



Summary

Real Economy: A number of non-oil indicators improved in May, including the non-oil PMI, which continued rising to 56.4 as activity and new orders grew. In addition, cement sales and production saw another remarkable rise in May, by 71 and 59 percent, respectively, due not only to base year effects but also from higher local demand.

Consumer Spending: Consumer spending rose by 33 percent year-on-year in May, but was marginally down on a monthly basis. More specifically, POS transactions increased by 71 percent, whilst cash withdrawals were up by 11 percent year-on-year.

Industrial Sector: The monthly value of licensed investments in new factories stood at SR532 million in May, with a net increase of 41 factories during the month.

Government Finance: The net monthly change to government accounts with SAMA showed a decline by SR17.6 billion month-on-month in May. Looking ahead, we expect government reserves to decline by SR77 billion by year end, to a total of SR280 billion (versus SR357 billion currently).

SAMA Foreign Reserve Assets: SAMA FX reserves declined in May by \$3.6 billion month-on-month, to stand at \$437.2 billion. With Saudi Arabia recording a current account surplus in Q1 (when oil receipts would, on average, have been lower than in May), the recently observed decline in FX reserves is most certainly associated with financial account outflows.

Money Supply, Bank Deposits and Credit: The broad measure of money supply (M3) rose by 6.7 percent year-on-year, and by 0.4 percent month-on-month in May. Meanwhile, total bank claims continued to rise with claims on the private sector rising by 15.5 percent in May.

Inflation: Prices in May rose by 5.7 percent year-on-year, and by 0.2 percent month-on-month. 'Transport' saw the highest annual rise amongst the CPI basket groups, at 19.3 percent, pushed up by a 94 percent annual jump in 'fuels for personal transport equipment' prices.

Q1 2021 Balance of Payments: Saudi Arabia registered a current account surplus of \$8.7 billion or 5.1 percent of GDP in Q1 (vs. a deficit of \$2 billion or -1.1 percent of GDP in Q1 2020). The surplus was due to a positive trade balance as exports recovered by 78 percent year-on-year.

Oil-Global: Both Brent and WTI oil prices trended higher month-on-month in June. Besides a continued recovery in oil demand related to higher levels of global vaccine roll-out, Brent was also boosted by expectations around 1st July OPEC+ meeting. Meanwhile, the US WTI benchmark surged 10 percent higher as US commercial oil stocks continued declining.

Oil-Regional: Saudi crude oil production rose by 5 percent month-on-month in May, to 8.5 million barrels per day (mbpd). Looking ahead, Saudi oil output is expected to continue its upward trend, in-line with the planned unwinding of production.

Stock Market: TASI maintained its positive run during June, rising 4 percent month-on-month. Higher oil prices and continued optimism over the pace of both local and global vaccine roll-out seems to be the main reason behind the upward momentum.

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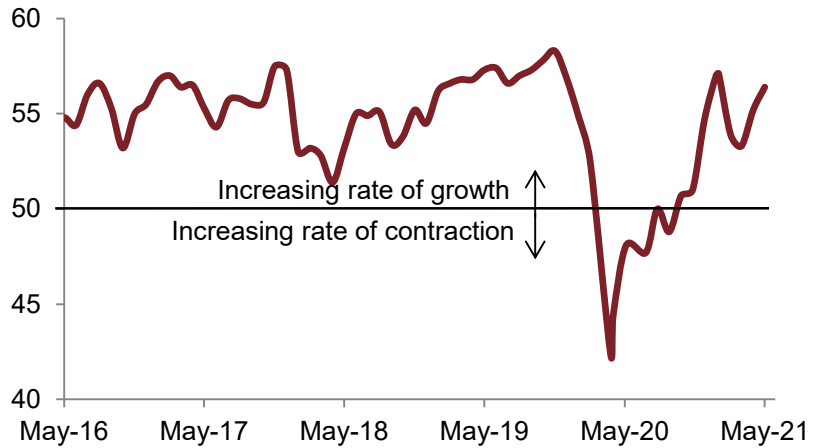


Real Economy

A number of non-oil indicators improved in May, including the non-oil PMI, which continued rising to 56.4 as activity and new orders grew. In addition, cement sales and production saw another remarkable rise in May, by 71 and 59 percent, respectively, due not only to base year effects but also from higher local demand. Lastly, large rises were also seen in non-oil exports.

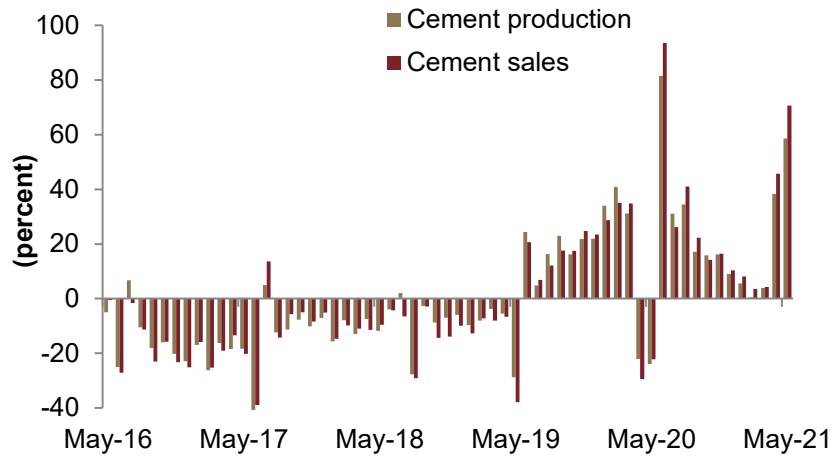
The non-oil PMI continued its positive rise to reach 56.4 in May, the highest reading since January of this year.

Non-oil Purchasing Managers' Index



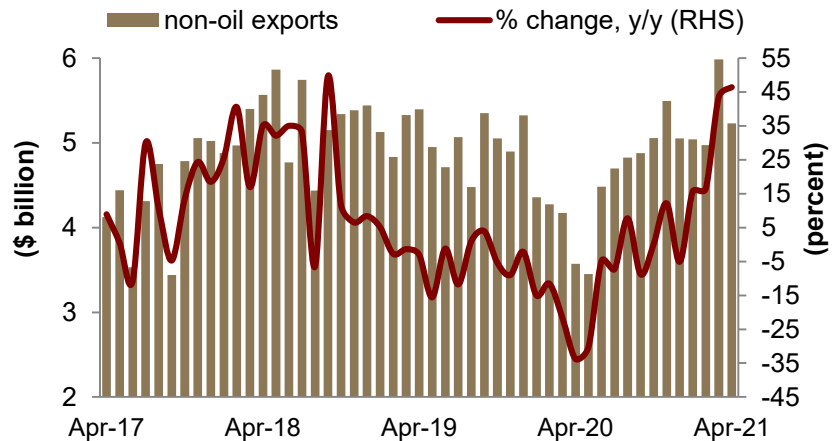
Cement sales and production saw another remarkable rise in May.

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



Meanwhile, non-oil exports saw another large rise in April, by 46 percent year-on-year, affected by a lower base year effect as global lockdowns and curfews impacted activity back in April 2020. Annual rises were significant in exports of 'petrochemicals', and 'plastics & rubber', which were up by 55 and 42 percent, respectively.

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



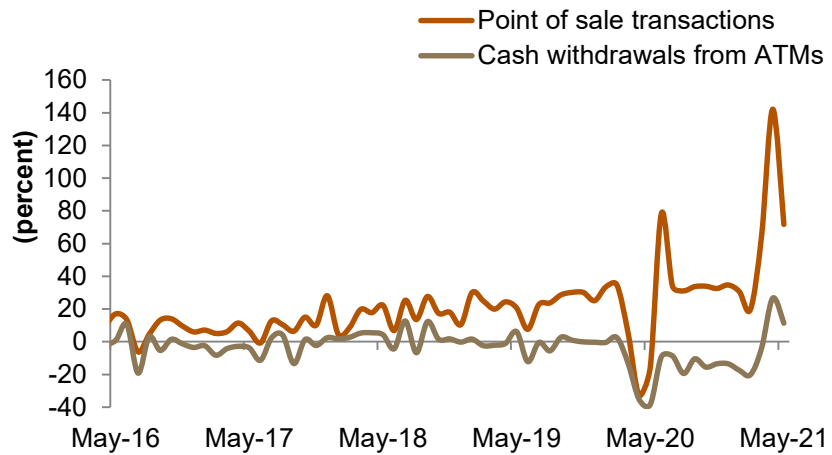


Consumer Spending

Consumer spending rose 33 percent year-on-year in May, but was marginally down on a monthly basis. More specifically, POS transactions increased by 71 percent, whilst cash withdrawals were up by 11 percent year-on-year. Looking at POS transactions by sector, 'hotels' saw the largest annual rise, jumping by more than 700 percent year-on-year.

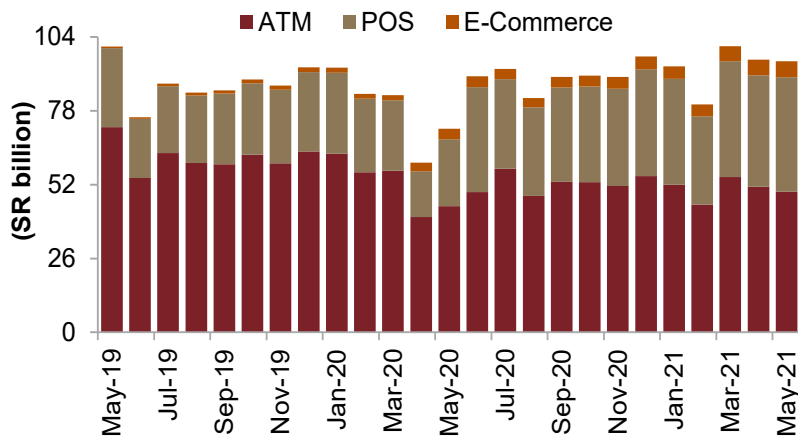
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Indicators of Consumer Spending
(year-on-year change)



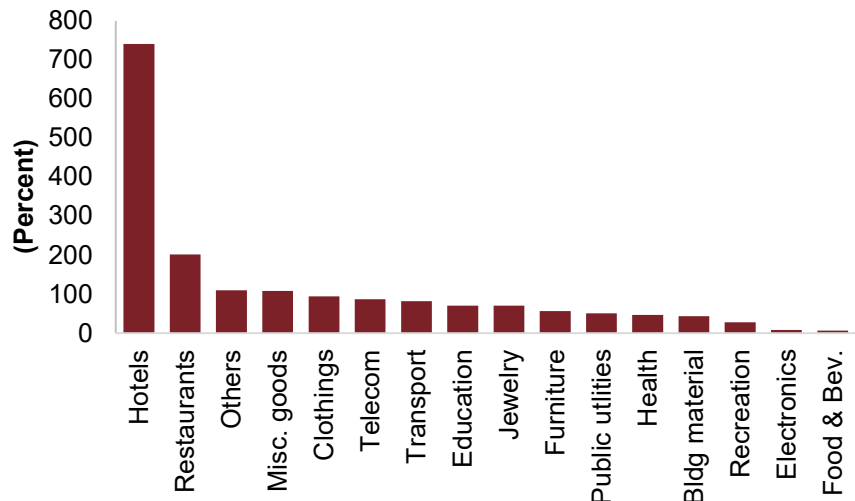
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Monthly Consumer Spending
(SR Billion)



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



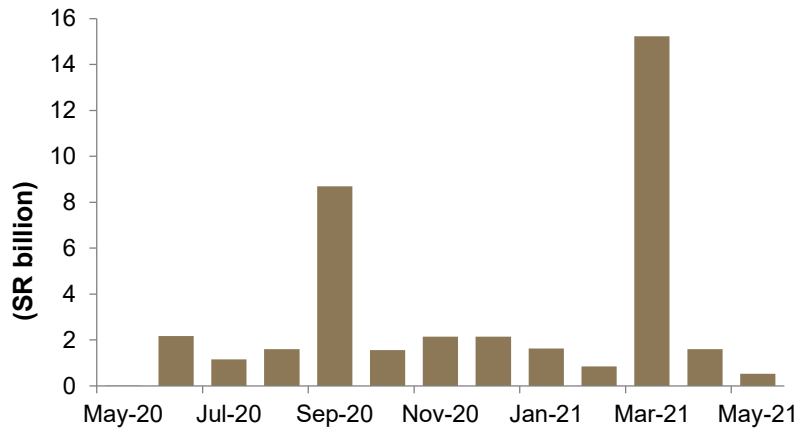


Industrial Sector

The monthly value of licensed investments in new factories stood at SR532 million in May, with a net increase of 41 factories during the month. Moreover, the month saw 6,753 net new hires in the industrial sector, with a majority being Saudi workers (at 4,320 or 64 percent) versus 2,433 (or 36 percent) foreigner workers.

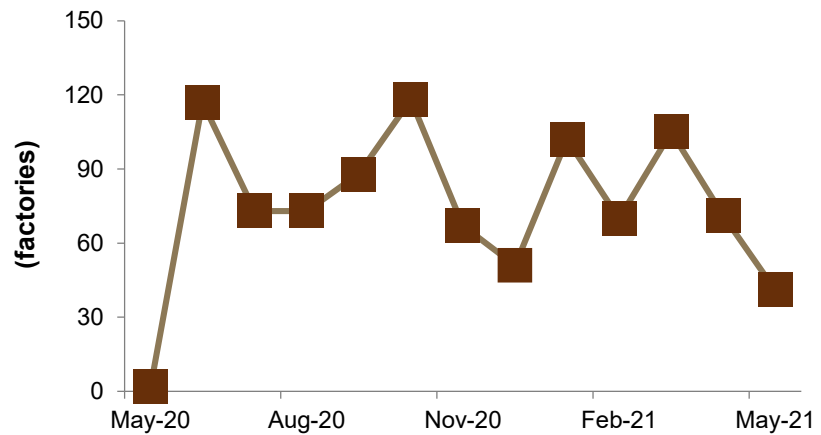
The monthly value of licensed investments in new factories stood at SR532 million in May...

Volume of Licensed Investments
(monthly total)



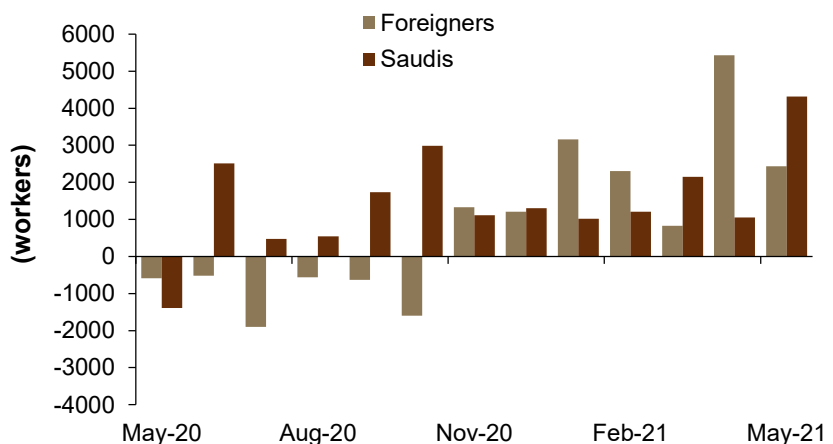
...while the number of factories increased by 41 during the month, the lowest monthly rise in a year.

Number of Licensed Factories
(monthly total)



On the other hand, net new hires continued rising by 6,753 during the month, with the majority (64 percent) being Saudis.

Number of Workers in the Industrial Sector
(monthly change)



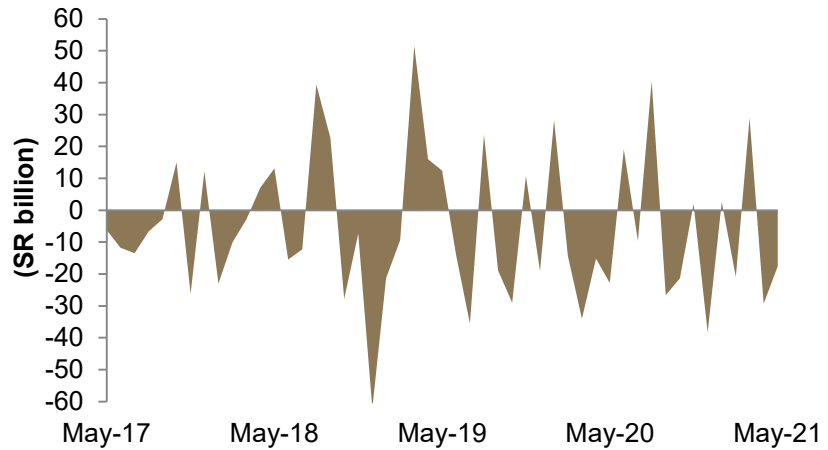


Government Finance

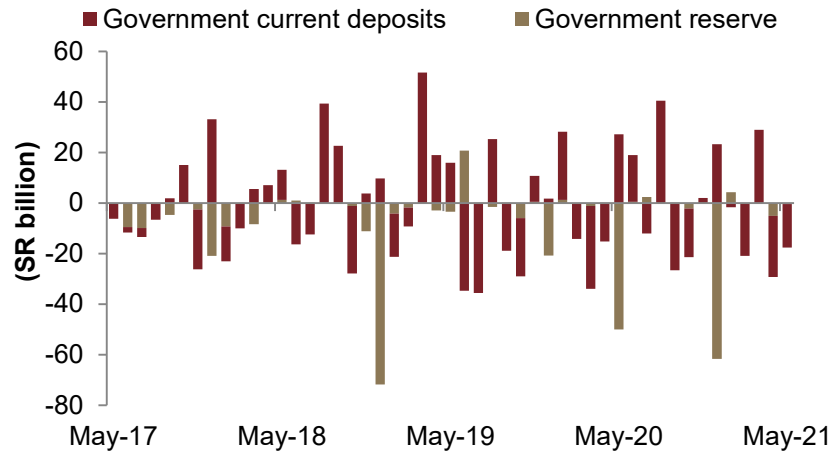
The net monthly change to government accounts with SAMA showed a decline by SR17.6 billion month-on-month in May, with 98 percent of this decline coming from government deposits, whilst a slight decline (of SR400 million) was seen in government reserves. Looking ahead, we expect government reserves to decline by SR77 billion by year end, to a total of SR280 billion (versus SR357 billion currently).

The net monthly change to government accounts with SAMA were down by SR17.6 billion month-on-month in May.

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

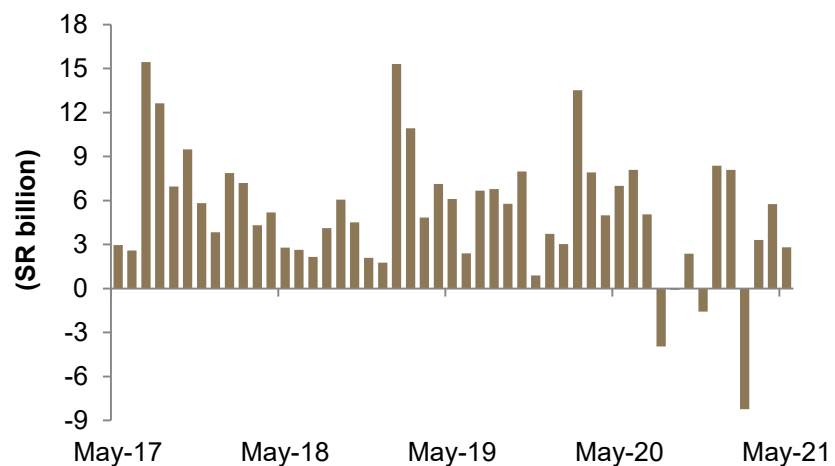


Breakdown of Government Accounts with SAMA
(month-on-month change)



The breakdown shows the decline came mostly from government deposits (by SR17 billion), whilst government reserves fell marginally by SR0.4 billion during the month. Looking ahead, we expect government reserves to decline by SR77 billion by year end, to a total of SR280 billion (versus SR357 billion currently).

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



Meanwhile, domestic banks net holdings of government bonds rose by SR2.8 billion month-on-month in May.

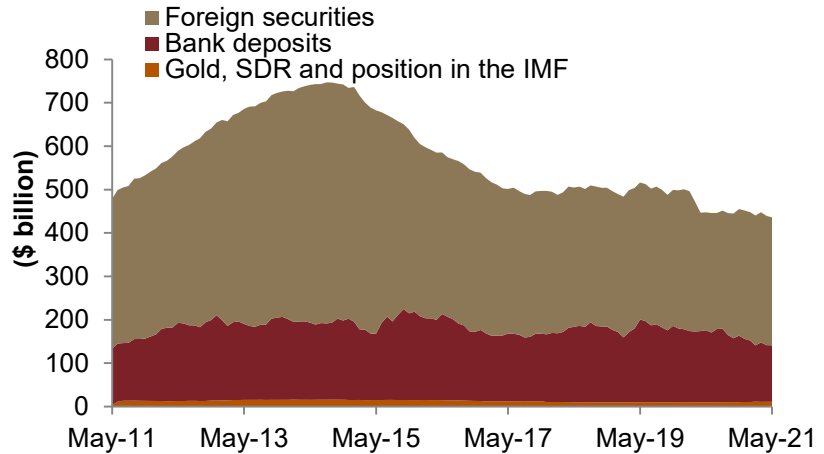


SAMA Foreign Reserve Assets

SAMA FX reserves declined in May by \$3.6 billion month-on-month, to stand at \$437.2 billion. With Saudi Arabia recording a current account surplus in Q1 (when oil receipts would, on average, have been lower than in May), the recently observed decline in FX reserves is most certainly associated with financial account outflows. Meanwhile, latest data on Saudi Arabia's net international investment position shows that over the last year net foreign equity securities investments have risen by \$45.6 billion.

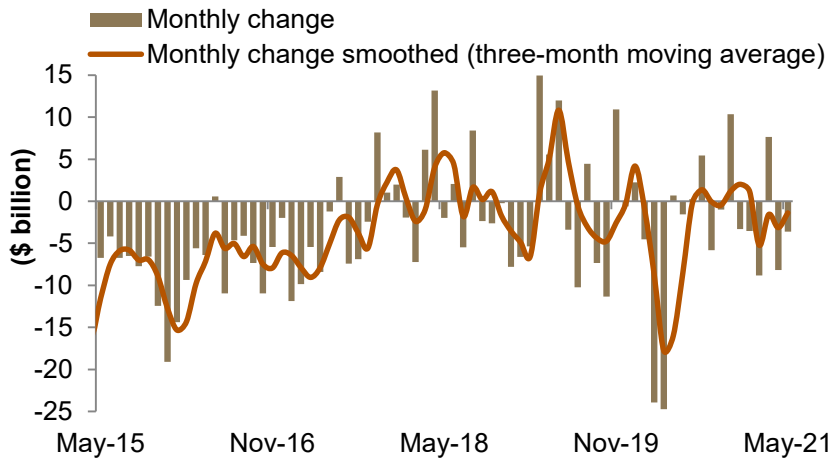
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SAMA Total Foreign Reserve Assets



SAMA Foreign Reserve Assets

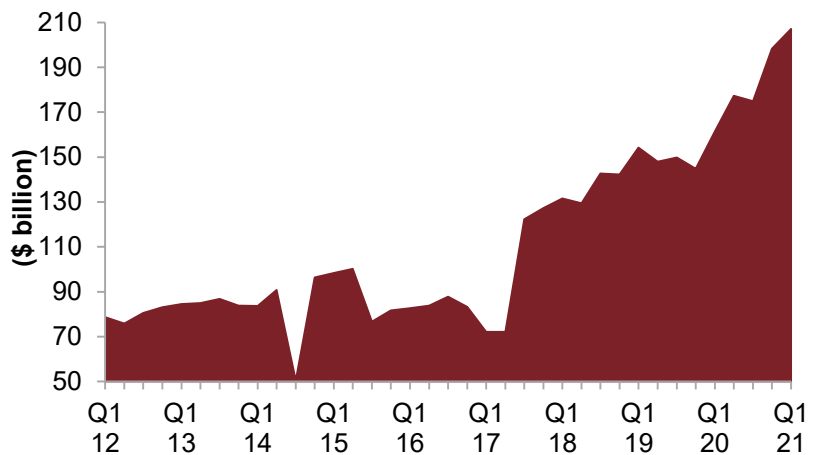
(monthly and three-month moving average change)



With Saudi Arabia recording a current account surplus in Q1 (when oil receipts would, on average, have been lower than in May), the recently observed decline in FX reserves is most certainly associated with financial account outflows.

Meanwhile, latest data on Saudi Arabia's net international investment position shows that over the last year, net foreign equity securities investments have risen by \$45.6 billion. Over the same period, SAMA's investment in foreign securities only rose by a comparatively meagre \$691 million. Taken together, this indicates more active investing by other resident institutions abroad, including, amongst others, the Public Investment Fund.

Net Foreign Equity Securities Investments



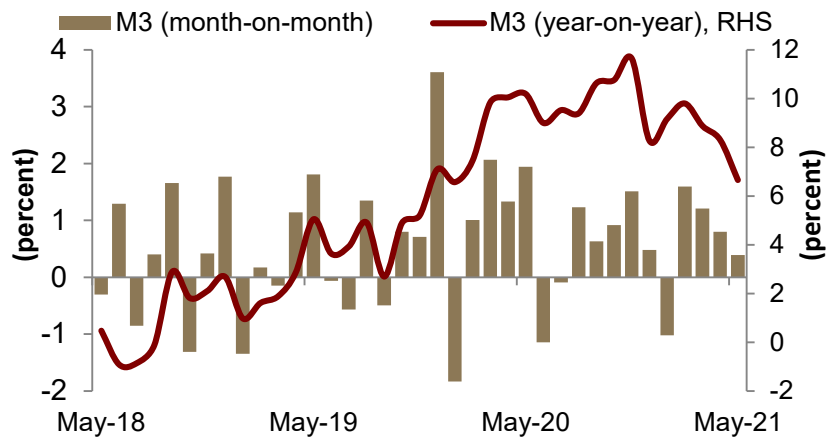


Money Supply, Bank Deposits and Credit

The broad measure of money supply (M3) rose by 6.7 percent year-on-year, and by 0.4 percent month-on-month in May. Total deposits rose by 7.5 percent year-on-year. Within this segment, 'demand deposits' were up by 7.8 percent, year-on-year, but saw a marginal decline by 0.2 percent month-on-month in May. Meanwhile, 'time and saving deposits' continued to decline during the month.

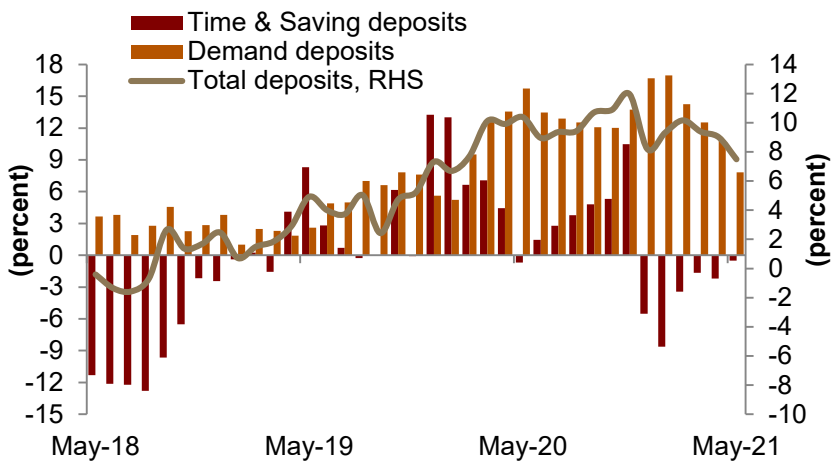
M3 rose by 6.7 percent year-on-year, and by 0.4 percent month-on-month in May.

Growth in Money Supply



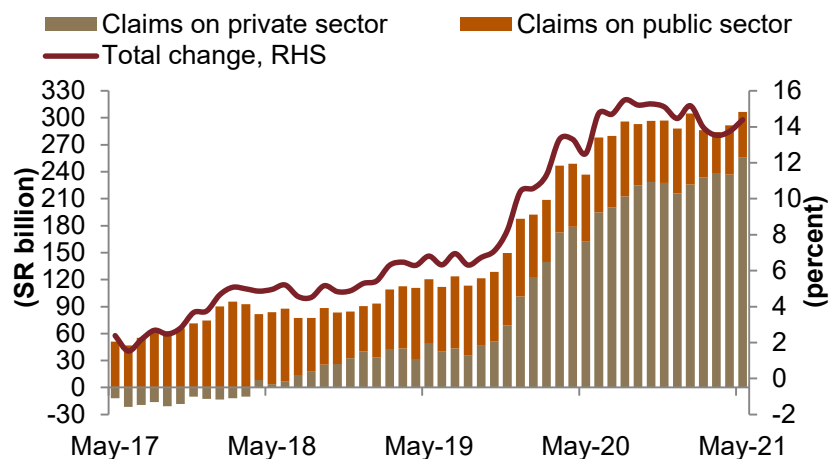
Total deposits rose by 7.5 percent year-on-year. Looking ahead, we expect to see the build in private deposits at banks to slow, or even reverse for some time during 2021, as discussed in our latest [Monetary and Financial Update](#).

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



Meanwhile, total bank claims continued to rise with claims on the private sector rising by 15.5 percent in May.

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

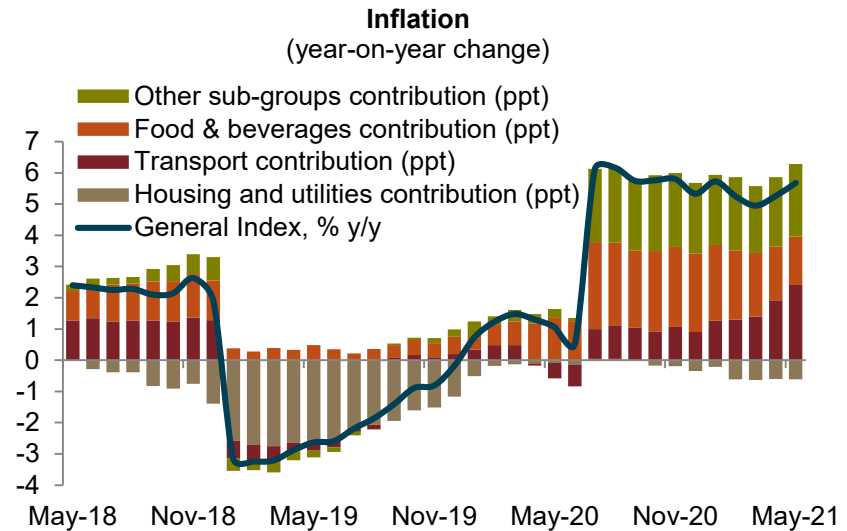




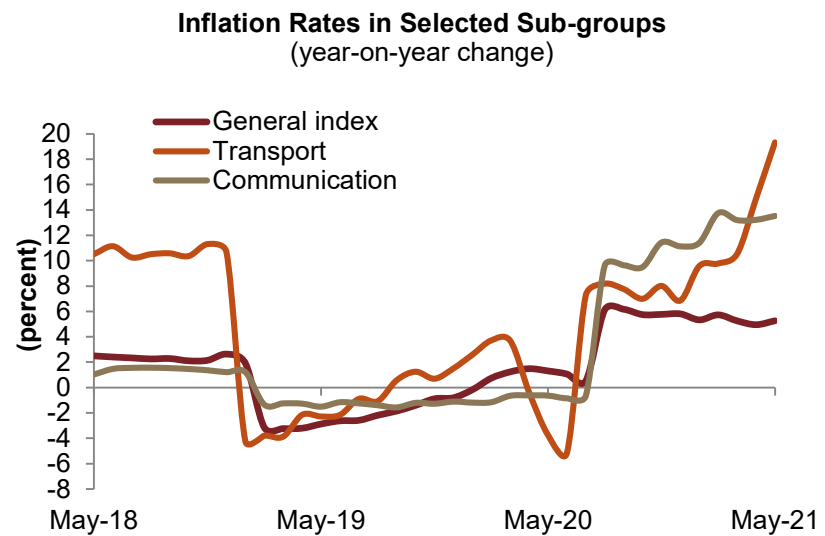
Inflation

Prices in May rose by 5.7 percent year-on-year, and by a marginal 0.2 percent month-on-month. 'Food and beverages' prices showed marginal monthly rises of 0.2 percent. Higher gasoline prices pushed 'transport' prices up by 19.3 percent year-on-year. At the same time, 'rentals for housing' continued on a deflationary trend during the month.

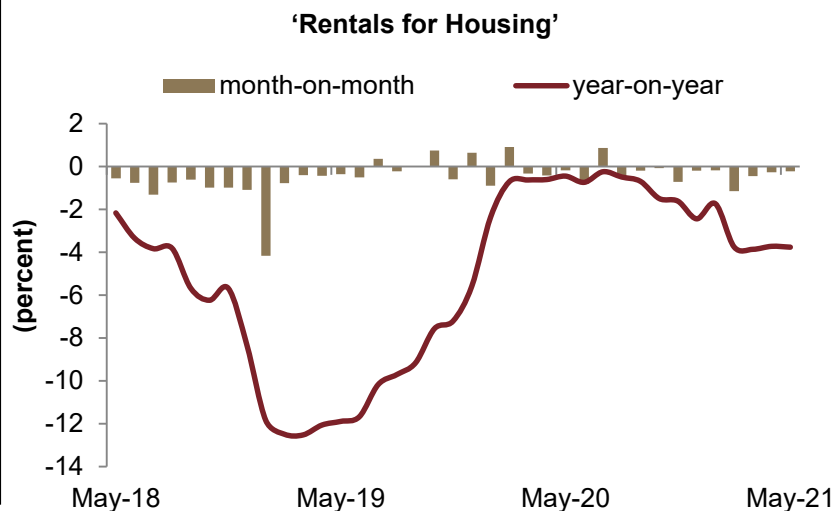
Prices in May rose by 5.7 percent year-on-year, and by 0.2 percent month-on-month.



'Transport' saw the highest annual rise amongst the CPI basket groups at 19.3 percent, pushed by a 94 percent annual jump in 'fuels for personal transport equipment' prices.



'Rentals for Housing' continued to see declining prices, albeit at a slower rate, declining by 3.8 percent year-on-year and by 0.2 percent month-on-month.





Q1 2021 Balance of Payments

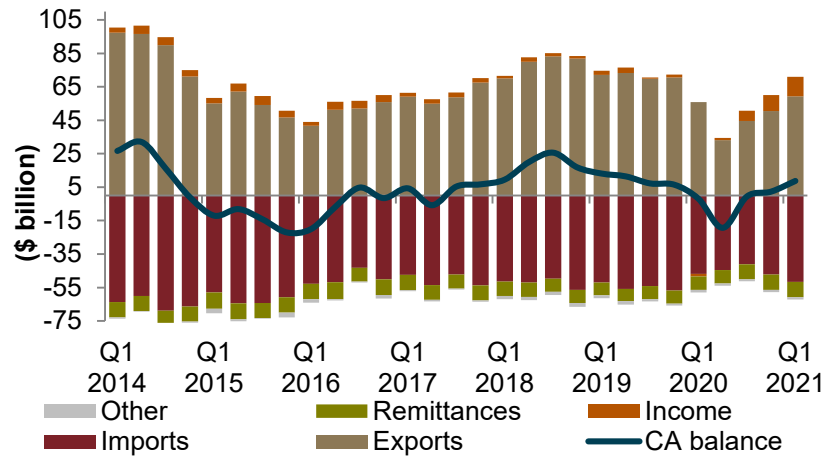
Saudi Arabia registered a current account surplus of \$8.7 billion or 5.1 percent of GDP in Q1 2021 (vs. a deficit of \$2 billion in Q1 2020 or -1.1 percent of GDP). The surplus was due to a positive trade balance as exports recovered by 78 percent year-on-year. The current account was also helped by a significant rise in primary income, which hit \$11.7 billion during the quarter.

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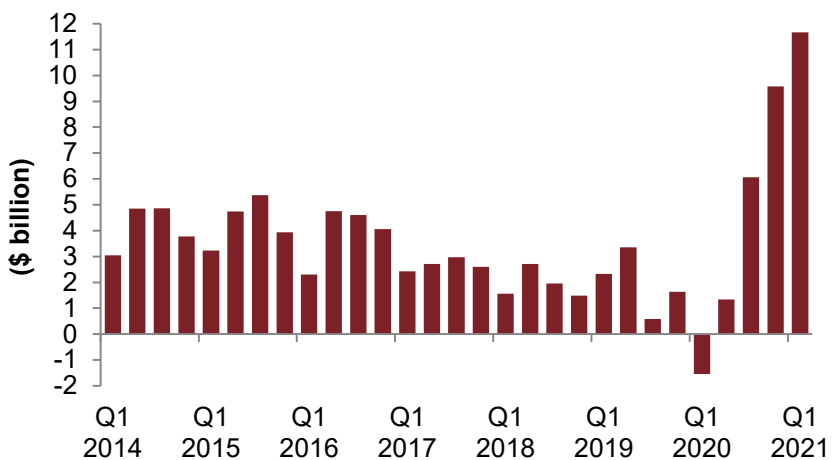
The current account was also helped by a significant rise in primary income, which hit \$11.7 billion during the quarter. Within this segment, net investment income inflows totaled \$13.6 billion during the quarter, the highest on record.

At the same time, remittances remained at recent record highs, up 16 percent compared to same period last year, but virtually unchanged quarter-on-quarter, at \$9.3 billion

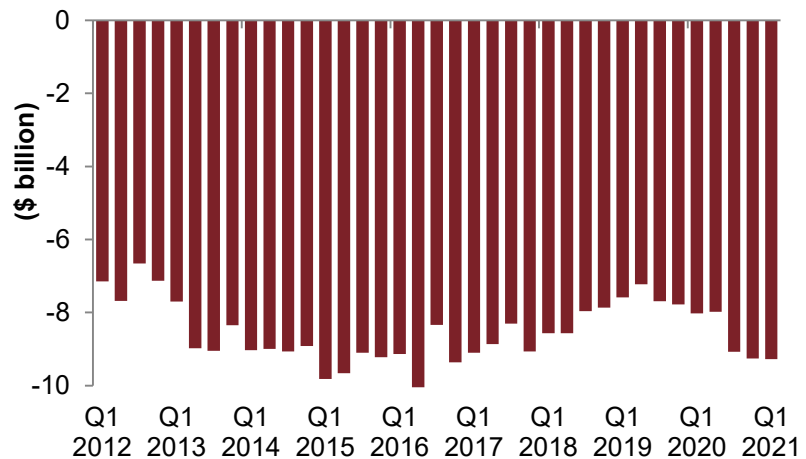
Current Account Balance
(quarterly actual)



Primary Income
(quarterly actual)



Remittances
(quarterly actual)

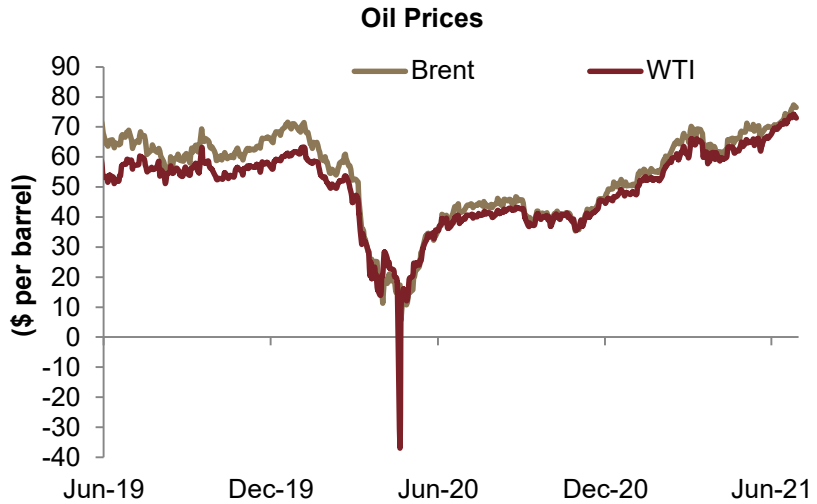




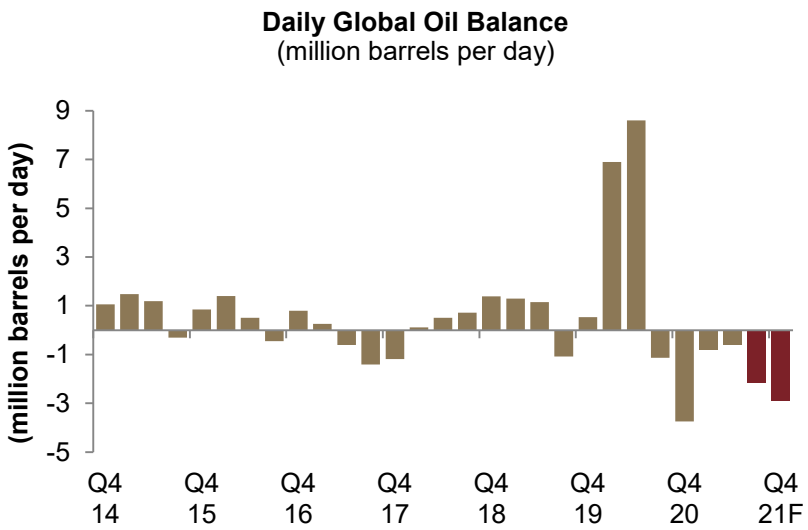
Oil - Global

Both Brent and WTI oil prices trended higher month-on-month in June. Besides the continued recovery in oil demand related to higher levels of global vaccine roll-out, Brent was also boosted by expectations around 1st July OPEC+ meeting. More specifically, whilst many observers expect OPEC+ to raise oil output from August onwards, there is a risk the alliance may not raise output high enough to reduce the expected deficit in oil markets in H2 2021.

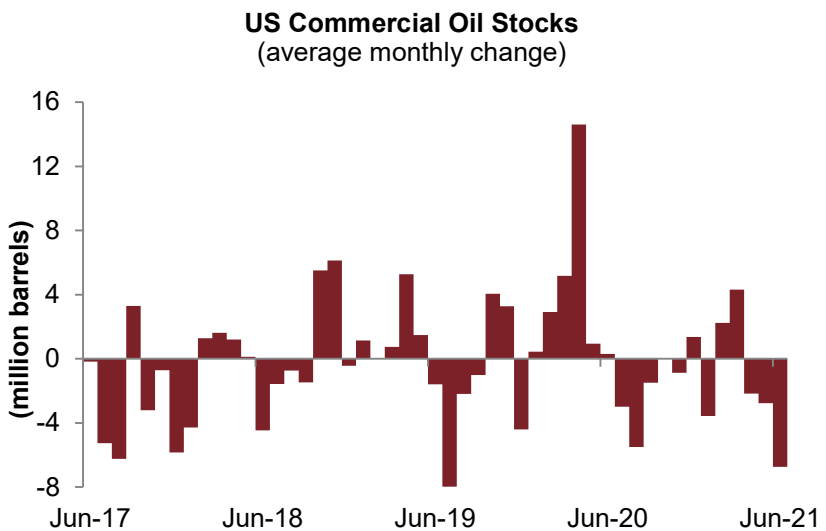
Brent rose 5 percent in June, month-on-month, to an average of \$73 per barrel.



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Meanwhile, the US WTI benchmark surged 10 percent higher in June as US commercial oil stocks continued declining. Additional declines in stocks are expected in the next couple of months as the summer driving season takes off, resulting in higher gasoline demand.



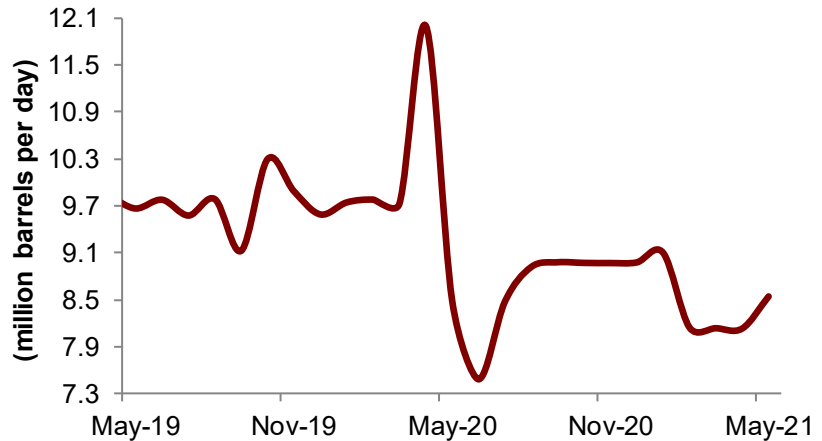


Oil - Regional

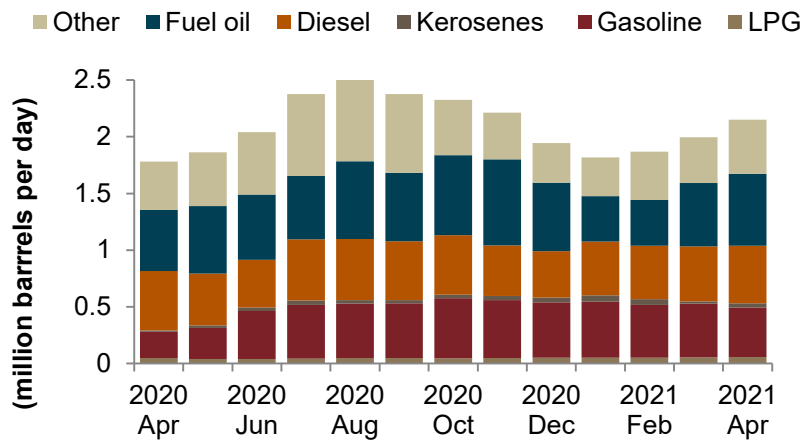
Saudi crude oil production rose by 5 percent month-on-month in May, to 8.5 million barrels per day (mbpd). Looking ahead, Saudi oil output is expected to continue its upward trend, in-line with the planned unwinding of production. Meanwhile, provisional unofficial data for June showed Saudi oil exports averaging 5.8 mbpd, a decline of 8 percent over May's export of 6.4 mbpd.

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Average Monthly Saudi Crude Oil Production
(direct communication)

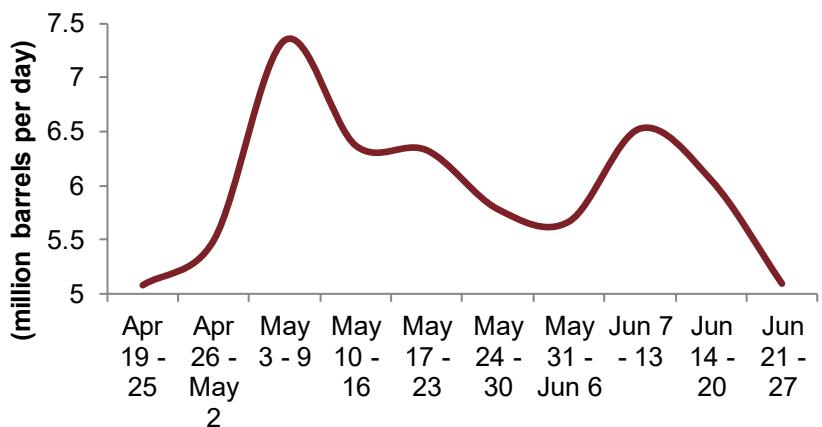


Saudi Domestic Liquid Energy Consumption
(monthly)



Meanwhile, latest data on domestic liquid energy consumption averaging 2.2 mbpd, up 25 percent year-on-year and 6 percent over March's level.

Saudi Crude Oil Exports
(weekly average)



Meanwhile, provisional unofficial data for June showed Saudi oil exports averaging 5.8 mbpd, a decline of 8 percent over May's exports of 6.4 mbpd. The expected monthly decline is consistent with higher seasonal domestic liquid consumption (for electricity generation) over the summer months.



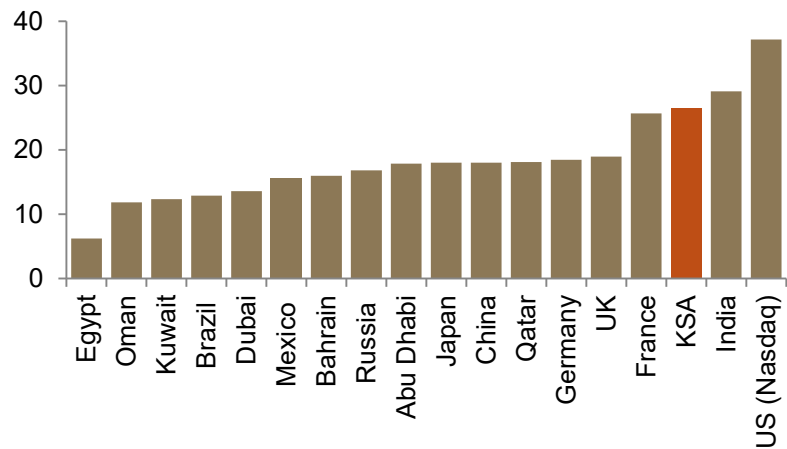
Stock Market

TASI maintained its positive run during June, rising 4 percent month-on-month. Higher oil prices and continued optimism over the pace of both local and global vaccine roll-out seems to be the main reason behind the upward momentum. That said, currently, a price-to-earnings ratio of 26 puts the Saudi Stock Exchange in the more expensive end of the spectrum versus both major regional and international peers.

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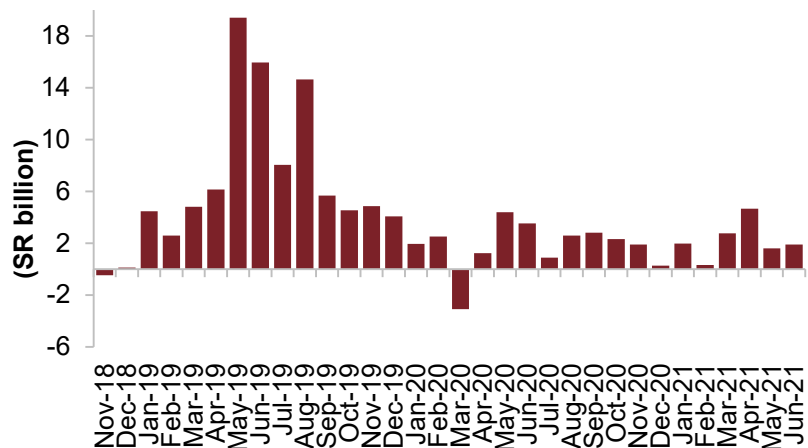


Comparative Price-to-Earnings Ratio
(June 2021)



That said, currently, TASI looks comparatively expensive in relation to most major regional and international peers...

Net Purchases of SWAPs and Buying by QFIs
(monthly total)



...although this does not seem to have deterred foreign investors, as net purchases of SWAPs and buying by qualified foreign investors (QFIs) rose by SR1.8 billion (\$503 million) during the month.



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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	2,949	2,974	2,625	3,045	3,292
(\$ billion)	756	654	645	689	787	793	700	812	878
(% change)	1.3	-13.5	-1.4	6.8	14.2	0.8	-11.7	16.0	8.1
Real GDP (% change)									
Oil**	2.1	5.3	3.6	-3.1	3.1	-3.6	-6.7	-0.7	9.4
Non-oil private sector**	5.4	3.4	0.1	1.5	1.9	3.8	-3.1	3.1	2.9
Non-oil government**	3.7	2.7	0.6	0.7	2.9	2.2	-0.5	1.5	1.0
Total	3.7	4.1	1.7	-0.7	2.4	0.3	-4.1	1.3	5.1
Oil indicators (average)									
Brent (\$/b)	99	52	43	54	71	66	42	62	65
Production (million b/d)	9.7	10.2	10.4	10.0	10.3	9.8	9.2	9.0	9.7
Budgetary indicators (SR billion)									
Government revenue	1,044	616	519	692	906	926	770	888	938
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	-102	-17
(% GDP)	-3.4	-15.7	-17.2	-9.2	-5.9	-4.5	-11.3	-3.3	-0.5
Gross public debt	44	142	317	443	560	678	854	937	1013
(% GDP)	1.6	5.8	13.1	17.1	19.0	22.8	32.5	30.8	30.8
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	122	177	211
Total export revenues	342	204	184	222	294	262	175	235	274
Imports	158	159	128	123	126	140	120	126	126
Trade balance	184	44	56	98	169	121	55	109	147
Current account balance	74	-57	-24	10	72	38	-11	41	61
(% GDP)	9.8	-8.7	-3.7	1.5	9.2	4.8	-1.6	5.0	7.0
Official reserve assets	732	616	536	496	497	500	454	462	480
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	24,189	24,318	21,984	25,337	27,176

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.