

# Market Review & Outlook

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

## SPECIAL FOCUS

**No Real Change** (page 3)

## HEADLINES

- 2 **Saudi Macro and Equity Market**  
*Credit Provisions "What Lies Beneath"*
- 3 **US Macro and Equity Market**  
*No Real Change*
- 4 **Commodity Markets**  
*Wheat Rallies Despite Rise in USD*
- 5 **Global Macro**  
*BRIC Nations Lead the Way*
- 6 **FOREX Market**  
*The USD Rallies*
- 7 **Global Equity Markets**  
*Will Financials Falter?*

Said A. Al Shaikh  
Chief Economist | s.alshaikh@alahli.com

Tamer El Zayat  
Senior Economist | t.zayat@alahli.com

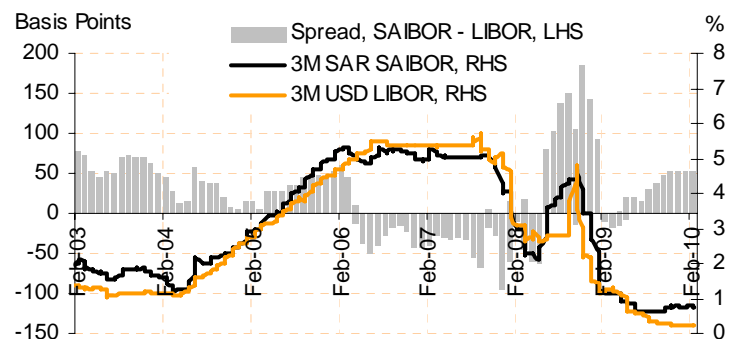
Dana Namdari  
Economist | d.namdari@alahli.com

Paulina Chahine  
Economist | p.chahine@alahli.com

### Saudi Arabia Leading Economic Indicators

	2009	Latest	Period
Average WTI, Cushing 1M, USD/bbl	62.0	77.1	10YTD
Weighted Average Arabian Light, USD/bbl	61.0	75.2	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	52.1	10YTD
Y/Y Growth in Monetary Base (M0)	-0.35%	37.9%	2009
Y/Y Growth in Money Supply (M3)	17.6%	10.7%	2009

### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 19 Feb 2010

### View of the Week

“ we view [the hike in the discount rate] as yet another small step [by the Fed] towards laying the groundwork for an exit strategy ”

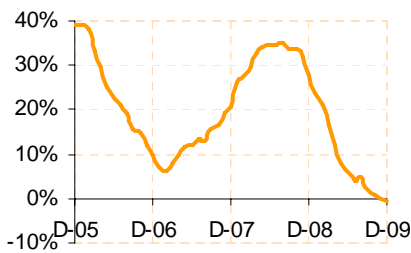
# Saudi Macro and Equity Market

## Credit Provisions “What Lies Beneath”

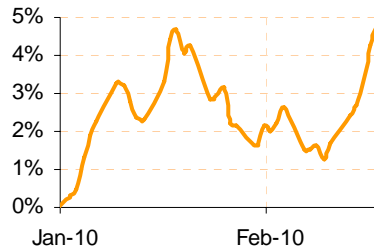
The eleven locally incorporated banks in KSA, excluding Alinma bank, might have faced the financial crisis in a resilient mode, but the credit provisioning cycle in 2009 raised questions about what lies ahead for Saudi banking. In our opinion a closer insight into non-performing loans (NPLs) and specific provisions that are allocated to such delinquent loans will help detect the major trends going forward. For the nine banks that issued their detailed FY2009 financial statements, the most affected were small and medium sized banks, notably Arab National Bank, Saudi Investment Bank, Al Bilad, and Saudi Hollandi Bank (SHB), reporting a staggering increase in their NPLs by 549%, 506%, 522% and 110%, respectively. The major sources of trouble for each bank were notably: (1) manufacturing for SHB with a substantial nine fold increase, (2) services and manufacturing for ANB, (3) commerce for SAIB, and (4) manufacturing for Bilad. As expected this sudden surge in NPLs forced these banks to allocate more specific provisions that ranged between SHB’s 127% and SAIB’s 69% increase. In contrast, NCB and Riyad Bank, two of the largest banks in KSA, did report lower NPLs, at -21% and -1%, and in turn reduced their allocations for specific provisions. The apparent aspect of such analysis does point to the relative weakness of smaller banks, and their vulnerable standing at times of stress. Yet, taking into consideration portfolio provisions, which represent additional allocations above the specific provisions, the overall standing of Saudi banks remains healthy, with the NPL coverage ratio at an acceptable 96%.

## Key Macroeconomic and Equity Market Indicators

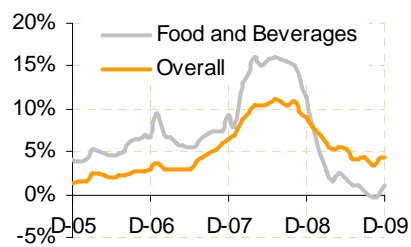
Y/Y Growth in Credit (Private Sector)



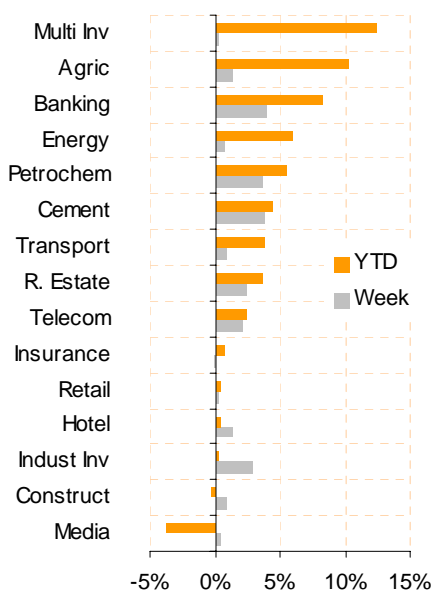
Tadawul All Share Index: 31 Dec 09 = 0%



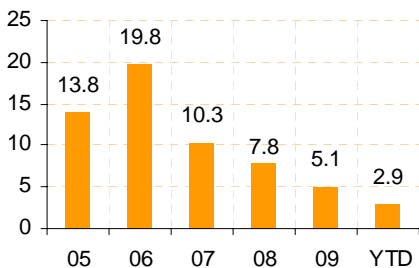
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl <sup>1</sup>	YTD 75.2	2009 61.0
Oil Production, mmbd <sup>2</sup>	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 Government <sup>3</sup>	Dec -769	Nov -727
Loan-to-deposit Ratio <sup>4</sup>	Dec 75.4%	Nov 77.8%
Excess Reserves/Total <sup>5</sup>	Dec 66.3%	Nov 65.0%
Net Foreign Assets, USDbn	Dec 435.0	Nov 414.5
Import LCs, SARbn <sup>6</sup>	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.

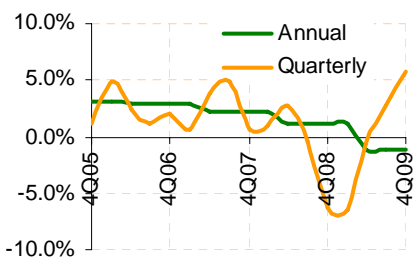
# US Macro and Equity Markets

## No Real Change

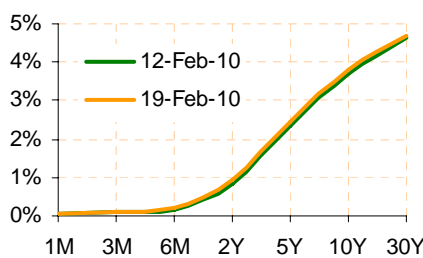
The Federal Reserve on Thu announced that it will increase the discount rate by 25 bps to 0.75%. The discount rate is charged on primary credit, which are very short term loans, usually overnight, extended to depository institutions in generally sound financial condition. The Fed traditionally charges a premium above market rates to encourage banks to turn to private markets as their main source of funds. Thus, the discount window is seen as an emergency lending facility. After the collapse of Bear Stearns, the premium was slashed from 100bp to 25bp, and the maximum duration of loans was extended to 90 days, in a bid to ease liquidity conditions. However, with financial conditions improving, and the main threat assumed to have passed, the hike in the discount rate merely represents normalizing of conditions. The premium has now increased to 50bp, and only overnight loans will be available effective mid-Mar onwards. The Fed has stressed that “the modifications are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or for monetary policy”. Rather it is a technical move to encourage banks to rely on private financial markets. Accordingly, we view it as yet another small step towards laying the groundwork for an exit strategy.

## Key Macroeconomic and Capital Market Indicators

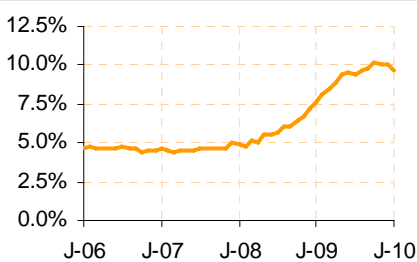
Real GDP Growth, Annualized



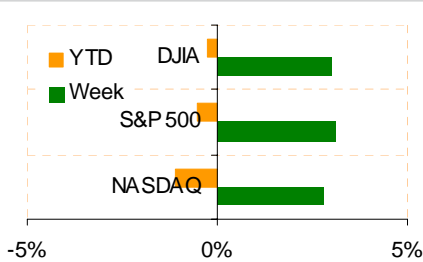
Benchmark Yields, Annualized



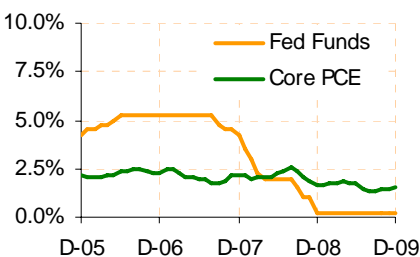
National Unemployment Rate



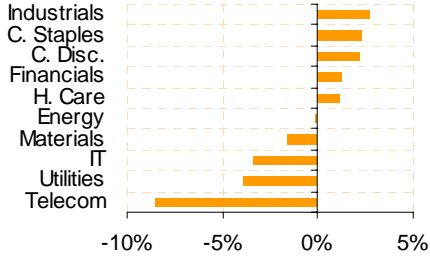
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Previous
Real GDP	4Q09(A) 5.7%	4Q09(P) 26-Feb
Unemployment	Jan 9.7%	Feb 5-Mar
A. H. Earnings, M/M	Jan 0.20%	Feb 5-Mar
CPI Inflation, Y/Y	Jan 2.60%	Feb 19-Mar
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	Jan 2.8%	Feb 20-Mar
Trade Balance, \$bn	Nov -40.18	Dec 10-Mar
Retail Sales, M/M	Dec 0.50%	Jan 11-Mar
Industrial Production, M/M	Jan 0.9%	Feb 17-Mar
Capacity Utilization	Jan 72.6%	Feb 17-Mar
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.

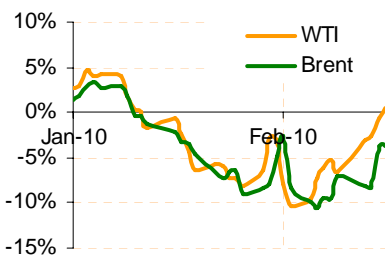
# Commodity Markets

## Wheat Rallies Despite Rise in USD

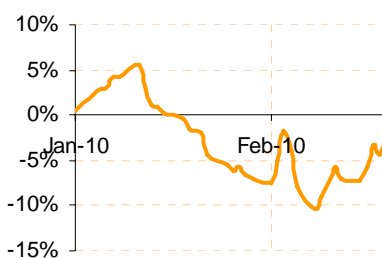
Wheat prices gained for a second straight week, despite a surge in the dollar. The dollar hit an eight-month high against a basket of currencies following the Federal Reserve's surprise increase in its discount rate. Investors took this as a signal that the US was closer to raising its benchmark interest rate. A firmer US currency weighs on dollar-denominated commodities by making them less attractive overseas. This has in turn put pressure on European grain markets, which tend to take their lead from US markets even if a lower EUR is favorable to them. March milling wheat on Euronext was down 1.42% over the week at EUR121.75 a tonne, a new contract low and a lowest for front-month prices since the end of September. However, on CBOT wheat futures for March delivery in fact gained 0.72% to reach USD490 cents a bushel. This unexpected rebound in the market was due to signs of improved demand for supplies from the US, the world's biggest exporter of wheat. The USDA stated that exporters sold 409,000 tonnes of wheat last week, and that the total during the past four weeks is up 70% from the same period a year earlier. Weak US inflation data also took some pressure off the crop, by putting the brakes on expectations that a rise in the discount rate meant that other rates were heading for an imminent lift too.

## Key Commodity Prices and Indices

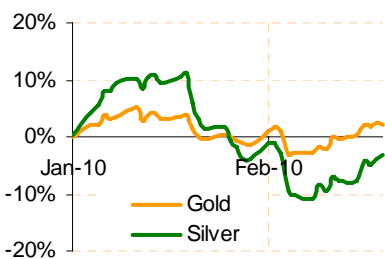
**Benchmark Crude Oil Prices**



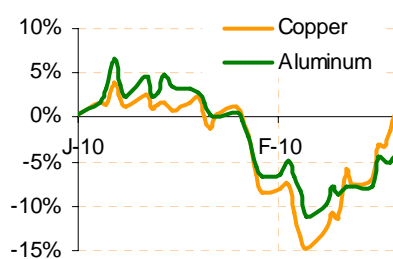
**Saudi Arabian Light, Asia Deliveries**



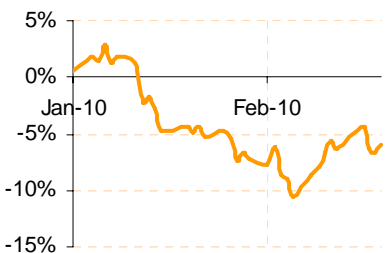
**Precious Metals**



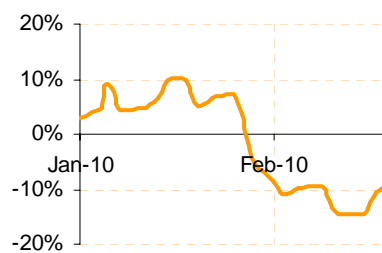
**Base Metals**



**Goldman Sachs Agriculture Index**



**Baltic Exchange Dry Index**



	Last	Previous
WTI, Spot, \$/bbl	21-Feb 79.8	7.6%
Brent, Spot, \$/bbl	21-Feb 77.3	7.5%
Gold, LME, \$/Oz	21-Feb 1118.5	2.4%
Silver, LME, \$/Oz	21-Feb 16.3	5.1%
Platinum, \$/Oz	21-Feb 1530.5	1.2%
Palladium, \$/Oz	21-Feb 437.0	5.4%
Aluminum, LME, \$/t	21-Feb 2116.0	3.5%
Copper, LME, \$/t	21-Feb 7431.5	9.1%
Nickel, LME, \$/t	21-Feb 20725.0	11.2%
Zinc, LME, \$/t	21-Feb 2365.0	9.0%
Wheat, Mar, \$/Bushel	21-Feb 4.9	0.7%
Corn, Mar, \$/Bushel	21-Feb 3.6	-0.4%
Soybeans, Jan, \$/Bushel	21-Feb 9.5	0.0%

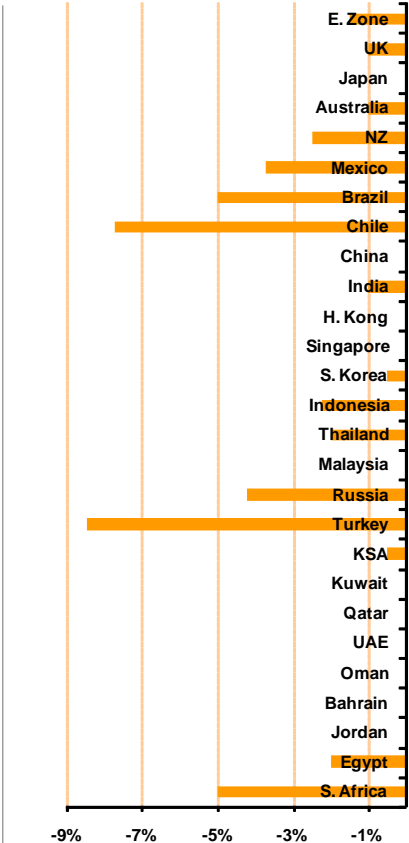
**Notes:** All variables depicted in the charts above are rebased to 0% in the last trading day in 2009.

# Global Macro

## BRIC Nations Lead the Way

After a remarkable performance in 2009, emerging markets are still the asset class of choice for 2010. In 2009, USD 80bn was invested into EM equities, accounting for one of the largest annual rises for this asset class. This trend is expected to continue though to 2010, as developing economies are projected to grow at a faster pace than their developed peers. This is largely due the strength of Brazil, Russia, India and China— also known as the BRIC nations- who constitute the four largest developing world markets. Collectively, the BRIC nations' share of world trade is larger than that of the US. It is well known that China is one of the world's largest goods exporter, however this has been supplemented by Brazil, which dominates a number of agricultural commodity markets, Russia which specialized in oil and gas and India, renowned for its software and back-office exports. Together this group of EM's is expected to revolutionize the economic balance of power between the west and east in the decade to come. In 2008-14 they are forecasted to contribute to over half the world's GDP, while the G7 countries are expected to account for less than 20%. While the outlook seems positive, risks to growth remain. Many fear that the emerging markets may overheat, with China in particular a case in point. Moreover the global recovery could falter, prompting increased risk aversion, which would deter investors once more from this asset class.

## Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change	
	2008	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 09YTD	
<b>Europe/Japan/Oceania</b>											
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	3.5%	Feb-10	3.5%	0.50%	Hold	4-Feb-10		
Japan	-0.7%	3.7%	2Q09	-1.7%	Dec-09	0-2.0%	0.10%	Hold	18-Feb-10		
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		
<b>Latin America/Caribbean</b>											
Mexico	1.3%	-6.2%	3Q09	6.3%	Nov-08	3.0%	4.50%	Hold	19-Feb-10		
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	12-Feb-10		
<b>Asia/Southeast Asia</b>											
China	9.0%	10.7%	4Q09	1.5%	Feb-10	2.00%	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%	4.0%	4Q09	-0.2%	Dec-09	-	-	-	-		
South Korea	2.2%	6.0%	4Q09	2.8%	Dec-09	3.50%	2.00%	Hold	11-Feb-10		
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		
<b>Eastern Europe/Central Asia</b>											
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	16-Feb-10		
<b>Asia/Southeast Asia</b>											
Saudi Arabia	4.5%	0.2%	2009	4.2%	Dec-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		

**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

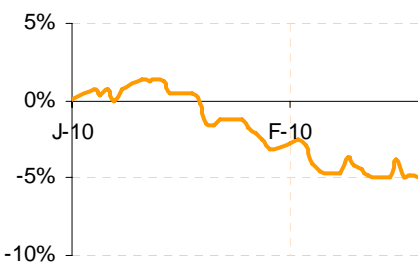
## The USD Rallies

Although the Federal Reserve's change to the discount rate carries no real impact on monetary policy, it provides a mild signal to the market. As mentioned last week, the inclination to gradually normalize conditions stems from Bernanke's entrenched fear of triggering a negative announcement effect that could drive investors to exit. However, despite previous efforts by the Fed to prepare the market for such a rate hike, the timing was still unexpected. The USD rallied on Fri, after the announcement, hitting nine month highs against the EUR and the GBP and a one-month peak against the JPY. The modification seems to be interpreted as a sign that the Fed has become more comfortable with normalizing the framework, an indication of optimism regarding the direction of the US economy. Although the Fed has stressed that the increase in the discount rate has no impact on the outlook for the main interest rate, some currency speculators have come to expect a marginally faster paced exit strategy. This conviction will strengthen the USD over the short-term, as traders buy the USD ahead of an anticipated interest rate rise. Moreover such expectations drive investors to unwind carry trades, where they borrowed cheaply in dollars and invested the proceeds in higher yielding assets, providing further support to the USD.

## Key Spot Foreign Exchange Rates

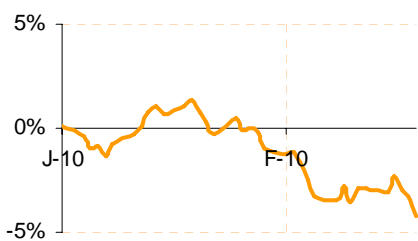
### \$ per €

Last **1.3616** Week **-0.5%** 10YTD **-4.9%**



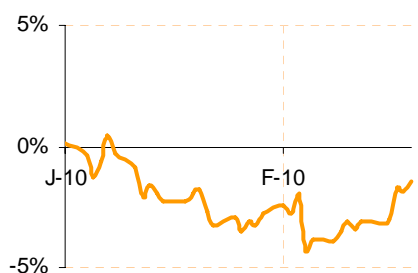
### \$ per £\*

Last **1.5475** Week **-1.4%** 10YTD **-4.2%**



### ¥ per \$\*

Last **91.62** Week **2.1%** 10YTD **-1.4%**



### Rate versus \$

#### Europe/Oceania

	Last	Week
Swiss Franc (CHF)	1.0758	-0.4%
Australian Dollar (AUD)	0.8988	0.9%
New Zealand Dollar (NZD)	0.6995	-0.3%

#### Latin America/Caribbean

	Last	Week
Mexican Peso (MXN)	12.8100	1.1%
Brazilian Real (BRL)	1.8055	2.7%
Chilean Peso (CLP)	531.5000	-0.1%

#### Asia/Southeast Asia

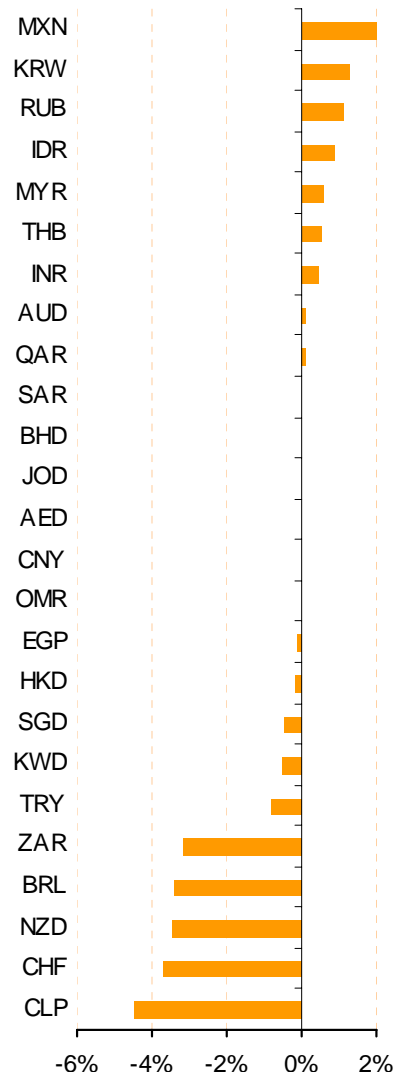
	Last	Week
Chinese Yuan (CNY)	6.8291	0.1%
Indian Rupee (INR)	46.1900	0.4%
Hong Kong Dollar (HKD)	7.7659	0.0%
Singaporean Dollar (SGD)	1.4120	0.0%
South Korean Won (KRW)	1,153.70	0.0%
Indonesian Rupee (IDR)	9,345.00	0.3%
Thai Baht (THB)	33.2000	-0.1%
Malaysian Ringgit (MYR)	3.4050	0.6%

#### Eastern Europe/Central Asia

	Last	Week
Russian Rouble (RUB)	29.9764	0.7%
Turkish New Lira (TRY)	1.5180	0.0%

#### Middle East/Africa

	Last	Week
Saudi Riyal (SAR)	3.7502	0.0%
Kuwaiti Dinar (KWD)	0.2889	-0.2%
Qatari Riyal (QAR)	3.6404	0.0%
UAE Dirham (AED)	3.6732	0.0%
Omani Riyal (OMR)	0.3851	0.0%
Bahraini Dinar (BHD)	0.3770	0.0%
Jordanian Dinar (JOD)	0.7085	0.1%
Egyptian Pound (EGP)	5.4930	0.0%
South African Rand (ZAR)	7.6725	-0.4%

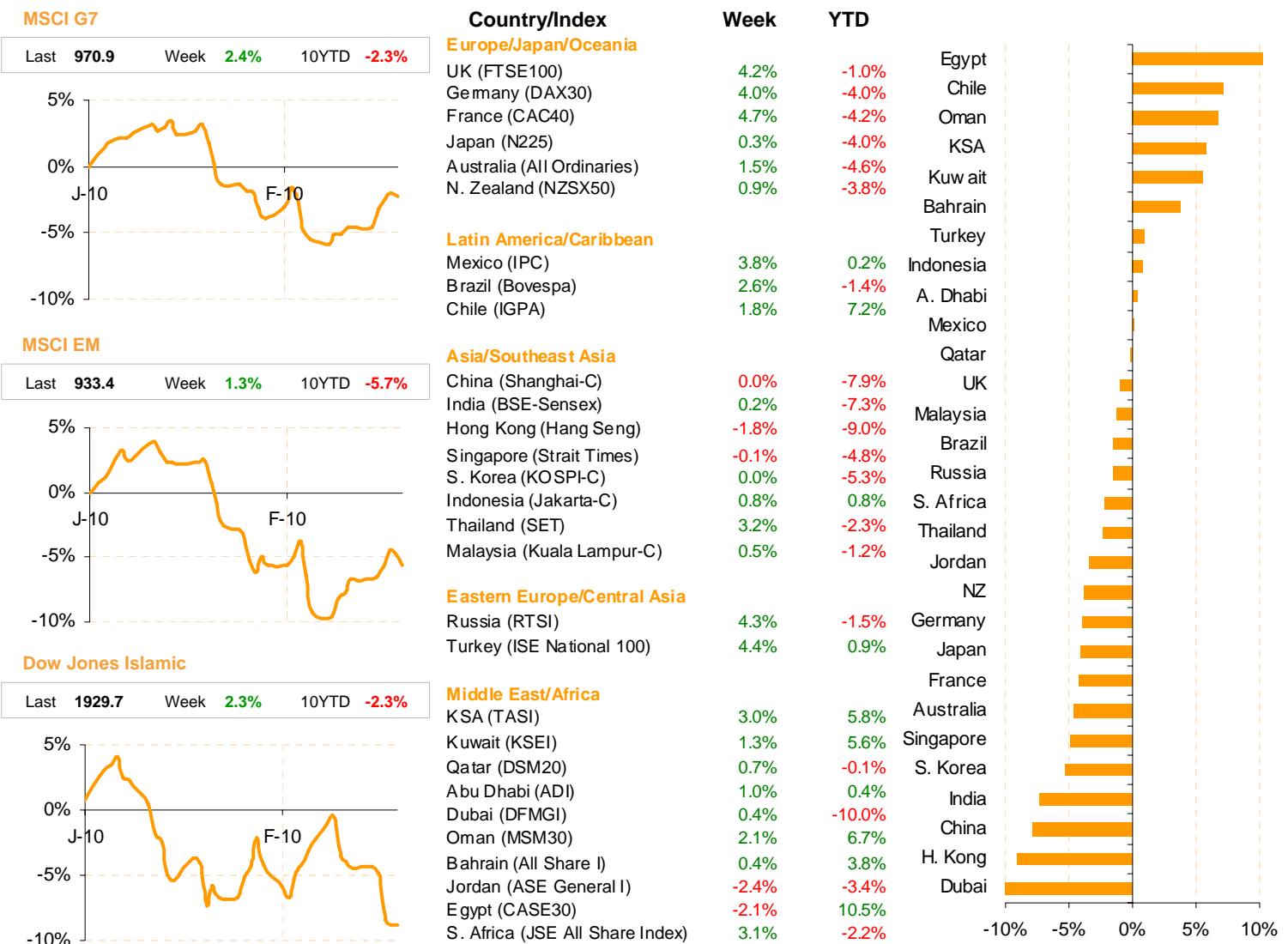


# Global Equity Markets

## Will Financials Falter?

The markets were caught off guard by the Fed's decision to raise the discount rate. Its timing was a surprise and shifted investors focus to how companies will cope as central banks start to withdraw support for credit markets and tighten monetary policy. The decision will inevitably impact financials, which have been the most heavily impacted sector throughout the financial crisis. Over 2008, financials lost a remarkable 51% of their value, as frustrated investors fears were heightened by lack of liquidity and transparency. By 2009, policy efforts had succeeded in reassuring the markets that the major liquidity threat had passed, and the overall value of financial shares increased by 11.5% over the year. Will financials continue to recover over 2010? Their performance will largely be determined by the success of the Fed's exit strategy. While the Fed has tried to create transparency, by emphasizing communication, the markets are still unnerved by announcements. Over the week, US equities recorded their first successive weekly gain since Dec, with the DJIA and S&P500 increasing by 3% and 3.13% respectively. While the markets will remain easily swayed by economic news, it is important to keep sight of the underlying fundamentals. Financial institutions remain battered by the crisis and the pace of credit intermediation is not expected to return to normal in the near term. Accordingly, this should keep the recovery in financials sluggish this year.

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





## Economics Department

### The Economics Department Research Team

#### Head of Research

**Said A. Al Shaikh**  
*Editor/Chief Economist*  
s.alshaikh@alahli.com

#### Sector Analysis/Saudi Arabia

**Muhammad Y. Malick**  
*Senior Economist*  
y.malick@alahli.com

#### Macroeconomic Analysis

**Perihan Al-Husseini**  
*Senior Economist*  
p.alhusseini@alahli.com

#### Management Information System

**Majed A. Al-Ghalib**  
*Financial Planning & Performance*  
m.alghalib@alahli.com

#### Zulfiqar Bashir

*Senior Economist*  
z.bashir@alahli.com

#### Tamer El Zayat

*Senior Economist*  
t.zayat@alahli.com

#### Paulina Chahine

*Economist*  
p.chahine@alahli.com

#### Dana Nammari

*Economist*  
d.nammari@alahli.com

### To be added to the NCB Economics Department Distribution List:

#### Please contact: Mr. Noel Rotap

Tel.: +966-2-646-3232

Fax: +966-2-644-9783

Email: n.rotap@alahli.com

**Disclaimer:** The information and opinions in this research report were prepared by NCB's Economics Department. The information herein is believed by NCB to be reliable and has been obtained from public sources believed to be reliable. However, NCB makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author/authors as of the date of this report. They do not necessarily reflect the opinions of NCB as to the subject matter thereof. This report is provided for general informational purposes only and is not to be construed as advice to investors or an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or other securities or to participate in any particular trading strategy in any jurisdiction or as an advertisement of any financial instruments or other securities. This report may not be reproduced, distributed or published by any person for any purpose without NCB's prior written consent.