

Market Review and Outlook

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

October 11, 2009

Special Focus: Australia, Out of the Dark?

Headlines

| | | |
|-------------------------------|-----------------------------------------------------|---|
| Saudi Macro and Equity Market | Sukuk: A Gradual Recovery | 2 |
| US Macro and Equity Market | US Trade Deficit, No Silver Lining | 3 |
| Commodity Markets | No More Optimism for Wheat Prices | 4 |
| Global Macro | Australia, Out of the Dark? | 5 |
| FOREX Market | AUD: An Appealing Prospect | 6 |
| Global Equity Markets | Interest Rate Cut Boosts Investor Confidence | 7 |

Saudi Arabia Leading Economic Indicators

| | 2008 | Latest | Period |
|-----------------------------------------------|--------|--------|--------|
| Average WTI, Cushing 1M, USD/bbl | 99.67 | 57.7 | 09YTD |
| Weighted Average Arabian Light, USD/bbl | 94.8 | 56.9 | 09YTD |
| Average 3M USD LIBOR | 2.93% | 0.81% | 09YTD |
| Average 3M SAR SAIBOR | 3.41% | 0.89% | 09YTD |
| Average Spread, in Basis Points, SAIBOR-LIBOR | 48.2 | 14.7 | 09YTD |
| Y/Y Growth in Monetary Base (M0) | -0.35% | 16.8% | Aug09 |
| Y/Y Growth in Money Supply (M3) | 17.6% | 12.3% | Aug09 |

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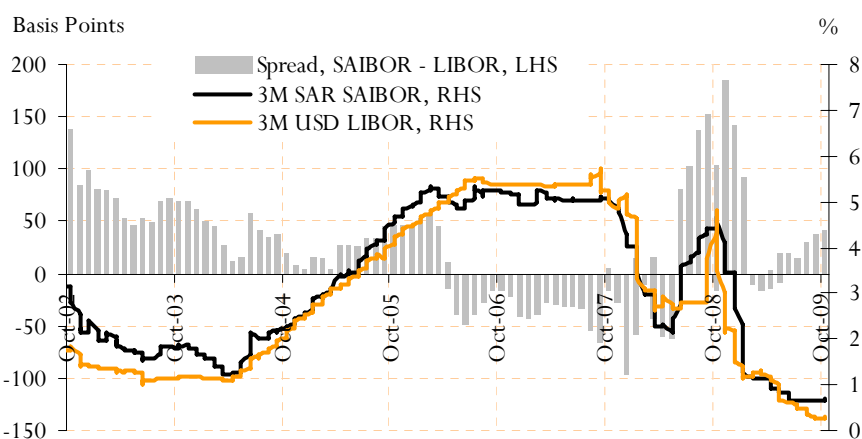
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Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB

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Saudi Macro and Equity Market

Sukuk: A Gradual Recovery

Vibrancy has begun to return to Islamic financing after a bleak year in 2008 in terms of both the value and number of issues. The global value of sukuk issued increased a hefty 45.5% to USD6.18 bn in 3Q09, compared with USD3.37 bn in 3Q08. The rally witnessed last quarter is following the trend which has so far characterized 2009. This is a clear indication that global capital markets are beginning to recover and sukuk is once more regaining its position as a vital avenue for raising funds. Saudi Arabia, for the first time this year, has ranked highest in the list of issuing countries, enjoying 44.1% of the total value of global sukuk in 3Q09. This was primarily due to an issuance made by Saudi Electric Company's on Jul 6 worth USD1.87 bn. Islamic Development Bank (IDB) also issued a sukuk worth USD850 mn in the same quarter. Although this reflects confidence returning to the markets and improved conditions, the availability of credit remains an issue. Jabal Omar Development Company announced an IPO on Jun 20, worth USD 3.03 bn, however due to tight credit conditions have only secured USD 400mn. While credit conditions have not yet normalized, it is safe to say that sentiment towards corporate sukuk has recovered substantially and will continue to do so in 2010.

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 | 56.9 | 94.8 | | |
| | Sep | Aug | | |
| Oil Production, mmbd ² | 8.1 | 8.12 | | |
| | 2008 | 2007 | | |
| Real GDP | 4.5% | 3.4% | | |
| | Aug | Jul | | |
| CPI Inflation, Y/Y | 4.1% | 4.2% | | |
| | Aug | Jul | | |
| Broad Money (M3), Y/Y | 12.3% | 15.3% | | |
| | Aug | Jul | | |
| Credit, Private Sector | 4.7% | 3.8% | | |
| | 1Q09 | 4Q08 | | |
| Credit, Corporate | 25.0% | 43.2% | | |
| | 1Q09 | 4Q08 | | |
| Credit, Households | -2.6% | -2.3% | | |
| | Aug | Jul | | |
| Net Claims on Government ³ | -736.88 | -723 | | |
| | Aug | Jul | | |
| Loan-to-deposit Ratio ⁴ | 79.4% | 76.4% | | |
| | Aug | Jul | | |
| Excess Reserves/Total ⁵ | 57.5% | 62.1% | | |
| | 8M2009 | 8M2008 | | |
| Import LCs, SARbn ⁶ | 81.20 | 125.54 | | |

Sources: SAMA, Reuters.

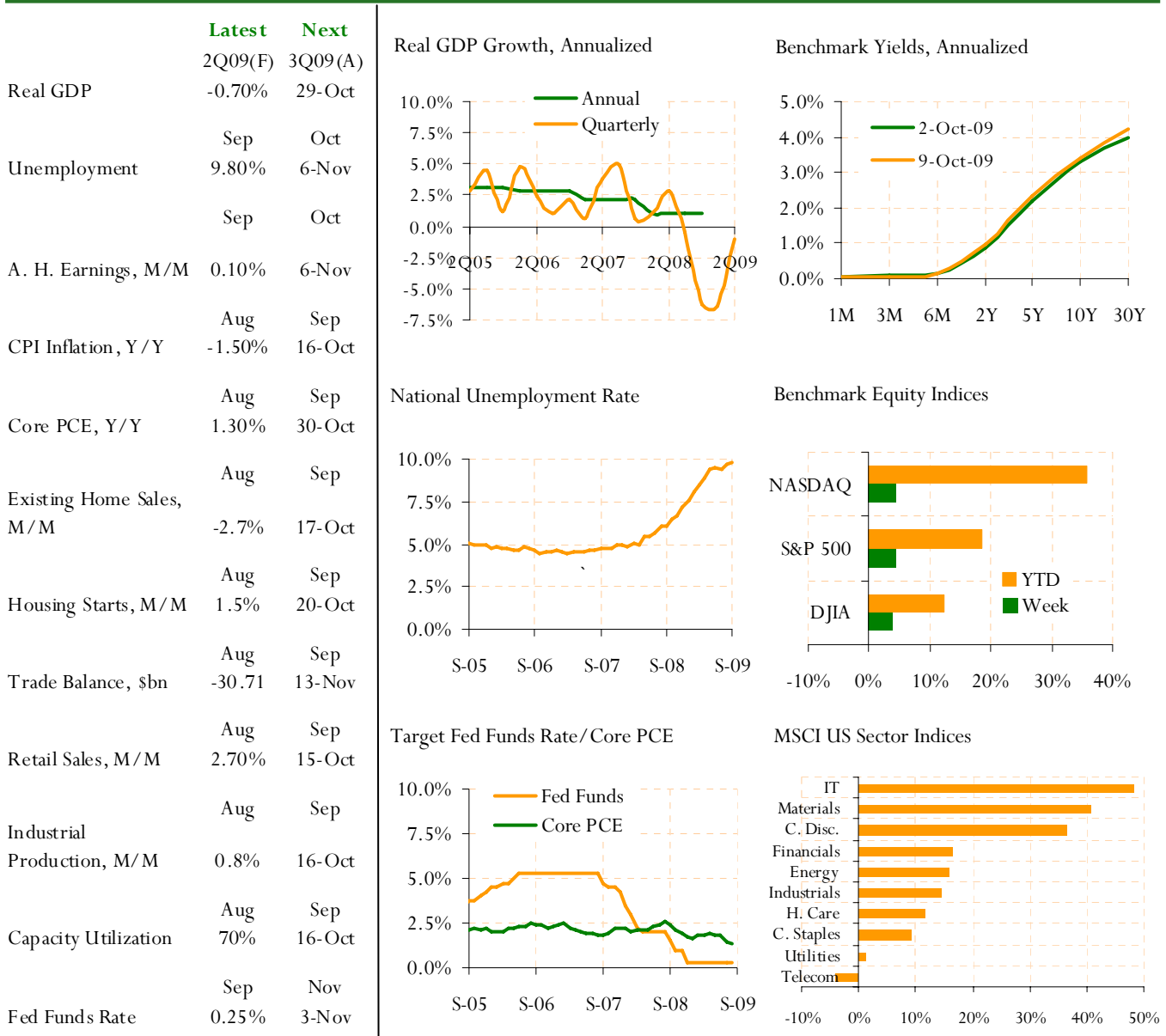
Notes: 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on 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 Trade Deficit, No Silver Lining

The US trade deficit declined to USD30.7bn in Aug from a revised USD31.9 bn the previous month. Imports decreased moderately by USD0.9 bn to USD158.9bn, while exports rose to their highest level this year (USD128.2 bn), marking their fourth consecutive monthly increase. Although the headline may seem encouraging, little has in fact changed. The Jul to Aug decrease in imports reflects decreases in industrial supplies (USD1 bn) and consumer goods (USD 0.7bn). This implies that the two engines of growth in the US economy, investment and consumer demand, are still in a fragile state. On the export side, the overall decline in exported goods was offset by a USD0.2 bn increase in exported services, mainly from travel and other transportation services. Going forward, exports are expected to remain resilient due to two main reasons: (1) the global economy, especially strengthening economic activity from Asia, is likely to support US exports in the medium-term, and (2) the USD, which has been weakening since Mar 09, should improve the competitiveness of US goods, lending further support. A near-term sustainable improvement in imports, however, which would reflect stabilization in the US economy, is not as promising.

Key Macroeconomic and Capital Market Indicators



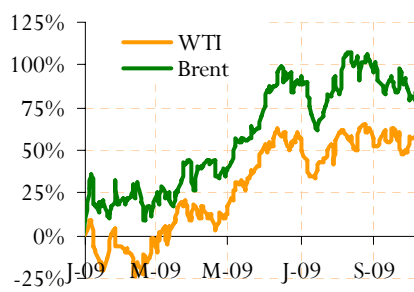
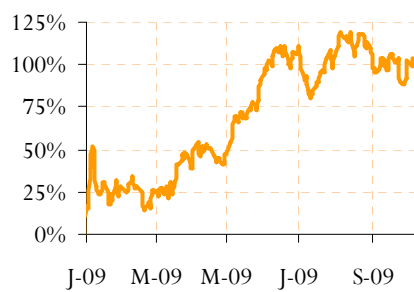
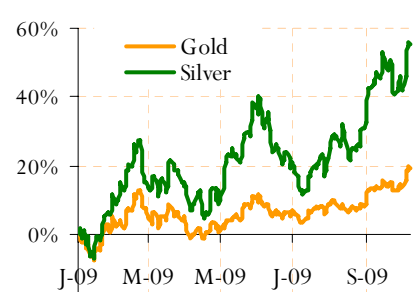
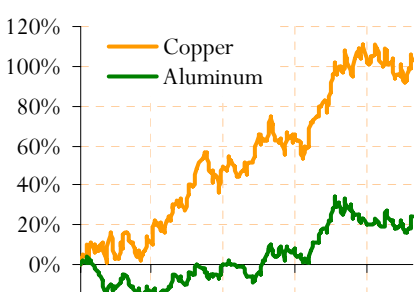
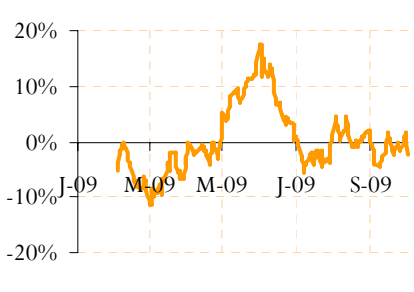
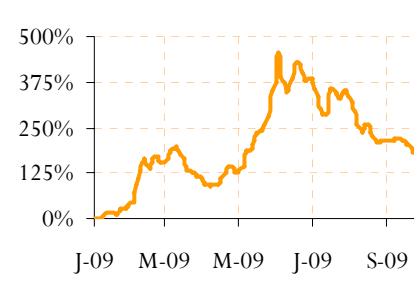
Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

Commodity Markets

No More Optimism for Wheat Prices

With signs of improving global economic conditions and stabilization in financial markets, wheat prices have enjoyed a modest recovery of 7.5% over the first 5 months of 2009. But more recently, prices have declined from a high of US723 cents a bushel in Jun to US468 cents a bushel this week. Looking ahead, wheat prices are likely to experience some further downside pressure over the short-term. This is largely because of favorable weather conditions and higher yields in some countries, like India and China, which added to global stock levels during the previous harvest season. According to the Australian Bureau of Agricultural and Resource Economics (ABARE), global wheat production is expected to fall by around 4% in 2009-10, primarily on account of the European Union, US and Russia. But when combined with opening stocks, global wheat supply is expected to reach 183 mn tones in 2009-10, around 20 million tones higher than the closing stocks last year and the highest level since 2001-02. Moving into 2010, wheat prices might edge a little higher as the market focus shifts to smaller output levels, with farmers reducing their plantings and input applications based on lower returns. But the risk of low stocks will not materialize, especially given that global wheat consumption is expected to remain largely unchanged.

Key Commodity Prices and Indices

| | Last | Week | | |
|--------------------------|---------|------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| | 9-Oct | % | Benchmark Crude Oil Prices | Saudi Arabian Light, Asia Deliveries |
| WTI, Spot, \$/bbl | 71.8 | 2.8 |  |  |
| Brent, Spot, \$/bbl | 69.8 | 4.4 | | |
| Gold, LME, \$/Oz | 1048.3 | 4.7 | Precious Metals | Base Metals |
| Silver, LME, \$/Oz | 17.7 | 9.6 |  |  |
| Platinum, \$/Oz | 1332.0 | 4.2 | | |
| Palladium, \$/Oz | 317.5 | 8.0 | | |
| Aluminum, LME, \$/t | 1900.0 | 4.1 | Goldman Sachs Agriculture Index | Baltic Exchange Dry Index |
| Copper, LME, \$/t | 6235.0 | 6.1 |  |  |
| Nickel, LME, \$/t | 18750.0 | 8.5 | | |
| Zinc, LME, \$/t | 2039.0 | 8.5 | | |
| Wheat, Dec, \$/Bushel | 4.7 | 6.1 | | |
| Com, Dec, \$/Bushel | 3.6 | 8.6 | | |
| Soybeans, Nov, \$/Bushel | 9.6 | 8.9 | | |

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

Australia, Out of the Dark?

Australia has become the first G20 nation to tighten monetary policy since the inception of the crisis. After an aggressive total reduction of 4.25%, the Reserve Bank of Australia raised the benchmark rate by 25 basis points to 3.25%, in a new effort to unwind monetary stimulus. This seems incongruous given the global rhetoric of the G20 meeting, cautioning against premature tightening. However, Australia does appear to be out of the dark. First, the government's USD37 bn stimulus has supported domestic demand and its interest rate cuts have been largely passed through to lending rates. This, in conjunction with its sound banking system helped ease credit market conditions, restoring economic activity. Second, Australia's reliance on its Asian trading partners, whose economic prospects are encouraging, has helped it weather the crisis. In turn it has recorded positive growth in 1Q09 (0.4% Y/Y) and 2Q09 (0.6% Y/Y), placing its recovery well ahead of other developed nations. However near term risks to the growth outlook remain: (1) household debt, which reached over 150% of disposable income in 2008, remains high, and (2) unemployment, estimated at 6.3% in 2009, is expected to creep up in 2010. Together, these threaten to drain domestic demand, a fundamental component of overall growth in the Australian economy.

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 | 10-Oct-09 | E. Zone |
| UK | 3.0% | -1.6% | 4Q08 | 1.6% | Sep-09 | 1.4% | 0.50% | Hold | 10-Oct-09 | UK |
| Japan | 2.4% | 3.7% | 2Q09 | -2.4% | Sep-09 | -1.2% | 0.10% | Hold | 6-Aug-09 | Japan |
| Australia | 4.0% | 0.6% | 2Q09 | 1.5% | Jul-09 | 1.5% | 3.25% | 0.25% | 6-Oct-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% | -1.2% | 2Q09 | 0.2% | Oct-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 | 9-Oct-09 | Chile |
| Asia/Southeast Asia | | | | | | | | | | |
| China | 11.9% | 7.9% | 2Q09 | -1.2% | Sep-09 | -1.30% | 5.31% | -0.27% | 22-Dec-08 | China |
| India | 9.0% | 6.1% | 1Q09 | -0.1% | Sep-09 | 5.50% | 5.50% | -1.00% | 2-Jan-08 | India |
| Hong Kong | 6.4% | 1.7% | 3Q08 | -1.6% | Sep-09 | - | 1.50% | -0.50% | 30-Oct-08 | H. Kong |
| Singapore | 7.7% | -3.5% | 2Q09 | -0.3% | Sep-09 | - | - | - | - | Singapore |
| South Korea | 5.0% | 2.3% | 2Q09 | 2.2% | Oct-09 | 2.30% | 2.00% | Hold | 9-Sep-09 | S. Korea |
| Indonesia | 6.3% | 6.1% | 3Q08 | 2.8% | Oct-09 | - | 6.50% | Hold | 6-Oct-09 | Indonesia |
| Thailand | 4.9% | -4.9% | 2Q09 | -1.0% | Oct-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% | Oct-09 | 0.50% | 6.75% | 1.00% | 28-Nov-08 | Russia |
| Turkey | 4.6% | -7.0% | 2Q09 | 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 | 6.4% | 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

AUD: An Appealing Prospect

The AUD, traditionally a key currency for carry trade investment, lost its appeal during the financial crisis as risk aversion dominated investment strategies. However since Mar09, as global equity and commodity prices started to recover, the AUD has been on an appreciating trend, gaining a hefty 27.7% until date. The impact of carry trade investment on the AUD is expected to intensify over the short-term, owing to the 0.25% interest rate hike enacted by the Reserve Bank of Australia. This has further widened interest rate differentials between the AUD and other global currencies, attracting investors to the Australian Dollar. Over the week, the AUD appreciated 4.4% against the USD and touched a 14 month high of USD0.89. Given that economic conditions in the US, UK and Europe continue to warrant very low interest rates, this phenomenon is expected to keep the AUD on an appreciating trend, at least throughout 2009. As an export-orientated nation, the impact a stronger AUD carries on the trade balance is difficult to predict. On the one hand, its Asian trading partners are unlikely to reduce imports of iron ore and minerals, due to their strategic orientation. On the other, its key non-Asian partners, who continue to battle recessionary pressures, may be inclined to reduce import demand, pressuring Australia's export incomes.

Key Spot Foreign Exchange Rates

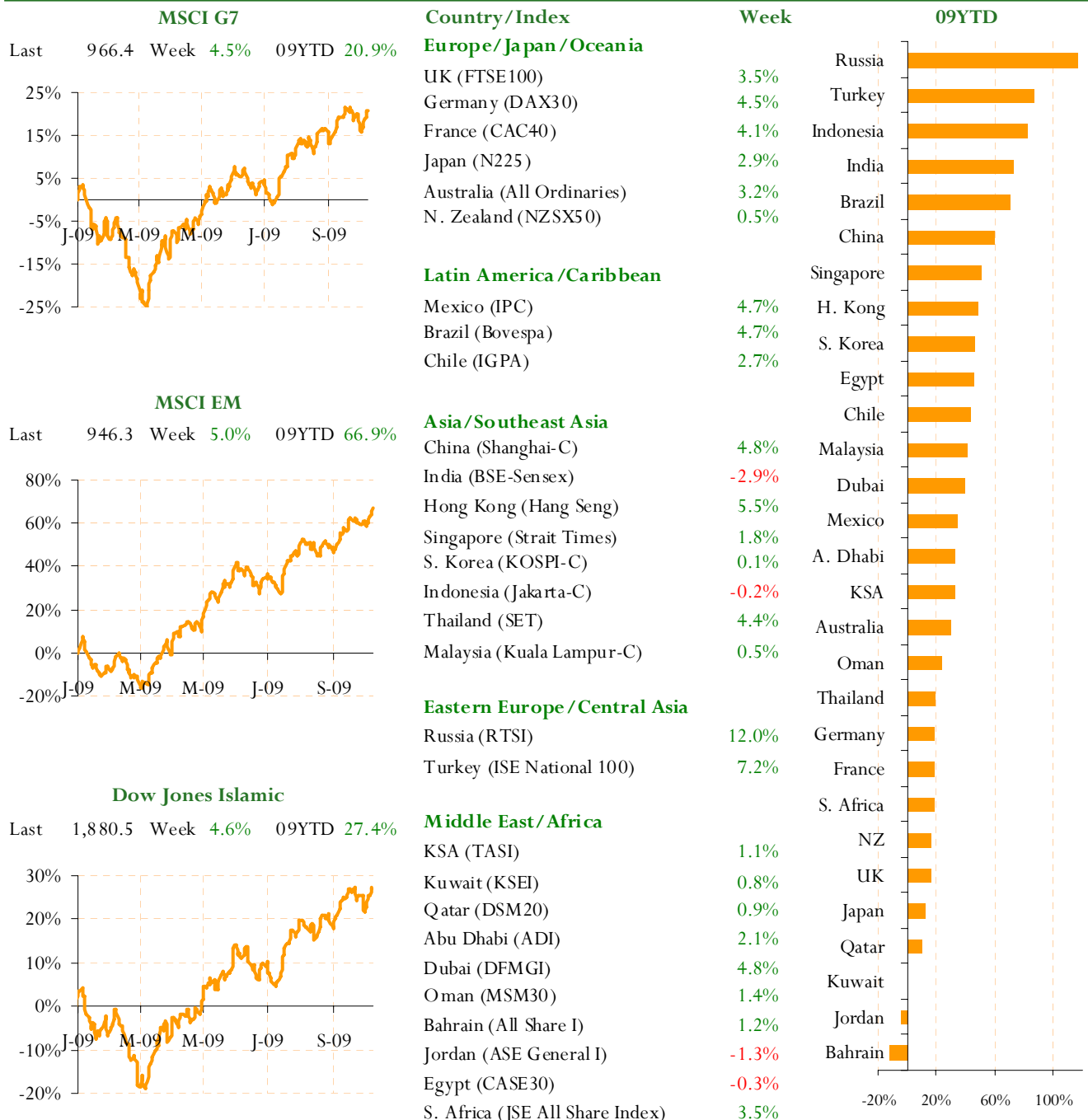
| \$ per € | Rate versus \$ | Last | Week | 09YTD | |
|----------------------------------|--------------------------------|------------------------------------|-------|-------|-----|
| Last 1.4733 Week 1.1% 09YTD 5.4% | Europe/Oceania | | | | |
| | Swiss Franc (CHF) | 1.0324 | 0.3% | BRL | |
| | Australian Dollar (AUD) | 0.9039 | 4.4% | ZAR | |
| | New Zealand Dollar (NZD) | 0.7343 | 2.5% | AUD | |
| | Latin America/Caribbean | | | NZD | |
| | Mexican Peso (MXN) | 13.2793 | 2.5% | IDR | |
| | Brazilian Real (BRL) | 1.7457 | 2.1% | CLP | |
| | Chilean Peso (CLP) | 554.6000 | 0.5% | KRW | |
| | | Asia/Southeast Asia | | | TRY |
| | Chinese Yuan (CNY) | 6.8257 | 0.0% | INR | |
| | Indian Rupee (INR) | 46.5300 | 2.4% | THB | |
| | Hong Kong Dollar (HKD) | 7.7505 | 0.0% | CHF | |
| | Singaporean Dollar (SGD) | 1.3964 | 1.5% | RUB | |
| | South Korean Won (KRW) | 1,165.30 | 1.7% | MXN | |
| | Indonesian Rupee (IDR) | 9,460.00 | 2.0% | SGD | |
| | Thai Baht (THB) | 33.3500 | 0.5% | MYR | |
| | Malaysian Ringgit (MYR) | 3.3995 | 2.4% | EGP | |
| | | Eastern Europe/Central Asia | | | SAR |
| Russian Rouble (RUB) | 29.6215 | 1.9% | QAR | | |
| Turkish New Lira (TRY) | 1.4709 | 1.9% | JOD | | |
| | Middle East/Africa | | | AED | |
| | Saudi Riyal (SAR) | 3.7503 | 0.0% | BHD | |
| | Kuwaiti Dinar (KWD) | 0.2867 | 0.0% | OMR | |
| | Qatari Riyal (QAR) | 3.6406 | 0.0% | HKD | |
| | UAE Dirham (AED) | 3.6727 | 0.0% | CNY | |
| | Omani Riyal (OMR) | 0.3850 | 0.0% | KWD | |
| | Bahraini Dinar (BHD) | 0.3770 | 0.0% | | |
| | Jordanian Dinar (JOD) | 0.7098 | -0.2% | | |
| | Egyptian Pound (EGP) | 5.4780 | 0.2% | | |
| | South African Rand (ZAR) | 7.4135 | 3.4% | | |

Global Equity Markets

Interest Rate Cut Boosts Investor Confidence

The Reserve Bank of Australia (RBA) provided a major boost to investor confidence by raising interest rates to 3.25%. The subsequent release of promising labor market data, which marked a 0.1% decline in the unemployment rate, took the optimism surrounding Australia's economy one step further. The S&P/ASX 200 index increased a hefty 3.3% over the week to reach 4,752.9. Unsurprisingly, the resource sector enjoyed sturdy gains with miner BHP Billiton rising 3.2% to AUD 37.81 and Rio Tinto jumping 5.2% to AUD60.75. The banking sector also pushed higher, with Commonwealth Bank – the nation's largest mortgage lender – up 3.6% at AUD 51.30. However, the shares of companies with heavy exposure to the US were dented by reservations that the Australian dollar would stay strong if local interest rates were to rise further. Brambles, for example, the international pallet supplier, tumbled 5.5% to AUD 7.04. Overall, the interest rate hike enacted by the RBA worked as catalyst to the rally in Australian equities this week. It suggested that the nation is on its way to recovery and ignited the hope that other countries too will soon follow suit.

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



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