

Market Review & Outlook

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

SPECIAL FOCUS

The FED Contemplates "Plan B" (page 3)

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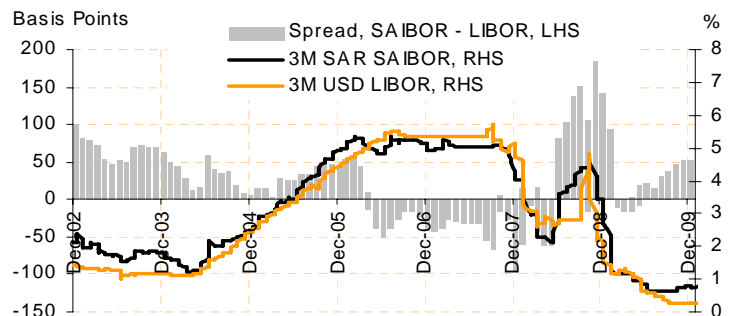
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Saudi Arabia Leading Economic Indicators

	2009	Latest	Period
Average WTI, Cushing 1M, USD/bbl	62.0	62.0	10YTD
Weighted Average Arabian Light, USD/bbl	59.8	59.8	10YTD
Average 3M USD LIBOR	0.69%	0.69%	10YTD
Average 3M SAR SAIBOR	0.92%	0.91%	10YTD
Average Spread, in Basis Points, SAIBOR-	22.1	22.7	10YTD
Y/Y Growth in Monetary Base (M0)	-0.35%*	50.1%	Nov09
Y/Y Growth in Money Supply (M3)	17.6%*	11.3%	Nov09

Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 25 December 2009
* 2008 Numbers

View of the Week

“ the Fed's debate reflects awareness of the medium-term inflationary pressures that can derail a feeble economic recovery in 2010 ”

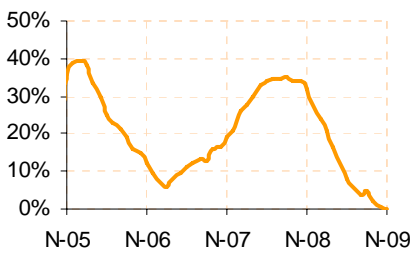
Saudi Macro and Equity Market

2009: A Busy Year for the Saudi Equity Market

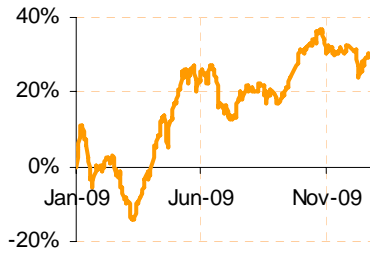
2009 was a busy year for the Saudi equity market, lead managers and receiving local banks. Eleven new companies were floated in the primary market through initial public offerings (IPOs), with a combined offer size of 338.7 mn shares worth SAR3.882 bn, giving an overall average offer price of SAR11.46 per share. Of these, seven firms were insurance companies and the rest were from the Telecom and IT, Petrochemical, Retail, and Building and Construction sectors. With a combined total share capital of SAR7.79 bn, the 11 companies lifted 49.8% of their combined total from the primary market and the residual was subscribed by founders and institutional investors. The heavyweight Petrochemi asked for SAR2400 mn, followed by SSP SR400 million, Mouwasat SAR330 mn, and Atheeb Telecom SAR300 mn, while the eight others were all below SAR100 mn each. Of the eleven floated firms, stocks of nine firms started trading at Tadawul, while those of four are expected to start trading in 1Q10. Measured in terms of market capitalization, the market response was impressive as the share prices of the newly listed firms together rose 325% until 31 Dec 2009, compared with the 27.5% gain recorded for the entire market.

Key Macroeconomic and Equity Market Indicators

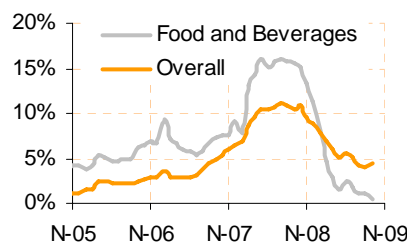
Y/Y Growth in Credit (Private Sector)



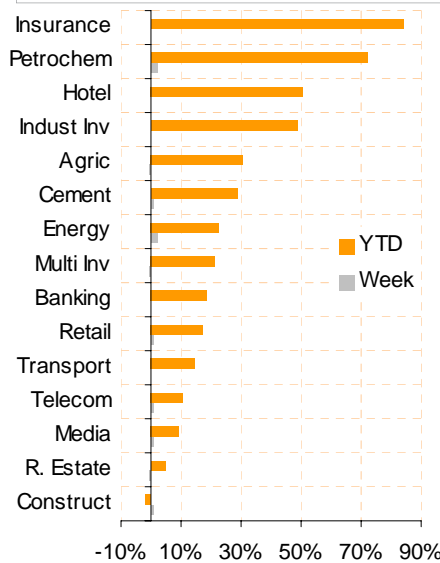
Tadawul All Share Index: 31 Dec 08 = 0%



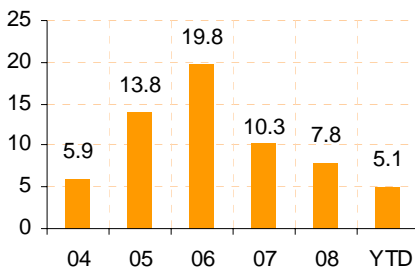
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl ¹	YTD 59.8	2008 94.8
Oil Production, mmbd ²	Nov 8.1	Oct 8.1
Real GDP	2008 4.4%	2007 3.3%
CPI Inflation, Y/Y	Nov 4.0%	Oct 3.5%
Broad Money (M3), Y/Y	Nov 11.3%	Oct 11.4%
Credit, Private Sector	Nov 0.4%	Oct 0.7%
Credit, Corporate	3Q09 2.6%	2Q09 9.1%
Credit, Households	3Q09 1.6%	2Q09 -0.7%
Net Claims on Government ³	Nov -727	Oct -757
Loan-to-deposit Ratio ⁴	Nov 77.8%	Oct 78.9%
Excess Reserves/Total ⁵	Nov 65.0%	Oct 64.4%
Net Foreign Assets, USDbn	Nov 414.5	Oct 415
Import LCs, SARbn ⁶	11M09 110.76	11M08 163.42

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.

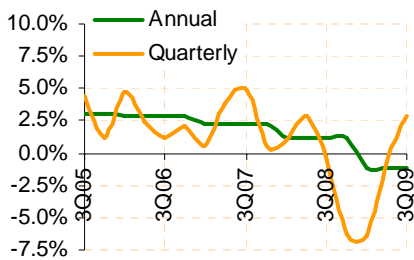
US Macro and Equity Markets

The Fed Contemplates "Plan B"

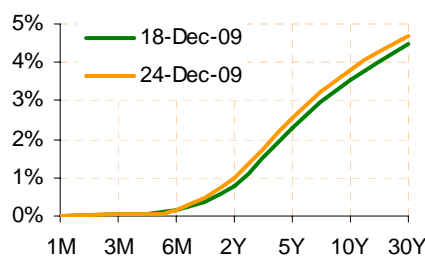
There are recent signs that the Fed is contemplating appropriate ways to neutralize the inflationary impact that can result from the largest monetary expansion in US economic history. The Fed's balance sheet at USD2.2 trn reflects the operational difficulty of maintaining control of monetary policy and the fed funds rate if banks made use of the unutilized excess reserves, amounting to USD1 trn. Although it is too early for such scenario to materialize given the current business cycle, policy makers are debating the usage of reverse repos, term deposits, and to lesser degree asset sales. Initially, the Fed had announced a simulation program that will trade reverse repos with primary dealers at lower volumes not exceeding USD10 bn, given the huge volume of treasuries, federal agency debt and mortgage backed securities sitting on the central bank's balance sheet. Additionally, term deposits with likely maturities of 14-day, 28-day and 84-day, could be the next most likely tool for soaking up excess liquidity especially that it will lock up any sudden influx of funds in the money market. In our opinion, the Fed's debate reflects awareness of the medium-term inflationary pressures that can derail a feeble economic recovery in 2010.

Key Macroeconomic and Capital Market Indicators

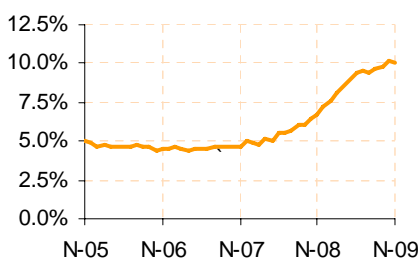
Real GDP Growth, Annualized



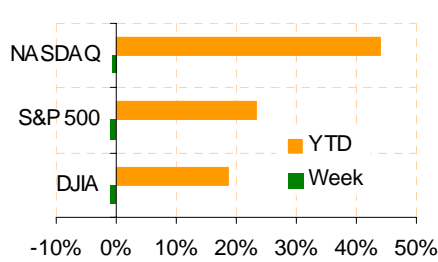
Benchmark Yields, Annualized



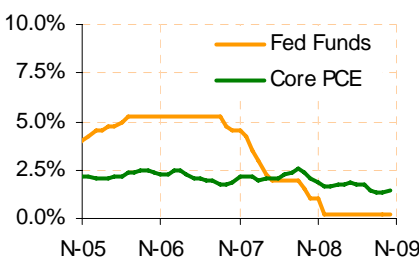
National Unemployment Rate



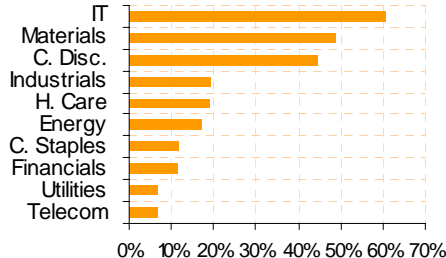
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Previous
Real GDP	3Q09(F) 2.20%	+Q09(A) 29-Jan
Unemployment	Nov 10.00%	Dec 8-Jan
A. H. Earnings, M/M	Nov 0.10%	Dec 8-Jan
CPI Inflation, Y/Y	Nov 1.80%	Dec 15-Jan
Core PCE, Y/Y	Nov 1.40%	Dec 1-Feb
Existing Home Sales, M/M	Nov 7.4%	Dec 25-Jan
Housing Starts, M/M	Nov 8.9%	Dec 20-Jan
Trade Balance, \$bn	Oct -32.94	Nov 12-Jan
Retail Sales, M/M	Nov 1.30%	Dec 14-Jan
Industrial Production, M/M	Nov 0.8%	Dec 15-Jan
Capacity Utilization	Oct 71.3%	Nov 15-Jan
Fed Funds Rate	Sep 0.25%	Dec 15-Jan

Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).
Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate.

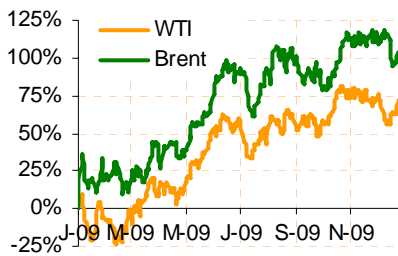
Commodity Markets

Corn and Soybean Futures Rise

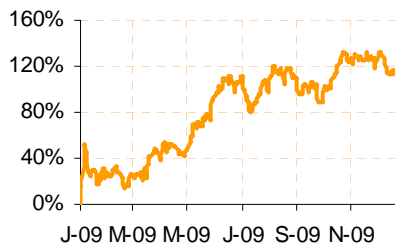
Despite their poor performance during the year, corn and soybean futures rose after a government report showed increasing sales from the U.S., the world's leading exporter and producer. With corn sales rising 19% between September 1st and December 24th from a year earlier, prices for Mar delivery rose by 0.75 cents to USD4.145 a bushel on the Chicago Board of Trade. The price gained 1.8% this year after slumping 11% in 2008. Soybean sales saw a more measurable growth of 55%, resulting in futures climbing 4 cents to USD10.485 a bushel; a 7% price gain following a 19% drop in 2008. The improved performance of these two commodities is expected to continue well into 2010. The demand for corn will become increasingly high as U.S. exports continue to rise, and expansions in the production of ethanol are undertaken. This coupled with the anticipated production cut in the U.S.D.A. monthly crop report, will ensure that corn futures hit USD4.40 or higher. Meanwhile, the commodity funds annual rebalancing, scheduled at the start of 2010, will reduce the weights of energies and metals and increasing weights in grains, soybeans and livestock. This, in essence, means that large purchases of corn and soybeans are expected in the coming year.

Key Commodity Prices and Indices

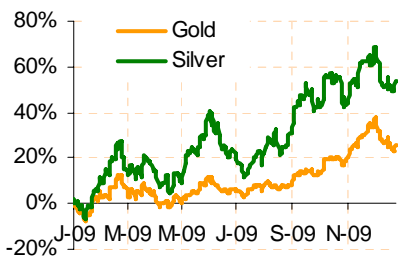
Benchmark Crude Oil Prices



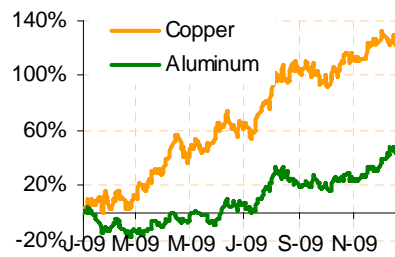
Saudi Arabian Light, Asia Deliveries



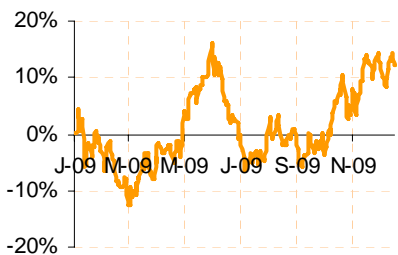
Precious Metals



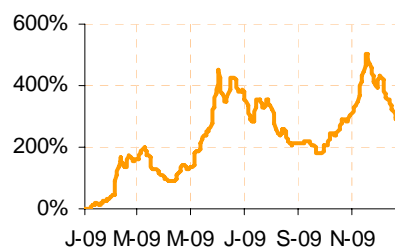
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Previous
WTI, Spot, \$/bbl	31-Dec 79.4	0.9%
Brent, Spot, \$/bbl	31-Dec 78.3	1.7%
Gold, LME, \$/Oz	31-Dec 1096.4	-0.9%
Silver, LME, \$/Oz	31-Dec 16.8	-3.8%
Platinum, \$/Oz	31-Dec 1465.5	-0.9%
Palladium, \$/Oz	31-Dec 405.5	4.5%
Aluminum, LME, \$/t	31-Dec 2246.0	-0.4%
Copper, LME, \$/t	31-Dec 7375.0	4.3%
Nickel, LME, \$/t	31-Dec 18525.0	-0.7%
Zinc, LME, \$/t	31-Dec 2560.0	2.6%
Wheat, Mar, \$/Bushel	31-Dec 5.4	-1.7%
Corn, Mar, \$/Bushel	31-Dec 4.1	-0.4%
Soybeans, Jan, \$/Bushel	31-Dec 10.4	1.0%

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

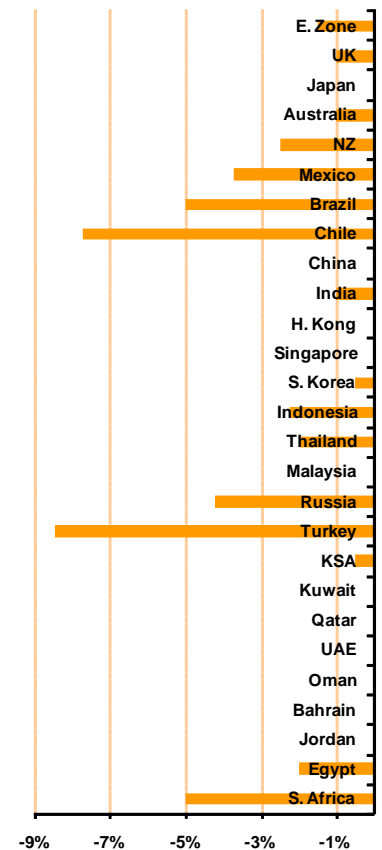
Global Macro

UK: Tough Year Ahead

The UK is the last G20 economy still in recession. Revised GDP results, revealed that the UK economy contracted by 0.2% Q/Q in 3Q09, marking its sixth successive quarter of recession. This is compared to an expansion of 0.6% in the US, 1.2% in Japan and 0.3% in the EU. Why is the UK lagging behind all its peers? This is largely due to its services sector, which has become more pronounced in recent years, and in particular the UK's dependence on financial services, property speculation, and debt financed consumer spending to fuel growth. Given that the global credit crunch has heavily impacted these sectors, it has resulted in a massive decline in GDP, which has until date struggled to recover. Accordingly, the UK has embarked on an aggressive quantitative easing program (GBP200 bn), running a budget deficit amounting to almost 15% of GDP, in attempt to alleviate the impact of the crisis. However with unemployment at historic highs (7.9% in Oct), and industrial and manufacturing output at a standstill, failing to grow in Oct, economic growth is expected to remain sluggish in the medium term. The CBI, UK's top business lobby organization, has forecasted that the UK's economy will grow by 1.2% in 2010 and increase to 2.5% in 2011. Evidently 2010 will be a tough year for the UK.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change
	2008	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 09YTD
Europe/Japan/Oceania										
Euro Zone E. Zone	0.7%	-4.8%	3Q09	0.5%	Dec-09	0.6%	1.00%	Hold	4-Dec-09	
UK	0.7%	-5.2%	3Q09	1.9%	Dec-09	1.8%	0.50%	Hold	10-Dec-09	
Japan	-0.7%	3.7%	2Q09	-1.7%	Dec-09	0-2.0%	0.10%	Hold	18-Dec-09	
Australia	2.4%	0.5%	3Q09	1.5%	Jul-09	3.0%	3.75%	%0.25	1-Dec-09	
New Zealand	0.2%	-2.1%	2Q09	1.7%	Sep-09	3.0%	2.50%	Hold	9-Dec-09	
Latin America/Caribbean										
Mexico	1.3%	-8.1%	3Q09	6.3%	Nov-08	3.0%	4.50%	Hold	16-Oct-09	
Brazil	5.1%	-1.2%	3Q09	0.3%	Nov-09	4.0%	8.75%	Hold	9-Dec-09	
Chile	3.2%	-1.6%	3Q09	0.0%	Nov-09	3.0%	0.50%	Hold	16-Dec-09	
Asia/Southeast Asia										
China	9.0%	8.9%	3Q09	0.6%	Dec-09	4.80%	5.31%	-0.27%	22-Dec-08	
India	7.3%	7.9%	2Q09	-0.1%	Sep-09	5.50%	5.50%	-1.00%	2-Jan-08	
Hong Kong	2.4%	-2.4%	3Q09	0.5%	Dec-09	-	1.50%	-0.50%	30-Oct-08	
Singapore	1.1%	0.6%	3Q09	-0.2%	Dec-09	-	-	-	-	
South Korea	2.2%	0.6%	3Q09	2.8%	Dec-09	3.50%	2.00%	Hold	10-Dec-09	
Indonesia	6.1%	6.1%	3Q08	2.4%	Dec-09	4-6%	6.50%	Hold	4-Dec-09	
Thailand	2.6%	-2.8%	3Q09	1.9%	Dec-09	3.50%	1.25%	Hold	4-Dec-09	
Malaysia	4.6%	-1.2%	3Q09	-0.1%	Dec-09	-	1.25%	Hold	26-Aug-09	
Eastern Europe/Central Asia										
Russia	5.6%	-8.9%	3Q09	9.7%	Dec-09	8.50%	8.75%	-0.25%	16-Dec-09	
Turkey	0.9%	-3.3%	3Q09	5.5%	Dec-09	-	6.50%	Hold	17-Dec-09	
Asia/Southeast Asia										
Saudi Arabia	4.5%	0.2%	2009	3.5%	Oct-09	-	2.00%	Hold	19-Jan-09	
Kuwait	6.3%	-1.5%	2009	11.1%	May-08	-	4.25%	-0.25%	30-Oct-08	
Qatar	16.4%	11.5%	2009	14.8%	Mar-08	-	5.50%	Hold	20-May-08	
UAE	7.4%	-0.2%	2009	11.1%	2007	-	1.50%	-0.50%	8-Oct-08	
Oman	7.8%	4.1%	2009	13.2%	May-08	-	2.00%	Hold	20-May-09	
Bahrain	6.1%	3.0%	2009	4.4%	Oct-08	-	0.75%	Hold	21-May-09	
Jordan	7.9%	3.0%	2009	13.3%	Jun-08	-	6.00%	-0.50%	25-Nov-08	
Egypt	7.2%	4.7%	2009	21.5%	Sep-08	-	10.50%	-0.50%	30-Jul-09	
South Africa	3.1%	-2.1%	3Q09	5.8%	Dec-09	%6.00	7.00%	Hold	19-Nov-09	



Notes: 1/Growth: Real GDP Growth Rate, 2008: 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

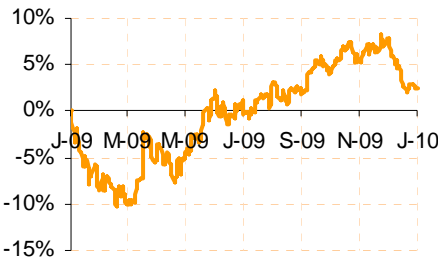
Testing Times for the Sterling in 2010

While other central banks are poised to begin unwinding monetary easing measures, the BOE may be inclined to inject more money into its economy. In its last statement, the BOE expressed that the door to further easing remains “slightly ajar”. With its economy still contracting in 3Q09, could this be enough of a motive to expand quantitative easing yet again? It seems an unlikely prospect, as hawkish policy makers will surely resist further stimulatory measures that could trigger unwarranted rises in asset prices. Moreover the UK’s fiscal position is already in a dire state. The UK expects to borrow an addition GBP707 bn over the next 5 years, taking national debt to over 90% of GDP by 2013-14. The large budget deficit and the UK’s ballooning national debt threaten to exert substantial downward pressure on the GBP over the medium term. Alternatively, even if the BOE chose not to expand their quantitative easing program and instead reduce stimulatory measures over 2010, it is feared that the GBP will fall victim to the liquidity withdrawal. Either way, the Sterling seems to be in for a shaky start in 2010. Over the long term, without a credible commitment to reverse fiscal deterioration we expect the GBP to weaken.

Key Spot Foreign Exchange Rates

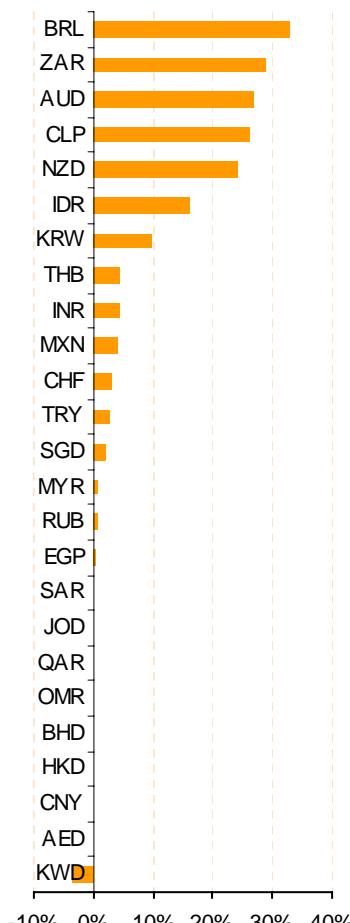
\$ per €

Last **1.4329** Week **0.0%** 09YTD **2.5%**



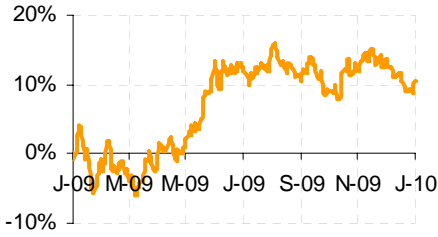
Rate versus \$

	Last	Week
Europe/Oceania		
Swiss Franc (CHF)	1.0355	0.4%
Australian Dollar (AUD)	0.8975	2.0%
New Zealand Dollar (NZD)	0.7264	3.1%
Latin America/Caribbean		
Mexican Peso (MXN)	13.1210	-1.7%
Brazilian Real (BRL)	1.7435	1.1%
Chilean Peso (CLP)	507.7000	0.1%
Asia/Southeast Asia		
Chinese Yuan (CNY)	6.8281	0.0%
Indian Rupee (INR)	46.6200	0.1%
Hong Kong Dollar (HKD)	7.7552	0.0%
Singaporean Dollar (SGD)	1.4069	0.1%
South Korean Won (KRW)	1,168.50	0.8%
Indonesian Rupee (IDR)	9,430.00	0.8%
Thai Baht (THB)	33.3800	-0.1%
Malaysian Ringgit (MYR)	3.4260	0.4%
Eastern Europe/Central Asia		
Russian Rouble (RUB)	30.3160	-0.3%
Turkish New Lira (TRY)	1.5001	1.7%
Middle East/Africa		
Saudi Riyal (SAR)	3.7510	0.0%
Kuwaiti Dinar (KWD)	0.2873	0.1%
Qatari Riyal (QAR)	3.6415	0.0%
UAE Dirham (AED)	3.6765	-0.1%
Omani Riyal (OMR)	0.3850	0.0%
Bahraini Dinar (BHD)	0.3771	0.0%
Jordanian Dinar (JOD)	0.7095	-0.1%
Egyptian Pound (EGP)	5.4830	0.4%
South African Rand (ZAR)	7.4090	2.8%



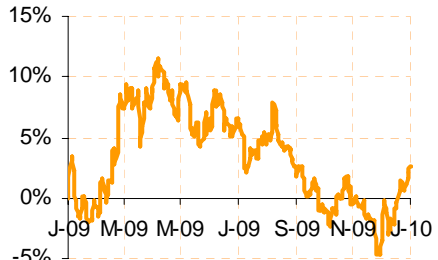
\$ per £*

Last **1.6173** Week **1.3%** 09YTD **10.5%**



¥ per \$*

Last **93.05** Week **1.5%** 09YTD **2.7%**



Global Equity Markets

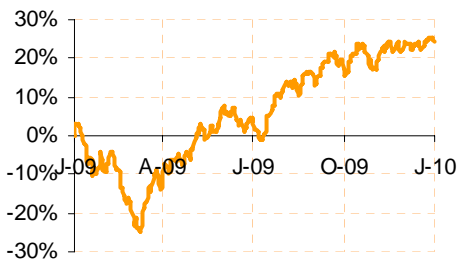
FTSE Follows Major Indices to the Upside

Equity markets worldwide had glowed in 2009. Signs of economic growth, including high percentage of companies beating profit expectations pushed most of the major indices. Asian stocks racked up a 68% gain, regional European stocks climbed 25%, the S&P 500 index rose 23.5%, Dow added 18.8%, while the Nasdaq increased by 43.9%. In the UK, the benchmark FTSE saw its biggest annual gain, rising by 22%, where banks constituted the main drivers of the rally. Lloyds Banking Group, Royal Bank of Scotland, Standard Chartered, and Barclays added 0.4 to 1.7%. The main upside drivers for financial sectors were; the rebound in financial markets, better-than-expected business cycle developments, and macro-economic policy stimuli Insurers were also in demand and companies like Legal and General added 2.75p to 80.6p (3.41%), Standard Life added 7.3p to 216.5p (3.37%), and Prudential raised 9.5p to 640p (1.48%). We project stock market indices will move higher in 2010, backed by current financial stabilization, secure economic policies, and optimism towards listed firms' earnings. However, investors are concerned that the economic recovery will come to a grinding halt due to government deficit spending, increases in interest rates and an expected liquidity withdrawal.

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

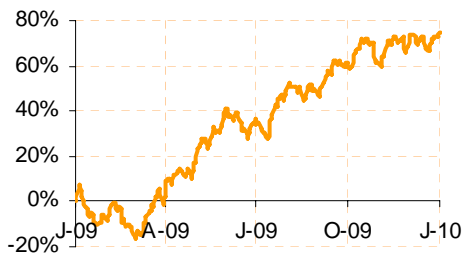
MSCI G7

Last **937.3** Week **-2.0%** 09YTD **17.2%**



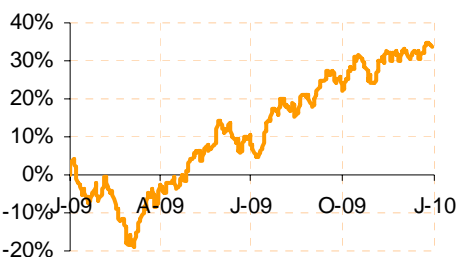
MSCI EM

Last **989.5** Week **1.6%** 09YTD **74.5%**



Dow Jones Islamic

Last **1,974.8** Week **-0.5%** 09YTD **33.8%**



Country/Index

Last

Europe/Japan/Oceania

UK (FTSE100)	0.2%
Germany (DAX30)	-0.8%
France (CAC40)	-0.3%
Japan (N225)	0.2%
Australia (All Ordinaries)	1.8%
N. Zealand (NZSX50)	0.8%

Latin America/Caribbean

Mexico (IPC)	-1.5%
Brazil (Bovespa)	1.0%
Chile (IGPA)	1.0%

Asia/Southeast Asia

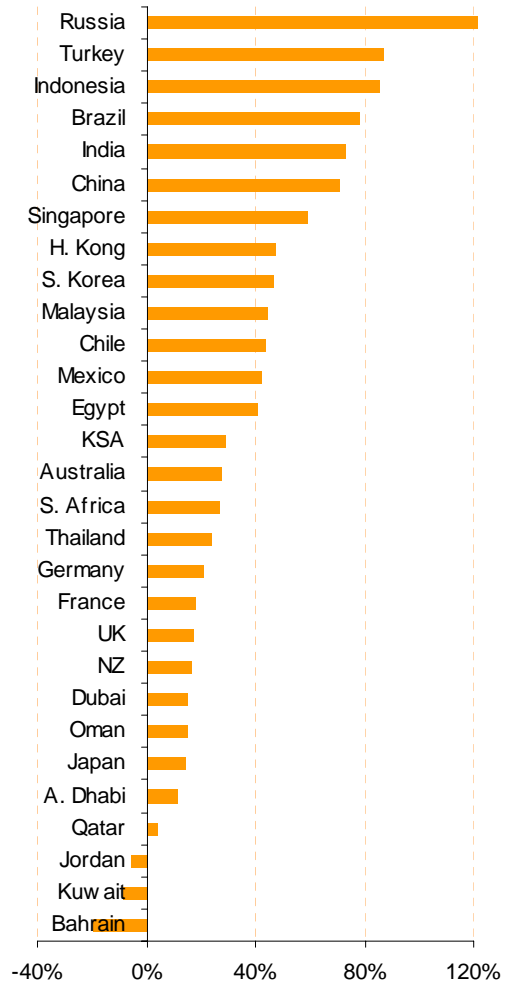
China (Shanghai-C)	1.7%
India (BSE-Sensex)	0.6%
Hong Kong (Hang Seng)	1.6%
Singapore (Strait Times)	1.5%
S. Korea (KOSPI-C)	-0.2%
Indonesia (Jakarta-C)	1.0%
Thailand (SET)	-0.7%
Malaysia (Kuala Lumpur-C)	0.5%

Eastern Europe/Central Asia

Russia (RTSI)	-0.5%
Turkey (ISE National 100)	2.3%

Middle East/Africa

KSA (TASI)	-0.5%
Kuwait (KSEI)	-0.7%
Qatar (DSM20)	-0.3%
Abu Dhabi (ADI)	1.6%
Dubai (DFMGI)	2.0%
Oman (MSM30)	4.4%
Bahrain (All Share I)	0.7%
Jordan (ASE General I)	1.7%
Egypt (CASE30)	1.9%
S. Africa (JSE All Share Index)	-0.8%





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