



Summary

Real Economy: October data showed a mixed picture in economic activity. We expect activity to strengthen in the last two months of 2016 as a result of the government resuming payments to contractors.

Government Finance: A record SR136 billion monthly fall was recorded in government accounts with SAMA during October, reflecting the resumption of government payments to contractors and other service providers.

SAMA Foreign Reserve Assets: SAMA foreign reserve assets fell by \$11 billion in October, the third largest decline in 2016.

Bank Lending: Long-term credit maturities continued to contribute only marginally towards overall growth in private sector credit. Looking ahead, we expect sentiment to play a larger role in determining the growth in private sector credit.

Bank Deposits and Liquidity: Total bank deposits increased by SR27.1 billion in October, rising by its fastest pace in thirteen months, boosted mainly by a net addition to private sector deposits.

Inflation: Saudi CPI slowed for the seventh consecutive month.

Non-oil Trade: September data showed non-oil exports and imports falling to six and five year-lows respectively. We see falling imports as a reflection of a stronger Riyal (due to a strengthening US Dollar) rather than weaker demand.

Overall Trade: Year-to-September data on the monthly value of oil exports showed the Kingdom earning \$96 billion in oil export revenue, compared with \$128 billion during the same period in 2015.

Oil - Global: OPEC agreed to cut production by 1.2 mbpd (to 32.5 mbpd) which led to Brent oil prices rising by 9 percent immediately after. Whether prices remain elevated will depend on OPEC implementing its agreement with discipline from January onwards.

Oil - Regional: Saudi crude oil production was 10.6 mbpd in October.

Exchange Rates: Latest survey data shows a very high probability of US interest rates rising by 25 basis points in December.

Stock Market: Positive sentiment from October's international bond sale and a recommencement of payments to contractors by government, pushed the TASI up by 16 percent month-on-month in November. This was the largest monthly rise since April 2009.

Volumes: Turnover in the TASI edged up in November.

Valuations: TASI price-to-earnings (PE) rose in November.

Sectoral Performance: All 15 sectors were up in November.

Third quarter 2016 results: Net-income of listed companies totaled SR28.3 billion in Q3 2016, which was flat year-on-year.

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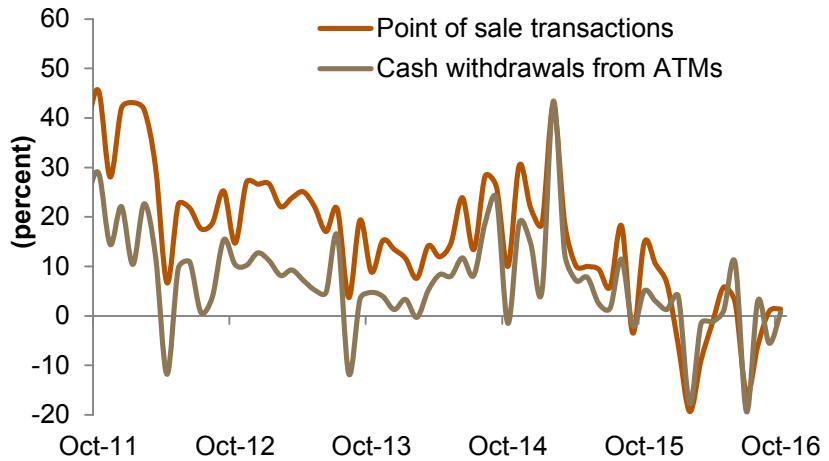


Real Economy

October data showed a mixed picture in economic activity. Data on consumer spending and cement sales and production pointed to a rise in activity. Meanwhile, the non-oil PMI fell to a new record low. We expect economic activity to strengthen in the last two months of 2016 as a result of the government resuming its payments, however, downside risks stem from lower growth in bank credit.

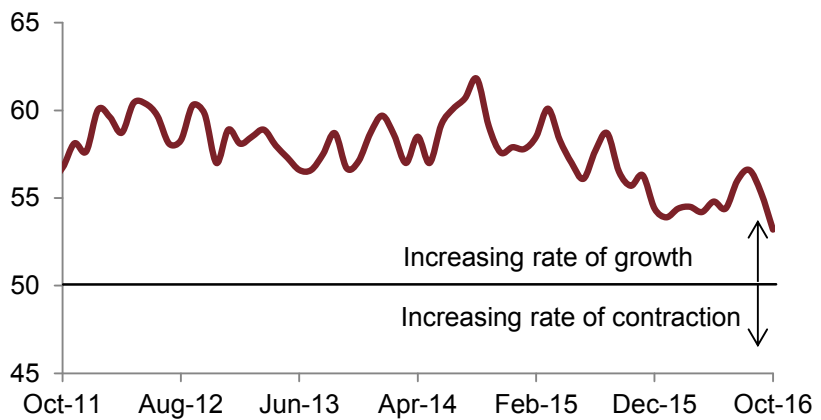
Year-on-year growth in consumer spending reached 0.9 percent in October following a decline of -4.3 percent in the previous month.

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



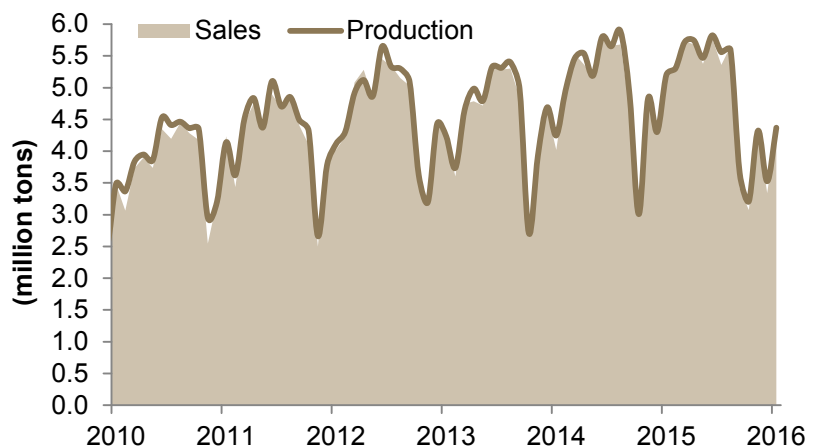
The non-oil PMI fell to 53.2 in October, a new record low, but still points to an expansion in activity.

Purchasing Managers' Index



Month-on-month cement sales and production rose by 1 million tons, and 0.8 million tons, respectively.

Cement Sales and Production



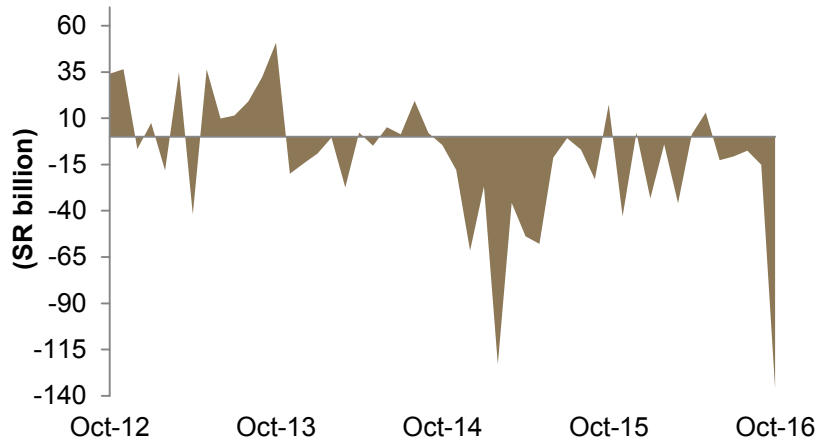


Government Finance

The monthly change to government accounts with SAMA posted a record fall in October, reflecting the resumption of government payments to contractors and other service providers. The majority of this decline came from the government reserve account. Monthly debt statistics showed that the Kingdom's outstanding debt rose from SR273.8 billion in August to SR342.4 billion in November.

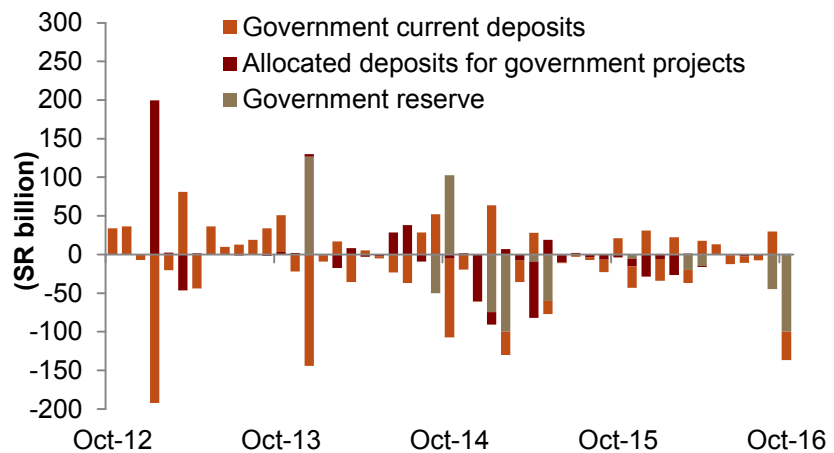
Government accounts with SAMA fell by SR136 billion in October, its largest net decline on record.

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



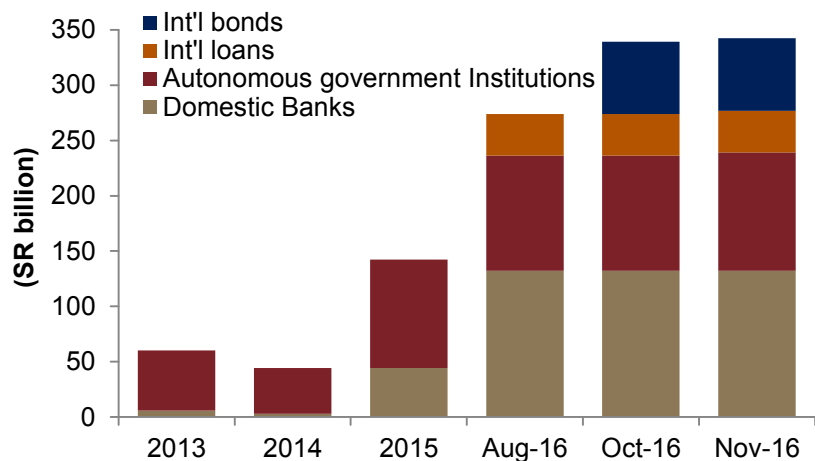
This decline was mainly due to a net withdrawal from government reserve (-SR100 billion), and government current deposits (-SR36.7 billion).

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



Meanwhile, monthly debt statistics showed that the Kingdom's total debt stood at SR342.4 billion (14.5 percent of projected GDP) in November.

Breakdown of Gross Public Debt



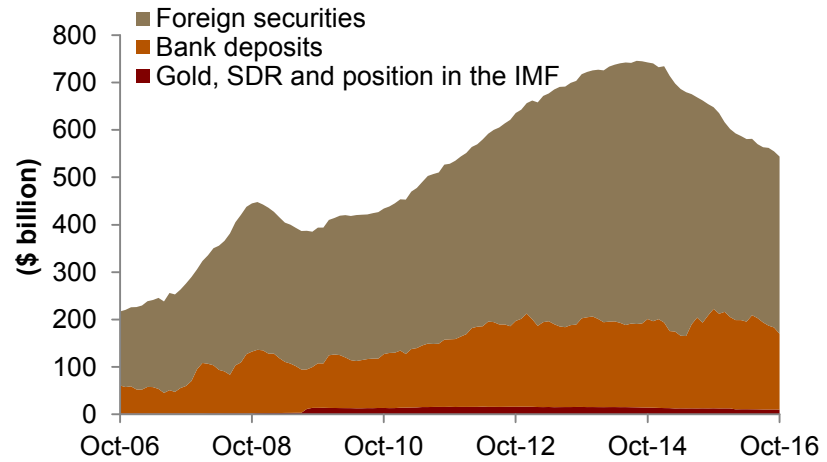


SAMA Foreign Reserve Assets

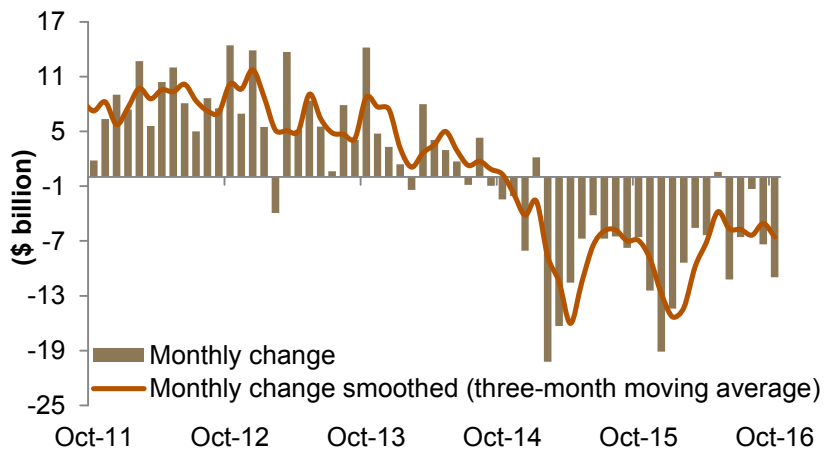
SAMA foreign reserve assets fell by \$11 billion in October, the third largest decline in 2016. This likely reflects the significant withdrawal from government accounts (see government finance) to resume fiscal spending on the economy before the end of 2016. That said, foreign reserve coverage remains at comfortable levels to finance imports.

SAMA foreign reserves fell by \$11 billion, month-on-month to reach \$544 billion in October...

SAMA Total Foreign Reserve Assets

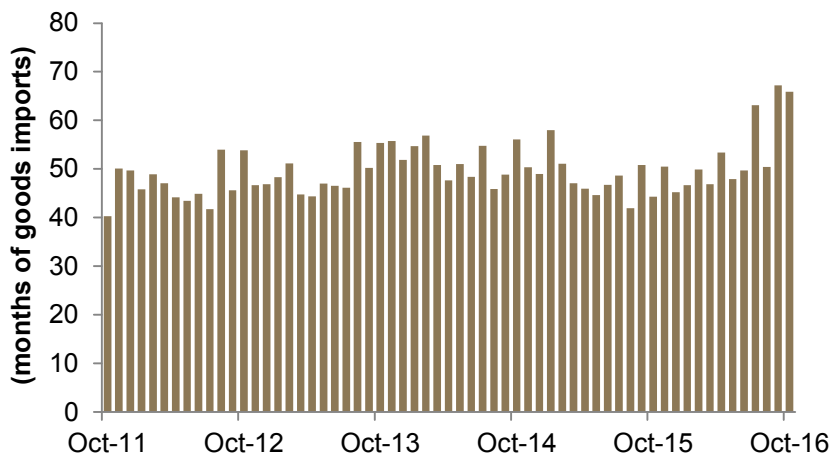


Net Monthly Change to SAMA Foreign Reserve Assets



...representing the third largest monthly decline in 2016...

Foreign Reserve Coverage of Goods Imports



...however, due to the falling value of imported goods (see non-oil trade page), reserve coverage remains at very comfortable levels, around 66 months in October.

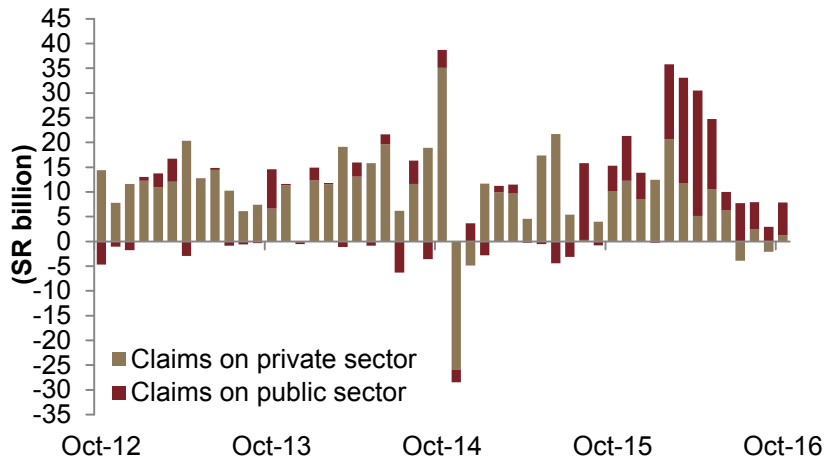


Bank Lending

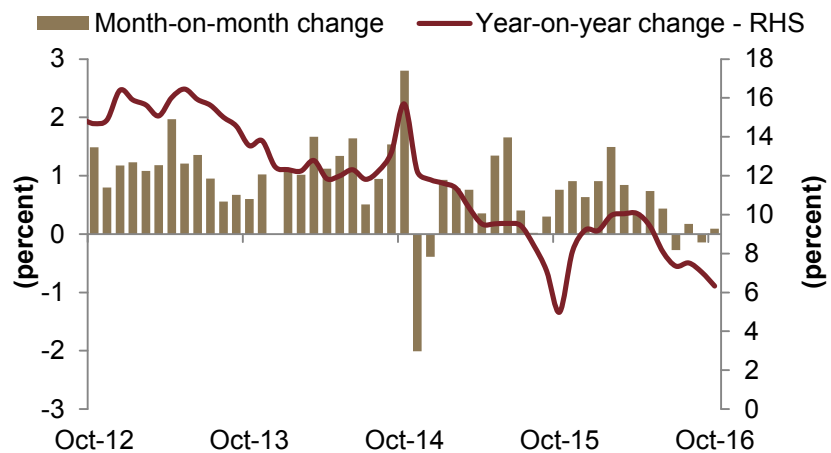
Bank claims on both the public and private sectors showed slight monthly increases in October. Long-term credit maturities continued to contribute only marginally towards overall growth in private sector credit, partly reflecting heightened caution by banks. Looking ahead, we expect sentiment to play a greater role in determining the growth in private sector credit.

October Bank claims on both the public and private sectors rose by SR6.6 billion and SR1.3 billion respectively.

Bank Claims by Institution
(month-on-month change)

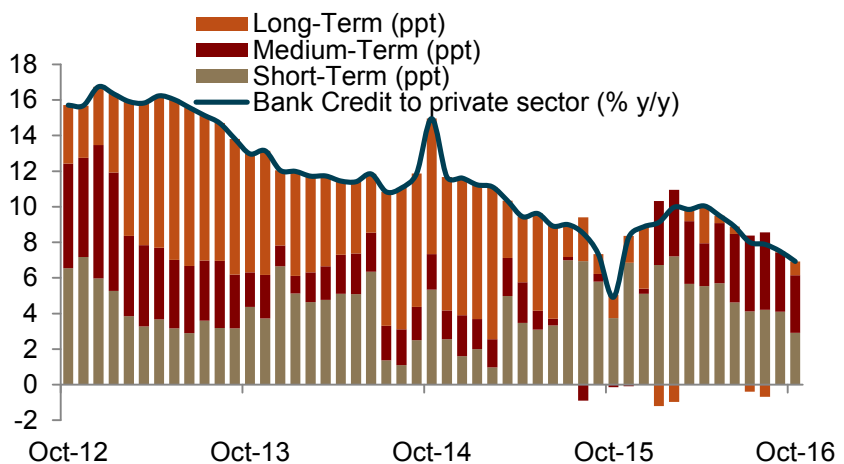


Bank Credit to Private Sector



Year-on-year growth in private sector credit slowed to 6.3 percent, down from 7.0 percent in September.

Contribution to Credit Growth by Maturity



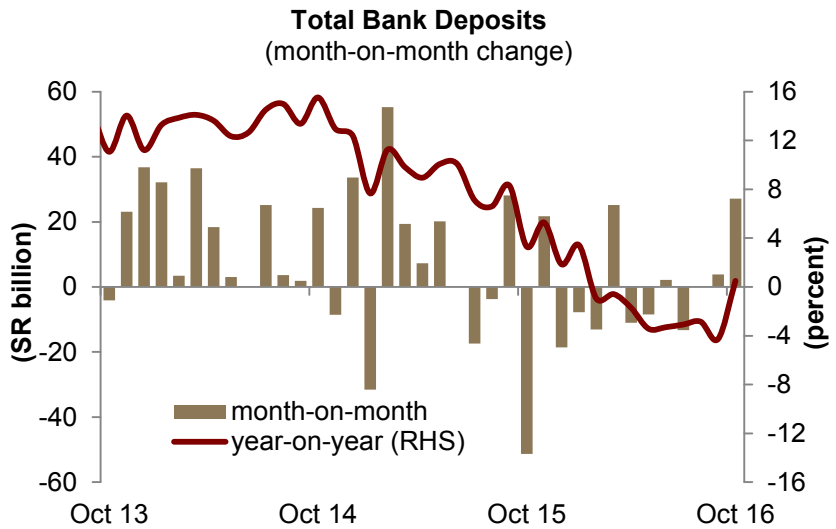
Average contribution from long-term credit maturities towards overall private sector credit fell from 40 percent in 2015 to only 1.2 percent year-to-October 2016.



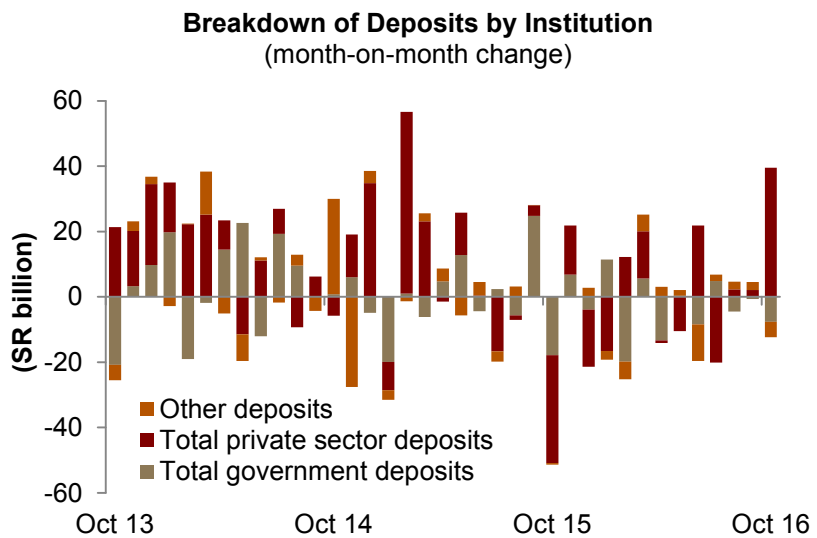
Bank Deposits and Liquidity

Total bank deposits increased by SR27.1 billion in October, rising by the fastest pace in thirteen months. Deposits were boosted mainly by a net addition to private sector deposits as the government resumed payments to contractors (see government finance). We expect a continuation of this growth over the next two months as well. Meanwhile, domestic liquidity conditions have started to ease.

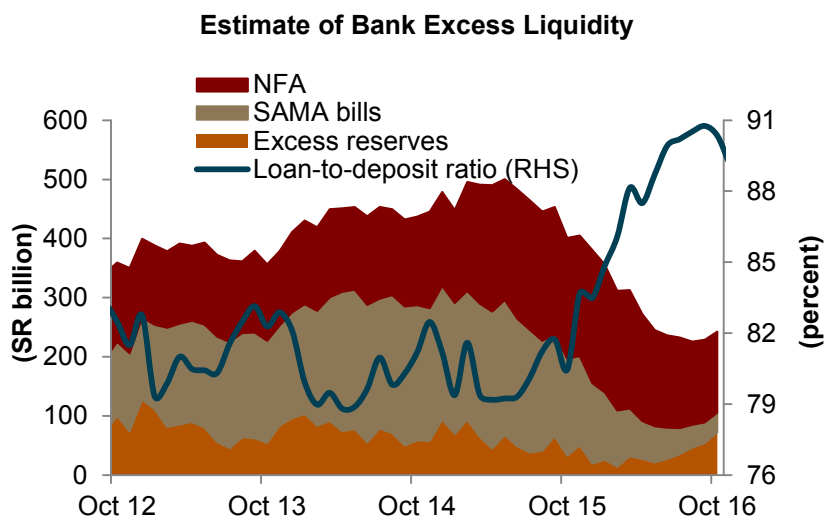
Total bank deposits rose by SR27.1 billion, month-on-month, with annual growth returning to the positive territory (0.5 percent) for the first time in nine months...



...mainly owing to a large increase in private sector deposits (SR39.5 billion), which have apparently benefited from the resumption in government payments.



Our estimate of bank excess liquidity showed a monthly rise of SR13.7 billion, the largest since December 2014.

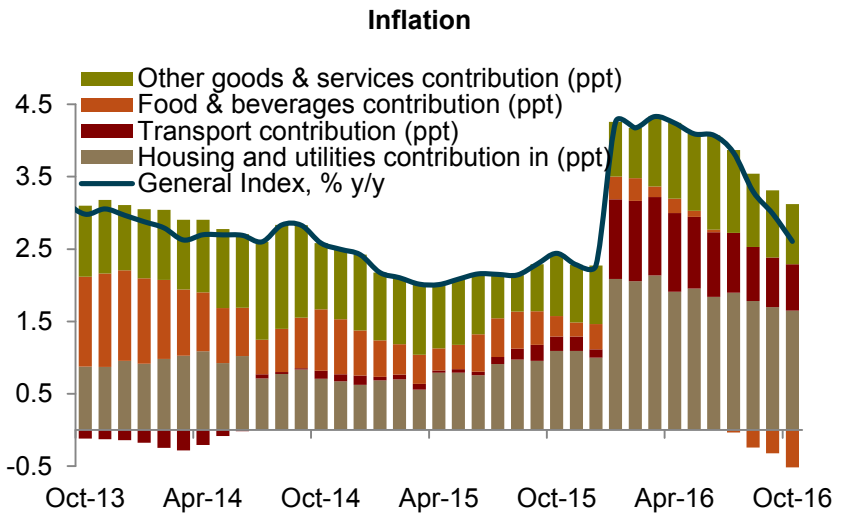




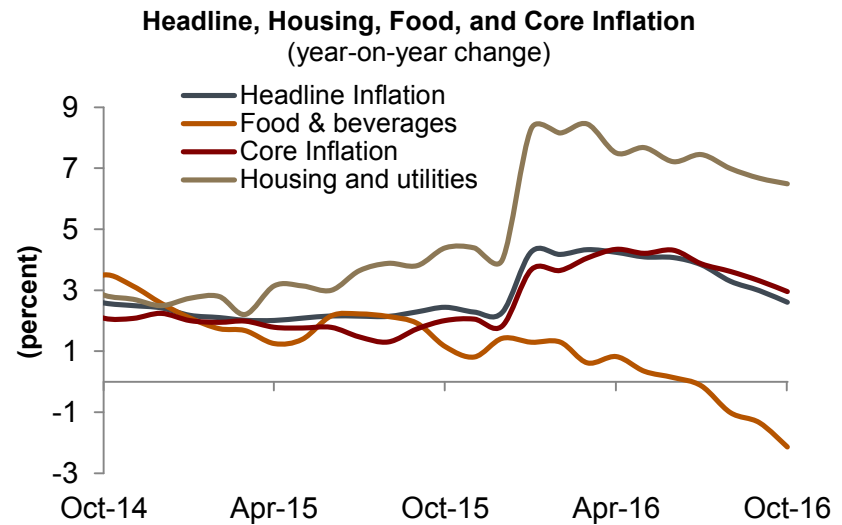
Inflation

Saudi CPI slowed for the seventh consecutive month, reaching 2.6 percent, year-on-year in October, its lowest since the start of the year. This slowdown is largely due to a negative contribution from foodstuffs. Meanwhile, housing and the core index continued to trend downwards, partly impacted by the negative growth in money supply. That said, we expect the recent rebound in money supply growth to stabilize the slowing trend in prices.

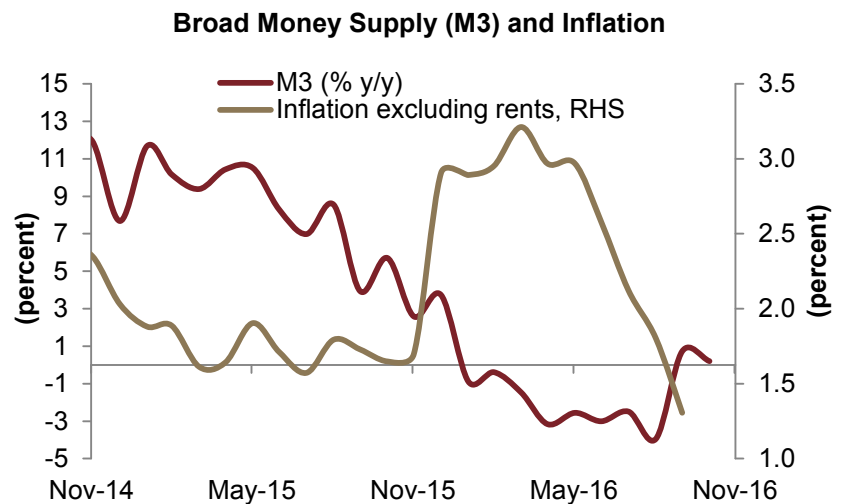
Inflation continued to slow, reaching 2.6 percent in October, its lowest in 2016.



Prices of foodstuffs fell by -2.1 percent, year-on-year, the largest decline since January 2001, while housing and the core index continued to post gradual slowdowns.



The negative growth in broad money supply has partly impacted the slowing trend in inflation, but we expect this slowdown to reverse as money supply growth turns positive.

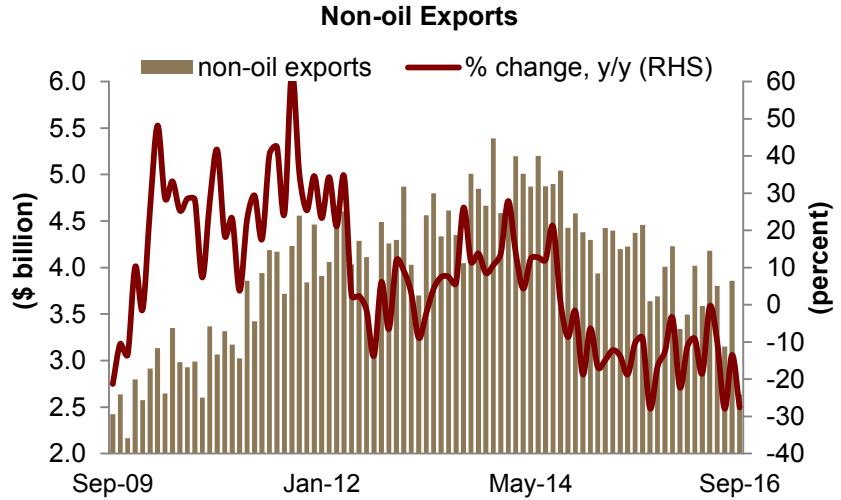




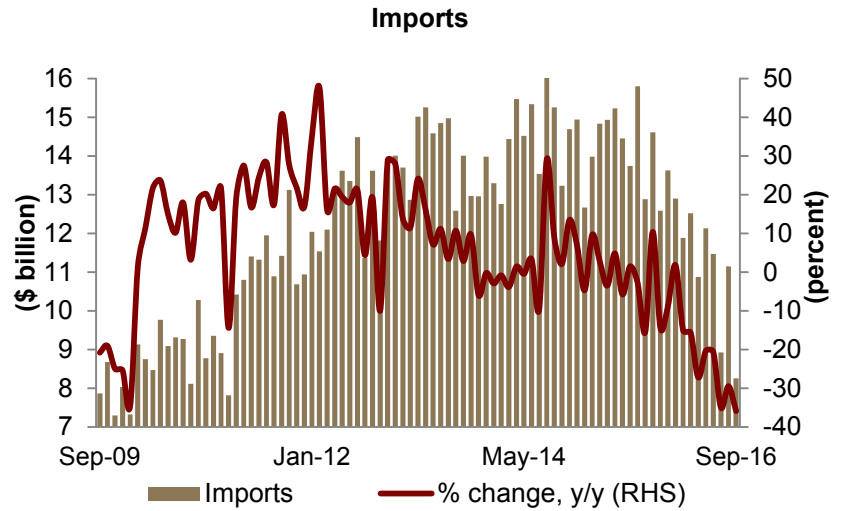
Non-oil Trade

September data showed non-oil exports and imports falling to six and five-year-lows, respectively. Non-oil exports fell as a result of persistently subdued global demand in 2016. Meanwhile, subdued imports are a reflection of a stronger Riyal vis-à-vis the US Dollar (see exchange rates section), since volumes imported from Jeddah Islamic Port, the Kingdom's largest, have been rising modestly.

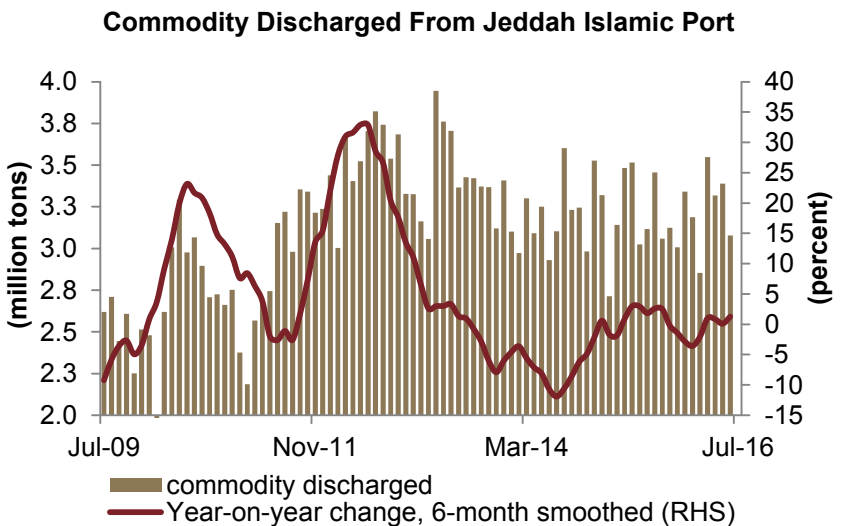
September exports fell by \$2.6 billion, the lowest since September 2010...



...while imports fell to \$8.3 billion, the lowest since February 2011...



...however, import volumes did not fall as much. This suggests a price effect is taking place as a result of a stronger Riyal, rather than weaker domestic demand.

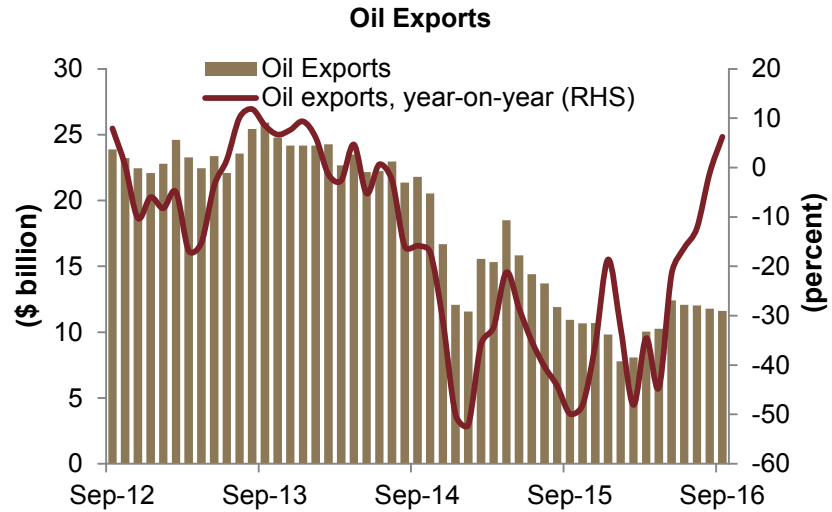




Overall Trade

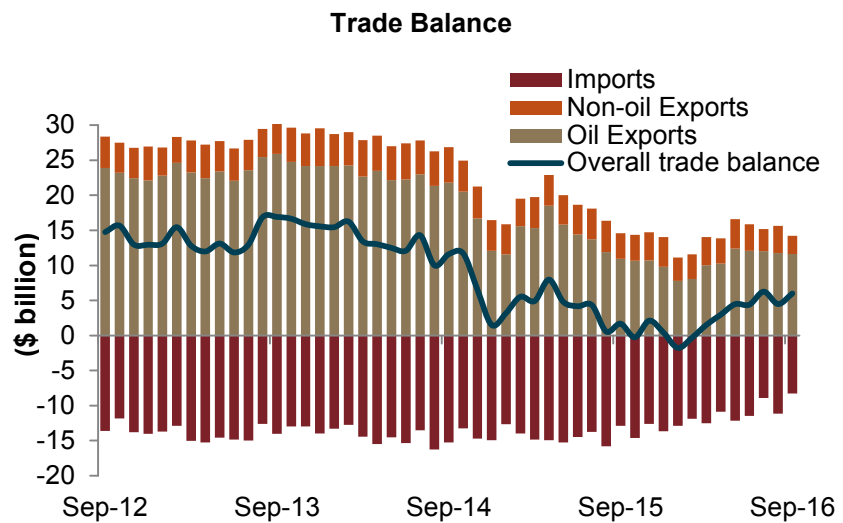
New data on the monthly value of oil exports showed the Kingdom earning \$96 billion year-to-September in oil export revenue, compared with \$128 billion during the same period in 2015. However, a rising trend in oil exports during Q3, coupled with a falling value of imports (see previous page) has led to an improvement in the Kingdom's trade surplus in recent months.

Oil exports have recently shown an improving trend.

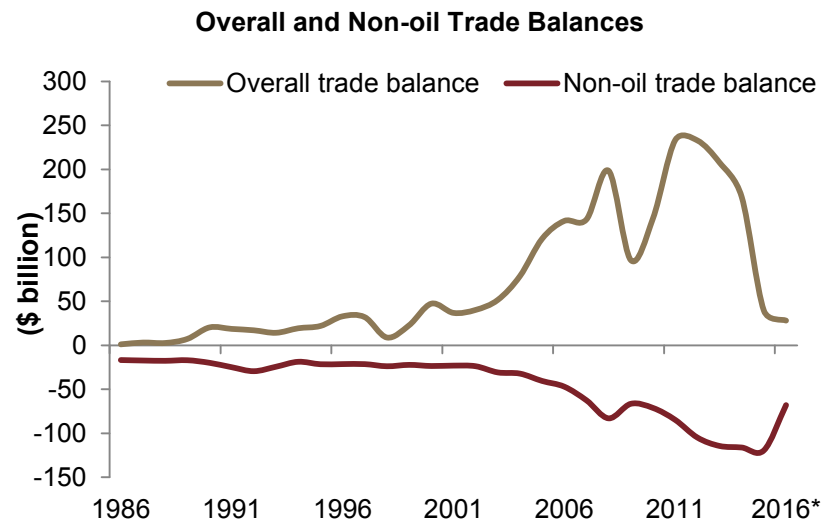


Note: Jadwa Investment estimates for period prior to September 2014.

The Kingdom's trade surplus rose from \$4.5 billion in August to \$6 billion in September.



The decline in the value of imports, coupled with generally lower oil exports, has led to a narrowing gap between total and non-oil trade balances during 2016.



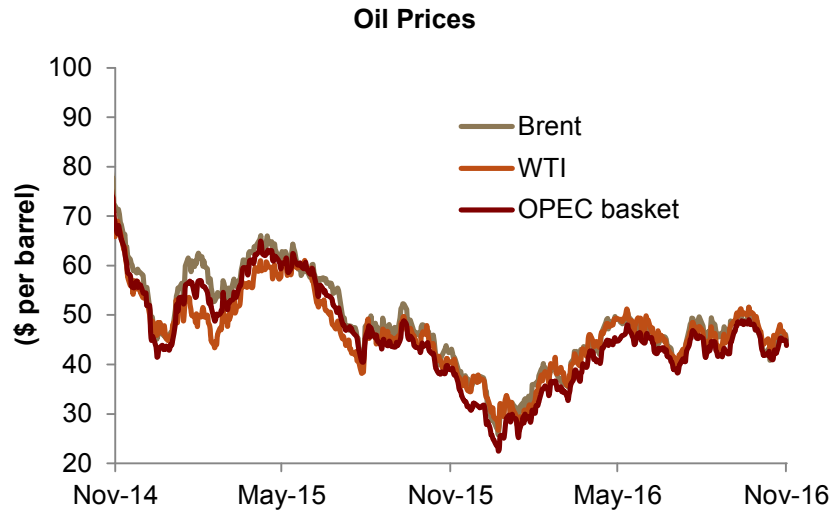
Note: *2016 trade balances are year-to-September.



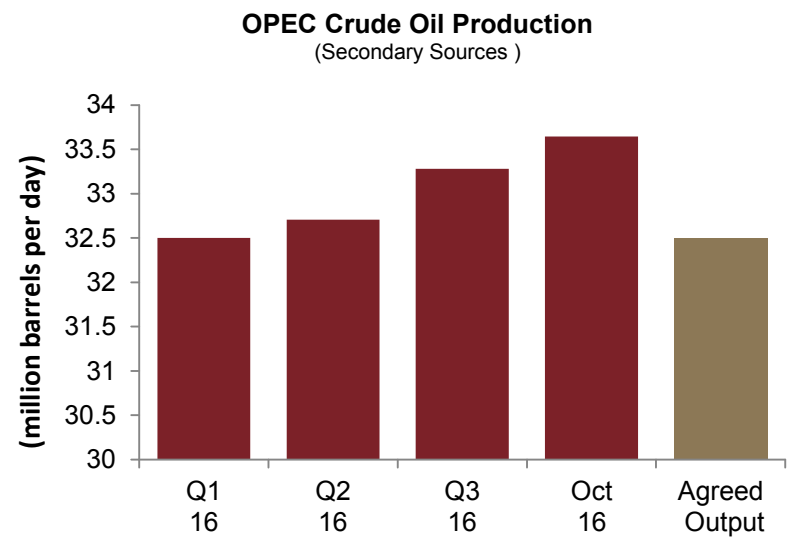
Oil - Global

Brent oil prices dropped by a sizable 10 percent and WTI 9 percent month-on-month in November as doubts built up during the month as to whether OPEC would agree to cut production. Despite this, OPEC did end up agreeing to cut production by 1.2 mbpd (to 32.5 mbpd) after meeting on 30th of November.

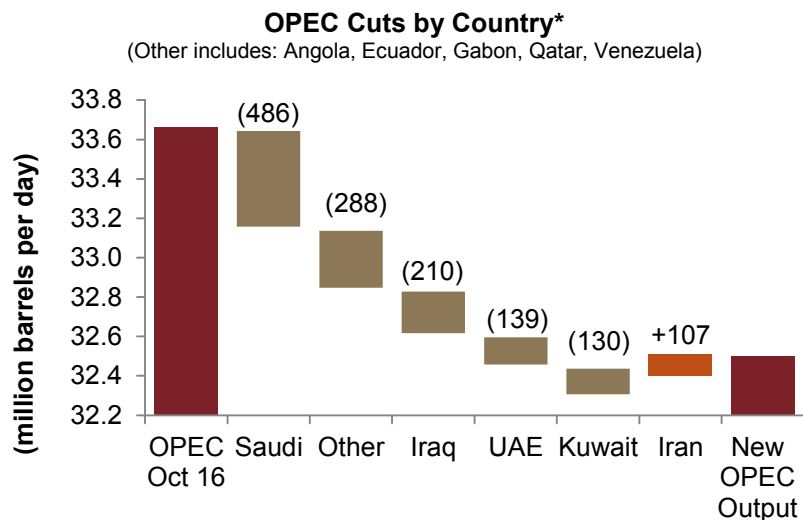
Brent prices were down 10 percent month-on-month in November...



...although they rebounded by 8 percent immediately after OPEC agreed to cut production by 1.2 mbpd (to 32.5 mbpd) on 30th of November.



Oil prices could rise even further in the short term, but whether they remain elevated will depend on OPEC implementing its agreement with discipline from January 2017.



*OPEC exempted Nigeria and Libya from cuts

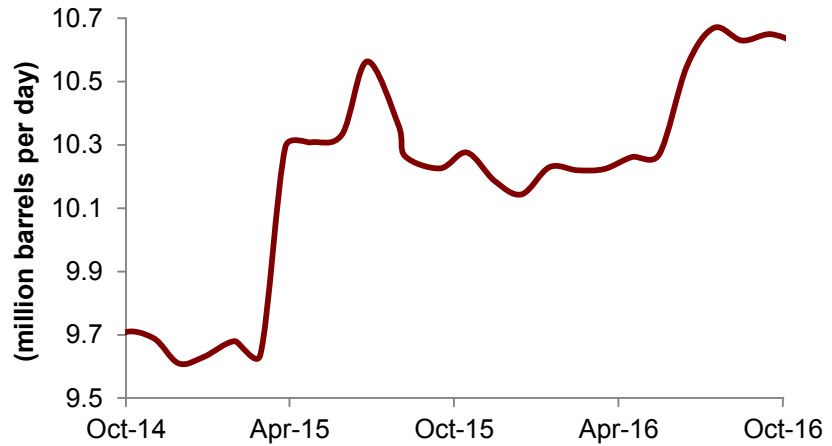


Oil - Regional

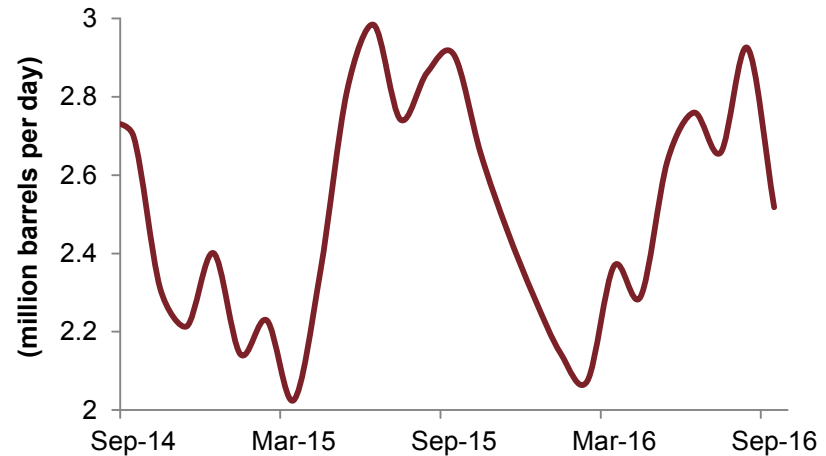
Saudi crude oil production was unchanged at 10.6 million barrels per day (mbpd) in October, month-on-month, and we expect similar levels in output in November and December. OPEC agreed to cut production in its current meeting, with Saudi production expected to fall to 10 mbpd, commencing January 2017.

Saudi crude oil production is currently at 10.6 mbpd and we expect November data to show no change.

Saudi Crude Oil Production
(October 2016)

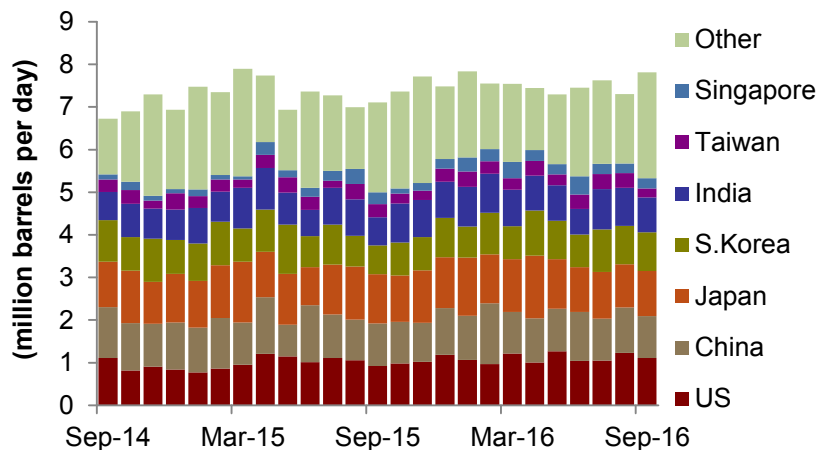


Saudi Crude and Refined Product Demand
(monthly average: latest available data from September 2016)



Latest available data shows that Saudi demand for crude and refined products fell by 400 tbpd in September...

Saudi Crude Oil Exports by Destination
(monthly average: latest available data from September 2016)



...whilst Saudi exports rose by 500 tbpd over the same period, to 7.8 mbpd. In light of this, we expect to see Saudi exports rising even higher in October as domestic consumption continues to decline month-on-month.

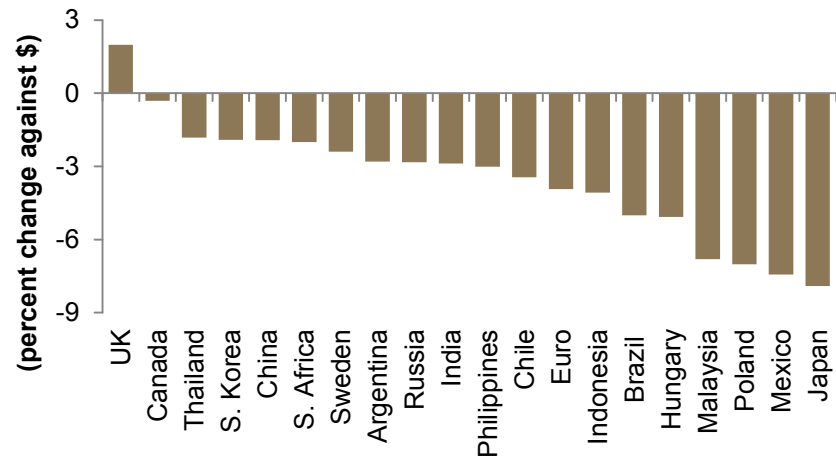


Exchange Rates

An upward revision in the US Q3 2016 GDP figure combined with a victory for the Republican party at US Presidential elections saw the US Dollar rise in November. The President-elect's policies related to infrastructure investment are seen as inflationary, which have raised expectations of a US interest rate hike in December.

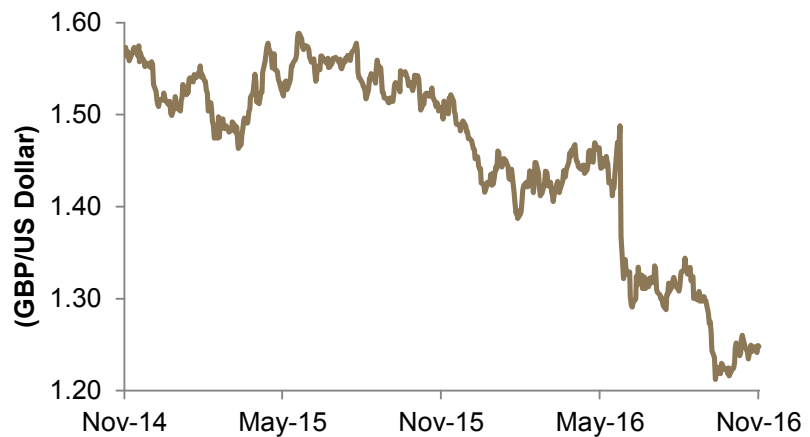
The US Dollar was up against all but one major currency, the UK Pound, in November...

Monthly Gain/Loss Against US Dollar
(November 2016)



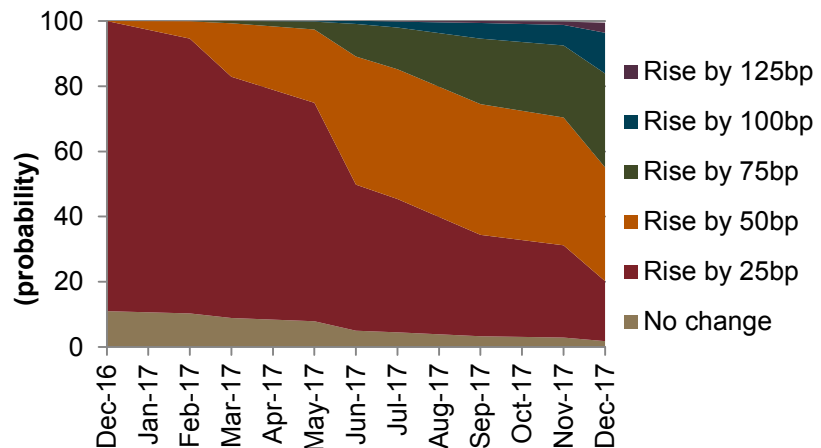
...although the pound had dropped steeply prior to November, due to uncertainty linked to 'Brexit'.

GBP/US Dollar



Probability of US Interest Rate Rises

(survey of expected rise in Federal Fund rate in basis points (bp) by date)



Latest survey data shows a very high probability of a US interest rate rise, by 25 basis points (bp), in December, with further hikes expected throughout 2017. This would imply continued dollar strength in the months ahead.

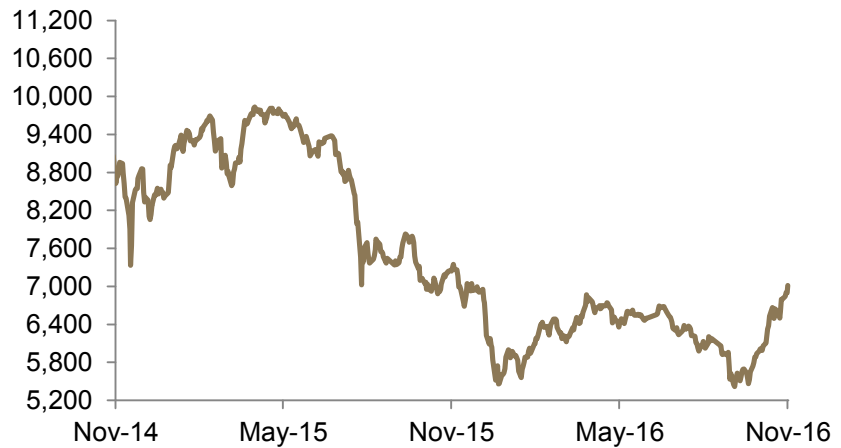


Stock Market

Positive sentiment from October's international bond sale and a recommencement of payments to contractors by government, pushed the TASI up by 16 percent month-on-month in November. This was the largest monthly rise since April 2009. Going forward, TASI's performance is likely to be influenced by expectations around the Saudi budget, which is usually released at the end of December.

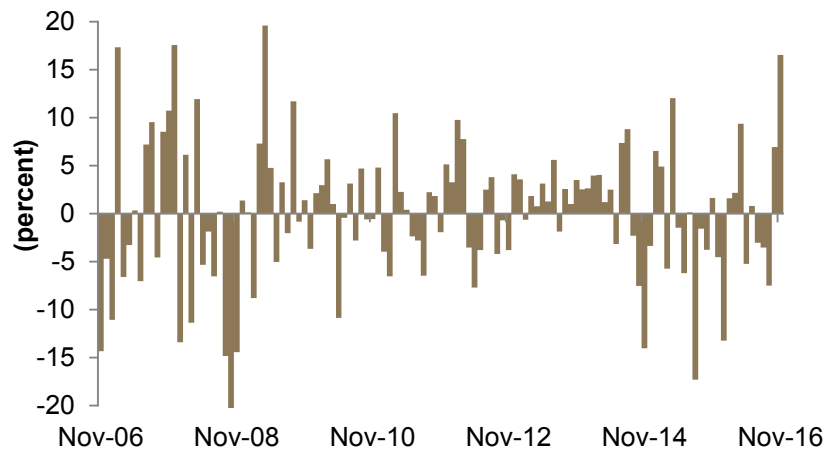
TASI up by 16 percent month-on-month in November...

TASI



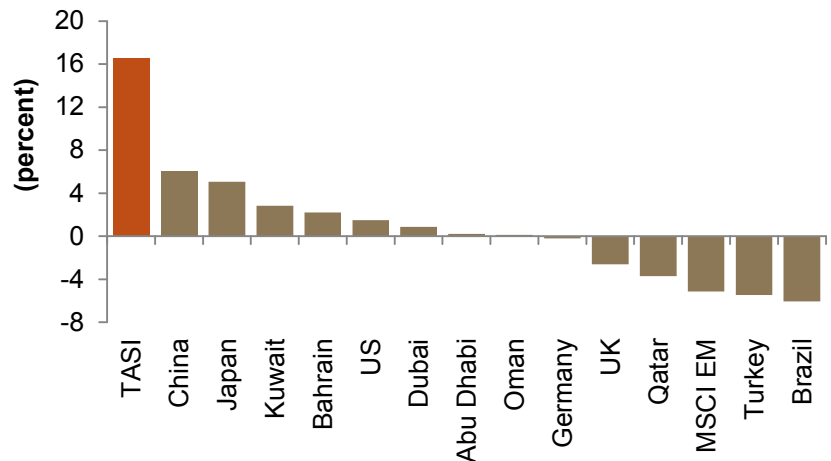
...its largest monthly rise in 7 years...

TASI Monthly Performance
(month-on-month change)



...which saw it outperform major global and regional equity markets.

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



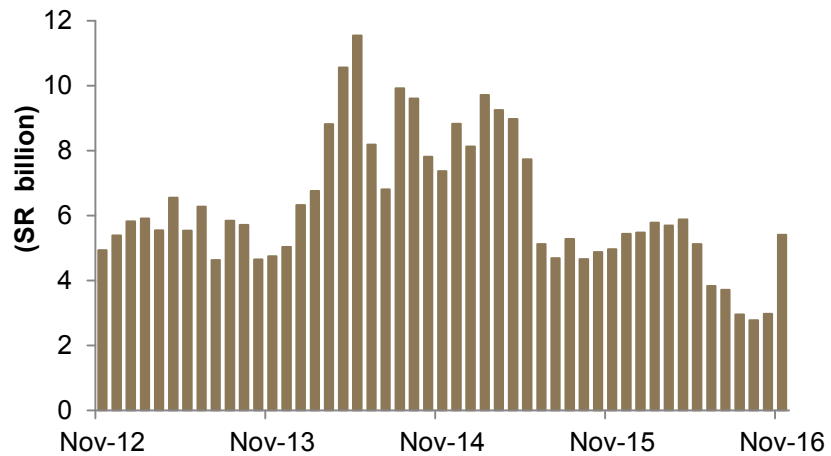


Volumes

Turnover in the TASI reflected increased investor activity by edging up in November, which led to market turnover recovering close to year-to-date average in most sectors. This comes in response to the Kingdom's sovereign bond success last month. We expect volumes to continue their upward movement in December.

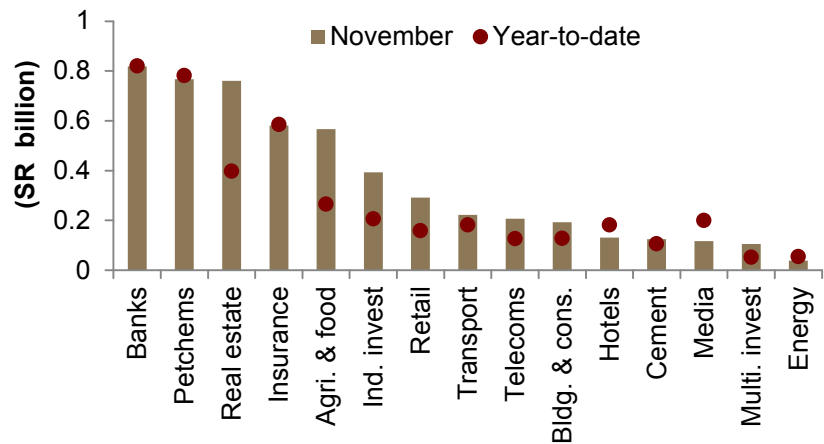
November's rise in TASI's monthly performance was accompanied by an improvement in traded volumes...

Daily Average Stock Market Turnover



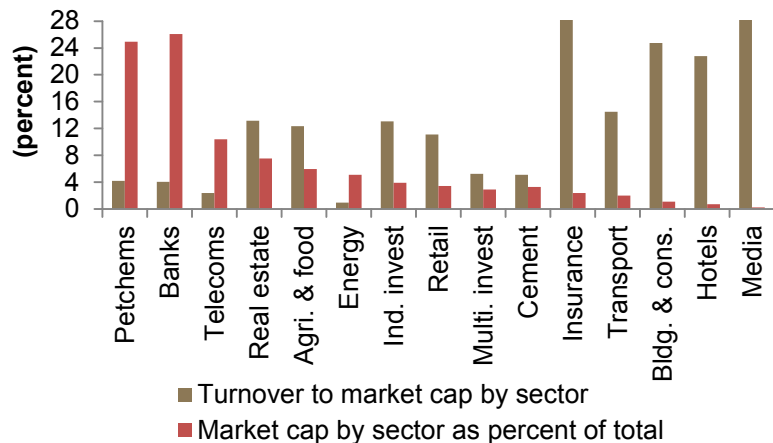
...as average daily turnover reached a four-month high for most sectors.

Turnover by Sector (daily average)



We expect volumes to continue picking up in the month ahead.

Turnover as Percent of Market Capitalization (November, 2016)



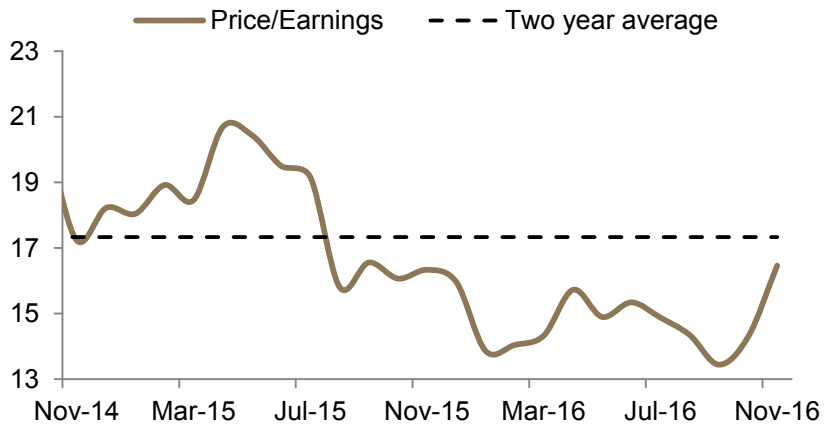


Valuations

TASI's strengthening monthly performance was mirrored in the benchmark's marginal price-to-earnings (PE) increase. This marks a 2016 high, and the closest PE has trended to the two-year average since September 2015. TASI's PE remains competitive against emerging markets and in-line with regional counterparts.

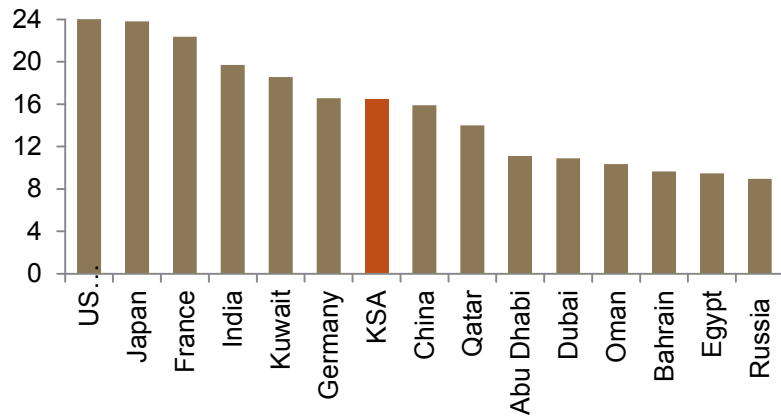
PE continued to edge upwards in November to 16.47, but still trends below the two-year average of 17.33...

TASI Price-to-Earnings Ratio



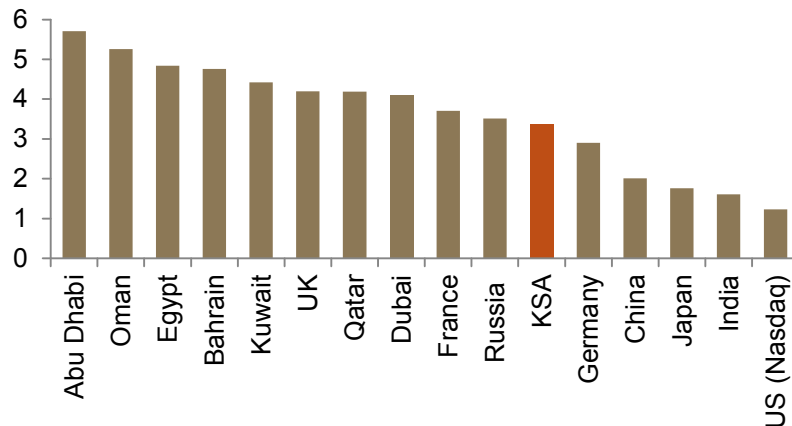
...making it more in-line with emerging markets...

Comparative Price-to-Earnings Ratios (end of month)



...although the benchmark's dividend yield is slightly lagging behind regional averages.

TASI Dividend Yield Ratios (end of month)

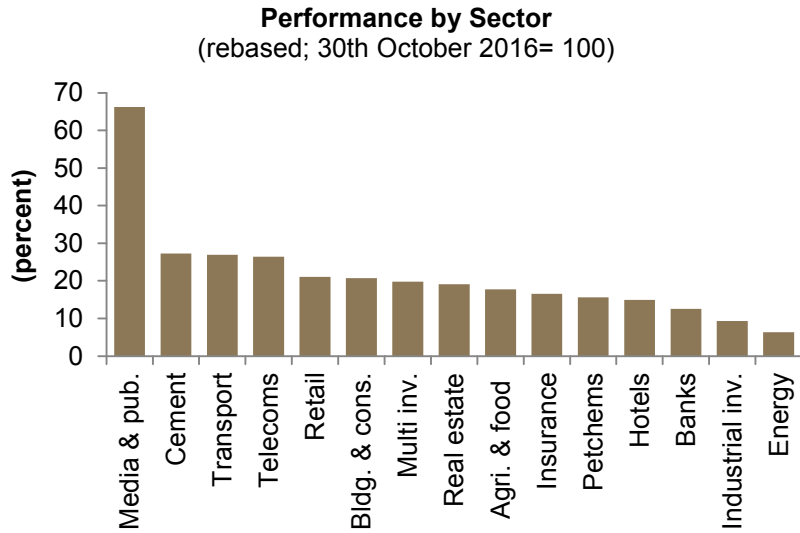




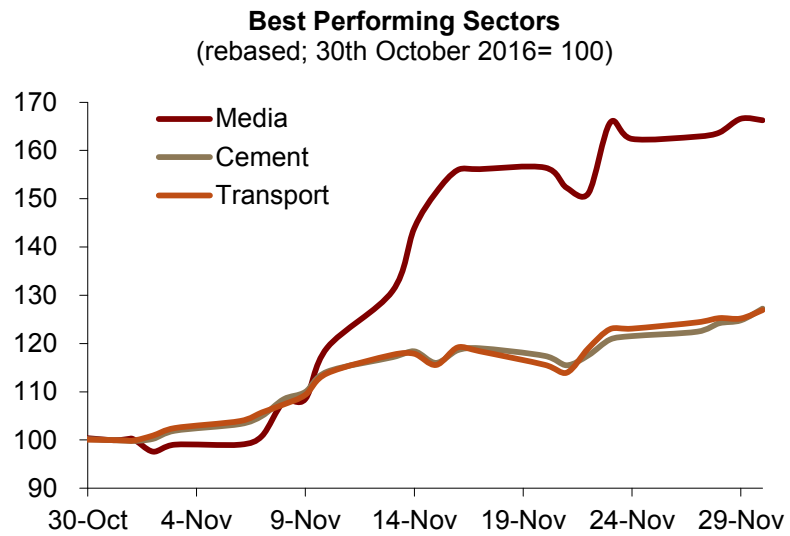
Sectoral Performance

All fifteen sectors were up in November in line with the TASI. Sector performance could become more differentiated in the month ahead as the Saudi budget is released with allocations for certain segments having a knock-on effect on each sector.

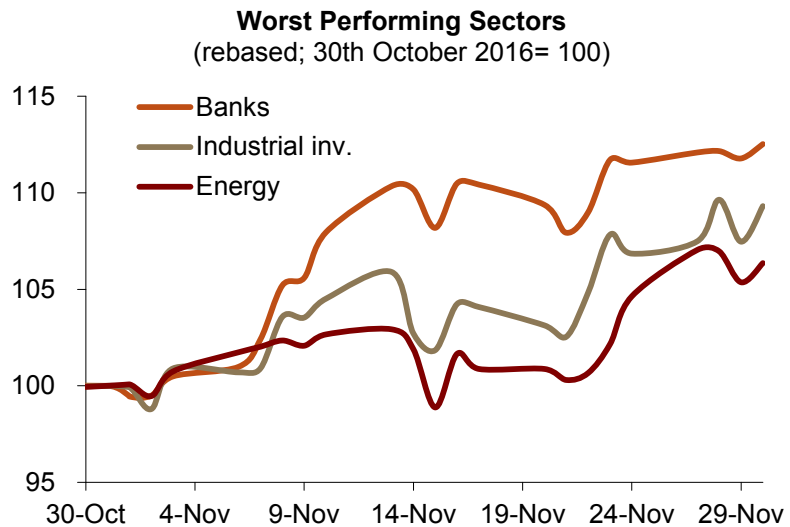
All sectors were up in November.



Sector performance could become more differentiated in the month ahead...



...as the Saudi budget is released with allocated budgets likely to affect the outlook of each sector.

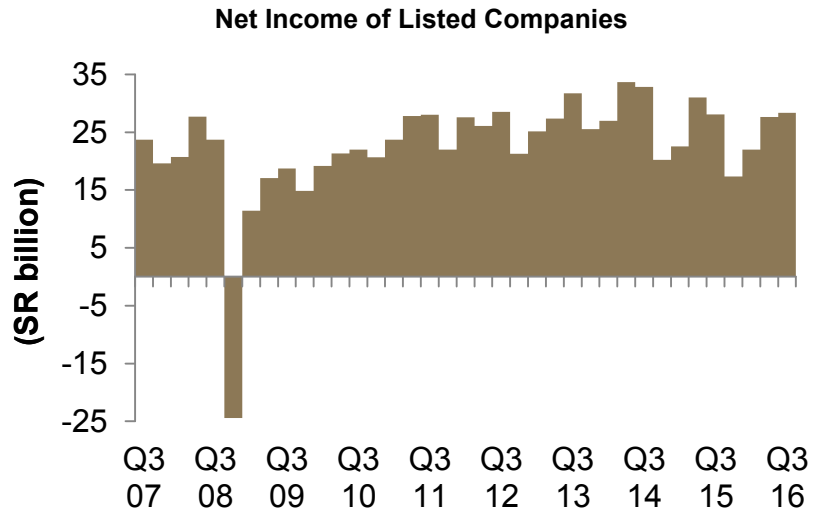




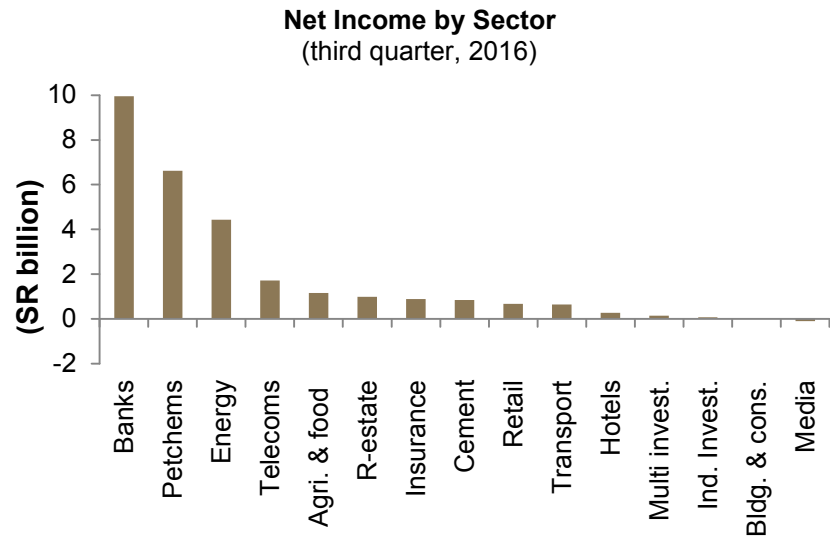
Third quarter 2016 results

Net-income of listed companies totaled SR28.3 billion in Q3 2016. Year-on-year growth was virtually flat, rising by 1 percent, whilst quarter-on-quarter net-income rose by 3 percent. The banking sector remains the largest contributor to net-income of listed companies.

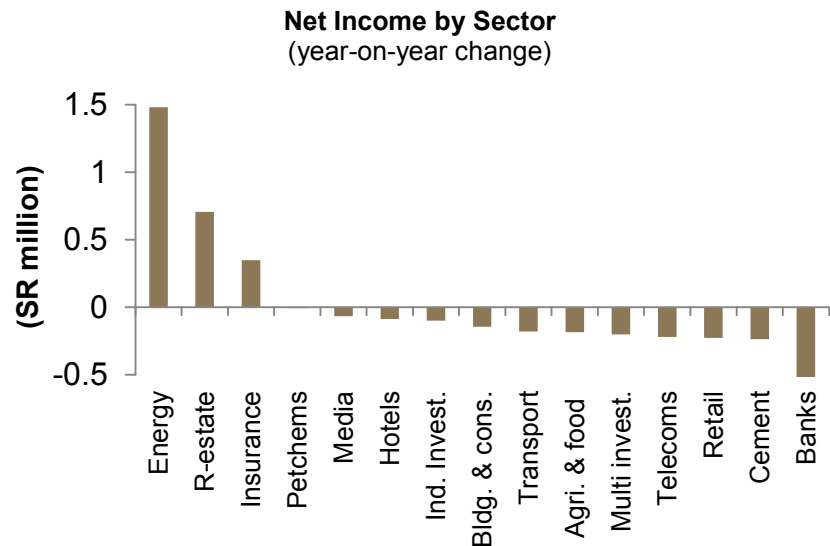
Net-income of listed companies in Q3 2016 was virtually flat, rising by 1 percent year-on-year....



...with the banking sector being the most profitable....



...whilst energy sector saw the largest year-on-year rise in net income, perhaps due to higher electricity tariffs which took effect from the beginning of 2016.





Key Data

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Nominal GDP | | | | | | | | | |
| (SR billion) | 1,609 | 1,976 | 2,511 | 2,752 | 2,791 | 2,827 | 2,423 | 2,360 | 2,591 |
| (\$ billion) | 429.1 | 527 | 670 | 734 | 744 | 754 | 646 | 629 | 691 |
| (% change) | -17.4 | 22.8 | 27.1 | 9.6 | 1.4 | 1.3 | -14.3 | -2.6 | 9.8 |
| Real GDP (% change) | | | | | | | | | |
| Oil | -8.0 | -0.1 | 12.2 | 5.1 | -1.6 | 2.1 | 3.97 | 2.1 | 0.6 |
| Non-oil private sector | 4.9 | 9.7 | 8.0 | 5.5 | 7.0 | 5.4 | 3.38 | 0.7 | 1.0 |
| Government | 6.3 | 7.4 | 8.4 | 5.3 | 5.1 | 3.7 | 2.49 | -0.6 | -0.7 |
| Total | 1.8 | 4.8 | 10.0 | 5.4 | 2.7 | 3.6 | 3.49 | 1.1 | 0.6 |
| Oil indicators (average) | | | | | | | | | |
| Brent (\$/b) | 61.7 | 79.8 | 112.2 | 112.4 | 109.6 | 99.4 | 52.1 | 43.8 | 54.5 |
| Saudi (\$/b) | 60.4 | 77.5 | 103.9 | 106.1 | 104.2 | 95.7 | 49.4 | 40.8 | 51.5 |
| Production (million b/d) | 8.2 | 8.2 | 9.3 | 9.8 | 9.6 | 9.7 | 10.2 | 10.3 | 10.4 |
| Budgetary indicators (SR billion) | | | | | | | | | |
| Government revenue | 510 | 742 | 1,118 | 1,247 | 1,156 | 1,044 | 616 | 585 | 664 |
| Government expenditure | 596 | 654 | 827 | 873 | 976 | 1,110 | 978 | 850 | 815 |
| Budget balance | -87 | 88 | 291 | 374 | 180 | -66 | -362 | -265 | -151 |
| (% GDP) | -5.4 | 4.4 | 11.6 | 13.6 | 6.5 | -2.3 | -15.0 | -11.2 | -5.8 |
| Gross public debt | 225 | 167 | 135 | 99 | 60 | 44 | 142 | 338 | 474 |
| (% GDP) | 14.0 | 8.5 | 5.4 | 3.6 | 2.2 | 1.6 | 5.9 | 14.3 | 18.3 |
| Monetary indicators (average) | | | | | | | | | |
| Inflation (% change) | 4.1 | 3.8 | 3.7 | 2.9 | 3.5 | 2.7 | 2.2 | 3.7 | 2.0 |
| SAMA base lending rate (% , year end) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.3 | 3.0 |
| External trade indicators (\$ billion) | | | | | | | | | |
| Oil export revenues | 167 | 215 | 318 | 337 | 322 | 285 | 155 | 132 | 160 |
| Total export revenues | 192 | 251 | 365 | 388 | 376 | 342 | 202 | 181 | 213 |
| Imports | 87 | 97 | 120 | 142 | 153 | 158 | 155 | 146 | 145 |
| Trade balance | 105 | 154 | 245 | 247 | 223 | 184 | 47 | 35 | 68 |
| Current account balance | 21 | 67 | 159 | 165 | 135 | 74 | -53 | -52 | -21 |
| (% GDP) | 4.9 | 12.7 | 23.7 | 22.4 | 18.2 | 9.8 | -8.3 | -8.3 | -3.1 |
| Official reserve assets | 410 | 445 | 544 | 657 | 726 | 732 | 616 | 523 | 460 |
| Social and demographic indicators | | | | | | | | | |
| Population (million) | 26.7 | 27.4 | 28.2 | 28.9 | 29.6 | 30.3 | 31.0 | 31.7 | 32.4 |
| Saudi unemployment (15+, %) | 10.5 | 10.5 | 12.4 | 12.1 | 11.7 | 11.7 | 11.5 | 12.0 | 11.6 |
| GDP per capita (\$) | 16,095 | 19,211 | 23,766 | 25,401 | 25,146 | 24,878 | 20,828 | 19,823 | 21,322 |

Sources: Jadwa Investment forecasts for 2016, and 2017. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. General Authority for Statistics and Jadwa estimates for oil, social and demographic indicators.



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