



Summary

Real Economy: November data on economic activity showed a mixed picture. Data on consumer spending came out negative, partly reflecting the impact of allowance reductions to public sector employees. The non-oil PMI showed a rebound in November.

Government Finance: The net monthly change to government accounts posted its sixth consecutive decline in November. However, this reflected the resumption in government payments to contractors.

Capital Flows and Reserve Assets: Despite both the current account and non-reserve financial account posting a surplus in Q3, foreign reserves continued to decline. This is due to a negative change in net errors and omissions.

Banking Indicators: November growth in bank credit to the private sector showed a year-on-year slowdown. Looking ahead, we see the announcement of an expansionary budget to result in a rebound in credit growth during 2017.

Inflation: Inflation continued to show a downward trend in November, arriving at the year's lowest level of 2.3 percent.

Non-oil Trade: October data showed rebounds in both non-oil exports and imports.

Overall Trade: In October, the Kingdom's trade balance improved to its highest level since April 2015. Meanwhile, Q3 data showed the current account balance returning to a surplus for the first time in two years.

Oil - Global: Brent oil rose 20 percent and WTI 13 percent month-on-month in December after OPEC and non-OPEC agreed to cut production by a combined 1.8 mbpd.

Oil - Regional: OPEC crude oil production rose to a record 33.9 mbpd in November, 1.4 mbpd higher than the 32.5 mbpd targeted for the first six months of 2017.

Exchange Rates: The US dollar continued strengthening after the US Federal Reserve (Fed) raised the Funds Rate to 0.75 basis points.

Stock Market: An expansionary Saudi fiscal budget together with higher oil prices contributed to the TASI reaching its highest level since exactly a year ago.

Volumes: TASI sustained a higher level of turnover during December, resulting in most sectors exceeding their year-to-date average.

Valuations: TASI's valuations have improved as a result of increased investor activity in the final quarter of 2016.

Sectoral Performance: All but one of the fifteen sectors were up in December, reflecting the overall positive performance of TASI.

For comments and queries please contact:

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

Asad Khan
Senior Economist
rkhan@jadwa.com

Rakan Alsheikh
Research Associate
ralsheikh@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

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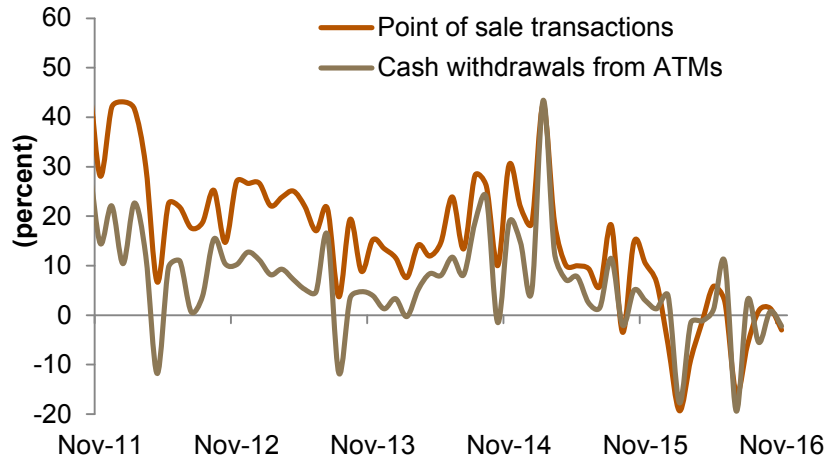


Real Economy

November data on economic activity showed a mixed picture. Data on consumer spending came out negative year-on-year, partly reflecting the impact of allowance reductions to public sector employees. The non-oil PMI showed a rebound in November from a record low in the previous month. Cement sales and production fell slightly, month-on-month.

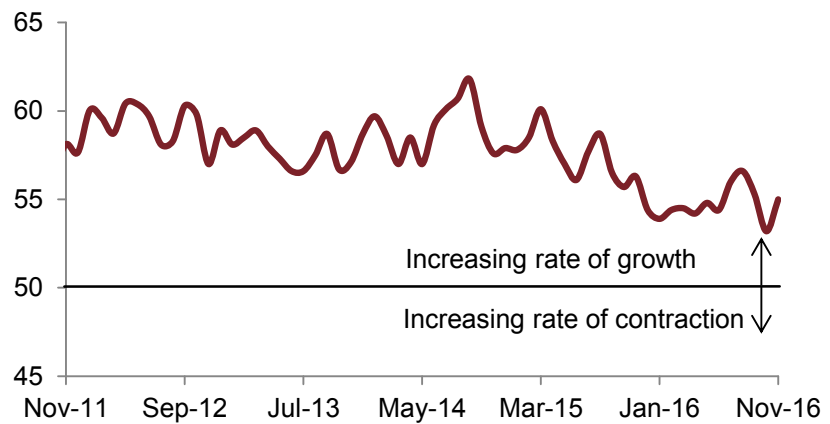
Year-on-year data on cash withdrawals from ATMs and point-of-sale transactions came out negative for November, falling by 2.2 percent, and 3 percent respectively.

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



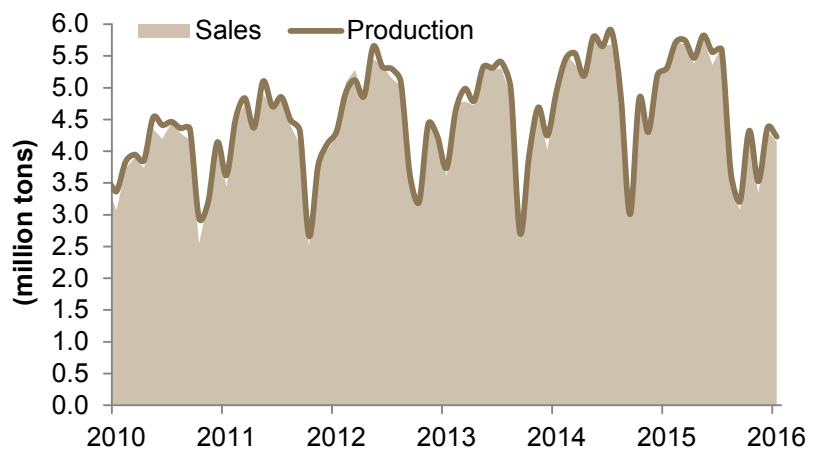
The non-oil PMI rebounded from record lows, reaching 55 in November.

Purchasing Managers' Index



Both cement sales and production fell slightly, month-on-month.

Cement Sales and Production



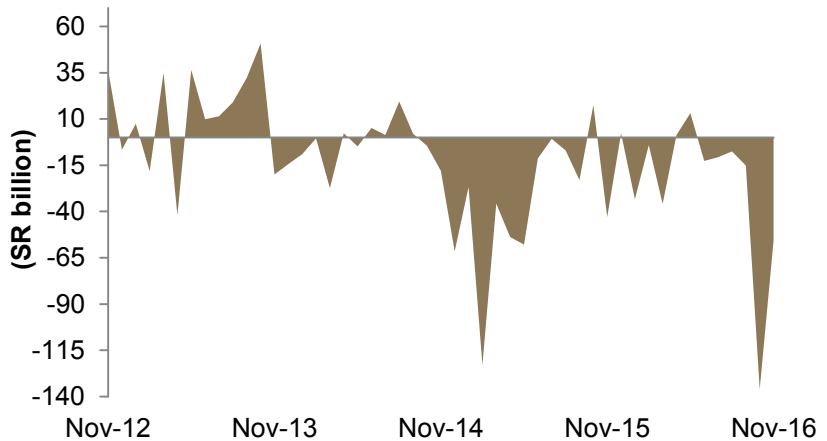


Government Finance

The net monthly change to government accounts posted its sixth consecutive decline in November, falling by SR55.9 billion. This fall represents the second-largest net monthly withdrawal in 2016. That said, the decline was largely due to net withdrawals from allocated deposits for government projects, reflecting the resumption in government payments to contractors.

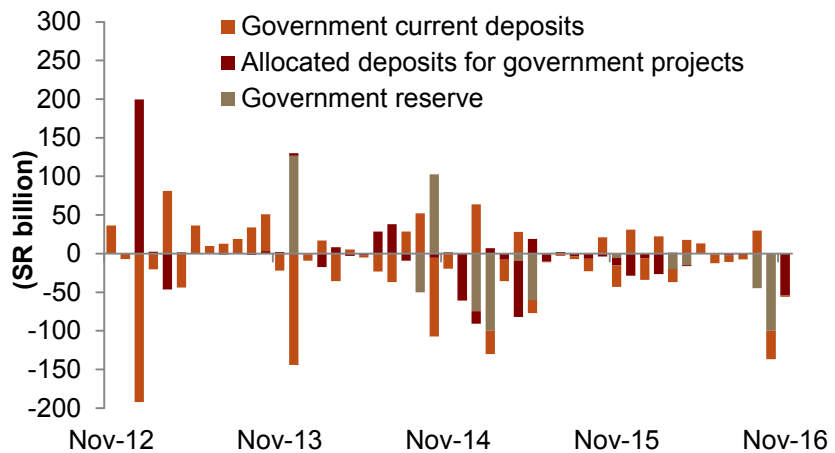
Net withdrawals from government accounts with SAMA reached SR55.9 billion in November...

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



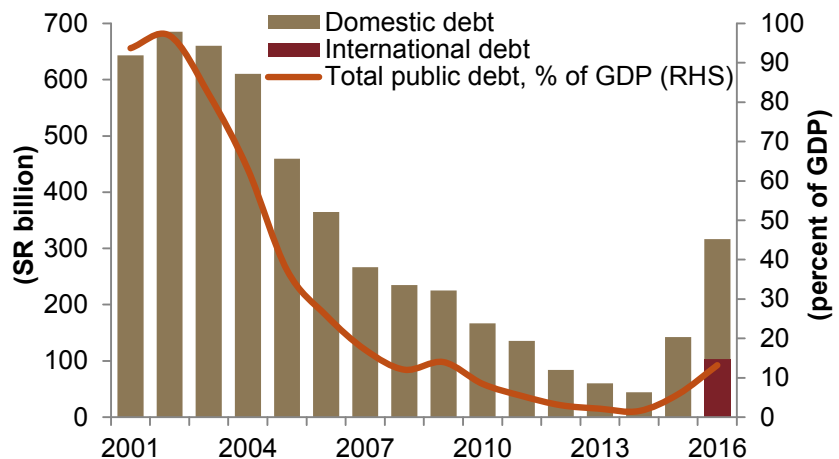
...a decline mainly owing to a SR54.3 billion net withdrawal from allocated deposits for government projects.

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



Annual data from the budget statement showed gross public debt reaching SR316.5 billion in 2016 (13.2 percent of GDP)

Breakdown of Gross Public Debt



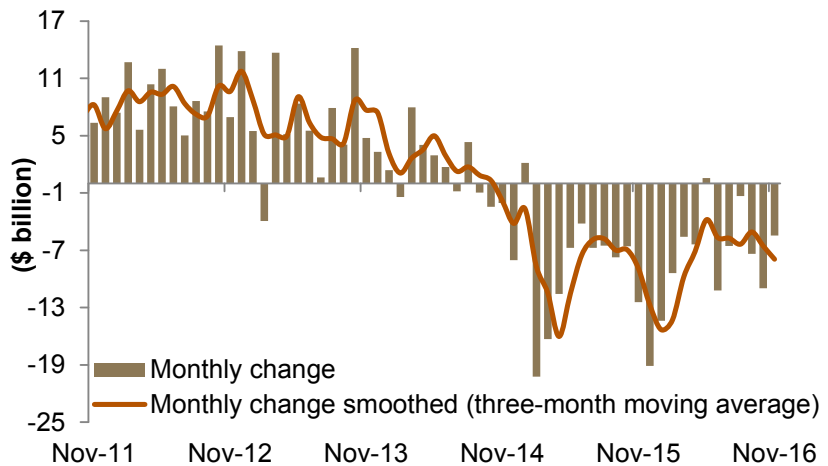


Capital Flows and Reserve Assets

SAMA foreign reserve assets fell by \$5.5 billion in November. Despite both the current account and the non-reserve financial account posting surpluses in Q3. We see the continued decline in foreign reserves as reflective of negative changes in net errors and omissions.

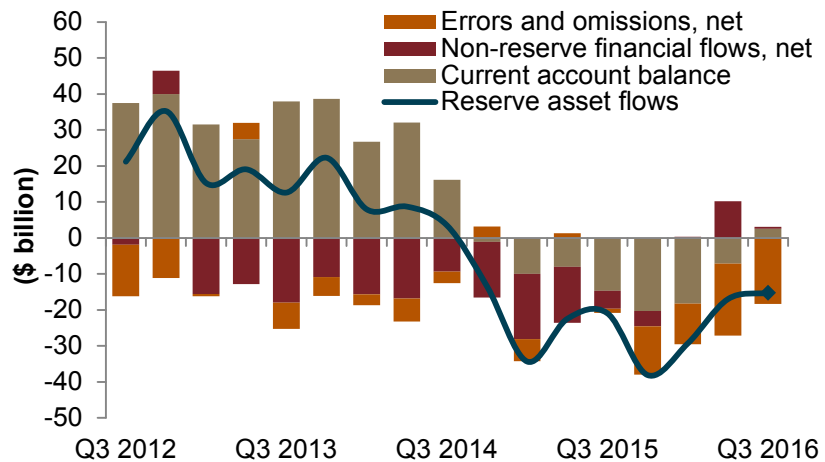
SAMA FX reserves continued to decline in November...

SAMA Total Foreign Reserve Assets

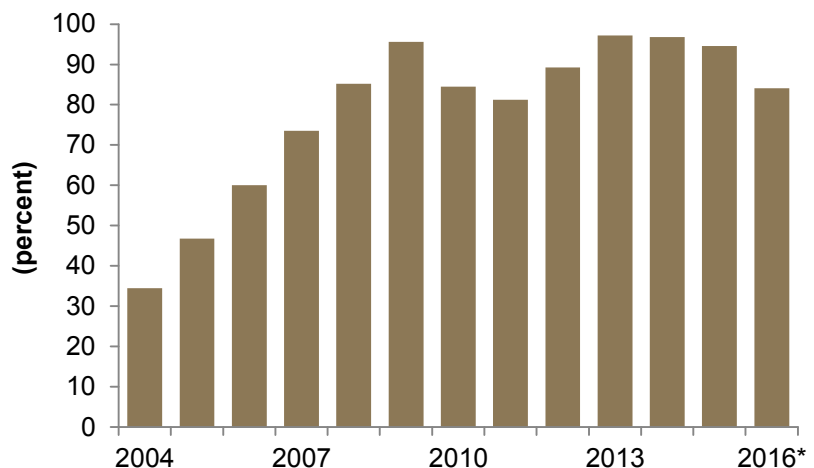


...mainly owing to negative changes in net errors and omissions.

Capital Flows



SAMA Foreign Reserve Assets (percent of GDP)



SAMA foreign reserves are likely to decline to 84 percent of GDP in 2016, down from 95 percent in 2015. We believe this is still a very comfortable cushion for Kingdom to maintain a solid credit profile.

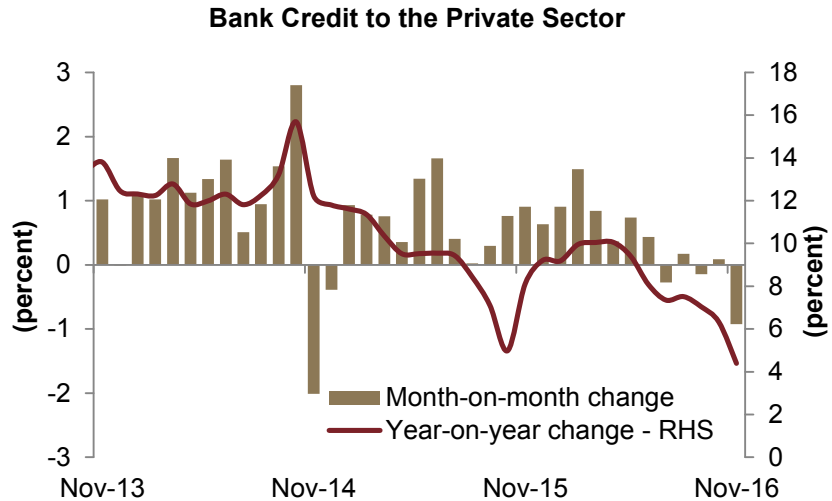
Note*: 2016 refers to November reserve assets



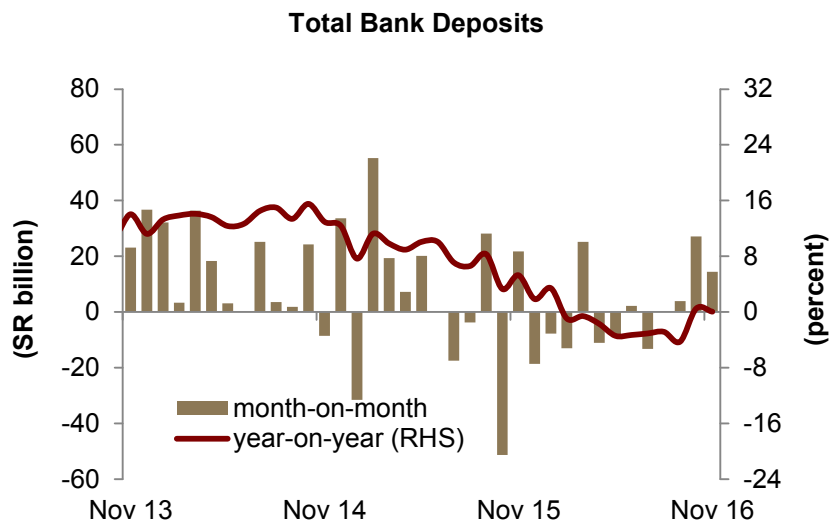
Banking indicators

November growth in bank credit to the private sector fell by 0.9 percent, month-on-month, slowing to 4.4 percent, year-on-year. This is possibly a result of negative sentiment associated with delayed payments. Looking ahead, we see the recent resumption in government payments and the announcement of an expansionary budget to result in a rebound in credit growth during 2017.

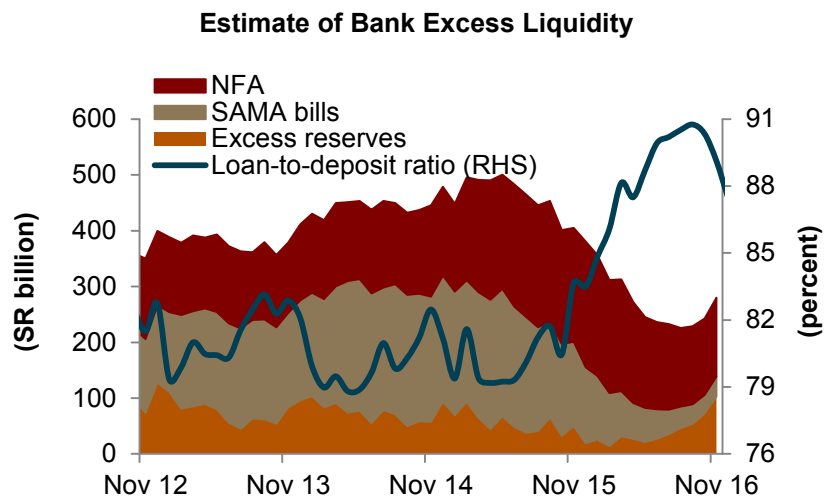
Bank credit to the private sector fell by 0.9 percent month-on-month, the largest decline since November 2014.



Total bank deposits increased by SR14.4 billion, month-on-month in November, though year-on-year growth remained nearly unchanged at 0 percent.



Bank liquidity levels continued to improve in November, with our estimate of excess liquidity reaching SR280 billion in November.

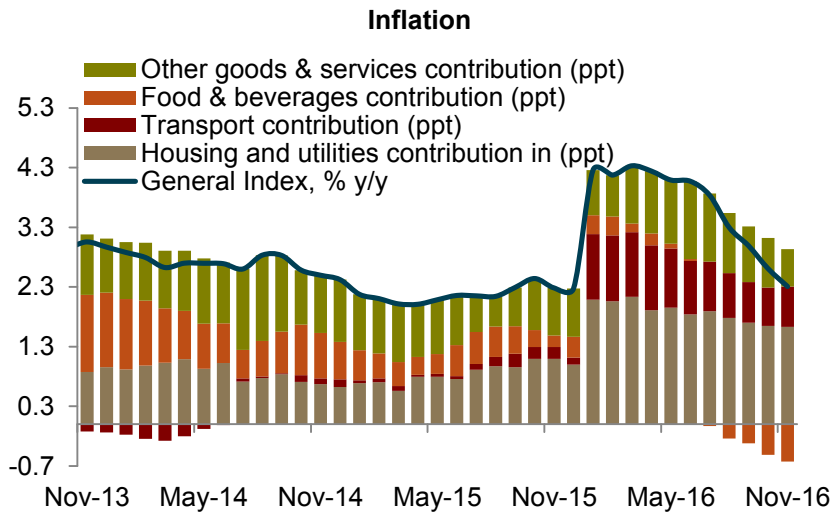




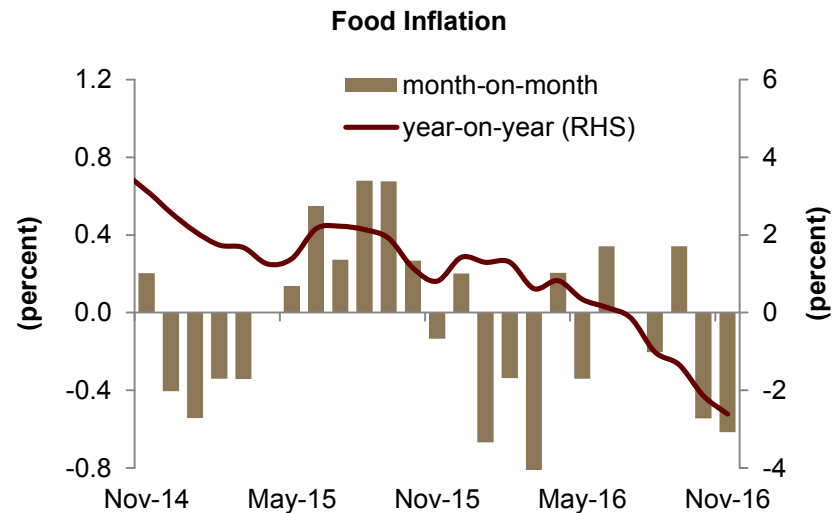
Inflation

Inflation continued to show a downward trend in November, arriving at the year's lowest level of 2.3 percent. This deceleration, down from 2.6 percent in October, marks Saudi CPI's slowdown for the eighth-consecutive month; mainly owing to persisting negative growth in the food component. Moreover, annual growth in money supply returned to the negative territory in December, pointing to more subdued inflationary pressure in coming months.

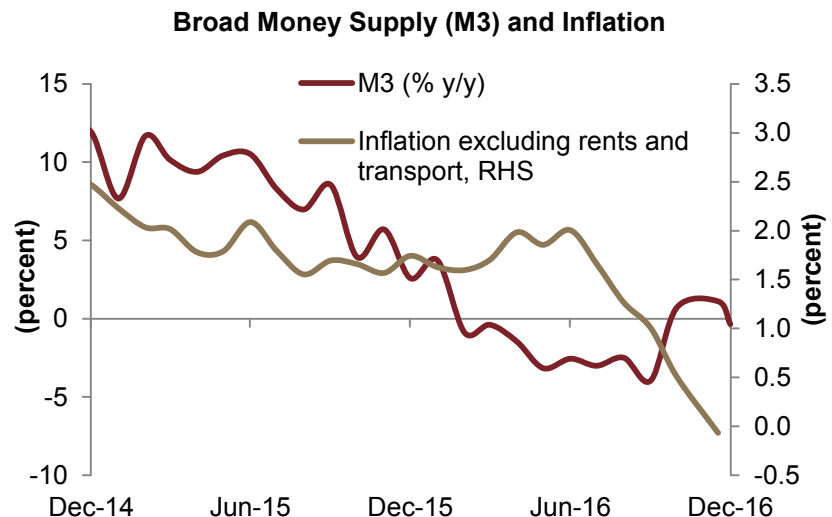
Inflation reached 2.3 percent in November, posting a slowdown from 2.6 percent in October.



Prices of foodstuffs declined further, falling by the fastest rate since 2001. They recorded a 2.6 percent year-on-year decline during November.



Growth in broad money supply returned to the negative territory in December, falling to -0.3 percent from a 2016-high of 1.1 percent in November; pointing to a continued slowdown in inflation.





Non-oil Trade

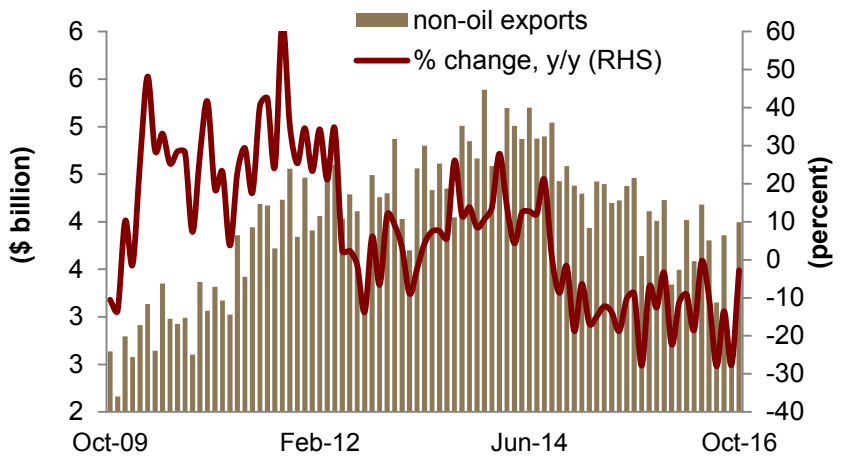
Latest data showed rebounds in both non-oil exports and imports. Non-oil exports recovered from a 6-year low of \$2.6 billion in September to arrive at \$4 billion in October. While year-to-October growth in import value was down year-on-year, data on volumes for the same period showed a positive trend, indicating a price effect.

October exports rose to \$4 billion, following a 6-year low of \$2.6 billion in September.

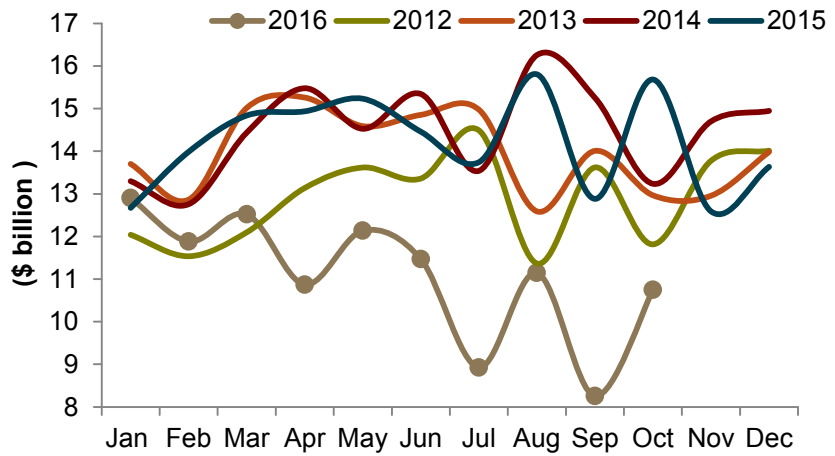
Year-to-October import values remain negative, year-on-year...

...during the same period, however, import volumes were positive at 8 percent, year-on-year.

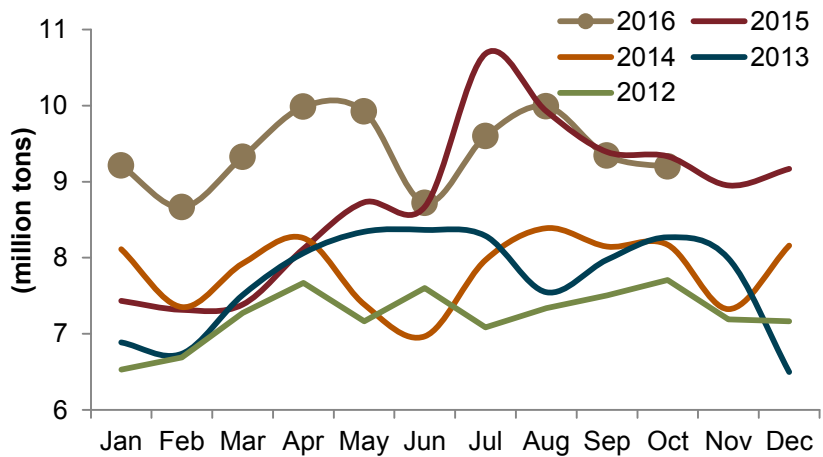
Non-oil Exports



Value of Imports



Volume of Imports

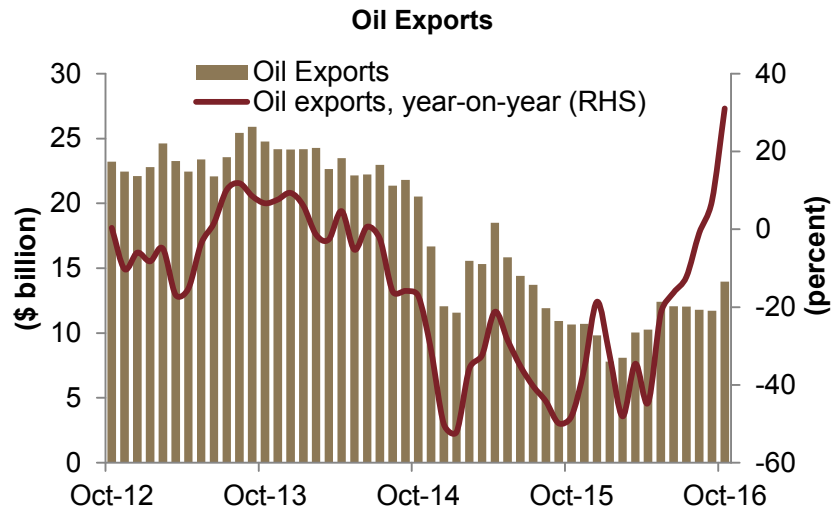




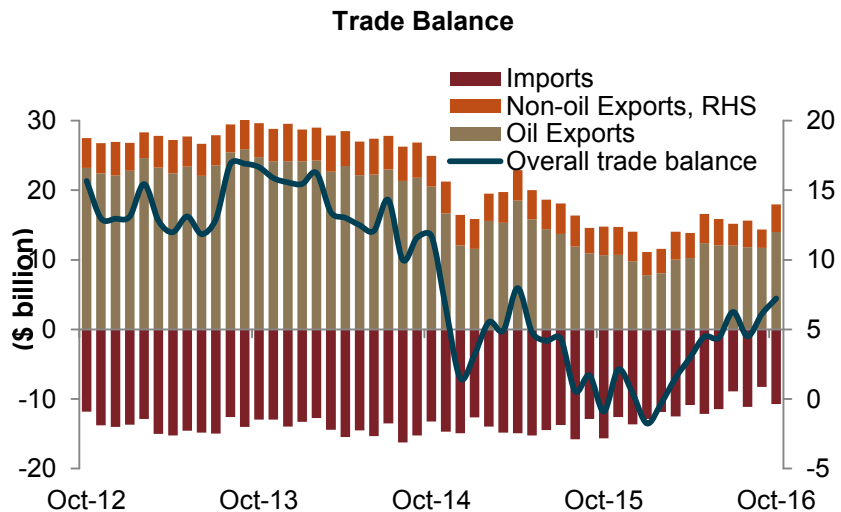
Overall Trade

October data showed an improving trend in oil exports, rising by \$2.3 billion month-on-month; mainly a result of an increase in oil prices following optimism associated with OPEC's announcement on curbing oil output levels. The Kingdom's trade balance improved to its highest level since April 2015. Meanwhile, Q3 data showed the current account balance returning to a surplus for the first time in two years.

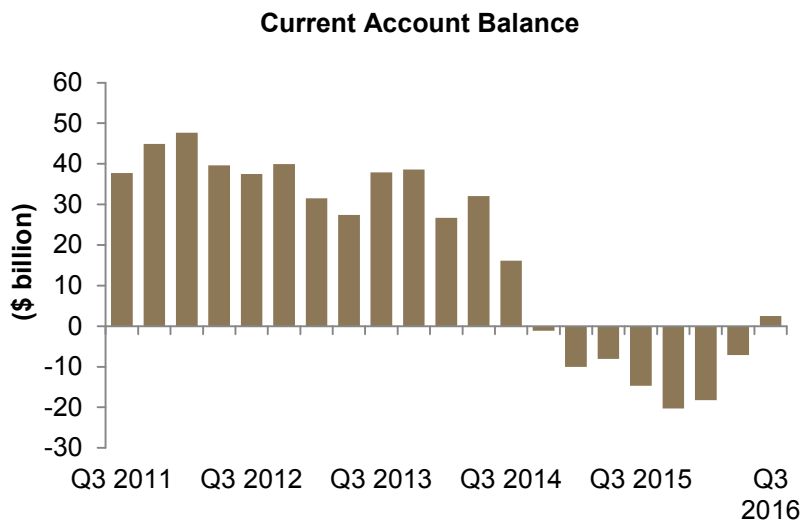
October's oil exports rose by \$2.3 billion, to reach a 2016-high of \$14 billion...



...this positively affected the Kingdom's trade surplus, which rose to \$7.2 billion in October, the highest since April 2015.



Meanwhile, Q3 data showed the current account posting its first surplus since Q3 2014, at \$2.5 billion.

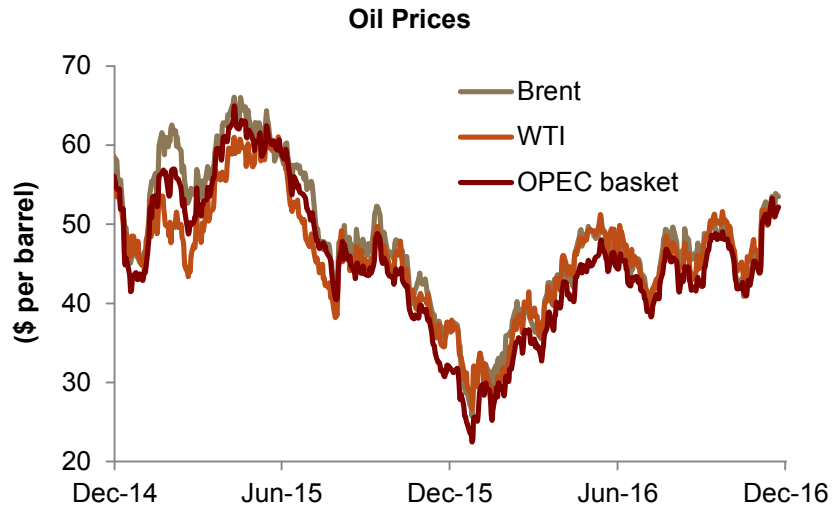




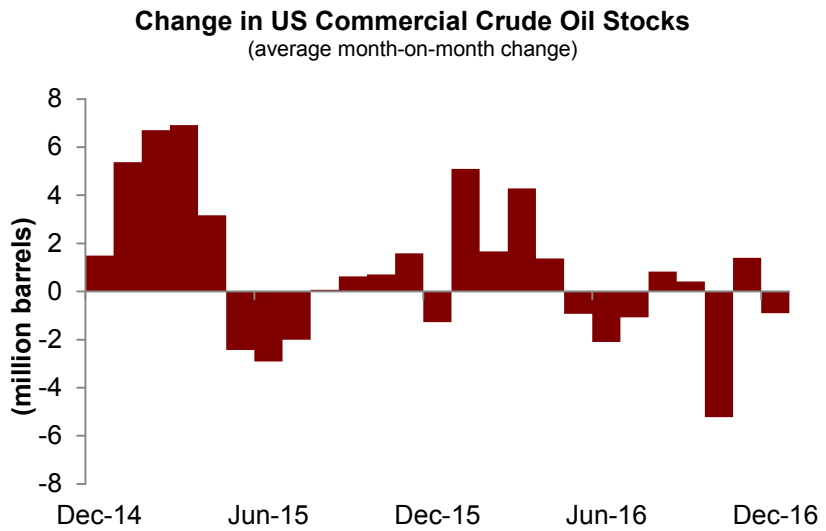
Oil - Global

Brent oil rose 20 percent and WTI 13 percent month-on-month in December after OPEC agreed to cut its own production by 1.2 million barrels per day (mbpd). This was followed by non-OPEC countries agreeing to a further 0.5 mbpd cut in a separate meeting in early December.

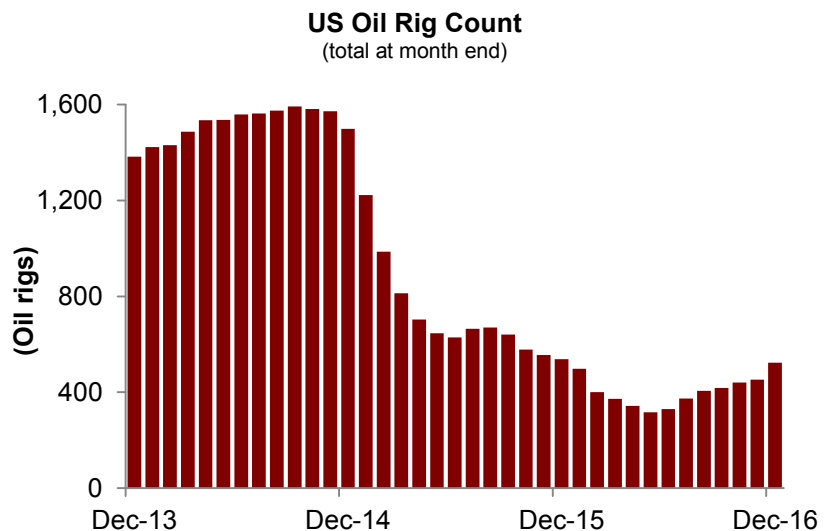
Brent prices rose to the highest monthly average since July 2015...



...with some support from prices also coming from declining US commercial crude stocks.



Meanwhile, the US oil rig count has rebounded recently, in tandem with higher oil prices.

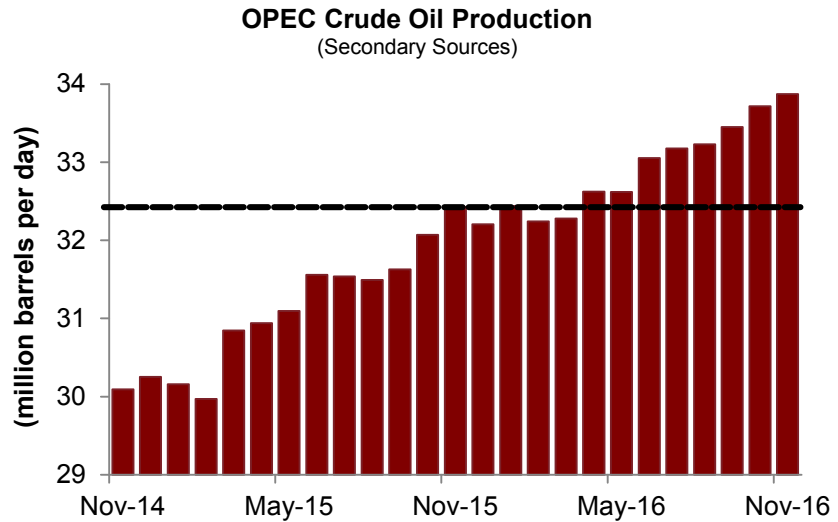




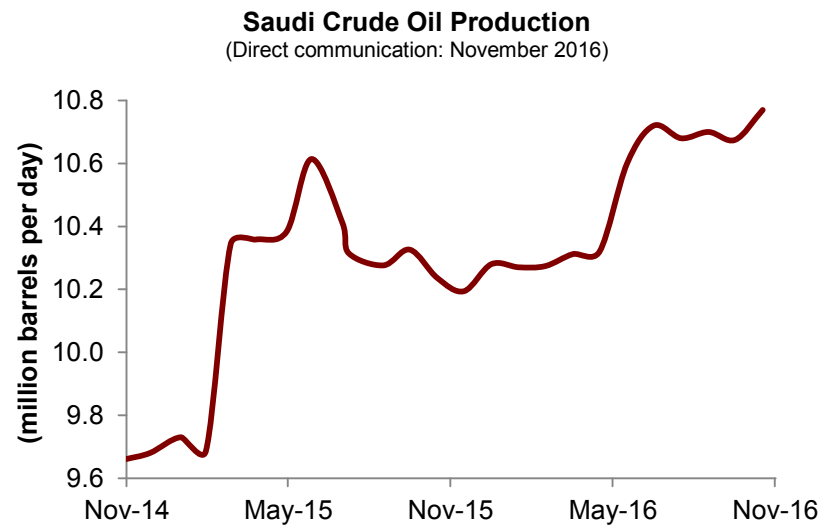
Oil - Regional

OPEC crude oil production rose to a record 33.9 mbpd in November, meaning OPEC members would need to cut by more than the proposed in the November agreement in order to reach the 32.5 mbpd target. Although monthly Saudi crude production rose by 1 percent in November, it resulted in a record output of 10.7 mbpd.

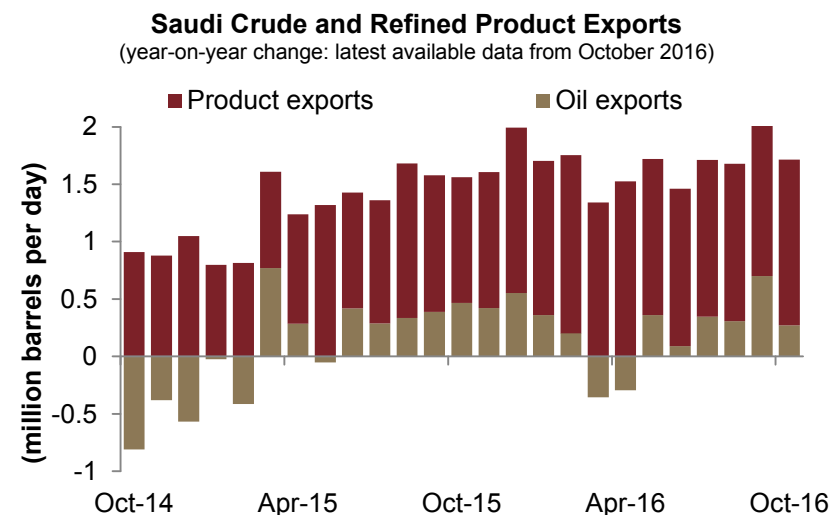
OPEC will need to cut by a larger amount than initially proposed in order to reach the 32.5 mbpd targeted for the first six months of 2017.



Whilst month-on-month rises in Saudi crude oil production was very small, at one percent, it nevertheless resulted in record output of 10.7 mbpd...



...with higher output a result of higher year-on-year oil and refined product exports.



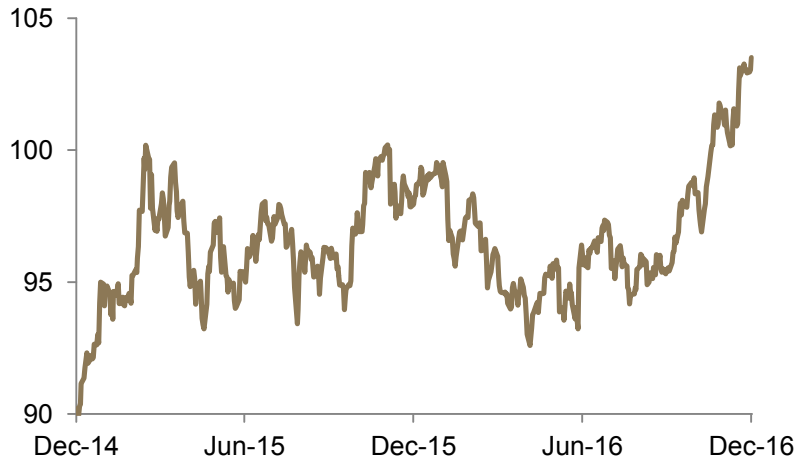


Exchange Rates

The US dollar continued strengthening after the US Federal Reserve (Fed) raised Funds Rate in mid-December 2016 from 0.5 basis points (bps) to 0.75 bps. The Chinese Renminbi is amongst a number of currencies affected by this strengthening, with its losses now around 6 percent against the US dollar since January 2016.

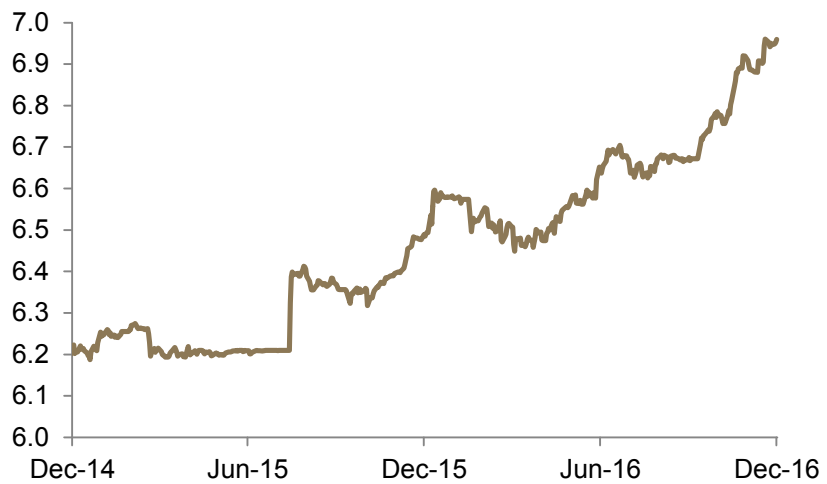
The US dollar continued to strengthen following a Fed hike in December...

Monthly Gain/Loss Against US Dollar
(December 2016)



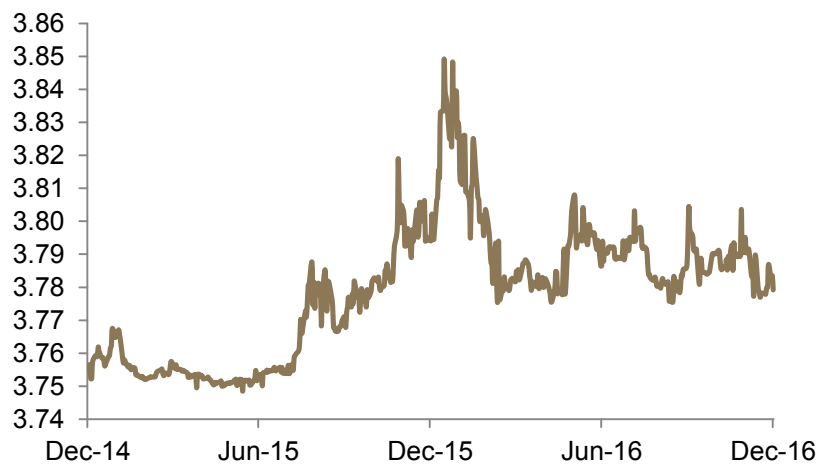
...leading to higher levels of capital outflows from many emerging market countries, including China, resulting in currency weakness.

Renminbi /US Dollar



Meanwhile, the Saudi riyal forward rate has declined recently following a number of developments, including the fiscal budget, which underlined the Kingdom's strong economic and financial fundamentals.

US Dollar/Riyal one year forward rate
(USD/Saudi riyal peg = 3.75)





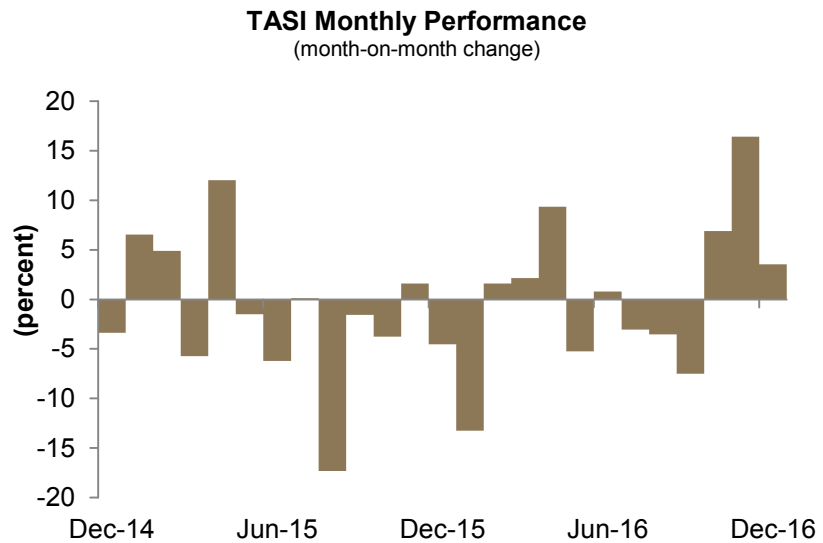
Stock Market

An expansionary Saudi fiscal budget together with higher oil prices contributed to the stock market performing positively, month-on-month in December. The TASI has now seen three consecutive positive monthly performances, and is at the highest level since exactly a year ago. We expect this positive performance to continue in the months ahead.

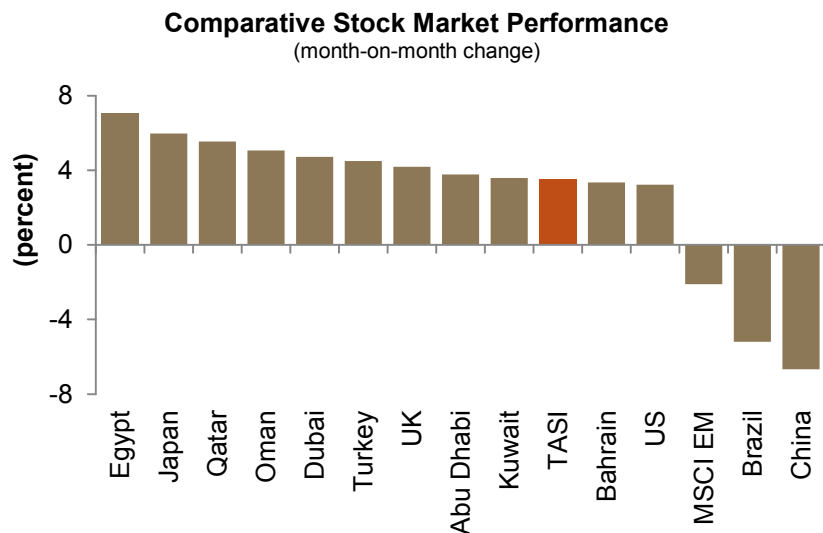
The TASI hit a 12 month high on the back of higher oil prices and an expansionary fiscal budget...



...recording a third consecutive month in performance...



...with comparable performances to regional and global benchmarks.



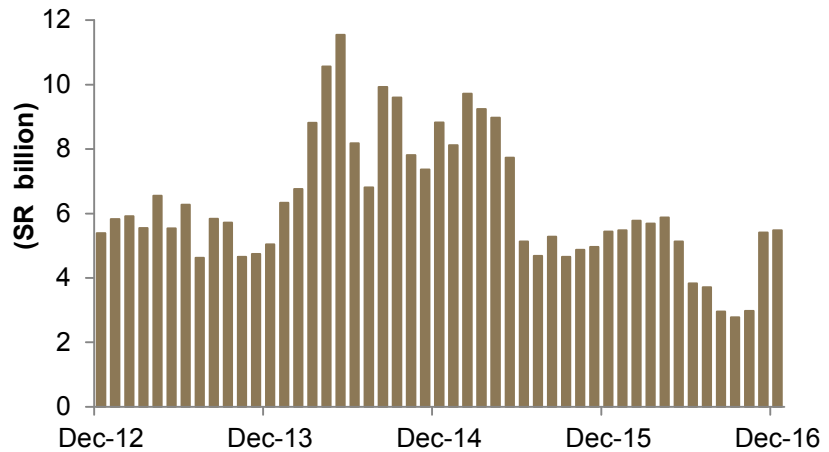


Volumes

TASI sustained a higher level of turnover during December, resulting in most sectors exceeding their year-to-date average. The improved performance is reflective of a generally upbeat investor sentiment in the last two months, with momentum continuing to build following a positive Saudi fiscal budget.

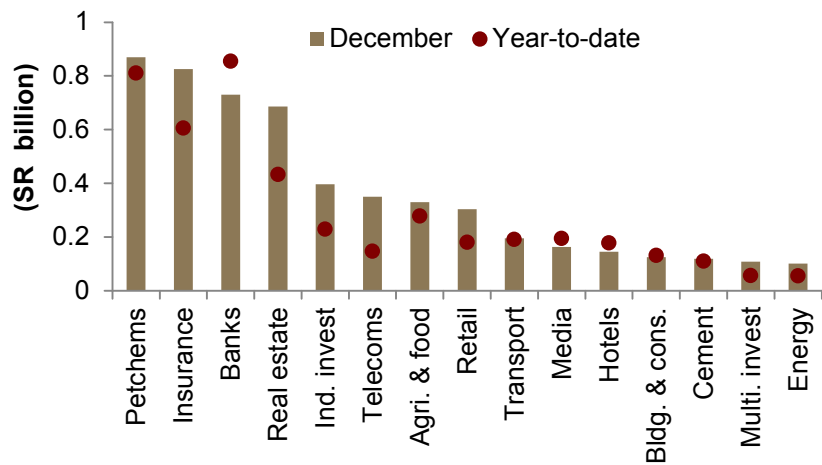
TASI's turnover averaged SR5.5 billion per day in December, up 4 percent month-on-month.

Daily Average Stock Market Turnover



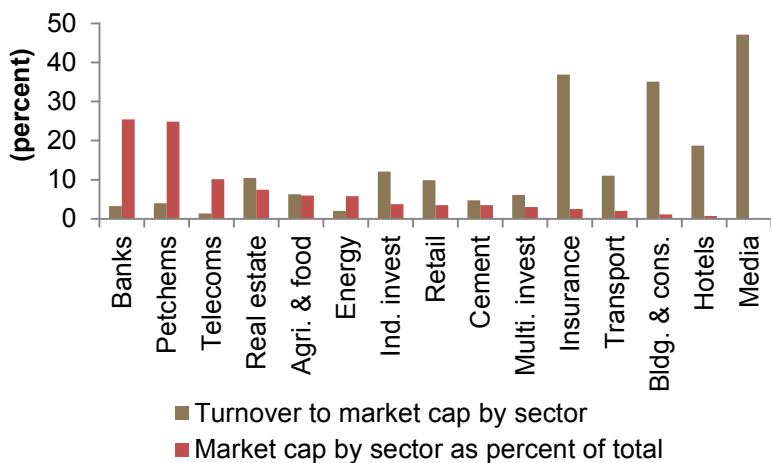
Most sectors saw higher turnover in December, with the insurance sector exceeding its year-to-date average the most...

Turnover by Sector (daily average)



...resulting in a notable rise in the sector's turnover relative to its market capitalization.

Turnover as Percent of Market Capitalization (December, 2016)



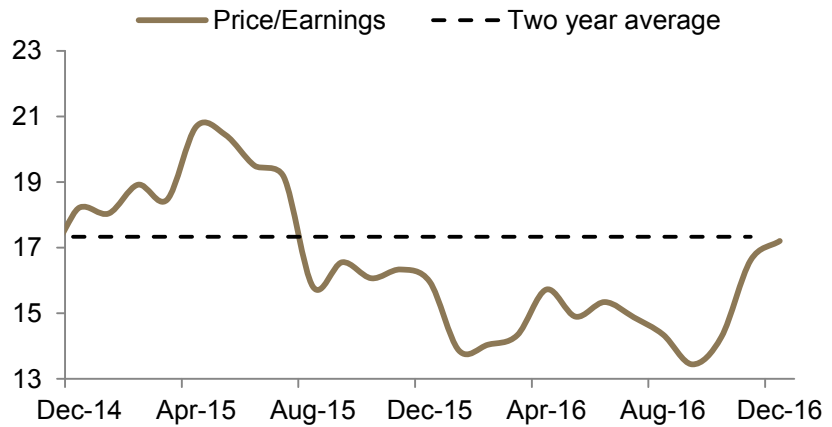


Valuations

TASI's valuations, as a result of increased investor activity in the final quarter of 2016, have continued to recover with price-to-earnings (PE) rebounding after dropping to a five-year low during the end of the second quarter. Meanwhile, dividend yield was relatively flat month-on-month, still lagging behind most regional benchmarks.

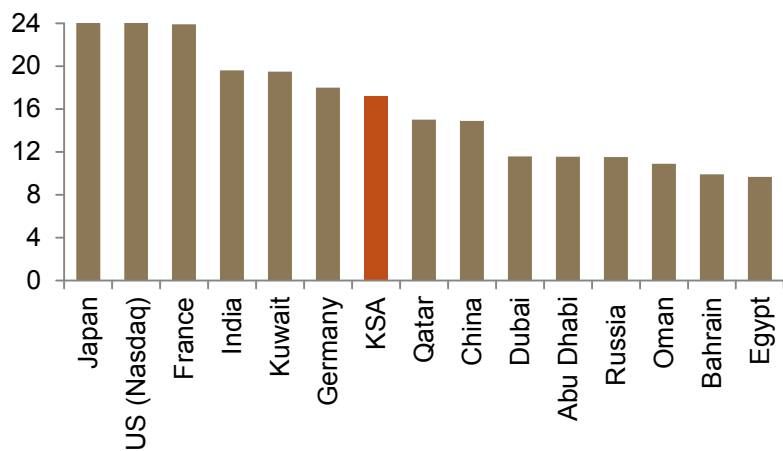
PE has maintained its consistent rise, recovering from a 5-year low in September to 17.21 in December...

TASI Price-to-Earnings Ratio



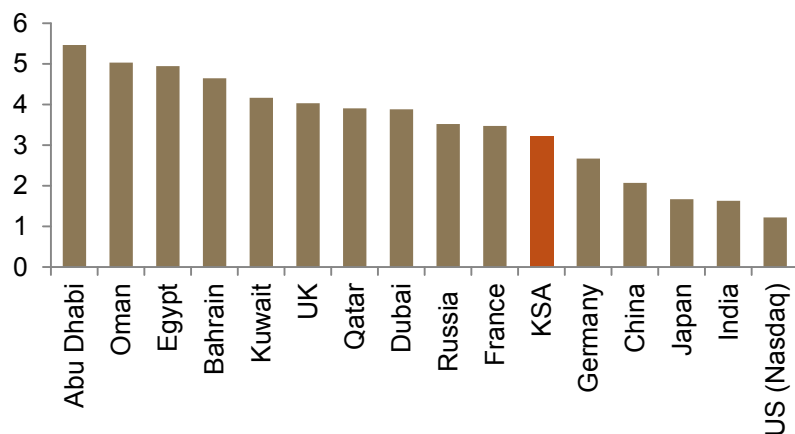
...keeping it competitive against emerging markets.

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



TASI's dividend yield still remains at a slight discount compared to regional indices.

TASI Dividend Yield Ratios
(end of month)

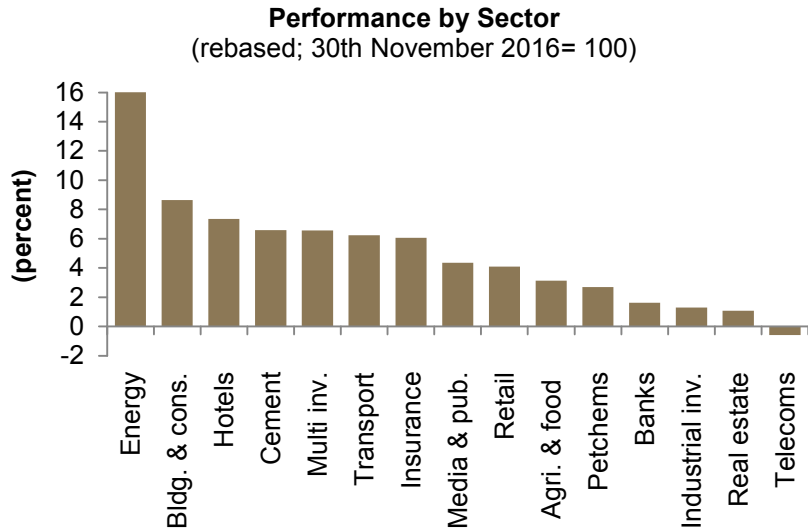




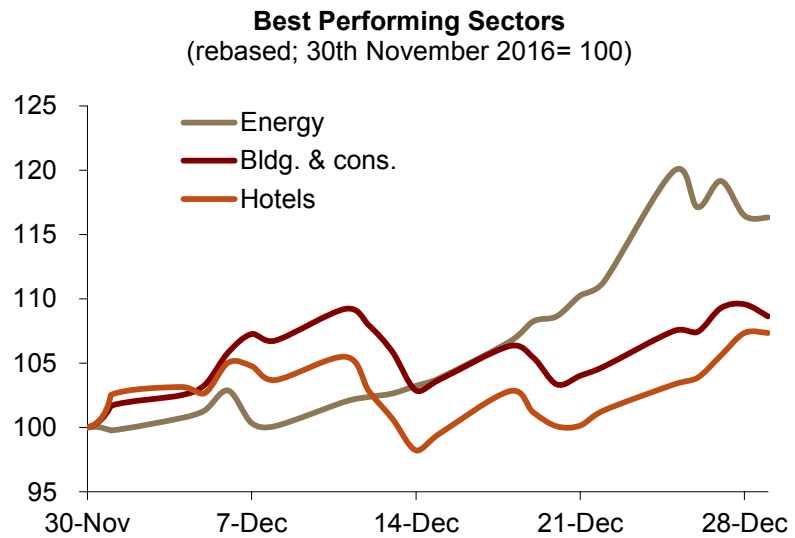
Sectoral Performance

All but one of the fifteen sectors were up in December, reflecting the overall positive performance of TASI. The energy sector was an outlier due to the Fiscal Balance Program's plan to link energy prices to an unspecified benchmark price through to 2020.

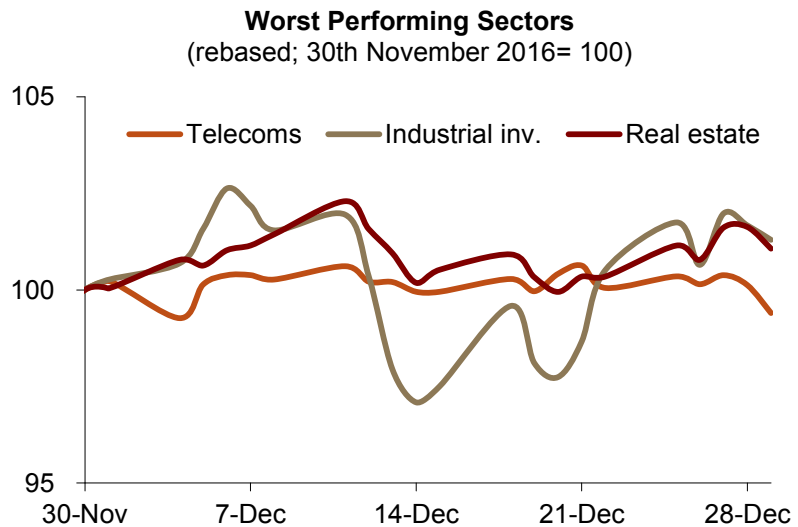
All but one sector was up during December...



...with the energy sector benefiting from higher energy prices rise as detailed in the Fiscal Balance Program.



The better performance of TASI meant that even the worst performing sectors were not overly bad.





Key Data

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017F | 2018F |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Nominal GDP | | | | | | | | | |
| (SR billion) | 1,976 | 2,511 | 2,760 | 2,800 | 2,836 | 2,444 | 2,399 | 2,640 | 2,826 |
| (\$ billion) | 527 | 670 | 736 | 747 | 756 | 652 | 640 | 704 | 754 |
| (% change) | 22.8 | 27.1 | 9.9 | 1.5 | 1.3 | -13.8 | -1.9 | 10.1 | 7.0 |
| Real GDP (% change) | | | | | | | | | |
| Oil | -0.1 | 12.2 | 5.1 | -1.6 | 2.1 | 5.27 | 3.4 | -0.3 | 0.7 |
| Non-oil private sector | 9.7 | 8.0 | 6.5 | 6.9 | 5.5 | 3.41 | 0.1 | 1.0 | 1.5 |
| Government | 7.4 | 8.4 | 5.3 | 5.1 | 3.7 | 2.72 | 0.5 | 0.0 | 0.4 |
| Total | 4.8 | 10.0 | 5.7 | 2.7 | 3.7 | 4.11 | 1.4 | 0.2 | 0.9 |
| 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 | 10.4 | 10.5 |
| Budgetary indicators (SR billion) | | | | | | | | | |
| Government revenue | 742 | 1,118 | 1,247 | 1,156 | 1,044 | 616 | 528 | 728 | 839 |
| Government expenditure | 654 | 827 | 873 | 976 | 1,110 | 978 | 825 | 890 | 928 |
| Budget balance | 88 | 291 | 374 | 180 | -66 | -362 | -297 | -162 | -89 |
| (% GDP) | 4.4 | 11.6 | 13.6 | 6.4 | -2.3 | -14.8 | -12.4 | -6.2 | -3.1 |
| 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 | 13.2 | 16.4 | 22.2 |
| 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 (% , year end) | 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 | 131 | 162 | 179 |
| Total export revenues | 251 | 365 | 388 | 376 | 342 | 204 | 181 | 214 | 234 |
| Imports | 97 | 120 | 142 | 153 | 158 | 159 | 145 | 144 | 148 |
| Trade balance | 154 | 245 | 247 | 223 | 184 | 44 | 36 | 70 | 87 |
| Current account balance | 67 | 159 | 165 | 135 | 74 | -57 | -51 | -18 | 4 |
| (% GDP) | 12.7 | 23.7 | 22.4 | 18.1 | 9.8 | -8.7 | -8.0 | -2.5 | 0.5 |
| Official reserve assets | 445 | 544 | 657 | 726 | 732 | 616 | 523 | 460 | 417 |
| Social and demographic indicators | | | | | | | | | |
| Population (million) | 27.4 | 28.2 | 28.9 | 29.6 | 30.3 | 31.0 | 31.7 | 32.4 | 33.1 |
| Saudi unemployment (15+, %) | 10.5 | 12.4 | 12.1 | 11.7 | 11.7 | 11.5 | 12.0 | 11.6 | 11.1 |
| GDP per capita (\$) | 19,211 | 23,766 | 25,471 | 25,223 | 24,962 | 21,014 | 20,150 | 21,729 | 22,795 |

Sources: Jadwa Investment forecasts for 2017, and 2018. 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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