



Summary

Real Economy: July data showed a mixed picture in economic activity. Data on point-of-sale transactions and ATM withdrawals showed a notable slowdown in July, while the non-oil PMI rose to a 2016 high.

Government Finance: The net monthly change to government accounts came out negative in July. Meanwhile, banks continued to increase their holdings of government bonds.

Labor Market: The Saudi unemployment rate rose slightly to 11.6 percent during the first half of 2016. Meanwhile, net employment in the whole economy rose by 201.5 thousand, of which 13.7 percent went to Saudis.

Banking Indicators: In July, bank credit to the private sector fell by 0.3 percent month-on-month, falling for the first time since December 2014. While total bank deposits fell at a faster rate, causing the loan-to-deposit ratio to slightly increase to 90.5 percent in July.

Inflation: Inflation continued to slow in July, reaching 3.8 percent. Food inflation turned negative for the first time since January 2010.

Trade: In June, the values for both non-oil exports and imports were down, month-on-month.

Oil-Global: Hopes of a production freeze being implemented during informal OPEC talks in September, pushed Brent prices up by 2 percent in August. Whilst we believe a freeze deal is unlikely, if it does occur, it will lock-in OPEC production close to record highs.

Oil-Regional: Saudi crude oil production hit an all time record high of 10.67 mbpd in July, and we expect to see similar production levels in August too.

Exchange Rates: The dollar saw modest changes against most major currencies in August, reflecting investor's frequently changing views on US interest rate rises.

Stock Market: Whilst the TASI was down by 3 percent, month-on-month, in August, we expect TASI activity to pick up in mid-September, after the Eid al-Adha break.

Valuations: The more subdued trading in TASI during August has further pushed down the price-to-earnings, putting it at discount to many regional and emerging market peers.

Sectorial Performance: Most sectors were down in August with lower market turnover limiting the opportunity for speculative activity amongst smaller sectors.

Q2 2016 Results: Net-income of listed companies totaled SR27.5 billion in Q2 2016, down by 14 percent year-on-year.

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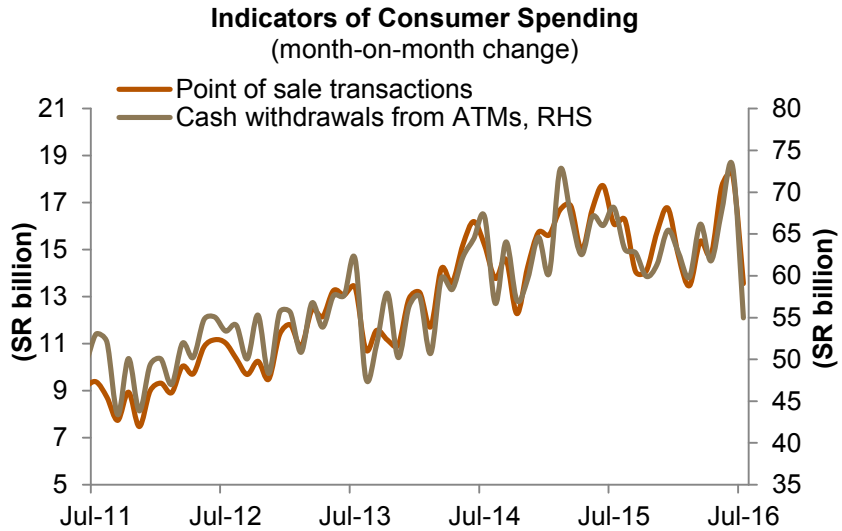
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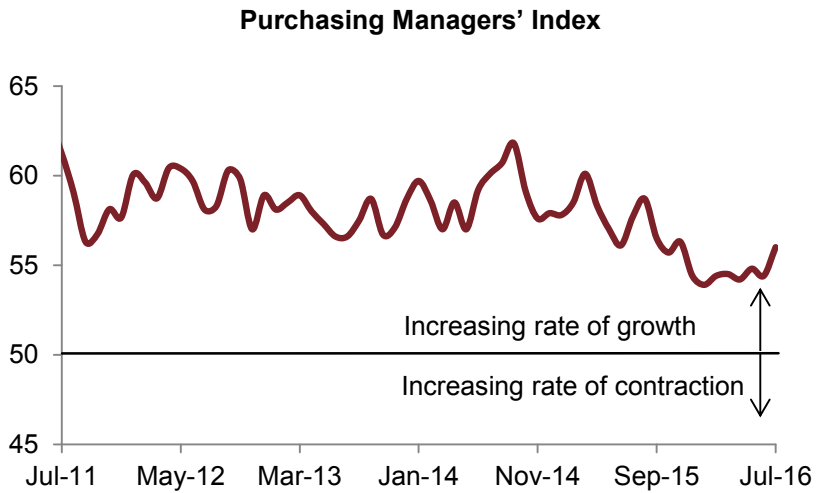
Real Economy

July data showed a mixed picture in economic activity. Data on point-of-sale transactions and ATM withdrawals showed a notable slowdown in July, while the non-oil PMI rose to a 2016 high, continuing to reflect an expanding non-oil economy. A second consecutive monthly decline in cement sales and production reflected slower seasonal activity during the summer.

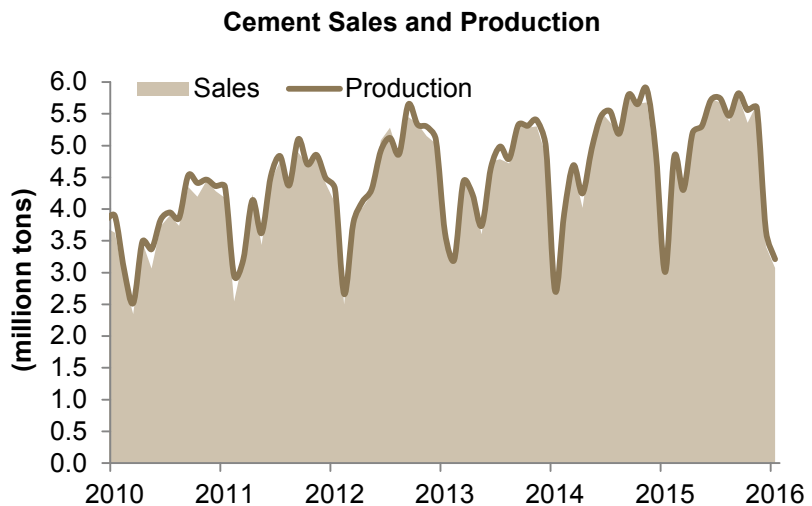
The combined total for cash withdrawals from ATMs and point-of-sales transactions fell to SR68.5 billion in July, its lowest in 29 months ...



...meanwhile, the non-oil PMI rose from 54.4 in June to reach to 56, a 2016 high.



Both cement sales and production declined in July, falling by 300 thousand and 500 thousand tons respectively, mainly due to lower summer activity.



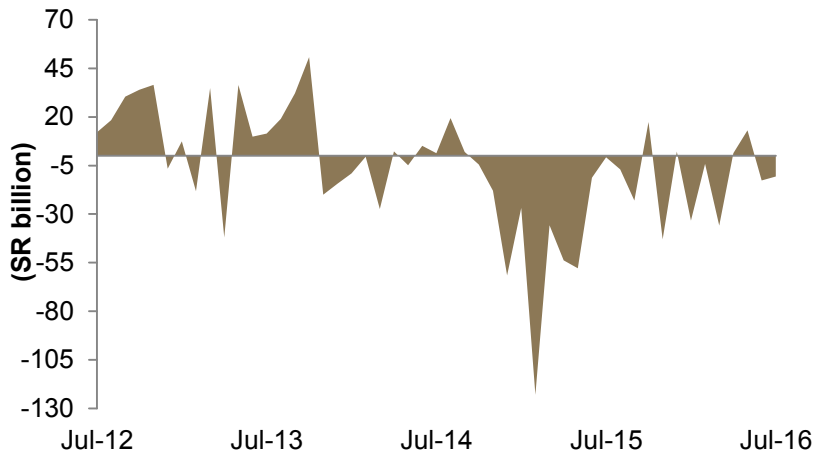


Government Finance

The net monthly change to government accounts came out negative in July, mainly due to a net withdrawal from government current deposits. That said, net withdrawals in July were significantly lower than earlier in the year. Meanwhile, banks continued to increase their holdings of government bonds, reflecting further domestic borrowing by the government.

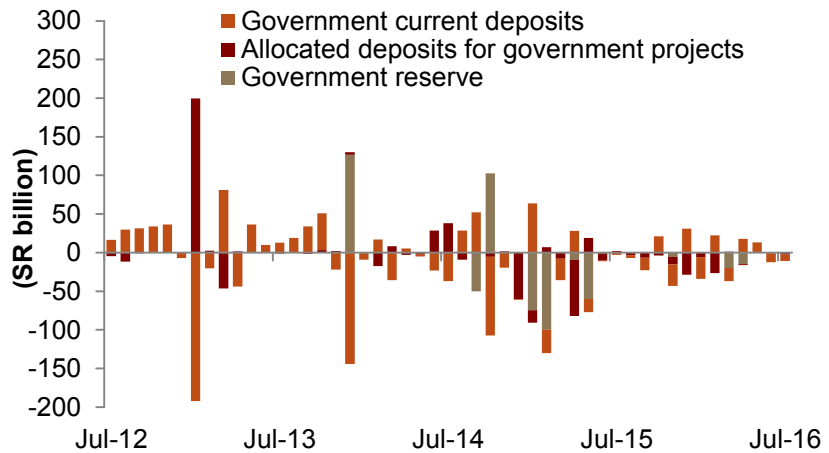
The net monthly change to government accounts came out negative at -SR10.7 billion in July...

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



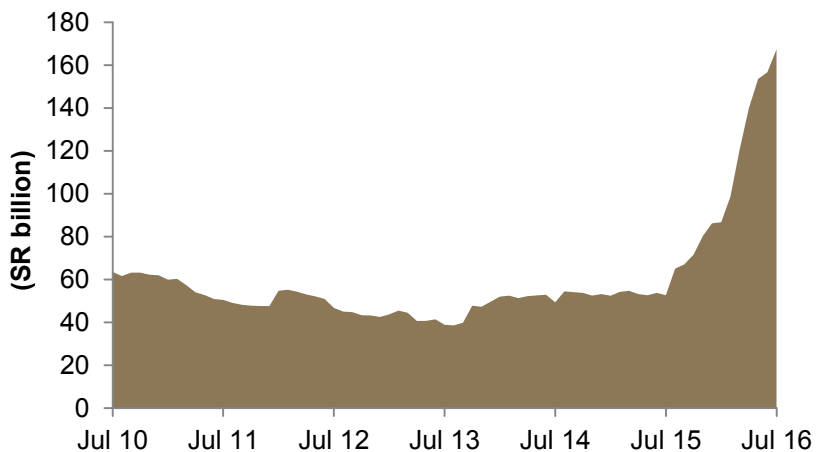
...mainly owing to a net withdrawal of SR8.2 billion from government current deposits...

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



...meanwhile banks increased their holdings of government bonds by SR10.7 billion in July.

Domestic Bank Holdings of Government Bonds

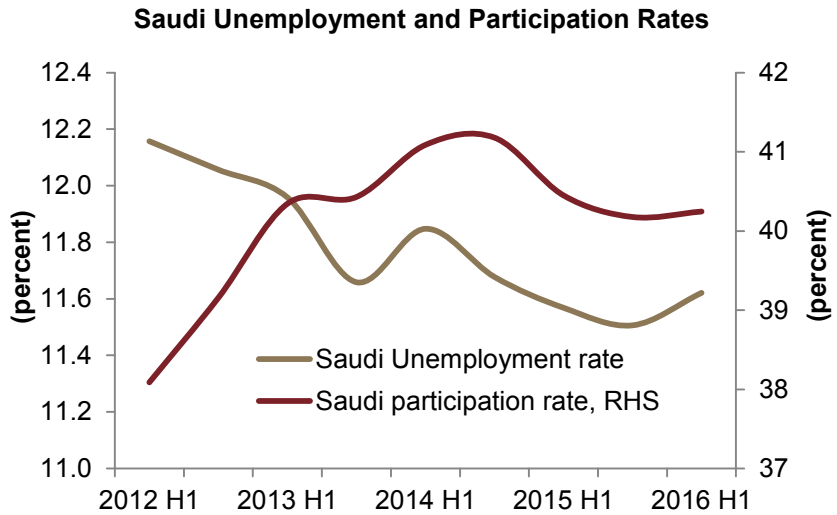




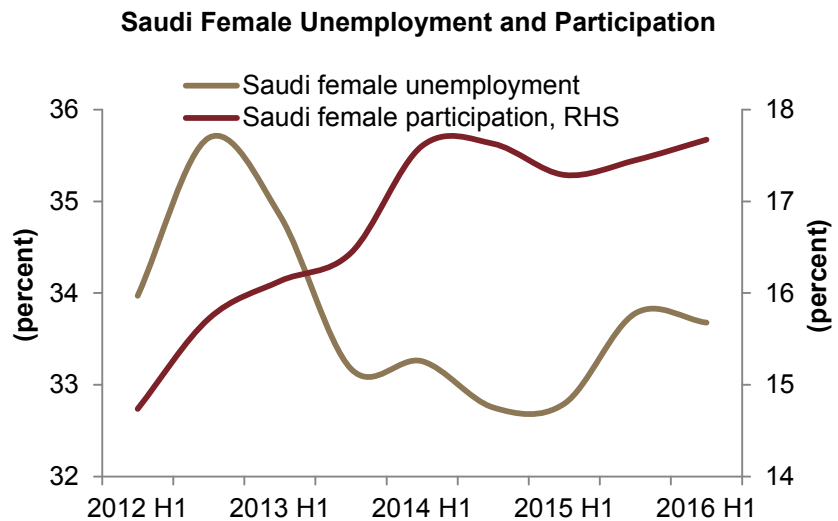
Labor Market

The Saudi unemployment rate rose slightly to 11.6 percent during the first half of 2016. Meanwhile, the participation rate remained unchanged at 40.2 percent. Within the Saudi labor force, female participation continued to grow, reaching a new record high of 17.7 percent. Net employment in the whole economy rose by 201.5 thousand, of which 13.7 percent went to Saudis.

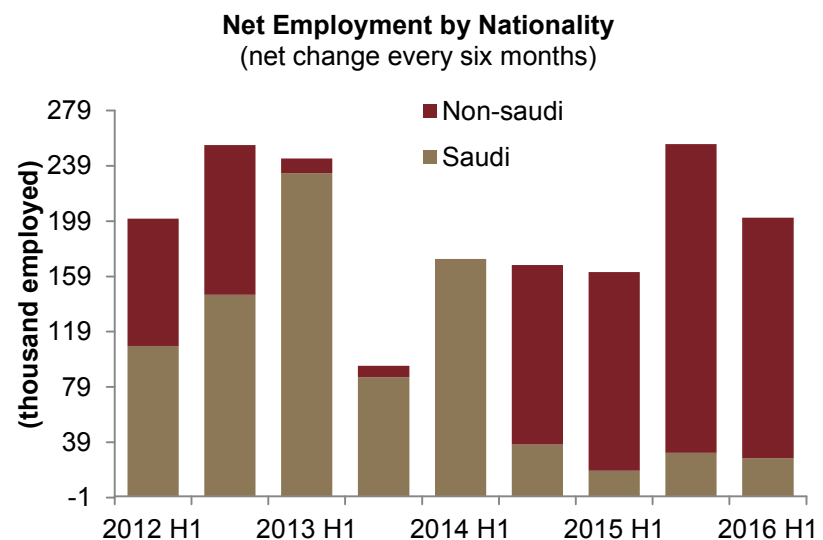
The Saudi unemployment rate rose slightly from 11.5 percent to 11.6 percent during the first half of 2016.



Saudi female participation continued to grow, reaching a new record high of 17.7 percent.



Net employment in the whole economy rose by 201.5 thousand, of which 13.7 percent went to Saudis.

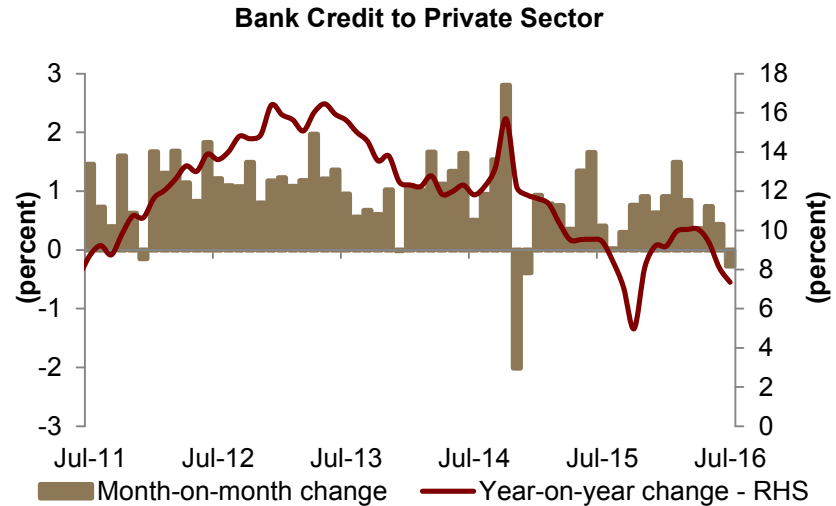




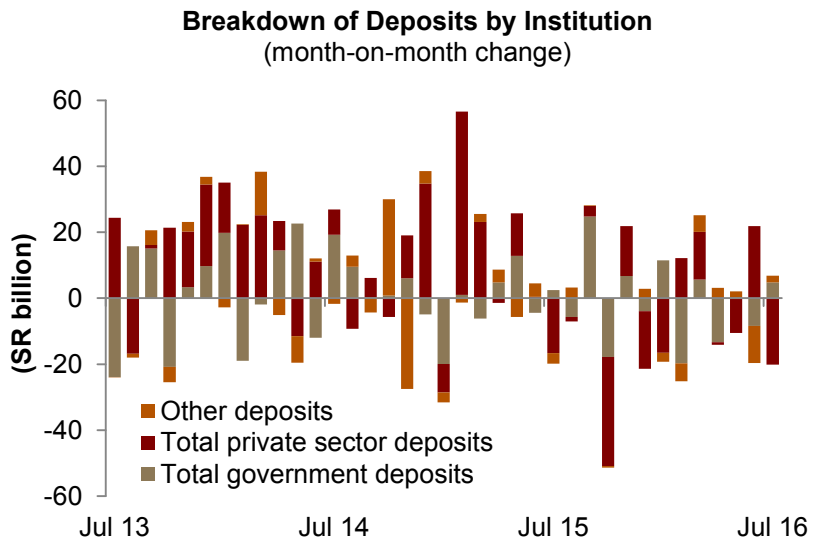
Banking Indicators

In July, bank credit to the private sector fell by 0.3 percent month-on-month, the first decline since December 2014. Total bank deposits also came out negative, month-on-month, mainly owing to a net decline in private sector deposits. The larger decline in deposits relative to credit caused the loan-to-deposit ratio to slightly increase to 90.5 percent in July.

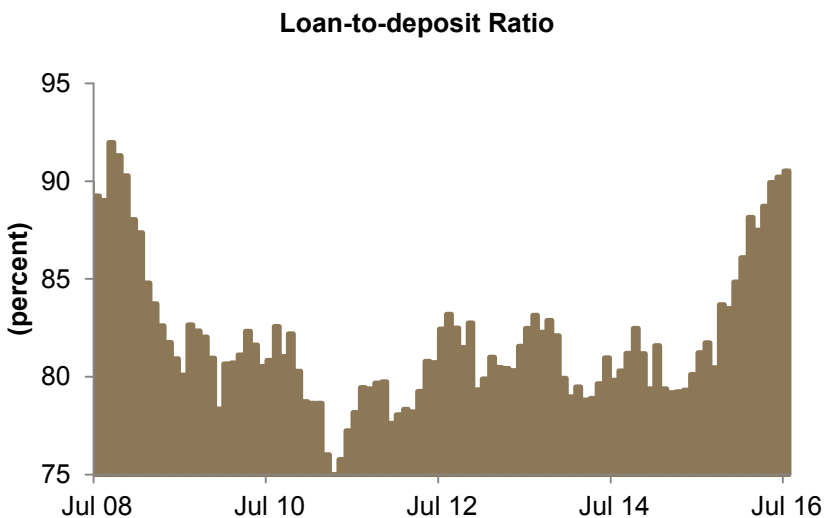
Bank credit to the private sector fell by 0.3 percent, month-on-month, slowing to 7.4 percent, year-on-year.



Total bank deposits fell by SR13.3 billion in July, mainly dragged by a net withdrawal from private sector deposits.



The faster decline in deposits relative to credit, caused the loan-to-deposit ratio increase slightly to 90.5 percent, up from 90.2 percent in the previous month.

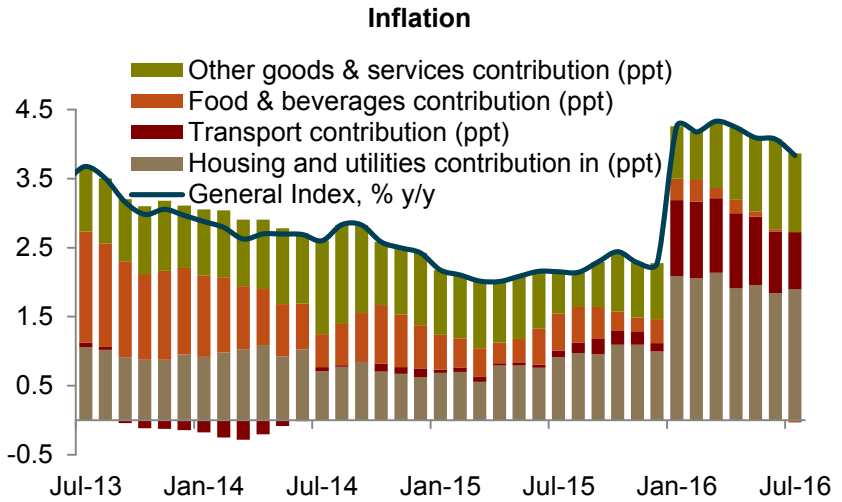




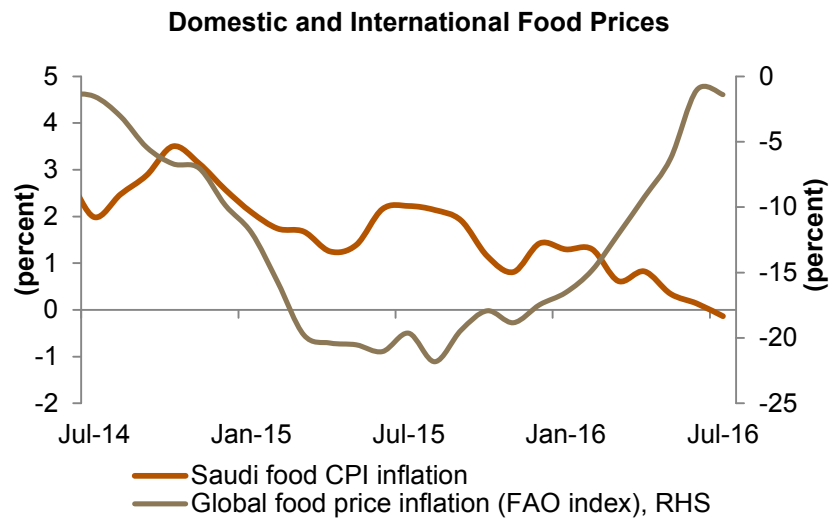
Inflation

Inflation continued to slow in July, reaching 3.8 percent. Food inflation turned negative for the first time since January 2010. Meanwhile, the housing and fuels component remained the largest contributor towards overall inflation. Other components of the core index saw a slowdown in their contribution towards overall inflation, dragged by negative growth in broad money supply.

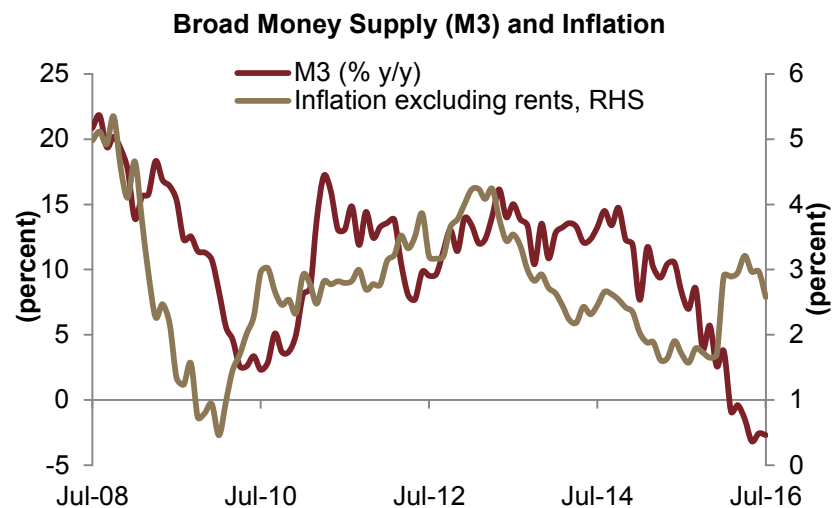
Inflation continued to slow in July, reaching 3.8 percent.



Food inflation turned negative for the first time since January 2010. We believe prices were impacted by a recent move to facilitate imports of food products from various destinations.



The general slowdown in inflation can partly be explained by the negative growth in broad money supply so far in 2016.

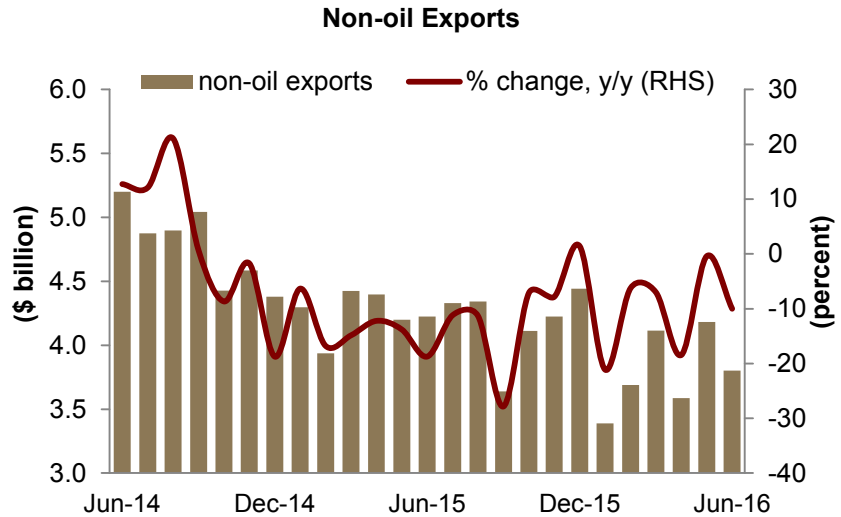




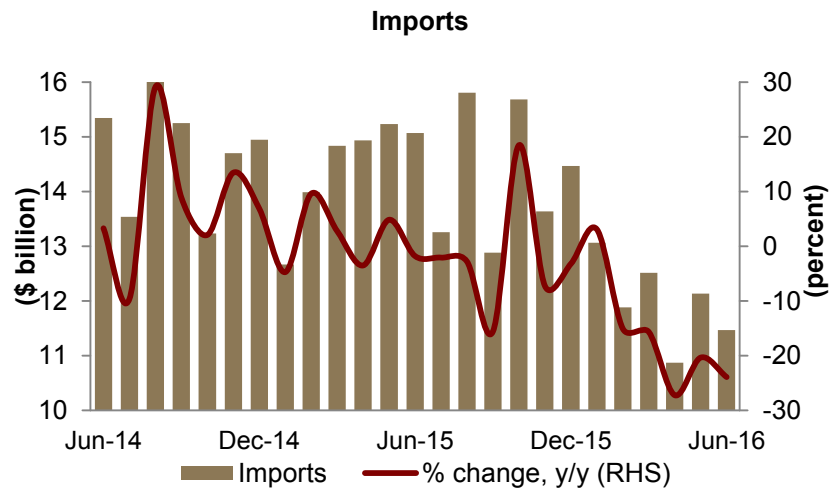
Trade

In June, the values for both non-oil exports and imports were down, month-on-month. The decline in imports in recent months reflects the slowdown in domestic economic activity so far in 2016. However, one upside from the recent decline in imports is an improvement in the Kingdom's monthly non-oil trade balance.

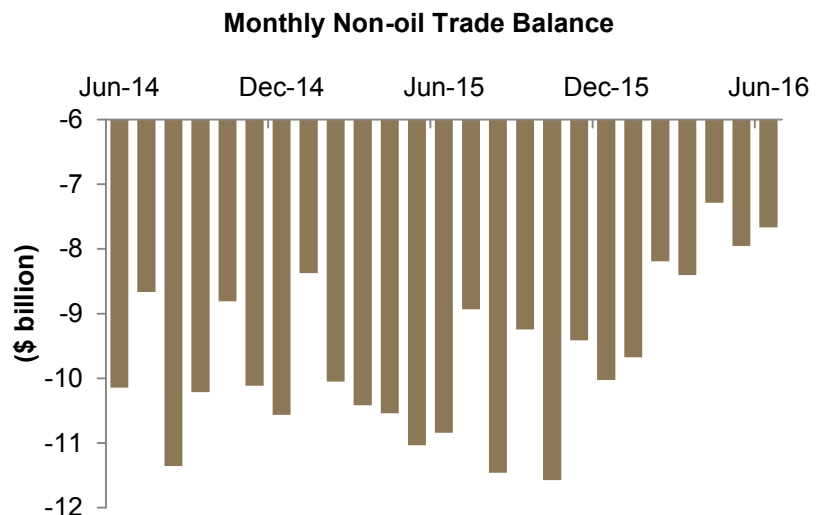
Non-oil exports fell by \$0.4 billion in June (-10 percent, year-on-year).



Meanwhile imports declined at a faster pace, falling by \$0.7 billion in June (-24 percent, year-on-year).



One upside from the Kingdom's recent trade performance is an improvement in the monthly non-oil trade balance, which has reached -\$7.7 billion in June.

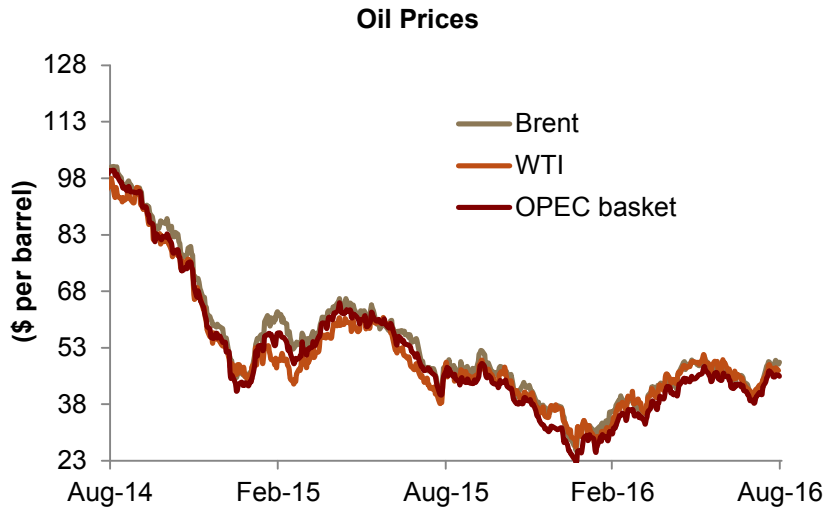




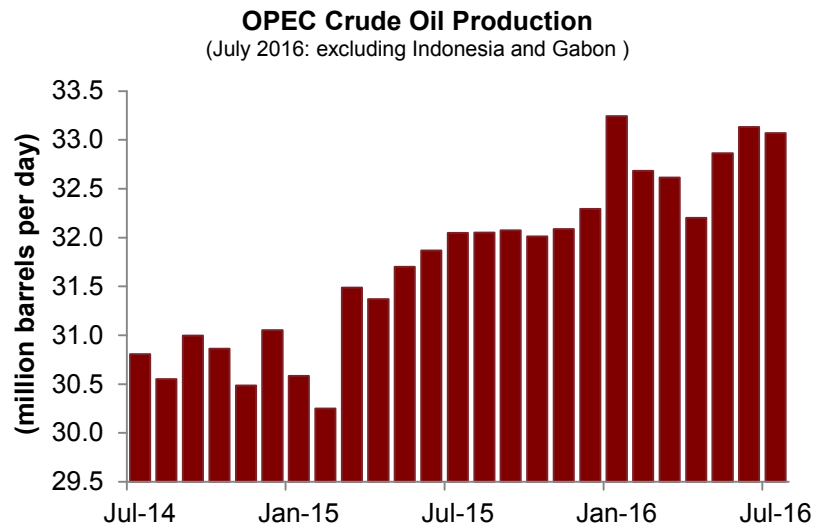
Oil - Global

Whilst WTI prices were flat month-on-month in August, hopes of a production freeze being implemented, during informal OPEC talks in September, pushed Brent prices up by 2 percent. Meanwhile, US oil rigs rose for the third consecutive month resulting in their highest total in six months.

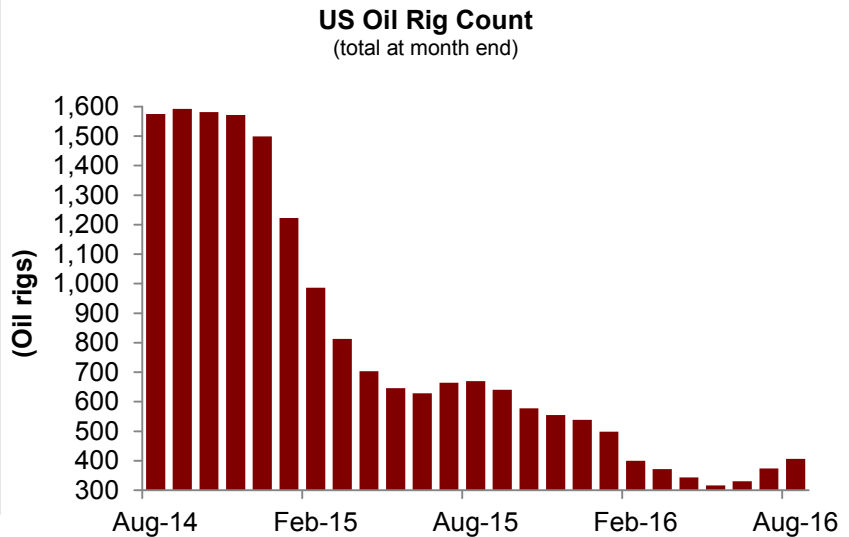
Brent gained in August as talks of a production freeze re-emerged.



A freeze deal is unlikely, but if it does occur, it will lock-in OPEC production close to record highs.



Meanwhile, oil prices around the \$50 per barrel mark are encouraging US producers to add oil rigs.



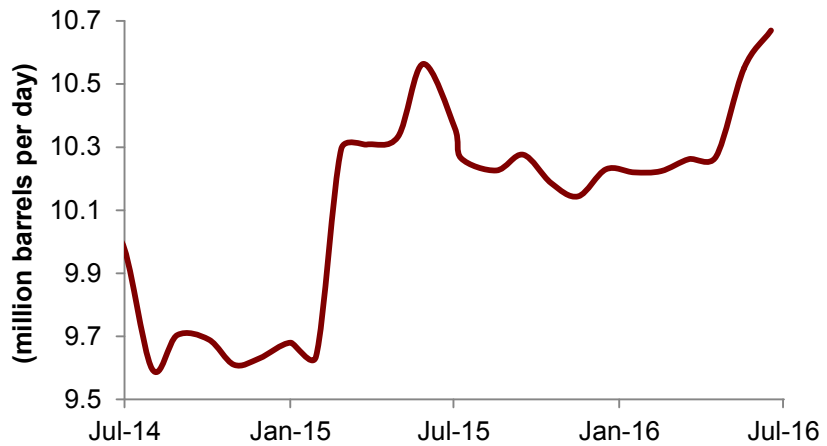


Oil - Regional

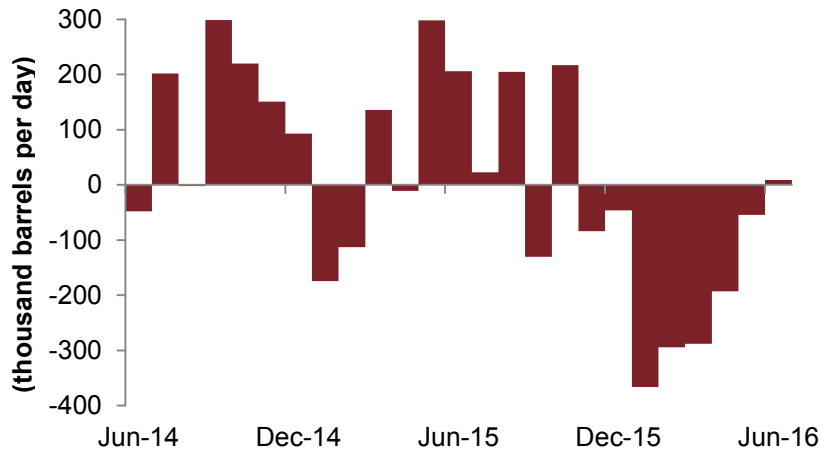
Saudi crude oil production hit a record high in July at 10.67 mbpd. We see this rise due to higher year-on-year oil and refined product exports and a likely halt in the use of commercial crude oil stocks to supplement oil production. We expect to see similar production levels in August too.

Saudi crude production hit record levels in August, most likely due to higher domestic refinery demand, ...

Saudi Crude Oil Production
(July 2016)

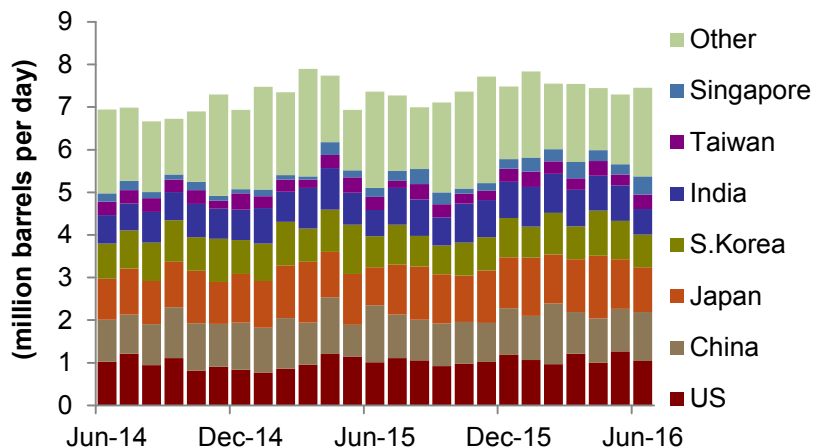


Saudi Commercial Crude Build/Drawdown
(monthly average: latest available data from June 2016)



...a declining trend in the use of commercial crude oil stocks to supplement oil production ...

Saudi Crude Oil Exports by Destination
(monthly average: latest available data from June 2016)



...and a rebound in month-on-month crude oil exports

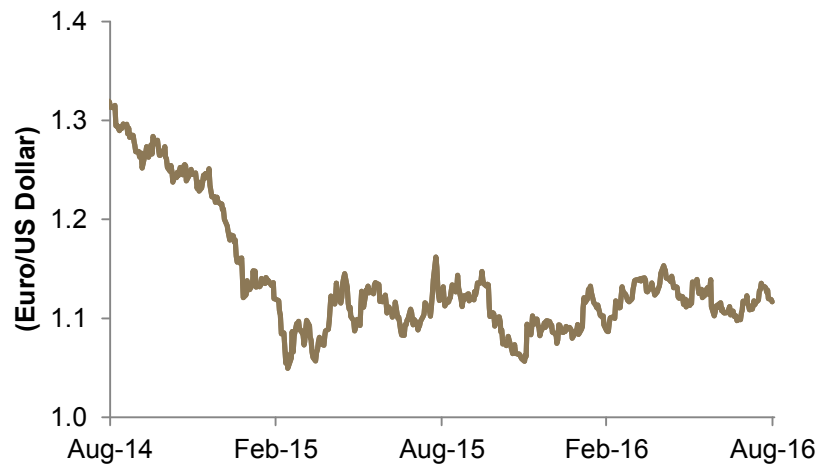


Exchange Rates

The dollar saw modest changes against most major currencies in August, reflecting investor's frequently changing views on US interest rate rises. The dollar saw minor losses during most of the month against the euro and yen, which were promptly reversed after more hawkish comments from the US Federal Reserve.

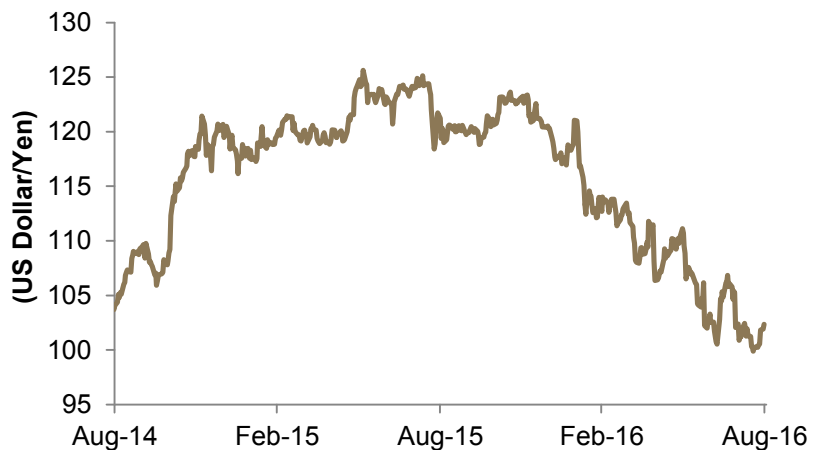
The dollar recovered against both the euro and yen towards the end of August...

Euro/US Dollar



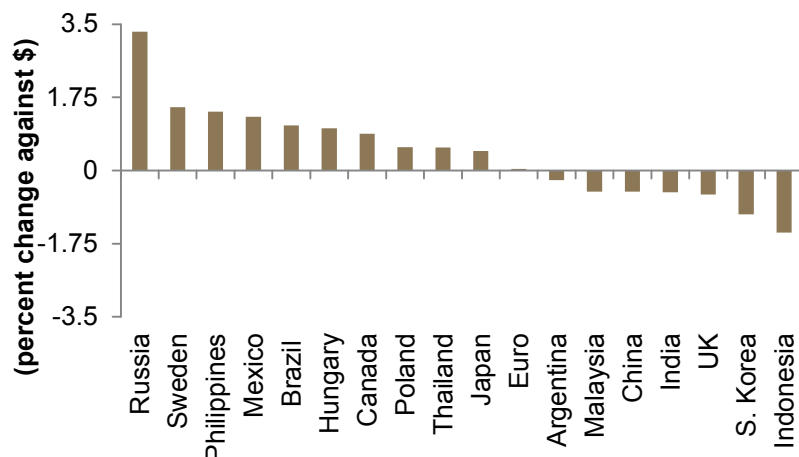
...despite weakening slightly during the month.

US Dollar/Yen



Most currencies showed modest rises/falls against the dollar, except for the Russian ruble, which benefitted from carry-trade.

Dollar versus Major Currencies
(percentage change against dollar in August)





Stock Market

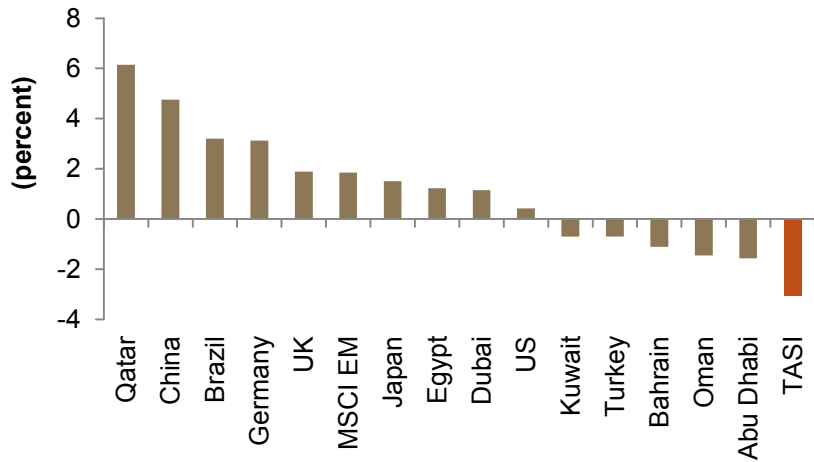
The absence of any major events or news items related to listed companies, and a downward trend in oil prices towards the end of the month, saw the TASI fall by 3 percent, month-on-month, in August. Volumes also dipped during the month. We expect TASI activity to pick up in mid-September, after the Eid al-Adha break.

A dearth of news events and a dip in oil prices, towards the end of the month, saw TASI decline by 3 percent month-on-month...

TASI

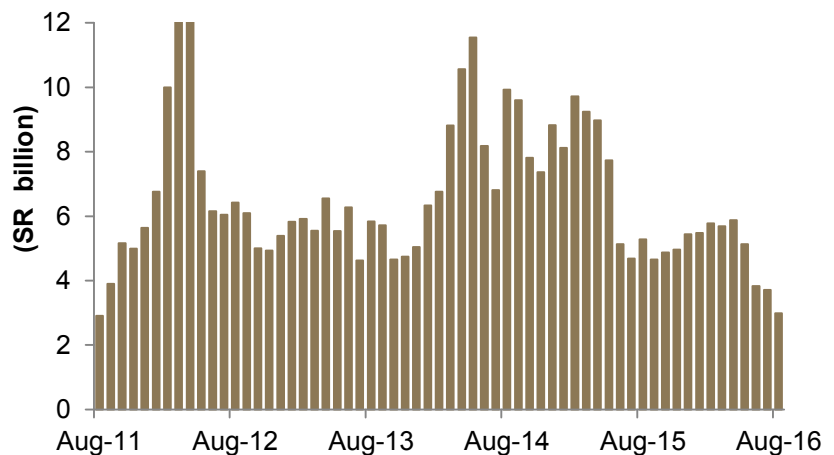


Comparative Stock Market Performance
(monthly performance from 1st August 2016)



...with a number of regional markets also experiencing a similar decline.

Daily Average Stock Market Turnover



The impact was also seen in TASI market turnover, which dipped to its lowest in exactly five years.

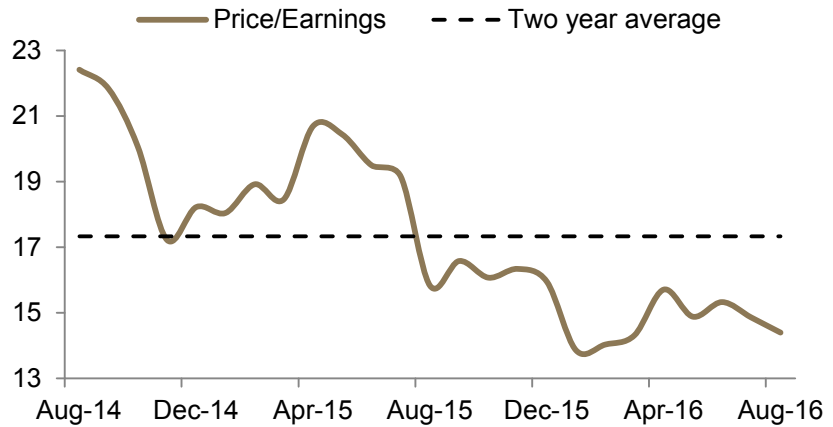


Valuations

The more subdued trading in TASI during August has further pushed down the price-to-earnings ratio (PE), putting the Saudi market at a discount to many regional and emerging market peers. PE now stands at 14.4, still below its two year average. Meanwhile, dividend yield has remained in-line with regional markets.

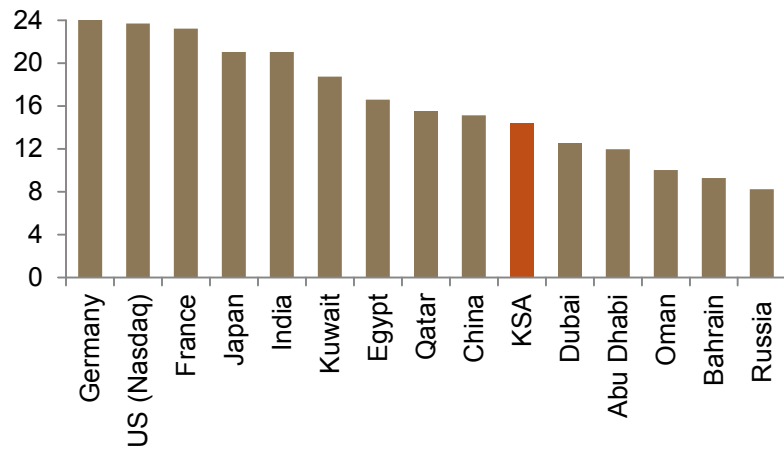
TASI's PE continued to slipped below its two year average...

TASI Price-to-Earnings Ratio



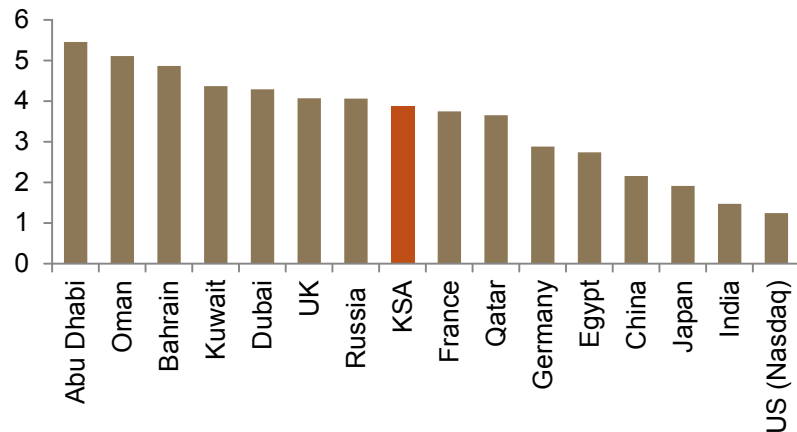
...putting it at discount to many regional and emerging market peers...

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



...whilst dividend yield managed to stay broadly in-line with regional markets.

TASI Dividend Yield Ratios
(end of month)

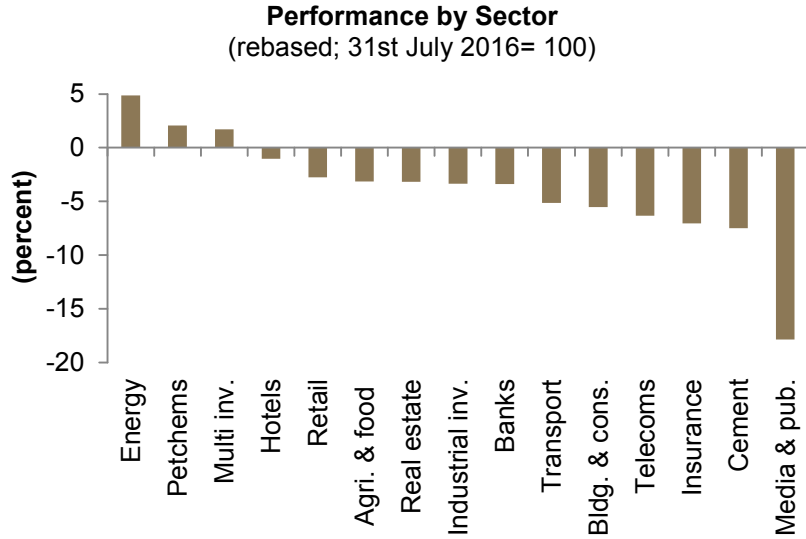




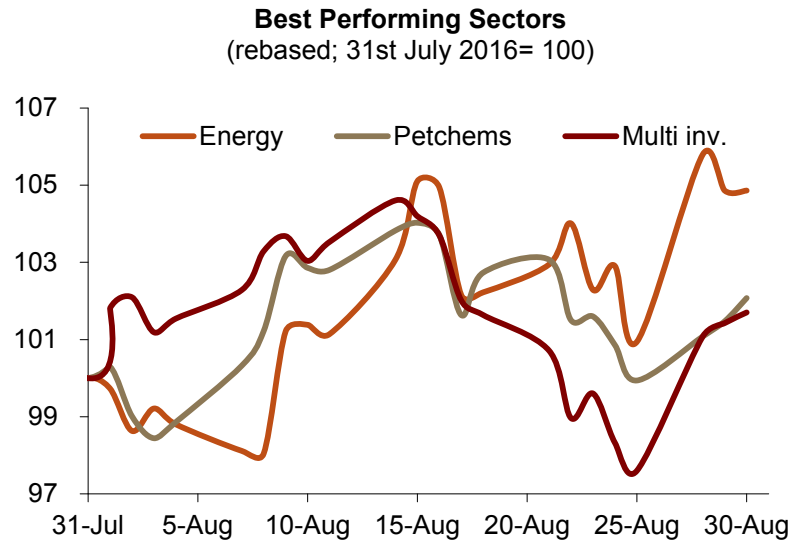
Sectoral Performance

Only three out of 15 sectors saw positive performance in August. Lower market turnover limited the opportunity for speculative activity, typically seen in the smaller sectors, resulting in both insurance and media being amongst the worst performers.

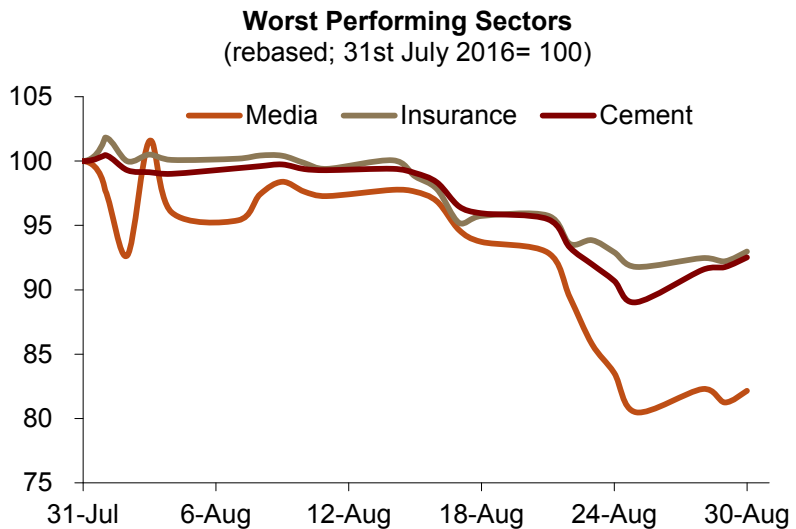
Seasonality affected sectorial performance...



...with energy being one of the three sectors to see a positive performance in August.



Meanwhile, smaller sectors were amongst the worst performers as lower market turnover limited speculative opportunities.

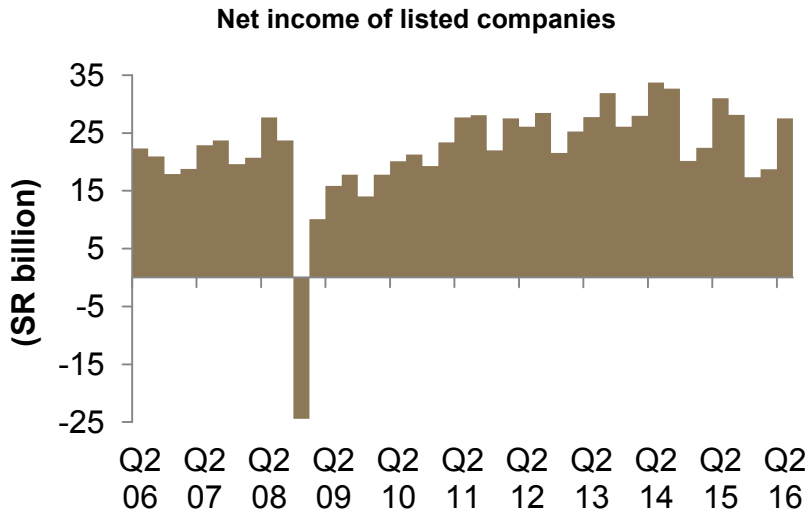




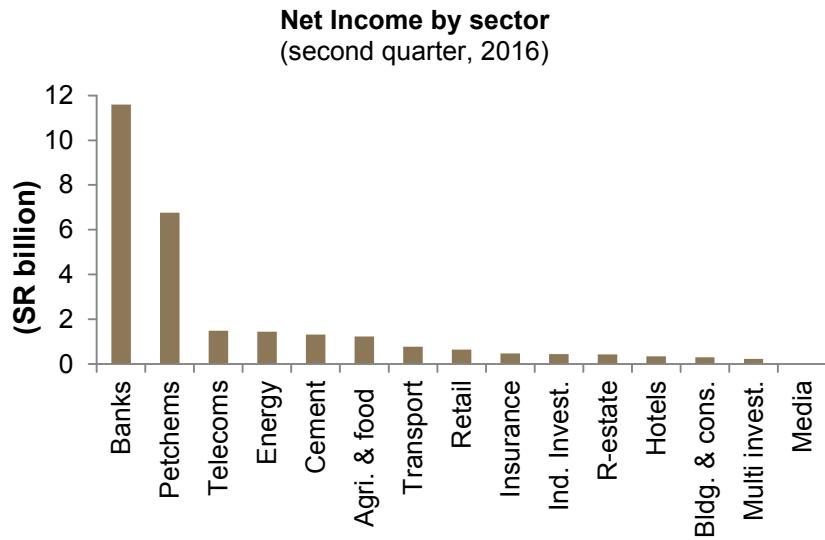
Second quarter 2016 results

Net-income of listed companies totaled SR27.5 billion in Q2 2016. Whilst year-on-year growth was down by 14 percent, quarter-on-quarter net-income increased by 26 percent. The banking sector contributed 42 percent to total listed company net-income.

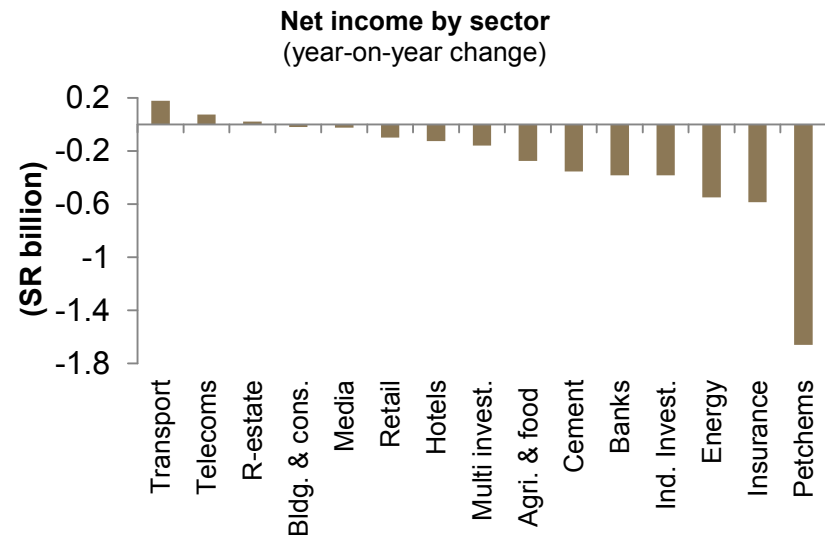
Net-income of listed companies was down 14 percent year-on-year....



...with the banking sector being the most profitable....



...whilst petrochemicals saw the largest year-on-year drop in net income, largely as a result of lower year-on-year oil prices.





Key Data

	2009	2010	2011	2012	2013	2014	2015	2016F	2017F
Nominal GDP									
(SR billion)	1,609	1,976	2,511	2,752	2,791	2,827	2,423	2,368	2,629
(\$ billion)	429.1	527	670	734	744	754	646	632	701
(% change)	-17.4	22.8	27.1	9.6	1.4	1.3	-14.3	-2.2	11.0
Real GDP (% change)									
Oil	-8.0	-0.1	12.2	5.1	-1.6	2.1	4.0	0.9	2.1
Non-oil private sector	4.9	9.7	8.0	5.5	7.0	5.4	3.4	2.4	2.8
Government	6.3	7.4	8.4	5.3	5.1	3.7	2.5	2.1	2.1
Total	1.8	4.8	10.0	5.4	2.7	3.6	3.5	1.7	2.4
Oil indicators (average)									
Brent (\$/b)	61.7	79.8	112.2	112.4	109.6	99.4	52.1	43.8	54.5
Saudi (\$/b)	60.4	77.5	103.9	106.1	104.2	95.7	49.4	40.8	51.5
Production (million b/d)	8.2	8.2	9.3	9.8	9.6	9.7	10.2	10.2	10.5
Budgetary indicators (SR billion)									
Government revenue	510	742	1,118	1,247	1,156	1,044	616	578	659
Government expenditure	596	654	827	873	976	1,111	978	861	869
Budget balance	-87	88	291	374	180	-67	-362	-283	-210
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.4	-15.0	-12.0	-8.0
Domestic debt	225	167	135	99	60	44	142	263	433
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	5.9	11.1	16.5
Monetary indicators (average)									
Inflation (% change)	4.1	3.8	3.7	2.9	3.5	2.7	2.2	3.9	4.3
SAMA base lending rate (% , year end)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.3	3.0
External trade indicators (\$ billion)									
Oil export revenues	167	215	318	337	322	285	155	129	157
Total export revenues	192	251	365	388	376	342	202	179	212
Imports	87	97	120	142	153	158	155	147	148
Trade balance	105	154	245	247	223	184	47	32	64
Current account balance	21	67	159	165	135	74	-53	-56	-27
(% GDP)	4.9	12.7	23.7	22.4	18.2	9.8	-8.3	-8.8	-3.9
Official reserve assets	410	445	544	657	726	732	616	519	451
Social and demographic indicators									
Population (million)	26.7	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.4
Saudi unemployment (15+, %)	10.5	10.5	12.4	12.1	11.7	11.7	11.5	11.4	11.2
GDP per capita (\$)	16,095	19,211	23,766	25,401	25,146	24,878	20,828	19,912	21,638

Sources: Jadwa Investment forecasts for 2016, and 2017. 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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