



Summary

Real Economy: Economic data for August continues to show mild improvements in activity. POS transactions saw a second consecutive month of double digit yearly growth whilst ATM withdrawals were up 4 percent year-on-year.

Government Finance: The net monthly change to government accounts with SAMA showed declines by SR6.6 billion in August.

SAMA Foreign Reserve Assets: SAMA foreign reserve assets dropped by \$6.8 billion in August month-on-month. We expect the recently announced international bond issuance, totaling \$12.5 billion, to ease the pace of declines in foreign reserve assets, although not until October.

Second Quarter GDP Growth: Data on Q2 real GDP showed that the economy contracted by 1 percent, year-on-year. Growth continues to be dragged down by the oil sector (-1.8 percent), as a result of the Kingdom's compliance with OPEC cuts.

Trade: July saw the first yearly rise in the value of imports in 2017, rising by 19 percent compared to the same time last year. Non-oil exports were also up by 25 percent year-on-year.

Inflation: Prices in August declined marginally, by 0.1 percent year-on-year. Overall, we have revised down our full year inflation forecast to 0.9 percent, compared to 2 percent previously, with the current forecast assuming some energy price reform before 2017.

Labor Market: The Saudi unemployment rate rose slightly, from 12.7 percent in Q1 2017 to 12.8 percent in Q2 2017. However, youth unemployment (20-29 years old) for males declined to 15.9 percent after reaching a two year high of 16.4 percent in Q1 2017.

Oil - Global: Upward revisions in global oil demand by international oil agencies, and rising regional tensions in northern Iraq, helped push up Brent prices by 8 percent month-on-month in September.

Oil - Regional: Saudi crude oil output totaled 10.02 mbpd in August.

Exchange Rates: The US dollar rallied against most currencies during September as investors raised their expectations of a US Federal Reserve (Fed) interest rate rise.

Stock Market: Doubts over TASI's inclusion into the FTSE Russell emerging markets index led to some declines towards the end of the month. These doubts were realized as Saudi Arabia was denied admission to the index over the weekend, although it is expected to meet the criteria in March 2018.

Hajj 2017 (1438H): The share of foreign pilgrims rose to its highest level in a decade in 2017 (1438H). Foreign hajj pilgrims averaged around 67 percent of total pilgrims between 2007-2016, but this share climbed to 74 percent in 2017 (1438H).

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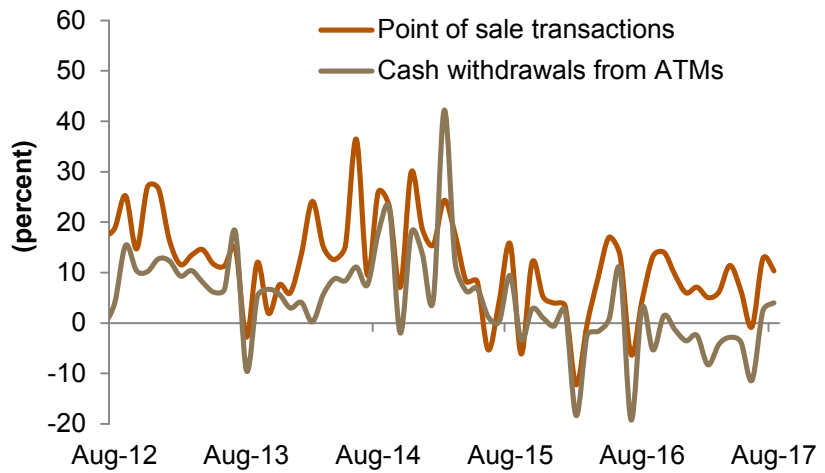


Real Economy

Economic data for August continues to show mild improvements in activity. POS transactions saw a second consecutive month of double digit yearly growth whilst ATM withdrawals were up 4 percent year-on-year, with the largest amount of monthly cash withdrawals, at SR67.7 billion, seen since May 2016. Also, the non-oil PMI index showed an upward trend in August.

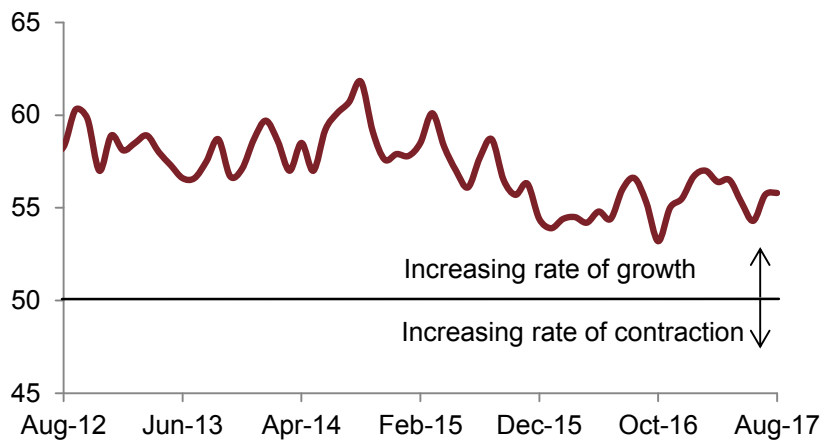
POS transactions were up 10 percent year-on-year, and ATM withdrawals up 4 percent year-on-year. ATM withdrawals totaled SR67.7 billion during the month, the largest since May 2016.

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



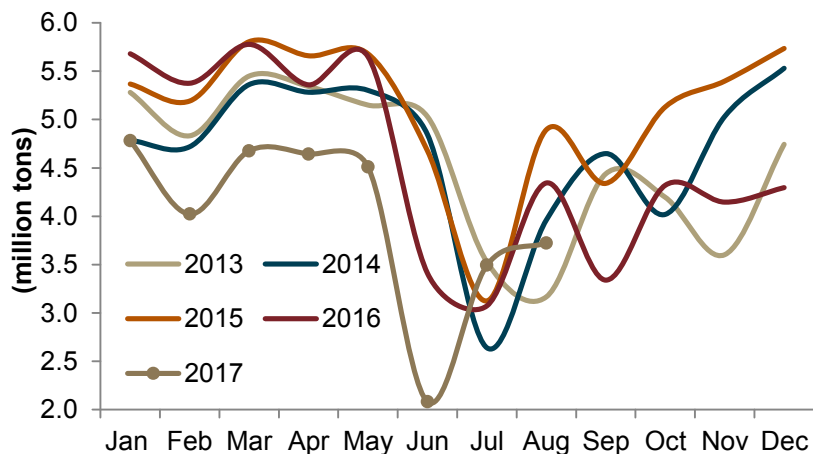
The non-oil PMI showed an upward trend for the second consecutive month in August, after dropping to a 2017 low in June.

Purchasing Managers' Index



Meanwhile, cement sales have rebounded after a seasonal lull, but still remain below most of the previous year averages.

Cement Sales



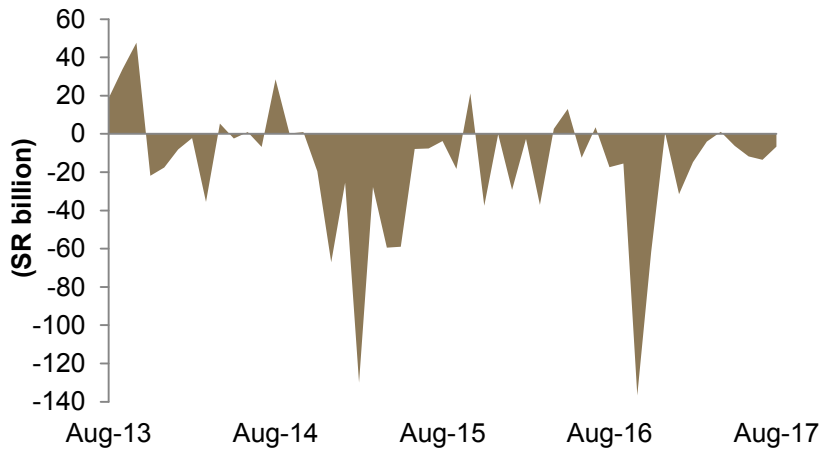


Government Finance

The net monthly change to government accounts with SAMA showed declines by SR6.6 billion in August, with all these declines coming from government deposits. Meanwhile, banks net holdings of government bonds rose by SR12.6 billion following a domestic sukuk issuance during August, with more rises expected in September, following a similar issuance.

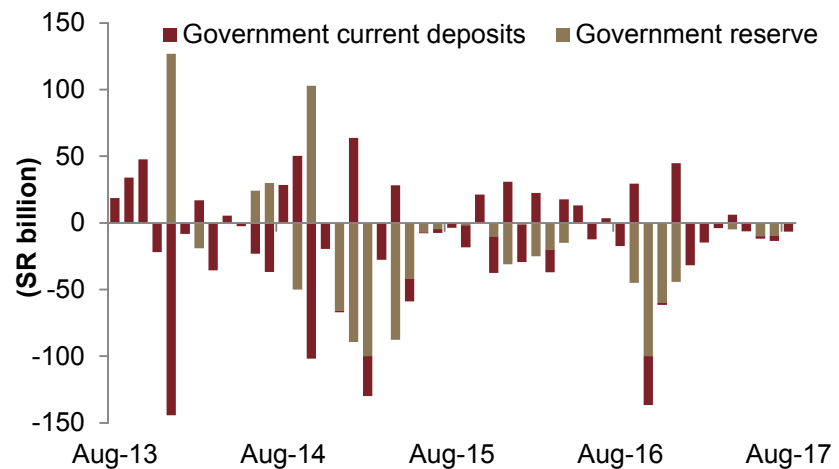
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Net Change to Government Accounts with SAMA
(month-on-month change)



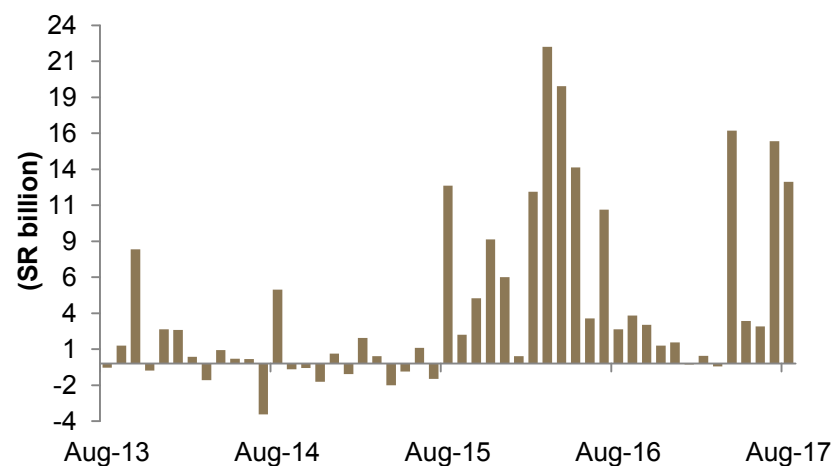
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Breakdown of Government Accounts with SAMA
(month-on-month change)



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

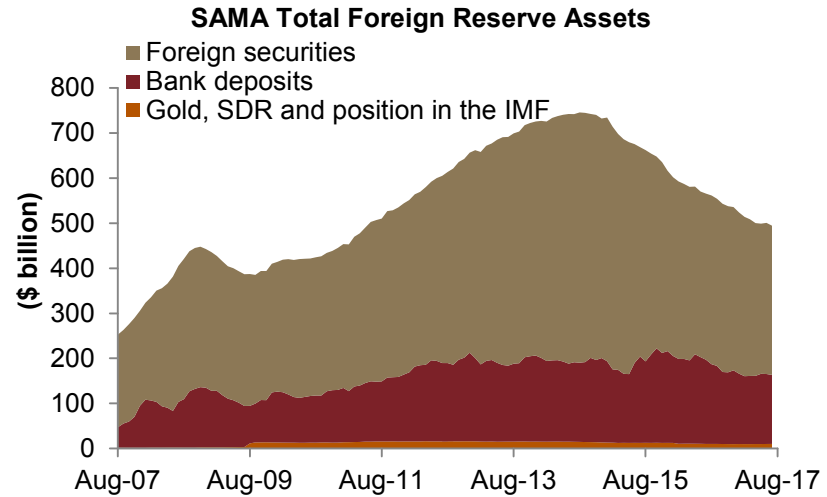




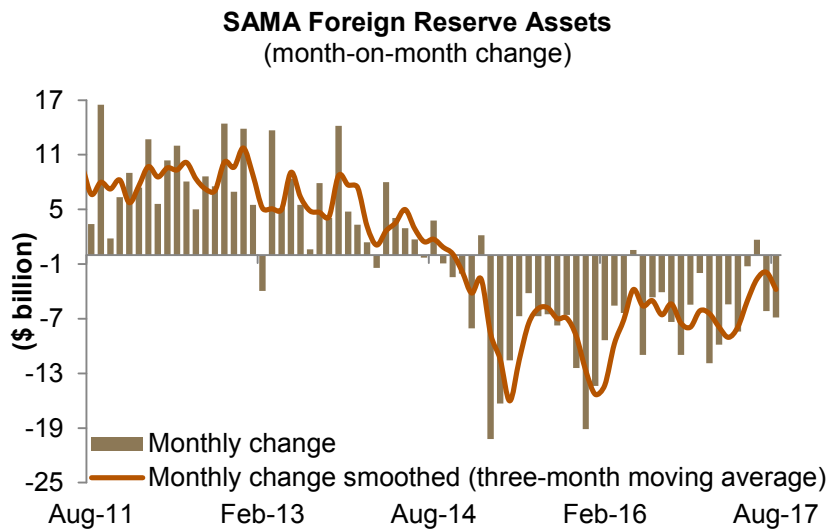
SAMA Foreign Reserve Assets

SAMA foreign reserve assets dropped by \$6.8 billion in August month-on-month, and currently total \$487.7 billion. Looking at the breakdown in assets, we can see that the declines came only from bank deposits. We expect the recently announced international bond issuance, totaling \$12.5 billion, to ease the pace of declines in foreign reserve assets, although not until October.

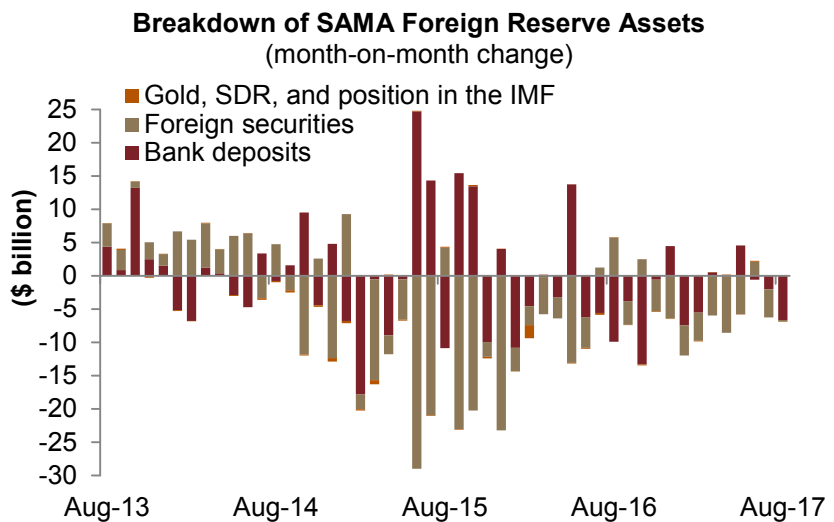
Currently, SAMA's foreign reserve assets total \$487.7 billion...



...having dropped by \$6.8 billion in August month-on-month...



...with the declines coming solely from bank deposits. Although we do expect the recently announced international bond issuance, totaling \$12.5 billion, to ease the pace of declines in foreign reserve assets, although not until October.

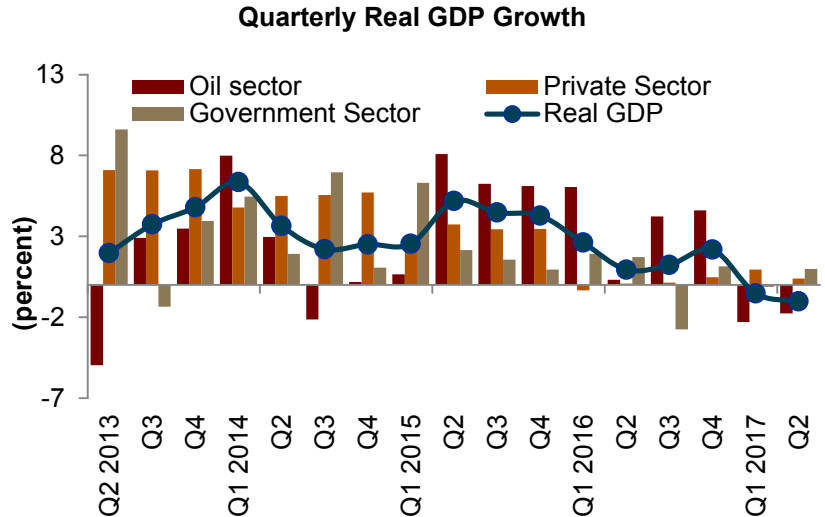




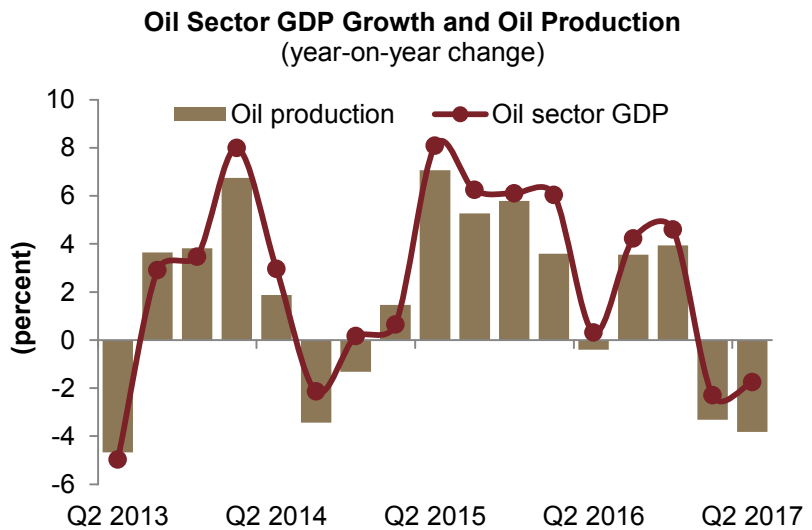
Quarterly GDP Growth

Data on Q2 real GDP showed that the economy contracted by 1 percent, year-on-year. Growth continues to be dragged down by the oil sector (-1.8 percent), as a result of the Kingdom's compliance with OPEC cuts. Non-oil GDP showed better growth, at 0.6 percent, of which, government sector GDP rose by 1 percent, whilst non-oil private sector growth equaled 0.4 percent year-on-year.

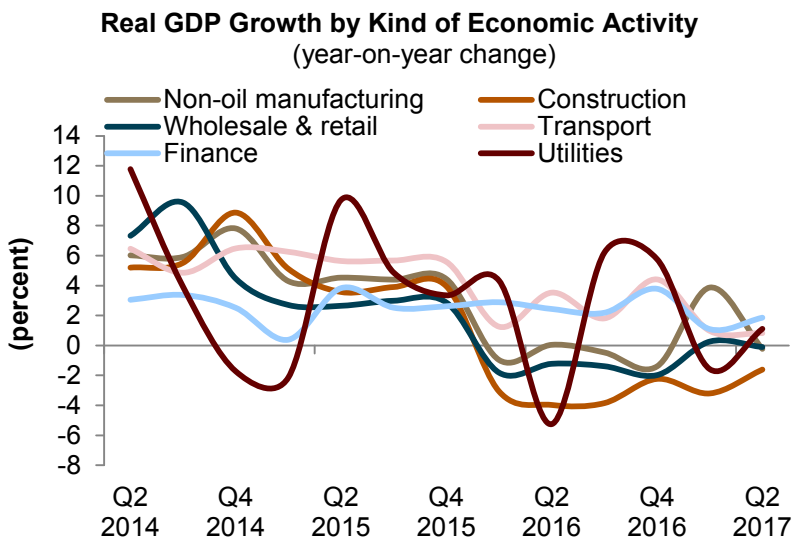
Data on Q2 real GDP showed that the economy contracted by 1 percent, year-on-year...



...growth continues to be dragged down by the oil sector (-1.8 percent), as a result of the Kingdom's compliance with OPEC cuts...



...as non-oil private sector growth totaled 0.4 percent, with finance, transport and utilities being the standout sectors.

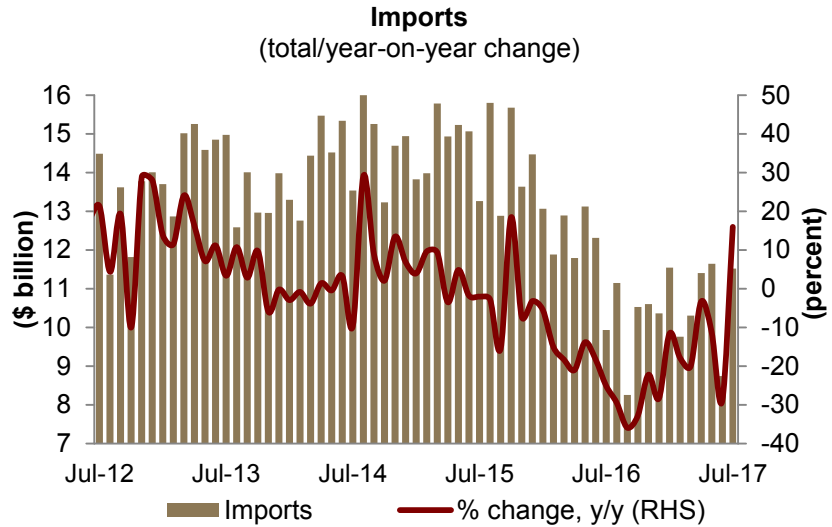




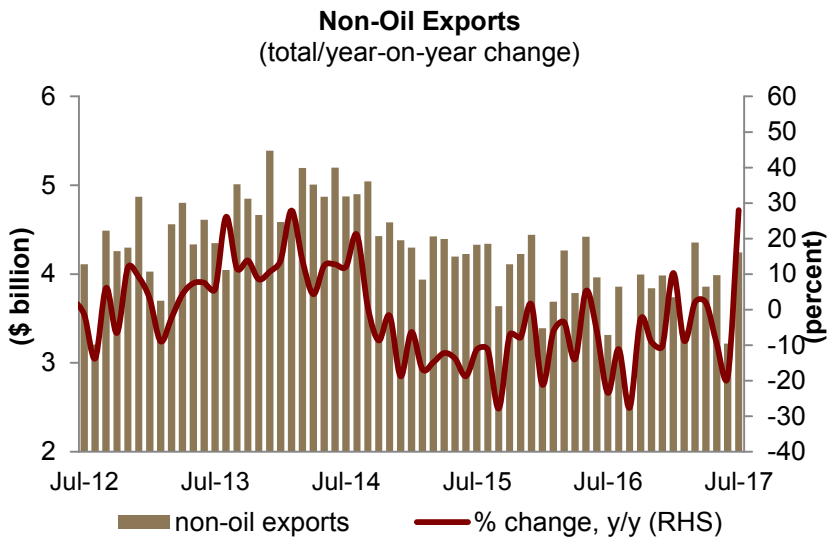
Trade

According to latest available data, July saw the first yearly rise in the value of imports in 2017, by 19 percent compared to same time last year. Non-oil exports were also up by 25 percent year-on-year, the first such rise since January 2017. In addition, despite Saudi crude oil production cuts, higher year-on-year oil prices helped to maintain a surplus in the trade balance during the month.

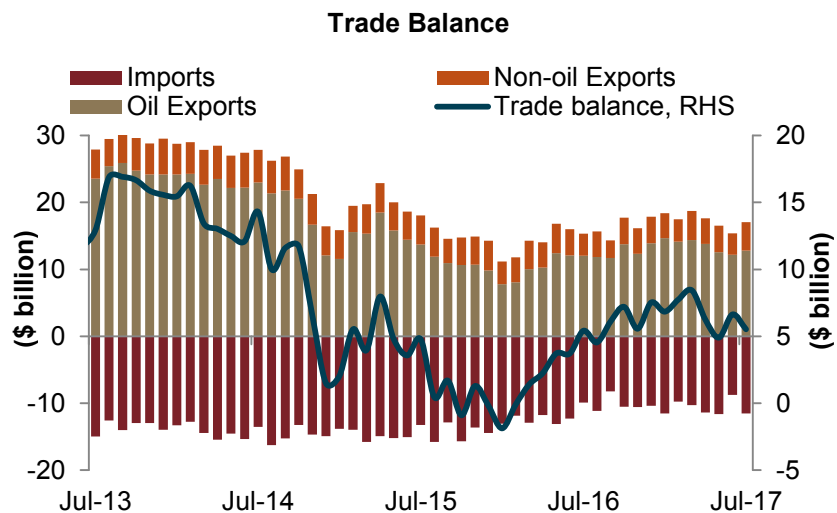
July saw the first yearly rise in the value of imports in 2017, by 19 percent year-on-year...



...whilst non-oil exports were also up by 25 percent year-on-year.



In addition, despite Saudi crude oil production cuts, higher year-on-year oil prices helped to maintain a surplus in the trade balance, which totaled \$5.5 billion in July.

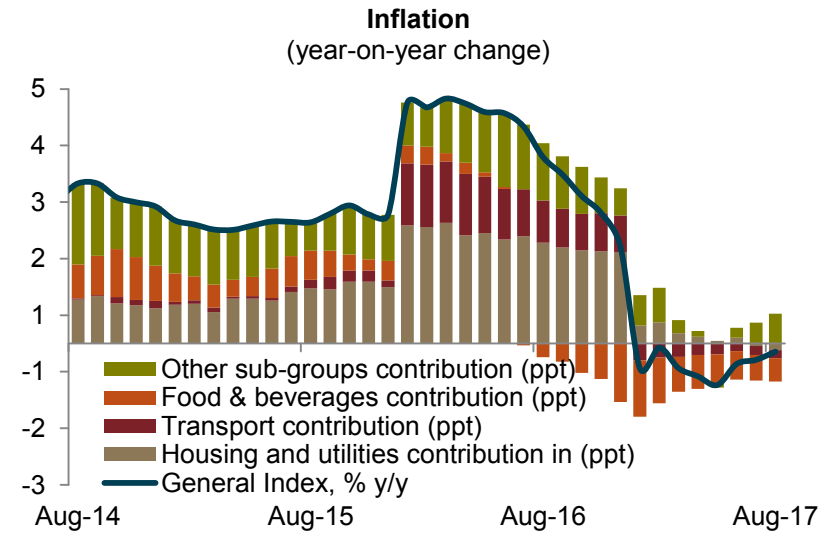




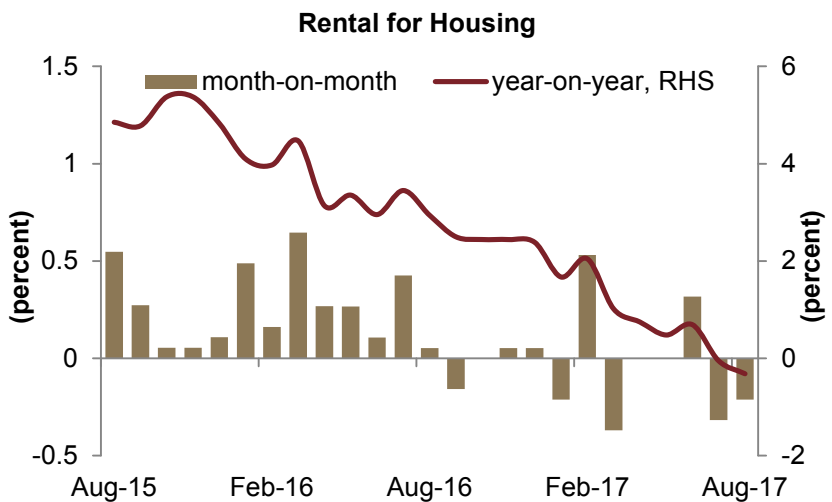
Inflation

Prices in August declined marginally, by 0.1 percent year-on-year, mainly as a result of declining prices in the housing segment. Overall, the delayed hike in electricity prices, which were expected in July 2017, has led us to revise down our full year inflation forecast to 0.9 percent, compared to 2 percent previously, with the current forecast assuming some energy price reform before 2017.

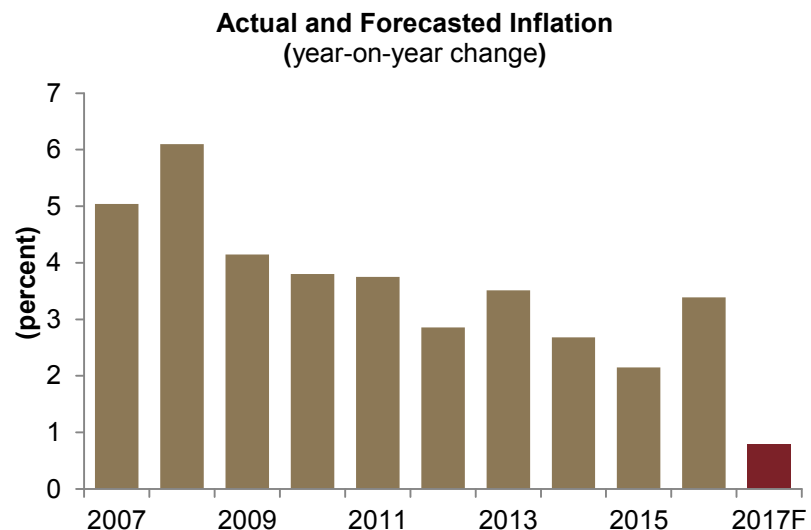
Inflation was down by 0.1 percent year-on-year, but was flat month-on-month.



Rental for housing has moved into a deflationary trend, with year-on-year declines seen in both July and August.



Overall, the delayed hike in electricity prices, which were expected in July 2017, has led us to revise down our full year inflation forecast to 0.9 percent, compared to 2 percent previously, with the current forecast assuming some energy price reform before 2017.



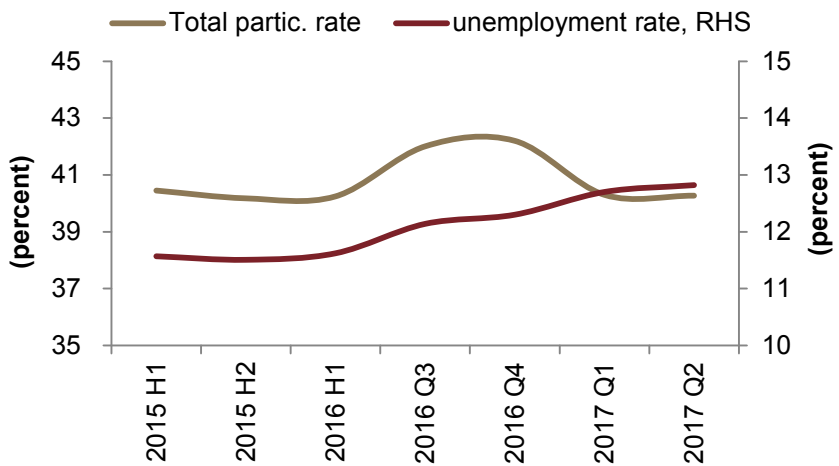


Labor Market

The Saudi unemployment rate rose slightly from 12.7 percent in Q1 2017 to 12.8 percent in Q2 2017. However, youth unemployment (20-29 years old) for males declined to 15.9 percent after reaching a two year high of 16.4 percent in Q1 2017. Meanwhile, the total participation rate remained unchanged versus Q1 2017 at 40.3 percent, with female participation rates still at 17.4 percent.

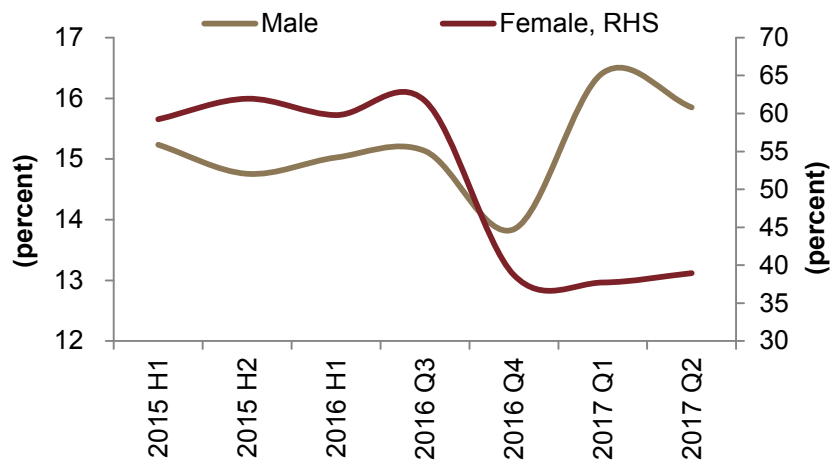
The Saudi unemployment rate rose slightly to 12.8 percent during Q2 2017 versus 12.7 percent in Q1 2017.

Saudi Unemployment and Participation Rates



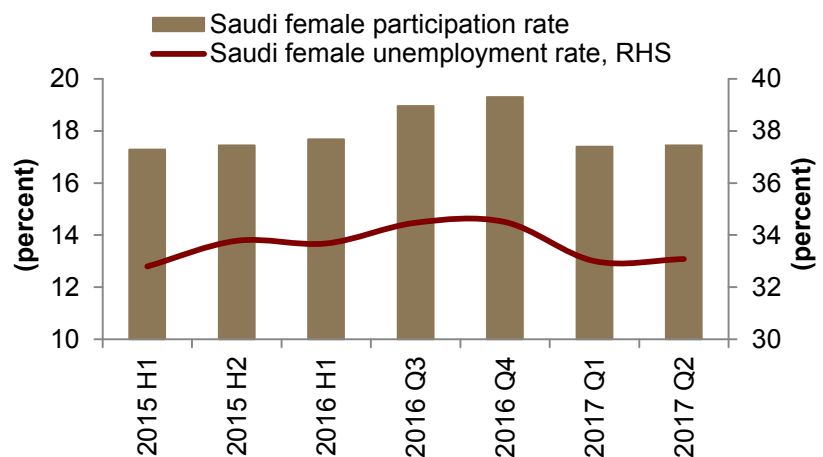
Male youth unemployment declined to 15.9 percent in Q2 2017, despite having fresh graduates entering the labor force during the quarter.

Saudi Youth (20-29) Unemployment Rates



Saudi female participation and unemployment saw no significant changes in Q2 2017, quarter-on-quarter.

Saudi Female Unemployment and Participation Rates

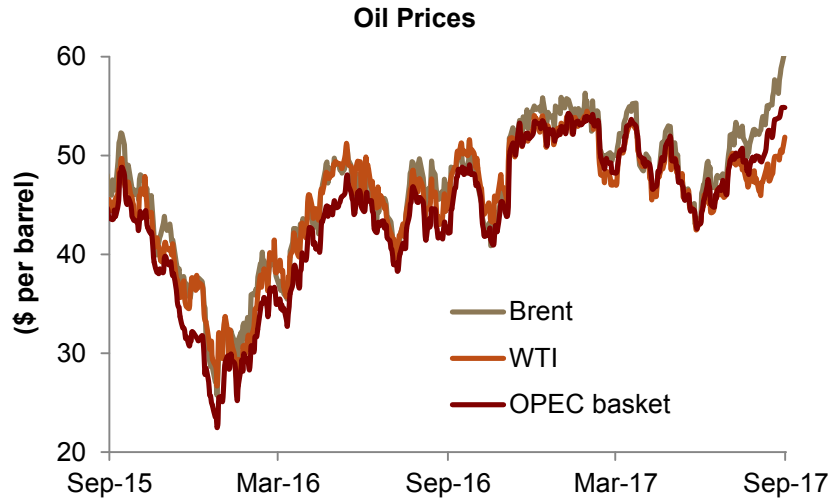




Oil - Global

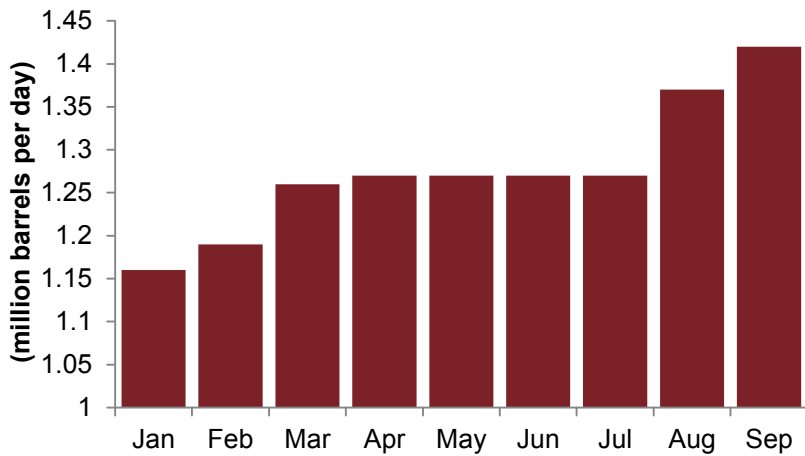
Upward revisions in global oil demand by international oil agencies, such as OPEC, and rising regional tensions in northern Iraq, helped push up Brent prices by 8 percent and WTI prices by 3 percent month-on-month in September. Nevertheless, a rise in US crude oil exports, to take advantage of the widening Brent-WTI price differential, may add pressure to Brent oil prices in the month ahead.

Brent prices were up 8 percent and WTI prices were up 3 percent month-on-month in September...



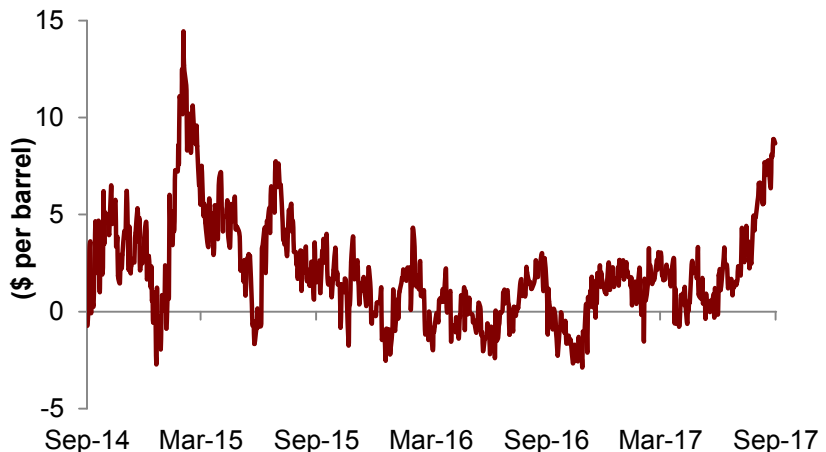
...on the back of higher global oil demand forecasts, with OPEC raising 2017 global oil demand in its September monthly report.

Global Oil Demand Forecasts for Full Year 2017
(forecasted year-on-year change in each OPEC monthly report)



Hurricanes in the US knocked out up to 22 percent of US refinery capacity in late August and early September. This resulted in lower US crude oil demand and widened the Brent-WTI price differential. A rise in US crude oil exports, to take advantage of this differential, could see Brent oil prices pressured in the month ahead.

Brent-WTI Differential
(\$ per barrel)

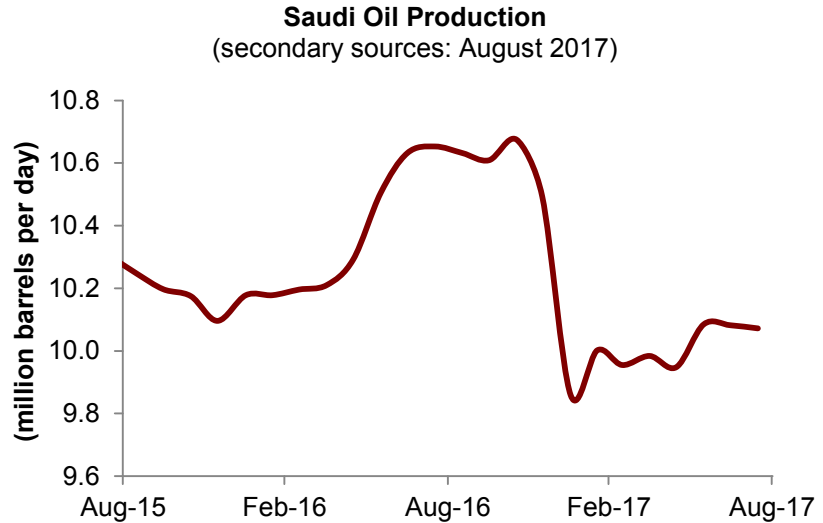




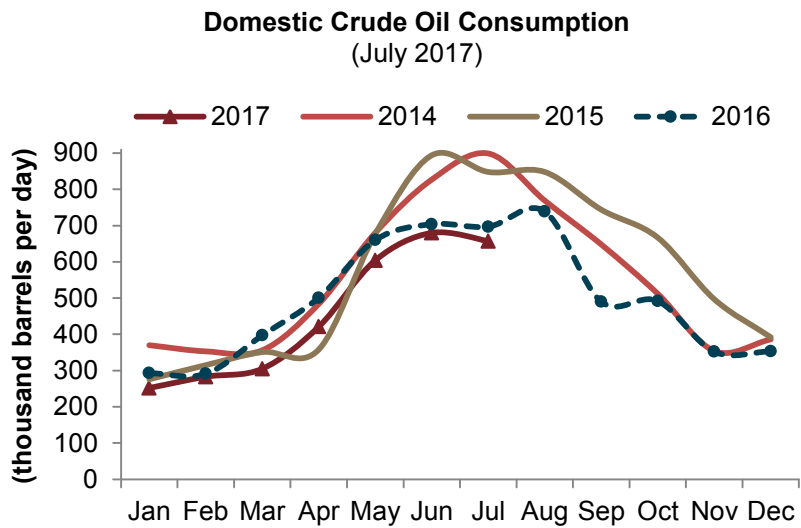
Oil - Regional

OPEC secondary sources data shows Saudi crude oil production remained below agreed target levels of 10.06 mbpd, at 10.02 mbpd in August. Adherence to agreed cuts and higher summer seasonal domestic oil demand saw Saudi crude oil exports declining for a fourth consecutive month, with a total of 6.7 mbpd exported in July, according to latest available data.

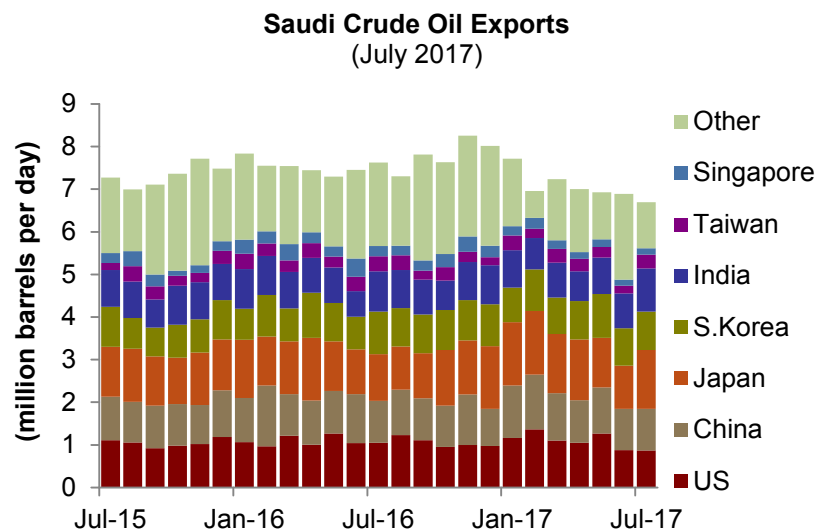
Saudi crude oil production was effectively flat month-on-month at 10.02 mbpd in August and below OPEC agreed target levels of 10.06 mbpd.



Adherence to agreed cuts and higher summer seasonal domestic demand in July...



...resulted in a fourth consecutive month of declines in Saudi crude oil exports, at 6.7 mbpd, according to latest available data for July. August oil exports are expected to decline further to 6.6 mbpd.



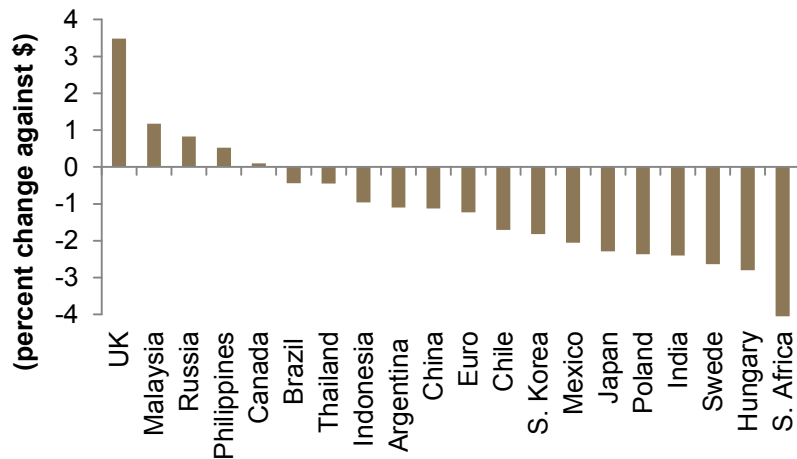


Exchange Rates

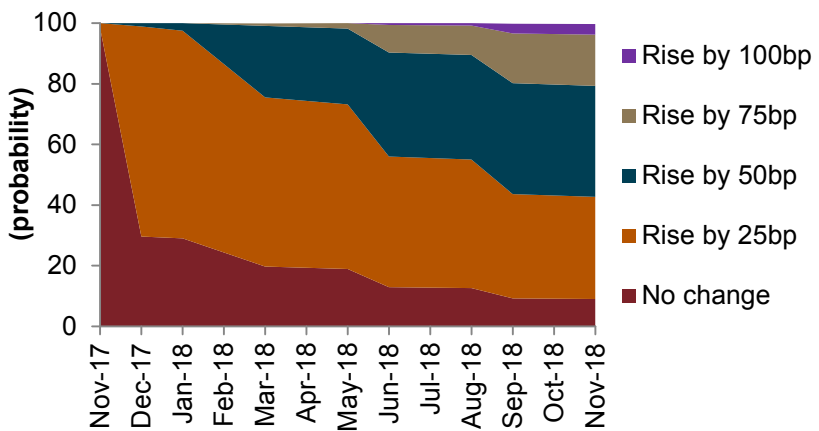
The US dollar rallied against most currencies during September as investors raised their expectations of a US Federal Reserve (Fed) interest rate rise. Current survey polls suggest a 70 percent probability that the Fed will raise interest rates by 25 basis points (bps) before the end of 2017. Meanwhile, the UK pound gained against the dollar as the Bank of England (BoE) hinted at a interest rate rise in November.

The US dollar rallied against most currencies during September as investors raised their expectations of a US Fed interest rate rise.

Monthly Gain/Loss Against US Dollar
(September 2017)



US Interest Rate Rise Probability



Current survey polls suggest a 70 percent probability that the Fed will raise interest rates by 25 bps before the end of 2017.

UK Pound/US Dollar



Meanwhile, the UK pound was one of the few currencies to gain against the dollar, as the BoE hinted at its own interest rate rise in November, following higher than expected inflation.



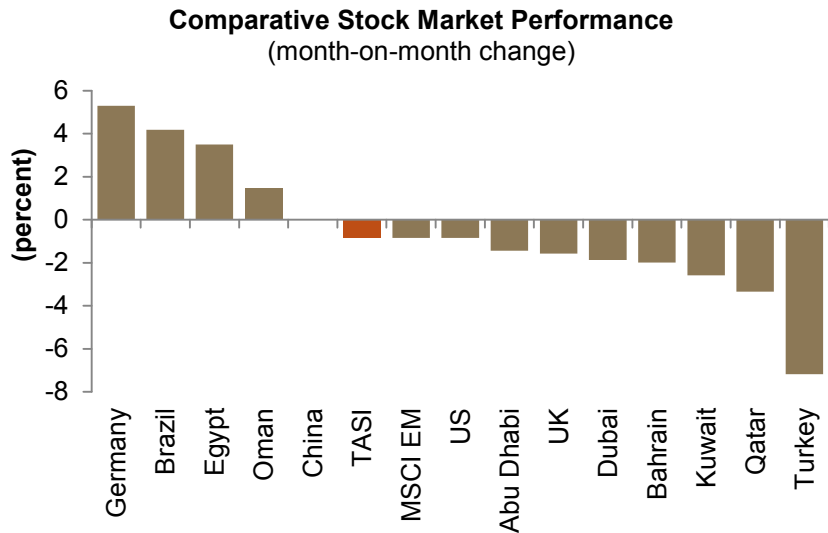
Stock Market

TASI was virtually flat month-on-month in September. Despite some gains in the first half of the month, doubts over TASI's inclusion to FTSE Russell emerging markets led to the index declining towards the end of the month. The flatter performance was also reflected in monthly turnover. That said, TASI's performance was in-line with regional market trends.

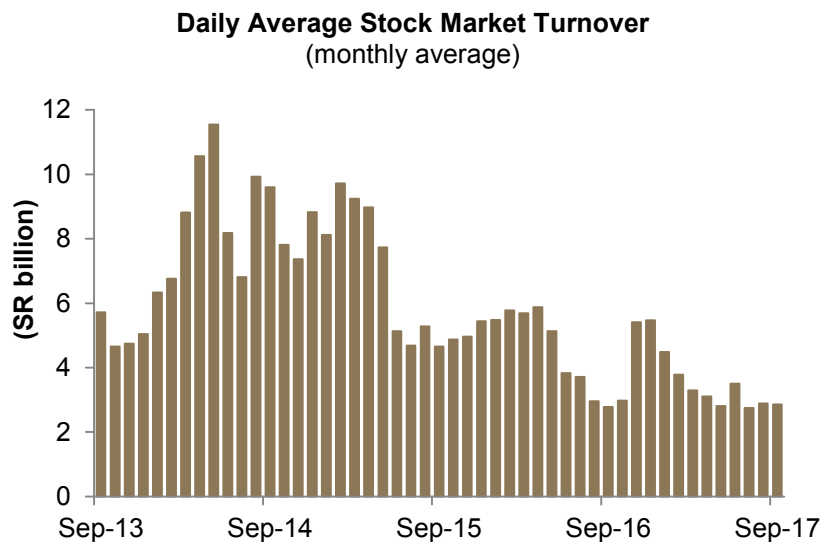
TASI was down 0.2 percent month-on-month in September...



...with the Saudi index's performance being in-line with a number of global and regional markets.



The flatter performance was also reflected in monthly turnover.

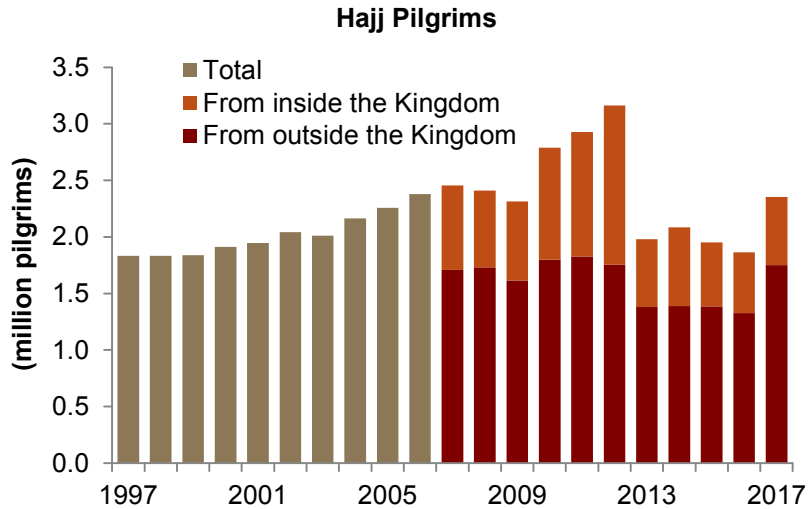




Hajj 2017 (1438H)

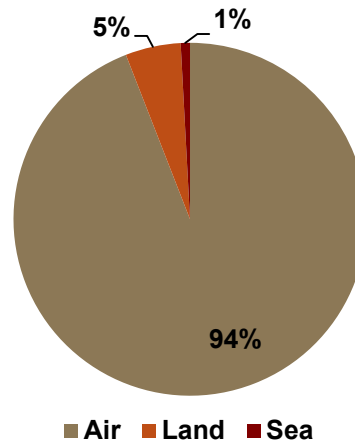
The share of foreign pilgrims rose to its highest level in a decade in 2017 (1438H). Foreign hajj pilgrims averaged around 67 percent of total pilgrims between 2007-2016, but this share climbed to 74 percent in 2017. Around 94 percent of pilgrims arrived in Saudi Arabia by air, with the largest number of pilgrims coming from Asian countries such as Pakistan, India and Indonesia.

Foreign hajj pilgrims accounted for 74 percent of total pilgrims in 2017 (1438H).

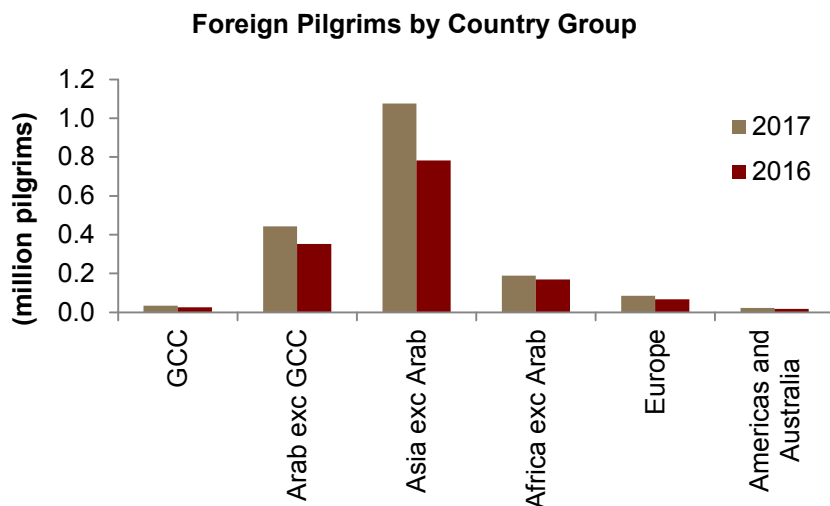


Around 94 percent of foreign pilgrims arrived by air...

Foreign Pilgrims Transportation Modes



...with the largest number of pilgrims coming from Asia.





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	2,454	2,424	2,672	2,890
(\$ billion)	527	671	736	747	756	654	646	713	771
(% change)	22.8	27.4	9.6	1.5	1.3	-13.5	-1.2	10.2	8.2
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	10.5	8.1	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	0.5
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	-6.8	-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	16.2	21.7
Monetary indicators (average)									
Inflation (% change)	3.8	3.7	2.9	3.5	2.7	2.2	3.4	0.9	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	153	136	163	185
Total export revenues	251	365	388	376	342	204	184	212	236
Imports	97	120	142	153	158	159	128	140	143
Trade balance	154	245	247	223	184	44	56	72	94
Current account balance	67	159	165	135	74	-57	-28	-15	1
(% GDP)	12.7	23.6	22.4	18.1	9.8	-8.7	-4.3	-2	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	25,22	24,962	21,095	20,365	21,848	23,175

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



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