



Summary

Real Economy: Whilst both yearly POS transactions and ATM cash withdrawals declined in June, the non-oil Purchasing Managers' Index rose for the sixth consecutive month.

SAMA Foreign Reserve Assets: SAMA FX reserves declined for the first time in four months, by \$4.2 billion month-on-month in June, although we expect this trend to reverse in July as financial inflows related to the EUR3 billion (SR13 billion) debut euro bond issuance are received.

Money Supply: The broad measure of money supply (M3) continued to exhibit strong yearly rises, with a 3.6 percent rise registered in June. Looking ahead, more frequent weekly data, for three weeks of July, suggests a slowing down of M3 on both a monthly and yearly basis.

Bank Deposits: Total bank deposits continued rising, by 3.9 percent year-on-year in June. An aggregate rise in both time & saving deposits and demand deposits led to a rise in total deposits.

Bank Credit: Total bank claims continued to show strong yearly growth, with a rise of 6.2 percent recorded in June despite claims on the public sector dropping by 12 percent over the same period.

Inflation: Prices continued to decline in June, by 1.4 percent year-on-year, but edged up month-on-month by 0.2 percent. The yearly decline in "housing and utilities" also continued during June, by 7.2 percent.

Real Estate: According to the Real Estate Price Index, published by the General Authority for Statistics (GaStat), prices continued to show declines in Q2 2019. More specifically, residential real estate prices exhibited the largest declines.

Q2 2019 Fiscal Update: Higher government expenditure (SR294 billion) than revenue (SR261 billion) resulted in a fiscal deficit of SR33.5 billion during Q2 2019, and resulted in pushing H1 2019 fiscal balances into a mild deficit of SR5.6 billion.

Oil-Global: Brent oil price were down by 2 percent as trade related issues weighed in on the outlook for the benchmark. Meanwhile, WTI prices were up by 5 percent following a sizable decline in US commercial oil inventory during the month.

Oil-Regional: Latest available official data for May shows that Saudi oil exports declined to 6.9 mbpd, with unofficial survey data showing similar levels of exports in June, but a significant ramp up in exports in the latter half of July.

Exchange Rates: Better than anticipated Q2 US GDP growth, at 2.1 percent year-on-year, lent support to the US dollar, despite a near certainty of a decline in interest rates.

Stock Market: TASI was down marginally, by 1 percent month-on-month, in July. Looking ahead, profit taking, prior to the closure of TASI for Eid Al-Adha holidays during the week of 11th August, could pressure the index further.

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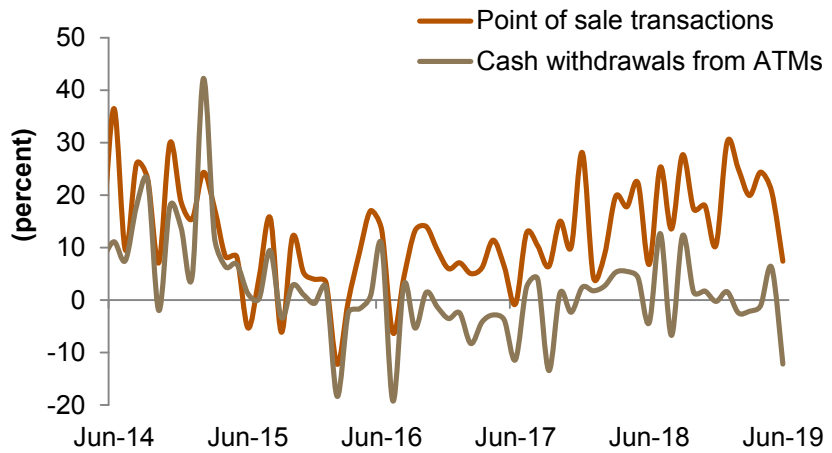


Real Economy

During June, both POS transactions and ATM cash withdrawals exhibited comparatively weaker growth. Whereas POS transactions were positive, they slowed markedly in comparison to recent months. Cash withdrawals slipped into the negative for the first time in four months. Meanwhile, latest available data for May shows continued declines in non-oil exports on a yearly basis.

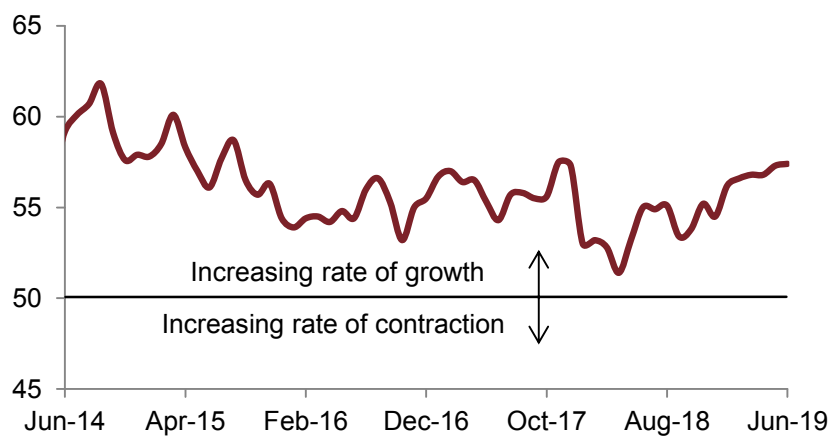
Whilst both yearly POS transactions and ATM cash withdrawals declined in June, we see this as a seasonal blip due to quieter activity during the summer months immediately following Ramadan and Eid festivities...

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



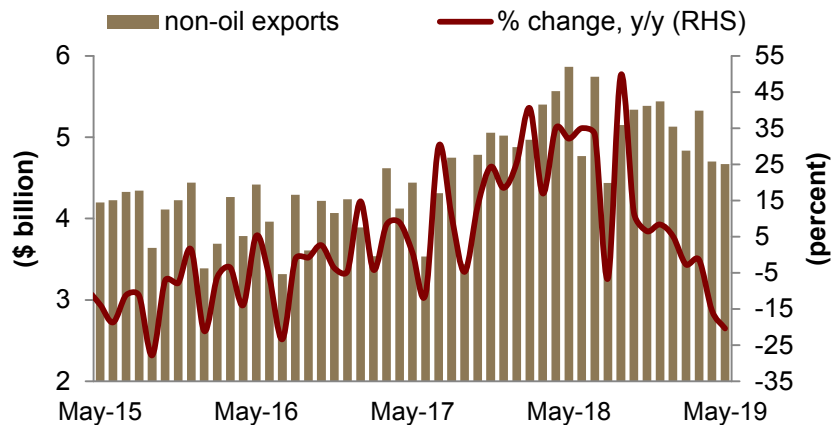
...with the non-oil Purchasing Managers' Index rising for the sixth consecutive month, with June's reading the highest since November 2017.

Non-oil Purchasing Managers' Index



That said, non-oil exports, whilst being flat on a month-on-month basis, continued to trend downwards on a yearly basis. As we highlighted in our recent [Macroeconomic](#) update, this trend is primarily a result of global economic fragility.

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





SAMA Foreign Reserve Assets

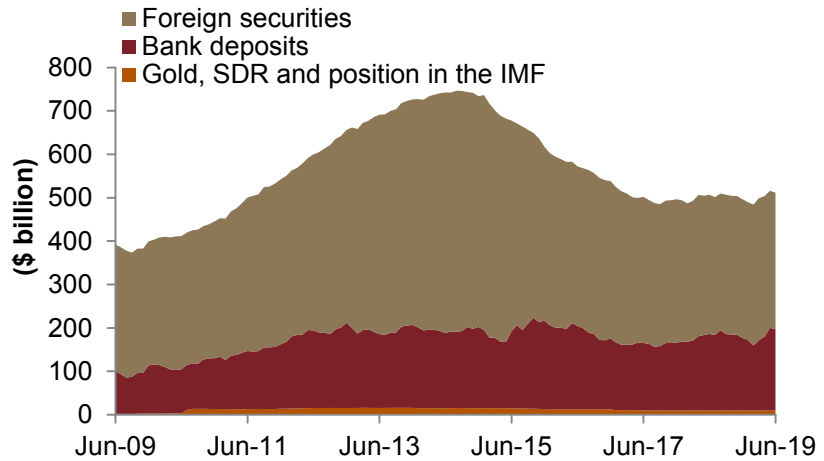
SAMA FX reserves declined for the first time in four months, by \$4.2 billion month-on-month, to stand at \$512 billion in June. A breakdown of FX reserves shows the lion's share of the decline came from bank deposits. Looking ahead, we expect this downward trend to reverse in July as financial inflows related to the EUR3 billion (SR13 billion) debut euro bond issuance are received.

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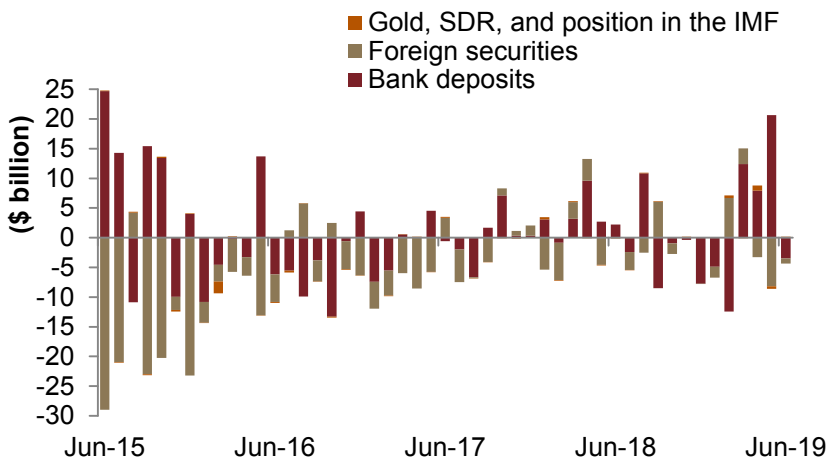
A break-down of FX reserves shows the lion's share of the decline came from bank deposits.

Looking ahead, we expect this downward trend to be reversed in July as financial inflows related to the EUR3 billion (SR13 billion) debut euro bond issuance are received.

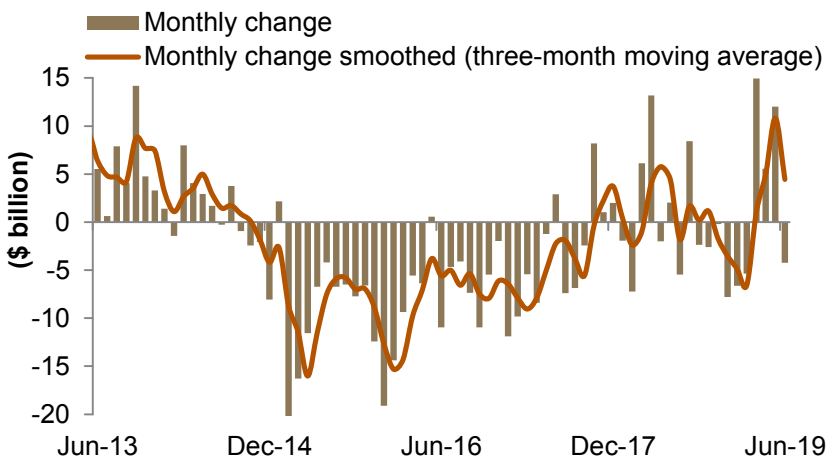
SAMA Total Foreign Reserve Assets



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



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

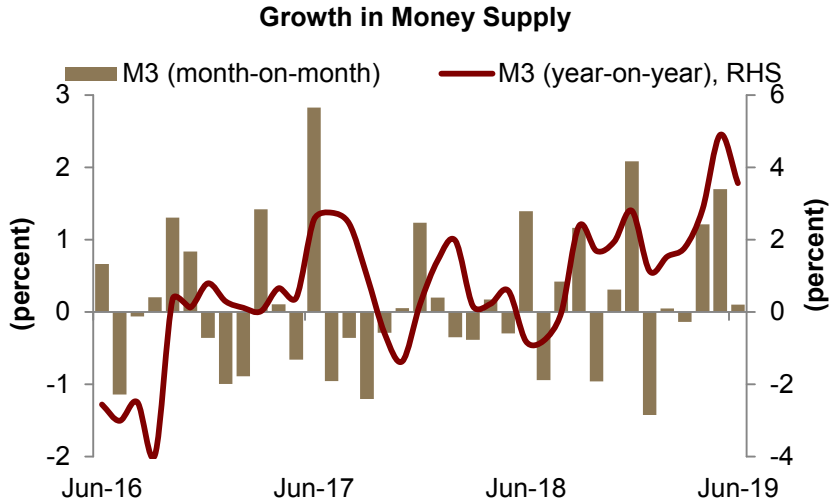




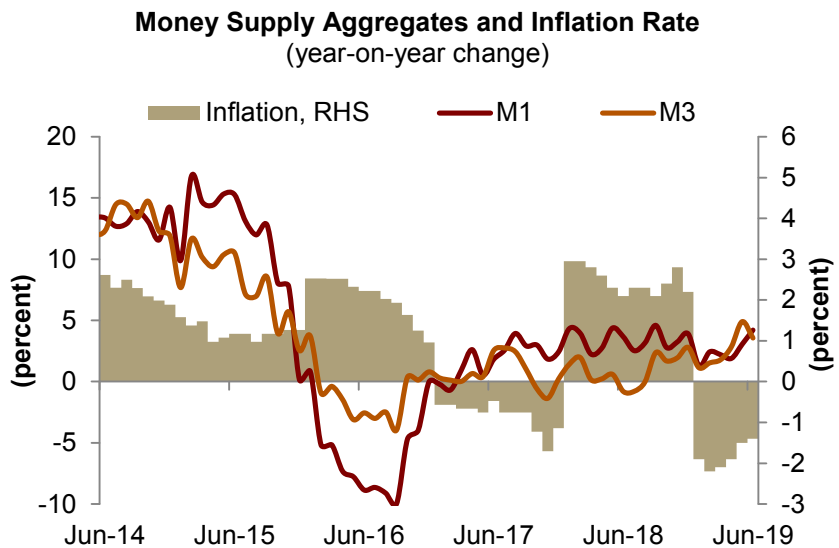
Money Supply

The broad measure of money supply (M3) continued to exhibit strong yearly rises, with a 3.6 percent rise registered in June. That said, on a monthly basis, M3 growth has been more muted with a nominal rise of 0.1 percent seen during the month. Looking ahead, more frequent weekly data, for three weeks of July, suggests a slowing down of M3 on both a monthly and yearly basis.

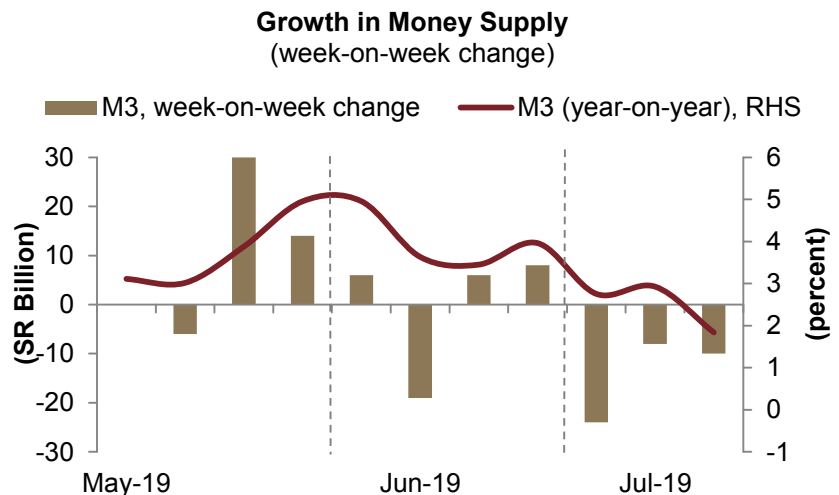
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Both money supply aggregates (M1 & M3) have shown consistent rises so far this year.



Looking ahead, more frequent weekly data, for three weeks of July, suggests a slowing down of M3 on both a monthly and yearly basis.

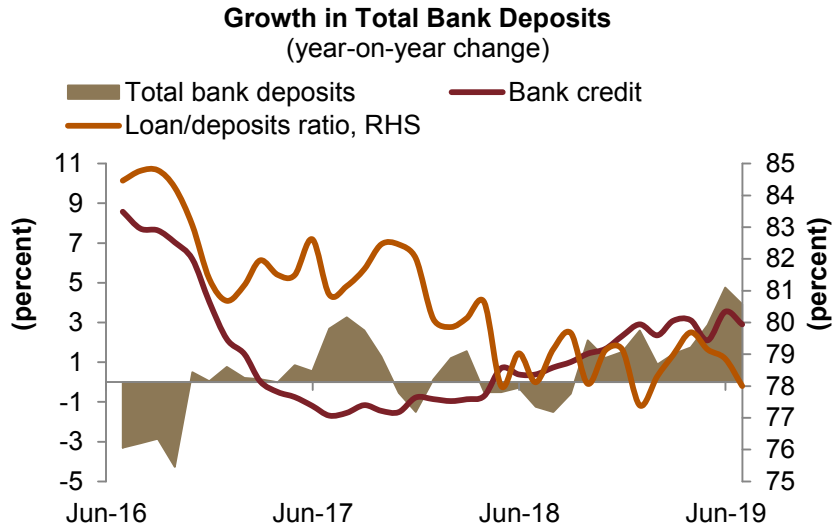




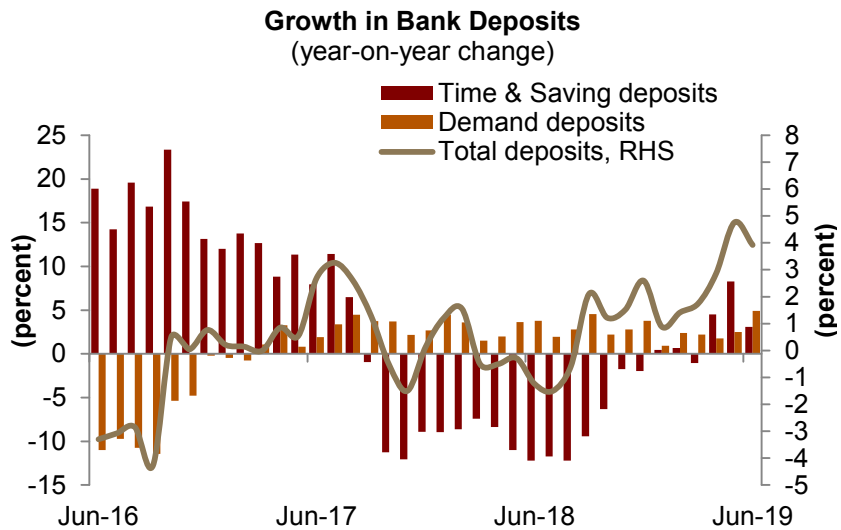
Bank Deposits

Total bank deposits continued rising in June, with 3.9 percent year-on-year rise seen during the month. An aggregate rise in both time & saving deposits and demand deposits led to a rise in total deposits. Within this total, private sector deposits continued to show a decent level of growth, at 2.9 percent year-on-year, again both time & saving deposits and demand deposits recorded rises.

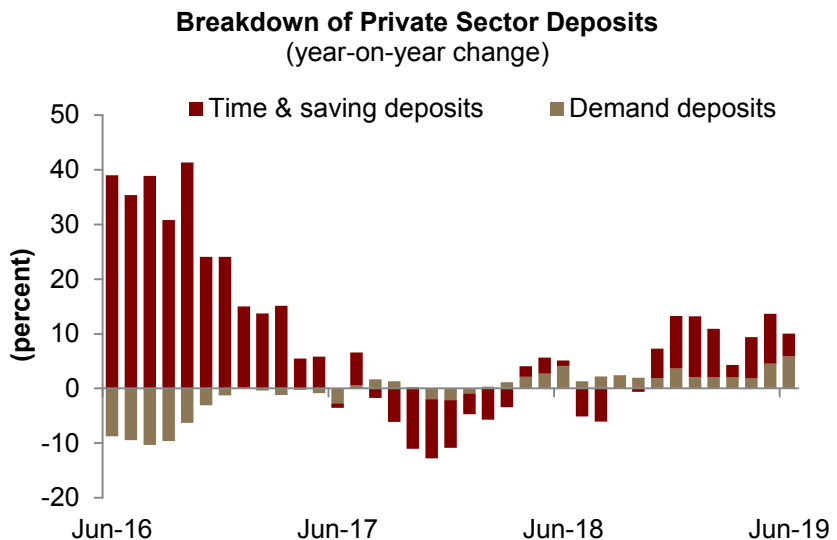
Bank deposits continued rising in June, with 3.9 percent year-on-year rise seen during the month.



An aggregate rise in both time & saving deposits and demand deposits led to a rise in total deposits in June.



Within this total, private sector deposits continued to show a decent level of growth, at 2.9 percent year-on-year, as both types of deposits recorded rises.





Bank Credit

Total bank claims continued to show strong yearly growth, with a rise of 6.2 percent recorded in June despite claims on the public sector dropping by 12 percent over the same period. Meanwhile, credit to the private sector rose by 2.9 percent year-on-year, lifted by the more growth enhancing long-term (and medium) credit, which was up 8.1 percent year-on-year, whilst short-term credit declined.

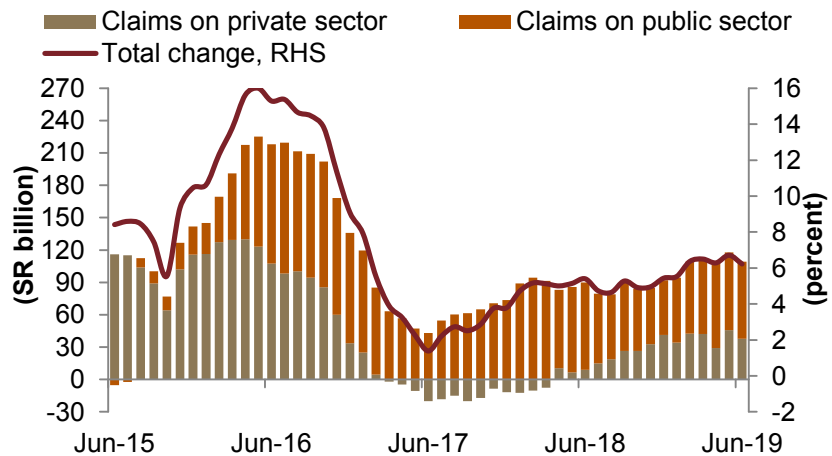
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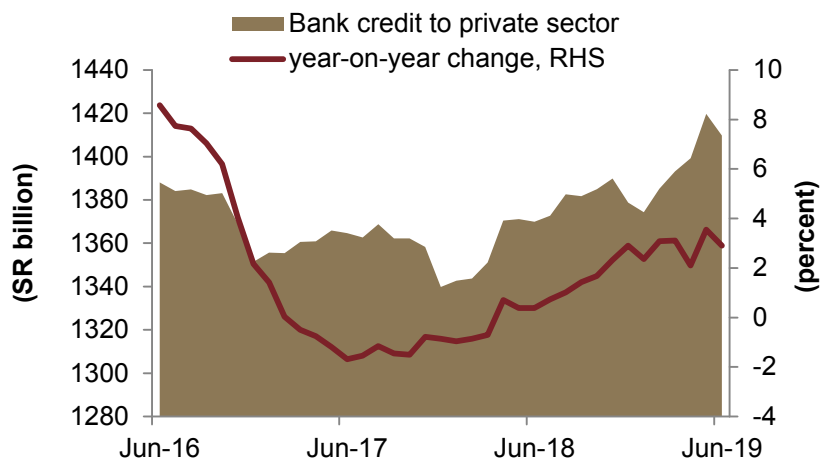
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Breakdown of Bank Claims

(year-on-year change)

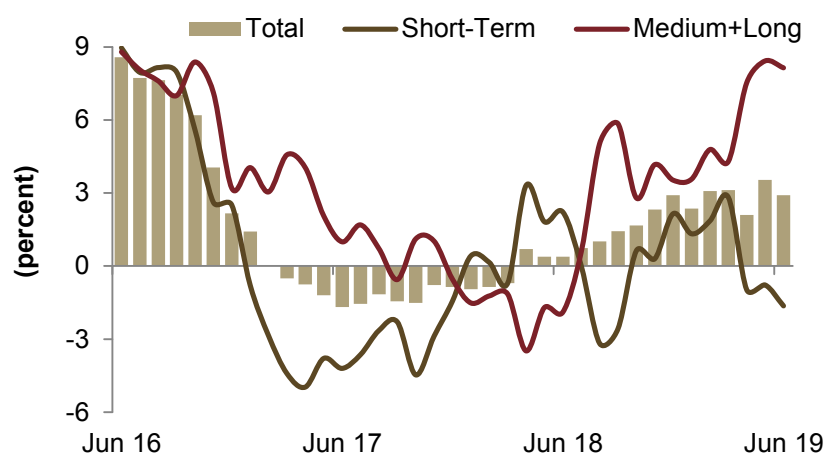


Bank Credit to the Private Sector



Total Claims on the Private Sector

(year-on-year change)

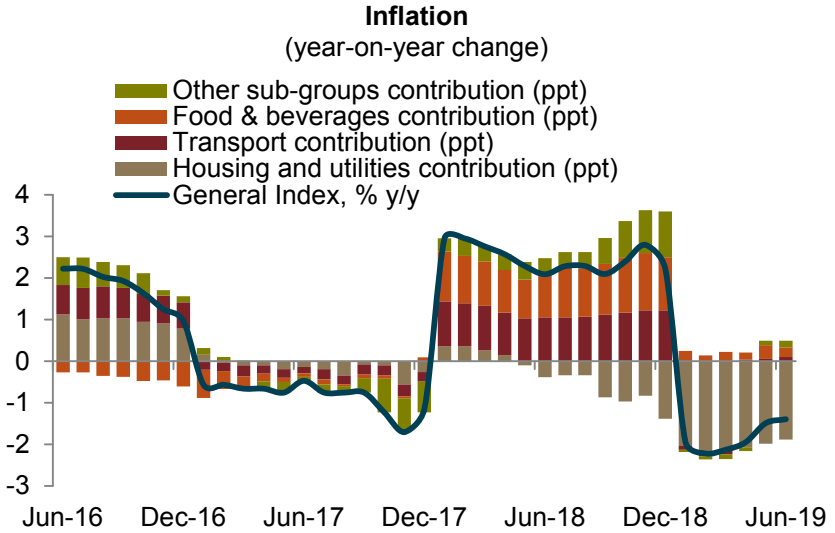




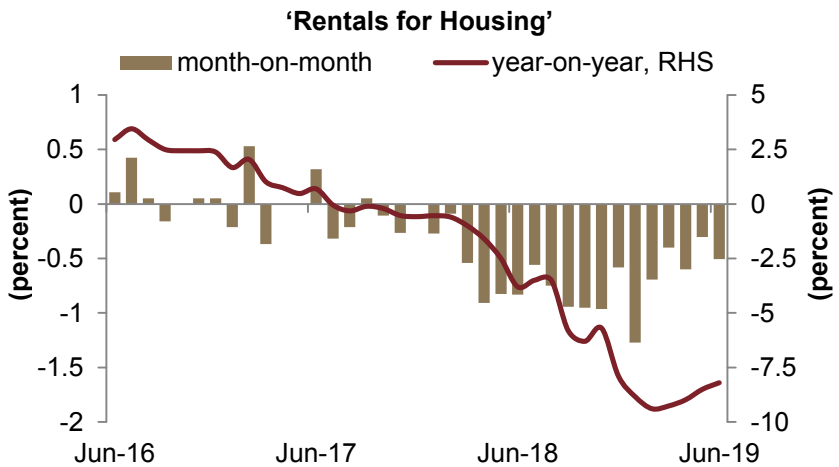
Inflation

Prices continued to decline in June, by 1.4 percent year-on-year, but edged up month-on-month by 0.2 percent. The decline in “housing and utilities” continued during June, by 7.2 percent, affected by the declining “rentals for housing”. Meanwhile, the “food and beverages” segment continued to rise by 1.2 percent year-on-year, whilst “transport” prices showed the highest rise of the year, by 0.9 percent year-on-year in June.

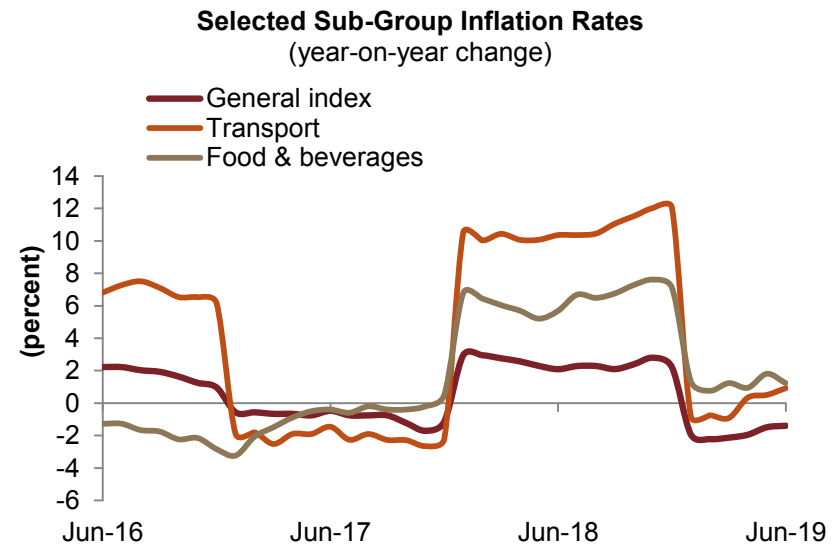
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The decline in “housing & utilities” continued during the month by 7.2 percent, affected by the declining “rentals for housing”, falling by 8.2 percent year-on-year in June.



“Transport” prices showed the highest rise during the year, by 0.9 percent year-on-year in June, which comes after Aramco announced review of gasoline prices for Q2 2019.



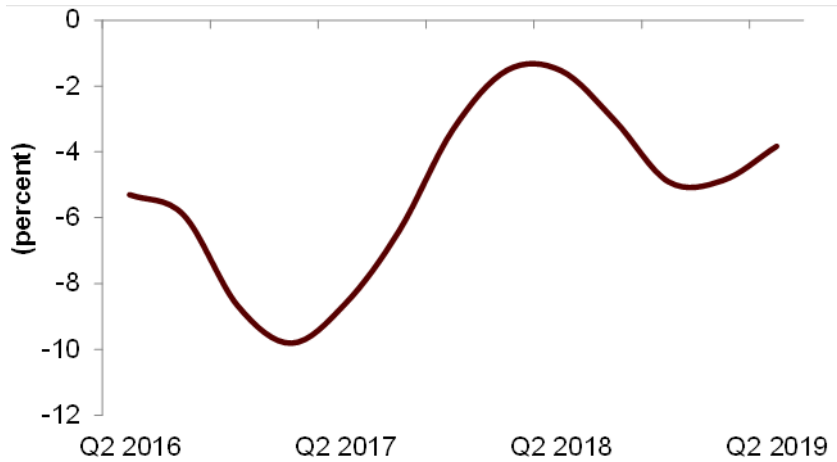


Real Estate

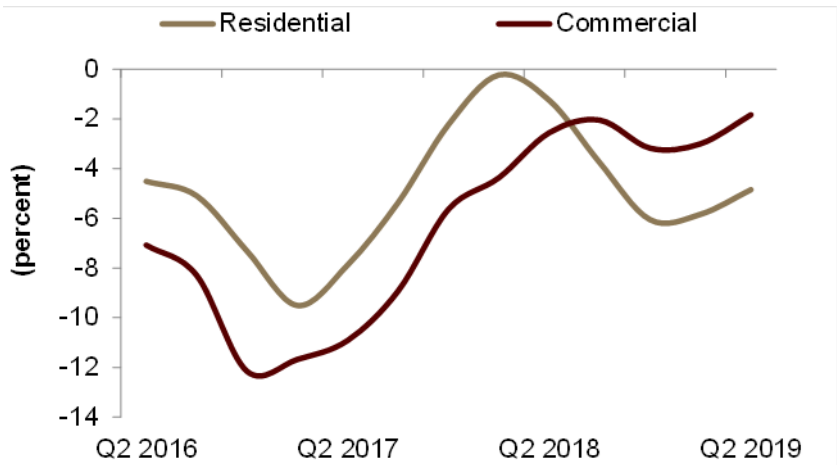
According to the Real Estate Price Index, published by the General Authority for Statistics (GaStat), prices continued to show declines in Q2 2019. Overall, whilst the index improved, it was still down 3.8 percent year-on-year. More specifically, residential real estate prices still continue to exhibit the largest declines, with residential prices in Riyadh showing the weakest performance.

Whilst improving slightly, real estate prices remained negative in Q2 2019, declining by 3.8 percent, year-on-year.

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

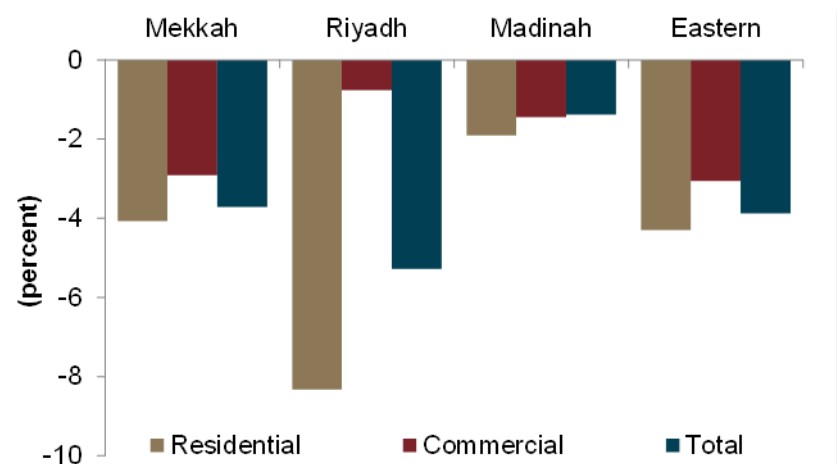


Real Estate Price Index by type
(Year-on-year change)



Overall, residential prices continue to underperform the commercial segment...

Real Estate Price Index by City/Region



...with residential prices in Riyadh showing the weakest performance amongst the cities cited in the index.



Q2 2019 Fiscal Update

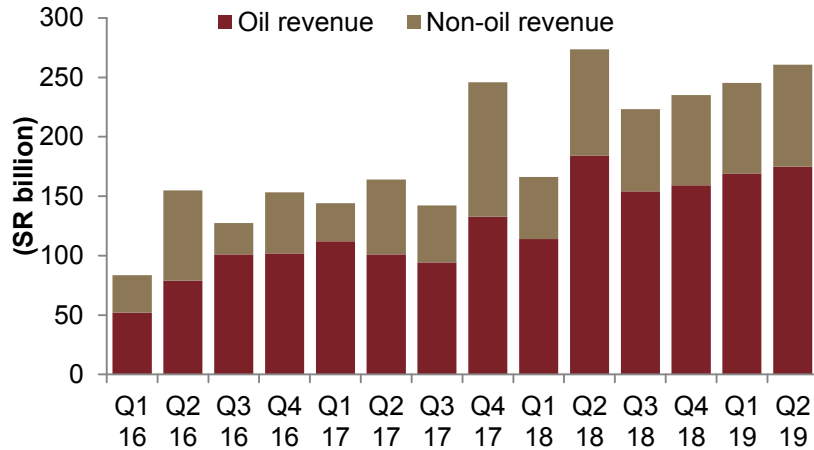
According to data released by the Ministry of Finance, government revenue totaled SR261 billion in Q2 2019, down 5 percent, or SR12.8 billion, year-on-year. Declines were seen in both the oil and non-oil revenue side. Meanwhile, government expenses rose by 5 percent year-on-year, to a total of SR294 billion, mainly as a result of higher yearly capital spending, which was up 27 percent in Q2 2019.

Government oil revenue declined by 5 percent, to SR175 billion year-on-year in Q2, and yearly declines in 'Other Revenues' (by 37 percent) pushed non-oil revenue down.

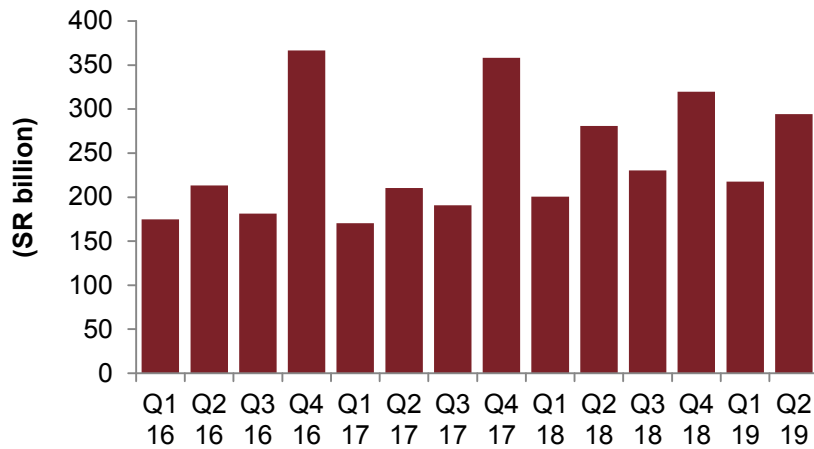
Government expenses rose by 5 percent year-on-year in Q2 2019, to a total of SR294 billion mainly as a result of higher capital spending, which was up 27 percent in Q2 2019 on a year-on-year basis.

Higher expenditure than revenue resulted in a fiscal deficit of SR33.5 billion during Q2 2019, which also pushed H1 2019 into a mild deficit of SR5.6 billion. Taking into account that we recently revised our fiscal deficit to SR196 billion (6.4 percent of GDP) for the whole of 2019, we expect to see sizable deficits in the next two quarters of the year

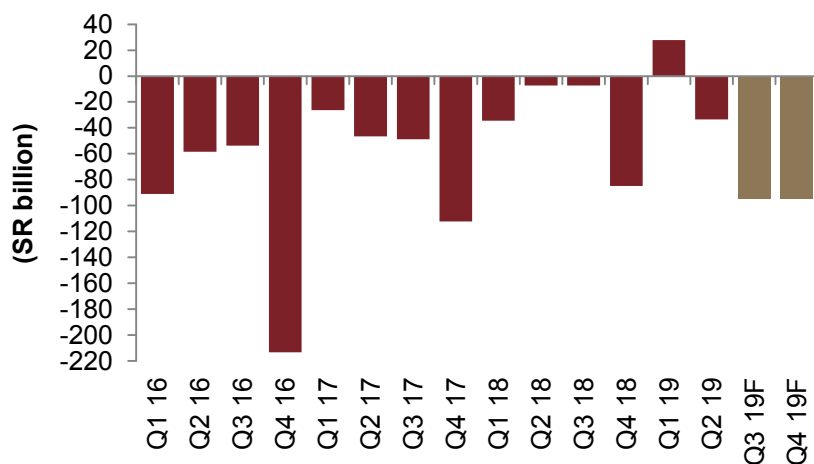
Quarterly Government Revenue



Quarterly Government Expenditure



Quarterly Fiscal Surplus/Deficit

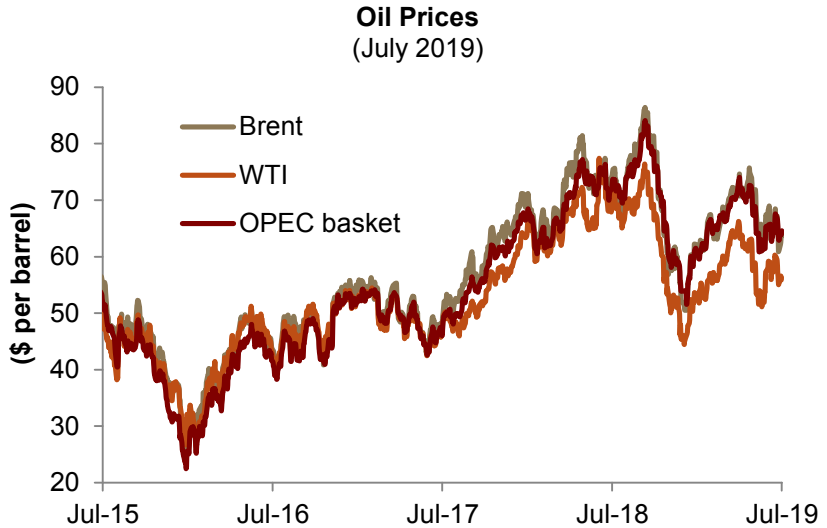




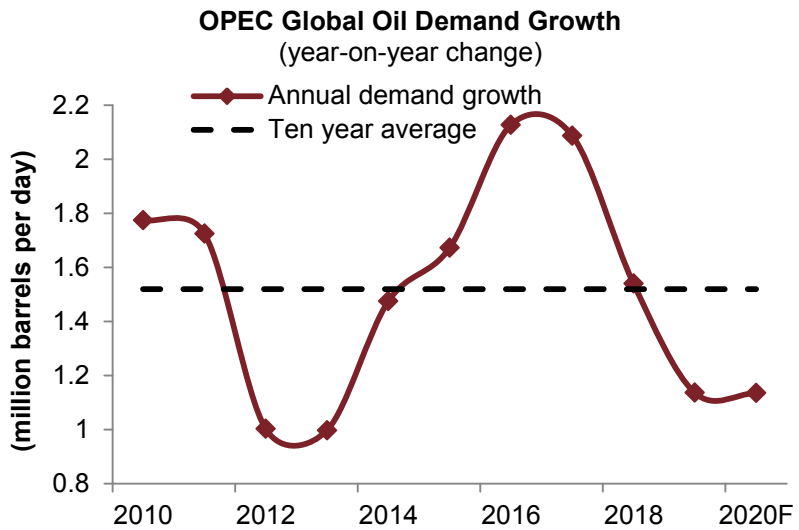
Oil - Global

Brent oil price were down by 2 percent and WTI prices were up by 5 percent month-on-month in July. Looking ahead, despite rising regional geo-political tensions, the main factor currently weighting on Brent oil prices remains global trade related issues between the US and China, and, more broadly, how such issues are clouding the outlook of the global economy.

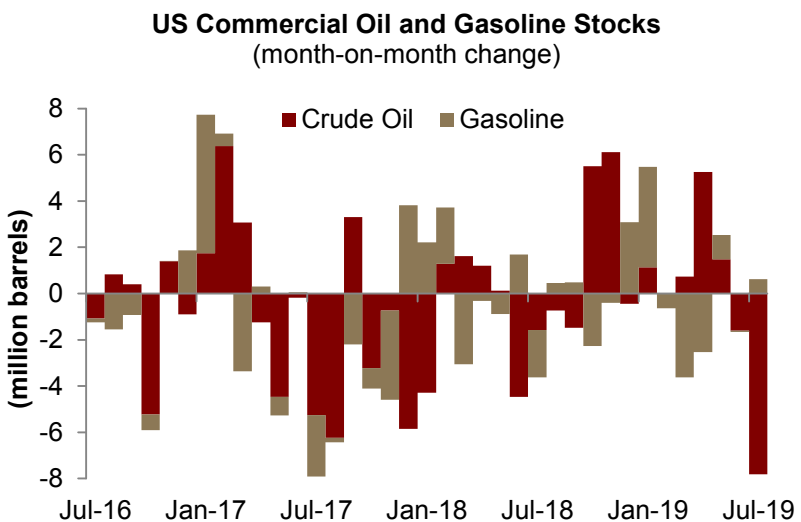
Brent oil price were down by 2 percent as trade related issues weighed in on the outlook for the benchmark. ...



...with OPEC recently revealing a modest level of global oil demand growth of 1.14 mbpd for 2020, in its latest monthly oil report.



Meanwhile, WTI prices were up by 5 percent in July following a sizable decline in US commercial oil inventory during the month.



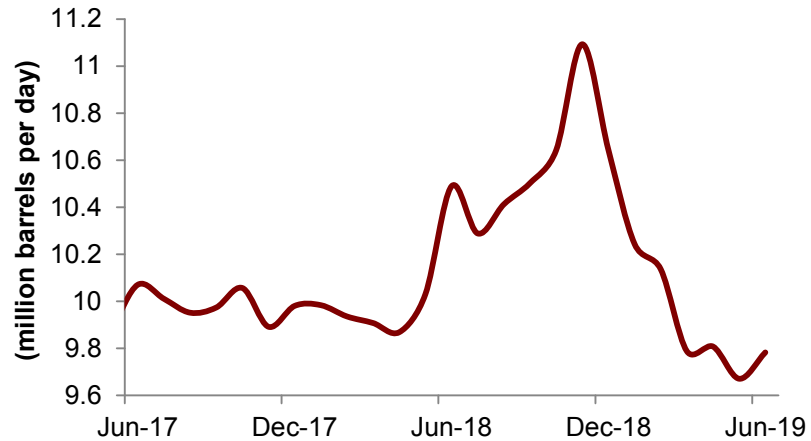


Oil - Regional

Saudi crude oil production was up 1.2 percent month-on-month in June, to 9.8 mbpd, resulting in H1 2019 oil output averaging 9.9 mbpd. Meanwhile, latest available official data for May shows that Saudi oil exports declined to 6.9 mbpd with unofficial survey data showing similar levels of exports in June, but a significant ramp up in exports in the latter half of July.

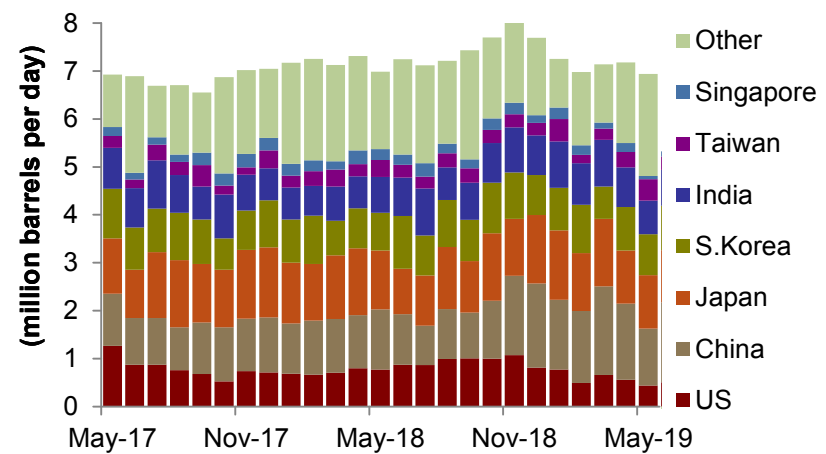
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Saudi Crude Oil Production
(Direct communication)



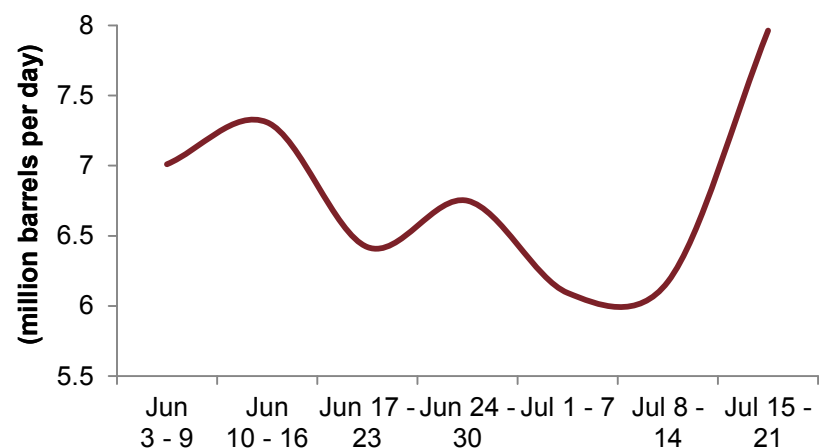
Meanwhile, latest available official data for May shows that Saudi oil exports declined to 6.9 mbpd, similar to levels seen exactly a year ago.

Saudi Crude Oil Exports
(May 2019)



Unofficial survey data shows similar levels of exports, at 6.9 mbpd, in June, but a significant ramp up in exports in latter half of July.

Saudi Crude Oil Exports
(June & July 2019)



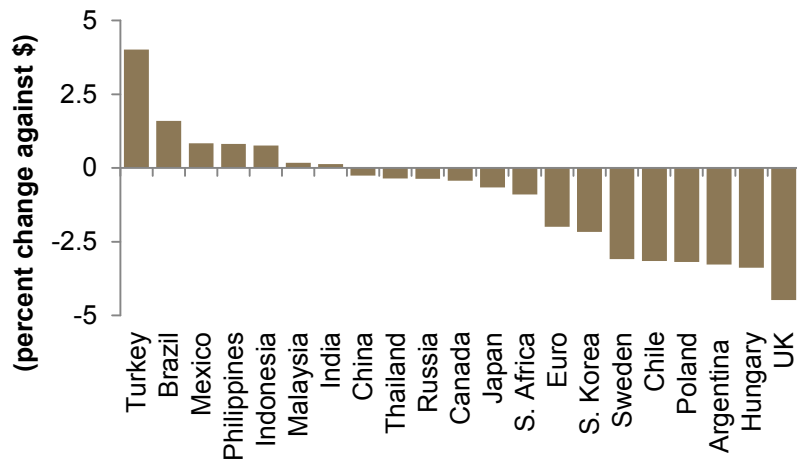


Exchange Rates

Better than anticipated Q2 US GDP growth, at 2.1 percent year-on-year, lent support to the US dollar, despite a near certainty of a decline in interest rates. At the time of writing, market surveys unanimously expect an interest cut of 25 basis points (bps) during a Federal Reserve (Fed) meeting later today. Meanwhile, the UK pound suffered as the risk of a no deal Brexit intensified.

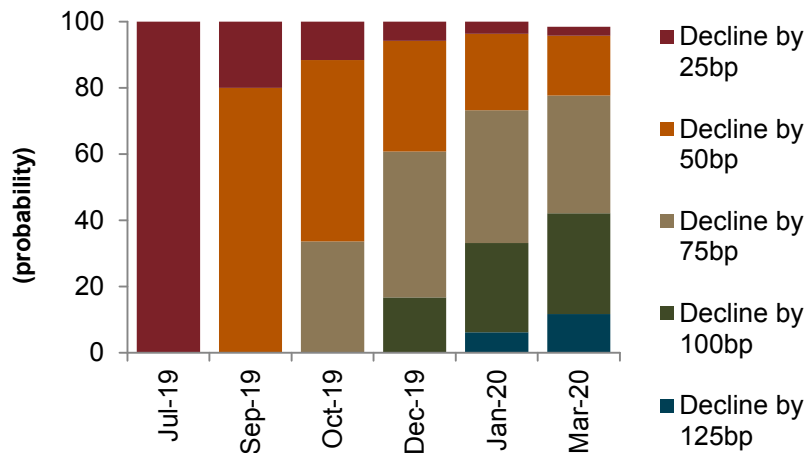
Better than anticipated Q2 US GDP results decreased the chances of a 50 bps cut in US interest rates, which saw the dollar gain against a number of currencies.

Monthly Gain/Loss Against US Dollar
(July 2019)

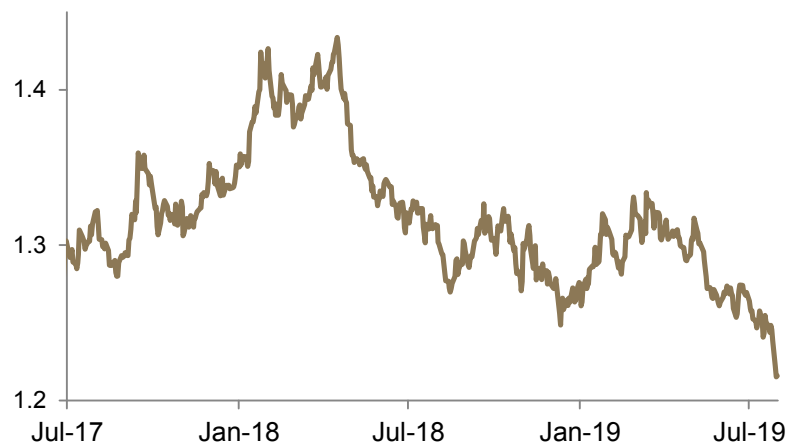


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US Interest Rate Probability



GBP/US Dollar
(July 2019)



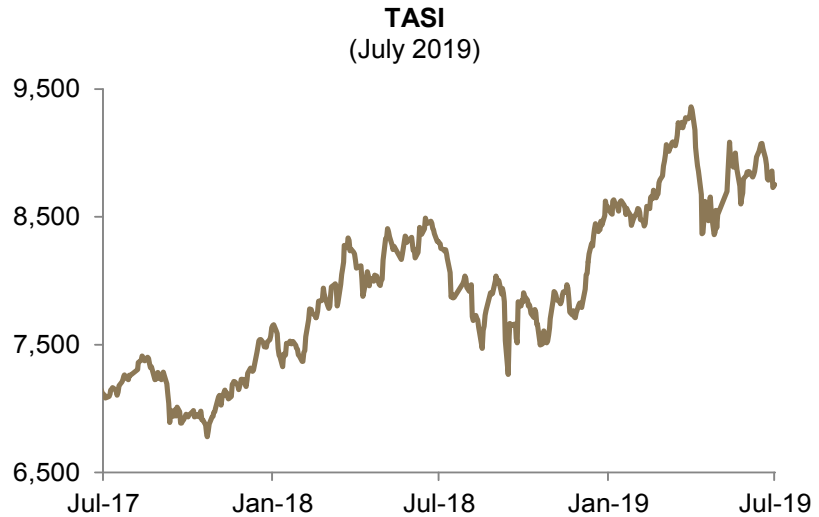
Meanwhile, the selection of a more pro-Brexit British Prime Minister significantly raised the possibility of the UK leaving the European Union without a trade deal, and led to the UK pound dropping to its lowest level in more than two years.



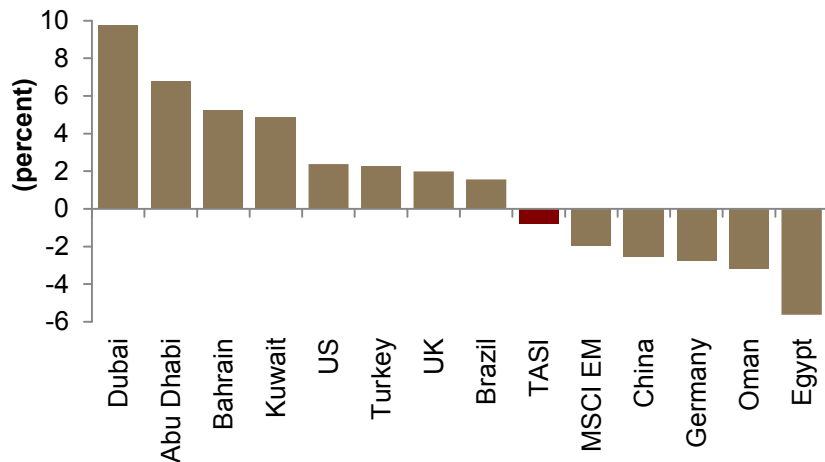
Stock Market

TASI was down marginally, by 1 percent month-on-month, in July, as some Q2 net income listed company results, especially in the petrochemical sector, disappointed. As a result, TASI was amongst the weaker performing indices during the month. Looking ahead, profit taking, prior to the closure of TASI for Eid Al-Adha holidays during the week of 11th August, could pressure the index further.

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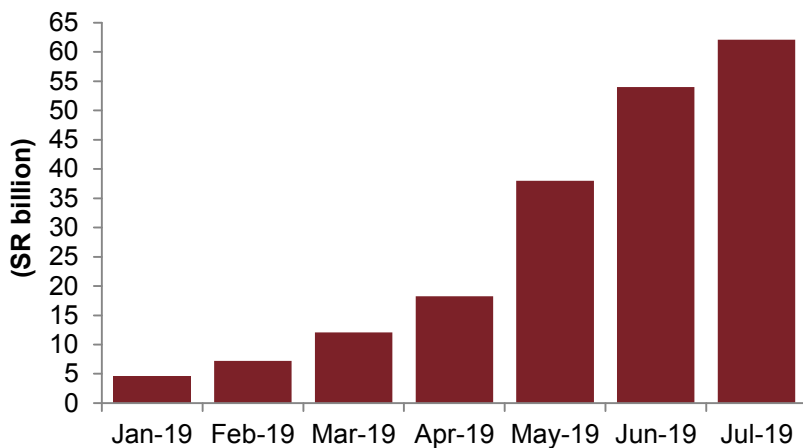


Comparative Stock Market Performance
(July 2019)



As a result, TASI was amongst the weaker performing indices during the month.

Net purchases of SWAPs and QFIs
(Cumulative 2019)



Meanwhile, net purchases of SWAPs and QFIs totaled SR8 billion (\$2.1 billion) in the first three weeks of July, pushing cumulative flows to SR62 billion (\$16.5 billion) so far this year.



Key Data

	2012	2013	2014	2015	2016	2017	2018	2019F	2020F
Nominal GDP									
(SR billion)	2,760	2,800	2,836	2,454	2,419	2,582	2,934	3,065	3,262
(\$ billion)	736	747	756	654	645	689	782	817	870
(% change)	9.6	1.5	1.3	-13.5	-1.4	6.8	13.6	4.4	6.4
Real GDP (% change)									
Oil	5.1	-1.6	2.1	5.3	3.6	-3.1	2.8	0.3	2.7
Non-oil private sector	5.6	7.0	5.4	3.4	0.1	1.5	1.7	2.4	2.7
Non-oil government	5.3	5.1	3.7	2.7	0.6	0.7	2.8	3.0	2.3
Total	5.4	2.7	3.7	4.1	1.7	-0.7	2.4	1.6	2.6
Oil indicators (average)									
Brent (\$/b)	112	110	99	52	43	54	71	66	68
Saudi (\$/b)	106	104	96	49	41	51	69	65	67
Production (million b/d)	9.8	9.6	9.7	10.2	10.4	10.0	10.3	10.1	10.3
Budgetary indicators (SR billion)									
Government revenue	1,247	1,156	1,044	616	519	692	906	910	1,005
Government expenditure	916	994	1,140	1,001	936	930	1,079	1,106	1,143
Budget balance	331	162	-96	-385	-417	-238	-174	-196	-138
(% GDP)	12.0	5.8	-3.4	-15.7	-17.2	-9.2	-5.9	-6.4	-4.2
Gross public debt	99	60	44	142	317	443	560	678	754
(% GDP)	3.6	2.1	1.6	5.8	13.1	17.1	19.1	22.1	23.1
Monetary indicators (average)									
Inflation (% change)	2.9	3.5	2.2	1.2	2.1	-0.8	2.5	-1.7	1.1
SAMA base lending rate (% end)	2.0	2.0	2.0	2.0	2.0	2.0	3.0	2.5	2.25
External trade indicators (\$ billion)									
Oil export revenues	337	322	285	153	137	171	232	219	233
Total export revenues	388	376	342	204	184	222	295	282	299
Imports	142	153	158	159	128	123	124	128	133
Trade balance	247	223	184	44	56	98	171	154	166
Current account balance	165	135	74	-57	-24	10	72	68	81
(% GDP)	22.4	18.1	9.8	-8.7	-3.7	1.5	9.2	8.3	9.3
Official reserve assets	657	726	732	616	536	496	497	524	528
Social and demographic									
Population (million)	28.9	29.6	30.3	31.0	31.7	32.7	32.5	32.6	33.0
Saudi Unemployment (15+, %)	12.1	11.7	11.7	11.5	12.5	12.8	12.9	12.4	12.1
GDP per capita (\$)	25,471	25,223	24,962	21,095	20,318	21,048	24,065	25,063	26,327

Sources: Jadwa Investment forecasts for 2019 and 2020. 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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