



Summary

Real Economy: Economic indicators improved at the end of the year, as POS transactions increased by 20 percent month-on-month in December, its highest monthly increase since June 2014.

Government Finance: The net monthly change to government accounts with SAMA increased by SR12 billion month-on-month in December, mainly as a result of a rise in government current deposits by SR33 billion month-on-month.

SAMA Foreign Reserve Assets: SAMA FX reserves rose by \$2 billion month-on-month to stand at \$496 billion in December. This was the third consecutive month of rises, due largely to higher oil prices.

Balance of Payments: Latest available data shows that Saudi Arabia's current account moved back into surplus in Q3 2017 as a rise in oil prices during Q3 2017 helped improve the trade balance.

Inflation: Prices in December were up by 0.4 percent year-on-year, resulting in a second consecutive monthly rise. Despite this, the Kingdom saw deflation during 2017 as a whole, with prices being down by 0.3 percent year-on-year.

Real Estate: Real estate prices improved quarter-on-quarter in Q4 2017, but remained in the negative territory year-on-year, down 3 percent.

Oil - Global: Brent oil prices averaged \$70 pb in January 2018, the highest since November 2015, rising by 7 percent month-on-month. WTI showed even stronger monthly gains, at 10 percent, averaging \$64 pb over the month.

Oil - Regional: Saudi crude oil production was flat month-on-month in December resulting in full year oil production averaging 10 mbpd over the course of 2017, down 4 percent year-on-year.

Exchange Rates: A number of contradictory comments related to the currency and more aggressive rhetoric related to a protectionist stance on global trade by various US officials, including the President, led to the dollar declining against most major currencies during January.

Stock Market: A combination of higher oil prices and an overwhelmingly positive statement from MSCI following a revision of rules for Qualified Foreign Financial Institutions for Tadawul, helped lift investor sentiment and saw TASI closing the month at its highest point since July 2015.

Sectorial Performance: Many sectors ended the month with a significant rise, in line with TASI's positive performance during January.

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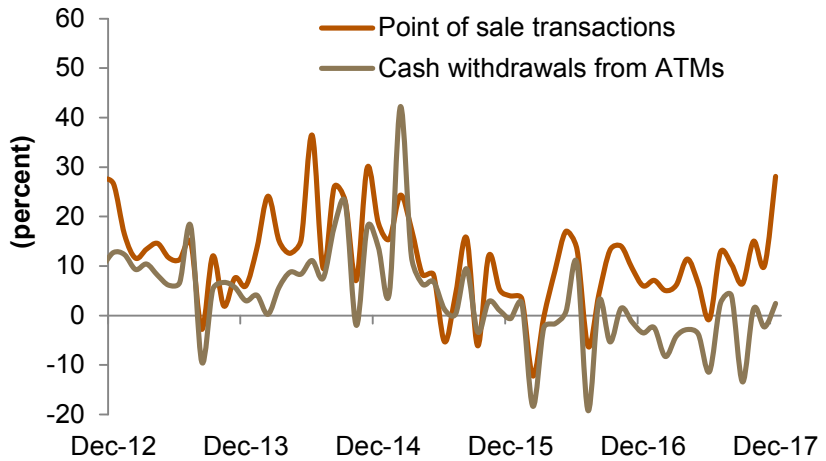


Real Economy

Economic indicators improved at the end of the year, as POS transactions increased by 20 percent month-on-month in December, the highest monthly increase since June 2014. Meanwhile, the non-oil PMI edged downwards, albeit marginally, but remains in expansionary mode. Continued subdued activity in the construction sector led to cement sales falling year-on-year.

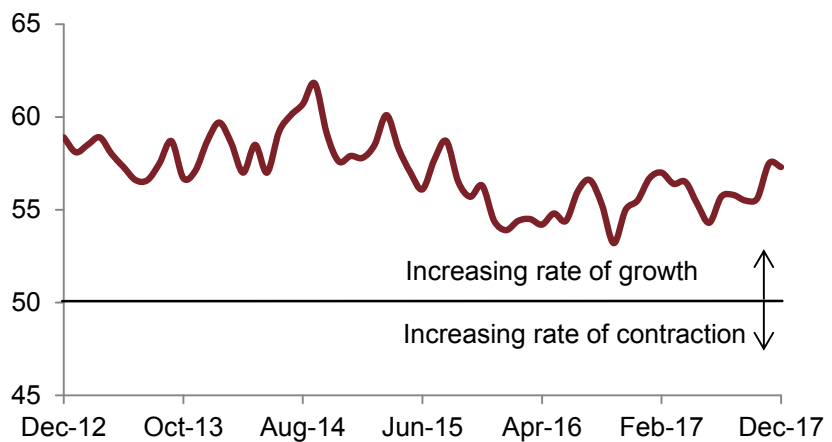
Both ATM cash withdrawals and POS transactions showed an upward trend in December, prior to VAT implementation. POS transactions reached SR20 billion in December, the highest monthly figure on record.

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



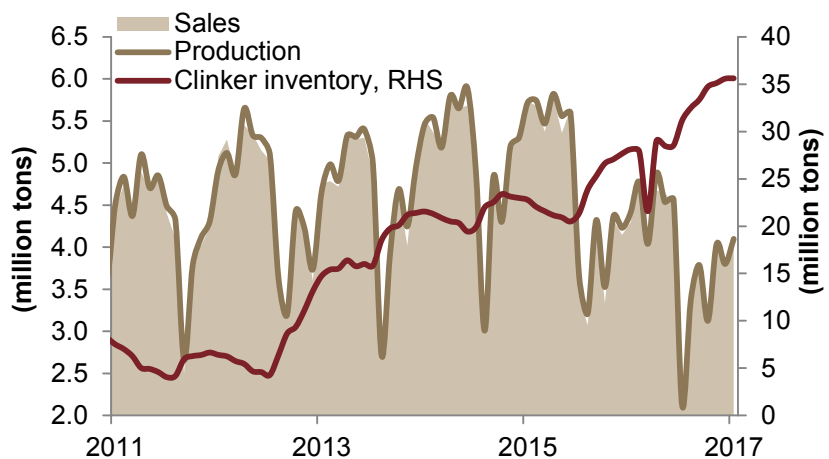
Meanwhile, the non-oil PMI edged marginally downwards, but remains in expansionary mode.

Purchasing Managers' Index



Continued subdued activity in the construction sector led to cement sales falling year-on-year, despite a monthly rise by 7 percent in December.

Cement Production, Sales and Clinker Inventory



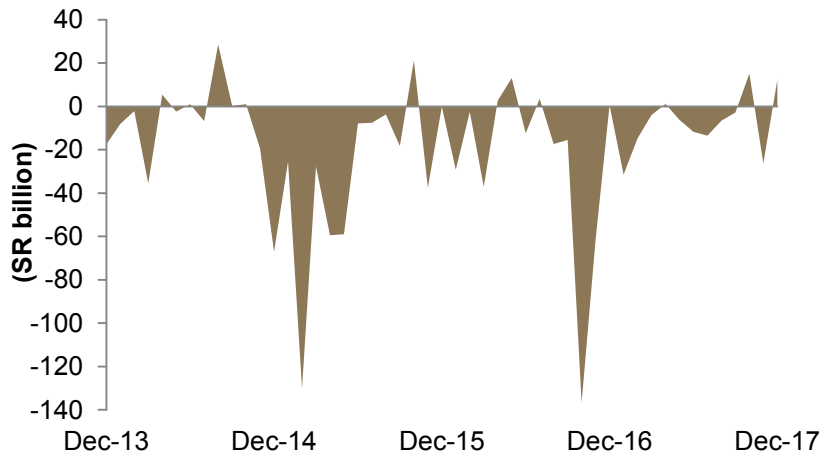


Government Finance

The net monthly change to government accounts with SAMA increased by SR12 billion month-on-month in December, mainly as a result of a rise in government current deposits by SR33 billion month-on-month. At the same time, domestic banks holdings of government bonds increased by SR3.6 billion month-on-month during December.

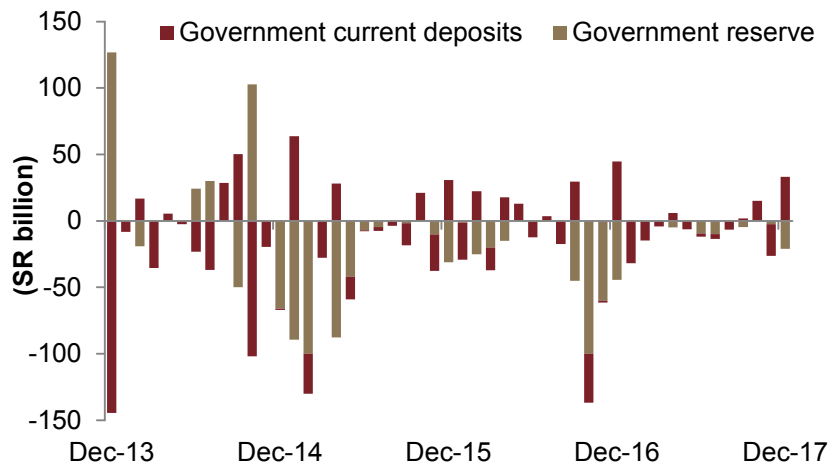
The net monthly change to government accounts with SAMA increased by SR12 billion month-on-month in December...

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



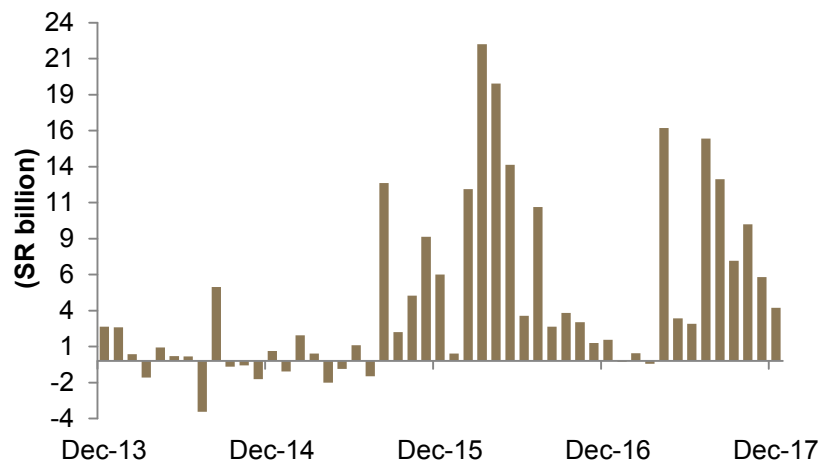
...mainly as a result of a rise in government current deposits by SR33 billion month-on-month. At the same time, government reserves with SAMA declined by SR21 billion in December.

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



Domestic banks holdings of government bonds increased by SR3.6 billion month-on-month during December. This may reflect the Ministry of Finance's decision to re-open October's local sukuk for an additional SR4.8 billion, which was announced in December.

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

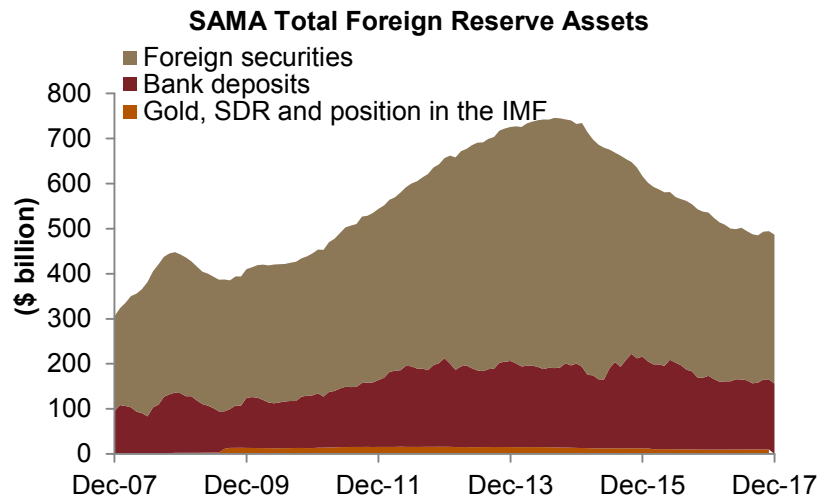




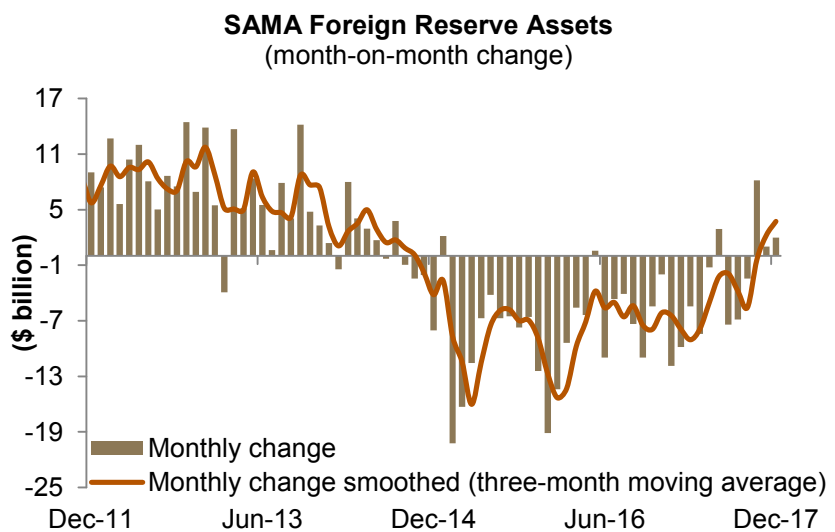
SAMA Foreign Reserve Assets

SAMA FX reserves rose by \$2 billion month-on-month to stand at \$496 billion in December. This was the third consecutive month of rises, due largely to higher oil prices. A breakdown of FX reserves shows the rises came mainly from foreign securities, while bank deposits remained unchanged during December.

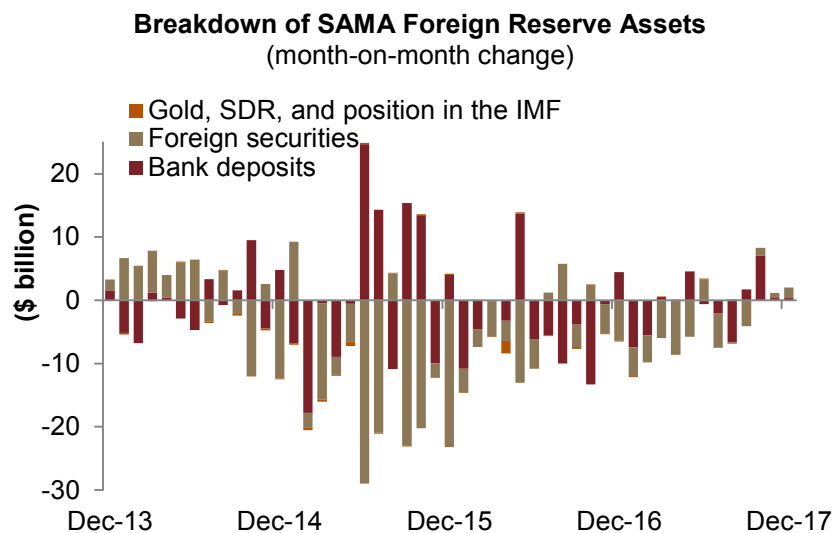
SAMA FX reserves have risen by a total of \$11 billion...



...in the last three months.



A rise in foreign securities were the main driver behind rises in FX reserves, rising by 2 percent month-on-month in December.

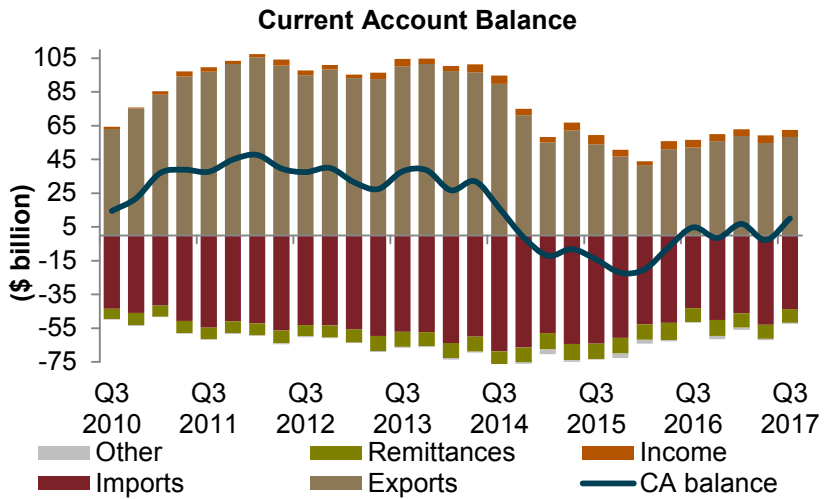




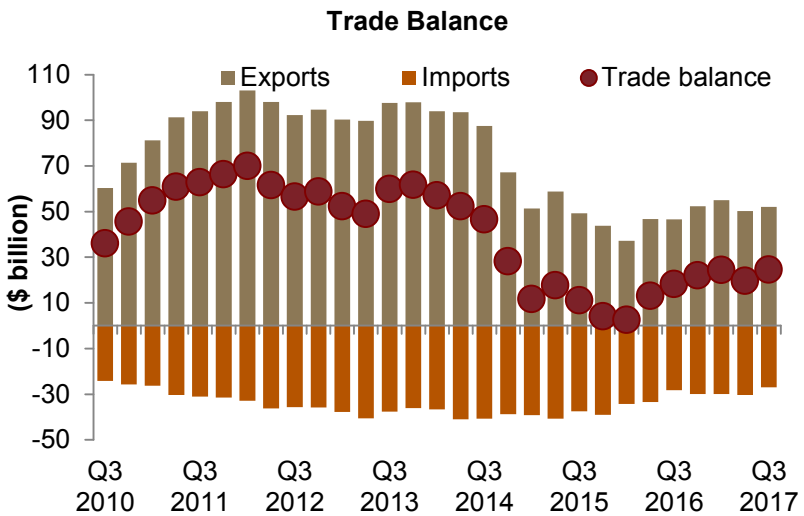
Balance of Payments

Latest available data shows that in Q3 2017, Saudi Arabia's current account moved back into surplus in Q3 2017 as a rise in oil prices during Q3 2017 improved the trade balance. Meanwhile, an improvement in the financial account was observed due to a sizable rise in portfolio investments.

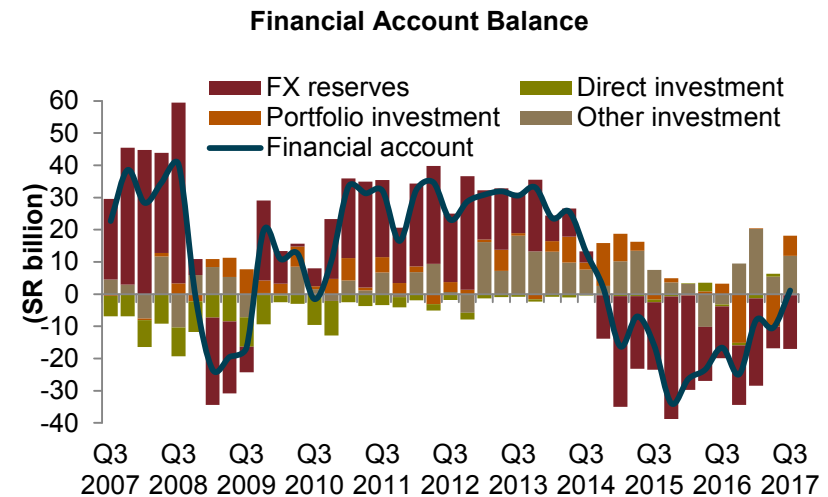
Saudi Arabia's current account moved back into surplus in Q3 2017...



...as lower value of imports combined with improving oil prices helped lift the trade balance.



Improvements in portfolio investment and some rises in other investments helped turn the financial account positive for the first time since Q4 2014 as well. We expect this positive trend to continue into Q4 2017 due to a net accumulation of FX reserves seen over the same period.

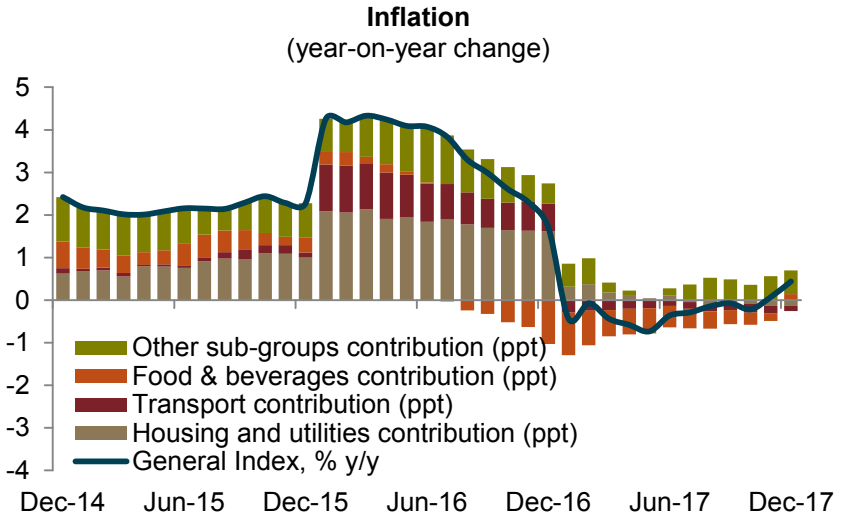




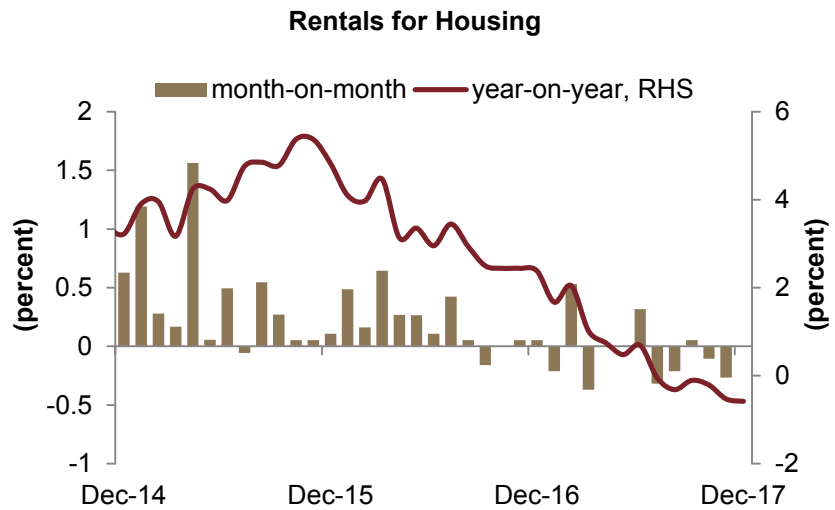
Inflation

Prices in December were up by 0.4 percent year-on-year, resulting in a second consecutive monthly rise. 'Food & beverages' prices, up 0.6 percent year-on-year in December, contributed to the overall rise during the month, leading to a reversal in the negative trend seen throughout most of 2017. Despite this, the Kingdom saw deflation during 2017, with prices being down by 0.3 percent year-on-year.

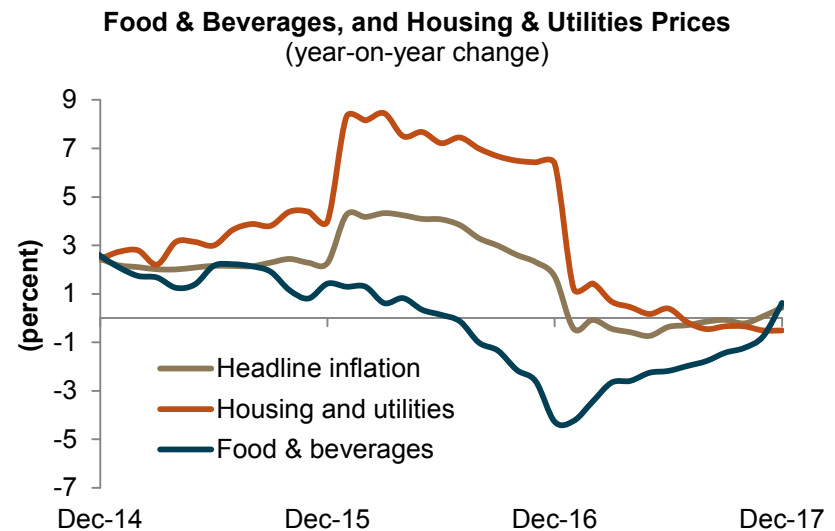
Prices in December were up by 0.4 percent year-on-year. Despite this, prices for full year of 2017 were down by 0.3 percent year-on-year.



'Housing & utilities' continued to trend lower, as 'rentals for housing' sub-group declined by 0.6 percent year-on-year in December...



...whilst 'food & beverages' prices were up 0.6 percent year-on-year in December.

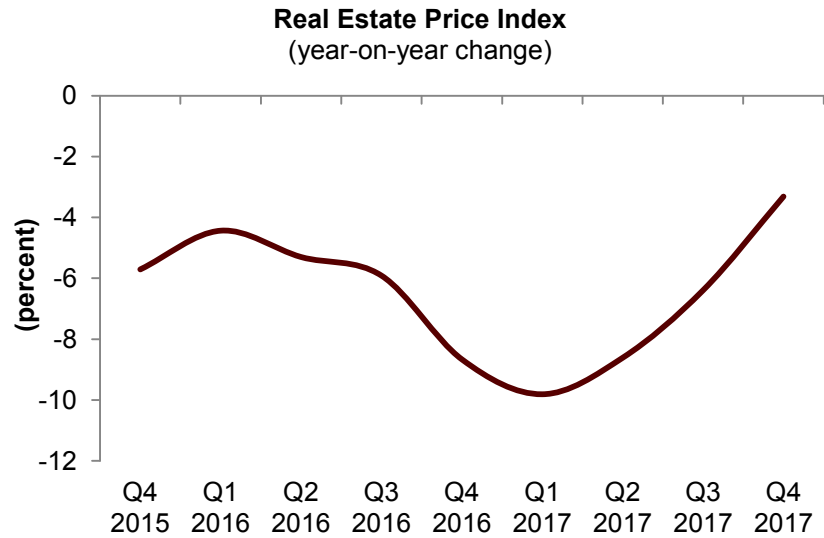




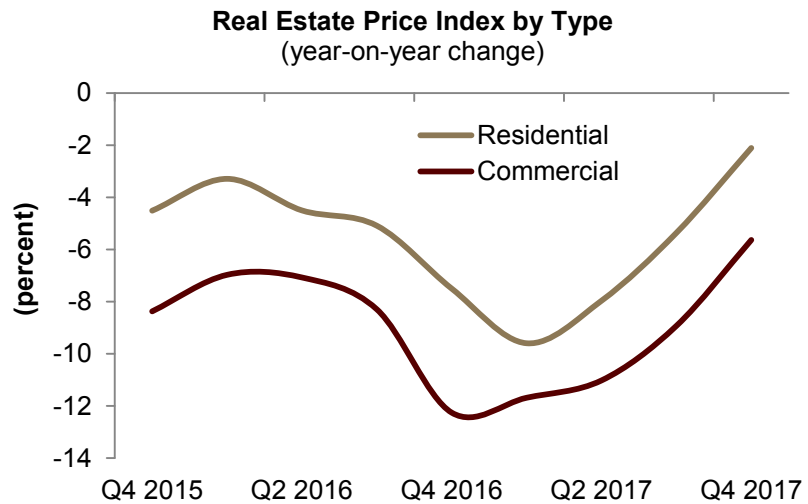
Real Estate

Real estate prices improved quarter-on-quarter in Q4 2017, but remained in the negative territory, down 3 percent year-on-year. Despite the negative annual performance, residential real estate prices showed better performance than the commercial segment on a quarter-on-quarter basis.

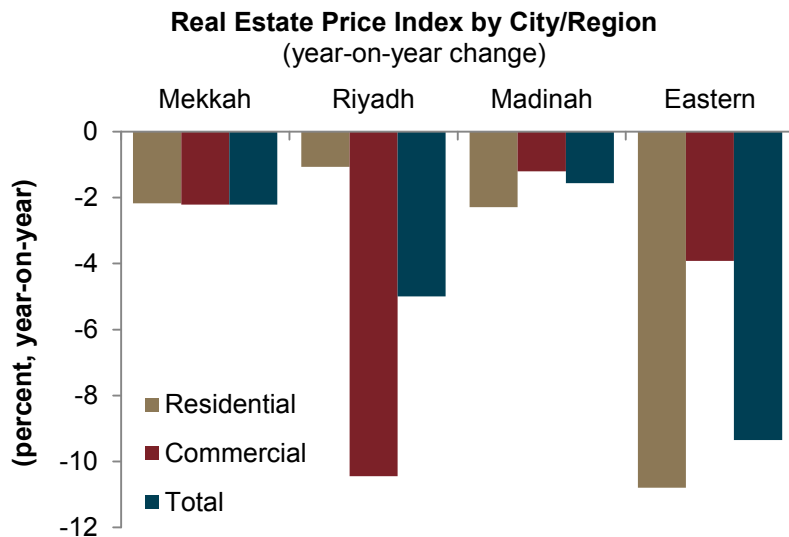
Real estate prices improved quarter-on-quarter in Q4 2017, but remained in the negative territory year-on-year.



Residential real estate prices showed better performance than the commercial segment on a quarter-on-quarter basis.



The Eastern province saw the worst performance among major regions in Q4, down by 9 percent year-on-year.

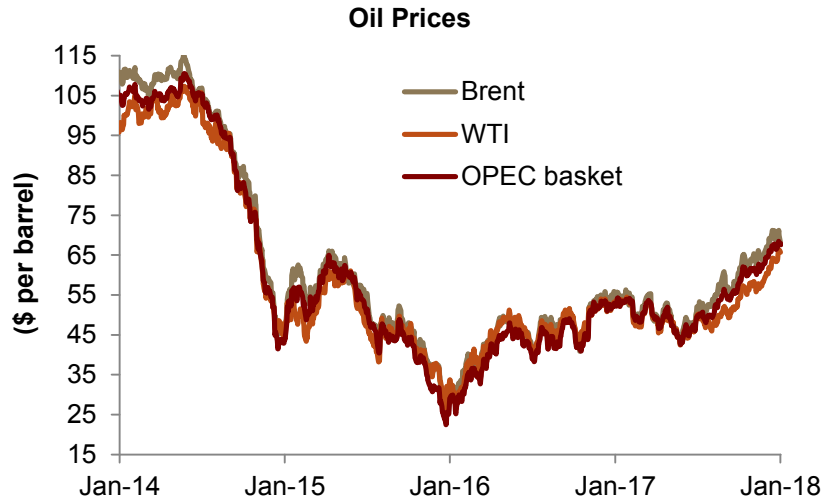




Oil - Global

Brent oil prices averaged \$70 pb in January 2018, the highest since November 2015, rising by 7 percent month-on-month. WTI showed even stronger monthly gains, at 10 percent, averaging \$64 pb over the month. Oil prices have been lifted on the back of stronger global economic growth, declining stocks and OPEC's continued adherence to an output agreement.

Stronger global economic growth, confirmed by the recent IMF world economic outlook, helped push up oil prices to their highest level since November 2015.

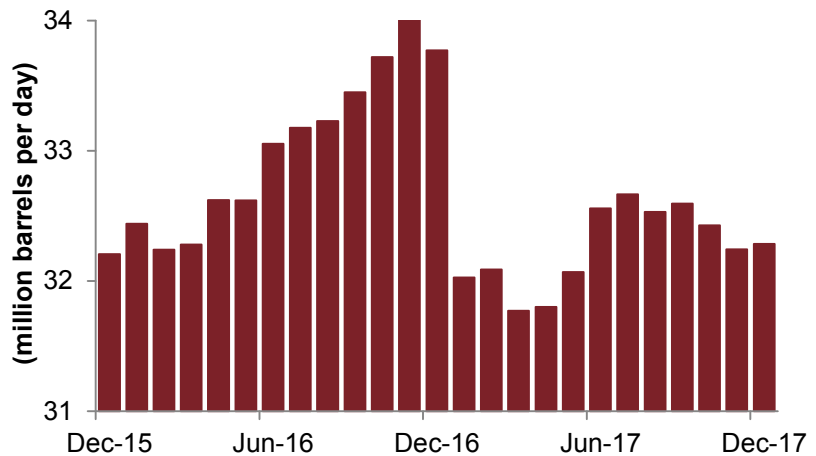


US Commercial Oil and Gasoline Stocks



Added to this, US commercial crude oil stocks continued to decline and have now reached three year lows...

OPEC Crude Oil Production (secondary sources)



...whilst OPEC's agreement to restrict output is still holding, with full year average 2017 output down 2 percent year-on-year, to 32.3 mbpd.



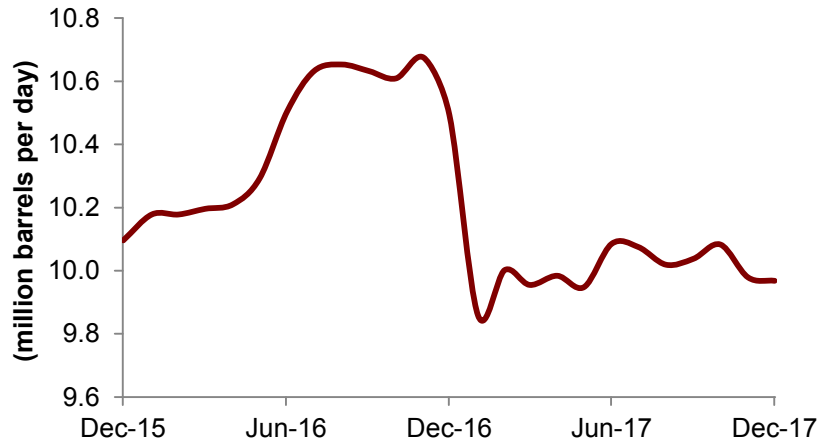
Oil - Regional

Saudi crude oil production was flat month-on-month in December resulting in full year oil production averaging 10 mbpd over the course of 2017, down 4 percent year-on-year. Looking ahead, we see Saudi oil production rising only marginally, by around 100 thousand barrels per day (tbpd), to an average of 10.1 mbpd during 2018. Meanwhile, Saudi crude oil exports have risen recently.

Saudi crude oil production was flat month-on-month in December...

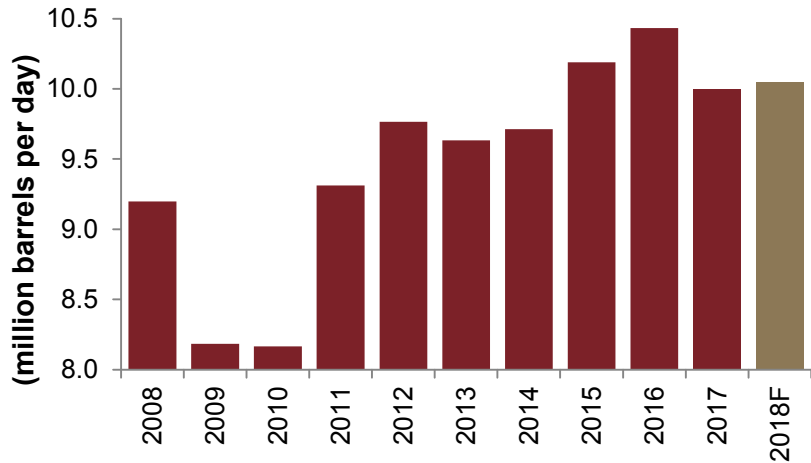
Saudi Oil Production

(secondary sources: December 2017)



Annual Saudi Crude Oil Production

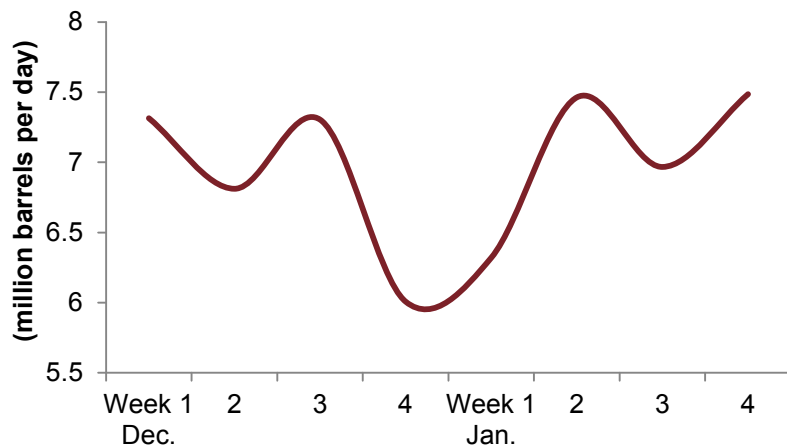
(secondary sources/Jadwa Forecasts)



...resulting in full year 2017 oil production averaging 10 mbpd. We see full year 2018 production rising marginally, by around 100 tbpd, as OPEC possibly ends its output agreement at some point in 2018.

Provisional Saudi Crude Oil Exports

(December 2017/January 2018)



Meanwhile, latest available official data shows Saudi crude oil exports rising 2 percent month-on-month to 7 mbpd in November, with unofficial provisional data showing roughly flat month-on-month exports in December 2017 but 7.1 mbpd in January 2018.

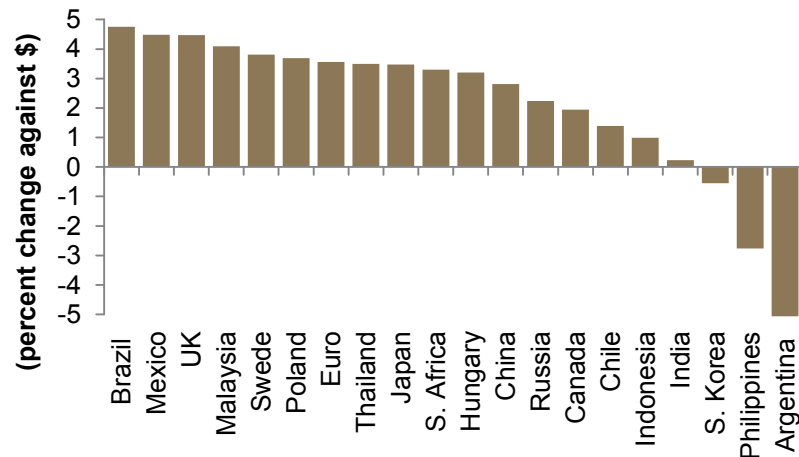


Exchange Rates

A number of contradictory comments related to the dollar and more aggressive rhetoric over a more protectionist stance on global trade by various US officials, including the President, led to the greenback declining against most major currencies during January. Looking ahead, the US dollar could recover in the run-up to the US Federal Reserve's (Fed) next meeting in March, when investors see a high probability of interest rates hikes.

The dollar declined against most major currencies during January...

Monthly Gain/Loss Against US Dollar
(January 2018)



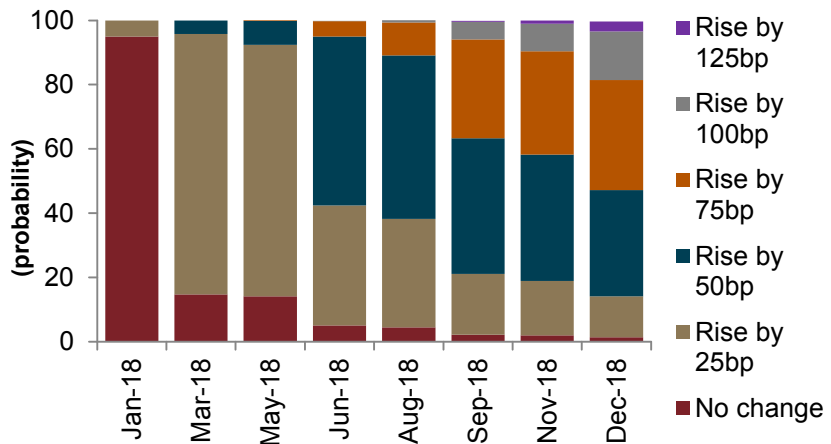
...whilst positive political developments related to Brexit added to the UK pound's rise over the month.

UK Pound/US Dollar



Although the Fed did not raise interest rates in its recent meeting, as per survey data, the market sees a very high probability of a 25 basis point hike in either the March or May meeting. Expectations of rise in interest rates could see the dollar rebounding in the months ahead.

US Interest Rate Rise Probability
(probability of a rise relative to current interest rates)





Stock Market

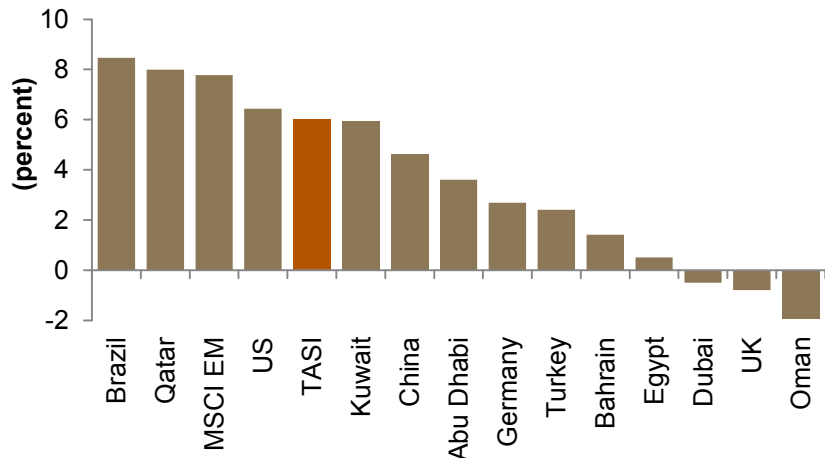
A combination of higher oil prices and an overwhelmingly positive statement from MSCI following a revision of rules for Qualified Foreign Financial Institutions for Tadawul, helped lift investor sentiment and led to TASI rising by 6 percent month-on-month in January. In fact, TASI closed the month at its highest point since July 2015 and resulted in it being one of the better performers amongst regional indices.

A statement released by the MSCI during January conveyed an overwhelmingly positive message, raising the prospect of Tadawul's inclusion into MSCI's emerging index. This combined with higher oil prices pushed the TASI to its highest level since July 2015...



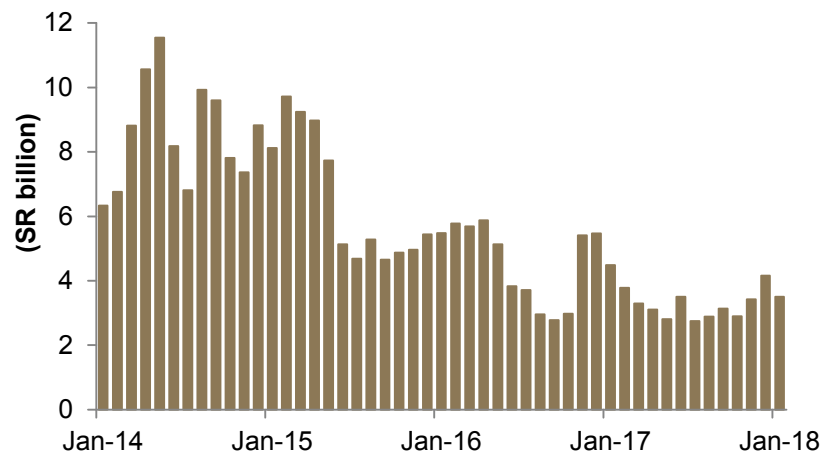
Comparative Stock Market Performance
(month-on-month change)

...and resulted in it being one of the better performers amongst regional indices...



Daily Average Stock Market Turnover
(monthly average)

...despite trading volumes being down slightly month-on-month.



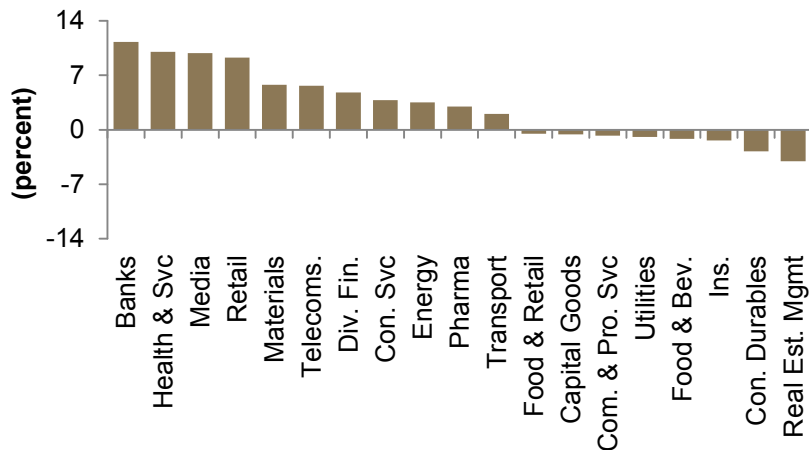


Sectorial Performance

Many sectors ended the month with a significant rise, in line with TASI's positive performance during January. Whilst 'banks', 'health & services' and 'media' were the best performers, 'real estate', 'insurance' and 'consumer durables & apparel' were the worst performers in January.

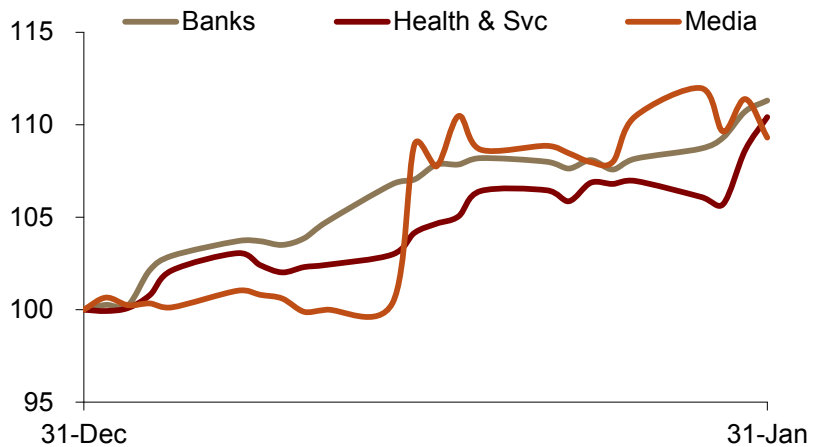
Many sectors had a positive performance in January, in line with TASI's significant rise during the month.

Performance by Sector
(rebased; 31th December 2017= 100)



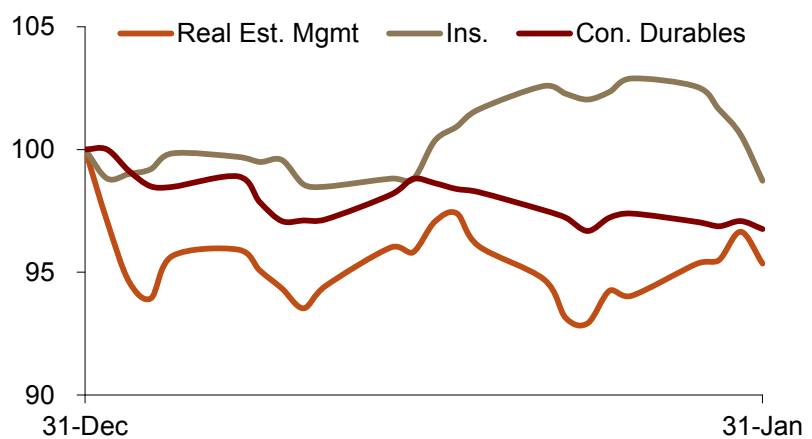
Whilst 'banks', 'health & services' and 'media' were the best performers...

Best Performing Sectors
(rebased; 31th December 2017= 100)



... 'real estate', 'insurance' and 'consumer durables & apparel' were the worst performers in January.

Worst Performing Sectors
(rebased; 31th December 2017= 100)





Key Data*

	2010	2011	2012	2013	2014	2015	2016	2017E
Nominal GDP								
(SR billion)	1,981	2,517	2,760	2,800	2,836	2,454	2,419	2,564
(\$ billion)	528	671	736	747	756	654	645	684
(% change)	23.1	27.1	9.6	1.5	1.3	-13.5	-1.4	6.0
Real GDP (% change)								
Oil	-0.1	12.2	5.1	-1.6	2.1	5.3	3.6	-3.0
Non-oil private sector	10.5	8.1	5.6	7.0	5.4	3.4	0.1	0.7
Non-oil government	7.4	8.4	5.3	5.1	3.7	2.7	0.6	1.7
Total	5.0	10.0	5.4	2.7	3.7	4.1	1.7	-0.7
Oil indicators (average)								
Brent (\$/b)	80	112	112	110	99	52	43	54
Saudi (\$/b)	78	104	106	104	96	49	41	51
Production (million b/d)	8.2	9.3	9.8	9.6	9.7	10.2	10.4	10.0
Budgetary indicators (SR billion)								
Government revenue	742	1,118	1,247	1,156	1,044	616	519	696
Government expenditure	654	838	916	994	1,140	999	935	926
Budget balance	88	280	331	162	-96	-383	-416	-230
(% GDP)	4.4	11.1	12.0	5.8	-3.4	-15.6	-17.2	-9.0
Gross public debt	177	135	99	60	44	142	317	443
(% GDP)	8.9	5.4	3.6	2.1	1.6	5.8	13.1	17.3
Monetary indicators (average)								
Inflation (% change)	3.8	3.7	2.9	3.5	2.7	2.2	3.4	-0.3
SAMA base lending rate (% , end year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
External trade indicators (\$ billion)								
Oil export revenues	215	318	337	322	285	153	137	159
Total export revenues	251	365	388	376	342	204	184	210
Imports	97	120	142	153	158	159	128	117
Trade balance	154	245	247	223	184	44	56	93
Current account balance	67	159	165	135	74	-57	-28	9
(% GDP)	12.6	23.6	22.4	18.1	9.8	-8.7	-4.3	1.2
Official reserve assets	445	544	657	726	732	616	534	496
Social and demographic indicators								
Population (million)	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.6
Saudi Unemployment (15+, %)	11.2	12.4	12.1	11.7	11.7	11.5	12.5	12.8
GDP per capita (\$)	19,261	23,827	25,471	25,223	24,962	21,095	20,318	20,968

Sources: Jadwa Investment forecasts for 2017 & 2018. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Authority for monetary and external trade indicators, Ministry of Finance for budgetary indicators. *Slight variation in current versus historical forecasts due to revision in nominal GDP as stated by Saudi Arabian Monetary Authority



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