Issue #: 1
January 3, 2011
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Market Review & Outlook

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

SPECIAL FOCUS

EU Welcomes a New Member (page 7)

HEADLINES

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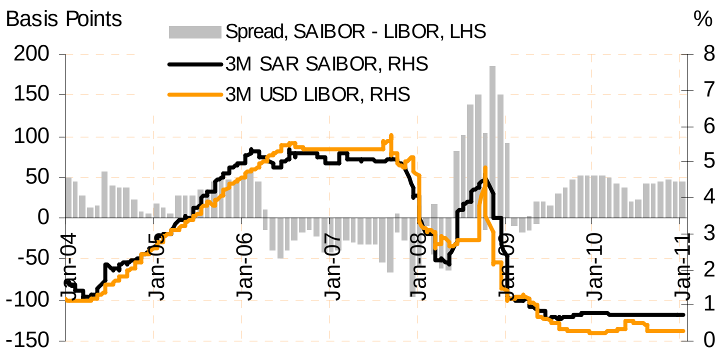
Saudi Arabia Leading Economic Indicators

	2009	Latest	Period
Average WTI, Cushing 1M, USD/bbl	62.0	78.8	10YTD
Weighted Average Arabian Light, USD/bbl	61.0	76.3	10YTD
Average 3M USD LIBOR	0.69%	0.34%	10YTD
Average 3M SAR SAIBOR	0.92%	0.74%	10YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	22.1	39.5	10YTD
Y/Y Growth in Monetary Base (M0)	37.9%	-0.99%	Nov 10
Y/Y Growth in Money Supply (M3)	10.7%	3.72%	Nov 10

Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 31 December 2010
** 2008 Numbers*

View of the Week

"Estonia has undergone austere measures to join the EU, whether it will prove beneficial for the county's economy or not, only time will tell."

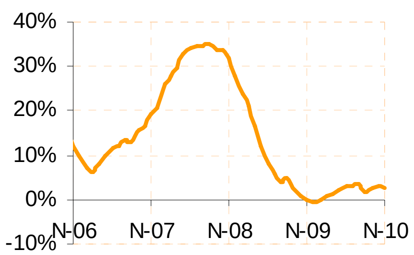
Saudi Macro and Equity Market

Stock Market Fundamentals are Sound

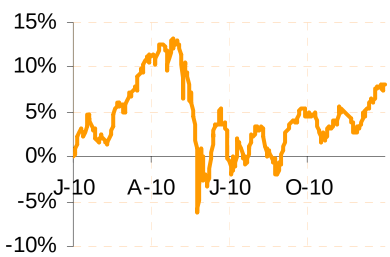
By end of 2010, the Saudi stock market had gained 8.2% annually, to reach 6,620.75 points, backed by healthier corporate earnings and induced by stronger investor sentiment. The Tadawul All Share Index (TASI) currently encompasses 146 companies in 15 sectors, whose total market capitalization by end of December stood at SAR1,325 bn, an increase of 10.9% against 2009. When compared with the Kingdom's end of year nominal GDP of SAR1,630 bn, the market cap accounted for almost 81% of the entire economy. This translates into the stock market's tendency of being overheated with few companies amassing worth that is marginally close to the size of the economy, pointing towards limited upward potential. By comparison, in 2000, this ratio was equivalent to 39%, and in 2009, it was 86% despite lower number of traded companies. The TASI's P/E ratio for 2010 averaged 15.28x, yielding 6.5%, signifying a SAR15 payout for every SAR1 of income generated, or alternatively, 15 years is the timeframe for recovering an investment in the stock market. While this is healthier than holding cash at local banks generating less than 1% of income, there is more risk associated. The value of shares traded reached SAR759 bn, resulting in a turnover ratio of 57%, signifying bullish investor outlooks, but also speculative buying. Nonetheless, stock market fundamentals remain strong, as corporate earnings increased by 29%Y/Y to reach SAR87 bn.

Key Macroeconomic and Equity Market Indicators

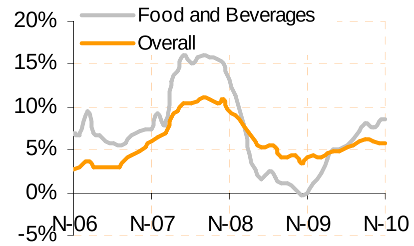
Y/Y Growth in Credit (Private Sector)



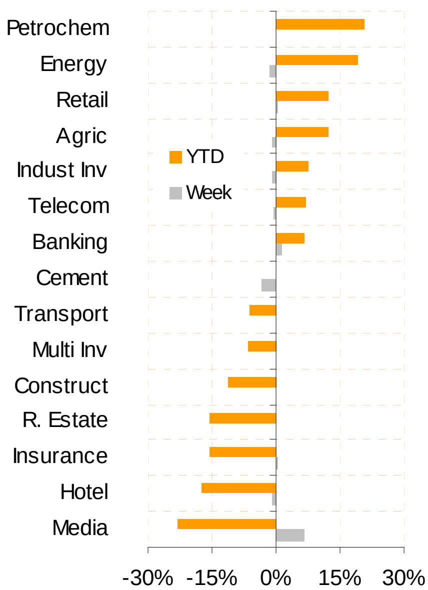
Tadawul All Share Index: 31 Dec 09 = 0%



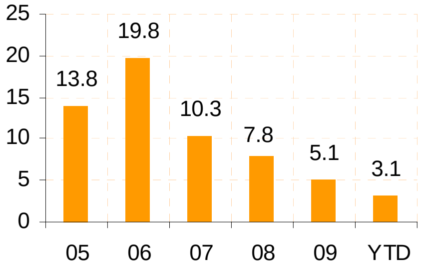
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
	YTD	2009
Oil Price, $bbl[1]	76.3	61.0
	Dec	Nov
Oil Production, mmbd[2]	8.25	8.25
	2010	2009
Real GDP	3.8%	0.6%
	Nov	Oct
CPI Inflation, Y/Y	5.8%	5.8%
	Nov	Oct
Broad Money (M3), Y/Y	3.7%	3.7%
	Nov	Oct
Credit, Private Sector	2.7%	3.1%
	3Q10	2Q10
Credit, Corporate	0.27%	0.76%
	3Q10	2Q10
Credit, Households	9.08%	9.17%
	Nov	Oct
Net Claims on Government[3]	-824	-840
	Nov	Oct
Loan-to-deposit Ratio[4]	77.0%	78.8%
	Nov	Oct
Excess Reserves/Total[5]	61.3%	55.1%
	Nov	Oct
Net Foreign Assets, USDbn	463.5	458.4
	11M 10	11M 09
Import LCs, SARbn[6]	138.4	110.8

Sources: SAMA, Reuters. **Notes:** 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: The ratio of bank claims on the private sector (excluding investments in private securities) to total deposits, as reported on the consolidated balance sheet of banks. 5/Excess reserves/total: The ratio of excess reserves held by commercial banks in SAMA to total bank deposits in SAMA. 6/ Import LCs: The cumulative value of letters of credit opened by banks to finance private sector imports.

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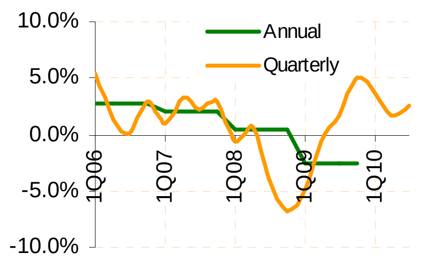
US Macro and Equity Markets

Off to a New Start

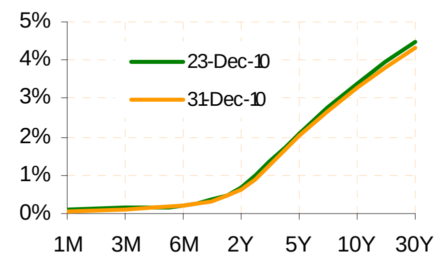
Friday marked the last day of 2010. Moving forward into 2011, once celebrations of the New Year settle, the world's largest economy will have a fresh start and try to accelerate its growth. To recap some 2010 figures, the greenback appreciated against the EUR and GBP 6.5% and 3.4%, respectively. Meanwhile, the yen appreciated 14.4% against the dollar. In addition, equity markets have performed rather well in 2010. The three major US indices, Dow, S&P500, and NASDAQ have recorded considerable gains with 11%, 12.8%, and 16.9%, respectively, outperforming UK's FTSE100 at 10.3% and Singapore's Strait Times at 10.6%. Yet their performances were far below 2009's performance especially for NASDAQ which gained a remarkable 43.8%. On the other hand, the unemployment rate held high, hovering around 10% for most of the year. The Fed's second round of injections expanded the total stimulus package to USD1.7 trn and the non-traditional tool comes with huge expectations. Showing signs of commitment, a two-year extension on tax cuts worth USD858 bn is in the final processes. The Government is still persistent in doing whatever is necessary to stimulate the economy's growth and, in turn boost global confidence. However, the current turmoil in the Euro region might hinder the optimistic outlook for 2011 if the contagious peripheral debt crisis continues to inflict pain on fragile economies.

Key Macroeconomic and Capital Market Indicators

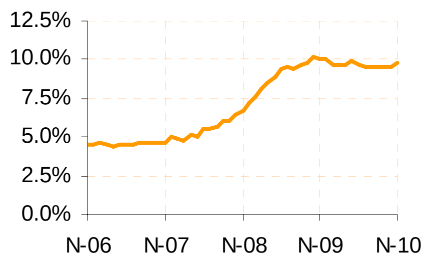
Real GDP Growth, Annualized



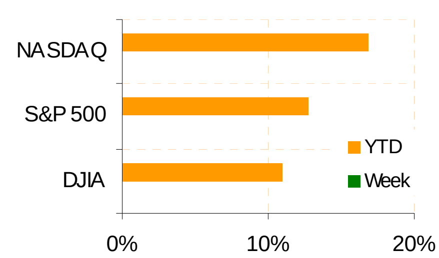
Benchmark Yields, Annualized



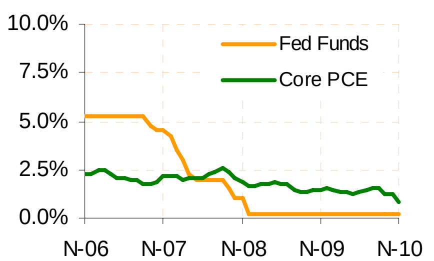
National Unemployment Rate



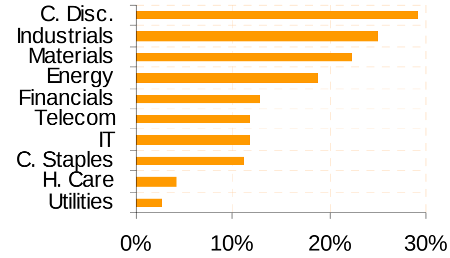
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
	3Q10(F)	4Q10(A)
Real GDP	2.6%	28-Jan
	Nov	Dec
Unemployment	9.8%	7-Jan
	Nov	Dec
A. H. Earnings, M/M	0.0%	4-Jan
	Nov	Dec
CPI Inflation, Y/Y	1.10%	15-Jan
	Nov	Dec
Core PCE, Y/Y	0.80%	23-Jan
	Nov	Dec
Existing Home Sales, M/M	5.6%	24-Jan
	Nov	Dec
Housing Starts, M/M	3.9%	16-Jan
	Oct	Nov
Trade Balance, $bn	-38.71	10-Jan
	Nov	Dec
Retail Sales, M/M	0.80%	14-Jan
	Nov	Dec
Industrial Production, M/M	0.4%	18-Jan
	Nov	Dec
Capacity Utilization	75.2%	15-Jan
	Oct	Nov
Fed Funds Rate	0.25%	26-Jan

Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).
Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate.

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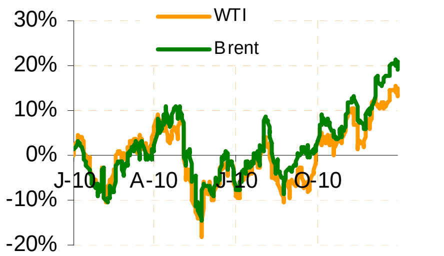
Commodity Markets

Upbeat Commodities Outlook

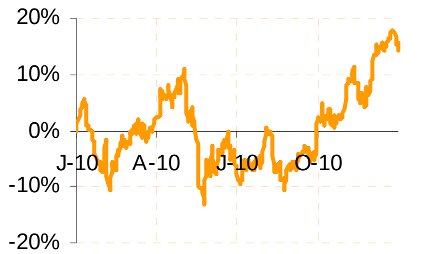
Last year was a boon to commodities across the board, most notably during the second half of 2010, as interest rates were kept low throughout the year and investors resorted to precious metals as a safe-haven. Gold and silver rose by 29.8% and 83.4%, to USD 1,423.45 and 30.96 per ounce, respectively. In addition, prices for March deliveries rose by USD16.1 and USD0.417, to USD1,422 and USD30.93 per ounce, respectively. Futures on corn and soybean experienced a summer rally due to lower reserves, which caused a price rally that continued till closing on Friday, ending at USD6.29 and USD14.03 per bushel. Furthermore, wheat prices soared last year, primarily due to weather problems, causing a decrease in exports which could not meet higher demands. Contracts for March delivery climbed up 7.6 cents to settle at USD7.92 on Friday. China's demand for corn and soybean has been the main driver of higher prices last year. In addition, oil averaged just below USD80, but saw a fluctuated rise starting in September, and closed at USD91.38 at the end of 2010. This rally is expected to continue in 2011 and might push prices up to more than USD100, as demand is expected to continue increasing in both China and India. We are bullish on commodities in 2011, largely driven by investor demand for hedges against the threat of looming deflation or subsequent inflation as governments around the world continue to print money to shore up their economies. Mounting supply bottlenecks across commodity classes could be another supporting factor that underpins the upward trend.

Key Commodity Prices and Indices

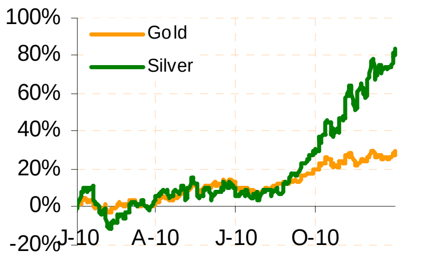
Benchmark Crude Oil Prices



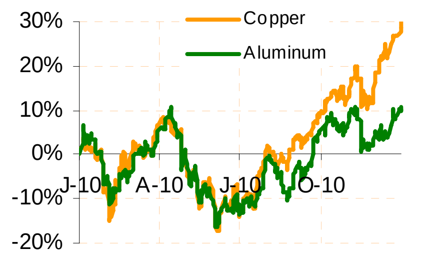
Saudi Arabian Light, Asia Deliveries



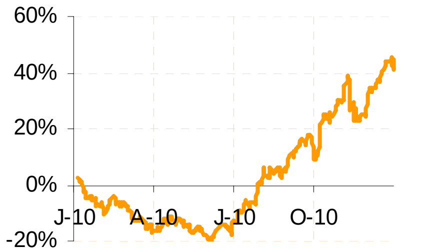
Precious Metals



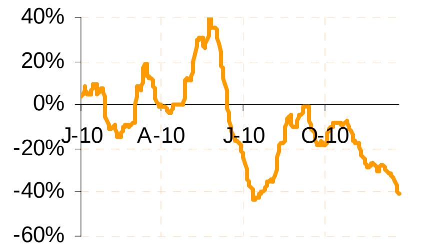
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Week
WTI, Spot, $/bbl	31-Dec 91.38	0.6%
Brent, Spot, $/bbl	31-Dec 94.23	0.2%
Gold, LME, $/Oz	31-Dec 1,419.5	2.5%
Silver, LME, $/Oz	31-Dec 30.86	5.6%
Platinum, $/Oz	31-Dec 1,767.5	3.2%
Palladium, $/Oz	31-Dec 799.50	6.7%
Aluminum, LME, $/t	31-Dec 2,455	0.4%
Copper, LME, $/t	31-Dec 9,520	2.8%
Nickel, LME, $/t	31-Dec 23,950	0.4%
Zinc, LME, $/t	31-Dec 2,420	5.4%
Wheat, Sep, $/Bushel	31-Dec 7.94	1.4%
Corn, Sep, $/Bushel	31-Dec 6.29	2.4%
Soybeans, Sep, $/Bushel	31-Dec 13.94	3.3%

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

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Global Macro

Spanish and Euro Woes

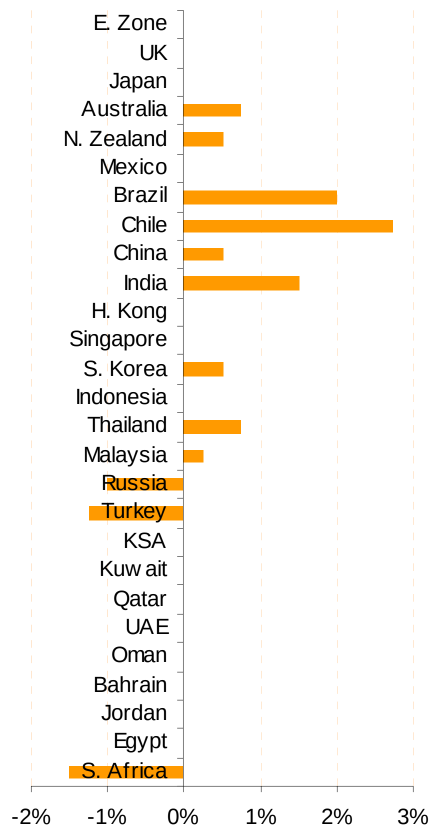
Although Saturday saw what would normally have been welcome news, the joining of Estonia to the European Union, worries over the currency's uncertain future has overshadowed its addition this New Year's. The real risk that a Spanish default is likely to happen and could trigger the downfall of the euro is a dominant theme. Spain's economy is over four times the size of Greece, so worries about a Spanish bailout is overwhelming. The Treasury expects a 24% decline in net financing needs in 2011, a total of EUR47.2 bn, in accordance with adopted fiscal austerity measures and in an attempt to reach the goal of reducing the annual deficit to 6% of GDP, while the EU limit is 3%, as opposed to 11.1% and 9.3% in 2009 and 2010, respectively. Although dismissing the need for a bailout, Moody's warned in mid-December of a potential downgrade to Spanish debt again (after a downgrade in September) due to the amount of financing needs in 2011, which may amount to EUR170 bn, EUR30 bn for regional governments and the rest to rolling over existing debt. Furthermore, Spanish banks will need to refinance debt reaching almost EUR90 bn. Spain's Treasury promised transparency in the form of announcing its debt issuance on a monthly basis, in the hopes that it can quell investor fears and prevent speculation from driving it's bond spreads so high that it becomes too costly to borrow from the market. At the end of the year, yields on the 10-year Spanish bonds are 5.448, 254 bps spread over German Bunds.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*		
	2008	Last	Period	Last	Date	Target	Last	Decision	Date
Europe/Japan/Oceania									
Euro Zone	0.7%	1.7%	2Q10	1.9%	Nov-10	1.9%	1.00%	Hold	2-Dec-10
UK	0.7%	1.7%	2Q10	3.3%	Nov-10	3.2%	0.50%	Hold	9-Dec-10
Japan	-0.7%	0.4%	2Q10	-0.5%	Nov-10	-0.6%	0.10%	Hold	21-Dec-10
Australia	2.4%	2.7%	3Q10	2.8%	Sep-10	2.9%	4.75%	Hold	7-Dec-10
New Zealand	0.2%	0.7%	2Q10	1.5%	Sep-10	-	3.00%	Hold	8-Dec-10
Latin America/Caribbean									
Mexico	1.3%	5.3%	3Q10	4.0%	Oct-10	-	4.50%	Hold	26-Nov-10
Brazil	5.1%	6.7%	3Q10	5.6%	Nov-10	-	10.75%	Hold	8-Dec-10
Chile	3.2%	7.0%	3Q10	1.6%	Sep-10	-	3.25%	0.25%	17-Dec-10
Asia/Southeast Asia									
China	9.0%	9.6%	3Q10	5.5%	Nov-10	4.7%	5.81%	0.25%	25-Dec-10
India	7.3%	8.9%	2Q10	8.6%	Sep-10	-	6.25%	0.25%	2-Nov-10
Hong Kong	2.4%	6.5%	2Q10	2.9%	Nov-10	-	1.50%	-0.50%	30-Oct-08
Singapore	1.1%	10.6%	3Q10	3.8%	Nov-10	3.8%	-	-	-
South Korea	2.2%	4.4%	3Q10	3.5%	Dec-10	-	2.50%	Hold	8-Dec-10
Indonesia	6.1%	5.8%	3Q10	6.3%	Nov-10	5.9%	6.50%	Hold	3-Dec-10
Thailand	2.6%	6.7%	3Q10	2.8%	Nov-10	2.8%	2.00%	0.25%	1-Dec-10
Malaysia	4.6%	8.9%	2Q10	2.0%	Nov-10	2.1%	2.25%	Hold	4-Mar-10
Eastern Europe/Central Asia									
Russia	5.6%	2.7%	3Q10	8.1%	Nov-10	-	7.75%	-0.25%	1-Jun-10
Turkey	0.9%	5.5%	3Q10	7.3%	Nov-10	-	6.50%	-0.50%	16-Dec-10
Middle East/Africa									
Saudi Arabia	4.2%	3.8%	2010	5.8%	Oct-10	-	2.00%	Hold	19-Jan-09
Kuwait	6.3%	-1.5%	2009	11.1%	May-08	-	4.25%	-0.25%	30-Oct-08
Qatar	16.4%	11.5%	2009	14.8%	Mar-08	-	5.50%	Hold	20-May-08
UAE	7.4%	-0.2%	2009	11.1%	2007	-	1.50%	-0.50%	8-Oct-08
Oman	7.8%	4.1%	2009	13.2%	May-08	-	2.00%	Hold	20-May-09
Bahrain	6.1%	3.0%	2009	2.1%	Oct-10	-	0.75%	Hold	21-May-09
Jordan	7.9%	3.0%	2009	13.3%	Jun-08	-	6.00%	-0.50%	25-Nov-08
Egypt	7.2%	4.7%	2009	21.5%	Sep-08	-	9.75%	Hold	4-Nov-10
South Africa	3.1%	2.6%	3Q10	3.6%	Nov-10	3.5%	5.50%	-0.50	18-Nov-10

Policy Rate Change

Cumulative 10YTD



Notes: 1/Growth: Real GDP Growth Rate, 2008: Y/Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 2/ CPI Inflation: Y-o-Y % Change in CPI, Target: Central bank/monetary authority inflation target. 3/ Policy Rate: Last: Current policy rate, Decision/Date: Decision taken in latest meeting/Date of latest meeting.

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FOREX Market

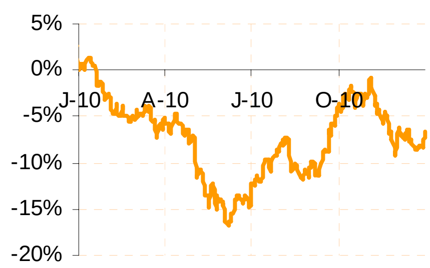
End of the Year: An Overview

The USD ended last week of 2010 recording losses against its major counterparts. Poor economic data coupled with rising commodity prices are the main drivers for the greenback drop. The S&P/Case-Shiller Home Price index declined by 0.8% Y/Y in Oct leaving the housing market stagnating. Furthermore, the Conference Board Consumer Confidence Index fell to 52.5 in Dec, much lower than an expected value of 56.2. The data indicates that the Fed would not increase interest rates in the near future. In addition, raw materials gained 1% last week as shown by Reuters/Jefferies CRB Index. The USD decreased 2.1%, 2.0% and 1.0% against JPY, EUR and GBP, respectively. On annual basis, the best performers against the USD in 2010 were the JPY and commodity currencies. The first winner was the JPY which advanced 14.4% against the USD regardless of government attempts to weaken the yen. The JPY was supported by elevated worries about the Euro debt crisis and declining yields in the US rather than fundamentals given the Japanese economy did not perform well in 2010. Commodity currencies, namely AUD, CAD and NZD, ended the year with gains of 14.0%, 5.5% and 7.6% against the USD, respectively, driven by commodity prices reaching new records. The aforementioned Reuters index increased 17.4% in 2010. On the other hand, the worst performers against the USD were EUR and GBP registering losses of 6.5% and 3.4%, respectively, due to mounting debt and fiscal concerns.

Key Spot Foreign Exchange Rates

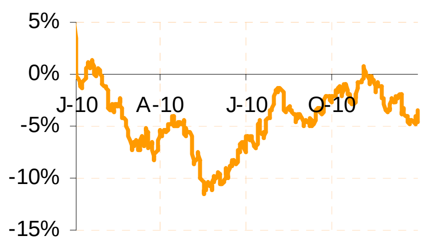
$ per €*

Last	13382	Week	2.0%	10YTD	-6.5%



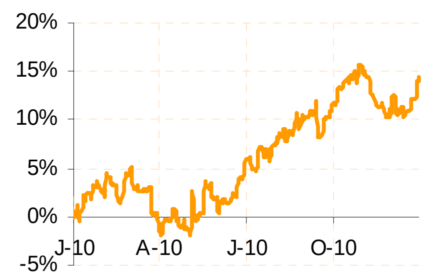
$ per £*

Last	15604	Week	10%	10YTD	-3.4%

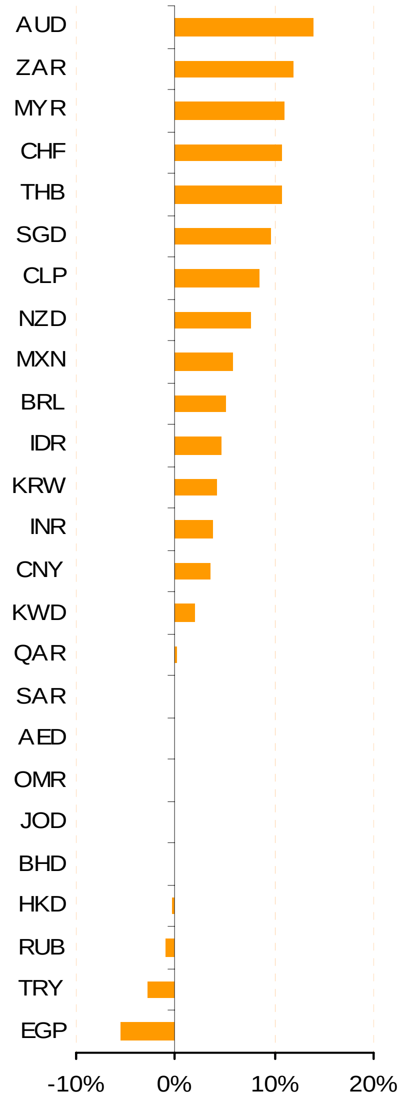


¥ per $*

Last	812000	Week	2.1%	10YTD	14.4%



Rate versus $	Last	Week
Europe/Oceania		
Swiss Franc (CHF)	0.9345	3.1%
Australian Dollar (AUD)	1.0232	1.7%
New Zealand Dollar (NZD)	0.7799	4.0%
Latin America/Caribbean		
Mexican Peso (MXN)	12.3585	0.1%
Brazilean Real (BRL)	1.6598	1.9%
Chilean Peso (CLP)	468.2500	0.4%
Asia/Southeast Asia		
Chinese Yuan (CNY)	6.5912	0.5%
Indian Rupee (INR)	44.7250	0.7%
Hong Kong Dollar (HKD)	7.7740	0.1%
Singaporean Dollar (SGD)	1.2835	1.3%
South Korean Won (KRW)	1,122.00	2.6%
Indonesian Rupee (IDR)	9,015.00	0.4%
Thai Baht (THB)	30.1200	0.4%
Malaysian Ringgit (MYR)	3.0850	0.4%
Eastern Europe/Central Asia		
Russian Rouble (RUB)	30.5820	-0.3%
Turkish New Lira (TRY)	1.5471	0.1%
Middle East/Africa		
Saudi Riyal (SAR)	3.7505	0.0%
Kuwaiti Dinar (KWD)	0.2817	0.5%
Qatari Riyal (QAR)	3.6415	0.0%
UAE Dirham (AED)	3.6731	0.0%
Omani Riyal (OMR)	0.3850	0.0%
Bahraini Dinar (BHD)	0.3771	0.0%
Jordanian Dinar (JOD)	0.7085	0.1%
Egyptian Pound (EGP)	5.8060	0.0%
South African Rand (ZAR)	6.6395	1.9%



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Global Equity Markets

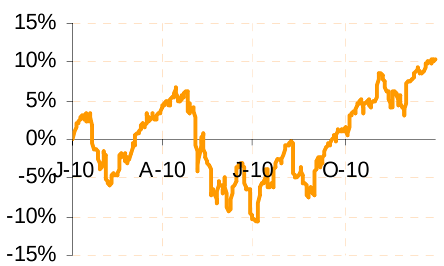
EU Welcomes a New Member

Estonia is the latest addition to the European Union (EU) and is the 17th member. Disregarding the ongoing debt saga haunting the Euro region, Estonia has followed through to join the EU, becoming the first former Soviet republic to adopt the joint European currency. The newest addition is regarded as the second smallest economy in the union with GDP around EUR13.9 bn for 2009, a hefty 13.9% drop over 2008. Although, the state's economy is showing signs of recovery in 2010, the consequences of the global financial crisis pushed unemployment to 15.5% in 3Q10, yet it is still an improvement over 2Q10 at 18.6%. The EU estimated Estonia's debt at 8% of GDP, indicating its financial soundness. The national currency, Kroon, will be dropped and over 1.34 mn Estonians will adopt the Euro. Furthermore, Tallinn Stock Exchange, the country's equity market, is a top performer. The index gained a staggering 72.6% in 2010 following 2009's impressive 47.2% growth. Stocks' annual turnover reached EUR266.6 mn in 2010 against EUR619.9 mn in 2009 showing a great slowdown in market activity. Accession to the EU should boost investor's confidence and help inject more funds into equities. Estonia has undergone austere measures to join the EU, whether it will prove beneficial for the county's economy or not, only time will tell. Meanwhile, the EU will barely notice the addition as it only represents 0.2% of the group.

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

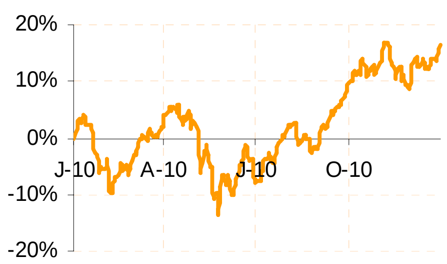
MSCI G7

Last	1,094.1	Week	0.1%	10YTD	10.1%



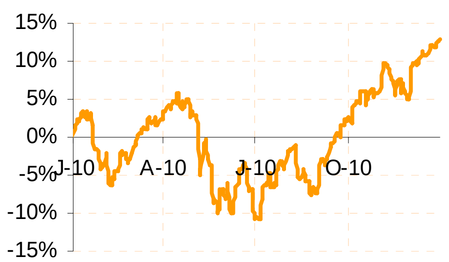
MSCI EM

Last	1,145.8	Week	1.7%	10YTD	15.8%

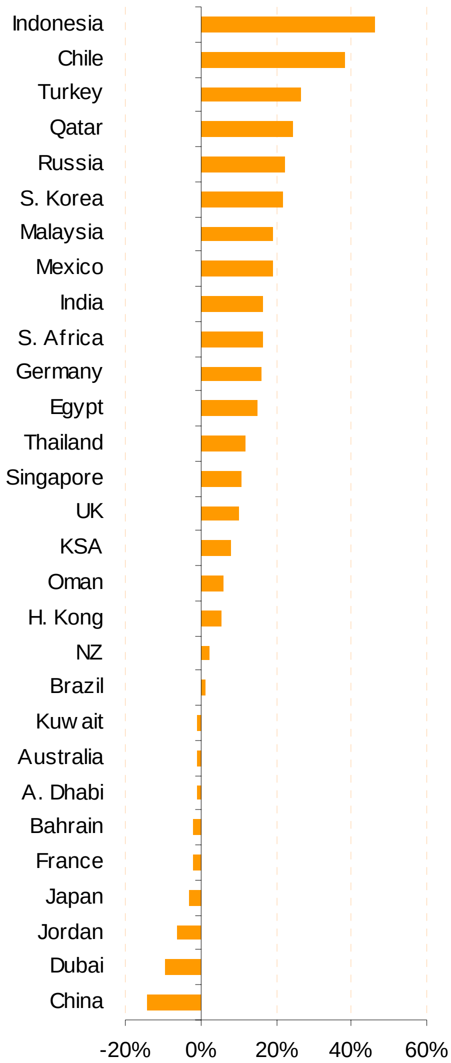


Dow Jones Islamic

Last	2,224.1	Week	0.5%	10YTD	12.6%



Country/Index	Week	YTD
Europe/Japan/Oceania		
UK (FTSE100)	-0.6%	10.3%
Germany (DAX30)	-2.0%	16.1%
France (CAC40)	-1.3%	-2.2%
Japan (N225)	-0.5%	-3.0%
Australia (All Ordinaries)	-0.4%	-0.7%
N. Zealand (NZSX50)	-0.6%	2.4%
Latin America/Caribbean		
Mexico (IPC)	0.4%	19.1%
Brazil (Bovespa)	1.2%	1.0%
Chile (IGPA)	0.3%	38.2%
Asia/Southeast Asia		
China (Shanghai-C)	-1.0%	-14.3%
India (BSE-Sensex)	1.6%	16.7%
Hong Kong (Hang Seng)	0.9%	5.3%
Singapore (Strait Times)	2.2%	10.9%
S. Korea (KOSPI-C)	1.1%	21.9%
Indonesia (Jakarta-C)	2.5%	46.1%
Thailand (SET)	0.2%	11.6%
Malaysia (Kuala Lampur-C)	0.5%	19.3%
Eastern Europe/Central Asia		
Russia (RTSI)	0.0%	22.5%
Turkey (ISE National 100)	0.8%	26.5%
Middle East/Africa		
KSA (TASI)	0.2%	8.2%
Kuwait (KSEI)	1.1%	-0.7%
Qatar (DSM20)	0.6%	24.8%
Abu Dhabi (ADI)	0.5%	-0.9%
Dubai (DFMGI)	0.0%	-9.6%
Oman (MSM30)	0.0%	6.1%
Bahrain (All Share I)	1.5%	-1.8%
Jordan (ASE General I)	-0.2%	-6.3%
Egypt (CASE30)	2.7%	15.0%
S. Africa (JSE All Share Index)	0.5%	16.4%



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