

# Market Review and Outlook

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

October 04, 2009

## Special Focus: US Employment Data Dim Hope for Recovery

### Headlines

Saudi Macro and Equity Market	<b>Copper Demand Growth is Slowing</b>	2
US Macro and Equity Market	<b>US Employment Data Dim Hope for Recovery</b>	3
Commodity Markets	<b>Gold is the Way to Go</b>	4
Global Macro	<b>How is the Global Economy Doing?</b>	5
FOREX Market	<b>Interest Rate Differentials Attain a Pivotal Role</b>	6
Global Equity Markets	<b>Bubble Trouble?</b>	7

### Saudi Arabia Leading Economic Indicators

	2008	Latest	Period
Average WTI, Cushing 1M, USD/bbl	99.67	57.3	09YTD
Weighted Average Arabian Light, USD/bbl	94.8	56.6	09YTD
Average 3M USD LIBOR	2.93%	0.82%	09YTD
Average 3M SAR SAIBOR	3.41%	0.93%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	48.2	9.2	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

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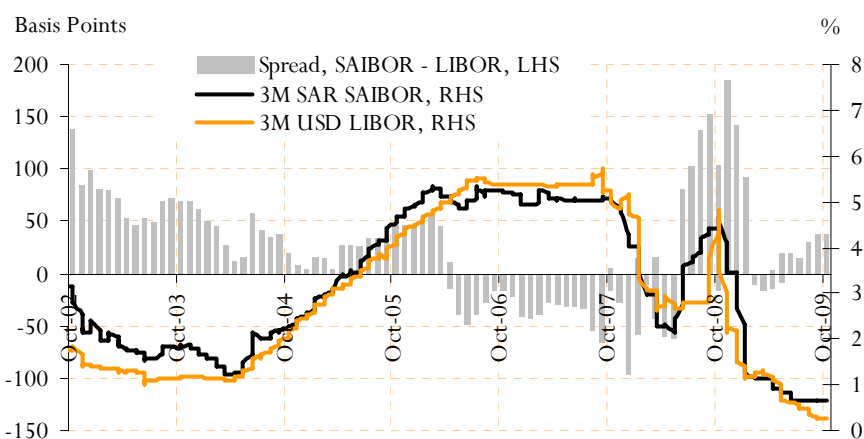
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### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB

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# Saudi Macro and Equity Market

## Copper Demand Growth is Slowing

The volume of refined copper demand in Saudi Arabia increased by 18% to 265,000 metric tones in 2008, and is expected to rise nearly by 2% to 270,000 metric tones in 2009. Weakening international refined copper prices and piled up inventory at mainly cable and piping making industries are the main drivers behind a slimmer growth in our expectation for the demand volume this year. The entire domestic demand is met by imports and only 730 metric tones is produced from the local resources, which accounts for about 0.3% of the country's aggregate usage. The Kingdom's five cable makers consumed nearly 94% of the total volume of refined copper usage while other small industrial plants engage in producing pipes, and items of semi-conductors consuming nearly 6% of the aggregate volume of copper usage. The market value of cables and other products of refined copper sold in the country is estimated to have reached SAR12 bn in 2008, of which the two listed cable makers sold SAR4.8 bn worth of cables and accounted for nearly 40% of the aggregate market value. Their combined sales, however, dropped 27.7% Y/Y to SAR1.78 bn in 1H09 over SAR2.5 bn in 1H08, on weakening prices and sliding volume.

## 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 <sup>1</sup>	56.6	94.8		
	Jul	Jun		
Oil Production, mmbd <sup>2</sup>	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 <sup>3</sup>	-723	-731		
	Jul	Jun		
Loan-to-deposit Ratio <sup>4</sup>	76.4%	77.2%		
	Jul	Jun		
Excess Reserves/Total <sup>5</sup>	62.1%	59.3%		
	7M2009	7M2008		
Import LCs, SARbn <sup>6</sup>	71.39	110.28		

Sources: SAMA, Reuters.

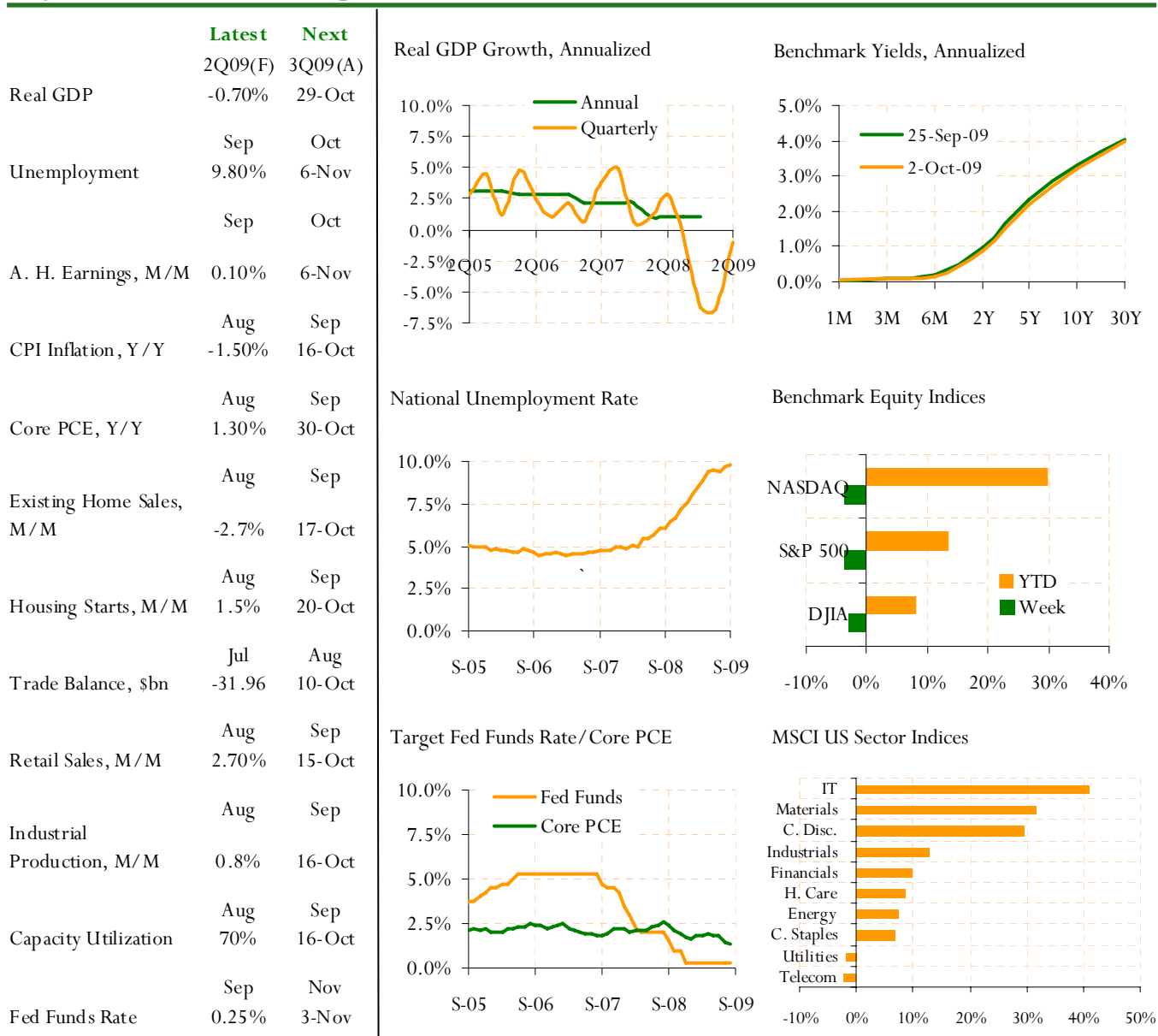
Notes: 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on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

Labor market conditions in the US remain unsupportive to a quick economic recovery. Recent data released by the Bureau of Labor Statistics show that the decline in non-farm payrolls had accelerated to -263K in Sep after having fallen to a revised 201K in Aug. Although the size of job losses is still massive, it has moderated significantly to 768K this quarter compared to 2.1 million in 1Q09 and 1.3 million in 2Q09. The sector breakdown shows that job losses continued in the goods-producing sector (-116K in Sep after -132K in Aug), but increased markedly in the service-providing sector (-147K in Sep after -69K in Aug). In particular, employment in transport and trade continued to trend down by more than average, while employment in other professional services showed little change over the month. In addition, employment in the government sector fell by a massive 53K, a reflection of tight budget constraints. Another disappointing feature was the marginal decline in the average work week from 33.1 to 33 hours, which brought the overall index down to 0.5% M/M. This will certainly add to the downward pressure on hourly wages, which slowed to 2.5% Y/Y. The unemployment rate has now ticked up a notch to 9.8%, and with GDP growth remaining modest until 2H2010 we do not believe it will level off before then.

### Key Macroeconomic and Capital Market Indicators



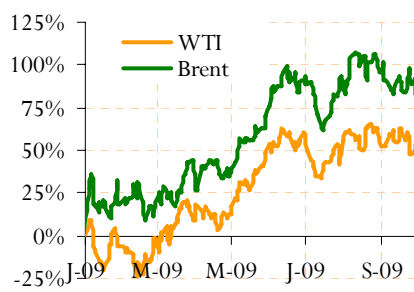
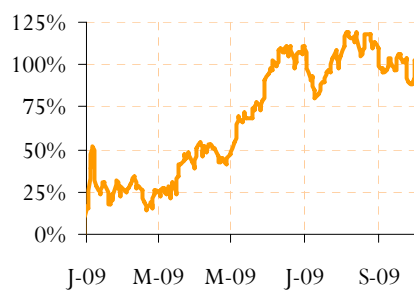
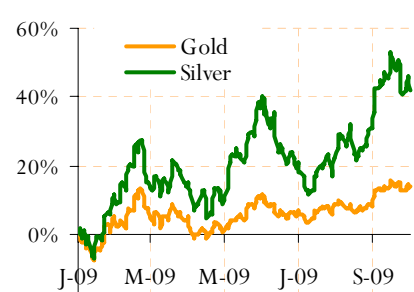
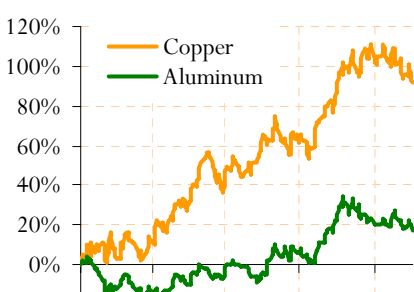
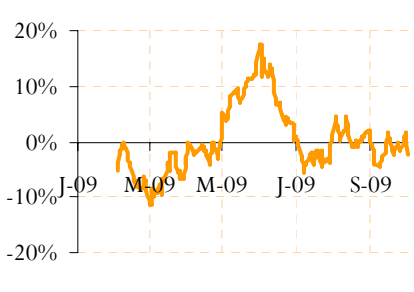
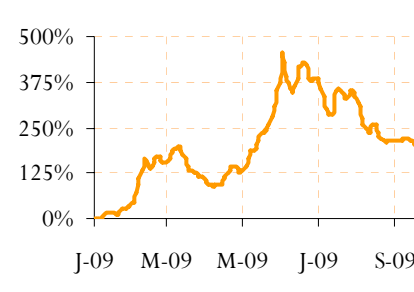
Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

# Commodity Markets

## Gold is the Way to Go

Gold prices have been recently testing the USD1,000 an ounce mark. The rebound in gold prices since May 2009 has been largely driven by commodity financial investment inflows on the back of higher investor risk appetite and the recent depreciation of the USD. At present, there is growing consensus that the worst of the recession is over and that recovery is already underway in some advanced economies, like France, Germany, Japan and other large emerging market economies. Moreover, there is increasing confidence that, with the extensive monetary and fiscal stimulus plans across many large economies, the probability of another systemic failure in global financial markets has decreased. This, together with the prospect of higher inflation and central bank purchases provide strong support for gold. Unlike other commodities, gold will continue to be regarded as a safe-haven investment in the current environment. Accordingly, we see the prospect of gold prices moving higher than the USD1,000 an ounce mark by the end of the year. Silver has also demonstrated a remarkable rebound, increasing a hefty 42% until date, and even outpacing Gold's 13.7% YTD increase. We expect Silver spot prices to continue rising in tandem with gold throughout the rest of 2009.

### Key Commodity Prices and Indices

	Last	Week		
	2-Oct	%	Benchmark Crude Oil Prices	Saudi Arabian Light, Asia Deliveries
WTI, Spot, \$/bbl	69.8	-3.7		
Brent, Spot, \$/bbl	66.9	-6.5		
Gold, LME, \$/Oz	1001.4	-1.0	Precious Metals	Base Metals
Silver, LME, \$/Oz	16.1	-6.2		
Platinum, \$/Oz	1278.0	-4.3		
Palladium, \$/Oz	294.0	-2.5		
Aluminum, LME, \$/t	1826.0	-7.3	Goldman Sachs Agriculture Index	Baltic Exchange Dry Index
Copper, LME, \$/t	5879.0	-7.9		
Nickel, LME, \$/t	17285.0	-1.7		
Zinc, LME, \$/t	1880.0	-4.0		
Wheat, Dec, \$/Bushel	4.4	-4.4		
Com, Dec, \$/Bushel	3.3	1.4		
Soybeans, Nov, \$/Bushel	8.9	-7.1		

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

# Global Macro

## How is the Global Economy Doing?

The Global economy is expected to grow by 3% Y/Y in 2010 according to the World Economic Outlook. Advanced economies are projected to stage moderate growth of 3.1% Y/Y in 2010, following a 1.1% Y/Y contraction in 2009. Emerging and developing economies, however, are further along the path to recovery and expected to grow by 1.7% Y/Y and 5.1% Y/Y in 2009 and 2010 respectively. To maintain healthy growth in the medium term, the IMF emphasizes the importance of addressing the supply-side disruptions caused by the global downturn. More specifically, credit channels must be restored to encourage investment, boost productivity and potential output, a step crucial in reducing unemployment. In supplement to this, rebalancing global demand patterns will be necessary. Export-orientated nations will need to rely more on domestic demand and imports. This should help offset the very large current account deficits that nations like the US and UK suffer due to their sizeable import-demand appetite. While such global coordination is necessary in addressing a global downturn, challenges exist as countries remain primarily concerned with their own economic progress. For instance, the IMF's abovementioned policy recommendation will need to be accompanied by greater exchange rate flexibility, which may be met with great resistance from nations such as China.

### Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change
	2007	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 09YTD
<b>Europe/Japan/Oceania</b>										
Euro Zone	2.6%	-4.6%	2Q 09	-0.7%	Aug-09	-0.1%	1.00%	Hold	2-Jul-09	E. Zone
UK	3.0%	-1.6%	4Q 08	1.6%	Sep-09	1.4%	0.50%	Hold	9-Sep-09	UK
Japan	2.4%	3.7%	2Q 09	-2.4%	Sep-09	-1.2%	0.10%	Hold	11-Aug-09	Japan
Australia	4.0%	0.6%	2Q 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
<b>Latin America /Caribbean</b>										
Mexico	3.2%	-1.1%	2Q 09	6.3%	Nov-08	3.0%	4.50%	-0.25%	17-Jul-09	Mexico
Brazil	5.7%	-1.2%	2Q 09	0.2%	Aug-09	0.3%	8.75%	Hold	3-Sep-09	Brazil
Chile	5.1%	-4.5%	2Q 09	7.2%	Dec-08	3.0%	0.50%	Hold	10-Sep-09	Chile
<b>Asia/Southeast Asia</b>										
China	11.9%	7.9%	2Q 09	-1.2%	Sep-09	-1.30%	5.31%	-0.27%	22-Dec-08	China
India	9.0%	6.1%	1Q 09	-0.1%	Sep-09	5.50%	5.50%	-1.00%	2-Jan-08	India
Hong Kong	6.4%	1.7%	3Q 08	-1.6%	Sep-09	-	1.50%	-0.50%	30-Oct-08	H. Kong
Singapore	7.7%	-3.5%	2Q 09	-0.3%	Sep-09	-	-	-	-	Singapore
South Korea	5.0%	2.3%	2Q 09	2.2%	Oct-09	2.30%	2.00%	Hold	9-Sep-09	S. Korea
Indonesia	6.3%	6.1%	3Q 08	2.8%	Oct-09	-	6.50%	Hold	3-Jul-09	Indonesia
Thailand	4.9%	-4.9%	2Q 09	-1.0%	Oct-09	-4.10%	1.25%	Hold	15-Jul-09	Thailand
Malaysia	6.3%	4.7%	3Q 08	-1.4%	Jul-09	-1.40%	1.25%	Hold	26-Aug-09	Malaysia
<b>Eastern Europe /Central Asia</b>										
Russia	8.1%	-10.9%	2Q 09	0.0%	Sep-09	0.50%	6.75%	1.00%	28-Nov-08	Russia
Turkey	4.6%	-7.0%	2Q 09	5.3%	Sep-09	-	8.25%	-0.50%	16-Jul-09	Turkey
<b>Middle East/Africa</b>										
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%	2Q 09	6.4%	Sep-09	6.40%	7.00%	Hold	22-Sep-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

## Interest Rate Differentials Attain a Pivotal Role

The USD fell to a multi-week low virtually against every currency over the weekend. The USD trade-weighted index had plunged nearly 11% year to date. The USD's under-performance is mainly pointed to its long-term weaknesses due to trade and budget deficits and uncertainties about the outcome of the economy. However, the most recent volatility continues to be derived from the historically lower US interest rates (0.28%, 3-month USD LIBOR), which have lured investors to borrow in USD and invest proceeds in higher-yielding assets. Furthermore, low Fed rates have weighed on the USD, leading risk-based traders to buy the higher-yielding EUR and commodity-based currencies, like AUD, CAD, etc, over the safe-haven greenback. At the same time, buying a basket of emerging market currencies using the USD as a hedging currency continues to yield a higher return than the JPY. The yield differentials are so enormous that even if the Federal Reserve raises the rate, it will still be immensely profitable to short USD relative to other currencies. Thus, interest rate differentials will attain a pivotal role in currency moves.

## Key Spot Foreign Exchange Rates

\$ per €	Rate versus \$	Last	Week	09YTD
<p>Last 1.4575 Week -0.8% 09YTD 4.2%</p>	<p><b>Europe/Oceania</b></p> <p>Swiss Franc (CHF) 1.0366 -0.8%</p> <p>Australian Dollar (AUD) 0.8654 -0.4%</p> <p>New Zealand Dollar (NZD) 0.7162 -0.4%</p>			
<p>Last 1.5943 Week -0.1% 09YTD 9.0%</p>	<p><b>Latin America /Caribbean</b></p> <p>Mexican Peso (MXN) 13.6105 -0.3%</p> <p>Brazilian Real (BRL) 1.7823 0.6%</p> <p>Chilean Peso (CLP) 557.5500 -1.9%</p>			
<p>Last 89.81 Week 0.2% 09YTD -0.9%</p>	<p><b>Asia/Southeast Asia</b></p> <p>Chinese Yuan (CNY) 6.8270 0.0%</p> <p>Indian Rupee (INR) 47.6500 0.7%</p> <p>Hong Kong Dollar (HKD) 7.7506 0.0%</p> <p>Singaporean Dollar (SGD) 1.4170 0.0%</p> <p>South Korean Won (KRW) 1,185.00 0.3%</p> <p>Indonesian Rupee (IDR) 9,645.00 0.2%</p> <p>Thai Baht (THB) 33.5300 0.2%</p> <p>Malaysian Ringgit (MYR) 3.4810 -0.2%</p>			
	<p><b>Eastern Europe /Central Asia</b></p> <p>Russian Rouble (RUB) 30.1840 -0.2%</p> <p>Turkish New Lira (TRY) 1.4984 -0.4%</p>			
	<p><b>Middle East /Africa</b></p> <p>Saudi Riyal (SAR) 3.7503 0.0%</p> <p>Kuwaiti Dinar (KWD) 0.2866 0.1%</p> <p>Qatari Riyal (QAR) 3.6420 0.0%</p> <p>UAE Dirham (AED) 3.6732 0.0%</p> <p>Omani Riyal (OMR) 0.3852 0.0%</p> <p>Bahraini Dinar (BHD) 0.3770 0.0%</p> <p>Jordanian Dinar (JOD) 0.7085 0.1%</p> <p>Egyptian Pound (EGP) 5.4870 0.3%</p> <p>South African Rand (ZAR) 7.6650 -3.2%</p>			

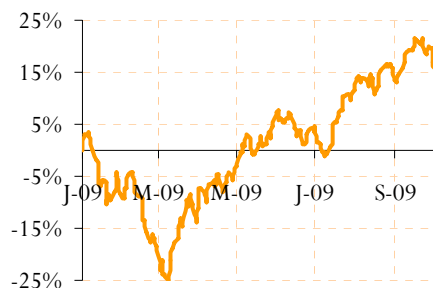
# Global Equity Markets

## Bubble Trouble?

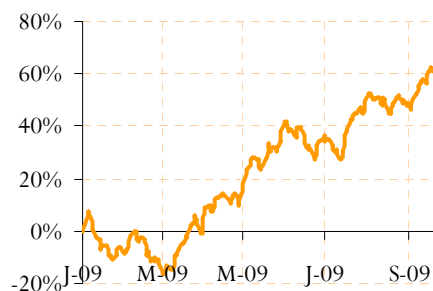
Since 2009, global capital markets have been recovering. Initially public intervention was the main driver of the rally. Recently improving growth prospects are beginning to feed back into market sentiment. However skeptics have argued that the bullish sentiment has pushed market forces ahead of fundamentals, suggesting that the upturn is unsustainable and reminiscent of a developing bubble. This is primarily due to (1) low return on bonds, which drives investors to equities as they provide a more reliable stream of income, (2) oil and stocks, traditionally inversely related, have been rising in tandem this year. Some economists have interpreted this to signal a breakdown of efficient pricing in the markets, and (3) cheap credit, which is starting to flow back into the system as credit markets heal, could support a bubble in the future. This week, the rise in the US unemployment rate and the release of other negative economic data, provided a stark reminder that the global recovery is still fragile and that market enthusiasm may not be entirely supported by fundamentals. Stocks worldwide endured a sell off, with the FTSE 100, Nikkei225 and France's CAC40 declining by 3.4%, 6.8% and 4.8% respectively. While it is still premature to diagnose 'bubble trouble' in the markets, investors need to be wary that the economy, although no longer in free-fall, is still not out of the dark.

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

**MSCI G7**  
Last 924.4 Week -2.3% 09YTD 15.6%



**MSCI EM**  
Last 901.4 Week -0.7% 09YTD 59.0%



**Dow Jones Islamic**  
Last 1,798.5 Week -4.2% 09YTD 21.9%



### Country/Index

#### Europe/Japan/Oceania

Country/Index	Week
UK (FTSE100)	-3.4%
Germany (DAX30)	-4.6%
France (CAC40)	-4.8%
Japan (N225)	-6.8%
Australia (All Ordinaries)	-2.3%
N. Zealand (NZSX50)	-0.1%

#### Latin America/Caribbean

Mexico (IPC)	-4.5%
Brazil (Bovespa)	1.6%
Chile (IGPA)	1.7%

#### Asia/Southeast Asia

China (Shanghai-C)	-9.2%
India (BSE-Sensex)	2.5%
Hong Kong (Hang Seng)	-6.4%
Singapore (Strait Times)	-2.5%
S. Korea (KOSPI-C)	-3.0%
Indonesia (Jakarta-C)	0.9%
Thailand (SET)	-4.3%
Malaysia (Kuala Lumpur-C)	0.5%

#### Eastern Europe/Central Asia

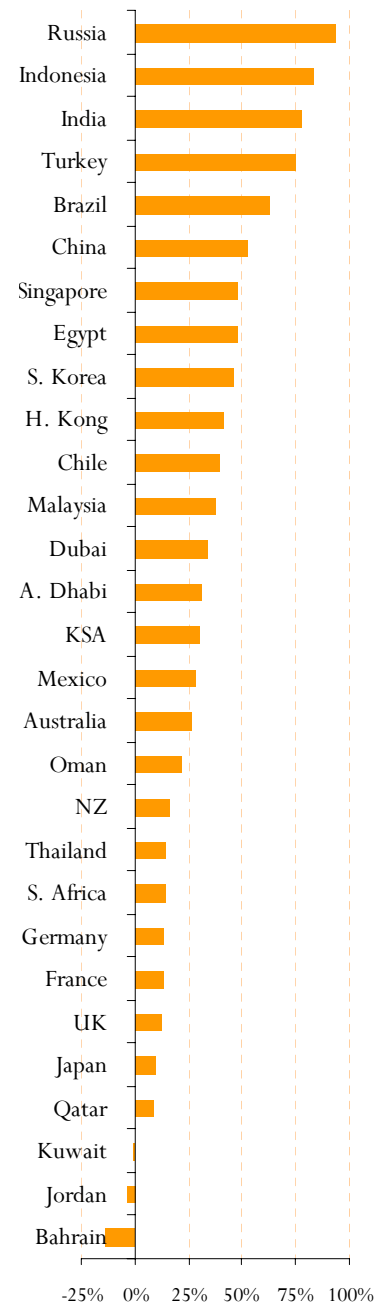
Russia (RTSI)	-0.5%
Turkey (ISE National 100)	-0.2%

#### Middle East/Africa

KSA (TASI)	5.3%
Kuwait (KSEI)	-0.6%
Qatar (DSM20)	2.6%
Abu Dhabi (ADI)	1.2%
Dubai (DFMGI)	3.1%
Oman (MSM30)	-0.3%
Bahrain (All Share I)	1.5%
Jordan (ASE General I)	0.5%
Egypt (CASE30)	-0.8%
S. Africa (JSE All Share Index)	-5.4%

### Week

### 09YTD



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