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Market Review & Outlook

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

SPECIAL FOCUS

UK: Inflation on the Rise (page 5)

HEADLINES

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**

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

Reem Mokhtar
Economist | **r.mokhtar@alahli.com**

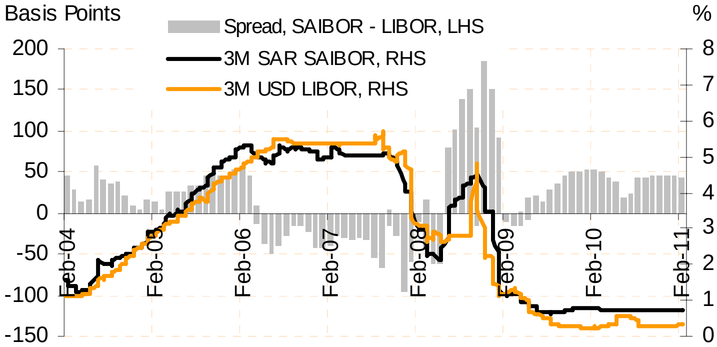
Paulina Chahine
Economist | **p.chahine@alahli.com**

Jarmo Kotilaine
Chief Economist | **j.kotilaine@alahli.com**

Saudi Arabia Leading Economic Indicators

	2010	Latest	Period
Average WTI, Cushing 1M, USD/bbl	79.5	87.9	11YTD
Weighted Average Arabian Light, USD/bbl	78.0	95.6	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%	2.54%	Dec 10
Y/Y Growth in Money Supply (M3)	5.00%	5.00%	Dec 10

Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 18 February 2011

View of the Week

"BoE's assessment and decision making is at a very critical stage, correct actions are a must to continue the recovery"

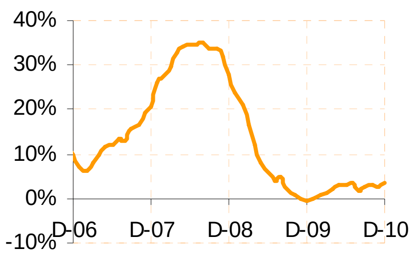
Saudi Macro and Equity Market

Bank Lending: Improving, But...

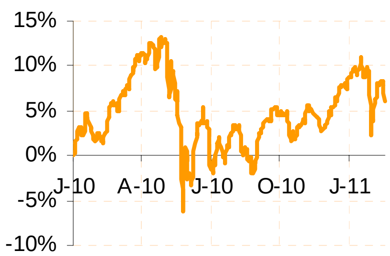
Saudi bank lending started to bounce back as 2010 came to a close. 2009 witnessed a decline of 1.1% in bank lending activities, whereas 2010 exhibited a 5.2% increase. This can be attributable to a more solid economic performance during 2010, with real GDP estimated at 3.8% Y/Y, against 0.16% in the previous year which helped restore the confidence to the banking system to start expanding credit again and utilize untapped resources as shown by declining excess reserves and net foreign assets. Excess reserves fell by 9.77% Y/Y by year-end 2010 to SAR89.27 bn, and net foreign assets decreased 11.5% to SAR98.42 bn. However, given this decline, the extent of the impact did not directly translate to credit lending, and instead is being diverted elsewhere. T-Bills reached SAR120 bn, up from SAR78 bn by year-end 2009, a whopping increase of almost 53%. In addition, despite the fact that excess reserves fell this year, they are still at relatively elevated compared to pre-crisis levels. Furthermore, the jump in T-bills indicates that banks have the ability to redirect their lending to extending or providing credit for existing and new clients, but are still reluctant to reach the same level of credit growth. As government expenditure on infrastructure projects increases, demand for credit will be driven upwards. The government announced SAR580 bn in spending for 2011 (of which capital expenditure is expected to be around 44%), although NCB estimates that expenditure will reach SAR 677 bn in 2011. Demand for bank credit is expected to increase in 2011, with an estimated USD 676 bn (over SAR2.5 trn) worth of projects being on hold or in the planning phase as of Feb 2011, an 8.8% increase.

Key Macroeconomic and Equity Market Indicators

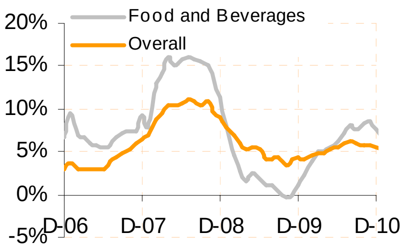
Y/Y Growth in Credit (Private Sector)



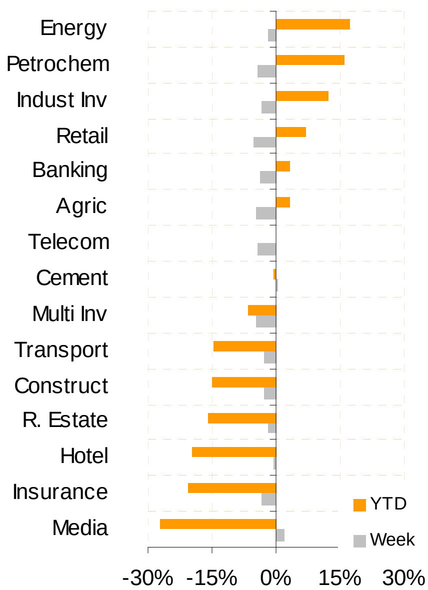
Tadawul All Share Index: 31 Dec 09 = 0%



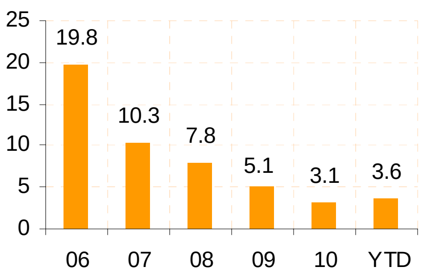
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
	YTD	2010
Oil Price, $bbl[1]	95.6	78.0
	Jan	Dec
Oil Production, mmbd[2]	8.33	8.25
	2010	2009
Real GDP	3.8%	0.16%
	Jan	Dec
CPI Inflation, Y/Y	5.3%	5.4%
	Dec	Nov
Broad Money (M3), Y/Y	5.0%	3.7%
	Dec	Nov
Credit, Private Sector	4.8%	2.6%
	3Q10	2Q10
Credit, Corporate	0.27%	0.76%
	3Q10	2Q10
Credit, Households	9.08%	9.17%
	Dec	Nov
Net Claims on Government[3]	-810.51	-824
	Dec	Nov
Loan-to-deposit Ratio[4]	75.5%	77.0%
	Dec	Nov
Excess Reserves/Total[5]	62.1%	61.3%
	Dec	Nov
Net Foreign Assets, USDbn	467.27	463.5
	12M 10	12M 09
Import LCs, SARbn[6]	153.3	119.7

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.

Reem Mokhtar, Economist, r.mokhtar@alahli.com

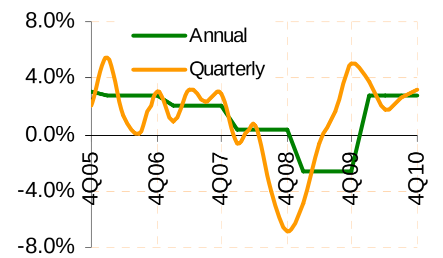
US Macro and Equity Markets

Optimism Leads the Way

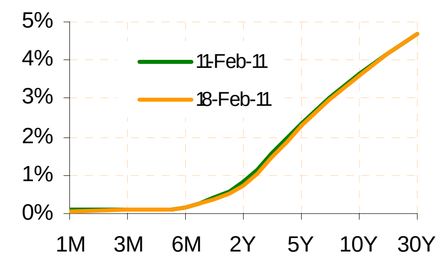
The Federal Reserve upwardly revised their projections for the US's economic growth this year. The recent developments in the economy urged the Fed to raise their 2011 growth estimate to 3.4%-3.9% against its previous range of 3.0%-3.6%. In addition, they also revised down their projection for unemployment to 8.8%-9% and reassured their commitment to stimulate the market. However, this did not take into account January's employment report which showed the jobless rate falling to 9%. Asset purchasing will continue and we don't see the Fed backing off anytime soon. While the added value of the program remains debatable, it has certainly boosted equity markets. The housing market represents another worry for the Fed. The depressed housing market will need a couple of years to recover and retain pre-crisis levels. Recent data showed that housing starts reached 596,000 units, an increase of 14.6%, with permits going down to 562,000 units, a decrease of 10.4%, indicating a slowdown in the short-term outlook. Furthermore, retail sales decelerated to 0.3% in January as the holiday seasons passed and winter storms held back consumers. The major component which boosted growth in the third and fourth quarter of 2010 was personal expenditure. It is crucial for the recovery to stay on track that consumers continue fueling the economy by spending.

Key Macroeconomic and Capital Market Indicators

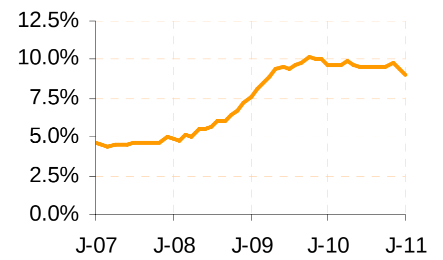
Real GDP Growth, Annualized



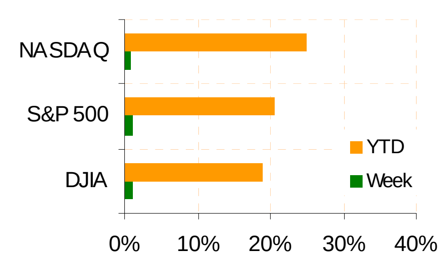
Benchmark Yields, Annualized



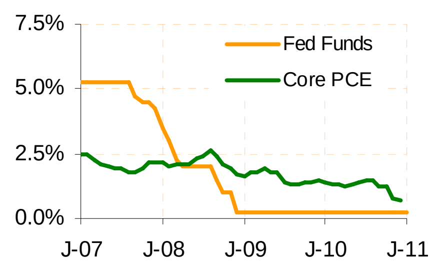
National Unemployment Rate



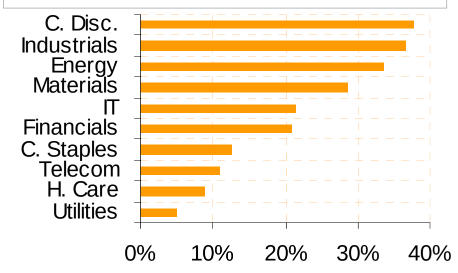
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
Real GDP	4Q10(A) 3.2%	4Q10(P) 25-Feb
Unemployment	Jan 9.0%	Feb 4-Mar
A. H. Earnings, M/M	Jan 0.4%	Feb 4-Mar
CPI Inflation, Y/Y	Jan 1.60%	Feb 17-Mar
Core PCE, Y/Y	Dec 0.70%	Jan 28-Feb
Existing Home Sales, M/M	Dec 5.6%	Jan 23-Feb
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.

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

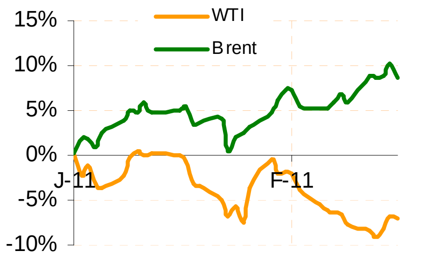
Commodity Markets

US Corn Surges on Export Demand

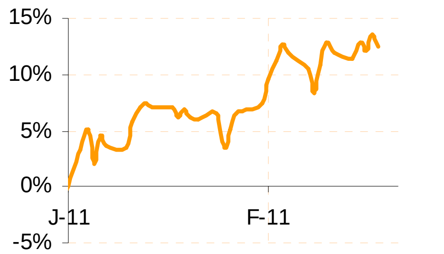
U.S. corn futures closed higher this week as the U.S. Department of Agriculture (USDA) reported solid export sales amid low domestic supplies. Corn for March delivery on the Chicago Board of Trade rose by 4.1% to reach a 31-month high of USD7.07 per bushel. Export sales were quoted at 1.03 mn metric tons for the week ending Feb 10, marking a 15% increase above the four-week average of current crop-year corn. Mexico accounted for the bulk of sales after a freeze earlier this month wiped out an estimated 17.5% of the country's crop. High prices are yet to choke off demand as the grain's continued tight supplies encourage end-users to start buying. US corn supplies are projected to fall to a 15-year low, prompting some buyers to secure stock now. The market was also supported over the week by reports that China was considering lowering its import tax. While it is still unclear when China will eventually turn to the US for supplies, a reduction would be supportive across agricultural commodities. Over the long-term, prices must remain strong in order to persuade farmers to increase acreage and replenish dwindling supplies. By the end of 2011, US corn acreage is expected to top 90 mn acres for only the second time since World War II. Levels will continue to remain above this threshold through 2013.

Key Commodity Prices and Indices

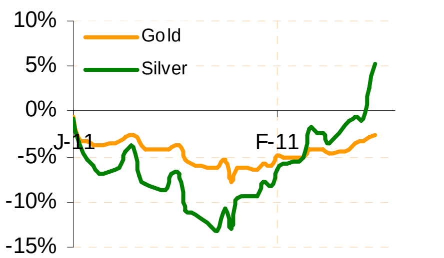
Benchmark Crude Oil Prices



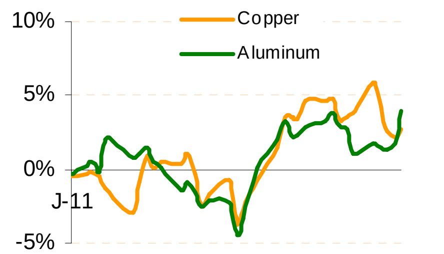
Saudi Arabian Light, Asia Deliveries



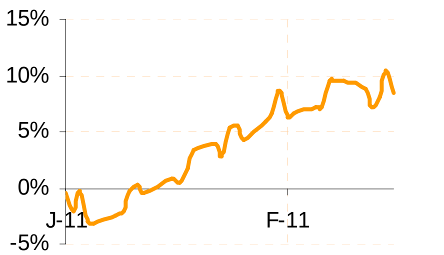
Precious Metals



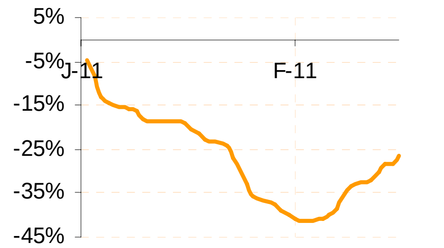
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Week
WTI, Spot, $/bbl	18-Feb 84.39	-4.0%
Brent, Spot, $/bbl	18-Feb 99.86	0.5%
Gold, LME, $/Oz	18-Feb 1,355.8	0.5%
Silver, LME, $/Oz	18-Feb 29.85	2.5%
Platinum, $/Oz	18-Feb 1,801.2	-2.1%
Palladium, $/Oz	18-Feb 809.25	-0.4%
Aluminum, LME, $/t	18-Feb 2,512	-1.2%
Copper, LME, $/t	18-Feb 9,970	-0.7%
Nickel, LME, $/t	18-Feb 28,100	-0.4%
Zinc, LME, $/t	18-Feb 2,452	-1.9%
Wheat, Sep, $/Bushel	18-Feb 8.67	1.6%
Corn, Sep, $/Bushel	18-Feb 7.07	4.1%
Soybeans, Sep, $/Bushel	18-Feb 14.16	-1.2%

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

Global Macro

UK: Inflation on the Rise

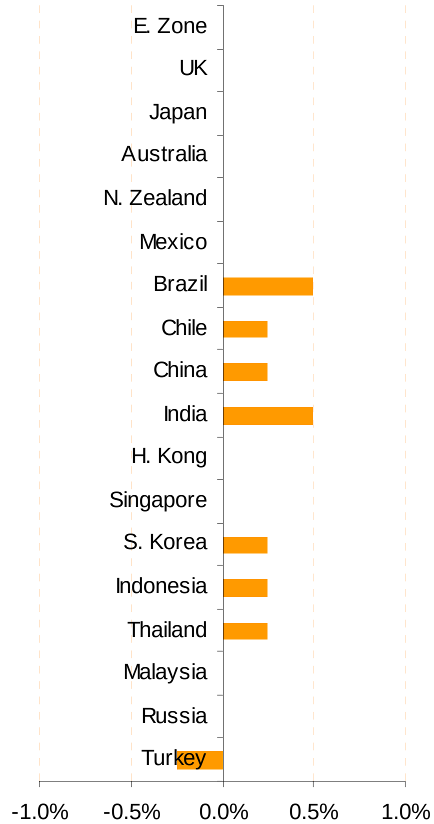
Bank of England (BoE) kept the benchmark interest rate at the record low level of 0.5% even though the headline inflation rate reached 4% in January, double the 2% target rate. Notwithstanding market expectations of a more aggressive action against inflation, policy makers preferred not to increase interest rates in a proactive action to mitigate the effects of budget cuts and an increase in VAT. BoE is trying not to jeopardize the recovery especially as full effects on recent government actions have not taken place yet. Budget cuts coupled with a hike in taxes to 20% will undermine domestic consumption which will eventually result in lowering inflation. The recent hike in prices was attributed to retail sales recording a rise of 1.9% in January, more than three times what was forecasted. Commodity prices are on the rise with Brent crude oil gaining 21.5% in the last three months. Agriculture commodities followed suit and rose by 23.5% as shown by S&P's GSCI Agriculture Index. BoE is faced with two scenarios, (1) inflation expectations remain at a risky high which will result in further monetary policy actions, and (2) if commodity prices start to decline and tightening measures' full effect begin to materialize, the nation's recovery will be hindered resulting in economic growth deceleration which consequently raise deflation risks. BoE's assessment and decision making is at a very critical stage, correct actions are a must to continue the recovery.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*		
	2009	**Last**	**Period**	**Last**	**Date**	**Target**	**Last**	**Decision**	**Date**
Europe/Japan/Oceania									
Euro Zone	-2.6%	1.9%	3Q10	2.2%	Dec-10	2.2%	1.00%	Hold	3-Feb-11
UK	-4.9%	0.7%	3Q10	4.0%	Jan-11	2.0%	0.50%	Hold	10-Feb-11
Japan	-6.3%	4.5%	3Q10	-0.4%	Dec-10	-0.6%	0.10%	Hold	10-Feb-11
Australia	1.2%	2.7%	3Q10	2.7%	Dec-10	3.0%	4.75%	Hold	1-Feb-11
New Zealand	-1.6%	1.5%	3Q10	4.0%	Dec-10	3.0%	3.00%	Hold	26-Jan-11
Latin America/Caribbean									
Mexico	-6.1%	5.3%	3Q10	3.8%	Jan-11	4.0%	4.50%	Hold	21-Jan-11
Brazil	-0.6%	6.7%	3Q10	5.9%	Jan-11	4.5%	11.25%	0.50%	19-Jan-11
Chile	-1.5%	7.0%	3Q10	2.7%	Jan-11	3.0%	3.50%	0.25%	17-Feb-11
Asia/Southeast Asia									
China	9.2%	9.8%	4Q10	4.9%	Jan-11	4.7%	6.06%	0.25%	8-Feb-11
India	5.7%	8.9%	3Q10	8.2%	Jan-11	7.0%	6.75%	0.25%	4-Feb-11
Hong Kong	-2.8%	6.8%	3Q10	3.1%	Dec-10	-	1.50%	-0.50%	30-Oct-08
Singapore	-1.3%	12.0%	4Q10	4.6%	Dec-10	3.8%	-	-	-
South Korea	0.2%	4.8%	4Q10	4.1%	Jan-11	4.0%	2.75%	0.25%	13-Jan-11
Indonesia	4.5%	6.9%	4Q10	7.0%	Jan-11	5.0%	6.75%	0.25%	4-Feb-11
Thailand	-2.2%	6.7%	3Q10	3.0%	Jan-11	3.0%	2.25%	0.25%	12-Jan-11
Malaysia	-1.7%	4.8%	4Q10	2.2%	Dec-10	2.1%	2.75%	Hold	27-Jan-11
Eastern Europe/Central Asia									
Russia	-7.9%	2.7%	3Q10	8.8%	Jan-11	7.0%	7.75%	-0.25%	1-Jun-10
Turkey	0.9%	5.5%	3Q10	4.9%	Jan-11	5.5%	6.25%	Hold	15-Feb-11

Policy Rate Change

Cumulative 11YTD



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.

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

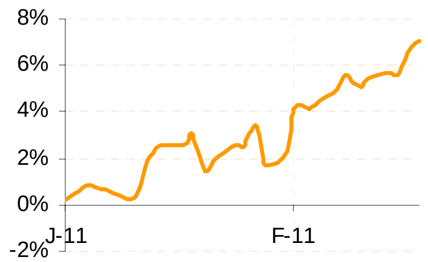
Regional Macro

A 'Hot Money' Warning to Turkey

Turkey has in recent years established itself as one of the most dynamic and resilient emerging markets, convincingly overcoming erstwhile perceptions of a crisis-prone economy which was last rocked by instability in 2001. However, Turkey's large current account deficit, estimated at USD48.6bn or 6.25% of GDP in 2010, is once again leading to warnings of risky reliance on so-called hot money. Short-term speculative capital inflows suggest that Turkey might become a victim of its own success. Foreign capital is drawn to the country by its highest interest rates and attractive macroeconomic fundamentals but the risk of its sudden exist constitutes a major vulnerability. With import demand robust, the current account gap is on track to reach 7% of GDP this year. Turkish GDP is estimated to have expanded by a remarkable 8.2% in 2010, led above all by credit-fuelled domestic demand. This followed a 4.7% drop in 2009. Turkey remains heavily reliant on external capital even as the headline rate looks likely to slow after an impressive post-crisis rebound. The International Monetary Fund in its latest estimate projects Turkish growth of 4.5% this year as inflationary pressures show signs of mounting to a headline rate of 6.5% in a further threat to external competitiveness. The Turkish authorities have recently sought to combat the mounting imbalances by means of an unconventional monetary policy of interest rate cuts combined with restrictions on domestic lending.

Selected Regional Economic Indicators

MSCI GCC[1]



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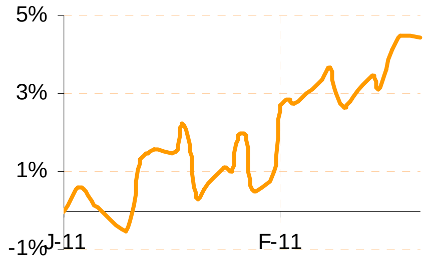
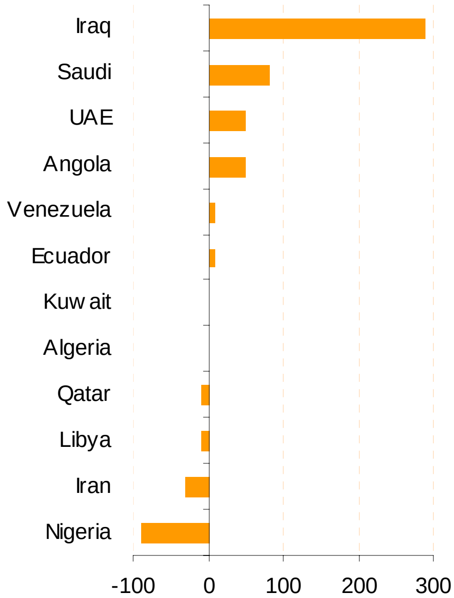
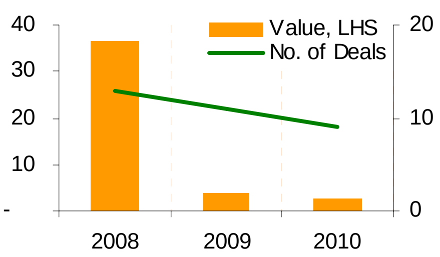


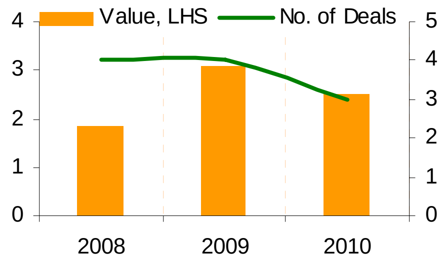
OPEC Oil Production, Monthly Change[2]



IPO Issuance[3]



Sukuk Issuance[4]



Middle East/Africa Selected Indicators

	Growth*			Inflation*			Policy Rate*		
	2008	Last	Period	Last	Date	Target	Last	Decision	Date
Saudi Arabia	4.2%	3.8%	2010	5.4%	Dec-10	-	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.

Jarmo Kotilaine, Chief Economist, 560055@alahli.com

FOREX Market

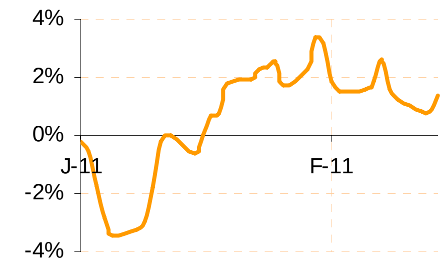
USD: Mixed Performance

Last week the USD experienced fluctuations influenced by mixed signals. The greenback was driven up by positive economic indicators mainly core consumer price inflation increasing 0.2% in January, more than initially expected. In addition, the Philadelphia Fed manufacturing index rose to 35.9 in February, the highest level since January 2004. These two factors coupled with third weekly consecutive gains for equity markets, tried to pull the greenback towards the upside. While downbeat economic indicators weighed on the USD which pulled its weekly performance downwards. Initial jobless claims rose to 410,000 in the week ending February 12th, 7,000 more than expected. Furthermore, official data showed that industrial production in the US declined by 0.1% in January compared to a 1.2% rise in December. Moreover, the number of building permits issued fell as the housing market is still depressed. The USD ended the week with losses against its three major counter partners, even though the European, British, and Japanese economies are not performing any better. The increase in EUR was driven by an announcement of a member of ECB hinting that a hike in interest rate may take place soon to curb inflationary pressures. Speculation on interest rate rises in UK was the main the reason for GBP to advance against the USD. The greenback recorded 1.5%, 1.1%, and 0.5% losses against GBP, EUR, and JPY, respectively.

Key Spot Foreign Exchange Rates

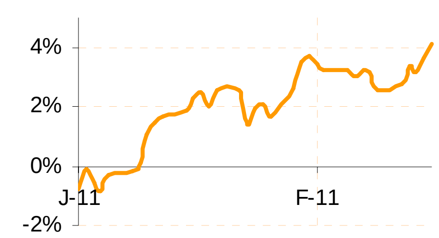
$ per €*

Last	13699	Week	0.8%	10YTD	-4.3%



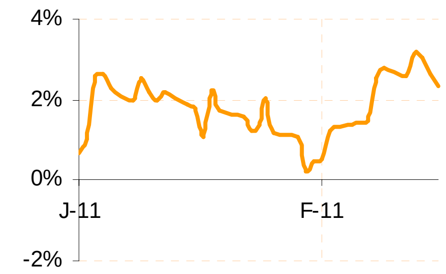
$ per £*

Last	16245	Week	0.9%	10YTD	0.5%



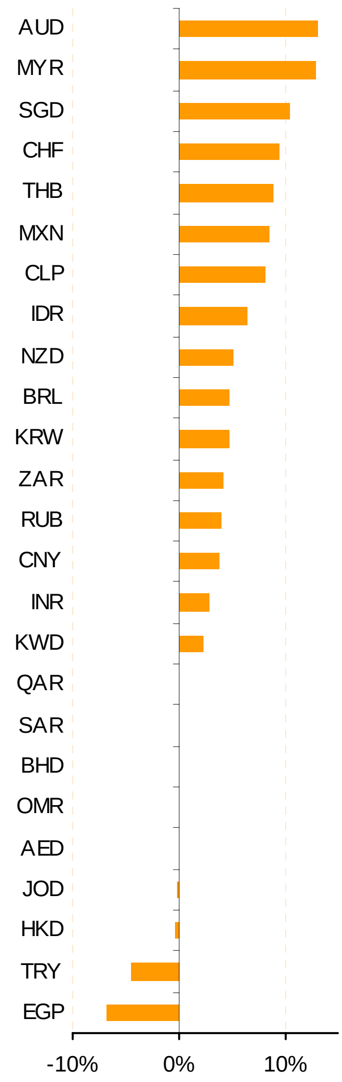
¥ per $*

Last	83.0800	Week	-0.2%	10YTD	-10.6%



Rate versus $	Last	Week
Europe/Oceania		
Swiss Franc (CHF)	0.9466	2.4%
Australian Dollar (AUD)	1.0148	1.0%
New Zealand Dollar (NZD)	0.7620	-0.1%
Latin America/Caribbean		
Mexican Peso (MXN)	12.0294	0.4%
Brazilean Real (BRL)	1.6633	0.3%
Chilean Peso (CLP)	469.0000	1.0%
Asia/Southeast Asia		
Chinese Yuan (CNY)	6.5739	0.2%
Indian Rupee (INR)	45.1300	1.2%
Hong Kong Dollar (HKD)	7.7855	0.1%
Singaporean Dollar (SGD)	1.2735	0.5%
South Korean Won (KRW)	1,114.90	0.5%
Indonesian Rupee (IDR)	8,860.00	0.8%
Thai Baht (THB)	30.6200	0.7%
Malaysian Ringgit (MYR)	3.0350	0.4%
Eastern Europe/Central Asia		
Russian Rouble (RUB)	29.1340	0.8%
Turkish New Lira (TRY)	1.5780	0.8%
Middle East/Africa		
Saudi Riyal (SAR)	3.7505	0.0%
Kuwaiti Dinar (KWD)	0.2811	-0.3%
Qatari Riyal (QAR)	3.6420	0.0%
UAE Dirham (AED)	3.6733	0.0%
Omani Riyal (OMR)	0.3851	0.0%
Bahraini Dinar (BHD)	0.3770	0.0%
Jordanian Dinar (JOD)	0.7097	-0.1%
Egyptian Pound (EGP)	5.8810	0.1%
South African Rand (ZAR)	7.1320	2.0%

Cumulative 10YTD



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

Global Equity Markets

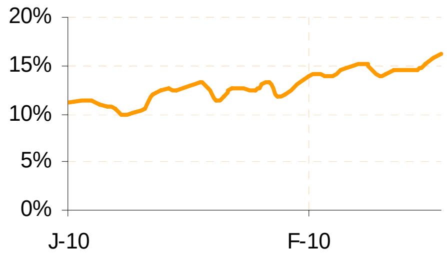
Reserve Requirements' Eighth Hike

People's Bank of China (PBoC) raised banks' required reserve ratio for the eighth time since the beginning of 2010. Almost a year ago the ratio stood at 16%, after the latest 50bps increase, the ratio is currently at 19.5%. The move follows an interest rate hike a couple of weeks ago, increasing the benchmark by 25bps to 6.06% in efforts to curb inflation. Overgrowing concerns over the inflation rate has kept officials on their feet. January's consumer price index (CPI) recorded an increase of 4.9%, 0.3% higher than the previous month. CPI has been over the targeted rate of 4% for the fourth consecutive month which called for further tightening. However, Chinese officials might not be responding fast enough to contain inflation. At the current rate of economic growth, PBoC can afford to make a more aggressive 50bps increase in interest rates to lower inflation. In addition, restraining the Yuan will not favor price reductions. Trade partners, mainly the US, are still pressuring China to let their currency appreciate further to aid the global economy. China's main stock exchange, Shanghai's composite index, ended a six-day rally and closed Friday's session losing 0.93% and lowering the weekly advance to 2.56%. While tightening measures do not favor riskier assets, the outlook for Chinese stocks is still upbeat as the economy is strong enough to withstand any shocks.

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

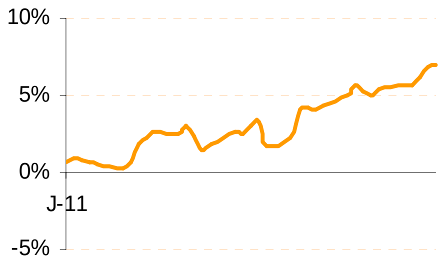
MSCI World

Last	347.8	Week	1.8%	10YTD	16.2%



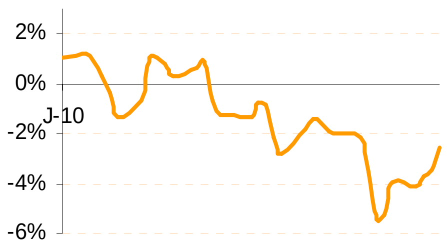
MSCI G7

Last	1,173.6	Week	1.6%	10YTD	18.1%



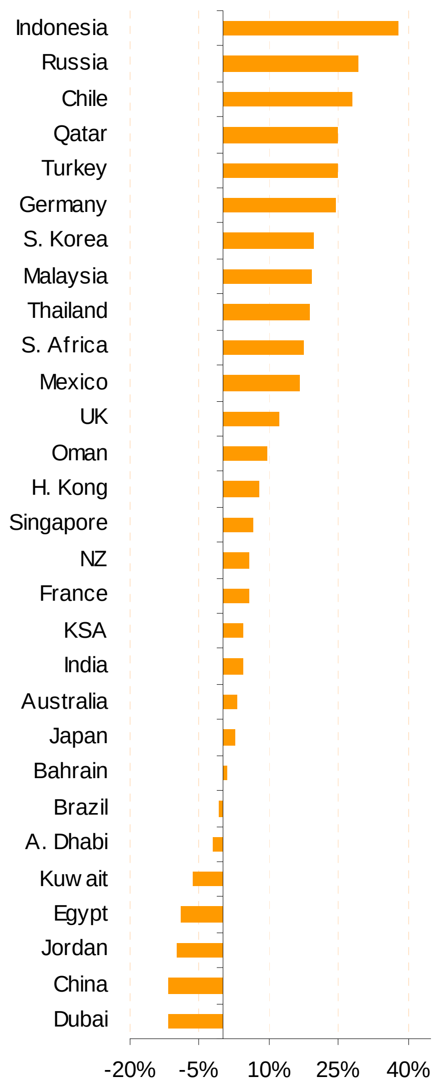
MSCI EM

Last	1,122.0	Week	2.8%	10YTD	13.4%



Country/Index	Week	YTD
Europe/Japan/Oceania		
UK (FTSE100)	0.3%	12.4%
Germany (DAX30)	0.8%	24.7%
France (CAC40)	1.4%	5.6%
Japan (N225)	2.2%	2.8%
Australia (All Ordinaries)	1.1%	2.9%
N. Zealand (NZSX50)	1.3%	5.7%
Latin America/Caribbean		
Mexico (IPC)	1.4%	16.8%
Brazil (Bovespa)	3.5%	-0.8%
Chile (IGPA)	-2.2%	28.1%
Asia/Southeast Asia		
China (Shanghai-C)	2.6%	-11.5%
India (BSE-Sensex)	2.7%	4.3%
Hong Kong (Hang Seng)	3.4%	7.9%
Singapore (Strait Times)	0.3%	6.5%
S. Korea (KOSPI-C)	1.8%	19.6%
Indonesia (Jakarta-C)	3.2%	38.2%
Thailand (SET)	2.0%	19.0%
Malaysia (Kuala Lampur-C)	1.5%	19.2%
Eastern Europe/Central Asia		
Russia (RTSI)	-0.7%	29.3%
Turkey (ISE National 100)	1.9%	24.9%
Middle East/Africa		
KSA (TASI)	-3.8%	4.3%
Kuwait (KSEI)	-2.7%	-6.4%
Qatar (DSM20)	-2.8%	25.1%
Abu Dhabi (ADI)	-1.0%	-2.2%
Dubai (DFMGI)	-0.2%	-11.6%
Oman (MSM30)	0.8%	9.5%
Bahrain (All Share I)	0.5%	1.2%
Jordan (ASE General I)	-3.4%	-9.8%
Egypt (CASE30)	0.0%	-9.1%
S. Africa (JSE All Share Index)	-1.3%	17.5%

Cumulative 10YTD



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

NCB الأهلي

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

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