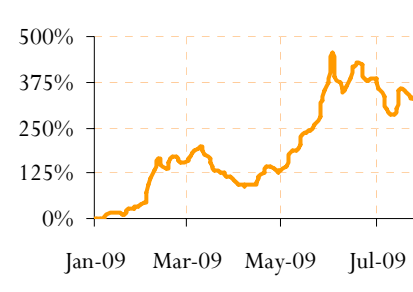
Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

Commodity Markets

Fundamentals Support Soybean Prices

Over the week, soybean futures were dominated by a bullish momentum, increasing a hefty 10.5%. In the US, low profits earned by livestock and chicken feeders have reduced demand for soymeal, the key protein source for their poultry and livestock. Although domestic demand has been weak, other factors have been key in driving the rally. The weakening of the USD has made US produced commodities like soybeans and wheat, more attractive to global importers. On the supply-side, favorable weather conditions in the US throughout Aug, raised expectations of a record large harvest. Although this would traditionally exert downward pressure on prices, the anticipated increase in supply is met by China's insatiable demand. The world's largest importer of soy has decided to buy 120k tones for the current marketing year beginning Sep 1st, and 1.8 mn tones for delivery next year. Moreover a drought in South America stunted the region's soybean harvest, which boosted demand for US produce, further rallying prices. Accordingly, due to the abovementioned factors, supply of soybeans has been tight and met by strong demand. This has lent crucial support to prices and is expected to do so over the medium-term.

Key Commodity Prices and Indices

	Last	Week		
	31-Jul	%	Benchmark Crude Oil Prices	Saudi Arabian Light, Asia Deliveries
WTI, Spot, \$/bbl	69.3	7.2		
Brent, Spot, \$/bbl	70.0	6.7		
Gold, LME, \$/Oz	953.8	0.4	Precious Metals	Base Metals
Silver, LME, \$/Oz	13.9	1.5		
Platinum, \$/Oz	1207.5	3.0		
Palladium, \$/Oz	261.5	3.6		
Aluminum, LME, \$/t	1905.0	10.0	Goldman Sachs Agriculture Index	Baltic Exchange Dry Index
Copper, LME, \$/t	5719.0	4.0		
Nickel, LME, \$/t	17950.0	10.5		
Zinc, LME, \$/t	1750.0	3.8		
Wheat, Sep, \$/Bushel	5.3	1.2		
Com, Sep, \$/Bushel	3.4	10.2		
Soybeans, Sep, \$/Bushel	10.4	10.5		

Notes: All variables depicted in the charts above are rebased to 0% in the last trading day in 2008.

Strains on Jordan's Economy

Although limited financial integration has sheltered Jordan from the financial crisis, its strong economic linkages with the GCC in particular, has threatened the region's key sources of revenue: foreign direct investment (FDI), remittances and exports. Firstly FDI, the majority of which is from the Gulf, is likely to decline in 2009, as lower oil prices and tighter liquidity conditions drive investors to minimize any fresh capital flows. Secondly with approximately 600k Jordanians working in the Gulf, the economic slowdown in the GCC has caused remittances to decline by 9.9% Y/Y in April. Thirdly owing to weak global demand conditions, exports have declined by 6.6% Y/Y over Jan-May. The decline in revenues has exerted pressure on Jordan's sizeable current account deficit, which in 2008 reached 11.2% of GDP. Providing some relief in 2009 has been the decline in the import bill owing to both lower commodity prices and weaker domestic demand. This is projected to narrow the fiscal deficit by 1.5% of GDP in 2009. Overall, the slowdown in economic activity is expected to slow GDP, which averaged 5.6% in 2008, to 3% in 2009.

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%	-2.5%	1Q09	-0.1%	Jul-09	-0.1%	1.00%	Hold	2-Jul-09	E. Zone
UK	3.0%	-1.6%	4Q08	1.8%	Jul-09	1.8%	0.50%	Hold	9-Jul-09	UK
Japan	2.4%	-3.2%	4Q08	-1.7%	Jul-09	-1.2%	0.10%	Hold	15-Jul-09	Japan
Australia	4.0%	0.4%	1Q09	1.5%	Jul-09	1.5%	3.00%	Hold	7-Jul-09	Australia
New Zealand	3.2%	-0.9%	4Q08	1.9%	Jul-09	1.8%	2.50%	Hold	11-Jul-09	NZ
Latin America /Caribbean										
Mexico	3.2%	-8.2%	1Q09	6.3%	Nov-08	3.0%	4.50%	-0.25%	17-Jul-09	Mexico
Brazil	5.7%	-1.8%	1Q09	0.4%	Jul-09	0.3%	8.75%	-0.50%	23-Jul-09	Brazil
Chile	5.1%	-2.4%	1Q09	7.2%	Dec-08	3.0%	0.50%	-0.25%	10-Jul-09	Chile
Asia/Southeast Asia										
China	11.9%	7.9%	2Q09	-1.7%	Jul-09	-1.30%	5.31%	-0.27%	22-Dec-08	China
India	9.0%	5.8%	4Q08	5.6%	Jan-09	5.50%	5.50%	-1.00%	2-Jan-08	India
Hong Kong	6.4%	1.7%	3Q08	-0.9%	Jul-09	-0.50%	1.50%	-0.50%	30-Oct-08	H. Kong
Singapore	7.7%	-3.7%	2Q09	-0.5%	Jul-09	-	-	-	-	Singapore
South Korea	5.0%	2.3%	2Q09	2.0%	Jul-09	2.30%	2.00%	Hold	9-Jul-09	S. Korea
Indonesia	6.3%	6.1%	3Q08	3.7%	Jul-09	-	6.75%	-0.25%	3-Jul-09	Indonesia
Thailand	4.9%	-7.1%	1Q09	-4.0%	Jul-09	-4.10%	1.25%	Hold	15-Jul-09	Thailand
Malaysia	6.3%	4.7%	3Q08	-1.4%	Jul-09	-1.40%	3.25%	-0.25%	24-Nov-08	Malaysia
Eastern Europe /Central Asia										
Russia	8.1%	-9.8%	1Q09	0.6%	Jul-09	0.50%	6.75%	1.00%	28-Nov-08	Russia
Turkey	4.6%	-13.8%	1Q09	5.7%	Jul-09	-	8.25%	-0.50%	16-Jul-09	Turkey
Middle East/Africa										
Saudi Arabia	3.4%	4.5%	2008	5.5%	May-09	-	2.00%	-0.50%	19-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	20-May-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	20-May-09	Oman
Bahrain	7.9%	6.5%	2006	4.4%	Oct-08	-	0.75%	Hold	21-May-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	-	10.50%	-0.50%	30-Jul-09	Egypt
South Africa	5.0%	-1.3%	1Q09	6.9%	Jun-09	7.90%	7.50%	Hold	25-Jun-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

JOD: "Fixed" against the Downturn

Despite the impact of the crisis on Jordan's economy (see Global Macro), the region has maintained a healthy inflow into its currency. Preliminary estimates reveal that foreign exchange (FX) reserves reached USD9.5 bn in Apr, marking a hefty 71%Y/Y rise. The increase in FX reserves may appear obscure since FDI, remittances and tourism, have registered slower growth in 2009. However Jordan has avoided a steep capital flight through its monetary policy. Although the JOD has been pegged to the USD since 1995, the CBJ is keen to allow a wide interest rate differential, currently standing at 6.25 bp, in favor of the JOD to encourage banks and depositors to keep their funds in Dinar-denominated assets. Deposits in the banking sector, most of which are JOD denominated, increased 10%Y/Y in June. Accordingly despite the recent depreciation in the USD, confidence in the peg has been maintained. However threatening the JOD's stability is Jordan's high level of debt, which is projected to rise above the legislative ceiling of 60% in 2011. Servicing this debt is a key long-term challenge, made more difficult owing to Jordan's high interest rate, and still sizeable current account deficit.

Key Spot Foreign Exchange Rates

	\$ per €	Rate versus \$	Last	Week	09YTD
Last	1.4253				
Week	0.3%				
09YTD	1.9%				
Europe/Oceania					
		Swiss Franc (CHF)	1.0688	0.3%	BRL
		Australian Dollar (AUD)	0.8356	2.2%	ZAR
		New Zealand Dollar (NZD)	0.6621	0.9%	CLP
Latin America /Caribbean					
		Mexican Peso (MXN)	13.1790	0.2%	AUD
		Brazilian Real (BRL)	1.8655	1.7%	NZD
		Chilean Peso (CLP)	541.8000	-1.0%	IDR
Asia/Southeast Asia					
		Chinese Yuan (CNY)	6.8322	0.0%	TRY
		Indian Rupee (INR)	47.8500	0.5%	MXN
		Hong Kong Dollar (HKD)	7.7503	0.0%	KRW
		Singaporean Dollar (SGD)	1.4390	0.1%	THB
		South Korean Won (KRW)	1,223.20	1.9%	INR
		Indonesian Rupee (IDR)	9,930.00	0.7%	JOD
		Thai Baht (THB)	34.0500	-0.1%	SAR
		Malaysian Ringgit (MYR)	3.5250	0.2%	QAR
Eastern Europe /Central Asia					
		Russian Rouble (RUB)	31.4665	-1.5%	BHD
		Turkish New Lira (TRY)	1.4723	0.5%	HKD
Middle East/Africa					
		Saudi Riyal (SAR)	3.7503	0.0%	AED
		Kuwaiti Dinar (KWD)	0.2878	-0.4%	OMR
		Qatari Riyal (QAR)	3.6414	0.0%	CHF
		UAE Dirham (AED)	3.6732	-0.1%	CNY
		Omani Riyal (OMR)	0.3851	-0.1%	SGD
		Bahraini Dinar (BHD)	0.3770	0.0%	EGP
		Jordanian Dinar (JOD)	0.7090	0.0%	MYR
		Egyptian Pound (EGP)	5.5495	0.4%	RUB
		South African Rand (ZAR)	7.7710	-0.1%	KWD

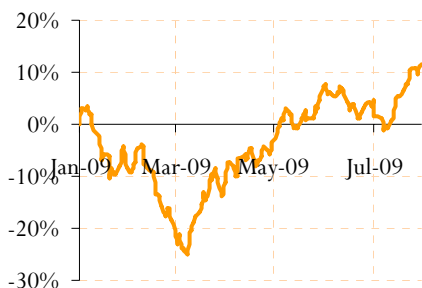
Global Equity Markets

ASE: Feeling the Pain

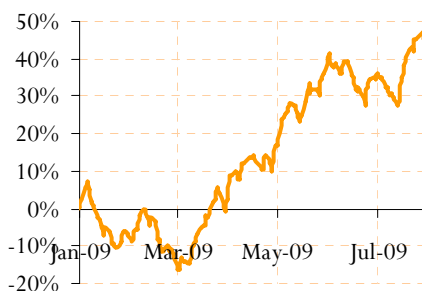
The Amman Stock Exchange (ASE) has suffered considerably since the onset of the crisis. Currently, it is almost at one third of its value in 2005, with a market capitalization of JOD24334.4 bn in Jun09. The Arab bank, the largest and single international Jordanian bank, accounts for almost 30% of the stock market's capitalization. As of Jul09, shares of Arab Bank have lost a hefty 45.3%Y/Y. While no region was expected to be immune from the downturn, it seemed possible that the Middle East could avoid some of the pain. Limited financial integration and innovation in Jordan kept banks' liquidity ratios strong and funding predominately deposit-based. Stress tests conducted by the Financial Sector Assessment program (FSAP), a joint IMF and World Bank effort, agreed with Jordan's limited exposure to market risks. However, it outlined that the economy's dependence on sectors such as real estate and tourism is expected to affect the asset quality of banks substantially exposed to them. Accordingly, it will take time for the economy to heal and risk appetite to return. Meanwhile the dramatic decline in funds to the financial market has crippled the capital of Jordanian firms and the wealth of its citizens.

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

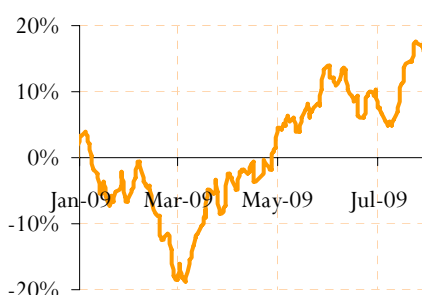
MSCI G7
Last 893.0 Week 1.3% 09YTD 11.7%



MSCI EM
Last 844.0 Week 2.5% 09YTD 48.8%



Dow Jones Islamic
Last 1,738.2 Week 2.9% 09YTD 17.8%



Country/Index

Europe/Japan/Oceania

UK (FTSE100)	2.6%
Germany (DAX30)	4.1%
France (CAC40)	3.7%
Japan (N225)	6.5%
Australia (All Ordinaries)	4.4%
N. Zealand (NZSX50)	4.0%

Latin America/Caribbean

Mexico (IPC)	2.9%
Brazil (Bovespa)	3.2%
Chile (IGPA)	-0.1%

Asia/Southeast Asia

China (Shanghai-C)	3.5%
India (BSE-Sensex)	5.6%
Hong Kong (Hang Seng)	6.9%
Singapore (Strait Times)	8.5%
S. Korea (KOSPI-C)	4.2%
Indonesia (Jakarta-C)	9.3%
Thailand (SET)	3.9%
Malaysia (Kuala Lumpur-C)	0.5%

Eastern Europe/Central Asia

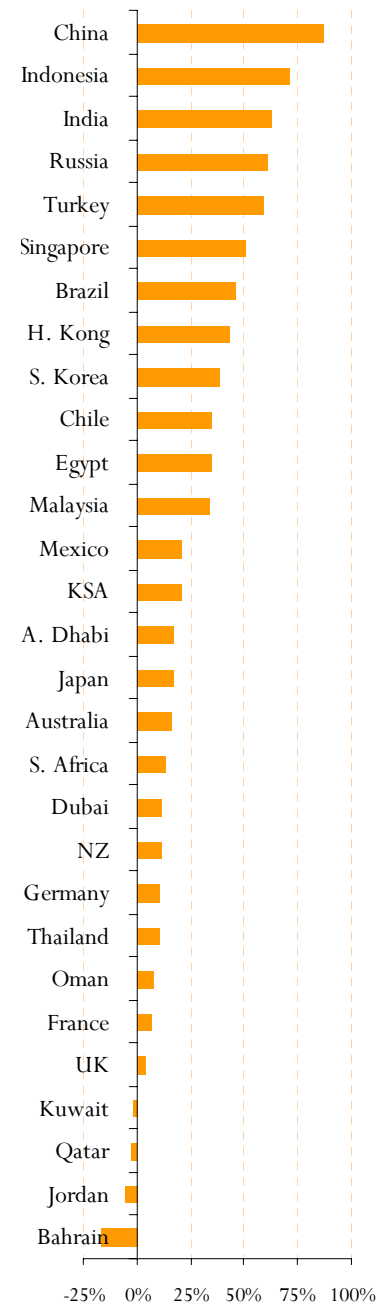
Russia (RTSI)	5.6%
Turkey (ISE National 100)	11.7%

Middle East/Africa

KSA (TASI)	2.0%
Kuwait (KSEI)	0.1%
Qatar (DSM20)	3.0%
Abu Dhabi (ADI)	3.3%
Dubai (DFMGI)	4.5%
Oman (MSM30)	0.8%
Bahrain (All Share I)	0.8%
Jordan (ASE General I)	2.4%
Egypt (CASE30)	3.8%
S. Africa (JSE All Share Index)	2.8%

Week

09YTD



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