



Summary

Real Economy: Economic indicators in February were mixed, both POS transactions and cash withdrawals were up but the non-oil PMI declined for the third consecutive month in February, affected by a slowdown in new orders.

Government Finance: The net monthly change in government accounts with SAMA declined by SR14 billion month-on-month in February.

SAMA Foreign Reserve Assets: SAMA FX reserves were down month-on-month in February, to stand at \$497 billion. We calculate foreign reserves would be able to cover up to 47 months of Saudi imports.

Money Supply: The broad measure of money supply (M3) rose significantly in February, by 7.5 percent year-on-year, and by 1 percent month-on-month.

Bank Deposits: Bank deposits rose by 7.7 percent year-on-year in February.

Bank Credit: Total bank claims rose by 11.3 percent in February year-on-year. Claims on the public sector were up by 17.7 percent, meanwhile, credit to the private sector rose by 9.7 percent, year-on-year.

Interest Rates: Domestic funding costs have followed a downward trajectory in March, with SAIBOR now at four and half year lows.

COVID-19 Stimulus Packages: In light of the unprecedented effects of COVID-19, the Saudi government announced a number of packages aimed at supporting the private sector, with a special focus on SMEs along with more vulnerable sectors in the local economy.

Inflation: Prices rose in February by 1.2 percent year-on-year, and by 0.3 percent month-on-month. Prices in “food and beverages” rose by 3.4 percent, whilst “housing and utilities” prices declined by 0.7 percent, year-on-year.

Balance of Payment: Full year 2019 data showed that the current account surplus stood at \$50 billion (6.1 percent of GDP). We expect the current account surplus to narrow significantly to 0.9 percent of GDP in 2020.

Oil-Global: Faced by both demand and supply side developments, Brent oil prices dropped by 43 percent month-on-month (whilst WTI prices declined 41 percent) in March, the largest monthly fall for both indices in at least 26 years.

Oil-Regional: Saudi crude oil production was flat month-on-month in February, at 9.7 mbpd, with similar levels of output expected in March. However, as outlined by Aramco last month, this will rise considerably in April, with 12 mbpd plus 300 tbpd of stocks expected to be supplied.

Exchange Rates: Global risk-off investor sentiment led to a sell-off of all major global currencies in favor of the US dollar, despite the US Federal Reserve (Fed) cutting interest rates to near zero during the month.

Stock Market: TASI saw losses of 15 percent month-on-month in March, in-line with a sell-off seen across global equity markets.

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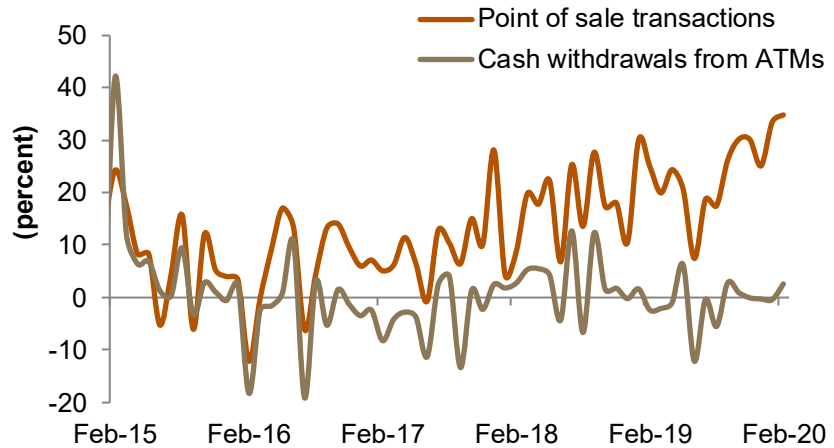


Real Economy

Economic indicators in February were mixed. Whilst both POS transactions and cash withdrawals were up by 35 and 3 percent year-on-year, respectively, the non-oil PMI declined for the third consecutive month in February. Meanwhile, non-oil exports declined by 15 percent year-on-year in January, with a significant decline in exports seen in petrochemicals and plastics.

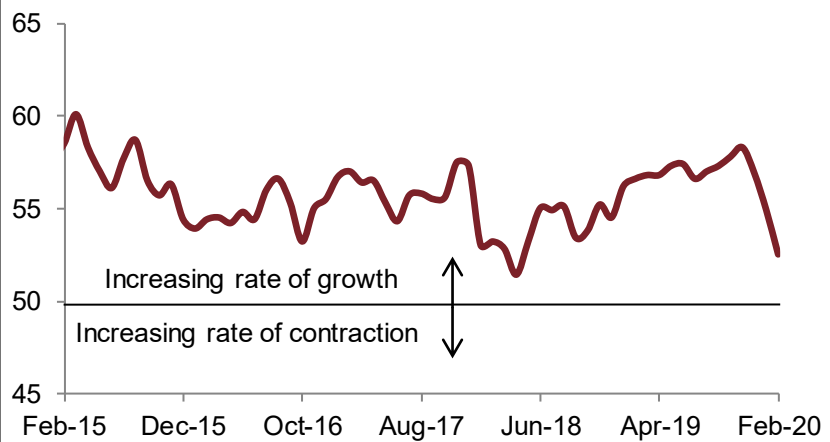
With most of the precautionary measures around preventing the transmission of COVID-19 not implemented in the Kingdom until March, consumer spending figures showed a strong level of growth in February. Looking ahead, we expect to see a decline in POS transactions and ATM cash withdrawals, with the decline in the former mitigated by encouragement of contactless card payments.

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



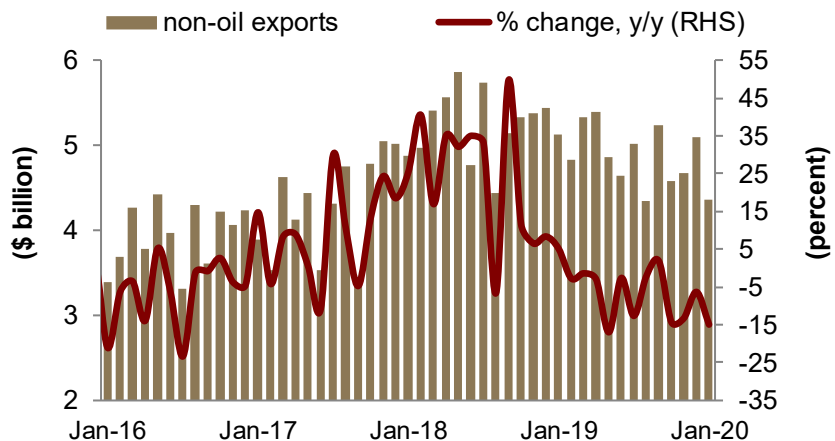
Non-oil PMI declined for the third consecutive month in February, affected by a lower growth in new orders.

Non-oil Purchasing Managers' Index



Non-oil exports declined in January by 15 percent year-on-year, mainly driven by lower exports from petrochemicals and plastics, which declined by 16 percent and 26 percent year-on-year, respectively. We expect non-oil exports to see continued yearly declines for the foreseeable future.

Non-oil Exports
(year-on-year change)



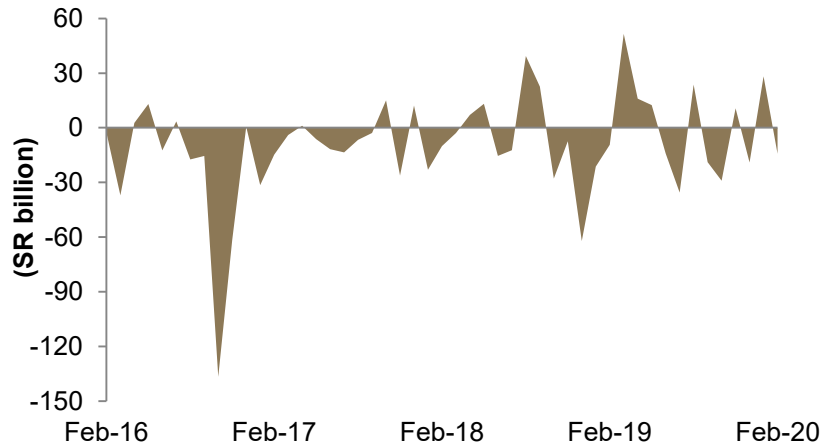


Government Finance

The net monthly change to government accounts with SAMA declined by SR14 billion month-on-month in February, which came mainly as a result of a decrease in government current deposits by SR14 billion, whilst government reserves were unchanged month-on-month. At the same time, domestic banks net holdings of government debt rose by SR13.5 billion in February.

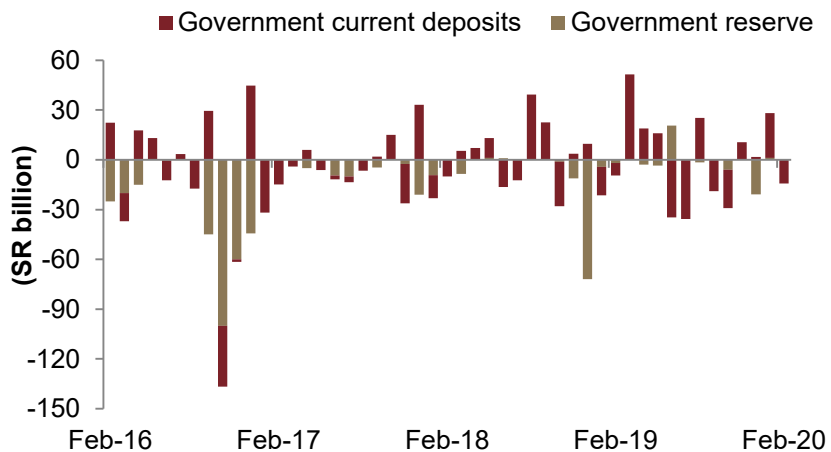
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Net Change to Government Accounts with SAMA
(month-on-month change)



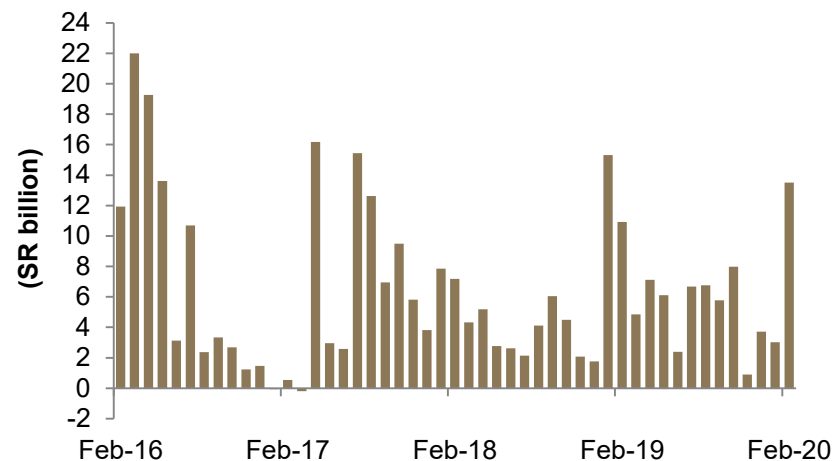
...which came mainly as a result of a decrease in government current deposits by SR14 billion, whilst government reserves were unchanged month-on-month.

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



Domestic banks net holdings of government debt rose by SR13.5 billion in February. Looking ahead, we expect banks net holdings of government debt to continue rising as up to an additional SR100 billion in debt is issued during 2020, so to help roll-out a number of COVID-19 stimulus measures. In such a situation, total debt could, but not necessarily, rise to 30 percent of GDP by year end.

Domestic Banks Net Holdings of Government Bonds

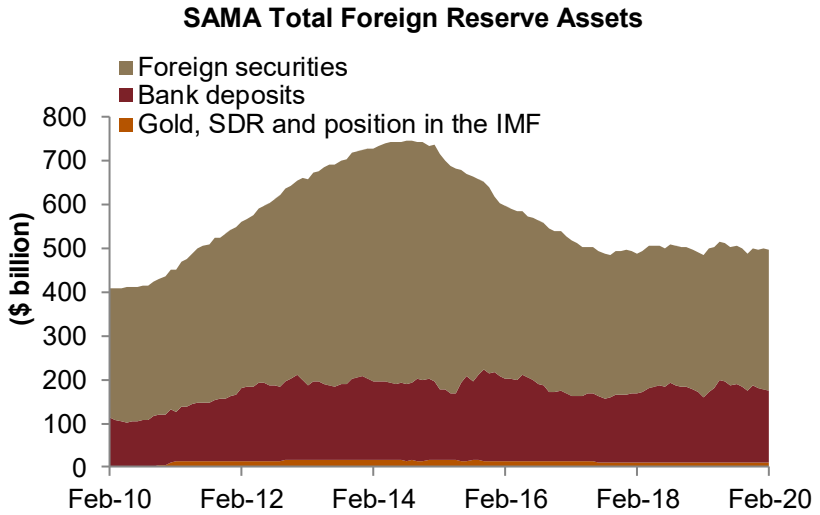




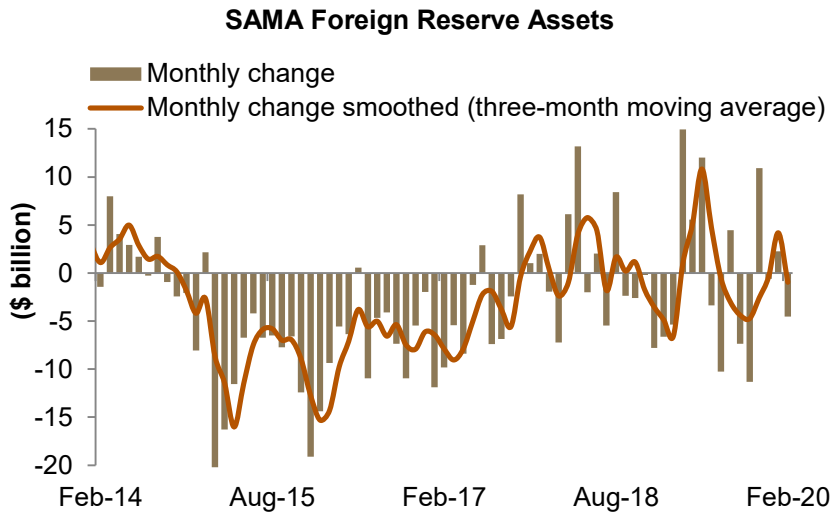
SAMA Foreign Reserve Assets

SAMA FX reserves were down month-on-month in February, at \$497 billion. A breakdown of FX reserves shows a monthly decline in SAMA's bank deposits by \$4 billion, with some marginal decline in foreign securities during the month. Meanwhile, we calculate foreign reserves would be able to cover up to 47 months of Saudi imports.

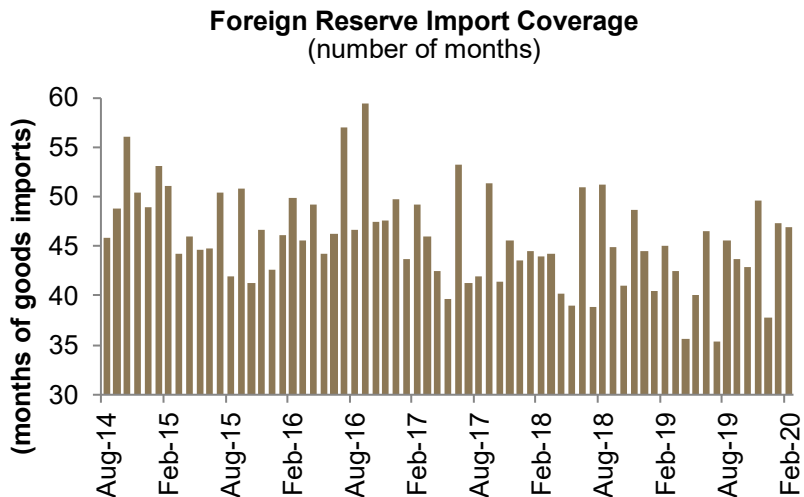
SAMA FX reserves were down month-on-month in February...



...to stand at \$497 billion.



Based on latest available data for the value of imports for Saudi in January, current foreign reserves would be able to cover up to 47 months of imports.

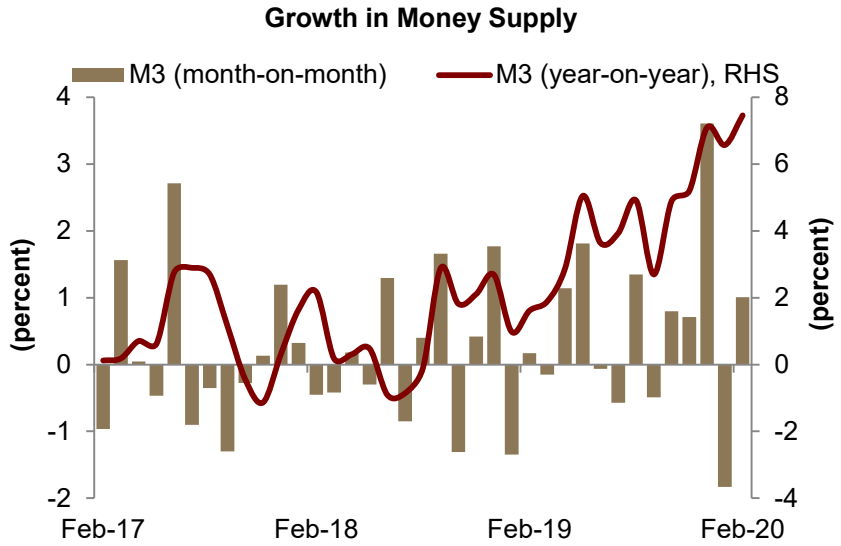




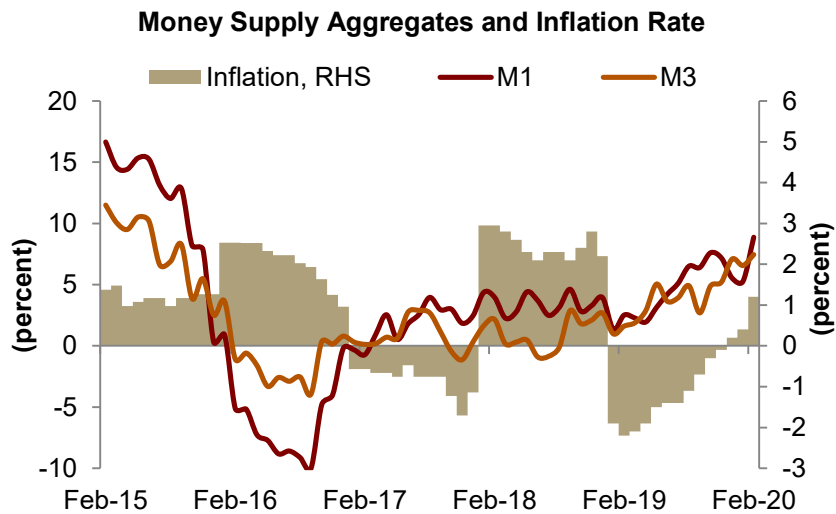
Money Supply

The broad measure of money supply (M3) rose significantly in February, by 7.5 percent year-on-year, and by 1 percent month-on-month. The growth in M3 came mainly as a result of a continued rise in demand deposits, up 9.5 percent year-on-year in February, with an increase in time deposits by 6.6 percent year-on-year during the month.

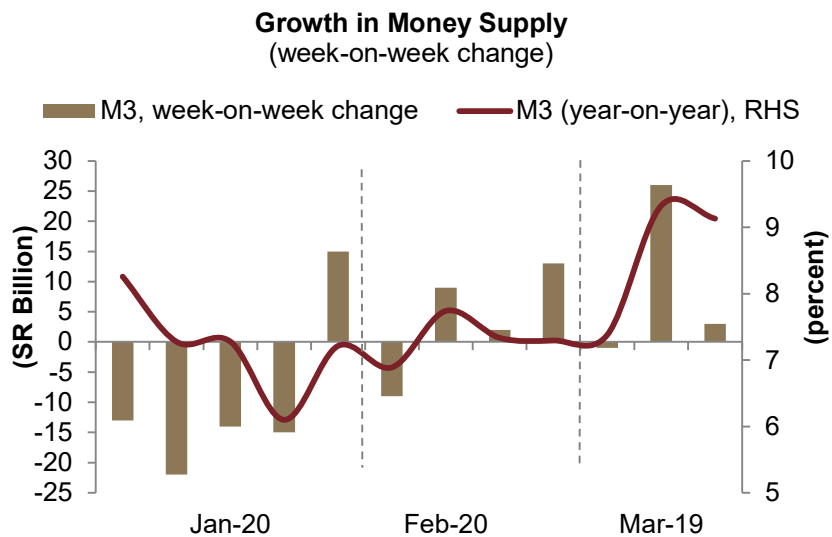
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Latest weekly M3 data shows decent level of M3 growth in March 2020.



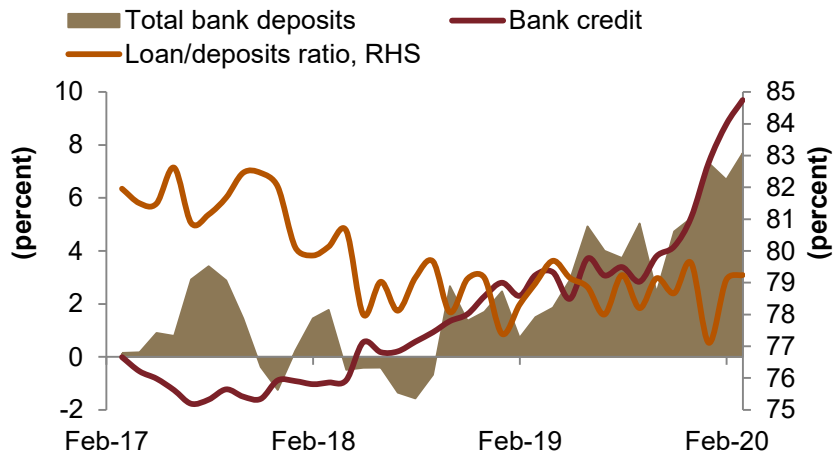


Bank Deposits

Bank deposits rose by 7.7 percent year-on-year in February, affected by the rise in demand deposits by 9.5 percent year-on-year. Meanwhile, time deposits were up by 6.6 percent year-on-year during the month. A breakdown of demand deposits shows a notable rise in government demand deposits, rising by 32 percent year-on-year, whilst private demand deposits were up by 7 percent during the month.

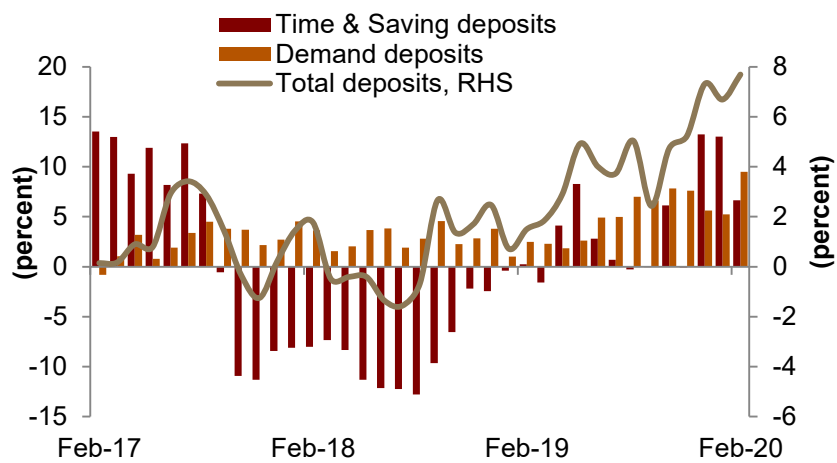
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Growth in Total Bank Deposits
(year-on-year change)



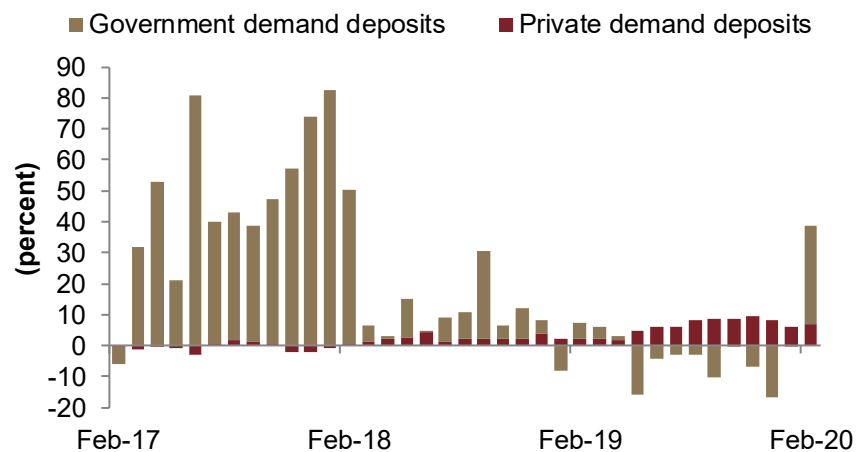
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Breakdown of Total Deposits
(year-on-year change)



A breakdown of demand deposits shows a notable rise in government demand deposits, rising by 32 percent year-on-year. Meanwhile, private demand deposits, which account for almost 90 percent of total demand deposits, were up by 7 percent during the month.

Breakdown of Demand Deposits
(year-on-year change)

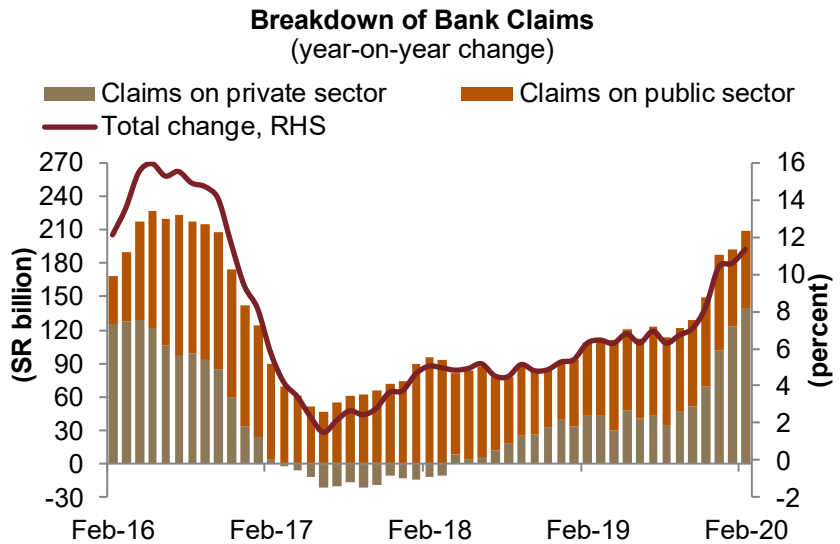




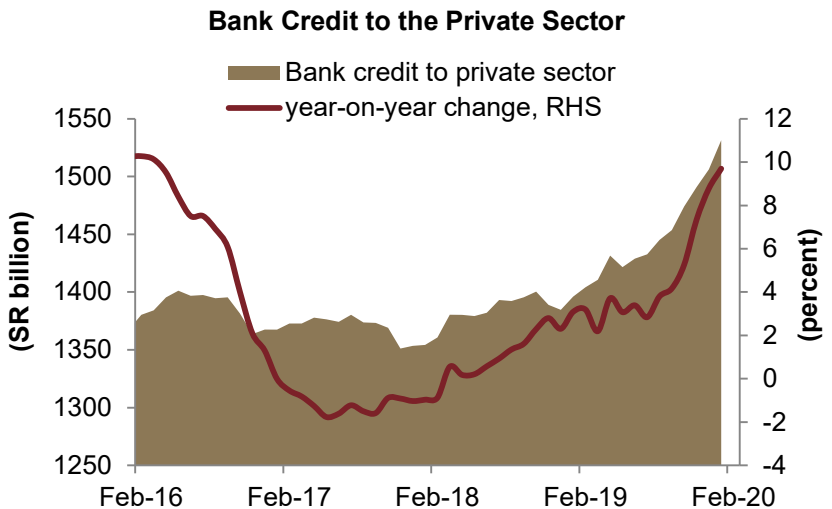
Bank Credit

Total bank claims rose by 11.3 percent in February year-on-year. Claims on the public sector were up by 17.7 percent, meanwhile, credit to the private sector rose by 9.7 percent, year-on-year. Also, new mortgages from banks rose by 142 percent year-on-year during the month.

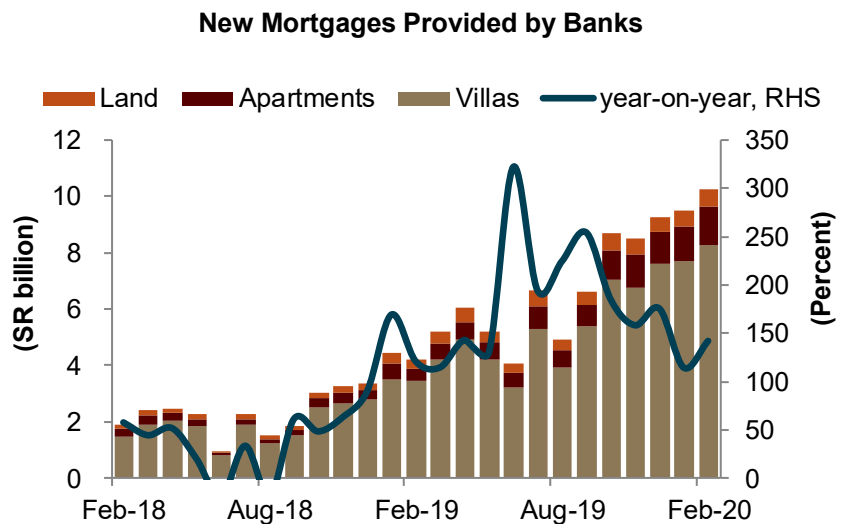
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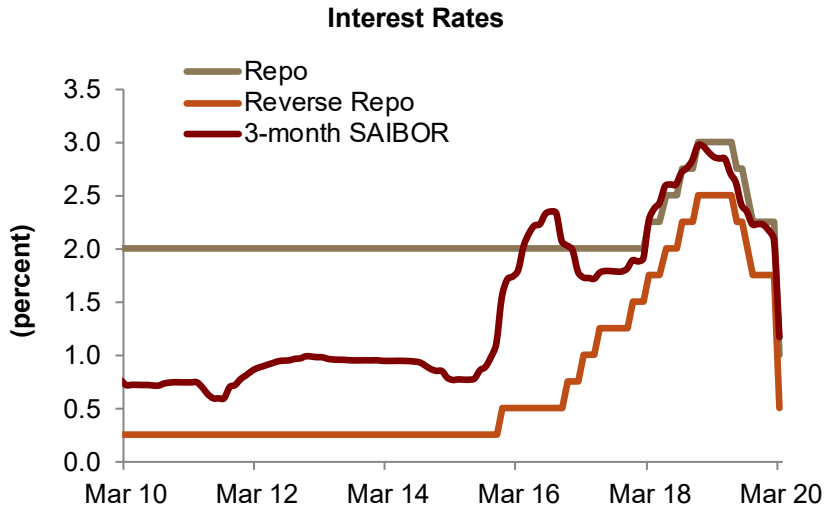




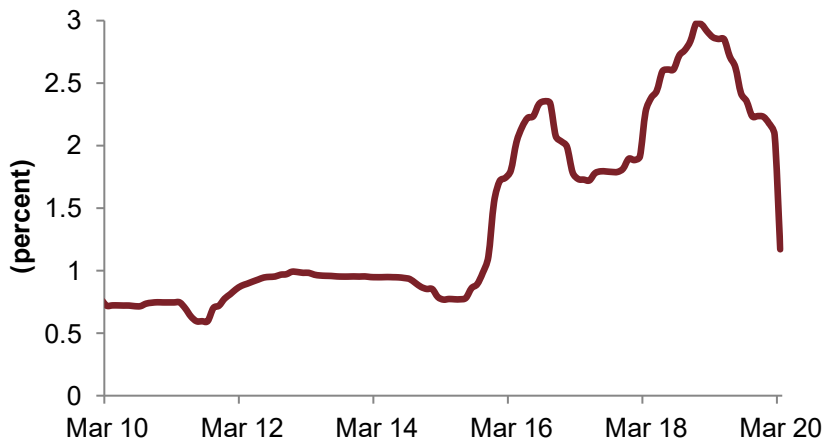
Interest Rates

In line with the US Fed lowering key benchmark rates during the month, key policy rates within the Kingdom were also reduced. Partly as a result of this, domestic funding costs have followed a downward trajectory. However, a surge in demand in US dollars by global investors, in turn led to dollar funding stress, pushing SAIBOR/US LIBOR spread into the negative.

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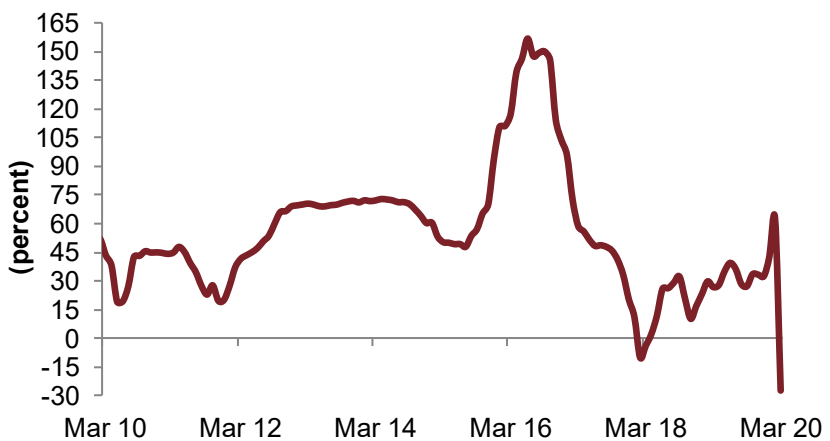


SAIBOR
(March 2020)



Partly as a result of this, domestic funding costs have followed a downward trajectory, with SAIBOR now at four and a half year lows.

SAIBOR-US LIBOR Spread
(percent)



However, a surge in demand in US dollars by global investors, in turn, led to dollar funding stress, pushing SAIBOR/US LIBOR spread into negative. Looking ahead, this trend should reverse following the Fed's decision to expand dollar swap lines to a number of central banks.

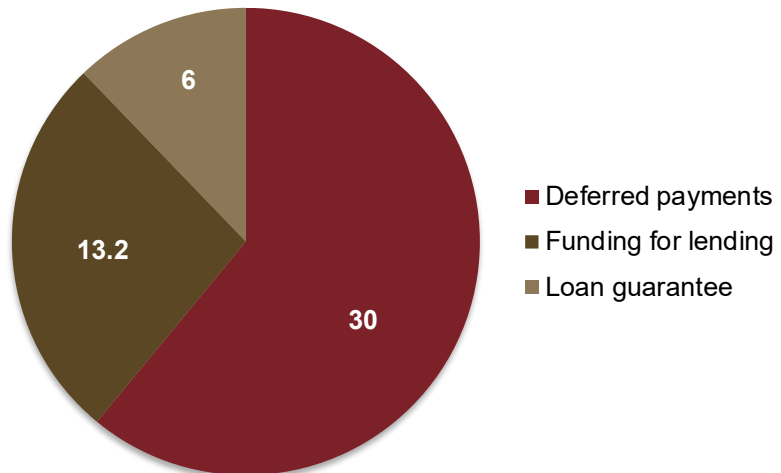


COVID-19 Stimulus Package

In light of the unprecedented developments of COVID-19, the Saudi government announced a number of packages aimed at supporting the private sector, with a special focus on SMEs along with more vulnerable sectors in the local economy. SAMA, the National Development Fund (NDF), and the Ministry of Finance (MoF), announced a total of SR120 billion support programs and initiatives.

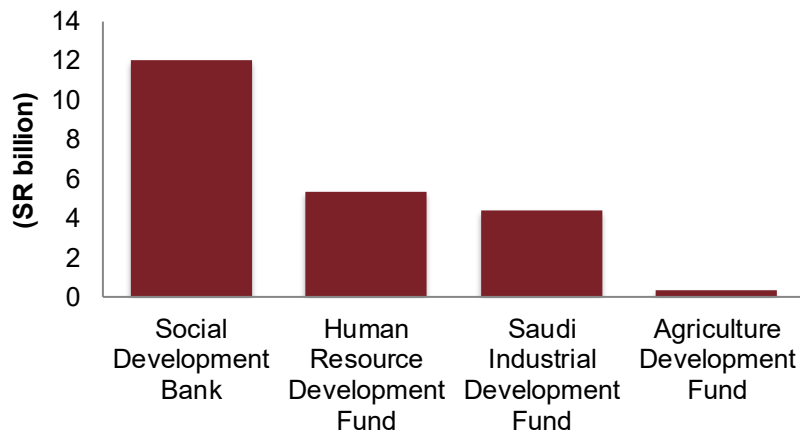
SAMA introduced a program with 3 main initiatives to support SME funding and reduce lending costs throughout 2020.

SAMA's Private Sector Support Program
(SR 50 billion)



National Development Fund Stimulus Package

The NDF's funds are also supporting SMEs through various packages.



The Financial Stimulus Package Initiatives
(SR70 billion)

Also, the Ministry of Finance introduced a number of measures consisting of exemptions and postponing some government fees in order to provide more liquidity within the private sector.

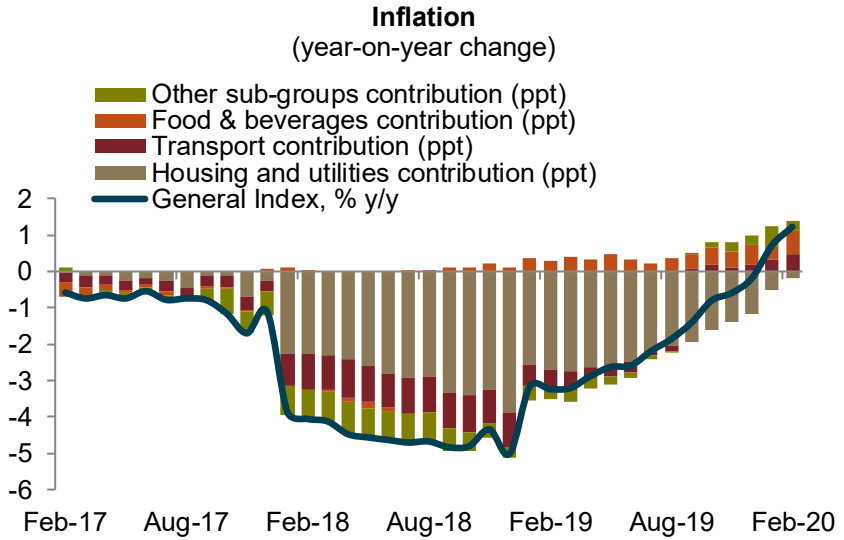
Exemption	from expat levies for expired Iqama holders from now to 30 June 2020 by extending the Iqama for 3 months with no charge
Enabling	employers to refund the fees of issued work visas not used during the travel ban, or extend for 3 months with no charge
Enabling	employers to extend exit/re-entry visas that were not used during the travel ban for 3 months with no charge
Enabling	business owners, for 3 months, to postpone the payment of VAT, excise tax, income tax and Zakat declarations
Postponing	the collection of custom duties on imports for 3 months, extending if needed
Postponing	the payment of some government services fees and municipal fees for 3 months, extended if needed
Authorizing	the minister of finance to approve financing and exemptions from payment of fees and returns on loans til the end of 2020



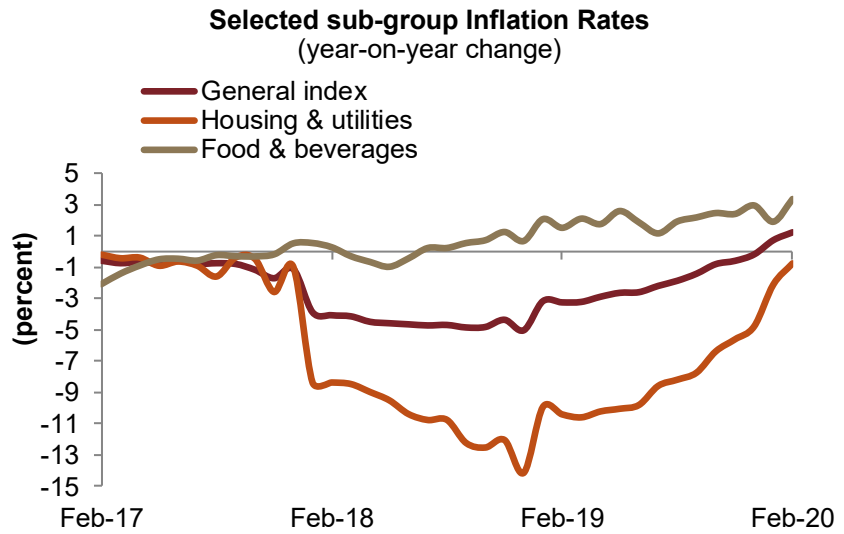
Inflation

Prices rose in February by 1.2 percent year-on-year, and by 0.3 percent month-on-month. Prices in “food and beverages” rose by 3.4 percent, whilst “housing and utilities” prices declined by 0.7 percent, year-on-year. In March, GaStat revised the CPI data, updating the base year from 2013 to 2018, and revised the weights on the sub-group series.

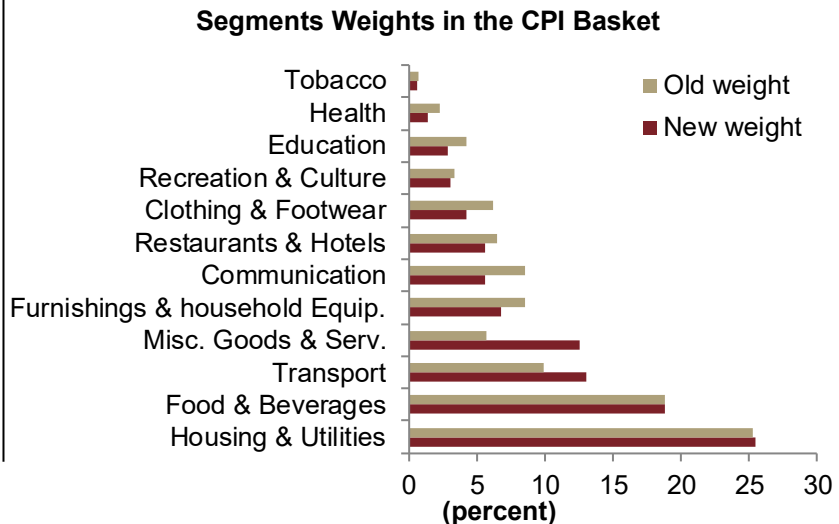
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Balance of Payments

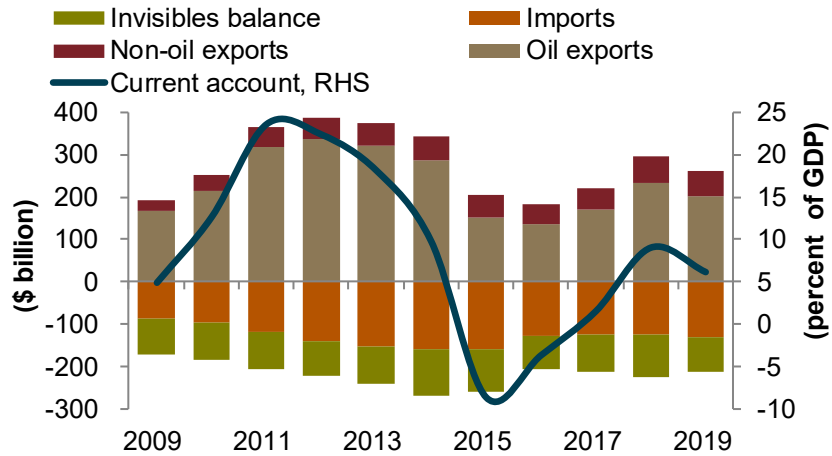
Full year 2019 data showed that the current account surplus stood at \$50 billion (6.1 percent of GDP vs. 9 percent in 2018). The slight decline was mainly due to a decline in oil exports (-13 percent year-on-year) and non-oil exports (-4 percent year-on-year) and higher imports (5 percent year-on-year). We expect the current account surplus to narrow significantly to 0.9 percent of GDP in 2020.

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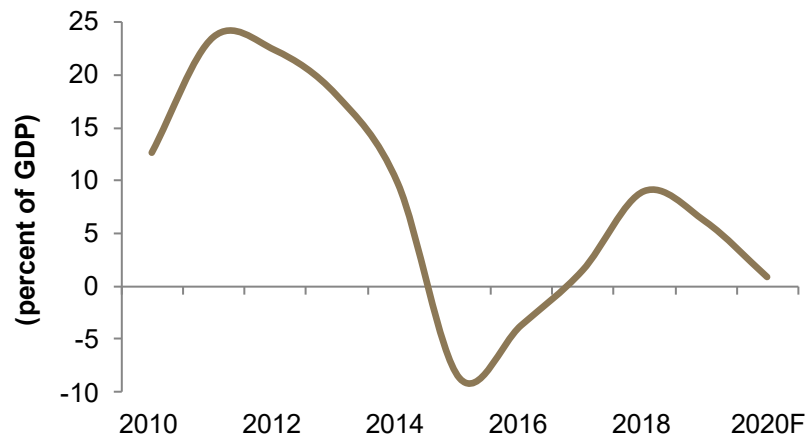
Whilst we expect declines in both oil and non-oil exports this year, we also expect to see lower yearly imports and the invisible balance to shrink as well. As a result, we expect the current account surplus to narrow significantly to 0.9 percent of GDP in 2020.

Foreign Direct Investment (FDI) into the Kingdom was up 7 percent year-on-year in 2019, to a total of \$4.6 billion. Looking ahead, the spread of COVID-19 globally will make attracting FDI a difficult task in 2020, with the United Nations Conference on Trade and Development (UNCTAD) recently stating that global FDI flows could fall by 30-40 percent over the next couple of years.

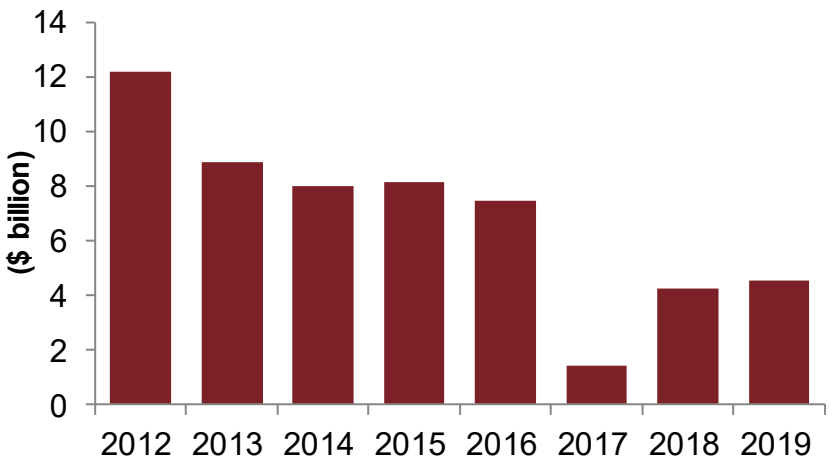
Current Account Balance



Current Account Balance (forecast)



Foreign Direct Investment

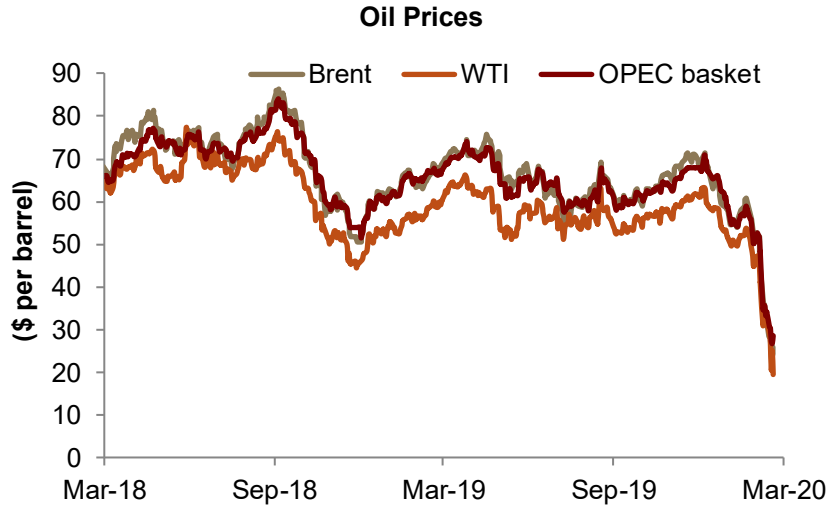




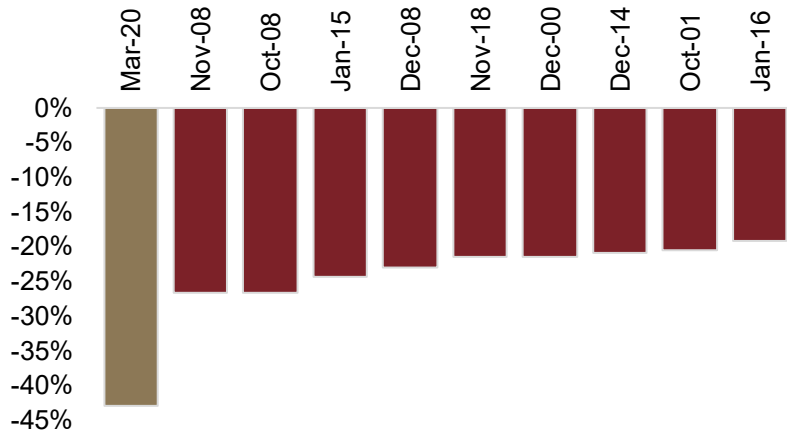
Oil - Global

Faced by both demand and supply side developments, Brent oil prices dropped by 43 percent month-on-month (whilst WTI prices declined 41 percent) in March, the largest monthly fall for both indices in at least 26 years. Whilst the initial slide in oil prices was related to the threat of COVID-19 on oil demand, prices were sent further south after OPEC+ could not agree on a new output deal.

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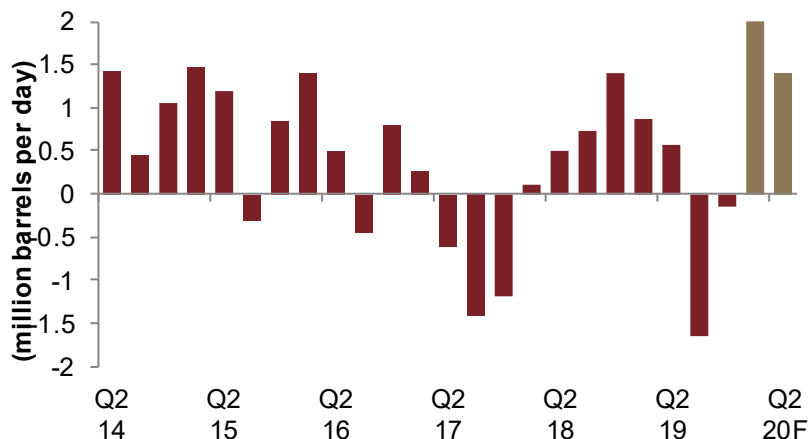


Largest Monthly Decline in Brent Oil Prices Since 1994
(percentage change)



...the largest monthly fall in at least 26 years.

Daily Oil Balances
(mbpd)



Looking ahead, we see limited possibility of an OPEC+ agreement in the near term. This is primarily because the level of additional output moderation would now need to be even steeper than 1.5 mbpd reportedly proposed in the OPEC+ meeting last month.

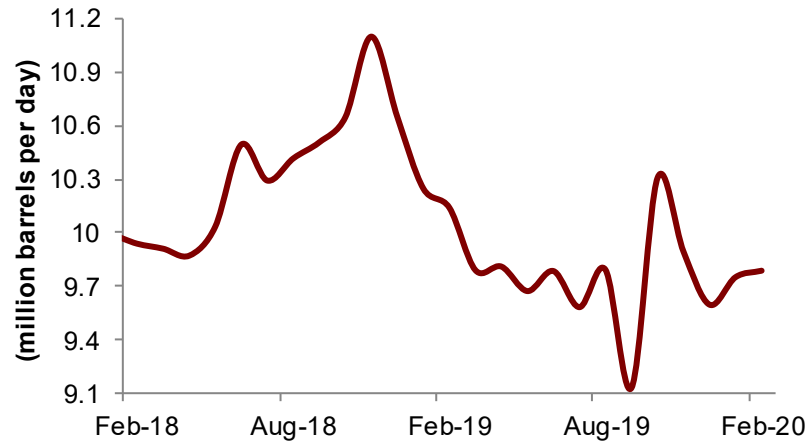


Oil - Regional

Saudi crude oil production was flat month-on-month in February, at 9.7 mbpd, with similar levels of output expected in March. However, as outlined by Aramco last month, this will rise considerably in April, with 12 mbpd plus 300 tbpd of stocks expected to be supplied. According to latest available data for January, Saudi Arabia had around 154 million barrels of oil in stock.

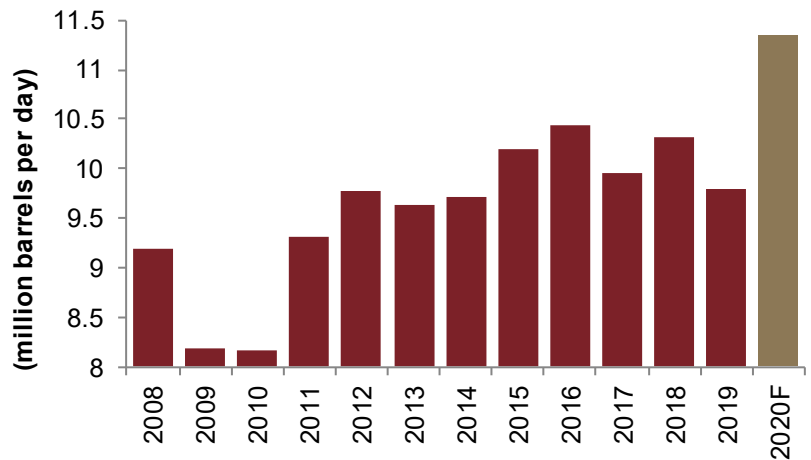
Saudi crude oil production was flat month-on-month in February, at 9.7 mbpd, with similar levels of output expected in March.

Average Monthly Saudi Crude Oil Production
(direct communication)



However, a failure to reach an agreement by OPEC+ in a recent meeting means we now see Saudi crude oil production rising significantly. As outlined by Aramco last month, 12 mbpd plus 300 tbpd of stocks will be supplied in April, whilst we see Saudi crude oil output to average 11.3 mbpd in 2020.

Saudi Crude Oil Production
(annual average)



According to latest available data, Saudi Arabia had around 154 million barrels of oil in stock, or equivalent to around 17 months supply at 300 tbpd.

Saudi Crude Oil Stocks
(January 2020)



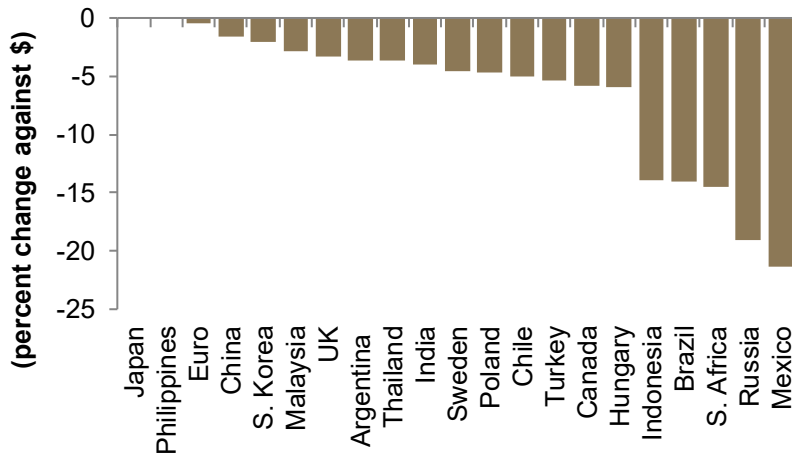


Exchange Rates

Global risk-off investor sentiment led to a sell-off of all major global currencies in favor of the US dollar, despite the US Federal Reserve (Fed) cutting interest rates to near zero during the month. As a result, the trade weighted dollar (value of the dollar against a basket of currencies) is now trading around four year highs.

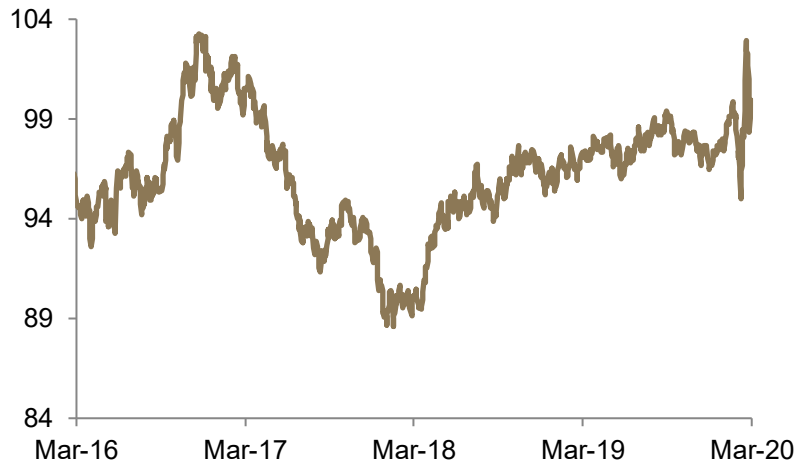
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Monthly Gain/Loss Against US Dollar
(March 2020)

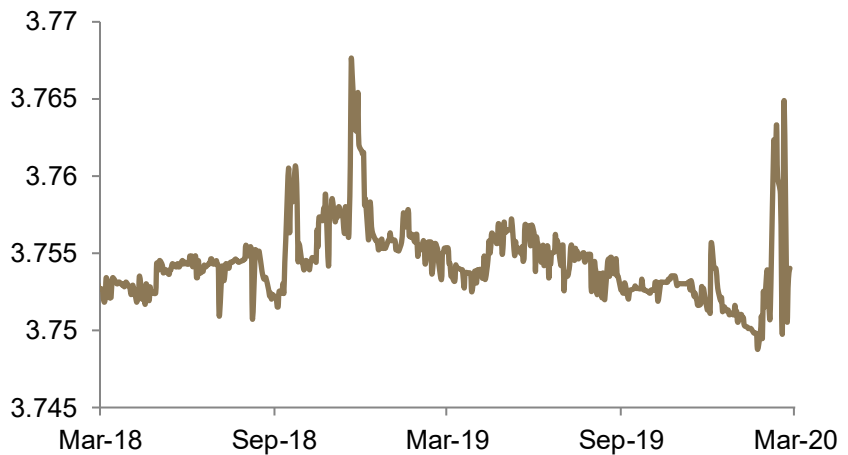


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Trade Weighted Dollar



US Dollar/Riyal One Year Forward Rate



Meanwhile, the US Dollar/Riyal one year forward rate is oscillating around two year highs due to speculative activity, although we see no risk to the prevailing Riyal-USD peg.



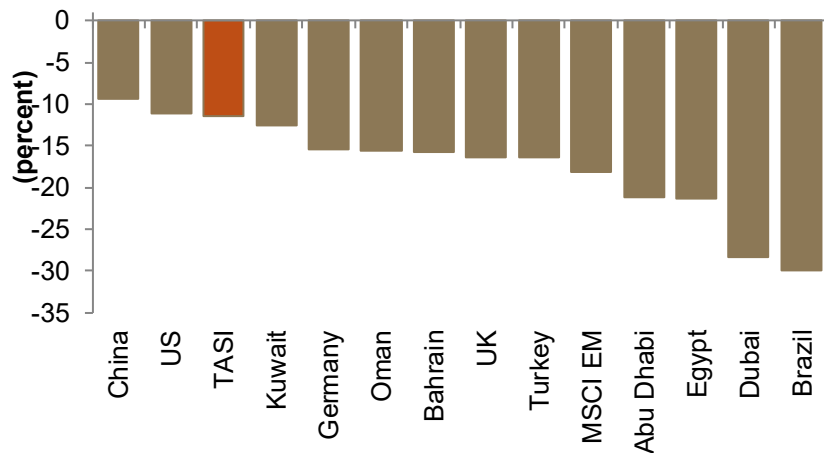
Stock Market

TASI saw losses of 15 percent month-on-month in March, in-line with a sell-off seen across global equity markets. At some point during the month TASI dipped below 6000 points, the first time it has done so since November 2016, but a raft of monetary and fiscal measures implemented by various governments in G20 countries, including the Kingdom, lifted investor confidence, and helped pare back some of the initial losses, towards the end of the month.

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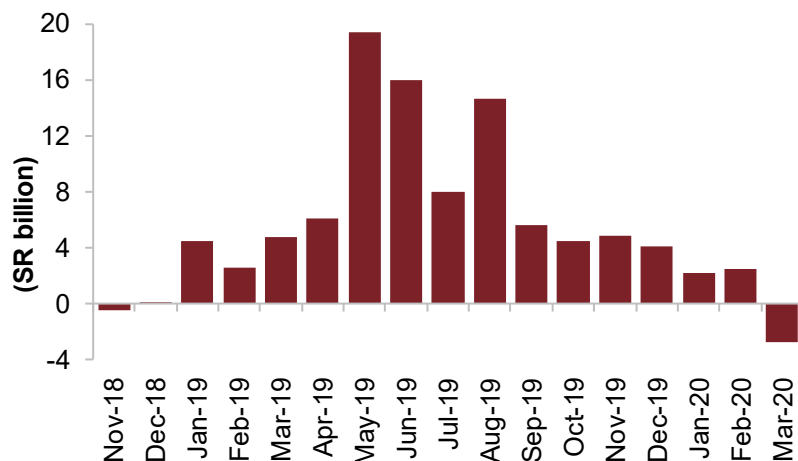


Comparative Stock Market Performance
(March 2020)



...in-line with a sell-off seen in global equity markets.

Net purchases of SWAPs and buying by QFIs
(monthly total)



Meanwhile, March saw net selling of SWAPs and selling by QFIs, the first such occurrence since November 2018.



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