

# Market Review & Outlook

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

## SPECIAL FOCUS

### *Inflation to Rise* (page 2)

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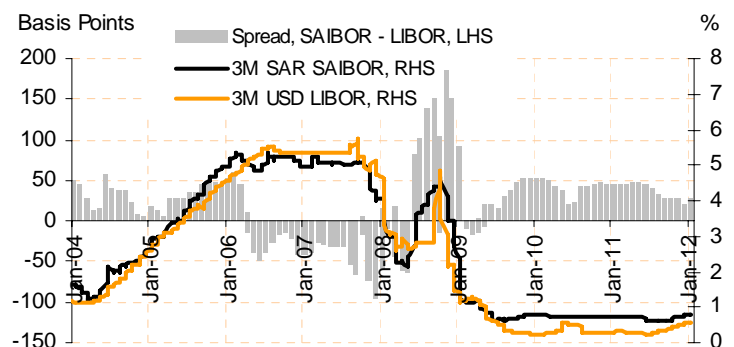
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### Saudi Arabia Leading Economic Indicators

	2010	Latest	Period
Average WTI, Cushing 1M, USD/bbl	79.5	100.5	12YTD
Weighted Average Arabian Light, USD/bbl	78.0	112.3	12YTD
Average 3M USD LIBOR	0.34%	0.57%	12YTD
Average 3M SAR SAIBOR	0.74%	0.80%	12YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	39.4	22.8	12YTD
Y/Y Growth in Monetary Base (M0)	2.5%	17.4%	Dec 11
Y/Y Growth in Money Supply (M3)	5.0%	13.3%	Dec 11

### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 27 January 2012

### View of the Week

“ We expect SAMA to increase their T-bill issuances to control the overly liquid state of the economy. ”

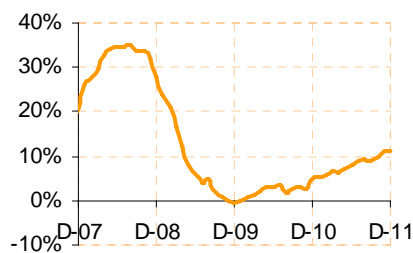
# Saudi Macro and Equity Market

## Inflation to Rise

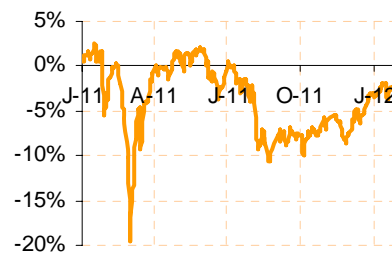
A glance at Saudi Arabia's monetary variables for December 2011 ignites fears of inflationary pressures as the monetary base expands. The Kingdom's monetary base (M0) expanded to SAR299.1 bn last month, a 17.4% increase on an annual basis. The main driver is deposits with SAMA as bank reserves reached SAR179.2 bn, growing by 12.5% annually and recording the fastest pace in eight months. Last year's inflation rate edged lower than 2010's, dropping to 4.9% from 5.3%. However, the constant growth in money supply (M3) will pressure local prices as seen in recent pick up in the inflation rate rising to 5.3% last month. In addition, (M1), which better represents money available for consumers, gained a worrying 21.6% Y/Y last month to complete 12 consecutive months of above 20% growth. These variables and the multiplier effects can trigger fears of an inflationary period in the short- medium-term. Furthermore, Banks provided SAR81.7 bn of additional credit to the private sector. Claims on the private sector recorded their third double digit growth at 11% last month, which will further pressure the inflation rate and drive prices higher. We expect SAMA to increase their T-bill issuances to control the overly liquid state of the economy. T-bills settled at SAR130.3 bn last month, a decrease of SAR46.7 bn from its peak in May 2011.

## Key Macroeconomic and Equity Market Indicators

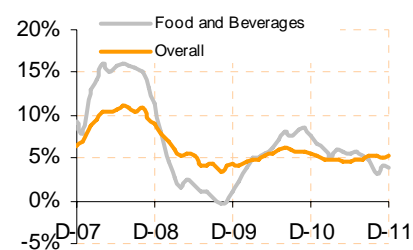
Y/Y Growth in Credit (Private Sector)



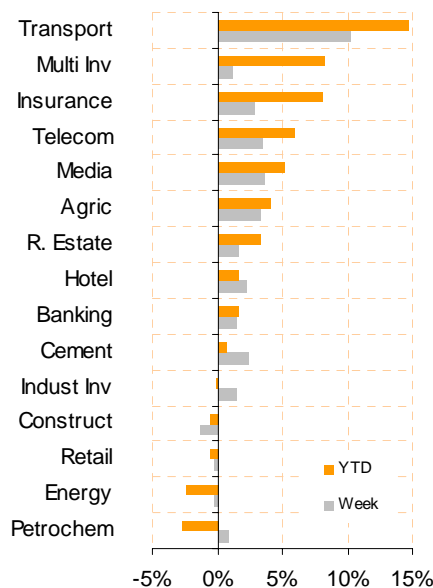
Tadawul All Share Index: 31 Dec 10 = 0%



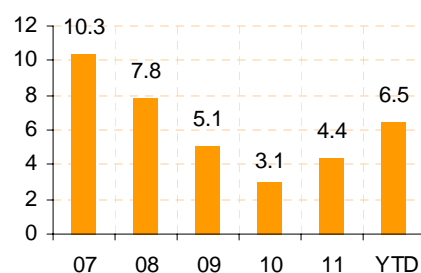
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl <sup>1</sup>	2012 112.3	2011 108.1
Oil Production, mmbd <sup>2</sup>	Dec 9.70	Nov 9.80
Real GDP	2011 6.8%	2010 4.10%
CPI Inflation, Y/Y	Dec 5.3%	Nov 5.2%
Broad Money (M3), Y/Y	Dec 13.3%	Nov 12.4%
Credit, Private Sector	Dec 11.0%	Nov 11.0%
Credit, Corporate	3Q11 8.59%	2Q11 6.72%
Credit, Households	3Q11 10.00%	2Q11 10.69%
Net Claims on Government <sup>3</sup>	Dec -1,009.2	Nov -994.2
Loan-to-deposit Ratio <sup>4</sup>	Dec 77.6%	Nov 79.7%
Excess Reserves/Total <sup>5</sup>	Dec 60.9%	Nov 49.3%
Net Foreign Assets, USDbn <sup>6</sup>	Dec 535.9	Nov 526.8
Import LCs, SARbn <sup>7</sup>	2011 176.2	2010 153.3

**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 public and 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/Net Foreign Assets: SAMA's Held Net Foreign Assets. 7/Import LCs: The cumulative value of letters of credit opened by banks to finance private sector imports.

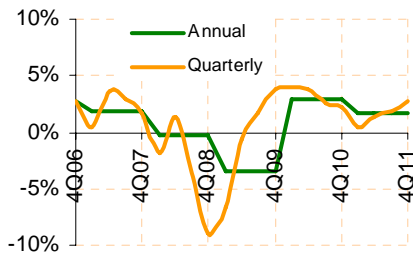
# US Macro and Equity Markets

## US Economy: Positive but Slow

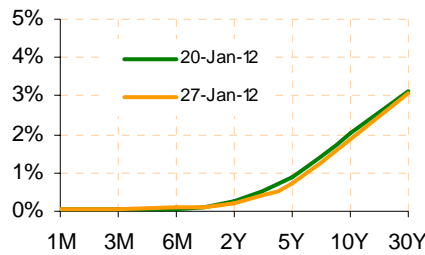
The world's largest economy expanded at 1.8% during 2011, almost half of 2010's rate. The US started 2011 barely escaping a double-dip recession. Global commodity prices and high unemployment pressured GDP figures following 2010's strong rebound. However, the economy continued to accelerate during 2011 and recorded 0.4%, 1.3%, 1.8%, and 2.8% for all quarters, respectively. Consumer spending picked up last quarter and grew by 2% driven by the holiday shopping season. The improvement in the job market prompted consumers lower their savings rate, which decreased to 3.7%, to stimulate the economy to expand. The unemployment rate currently stands at 8.5%, the lowest level since March 2009 and is expected to maintain that level for January. The largest contribution to GDP was attributed to gross private domestic investment which gained 20% during 4Q2011, mainly driven by residential fixed investment gaining 10.9% during the same period. Furthermore, exports grew by 4.7% last quarter only to be offset by imports which gained 4.4%. The Fed had recently announced extending their low interest rate pledge to late 2014. The recovery of the US economy is still at a slow pace and the Fed is keen on aiding growth on the expense of inflationary pressures. The Fed also maintained the possibility of further stimulus packages and have not ruled them out just yet.

## Key Macroeconomic and Capital Market Indicators

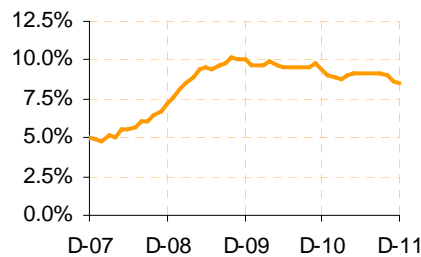
Real GDP Growth, Annualized



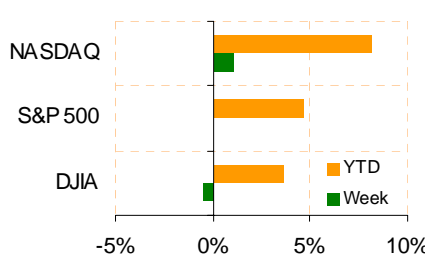
Benchmark Yields, Annualized



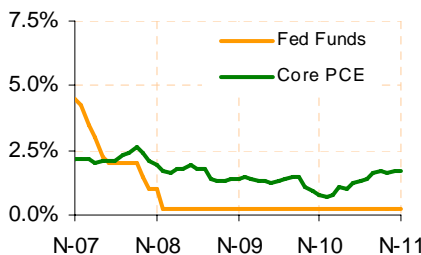
National Unemployment Rate



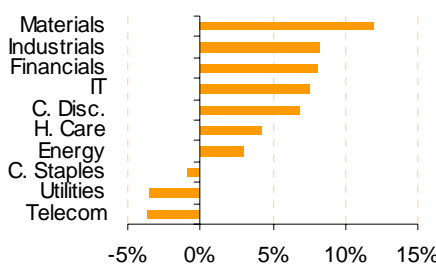
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
Real GDP	4Q11(A) 2.8%	4Q11(P) 29-Feb
Unemployment	Dec 8.5%	Jan 6-Feb
A. H. Earnings, M/M	Dec 0.2%	Jan 6-Feb
CPI Inflation, Y/Y	Dec 3.00%	Jan 16-Feb
Core PCE, Y/Y	Nov 1.70%	Dec 30-Jan
Existing Home Sales, M/M	Dec 5.0%	Jan 19-Feb
Housing Starts, M/M	Dec -4.1%	Jan 19-Feb
Trade Balance, \$bn	Nov -47.75	Dec 12-Feb
Retail Sales, M/M	Dec 0.1%	Jan 13-Feb
Industrial Production, M/M	Dec 0.4%	Jan 15-Feb
Capacity Utilization	Dec 78.1%	Jan 15-Feb
Fed Funds Rate	Dec 0.25%	Jan 2-Feb

Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate. Currently, instead of preliminary and final estimate, the Bureau of Economic Analysis (BEA) uses second and third estimate, respectively.

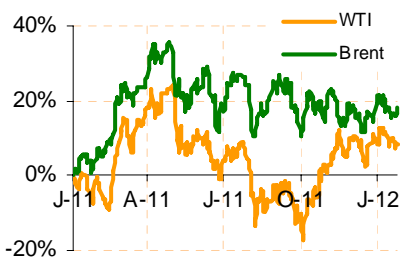
# Commodity Markets

## Orange Juice Prices Spike

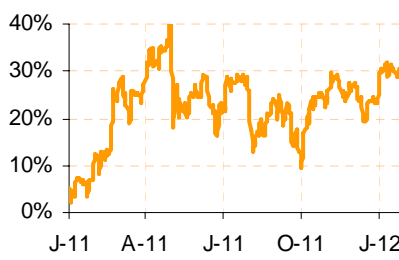
US ICE frozen concentrated orange juice futures (FCOJ-A) rose by close on Friday, on the back of the US Food and Drug Administration confirming traces of fungicide in 11 samples of Orange imports from both Brazil and Canada, climbing 4.30 cents to settle at USD2.109/ pound for March delivery. The US had recently taken a decision to examine orange imports from Brazil, emerging from their use of a fungicide, known as carbendazim, which the US has not approved for human consumption. Brazil is the world's largest global supplier of the citrus fruit, followed by the US of which Florida dominates production. However, the USDA also cut the latter's production numbers following a week of freezing temperatures which is likely to cause damage to the January fruit crop. Noting a 2% decrease in all orange production from December numbers, Florida's production is forecasted to be 147,000,000 boxes for the month of January. Beverage giants, like Coca-Cola and PepsiCo, who own Simply Orange, Minute Maid and Tropicana, respectively, will see their costs rise in the short-to-medium-term as supply is constrained. PepsiCo went so far as to announce it would resume its use of 100% Florida orange juice in its Tropicana drinks. It is worthy to note that the juice's futures market is the exchange's smallest, with the trade unit for FCOJ-A contracts being 15,000 pounds of orange juice solids, and orange sources being deliverable from Costa Rica and Mexico as well.

## Key Commodity Prices and Indices

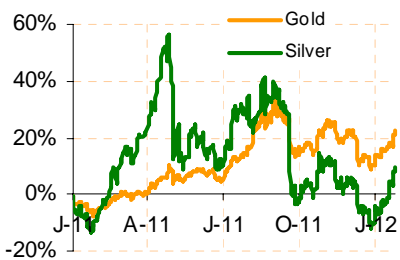
**Benchmark Crude Oil Prices**



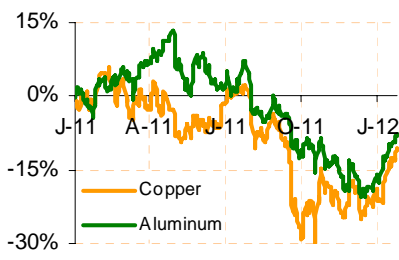
**Saudi Arabian Light, Asia Deliveries**



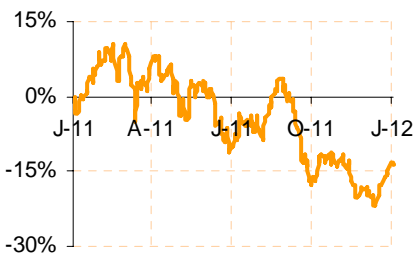
**Precious Metals**



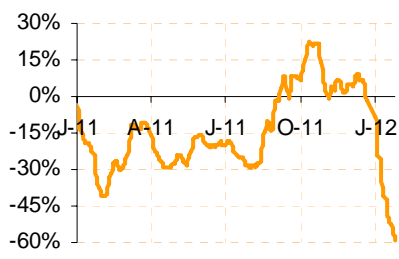
**Base Metals**



**Goldman Sachs Agriculture Index**



**Baltic Exchange Dry Index**



	Last	Week
WTI, Spot, \$/bbl	27-Jan 99.47	1.3%
Brent, Spot, \$/bbl	27-Jan 111.25	2.1%
Gold, LME, \$/Oz	27-Jan 1,738.4	4.3%
Silver, LME, \$/Oz	27-Jan 33.86	5.5%
Platinum, \$/Oz	27-Jan 1,616.7	5.6%
Palladium, \$/Oz	27-Jan 686.60	1.8%
Aluminum, LME, \$/t	27-Jan 2,254	1.7%
Copper, LME, \$/t	27-Jan 8,565	3.4%
Nickel, LME, \$/t	27-Jan 21,600	5.4%
Zinc, LME, \$/t	27-Jan 2,160	6.9%
Wheat, Mar, \$/Bushel	27-Jan 6.47	6.0%
Corn, Mar, \$/Bushel	27-Jan 6.42	4.9%
Soybeans, Mar, \$/Bushel	27-Jan 12.19	2.7%

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

# Global Macro

## India Joins the Dovish Train

The Indian economy expanded at 6.9% during the third quarter of last year, dropping from 7.7% during the prior three-month period. Hindered by the global turmoil, namely the Europe debt crisis, Indian officials have raised concerns over their growth projections. Consequently, the Central Bank of India recently slashed cash reserve requirements by 50bps to inject liquidity into the market while maintaining the benchmark interest rate at 8.50%, for now. Pressured by high inflation, officials opted to keep their policy repo rate unchanged to avoid further price hikes. India's policy has been one of the most hawkish during 2010-2011, a phase known as "currency wars". Following the slowdown in the global economy, India has lowered its projected growth for 2012 to 7% from 7.6% as the Greek ignited crisis affects emerging economies. The Sensex, India's main stock index, climbed last week by 3.5% following a 3.8% gain during the previous week. As the central bank encompasses a loose policy regime for this year, a cut in the benchmark interest rate is expected during their next meeting. The growth/inflation balance has been outweighed to growth as risks of a global economic slowdown increased over the past few months. The fight against inflationary pressures will prove critical for the Indian government to keep consumer sentiment on the upside.

## Selected Global Macroeconomic Indicators

	Growth <sup>1</sup>			Inflation <sup>2</sup>			Policy Rate <sup>3</sup>			Policy Rate Change	
	2010	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 12YTD	
<b>Europe/Japan/Oceania</b>											
<b>Euro Zone</b>	1.7%	0.2%	3Q11	2.7%	Dec-11	2.0%	1.00%	-0.25%	8-Dec-11		E. Zone
<b>UK</b>	1.3%	0.5%	3Q11	4.2%	Dec-11	2.0%	0.50%	Hold	8-Dec-11		UK
<b>Japan</b>	3.9%	5.6%	3Q11	-0.1%	Dec-11	0.1%	0.10%	Hold	21-Dec-11		Japan
<b>Australia</b>	2.7%	2.5%	3Q11	3.1%	Dec-11	3.0%	4.25%	-0.25%	6-Dec-11		Australia
<b>New Zealand</b>	1.5%	2.2%	3Q11	1.8%	Dec-11	3.0%	2.50%	Hold	25-Jan-12		N. Zealand
<b>Latin America/Caribbean</b>											
<b>Mexico</b>	5.5%	4.5%	3Q11	3.5%	Nov-11	3.0%	4.50%	Hold	20-Jan-12		Mexico
<b>Brazil</b>	7.5%	2.1%	3Q11	6.5%	Dec-11	4.5%	10.50%	-0.50%	19-Jan-12		Brazil
<b>Chile</b>	5.3%	4.8%	3Q11	4.4%	Dec-11	3.0%	5.00%	-0.25%	13-Jan-12		Chile
<b>Asia/Southeast Asia</b>											
<b>China</b>	10.3%	8.9%	4Q11	4.2%	Dec-11	4.0%	6.31%	0.25%	5-Apr-11		China
<b>India</b>	10.4%	6.9%	3Q11	7.5%	Dec-11	7.0%	8.50%	Hold	24-Jan-12		India
<b>Singapore</b>	14.5%	3.6%	4Q11	5.5%	Dec-11	3.8%	-	-	-		Singapore
<b>South Korea</b>	6.1%	3.4%	4Q11	4.2%	Nov-11	4.0%	3.25%	Hold	8-Dec-11		S. Korea
<b>Indonesia</b>	6.1%	6.5%	3Q11	3.8%	Dec-11	5.0%	6.00%	Hold	8-Dec-11		Indonesia
<b>Thailand</b>	7.8%	3.5%	3Q11	3.5%	Dec-11	3.0%	3.00%	-0.25%	25-Jan-12		Thailand
<b>Malaysia</b>	7.2%	5.8%	3Q11	3.0%	Dec-11	2.0%	3.00%	Hold	11-Nov-11		Malaysia
<b>Eastern Europe/Central Asia</b>											
<b>Russia</b>	4.0%	4.8%	3Q11	6.1%	Dec-11	7.0%	8.00%	-0.25%	23-Dec-11		Russia
<b>Turkey</b>	8.2%	8.2%	3Q11	10.5%	Dec-11	5.5%	5.75%	Hold	24-Jan-12		Turkey

**Notes:** 1/Growth: Real GDP Growth Rate, 2010: Y/Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 2/ CPI Inflation: Y/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.

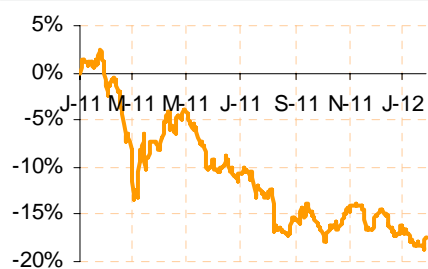
# Regional Macro

## Challenges of Finding Aid

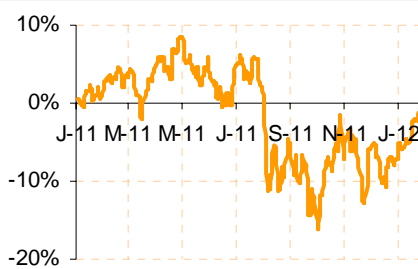
As recurrent unrest continues in Egypt, the challenge of stabilizing the economy through external assistance is growing in urgency. Following severe economic dislocations as well as widening fiscal and external imbalances, a devaluation of the Pound is seen as increasingly likely. The government has used up USD9bn of its foreign exchange reserves since June, managing to limit currency depreciation to some 4% but leaving the remaining total at USD18bn at the end of the year. Egypt last week announced that it had formed requested a USD3.2bn loan package from the International Monetary Fund. While the government is keen to receive the funds within weeks, the IMF has stressed the need for broad-based political support in Egypt as well as commitments from other donors. Mustering domestic backing may prove difficult amidst the current political transition as many groups may be reluctant to commit to potentially controversial measures. Egypt has aid pledges in excess of USD10bn from other governments, led by the GCC but the pace of remittance has to date been slow. The Qatar foreign ministry recently admitted that the intended USD10bn of investments in Egypt had been suspended because of political instability. The projects are due to resume after the transition to civilian rule. By contrast, the US government recently announced plans to accelerate aid payments to Egypt. Egypt last week also announced that it would apply for USD1bn of loans from the World Bank and the African Development Bank to help cover the budget deficit.

## Selected Regional Economic Indicators

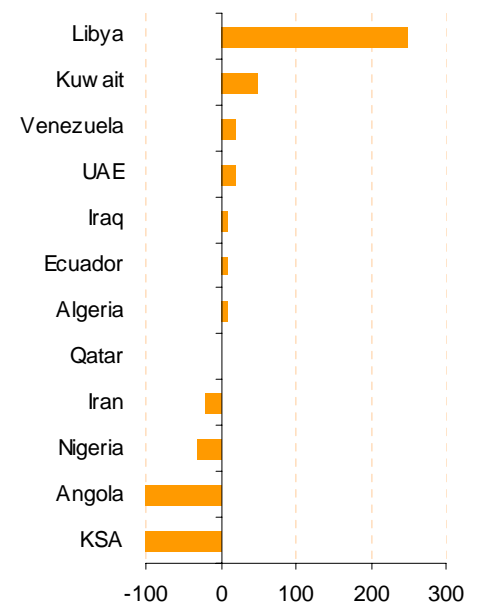
MSCI GCC<sup>1</sup>



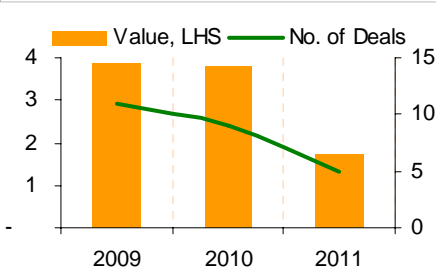
Dow Jones Islamic



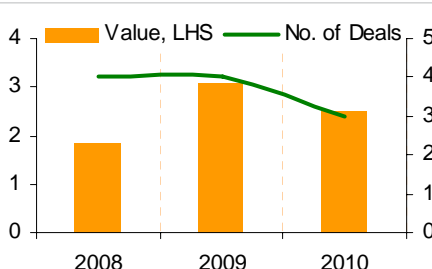
OPEC Oil Production, Monthly Change<sup>2</sup>



IPO Issuance<sup>3</sup>



Sukuk Issuance<sup>4</sup>



Middle East/Africa Selected Indicators

	Growth*		Period	Inflation*			Policy Rate*		
	2009	Last		Last	Date	Target	Last	Decision	Date
Saudi Arabia	0.2%	6.8%	2011	4.9%	2011	-	2.00%	Hold	19-Jan-09
Kuwait	-5.2%	2.0%	2010	4.1%	2010	-	2.50%	-0.50%	7-Feb-10
Qatar	8.6%	16.3%	2010	-2.4%	2010	-	4.50%	-0.50%	10-Aug-11
UAE	-3.2%	3.2%	2010	0.9%	2010	-	1.00%	-0.50%	19-Jan-09
Oman	1.1%	4.2%	2010	3.3%	2010	-	2.00%	Hold	31-Aug-11
Bahrain	3.1%	4.1%	2010	2.0%	2010	-	2.25%	-0.50%	15-Sep-09
Jordan	2.3%	3.1%	2010	5.0%	2010	-	4.25%	0.25%	31-May-11
Egypt	4.7%	5.1%	2010	11.7%	2010	-	9.75%	Hold	28-Aug-11
South Africa	-1.7%	2.8%	2010	4.3%	2010	3.5%	5.50%	Hold	10-Nov-11

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, Y/Y % change in full year GDP. 6/CPI Inflation: Y/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

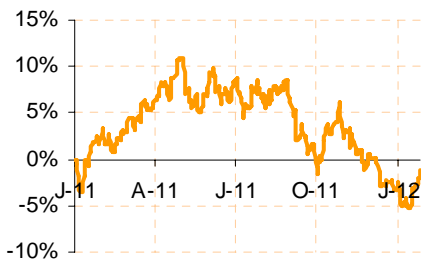
## US Dollar Retreats

The greenback has been pressured this week by most major currencies on expectations of a possible agreement between Greece and creditors. The trade weighted dollar, DXY, which measures the dollar against a basket of six major currencies, declined 1.65% last week to settle at 78.9 on Friday. The Euro climbed for the second week to reach 1.3229, a 2.3% gain. The International Monetary Fund, which is coordinating the accord between Greece and creditors, announced that talks are “close” to reach an agreement. Meanwhile, Fitch followed S&P and downgraded five European nations including Italy and Spain who were cut by two notches to A- and A, respectively. Furthermore, the US dollar retreated against the Japanese currency reaching 76.68 last week, gaining 0.4% over the week. The Yen’s appreciation follows the announcement of the fourth quarter GDP results for the US which came short of expectations. The Fed pledged to keep interest rates low for an additional year till late 2014 to spur growth. As for emerging markets, Thailand and Philippines cut their interest rates while India lowered their banks’ reserve requirements. As expected for 2012, the loosening stance will narrow interest rate differentials and limit carry trades. India’s Rupee gained for a fourth consecutive week to reach 49.4 against the greenback, appreciating 7.3% this year.

## Key Spot Foreign Exchange Rates

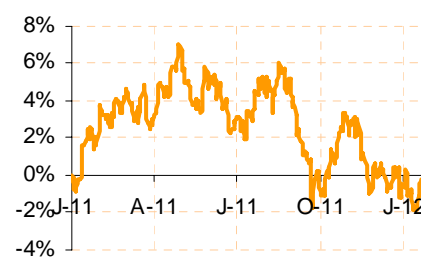
### \$ per €

Last 1.3229 Week 2.2% 11YTD -1.1%



### \$ per £

Last 1.5735 Week 1.0% 11YTD 0.8%



### ¥ per \$

Last 76.6800 Week -0.4% 11YTD -5.6%



### Rate versus \$

#### Europe/Oceania

	Last	Week
Swiss Franc (CHF)	0.9120	2.4%
Australian Dollar (AUD)	1.0655	1.6%
New Zealand Dollar (NZD)	0.8241	2.2%

#### Latin America/Caribbean

	Last	Week
Mexican Peso (MXN)	12.9265	1.9%
Brazilian Real (BRL)	1.7377	1.0%
Chilean Peso (CLP)	484.8000	1.7%

#### Asia/Southeast Asia

	Last	Week
Chinese Yuan (CNY)	6.3350	0.0%
Indian Rupee (INR)	49.4000	1.7%
Hong Kong Dollar (HKD)	7.7556	0.1%
Singaporean Dollar (SGD)	1.2516	1.6%
South Korean Won (KRW)	1,121.50	1.1%
Indonesian Rupee (IDR)	8,985.00	-0.4%
Thai Baht (THB)	31.1000	1.4%
Malaysian Ringgit (MYR)	3.0440	2.2%

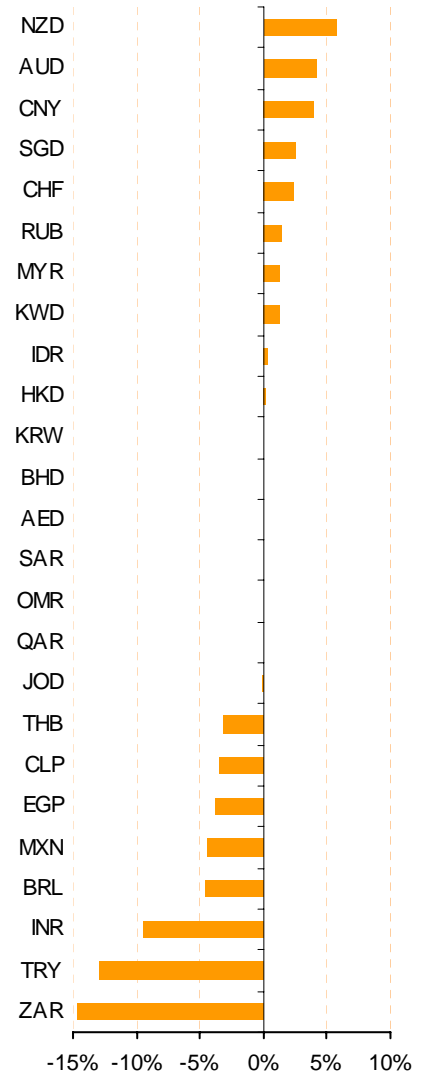
#### Eastern Europe/Central Asia

	Last	Week
Russian Rouble (RUB)	30.1305	4.1%
Turkish New Lira (TRY)	1.7781	3.0%

#### Middle East/Africa

	Last	Week
Saudi Riyal (SAR)	3.7505	0.0%
Kuwait Dinar (KWD)	0.2783	0.2%
Qatari Riyal (QAR)	3.6418	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)	0.7090	0.1%
Egyptian Pound (EGP)	6.0360	0.1%
South African Rand (ZAR)	7.7779	2.3%

### Cumulative 12YTD



# Global Equity Markets

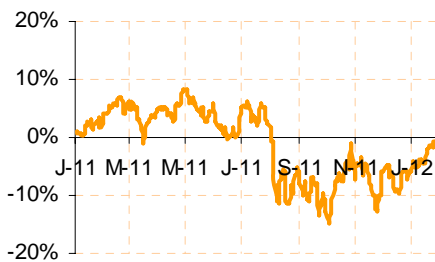
## Emerging Markets Take January

As we end the first month of 2012, most equity markets in our coverage universe have recorded substantial gains. The main leaders were emerging economies as their dovish policy regime attracts investors to their local markets in favor of the riskier asset. The leading market last month, given the huge drop in 2010 due to the toppling of the previous government, Egypt's stock index gained just over 22% during January as the first anniversary of the new government ended with peaceful protests. However, the index lost close to 50% as instability and fear prompted investors to liquidate their assets seeking international havens. Emerging markets make up most of the top performers as their governments cut benchmark interest rates, such as Brazil. While other governments use softer decisions such as India's cash reserve requirement cut. Stocks were pressured in 2011 as most indices posted losses for the financial year; however, most have rebounded with the New Year. Recently, Greece and creditors are expected to reach an agreement which eased some of the worries surrounding Europe. The Fed also announced its pledge to spur the US economy by keeping their key rate near zero till late 2014. Economies have lowered their growth prospects for 2012 and as such, easing decisions and possibly packages are expected to lift stocks higher this year.

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

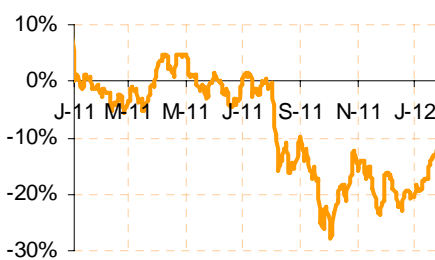
### MSCI World

Last 317.7 Week 1.0% 11YTD 6.1%



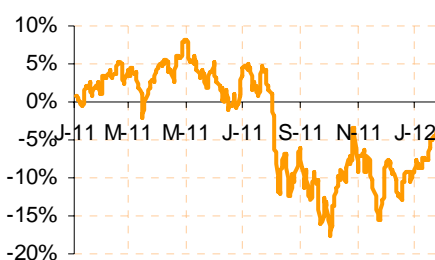
### MSCI G7

Last 1,084.1 Week 0.7% 11YTD 5.1%



### MSCI EM

Last 1,016.6 Week 2.2% 11YTD 10.9%



### Country/Index

#### Europe/Japan/Oceania

Country/Index	Week	YTD
UK (FTSE100)	0.1%	2.9%
Germany (DAX30)	1.7%	10.4%
France (CAC40)	-0.1%	5.0%
Japan (N225)	0.9%	4.6%
Australia (All Ordinaries)	1.1%	5.8%
N. Zealand (NZSX50)	0.6%	0.6%

#### Latin America/Caribbean

Mexico (IPC)	-0.5%	0.3%
Brazil (Bovespa)	1.0%	10.8%
Chile (IGPA)	-1.0%	1.0%

#### Asia/Southeast Asia

China (Shanghai-C)	0.0%	5.4%
India (BSE-Sensex)	3.0%	11.5%
Hong Kong (Hang Seng)	1.9%	11.2%
Singapore (Strait Times)	2.3%	10.2%
S. Korea (KOSPI-C)	0.8%	7.6%
Indonesia (Jakarta-C)	0.0%	4.3%
Thailand (SET)	-0.1%	4.2%
Malaysia (Kuala Lumpur-C)	-0.1%	-0.6%

#### Eastern Europe/Central Asia

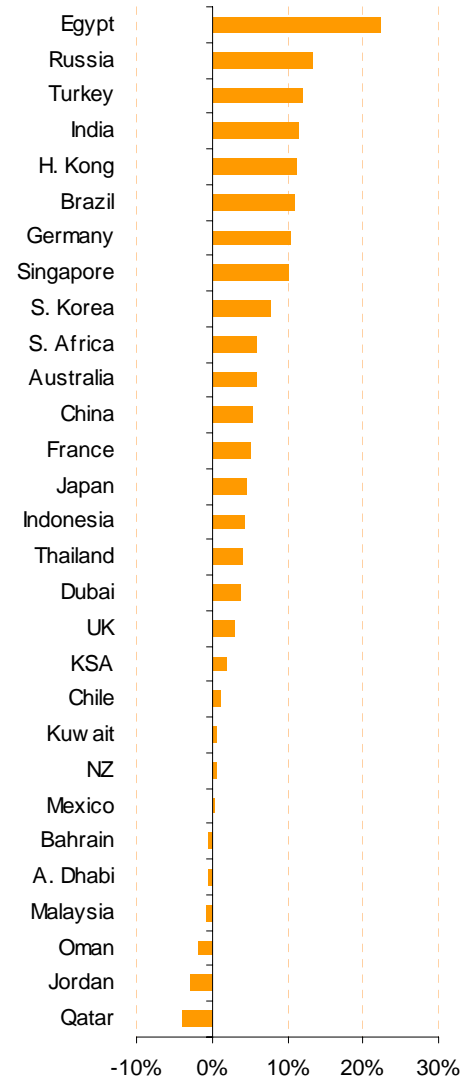
Russia (RTSI)	4.6%	13.3%
Turkey (ISE National 100)	4.5%	11.9%

#### Middle East/Africa

KSA (TASI)	1.3%	1.9%
Kuwait (KSEI)	1.0%	0.7%
Qatar (DSM20)	-0.1%	-3.9%
Abu Dhabi (ADI)	2.1%	-0.5%
Dubai (DFMGI)	5.3%	3.9%
Oman (MSM30)	0.1%	-1.7%
Bahrain (All Share I)	-0.3%	-0.5%
Jordan (ASE General I)	0.3%	-2.9%
Egypt (CASE30)	13.1%	22.4%
S. Africa (JSE All Share Index)	0.6%	6.0%

### YTD

### Cumulative 12YTD







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