



Summary

Real Economy: POS sale transactions were down 1 percent and ATM withdrawals down 11 percent year-on-year, reflecting slower activity due to Eid al-Fitr holidays. Meanwhile, cement sales and production dropped to their lowest level since September 2008.

Balance of Payments: Q1 2017 data showed the current account moved into a surplus for the first time since Q3 2014. This was mainly due to a notable improvement in exports and a decline in imports.

Government Finance: In June, the net monthly change to government accounts with SAMA came out negative, falling by SR11.7 billion. The majority of these declines were due to net withdrawals from government reserves.

SAMA Foreign Reserve Assets: SAMA foreign reserve assets rose by \$1.6 billion in June, the first month-on-month increase since May 2016. This likely reflects an improving current account, the recent international sukuk issuance in April, and lower seasonal spending by government, during the summer months.

Bank Lending and Deposits: Total bank deposits rose by SR36 billion, the highest month-on-month increase since February 2015.

Money Supply: Money supply rose by 1.5 percent, year-on-year, the largest rise since January 2016. A yearly increase in time & savings and demand deposits and an improvement in quasi-money bank deposits helped push up money supply in June.

Inflation: The deflationary trend seen since the beginning of 2017 continued into June, with inflation 0.4 percent lower than the same time last year.

Real Estate Prices: Real estate prices improved slightly quarter-on-quarter in Q2 2017, but they remain in negative territory year-on-year.

Oil - Global: Brent oil prices were up 5 percent, and WTI up 3 percent, month-on-month in July.

Oil - Regional: Saudi crude oil production was up marginally, by 1 percent, month-on-month in June, but still remains below the Kingdom's agreed reference output level of 10.06 mbpd.

Exchange Rates: The dollar lost ground against most currencies in July as political developments in the US clouded the outlook of dollar.

Stock Market: TASI was down 4.6 percent month-on-month in July as profit taking and cautious investor behavior, during Q2 2017 company reporting period, affected the market.

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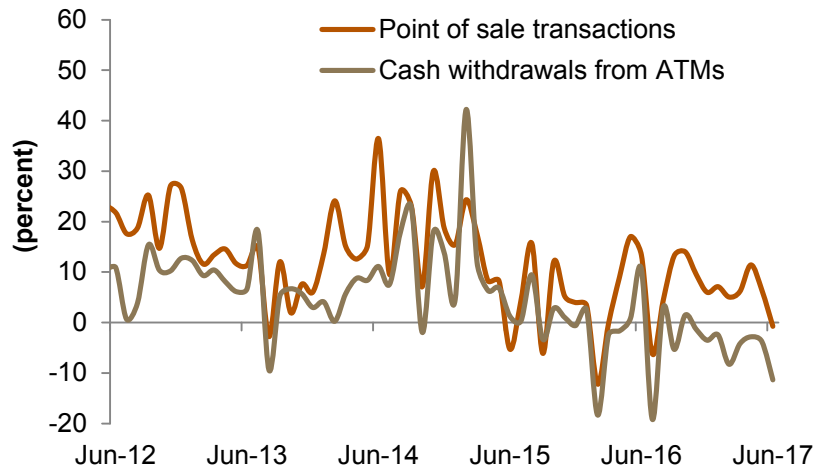


Real Economy

June data showed signs of slower economic activity. POS sale transactions were down 1 percent year-on-year, reflecting slower activity due to Eid al-Fitr holidays, with the previous yearly decline being observed in July 2016, also during Eid al-Fitr holidays. For similar reasons, ATM transactions showed their largest declines, down 11 percent, since July 2016.

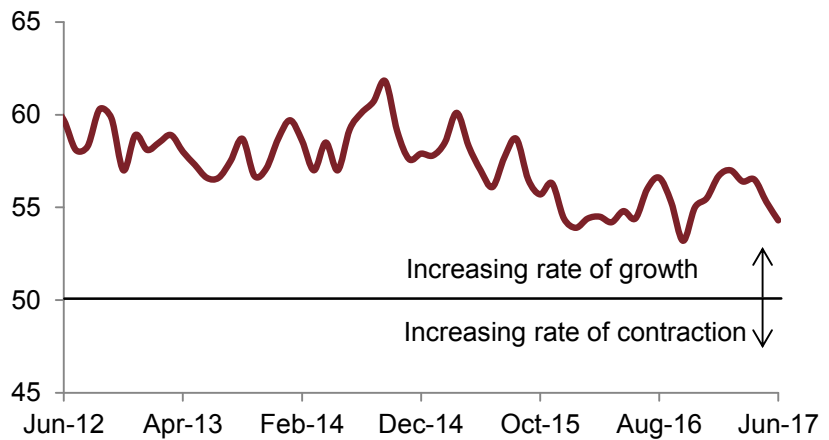
POS sale transactions were down 1 percent and ATM down 11 percent year-on-year, reflecting slower activity due to Eid al-Fitr holidays.

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



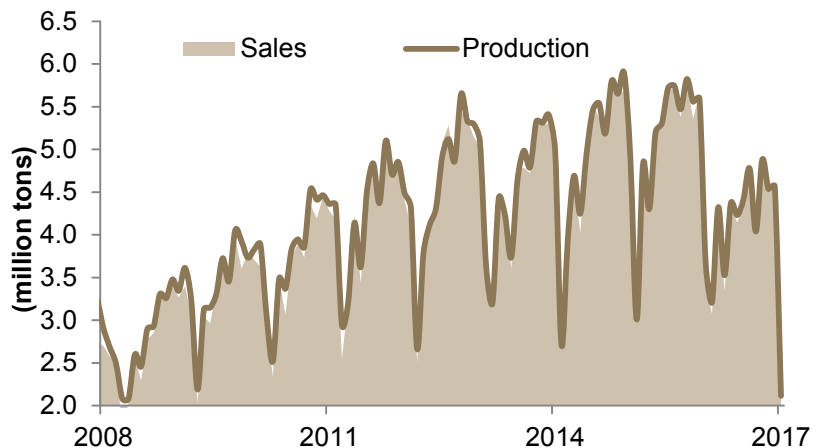
Non-oil PMI also dropped to 54.3 in June, but remains pointing to expansionary activity.

Purchasing Managers' Index



Meanwhile, a difficult year so far for the cement sector was underlined by June data, which showed the lowest level of production and sales of cement since September 2008.

Cement Sales





Balance of Payments

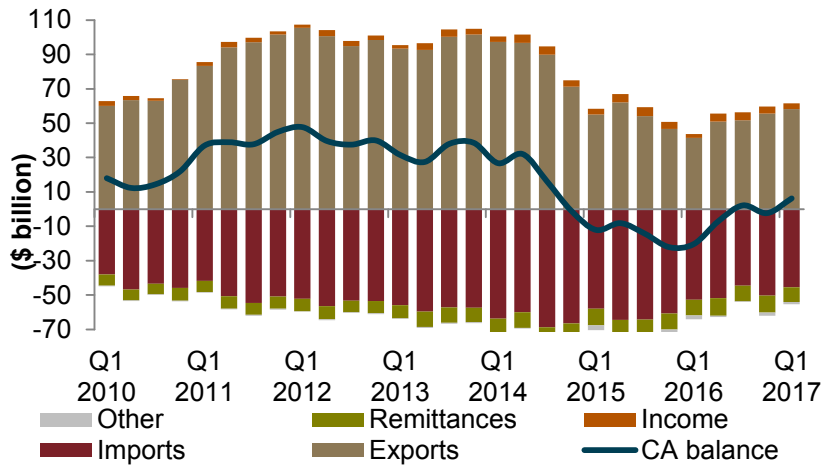
Q1 2017 data showed that the current account moved into a surplus for the first time since Q3 2014. This was mainly due to notable improvement in exports, which were up 41 percent year-on-year, and a decline in imports, which were down 14 percent year-on-year. Meanwhile, remittances by foreign workers declined to \$8.5 billion, the lowest since Q4 2013.

The current account moved into a surplus at \$6 billion, compared to -\$2.3 billion in Q4 2016 and -\$20.3 billion a year ago. Also, the current account balance was revised to -\$28 billion in 2016 as a whole, compared to -\$25 billion, due to higher than previously stated imports.

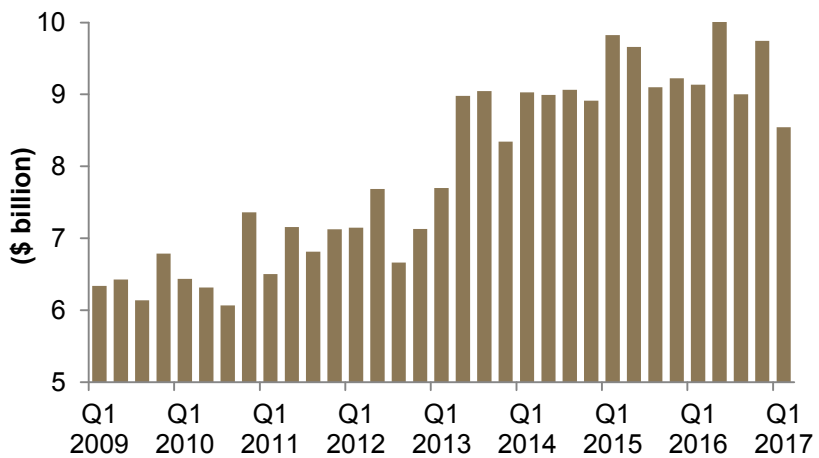
Meanwhile, remittances declined to \$8.5 billion, the lowest since Q4 2013...

...although, going forward, the introduction of expat dependency fees, since July 2017, could lead to a rise in the number of expat dependents being repatriated and, concurrently, a rise in remittances.

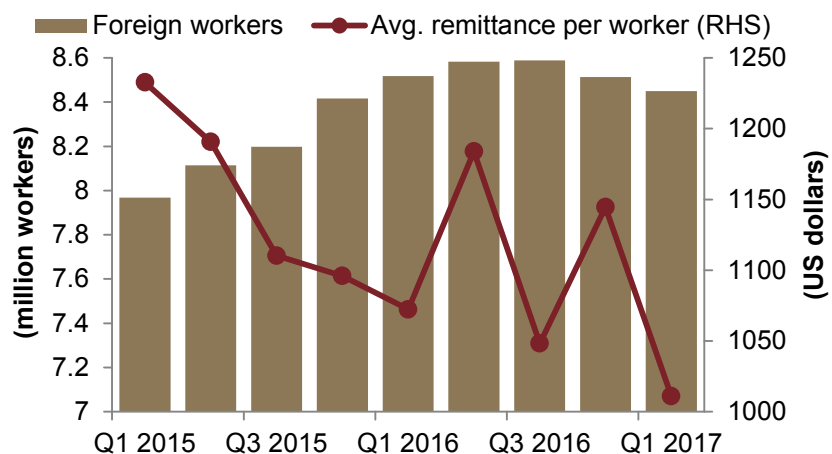
Current Account Balance



Remittances (\$ billion)



Remittances per Foreign Worker (\$ per worker)



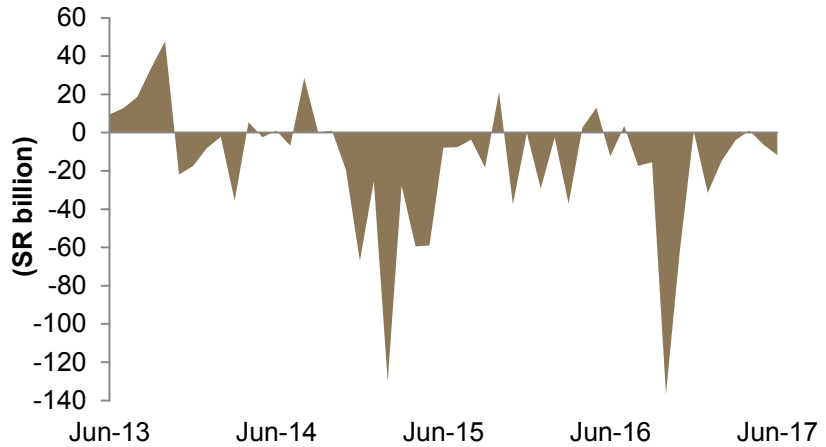


Government Finance

In June, the net monthly change to government accounts with SAMA came out negative, falling by SR11.7 billion. The majority of the declines were due to net withdrawals from government reserves. Meanwhile, banks net holdings of government bonds rose marginally during the month, but are expected to rise more sizably in the coming months, due to the government's domestic sukuk program.

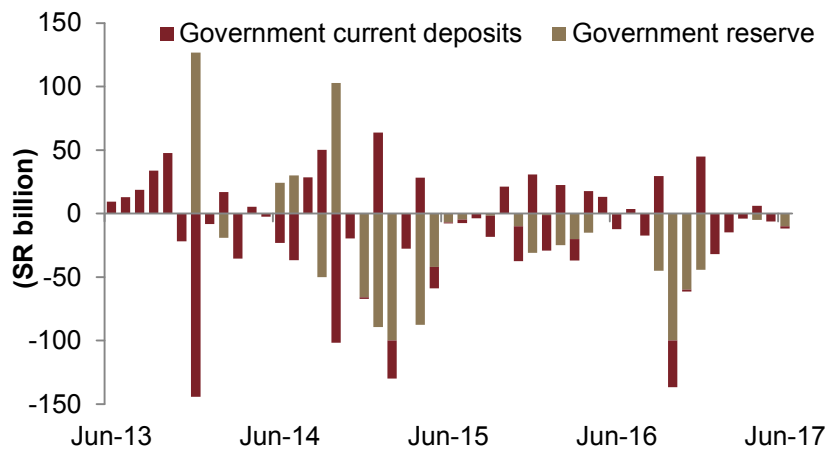
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Net Change to Government Accounts with SAMA
(month-on-month change)



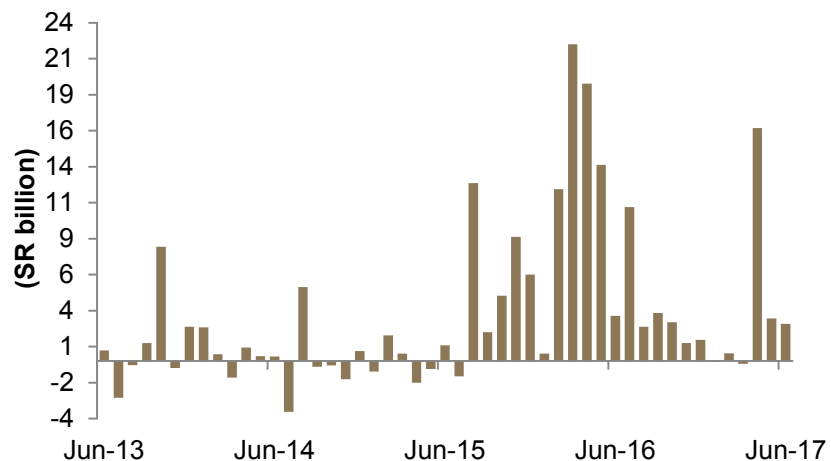
...with the majority of the declines due to net withdrawals from government reserves.

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



The government commenced a domestic sukuk program, the first of which totaled SR17 billion, but could total SR70 billion during 2017 as a whole. As such we expect banks net holdings of government bonds to rise in the months ahead.

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



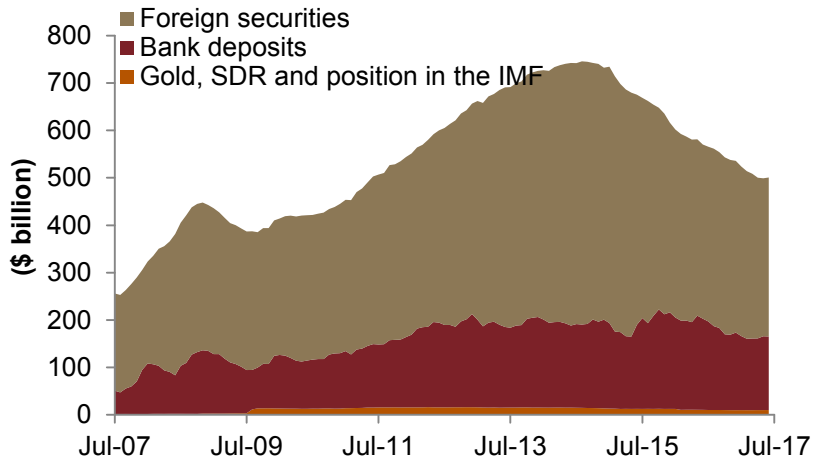


SAMA Foreign Reserve Assets

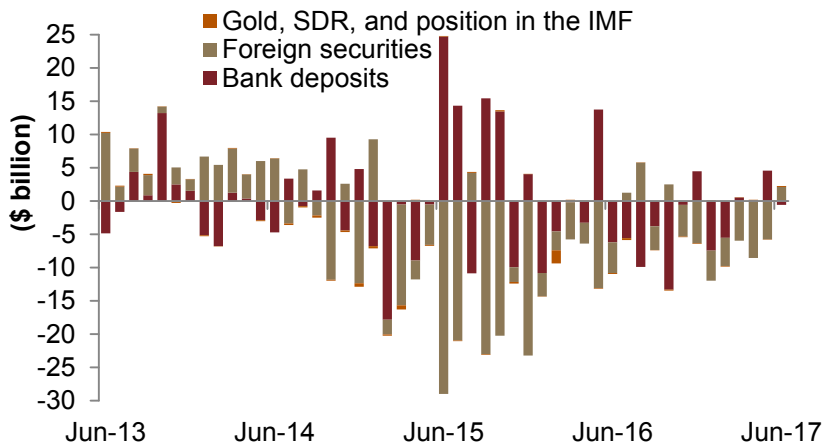
SAMA foreign reserve assets rose by \$1.6 billion in June, the first month-on-month increase since May 2016. This likely reflects an improving current account, the recent international sukuk issuance in April, and lower seasonal spending by government, during the summer months. As a result, foreign reserve coverage rose marginally and remains at comfortable levels to finance imports.

SAMA foreign reserve assets rose by \$1.6 billion in June...

SAMA Total Foreign Reserve Assets

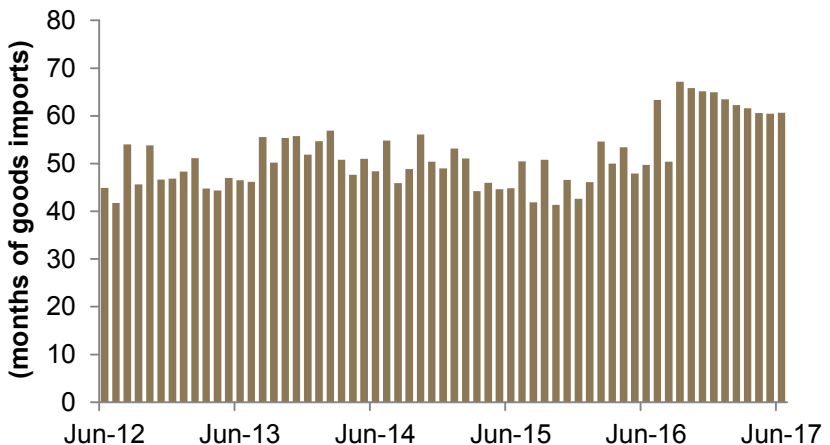


SAMA Foreign Reserve Assets (month-on-month change)



...with the increase coming from a rise in foreign securities.

Foreign Reserve Coverage of Goods Imports



As a result, foreign reserve coverage rose marginally during the month and remains at comfortable levels to finance imports, for 61 months.

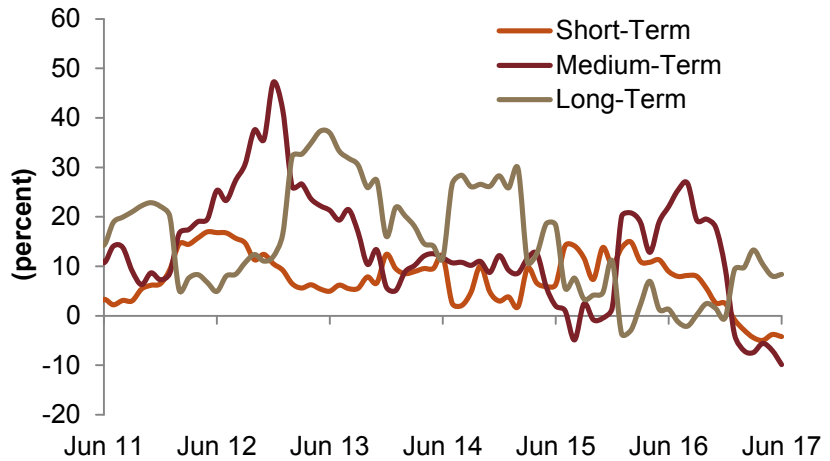


Bank Lending and Deposits

Year-on-year bank credit in June remained in the negative territory for both short and medium term credit, but long-term credit continued to show strong growth. Meanwhile, total bank deposits rose by SR36 billion, the highest month-on-month increase since February 2015. The combination of rising deposits and slowing credit led to the loan-to-deposit ratio to fall to its lowest figure since January 2015, at 86.4.

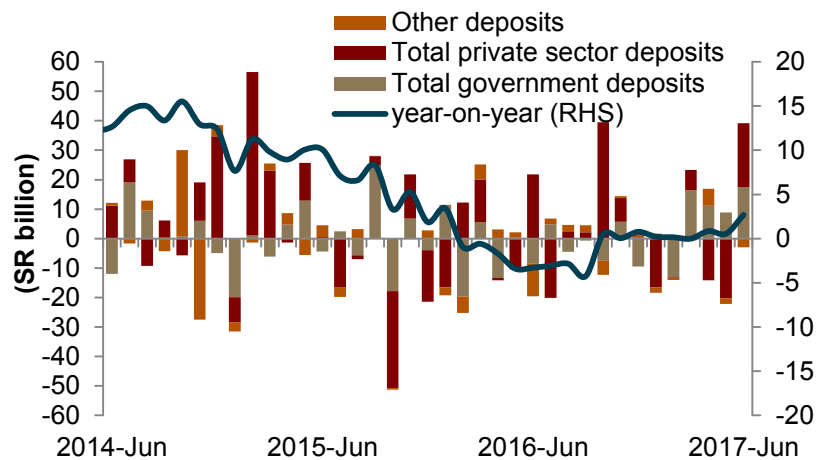
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Bank Credit by Maturity
(year-on-year change)



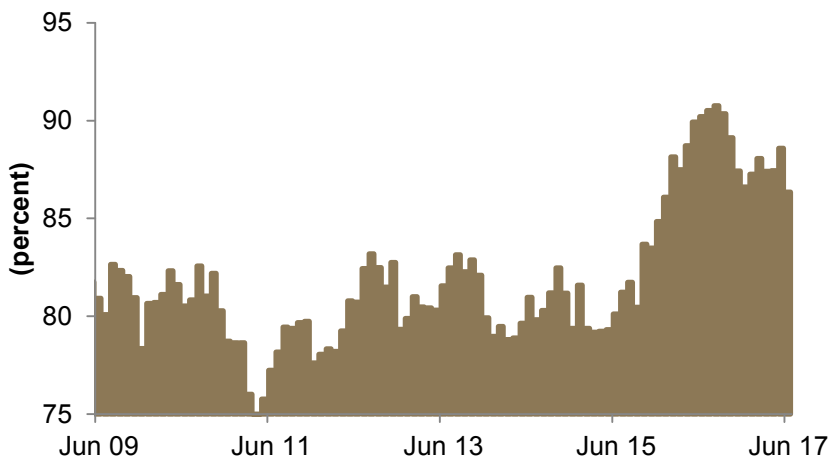
Total bank deposits rose by SR36 billion, the highest month-on-month increase since February 2015, with both government and private sector deposits rising. The rise in private sector deposits was due to a rise in both time & savings and quasi-money bank deposits.

Total Bank Deposits
(month-on-month)



The combination of rising deposits and slowing credit led to the loan-to-deposit ratio to fall to its lower figure since January 2015, at 86.4.

Loan-to-Deposit Ratio





Money Supply

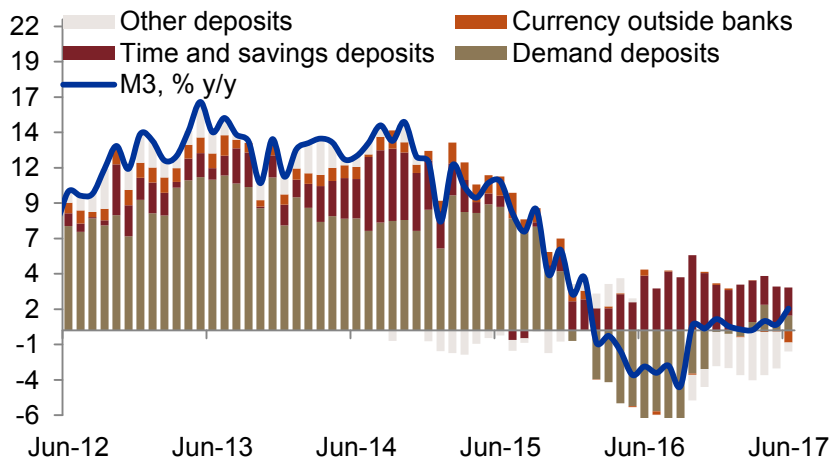
Money supply rose by 1.5 percent year-on-year in June, the largest rise since January 2016. Although a yearly increase in time & savings and demand deposits contributed to the rise, an improvement in quasi-money (Other) bank deposits also helped push up money supply. Provisional weekly data shows the uptick in money supply is likely to continue into July.

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Money Supply (M3)
(year-on-year change)

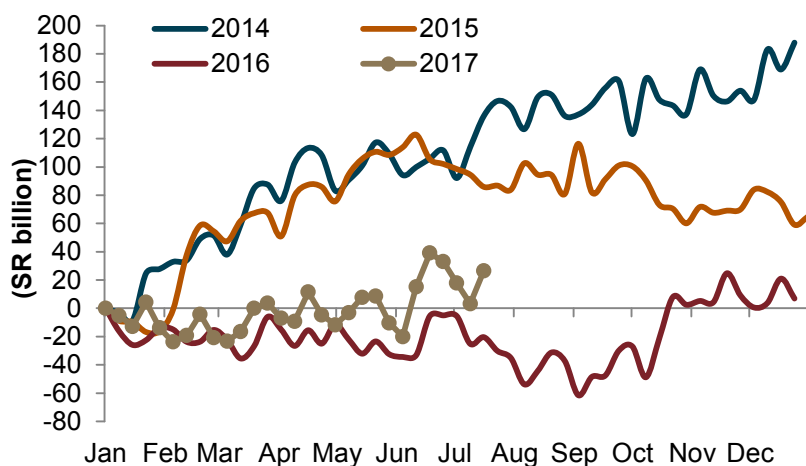


Contribution to Money Supply (M3) Growth
(year-on-year change)



Although a yearly increase in time & savings and demand deposits contributed to the rise, an improvement in quasi-money (other) bank deposits also helped push up money supply in June.

Money Supply (M3)
(weekly data)



Provisional weekly data shows the uptick in money supply is likely to continue into July.



Real Estate Price Index

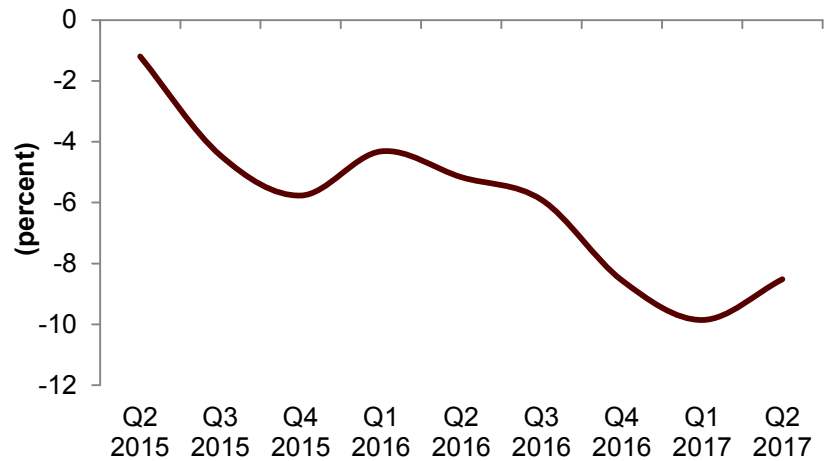
Real estate prices improved slightly quarter-on-quarter in Q2 2017, but remain in the negative territory year-on-year, down 8 percent. Overall, real estate prices were down by 8.5 percent year-on-year with both commercial and residential showing negative growth. The commercial market in Riyadh exhibited the worst performance, at -16.7 percent year-on-year.

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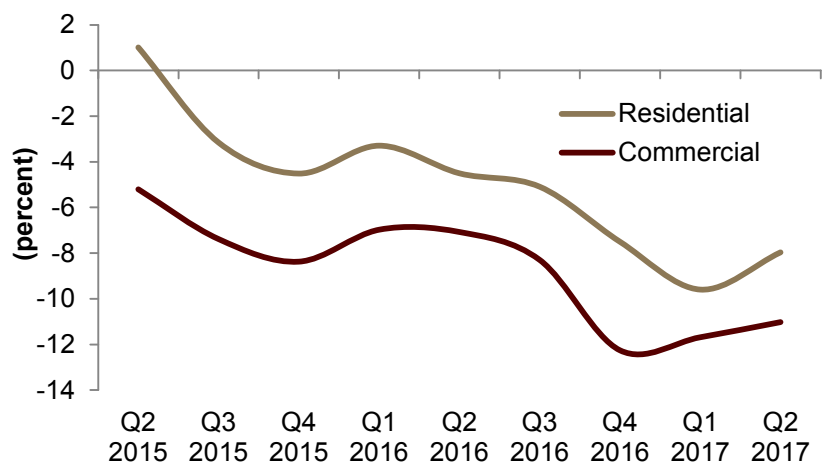
Overall, real estate prices were down by 8.5 percent year-on-year with both commercial and residential segments showing negative growth.

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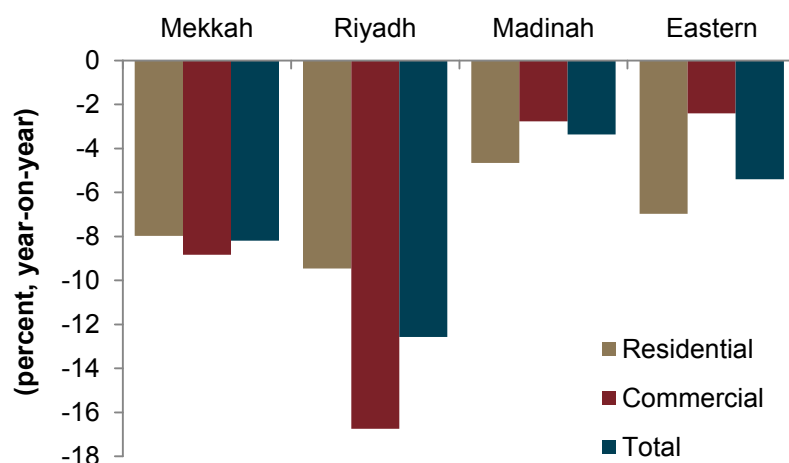
Real Estate Price Index
(year-on-year change)



Real Estate Price Index by Type
(year-on-year change)



Real Estate Price Index by City/Region
(year-on-year change)





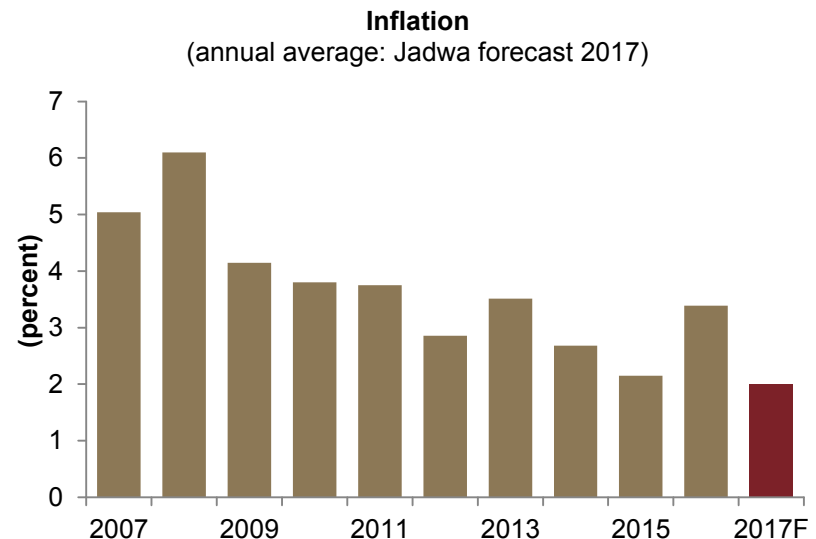
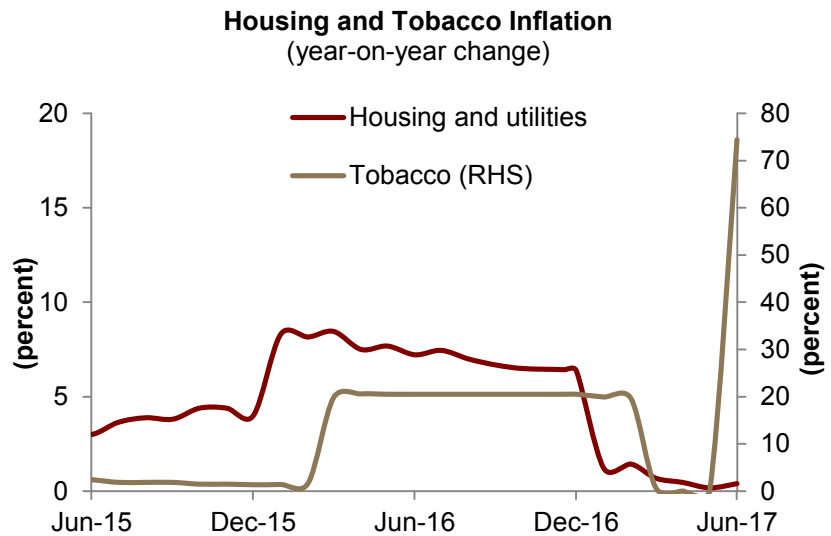
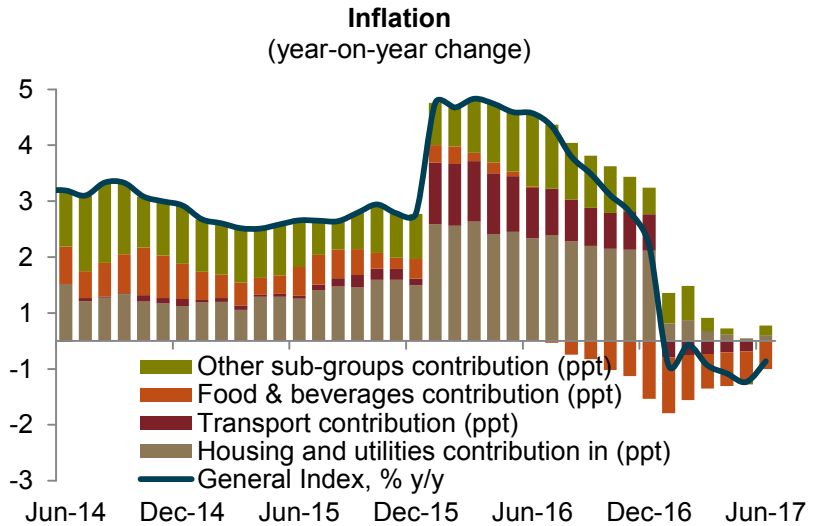
Inflation

The deflationary trend seen since the beginning of 2017 continued into June, with inflation 0.4 percent lower than the same time last year. Although the tobacco segment rose 75 percent year-on-year, following a tax on tobacco and sugary drinks, due to its very small contribution to overall inflation, the impact was negligible.

Deflation continued in June, with prices 0.4 percent lower than the same time last year.

The tobacco segment rose 75 percent year-on-year, following a tax on tobacco and sugary drinks, but due to its very small contribution to overall inflation, the impact was negligible. Meanwhile, the government delayed linking household electricity prices to a higher reference price, as was expected in mid-2017...

...although prices could still be hiked later in the year it still puts a downside risk to Jadwa's current inflation forecast of 2 percent for 2017, as a whole.

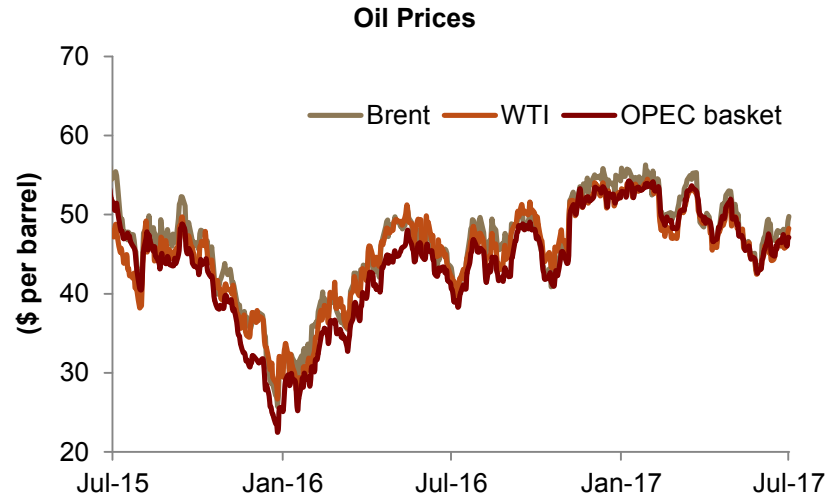




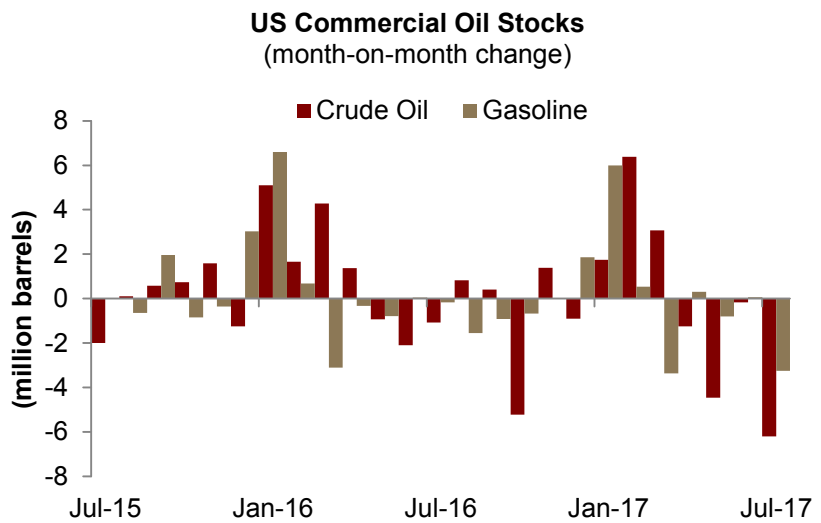
Oil - Global

Brent oil prices were up 5 percent, and WTI up 3 percent, month-on-month in July. Market sentiment has improved mildly in recent weeks with higher seasonal demand expected to lend some support to prices in the near term. Oil markets were further boosted by the conclusion of an OPEC meeting where Nigerian production was capped and Saudi Arabia pledged to limit oil exports in August.

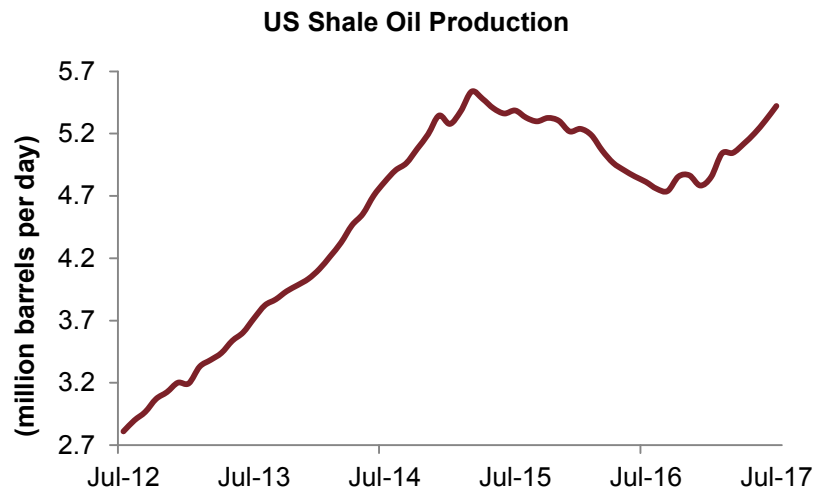
Brent oil prices were up 5 percent, and WTI up 3 percent, month-on-month in July...



...as market sentiment improved due to declining US oil and gasoline stocks and positive developments following an OPEC meeting where Saudi Arabia pledged to limit oil exports in August.



Nevertheless, oil markets are still vulnerable to downside risks, partly due to rising US shale oil supply, which is currently close to all-time record highs.



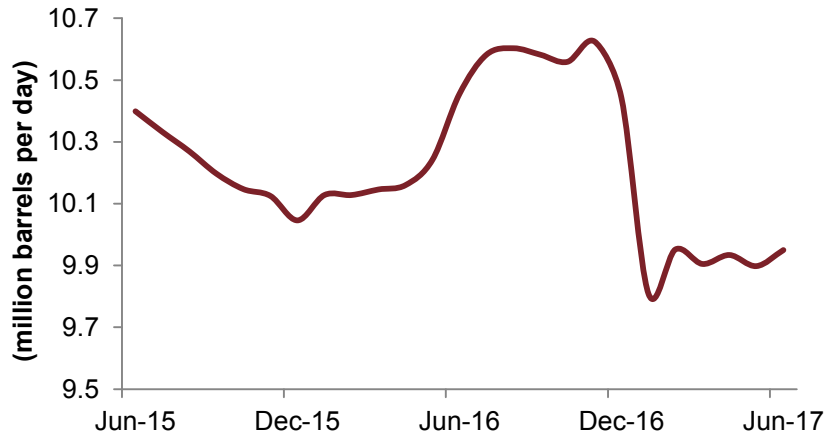


Oil - Regional

Saudi crude oil production was up marginally, by 1 percent, month-on-month in June, but still remains below the Kingdom's agreed reference output level of 10.06 mbpd. OPEC production rose sharply during the month as a result of higher Libyan and Nigerian production. Further rises in production from both countries could push OPEC output back above 33 mbpd, close to pre-cut levels.

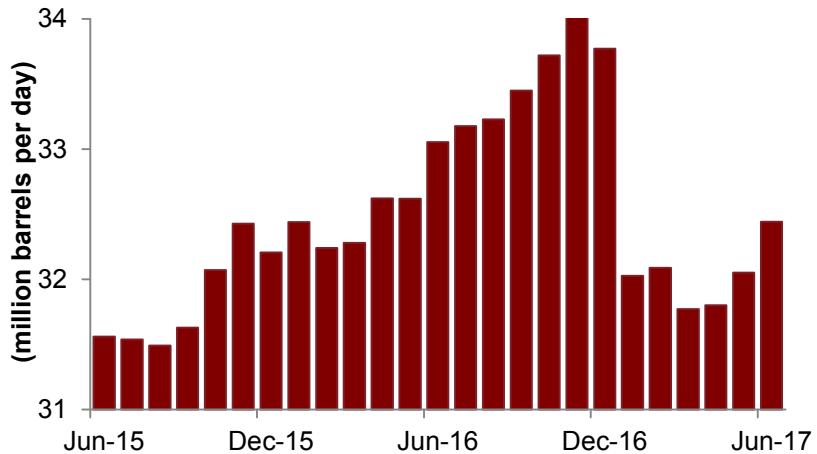
Whilst Saudi crude oil production remained below reference output levels in June...

Saudi Oil Production
(secondary sources: June 2017)

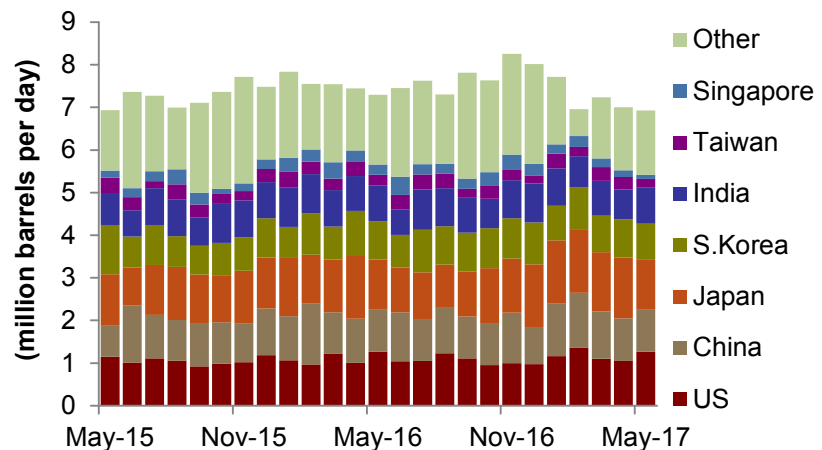


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OPEC Oil Production
(secondary sources: June 2017)



Saudi Crude Oil Exports
(May 2017)



That said, Saudi Arabia has pledged to limit oil exports to around 6.6 mbpd in the month of August, which is roughly 300 tbpd lower than the latest available data for May. This should help cap OPEC supply.

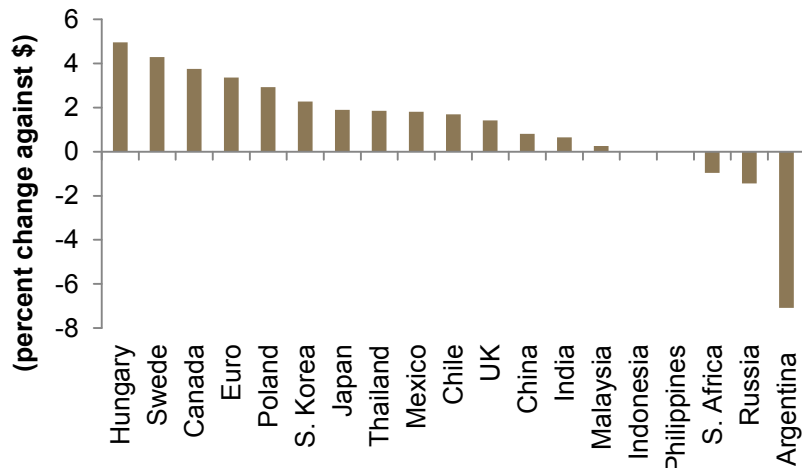


Exchange Rates

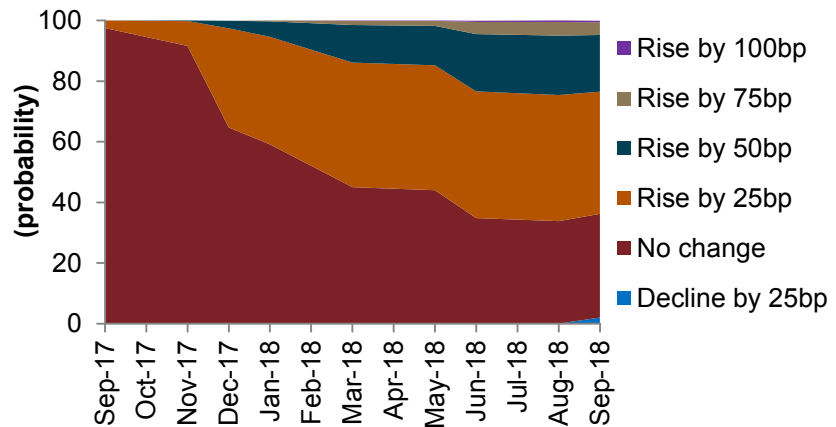
The dollar lost ground against most currencies in July as political developments in the US clouded the outlook of dollar. Many policies planned by the US administration, such as tax reform and fiscal stimulus, that may have resulted in pushing interest rates up, and therefore increasing dollar strength, now look difficult to implement.

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Monthly Gain/Loss Against US Dollar
(July 2017)



US Interest Rate Rise Probability



Latest survey data shows that the market expects no change in interest rates during most of 2017, with some even predicting a decline in US interest rates next year.

UK Pound/US Dollar



As a result of dollar weakness, the UK pound hit its highest point against the dollar in almost a year.



Stock Market

TASI was down 4.6 percent month-on-month in July. The decline was largely as a result of profit taking following last month's spike in TASI after MSCI announced that the Saudi bourse would be reviewed for inclusion into its Emerging Market Index. Additionally, cautious investor behavior, as a listed companies began to report Q2 2017 financial results, added to declines.

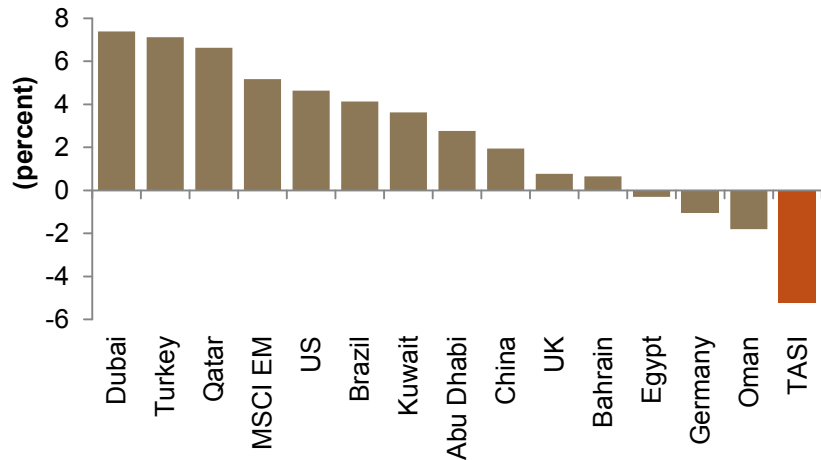
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TASI



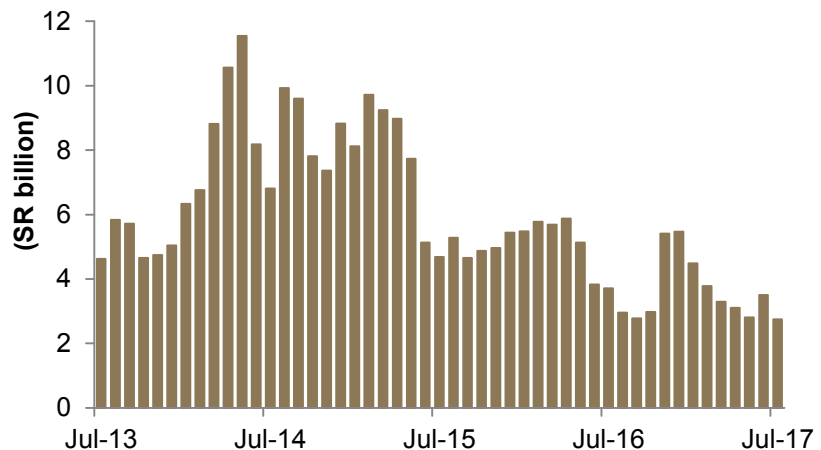
Comparative Stock Market Performance
(month-on-month change)

...making it one of the worst performing indices during the month.



Daily Average Stock Market Turnover
(monthly average)

Cautious investor behavior, as a listed companies began to report Q2 2017 financial results, added to declines, which was also reflected in market turnover.





Key Data

	2010	2011	2012	2013	2014	2015	2016	2017F	2018F
Nominal GDP									
(SR billion)	1,976	2,517	2,760	2,800	2,836	2,444	2,424	2,642	2,857
(\$ billion)	527	671	736	747	756	652	646	705	762
(% change)	22.8	27.4	9.6	1.5	1.3	-13.8	-0.8	10.2	8.1
Real GDP (% change)									
Oil	-0.1	12.2	5.1	-1.6	2.1	5.27	3.8	-1.2	0.2
Non-oil private sector	9.7	8.0	5.6	7.0	5.4	3.41	0.1	1.2	1.2
Non-oil government	7.4	8.4	5.3	5.1	3.7	2.72	0.6	0.5	0.4
Total	5.0	10.0	5.4	2.7	3.7	4.11	1.7	0.1	0.6
Oil indicators (average)									
Brent (\$/b)	79.8	112.2	112.4	109.6	99.4	52.1	43.2	54.5	60.8
Saudi (\$/b)	77.5	103.9	106.1	104.2	95.7	49.4	40.6	51.5	56.8
Production (million b/d)	8.2	9.3	9.8	9.6	9.7	10.2	10.4	10.2	10.2
Budgetary indicators (SR billion)									
Government revenue	742	1,118	1,247	1,156	1,044	616	528	708	911
Government expenditure*	654	827	873	976	1,110	978	930	890	929
Budget balance	88	291	374	180	-66	-362	-402	-182	-18
(% GDP)	4.4	11.6	13.6	6.4	-2.3	-14.8	-16.6	-6.9	-0.6
Gross public debt	167	135	99	60	44	142	317	433	628
(% GDP)	8.5	5.4	3.6	2.1	1.6	5.8	13.1	16.4	22.0
Monetary indicators (average)									
Inflation (% change)	3.8	3.7	2.9	3.5	2.7	2.2	3.4	2.0	4.7
SAMA base lending rate (% , end year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5	3.0
External trade indicators (\$ billion)									
Oil export revenues	215	318	337	322	285	157	136	163	185
Total export revenues	251	365	388	376	342	204	182	212	236
Imports	97	120	142	153	158	159	128	140	143
Trade balance	154	245	247	223	184	44	58	72	94
Current account balance	67	159	165	135	74	-57	-28	-15	1
(% GDP)	12.7	23.6	22.4	18.1	9.8	-8.7	-4.3	-2.1	0.1
Official reserve assets	445	544	657	726	732	616	534	488	452
Social and demographic indicators									
Population (million)	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.6	33.3
Saudi Unemployment (15+, %)	11.2	12.4	12.1	11.7	11.7	11.5	12.5	12.3	11.8
GDP per capita (\$)	19,211	23,827	25,471	25,223	24,962	21,014	20,365	21,607	22,911

Sources: Jadwa Investment forecasts for 2017 and 2018. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.



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