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Market Review & Outlook

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

SPECIAL FOCUS

Grim Outlook for Japan (page 5)

HEADLINES

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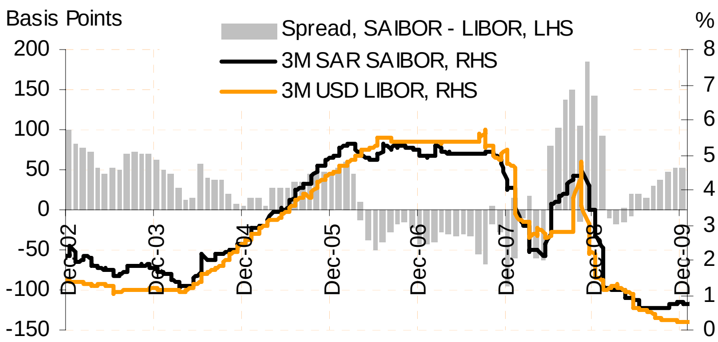
Saudi Arabia Leading Economic Indicators

	2009	Latest	Period
Average WTI, Cushing 1M, USD/bbl	62.0	77.5	10YTD
Weighted Average Arabian Light, USD/bbl	61.0	76.1	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: 5 Feb 2010

View of the Week

"Although Japan is forecasted to grow by 1.4% in 2010, this will be predominately induced by the government's fiscal stimulus"

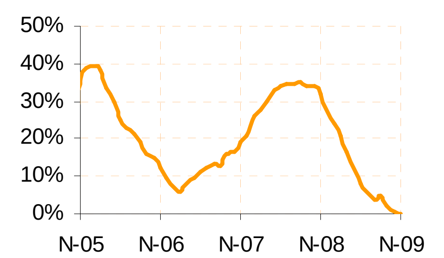
Saudi Macro and Equity Market

Despite Rising Sales, Profitability in Cement Strained

The Saudi market for cement was well supplied in FY09. The 12 local producing factories had a combined clinker capacity of 45.1 million tonnes, resulting in an attainable cement output of 47.2 million tonnes. Total cement sales increased by 15.1% to 37.85 million tonnes, easing the tight supply situation that has been persisting since 2006. Sales to the domestic market increased strongly by 22.9% to 36.71 million tonnes, absorbing nearly 97% of the Kingdom's total output. With capacity utilization rates reaching 80% by the end of 2009, Saudi authorities have lifted the ban on cement exports on the condition that local prices do not surpass SR200 per tonne. This will inevitably increase the percentage of production being exported. On the downside, the gains in capacity had lead to a 47% increase in combined clinker inventory. Furthermore, intense competition has weighed on prices and the profitability of domestic producers. The eight listed cement companies declared that net-earnings fell by 9.8% Y/Y to SAR 3, 615 million, while the weighted average net-profit per tone of cement sold, in both local and exports markets, declined by 17.1% to SAR114.52 per tonne. Going forward, demand stemming from capital investment expenditure plans announced in the 2010 budget (SAR260 billion) should reduce inventories and support prices.

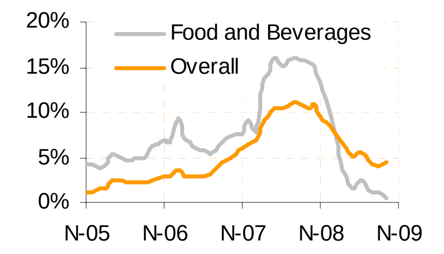
Key Macroeconomic and Equity Market Indicators

Y/Y Growth in Credit (Private Sector)

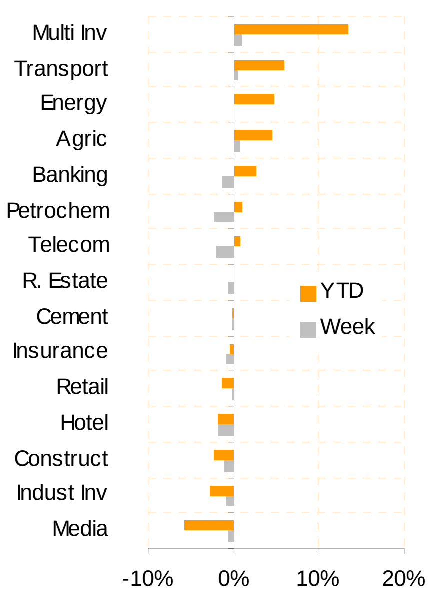


Tadawul All Share Index: 31 Dec 08 = 0%

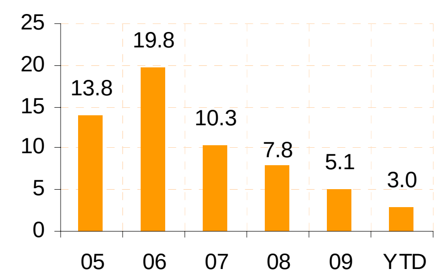
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last		Previous	
Oil Price, \$bbl[1]	YTD	77.5	2009	61.0
Oil Production, mmbd[2]	Dec	8.1	Nov	8.1
Real GDP Growth	2009	0.2%	2008	4.5%
CPI Inflation, Y/Y	Dec	4.2%	Nov	4.0%
Broad Money (M3), Y/Y	Dec	10.7%	Nov	11.3%
Credit, Private Sector	Dec	-0.6%	Nov	0.0%
Credit, Corporate	3Q09	2.6%	2Q09	8.2%
Credit, Households	3Q09	0.4%	2Q09	-0.5%
Net Claims on Goverment[3]	Dec	-769	Nov	-727
Loan-to-deposit Ratio[4]	Dec	75.4%	Nov	77.8%
Excess Reserves/Total[5]	Dec	66.3%	Nov	65.0%
Net Foreign Assets, USDbn	Dec	435.0	Nov	414.5
Import LCs, SARbn[6]	2009	119.73	2008	172.17

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.

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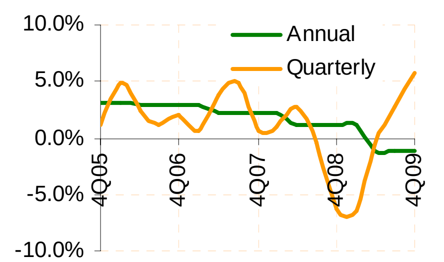
US Macro and Equity Markets

US Labour Market Shows Tentative Signs of Recovery

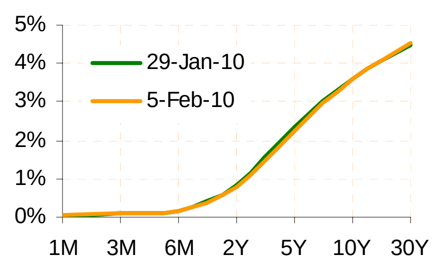
US non-farm payrolls declined by 20K in Jan, worse than the market consensus of a 15K gain. The annual benchmark revisions came in at -930K (worse than the preliminary estimate of -824K), with Dec's headline figure revised down to -150K from -85K. Nevertheless, details of the report suggest an improvement in labor market conditions. On a trend basis, the 3-month average in non-farm payrolls has significantly improved to -35K from -103K in Dec and -753K in 1Q09. The sector breakdown shows that payrolls in private services increased by 48K, as lower employment in wholesale trade, leisure, information and financial services was offset by job creations in business services (+44K), retail trade (+42K), and education and health (+16K). While payrolls continued to decline in the construction sector (-75K), they increased for the first time since Jan07 in the manufacturing sector (+11K). Government payrolls are also expected to increase in the coming months as temporary workers will be hired to conduct the ten-yearly census. On a positive note, the unemployment rate ticked down to 9.7% from 10% in Dec due to the sharp rise in employment (+541K). Aggregate hours worked increased by 0.3% M/M, while average hourly earnings increased by 0.3% M/M (2.4% Y/Y). These developments are an encouraging sign that the worst of the recession is likely over, though we do not believe that it will sway the Fed into a tightening stance this year.

Key Macroeconomic and Capital Market Indicators

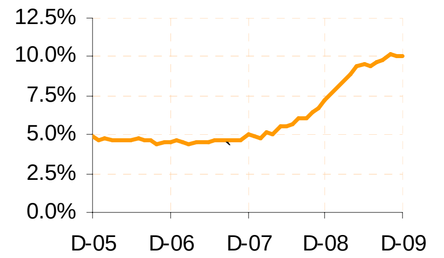
Real GDP Growth, Annualized



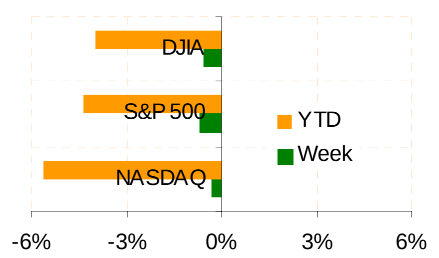
Benchmark Yields, Annualized



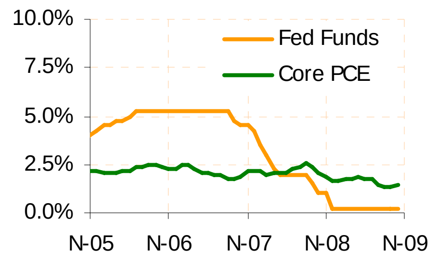
National Unemployment Rate



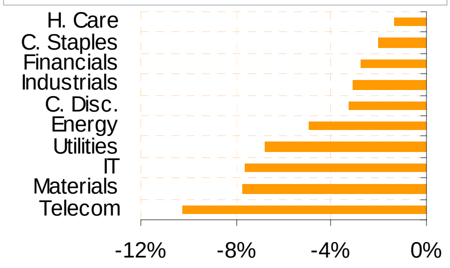
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Previous
Real GDP	4Q09(A) 5.7%	4Q09(P) 26-Feb
Unemployment	Jan 10.5%	Feb 5-Mar
A. H. Earnings, M/M	Jan 0.20%	Feb 5-Mar
CPI Inflation, Y/Y	Dec 2.70%	Jan 19-Feb
Core PCE, Y/Y	Dec 1.50%	Jan 1-Mar
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.

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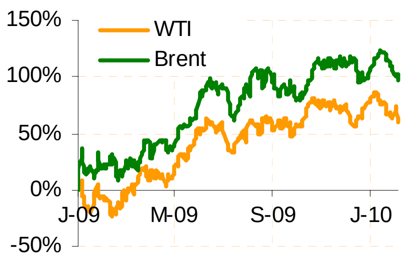
Commodity Markets

Corn Futures Drop

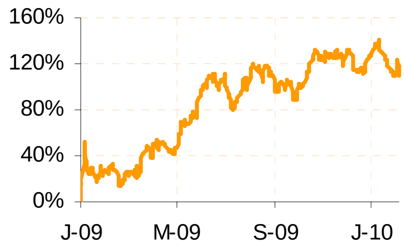
Corn declined to its lowest price in four months as a stronger dollar reduced the overall appeal of commodities as an alternative investment. The dollar rose to a seven-month high against the euro after European Central Bank President Jean-Claude Trichet said the economic outlook is subject to “uncertainty”, leading to concerns that European nations’ rising budget deficits will hamper the region’s growth. Corn futures for March delivery fell 1.4% over the week, or 5 cents, to settle at USD3.515 a bushel on CBOT. Furthermore, traders are skeptical about the potential for a significant rebound, given that large supplies are the key bearish factor in the market. The USDA is expected to peg 2009-10 U.S. corn ending stocks at 1.748 million bushels, 4.5% above the priors year’s total. Meanwhile, demand for U.S. corn has slowed on speculation that sales will increase from Argentina and Brazil. Revised estimates of 2009-10 Argentina crop were at 18.2 million tonnes, up 2.7 million tonnes from its January outlook, and put Brazil’s corn production at 53.3 million tonnes, up 600,000 tonnes from last month. If the weather remains favorable for the big crops, we believe that buyers will favor cheaper and higher-quality corn from South America, thereby pushing U.S. corn prices further down.

Key Commodity Prices and Indices

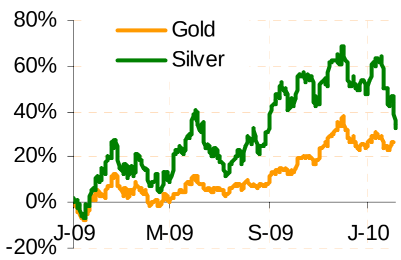
Benchmark Crude Oil Prices



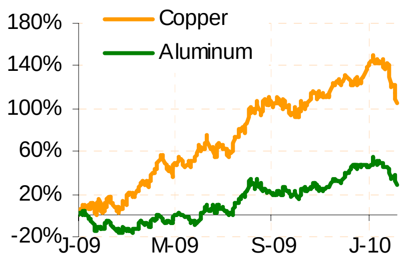
Saudi Arabian Light, Asia Deliveries



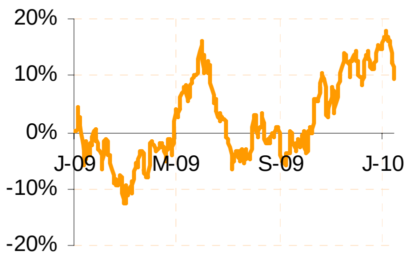
Precious Metals



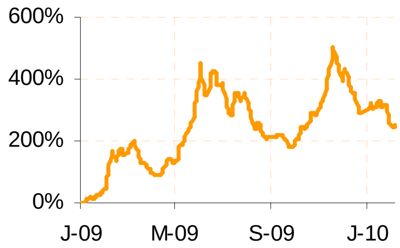
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Previous
WTI, Spot, $/bbl	**7-Feb 71.2**	**-%**
Brent, Spot, $/bbl	**7-Feb 70.6**	**-1.6%**
Gold, LME, $/Oz	**7-Feb 1065.0**	**-1.5%**
Silver, LME, $/Oz	**7-Feb 15.1**	**-6.4%**
Platinum, $/Oz	**7-Feb 1478.0**	**-1.5%**
Palladium, $/Oz	**7-Feb 399.0**	**-3.9%**
Aluminum, LME, $/t	**7-Feb 1996.0**	**-4.5%**
Copper, LME, $/t	**7-Feb 6280.0**	**-6.9%**
Nickel, LME, $/t	**7-Feb 17050.0**	**-7.8%**
Zinc, LME, $/t	**7-Feb 1940.0**	**-8.1%**
Wheat, Mar, $/Bushel	**7-Feb 4.7**	**-0.2%**
Corn, Mar, $/Bushel	**7-Feb 3.5**	**-1.4%**
Soybeans, Jan, $/Bushel	**7-Feb 9.1**	**-0.1%**

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

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Global Macro

Grim Outlook for Japan

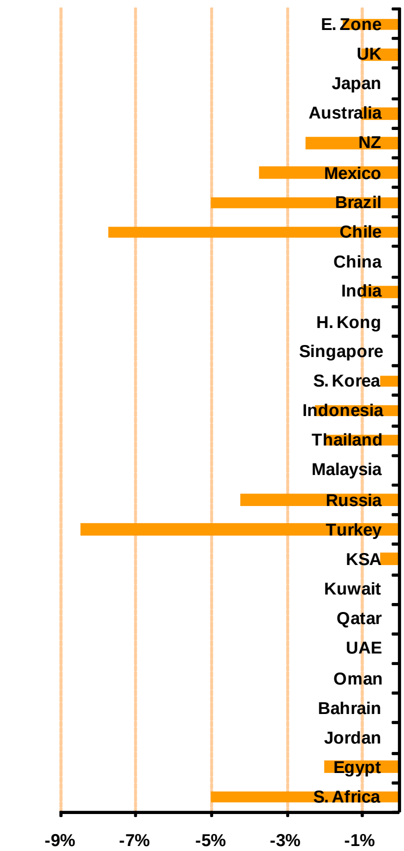
Fiscal rather than monetary policy will become the dominant concern on Japanese authorities' agenda this year. According to the IMF, gross public sector debt will reach at least 225% of GDP in 2010. Recently, S&P downgraded Japan's long-term sovereign rating from 'stable' to 'negative'. Although Japan is forecasted to grow by 1.4% in 2010, this will be predominately induced by the government's fiscal stimulus. Japan is yet to replace this source of growth with a more sustainable growth in private demand that would guarantee a less fragile recovery. This has been a long term challenge for Japan owing to its economic history. Prior to 1990, Japan's sectors were close to balance in terms of saving and investment. However the stock market bubble (1989) and the real estate bubble (1991) created a massive saving surplus in the economy on the back of declining private investments. This, in turn, has been absorbed by fiscal deficits and capital outflows, as the government attempts to support the economy and sustain growth. In order to rectify this, Japan must achieve domestically driven growth, which is possible if businesses would use their corporate savings to finance capital investment plans. Going forward, the government should focus on structural policies that aim to enhance the capabilities of the private sector.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*		
	2008	Last	Period	Last	Date	Target	Last	Decision	Date
Europe/Japan/Oceania									
Euro Zone	0.7%	-4.8%	3Q09	0.5%	Dec-09	0.6%	1.00%	Hold	4-Feb-10
UK	0.7%	-5.2%	3Q09	2.9%	Jan-10	2.6%	0.50%	Hold	4-Feb-10
Japan	-0.7%	3.7%	2Q09	-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%	2-Feb-10
New Zealand	0.2%	-2.1%	2Q09	1.7%	Sep-09	3.0%	2.50%	Hold	27-Jan-10
Latin America/Caribbean									
Mexico	1.3%	-6.2%	3Q09	6.3%	Nov-08	3.0%	4.50%	Hold	16-Oct-09
Brazil	5.1%	-1.2%	3Q09	0.8%	Feb-10	4.0%	8.75%	Hold	27-Jan-10
Chile	3.2%	-1.6%	3Q09	0.0%	Nov-09	3.0%	0.50%	Hold	16-Dec-09
Asia/Southeast Asia									
China	9.0%	10.7%	4Q09	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%	3Q09	0.5%	Dec-09	-	1.50%	-0.50%	30-Oct-08
Singapore	1.1%	3.5%	4Q09	-0.2%	Dec-09	-	-	-	-
South Korea	2.2%	6.0%	4Q09	2.8%	Dec-09	3.50%	2.00%	Hold	10-Dec-09
Indonesia	6.1%	6.1%	3Q08	3.7%	Feb-10	3.60%	6.50%	Hold	4-Feb-10
Thailand	2.6%	-2.8%	3Q09	4.1%	Feb-10	3.90%	1.25%	Hold	13-Jan-10
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	1.6%	Feb-10	-	8.75%	-0.25%	16-Dec-09
Turkey	0.9%	-3.3%	3Q09	8.9%	Feb-10	7.10%	%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	26-Jan-10

Policy Rate Change

Cumulative 09YTD



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.

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FOREX Market

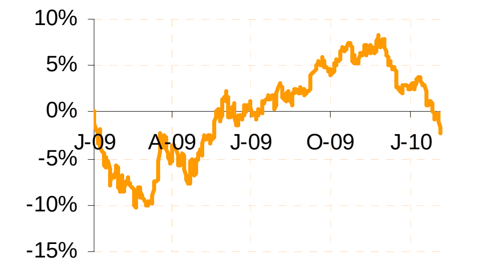
Weaker JPY… Only a Temporary Solution

The Japanese Yen, owing to its safe-haven appeal, typically strengthened during the financial crisis when risk aversion took hold of markets. This currency development burdened Japanese exporters, who in addition to a marked decline in demand, now suffer reduced export competitiveness. Japan's newly appointed finance minister has attempted to reverse this trend by verbally intervening in the markets and highlighting the desirability of a weaker JPY. Indeed, since the start of 2010, the JPY has depreciated by 4% against the USD. This is positive news for Japan's economy due to the following: (1) a weaker JPY is projected to have a direct quantifiable impact in increasing exports, and in turn a positive impact on economic growth and (2) a weaker currency will help exert upward pressure on domestic prices, through imported inflation, helping to mitigate Japan's persistent problem of deflation. But while a weaker JPY could help stimulate the economy, it is important to recognize that this is only a short-term solution rather than a viable long-term strategy. Increasing dependence on exports would leave the economy severely vulnerable to external developments, as witnessed in the global financial crisis of 2008. Moreover a reliance on exports contradicts the rebalancing act that Japan's economy must undergo (see Global Macro), which involves shifting to domestic demand as the motor behind economic growth.

Key Spot Foreign Exchange Rates

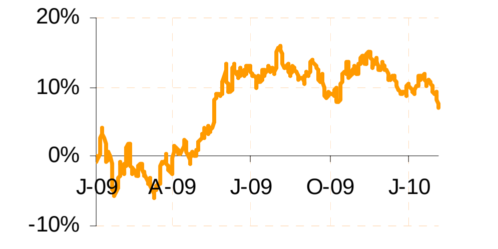
$ per €*

Last	1.3667	Week	-1.4%	10YTD	-4.6%



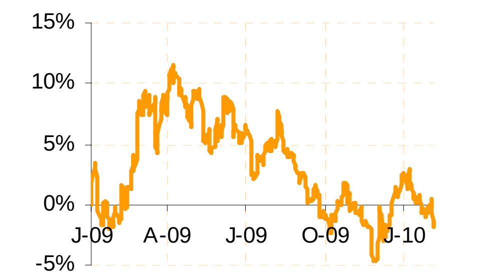
$ per £*

Last	1.5638	Week	-2.3%	10YTD	-3.2%

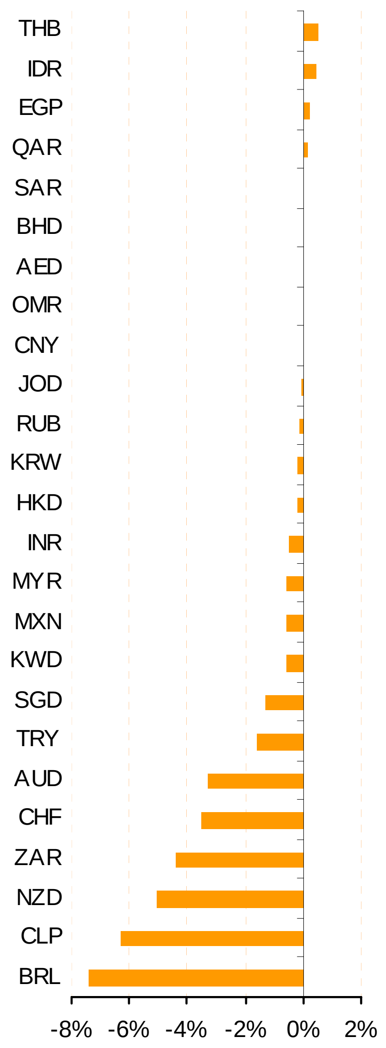


¥ per $*

Last	89.35	Week	-1.1%	10YTD	-3.8%



Rate versus $	Last	Week
Europe/Oceania		
Swiss Franc (CHF)	1.0735	-1.2%
Australian Dollar (AUD)	0.8679	-1.9%
New Zealand Dollar (NZD)	0.6878	-1.9%
Latin America/Caribbean		
Mexican Peso (MXN)	13.1455	-0.3%
Brazilean Real (BRL)	1.8830	0.1%
Chilean Peso (CLP)	542.0000	-3.3%
Asia/Southeast Asia		
Chinese Yuan (CNY)	6.8295	0.0%
Indian Rupee (INR)	46.6700	-1.1%
Hong Kong Dollar (HKD)	7.7714	-0.1%
Singaporean Dollar (SGD)	1.4240	-1.2%
South Korean Won (KRW)	1,170.95	-1.0%
Indonesian Rupee (IDR)	9,390.00	-0.4%
Thai Baht (THB)	33.2100	0.0%
Malaysian Ringgit (MYR)	3.4460	-0.9%
Eastern Europe/Central Asia		
Russian Rouble (RUB)	30.3645	0.0%
Turkish New Lira (TRY)	1.5300	-2.1%
Middle East/Africa		
Saudi Riyal (SAR)	3.7500	0.0%
Kuwaiti Dinar (KWD)	0.2891	-0.5%
Qatari Riyal (QAR)	3.6380	0.2%
UAE Dirham (AED)	3.6732	0.0%
Omani Riyal (OMR)	0.3851	0.1%
Bahraini Dinar (BHD)	0.3770	0.0%
Jordanian Dinar (JOD)	0.7090	0.0%
Egyptian Pound (EGP)	5.4750	0.0%
South African Rand (ZAR)	7.7735	-1.7%



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Global Equity Markets

Debt Concerns Weigh on the Nikkei

The biggest danger to economic momentum is sovereign risk, which poses a real threat in Japan. Shizuka Kamei, Japan's financial services minister, has exacerbated this anxiety by calling on Japan Post Bank, the largest buyer of Japanese government bonds (JGB), to buy more US treasuries and corporate bonds instead of JGB's. The comment stems from concern over Japan's fiscal health, which is in a dire state as debt creeps towards 200% of GDP. While the statement does have solid grounds, it runs a serious risk of reducing domestic investment, since Postal Bank diversifying its investments means that the government will find it difficult to issue more debt, which it requires to finance its fiscal deficit. These fears, high level debt and poor economic performance are very worrying and have spread to Japan's equity market. The Nikkei (N225) has declined by almost 5% since the start of 2010, as investors have received little comfort, even from government officials. Over the week the Nikkei fell by 1.4% to 10,057.09, just above the psychologically significant 10,000 point level. Given the grim economic outlook and weak fundamentals, dampened investor sentiment is expected to keep stock market performance sluggish over the medium-term. In the short-term, any upturn in the Nikkei is likely to be on the back of Japan's beleaguered exporters, who are expected to benefit from a weaker yen and the anticipated recovery in global demand this year.

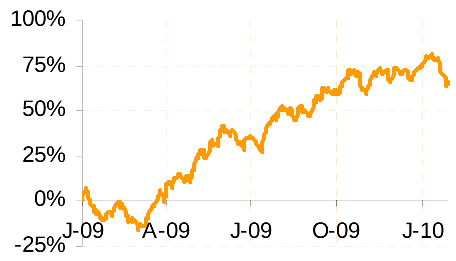
Major Global Equity Markets and Indices, Local Currency (LC) Terms

MSCI G7

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

MSCI EM

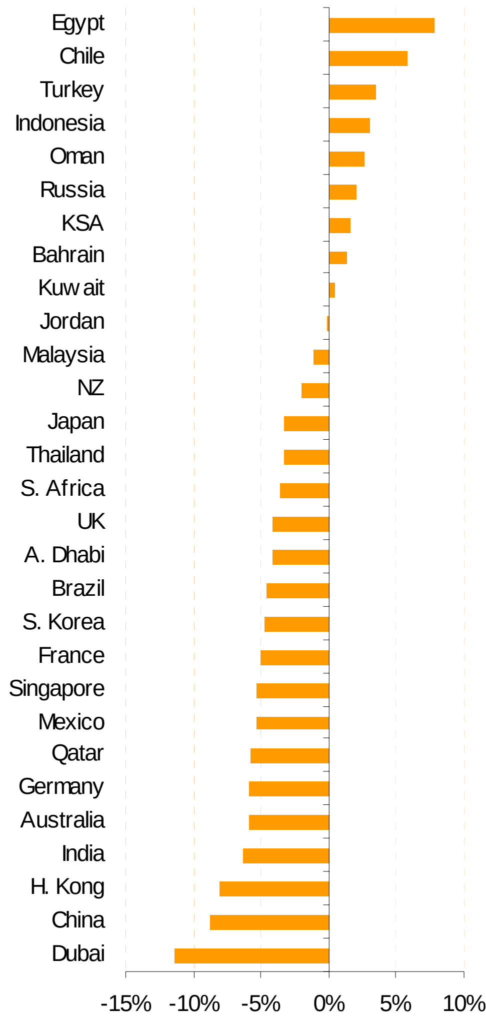
Last **933.6** Week **-3.1%** 10YTD **-5.6%**



Dow Jones Islamic

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

Country/Index	Week	YTD
Europe/Japan/Oceania		
UK (FTSE100)	-2.5%	-6.5%
Germany (DAX30)	-3.1%	-8.8%
France (CAC40)	-4.7%	-9.5%
Japan (N225)	-1.4%	-4.6%
Australia (All Ordinaries)	-1.4%	-7.2%
N. Zealand (NZSX50)	-1.9%	-3.9%
Latin America/Caribbean		
Mexico (IPC)	0.8%	-4.6%
Brazil (Bovespa)	-4.0%	-8.5%
Chile (IGPA)	-2.3%	3.4%
Asia/Southeast Asia		
China (Shanghai-C)	-1.7%	-10.3%
India (BSE-Sensex)	-3.5%	-9.6%
Hong Kong (Hang Seng)	-2.3%	-10.1%
Singapore (Strait Times)	-2.3%	-7.4%
S. Korea (KOSPI-C)	-2.2%	-6.9%
Indonesia (Jakarta-C)	-3.5%	-0.6%
Thailand (SET)	-2.5%	-5.7%
Malaysia (Kuala Lampur-C)	0.5%	-2.0%
Eastern Europe/Central Asia		
Russia (RTSI)	-4.3%	-2.3%
Turkey (ISE National 100)	-5.8%	-2.6%
Middle East/Africa		
KSA (TASI)	-0.6%	1.5%
Kuwait (KSEI)	0.6%	0.8%
Qatar (DSM20)	4.2%	-1.8%
Abu Dhabi (ADI)	2.7%	-1.4%
Dubai (DFMGI)	4.6%	-7.8%
Oman (MSM30)	0.0%	2.6%
Bahrain (All Share I)	0.7%	2.1%
Jordan (ASE General I)	-0.7%	-1.0%
Egypt (CASE30)	3.3%	12.4%
S. Africa (JSE All Share Index)	-3.3%	-6.8%



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