



Summary

Real Economy: Economic data for February showed a mixed picture in economic activity. Cash withdrawals from ATMs and POS transactions showed a downward trend but non-oil PMI was up.

Government Finance: In February, the net monthly change to government accounts with SAMA came out negative, falling by SR15 billion. Domestic bank holdings of government bonds were minimal in February, and are expected to remain as such in the month ahead.

SAMA Foreign Reserve Assets: SAMA FX reserves fell to \$514 billion in February, the lowest since August 2011. In month-on-month terms, reserves fell by \$10 billion.

Bank Lending and Deposits: The combination of falling deposits and marginal rise in credit led to an increase in the loan-to-deposit ratio to 88 percent.

Balance of Payments: Full year 2016 data showed the Kingdom's current account improved from -\$57 billion in 2015 to -\$25 billion in 2016, mainly owing to a fall in imports.

Inflation: In February, deflation continued for the second consecutive month to reach -0.1 percent, up from -0.4 percent in January.

Oil - Global: Brent and WTI showed a month-on-month dip of 6 percent and 8 percent, respectively, in March. This fall in prices was triggered by rising levels of US commercial crude inventories.

Oil - Regional: Saudi oil production increased in February to reach 10 mbpd, up from 9.7 mbpd in January. Meanwhile, Russian oil production remained unchanged month-on-month, at 11.1 mbpd in February.

Exchange Rates: Despite the US Federal Reserve raising Funds Rate from 0.75 to 1 percent, the US Dollar saw losses against most currencies in March, as doubts grew over the government's ability to implement fiscal stimulus as planned.

Stock market: TASI recorded declines throughout March, but most of these declines were reversed due to a rally towards the end of the month in-line with improving sentiments.

Valuations: TASI's price-to-earnings (PE) dropped marginally from 17.2 in February to 17.1 in March, although it remains above the two year average.

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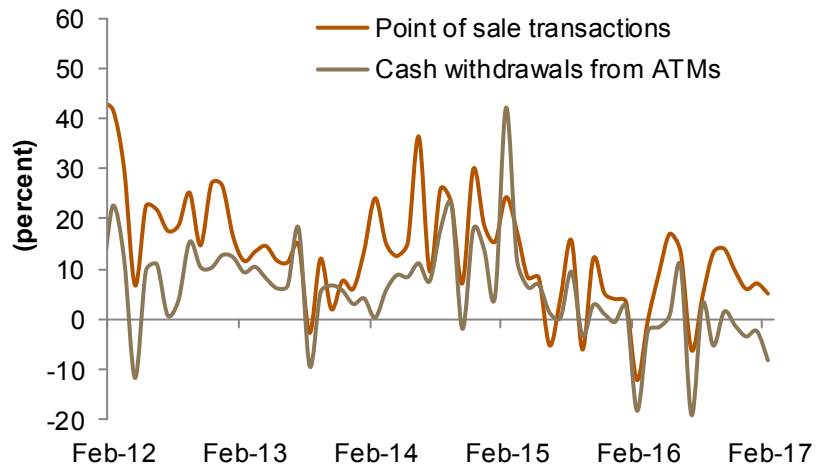


Real Economy

Economic data for February showed a mixed picture in economic activity. Cash withdrawals from ATMs and POS transactions showed a downward trend. Non-oil PMI edged upwards for the fourth consecutive month. Meanwhile, subdued activity in the construction sector led to the lowest cement sales in the month of February for at least the last four years.

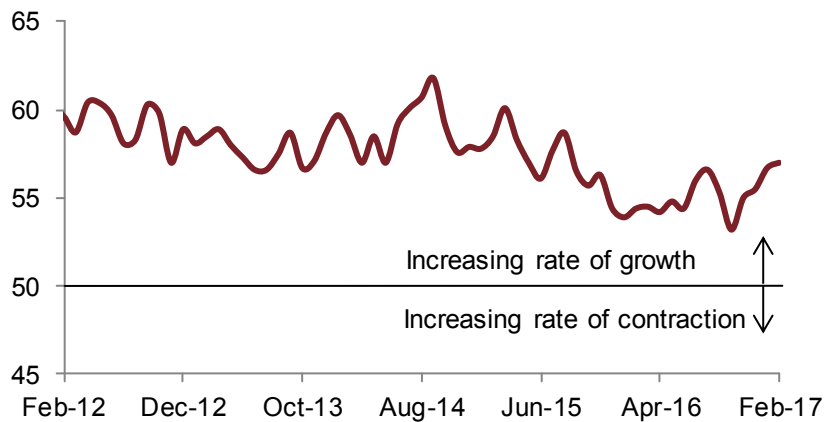
Both ATM withdrawals and POS transactions showed a downward trend in February, with ATM withdrawals falling by 8.3 percent, year-on-year.

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



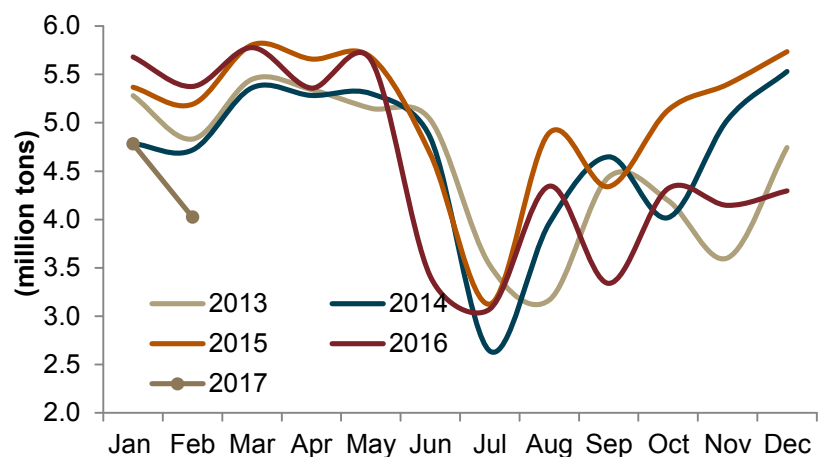
Non-oil PMI continues to edge upwards, now up for the fourth consecutive month, to the highest level since August 2015.

Purchasing Managers' Index



Subdued activity in the construction sector led to the lowest cement sales in the month of February for at least the last four years.

Cement Sales



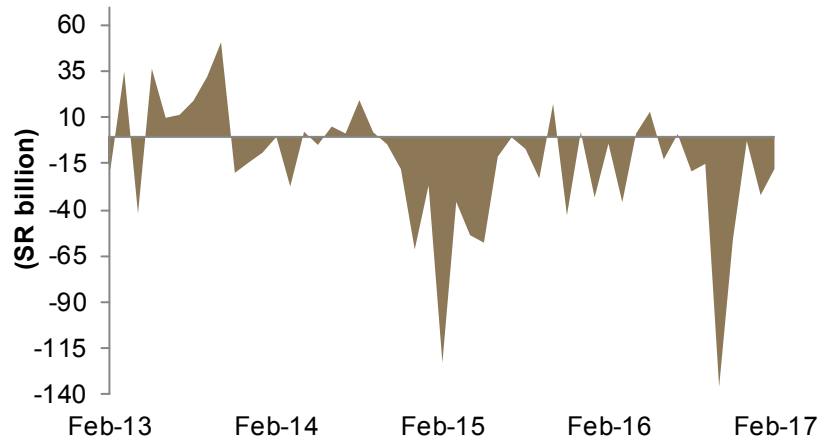


Government Finance

In February, the net monthly change to government accounts with SAMA came out negative, falling by SR15 billion. This decline was mainly due to a net withdrawal from government current deposits. Meanwhile, banks net holdings of government bonds showed minimal change month-on-month.

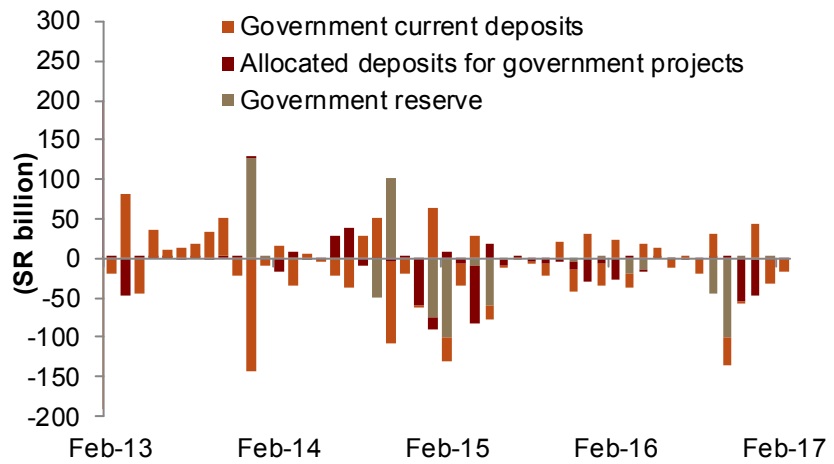
Government accounts with SAMA fell by SR15 billion in February...

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



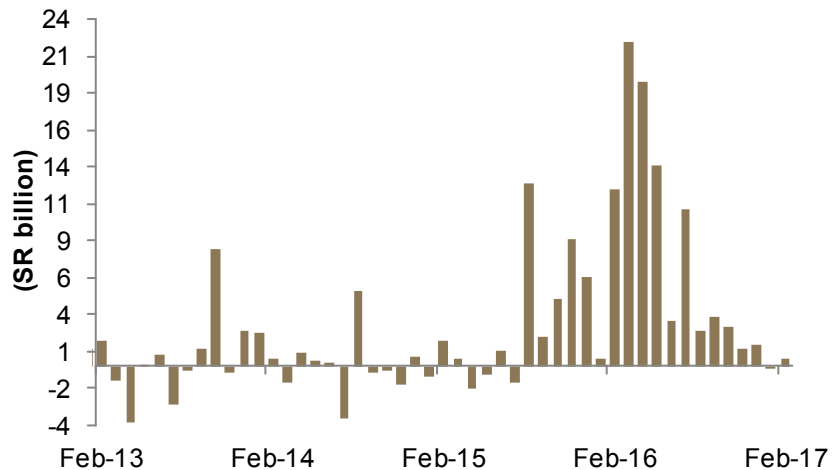
...mainly owing to a net withdrawal from government current deposits.

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



Domestic bank holdings of government bonds were minimal in February, and are expected to remain as such in the month ahead, as local media sources reported that the government will not issue domestic bonds in March.

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



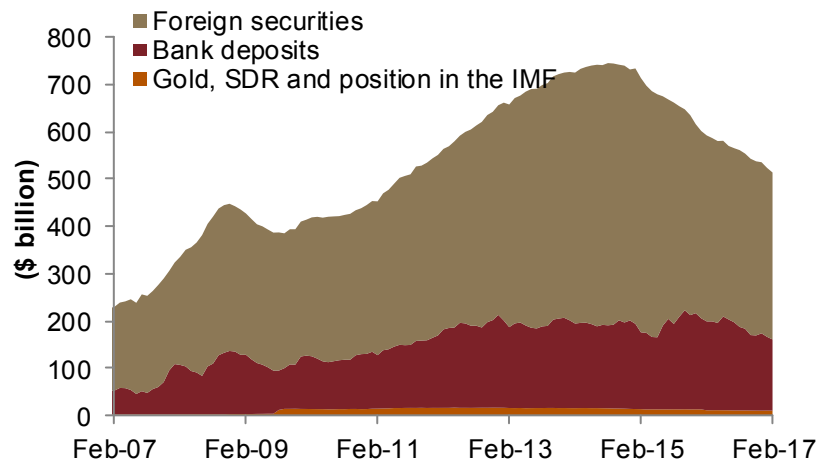


SAMA Foreign Reserve Assets

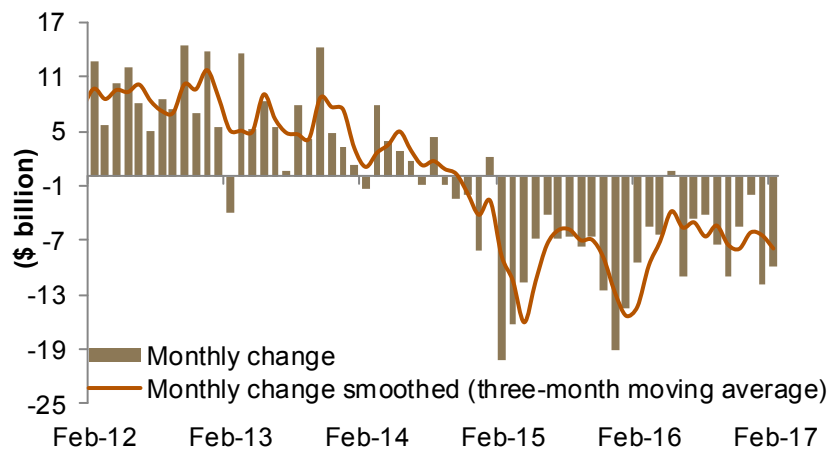
SAMA FX reserves fell to \$514 billion in February, the lowest since August 2011. In month-on-month terms, reserves fell by \$10 billion. Looking ahead, any new international sovereign bond, or indeed Sukuk issuance, should alleviate the pressure on FX reserve withdrawals.

SAMA FX reserves fell to \$514 billion in February, the lowest since August 2011...

SAMA Total Foreign Reserve Assets

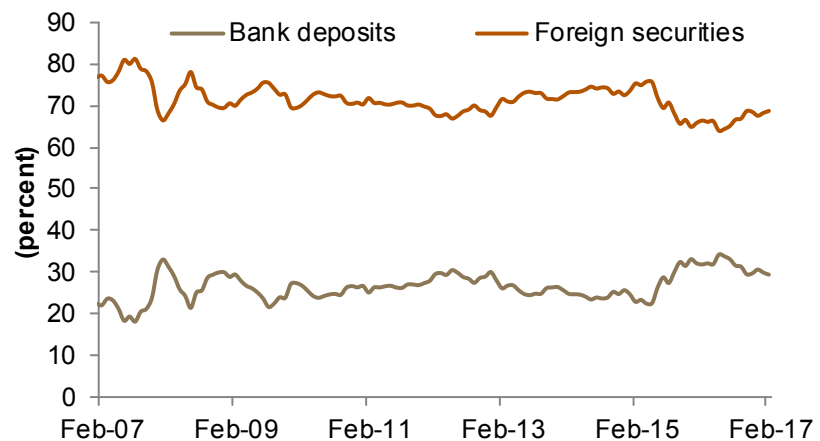


SAMA Foreign Reserve Assets (month-on-month change)



...with the rate of decline, on a monthly basis, only marginally lower than January.

Breakdown of FX Reserve Assets (percent of total FX reserves)



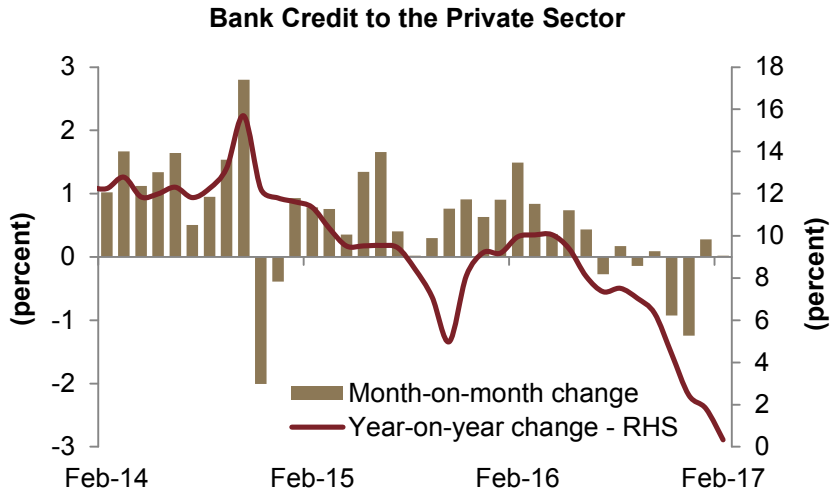
A breakdown of FX reserve assets shows the recent trend in rebound in the share of foreign securities, as the pace of withdrawals from bank deposits abroad continues.



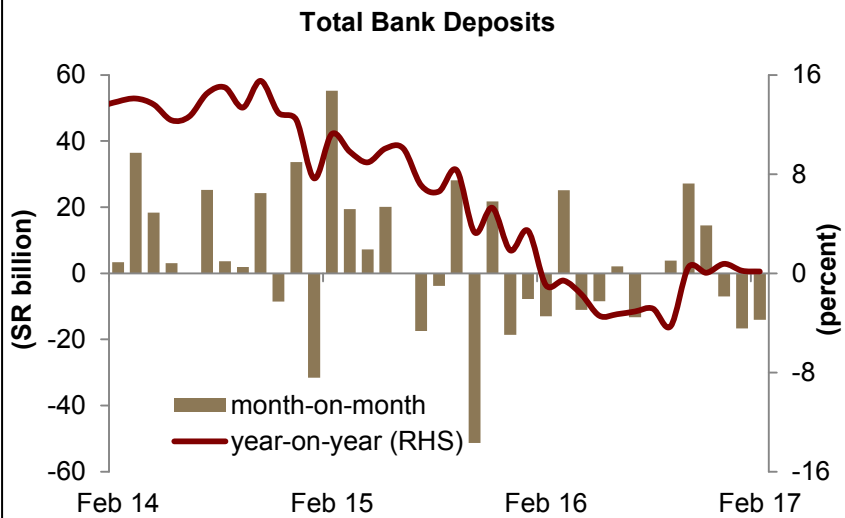
Bank Lending and Deposits

Year-on-year growth in bank credit to the private sector was up very marginally in February, by 0.3 percent, the lowest rise since December 2009, with no change on a month-on-month basis. Total bank deposits were down SR14 billion, month-on-month, for the third consecutive month. The combination of falling deposits and marginal rise in credit led to an increase in the loan-to-deposit ratio to 88.

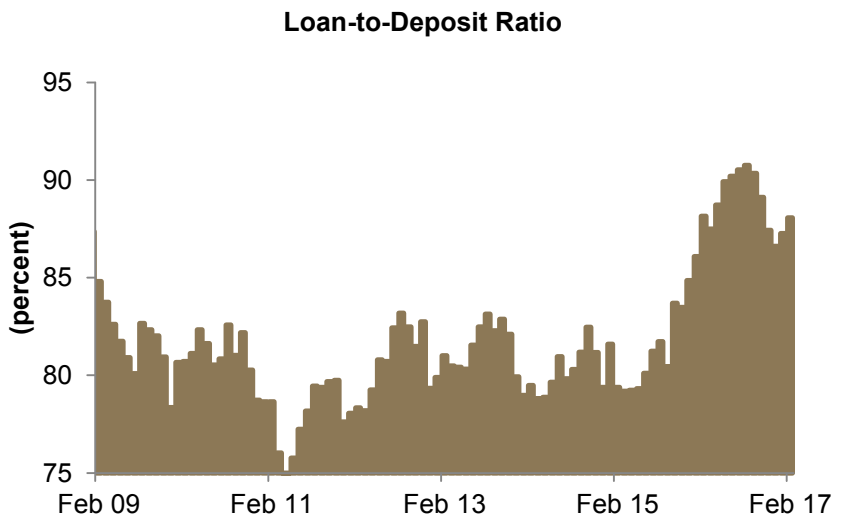
There was no change in month-on-month growth in bank credit to the private sector...



...whilst total bank deposits were down SR14 billion, month-on-month.



The combination of falling deposits and marginal rise in credit led to an increase in the loan-to-deposit ratio to 88 percent.

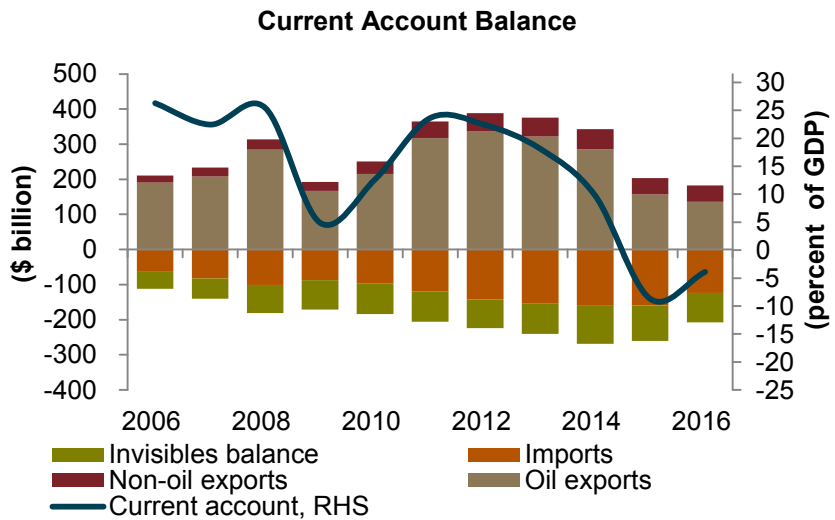




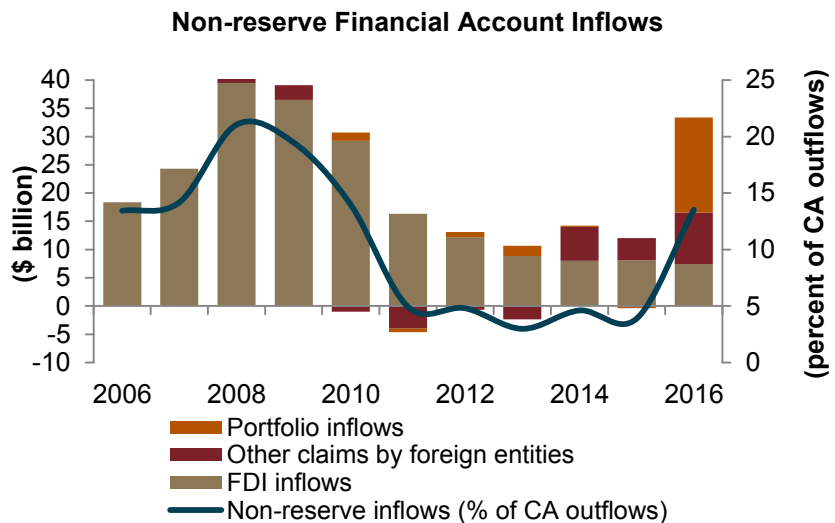
Balance of Payments

2016 data showed smaller current account deficit at \$25 billion (3.9 percent of GDP). This was mainly due to a notable decline in goods imported. Meanwhile, the international sovereign bond issuance towards the end of 2016 led to a notable improvement in financial inflows, causing the deficit in the non-reserve financial account to shrink to its lowest level in four years.

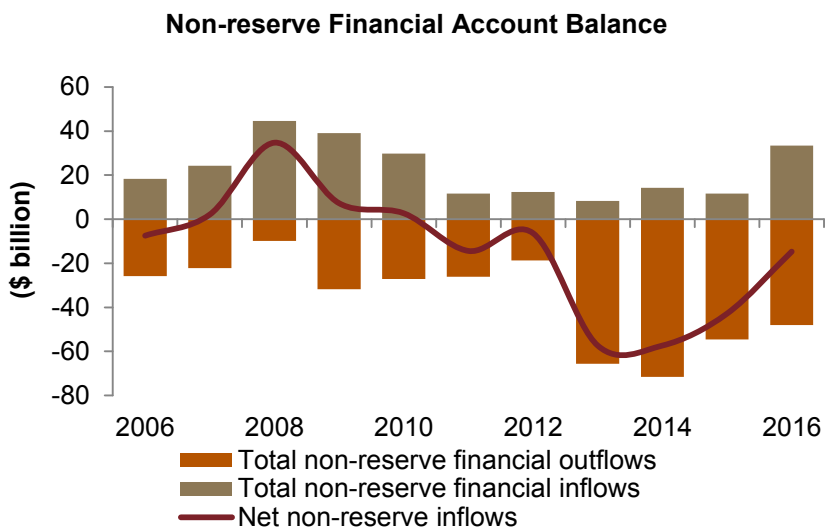
The Kingdom's current account improved from -\$57 billion in 2015 to -\$25 billion in 2016, mainly owing to a fall in imports.



Meanwhile, the international sovereign bond program has contributed to notable improvement in total financial flows into the Kingdom, up from \$12 billion in 2015 to \$33 billion in 2016...



...leading to the lowest non-reserve financial account deficit in four years (-\$15 billion).

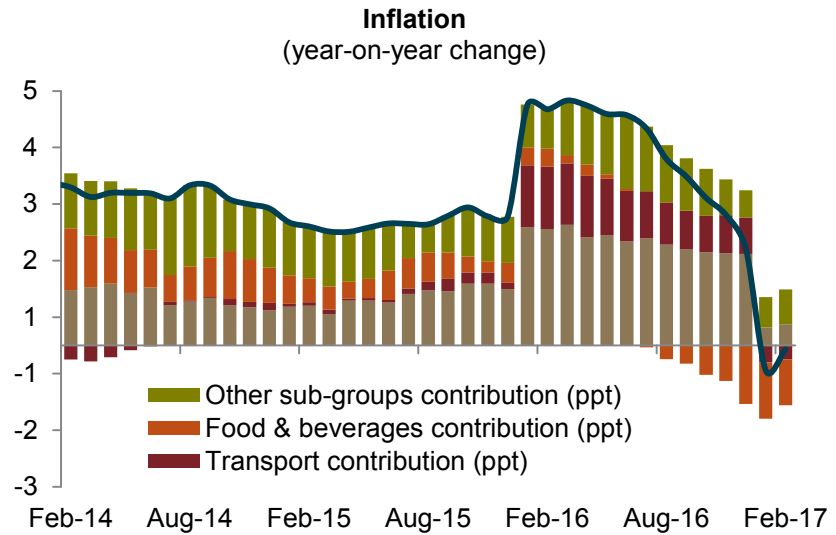




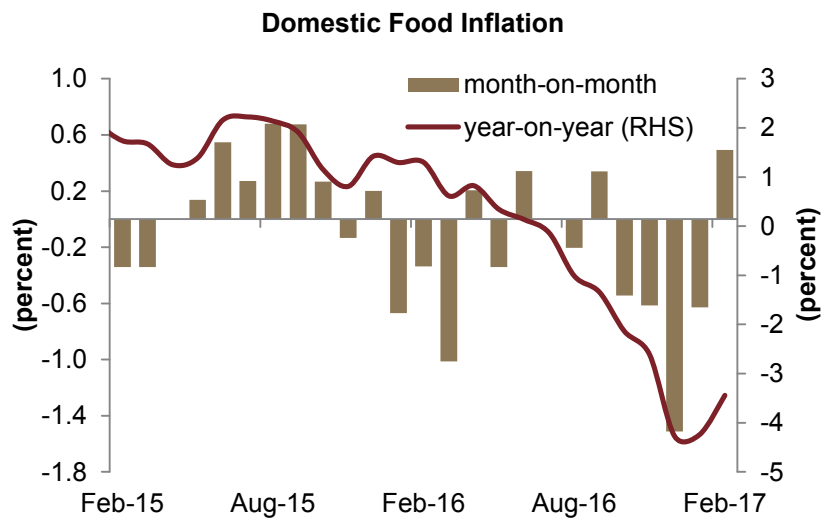
Inflation

In February, deflation continued for the second consecutive month to reach -0.1 percent, up from -0.4 percent in January. Foodstuffs recorded a lower year on year deflation by - 3.4 percent, from - 4.2 percent in January. Housing and utilities saw a slight growth in inflation recording 1.4 percent. This increase was solely driven by rental for housing, which increased by 2.1 percent.

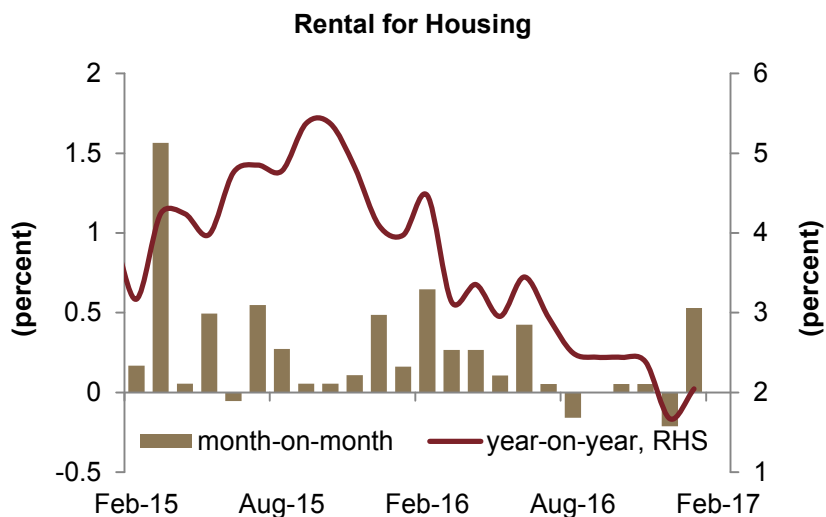
Deflation slowed to -0.1 percent in February, from -0.4, reversing an eleven-month decline.



Foodstuffs recorded lower deflation of - 3.4 percent in February, however, on a month-on-month basis, foodstuffs recorded positive growth for the first time in four months.



Rental for housing recorded a growth of 2.1 percent, driving Housing and utilities to grow by 1.4 percent year-on-year in February.

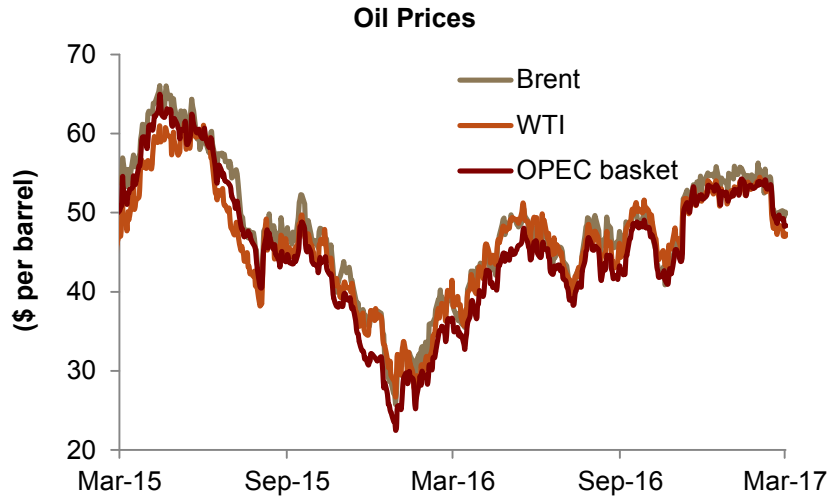




Oil - Global

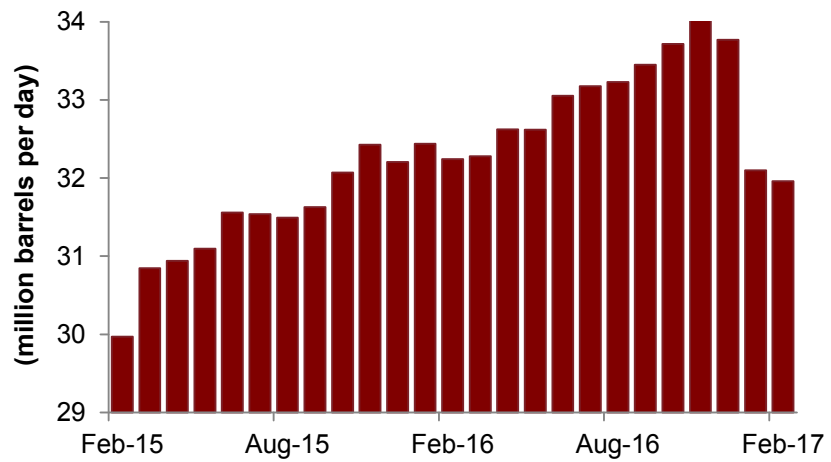
Even though OPEC producers continued with a high level compliance to previously agreed cuts in production, Brent and WTI showed a dramatic month-on-month dip of 6 percent and 8 percent, respectively, in March. This fall in prices was triggered by rising levels of US commercial crude inventories which remained at recorded levels of 533 million barrels.

Brent was down 6 percent and WTI 8 percent month-on-month in March.



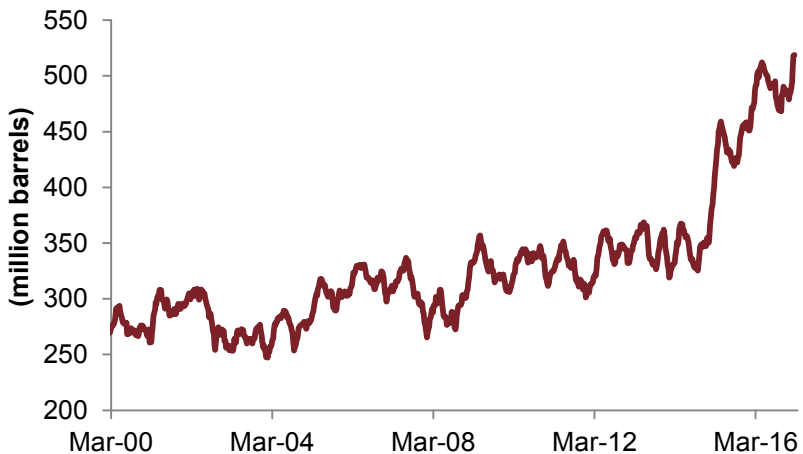
OPEC Production
(secondary sources: February 2017)

Secondary sources data showed strong compliance by OPEC producers in February...



US Commercial Crude Oil Stocks
(million barrels)

...however, US commercial crude stocks continued to increase, maintaining pressure on oil prices in March.



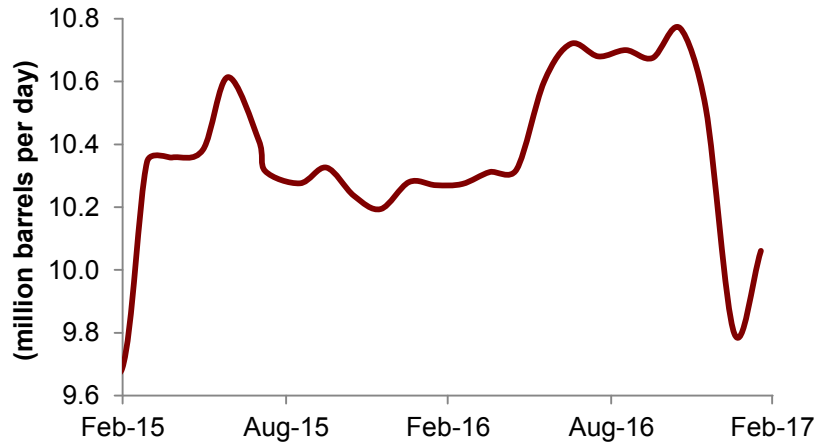


Oil - Regional

Saudi oil production increased in February to reach 10 mbpd, up from 9.7 mbpd in January. Meanwhile, Russian oil production remained unchanged month-on-month, at 11.1 mbpd in February. The Russian government has reassured the industry that it will reach stated production cuts by April.

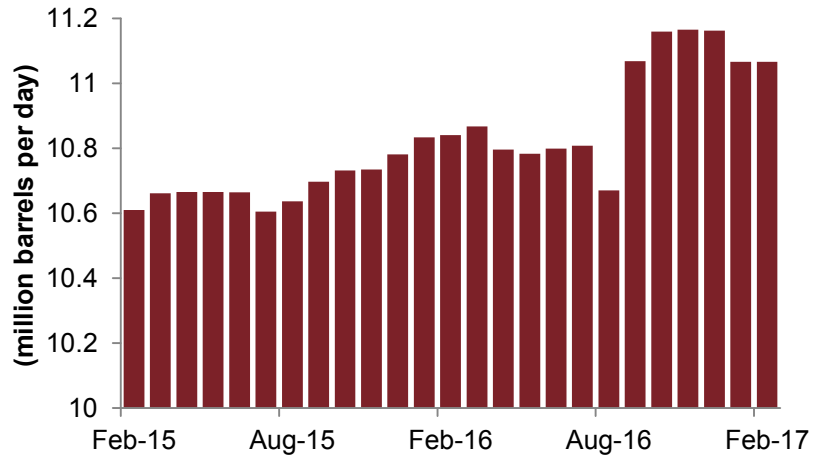
Saudi crude production rebounded in February to 10 mbpd, but still remains within the limits agreed OPEC deal...

Saudi Crude Oil Production
(Direct communications: February 2017)



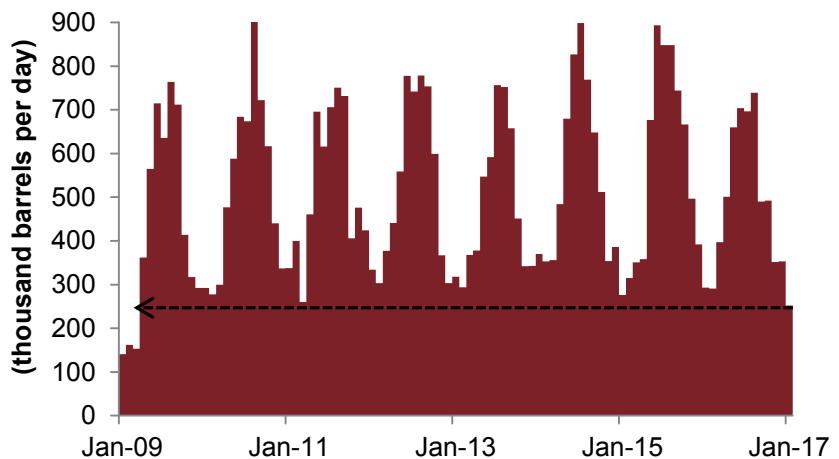
...meanwhile, Russia crude production remained unchanged at 11.1 mbpd, although the Russian government has said it plans to comply with its commitment.

Russia Crude Oil Production
(February 2017)



Latest data for January 2017 shows that a combination of improved energy efficiency, higher gas usage and subdued economic activity led the lowest consumption in crude oil (for generating electricity) in the Kingdom in almost 12 years.

Saudi Crude Oil Consumption
(January 2017)



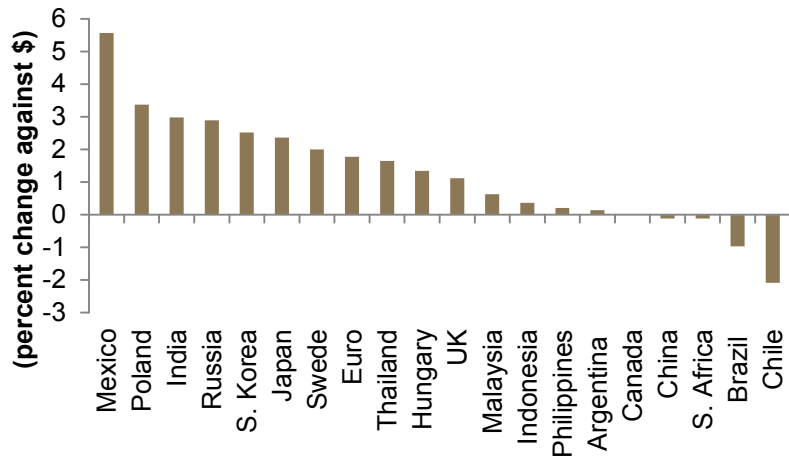


Exchange Rates

Despite the US Federal Reserve raising Funds Rate from 0.75 to 1 percent, the US Dollar saw losses against most currencies in March, as doubts grew over the government's ability to implement fiscal stimulus as planned. Meanwhile, the UK Pound saw monthly gains despite the UK formally triggering the process to leave Europe.

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

Monthly Gain/Loss Against US Dollar
(March 2017)



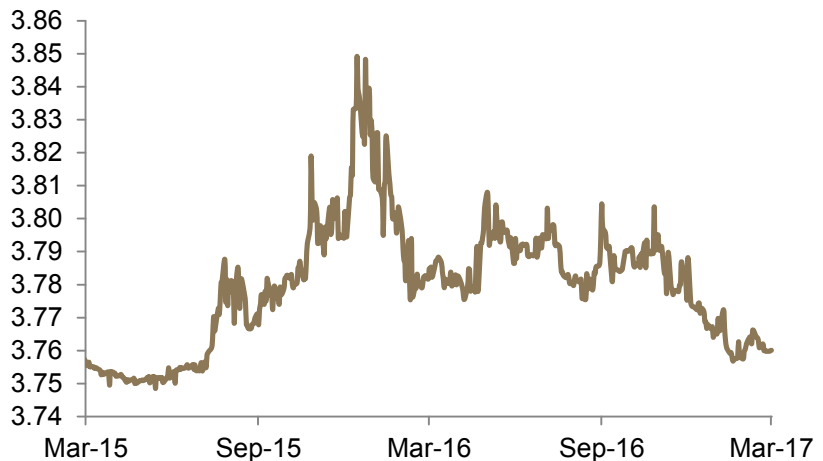
...meanwhile, the UK Pound held onto its monthly gains against the US Dollar despite triggering the formal process of leaving the European Union.

UK Pound/US Dollar



The US dollar/ Saudi riyal one year forward rate continued to trend downwards.

US Dollar/Riyal One Year Forward Rate
(USD/Saudi riyal peg = 3.75)



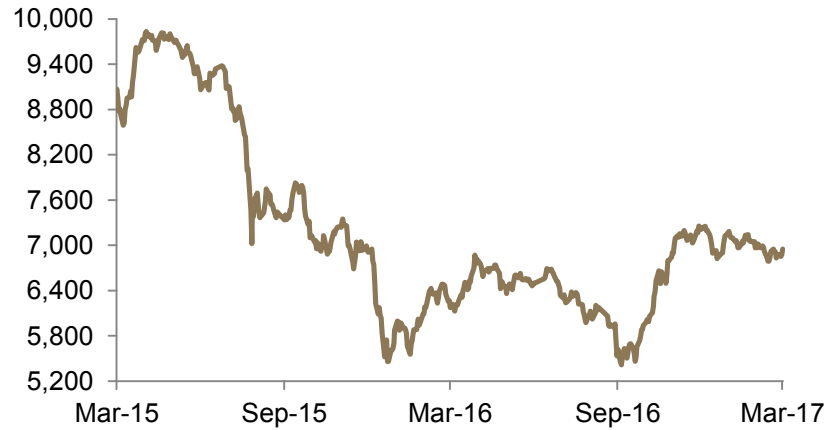


Stock Market

TASI recorded declines throughout March, but these declines were reversed due to a rally towards the end of the month in-line with improving sentiments as oil prices recovered slightly. As a result, TASI outperformed most regional benchmarks. Meanwhile, Nomu also seemed to benefit from improved sentiment as its reversed losses towards the end of the month.

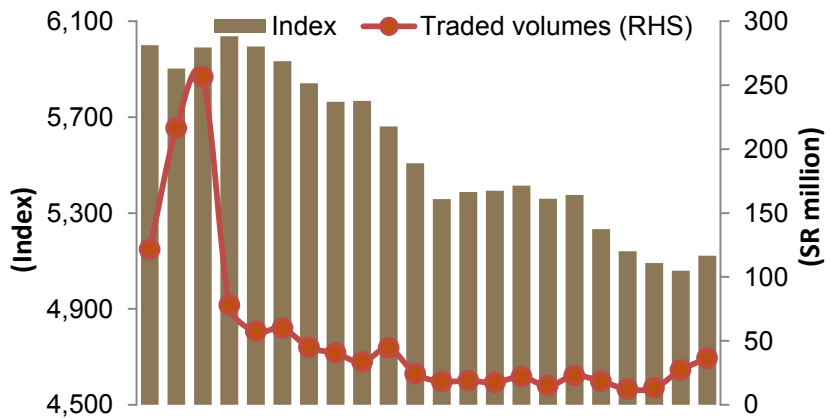
TASI recorded declines throughout March, but most of these declines were reversed due to a rally towards the end of the month...

TASI



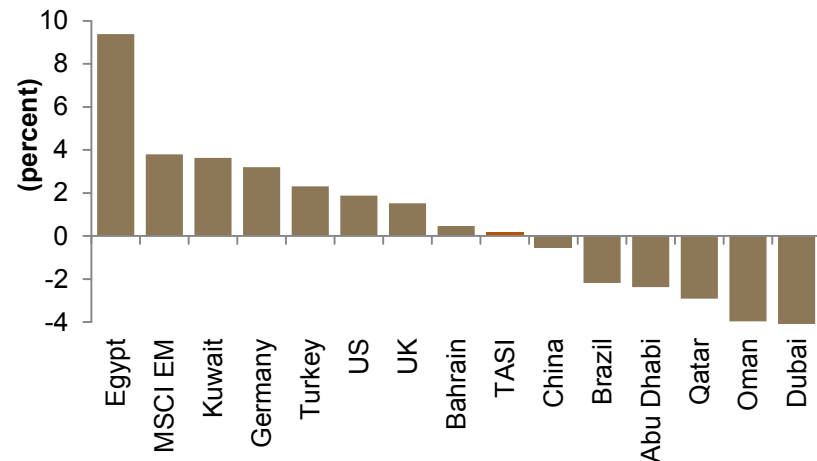
...Nomu also seemed to benefit from improved sentiment.

Parallel Market (NOMU)
(daily index & traded volumes)



TASI outperformed most regional benchmarks.

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



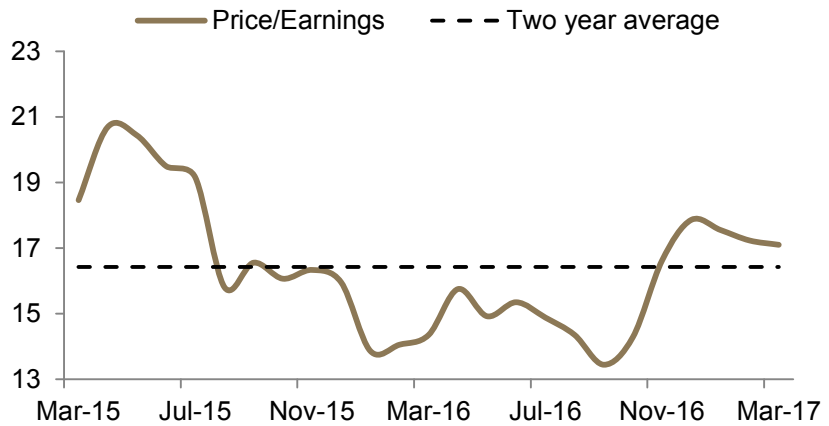


Valuations

TASI's price-to-earnings (PE) dropped marginally from 17.2 in February to 17.1 in March, although it remains above the two year average. PE is in line with regional and emerging market benchmarks. Dividend yield remains average but also is in-line with regional and emerging markets.

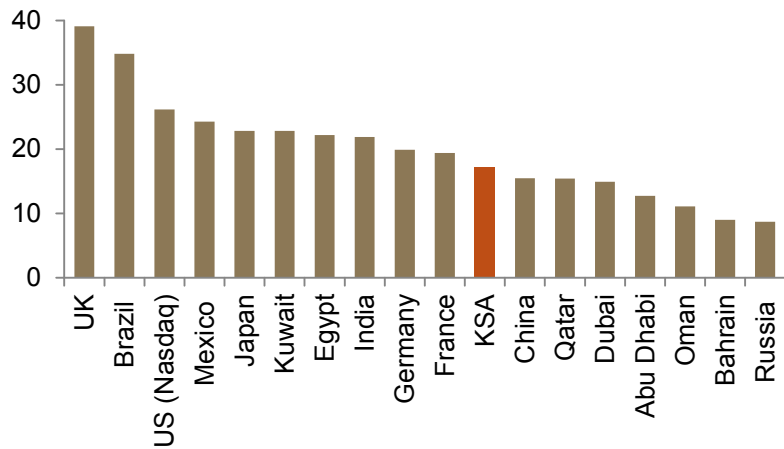
TASI's PE continued to decline for the third consecutive month to record 17.1 in March...

TASI Price-to-Earnings Ratio



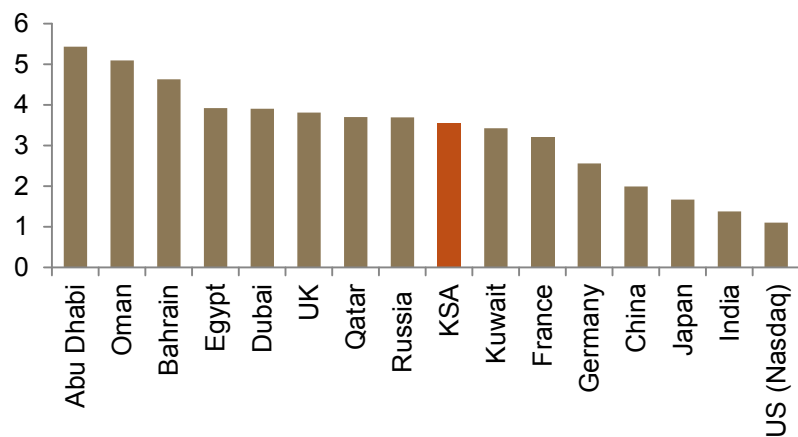
...and remains in-line with regional and emerging market benchmarks...

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



...as does dividend yield.

TASI Dividend Yield Ratios
(end of month)





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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