

# Market Review & Outlook

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

## SPECIAL FOCUS

### 4Q, Prosperous Expectations (page 3)

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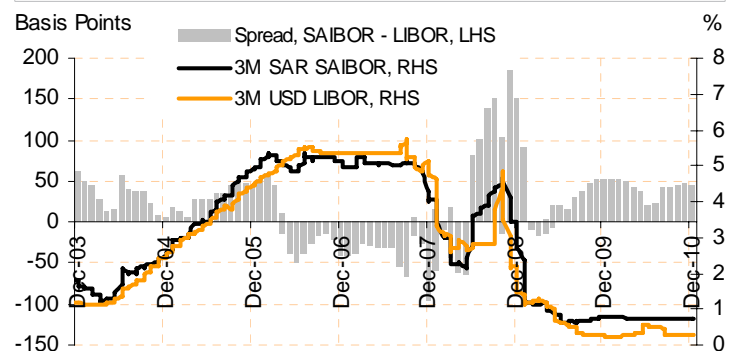
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### Saudi Arabia Leading Economic Indicators

	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	39.4	10YTD
Y/Y Growth in Monetary Base (M0)	37.9%	-3.17%	Oct 10
Y/Y Growth in Money Supply (M3)	10.7%	3.68%	Oct 10

### Saudi Arabia Liquidity and Risk Detector



Sources: Reuters and NCB Last updated: 23 December 2010  
\* 2008 Numbers

### View of the Week

“ Uncle Sam is expected to maintain his current level of growth going into 2011. Unfortunately, the current rate is below the “ideal” pace...”

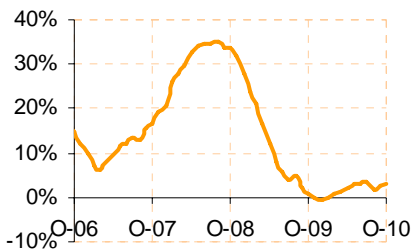
# Saudi Macro and Equity Market

## Robust Steel Demand Continues into 2011

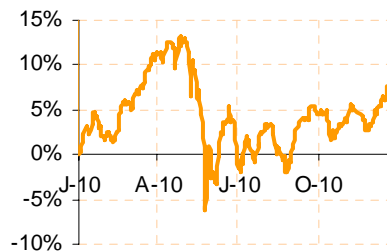
As 2010 draws to a close, world crude steel production by end of November stood at 1,392 mn metric tons, of which Saudi Arabia produced 4.6 mn tons, about 0.3% of the global total, but about 8% more than what it had produced for the same period last year. Global crude steel production, as illustrated by the sixty-six countries represented in the World Steel Association, for the month was 114 mn tons, an increase of 5.1% against November 2009. The Kingdom ranked second out of total production in the Middle East for the first eleven months of 2010, accounting for 27%, following Iran's production of 10.9 mn tons. Over the year, Saudi Arabia's highest producing month was that of January, the same month the Government re-imposed the 5% custom duty to streamline domestic demand. In November, the Kingdom's steel production had decreased by approximately 18%, to 388 thousand tons. However, the Y/Y increase in the Kingdom's production reflects the gradual return of pace to construction activity in the domestic economy. The Kingdom's budget released late last week, with its emphasis on building infrastructure projects will translate into increasing demand for steel in 2011, coupled with the potential demand emanating from the much talked about railway projects. Domestic steel prices are likely to hover around USD3,200 per metric ton.

## Key Macroeconomic and Equity Market Indicators

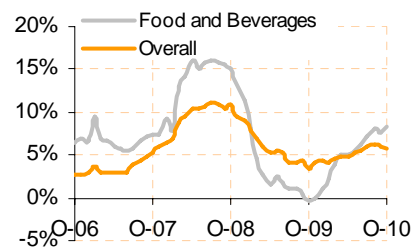
Y/Y Growth in Credit (Private Sector)



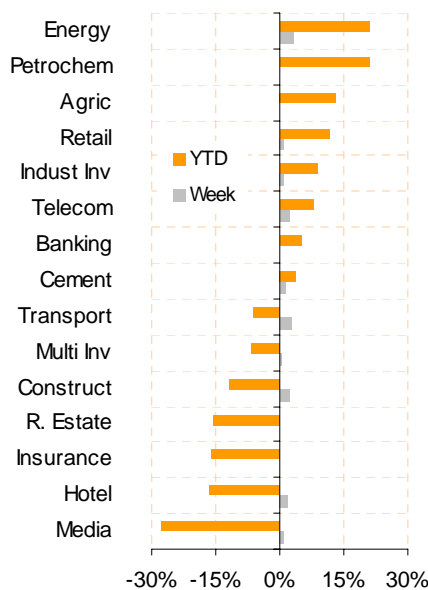
Tadawul All Share Index: 31 Dec 09 = 0%



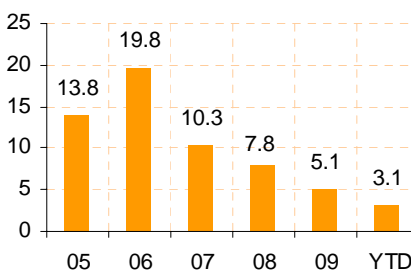
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



	Last	Previous
Oil Price, \$bbl <sup>1</sup>	YTD 76.3	2009 61.0
Oil Production, mmbd <sup>2</sup>	Nov 8.25	Oct 8.27
Real GDP	2009 0.6%	2008 4.2%
CPI Inflation, Y/Y	Oct 5.8%	Sep 5.9%
Broad Money (M3), Y/Y	Oct 3.7%	Sep 5.1%
Credit, Private Sector	Oct 3.1%	Sep 2.6%
Credit, Corporate	3Q10 0.27%	2Q10 0.76%
Credit, Households	3Q10 9.08%	2Q10 9.17%
Net Claims on Government <sup>3</sup>	Oct -840	Sep -821
Loan-to-deposit Ratio <sup>4</sup>	Oct 78.8%	Sep 77.5%
Excess Reserves/Total <sup>5</sup>	Oct 55.1%	Sep 55.4%
Net Foreign Assets, USDbn	Oct 458.4	Sep 452.9
Import LCs, SARbn <sup>6</sup>	10M 10 126.6	10M 09 99.1

**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.

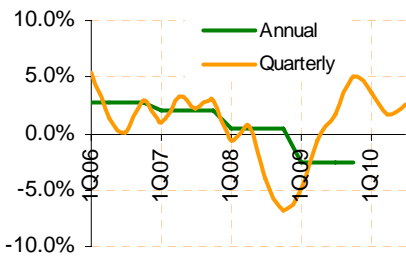
# US Macro and Equity Markets

## 4Q, Prosperous Expectations

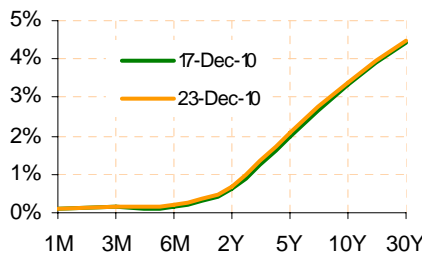
The US economy expanded at a slightly faster pace than previously expected. Last week, the Bureau of Economic analysis announced an upward revision to the nation's GDP growth figure. The revision added 0.1% to their previous announcement to total 2.6% for 3Q10. Driven mainly by, (1) personal consumption expenditures which accelerated at 2.4%, marking the fastest pace since 1Q07, (2) strong deceleration in imports to 16.8% from 33.5% in the previous quarter which positively overshadowed the relatively minor deceleration in exports. Interestingly, imports and exports of services picked last quarter while the major deceleration was attributed to the goods category. The US economy is ending 2010 with sound indicators, excluding the housing market and unemployment. In addition, the holiday season boosted retail sales and consumer spending thus pointing to a prosperous 4Q. As unemployment is still hovering near 10%, real estate will continue to suffer and its rebound is expected to take a few years. Meanwhile, the job market seems to have eased on firing, the initial claims for unemployment insurance decreased by 3,000 to 420,000. Most states declared fewer layoffs in the construction sector which is optimistic for the housing market. Uncle Sam is expected to maintain his current level of growth going into 2011. Unfortunately, the current rate is below the "ideal" pace which the government prefers in order to stimulate the job market from the worst recession since WWII.

### Key Macroeconomic and Capital Market Indicators

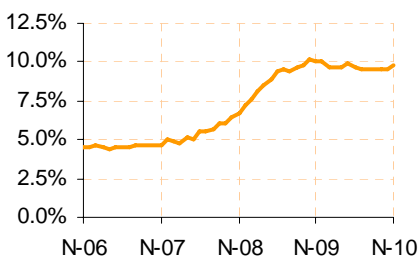
Real GDP Growth, Annualized



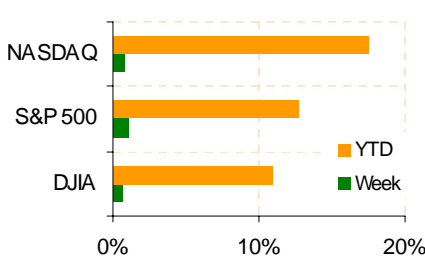
Benchmark Yields, Annualized



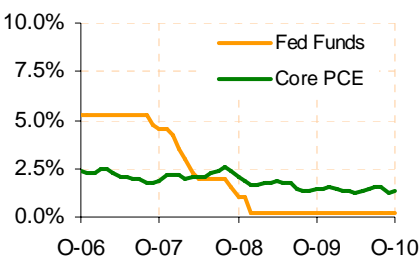
National Unemployment Rate



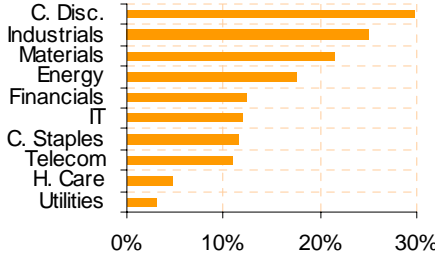
Benchmark Equity Indices



Target Fed Funds Rate/Core PCE



MSCI US Sector Indices



	Last	Next
Real GDP	3Q10(F) 2.6%	4Q10(A) 28-Jan
Unemployment	Nov 9.8%	Dec 7-Jan
A. H. Earnings, M/M	Nov 0.0%	Dec 4-Jan
CPI Inflation, Y/Y	Nov 1.10%	Dec 15-Jan
Core PCE, Y/Y	Oct 1.30%	Nov 1-Jan
Existing Home Sales, M/M	Nov 5.6%	Dec 24-Jan
Housing Starts, M/M	Nov 3.9%	Dec 16-Jan
Trade Balance, \$bn	Oct -38.71	Nov 10-Jan
Retail Sales, M/M	Nov 0.80%	Dec 14-Jan
Industrial Production, M/M	Nov 0.4%	Dec 18-Jan
Capacity Utilization	Nov 75.2%	Dec 15-Jan
Fed Funds Rate	Oct 0.25%	Nov 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.

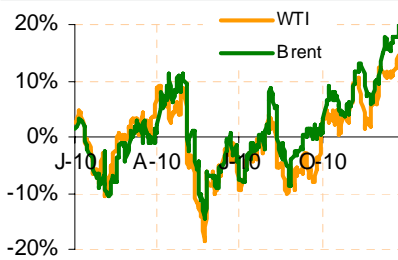
# Commodity Markets

## Copper Prices Push Forward

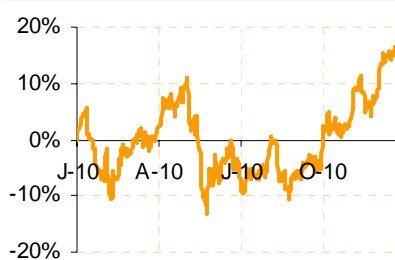
The momentum of higher prices is pushing copper towards record numbers on the London Metal Exchange (LME). Three-month copper on the LME dipped 0.6% to USD9,309 a ton on December 22, bringing it close to the record high of USD9,392 that was set a day before. Shanghai's benchmark three-month copper rose to its highest point since March 2008, reaching 70 Yuan per ton. However, LME copper stood at a premium of 3,789 Yuan over Shanghai, from 3,604 Yuan on the previous day. China's monthly imports of refined copper rose approximately 37% in November, which coupled with record monthly production boosted the country's apparent consumption of 24% from the previous month. Apparent refined copper consumption rose to 661,376 tons in November, from 549,704 tons in October which fell 19.7% from the previous month. The YTD apparent consumption rose 55% against 4.1% in the preceding month. Additionally, the amount of copper held to back the physical copper exchange traded product increased by 850.5 tons to 1,445.5 tons according to ETF Securities. The upward trend in copper is expected to remain in place into 2011, after LME copper staged a 26% YTD gain, on anticipation of tighter supply. Unless China intensifies its tightening moves or Europe's debt crises deteriorate, momentum in copper rally should remain.

## Key Commodity Prices and Indices

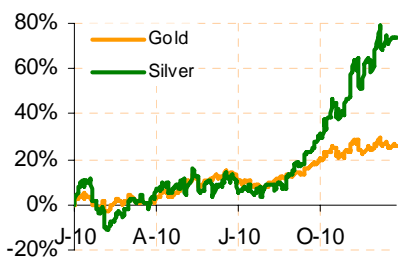
Benchmark Crude Oil Prices



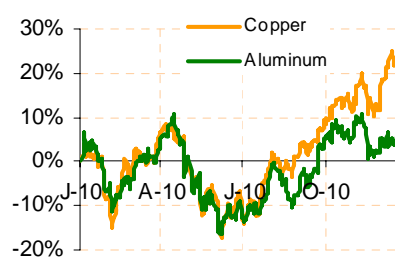
Saudi Arabian Light, Asia Deliveries



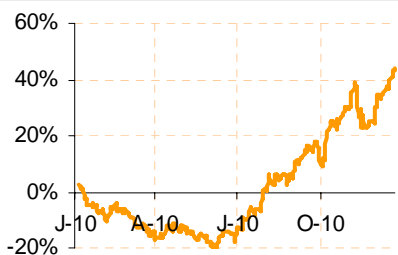
Precious Metals



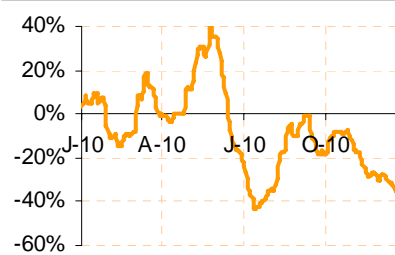
Base Metals



Goldman Sachs Agriculture Index



Baltic Exchange Dry Index



	Last	Week
WTI, Spot, \$/bbl	23-Dec 90.84	3.2%
Brent, Spot, \$/bbl	23-Dec 94.01	2.1%
Gold, LME, \$/Oz	23-Dec 1,384.3	0.7%
Silver, LME, \$/Oz	23-Dec 29.21	0.3%
Platinum, \$/Oz	23-Dec 1,712.0	0.9%
Palladium, \$/Oz	23-Dec 749.50	1.7%
Aluminum, LME, \$/t	23-Dec 2,445	5.3%
Copper, LME, \$/t	23-Dec 9,265	2.2%
Nickel, LME, \$/t	23-Dec 23,850	-3.4%
Zinc, LME, \$/t	23-Dec 2,295	1.2%
Wheat, Sep, \$/Bushel	23-Dec 7.83	3.5%
Corn, Sep, \$/Bushel	23-Dec 6.14	2.9%
Soybeans, Sep, \$/Bushel	23-Dec 13.50	3.9%

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

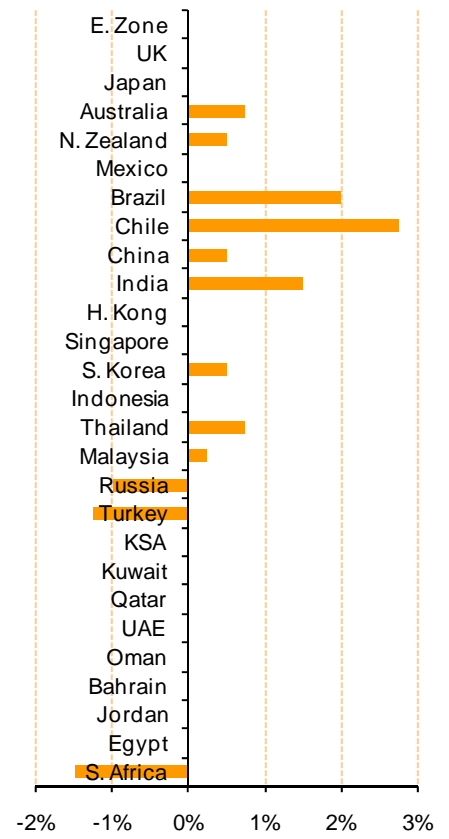
# Global Macro

## Slow and Steady Chinese Policy

The IMF recently stated Asia's significant role in the global economic recovery, highlighting the significance of both China and India's economic performance, and predicting that growth in developed countries will continue at a slow trajectory for several years to come. However, the People's Bank of China finds itself fending off the effects of inflation earlier than expected, as the benchmark one-year lending and deposit rates are to be raised for the second time in two months by 25 bps, to 5.81% and 2.75%. Citing their forecast of higher inflation during the first half of 2011, the government is being cautiously prudent in the increase so as to prevent a drastic increase in the influx of hot money. This year saw a rise of 48% in fund inflows to the construction and real-estate sectors, which cause inflation to rise astronomically. The National Bureau of Statistics announced a rise of 7.7% Y/Y in property prices in November, predicating expectations of further monetary tightening. Although China instituted measures in these sectors to curb inflation, food prices shot up in as well, exacerbating concerns over inflationary pressures. China has been able to keep its GDP at or above 9% Y/Y in 2010, and while pressure to have the Yuan reflect its true purchasing power and the IMF's indication that China needs to become less dependent on exports, the government understands very well that sudden or unsuitable measures will have a destabilizing effect to its economy and population, and has opted for slow and steady changes to its monetary policy in 2010.

## Selected Global Macroeconomic Indicators

	Growth*			Inflation*			Policy Rate*			Policy Rate Change Cumulative 10YTD
	2008	Last	Period	Last	Date	Target	Last	Decision	Date	
<b>Europe/Japan/Oceania</b>										
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	-0.6%	Oct-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	
<b>Latin America/Caribbean</b>										
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	
<b>Asia/Southeast Asia</b>										
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	3.3%	Nov-10	3.7%	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	
<b>Eastern Europe/Central Asia</b>										
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	
<b>Middle East/Africa</b>										
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	



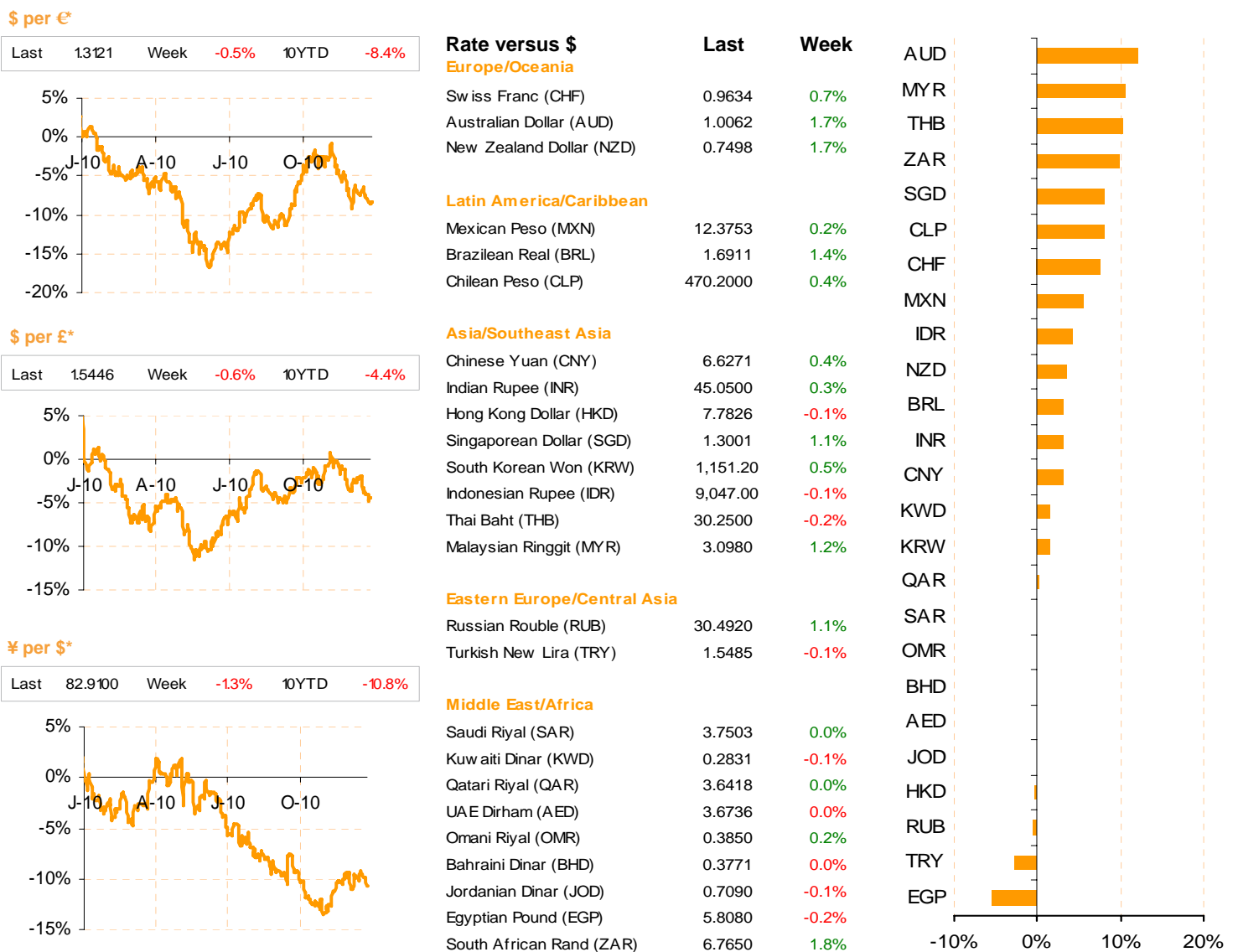
**Notes:** 1/Growth: Real GDP Growth Rate, 2008: Y/Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 2/ CPI Inflation: Y-o-Y % Change in CPI, Target: Central bank/monetary authority inflation target. 3/ Policy Rate: Last: Current policy rate, Decision/Date: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

# FOREX Market

## The Ebb and Flow of the USD

As the US economy has been gathering pace, the USD advanced against its two major counterparts, GBP and EUR. The increase in the dollar can be attributed to (1) the US GDP growing by 2.6% in 3Q10, less-than-predicted but much higher than 1.7% in 2Q, driven by strong consumption; (2) improvement in consumer sentiment according to the University of Michigan Index, which had risen to 74.5 in December compared to 71.6 in the previous month, and (3) existing home sales expanded to reach 4.68 million in the month of November. The USD managed to end the week with 0.6% and 0.5% gains against GBP and EUR, respectively. The common currency weakened last week, driven by Fitch's downgrade to Portugal and Hungary and warned that Greece's rating may follow suit. Fitch downgraded Portugal's and Hungary's long term credit rating to (A+) and (BBB-), respectively. On the other hand, commodity currencies, namely CAD, AUD and NZD, managed to end last week with gains against the USD as commodity prices have continued to rise well into the end of the year. Despite the slow growth in Canada's GDP in Oct 2010, the loonie increased 0.5% against the USD, driven by the upsurge in oil prices that posted USD91.63 for February delivery, the highest level since October 2008. The JPY followed suit and advanced 1.3% against the greenback as the recovery in the US improved the demand for the JPY as a carry trade currency.

## Key Spot Foreign Exchange Rates



# Global Equity Markets

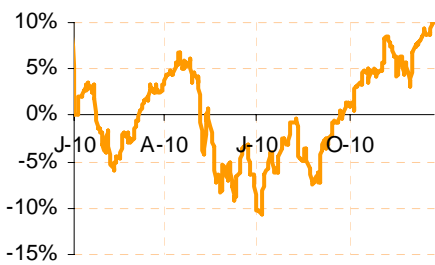
## Asian Mixed Results

Asian stock market performances were mixed the past week, but mostly positive. China's recent voicing of willingness to help with European financial stability, coupled with an increase in US retail sales, helped support gains. The MSCI Asia Pacific index increased by 1.2% to 135.19 at closing on Friday. Though China's Shanghai Composite index slumped 2.0%, due to the earlier-than-expected interest rate hikes that many investors did not anticipate, Japan's Nikkei declined 0.2%, reversing earlier gains, and Singapore's Strait Times lost 0.3%, other countries were exhibiting a healthier equity market. Thailand climbed the highest amongst Asian markets climbing 1.2%, continuing to attract an increasingly larger number of investors seeking higher returns. Bombay's Stock exchange rose 1.1%, on improving US economic data. South Korea's KOSPI-Composite Index rose 0.2%, continuing its fourth weekly rise. Malaysia, Indonesia, and Hong Kong saw increases of 0.8%, 0.8%, and 0.5%, respectively. Overall, Asian markets' performance this year has been upbeat, with the MSCI Asia Pacific index rising 11% YTD, but an increasing worry over the effects of speculative money on domestic economies clouds next year's outlook. As investors scrutinize the world's second largest economy's exchange rate policy in the coming months as a tool to fend off higher inflation, predictions on the market's trend in the medium-term are still hazy at this point.

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

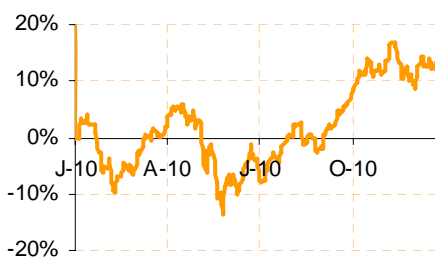
### MSCI G7

Last 1,093.3 Week 1.3% 10YTD 10.0%



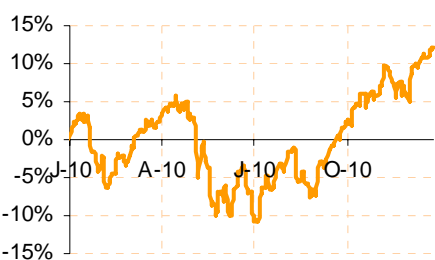
### MSCI EM

Last 1,126.8 Week 1.0% 10YTD 13.9%



### Dow Jones Islamic

Last 2,212.8 Week 1.0% 10YTD 12.0%



### Country/Index

#### Europe/Japan/Oceania

Country/Index	Week	YTD
UK (FTSE100)	2.3%	11.0%
Germany (DAX30)	1.1%	18.5%
France (CAC40)	0.9%	-0.9%
Japan (N225)	-0.2%	-2.5%
Australia (All Ordinaries)	0.3%	-0.3%
N. Zealand (NZSX50)	0.1%	3.1%

#### Latin America/Caribbean

Mexico (IPC)	0.2%	18.6%
Brazil (Bovespa)	0.7%	-0.1%
Chile (IGPA)	-1.5%	37.8%

#### Asia/Southeast Asia

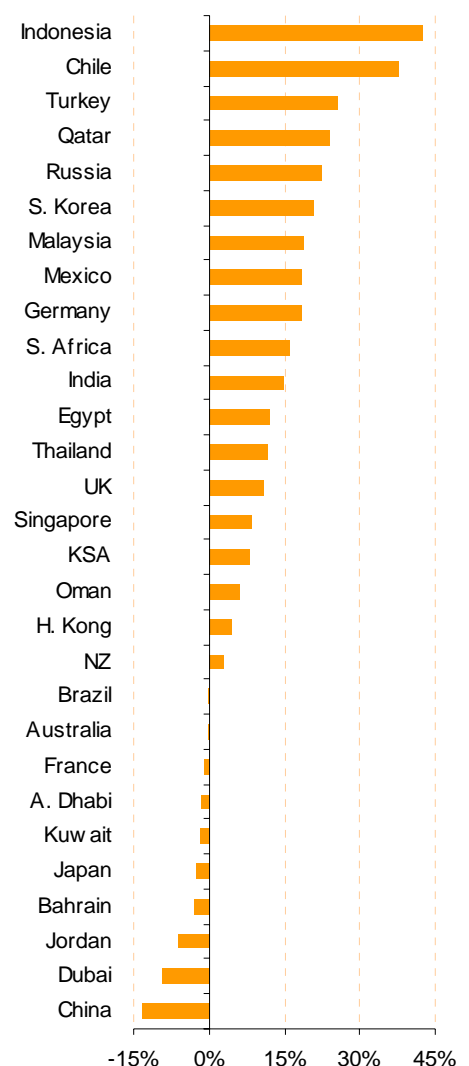
China (Shanghai-C)	-2.0%	-13.5%
India (BSE-Sensex)	1.1%	14.9%
Hong Kong (Hang Seng)	0.5%	4.4%
Singapore (Strait Times)	-0.3%	8.5%
S. Korea (KOSPI-C)	0.2%	20.6%
Indonesia (Jakarta-C)	0.8%	42.5%
Thailand (SET)	1.2%	11.5%
Malaysia (Kuala Lumpur-C)	0.8%	18.8%

#### Eastern Europe/Central Asia

Russia (RTSI)	1.5%	22.5%
Turkey (ISE National 100)	4.3%	25.4%

#### Middle East/Africa

KSA (TASI)	0.5%	8.0%
Kuwait (KSEI)	0.5%	-1.8%
Qatar (DSM20)	-1.2%	24.0%
Abu Dhabi (ADI)	-0.6%	-1.4%
Dubai (DFMGI)	-0.6%	-9.6%
Oman (MSM30)	1.1%	6.0%
Bahrain (All Share I)	-1.1%	-3.2%
Jordan (ASE General I)	1.0%	-6.1%
Egypt (CASE30)	0.9%	12.0%
S. Africa (JSE All Share Index)	1.3%	15.8%





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