

# Market Review & Outlook

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

## SPECIAL FOCUS

### Concerns About Oil Prices Continue (page 4)

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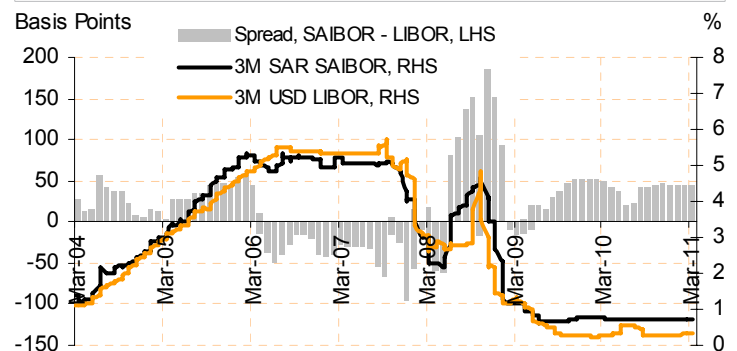
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### Saudi Arabia Leading Economic Indicators

	2010	Latest	Period
Average WTI, Cushing 1M, USD/bbl	79.5	90.1	11YTD
Weighted Average Arabian Light, USD/bbl	78.0	98.3	11YTD
Average 3M USD LIBOR	0.34%	0.31%	11YTD
Average 3M SAR SAIBOR	0.74%	0.75%	11YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	39.4	44.3	11YTD
Y/Y Growth in Monetary Base (M0)	2.54%	-5.59%	Jan 11
Y/Y Growth in Money Supply (M3)	5.00%	8.10%	Jan 11

### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 4 March 2011

### View of the Week

“ Libya's oil output has decreased by approximately 1 million barrels per day from 1.6 million since the uprising began last month ”

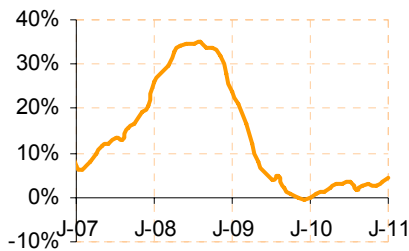
# Saudi Macro and Equity Market

## King's Initiatives and their Implications

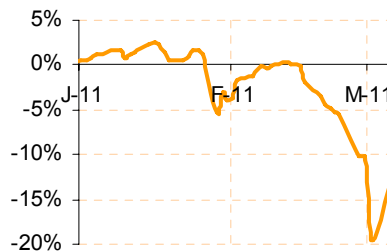
Custodian of the Two Holy Mosques King Abdullah issued a series of royal decrees aimed at easing the burden of high property prices and housing market imbalances. The King allocated SAR15 bn and SAR40 bn to the General Housing Authority and the Real Estate Development Fund (REDF), respectively. Although this will raise the number of housing units, it is not sufficient enough to fill the Kingdom's supply gap in which over 230,000 housing units are needed annually. In addition, the government would liaison with private financial institutions to provide more loans. The citizen can apply to banks with a guarantee through a private fund initiated or partly funded by this amount to guarantee the loan or part of the loan for the bank. This may encourage an expansion of real estate financing across all income brackets, stimulate bank lending and reduce the cost of lending on individuals. Furthermore, under the new decrees, the 15% cost of living adjustment given to government workers over the past three years will be made permanent on their payroll slip, which enhances their leverage to receive higher bank loans. At the same time, the unemployed Saudi youth will receive a year of financial aid. These measures will not only raise income levels, but will also increase the size of the Kingdom's bankable population.

## Key Macroeconomic and Equity Market Indicators

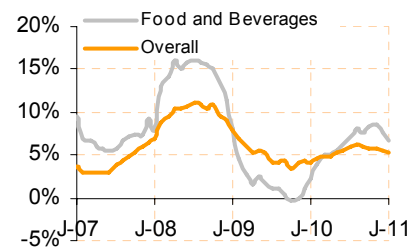
Y/Y Growth in Credit (Private Sector)



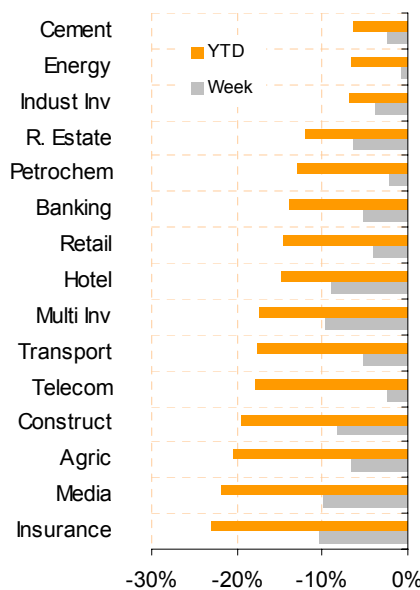
Tadawul All Share Index: 31 Dec 09 = 0%



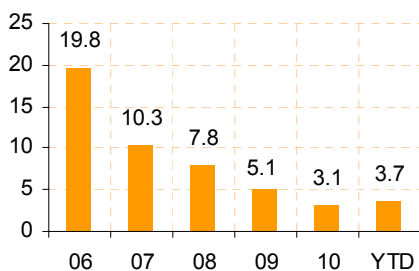
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl <sup>1</sup>	YTD 98.3	2010 78.0
Oil Production, mmbd <sup>2</sup>	Jan 8.33	Dec 8.25
Real GDP	2010 3.8%	2009 0.16%
CPI Inflation, Y/Y	Jan 5.3%	Dec 5.4%
Broad Money (M3), Y/Y	Jan 8.1%	Dec 5.0%
Credit, Private Sector	Jan 5.4%	Dec 4.8%
Credit, Corporate	3Q10 0.27%	2Q10 0.76%
Credit, Households	3Q10 9.08%	2Q10 9.17%
Net Claims on Government <sup>3</sup>	Jan -807.3	Dec -810.5
Loan-to-deposit Ratio <sup>4</sup>	Jan 75.7%	Dec 75.5%
Excess Reserves/Total <sup>5</sup>	Jan 54.4%	Dec 62.1%
Net Foreign Assets, USDbn	Jan 473.3	Dec 467.2
Import LCs, SARbn <sup>6</sup>	1M 11 11.7	1M 10 11.5

**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.

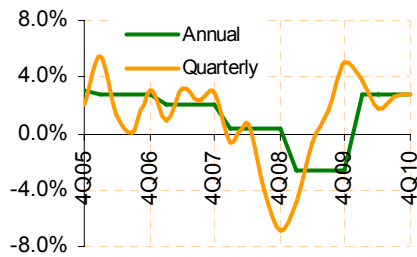
# US Macro and Equity Markets

## Unemployment Rate Continues to Decline

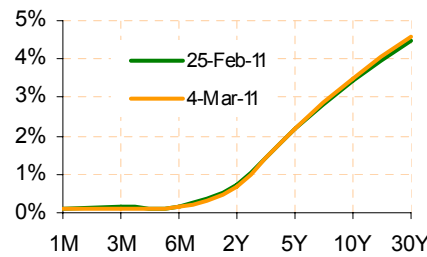
The latest employment figures showed that the US jobless rate fell for the third consecutive month, reflecting signs of confidence in the world's largest economy. Total non-farm payrolls added 192,000 jobs, following January's revised 63,000, which helped lower the unemployment rate to a 22-month low at 8.9%. The bulk of jobs created were attributed to the services sector as it added 152,000 jobs while the production sector added 70,000 and the government shed off 30,000. Examining the figures further reveals a huge drop, 1.8%, in the teenagers category, which indicates companies' preparation for the upcoming March-April shopping season. In addition, the increase in employed workers helped boost average weekly earnings to USD647.56, which will reflect positively on consumer spending in 2011's first quarter. Personal consumption expenditure increased 3.5% in 2010 following 2009's 1% decline, an increase is expected for 2011. Also, weather conditions returning to normal levels helped boost employment after a subdued period. This marks a good start for 2011 as the economy continues to recover and employers show support by increasing hires. While the Fed acknowledges the better performance by the labor market, they are expected to hold their ground and maintain current policies and commitments. Meanwhile, increasing oil prices can curb the nation's growth as the MENA region is still under a lot of stress.

## Key Macroeconomic and Capital Market Indicators

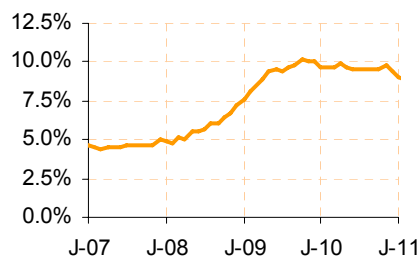
Real GDP Growth, Annualized



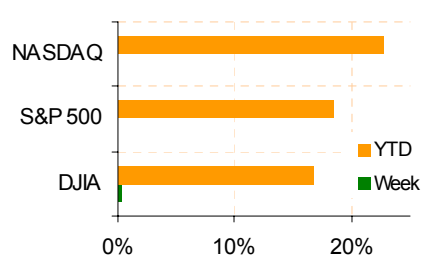
Benchmark Yields, Annualized



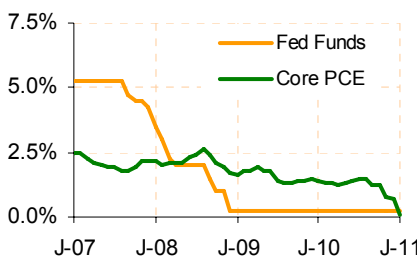
National Unemployment Rate



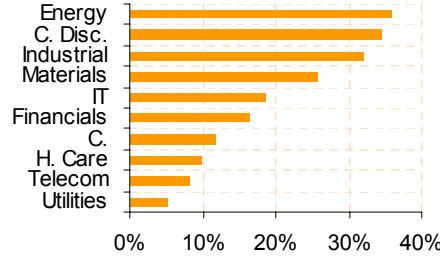
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
Real GDP	4Q10(P) 2.8%	4Q10(F) 25-Mar
Unemployment	Feb 8.9%	Mar 4-Apr
A. H. Earnings, M/M	Feb 0.0%	Mar 4-Apr
CPI Inflation, Y/Y	Jan 1.60%	Feb 17-Mar
Core PCE, Y/Y	Jan 0.10%	Feb 28-Mar
Existing Home Sales, M/M	Jan 2.7%	Feb 23-Mar
Housing Starts, M/M	Jan 14.6%	Feb 16-Mar
Trade Balance, \$bn	Dec -40.58	Jan 10-Mar
Retail Sales, M/M	Jan 0.30%	Feb 11-Mar
Industrial Production, M/M	Jan -0.1%	Feb 17-Mar
Capacity Utilization	Jan 76.1%	Feb 17-Mar
Fed Funds Rate	Jan 0.25%	Mar 15-Mar

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

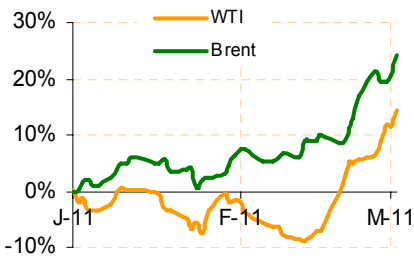
# Commodity Markets

## Concerns About Oil Prices Continue

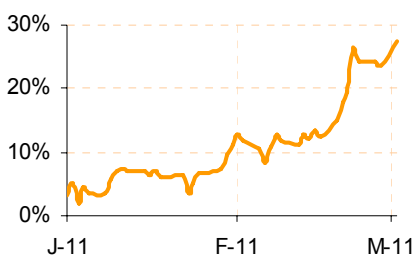
The ongoing strife in the Libya has caused crude oil prices to rise to 2 1/2 year highs as heightened worries about supply disruption continue. Worries by investors about a prolonged period of unrest in the Middle East could hinder economic growth and erode corporate profits. Furthermore, there are concerns that inflationary pressures in emerging economies might worsen. U.S. crude oil futures rose 1.6% to USD106/bbl while ICE Brent crude for April was trading at USD117.28/bbl, up 1.1%. Additionally, Nymex trading in April contracts, heating oil rose USD2 cents to USD3.11 a gallon, and gasoline gained USD3 cents to USD3.08 a gallon. Natural gas futures were down USD4.1 cents at USD3.77 per 1,000 cubic feet. The growing wave of uncertainty might drive the price of oil to USD120/bbl even if supply disruptions do not continue, according to some estimates. Libya's oil output has decreased by approximately 1 million barrels per day from 1.6 million since the uprising began last month. Consequently, the U.S. government may tap its strategic oil reserves in order to protect economic growth as surging gasoline prices increase pressure for action. The willingness to tap into oil reserves, which is usually reserved for significant and immediate supply shortage, signifies the severity of the situation in Libya.

## Key Commodity Prices and Indices

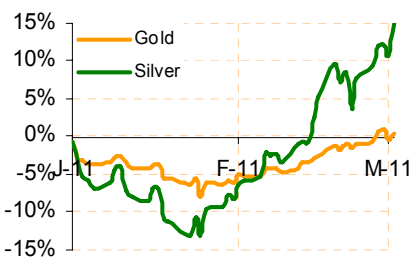
**Benchmark Crude Oil Prices**



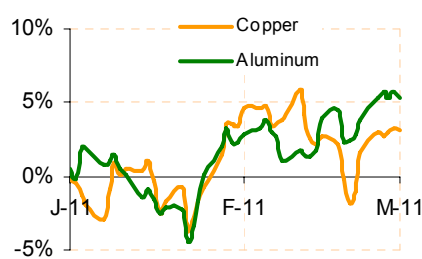
**Saudi Arabian Light, Asia Deliveries**



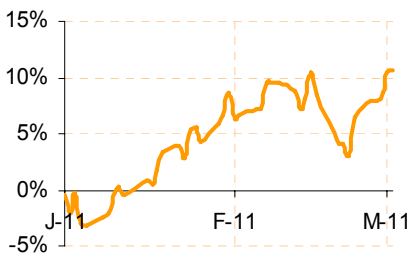
**Precious Metals**



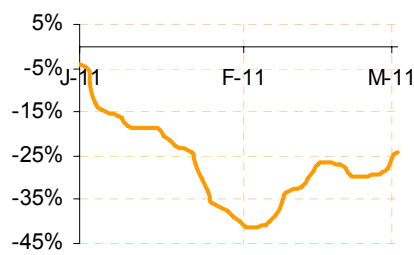
**Base Metals**



**Goldman Sachs Agriculture Index**



**Baltic Exchange Dry Index**



	Last	Week
WTI, Spot, \$/bbl	104.34	8.1%
Brent, Spot, \$/bbl	115.78	3.0%
Gold, LME, \$/Oz	1,428.8	1.4%
Silver, LME, \$/Oz	35.53	6.6%
Platinum, \$/Oz	1,839.0	2.0%
Palladium, \$/Oz	809.22	2.8%
Aluminum, LME, \$/t	2,610	2.3%
Copper, LME, \$/t	9,925	2.4%
Nickel, LME, \$/t	28,750	3.9%
Zinc, LME, \$/t	2,491	0.0%
Wheat, Sep, \$/Bushel	8.01	3.1%
Corn, Sep, \$/Bushel	7.21	1.3%
Soybeans, Sep, \$/Bushel	14.08	3.1%

**Notes:** All variables depicted in the charts above are rebased to 0% in the last trading day in 2010.

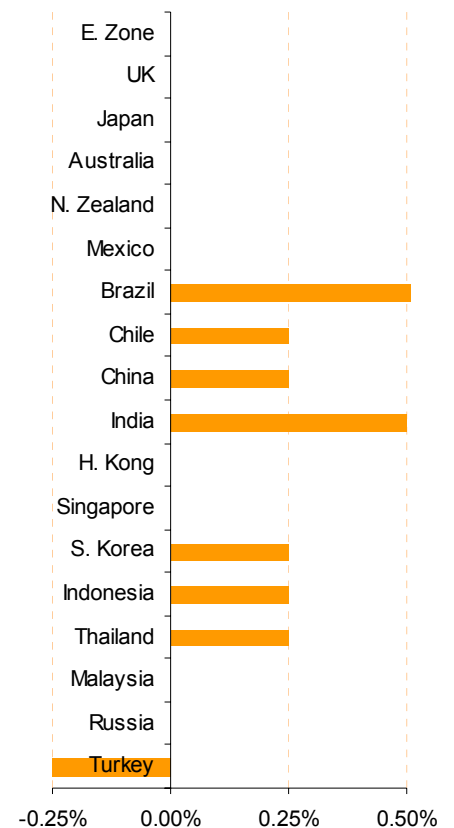
# Global Macro

## China's Priority, Inflation

It seems that the protest virus has crossed over to the Far East, particularly China. Lately, "Jasmine" protests have been called for, using the same revolutionary weapon used in MENA, the internet. Rising inflation sparked social unrest and the government is committed to limit inflation this year to 4% and continue growth with a projected 8%. Last month's inflation rate was at 4.9%. Chinese regulators plan to keep expanding fiscal balances and to maintain tight monetary policy. The nation's five year plan through 2015 estimates growth at 7%, 0.5% lower than previously announced. Rapidly climbing prices have impacted businesses negatively and the repetitive increase in bank reserve requirements proved ineffective. Further interest rate hikes are expected throughout 2011 as the current rate isn't attractive enough, albeit they are expected to be more aggressive than previous 25bps hikes. In addition, the overgrowing asset bubble highlights a huge risk factor that may result in massive bad loans which might spark a US mortgage déjà vu. The task ahead of the Chinese government is intricate as the Yuan is still suppressed and not allowed to appreciate. The current rise in oil prices will intensify the complicated assignment ahead of officials. Furthermore, the government seeks to boost wages and provide subsidies to the poor in an attempt to narrow the wealth gap and ease social unrest.

## Selected Global Macroeconomic Indicators

	Growth <sup>1</sup>			Inflation <sup>2</sup>			Policy Rate <sup>3</sup>			Policy Rate Change
	2009	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 11YTD
<b>Europe/Japan/Oceania</b>										
<b>Euro Zone</b>	-2.6%	1.9%	3Q10	2.2%	Dec-10	2.2%	1.00%	Hold	3-Mar-11	
<b>UK</b>	-4.9%	1.5%	4Q10	4.0%	Jan-11	2.0%	0.50%	Hold	10-Feb-11	
<b>Japan</b>	-6.3%	-1.1%	4Q10	-0.2%	Jan-11	-0.6%	0.10%	Hold	10-Feb-11	
<b>Australia</b>	1.2%	2.7%	3Q10	2.7%	Dec-10	3.0%	4.75%	Hold	1-Mar-11	
<b>New Zealand</b>	-1.6%	1.5%	3Q10	4.0%	Dec-10	3.0%	3.00%	Hold	26-Jan-11	
<b>Latin America/Caribbean</b>										
<b>Mexico</b>	-6.1%	4.6%	4Q10	3.8%	Jan-11	4.0%	4.50%	Hold	4-Mar-11	
<b>Brazil</b>	-0.6%	6.7%	3Q10	6.0%	Feb-11	4.5%	11.75%	0.50%	3-Mar-11	
<b>Chile</b>	-1.5%	7.0%	3Q10	2.7%	Jan-11	3.0%	3.50%	0.25%	17-Feb-11	
<b>Asia/Southeast Asia</b>										
<b>China</b>	9.2%	9.8%	4Q10	4.9%	Jan-11	4.7%	6.06%	0.25%	8-Feb-11	
<b>India</b>	5.7%	8.2%	3Q10	8.2%	Jan-11	7.0%	6.75%	0.25%	4-Feb-11	
<b>Hong Kong</b>	-2.8%	6.2%	4Q10	3.6%	Jan-11	-	1.50%	-0.50%	30-Oct-08	
<b>Singapore</b>	-1.3%	12.0%	4Q10	5.5%	Jan-11	3.8%	-	-	-	
<b>South Korea</b>	0.2%	4.8%	4Q10	4.5%	Feb-11	4.0%	2.75%	0.25%	13-Jan-11	
<b>Indonesia</b>	4.5%	6.9%	4Q10	7.0%	Jan-11	5.0%	6.75%	0.25%	4-Mar-11	
<b>Thailand</b>	-2.2%	3.8%	4Q10	2.9%	Feb-11	3.0%	2.25%	0.25%	12-Jan-11	
<b>Malaysia</b>	-1.7%	4.8%	4Q10	2.4%	Jan-11	2.1%	2.75%	Hold	27-Jan-11	
<b>Eastern Europe/Central Asia</b>										
<b>Russia</b>	-7.9%	2.7%	3Q10	8.8%	Jan-11	7.0%	7.75%	-0.25%	1-Jun-10	
<b>Turkey</b>	0.9%	5.5%	3Q10	4.2%	Feb-11	5.5%	6.25%	Hold	15-Feb-11	



**Notes:** 1/Growth: Real GDP Growth Rate, 2009: Y/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.

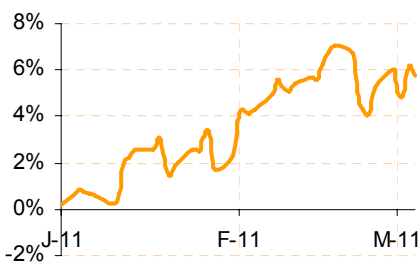
# Regional Macro

## Turkey and the Middle East

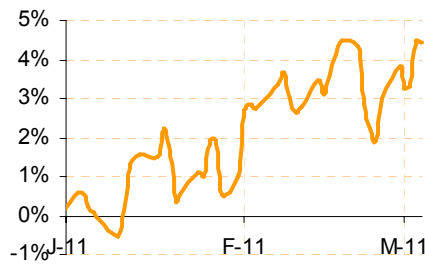
The ongoing unrest in North Africa and the Middle East presents the Turkish economy with significant challenges a year into its impressive recovery from the global crisis. Following robust growth in recent years, the Middle East now region accounts for some 27% of Turkish exports. Exports to Egypt fell by an estimated 21% in January-February, while exports to Tunisia contracted by 38% and to Libya by 6%. Moreover, Turkish companies have undertaken USD15bn worth of projects in Libya over the past four years, making it a leading market for Turkish construction companies. Turkey's main vulnerability is its large – and growing – current account deficit. Turkey imports 93% of its oil and a USD10 increase in the oil price is estimated to add USD4bn to the current account deficit. The external shortfall in January reached USD7.3bn, up from USD3.9bn a year earlier. Minister of State Zafer Çağlayan this week indicated that higher oil prices could push Turkey's import bill to USD17bn in February, up from USD11.8bn a year earlier. Some USD10bn may now be added to the annual total. Also price pressures are building up with a USD10 increase in oil expected to contribute 0.4 percentage points to inflation. Further weakened an unconventional monetary policy, the Lira has fallen by a tenth vis-à-vis the Dollar since October. As Turkey's international credit rating remains below investment grade, Turkish foreign currency bonds have been under significant selling pressure in recent months as credit default swaps have increased by a third.

### Selected Regional Economic Indicators

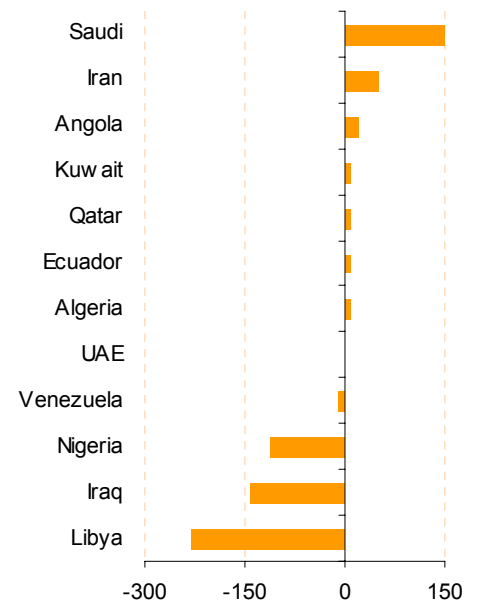
MSCI GCC<sup>1</sup>



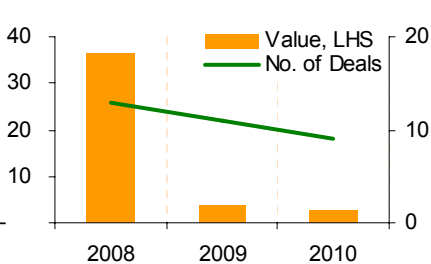
Dow Jones Islamic



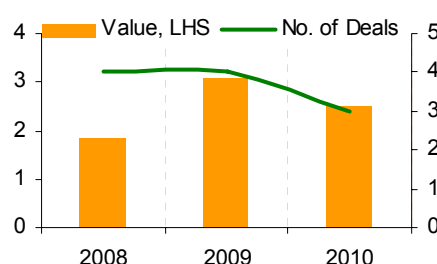
OPEC Oil Production, Monthly Change<sup>2</sup>



IPO Issuance<sup>3</sup>



Sukuk Issuance<sup>4</sup>



Middle East/Africa Selected Indicators

	2008	Growth* Last	Period	Last	Inflation* Date	Target	Last	Policy Rate* Decision	Date
Saudi Arabia	4.2%	3.8%	2010	5.3%	Jan-11	-	2.00%	Hold	19-Jan-09
Kuwait	6.3%	-1.5%	2009e	6.0%	Dec-10	-	2.50%	-0.50%	8-Feb-10
Qatar	25.4%	8.7%	2009	0.6%	Dec-10	-	5.50%	Hold	1-May-08
UAE	7.4%	1.3%	2009	1.7%	Dec-10	-	1.50%	-0.50%	8-Oct-08
Oman	12.8%	1.1%	2009	3.4%	Aug-10	-	2.00%	Hold	20-May-09
Bahrain	6.3%	3.1%	2009	1.0%	Dec-10	-	2.25%	-0.50%	15-Sep-09
Jordan	7.2%	3.2%	2009	1.3%	Dec-10	-	6.00%	-0.50%	25-Nov-08
Egypt	7.2%	4.7%	2009	10.3%	Dec-10	-	9.75%	Hold	27-Jan-10
South Africa	3.1%	2.6%	3Q10	3.5%	Dec-10	3.5%	5.50%	-0.50%	19-Nov-10

**Notes:** 1/MSCI GCC index excludes Kingdom of Saudi Arabia. 2/OPEC's monthly survey: Thousand barrels per day of crude oil. 3/Initial Public Offering values in billion USD. 4/Sukuk values in billion USD. 5/Growth: Real GDP Growth Rate, 2009: Y/Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 6/CPI Inflation: Y-o-Y % Change in CPI, Target: Central bank/monetary authority inflation target. 7/Policy Rate: Last: Current policy rate, Decision/Date: Decision taken in latest meeting/Date of latest meeting.

# FOREX Market

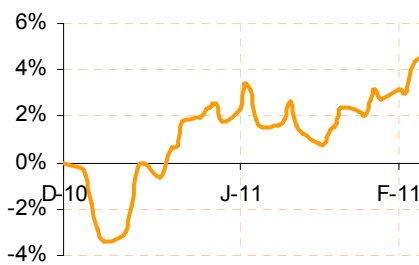
## Euro's Outlook

The Euro has been rallying against the dollar since mid-February. It last closed at USD1.4 and is poised to continue rising this week. The Euro is appreciating because European Central Bank (ECB) President, Jean-Claude Trichet, hinted strongly that he would raise interest rates by up to 25 basis points, possibly as soon as April. The ECB remains hawkish on inflation which rose to 2.4% in January across the Euro Zone, due to skyrocketing costs of food and energy. The Fed meanwhile, said it would not raise interest rates above 0.25% anytime soon. This expectation for an increasing interest rate differential is fueling demand for Euros over dollars. Even though growth in Europe has only just started to pick up, the ECB is trying to balance the needs of the recovering northern states and the struggling peripheral ones with this interest rate decision. The risk is that a rate hike could decrease inflation which might cause declining wages and sabotage the EU recovery, thus weakening the fundamental value of the Euro in the long term. These rising interest rates as well as the overall appreciation of the Euro put more pressure on struggling EU economies in Spain, Portugal, Ireland and Greece. Much depends on the outcome of the Euro Zone summit on Friday, if they manage to strike a long term solution, the euro may rally even further. If they don't and one of the peripheral countries spirals into a sovereign debt crisis, the Euro could take a very big hit.

## Key Spot Foreign Exchange Rates

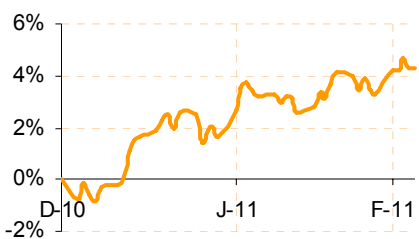
### \$ per €

Last 13988 Week 17% 10YTD 4.5%



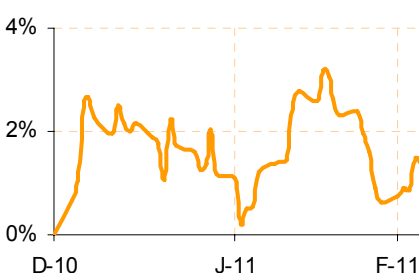
### \$ per £\*

Last 16277 Week 10% 10YTD 4.3%



### ¥ per \$\*

Last 82.3000 Week 0.7% 10YTD 14%



### Rate versus \$

#### Europe/Oceania

	Last	Week
Swiss Franc (CHF)	0.9259	0.3%
Australian Dollar (AUD)	1.0149	-0.3%
New Zealand Dollar (NZD)	0.7398	-1.5%

#### Latin America/Caribbean

	Last	Week
Mexican Peso (MXN)	12.0025	1.0%
Brazilian Real (BRL)	1.6560	0.5%
Chilean Peso (CLP)	474.0000	0.2%

#### Asia/Southeast Asia

	Last	Week
Chinese Yuan (CNY)	6.5680	0.1%
Indian Rupee (INR)	44.9300	0.8%
Hong Kong Dollar (HKD)	7.7867	0.1%
Singaporean Dollar (SGD)	1.2663	0.5%
South Korean Won (KRW)	1,118.20	0.9%
Indonesian Rupee (IDR)	8,791.00	0.6%
Thai Baht (THB)	30.4700	0.6%
Malaysian Ringgit (MYR)	3.0310	0.8%

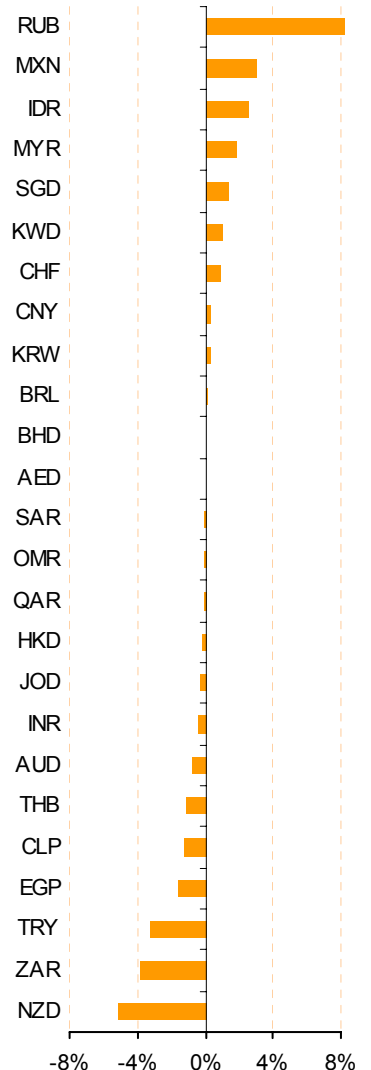
#### Eastern Europe/Central Asia

	Last	Week
Russian Rouble (RUB)	28.1770	2.8%
Turkish New Lira (TRY)	1.6000	-0.1%

#### Middle East/Africa

	Last	Week
Saudi Riyal (SAR)	3.7506	0.0%
Kuw aiti Dinar (KWD)	0.2790	0.1%
Qatari Riyal (QAR)	3.6420	0.0%
UAE Dirham (AED)	3.6731	0.0%
Omani Riyal (OMR)	0.3851	0.0%
Bahraini Dinar (BHD)	0.3771	0.0%
Jordanian Dinar (JOD)	0.7110	-0.2%
Egyptian Pound (EGP)	5.9010	-0.2%
South African Rand (ZAR)	6.9035	2.0%

### Cumulative 10YTD



# Global Equity Markets

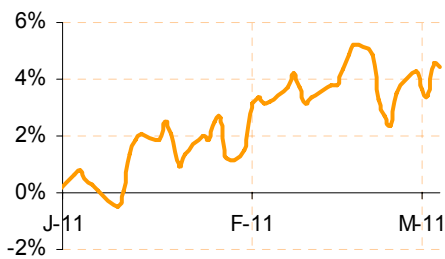
## Emerging Market recovers, Russia shines

Emerging market equities have begun to rebound from their general downward trend of 2011, whereas Russian stocks continue to soar. Emerging markets have been trending downward since the beginning of the year from fears of rising commodity prices and political turmoil, as both are disproportionately affecting emerging markets over developed markets. This past week however, emerging markets have bounced back and showed stronger growth than G7 equity markets. The MSCI's benchmark emerging equity index rose 0.9% last Friday, and 3.5% this week. India gained 3.7% this week after losing 10% since Jan, There is a similar trend in Turkey, which gained 2% after losing 7.4% to date this year, as well as Brazil which gained 1% this past week while remaining down 2% from January. The sudden strengthening of emerging markets run in contrast to European stocks, which continue to plummet as news of an impending tightening of monetary policy further alienates investors spooked from the effects of high energy costs on global growth. The Russian economy, on the other hand, has actually been benefiting from the same factors that have dragged other emerging markets till last week, namely the high price of oil. Oil, a key source of revenue for Russia, has enjoyed high prices caused by the turmoil in the Middle East. Russian stocks climbed another 1.6% this past week, ending at a 30-month high and a 14% gain in 2011 overall.

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

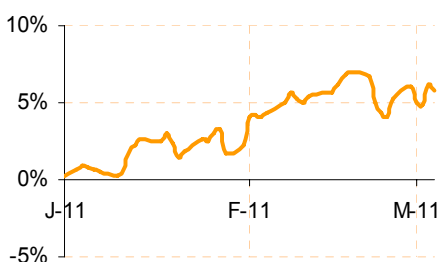
### MSCI World

Last 345.3 Week 0.9% 10YTD 4.4%



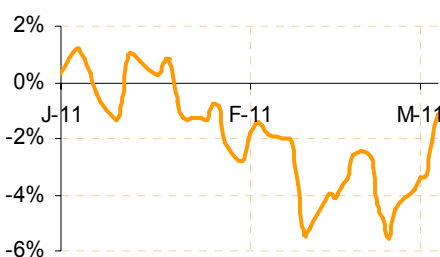
### MSCI G7

Last 1,160.3 Week 0.5% 10YTD 5.8%



### MSCI EM

Last 1,138.5 Week 3.5% 10YTD -1.1%



### Country/Index

#### Europe/Japan/Oceania

Country/Index	Week	YTD
UK (FTSE100)	-0.2%	1.5%
Germany (DAX30)	-0.1%	3.8%
France (CAC40)	-1.2%	5.7%
Japan (N225)	1.6%	4.5%
Australia (All Ordinaries)	0.7%	2.3%
N. Zealand (NZSX50)	1.6%	3.3%

#### Latin America/Caribbean

Mexico (IPC)	0.1%	-4.3%
Brazil (Bovespa)	1.7%	-1.9%
Chile (IGPA)	3.0%	-6.2%

#### Asia/Southeast Asia

China (Shanghai-C)	2.2%	4.8%
India (BSE-Sensex)	4.4%	-9.9%
Hong Kong (Hang Seng)	1.7%	1.6%
Singapore (Strait Times)	1.2%	-4.0%
S. Korea (KOSPI-C)	2.1%	-2.3%
Indonesia (Jakarta-C)	2.9%	-4.3%
Thailand (SET)	1.4%	5.9%
Malaysia (Kuala Lumpur-C)	2.2%	0.2%

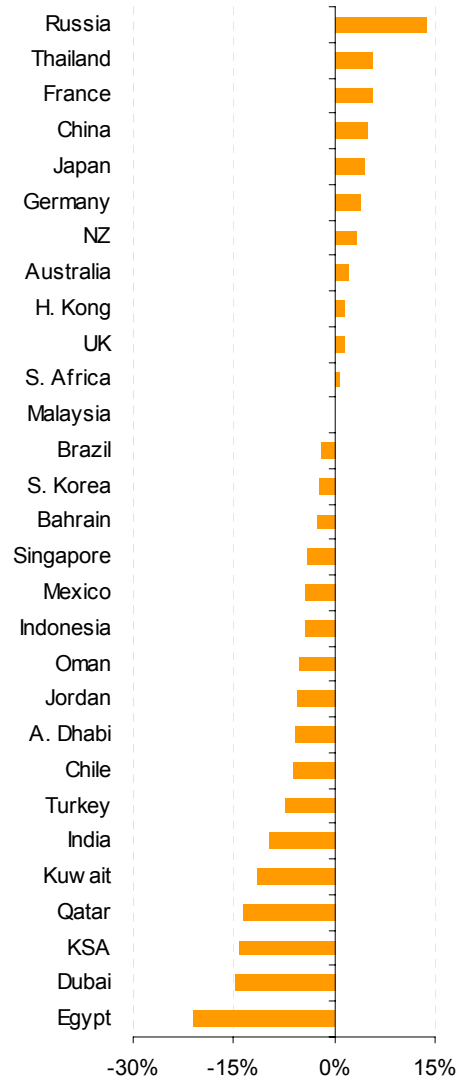
#### Eastern Europe/Central Asia

Russia (RTSI)	4.1%	13.7%
Turkey (ISE National 100)	-0.4%	-7.4%

#### Middle East/Africa

KSA (TASI)	-4.0%	-14.2%
Kuwait (KSEI)	-5.1%	-11.6%
Qatar (DSM20)	-8.6%	-13.7%
Abu Dhabi (ADI)	-2.7%	-5.9%
Dubai (DFMGI)	-5.3%	-14.8%
Oman (MSM30)	-0.8%	-5.2%
Bahrain (All Share I)	-2.8%	-2.6%
Jordan (ASE General I)	-1.6%	-5.7%
Egypt (CASE30)	0.0%	-20.9%
S. Africa (JSE All Share Index)	1.2%	0.7%

### Cumulative 10YTD







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