



Summary

Real Economy: Economic indicators showed a mixed performance during November. Cash withdrawals from ATMs declined, while POS transactions increased at a slower rate. Meanwhile, the non-oil PMI increased to its highest level since August 2015, during November.

National Accounts 2017: Provisional data for 2017, released by Gastat, showed the Saudi economy contracted by 0.7 percent, year-on-year in 2017, with growth being dragged down by the oil sector.

Government Finance: The net monthly change to government accounts with SAMA dropped by SR26 billion month-on-month in November.

2018 Fiscal Budget: The largest ever budgeted expenditure of SR978 billion was announced in the 2018 fiscal budget. Based on revenues of SR783 billion, the government is expecting a slightly lower year-on-year deficit, at SR195 billion.

Fiscal Balance Program 2023: The updated fiscal balance program disclosed revenue and expense projections to 2023.

Energy Price Reform: The Kingdom saw another round of energy price reform, with electricity tariffs and the price of gasoline being raised.

SAMA Foreign Reserve Assets: SAMA FX rose by \$1 billion month-on-month to stand at \$494 billion in November, the highest since June 2017.

Inflation: Prices in November were up marginally, by 0.1 percent year-on-year, resulting in the first monthly rise in 2017.

Labor Market: The Saudi unemployment rate remained unchanged quarter-on-quarter in Q3 2017, at 12.8 percent.

Oil - Global: Brent oil prices were up 3 percent month-on-month in December as strong demand and outages in the UK and Libya supported prices.

Oil - Regional: Saudi crude oil production was flat month-on-month in November.

Exchange Rates: The dollar fell against most currencies during December underlining a general trend for the currency seen in 2017.

Stock Market: TASI rose 3 percent month-on-month in December, the second highest monthly rise in 2017, after investor sentiment picked up following the announcement of the 2018 fiscal budget.

Sectorial Performance: Most sectors ended the month of December with significant rises.

For comments and queries please contact:

Fahad M. Alturki
Chief Economist and Head of Research
faltaruki@jadwa.com

Asad Khan
Director
rkhan@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

Jadwa Investment is licensed by the Capital Market Authority to conduct Securities Businesses, license number 6034-37.

View Jadwa Investment's research archive and sign up to receive future publications:
<http://www.jadwa.com>

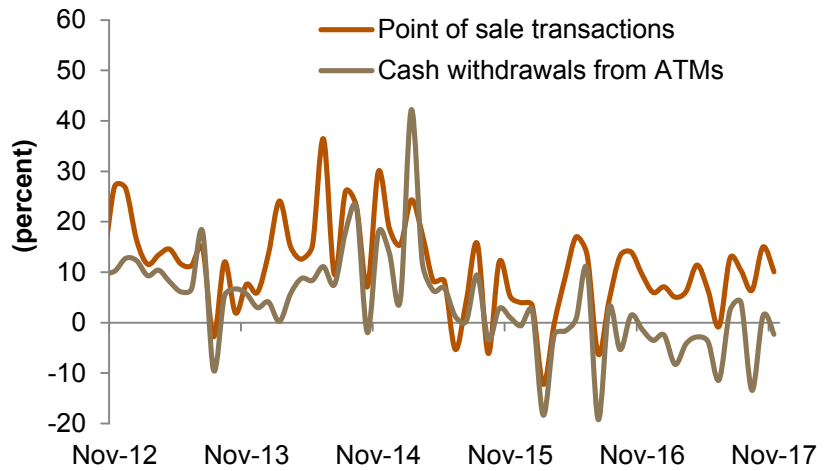


Real Economy

Economic indicators showed mixed performance during November. Cash withdrawals from ATMs declined, while POS transactions increased at a slower phase. Continued subdued activity in the construction sector led to cement sales dropping by 8.4 percent year-on-year. Meanwhile, the non-oil PMI increased to its highest level since August 2015 during November.

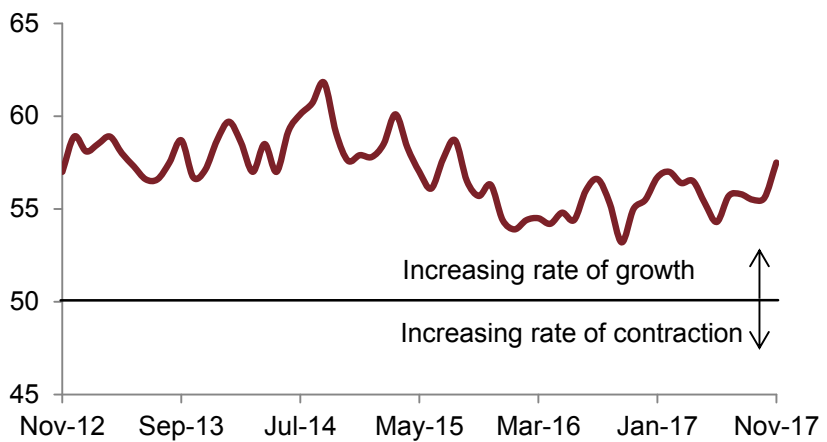
ATM withdrawals declined by 2.3 percent year-on-year, while POS transactions increased by 10.1 percent year-on-year in November.

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



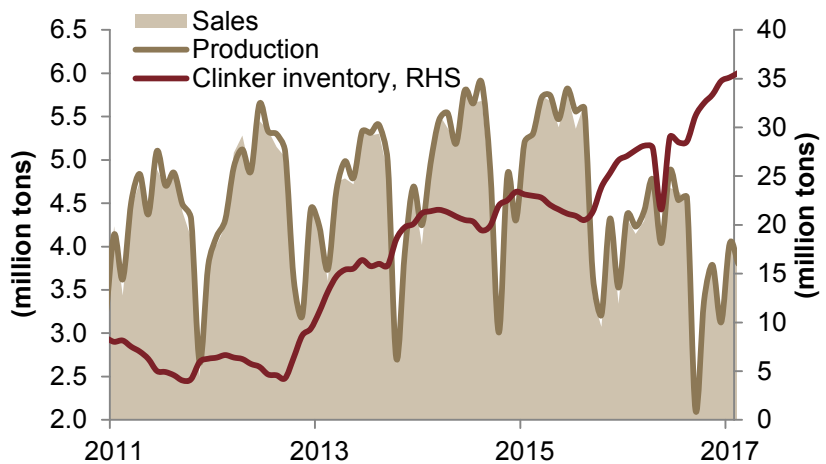
The non-oil PMI increased to its highest level since August 2015.

Purchasing Managers' Index



The construction sector continues to be hampered by weaker activity with cement sales down again in November, year-on-year.

Cement Production, Sales and Clinker Inventory

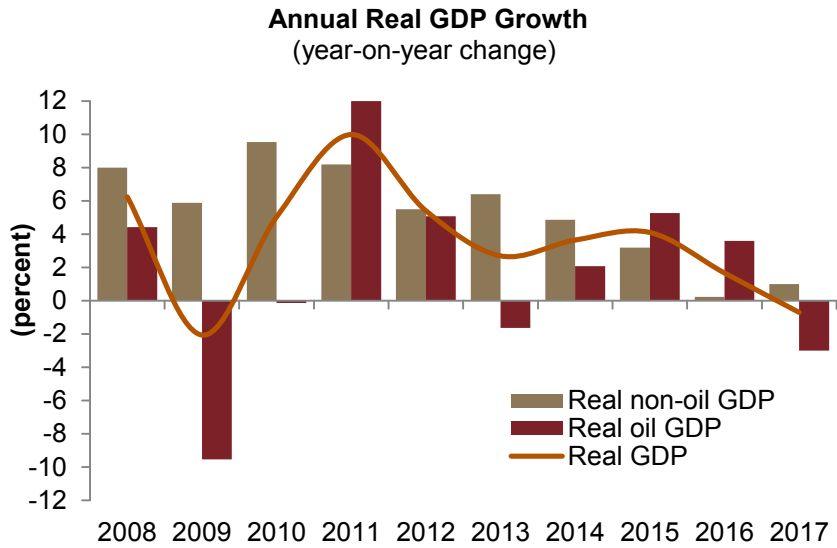




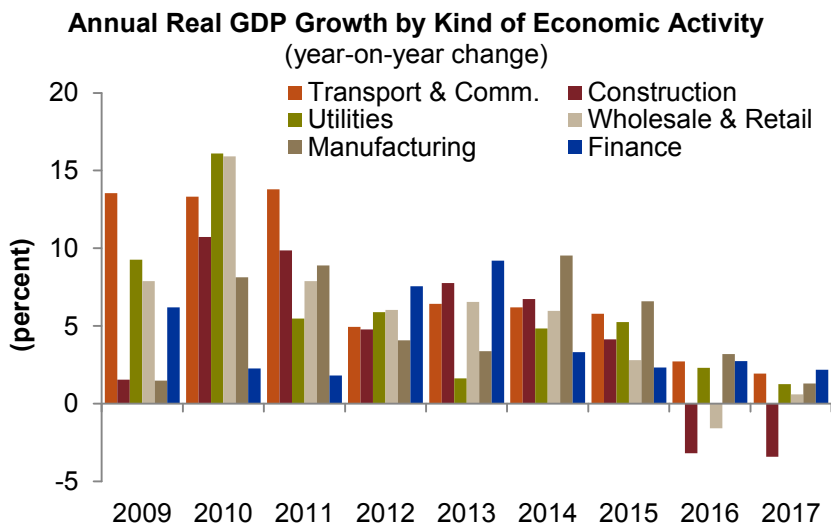
National Accounts 2017

Provisional data for 2017, released by Gastat, showed Saudi economy contracted by 0.7 percent, year-on-year in 2017, with growth being dragged down by the oil sector (-3 percent), whilst non-oil GDP showed better year-on-year growth at 1 percent. Within the non-oil sector, non-oil private sector GDP (0.7 percent) was boosted by growth from the finance sector.

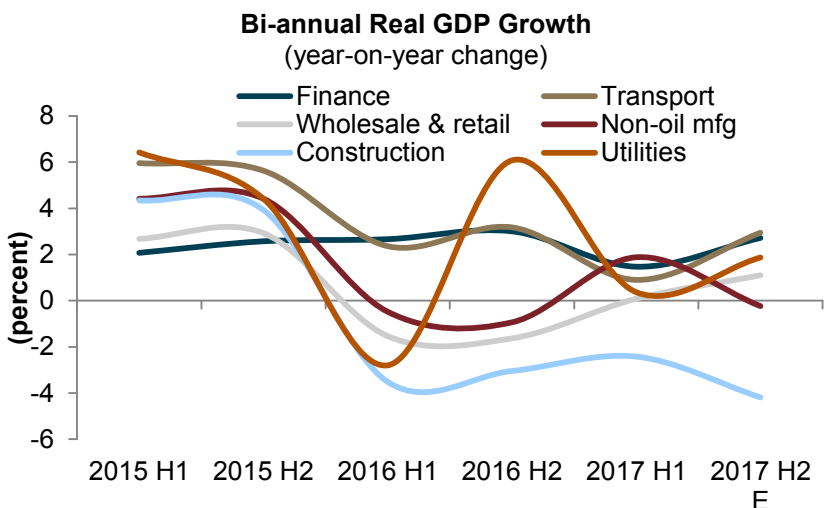
Saudi Arabia's real GDP contracted by 0.7 percent, year-on-year, in 2017...



...whilst non-oil private sector GDP growth, at 0.7 percent, was boosted by growth in the finance sector. The finance subsectors, 'ownership of dwellings' and 'finance-other services' were both up by 2.2 percent.



Provisional data on real GDP growth showed that the economy contracted by 0.8 percent year-on-year in H2 2017, driven by a contraction in the oil sector by 4.1 percent year-on-year. Non-oil sector expanded by 1.4 percent in H2, led by 'ownership of dwellings', 'transport', and 'non-oil mining' sectors.



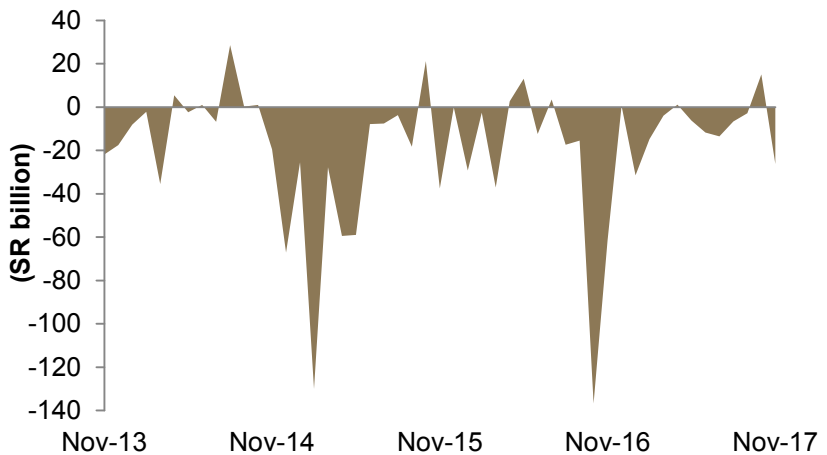


Government Finance

The net monthly change to government accounts with SAMA declined by SR26 billion month-on-month in November, mainly as a result of a decline in government current deposits by SR23.7 billion month-on-month. At the same time, domestic banks holdings of government bonds increased by SR5.8 billion month-on-month during November.

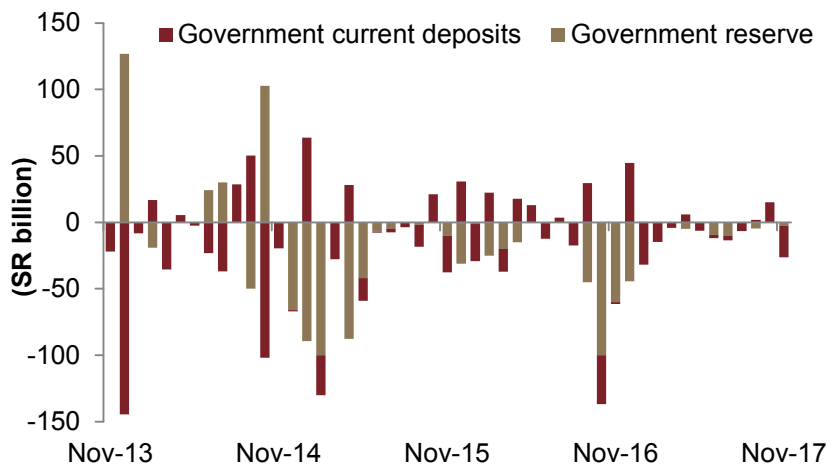
The net monthly change to government accounts with SAMA saw a decline by SR26 billion month-on-month in November...

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



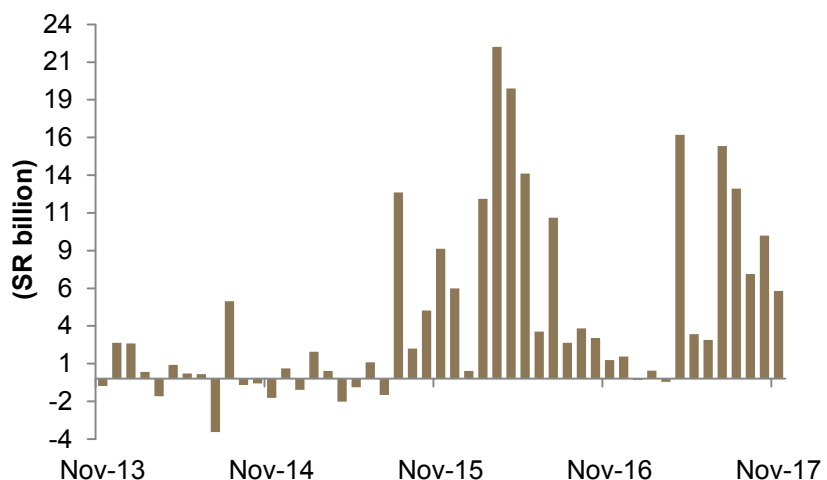
...mainly as a result of a decline in government current deposits by SR23.7 billion month-on-month in November.

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



Domestic banks holdings of government bonds increased by SR5.8 billion month-on-month in November. This may reflect the Ministry of Finance's decision to re-open October's local sukuk for an additional SR6.7 billion, which was announced in November.

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





2018 Fiscal Budget

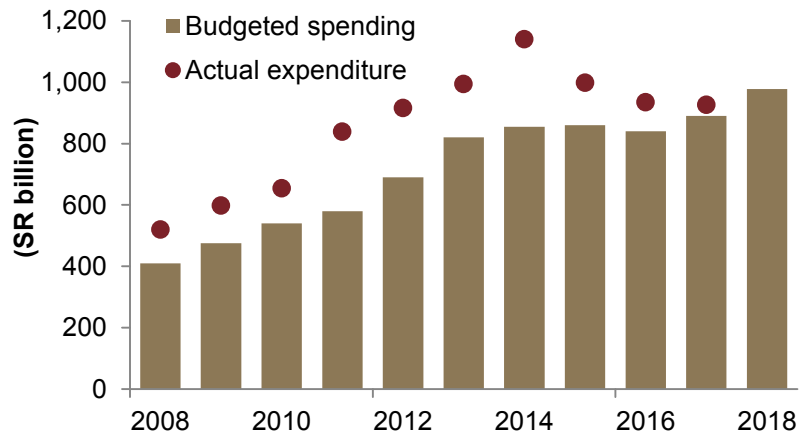
The largest ever budgeted expenditure of SR978 billion was announced in the 2018 fiscal budget. Based on revenues of SR783 billion, the government is expecting a slightly lower year-on-year deficit at SR195 billion. We calculate that Brent oil price of \$60 pb and oil production of 10.1 mbpd in 2018 are consistent with the oil revenue projections contained in the budget.

As per the trend in the last couple of years, we expect actual expenditure to be very close to the budgeted total of SR978 billion in 2018.

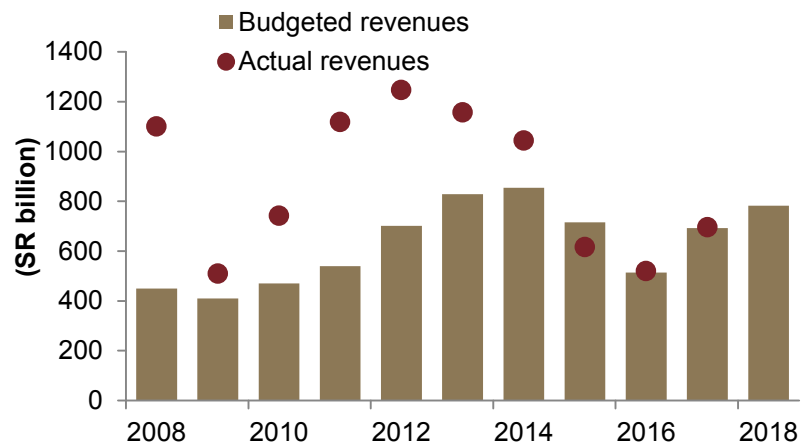
Brent oil prices improved 25 percent year-on-year in 2017, which helped raise year-on-year budgeted oil revenue by 32 percent. There has also been an emphasis on increasing non-oil revenue.

Our budgeted oil revenue is equal to SR466 billion in 2018, SR26 billion less than the government's budgeted revenue. We assume this difference to be what the government expects to receive from domestic energy price reform.

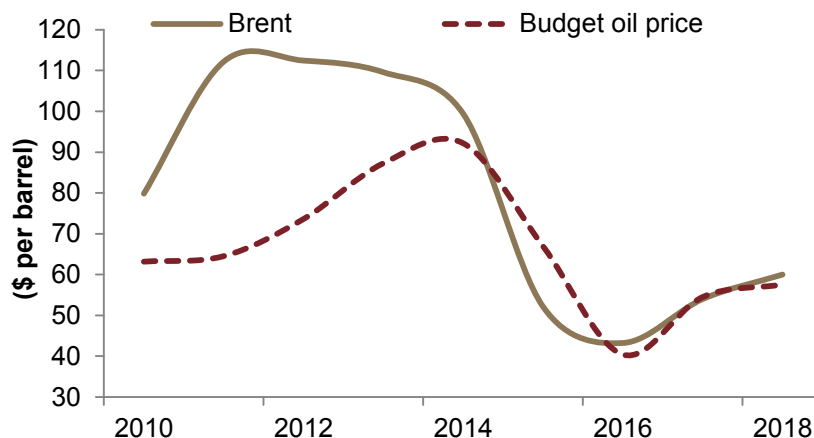
Budgeted vs. Actual Expenditure



Budgeted vs. Actual Revenue



Budget Oil Price



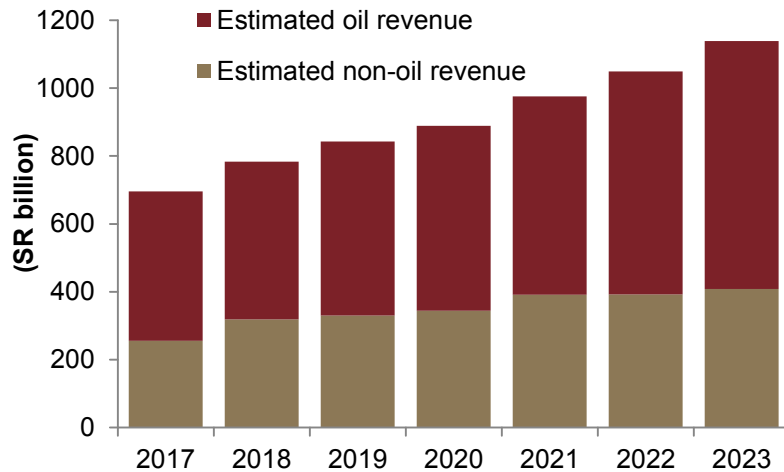


Fiscal Balance Program 2023

The updated fiscal balance program (FBP) disclosed revenue and expense projections to 2023. On the expenditure side, the Kingdom is expected to see an expansionary budget stance until 2023, with an average annual increase in budgeted spending by 3 percent between 2018-2023, reaching SR1.34 trillion in spending come 2023.

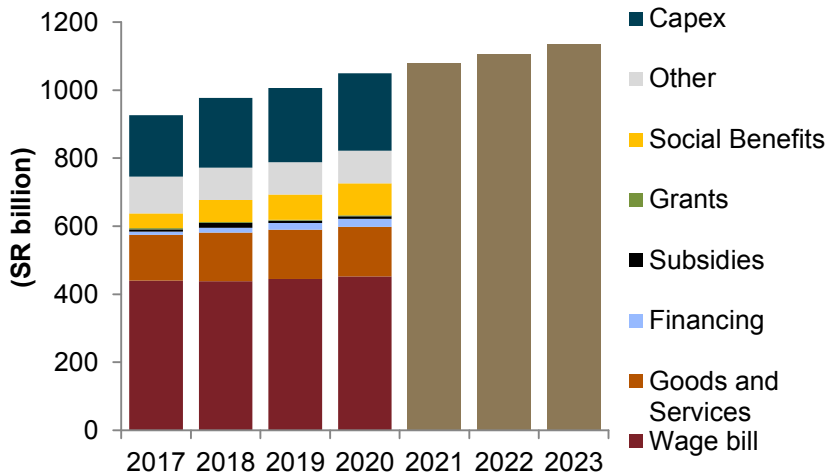
According to our estimates, oil revenue will make up slightly higher proportion of total revenue in 2023, at 64 percent, compared to 63 percent in 2017.

Government Revenue to 2023
(Jadwa estimates for oil & non-oil revenue)

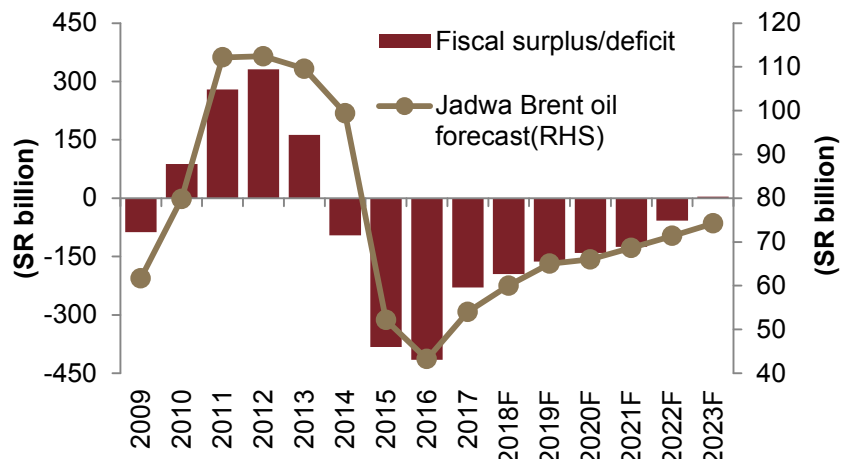


Meanwhile, we expect the largest component of spending, the wage bill, to decline to 41 percent of total spending in 2023, versus 48 percent in 2017.

Government Expenditure to 2023



Fiscal Deficit to 2023
(Jadwa forecast for Brent oil)



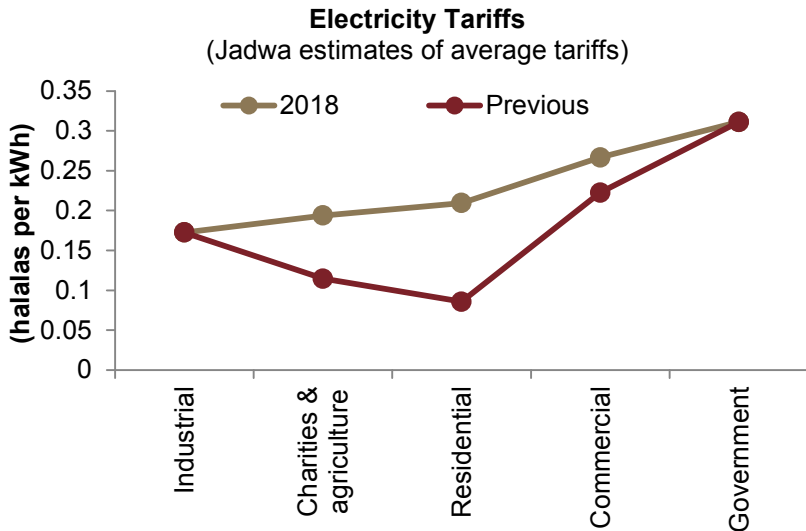
According to the revised FBP, the Kingdom is now expected to see a balanced budget in 2023.



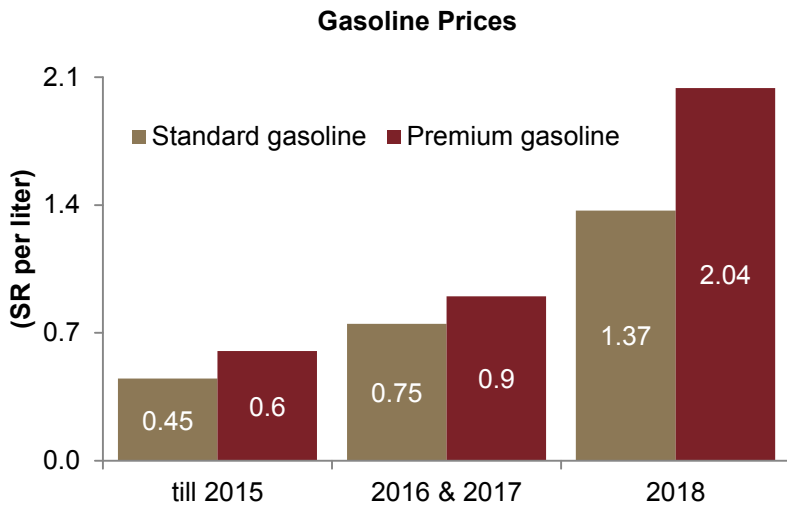
Energy Price Reform

The Kingdom saw another round of energy price reform, which is also a key part of the FBP. Prior to the budget, the Saudi Cabinet approved a rise in electricity tariffs. In addition, the price of standard and premium gasoline was raised. Diesel for manufacturing and utilities was up 15 percent. Diesel, gasoline and electricity hikes took effect from 1st January 2018 and included 5 percent VAT.

We estimate that the residential segment saw the highest rise, by 145 percent, in average electricity tariffs in the recent round of price hikes.



Meanwhile, premium gasoline prices rose by 127 percent, whilst standard gasoline rose by 83 percent, inclusive of VAT, which also came into effect in the new year. Separately, diesel for manufacturing and utilities was up 15 percent, but there was no change in price for transportation diesel.



Timeline of Energy Price Reform

	2018	2019	2020	2021	2022	2023	2024	2025
Gasoline	Linkage to reference price gradually between 2018 and 2025							
Diesel	Linkage to reference price gradually between 2018 and 2025							
Jet Fuel	Reference price in 2018							
Natural Gas & Ethane			Reference price between 2020 & 2021 & subject to price ceiling					
LPG & Kerosene (retail sector)		Reference price in 2019						
Asphalt		Link to reference price between 2019 and 2021						
NGLs (propane, butane, nat. gasoline)			Link to reference in 2020					
Other Liquid Fuel Products	Linkage to reference price implemented gradually between 2019 and 2025							
Electricity	Price reflects production cost assuming the ideal efficiency							

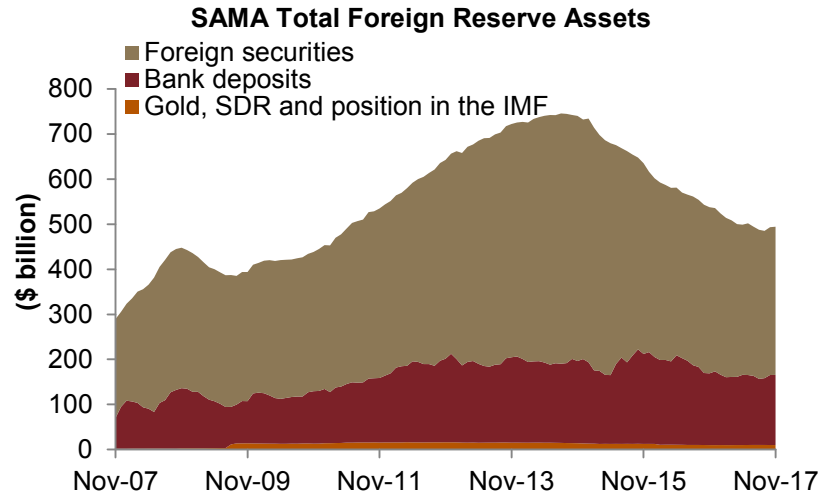
Although no other energy product prices rises were announced, there could be further hikes in 2018, especially in jet/aviation fuel, as outlined in the updated FBP. The new FBP also provides a timeline in gradual energy price reform on all products to 2025.



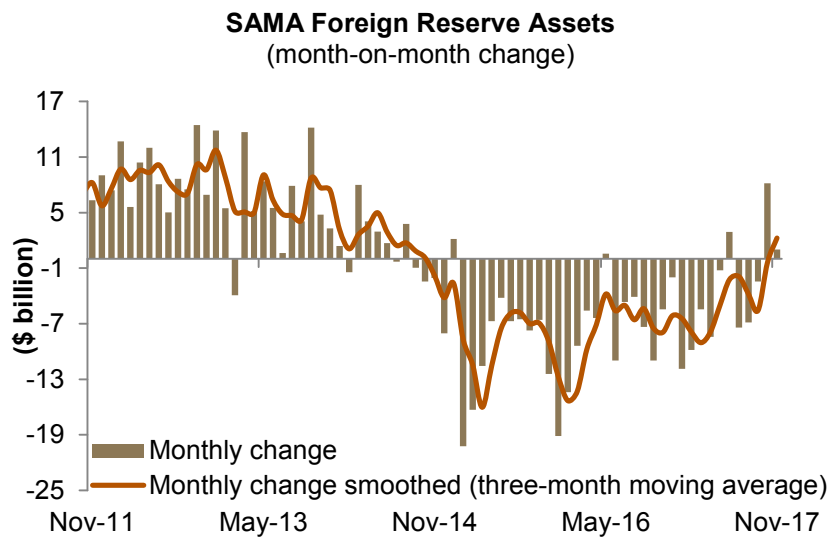
SAMA Foreign Reserve Assets

SAMA FX rose by \$1 billion month-on-month to stand at \$494 billion in November, the highest since June 2017. A combination of higher oil prices and a \$12.5 billion international sukuk issuance at the end of September 2017 seems to have alleviated pressure on FX reserve withdrawals. A breakdown of FX reserves shows the rises came mainly from foreign securities.

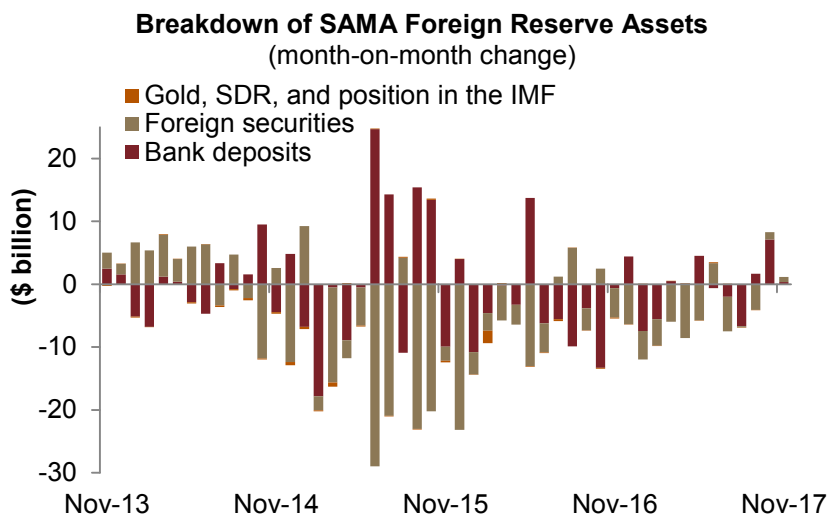
SAMA FX reserves have risen by a total of \$9 billion...



...in the last two months ...



...which is likely due to higher oil prices and a international sukuk issuance at the end of September 2017.

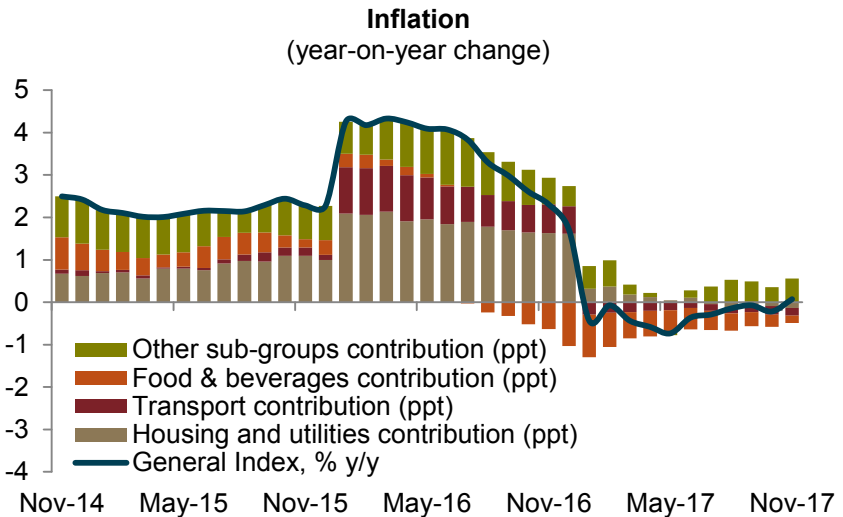




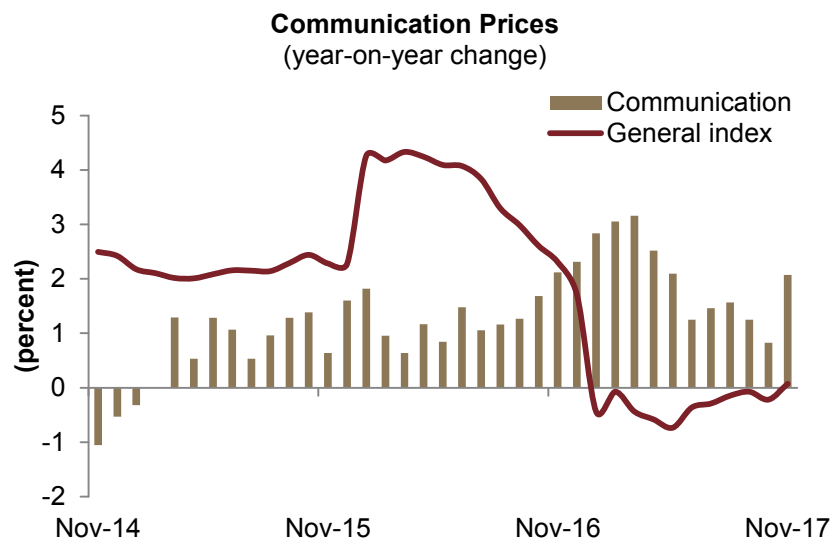
Inflation

Prices in November were up marginally, by 0.1 percent year-on-year, resulting in the first monthly rise in 2017. 'Communication' prices, which were up by 2 percent year-on-year, seemed to have contributed to the overall rise during the month. Meanwhile, 'housing & utilities' continued to decline during the month, as did 'food and beverages', which declined by 0.8 percent, year-on-year.

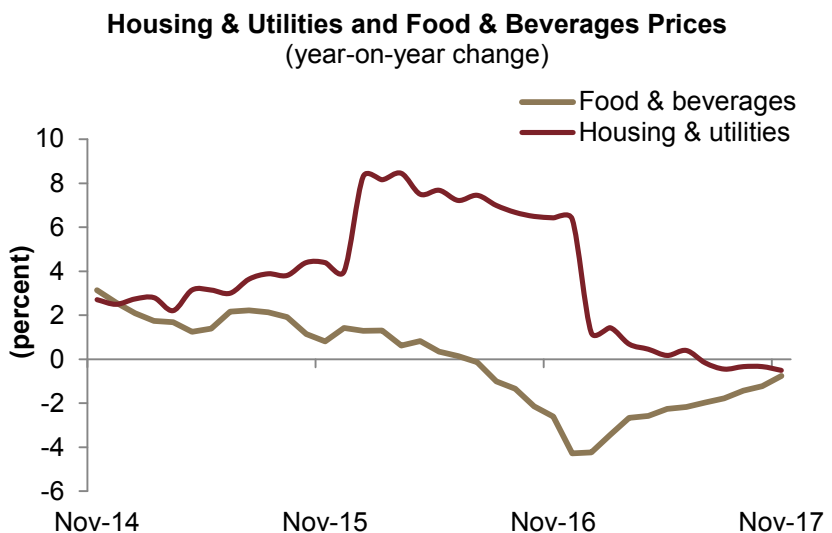
Prices in November were up marginally by 0.1 percent year-on-year, for the first time in 2017.



A rise in 'communication' prices was 2 percent year-on-year, driven by a rise in 'telephone and telefax equipment' sub-component by 15.3 percent year-on-year.



'Housing and utilities' continued to decline, affected by a lowering trend in 'rentals for housing' which declined by 0.5 percent year-on-year in November. 'Food and beverages' continued to decline, but at a slower rate.





Labor Market

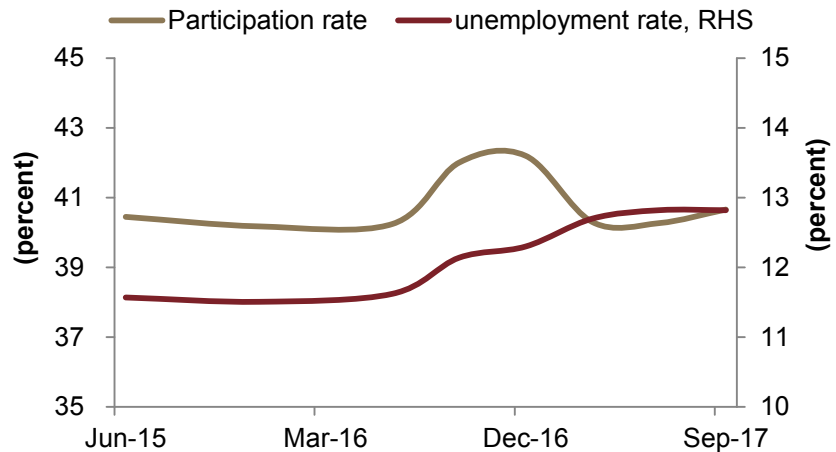
The Saudi unemployment rate remained unchanged quarter-on-quarter in Q3 2017, at 12.8 percent, supported by higher growth in the non-oil sector by 2.1 percent year-on-year in Q3. However, the number of foreigners working in the Saudi labor market declined in Q3 by 1.7 percent since the start of the year, as the total number of foreigner workers decreased by 189 thousand. The biggest share of this decline came from male workers, declining by 2.2 percent since the beginning of 2017.

The Saudi unemployment rate remained unchanged quarter-on-quarter in Q3 2017, at 12.8 percent. The participation rate increased from 40.3 in H1 2017 to 40.7 percent in Q3, driven by higher participation rates among males aged between 45-60.

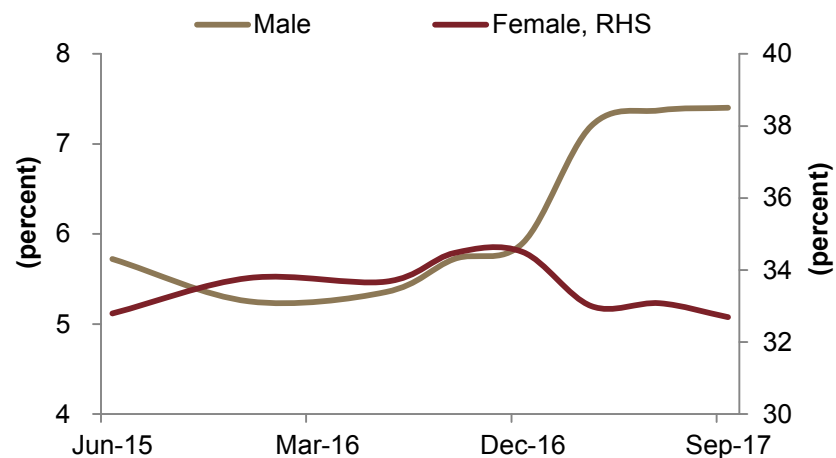
Unemployment among Saudi females declined in Q3 to 32.7 percent, down from 33.1 percent in Q2 2017. Meanwhile, unemployment among Saudi males was unchanged at 7.2 percent quarter-on-quarter.

The number of foreigners working in the Saudi labor market declined in Q3 by 189 thousand since the start of the year, affected by the drop in male workers. Meanwhile, the number of female workers increased marginally in Q3 by 29.8 thousand since the start of 2017.

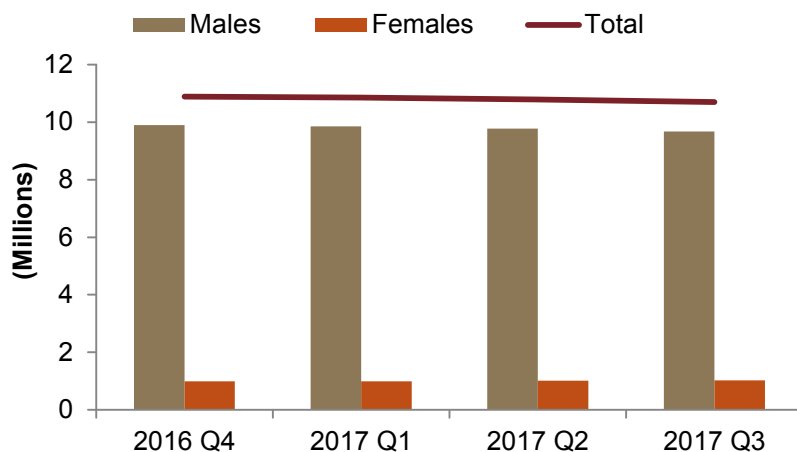
Saudi Unemployment and Participation Rates



Saudi Unemployment Rates, By Gender



Number of Foreigners Working in the Saudi Labor Market

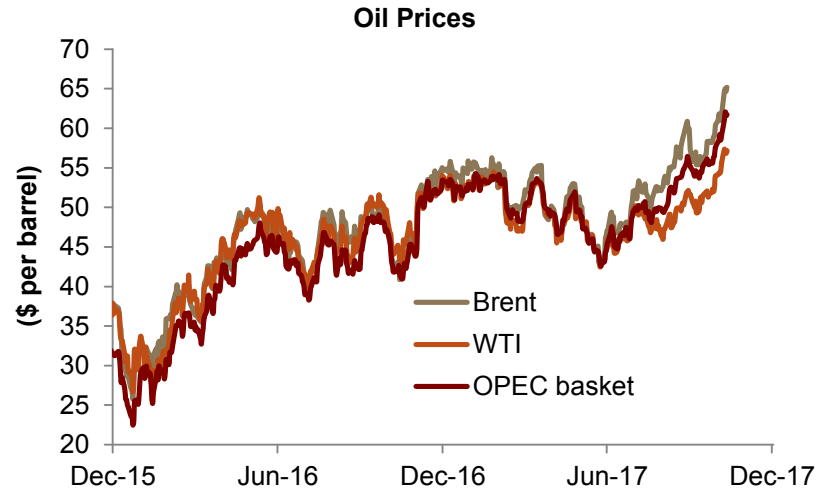




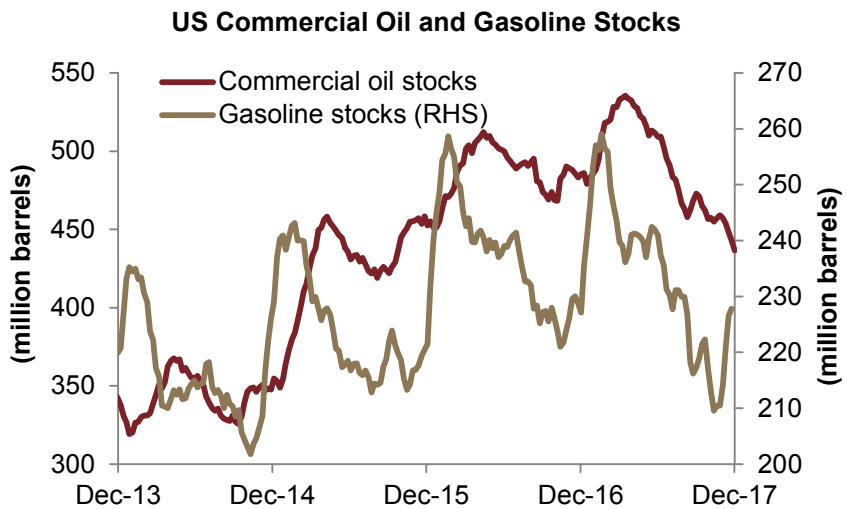
Oil - Global

Brent oil prices were up 3 percent month-on-month in December as strong demand and outages in the UK and Libya supported prices. US WTI oil prices were up 2 percent month-on-month as result of continued declines in oil inventories. Meanwhile, latest available data shows that compliance among OPEC producers remains stable, with output from the organization edging down in November.

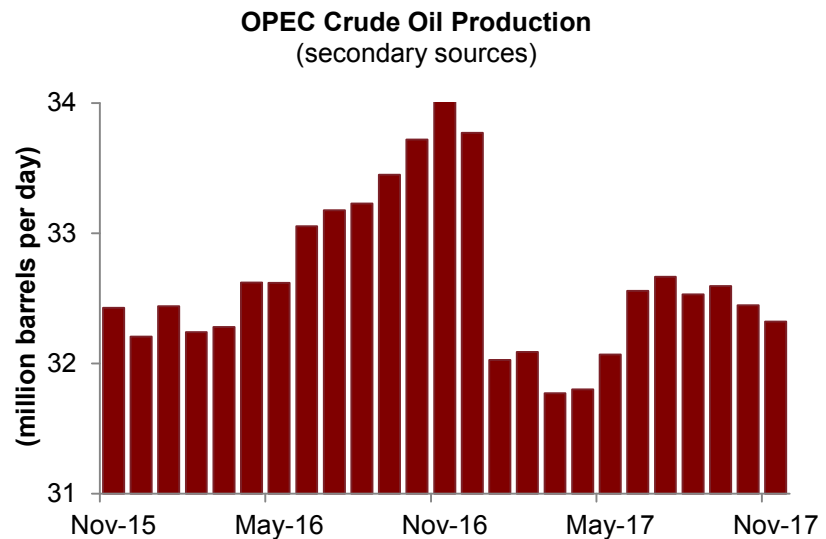
Brent oil prices continued to rise during December as robust demand growth and unplanned outages added upward pressure.



Meanwhile, US oil stocks continued to decline, helping WTI break the \$60 pb mark at the end of the year. Despite a recent rebound in gasoline inventory, stocks are close to multi-year lows.



Meanwhile, latest available data shows OPEC output declined month-on-month in November to 32.3 mbpd.

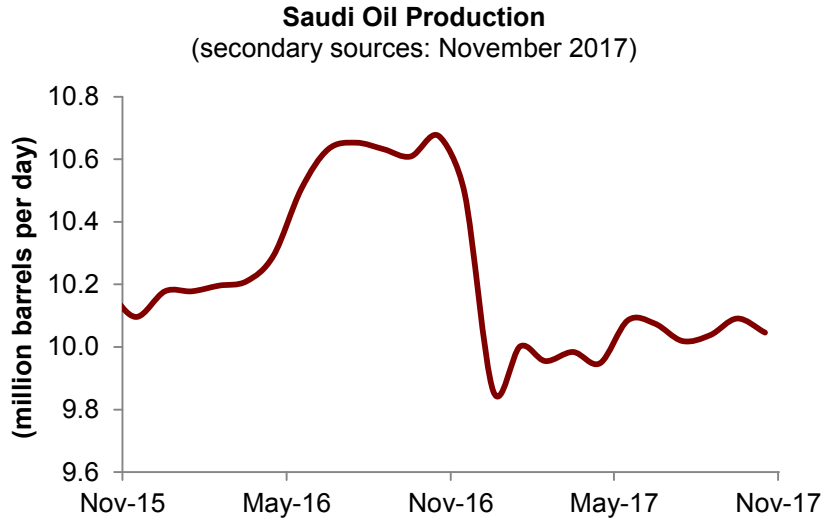




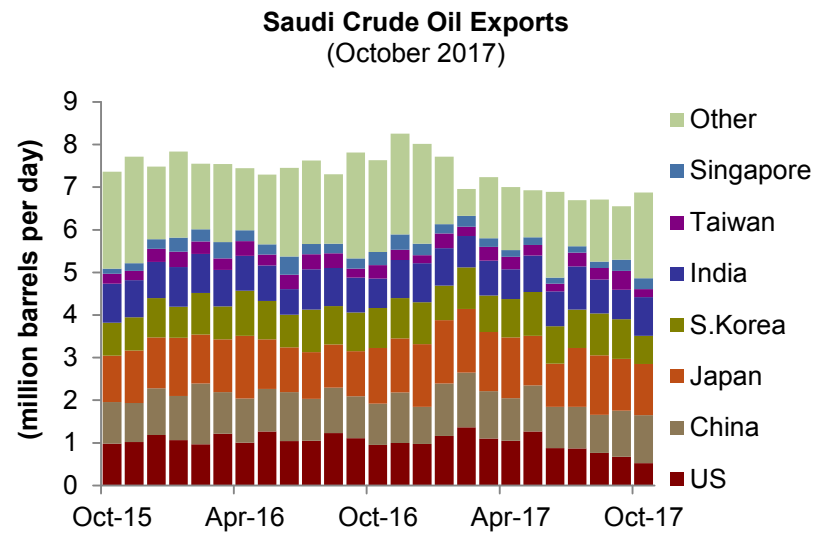
Oil - Regional

Saudi crude oil production was flat month-on-month in November. Meanwhile, latest available official data for October shows that Saudi crude oil exports totaled 6.8 mbpd, compared to 6.5 in September. Based on unofficial data for Saudi crude oil exports in November and early December, we expect full year exports to average 6.9 mbpd in 2017, down 9 percent year-on-year.

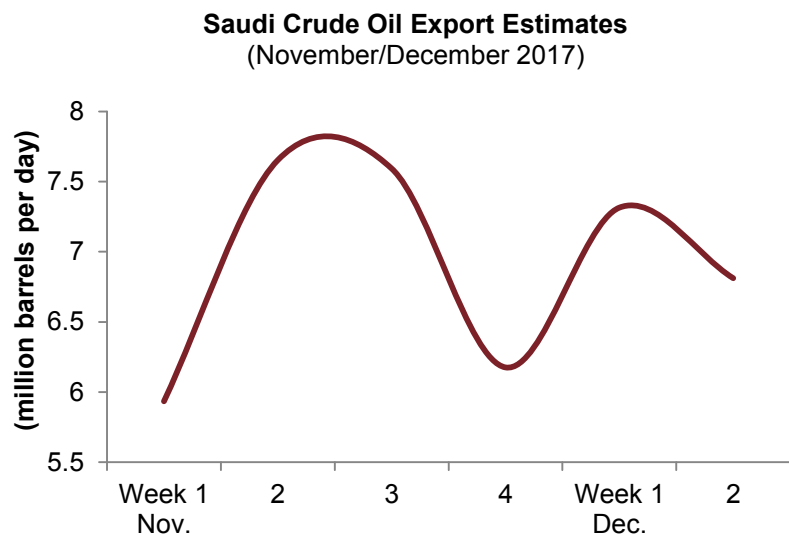
Saudi Arabia continues to adhere to production cuts...



...although exports have edged up, as is the norm when Saudi domestic demand declines after the summer months...



...with provisional unofficial data showing that Saudi crude oil exports were slightly higher month-on-month in November and in the first half of December as well.



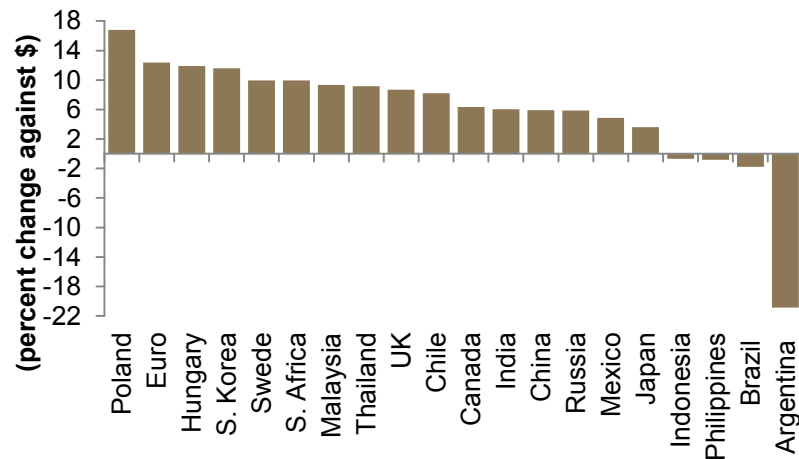


Exchange Rates

The dollar fell against most currencies during December underlining a general trend for the currency seen in 2017. In fact, the dollar saw losses against most major developed and emerging market currencies during 2017. Although the US Federal Reserve is expected to hike interest rates again during 2018, the change in sentiment regarding economic expansion in other parts of the world has had a bearing on the performance of the dollar.

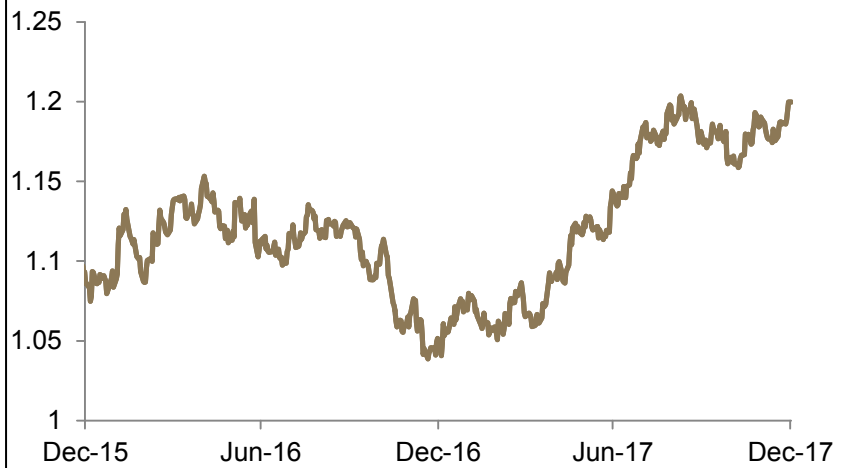
The dollar fell against most major developed and emerging market currencies during 2017.

Yearly Gain/Loss Against US Dollar
(Full year 2017)



Improving economic prospects were partly the reason behind why currencies such as the Euro performed better against the dollar...

Euro/US Dollar



UK Pound/US Dollar



...whilst higher interest rates and more insight into the political process related to 'Brexit' also helped the UK pound recover during the year.



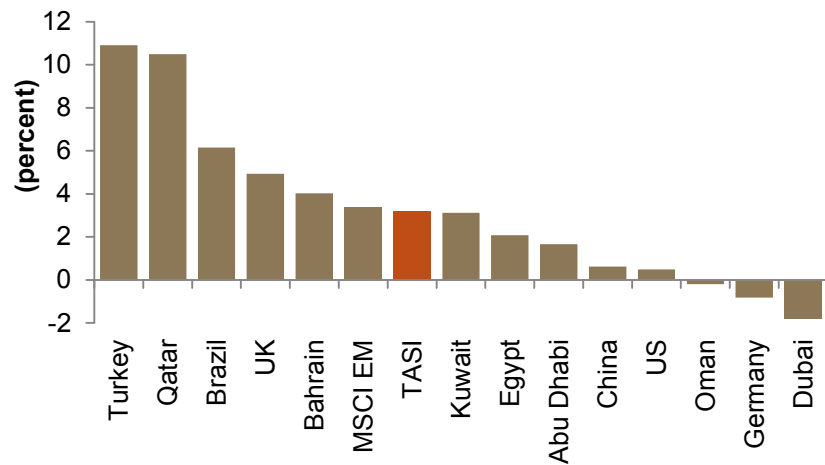
Stock Market

TASI rose 3 percent month-on-month in December, the second highest monthly rise in 2017, after investor sentiment pick up following the announcement of the 2018 fiscal budget. Despite this, TASI performance was average when compared to most regional and emerging market benchmarks. Meanwhile, in line with overall performance, turnover improved as well.

Despite TASI rising 3 percent month-on-month, it closed the year at 7226 points, which was virtually flat year-on-year.

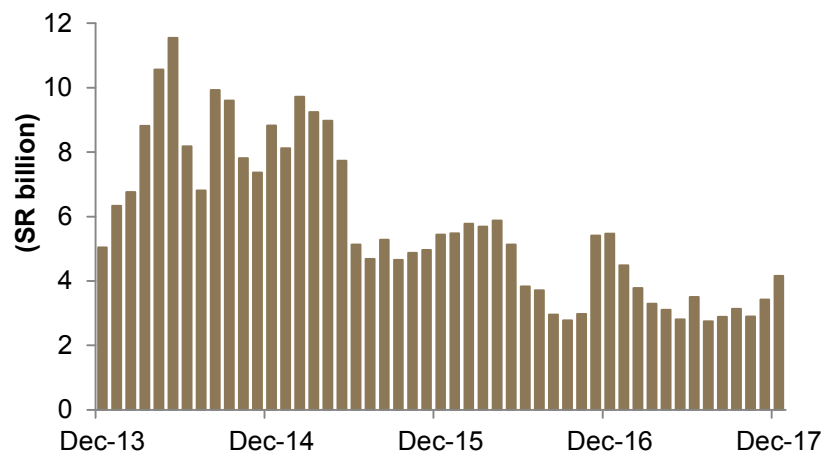


Comparative Stock Market Performance (month-on-month change)



Although TASI's performance during December was in line with most regional and emerging market benchmarks...

Daily Average Stock Market Turnover (monthly average)



...we expect improved investor sentiment linked to rising oil prices and improving economic outlook to lend support to TASI's performance, and volumes, into the Gregorian new year.

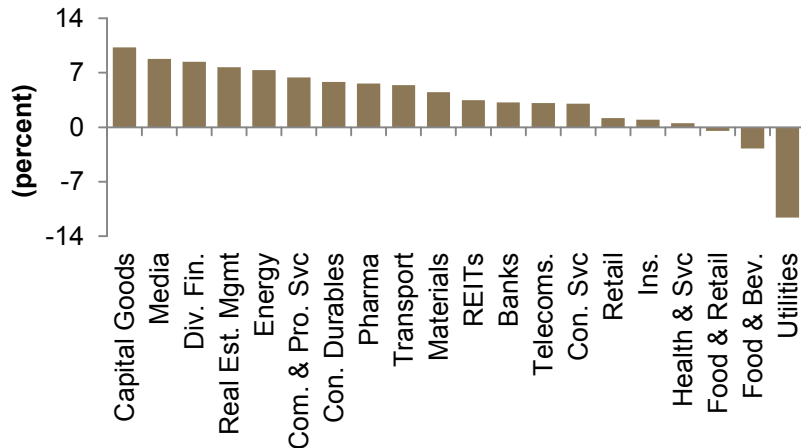


Sectorial Performance

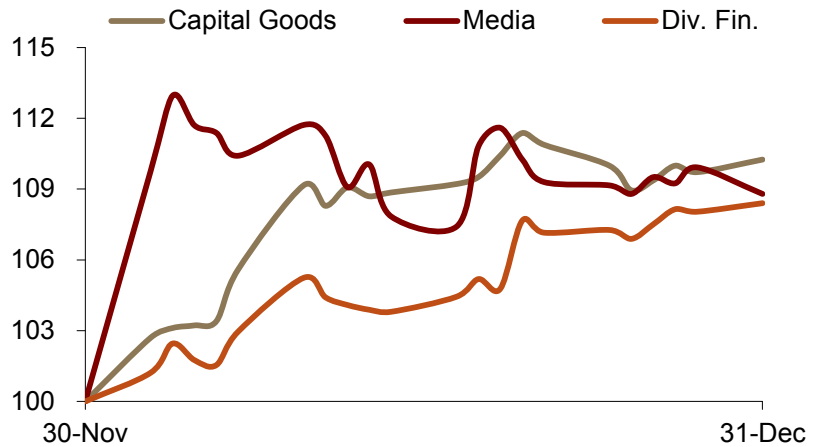
In line with TASI's positive performance during December, most sectors ended the month with a significant rise. Whilst 'capital goods', 'media' and 'diversified financials' were the best performers, only 3 sectors saw a negative performance during the month: 'utilities', 'food and beverages' and 'food and retail'.

Most sectors saw significant rises during December, in line with TASI's positive performance for the month.

Performance by Sector
(rebased; 30th November 2017= 100)

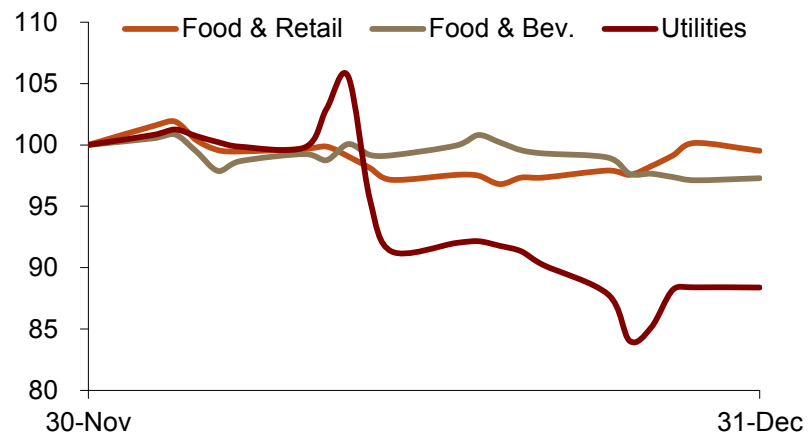


Best Performing Sectors
(rebased; 30th November 2017= 100)



'Capital goods', 'media' and 'diversified financials' showed the best performance.

Worst Performing Sectors
(rebased; 30th November 2017= 100)



While only 3 sectors showed negative performance: 'utilities', 'food and beverages' and 'food and retail'.



Key Data*

	2010	2011	2012	2013	2014	2015	2016	2017E
Nominal GDP								
(SR billion)	1,981	2,517	2,760	2,800	2,836	2,454	2,419	2,564
(\$ billion)	528	671	736	747	756	654	645	684
(% change)	23.1	27.1	9.6	1.5	1.3	-13.5	-1.4	6.0
Real GDP (% change)								
Oil	-0.1	12.2	5.1	-1.6	2.1	5.3	3.6	-3.0
Non-oil private sector	10.5	8.1	5.6	7.0	5.4	3.4	0.1	0.7
Non-oil government	7.4	8.4	5.3	5.1	3.7	2.7	0.6	1.7
Total	5.0	10.0	5.4	2.7	3.7	4.1	1.7	-0.7
Oil indicators (average)								
Brent (\$/b)	80	112	112	110	99	52	43	54
Saudi (\$/b)	78	104	106	104	96	49	41	51
Production (million b/d)	8.2	9.3	9.8	9.6	9.7	10.2	10.4	10.0
Budgetary indicators (SR billion)								
Government revenue	742	1,118	1,247	1,156	1,044	616	519	696
Government expenditure	654	838	916	994	1,140	999	935	926
Budget balance	88	280	331	162	-96	-383	-416	-230
(% GDP)	4.4	11.1	12.0	5.8	-3.4	-15.6	-17.2	-9.0
Gross public debt	177	135	99	60	44	142	317	443
(% GDP)	8.9	5.4	3.6	2.1	1.6	5.8	13.1	17.3
Monetary indicators (average)								
Inflation (% change)	3.8	3.7	2.9	3.5	2.7	2.2	3.4	-0.1
SAMA base lending rate (% , end year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
External trade indicators (\$ billion)								
Oil export revenues	215	318	337	322	285	153	137	159
Total export revenues	251	365	388	376	342	204	184	210
Imports	97	120	142	153	158	159	128	117
Trade balance	154	245	247	223	184	44	56	93
Current account balance	67	159	165	135	74	-57	-28	9
(% GDP)	12.6	23.6	22.4	18.1	9.8	-8.7	-4.3	1.2
Official reserve assets	445	544	657	726	732	616	534	486
Social and demographic indicators								
Population (million)	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.6
Saudi Unemployment (15+, %)	11.2	12.4	12.1	11.7	11.7	11.5	12.5	12.7
GDP per capita (\$)	19,261	23,827	25,471	25,223	24,962	21,095	20,318	20,968

Sources: Jadwa Investment forecasts for 2017 & 2018. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Authority for monetary and external trade indicators, Ministry of Finance for budgetary indicators. *Slight variation in current versus historical forecasts due to revision in nominal GDP as stated by Saudi Arabian Monetary Authority



Disclaimer of Liability

Unless otherwise stated, all information contained in this document (the "Publication") shall not be reproduced, in whole or in part, without the specific written permission of Jadwa Investment.

The data contained in this research is sourced from Reuters, Bloomberg, The World Bank, Tadawul and national statistical sources unless otherwise stated.

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that contain in the Publication. It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action(s) that may take place in future.