



Summary

Real Economy: Economic indicators improved in May, as POS transactions rose by 22.3 percent year-on-year.

Government Finance: The net monthly change to government accounts with SAMA rose by SR13 billion month-on-month in May.

Balance of Payments: Recently released data shows that both the current and financial accounts remained in surplus in Q1 2018.

Remittances: Q1 2018 data shows that roughly \$8.5 billion was remitted by foreign workers in Saudi Arabia.

Q1 GDP Results: Data on Q1 real GDP showed that the economy expanded by 1.2 percent, year-on-year.

SAMA foreign Reserve Assets: SAMA FX reserves declined by \$2 billion month-on-month to stand at \$504.6 billion in May.

Money Supply: The broad measure of money supply (M3) slightly rose by 0.6 percent year-on-year in May.

Bank Deposits: Bank deposits declined 0.3 percent year-on-year in May, for the third consecutive month.

Bank Credit: Credit to the private sector rose for the second time by 0.4 percent.

Interest Rates: Excess liquidity continued to decline in the banking system for the third month in a row in May.

Inflation: Prices rose in May by 2.3 percent year-on-year, but declined by 0.4 percent month-on-month.

Tourism and Entertainment: The number of total establishments in the sector rose by 2.4 percent year-on-year.

Labor Market: The Saudi unemployment rate inched slightly upwards in Q1 2018 to reach 12.9 percent.

Oil-Global: Brent oil prices are currently trading around \$78 pb as a number of conflicting factors continue to add volatility to oil markets.

Oil-Regional: Saudi crude oil production rose to 400 tbpd month-on-month to reach 10.4mbpd in June.

Exchange Rates: The US dollar has continued to show strength against a number of currencies recently.

Stock Market: TASI rose 1.9 percent month-on-month in June following Morgan Stanley Capital International's (MSCI) announcement to include Tadwaul into its emerging market index (MSCI EM).

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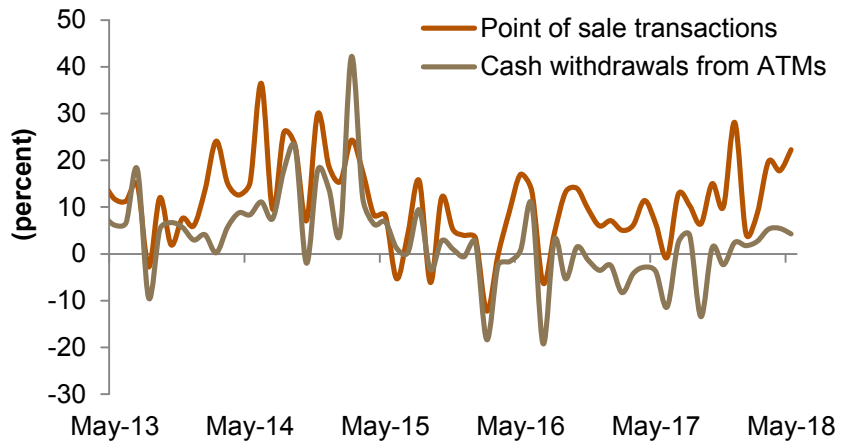


Real Economy

Economic indicators improved in May, as POS transactions rose by 22.3 percent year-on-year, likely affected by higher consumption in Ramadan, and marking the highest rise since the beginning of the year (please refer to our latest [inflation update](#)). ATM withdrawals were also up 4.3 percent year-on-year. Whilst the non-oil PMI index showed a significant recovery in June, cement sales continued to drop, with a 10 percent decline year-on-year during the month.

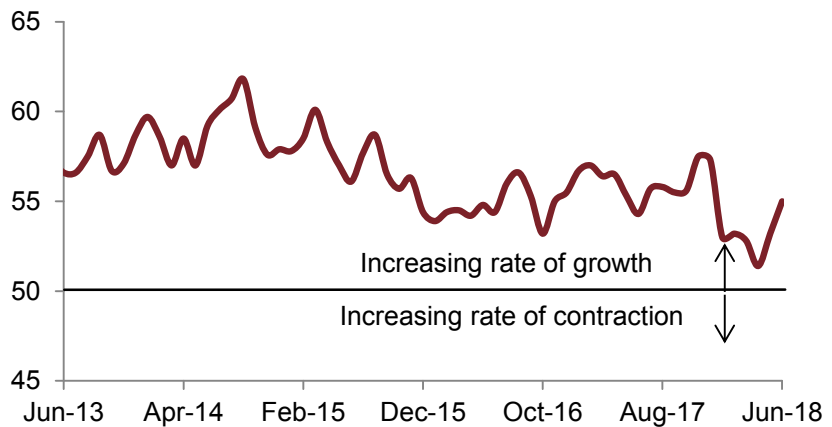
POS transactions rose by 22.3 percent year-on-year, marking the highest rate since January 2018.

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



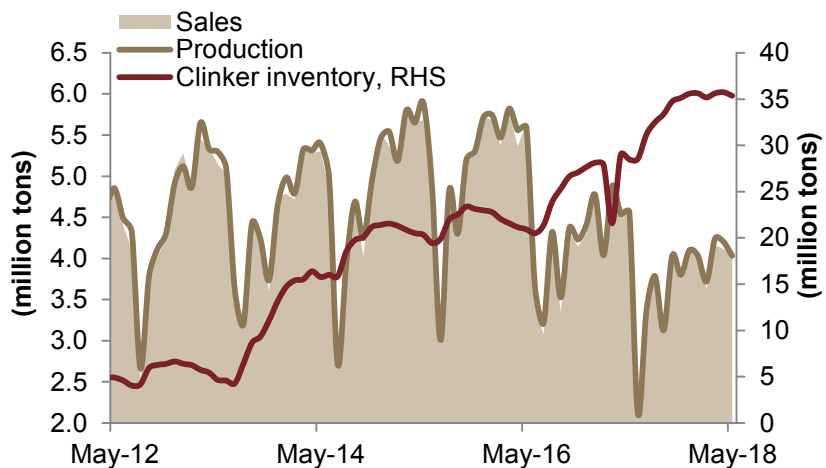
Non-oil PMI index showed a significant recovery in May and June.

Purchasing Managers' Index



Meanwhile, cement sales continued to drop, with a 10 percent decline year-on-year during the month.

Cement Production, Sales and Clinker Inventory



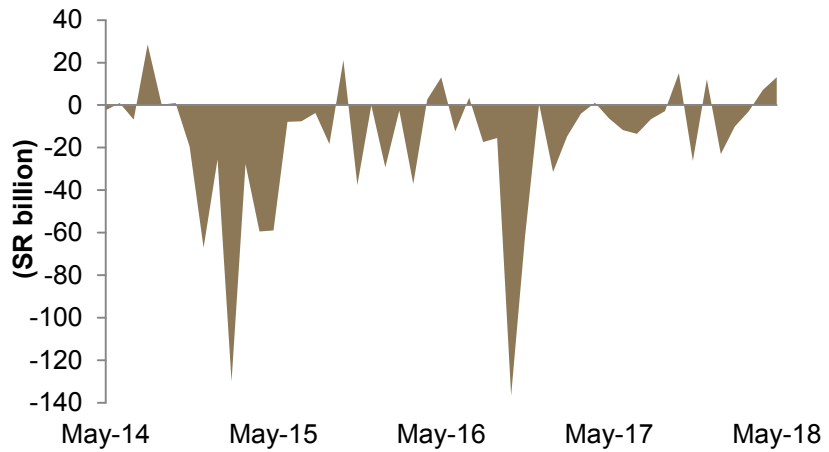


Government Finance

The net monthly change to government accounts with SAMA increased by SR13 billion month-on-month in May, mainly coming from a rise in government current deposits, by SR12 billion during the month. At the same time, domestic banks net holdings of government debt rose by SR2.7 billion in May, following a domestic sukuk re-opening during the month.

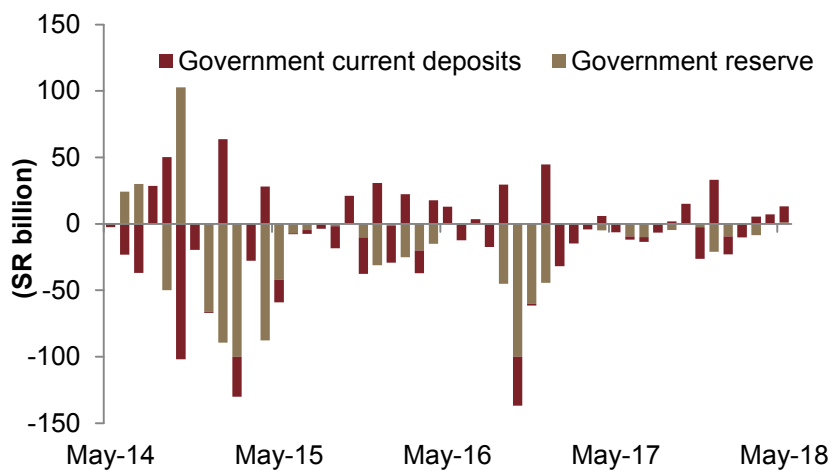
The net monthly change to government accounts with SAMA increased by SR13 billion month-on-month in May...

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



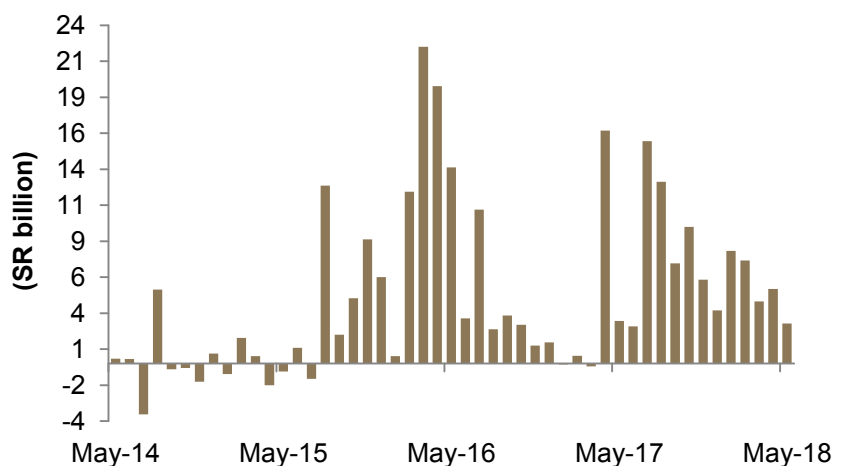
...mainly coming from a rise in government current deposits, by SR12 billion during the month.

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



Domestic banks net holdings of government debt rose by SR2.7 billion in May, as the Ministry of Finance re-opened the sixth sukuk issue during the month.

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





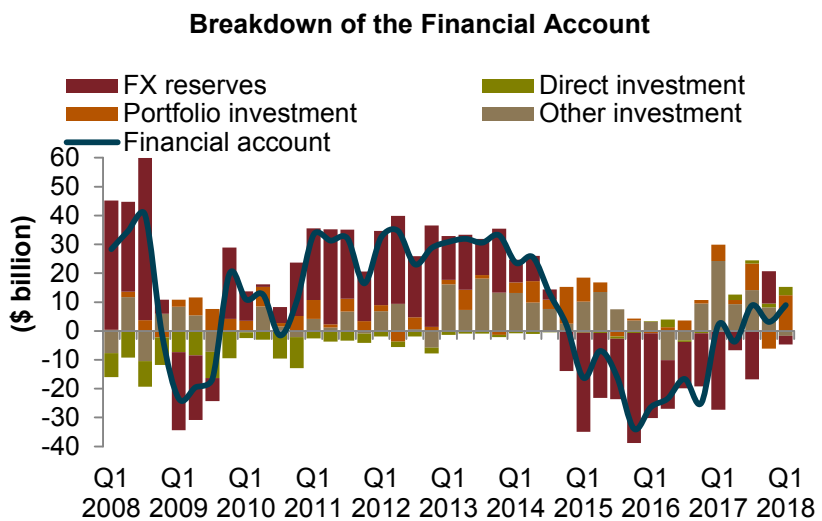
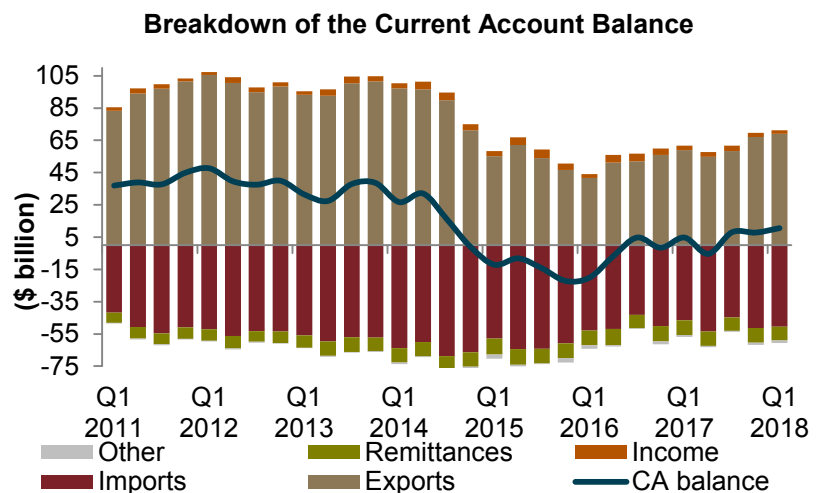
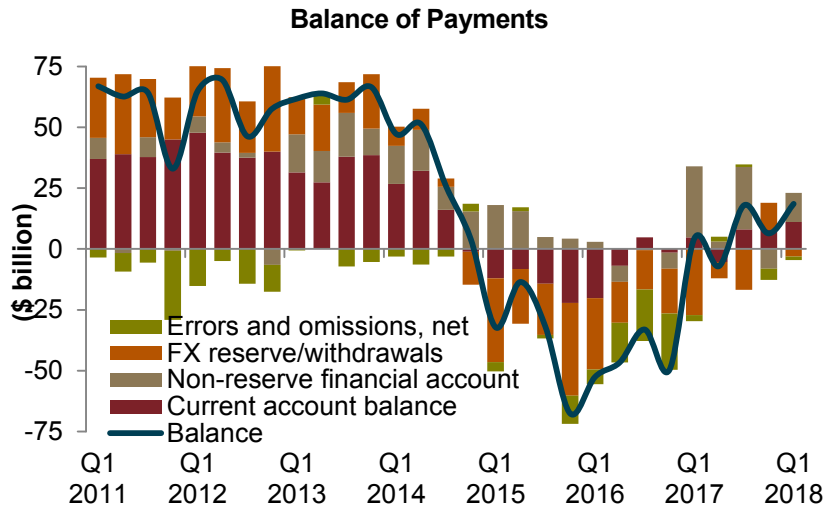
Balance of Payments

Recently released data shows that both the current and financial accounts remained in surplus in Q1 2018. In the current account, the continued surplus was due to a yearly increase in export values and a decline in the Kingdom's import bill. A sizable improvement in the financial account was observed as a result of a significant increase in portfolio investments.

Recently released data shows that both the current and financial accounts remained in surplus in Q1 2018...

The current account surplus was helped by an improvement in the trade balance, with exports rising to \$65 billion, up 18 percent year-on-year, and imports down marginally by 1 percent over the same period.

The financial account also showed a surplus, at \$9 billion, with the largest amount of portfolio inflows seen since Q4 2014, at \$12.4 billion.



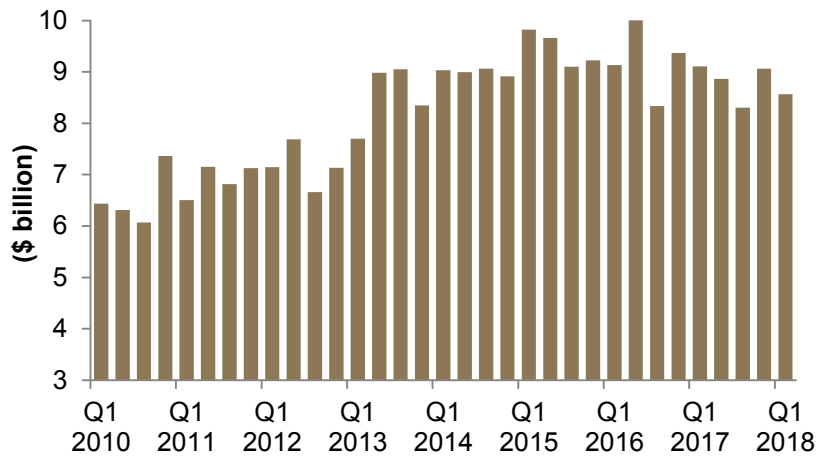


Remittances

Q1 data shows that roughly \$8.5 billion was remitted by foreign workers in Saudi Arabia. At the same time, data from the General Authority for Statistics (Gastat) shows the total number of foreigners in the Saudi labor market have declined by around 796 thousand since the start of 2017 with average remittances per foreign worker rising sharply in the last two quarters.

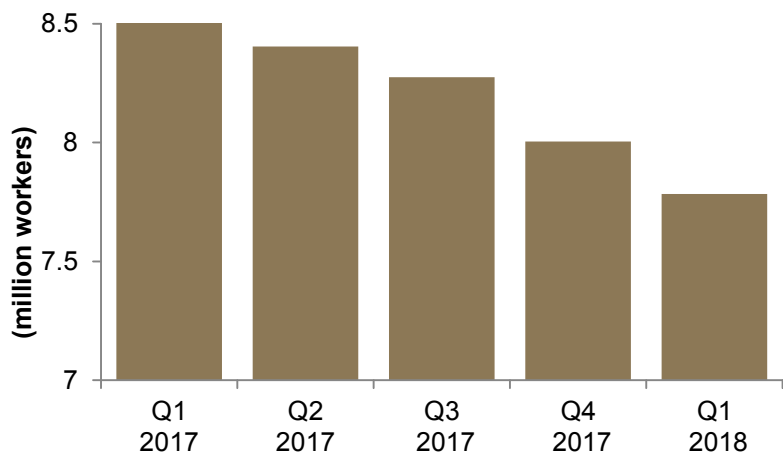
Total foreign worker's remittances have been following a downward trend recently...

Foreign Worker's Remittances



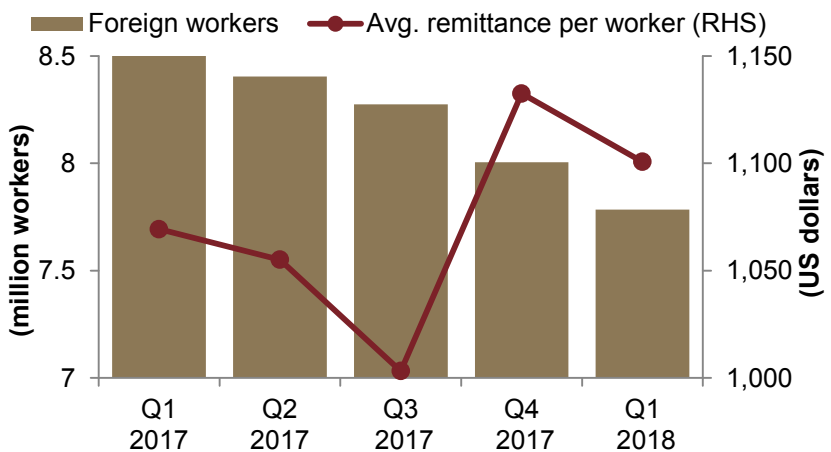
...and so has the number of total foreigners in the Saudi labor market.

Total Foreigners in the Saudi Labor Market



Remittances per Foreign Worker

(\$ per worker)



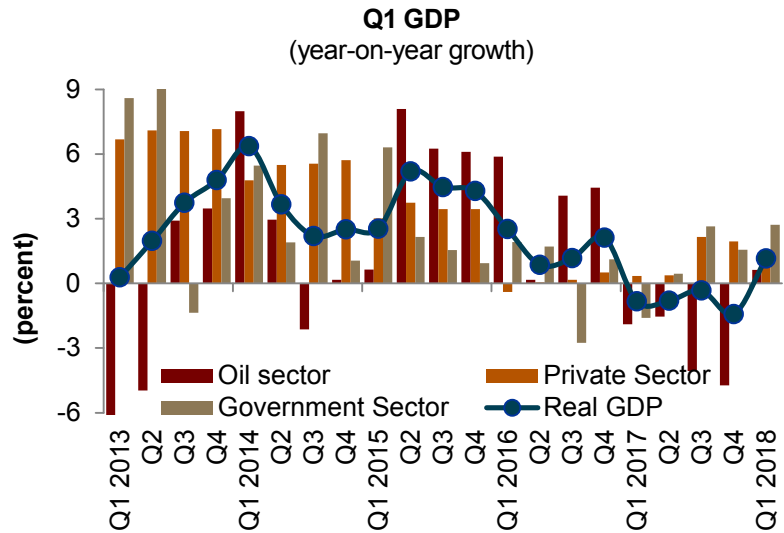
Despite this, we believe a rise in the number of expat dependents being repatriated, following the introduction dependency fees in July 2017, has led to an increase in the average amount remitted per foreign worker.



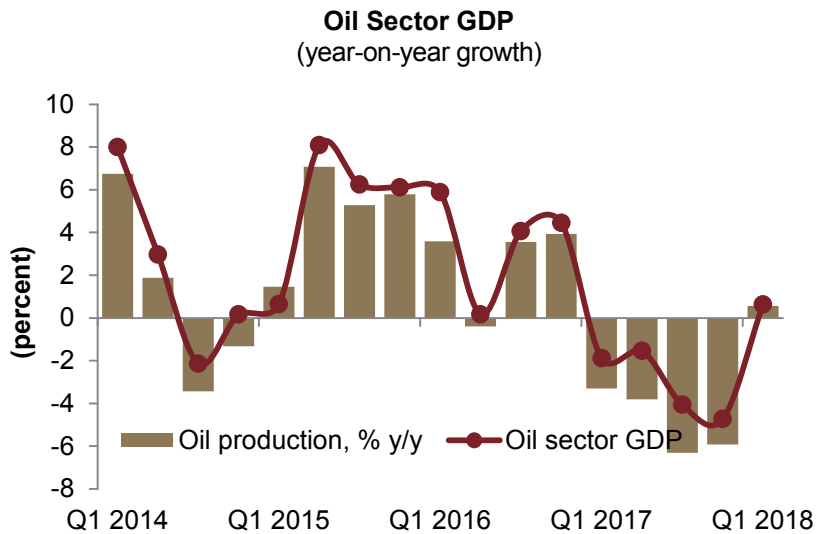
Q1 GDP

Data on Q1 real GDP showed that the economy expanded by 1.2 percent, year-on-year. Growth was seen across all macro sectors, with the oil sector improving by 0.6 percent, whilst non-oil GDP showed better growth, at 1.6 percent. Within the non-oil sector, non-oil private sector GDP was up 1.1 percent and the government sector's GDP rose significantly, by 2.7 percent.

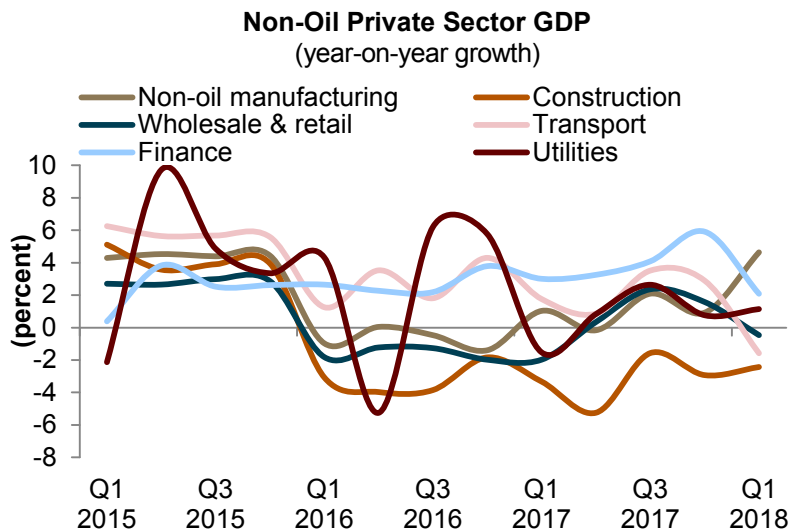
Data on Q1 real GDP showed that the economy expanded by 1.2 percent, year-on-year...



...with the oil sector improving by 0.6 percent, as crude oil production rose marginally year-on-year.



On the non-oil private sector side, the 'Construction', 'Transport & Communication' and 'Wholesale & retail' sectors showed yearly declines of 2.4, 1.6 and 0.5 percent, respectively. Meanwhile, 'non-oil Mining & Quarrying', 'Manufacturing', and 'Finance', were up 6.3, 3.3 and 2.1 percent.



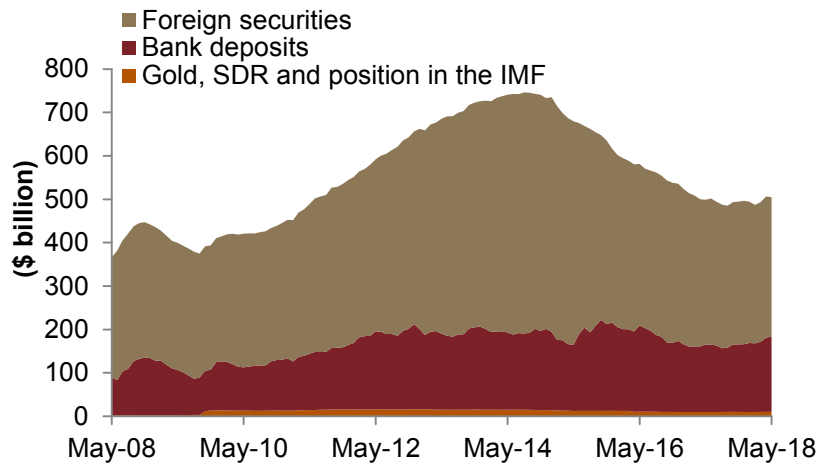


SAMA Foreign Reserve Assets

SAMA FX reserves declined by \$2 billion month-on-month to stand at \$504.6 billion in May, following a rise by \$19 billion during March and April. A breakdown of FX reserves shows the recent decrease came from a monthly decline in foreign securities. Meanwhile, SAMA's bank deposits increased by \$2.7 billion during the month.

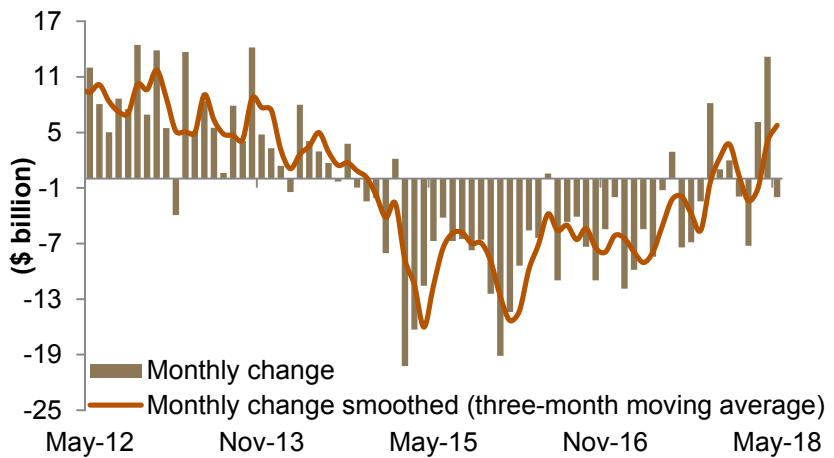
SAMA FX reserves declined by \$2 billion month-on-month...

SAMA Total Foreign Reserve Assets



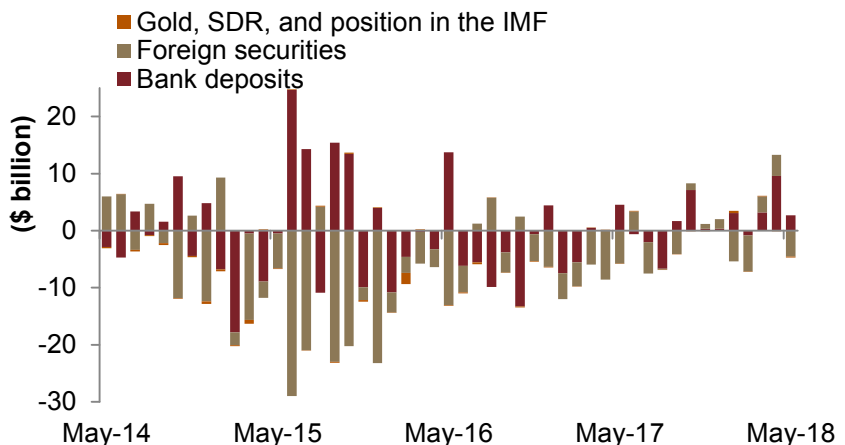
...to stand at \$504.6 billion in May...

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



...mainly caused by a monthly decline in foreign securities. Meanwhile, SAMA's bank deposits increased by \$2.7 billion during the month.

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

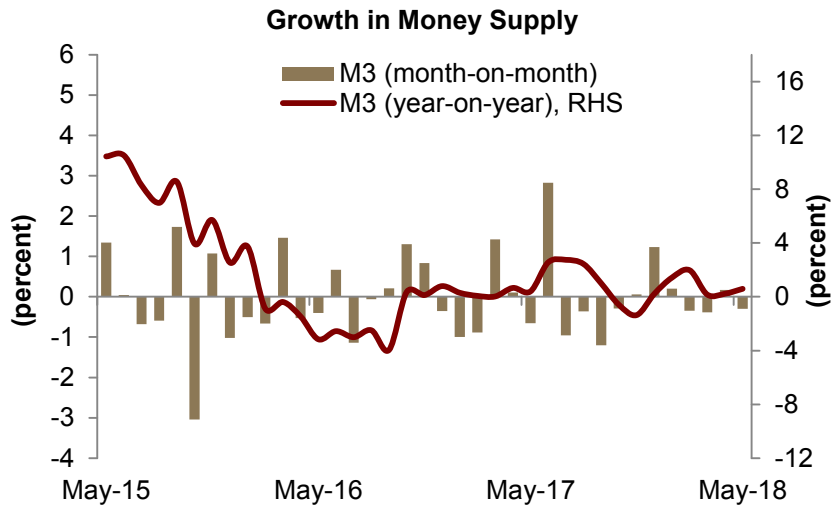




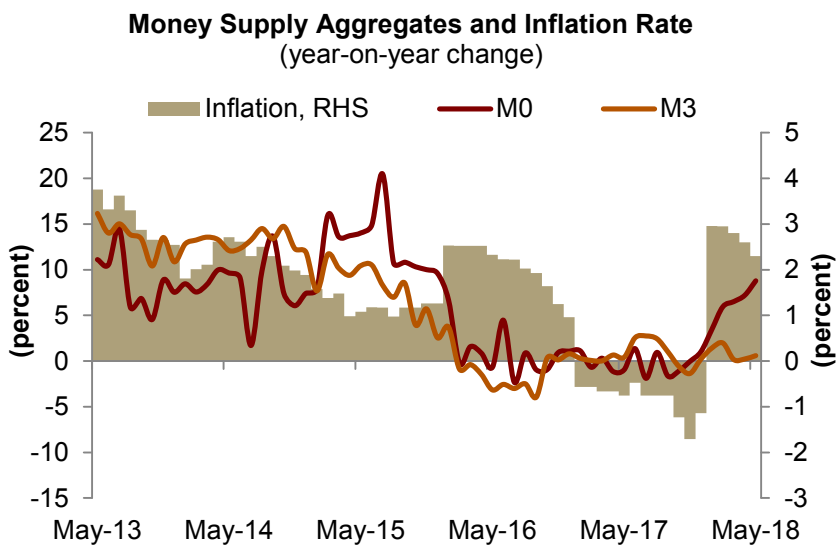
Money Supply

Whilst the broad measure of money supply (M3) rose slightly by 0.6 percent year-on-year in May, the monthly change showed a decline by 0.3 percent. Out of all the money supply aggregates (M0, M1, M2, M3), currency in circulation (M0) continued to show the highest rise in May, growing by 9 percent year-on-year. Latest weekly M3 data shows declining money supply in June.

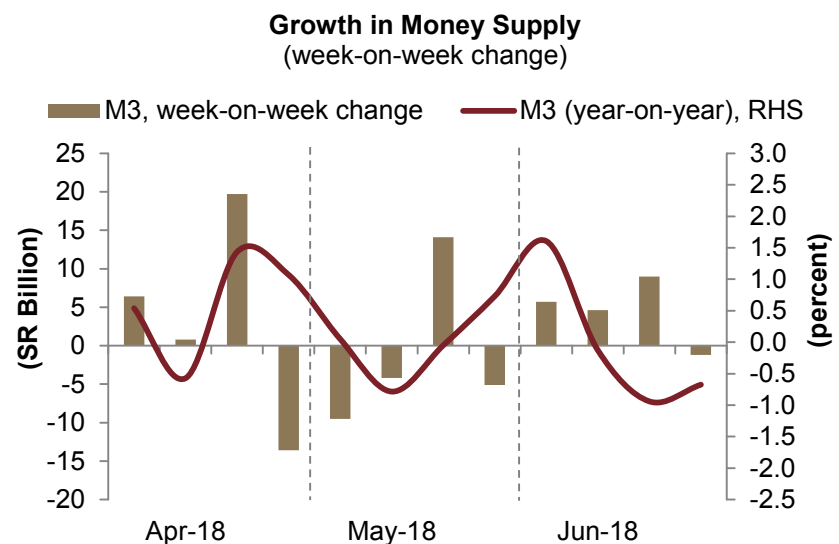
M3 slightly rose by 0.6 percent year-on-year in May, but declined by 0.3 percent month-on-month.



M0 showed the highest rise in May, growing by 9 percent year-on-year, following a significant rise in April as well.



Latest weekly M3 data shows declining money supply in June.

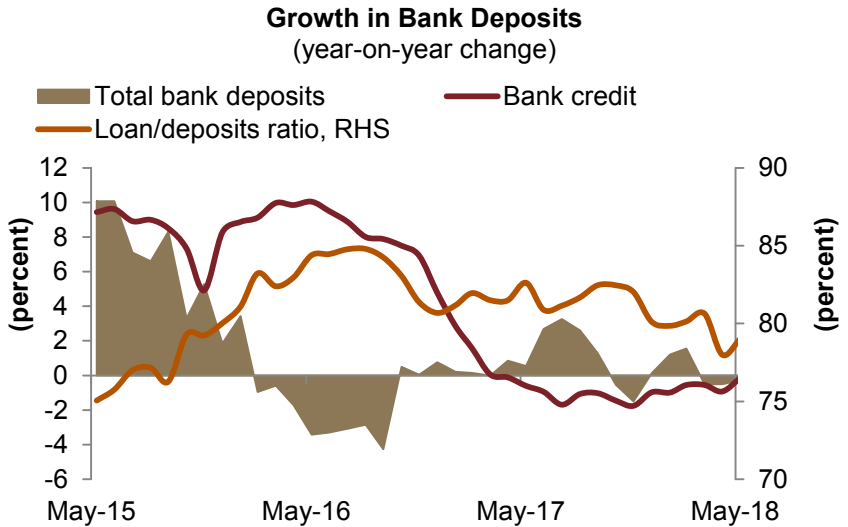




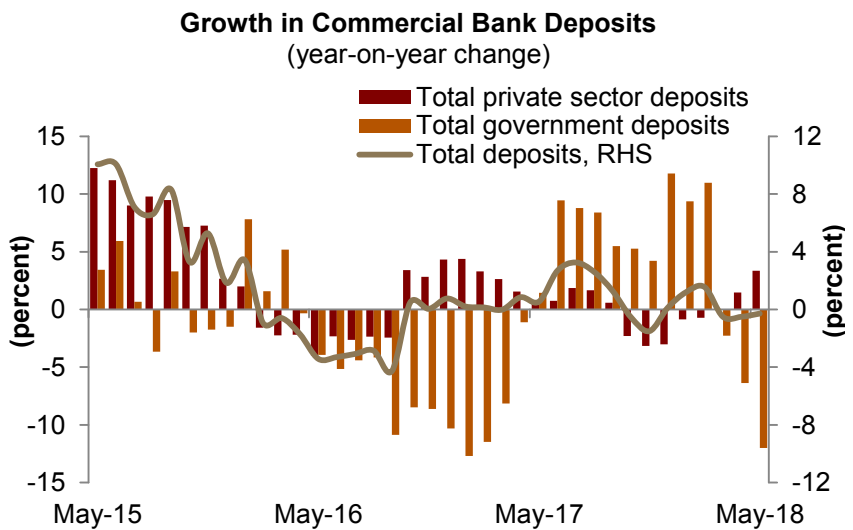
Bank Deposits

Bank deposits declined by 0.3 percent year-on-year in May, for the third consecutive month, mainly due to government deposits, which declined by 12 percent year-on-year, marking the largest decline since January 2017. Meanwhile, private deposits rose by 3.4 percent year-on-year, as private time and saving deposits continued to rise for the second consecutive month.

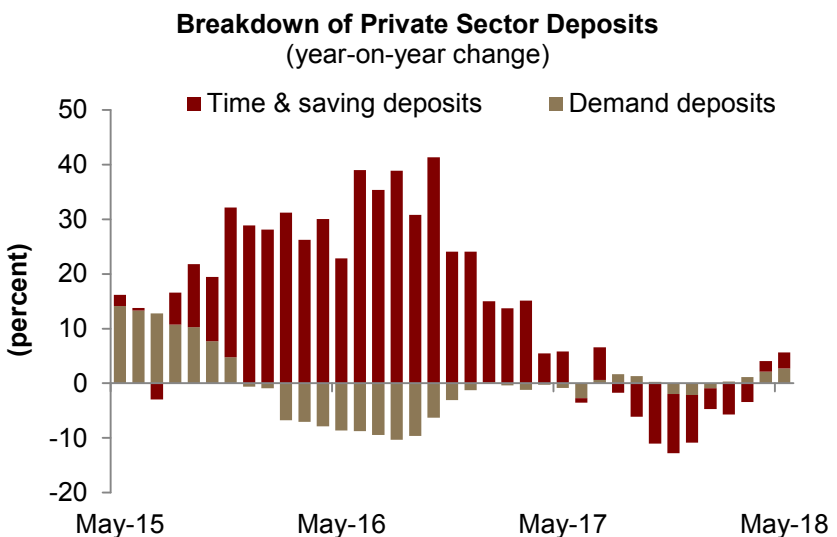
Bank deposits declined by 0.3 percent year-on-year in May. The loan to deposit ratio stood at 79 percent during the month.



Whilst private deposits rose by 3.4 percent year-on-year, government deposits declined by 12 percent year-on-year.



Private saving deposits continued to rise for the second month, increasing by 3 percent year-on-year in May. Demand deposits also rose by 2.7 percent year-on-year in May, marking its largest annual rise since November 2015.





Bank Credit

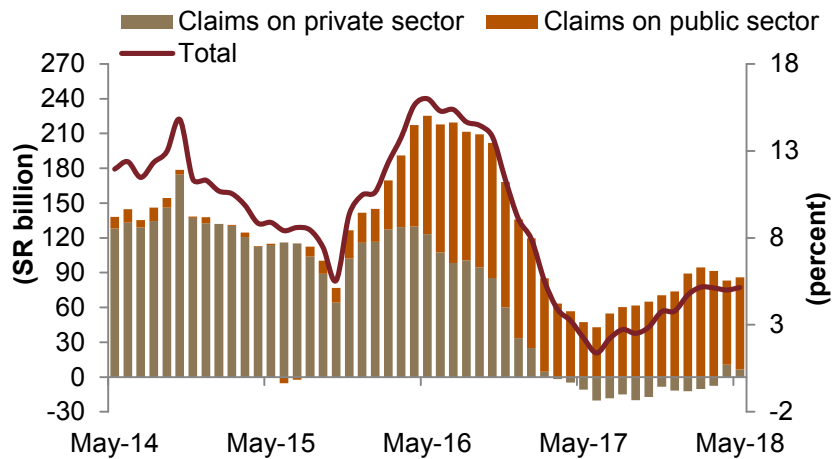
Total bank claims rose by 5.1 percent in May, year-on-year. Credit to the private sector continued to rise for the second month, by 0.4 percent, after staying in the negative territory for 13 months. By credit maturity, long-term credit fell by 3.8 percent year-on-year, whilst both short and medium term credit rose for the month.

Credit to the private sector continued to rise for the second month by 0.4 percent, after staying in the negative territory for 13 months.

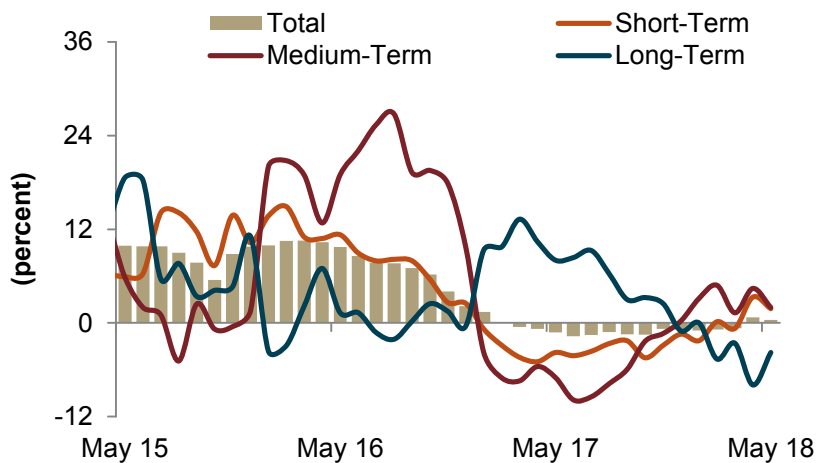
By credit maturity, long-term credit fell by 3.8 percent year-on-year, whilst both short and medium term credit rose for the month.

All types of bank claims to the private sector increased in May, as investments in discounted bills showed the highest rise by 2.6 percent during the month.

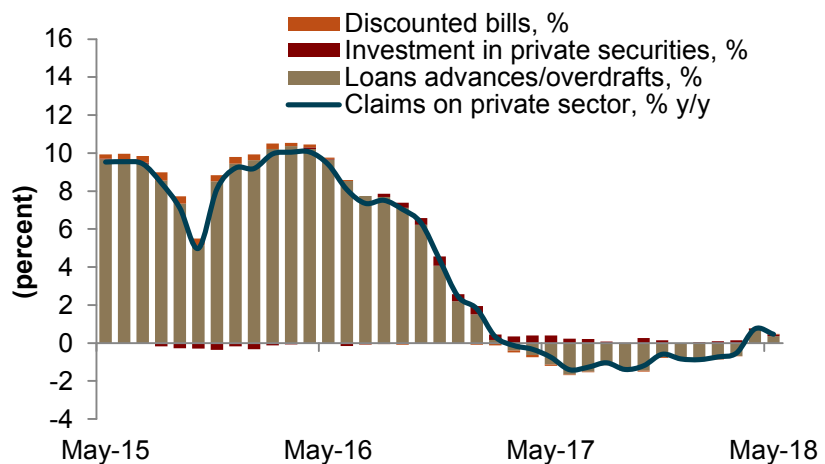
Breakdown of Bank Claims
(year-on-year change)



Total Bank Credit, by Maturity
(year-on-year change)



Breakdown of Bank Claims on the Private Sector
(Contribution %)



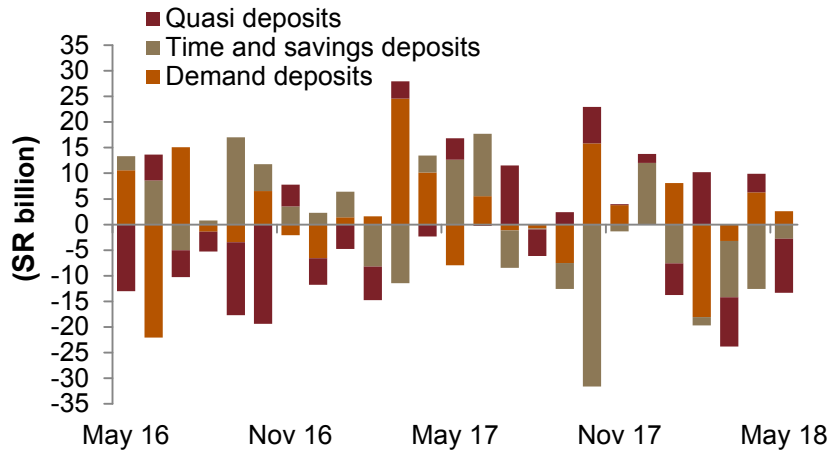


Interest Rates

Government deposits declined during May, as quasi and saving deposits were both down during the month despite a marginal rise in the government's demand deposits. Excess liquidity continued to decline in the banking system for the third month in a row in May, likely leading to SAIBOR continuing its rise in June and July, and widening the SAIBOR/LIBOR spread.

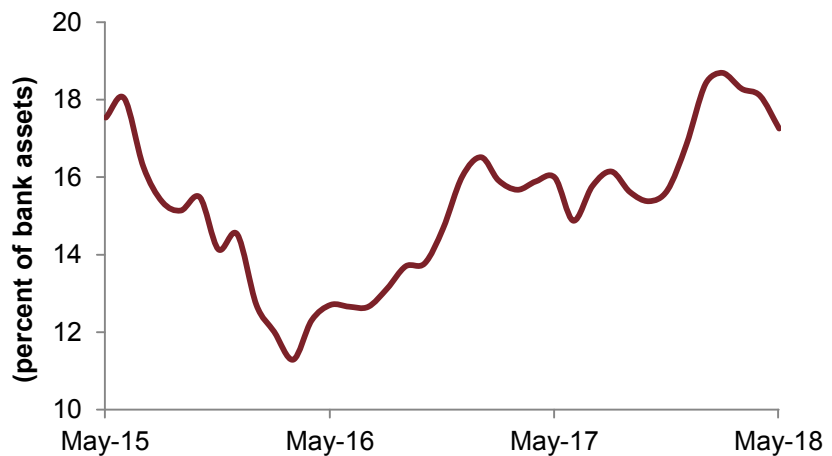
Government deposits declined in May by 3.5 percent year-on-year, driven by a decrease in both saving and quasi government deposits.

Government Deposits with Commercial Banks
(month-on-month change)



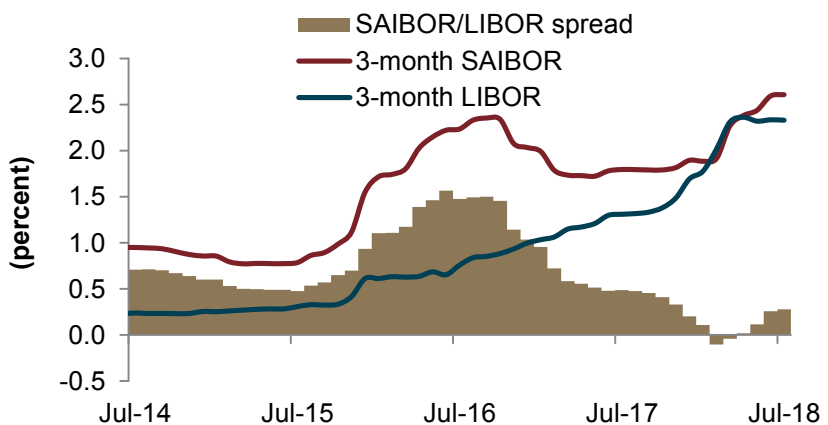
Excess liquidity continued to decline in the banking system for the third month in a row, in May...

Excess Liquidity in the Banking System



...likely leading to SAIBOR continuing its rise during June and July, and widening the SAIBOR/LIBOR spread.

Latest Saibor and Libor Rates

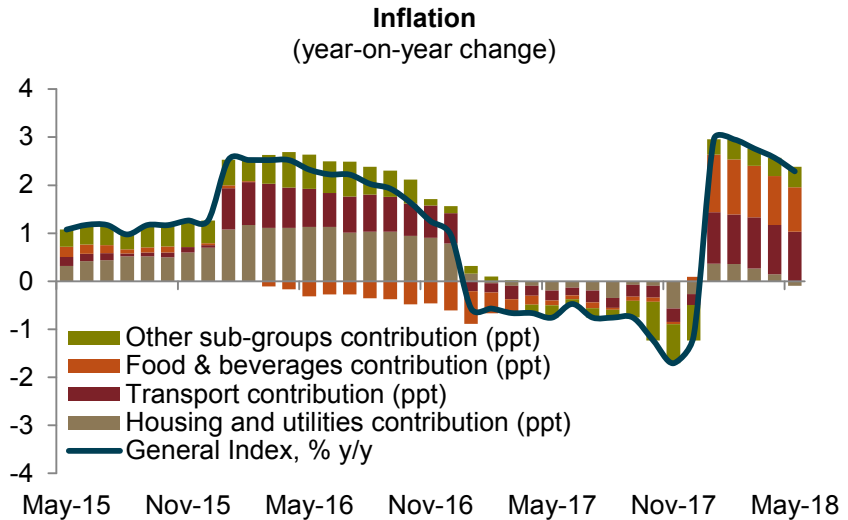




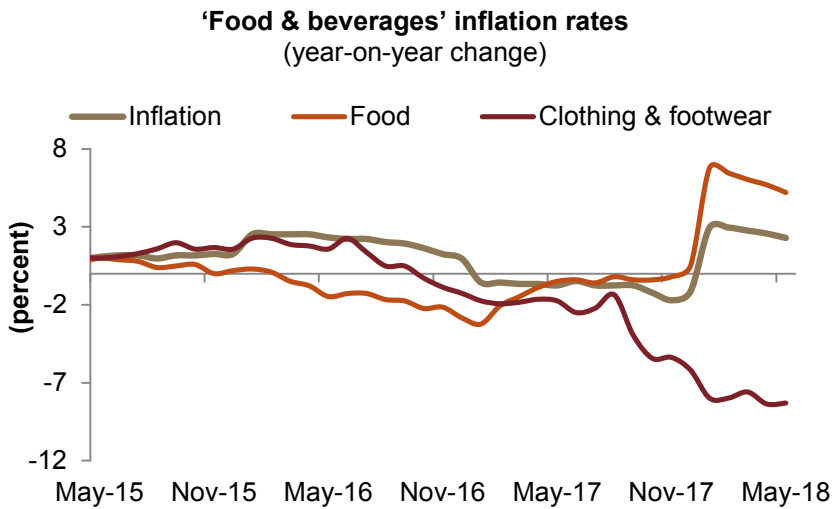
Inflation

Prices rose in May by 2.3 percent year-on-year, but declined by 0.4 percent month-on-month. 'Food and beverages' prices rose by 5.2 percent, and 'housing and utilities' declined by 0.4 percent, year-on-year, marking its first decrease since the beginning of the year. However, 'rentals for housing' continued to decline, falling by 2.5 percent year-on-year during May, weighing on the 'housing' group.

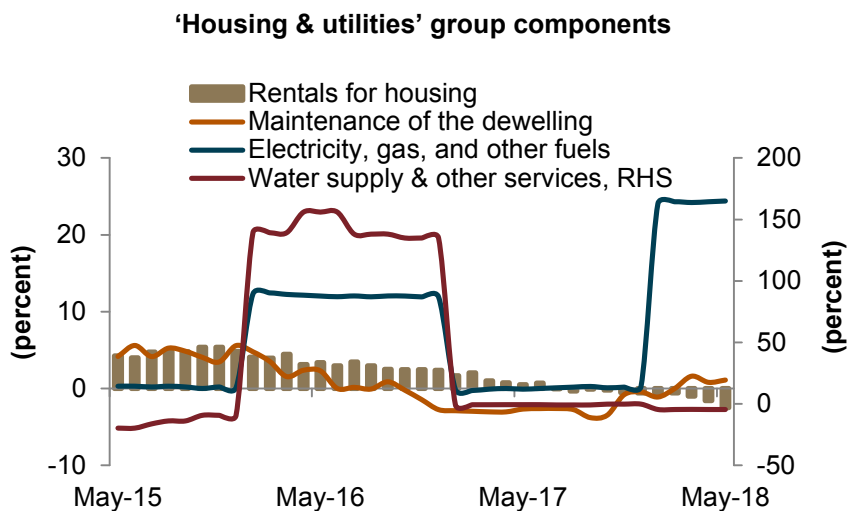
Prices rose in May by 2.3 percent year-on-year, but declined by 0.4 percent month-on-month.



'Food & beverages' prices rose by 5.2 percent year-on-year, and inched up by 0.1 percent month-on-month, likely affected by higher consumption during the month of Ramadan.



'Housing & utilities' declined by 0.4 percent year-on-year, affected by a slowdown in 'rentals for housing', which fell by 2.5 percent year-on-year, and -0.8 percent month-on-month in May, despite a hike in utility prices at the start of the year.



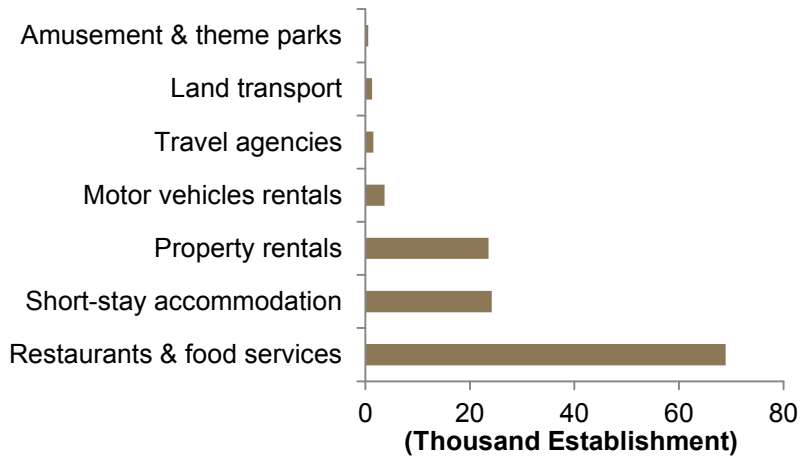


Tourism and entertainment

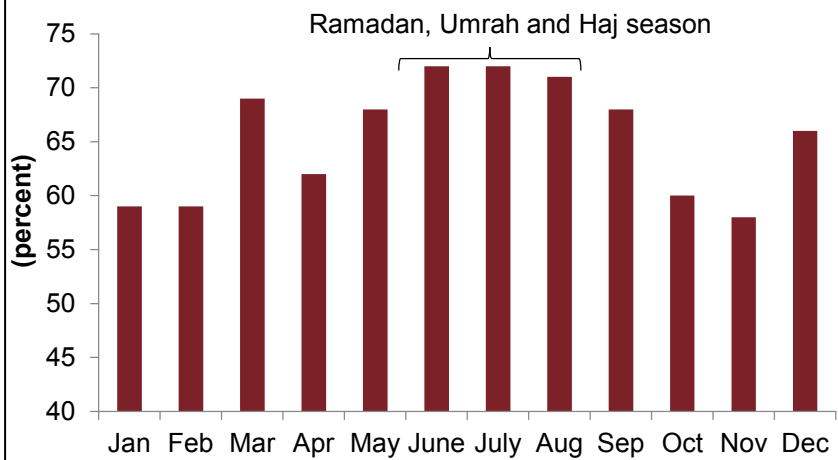
GaStat's latest tourism and entertainment survey for 2016 shows the number of total establishments in the sector rose by 2.4 percent year-on-year, exceeding the 2010-2016 average growth of 2.3 percent. Hotel occupancy rates in the Kingdom peaked around the Umrah and Haj season during 2016. GaStat's survey shows that skilled labor force is the biggest challenge facing companies in the sector.

The number of total establishments in the tourism & entertainment sector rose by 2.4 percent year-on-year, to reach a total of 131 thousand enterprises.

Tourism and Entertainment Establishments, by Activity (2016)

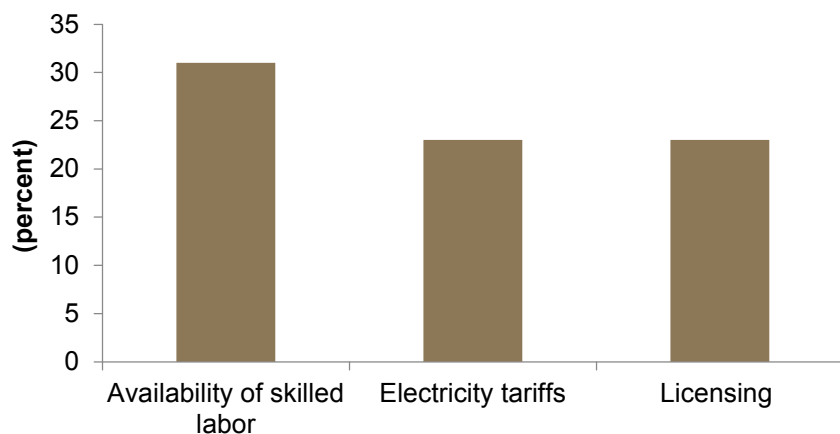


Hotel Occupancy Rates in 2016 (Hotels and serviced apartments)



Hotel occupancy rates in the Kingdom peaked around the Umrah and Haj season during 2016, which coincided with summer holidays. For more on this please refer to our [Tourism and Entertainment Report](#), published in April 2018.

Main Challenges Facing Tourism Enterprises (GaStat Survey)



GaStat's survey shows that skilled labor force is the main challenge facing companies in the sector.

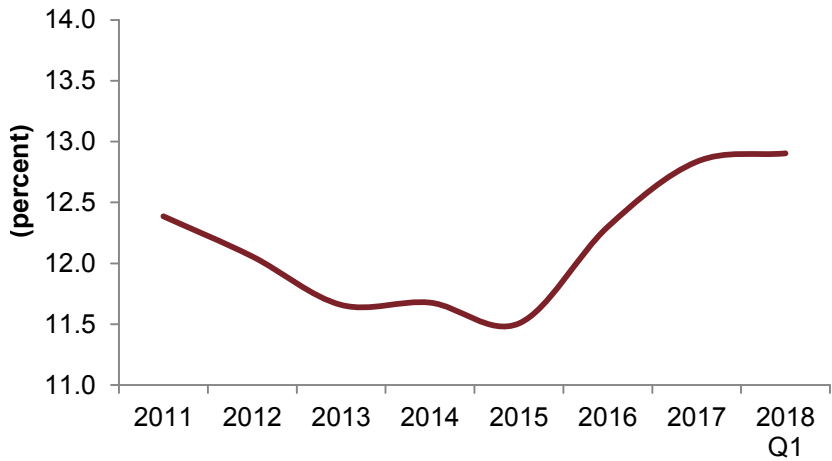


Labor Market

The Saudi unemployment rate inched slightly higher in Q1 2018, to reach 12.9 percent. Youth unemployment rates showed mixed performance, whilst female youth unemployment rate continued a downward trend, male youth unemployment rate continued to rise. In addition, female labor force participation rate was up, standing at 19.5 percent in Q1 2018, up from 17.4 percent in Q1 2017.

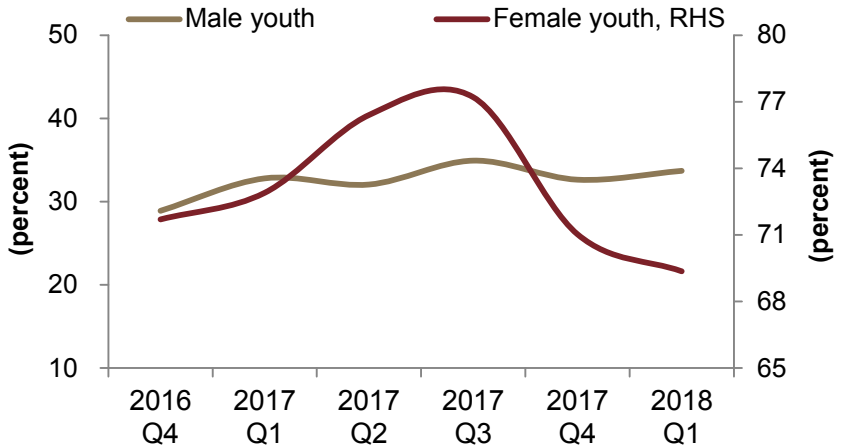
The Saudi unemployment rate inched slightly upwards in Q1 2018 to reach 12.9 percent.

Unemployment Rate



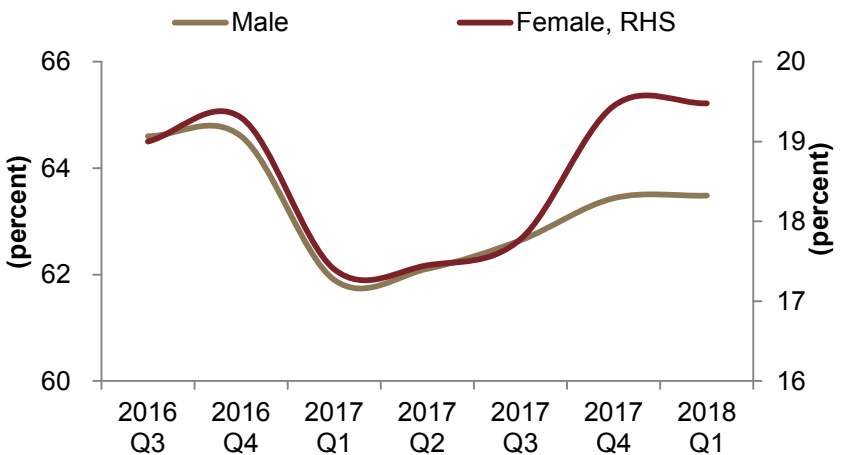
Female youth unemployment rate declined to 69 percent, whilst male youth unemployment rate rose to 34 percent.

Youth Unemployment Rates



Female labor force participation rate was up, at 19.5 percent in Q1 2018, up from 17.4 percent in Q1 2017.

Saudi Labor Force Participation Rates

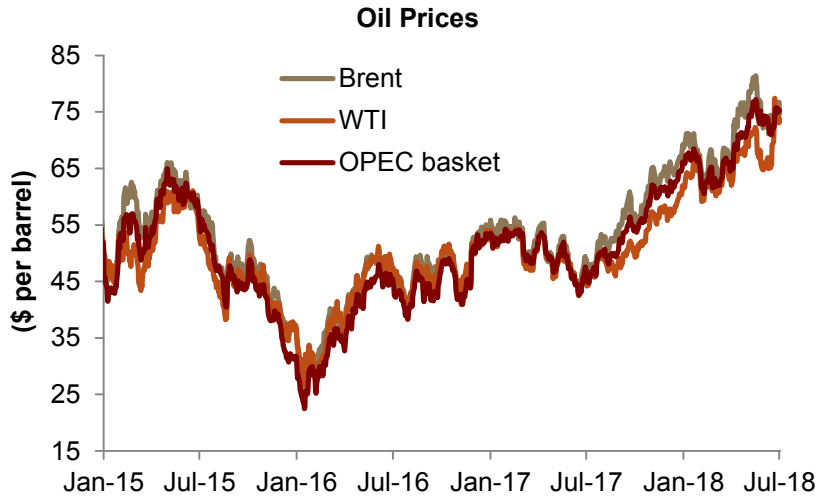




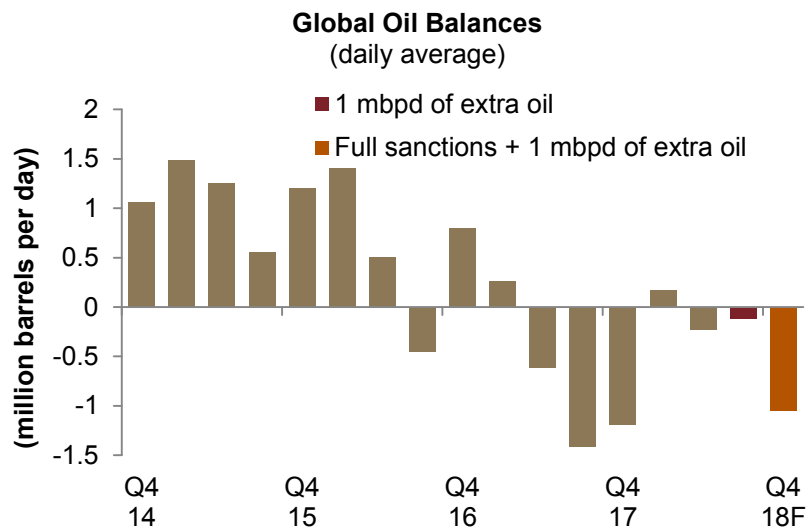
Oil - Global

Brent oil prices are currently trading around \$78 pb as a number of conflicting factors continue to add volatility to oil markets. Brent oil prices, having declined 5 percent in June month-on-month, were up slightly in early July due to supply concerns over US sanctions related to Iran. However, a rise in recent trade tensions between the US and China could pull prices down.

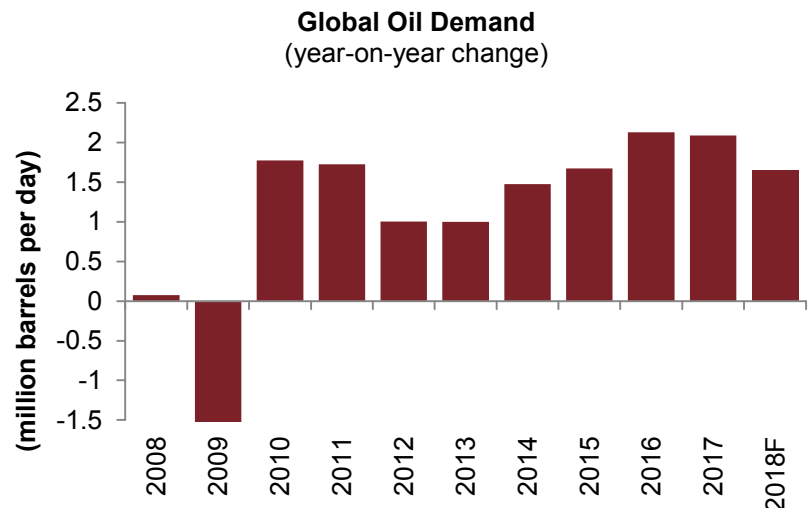
Oil prices are currently very volatile with the US recently reapplying sanctions on Iranian oil, and aggressively pushing Europe, Japan and South Korea to reduce oil imports from Iran to zero by the November 4th sanctions deadline.



If the US is successful in reducing the above countries Iranian oil exports to zero, oil markets would still be in deficit by 1 mbpd come Q4 2018, despite an additional 1 mbpd of OPEC/non-OPEC output, as per the organization's June agreement



That said, rising trade tensions between the US and China, with US applying tariffs on \$34 billion of Chinese imports last week, could have negative effects on the global economy and global oil demand.





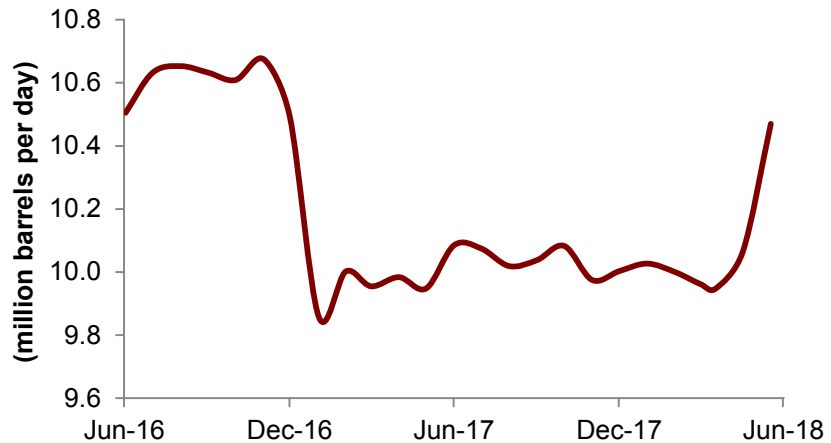
Oil - Regional

Saudi crude oil production rose to 400 tbpd month-on-month to reach 10.4mbpd in June. We expect this higher level of output to continue as per the recent OPEC non-OPEC Market Monitoring Committee meeting. The conclusion of the meeting, back in late June, resulted in OPEC and certain non-OPEC members allowing for higher quotas for production, at a total of 1 mbpd.

As oil markets tighten, and oil outages continue from OPEC members such as Libya and Venezuela, and sanctions begin to take effect on Iran, we expect Saudi Arabia to make up a large portion of the agreed OPEC non-OPEC rise in output.

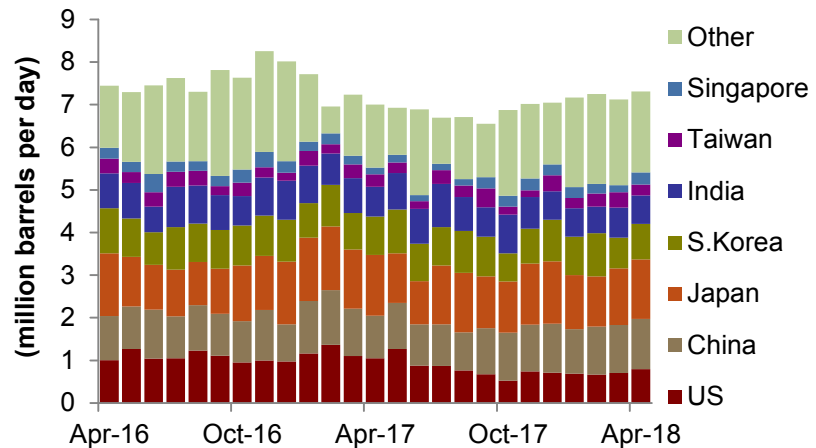
Saudi Oil Production

(secondary sources: June 2018)



Saudi Crude Oil Exports

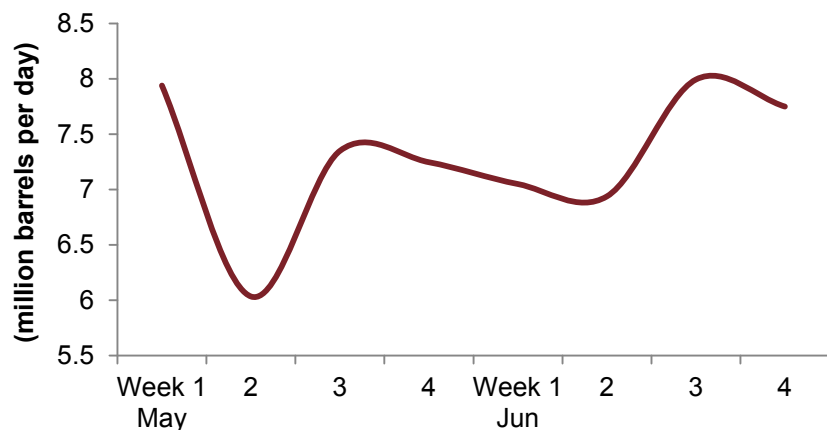
(April 2018)



As such, we expect higher Saudi crude oil exports, with official data showing exports rising to 7.3 mbpd in April...

Provisional Saudi Crude Oil Exports

(May-June 2018)



...and provisional unofficial data suggesting oil exports hitting 7.4 mbpd in June, at a time as when seasonal Saudi domestic oil demand usually peaks.

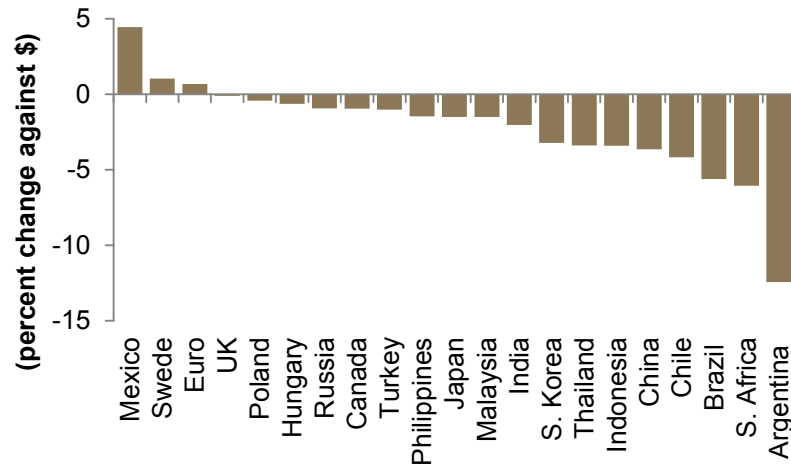


Exchange Rates

Following the most recent hike, in June, the Federal Reserve (Fed) outlined a very upbeat outlook for the US economy, with macro indicators underlining positive trends. In fact, the Federal Open Market Committee (FOMC) raised the median policy projection for this year, from three to four interest rate hikes. Meanwhile, the UK pound remains volatile due to ongoing political developments.

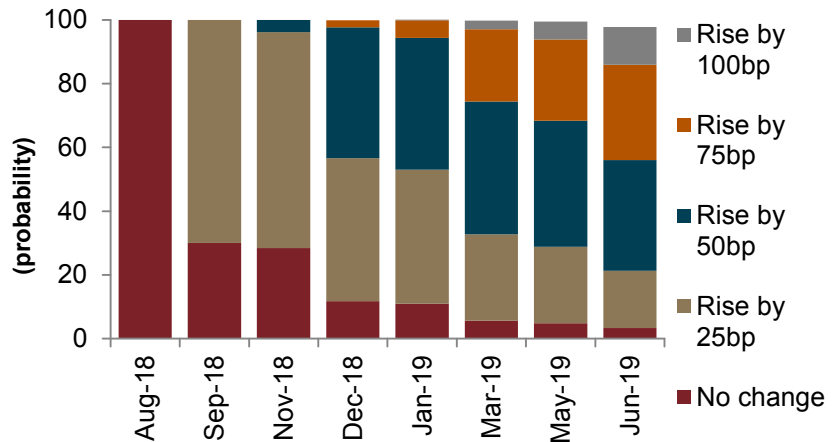
The US dollar has continued to show strength against a number of currencies recently...

Monthly Gain/Loss Against US Dollar
(June-early July 2018)



...although current market surveys do not follow FOMC's projections of four rate rises during 2018, with most investors expecting no change in US interest rates in August, but a 25 basis points hike in either September or November.

US Fed Interest Rate Probability



GBP/US Dollar



Meanwhile, the UK pound remains volatile due to ongoing political developments related to Brexit negotiations.



Stock Market

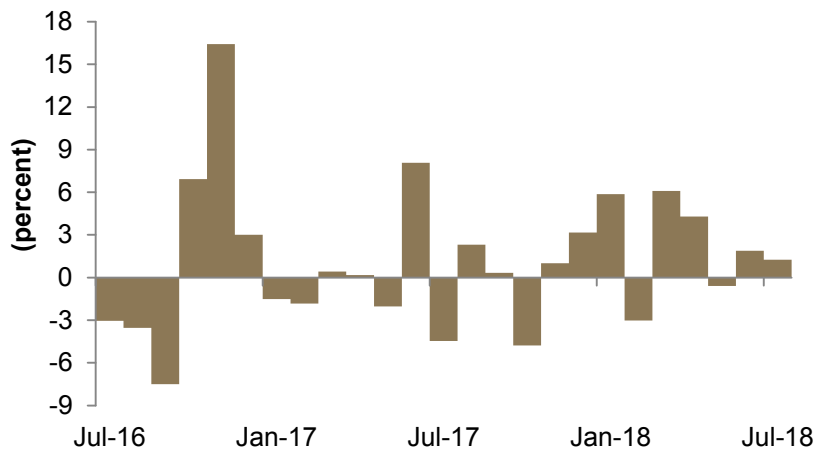
TASI rose 1.9 percent month-on-month in June following Morgan Stanley Capital International's (MSCI) announcement to include Tadawul into its emerging market index (MSCI EM). So far, trading in July has been positive too and we see this continuing especially after the decision by MSCI, which will encourage higher inflow from qualified foreign investor (QFIs) in the months ahead.

Saudi Arabia is expected to weight approximately 2.6 percent in MSCI's EM index, with actual inclusion to take place in two tranches, in May and August 2019.

TASI
(June-early July 2018)

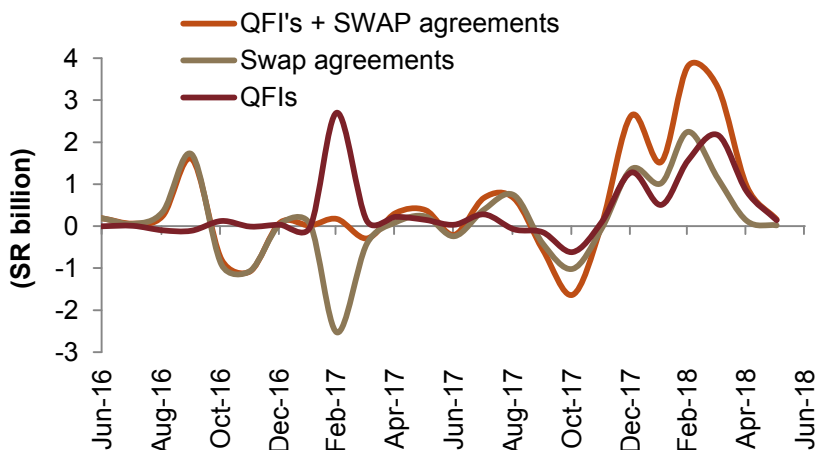


Monthly Stock Market Performance
(month-on-month change)



So far, trading in July has been positive too and we expect TASI upside to continue going forward...

Net Foreign Inflow



...especially as inflows regain momentum in the next few months, with certain QFIs, such as hedge funds, positioning themselves to take advantage of the anticipated flows ahead of Tadawul's actual inclusion into the EM index in 2019.



Key Data

	2010	2011	2012	2013	2014	2015	2016	2017	2018F
Nominal GDP									
(SR billion)	1,981	2,517	2,760	2,800	2,836	2,454	2,419	2,575	2,944
(\$ billion)	528	671	736	747	756	654	645	687	785
(% change)	23.1	27.1	9.6	1.5	1.3	-13.5	-1.4	6.5	14.3
Real GDP (% change)									
Oil	-0.1	12.2	5.1	-1.6	2.1	5.3	3.6	-3.0	3.2
Non-oil private sector	10.5	8.1	5.6	7.0	5.4	3.4	0.1	0.7	1.1
Non-oil government	7.4	8.4	5.3	5.1	3.7	2.7	0.6	1.7	2.2
Total	5.0	10.0	5.4	2.7	3.7	4.1	1.7	-0.9	2.2
Oil indicators (average)									
Brent (\$/b)	80	112	112	110	99	52	43	54	68
Saudi (\$/b)	78	104	106	104	96	49	41	51	66
Production (million b/d)	8.2	9.3	9.8	9.6	9.7	10.2	10.4	10.0	10.3
Budgetary indicators (SR billion)									
Government revenue	742	1,118	1,247	1,156	1,044	616	519	692	867
Government expenditure	654	838	916	994	1,140	999	935	930	978
Budget balance	88	280	331	162	-96	-383	-416	-238	-111
(% GDP)	4.4	11.1	12.0	5.8	-3.4	-15.6	-17.2	-9.3	-3.8
Gross public debt	177	135	99	60	44	142	317	443	560
(% GDP)	8.9	5.4	3.6	2.1	1.6	5.8	13.1	17.2	19.0
Monetary indicators (average)									
Inflation (% change)	3.8	n/a	2.9	3.5	2.2	1.2	2.1	-0.8	3.1
SAMA base lending rate (% , end year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.75
External trade indicators (\$ billion)									
Oil export revenues	215	318	337	322	285	153	137	170	223
Total export revenues	251	365	388	376	342	204	184	221	275
Imports	97	120	142	153	158	159	128	119	116
Trade balance	154	245	247	223	184	44	56	102	159
Current account balance	67	159	165	135	74	-57	-24	15	73
(% GDP)	12.6	23.6	22.4	18.1	9.8	-8.7	-3.7	2.2	9.3
Official reserve assets	445	544	657	726	732	616	536	496	536
Social and demographic indicators									
Population (million)	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.6	33.4
Saudi Unemployment (15+, %)	11.2	12.4	12.1	11.7	11.7	11.5	12.5	12.8	12.5
GDP per capita (\$)	19,261	23,827	25,471	25,223	24,962	21,095	20,318	21,057	23,495

Sources: Jadwa Investment forecasts for 2017 and 2018. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.



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