

Market Review and Outlook

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

August 9, 2009

Special Focus: UK: Inflation or Deflation?

Headlines

Saudi Macro and Equity Market	Saudi Consumers Borrow Less, on Rising Prosperity & Regulations	2
US Macro and Equity Market	Unemployment: Surprise to the Upside	3
Commodity Markets	Copper Prices Surge on Supply Concerns & Demand Expectations	4
Global Macro	UK: Inflation or Deflation?	5
FOREX Market	USD/GBP: A Volatile Week	6
Global Equity Markets	Financials Lead the Way	7

Saudi Arabia Leading Economic Indicators

	2008	Latest	Period
Average WTI, Cushing 1M, USD/bbl	99.67	55.9	09YTD
Weighted Average Arabian Light, USD/bbl	94.8	53.4	09YTD
Average 3M USD LIBOR	2.93%	0.95%	09YTD
Average 3M SAR SAIBOR	3.41%	1.00%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	48.2	6.9	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

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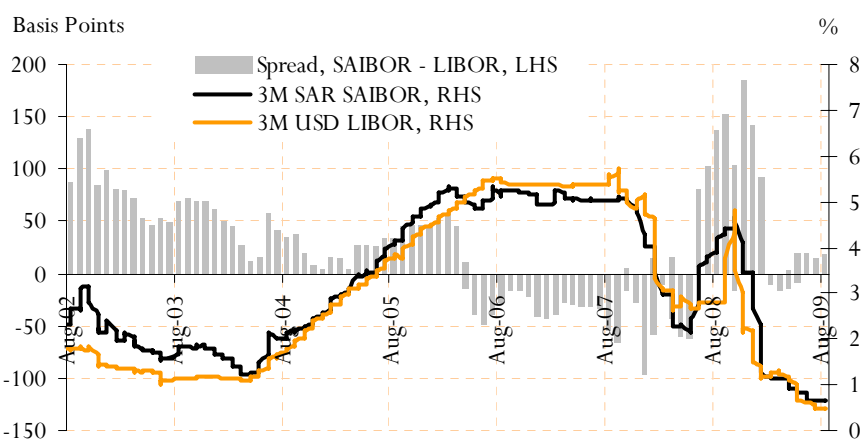
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Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB

Last updated: 7 Aug 2009

Saudi Macro and Equity Market

Saudi Consumers Borrow Less, on Rising Prosperity & Regulations

The banks' portfolio of consumer and credit card loans has been shrinking every year since 2006 because of spreading prosperity. The volume of total consumer loans declined from SAR188 bn in Y06 to SAR183.4 bn in Y08 and further slipped 2.6% down to SAR183.2 bn in 1Q09 over 1Q08. The consumer loans as a proportion of banks' overall bank loans to the entire economy dwindled 13%, from 37.8% in 4Q06 to 24.8% in 1Q09. Continuing high profitability growth, increasing dividend disbursements by the corporate sector and hefty payroll enhancement by the government together have lessened consumers' borrowing appetite in recent years. Credit card loans accounted for 4.8% of the banks' total consumer loans, purchases of cars and equipment 20.6%, real estate 8.4% and the largest, 66.2%, concentrated in the pool of 'other' category. The Kingdom's average per capita consumer loans was SAR7,387 in Y08, about 10.4% of the overall GDP per capita, suggesting an adequate room for expansion. However SAMA's 2006 regulations, which stipulated that (1) only a third of the net salary can be used to repay the loan and (2) repayment should be complete within a 5 year time-frame, will keep the outlook for loan growth subdued.

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	53.4	94.8		
	Jul	Jun		
Oil Production, mmbd ²	8.07	8.02		
	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.

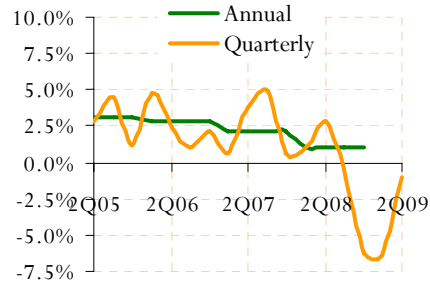
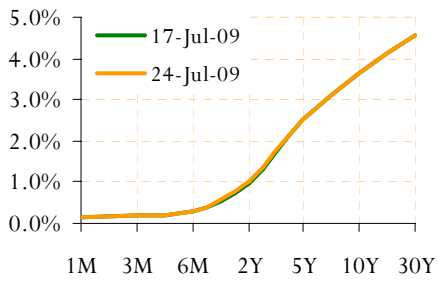
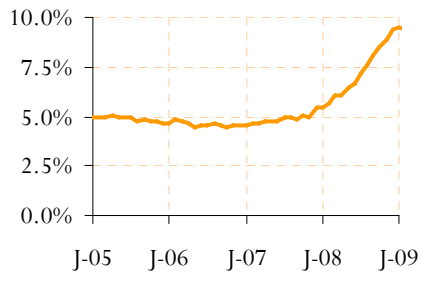
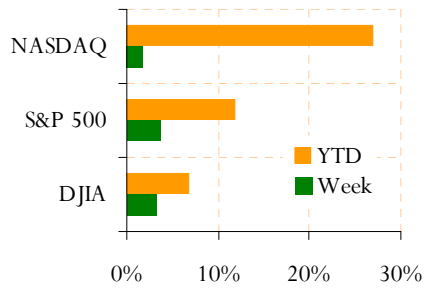
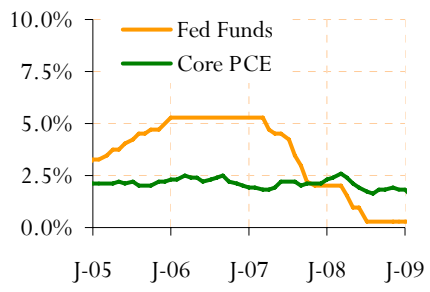
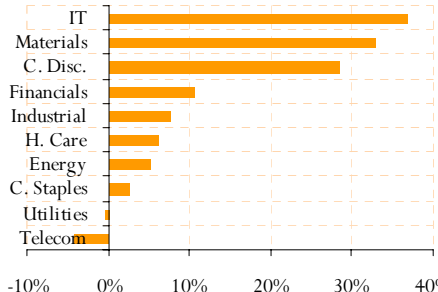
Notes: 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on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

Unemployment: Surprise to the Upside

Non-farm payrolls contracted by 247k in Jul, following a downwardly revised 443k drop in Jun. This marked the first marginal fall in the rate of joblessness since Dec07, causing the unemployment rate to edge lower to 9.4% from 9.5% in Jun. Job losses spanned across all sectors with only government (7k), health care & education (17k) and leisure & hospitality (9k) posting gains. In manufacturing, the pace of decline more than halved (-52k). This is largely due to the auto sector which added 28k workers, as Chrysler and GMC exit bankruptcy. Construction continued to shed labour (-76k), in line with the past 3 month average (-76k). The surprise to the upside in overall employment data is due to two factors: (1) the USD787 bn stimulus is beginning to feed through to the economy and spur recovery, and (2) some sectors have depleted their inventories, indicative that production will soon restart. These two factors will intensify in the near-term which could push growth in 2H09 higher than the 2.75% forecast. Although the US economy may be at a turning point, unemployment remains sizeable, having now declined consecutively for 19 months. This suggests that the labour market is likely to lag behind recovery.

Key Macroeconomic and Capital Market Indicators

	Latest	Next		
Real GDP	2Q09(A) -1.00%	2Q09(P) 27-Aug	Real GDP Growth, Annualized	Benchmark Yields, Annualized
Unemployment	Jul 9.40%	Aug 4-Sep		
A. H. Earnings, M/M	Jul 0.20%	Aug 4-Sep	National Unemployment Rate	Benchmark Equity Indices
CPI Inflation, Y/Y	Jun -1.40%	Jul 15-Aug		
Core PCE, Y/Y	Jun 1.50%	Aug 6-Sep	Target Fed Funds Rate/Core PCE	MSCI US Sector Indices
Existing Home Sales, M/M	Jun 3.6%	Jul 21-Aug		
Housing Starts, M/M	Jun 3.6%	Jul 18-Aug		
Trade Balance, \$bn	May -25.96	June 10-Aug		
Retail Sales, M/M	Jun 0.60%	Jul 13-Aug		
Industrial Production, M/M	Jun -0.4%	Jul 14-Aug		
Capacity Utilization	Jun 68%	Jul 14-Aug		
Fed Funds Rate	Jun 0.25%	Aug 12-Aug		

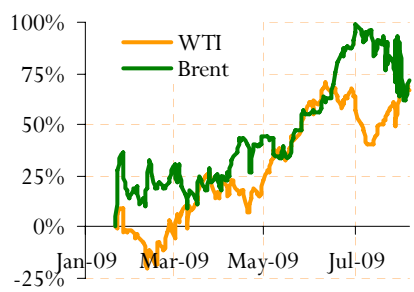
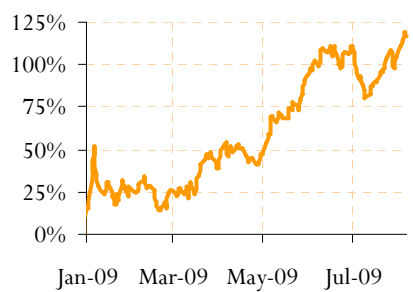

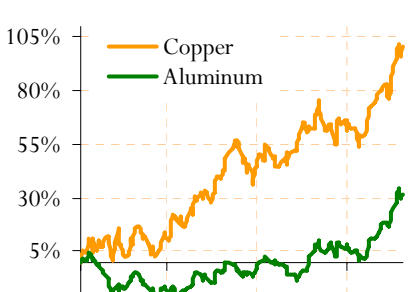

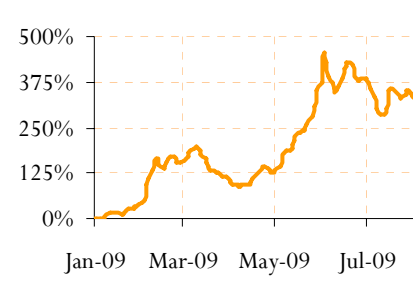
Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

Commodity Markets

Copper Prices Surge on Supply Concerns & Demand Expectations

In the LME, copper prices last week surged on supply concerns and rising demand from China, closing at USD6,150 per tone, about 2.9% up in the week and doubling since the beginning of this year. The global demand for copper is forecast to reach 19.5 mn tones this year, with China being the leading consumer, taking up nearly 10% of the world total. The global copper inventory reached half in Jul09 from the level that stood at 548,400 tones in Feb09, which supported the price escalation. The gain in copper prices was due to growing demand in China for restocking, and a weakening USD as well. Copper demand in China will continue to underpin prices as investors await a recovery in OECD demand. From the Saudi perspective, the wide application of copper in construction, electric cable manufacturing and household consumer electronics are major source of copper demand in the country. To our estimate, the current level of Saudi demand for copper is around 250,000 tones annually with the local electric cable industry the largest consumer.

Key Commodity Prices and Indices

	Last	Week		
	7-Aug	%	Benchmark Crude Oil Prices	Saudi Arabian Light, Asia Deliveries
WTI, Spot, \$/bbl	71.0	11.9		
Brent, Spot, \$/bbl	74.5	12.8		
Gold, LME, \$/Oz	953.9	2.7	Precious Metals	Base Metals
Silver, LME, \$/Oz	14.6	9.9		
Platinum, \$/Oz	1261.5	7.8		
Palladium, \$/Oz	273.0	8.1		
Aluminum, LME, \$/t	2022.0	12.1	Goldman Sachs Agriculture Index	Baltic Exchange Dry Index
Copper, LME, \$/t	6150.0	13.6		
Nickel, LME, \$/t	19625.0	20.6		
Zinc, LME, \$/t	1900.0	15.6		
Wheat, Dec, \$/Bushel	5.2	-4.1		
Com, Sep, \$/Bushel	3.2	0.4		
Soybeans, Sep, \$/Bushel	10.9	13.1		

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

UK: Inflation or Deflation?

Although the Bank of England (BoE) had announced its intention to suspend quantitative easing, the disappointing 2Q09 GDP estimate indicated that such tightening would be premature. Accordingly, in its recent monetary policy meeting (6-Aug), the BOE decided to extend its GBP125 bn asset purchase programme by GBP50 bn. The impact the additional stimulus will carry on output and inflation is undetermined. On the one hand, the stimulus has yet to feed-through to the economy. This means recovery in GDP growth is in sight, which could stoke inflation over the medium term. On the other hand, the UK's recession may be deep enough to curb inflation. In that light, the wide dislocation in credit markets, and the previous falls in asset prices in conjunction with high levels of debt, will continue to weigh heavily on spending and growth. In turn, capacity utilization will likely continue to decline, exerting downward pressure on inflation over the medium-term. This specter has rendered the risk of deflation, a paramount concern for the BOE, especially since CPI inflation fell to 1.8% in Jun, below the BOE's 2% target. However, only time can tell which path will materialize.

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%	1Q 09	-0.1%	Jul-09	-0.1%	1.00%	Hold	6-Aug-09	E. Zone
UK	3.0%	-1.6%	4Q 08	1.8%	Jul-09	1.8%	0.50%	Hold	6-Aug-09	UK
Japan	2.4%	-3.2%	4Q 08	-1.7%	Jul-09	-1.2%	0.10%	Hold	15-Jul-09	Japan
Australia	4.0%	0.4%	1Q 09	1.5%	Jul-09	1.5%	3.00%	Hold	7-Jul-09	Australia
New Zealand	3.2%	-0.9%	4Q 08	1.9%	Jul-09	1.8%	2.50%	Hold	11-Jul-09	NZ
Latin America /Caribbean										
Mexico	3.2%	-8.2%	1Q 09	6.3%	Nov-08	3.0%	4.50%	-0.25%	17-Jul-09	Mexico
Brazil	5.7%	-1.8%	1Q 09	0.2%	Aug-09	0.3%	8.75%	-0.50%	23-Jul-09	Brazil
Chile	5.1%	-2.4%	1Q 09	7.2%	Dec-08	3.0%	0.50%	-0.25%	10-Jul-09	Chile
Asia/Southeast Asia										
China	11.9%	7.9%	2Q 09	-1.7%	Jul-09	-1.30%	5.31%	-0.27%	22-Dec-08	China
India	9.0%	5.8%	4Q 08	5.6%	Jan-09	5.50%	5.50%	Hold	2-Aug-08	India
Hong Kong	6.4%	1.7%	3Q 08	-0.9%	Jul-09	-0.50%	1.50%	-0.50%	30-Oct-08	H. Kong
Singapore	7.7%	-3.7%	2Q 09	-0.5%	Jul-09	-	-	-	-	Singapore
South Korea	5.0%	2.3%	2Q 09	1.6%	Aug-09	2.30%	2.00%	Hold	9-Jul-09	S. Korea
Indonesia	6.3%	6.1%	3Q 08	2.7%	Aug-09	-	6.75%	-0.25%	3-Jul-09	Indonesia
Thailand	4.9%	-7.1%	1Q 09	-4.4%	Aug-09	-4.10%	1.25%	Hold	15-Jul-09	Thailand
Malaysia	6.3%	4.7%	3Q 08	-1.4%	Jul-09	-1.40%	3.25%	-0.25%	24-Nov-08	Malaysia
Eastern Europe /Central Asia										
Russia	8.1%	-9.8%	1Q 09	0.6%	Jul-09	0.50%	6.75%	1.00%	28-Nov-08	Russia
Turkey	4.6%	-13.8%	1Q 09	5.4%	Aug-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%	1Q 09	6.9%	Jun-09	7.90%	7.50%	Hold	25-Jun-09	S. Africa

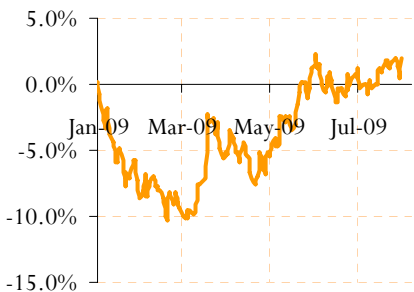
Notes: 1/ Growth: Real GDP Growth Rate, 2007: Y-o-Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 2/ CPI Inflation: Y-o-Y % Change in CPI, Target: Central bank/monetary authority inflation target. 3/ Policy Rate: Last: Current policy rate, Decision/Date: Decision taken in latest meeting/Date of latest meeting.

FOREX Market

USD/GBP: A Volatile Week

Over the week, the GBP traded above USD1.70, for the first time since Oct08. Investor sentiment was high owing to the release of data showing an unexpected jump in UK manufacturing in Jun, a growth in service industries in Jul, and a forecasted rise in home prices before year-end. The data pointed to an easing recession, much welcomed after the dismal GDP figures released in prior weeks. However the BOE's decision to extend its quantitative easing target (see Global Macro) reversed these gains, causing the GBP to fall from its high and close at USD1.67. The bearish sentiment largely emanates from foreign investor concerns over the credibility of the BOE's policy. Debt is now estimated to have reached 12% of GBP, which could stoke inflation if the stimulus is not withdrawn in a timely manner. This threat will weigh down the GBP over the short-term. Going forward, the more money the BOE injects into its economy, the more aggressive the tightening of monetary policy will be later, causing the USD/GBP pair to decline in the long-term. However this ultimately depends on a credible commitment by the BOE to reverse fiscal deterioration.

Key Spot Foreign Exchange Rates

\$ per €		Rate versus \$	Last	Week	09YTD
Last 1.4191	Week -0.4%	Europe/Oceania			
09YTD 1.5%		Swiss Franc (CHF)	1.0812	-1.1%	BRL
		Australian Dollar (AUD)	0.8373	0.2%	ZAR
		New Zealand Dollar (NZD)	0.6723	1.5%	AUD
		Latin America /Caribbean			CLP
		Mexican Peso (MXN)	12.9660	1.6%	NZD
		Brazilian Real (BRL)	1.8213	2.4%	IDR
		Chilean Peso (CLP)	543.5000	-0.3%	MXN
		Asia/Southeast Asia			TRY
		Chinese Yuan (CNY)	6.8320	0.0%	KRW
		Indian Rupee (INR)	47.7000	0.3%	THB
		Hong Kong Dollar (HKD)	7.7509	0.0%	INR
		Singaporean Dollar (SGD)	1.4410	-0.1%	JOD
		South Korean Won (KRW)	1,225.00	-0.1%	SAR
		Indonesian Rupee (IDR)	9,910.00	0.2%	QAR
		Thai Baht (THB)	34.0200	0.1%	BHD
		Malaysian Ringgit (MYR)	3.5030	0.6%	AED
		Eastern Europe /Central Asia			OMR
		Russian Rouble (RUB)	31.6605	-0.6%	HKD
		Turkish New Lira (TRY)	1.4644	0.5%	CNY
		Middle East /Africa			EGP
		Saudi Riyal (SAR)	3.7503	0.0%	SGD
		Kuwaiti Dinar (KWD)	0.2869	0.1%	CHF
		Qatari Riyal (QAR)	3.6420	0.0%	MYR
		UAE Dirham (AED)	3.6731	0.0%	RUB
		Omani Riyal (OMR)	0.3851	0.0%	KWD
		Bahraini Dinar (BHD)	0.3770	0.0%	
		Jordanian Dinar (JOD)	0.7090	0.0%	
		Egyptian Pound (EGP)	5.5315	0.3%	
		South African Rand (ZAR)	8.0270	-3.2%	

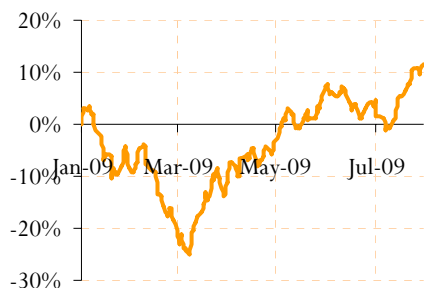
Global Equity Markets

Financials Lead the Way

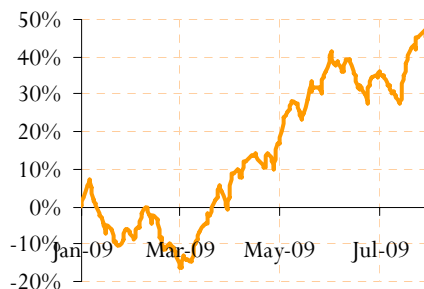
The major US equity indices continue to rally for the fourth consecutive week. Improved economic conditions and better-than-expected performance by companies is beginning to solidify the hope that a US recovery is on its way. This week the Dow Jones Index, the S&P500 and the NASDAQ gained 3.30%, 3.62% and 1.65% respectively. The main motor of this bullish sentiment has been financials, gaining a hefty 13.4% over the week and 10.69% until date. The improved health of these firms has raised investor confidence, as a recovery in this sector is necessary to validate prospects for broader economic recovery. In 2Q09, financial giant Goldman Sachs, reported better than expected earnings of USD3.44 bn. Subsequent profit reports from other blue-chips, such as JP Morgan Chase and Bank of America also surpassed expectations. Nevertheless, despite the new optimism, financial strains remain elevated. Banks continue to report losses from failed loans, as households struggle with debt repayment amid mounting unemployment and tight credit conditions. This signifies that the rally is driven by sentiment not fundamentals, and given the large equity gains present, a sell-off seems to be looming

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

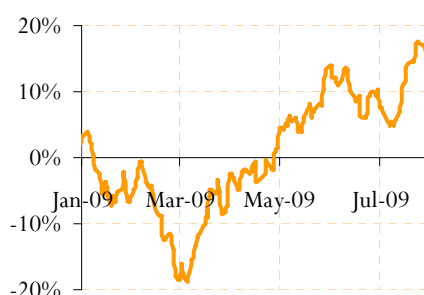
MSCI G7
Last 909.7 Week 1.9% 09YTD 13.8%



MSCI EM
Last 852.9 Week 1.1% 09YTD 50.4%



Dow Jones Islamic
Last 1,747.2 Week 2.1% 09YTD 18.4%



Country/Index

Europe/Japan/Oceania

Country/Index	Week
UK (FTSE100)	4.0%
Germany (DAX30)	3.6%
France (CAC40)	4.6%
Japan (N225)	3.0%
Australia (All Ordinaries)	3.7%
N. Zealand (NZSX50)	2.6%

Latin America/Caribbean

Mexico (IPC)	6.3%
Brazil (Bovespa)	4.8%
Chile (IGPA)	1.4%

Asia/Southeast Asia

China (Shanghai-C)	-0.2%
India (BSE-Sensex)	-0.1%
Hong Kong (Hang Seng)	1.2%
Singapore (Straits Times)	-2.1%
S. Korea (KOSPI-C)	3.4%
Indonesia (Jakarta-C)	5.5%
Thailand (SET)	3.6%
Malaysia (Kuala Lumpur-C)	0.5%

Eastern Europe/Central Asia

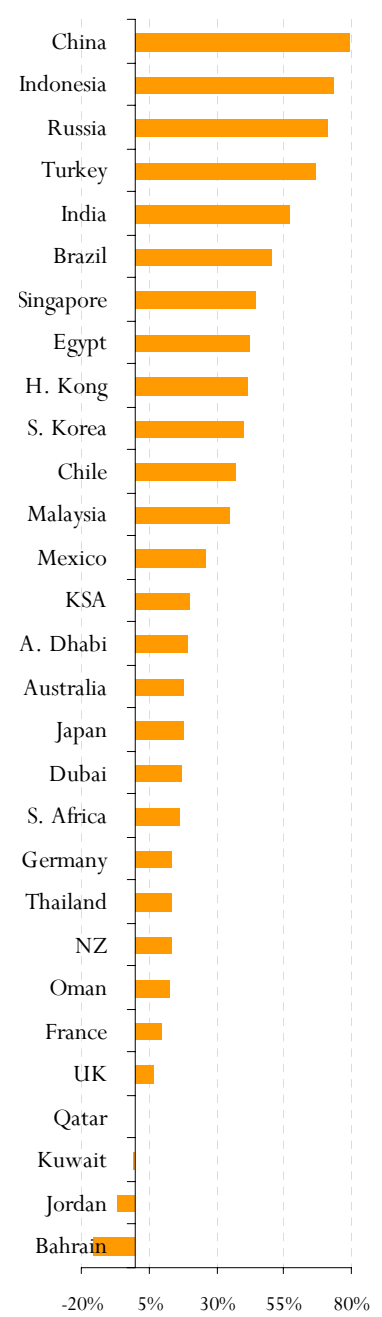
Russia (RTSI)	10.9%
Turkey (ISE National 100)	10.9%

Middle East/Africa

KSA (TASI)	0.0%
Kuwait (KSEI)	1.5%
Qatar (DSM20)	3.6%
Abu Dhabi (ADI)	3.1%
Dubai (DFMGI)	6.0%
Oman (MSM30)	4.2%
Bahrain (All Share I)	1.9%
Jordan (ASE General I)	-0.9%
Egypt (CASE30)	6.9%
S. Africa (JSE All Share Index)	6.3%

Week

09YTD



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