Weekly Economic Briefing

Strategic Planning Department – Economic Section

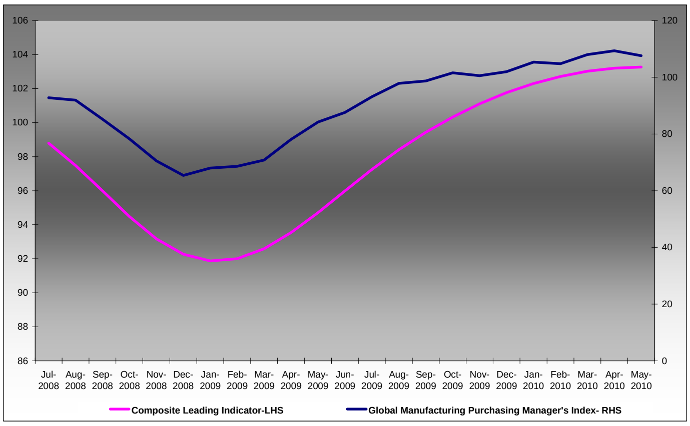
July 11, 2010

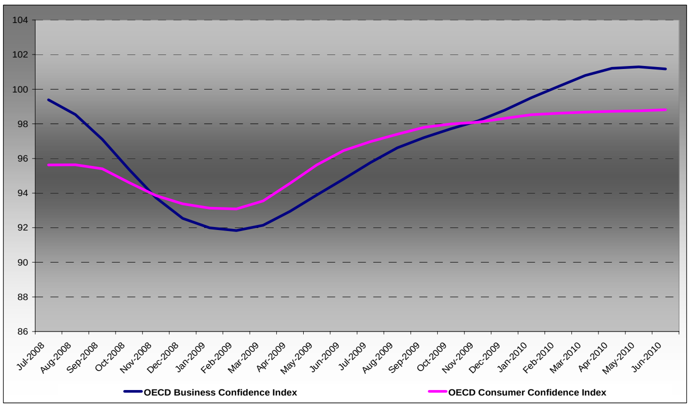
COMMENTARY

The World Economy; High Growth Potentials Despite Financial Turbulence

The International Monetary Fund (IMF) has just published the July updates for the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR). In the updated outlook, the IMF projected the world economy to grow by 4.6% in 2010, and 4.25% in 2011. The forecast for 2011 is unchanged, the update for 2010 represents an upward revision of about ½ percentage point, reflecting stronger activity during the first half of the year.

During the last three quarters (Q3-09 to Q1-010), the IMF estimated that the world economy grew at an annualized rate of over 5 percent. This was higher than expected in the April 2010 WEO. During the second quarter of 2010, global indicators of real economic activity were strong. Industrial production and trade posted double-digit growth, and employment growth resumed in advanced economies. Business and consumer confidence indices in the OECD countries in June continued to stabilize at high readings.





However, despite the above improvements, the IMF noted in its latest GFSR that downside risks have risen sharply amid renewed financial turbulence. Although, the current transmission of sovereign risks has been primarily financial in nature, the possibility of adverse feedback loops to the economy has risen. Accordingly, the new forecasts depend on adopting certain policies to rebuild confidence and stability, particularly in the euro area.

Policy efforts in advanced economies should focus on credible fiscal consolidation and measures that enhance medium-term growth prospects, such as reforms to expenditures programs and tax systems. Fiscal actions should be complemented by extended accommodative monetary policy, financial sector reform and structural reforms to enhance growth and competitiveness. Policies in emerging economies should also help rebalance global demand, through structural reforms and, in some cases, greater exchange rate flexibility, to allow for better current account surpluses in advanced economies.

GLOBAL STOCK MARKETS

	Current	Week Ago	YTD Change
US Dow Jones	10,198	9,686	-2.21%
US NASDAQ	2,196	2,091	-3.22%
US S&P500	1,077	1,022	-3.41%
DE DAX	6,065	5,834	1.81%
UK FTSE100	5,132	4,838	-5.17%
FR CAC40	3,554	3,348	-9.71%
SW SSMI	6,210	5,974	-5.12%
JP Nikkei	9,585	9,203	-9.11%
HK Hang Seng	20,378	19,905	-6.83%
IN BSE Sensex	17,833	17,460	2.11%
Brazil Bovespa	63,476	61,429	-7.45%

Global markets posted encouraging results for the week following the disappointing performance a week ago. US stocks ended their best week in nearly 12 months after turning firmly high Friday on optimism about second-quarter corporate profits that powered a rebound from the market's worst levels this year. News about rising wholesale inventories by 0.5% in May, a lack of negative news out of Europe, along with more details about the stress tests of European banks all combined to sustain the market. Commodity, banks, and tech stocks led the increase. Commodities were pushed up by earnings from "Alcoa", the world's leading producer of aluminum, while "Citigroup" and "Goldman Sachs" pushed banks stocks. Tech stocks were led by "Google" after China renewed Google's license to operate a Web site in the country. By the end of the week, the Dow Jones climbed 5.2%, its strongest performance since the week ended July 17, 2009. The S&P 500 rose 5.3% while the Nasdaq added 5%. On sectoral level, material and bank stocks were the week's best performers, up 8% and 7.4%, respectively.

European stocks followed the same track, ending the week higher after the European Central Bank President Jean-Claude Trichet said budget cuts by EU countries will not lead the euro zone back into recession. The major benchmark indices climbed for the week, with the German DAX adding 4%, while France's CAC 40 and UK's FTSE 100 both gaining 6%. Asian markets also recorded weekly gains with the increase in Wall Street. Japan's Nikkei 225 climbed 4%, while Hang Seng added 2.3%.

REGIONAL STOCK MARKETS

	Current	Week Ago	YTD Change
Abu Dhabi	2,528	2,509	-7.84%
Bahrain	1,366	1,379	-6.31%
Kuwait	6,430	6,431	-8.21%
Muscat	6,231	6,072	-2.15%
Doha	6,910	6,845	-0.70%
Dubai FM	1,499	1,469	-16.86%
Cairo SE	6,026	6,033	-2.93%
Amman	2,340	2,349	-7.62%
Beirut Blom	1,506	1,508	-3.77%
Saudi Arabia	6,056	6,093	-1.06%

Regional stocks posted mixed results for the week amid signs of global growth and rising oil prices. However, the Saudi "TASI" retreated to end the week down by 0.61% pushed by Hotel & Tourism and Petrochemicals.

FOREX

	Current	Week Ago	End2009
EURO / $	1.264	1.221	1.432
EURO / YEN	112.0	110.2	133.2
$ / YEN	88.62	87.75	93.03
GBP / $	1.506	1.519	1.615
$ / CHF	1.057	1.062	1.035

US dollar posted mixed performance for the week after rising against the euro and other major currencies on Friday. With US stocks gaining on hopes for a positive earnings season, the greenback picked up as investors shefted back toward the US currency, supported by signs of economic recovery. This week, the biggest advance in the global currency market came from the Canadian dollar, which rallied on stronger-than-expected jobs growth for June.

For the week, the dollar dropped 3.5 percent against the euro, lost 0.4 percent versus the Swiss frank, and depreciated against the Canadian dollar to stand at C$1.0331. Also, the greenback advanced 0.8 percent to $1.506 against the pound, and gained 1 percent versus the yen. The dollar index DXY rose at the last day of trade to close at 83.959, however, it is still 0.5 percent down from its level a week ago at 84.41.

On the other hand, the euro strengthened to post its second weekly gain versus the dollar after the European Central Bank President Jean-Claude Trichet announced that "indicators suggest the strengthening in economic activity took place during the spring" and that inflation expectations "remain firmly anchored". The single currency was supported also by speculation that the stress tests for the European banks may assume smaller losses on Greek and Spanish bonds than some investors projected. By the end of the week, the euro gained 1.6 percent versus the yen and was little changed against the pound to stand at 0.8392.

INTEREST RATES

	Current	Week Ago	End 2009
US3mth	0.52	0.53	0.25
US10yr	3.05	2.98	3.83
Euro3mth	0.76	0.72	0.66
Euro10y	2.63	2.58	3.39
UK3mth	0.73	0.73	0.61
UK10yr	3.33	3.35	4.02
SR3mth	0.72	0.72	0.77

US Treasuries ended the week down, pushing yields to the first weekly increase in at least three weeks. Treasuries fell noticeably on Friday amid traders preparations for next week's auctions and signs indicating that fears about the global recovery have eased. By the end of the week, the 10-year note yield closed at 3.05 percent, gaining 7 bps, after dipping below 3 percent and touching a 14-month low early this week. The 2-year yields was little changed from 0.625 percent a week ago to 0.63 percent. As a result, the spread between 2-year note yields and 10-year note yields closed at 2.44 percentage points. Next week, the government is planning to sell $35 billion in 3-year notes, followed by $21 billion in 10-year debt, and finally $13 billion in 30-year bonds.

European bonds declined also for the week amid some encouraging signs over the global economy along with lack of poor news about the region's debt crisis and advancing stock markets. As a result, yield on the 10-year bund rose 5 bps to 2.63 percent. The two-year note yield was sent to a two-month high to 0.81 percent but ended the week at 0.77 percent.

UK gilts, from its side, advanced for the week with boosted appetite for fixed-income assets. The yield on the 10-year gilt declined 2 bps to 3.33 percent from last week, while the 2-year note yield fell 5 bps to 0.73 percent from its level last week. UK gilts returned 6.1 percent so far this year, compared with a 6.7 percent profit from German bonds, and 5.7 percent from US Treasuries.

COMMODITIES

Crude oil prices advanced to end the week up after declining to its lowest level in five months below $73 a barrel a week ago. Demand for oil followed the gains in US stock markets, and was supported by data showing growth in wholesales inventories that met expectations. US light sweet crude for August delivery climbed 5.5 percent for the week, to settle at $76.09 a barrel. Brent crude oil also rose for the week to $75.42 a barrel, which is 5.2 percent higher than last week.

OPEC basket, from its side, ended the week higher by around 2 percent to close at $71.86 a barrel.

Gold prices rose for the week, after rising Friday on renewed appetite for the precious metal. US gold futures ended the week up at $1,209 an ounce, gaining 0.2 percent.

	Current	Week Ago	End 2009
Brent	$75.42	$71.65	$77.20
OPEC Basket	$71.86	$70.48	$76.19
WTI	$76.09	$72.14	$79.36
Gold 100 OZ FUTR (USD/toz)	$1,209	$1,207	$1,096

SELECTED ECONOMIC INDICATORS

Due Date:	Economic indicator	Latest Actual	Consensus forecast	Previous Actual
This Week				
13 Jul, Tue	Trade Balance, May	na	-$39.5B	-$40.3B
15 Jul, Thu	Industrial Production, June	na	0.0%	1.3%
16 Jul, Fri	CPI, June	na	0.0%	-0.2%
Last Week				
08 Jul, Thu	Initial Claims, 7/3	454K	460K	475K
08 Jul, Thu	Consumer Credit, May	-$9.1B	-$3.0B	-$14.9B
KSA		**Latest (W/W)**	**Previous(W/W)**	**YTD Change**
16 June, Wed	Money Supply (M1), 10 June	-0.84%	2.29%	7.76%
16 June, Wed	Money Supply (M2), 10 June	-0.77%	1.22%	3.12%
16 June, Wed	Money Supply (M3), 10 June	-1.02%	1.01%	-0.32%

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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