



Summary

Real Economy: Economic data for September showed a downward trend in economic activity.

Government Finance: The net monthly change in government accounts with SAMA remained negative for the fourth consecutive month, falling by SR15 billion in September.

SAMA Foreign Reserve Assets: SAMA FX reserves fell by \$7.4 billion in September, but the general trend points to a slowdown in monthly foreign reserve withdrawals.

Bank Lending: Monthly bank credit to the private sector fell slightly in September. Q3 data points to a slight slowdown in year-on-year credit growth to both consumers and corporations.

Bank Deposits and Liquidity: Measures to manage liquidity have contributed to halting the constant rise in the cost of funding. Moving forward, we expect an increase in government deposits to result in a further easing of liquidity conditions.

Inflation: Inflation slowed to 3 percent in September, a new 2016 low. We believe that easing liquidity conditions will prevent inflation from slowing further during the remainder of 2016.

Trade: August data on non-oil exports and imports showed a recovery from four and five-year lows, respectively. However, despite August's recovery, both remained consistently lower than previous years.

Oil - Global: Brent oil prices hit highs of \$51 per barrel (pb) at one point in October, but dipped towards the end of the month, as doubts begin to build as to whether OPEC can reach an agreement.

Oil - Regional: Saudi crude oil production was flat month-on-month in September at 10.6 million barrels per day (mbpd) but we do expect a drop in oil production in the next few months.

Exchange Rates: Whilst the US Dollar is expected to continue strengthening in the months ahead, its rise could be interrupted by an unexpected outcome in the US elections in early November.

Stock Market: The combination of a record international bond sale by the Kingdom and higher oil prices led to TASI rising by 10 percent during October.

Volumes: After six consecutive monthly declines in market turnover, October saw a rise of 7 percent month-on-month.

Valuations: The stronger performance of the TASI during the month saw price-to-earnings (PE) recover from a five year low.

Sectoral Performance: There was a visible lift in sectorial performance after the Kingdom's largest-ever emerging market bond sale in mid-October.

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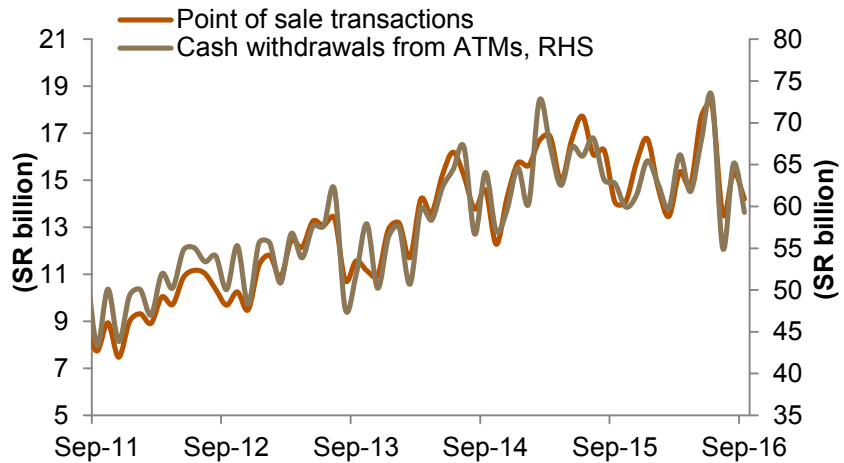


Real Economy

Economic data for September showed a downward trend in economic activity. Growth in cash withdrawals from ATMs and point-of-sale transactions was negative in both year-on-year and monthly terms. The non-oil PMI slowed, but continued to point to an expansion in activity. Cement sales and production suggest weaker activity.

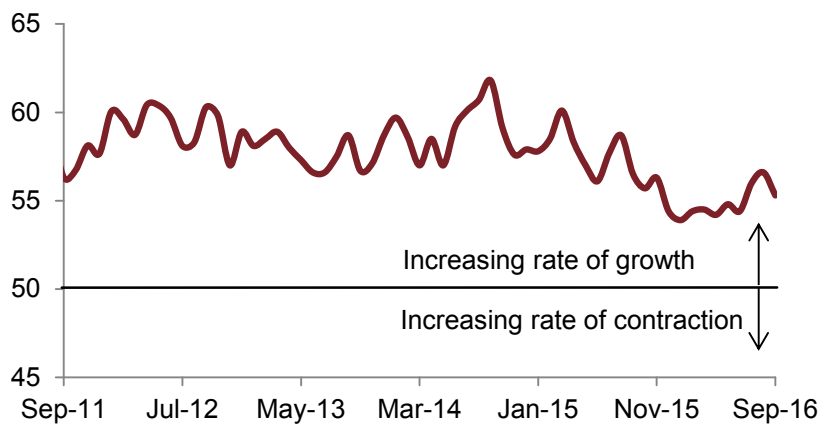
In September, the sum of cash withdrawals from ATMs and POS transactions came out negative at -4.3 percent year-on-year, and -8.7 percent month-on-month.

Indicators of Consumer Spending



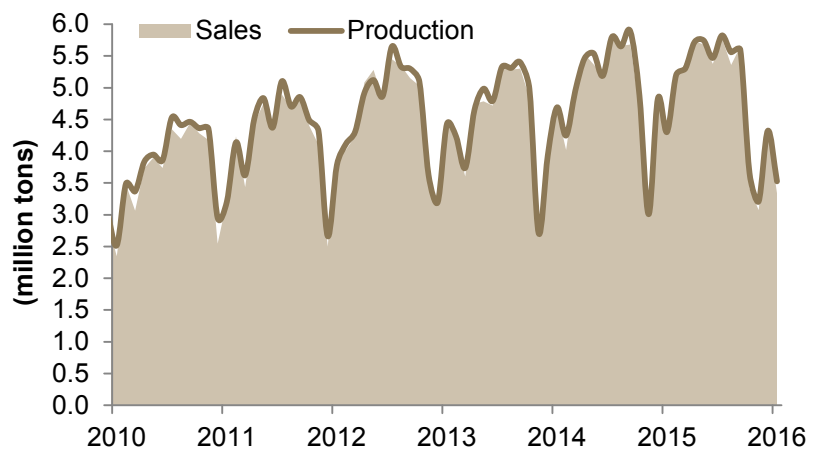
The non-oil PMI slowed, but continued to reflect an expansion in non-oil activity.

Purchasing Managers' Index



Cement sales and production posted 23.1 percent and 18.4 percent year-on-year declines, reflecting a slowdown in construction activity.

Cement Sales and Production



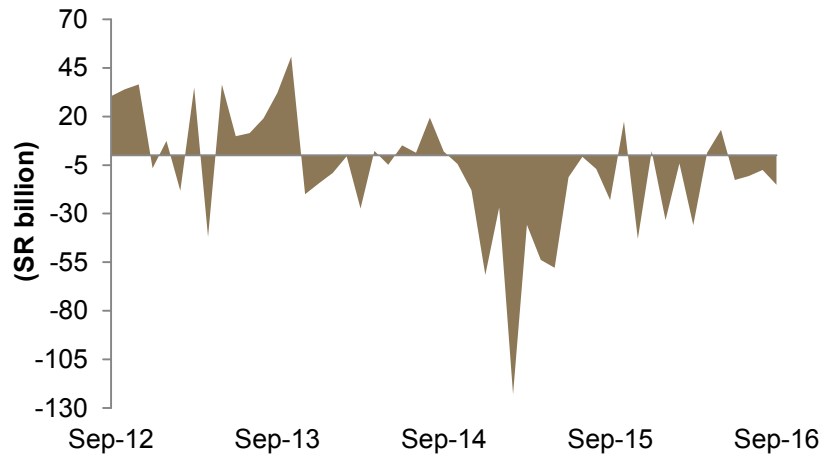


Government Finance

The net monthly change in government accounts with SAMA remained negative for the fourth consecutive month, falling by SR15 billion in September. Recent data on outstanding public debt points to an increasing tendency by the government to rely on debt issuance rather than reserve withdrawals to finance its spending (See next page).

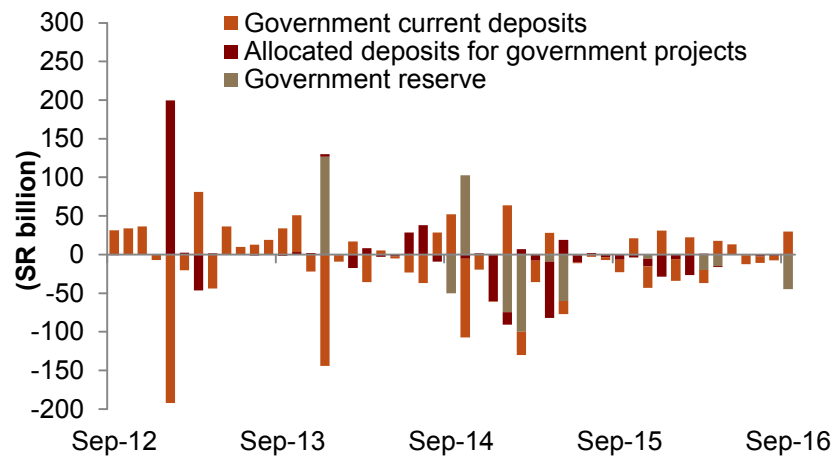
The net monthly change to government accounts fell by SR15 billion in September.

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



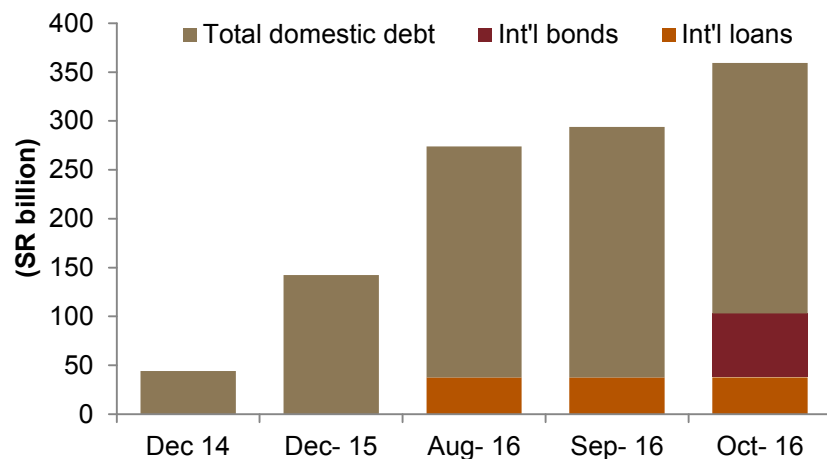
A transfer of around SR30 billion to current deposits seems to point to a potential resumption of payments in coming months, as announced recently by the government.

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



We estimate the total amount of outstanding public debt to have reached SR359 billion by the end of October, of which 71.3 percent is domestic.

Breakdown of Government Debt
(Jadwa Investment estimates)



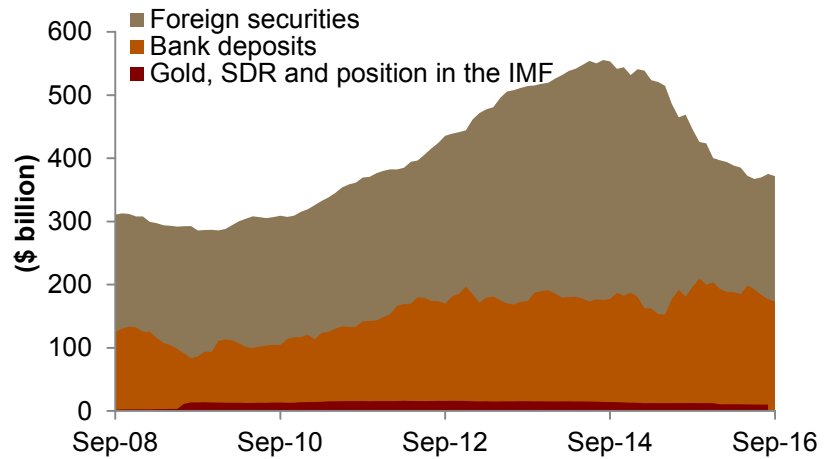


SAMA Foreign Reserve Assets

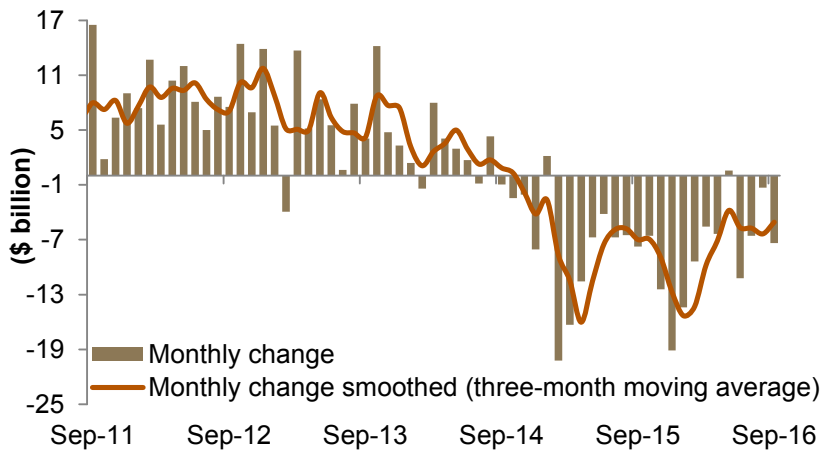
SAMA FX reserves fell by \$7.4 billion in September. Despite this fall, the general trend points to a slowdown in monthly foreign reserve withdrawals. This in part, reflects the impact of the increasing reliance on debt to finance government spending, as well as improving oil export revenue.

SAMA FX reserves fell by \$7.4 billion in September...

SAMA Total Foreign Reserve Assets

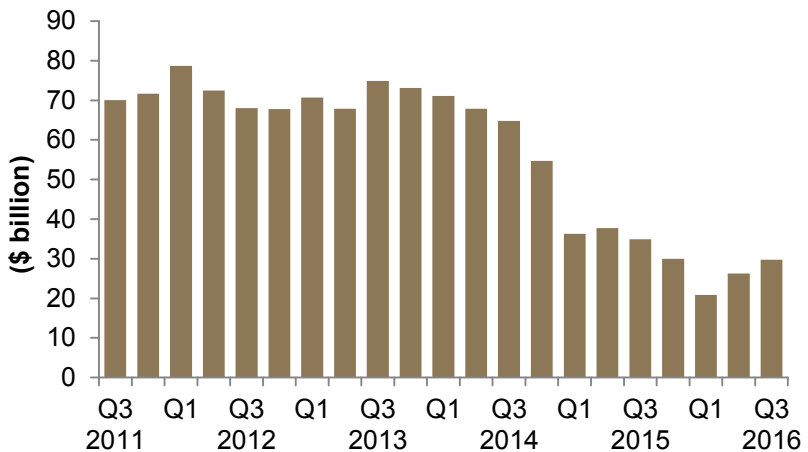


Net Monthly Change to SAMA Foreign Reserve Assets



...however, we expect to see an improvement in coming months, as the government relies more on debt to finance its spending...

Quarterly Oil Export Revenue
(Jadwa Investment estimates)



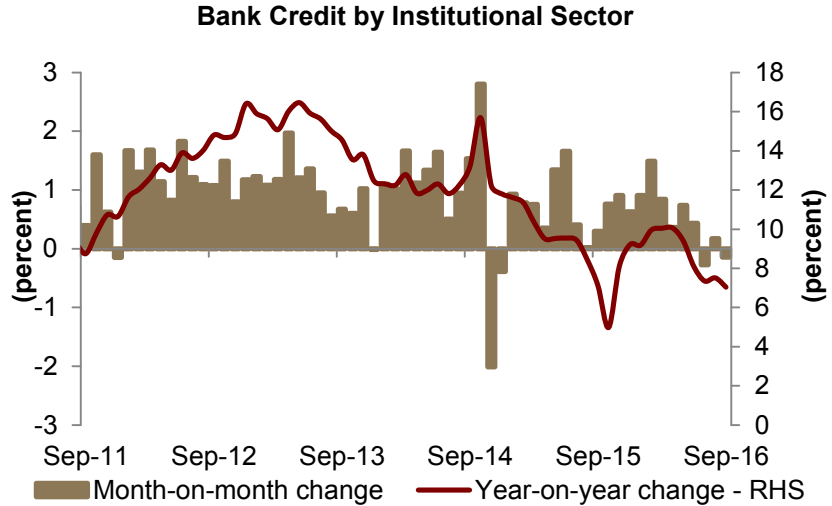
...while oil export revenue rose for the second consecutive quarter.



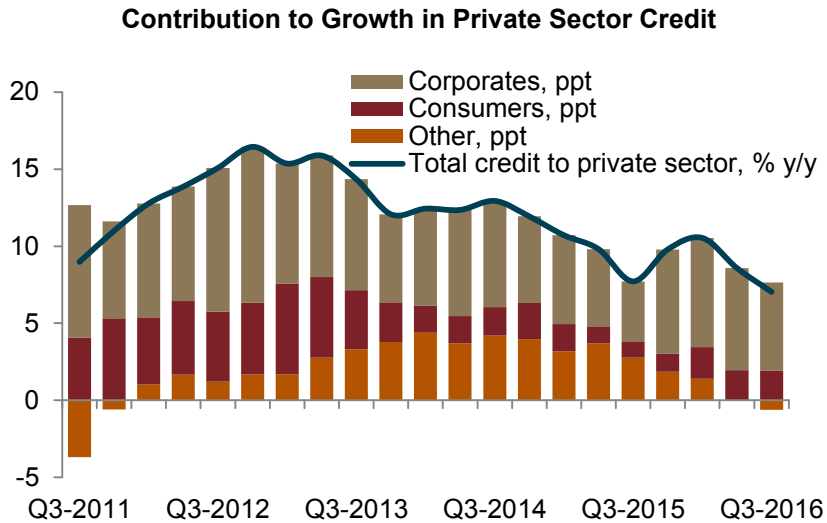
Bank Lending

Monthly bank credit to the private sector fell slightly in September. Q3 data points to a slight slowdown in year-on-year credit growth to both consumers and corporations. Within the corporate sector, credit by kind of economic activity showed that so far in 2016, the commerce sector was the largest recipient of new bank credit (45.3 percent of total new credit).

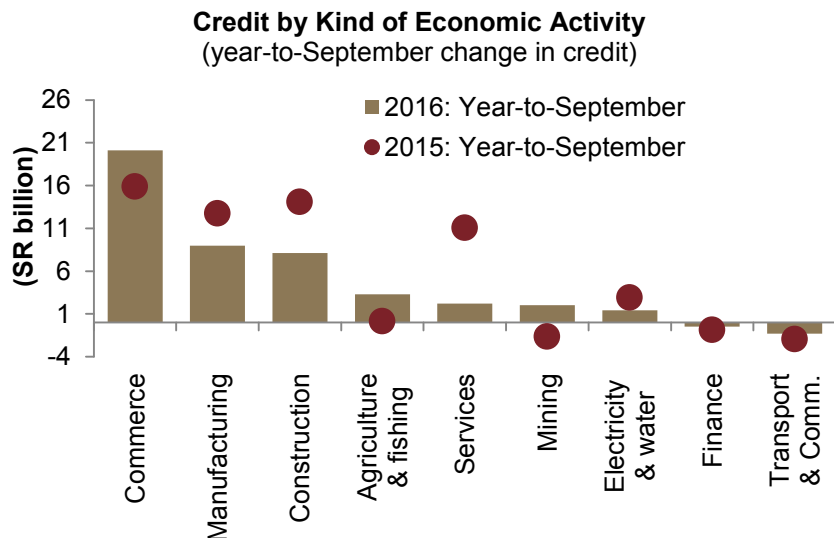
Monthly bank credit to the private sector came out slightly negative at -0.1 percent, rising by 7.0 percent, year-on-year.



Annual growth in Q3 credit to consumers and corporates reached 7.8 percent, and 9.8 percent respectively.



Credit by kind of activity showed that commerce, agriculture, and mining were the only sectors to receive more credit so far in 2016 compared to the same period in 2015.

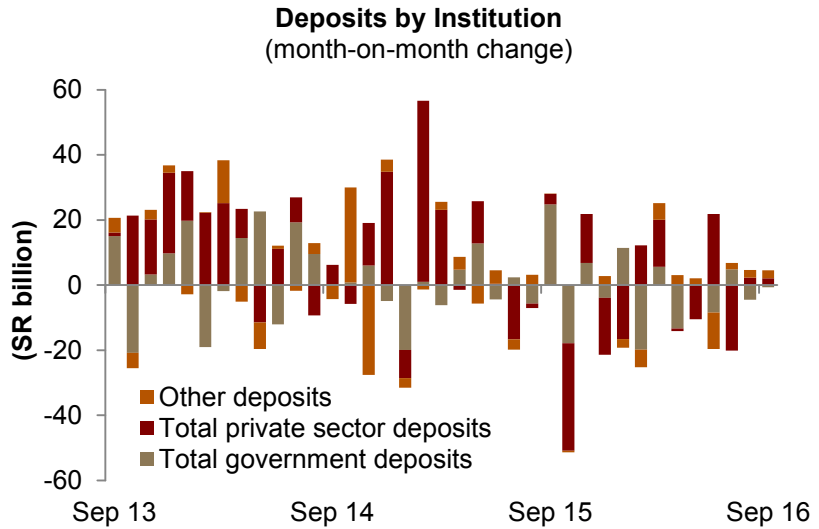




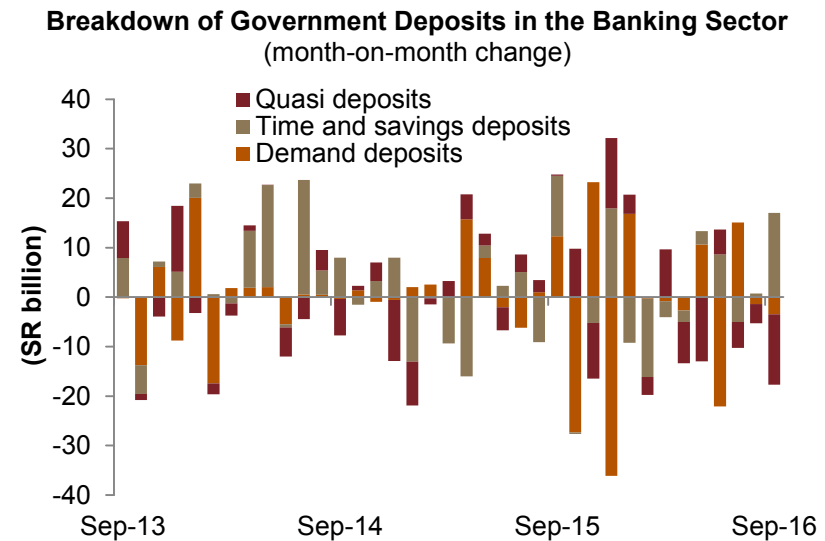
Bank Deposits and Liquidity

Total bank deposits rose by SR4 billion in September. This rise was attributed to a net increase in private sector and other deposits, while government deposits fell slightly. Measures to manage liquidity have contributed to halting the constant rise in the cost of funding. Moving forward, we expect an increase in government deposits to result in a further easing of liquidity conditions.

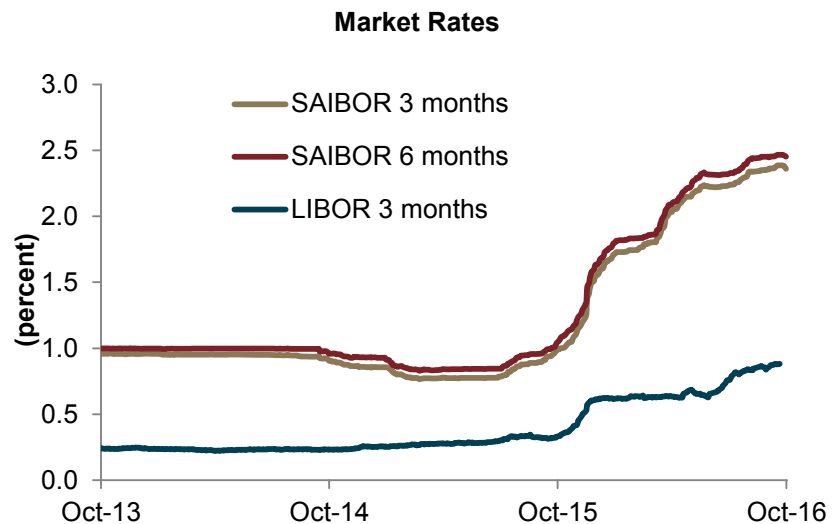
In September, total bank deposits rose by SR4 billion, month-on-month, owing to a net monthly increase in private sector and other deposits.



SAMA's SR20 billion liquidity injection on behalf of government entities came in the form of time and savings deposits, which rose by SR17 billion in September, thereby nearly offsetting a sizable withdrawal from government demand and quasi deposits during the same month.



Measures to manage liquidity have contributed to halting the constant rise in the cost of funding. Moving forward, we anticipate an improvement in government deposits following the international bond issuance, and the potential resumption of payments to contractors to result in a further easing of liquidity conditions.

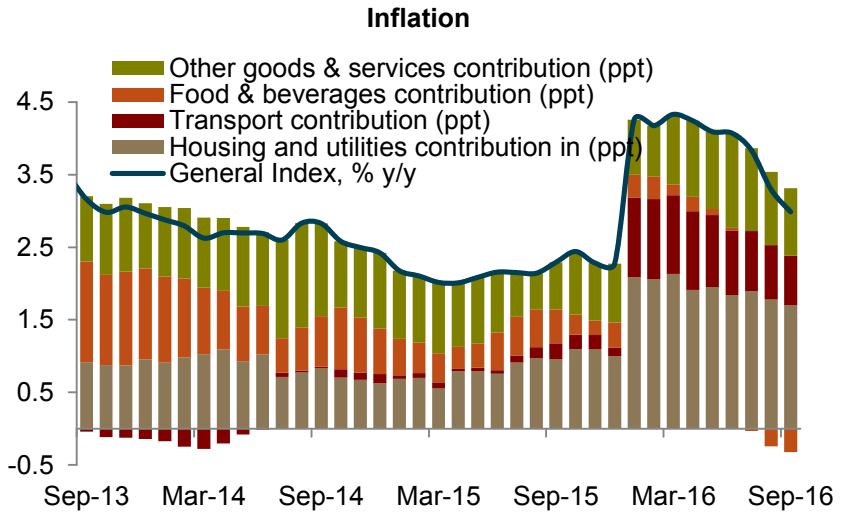




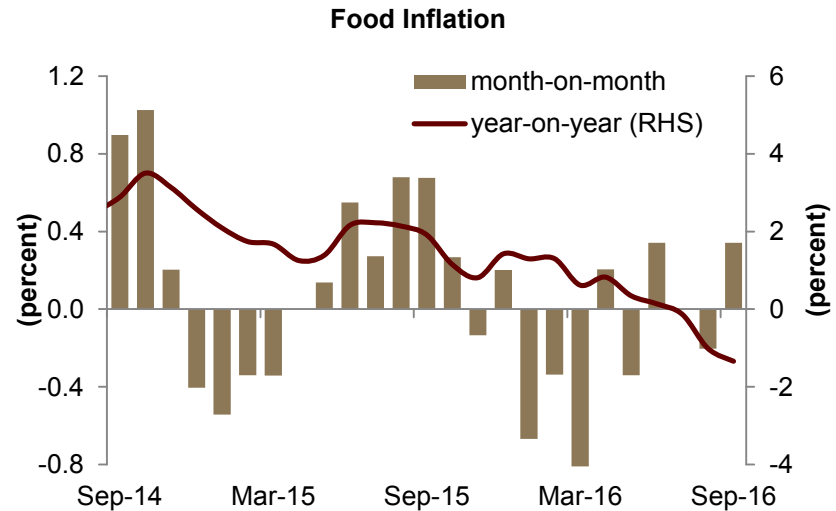
Inflation

Inflation slowed to 3.0 percent in September, a new 2016 low. Food inflation came out negative for the second consecutive month, but showed a rise in month-on-month terms. Meanwhile, with the exception of home furnishing, health, and communication, all other components of the core index posted a slowdown. We believe that easing liquidity conditions will prevent inflation from slowing further during the remainder of 2016 (See bank deposits and liquidity page).

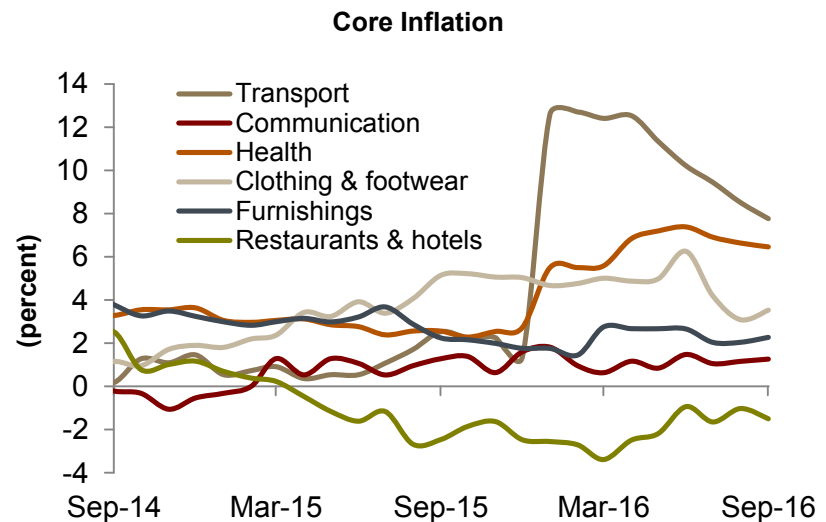
Inflation continued to decelerate notably over the past two months, slowing from 4.1 percent in June to 3.0 percent in September...



...negative food inflation contributed partially to the slowdown...



...while most other components of the core index have also shown a slowing trend during the past couple of months.

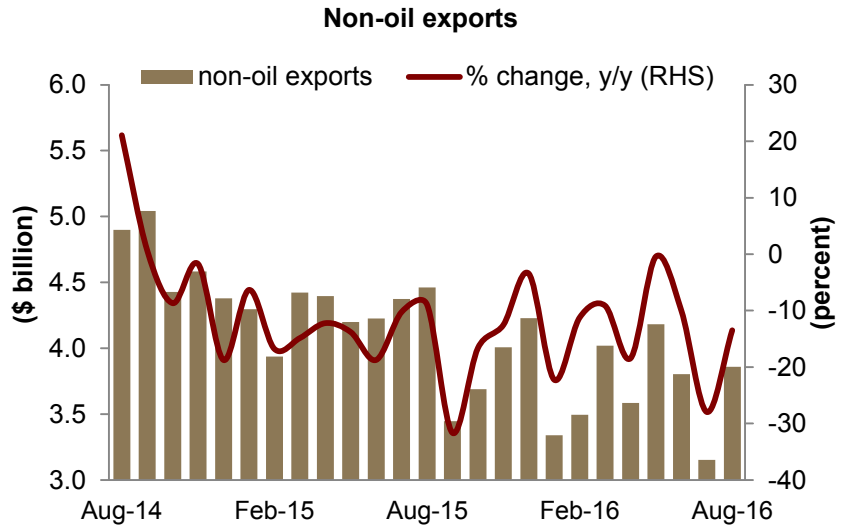




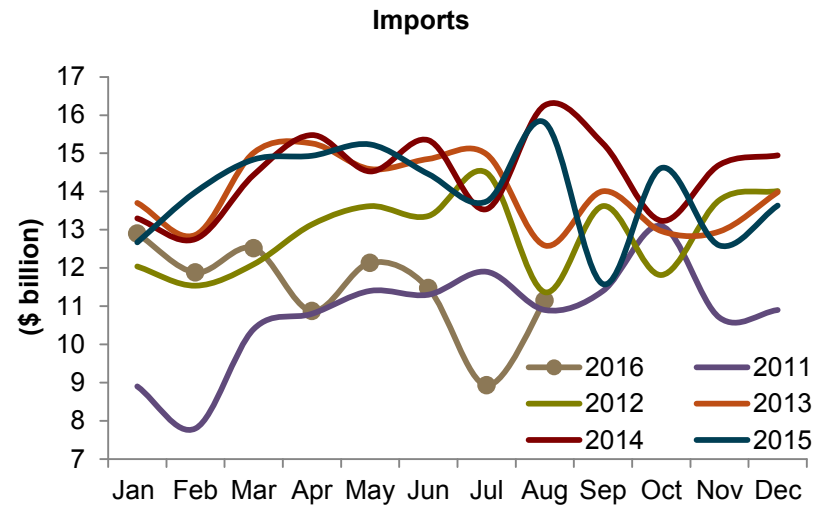
Trade

August data on non-oil exports and imports showed a recovery from four and five-year lows, respectively. However despite August's recovery, both remained consistently lower than previous years. Non-oil exports remained 13.5 percent lower, year-on-year, mainly owing to subdued global demand. Meanwhile, imports rebounded but are well below their 2015 levels. New letters of credit opened point to a continued recovery in imports in coming months.

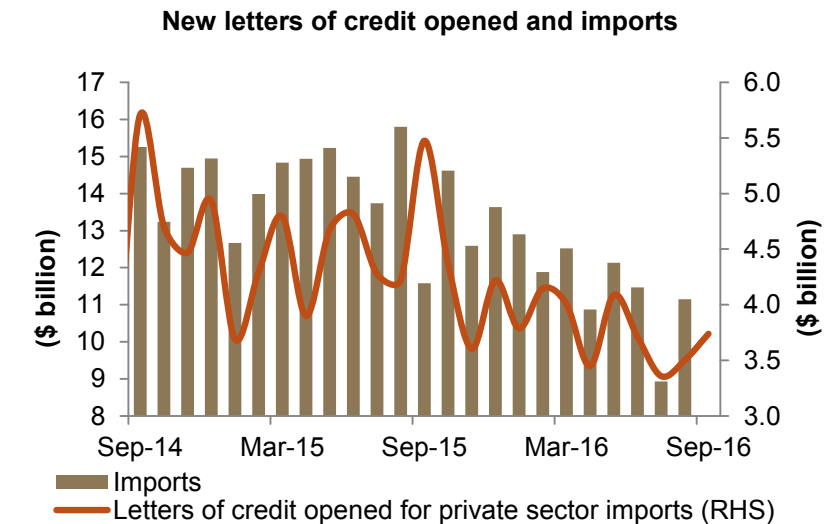
Non-oil exports rebounded for the first time since May, reaching \$3.9 billion in August.



July imports fell to their lowest level in five years, before rebounding in August to reach \$11.2 billion...



...while data on new LOCs opened suggest a continued improvement in imports in the coming months.

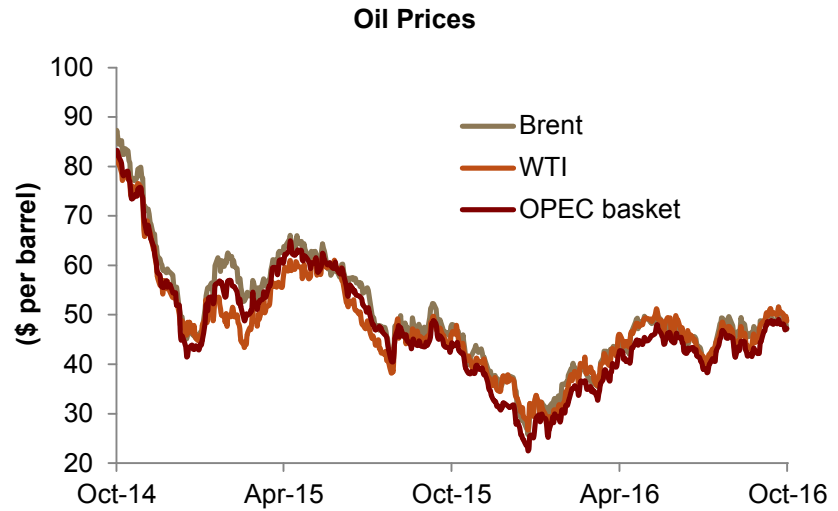




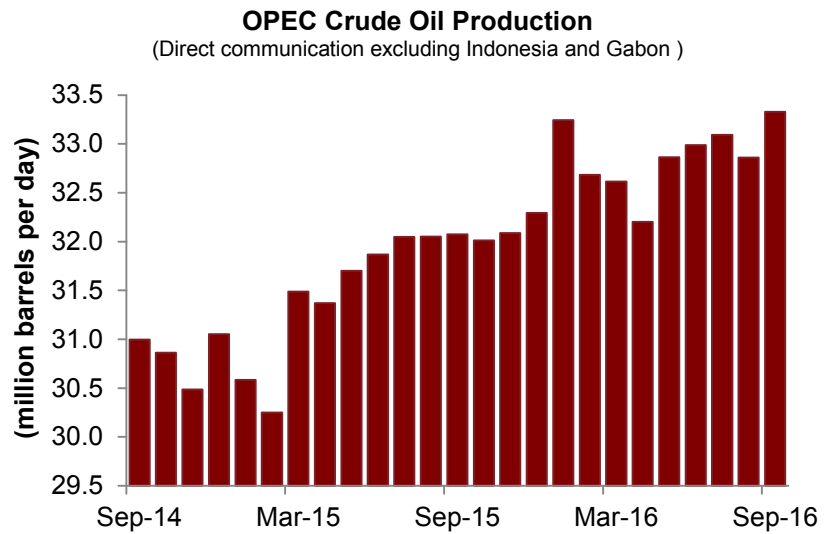
Oil - Global

Brent prices were up 5 percent and WTI up a sizable 11 percent, month-on-month in October, as OPEC said it was willing to cut production. Brent oil prices hit highs of \$51 per barrel (pb) at one point in October, but dipped towards the end of the month, as doubts begin to build as to whether OPEC can reach an agreement.

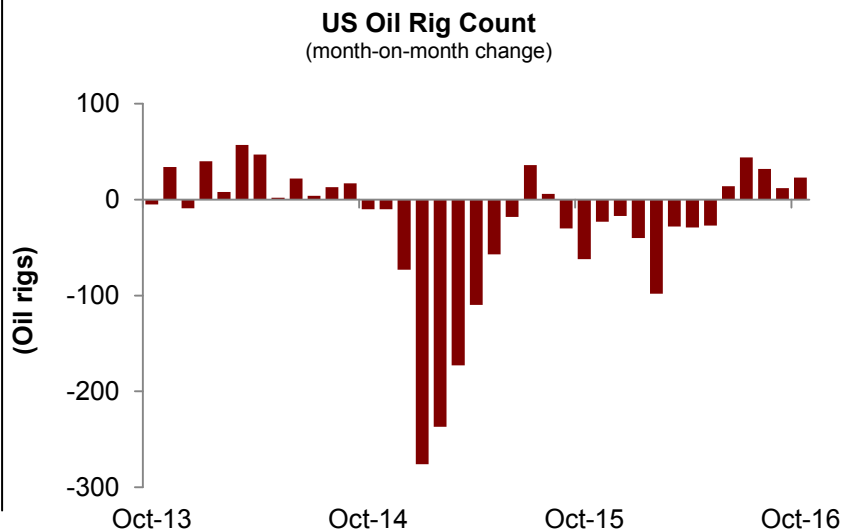
Brent oil prices averaged \$49 pb in October, the highest since July 2015...



...but prices began to decline towards the end of the month as an agreement to cut by OPEC looks increasingly difficult to achieve.



Meanwhile, higher monthly WTI oil prices have seen the largest sustained increase in US oil rigs in two years, pointing to potentially higher US oil supply in the months ahead.





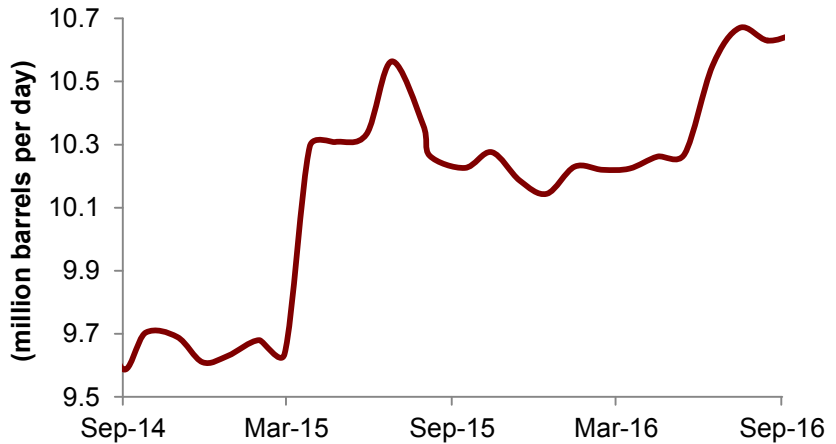
Oil - Regional

Saudi crude oil production was flat month-on-month in September at 10.6 million barrels per day (mbpd). We do expect a drop in oil production in the next few months, as is typically the case after peak summer output, but not by significant amounts. Latest available data shows Saudi crude oil exports declining month-on-month in August.

Saudi crude oil production remained at 10.6 mbpd. We expect a drop in oil production in the next few months, but not by significant amounts.

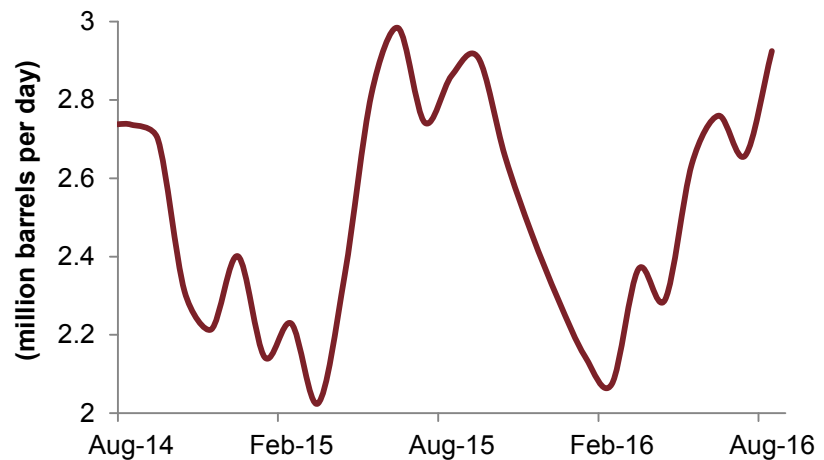
Saudi Crude Oil Production

(September 2016)



Saudi Crude and Refined Product Demand

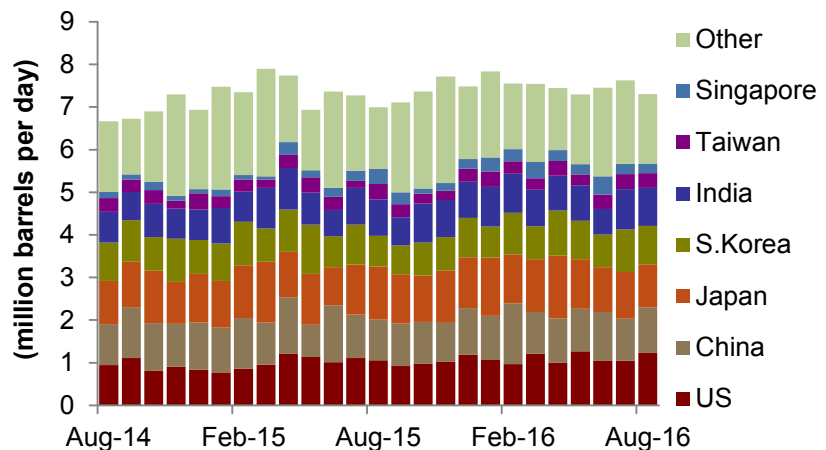
(monthly average: latest available data from August 2016)



Latest available data shows that Saudi demand for crude oil and refined products rose sharply in August...

Saudi Crude Oil Exports by Destination

(monthly average: latest available data from August 2016)



...resulting in a 4 percent decline in crude oil exports. We expect oil exports to recover to around 7.5 mbpd in September.

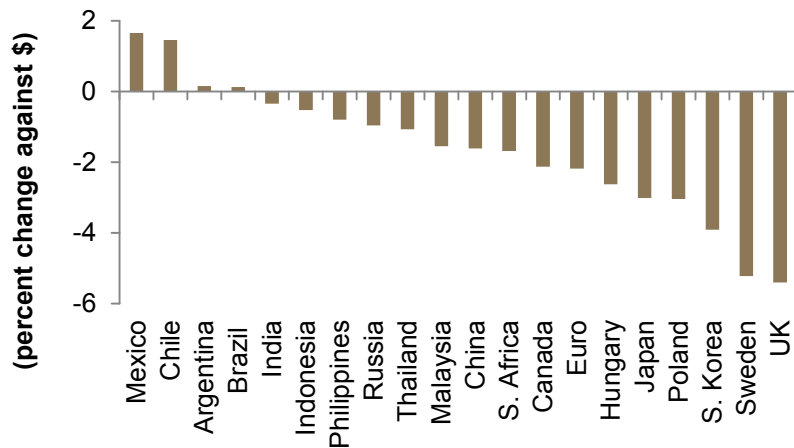


Exchange Rates

The US Dollar gained against most currencies in October as stronger-than-expected US GDP growth reinforced expectations of a US interest rate rise. Whilst the US Dollar is expected to continue strengthening in the months ahead, its rise could be interrupted by an unexpected outcome in the US elections in early November.

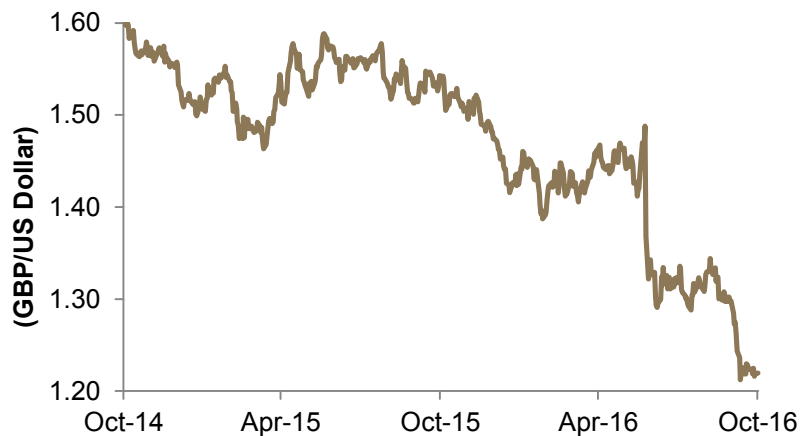
Stronger-than-expected Q3 2016 US GDP growth reinforced expectations of a interest rate rise and led to the US Dollar gaining against most currencies in October.

Monthly Gain/Loss Against US Dollar
(October 2016)



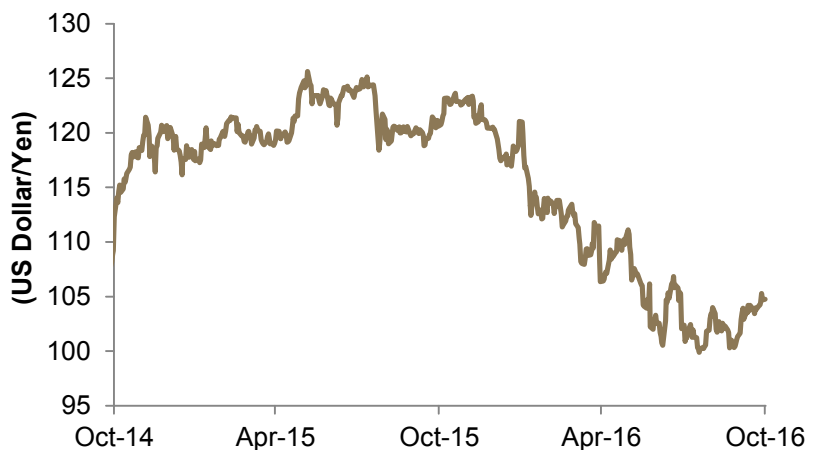
Unsurprisingly, the UK pound fared the worst against the US Dollar, as negotiations continued over the details of UK's departure from the European Union.

GBP/US Dollar



Even the Japanese Yen, which had gained against the US Dollar recently, saw its value drop to the lowest in three months.

US Dollar/Yen





Stock Market

A record international bond sale by the Kingdom and higher oil prices led to TASI rising by 10 percent during October. Recent announcements by government to start payments to contractors and approval of non-resident foreign investors to trade in exchange-listed real estate funds could see positive investor sentiment being carried forward into the months ahead.

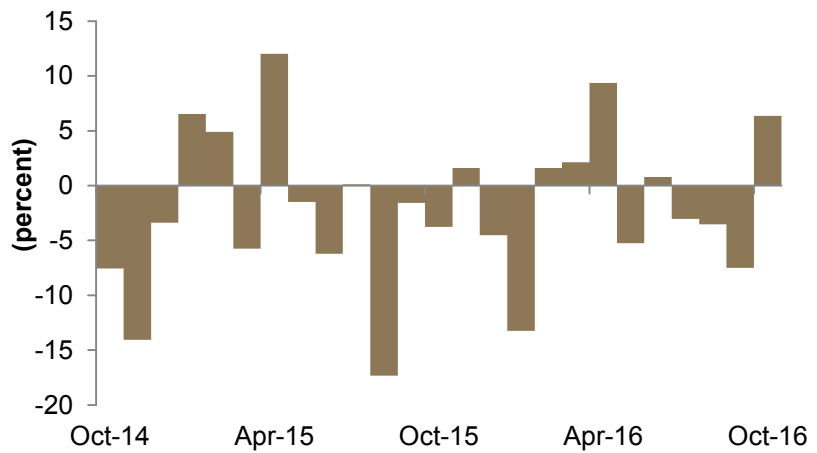
The combination of a record international bond sale, totaling \$17.5 billion, by the Kingdom, and higher oil prices...

TASI



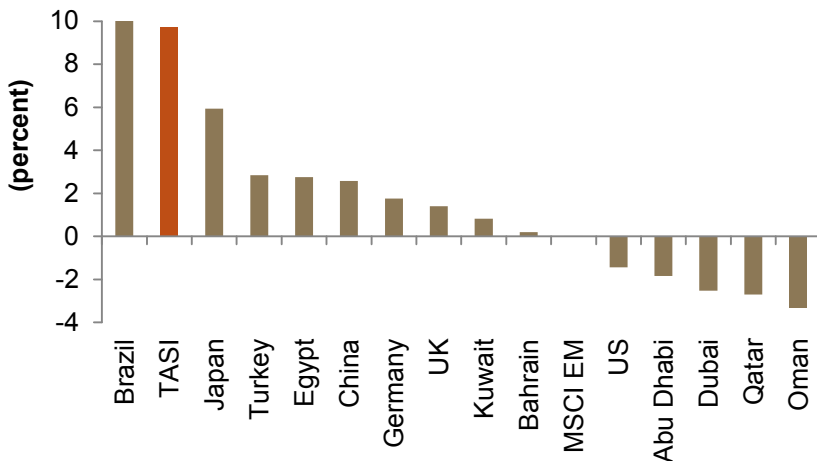
...led to TASI rising by 10 percent during October...

TASI Monthly Performance
(month-on-month change)



...and placing it as one of the best performing indices amongst major international and regional markets.

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



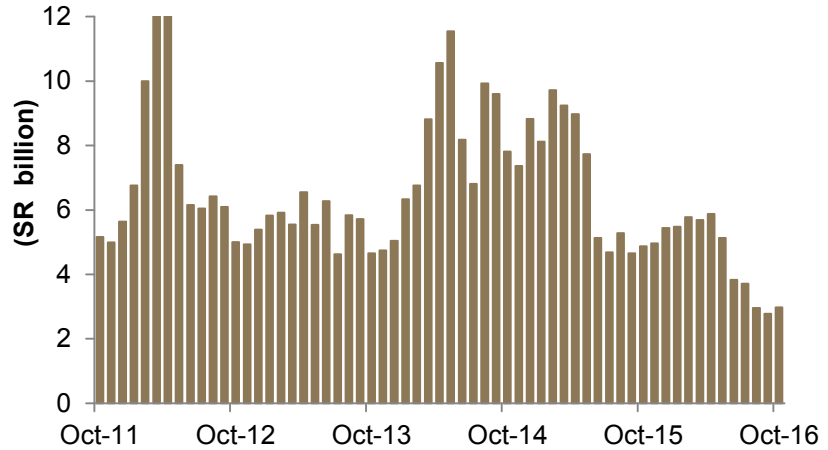


Volumes

The better performance of TASI was accompanied by a rise in market turnover in October. After six consecutive monthly declines in market turnover, October saw a rise of 7 percent month-on-month, although it was still below the year-to-date average.

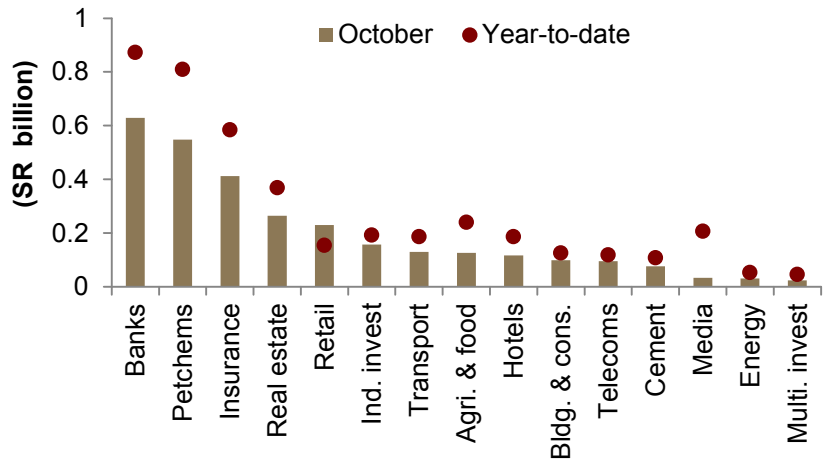
A better performance by TASI was mirrored by an rise in market turnover in October...

Daily Average Stock Market Turnover



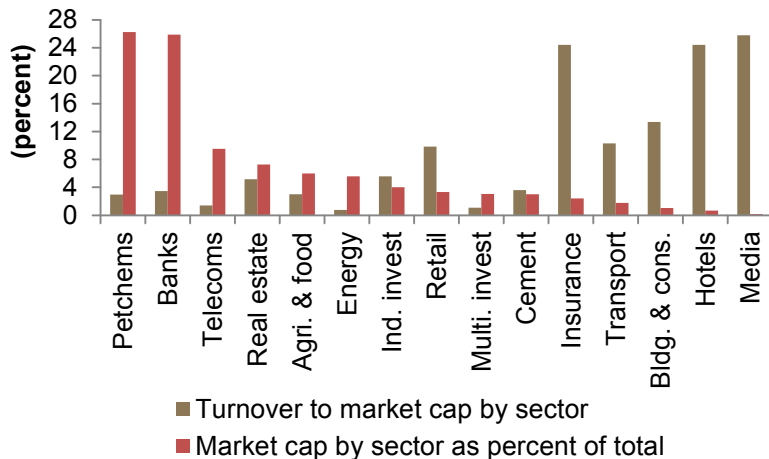
...with a rise of 7 percent month-on-month...

Turnover by Sector (daily average)



...after six consecutive monthly declines in market turnover.

Turnover as Percent of Market Capitalization (October, 2016)



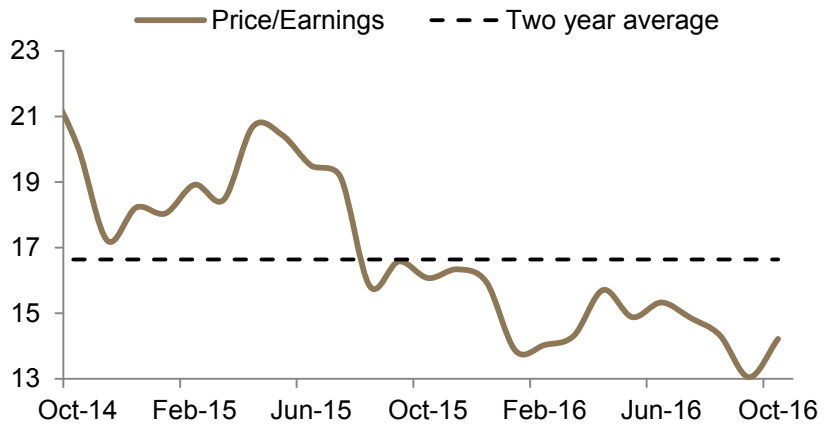


Valuations

The stronger performance of the TASI during the month saw price-to-earnings (PE) recover from a five year low. The TASI seems to be much better value, as PE has moved in-line with regional markets. Dividend yield was flat month-on-month and remains in-line with regional peers.

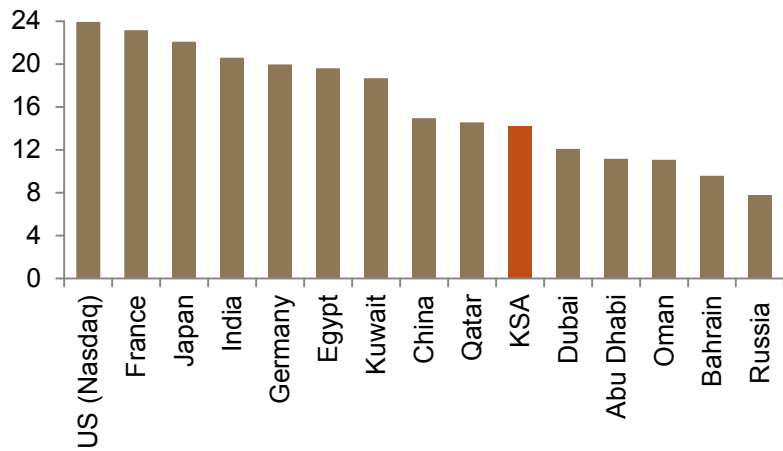
TASI PE has recovered...

TASI Price-to-Earnings Ratio



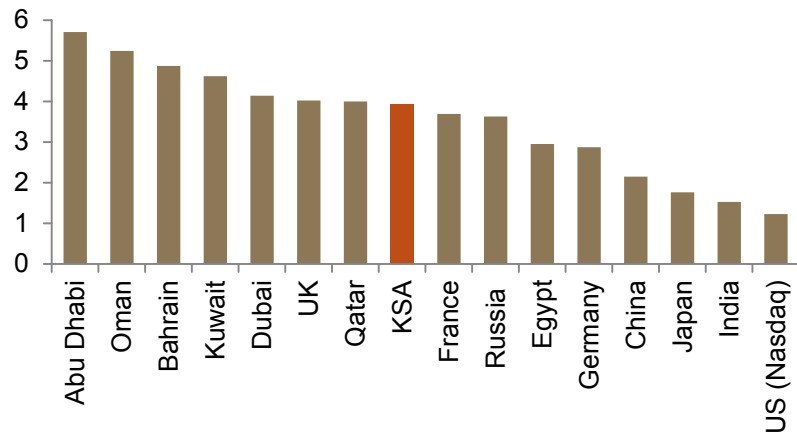
...and is now priced more in line with regional markets...

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



...as is dividend yield.

TASI Dividend Yield Ratios (end of month)

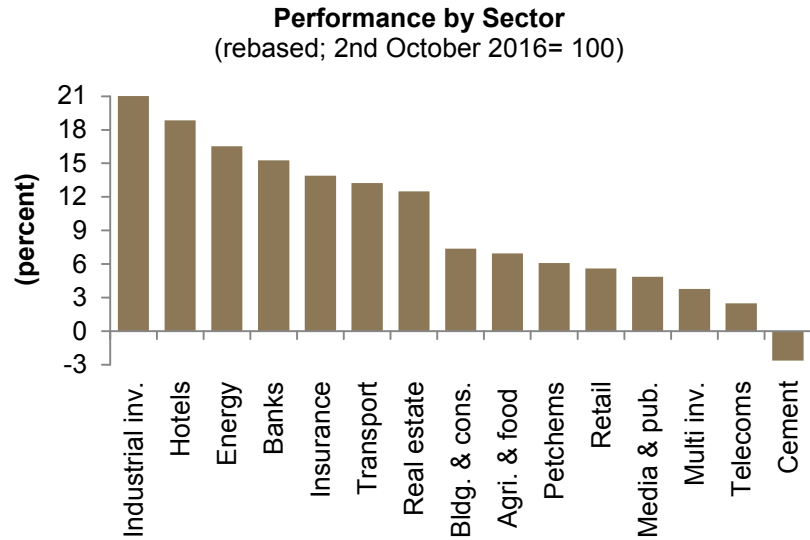




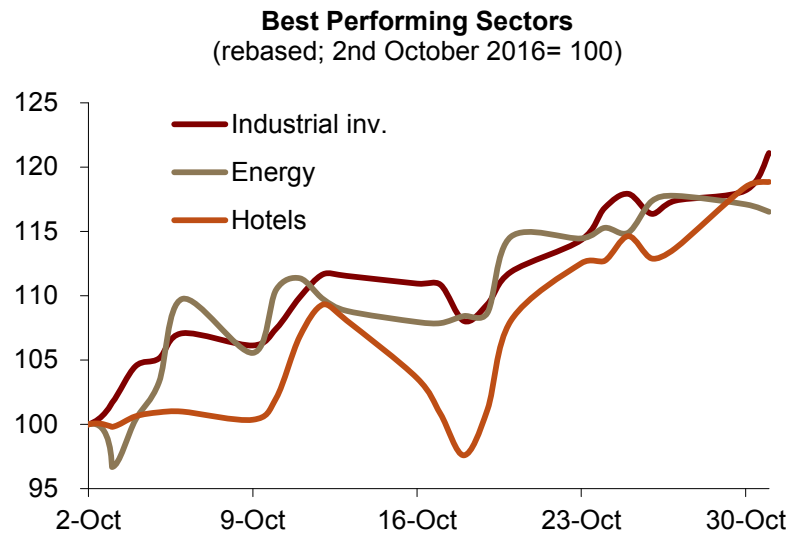
Sectoral Performance

The better monthly performance of TASI was reflected on a sectorial level too, with all but one sector performing positively during the month of October. There was a visible lift in performance after the Kingdom's largest-ever emerging market bond sale in mid-October.

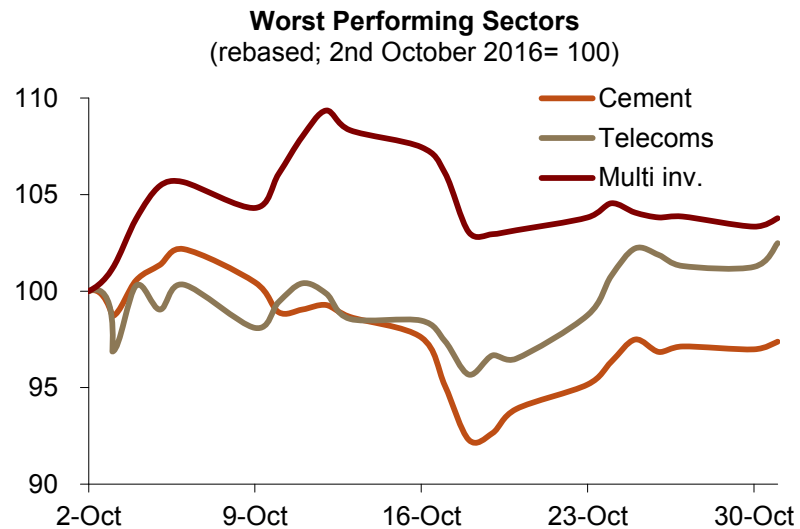
All but one sector recorded positive performance in October...



...with a visible lift in performance after the Kingdom's largest-ever emerging market bond sale in mid-October...



...which was evident amongst the worst performers too.





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	4.0	2.1	0.6
Non-oil private sector	4.9	9.7	8.0	5.5	7.0	5.4	3.4	0.7	1.0
Government	6.3	7.4	8.4	5.3	5.1	3.7	2.5	-0.6	-0.7
Total	1.8	4.8	10.0	5.4	2.7	3.6	3.5	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
Domestic debt	225	167	135	99	60	44	142	309	433
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	5.9	13.1	16.7
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	11.4	11.2
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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