

# Market Review & Outlook

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

## SPECIAL FOCUS

### A Mystifying, Darkening Horizon (page 3)

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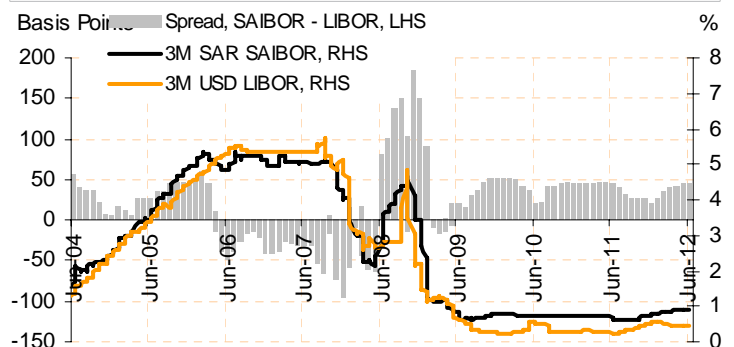
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### Saudi Arabia Leading Economic Indicators

	2011	Latest	Period
Average WTI, Cushing 1M, USD/bbl	94.8	101.1	12YTD
Weighted Average Arabian Light, USD/bbl	108.1	116.0	12YTD
Average 3M USD LIBOR	0.33%	0.50%	12YTD
Average 3M SAR SAIBOR	0.69%	0.86%	12YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	36.0	36.2	12YTD
Y/Y Growth in Monetary Base (M0)	17.4%	2.2%	Apr 12
Y/Y Growth in Money Supply (M3)	13.3%	8.0%	Apr 12

### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 1 June 2012

### View of the Week

“...the infamous euphemism of the Federal Reserve is now prompted to change its tone to a more realistic post-recession descriptive approach.”

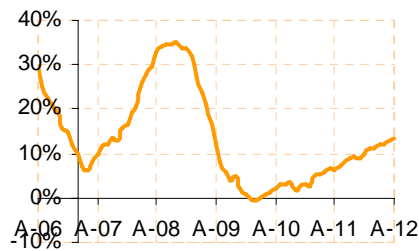
# Saudi Macro and Equity Market

## External Factors Overpower Fundamentals

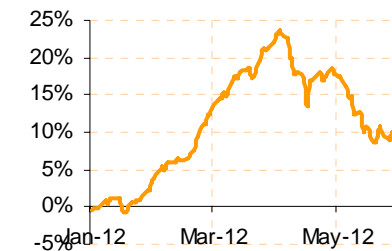
Risky assets have performed well during the first quarter this year. However, equities have lost their steam as the global economy tumbles with the European region's stability. The pressures mounting from the regional debt crisis affected stocks and Saudi Arabia's Tadawul was no exception. The domestic market started off 2012 by amassing large volumes of liquidity, peaking at SAR21.6 bn during mid-March, levels unseen since 2008. During that time, the index climbed by a significant 21.6% since the beginning of the year as stock prices were relatively cheap taking into consideration the superb corporate profitability performances across the board. Saudi's large revenues from oil drove the non-oil sector to record 7.8% last year, an unprecedented feat. Business has been booming as consumer expenditure continues to drive expansion opportunities to meet local demand. Nonetheless, strains from the global slowdown have been weighing on stocks and since its peak; the All-Share index has plummeted by 8.4% as of last week notwithstanding the limited exposure of local companies to global turmoil. Daily traded values have dropped to an average of SAR6.2 bn over the past two weeks as investors shy away from risky assets. Even though the price-to-earnings ratio has dropped to 11.7, the market continues to experience huge outflows and is finding difficulty in attracting capital. It seems that Tadawul has returned to its old habits of ignoring strong fundamentals in favor of external disruptions.

## Key Macroeconomic and Equity Market Indicators

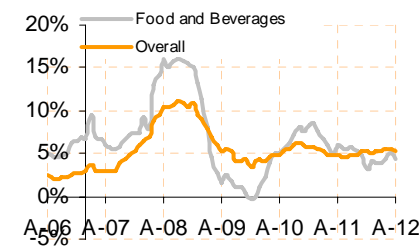
Y/Y Growth in Credit (Private Sector)



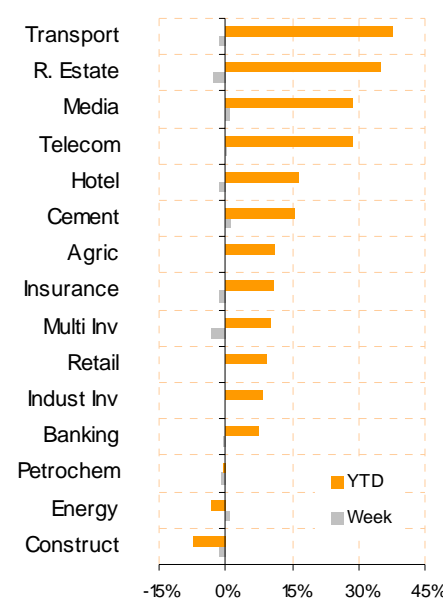
Tadawul All Share Index: 31 Dec 10 = 0%



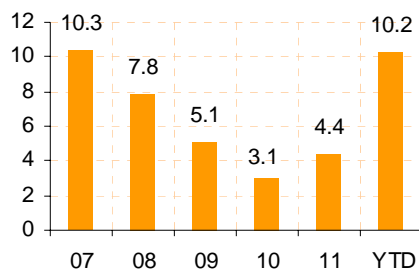
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl <sup>1</sup>	2012 116.0	2011 108.1
Oil Production, mmbd <sup>2</sup>	May 10.10	Apr 10.00
Real GDP	2011 6.8%	2010 4.60%
CPI Inflation, Y/Y	Apr 5.3%	Mar 5.4%
Broad Money (M3), Y/Y	Apr 8.0%	Mar 10.5%
Credit, Private Sector	Apr 13.5%	Mar 12.8%
Credit, Corporate	4Q 11 7.3%	3Q 11 8.6%
Credit, Households	4Q 11 20.7%	3Q 11 10.0%
Net Claims on Government <sup>3</sup>	Apr -1,154.9	Mar -1,100.6
Loan-to-deposit Ratio <sup>4</sup>	Apr 75.1%	Mar 78.2%
Excess Reserves/Total <sup>5</sup>	Apr 55.9%	Mar 56.2%
Net Foreign Assets, USDbn <sup>6</sup>	Apr 57.2	Mar 561.6
Import LCs, SARbn <sup>7</sup>	4M 12 70.4	4M 11 55.7

**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 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.

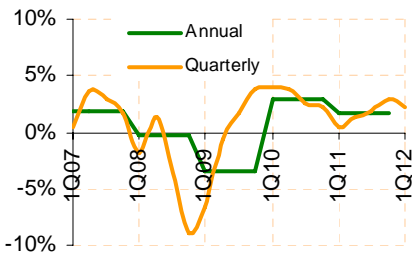
# US Macro and Equity Markets

## A Mystifying, Darkening Horizon

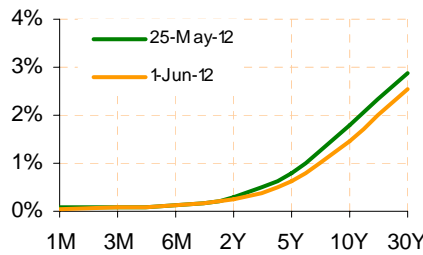
Jobs data for May came out rather disappointing for the third consecutive month raising unemployment back to March's 8.2%, indicating a fundamental weakness to the Keynesian and monetary stimulus theories, and giving more credibility to the Reinhart and Rogoff thesis that too much debt inhibits growth, amplifies and causes structural damage. With only 69,000 jobs created, the weakest jobs increase in a year, and the prior two months revised downwards, the infamous euphemism of the Federal Reserve is now prompted to change its tone to a more realistic post-recession descriptive approach. So far, the recovery from the 2008 crisis has been primarily dependant on monetary stimulus as an application for the Keynesian model. However, the Austrian school of thought regards this as a misplaced investment due to lack of real economic drivers such as business activity that needs to be government-sponsored and subsidized – which is often hard to implement given the heavily piling fiscal debt. Of course, austerity in the meantime is out of question because it is never in favor of politicians, especially during elections season. Therefore, it is double-trouble for president Obama's re-election campaign as his advocacy for blue-collar workers, especially in the rust belt began to come out of thin air. Although macroeconomic models are overly simplified to describe real-life complex mechanisms, they should provide policy makers with enough insight to counteract ailments and stimulate growth via businesses and industries instead of flooding the market with printed money.

## Key Macroeconomic and Capital Market Indicators

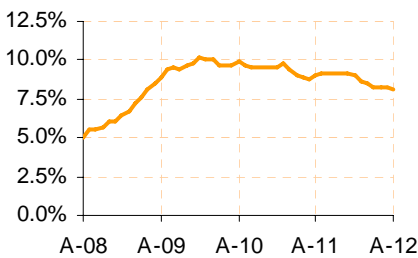
Real GDP Growth, Annualized



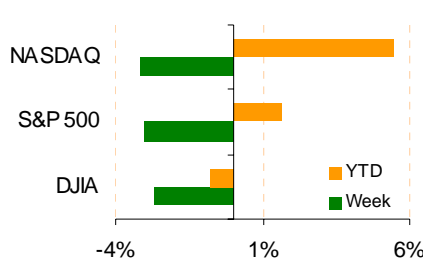
Benchmark Yields, Annualized



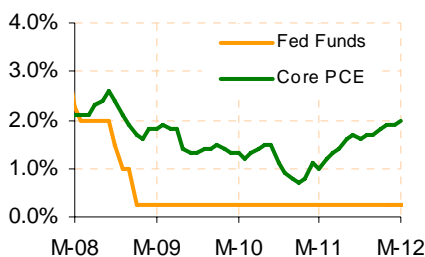
National Unemployment Rate



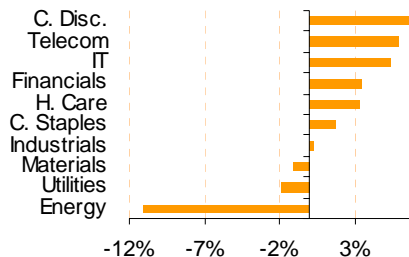
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
Real GDP	1Q 12 (A) 1.9%	1Q 12 (P) 6/31/2012
Unemployment	May 8.2%	Jun 6/31/2012
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	Apr 1.90%	Apr 1-Jul
Existing Home Sales, M/M	Apr 3.4%	May 21-Jun
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.

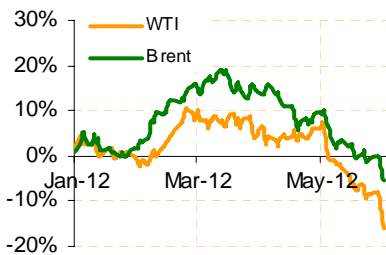
# Commodity Markets

## Oil Prices Stumble on Weak Data

A majority of commodities slid on Friday as weak US jobs data initiated massive selling by investors whom are already frazzled about the economies in Europe and Asia. Brent crude oil fell for a fourth straight day, dropping under USD100 a barrel to a 16-month low. US job growth stumbled in May and the jobless rate rose for the first time in nearly a year. Furthermore, the second largest oil consumer, China, recorded a slowdown in its manufacturing sector, which dragged crude down. The gloomy data has added to ongoing worries that the euro zone crisis will hurt fuel demand. This steered Brent crude down from its 2012 peak of more than USD128 a barrel in early March. Brent crude dropped to USD3.44 to settle at USD98.43 a barrel, the weakest close since Jan. 27, 2011, having pushed below USD100 for the first time since October. Brent's intraday low of USD97.54 was the weakest since February 2011. The weekly loss of 7.9% was front-month Brent's fifth straight weekly slip and its five-week slump of 17.9% was the biggest five-week percentage decline since the period to June 6, 2010. US July crude also fell a fourth straight day, losing USD3.30 to settle at USD83.23 a barrel, the lowest settlement since Oct. 7. The intraday low of USD82.29 also was the lowest since October. Brent so far in 2012 averaged USD117 a barrel, up from 2011's USD110, which was a record high. Oil's fall below USD100 a barrel is unlikely to trigger a supply cut from Saudi Arabia given its budget can sustain a lower price.

## Key Commodity Prices and Indices

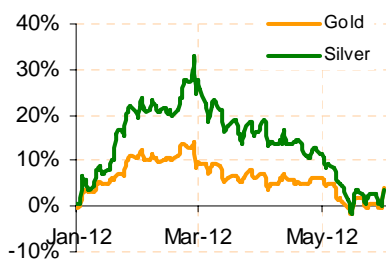
**Benchmark Crude Oil Prices**



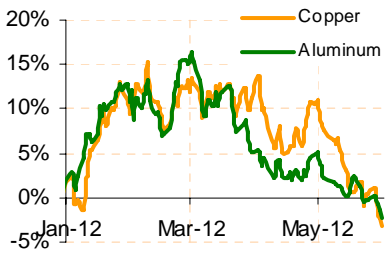
**Saudi Arabian Light, Asia Deliveries**



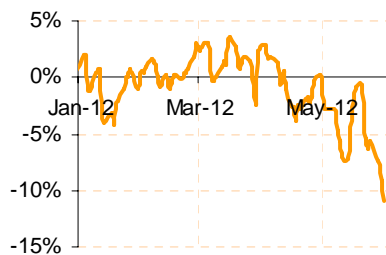
**Precious Metals**



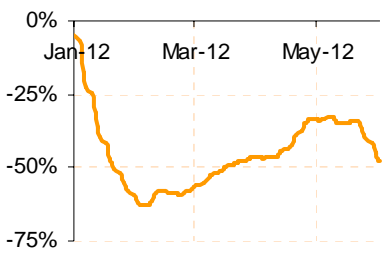
**Base Metals**



**Goldman Sachs Agriculture Index**



**Baltic Exchange Dry Index**



	Last	Week
<b>WTI, Spot, \$/bbl</b>	83.17	-8.2%
<b>Brent, Spot, \$/bbl</b>	99.28	-8.5%
<b>Gold, LME, \$/Oz</b>	1,625.6	3.4%
<b>Silver, LME, \$/Oz</b>	28.64	0.6%
<b>Platinum, \$/Oz</b>	1,441.9	1.0%
<b>Palladium, \$/Oz</b>	611.00	3.6%
<b>Aluminum, LME, \$/t</b>	1,986	-1.4%
<b>Copper, LME, \$/t</b>	7,355	-3.7%
<b>Nickel, LME, \$/t</b>	16,175	-4.9%
<b>Zinc, LME, \$/t</b>	1,876	-1.0%
<b>Wheat, Jul, \$/Bushel</b>	6.12	-10.0%
<b>Corn, Jul, \$/Bushel</b>	5.52	-4.7%
<b>Soybeans, Jul, \$/Bushel</b>	13.44	-2.7%

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

# Global Macro

## Fiscal Compact Gives Birth to New Hope

The Irish referendum votes of 60% to keep on a tight leash came in favor for the Fiscal Compact Treaty. That being said, the EU only bought itself more time to devise policies in order to salvage the situation. Economic growth remains highly problematic under the sovereign debt of the European peripherals, and a debt moratorium can only do so much with the constant contraction in manufacturing and increasing unemployment rate which reached 11% in May. As the Spanish government became over crumbed by debt, unable to put a lid on its fiscal spending, and companies struggle to keep their production cost to a minimum, they resorted to slashing down input cost and mass layoffs, resulting in around a quarter of Spain's labor force finding themselves jobless, and its banking sector downward spiraling due to credit downgrades. However, Spain seems determined to survive its fiscal crisis despite the increase in its risk premium as the Minister of Finances pledged to "carry out reforms" that will be long-term, and will not call out for the IMF's rescue. As vague as this statement sounds, the IMF officially announced that it denied planning any financial assistance to Spain. The current spread between German and Spanish bonds is 539.9 bps which leaves a question mark on the new measures Spain is willing to take in order to save its Economy. In the coming days, the oblique situation in Spain and Italy will pose as a stress test for the efficacy of the EU and its ability to withstand the double dip recession.

## 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>										
Euro Zone	1.7%	0.7%	4Q11	2.6%	Apr-12	2.0%	1.00%	Hold	4-May-12	E. Zone
UK	1.3%	0.5%	4Q11	3.0%	Apr-12	2.0%	0.50%	Hold	5-Apr-12	UK
Japan	3.9%	-0.7%	4Q11	0.2%	Mar-12	0.1%	0.10%	Hold	13-Mar-12	Japan
Australia	2.7%	2.3%	4Q11	1.6%	Mar-11	3.0%	3.75%	-0.50%	1-May-12	Australia
New Zealand	1.5%	1.8%	4Q11	1.6%	Mar-11	3.0%	2.50%	Hold	7-Mar-12	N. Zealand
<b>Latin America/Caribbean</b>										
Mexico	5.5%	4.6%	1Q12	3.7%	Mar-12	3.0%	4.50%	Hold	27-Apr-12	Mexico
Brazil	7.5%	1.4%	4Q11	5.2%	Mar-12	4.5%	9.00%	-0.75%	18-Apr-12	Brazil
Chile	5.3%	5.6%	1Q12	4.4%	Feb-12	3.0%	5.00%	Hold	17-May-12	Chile
<b>Asia/Southeast Asia</b>										
China	10.3%	8.1%	1Q12	3.4%	Apr-12	4.0%	6.31%	0.25%	5-Apr-11	China
India	10.4%	6.1%	4Q11	6.9%	Mar-12	7.0%	8.50%	Hold	15-Mar-12	India
Singapore	14.5%	1.6%	1Q12	5.4%	Apr-12	3.8%	-	-	-	Singapore
South Korea	6.1%	2.8%	1Q12	2.5%	May-12	4.0%	3.25%	Hold	10-May-12	S. Korea
Indonesia	6.1%	6.5%	4Q11	4.5%	May-12	5.0%	5.75%	Hold	10-May-12	Indonesia
Thailand	7.8%	-9.0%	4Q11	2.5%	May-12	3.0%	3.00%	Hold	2-May-12	Thailand
Malaysia	7.2%	5.2%	4Q11	1.9%	Apr-12	2.0%	3.00%	Hold	9-Mar-12	Malaysia
<b>Eastern Europe/Central Asia</b>										
Russia	4.0%	4.9%	1Q12	3.6%	Apr-11	7.0%	8.00%	-0.25%	23-Dec-11	Russia
Turkey	8.2%	5.2%	4Q11	11.1%	Apr-12	5.5%	5.75%	Hold	21-Feb-12	Turkey

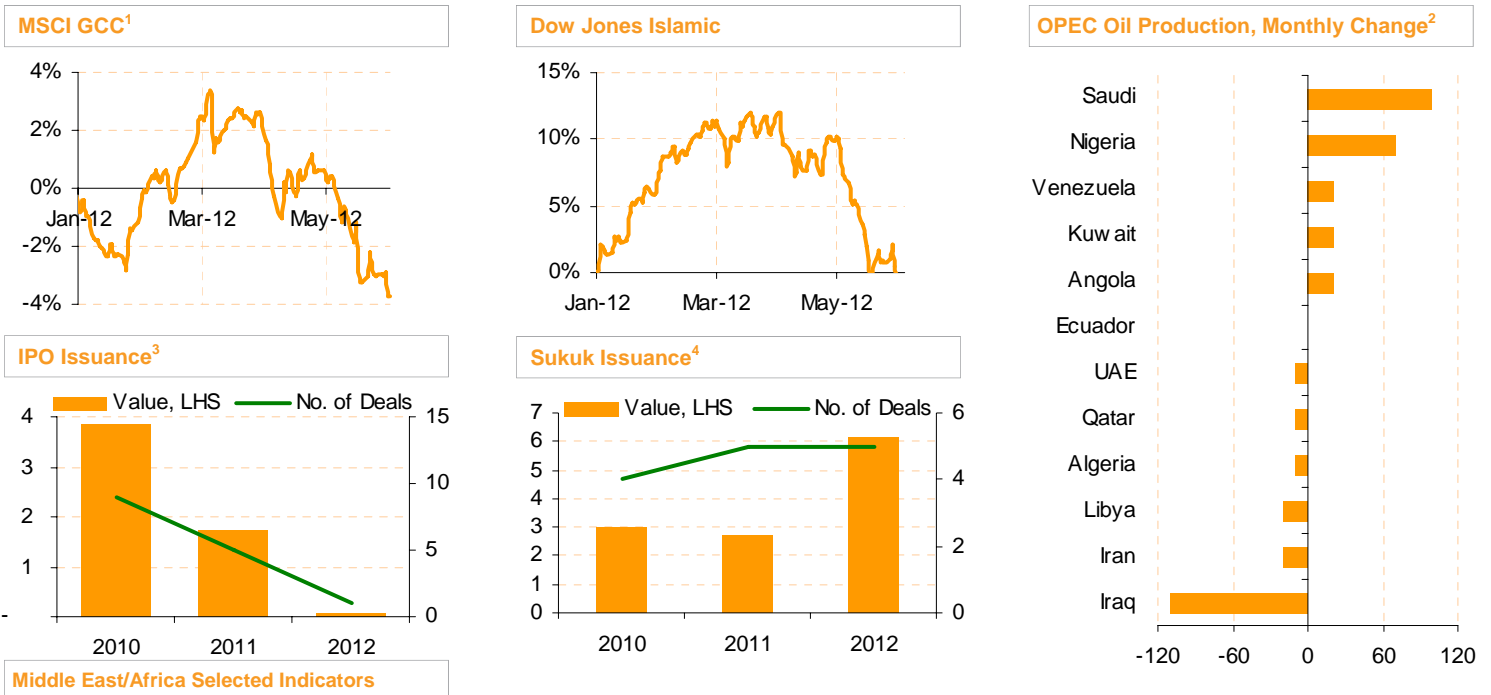
**Notes:** 1/Growth: Real GDP Growth Rate, 2010: Y/Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 2/ CPI Inflation: Y/Y % change in CPI, Target: Central bank/monetary authority inflation target. 3/Policy Rate: Last: Current policy rate, Decision/Date: Decision taken in latest meeting/Date of latest meeting.

# Regional Macro

## Turkish Exports Improve

A seemingly unsustainable external deficit has been Turkey's principal macroeconomic imbalance and source of potential risks in recent years. In spite of the persistent global economic uncertainties, however, the most recent trade data point to some encouraging developments. According to the Turkish Assembly of Exporters, total exports during the first five months of the year were USD59.8bn -- 10.3% ahead of the total recorded a year earlier. The annualized rate of increase in the month of May was 7.3% with exports reaching a total of USD11.8bn. Automotives were the most important export category with an aggregate value of USD1.7bn, a share of 14%. Agricultural exports increased 12.3% to USD1.6bn or 13% of the total. Developing export markets outside of the traditionally dominant EU has been a key policy priority for the authorities and the effort seems to be paying off. The EU's share of Turkey's exports in the first five months was 41%, down on 48% last year. Germany, Iraq, and the UK were the leading export destinations. Iran was the main export market in April. The positive momentum in exports has significantly curbed Turkey's foreign trade deficit which in April reached USD6.6bn -- down 27.3% Y/Y. The aggregate deficit for the 12 months to April was USD99.1bn or USD48.7bn if energy is excluded. Mineral fuels and oil remain the leading import category and account for Russia's position as the leading supplier of imports, followed by Germany, China, and Iran.

## Selected Regional Economic Indicators



Middle East/Africa Selected Indicators			Inflation*			Policy Rate*			
	Previous	Growth* Last	Period	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

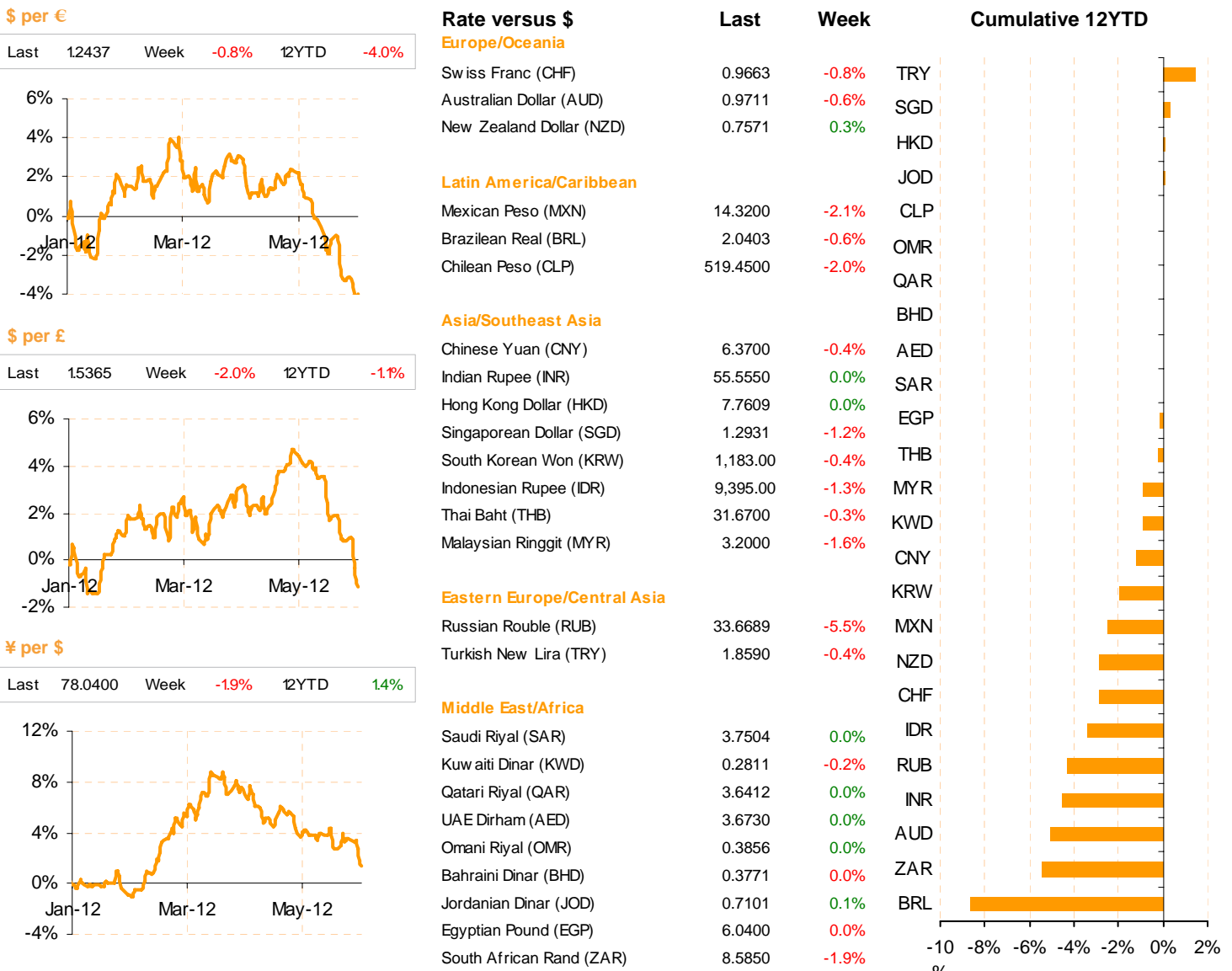
**Notes:** 1/MSCI GCC index excludes Kingdom of Saudi Arabia. 2/OPEC's monthly survey: Thousand barrels per day of crude oil.. 3/Initial Public Offering values in billion USD. 4/Sukuk values in billion USD. 5/Growth: Real GDP Growth Rate, Y/Y % change in full year GDP. 6/CPI Inflation: Y/Y % change in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

## Japan's Double Whammy

The chaos created by the Greek debt crisis has overwhelmed the global economy as the contagion now risks a much larger economy, Spain. The Spanish government has stated the difficulty in controlling their debt levels as the lack of fiscal prudence and governance fails to exist in the deteriorating region. As such, investors have been seeking refuge in safer assets as the uncertainty builds up around Greece's possible exit. The US dollar has been the main beneficiary thus far, gaining 5.3%, according to the trade weighted dollar index, over the past three months. However, the US recovery has hit a soft patch which was reassured by the latest employment figures. Employers only added 69,000 jobs during May while expectations were around 150,000. From an investor's point of view, the new theme is to seek the safest safe haven, come forth the Japanese Yen. As Japan's trade surplus comforts investors seeking a safe asset in times of turmoil, the Yen gained over the week by 2.1% against the greenback reaching 78.04 on Fridays' close. The woes on Japan's economy are doubled as the economy struggles with weaker global demand; it is also pressured by an appreciating currency which hinders exports. The Finance Minister has pledged to take decisive action to curb the currency's gains and the Bank of Japan has intervened numerous times to achieve this task. Given the current turnout of events, the Yen is expected to gain further in the short run.

## Key Spot Foreign Exchange Rates



# Global Equity Markets

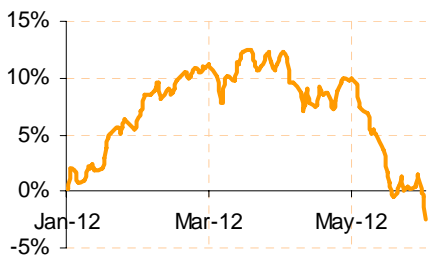
## Global Fears Drag Down Stocks

A gloomy outlook befell US equities last week as an extension for global concerns over the Euro zone's fiscal cliff, recent weak jobs data, and the slacking Chinese manufacturing. Crude oil fell well below USD 100 per barrel, and with such indicators, investors plunged into fear and scurried for the safety of bonds, although 1.75% below the rate of inflation; what eats off the economy's ability to regain confidence and stand on its feet. US stock indices fell sharply over last week, with the DOW losing 3.3%, S&P500 was dragged down by 3.2% while NASDAQ fell by the same percentage which extrapolates an overall global slowdown. This is a reminder that the US is not quite out of the woods yet, and in fact, investors anticipate the upcoming Fed's meeting in June as the probability for QE3 remains elevated. However, with interest rates being currently near 0%, absence of growth measures will throw the US into a liquidity trap, and it would be impossible for the US economy to steer away from the vicious cycle that currently engulfs Europe and might soon become a global phenomenon. Whether or not the next EU metamorphosis will include Greece will surely leave its imprints on the rest of the world's financial markets, especially the US.

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

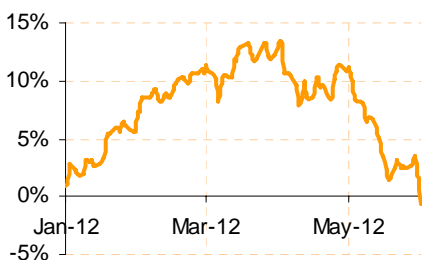
### MSCI World

Last 292.0 Week -2.9% 1YTD -2.5%



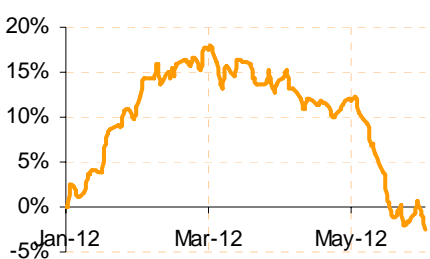
### MSCI G7

Last 1,015.6 Week -3.1% 1YTD -1.5%



### MSCI EM

Last 893.9 Week -1.7% 1YTD -2.5%



### Country/Index

#### Europe/Japan/Oceania

Country/Index	Week	YTD
UK (FTSE100)	-1.8%	-5.6%
Germany (DAX30)	-4.3%	2.6%
France (CAC40)	-3.0%	-6.6%
Japan (N225)	-3.5%	-1.9%
Australia (All Ordinaries)	-2.1%	-1.9%
N. Zealand (NZSX50)	-0.3%	5.4%

#### Latin America/Caribbean

Mexico (IPC)	-1.2%	0.3%
Brazil (Bovespa)	-3.3%	-5.9%
Chile (IGPA)	0.3%	2.6%

#### Asia/Southeast Asia

China (Shanghai-C)	-2.2%	5.0%
India (BSE-Sensex)	-2.8%	3.3%
Hong Kong (Hang Seng)	-3.3%	-1.3%
Singapore (Strait Times)	-1.5%	3.8%
S. Korea (KOSPI-C)	0.6%	0.5%
Indonesia (Jakarta-C)	-3.0%	-0.6%
Thailand (SET)	-2.3%	2.4%
Malaysia (Kuala Lumpur-C)	1.2%	2.8%

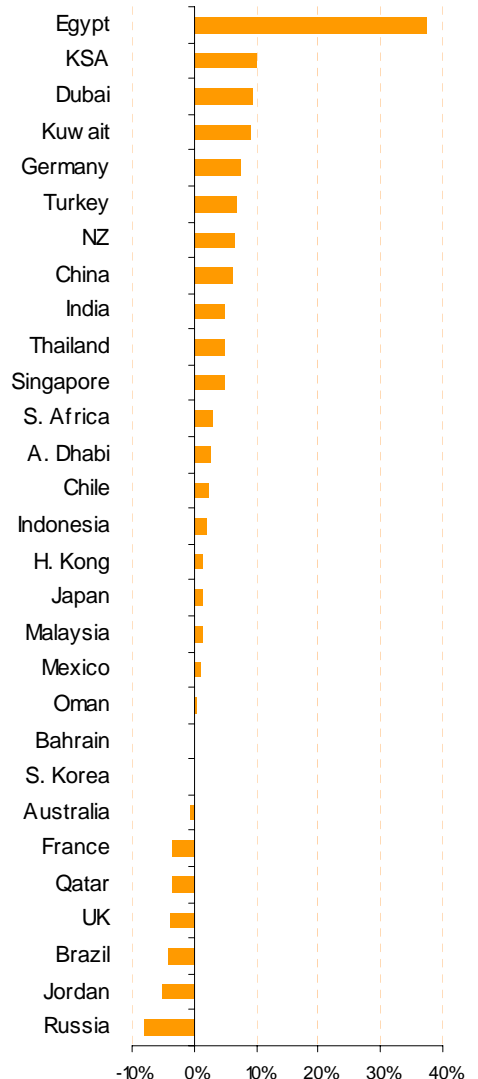
#### Eastern Europe/Central Asia

Russia (RTSI)	-3.9%	-11.2%
Turkey (ISE National 100)	1.3%	8.4%

#### Middle East/Africa

KSA (TASI)	-4.4%	5.1%
Kuwait (KSEI)	-1.5%	5.3%
Qatar (DSM20)	-2.1%	-5.1%
Abu Dhabi (ADI)	-1.2%	1.0%
Dubai (DFMGI)	-2.4%	6.5%
Oman (MSM30)	0.4%	0.5%
Bahrain (All Share I)	-0.4%	-0.5%
Jordan (ASE General I)	-1.8%	-6.8%
Egypt (CASE30)	-2.4%	27.7%
S. Africa (JSE All Share Index)	0.0%	3.5%

### Cumulative 12YTD







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