جدوى للإستثمار
Jadwa Investment

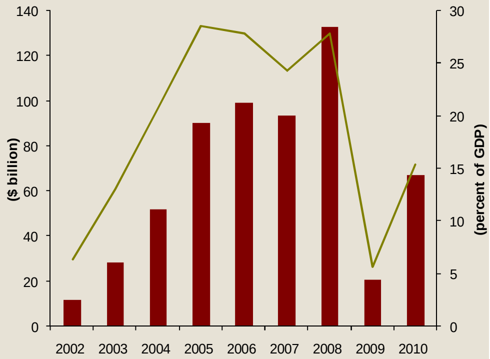
May 2011

Monthly Bulletin

Healthy current account surplus in 2010

A detailed quarterly breakdown of the Kingdom's balance of payments for 2010 has been released. The data is different to that reported in the budget, though it is still preliminary. The official estimate for the current account surplus has been lowered to $66.8 billion (15.4 percent of GDP) from $69.6 billion, owing to higher imports. The data reveals some interesting trends in trade, investment flows and the development of the non-oil economy.

Current account balance



Total exports have been revised to $251 billion in 2010, up by 31 percent from 2009, but below the all-time high of $313 billion in 2008. The growth was the result of higher oil prices; oil accounts for 85-90 percent of export revenues. The data did not contain a breakdown of exports, but separately this month the Central Department of Statistics provided detailed information on non-oil exports during 2010. Total non-oil exports were $36 billion, up from $29 billion in 2009.

For the first time, plastics overtook petrochemicals to become the largest source of non-oil export revenue. Higher prices and a 42 percent increase in the volume exported lifted the value of plastics exports by 79 percent in 2010 to $11.2 billion. While prices were also up strongly for petrochemical exports, the tonnage exported was only 9 percent higher. Note that there is a discrepancy between this annual data and the monthly data published by the Central Department of Statistics, which continues to show petrochemicals as the largest non-oil export. Stripping out petrochemicals, plastics and re-exports (goods that are transferred through the Kingdom with minimal value added), other non-oil exports fell in 2010.

Non-oil exports

	2009		2010		Percent change	
	Value ($ billion)	Volume (million tons)	Value ($ billion)	Volume (million tons)	Value	Volume
Petchems	7.9	21.2	10.7	23.2	35.6	9.4
Plastics	6.3	7.1	11.2	10.1	79.0	42.3
Metals	1.9	2.0	1.9	1.8	3.0	-10.0
Re-exports	6.3	1.6	5.2	1.5	-17.4	-6.3
Others	6.8	8.8	6.8	9.5	-1.0	8.0
Total	**29.2**	**40.8**	**35.9**	**46.3**	**22.8**	**13.5**

Imports rose by 12 percent last year to $96.7 billion. The data from the Central Department of Statistics shows a larger total, but this reflects the inclusion of carriage, insurance and freight costs, which are accounted for separately in the balance of payments data. Electronic equipment and tools remained the main source of imports although their value fell by 4 percent last year owing to lower prices (the volume of these goods imported increased by 7 percent).

For comments and queries please contact the author:

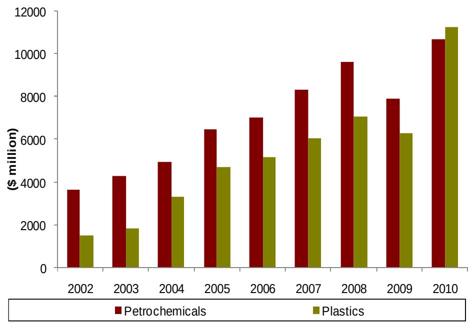
Paul Gamble
Head of Research
pgamble@jadwa.com

or:

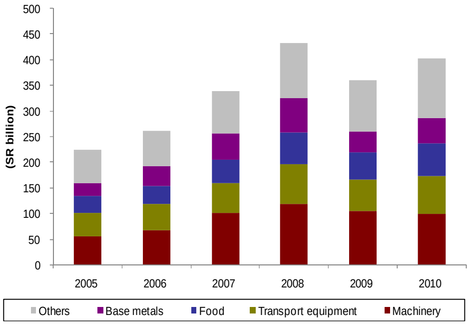
Brad Bourland, CFA
Chief Economist
jadwaresearch@jadwa.com

Head office:
Phone +966 1 279-1111
Fax +966 1 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

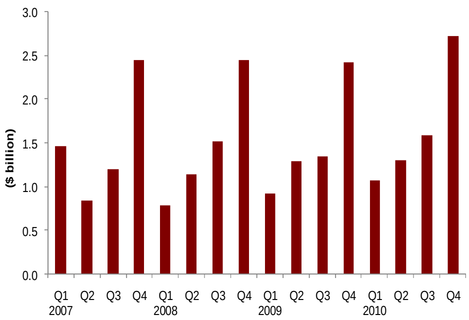
Exports of petrochemicals and plastics



Imports



Travel receipts



The value of food imports climbed by 19 percent last year to $16.9 billion, but with the volume up by 11 percent, the Kingdom was less affected than many countries by the rise in global food prices; according to the UN Food and Agriculture Organization, global food price inflation rose by an average of 18 percent last year. Imports of metals and related products recorded the highest growth in both volume and value terms; the fall in exports of these products was a further sign of greater domestic consumption.

Imports

	2009		2010		Percent change	
	Value ($ billion)	Volume (million tons)	Value ($ billion)	Volume (million tons)	Value	Volume
Equipment & tools	27.5	2.0	26.4	2.1	-3.9	7.0
Transport	16.6	1.8	19.6	1.8	18.2	3.7
Food	14.2	19.1	16.9	21.3	18.6	11.3
Metals	10.5	6.6	13.2	10.2	25.3	53.7
Other	26.7	20.6	30.8	23.4	15.2	13.2
Total	**95.5**	**50.1**	**106.9**	**58.8**	**11.8**	**17.2**

Trade data is reported on a monthly basis and so it can be tracked during the year. Updates on invisible trade, which covers services, investment income and workers' remittances, are less frequent and the new data provides the first full breakdown for 2010. Services payments have always exceeded receipts. Net service payments were almost unchanged at $65.6 billion in 2010. Payments for imported government services, which include defense and security, are the largest outflow, reaching $25.4 billion last year, 8 percent lower than in 2009. Travel payments, which are the payments made by residents of the Kingdom on goods and services while they are aboard, are the second largest source of outflows, rising by 3.5 percent last year to $21.1 billion.

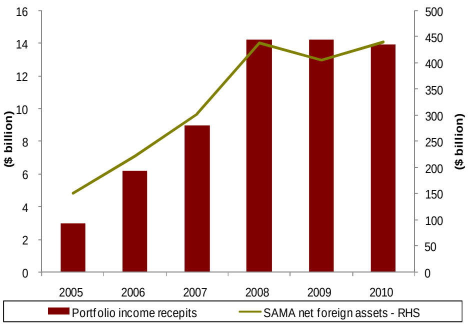
Travel receipts, which measure payments by visitors to the Kingdom, rose by 12 percent last year to $6.7 billion, as a result of both an increase in the number of visitors to the Kingdom and higher spending by these visitors in response to government campaigns for religious tourists to lengthen their stay and visit other local attractions. The quarterly breakdown shows that, as would be expected, the Hajj season is the main source of revenues. Receipts in the quarter that Hajj occurs, which has been the fourth quarter in recent years, are generally more than twice the average for the other three quarters of the year (see chart). Transport is the other main source of service payments, amounting to $12.7 billion last year. This covers the costs of the movement of goods and individuals. Both receipts and payments were little changed last year. As transport receipts are mainly for freight, they do not show the same seasonality as those for travel.

The other sections of the services account cover communications, construction, insurance and financial services. Data for these services show a clear build up of capacity in the Kingdom, meaning lower imports and higher exports. Between 2007 and 2010 total payments for importing these professional services fell from $10.6 billion to $8.7 billion, while receipts for exporting these services jumped from $0.2 billion to $1.5 billion. The improvement was most pronounced for financial services, where the difference between payments and receipts fell from $2.5 billion to $83 million over this period. For 2010, the percent growth in revenues outpaced that of payments for communication and financial services. The only clear quarterly trend for these series is that communication receipts peak during the Hajj season owing to the large number of foreign visitors using mobile phones. None show a slowdown in the third quarter, when summer tends to slow the pace of economic activity.

Current account
($ billion)

	2006	2007	2008	2009	2010
Oil Exports	188.2	205.3	281.0	163.1	214.9
Other Exports	22.6	27.8	32.3	29.1	36.1
Imports	-63.0	-81.5	-100.6	-86.4	-96.7
Trade balance	**147.2**	**150.6**	**212.0**	**105.2**	**154.3**
Services	-35.3	-46.7	-65.9	-65.2	-66.1
Transport	-3.3	-7.3	-13.3	-9.5	-10.7
Travel	-8.2	-14.2	-9.2	-14.4	-14.4
Communications	-0.3	-0.6	-1.0	-1.7	-1.9
Construction	-3.2	-6.3	-4.5	-3.3	-3.8
Insurance	-0.6	-1.0	-1.7	-1.2	-1.4
Financial	-6.5	-2.5	-1.1	-0.3	-0.1
Government	-19.8	-16.5	-25.4	-27.6	-25.4
Other	6.6	1.8	-9.7	-7.3	-8.4
Income	3.8	6.4	9.2	8.6	6.8
Investment income	4.4	7.0	9.7	9.2	7.5
Transfers	-16.8	-17.0	-23.0	-27.7	-27.9
Workers' remittances	-15.3	-15.7	-20.9	-25.7	-26.2
Other	-1.5	-1.3	-2.1	-2.0	-1.7
Invisibles balance	**-48.3**	**-57.3**	**-79.7**	**-84.3**	**-87.2**
Current account balance	**98.9**	**93.3**	**132.3**	**21.0**	**66.8**
(percent of GDP)	27.8	24.3	27.8	5.6	15.4

Portfolio income receipts

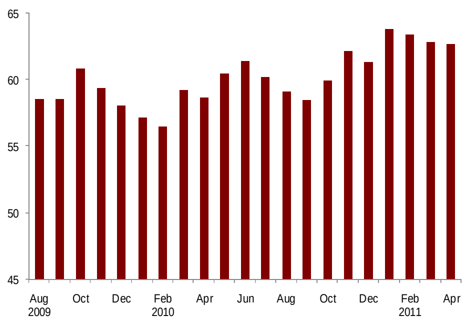


Net incomes fell by 18 percent in 2010 to $6.8 billion. Returns on the government's holdings of foreign debt and equities are the main source of income. These totaled $14 billion in 2010, little changed on the 2009 figure. Although the total stock of foreign assets was up slightly, this was likely offset by the marginal decline in US government bond yields (we think that most of the government's foreign assets are invested in US government bonds). Receipts of direct investment income (dividend and profit payments) by Saudi residents from foreign companies climbed to $3 billion last year, though they remain below their 2007 peak of $3.7 billion, a reflection of the subdued state of the global economy. In contrast, direct investment income payments hit a record of $9.9 billion, an indication of the growing foreign participation in the Kingdom's economy. The decline in net income was because of a sharp fall in revenues from other investments, such as interest payments on loans. The cause of this fall is unclear.

Workers' remittances are the sole significant element of the Kingdom's transfers account. Growth in remittances dropped dramatically last year, to just 1.9 percent from an average of 17 percent over the previous four years. The reason for the lower growth is not clear, though growth has been volatile in the past. There is no indication that the increase in foreign workers eased last year, or that pay for expatriates was cut. Despite [continued on page 8]

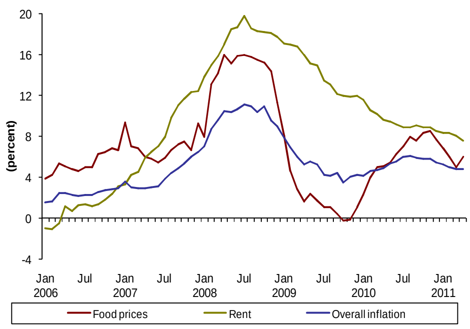
In brief: Economy

PMI



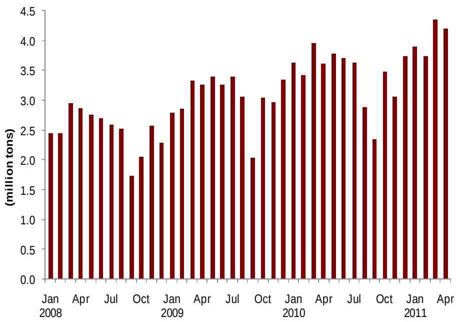
The Markit/HSBC purchasing managers' index (PMI) continues to point to healthy economic growth for the Kingdom. Although the reading fell marginally in April, to 62.7, any figure above 50 indicates expansion and above 60 signifies a strong expansion. The PMI for the Kingdom is among the highest for any of the more than 20 countries surveyed. The high PMI readings began before the announcement of the Royal decrees and have been sustained throughout the unrest that has occurred elsewhere in the region. There is not enough back data to determine the relationship between the PMI and non-oil GDP growth in the Kingdom, though the higher observations so far this year appear consistent with our view that non-oil growth will pick up to 4.2 percent this year from 3.7 percent in 2010.

Inflation



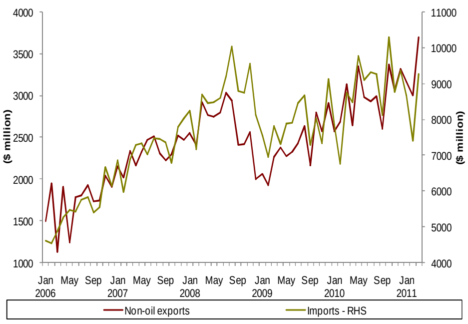
Inflation rose for the first time in eight months in April, to 4.8 percent, owing to higher food prices. Spending triggered by the bonus for public sector workers has yet to impact on inflation, though it should soon. Components of the PMI that examine purchase costs and input costs also point to inflationary pressure ahead. However, the recent strengthening of the dollar (up by 4 percent on a trade weighted basis so far this month) and falls in commodity prices (the Reuters commodity price index is down by 9.1 percent so far this month) should have a dampening impact on inflation if they are sustained. We therefore maintain our forecast for average inflation of 5.5 percent this year.

Cement sales



Cement sales fell slightly in April, but remained high. March tends to be the annual peak for cement sales, so a 3.5 percent decline was not a surprise. Nonetheless, at 4.2 million tons, cement sales in April were 16 percent above those in April 2010, the highest rate of year-on-year growth since March 2010. Although it is highly unlikely that any construction work has begun on the 500,000 new properties recently announced in the Royal decrees, high cement sales are a reflection of the implementation of ongoing government construction spending. Year-on-year sales growth was highest for those companies based around Riyadh; those based in the Eastern Province recorded notably lower growth.

Imports and non-oil exports



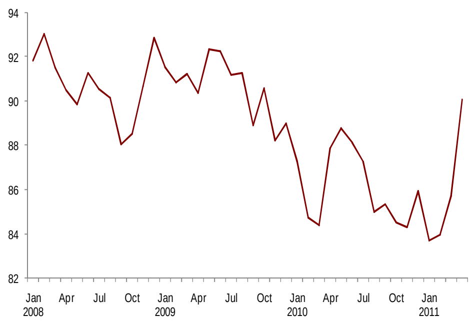
Non-oil exports hit a new all-time high in March of $3.7 billion, surpassing their previous peak in October 2010. Exports of petrochemicals and plastics both posted new highs. Unlike in the annual data issued by the Central Department of Statistics, petrochemicals have consistently been the largest non-oil export in the monthly data, though in March its lead over plastics was less than $100 million. Higher international prices for both commodities are the main reason behind the rise in non-oil exports. Imports also jumped in March, to $9.3 billion, with gains across all categories. In contrast to non-oil exports, imports are still lower than their level prior to the global financial crisis.

In brief: Stock market

TASI

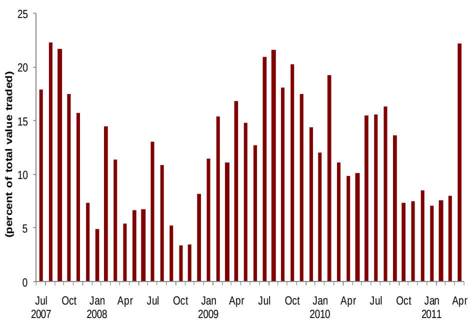
The TASI has traded within a fairly tight range over the past month. It has avoided the declines that most global markets and many commodity prices have experienced as a result of an increase in risk aversion caused, among other things, by renewed concerns about Eurozone debt problems. Instead, the Saudi market is benefitting from the huge government spending contained in the recent Royal decrees, both through the improved outlook for many companies and the injection of funds stemming from the bonus for public sector workers. The TASI is the only regional market trading above where it was at the end of last year, it is 1.4 percent higher, compared to a similar-sized decline in the major European markets so far this year, though below those for the US markets, which are up around 5 percent.

Saudi individual investors as a percent of total stock market trades



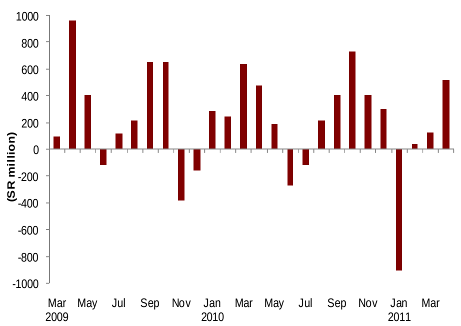
There was a jump in trading by Saudi individual investors last month. Saudi individuals accounted for 90 percent of total trades by value, the highest since October 2009. This was the result of some recipients using the bonuses that were awarded to all in the public sector and some private sector workers for stock market investment. Sales and purchases were both at 18-month highs and on a net basis, Saudi individuals continue to be large sellers (by a total of SR4.1 billion). Volumes have remained high so far in May, which may indicate that the investors encouraged to return to the market by their bonus have stayed in.

Trading in insurance companies as a percent of total stock market trades



The increase in Saudi individual participation in the market has been accompanied by a jump in speculative activity. The volume of trading in companies in the insurance sector is an important and measurable guide to speculation in the market. This is because most insurance companies have a small number of freely floating shares, all of which tend to be liquid (as they are not tightly held by strategic investors), meaning that it is fairly easy to trade enough shares to have a material impact on their price. Although insurance was just 1.8 percent of stock market capitalization in April, it accounted for 22.1 percent of total trading. So far in May, insurance companies have constituted 12.7 percent of total trading.

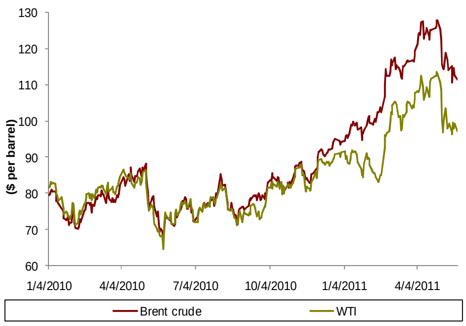
Net inflows through the swap agreement



Foreign investor net inflows into the stock market through the swap agreement reached their highest level since October in April. At SR517 million, net inflows were higher than in all but two months of 2010. The major outflow in January has not yet been fully reversed, but the inflows in recent months show that foreign investors do not think that the unrest elsewhere in the region is detracting too greatly from the attractiveness of the listed companies in the Kingdom. Owing to the surge in activity by Saudi individual investors, foreigners accounted for only 1 percent of total stock market trading by value last month, the lowest level since December 2009.

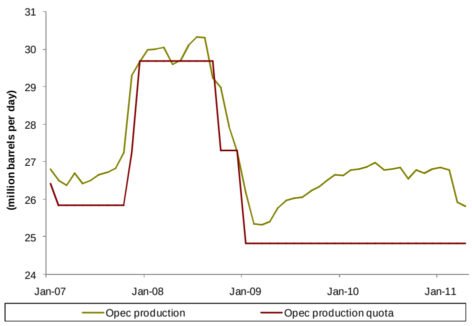
In brief: Oil market

Oil prices



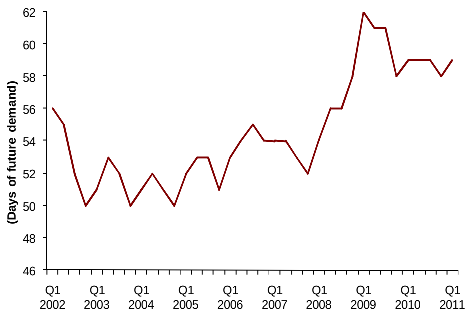
Oil prices have stabilized after plunging early in the month. The largest one-day fall was on May 5, when WTI fell by $8.2 per barrel (8.9 percent) and Brent crude by $7 per barrel (5.7 percent). Subsequently prices of both blends touched their lows since early-February before rebounding modestly. The fall was the result of an abrupt change in sentiment caused by renewed concerns about Eurozone debt, weak economic data and further economic policy tightening in emerging markets, which also affected other commodity prices, share prices and exchange rates. Barring any dramatic deterioration in regional political conditions, we think that oil prices are probably past their highs for the year.

Opec production



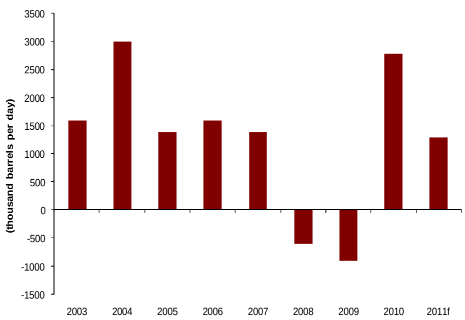
In mid-May the International Energy Agency (IEA) issued a rare public call for oil exporters to produce more crude to prevent high oil prices damaging global economic growth. Opec production is down on the level prior to the conflict in Libya. While those countries with spare production capacity (primarily Saudi Arabia) increased output when Libyan production first went off-stream, the blend of new oil supplied is different to that produced by Libya and refiners chose not to buy the new supply. As a result, production was scaled back again. Independent estimates of Opec output have been unusually disparate in recent months and the most authoritative source, the International Energy Forum's Joint Oil Data Initiative, only has data for March. We think that the Kingdom will raise output if it views market conditions appropriate, but that there will probably not be a formal increase in production quotas at the Opec meeting on June 8.

OECD stocks



Although production is down from the start of the year, stocks are still plentiful. According to the IEA, total commercial stocks are the equivalent of 58.8 days of future demand, in line with the average for last year. More recent data from the US Energy Information Administration shows that crude oil stocks rose until early May and stabilized in the second week of the month at a two-year high. There is a seasonal trend in US stocks and the rise from the year end to mid-May was in line with that of 2010 in both absolute and percentage terms. With the start of the US summer driving season approaching, it is likely that stocks will be on a downward path in the coming months.

Global oil demand growth



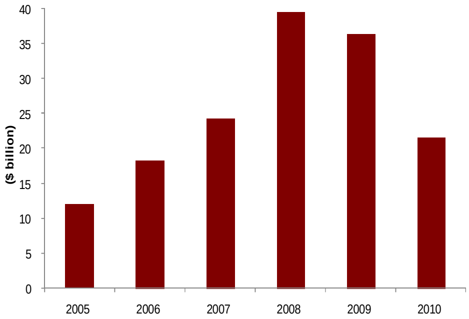
High oil prices are having an impact on demand for oil, though the extent of this is difficult to determine. The IEA revised down its projection for global oil demand to 1.3 million barrels per day in its May report from 1.5 million barrels per day in April, though this revised level is the same as that it projected at the end of last year. Opec held its forecast for global demand growth unchanged at 1.4 million barrels per day in May, slightly down from 1.5 million barrels per day it foresaw in December 2010. The impact on growth is most evident in the US, where consumers are more exposed to international price trends than those in countries with controlled retail prices or high fuel taxation. Latest data show US retail sales growth was at a nine-month low in April, with Commerce Department estimating that consumers spent $8 billion more on gasoline this April than they did in April 2010.

Key data

	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
Nominal GDP									
(SR billion)	938.8	1182.5	1335.6	1442.6	1786.1	1397.5	1630.0	1951.0	1948.4
($ billion)	250.3	315.3	356.2	384.7	476.3	372.7	434.7	520.3	519.6
(% change)	16.7	26.0	12.9	8.0	23.8	-21.8	16.6	19.7	-0.1
Real GDP (% change)									
Oil	6.7	6.2	-0.8	-3.6	4.2	-7.6	2.1	8.9	-0.2
Non-oil private sector	5.3	5.8	6.1	5.5	4.6	2.7	3.7	4.2	5.0
Government	3.1	4.0	3.1	3.0	3.7	5.2	5.9	5.0	5.0
Total	5.3	5.6	3.2	2.0	4.2	0.2	3.8	5.6	3.5
Oil indicators (average)									
WTI ($/b)	41.5	56.6	66.1	72.3	99.7	62.0	79.5	93.0	89.0
Saudi ($/b)	34.7	49.5	60.5	68.1	93.4	60.5	77.7	95.8	89.0
Production (million b/d)	9.0	9.5	9.2	8.7	9.2	8.1	8.2	8.8	8.7
Budgetary indicators (SR billion)									
Government revenue	392	564	674	643	1101	510	735	916	833
Government expenditure	285	346	393	466	520	596	627	821	777
Budget balance	107	218	280	177	581	-87	109	95	56
(% GDP)	11.4	18.4	21.0	12.2	32.5	-6.2	6.7	4.9	2.9
Domestic debt	614	475	366	267	237	225	167	160	160
(% GDP)	65.4	40.2	27.4	18.5	13.3	16.1	10.2	8.2	8.2
Monetary indicators (average)									
Inflation (% change)	0.3	0.7	2.3	4.1	9.9	5.1	5.3	5.5	4.0
SAMA base lending rate (%, year	2.50	4.75	5.20	5.50	2.50	2.00	2.00	2.25	3.00
External trade indicators ($ billion)									
Oil export revenues	110.4	161.6	188.2	205.3	281.0	163.1	214.9	267.9	225.6
Total export revenues	125.7	180.4	210.9	233.1	313.4	192.2	251.0	306.9	268.5
Imports	41.1	53.8	63.0	81.5	100.6	86.4	96.7	108.3	121.2
Trade balance	84.6	126.6	147.8	151.6	212.7	105.8	154.3	198.6	147.2
Current account balance	51.9	90.0	98.9	93.3	132.3	22.8	66.8	117.2	67.2
(% GDP)	20.7	28.5	27.8	24.3	27.8	6.1	15.4	22.5	12.9
Official foreign assets	127.9	195.5	273.4	359.8	502.0	474.2	520.3	605.2	655.2
Social and demographic									
Population (million)	22.7	23.4	24.1	24.8	25.5	26.3	27.1	27.9	28.8
Unemployment (male, 15+, %)	11.0	11.5	12.0	11.0	9.8	10.5	10.2	11.0	10.5
GDP per capita ($)	11039	13503	14806	15523	18651	14158	16017	18625	18040

Sources: Jadwa forecasts for 2011 and 2012. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. Central Department of Statistics and Jadwa estimates for oil, social and demographic indicators.

FDI inflows



[continued from page 3] the slowdown, expatriate remittances amounted to $26.2 billion, an average of $72 million every day of 2010.

The capital and financial account, which measures flows in investments and reserves, swung into a large deficit in 2010, owing to movements in the Kingdom's reserves. In 2010, as with most recent years, the use of revenues that are not spent domestically to purchase foreign assets results in a net outflow on the capital and financial account. In 2009, when reserves were drawn down to finance domestic spending, there was a net inflow through the capital and financial account.

Inflows of foreign direct investment fell sharply in 2010 and at $21.6 billion were down by 40 percent from the 2009 level. This was the result of inflows of just $4.7 billion in the first half of the year, by far the lowest over any six month period for which the data is available (2006). Inflows picked up in second half and totaled $8.3 billion in final quarter. In general, foreign direct investment flows are lumpy, as they are related to specific projects. Given the time lag between making an investment decision and the necessary payments, the dip in the first half of last year could have been a hangover from the global financial crisis; inflows peaked in the final quarter of 2008 when the crisis was at its worst.