

Market Review & Outlook

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

SPECIAL FOCUS

Growth Divergence Set to Continue (page 5)

HEADLINES

- 2 **Saudi Macro and Equity Market**
TASI Overview
- 3 **US Macro and Equity Market**
Sound Indicators Towards Growth
- 4 **Commodity Markets**
Gold Falls, Remains Bullish
- 5 **Global Macro**
Growth Divergence Set to Continue
- 6 **FOREX Market**
Good News vs. Bad News
- 7 **Global Equity Markets**
Tough Times Ahead

Said A. Al Shaikh
Group 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

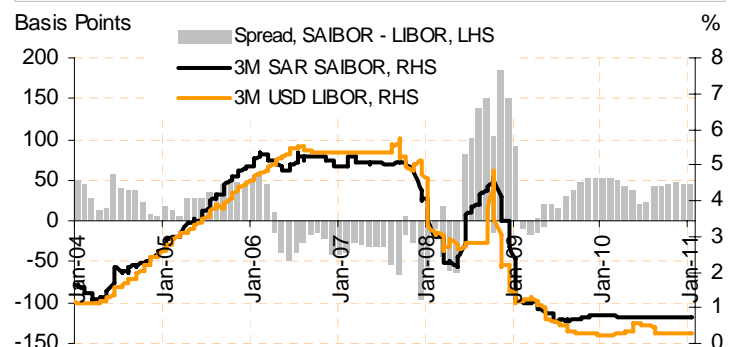
Muhammad Y. Malick
Senior Economist | y.malick@alahli.com

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

Saudi Arabia Leading Economic Indicators

	2010	Latest	Period
Average WTI, Cushing 1M, USD/bbl	79.5	90.3	11YTD
Weighted Average Arabian Light, USD/bbl	78.0	93.2	11YTD
Average 3M USD LIBOR	0.34%	0.30%	11YTD
Average 3M SAR SAIBOR	0.74%	0.75%	11YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	39.4	44.7	11YTD
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: 14 January 2011
* 2009 Numbers

View of the Week

“ According to the report, many developing economies are either close to recovery or have mostly recovered... ”

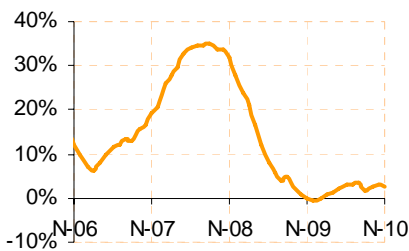
Saudi Macro and Equity Market

TASI Overview

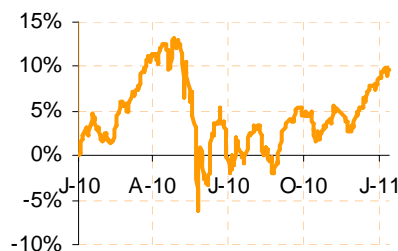
The Saudi stock market rose 2.53% in the first-three weeks of 2011, with Tadawul All Shares Index closing at 6,788.42 points gaining 167.7 points during the period. Early indications from the upcoming 2010 corporate results suggest that Saudi listed firms were on track for positive earnings growth despite global economic slowdown and subdued investors confidence in the home equity market. The market rose on higher volume and higher dividend payouts expectation this year. The market fundamentals are supportive with earnings multiple of 15.5 PE, price-to-book-value of 2.1 times and an earnings per share of SR1.85. With 12-months total trailing net-profit of SR73.2 billion in 2010, the net earnings yield was 6.45% in 2010, more than three times higher than the prevailing profit rates offered by domestic banks on time/savings deposits. The financial sector has been in the spotlight this year, gaining 1.85% at yesterday's closing. The better-than-expected earnings are pushing banks' stocks higher, yet only four banks announced their earnings last week. The Saudi equity market offers relatively attractive returns on investment in the medium to long-term. We expect 2011 to be a promising year for the Saudi index as the global situation improves and individual investors downplay international concerns that impacted their investment decisions last year.

Key Macroeconomic and Equity Market Indicators

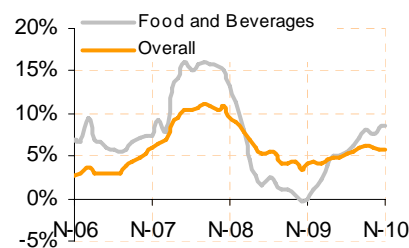
Y/Y Growth in Credit (Private Sector)



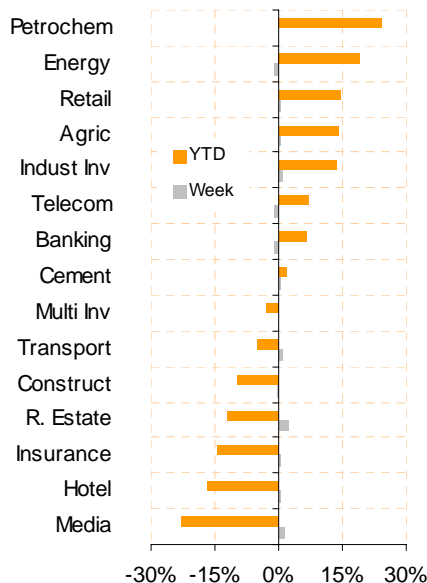
Tadawul All Share Index: 31 Dec 09 = 0%



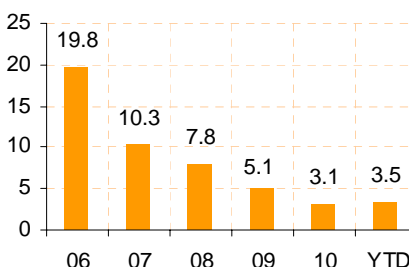
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl ¹	YTD 93.2	2009 61.0
Oil Production, mmbd ²	Dec 8.25	Nov 8.25
Real GDP	2010 3.8%	2009 0.16%
CPI Inflation, Y/Y	Dec 5.4%	Nov 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 ³	Nov -824	Oct -840
Loan-to-deposit Ratio ⁴	Nov 77.0%	Oct 78.8%
Excess Reserves/Total ⁵	Nov 61.3%	Oct 55.1%
Net Foreign Assets, USDbn	Nov 463.5	Oct 458.4
Import LCs, SARbn ⁶	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.

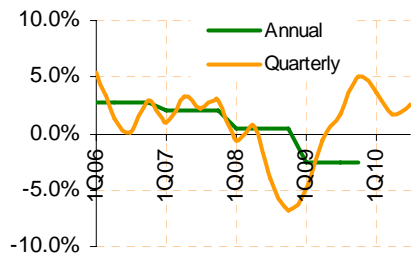
US Macro and Equity Markets

Sound Indicators Towards Growth

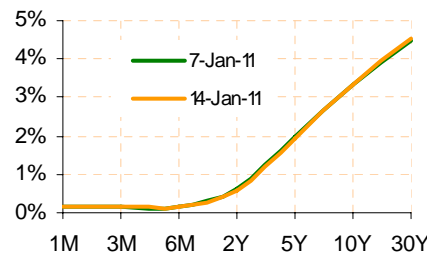
As 4Q10 GDP figures are couple of weeks away, economic indicators reassure the positive expectations. The US economy is set towards the right direction going into 2011. A series of encouraging figures have been released recently. Retail sales have grown by 0.6% last month bringing the annual increase to 6.7%, the largest growth since 1999. The aforementioned resulted in a boost to consumer spending, which is the backbone of the economy, and it is expected to reflect in the next announcement of GDP figures. In addition, international trade deficit had been contracted for the fourth consecutive month. Imports have increased by USD1.1 bn while exports also increased by USD1.2 bn resulting in a trade deficit of USD38.3 bn, keeping the deficit lower than 2010's average (Jan-Nov) of USD41.96 bn. Also, the nation's inflation has started to pick as it reached 1.5% in December Y/Y, an increase of 0.4% over the previous month. The current rate is much closer to the Fed's preferred range of 1.7% - 2%. Despite the positive sentiment, increasing gasoline prices and with unemployment rate of over 9%, GDP's growth figures might be contained. Overall, the US economy seems to have started to get its act together and is expected to continue its current pace if not stronger.

Key Macroeconomic and Capital Market Indicators

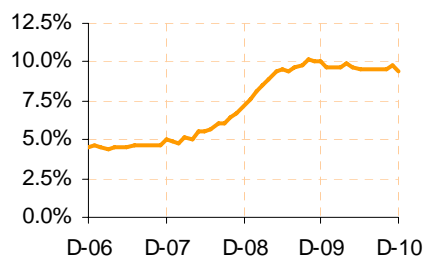
Real GDP Growth, Annualized



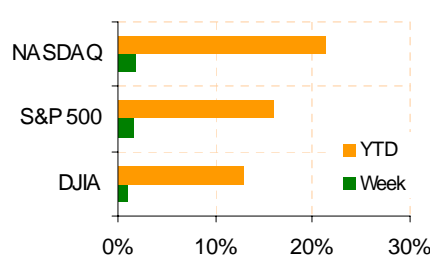
Benchmark Yields, Annualized



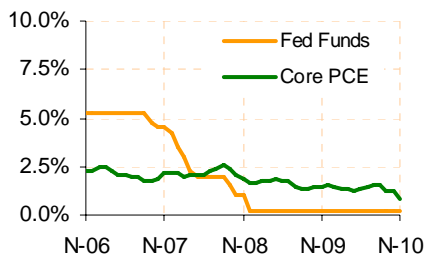
National Unemployment Rate



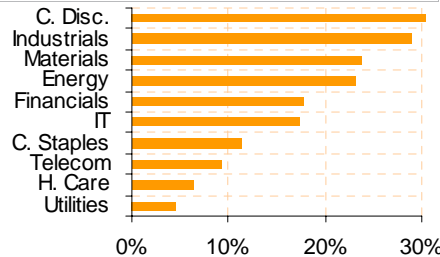
Benchmark Equity Indices



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	Dec 1.50%	Jan 15-Feb
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 19-Jan
Trade Balance, \$bn	Nov -38.31	Dec 10-Feb
Retail Sales, M/M	Dec 0.60%	Jan 14-Feb
Industrial Production, M/M	Dec 0.8%	Jan 18-Feb
Capacity Utilization	Dec 76.0%	Jan 15-Feb
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.

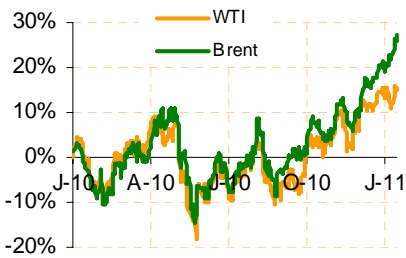
Commodity Markets

Gold Falls, Remains Bullish

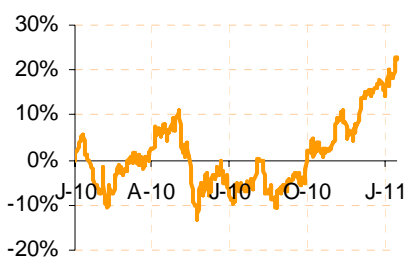
Gold closed USD 8.25 lower last week to settle at USD 1362.35 per ounce. The drop in gold came on news of China hiking its banking reserve requirements ratio as yet another measure to curb inflation. In addition to that news of US retail sales rising for the sixth consecutive month to a lower-than-expected 0.6% in December exerted downward pressure on gold prices. Investors perceive precious metals such as gold as safe-haven bets during times of inflation, but as seemingly successful bond sales in Spain, Italy and Portugal this week calm market concerns over the European debt crisis, cuts to Greece's bond ratings show that Europe is not out of the water just yet. Despite the fall of the dollar against the euro (because of the bond sales), gold slid on perceptions of increasing stability in riskier markets, as displayed by a rise in US stocks the past week on economic data. However, the bond sales, coupled with the rate hikes in China, and the perceived weakening value of the dollar as the US continues with quantitative easing measures, indicate that investors are experiencing mixed perceptions on the global economy, from fear to optimism. We remain bullish on gold in the medium-term, on the back of steady physical demand especially in China and India, but during the short-term it may continue to fluctuate in the same fashion.

Key Commodity Prices and Indices

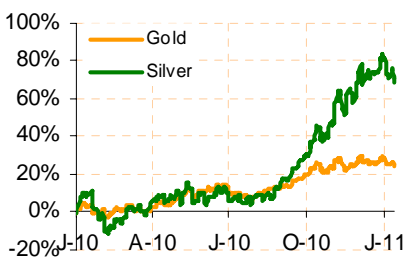
Benchmark Crude Oil Prices



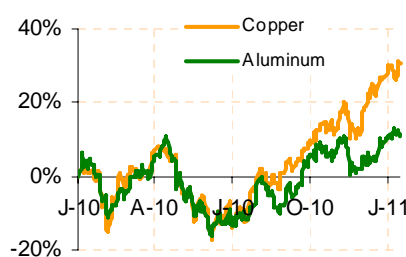
Saudi Arabian Light, Asia Deliveries



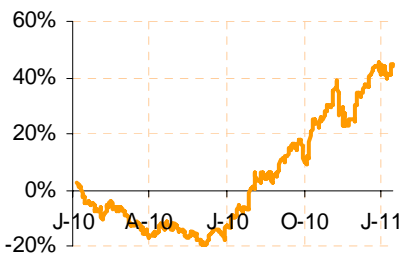
Precious Metals



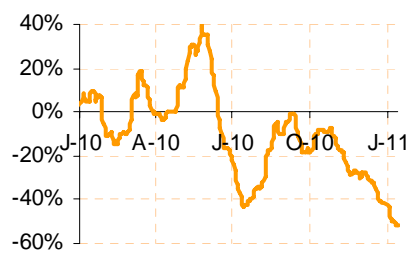
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Week
WTI, Spot, \$/bbl	14-Jan 91.53	3.9%
Brent, Spot, \$/bbl	14-Jan 99.75	4.8%
Gold, LME, \$/Oz	14-Jan 1,361.4	-0.5%
Silver, LME, \$/Oz	14-Jan 28.44	-0.9%
Platinum, \$/Oz	14-Jan 1,810.5	4.8%
Palladium, \$/Oz	14-Jan 793.50	6.0%
Aluminum, LME, \$/t	14-Jan 2,462	-2.8%
Copper, LME, \$/t	14-Jan 9,625	1.6%
Nickel, LME, \$/t	14-Jan 25,875	5.7%
Zinc, LME, \$/t	14-Jan 2,450	0.3%
Wheat, Sep, \$/Bushel	14-Jan 7.73	-0.1%
Corn, Sep, \$/Bushel	14-Jan 6.49	9.0%
Soybeans, Sep, \$/Bushel	14-Jan 14.07	3.6%

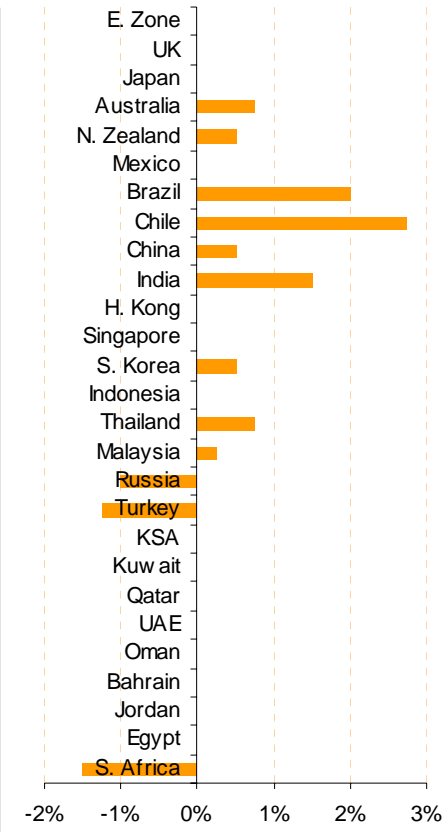
Notes: All variables depicted in the charts above are rebased to 0% in the last trading day in 2009.

Global Macro

Growth Divergence Set to Continue

The World Bank released their semi-annual Global Economic Prospects, highlighting the state of the global economy and outlook until 2012 and estimating real GDP growth of 3.9% for 2010, 3.3% for 2011, and 3.9% in 2012. According to the report, many developing economies are either close to recovery or have mostly recovered, contrary to the situation in several high-income (HI) countries which experienced the brunt of the financial crisis. In 2010, rising domestic demand in developing countries was a large factor, accounting for 46% of 2010 global growth. It projects growth in low and middle income countries will continue to surpass that of HI countries in 2011 and 2012. HI economies' growth will continue to be dragged by high consumer debt, banking and construction (bust) sectors' continued restructuring and right-sizing, and crucial fiscal consolidation. It acknowledged the role of many developing countries in becoming a growing basis of stability. Short-term risks include the escalation of market concerns over the European debt crisis, the sustained gap in interest rates between HI and developing countries causing destabilizing capital flows, and rising food prices. Longer-term risks include failure to address structural issues that prompted the onset of the crisis, such as eroding competitiveness contributing to long-term unemployment, fiscal irresponsibility, a deregulated financial sector, and the volatility of major reserve currencies. As an example of the persistence of the eurozone crisis, on Friday Fitch downgraded Greek bonds to junk status, which casts glaring doubt on the strength of the euro in the market.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change
	2008	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 10YTD
Europe/Japan/Oceania										
Euro Zone	0.7%	1.7%	2Q10	2.2%	Dec-10	2.2%	1.00%	Hold	13-Jan-11	
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	
Latin America/Caribbean										
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%	Hold	14-Jan-11	
Asia/Southeast Asia										
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	8.4%	Dec-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	-	2.75%	0.25%	13-Jan-11	
Indonesia	6.1%	5.8%	3Q10	7.0%	Dec-10	-	6.50%	Hold	5-Jan-11	
Thailand	2.6%	6.7%	3Q10	3.0%	Dec-10	3.0%	2.25%	0.25%	12-Jan-11	
Malaysia	4.6%	8.9%	2Q10	2.0%	Nov-10	2.1%	2.25%	Hold	4-Mar-10	
Eastern Europe/Central Asia										
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	
Middle East/Africa										
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

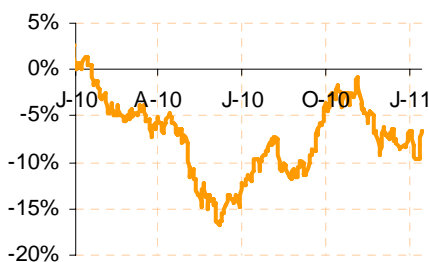
Good News vs. Bad News

The Aussie ended last week with a loss against the USD on the back of China's decision to increase the reserve requirement ratio for domestic banks by 50 bps, the fourth rise since Nov 2010, to curb inflationary pressures. This decision will reduce liquidity and economic activities in China, thus dipping demand for AUD especially that Australia relies heavily on commodity exports to China. The AUD lost 0.7% against the USD last week. The USD was not in a good shape neither. Weighing on the USD was news of slow growth in retail sales and weaker than expected consumer sentiment coupled with poor employment report. The greenback recorded losses of 3.5% and 2.0% against EUR and GBP, respectively. On the contrary, good news from the European side drove the EUR up. The common currency jumped to make the biggest weekly gain against the USD since May 2009 driven by successful bond auctions. Auctions from Portugal, Spain and Italy assuaged the concern about the region debt crisis as China, Japan and other Asian countries stepped in to buy these bonds. Furthermore, the ECB announced that it is monitoring price levels closely as inflation has become a concern. The ECB might increase interest rate if needed to keep inflation in check. Therefore, we expect the EUR to increase further on the speculation of interest rate hike.

Key Spot Foreign Exchange Rates

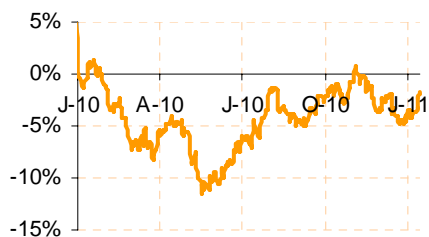
\$ per €

Last 1.3378 Week 3.5% 10YTD -6.6%



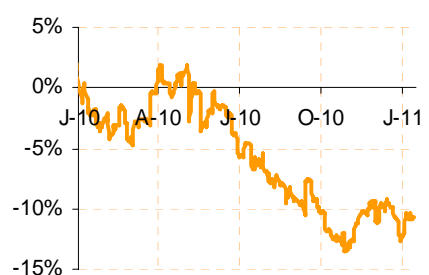
\$ per £*

Last 1.5865 Week 2.0% 10YTD -18%



¥ per \$*

Last 82.9600 Week -0.1% 10YTD -10.7%



Rate versus \$

Europe/Oceania

	Last	Week
Swiss Franc (CHF)	0.9648	0.3%
Australian Dollar (AUD)	0.9897	-0.7%
New Zealand Dollar (NZD)	0.7667	0.7%

Latin America/Caribbean

	Last	Week
Mexican Peso (MXN)	12.0425	1.6%
Brazilian Real (BRL)	1.6861	-0.1%
Chilean Peso (CLP)	489.5000	1.7%

Asia/Southeast Asia

	Last	Week
Chinese Yuan (CNY)	6.5901	0.6%
Indian Rupee (INR)	45.3800	0.0%
Hong Kong Dollar (HKD)	7.7742	0.0%
Singaporean Dollar (SGD)	1.2881	0.6%
South Korean Won (KRW)	1,115.55	0.6%
Indonesian Rupee (IDR)	9,057.00	-0.3%
Thai Baht (THB)	30.5300	-0.5%
Malaysian Ringgit (MYR)	3.0600	0.4%

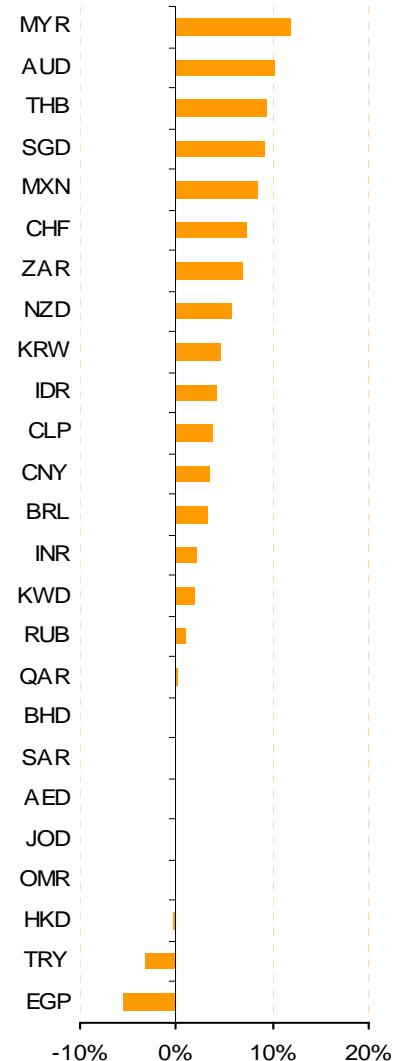
Eastern Europe/Central Asia

	Last	Week
Russian Rouble (RUB)	30.0151	2.6%
Turkish New Lira (TRY)	1.5541	1.3%

Middle East/Africa

	Last	Week
Saudi Riyal (SAR)	3.7508	0.0%
Kuwaiti Dinar (KWD)	0.2816	0.4%
Qatari Riyal (QAR)	3.6416	0.0%
UAE Dirham (AED)	3.6731	0.0%
Omani Riyal (OMR)	0.3851	0.1%
Bahraini Dinar (BHD)	0.3770	0.0%
Jordanian Dinar (JOD)	0.7085	0.0%
Egyptian Pound (EGP)	5.8001	0.0%
South African Rand (ZAR)	6.9530	-1.8%

Cumulative 10YTD



Global Equity Markets

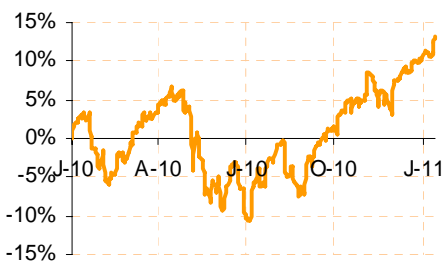
Tough Times Ahead

The United Kingdom has managed to pull through 2010 with a marginal gain, as its economy is still suppressed by the aftermath of the global financial crisis. Tight monetary policy coupled with rising inflation and increasing commodity prices hindered the nation's growth potential. Bank of England is expected to keep its record low interest rates for a while as they try to guide the nation towards the end of the tunnel. Also, the Monetary Policy Committee seems to shy away from any further quantitative easing which proved helpful across the Atlantic. UK's CPI is well above the targeted 2%, reaching 3.3% in November which is also the YTD average. Additionally, unemployment is an ongoing predicament as the rate hovers around 8% for most of 2010. The future of the economy is still gloomy as global turmoil has increased commodity prices and widened the country's trade deficit to GBP4.1 bn in November. Despite the pressured environment, the UK is continuing to recover from the global recession that affected its equity markets. The crisis pressured the country's main index, FTSE100, down to 3512.09 in March 2009. Since then, the index has climbed gradually to recover the losses. Last week, the index rose above the 6000 mark for the first time since June 2008, a good start for 2011. We expect UK's equity markets to perform stronger this year on the back of reduced concerns regarding government's fiscal situation.

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

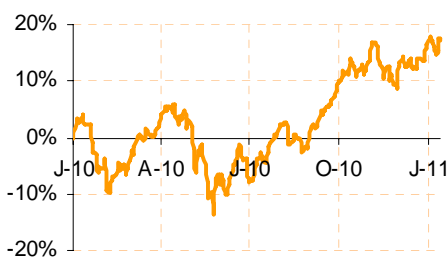
MSCI G7

Last 1,125.2 Week 2.0% 10YTD 13.2%



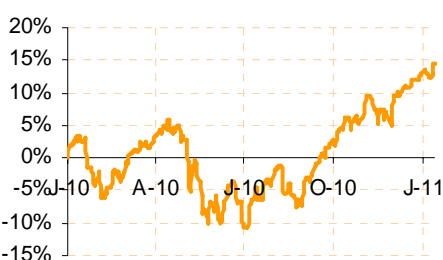
MSCI EM

Last 1,160.0 Week 1.1% 10YTD 17.2%



Dow Jones Islamic

Last 2,262.7 Week 1.7% 10YTD 14.6%



Country/Index

Europe/Japan/Oceania

Country/Index	Week	YTD
UK (FTSE100)	0.3%	10.9%
Germany (DAX30)	1.8%	18.8%
France (CAC40)	3.0%	1.2%
Japan (N225)	-0.4%	-0.4%
Australia (All Ordinaries)	2.0%	0.5%
N. Zealand (NZSX50)	1.6%	4.3%

Latin America/Caribbean

Country/Index	Week	YTD
Mexico (IPC)	-1.6%	18.3%
Brazil (Bovespa)	1.3%	3.4%
Chile (IGPA)	-0.1%	39.4%

Asia/Southeast Asia

Country/Index	Week	YTD
China (Shanghai-C)	-1.7%	-14.8%
India (BSE-Sensex)	-4.2%	8.0%
Hong Kong (Hang Seng)	2.5%	11.0%
Singapore (Strait Times)	-0.5%	12.0%
S. Korea (KOSPI-C)	1.1%	25.3%
Indonesia (Jakarta-C)	-1.7%	40.8%
Thailand (SET)	0.5%	13.7%
Malaysia (Kuala Lumpur-C)	-0.1%	23.3%

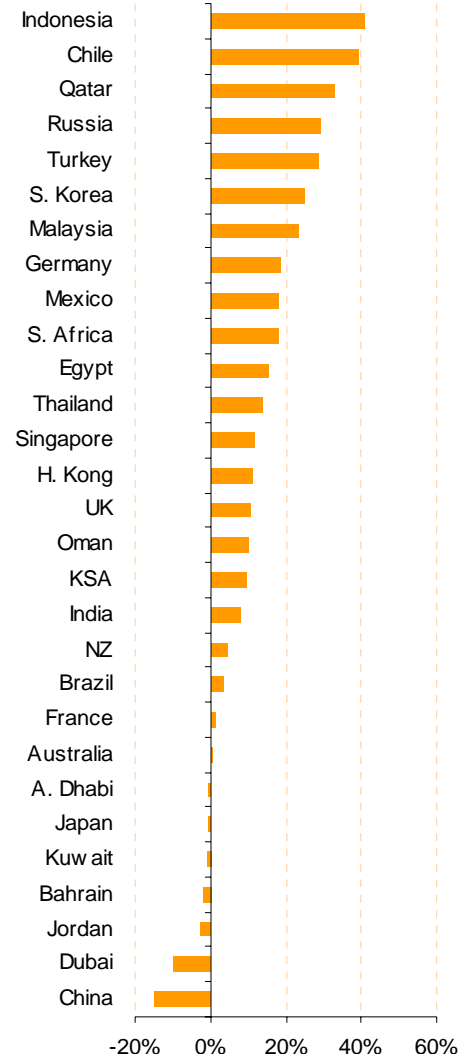
Eastern Europe/Central Asia

Country/Index	Week	YTD
Russia (RTSI)	5.6%	29.5%
Turkey (ISE National 100)	-1.3%	28.5%

Middle East/Africa

Country/Index	Week	YTD
KSA (TASI)	-0.2%	9.7%
Kuwait (KSEI)	-0.6%	-1.0%
Qatar (DSM20)	2.4%	32.7%
Abu Dhabi (ADI)	-0.5%	-0.2%
Dubai (DFMG)	-2.6%	-9.9%
Oman (MSM30)	1.5%	10.3%
Bahrain (All Share I)	0.1%	-1.8%
Jordan (ASE General I)	0.7%	-2.5%
Egypt (CASE30)	-0.6%	15.3%
S. Africa (JSE All Share Index)	2.3%	18.1%

Cumulative 10YTD





Economics Department

The Economics Department Research Team

Head of Research

Said A. Al Shaikh, Ph.D

Group Chief Economist
s.alshaikh@alahli.com

Macroeconomic Analysis

Jarmo Kotilaine, Ph.D

Chief Economist
560055@alahli.com

Tamer El Zayat, Ph.D

Senior Economist/Editor
t.zayat@alahli.com

Ali Al-Reshan

Economist
a.alreshan@alahli.com

Majed A. Al-Ghalib

Economist
m.alghalib@alahli.com

Reem Mokhtar

Economist
r.mokhtar@alahli.com

Sector Analysis/Saudi Arabia

Muhammad Y. Malick

Senior Economist
y.malick@alahli.com

Paulina Chahine

Economist
p.chahine@alahli.com

Albara'a Alwazir

Senior Economist
a.alwazir@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

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