



Summary

Real Economy: Economic indicators for August were mixed, whilst POS rose by 13.5 percent year-on-year, cash withdrawals declined by 7 percent year-on-year.

Government Finance: The net monthly change to government accounts with SAMA rose SR39 billion month-on-month in August.

SAMA foreign Reserve Assets: SAMA FX reserves rose by \$8.4 billion month-on-month to stand at \$509.7 billion in August, marking the highest monthly rise in four months.

Money Supply: The broad measure of money supply (M3) was flat in August, despite showing a marginal rise by 0.4 percent month-on-month.

Bank Deposits: Bank deposits declined by 0.6 percent year-on-year in August, mainly due to time and saving deposits, which declined by 12.2 percent year-on-year.

Bank Credit: Total bank claims rose by 4.7 percent in August, year-on-year. Credit to the private sector saw a notable rise, by 1 percent, marking its largest annual increase since January 2017.

Interest Rates: SAMA raised its key interest rates, the repo and the reverse repo rate, by 25 basis points (bps) in September, following the US Federal Reserve's interest rate hike during the month.

Inflation: Prices rose in August by 2.3 percent year-on-year, and declined by 0.2 percent month-on-month.

Q2 GDP: Data on Q2 real GDP showed that the economy expanded by 1.6 percent, year-on-year.

Balance of Payments: A sizable improvement in both the current and financial account in Q2 2018 helped maintain a surplus in the Kingdom's external account.

2019 Preliminary Budget: A higher upward revision in the level of projected revenue, especially in 2018 and 2019, than expenditure means the fiscal deficit will be lower than projected in the Fiscal Balance Program.

Oil-Global: Brent oil prices closed the month at \$83 pb, the highest daily average since early November 2014. On a monthly basis, Brent oil rose almost 10 percent, and WTI 3 percent, driven mainly by concerns over supply.

Oil-Regional: Saudi crude oil production in August rose 1.2 percent month-on-month to 10.4 mbpd.

Exchange Rates: Most emerging market currencies, whilst being down, showed some degree of stability.

Stock Market: Despite TASI slipping to 6 month lows of 7,500 points in mid-September, the Saudi index has recovered by 7 percent since then.

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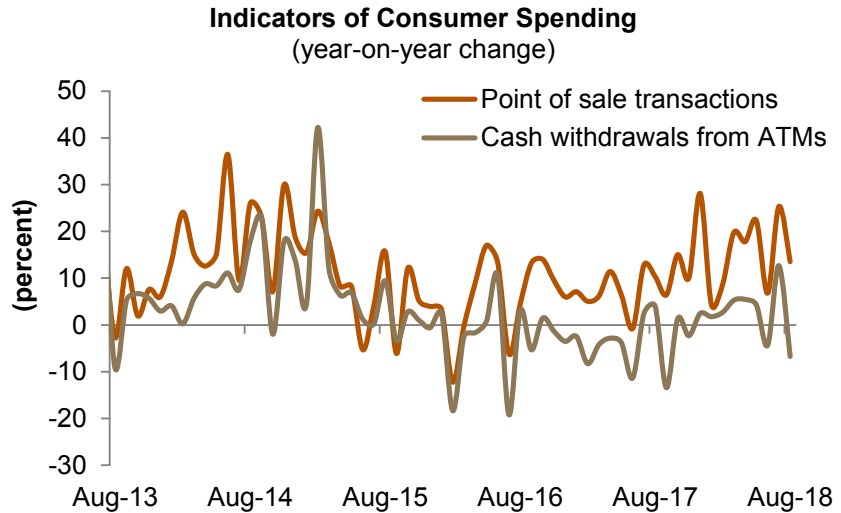
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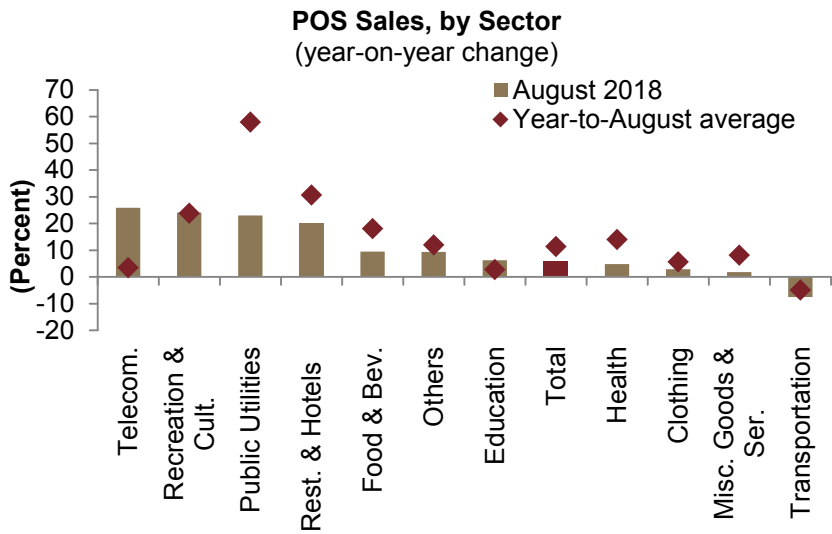
Real Economy

Economic indicators for August were mixed, whilst POS rose by 13.5 percent year-on-year, cash withdrawals declined by 7 percent year-on-year. POS were up for all sectors except for transportation, which has been declining since the beginning of the year. Cement sales continued to drop, with a 29 percent decline year-on-year in August, marking the largest decline since June 2017.

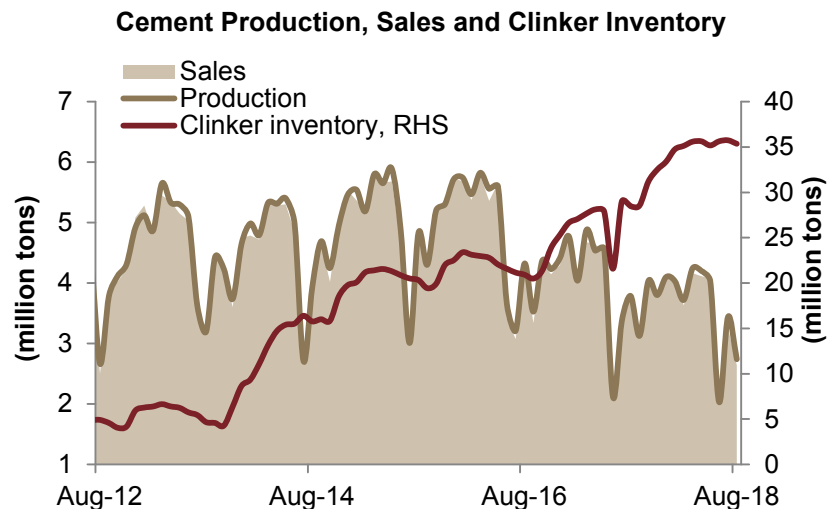
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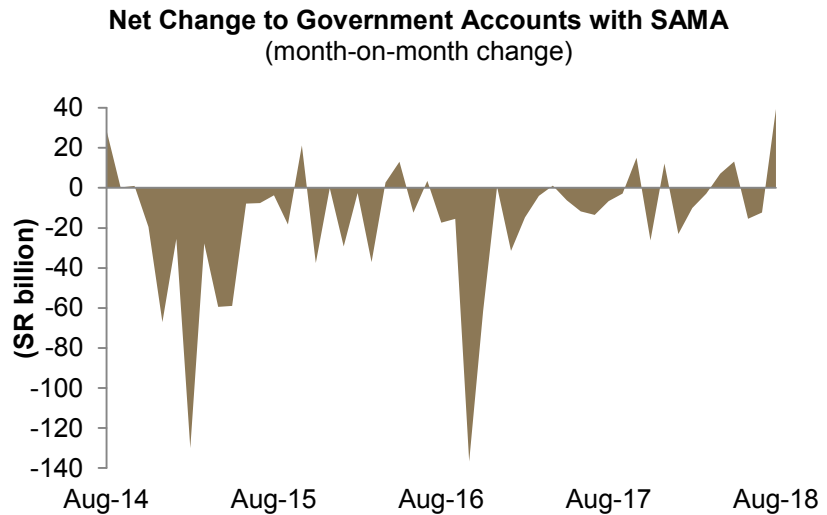




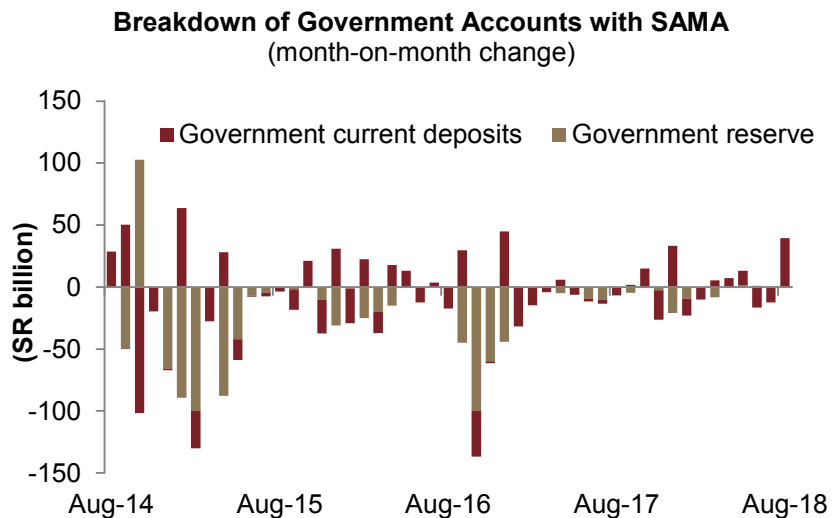
Government Finance

The net monthly change to government accounts with SAMA rose by SR39 billion month-on-month in August, due to an equal rise of SR39 billion from government current deposits during the month. At the same time, domestic banks net holdings of government debt rose by SR4.1 billion in August, after completing a domestic sukuk tap issuance at the end of July.

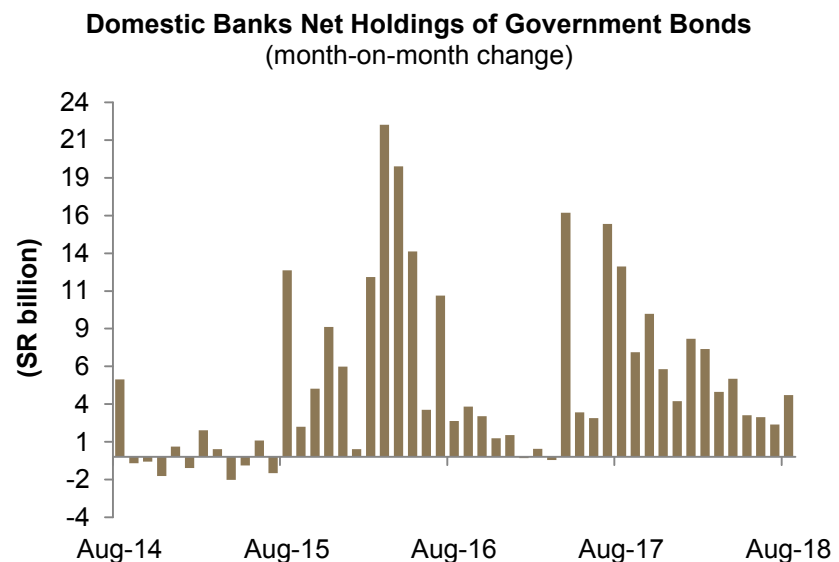
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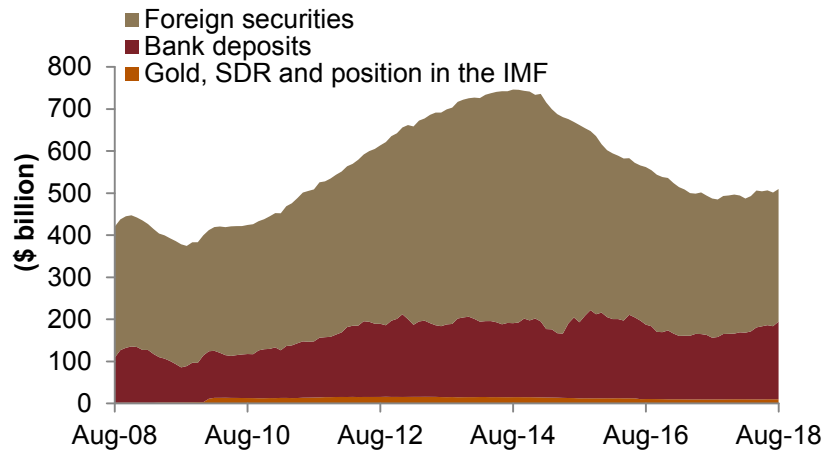


SAMA Foreign Reserve Assets

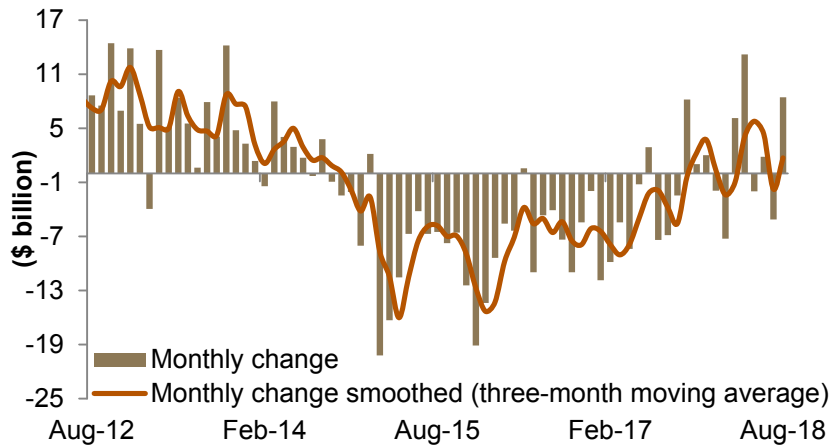
SAMA FX reserves rose by \$8.4 billion month-on-month to stand at \$509.7 billion in August, marking the highest monthly rise in four months. A breakdown of FX reserves shows the recent rise came from a monthly increase in SAMA's bank deposits, which were up by almost \$11 billion in August, month-on-month.

SAMA FX reserves rose by \$8.4 billion month-on-month to stand at \$509.7 billion in August...

SAMA Total Foreign Reserve Assets

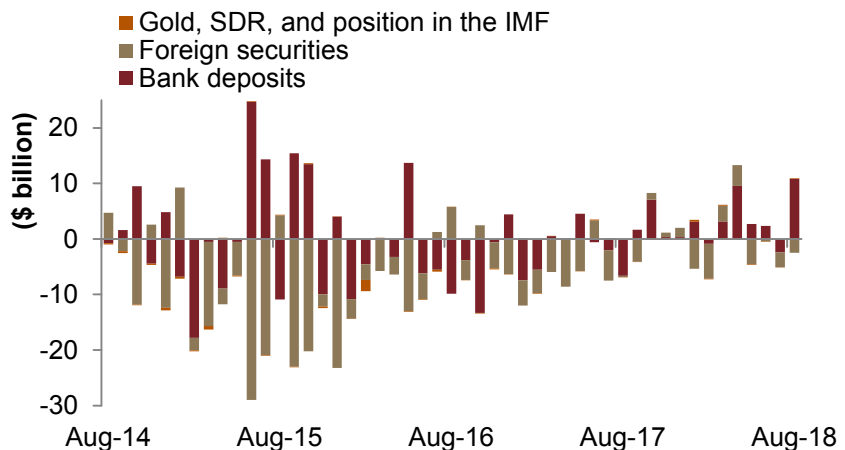


SAMA Foreign Reserve Assets (month-on-month change)



...marking the highest monthly rise in four months.

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



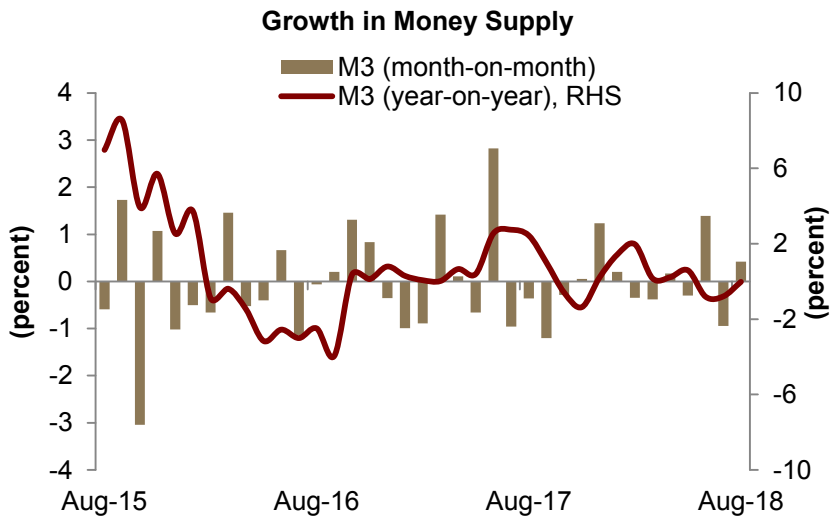
The rise came from a monthly increase in SAMA's bank deposits, which were up by almost \$11 billion in August, month-on-month.



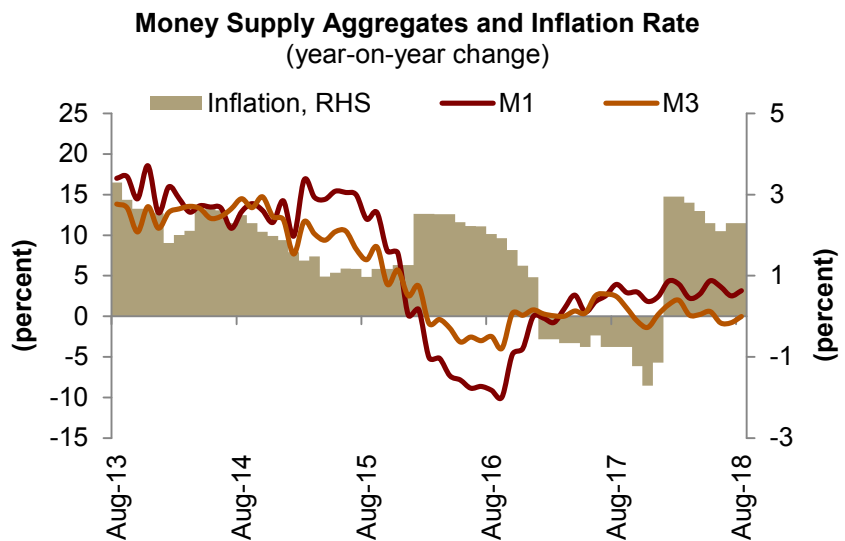
Money Supply

The broad measure of money supply (M3) was flat in August, year-on-year, despite showing a marginal rise by 0.4 percent month-on-month. Out of all the money supply aggregates (M1, M2, M3), M1 continues to show the highest rise in August, growing by 3.2 percent year-on-year, supported by a rise in currency outside banks, which was up 5.2 percent, year-on-year.

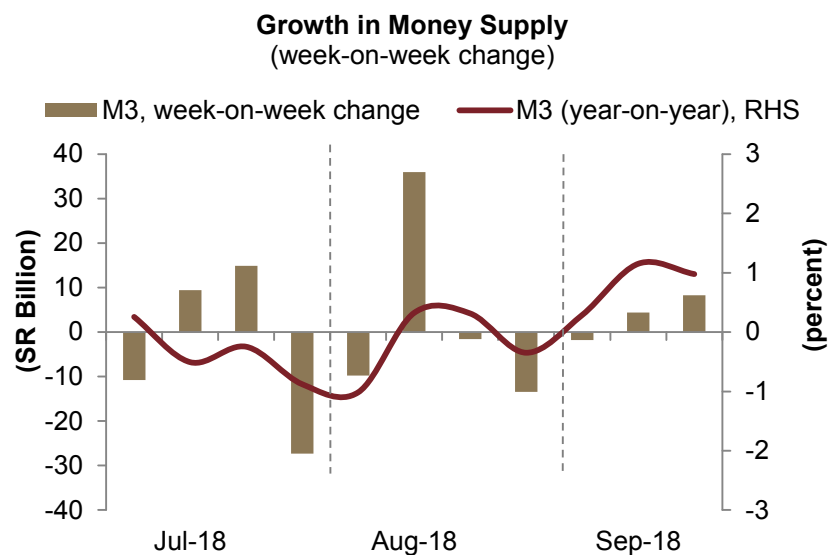
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Latest weekly M3 data shows a rise in money supply in September.



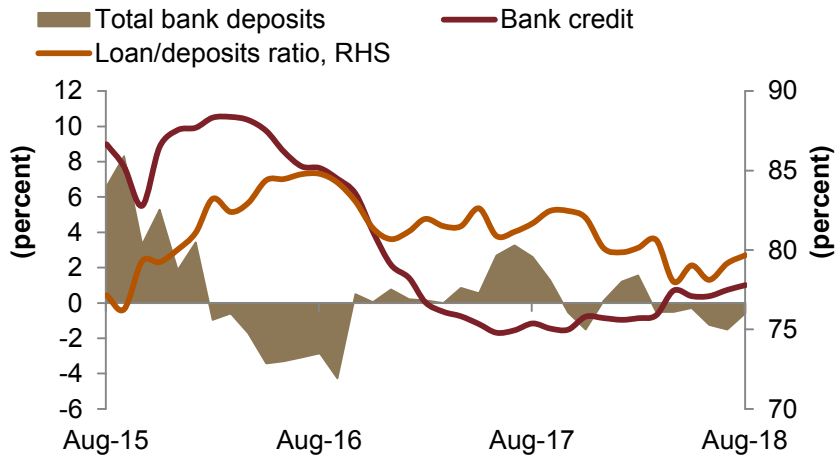


Bank Deposits

Bank deposits declined by 0.6 percent year-on-year in August, mainly due to time and saving deposits, which declined by 12.2 percent year-on-year, continuing the downward trend since September 2017. Meanwhile, private deposits rose by 1.3 percent year-on-year, affected by a rise in private demand deposits by 2.2 percent in August.

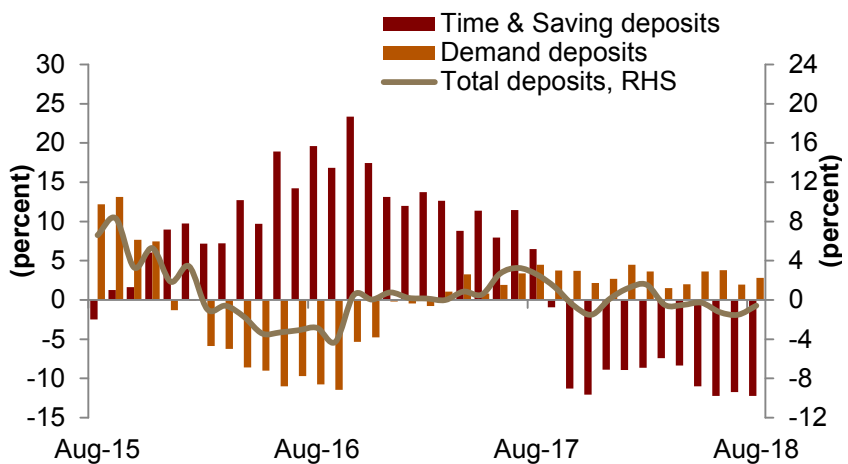
Bank deposits declined by 0.6 percent year-on-year in August...

Growth in Total Bank Deposits
(year-on-year change)



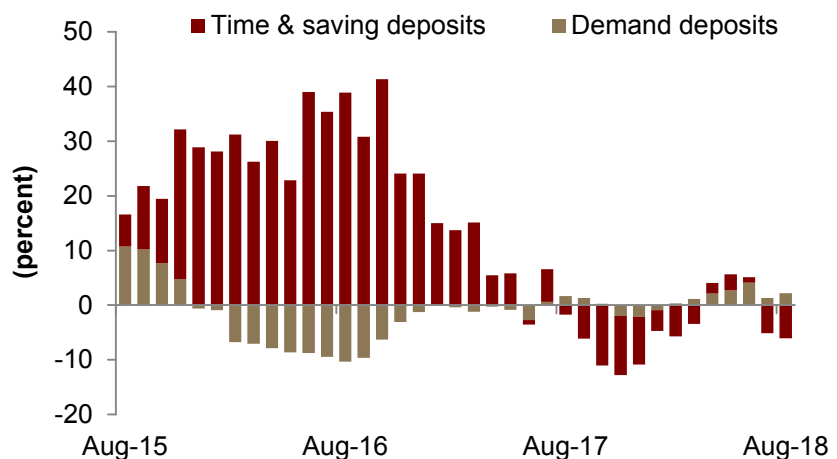
...mainly due to time and saving deposits, which declined by 12.2 percent year-on-year, continuing the downward trend since September 2017.

Growth in Bank Deposits
(year-on-year change)



Private time and saving deposits declined by 6 percent year-on-year, marking the largest drop since the beginning of the year.

Breakdown of Private Sector Deposits
(year-on-year change)



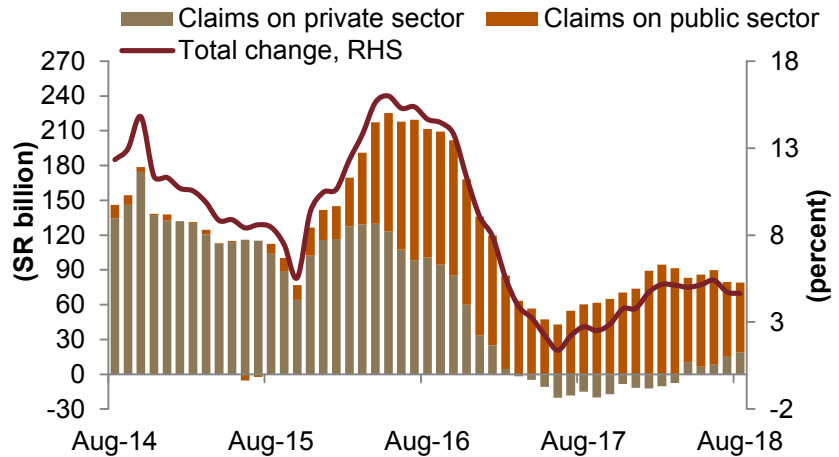


Bank Credit

Total bank claims rose by 4.7 percent in August, year-on-year. Credit to the private sector saw a notable rise, by 1 percent year-on-year, marking the largest annual increase since January 2017. On a monthly basis, bank credit to the private sector saw a rise by 0.7 percent, the highest rise in five months. The breakdown of total bank claims on the private sector shows that the highest annual rise was in bank investments in private securities during the month.

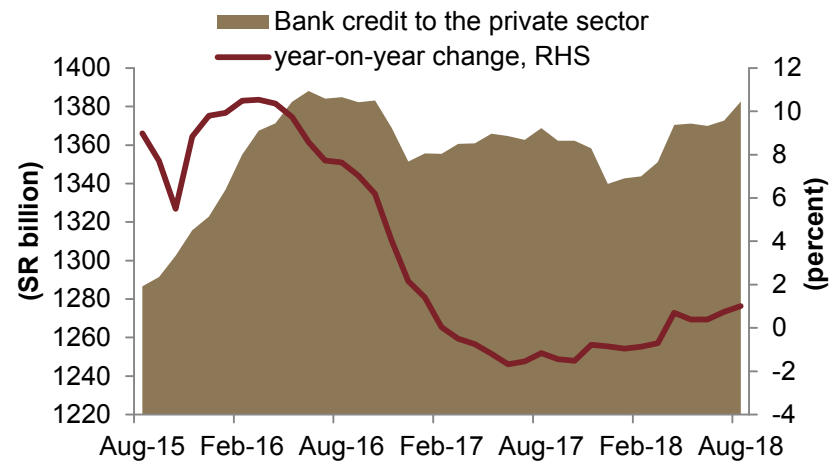
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Breakdown of Bank Claims
(year-on-year change)



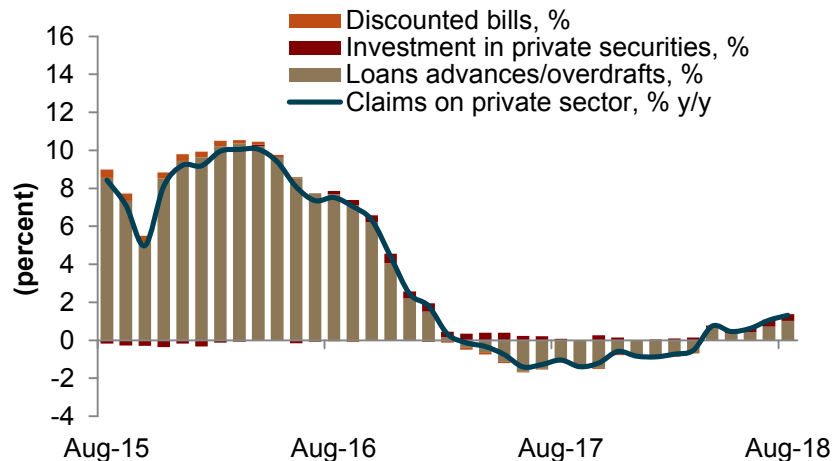
Credit to the private sector saw a notable rise, by 1 percent year-on-year, marking the largest annual increase since January 2017.

Bank Credit to the Private Sector



The highest annual rise was in bank investments in private securities during the month, which was up by 9.2 percent year-on-year.

Breakdown of Bank Claims on the Private Sector
(Contribution %)



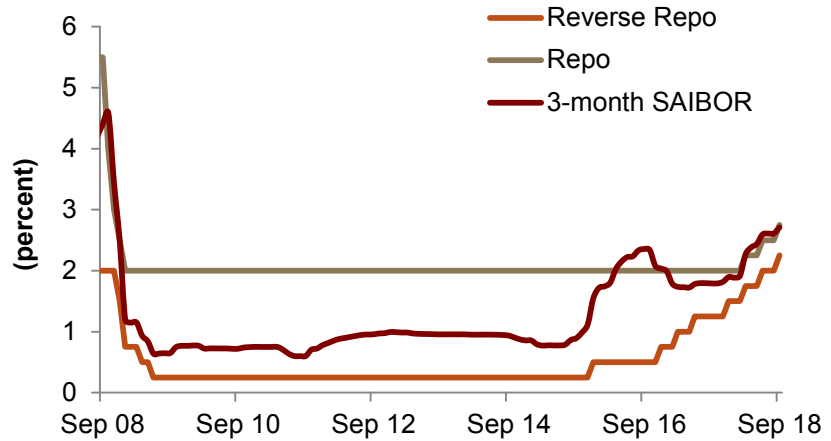


Interest Rates

SAMA raised its key interest rates, the repo and the reverse repo rate, by 25 basis points (bps) in September, following the US Federal Reserve's (Fed) interest rate hike during the month. Both SAIBOR and LIBOR were up during the month, with the SAIBOR/LIBOR spread continued to widen. Meanwhile, excess liquidity marginally declined in the banking system in August.

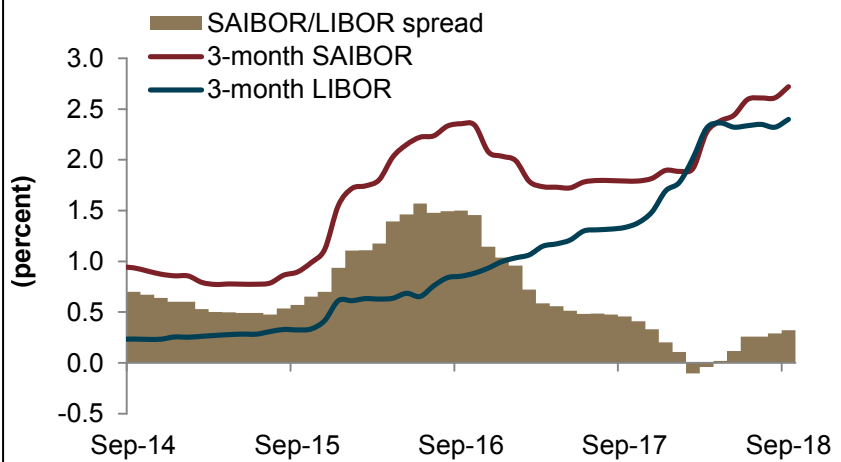
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Latest Saibor and Libor Rates



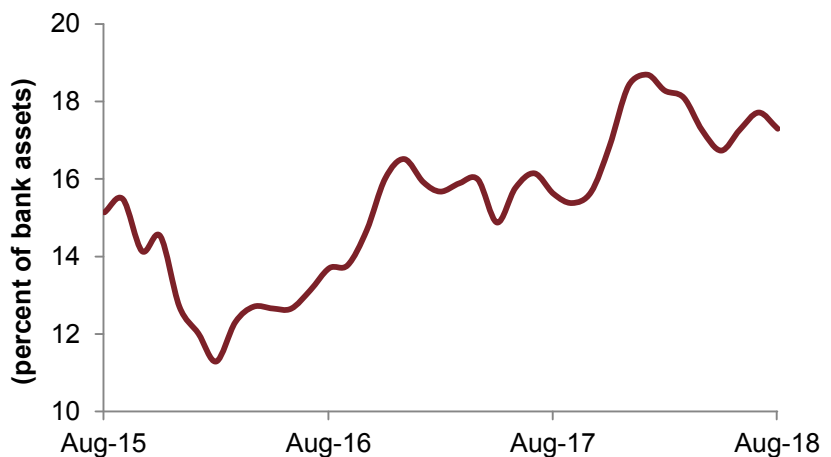
Both SAIBOR and LIBOR were up during the month, with the SAIBOR/LIBOR spread continued to widen.

Saibor and Libor Rates



Meanwhile, excess liquidity marginally declined in the banking system in August, following a continuous rise for 3 months previously.

Excess Liquidity in the Banking System

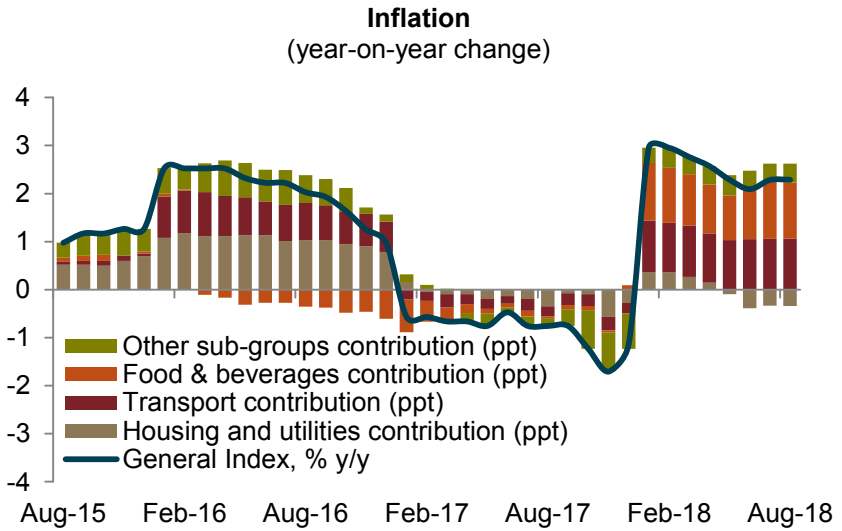




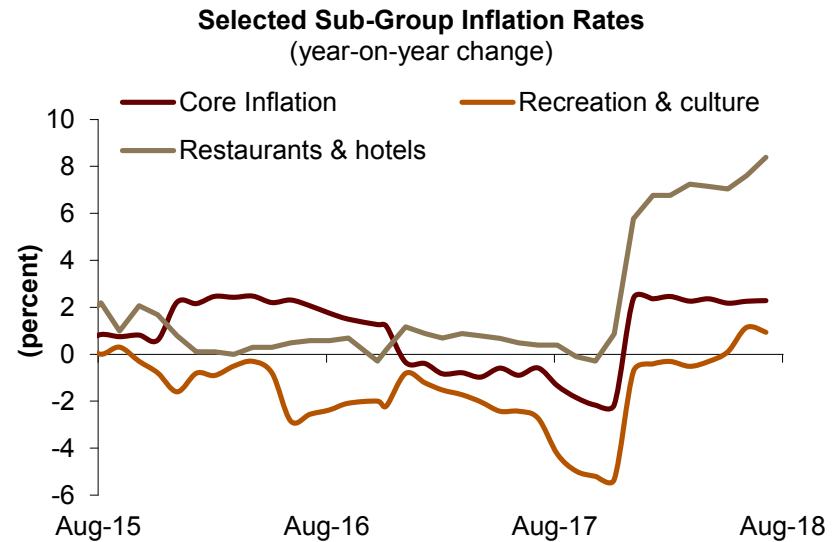
Inflation

Prices rose in August by 2.3 percent year-on-year, and declined by 0.2 percent month-on-month. 'Food and beverages' prices rose by 6.5 percent, whilst 'restaurants and hotels' has seen a significant rise in August, by 8.4 percent year-on-year, marking the highest annual rise since the beginning of the year. Prices in 'housing and utilities' were down by 1.3 percent year-on-year, affected by the declining prices in 'rentals for housing'.

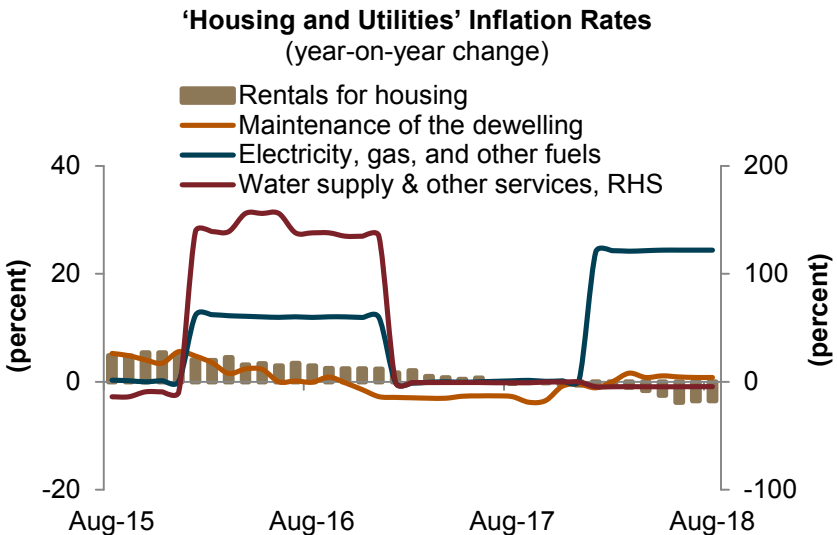
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'Restaurants and hotels' has seen a significant rise in August, by 8.4 percent year-on-year, marking the highest annual rise since the beginning of the year. The rise is likely to be supported by higher demand during the summer and Eid holidays.



Prices in 'rentals for housing' continued to decrease, down by 3.4 percent in August, year-on-year, and by 0.7 percent month-on-month.

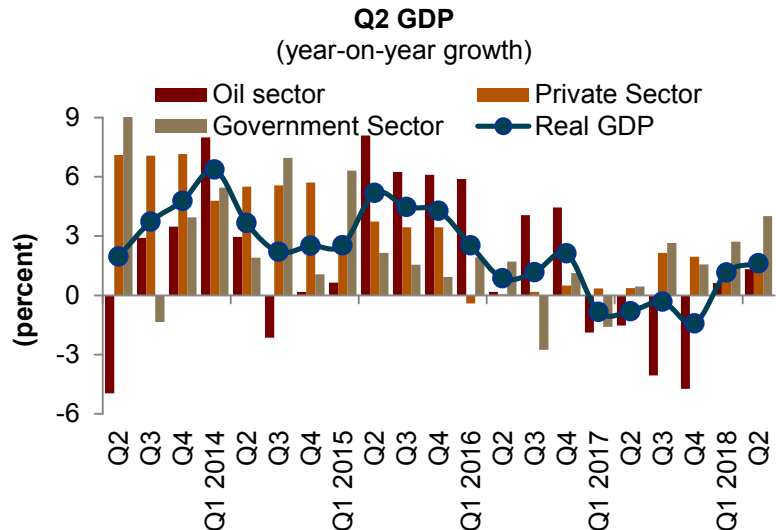




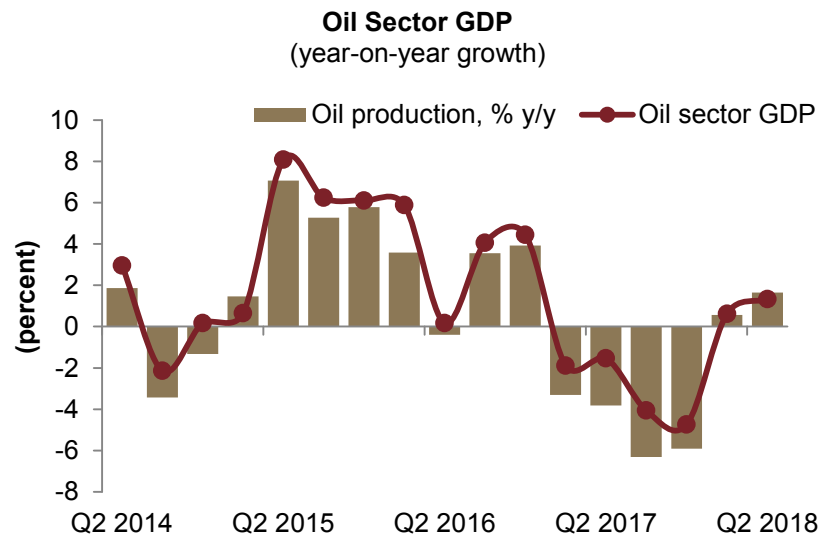
Q2 GDP

Data on Q2 real GDP showed that the economy expanded by 1.6 percent, year-on-year. The oil sector improved by 1.3 percent (44 percent share of GDP), whilst non-oil GDP rose by 2.4 percent. Within the non-oil sector, non-oil private sector GDP was up 1.1 percent (39 percent share of GDP) and the government sector's GDP rose significantly, by 4 percent (16 percent share of GDP).

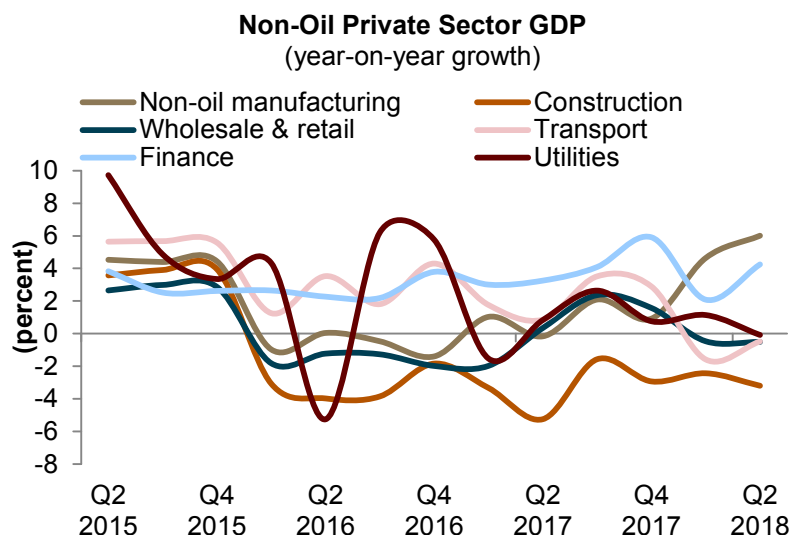
Data on Q2 real GDP showed that the economy expanded by 1.6 percent, year-on-year...



...with the oil sector improving by 1.3 percent, in-line with higher crude oil production seen during the quarter.



On the non-oil private sector side, the 'Construction', 'Transport & Communication' and 'Wholesale & retail' sectors showed yearly declines of 3.2, 0.5 and 0.5 percent, respectively. Meanwhile, 'Manufacturing', 'Finance', and 'non-oil Mining & Quarrying' were up 6, 4.2 and 2.3 percent respectively.

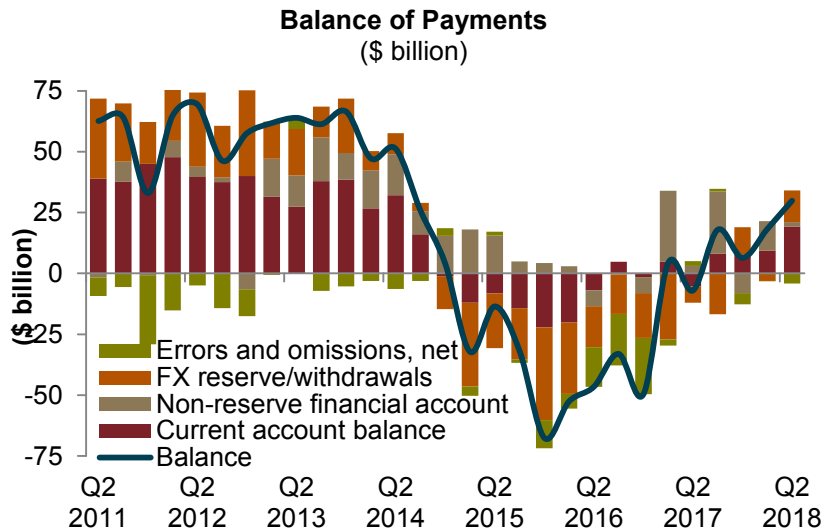




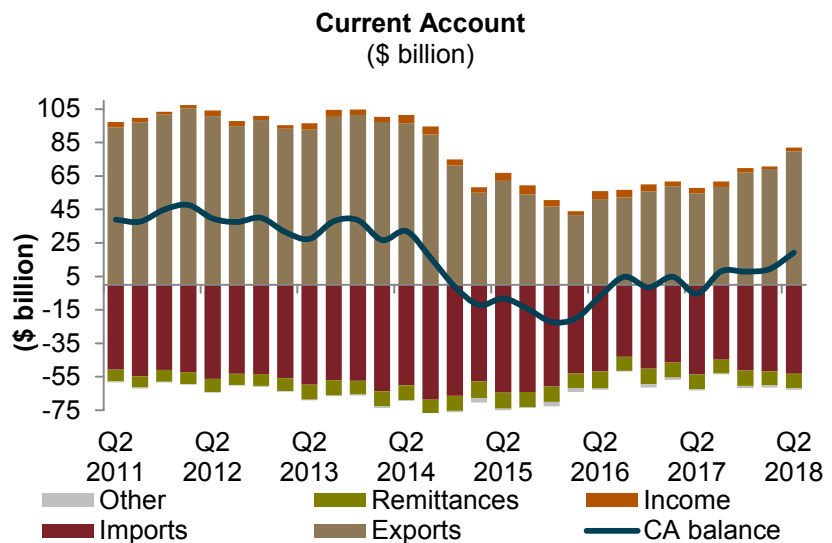
Balance of Payments

A sizable improvement in both the current and financial account in Q2 2018 helped maintain a surplus in the Kingdom's external account. A rise in exports, to four year highs of \$80 billion, helped push the current account balance to 19.2 percent. At the same time, the financial account remained positive despite a deficit in portfolio investments as a result of \$11 billion international bond issuance.

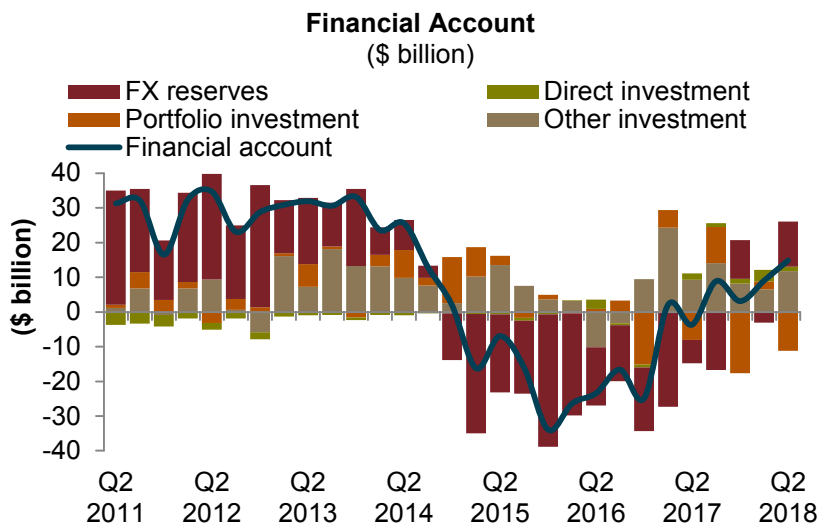
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2019 Preliminary Budget Report

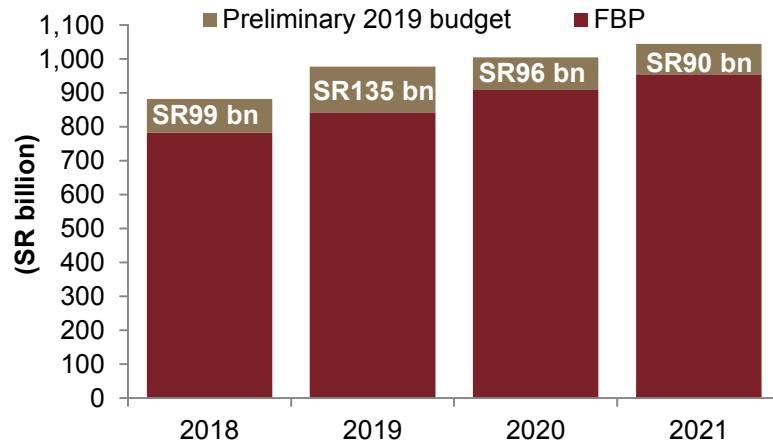
The government's preliminary budget for the 2019 fiscal year was presented by Ministry of Finance on 30th September 2018. A number of upward revisions were made to both revenue and expenditure from 2018 to 2021. Overall, the higher level of projected rises in revenue, especially in 2018 and 2019, compared to rises in expenditure mean the fiscal deficit will be lower than previously outlined in the Fiscal Balance Program (FBP).

In the near term 2018 revenue is expected to total SR882 billion, a rise of SR99 billion compared to budgeted total of SR783 billion. Upward revisions in government revenue for 2019, by SR 135 billion, to SR918 billion was also announced. In total, the government is expected to earn SR420 billion more between 2018 and 2021, compared to previously.

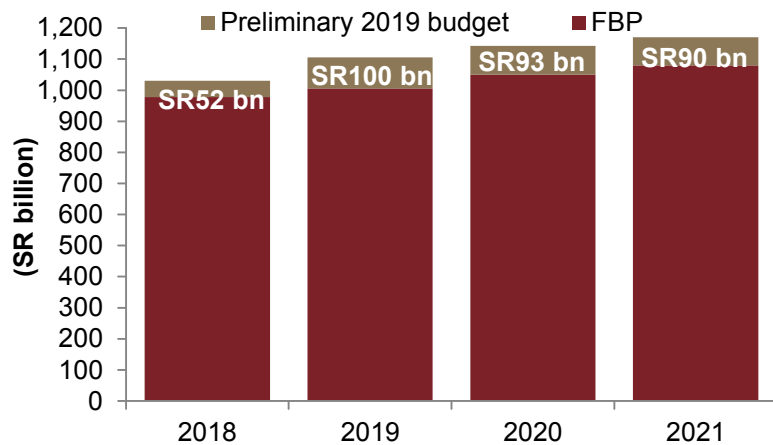
Rises are also expected on the expenditure side. That said, the rises are related to i) a Royal Decree that resulted in the return of the annual allowance and the decision of the cost of living allowance for citizens for the fiscal year 2018. ii) consolidation of revenues which in turn will result in assigning budget expenses for some government entities that previously collected their own revenues.

Overall, the higher level of projected rises in revenue, especially in 2018 and 2019, compared to rises in expenditure will result to the fiscal deficit being lower than previously projected. That's said, a higher proportion of the fiscal deficit will be financed through debt, with public debt rising from SR576 billion to SR848 billion from 2018-2021, compared to SR555 billion to SR805 billion previously.

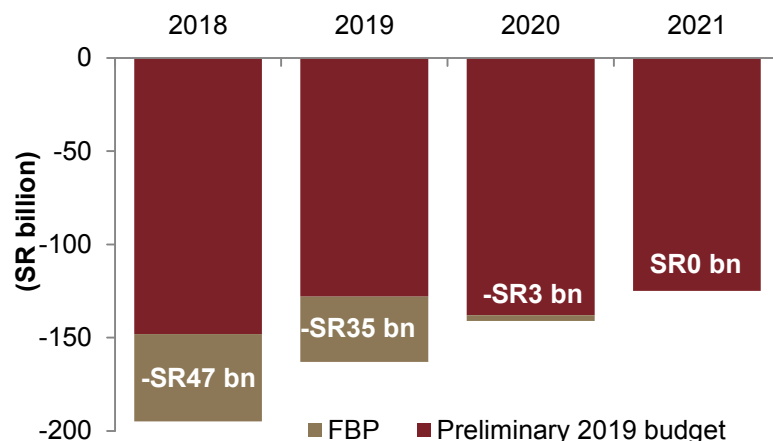
Government Revenue
(SR billion)



Government Expenditure
(SR billion)



Fiscal Deficit
(SR billion)





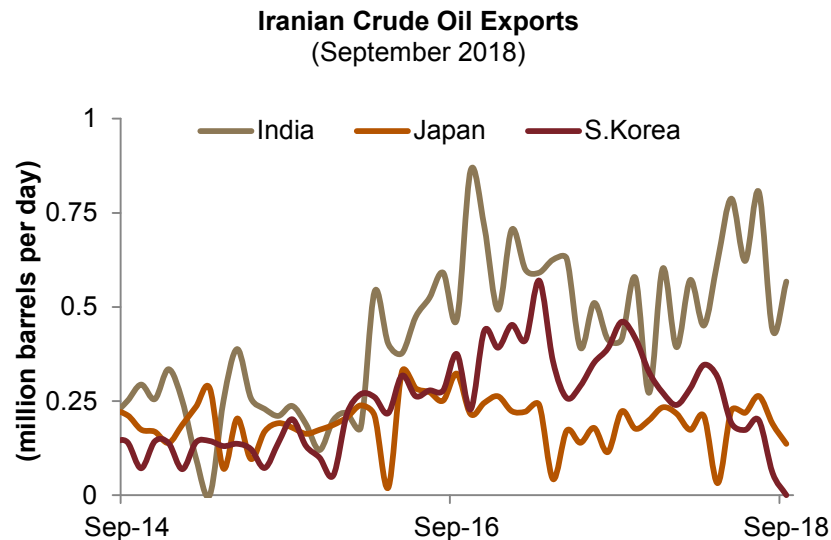
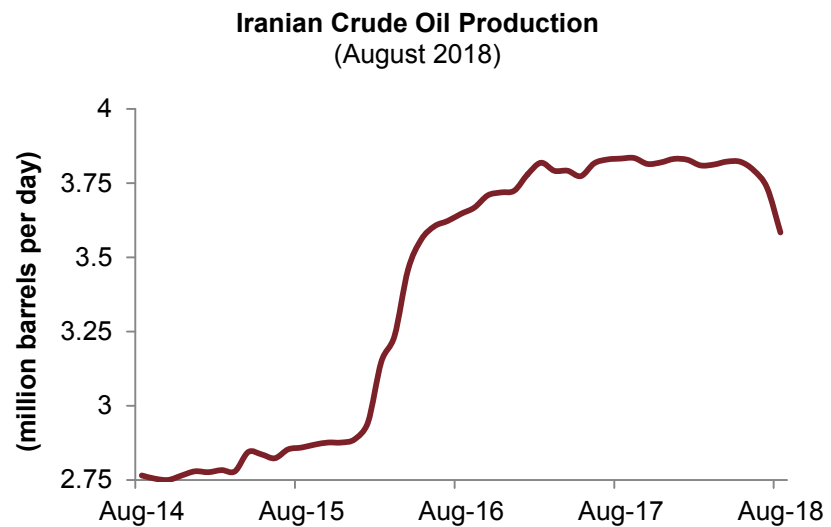
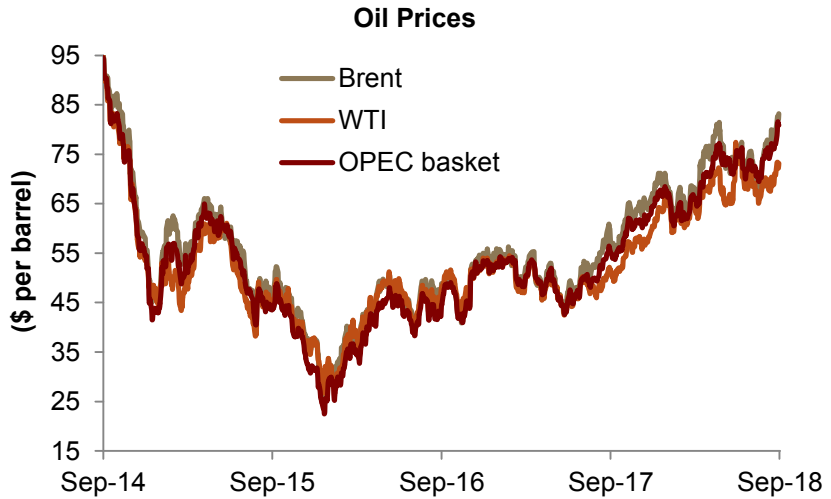
Oil - Global

Brent oil prices closed the month at \$83 per barrel, the highest daily average since early November 2014. On a monthly basis, Brent oil rose almost 10 percent, and WTI 3 percent, in September, driven mainly by concerns of over supply. Specifically, oil markets remain unconvinced that there is enough spare capacity to make up for the loss of Iranian exports as US sanctions approach.

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OPEC secondary sources data shows that Iranian oil output declined by nearly 250 tbpd between May and August 2018...

.....the decline was bought about by a reduction in imports from some of Iran's customers. Although some declines were registered by India and Japan, South Korea led the way in cutting purchases to zero, in line with the US's request.



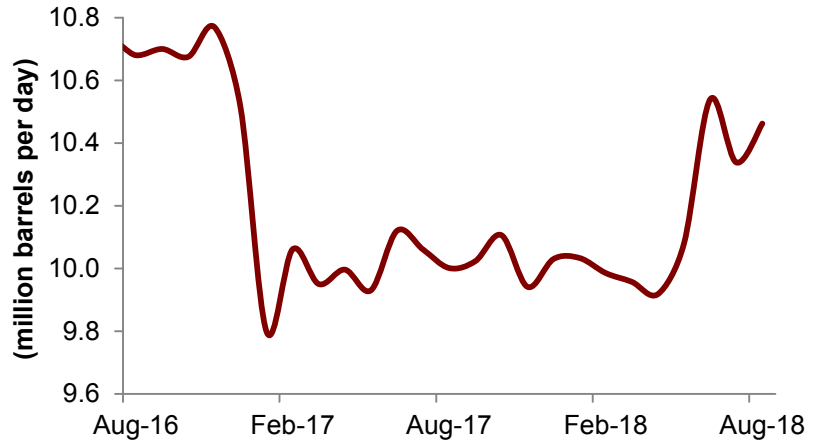


Oil - Regional

Saudi crude oil production in August rose 1.2 percent month-on-month to 10.4 mbpd. We expect crude oil production to remain around current levels in the months ahead as unpredictability in supply from certain OPEC members and declines from Iran continue prior to re-implementation of US sanctions.

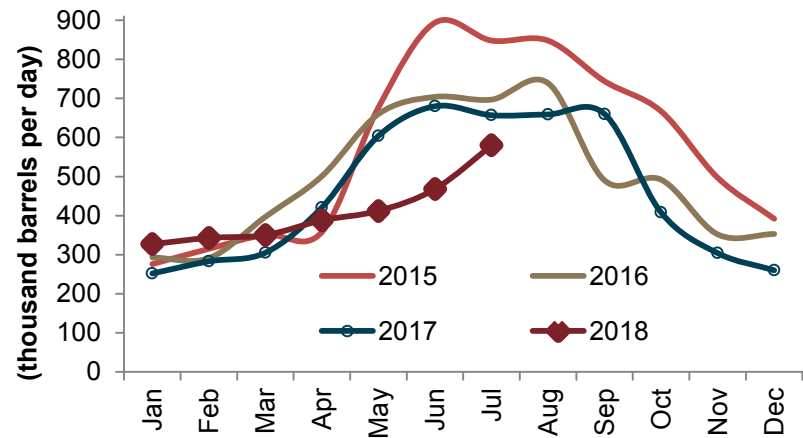
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Saudi Crude Oil Production
(direct communication till August 2018)



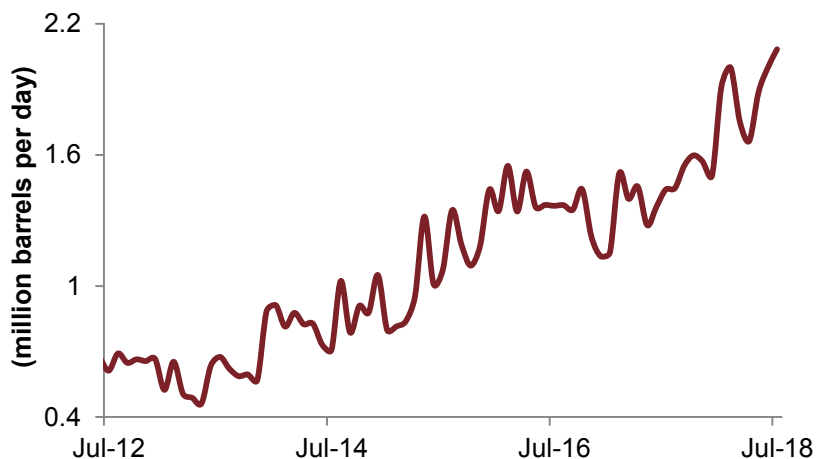
Direct crude burn (for electricity generation) was down 10 percent year-on-year, in the year-to-July. This lower demand reflects the rise in electricity tariffs seen earlier this year.

Saudi Direct Crude Burn
(till July 2018)



Concurrently, lower crude oil burn has contributed to raising the Kingdom's level of refined product exports. We see this trend continuing in the months ahead, especially as seasonal crude oil burn declines after the summer months.

Refined Product Exports
(till July 2018)





Exchange Rates

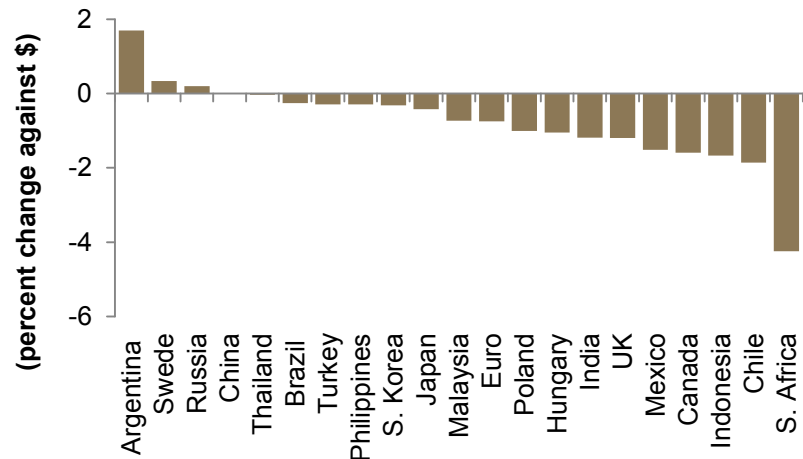
Most emerging market currencies, whilst being down, showed some degree of stability compared to the previous month as the US Federal Reserve (Fed), hiked interest rates by 25 basis points (bps). Looking ahead, current survey data suggests three more hikes in the year ahead, with one of those hikes expected in December this year.

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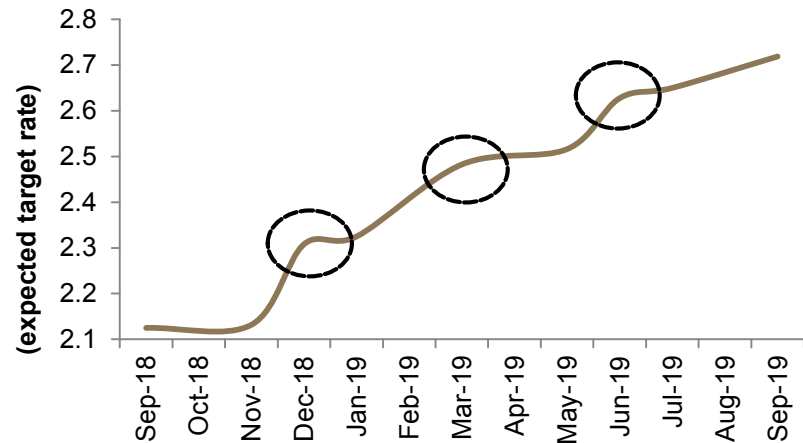
Looking ahead, current survey data suggests three more hikes in the year ahead, with one of those hikes expected in December this year.

Meanwhile, the UK pound is struggling to maintain any gains against the US dollar as political uncertainty remains over 'Brexit' negotiations.

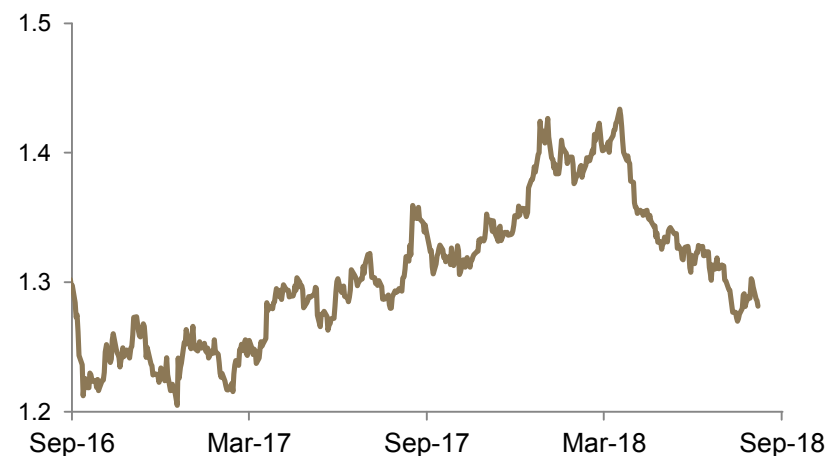
Monthly Gain/Loss Against US Dollar
(September 2018)



Expected US Target Rate



GBP/US Dollar



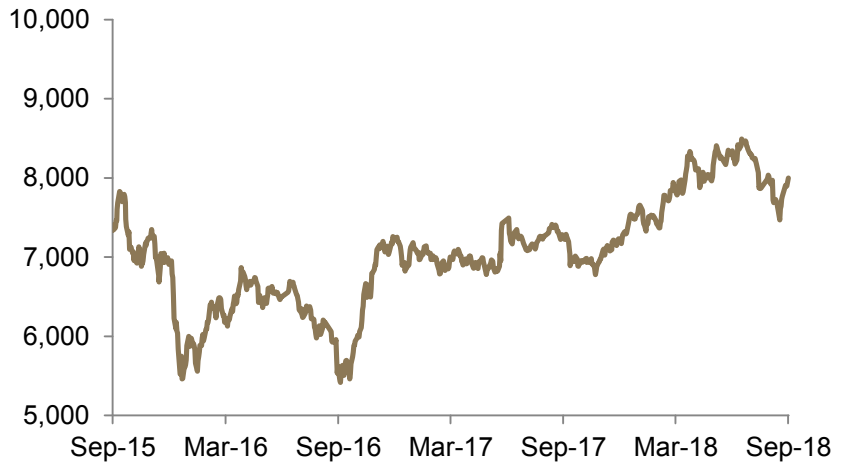


Stock Market

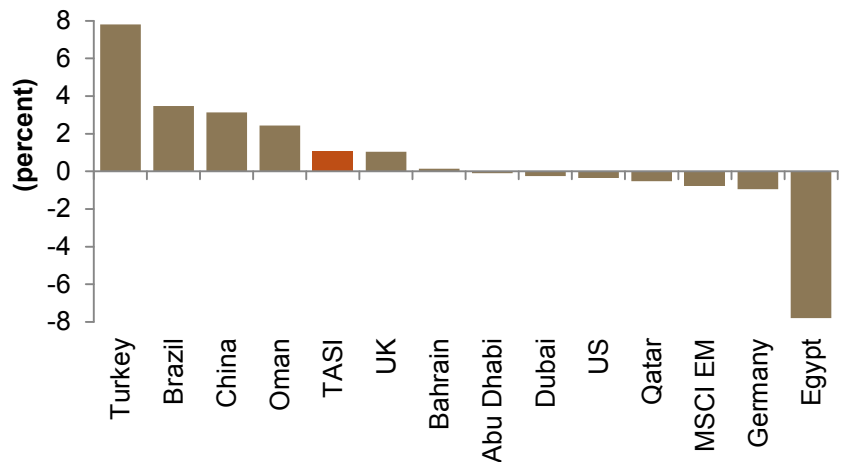
TASI improved marginally during September, rising by 1 percent month-on-month. This, however, disguises volatile trading during the month. In the first half of September, TASI slipped to a six month low. Since then, the index has risen by 7 percent, underlying the stronger fundamentals of the Kingdom vis-à-vis other EMs and reflecting improved sentiment linked to multi-year high oil prices.

Despite TASI slipping to 6 month lows of 7500 points in mid-September, the Saudi index has recovered by 7 percent since then.

TASI
(September 2018)

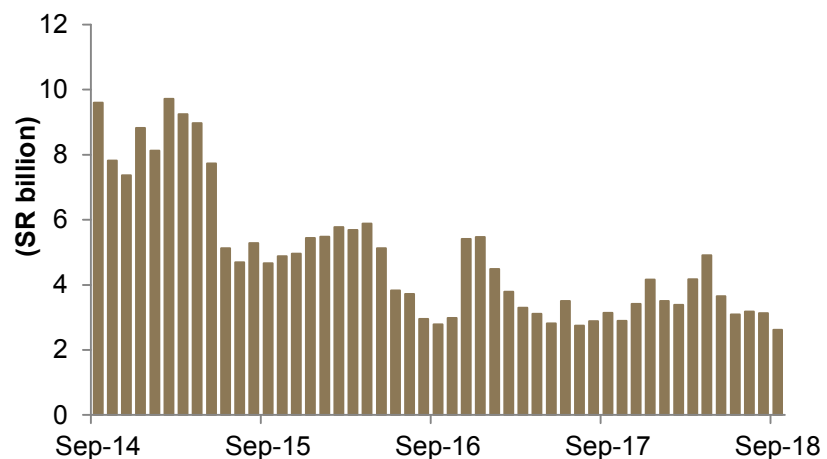


Comparative Stock Market Performance
(September 2018)



The turnaround in TASI reflects stronger fundamentals of the Kingdom vis-à-vis other EMs, with the Saudi equity market improving more so than most other regional indices.

Traded Volumes
(September 2018)



That said, traded volumes dipped to year-to-date lows during the month, but we expect these to recover as confidence likely further improves in the months ahead.



Key Data

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
Nominal GDP									
(SR billion)	2,517	2,760	2,800	2,836	2,454	2,419	2,575	2,944	3,150
(\$ billion)	671	736	747	756	654	645	687	785	840
(% change)	27.1	9.6	1.5	1.3	-13.5	-1.4	6.5	14.3	7.0
Real GDP (% change)									
Oil	12.2	5.1	-1.6	2.1	5.3	3.6	-3.0	3.2	4.5
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	1.4
Total	10.0	5.4	2.7	3.7	4.1	1.7	-0.9	2.2	2.9
Oil indicators (average)									
Brent (\$/b)	112	112	110	99	52	43	54	68	68
Saudi (\$/b)	104	106	104	96	49	41	51	66	66
Production (million b/d)	9.3	9.8	9.6	9.7	10.2	10.4	10.0	10.3	10.7
Budgetary indicators (SR billion)									
Government revenue	1,118	1,247	1,156	1,044	616	519	692	867	884
Government expenditure	838	916	994	1,140	999	935	930	978	1,006
Budget balance	280	331	162	-96	-383	-416	-238	-111	-122
(% GDP)	11.1	12.0	5.8	-3.4	-15.6	-17.2	-9.3	-3.8	-3.9
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	17.2	19.0	21.4
Monetary indicators (average)									
Inflation (% change)	n/a	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	2.75	3.25
External trade indicators (\$ billion)									
Oil export revenues	318	337	322	285	153	137	170	223	227
Total export revenues	365	388	376	342	204	184	221	275	283
Imports	120	142	153	158	159	128	119	116	120
Trade balance	245	247	223	184	44	56	102	159	163
Current account balance	159	165	135	74	-57	-24	15	73	78
(% GDP)	23.6	22.4	18.1	9.8	-8.7	-3.7	2.2	9.3	9.3
Official reserve assets	544	657	726	732	616	536	496	536	569
Social and demographic indicators									
Population (million)	28.2	28.9	29.6	30.3	31.0	31.7	32.6	33.4	34.0
Saudi Unemployment (15+, %)	12.4	12.1	11.7	11.7	11.5	12.5	12.8	12.5	12.1
GDP per capita (\$)	23,827	25,471	25,223	24,962	21,095	20,318	21,057	23,495	24,714

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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