



Summary

Real Economy: As expected, economic indicators in April reflected the impact of COVID-19 containment measures on the local economy, with PMI remaining in contractionary territory.

Consumer Spending: Both cash withdrawals and POS transactions fell sharply in April by 35 and 33 percent year-on-year, respectively. Looking ahead, we expect to see a rebound in POS transactions in May and June, in-line with easing of COVID-19 containment measures, and a rise in consumption prior to a hike in VAT from 5 to 15 percent in July.

Index of Industrial Production: The Index of Industrial Production (IIP) declined in March by 3.3 percent year-on-year.

Government Finance: The net monthly change to government accounts with SAMA decreased by SR15 billion month-on-month in April.

SAMA Foreign Reserve Assets: SAMA FX reserves declined month-on-month in April, to stand at \$449 billion. As the Ministry of Finance highlighted, a large portion of this decline was attributable to an exceptional transfer of \$25 billion to the Public Investment Fund (PIF) during the month.

Money Supply: The broad measure of money supply (M3) rose significantly in April, by 10 percent year-on-year.

Bank Deposits: Bank deposits rose by 10 percent year-on-year in April, affected by the rise in demand deposits. We expect demand deposits to continue rising in the following months, as SAMA announced it would provide the banking system with SR50 billion to support liquidity.

Bank Credit: Total bank claims rose by 13.3 percent in April year-on-year, as credit to the private sector rose by 12.2 percent, year-on-year.

Inflation: Prices rose in April by 1.3 percent year-on-year. To reflect the impact of the planned rise in VAT in July 2020, we revised up our inflation forecast in 2020 to 3 percent, from 1.3 percent previously.

GDP Growth: We have updated a number of our economic forecasts and now expect GDP to contract by 3 percent in 2020 (-1.7 percent previously).

Fiscal Position: Taking into account revised revenue and expenditure forecasts, we see the fiscal deficit reaching SR362 billion (13.5 percent of GDP) at the end of the year.

Oil-Global: Prices rose on the back of expected pick-up in demand as many countries loosened lockdown measures.

Oil-Regional: Saudi Arabia recently committed to voluntarily reducing its crude oil production for June by an extra 1 mbpd, on top of the reduction already committed by the Kingdom under the OPEC+ deal.

Exchange Rates: A number of currencies declined against the US dollar during the month of May.

Stock Market: A rally in oil prices and a gradual easing of lockdown measures helped TASI post a marginal monthly rise in May. Looking ahead, we see more upside to TASI as we approach 21st June, when all lockdown measures related to COVID-19 in the Kingdom are lifted.

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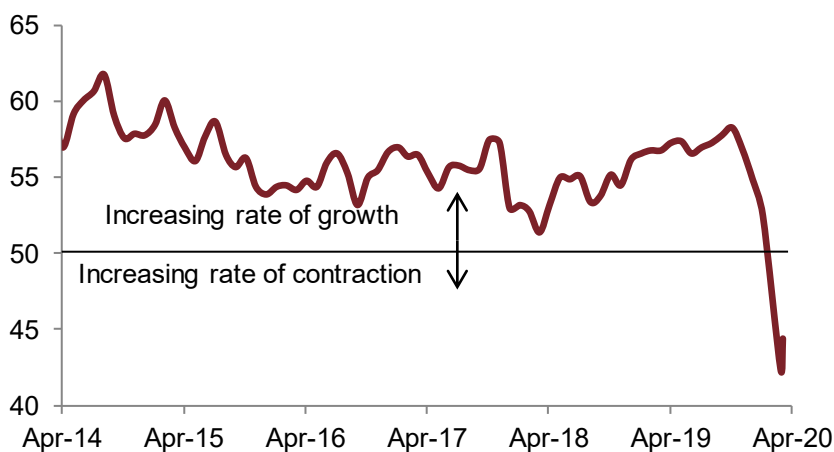


Real Economy

As expected, economic indicators in April reflected the impact of COVID-19 containment measures on the local economy. Whilst PMI remained in contractionary territory, at 44.2, affected by low business activity, cement sales and production also declined in April. Moreover, our non-oil composite index shows economic activity dropped significantly during the month.

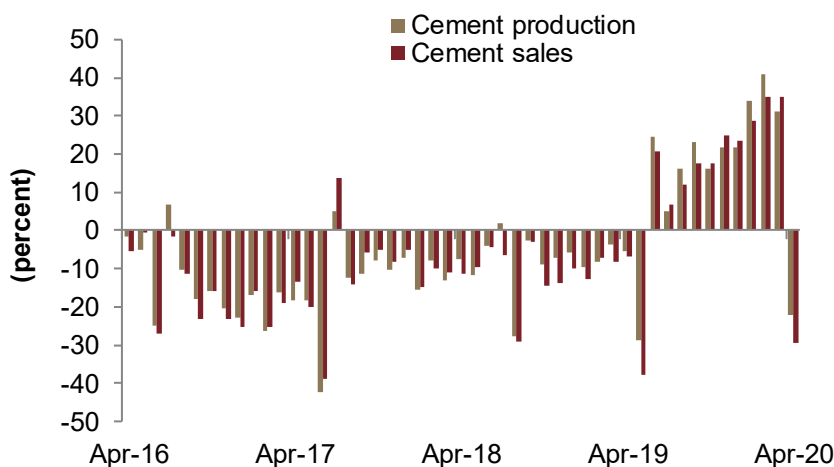
PMI recorded 44.2 in April affected by low business activity, but companies noted that online sales helped in new output orders during the month.

Non-oil Purchasing Managers' Index



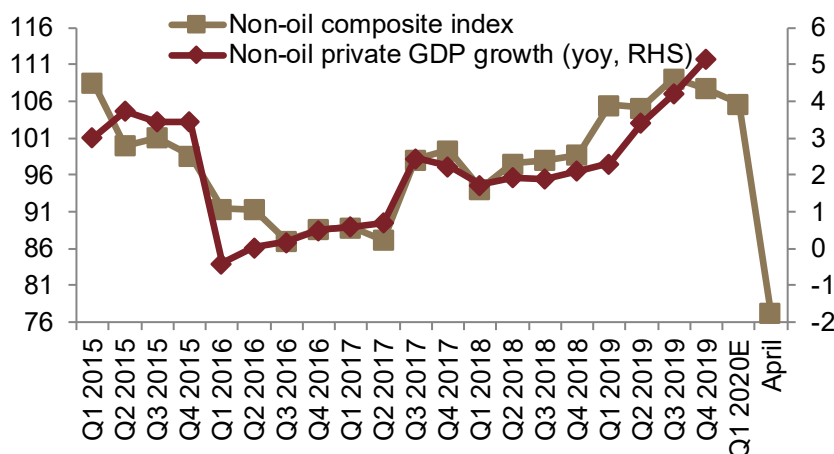
Both cement sales and production fell in April, by 29 and 22 percent year-on-year, respectively. We expect the contraction to continue in May, affected by curfews around the Kingdom.

Cement Sales and Production
(year-on-year)



Moreover, our non-oil composite index shows economic activity dropped significantly during the month.

Jadwa's Non-oil Private Sector Composite Index





Consumer Spending

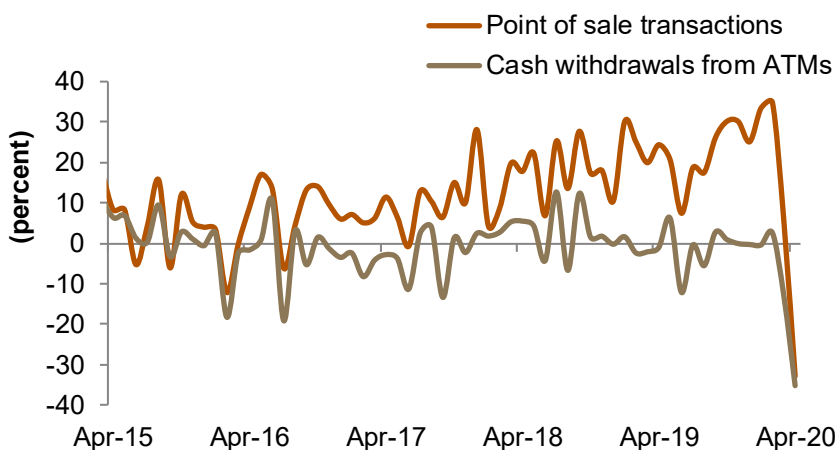
Both cash withdrawals and POS transactions fell sharply in April by 35 and 33 percent year-on-year, respectively. POS transactions were down in all sectors except for 'food and beverages', which were twice as high as the same period last year. Looking ahead, we expect to see a rebound in POS transactions in May and June, in-line with easing of COVID-19 containment measures, and a rise in consumption prior to a hike in VAT from 5 to 15 percent in July.

Both cash withdrawals and POS transactions fell sharply in April. Looking forward, we expect a rebound in May and June.

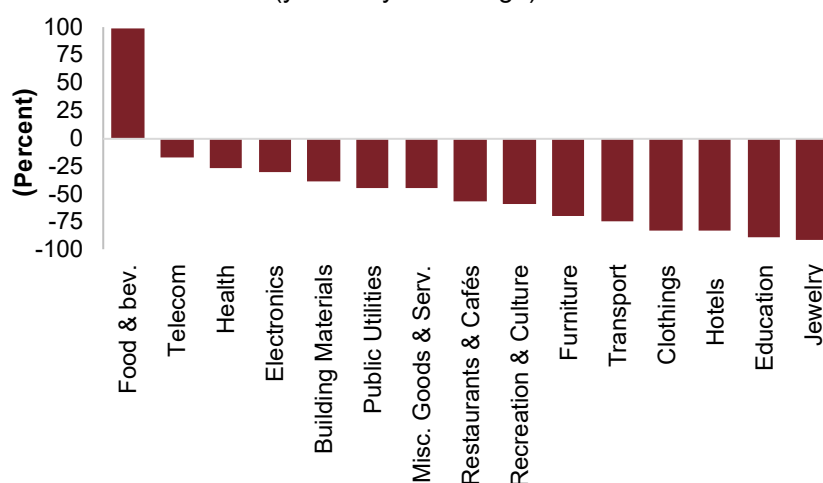
POS transactions in all sectors declined in April, with the only rise being in 'food & beverages', as demand on food retailers rose during the lockdown, in addition to the higher food consumption usually associated with the month of Ramadan (which began on the 24th of April). Looking ahead, we expect to see rises in some sectors prior to a hike in VAT in July, especially in items such as jewelry, furniture, education and electronics.

POS transactions in transport during April saw a sharp decline, as curfews and travel restrictions were implemented during the month to contain the spread of COVID-19.

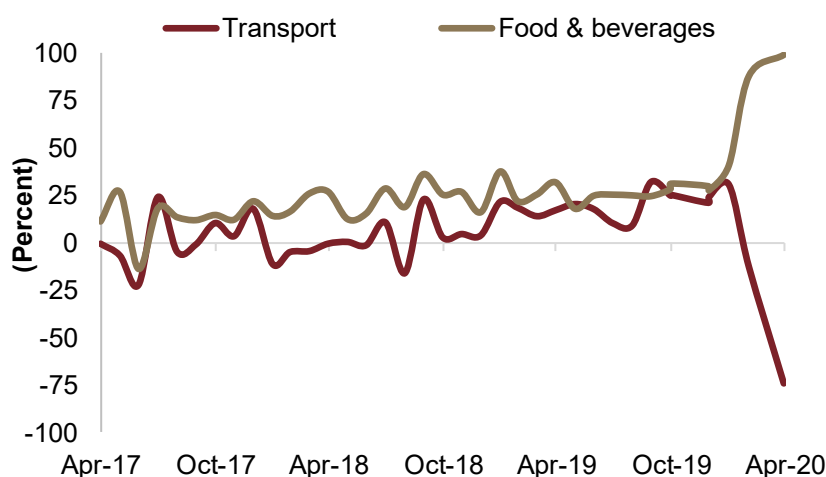
Indicators of Consumer Spending
(year-on-year change)



POS Transactions by Sector in April
(year-on-year change)



Historical POS transactions for Selected Sectors
(year-on-year change)

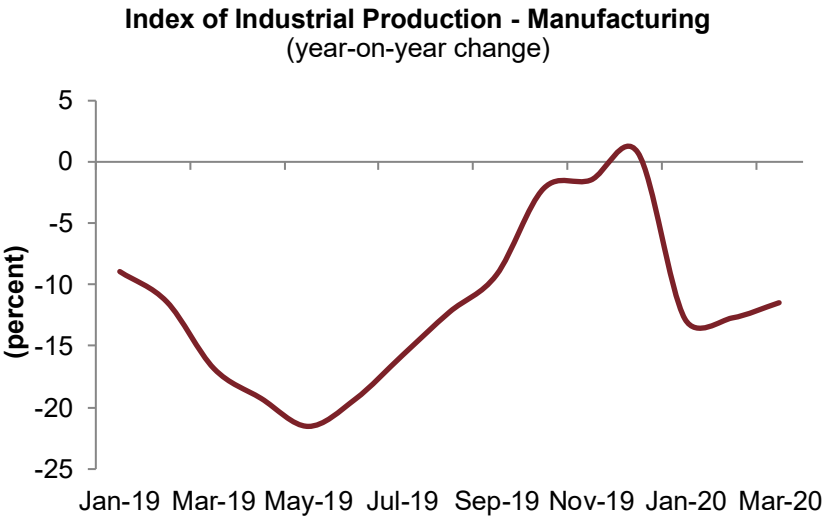




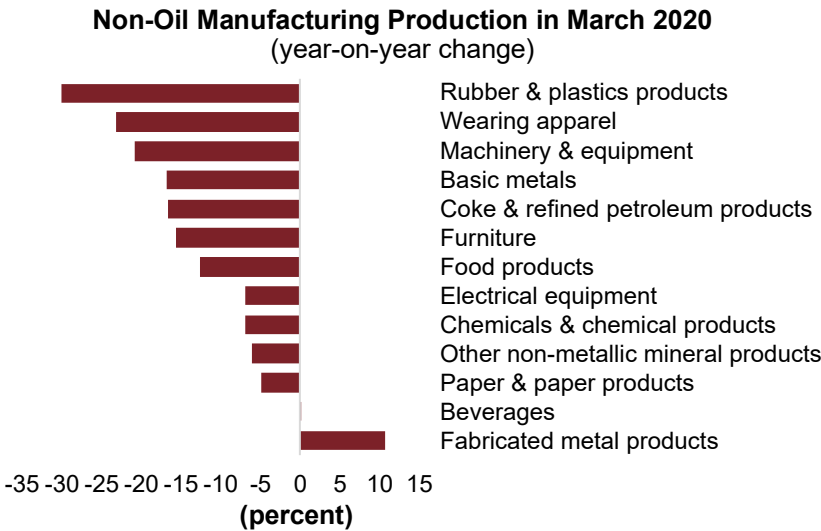
Index of Industrial Production (IIP)

The Index of Industrial Production (IIP) declined in March by 3.3 percent year-on-year, mainly affected by the drop in the index of non-oil manufacturing by 11.5 percent, year-on-year. A breakdown of manufacturing industries show that most manufacturers saw declining production in March, with the steepest declines seen in rubbers and plastics, which contracted by 30 percent, year-on-year.

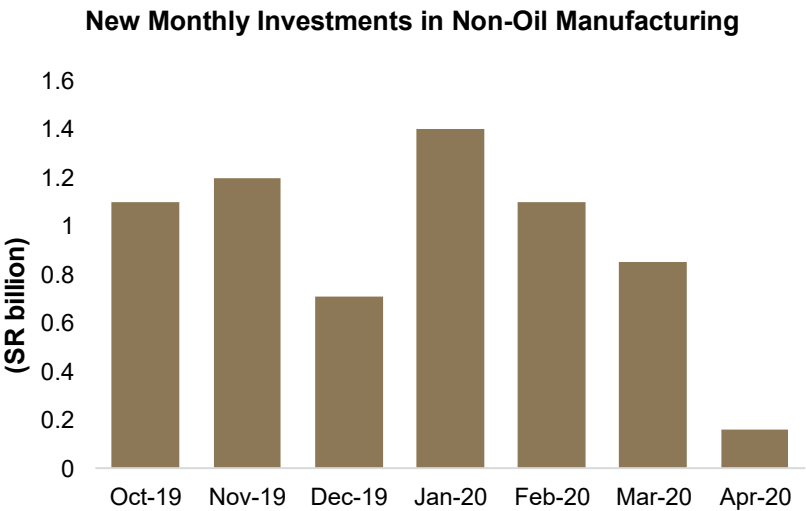
The index of non-oil manufacturing declined in March by 11.5 percent, year-on-year.



A breakdown of manufacturing industries show that most manufacturers saw declining production in March, led by rubbers and plastics, which contracted by 30 percent year-on-year.



New investments in the non-oil manufacturing sector in April saw the lowest level since October 2019 (first data published), indicating that further declines in manufacturing output are expected in April.



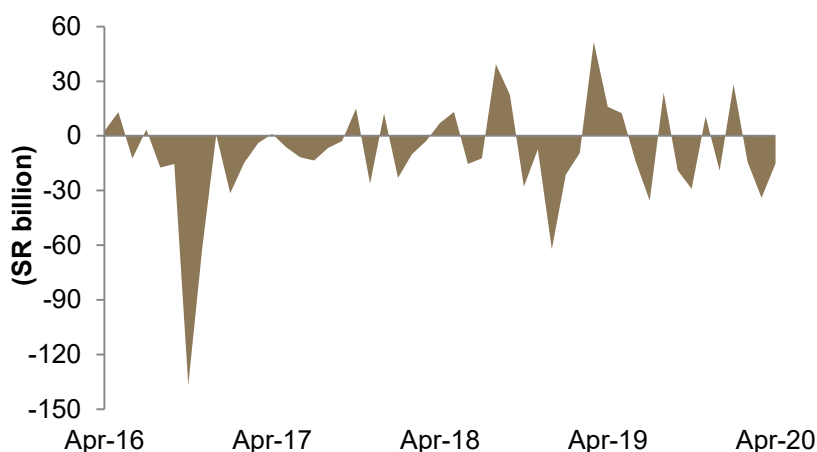


Government Finance

The net monthly change to government accounts with SAMA declined by SR15 billion month-on-month in April, which came mainly as a result of a decrease in government current deposits, whilst government reserves were mostly unchanged month-on-month. At the same time, domestic banks net holdings of government debt rose by almost SR5 billion in April.

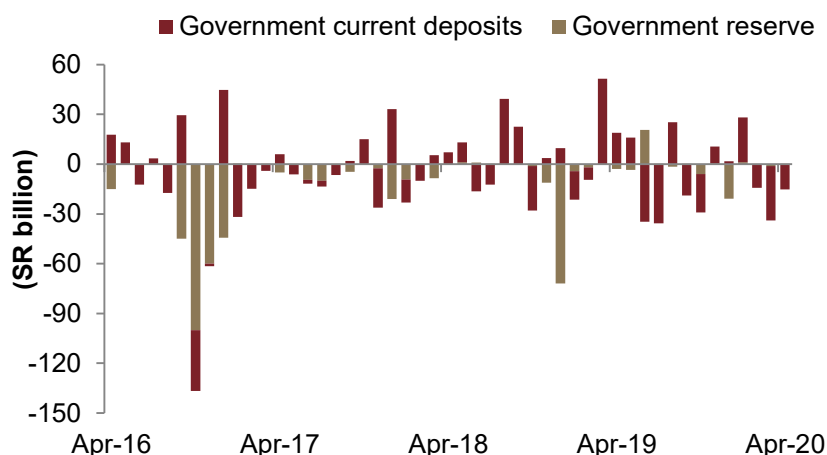
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Net Change to Government Accounts with SAMA
(month-on-month change)



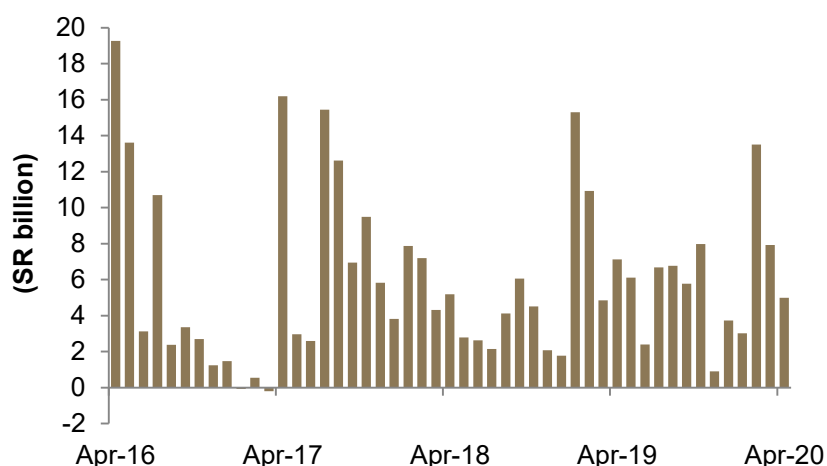
...which came mainly as a result of a decrease in government current deposits, whilst government reserves were mostly unchanged month-on-month.

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



Domestic banks net holdings of government debt rose by almost SR5 billion in April, as the Ministry of Finance (MoF) announced it has closed the April 2020 issuance under the Saudi Arabian Government SR Sukuk Program with a size of SR5.5 billion.

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





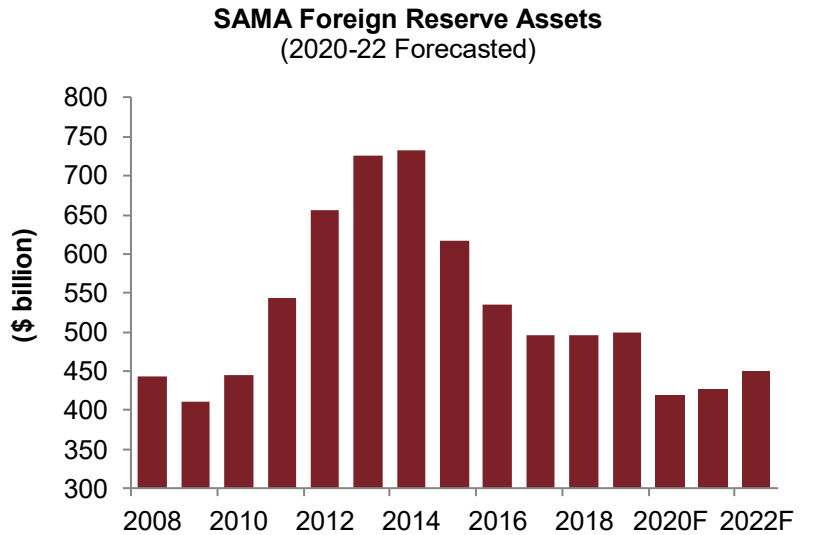
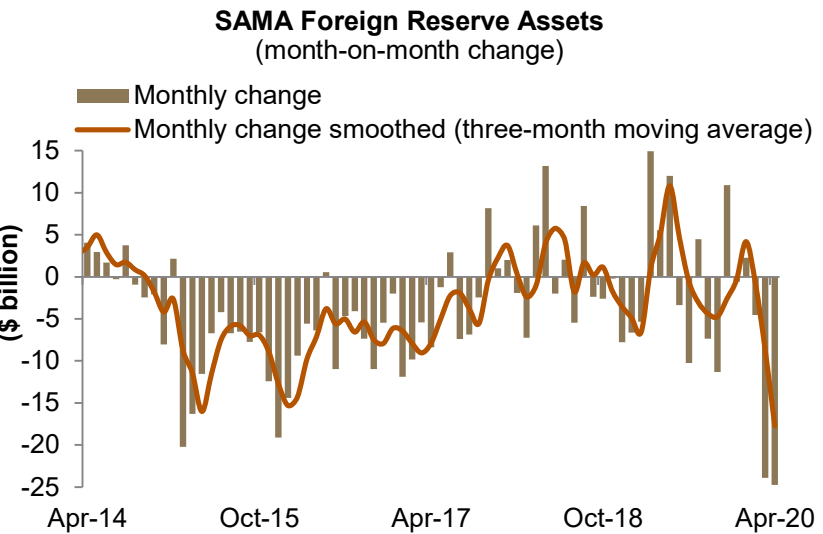
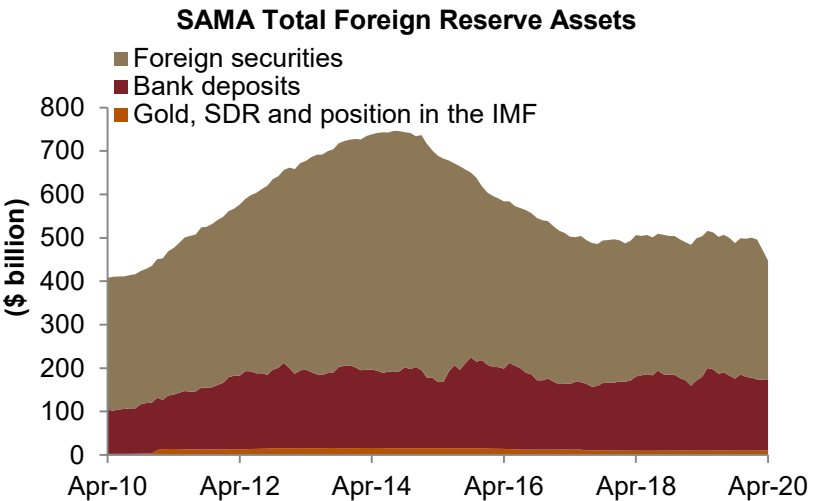
SAMA Foreign Reserve Assets

SAMA FX reserves declined month-on-month in April, to stand at \$449 billion. As the Ministry of Finance highlighted, a large portion of this decline was attributable to an exceptional transfer of \$25 billion to Public Investment Fund (PIF) in April (in addition to \$15 billion in March) in order to enhance the fund’s investment capacity. Looking ahead we see a moderation in the pace of monthly FX reserve declines, with year end FX reserves hitting \$420 billion.

SAMA FX reserves declined month-on-month in April, to stand at \$449 billion. As the Ministry of Finance highlighted, a large portion of this decline was attributable to an exceptional transfer of \$25 billion to Public Investment Fund (PIF) during the month.

April’s decline in FX reserves is still relatively steep considering inflows related to the \$7 billion international bond issuance would have been received during the month as well.

Looking ahead we see a moderation in the pace of monthly FX reserve declines as Aramco’s \$13 billion quarterly dividend is received in May and as imports decline on a year-on-year basis. We expect year end reserves to total \$420 billion, followed by modest rises in 2021. A significant improvement in exports is expected to lift FX reserves to around \$450 billion by 2022.



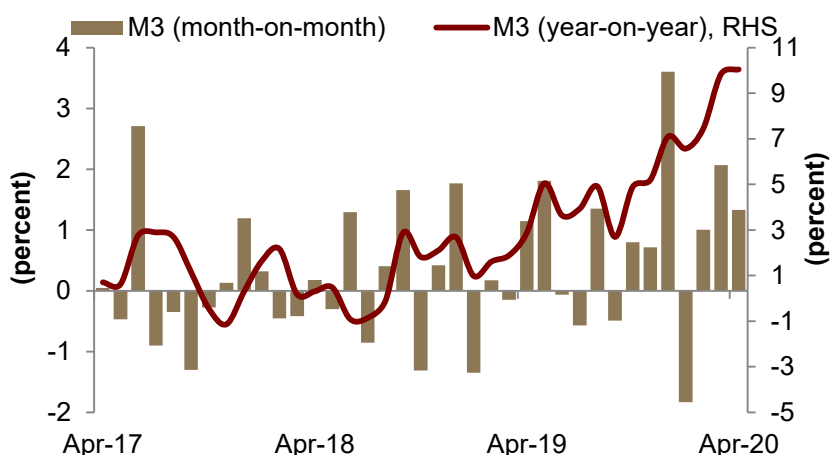


Money Supply

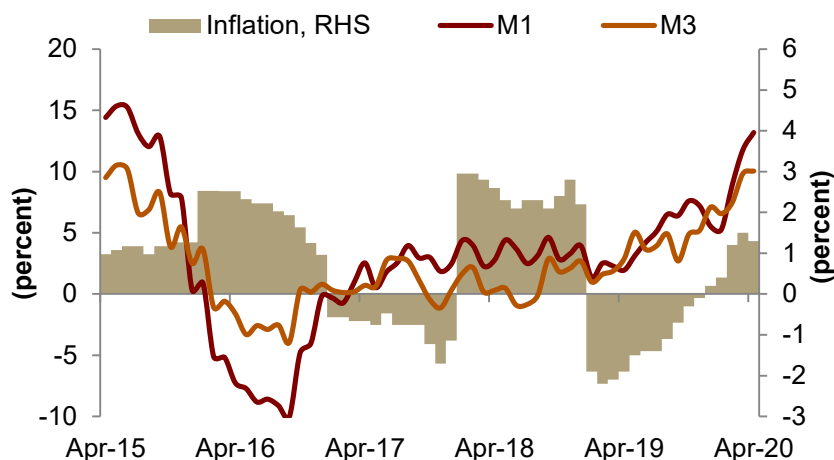
The broad measure of money supply (M3) rose significantly in April, by 10 percent year-on-year, and by 1.3 percent month-on-month. The growth in M3 came mainly as a result of a rise in demand deposits. Latest weekly data shows M3 growth rising in May, year-on-year, which is likely affected by the easing of containment measures of COVID-19 during the month.

M3 rose significantly in April, by 10 percent year-on-year, and by 1.3 percent month-on-month.

Growth in Money Supply

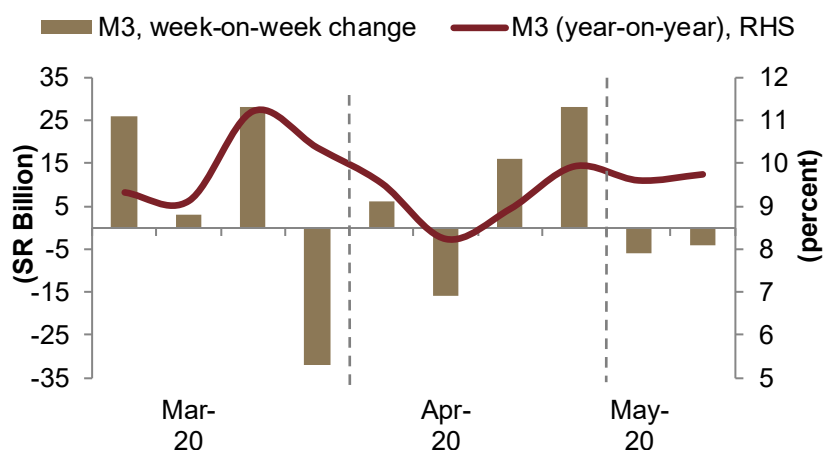


Money Supply Aggregates and Inflation Rate
(year-on-year change)



M1, the narrowest measure of money supply, rose by 13 percent year-on-year in April, affected by a rise in both currency outside banks and demand deposits, rising by 11 and 13 percent year-on-year, respectively.

Growth in Money Supply
(week-on-week change)



Latest weekly data shows M3 growth rising in May, on a year-on-year basis, which is likely affected by the easing of containment measures of COVID-19 during the month.



Bank Deposits

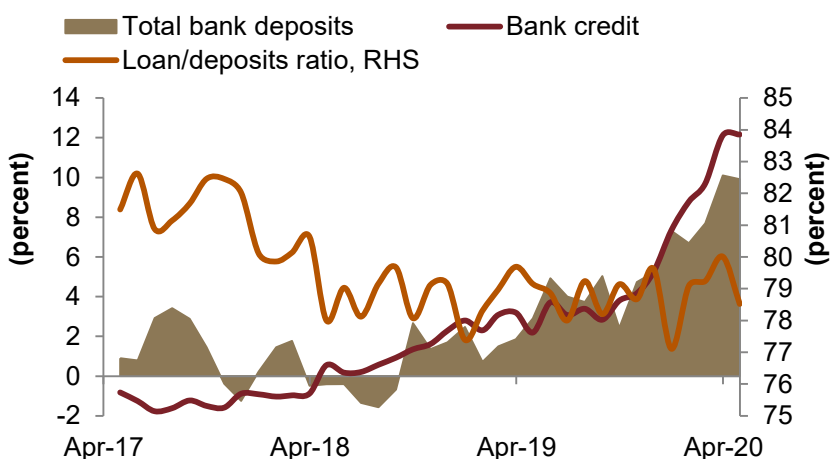
Bank deposits rose by 10 percent year-on-year in April, affected by the rise in demand deposits by 13.5 percent year-on-year. Meanwhile, time deposits were up by 4.5 percent year-on-year during the month. A breakdown of private deposits shows a notable rise in demand deposits, which were up 11.4 percent year-on-year, whilst private time deposits were down by 11 percent during the month.

Bank deposits rose by 10 percent year-on-year in April, affected by the rise in demand deposits by 13.5 percent year-on-year. The loan-to-deposit ratio was down in April to 78.5 percent, marginally below its 2019 average of 78.7 percent.

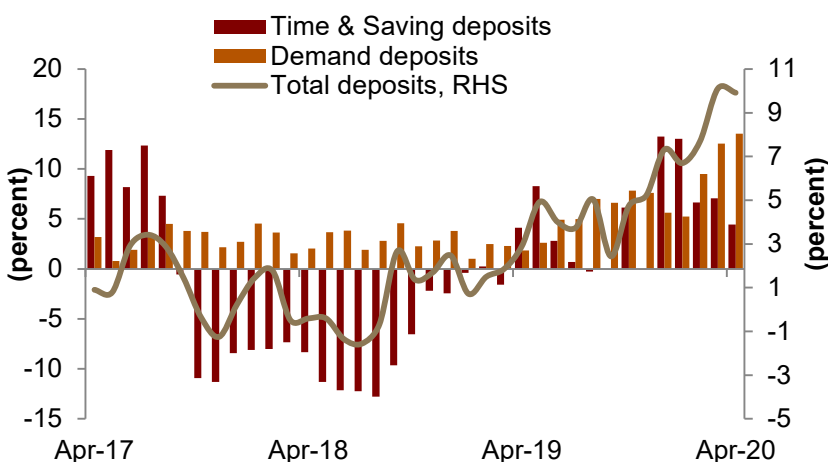
The rise in deposits came mainly from the rise in demand deposits, which rose by 13.5 percent year-on-year in April.

A breakdown of private deposits shows a notable rise in demand deposits, rising by 11.4 percent year-on-year. Looking forward, we expect demand deposits to continue rising in the following months, as SAMA announced it would provide the banking system with SR50 billion to support liquidity.

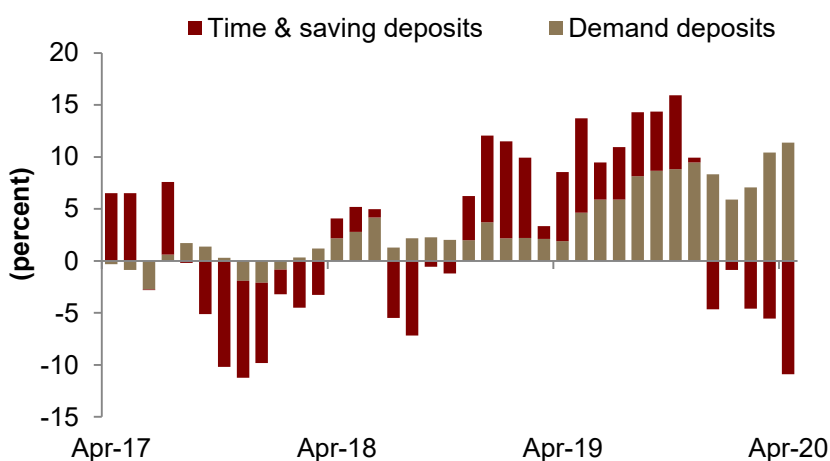
Growth in Total Bank Deposits
(year-on-year change)



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



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

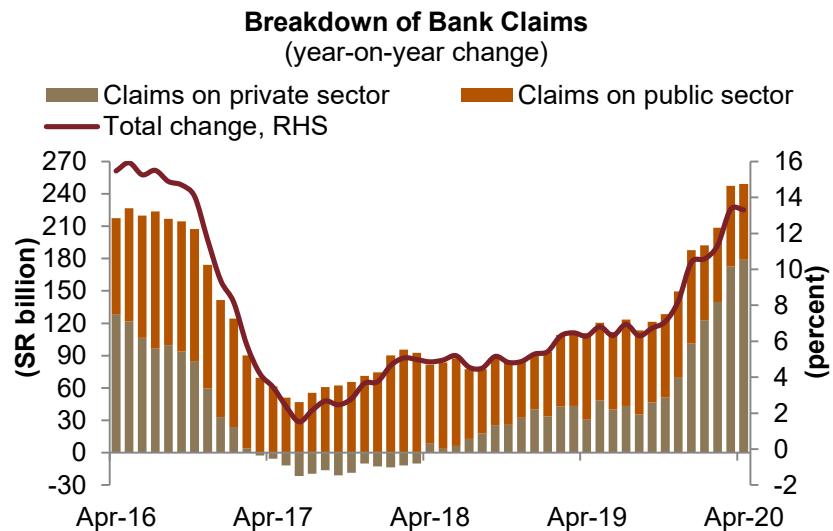




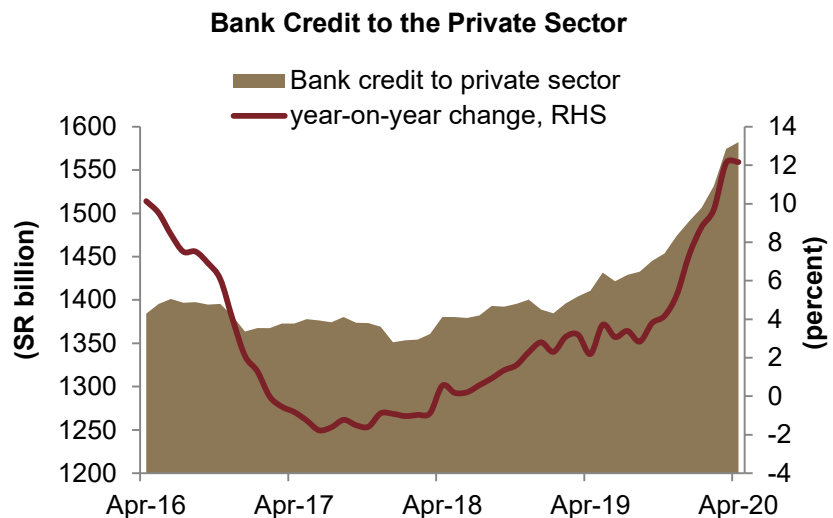
Bank Credit

Total bank claims rose by 13.3 percent in April year-on-year. Claims on the public sector were up by 17.4 percent, meanwhile, credit to the private sector rose by 12.2 percent, year-on-year. Looking forward, we expect to see more rises in credit to the private sector as a result of the SR50 billion stimulus provided by SAMA to the banking sector to facilitate financing.

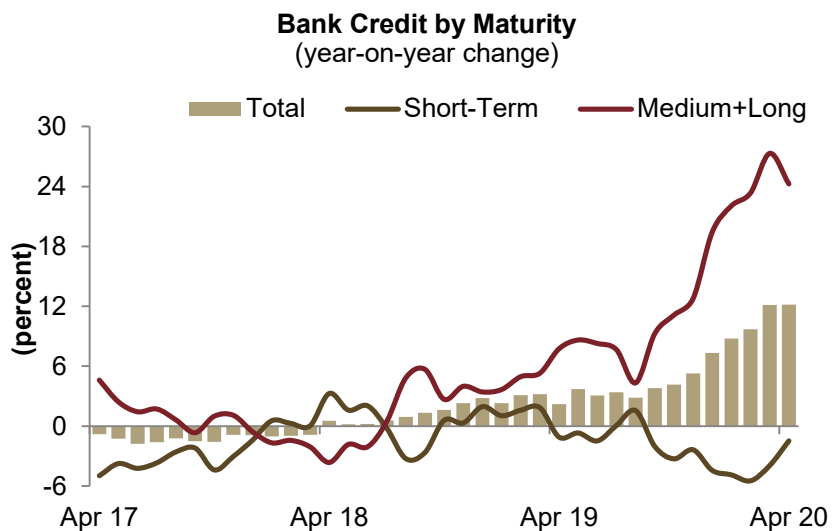
Total bank claims rose by 13.3 percent in April year-on-year.



Credit to the private sector rose by 12.2 percent in April, year-on-year, the highest rate since December 2014.



In April, short-term credit was marginally down compared to previous months, whilst longer term credit saw lower growth, year-on-year. More rises in short term credit are expected in the following months as private sector companies remain exposed to uncertainty related to COVID-19 for the meanwhile.

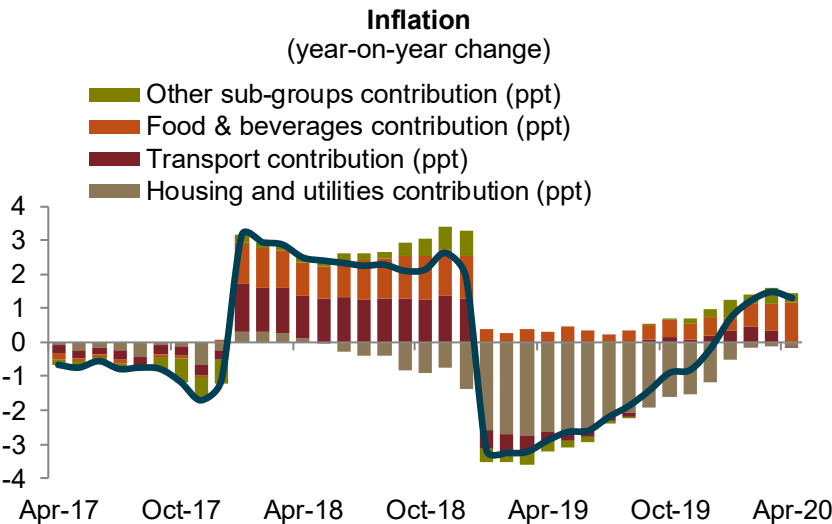




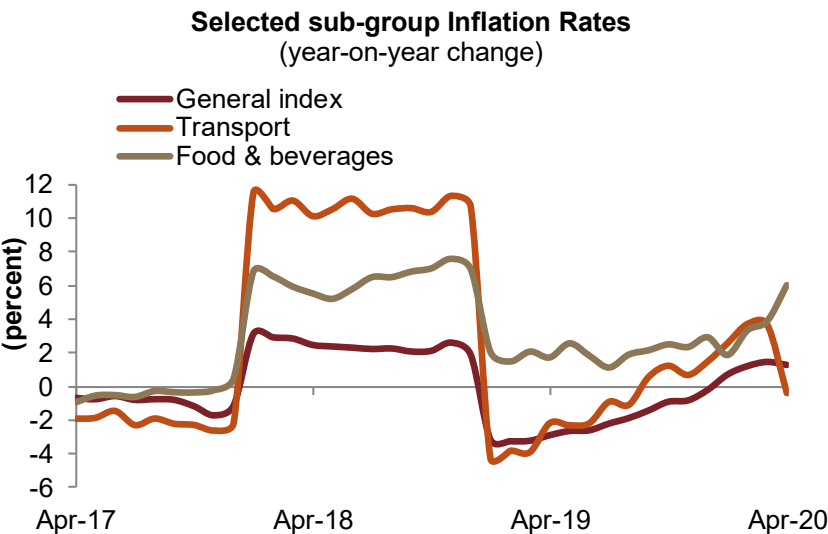
Inflation

Prices rose in April by 1.3 percent year-on-year, and declined by 0.1 on a monthly basis. Prices in 'transport' were down by 0.4 percent, affected by lower gasoline prices. Meanwhile, prices in "food and beverages" rose by 6 percent, year-on-year, trending differently than international food prices. To reflect the impact of the planned rise in VAT in July 2020, we revised up our inflation forecast in 2020 to 3 percent, up from our previous projection of 1.3 percent.

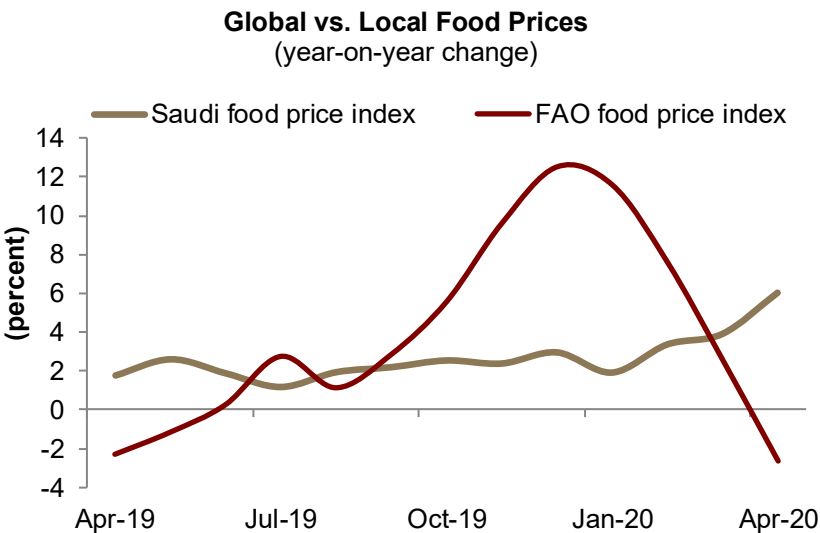
Prices rose in April by 1.3 percent year-on-year, and declined by 0.1 on a monthly basis.



Prices in 'food & beverages' rose by 6 percent, year-on-year, likely affected by higher local household consumption of food products during the shutdown, in addition to the higher consumption usually associated with the month of Ramadan which began on the 24th of April.



Food prices in the Kingdom trended differently than international food prices shown here by the FAO index, which declined in recent months due to mounting inventories and weak import demand as a result of global containment measure of COVID-19.





GDP Growth

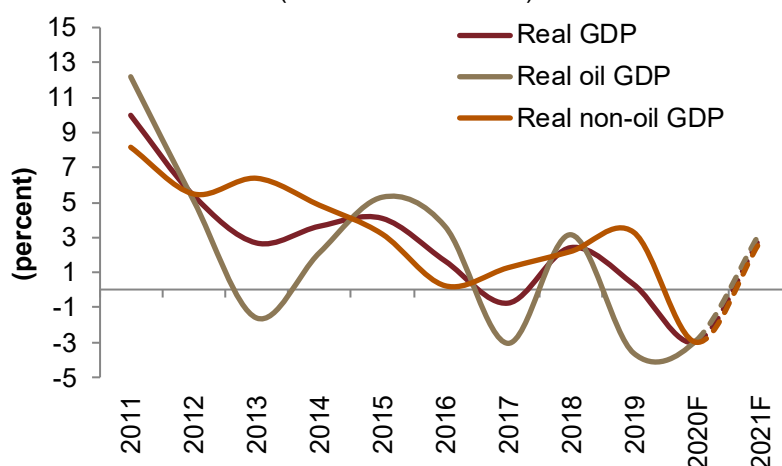
In light of major developments (Ministry of Finance's mid-May announcements and lower oil output by Saudi Arabia for June), we have updated a number of our economic forecasts. With respect to overall growth, we now expect GDP to contract by 3 percent in 2020 (-1.7 percent previously), with oil declining 2.9 percent (-0.4 percent previously) and non-oil GDP -3 percent (-2.6 percent previously).

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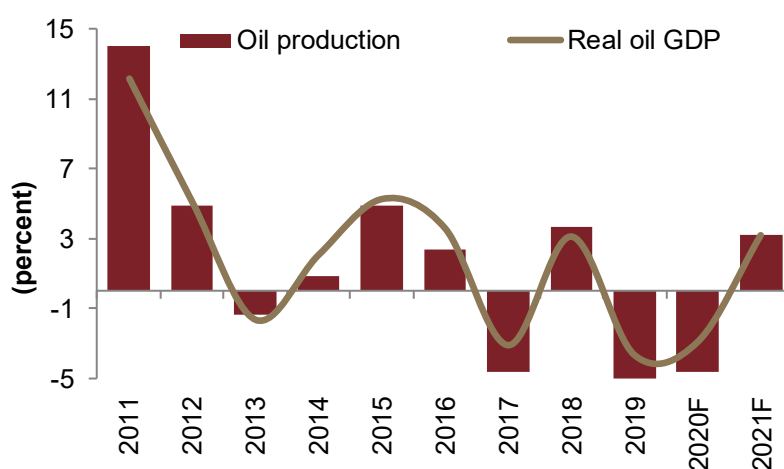
We have downgraded oil GDP not only because of anticipated lower overall annual crude oil production (see Oil –Regional section below) but also because of a lower than previously expected growth in refinery output, with latest available data showing Q1 2020 refinery output declining by 29 percent year-on-year. Further downside to oil GDP is possible if OPEC+ agrees to roll over current output levels for another few months in an upcoming meeting.

We have also downgraded our non-oil GDP outlook, with the recent round of Ministry of Finance's announcements (15 percent VAT, capital expenditure cut and scaling back on some Vision Realization Programs) likely to affect the Wholesale & Retail and Construction sectors more acutely.

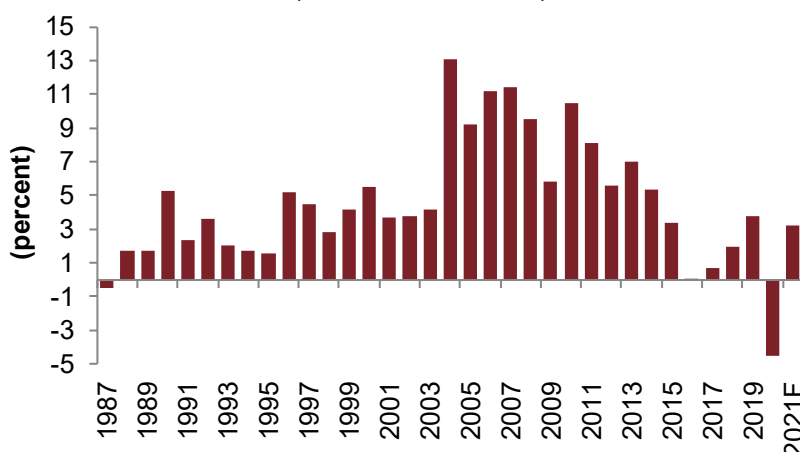
GDP Growth by Type
(2020-21 Forecasted)



Oil GDP
(2020-21 Forecasted)



Non-Oil Private Sector GDP
(2020-21 Forecasted)



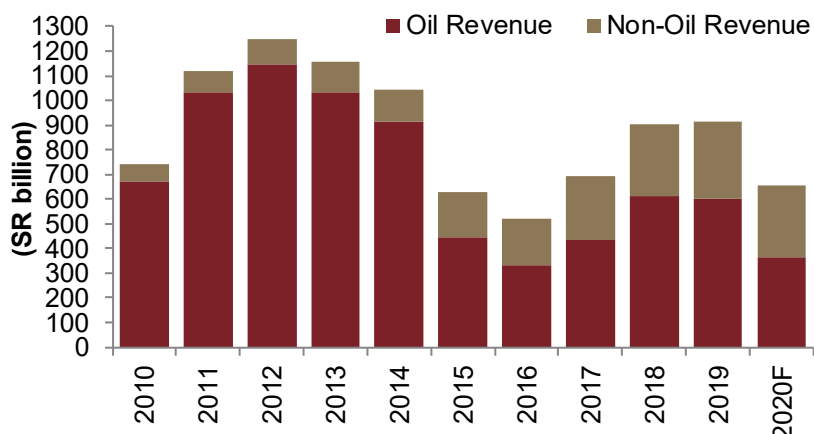


Fiscal Position

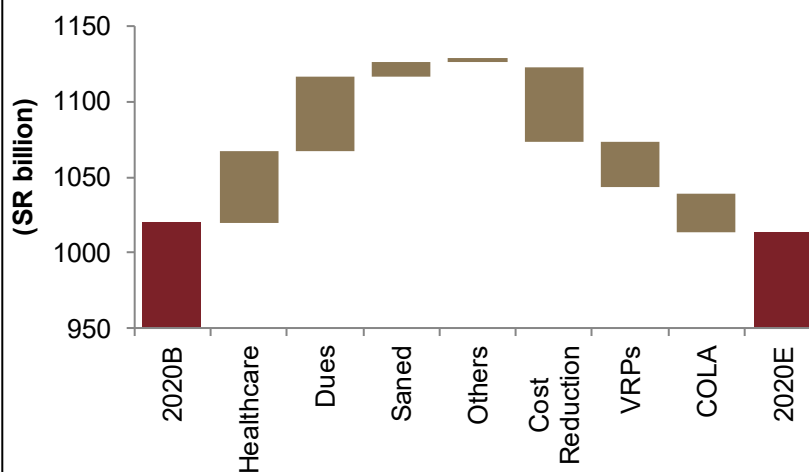
On the fiscal side, we see government revenue totaling SR657 billion, with a split of 55/45 percent between oil/non-oil revenue. We now also expect government expenditure to be in line with budgeted levels of SR1.02 trillion. Taking into account revised revenue and expenditure forecasts, we see the fiscal deficit reaching SR362 billion (13.5 percent of GDP) at the end of the year.

On the fiscal side, we see government revenue totaling SR657 billion, with a split of 55/45 percent between oil/non-oil revenue. Moreover, we expect the hike in VAT from 5 percent to 15 percent from 1st July to contribute an additional SR25 billion in tax revenue in 2020.

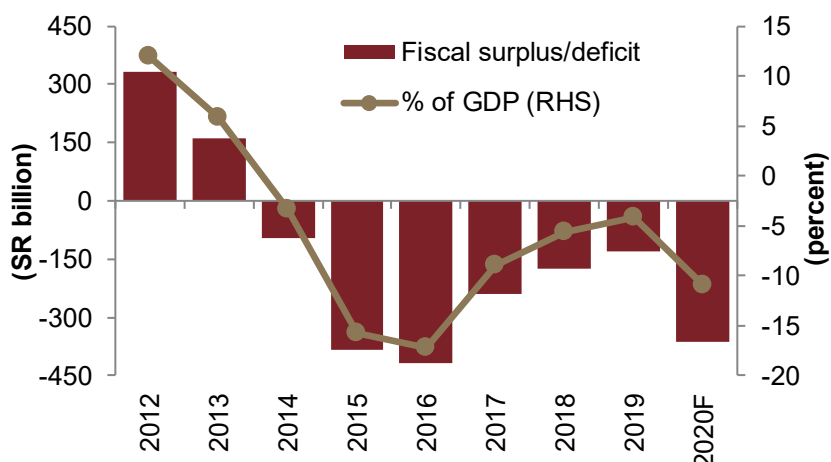
Government Revenue by Type
(2020 Forecasted)



Government Expenditure
(2020 Forecasted)



Fiscal Balance
(2020 Forecasted)



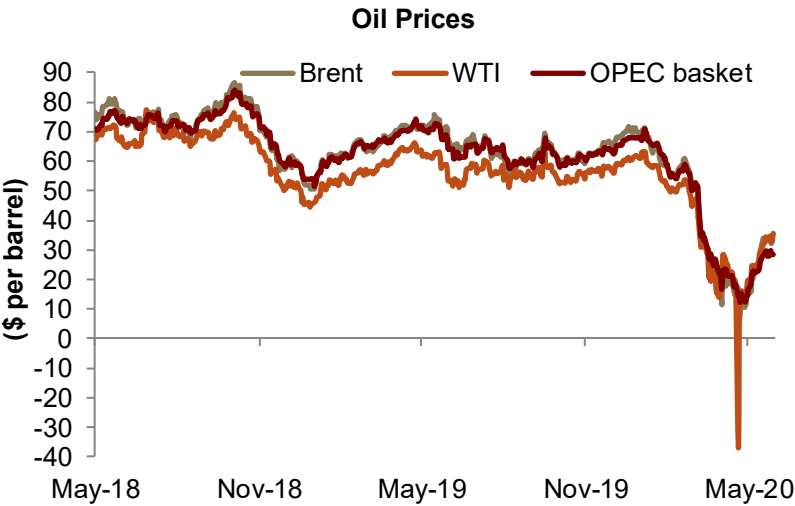
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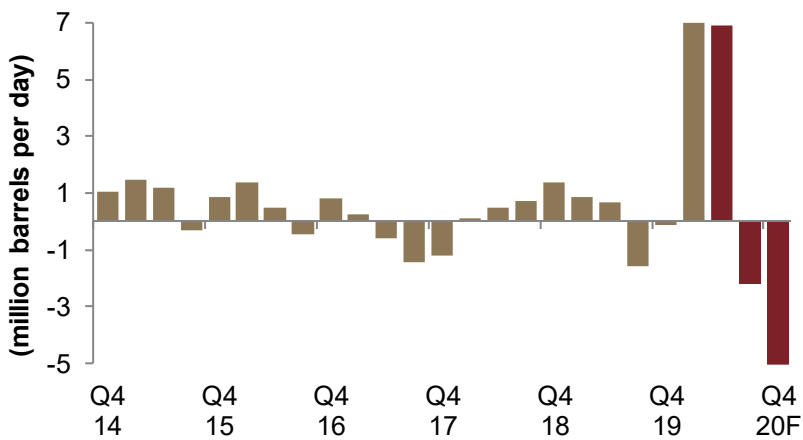
Oil - Global

Oil prices rose sizably month-on-month in May, with Brent up 85 percent and WTI 73 percent. Prices rose on the back of expected pick-up in demand as many countries loosened lockdown measures, and because of a commitment by Saudi Arabia (and other OPEC producers) to voluntarily reduce additional oil production for June, on top of the reductions already committed under the OPEC+ deal.

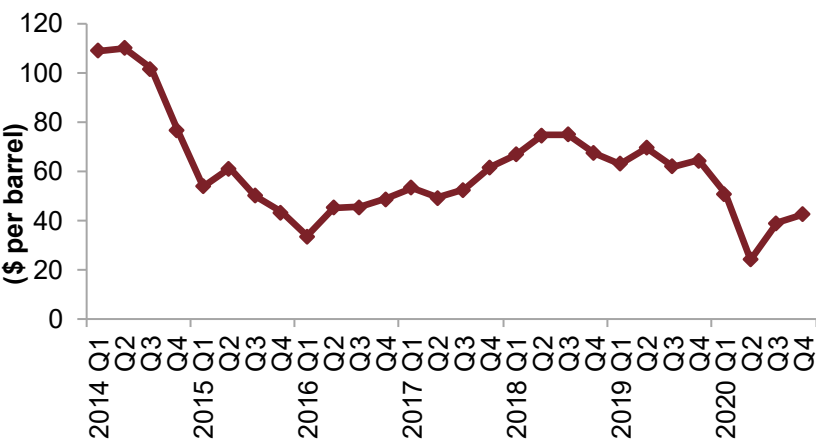
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Daily Oil Balances
(Forecasts Q2 to Q4 2020)



Quarterly Oil Prices
(Forecasts Q2 to Q4 2020)



Under our current projections for daily oil balances, a huge surplus in H1 2020 should flip to a deficit in H2 2020...

...resulting in prices rising in H2 2020 and pushing full year Brent to an average of \$39 per barrel.



Oil - Regional

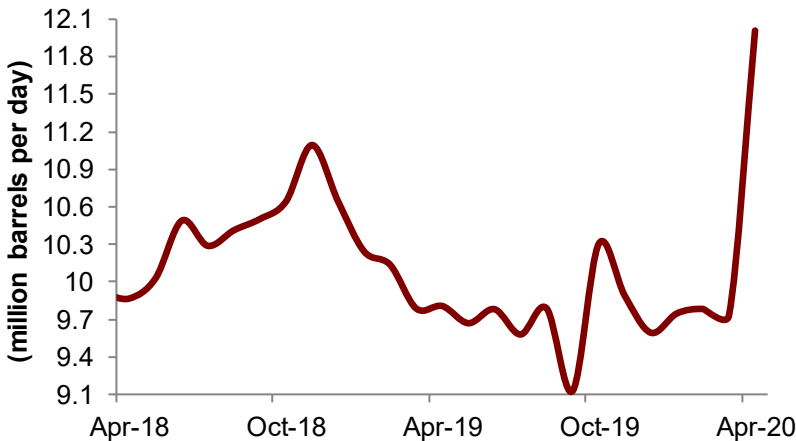
Saudi crude oil production hit an all time high of 12 million barrels per day (mbpd) in April, with crude oil exports expected to have also hit a record high of 9.1 mbpd during the month. Looking ahead, Saudi Arabia recently committed to voluntarily reducing its crude oil production for June by an extra 1 mbpd, on top of the reduction already committed by the Kingdom under the OPEC+ deal.

Saudi crude oil production hit an all time high of 12 mbpd in April. Looking ahead, Saudi Arabia recently committed to voluntarily reducing its crude oil production for June by an extra 1 mbpd, on top of the reduction already committed by the Kingdom under the OPEC+ deal. As result, we now expect Saudi annual average crude oil production to decline to 9.3 mbpd in 2020 versus 9.4 mbpd previously.

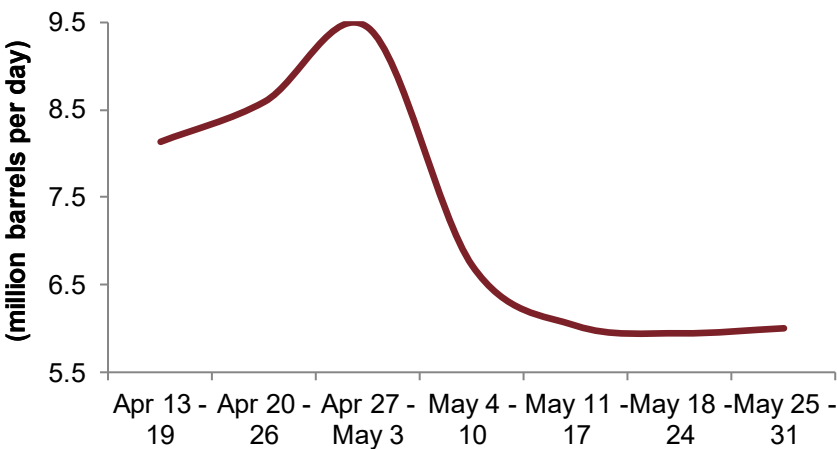
Unofficial survey data shows that oil exports are expected to have also hit a record high of 9.1 mbpd during April but have come down to around 6.2 mbpd in May...

...although latest available official data for March shows that Saudi refined product exports declined by 54 percent year-on-year during the month, with Q1 average down 46 percent over the same period.

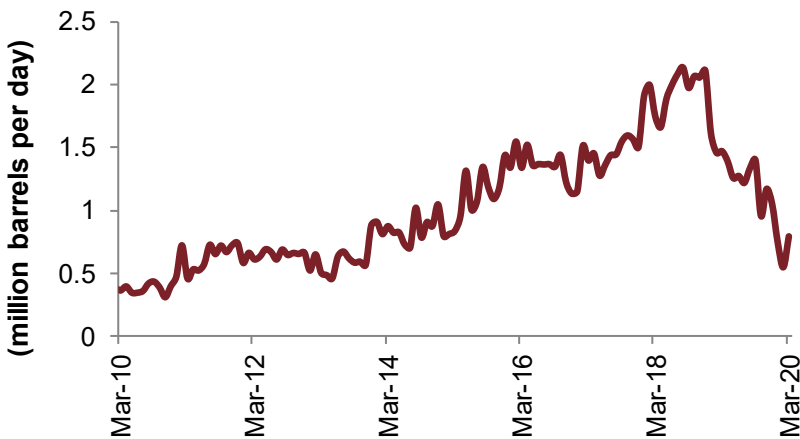
Average Monthly Saudi Crude Oil Production
(direct communication)



Expected Saudi Crude Oil Exports
(April 2020 & May 2020)



Saudi Refined Products Exports
(till March 2020)

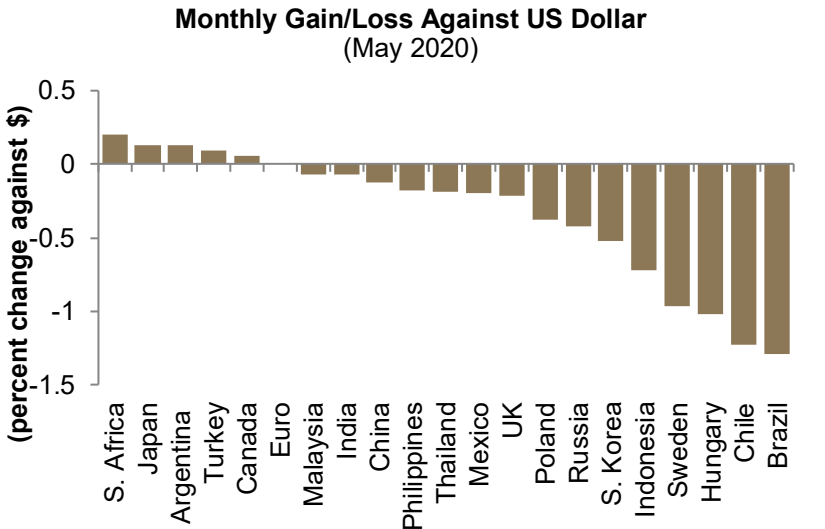




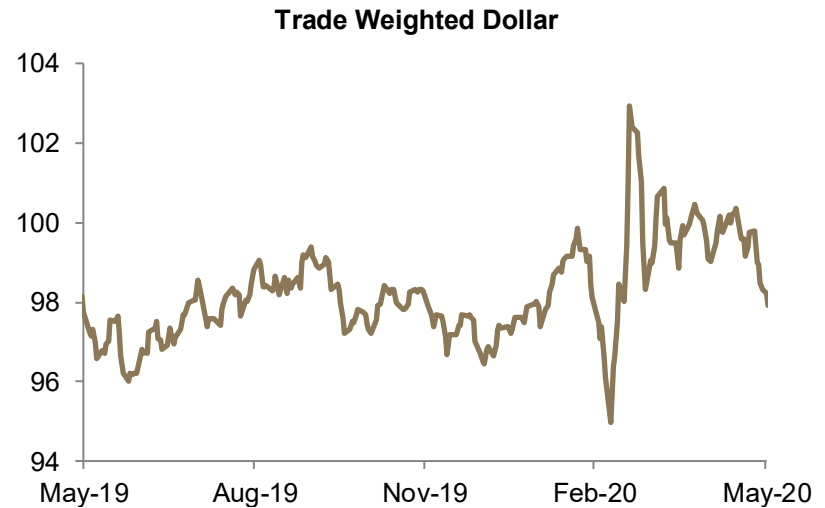
Exchange Rates

A number of currencies declined against the US dollar during the month of May, especially so in countries with accelerating rates of Covid infections/deaths. At the same time, the trade weighted US dollar fell to three month lows as the prospect of trade tensions between China and the US resurfaced.

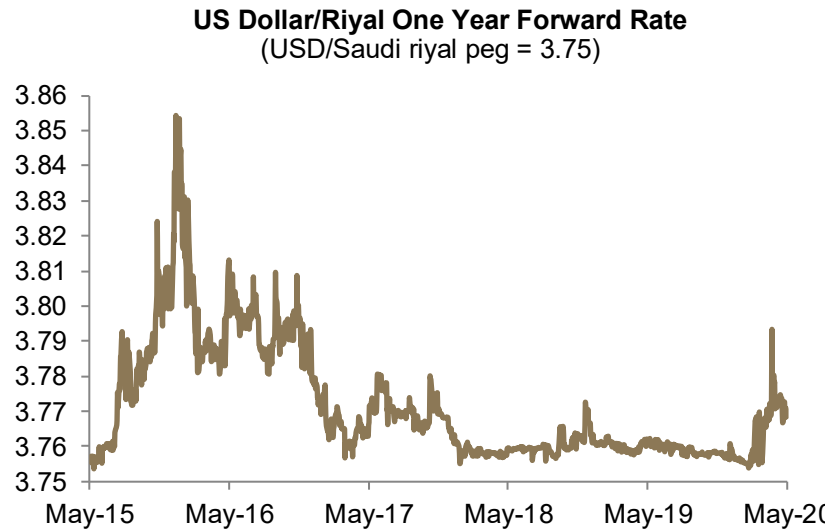
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At the same time, the trade weighted US dollar fell to three month lows as the prospect of trade tensions between China and the US resurfaced.



Meanwhile, the US dollar/riyal one year forward rate eased in May and we expect this to fall further as the burn rate of FX reserves decreases in the months ahead.

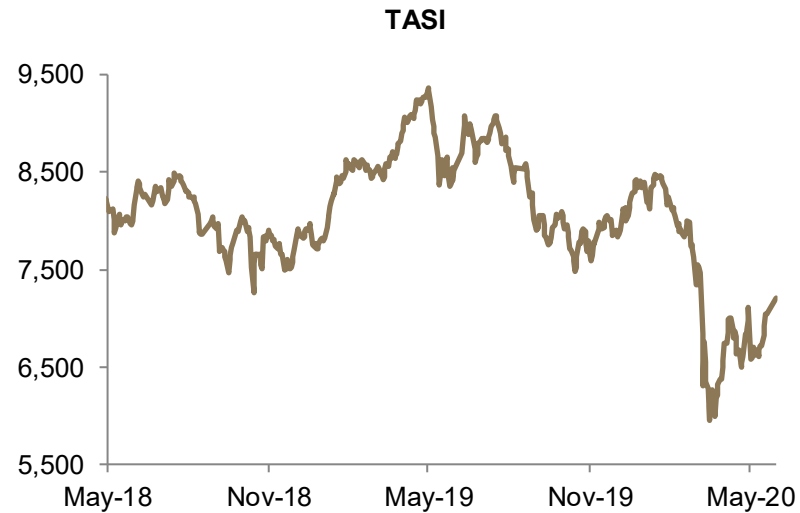




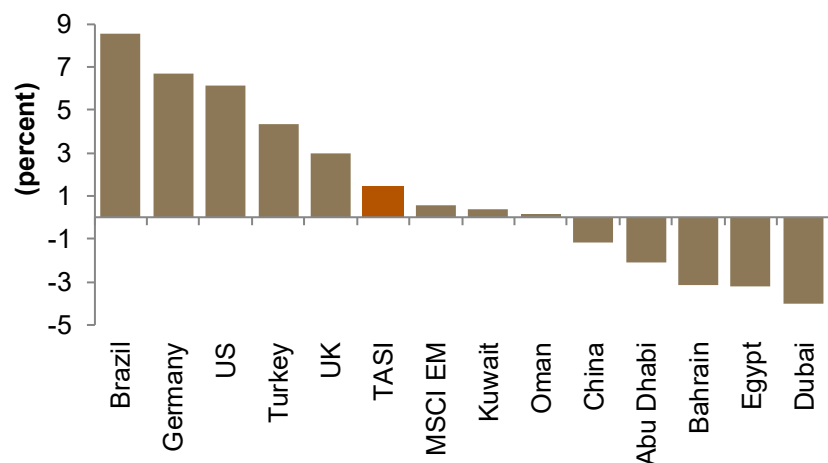
Stock Market

At one point in early May, as a number of austerity measures and the implementation of 15 percent VAT was announced, TASI dropped by 7 percent. Since then, a rally in global oil prices and a gradual easing of lockdown measures helped the stock market post a 1.4 percent month-on-month rise. Looking ahead, we see more upside to TASI as we approach 21st June, when all lockdown measures related to COVID-19 in the Kingdom are lifted.

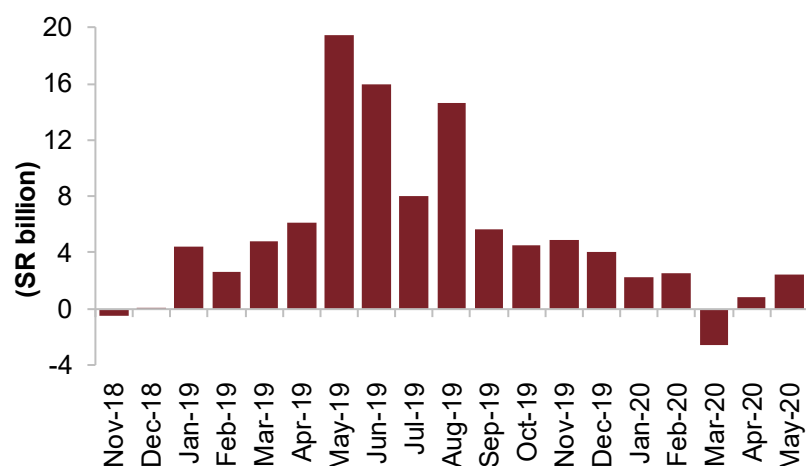
TASI was up 1.4 percent month-on-month in May as a gradual easing of the current lockdown was announced...



Comparative Stock Market Performance
(May 2020)



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



Meanwhile, net purchases of SWAPs and buying by QFIs rose by SR2.4 billion (\$656 million) during May, with year-to-date inflows totaling SR5.3 billion (\$1.4 billion).



Key Data

	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Nominal GDP									
(SR billion)	2,800	2,836	2,454	2,419	2,582	2,934	3,044	2,680	3,068
(\$ billion)	747	756	654	645	689	782	812	715	818
(% change)	1.5	1.3	-13.5	-1.4	6.8	13.6	3.7	-12.0	14.5
Real GDP (% change)									
Oil	-1.6	2.1	5.3	3.6	-3.1	3.1	-3.6	-2.9	3.2
Non-oil private sector	7.0	5.4	3.4	0.1	1.5	1.9	3.8	-4.5	3.2
Non-oil government	5.1	3.7	2.7	0.6	0.7	2.9	2.2	0.5	1.5
Total	2.7	3.7	4.1	1.7	-0.7	2.4	0.3	-3.0	2.9
Oil indicators (average)									
Brent (\$/b)	110	99	52	43	54	71	66	39	55
Production (million b/d)	9.6	9.7	10.2	10.4	10.0	10.3	9.8	9.3	9.6
Budgetary indicators (SR billion)									
Government revenue	1,156	1,044	616	519	692	906	917	657	856
Government expenditure*	994	1,140	1,001	936	930	1,079	1,048	1,019	990
Budget balance	162	-96	-385	-417	-238	-173	-131	-362	-134
(% GDP)	5.8	-3.4	-15.7	-17.2	-9.2	-5.9	-4.3	-13.5	-4.4
Gross public debt	60	44	142	317	443	560	678	854	948
(% GDP)	2.1	1.6	5.8	13.1	17.1	19.1	22.3	31.9	30.9
Monetary indicators (average)									
Inflation (% change)	3.5	2.2	1.2	2.1	-0.8	2.5	-2.1	3	3.2
SAMA base lending rate (% end year)	2.0	2.0	2.0	2.0	2.0	3.0	2.3	0.50	0.75
External trade indicators (\$ billion)									
Oil export revenues	322	285	153	137	171	232	202	133	171
Total export revenues	376	342	204	184	222	294	262	161	221
Imports	153	158	159	128	123	126	132	100	122
Trade balance	223	184	44	56	98	169	129	61	99
Current account balance	135	74	-57	-24	10	71	50	-3	24
(% GDP)	18.1	9.8	-8.7	-3.7	1.5	9.0	6.1	-0.4	3.0
Official reserve assets	726	732	616	536	496	497	500	420	426
Social and demographic indicators									
Population (million)	29.6	30.3	31.0	31.7	32.7	32.5	32.6	31.8	32.0
Saudi Unemployment (15+, %)	11.7	11.7	11.5	12.5	12.8	12.7	12.0	12.0	11.8
GDP per capita (\$)	25,223	24,962	21,095	20,318	21,048	24,065	24,890	22,439	25,535

Sources: Jadwa Investment forecasts for 2020 and 2021. 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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