

# Market Review & Outlook

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

## SPECIAL FOCUS

### China-EU Ties Appear to Strengthen? (page 5)

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

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

Majed A. Al-Ghalib  
Economist | m.alghalib@alahli.com

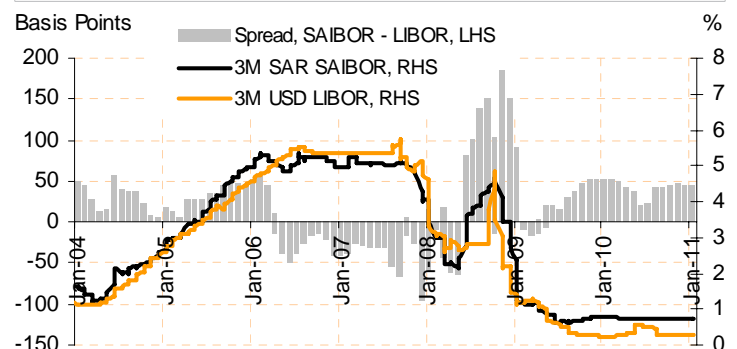
Reem Mokhtar  
Economist | r.mokhtar@alahli.com

Ali Al-Reshan  
Economist | a.alreshan@alahli.com

### Saudi Arabia Leading Economic Indicators

	2009	Latest	Period
Average WTI, Cushing 1M, USD/bbl	62.0	78.8	10YTD
Weighted Average Arabian Light, USD/bbl	61.0	76.3	10YTD
Average 3M USD LIBOR	0.69%	0.34%	10YTD
Average 3M SAR SAIBOR	0.92%	0.74%	10YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	22.1	39.6	10YTD
Y/Y Growth in Monetary Base (M0)	37.9%	-0.99%	Nov 10
Y/Y Growth in Money Supply (M3)	10.7%	3.72%	Nov 10

### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 7 January 2011  
\* 2008 Numbers

### View of the Week

“...however this is a maneuver that highlights the increasingly intertwined nature of trade between China and the EU, since the EU overtook the US as China’s biggest trading partner...”

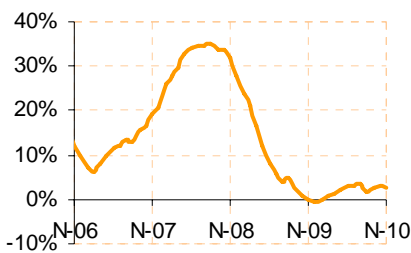
# Saudi Macro and Equity Market

## Monetary Overview

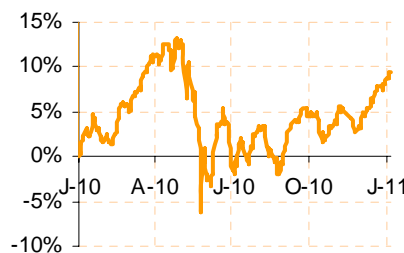
The monetary aggregates recorded moderate growth rates in 3Q2010, with the monetary base and the money supply registering annual growth rates of 3.3% and 5.1% compared to 7.3% and 3.4%, respectively in 2Q2010. The abating growth in the monetary base was driven by the decline in deposits with SAMA, with excess reserves falling by SAR9 bn. Saudi banks had apparently shifted part of their international investments to the domestic market, with net foreign assets declining by 2.0% Q/Q in 3Q2010. This decrease was mainly driven by: (1) the plunge in assets due from branches abroad by SAR10 bn; (2) the reduction in investment abroad by SAR5.0 bn; and (3) the shrinking liabilities due to branches abroad by SAR10.7 bn. In Addition, the decline in both excess reserves and net foreign assets was directed to the public and private sectors. Banks' claims on the public sector increased by SAR2.9 bn in 3Q2010 compared to 2Q2010. This increase was attributed to upsurges in credit to public sector enterprises and treasury bills by SAR2.7 bn and SAR2.4 bn, respectively. The continued increase in T-bills does reflect SAMA's proactive strategy of replacing matured government bonds, which amounted to SAR2.1 bn in 3Q2010, to avoid an influx of liquidity, mitigate the impact on banks' profitability and lower the debt service, especially that there is no need for high-cost long-term debt.

## Key Macroeconomic and Equity Market Indicators

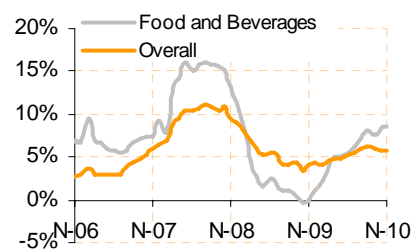
### Y/Y Growth in Credit (Private Sector)



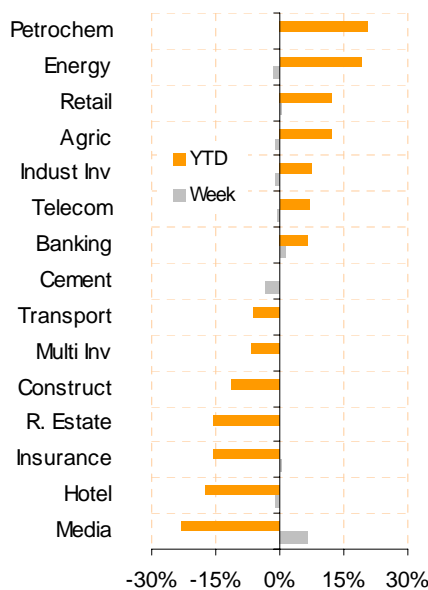
### Tadawul All Share Index: 31 Dec 09 = 0%



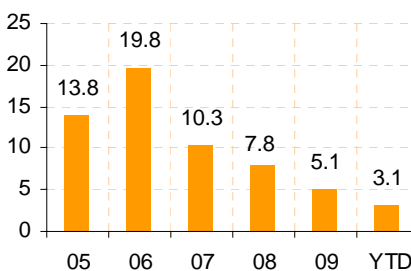
### Y/Y CPI Inflation Rate



### Price Performance of Sector Indices



### Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl <sup>1</sup>	YTD 76.3	2009 61.0
Oil Production, mmbd <sup>2</sup>	Dec 8.25	Nov 8.25
Real GDP	2010 3.8%	2009 0.16%
CPI Inflation, Y/Y	Nov 5.8%	Oct 5.8%
Broad Money (M3), Y/Y	Nov 3.7%	Oct 3.7%
Credit, Private Sector	Nov 2.7%	Oct 3.1%
Credit, Corporate	3Q10 0.27%	2Q10 0.76%
Credit, Households	3Q10 9.08%	2Q10 9.17%
Net Claims on Government <sup>3</sup>	Nov -824	Oct -840
Loan-to-deposit Ratio <sup>4</sup>	Nov 77.0%	Oct 78.8%
Excess Reserves/Total <sup>5</sup>	Nov 61.3%	Oct 55.1%
Net Foreign Assets, USDbn	Nov 463.5	Oct 458.4
Import LCs, SARbn <sup>6</sup>	11M 10 138.4	11M 09 110.8

**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.

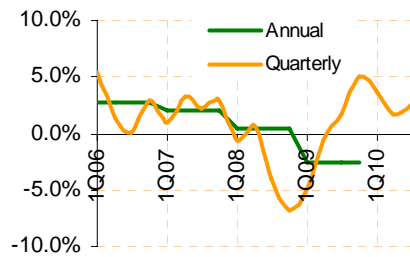
# US Macro and Equity Markets

## Off to a New Start

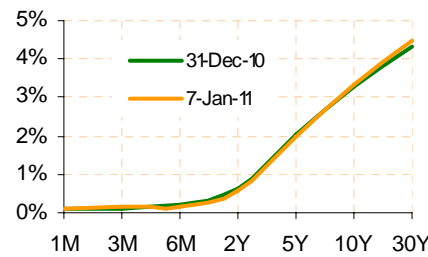
US Department of Labor (DOL) announced December's employment situation last Friday with unexpected results. The press release showed the unemployment rate falling to a surprising 9.4% last month from 9.8% in November. The rate dropped marginally by 0.4% after increasing for two consecutive months. Household data shows that employed people have increased by 297,000 while the unemployed figure shed off 556,000. Meanwhile, the total labor force decreased by 260,000 which explains the decline in the unemployment rate. Teenage unemployment rate had increased by 0.9% to 25.4% in December as the rate for the "experienced" dropped indicating businesses' focus towards the latter category. According to establishment data, this excludes self-employed, unpaid family workers, agricultural workers, and private household workers, payrolls increased by 103,000 against an increase of 71,000 in the previous month. The sudden drop in the unemployment rate seems unsustainable with the weak additions of jobs. The government is still committed to reduce the rate even further as a two-year extension on tax cuts worth USD858 bn is in the final processes. In addition, DOL announced a new method regarding how it records unemployment data figures because of what it calls an "unprecedented rise" in long-term unemployment. Data will show how long people have been jobless up to five years compared with the current two year limit. The amendment will affect data on the average duration of unemployment alone according to DOL.

## Key Macroeconomic and Capital Market Indicators

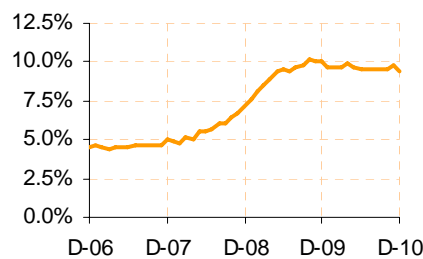
Real GDP Growth, Annualized



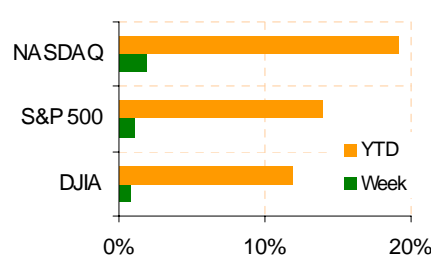
Benchmark Yields, Annualized



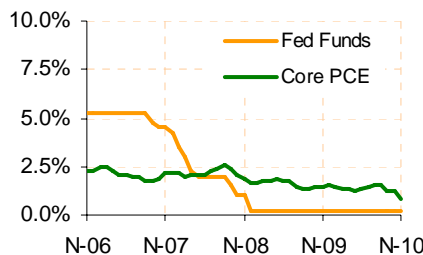
National Unemployment Rate



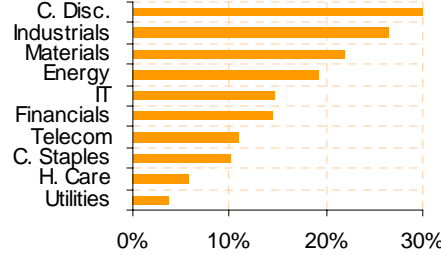
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
Real GDP	3Q10(F) 2.6%	4Q10(A) 28-Jan
Unemployment	Dec 9.4%	Jan 7-Feb
A. H. Earnings, M/M	Dec 0.1%	Jan 7-Feb
CPI Inflation, Y/Y	Nov 1.10%	Dec 15-Jan
Core PCE, Y/Y	Nov 0.80%	Dec 23-Jan
Existing Home Sales, M/M	Nov 5.6%	Dec 24-Jan
Housing Starts, M/M	Nov 3.9%	Dec 16-Jan
Trade Balance, \$bn	Oct -38.71	Nov 10-Jan
Retail Sales, M/M	Nov 0.80%	Dec 14-Jan
Industrial Production, M/M	Nov 0.4%	Dec 18-Jan
Capacity Utilization	Nov 75.2%	Dec 15-Jan
Fed Funds Rate	Oct 0.25%	Nov 26-Jan

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

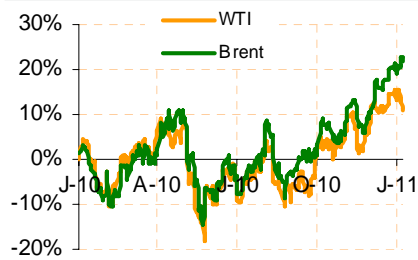
# Commodity Markets

## Corn and Soybean Futures Fall

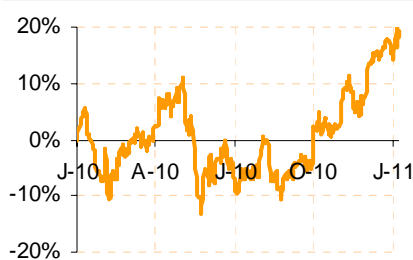
Corn and soybean fell after a rally in prices in the last week of 2010 due to higher demand and lower supply. Corn prices fell due to a widely scrutinized prediction by some, the most recent being the National Australia Bank, that almost half of Australia's forecasted wheat crop, affected by the recent weather conditions that caused severe flooding, is of downgraded quality and will be sold as animal feed or downgraded milling wheat for human consumption. This will decrease demand for corn in the US as livestock feed. Corn for March 2011 delivery declined to USD5.95 a bushel, down 7 cents on the CBOT, the lowest since Dec 17, 2010. Soybean for March delivery also fell 13 cents to USD13.65, on the USDA announcement indicating lower exports of soybean on a weekly basis, in addition to a forecasted decrease in January of soybean imports by China's Commerce Ministry. However, the UN Food and Agriculture Organization predicts in its report published Wednesday a continued rise in food prices. The FAO's food price index, which measures the price increase of a basket of foods, increased 205 points in December to 215. Worries of droughts in Argentina and Brazil and flooding in Australia might actually see prices for soybean and corn soar in the medium term.

## Key Commodity Prices and Indices

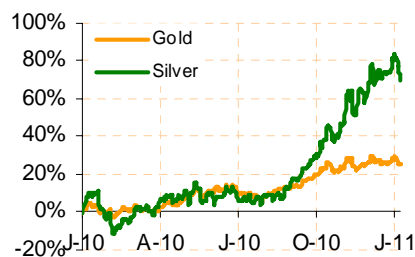
**Benchmark Crude Oil Prices**



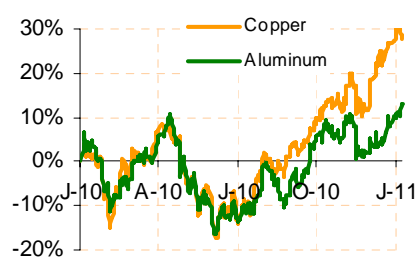
**Saudi Arabian Light, Asia Deliveries**



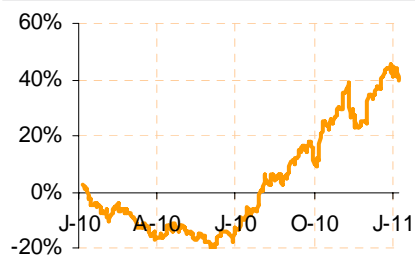
**Precious Metals**



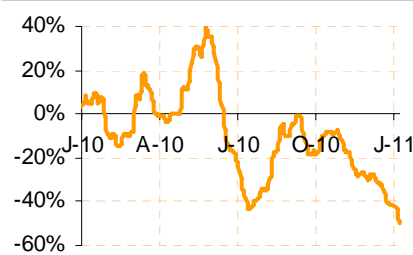
**Base Metals**



**Goldman Sachs Agriculture Index**



**Baltic Exchange Dry Index**



	Last	Week
WTI, Spot, \$/bbl	7-Jan 88.07	-3.6%
Brent, Spot, \$/bbl	7-Jan 95.16	1.0%
Gold, LME, \$/Oz	7-Jan 1,369.2	-3.5%
Silver, LME, \$/Oz	7-Jan 28.64	-7.2%
Platinum, \$/Oz	7-Jan 1,728.0	-2.2%
Palladium, \$/Oz	7-Jan 748.97	-6.3%
Aluminum, LME, \$/t	7-Jan 2,534	3.2%
Copper, LME, \$/t	7-Jan 9,470	-0.5%
Nickel, LME, \$/t	7-Jan 24,475	2.2%
Zinc, LME, \$/t	7-Jan 2,442	0.9%
Wheat, Sep, \$/Bushel	7-Jan 7.74	-2.5%
Corn, Sep, \$/Bushel	7-Jan 5.95	-5.4%
Soybeans, Sep, \$/Bushel	7-Jan 13.58	-2.6%

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

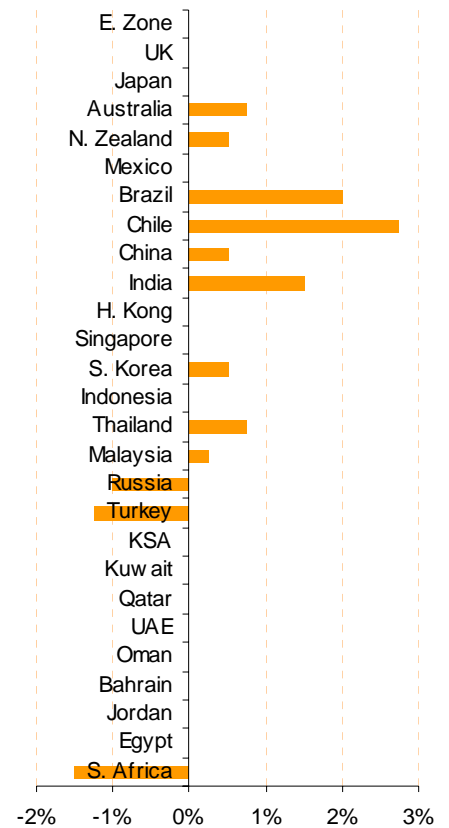
# Global Macro

## China-EU Ties Appear to Strengthen?

China's changing role in the world, as it moved away in the late 1970s from a Soviet-style centrally planned economy to a mixed market one, is readily apparent in its increasing clout in the economic sphere. As Li Keqiang, China's Vice-Premier, announces China's intention to continue buying Spanish and other debt-ridden peripheral countries' bonds, the announcement acted like a salve to the EU's debt markets. As of yet no commitment has been made in terms of amounts China is willing to commit to, however this is a maneuver that highlights the increasingly intertwined nature of trade between China and the EU, since the EU overtook the US as China's biggest trading partner early last year. As such, Europe is an important export market, and although China's trade and debt with these peripheral economies is small, Europe's overall economic vitality is integral to China's persistent primary growth driver: exports. Exports to the EU rose 26.6% during the 11-month period ending in November 2010, while imports rose 34.7%, and the country that could most affect China's exports to the EU is Germany, the largest trading partner in the EU. Monday saw a 34.7% Y/Y increase in trade volume, it also saw a decrease of 6% Y/Y to USD 183.1 bn in the trade surplus, as imports rise to USD 1.4 trn (38.7% Y/Y rise) and exports to 1.58 trn (31.3% Y/Y rise). Although the US (and EU) will watch for increase in imports (higher domestic demand) to levy China with more rhetoric regarding the Yuan exchange rate, its role in preserving the euro, if successful, might soften the pressure to do so.

## Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change
	2008	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 10YTD
<b>Europe/Japan/Oceania</b>										
Euro Zone	0.7%	1.7%	2Q10	1.9%	Nov-10	1.9%	1.00%	Hold	2-Dec-10	
UK	0.7%	1.7%	2Q10	3.3%	Nov-10	3.2%	0.50%	Hold	9-Dec-10	
Japan	-0.7%	0.4%	2Q10	-0.5%	Nov-10	-0.6%	0.10%	Hold	21-Dec-10	
Australia	2.4%	2.7%	3Q10	2.8%	Sep-10	2.9%	4.75%	Hold	7-Dec-10	
New Zealand	0.2%	0.7%	2Q10	1.5%	Sep-10	-	3.00%	Hold	8-Dec-10	
<b>Latin America/Caribbean</b>										
Mexico	1.3%	5.3%	3Q10	4.0%	Oct-10	-	4.50%	Hold	26-Nov-10	
Brazil	5.1%	6.7%	3Q10	5.9%	Dec-10	-	10.75%	Hold	8-Dec-10	
Chile	3.2%	7.0%	3Q10	1.6%	Sep-10	-	3.25%	0.25%	17-Dec-10	
<b>Asia/Southeast Asia</b>										
China	9.0%	9.6%	3Q10	5.5%	Nov-10	4.7%	5.81%	0.25%	25-Dec-10	
India	7.3%	8.9%	2Q10	8.6%	Sep-10	-	6.25%	0.25%	2-Nov-10	
Hong Kong	2.4%	6.5%	2Q10	2.9%	Nov-10	-	1.50%	-0.50%	30-Oct-08	
Singapore	1.1%	12.6%	4Q10	3.8%	Nov-10	3.8%	-	-	-	
South Korea	2.2%	4.4%	3Q10	3.5%	Dec-10	-	2.50%	Hold	8-Dec-10	
Indonesia	6.1%	5.8%	3Q10	7.0%	Dec-10	-	6.50%	Hold	3-Dec-10	
Thailand	2.6%	6.7%	3Q10	3.0%	Dec-10	3.0%	2.00%	0.25%	1-Dec-10	
Malaysia	4.6%	8.9%	2Q10	2.0%	Nov-10	2.1%	2.25%	Hold	4-Mar-10	
<b>Eastern Europe/Central Asia</b>										
Russia	5.6%	2.7%	3Q10	8.1%	Nov-10	-	7.75%	-0.25%	1-Jun-10	
Turkey	0.9%	5.5%	3Q10	6.4%	Dec-10	-	6.50%	-0.50%	16-Dec-10	
<b>Middle East/Africa</b>										
Saudi Arabia	4.2%	3.8%	2010	5.4%	Dec-10	-	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	2.1%	Oct-10	-	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	-	9.75%	Hold	4-Nov-10	
South Africa	3.1%	2.6%	3Q10	3.6%	Nov-10	3.5%	5.50%	-0.50%	18-Nov-10	



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

# FOREX Market

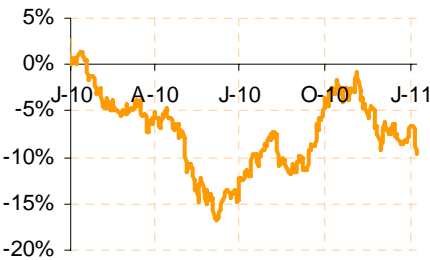
## Bullish Start for the USD

Last week was a very positive week for the USD as the optimistic economic data showed that the US economy is gathering momentum. The improvement in both manufacturing and non-manufacturing sectors was the main driver of the economy. The manufacturing index (PMI) grew 0.4 % to reach the 57 level, indicating an expansion in the manufacturing sector. In addition, the value of construction put in place increased 0.4% to reach USD810.2 bn. The NMI (Non-Manufacturing Index) increased 2.1% to 57.1 in Dec, indicating strong growth in non-manufacturing sector. Furthermore, Non-Manufacturing Business Activity Index gained 6.5% to reach 63.5 in Dec, reflecting growth for 13th consecutive month. Nevertheless, the USD ran out of steam towards the end of the week driven by the unemployment report as the gain in payroll employment was well below expectation in Dec. Non-farm payroll employment increased only by 103,000 compared to expectation of 150,000, indicating that the labor market is not out of the woods yet. However, the unemployment rate dropped 0.4% to 9.4% in Dec. The USD ended last week with gains against all its major counterparts. The greenback increased 3.4%, 2.2% and 0.3% against EUR, JPY, and GBP, respectively.

## Key Spot Foreign Exchange Rates

**\$ per €**

Last 1.2922    Week -3.4%    10YTD -9.8%



**Rate versus \$**

**Europe/Oceania**

Swiss Franc (CHF)	0.9677	-3.4%
Australian Dollar (AUD)	0.9966	-2.6%
New Zealand Dollar (NZD)	0.7611	-2.4%

**Latin America/Caribbean**

Mexican Peso (MXN)	12.2409	1.0%
Brazilian Real (BRL)	1.6837	-1.4%
Chilean Peso (CLP)	497.8000	-5.9%

**Asia/Southeast Asia**

Chinese Yuan (CNY)	6.6289	-0.6%
Indian Rupee (INR)	45.3700	-1.4%
Hong Kong Dollar (HKD)	7.7721	0.0%
Singaporean Dollar (SGD)	1.2953	-0.9%
South Korean Won (KRW)	1,122.70	-0.1%
Indonesian Rupee (IDR)	9,030.00	-0.2%
Thai Baht (THB)	30.3700	-0.8%
Malaysian Ringgit (MYR)	3.0710	0.5%

**Eastern Europe/Central Asia**

Russian Rouble (RUB)	30.7970	-0.7%
Turkish New Lira (TRY)	1.5743	-1.7%

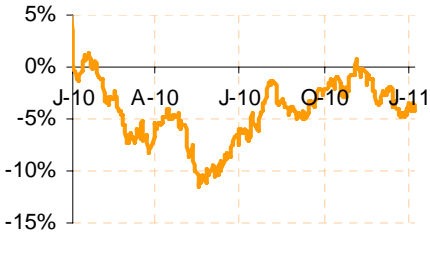
**Middle East/Africa**

Saudi Riyal (SAR)	3.7503	0.0%
Kuwaiti Dinar (KWD)	0.2828	-0.4%
Qatari Riyal (QAR)	3.6410	0.0%
UAE Dirham (AED)	3.6731	0.0%
Omani Riyal (OMR)	0.3856	-0.2%
Bahraini Dinar (BHD)	0.3770	0.0%
Jordanian Dinar (JOD)	0.7085	0.0%
Egyptian Pound (EGP)	5.8010	0.1%
South African Rand (ZAR)	6.8258	-2.7%

MYR	10.5%
AUD	10.0%
THB	9.5%
ZAR	9.0%
SGD	8.5%
CHF	8.0%
MXN	7.5%
NZD	7.0%
IDR	6.5%
KRW	6.0%
BRL	5.5%
CNY	5.0%
INR	4.5%
CLP	4.0%
KWD	3.5%
QAR	3.0%
SAR	2.5%
BHD	2.0%
AED	1.5%
JOD	1.0%
OMR	0.5%
HKD	0.0%
RUB	-0.5%
TRY	-1.0%
EGP	-1.5%

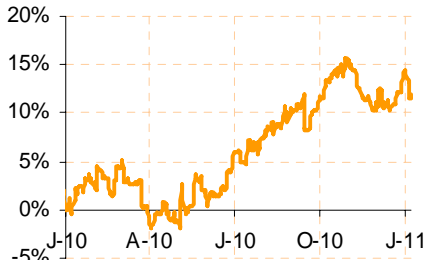
**\$ per £\***

Last 1.5561    Week -0.3%    10YTD -3.7%



**¥ per \$\***

Last 83.0600    Week -2.2%    10YTD 11.9%





# Global Equity Markets

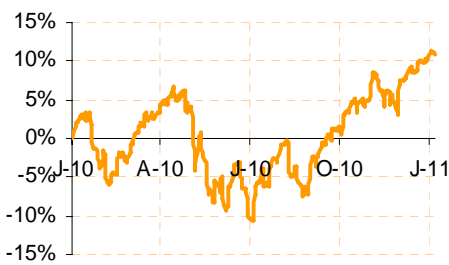
## Leaving Problems Behind, or Not?

The Chinese believe New Year is a chance to leave problems of the previous year behind. It is important to start the New Year fresh and the Shanghai Composite Index did indeed with a rise of 1.1% during the first week of trading in 2011. Last year, the index fell 14.3% in a somewhat correction phase after peaking in 2009 gaining almost a staggering 80%. In addition, the tightening position of the government weighed on equity markets namely financial stocks. Higher reserve requirements along with higher interest rates to curb historically high inflation rates hindered stock prices. The financial sector was the worst performer among the 10 sectors listed in the China Securities Index (CSI300) losing around 27% last year. Cheaper prices have made stocks more attractive as businesses are performing well and profitability is growing. This sparked a rally in the financial sector and the sector climbed 3.2% in the first week of 2011. The auto industry is also performing well as car sales in China have topped the charts and is expected to perform well in 2011, albeit at a more moderate rate. Meanwhile, Beijing's market will suffer as they capped sales at 240,000 units this year due to overwhelming traffic. China's aggressive economic expansion will act as a stimulus for Shanghai's index to climb this year. The economy has snatched the second largest economy from Japan last year proving its importance in the global recovery.

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

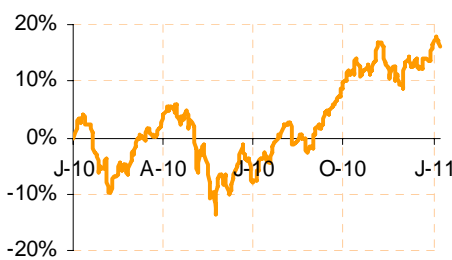
### MSCI G7

Last 1,102.7 Week 0.6% 10YTD 11.0%



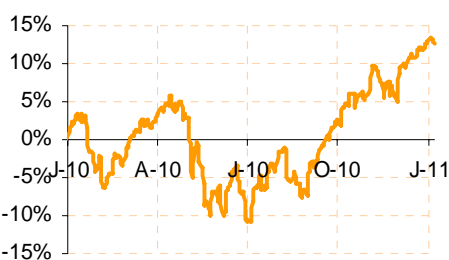
### MSCI EM

Last 1,147.1 Week -0.4% 10YTD 15.9%



### Dow Jones Islamic

Last 2,224.6 Week -0.1% 10YTD 12.6%



### Country/Index

#### Europe/Japan/Oceania

Country/Index	Week	YTD
UK (FTSE100)	1.4%	10.6%
Germany (DAX30)	0.5%	16.6%
France (CAC40)	1.6%	-1.8%
Japan (N225)	3.1%	-0.1%
Australia (All Ordinaries)	-0.7%	-1.4%
N. Zealand (NZSX50)	0.3%	2.7%

#### Latin America/Caribbean

Mexico (IPC)	0.1%	20.2%
Brazil (Bovespa)	1.1%	2.1%
Chile (IGPA)	1.0%	39.6%

#### Asia/Southeast Asia

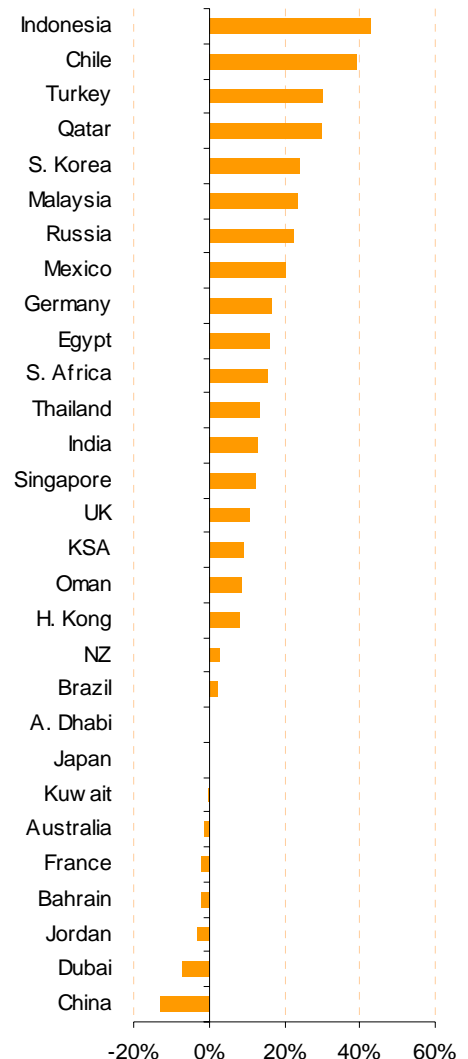
China (Shanghai-C)	1.1%	-13.4%
India (BSE-Sensex)	-4.0%	12.8%
Hong Kong (Hang Seng)	2.8%	8.3%
Singapore (Strait Times)	2.2%	12.6%
S. Korea (KOSPI-C)	1.7%	24.0%
Indonesia (Jakarta-C)	-1.9%	43.3%
Thailand (SET)	1.5%	13.1%
Malaysia (Kuala Lumpur-C)	3.5%	23.5%

#### Eastern Europe/Central Asia

Russia (RTSI)	0.0%	22.5%
Turkey (ISE National 100)	4.2%	30.2%

#### Middle East/Africa

KSA (TASI)	0.6%	9.4%
Kuwait (KSEI)	0.3%	-0.4%
Qatar (DSM20)	3.9%	29.6%
Abu Dhabi (ADI)	1.2%	0.3%
Dubai (DFMG)	2.3%	-7.5%
Oman (MSM30)	2.5%	8.8%
Bahrain (All Share I)	-0.2%	-1.9%
Jordan (ASE General I)	3.4%	-3.2%
Egypt (CASE30)	0.8%	16.0%
S. Africa (JSE All Share Index)	-0.6%	15.4%





## Economics Department

### The Economics Department Research Team

#### Head of Research

**Said A. Al Shaikh, Ph.D**

*Chief Economist*

s.alshaikh@alahli.com

#### Macroeconomic Analysis

**Tamer El Zayat, Ph.D**

*Senior Economist/Editor*

t.zayat@alahli.com

**Majed A. Al-Ghalib**

*Economist*

m.alghalib@alahli.com

**Ali Al-Reshan**

*Economist*

a.alreshan@alahli.com

**Reem Mokhtar**

*Economist*

r.mokhtar@alahli.com

#### Sector Analysis/Saudi Arabia

**Muhammad Y. Malick**

*Senior Economist*

y.malick@alahli.com

**Albara'a Alwazir**

*Senior Economist*

a.alwazir@alahli.com

**Paulina Chahine**

*Economist*

p.chahine@alahli.com

**Lama Kiyasseh**

*Economist*

l.kiyasseh@alahli.com

#### Management Information System

**Sharihan Al-Manzalawi**

*Financial Planning & Performance*

s.almanzalawi@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

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