

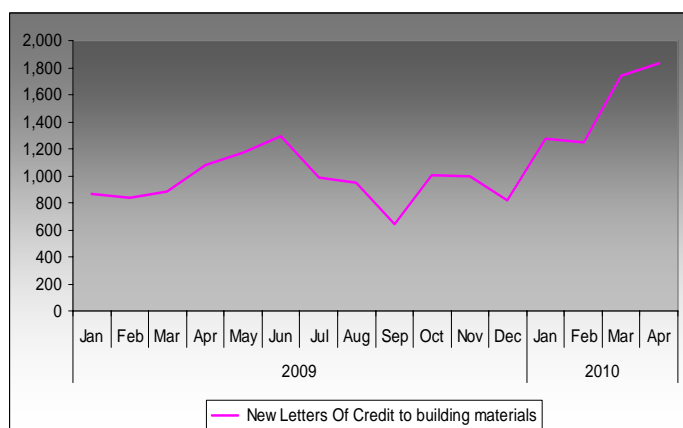
Aug 29, 2010

COMMENTARY

Saudi Arabia Construction Sector

The construction sector in Saudi Arabia is considered as the largest and fastest growing market in the Gulf region and has great potential for growth. After a brief slowdown in activity in 1999, the construction sector has recorded consecutive positive growth rates in each year since then. The growth rate in the sector averaged 4.4% during the period 2000-2009, implying that the sector was growing faster than the real GDP that grew at 3.4% on average during the same period. The relative contribution of the sector to the whole economy averaged 6.8% during the period 2000-2008 but increased to 7.2% in the last year 2009. During 2009, the growth in the sector slowed down to 3.9% but continued to grow faster than the rest of the economy which grew by 0.15% in 2009.

During the last two years (2008 and 2009) the sector has witnessed a slow down in activity. The significant increases in prices of construction materials and the general high inflation level were the main reasons for this slowdown in growth since 2008. The sector resumed growth in 2009 but the impact of the global financial crisis and credit crunch overshadowed the sector.



Available information about the construction sector during the first quarter of 2010 shows strong pick up in the data; imports of construction materials through ports increased by 37% compared to the same period of last year. Private sector imports of construction materials financed through commercial banks (new letters of credit opened to import construction materials) increased by 40% in the first half of 2010 compared with the same period in 2009.

Finally, a number of positive economic, demographic, and geographic factors, along with continued government support, have combined to yield a positive outlook for the sector. On the demographic side, the fast population growth is expected to continue fueling demand for housing at a rate that will result in almost 1.5 million residential units needed over the next five years. Additionally, Saudi Arabia's government budget reflects the importance of ongoing growth in the construction sector and the Government spending is likely to remain aggressive in the sector.

In pursuing the Kingdom's economic development impetus and promoting the position of the Kingdom in international trade and transit, the Government intends to invest an estimated \$400 billion on large infrastructure projects over the period 2009 – 2014. Construction will also play a large part in the Kingdom's massive industrial expansion through the National Industrial Cluster Development Program as well as in the completion of the Economic Cities.

GLOBAL STOCK MARKETS

	Current	Week Ago	YTD Change
US Dow Jones	10,150	10,213	-2.67%
US NASDAQ	2,153	2,179	-5.11%
US S&P500	1,064	1,071	-4.57%
DE DAX	5,951	6,005	-0.10%
UK FTSE100	5,201	5,195	-3.90%
FR CAC40	3,507	3,526	-10.90%
SW SSMI	6,183	6,185	-5.53%
JP Nikkei	8,991	9,179	-14.74%
HK Hang Seng	20,597	20,981	-5.83%
IN BSE Sensex	17,998	18,401	3.06%
Brazil Bovespa	65,585	66,677	-4.38%

Global markets posted poor results for the third consecutive week, keeping their YTD in the red territory. The US market was pulled down amid the big decrease in home sales, which renewed the ongoing concern over the recovery in the world's largest economy. On Tuesday, the National Association of Realtors announced that sales of existing homes dropped 27 percent to a 3.83 million annual pace, the worst in a decade and less than the most-pessimistic forecast from economists. However, on Friday, stocks recovered some of its losses on better-than-expected growth in the US economy as it grew by 1.6% in the second quarter versus 1.4% forecast. By the end of the week, the Dow Jones slipped 0.62%, while Nasdaq declined 1.19%. The S&P 500, on the other hand, declined 0.65% to record its longest losing streak since February. On sectoral level, techs and industrials were the week's worst performers, while utilities and telecoms were the best.

European stocks followed the same track, posting its second weekly drop, as worse-than-expected economic reports from the US, raised concerns about the global recovery. Fourteen out of the eighteen major benchmark indices retreated for the week, with the German DAX dropping 0.90%, and France's CAC 40 falling 0.54%. On the other hand, UK's FTSE 100 managed to gain 0.12% for the week.

Asian markets also recorded weekly losses on global recovery fears, as home sales in the US dropped for the month to its lowest recorded in 15 years. Japan's Nikkei 225 dropped 2.05%; Hang Seng lost 1.83%, while Indian BSE decreased 2.19% for the week.

REGIONAL STOCK MARKETS

	Current	Week Ago	YTD Change
Abu Dhabi	2,500	2,506	-8.86%
Bahrain	1,433	1,409	-1.71%
Kuwait	6,645	6,682	-5.14%
Muscat	6,272	6,328	-1.51%
Doha	7,160	7,114	2.89%
Dubai FM	1,497	1,492	-16.97%
Cairo SE	6,474	6,388	4.28%
Amman	2,249	2,254	-11.21%
Beirut Blom	1,427	1,445	-8.82%
Saudi Arabia	6,001	6,121	-1.96%

Regional stocks posted mixed results for the week, with rising concerns over the global recovery. "TASI" declined 1.96% for the week, bringing its YTD to -1.96%.

FOREX

	Current	Week Ago	End2009
EURO/\$	1.276	1.271	1.432
EURO/YEN	108.7	108.8	133.2
\$/YEN	85.22	85.61	93.03
GBP/\$	1.552	1.553	1.615
\$/CHF	1.028	1.033	1.035

US dollar posted mixed performance against its major counterparts with continued concerns that the recovery in the largest economy may be faltering. However, mixed news led the greenback to fluctuate during the week; a report showed US economic growth slowed less than forecast in the second quarter, new-home sales unexpectedly fell, and durable-goods orders rose less than anticipated. Other news that the Federal Reserve Chairman Ben Bernanke has pledged the central bank will safeguard the economic recovery affected the demand for the greenback also. On the other hand, the yen continued advancing for the week against the dollar as a safe-haven currency. However, the yen was affected negatively on the Prime Minister "Naoto Kan" announcement that Japan is willing to take "bold" action to lower its value.

For the week, the dollar lost 0.4 percent against the yen to close at ¥85.22 per dollar, recording its second weekly losses against the yen. The greenback also depreciated around 0.48 percent versus the Swiss frank, while against the pound; the dollar rose 0.06 percent to stand at \$1.552 per pound. Based on this performance, the dollar index DXY recorded weekly gains by 0.3 percent closing at 82.74 from its level a week ago at 82.484.

From its side, the euro recorded weekly gains against the dollar, after the greenback turned firmly lower Friday on the Federal Reserve Chairman's statement. For the week, the euro closed at \$1.276 per euro, adding around 0.4 percent. Against the yen, it lost 0.1 percent to ¥108.7 per euro.

INTEREST RATES

	Current	Week Ago	End 2009
US3mth	0.29	0.32	0.25
US10yr	2.66	2.61	3.83
Euro3mth	0.82	0.82	0.66
Euro10y	2.21	2.27	3.39
UK3mth	0.72	0.72	0.61
UK10yr	2.90	2.98	4.02
SR3mth	0.72	0.72	0.77

US Treasuries fell after four consecutive weeks of gains, pushing yields on long term bonds up by the most since June, after Federal Reserve Chairman Ben Bernanke said the central bank has set no triggers for further monetary-policy easing. Also, data from the Commerce Department showing that US economic growth for the second quarter has been revised lower affected notably the demand for the bonds. By the end of the week, the 10-year note yield rose 5 bps to close at 2.66 percent, after rising 17 bps on Friday, the biggest increase on a daily basis since June. The 2-year note yield, on the other hand, advanced 6 bps to 0.56 percent from its level a week ago at 0.50 percent. As a result, the spread between 2-year note yields and 10-year note yields closed at 2.1 percentage points.

European bonds ended the week up, with German bonds recording its fifth straight weeks of gains with concern that the global economic recovery is faltering and a banking crisis in Ireland is deepening, spurring demand for safest assets. This pushed the yield on the 10-year German bund down 6 bps to 2.21 percent. The 2-year note yield rose a little for the week to 0.63 percent from last week's level at 0.61 percent.

UK gilts, from its side, also rose for the fifth week with worries over the country's recovery as "Bank of England" policy maker said the country could slip back into a recession. The yield on the 10-year gilt fell 8 bps to 2.90 percent, while the 2-year note closed slightly higher at 0.66 percent from its level a week ago at 0.64 percent.

COMMODITIES

Crude oil prices ended the week up after data showed that the US GDP growth in the second quarter came better than the medium forecast. US light sweet crude gained 2.32 percent for the week, to settle at \$75.17 a barrel. Brent crude oil also rose for the week to \$76.36 a barrel, which is around 3.76 percent higher than last week's level.

OPEC basket, from its side, ended the week lower by about 2.21 percent to close at \$71.41 a barrel.

Gold prices rose for the week, as investors shifted to the precious metal as a safe haven amid concerns about the global recovery. US gold futures gained 0.73% for the week.

	Current	Week Ago	End 2009
Brent	\$76.36	\$73.59	\$77.20
OPEC Basket	\$71.41	\$73.03	\$76.19
WTI	\$75.17	\$73.46	\$79.36
Gold 100 OZ FUTR (USD/toz)	\$1,237	\$1,228	\$1,096

SELECTED ECONOMIC INDICATORS

Due Date:	Economic indicator	Latest Actual	Consensus forecast	Previous Actual
This Week				
31 Aug, Tue	Chicago PMI, Aug	na	57.5	62.3
03 Sep, Fri	Nonfarm Payrolls, Aug	na	-118K	-131K
03 Sep, Fri	Unemployment Rate, Aug	na	9.6%	9.5%
Last Week				
24 Aug, Tue	Existing Home Sales, July	3.83M	4.72M	5.26M
27 Aug, Fri	GDP - Second Estimate, Q2	1.6%	1.4%	2.4%
KSA		Latest (W/W)	Previous (W/W)	YTD Change
21 July, Wed	Money Supply (M1), 15 July	-0.29%	0.23%	10.55%
21 July, Wed	Money Supply (M2), 15 July	-0.67%	-0.07%	3.48%
21 July, Wed	Money Supply (M3), 15 July	-1.02%	-0.60%	-0.31%

Color key to the numbers: Green means up, Red means down and Black means unchanged from 'Week ago'. In the 'Selected Economic Indicators' table: 'This Week', colors indicate whether markets expect the indicator to be higher, lower or the same as the 'previous' figure. In 'Last Week' colors mean higher, lower or the same as consensus. In the 'Previous actual' column, colors indicate revision up, down, or unchanged.

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