

Market Review & Outlook

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

SPECIAL FOCUS

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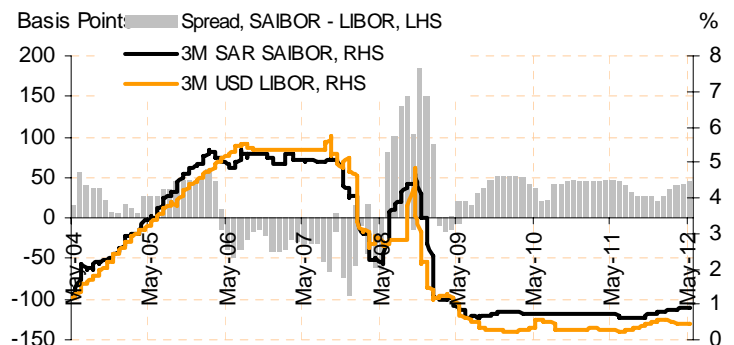
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Saudi Arabia Leading Economic Indicators

	2011	Latest	Period
Average WTI, Cushing 1M, USD/bbl	94.8	102.1	12YTD
Weighted Average Arabian Light, USD/bbl	108.1	117.3	12YTD
Average 3M USD LIBOR	0.33%	0.50%	12YTD
Average 3M SAR SAIBOR	0.69%	0.85%	12YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	36.0	35.4	12YTD
Y/Y Growth in Monetary Base (M0)	17.4%	5.3%	Mar 12
Y/Y Growth in Money Supply (M3)	13.3%	10.5%	Mar 12

Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 18 May 2012

View of the Week

“...the overrun in budgetary expenditure accelerated to reach an estimated 38.6% in 2011 due to the large one-off announcements made during March 2011.”

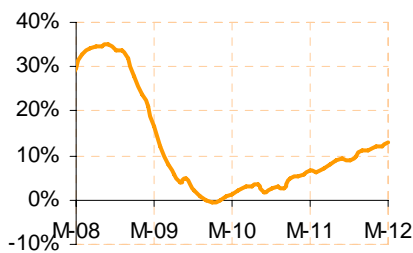
Saudi Macro and Equity Market

Saudi Challenges

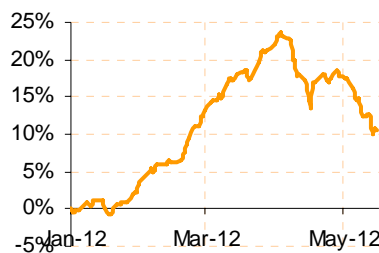
Despite the fact that the Saudi economy has been resilient to the financial crisis and was able to withstand external shock with sound macroeconomic fundamentals, the Kingdom has its own challenges to overcome in line with its robust economy. One of the main concerns has been job creation and the elevated level of unemployment even though GDP has recorded relatively strong growth figures over the past decade. The continued dependence on foreign labor force and mismatch between college graduates and market needs has kept the unemployment rate over 10%. The launch of Hafiz program has also caused a larger portion of the female population to announce unemployment to benefit from the King's decree which drove the unemployment rate higher. Additionally, the overrun in budgetary expenditure accelerated to reach an estimated 38.6% in 2011 due to the large one-off announcements made during March 2011. Coupled with rising domestic consumption of oil and crude gas as the population grows and industry expands at a rapid rate, the Saudi economy risks future export earnings which raises concerns over fiscal sustainability. The economy's ability to diversify from oil revenues remains to be a challenge as the private sector only contributed 26% to nominal GDP in 2011. With rising oil prices and production levels, the kingdom should benefit from current surpluses to pursue its investment drive to ensure the sustainability of the economy.

Key Macroeconomic and Equity Market Indicators

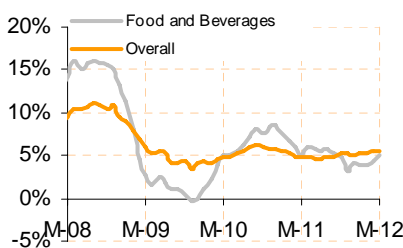
Y/Y Growth in Credit (Private Sector)



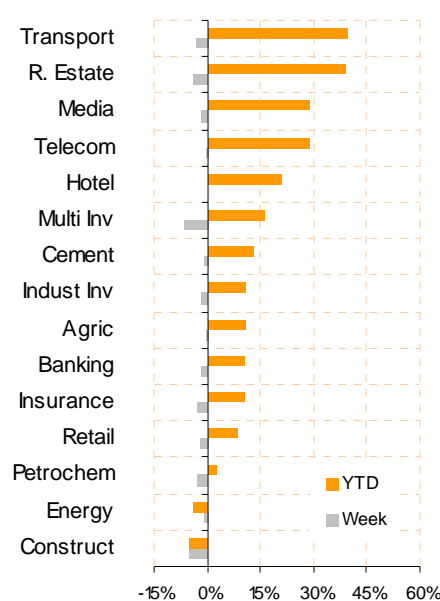
Tadawul All Share Index: 31 Dec 10 = 0%



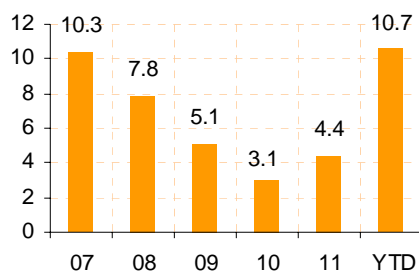
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl ¹	2012 117.3	2011 108.1
Oil Production, mmbd ²	Apr 10.00	Mar 9.90
Real GDP	2011 6.8%	2010 4.60%
CPI Inflation, Y/Y	Mar 5.4%	Feb 5.4%
Broad Money (M3), Y/Y	Mar 10.5%	Feb 13.8%
Credit, Private Sector	Mar 12.8%	Feb 12.1%
Credit, Corporate	4Q11 7.3%	3Q11 8.6%
Credit, Households	4Q11 20.7%	3Q11 10.0%
Net Claims on Government ³	Mar -1,100.6	Feb -1,091.1
Loan-to-deposit Ratio ⁴	Mar 78.2%	Feb 78.3%
Excess Reserves/Total ⁵	Mar 56.2%	Feb 57.8%
Net Foreign Assets, USDbn ⁶	Mar 561.6	Feb 555.9
Import LCs, SARbn ⁷	3M 12 52.9	3M 11 41.3

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.

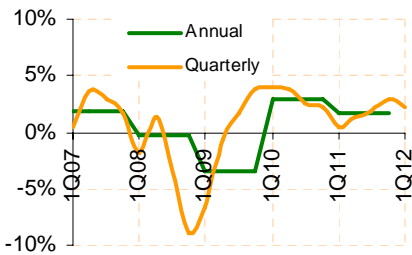
US Macro and Equity Markets

A Fragile Jobless Recovery

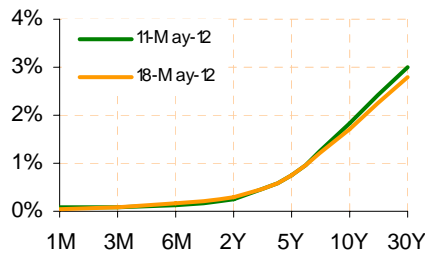
The US consumer spending infatuation backed by a 1.5% increase in consumer sentiment during May on the back of a 0.4% increase in income in March faces a threat of losing momentum if job creation does not catch up. Job creation in the US must pick up from its current pace in order to stimulate economic growth; however, a blurred picture of US consumption spurs from the fact that more people are dropping out of the labor force, weakening demand on consumer goods and services. The US flashy spike in consumption dimmed by retail edging 0.1% lower from a revised 0.7%, mostly attributed to a decline in demand for building materials and clothes. On the other hand, housing starts rose 2.6% in April which shows a significant improvement over the previous month which contracted by 5.8%. On the international front, the US imposed a 31% increase in tariffs on Chinese solar panel imports due to claims that Chinese solar manufacturers are engaging in dumping. Solar panels that are largely subsidized by the Chinese government constitute a newly emerging and affordable alternative to fossil fuel energy; however, the increase in tariffs will add to the input costs into developing the US solar power industry which would definitely push back the envelope of commercializing alternative energy in the US. Critics question whether or not this tariff increasing decision had any ties to the lobbying that took place between Solyndra, a US solar panel manufacturer, and the Obama administration.

Key Macroeconomic and Capital Market Indicators

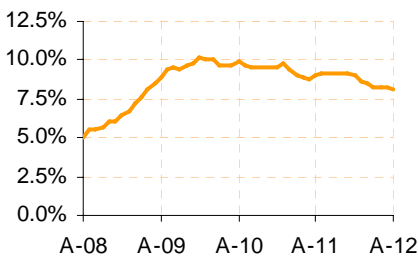
Real GDP Growth, Annualized



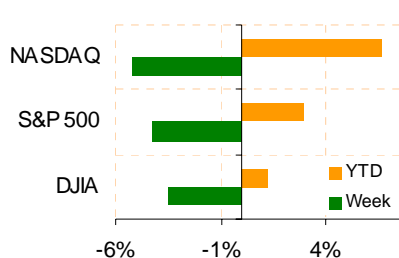
Benchmark Yields, Annualized



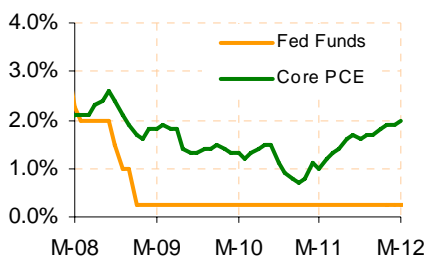
National Unemployment Rate



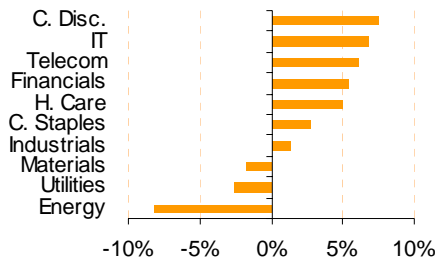
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
Real GDP	1Q 12 (A) 2.2%	1Q 12 (P) 31-May
Unemployment	Apr 8.1%	May 1-Jun
Avg. H. Earnings, M/M	Apr 0.0%	May 4-Jun
CPI Inflation, Y/Y	Apr 2.30%	May 14-Jun
Core PCE, Y/Y	Mar 2.00%	Apr 1-Jun
Existing Home Sales, M/M	Mar -2.6%	Apr 22-May
Housing Starts, M/M	Apr 2.6%	May 19-Jun
Trade Balance, \$bn	Mar -51.83	Apr 10-Jun
Retail Sales, M/M	Apr 0.1%	May 13-Jun
Industrial Production, M/M	Apr 1.1%	May 17-Jun
Capacity Utilization	Apr 79.2%	May 17-Jun
Fed Funds Rate	Apr 0.25%	May 3-Jun

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.

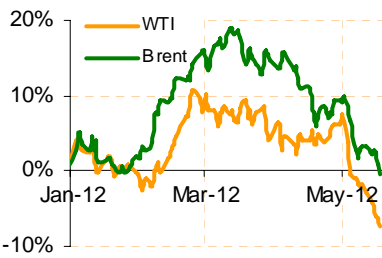
Commodity Markets

US Wheat Posts Big Gains

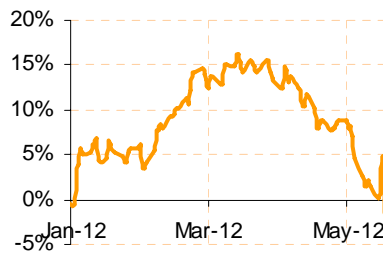
US wheat advanced on Friday to post its biggest weekly gain in 16 years, adding about 17% to prices and achieving an eight month high as hot and dry weather sprung fears about production losses in the US plains and Russia. Kansas, the US top producer of hard red winter wheat, is expected to begin harvesting next week, which is three weeks earlier than usual. Kansas City Board of Trade hard red winter futures closed more than 2% higher on Thursday as traders eyed the situation. Spring drought conditions in parts of Russia's key southern grain export regions may have inflicted irreversible damage on some of the crop, leading to the government to potentially cut its 2012/13 grain crop forecast in May from the current 94 mn tons. Chicago Board of Trade July wheat jumped USD37.5 cents, or 5.7%, to close at USD6.95-1/2 a bushel, the highest price since September 2011 for a nearby contract. July's weekly was the biggest since April 1996 for a nearby contract on a continuous chart. Investment funds were said to have bought 11,000 corn contracts and 10,000 wheat contracts and sold 7,000 soybean contracts. In Asia, although tighter sanctions are targeting Iran's oil trade, India is considering wheat exports to Iran. India hopes to boost exports to the sanctions hit nation to help settle part of its oil imports bill through a bilateral mechanism.

Key Commodity Prices and Indices

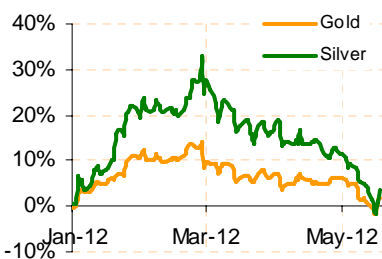
Benchmark Crude Oil Prices



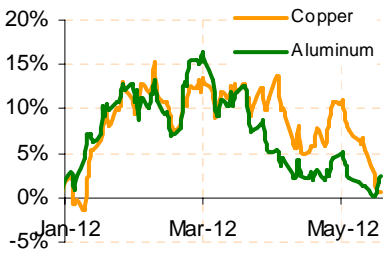
Saudi Arabian Light, Asia Deliveries



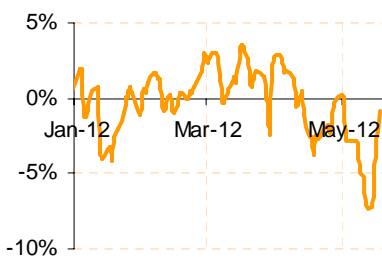
Precious Metals



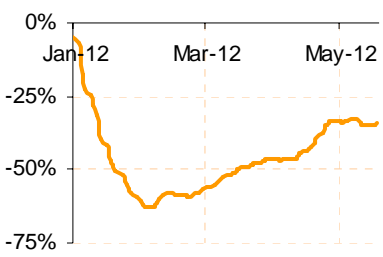
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Week
WTI, Spot, \$/bbl	18-May 91.51	-4.7%
Brent, Spot, \$/bbl	18-May 108.73	-3.7%
Gold, LME, \$/Oz	18-May 1,591.8	0.8%
Silver, LME, \$/Oz	18-May 28.68	-0.7%
Platinum, \$/Oz	18-May 1,450.0	-0.7%
Palladium, \$/Oz	18-May 601.12	0.3%
Aluminum, LME, \$/t	18-May 2,067	0.8%
Copper, LME, \$/t	18-May 7,730	-3.7%
Nickel, LME, \$/t	18-May 17,200	0.6%
Zinc, LME, \$/t	18-May 1,912	-1.5%
Wheat, May, \$/Bushel	18-May 5.98	0.8%
Corn, May, \$/Bushel	18-May 6.08	0.0%
Soybeans, May, \$/Bushel	18-May 13.90	-1.0%

Notes: All variables depicted in the charts above are rebased to 0% in the last trading day in 2011.

Global Macro

Has the Time Come to Euthanize the EU?

As the time for the EU council summit approaches, leaders of the Euro Zone struggle to tailor and tweak new policies to circumvent their southern economies out of the current pandemonium, notably with Greece's exit from the EU becoming increasingly eminent. In the years following the 2008 crisis, the EU council summit often discussed growth measures which provided a short respite after every meeting. However, in this upcoming summit in late June, markets are looking for more assurance in the form of credible policy making that will implement major concrete measures. In the meantime, Euro leaders are keeping the door open for a new bail-out package led by the new French president Hollande, whereas Germany is opting for a more fiscally responsible discipline, especially after the ECB pumped over EUR1 trn into the region. The push and pull between Germany, and France, the largest economies in the Euro zone, is stalling investments as investors anticipate whether or not the EU will continue to resuscitate European peripheral economies via stimulus against the thinning odds as credit ratings continue to downgrade. Meanwhile, according to ZEW indicator for economic sentiment, Germany suffered a decline in consumer sentiment during May to 10.8 from 23.4 in April which is primarily due to concerns of sustainability of income levels. As Greece passes the crossroads in the coming days, will a posterity of hope be reincarnated in the rebirth of the drachma?

Selected Global Macroeconomic Indicators

	Growth ¹			Inflation ²			Policy Rate ³			Policy Rate Change
	2010	Last	Period	Last	Date	Target	Last	Decision	Date	Cumulative 12YTD
Europe/Japan/Oceania										
Euro Zone	1.7%	0.7%	4Q11	2.6%	Apr-12	2.0%	1.00%	Hold	4-May-12	
UK	1.3%	0.5%	4Q11	3.5%	Apr-12	2.0%	0.50%	Hold	5-Apr-12	
Japan	3.9%	-0.7%	4Q11	0.2%	Mar-12	0.1%	0.10%	Hold	13-Mar-12	
Australia	2.7%	2.3%	4Q11	1.6%	Mar-11	3.0%	3.75%	-0.50%	1-May-12	
New Zealand	1.5%	1.8%	4Q11	1.6%	Mar-11	3.0%	2.50%	Hold	7-Mar-12	
Latin America/Caribbean										
Mexico	5.5%	4.6%	1Q12	3.7%	Mar-12	3.0%	4.50%	Hold	27-Apr-12	
Brazil	7.5%	1.4%	4Q11	5.2%	Mar-12	4.5%	9.00%	-0.75%	18-Apr-12	
Chile	5.3%	5.6%	1Q12	4.4%	Feb-12	3.0%	5.00%	Hold	17-May-12	
Asia/Southeast Asia										
China	10.3%	8.1%	1Q12	3.4%	Apr-12	4.0%	6.31%	0.25%	5-Apr-11	
India	10.4%	6.1%	4Q11	6.9%	Mar-12	7.0%	8.50%	Hold	15-Mar-12	
Singapore	14.5%	1.6%	1Q12	5.2%	Mar-12	3.8%	-	-	-	
South Korea	6.1%	2.8%	1Q12	2.5%	Apr-12	4.0%	3.25%	Hold	10-May-12	
Indonesia	6.1%	6.5%	4Q11	4.5%	Apr-12	5.0%	5.75%	Hold	10-May-12	
Thailand	7.8%	-9.0%	4Q11	2.5%	Apr-12	3.0%	3.00%	Hold	2-May-12	
Malaysia	7.2%	5.2%	4Q11	2.1%	Apr-12	2.0%	3.00%	Hold	9-Mar-12	
Eastern Europe/Central Asia										
Russia	4.0%	4.9%	1Q12	3.6%	Apr-11	7.0%	8.00%	-0.25%	23-Dec-11	
Turkey	8.2%	5.2%	4Q11	11.1%	Apr-12	5.5%	5.75%	Hold	21-Feb-12	

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.

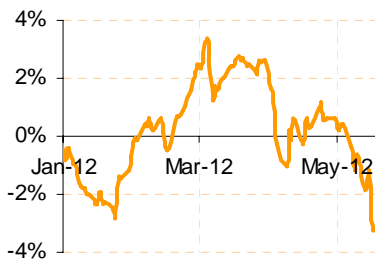
Regional Macro

Turkey Reviews Land Ownership

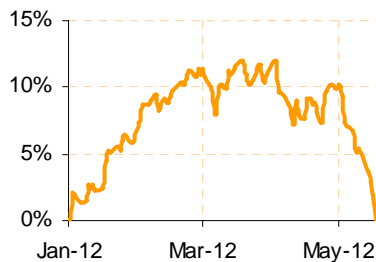
President Abdullah Gül on 17 May signed into law a July 2008 bill which liberalizes Turkish regulations on property ownership by foreigners. Foreign land ownership in modern Turkey has been based on the principle of full legal reciprocity which was first modified in 2003/2006. The new law further relaxes the provisions. Since 2008, foreigners have also been allowed to finance their purchases through a mortgage obtained in Turkey. The amount of land a foreign buyer can purchase has been increased from 25,000 sq m to 300,000 and, subject to Cabinet approval, up to 600,000 sq m. Buyers are required to present construction plans before a purchase can be approved. Purchase applications must be made to the Ministry of the Environment and Urbanization and construction must commence within two years. The implementation of the law is subject to Cabinet decisions on the permitted nationalities and locations. Among other things, the government is now authorizing the sale of up to 10% of the land area of densely populated towns to foreigners. A high proportion of land in Turkey is owned by the state, either through the Treasury or indirectly through the General Directorate for Foundations (vakıf). Foreign purchases have in recent years been dominated by Europeans, most notably from the UK, Germany, the Netherlands, Scandinavia, and Greece. The most popular areas have been along the coast and in Cappadocia. Total foreign purchases of land by 2008 included 63,100 lots with a total area of 25.4mn sq m.

Selected Regional Economic Indicators

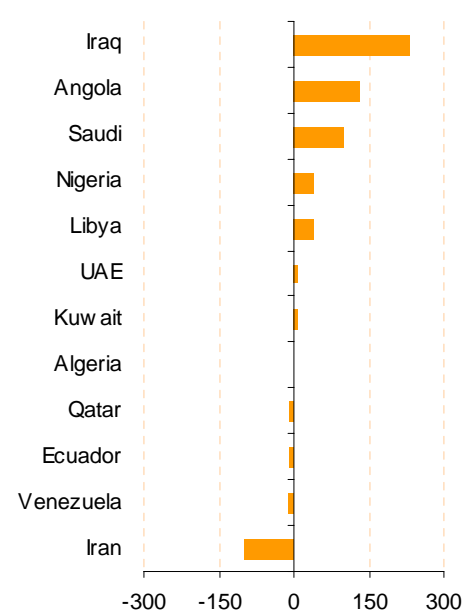
MSCI GCC¹



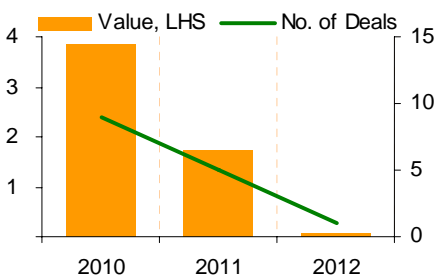
Dow Jones Islamic



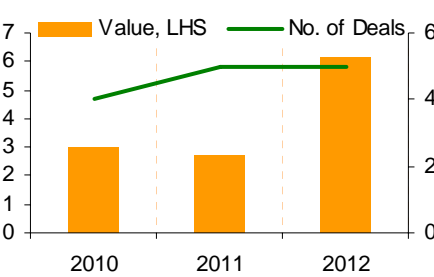
OPEC Oil Production, Monthly Change²



IPO Issuance³



Sukuk Issuance⁴



Middle East/Africa Selected Indicators

	Growth*		Period	Inflation*			Policy Rate*		
	Previous	Last		Last	Date	Target	Last	Decision	Date
Saudi Arabia	4.2%	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

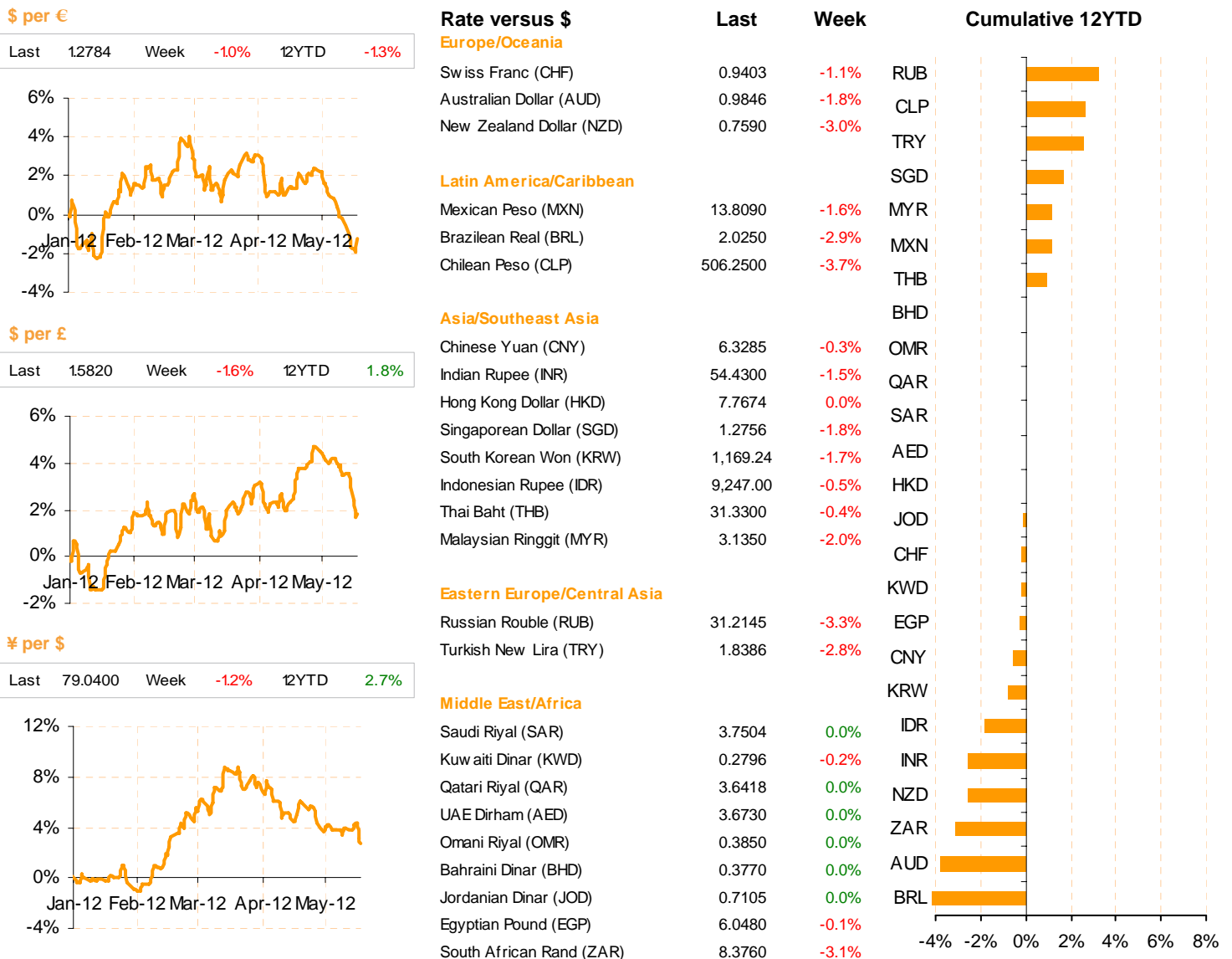
Notes: 1/MSCI GCC index excludes Kingdom of Saudi Arabia. 2/OPEC's monthly survey: Thousand barrels per day of crude oil. 3/Initial Public Offering values in billion USD. 4/Sukuk values in billion USD. 5/Growth: Real GDP Growth Rate, Y/Y % change in full year GDP. 6/CPI Inflation: Y/Y % change in CPI, 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

Retreating to the Greenback

Over the past week, worldwide concerns over the stability of the global economy heightened which dragged most major currencies lower against the US dollar, excluding the Japanese Yen. The uncertainty over the future of Greece's existence in the European Union caused investors to seek refuge in the world's number one safe haven, the greenback. The common currency plummeted to by 1% over the past week to record its third weekly decline which totaled 3.6%. During the G-8 summit, leaders urged Greece to stay in the Euro as a departure would cause severe repercussions in financial markets globally. Additionally, the British Pound depreciated by a substantial 1.6% as the government cuts its outlook for GDP and growth is likely to remain subdued over the near-term. The Bank of England will keep its benchmark interest rate at 0.50% and continue its GBP325 bn bond purchasing program to support growth and lower inflation. Meanwhile in Japan, long positions on the Yen have been somewhat limited by the government's intervention plans to stimulate growth and curb the currency's appreciation. A stronger Yen hinders export prospects for Japan as they lose price competitiveness. Global currencies will remain turbulent for the coming few weeks as new governments are established and the outlook of the global economy clears, but one thing is certain, the Euro will find difficulty in maintaining its current level against the greenback.

Key Spot Foreign Exchange Rates



Global Equity Markets

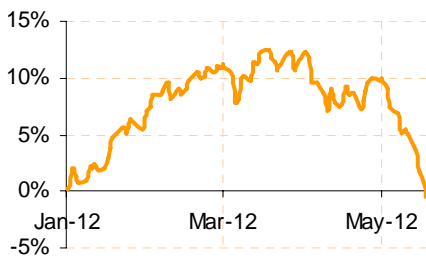
Greece Renders US Markets Volatile

Amid the European whirlwind, US financial markets will remain turbulent for the coming weeks primarily dependent on the developments in the Euro zone and the growing fears of Greece's exit. Due to speculations on the latter in addition to concerns over Spain and Italy's economic health, the US equity market erased USD1 trn since the beginning of May. S&P500 went down by 0.73% last week led by declines in Caterpillar and JPMorgan. Furthermore, the Dow fell by 3.52%, and NASDAQ slumped by 5.28% as Apple, Inc. dipped. Facebook's IPO debut last Friday, the largest technology IPO of all time, was received with a lot of hype, it only rose 23 cents above their USD38 offering price after it lost 4.4% of its shares due to a technical glitch. US investors shied off risky assets and flocked towards T-bills and bonds due to the crucial events in Europe that will take place in the medium term including Greece's possible exit from the European Union which will cause disruptions in financial markets. Additionally, Fitch dropped Greece's credit rating further from CCC to B-, making it even harder for business activity to induce growth as borrowing costs are becoming increasingly higher. Spain also was not spared, as 16 Spanish banks were downgraded by Moody's rating agency to BBB+.

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

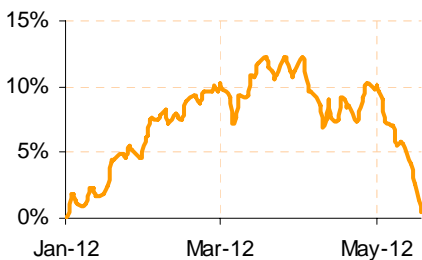
MSCI World

Last 298.2 Week -3.9% 11YTD -0.4%



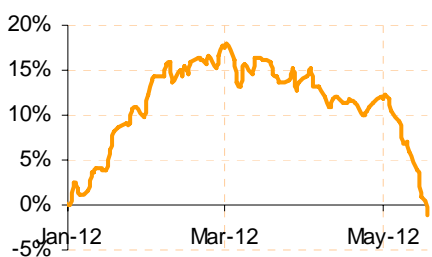
MSCI G7

Last 1,035.5 Week -3.6% 11YTD 0.4%



MSCI EM

Last 906.6 Week -4.8% 11YTD -1.1%



Country/Index

Europe/Japan/Oceania

Country/Index	Week	YTD
UK (FTSE100)	-3.6%	-5.5%
Germany (DAX30)	-2.8%	6.3%
France (CAC40)	-1.6%	-4.8%
Japan (N225)	-3.8%	2.1%
Australia (All Ordinaries)	-5.2%	0.3%
N. Zealand (NZSX50)	-1.7%	6.7%

Latin America/Caribbean

Mexico (IPC)	-3.9%	-0.5%
Brazil (Bovespa)	-5.3%	-3.9%
Chile (IGPA)	-3.4%	2.2%

Asia/Southeast Asia

China (Shanghai-C)	-1.4%	6.8%
India (BSE-Sensex)	-0.2%	4.7%
Hong Kong (Hang Seng)	-4.1%	2.6%
Singapore (Strait Times)	-2.6%	5.4%
S. Korea (KOSPI-C)	-6.0%	-1.5%
Indonesia (Jakarta-C)	-2.8%	3.1%
Thailand (SET)	-2.3%	3.9%
Malaysia (Kuala Lumpur-C)	-2.3%	0.5%

Eastern Europe/Central Asia

Russia (RTSI)	-8.0%	-6.7%
Turkey (ISE National 100)	-1.6%	11.1%

Middle East/Africa

KSA (TASI)	-1.3%	8.8%
Kuwait (KSEI)	-0.2%	10.5%
Qatar (DSM20)	-0.8%	-4.1%
Abu Dhabi (ADI)	-0.2%	2.8%
Dubai (DFMGI)	0.4%	10.0%
Oman (MSM30)	-0.6%	-1.3%
Bahrain (All Share I)	-0.9%	0.2%
Jordan (ASE General I)	-3.6%	-5.8%
Egypt (CASE30)	-3.6%	34.7%
S. Africa (JSE All Share Index)	-1.1%	3.6%

Cumulative 12YTD





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