

Market Review and Outlook

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

December 6, 2009

Special Focus: The Bubble Machine

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Saudi Arabia Leading Economic Indicators

	2008	Latest	Period
Average WTI, Cushing 1M, USD/bbl	99.67	61.0	09YTD
Weighted Average Arabian Light, USD/bbl	94.8	58.7	09YTD
Average 3M USD LIBOR	2.93%	0.72%	09YTD
Average 3M SAR SAIBOR	3.41%	0.87%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	48.2	20.4	09YTD
Y/Y Growth in Monetary Base (M0)	-0.35%	61.3%	Oct09
Y/Y Growth in Money Supply (M3)	17.6%	11.4%	Oct09

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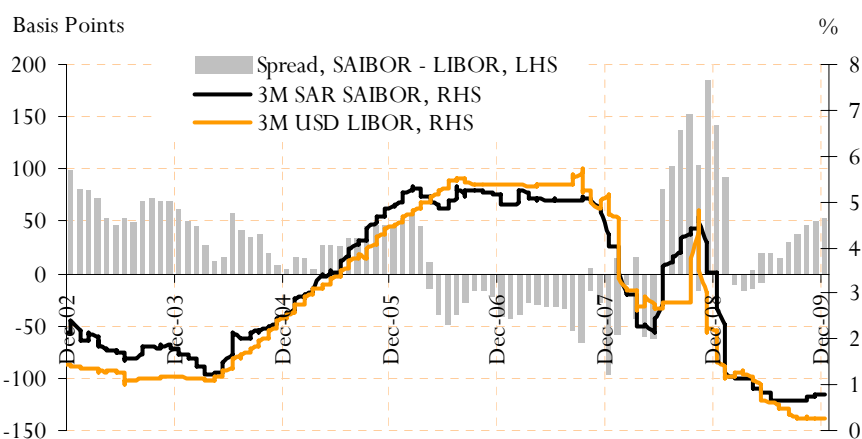
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Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB

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Saudi Macro and Equity Market

The Protected Steel Industry

In 2008 the worldwide production of steel passed the 1326 million tones mark, making it the largest manufacturing industry in the world with a turnover of over \$1.5 trillion. The 2009 YTD worldwide steel production has reached over 865 million tones, with Saudi Arabia producing only 0.5% of the worldwide production. Hadeed, the largest local producer of steel, contributed 53.5% of the total domestic supply in 2008, while the rest was catered for by the leading private sector producers such as Al-Tuwairqi Group and Al-Rajhi Steel. On the consumption side, Saudi Arabia consumes 47% of the sections market while the UAE consumes 44% relative to the rest of the GCC. Saudi steel exports are estimated to have declined 17.3% to 1.35 million tones in 2008, and are forecast to further decrease by 22.2% in 2009. We believe that the Kingdom's iron and steel sector will continue to operate in a relatively protected business environment because the Kingdom's supportive regulatory regime along side cheap energy cost and protective tariffs, ensure that local industry will continue to maintain a competitive edge over foreign producers.

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	58.7	94.8		
	Nov	Oct		
Oil Production, mmbd ²	8.1	8.1		
	2008	2007		
Real GDP	4.4%	3.3%		
	Oct	Sep		
CPI Inflation, Y/Y	3.5%	4.4%		
	Oct	Sep		
Broad Money (M3), Y/Y	11.4%	12.5%		
	Oct	Sep		
Credit, Private Sector	0.7%	2.0%		
	2Q09	1Q09		
Credit, Corporate	9.1%	25.0%		
	2Q09	1Q09		
Credit, Households	-0.7%	-2.6%		
	Oct	Sep		
Net Claims on Government ³	-757	-156.64		
	Oct	Sep		
Loan-to-deposit Ratio ⁴	78.9%	79.2%		
	Oct	Sep		
Excess Reserves/Total ⁵	64.4%	58.4%		
	10M2009	10M2008		
Import LCs, SARbn ⁶	99.06	152.09		

Sources: SAMA, Reuters.

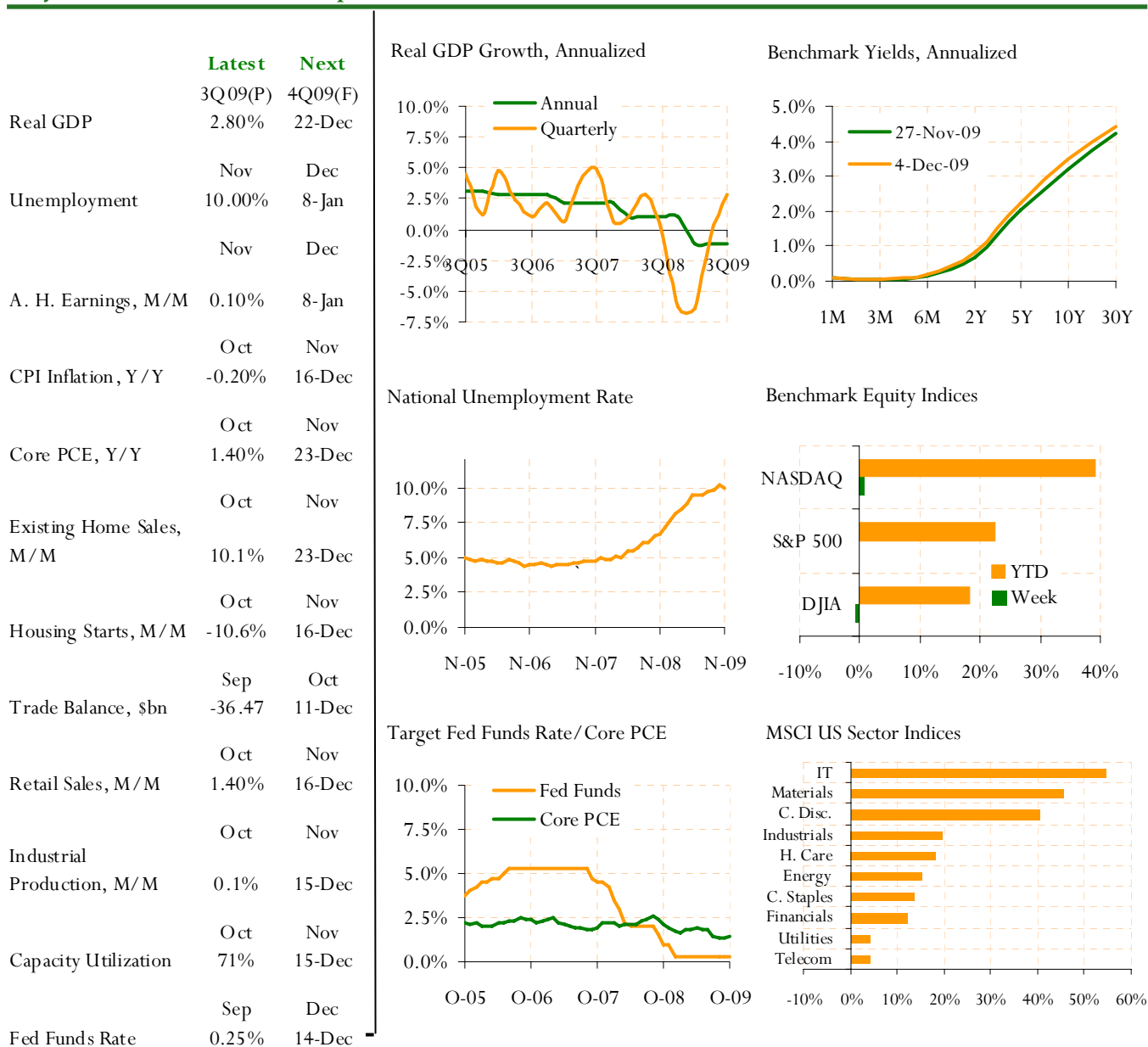
Notes: 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on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

Indeed, the recent Labor Department data that had signaled a bottoming-out in job losses is a cause for optimism; however, we do believe that vaulting to the positive side will be an upward struggle. On the positive note, the data came way below market expectation of more than 100k decline, with US companies shedding a mere 11k jobs in Nov, the lowest level since the recession began. Revisions had also added 159k to the payroll figures reported for Oct and Sep. The improvement were broad-based, as the retail, construction and factory payrolls declined by 14k, 27k, and 41k, respectively, compared to the higher declines in Oct of 44k, 56k and 51k. Despite the figures, a sense of cautious optimism must be in place, given the following factors: (1) 7.2 mn Americans had lost their jobs since Dec07, (2) an increase in frictional unemployment, with a surge in those who have been unemployed for at least 27 weeks, and (3) a seasonal-temporary employment connection that might fade by Jan10 as the holiday season ends, especially with the number of temporary workers increasing by 58k in Nov, the highest in five years, a level comparable to what the service industries had added to cater for the seasonal activity.

Key Macroeconomic and Capital Market Indicators



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

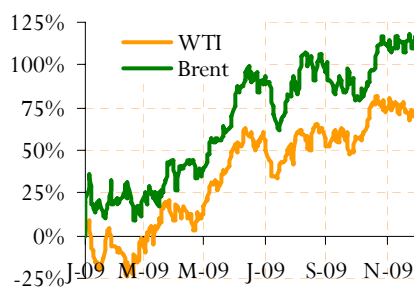
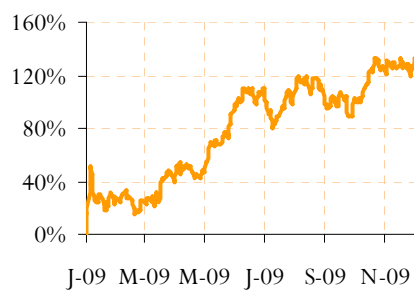
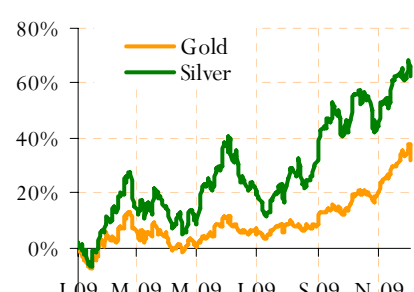
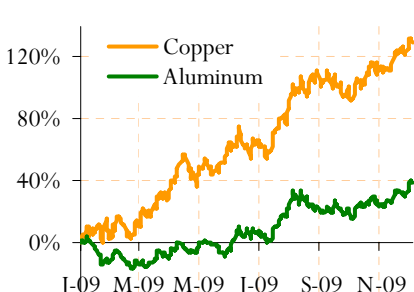
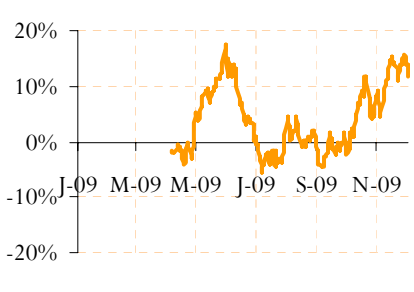
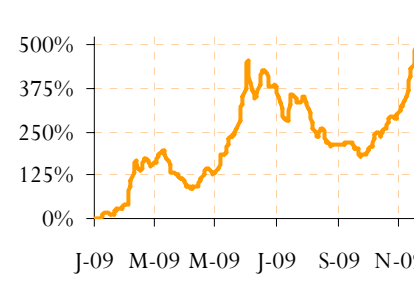
Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate.

Commodity Markets

Platinum, Could Continue to be a Clear Winner

The white metal is hovering around USD1500/oz, having surged approximately 66% since Jan09. Platinum, a scarce metal, acts as proxy for gold which is influenced by the status of the USD. The dollar has been getting weaker, plunging nearly 11% until date, on the back of concern over the rate of government spending. Metals such as platinum, silver, and palladium are providing insurance against depreciating currencies. As a result, the upward momentum in platinum's price has been primarily driven by strong investment (19.6 tones) and physical demand (jewelry 76.2 tones) in Nov09. Clearly, the metal is trading more like a precious metal than an industrial one, with investors looking at "real assets" as a hedge against credit problems and the malaise in the economic environment. This economic climate will drive up the price of platinum, which is expected to touch USD2200/oz. Furthermore, some analysts believe 2010 will bring some recovery in automotive and industrial demand for platinum as the world economy improves, but supplies are not likely to grow to the same magnitude and the market could move into a moderate deficit. These optimistic fundamentals will support the platinum price.

Key Commodity Prices and Indices

	Last	Week		
	4-Dec	%	Benchmark Crude Oil Prices	Saudi Arabian Light, Asia Deliveries
WTI, Spot, \$/bbl	75.4	-1.4		
Brent, Spot, \$/bbl	78.0	-0.6		
Gold, LME, \$/Oz	1161.2	-0.3	Precious Metals	Base Metals
Silver, LME, \$/Oz	18.5	-0.6		
Platinum, \$/Oz	1438.5	-1.2		
Palladium, \$/Oz	371.5	0.7	Goldman Sachs Agriculture Index	Baltic Exchange Dry Index
Aluminum, LME, \$/t	2148.0	4.3		
Copper, LME, \$/t	7040.0	1.4		
Nickel, LME, \$/t	16000.0	-5.4		
Zinc, LME, \$/t	2369.0	4.3		
Wheat, Dec, \$/Bushel	5.4	-3.7		
Com, Dec, \$/Bushel	3.7	-3.5		
Soybeans, Jan, \$/Bushel	10.4	0.1		

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

The Bubble Machine and "No One-Size Fits All"

Asset bubbles had and will continue to be a hotly debated topic, given the inherent difficulty of assessing the optimum level of asset prices. However, the current divergence between developed and developing countries in terms of growth, inflation and capital inflows had become worrisome, with the zero-rate policies adopted by advanced economies contributing to bubbles in emerging economies. A case in point is the Asian region where asset prices, especially real estate and equities, had soared after tumultuous 2008. On the equity front, Asian stocks had rallied in the range of 40-90%, a steep recovery since Mar. Real estate prices had also surged to more than a year-high in most countries, particularly China where home prices in 70 major cities had climbed at the fastest pace in 14 months in Oct. At this juncture, in our opinion, where the money goes is where the problems will go, and given the favorable growth prospects, Asian economies will have to deal with a world awash with liquidity and a US monetary policy that does not suit their ensuing business cycles. Definitely, no one-size fits all when it comes to handling monetary policy in divergent business cycles, and this is why the US policy makers must not be blamed.

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%	-4.8%	3Q09	-0.1%	Nov-09	2.0%	1.00%	Hold	Dec-09	E. Zone
UK	3.0%	-5.2%	3Q09	1.5%	Nov-09	2.0%	0.50%	Hold	5-Nov-09	UK
Japan	2.4%	3.7%	2Q09	-2.3%	Oct-09	0-2.0%	0.10%	Hold	19-Nov-09	Japan
Australia	4.0%	0.6%	2Q09	1.5%	Jul-09	3.0%	3.50%	0.25%	3-Nov-09	Australia
New Zealand	3.2%	-2.1%	2Q09	1.7%	Sep-09	3.0%	2.50%	Hold	28-Oct-09	NZ
Latin America /Caribbean										
Mexico	3.2%	-8.1%	3Q09	6.3%	Nov-08	3.0%	4.50%	Hold	16-Oct-09	Mexico
Brazil	5.7%	-1.2%	2Q09	0.3%	Nov-09	4.0%	8.75%	Hold	21-Oct-09	Brazil
Chile	5.1%	-1.6%	3Q09	0.0%	Nov-09	3.0%	0.50%	Hold	13-Nov-09	Chile
Asia/Southeast Asia										
China	11.9%	8.9%	3Q09	-0.5%	Nov-09	4.80%	5.31%	-0.27%	22-Dec-08	China
India	9.0%	7.9%	2Q09	-0.1%	Sep-09	5.50%	5.50%	-1.00%	2-Jan-08	India
Hong Kong	6.4%	-2.4%	3Q09	-1.6%	Sep-09	-	1.50%	-0.50%	30-Oct-08	H. Kong
Singapore	7.7%	0.6%	3Q09	-0.4%	Oct-09	-	-	-	-	Singapore
South Korea	5.0%	0.6%	3Q09	2.4%	Dec-09	3.50%	2.00%	Hold	12-Nov-09	S. Korea
Indonesia	6.3%	6.1%	3Q08	2.4%	Dec-09	4-6%	6.50%	Hold	Dec-09	Indonesia
Thailand	4.9%	-2.8%	3Q09	1.9%	Dec-09	3.50%	1.25%	Hold	Dec-09	Thailand
Malaysia	6.3%	-1.2%	3Q09	-1.6%	Oct-09	-	1.25%	Hold	26-Aug-09	Malaysia
Eastern Europe /Central Asia										
Russia	8.1%	-8.9%	3Q09	9.7%	Dec-09	8.50%	6.75%	1.00%	28-Nov-08	Russia
Turkey	4.6%	-7.0%	2Q09	5.5%	Dec-09	-	6.50%	-0.25%	19-Nov-09	Turkey
Middle East/Africa										
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%	-2.1%	3Q09	6.1%	Oct-09	3-6%	7.00%	Hold	19-Nov-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

Asian Currencies Gain Appeal

In 2008, investors fled to safety and lower yields, exerting downwards pressure on Asian currencies against the USD. The Korean Won (KRW) and the Indonesian Rupia (IDR) led the downfall, depreciating by approximately 30% and 20% respectively. This year, however, has marked a reversal of fortunes for the previously battered currencies. Until date, the KRW and the IDR have appreciated by 9.7% and 16.2% respectively, ranking them high on the list of 2009's top performing currencies. This is primarily attributed to (1) the improvement in global economic conditions and the associated decline in risk aversion, which has driven investors back to riskier emerging market assets. Second, with developed nations, namely the US and UK, expected to keep interest rates low for an extended period of time, wide interest differentials are created with nations that have higher benchmark rates. The Central Bank of Indonesia has maintained the interest rate at 6.5%. Moreover with inflation at 2.4% in Nov, well below the 4-6% target band, investors are encouraged to enter carry trades, appreciating the IDR. Going forward, the inflow into these currencies is problematic given that their economies are export orientated.

Key Spot Foreign Exchange Rates

\$ per €*	Rate versus \$	Last	Week		
Last 1.4851 Week -0.8% 09YTD 6.2%	Europe/Oceania				
	Swiss Franc (CHF)	1.0167	-1.0%	BRL	
	Australian Dollar (AUD)	0.9161	1.0%	AUD	
	New Zealand Dollar (NZD)	0.7170	0.9%	ZAR	
	Latin America/Caribbean			CLP	
	Mexican Peso (MXN)	12.6450	2.4%	NZD	
	Brazilian Real (BRL)	1.7335	0.4%	IDR	
	Chilean Peso (CLP)	502.7000	-1.8%	KRW	
		Asia/Southeast Asia			MXN
	Chinese Yuan (CNY)	6.8271	0.0%	INR	
				INR	
				THB	
				THB	
				CHF	
				RUB	
				RUB	
				TRY	
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Global Equity Markets

Asian Stock Markets Rally

Signs of recovery in the global economy have driven investors to risky assets. Until date, emerging market equities have increased by 73.4%, over three times as much as stock markets in the G7 region (17.2%). The significant inflow towards riskier equities reflects growing risk appetite, especially given the general consensus that the worst of the recession is almost over. Worldwide, interest rates are exceptionally low and stimulus plans have drowned fears of abrupt liquidity shortages. Investor optimism appears to be channeled into Asia. Not only have the currencies been on an appreciating trend (see FOREX), but equities have also staged a strong comeback. Until date, Indonesia's Jakarta-C, China's CSI 300 index and Hong Kong's Hang Seng index have increased by a substantial 85.3%, 81.7% and 56.1% respectively, contrasting to their the steep downfall of 50.6%, 65.4% and 48.3% in 2008. Going forward, although bubble-talk leaves Asian equities vulnerable to a large sell off, their general direction still appears to be headed higher. The release of consecutive positive economic data reassures that sentiment is backed by sound fundamentals, which for now is sufficient confirmation that the recovery is well on its way

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

MSCI G7		Country/Index	Week	09YTD
Last	937.3		Week -2.0%	09YTD 17.2%
Europe/Japan/Oceania				
		UK (FTSE100)	-0.6%	
		Germany (DAX30)	0.3%	
		France (CAC40)	0.9%	
		Japan (N225)	5.5%	
		Australia (All Ordinaries)	-0.4%	
		N. Zealand (NZSX50)	1.1%	
Latin America/Caribbean				
		Mexico (IPC)	3.1%	
		Brazil (Bovespa)	1.2%	
		Chile (IGPA)	1.9%	
Asia/Southeast Asia				
		China (Shanghai-C)	-0.6%	
		India (BSE-Sensex)	-0.5%	
		Hong Kong (Hang Seng)	-1.2%	
		Singapore (Strait Times)	-0.2%	
		S. Korea (KOSPI-C)	0.4%	
		Indonesia (Jakarta-C)	1.2%	
		Thailand (SET)	0.9%	
		Malaysia (Kuala Lumpur-C)	0.5%	
Eastern Europe/Central Asia				
		Russia (RTSI)	-2.7%	
		Turkey (ISE National 100)	9.4%	
Middle East/Africa				
		KSA (TASI)	0.0%	
		Kuwait (KSEI)	-1.4%	
		Qatar (DSM20)	-2.7%	
		Abu Dhabi (ADI)	-8.2%	
		Dubai (DFMGI)	-12.2%	
		Oman (MSM30)	-1.8%	
		Bahrain (All Share I)	-1.2%	
		Jordan (ASE General I)	-1.2%	
		Egypt (CASE30)	1.7%	
		S. Africa (JSE All Share Index)	-0.1%	
MSCI EM				
Last	983.3		Week 4.5%	09YTD 73.4%
Dow Jones Islamic				
Last	1,955.2		Week 0.4%	09YTD 32.5%

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