

# Market Review and Outlook

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

November 08, 2009

## Special Focus: Rating Agencies: Why the Solution Can Not be Extra Oversight

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### Saudi Arabia Leading Economic Indicators

	2008	Latest	Period
Average WTI, Cushing 1M, USD/bbl	99.67	59.6	09YTD
Weighted Average Arabian Light, USD/bbl	94.8	57.2	09YTD
Average 3M USD LIBOR	2.93%	0.76%	09YTD
Average 3M SAR SAIBOR	3.41%	0.94%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	48.2	17.6	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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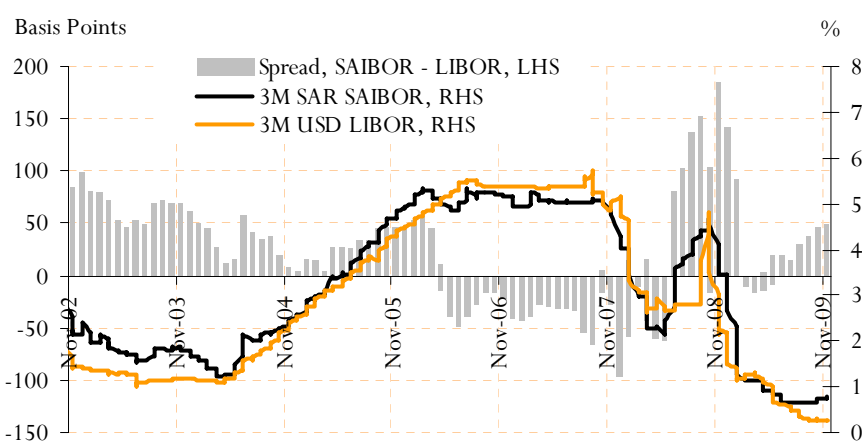
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### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB

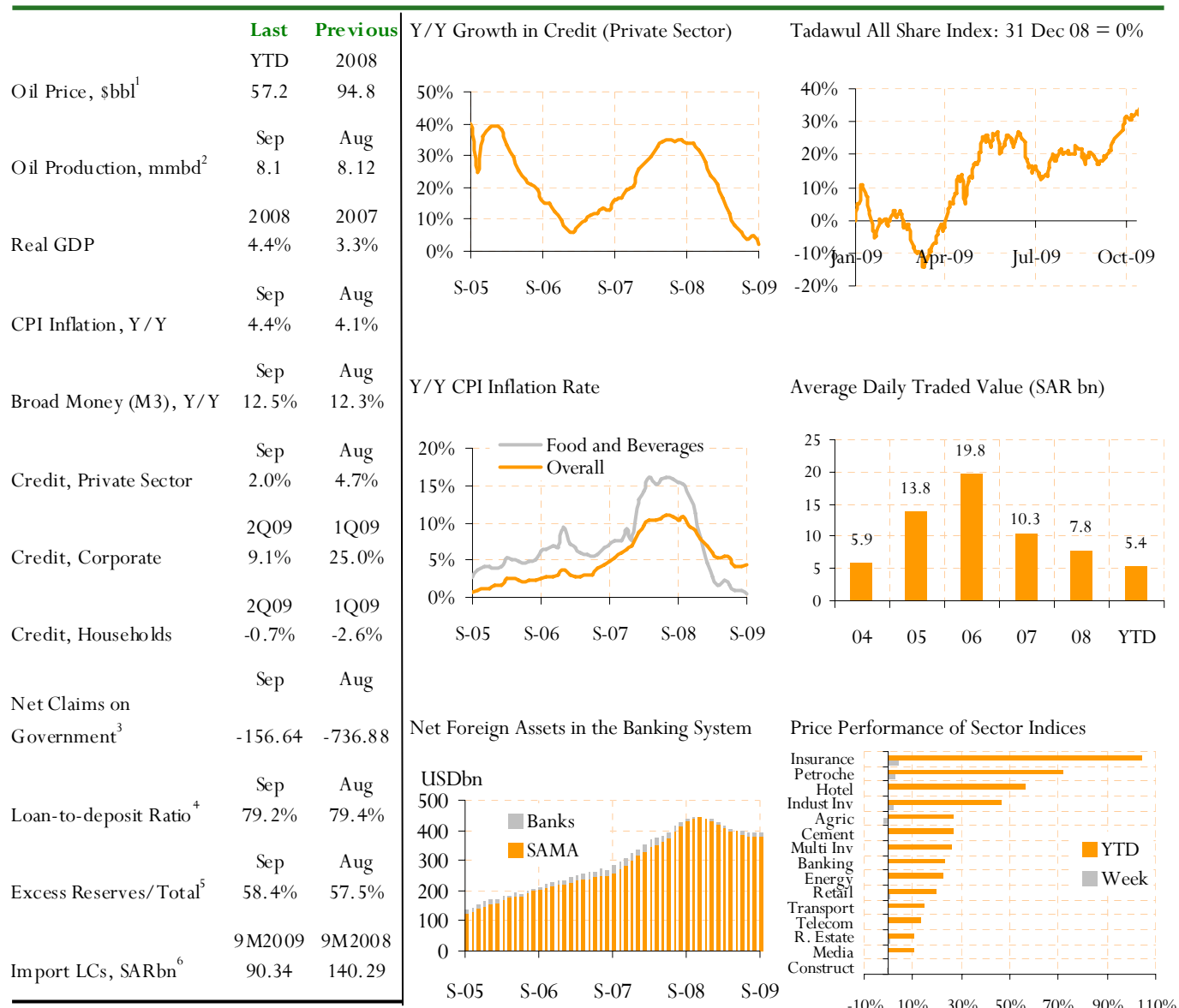
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# Saudi Macro and Equity Market

## Saudi Inflation Bites Again

Inflation in Saudi Arabia will stabilize at a high level by the end of this year. The depreciation of the USD together with higher global commodity prices will feed into inflation through higher import costs. Recent data show that inflation has increased for the first time in four months to 4.4% Y/Y in Sep from 4.1% Y/Y in Oct. After falling by an average of 2.6% through the first seven months of the year, food prices increased by 1% M/M in Aug and 1.3% M/M in Sep. This coincided with high seasonal demand during the month of Ramadan. Rents, which increased by 0.3% M/M in Sep, continued to drive inflation as housing supply remains below demand. A weaker USD could also add to wage pressures and input costs in the construction sector. With domestic demand expected to recover in 2010, Saudi Arabia may be at a risk of higher inflation if the USD depreciates further. This, however, will not alter the position of SAMA, which has kept interest rates at the same level since its last cut in Jun. In addition, there has been no pressure on the currency peg, as reflected by the SAR's one-year premium over spot prices. To the extent that Saudi Arabia has fiscal room to increase current expenditure, the government will probably maintain subsidy programs to lessen the impact of inflation on lower income groups.

## 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

## A “Jobless” Recovery

Last week, news that the US economy grew by 3.5% Y/Y in 3Q09 sparked a wave of optimism in the markets. However, recent employment data, which revealed that the unemployment rate surged from 9.8% to 10.2% in Oct, confirmed that this was but a fleeting sentiment. Non-farm payrolls declined by 190k, illustrating that the recovery in output, which began in 2Q09, is not being matched on the employment side. Job losses continued to pile in the goods producing sector, with manufacturing and construction posting sharp declines of 62k and 61k respectively. In the service providing sector, the overall fall (61k) was buoyed by employment gains in Education & Health (45k) and Professional & Business services (18k). Slightly encouraging is that Oct’s 190k decline is significantly lower than 2Q09’s monthly average labour loss of 225k. While this may suggest that the labour market is starting to stabilize, it remains a long way away from recovery. With employment prospects low and credit conditions still tight, US households will not be able to smooth their consumption pattern, threatening growth. Going forward, the “joblessness” which now characterizes the US economy, will pose a major drain on the recovery.

### Key Macroeconomic and Capital Market Indicators

	Latest	Next		
	3Q09(A)	4Q09(P)		
Real GDP	3.50%	24-Nov	Real GDP Growth, Annualized	Benchmark Yields, Annualized
	Sep	Oct		
Unemployment	9.80%	6-Nov	National Unemployment Rate	Benchmark Equity Indices
	Sep	Oct		
A. H. Earnings, M/M	0.10%	6-Nov	Target Fed Funds Rate/Core PCE	MSCI US Sector Indices
	Sep	Sep		
CPI Inflation, Y/Y	-1.30%	18-Nov		
Core PCE, Y/Y	1.30%	24-Nov		
Existing Home Sales, M/M	9.4%	23-Nov		
Housing Starts, M/M	0.5%	23-Nov		
Trade Balance, \$bn	-30.71	13-Nov		
Retail Sales, M/M	-1.50%	16-Nov		
Industrial Production, M/M	0.7%	17-Nov		
Capacity Utilization	71%	17-Nov		
Fed Funds Rate	0.25%	3-Nov		

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

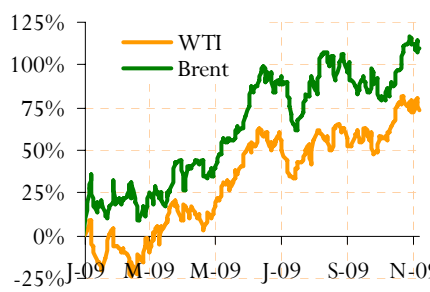
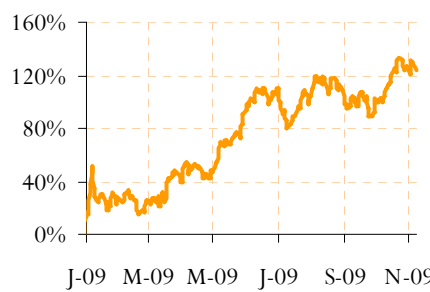
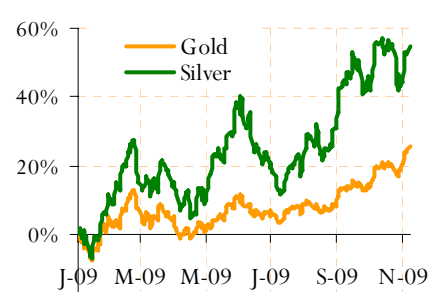
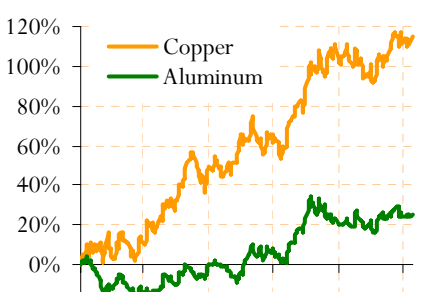
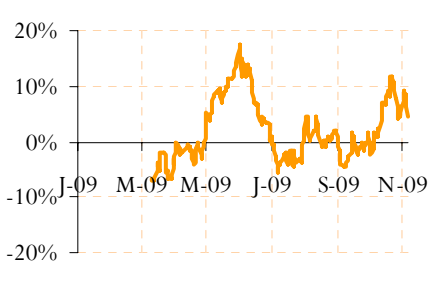
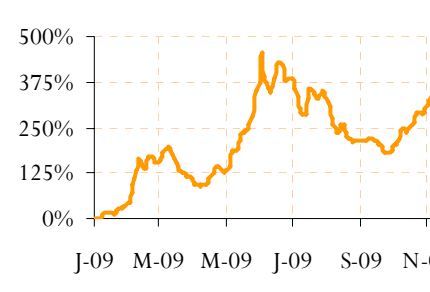
Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate.

# Commodity Markets

## The Glory of Gold

Gold prices have recently risen to a new record of USD 1,100 per ounce. Since Oct, the precious metal has started to regain its bullish momentum, increasing a hefty 4.8% over the week alone. Is gold expected to continue on this upward trajectory until the end of 2009? The economic picture seems supportive. While the global economy is progressing, economic data remains conflicted, with the recovery taking a step back for every step forward. Amid such uncertainty, investment demand for Gold is increasing. Low interest rates and ballooning government debt, particularly in the US, are driving interest in the commodity as a hedge against inflation. It has long been recognized, that China has been steadily increasing its stock of gold reserves, while reducing the pace of US treasury accumulation. Surprising, is that the Reserve Bank of India, considered a traditional investor, has been following in the same footsteps. Most recently, it has purchased 220 tons of Gold from the IMF for USD6.7 bn. Sri Lanka, which has been buying gold for the past 7 months, has too renewed its commitment to increase its stock of gold reserves. These moves underscore how central banks are moving away from dollar denominated assets, in favor of the safe-haven asset, lending crucial support to gold prices.

### Key Commodity Prices and Indices

	Last	Week		
	6-Nov	%	Benchmark Crude Oil Prices	Saudi Arabian Light, Asia Deliveries
WTI, Spot, \$/bbl	77.4	-0.9		
Brent, Spot, \$/bbl	75.7	-0.1		
Gold, LME, \$/Oz	1094.7	3.4	Precious Metals	Base Metals
Silver, LME, \$/Oz	17.4	5.7		
Platinum, \$/Oz	1340.5	0.6		
Palladium, \$/Oz	328.5	2.2	Goldman Sachs Agriculture Index	Baltic Exchange Dry Index
Aluminum, LME, \$/t	1920.0	0.4		
Copper, LME, \$/t	6490.0	-1.0		
Nickel, LME, \$/t	17350.0	-3.9		
Zinc, LME, \$/t	2174.0	-1.0		
Wheat, Dec, \$/Bushel	5.0	-3.8		
Com, Dec, \$/Bushel	3.7	-4.0		
Soybeans, Nov, \$/Bushel	9.5	-5.0		

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

## Rating Agencies: Why the Solution Can Not be Extra Oversight

The financial crisis might have bottomed-out; with the global capital and money markets returning to a semblance of normalcy, but the culprits behind the crisis will remain entrenched in the history of this business cycle. Rating agencies had been at the heart of the financial crisis, drawing criticism for their inadequate scrutiny of complex products that were hit hard by widespread defaults on US sub-prime mortgages, especially with the deceiving AAA tag. Accordingly, the SEC since May08 had been involved in examining the top three, namely S&P, Moody's and Fitch, arriving at the fact that they had accumulated so much fees in the subprime bubble that they became printing presses for AAA tags. Additionally, the fact that they are paid by issuers of the bonds they are rating undermined the whole rating process because it did not create a conflict of interest. Last Wednesday, all of this debate culminated in a US bill to overhaul the credit rating agencies and allow the SEC oversight powers and litigation against them. However, in our opinion, increased oversight is not the answer given the regulatory lapses that are constantly associated with business cycles, but the real solution will hinge on the removal of the special status of these agencies as "Nationally Recognized Statistical Rating Organizations". The removal of this government seal will turn the ratings of these agencies, credit analysts at heart, to opinions, which will force investors to do their homework and analyze these opinions rather than take them at face value, in a similar manner to equity research and rating.

### 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%	2Q09	-0.3%	Oct-09	-0.1%	1.00%	Hold	5-Nov-09	E. Zone
UK	3.0%	-1.6%	4Q08	1.1%	Oct-09	1.4%	0.50%	Hold	5-Nov-09	UK
Japan	2.4%	3.7%	2Q09	-2.3%	Oct-09	-1.2%	0.10%	Hold	30-Oct-09	Japan
Australia	4.0%	0.6%	2Q09	1.5%	Jul-09	1.5%	3.50%	0.25%	3-Nov-09	Australia
New Zealand	3.2%	-0.9%	4Q08	1.9%	Jul-09	1.8%	2.50%	Hold	28-Oct-09	NZ
<b>Latin America /Caribbean</b>										
Mexico	3.2%	-1.1%	2Q09	6.3%	Nov-08	3.0%	4.50%	Hold	16-Oct-09	Mexico
Brazil	5.7%	-1.2%	2Q09	0.2%	Oct-09	4.0%	8.75%	Hold	21-Oct-09	Brazil
Chile	5.1%	-4.5%	2Q09	7.2%	Dec-08	3.0%	0.50%	Hold	9-Oct-09	Chile
<b>Asia/Southeast Asia</b>										
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%	0.8%	3Q09	-0.4%	Oct-09	-	-	-	-	Singapore
South Korea	5.0%	0.6%	3Q09	2.0%	Nov-09	2.40%	2.00%	Hold	9-Sep-09	S. Korea
Indonesia	6.3%	6.1%	3Q08	2.6%	Nov-09	2.82%	6.50%	Hold	4-Nov-09	Indonesia
Thailand	4.9%	-4.9%	2Q09	0.4%	Nov-09	0.60%	1.25%	Hold	21-Oct-09	Thailand
Malaysia	6.3%	4.7%	3Q08	-1.4%	Jul-09	-1.40%	1.25%	Hold	26-Aug-09	Malaysia
<b>Eastern Europe /Central Asia</b>										
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	5.1%	Nov-09	-	6.75%	-0.50%	16-Oct-09	Turkey
<b>Middle East/Africa</b>										
Saudi Arabia	3.4%	4.5%	2008	4.4%	Sep-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	6.1%	Oct-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

## USD: Little Light at the End of the Tunnel

The absence of any major changes in the forward-looking language of the Fed statement demonstrates that officials are in no rush to reverse quantitative easing. The statement revealed a renewed commitment to keep interest rates “exceptionally low” for an “extended period of time”. Accordingly interest rate differentials will continue to work against the USD’s favor, keeping the currency weak. Will this trend continue until the end of 2009? Unsupportive to USD strength, are economic fundamentals which remain fragile. This has called investors to question the sustainability of the recovery once the government begins to unwind its massive stimulus programmes. Looking ahead, because economic conditions remain fragile, any tightening of monetary policy would drive investors away from bonds and stocks. With the US economy at a critical juncture, the Fed will unlikely take the risk of stoking such a reaction, as it would hinder economic progress. Moreover with US consumers still battered by the crisis, and consumption very weak, inflationary pressures remain heavily subdued, generating little incentive for tightening. Therefore, without a strong economic rebound, the short-run and long-run picture looks bleak for the USD.

### Key Spot Foreign Exchange Rates

\$ per €		Rate versus \$	Last	Week	
Last 1.4850	Week 0.9%	09YTD 6.2%	<b>Europe/Oceania</b>		
		Swiss Franc (CHF)	1.0173	1.0%	BRL
		Australian Dollar (AUD)	0.9190	2.2%	AUD
		New Zealand Dollar (NZD)	0.7264	1.1%	ZAR
		<b>Latin America /Caribbean</b>			NZD
		Mexican Peso (MXN)	13.4200	-1.5%	CLP
		Brazilian Real (BRL)	1.7185	2.6%	IDR
		Chilean Peso (CLP)	521.7000	1.8%	KRW
		<b>Asia/Southeast Asia</b>			RUB
		Chinese Yuan (CNY)	6.8281	0.0%	CHF
		Indian Rupee (INR)	46.8400	0.2%	THB
		Hong Kong Dollar (HKD)	7.7502	0.0%	INR
		Singaporean Dollar (SGD)	1.3933	0.7%	TRY
		South Korean Won (KRW)	1,168.60	1.6%	SGD
		Indonesian Rupee (IDR)	9,465.00	1.0%	MXN
		Thai Baht (THB)	33.4000	0.2%	MYR
		Malaysian Ringgit (MYR)	3.4030	0.4%	EGP
		<b>Eastern Europe /Central Asia</b>			JOD
		Russian Rouble (RUB)	29.0400	0.4%	SAR
		Turkish New Lira (TRY)	1.4855	1.5%	QAR
		<b>Middle East/Africa</b>			OMR
		Saudi Riyal (SAR)	3.7503	0.0%	BHD
		Kuwaiti Dinar (KWD)	0.2858	0.1%	HKD
		Qatari Riyal (QAR)	3.6411	0.0%	AED
		UAE Dirham (AED)	3.6732	0.0%	CNY
		Omani Riyal (OMR)	0.3850	0.0%	KWD
		Bahraini Dinar (BHD)	0.3771	0.0%	
		Jordanian Dinar (JOD)	0.7090	0.0%	
		Egyptian Pound (EGP)	5.4680	0.1%	
		South African Rand (ZAR)	7.5630	4.0%	



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