



Summary

Real Economy: Economic data showed a slightly weaker picture in May. POS transactions were up 6.4 percent, year-on-year, compared to 11.4 in previous month. ATM withdrawals remained negative year-on-year, at -3.8 percent.

First Quarter GDP Results: Data on Q1 real GDP 2017 showed that the economy contracted by 0.5 percent, year-on-year. Growth was mainly dragged by the oil sector (-2.3 percent), whilst non-oil GDP showed better growth, at 0.6 percent.

Government Finance: The net monthly change to government accounts with SAMA were negative in May. With no change in government reserves, the change in accounts was wholly due to a decline in government deposits, by SR6.2 billion.

SAMA Foreign Reserve Assets: SAMA foreign reserve assets fell by \$1.2 billion in May month-on-month, which was the lowest decline since June of last year.

Bank Lending and Deposits: Whilst year-on-year growth in short and medium term bank credit to the private sector remained negative in May, long term credit grew by 8 percent.

Inflation: The deflationary trend seen in the last few months continued into May, with the Kingdom seeing a reduction in prices by 0.7 year-on-year. Whilst housing and utilities showed flat growth during the month, other major components of inflation, especially food and transport, are still exhibiting negative growth.

Oil - Global: Brent oil prices dropped 7 percent and WTI prices 6 percent month-on-month in June, as an unusual build in US oil stock levels, during the summer driving season, put pressure on prices. That said, oil prices did improve in the first week of July, as US oil stock showed some declines.

Oil - Regional: Latest available data shows that Saudi crude oil production was flat month-on-month in May. Year-to-May Saudi secondary sources crude oil production data shows the total Saudi cut averaging 654 tpbpd, to an average of 9.9 mbpd so far, this year.

Exchange Rates: The US dollar showed strong change in value against a number of emerging market currencies during June and early July, as US economic indicators increased the likelihood of another rate rise despite the US Federal Reserve (Fed) voting to raise its key interest rate by 25 basis points (bps) in June.

Stock market: The TASI rose prior to closing for Eid holidays, as the MSCI decided to put the Saudi index on a list of possible upgrades to emerging market status, although profit-taking led to some declines in early July.

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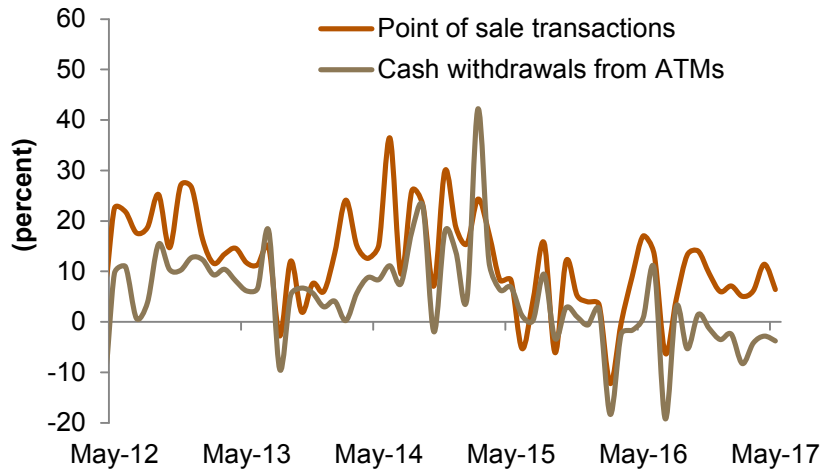


Real Economy

Economic data showed a slightly weaker picture in May. POS transactions were up 6.4 percent, year-on-year, compared to 11.4 percent in previous month. ATM withdrawals remained negative year-on-year, at -3.8 percent. Non-oil PMI also dropped to 54.3 in June, but remains pointing to expansionary activity. Meanwhile, cement sales remain below previous year averages.

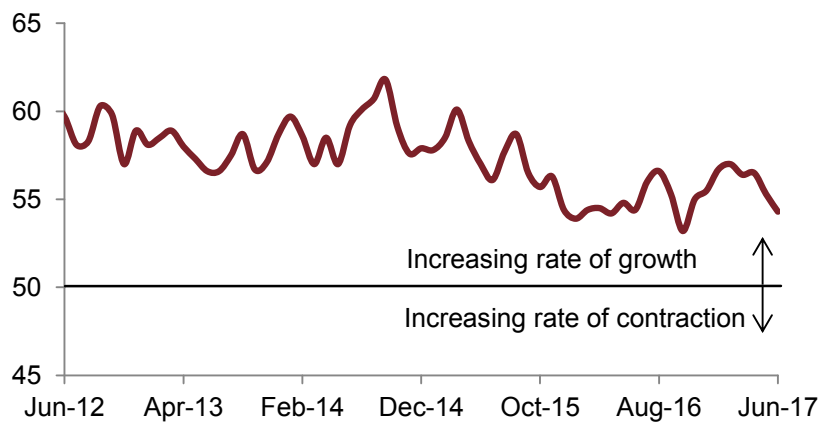
POS transactions were up 6.4 percent, year-on-year, compared to 11.4 percent in previous month. ATM withdrawals remained negative year-on-year, at -3.8 percent.

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



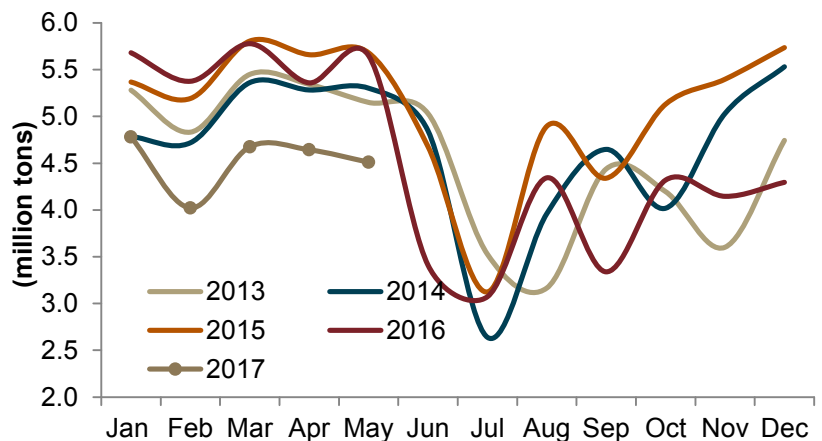
The non-oil PMI slowed to 54.3 in June, but remains firmly pointing to expansionary activity.

Purchasing Managers' Index



Meanwhile, cement sales remain below previous year averages, with construction activity likely to drop further, as is usually observed during Ramadan and summer.

Cement Sales

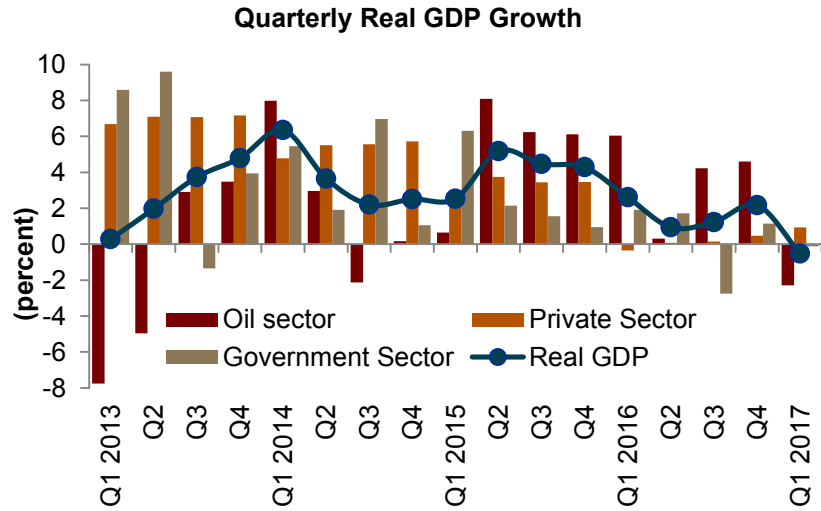




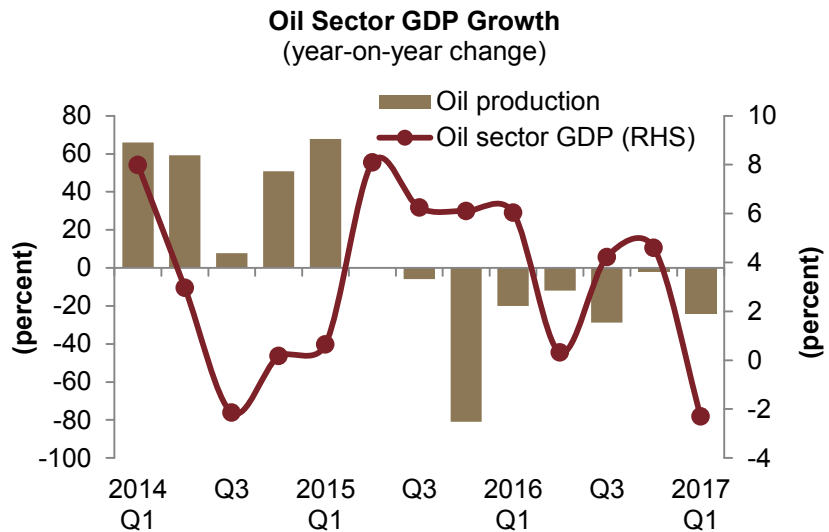
Quarterly GDP Growth

Data on Q1 real GDP showed that the economy contracted by 0.5 percent, year-on-year. In line with our forecasts, growth was mainly dragged by the oil sector (-2.3 percent), whilst non-oil GDP showed better growth, at 0.6 percent. Within the non-oil sector, non-oil private sector GDP (0.9 percent) was boosted by manufacturing growth, although government sector GDP was negative, at -0.1 percent.

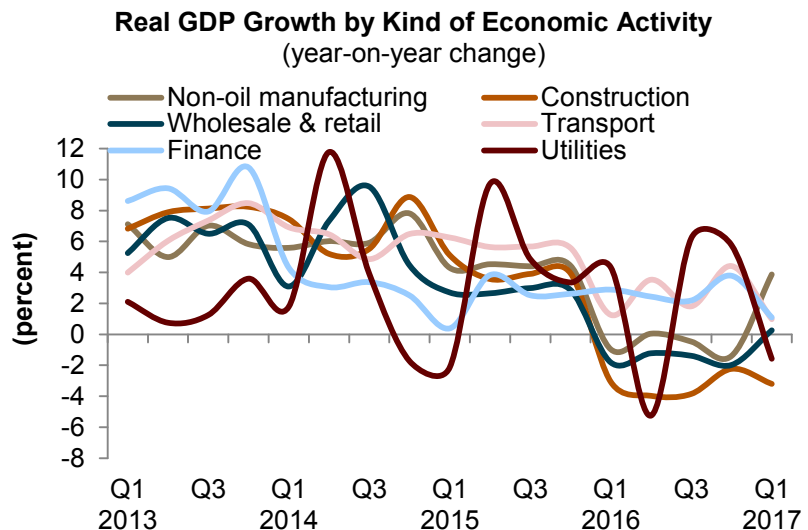
Real GDP growth reached -0.5 percent in Q1 2017, slowing from 2.2 percent in the previous quarter.



The main reason for the decline in GDP was the contraction in the oil sector, which dropped by 2.3 percent, year-on-year.



A number of sectors showed negative or slowing growth in the non-oil economy, although manufacturing sector saw a rapid rise in growth.



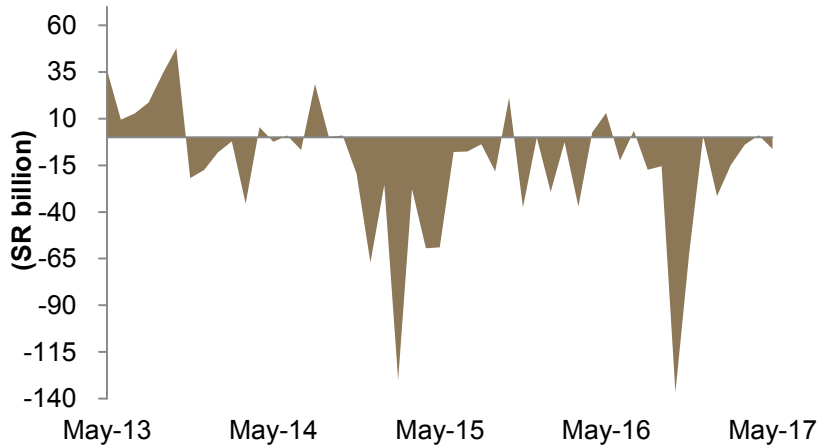


Government Finance

The net monthly change to government accounts with SAMA were negative in May. With no change in government reserves, the change in accounts was wholly due to a decline in government deposits, by SR6.2 billion. Meanwhile, domestic banks net holdings of government debt rose by SR3 billion in May.

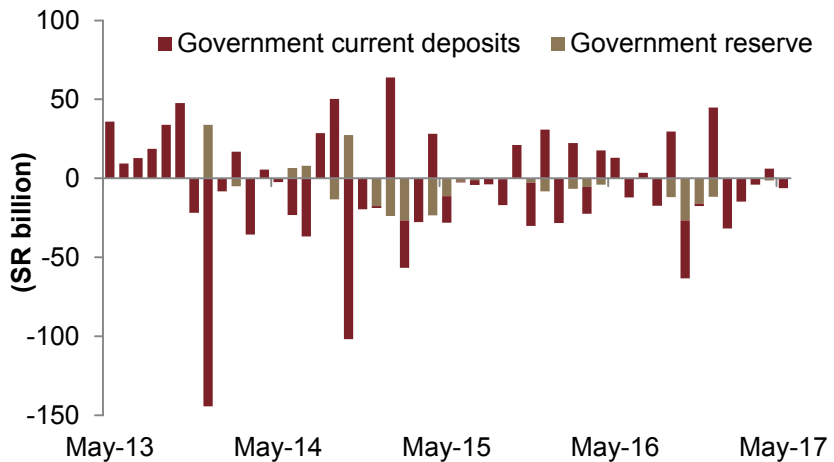
The net monthly change to government accounts with SAMA turned negative in May, by SR6.2 billion...

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



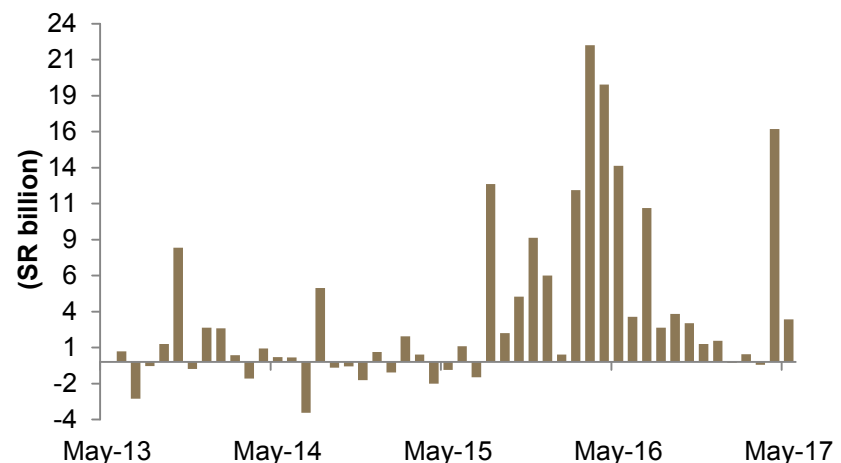
...with the change was entirely due to a decline in government deposits, by SR6.2 billion.

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



Meanwhile, domestic banks net holdings of government debt rose by SR16 and SR3 billion in April and May respectively. This might reflect the recent sovereign international sukuk issuance in April and transactions between local banks and non-banks.

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



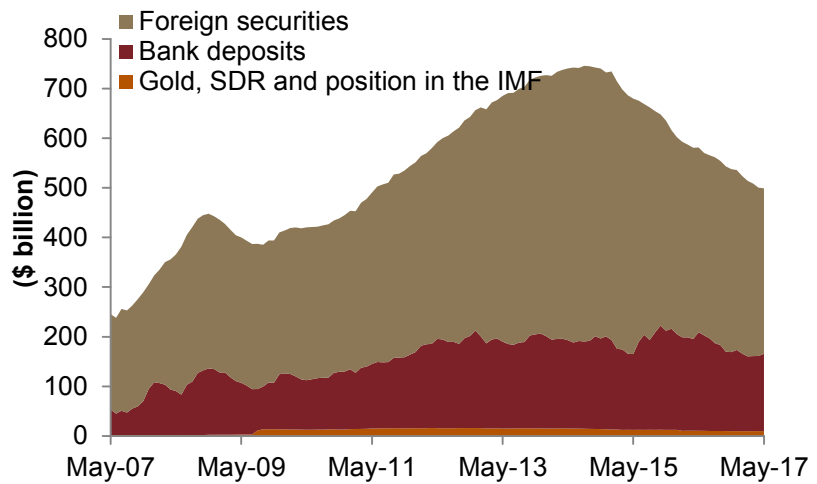


SAMA Foreign Reserve Assets

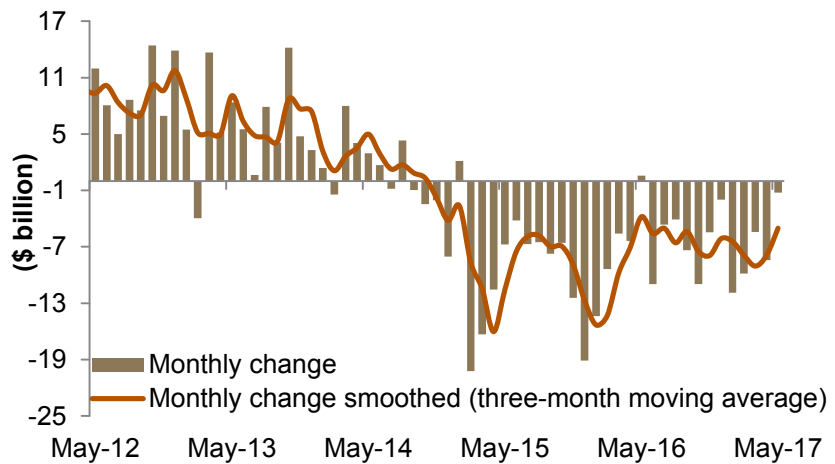
SAMA foreign reserve assets fell by \$1.2 billion in May month-on-month, which was the lowest decline since June of last year. Looking at the breakdown in assets, we can see that all of the declines came from foreign securities, whilst bank deposits increased.

SAMA foreign reserve assets fell by \$1.2 billion in May...

SAMA Total Foreign Reserve Assets

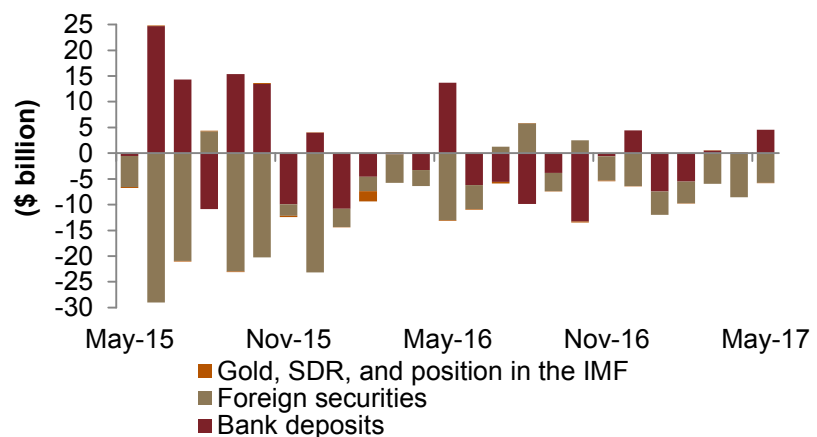


SAMA Foreign Reserve Assets (month-on-month change)



...much smaller than the \$7.4 billion monthly average decline seen in the last eleven months.

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



All of the declines came from foreign securities, whilst bank deposits increased.

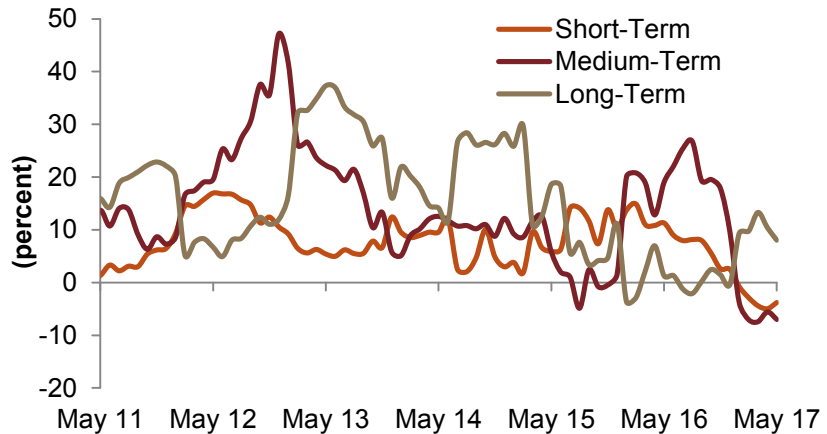


Bank Lending and Deposits

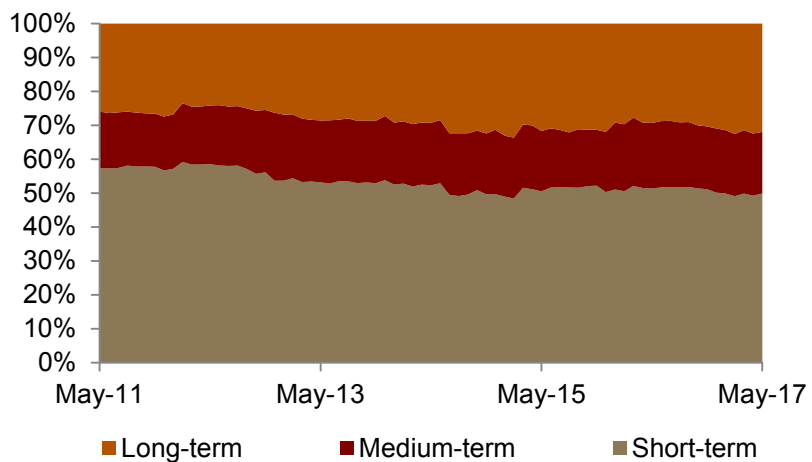
Whilst year-on-year growth in short and medium term bank credit to the private sector remained negative in May, long term credit grew by 8 percent. Long term credit made up 32 percent of total private sector loans, compared to 29.3 percent a year ago. Meanwhile, total bank deposits were down by SR13.6 billion, month-on-month, with May loan-to-deposit ratio rising to 88.6 from 87.4 previously.

Whilst year-on-year growth in short and medium term bank credit to the private sector remained negative in May, long term credit grew by 8 percent.

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

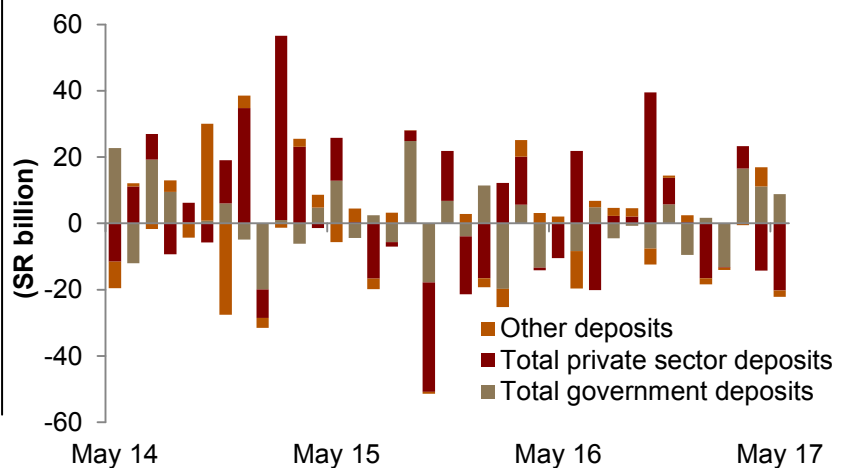


Bank Credit by Maturity
(percentage of total credit)



Long term credit now makes up 32 percent of total private sector loans, compared to 29.3 percent a year ago.

Total Bank Deposits



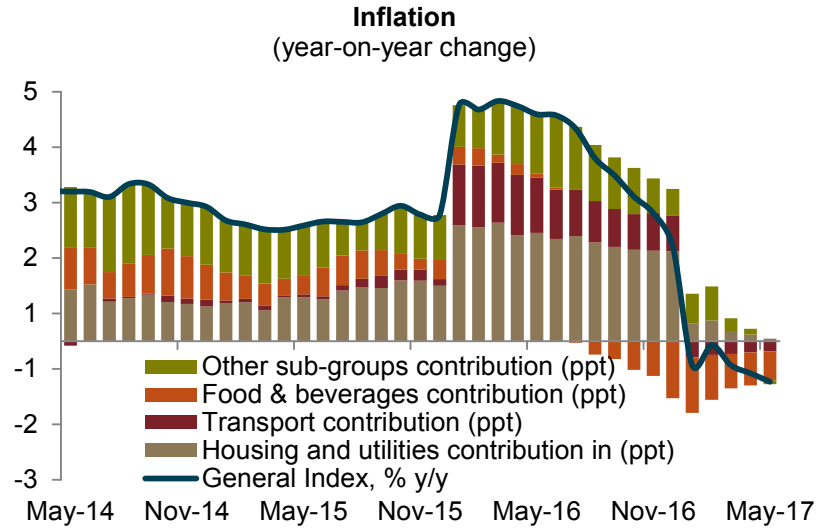
Meanwhile, total bank deposits were down by SR13.6 billion.



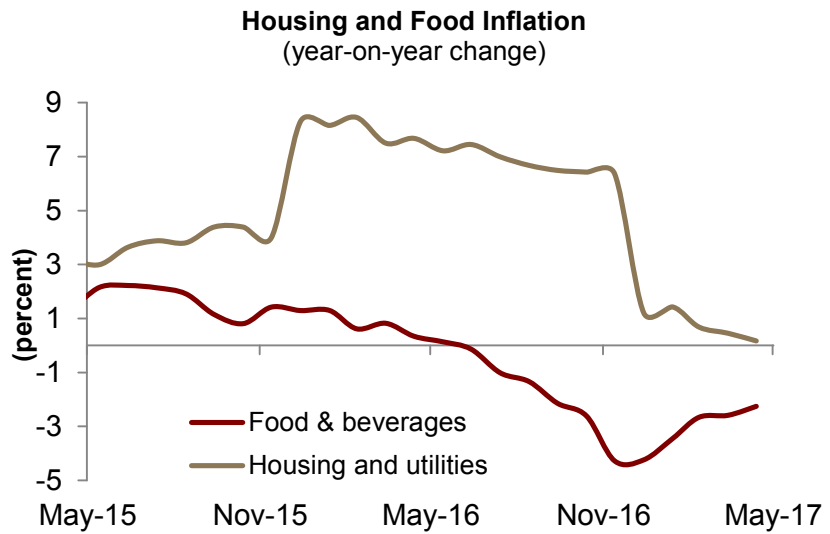
Inflation

The deflationary trend seen in the last few months continued into May, with the Kingdom seeing a reduction in prices by 0.7 year-on-year. Whilst housing and utilities showed flat growth during the month, other major components of inflation, especially food and transport, are still exhibiting negative growth.

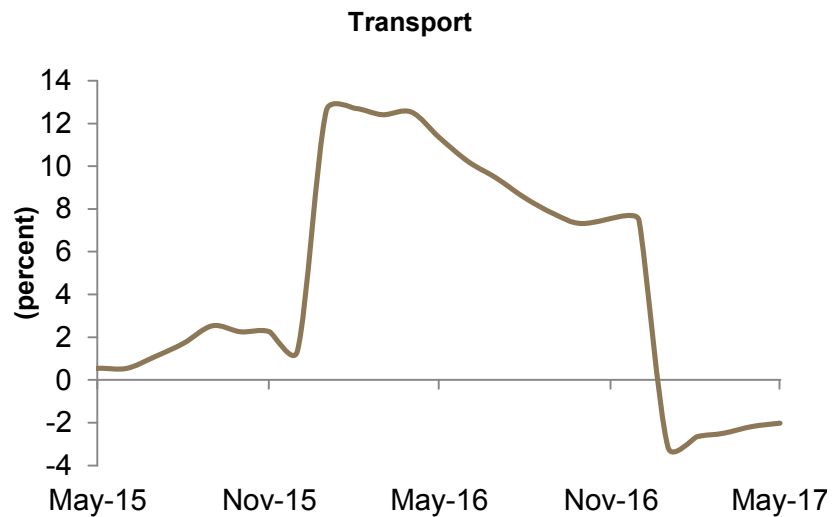
Inflation dropped to -0.7 percent in May, continuing the deflationary trend seen since the start of the year.



Housing and utilities saw virtually no change over the year in May, whilst food inflation remains negative.



Another major component of inflation, transport, which includes purchase of vehicles, is also exhibiting negative yearly growth.

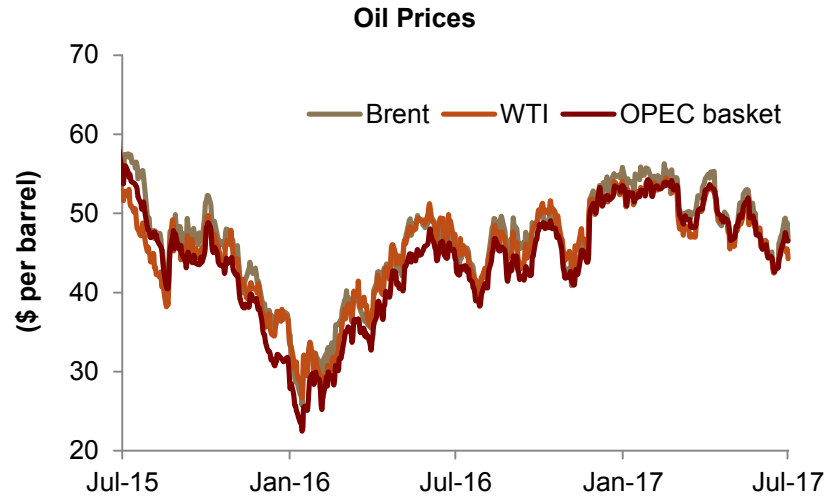




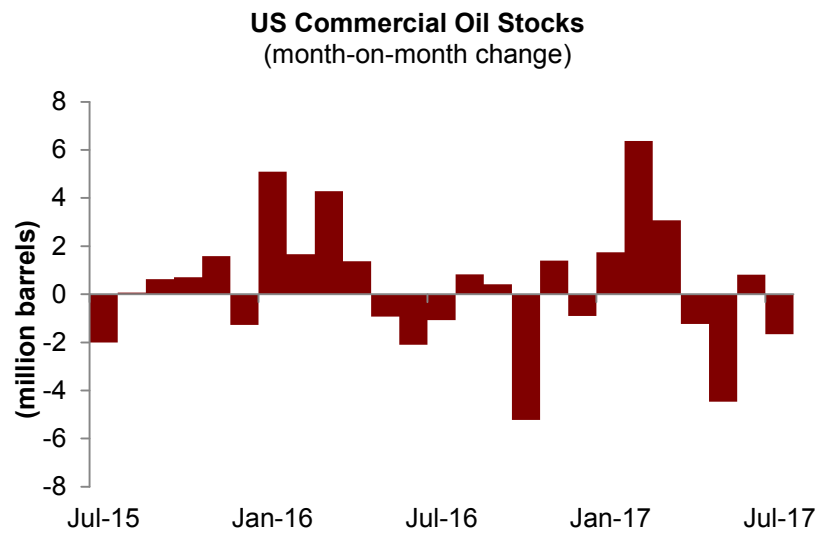
Oil - Global

Brent oil prices dropped 7 percent and WTI prices 6 percent month-on-month, in June, as an unusual build in US oil stock levels, during the summer driving season, put pressure on prices. That said, oil prices did improve in the first week of July, as US oil stocks declined. Meanwhile, despite OPEC oil production rising month-on-month in May, data still shows strong compliance.

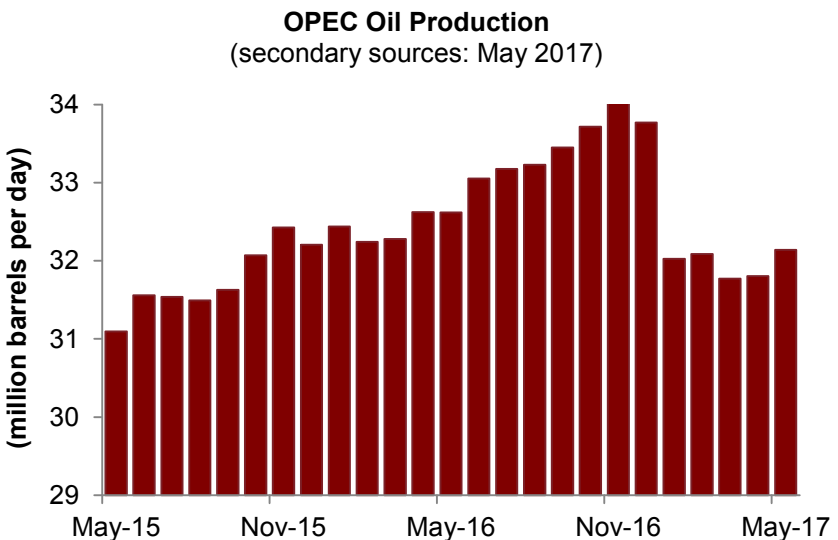
Oil prices were down month-on-month in June, although they recovered in the first week of July...



...as US oil stocks declined.



Meanwhile, despite OPEC oil production rising slightly month-on-month in May, data still shows strong compliance.



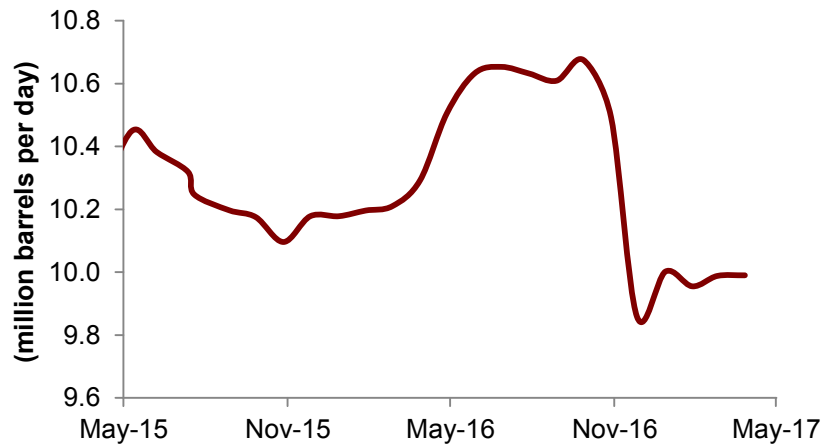


Oil - Regional

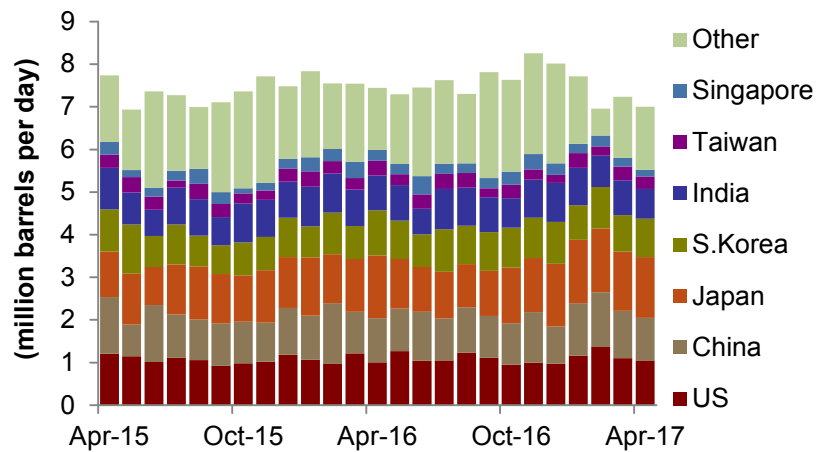
Saudi crude oil production was flat month-on-month in May. Year-to-May Saudi secondary sources crude oil production data shows the total Saudi cut averaging 654 tpbd, to an average of 9.9 mbpd so far, this year. Meanwhile, latest available data for April shows that Saudi crude oil exports totaled 7 mbpd, whilst year-to-date crude oil burn (for electricity generation) has been lower than last year.

Saudi Arabian crude oil production was flat month-on-month in May, at 9.9 mbpd.

Saudi Oil Production
(secondary sources: May 2017)

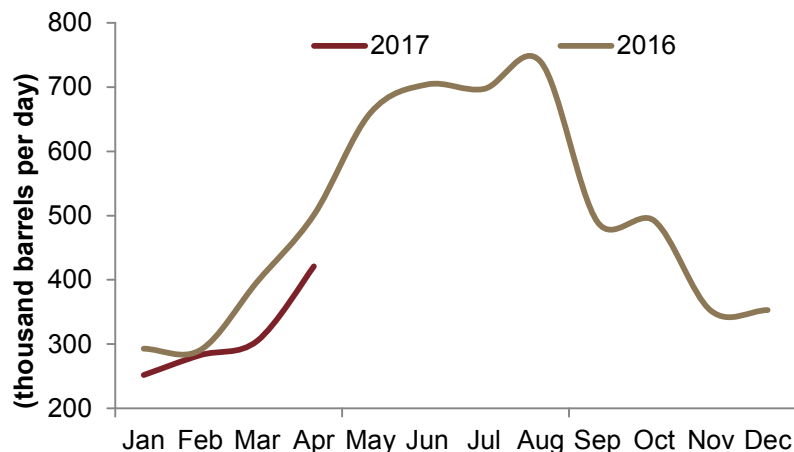


Saudi Crude Oil Exports
(April 2017)



Latest available data shows that oil exports dropped 3 percent month-on-month in April, 7 mbpd.

Saudi Domestic Crude Oil Burn
(April 2017)



Meanwhile, year-to-date crude oil burn (for electricity generation) has been lower than last year, partially as a result of higher gas usage.

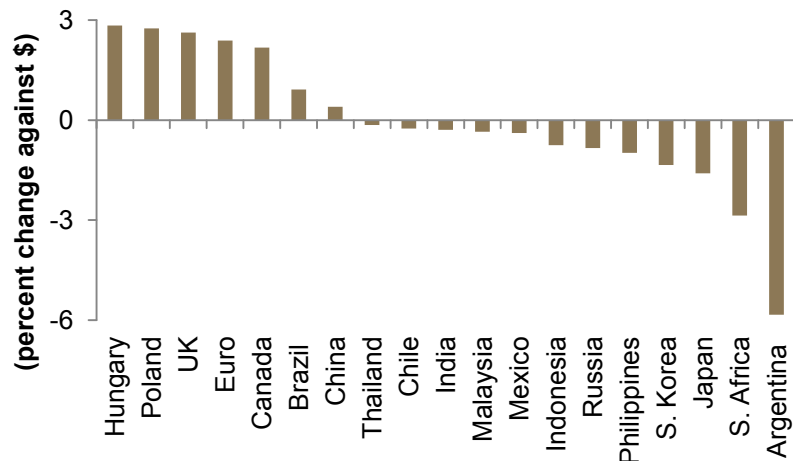


Exchange Rates

The US dollar showed strong change in value against a number of emerging market currencies during June and early July, as US economic indicators increased the likelihood of another rate rise despite the US Federal Reserve (Fed) voting to raise its key interest rate by 25 basis points (bps) in June.

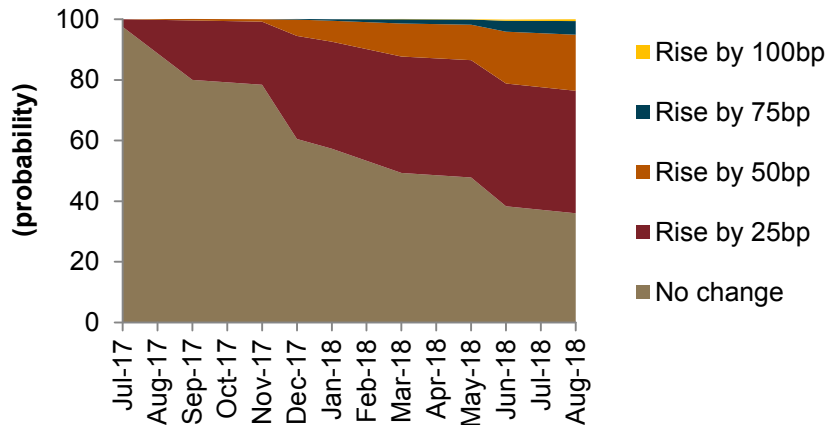
The US dollar showed strong change in value against some emerging market currencies during June and early July...

Monthly Gain/Loss Against US Dollar
(June and early July 2017)



...as US economic indicators increased the likelihood of another Fed interest rate rise. Current surveys suggest the market expects possibly one more interest rate rise, by 25 bps, in 2017.

US Interest Rate Rise Probability



That said, some currencies, such as the UK pound, did perform better against the dollar.

UK Pound/US Dollar





Stock Market

Whilst trading sideways during most of the month in June, TASI rose prior to closing for Eid holidays, as the MSCI decided to put the Saudi index on a list of possible upgrades to emerging market status. Although the TASI could be added to MSCI emerging market (MSCI EM) index by mid-2019 at the latest, some reports suggested this could take place earlier, perhaps towards the end of 2018.

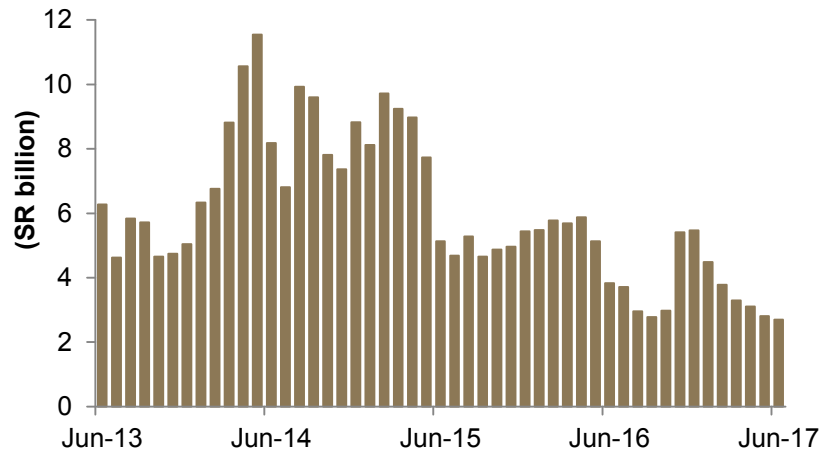
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TASI



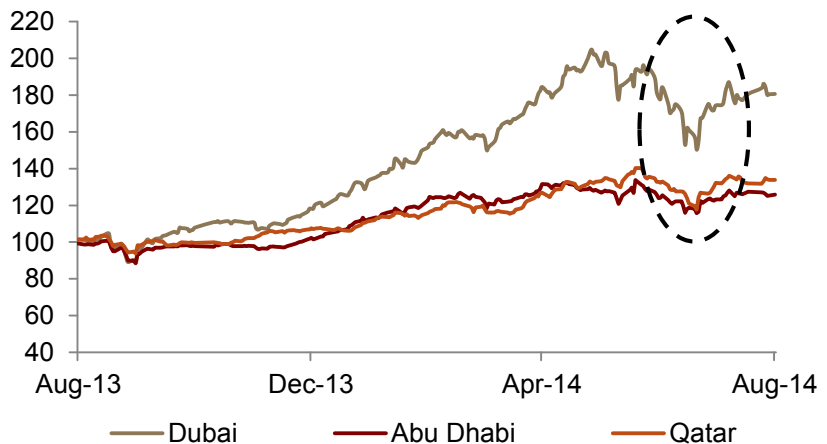
Daily Average Stock Market Turnover

...a spike in TASI did not result in higher market turnover in June, which was weighed down by a usually observed quieter trading period during Ramadan.



UAE and Qatar Stock Exchange
(rebased to 100 at August 2013)

Meanwhile, looking further ahead, risks of overpricing prior to MSCI EM inclusion do remain for the TASI, similar to what was observed with the Qatar and the UAE stock markets. Back in June 2014, both indices rose before their inclusion into the MSCI EM, and then dipped immediately after.





Key Data

	2010	2011	2012	2013	2014	2015	2016	2017F	2018F
Nominal GDP									
(SR billion)	1,976	2,517	2,760	2,800	2,836	2,444	2,424	2,642	2,857
(\$ billion)	527	671	736	747	756	652	646	705	762
(% change)	22.8	27.4	9.6	1.5	1.3	-13.8	-0.8	10.2	8.1
Real GDP (% change)									
Oil	-0.1	12.2	5.1	-1.6	2.1	5.27	3.8	-1.2	0.2
Non-oil private sector	9.7	8.0	5.6	7.0	5.4	3.41	0.1	1.2	1.2
Non-oil government	7.4	8.4	5.3	5.1	3.7	2.72	0.6	0.5	0.4
Total	5.0	10.0	5.4	2.7	3.7	4.11	1.7	0.1	0.6
Oil indicators (average)									
Brent (\$/b)	79.8	112.2	112.4	109.6	99.4	52.1	43.2	54.5	60.8
Saudi (\$/b)	77.5	103.9	106.1	104.2	95.7	49.4	40.6	51.5	56.8
Production (million b/d)	8.2	9.3	9.8	9.6	9.7	10.2	10.4	10.2	10.2
Budgetary indicators (SR billion)									
Government revenue	742	1,118	1,247	1,156	1,044	616	528	708	911
Government expenditure*	654	827	873	976	1,110	978	930	890	929
Budget balance	88	291	374	180	-66	-362	-402	-182	-18
(% GDP)	4.4	11.6	13.6	6.4	-2.3	-14.8	-16.6	-6.9	-0.6
Gross public debt	167	135	99	60	44	142	317	433	628
(% GDP)	8.5	5.4	3.6	2.1	1.6	5.8	13.1	16.4	22.0
Monetary indicators (average)									
Inflation (% change)	3.8	3.7	2.9	3.5	2.7	2.2	3.4	2.0	4.7
SAMA base lending rate (% , end year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5	3.0
External trade indicators (\$ billion)									
Oil export revenues	215	318	337	322	285	157	136	163	185
Total export revenues	251	365	388	376	342	204	182	212	236
Imports	97	120	142	153	158	159	124	140	143
Trade balance	154	245	247	223	184	44	58	72	94
Current account balance	67	159	165	135	74	-57	-25	-15	1
(% GDP)	12.7	23.6	22.4	18.1	9.8	-8.7	-3.9	-2.1	0.1
Official reserve assets	445	544	657	726	732	616	534	488	452
Social and demographic indicators									
Population (million)	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.6	33.3
Saudi Unemployment (15+, %)	11.2	12.4	12.1	11.7	11.7	11.5	12.5	12.3	11.8
GDP per capita (\$)	19,211	23,827	25,471	25,223	24,962	21,014	20,365	21,607	22,911

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



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