



Summary

Real Economy: Economic data was positive in May, with the non-oil PMI index reaching its highest reading since December 2017.

Government Finance: The net monthly change to government accounts with SAMA was up by SR12 billion month-on-month in May.

SAMA foreign Reserve Assets: SAMA FX reserves rose by \$12 billion month-on-month to stand at \$517 billion in May, the highest level since January 2017, with a total rise in the last three months by \$32.5 billion.

Money Supply: The broad measure of money supply (M3) saw yearly rises of 4.9 percent in May, the highest rise since November 2015.

Bank Deposits: Bank deposits rose by 4.8 percent year-on-year in May, as time and saving deposits saw a significant rise by 8.3 percent.

Bank Credit: Claims on the public sector rose by 22 percent year-on-year, meanwhile, credit to the private sector rose by 3.5 percent year-on-year, in a level that have not been seen since November 2016.

Interest rates: SAMA kept its key interest rates unchanged in June, in-line with the US Federal Reserve's decision not to change interest rates.

Inflation: Prices continued to decline in May by 1.5 percent year-on-year, but inched up month-on-month by 0.1 percent.

Q1 2019 GDP: Data on Q1 2019 real GDP showed that the economy expanded by 1.7 percent, year-on-year. The oil sector improved by 1 percent, whilst non-oil GDP rose by 2.1 percent. More notably, the 'Construction' sector posted growth for the first time since Q4 2015.

Labor Market: The Saudi unemployment rate declined in Q1 2019, at 12.5 percent, down from 12.7 percent in Q4 2018, reaching its lowest rate since Q4 2016.

Balance of Payments: A surplus in both the current and financial account led to a rise in foreign reserves by \$3 billion in Q1 2019. Higher year-on-year exports (by 4 percent) and lower imports (down 1 percent), helped maintain a sizable current account balance of \$11.5 billion.

Oil-Global: Despite a cessation of hostilities in the recent G20 meeting, no definitive breakthrough on trade between the US and China was made, further adding to oil market volatility.

Oil-Regional: We expect higher Saudi crude oil production during summer, but multi-year low direct crude burn will mean the rise will be less sharper than in previous years.

Exchange Rates: The US dollar saw losses against most major currencies during the month of June.

Stock Market: TASI rallied towards the end of June following the Saudi Capital Market Authority's (CMA) announcement that a 49 percent ownership limit for foreign strategic investors in shares of listed companies would be removed.

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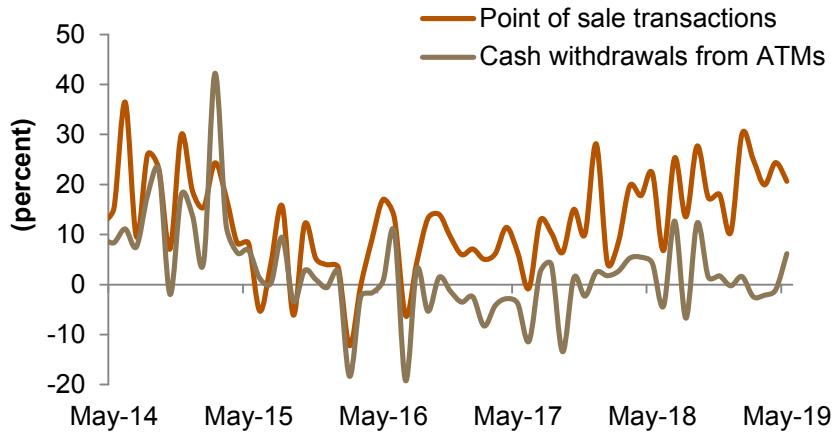


Real Economy

Economic data was positive in May. POS transactions rose by 21 percent, whilst cash withdrawals rose by 6.2 percent year-on-year, the highest growth in nine months, likely affected by Ramadan and Eid season. In addition, the non-oil PMI index was up in May, reaching the highest reading since December 2017. Meanwhile, April's non-oil exports were down by 20 percent, year-on-year.

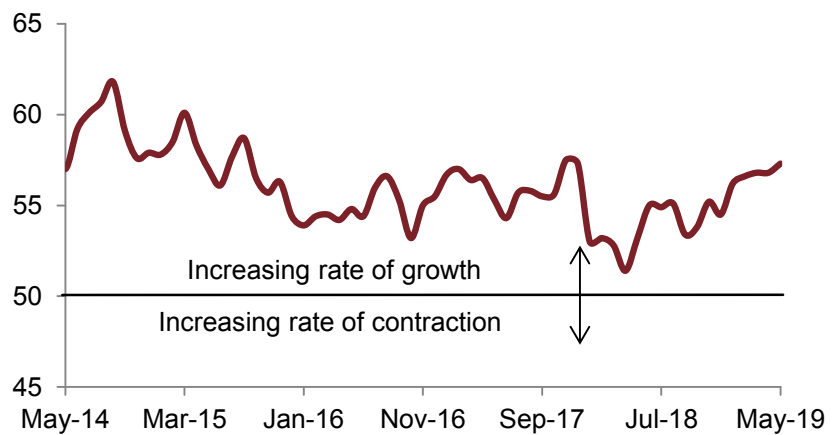
POS transactions rose by 21 percent, whilst cash withdrawals rose by 6.2 percent year-on-year, the highest growth in nine months.

Indicators of Consumer Spending
(year-on-year change)



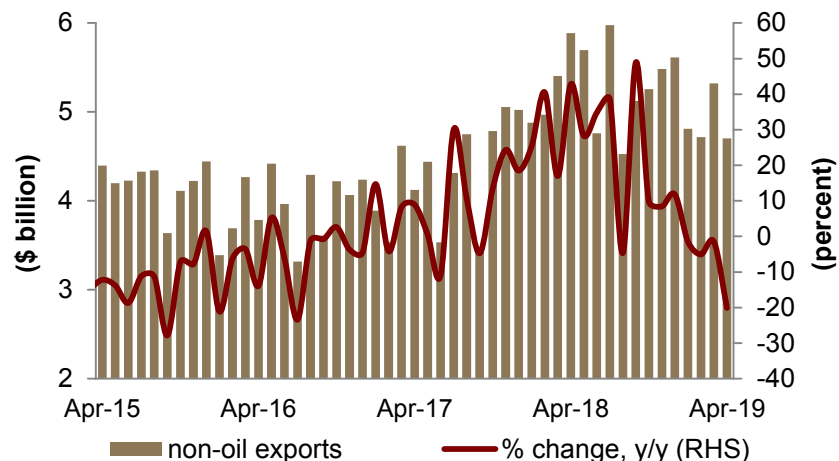
The non-oil PMI index was up in May, reaching the highest reading since December 2017, and indicating an overall rebound in the local business sentiment.

Non-oil Purchasing Managers' Index



April's non-oil exports were down by 20 percent, year-on-year. Both exports from petrochemicals and plastics were down by 11 and 12 percent year-on-year during the month, with spill-over effects from the recent trade tensions between the US and China.

Non-oil Exports
(year-on-year change)





Government Finance

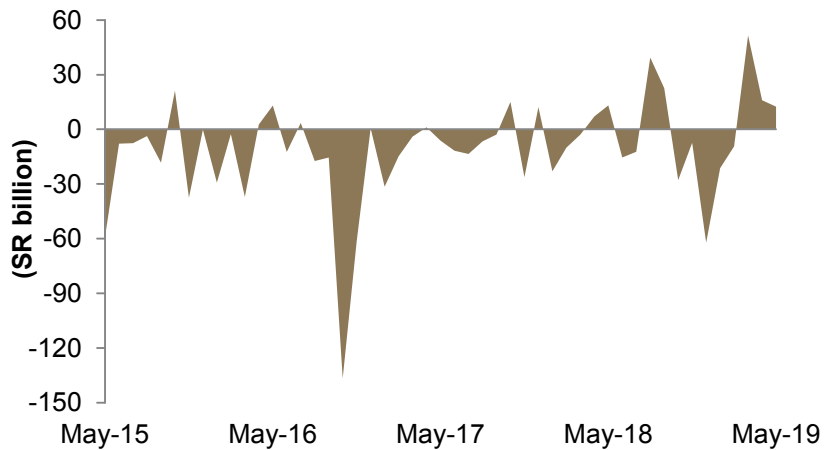
The net monthly change to government accounts with SAMA was up by SR12 billion month-on-month in May, affected by a rise in government deposits by SR16 billion, despite a decline in government reserves by SR3.5 billion during the month. At the same time, domestic banks net holdings of government debt rose by SR6.1 billion in May.

The net monthly change to government accounts with SAMA was up by SR12 billion month-on-month in May...

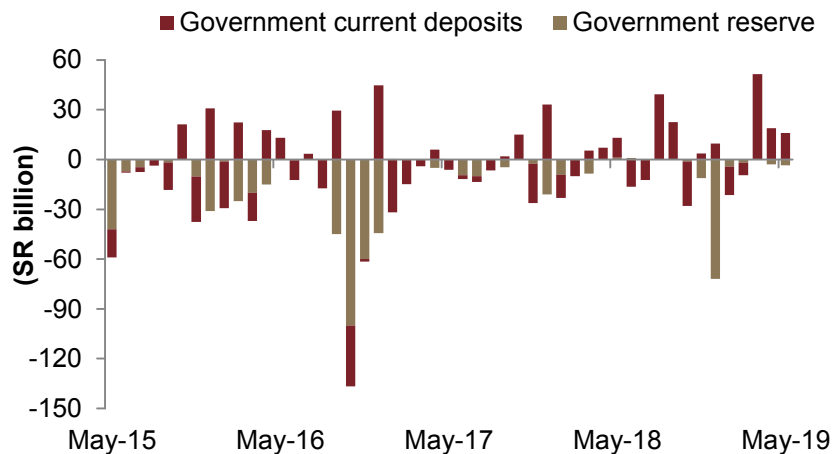
...affected by a rise in government deposits by SR16 billion, despite a decline in government reserves by SR3.5 billion during the month.

At the same time, domestic banks net holdings of government debt rose by SR6.1 billion in May, as the Ministry of Finance announced that it has closed a total of SR2.8 domestic sukuk program during the month.

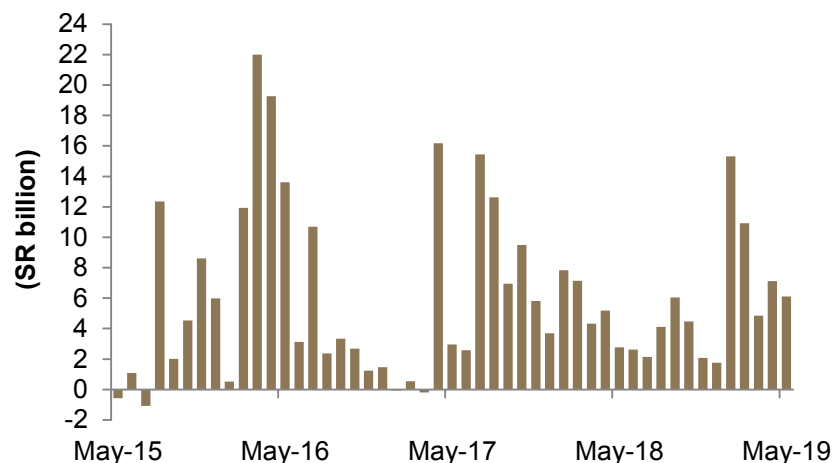
Net Change to Government Accounts with SAMA
(month-on-month change)



Breakdown of Government Accounts with SAMA
(month-on-month change)



Domestic Banks Net Holdings of Government Bonds
(month-on-month change)



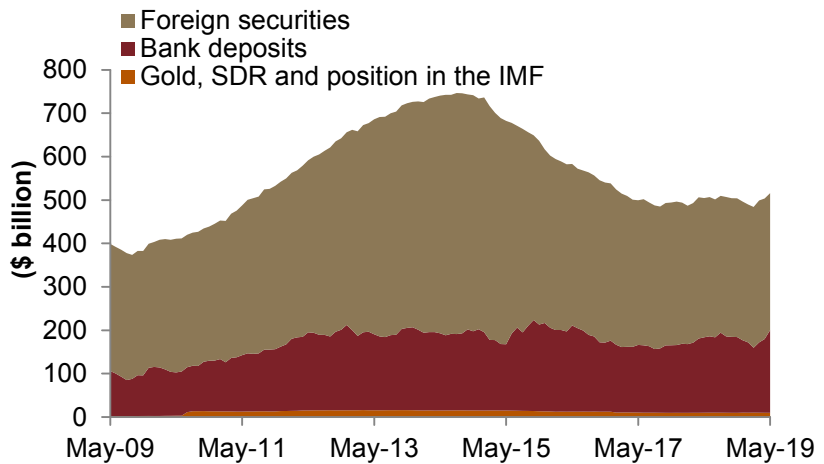


SAMA Foreign Reserve Assets

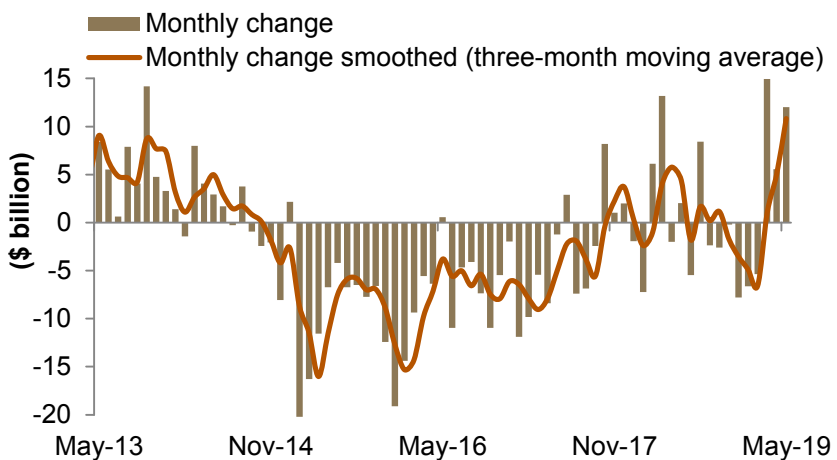
SAMA FX reserves rose by \$12 billion month-on-month to stand at \$517 billion in May, the highest level since January 2017, with a total rise during the last three months by \$32.5 billion. A breakdown of FX reserves shows a monthly rise in SAMA's bank deposits by \$21 billion during the month, whilst foreign securities decreased by \$8.2 billion month-on-month.

SAMA FX reserves rose by \$12 billion month-on-month to stand at \$517 billion in May, its highest level since January 2017...

SAMA Total Foreign Reserve Assets

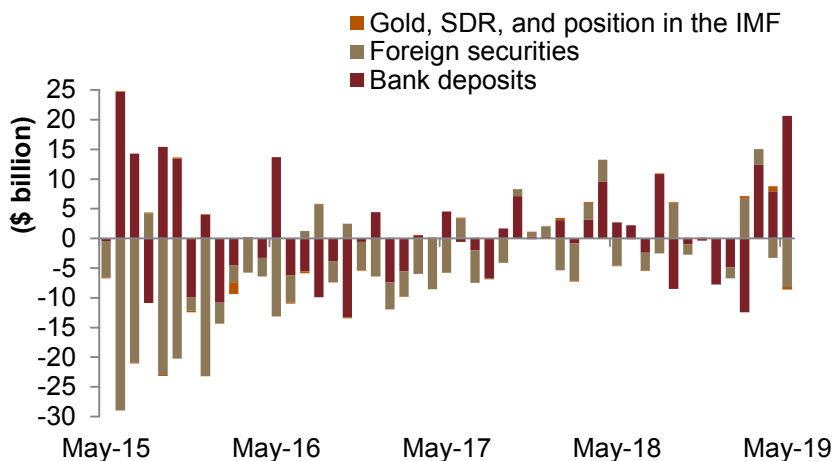


SAMA Foreign Reserve Assets (month-on-month change)



...with a total rise during the last three months by \$32.5 billion.

Breakdown of SAMA Foreign Reserve Assets (month-on-month change)



A breakdown of FX reserves shows a monthly rise in SAMA's bank deposits by \$21 billion during the month, whilst foreign securities decreased by \$8.2 billion month-on-month.



Money Supply

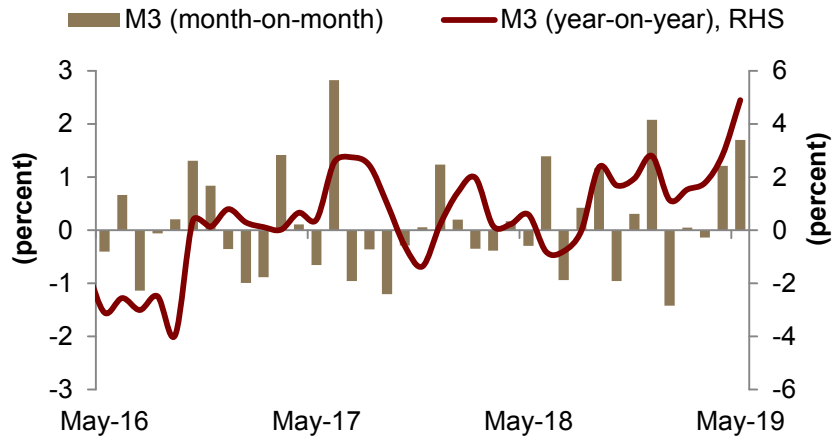
The broad measure of money supply (M3) rose by 4.9 percent in May, year-on-year, marking the highest annual rise since November 2015. On a monthly basis, M3 increased by 1.7 percent. The rise in M3 was mainly supported by the rise in total bank deposits, which were up by 4.8 percent year-on-year.

M3 rose by 4.9 percent in May, year-on-year, marking the highest annual rise since November 2015. On a monthly basis, M3 increased by 1.7 percent.

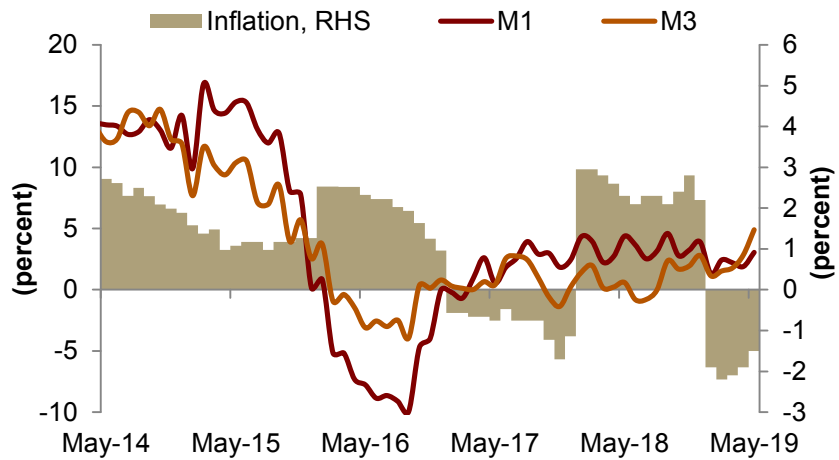
The rise in M3 was mainly supported by the rise in total bank deposits, which were up by 4.8 percent year-on-year.

Latest weekly M3 data shows a lower growth rate in M3 in June.

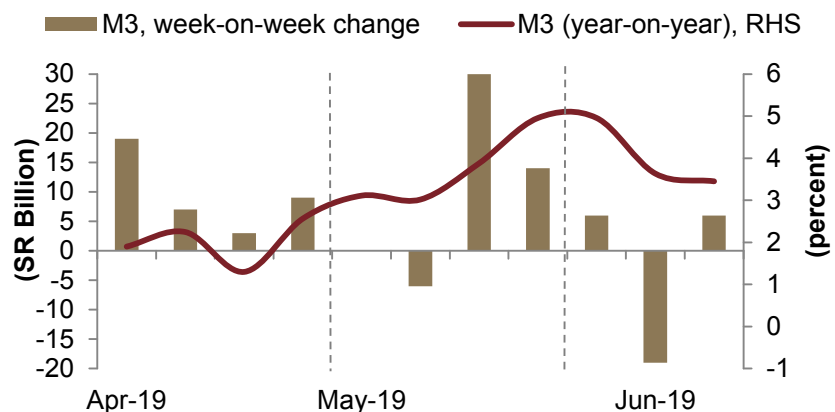
Growth in Money Supply



Money Supply Aggregates and Inflation Rate
(year-on-year change)



Growth in Money Supply
(week-on-week change)

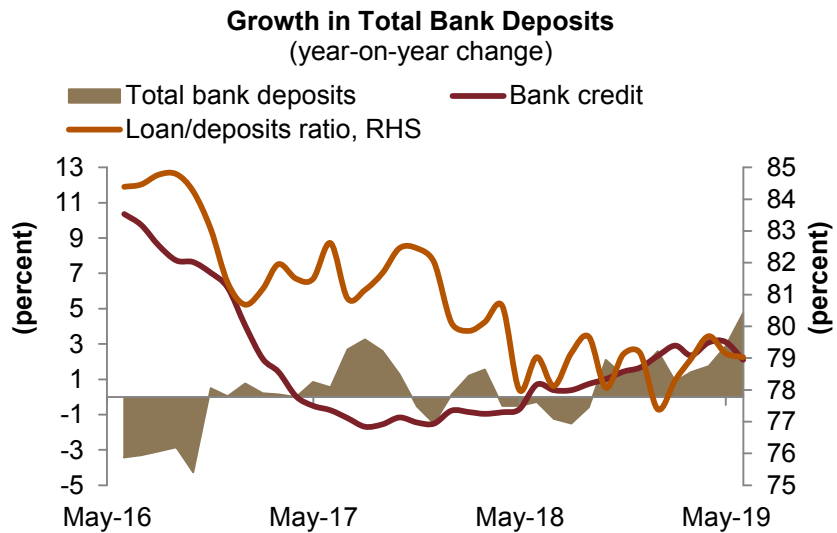




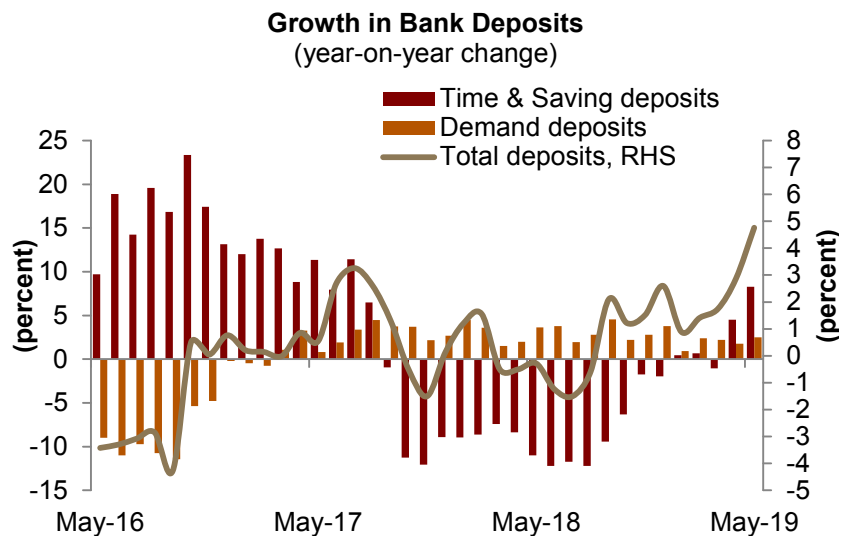
Bank Deposits

Bank deposits rose by 4.8 percent year-on-year in May, as time and saving deposits saw a significant rise by 8.3 percent year-on-year. Also, demand deposits rose by 2.5 percent year-on-year, its highest in the year-to-date. Whilst private demand deposits saw a significant rise by 4.5 percent, government demand deposits in the banking system declined by 16 percent during the month, year-on-year.

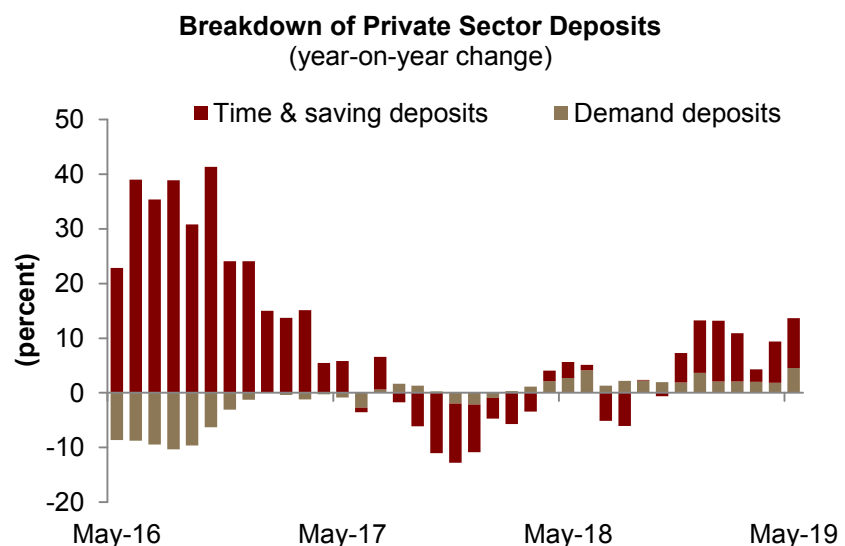
Bank deposits rose by 4.8 percent year-on-year in May...



...as time & saving deposits saw a significant rise by 8.3 percent year-on-year.



Private demand deposits saw a significant rise by 4.5 percent, in-line with a recent gradual rebound, to stand at SR971 billion in May, the highest level seen since September 2015.

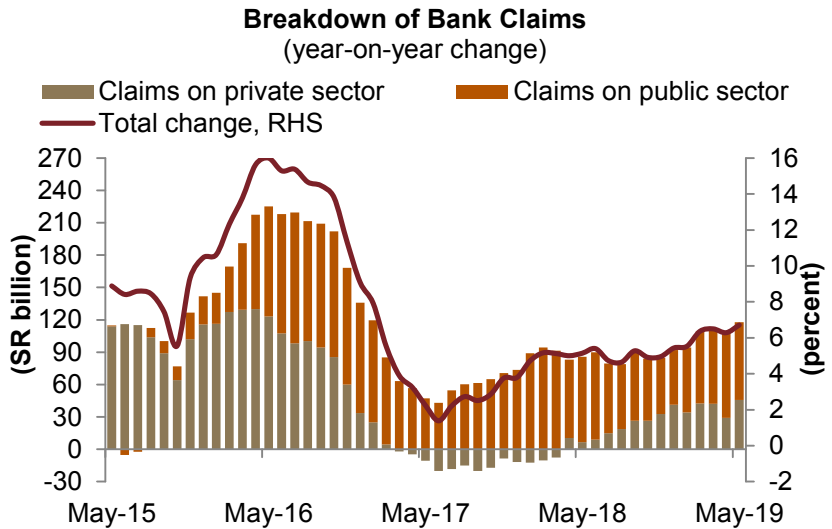




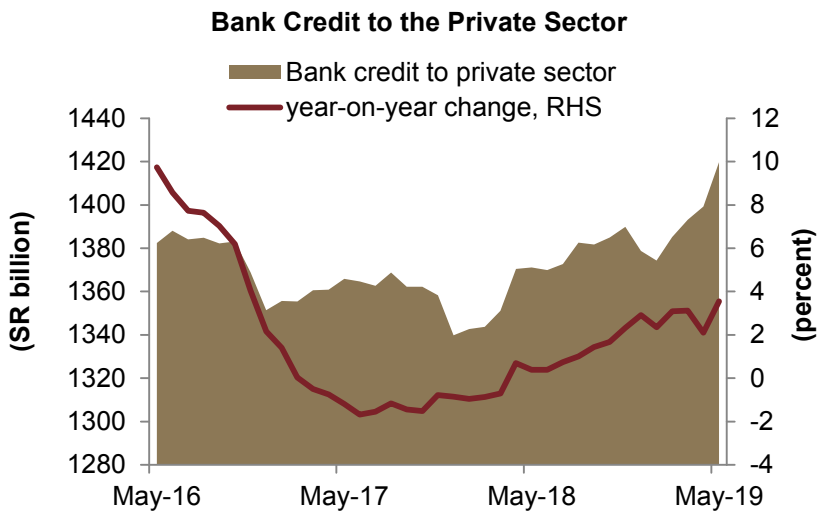
Bank Credit

Total bank claims rose by 6.7 percent in May, year-on-year. Claims on the public sector rose by 22 percent year-on-year, meanwhile, credit to the private sector rose by 3.5 percent year-on-year, in a level that have not been seen since November 2016. In fact, the contribution of credit in total bank claims on the private sector has been on an upward trend in recent months.

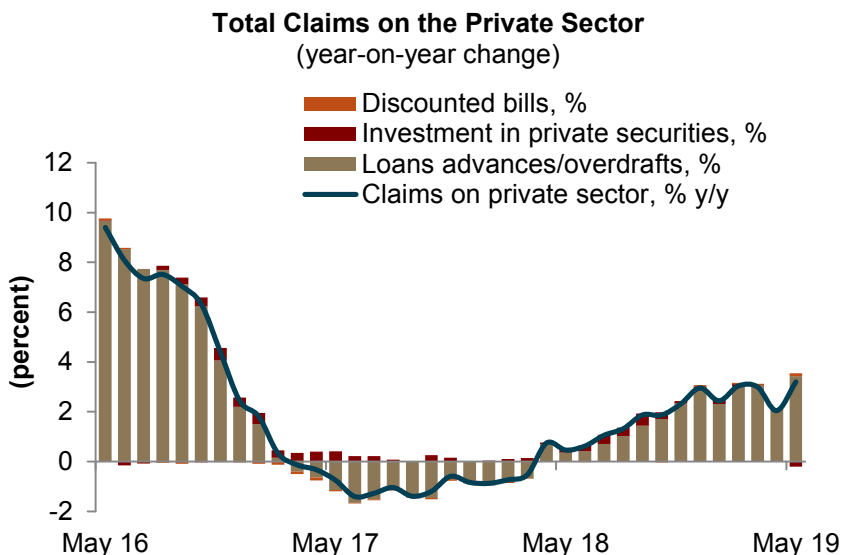
Total bank claims rose by 6.7 percent in May, year-on-year. Claims on the public sector rose by 22 percent year-on-year...



...meanwhile, credit to the private sector rose by 3.5 percent year-on-year, in a level that have not been seen since November 2016.



The contribution of credit in total bank claims on the private sector has been on an upward trend in recent months.



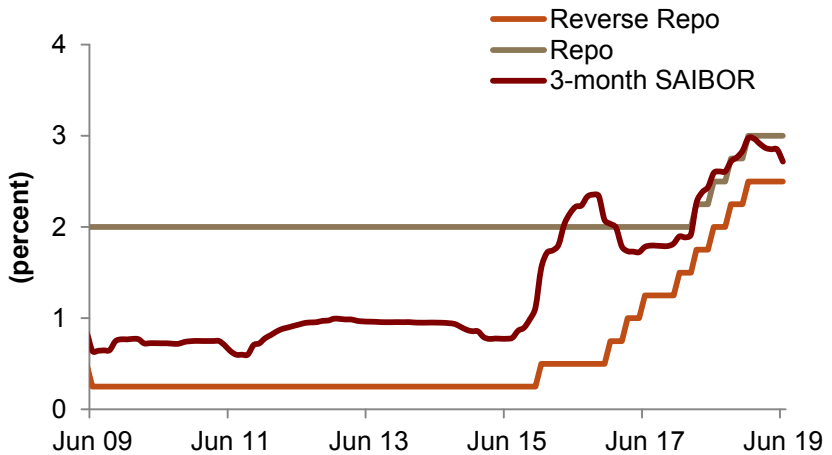


Interest Rates

SAMA kept its key interest rates unchanged in June, in-line with the US Federal Reserve's (Fed) decision not to change interest rates. At its latest meeting in June, the Fed indicated that uncertainty in global markets has had risen in recent months, which raised the possibility of two interest rate cuts before the end of the year. Both SAIBOR and LIBOR were down during the month, with the SAIBOR/ LIBOR spread marginally rising.

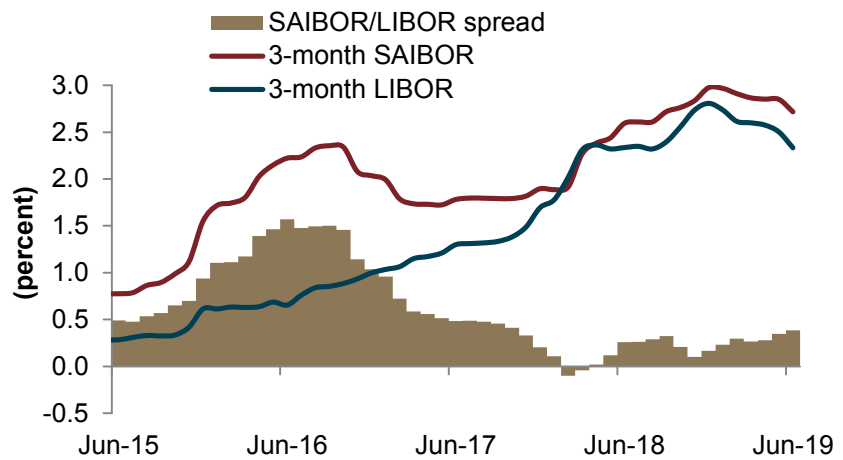
SAMA kept its key interest rates unchanged in June, following the Fed's decision not to change interest rates.

Latest Repo Rates

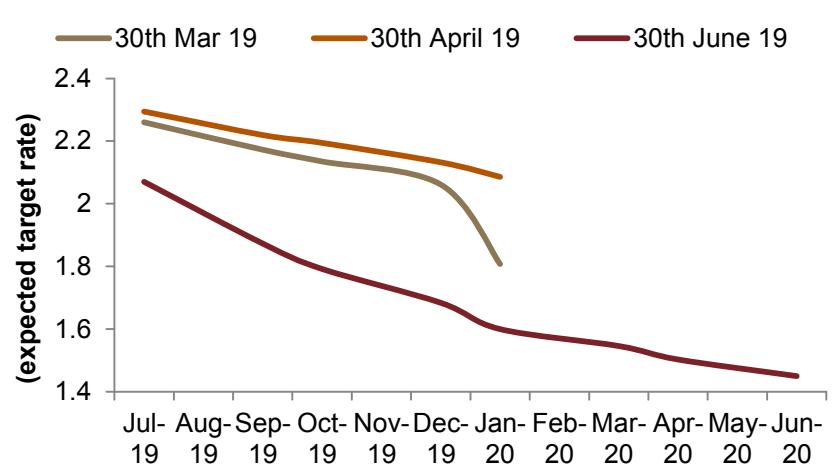


Both SAIBOR and LIBOR were down during the month, with the SAIBOR/ LIBOR spread marginally rising.

Saibor and Libor Rates



US Interest Rate Survey



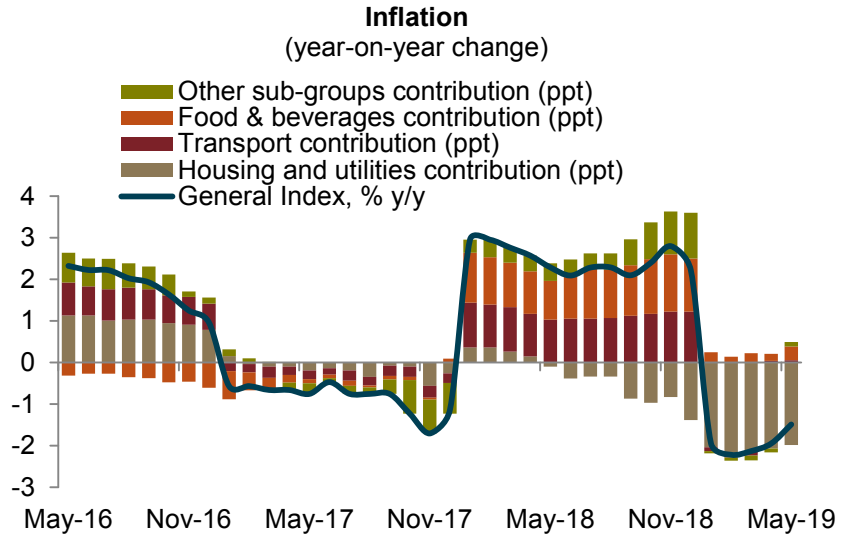
Latest survey data shows market anticipation of a cut in US interest rate by 50 bps in July 2019.



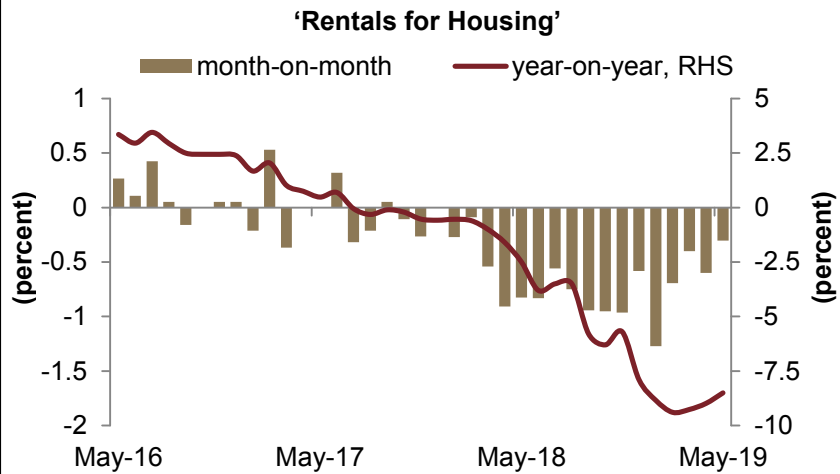
Inflation

Prices continued to decline in May by 1.5 percent year-on-year, but inched up month-on-month by 0.1 percent. "Housing and utilities" decreased by 7.5 percent, year-on-year, as "rentals for housing" continued to decline, falling by 8.5 percent year-on-year during the month. However, the monthly change in rentals for housing is the slowest decline since January 2018.

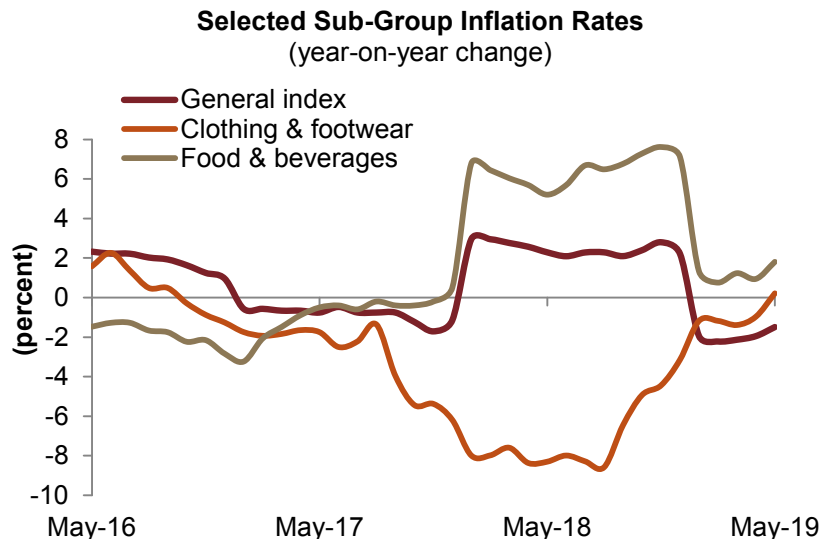
Prices continued to decline in May by 1.5 percent year-on-year, and inched up month-on-month by 0.1 percent.



Month-on-month change in rentals for housing is the slowest decline since January 2018.



Clothing and footwear prices rose for the first time since September 2016, increasing by 0.2 percent year-on-year, and by 0.9 percent month-on-month in May, which is likely to be affected by Ramadan and Eid season, and would also indicate a pick-up in demand, if the trend continues in coming months.

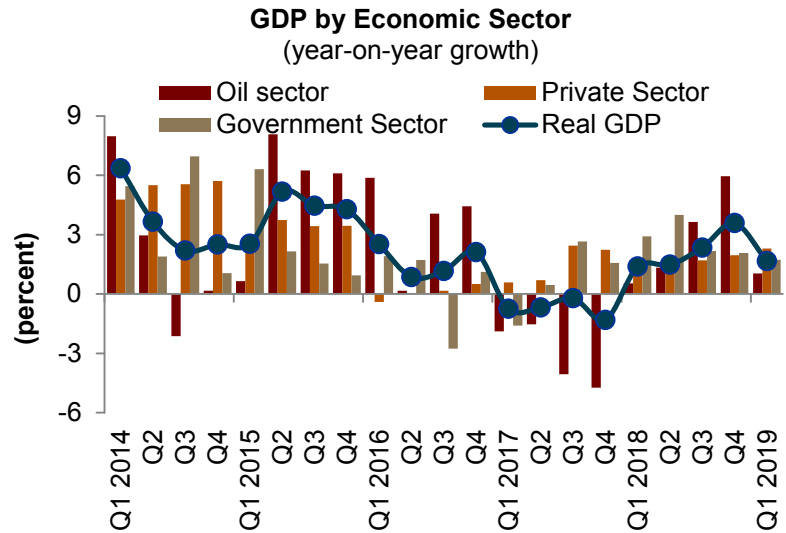




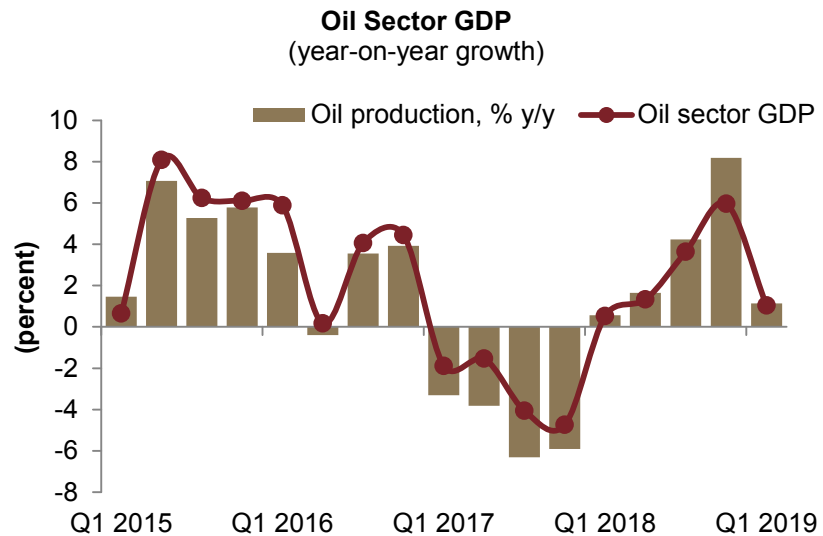
Q1 2019 GDP

Data on Q1 2019 real GDP showed that the economy expanded by 1.7 percent, year-on-year. The oil sector improved by 1 percent (42 percent share of GDP), whilst non-oil GDP rose by 2.1 percent. Within the non-oil sector, non-oil private sector GDP was up 2.3 percent (40 percent share of GDP) and the government sector's GDP rose by 1.7 percent (18 percent share of GDP).

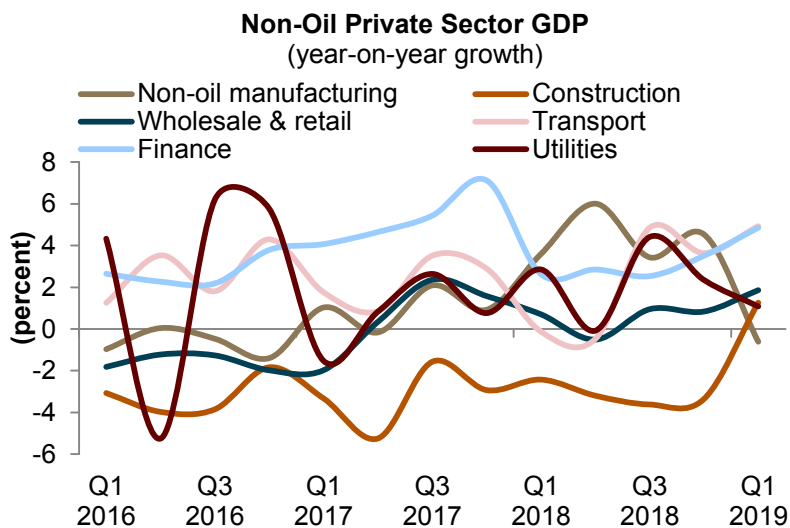
Data on Q1 2019 real GDP showed that the economy expanded by 1.7 percent, year-on-year...



...with the oil sector improving by 1 percent, in-line with marginally higher crude oil production compared to a year ago.



On the non-oil private sector side, 'Manufacturing' was the poorest performing sector with no growth during the quarter. Meanwhile, 'Transport', and 'Finance', were the major contributors to growth with rises of 4.9 percent each. Lastly, 'Construction' posted growth for the first time since Q4 2015.

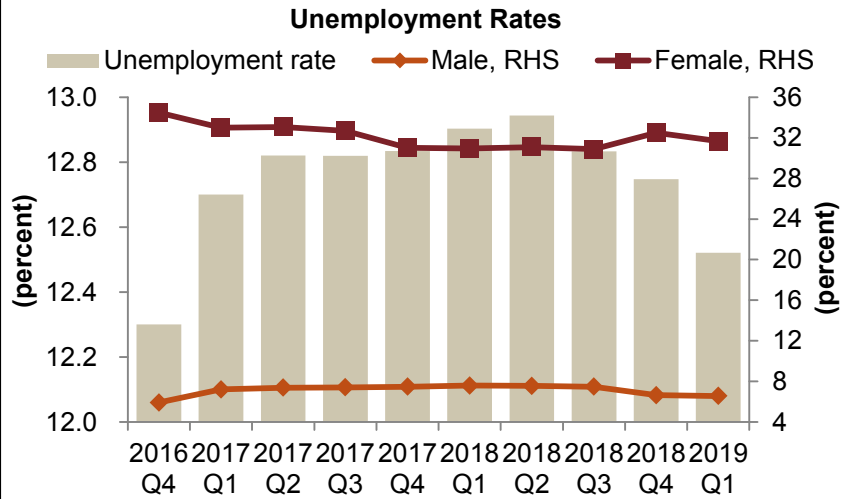




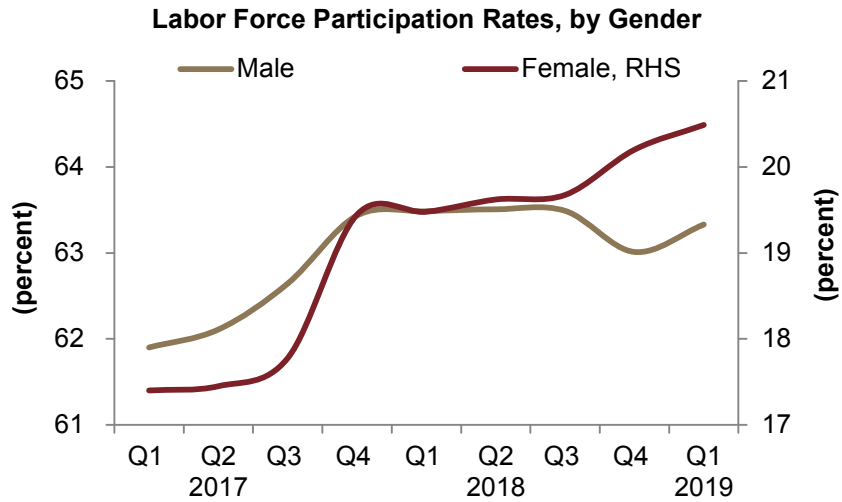
Labor Market

The Saudi unemployment rate declined in Q1 2019, at 12.5 percent, down from 12.7 percent in Q4 2018, reaching its lowest rate since Q4 2016. Whilst male unemployment was unchanged at 6.6 percent in Q1 2019, female unemployment was down from 32.5 percent to 31.7 percent. In addition, total youth unemployment (20-24 years old) continued declining, from 36.6 percent in Q4 2018 to 36.3 percent in Q1 2019.

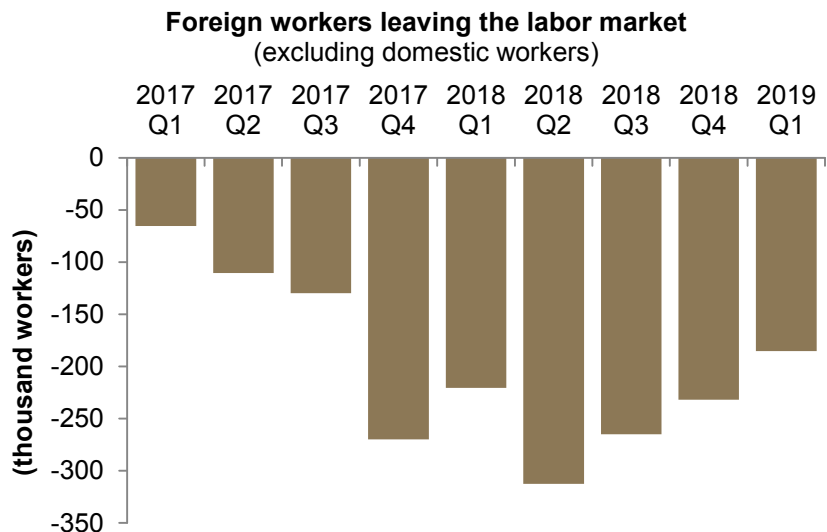
The Saudi unemployment rate declined in Q1 2019, at 12.5 percent, reaching its lowest rate since Q4 2016.



Both male and female labor force participation rates inched up during Q1 2019.



During Q1 2019, a total of 185 thousand foreign workers left the labor market, pushing total expat departures to 1.8 million since the start of 2017. The number of departures on a quarterly basis has slowed to its lowest level since Q3 2017.

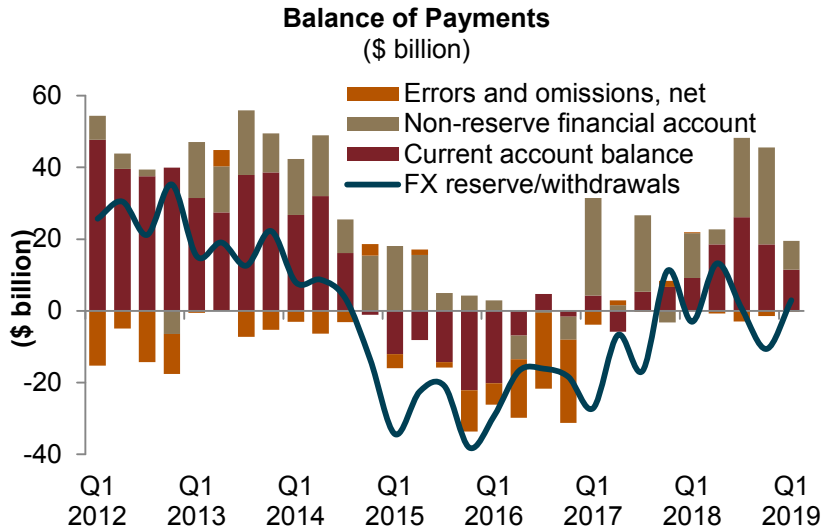




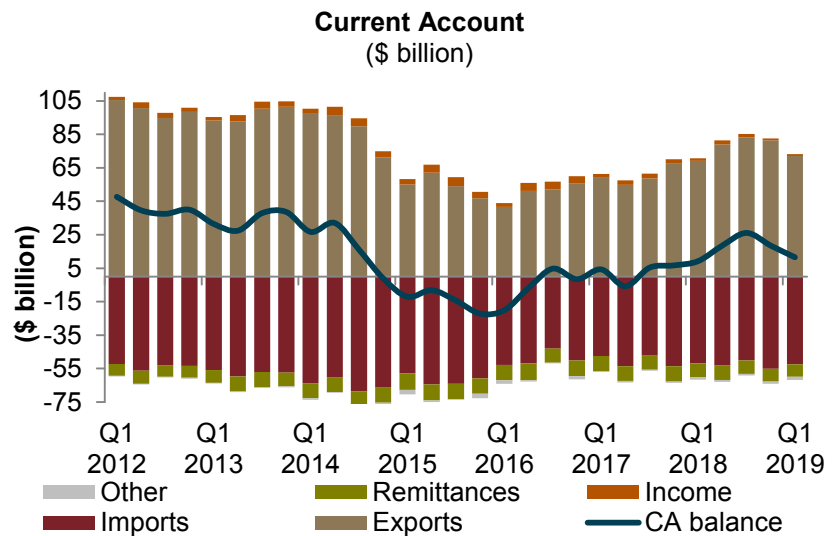
Balance of Payments

A surplus in both the current and financial account led to a rise in foreign reserves by \$3 billion in Q1 2019. Higher year-on-year exports (by 4 percent) and lower imports (down 1 percent), helped maintain a sizable current account balance of \$11.5 billion. At the same time, the financial account remained positive, with \$11 billion worth of portfolio investment inflows seen during the quarter.

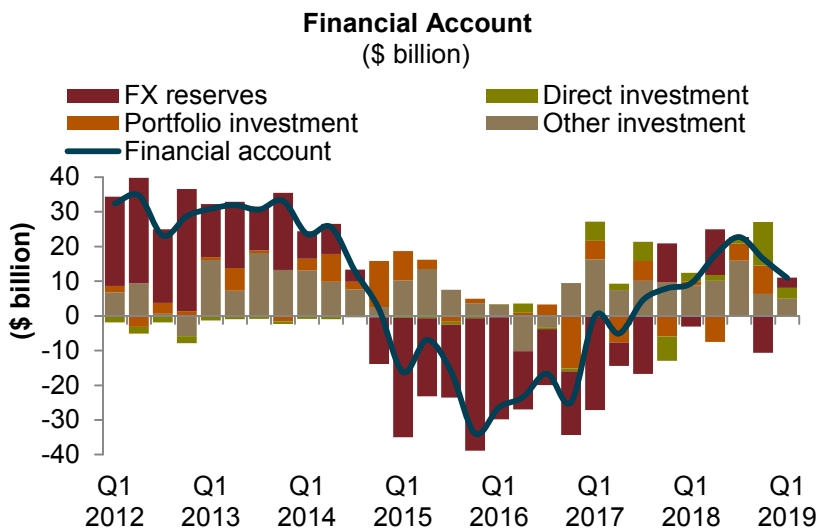
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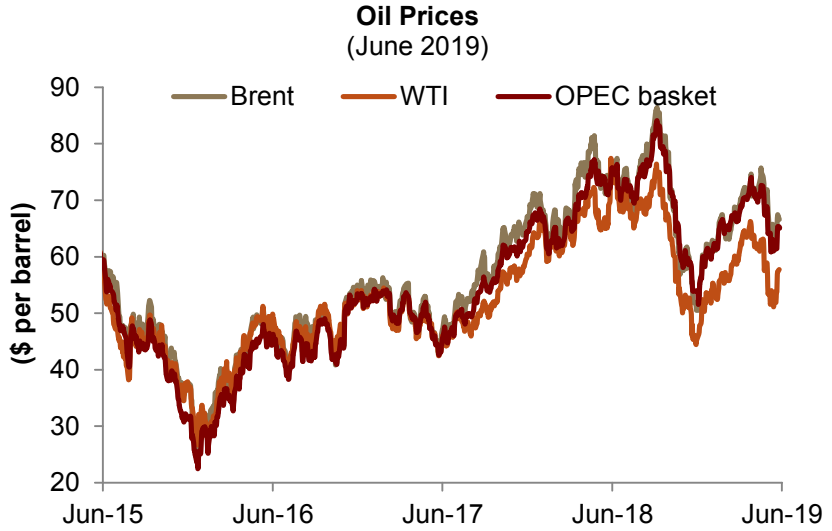




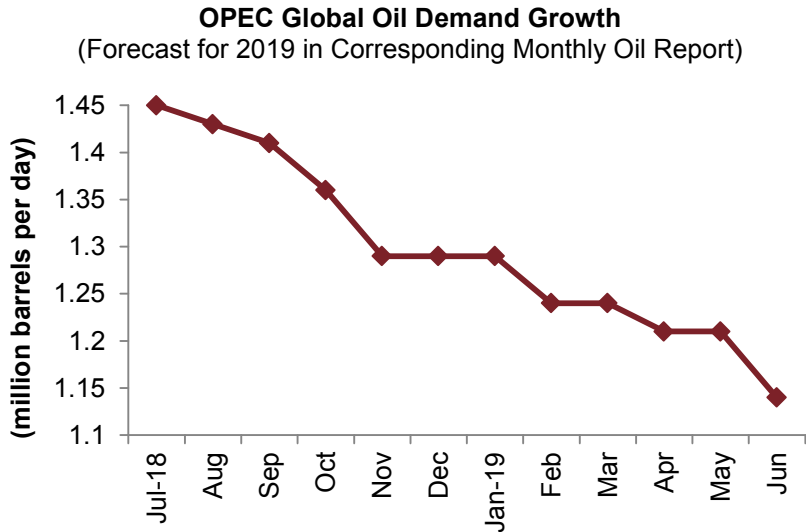
Oil - Global

Trade tensions between US and China weighed heavily on oil markets during the month of June. Despite a cessation of hostilities in the recent G20 meeting, no definitive breakthrough on trade between the US and China was made, further adding to oil market volatility which has also been elevated by recent regional geopolitical developments.

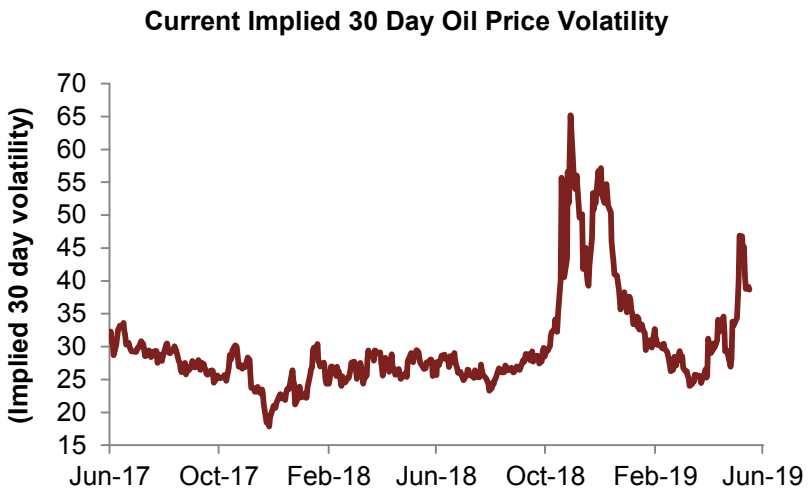
Brent oil saw 9 percent losses whilst WTI registered 11 percent losses month-on-month in June as trade tensions between US and China weighed heavily on oil markets during the month.



OPEC, in the June edition of its monthly oil report, revised oil demand growth down again, citing significant downside risks from escalating trade disputes. OPEC's forecast is now 21 percent lower than its initial forecast from a year ago.



Despite a cessation of hostilities in the recent G20 meeting, no definitive breakthrough on trade between the US and China was made, further adding to oil market volatility which has also been elevated by recent regional geopolitical developments.





Oil - Regional

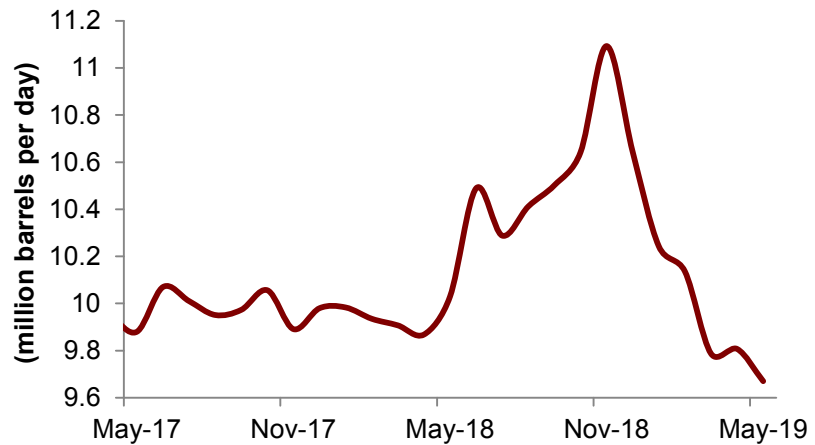
Saudi crude oil production declined 1.4 percent month-on-month in May to 9.7 mbpd. Looking ahead, we expect higher crude oil production during summer, but multi-year low direct crude burn will mean the rise will be less sharper than in previous years. As a result, the Kingdom will be able to comfortably comply with an extended OPEC+ agreement, which should be formally agreed on 2nd July.

Saudi crude oil production declined 1.4 percent month-on-month in May to 9.7 mbpd, the lowest monthly output since February 2015.

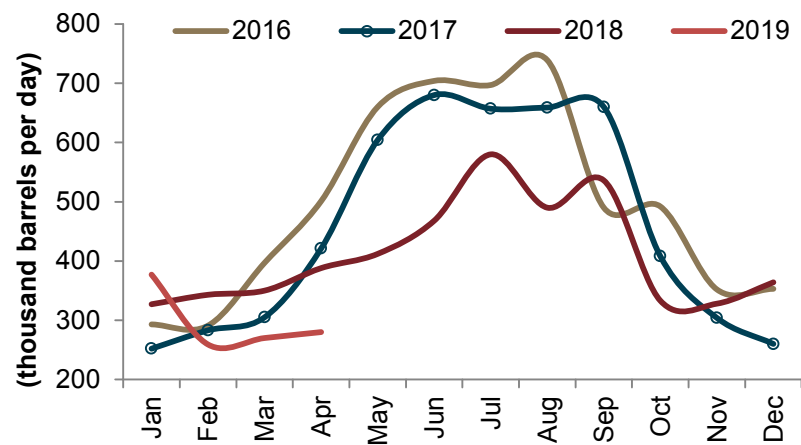
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Lower crude burn will also allow the Kingdom to ensure oil exports remain consistent without undue pressure on overall oil production.

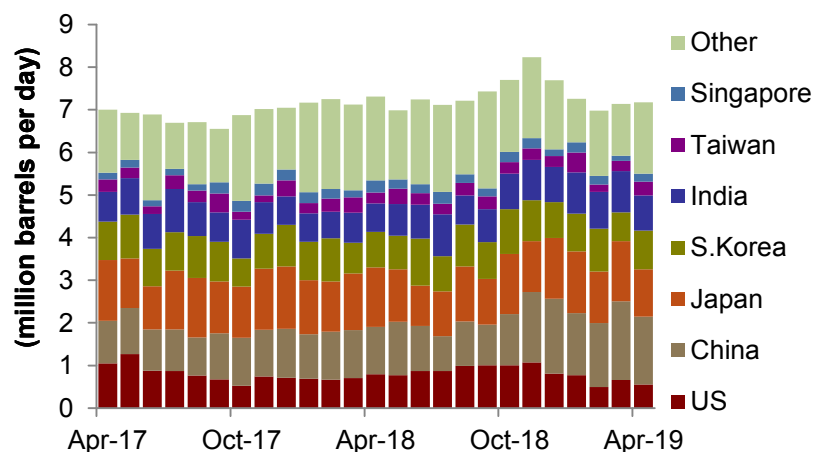
Saudi Crude Oil Production
(Direct communication)



Saudi Direct Crude Oil Burn



Saudi Crude Oil Exports
(April 2019)



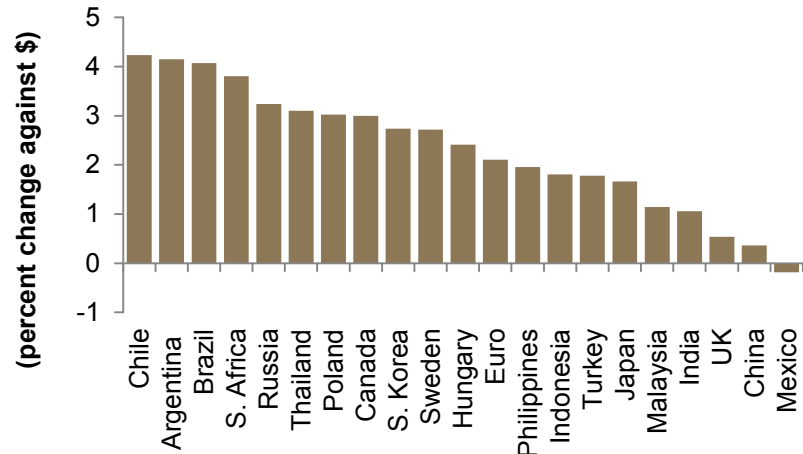


Exchange Rates

The US dollar saw losses against most major currencies during the month of June as the Fed recently indicated that uncertainty in global markets could result in potentially two interest rate cuts before the end of the year. That said, the rise in the euro against the dollar could be short lived as the European Central Bank (ECB) is expected to make cuts in interest rates in the months ahead.

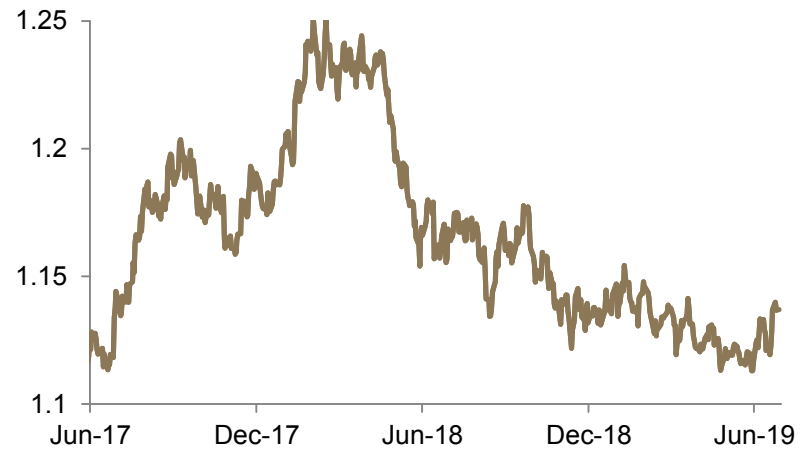
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Monthly Gain/Loss Against US Dollar
(June 2019)

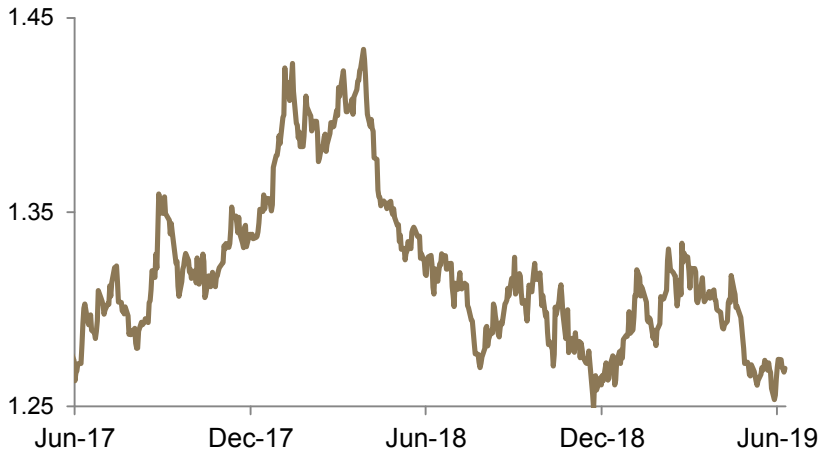


That said, the rise in the euro against the dollar could be short lived as the European Central Bank (ECB) is expected to make cuts in interest rates in the months ahead...

EUR/US Dollar
(June 2019)



GBP/US Dollar
(June 2019)



...and the UK pound is still vulnerable with the Brexit issue still unresolved.

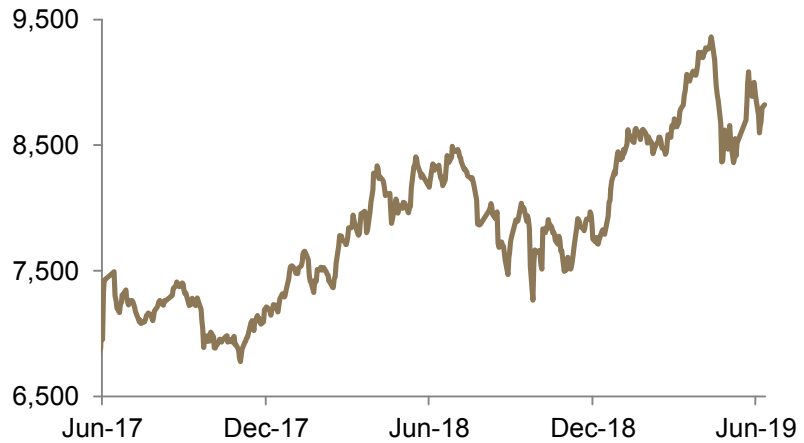


Stock Market

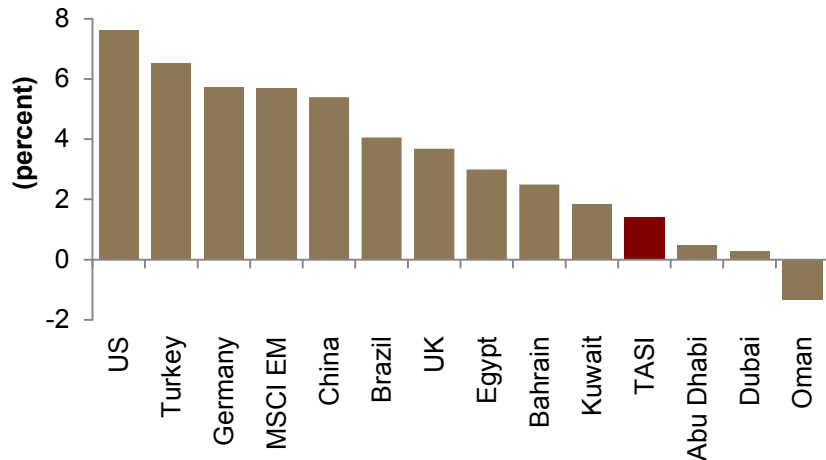
TASI posted a slender gain of 1 percent month-on-month in June. Rising regional political tensions resulted in some pullback during the month. However, these losses were reversed towards the end of June following the Saudi Capital Market Authority's (CMA) announcement that a 49 percent ownership limit for foreign strategic investors in shares of listed companies would be removed.

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TASI
(June 2019)

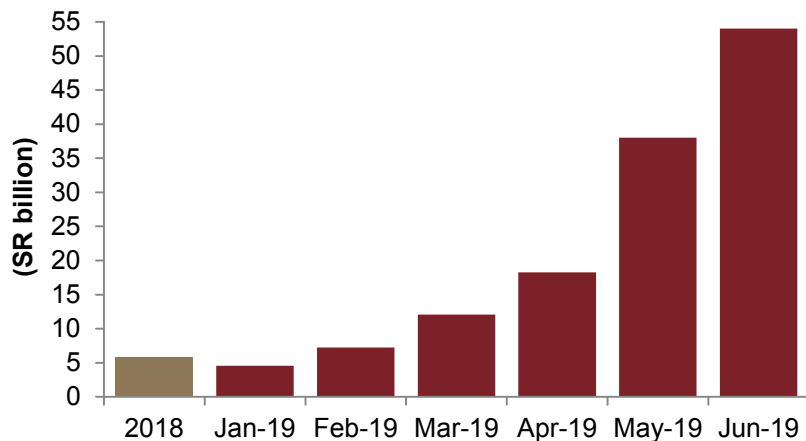


Comparative Stock Market Performance
(June 2019)



...which helped push the TASI to a slender rise of 1 percent month-on-month in June.

Net purchases of SWAPs and QFIs
(Total in 2018 versus cumulative in 2019)



Meanwhile, net purchases of SWAPs and QFIs have now risen to SR54 billion (\$14.4 billion) so far in 2019.



Key Data

	2012	2013	2014	2015	2016	2017	2018E	2019F	2020F
Nominal GDP									
(SR billion)	2,760	2,800	2,836	2,454	2,419	2,582	2,934	3,065	3,258
(\$ billion)	736	747	756	654	645	689	782	817	869
(% change)	9.6	1.5	1.3	-13.5	-1.4	6.8	13.6	4.5	6.3
Real GDP (% change)									
Oil	5.1	-1.6	2.1	5.3	3.6	-3.1	2.8	1.6	2.1
Non-oil private sector	5.6	7.0	5.4	3.4	0.1	1.5	1.7	2.0	2.4
Non-oil government	5.3	5.1	3.7	2.7	0.6	0.7	2.8	3.0	2.3
Total	5.4	2.7	3.7	4.1	1.7	-0.7	2.2	2.0	2.2
Oil indicators (average)									
Brent (\$/b)	112	110	99	52	43	54	71	66	68
Saudi (\$/b)	106	104	96	49	41	51	69	65	67
Production (million b/d)	9.8	9.6	9.7	10.2	10.4	10.0	10.3	10.3	10.5
Budgetary indicators (SR billion)									
Government revenue	1,247	1,156	1,044	616	519	692	906	938	973
Government expenditure*	916	994	1,140	1,001	936	930	1,079	1,106	1,143
Budget balance	331	162	-96	-385	-417	-238	-174	-168	-170
(% GDP)	12.0	5.8	-3.4	-15.7	-17.2	-9.2	-5.9	-5.5	-5.2
Gross public debt	99	60	44	142	317	443	560	678	754
(% GDP)	3.6	2.1	1.6	5.8	13.1	17.1	19.1	22.1	23.1
Monetary indicators (average)									
Inflation (% change)	2.9	3.5	2.2	1.2	2.1	-0.8	2.5	-1.7	1.1
SAMA base lending rate (% , end year)	2.0	2.0	2.0	2.0	2.0	2.0	3.0	3.25	3.25
External trade indicators (\$ billion)									
Oil export revenues	337	322	285	153	137	170	232	223	227
Total export revenues	388	376	342	204	184	222	295	281	287
Imports	142	153	158	159	128	123	124	129	134
Trade balance	247	223	184	44	56	98	171	151	153
Current account balance	165	135	74	-57	-24	10	72	65	72
(% GDP)	22.4	18.1	9.8	-8.7	-3.7	1.5	9.2	7.9	8.3
Official reserve assets	657	726	732	616	536	496	497	508	516
Social and demographic indicators									
Population (million)	28.9	29.6	30.3	31.0	31.7	32.7	32.5	32.6	33.0
Saudi Unemployment (15+, %)	12.1	11.7	11.7	11.5	12.5	12.8	12.9	12.4	12.1
GDP per capita (\$)	25,471	25,223	24,962	21,095	20,318	21,048	24,065	25,065	26,291

Note*: 2016 Government expenditure includes SR105 billion in due payments for previous years

Sources: Jadwa Investment estimates for 2018 and forecasts for 2019 to 2020. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. General Authority for Statistics and Jadwa Investment estimates for oil, social and demographic indicators.



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