

Market Review & Outlook

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

SPECIAL FOCUS

Saudi's Monetary State (page 2)

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Liquid Banks Raise Indices

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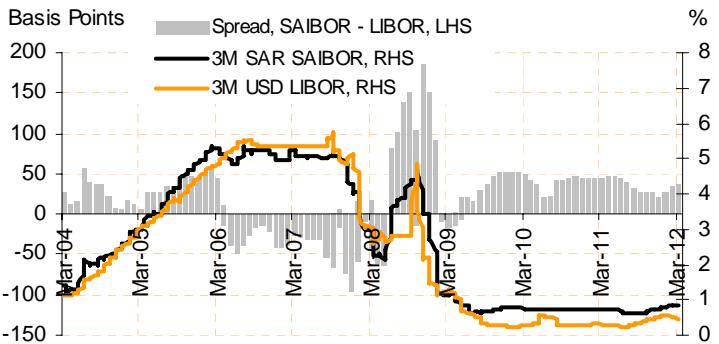
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Saudi Arabia Leading Economic Indicators

	2011	Latest	Period
Average WTI, Cushing 1M, USD/bbl	94.8	101.5	12YTD
Weighted Average Arabian Light, USD/bbl	108.1	115.7	12YTD
Average 3M USD LIBOR	0.33%	0.53%	12YTD
Average 3M SAR SAIBOR	0.69%	0.82%	12YTD
Average Spread, in Basis Points, SAIBOR-LIBOR	36.0	28.3	12YTD
Y/Y Growth in Monetary Base (M0)	17.4%	27.0%	Jan 12
Y/Y Growth in Money Supply (M3)	13.3%	13.6%	Jan 12

Saudi Arabia Liquidity and Risk Detector



View of the Week

“ ...banks opted to window dress their financial statements by reporting liquid positions as evident by the level of deposits with Saudi Arabian Monetary Agency... ”

Saudi Macro and Equity Market

Saudi's Monetary State

The monetary situation last year accommodated business activities as the fiscal and monetary policies enhanced the operating environment for banks. Monetary aggregates have accelerated during 4Q2011, with the monetary base and money supply growing by 18.8% and 4.1% compared to -5.3% and 0.4%, respectively during the previous quarter. Additionally, banks opted to window dress their financial statements by reporting liquid positions as evident by the level of deposits with Saudi Arabian Monetary Agency (SAMA) which surged to SAR159.3 bn, with 60.9% in the form of excess reserves. Furthermore, bank claims on the public sector dropped for the second consecutive quarter to SAR177.8 bn, declining by 14.1% Q/Q and 2.3% Y/Y, the first annual drop since 2Q2010. However, lending to the private sector gained 11% reflecting a sustainable level in the short- to medium-term. Regarding their international position, SAMA net foreign assets crossed the SAR2 trn mark, comprised mainly of investment in foreign securities at almost 70% and in banks abroad at 20%, reflecting the government's conservative strategy of seeking lower risk and higher liquidity given the turbulence in credit and money markets. We expect inflation to be range bound around 4.8% this year on a stronger dollar which will reduce imported inflation and easing commodity prices while rental pressures remain relatively moderate.

Key Macroeconomic and Equity Market Indicators

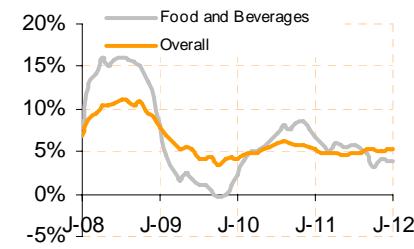
Y/Y Growth in Credit (Private Sector)



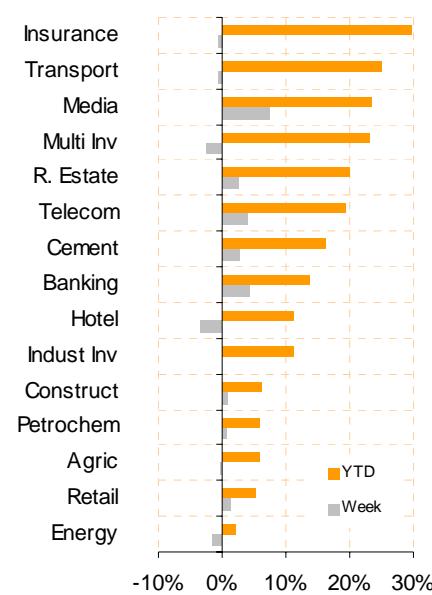
Tadawul All Share Index: 31 Dec 10 = 0%



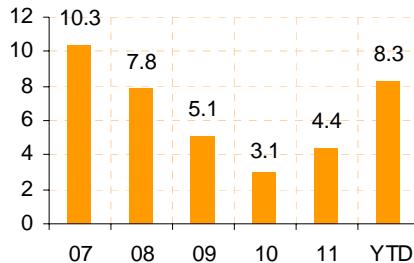
Y/Y CPI Inflation Rate



Price Performance of Sector Indices



Average Daily Traded Value (SAR bn)



Key Macroeconomic Indicators

	Last	Previous
Oil Price, \$ bbl ¹	2012 115.7	2011 108.1
Oil Production, mmbd ²	Jan 9.75	Dec 9.70
Real GDP	2011 6.8%	2010 4.10%
CPI Inflation, Y/Y	Jan 5.3%	Dec 5.3%
Broad Money (M3), Y/Y	Jan 13.6%	Dec 13.3%
Credit, Private Sector	Jan 12.1%	Dec 11.0%
Credit, Corporate	4Q11 7.27%	3Q11 8.59%
Credit, Households	4Q11 20.65%	3Q11 10.00%
Net Claims on Government ³	Jan -1,058.1	Dec -1,009.2
Loan-to-deposit Ratio ⁴	Jan 78.1%	Dec 77.6%
Excess Reserves/Total ⁵	Jan 60.2%	Dec 60.9%
Net Foreign Assets, USDbn ⁶	Jan 543.3	Dec 535.9
Import LCs, SARbn ⁷	1M 12 18.6	1M 11 11.7

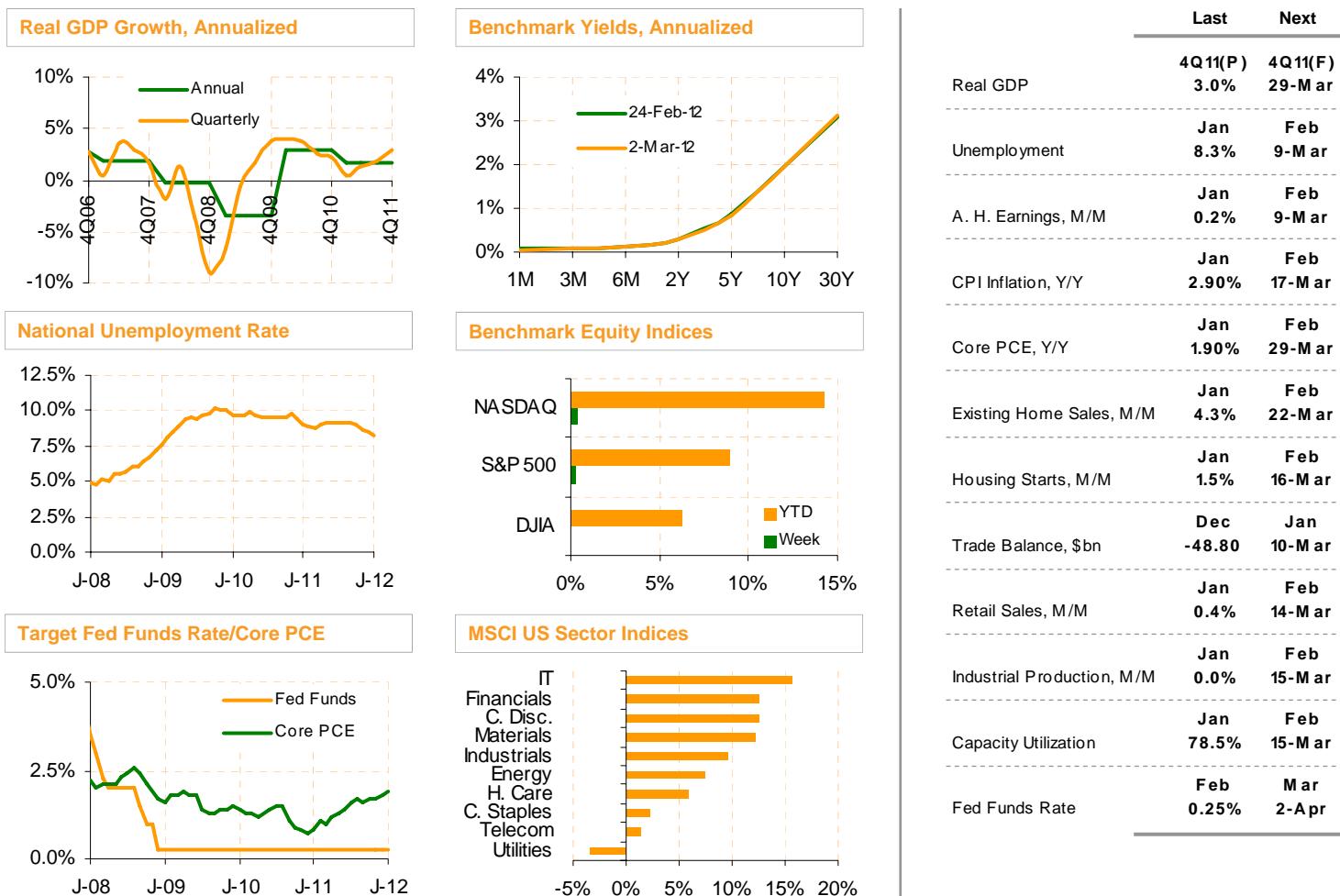
Sources: SAMA, Reuters. **Notes:** 1/Oil price: Weighted Average Arabian Light. 2/Oil production: Million barrels per day of crude oil. 3/Net claims on government: banking sector claims on the central government less central government deposits in the banking system in SAR bn. 4/Loan-to-deposit ratio: 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

Supporting the Global Economy

The Bureau of Economic Analysis released their second estimate figures last week. The US's GDP, for the three months ending December, grew 3.0%, a 0.2% upward revision from their previous advance estimate. The US economy has been a positive catalyst for the global recovery this year and continues to support global sentiment. The main driver of the economy, personal consumption expenditure (PCE), expanded at 2.1% over the fourth quarter as consumers reduce their savings levels by decreasing the savings rate to 4.5%, the lowest level since 4Q2009. The largest contribution to GDP was attributed to gross private domestic investment which gained 20.6% during 4Q2011, mainly driven by residential fixed investment gaining 11.5% during the same period. Furthermore, exports grew by a downwardly revised 4.3% last quarter; however, imports were revised downwards on a larger scale at 3.8% from the previous estimate of 4.4%. Additionally, the job market in the US has been positive as unemployment benefits for the week ending February 25 dropped 2,000 to 351,000, maintaining the lowest level since 2008. The unemployment rate is expected to remain unchanged at 8.3% last month. Higher oil prices could hinder consumer spending over the short-term as geopolitical risks keep prices elevated. Core PCE price levels accelerated at 1.9% during January, a 0.1% increase over the previous month and 0.1% shy of the Fed's 2% target.

Key Macroeconomic and Capital Market Indicators



Sources: Reuters, Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis (BEA).

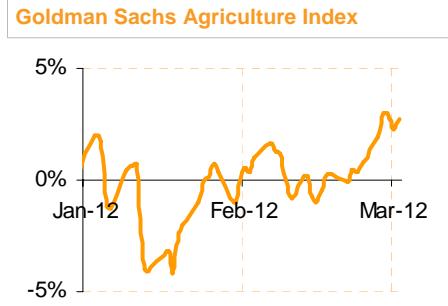
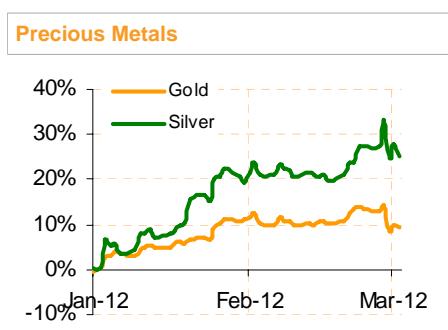
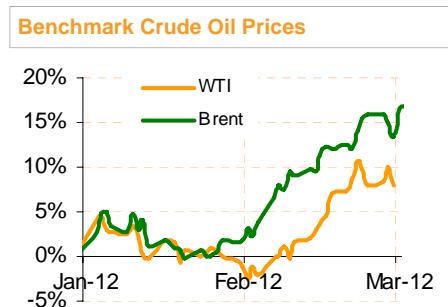
Notes: A/ Advance estimate, P/Preliminary estimate, F/Final estimate. Currently, instead of preliminary and final estimate, the Bureau of Economic Analysis (BEA) uses second and third estimate, respectively.

Commodity Markets

Oil Prices Fall on False Reporting

Oil prices fell 2% on Friday after Saudi Arabia extinguished a false report by Iranian media regarding a pipeline explosion in the Kingdom. Both Brent and US crude folded and ended with weekly losses after Brent futures jumped above USD128 a barrel to levels last seen in July 2008. Brent April crude fell USD2.55 to settle at USD123.65 a barrel, having traded as low as USD123.12, below its 10-day moving average of USD123.22. Brent fell 2% for the week after five straight weekly gains. US April Crude fell USD2.14 to settle at USD106.70 a barrel, dropping as low as USD105.80 and pushing below the 10-day moving average of USD107.04 after reaching USD110.55 during the previous day's rush. For the week, US crude fell 2.8%, snapping a string of three higher weekly finishes. Brent's premium to US crude narrowed, ending at USD16.95 a barrel based on settlements. Total Brent crude trading volume edged 2% above the 30-day average and US turnover was 12% under its 30-day average near the end of trading. The dollar index strengthened as the euro slipped a third consecutive day against the US currency, adding pressure on oil and dollar-denominated copper. Additionally, positive manufacturing data out of China, signs of improved economic growth in the US and a liquidity infusion by the European Central Bank lent support to oil this week.

Key Commodity Prices and Indices



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

Global Macro

China's Comfort Zone Lowered

The leading contributor to the global economy lowered the growth level expected for 2012 to 7.5% from an 8% target which has been set since 2005. The Chinese economy expanded at 10.4% during 2010 but moderated last year as the European crisis curbed the global economy. China managed to expand at 8.9% during the last quarter and 9.2% for the whole of 2011. January exports fell by 0.5% as officials maintain a prudent monetary policy to aid growth. The People's Bank of China lowered the required reserve ratio twice over the past three months to avoid a domestic credit crunch. The Chinese government expects a budget deficit of CNY800 bn, representing 1.5% of GDP and CNY100 bn lower than last year's budgeted deficit. As income levels remain low, inflation has been closely monitored as it peaked during July at 6.5%. The main target has been kept at 4% as recent prices moderated to 4.5% during January. Additionally, China's non-manufacturing purchasing managers' index fell to 48.4 from 52.9, entering the contraction zone. The robust growth in the economy over the past three decades is expected to soften as exports are dampened by lower global demand. However, the aggressive nature of the Chinese government suggests that proactive policy decisions will ensure the economy remains the leading driver for global growth.

Selected Global Macroeconomic Indicators

	Growth ¹			Inflation ²			Policy Rate ³			Policy Rate Change
	2010	Last	Period	Last	Date	Target	Last	Decision	Date	
Europe/Japan/Oceania										
Euro Zone	1.7%	0.2%	3Q11	2.7%	Dec-11	2.0%	1.00%	Hold	9-Feb-12	E. Zone
UK	1.3%	0.5%	3Q11	3.6%	Jan-12	2.0%	0.50%	Hold	9-Feb-12	
Japan	3.9%	-2.3%	4Q11	-0.1%	Jan-12	0.1%	0.10%	Hold	14-Feb-12	
Australia	2.7%	2.5%	3Q11	3.1%	Dec-11	3.0%	4.25%	Hold	7-Feb-12	
New Zealand	1.5%	2.2%	3Q11	1.8%	Dec-11	3.0%	2.50%	Hold	25-Jan-12	
Latin America/Caribbean										
Mexico	5.5%	3.7%	4Q11	4.1%	Jan-12	3.0%	4.50%	Hold	20-Jan-12	Mexico
Brazil	7.5%	2.1%	3Q11	6.2%	Jan-12	4.5%	10.50%	-0.50%	19-Jan-12	
Chile	5.3%	4.8%	3Q11	4.4%	Dec-11	3.0%	5.00%	-0.25%	13-Jan-12	
Asia/Southeast Asia										
China	10.3%	8.9%	4Q11	4.5%	Jan-12	4.0%	6.31%	0.25%	5-Apr-11	China
India	10.4%	6.1%	4Q11	7.5%	Jan-12	7.0%	8.50%	Hold	24-Jan-12	
Singapore	14.5%	3.6%	4Q11	4.8%	Jan-12	3.8%	-	-	-	
South Korea	6.1%	3.4%	4Q11	3.1%	Feb-12	4.0%	3.25%	Hold	9-Feb-12	
Indonesia	6.1%	6.5%	3Q11	3.6%	Feb-12	5.0%	5.75%	-0.25%	9-Feb-12	
Thailand	7.8%	-9.0%	4Q11	3.4%	Feb-12	3.0%	3.00%	-0.25%	25-Jan-12	
Malaysia	7.2%	5.8%	3Q11	2.7%	Jan-12	2.0%	3.00%	Hold	31-Jan-12	
Eastern Europe/Central Asia										
Russia	4.0%	4.8%	3Q11	6.1%	Dec-11	7.0%	8.00%	-0.25%	23-Dec-11	Russia
Turkey	8.2%	8.2%	3Q11	10.6%	Jan-12	5.5%	5.75%	Hold	21-Feb-12	

-1.0% -0.5% 0.0%

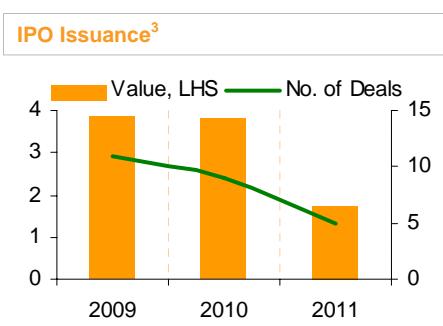
Notes: 1/Growth: Real GDP Growth Rate, 2010: Y/Y % change in full year GDP, Last/Period: Quarterly GDP growth rate annualized unless otherwise indicated. 2/CPI Inflation: Y/Y % change in CPI, Target: Central bank/monetary authority inflation target. 3/Policy Rate: Last: Current policy rate, Decision/Date: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

Regional Macro

Facilitating integration

The past year has seen a significant push towards greater GCC integration, partly in response to a rapidly evolving global situation, partly due a growing recognition of missed opportunities in various areas. For instance, the GCC can hope to fuel economic growth by replicating some of the successful initiatives of the European Union. Last month saw the launch of a new high-level plan to study deeper integration within the block. Among other things, the GCC member states are expected to focus more regulatory harmonization which has been a key driver of integration elsewhere. In practice, the GCC single market still continues to be hampered by a number of practical obstacles. In a potentially significant step, however, the UAE has significantly liberalized the rules for GCC companies wishing to operate in the country. The federal government recently approved a law change that enables GCC-registered companies to freely establish a presence in the country and equalizes their treatment with UAE businesses. The new regulations were presented as a response to the launch of the GCC common market in 2008. The UAE authorities are planning to appeal the continued differential treatment of UAE companies elsewhere in the region to the GCC authorities. The problems are attributed to the slow implementation of GCC decisions by some national governments. The UAE is home to more GCC businesses than any other regional economy and the country issued 26,223 licenses to GCC nationals in 2010, something that marked a 9% Y/Y increase.

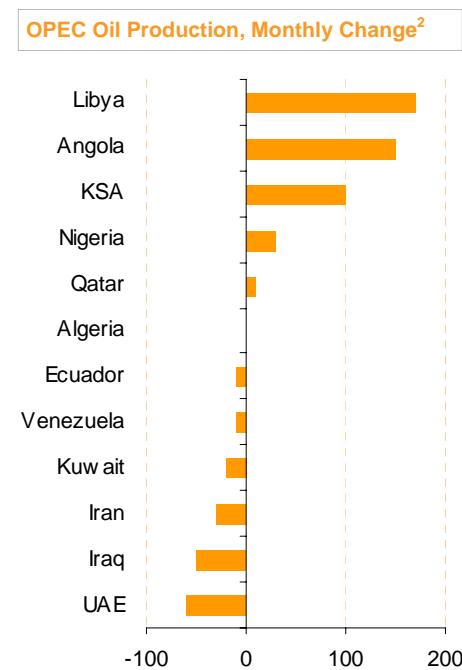
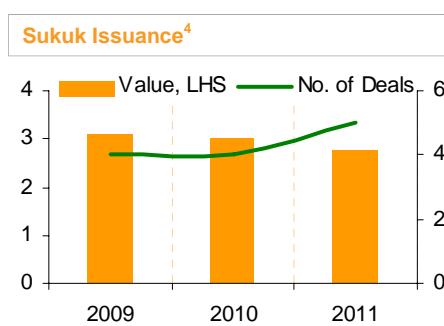
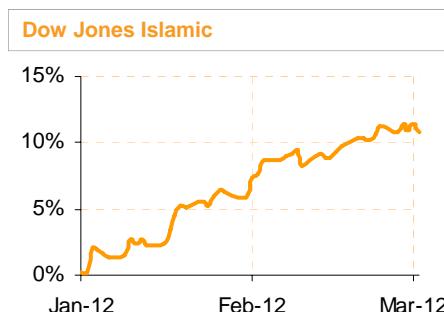
Selected Regional Economic Indicators



Middle East/Africa Selected Indicators

	Previous	Growth* Last
Saudi Arabia	4.2%	6.8%
Kuwait	-5.2%	2.0%
Qatar	8.6%	16.3%
UAE	-3.2%	3.2%
Oman	1.1%	4.2%
Bahrain	3.1%	4.1%
Jordan	2.3%	3.1%
Egypt	4.7%	5.1%
South Africa	-1.7%	2.8%

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.



Period	Last	Inflation*	Target
2011	4.9%	2011	-
2010	4.1%	2010	-
2010	-2.4%	2010	-
2010	0.9%	2010	-
2010	3.3%	2010	-
2010	2.0%	2010	-
2010	5.0%	2010	-
2010	11.7%	2010	-
2010	4.3%	2010	3.5%

Decision	Date
Hold	19-Jan-09
-0.50%	7-Feb-10
-0.50%	10-Aug-11
-0.50%	19-Jan-09
Hold	31-Aug-11
-0.50%	15-Sep-09
0.25%	31-May-11
Hold	28-Aug-11
Hold	10-Nov-11

FOREX Market

BRIC Currencies Intervened

It has been over 10 years since the BRIC trading bloc has been created and the contribution of these countries to the global economy continues to grow. As is the case for equity markets, local currencies have appreciated against the greenback this year on base effects and “currency wars”. Brazil’s Real has gained 7.6% YTD on rising capital inflows as emerging economies attract investors amid the challenges in advanced economies. The government has implemented 6% tax on some loans for exporters to stem the currency’s appreciation. Also, India’s Rupee has been rising against the US dollar as funds pumped into western economies are shifting towards emerging economies as interest rate differentials remain wide. The Rupee has risen 7.0% since the beginning of 2012. As these economies rely heavily on exports, a stronger local currency curbs their revenue levels by losing their competitiveness. Additionally, Russia’s Ruble has been the best performer in our coverage universe, gaining 9.6% against the greenback so far this year. Recently, the government attempted to limit the appreciation by buying other currencies which depreciated the Ruble by 0.6% over the past week. As for the Yuan, it remains range bound around 6.3 given last year’s appreciation of almost 10%. Emerging economies will face challenges of capital flows similar to last year’s as investors seek higher yields.

Key Spot Foreign Exchange Rates



Rate versus \$	Last	Week	Cumulative 12YTD
Europe/Oceania			
Swiss Franc (CHF)	0.9142	-2.0%	RUB
Australian Dollar (AUD)	1.0736	0.3%	MXN
New Zealand Dollar (NZD)	0.8295	-0.8%	ZAR
Latin America/Caribbean			
Mexican Peso (MXN)	12.7589	1.1%	CLP
Brazilian Real (BRL)	1.7321	-1.3%	INR
Chilean Peso (CLP)	484.1500	-0.7%	TRY
Asia/Southeast Asia			
Chinese Yuan (CNY)	6.3000	0.0%	MYR
Indian Rupee (INR)	49.5400	-1.0%	AUD
Hong Kong Dollar (HKD)	7.7592	-0.1%	KRW
Singaporean Dollar (SGD)	1.2516	0.3%	SGD
South Korean Won (KRW)	1,116.00	0.8%	THB
Indonesian Rupee (IDR)	9,090.00	-0.4%	CHF
Thai Baht (THB)	30.6000	-0.8%	KWD
Malaysian Ringgit (MYR)	2.9995	0.5%	HKD
Eastern Europe/Central Asia			
Russian Rouble (RUB)	29.3304	-0.6%	JOD
Turkish New Lira (TRY)	1.7687	0.0%	OMR
Middle East/Africa			
Saudi Riyal (SAR)	3.7505	0.0%	QAR
Kuwaiti Dinar (KWD)	0.2786	-0.4%	AED
Qatari Riyal (QAR)	3.6410	0.0%	BHD
UAE Dirham (AED)	3.6731	0.0%	SAR
Omani Riyal (OMR)	0.3850	0.1%	CNY
Bahraini Dinar (BHD)	0.3771	0.0%	IDR
Jordanian Dinar (JOD)	0.7095	0.1%	
Egyptian Pound (EGP)	6.0310	0.1%	
South African Rand (ZAR)	7.5373	0.9%	

Global Equity Markets

Liquid Banks Raise Indices

Equity markets internationally have performed well so far this year as most of our coverage universe ended 2011 negatively. The rebound in the trajectory of stock prices continues on an upward trend supported by the recovery of the US economy and China's easing policy to aid domestic growth. As for Europe, the region continues to struggle with their sovereign debt crisis. However, recent efforts to avert a default in the Greek economy availed by granting Greece their second bailout package of EUR130 bn. Consequently, the regional benchmark index, STOXX600, gained over the week by 0.9%, the index has risen 9.2% YTD. Additionally, the European Central Bank (ECB) approved EUR529.5 bn through their Long-Term Refinancing Operation to almost 800 regional banks, marking the second attempt by the ECB to avoid a credit crunch. Germany's DAX recorded their third consecutive weekly gain at 0.8% while France's CAC40 rose by 1.0% on a weekly basis. However, pressures over the European stability increased as Moody's cut Greece to their lowest credit rating, citing the difficulties to contain debt to GDP of 160%. Furthermore, Spain raised its deficit target to 5.8% from 4.4% for 2012, raising fears of a contagious crisis. The Euro volatility index climbed a staggering 2.5% this week; the index mirrors investors' concerns over Euro governments and their ability to pay their debts.

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

MSCI World

Last	331.9	Week	0.0%	11YTD	10.8%
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Country/Index

Europe/Japan/Oceania

Week

YTD

Cumulative 12YTD

UK (FTSE100)	-0.4%	6.1%	Egypt
Germany (DAX30)	0.8%	17.3%	Dubai
France (CAC40)	1.0%	10.8%	Russia
Japan (N225)	1.3%	15.6%	Brazil
Australia (All Ordinaries)	-0.6%	6.2%	Turkey
N. Zealand (NZSX50)	1.7%	3.1%	Germany

Latin America/Caribbean

Week

YTD

Cumulative 12YTD

Mexico (IPC)	1.0%	3.4%	Japan
Brazil (Bovespa)	2.8%	19.4%	India
Chile (IGPA)	1.1%	7.5%	KSA

MSCI G7

Last	1,131.3	Week	0.0%	11YTD	9.7%
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Asia/Southeast Asia

Week

YTD

Cumulative 12YTD

China (Shanghai-C)	0.9%	11.9%	China
India (BSE-Sensex)	-1.6%	14.1%	S. Korea
Hong Kong (Hang Seng)	0.7%	17.0%	France
Singapore (Strait Times)	0.5%	13.1%	A. Dhabi
S. Korea (KOSPI-C)	0.7%	11.4%	Thailand
Indonesia (Jakarta-C)	2.8%	4.8%	Chile
Thailand (SET)	0.5%	8.9%	S. Africa
Malaysia (Kuala Lumpur-C)	1.6%	3.5%	Australia

Eastern Europe/Central Asia

Week

YTD

Cumulative 12YTD

Russia (RTSI)	0.3%	25.0%	UK
Turkey (ISE National 100)	1.9%	18.8%	Kuwait

MSCI EM

Last	1,079.9	Week	1.2%	11YTD	17.8%
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Middle East/Africa

Week

YTD

Cumulative 12YTD

KSA (TASI)	3.4%	13.3%	Malaysia
Kuwait (KSEI)	0.7%	5.5%	Mexico
Qatar (DSM20)	0.1%	-0.4%	NZ
Abu Dhabi (ADI)	3.3%	9.2%	Oman
Dubai (DFMGI)	4.3%	25.8%	Bahrain
Oman (MSM30)	2.6%	2.6%	Qatar
Bahrain (All Share I)	-0.5%	0.4%	Jordan
Jordan (ASE General I)	0.3%	-1.8%	
Egypt (CASE30)	4.4%	48.2%	
S. Africa (JSE All Share Index)	-0.2%	6.9%	



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