Market Review and Outlook

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

September 13, 2009

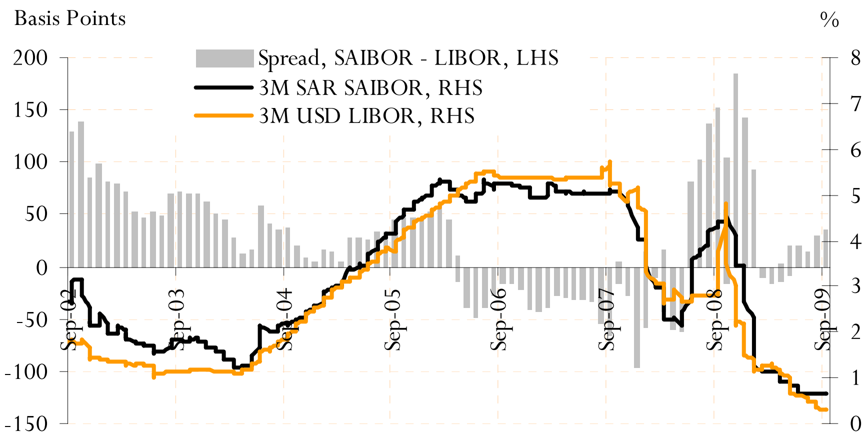
Special Focus: India Still an Attractive Prospect

Headlines

Saudi Arabia Leading Economic Indicators

	2008	Latest	Period
Average WTI, Cushing 1M, USD/bbl	99.67	56.3	09YTD
Weighted Average Arabian Light, USD/bbl	94.8	55.7	09YTD
Average 3M USD LIBOR	2.93%	0.87%	09YTD
Average 3M SAR SAIBOR	3.41%	0.87%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	48.2	10.0	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

Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB **Last updated:** 11 September 2009

Head of Research

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

Authors

Dana Nammari
Economist
d.nammari@alahli.com

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

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

Saudi Macro and Equity Market

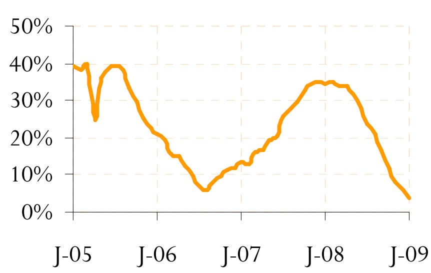
KSA Stands Still in the Race Towards Competitiveness

The 2009-10 Global Competitiveness Report, released on 9 Sep by the World Economic Forum, ranked Saudi Arabia 28 out of 133 countries, a fairly stable performance compared to its 27th rank last year. According to the report, macroeconomic stability remains the key factor behind Saudi Arabia's strength, given high oil prices in 2008 ensuring a large fiscal surplus, low domestic public debt and high income levels. There has also been continuous progress in many areas of reform, including upgrading public institutions, improving property rights, fostering a more competitive environment for business entities, reducing corruption and strides in judicial independence. However, there are critical structural issues holding back Saudi Arabia from the race towards competitiveness. The most serious of which are the quality of education and enrollment rates at all levels, despite the fact that Saudi Arabia's public expenditure on education is the 7th highest in the world. Another issue concerns the efficiency of the labor market, as Saudi Arabia ranks among the lowest in productivity and female participation. While the Kingdom's competitive position has not been badly shaken by the financial crisis, we expect a marked decline in FDI inflows this year, which is yet to be revealed by UNCTAD's World Investment Report on 17 Sep.

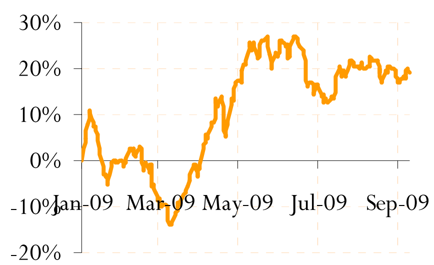
Key Macroeconomic and Equity Market Indicators

	Last	Previous
	YTD	2008
Oil Price, $bbl[1]	55.7	94.8
	Jul	Jun
Oil Production, mmbd[2]	8.07	8.02
	2008	2007
Real GDP	4.5%	3.4%
	Jun	May
CPI Inflation, Y/Y	5.2%	5.5%
	Jul	Jun
Broad Money (M3), Y/Y	15.3%	16.4%
	Jul	Jun
Credit, Private Sector	3.8%	5.8%
	1Q09	4Q08
Credit, Corporate	25.0%	43.2%
	1Q09	4Q08
Credit, Households	-2.6%	-2.3%
	Jul	Jun
Net Claims on Government[3]	-723	-731
	Jul	Jun
Loan-to-deposit Ratio[4]	76.4%	77.2%
	Jul	Jun
Excess Reserves/Total[5]	62.1%	59.3%
	7M2009	7M2008
Import LCs, SARbn[6]	71.39	110.28

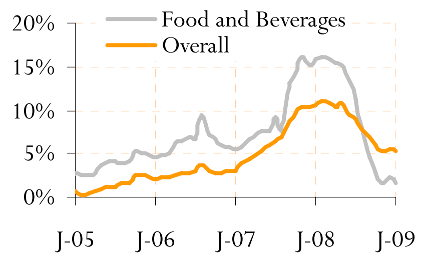
Y/Y Growth in Credit (Private Sector)



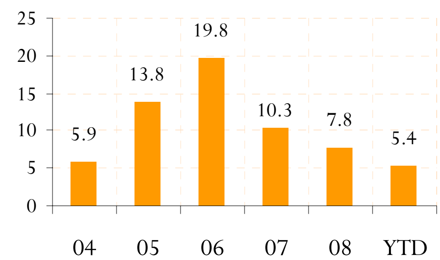
Tadawul All Share Index: 31 Dec 08 = 0%



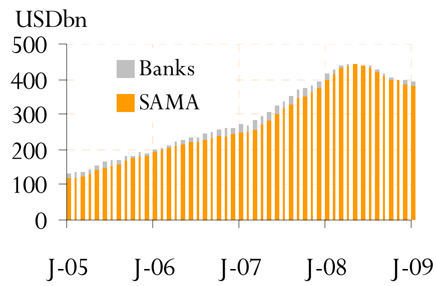
Y/Y CPI Inflation Rate



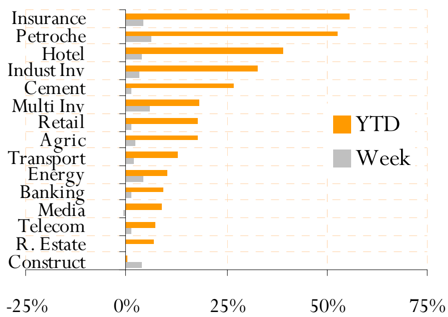
Average Daily Traded Value (SAR bn)



Net Foreign Assets in the Banking System



Price Performance of Sector Indices



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.

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

US Macro and Equity Markets

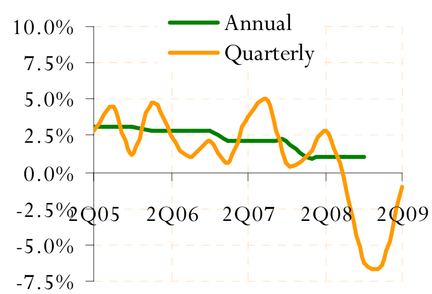
US Consumers Battered by the Crisis

The unemployment rate surged to a 26-year high of 9.7% in Aug following a 9.4% increase in Jul. The rise in joblessness is in part due to an increase in the labor force, as previously discouraged workers return to job seek. However the main diver remains the sharp drop in employment, which reached 392k in Aug. The feeble labor market conditions in addition to plummeting home value have forced US households to reevaluate their spending habits. Consumer credit fell at an annual rate of 10.4% in Jul, significantly outpacing the rate of decline set in 2Q09 (6.6%). Consumer credit, which can be classified into revolving and non revolving exhibited the following: (1) revolving credit, encompassing credit and other charge cards, decreased at an annual rate of 8% to USD905 bn, and (2) non-revolving credit, which includes close ended loans, fell by an annual rate of 11.7% to USD1.6 trn. The negativity dominating these figures is worrying since consumer demand supports two thirds of US economic activity. This assures that any US recovery will not be consumer led. However even as production begins to improve, which is expected as companies begin to restock their almost depleted inventories, without a turnaround in consumer demand, the prospect of a sustainable recovery in the US remains uncertain in the near-term.

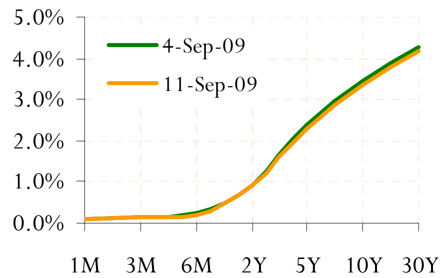
Key Macroeconomic and Capital Market Indicators

	Latest	Next
	2Q09(P)	2Q09(f)
Real GDP	-1.00%	30-Sep
	Aug	Sep
Unemployment	9.70%	2-Oct
	Aug	Sep
A. H. Earnings, M/M	0.30%	2-Oct
	Jul	Aug
CPI Inflation, Y/Y	-2.10%	16-Sep
	Jul	Aug
Core PCE, Y/Y	1.40%	1-Oct
	Jul	Aug
Existing Home Sales, M/M	7.2%	17-Sep
	Jul	Aug
Housing Starts, M/M	-1.0%	17-Sep
	Jun	Jul
Trade Balance, $bn	-27.01	10-Sep
	Jul	Aug
Retail Sales, M/M	-0.10%	15-Sep
	Jul	Aug
Industrial Production, M/M	0.5%	16-Sep
	Jul	Aug
Capacity Utilization	69%	16-Sep
	Aug	Sep
Fed Funds Rate	0.25%	22-Sep

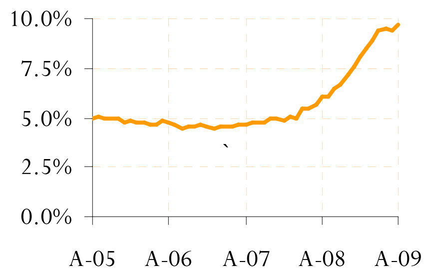
Real GDP Growth, Annualized



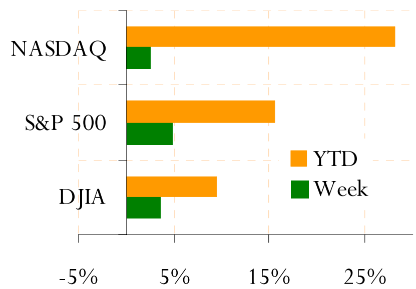
Benchmark Yields, Annualized



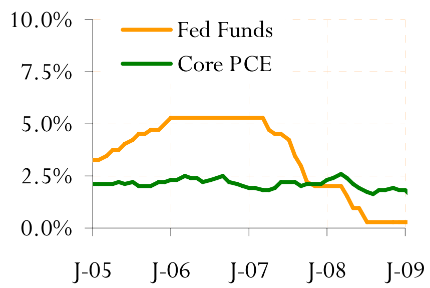
National Unemployment Rate



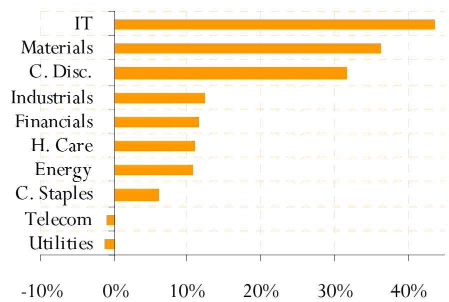
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



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

Dana Nammari, Economist, d.nammari@alahli.com

Commodity Markets

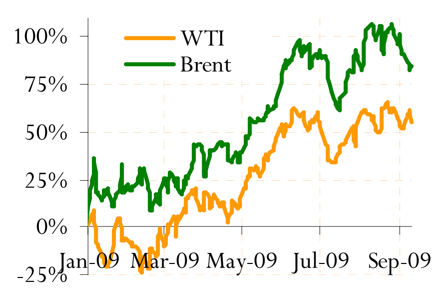
OPEC Continues its "Wait-and-See" Approach

As widely expected, on 9 Sep, OPEC decided to keep oil production unchanged, the same level since it announced a record cut of 4.2 million b/d late last year. WTI and Brent crude spot prices are now trading at around USD70/bbl, which is at the lower end of the cartel's comfort range. The way we read OPEC's press release statement is that there was no immediate need to cut production. This is because: (1) global demand remains sluggish, especially in advanced economies, (2) refinery utilization rates are still low and (3) inventory levels have increased substantially. Data show that OECD forward demand cover is currently running at 62 days, which is around 10 days above what OPEC had been suggesting was a reasonable level. Another key issue is compliance, which has dropped from over 80% to 68-70% during the past few months. In general, the lack of aggressive action on the part of OPEC reflects the hope that demand will eventually be sufficient in drawing down stocks. While OPEC is not ready to cut production at this stage, we believe it will push for higher compliance rates as more solid signs of recovery unfold in late 2009 or early 2010. Only then, will we see inventory levels shrink and crude oil prices rise above the USD70/bbl mark.

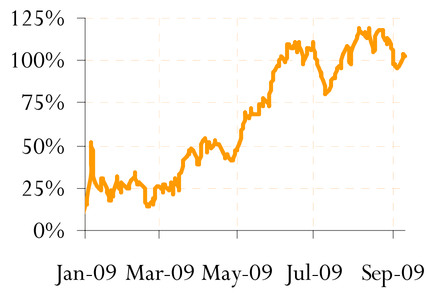
Key Commodity Prices and Indices

	Last	Week
	11-Sep	%
WTI, Spot, $/bbl	69.3	1.9
	11-Sep	%
Brent, Spot, $/bbl	68.8	1.6
	11-Sep	%
Gold, LME, $/Oz	1004.9	2.9
	11-Sep	%
Silver, LME, $/Oz	16.7	9.1
	11-Sep	%
Platinum, $/Oz	1315.5	7.0
	11-Sep	%
Palladium, $/Oz	290.0	1.9
	11-Sep	%
Aluminum, LME, $/t	1848.0	-0.4
	11-Sep	%
Copper, LME, $/t	6275.0	1.6
	11-Sep	%
Nickel, LME, $/t	16950.0	-6.4
	11-Sep	%
Zinc, LME, $/t	1925.0	5.2
	11-Sep	%
Wheat, Dec, $/Bushel	4.7	-3.8
	11-Sep	%
Corn, Dec, $/Bushel	3.2	0.2
	11-Sep	%
Soybeans, Nov, $/Bushel	9.0	-5.0

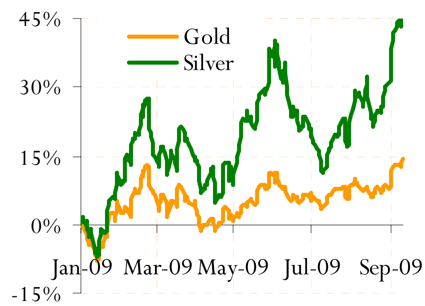
Benchmark Crude Oil Prices



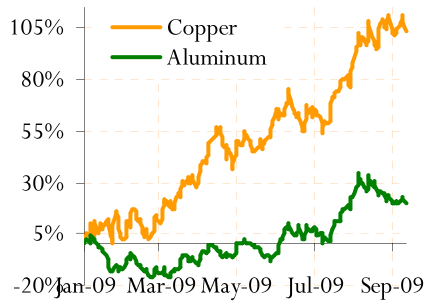
Saudi Arabian Light, Asia Deliveries



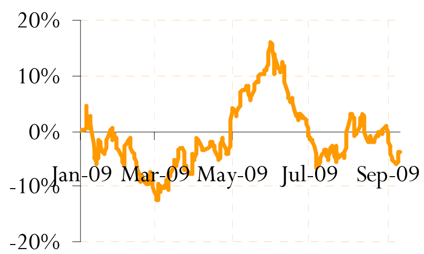
Precious Metals



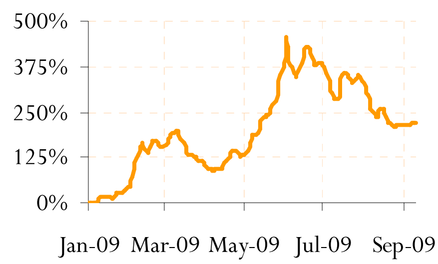
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



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

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

Global Macro

India Still an Attractive Prospect

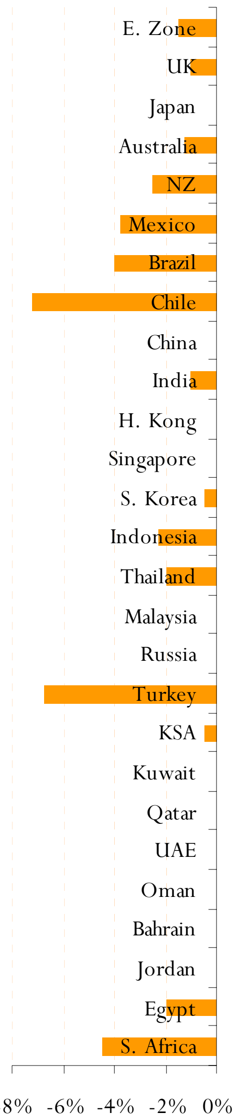
Over the period of 2003-08, India has secured an average growth rate of 8.8%, one of the highest ever recorded. Its bout of growth is largely due to an upsurge in its domestic savings rate, from 23.5% in 2001 to 37.7% in 2007. This in turn fostered a rising investment rate, which increased from 22.8% in 2001 to 39.1% in 2007. Moreover, large inflows of foreign direct investment (FDI), which rose by 11% to USD 27.13bn in 2008, aided in driving the momentum. Although India's economy has been impacted by the global credit crunch, revised forecasts continually project a rosier economic outlook. While the agricultural sector poses a short-term risk, due to weak monsoon rainfall, non -agricultural projections have been steadily improving. Overall, according to the Reserve Bank of India (RBI), GDP is forecasted to slow to 6% in 2009. Supporting the economy has mainly been (1) the macroeconomic stimulus, (2) successive interest rate cuts, which have brought down the repo rate to 4.75% and (3) a turnaround in FDI, which despite the dip at the start of 2009, has surged by 56% Y/Y to USD 3.5bn in Jul. India's positive fundamentals, especially relative to the global market place, has made it attractive to investors. This bullish sentiment will likely maintain capital flows to the region and support growth throughout 2H09.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*		
	2007	Last	Period	Last	Date	Target	Last	Decision	Date
Europe/Japan/Oceania									
Euro Zone	2.6%	-4.6%	2Q09	-0.7%	Aug-09	-0.1%	1.00%	Hold	2-Jul-09
UK	3.0%	-1.6%	4Q08	1.8%	Jul-09	1.8%	0.50%	Hold	9-Sep-09
Japan	2.4%	3.7%	2Q09	-2.2%	Aug-09	-1.2%	0.10%	Hold	11-Aug-09
Australia	4.0%	0.4%	1Q09	1.5%	Jul-09	1.5%	3.00%	Hold	7-Jul-09
New Zealand	3.2%	-0.9%	4Q08	1.9%	Jul-09	1.8%	2.50%	Hold	11-Jul-09
Latin America/Caribbean									
Mexico	3.2%	-1.1%	2Q09	6.3%	Nov-08	3.0%	4.50%	-0.25%	17-Jul-09
Brazil	5.7%	-1.2%	2Q09	0.2%	Aug-09	0.3%	8.75%	Hold	3-Sep-09
Chile	5.1%	-4.5%	2Q09	7.2%	Dec-08	3.0%	0.50%	Hold	10-Sep-09
Asia/Southeast Asia									
China	11.9%	7.9%	2Q09	-1.8%	Aug-09	-1.30%	5.31%	-0.27%	22-Dec-08
India	9.0%	6.1%	1Q09	-0.1%	Sep-09	5.50%	5.50%	-1.00%	2-Jan-08
Hong Kong	6.4%	1.7%	3Q08	-0.9%	Jul-09	-0.50%	1.50%	-0.50%	30-Oct-08
Singapore	7.7%	-3.5%	2Q09	-0.5%	Jul-09	-	-	-	-
South Korea	5.0%	2.3%	2Q09	2.2%	Sep-09	2.30%	2.00%	Hold	9-Sep-09
Indonesia	6.3%	6.1%	3Q08	2.8%	Sep-09	-	6.50%	Hold	3-Jul-09
Thailand	4.9%	-4.9%	2Q09	-1.0%	Sep-09	-4.10%	1.25%	Hold	15-Jul-09
Malaysia	6.3%	4.7%	3Q08	-1.4%	Jul-09	-1.40%	1.25%	Hold	26-Aug-09
Eastern Europe/Central Asia									
Russia	8.1%	-10.9%	2Q09	0.0%	Sep-09	0.50%	6.75%	1.00%	28-Nov-08
Turkey	4.6%	-13.8%	1Q09	5.3%	Sep-09	-	8.25%	-0.50%	16-Jul-09
Middle East/Africa									
Saudi Arabia	3.4%	4.5%	2008	5.5%	May-09	-	2.00%	-0.50%	19-Jan-09
Kuwait	9.9%	6.3%	2006	11.1%	May-08	-	4.25%	-0.25%	30-Oct-08
Qatar	8.0%	8.5%	2007	14.8%	Mar-08	-	5.50%	Hold	20-May-08
UAE	9.4%	5.2%	2007	11.1%	2007	-	1.50%	-0.50%	8-Oct-08
Oman	7.2%	6.0%	2007	13.2%	May-08	-	2.00%	Hold	20-May-09
Bahrain	7.9%	6.5%	2006	4.4%	Oct-08	-	0.75%	Hold	21-May-09
Jordan	8.1%	6.2%	2007	13.3%	Jun-08	-	6.00%	-0.50%	25-Nov-08
Egypt	6.9%	7.1%	2006/07	21.5%	Sep-08	-	10.50%	-0.50%	30-Jul-09
South Africa	5.0%	-2.8%	2Q09	6.7%	Aug-09	7.90%	7.00%	-0.50%	10-Aug-09

Policy Rate Change

Cumulative 09YTD



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.

Dana Nammari, Economist, d.nammari@alahli.com

FOREX Market

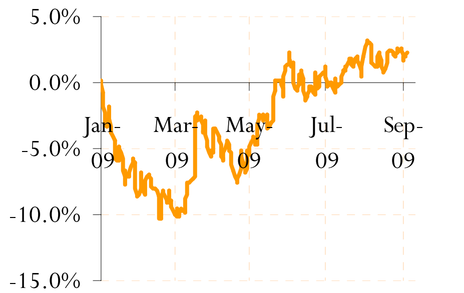
Policy Dilemma Pressures the INR

The Indian Rupee has been suffering a turbulent year. After appreciating a hefty 23.4% in 2008, 1H09 marked a reversal of fortunes, which took the INR to an annual low of 48.7 in Jun. Since then, the INR has gradually recovered, gaining 3.4% against the USD. The INR's recent strength has been driven by positive fundamentals and higher capital inflows. This has stimulated a recent rise in FX reserves, which increased to USD277.65 bn on Sep 4. However a macroeconomic policy dilemma threatens the currency's direction over the medium-term. On the one hand, a temptation exists to higher the repo rate to rein inflation in the commodities sector. Food prices surged by 14.8% Y/Y in Aug, a pressing concern for India where almost 50% of the population are living under USD2 a day. On the other hand such premature tightening could derail an economic recovery, especially since price pressures in the rest of the economy are subdued, with the WPI declining 0.12% Y/Y. Moreover the authorities may be inclined to resist further currency appreciation in attempt to support export driven manufacturers and limit the pace of deterioration in external accounts. Accordingly the RBI may choose to focus instead on fiscal measures such as subsides to address the shortage in food supply, and in turn control inflation.

Key Spot Foreign Exchange Rates

$ per €*

Last 1.4573 Week 2.2% 09YTD 4.2%

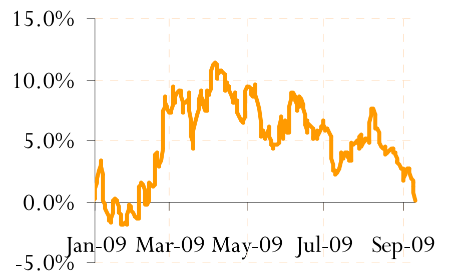


$ per £*

Last 1.6666 Week 2.0% 09YTD 13.9%

¥ per $*

Last 90.75 Week -2.1% 09YTD 0.1%



Rate versus $	Last	Week
Europe/Oceania		
Swiss Franc (CHF)	1.0390	2.2%
Australian Dollar (AUD)	0.8639	2.8%
New Zealand Dollar (NZD)	0.7080	4.4%
Latin America/Caribbean		
Mexican Peso (MXN)	13.3670	1.3%
Brazilean Real (BRL)	1.8825	0.0%
Chilean Peso (CLP)	551.0000	1.3%
Asia/Southeast Asia		
Chinese Yuan (CNY)	6.8290	0.0%
Indian Rupee (INR)	48.4400	0.8%
Hong Kong Dollar (HKD)	7.7507	0.0%
Singaporean Dollar (SGD)	1.4222	1.3%
South Korean Won (KRW)	1,249.60	0.0%
Indonesian Rupee (IDR)	9,930.00	1.9%
Thai Baht (THB)	33.9700	0.3%
Malaysian Ringgit (MYR)	3.4950	1.0%
Eastern Europe/Central Asia		
Russian Rouble (RUB)	30.6660	3.6%
Turkish New Lira (TRY)	1.4930	0.9%
Middle East/Africa		
Saudi Riyal (SAR)	3.7503	0.0%
Kuwaiti Dinar (KWD)	0.2868	0.3%
Qatari Riyal (QAR)	3.6415	0.1%
UAE Dirham (AED)	3.6731	0.0%
Omani Riyal (OMR)	0.3850	0.0%
Bahraini Dinar (BHD)	0.3770	0.0%
Jordanian Dinar (JOD)	0.7105	-0.3%
Egyptian Pound (EGP)	5.5210	0.2%
South African Rand (ZAR)	7.5800	1.0%

09YTD

Dana Nammari, Economist, d.nammari@alahli.com

Global Equity Markets

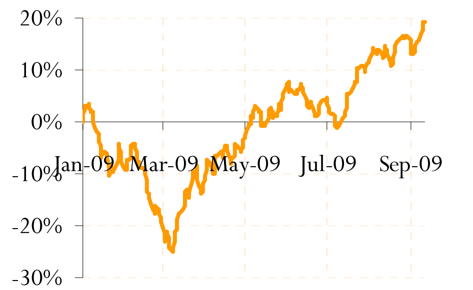
Credit Crunch Puts Indian Software Companies Ahead

India's stock market recovery has been closely tracking global trends. In the US, the economic benchmark for the globe, the IT sector has been in the forefront, increasing a staggering 43.6% until date. The Bombay Stock Exchange SENSEX has followed suit. Driving the momentum has been the expectations that Indian software and IT enabled services are set to grow in double digits by 2010. This is because the global meltdown has created an opportunity for Indian companies to consolidate and move up the value chain by addressing new markets and new verticals. India's software export-focused companies are exploring markets in the Middle East, Latin America and the South African region. With these expansions, IT exports are projected to reach USD54 bn by the end of the current fiscal year, a 10% increase from the previous year. The bullish sentiment is reflected in the sky-rocketing value of the companies' share price. Tata Consultancy and Infosys, first and second-largest companies, increased a hefty 134% and 103% until date. Undoubtedly the positive outlook surrounding India's growing IT sector will continue to rally investor sentiment, lending crucial support to the SENSEX in the medium-term.

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

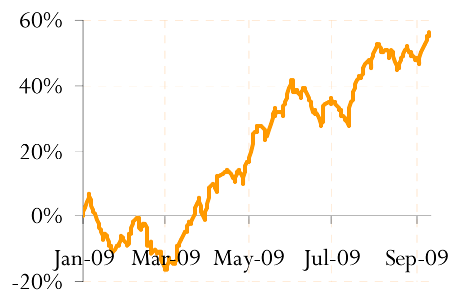
MSCI G7

Last 952.5 Week 3.8% 09YTD 19.1%



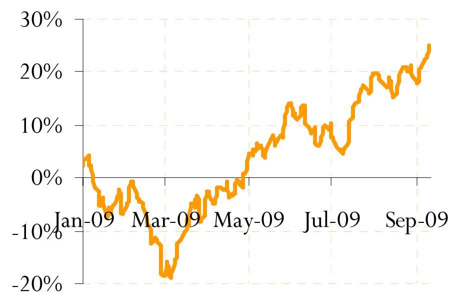
MSCI EM

Last 894.3 Week 4.8% 09YTD 57.7%



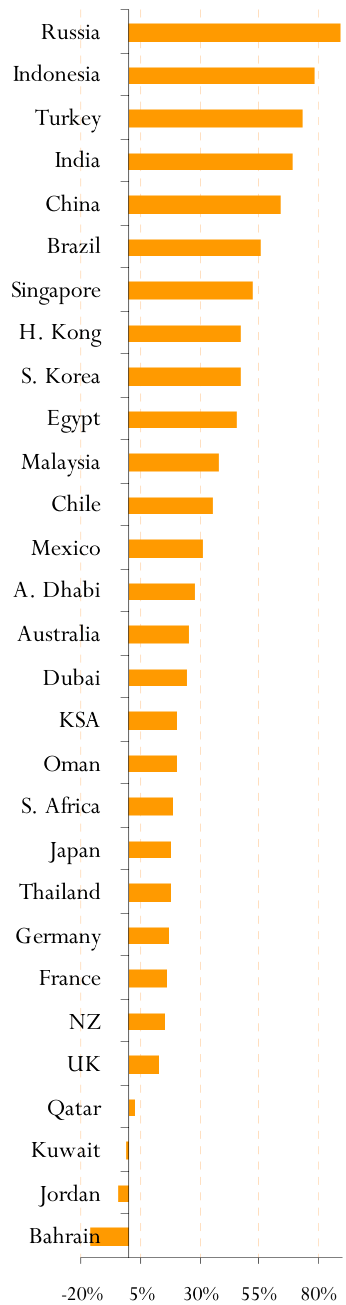
Dow Jones Islamic

Last 1,844.8 Week 5.9% 09YTD 25.0%



Country/Index	Week
Europe/Japan/Oceania	
UK (FTSE100)	4.0%
Germany (DAX30)	5.7%
France (CAC40)	4.5%
Japan (N225)	1.6%
Australia (All Ordinaries)	3.6%
N. Zealand (NZSX50)	2.0%
Latin America/Caribbean	
Mexico (IPC)	5.3%
Brazil (Bovespa)	5.4%
Chile (IGPA)	2.7%
Asia/Southeast Asia	
China (Shanghai-C)	10.1%
India (BSE-Sensex)	5.2%
Hong Kong (Hang Seng)	8.4%
Singapore (Strait Times)	4.3%
S. Korea (KOSPI-C)	2.4%
Indonesia (Jakarta-C)	5.7%
Thailand (SET)	5.2%
Malaysia (Kuala Lampur-C)	0.5%
Eastern Europe/Central Asia	
Russia (RTSI)	13.6%
Turkey (ISE National 100)	1.8%
Middle East/Africa	
KSA (TASI)	3.0%
Kuwait (KSEI)	-1.2%
Qatar (DSM20)	0.6%
Abu Dhabi (ADI)	7.0%
Dubai (DFMGI)	8.6%
Oman (MSM30)	2.8%
Bahrain (All Share I)	0.5%
Jordan (ASE General I)	2.1%
Egypt (CASE30)	2.2%
S. Africa (JSE All Share Index)	4.2%

09YTD



Zulfiqar Bashir, Senior Economist, z.bashir@alahli.com; Dana Nammari, Economist, d.nammari@alahli.com

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

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

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