

Market Review & Outlook

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

SPECIAL FOCUS

Monetary Policy Dilemma Haunts India (page 5)

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SENSEX: True Potential

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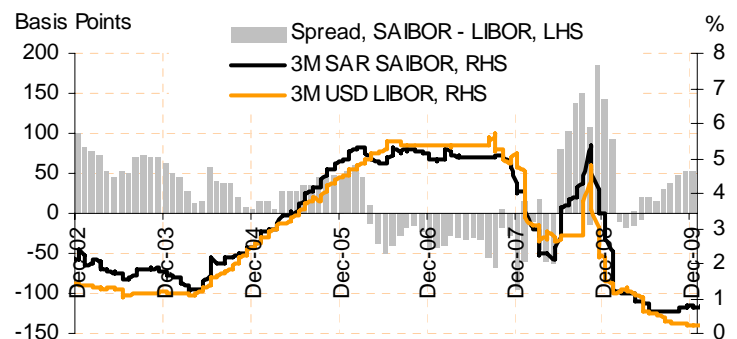
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Saudi Arabia Leading Economic Indicators

	2009	Latest	Period
Average WTI, Cushing 1M, USD/bbl	62.0	78.3	10YTD
Weighted Average Arabian Light, USD/bbl	61.0	76.7	10YTD
Average 3M USD LIBOR	0.69%	0.25%	10YTD
Average 3M SAR SAIBOR	0.92%	0.77%	10YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	22.1	52.2	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: 29 Jan 2010

View of the Week

“ RBI's hawkish initiative will superficially keep inflation steady and could undermine India's nascent recovery ”

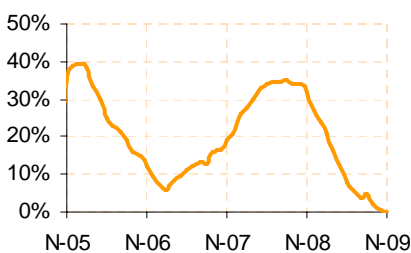
Saudi Macro and Equity Market

Saudi Banks Eyeing the Mortgage Law

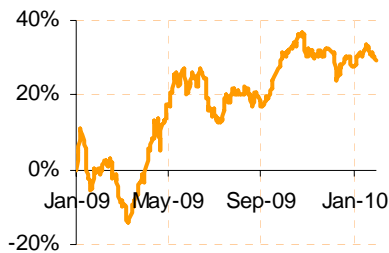
The long-awaited mortgage law will soon be passed in the Kingdom, offering a new opportunity for banks to expand and diversify their balance sheets. According to a recent statement by the Governor of SAMA, Muhammad Al-Jasser, the Shariah-compliant law has already been drafted and will be issued in the next few months. The proposed law should provide banks with legal recourse to foreclosure, thereby encouraging banks to capture the large existing demand for mortgage finance. Total bank assets reached around USD370 billion by November 2009, but with consumer credit accounting for just 14% of GDP, the new law offers considerable room for growth. In our opinion, the timing couldn't have been any better for Saudi banks, given: (1) currently low interest rates, (2) a relatively higher degree of liquidity in local financial markets, (3) improving consumer confidence, (4) rising per capita income levels inline with our forecast of gradual economic recovery in 2010 and (5) a rapidly growing youthful population. It is also worth mentioning that nearly 44% of housing units are being occupied on a rental basis by around 38% of the total population in Saudi Arabia (based on latest official census data). Hence, greater access to and availability of mortgage financing will likely give a boost to the real estate market as well as other related sectors, namely insurance.

Key Macroeconomic and Equity Market Indicators

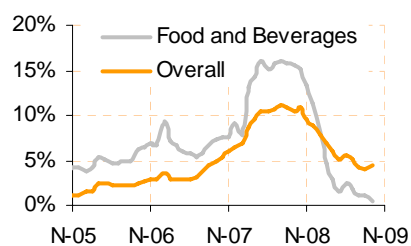
Y/Y Growth in Credit (Private Sector)



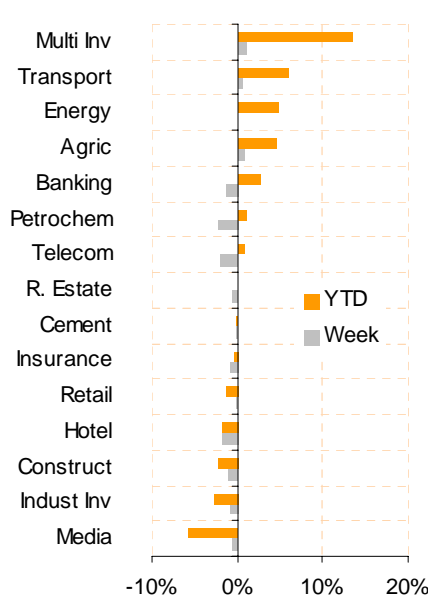
Tadawul All Share Index: 31 Dec 08 = 0%



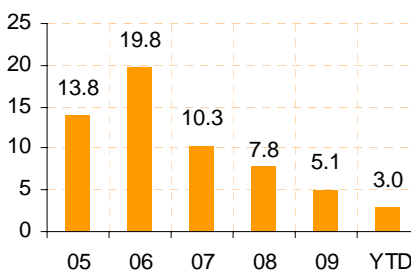
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl ¹	YTD 76.7	2009 61.0
Oil Production, mmbd ²	Dec 8.2	Nov 8.1
Real GDP	2009 0.2%	2008 4.4%
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.

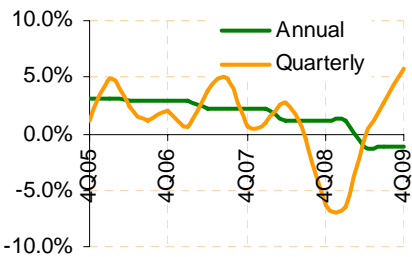
US Macro and Equity Markets

Don't Celebrate a Recovery Yet

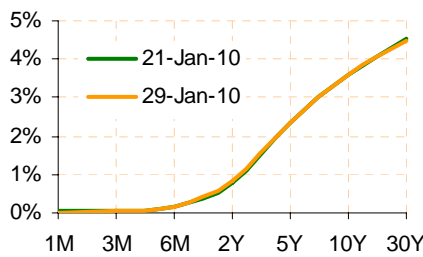
Obama couldn't have asked for better news after losing a crucial seat in the senate, which left the fate of his political agenda in the hands of the Republicans. Real GDP grew by 5.7% q/q annualized, the fastest increase since 2Q03, after increasing by 2.2% in the previous quarter. This was largely on the back of moderate de-stocking and small increases in key GDP components, except for government consumption. Net exports also provided a positive contribution to growth thanks to a weaker USD. Although real GDP contracted by 2.4% in 2009, the performance of the US economy in 4Q09 is a clear signal that the worst is over. There are, however, a number of reasons that lead us to believe that the pace of GDP growth ahead will fail to keep pace. First, the slower decline in inventories, which contributed to a large 3.6pp to growth, is deemed to be a temporary effect that is typical of a recovering business cycle. Meanwhile, there are no solid sources of demand to count on. Personal consumption, which increased by only 2% q/q, is expected to remain weak given significantly damaged household wealth and higher propensities to save in the aftermath of the crisis. Private investment will also likely disappoint growth, as the existing oversupply in the housing market and excess industrial capacity deter new business plans. Finally, the outlook for growth is rather bleak as government economic support will fade away this year.

Key Macroeconomic and Capital Market Indicators

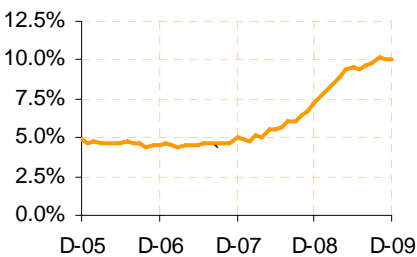
Real GDP Growth, Annualized



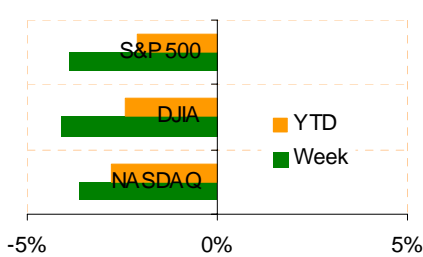
Benchmark Yields, Annualized



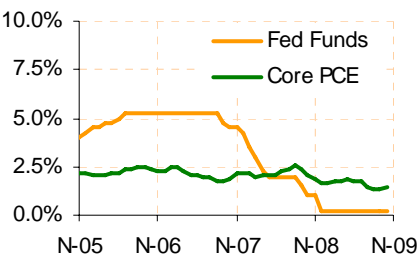
National Unemployment Rate



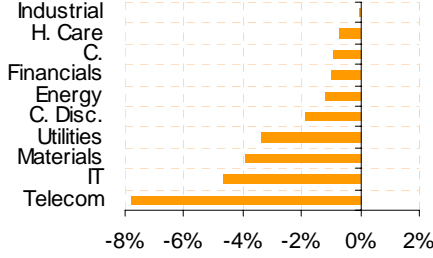
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Previous
Real GDP	4Q09(A) 5.7%	4Q09(P) 26-Feb
Unemployment	Dec 10.00%	Jan 5-Feb
A. H. Earnings, M/M	Dec 0.20%	Jan 5-Feb
CPI Inflation, Y/Y	Dec 2.70%	Jan 19-Feb
Core PCE, Y/Y	Nov 1.40%	Dec 1-Feb
Existing Home Sales, M/M	Dec -16.7%	Jan 26-Feb
Housing Starts, M/M	Dec -4.0%	Dec 20-Feb
Trade Balance, \$bn	Nov -36.40	Dec 10-Feb
Retail Sales, M/M	Dec -0.30%	Jan 11-Feb
Industrial Production, M/M	Dec 0.6%	Jan 17-Feb
Capacity Utilization	Dec 72.0%	Jan 17-Feb
Fed Funds Rate	Jan 0.25%	Mar 16-Mar

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

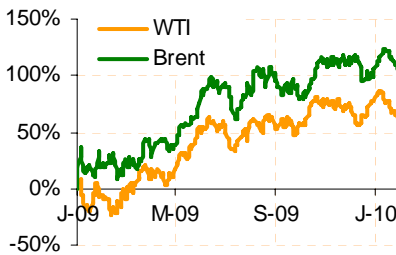
Commodity Markets

Crude Oil Prices Settle Lower

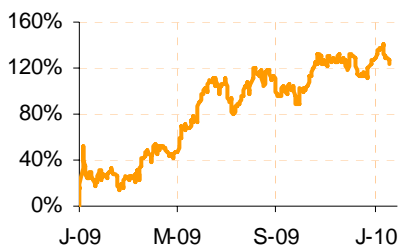
Oil prices have come under downward pressure recently, having fallen 8.3% to USD72.89/bbl in the past 4 weeks. The continued weakness in energy demand from advanced economies, coupled with a decline in risk appetite and a stronger USD has weighed on oil prices. Recent data show that US oil demand shrank 2% Y/Y in Jan, while Japanese crude imports fell 2.6% Y/Y in Dec. In addition, China's move to tighten bank reserve requirements has also raised concerns over the pace of economic growth and hence the demand for commodities. This begs the question, will oil prices continue to trend downwards? A bear case scenario is not difficult to build, given that global demand has only just started to recover and inventory levels are still high. According to EIA, oil stocks reached 2.69 billion barrels at the end of 2009, which is equivalent to 58 days of forward cover and about 80 million barrels more than the five-year average. However, we see oil prices protected at a floor of USD70-75/bbl this year. Even if global growth hits a soft patch this year, we believe that OPEC will counter-act any further declines in oil prices by either cutting or maintaining current production quotas. With non-OPEC production remaining stagnant, a slight recovery in demand should eventually tighten the market. Other factors, like low interest rates and a higher degree of liquidity in capital markets will also continue to support oil prices going forward.

Key Commodity Prices and Indices

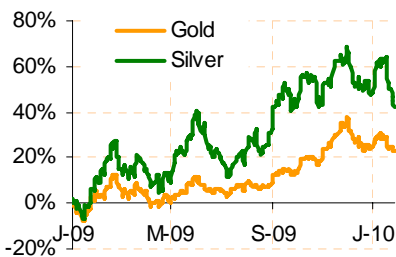
Benchmark Crude Oil Prices



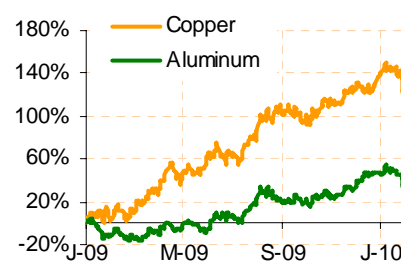
Saudi Arabian Light, Asia Deliveries



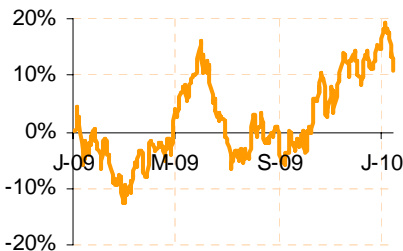
Precious Metals



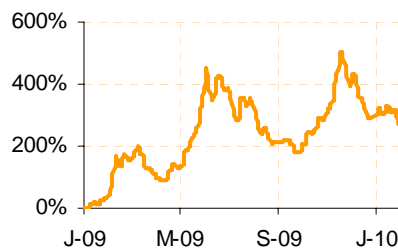
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Previous
WTI, Spot, \$/bbl	31-Jan 72.9	-1.9%
Brent, Spot, \$/bbl	31-Jan 71.7	-2.0%
Gold, LME, \$/Oz	31-Jan 1081.1	-1.1%
Silver, LME, \$/Oz	31-Jan 16.2	-5.2%
Platinum, \$/Oz	31-Jan 1500.5	-3.0%
Palladium, \$/Oz	31-Jan 415.0	-3.9%
Aluminum, LME, \$/t	31-Jan 2090.0	-6.4%
Copper, LME, \$/t	31-Jan 6745.0	-8.7%
Nickel, LME, \$/t	31-Jan 18500.0	1.0%
Zinc, LME, \$/t	31-Jan 2110.0	-10.2%
Wheat, Mar, \$/Bushel	31-Jan 4.7	-4.9%
Corn, Mar, \$/Bushel	31-Jan 3.6	-2.3%
Soybeans, Jan, \$/Bushel	31-Jan 9.1	-3.9%

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

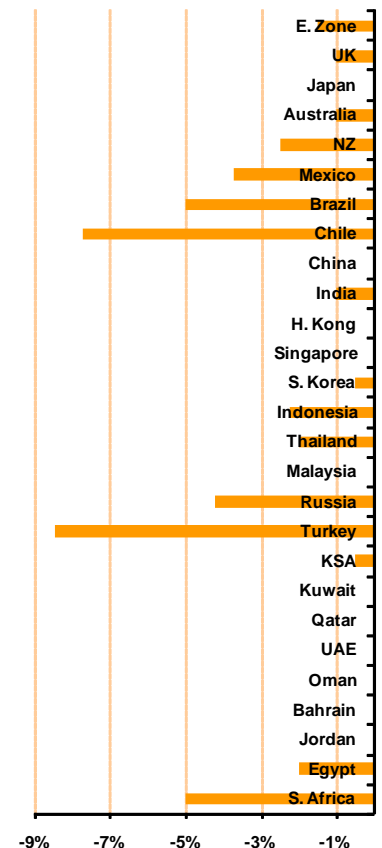
Global Macro

Monetary Policy Dilemma Haunts India

India is among the BRIC nations, a group of emerging markets expected to revolutionize the economic balance of power between the west and east in the decade to come. India emerged relatively unscathed from the crisis, growing by a better than expected 7.9% y/y in 3Q09, following 6.1% and 5.8% in 2Q09 and 1Q09 respectively. This is primarily due to (1) the macroeconomic stimulus, (2) high domestic savings rate and (3) large inflows of FDI. While there is much bullish sentiment behind India's recovery -the IMF upwardly revised its growth projection to 7.7% for 2010- this optimism must be coupled with caution. Food prices have been rising rapidly due to weak monsoon rainfall, which threatens to fuel broader inflation. The wholesale price index increased to 7.3% in Dec from 4.8% in Nov and the baseline projection for the year ending Mar10 was raised to 8.5% from 6.5%. To battle inflation, the RBI expressed its intent to begin monetary tightening. While the repo rate remains unchanged at 4.75%, the cash reserve ratio was raised by 0.75% to 5.75%, in a bid to absorb excess liquidity from the financial system, and anchor inflation expectations. However the prescribed policy response is better suited to combat demand fueled inflation, rather than inflation driven by supply constraints, which is the issue at hand. Accordingly, RBI's hawkish initiative will superficially keep inflation steady and could undermine India's nascent recovery.

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	5-Dec-09	
Japan	-0.7%	3.7%	Q092	-1.7%	Dec-09	0-2.0%	0.10%	Hold	6-Dec-09	
Australia	2.4%	0.5%	3Q09	1.5%	Jul-09	3.0%	3.75%	0.25%	7-Dec-09	
New Zealand	0.2%	-2.1%	2Q09	1.7%	Sep-09	3.0%	2.50%	Hold	8-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	7.6%	Dec-09	5.50%	5.50%	-1.00%	2-Jan-08	
Hong Kong	2.4%	-2.4%	Q093	0.5%	Dec-09	-	1.50%	-0.50%	30-Oct-08	
Singapore	1.1%	0.6%	Q093	-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%	Q083	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%	Q093	-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%	Q093	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

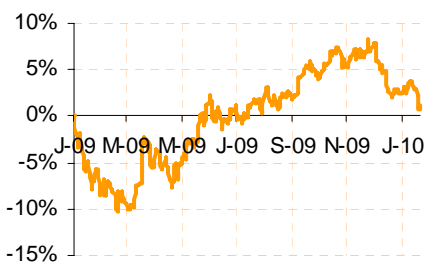
INR Direction Undetermined

Since the inception of the crisis, the Indian Rupee, in line with other emerging market currencies has been on an appreciating trend. Since end of Dec07, the INR has appreciated by over 100% against the USD, due to an influx of capital inflow, fuelled by India's relatively higher interest rate and the general optimism regarding the potential of its economy. However a macroeconomic policy dilemma threatens the currency's direction. The accentuation of inflation expectations is creating the temptation to hike the repo rate so as to rein inflation in the commodities sector. However the policy response does not tackle the root of the problem (see Global Macro), which may lead the RBI to focus on additional fiscal measures such as subsidies, to control the inflation caused by the shortage in food supply. Going forward, the consequent policy choice will inevitably impact the direction of the Indian Rupee (INR). On the one hand, injecting more money into the economy will deteriorate India's fiscal and debt position, which is already expected to reach a record USD97 bn, threatening to weaken its currency over the long-term. On the other hand, raising the repo rate could spark an increase in capital flows, which would exert upwards pressure on the INR, reducing its competitiveness, a factor crucial to export-demand recovery. While many uncertainties remain, what is clear is that the RBI will have to tread carefully to steer its economy into safety.

Key Spot Foreign Exchange Rates

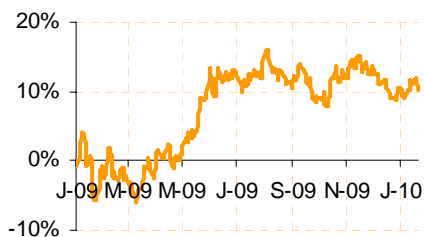
\$ per €

Last **1.3865** Week **-1.9%** 10YTD **-3.2%**



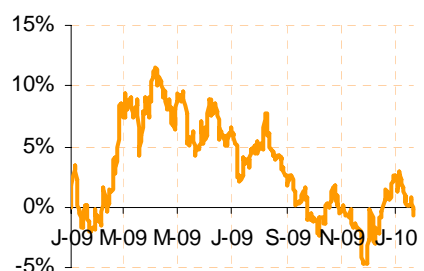
\$ per £*

Last **1.6005** Week **-0.7%** 10YTD **-1.0%**



¥ per \$*

Last **90.33** Week **0.4%** 10YTD **-2.8%**



Rate versus \$

Last Week

Europe/Oceania

Swiss Franc (CHF)	1.0608	-1.8%
Australian Dollar (AUD)	0.8848	-1.8%
New Zealand Dollar (NZD)	0.7013	-1.3%

Latin America/Caribbean

Mexican Peso (MXN)	13.1025	-0.8%
Brazilian Real (BRL)	1.8853	-3.6%
Chilean Peso (CLP)	524.2000	-3.5%

Asia/Southeast Asia

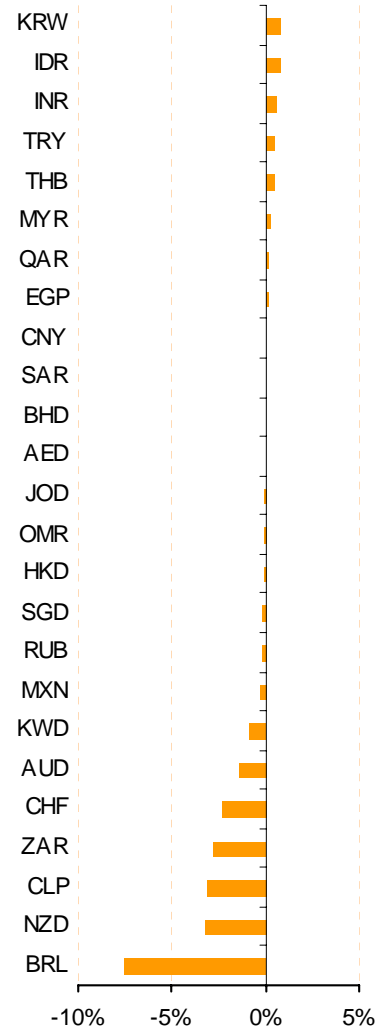
Chinese Yuan (CNY)	6.8269	0.0%
Indian Rupee (INR)	46.1500	0.2%
Hong Kong Dollar (HKD)	7.7641	0.1%
Singaporean Dollar (SGD)	1.4076	-0.2%
South Korean Won (KRW)	1,159.10	-0.4%
Indonesian Rupee (IDR)	9,355.00	-0.3%
Thai Baht (THB)	33.2100	-0.5%
Malaysian Ringgit (MYR)	3.4165	-0.5%

Eastern Europe/Central Asia

Russian Rouble (RUB)	30.3738	-1.7%
Turkish New Lira (TRY)	1.4976	-0.4%

Middle East/Africa

Saudi Riyal (SAR)	3.7504	0.0%
Kuwaiti Dinar (KWD)	0.2900	-1.0%
Qatari Riyal (QAR)	3.6370	0.1%
UAE Dirham (AED)	3.6731	0.1%
Omani Riyal (OMR)	0.3854	-0.1%
Bahraini Dinar (BHD)	0.3770	0.0%
Jordanian Dinar (JOD)	0.7090	-0.1%
Egyptian Pound (EGP)	5.4775	-0.6%
South African Rand (ZAR)	7.6438	0.0%



Global Equity Markets

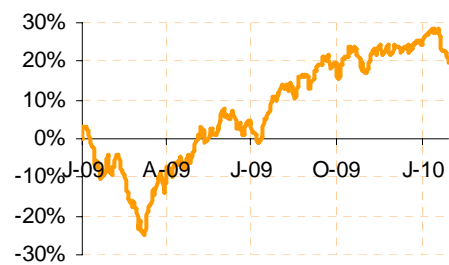
SENSEX: True Potential

Since Nov2001, when India became classed as a BRIC nation, investors with a stake in the SENSEX have gained almost 500% until date from its equities. However Indian households have contributed very little to the upsurge in the stock market. Only 1.4% of Indian households have a footing in the Indian stock exchange, which means that the locals have not benefited from the growth spurt. This is largely due to (1) the substantially high poverty rate in India, which means that only a very small proportion of the population can afford to invest in equities, and (2) the few that can prefer to deposit their savings in banks, since equities are still considered a risky investment. Accordingly the increase in Indian share price has been driven by western institutions' sentiment, mirrored by the fact that Indian equities have been largely tracking global trends. In 2009, global investor enthusiasm in the SENSEX fueled an 81% advance in the benchmark. While its performance seems remarkable, its growth remains constrained by that fact that the Indian stock market is still at an early stage in its development. If it can evolve into a more mature financial system, the burgeoning middle class may be persuaded to invest more money into equities, rendering the stock markets potential for growth truly considerable.

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

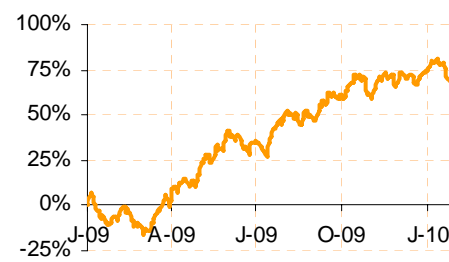
MSCI G7

Last **937.3** Week **-2.0%** 10YTD **-5.7%**



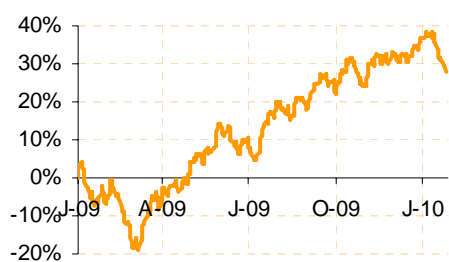
MSCI EM

Last **933.6** Week **-3.1%** 10YTD **-5.6%**



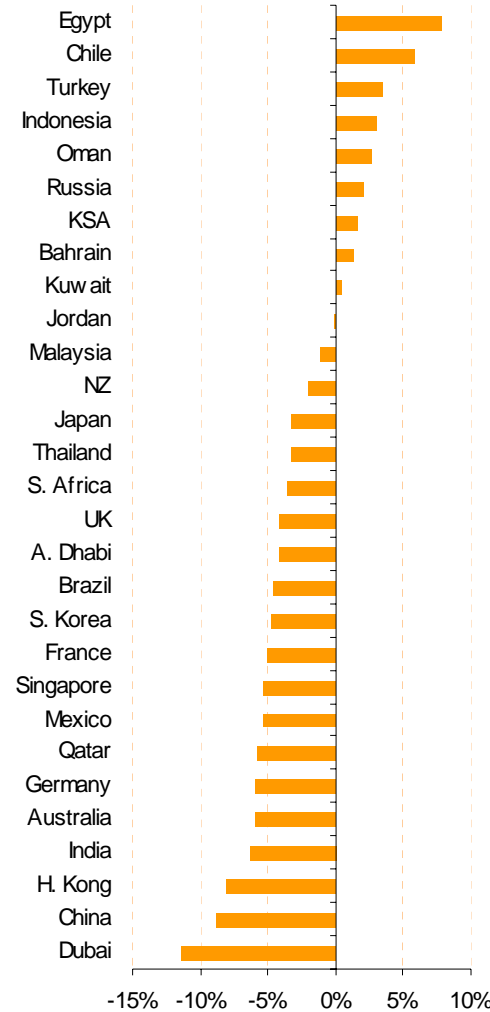
Dow Jones Islamic

Last **1890.02** Week **-2.8%** 10YTD **-4.3%**



Country/Index

Country/Index	Week	YTD
Europe/Japan/Oceania		
UK (FTSE100)	-2.2%	-4.1%
Germany (DAX30)	-1.5%	-5.9%
France (CAC40)	-2.1%	-5.0%
Japan (N225)	-3.7%	-3.3%
Australia (All Ordinaries)	-3.7%	-5.9%
N. Zealand (NZSX50)	-0.8%	-2.0%
Latin America/Caribbean		
Mexico (IPC)	-1.4%	-5.4%
Brazil (Bovespa)	-1.2%	-4.6%
Chile (IGPA)	0.8%	5.8%
Asia/Southeast Asia		
China (Shanghai-C)	-4.5%	-8.8%
India (BSE-Sensex)	-3.0%	-6.3%
Hong Kong (Hang Seng)	-2.9%	-8.0%
Singapore (Strait Times)	-2.6%	-5.3%
S. Korea (KOSPI-C)	-4.9%	-4.8%
Indonesia (Jakarta-C)	0.0%	3.0%
Thailand (SET)	-1.9%	-3.3%
Malaysia (Kuala Lumpur-C)	0.5%	-1.1%
Eastern Europe/Central Asia		
Russia (RTSI)	-1.1%	2.0%
Turkey (ISE National 100)	1.2%	3.5%
Middle East/Africa		
KSA (TASI)	-1.3%	1.6%
Kuwait (KSEI)	0.1%	0.4%
Qatar (DSM20)	-1.6%	-5.8%
Abu Dhabi (ADI)	1.1%	-4.2%
Dubai (DFMGI)	1.9%	-11.3%
Oman (MSM30)	2.6%	2.6%
Bahrain (All Share I)	0.5%	1.4%
Jordan (ASE General I)	0.2%	-0.1%
Egypt (CASE30)	0.6%	7.8%
S. Africa (JSE All Share Index)	-1.4%	-3.6%





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