Issue #: 4
January 24, 2010
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Market Review & Outlook

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

SPECIAL FOCUS

US Financial System "Payback Time" (page 3)

HEADLINES

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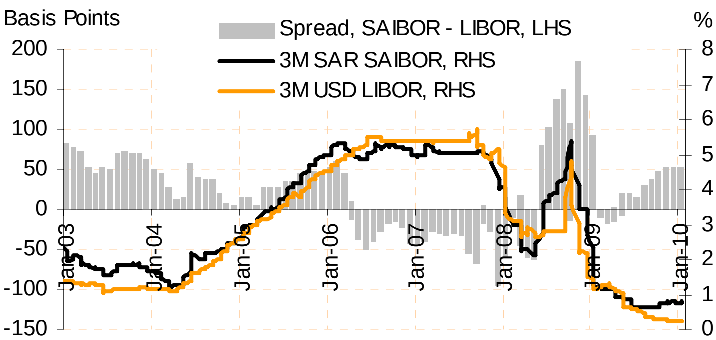
Saudi Arabia Leading Economic Indicators

	2009	Latest	Period
Average WTI, Cushing 1M, USD/bbl	62.0	81.2	10YTD
Weighted Average Arabian Light, USD/bbl	61.0	78.1	10YTD
Average 3M USD LIBOR	0.69%	0.25%	10YTD
Average 3M SAR SAIBOR	0.92%	0.77%	10YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	22.1	52.1	10YTD
Y/Y Growth in Monetary Base (M0)	-0.35%*	50.1%	Nov09
Y/Y Growth in Money Supply (M3)	17.6%*	11.3%	Nov09

Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 22 Jan 2010

View of the Week

"Obama's plan if approved by the Congress will send a clear signal that the safety net that taxpayers provide can not be used to trade for profit"

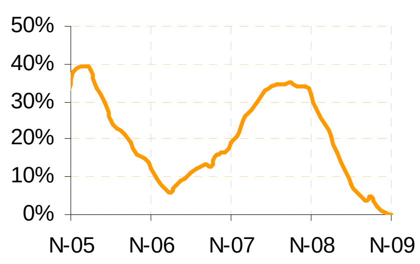
Saudi Macro and Equity Market

Saudi Corporate Earnings Reveal Strength

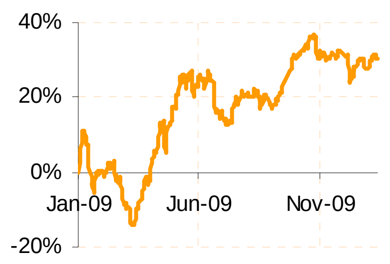
Saudi corporate earning announcements continued last week, with 110 of the 132 listed firms on the Saudi Stock Market last year, having disclosed their results. The combined net-profit of the firms rose 25.6% to SAR57.73 bn in 2009, from SR45.97 bn the year before. This constituted an approximate 47% decline from the high figure of SR86.54 billion attained in 2007. Excluding the profitability of the 11 listed Saudi banks, the combined net-profits rose strongly by 63.9% Y/Y to SAR35.5 bn in 2009, even though the main contributor SABIC's net-earnings have dropped nearly 59% last year. The net-profits of the listed banks declined 8.6% to SAR22.22 bn in the FY09 largely on credit related provisions. However, with NCB's strong positive outcome, the Kingdom's banking sector's earnings plunge moderated to 0.3% down to SAR26.3 bn in FY09. The 60.3% drag in petrochemical earnings was largely due to prices in the international markets that affected SABIC profits. The companies largely influenced by domestic economic activities were the biggest gainers, with agriculture sector showing 62% earning growth in FY09, followed by industrial investment (23.5%), hotel & tourism (211%) and the retail sector (6%). Overall, the FY09 corporate results have been better than most investors have had expected

Key Macroeconomic and Equity Market Indicators

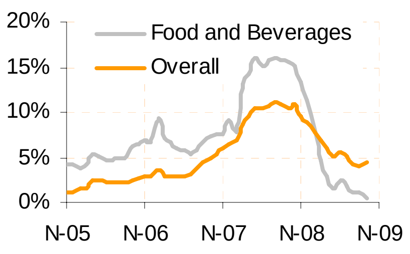
Y/Y Growth in Credit (Private Sector)



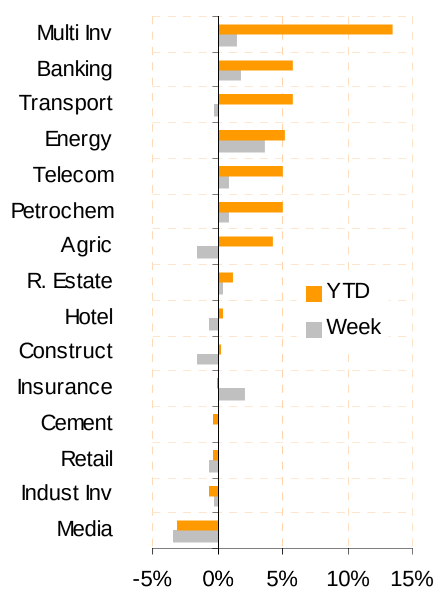
Tadawul All Share Index: 31 Dec 08 = 0%



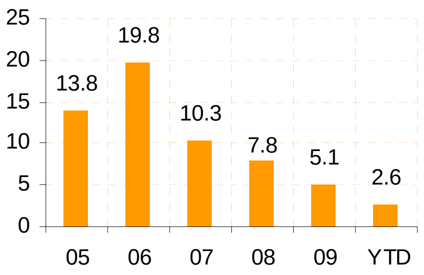
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, $bbl[1]	YTD 78.1	2009 61.0
Oil Production, mmbd[2]	Dec 8.2	Nov 8.1
Real GDP	2009 0.2%	2008 4.4%
CPI Inflation, Y/Y	Nov 4.0%	Oct 3.5%
Broad Money (M3), Y/Y	Nov 11.3%	Oct 11.4%
Credit, Private Sector	Nov 0.4%	Oct 0.7%
Credit, Corporate	3Q09 2.6%	2Q09 9.1%
Credit, Households	3Q09 1.6%	2Q09 -0.7%
Net Claims on Goverment[3]	Nov -727	Oct -757
Loan-to-deposit Ratio[4]	Nov 77.8%	Oct 78.9%
Excess Reserves/Total[5]	Nov 65.0%	Oct 64.4%
Net Foreign Assets, USDbn	Nov 414.5	Oct 415
Import LCs, SARbn[6]	11M09 110.76	11M08 163.42

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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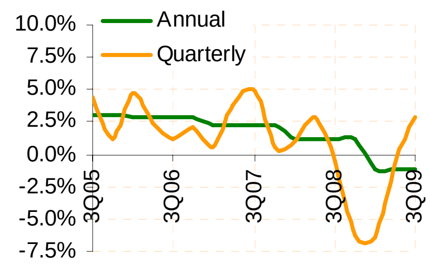
US Macro and Equity Markets

US Financial System “Payback Time”

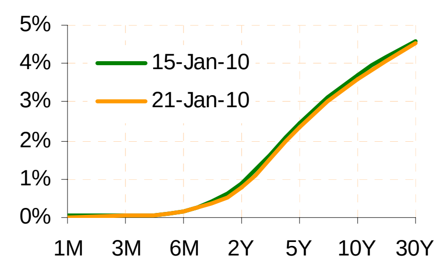
Is it time to get tough with a financial system that pummeled the global economy and the US? Apparently, Barack Obama had decided it is payback time, proposing a plan to impose a Financial Crisis Responsibility fee. The tax or fee would be imposed on 50 major financial firms including bank holding companies and some insurers. The administration estimates the tax will raise USD90 bn over 10 years and USD117 bn over 12 years, equal to losses from the federal government’s Troubled Asset Relief Program (TARP). The levy would apply to firms with more than USD50 bn in assets and would exclude Fannie Mae and Freddie Mac, the government-sponsored mortgage lenders that had to be taken over by the government. It seems the massive profits, better-than-expected earnings as well as the record bonuses, which US banks had announced was the last straw. Obama's administration had been viewed in a negative sense during 2009, with most taxpayers angry at a government that, in their opinion, was subsidizing Wall Street bonuses and ensuring their survival at the expense of the general public. More Importantly, the plan proposed forbidding banks with insured deposits to engage in proprietary trading solely for their own profit or investing in hedge funds. Indeed, Obama’s plan if approved by the Congress will send a clear signal that the safety net that taxpayers provide can not be used to trade for profit.

Key Macroeconomic and Capital Market Indicators

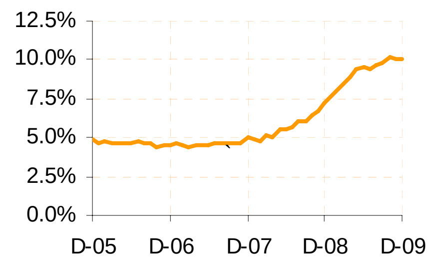
Real GDP Growth, Annualized



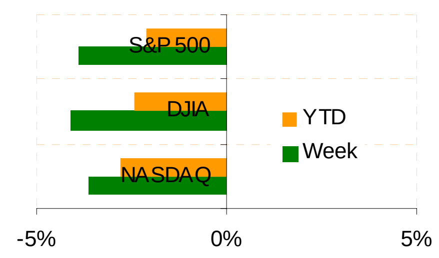
Benchmark Yields, Annualized



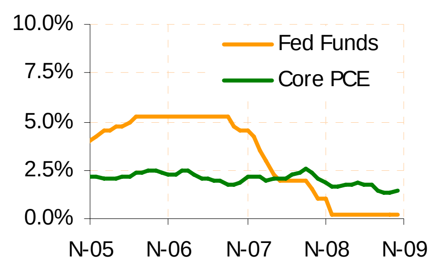
National Unemployment Rate



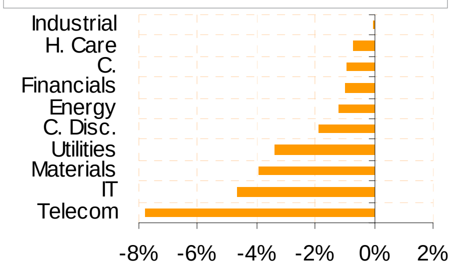
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Previous
Real GDP	3Q09(F) 2.20%	4Q09(A) 29-Jan
Unemployment	Dec 10.00%	Jan 5-Feb
A. H. Earnings, M/M	Dec 0.20%	Jan 5-Feb
CPI Inflation, Y/Y	Dec 2.70%	Jan 19-Feb
Core PCE, Y/Y	Nov 1.40%	Dec 1-Feb
Existing Home Sales, M/M	Nov 7.4%	Dec 25-Jan
Housing Starts, M/M	Dec -4.0%	Dec 20-Feb
Trade Balance, $bn	Nov -36.40	Dec 10-Feb
Retail Sales, M/M	Dec -0.30%	Jan 11-Feb
Industrial Production, M/M	Dec 0.6%	Jan 17-Feb
Capacity Utilization	Dec 72.0%	Jan 17-Feb
Fed Funds Rate	Dec 0.25%	Jan 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.

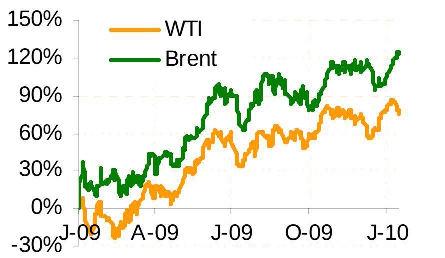
Commodity Markets

Gold Futures Fall on Weak Investor Sentiment

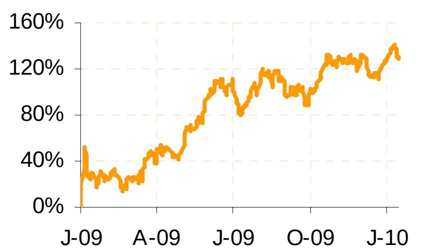
Gold prices continued their steep decline, falling 3.3% over the week to settle at USD1,093 per ounce. Although gold has been viewed as a safe haven, the metal in recent months has been trading as a risk asset. Lately, markets have become more risk averse on concerns over euro zone finances and the threat of a Chinese interest rate increase. The country announced that fourth-quarter GDP soared to 10.7% and consumer prices rose 1.9% in December. Investors worry that these inflationary figures could put more pressure on China to restrict lending. Also contributing to gold's slide was U.S. President Barack Obama's proposal on Thursday to prevent U.S. banks from mixing commercial operations with proprietary trading; thereby deterring investors from buying assets in the world's largest economy. However, there is hope that the gold's lower prices, alongside the weakening dollar, will prompt investors to buy. Gold imports by India, the world's biggest consumer, are expected to exceed the 343 metrics tons brought in 2009 as demand from jewelers is boosted by the metal's fall below USD1,100. Strong physical demand will allow gold to climb, and investors who can withstand the volatility may be rewarded over the long-term.

Key Commodity Prices and Indices

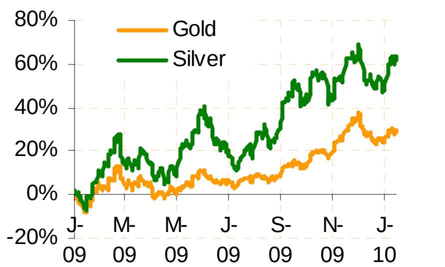
Benchmark Crude Oil Prices



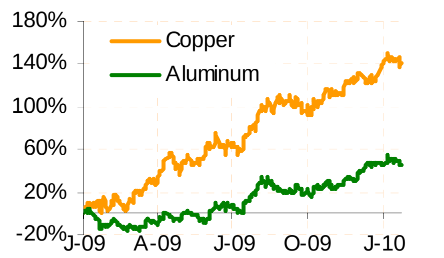
Saudi Arabian Light, Asia Deliveries



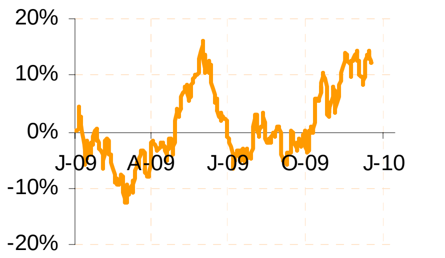
Precious Metals



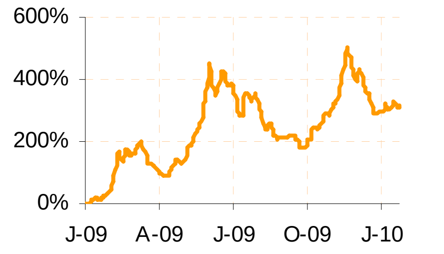
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Previous
WTI, Spot, $/bbl	23-Jan 74.3	-4.8%
Brent, Spot, $/bbl	23-Jan 73.2	-5.2%
Gold, LME, $/Oz	23-Jan 1092.6	-3.3%
Silver, LME, $/Oz	23-Jan 17.1	-7.1%
Platinum, $/Oz	23-Jan 1546.5	-3.3%
Palladium, $/Oz	23-Jan 432.0	-4.5%
Aluminum, LME, $/t	23-Jan 2232.0	-3.3%
Copper, LME, $/t	23-Jan 7390.0	-0.5%
Nickel, LME, $/t	23-Jan 18310.0	-1.6%
Zinc, LME, $/t	23-Jan 2350.0	-4.9%
Wheat, Mar, $/Bushel	23-Jan 5.0	-2.3%
Corn, Mar, $/Bushel	23-Jan 3.6	-1.8%
Soybeans, Jan, $/Bushel	23-Jan 9.7	0.0%

Notes: All variables depicted in the charts above are rebased to 0% in the last trading day in 2008.

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Global Macro

Should We Worry About Europe?

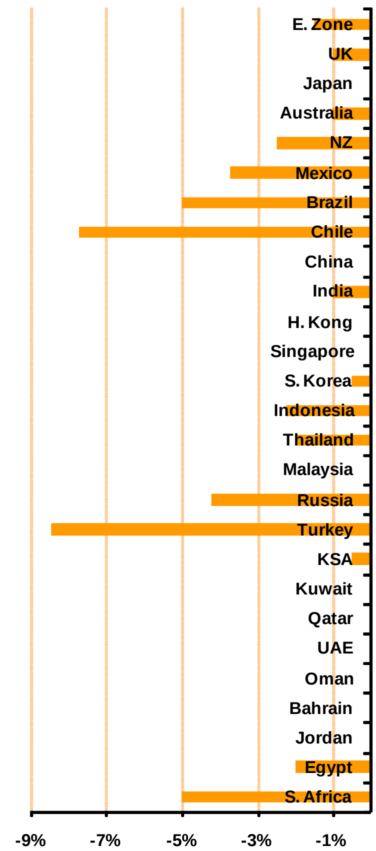
While Europe is no longer on the edge of abyss, there are factors that could derail the nascent recovery. First, is the soaring public debt faced by some of its member states. Greece and Spain's credit ratings have been downgraded, while Portugal and Iceland remain under careful watch. This development weighs heavily on investor confidence, reflected by the fact it costs more to insure the combined risk of default of Europe's developed nations, than it does the combined risk of Europe's top 125 investment firms. Moreover, the unfeasibility of reducing debt levels below the 60% of GDP limit in the medium term threatens the credibility of the EU's growth and stability pact. Accordingly the ECB must map out an exit strategy and force its members to undergo fiscal consolidation. However, tightening monetary policy at a pace faster than the Federal Reserve could raise a second threat, which is further Euro appreciation. The interest rate hike would increase capital inflow, which will exert upward pressure on the Euro and increase the burden on Euro-zone exporters. In this case Euro-zone nations will face a loss of international competitiveness in addition to their ballooning debt, weighing down on growth and rendering fiscal imbalances even larger.

Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*		
	2008	**Last**	**Period**	**Last**	**Date**	**Target**	**Last**	**Decision**	**Date**
Europe/Japan/Oceania									
Euro Zone E. Zone	0.7%	-4.8%	3Q09	0.5%	Dec-09	0.6%	1.00%	Hold	4-Dec-09
UK	0.7%	-5.2%	3Q09	1.9%	Dec-09	1.8%	0.50%	Hold	5-Dec-09
Japan	-0.7%	3.7%	Q092	-1.7%	Dec-09	0-2.0%	0.10%	Hold	6-Dec-09
Australia	2.4%	0.5%	3Q09	1.5%	Jul-09	3.0%	3.75%	0.25%	7-Dec-09
New Zealand	0.2%	-2.1%	2Q09	1.7%	Sep-09	3.0%	2.50%	Hold	8-Dec-09
Latin America/Caribbean									
Mexico	1.3%	-8.1%	3Q09	6.3%	Nov-08	3.0%	4.50%	Hold	16-Oct-09
Brazil	5.1%	-1.2%	3Q09	0.3%	Nov-09	4.0%	8.75%	Hold	9-Dec-09
Chile	3.2%	-1.6%	3Q09	0.0%	Nov-09	3.0%	0.50%	Hold	16-Dec-09
Asia/Southeast Asia									
China	9.0%	8.9%	3Q09	0.6%	Dec-09	4.80%	5.31%	-0.27%	22-Dec-08
India	7.3%	7.9%	2Q09	-0.1%	Sep-09	5.50%	5.50%	-1.00%	2-Jan-08
Hong Kong	2.4%	-2.4%	Q093	0.5%	Dec-09	-	1.50%	-0.50%	30-Oct-08
Singapore	1.1%	0.6%	Q093	-0.2%	Dec-09	-	-	-	-
South Korea	2.2%	0.6%	3Q09	2.8%	Dec-09	3.50%	2.00%	Hold	10-Dec-09
Indonesia	6.1%	6.1%	Q083	2.4%	Dec-09	4-6%	6.50%	Hold	4-Dec-09
Thailand	2.6%	-2.8%	3Q09	1.9%	Dec-09	3.50%	1.25%	Hold	4-Dec-09
Malaysia	4.6%	-1.2%	Q093	-0.1%	Dec-09	-	1.25%	Hold	26-Aug-09
Eastern Europe/Central Asia									
Russia	5.6%	-8.9%	3Q09	9.7%	Dec-09	8.50%	8.75%	-0.25%	16-Dec-09
Turkey	0.9%	-3.3%	Q093	5.5%	Dec-09	-	%6.50	Hold	17-Dec-09
Asia/Southeast Asia									
Saudi Arabia	4.5%	0.2%	2009	3.5%	Oct-09	-	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	4.4%	Oct-08	-	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	-	10.50%	-0.50%	30-Jul-09
South Africa	3.1%	-2.1%	3Q09	5.8%	Dec-09	%6.00	7.00%	Hold	19-Nov-09

Policy Rate Change

Cumulative 09YTD



Notes: 1/Growth: Real GDP Growth Rate, 2008: Y-o-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

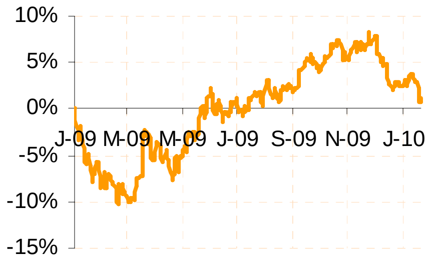
The Euro: Overvalued

The US and the UK have flooded their money markets with liquidity, driving down the value of their respective currencies. While the ECB has also engaged in quantitative easing, it has done so to a much lesser extent. Since Oct08, its balance sheet has increased by less than 50%, whereas those of the US and UK have more than doubled in size. This has created an imbalance in the number of pounds and dollars relative to Euros circulating in the system, which has impacted the foreign exchange market. Since the start of the crisis, this dynamic has exerted upward pressure on the Euro, which has appreciated by approximately 20% against the USD and 30% against the GBP. According to the Economist's Big Mac index, based on the principle of purchasing power parity, the euro is now estimated to be 35% overvalued. How will this impact the rebound in 2010? The recovery will likely be more protracted. Euro appreciation will reduce competitiveness of exporters thus dampening the strength of any economic recovery. This will also likely increase the difficulty of dealing with the fiscal imbalances in the region. Going forward, it is clear that 2010 will carry many challenges for the Euro-zone.

Key Spot Foreign Exchange Rates

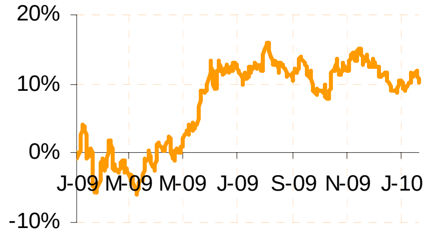
$ per €*

Last **1.4139** Week **-2.5%** 10YTD **-1.3%**



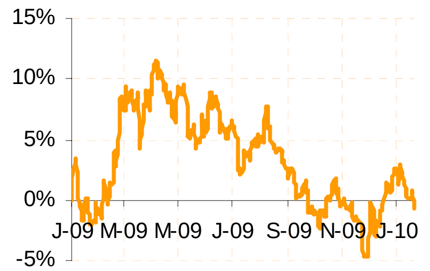
$ per £*

Last **1.6029** Week **-1.4%** 10YTD **-0.3%**

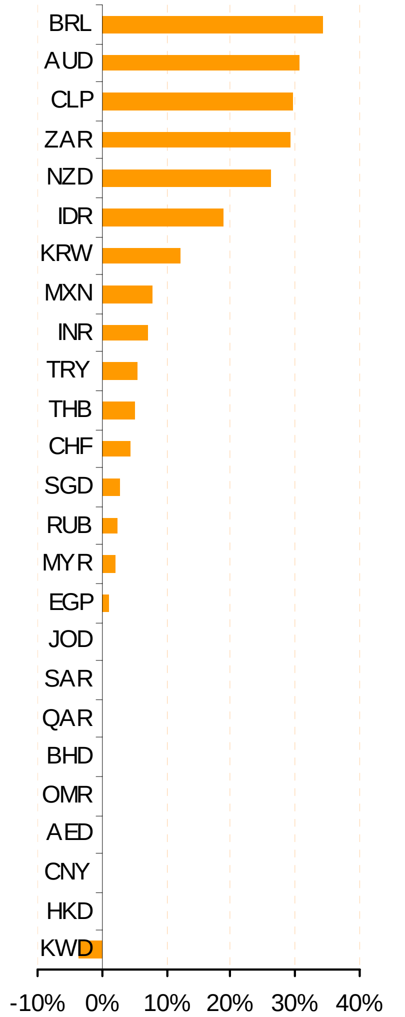


¥ per $*

Last **92.66** Week **-1.3%** 10YTD **-3.2%**



Rate versus $	Last	Week
Europe/Oceania		
Swiss Franc (CHF)	1.0418	-2.3%
Australian Dollar (AUD)	0.9010	-3.3%
New Zealand Dollar (NZD)	0.7105	-4.3%
Latin America/Caribbean		
Mexican Peso (MXN)	12.9938	-2.5%
Brazilean Real (BRL)	1.8167	-3.1%
Chilean Peso (CLP)	506.0000	-2.5%
Asia/Southeast Asia		
Chinese Yuan (CNY)	6.8271	0.0%
Indian Rupee (INR)	46.2500	-1.4%
Hong Kong Dollar (HKD)	7.7732	-0.2%
Singaporean Dollar (SGD)	1.4047	-1.2%
South Korean Won (KRW)	1,155.00	-2.7%
Indonesian Rupee (IDR)	9,330.00	-1.7%
Thai Baht (THB)	33.0600	-0.5%
Malaysian Ringgit (MYR)	3.4005	-1.7%
Eastern Europe/Central Asia		
Russian Rouble (RUB)	29.8685	-1.4%
Turkish New Lira (TRY)	1.4915	-2.0%
Middle East/Africa		
Saudi Riyal (SAR)	3.7504	0.0%
Kuwaiti Dinar (KWD)	0.2871	-0.3%
Qatari Riyal (QAR)	3.6409	0.0%
UAE Dirham (AED)	3.6771	-0.1%
Omani Riyal (OMR)	0.3851	-0.2%
Bahraini Dinar (BHD)	0.3770	0.0%
Jordanian Dinar (JOD)	0.7085	0.2%
Egyptian Pound (EGP)	5.4465	-0.4%
South African Rand (ZAR)	7.6438	-3.3%



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Global Equity Markets

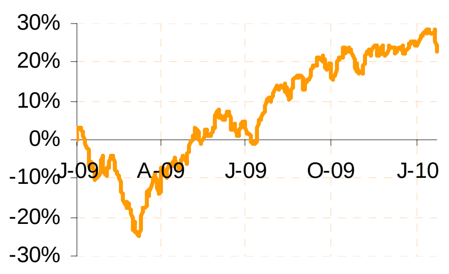
ETF's Gain Popularity

Global Exchange Traded Funds (ETFs) have been growing rapidly over the last year. These assets are securities which track an index or sector, and are listed and traded on the major exchanges. In 2009 they increased a hefty 45% from a year earlier, breaking through the USD 1trn mark, a clear signal of investor preference for these vehicles over mutual funds. Their popularity reveals a clear shift in investor appetite, towards greater liquidity, transparency, risk and return, concerns which have become more pronounced as a result of the financial crisis. The US is the biggest market player in ETF's, with assets amounting to USD705 bn, constituting a 42% increase over 2009. The European market, while significantly smaller (USD223 bn), has grown at a faster pace of 57% over the past year. In 2010, we expect the bullish sentiment behind these funds to continue, if not gain momentum. With a tentative global recovery, and still healing financial wounds, market players will exert preference for vehicles which offer greater flexibility, and can cushion investors against the downside.

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

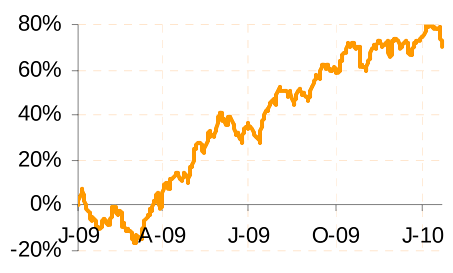
MSCI G7

Last	937.3	Week	-2.0%	10YTD	-5.7%



MSCI EM

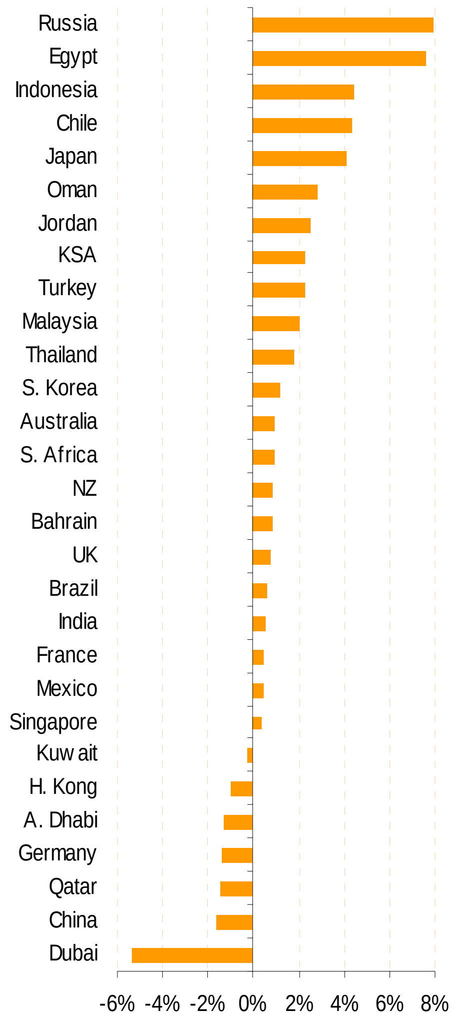
Last	963.9	Week	-4.6%	10YTD	-2.6%



Dow Jones Islamic

Last	1,944.2	Week	-3.9%	10YTD	-1.6%

Country/Index	Week	YTD
Europe/Japan/Oceania		
UK (FTSE100)	-2.8%	-2.0%
Germany (DAX30)	-3.1%	-4.4%
France (CAC40)	-3.4%	-2.9%
Japan (N225)	-3.6%	0.4%
Australia (All Ordinaries)	-3.2%	-2.3%
N. Zealand (NZSX50)	-2.1%	-1.2%
Latin America/Caribbean		
Mexico (IPC)	-4.4%	-4.0%
Brazil (Bovespa)	-4.0%	-3.5%
Chile (IGPA)	0.6%	4.9%
Asia/Southeast Asia		
China (Shanghai-C)	-3.0%	-4.5%
India (BSE-Sensex)	-4.0%	-3.5%
Hong Kong (Hang Seng)	-4.3%	-5.2%
Singapore (Strait Times)	-3.1%	-2.7%
S. Korea (KOSPI-C)	-1.0%	0.1%
Indonesia (Jakarta-C)	-1.4%	3.0%
Thailand (SET)	-3.1%	-1.4%
Malaysia (Kuala Lampur-C)	0.5%	2.2%
Eastern Europe/Central Asia		
Russia (RTSI)	-4.5%	3.1%
Turkey (ISE National 100)	0.0%	2.2%
Middle East/Africa		
KSA (TASI)	0.9%	4.3%
Kuwait (KSEI)	1.1%	0.8%
Qatar (DSM20)	-1.2%	-2.7%
Abu Dhabi (ADI)	-2.6%	-3.9%
Dubai (DFMGI)	-3.2%	-8.4%
Oman (MSM30)	-2.2%	0.6%
Bahrain (All Share I)	0.4%	1.3%
Jordan (ASE General I)	-1.7%	0.8%
Egypt (CASE30)	2.7%	10.6%
S. Africa (JSE All Share Index)	-3.1%	-2.2%



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