

# Market Review and Outlook

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

December 27, 2009

## Special Focus: Saudi Fiscal Stimulus to the Rescue in 2010

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### Saudi Arabia Leading Economic Indicators

	2008	Latest	Period
Average WTI, Cushing 1M, USD/bbl	99.67	61.7	09YTD
Weighted Average Arabian Light, USD/bbl	94.8	59.4	09YTD
Average 3M USD LIBOR	2.93%	0.69%	09YTD
Average 3M SAR SAIBOR	3.41%	0.92%	09YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	48.2	22.2	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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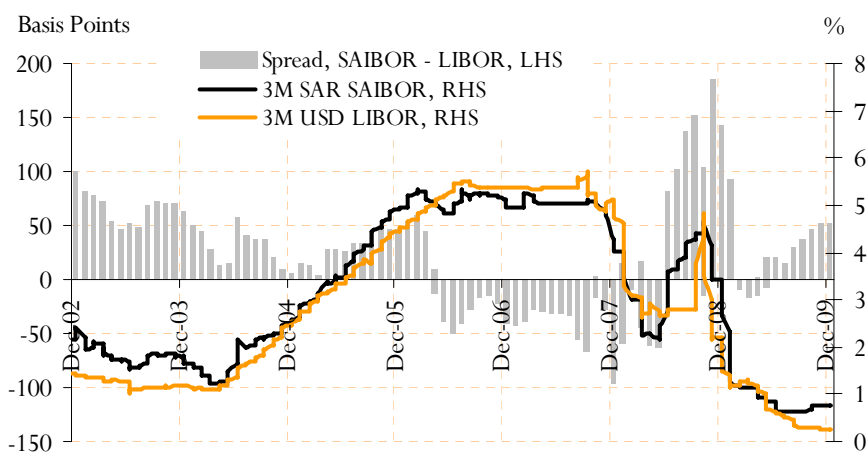
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### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB

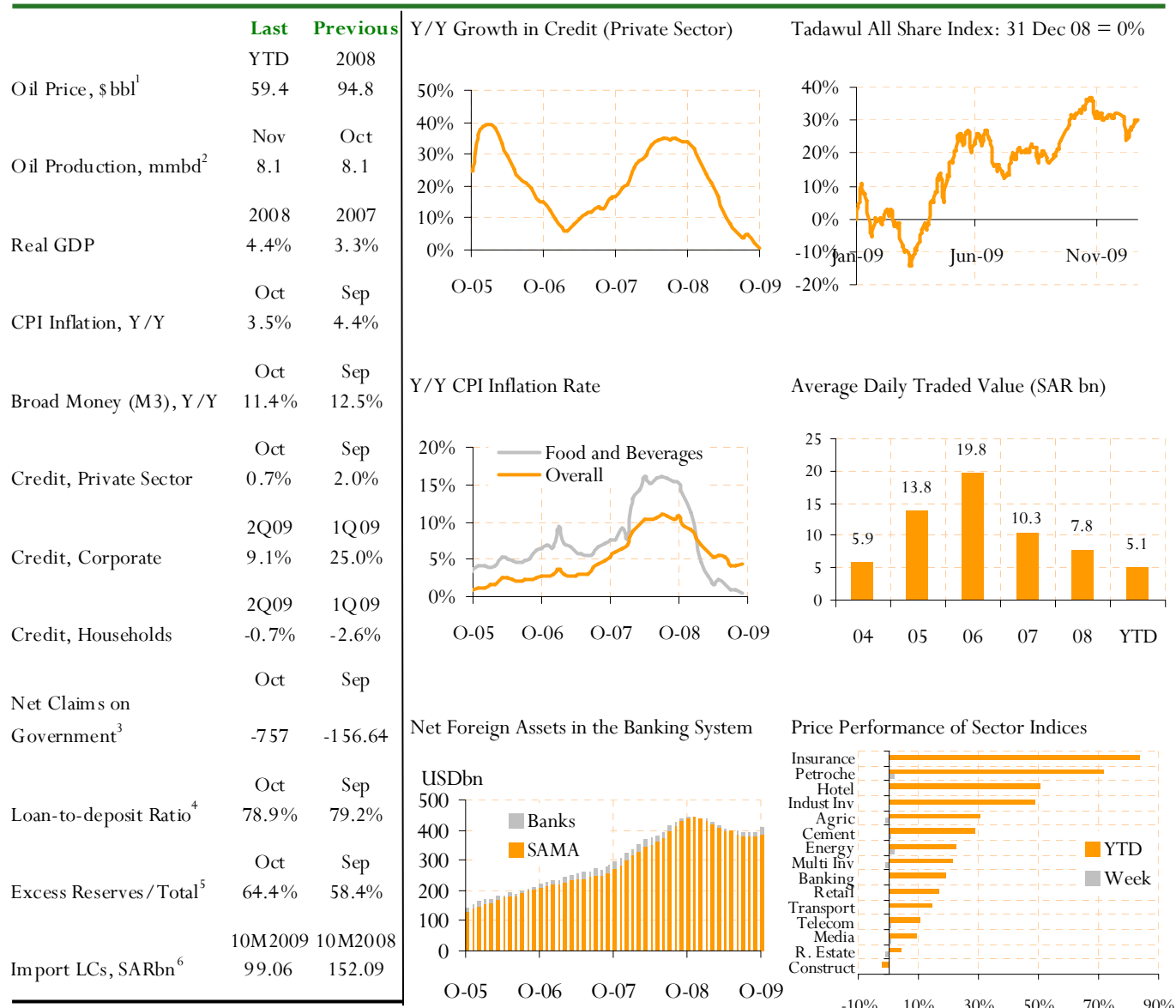
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# Saudi Macro and Equity Market

## Fiscal Stimulus to the Rescue in 2010

On Monday, 21 Dec, the MOF announced its budget plans for 2010, which highlighted the government's commitment to resume an expansionary fiscal policy stance. The budget sees revenues at SAR470 billion and expenditures at SAR540 billion, leading to a deficit of SAR70 billion. With nearly half of total expenditure allocated to capital outlays, the government plans to improve infrastructure as well as education and health. In addition, SAR48 billion will be disbursed to specialized credit institutions to support key projects. But since the budget is probably based on a conservative oil assumption (estimated at USD43-45/bbl), we believe the government will be able to finance higher than budgeted expenditures without incurring a deficit next year. The fiscal balance will once again realize a surplus of around 8% of GDP in 2010, based on an average of USD75/bbl for Arab light and crude oil production at 8.3 million b/d. With higher oil revenues, the current account surplus will also rise to 10.5% of GDP from 5.5% of GDP in 2009, and hence net foreign assets will recover. Bottom line: the 2010 budget is positive given the need to support the non-oil sector in an environment of uncertainty surrounding global growth and recovery.

## Key Macroeconomic and Equity Market Indicators



Sources: SAMA, Reuters.

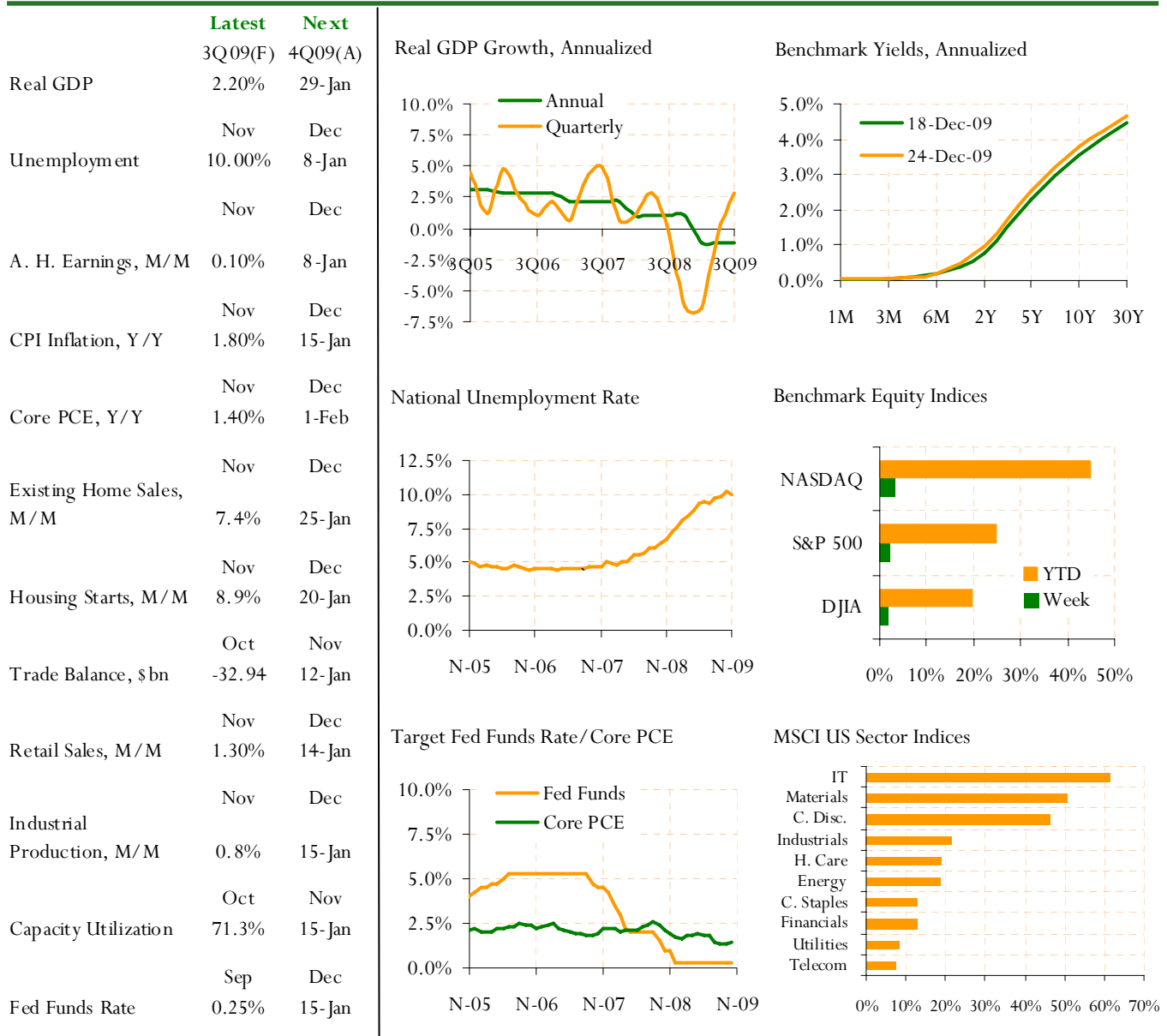
Notes: 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: Banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on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

## Will 2010 be a Happy Year?

On the face of it, it looks as though the US will end 2009 on a high note, with the recent flow of positive data giving the world's largest economy a lift heading into 2010. However, we should be mindful of the critical role played by fiscal stimuli and ultra loose monetary policy in providing an artificial support to the financial markets. Admittedly, home prices are stabilizing, stocks are rising, and job losses are lessening, but will this constitute the seeds towards a sustainable recovery? Definitely, the answer will hinge on the continuity of such trends going forward. The optimists do view a an improved economic specter in 2010 based on: (1) the improvement in home prices, with the Case-Shiller index rising since May, the first sequential gains since the index started the downfall in Aug06, (2) a rebound in consumer confidence from a record low 25.3 in Feb to 49.5 in Nov, and (3) the reduced shedding in the work force from more than 500k losses earlier in recession to just 11k jobs in Nov. On the other hand, the pessimists identify the near 26-year high unemployment rate of 10% and the highest foreclosure filings on record (3.9m notices) as frailties that will pose risks to a jolly outlook for the US economy next year.

### Key Macroeconomic and Capital Market Indicators



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

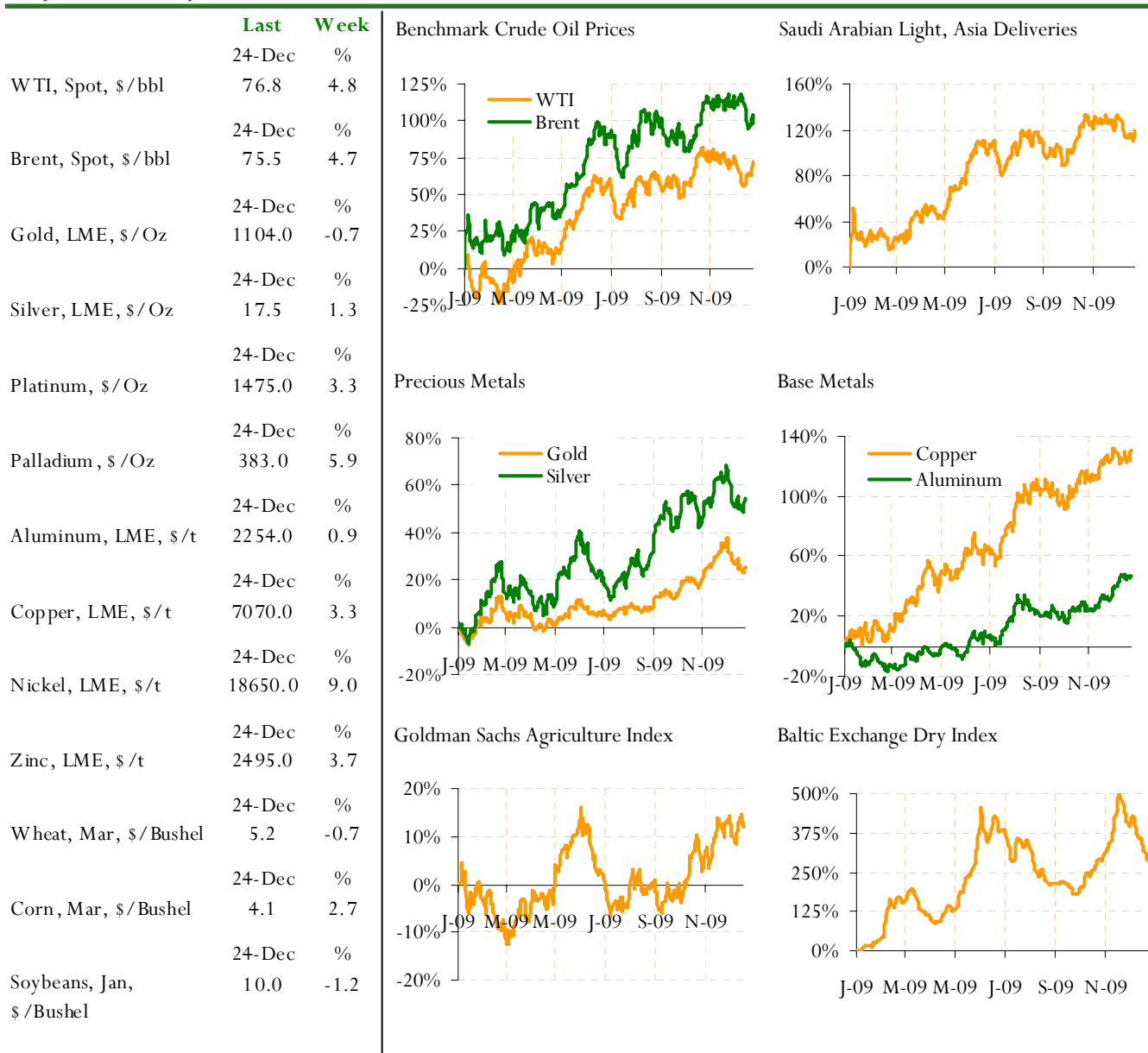
Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate.

# Commodity Markets

## Black Gold Trade in Positive Territory

Crude oil future markets remained in positive territory, backed by strong global sentiments. Crude oil prices surpassed USD77/bbl over the last week. The rally in prices coincided with a weakened greenback and depleting stockpiles of crude products. The trade weighted dollar index (DXY) depreciated to 78.18 from 78.77 and crude and fuel stocks fell by a steeper than expected 4.9 million barrels to 327.5 million barrels. This has fueled investor confidence, as it is suggestive of improving global demand conditions, which sparked additional purchasing enthusiasm for the dollar-denominated commodities. The optimistic sentiment across oil markets has been taken as a herald of oil demand growth. The IEA has forecasted that world demand in the 2010 will average 85.13 million b/d, constituting a 0.82 million b/d increase from their previous forecast. In 2010, we expect the crude price will average between USD75 and USD85. The improvement in crude oil markets will be especially beneficial to the oil exporting countries in the Middle East, Central Asia and Latin America, since an increase in prices will partly offset the undesirable impact the current global financial crisis has had on their economies.

### Key Commodity Prices and Indices



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

# Global Macro

## Challenges Ahead for Russia's Economy

Russia's central bank has reduced the benchmark interest rate by 0.25% to a record low of 8.75%, marking the 10th consecutive cut this year. Although Russia has statistically emerged from the recession, delivering two consecutive quarters of GDP growth, the recovery has been slow and uneven. The rate cut is expected to "soften the impact of factors constraining the economic rebound". First, domestic demand, which is a fundamental driver of growth in Russia, has been slow to revive. This is largely on the back of unemployment, which grew to 8.1% in Nov from 7.7% the previous month. Second, credit conditions remain tight as liquidity is committed to building buffers to absorb expected loan losses, as opposed to lending. Corporate loan books fell 0.5% in Oct, following a 0.7% decline in Sep. The reduction in the interest rate should drive commercial banks to reduce their lending rates, stimulating credit activity and in turn fostering economic growth. Provided that these negative factors begin to ease, Russia is expected to grow by 5% in 2010. Moreover, as a commodity based economy, the strengthening of oil prices and improving global economic prospects will further aid the recovery.

### Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change
	2007	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 09YTD
	<b>GDP</b>			<b>Inflation</b>			<b>Policy Rate</b>			
	2007	Last	Period	Last	Date	Target	Last	Decision	Date	
<b>Europe/Japan/Oceania</b>										
Euro Zone	2.6%	-4.8%	3Q09	0.5%	Dec-09	0.6%	1.00%	Hold	4-Dec-09	E. Zone
UK	3.0%	-5.2%	3Q09	1.9%	Dec-09	1.8%	0.50%	Hold	10-Dec-09	UK
Japan	2.4%	3.7%	2Q09	-1.7%	Dec-09	0-2.0%	0.10%	Hold	18-Dec-09	Japan
Australia	4.0%	0.5%	3Q09	1.5%	Jul-09	3.0%	3.75%	0.25%	1-Dec-09	Australia
New Zealand	3.2%	-2.1%	2Q09	1.7%	Sep-09	3.0%	2.50%	Hold	9-Dec-09	NZ
<b>Latin America/Caribbean</b>										
Mexico	3.2%	-8.1%	3Q09	6.3%	Nov-08	3.0%	4.50%	Hold	16-Oct-09	Mexico
Brazil	5.7%	-1.2%	3Q09	0.3%	Nov-09	4.0%	8.75%	Hold	9-Dec-09	Brazil
Chile	5.1%	-1.6%	3Q09	0.0%	Nov-09	3.0%	0.50%	Hold	16-Dec-09	Chile
<b>Asia/Southeast Asia</b>										
China	11.9%	8.9%	3Q09	0.6%	Dec-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	0.5%	Dec-09	-	1.50%	-0.50%	30-Oct-08	H. Kong
Singapore	7.7%	0.6%	3Q09	-0.2%	Dec-09	-	-	-	-	Singapore
South Korea	5.0%	0.6%	3Q09	2.4%	Dec-09	3.50%	2.00%	Hold	10-Dec-09	S. Korea
Indonesia	6.3%	6.1%	3Q08	2.4%	Dec-09	4-6%	6.50%	Hold	4-Dec-09	Indonesia
Thailand	4.9%	-2.8%	3Q09	1.9%	Dec-09	3.50%	1.25%	Hold	4-Dec-09	Thailand
Malaysia	6.3%	-1.2%	3Q09	-0.1%	Dec-09	-	1.25%	Hold	26-Aug-09	Malaysia
<b>Eastern Europe/Central Asia</b>										
Russia	8.1%	-8.9%	3Q09	9.7%	Dec-09	8.50%	8.75%	-0.25%	16-Dec-08	Russia
Turkey	4.6%	-3.3%	3Q09	5.5%	Dec-09	-	6.50%	Hold	17-Dec-09	Turkey
<b>Middle East/Africa</b>										
Saudi Arabia	3.4%	4.5%	2008	3.5%	Oct-09	-	2.00%	Hold	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	5.8%	Dec-09	6.00%	7.00%	Hold	19-Nov-09	S. Africa

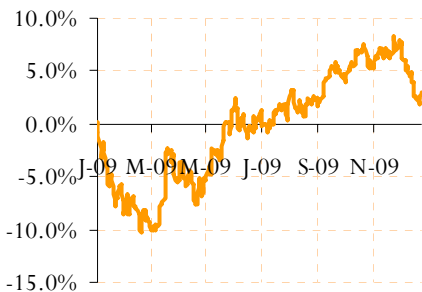
2007: Y-o-Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 2/CPI Inflation: Y-o-Y %

# FOREX Market

## RUB: Falling Victim to Speculation

Until date, the Russian Ruble (RUB) has struggled to emerge from the battering it underwent in the wake of the financial downturn, rendering it one of the most volatile currencies of 2009. As early as Feb09, the RUB had appreciated a significant 25%, marking an upward trend which continued throughout most of the year. Driving the momentum has been carry trade investment, the process in which investors borrow in low-yielding currencies and then buy high yielding currencies for a quick profit. This generated speculative capital inflow into the RUB, attracted by its benchmark rate, currently 8.75%, which is firmly higher than those of G8 countries. As of Apr09, the central bank has consecutively reduced its benchmark rate by a cumulative of 4.25%, in an effort to staunch capital inflow that exerted upward pressure on its currency. Over the past 3 months, the RUB has depreciated, minimizing its YTD gain to only 3.3%. The maintenance of a competitive exchange rate is particularly important to Russia, the world's largest energy exporter. This is especially owing to its non-diversified economy, which in turn increases its reliance on the trade sector to steer the economy out of the recession.

### Key Spot Foreign Exchange Rates

\$ per €		Rate versus \$	Last	Week	
Last 1.4398	Week 0.4%	<b>Europe/Oceania</b>			
09YTD 3.0%		Swiss Franc (CHF)	1.0361	1.1%	BRL
		Australian Dollar (AUD)	0.8851	-0.2%	CLP
		New Zealand Dollar (NZD)	0.7065	-0.5%	ZAR
		<b>Latin America/Caribbean</b>			AUD
		Mexican Peso (MXN)	12.9270	-0.5%	NZD
		Brazilian Real (BRL)	1.7630	1.4%	IDR
		Chilean Peso (CLP)	506.3000	-1.1%	KRW
		<b>Asia/Southeast Asia</b>			MXN
		Chinese Yuan (CNY)	6.8279	0.0%	INR
		Indian Rupee (INR)	46.5200	0.9%	THB
		Hong Kong Dollar (HKD)	7.7559	0.0%	RUB
		Singaporean Dollar (SGD)	1.4092	-0.3%	CHF
		South Korean Won (KRW)	1,152.00	0.0%	SGD
		Indonesian Rupee (IDR)	9,480.00	0.0%	TRY
		Thai Baht (THB)	33.3600	-0.3%	MYR
		Malaysian Ringgit (MYR)	3.4320	0.2%	EGP
		<b>Eastern Europe/Central Asia</b>			JOD
		Russian Rouble (RUB)	29.5590	4.2%	SAR
		Turkish New Lira (TRY)	1.5150	0.8%	QAR
		<b>Middle East/Africa</b>			BHD
		Saudi Riyal (SAR)	3.7507	0.0%	OMR
		Kuwaiti Dinar (KWD)	0.2874	-0.3%	CNY
		Qatari Riyal (QAR)	3.6418	0.0%	HKD
		UAE Dirham (AED)	3.6765	-0.1%	AED
		Omani Riyal (OMR)	0.3850	0.0%	KWD
		Bahraini Dinar (BHD)	0.3770	0.0%	
		Jordanian Dinar (JOD)	0.7090	0.0%	
		Egyptian Pound (EGP)	5.5020	0.0%	
		South African Rand (ZAR)	7.5500	-0.3%	



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