



## Summary

**Real Economy:** Economic indicators improved in February, as POS transactions rose by 8.7 percent year-on-year, recovering from a significant drop in January.

**Q4 GDP Results:** Data on Q4 real GDP showed the economy contracted by 1.1 percent, year-on-year in 2017.

**Government Finance:** The net monthly change to government accounts with SAMA declined by SR10 billion in February.

**SAMA Foreign Reserve Assets:** SAMA FX reserves declined \$7.2 billion month-on-month in February, following a decline in January.

**Money Supply and Deposits:** Broad measure of money supply (M3) rose by 2 percent year-on-year in February.

**Bank Credit:** Credit to the private sector declined by 0.9 percent in February.

**Interest Rates:** SAMA raised its key interest rate, the repo and the reverse repo rates, by 25 basis points in March.

**Personal transfers and remittances:** rose 28 percent year-on-year in February, to a total of \$5 billion.

**Inflation:** Prices rose by 3 percent year-on-year in February, but remained almost flat month-on-month, following a hike in January.

**Oil - Global:** Fears of the US government withdrawing from the 2015 Iran nuclear deal and re-imposing sanctions is keeping prices at around \$70 pb.

**Oil - Regional:** Latest available official data shows Saudi crude oil exports were up 2 percent month-on-month in January.

**Exchange Rates:** Despite the Fed hiking interest rates in March, and another two hikes expected in 2018, the US dollar's outlook in the near term is likely to be affected by rising trade tensions.

**Stock Market:** A number of positive developments, including the FTSE Russell Inclusion, lifted investor sentiment and led to an improvement in the performance of the Saudi stock market by 9 percent since the beginning of the year.

**Valuations:** An uptick in listed company earnings helped push price-to-earnings (PE) ratio down in March.

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

**Q4 Listed Company Results:** Q4 2017 listed company results were up on a yearly basis but down on a quarterly basis.

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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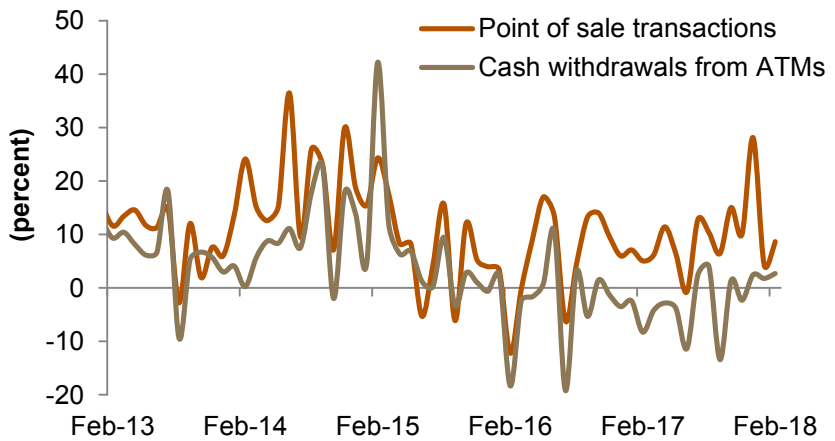


## Real Economy

Economic indicators improved in February, as POS transactions rose by 8.7 percent year-on-year, recovering from a significant drop in January. ATM withdrawals were also up 2.7 percent year-on-year. Whilst the non-oil PMI index showed an improvement in February, cement sales continued to drop, with a 10 percent decline year-on-year during the month.

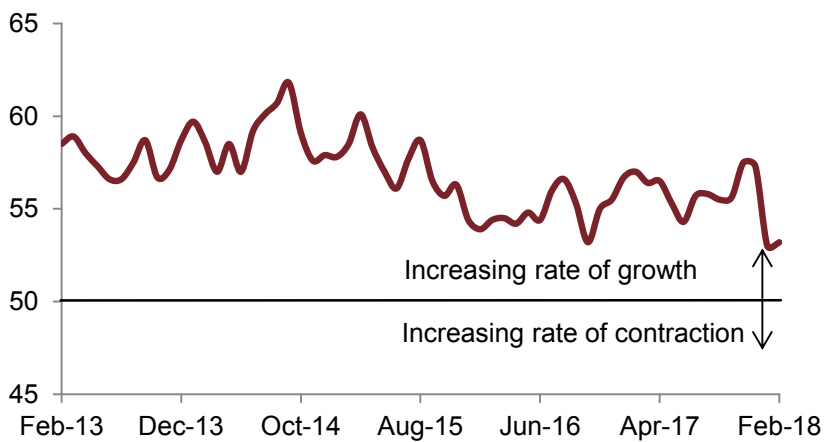
*POS transactions rose by 8.7 percent year-on-year, recovering from a significant drop in January. ATM withdrawals were also up 2.7 percent year-on-year.*

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



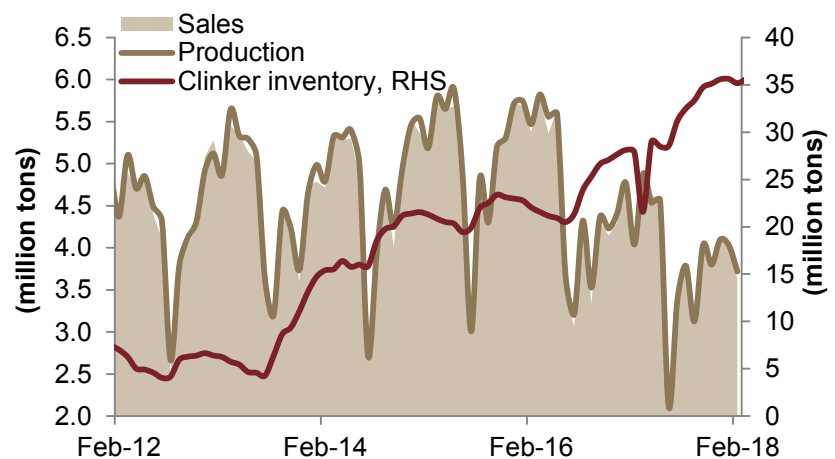
*Non-oil PMI index marginally improved in February, after a significant drop in January, signaling a modest rate of growth in non-oil activities during the month.*

**Purchasing Managers' Index**



*Meanwhile, cement sales dropped by 10 percent year-on-year during the month. Added to that, production also dropped by 8 percent year-on-year in February.*

**Cement Production, Sales and Clinker Inventory**





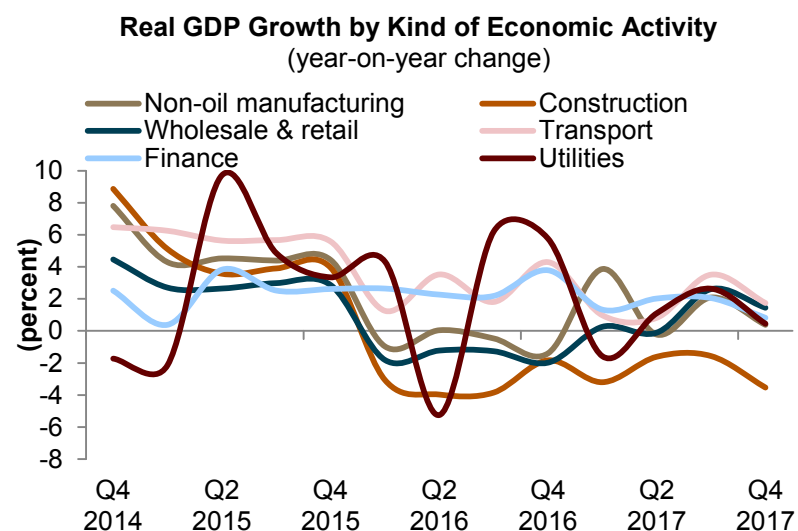
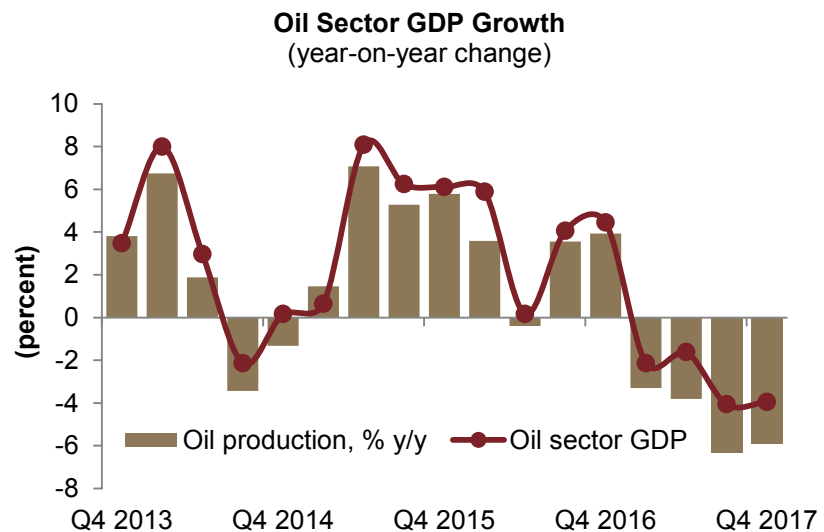
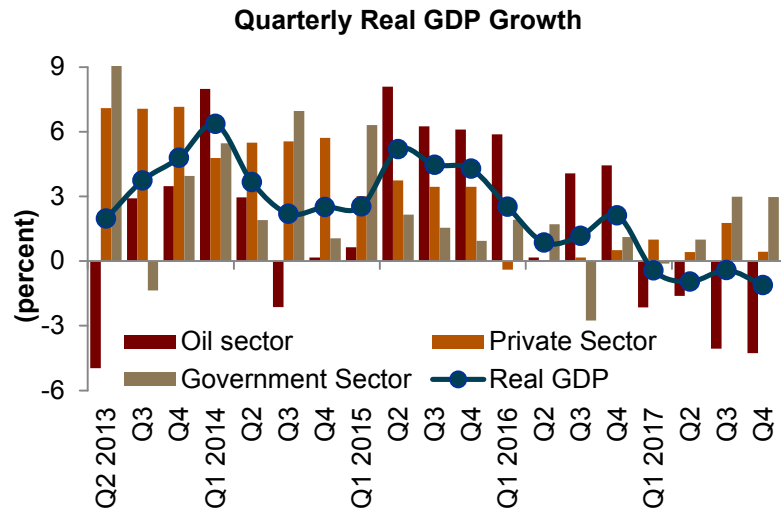
## Quarterly GDP Growth

Data on Q4 2017 real GDP showed that the economy contracted by 1.1 percent, year-on-year. In line with our forecasts, growth was mainly dragged by the oil sector (-4.3 percent), whilst non-oil GDP showed better growth, at 1.3 percent. Within the non-oil sector, private sector GDP rose by 0.4 percent with government sector GDP rising by 3 percent.

The latest set of data suggests that the non-oil private sector growth averaged 0.9 percent in 2017, compared to the previous preliminary estimate of 0.7 percent.

Oil sector GDP, which dropped by 4.3 percent, year-on-year in Q4 2017, reflected the steep cut in oil production by the Kingdom, in line with OPEC's output agreement.

Only one sector, construction, showed negative growth in the non-oil economy in Q4, dropping by -3.5 percent. Transport (up 1.7 percent) and retail (up 1.4 percent) were the best performing sectors.



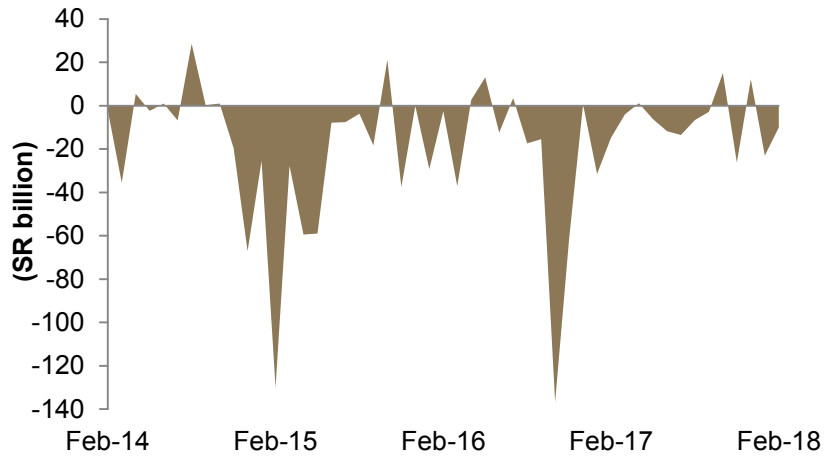


## Government Finance

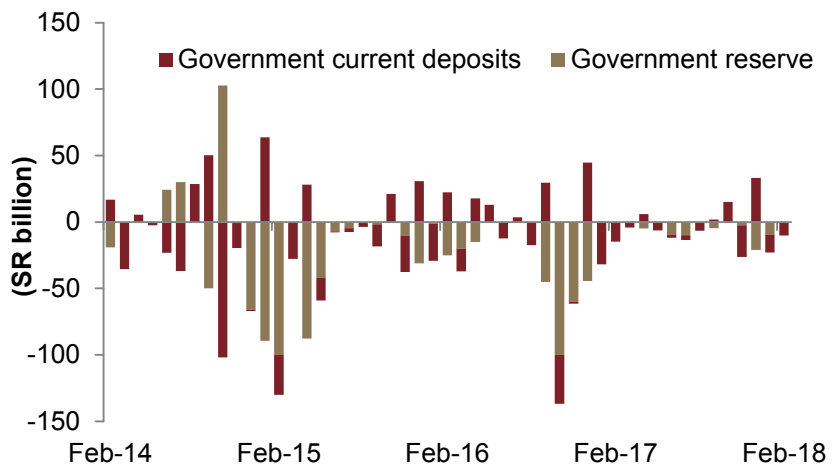
The net monthly change to government accounts with SAMA declined by SR10 billion month-on-month in February, mainly coming from a decline in government current deposits, by SR10 billion during the month. At the same time, domestic banks net holdings of government debt rose by SR7.2 billion in February, following a domestic sukuk issuance during the month.

*The net monthly change to government accounts with SAMA declined by SR10 billion month-on-month in February...*

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

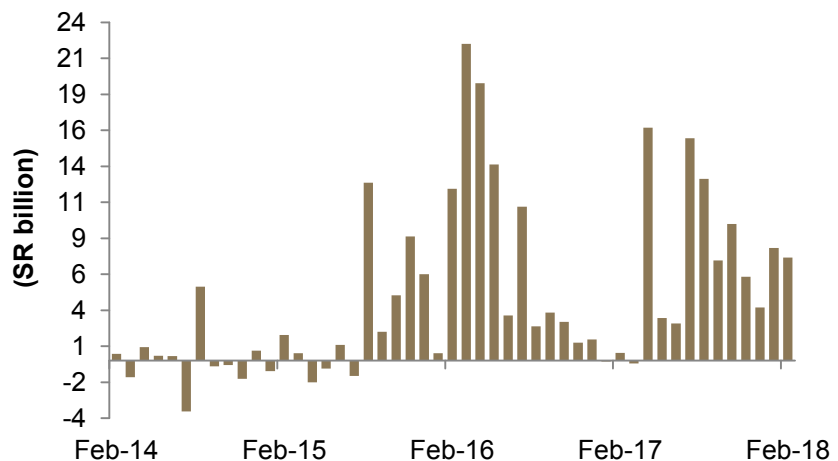


**Breakdown of Government Accounts with SAMA**  
(month-on-month change)



*...mainly coming from a decline in government current deposits, by SR10 billion during the month, whilst government reserve remained unchanged.*

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



*Domestic banks net holdings of government debt rose by SR7.2 billion in February, following a domestic sukuk sale by SR7.2 billion, as Ministry of Finance reopened an issue originally made in January.*

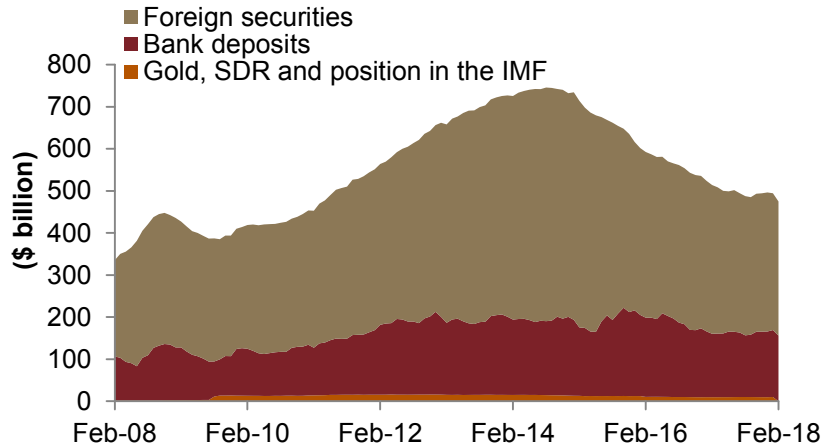


## SAMA Foreign Reserve Assets

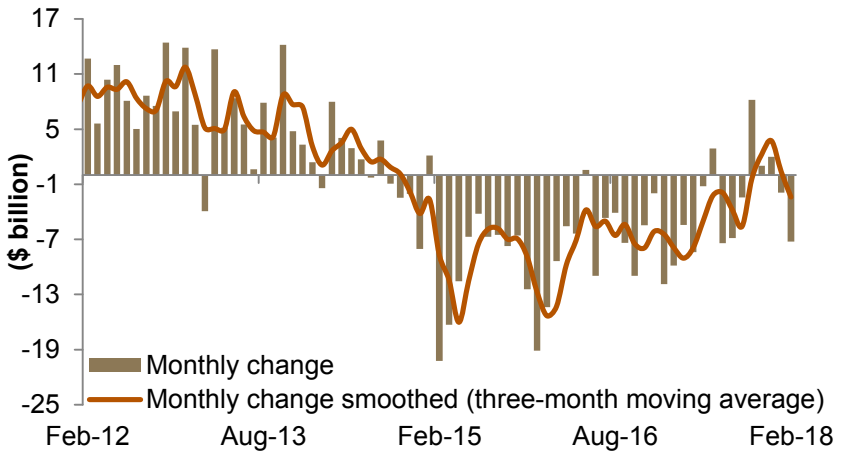
SAMA FX reserves declined by \$7.2 billion month-on-month to stand at \$487.3 billion in February, following a decline by almost \$2 billion in January. A breakdown of FX reserves shows the recent decline came mainly from another monthly decline in foreign securities, which fell by \$6.3 billion in February.

*SAMA FX reserves declined by \$7.2 billion month-on-month to stand at \$487.3 billion in February, its lowest level in five months...*

**SAMA Total Foreign Reserve Assets**

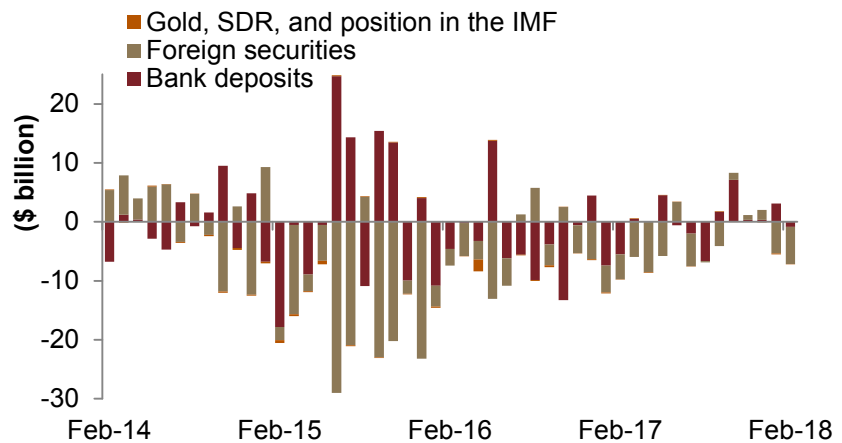


**SAMA Foreign Reserve Assets (month-on-month change)**



*... following a previous decline in January, to be the largest monthly decline in seven months.*

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



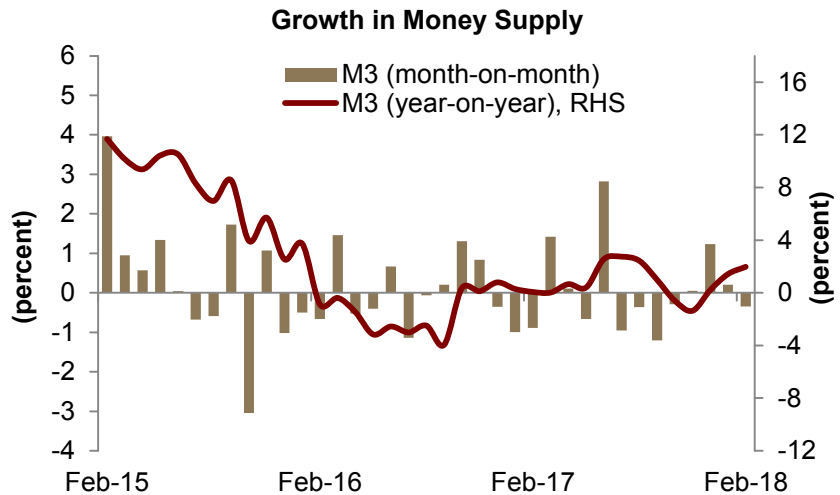
*A breakdown of FX reserves shows the recent decline came mainly from another monthly decline in foreign securities, which dropped by \$6.3 billion in February.*



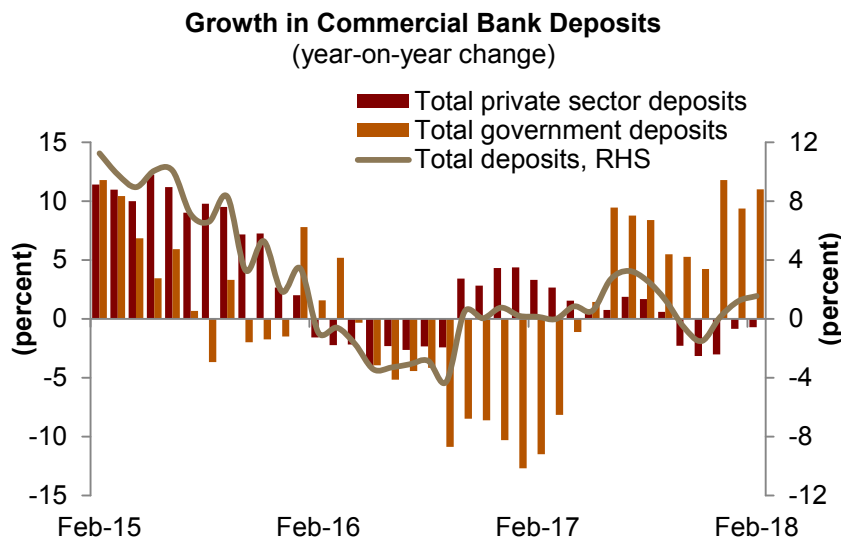
## Money Supply and Deposits

Broad measure of money supply (M3) rose by 2 percent year-on-year in February, its highest monthly rise in six months. Looking into the breakdown in deposits, the continuous rise in government deposits, by 11 percent year-on-year in February, likely supported growth in total deposits and M3. Meanwhile, private sector's time and saving deposits fell by 5.7 percent year-on-year in February.

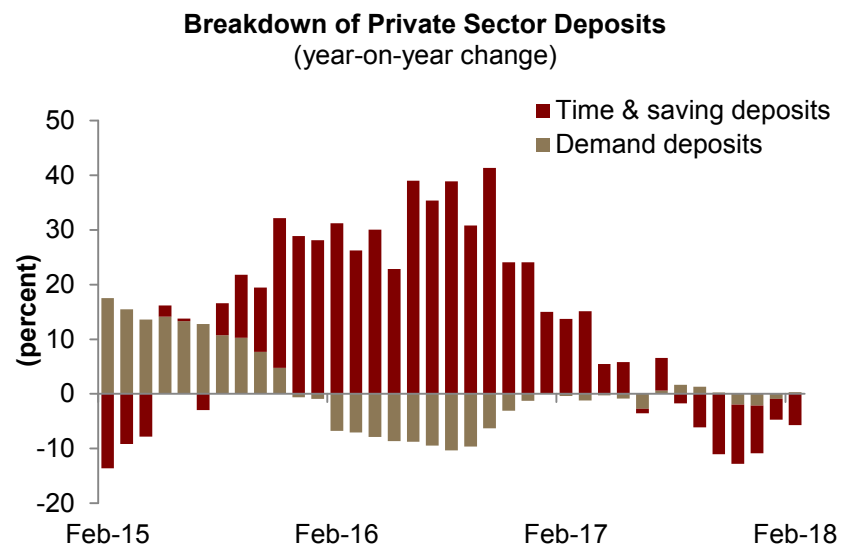
*M3 rose by 2 percent year-on-year in February, its highest monthly rise in six months.*



*The continuous rise in government deposits, by 11 percent year-on-year in February, likely supported growth in M3 and total deposits, which rose by 1.6 percent year-on-year, its highest rise in six months.*



*Meanwhile, private sector's time and saving deposits declined by 5.7 percent year-on-year in February, remaining in the negative territory for the seventh month in a row.*





## Bank Credit

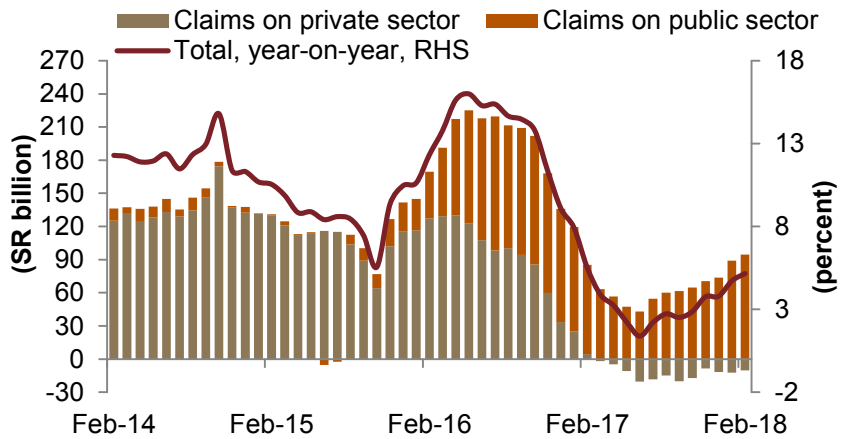
Total bank claims rose by 5.2 percent in February, year-on-year. Credit to the private sector declined by 0.9 percent, putting it in the negative territory for the last 12 month. By credit maturity, long-term credit fell by 4.6 percent year-on-year, its largest monthly decline since 2009. The loan-to-deposit ratio has eased recently, standing at 80.1 percent in February, well below SAMA's limit of 90 percent.

Total bank claims rose by 5.2 percent in February, year-on-year. Credit to the private sector declined by 0.9 percent, putting it in the negative territory for the last 12 month.

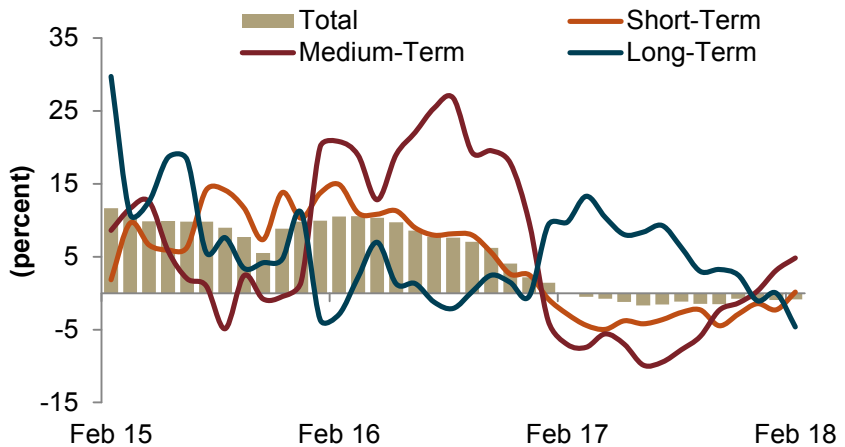
By credit maturity, long-term credit fell by 4.6 percent year-on-year, its largest monthly decline since 2009.

The loan-to-deposit ratio has eased in recent months, standing at 80.1 percent during February, well below SAMA's limit of 90 percent.

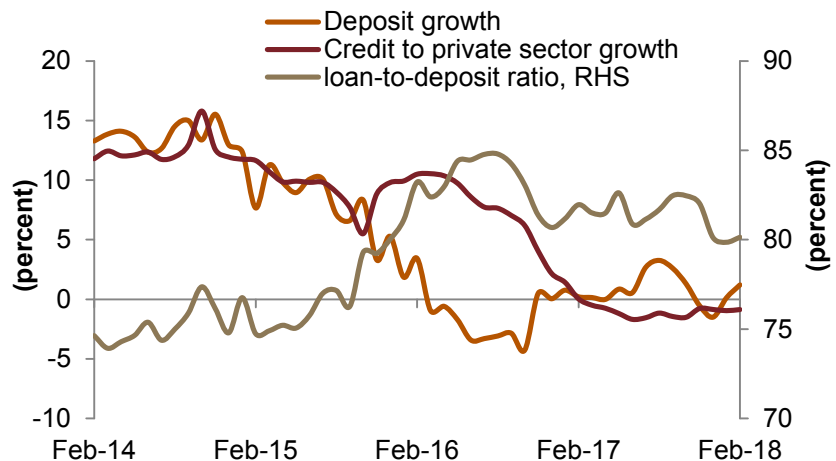
**Breakdown of Bank Claims**  
(year-on-year change)



**Total Bank Credit, by Maturity**  
(year-on-year change)



**Total Bank Deposits and Credit Growth**  
(year-on-year change)





## Interest Rates

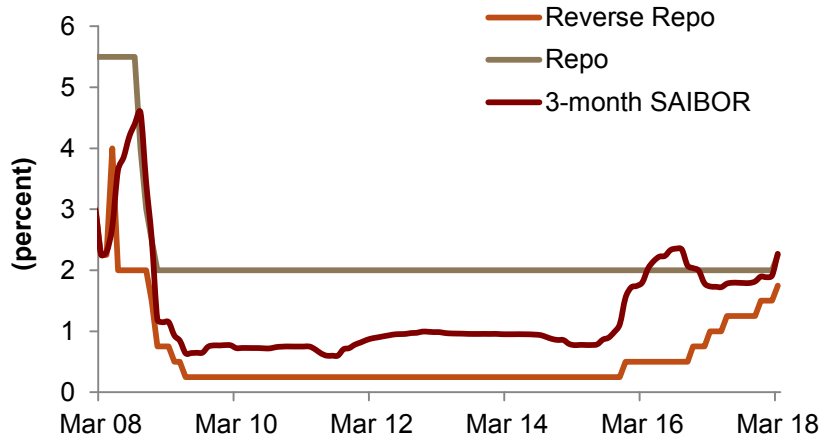
SAMA raised its key interest rates, the repo and the reverse repo rate, by 25 basis points in March. Whilst SAMA has been raising the reverse repo rate over the past two years in-line with the US rate changes, it is the first time the repo rate has changed since 2009. SAMA had kept the repo rate unchanged up until now, in order to maintain borrowing rates at low levels.

*On March 15th, SAMA raised its key interest rates, the repo and the reverse repo rates, by 25 basis points each, prior to the hike in interest rates by the US Federal Reserve.*

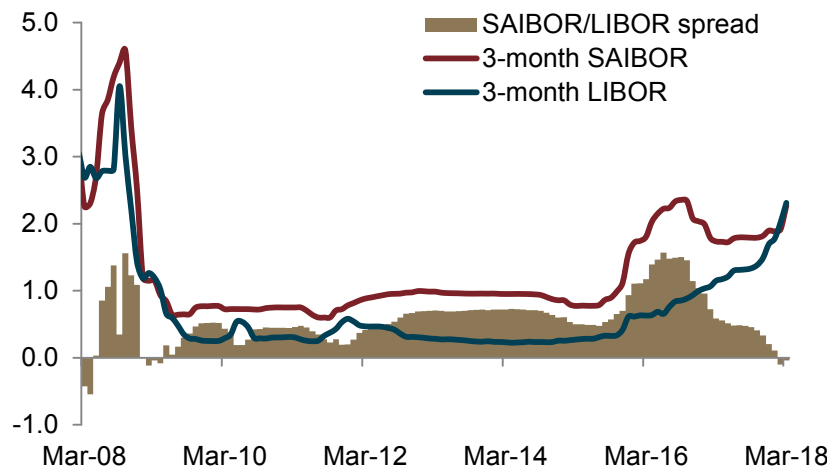
*This is mostly likely because of the US Libor marginally exceeding Saibor during the month, the first time since 2009. If this happens again, SAMA could raise the repo rate preemptively during the year.*

*Meanwhile, latest survey data shows a high probability of an additional US interest rate hike, by 25 bps, in June 2018.*

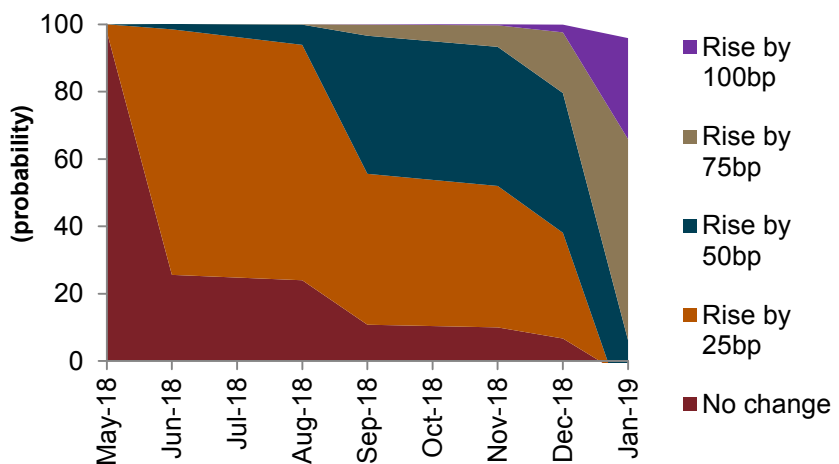
**Repo and Reverse Repo Rates**



**Saibor and Libor Rates**



**US Interest Rates Rise Probability**



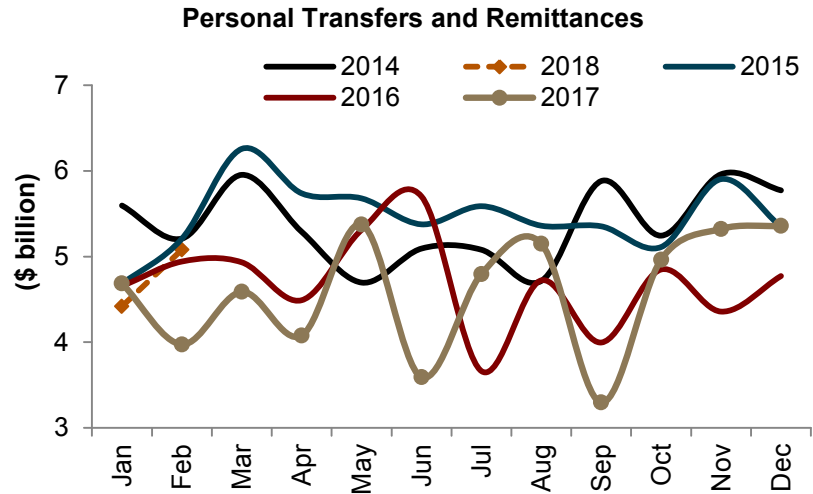




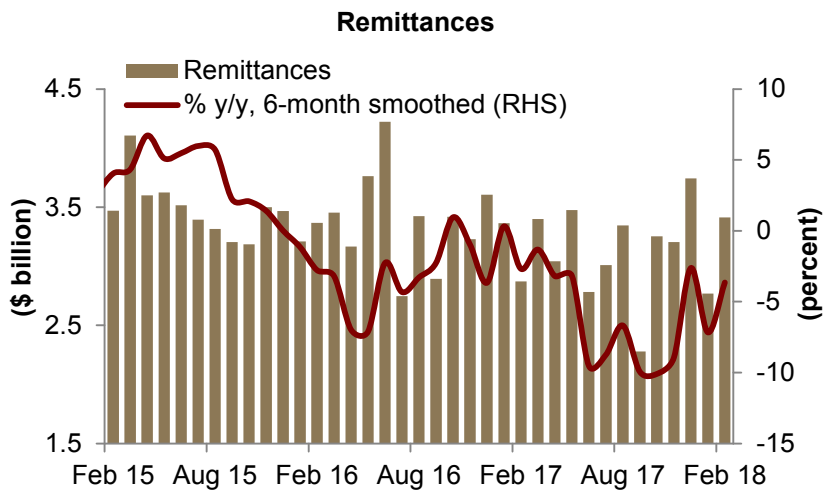
## Personal Transfers & Remittances

Personal transfers and remittances combined rose 28 percent year-on-year in February, to a total of \$5 billion. Remittances rose 18 percent, whilst personal transfers rose by 52 percent year-on-year. Personal transfers have been steadily rising since August 2017 and have remained elevated since then. That said, personal transfers only constitute circa 30 percent of total transfer/remittances.

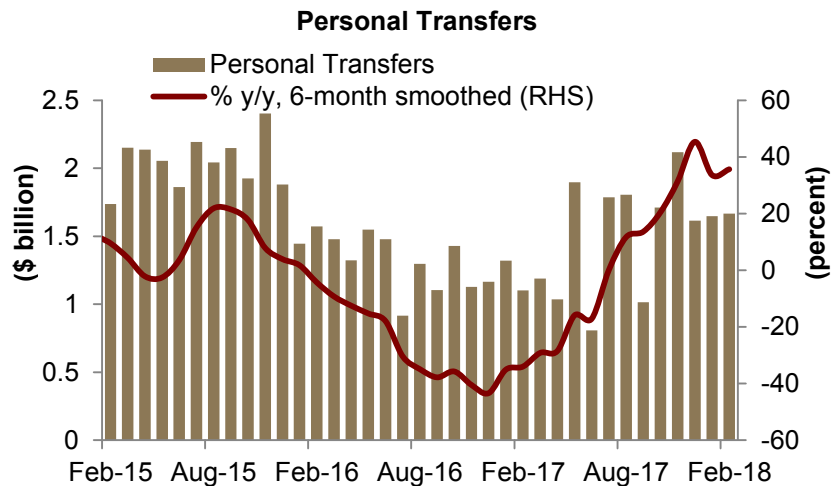
*Personal transfers and remittances totaled \$5 billion in February, comparable to levels of 2014 and 2015.*



*Whilst remittances are lower on a yearly basis...*



*...personal transfers have been rising since August last year.*





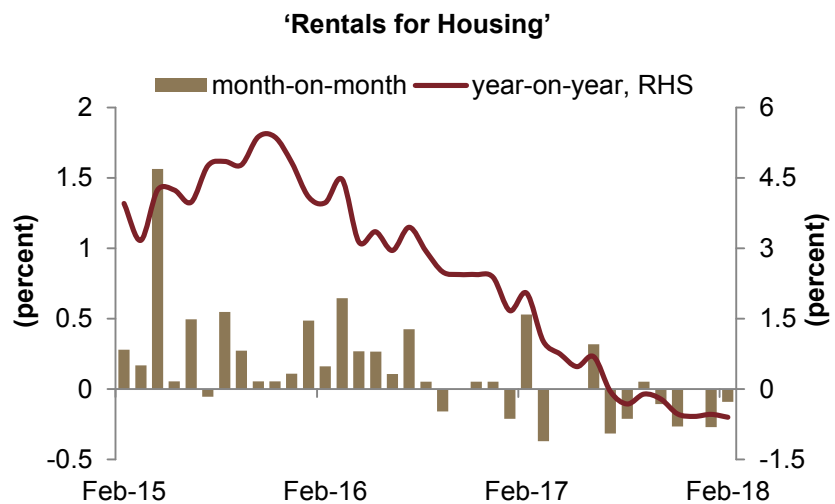
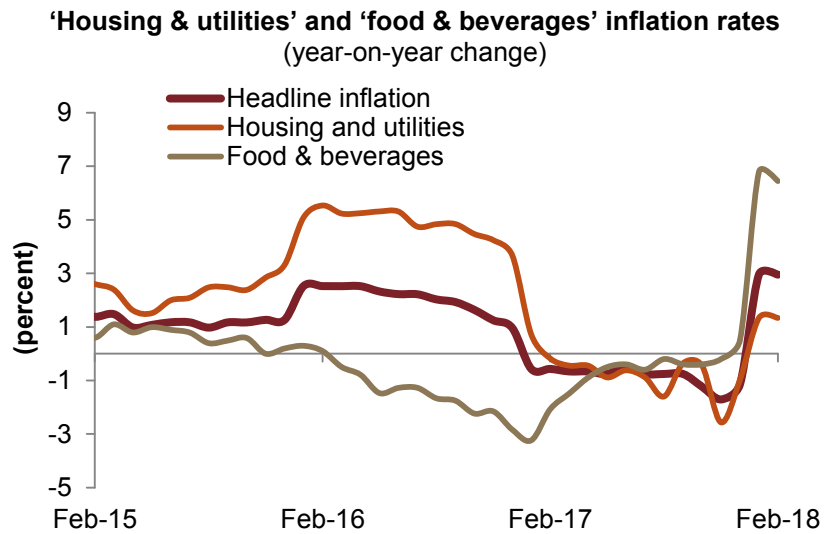
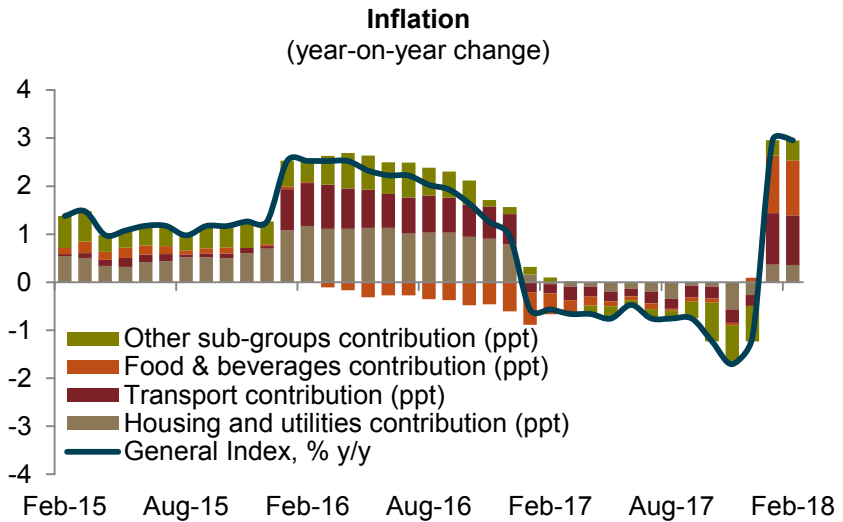
## Inflation

Prices rose in February by 3 percent year-on-year, but remained almost flat month-on-month, following a hike in January, when prices were pushed up by VAT implementation. 'Food and beverages' prices increased by 6.4 percent, and 'housing and utilities' rose by 1.3 percent, year-on-year. However, 'rentals for housing' continued to decline by 0.6 percent year-on-year during February.

Prices remained almost flat month-on-month, as only four segments saw lower prices compared to January: 'transport' by -0.2 percent, 'communication' by -0.1 percent, 'recreation & culture' by -0.1 percent, and 'miscellaneous goods & services' by -0.2 percent.

'Food & beverages' prices increased by 6.4 percent year-on-year, and 0.3 percent month-on-month during February...

...meanwhile, 'Housing & utilities' remained flat month-on-month, despite the decline in 'rentals for housing', which fell by 0.1 percent month-on-month in February.

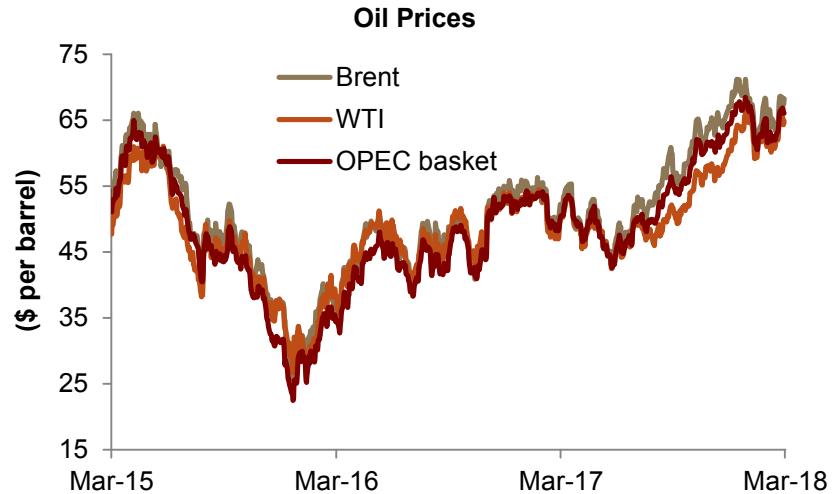




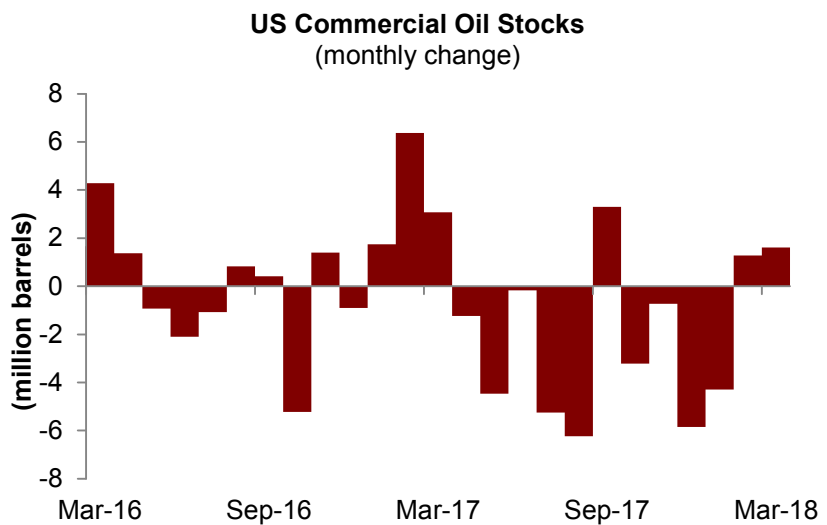
## Oil - Global

Rising regional tension and the threat of US re-applying sanctions on Iran lifted oil back towards \$70 pb in March. Both Brent and WTI were up 1 percent month-on-month in March despite a build up US commercial crude oil stocks. Meanwhile, latest available data for February shows that OPEC continues to maintain strong levels of compliance to production targets.

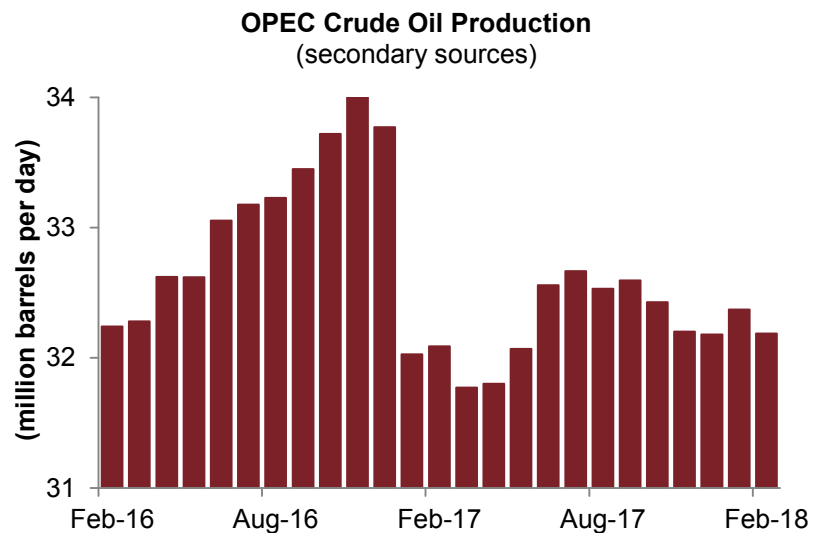
*Fears of the US government withdrawing from the 2015 Iran nuclear deal and re-imposing sanctions is keeping prices at around \$70 pb. This in turn has helped push oil prices to an average of \$67 pb in Q1 2018, the highest level since Q4 2014.*



*Oil prices remain elevated despite a build-up in US crude oil stocks.*



*Meanwhile, OPEC continues to produce at levels consistent with targeted output, at around 32 mbpd.*





## Oil - Regional

Latest OPEC data shows that Saudi crude oil production was flat month-on-month in February, at just below 10 mbpd. Meanwhile, latest available official data shows Saudi crude oil exports were up 2 percent month-on-month in January. This is in line with seasonally observed lower domestic crude oil demand resulting in more barrels for export.

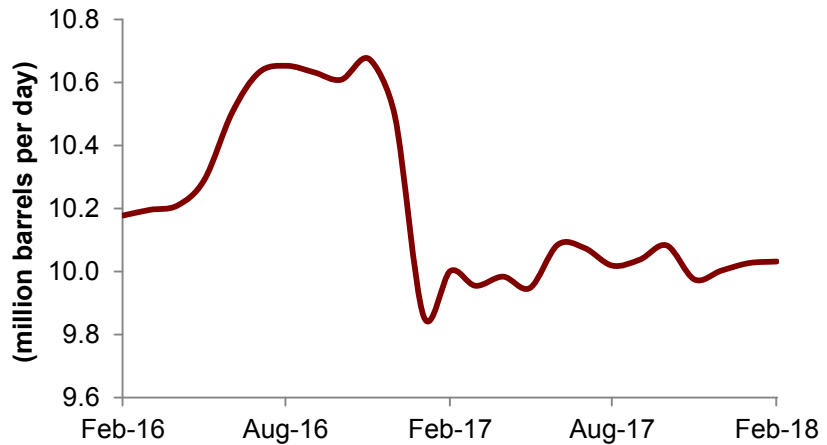
*Saudi Arabia is still complying with OPEC production targets, with minimal monthly change in oil production in February*

*That said, oil export were up 2 percent month-on-month, to 7.7 mbpd in January, with unofficial estimates suggesting some uplift in exports in the months ahead.*

*Saudi exports usually rise during the winter months, as cooler temperatures result in lower domestic crude oil burn for electricity generation.*

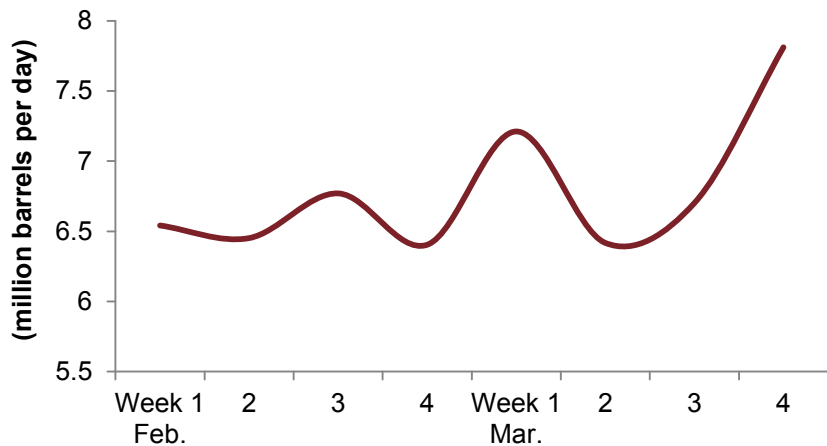
**Saudi Oil Production**

(secondary sources: February 2018)

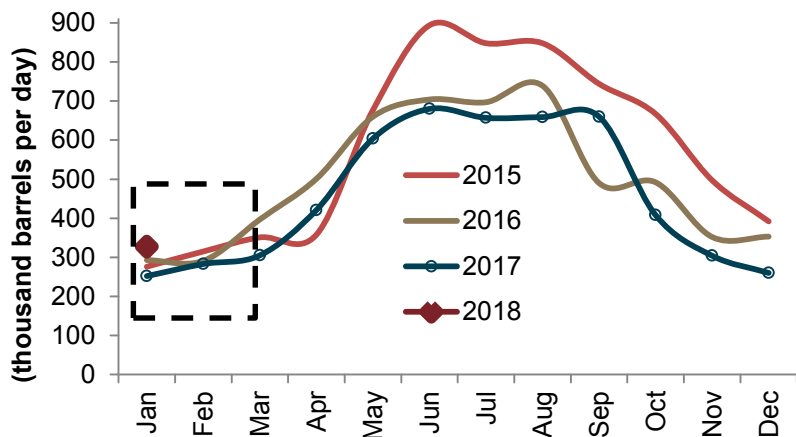


**Provisional Saudi Crude Oil Exports**

(February-March 2018)



**Domestic Crude Oil Burn**



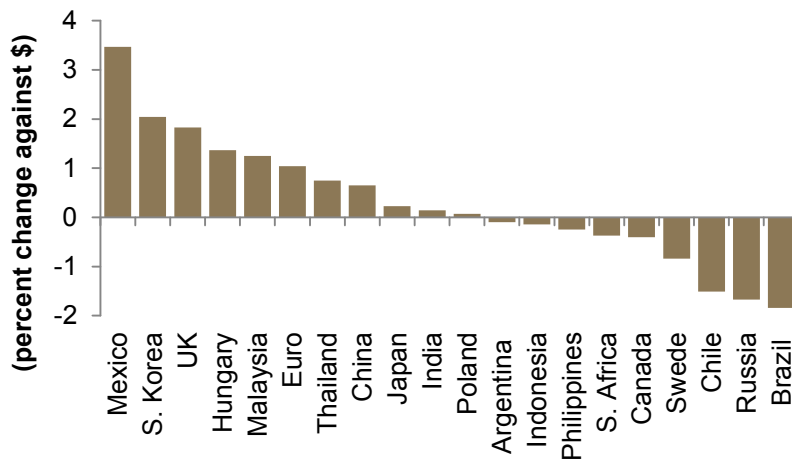


## Exchange Rates

The US dollar saw a mixed performance in March. Whilst the US Federal Reserve (Fed) raised the fund rate from 1.5 percent to 1.75 percent, its highest level in a decade, the dollar was pressured by fears of a trade war. During the month, the US imposed tariffs on Chinese steel and aluminum, which was swiftly countered by China imposing higher duties on some US goods.

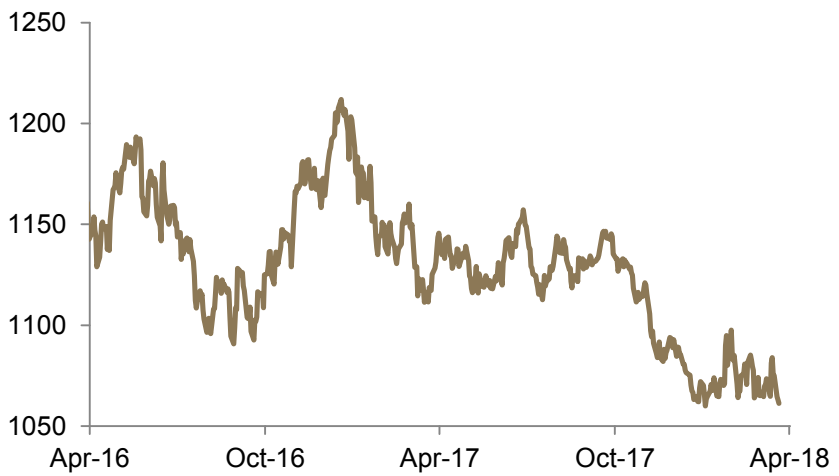
*Despite the Fed hiking interest rates in March, with another two hikes expected in 2018, the US dollar's outlook in the near term is likely to be affected by rising trade tensions.*

**Monthly Gain/Loss Against US Dollar**  
(March 2018)



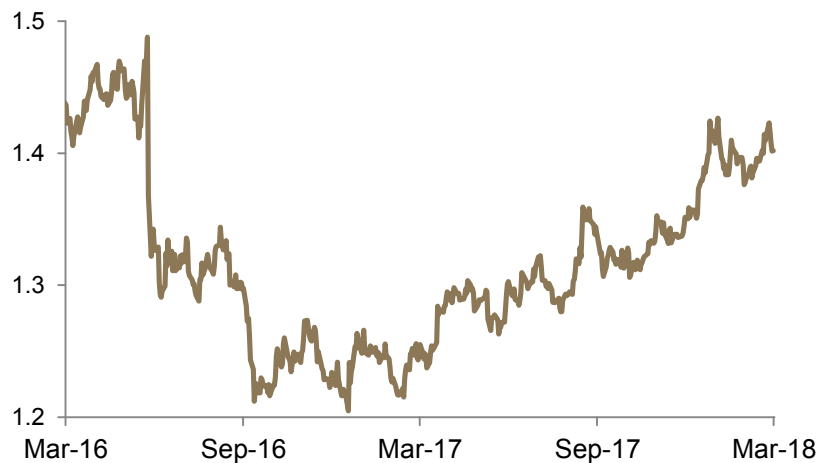
*That said, some countries saw an improvement against the dollar. South Korea's Won improved on news suggesting an easing of tensions with neighboring North Korea...*

**Korean Won/US Dollar**



*...whilst the UK pound saw a rise, with inflationary pressure expected to push the Bank of England to raise interest rates in May.*

**UK Pound/US Dollar**





## Stock Market

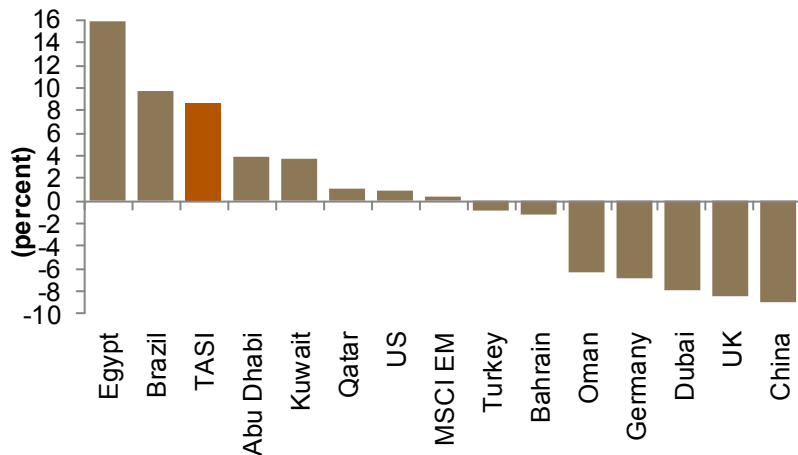
TASI rallied in March to reach two and half year highs on the back of expectations of inclusion, which later materialized, into the FTSE Russell Secondary Emerging Market (EM) Index. In an announcement on 28th March, FTSE Russell stated that Saudi Arabia would make up 2.7 percent of the FTSE EM Index, and once inclusion is completed, by December 2019, Tadawul could attract approximately \$5.4 billion in passive inflows.

*A number of positive developments, including the FTSE Russell Inclusion, lifted investor sentiment and led to an improvement in the performance of the Saudi stock market by 9 percent, since the beginning of the year.*



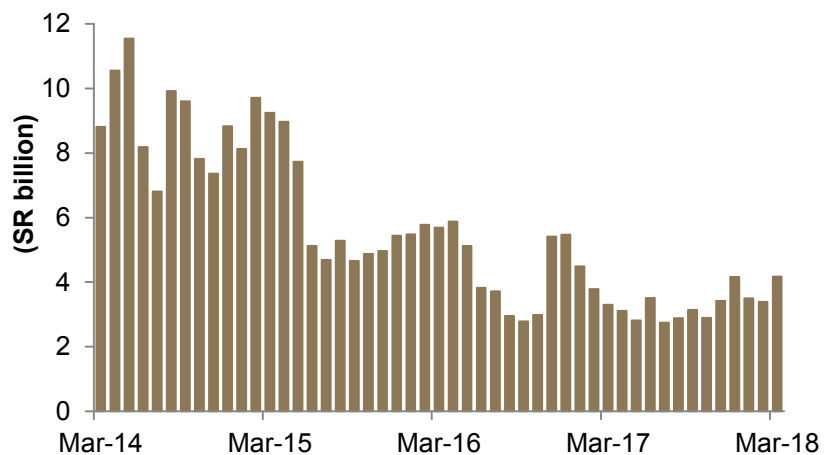
*The improved performance of TASI has seen sizable rises since the end of 2017, from around 7200 points to current levels of around 7,900, making it one of the best performing equity markets amongst major global and regional indices*

**Comparative Stock Market Performance (Q1 2018)**



*So far in 2018, traded volumes have been edging up slightly, which is in line with historically observed patterns; that is, traded values usually rise in line with the TASI index.*

**Daily Average Stock Market Turnover (monthly average)**



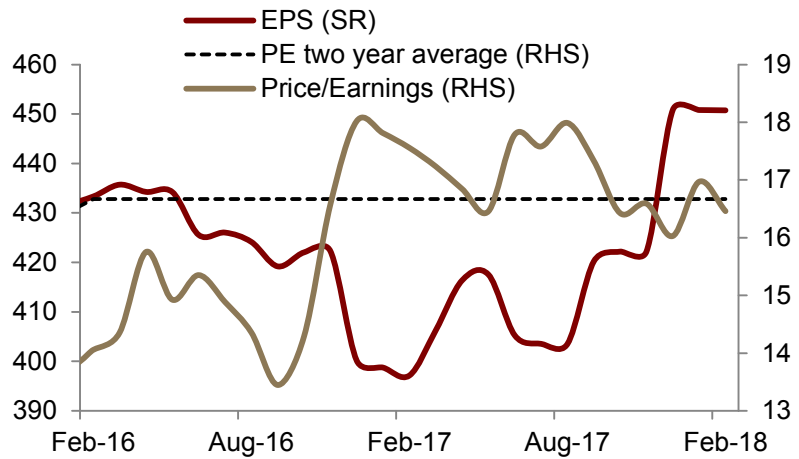


## Valuations

An uptick in TASI earnings helped push price-to-earnings (PE) ratio down in March. Currently, TASI's PE ratio of 16.46 is slightly below its two year average of 16.67, as a result of recent earnings growth. Comparatively speaking, whilst TASI PE is trading at higher rate to regional peers, it is cheaper than a number of emerging markets and some developed markets.

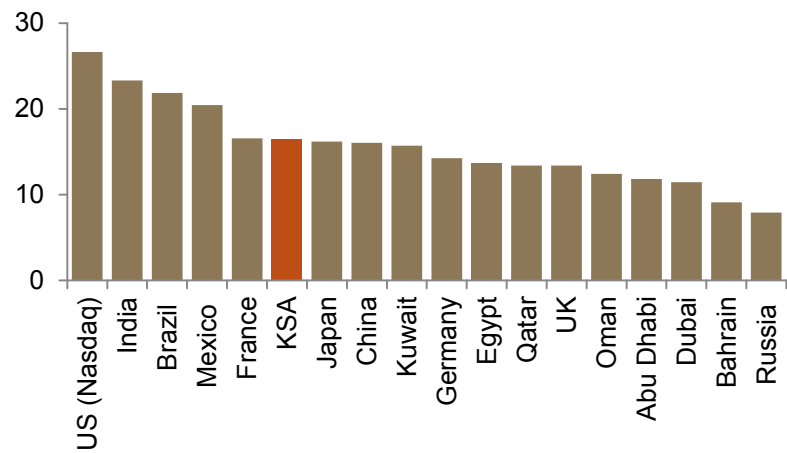
*Despite the Saudi stock rallying, TASI valuations have cooled recently as a result of improved earnings.*

**TASI Price-to-Earnings and Earnings Per Share**



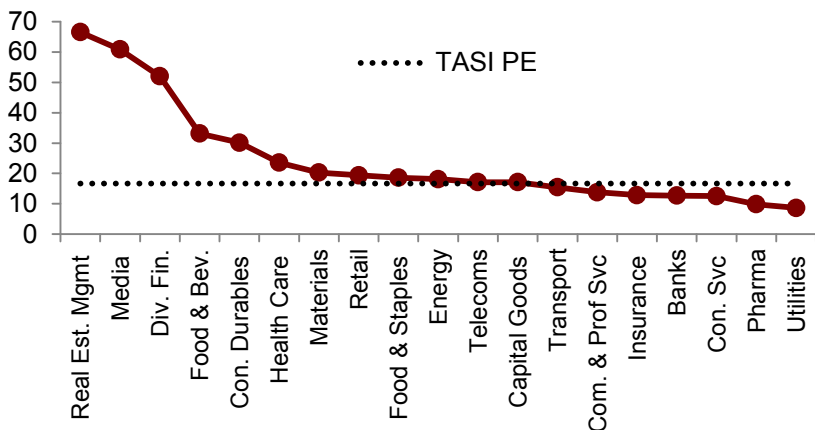
*Comparatively speaking, whilst TASI PE is trading at higher rate to regional peers, it is in cheaper than a number of emerging markets and some developed markets.*

**Comparative Price-to-Earnings Ratios**



*Seen from a sectorial viewpoint, only a handful of the sector PEs are trending significantly higher than the overall average. In particular, Real Estate Development, Media and Diversified Financials are the outliers.*

**Sectorial Price-to-Earnings Ratios**



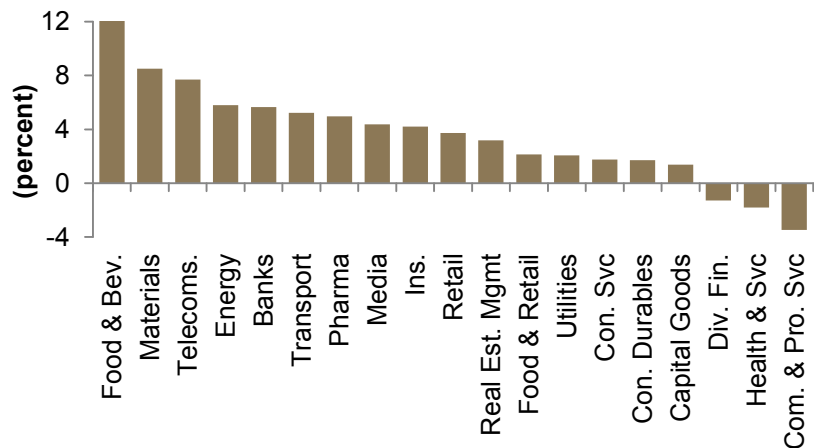


## Sectorial Performance

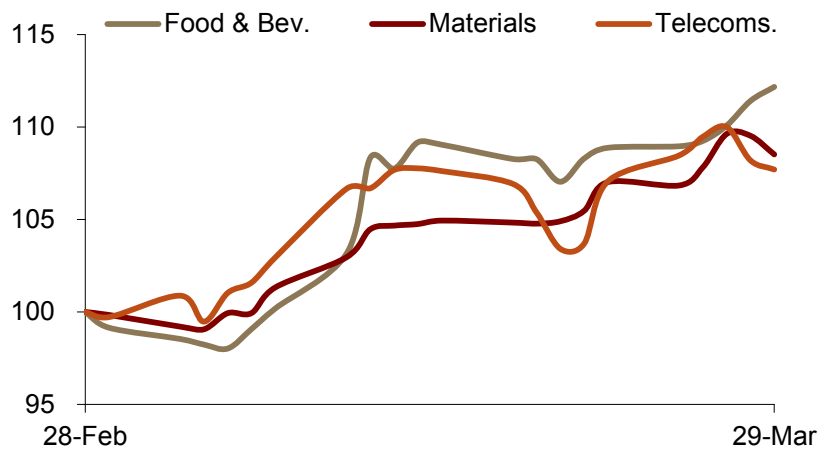
Most sectors ended the month with a significant rise, in line with TASI's positive performance during March. Whilst 'food & beverages', 'materials' and 'telecommunication' were the best performers, only three sectors declined; 'diversified financials', 'health & services' and 'commercial & professional services'.

Most sectors ended the month with a significant rise, in line with TASI's positive performance during March.

**Performance by Sector**  
(rebased; 28th February 2018= 100)

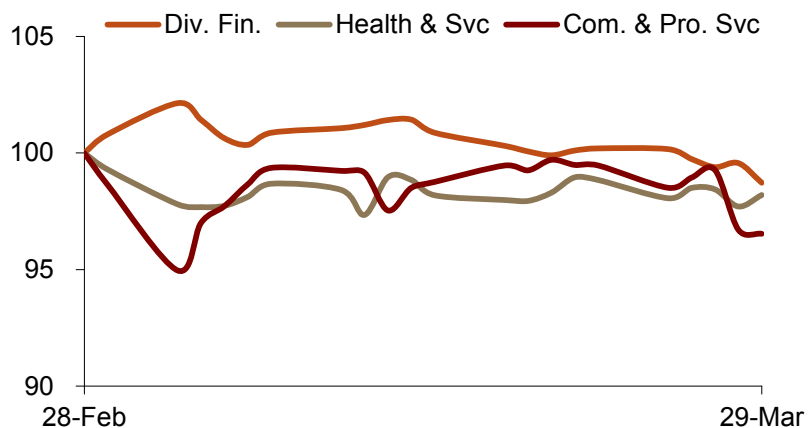


**Best Performing Sectors**  
(rebased; 28th February 2018= 100)



Whilst 'food & beverages', 'materials' and 'telecommunication' were the best performers...

**Worst Performing Sectors**  
(rebased; 28th February 2018= 100)



...only three sectors declined; 'diversified financials', 'health & services' and 'commercial & professional services'.

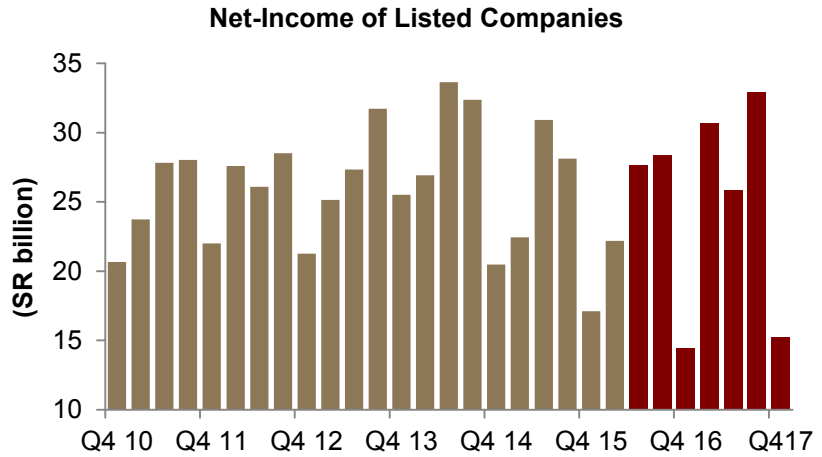




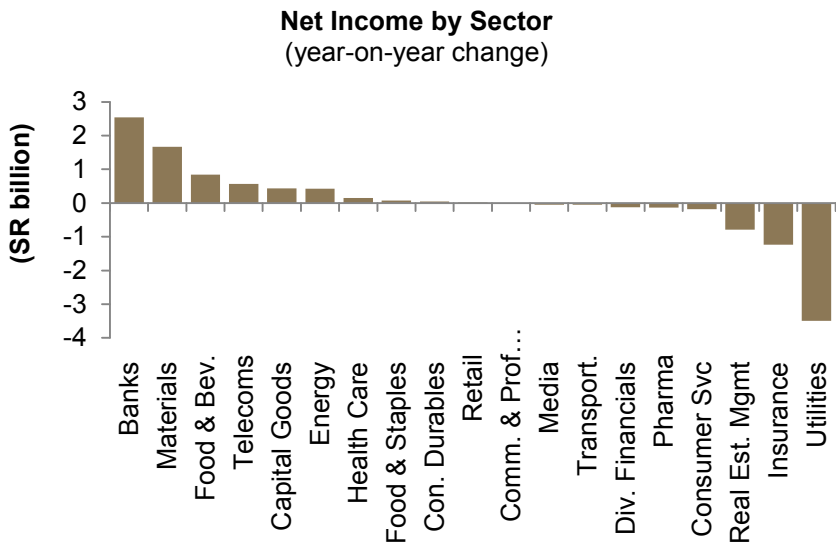
## Q4 Listed Company Results

Q4 2017 listed company results, reported under International Financial Reporting Standards (IFRS), were up on a yearly basis but down on a quarterly basis. Although banks saw higher yearly profits, a decline in utilities' profits limited the upside in Q4. In 2017 as a whole, total listed company profitability rose by 13 percent year-on-year.

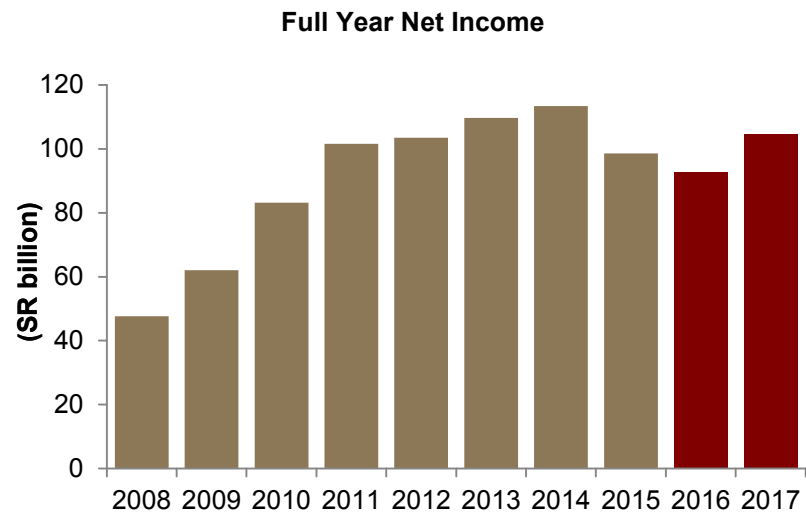
Q4 2017 listed company net -income totaled SR15.2 billion...



...resulting in a 5 percent rise year-on-year.



Full year 2017 profits rose by 13 percent year-on-year. Banks and petrochemicals made up 70 percent of overall profits in 2017, up 3 percentage points compared to a year ago.





## Key Data

	2011	2012	2013	2014	2015	2016	2017E	2018F	2019F
<b>Nominal GDP</b>									
(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
<b>Real GDP (% change)</b>									
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
<b>Oil indicators (average)</b>									
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
<b>Budgetary indicators (SR billion)</b>									
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
<b>Monetary indicators (average)</b>									
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)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5	3.0
<b>External trade indicators (\$ billion)</b>									
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
<b>Social and demographic</b>									
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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