



Summary

Real Economy: Economic data showed a mixed picture in December. Consumer spending indicators remained negative, year-on-year. Meanwhile, the non-oil PMI ended 2016 with an improvement from record lows witnessed in previous months.

Government Finance: The net monthly change to government accounts with SAMA remained negative in December, falling for the seventh consecutive month.

SAMA Foreign Reserve Assets: SAMA FX reserves ended 2016 at \$536 billion, falling by \$80 billion during the year. This represents a notable improvement compared with the \$116 billion net decline during 2015.

Banking Indicators: December growth in bank credit to the private sector fell to its lowest level since March 2010. We expect an improving trend in 2017 as sentiment improves following the government delivering on multiple initiatives announced in the Fiscal Balance Program.

Inflation: Inflation continued to show a sharp downward trend in December, arriving at 1.7 percent. We expect inflation to have turned negative in January, marking a return to deflation for the first time since 2005.

Trade: November data showed a monthly decline in both oil and non-oil exports.

Oil - Global: Both Brent and WTI crude oil prices rose modestly month-on-month in January as preliminary data from OPEC showed that there was a high level compliance to previously agreed cuts in production.

Oil - Regional: Annual Saudi crude oil production averaged 10.5 mbpd in 2016, the highest on record for at least 30 years.

Exchange Rates: The US dollar saw losses against most major currencies in January as a number of controversial and protectionist policies implemented by the new US president reduced investor's appetite for the currency.

Stock market: The TASI was down marginally, by 1.2 percent, month-on-month in January, as worse than expected listed company results dampened sentiment.

Volumes: As per Tadawul's announcements, the new sector classifications were introduced in January 2017.

Fourth quarter results: Net-income of listed companies in Q4 2016 was down 8 percent year-on-year and 43 percent quarter-on-quarter.

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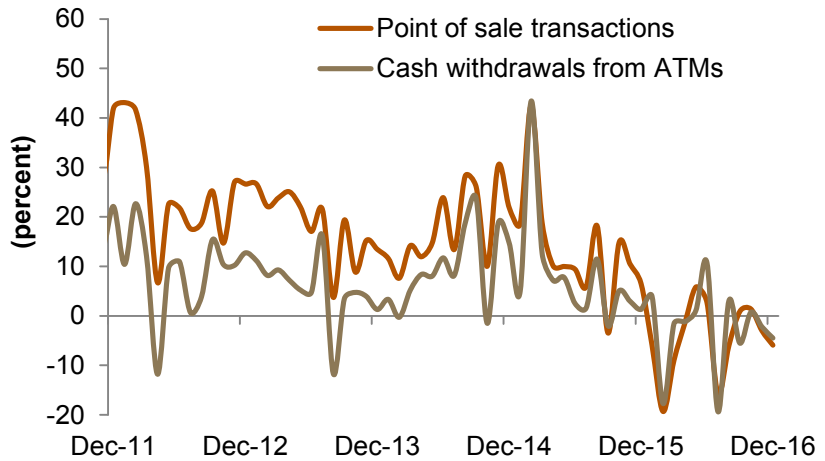


Real Economy

Economic data showed a mixed picture in December. Cash withdrawals from ATMs and POS transactions remained negative, year-on-year. Meanwhile, the non-oil PMI ended 2016 with an improvement from record lows. Full-year cement and steel production edged downwards in 2016, reflecting the weakening demand from contractors during the year.

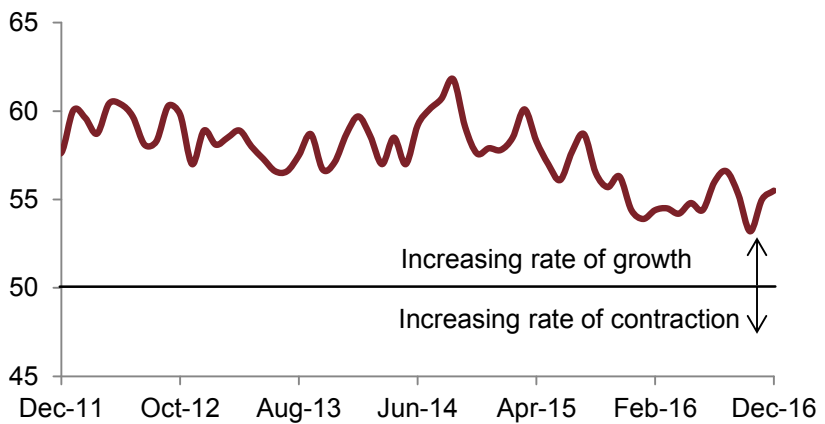
December cash withdrawals from ATMs and POS transactions fell by 4.5 percent and 6 percent, year-on-year respectively.

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



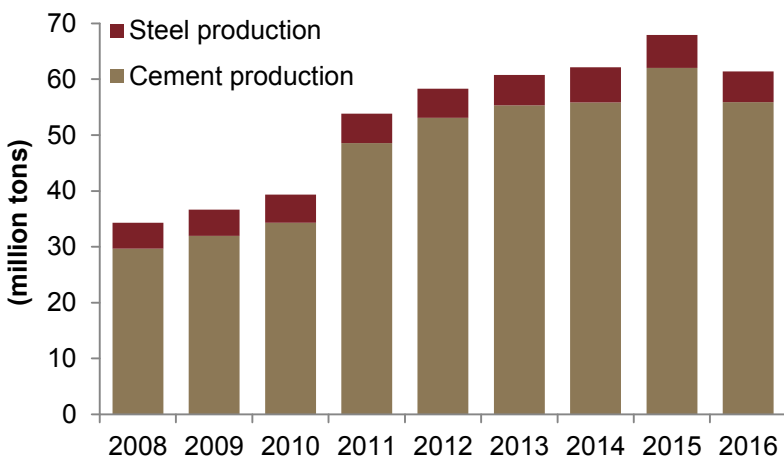
The non-oil PMI edged upwards to a four month high of 55.5.

Purchasing Managers' Index



Annual cement and steel production both declined during 2016, falling by 10 percent and 7 percent respectively.

Annual Cement and Crude Steel Production



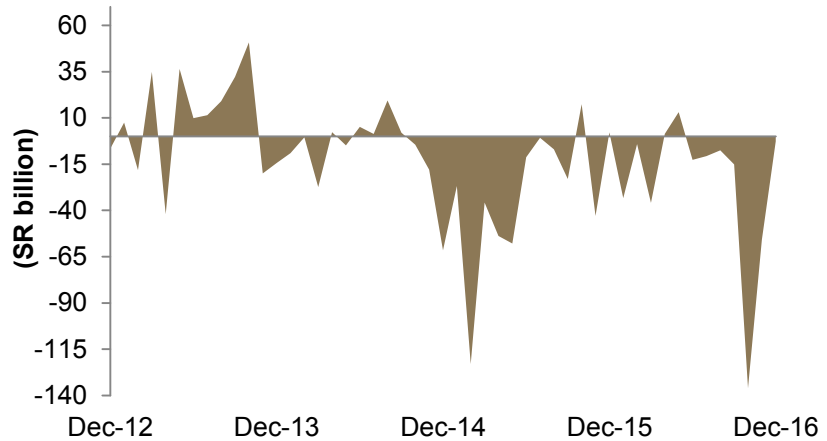


Government Finance

The net monthly change to government accounts with SAMA remained negative in December, falling for the seventh consecutive month. The negative change was mainly due to a SR45 billion net withdrawal from the government projects account, pointing to the recommencement of payment by the government to contractors.

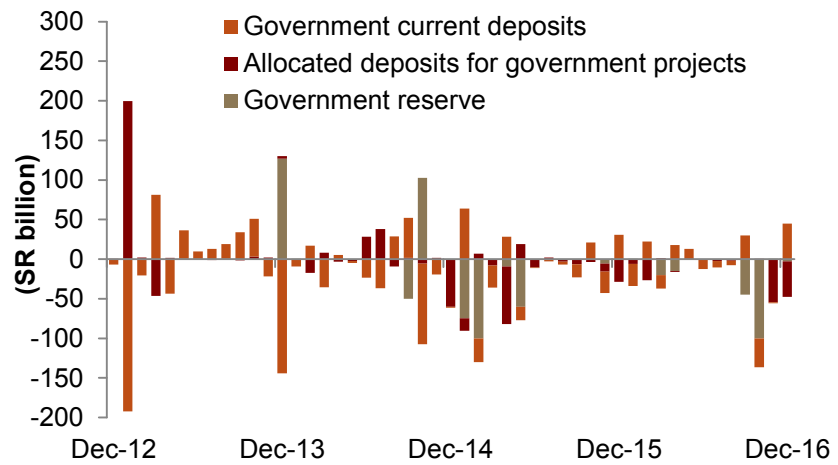
The net monthly change to government accounts with SAMA showed a net decline of SR2.7 billion in December...

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



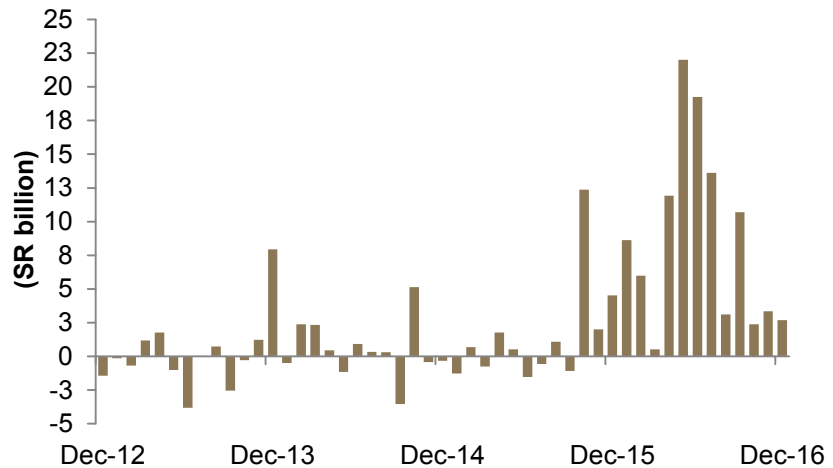
...mainly owing to a SR45 billion net withdrawal from the government projects account.

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



Domestic banks increased their holdings of government bonds but at a much slower pace compared to the period prior to the October 2016 international bond issuance.

Domestic Bank Holdings of Government Bonds
(month-on-month change)



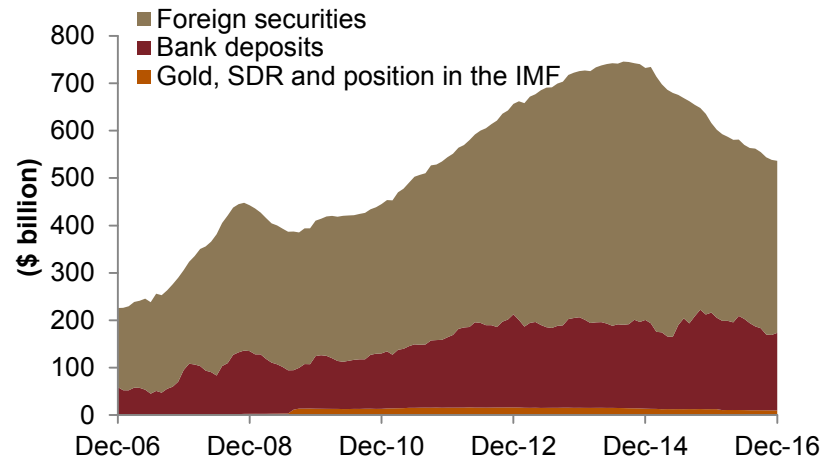


SAMA Foreign Reserve Assets

SAMA FX reserves ended 2016 at \$536 billion, falling by \$80 billion during the year. This represents a notable improvement compared with the \$116 billion net decline during 2015. However, Q4 2016 saw a \$18.4 billion decline in FX reserves, the largest since Q1 2016.

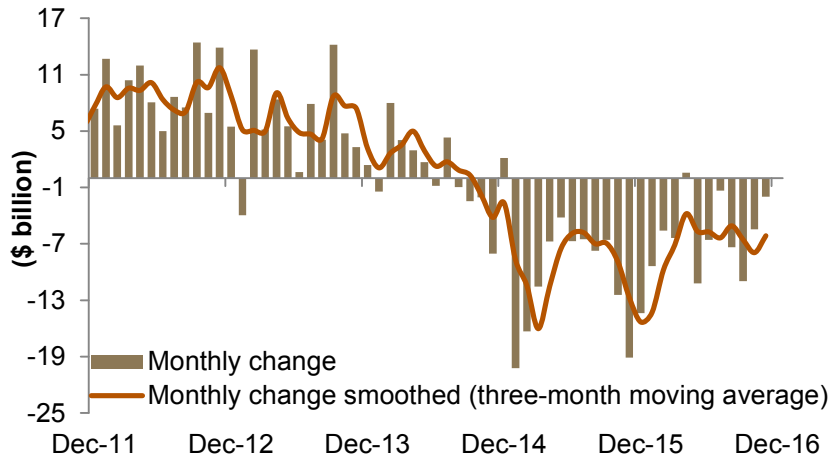
SAMA FX reserves ended 2016 at \$536 billion (84 percent of GDP)...

SAMA Total Foreign Reserve Assets



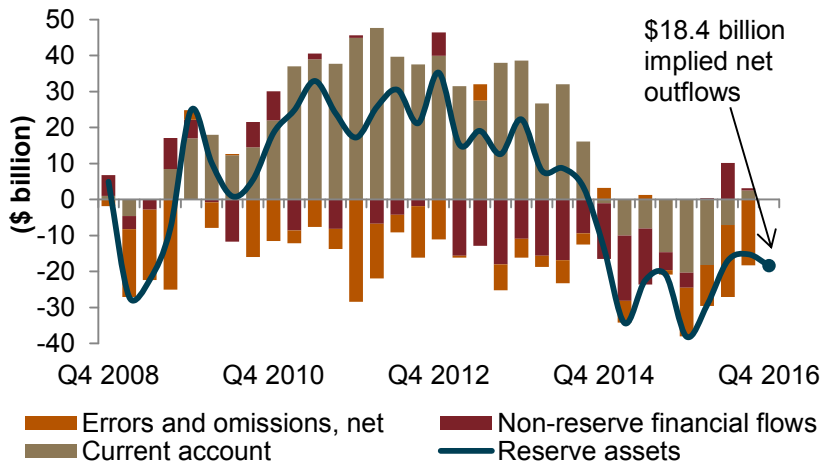
...falling by \$80 billion in 2016, compared with a \$116 billion net decline during 2015.

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



Q4 2016 saw the largest net decline to FX reserves since Q1 2016, pointing to another acceleration in net capital outflows during the quarter.

Net Capital Flows and Reserve Assets

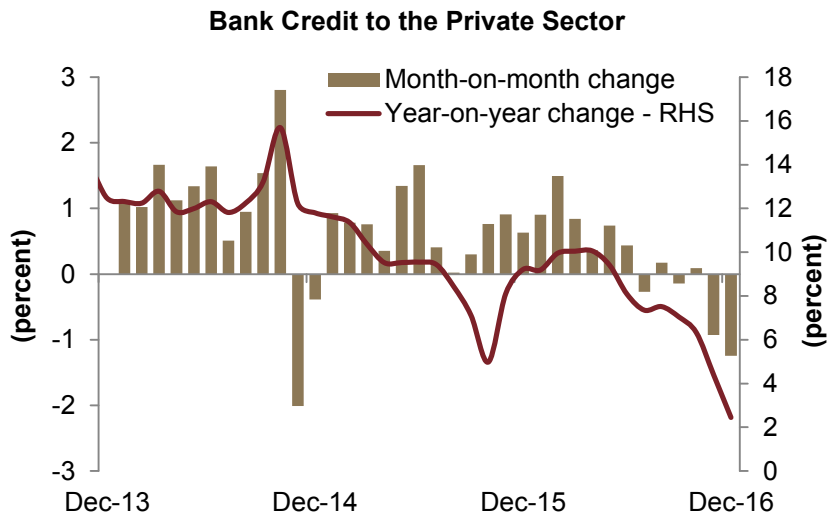




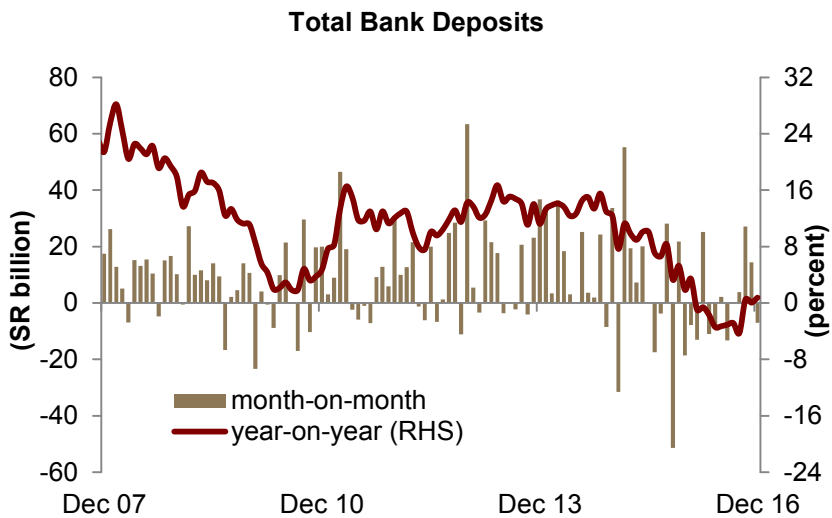
Banking indicators

December growth in bank credit to the private sector showed a second consecutive monthly decline, pulling down the year-on-year growth in credit to its lowest level since March 2010. This slowdown in credit growth is due to the negative sentiment associated with delays in payments to contractors. We, however, expect an improving trend in 2017 as the government delivers on multiple initiatives announced along the 2017 budget and Fiscal Balance Program.

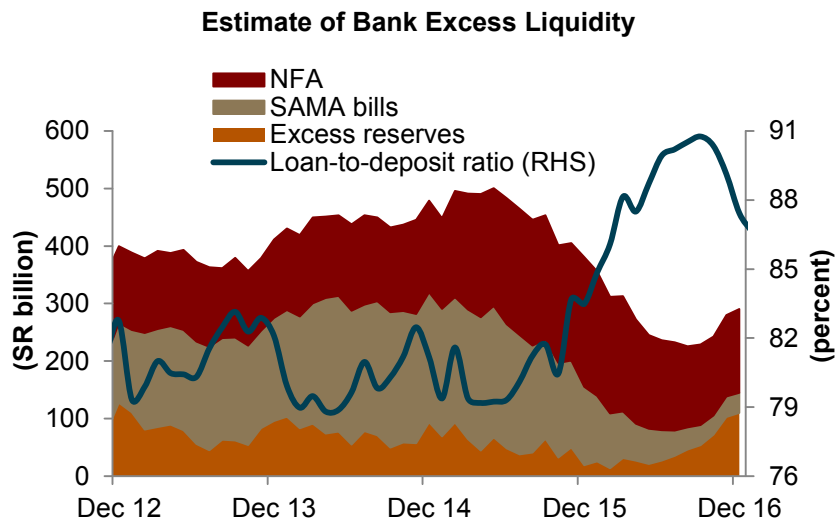
Growth in bank credit to the private sector fell to 2.5 percent, year-on-year, the slowest since March 2010.



Total deposits showed an improvement from mid-2016, rising to 0.8 percent, year-on-year in December.



Despite subsiding liquidity pressure, banks have been reluctant to extend new credit, this suggests that the credit slowdown is mainly due to a sentimental effect.

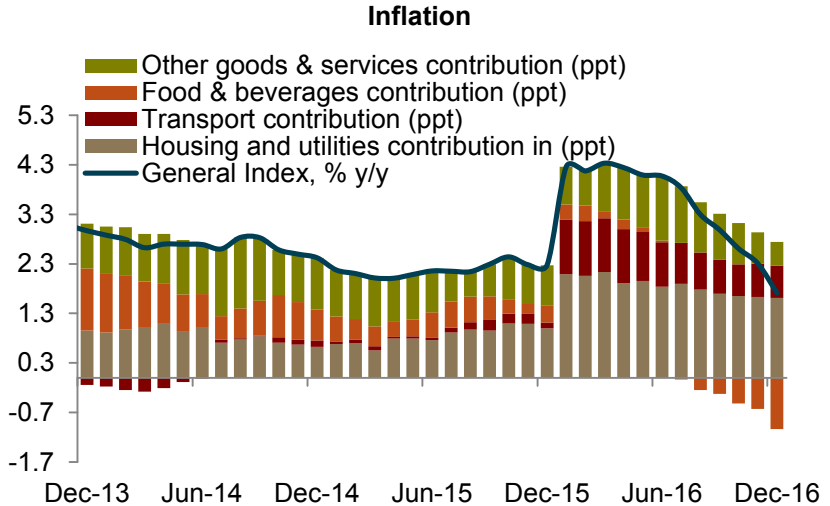




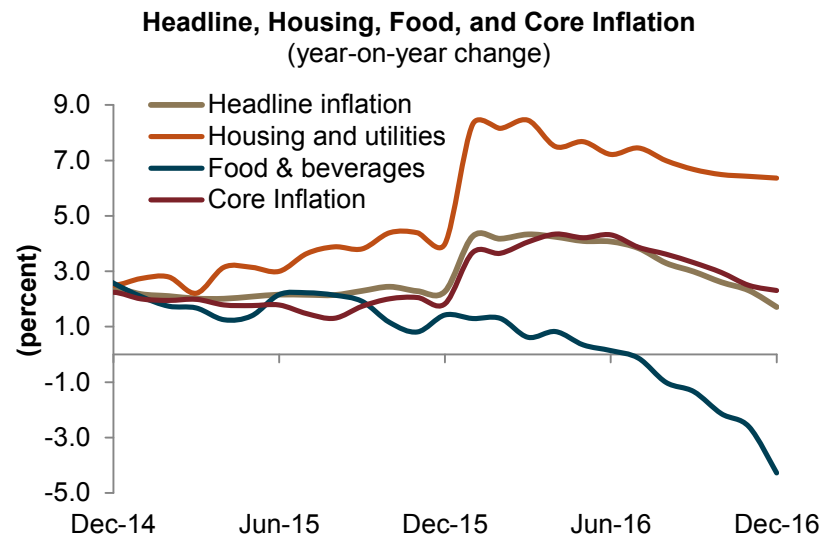
Inflation

Inflation continued to show a sharp downward trend in December, arriving at 1.7 percent, the lowest since 2006. This deceleration, marks the ninth consecutive monthly slowdown, mainly owing to persisting negative growth in the food component. We expect inflation to have turned negative in January, marking a return to deflation for the first time since 2005.

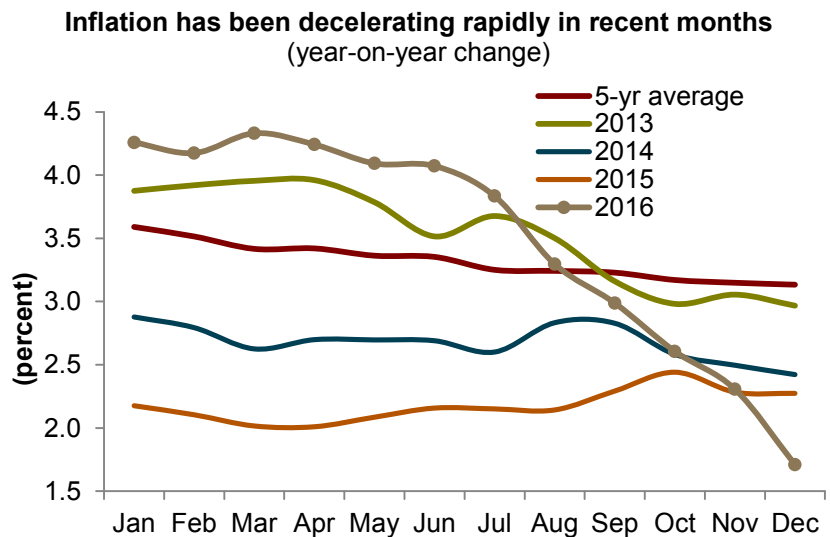
Inflation reached 1.7 percent in December, a sharp slowdown from 2.3 percent in November.



Food prices fell by 4.3 percent, continuing a deflationary trend, and pulling down overall inflation.



The energy price hike on January 2016 covered a notable slowdown during the passing year. We, therefore, expect inflation to have turned negative in January 2017.

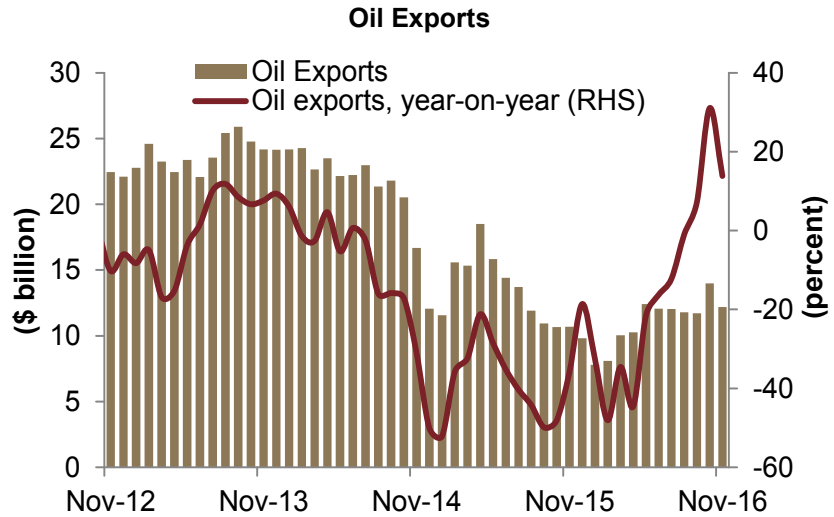




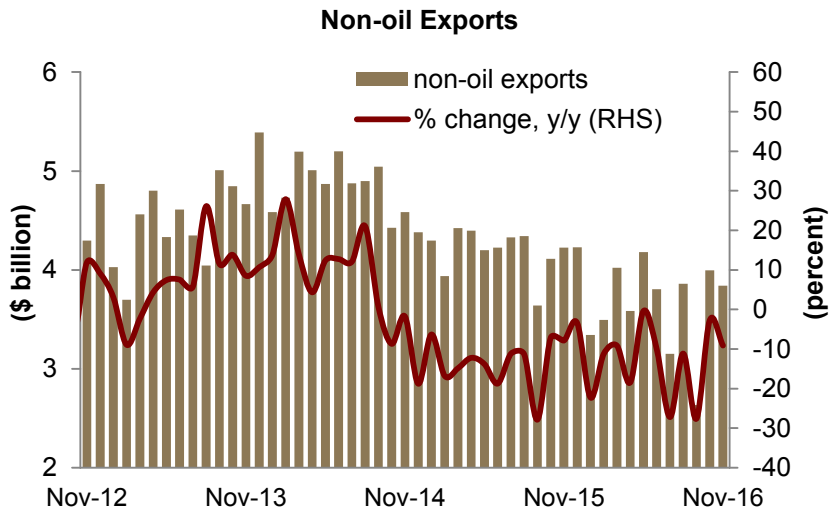
Trade

November data showed a monthly decline in both oil and non-oil exports. Oil exports fell to \$12.2 billion, following a 2016-high of \$14 billion in October. Non-oil exports also fell to \$3.8 billion, down from \$4 billion in October. Meanwhile, the significant decline in imports during 2016 can be attributed to a strengthening Riyal rather than an actual decline in demand for imports.

Oil exports fell by \$1.8 billion, month-on-month, reaching \$12.2 billion in November.

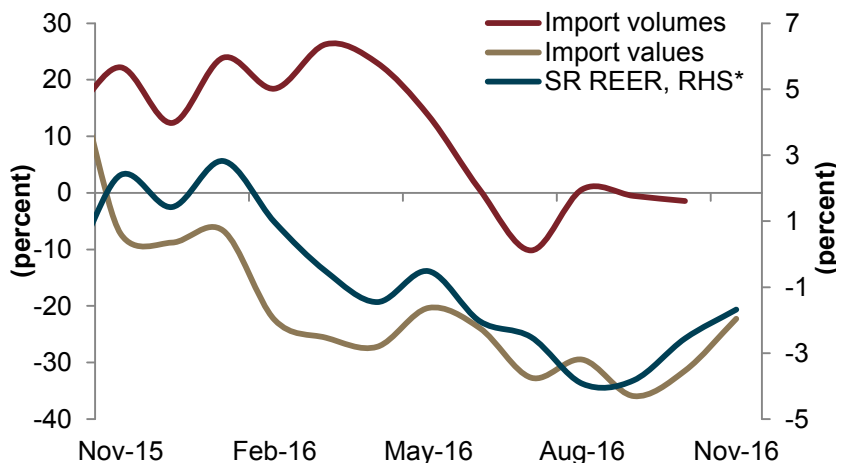


Non-oil exports also fell slightly in November, reaching \$3.8 billion.



A strengthening Riyal, vis-à-vis the US Dollar, against other currencies, has contributed to lowering the import bill in recent months. This led to import values being 20 to 30 percent lower, year-on-year despite volumes remaining unchanged.

Import Volumes, Values, and SR Real Effective Exchange Rate (year-on-year changes)



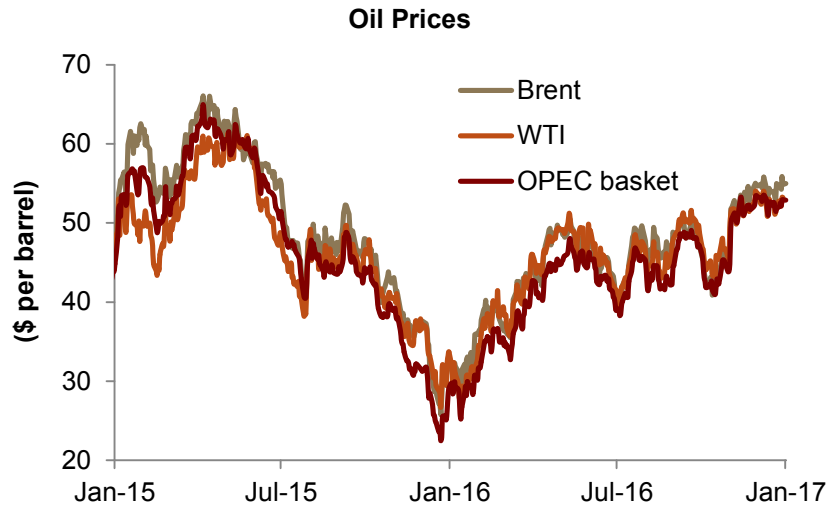
*Note: Negative sign denotes a year-on-year appreciation to REER



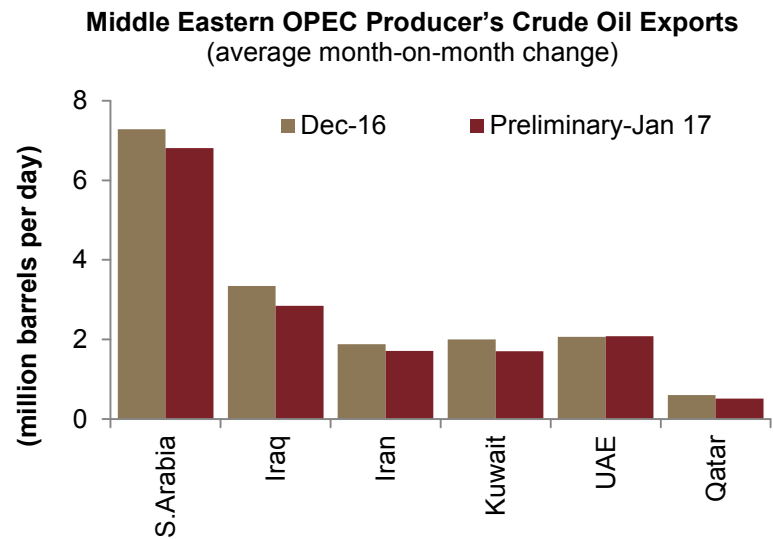
Oil - Global

Both Brent and WTI crude oil prices rose modestly month-on-month in January as preliminary data from OPEC showed that there was a high level compliance to previously agreed cuts in production. Nevertheless, further oil price gains were capped due to an upward revision in US oil production forecasts.

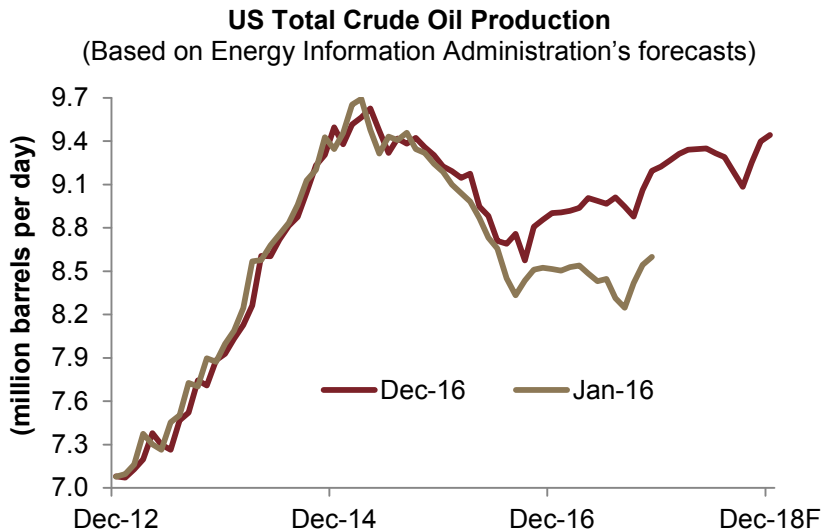
Brent was up 3 percent and WTI 1 percent month-on-month in January...



...as preliminary data for January indicated compliance to OPEC agreed cuts by members.



Nevertheless, oil prices are likely to capped going forward as US crude oil production forecasts are revised upwards.



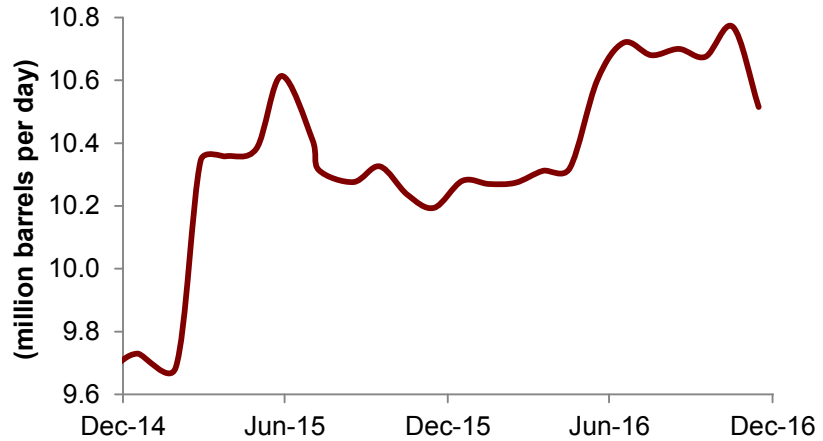


Oil - Regional

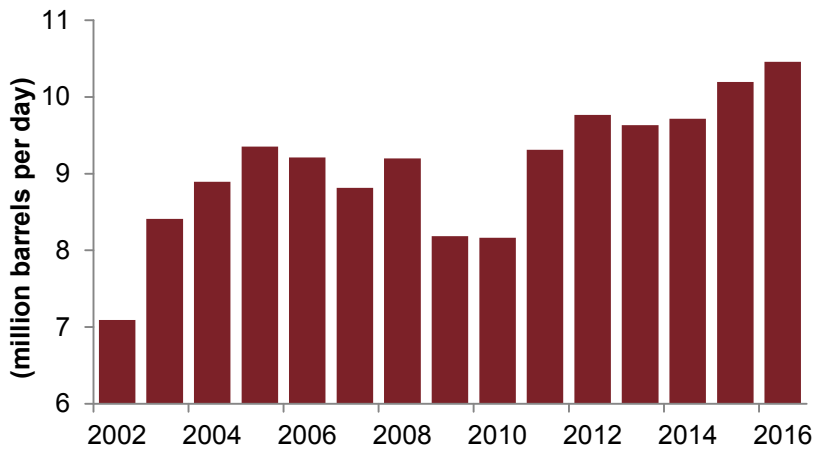
Saudi crude oil production fell to 2.4 percent month-on-month in December, as the Kingdom readied itself to comply with OPEC cuts. Annual Saudi crude oil production averaged 10.5 mbpd in 2016, the highest in recent years. We forecast Saudi crude oil production to drop to an average of 10.4 mbpd in 2017.

Saudi crude oil production fell to 2.4 percent month-on-month in December.

Saudi Crude Oil Production
(Direct communication: December 2016)

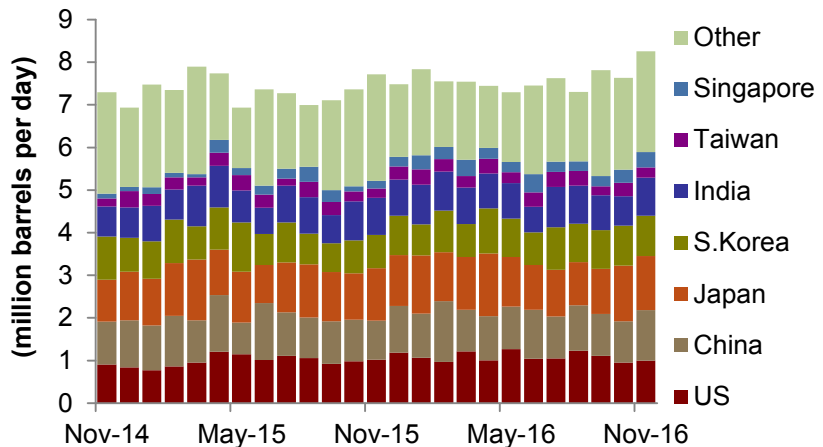


Annual Saudi Crude Oil Production
(Direct communication)



Annual Saudi crude oil production averaged 10.5 mbpd in 2016, the highest in recent years.

Saudi Crude Oil Exports
(Latest available data from November 2016)



Meanwhile, latest available data shows that Saudi crude oil exports rose to 8.3 mbpd in November.

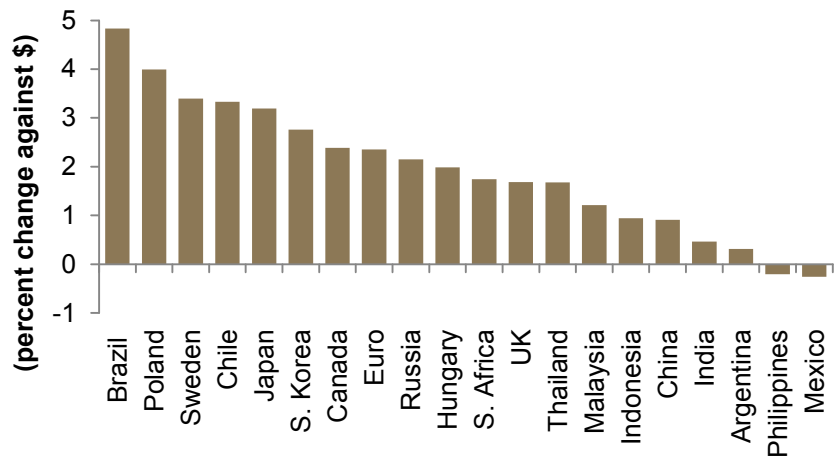


Exchange Rates

The US dollar saw losses against most major currencies in January as a number of controversial and protectionist policies implemented by the new US president reduced investor's appetite for the US currency. Elevated uncertainty about the new US administration's policies could see the dollar drop further in the month ahead.

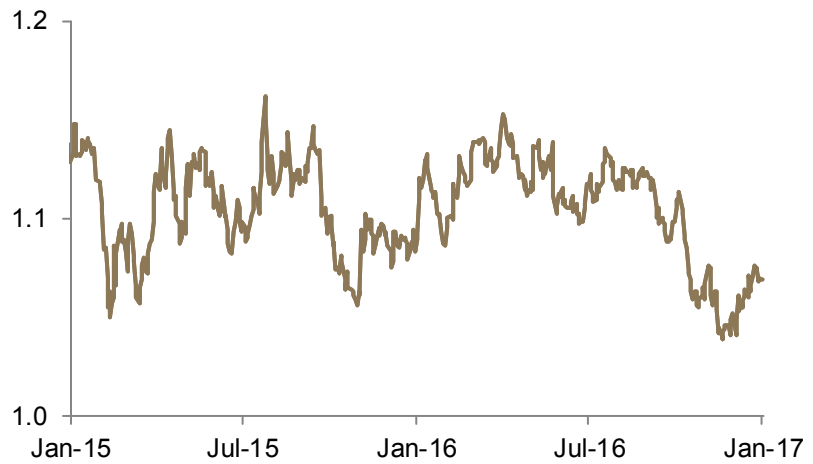
The US dollar saw losses against most major currencies in January...

Monthly Gain/Loss Against US Dollar
(January 2017)

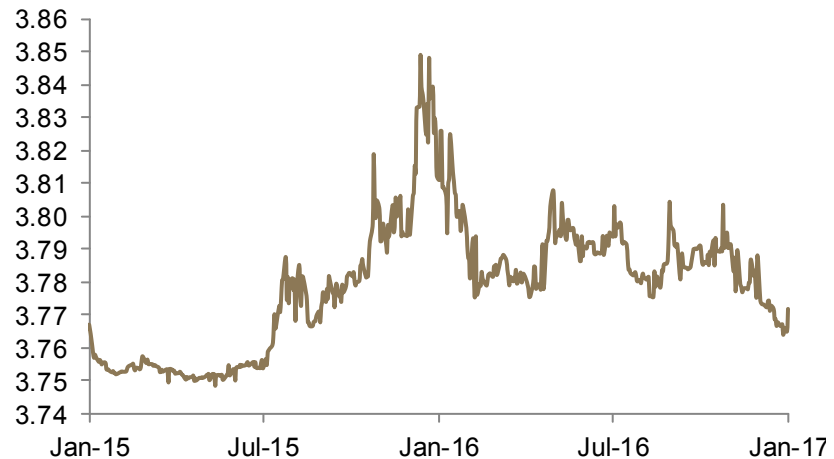


...as a number of controversial and protectionist policies implemented by the new US president reduced investor's appetite for the US currency.

Euro/US Dollar



US Dollar/Riyal one year forward rate
(USD/Saudi riyal peg = 3.75)



Meanwhile, the US dollar/riyal one year forward rate continued to trend downwards as result of the improved economic outlook of the Kingdom.



Stock Market

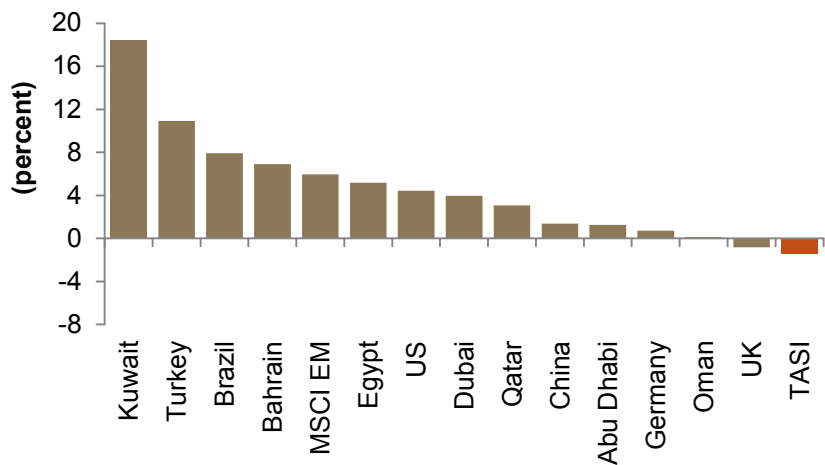
The TASI was down marginally, by 1.2 percent, month-on-month in January, as worse than expected listed company results dampened sentiment. At one point during the month, the TASI dropped by 4 percent compared to end of December levels. Although a rally towards the end of the month minimized monthly losses, the TASI was the worst performer against major global and regional indices.

An MSCI announcement stating it may launch a review of Saudi Arabia in its emerging market index in June 2017 helped the TASI rally towards the end of the month, thereby minimizing monthly losses.

TASI

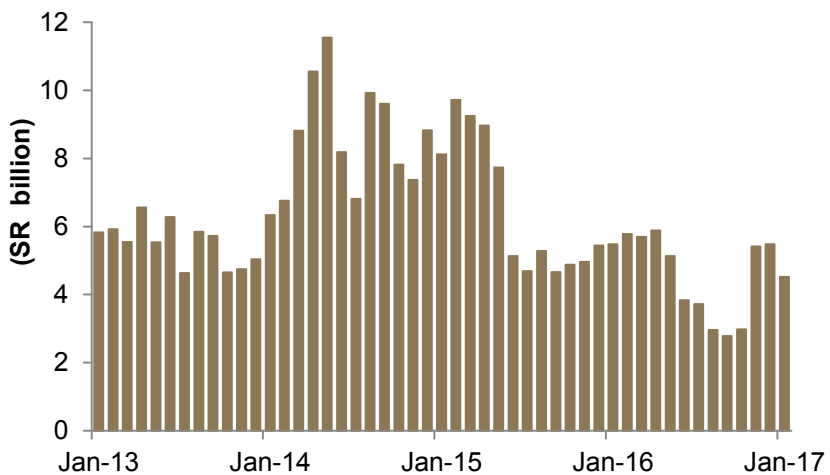


Comparative Stock Market Performance
(month-on-month change)



However, it did not prevent the Saudi bourse from being the worst performer against major regional and global benchmarks.

Daily Average Stock Market Turnover



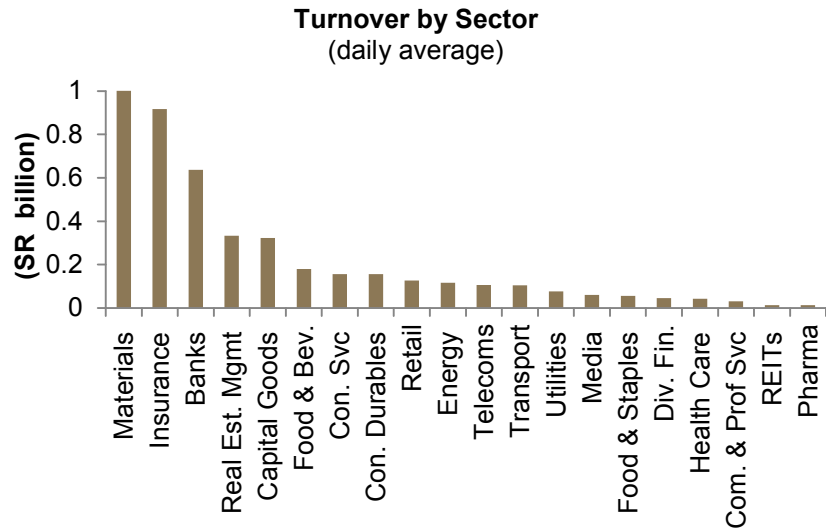
The lower performance of TASI was also reflected in more cautious trading, with monthly traded volumes down 18 percent month-on-month.



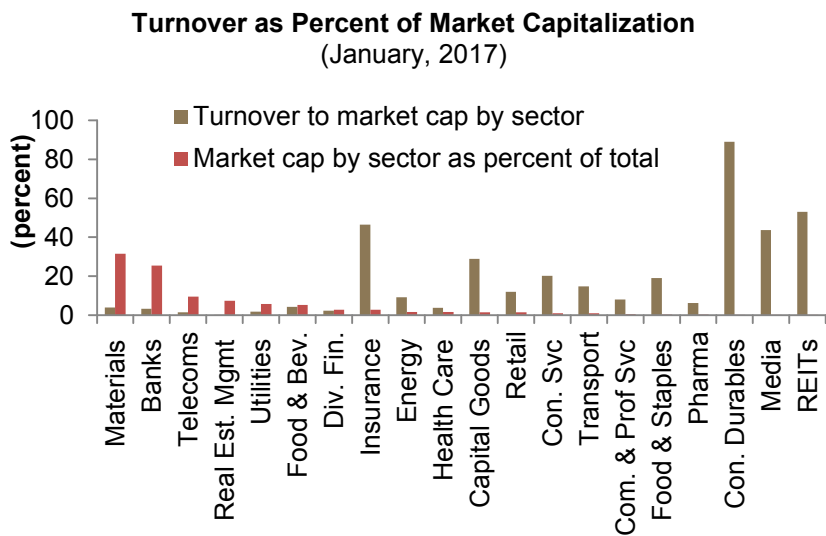
Volumes

As per Tadawul's announcements, the new sector classifications were introduced in January 2017. Previously, the TASI had 16 groups/sectors, but these have now increased to 20 industry groups, eventually reaching 25. These new industry groups will sit under 11 sector classifications.

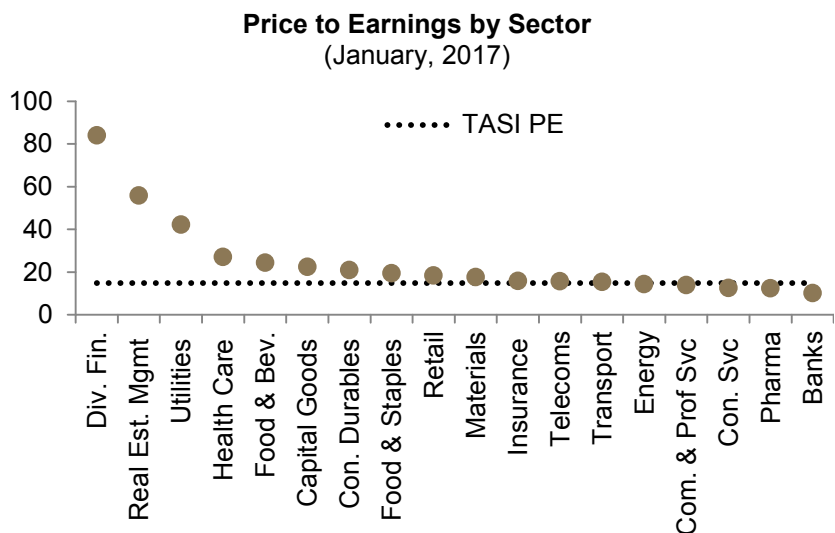
The new industry groups increased the number of sectors to 20...



...and will eventually reach 25, compared to 16 previously.



The new industry groups and sector organization brings TASI in line with globally recognized classifications.



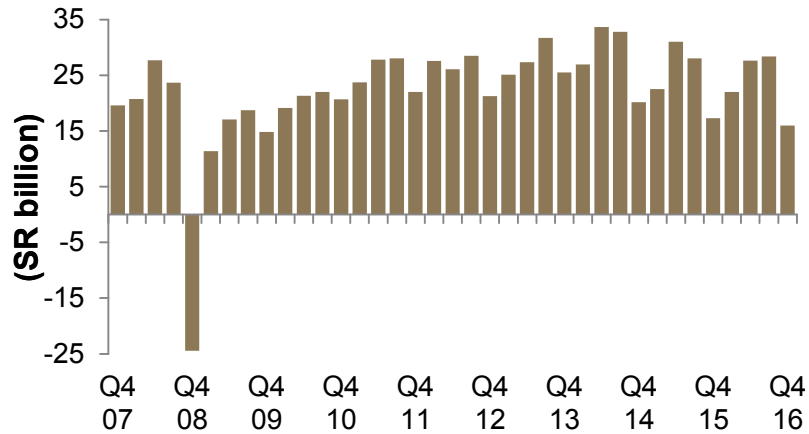


Fourth quarter 2016 results

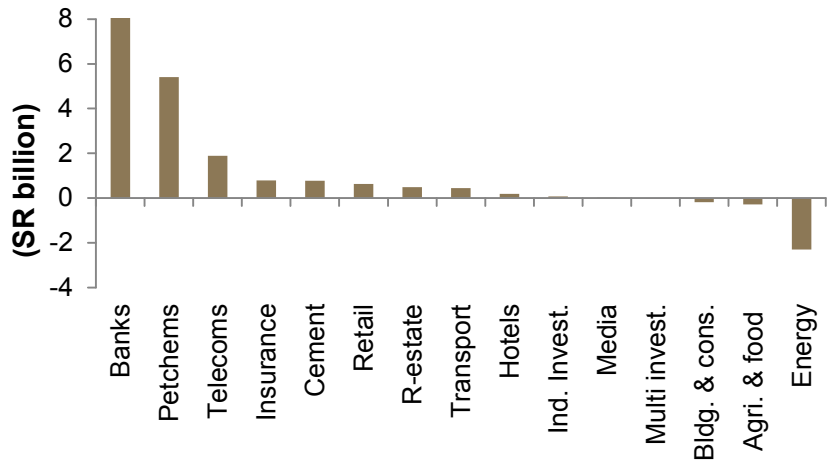
Net-income of listed companies totaled SR16 billion in Q4 2016. Year-on-year growth was down by 8 percent, whilst quarter-on-quarter net-income dropped by a huge 43 percent. Petrochemicals saw improved net-income on the back of higher oil prices.

Net-income of listed companies in Q4 2016 was down 8 percent year-on-year and 43 percent quarter-on-quarter...

Net Income of Listed Companies

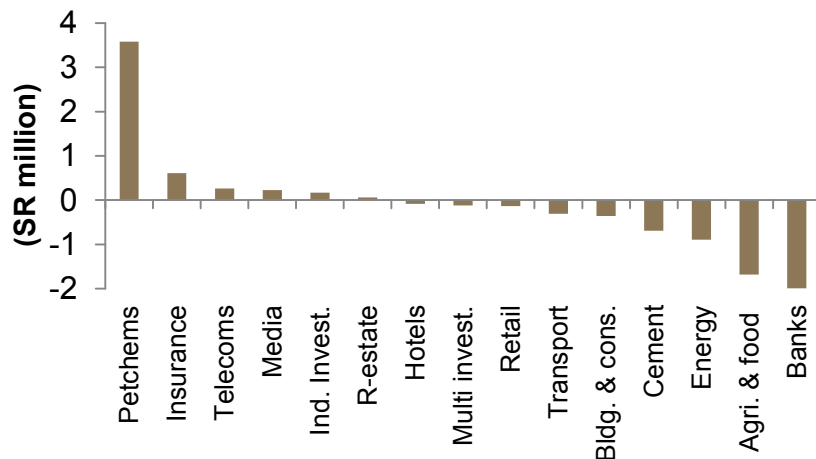


Net Income by Sector
(Fourth quarter, 2016)



...with the banking sector still being the most profitable...

Net Income by Sector
(year-on-year change)



...although a rise in oil prices during the last few months of 2016, following the OPEC announcement, led to sizable increase in petrochemical sector's profitability.



Key Data

	2010	2011	2012	2013	2014	2015	2016E	2017F	2018F
Nominal GDP									
(SR billion)	1,976	2,511	2,760	2,800	2,836	2,444	2,399	2,639	2,819
(\$ billion)	527	670	736	747	756	652	640	704	752
(% change)	22.8	27.1	9.9	1.5	1.3	-13.8	-1.9	10.0	6.8
Real GDP (% change)									
Oil	-0.1	12.2	5.1	-1.6	2.1	5.27	3.4	-0.3	0.7
Non-oil private sector	9.7	8.0	6.5	6.9	5.5	3.41	0.1	1.0	1.2
Government	7.4	8.4	5.3	5.1	3.7	2.72	0.5	0.0	0.2
Total	4.8	10.0	5.7	2.7	3.7	4.11	1.4	0.2	0.8
Oil indicators (average)									
Brent (\$/b)	79.8	112.2	112.4	109.6	99.4	52.1	43.2	54.5	60.8
Saudi (\$/b)	77.5	103.9	106.1	104.2	95.7	49.4	40.6	51.5	56.8
Production (million b/d)	8.2	9.3	9.8	9.6	9.7	10.2	10.4	10.4	10.5
Budgetary indicators (SR billion)									
Government revenue	742	1,118	1,247	1,156	1,044	616	528	728	926
Government expenditure	654	827	873	976	1,110	978	930	890	928
Budget balance	88	291	374	180	-66	-362	-402	-162	-2
(% GDP)	4.4	11.6	13.6	6.4	-2.3	-14.8	-16.8	-6.1	-0.1
Gross public debt	167	135	99	60	44	142	317	433	628
(% GDP)	8.5	5.4	3.6	2.1	1.6	5.8	13.2	16.4	22.3
Monetary indicators (average)									
Inflation (% change)	3.8	3.7	2.9	3.5	2.7	2.2	3.5	2.0	4.7
SAMA base lending rate (% , year end)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5	3.0
External trade indicators (\$ billion)									
Oil export revenues	215	318	337	322	285	157	131	168	188
Total export revenues	251	365	388	376	342	204	181	220	243
Imports	97	120	142	153	158	159	145	144	147
Trade balance	154	245	247	223	184	44	36	76	96
Current account balance	67	159	165	135	74	-57	-51	-12	14
(% GDP)	12.7	23.7	22.4	18.1	9.8	-8.7	-8.0	-1.7	1.8
Official reserve assets	445	544	657	726	732	616	523	463	423
Social and demographic indicators									
Population (million)	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.4	33.1
Saudi unemployment (15+, %)	10.5	12.4	12.1	11.7	11.7	11.5	12.0	11.6	11.1
GDP per capita (\$)	19,211	23,766	25,471	25,223	24,962	21,014	20,150	21,720	22,737

Sources: Jadwa Investment forecasts for 2017, and 2018. Saudi Arabian Monetary Authority 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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