

# Market Review & Outlook

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

## SPECIAL FOCUS

### Difficulties Ahead of the Euro (page 7)

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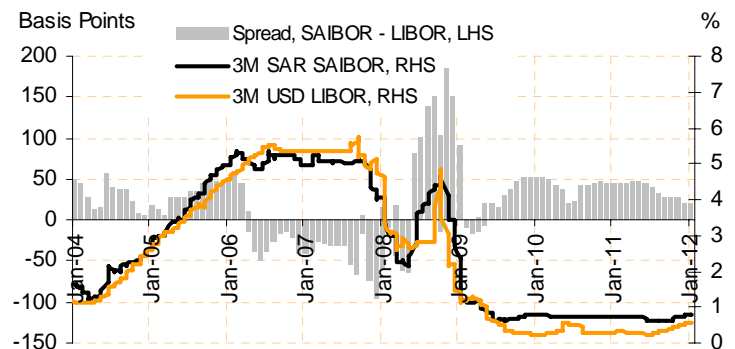
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### Saudi Arabia Leading Economic Indicators

	2010	Latest	Period
Average WTI, Cushing 1M, USD/bbl	79.5	94.8	2011
Weighted Average Arabian Light, USD/bbl	78.0	108.1	2011
Average 3M USD LIBOR	0.34%	0.34%	11YTD
Average 3M SAR SAIBOR	0.74%	0.72%	11YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	39.4	37.4	11YTD
Y/Y Growth in Monetary Base (M0)	2.5%	4.2%	Nov 11
Y/Y Growth in Money Supply (M3)	5.0%	12.4%	Nov 11

### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 6 January 2012

### View of the Week

“ As the market is currently news driven, the Euro is expected to fall further over the short-term and touch the 1.24 level as downside risks pressure the currency. ”

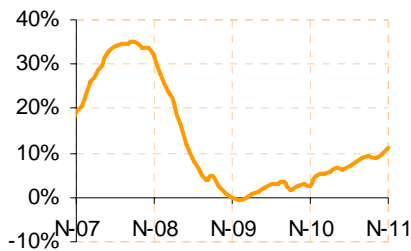
# Saudi Macro and Equity Market

## Exports, Imports and Trading Partners

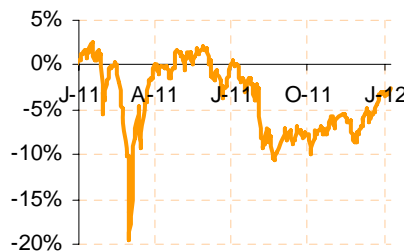
The recently released 3Q2011 foreign trade figures pertaining to the non-oil sector helped in shedding a light on the main export and import items as well as the major trading partners. Overall, non-oil exports increased by 34% Y/Y and imports decreased by a mere 3% Y/Y in the third quarter of last year. These figures illustrated the upward trend in exports since 3Q2010, which is justifiable based on the rapid ascent in oil prices that underpinned petrochemical prices. Exports related to petrochemicals increased their share from 30% in 3Q2010 to 36% in 3Q2011 while plastics' share fell from 33% to 32%. The major trading partners on the export side included China (13%), UAE (10%), and Singapore (7%), reflecting the increased importance of Asian and GCC trade relations. Interestingly, the US was not able to regain its third rank as a destination for the kingdom's exports, being surpassed by Singapore and India since late 2008. On the import side, the main partners included China (16%), US (11%), and Germany (7%). It is important to note that the medium term outlook for non-oil exports will depend on the stability of oil prices as well as the extent of a probable global slowdown that can be driven by a cooling Chinese economy.

## Key Macroeconomic and Equity Market Indicators

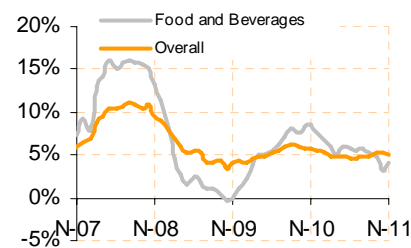
Y/Y Growth in Credit (Private Sector)



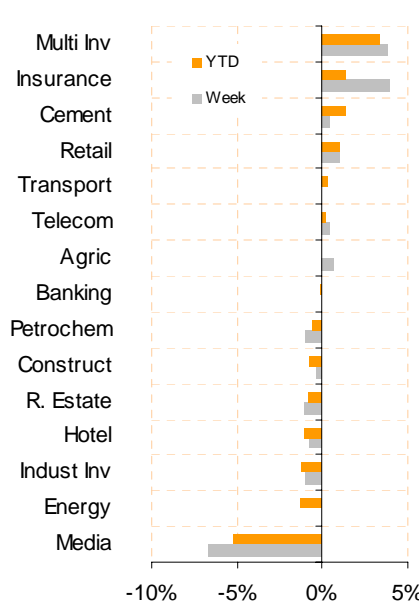
Tadawul All Share Index: 31 Dec 10 = 0%



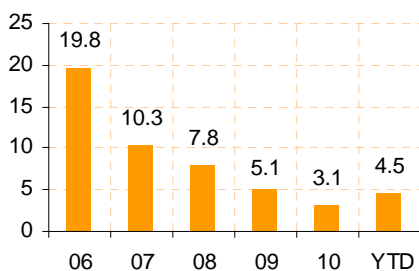
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl <sup>1</sup>	2011 108.1	2010 78.0
Oil Production, mmbd <sup>2</sup>	Nov 9.45	Oct 9.40
Real GDP	2011 6.8%	2010 4.10%
CPI Inflation, Y/Y	Nov 5.2%	Oct 5.2%
Broad Money (M3), Y/Y	Nov 12.4%	Oct 14.4%
Credit, Private Sector	Nov 11.0%	Oct 10.0%
Credit, Corporate	3Q11 8.59%	2Q11 6.72%
Credit, Households	3Q11 10.00%	2Q11 10.69%
Net Claims on Government <sup>3</sup>	Nov -994.2	Oct -943.3
Loan-to-deposit Ratio <sup>4</sup>	Nov 80.2%	Oct 79.7%
Excess Reserves/Total <sup>5</sup>	Nov 49.3%	Oct 45.4%
Net Foreign Assets, USDbn <sup>6</sup>	Nov 526.8	Oct 520.1
Import LCs, SARbn <sup>7</sup>	11M 11 159.6	11M 10 138.4

**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.

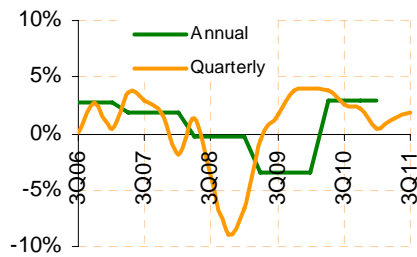
# US Macro and Equity Markets

## Unemployment Rate Declines

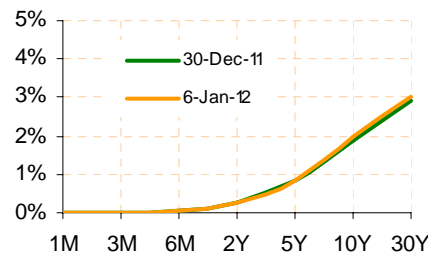
The latest employment figures showed that the US jobless rate fell for the fourth consecutive month, reflecting signs of recovery in the world's largest economy. The unemployment rate fell by 0.2% to settle at 8.5% during December, marking the lowest level since March 2009 as non-farm payrolls added 200,000 jobs. The bulk of jobs created were attributed to the services sector as it added 164,000 jobs while the production sector added 48,000 and the government shed off 12,000 workers. Examining the figures further, a relatively huge drop of 0.6%, was witnessed in the teenagers' category, this reaffirms our expectations of companies' additional hiring for the shopping season. In addition, the increase in employed workers helped boost average weekly earnings of all employees to USD799.46, a record high which will reflect positively on consumer spending over the short-term. The sustainability of the employment situation is, in our opinion, temporary similar to the seasonal hirings. We expect the unemployment rate to creep back up as we venture into 2012 and retailers relieve their temporary workers and the winter season hinders job creation in sectors such as construction. The Fed still considers the unemployment rate above their desired levels; however, a slow recovery will improve the general sentiment amid turmoil surrounding Europe and expected hurdles ahead of China in 2012.

## Key Macroeconomic and Capital Market Indicators

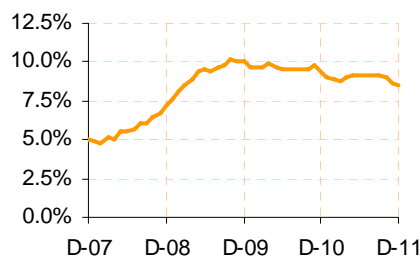
Real GDP Growth, Annualized



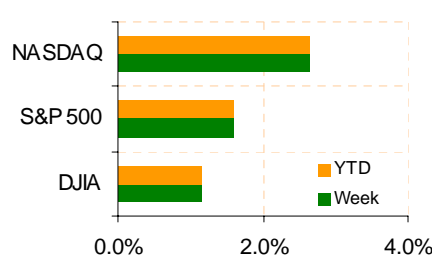
Benchmark Yields, Annualized



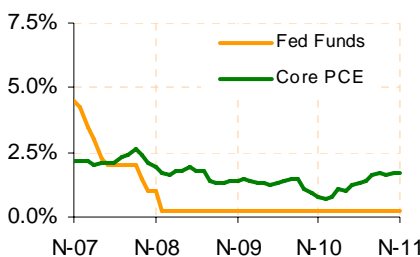
National Unemployment Rate



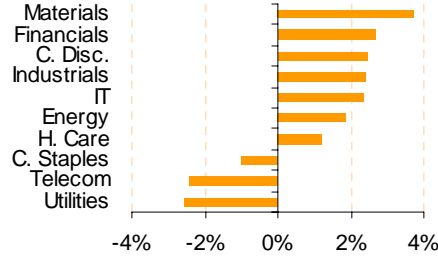
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
Real GDP	3Q 11(F) 1.8%	4Q 11(A) 22-Jan
Unemployment	Dec 8.5%	Jan 6-Feb
A. H. Earnings, M/M	Dec 0.2%	Jan 6-Feb
CPI Inflation, Y/Y	Nov 3.40%	Dec 16-Jan
Core PCE, Y/Y	Nov 1.70%	Dec 22-Jan
Existing Home Sales, M/M	Nov 4.0%	Dec 22-Jan
Housing Starts, M/M	Nov 9.3%	Dec 20-Jan
Trade Balance, \$bn	Oct -43.47	Nov 12-Jan
Retail Sales, M/M	Nov 0.2%	Dec 13-Jan
Industrial Production, M/M	Nov -0.2%	Dec 15-Jan
Capacity Utilization	Nov 77.8%	Dec 15-Jan
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.

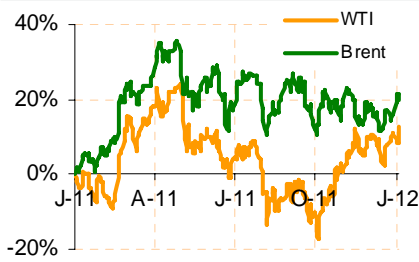
# Commodity Markets

## Wheat Prices Slump

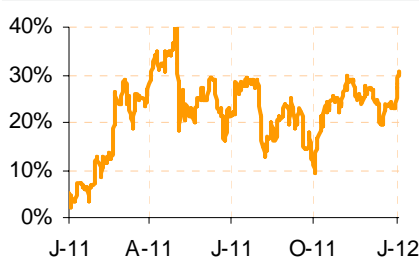
Wheat futures extended prior losses on improved US crop conditions and concerns that the European debt crisis may prompt investor sell-offs. The US Department of Agricultural reported that roughly 53% of Kansas winter wheat and 63% of Oklahoma wheat rated good or excellent as of January 1. This marks a 6% improvement from end of November ratings. Data showed that yield potential was improved when western parts of the states received three times the normal amount of rain and snow in a 30-day period. The grain declined by 4.3% on the Chicago Board of Trade (CBOT), settling at USD6.25 a bushel for December delivery. Traders argued that the market was technically overbought and prices overheated following the 13.4% rally in the last two and half weeks, mostly due to short covering. Meanwhile fresh concerns over the euro zone debt crisis chilled consumer demand in 2012. European stocks fell over the week after Greek Prime Minister Lucas Papademos announced that without an agreement with the European Union, International Monetary Fund and European Central Bank, the nation will face an immediate risk of default. The wheat market is heavily influenced by spectators' reactions, and increased investor liquidation places further underlying pressure on the commodity. Moving forward, the abundant global supply of wheat will continue to act as an anchor for the CBOT wheat futures market.

## Key Commodity Prices and Indices

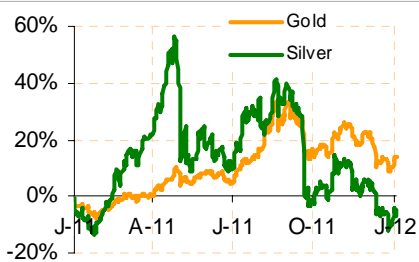
Benchmark Crude Oil Prices



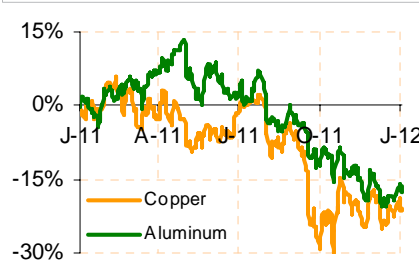
Saudi Arabian Light, Asia Deliveries



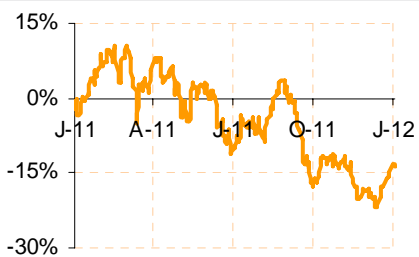
Precious Metals



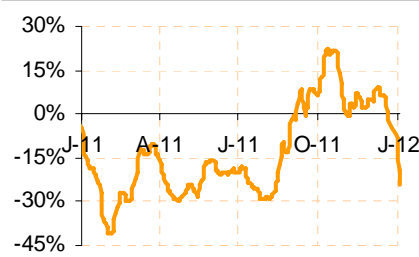
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Week
WTI, Spot, \$/bbl	101.56	2.8%
Brent, Spot, \$/bbl	112.96	3.5%
Gold, LME, \$/Oz	1,616.4	3.4%
Silver, LME, \$/Oz	28.70	3.6%
Platinum, \$/Oz	1,401.0	0.6%
Palladium, \$/Oz	612.22	-6.2%
Aluminum, LME, \$/t	2,047	2.6%
Copper, LME, \$/t	7,530	-0.3%
Nickel, LME, \$/t	18,700	2.6%
Zinc, LME, \$/t	1,840	0.3%
Wheat, Dec, \$/Bushel	6.25	-4.3%
Corn, Dec, \$/Bushel	6.44	-0.5%
Soybeans, Jan, \$/Bushel	11.90	-0.8%

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

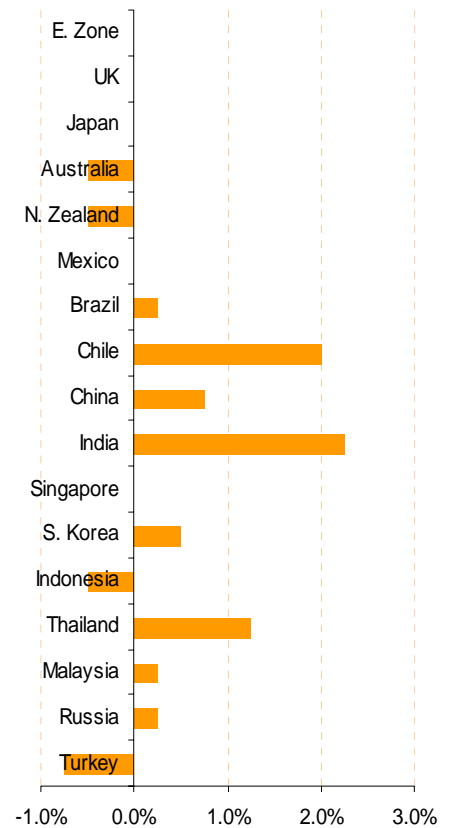
# Global Macro

## Still Trying to Map a Plan!

Going into the third year of the European debt crisis, a solution is still unforeseen. The two largest economies are to meet this week and attempt to draft a rescue agenda for the troubled region. The overdue “fiscal compact” is aimed to calm worries about the survival of the common currency and the European Union as a whole. Interestingly, Germany has been the opposing nation in most agreements. German Chancellor, Angela Merkel, prefers to imply strict austerity measures to solve the region’s debt problems while French President Sarkozy opts to inject more money into the system. The creation of the European Stability Mechanism, which will be created later this year, will withhold EUR500 bn of firepower. However, the amount has been criticized by officials as not sufficient if another nation faces debt difficulties, namely Italy. In addition, the European Commission will face its first challenge in Belgium as their new powers will probe into the recently announced budget. Also, the European Central Bank will be pressured to take on a greater role in solving the debt crisis, a move resisted by Germany earlier. Consequently, the IMF announced “substantial” downward revisions to the global economy, especially Europe, given the worrying situation of economies and lack of timely decision making by governments.

## 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 11YTD
<b>Europe/Japan/Oceania</b>										
<b>Euro Zone</b>	1.7%	0.2%	3Q11	3.0%	Nov-11	2.0%	1.00%	-0.25%	8-Dec-11	
<b>UK</b>	1.3%	0.5%	3Q11	4.8%	Nov-11	2.0%	0.50%	Hold	8-Dec-11	
<b>Japan</b>	3.9%	5.6%	3Q11	-0.1%	Oct-11	0.1%	0.10%	Hold	21-Dec-11	
<b>Australia</b>	2.7%	2.5%	3Q11	3.4%	Sep-11	3.0%	4.25%	-0.25%	6-Dec-11	
<b>New Zealand</b>	1.5%	2.2%	3Q11	4.6%	Sep-11	3.0%	2.50%	Hold	7-Dec-11	
<b>Latin America/Caribbean</b>										
<b>Mexico</b>	5.5%	4.5%	3Q11	3.5%	Nov-11	3.0%	4.50%	Hold	2-Dec-11	
<b>Brazil</b>	7.5%	2.1%	3Q11	6.5%	Dec-11	4.5%	11.00%	-0.50%	30-Nov-11	
<b>Chile</b>	5.3%	4.8%	3Q11	3.7%	Oct-11	3.0%	5.25%	Hold	14-Dec-11	
<b>Asia/Southeast Asia</b>										
<b>China</b>	10.3%	9.1%	3Q11	4.2%	Dec-11	4.0%	6.31%	0.25%	5-Apr-11	
<b>India</b>	10.4%	6.9%	3Q11	9.7%	Oct-11	7.0%	8.50%	Hold	16-Dec-11	
<b>Singapore</b>	14.5%	3.6%	4Q11	5.7%	Nov-11	3.8%	-	-	-	
<b>South Korea</b>	6.1%	3.5%	3Q11	4.2%	Nov-11	4.0%	3.25%	Hold	8-Dec-11	
<b>Indonesia</b>	6.1%	6.5%	3Q11	3.8%	Dec-11	5.0%	6.00%	Hold	8-Dec-11	
<b>Thailand</b>	7.8%	3.5%	3Q11	3.5%	Dec-11	3.0%	3.25%	-0.50%	30-Nov-11	
<b>Malaysia</b>	7.2%	5.8%	3Q11	3.3%	Nov-11	2.0%	3.00%	Hold	11-Nov-11	
<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	
<b>Turkey</b>	8.2%	8.2%	3Q11	10.5%	Dec-11	5.5%	5.75%	Hold	22-Dec-11	



**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.

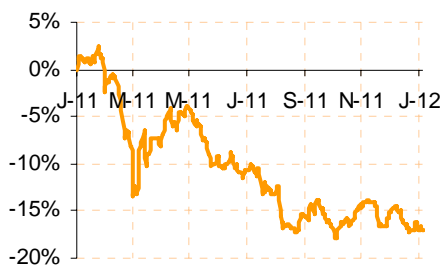
# Regional Macro

## Inclusive Investments

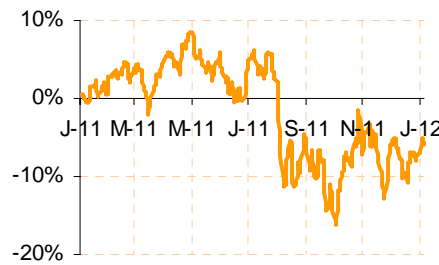
The 2012 Omani budget is characterized by a permissive fiscal stance as government expenditure is projected at OMR10bn, up 9% over last year's revised plan and 23% over the original 2011 budget. Current expenditures make up almost two-thirds (64%) of the total and the share of defense and security alone is 26%. Capital spending remains relatively high 27% with roughly half of this going to hydrocarbons projects. With government revenues set to rise by 20.5% to a total of OMR8.8bn, the budget foresees a significant OMR1.2bn deficit, equal to some 5% of GDP. However, this should prove fairly easy to overcome under current oil price projections of close to USD100 per barrel. The budget still fairly cautiously assumes a USD75 per barrel oil price, up on USD58 used for the 2011 budget. The government's central spending priority is job creation with a target of some 36,000 new public sector positions and 2,000 jobs at state-owned companies. This is up from an aggregate total of some 2,250 last year. The budget further provides for 5,000 training places. In a further indication of a more inclusive growth paradigm, OMR120mn will be spent on 2,500 low income housing units. The total cost of government subsidies is OMR1.2bn. Also the total spending envisaged under the 2011-15 Eight Five-Year Plan has been increased by 26% to OMR56bn due to new infrastructure and health care projects. The government expects the economy to grow by 7% this year.

## Selected Regional Economic Indicators

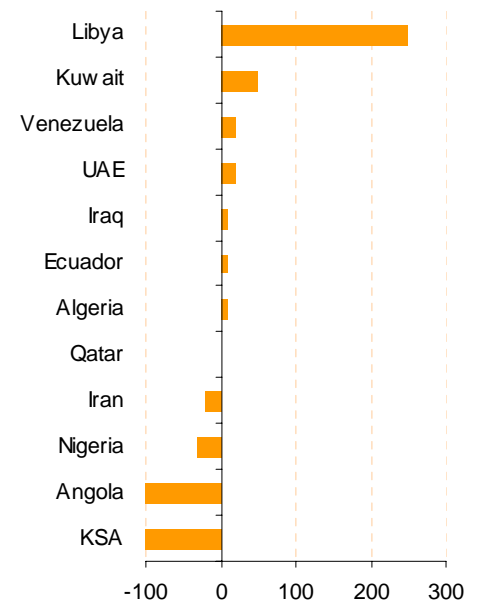
MSCI GCC<sup>1</sup>



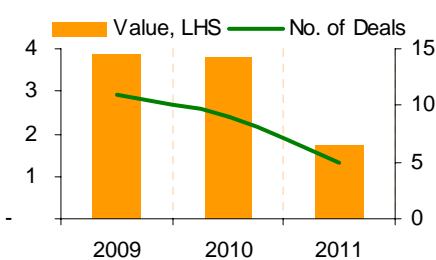
Dow Jones Islamic



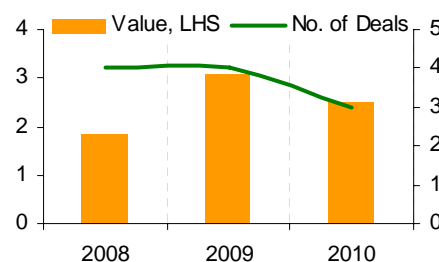
OPEC Oil Production, Monthly Change<sup>2</sup>



IPO Issuance<sup>3</sup>



Sukuk Issuance<sup>4</sup>



Middle East/Africa Selected Indicators

	2009	Growth* Last	Period	Last	Inflation* Date	Target	Last	Policy Rate* Decision	Date
Saudi Arabia	0.2%	6.8%	2011	5.4%	2010	-	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

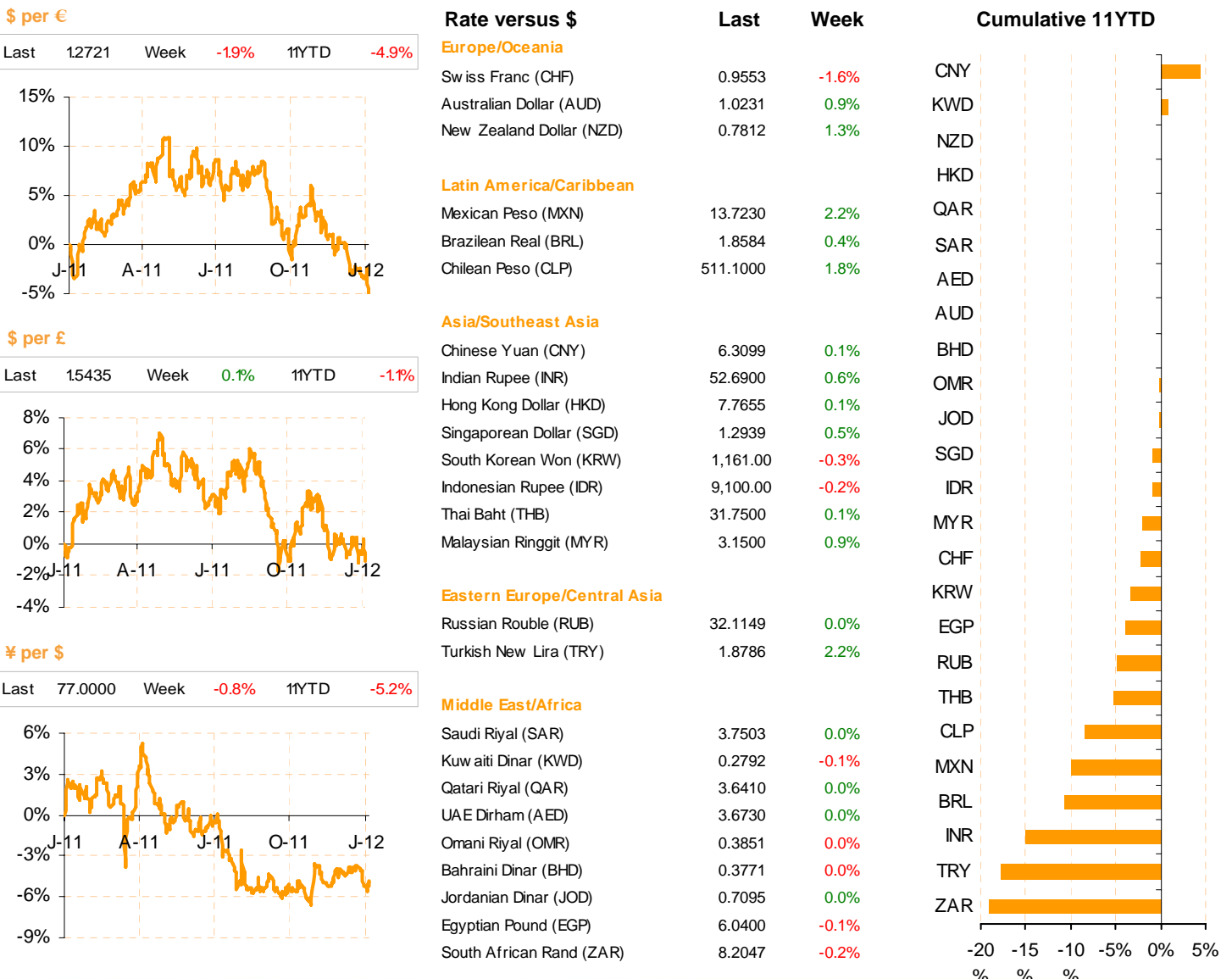
Notes: 1/MSCI GCC index excludes Kingdom of Saudi Arabia. 2/OPEC's monthly survey: Thousand barrels per day of crude oil.. 3/Initial Public Offering values in billion USD. 4/Sukuk values in billion USD. 5/Growth: Real GDP Growth Rate, Y/Y % change in full year GDP. 6/CPI Inflation: Y/Y % change in CPI,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

## Difficulties Ahead of the Euro

The Euro has declined four out of the past five weeks against the main global currency, the US dollar. The regional crisis continues to repel investors from European assets as the situation is expected to worsen given the lack of a consolidated solution. The common currency ended last week's trading at 1.2721 against the dollar, the lowest level since September 2010. The US is starting to prove their recovery, albeit at a slow pace. We believe the positive indicators from the world's largest economy are yet to factor fully in the foreign exchange. As the market is currently news driven, the Euro is expected to fall further over the short-term and touch the 1.24 level as downside risks pressure the currency. In addition, the Euro fell against the Japanese Yen to an 11-year low at 97.9 last week. Exposure to the European region is minimized by market players across the board. However, this will reflect negatively on Japan's export-led economy. As of October 2011, Europe constitutes 13.4% of Japan's exports. A strengthening Yen will hinder trade relations and curb Japan's much needed recovery. The Euro is starting to decouple from positive news, especially from the US, and that is the expected trend going forth into 2012. Although, a structural shock in the global foreign exchange which might result from a Euro breakup might push the global economy towards another recession.

## Key Spot Foreign Exchange Rates



# Global Equity Markets

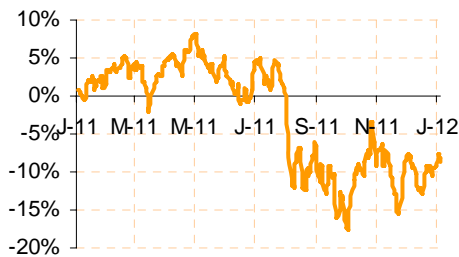
## Asian Market Challenges

In 2011, the MSCI All Country Asia index, which excludes Japan, plummeted 15.4% as the European debt crisis pressured stocks on a global scale. Given the fact that situation seems far from resolved, an ongoing debt crisis will certainly pressure Asian exports in 2012 and hinder growth prospects. As some economies, namely India and China, have been desperately trying to maintain a healthy balance between economic growth and inflation, external risks accumulates hurdles against government officials. The first trading week of 2012 ended positively, edging higher by a marginal 0.9%. Among the gainers were India, Indonesia, and South Korea's indices which climbed 2.6%, 1.2%, and 1.0%, respectively, over the week. However, China's Shanghai Composite index retreated by 1.6%, the ninth consecutive weekly decline. The second largest economy is expected to slow down this year as many challenges lie ahead. Although, speculation of a reserve ratio cut to boost lending to small companies struggling for cash will support stock prices. Furthermore, Japan's Nikkei lost a minor 0.8% last week. Asian stock markets will certainly face many hurdles this year and their growth outlook will remain constrained. The European crisis and internal challenges are expected to decelerate economies and keep stock indices range bound in 2012.

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

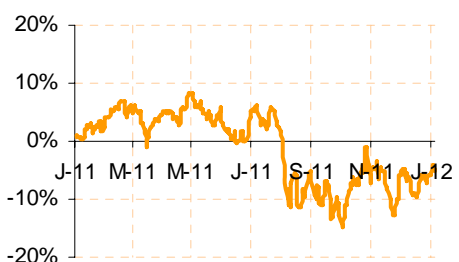
### MSCI World

Last 302.0 Week 0.8% 11YTD -8.7%



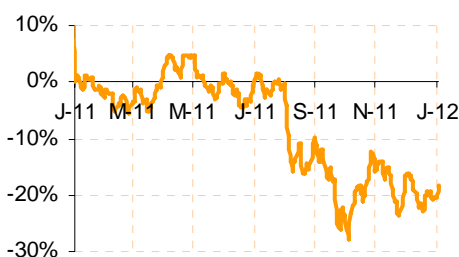
### MSCI G7

Last 1,041.5 Week 10% 11YTD -5.0%



### MSCI EM

Last 927.1 Week 12% 11YTD -19.5%



### Country/Index

#### Europe/Japan/Oceania

Country/Index	Week	YTD
UK (FTSE100)	1.4%	-4.2%
Germany (DAX30)	2.7%	-12.4%
France (CAC40)	-0.7%	-17.5%
Japan (N225)	-0.8%	-18.0%
Australia (All Ordinaries)	1.3%	-14.1%
N. Zealand (NZSX50)	-0.6%	-1.7%

#### Latin America/Caribbean

Mexico (IPC)	-0.7%	-4.5%
Brazil (Bovespa)	3.3%	-15.4%
Chile (IGPA)	0.6%	-11.9%

#### Asia/Southeast Asia

China (Shanghai-C)	-1.6%	-23.0%
India (BSE-Sensex)	2.7%	-22.6%
Hong Kong (Hang Seng)	0.9%	-19.3%
Singapore (Strait Times)	2.6%	-14.9%
S. Korea (KOSPI-C)	1.0%	-10.1%
Indonesia (Jakarta-C)	1.2%	4.5%
Thailand (SET)	1.6%	2.0%
Malaysia (Kuala Lumpur-C)	-1.1%	-0.3%

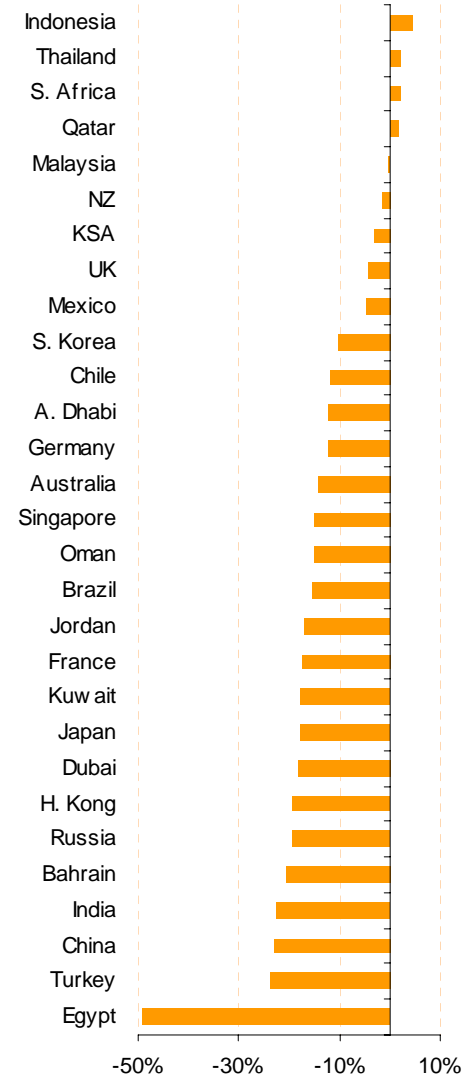
#### Eastern Europe/Central Asia

Russia (RTSI)	3.0%	-19.6%
Turkey (ISE National 100)	-2.1%	-24.0%

#### Middle East/Africa

KSA (TASI)	1.0%	-3.0%
Kuw ait (KSEI)	-1.5%	-17.7%
Qatar (DSM20)	0.6%	1.7%
Abu Dhabi (ADI)	-0.7%	-12.3%
Dubai (DFMGI)	-1.4%	-18.1%
Oman (MSM30)	0.6%	-15.0%
Bahrain (All Share I)	-0.5%	-20.6%
Jordan (ASE General I)	-1.2%	-17.0%
Egypt (CASE30)	0.2%	-49.2%
S. Africa (JSE All Share Index)	2.4%	2.0%

### Cumulative 11YTD







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