



Summary

Real Economy: June data showed mixed economic activity. Whilst POS transactions were up 6.8 percent year-on-year, ATM transactions were down 4.4 percent, reflecting slower activity due to Eid al-Fitr holidays, with the previous sizable yearly declines being observed in July and September 2017, also during Eid holidays.

Government Finance: The net monthly change to government accounts with SAMA decreased by SR15 billion month-on-month in June, due wholly to a decrease of SR16 billion from government current deposits during the month.

Bank Credit: Total bank claims rose by 5.4 percent in June, year-on-year. Credit to the private sector continued to rise for the third consecutive month, up by 0.6 percent year-on-year.

SAMA foreign Reserve Assets: SAMA FX reserves rose by \$1.8 billion month-on-month to stand at \$506 billion in June. FX reserves have risen by \$10 billion during the year so far, and we expect them to continue rising to reach \$536 billion by the end of the year.

Inflation: Prices rose by 2.1 percent year-on-year in June, and inched slightly by 0.1 percent month-on-month. 'Housing and utilities' fell by 1.4 percent, year-on-year, affected by the lower prices in 'rentals for housing'.

Industrial Production: The latest data for Q4 2017, released in July, showed a decline in the overall industrial production index by 2 percent quarter-on-quarter, and by 0.3 percent year-on-year.

Oil-Global: Brent oil prices showed no change month-on-month in July. The combination of renewed trade tensions between the US and China and rising oil output from OPEC/non-OPEC and the US has somewhat dampened the rally in Brent prices recently.

Oil-Regional: Saudi crude oil production reached 10.4 mbpd in June. Meanwhile, official data shows Saudi crude oil exports declined by 300 tbpd month-on-month in May, to 7 mbpd.

Exchange Rates: At the time of writing, survey data was predicting the US Federal Reserve (Fed) would not raise interest rates in a meeting in August, with the same survey data suggesting a high probability of a rise by 25 basis points in September.

Stock Market: TASI was flat month-on-month in July, meaning year-to-July gains stand at around 16 percent. Looking ahead, following MSCI's announcement last month, we expect active investors entering the market prior to actual inclusion in May 2019 to drive TASI performance even higher.

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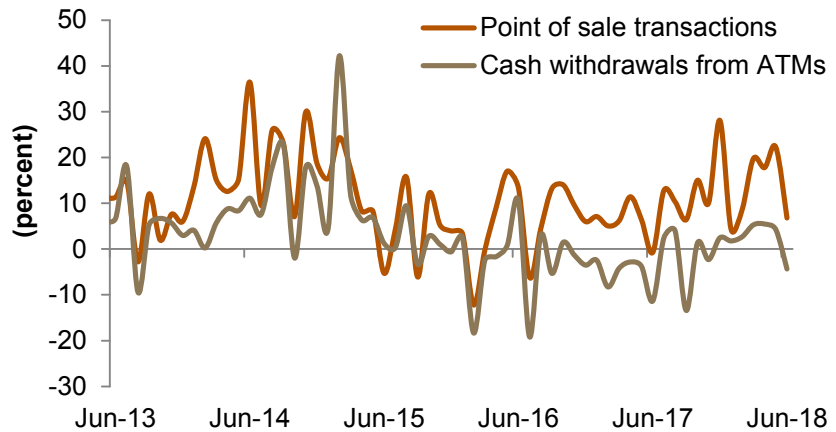


Real Economy

June data showed mixed economic activity. Whilst POS transactions were up 6.8 percent year-on-year, ATM transactions were down 4.4 percent, reflecting slower activity due to Eid al-Fitr holidays, with the previous sizable yearly declines being observed in July and September 2017, also during Eid holidays. Meanwhile, cement sales marked the largest monthly drop since June 2017.

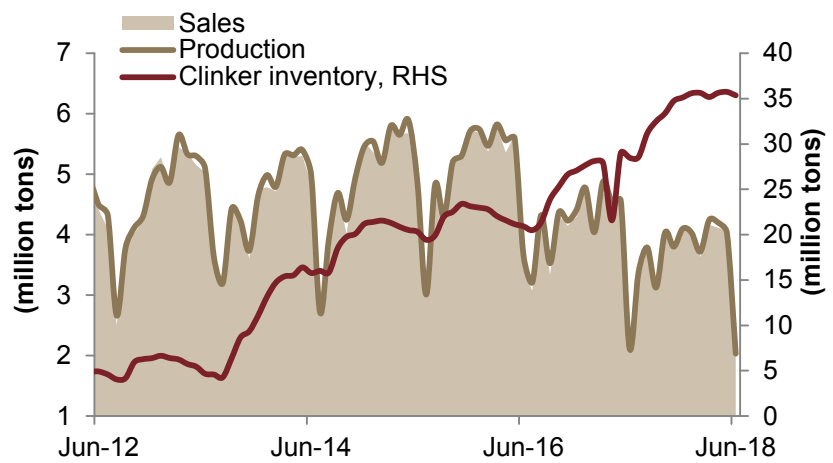
POS transactions were up 6.8 percent year-on-year but ATM transactions were down 4.4 percent.

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



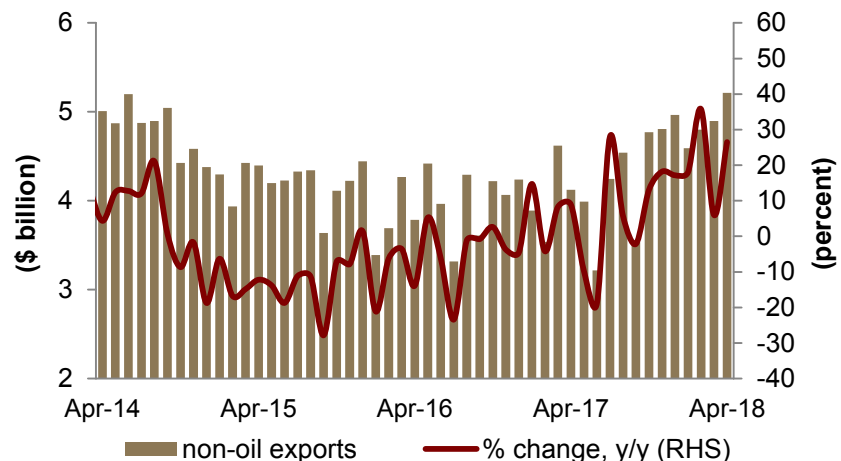
Cement sales continued to drop, with a 4 percent decline year-on-year, and 50 percent month-on-month, marking the largest monthly drop since June 2017.

Cement Production, Sales and Clinker Inventory



Meanwhile, latest available data shows non-oil exports increased by 26 percent year-on-year in April whilst year-to-April growth stands at 21 percent.

Non-Oil Exports



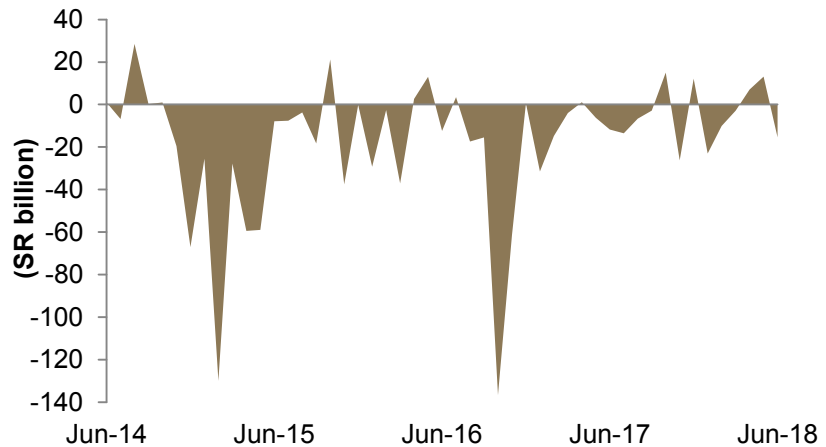


Government Finance

The net monthly change to government accounts with SAMA decreased by SR15 billion month-on-month in June, due wholly to a decrease of SR16 billion from government current deposits during the month. At the same time, domestic banks net holdings of government debt rose by SR2.6 billion in June, following a domestic sukuk re-opening during the month.

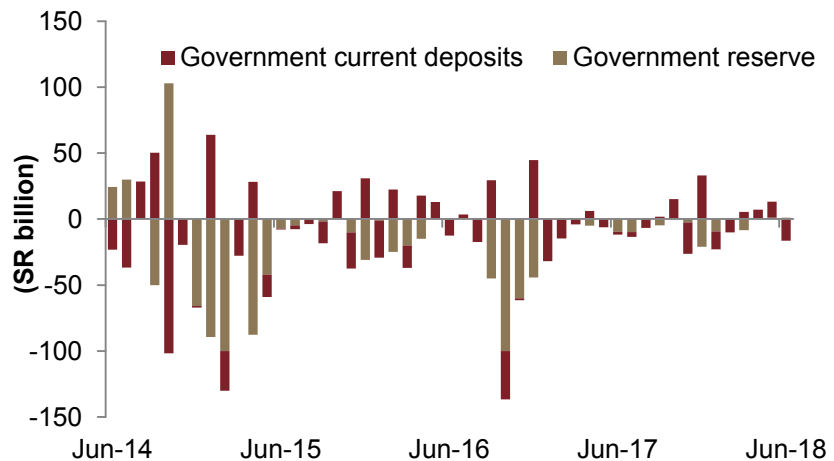
The net monthly change to government accounts with SAMA decreased by SR15 billion month-on-month in June...

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



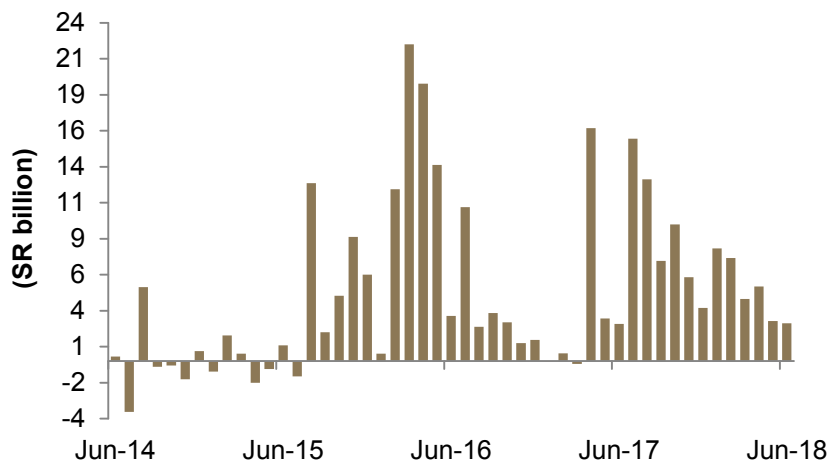
...due wholly to a decrease of SR16 billion from government current deposits but a rise in government reserves by SR 1 billion.

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



Government debt rose by SR2.6 billion in June. More recently, the Ministry of Finance began selling local currency government bonds through a new 'primary dealer' scheme designed to increase demand for the debt and widen the range of investors holding. Accordingly, a SR3.5 billion sukuk was issued under the new system at the end of July.

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

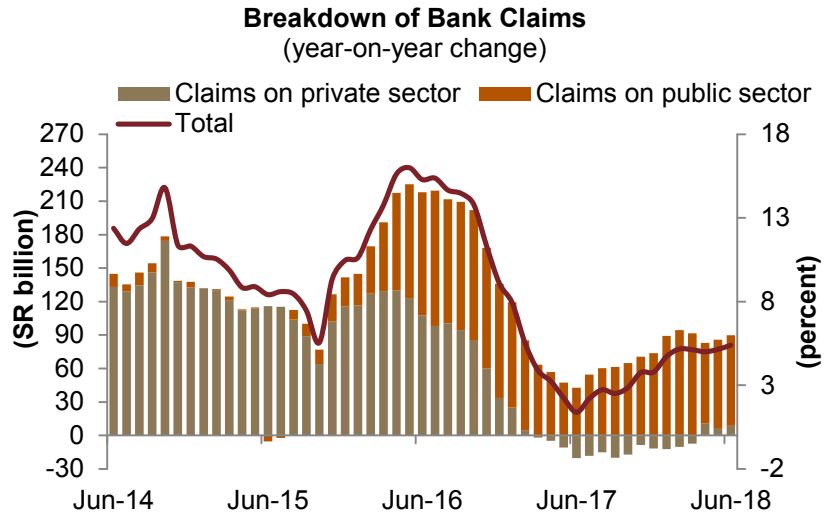




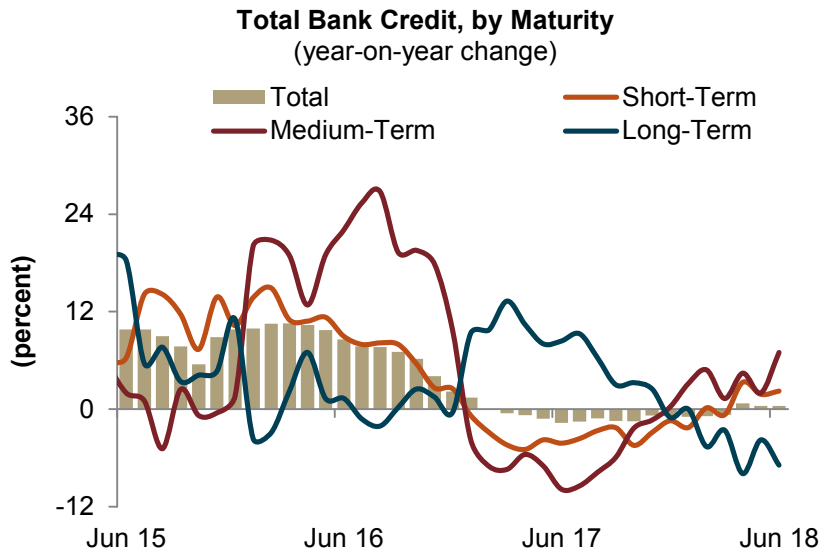
Bank Credit

Total bank claims rose by 5.4 percent in June, year-on-year. Credit to the private sector continued to rise for the third consecutive month, up by 0.6 percent year-on-year. Looking ahead, we expect continued improvement in credit as a result of improving economic sentiment related to higher oil prices and due to the larger disbursement of government capital spending.

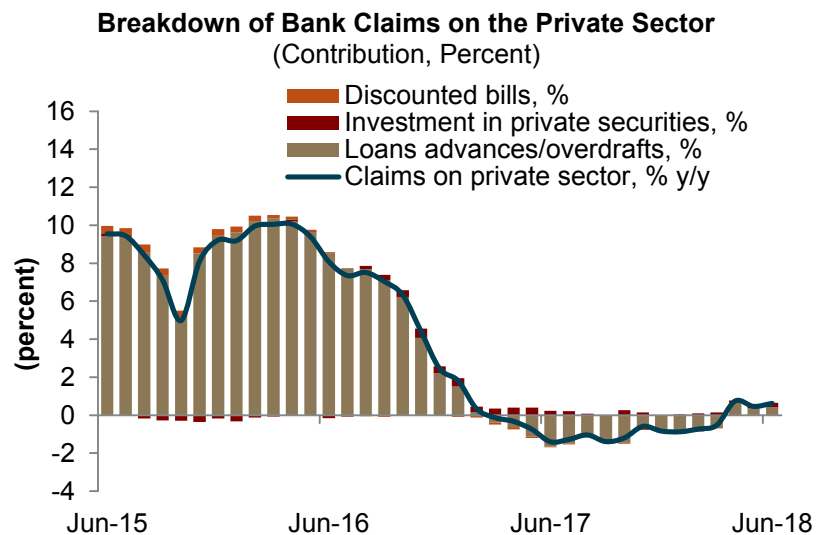
Total bank claims rose by 5.4 percent in June, year-on-year. Credit to the private sector continued to rise for the third consecutive month, up by 0.6 percent year-on-year.



On a maturity basis, long term credit continue to fall, whilst both short and medium term credit continues to rise.



Looking ahead, we expect continued improvement in credit as a result of improving economic sentiment related to higher oil prices and due to the larger disbursement of government capital spending. Overall, we expect bank credit to the private sector to rise marginally in 2018, by 1 percent year-on-year.





SAMA Foreign Reserve Assets

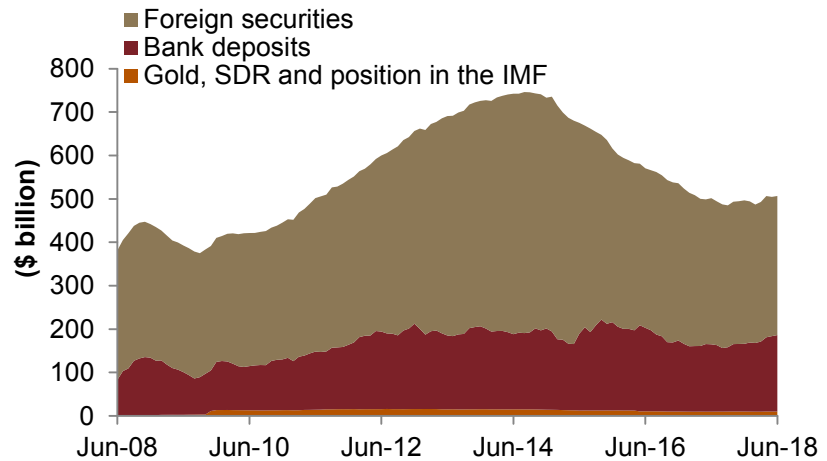
SAMA FX reserves rose by \$1.8 billion month-on-month to stand at \$506 billion in June. FX reserves have risen by \$10 billion during the year so far, and we expect them to continue rising to reach \$536 billion by the end of the year. A breakdown of FX reserves shows the monthly rise came wholly from SAMA bank deposits.

SAMA FX reserves rose by \$1.8 billion month-on-month to stand at \$506 billion in June.

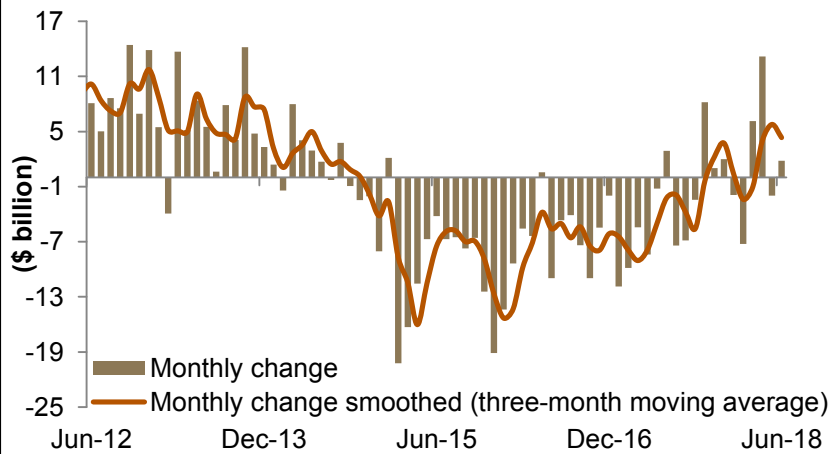
FX reserves have risen by \$10 billion during the year so far, and we expect them to continue rising to reach \$536 billion by the end of the year.

Whilst an improvement in export revenue will be one of the main factors behind a rise in SAMA FX reserves during the year, we also expect higher levels of portfolio investment inflows to help strengthen the non-reserve financial account, and hence FX reserves.

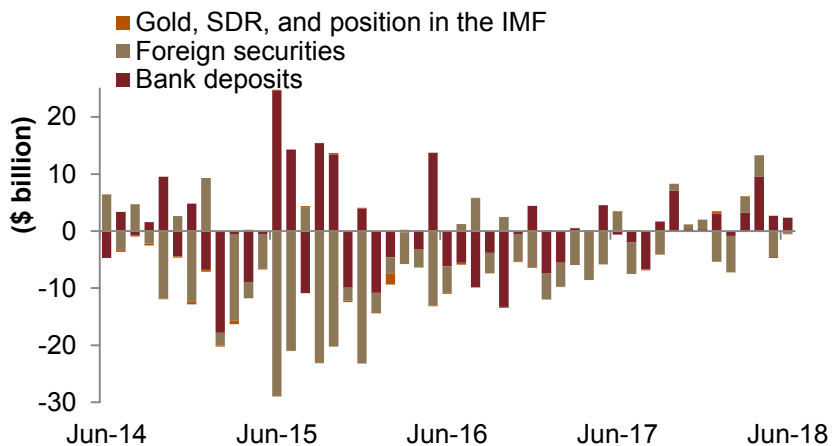
SAMA Total Foreign Reserve Assets



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



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

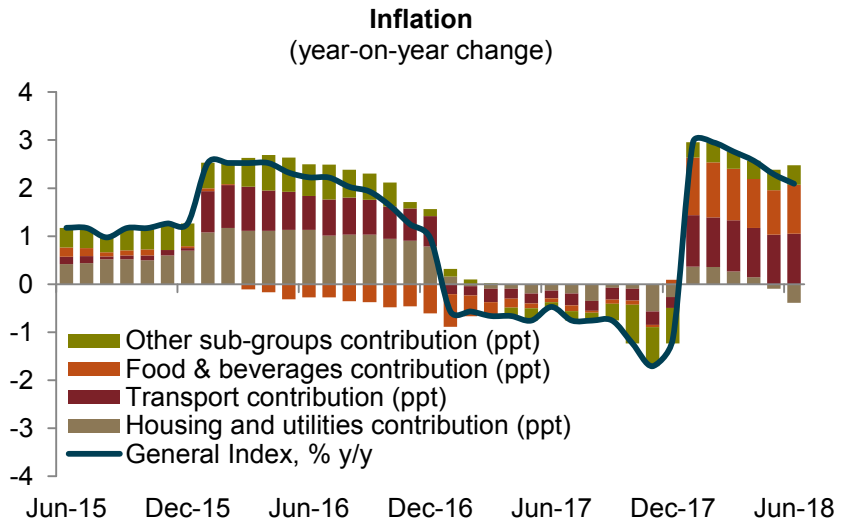




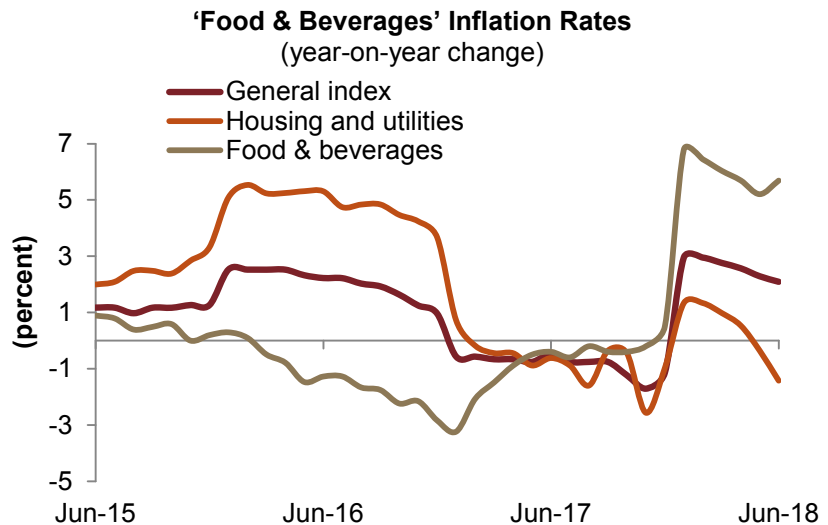
Inflation

Prices rose by 2.1 percent year-on-year in June, and inched slightly up by 0.1 percent month-on-month. 'Food and beverages' prices rose by 5.7 percent, and 'housing and utilities' fell by 1.4 percent, year-on-year, declining for the second consecutive month. The decline was affected by lower prices in 'rentals for housing', which dropped by 0.8 percent month-on-month, and 3.8 percent year-on-year in June, marking the largest yearly decline since July 2017.

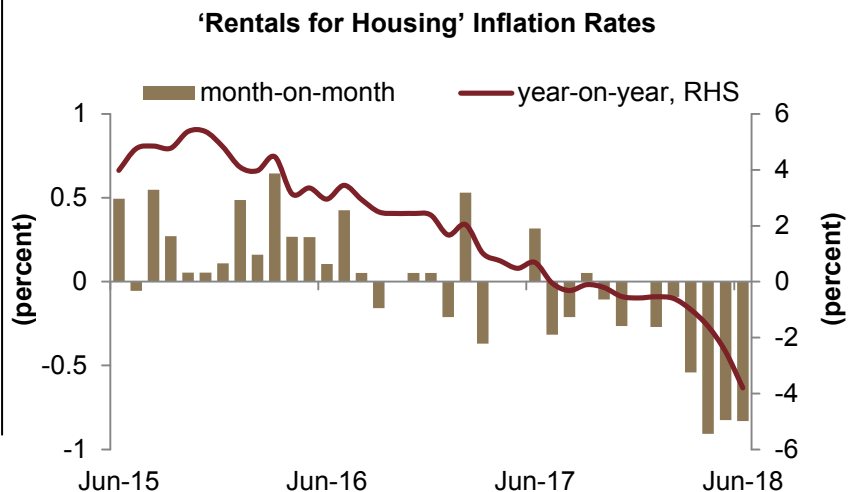
Prices rose by 2.1 percent year-on-year in June, and inched up slightly by 0.1 percent month-on-month.



'Food & beverages' prices rose by 5.7 percent year-on-year, and by 1.1 percent month-on-month, up for the second consecutive month.



Meanwhile, 'housing & utilities' fell by 1.4 percent, year-on-year, declining for the second month, affected by lower prices in 'rentals for housing', which dropped by 0.8 percent month-on-month, and 3.8 percent year-on-year.



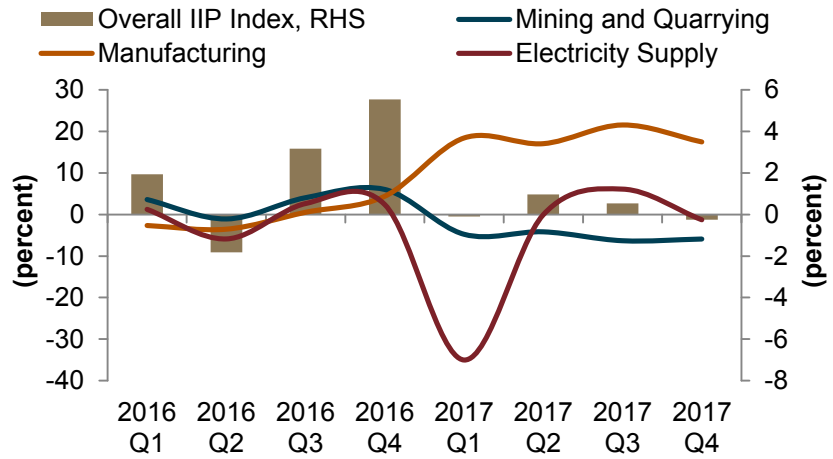


Industrial Production

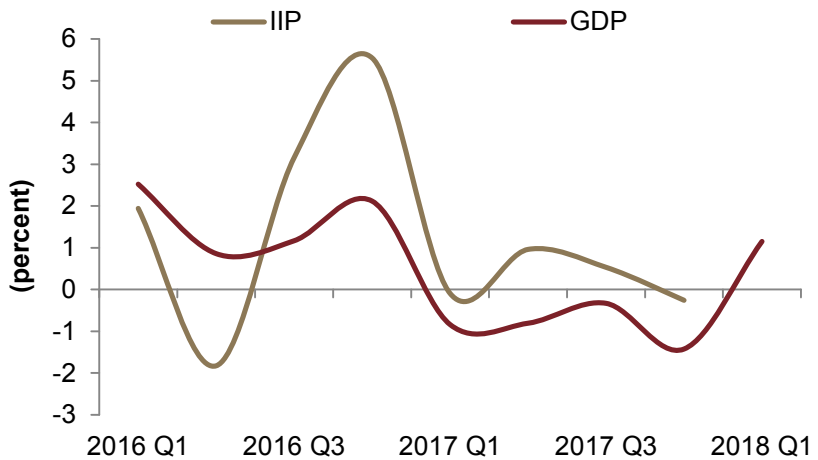
GaStat recently released a report on industrial production in Saudi Arabia. The index for industrial production (IIP) measures the real production output of manufacturing, mining and utility supply in the Kingdom. The latest data for Q4 2017, released in July, showed a decline in the overall index by 2 percent quarter-on-quarter, and by 0.3 percent year-on-year.

The latest IIP data for Q4 2017, showed a decline in the overall index by 2 percent quarter-on-quarter, and by 0.3 percent year-on-year.

Index for Industrial Production (IIP)
(year-on-year change)

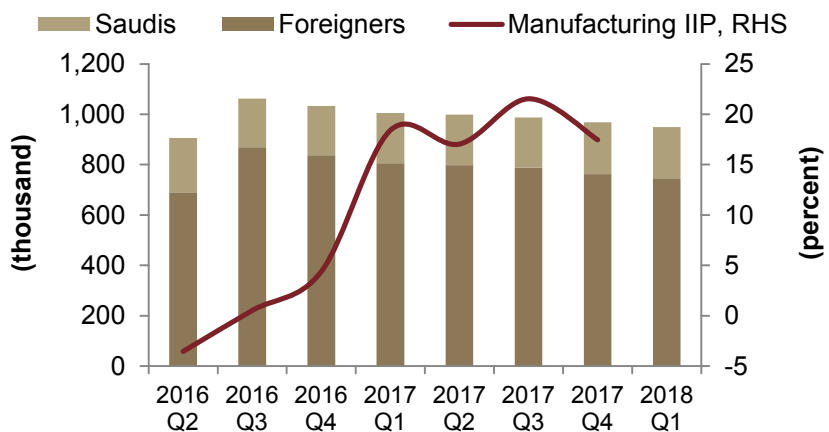


GDP growth and IIP in Saudi Arabia
(year-on-year change)



The IIP is considered as one of the most important short-term economic indicators, since it is used to identify development trends and to forecast GDP.

Manufacturing employment and IIP



According to the IIP index, manufacturing output rose by 17.5 percent in Q4 year-on-year. However, in Q1 2018, manufacturing saw a decline in total number of foreign and Saudi workers, with the number of foreigners dropping by 19 thousand.



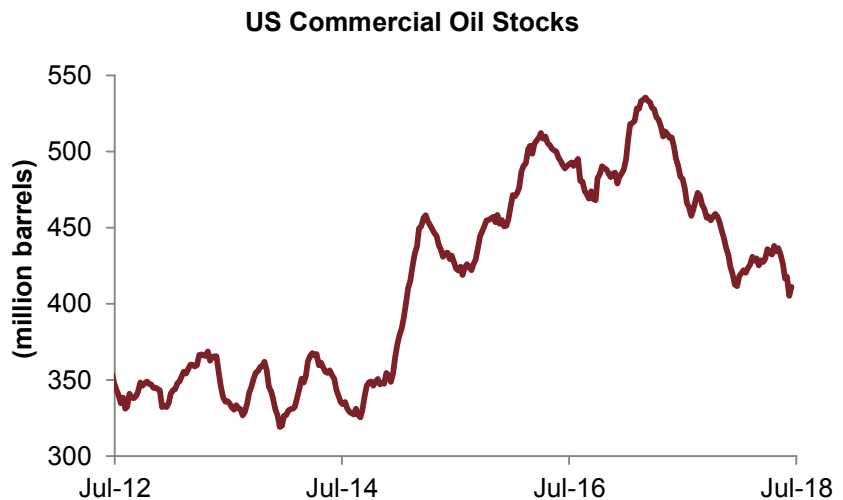
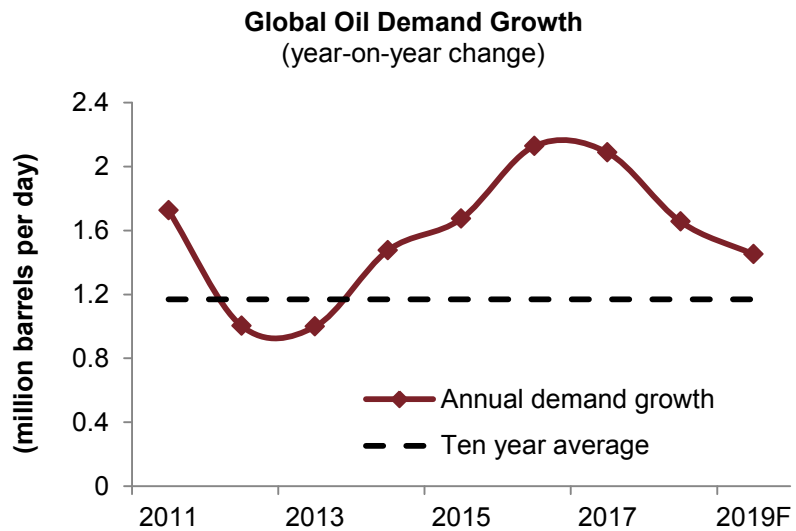
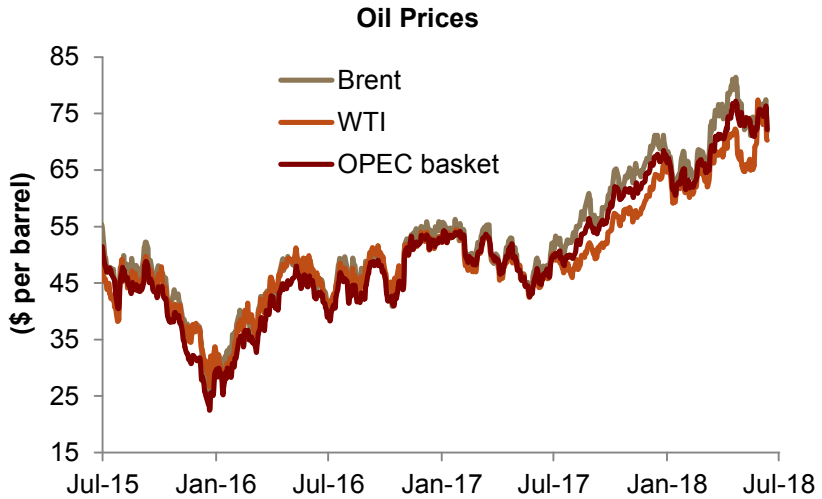
Oil - Global

Brent oil prices showed no change month-on-month in July. The combination of renewed trade tensions between the US and China and rising oil output from OPEC/non-OPEC and the US has somewhat dampened the rally in Brent prices recently. That said, WTI oil prices rose nearly 5 percent month-on-month on the back of declining commercial crude oil stocks.

Brent oil prices showed no change month-on-month in July. The combination of renewed trade tensions between the US and China and rising oil output from OPEC/non-OPEC and the US has somewhat dampened the rally in Brent prices recently....

...in fact, whist recent OPEC demand forecasts show healthy growth in 2018 and 2019, the assumption is that the current trade dispute will be resolved. Thus any further escalation in the trade tensions between the China and US could have a dramatic effect on OPEC demand forecasts.

Meanwhile, WTI oil prices have rallied on the back of strong gasoline demand during the US driving season. This has resulted in pushing commercial crude oil stocks to levels not seen since March 2015.





Oil - Regional

Saudi crude oil production reached 10.4 mbpd in June. Meanwhile, official data shows Saudi crude oil exports declined by 300 ttpd month-on-month in May, to 7 mbpd. Looking ahead, provisional survey data suggests oil exports hit 7.4 mbpd in June, and then declined to 6.9 mbpd in July.

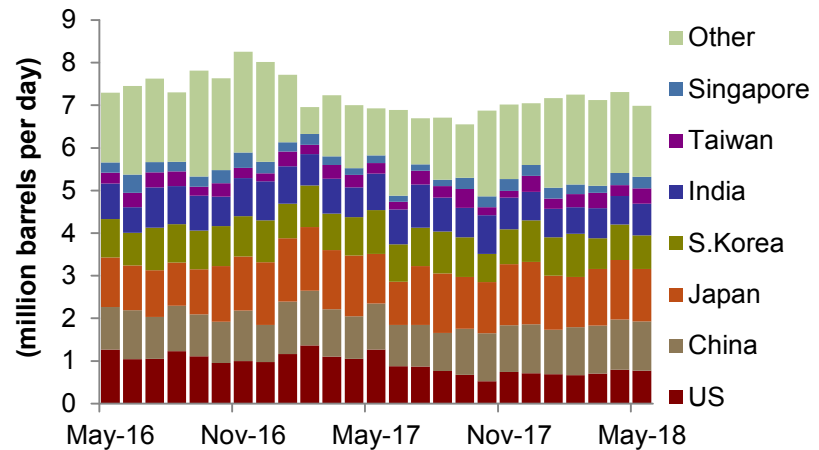
Saudi crude oil production reached 10.4 mbpd in June.

OPEC Crude Oil Production
(secondary sources: June 2018)



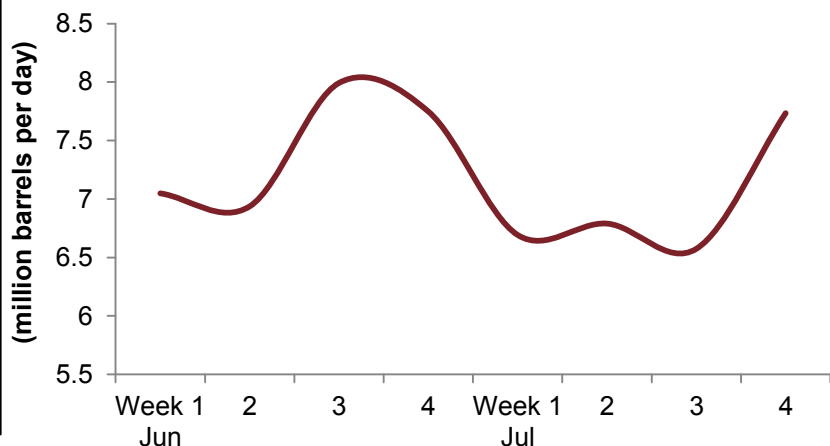
Official data shows Saudi crude oil exports declined by 300 ttpd month-on-month in May, to 7 mbpd...

Saudi Crude Oil Exports
(May 2018)



...whilst provisional survey data suggests oil exports hitting 7.4 mbpd in June, and then declining to 6.9 mbpd in July. We see the decline in July as a result of higher domestic crude oil consumption linked to demand for electricity generation.

Provisional Saudi Crude Oil Exports
(June-July 2018)



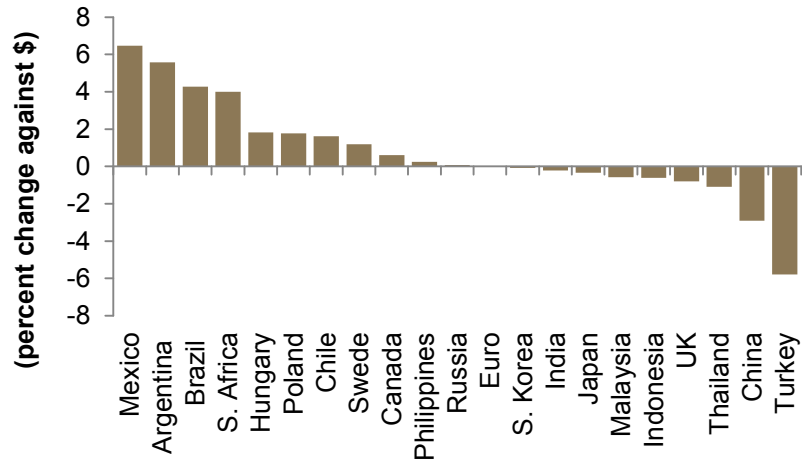


Exchange Rates

The US dollar saw mixed performance against international currencies in July despite recently released Q2 US GDP data showing stronger growth. At the time of writing, survey data was predicting the US Federal Reserve (Fed) would not raise interest rates in a meeting in August, with the same survey data suggesting a high probability of a rise by 25 basis points in September.

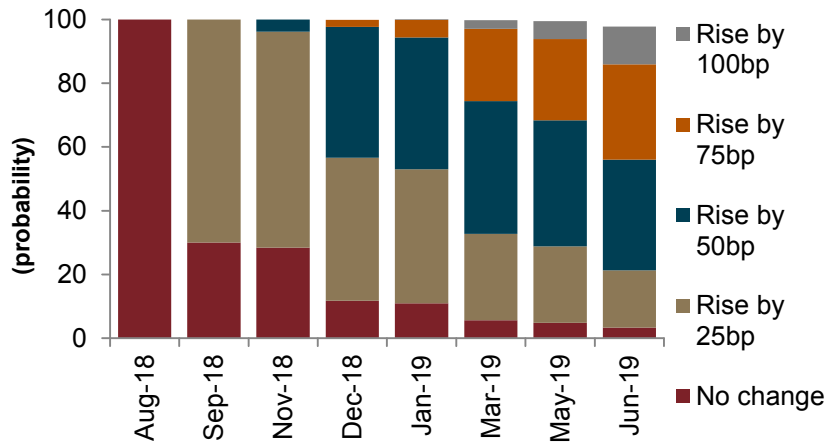
The US dollar saw mixed performance against international currencies in July despite recently released Q2 GDP data showing US growth at 4.1 percent.

Monthly Gain/Loss Against US Dollar
(July 2018)



At the time of writing, survey data was predicting the US Federal Reserve (Fed) would not raise interest rates in a meeting in August, with the same survey data suggesting a high probability of a rise by 25 basis points in September.

US Fed Interest Rate Probability



GBP/US Dollar



Meanwhile, political developments in the UK prevented any rises in the pound during July as the outlook remains uncertain.



Stock Market

TASI was flat month-on-month in July, with year-to-July gains standing at around 16 percent, making it the best performing equity market so far this year when compared to major international and regional indices. Looking ahead, following MSCI's announcement last month, we expect active investors entering the market prior to actual inclusion in May 2019 to drive TASI performance even higher.

The inclusion of Tadawul into the MSCI EM as well as improved investor sentiment related to higher yearly oil prices are some of the macro-level factors driving TASI upwards in recent months.

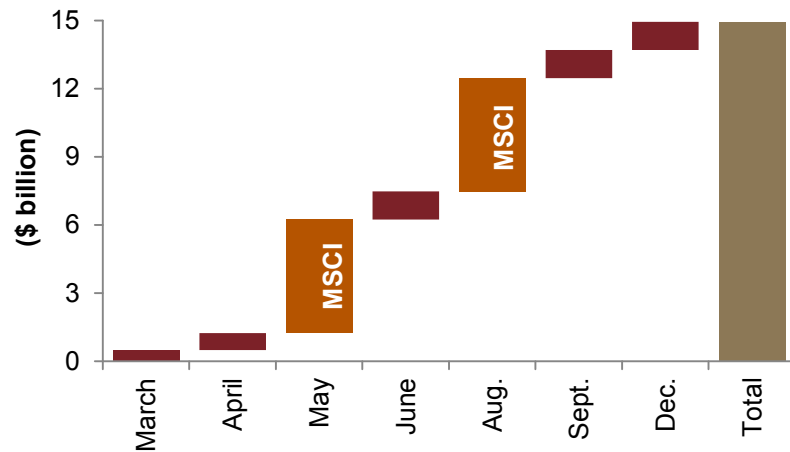
Looking ahead, we expect the combination of both FTSE EM and MSCI EM inclusion to bring in a minimum of \$15 billion in passive inflows by the end of 2019.

Similar to patterns observed with other regional equity markets prior to MSCI EM inclusion, we see active investors entering the market helping TASI performance in the next six-to-twelve months. More specifically, we view a rise to around 10,000 points as totally plausible (please see our recent [Saudi Stock Exchange](#) report).

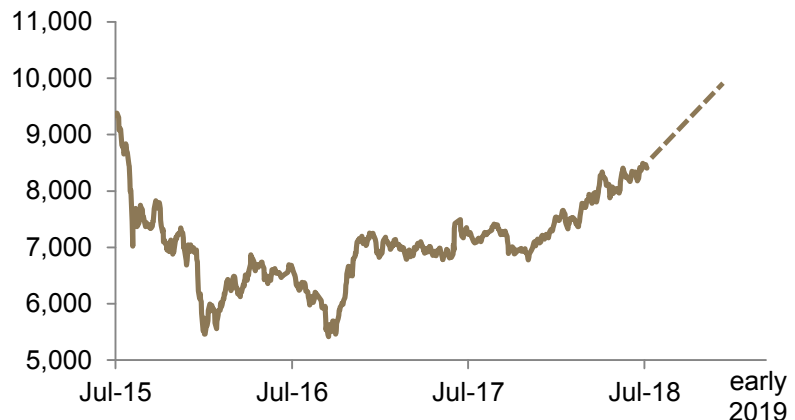
TASI
(July 2018)



Expected Passive Inflows into TASI
(2019)



TASI
(to early 2019)





Key Data

	2010	2011	2012	2013	2014	2015	2016	2017	2018F
Nominal GDP									
(SR billion)	1,981	2,517	2,760	2,800	2,836	2,454	2,419	2,575	2,944
(\$ billion)	528	671	736	747	756	654	645	687	785
(% change)	23.1	27.1	9.6	1.5	1.3	-13.5	-1.4	6.5	14.3
Real GDP (% change)									
Oil	-0.1	12.2	5.1	-1.6	2.1	5.3	3.6	-3.0	3.2
Non-oil private sector	10.5	8.1	5.6	7.0	5.4	3.4	0.1	0.7	1.1
Non-oil government	7.4	8.4	5.3	5.1	3.7	2.7	0.6	1.7	2.2
Total	5.0	10.0	5.4	2.7	3.7	4.1	1.7	-0.9	2.2
Oil indicators (average)									
Brent (\$/b)	80	112	112	110	99	52	43	54	68
Saudi (\$/b)	78	104	106	104	96	49	41	51	66
Production (million b/d)	8.2	9.3	9.8	9.6	9.7	10.2	10.4	10.0	10.3
Budgetary indicators (SR billion)									
Government revenue	742	1,118	1,247	1,156	1,044	616	519	692	867
Government expenditure	654	838	916	994	1,140	999	935	930	978
Budget balance	88	280	331	162	-96	-383	-416	-238	-111
(% GDP)	4.4	11.1	12.0	5.8	-3.4	-15.6	-17.2	-9.3	-3.8
Gross public debt	177	135	99	60	44	142	317	443	560
(% GDP)	8.9	5.4	3.6	2.1	1.6	5.8	13.1	17.2	19.0
Monetary indicators (average)									
Inflation (% change)	3.8	n/a	2.9	3.5	2.2	1.2	2.1	-0.8	3.1
SAMA base lending rate (% , end year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.75
External trade indicators (\$ billion)									
Oil export revenues	215	318	337	322	285	153	137	170	223
Total export revenues	251	365	388	376	342	204	184	221	275
Imports	97	120	142	153	158	159	128	119	116
Trade balance	154	245	247	223	184	44	56	102	159
Current account balance	67	159	165	135	74	-57	-24	15	73
(% GDP)	12.6	23.6	22.4	18.1	9.8	-8.7	-3.7	2.2	9.3
Official reserve assets	445	544	657	726	732	616	536	496	536
Social and demographic indicators									
Population (million)	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.6	33.4
Saudi Unemployment (15+, %)	11.2	12.4	12.1	11.7	11.7	11.5	12.5	12.8	12.5
GDP per capita (\$)	19,261	23,827	25,471	25,223	24,962	21,095	20,318	21,057	23,495

Sources: Jadwa Investment forecasts for 2017 and 2018. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.



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