

Market Review and Outlook

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

September 7, 2009

Special Focus: Switzerland's Unwinding: A Base Case or a Best Case Scenario?

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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	55.3	09YTD
Average 3M USD LIBOR	2.93%	0.88%	09YTD
Average 3M SAR SAIBOR	3.41%	0.89%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	48.2	9.3	09YTD
Y/Y Growth in Monetary Base (M0)	-0.35%	14.25%	July09
Y/Y Growth in Money Supply (M3)	17.6%	15.3%	July09

Head of Research

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

Authors

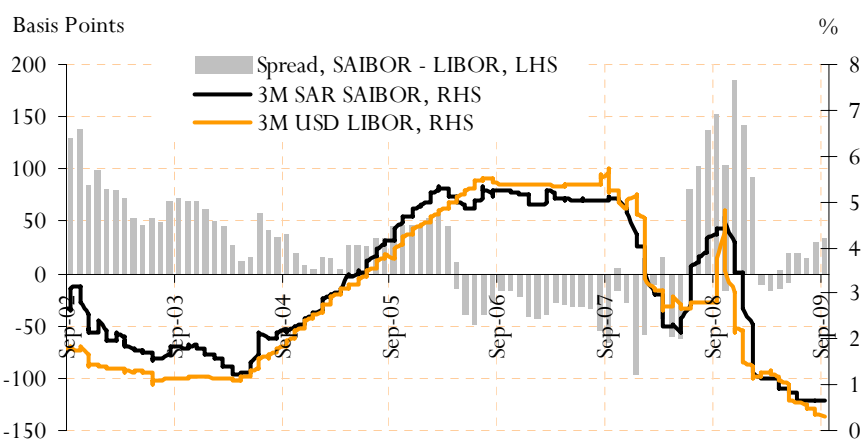
Dana Nammari
Economist
d.nammari@alahli.com

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

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

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

Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB

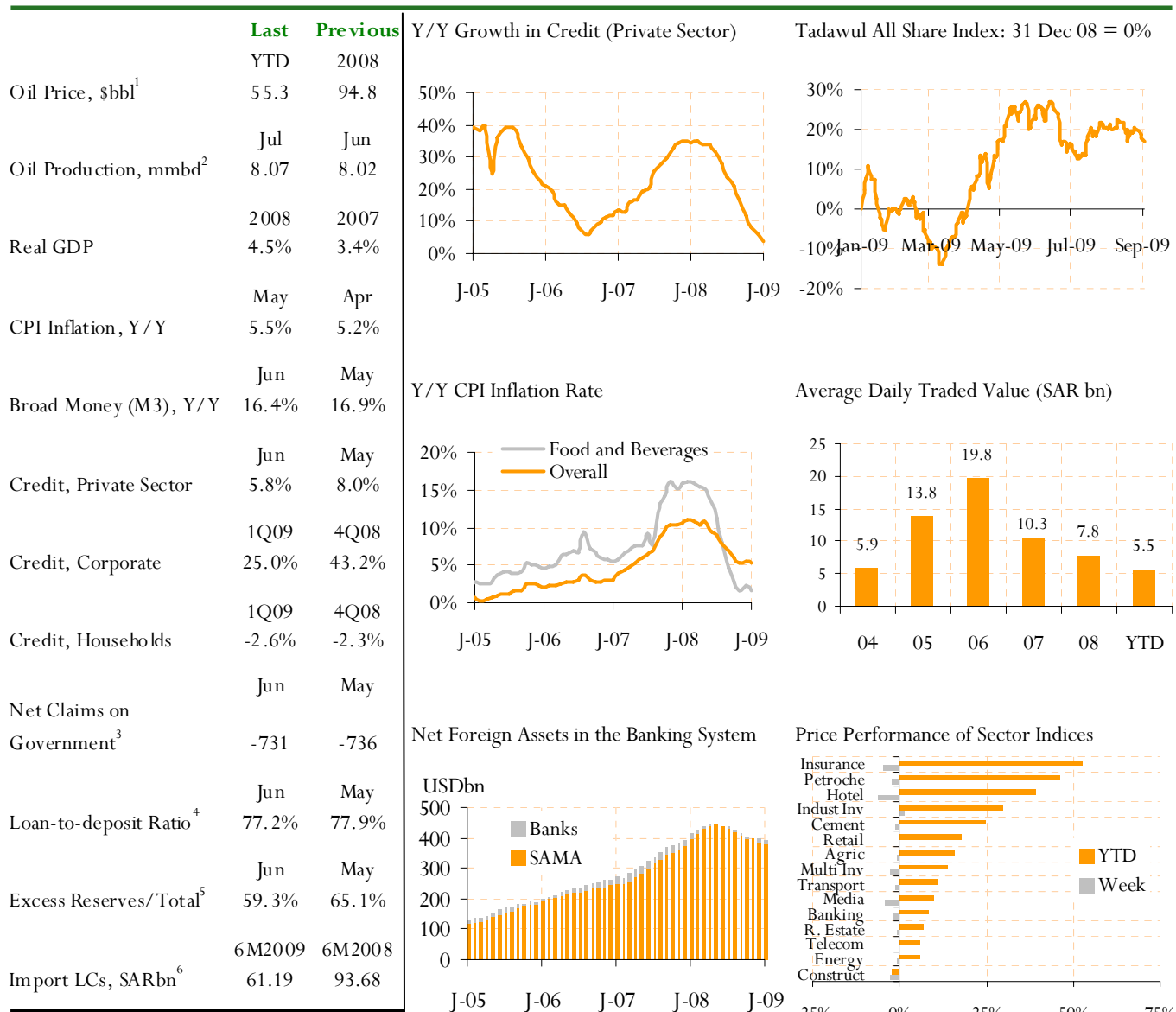
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Saudi Macro and Equity Market

Saudi Electricity Demand is Powering Up

The Saudi power market is one of the fastest growing in the region. The Kingdom's electric power needs are large and growing fast on rising population and expanding industrial and commercial sectors. Presently, electric power in KSA is supplied through the national grid system by three main producers: SEC, SWCC and Marafiq. Total generation capacity in KSA last year was about 39,242MW and the peak load was 38,000MW. SEC holds 90% of the Kingdom's total generating capacity while the remaining 10% is collectively shared by the SWCC and others. In 2008 SEC purchased electricity from other players and continues to distribute it to 5.42 mn industrial and non-industrial consumers across 1,405 population centers in KSA. Over the last five years, 2004-08, the number of consumers has reached 5.63 mn and is expanding at a rate of nearly 260,500 new customers per year. By the end of 2008, power consumption grew 6.7% annually to reach 181.1 bn KWH (industry consumed 18%, while commercial, household, Government and others 82%). Per capita power consumption grew 3.9% annually to reach 7,302 KWH, still lower than its GCC peers. Through 2010-20 period investments have to be mobilized to enhance an additional generation capacity of 20KMW to total 60KMW.

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

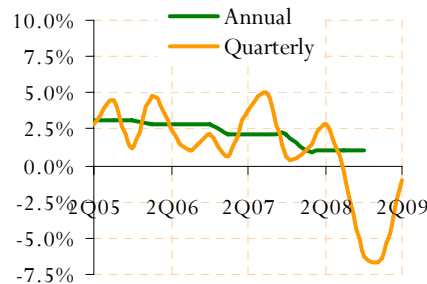
US Banks: No Silver Lining

The US government received approximately USD4 bn in profit from 8 of the biggest banks that have fully repaid their obligations to the government. Among those financial institutions are Goldman Sachs and Morgan Stanley, which reaped the heaviest profits of USD1.4 bn and USD1.3 bn respectively for the government. Although the news is positive, the image is less rosy when set in context. First, the return from these investments could be offset by two troubled institutions. Citigroup and Bank of America, the two largest TARP recipients (which received USD45 bn each) have yet to pay back their loans. Second, the bailout is not limited to financial institutions. Looming in the background is money injected into AIG and Freddie and Fannie, which could prove to be costly investments. US taxpayers should not be fooled into thinking that they have received a good deal. After all, the main purpose of the bailout was to restore confidence in financial markets and contain spillover effects onto the real economy. However over a year into the crisis and the US economy is still in a dire state. Problems in Wall Street have spread to main street, with unemployment reaching 9.7% in Aug. Only when fundamentals improve, should taxpayers heave a sigh of relief.

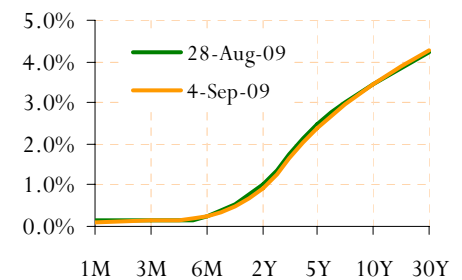
Key Macroeconomic and Capital Market Indicators

	Latest	Next
Real GDP	2Q09(P) -1.00%	2Q09(f) 30-Sep
Unemployment	Aug 9.70%	Sep 2-Oct
A. H. Earnings, M/M	Aug 0.30%	Sep 2-Oct
CPI Inflation, Y/Y	Juk -2.10%	Aug 16-Sep
Core PCE, Y/Y	Jun 1.50%	Aug 6-Sep
Existing Home Sales, M/M	Jul 7.2%	Aug 17-Sep
Housing Starts, M/M	Jul -1.0%	Aug 17-Sep
Trade Balance, \$bn	Jun -27.01	Jul 10-Sep
Retail Sales, M/M	Jul -0.10%	Aug 15-Sep
Industrial Production, M/M	Jul 0.5%	Aug 8-Sep
Capacity Utilization	Jul 69%	Aug 8-Sep
Fed Funds Rate	Aug 0.25%	Sep 22-Sep

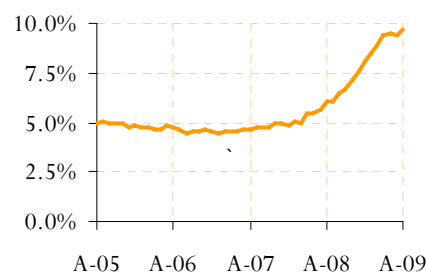
Real GDP Growth, Annualized



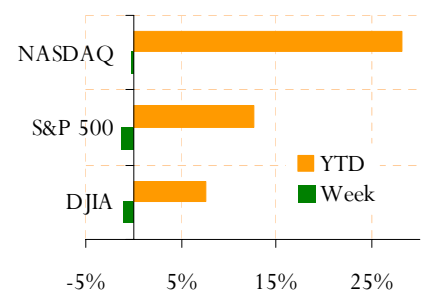
Benchmark Yields, Annualized



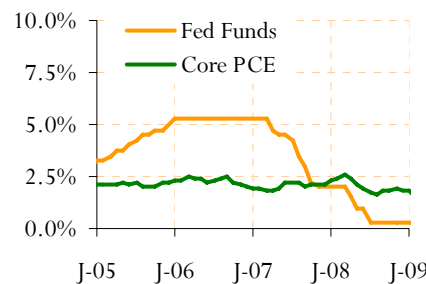
National Unemployment Rate



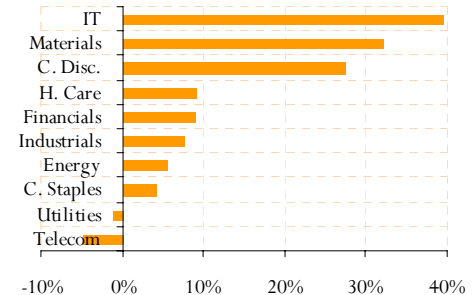
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



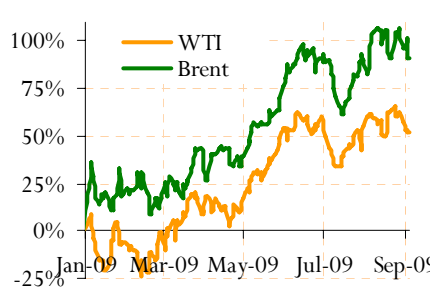
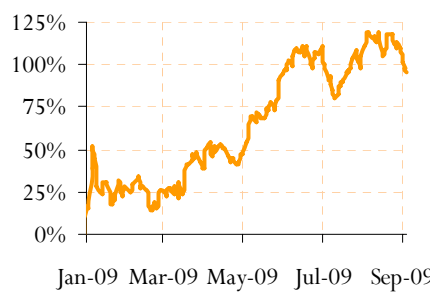
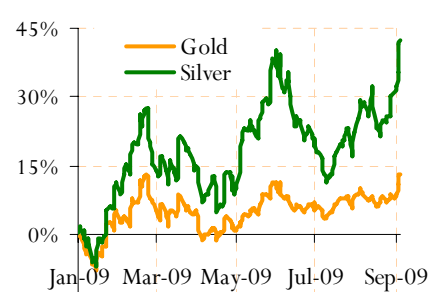
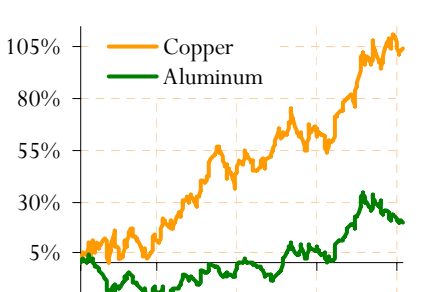
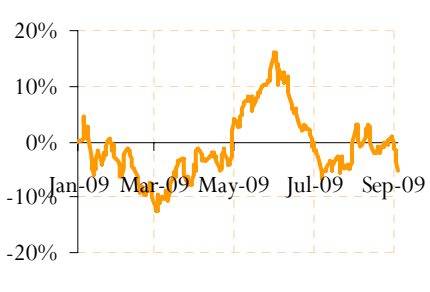
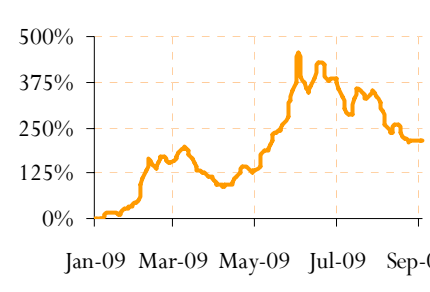
Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

Commodity Markets

Base Metals Showing Signs of Near-Term Weakness

After a strong rally last month, the mood across the base metal complex has now turned more bearish. Over the week, LME spot prices for nickel, aluminum and copper have dropped 7.7%, 1.1% and 0.3% respectively. However, zinc continued to defy the bearish mood, increasing by 4.3% last week. The key question now is whether this is the end of the rally for base metals and the start of a pullback, or just a period of consolidation ahead of a seasonally strong fourth quarter. With stocks still at a very high level, we are in favor of the former. It seems that expectations of a tighter market balance later in the year are not holding up yet. On the demand side, Chinese growth is a key factor. While it has been encouraging to see domestic demand taking off strongly in China, there are concerns that a slowdown is inevitable as policymakers curb lending. Chinese commodity imports dropped from an all-time high of 477kt in Jun to 407kt in Jul. With stocks ticking marginally higher over the last month, Chinese imports might have slowed even further in Aug. Meanwhile, the recent increase in prices has stimulated production, especially in nickel, zinc and aluminum. This means that it will take even longer before the buildup in stocks is worked off. Hence, we remain cautious until there are signs of a stronger recovery in demand.

Key Commodity Prices and Indices

	Last	Week		
	4-Sep	%	Benchmark Crude Oil Prices	Saudi Arabian Light, Asia Deliveries
WTI, Spot, \$/bbl	68.0	-4.8		
Brent, Spot, \$/bbl	66.0	-6.9		
Gold, LME, \$/Oz	993.4	5.1	Precious Metals	Base Metals
Silver, LME, \$/Oz	16.2	13.1		
Platinum, \$/Oz	1252.5	1.7		
Palladium, \$/Oz	290.0	2.1		
Aluminum, LME, \$/t	1845.0	-1.1	Goldman Sachs Agriculture Index	Baltic Exchange Dry Index
Copper, LME, \$/t	6275.0	-0.3		
Nickel, LME, \$/t	17600.0	-7.7		
Zinc, LME, \$/t	1925.0	4.3		
Wheat, Dec, \$/Bushel	4.7	-6.9		
Com, Dec, \$/Bushel	3.1	-6.1		
Soybeans, Nov, \$/Bushel	9.2	-7.5		

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

Switzerland's Unwinding: A Base Case or a Best Case Scenario?

Switzerland had become the first European economy to unwind a bank bailout, selling its stake of the ailing domestic bank UBS at a significant USD1 bn profit. Indeed, this decision will raise so many questions regarding the involvement of other developed economies, namely US and UK, in their domestic banking activities and their exit strategies, if any. It had to be noted that bailout packages in the 11 major economies had surpassed the USD7 bn mark till date, the equivalent of 18.8% of their GDP, which reflects the intensity of involvement and the difficulty of unwinding going forward. In the US and UK, the difficulty of emulating Switzerland emanates from the fact that bank credit continues to fall unabatedly and that banks continue to tighten their lending procedures, afraid from a new phase where credit risk will replace liquidity risk as the dominant force in this ensuing business cycle. The fact that the BOE and the FED continue on the quantitative easing process and maintain inflated balance sheets, is a testimony to the uneasy process of exiting in the near term. In our opinion, the current state in most countries will keep the Swiss case, a best case scenario.

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%	-4.6%	2Q09	-0.7%	Aug-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	-2.2%	Aug-09	-1.2%	0.10%	Hold	11-Aug-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%	-1.1%	2Q09	6.3%	Nov-08	3.0%	4.50%	-0.25%	17-Jul-09	Mexico
Brazil	5.7%	-1.8%	1Q09	0.2%	Aug-09	0.3%	8.75%	Hold	3-Sep-09	Brazil
Chile	5.1%	-4.5%	2Q09	7.2%	Dec-08	3.0%	0.50%	Hold	10-Aug-09	Chile
Asia/Southeast Asia										
China	11.9%	7.9%	2Q09	-1.8%	Aug-09	-1.30%	5.31%	-0.27%	22-Dec-08	China
India	9.0%	6.1%	1Q09	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%	-3.5%	2Q09	-0.5%	Jul-09	-	-	-	-	Singapore
South Korea	5.0%	2.3%	2Q09	2.2%	Sep-09	2.30%	2.00%	Hold	9-Aug-09	S. Korea
Indonesia	6.3%	6.1%	3Q08	2.8%	Sep-09	-	6.50%	Hold	3-Jul-09	Indonesia
Thailand	4.9%	-4.9%	2Q09	-1.0%	Sep-09	-4.10%	1.25%	Hold	15-Jul-09	Thailand
Malaysia	6.3%	4.7%	3Q08	-1.4%	Jul-09	-1.40%	1.25%	Hold	26-Aug-09	Malaysia
Eastern Europe /Central Asia										
Russia	8.1%	-10.9%	2Q09	0.0%	Sep-09	0.50%	6.75%	1.00%	28-Nov-08	Russia
Turkey	4.6%	-13.8%	1Q09	5.3%	Sep-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%	-2.8%	2Q09	6.7%	Aug-09	7.90%	7.00%	-0.50%	10-Aug-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.

Global Equity Markets

US Equities Fall, Led by Financials

Stock markets worldwide have plummeted on the back of concerns regarding the health of the still fragile financial sector. In the US, the Dow Jones and S&P500 registered weekly declines of 1.07% and 1.14%, after rallying strongly for 2 weeks consecutively. Weighing down heavily on the indices performance are financials, which declined by 2.56% over the week, minimizing the YTD gain to 8.91%. Feeding the fire has been the rising number of bank failures, which has climbed above 80 until date. This figure starkly contrasts with the 25 bank failures reported in 2008 and the 3 in 2007. Equally worrying is the impact that the surge in bank failures carries on the Federal Deposit Insurance Corporation (FDIC), the agency which insures deposits at institutions and reimburses customers for deposits of up to USD250 k in the event of a bank failure. The FDIC has reported that its insurance fund declined by 20% in 2Q09 to USD10.4 bn, which has raised concerns over its access to capital if conditions continue to deteriorate. Going forward, despite the release of improving economic data, which will provide bursts of support to the stock market, the still sick financial sector coupled with the uncertain labor market outlook, will weigh heavily on investor sentiment.

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

MSCI G7	Country/Index	Week	09YTD
<p>Last 917.7 Week -1.6% 09YTD 14.8%</p>	<p>Europe/Japan/Oceania</p> <p>UK (FTSE100) -0.8% Germany (DAX30) -2.5% France (CAC40) -1.9% Japan (N225) -3.0% Australia (All Ordinaries) -0.1% N. Zealand (NZSX50) 1.0%</p>		
	<p>Latin America/Caribbean</p> <p>Mexico (IPC) 0.3% Brazil (Bovespa) -1.9% Chile (IGPA) -1.7%</p>		
	<p>Asia/Southeast Asia</p> <p>China (Shanghai-C) -2.9% India (BSE-Sensex) -0.5% Hong Kong (Hang Seng) 0.8% Singapore (Strait Times) -0.2% S. Korea (KOSPI-C) -0.3% Indonesia (Jakarta-C) -2.4% Thailand (SET) -2.0% Malaysia (Kuala Lumpur-C) 0.5%</p>		
	<p>Eastern Europe/Central Asia</p> <p>Russia (RTSI) -0.8% Turkey (ISE National 100) -3.8%</p>		
	<p>Middle East/Africa</p> <p>KSA (TASI) -1.6% Kuwait (KSEI) -1.2% Qatar (DSM20) 2.6% Abu Dhabi (ADI) 2.7% Dubai (DFMGI) 4.5% Oman (MSM30) 3.4% Bahrain (All Share I) 0.7% Jordan (ASE General I) 5.1% Egypt (CASE30) -1.6% S. Africa (JSE All Share Index) -1.6%</p>		
<p>MSCI EM</p> <p>Last 853.3 Week 0.2% 09YTD 50.5%</p>			
<p>Dow Jones Islamic</p> <p>Last 1,770.7 Week -0.4% 09YTD 20.0%</p>			

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

Paulina Chahine
Economist
p.chahine@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

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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