



Summary

Real Economy: Economic indicators for January continued to point to a recovery in the non-oil sector, with the PMI rising marginally month-on-month to reach 57.1, a fifth consecutive monthly rise.

Consumer Spending: POS transactions continued to show strong yearly rises in January, while ATM withdrawals continued on a downward trend.

Industrial Sector: The monthly value of licensed investments in new factories stood at SR1.63 billion in January, with 51 new factories being licensed during the month.

Government Finance: The net monthly change to government accounts with SAMA was marginally up by SR2.6 billion month-on-month in January. Looking ahead, despite the recent build in reserves, we still expect to see a decline of SR66 billion in government reserves in full year 2021.

SAMA Foreign Reserve Assets: SAMA FX reserves declined by \$3.5 billion month-on-month in January, to stand at \$450 billion. Looking ahead, we expect an improvement in the current account (due to higher oil receipts) and financial account inflows related to two recent international bond issuances to push up FX reserves in the near term.

Money Supply: The broad measure of money (M3) rose by 9.2 percent year-on-year in January but declined by 1 percent on a monthly basis as growth in demand deposits continued in January to reach 6 year highs.

Bank Deposits and Credit: Growth in demand deposits continued in January as yearly rises in both government (up 5 percent) and private sector (up 10 percent) resulted in total deposits rising 9 percent year-on-year. Meanwhile, total bank claims rose by 15 percent in January, year-on-year, as both credit to the private and public sector rose.

Inflation: Prices in January rose on a year-on-year and month-on-month basis, by 5.7 percent and 0.2 percent respectively. The yearly rise was driven mainly by the “Food and Beverages” and “Transport” segments.

Oil-Global: Oil prices rose sharply in February as extreme weather conditions in Texas led to a drop in US crude oil output. Brent oil was up 15 percent and WTI was up 11 percent month-on-month.

Oil-Regional: Saudi crude oil production averaged 9.1 mbpd in January, a rise of 1.4 percent month-to-month, in line with our expectation of a marginal increase.

Exchange Rates: Over the last few months the trade weighted US dollar has been trending downwards, and is currently languishing at three year lows. This follows the general expectation that US interest rates are likely to remain rooted at current low levels in the near term, with the US Federal Reserve (Fed) reiterating this point in a recent meeting.

Stock Market: TASI rose 5.1 percent month-on-month in February, as optimism around rising oil prices pushed the Saudi index to its highest level in almost two years. We note that retail investor participation remains elevated, and thus any sharp movement in oil prices in the month ahead could be mirrored in TASI as well.

For comments and queries please contact:

Asad Khan
Head of Research
rkhan@jadwa.com

Nouf N. Alsharif
Senior Economist
nalsharif@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 293-7988
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

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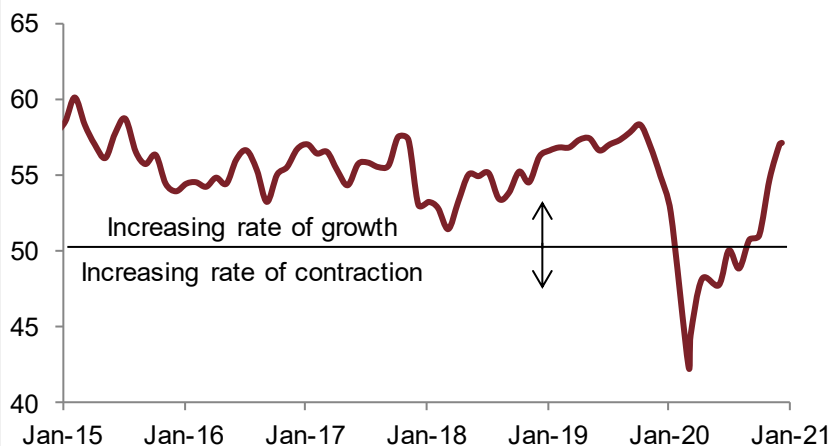


Real Economy

Economic indicators for January continued to point to a recovery in the non-oil sector, with the PMI rising marginally month-on-month to reach 57.1, a fifth consecutive monthly rise. Meanwhile, cement sales and production rose 8.1 percent 5.6 percent year-on-year, respectively.

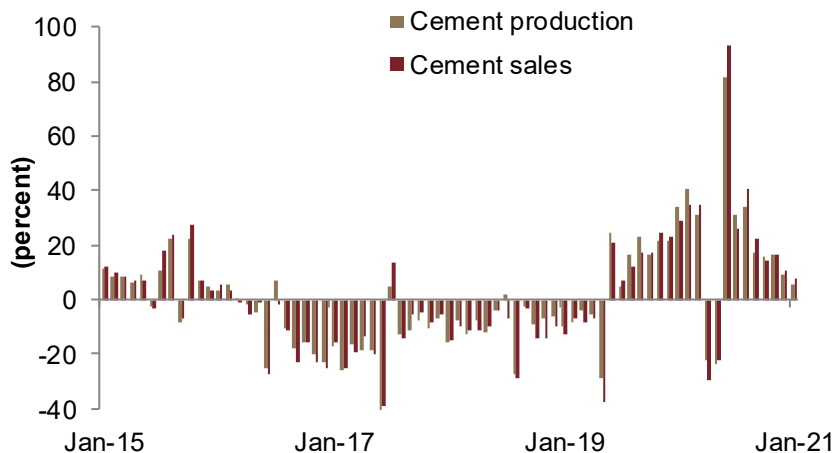
PMI started the year with an upward trend reaching a 14-month high at 57.1.

Non-oil Purchasing Managers' Index



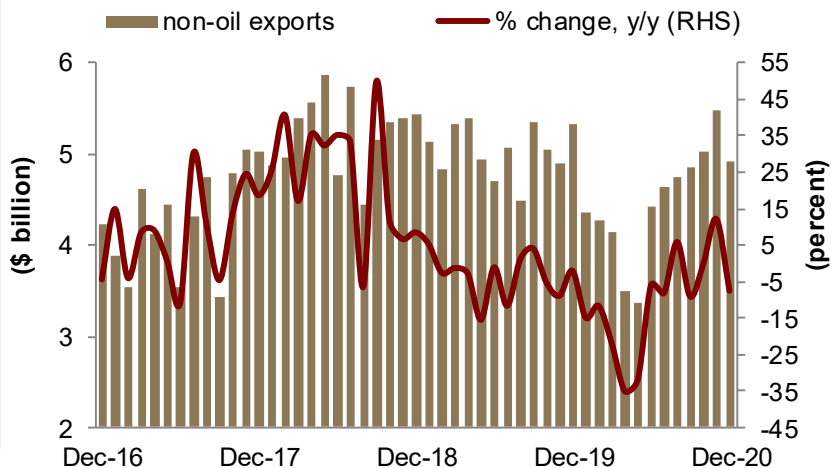
At the same time, cement sales and production continued to rise in January by 8.1 percent and 5.6 percent year-on-year, respectively, but at a slower rate than the average seen in 2020.

Cement Sales and Production
(year-on-year change)



Meanwhile, latest published data for December showed a decrease in non-oil exports (by 7.7 percent year-on-year) driven mainly by a decline in "transport equipment" followed by "petrochemicals".

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





Consumer Spending

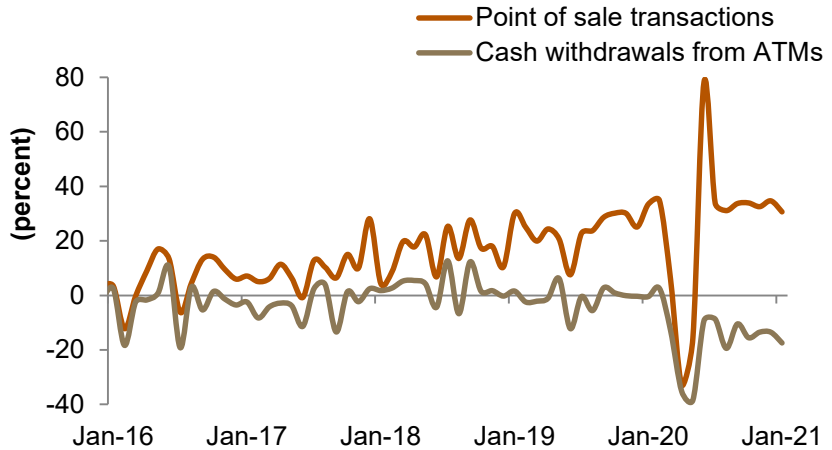
POS transactions continued to show strong yearly rises in January, while ATM withdrawals continued on a downward trend. Looking ahead, we expect a decline in both POS transactions and ATM withdrawals on a month-on-month basis (but not necessarily on a yearly basis) in-line with the Saudi authorities decision to suspend recreational events in the Kingdom for most of February.

POS transactions continued to show strong yearly rises in January, posting a 30 percent jump year-on-year. At the same time, ATM withdrawals continued on a downward trend seen in the last year, dropping 17 percent year-on-year.

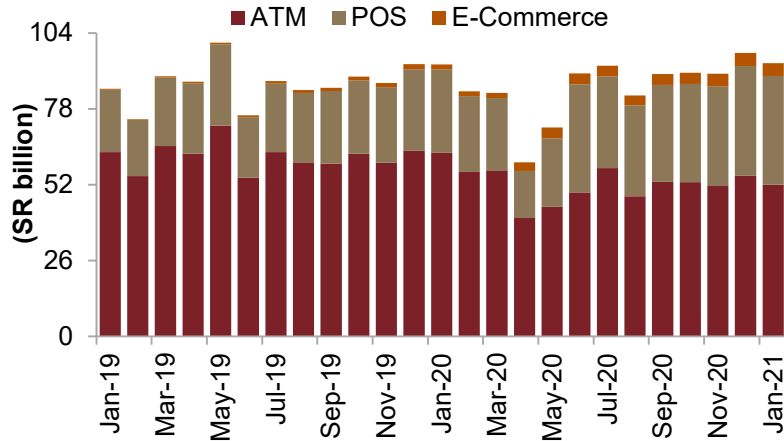
That said, the combined value of POS and e-commerce transactions plus ATM cash withdrawals in January (totaling SR93.6 billion) were actually up marginally (by 0.5 percent) compared to the same period last year, but declined by 3.7 percent month-on-month.

Looking ahead, we expect a decline in both POS transactions and ATM withdrawals on a month-on-month basis (with latest weekly POS transactions down 3 percent on a comparative monthly basis) in-line with the Saudi authorities decision to suspend recreational events in the Kingdom for most of February.

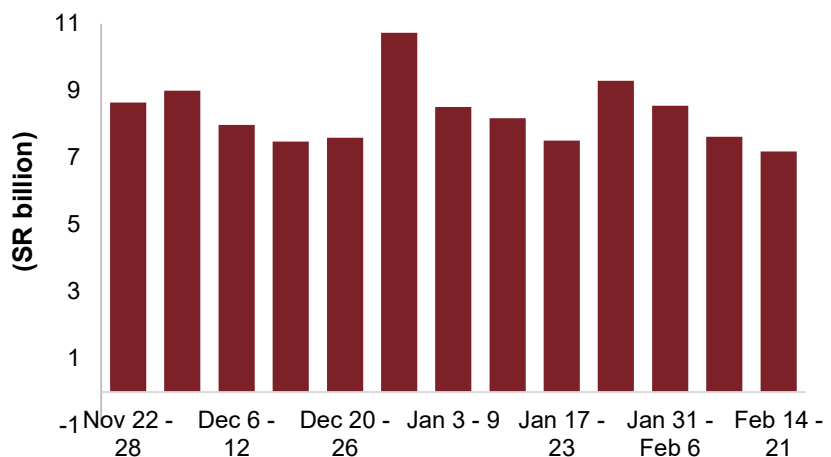
Indicators of Consumer Spending
(year-on-year change)



Monthly Consumer Spending
(SR Billion)



Latest Weekly POS Transactions
(SR Billion)



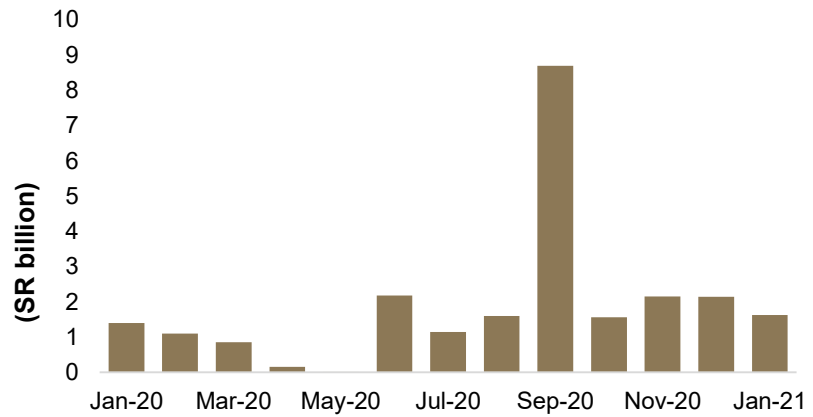


Industrial Sector

The monthly value of licensed investments in new factories stood at SR1.63 billion in January, with 51 new factories being licensed during the month. Moreover, the month saw 2.9 thousand net hires in the industrial sector, the highest rise in the sector since March 2020. The rise was mainly due to an increase in foreign workers (up 3.1 thousand) and a decline in Saudi workers by 173.

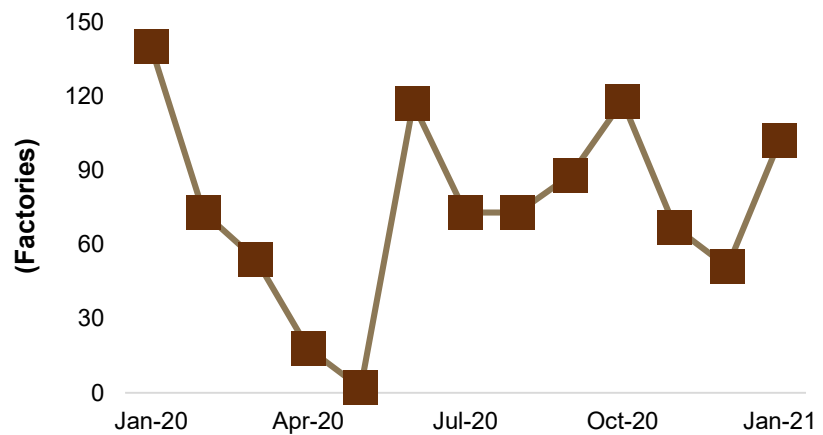
The monthly value of licensed investments in new factories stood at SR1.63 billion in January...

Volume of Licensed Investments
(monthly total)



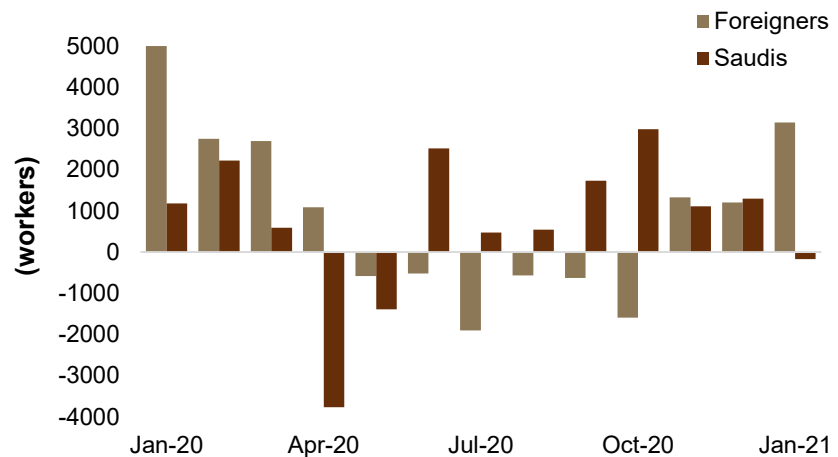
...with 51 new factories licensed during the month.

Number of Licensed Factories
(monthly total)



Moreover, the month saw 2.9 thousand net new hires in the industrial sector, the highest rise in the sector since March 2020. The rise was mainly due to an increase in foreign workers (up 3.1 thousand) and a decline in Saudi workers by 173.

Number of Workers in the Industrial Sector
(monthly change)



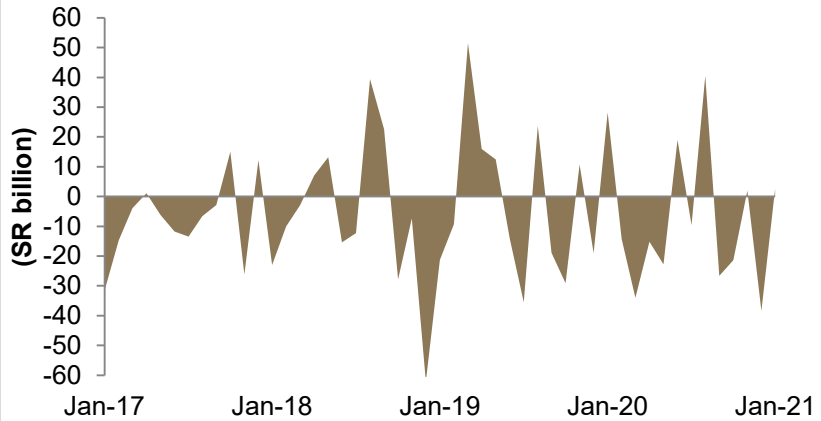


Government Finance

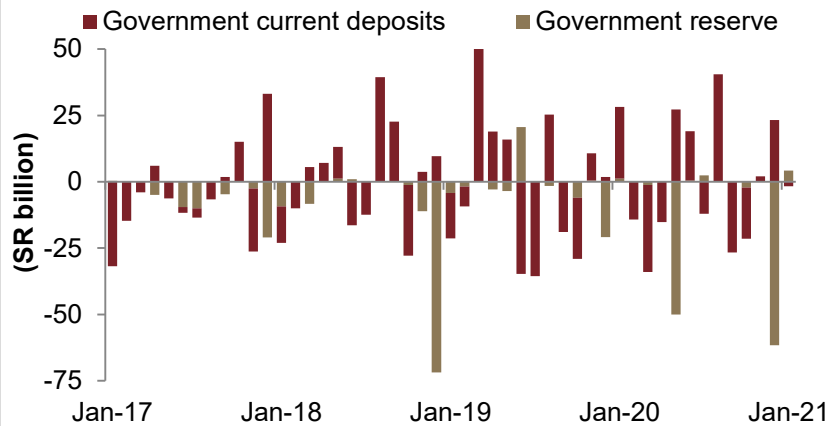
The net monthly change to government accounts with SAMA was marginally up by almost SR2.6 billion month-on-month in January. The breakdown shows the rise came mostly from an increase in government reserves by almost SR4.3 billion, whilst government current deposits declined by SR1.7 billion during the month. Looking ahead, despite the recent build in reserves, we still expect to see a decline of SR66 billion in government reserves in full year 2021.

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

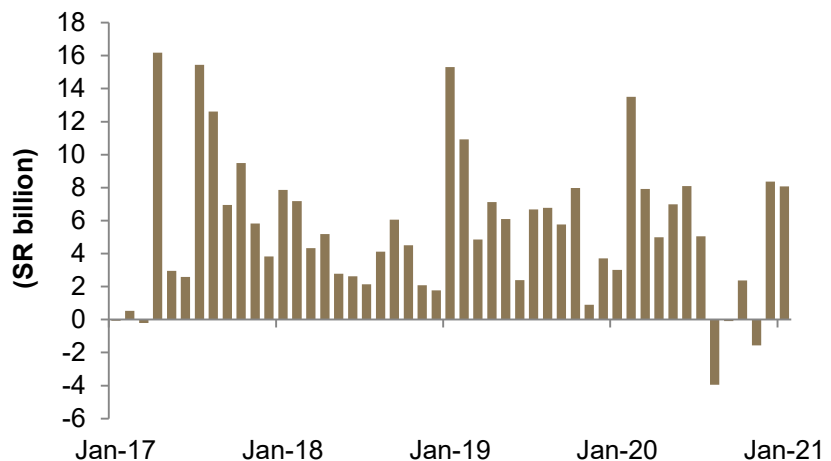


Breakdown of Government Accounts with SAMA
(month-on-month change)



The breakdown shows the marginal rise came mostly from an equivalent increase in government reserves by almost SR4.3 billion, whilst government current deposits declined by SR1.7 billion during the month. Looking ahead, despite the recent build in reserves, we still expect to see a decline SR66 billion in government reserves in full year 2021.

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



Meanwhile, domestic banks net holdings of government bonds increased by SR8 billion month-on-month in January.

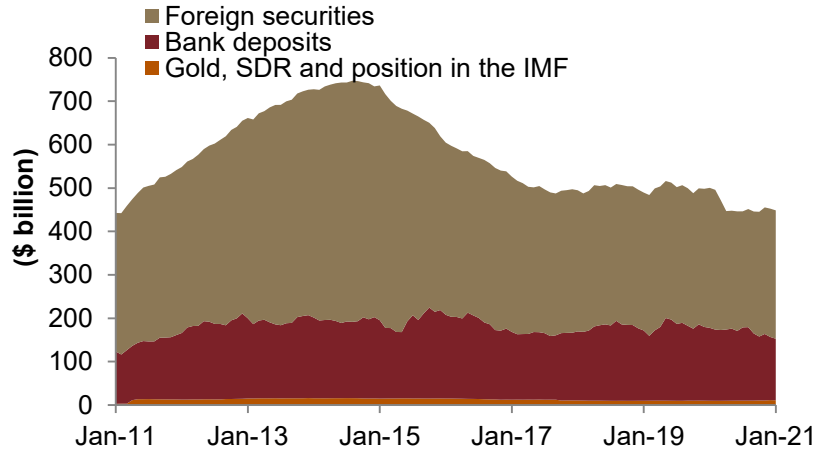


SAMA Foreign Reserve Assets

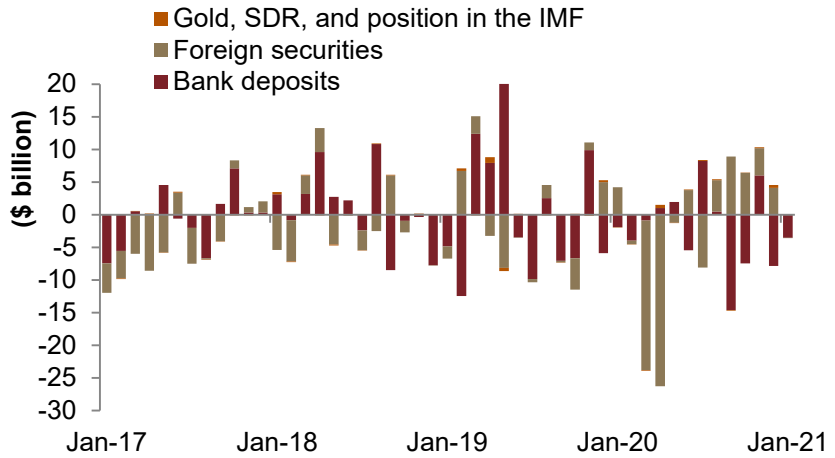
SAMA FX reserves declined by \$3.5 billion month-on-month in January, to stand at \$450 billion. Looking ahead, we expect an improvement in the current account (due to higher oil receipts) and financial account inflows related to two recent international bond issuances to lead to a build in FX reserves in the near term.

SAMA FX reserves declined by \$3.5 billion month-on-month in January, to stand at \$450 billion.

SAMA Total Foreign Reserve Assets

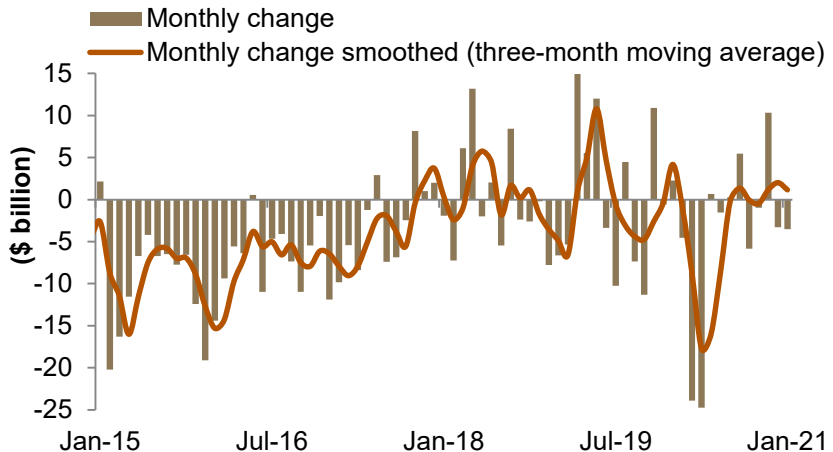


SAMA Foreign Reserve Assets (month-on-month change)



A breakdown of FX reserves shows that the monthly decrease came fully from bank deposits during the month.

SAMA Foreign Reserve Assets (January 2021)



Looking ahead, we expect an improvement in the current account (due to higher oil receipts) and financial account inflows related to two recent international bond issuances to lead to a build in FX reserves in the near term.

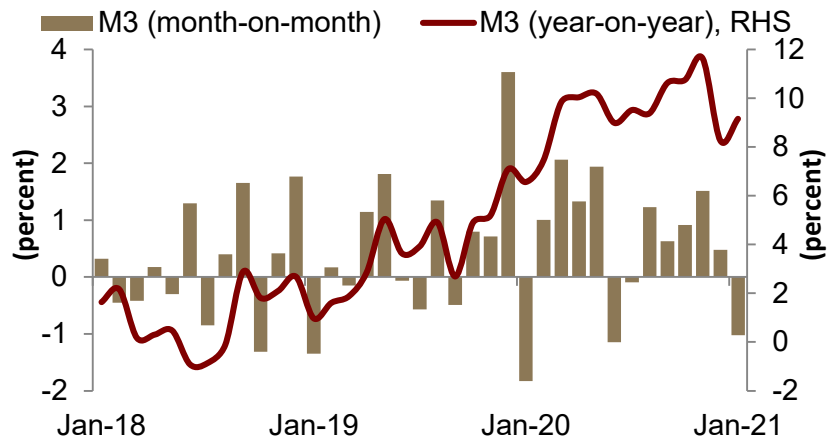


Money Supply

The broad measure of money (M3) rose by 9.2 percent year-on-year in January but declined by 1 percent on a monthly basis. Growth in demand deposits continued in January to reach a 6 year high registering 17 percent year-on-year, which in turn drove the increases in M1. The 3-month SAIBOR declined marginally to 0.816 percent in January.

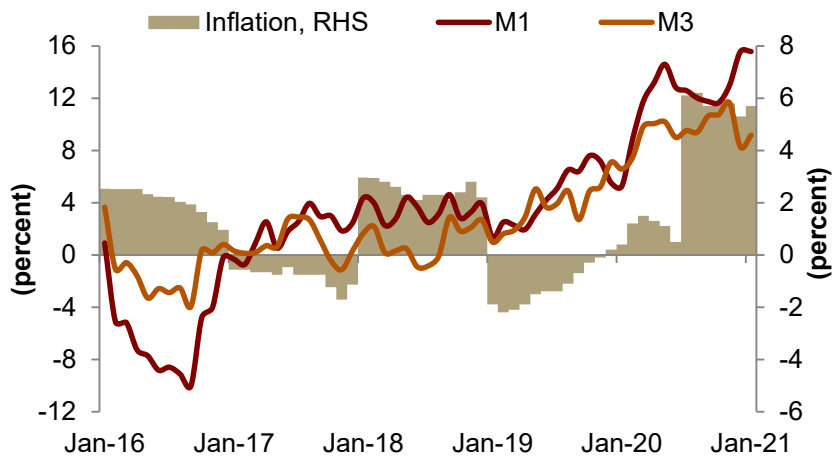
Whilst M3 continued on an upward trend during January on a yearly basis, it declined on a monthly basis, in-line with seasonal trends observed in the last few years.

Growth in Money Supply

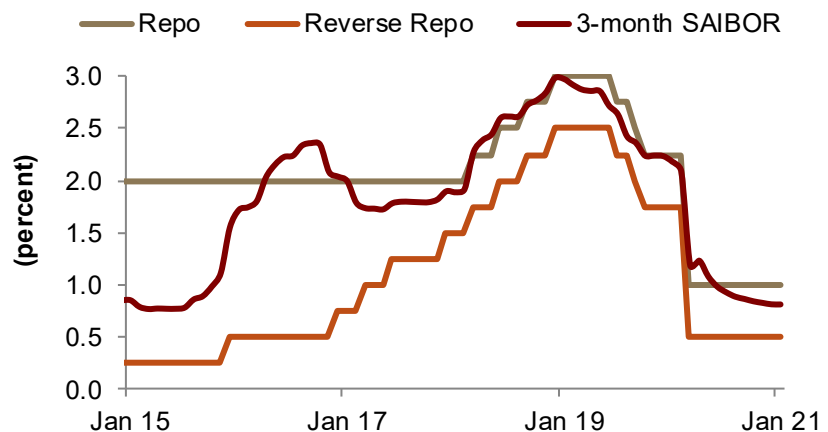


Demand deposits in January grew by 17 percent year-on-year. Looking ahead, we expect money supply to continue rising, albeit at slower rates than observed last year.

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



Selected Short-term Interest Rates



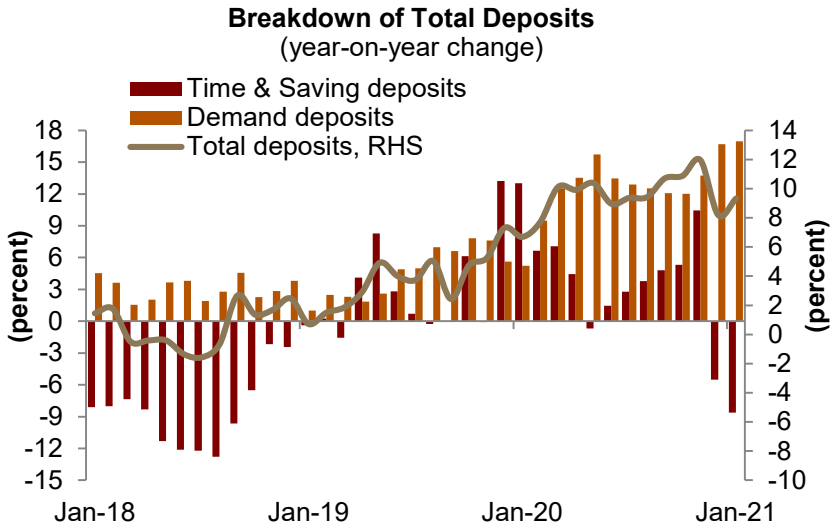
The 3-month SAIBOR (the rate of borrowing between Saudi banks) declined to the lowest level in six years, indicating ample liquidity within the banking system.



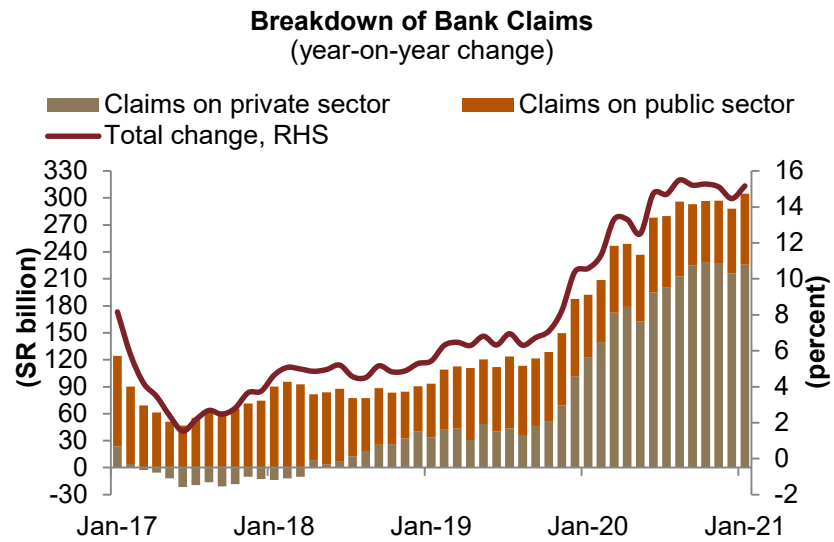
Bank Deposits & Credit

Growth in demand deposits continued in January as yearly rises in both government (up 5 percent) and private sector (up 10 percent) resulted in total deposits rising 9 percent year-on-year. Meanwhile, total bank claims rose by 15 percent in January, year-on-year, as both credit to the private and public sector rose.

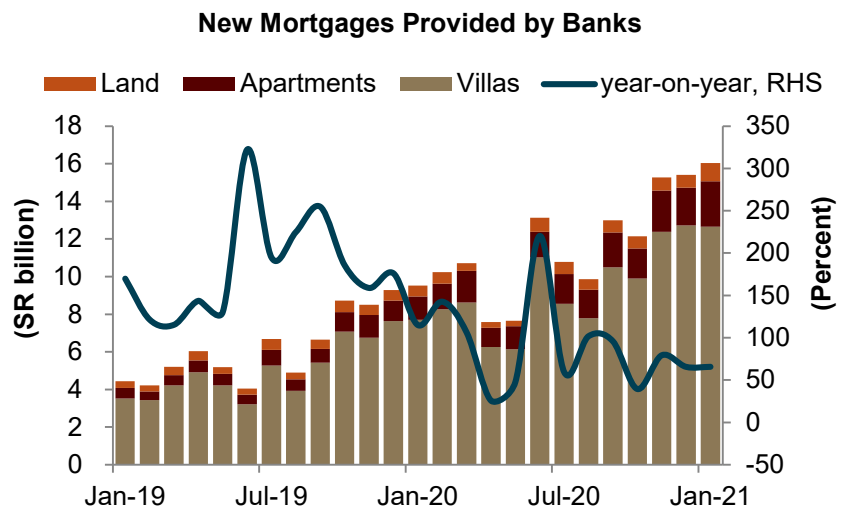
Growth in demand deposits continued in January as yearly rises in both government (up 5 percent) and private sector (up 10 percent) resulted in total deposits rising 9 percent year-on-year.



Meanwhile, total bank claims continued to show strong rises, with both private and public sector credit contributing to a 15 percent overall rise in January, year-on-year.



A strong level of yearly rises in new mortgages (at 66 percent) were also seen in January. Within this, mortgages for apartments rose 90 percent compared to same period last year.





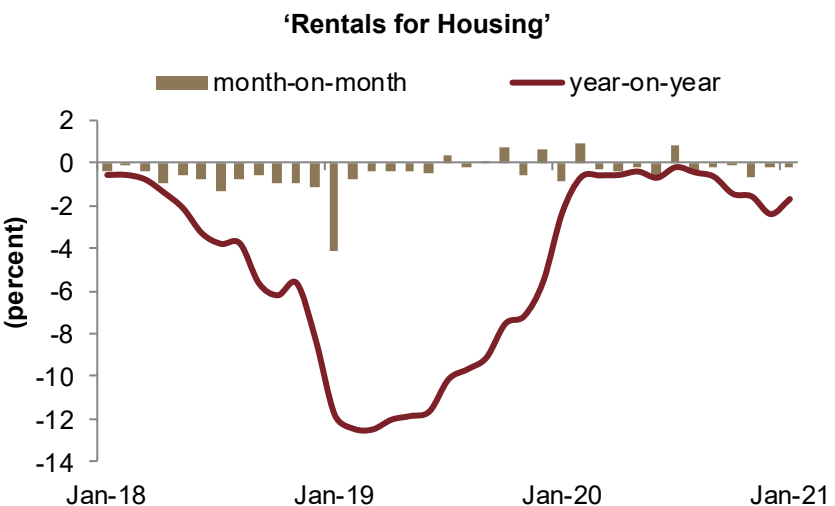
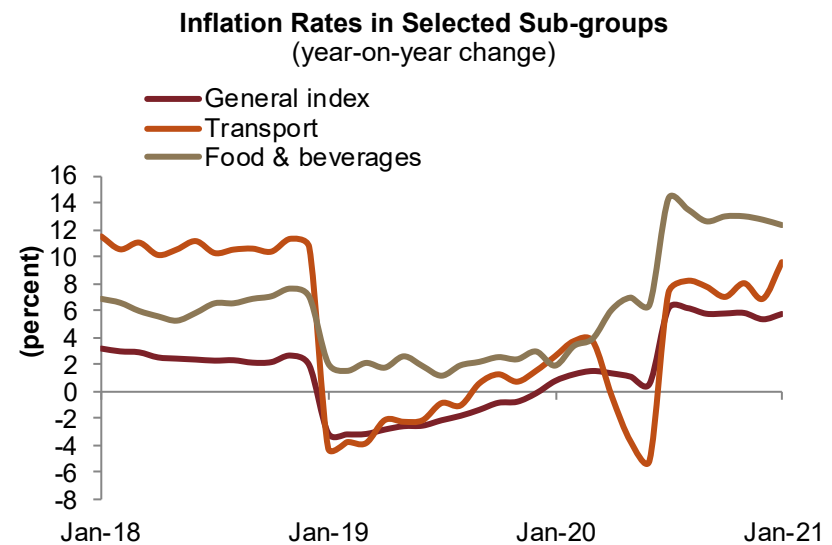
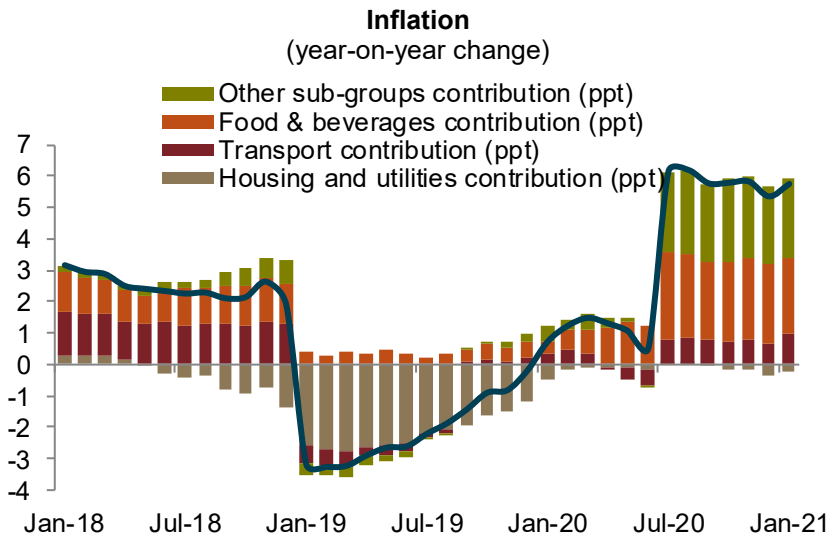
Inflation

Prices in January rose on a year-on-year and month-on-month basis, by 5.7 percent and 0.2 percent respectively. The yearly rise was driven mainly by the “Food and Beverages” and “Transport” segments. Meanwhile “Rentals for housing” was down 1.7 percent year-on-year in January, and was one of two subcategories (alongside “Education”) to show declines.

Inflation continued an upward trend on a year-on-year basis (by 5.7 percent). We expect similar levels of yearly rises till mid-year, as result of the base effects from last year's July VAT hike. Overall, we expect prices to rise by 3.7 percent in 2021.

“Food & Beverages” and “Transport” sub-index continued to rise, putting upward pressure on the general index...

... meanwhile “Rentals for Housing” was down 1.7 percent year-on-year in January. Looking ahead, we expect to see the trend continuing as we see further rises in home ownership.

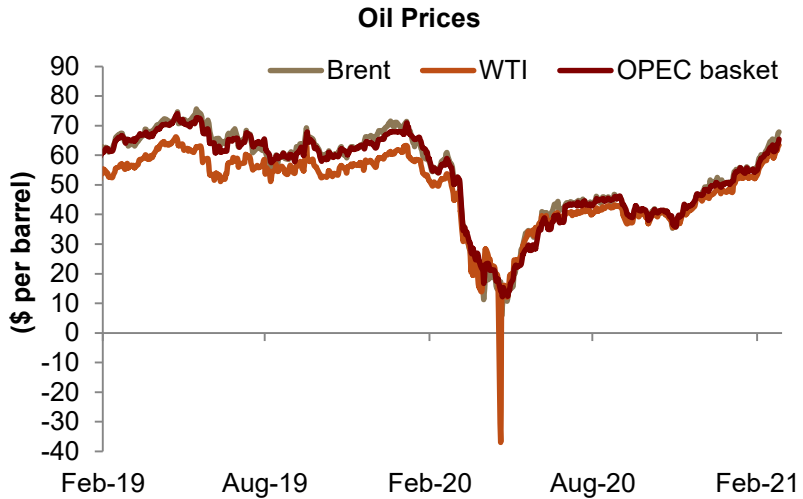




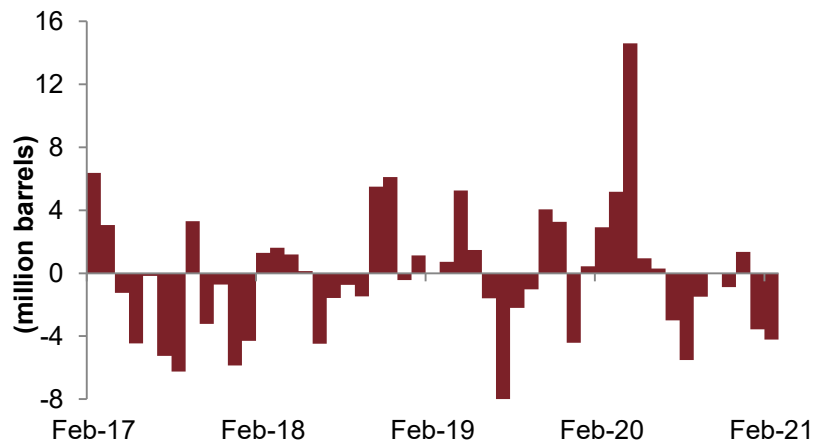
Oil - Global

Oil prices rose sharply in February as extreme weather conditions in Texas led to a drop in US crude oil output. Brent oil was up 15 percent and US WTI was up 11 percent month-on-month as a severe storm in the US temporarily took out 1 million barrels per day (mbpd) (or circa 1 percent of daily global oil production) last week. Looking ahead, we expect OPEC and partners (OPEC+) to agree on a production rise when they meet on 4th March.

Brent oil was up 15 percent and US WTI was up 11 percent month-on-month as severe storm in the US temporarily took 1 mbpd (or 1 percent of daily global oil production) off-line last week.

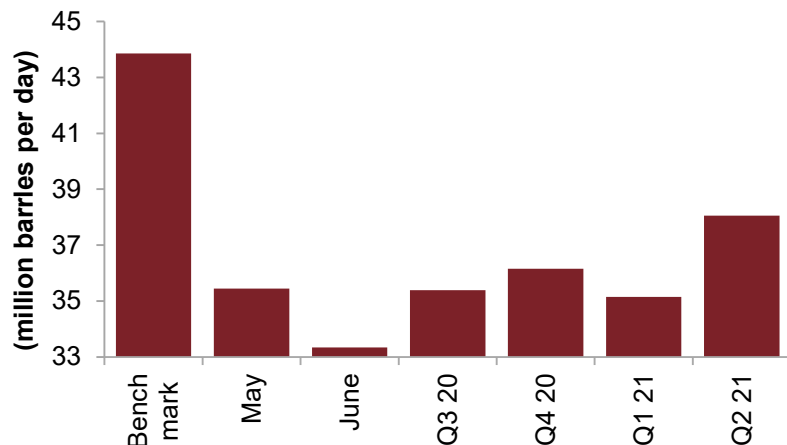


US Commercial Crude Oil Inventories
(average monthly change)



The reduction in US output led to a sharp decline in US commercial oil inventories during February.

OPEC and Partners Crude Oil Output
(actual and expected output)



Looking ahead, we expect OPEC+ to agree on a production rise when they meet on 4th March. Separately, Saudi Arabia's 1 mbpd voluntary reduction is also set to expire at the end of March. As such, if the alliance decides to fully unwind the remaining level of oil (which was originally planned to hit the market back in January), an additional 2.4 mbpd of OPEC+ oil could hit the market in April, thus pushing oil prices back from recent highs.



Oil - Regional

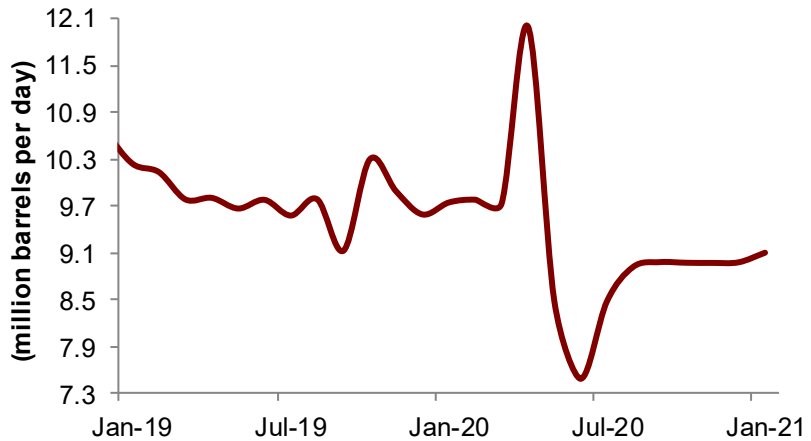
Saudi crude oil production averaged 9.1 mbpd in January, a rise of 1.4 percent month-to-month, in line with our expectation of a marginal increase. Looking ahead, due to Saudi Arabia's unilateral output reduction of 1 mbpd during both February and March, crude oil production is expected to decline to circa 8 mbpd in the next two months.

Saudi crude oil production averaged 9.1 mbpd in January, a rise of 1.4 percent month-to-month. Looking ahead, due to Saudi Arabia's unilateral output reduction of 1 mbpd during both February and March, crude oil production is expected to decline to circa 8 mbpd in the next two months...

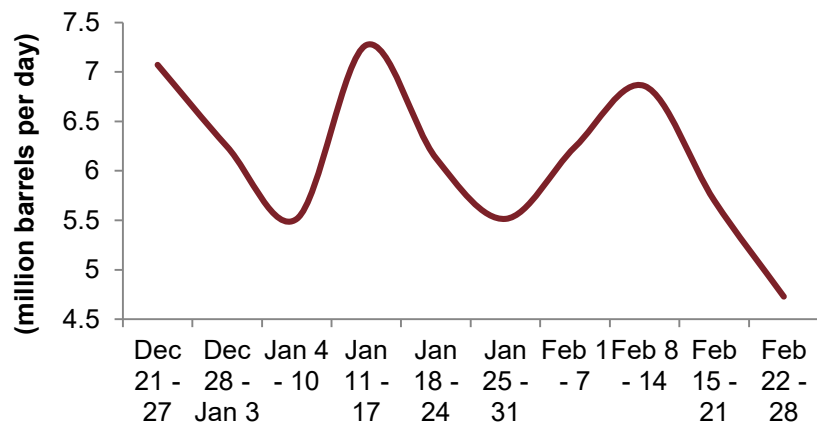
...although preliminary unofficial data suggests no major monthly change in Saudi oil exports in February despite the reduction in output. More specifically, crude oil exports averaged 5.9 mbpd in February, versus 6.1 mbpd in January

Meanwhile, full year data showed that Saudi domestic liquid energy demand declined -6 percent year-on-year in 2020. Unsurprisingly, transportation fuel (jet fuel, gasoline and diesel) all declined on a yearly basis. Looking ahead, we expect higher refinery intake associated with the gradual start-up of the Jazan refinery, and a general rebound in transportation fuel to push domestic energy consumption up from last year's lows.

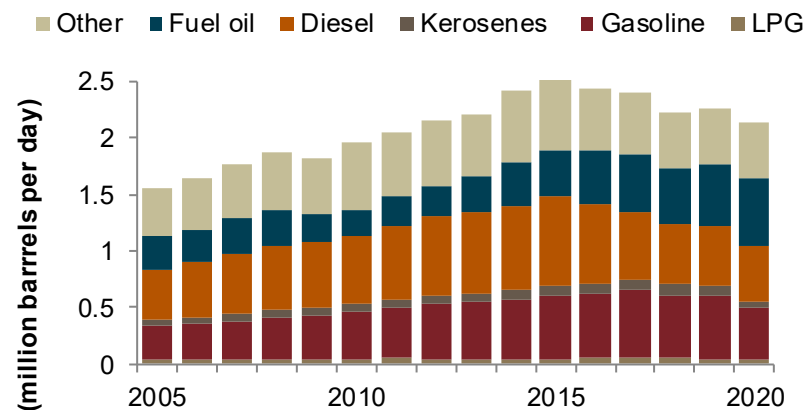
Average Monthly Saudi Crude Oil Production
(direct communication)



Saudi Crude Oil Exports
(weekly average)



Average Annual Saudi Domestic Energy Demand
(yearly average)



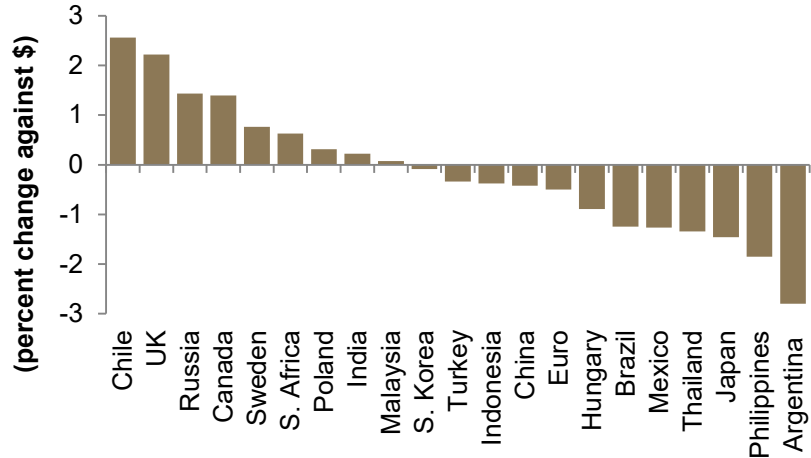


Exchange Rates

The US dollar saw mixed performance against other major currencies during February. That said, over the last few months the trade weighted US dollar has been trending downwards, and is currently languishing at three year lows. This follows the general expectation that US interest rates are likely to remain rooted at current low levels in the near term, with the US Federal Reserve (Fed) reiterating this point in a recent meeting.

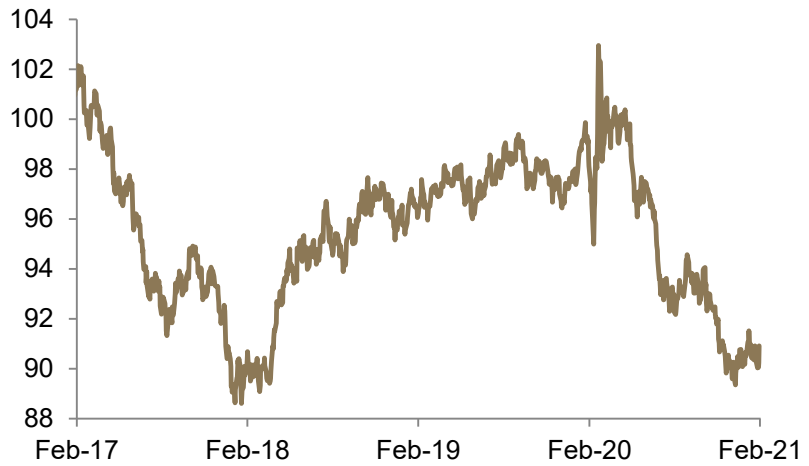
The US dollar saw mixed performance against other major currencies during February.

Monthly Gain/Loss Against US Dollar
(February 2021)



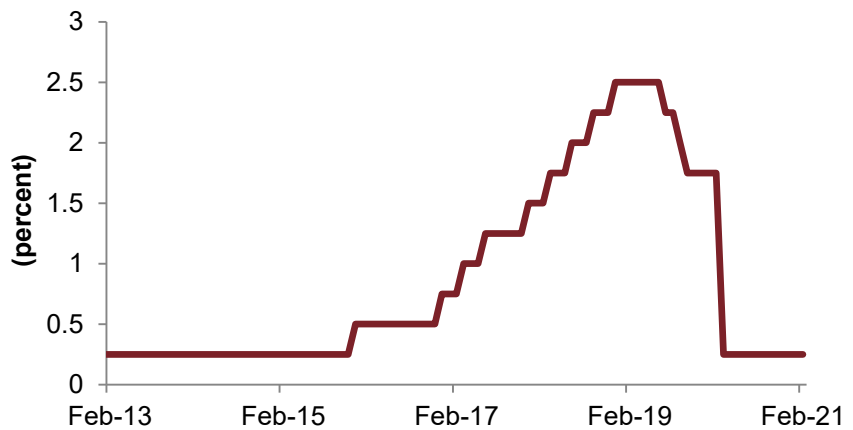
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Trade Weighted Dollar



This follows the general expectation that US interest rates are likely to remain rooted at current low levels in the near term, with the US Federal Reserve (Fed) reiterating this point in a recent meeting.

US Federal Fund Target Rate

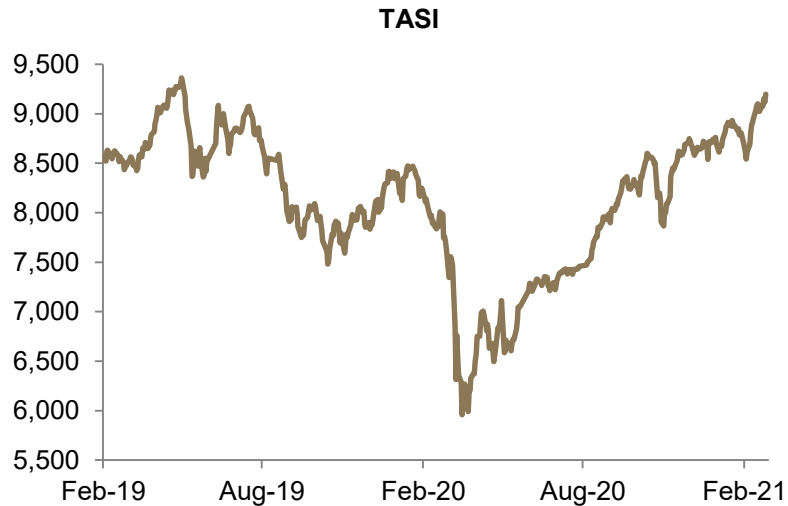




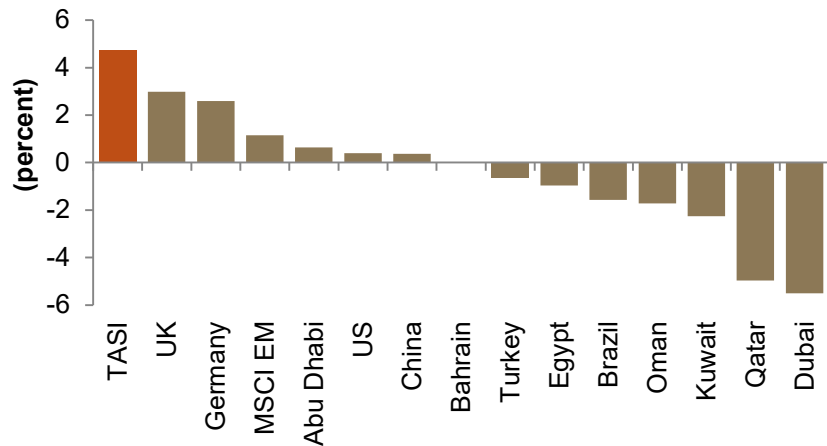
Stock Market

TASI rose 5.1 percent month-on-month in February, as optimism around rising oil prices pushed the Saudi index to its highest level in almost two years. This monthly rise came about despite the Saudi authorities announcing the suspension of recreational events in the Kingdom for most of February. We note that retail investor participation remains elevated, and thus any sharp movement in oil prices in the month ahead could be mirrored in TASI as well.

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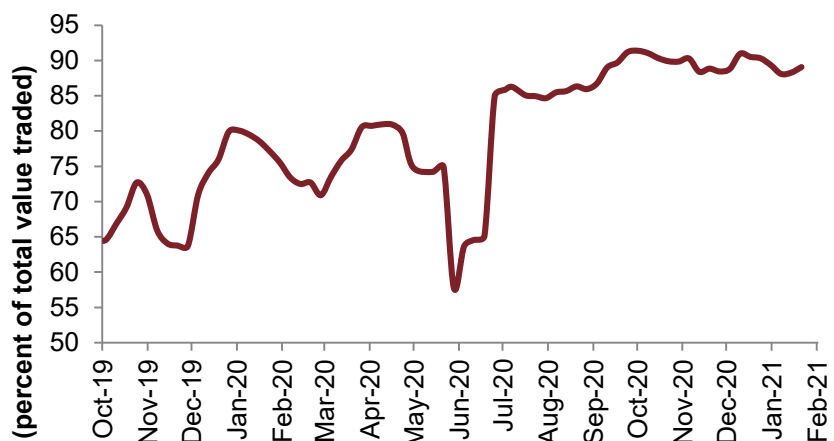


Comparative Stock Market Performance
(February 2021)



...whilst also making TASI one of the better performing indices amongst global and regional peers during the month.

Individual Investors as a Percentage of Total Value Traded
(four week moving average)



We note that retail investor participation remains elevated, and thus any sharp movement in oil prices in the month ahead could well be mirrored in TASI too.



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Key Data

	2014	2015	2016	2017	2018	2019	2020E	2021F	2022F
Nominal GDP									
(SR billion)	2,836	2,454	2,419	2,582	2,934	3,044	2,545	2,860	3,108
(\$ billion)	756	654	645	689	782	812	679	763	829
(% change)	1.3	-13.5	-1.4	6.8	13.6	3.7	-16.4	12.3	8.7
Real GDP (% change)									
Oil**	2.1	5.3	3.6	-3.1	3.1	-3.6	-6.4	1.3	9.4
Non-oil private sector**	5.4	3.4	0.1	1.5	1.9	3.8	-3.3	3.2	3.0
Non-oil government**	3.7	2.7	0.6	0.7	2.9	2.2	0.0	1.5	1.0
Total	3.7	4.1	1.7	-0.7	2.4	0.3	-4.1	2.1	5.2
Oil indicators (average)									
Brent (\$/b)	99	52	43	54	71	66	42	55	60
Production (million b/d)	9.7	10.2	10.4	10.0	10.3	9.8	9.2	9.3	10.0
Budgetary indicators (SR billion)									
Government revenue	1,044	616	519	692	906	926	770	851	911
Government expenditure*	1,140	1,001	936	930	1,079	1,059	1,068	990	955
Budget balance	-96	-385	-417	-238	-173	-133	-298	-139	-44
(% GDP)	-3.4	-15.7	-17.2	-9.2	-5.9	-4.4	-12	-4.8	-1.4
Gross public debt	44	142	317	443	560	678	854	937	1013
(% GDP)	1.6	5.8	13.1	17.1	19.1	22.3	33.5	32.8	32.7
Monetary indicators (average)									
Inflation (% change)	2.2	1.2	2.1	-0.8	2.5	-2.1	3.0	3.7	1.5
SAMA base lending rate (% end year)	2.0	2.0	2.0	2.0	3.0	2.3	0.75	0.75	1.25
External trade indicators (\$ billion)									
Oil export revenues	285	153	137	171	232	201	127	165	202
Total export revenues	342	204	184	222	294	262	177	219	260
Imports	158	159	128	123	126	140	118	124	124
Trade balance	184	44	56	98	169	121	60	95	135
Current account balance	74	-57	-24	10	72	38	-17.9	19	56
(% GDP)	9.8	-8.7	-3.7	1.5	9.2	4.7	-2.6	2.5	6.8
Official reserve assets	732	616	536	496	497	500	453	455	473
Social and demographic indicators									
Population (million)	30.3	31.0	31.7	32.7	32.5	32.6	31.8	32.0	32.3
Saudi Unemployment (15+, %)	11.7	11.5	12.5	12.8	12.7	12.0	14.0	12.1	10.9
GDP per capita (\$)	24,962	21,095	20,318	21,048	24,065	24,890	21,314	23,798	25,659

Sources: Jadwa Investment forecasts for 2021 and 2022. General Authority for Statistics for GDP and demographic indicators, Saudi Central for monetary and external trade indicators, Ministry of Finance for budgetary indicators. Note: *2016 government expenditure includes SR105 billion in due payment from previous years. **Jadwa estimates for 2020