المصرفية الماسية
Diamond Banking

Saudi Economic Chartbook

June 2019

Hans Peter Huber, PhD
Chief Investment Officer
rccioofficee@riyadcapital.com

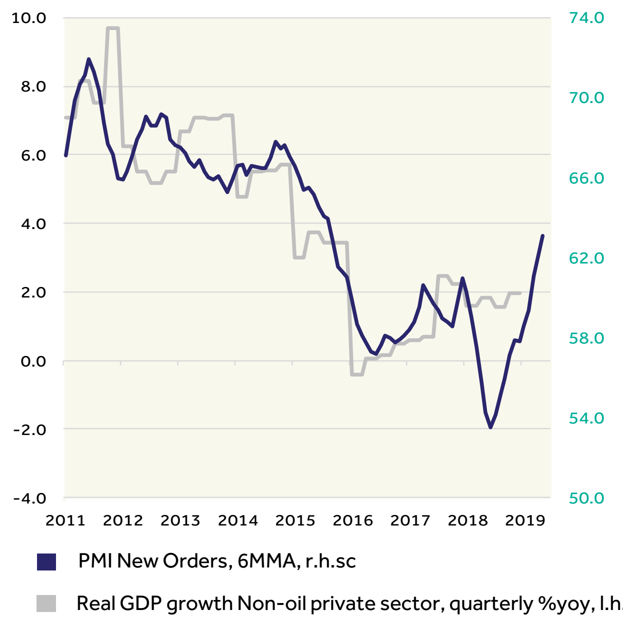
*This report is Issued by Riyad Capital

Non-Oil Economy on Track for Firmer Growth

- There are increasing signs that the non-oil economy is on track for firmer growth in 2019. In particular, the strong rebound of the Purchasing Manager Index for new orders is signaling a recovery of domestic demand, and, hence, an acceleration of growth of the non-oil private sector (see chart below).
- GDP growth of the overall economy has slowed down so far this year as the oil output reduction in 2019 has led to a notably lower growth rate of the oil sector outweighing the growth acceleration of the non-oil economy.
- After the fading impact of the fiscal reform measures, CPI inflation rates remain in negative territory since the beginning of this year. This deflationary trend can primarily be explained by a sharp drop in housing rents which have a considerable impact on overall inflation rates.
- In the first quarter 2019 the real estate market shows tentative signs of a stabilization. In particular, the protracted decline of residential property prices seems to be vanishing. Furthermore, real estate transaction activity has considerably picked up in Q2019 1.
- SAR interest rates have notably eased in 2019. This has to be seen on the back of a remarkably softer stance by the US Federal Reserve which caused markets to currently anticipate at least two rate cuts until end of this year.
- The overriding theme of the Saudi stock market in the first half 2019 has been the inclusion in major Emerging Market indices which has fueled TASI performance and triggered massive inflow by foreign institutional investors. At current levels, the valuation of the Saudi market looks rather stretched.

Table of Contents:

Improving Business Climate Indicating Non-Oil GDP Growth Acceleration



The strong rebound of the Purchasing Manager Index for New orders so far this year clearly signals an acceleration of GDP growth for the non-oil private sector economy.

source: Markit, GASTAT

Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector

Real GDP growth Overall economy, quarterly % yoy
Real GDP growth Oil-sector, quarterly % yoy

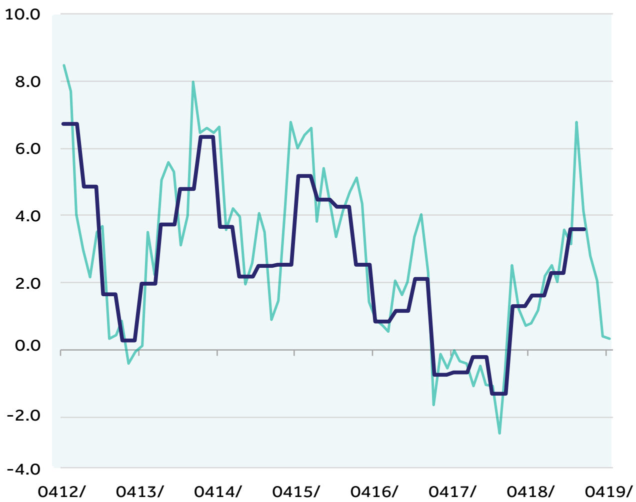
source: GASTAT

Figure 2:
Nominal and Real GDP Non-Oil Private Sector

Real GDP growth Non-oil private sector, quarterly % yoy
Nominal GDP growth Non-oil private sector, quarterly % yoy

source: GASTAT

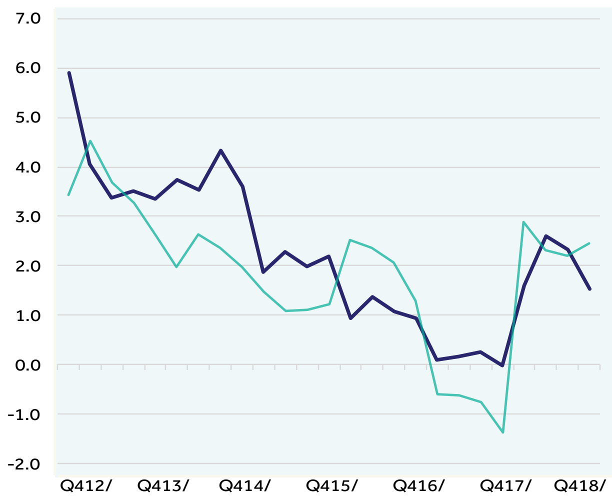
Figure 3:
Monthly GDP Tracker of Overall Economy



Real GDP growth Overall economy, quarterly, %yoy
Real GDP growth Tracker Overall economy, monthly, %yoy

source: GASTAT, RC

Figure 4:
GDP Deflator and CPI Inflation



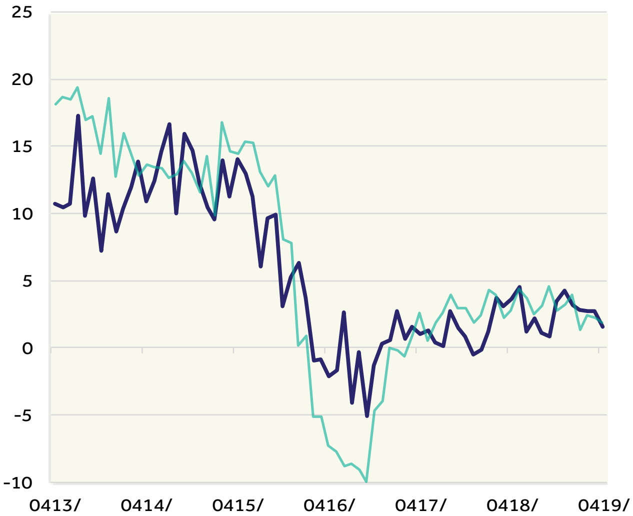
GDP deflator Non-oil private sector % yoy
CPI inflation % yoy

source: GASTAT

Real GDP growth of the overall economy has slowed down in the first few months of 2019 according to our GDP tracker model. This is due to a growth downturn by the oil sector on the back of the OPEC output cut agreement in November of last year. This decreased growth contribution by the oil sector has outweighed the growth acceleration of the Non-oil private sector GDP during this period.

Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Money Supply M1

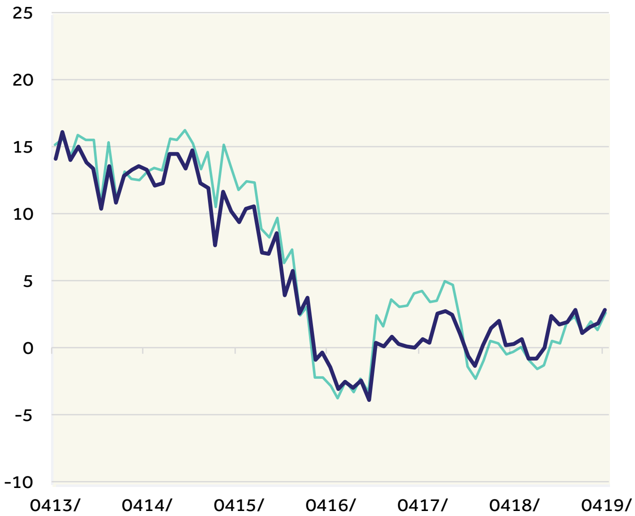


Monetary base, % yoy

Money supply M1, % yoy

source: SAMA

Figure 2:
Growth Rate Money Supply M2 and M3

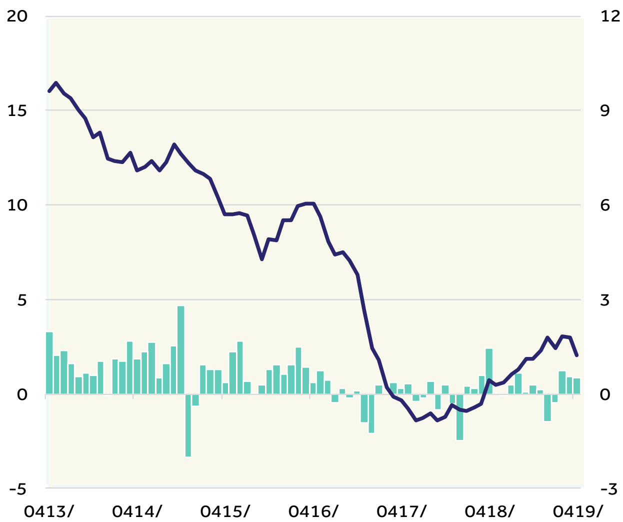


Money supply M3, % yoy

Money supply M2, % yoy

source: SAMA

Figure 3:
Growth of Credit to the Private Sector

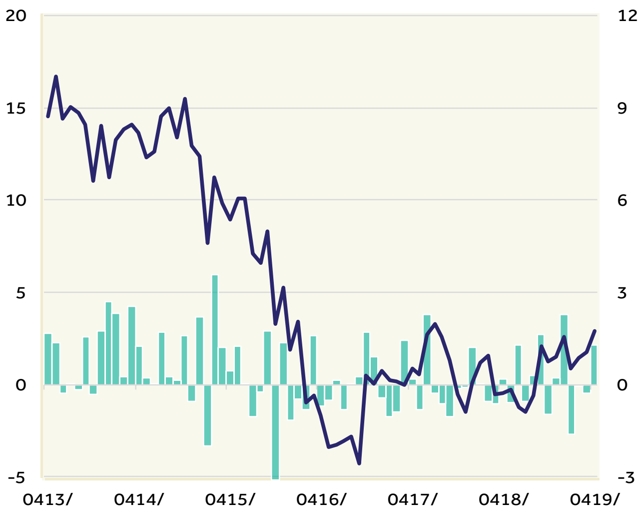


Banks' claims on private sector, % yoy, l.h.sc.

Banks' claims on private sector, % mom, r.h.sc.

source: SAMA

Figure 4:
Growth of Commercial Banks' Deposits



Banks' overall customer deposits, % yoy, l.h. sc.

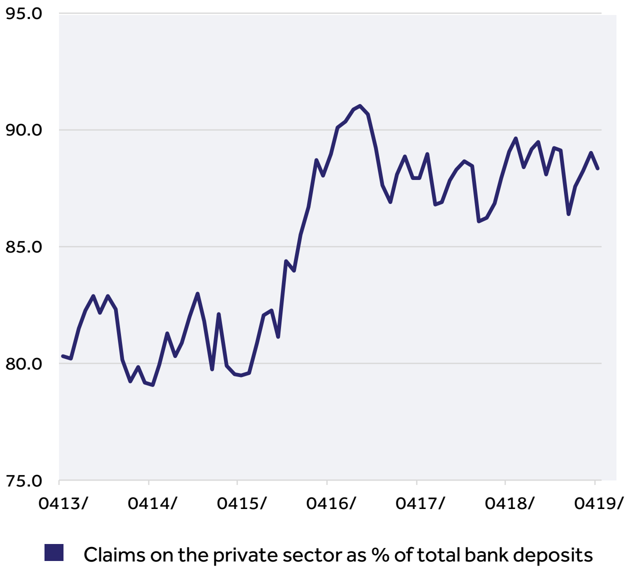
Banks' overall customers deposits, % mom, r.h.sc.

source: SAMA

Growth of broad money suppy M3 picked up to %2.8 yoy in April. This was the result of a corresponding increase of customer deposits at commercial banks. Meanwhile, credit to the private sector expanded at a gradually lower rate in April at %2.0. Residential real estate loans, which constitute %10.5 of total outstanding loans, showed particularly strong growth in Q%21.8) 2019 1 yoy).

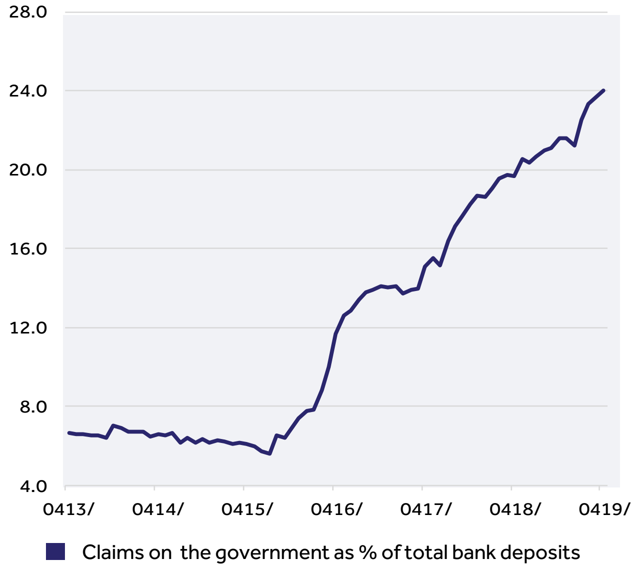
Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio



source: SAMA

Figure 2:
Government Sector Loan-Deposit-Ratio

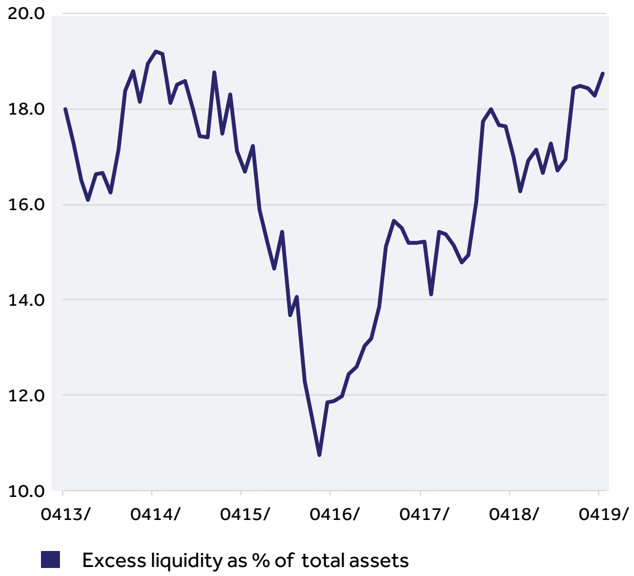


source: SAMA

Figure 3:
Foreign Assets to Total Assets Ratio

source: SAMA

Figure 4:
Excess Liquidity to Total Assets Ratio

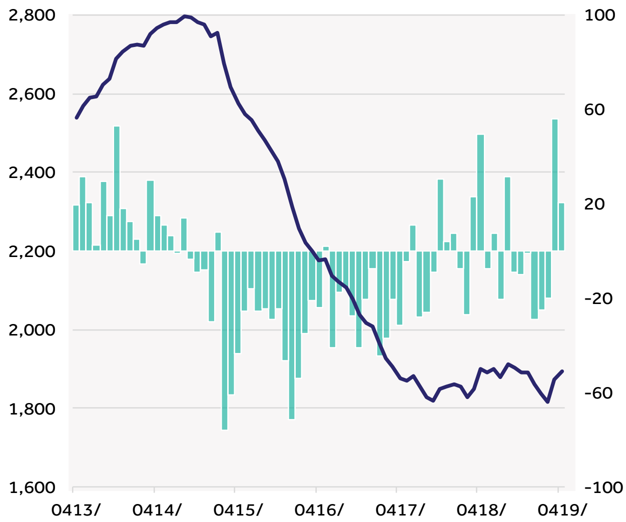


source: SAMA

As credit to the private sector expanded moderately less than customer deposits at commercial banks, the corresponding loan-deposit-ratio gradually eased to 88.3 in April. On the other hand, commercial banks raised their holdings in government bonds by 38 bln SAR from December 2018 to April 2019 which largely explains the increase of the banks' public sector loan-deposit-ratio to 24.0.

SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA

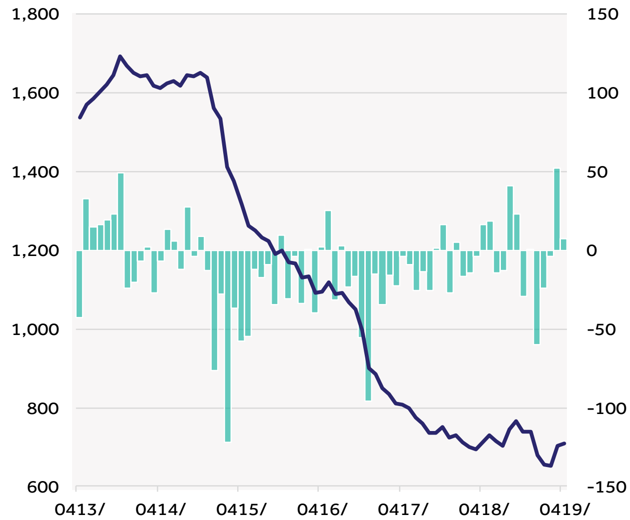


Total foreign currency reserves at SAMA, in bln SAR, l.h.sc.

Monthly change in foreign currency reserves at SAMA, in bln SAR, r.h.sc.

source: SAMA

Figure 2:
Government Deposits at SAMA

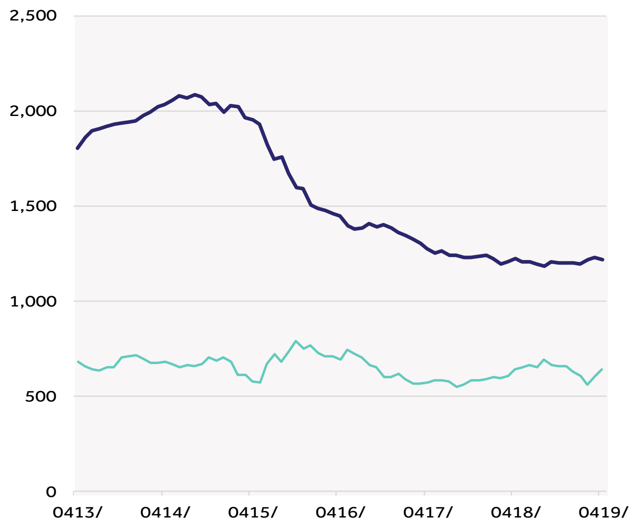


Total government deposits at SAMA, in bln SAR, l.h.sc.

Monthly change in total government deposits at SAMA, in bln SAR, r.h.sc.

source: SAMA

Figure 3:
Breakdown of Foreign Currency Reserves at SAMA

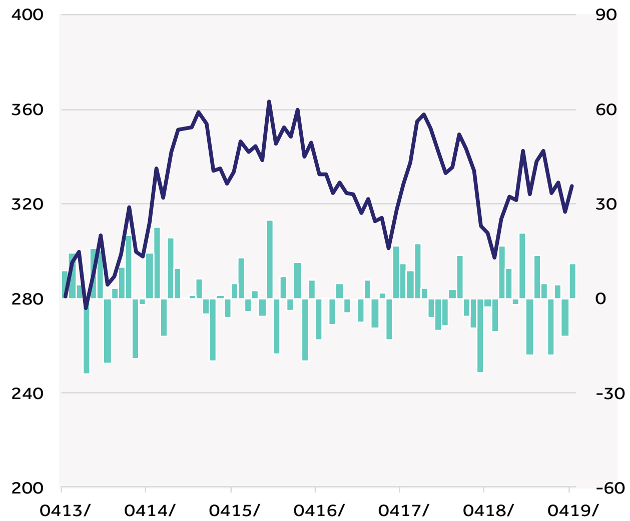


Investments in foreign securities, in bln SAR

Foreign currencies & deposits abroad, in bln SAR

source: SAMA

Figure 4:
Government Deposits at Commercial Banks



Government and gov. institutions deposits at commercial banks, in bln SAR, l.h.sc.

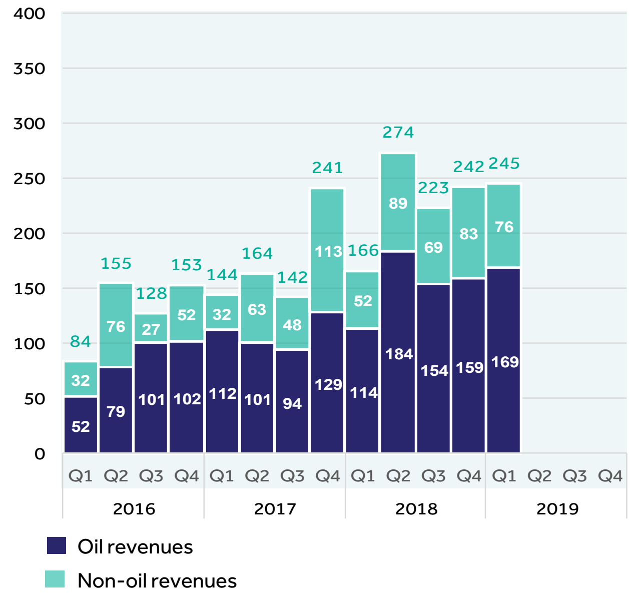
Monthly change in governmental deposits at commercial banks, in bln SAR, r.h.sc.

source: SAMA

SAMA foreign reserves picked up from December 2018 to April 2019 by overall 32bln SAR, reflecting a balance of payment surplus over this period. Particularly in March, a record inflow of 56 bln SAR could be registered. Government deposits also increased over this period as a result of a fiscal budget surplus in Q1 and continued local and international borrowing activity by the government.

Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)

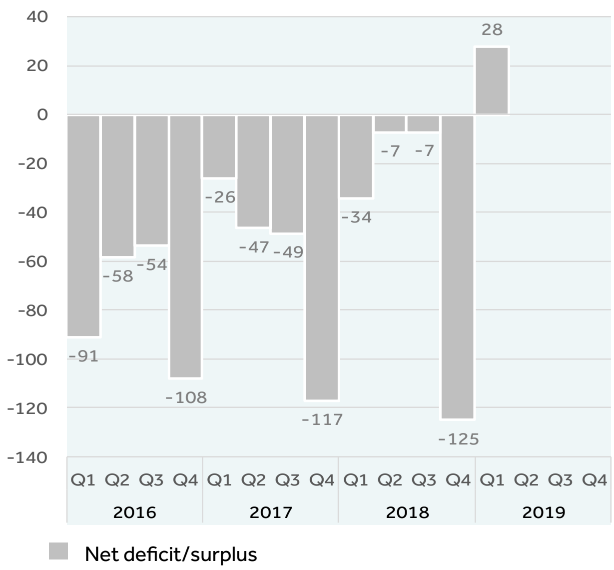


source: MoF

Figure 2:
Quarterly Fiscal Expenditure (in bln SAR)

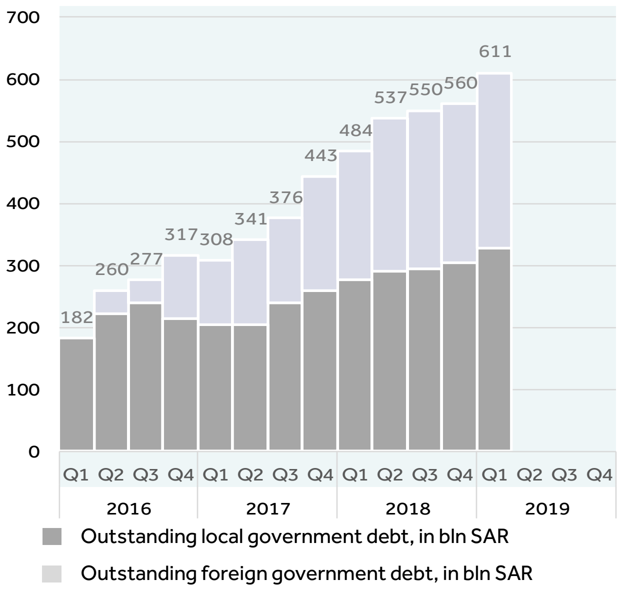
source: MoF

Figure 3:
Quarterly Fiscal Deficit/Surplus (in bln SAR)



source: MoF

Figure 4:
Outstanding Government Debt (End of Quarter)

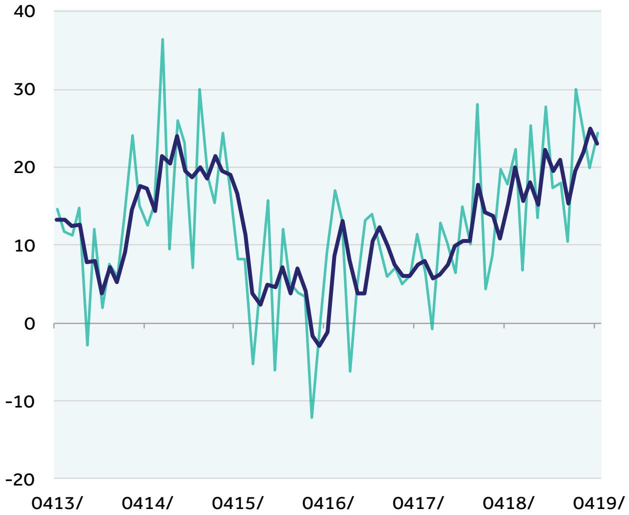


source: MoF

In the first quarter 2019, the government managed to realize a fiscal surplus of 28 bln SAR, in fact the first positive balance since 2014. This was achieved by a strong boost of overall revenues by %47.6 compared to Q2018 1, while fiscal spending grew by a moderate %8.5 during this period. Despite this fiscal surplus the government's net borrowing increased by 51 bln SAR in Q2019 1.

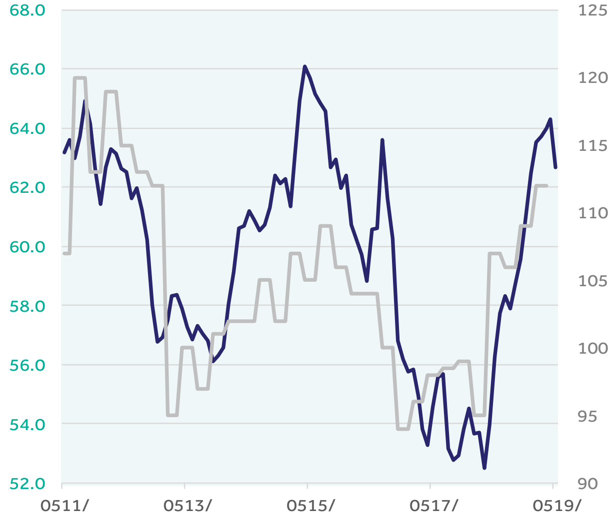
Private Spending Indicators and Non-Oil Foreign Trade

Figure 1:
Point-of-Sales Transactions



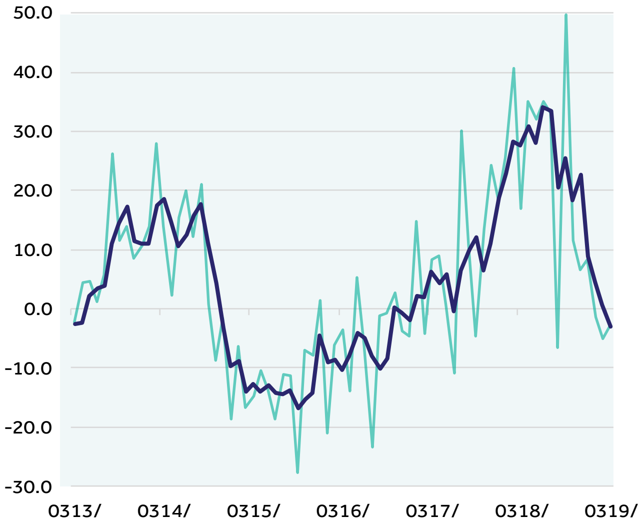
source: SAMA

Figure 2:
Consumer Sentiment



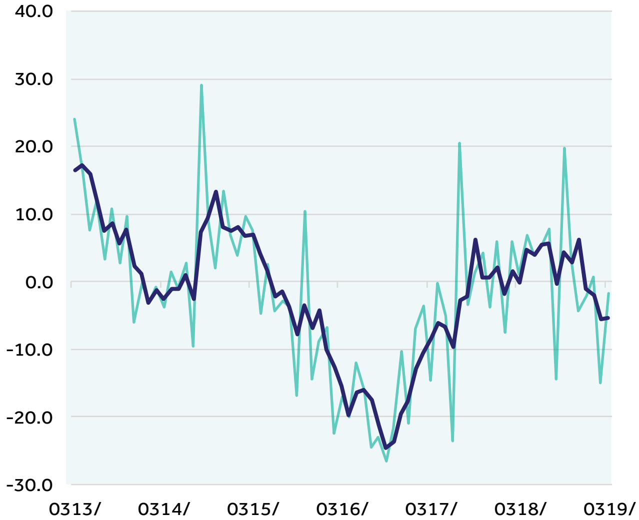
source: Thomson Reuters, Nielsen

Figure 3:
Growth of Non-Oil Exports



source: GASTAT

Figure 4:
Growth of Imports

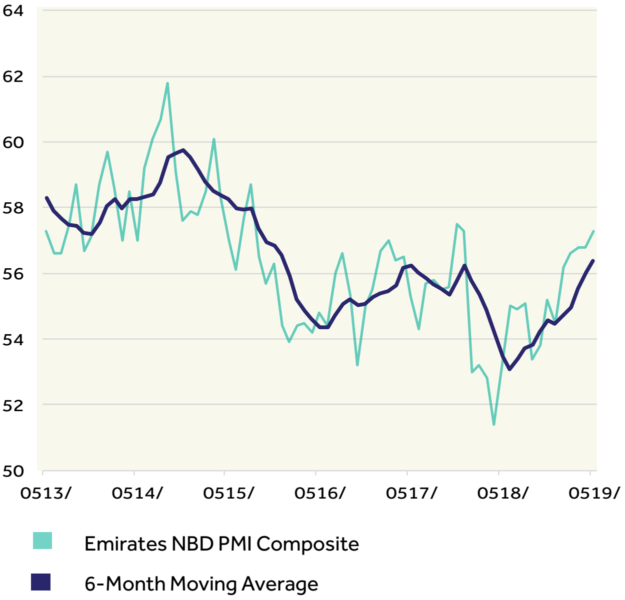


source: GASTAT

Solid growth of point-of-sales transactions and a strong rebound of consumer sentiment since mid-2018 indicate solid private household spending so far in 2019. The notable growth slowdown of non-oil exports since the end of 2018 may be explained by weaker global growth and, hence, lower demand, as well as adverse price developments, particularly for petrochemical products, in the last few months.

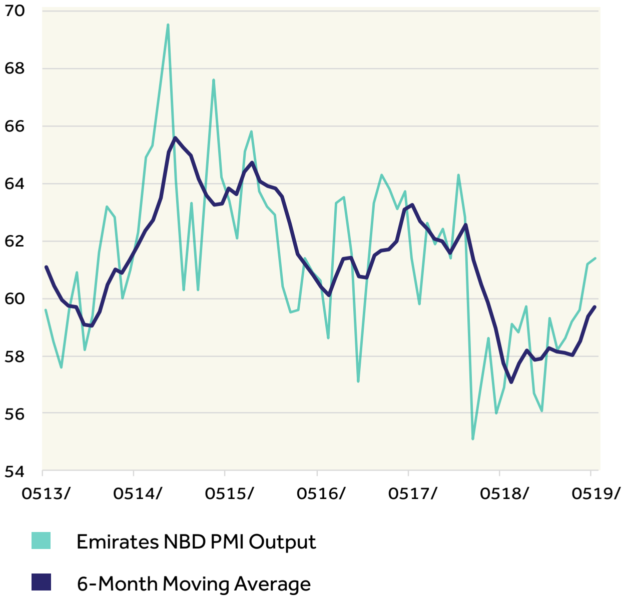
Non-Oil Private Sector Business Climate Indicators

Figure 1:
Purchasing Manager Index Composite



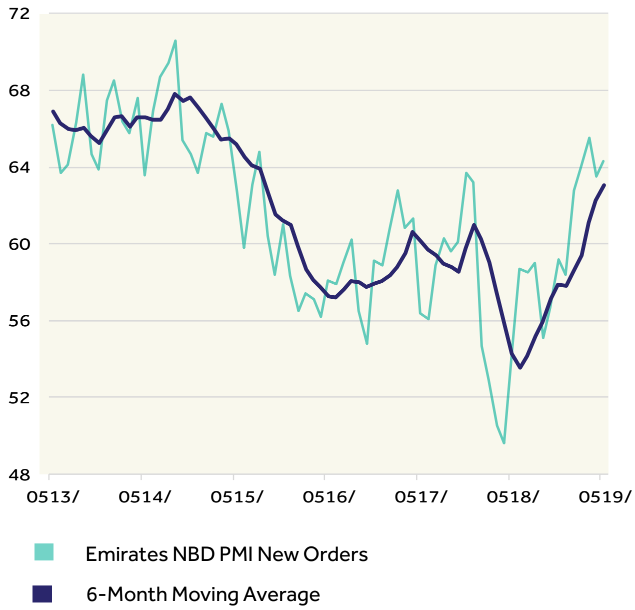
source: Markit

Figure 2:
Purchasing Manager Index Output



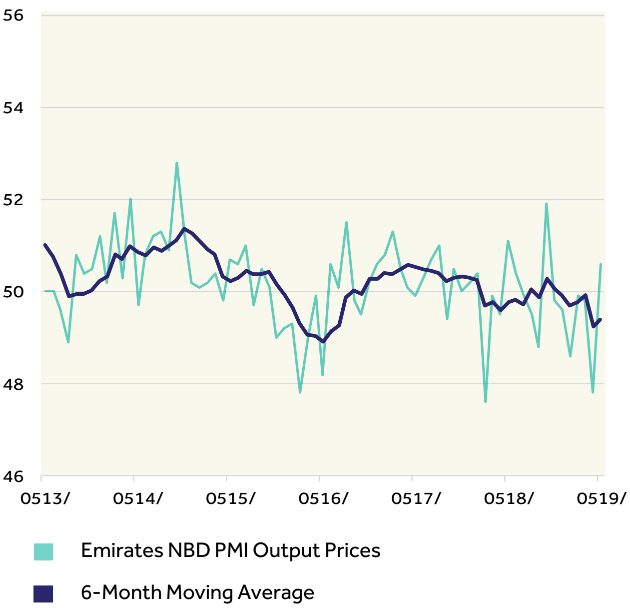
source: Markit

Figure 3:
Purchasing Manager Index New Orders



source: Markit

Figure 4:
Purchasing Manager Index Output Prices

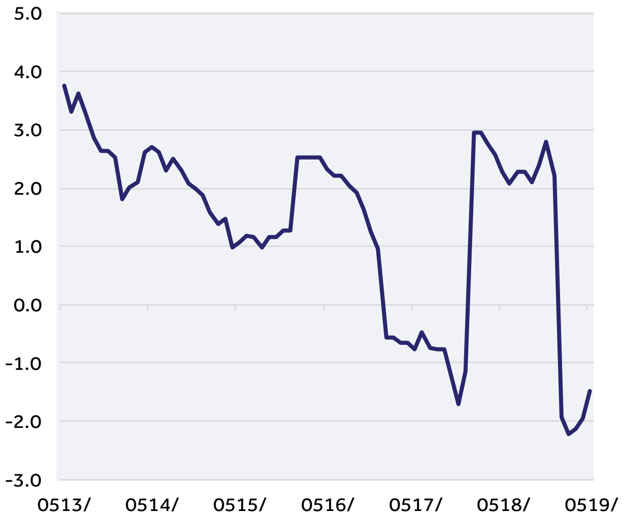


source: Markit

The business climate of the Saudi non-oil economy, mirrored by the Saudi Purchasing manager index series, continues to improve in 2019. In particular, the strong uptrend of the PMI New orders, which we consider as a reasonably good proxy indicator for GDP growth of the non-oil private sector, signals a growth acceleration of the non-oil economy in 2019 (see chart page 1).

Consumer and Wholesale Price Inflation

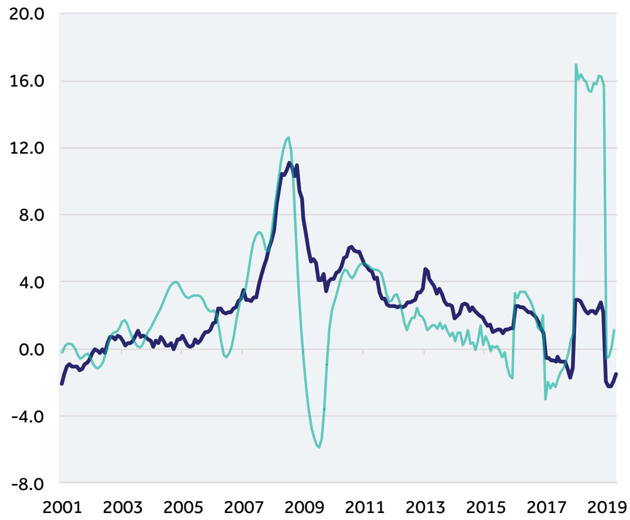
Figure 1:
Consumer Price Inflation All Items



CPI inflation, % yoy

source: GASTAT

Figure 2:
Consumer Price and Wholesale Price Inflation



CPI inflation, % yoy
WPI inflation, % yoy

source: GASTAT

Figure 3:
CPI Inflation Food & Housing

CPI inflation, sub-index Food and beverages, % yoy
CPI inflation, sub-index Housing, water, electricity, gas and other fuels, % yoy

source: GASTAT

Figure 4:
CPI Inflation Furnishings & Transportation

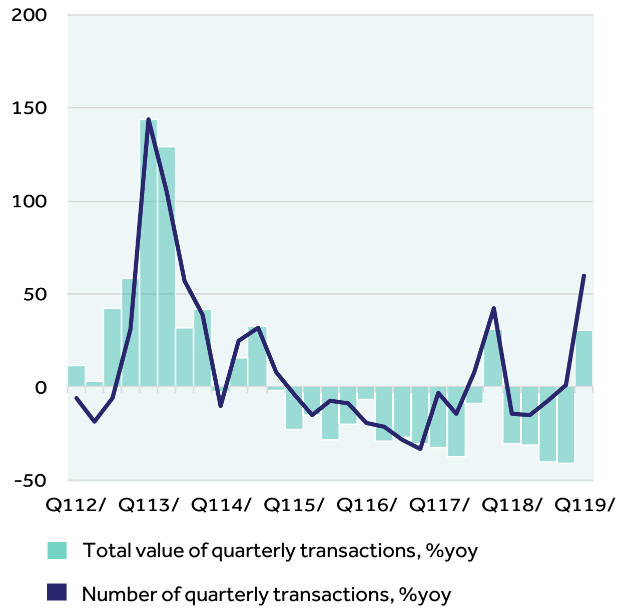
CPI inflation, sub-index Furnishings, household equipment & maintenance, % yoy
CPI inflation, sub-index Transport, % yoy

source: GASTAT

CPI inflation remained in negative territory so far this year, but deflation gradually eased in May to -%1.5 from –1.9 in April . This deflationary trend can almost entirely be explained by a substantial decline in housing rents (-%8.5) which are dominating the sub-index Housing, water, electricity (-%7.5) and, hence, which exhibit a considerable weighting of about %21 in the overall consumer price index.

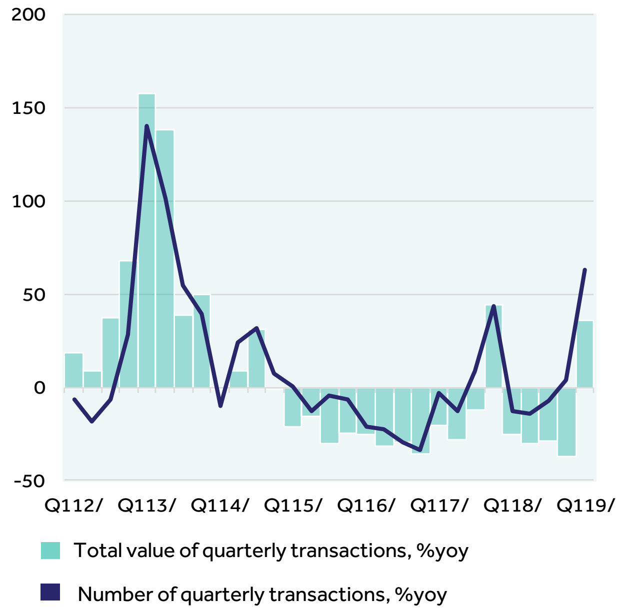
Real Estate Market: Transaction Activity

Figure 1:
Quarterly Real Estate Transactions Overall Country



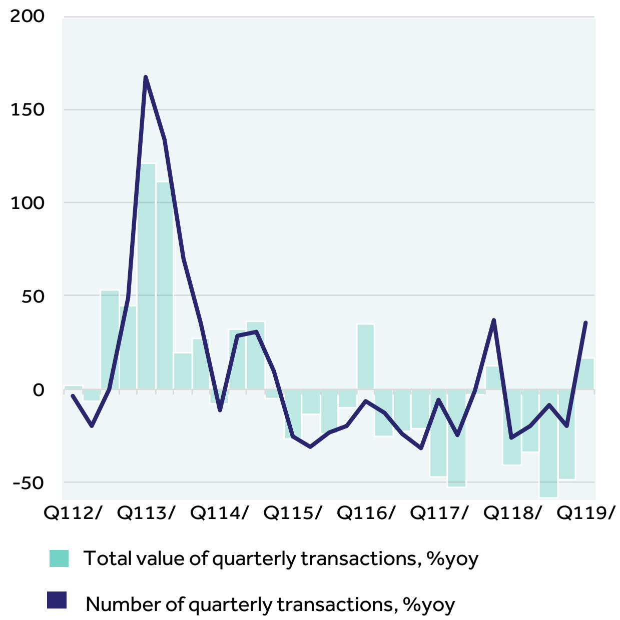
source: MOJ, RC

Figure 2:
Quarterly Residential Real Estate Transactions



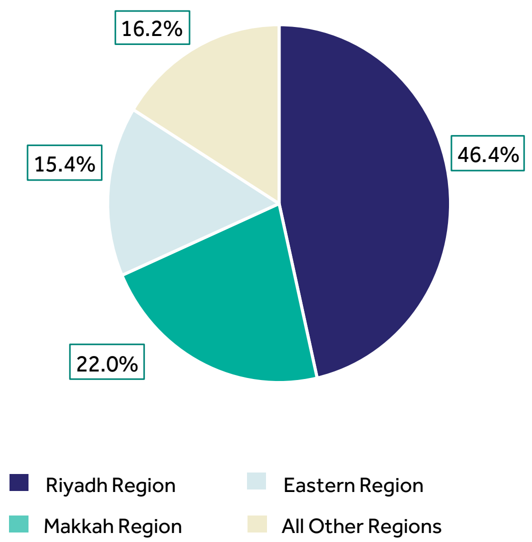
source: MOJ, RC

Figure 3:
Quarterly Commercial Real Estate Transactions



source: MOJ, RC

Figure 4:
Breakdown of Transaction Value by Regions (Q2018 4)

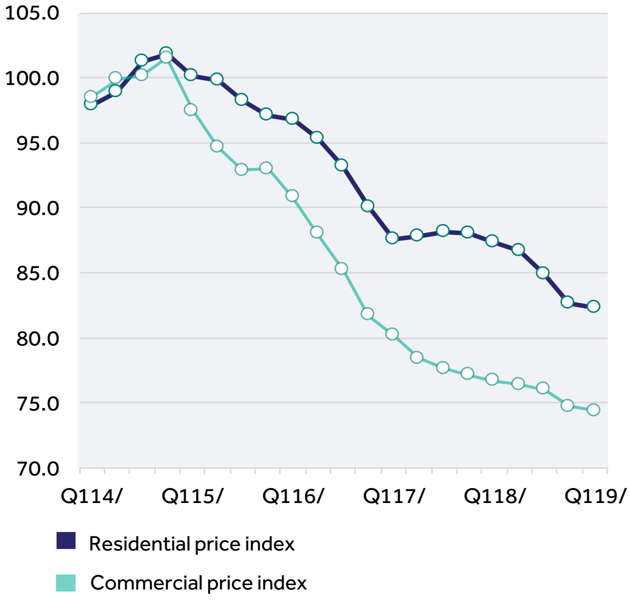


source: MOJ, RC

Real estate transactions notably picked up in Q1 2019, potentially indicating a sign of relief for the Saudi real estate market. The rebound turned out to be more pronounced in the residential area with transaction value bouncing by %36 yoy and the number of transactions by %63. Meanwhile, commercial property sales value increased by %17 yoy and the number of transactions by %35.

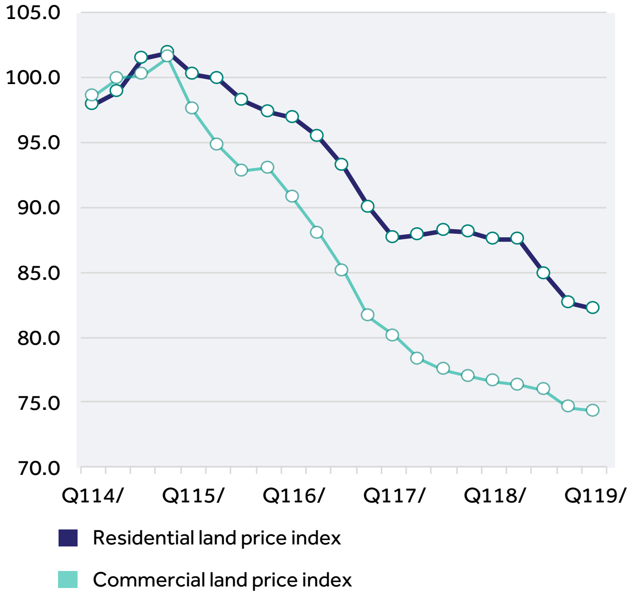
Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices



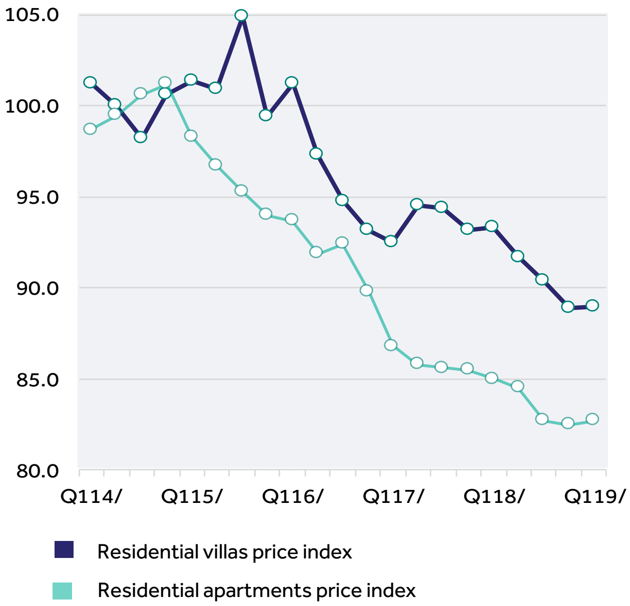
source: GASTAT

Figure 2:
Residential and Commercial Land Price Indices



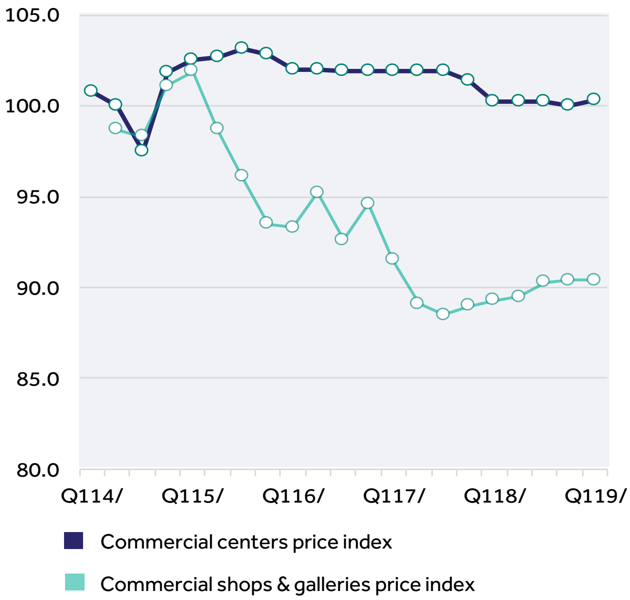
source: GASTAT

Figure 3:
Residential Villas and Apartments Price Indices



source: GASTAT

Figure 4:
Commercial Shops and Centers Price Indices

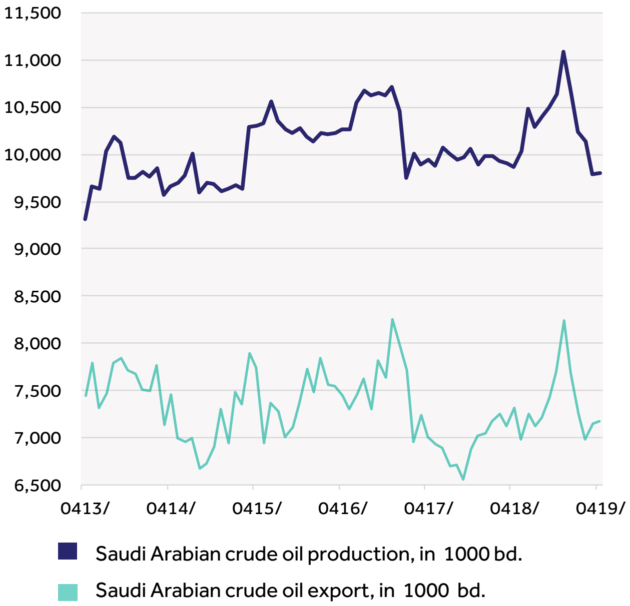


source: GASTAT

The pick-up in real estate transactions in Q1 is accompanied by early signs of a price stabilization in the property market. This observation is again more evident in the residential area where villa and apartment prices even marginally rebounded compared to Q2018 4. Land prices in the residential as well as the commercial market segment continued to decline in Q2019 1, albeit at a clearly slower pace.

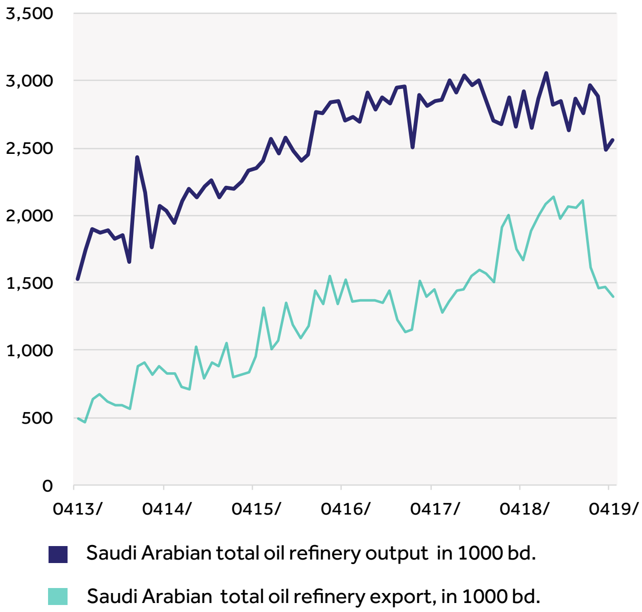
Oil Market Statistics: Production, Exports, Refinery and Prices

Figure 1:
Saudi Crude Oil Production and Exports



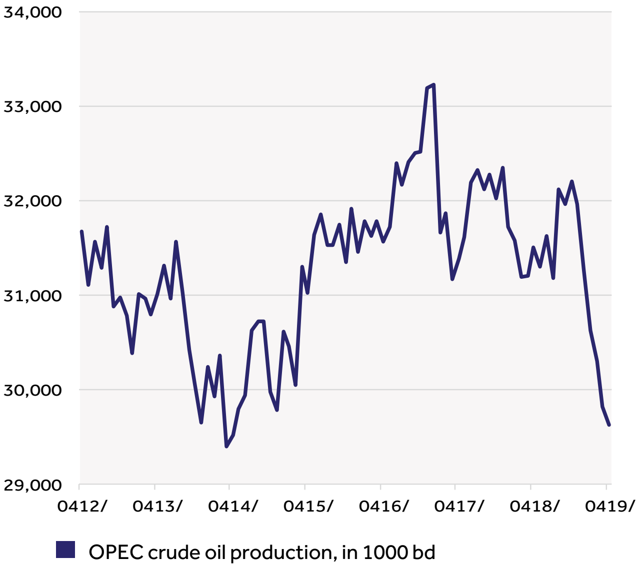
source: JODI, Bloomberg

Figure 2:
Saudi Crude Refinery Output and Exports



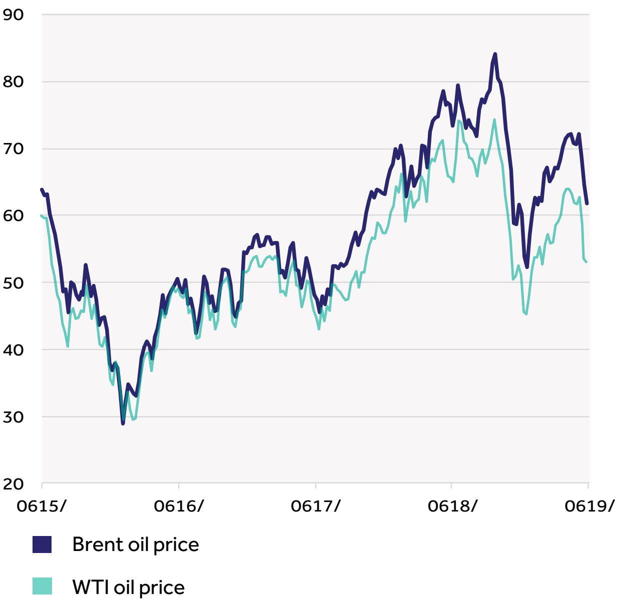
source: JODI

Figure 3:
OPEC Crude Output



source: JODI, Bloomberg

Figure 4:
Oil Prices



source: Bloomberg

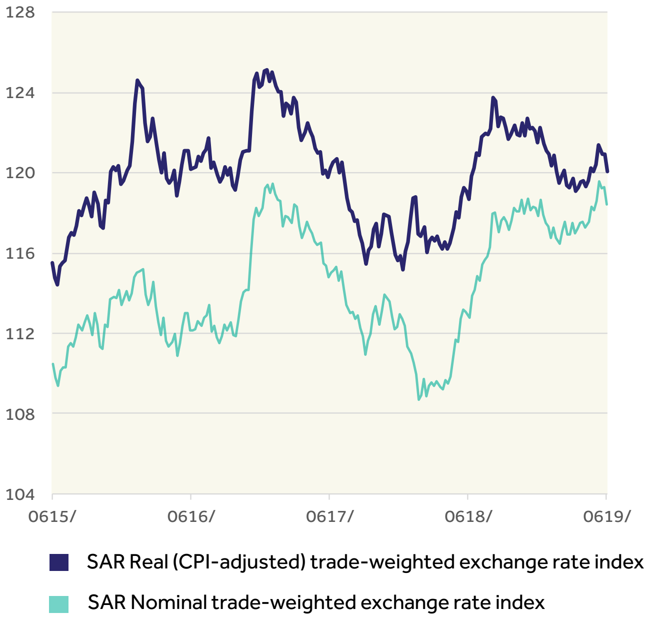
Saudi crude oil production was reduced by 1.3 mbd from November 2018 to April 2019, crude and refined product exports by 1.8 mbd. Meanwhile, OPEC overall crude output was cut by a significant 2.6 mbd (secondary sources). This caused oil prices to rebound from their lows in December before renewed trade war fears and concerns of a global economic slowdown put pressure on prices again in May.

Foreign Exchange: Forward Rates and Effective Exchange Rate Index

Figure 1:
12-Months Forward Exchange Rate SAR/USD

source: Bloomberg

Figure 2:
SAR Nominal and Real Effective Exchange Rate

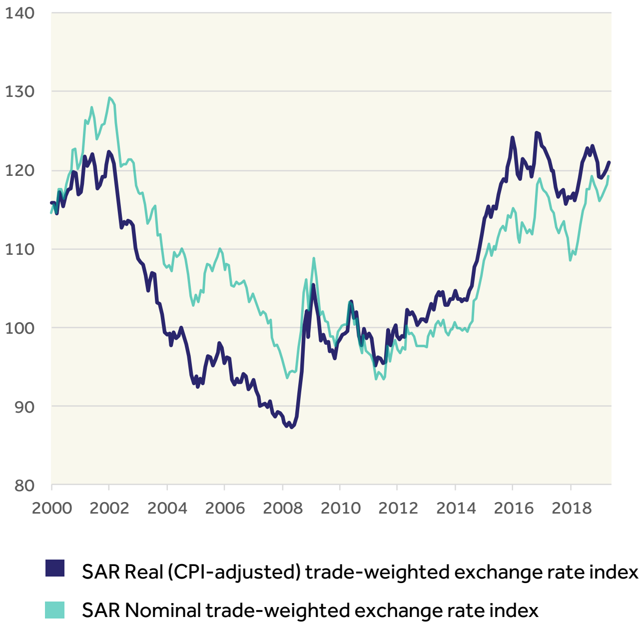


source: Bloomberg, JP Morgan

Figure 3:
12-Months Forward Exchange Rate SAR/USD in the Long Term

source: Bloomberg

Figure 4:
SAR Nominal and Real Effective Exchange Rate in the Long Term

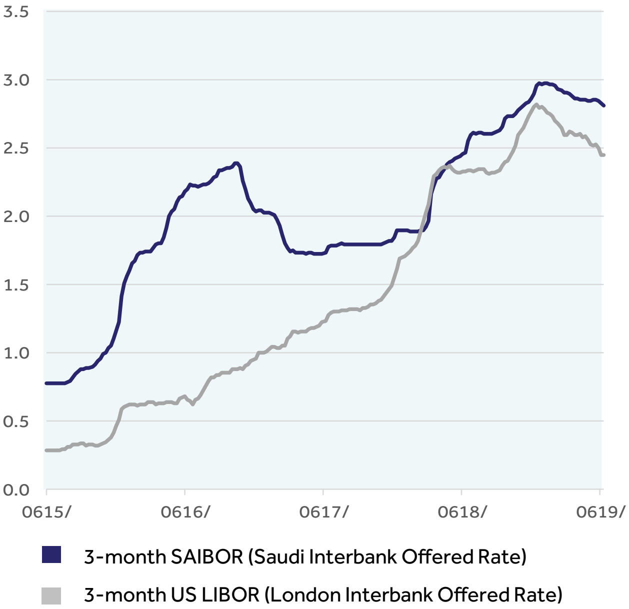


source: Bloomberg, JPMorgan

Renewed trade war fears and the subsequent oil price decline in May triggered a moderate widening of the USD/SAR 12-months FX- forward premium by 40bp. However, by historical standards, the FX-forward premium is still at reasonably low levels. Besides, US dollar strength against major currencies in the last few months also led to an appreciation of the SAR nominal and real exchange rate index.

Interest Rates: Money Market, Capital Market and Central Bank Rates

Figure 1:
3-Months SAIBOR vs. USD LIBOR

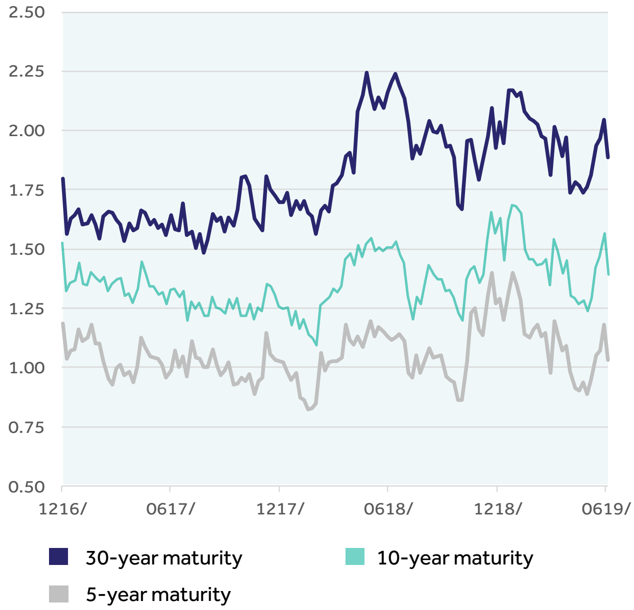


source: Bloomberg

Figure 2:
5-Year Swap Rate SAR vs. USD

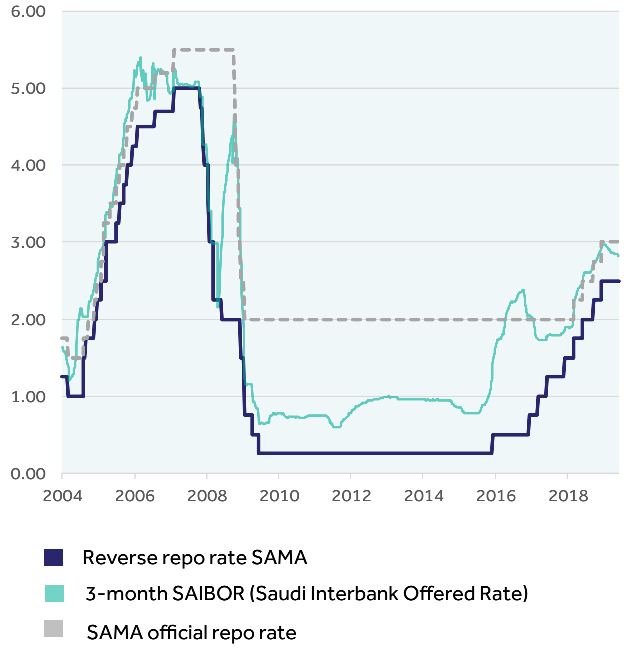
source: Bloomberg

Figure 3:
KSA USD-Bonds Yield Spread to US Treasuries



source: Bloomberg

Figure 4:
Central Bank Rate and 3-Months SAIBOR

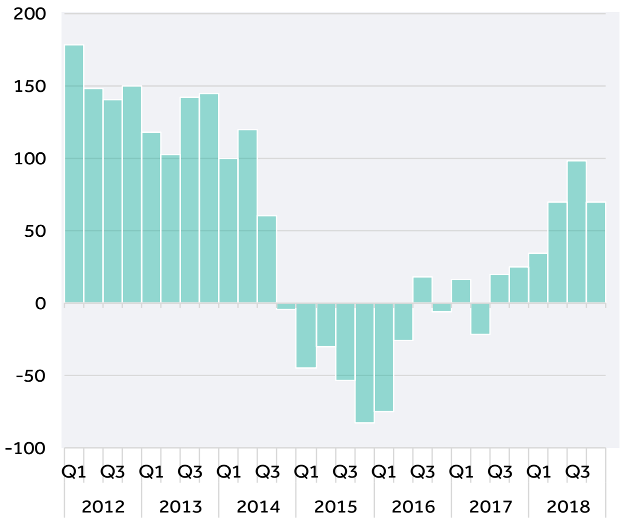


source: Bloomberg

While back in Q2018 4 the market still expected two rates hikes by the US Federal Reserve in the course of 2019, there are currently more than two USD rate cuts priced-in for the second half of 2019. Accordingly, the USD and the SAR yield curve shifted downwards. SAR and USD 3M rates dropped by 20 bp respectively 35 bp, while 5-year SAR and USD Swap rates declined each by about 125 bp from their peak.

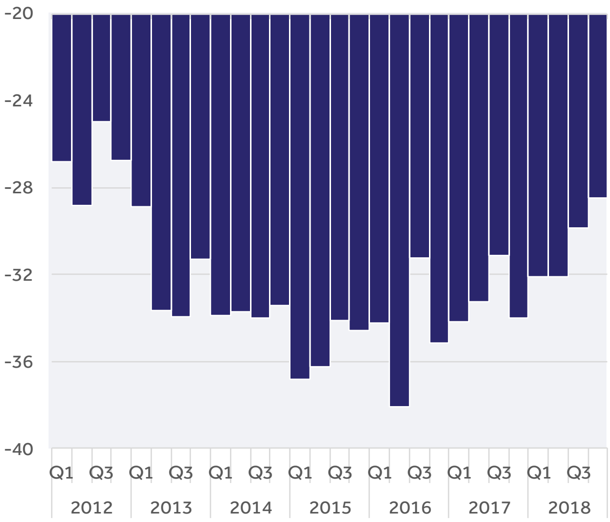
Saudi Balance of Payments

Figure 1:
Current Account Balance



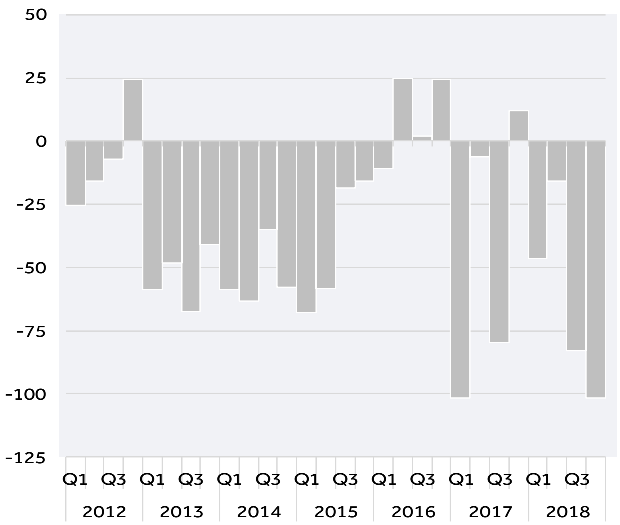
source: SAMA

Figure 2:
Foreign Workers' Remittances



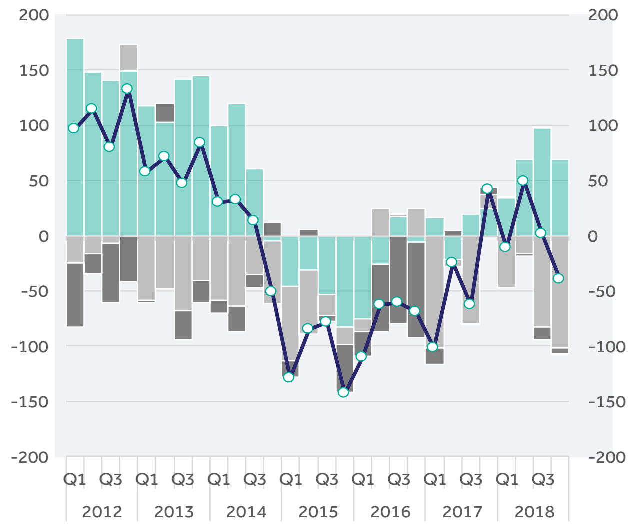
source: SAMA

Figure 3:
Financial Account Balance



source: SAMA

Figure 4:
Contribution to Balance of Payments (in bln SAR)



source: SAMA

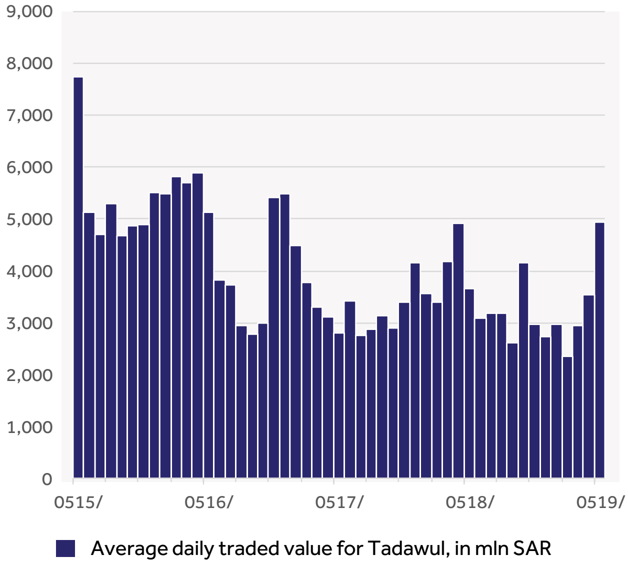
The outflow of 1.6 mln foreign workers resulted in declining remittances in the last two years, thus positively impacting the current account balance. However, the dominating factor for the current account are still oil prices which dropped in Q2018 4 leading to reduced surplus. Meanwhile, large outflows in the financial account drove the (private) balance of payment into a deficit in Q2018 4.

Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index

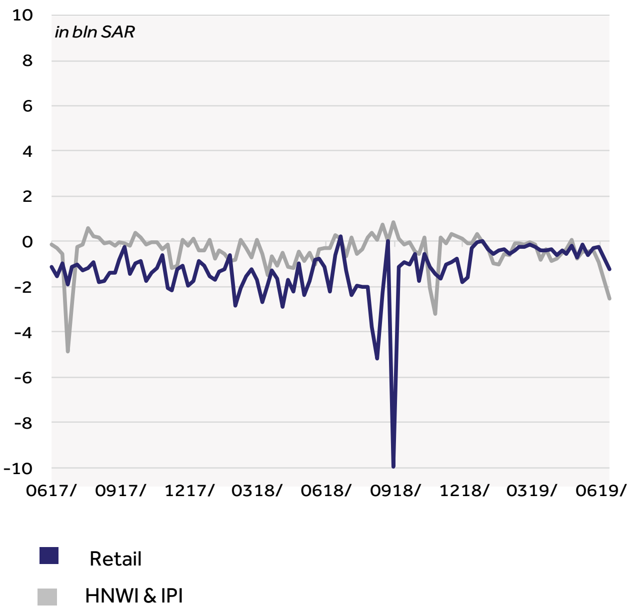
source: Bloomberg

Figure 2:
Tadawul Average Daily Traded Value



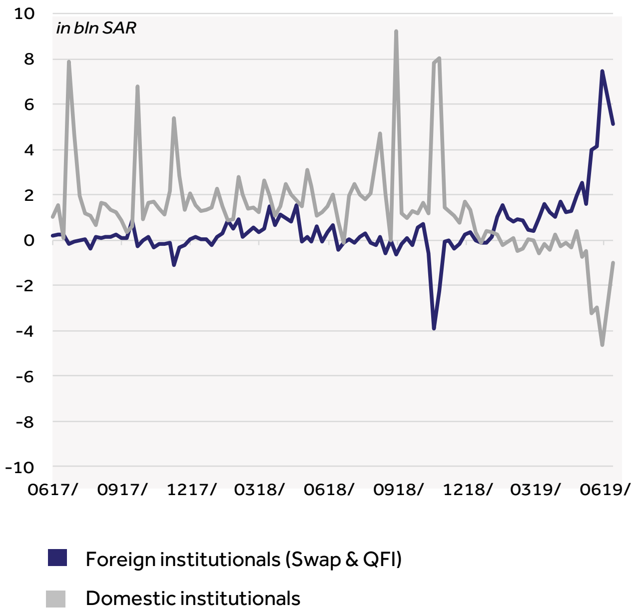
source: Tadawul

Figure 3:
Weekly Net Purchase by Ownersip (in bln SAR)



source: Tadawul

Figure 4:
Weekly Net Purchase by Ownersip (in bln SAR)

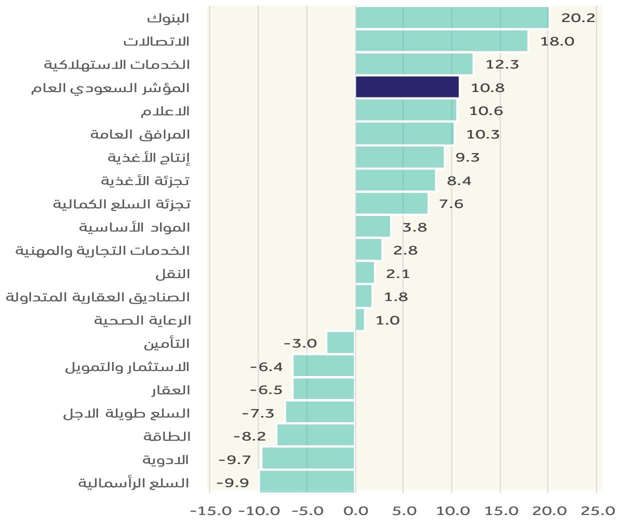


source: Tadawul

The inclusion in major Emerging Market indices, the dominating theme of the Saudi equity market in 2019, has resulted in a massive inflow of accumulated 43bln SAR by foreign institutional investors so far this year. Foreign investors' buying accelerated in May on the back of the first %50 partial inclusion in the MSCI Emerging Market index. Domestic institutional investors were the primary sellers.

Tadawul: Saudi Equity Market Statistics

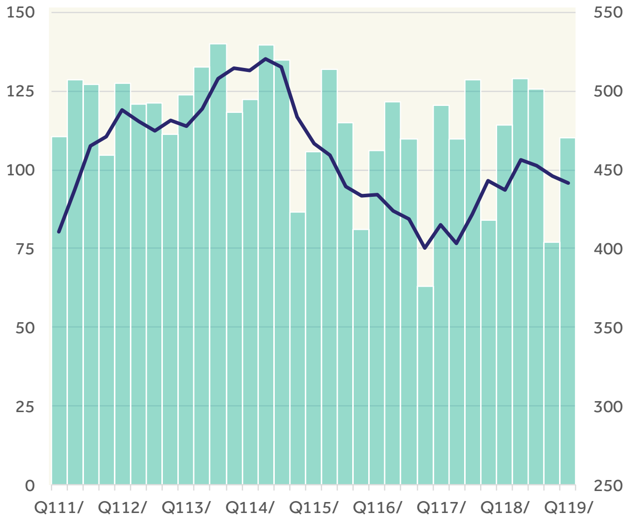
Figure 1:
Performance TASI Sectors May 2019YTD



Performance in % YTD, including dividends

source: Bloomberg

Figure 2:
Quarterly Earnings TASI



TASI quarterly EPS in SAR, l.h.sc

TASI 4Q trailing EPS in SAR, r.h.sc.

source: Bloomberg

Figure 3:
Valuation TASI: PE-Ratio Trailing

PE ratio TASI, 12-month trailing earnings

Long-term average

source: Bloomberg

Figure 4:
Valuation TASI: PE-Ratio Forward

PE ratio TASI, 12-month forward earnings

Long-term average

source: Bloomberg

TASI performed well so far in 2019 with a total return of %10.8 until end of May. Banks and telecom service providers were the top performing sectors over this period with a plus of %20.2 respectively %18.0. As a result of the strong market performance on the one hand and declining earnings on the other, valuation has reached stretched levels with a trailing PE-ratio at 20.3 and a forward PE-ratio at 16.2.

Saudi Economic Outlook

Next to our outlook 2019, we have added our preliminary economic forecasts for 2020 in this edition of the Saudi Economic Chartbook. We expect the Saudi non -oil economy to further gain pace in the course of 2019 and this trend is expected to carry over to 2020. Based on various indications, we upgrade the real growth rate of the non-oil private sector to %2.4 for 2019 (from previously %2.2) and forecast a further acceleration to %2.7 in 2020.

On the other hand, we expect Saudi oil production for 2019 to fall below last year's level on the back of an expected extension of the OPEC output agreement and strong Saudi compliance to the defined target. As a consequence, oil sector GDP contribution will decline to –%0.3 this year. Hence, GDP growth of the overall economy will slow down to %1.1 in 2019 from %2.2 last year. For 2020, we expect a gradual recovery of the oil sector (%1.4) which, combined with higher non-oil sector growth rates, will lead to a rebound of the overall Saudi economy to %2.0.

We expect fiscal policy to pursue its expansionary path defined in the 2019 budget which implies a substantial increase of fiscal spending in the remainder of the year. For 2020, we forecast continued fiscal expansion albeit at a moderately slower pace. The fiscal deficit as % of GDP will continue to gradually decline in this and next year to %5.7 respectively %5.6 (after %5.9 in 2018).

Average CPI inflation for 2019 is forecasted at -%1.4 before picking up to %0.9 in 2020. In particular, we expect the sharp decline of housing rents as the major driver for the current CPI deflation to fade within the next 12-18 months on the back of an anticipated stabilization of the Saudi residential real estate market towards 2020.

SAR interest rates have peaked in 2019 and are expected to gradually decline into 2020 against the backdrop of a dovish stance by the US FED. In our baseline scenario, we forecast the FED and SAMA to cut rates by %0.75 until the end of next year.

We forecast the unemployment rate for Saudi nationals to decline to %12.1 in 2020. Combined with an expected increase of the Saudi labor force participation rate to %43.1, this implies that the Saudi economy will have to create approximately 170k-190k new jobs for Saudis in the year 2020.

Facts and Forecasts at a Glance

	2017	2018	*2019f*	*2020f*
Real GDP Growth				
Overall economy	0.7	2.2-	*1.1*	*2.0*
Non-oil Private sector	1.5	1.7	*2.4*	*2.7*
Government sector	0.7	2.8	*2.0*	*1.6*
Oil sector	3.1	2.8-	*0.3*	*1.4-*
Fiscal Balance and Government Debt				
Fiscal Balance in bln SAR	174-238	-	*182-179*	-
Fiscal Balance in % GDP	5.9-9.3	-	*5.6-5.7*	-
Government debt in bln SAR	443	560	*690*	*815*
Government debt as % GDP	17.3	19.1	*22.0*	*25.2*
Trade and Current Account				
Trade Balance in bln SAR	369	639	*551*	*530*
Trade Balance in % GDP	14.4	21.8	*17.6*	*16.4*
Current Account in bln SAR	39	271	*195*	*182*
Current Account in % GDP	1.5	9.2	*6.2*	*5.6*

source: GASTAT, SAMA, RC

	2017	2018	*2019f*	*2020f*
Oil Prices and Production (yearly average)				
Brent price (USD pb)	54.8	71.7	*67.0*	*65.0*
WTI price (USD pb)	50.9	64.9	*58.0*	*56.0*
OPEC Basket price (USD pb)	52.4	69.8	*65.0*	*63.0*
KSA oil production (mln bd)	9.9	10.3	*10.1*	*10.2*
Inflation and Interest Rates (year end)				
CPI Inflation (yearly average)	0.84	2.47-	*1.40*	*0.90-*
3M SAIBOR SAR	1.90	2.98	*2.35*	*2.15*
Reverse Repo Rate	1.50	2.50	*2.00*	*1.75*
Official Repo Rate	2.00	3.00	*2.50*	*2.25*
Labor Market (yearly average)				
Unemployment rate total in 5.9	6.0	%	*5.9*	*5.8*
Unemployment rate Saudi in 12.8	12.8	%	*12.4*	*12.1*
Labor force part. total in 54.9	56.0	%	*56.2*	*56.5*
Labor force part. Saudi in 40.8	42.0	%	*42.5*	*43.1*

source: GASTAT, SAMA, Bloomberg, RC

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provide information of a general nature and do not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader's may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers.

الرياض المالية
riyad capital

*This report is Issued by Riyad Capital

Riyad Capital is a Saudi Closed Joint Stock Company with a paid up capital of SR 200 million , with commercial registration number (1010239234), licensed and organized by the Capital Market Authority under License No. (07070-37), Head Office: Granada Business Park 2414 Al-Shohda Dist. – Unit No 69, Riyadh 13241 - 7279 Saudi Arabia. Website: www.riyadcapital.com

riyadbank.com