جدوى للإستثمار
Jadwa Investment

January 2017

Saudi Chartbook

Summary

Real Economy: November data on economic activity showed a mixed picture. Data on consumer spending came out negative, partly reflecting the impact of allowance reductions to public sector employees. The non-oil PMI showed a rebound in November.

Government Finance: The net monthly change to government accounts posted its sixth consecutive decline in November. However, this reflected the resumption in government payments to contractors.

Capital Flows and Reserve Assets: Despite both the current account and non-reserve financial account posting a surplus in Q3, foreign reserves continued to decline. This is due to a negative change in net errors and omissions.

Banking Indicators: November growth in bank credit to the private sector showed a year-on-year slowdown. Looking ahead, we see the announcement of an expansionary budget to result in a rebound in credit growth during 2017.

Inflation: Inflation continued to show a downward trend in November, arriving at the year's lowest level of 2.3 percent.

Non-oil Trade: October data showed rebounds in both non-oil exports and imports.

Overall Trade: In October, the Kingdom's trade balance improved to its highest level since April 2015. Meanwhile, Q3 data showed the current account balance returning to a surplus for the first time in two years.

Oil - Global: Brent oil rose 20 percent and WTI 13 percent month-on-month in December after OPEC and non-OPEC agreed to cut production by a combined 1.8 mbpd.

Oil - Regional: OPEC crude oil production rose to a record 33.9 mbpd in November, 1.4 mbpd higher than the 32.5 mbpd targeted for the first six months of 2017.

Exchange Rates: The US dollar continued strengthening after the US Federal Reserve (Fed) raised the Funds Rate to 0.75 basis points.

Stock Market: An expansionary Saudi fiscal budget together with higher oil prices contributed to the TASI reaching its highest level since exactly a year ago.

Volumes: TASI sustained a higher level of turnover during December, resulting in most sectors exceeding their year-to-date average.

Valuations: TASI's valuations have improved as a result of increased investor activity in the final quarter of 2016.

Sectoral Performance: All but one of the fifteen sectors were up in December, reflecting the overall positive performance of TASI.

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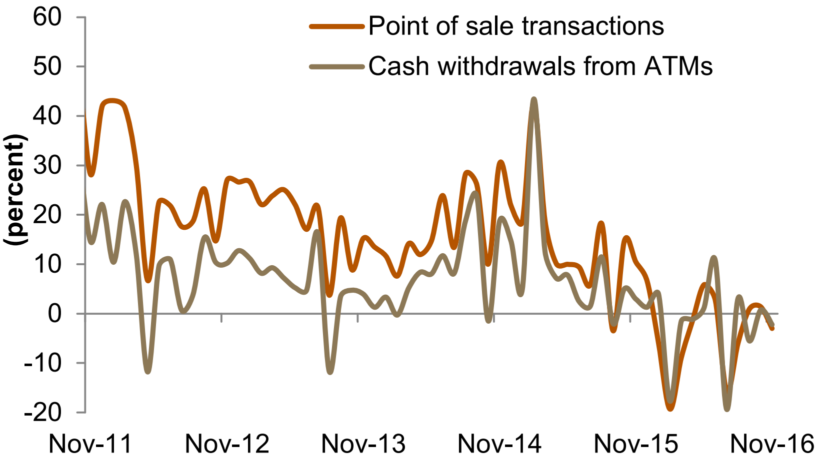
Real Economy

November data on economic activity showed a mixed picture. Data on consumer spending came out negative year-on-year, partly reflecting the impact of allowance reductions to public sector employees. The non-oil PMI showed a rebound in November from a record low in the previous month. Cement sales and production fell slightly, month-on-month.

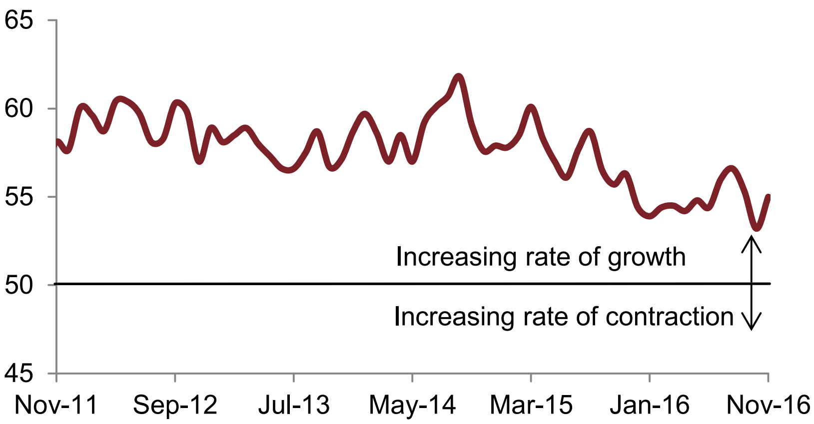
Year-on-year data on cash withdrawals from ATMs and point-of-sale transactions came out negative for November, falling by 2.2 percent, and 3 percent respectively.

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



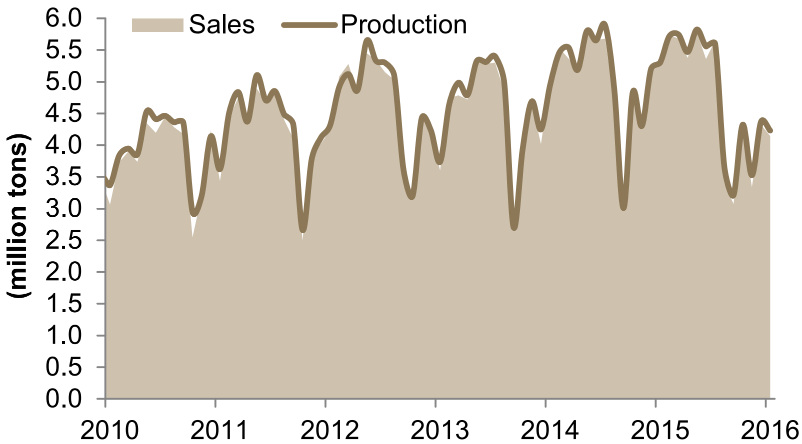
The non-oil PMI rebounded from record lows, reaching 55 in November.

Purchasing Managers' Index



Both cement sales and production fell slightly, month-on-month.

Cement Sales and Production

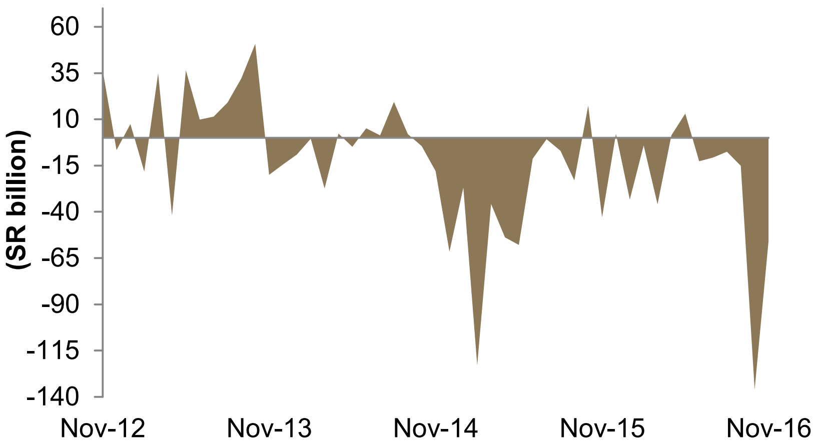


Government Finance

The net monthly change to government accounts posted its sixth consecutive decline in November, falling by SR55.9 billion. This fall represents the second-largest net monthly withdrawal in 2016. That said, the decline was largely due to net withdrawals from allocated deposits for government projects, reflecting the resumption in government payments to contractors.

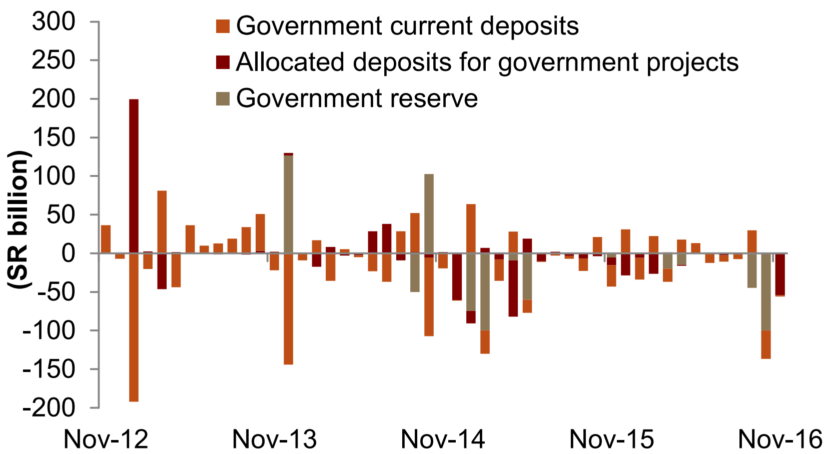
Net withdrawals from government accounts with SAMA reached SR55.9 billion in November…

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



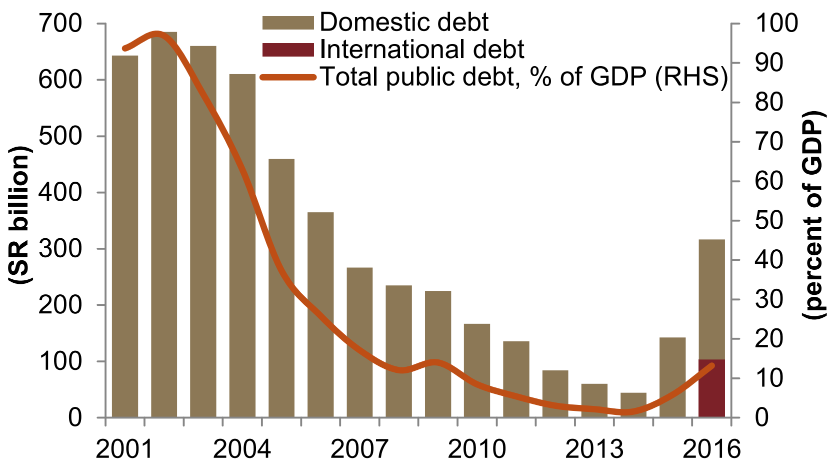
…a decline mainly owing to a SR54.3 billion net withdrawal from allocated deposits for government projects.

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



Annual data from the budget statement showed gross public debt reaching SR316.5 billion in 2016 (13.2 percent of GDP)

Breakdown of Gross Public Debt

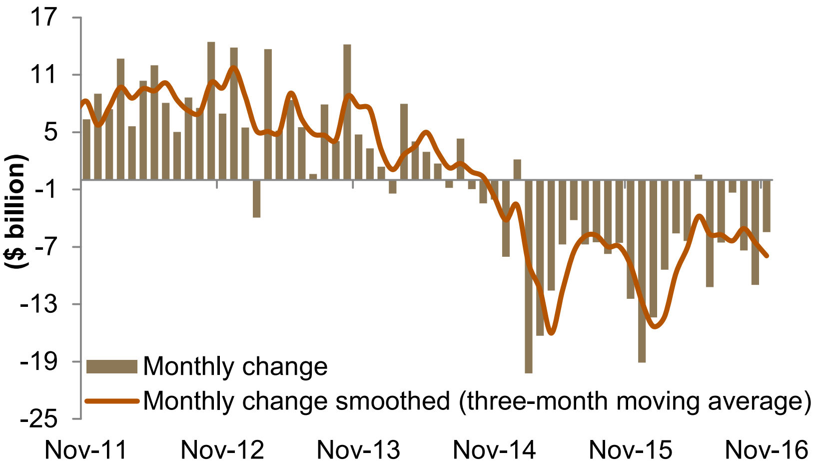


Capital Flows and Reserve Assets

SAMA foreign reserve assets fell by $5.5 billion in November. Despite both the current account and the non-reserve financial account posting surpluses in Q3. We see the continued decline in foreign reserves as reflective of negative changes in net errors and omissions.

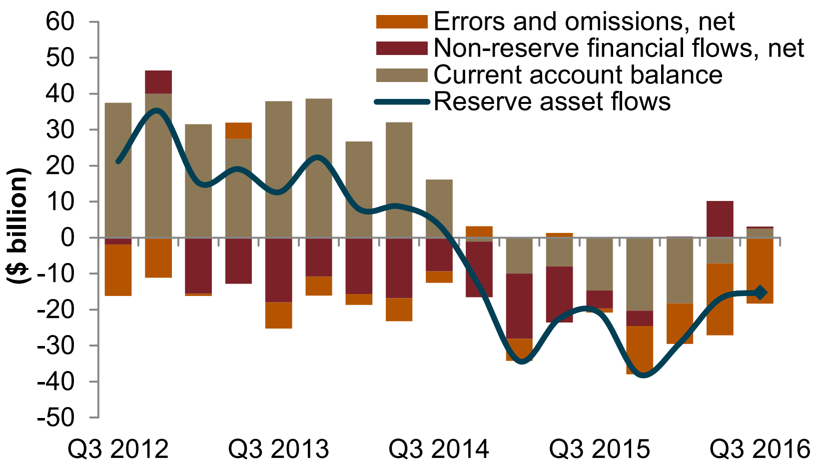
SAMA FX reserves continued to decline in November…

SAMA Total Foreign Reserve Assets



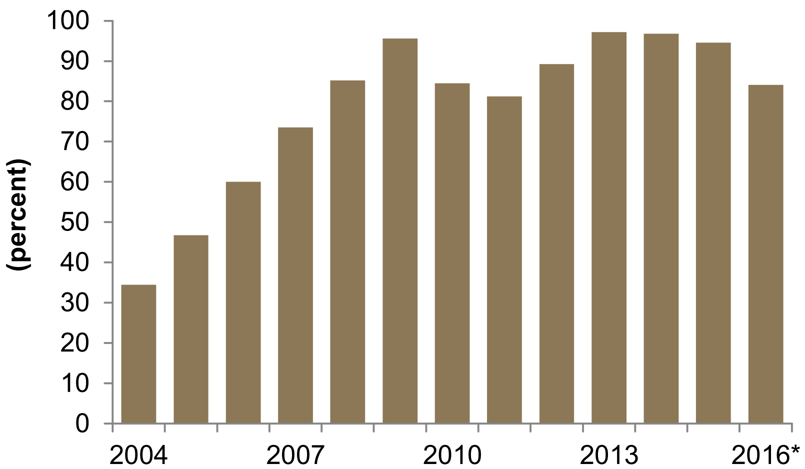
…mainly owing to negative changes in net errors and omissions.

Capital Flows



SAMA foreign reserves are likely to decline to 84 percent of GDP in 2016, down from 95 percent in 2015. We believe this is still a very comfortable cushion for Kingdom to maintain a solid credit profile.

SAMA Foreign Reserve Assets
(percent of GDP)



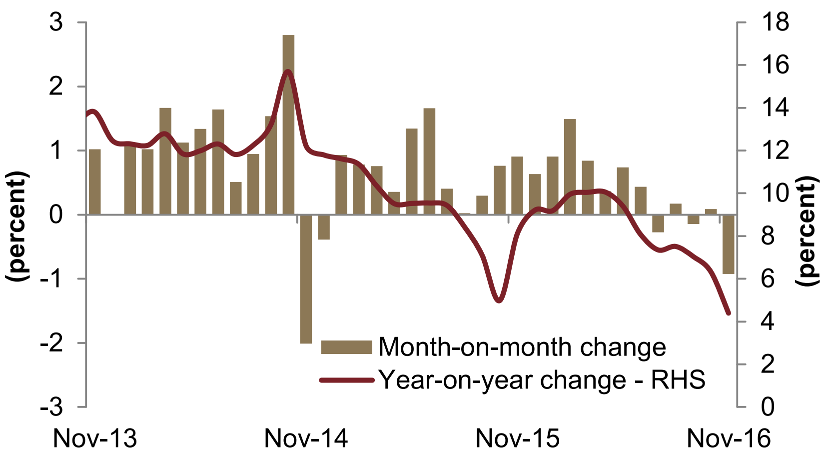
Note*: 2016 refers to November reserve assets

Banking indicators

November growth in bank credit to the private sector fell by 0.9 percent, month-on-month, slowing to 4.4 percent, year-on-year. This is possibly a result of negative sentiment associated with delayed payments. Looking ahead, we see the recent resumption in government payments and the announcement of an expansionary budget to result in a rebound in credit growth during 2017.

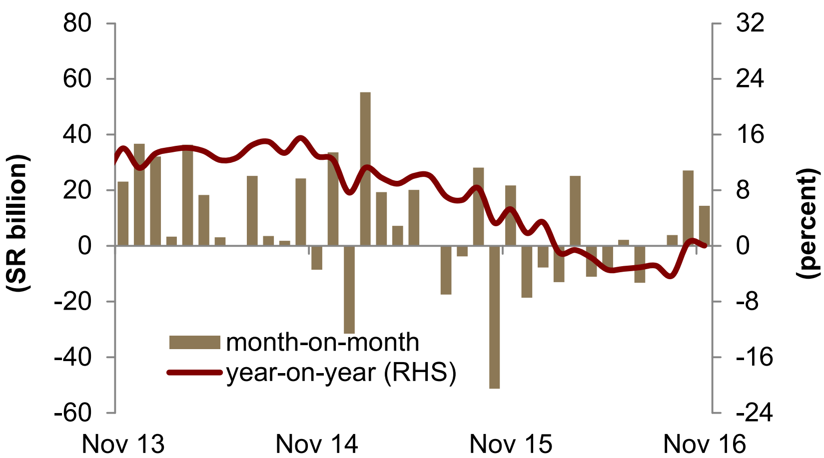
Bank credit to the private sector fell by 0.9 percent month-on-month, the largest decline since November 2014.

Bank Credit to the Private Sector



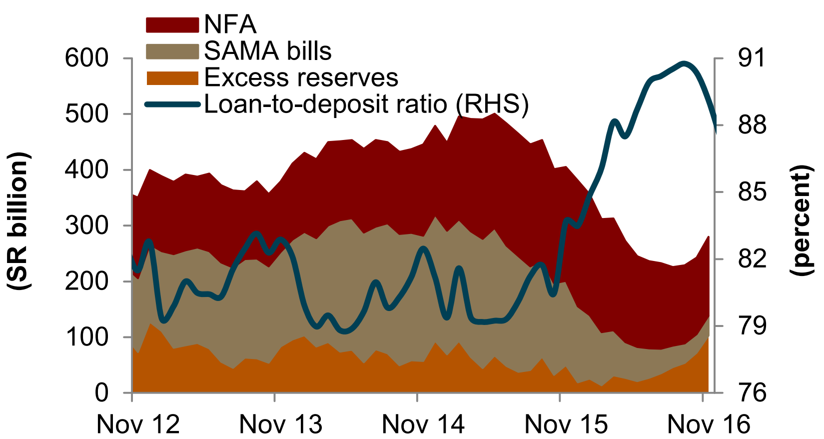
Total bank deposits increased by SR14.4 billion, month-on-month in November, though year-on-year growth remained nearly unchanged at 0 percent.

Total Bank Deposits



Bank liquidity levels continued to improve in November, with our estimate of excess liquidity reaching SR280 billion in November.

Estimate of Bank Excess Liquidity

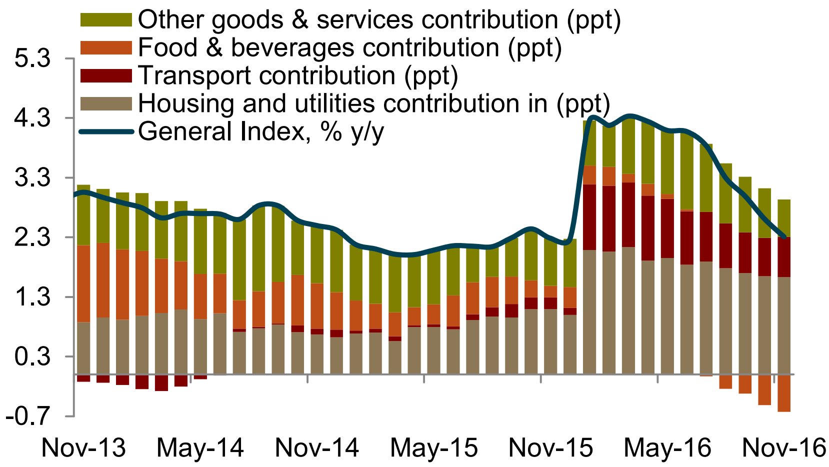


Inflation

Inflation continued to show a downward trend in November, arriving at the year's lowest level of 2.3 percent. This deceleration, down from 2.6 percent in October, marks Saudi CPI's slowdown for the eighth-consecutive month; mainly owing to persisting negative growth in the food component. Moreover, annual growth in money supply returned to the negative territory in December, pointing to more subdued inflationary pressure in coming months.

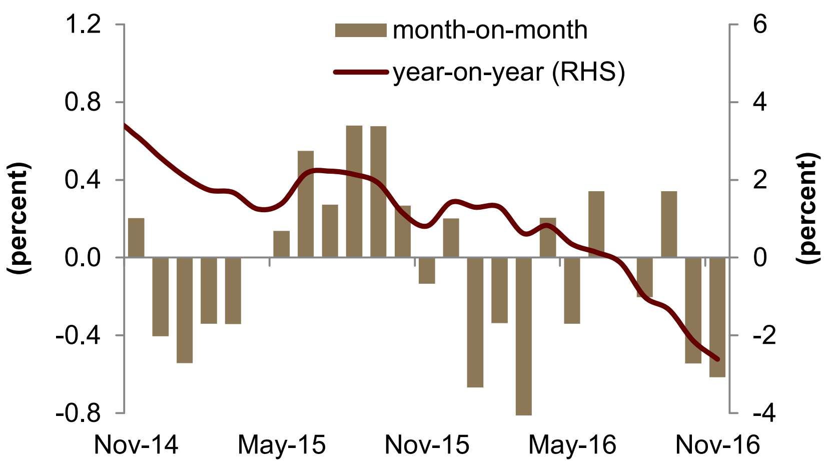
Inflation reached 2.3 percent in November, posting a slowdown from 2.6 percent in October.

Inflation



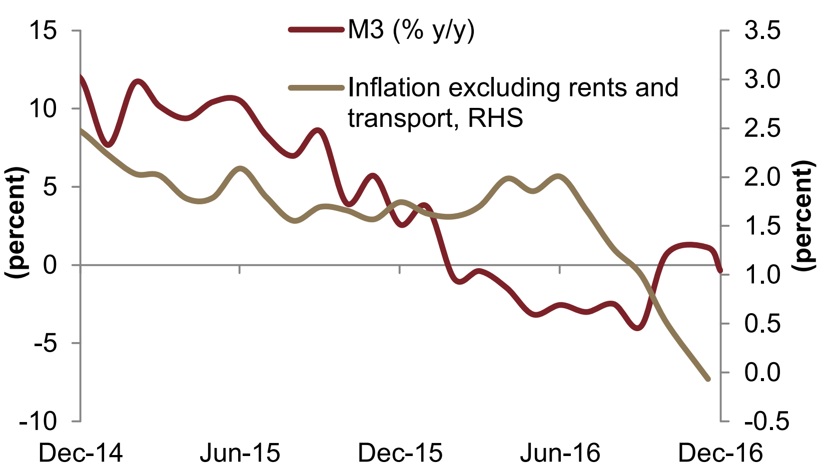
Prices of foodstuffs declined further, falling by the fastest rate since 2001. They recorded a 2.6 percent year-on-year decline during November.

Food Inflation



Growth in broad money supply returned to the negative territory in December, falling to -0.3 percent from a 2016-high of 1.1 percent in November; pointing to a continued slowdown in inflation.

Broad Money Supply (M3) and Inflation

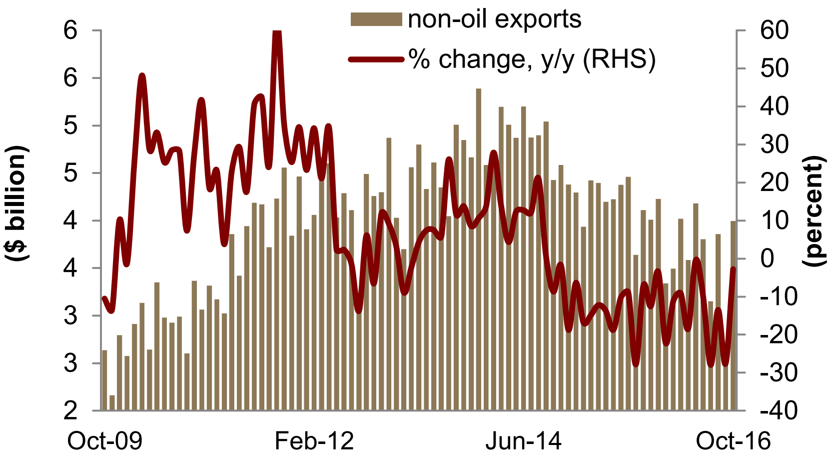


Non-oil Trade

Latest data showed rebounds in both non-oil exports and imports. Non-oil exports recovered from a 6-year low of $2.6 billion in September to arrive at $4 billion in October. While year-to-October growth in import value was down year-on-year, data on volumes for the same period showed a positive trend, indicating a price effect.

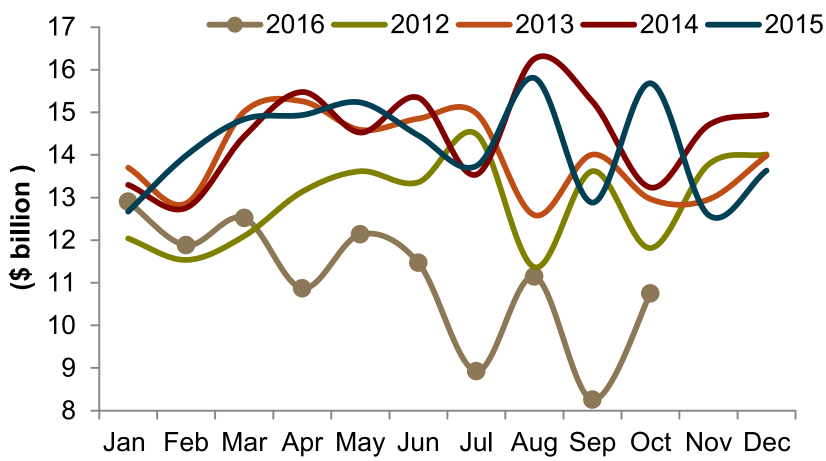
October exports rose to $4 billion, following a 6-year low of $2.6 billion in September.

Non-oil Exports



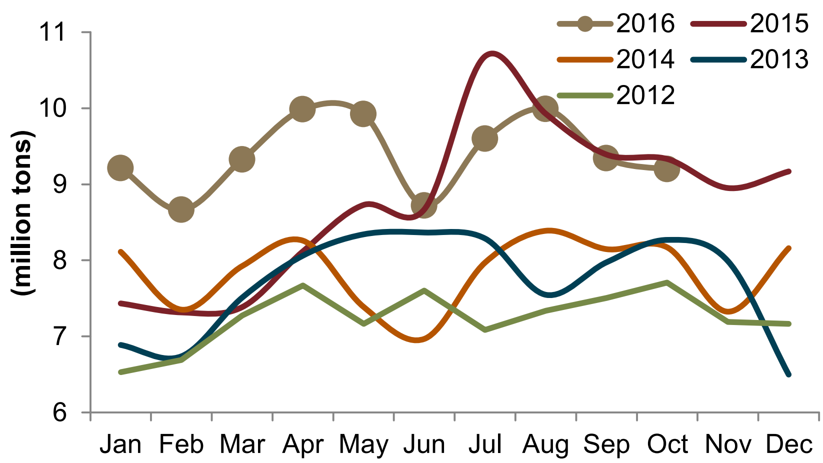
Year-to-October import values remain negative, year-on-year…

Value of Imports



...during the same period, however, import volumes were positive at 8 percent, year-on-year.

Volume of Imports

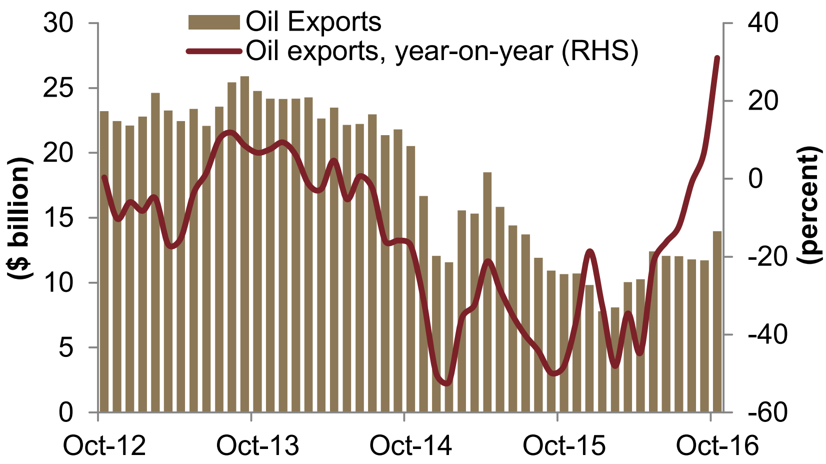


Overall Trade

October data showed an improving trend in oil exports, rising by $2.3 billion month-on-month; mainly a result of an increase in oil prices following optimism associated with OPEC's announcement on curbing oil output levels. The Kingdom's trade balance improved to its highest level since April 2015. Meanwhile, Q3 data showed the current account balance returning to a surplus for the first time in two years.

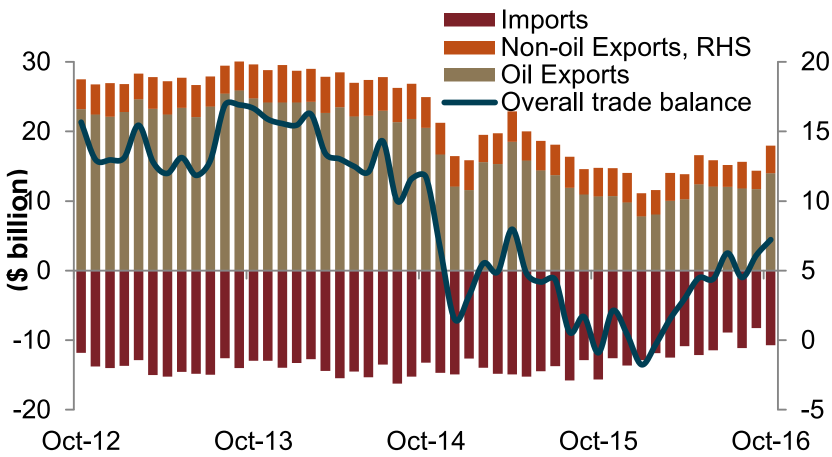
October's oil exports rose by $2.3 billion, to reach a 2016-high of $14 billion...

Oil Exports



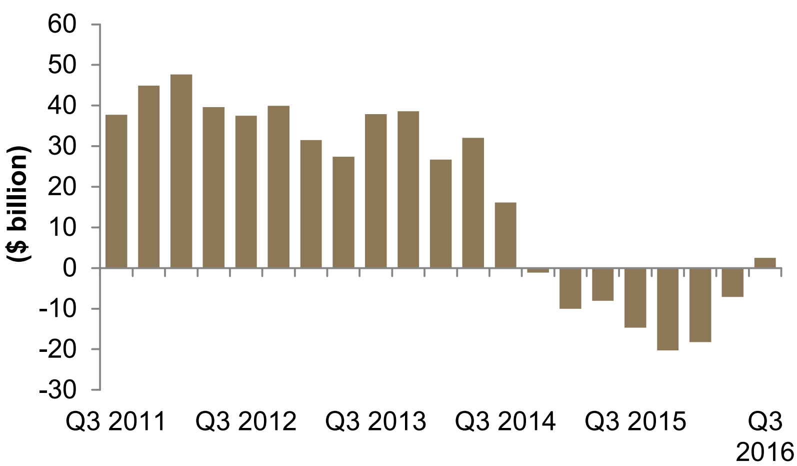
...this positively affected the Kingdom's trade surplus, which rose to $7.2 billion in October, the highest since April 2015.

Trade Balance



Meanwhile, Q3 data showed the current account posting its first surplus since Q3 2014, at $2.5 billion.

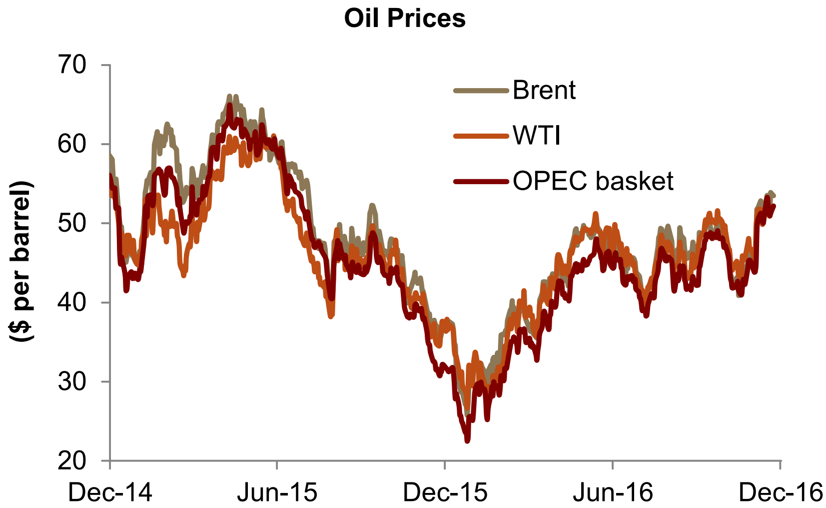
Current Account Balance



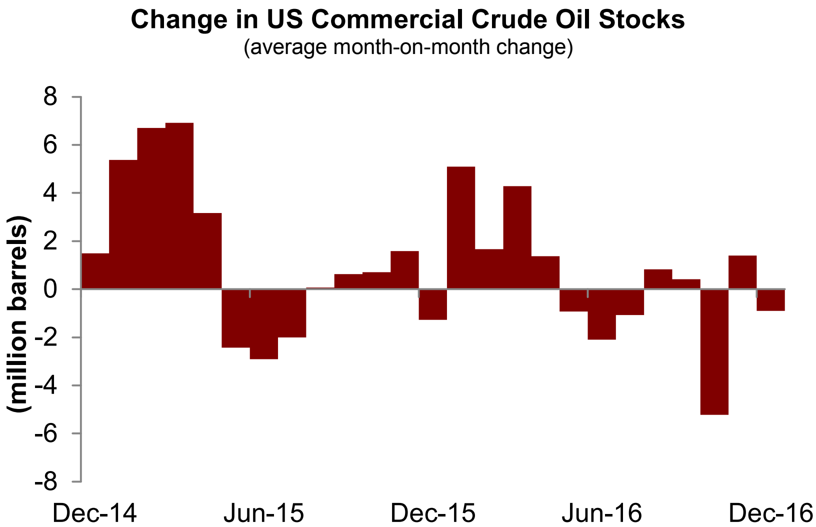
Oil - Global

Brent oil rose 20 percent and WTI 13 percent month-on-month in December after OPEC agreed to cut its own production by 1.2 million barrels per day (mbpd). This was followed by non-OPEC countries agreeing to a further 0.5 mbpd cut in a separate meeting in early December.

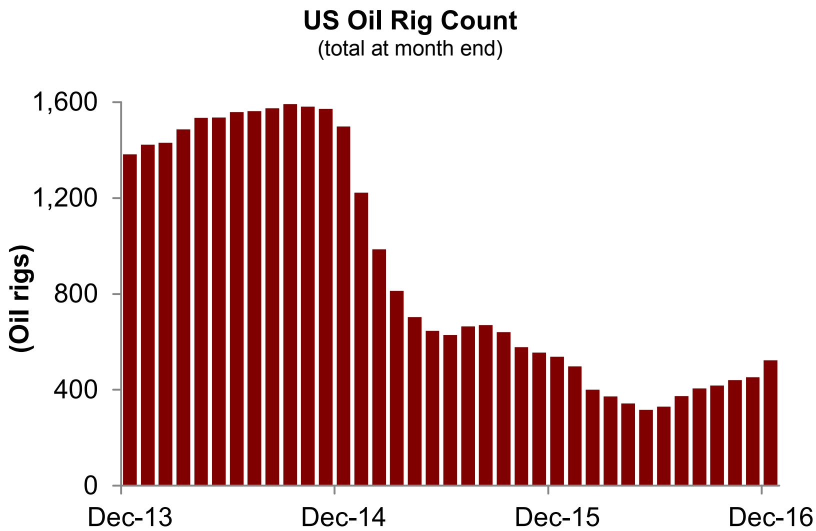
Brent prices rose to the highest monthly average since July 2015…



...with some support from prices also coming from declining US commercial crude stocks.



Meanwhile, the US oil rig count has rebounded recently, in tandem with higher oil prices.

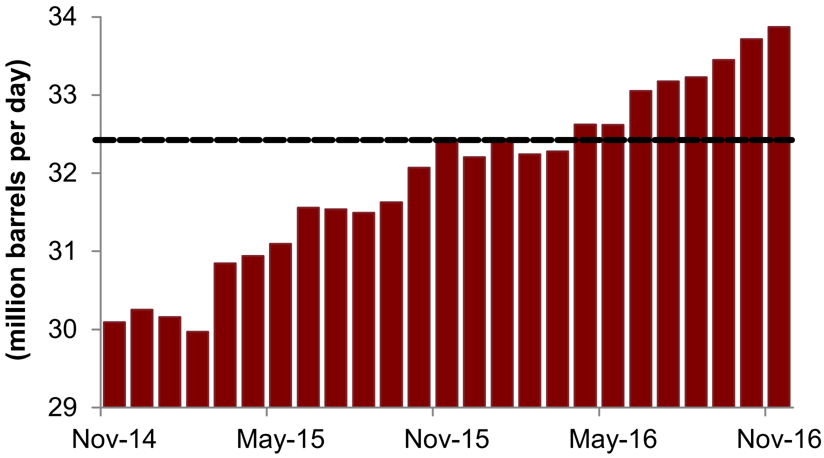


Oil - Regional

OPEC crude oil production rose to a record 33.9 mbpd in November, meaning OPEC members would need to cut by more than the proposed in the November agreement in order to reach the 32.5 mbpd target. Although monthly Saudi crude production rose by 1 percent in November, it resulted in a record output of 10.7 mbpd.

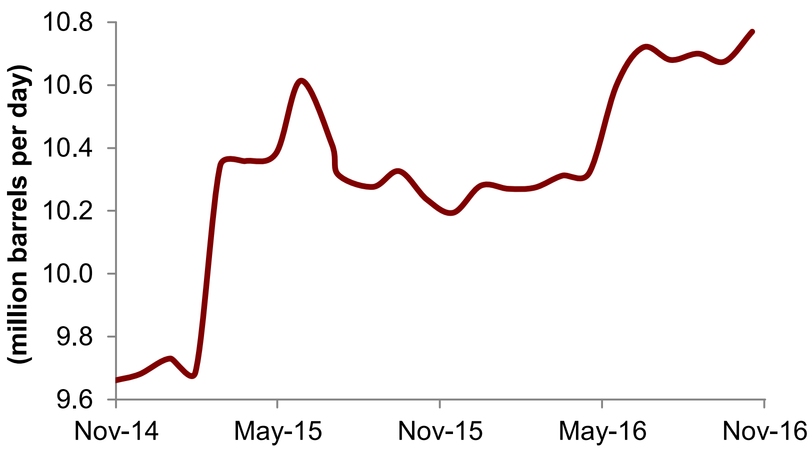
OPEC will need to cut by a larger amount than initially proposed in order to reach the 32.5 mbpd targeted for the first six months of 2017.

OPEC Crude Oil Production
(Secondary Sources)



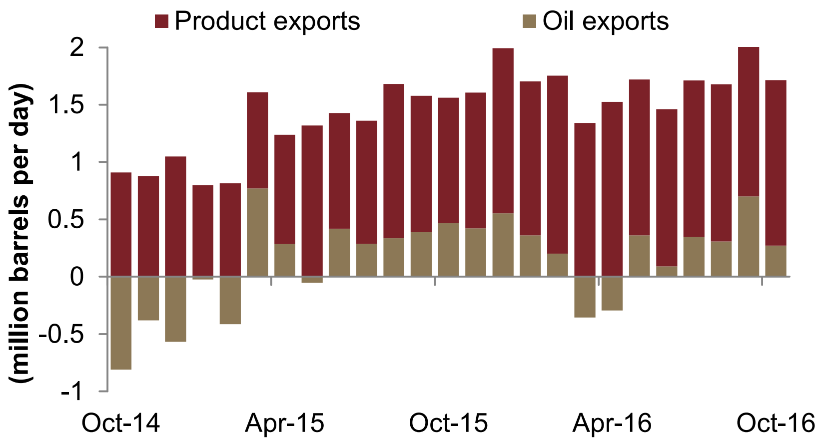
Whilst month-on-month rises in Saudi crude oil production was very small, at one percent, it nevertheless resulted in record output of 10.7 mbpd…

Saudi Crude Oil Production
(Direct communication: November 2016)



...with higher output a result of higher year-on-year oil and refined product exports.

Saudi Crude and Refined Product Exports
(year-on-year change: latest available data from October 2016)

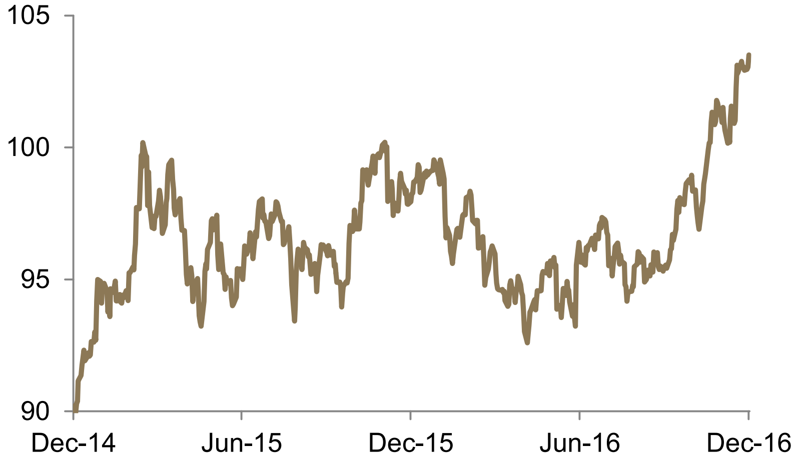


Exchange Rates

The US dollar continued strengthening after the US Federal Reserve (Fed) raised Funds Rate in mid-December 2016 from 0.5 basis points (bps) to 0.75 bps. The Chinese Renminbi is amongst a number currencies affected by this strengthening, with its losses now around 6 percent against the US dollar since January 2016.

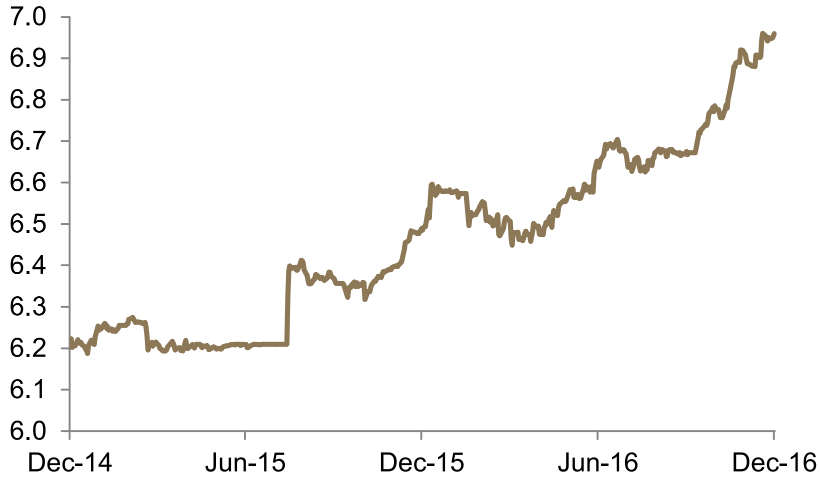
The US dollar continued to strengthen following a Fed hike in December...

Monthly Gain/Loss Against US Dollar
(December 2016)



...leading to higher levels of capital outflows from many emerging market countries, including China, resulting in currency weakness.

Renminbi /US Dollar



Meanwhile, the Saudi riyal forward rate has declined recently following a number of developments, including the fiscal budget, which underlined the Kingdom's strong economic and financial fundamentals.

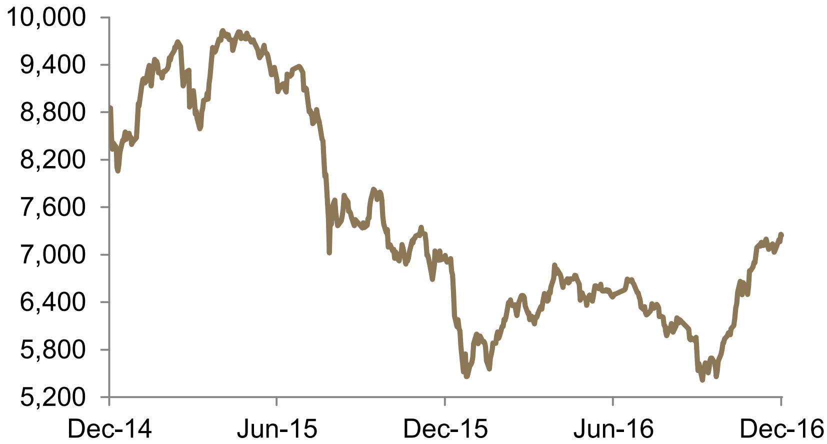
US Dollar/Riyal one year forward rate
(USD/Saudi riyal peg = 3.75)

Stock Market

The TASI hit a 12 month high on the back of higher oil prices and an expansionary fiscal budget...

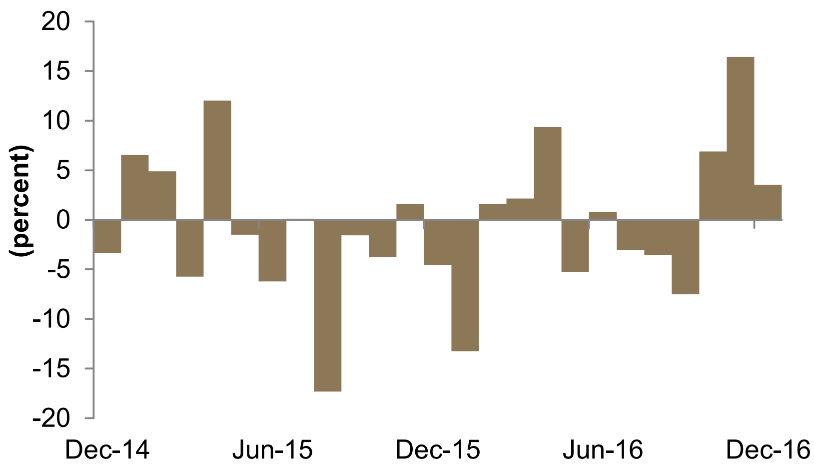
An expansionary Saudi fiscal budget together with higher oil prices contributed to the stock market performing positively, month-on-month in December. The TASI has now seen three consecutive positive monthly performances, and is at the highest level since exactly a year ago. We expect this positive performance to continue in the months ahead.

TASI



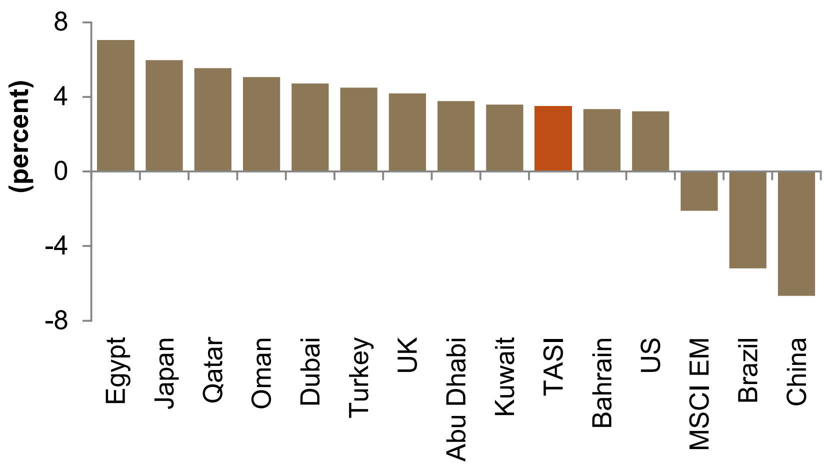
...recording a third consecutive month in performance...

TASI Monthly Performance
(month-on-month change)



...with comparable performances to regional and global benchmarks.

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

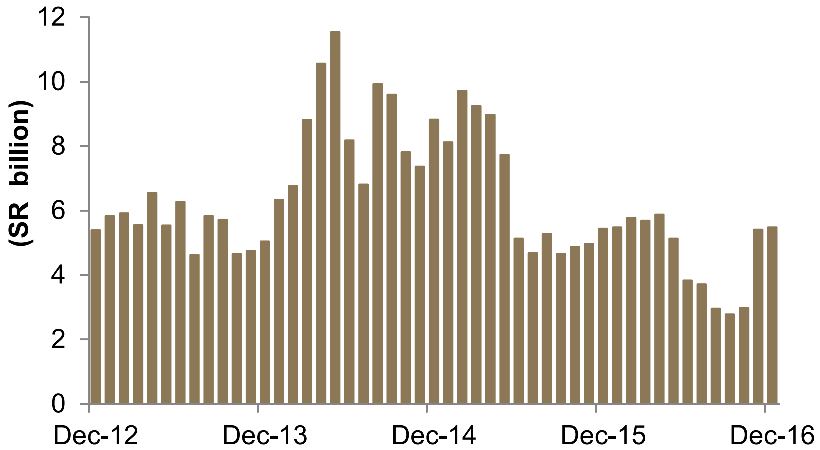


Volumes

TASI sustained a higher level of turnover during December, resulting in most sectors exceeding their year-to-date average. The improved performance is reflective of a generally upbeat investor sentiment in the last two months, with momentum continuing to build following a positive Saudi fiscal budget.

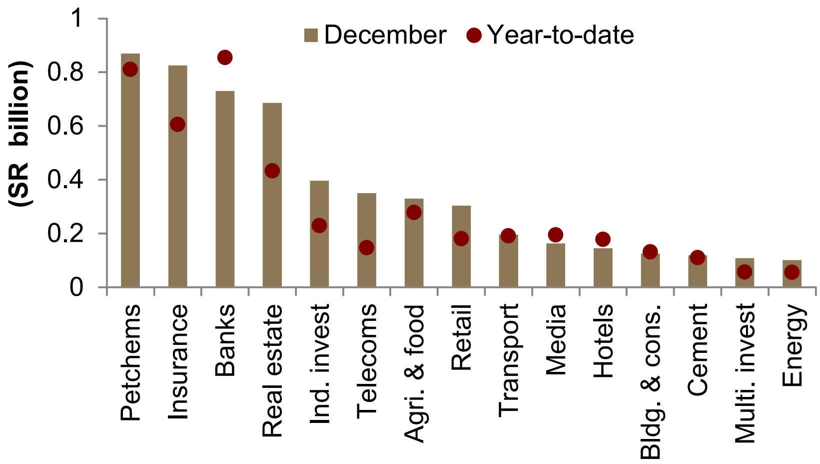
TASI's turnover averaged SR5.5 billion per day in December, up 4 percent month-on-month.

Daily Average Stock Market Turnover



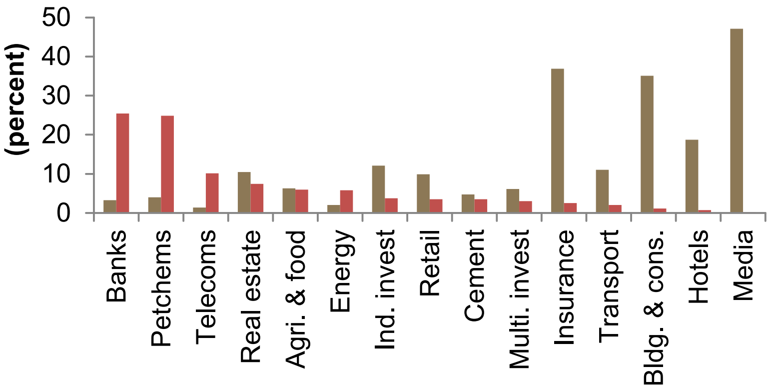
Most sectors saw higher turnover in December, with the insurance sector exceeding its year-to-date average the most...

Turnover by Sector
(daily average)



...resulting in a notable rise in the sector's turnover relative to its market capitalization.

Turnover as Percent of Market Capitalization
(December, 2016)

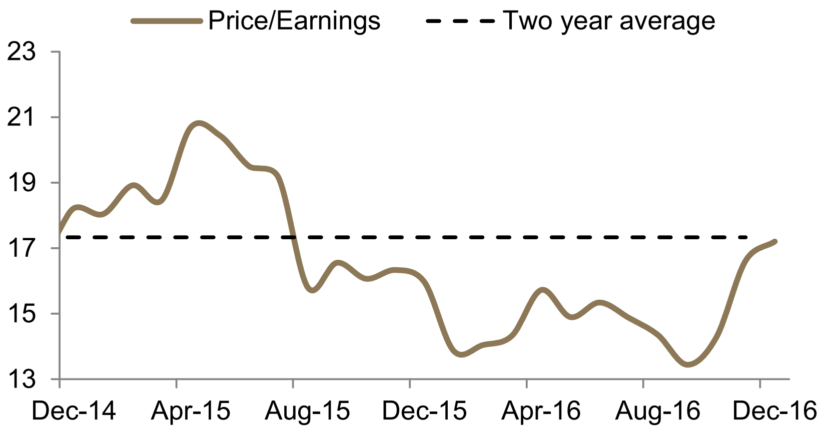


Valuations

TASI's valuations, as a result of increased investor activity in the final quarter of 2016, have continued to recover with price-to-earnings (PE) rebounding after dropping to a five-year low during the end of the second quarter. Meanwhile, dividend yield was relatively flat month-on-month, still lagging behind most regional benchmarks.

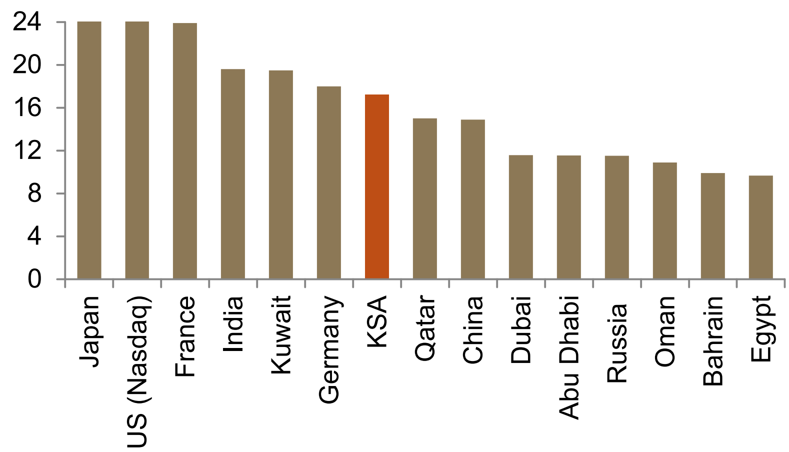
PE has maintained its consistent rise, recovering from a 5-year low in September to 17.21 in December...

TASI Price-to-Earnings Ratio



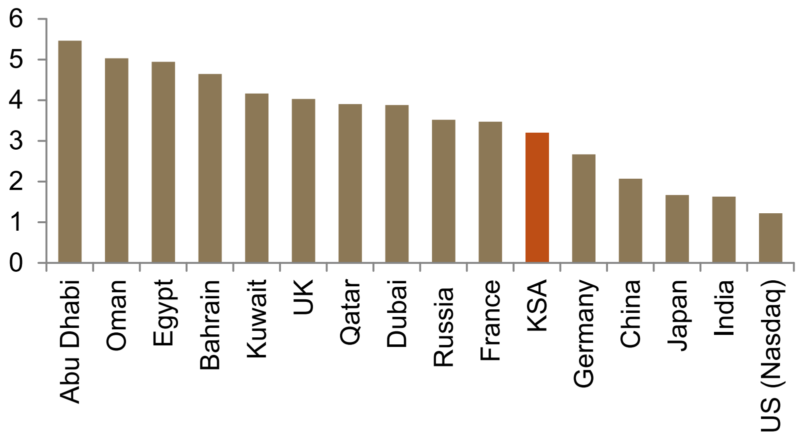
...keeping it competitive against emerging markets.

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



TASI's dividend yield still remains at a slight discount compared to regional indices.

TASI Dividend Yield Ratios
(end of month)

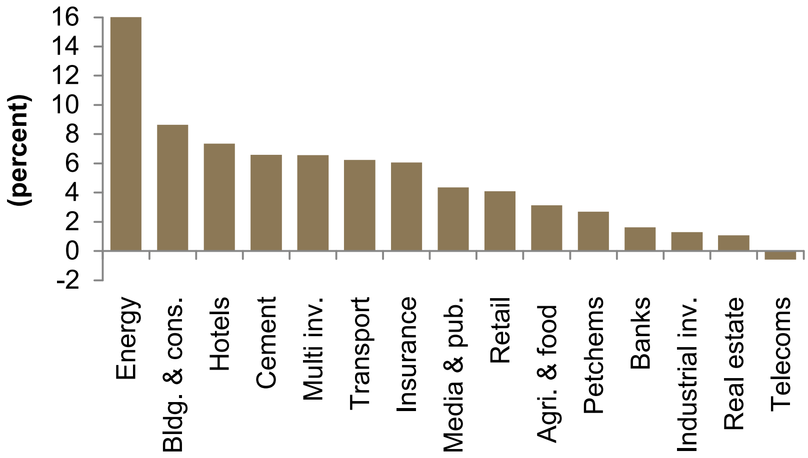


Sectoral Performance

All but one of the fifteen sectors were up in December, reflecting the overall positive performance of TASI. The energy sector was an outlier due the Fiscal Balance Program's plan to link energy prices to an unspecified benchmark price through to 2020.

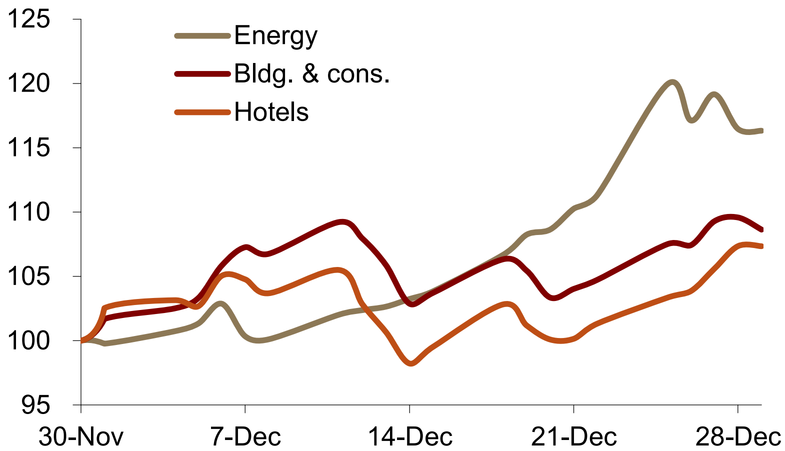
All but one sector was up during December…

Performance by Sector
(rebased; 30th November 2016= 100)



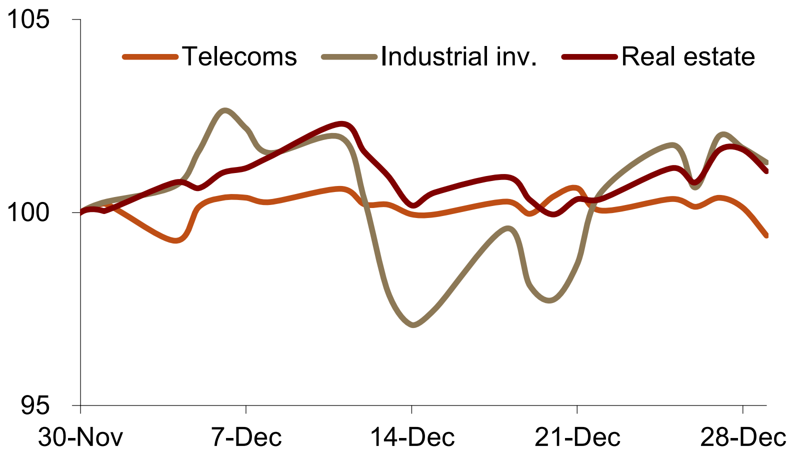
...with the energy sector benefiting from higher energy prices rise as detailed in the Fiscal Balance Program.

Best Performing Sectors
(rebased; 30th November 2016= 100)



The better performance of TASI meant that even the worst performing sectors were not overly bad.

Worst Performing Sectors
(rebased; 30th November 2016= 100)



Key Data

	2010	2011	2012	2013	2014	2015	2016E	2017F	2018F
Nominal GDP									
(SR billion)	1,976	2,511	2,760	2,800	2,836	2,444	2,399	2,640	2,826
($ billion)	527	670	736	747	756	652	640	704	754
(% change)	22.8	27.1	9.9	1.5	1.3	-13.8	-1.9	10.1	7.0
Real GDP (% change)									
Oil	-0.1	12.2	5.1	-1.6	2.1	5.27	3.4	-0.3	0.7
Non-oil private sector	9.7	8.0	6.5	6.9	5.5	3.41	0.1	1.0	1.5
Government	7.4	8.4	5.3	5.1	3.7	2.72	0.5	0.0	0.4
Total	4.8	10.0	5.7	2.7	3.7	4.11	1.4	0.2	0.9
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	10.4	10.5
Budgetary indicators (SR billion)									
Government revenue	742	1,118	1,247	1,156	1,044	616	528	728	839
Government expenditure	654	827	873	976	1,110	978	825	890	928
Budget balance	88	291	374	180	-66	-362	-297	-162	-89
(% GDP)	4.4	11.6	13.6	6.4	-2.3	-14.8	-12.4	-6.2	-3.1
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	13.2	16.4	22.2
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 (%, year end)	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	131	162	179
Total export revenues	251	365	388	376	342	204	181	214	234
Imports	97	120	142	153	158	159	145	144	148
Trade balance	154	245	247	223	184	44	36	70	87
Current account balance	67	159	165	135	74	-57	-51	-18	4
(% GDP)	12.7	23.7	22.4	18.1	9.8	-8.7	-8.0	-2.5	0.5
Official reserve assets	445	544	657	726	732	616	523	460	417
Social and demographic indicators									
Population (million)	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.4	33.1
Saudi unemployment (15+, %)	10.5	12.4	12.1	11.7	11.7	11.5	12.0	11.6	11.1
GDP per capita ($)	19,211	23,766	25,471	25,223	24,962	21,014	20,150	21,729	22,795

Sources: Jadwa Investment forecasts for 2017, and 2018. 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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