



Summary

Real Economy: POS transactions dropped in January 19 percent month-on-month, after a 20 percent increase in December, prior to VAT implementation in January.

Government Finance: The net monthly change to government accounts with SAMA declined by SR25 billion month-on-month in January, mainly as a result of a decline in government current deposits by SR16 billion month-on-month.

SAMA Foreign Reserve Assets: SAMA FX reserves declined by almost \$2 billion month-on-month to stand at \$494.5 billion in January, marking the first decline in four months.

Money Supply and Deposits: Broad measure of money supply (M3) increased by 1.4 percent year-on-year in January. Looking into the breakdown in deposits, the rise in government deposits by 9.4 percent in January, might have supported the growth in M3.

Bank Credit: Total bank credit increased 3.8 percent in January, year-on-year. Whilst credit to the private sector declined by 1 percent, claims on the public sector increased 40 percent.

Inflation: Prices rose in January 2018 by 3 percent year-on-year, and 3.9 percent month-on-month, largely as a result of the implementation of VAT and utility and fuel price reform.

Oil - Global: Global oil prices retreated from three year highs in February as fear of a sharp rise in US crude oil production and a build in commercial oil stocks blunted sentiment.

Oil - Regional: Saudi Arabian crude oil production was flat month-on-month in January in adherence to OPEC agreement levels. Meanwhile, latest available official data showed that full year Saudi crude oil exports were down 9 percent year-on-year in 2017, to 6.96 mbpd.

Exchange Rates: The dollar strengthened against most currencies during February as many investors are now expecting four US interest rate hikes in 2018, against the previous expectation of three.

Stock Market: TASI declined by 3 percent month-on-month in February, after three monthly rises. The weaker performance of the Saudi equity market was similar to a trend seen across a number of GCC and international markets, as many global markets were negatively affected by the drop in US markets earlier in the month.

Sectorial Performance: In line with TASI's performance during February, many sectors ended the month declining.

For comments and queries please contact:

Fahad M. Alturki
Chief Economist and Head of Research
falturki@jadwa.com

Asad Khan
Director
rkhan@jadwa.com

Nouf N. Alsharif
Economist
nalsharif@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 293-7988
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

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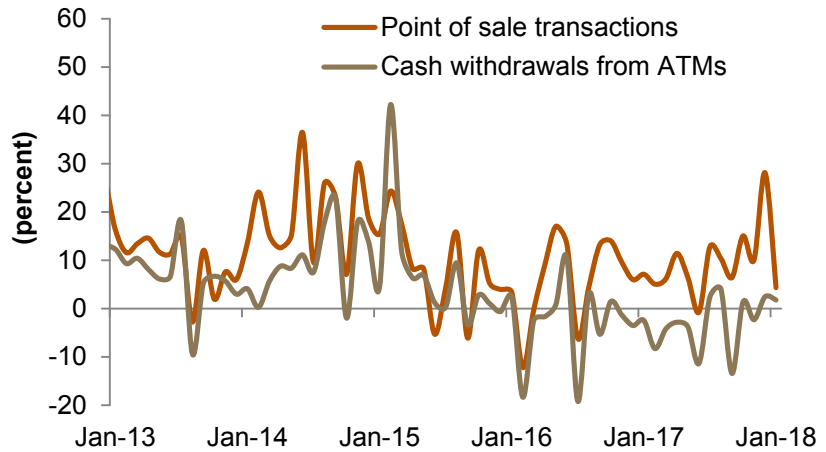


Real Economy

As we expected in our latest [inflation update](#) (February 2018), POS transactions dropped in January 19 percent month-on-month, after a 20 percent increase in December, prior to VAT implementation in January. On a year-on-year basis, POS transactions rose by 4.3 percent. Meanwhile, continued subdued activity in the construction sector led to cement sales falling year-on-year.

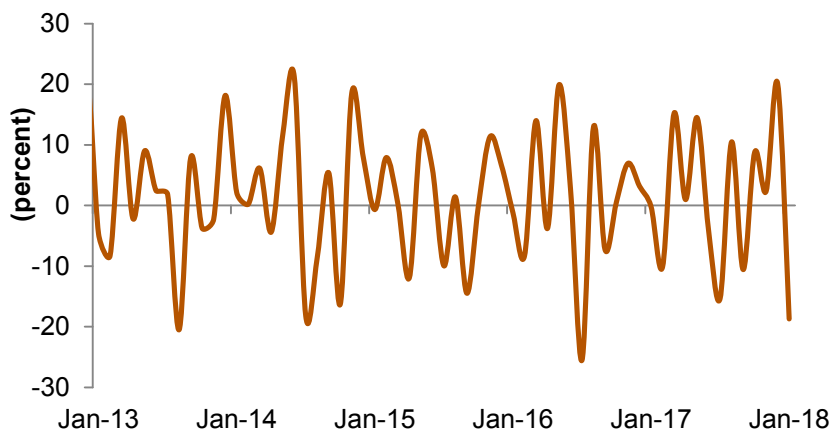
POS transactions rose by 4.3 percent year-on-year, and ATM withdrawals rose by 1.8 percent year-on-year...

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



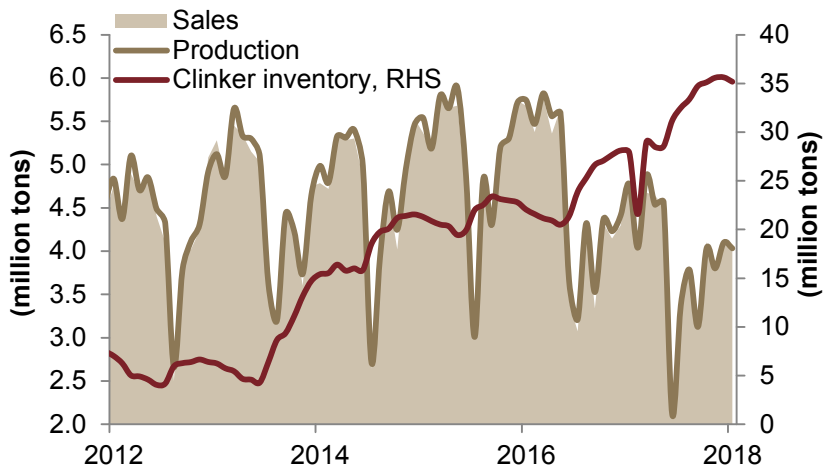
...in a month-on-month basis, POS transactions dropped by 19 percent in January, after a hike in December by 20 percent, prior to VAT implementation in January.

Point of sale transactions
(month-on-month change)



Continued subdued activity in the construction sector led to cement sales falling by 15 percent year-on-year, its highest annual decline since June 2017.

Cement Production, Sales and Clinker Inventory





Government Finance

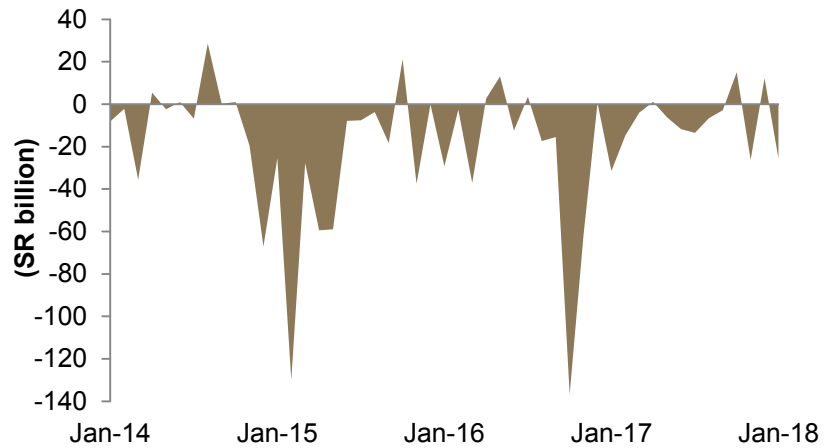
The net monthly change to government accounts with SAMA declined by SR25 billion in January, mainly as a result of a decrease in government current deposits by SR16 billion, month-on-month. At the same time, domestic banks holdings of government bonds increased by SR7.8 billion month-on-month during January.

The net monthly change to government accounts with SAMA declined by SR25 billion in January...

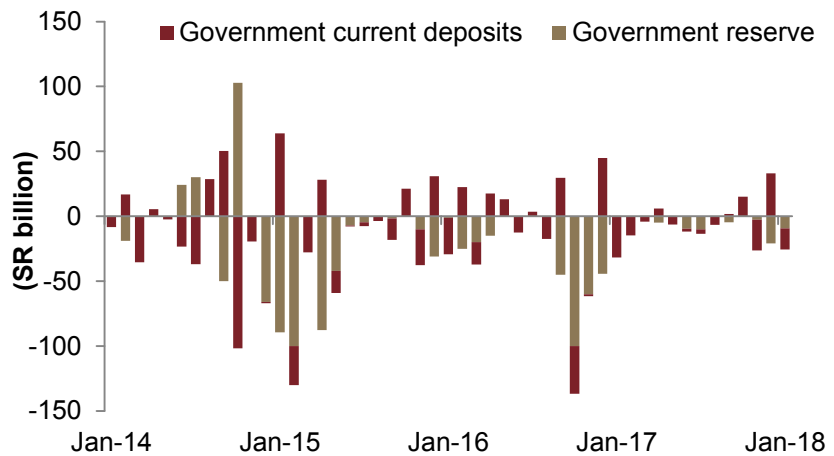
...mainly as a result of a decline in government current deposits by SR16 billion month-on-month. At the same time, government reserves with SAMA declined by SR9 billion in January.

Domestic banks holdings of government bonds increased by SR7.8 billion month-on-month during January. This may reflect the Ministry of Finance's local sukuk issuance during the month.

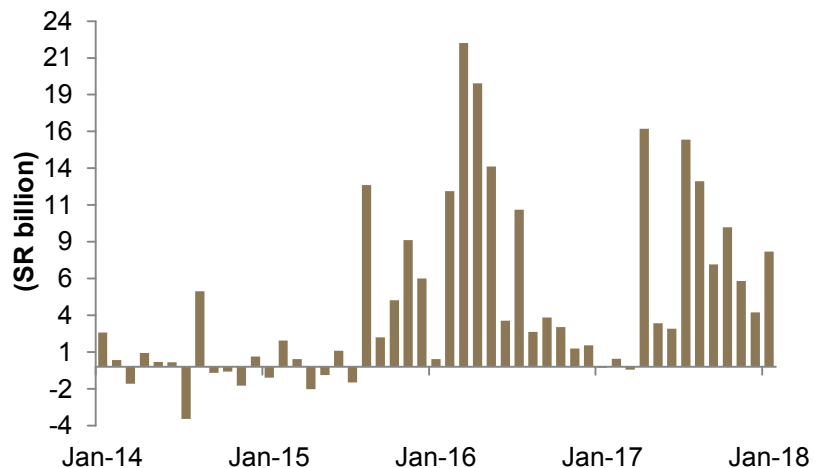
Net Change to Government Accounts with SAMA
(month-on-month change)



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



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



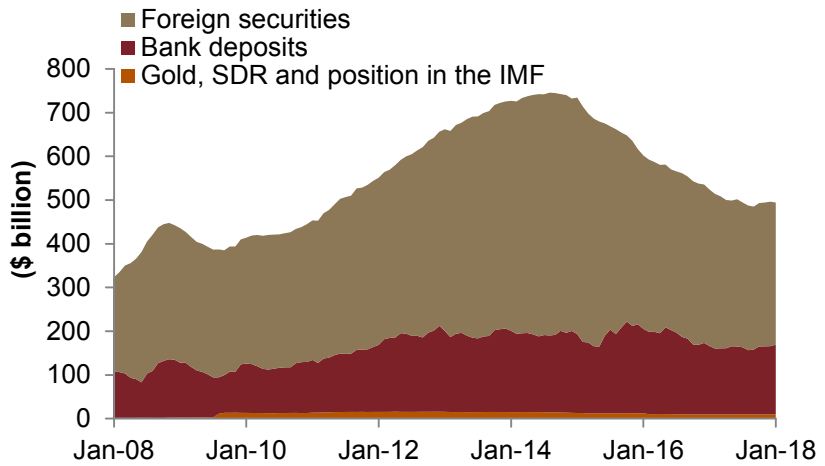


SAMA Foreign Reserve Assets

SAMA FX reserves declined by almost \$2 billion month-on-month to stand at \$494.5 billion in January, after a three-month rise. A breakdown of FX reserves shows the recent decline came mainly from foreign securities, declining by \$5.4 billion in January. Meanwhile, bank deposits rose by \$3.1 billion during the month.

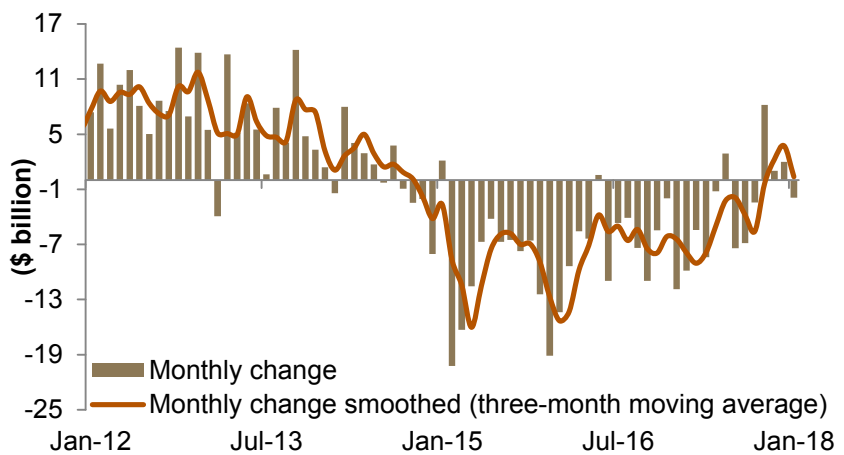
SAMA FX reserves declined by \$2 billion month-on-month to stand at \$494.5 billion in January...

SAMA Total Foreign Reserve Assets



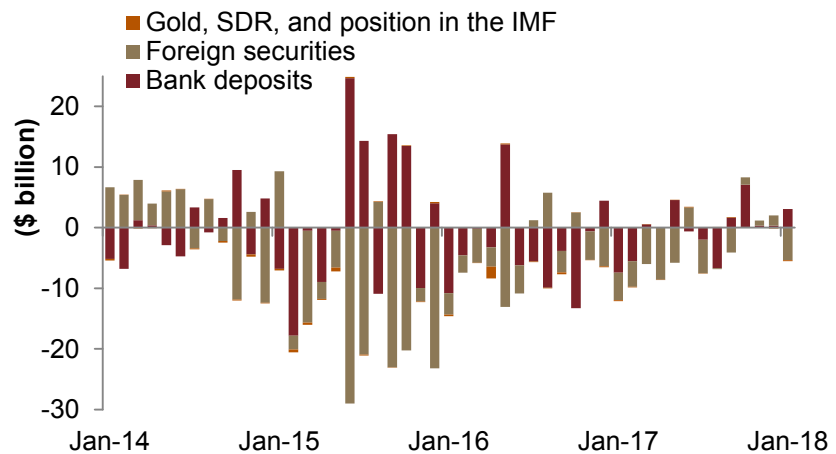
...after a three-month rise.

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



A decline in foreign securities was the main driver behind the declining FX reserves, whilst bank deposits rose by \$3.1 billion during the month.

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

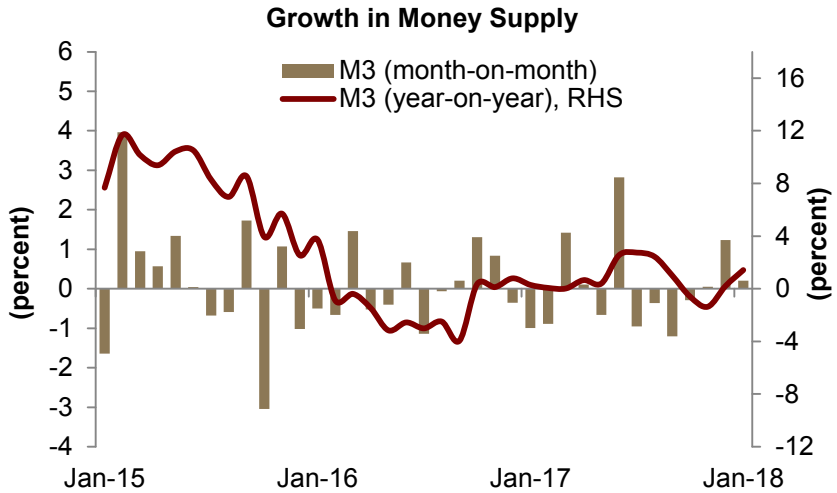




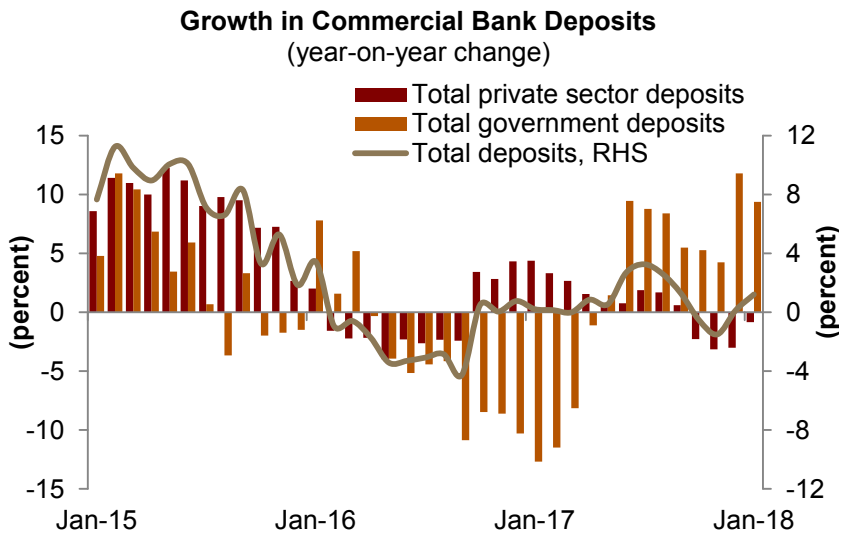
Money Supply and Deposits

Broad measure of money supply (M3) rose by 1.4 percent year-on-year in January. Looking into the breakdown in deposits, the rise in government deposits by 9.4 percent year-on-year in January, might have supported the growth in M3. Meanwhile, the lowering trend in the private sector's time and saving deposits continued in January, leading to an overall negative growth in total private sector deposits.

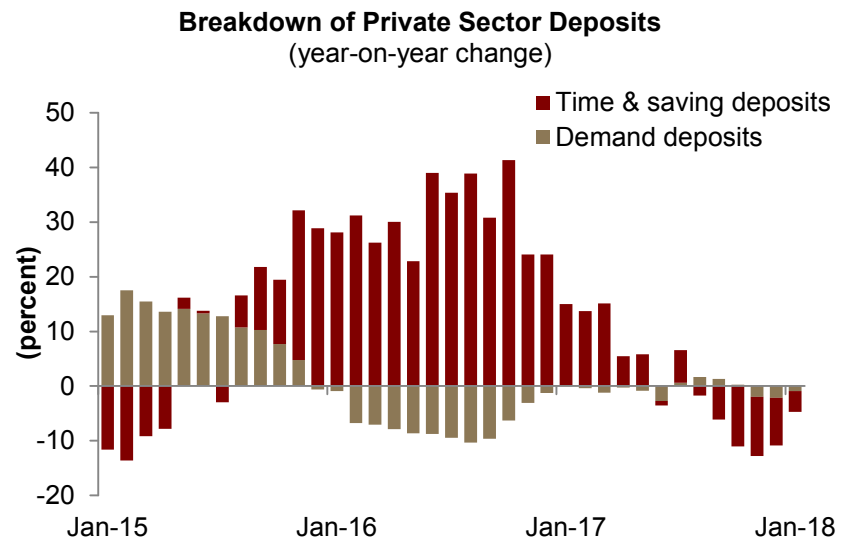
M3 increased by 1.4 percent year-on-year in January, its highest annual growth in 5 months.



The rise in government deposits by 9.4 percent year-on-year in January, might have supported growth in total deposits and M3.



Private sector's time and saving deposits declined by 4 percent year-on-year in January.

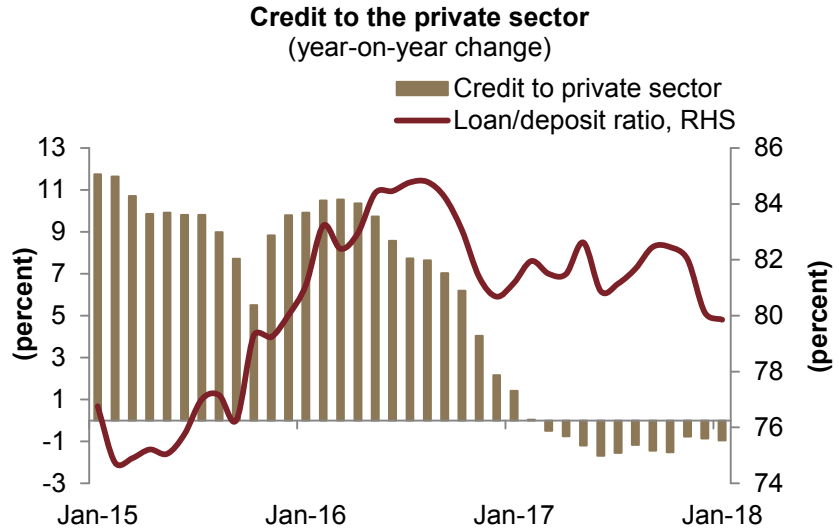




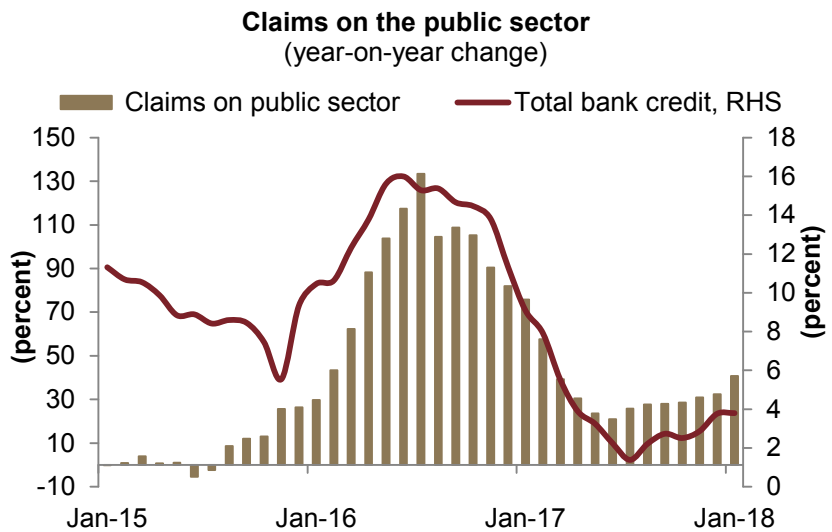
Bank credit

Total bank credit rose by 3.8 percent in January, year-on-year. Whilst credit to the private sector declined by 1 percent, claims on the public sector increased by 40 percent year-on-year, supported by the recent MOF's local sukuk issuances. A breakdown of total bank credit by maturity shows short-term credit declining, whilst medium-term credit increasing in January, year-on-year.

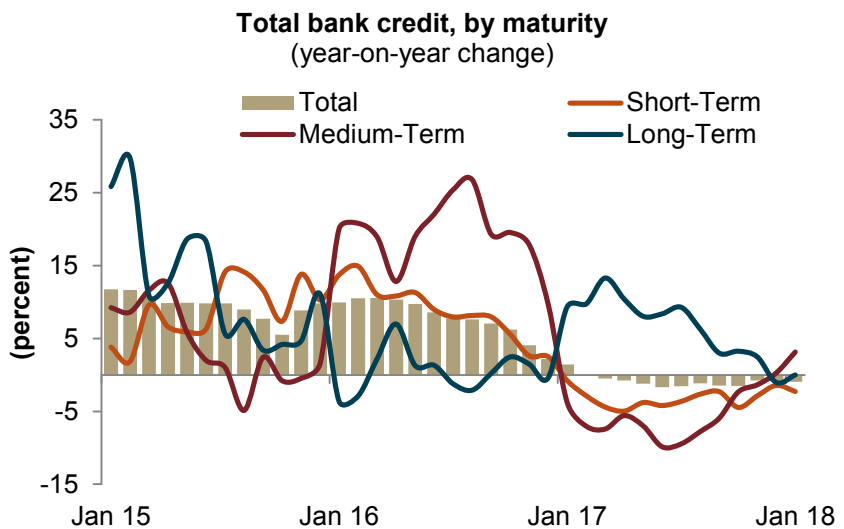
Whilst credit to the private sector declined by 1 percent year-on-year in January...



...claims on the public sector increased 40 percent year-on-year, supported by the recent MOF's local sukuk issuances.



A breakdown of total bank credit by maturity shows short-term credit declining, whilst medium-term credit increasing, year-on-year.

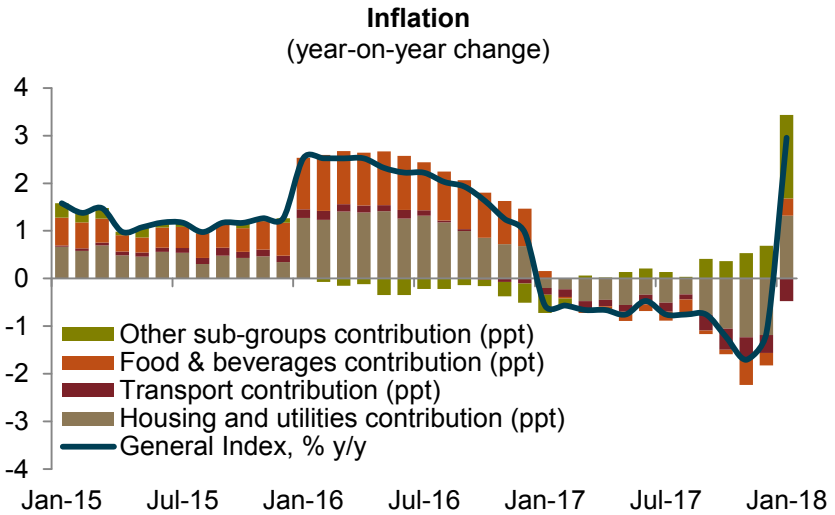




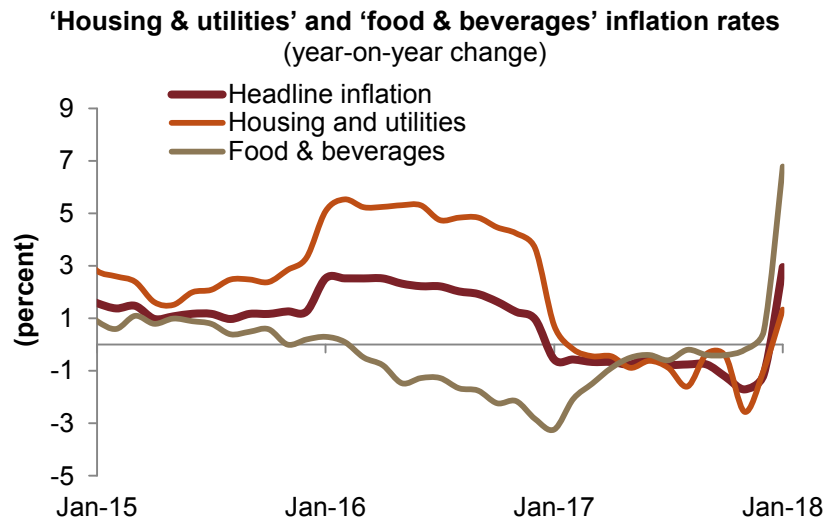
Inflation

Inflation rose in January 2018 by 3 percent year-on-year, and 3.9 percent month-on-month, largely as a result of the implementation of VAT and utility and fuel price reform. 'Housing and utilities' prices rose only by 1.3 percent year-on-year, due to the downward trend in rentals for housing. Whilst 'Food and beverages' prices increased 6.8 percent year-on-year in January.

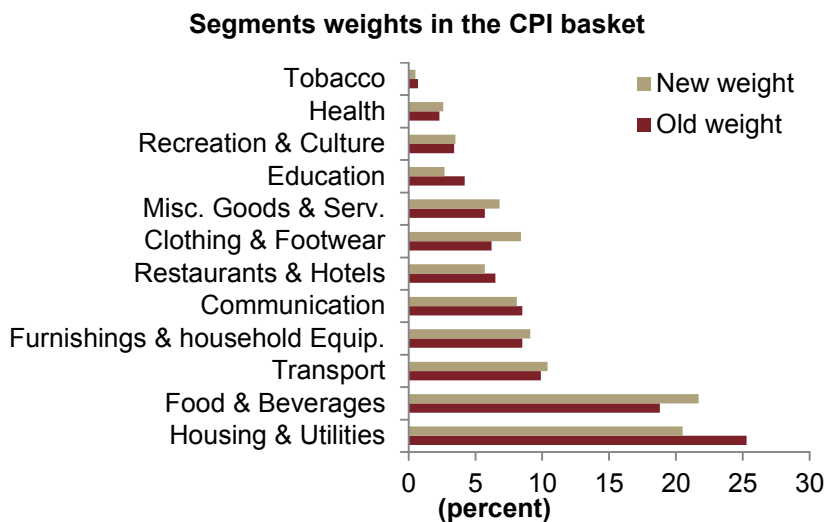
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In January 2018, GaStat revised the CPI data, updated the base year from 2007 to 2013, and revised the weights on the subcomponent series. 'Housing & utilities' weight increased from 21 to 25 percent, whilst the weight of 'food & beverages' has been reduced from 22 to 19 percent. (For more on this, please see our [inflation update](#), published February 2018).

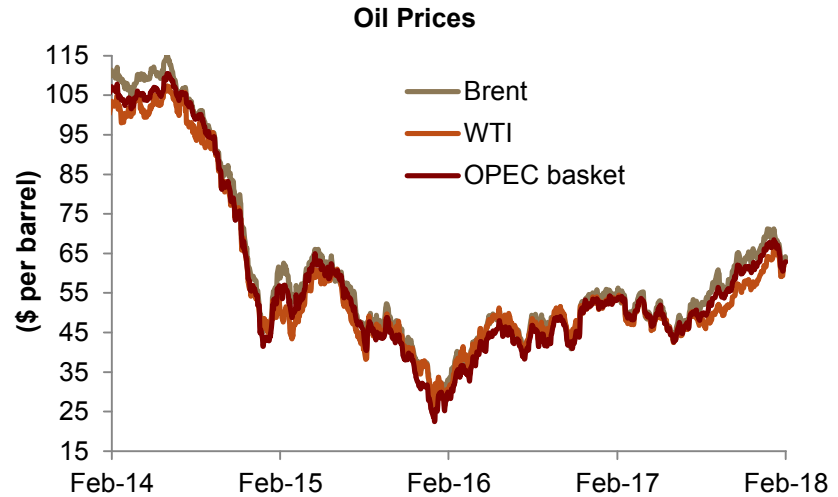




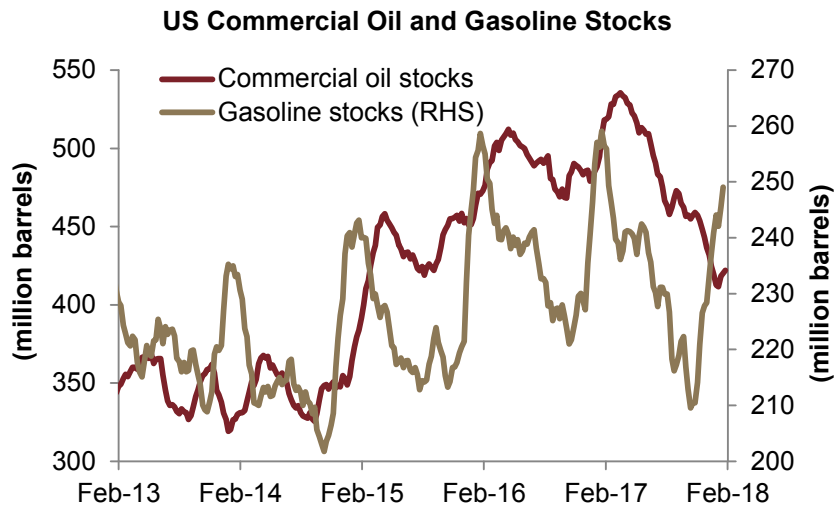
Oil - Global

Global oil prices retreated from three year highs in February as fear of a sharp rise in US crude oil production and a build in commercial oil stocks blunted sentiment. Brent oil prices were down 6.3 percent month-on-month in February whilst WTI oil prices were down 2.3 percent. Meanwhile, latest OPEC data shows that the organization continues to stick to its agreed level of output.

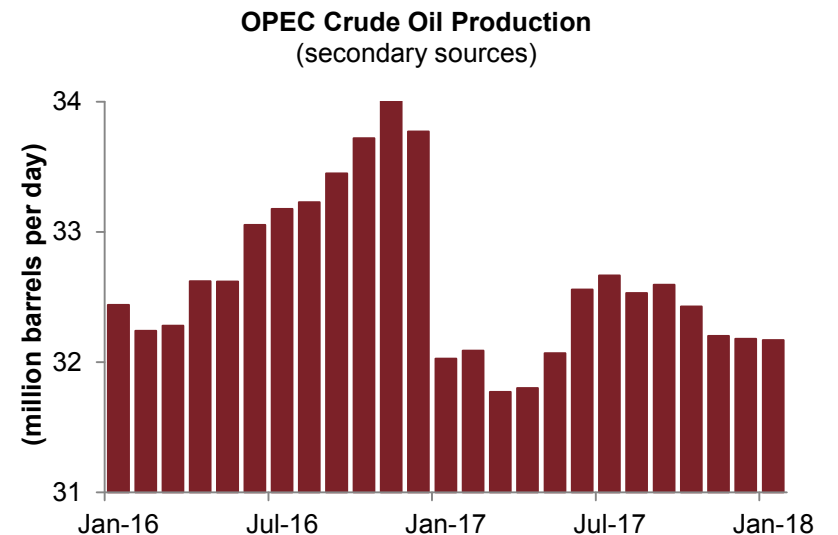
Oil prices lost some ground in February.



Any sizable build up in US commercial oil stocks beyond the usually observed seasonal rise could put further downward pressure on oil prices.



Overall, OPEC adherence to its oil production agreement has helped firm up prices in recent months, although there are question marks over whether the agreement will be maintained until the end of the year.

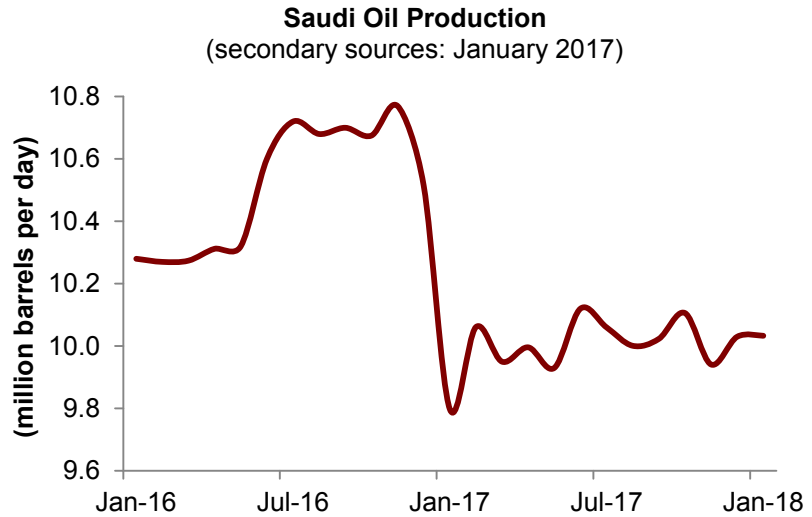




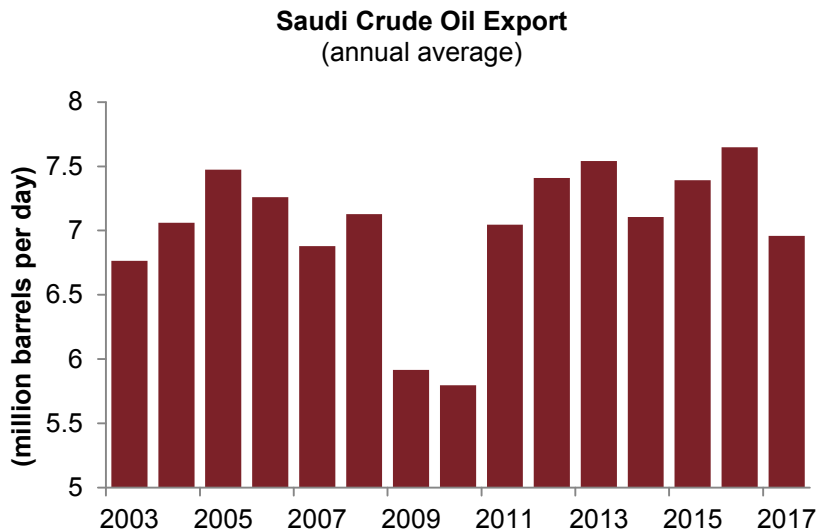
Oil - Regional

Saudi Arabian crude oil production was flat month-on-month in January in adherence to OPEC agreement levels. Meanwhile, latest available official data showed that full year Saudi crude oil exports were down 9 percent year-on-year in 2017, to 6.96 mbpd. Provisional unofficial data shows Saudi exports averaging 7 mbpd in January and 6.6 mbpd in February.

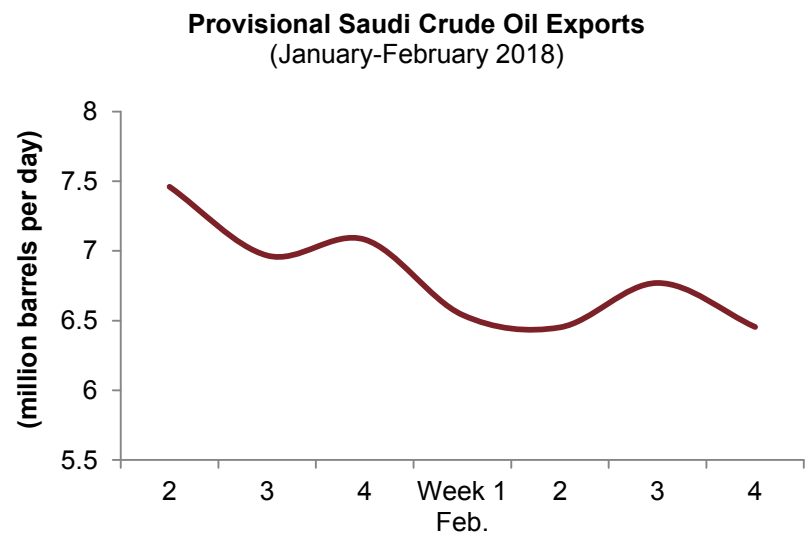
Saudi oil production has been fairly stable in the last few months.



Full year 2017 data shows Saudi crude oil exports averaging their lowest level since 2010...



...with latest unofficial data showing a sizable drop in oil exports in February.



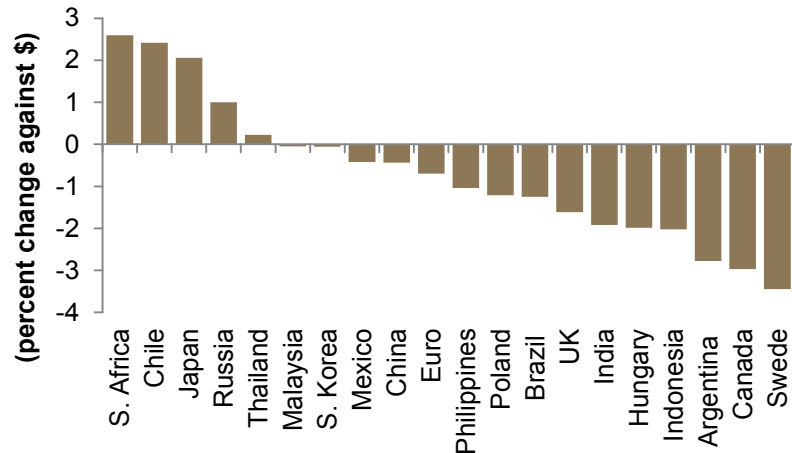


Exchange Rates

The dollar strengthened against most currencies during February as the new US Federal Reserve (Fed) Chairman gave an upbeat assessment of the US economy. The Chairman also re-asserted that US interest rate hikes would take a gradual path during the year. Despite this, many investors are now expecting four US interest rate hikes in 2018, against the previous expectation of three.

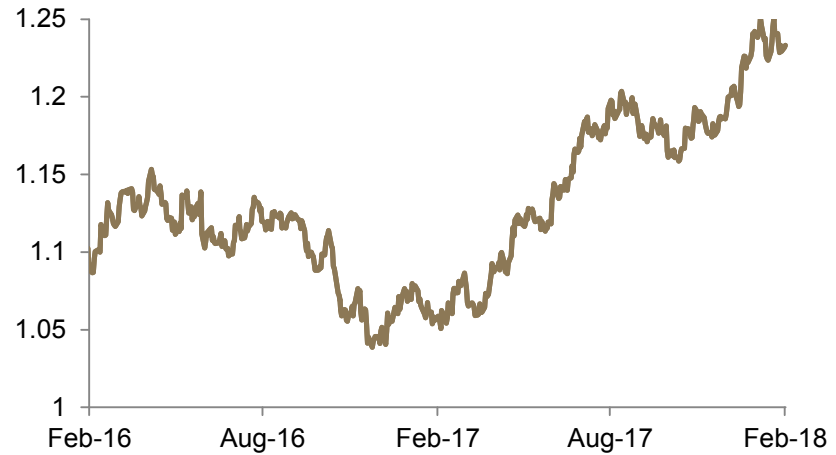
Rising speculation that the Fed will raise interest rates more times than previously expected, led to the dollar rising against most currencies in February.

Monthly Gain/Loss Against US Dollar
(February 2018)



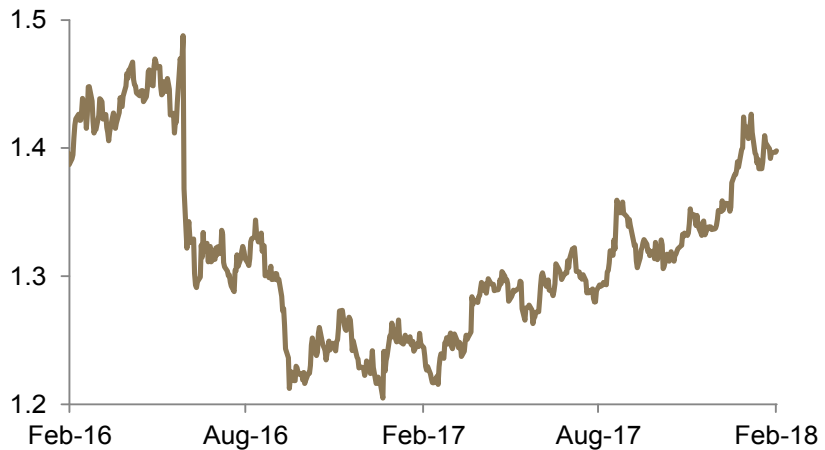
This meant the dollar cut back some of the gains that the euro had seen in the recent months...

UK Pound/US Dollar



...whilst the UK pound's losses during the month were partially a result of continued uncertainty linked to 'Brexit' negotiations.

UK Pound/Euro

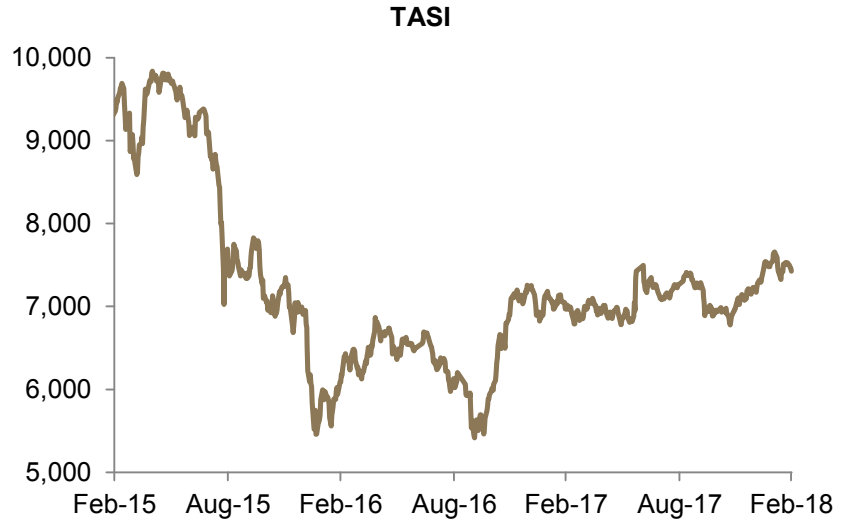




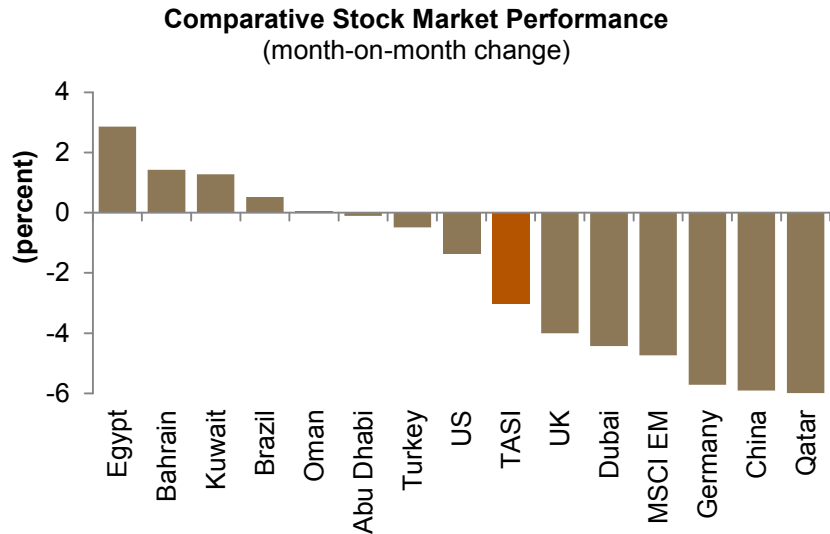
Stock Market

TASI declined by 3 percent month-on-month in February, after three monthly rises. The weaker performance of the Saudi equity market was similar to a trend seen across a number of GCC and international markets, whilst other regional markets performed marginally better, as many global markets were negatively affected by the drop in US markets earlier in the month. The weaker performance of TASI was also reflected in lower monthly turnover.

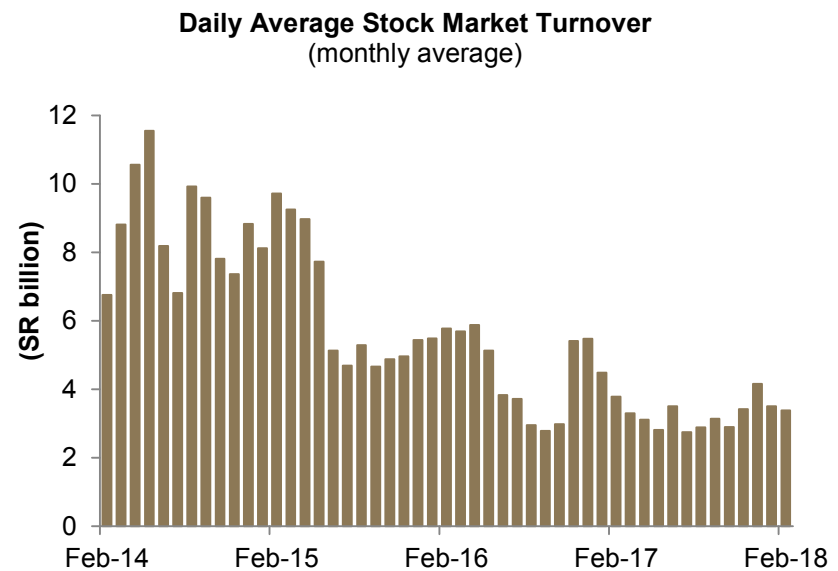
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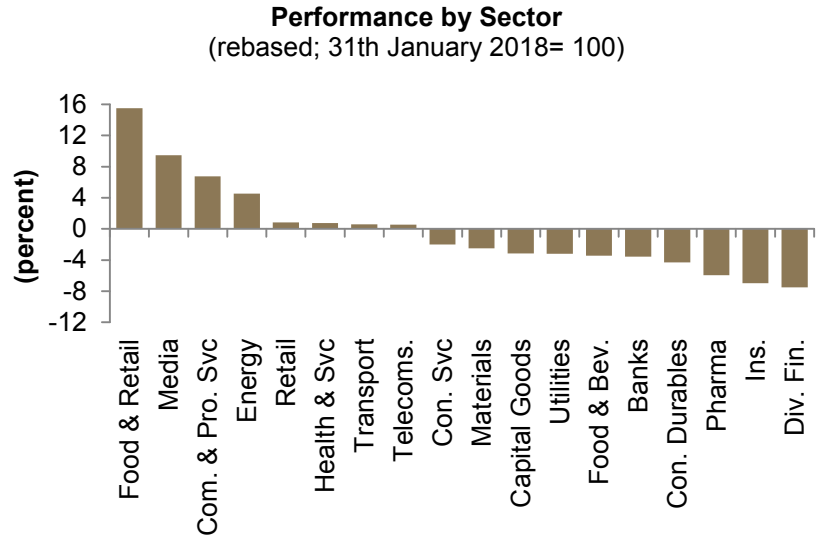




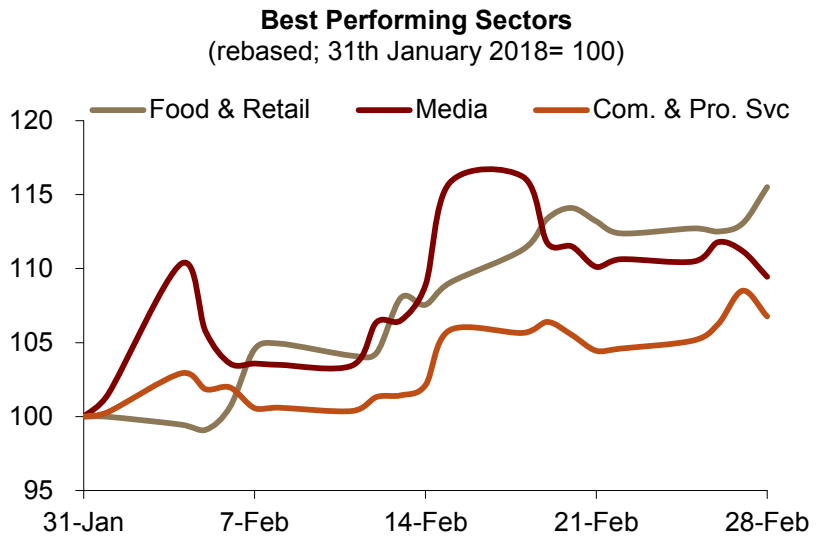
Sectorial Performance

In line with TASI's performance during February, many sectors ended the month declining. Whilst 'food & retail', 'media' and 'commercial & professional services' were the best performers, 'pharma, biotech & life science', 'insurance' and 'diversified financials' were the worst performers during the month.

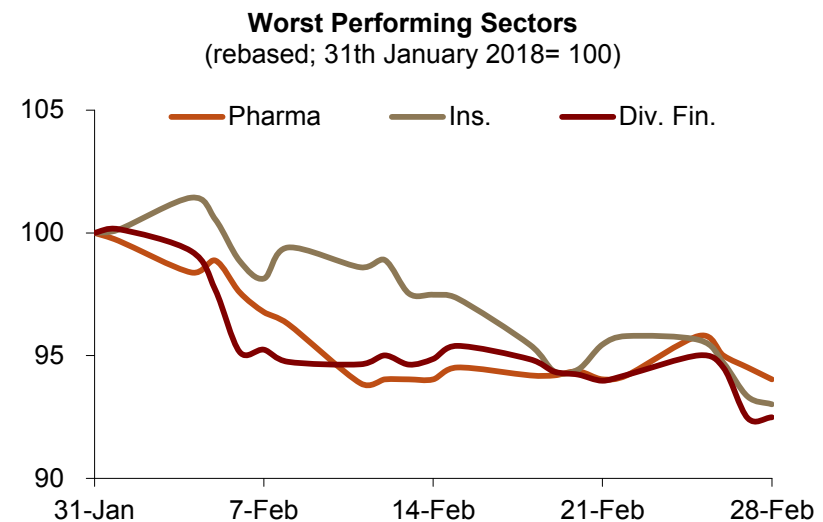
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... 'pharma, biotech & life science', 'insurance' and 'diversified financials' were the worst performers in February.





Key Data

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018F | 2019F |
|-----------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Nominal GDP | | | | | | | | | |
| (SR billion) | 2,517 | 2,760 | 2,800 | 2,836 | 2,454 | 2,419 | 2,564 | 2,817 | 3,052 |
| (\$ billion) | 671 | 736 | 747 | 756 | 654 | 645 | 684 | 751 | 814 |
| (% change) | 27.1 | 9.6 | 1.5 | 1.3 | -13.5 | -1.4 | 6.0 | 9.8 | 8.4 |
| Real GDP (% change) | | | | | | | | | |
| Oil | 12.2 | 5.1 | -1.6 | 2.1 | 5.3 | 3.6 | -3.0 | 1.5 | 3.3 |
| Non-oil private sector | 8.1 | 5.6 | 7.0 | 5.4 | 3.4 | 0.1 | 0.7 | 1.1 | 1.8 |
| Non-oil government | 8.4 | 5.3 | 5.1 | 3.7 | 2.7 | 0.6 | 1.7 | 2.2 | 1.7 |
| Total | 10.0 | 5.4 | 2.7 | 3.7 | 4.1 | 1.7 | -0.7 | 1.5 | 2.4 |
| Oil indicators (average) | | | | | | | | | |
| Brent (\$/b) | 112 | 112 | 110 | 99 | 52 | 43 | 54 | 60 | 65 |
| Saudi (\$/b) | 104 | 106 | 104 | 96 | 49 | 41 | 51 | 58 | 61 |
| Production (million b/d) | 9.3 | 9.8 | 9.6 | 9.7 | 10.2 | 10.4 | 10.0 | 10.1 | 10.3 |
| Budgetary indicators (SR billion) | | | | | | | | | |
| Government revenue | 1,118 | 1,247 | 1,156 | 1,044 | 616 | 519 | 696 | 755 | 843 |
| Government expenditure* | 838 | 916 | 994 | 1,140 | 999 | 935 | 926 | 978 | 1,006 |
| Budget balance | 280 | 331 | 162 | -96 | -383 | -416 | -230 | -223 | -163 |
| (% GDP) | 11.1 | 12.0 | 5.8 | -3.4 | -15.6 | -17.2 | -9.0 | -7.9 | -5.3 |
| Gross public debt | 135 | 99 | 60 | 44 | 142 | 317 | 443 | 560 | 673 |
| (% GDP) | 5.4 | 3.6 | 2.1 | 1.6 | 5.8 | 13.1 | 17.3 | 19.9 | 22.0 |
| Monetary indicators (average) | | | | | | | | | |
| Inflation (% change) | 3.3 | 2.9 | 3.5 | 2.2 | 1.2 | 2.1 | -0.8 | 3.1 | 1.1 |
| SAMA base lending rate (% , end year) | 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 | 318 | 337 | 322 | 285 | 153 | 137 | 159 | 180 | 199 |
| Total export revenues | 365 | 388 | 376 | 342 | 204 | 184 | 210 | 232 | 255 |
| Imports | 120 | 142 | 153 | 158 | 159 | 128 | 117 | 120 | 127 |
| Trade balance | 245 | 247 | 223 | 184 | 44 | 56 | 93 | 112 | 128 |
| Current account balance | 159 | 165 | 135 | 74 | -57 | -28 | 9 | 28 | 44 |
| (% GDP) | 23.6 | 22.4 | 18.1 | 9.8 | -8.7 | -4.3 | 1.2 | 3.8 | 5.5 |
| Official reserve assets | 544 | 657 | 726 | 732 | 616 | 534 | 496 | 474 | 458 |
| Social and demographic indicators | | | | | | | | | |
| Population (million) | 28.2 | 28.9 | 29.6 | 30.3 | 31.0 | 31.7 | 32.6 | 33.3 | 33.9 |
| Saudi Unemployment (15+, %) | 12.4 | 12.1 | 11.7 | 11.7 | 11.5 | 12.5 | 12.8 | 11.8 | 11.0 |
| GDP per capita (\$) | 23,827 | 25,471 | 25,223 | 24,962 | 21,095 | 20,318 | 20,968 | 22,585 | 24,027 |

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

Sources: Jadwa Investment forecasts for 2018 to 2019. 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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