

Saudi Economic Chartbook

First Quarter 2019



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Table of Contents:

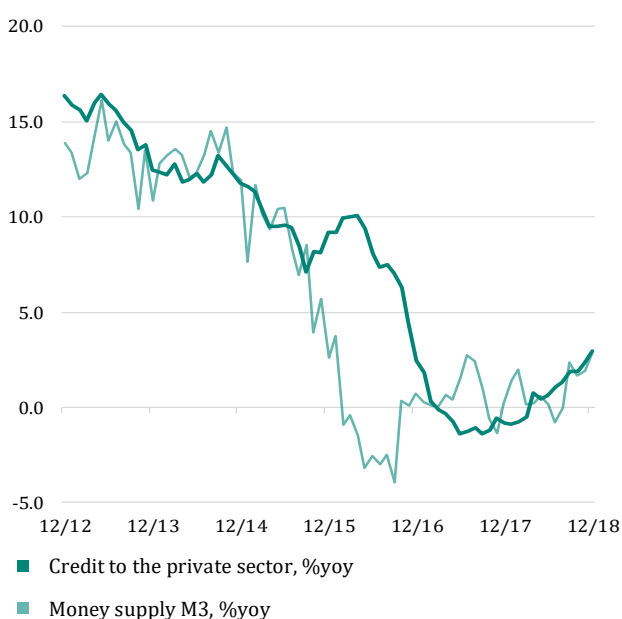
GDP Data	2
Monetary and Financial Indicators	3
Fiscal Balance and Government Debt.....	6
Private Spending and Foreign Trade	7
Non-Oil Business Climate Indicators	8
Inflation Indicators	9
Real Estate Market	10
Oil Market	12
Foreign Exchange and Interest Rates	13
Saudi Balance of Payments	15
Saudi Equity Market	16
Saudi Economic Outlook	18

Growth Acceleration of the Non-Oil Economy into 2019

- GDP growth of the overall economy has notably picked up in the second half of 2018. This has primarily been the result of a substantial oil output expansion. For 2019 we expect a moderate growth slowdown as the oil production will broadly stabilize at last year's level.
- There are increasing signs of a further growth acceleration of the non-oil economy. Credit growth to the private sector has started to sustainably recover and has reached 3.0% yoy in December 2018 (see figure below).
- Purchasing Manager Indices as a proxy for the business climate of the non-oil economy have temporarily stalled in H2 2018. However, at the beginning of 2019 we see encouraging signs of a pick-up which may indicate further accelerating economic activity into 2019.
- On the back of the latest OPEC agreement, Saudi Arabia has started to scale down its oil production in December after a peak output at 11.0 mbd reached in November. Based on secondary sources, January production has been further trimmed to 10.2 mbd.
- SAR money market interest rates picked up in the course of 2018 with the 3M SAIBOR ending the year at 3.0%. Based on our new baseline scenario of only one single FED rate hike in 2019, SAR interest rates are close to their peak.

TASI has seen a strong start into 2019, which has essentially been fueled by substantial foreign institutional capital inflow. However, overall trading volumes have remained subdued in the first weeks of the year.

Credit and Broad Money Supply Picking Up



After a contraction in 2017 credit to the private sector has continuously picked up during last year to reach 3.0% yoy by end of 2018.

source: SAMA

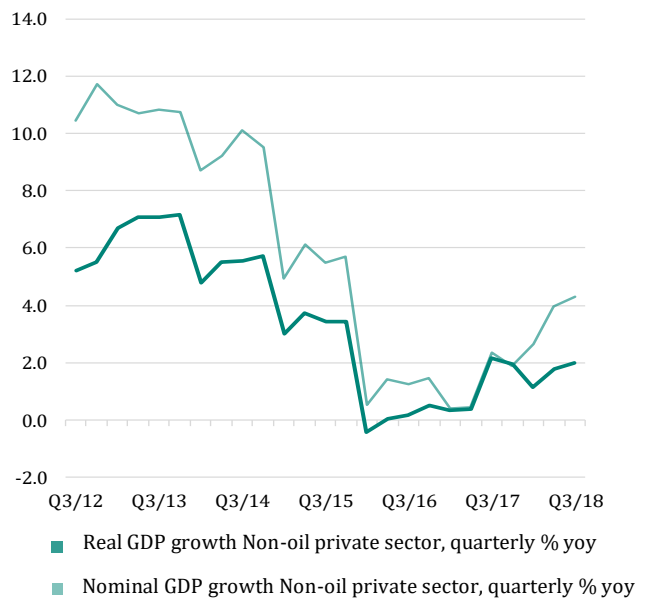
Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector



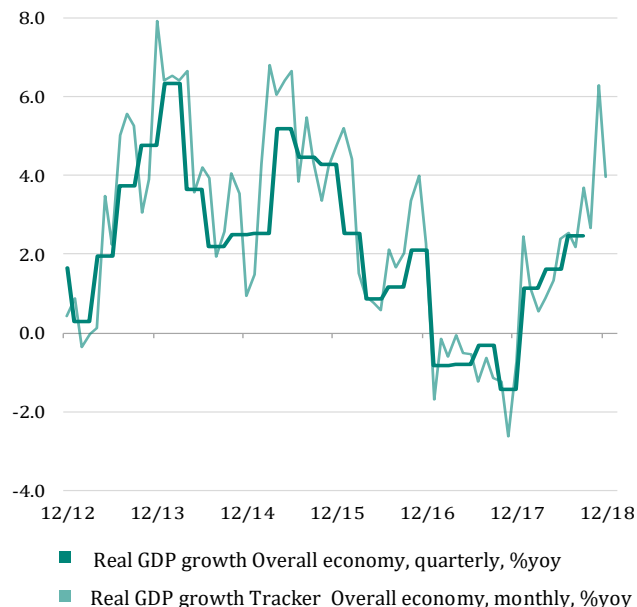
source: GASTAT

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



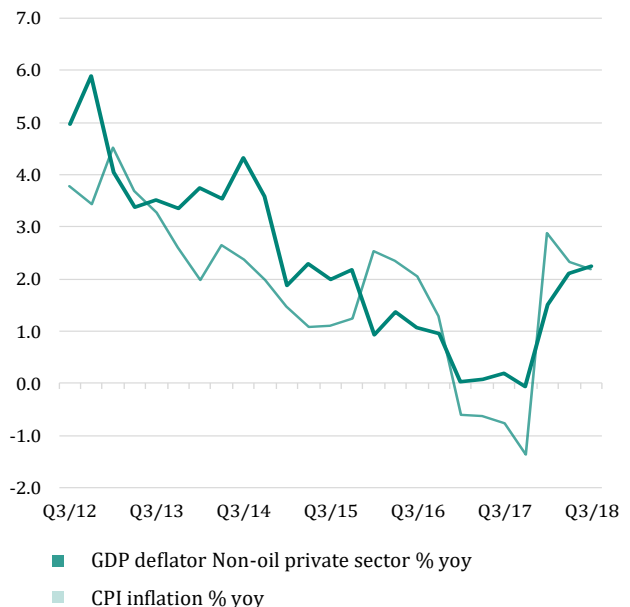
source: GASTAT

Figure 3:
Monthly GDP Tracker of Overall Economy



source: GASTAT, RC

Figure 4:
GDP Deflator and CPI Inflation



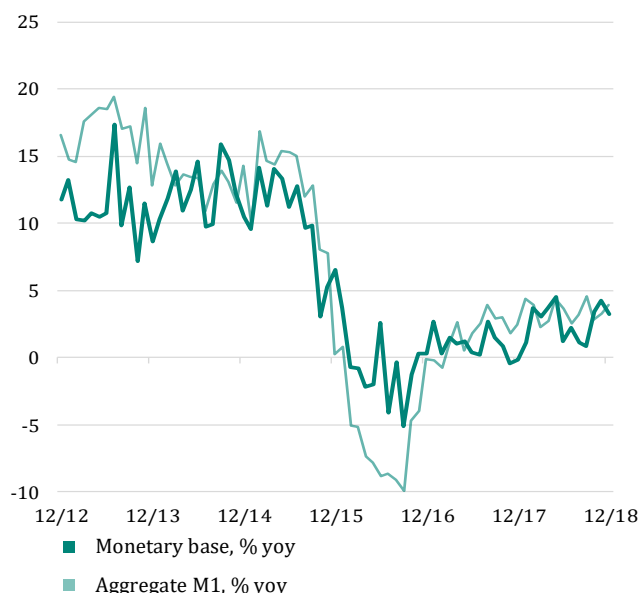
source: GASTAT

Real GDP growth of the overall economy accelerated in H2 2018. Based on preliminary GASTAT data, Q3 growth picked up to 2.5% and our GDP tracker model indicates a Q4 growth rate of about 4.0%. This is

primarily the result of a substantial growth contribution by the oil sector which, according to our models, has reached about 6.0% in Q4 2018 on the back of a substantial oil output expansion.

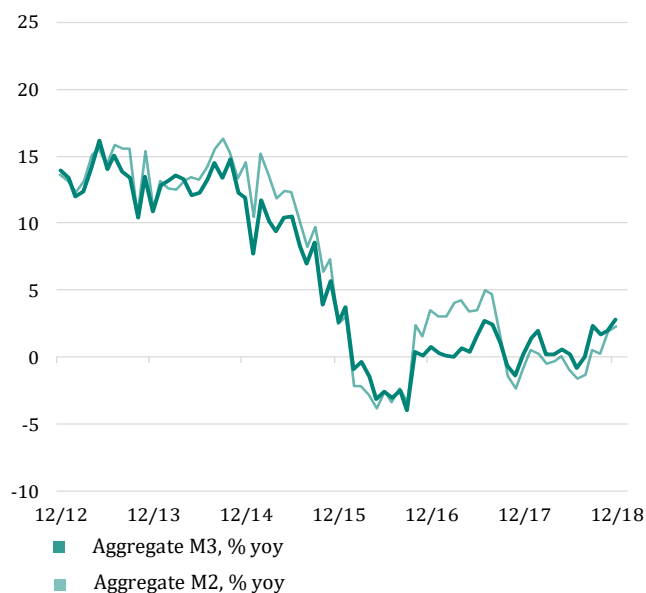
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Aggregate M1



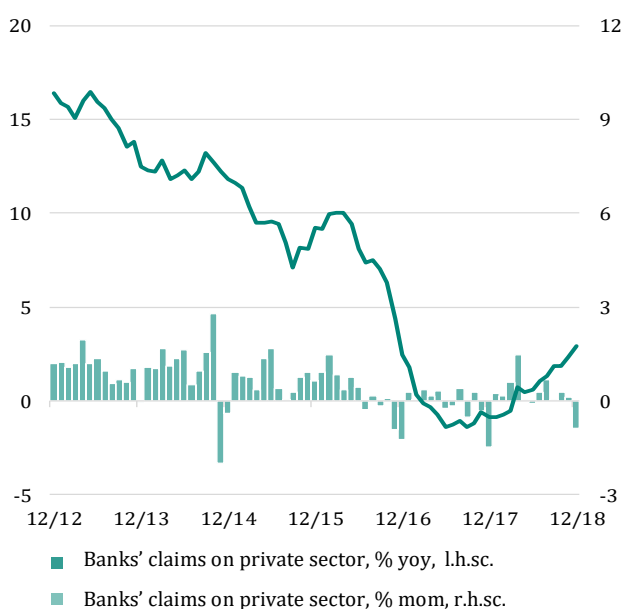
source: SAMA

Figure 2:
Growth Rate Monetary Aggregates M2 and M3



source: SAMA

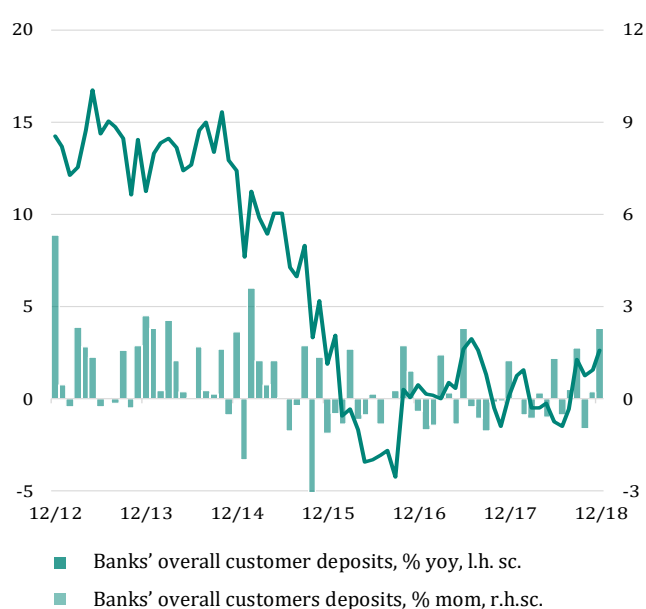
Figure 3:
Growth of Credit to the Private Sector



source: SAMA

Broad money supply M3 picked up in H2 2018 and grew in December by 2.8% yoy. This is the result of an expansion of commercial banks' deposits over this period. Meanwhile, credit to the private sector

Figure 4:
Growth of Commercial Banks' Deposits

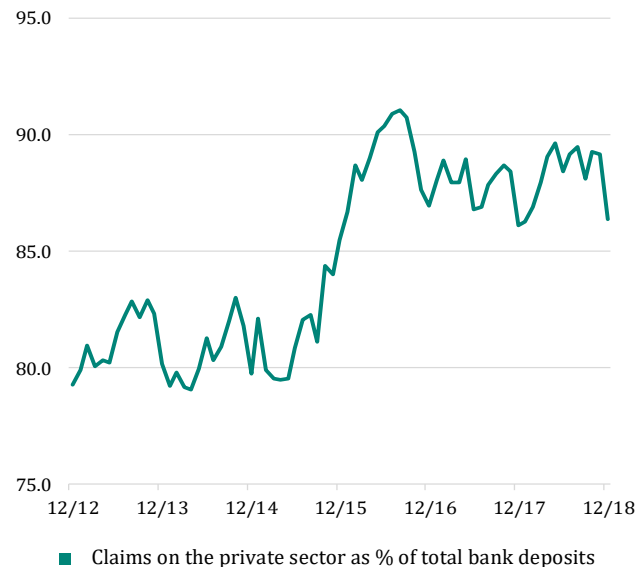


source: SAMA

shows signs of a sustainable rebound after the contraction in the course of 2017. By end of last year credit growth reached 3.0% yoy after having contracted by -0.6% throughout the year 2017.

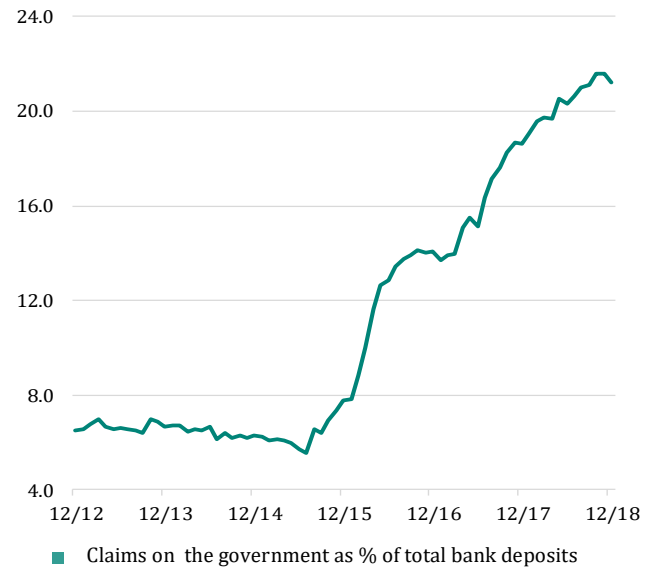
Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio



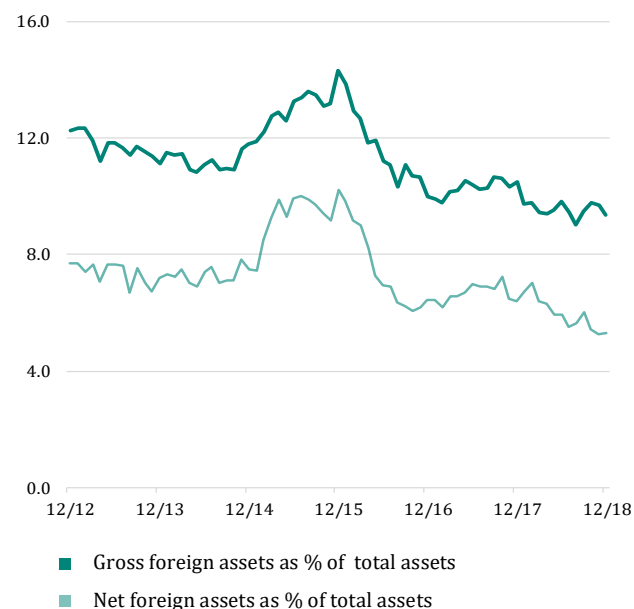
source: SAMA

Figure 2:
Government Sector Loan-Deposit-Ratio



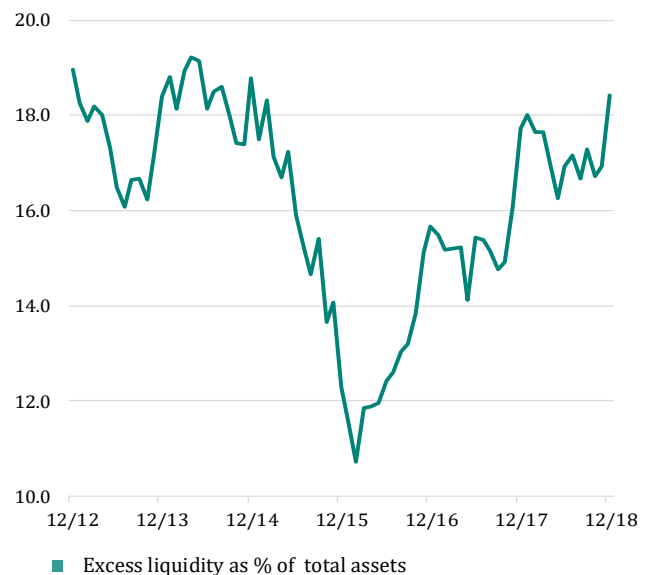
source: SAMA

Figure 3:
Foreign Assets to Total Assets Ratio



source: SAMA

Figure 4:
Excess Liquidity to Total Assets Ratio



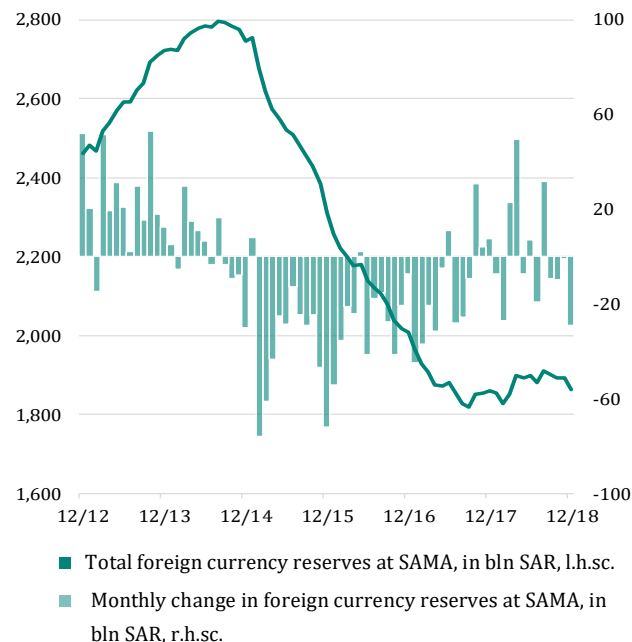
source: SAMA

Excess liquidity in the banking system clearly improved in Q4 2018 due an increase of commercial banks' deposits at SAMA. This is also reflected in the loan-deposit-ratio to the private sector which de-

clined from 89.2 in October to 86.4 in December. On the other hand, outstanding loans to the government sector (i.e. government bonds held by commercial banks) overall stabilized in Q4 2018 at 21%.

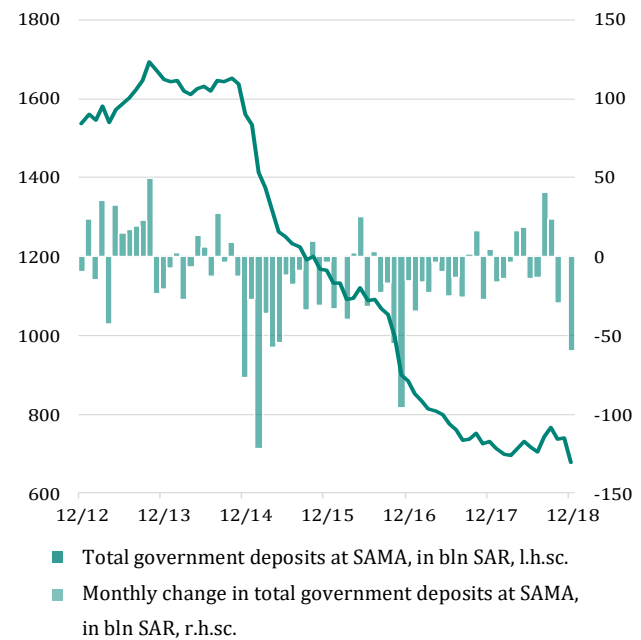
SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA



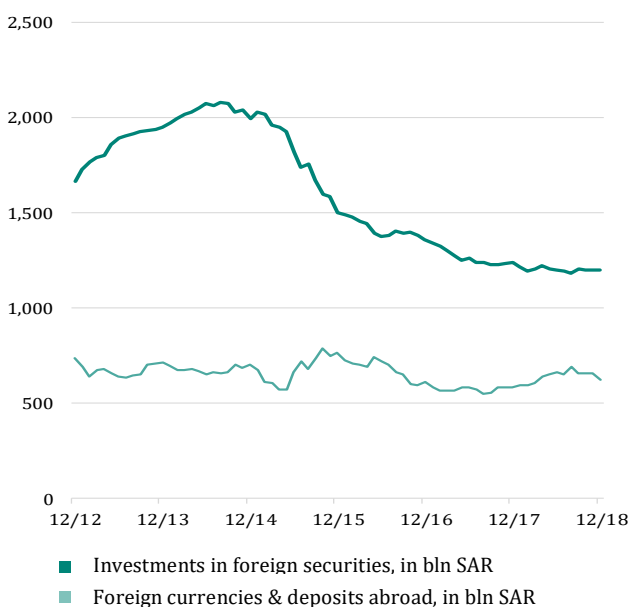
source: SAMA

Figure 2:
Government Deposits at SAMA



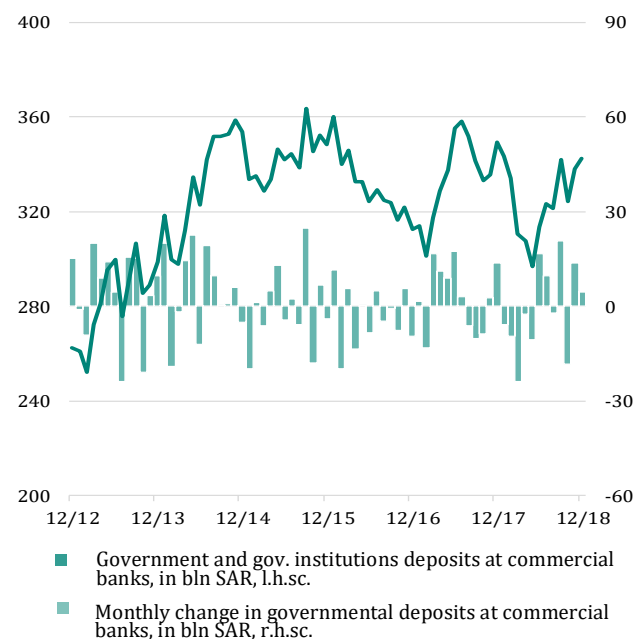
source: SAMA

Figure 3:
Breakdown of Foreign Currency Reserves at SAMA



source: SAMA

Figure 4:
Government Deposits at Commercial Banks



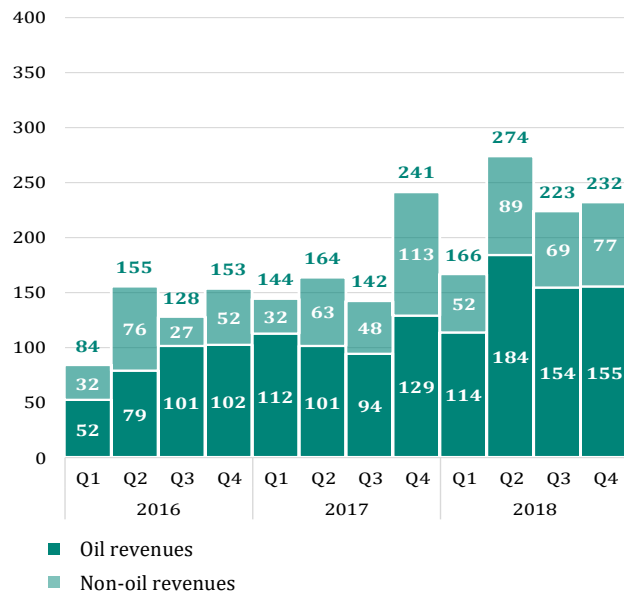
source: SAMA

As a result of the fiscal spending increase in Q4 2018 government deposits at SAMA declined over this period by overall 90bln SAR of which 60bln in December. This also translated into an outflow of for-

eign currency reserves of 40bln SAR at SAMA during this period which was funded through a corresponding reduction in foreign deposits while foreign security investments remained unchanged.

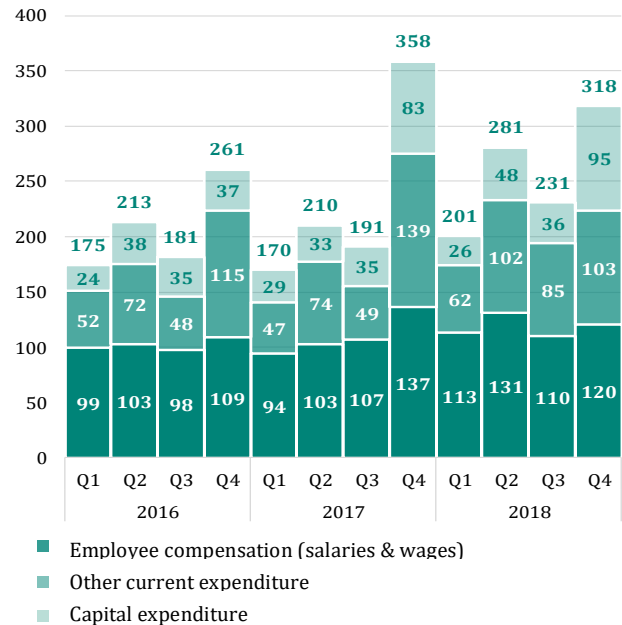
Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)



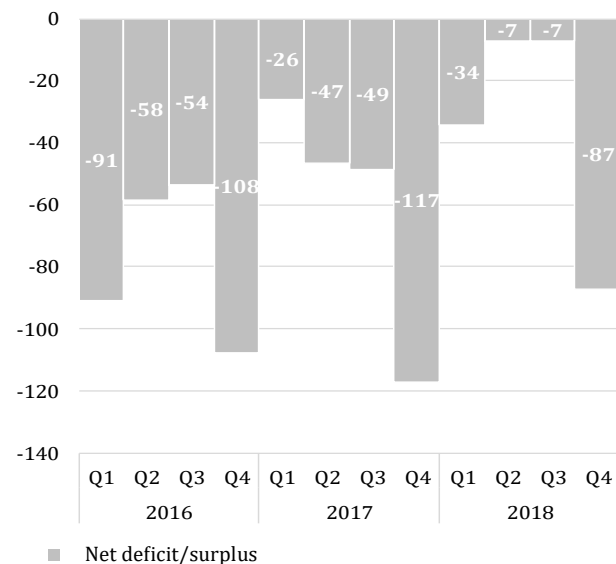
source: MoF

Figure 2:
Quarterly Fiscal Expenditure (in bln SAR)



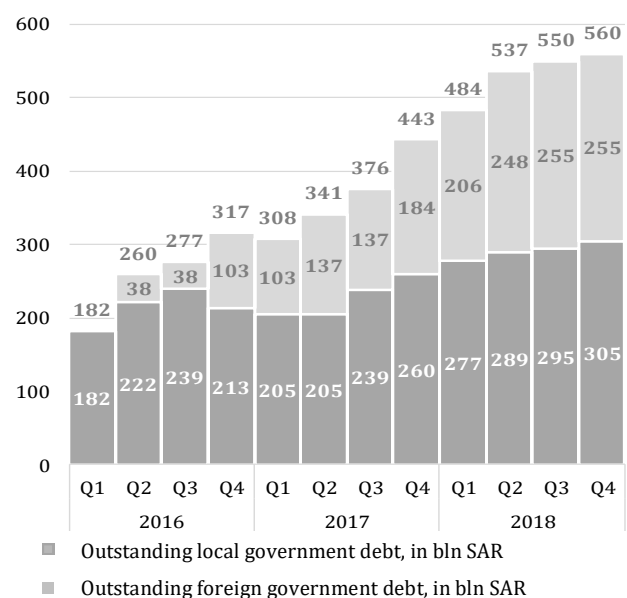
source: MoF

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



source: MoF

Figure 4:
Outstanding Government Debt (End of Quarter)



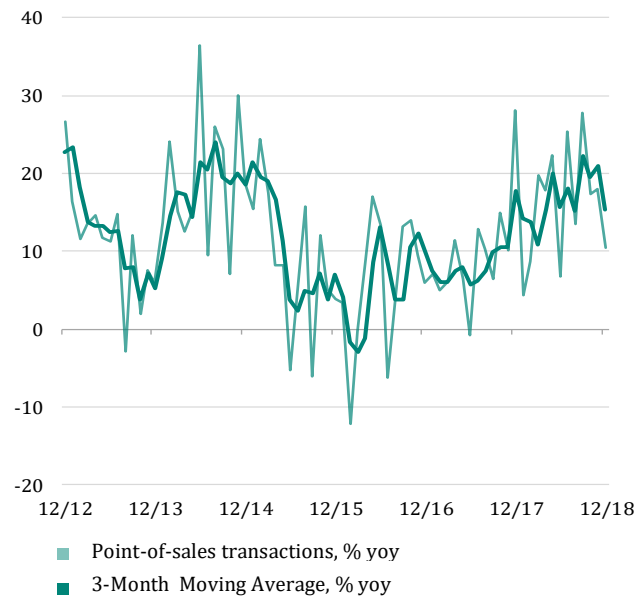
source: MoF

The last quarter 2018 was characterized by a sharp increase in fiscal spending, similar to the previous two years. This resulted in a notable expansion of the quarterly deficit to 87 bln SAR which was funded

through a corresponding withdrawal of government deposits at SAMA as illustrated on page 5. However, due to record low deficits in the first three quarters the yearly deficit 2018 dropped to -136 bln SAR.

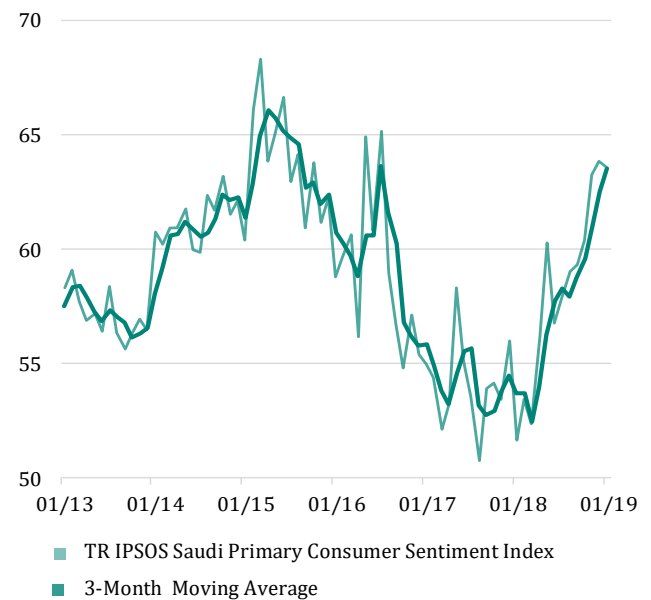
Private Spending Indicators and Non-Oil Foreign Trade

Figure 1:
Point-of-Sales Transactions



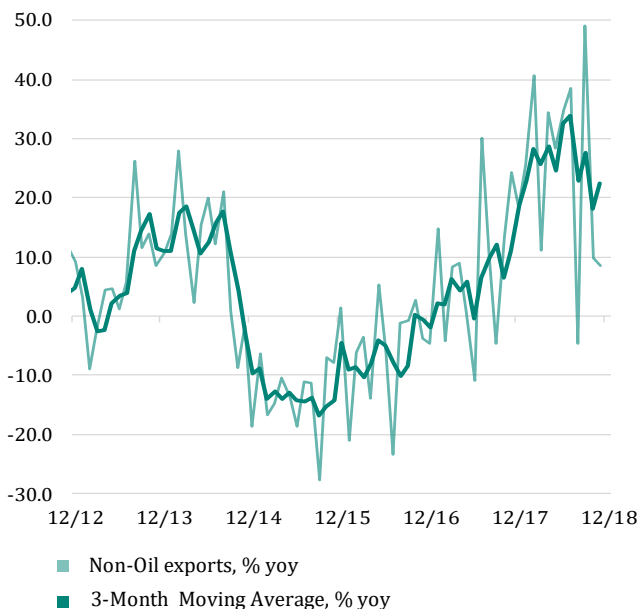
source: SAMA

Figure 2:
Consumer Sentiment



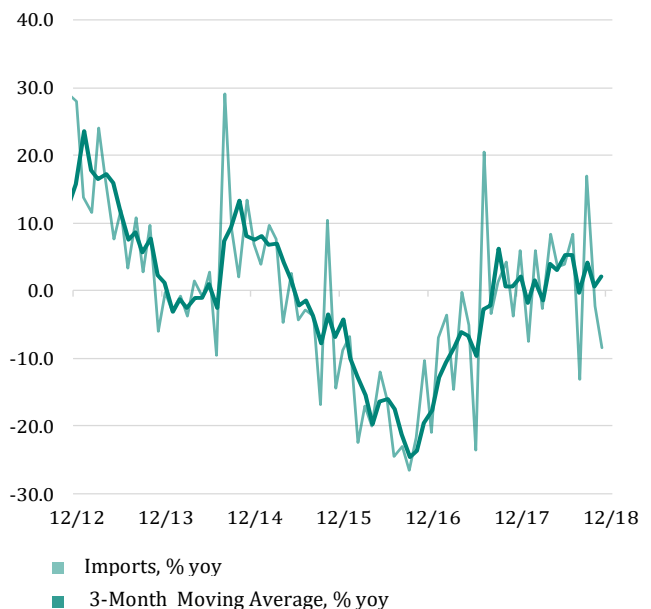
source: Thomson Reuters

Figure 3:
Growth of Non-Oil Exports



source: GASTAT

Figure 4:
Growth of Imports



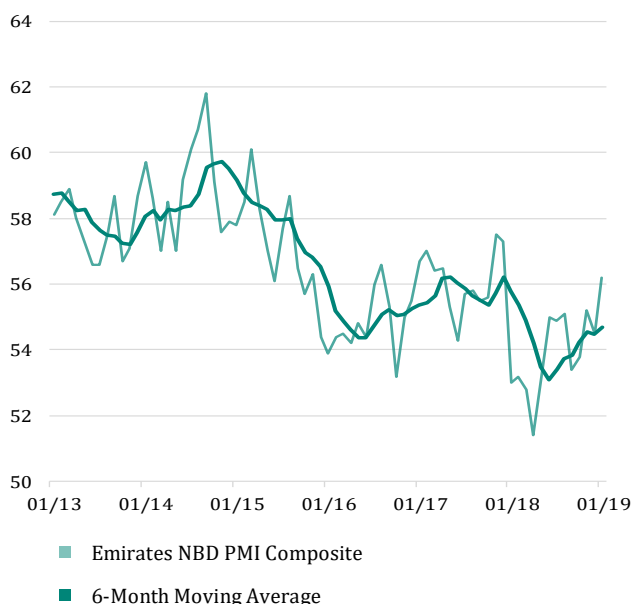
source: GASTAT

Point-of-sales transactions further expanded in the last quarter 2018 but growth momentum gradually slowed down. Meanwhile, investor sentiment continued to recover from its lows at the beginning of

2018. The growth slowdown in non-oil exports during Q4 2018 may be explained by a drop in prices of petrochemical products which constitute a majority of non-oil exports.

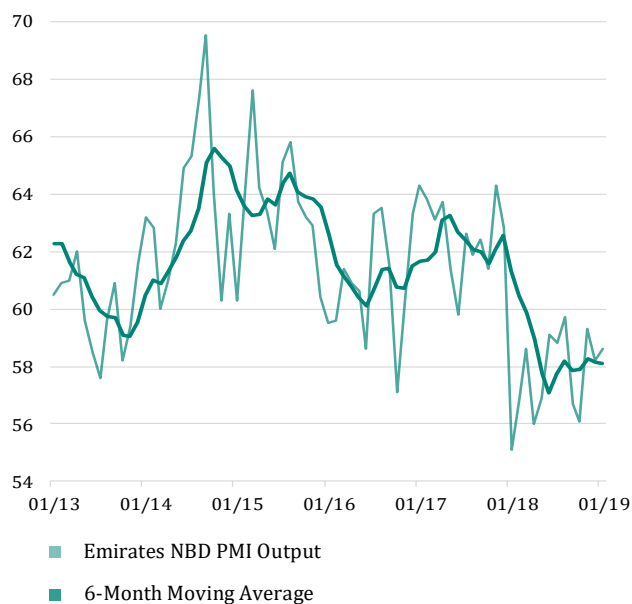
Non-Oil Private Sector Business Climate Indicators

Figure 1:
Purchasing Manager Index Composite



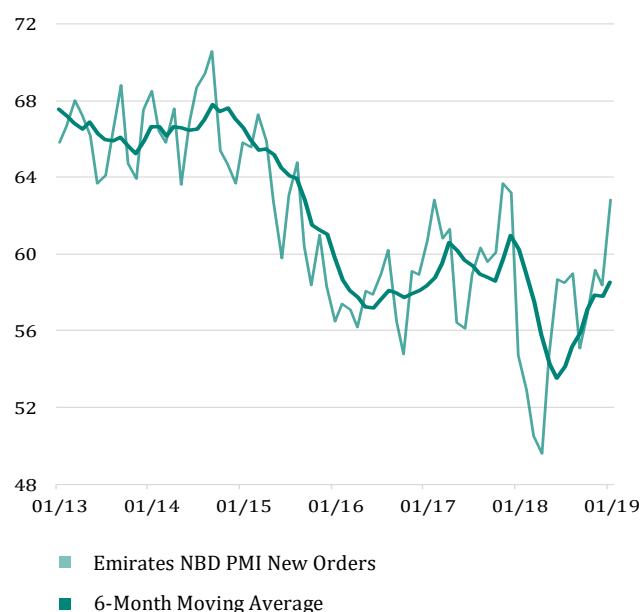
source: Markit

Figure 2:
Purchasing Manager Index Output



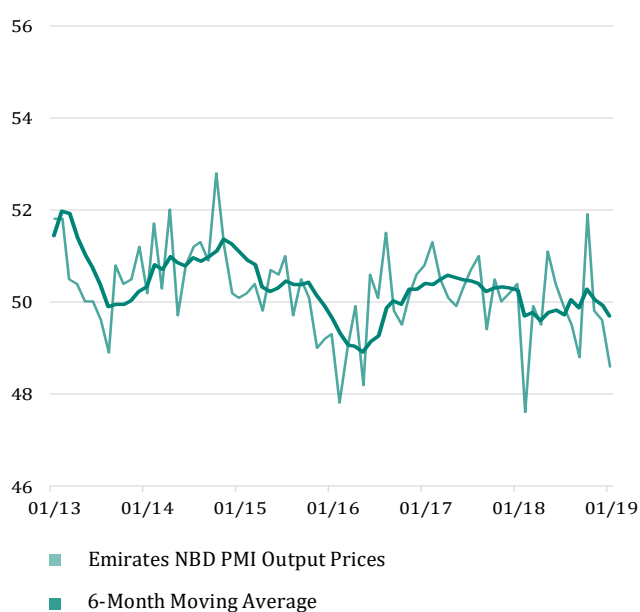
source: Markit

Figure 3:
Purchasing Manager Index New Orders



source: Markit

Figure 4:
Purchasing Manager Index Output Prices



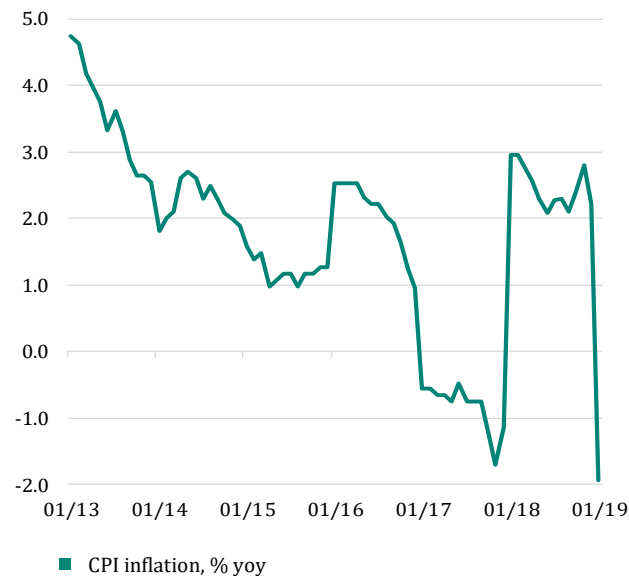
source: Markit

Saudi Purchasing Manager Indices witnessed a notable improvement in January 2019. The jump of the composite index was primarily driven by the PMI New orders which surged from 58.4 to 62.2. This is a

promising sign for future economy activity at the beginning of this year. On the other hand, the drop of the PMI output prices illustrates that companies in general still do not have pricing power.

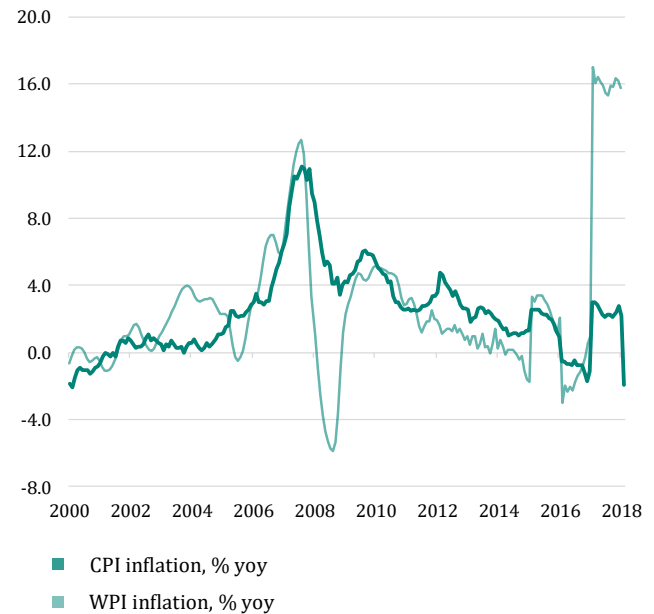
Consumer and Wholesale Price Inflation

Figure 1:
Consumer Price Inflation All Items



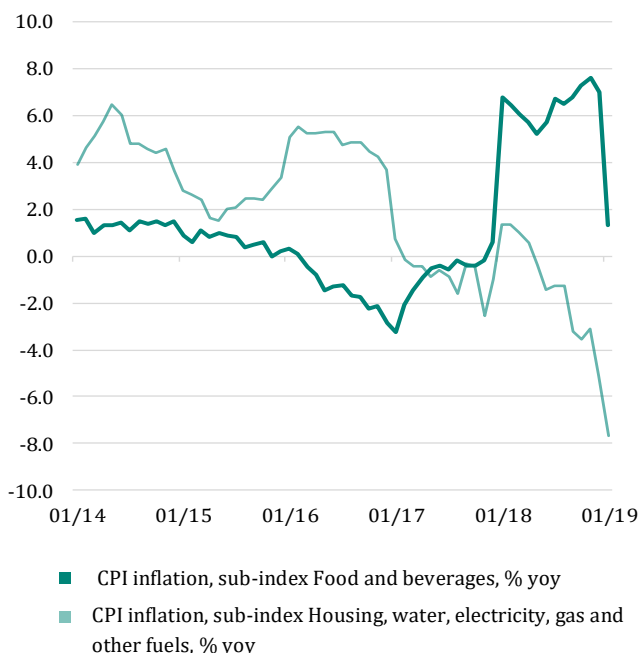
source: GASTAT

Figure 2:
Consumer Price and Wholesale Price Inflation



source: GASTAT

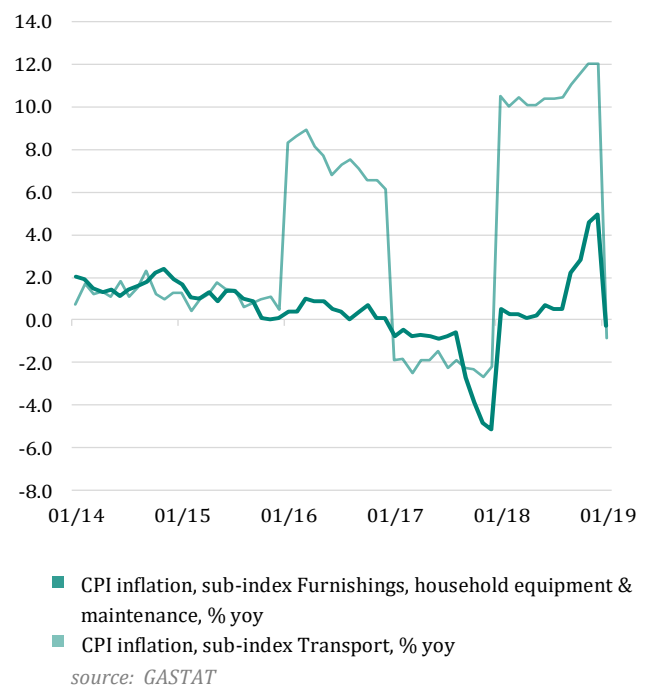
Figure 3:
CPI Inflation Food & Housing



source: GASTAT

CPI inflation dropped to -1.9%yoy in January 2019 from 2.2%yoy in December 2018. This is due to the impact of the fiscal reform measures, notably the VAT introduction and the energy price increases,

Figure 4:
CPI Inflation Furnishings & Transportation

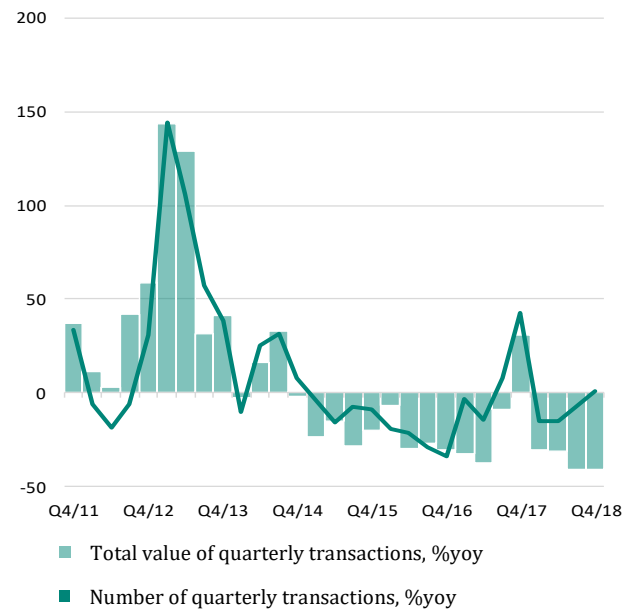


source: GASTAT

which have fallen out of the observation period. This effect has been most pronounced in the case of the transportation sub-index (gasoline prices) which declined from 12.1% to -0.8%.

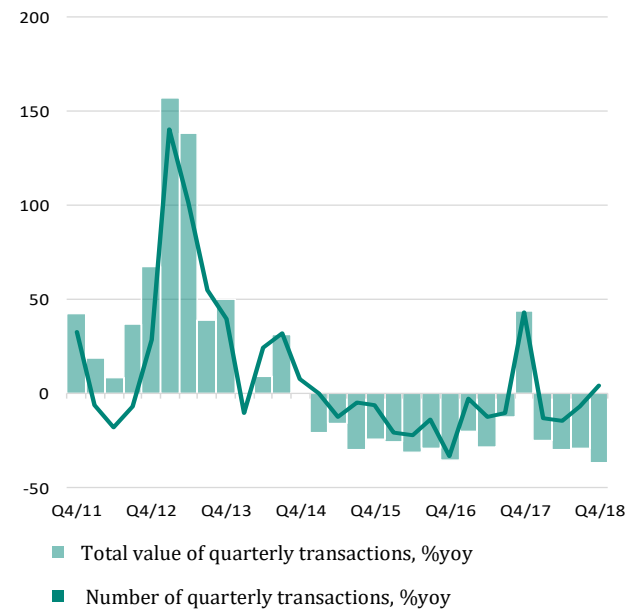
Real Estate Market: Transaction Activity

Figure 1:
Quarterly Real Estate Transactions Overall Country



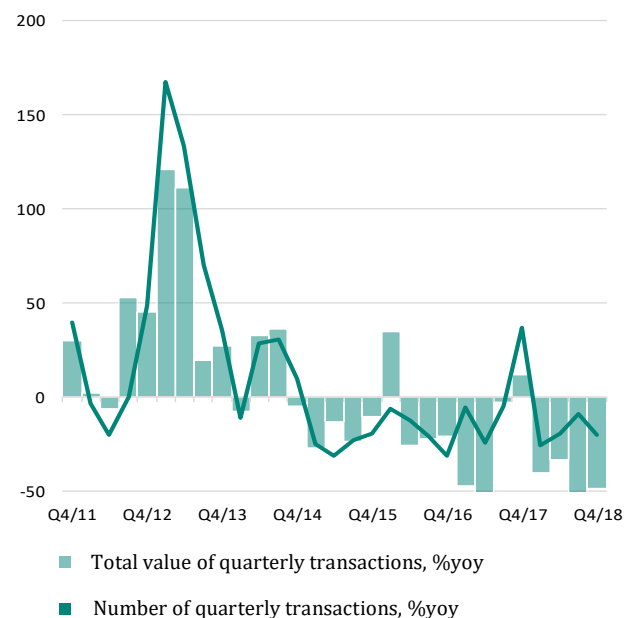
source: MOJ, RC

Figure 2:
Quarterly Residential Real Estate Transactions



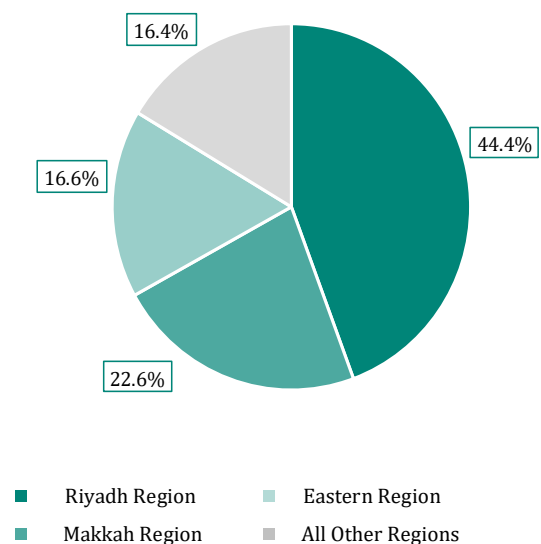
source: MOJ, RC

Figure 3:
Quarterly Commercial Real Estate Transactions



source: MOJ, RC

Figure 4:
Breakdown of Transaction Value by Regions (Q4 2018)



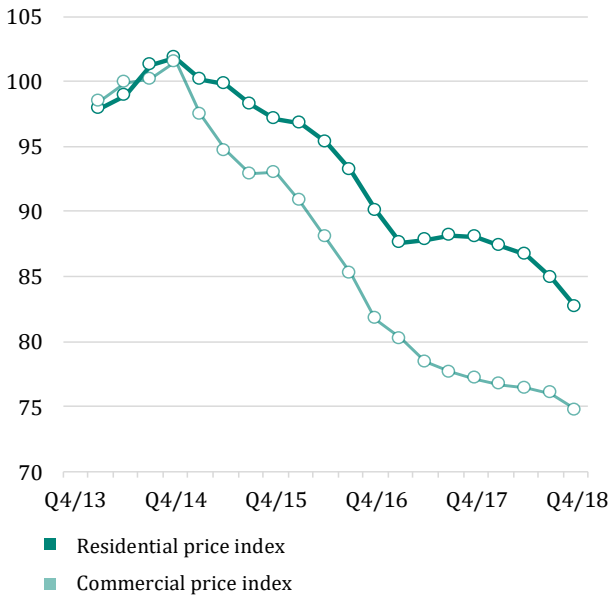
source: MOJ, RC

Real estate transactions remained subdued in H2 2018 with total transaction value diminishing by about 40% in a year-on-year comparison for both Q3 and Q4. For the full year 2018, the total value of

real estate transactions turned out to be 36% below the previous year with residential transactions declining by -31% while the commercial transaction value decreased by -46%.

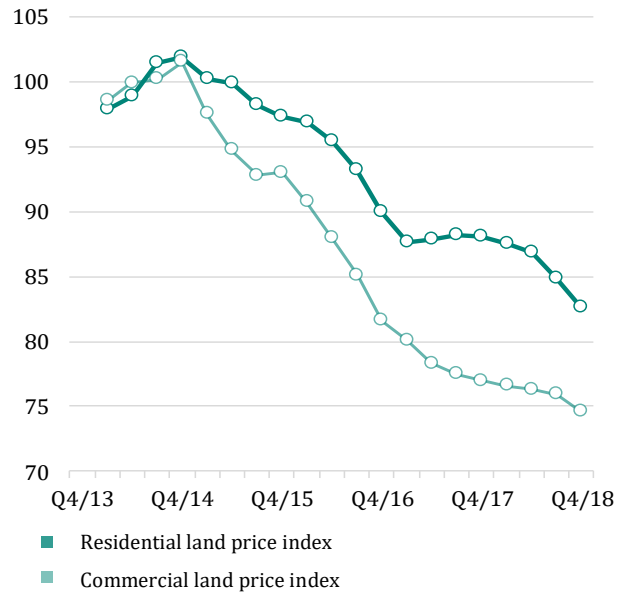
Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices



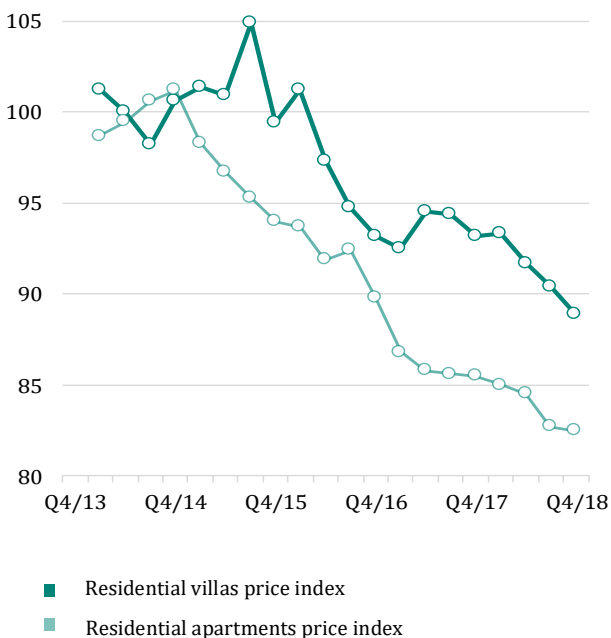
source: GASTAT

Figure 2:
Residential and Commercial Land Price Indices



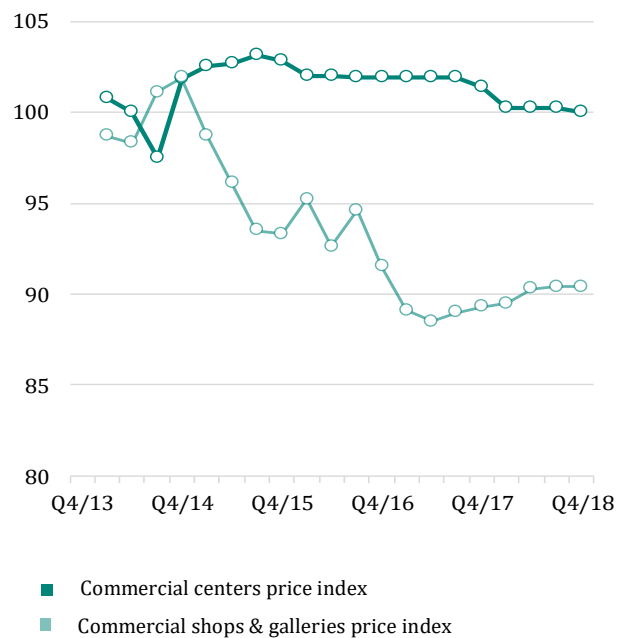
source: GASTAT

Figure 3:
Residential Villas and Apartments Price Indices



source: GASTAT

Figure 4:
Commercial Shops and Centers Price Indices



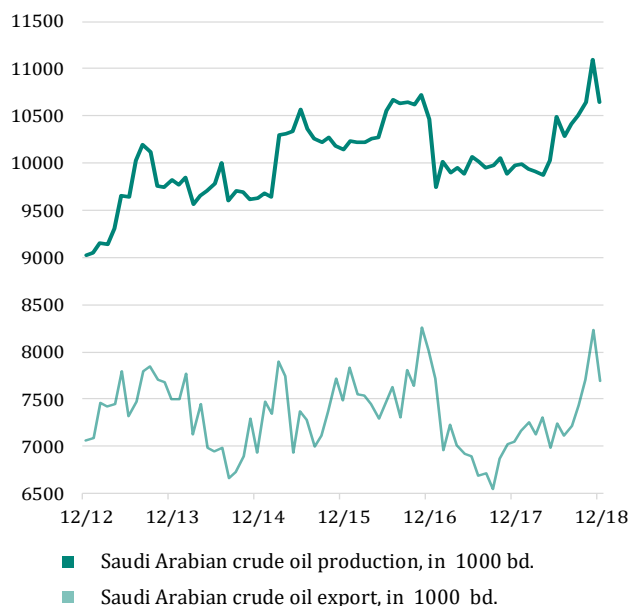
source: GASTAT

In Q4 2018 real estate prices accelerated their downturn. This particularly applied to residential real estate prices which dropped in Q4 by -6.0% yoy after a decline of -3.7% in Q3. Price indices are still

dominated by the price development of unused land which constitutes about 93% of all real estate transactions and, as a consequence, has a corresponding strong weighting in the overall index.

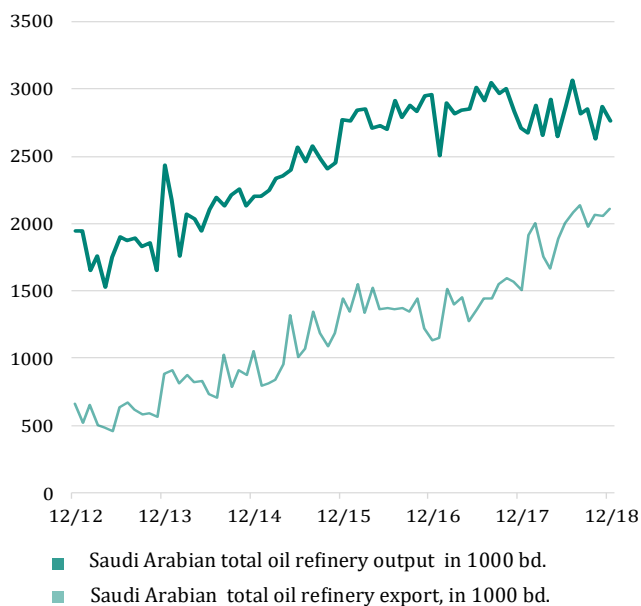
Oil Market Statistics: Production, Exports, Refinery and Prices

Figure 1:
Saudi Crude Oil Production and Exports



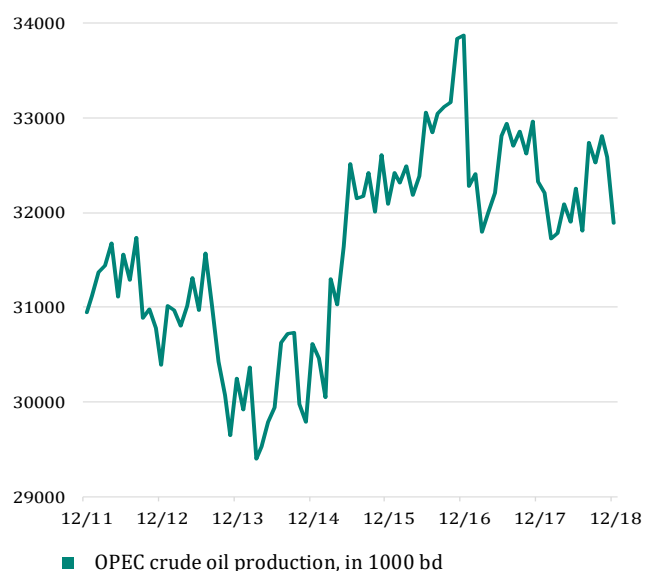
source: JODI, Bloomberg

Figure 2:
Saudi Crude Refinery Output and Exports



source: JODI

Figure 3:
OPEC Crude Output



source: JODI, Bloomberg

Figure 4:
Oil Prices



source: Bloomberg

After having increased its crude production from May to November 2018 by 1.0 mbd to 11.0 mbd, Saudi Arabia started to cut output in December to 10.6 mbd, in adherence to the OPEC agreement.

Based on secondary sources, January output is expected to be further scaled down to 10.2 mbd. OPEC production has been reduced from October to December 2018 from 32.8 mbd to 31.9 mbd.

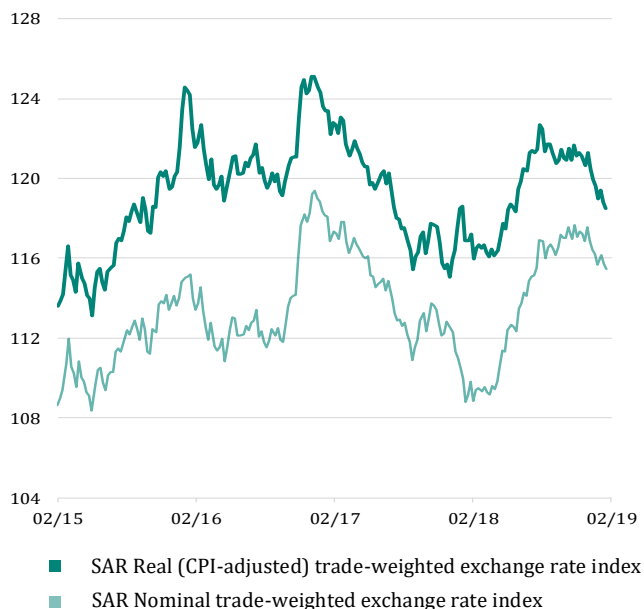
Foreign Exchange: Forward Rates and Effective Exchange Rate Index

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



source: Bloomberg

Figure 2:
SAR Nominal and Real Effective Exchange Rate



source: Bloomberg, JP Morgan

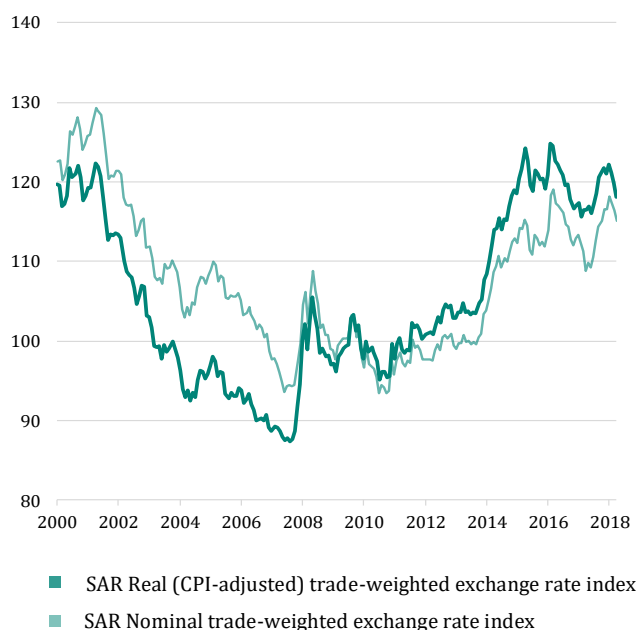
Figure 3:
12-Months Forward Exchange Rate SAR/USD in the Long Term



source: Bloomberg

The USD/SAR 12-months FX-forward premium has declined to historically low levels of approx. 60 bp in February 2019 after having spiked to 170 bp in December due to a strong temporary correction of oil

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

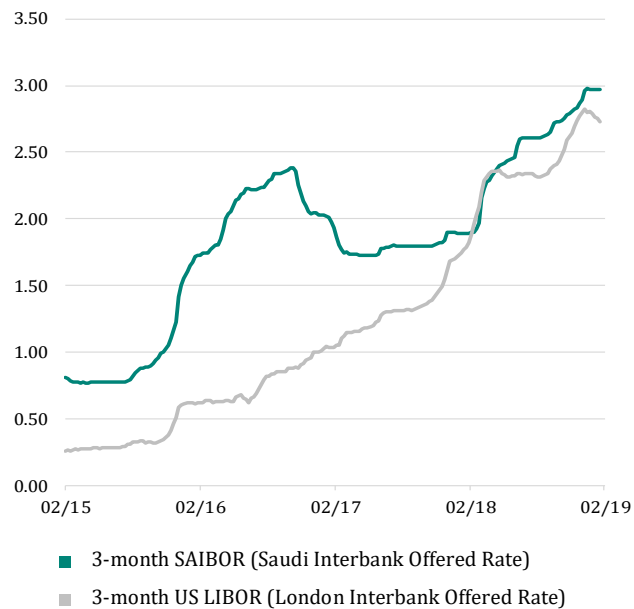


source: Bloomberg, JPMorgan

prices down to 50 USD for Brent during that month. Meanwhile, the trade-weighted SAR index gradually weakened in real and nominal terms since November after a strong appreciation in H1 2018.

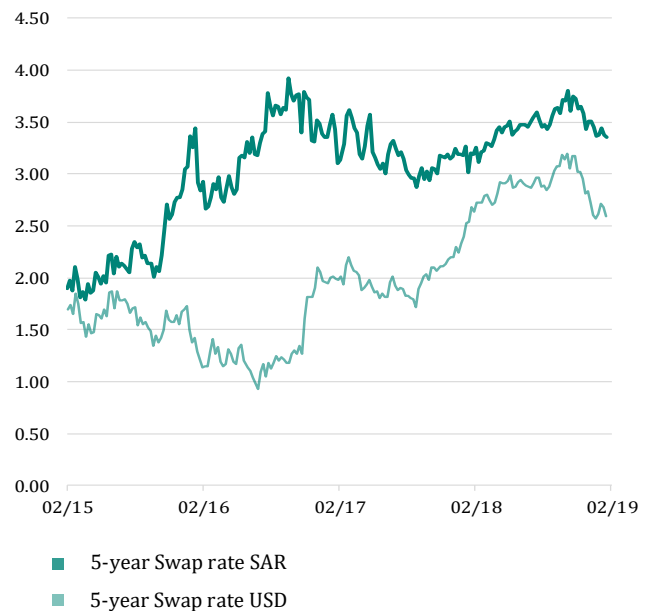
Interest Rates: Money Market, Capital Market and Central Bank Rates

Figure 1:
3-Months SAIBOR vs. USD LIBOR



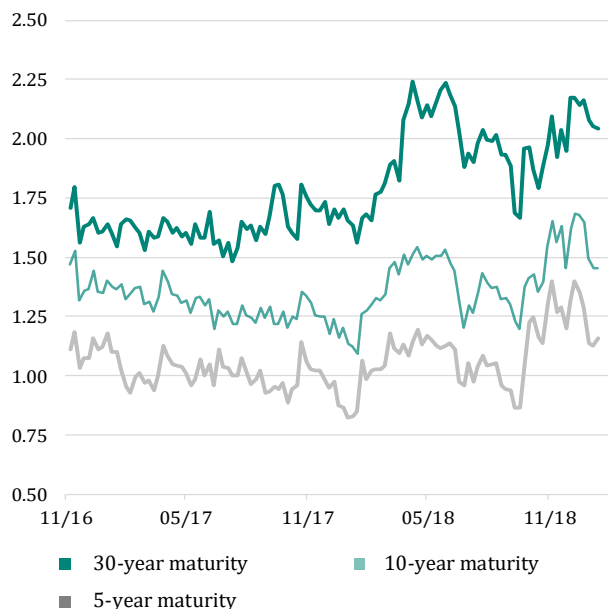
source: Bloomberg

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



source: Bloomberg

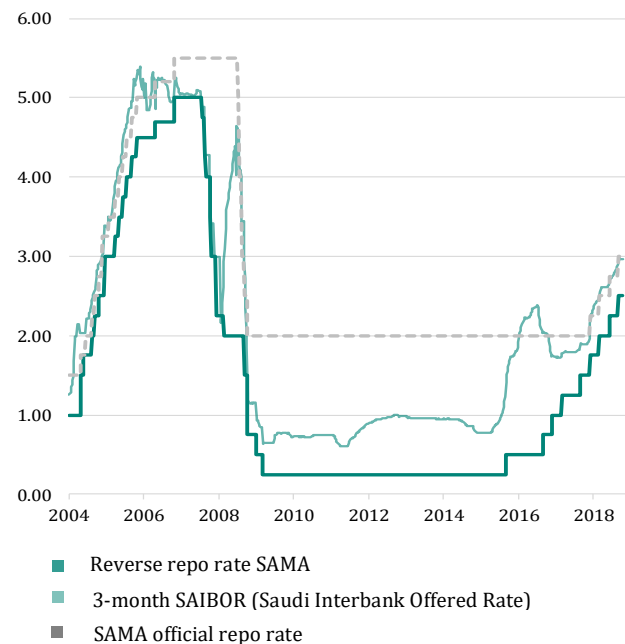
Figure 3:
KSA USD-Bonds Yield Spread to US Treasuries



source: Bloomberg

The softer stance of the US Federal Reserve has caused markets to rule out any rate hike throughout 2019. As a consequence, USD rates have gradually decreased across the entire yield curve. At the short-

Figure 4:
Central Bank Rate and 3-Months SAIBOR

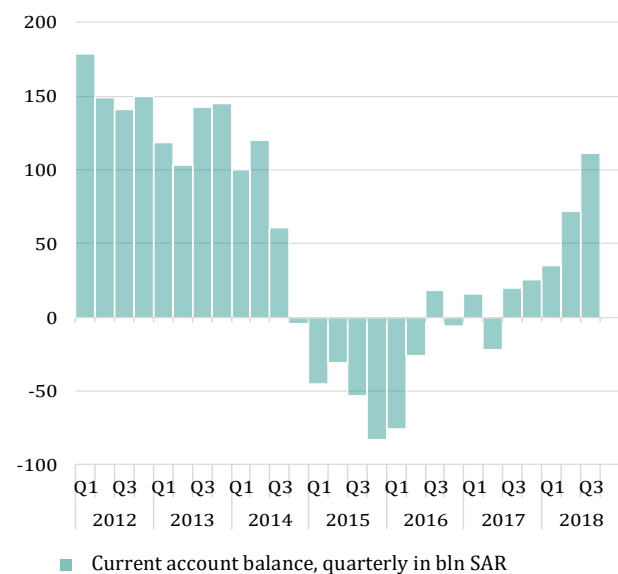


source: Bloomberg

end 3-month SAR interest rates remained sticky at 3.0% which translated into a SAIBOR-LIBOR spread widening most recently. At the longer end of the yield curve, SAR Swap rates also gradually declined.

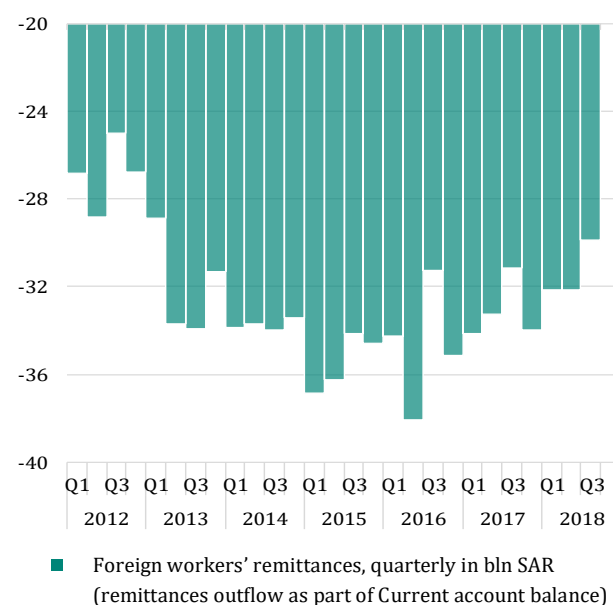
Saudi Balance of Payments

Figure 1:
Current Account Balance



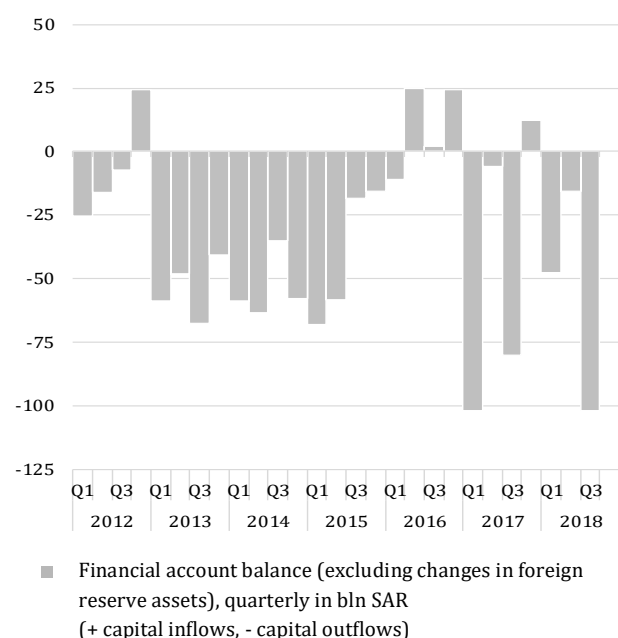
source: SAMA

Figure 2:
Foreign Workers' Remittances



source: SAMA

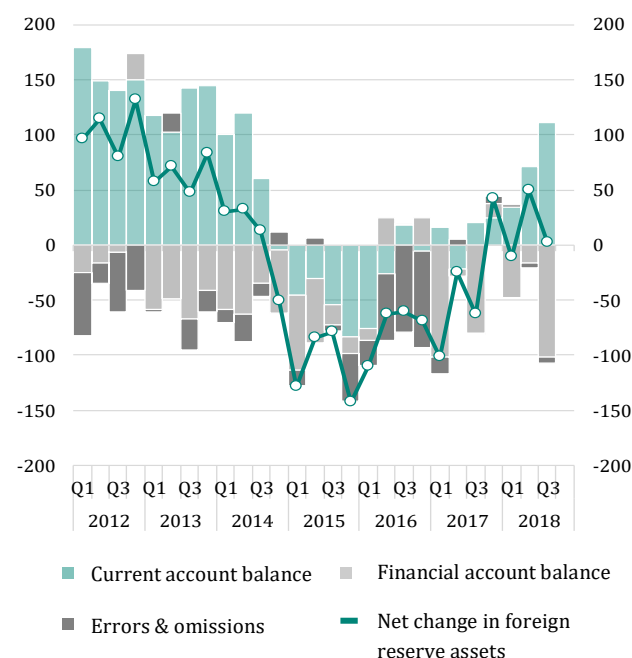
Figure 3:
Financial Account Balance



source: SAMA

The current account surplus further improved in Q3 2018 to 110 bln SAR. This was mainly the result of higher oil exports. But also foreign workers' remittances continued to decline since their peak in 2016

Figure 4:
Contribution to Balance of Payments



source: SAMA

as about 1.4 mln expat workers had left the country since mid-2016. The financial account witnessed a strong outflow in Q3 2018, largely mitigating the current account surplus during that period.

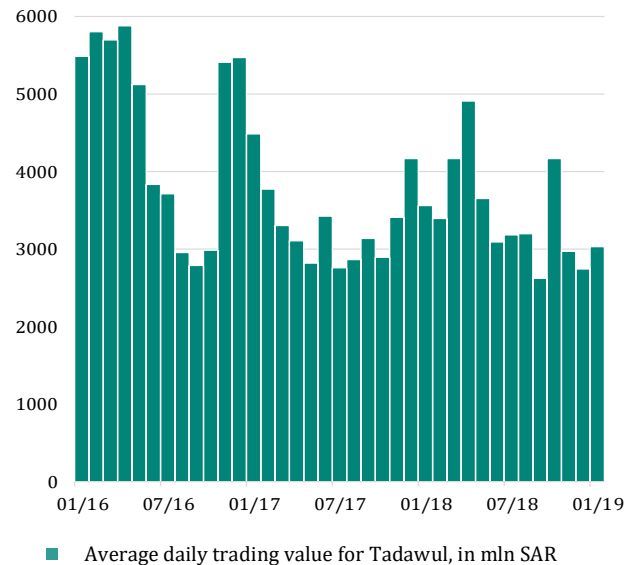
Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index



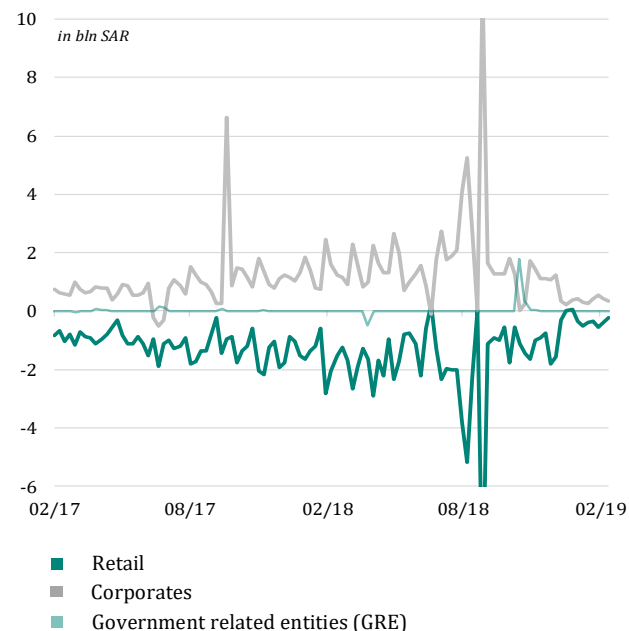
source: Bloomberg

Figure 2:
Tadawul Total Trading Value



source: Tadawul

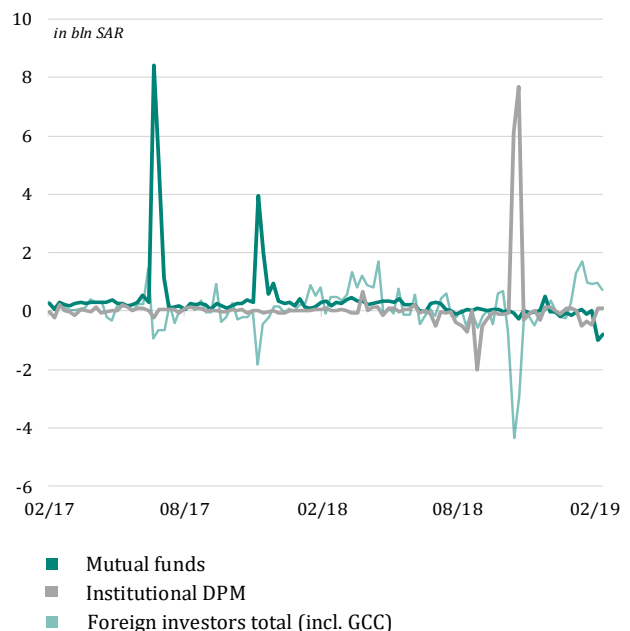
Figure 3:
Weekly Net Purchase by Ownership (in bln SAR)



source: Tadawul

TASI showed a strong performance in the first weeks of the year, appreciating by about 9% until mid-February. The key driver behind this positive development have been foreign institutional inves-

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

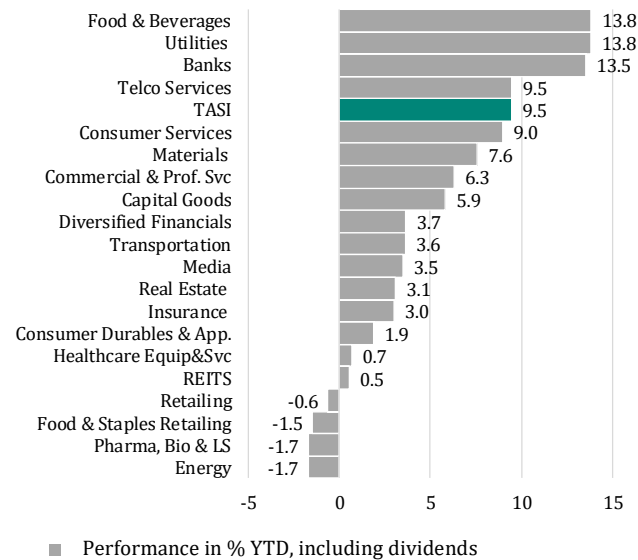


source: Tadawul

tors which were net buyers of Saudi equities to an amount of 5.4 bln SAR over the first five weeks of 2019. However, overall trading volumes remained low at about 3.0 bln SAR average daily traded value.

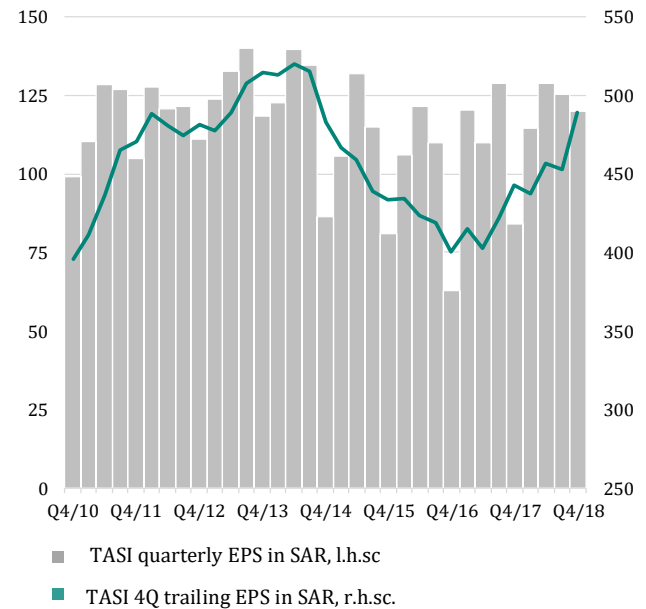
Tadawul: Saudi Equity Market Statistics

Figure 1:
Performance TASI Sectors Jan 2019YTD



source: Bloomberg

Figure 2:
Quarterly Earnings TASI



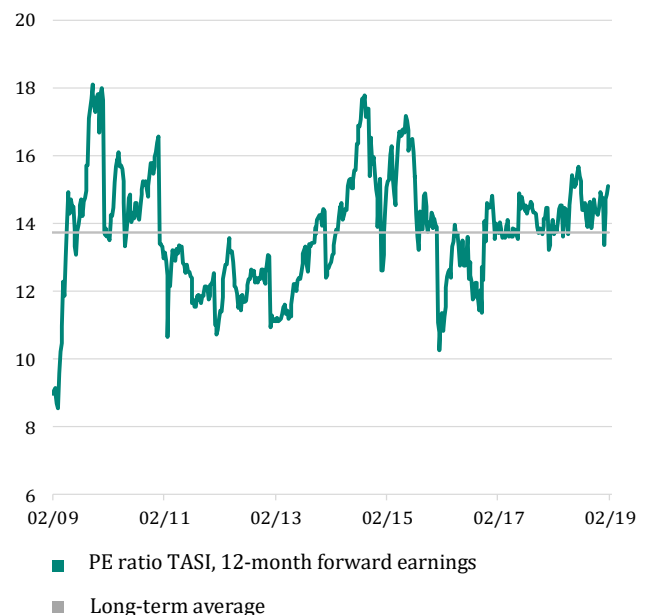
source: Bloomberg

Figure 3:
Valuation TASI: PE-Ratio Trailing



source: Bloomberg

Figure 4:
Valuation TASI: PE-Ratio Forward



source: Bloomberg

In January 2019, TASI was primarily driven by the well performing banking sector (+13.5%) which constitutes about 45% of the overall market. Besides, the food&beverages and the utilities sector

also managed to outperform the index during the first month of the year. The strong index performance has driven trailing and forward valuation multiples for TASI above their long-term average.

Saudi Economic Outlook

The Saudi economy recovered in 2018, primarily due to a strong rebound of the oil sector which had contracted in the year before. For 2019, we expect growth of the non-oil private sector to further accelerate from 1.7% to 2.2% on the back of an expansionary fiscal policy pursued by the government throughout this year. The fiscal deficit will gradually widen to -5.7% of GDP (after -4.6% in 2018) as in particular oil revenues will turn out to be somewhat lower than budgeted for this year. The fiscal deficit will primarily be funded by a combination of local and global borrowing and, secondly, by withdrawals from government deposits. We, therefore, expect sovereign debt to rise to 22.0% of GDP in 2019.

We forecast an average oil price of 65 USD for Brent in 2019 which is about 9% lower than the average price in 2018. Saudi oil production is expected to be broadly unchanged to last year at 10.3 mbd in 2019 with gradually lower output in H1 and an expansion thereafter. Growth of the oil sector will, therefore, be lower than last year and is pencilled in at 1.5%. As a consequence of the reduced oil sector growth contribution, overall GDP growth will moderately slow down to 1.8% in 2019 after 2.2% in the year before.

Facts and Forecasts at a Glance

	2014	2015	2016	2017	2018	2019f
Real GDP Growth						
Overall economy	3.7	4.1	1.7	-0.7	2.2	1.8
Non-oil Private sector	5.4	3.4	0.1	1.5	1.7	2.2
Government sector	3.7	2.7	0.6	0.7	2.8	1.5
Oil sector	2.1	5.3	3.6	-3.1	2.8	1.5
Fiscal Balance and Government Debt						
Fiscal Balance in bln SAR	-71	-362	-311	-238	-136	-179
Fiscal Balance in % GDP	-2.5	-14.8	-12.9	-9.3	-4.6	-5.7
Government debt in bln SAR	44	142	317	443	560	690
Government debt as % GDP	1.6	5.8	13.1	17.3	19.1	22.0
Trade and Current Account						
Trade Balance in bln SAR	690	166	209	382	636	544
Trade Balance in % GDP	24.3	6.8	8.6	14.9	21.7	17.3
Current Account in bln SAR	277	-213	-90	57	275	195
Current Account in % GDP	9.8	-8.7	-3.7	2.2	9.4	6.2

source: GASTAT, SAMA, RC

CPI inflation is forecasted to drop from 2.5% to 0.3% this year as the impact of last year's fiscal reform measures, notably the VAT introduction and the energy price increases, will fall out of the observation. This forecast is based on the assumption that there won't be any new fiscal reform measures in 2019 besides the reduction of the VAT sales threshold from 1 mln SAR to 375k SAR which may have a mild inflationary impact in 2019.

We have lowered our FED interest rate policy expectations for 2019 to one single rate hike throughout the year. As a consequence, we expect the official repo rate to be raised to 3.25% and forecast the 3M SAIBOR rate to peak around 3.15%.

The current account surplus is projected to diminish to 6.2% of GDP after 9.4% in 2018, primarily due to lower oil export revenues in 2019. The unprecedented capital inflow expected in the context of the inclusion of Saudi equities in major EM indices, accompanied by a first issuance of international bonds by Aramco, will help to cushion the structural deficit of the private financial account balance and, combined with the current account surplus, potentially lead to a considerable balance of payment surplus in 2019.

	2014	2015	2016	2017	2018	2019f
Oil Prices and Production (yearly average)						
Brent price (USD pb)	99.5	53.7	44.1	54.8	71.7	65.0
WTI price (USD pb)	92.9	48.8	43.3	50.9	64.9	57.0
OPEC Basket price (USD pb)	96.2	49.5	40.7	52.4	69.8	63.0
KSA oil production (mln bd)	9.7	10.2	10.5	9.9	10.3	10.3
Inflation and Interest Rates (year end)						
CPI Inflation (yearly average)	2.24	1.22	2.05	-0.84	2.47	0.30
3M SAIBOR SAR	0.86	1.55	2.04	1.90	2.98	3.15
Reverse Repo Rate	0.25	0.50	0.75	1.50	2.50	2.75
Official Repo Rate	2.00	2.00	2.00	2.00	3.00	3.25
Tadawul (year end data)						
Total Return in %	0.7	-14.6	8.2	3.7	12.1	n.a.
P/E-ratio	18.2	15.9	17.2	17.0	16.1	15.1
P/B-ratio	2.1	1.6	1.7	1.6	1.7	1.8
RoE	11.5	10.2	9.7	9.5	10.8	11.9

source: GASTAT, SAMA, Bloomberg, RC

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