



## Summary

**Real GDP:** Annual growth in non-oil GDP returned to the positive territory in Q2 following two consecutive quarterly declines, while oil sector GDP growth came out lower.

**Real Economy:** Cash withdrawals from ATMs and point-of-sale transactions have shown signs of weakness in 2016, and public sector workers' allowance reductions will likely push down consumption patterns in coming months.

**Government Finance:** The net monthly decline in government deposits with SAMA came out smaller in August. Meanwhile, banks continued to increase their holdings of government bonds.

**Bank Lending:** In August, bank claims on the public sector continued to rise, month-on-month. Meanwhile, growth in credit to the private sector saw an improvement over the previous month, rising by 0.2 percent.

**Bank Deposits:** Total bank deposits showed a slight increase in August. The faster growth in credit relative to deposits caused the loan-to-deposit ratio to rise for the fifth consecutive month, reaching 90.8 percent.

**Inflation:** Inflation continued to decelerate, reaching 3.3 percent in August, mainly owing to a negative contribution from foodstuffs.

**Oil-Global:** OPEC stated that it will aim to reduce output to a range of 32.5 to 33 mbpd (vs. August output at 33.1 mbpd) with detailed individual countries quotas being decided in a formal OPEC meeting in November.

**Oil-Regional:** Saudi crude oil production remained unchanged month-on-month at 10.6 mbpd in August. We expect some decrease in oil production in the months ahead, to around 10.5 mbpd.

**Exchange Rates:** No change in interest rates by the US Federal Reserve (Fed) during September saw the dollar remain pretty much unchanged against the euro, month-on-month.

**Stock Market:** The TASI dropped sharply following a Royal decree which cut certain government employees' pay and allowances. We see the current sell-off as overdone and expect the TASI to recover mildly in the month ahead.

**Valuations:** TASI price-to-earnings has trended downwards since May. Although this is partially due to slower trading during the summer months, it also reflects investor caution over expected profitability of listed companies in the near term.

**Volumes:** Monthly TASI traded volumes were down for the fourth consecutive month in September.

**Sectorial Performance:** Reflecting the overall performance of TASI, all sectors were down during September.

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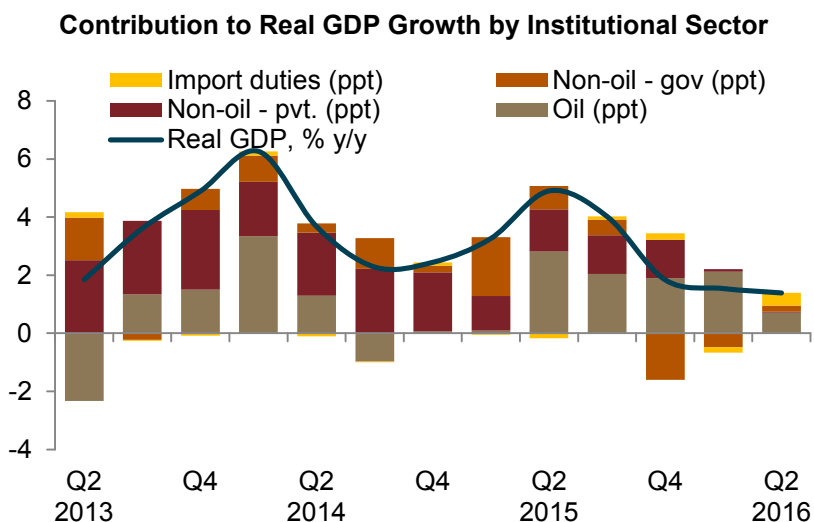
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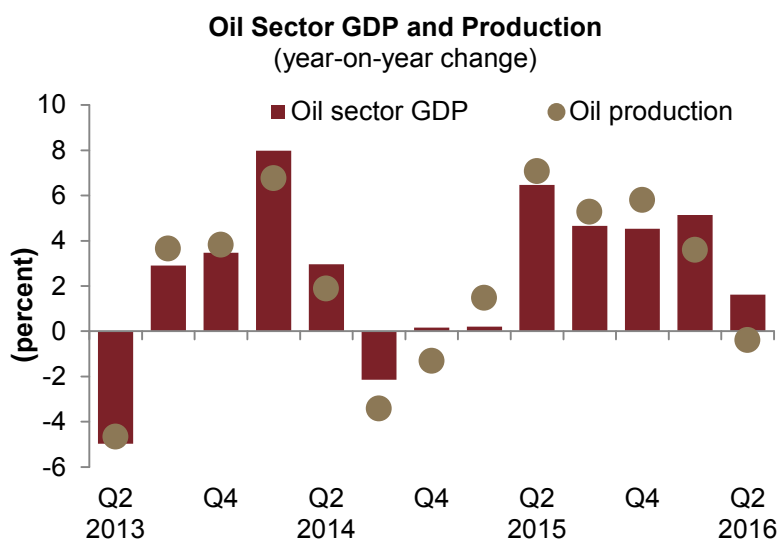
## Real GDP

Recently released GDP data for Q2 showed a slower year-on-year growth in overall economic activity. Annual growth in non-oil GDP returned to the positive territory following two consecutive declines, while oil sector GDP growth came out lower. Within the non-oil economy, private sector GDP continued to slow, with nearly all sub-sectors showing a downward trend in growth.

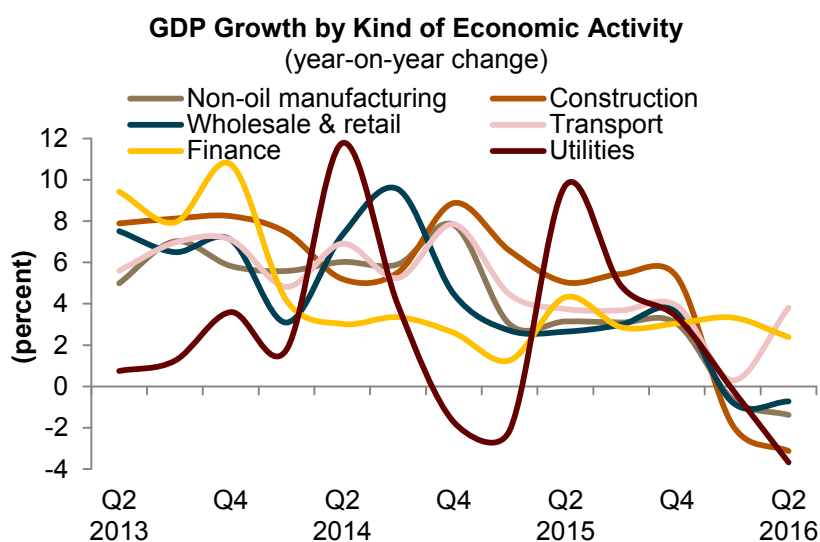
Overall GDP growth slowed from 1.5 percent in Q1 to 1.4 percent in Q2.



Oil sector GDP growth came out lower in Q2, reaching 1.6 percent.



Nearly all sub-sectors of the non-oil private economy showed a downward trend in Q2.



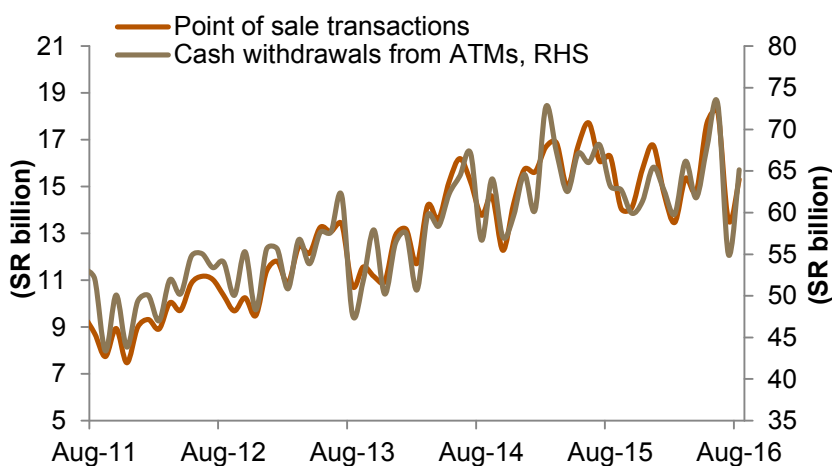


## Real Economy

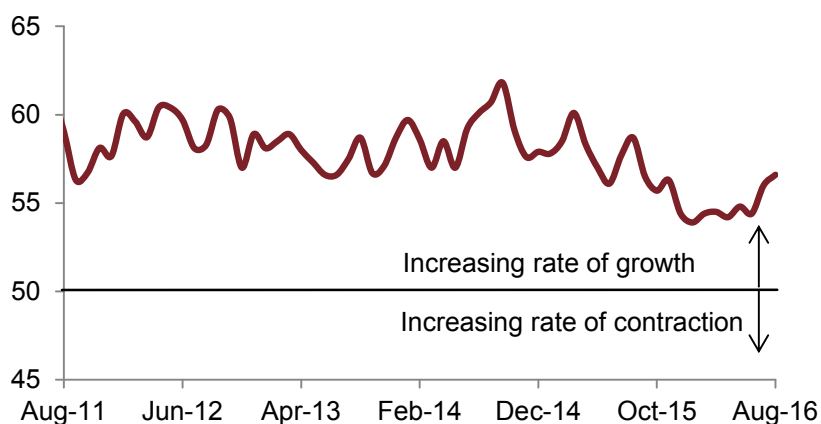
Economic data for August showed a rebound in economic activity. That said, cash withdrawals from ATMs and point-of-sale transactions have shown signs of weakness in 2016, and public sector workers' allowance reductions will likely push down consumption patterns in coming months. The non-oil PMI continued to point to an expansion in activity.

*Public sector workers' allowance reductions will likely push down consumption patterns in coming months.*

### Indicators of Consumer Spending

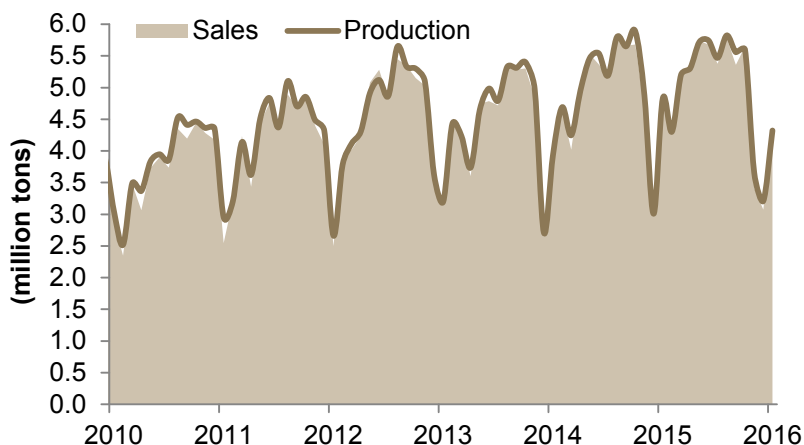


### Purchasing Managers' Index



*The non-oil PMI continued to improve reaching 56.6 in August.*

### Cement Sales and Production



*In month-on-month terms, cement sales and production rose by 1.3 and 1.1 million tons, respectively.*



## Government Finance

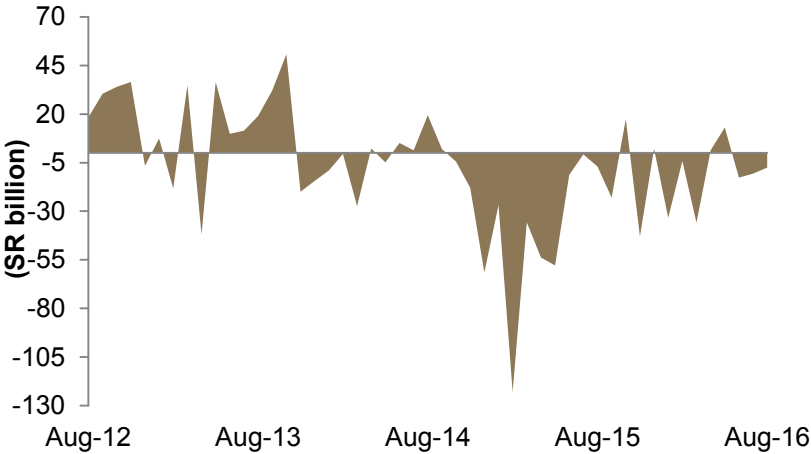
The net monthly decline in government deposits with SAMA came out smaller in August. The majority of this decline came from government current deposits. Meanwhile, banks continued to increase their holdings of government bonds.

*The net monthly decline to government accounts with SAMA reached –SR7.5 billion in August...*

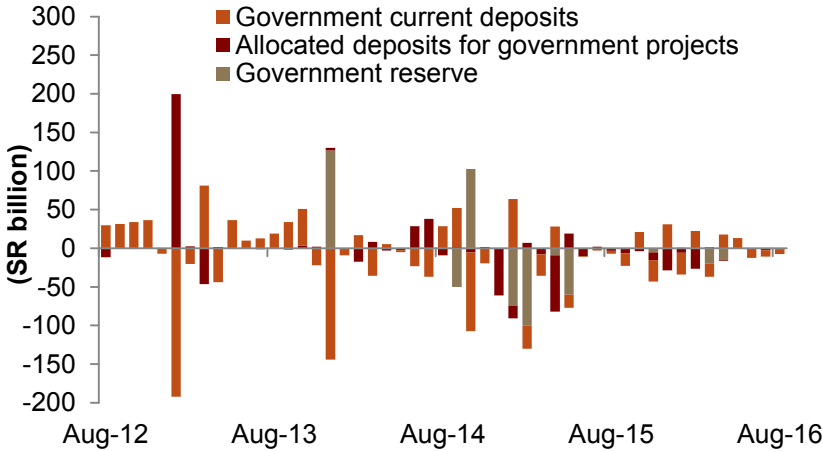
*...with the majority of the decline coming from government current deposits (–SR5.7 billion).*

*Meanwhile, banks continued to increase their holdings of government bonds (up by SR2.4 billion).*

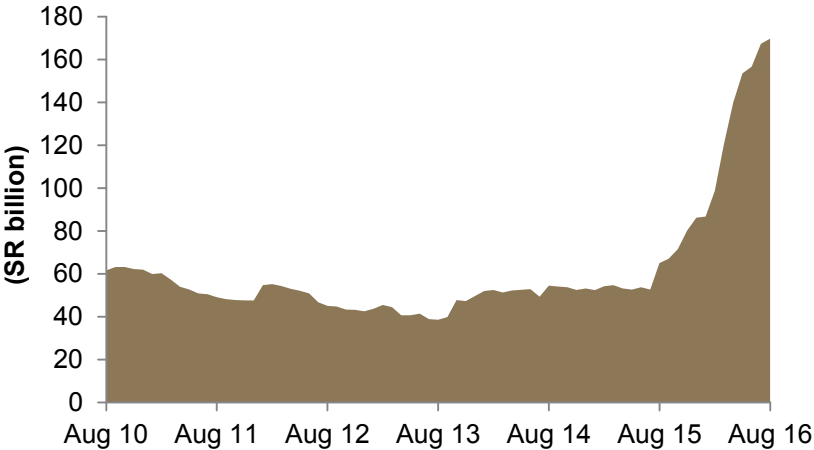
**Net Change to Government Accounts With SAMA**  
(month-on-month change)



**Breakdown of Government Accounts With SAMA**  
(month-on-month change)



**Domestic Bank Holdings of Government Bonds**

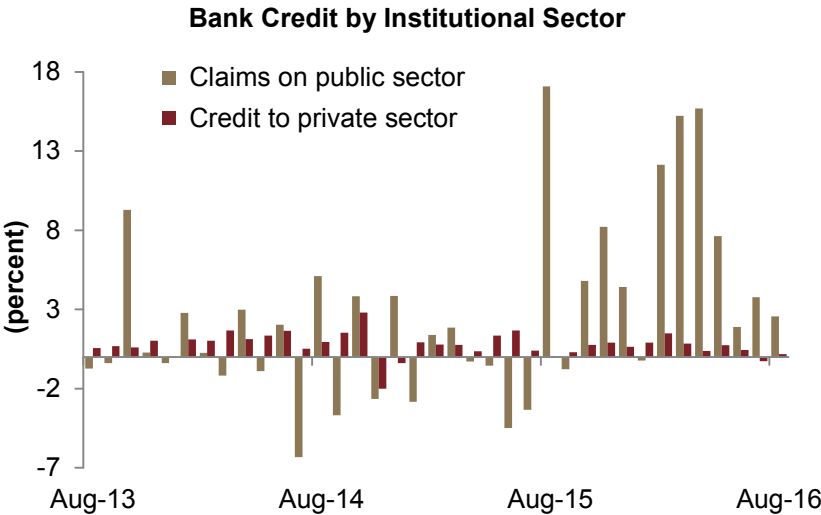




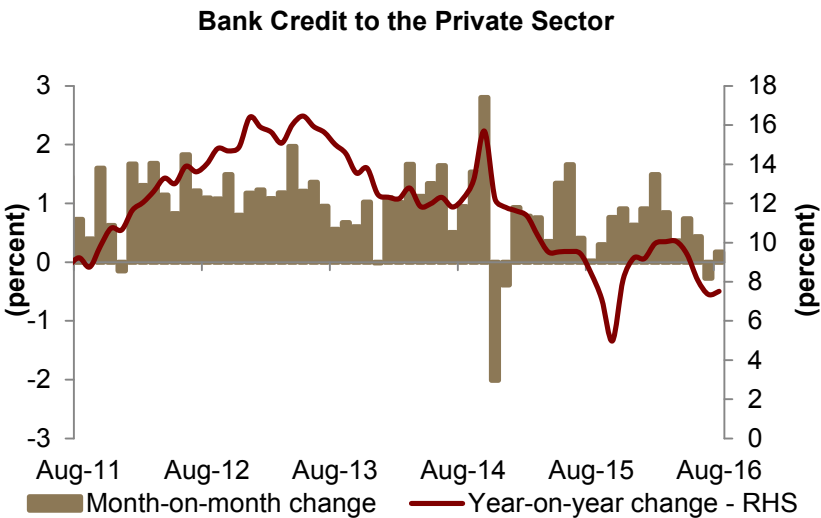
## Bank Lending

In August, bank claims on the public sector continued to rise, month-on-month. Meanwhile, growth in credit to the private sector saw an improvement over the previous month, rising by 0.2 percent. Within the private sector, credit with longer-term maturities continued to show negative annual growth, while growth accelerated in medium-term credit.

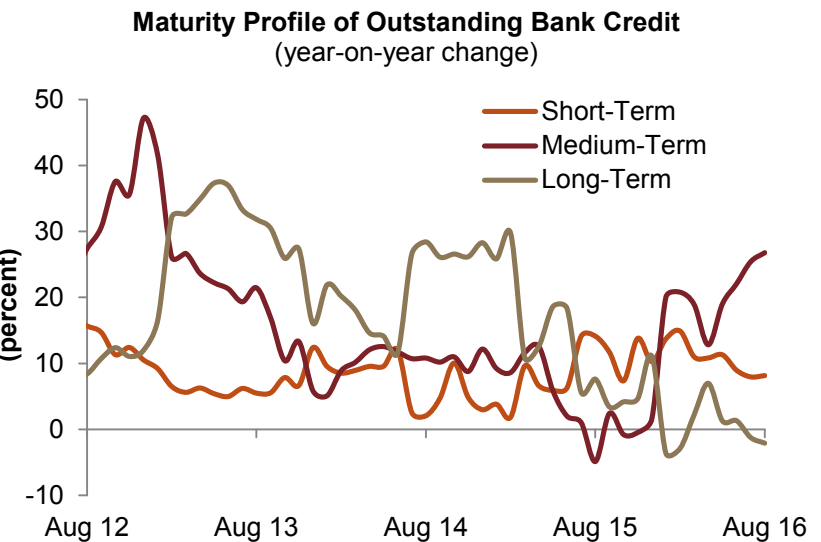
August bank claims on the public sector rose by 2.6 percent, month-on-month.



Growth in credit to the private sector rose by 0.2 percent month-on-month (7.5 percent, year-on-year).



A notable shift in maturity profile of outstanding credit suggests that banks continued to manage cash flows while the government deterred its spending.

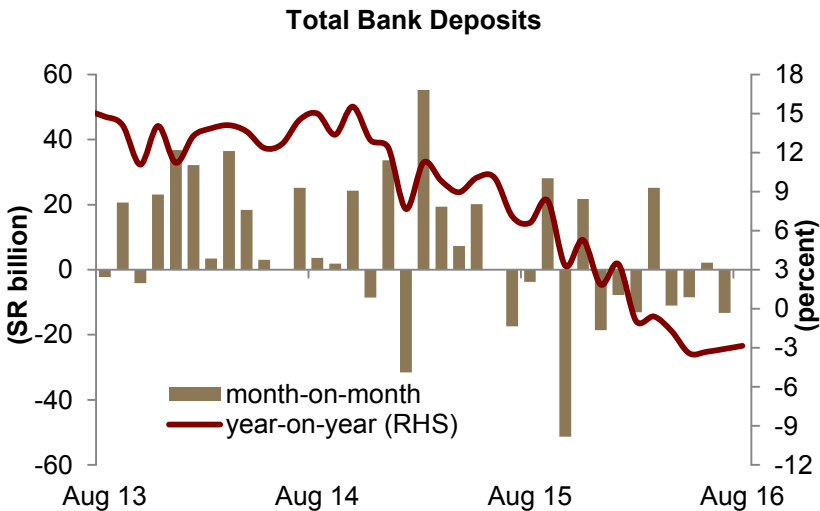




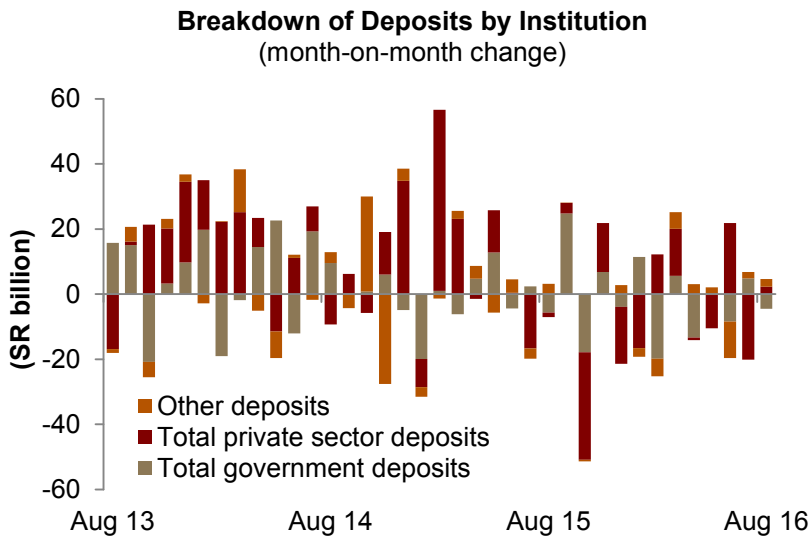
## Bank Deposits

Total bank deposits showed a slight increase in August, rising by SR105 million. This increase came mainly from a net addition to private sector and other deposits, while government deposits fell. The faster growth in credit relative to deposits caused the loan-to-deposit ratio to rise for the fifth consecutive month, reaching 90.8 percent.

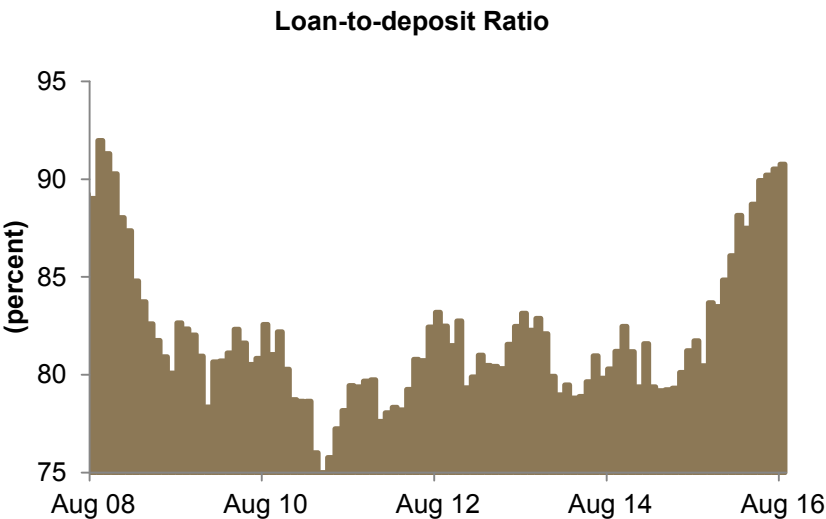
*In August, total bank deposits rose by SR105 million, month-on-month...*



*...mainly owing to a net addition to private sector and other deposits (SR4.6 billion), while government deposits fell by SR4.5 billion.*



*The loan-to-deposit ratio rose from 90.5 percent in July to 90.8 percent in August.*

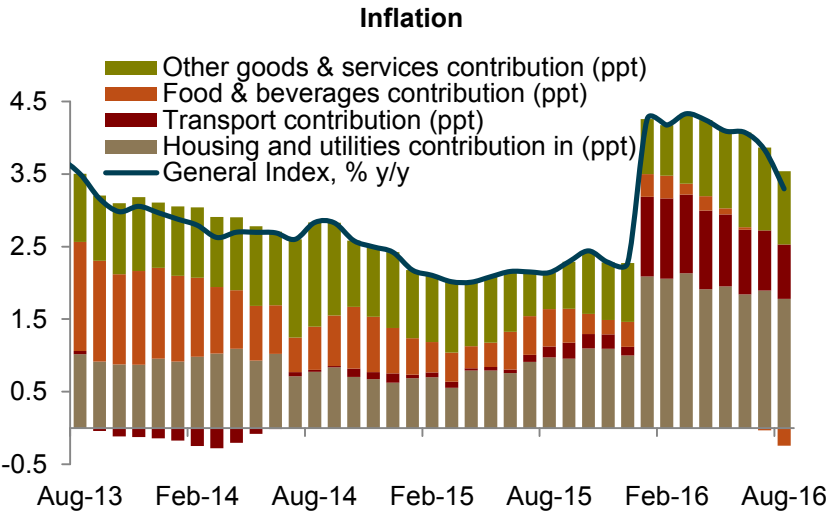




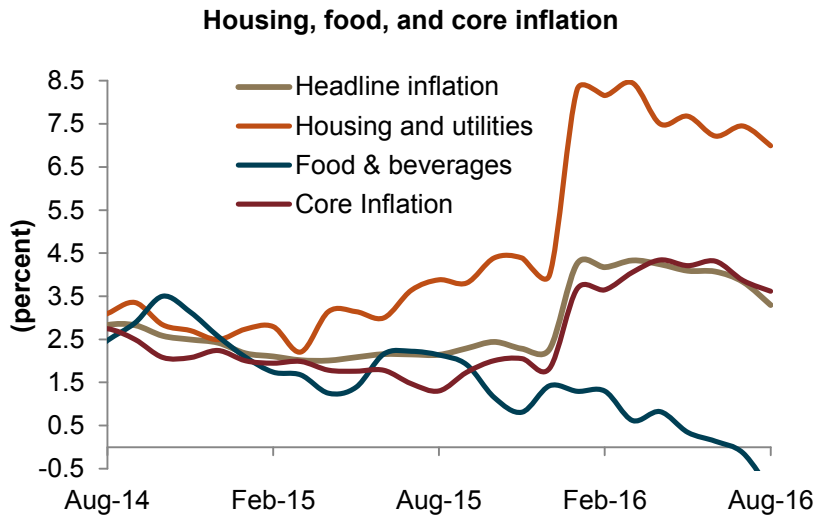
## Inflation

Inflation continued to decelerate, reaching 3.3 percent in August, mainly owing to a negative contribution from foodstuffs. Meanwhile, both housing and core inflation saw a moderate slowdown, impacted by the negative growth in money supply. We expect the recent reduction to public sector workers' allowances to put further downward pressure on prices in coming months.

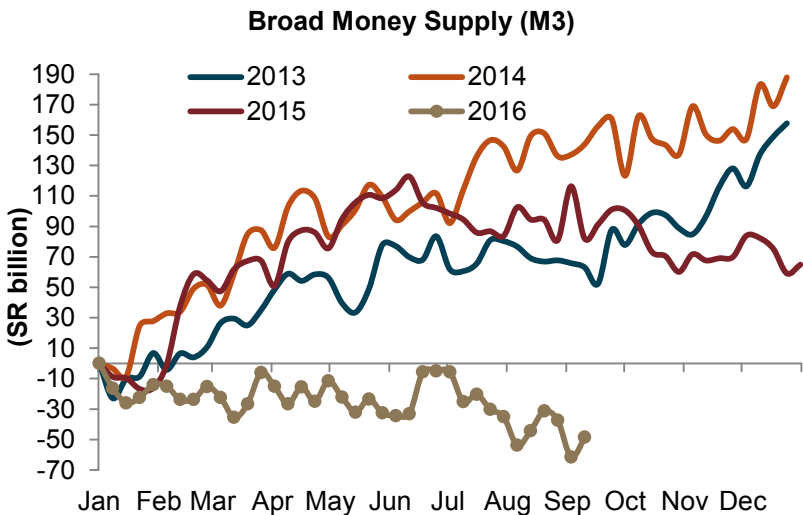
*Inflation slowed to 3.3 percent in August, down from 3.8 percent in July...*



*...dragged by negative inflation in foodstuffs, while housing and the core index also slowed.*



*The general slowdown may also be attributed to the negative growth in broad money supply (down by SR48.5 billion since the start of the year).*

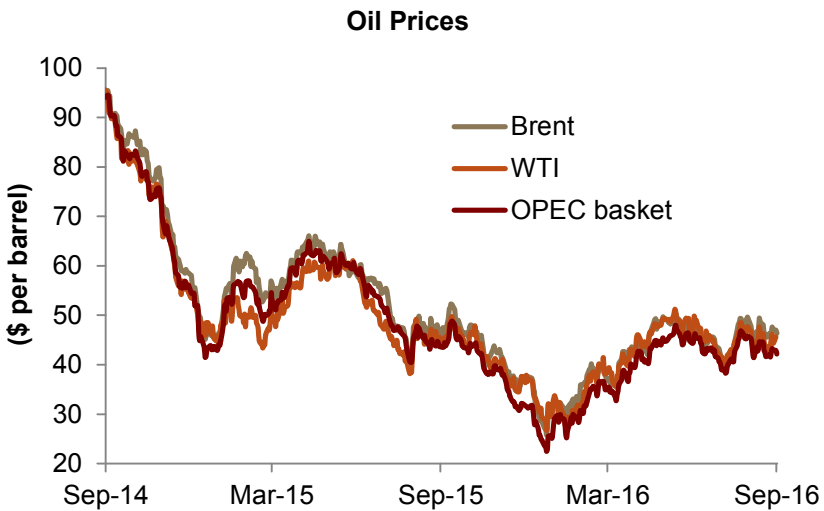




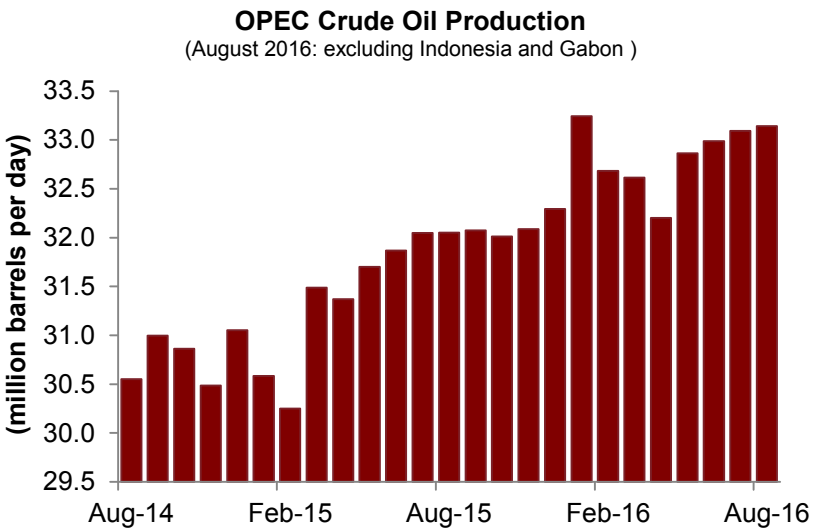
## Oil - Global

An agreement by OPEC to cut production sent Brent oil prices up by 3 percent in September, month-on-month. OPEC stated that it will aim to reduce output in the range of 32.5 to 33 mbpd (vs. August output of 33.1 mbpd) with detailed individual country quotas being decided in a formal OPEC meeting in November.

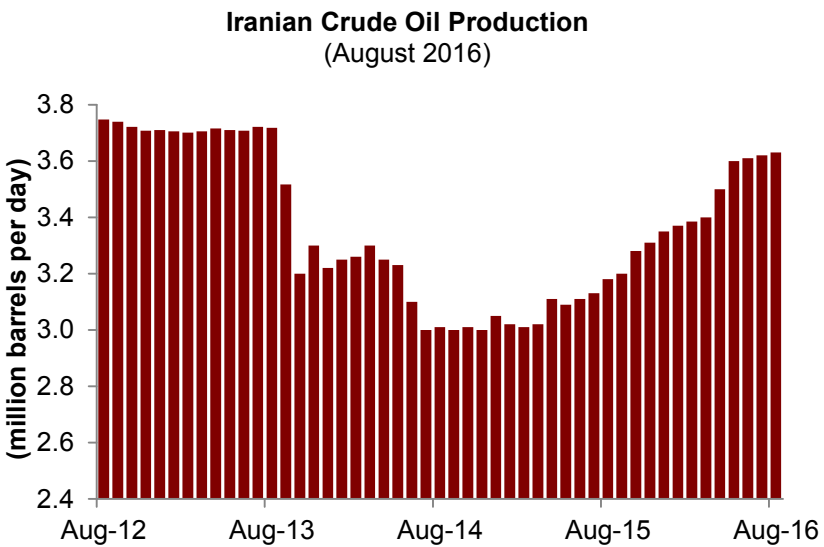
*Brent oil prices remained volatile despite being up 3 percent month-on-month.*



*OPEC's production was close to record levels in August, with the organization agreeing to cut production by up to 0.6 mbpd.*



*Iran, along with Libya and Nigeria, is likely to be excluded from output cuts when formal quotas are agreed in November.*





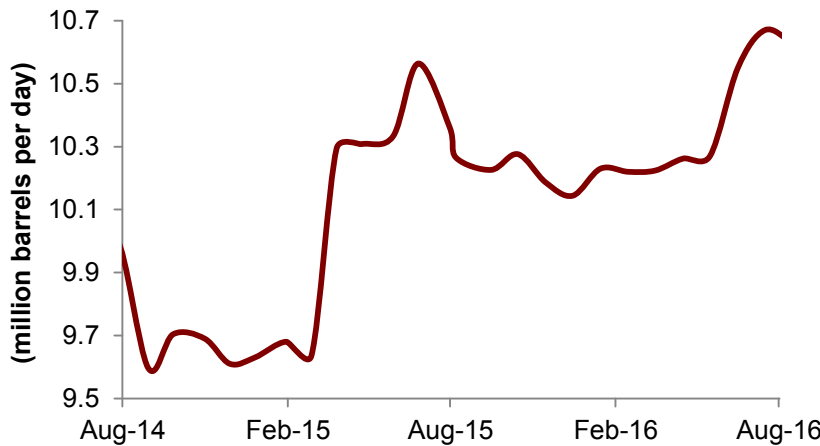


Oil - Regional

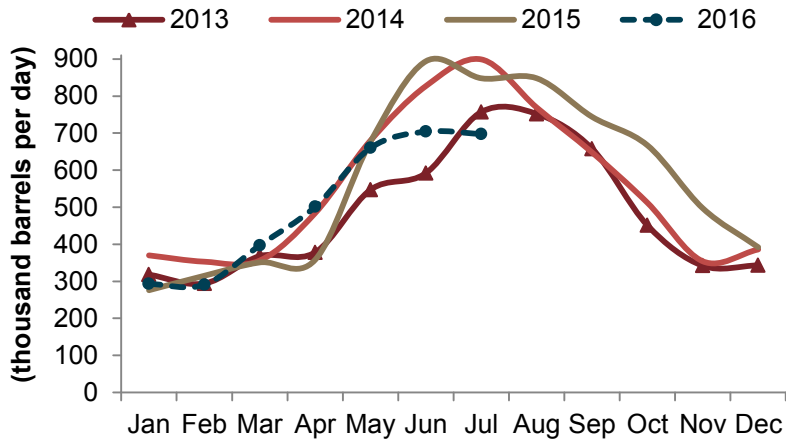
Saudi crude oil production remained unchanged month-on-month at 10.6 mbpd in August. We expect some decrease in oil production in the months ahead, to around 10.5 mbpd. Meanwhile, latest available data shows higher oil production and lower domestic consumption helped push up Saudi oil exports to 7.5 mbpd in July.

Saudi crude oil production remained at record levels of 10.6 mbpd in August.

Saudi Crude Oil Production  
(August 2016)

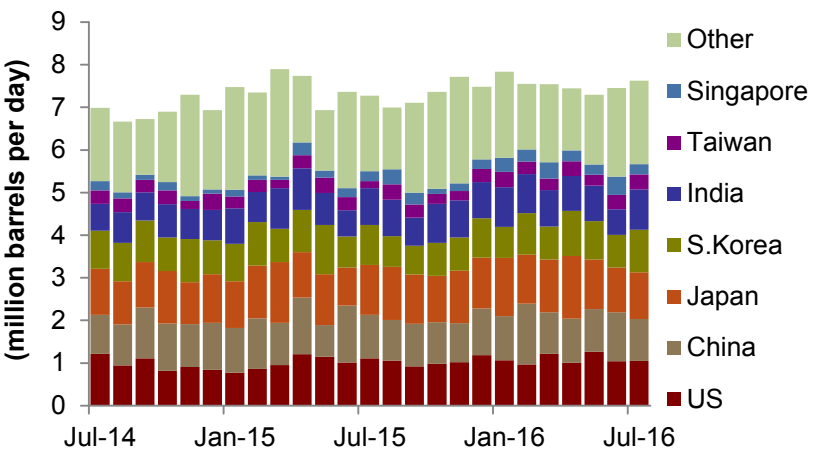


Saudi Direct Crude Oil Burn  
(monthly average: latest available data from July 2016)



Higher year-on-year domestic electricity tariffs and a rise in gas supplies from the Wasit plant led to the lowest seasonal Saudi domestic crude oil burn for electricity generation in three years.

Saudi Crude Oil Exports by Destination  
(monthly average: latest available data from July 2016)



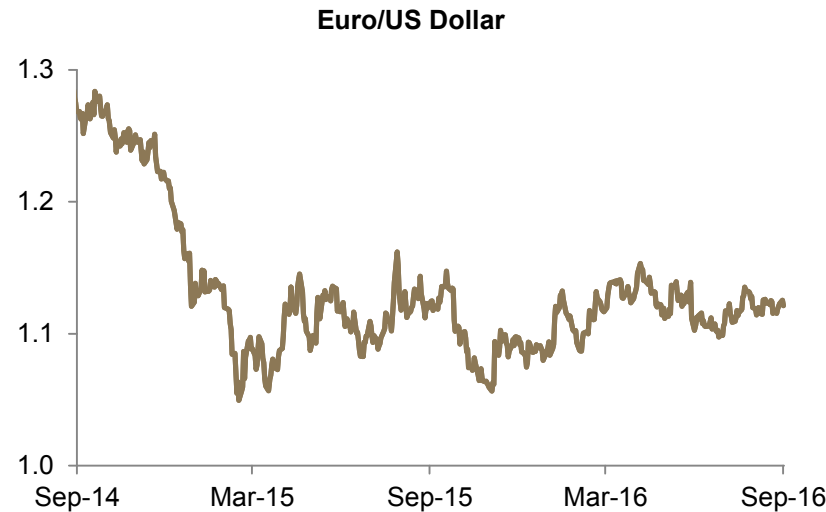
The combination of record oil production and lower domestic oil consumption has resulted in Saudi oil exports being higher than usual during the summer months.



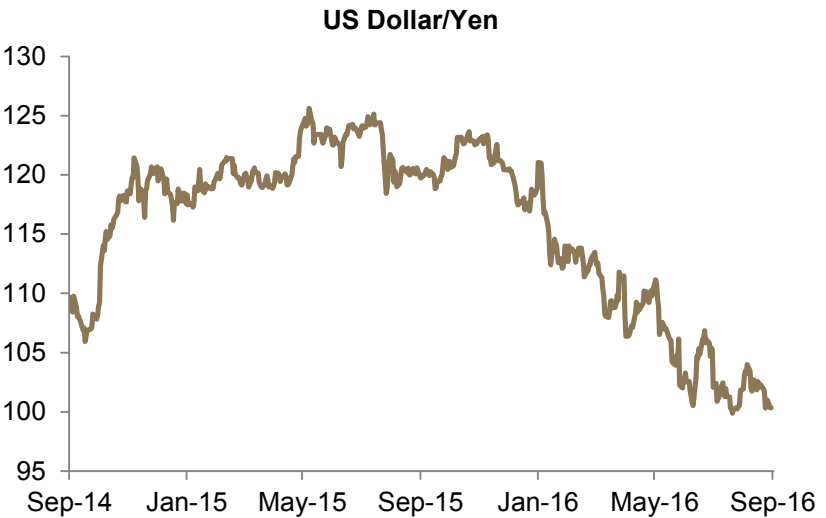
## Exchange Rates

No change in interest rates by the US Federal Reserve (Fed) during September saw the dollar remain pretty much unchanged against the euro, month-on-month. Meanwhile, the decision by the Bank of Japan (BOJ) not to continue monetary easing resulted in the yen rising against the dollar during September.

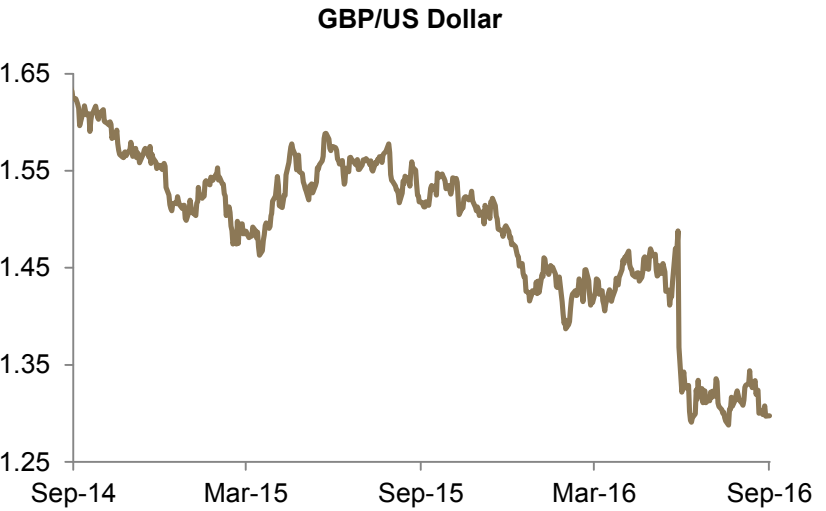
*The dollar saw virtually no change against the euro as the Fed decided not to raise interest rates....*



*...but a decision not to continue monetary easing by the BOJ saw the yen strengthen against the dollar.*



*Meanwhile, a lack of solid UK economic data meant the pound had limited upward support in September.*





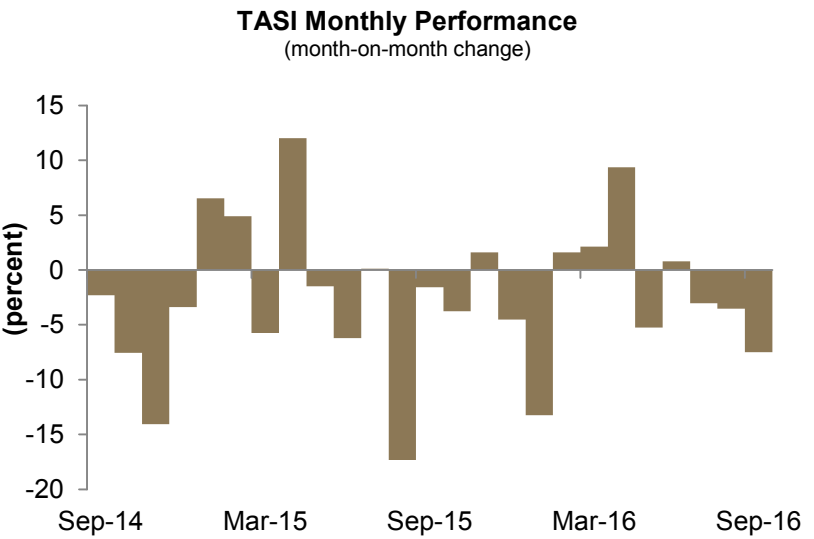
Stock Market

The TASI had been edging narrowly downwards during the month due a risk-off approach by investors before Q3 earnings, but dropped more sharply following a Royal decree which cut certain government employees' pay and allowances. We see the sell-off as overdone and expect the TASI to recover mildly in the month ahead.

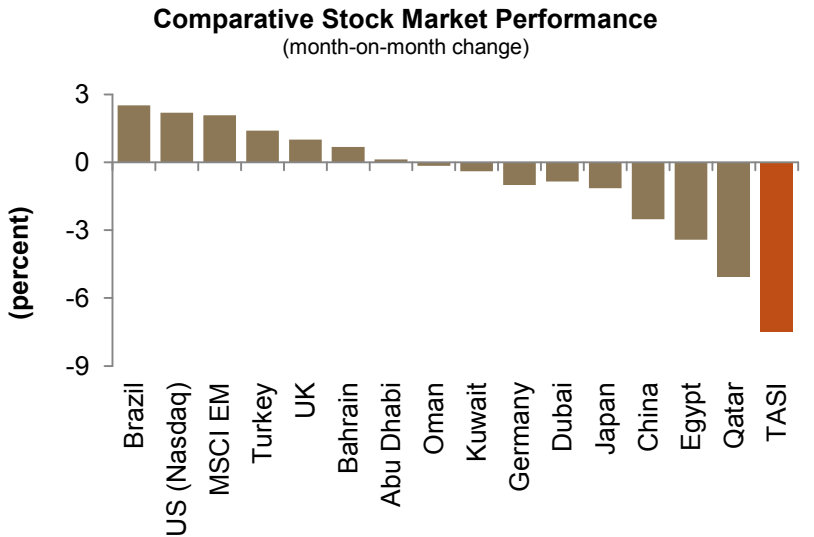
The TASI dropped by 8 percent month-on-month in September...



...resulting in a third consecutive decline in monthly performance...



...although we do view the current sell-off as overdone and expect a mild recovery in the month ahead.



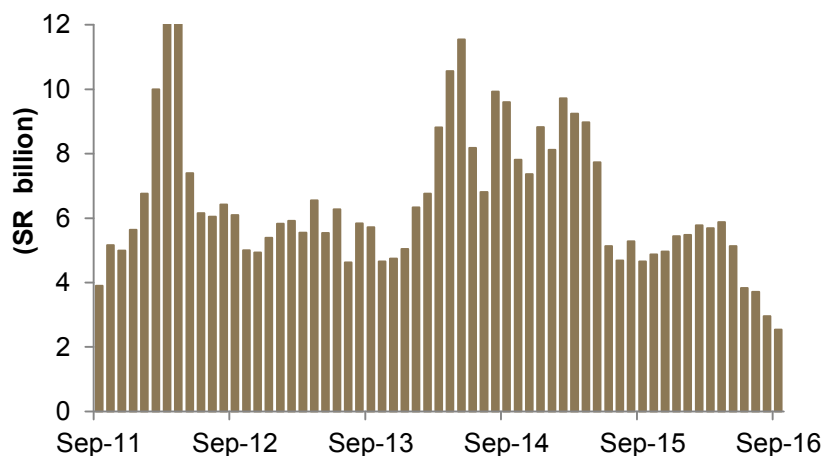


## Volumes

Monthly TASI traded volumes were down for the fourth consecutive month, continuing the trend seen during the holiday period, but also due to a risk-off approach by investors prior to Q3 earnings announcements. We do expect volumes to pick up in October.

*Traded volumes have been dropping since May, in-line with the extended holiday period...*

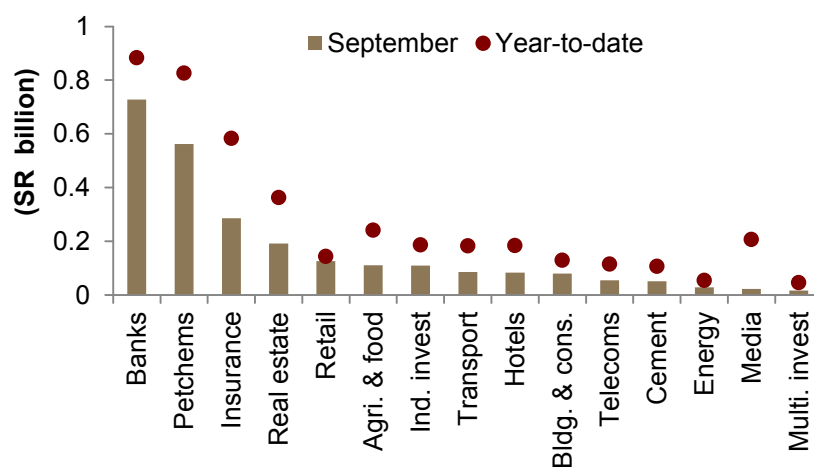
**Daily average stock market turnover**



*...with September volumes considerably lower than year-to-date volumes.*

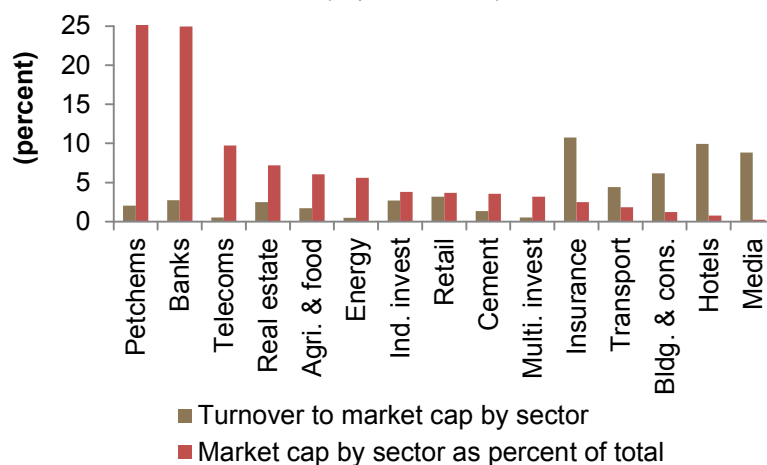
**Turnover by sector**

(daily average)



**Turnover as percent of market cap**

(September, 2016)



*We do, however, expect volumes to pick up in the month ahead.*

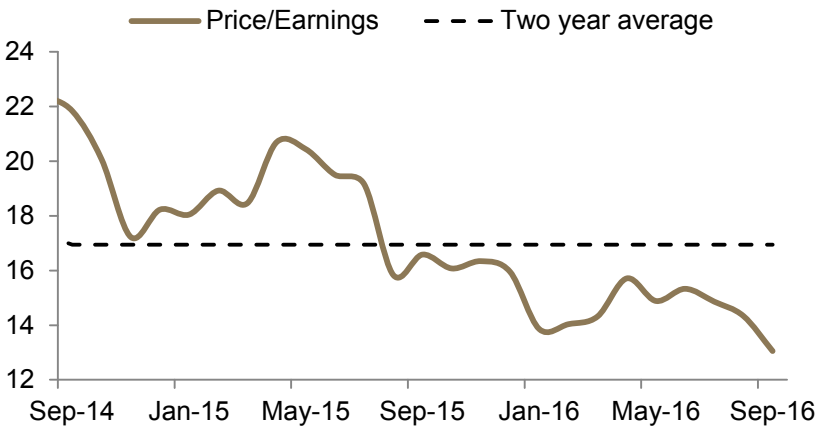


Valuations

The downtrend in the TASI has been mirrored in the decline in the key valuation metric of price-to-earning (PE). PE has trended downwards since May. Although this is partially due to slower trading during the summer months, it also reflects investor caution over expected profitability of listed companies in the near term.

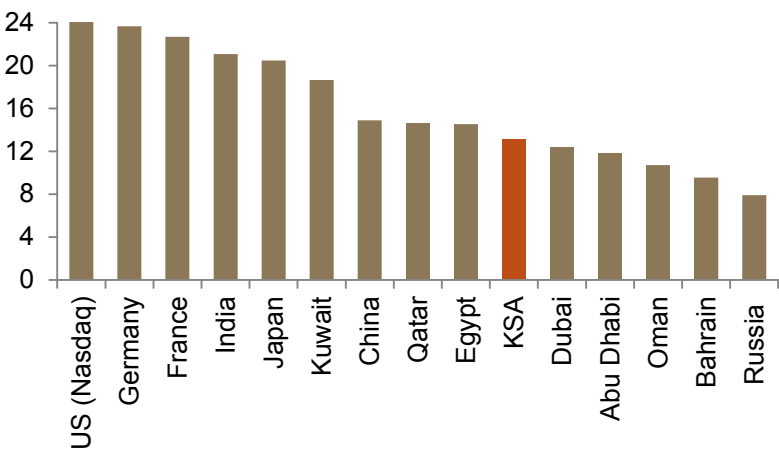
Price-to-earnings (PE) continues to slide, mirroring the TASI's decline.

TASI Price-to-Earnings Ratio



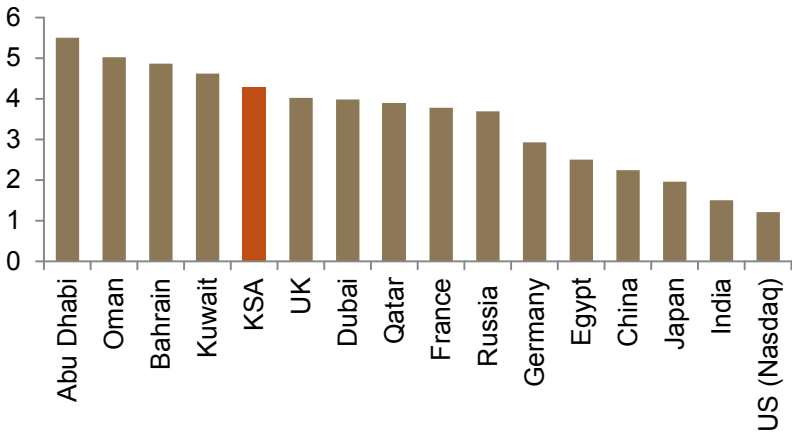
Lower PE is partially due to slower trading during the summer months but also due to investor caution over expected profitability of listed companies in the near term.

Comparative Price-to-Earnings Ratios (end of month)



Since we see the current sell-off as overdone, we do expect some recovery in TASI's key valuation metrics in the month ahead.

TASI Dividend Yield Ratios (end of month)

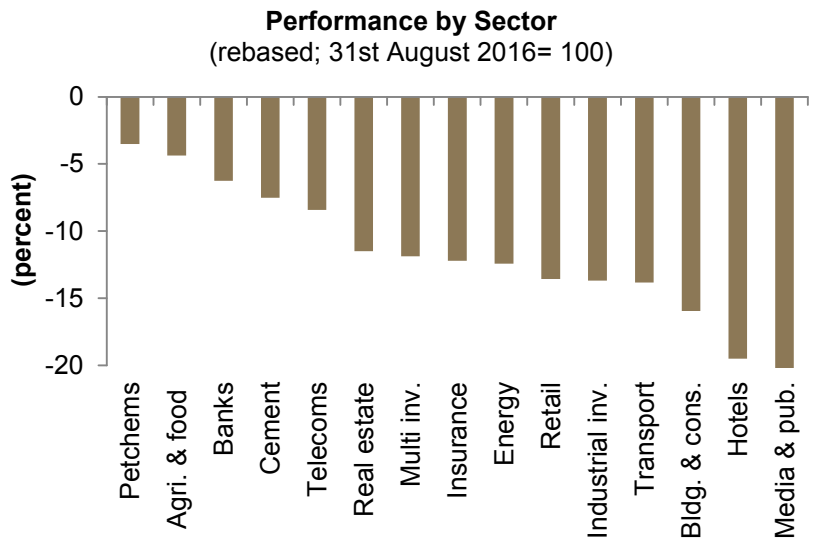




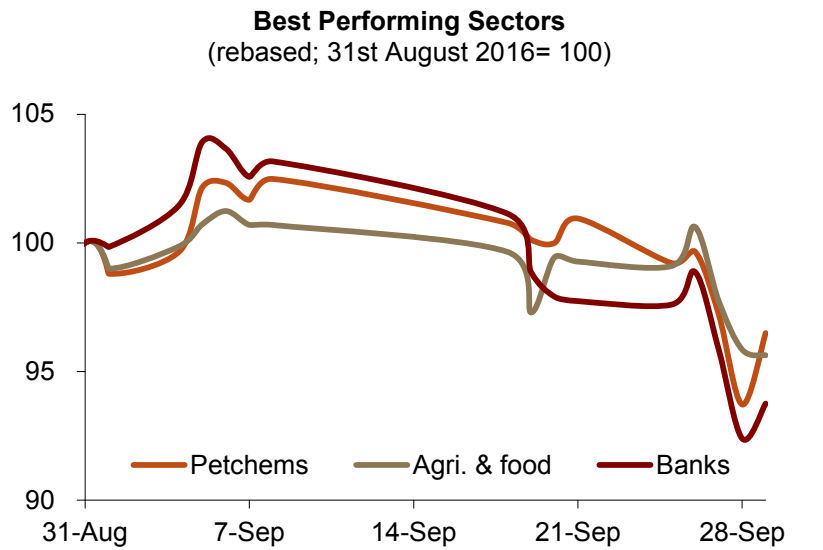
## Sectoral Performance

Reflecting the overall performance of TASI, all sectors were down during September. The lack of major events or news items related to listed companies led to almost uniform performance amongst both the best and worst performing sectors.

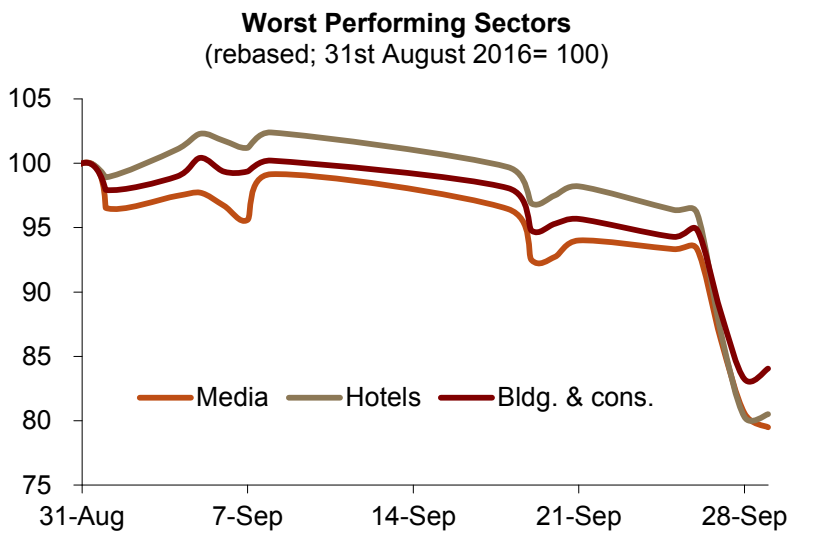
All sectors were down in September...



...with lack of major events or news items related to listed companies leading to almost uniform performance amongst the best...



...and worst performing sectors.





## Key Data

	2009	2010	2011	2012	2013	2014	2015	2016F	2017F
<b>Nominal GDP</b>									
(SR billion)	1,609	1,976	2,511	2,752	2,791	2,827	2,423	2,360	2,591
(\$ billion)	429.1	527	670	734	744	754	646	629	691
(% change)	-17.4	22.8	27.1	9.6	1.4	1.3	-14.3	-2.6	9.8
<b>Real GDP (% change)</b>									
Oil	-8.0	-0.1	12.2	5.1	-1.6	2.1	4.0	2.1	0.6
Non-oil private sector	4.9	9.7	8.0	5.5	7.0	5.4	3.4	0.7	1.0
Government	6.3	7.4	8.4	5.3	5.1	3.7	2.5	-0.6	-0.7
Total	1.8	4.8	10.0	5.4	2.7	3.6	3.5	1.1	0.6
<b>Oil indicators (average)</b>									
Brent (\$/b)	61.7	79.8	112.2	112.4	109.6	99.4	52.1	43.8	54.5
Saudi (\$/b)	60.4	77.5	103.9	106.1	104.2	95.7	49.4	40.8	51.5
Production (million b/d)	8.2	8.2	9.3	9.8	9.6	9.7	10.2	10.3	10.4
<b>Budgetary indicators (SR billion)</b>									
Government revenue	510	742	1,118	1,247	1,156	1,044	616	585	664
Government expenditure	596	654	827	873	976	1,111	978	850	815
Budget balance	-87	88	291	374	180	-67	-362	-265	-151
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.4	-15.0	-11.2	-5.8
Domestic debt	225	167	135	99	60	44	142	263	433
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	5.9	11.1	16.7
<b>Monetary indicators (average)</b>									
Inflation (% change)	4.1	3.8	3.7	2.9	3.5	2.7	2.2	3.9	4.3
SAMA base lending rate (% , year end)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.3	3.0
<b>External trade indicators (\$ billion)</b>									
Oil export revenues	167	215	318	337	322	285	155	132	160
Total export revenues	192	251	365	388	376	342	202	181	213
Imports	87	97	120	142	153	158	155	146	145
Trade balance	105	154	245	247	223	184	47	35	68
Current account balance	21	67	159	165	135	74	-53	-52	-21
(% GDP)	4.9	12.7	23.7	22.4	18.2	9.8	-8.3	-8.3	-3.1
Official reserve assets	410	445	544	657	726	732	616	523	460
<b>Social and demographic indicators</b>									
Population (million)	26.7	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.4
Saudi unemployment (15+, %)	10.5	10.5	12.4	12.1	11.7	11.7	11.5	11.4	11.2
GDP per capita (\$)	16,095	19,211	23,766	25,401	25,146	24,878	20,828	19,840	21,322

Sources: Jadwa Investment forecasts for 2016, and 2017. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. General Authority for Statistics and Jadwa estimates for oil, social and demographic indicators.



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