



Summary

Real Economy: The non-oil PMI declined further in August, to 56.6—still well above the 50 breakeven level—reflecting weaker growth in new business activity during the month. Meanwhile, cement sales were down by 9.6 percent year-on-year, despite rising by 2.6 percent month-on-month. Latest available data showed non-oil exports declining in July.

Consumer Spending: Total consumer spending rose by 7.7 percent year-on-year in August, with a remarkable monthly gain of 10.3 percent. While cash withdrawals were up by 0.5 percent year-on-year, POS transactions increased by 10 percent. Looking at POS transactions by sector, services such as 'education', 'food & beverages' and 'transport' posted strong growth, while spending on goods tended to contract.

SAMA Foreign Reserve Assets: SAMA's FX reserves rebounded slightly in August by \$0.1 billion. The monthly rise was mainly due to foreign securities, which were up by \$4.8 billion, while bank deposits declined by \$4.5 billion.

Money Supply, Bank Deposits and Credit: The broad measure of money supply (M3) rose by 9.6 percent year-on-year in August, in addition to a monthly gain of 0.6 percent. Total deposits rose by 10 percent year-on-year, with savings deposits continuing their upward trend.

Inflation: Consumer prices rose by 2 percent year-on-year in August, another sharp decline from 2.3 percent in July and 2.7 percent in June. Within the CPI basket, 'food and beverages' rose by just 0.4 percent year-on-year, and declined by 0.2 percent month-on-month. Looking ahead, we expect further declines in food prices in line with global trends.

Labor Market Q2 2023: The latest labor market release from GaStat showed that the unemployment rate for citizens declined to 8.3 percent in Q2 2023, from 8.5 percent in Q1. Female unemployment eased to 15.7 percent in Q2 (versus 16.1 percent in Q1), while the rate for males was unchanged at 4.6 percent.

Preliminary Budget 2024: Government revenue in 2023 is expected to be 4 percent higher (at SR1,180 billion) than projected in the 2023 budget. Government expenditure is forecast to be 13 percent more than budgeted in 2023 (at SR1,262 billion), and 11 percent higher in 2024. As such, the budget balance is now expected to be in deficit at SR82 billion in 2023, and at SR79 billion in 2024.

Q2 2023 Current Account: The current account returned a decent surplus in Q2-23, albeit less than half the value of Q2-22. Export earnings were hit by lower oil prices and production, while imports gained 10 percent, year-on-year. The main positive was another surge in tourism earnings.

Oil: Tightening fundamentals have continued to drive oil prices higher, with Brent comfortably above \$90 pb in early October. The rally comes despite the recent back-up in longer-term US Treasury yields, which has provoked a sell-off in other risk assets, such as equities.

Stock Market: TASI declined in September on a month-on-month basis, down by 3.8 percent, in step with most global and regional markets, as investors expect that US rates will stay 'higher for longer'. TASI posted a 5.5 percent year-to-Q3 gain, even as it declined by 3.5 percent in Q3 itself.

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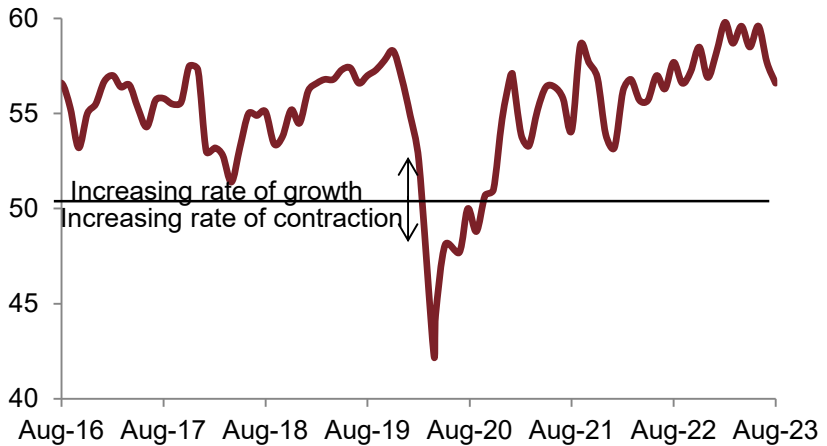


Real Economy

The non-oil PMI declined further in August, to 56.6—still well above the 50 breakeven level—reflecting weaker growth in new business activity during the month. Cement sales also eased, down by 9.6 percent year-on-year, despite rising by 2.6 percent month-on-month. Latest available data showed non-oil exports declining in July by 22 percent year-on-year as China’s demand for Saudi petrochemicals continued to fall.

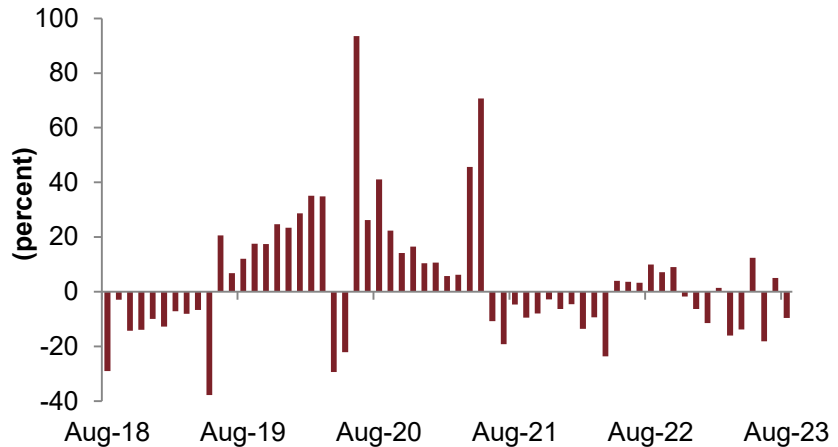
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Non-oil Purchasing Managers’ Index



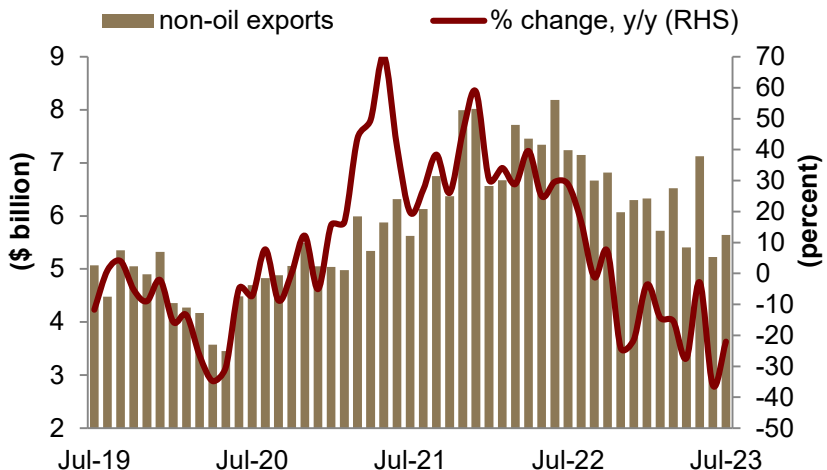
Cement sales fell, down by 9.6 percent year-on-year, despite rising by 2.6 percent month-on-month.

Cement Sales
(year-on-year change)



Latest available data showed non-oil exports declining in July by 22 percent year-on-year, although the month-on-month performance showed an 8 percent gain. The annual decline has been caused by China’s roll-out of its own petrochemicals capacity, which has hit demand for Saudi products.

Non-oil Exports
(USD monthly total and year-on-year change)

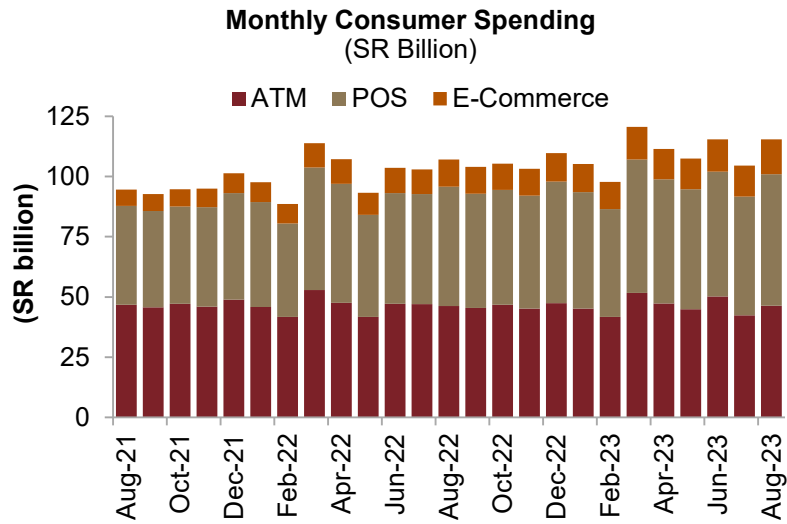




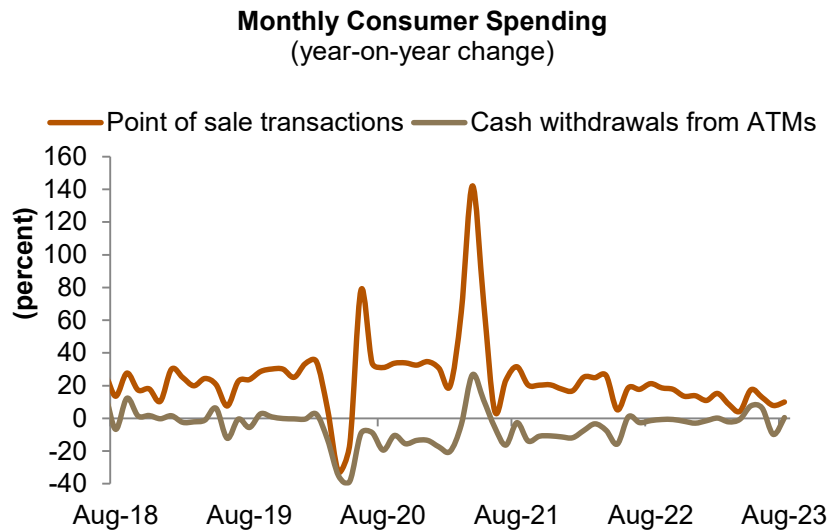
Consumer Spending

Total consumer spending rose by 7.7 percent year-on-year in August, with a remarkable monthly gain of 10.3 percent. While cash withdrawals were up by 0.5 percent year-on-year, POS transactions increased by 10 percent. Looking at POS transactions by sector, services such as 'education', 'food & beverages' and 'transport' posted strong growth, while goods (especially 'furniture', 'electronics' and 'building materials') headed in the opposite direction.

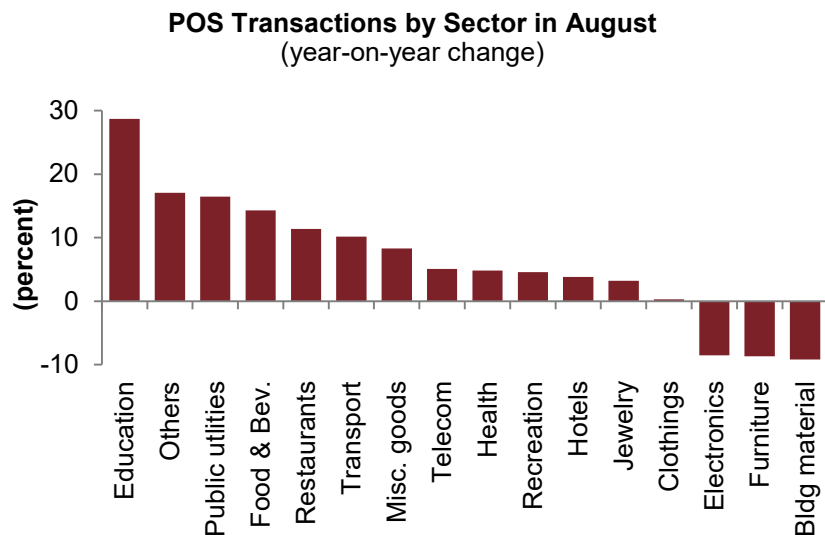
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Services tended to do well, while many goods showed annual declines.



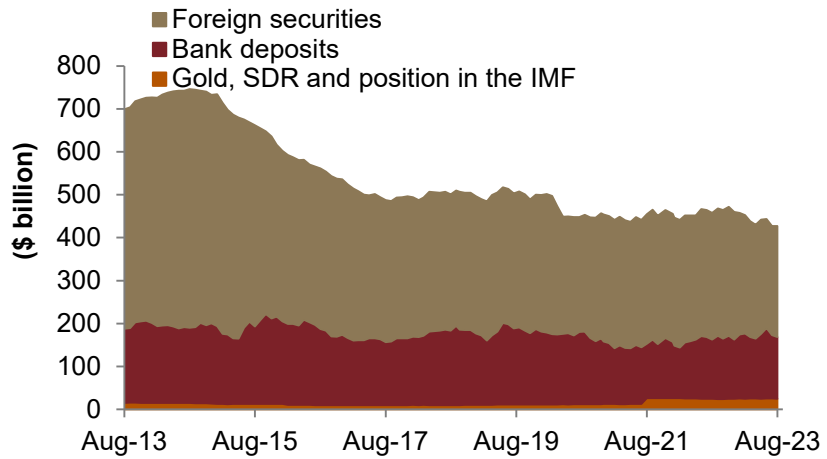


SAMA Foreign Reserve Assets

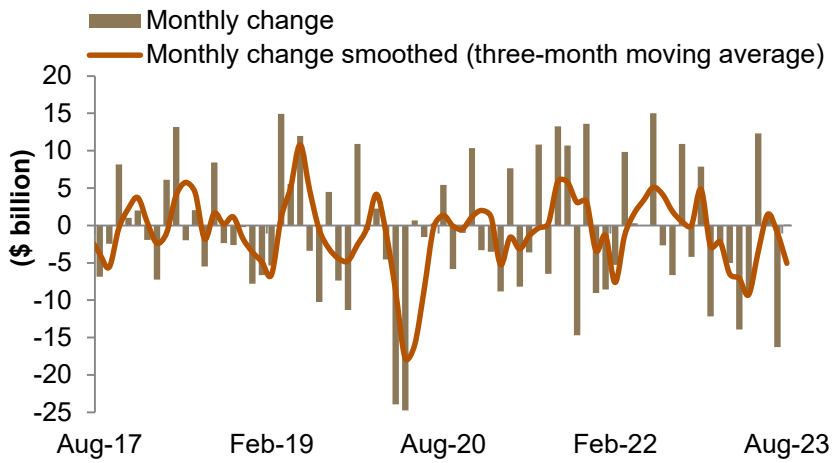
SAMA's FX reserves rebounded slightly in August by \$0.1 billion. The monthly rise was mainly due to foreign securities, which were up by \$4.8 billion, while bank deposits declined by \$4.5 billion.

SAMA's FX reserves rebounded slightly in August...

SAMA Total Foreign Reserve Assets

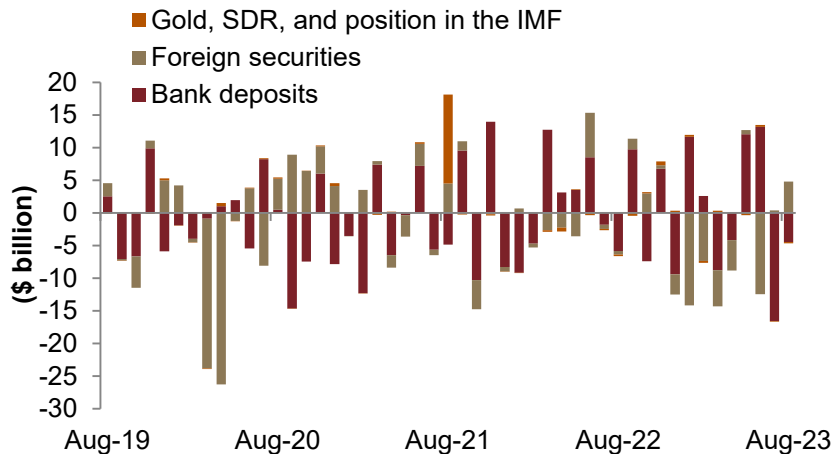


SAMA Foreign Reserve Assets (monthly and three-month average change)



...by \$0.1 billion.

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



The monthly rise was mainly due to foreign securities, which were up by \$4.8 billion, while bank deposits declined during the month by \$4.5 billion.

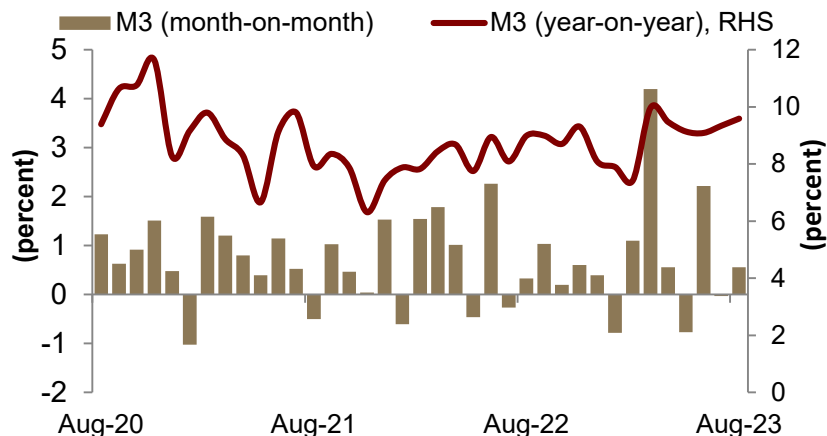


Money Supply, Bank Deposits and Credit

The broad measure of money supply (M3) rose by 9.6 percent year-on-year in August, in addition to a monthly gain of 0.6 percent. Total deposits rose by 10 percent year-on-year, with time and saving deposits continuing their upward trend. Meanwhile, new mortgages continued to fall, down by 43 percent year-on-year in August, despite a robust 33 percent month-on-month gain.

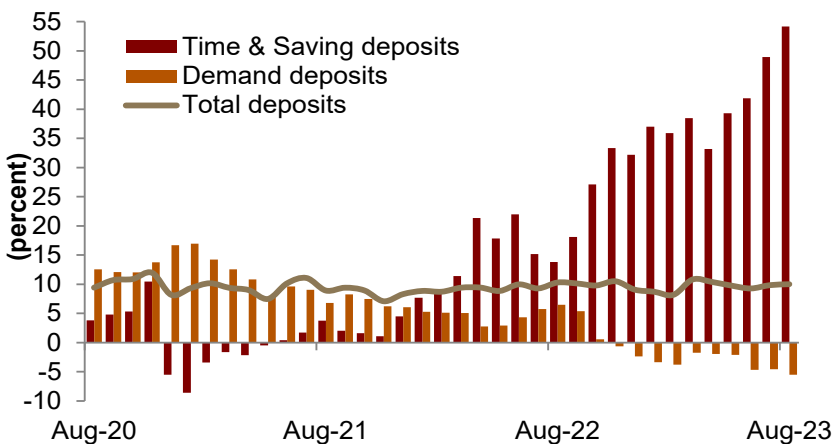
M3 rose by 9.6 percent year-on-year in August, in addition to a monthly gain of 0.6 percent.

Change in Money Supply



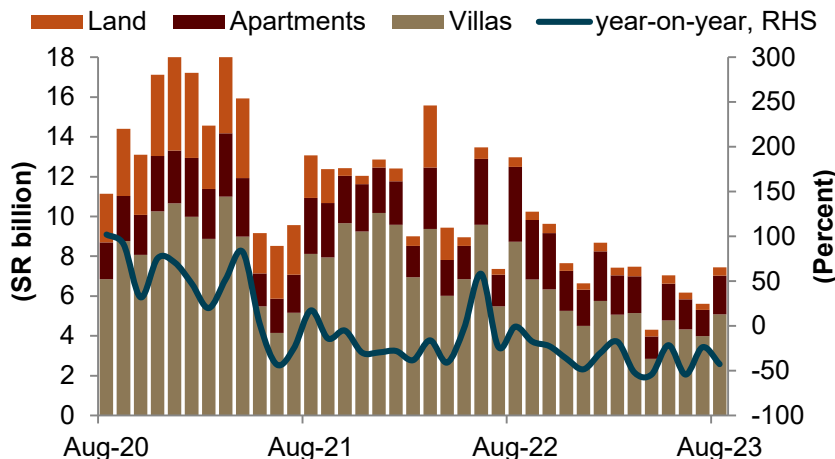
Time and saving deposits now account for 33 percent of total deposits, up from 23 percent in August last year. However, demand deposits continued to decline, meaning that overall deposit growth held steady at 10 percent year-on-year.

Breakdown of Total Deposits
(year-on-year change)



Meanwhile, new mortgages continued to fall, down by 43 percent year-on-year in August, despite a robust 33 percent month-on-month gain. The value of new mortgages in August was the largest in five months.

Residential New Mortgages by Banks and Finance Companies
(SR monthly total and year-on-year change)

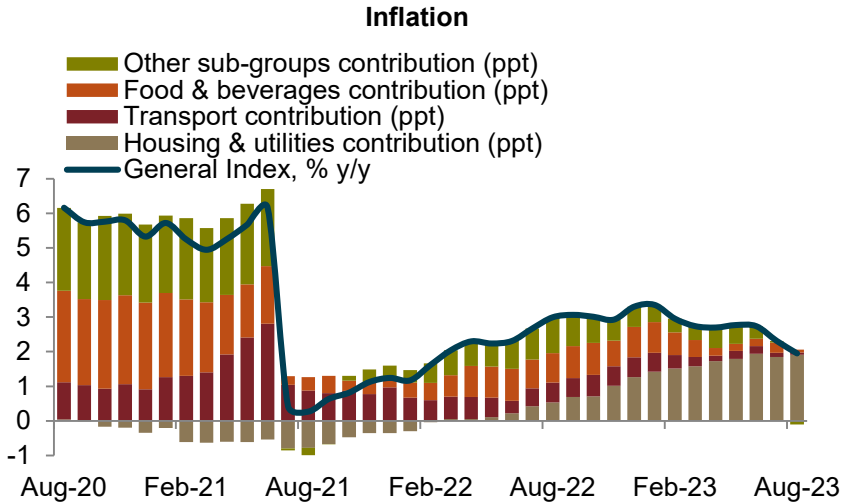




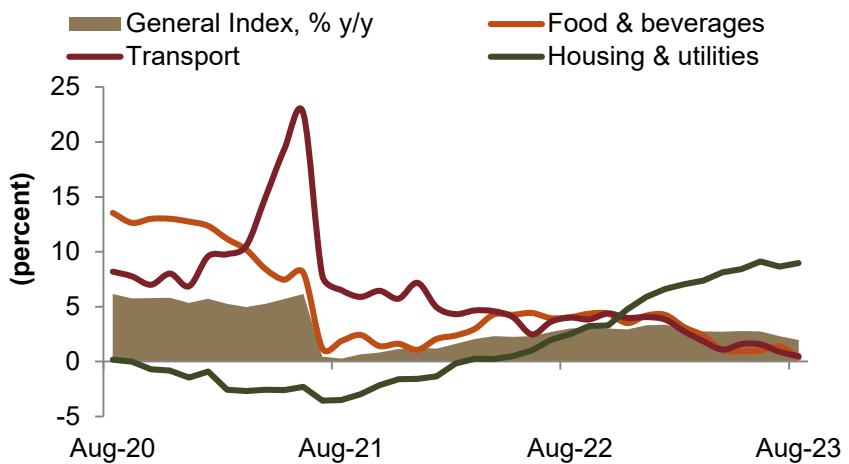
Inflation

Consumer prices rose by 2 percent year-on-year in August, another sharp decline from 2.3 percent in July and 2.7 percent in June. Within the CPI basket, 'housing and utilities' continued trending upwards, up by 9 percent year-on-year and by 0.7 percent month-on-month. 'Food and beverages' rose by just 0.4 percent year-on-year, and declined by 0.2 percent month-on-month. Looking ahead, we expect further falls in 'food and beverages' prices given the declining global trend.

Consumer prices rose by 2 percent year-on-year in August, but remained unchanged month-on-month.

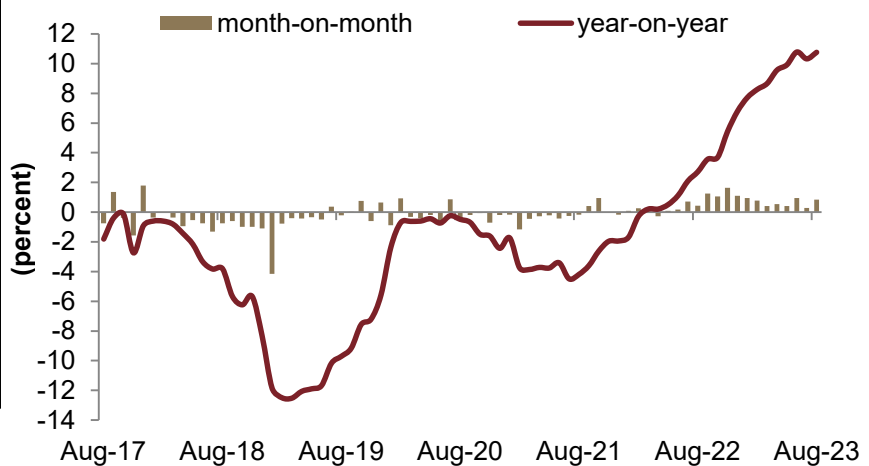


Inflation Rates in Selected CPI Basket Groups
(year-on-year change)



'Food & beverages' rose by just 0.4 percent year-on-year, and declined by 0.2 percent month-on-month.

Prices in 'Rentals for Housing' Sub-group
(year-on-year change)



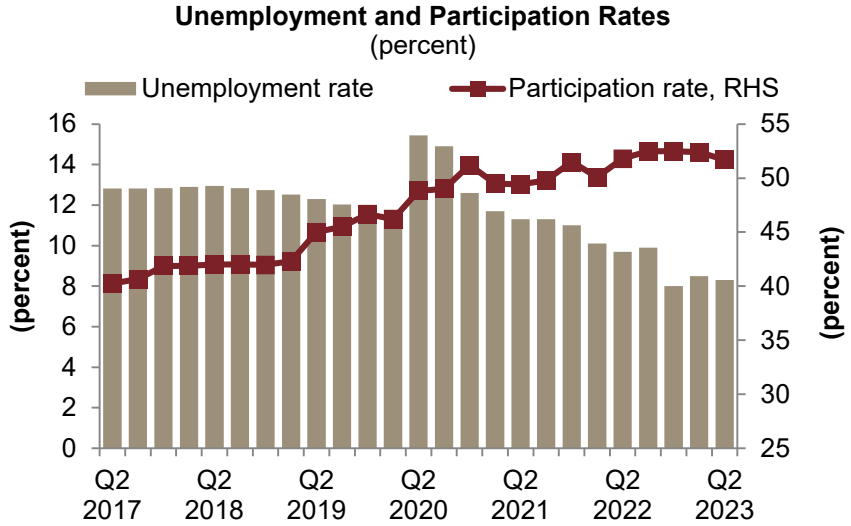
'Housing & utilities' continued trending upwards, up by 9 percent year-on-year, supported by further gains in 'rentals for housing'.



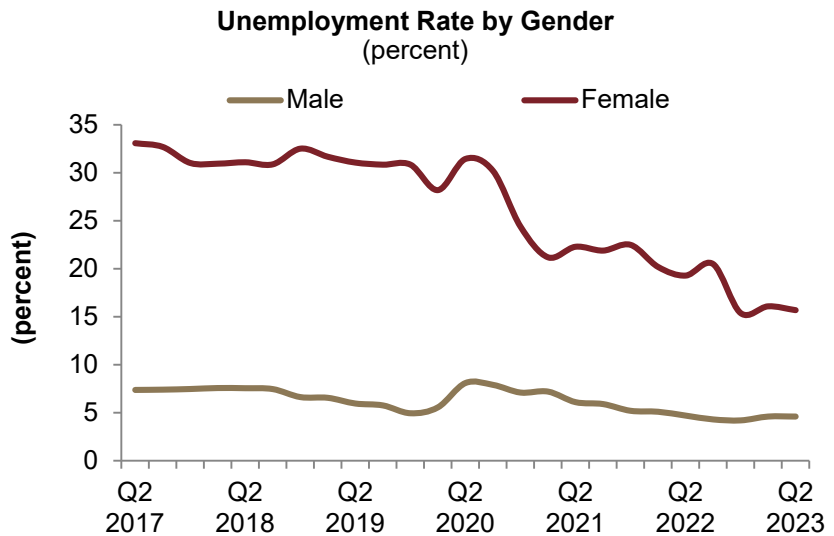
Labor Market Q2 2023

The latest labor market release from GaStat showed that the unemployment rate for citizens declined to 8.3 percent in Q2 2023, from 8.5 percent in Q1. Female unemployment eased to 15.7 percent in Q2 (versus 16.1 percent in Q1), while the rate for males was unchanged at 4.6 percent. Meanwhile, the participation rate inched down to 51.7 percent, reflecting minor declines in both male and female participation.

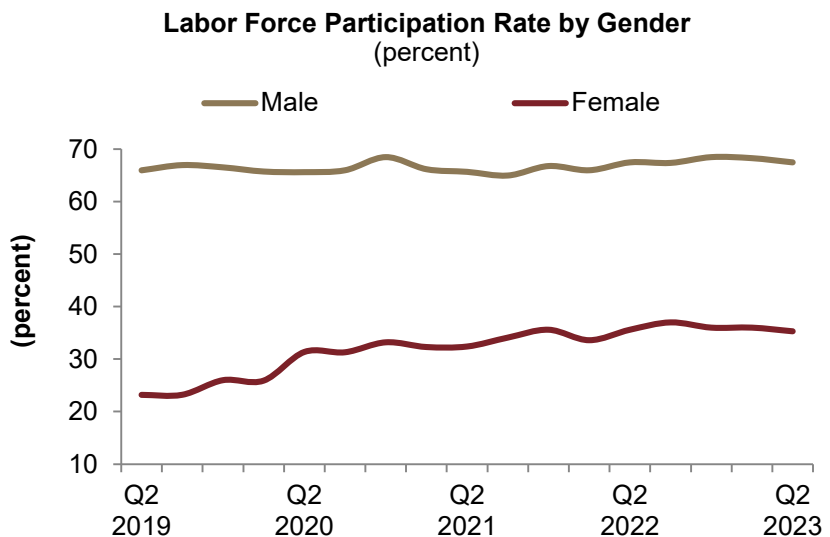
The unemployment rate for citizens declined to 8.3 percent in Q2 2023, from 8.5 percent in Q1.



Female unemployment eased to 15.7 percent in Q2, while the rate for males was unchanged, compared with Q1.



Meanwhile, the participation rate inched down to 51.7 percent, reflecting minor declines in both male and female participation.





2024 Preliminary Budget Statement

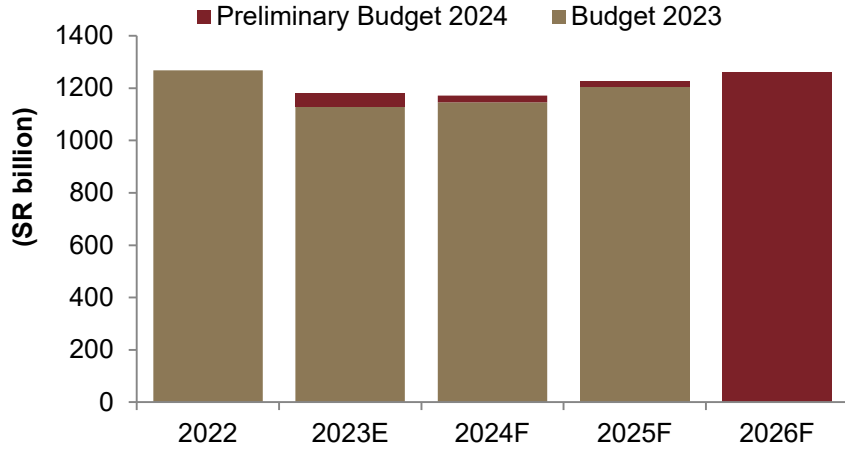
According to the preliminary budget statement, government revenue in 2023 is expected to be 4 percent higher (at SR1,180 billion) than originally projected in the 2023 budget. Moreover, government expenditure is forecast to be 13 percent higher than budgeted in 2023 (at SR1,262 billion), and 11 percent higher in 2024. As such, the budget balance is now expected to be in deficit at SR82 billion in 2023, and at SR79 billion in 2024, as the government prioritizes more spending on economic diversification strategies.

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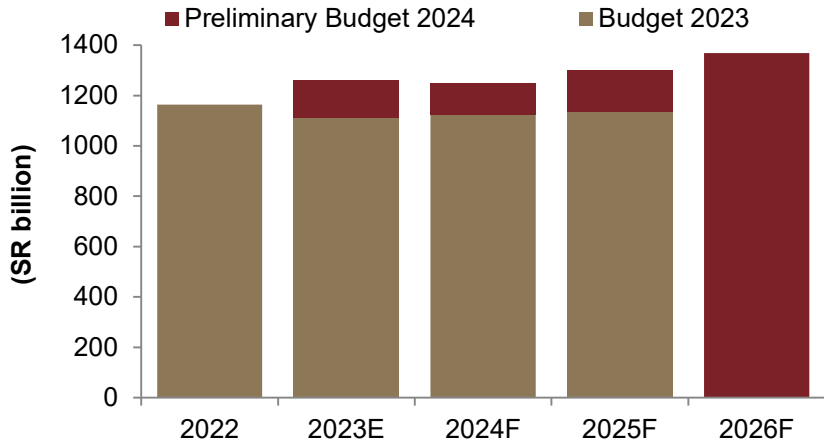
Moreover, government expenditure is forecast to be 13 percent higher than budgeted in 2023, and 11 percent higher in 2024.

As such, the budget balance is now expected to be in deficit at SR82 billion in 2023, and at SR79 billion in 2024, as the government prioritizes more spending on strategies that accelerate economic diversification in the Kingdom, according to the statement.

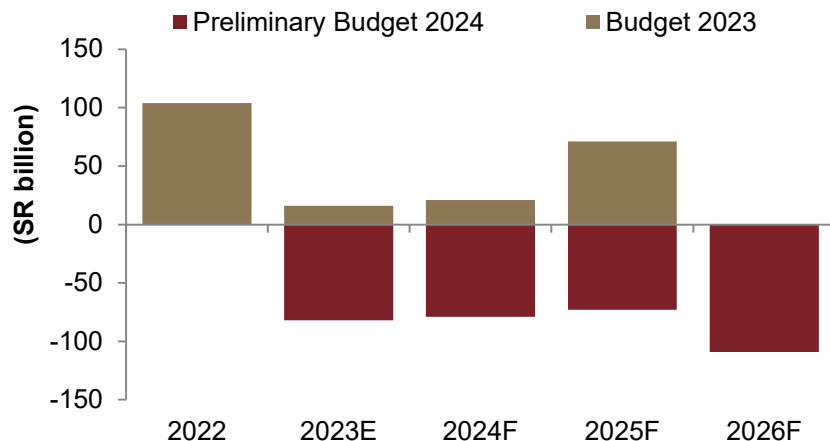
Government Revenue



Government Expenditure



Fiscal Balance





Q2 2023 Current Account

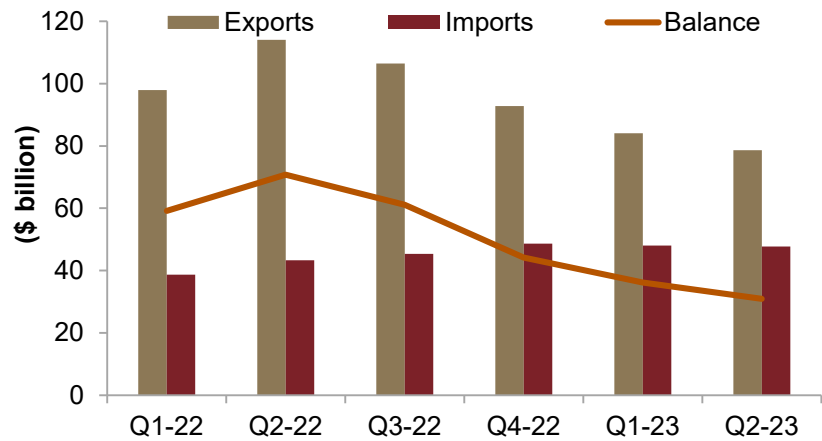
The current account returned another surplus in Q2 according to SAMA, though at \$15.2 billion it was almost two thirds smaller than the Q2-22 surplus. The visible trade surplus fell by some \$40 billion, year-on-year, reflecting both lower oil production and prices, along with a 10 percent gain in import spending. Non-oil exports also fell. There was better news from invisibles flows, with workers' remittances outflows down by ten percent, year-on-year, and the income surplus climbing by 63 percent, propelled largely by overseas investment returns. However, the standout gain was from tourism revenue, which more than doubled in year-on-year terms, pushing the 'travel' surplus above \$6 billion.

The visible trade surplus declined to its lowest level since Q2-21, pulled down by weaker oil production and prices. Robust import demand for consumer goods and investment inputs also weighed on the surplus.

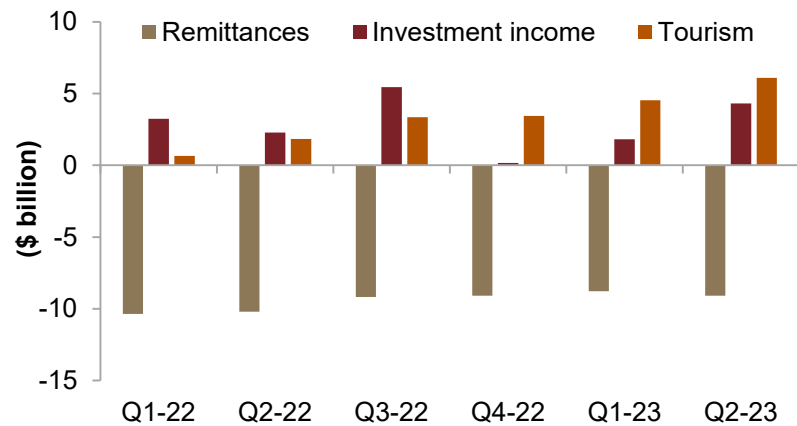
There was a partial offset from invisibles flows, with weaker remittances outflows and enhanced earnings from investments abroad combining with a surge in tourism inflows to support the current account.

The overall current account surplus eased to \$15 billion in Q2, significantly lower than a year earlier, but a sizeable surplus nonetheless. When combined with financial account flows, SAMA's reserve assets rose by \$4.5bn, quarter-on-quarter.

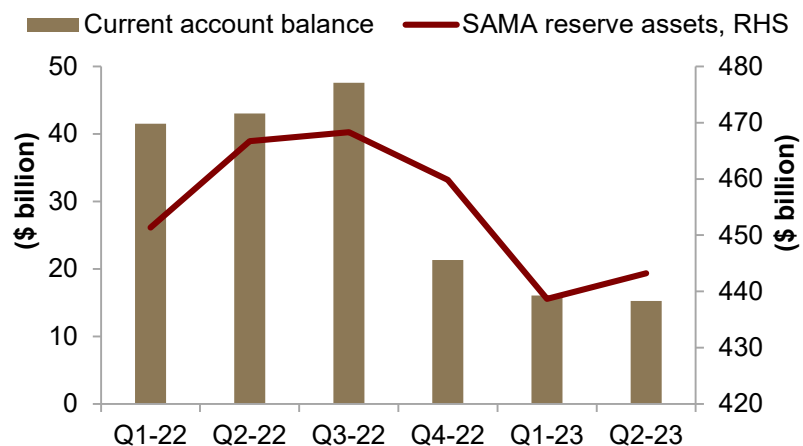
Imports vs Exports



Income, Remittances and Tourism (net)



Overall Current Account Balance vs SAMA Reserve Assets





Oil

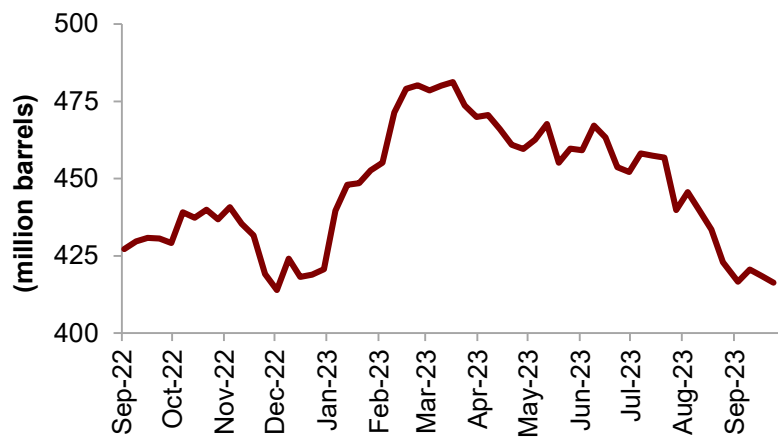
Tightening fundamentals have continued to drive oil prices higher, with Brent comfortably above \$90 pb in early October. The latest leg up was propelled by news that stockpiles at a major US storage hub have dropped to critical levels, just as the Northern Hemisphere is entering the winter season when heating oil is in high demand. The rally comes despite the recent back-up in longer-term US Treasury yields, which has provoked a sell-off in other risk assets, such as equities.

Resilient demand and constrained supply have seen prices push higher. The market is now in “bullish backwardation” whereby prompt deliveries command a higher price than future ones. As a result, stocks have fallen sharply.

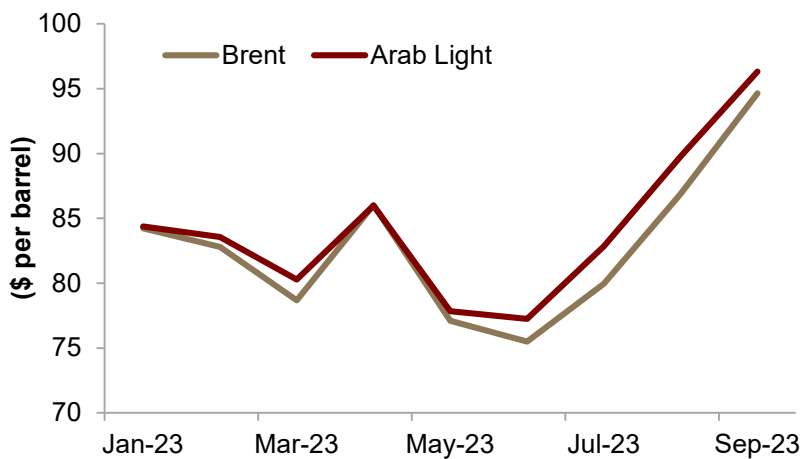
Diesel is in particularly high demand, which has in turn boosted the price of heavier crudes, from which a lot of diesel is distilled. Consequently, Saudi Arabia’s main export crude Arab Light (which despite the name is a heavy crude) is trading at a premium to Brent.

One surprising source of demand strength has been China, where imports of crude are currently growing by 30 percent, year-on-year. This reflects the fact that oil demand is no longer wedded to the beleaguered property sector, with the rapidly expanding transport and logistics sectors now accounting for the bulk of China’s oil demand (roughly 70 percent).

US Crude Stocks

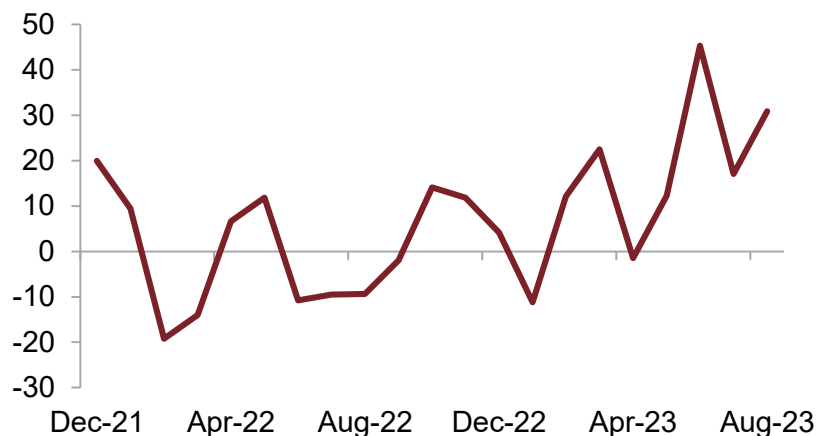


Arab Light vs Brent



China Oil Imports

(million tonnes, percent change, year-on-year)



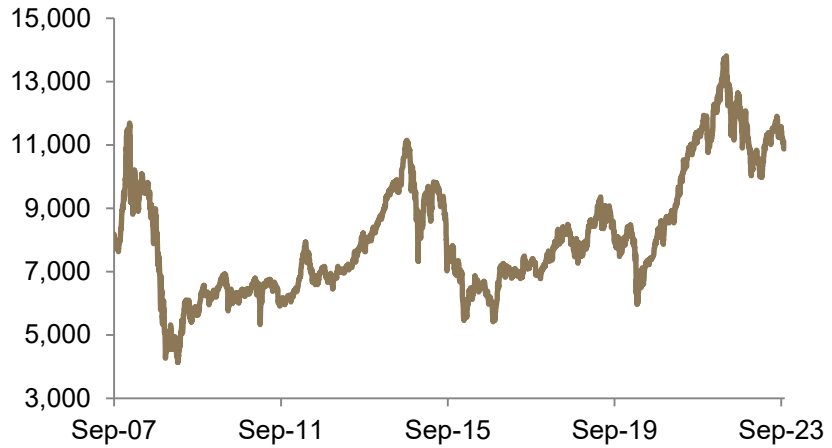


Stock Market

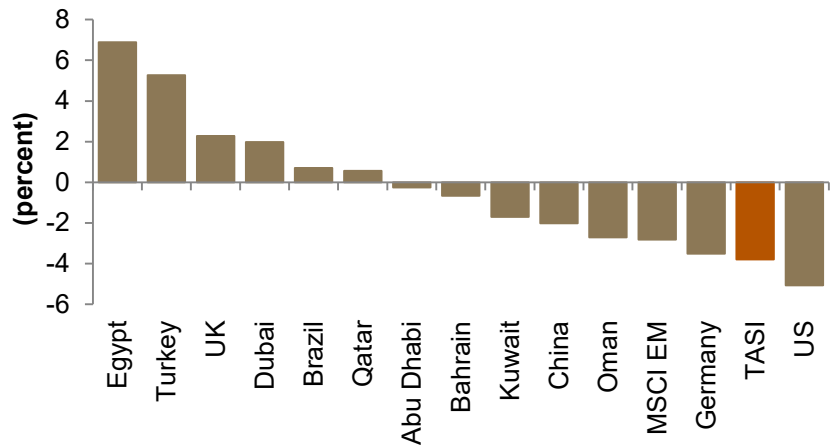
TASI declined in September on a month-on-month basis, down by 3.8 percent, in step with most global and regional markets, as investors expect that US rates will stay 'higher for longer'. TASI posted a 5.5 percent year-to-Q3 gain, even as it declined by 3.5 percent in Q3 itself.

TASI declined in September on a month-on-month basis, down by 3.8 percent.

TASI Performance

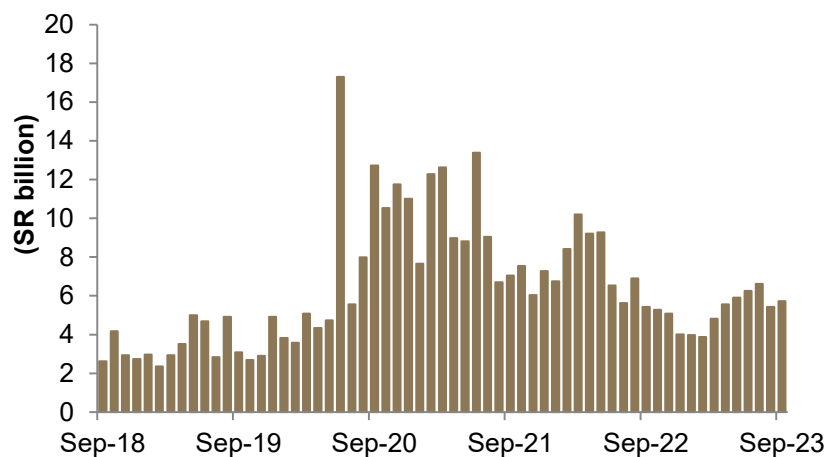


Comparative Stock Market Performance (September)



This was in step with most global and regional markets, as investors expect that US rates will stay 'higher for longer'. TASI posted a 5.5 percent year-to-Q3 gain, even as it declined by 3.5 percent in Q3 itself.

Average Daily Traded Volumes (September)



Average traded volumes rebounded in September, up by 5 percent over August.



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Key Data

	2017	2018	2019	2020	2021	2022	2023E	2024F
Nominal GDP								
(SR billion)	2,681	3,175	3,145	2,754	3,257	4,156	3,871	4,078
(\$ billion)	715	847	839	734	869	1,108	1,032	1,087
(% change)	7.4	18.4	-0.9	-12.4	18.3	27.6	-6.9	5.3
Real GDP (% change)								
Oil	-3.1	2.3	-3.3	-6.7	0.2	15.4	-7.5	2.8
Non-oil activities	3.0	-2.4	4.1	-3.7	7.2	5.4	5.9	5.6
Government activities	0.3	3.9	1.7	-0.6	1.1	2.6	4.6	2.1
Total	-0.1	2.8	0.8	-4.3	3.9	8.7	0.5	4.2
Oil indicators (average)								
Brent (\$/b)	54	71	66	42	71	104	84	87
Production (million b/d)	10.0	10.3	9.8	9.2	9.1	10.6	9.7	10.0
Budgetary indicators (SR billion)								
Government revenue	692	906	926	782	965	1,268	1,164	1,237
Government expenditure	930	1,079	1,059	1,076	1,039	1,164	1,207	1,226
Budget balance	-238	-173	-133	-294	-74	104	-43	11
(% GDP)	-8.9	-5.5	-4.2	-10.7	-2.3	2.5	-1.1	0.3
Gross public debt	443	560	678	854	938	990	951	959
(% GDP)	16.5	17.6	21.6	31.0	28.8	23.8	24.6	23.5
Monetary indicators								
Inflation (% change, average)	-0.8	2.5	-2.1	3.4	3.1	2.5	2.6	2.2
SAMA base lending rate (% , year end)	2.0	3.0	2.25	1.00	1.00	5.0	6.25	5.25
External trade indicators (\$ billion)								
Oil export revenues	170	232	200	119	202	327	264	277
Total export revenues	222	294	262	174	276	411	353	368
Imports	135	137	153	138	153	190	217	224
Trade balance	87	157	108	36	123	221	135	144
Current account balance	10	72	38	-23	44	151	57	62
(% GDP)	1.5	8.5	4.6	-3.1	5.1	13.6	5.5	5.7
Official reserve assets	496	497	500	454	455	460	465	479
Social and demographic indicators								
Population (million)	31.0	30.2	30.1	31.6	30.8	32.2	32.9	33.7
Saudi Unemployment (15+, %)	12.8	12.7	12.0	12.6	11.0	8.0	7.8	7.6
GDP per capita (\$)	23,081	28,036	27,893	23,271	28,215	34,441	31,370	32,313

Sources: Jadwa Investment forecasts for 2023 and 2024. General Authority for Statistics for GDP, external trade and demographic indicators, Saudi Arabian Monetary Agency for monetary indicators, Ministry of Finance for budgetary indicators.