



Summary

Real Economy: Economic data for February continued to show a mixed picture. The non-oil PMI rose from its lowest point on record.

Government Finance: The net monthly change to government accounts with SAMA remained in the negative territory in February.

Money Supply: In February, year-on-year growth in the money supply turned negative for the first time since 1994, mainly owing to a negative contribution from demand deposits.

Bank Deposits: In February, total bank deposits posted its first year-on-year decline in nearly twenty two years.

Bank Credit and Liquidity: Credit to the private sector remained resilient in February. The loan-to-deposit ratio rose to 88.1, its highest since November 2008. This led some banks to increasingly rely on interbank lending to manage their liquidity.

Inflation: CPI edged downwards to 4.2 percent in February, down from 4.3 percent in January.

Balance of Payments: Full balance of payments data for 2015 show that the current account deficit was \$53.5 billion. FX reserves was the main source of financing the external deficit as other components of the financial account continued to post a net outflow.

Oil - Global: Although oil prices rose over talks of a 'production freeze' during March, these gains could be lost going forward as skepticism builds over the implementation of such a 'freeze', due to the nonparticipation of Iran.

Oil - Regional: Saudi crude production in February was unchanged month-on-month at 10.2 mbpd.

Exchange Rates: A rise in oil prices helped ease speculative pressure on the one year US dollar/riyal forward rate during the month.

Stock Market: Investor sentiment was lifted as global equity markets improved and oil prices firmed around \$40 per barrel.

Volumes: Value of traded volumes were flat month-on-month in March.

Valuations: The stronger performance of the TASI during the month saw price-to-earnings (PE) recover from two year lows.

Sectoral Performance: Ten out of 15 sectors performed positively during March reflecting the better overall performance of the TASI.

For comments and queries please contact:

Fahad M. Alturki
Chief Economist and Head of Research
falturki@jadwa.com

Asad Khan
Senior Economist
rkhan@jadwa.com

Rakan Alsheikh
Research Analyst
ralsheikh@jadwa.com

Head office:
Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

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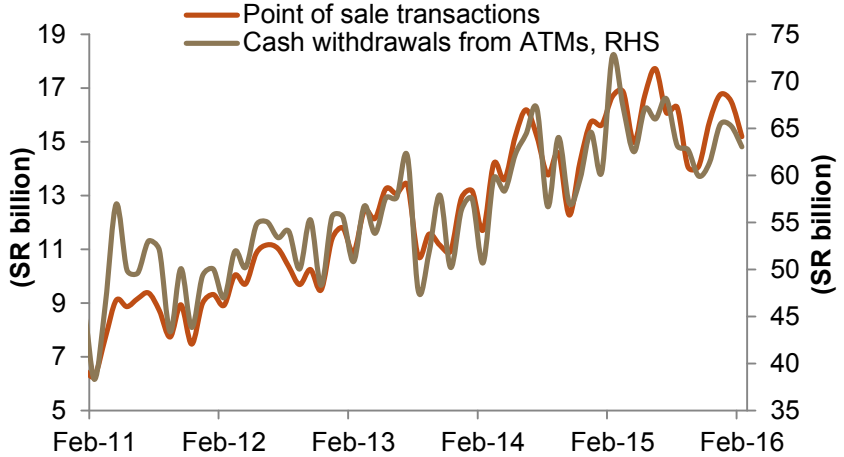


Real Economy

Economic data for February continued to show a mixed picture. Data on ATM withdrawals and point-of-sales (POS) transactions showed a monthly slowdown. The non-oil PMI rose from its lowest point on record. Cement sales were at healthy levels during the first two months of 2016.

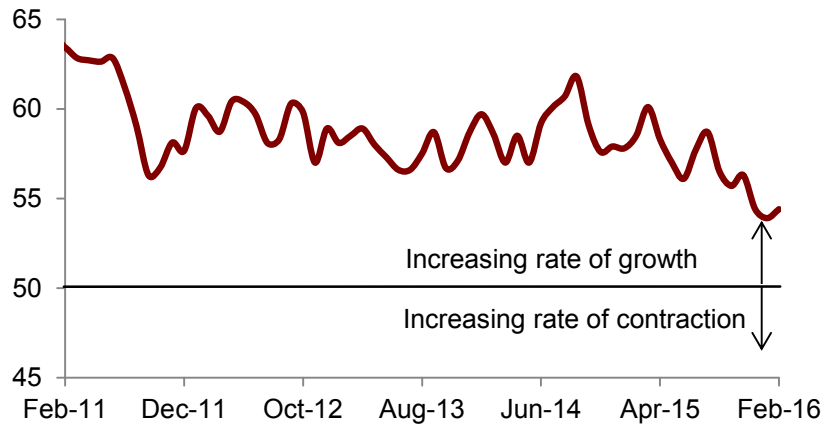
In February, ATM withdrawals and POS transactions fell by 3.4 percent, and 8 percent, month-on-month, respectively.

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



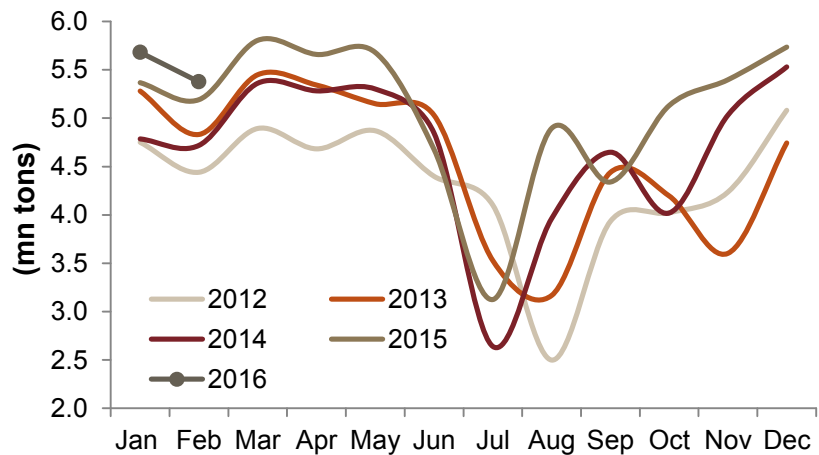
The non-oil PMI rose from a record low in January, reaching 54.4 in February.

Purchasing Managers Index



Cement sales posted record highs in both January and February, reaching 5.7 and 5.4 million tons respectively.

Cement Sales



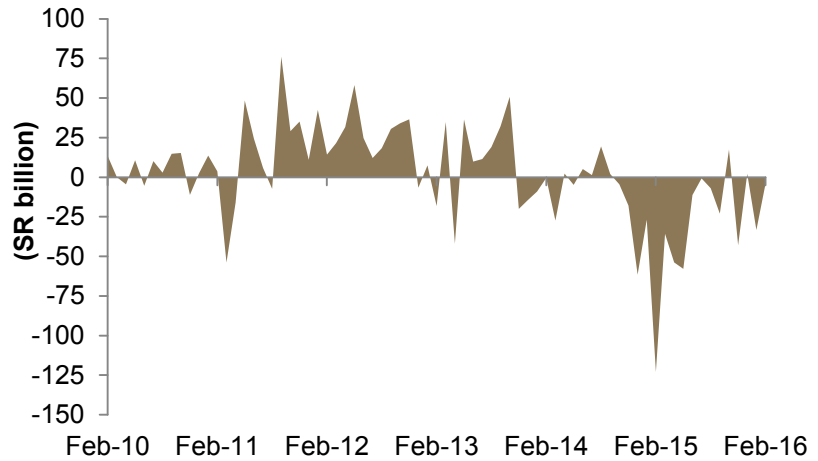


Government Finance

The net monthly change to government accounts with SAMA remained in negative territory in February. The main net withdrawal came from the projects account, while current deposits posted a net addition. Bank holdings of government bonds posted its fastest net monthly increase in six months.

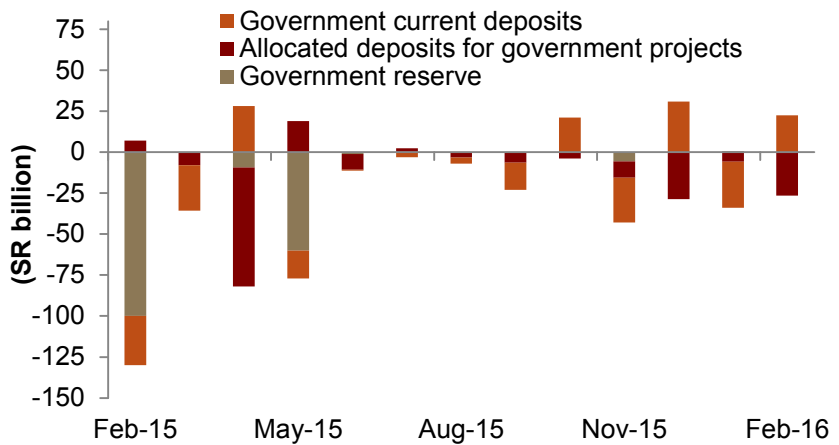
The net monthly change to government accounts was down by SR4.1 billion (\$1.1 billion), relatively small compared to the SR23.4 billion average net monthly withdrawals over the past twelve months.

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



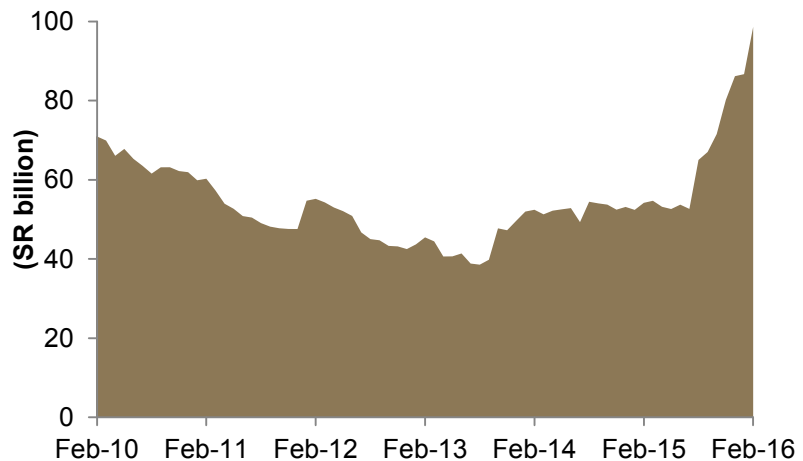
The main source of spending came from the projects account, which posted a net decline of SR26.5 billion (\$7.1 billion). We think this was due to the government resuming payments to contractors in February.

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



In February, SAMA's net issuance of government bonds to banks rose by SR98.6 billion, its largest monthly increase in six months.

Bank Holdings of Government Bonds

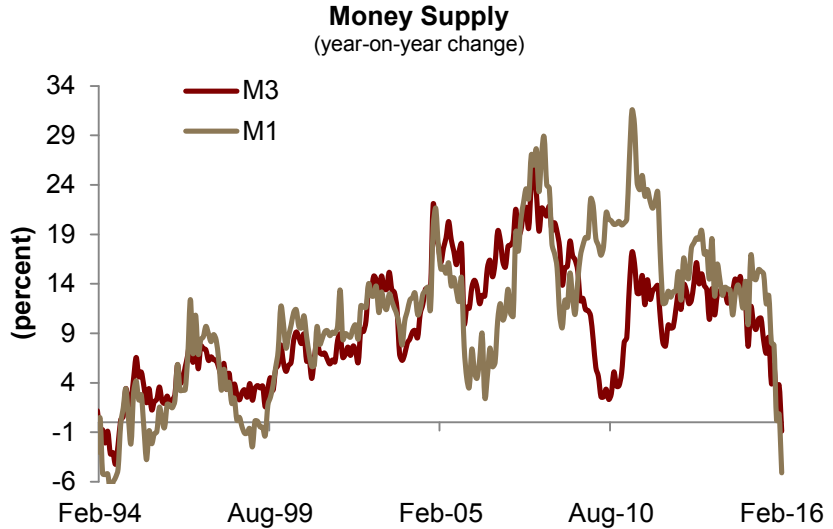




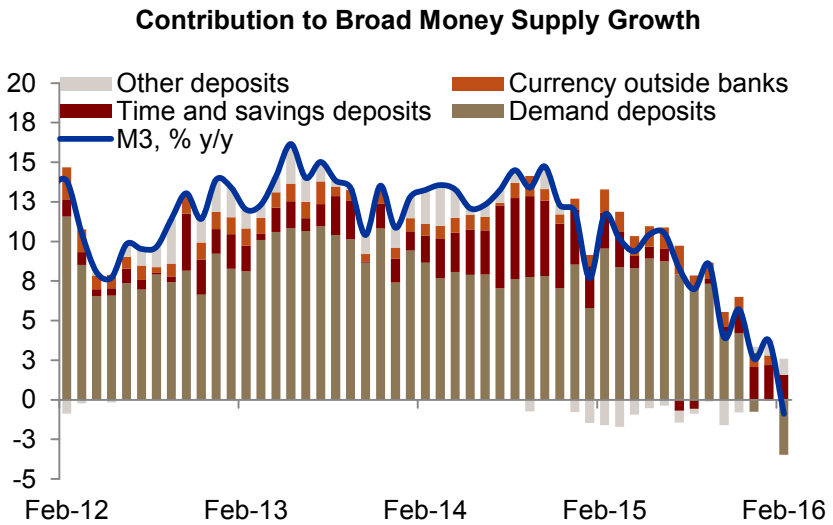
Money Supply

In February, year-on-year growth in money supply turned negative for the first time since 1994, mainly owing to a negative contribution from demand deposits (see bank deposits section). Weekly money supply data from SAMA points to a likely continuation of this trend in March.

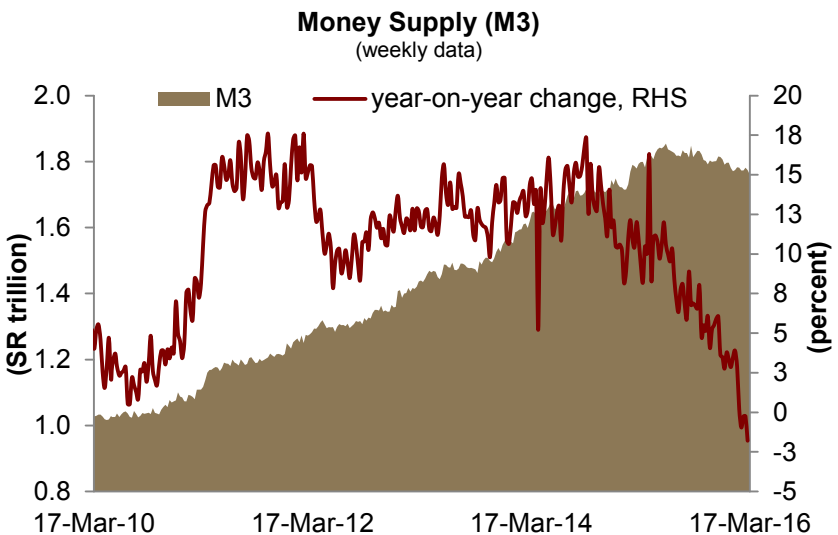
Annual growth in broad money supply was -0.9 percent in February, falling for the first time to the negative territory in 22 years.



A negative contribution from demand deposits was the main reason behind the negative growth in money supply.



A further slowdown has since been observed in the weekly money supply data from SAMA, with annual growth in M3 trending further down to -1.8 percent as of mid-March.

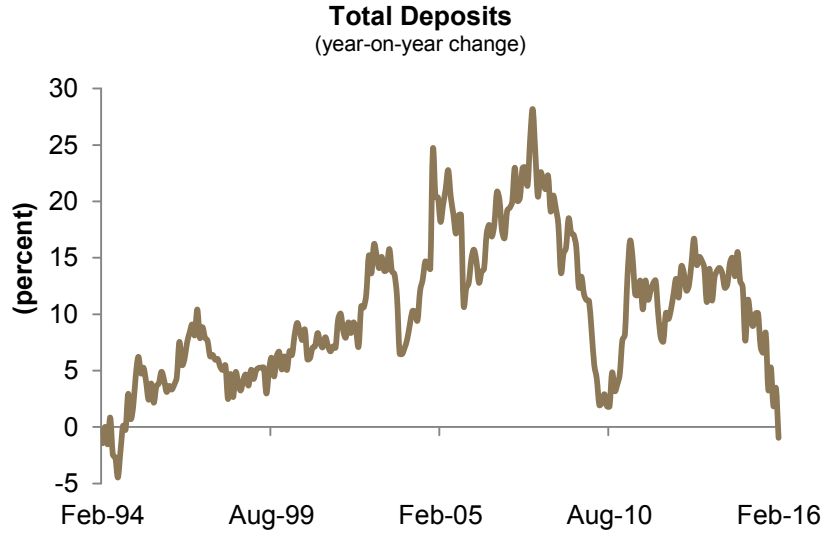




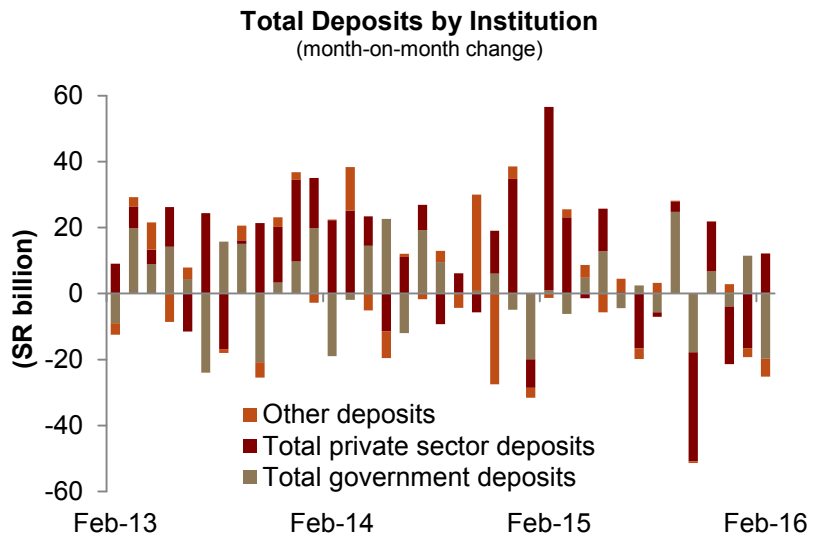
Bank Deposits

In February, total bank deposits posted its first year-on-year decline in nearly twenty two years, mainly owing to recurring deposit withdrawals by the private sector over the past eight months. In month-on-month terms, total government deposits fell, mainly impacted by a net withdrawal from time and savings deposits, while private sector deposits rose for the first time in three months.

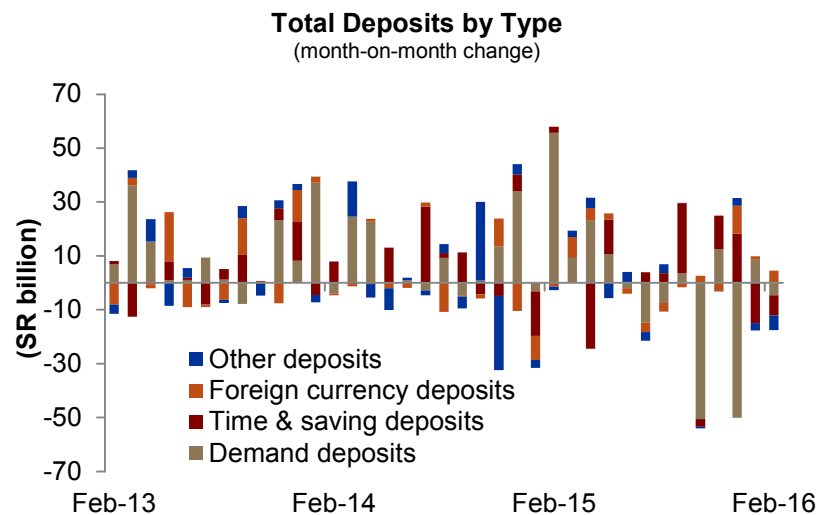
Total deposits fell by SR13 billion in February, posting its first year-on-year decline in nearly 22 years at -1.0 percent.



In month-on-month terms, total government deposits (21.5 percent of total bank deposits) fell by SR19.8 billion in February.



The net withdrawals mainly spanned government time and savings deposits, which fell by SR15.8 billion in February, the largest single monthly decline since April last year.



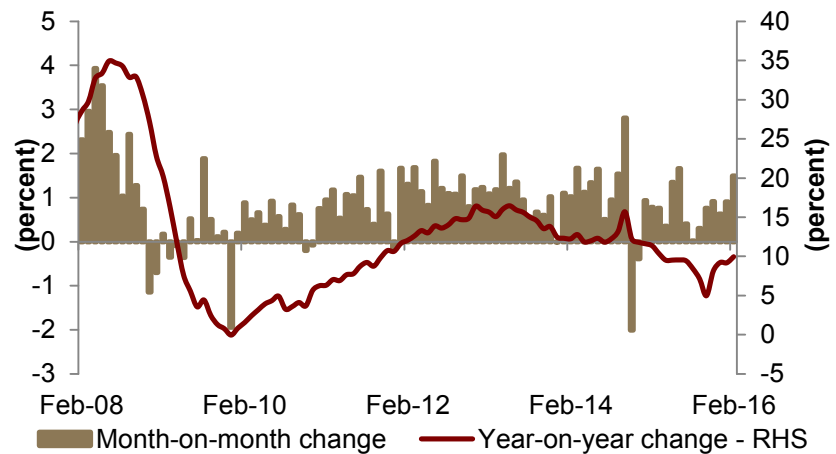


Bank Credit and Liquidity

Credit to the private sector remained resilient in February, rising in both month-on-month and annual terms. As a result, the loan-to-deposit ratio rose to 88.1, its highest since November 2008. This led some banks to increasingly rely on interbank lending to manage their liquidity.

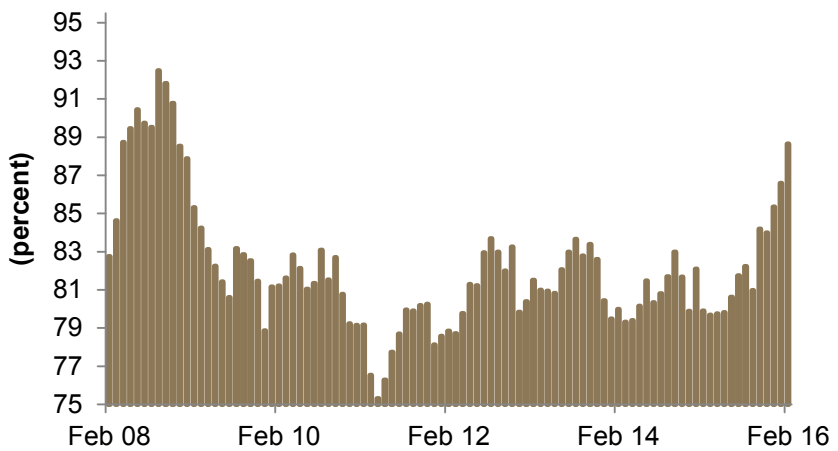
Bank credit was resilient in February, rising by 1.5 percent, month-on-month, and 9.9 percent year-on-year. We think this reflects an increase in refinancing activity as businesses manage their cash flows in response to delayed government payments.

Bank Credit to the Private Sector



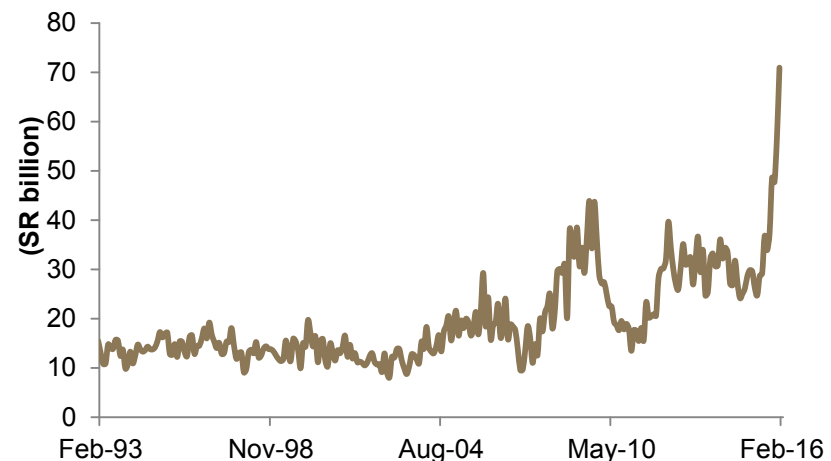
The loan-to-deposit ratio rose to 88.1 in February, an eight year high. We estimate it will take between 3 to 4 months before banks reach the new loan-to-deposit ceiling of 90 percent set by SAMA earlier in the year.

Loan-to-Deposit Ratio



This led some banks to tap into the interbank market, resulting in a sharp increase in this type of lending activity to SR71 billion in February, the highest on record.

Interbank Lending

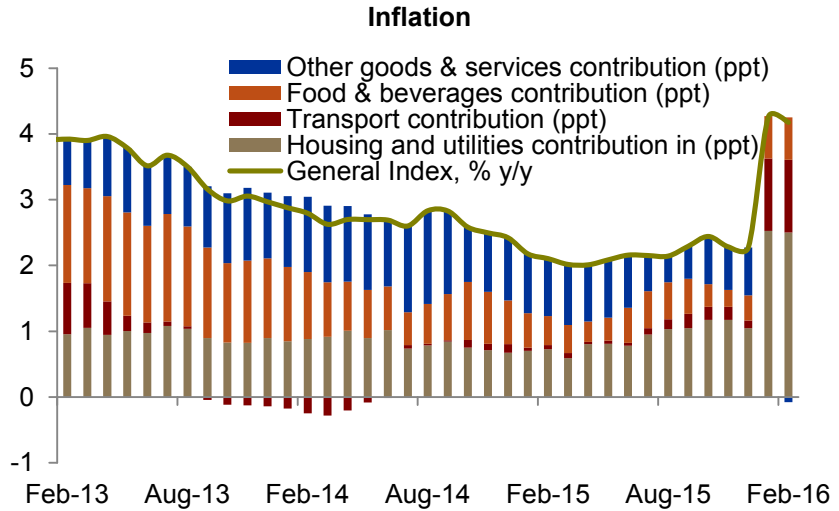




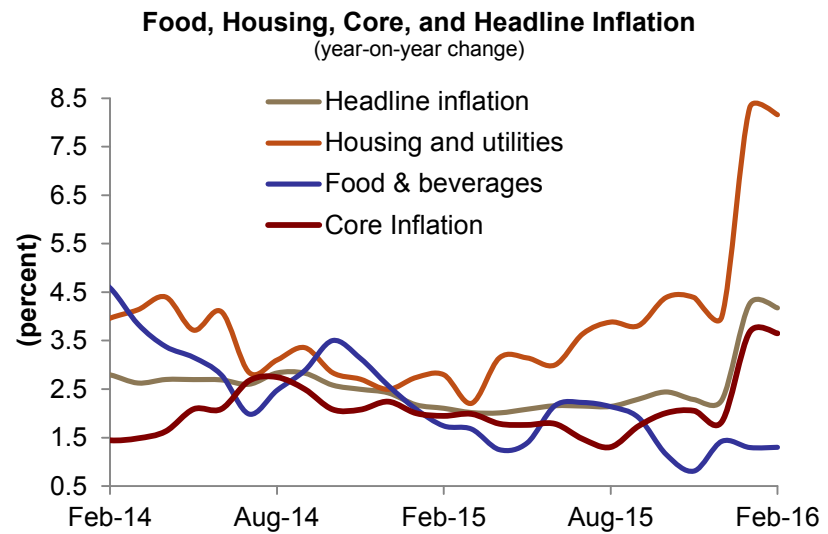
Inflation

CPI edged downward to 4.2 percent in February, down from 4.3 percent in January. Food prices remain subdued, continuing to be impacted by the deflationary trend in international foodstuffs. Components of the core index only saw small changes from the previous month.

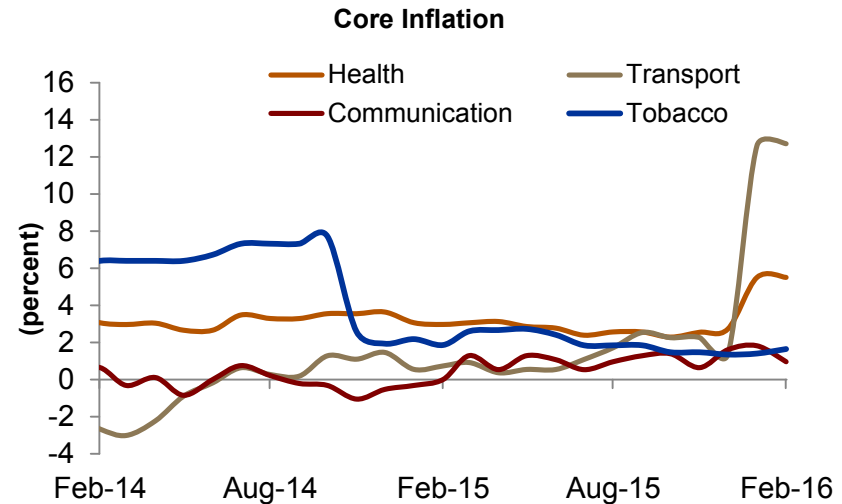
CPI edged downward to 4.2 percent in February.



Food prices remain subdued.



The recent 100 percent price increase on tobacco products will push inflation in the segment. However, we don't see this having a major impact on overall inflation, given the small weight of tobacco in the overall consumer price basket (0.5 percent).

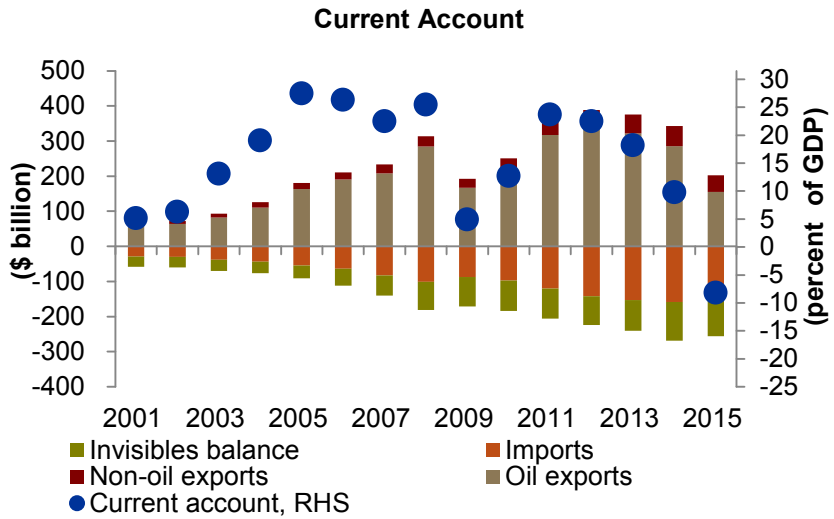




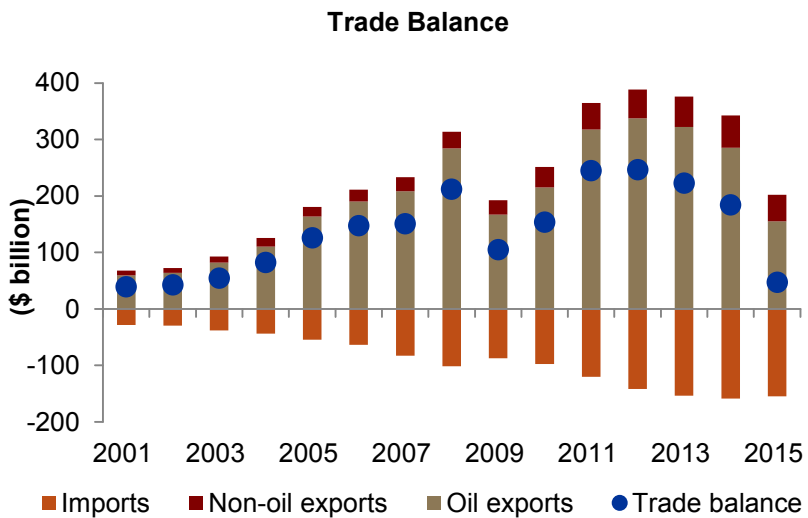
Balance of Payments

Full balance of payments data for 2015 show that the current account deficit was \$53.5 billion (8.2 percent of GDP), \$12.2 billion higher than the preliminary estimate in the budget. FX reserves were the main source of financing the external deficit as other components of the financial account continued to post a net outflow.

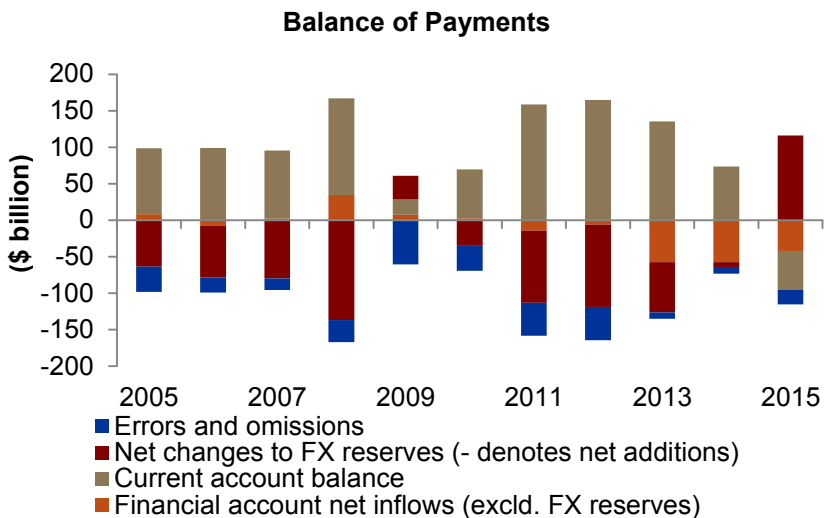
The current account posted its first deficit since 1998, reaching 8.2 percent of GDP in 2015.



The trade surplus edged downwards to \$47.3 billion, its lowest since 2002.



FX reserves were the main source of financing the Kingdom's external deficit during 2015, while other components of the financial account (including FDI and portfolio investment) continued to post a net outflow. Looking ahead, we think that structural reform will play a key role in attracting foreign capital, which will reduce the pressure on FX reserves, particularly if oil prices remain lower for longer.

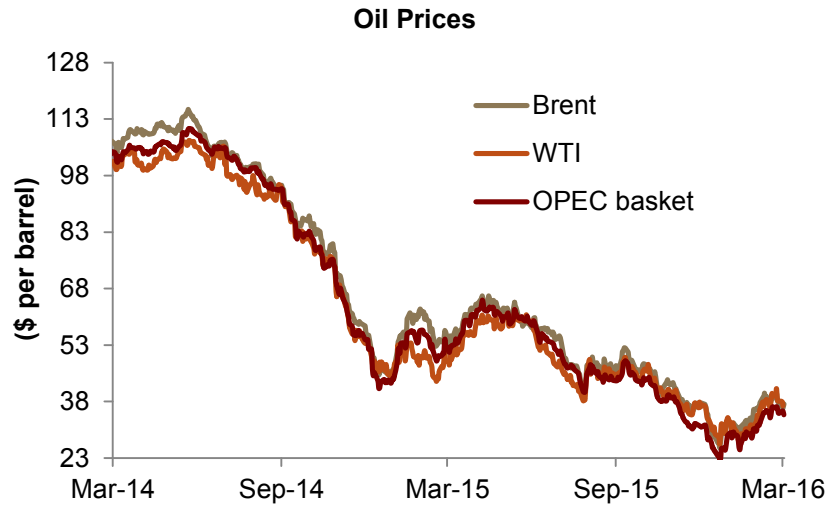




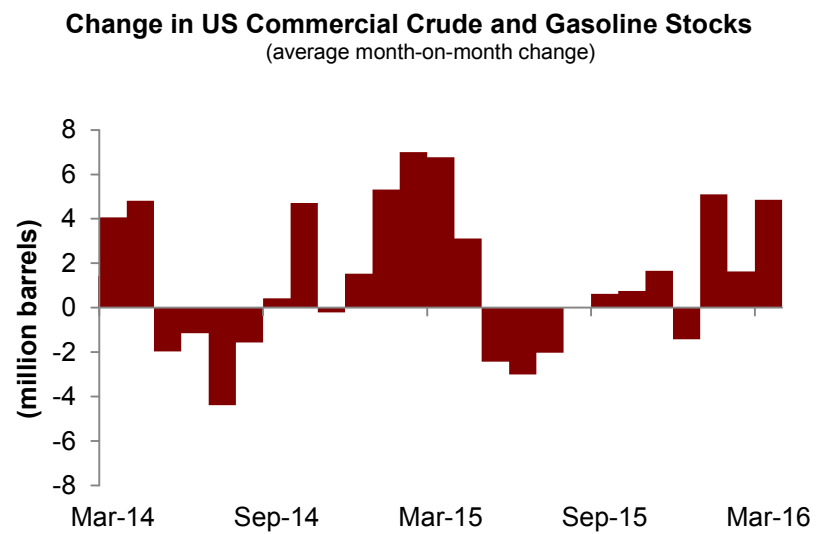
Oil - Global

Brent rose by 19 percent and WTI by 24 percent month-on-month as sentiments were lifted over talks of a 'production freeze'. A number of OPEC countries and Russia have agreed to meet in April to further discuss the 'production freeze' proposal. Meanwhile, in the background, commercial crude stocks are still rising.

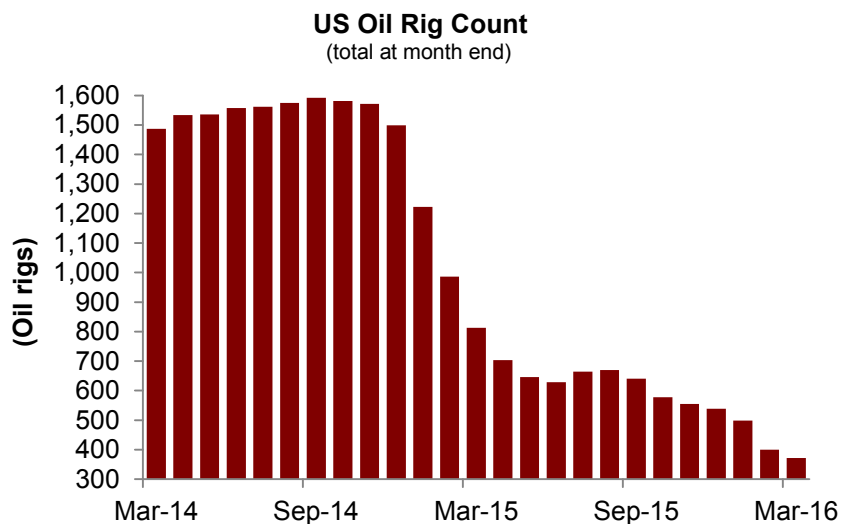
Both Brent and WTI rose month-on-month.



US commercial crude stocks rose in March...



...despite record low levels of US oil rigs.



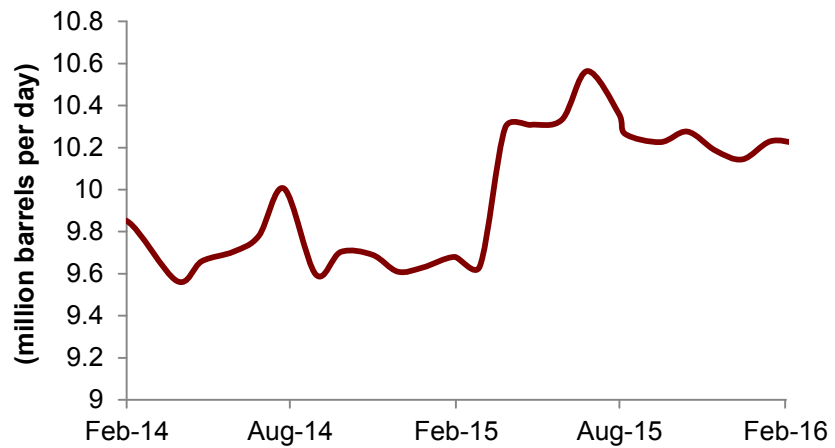


Oil - Regional

Saudi crude production in February was virtually unchanged month-on-month at 10.2 mbpd. Meanwhile, Iran saw some production rises but these have been slower than initially anticipated after the lifting of sanctions. Latest data shows that Saudi exports totaled 7.8 mbpd in January supported by crude stock drawdown.

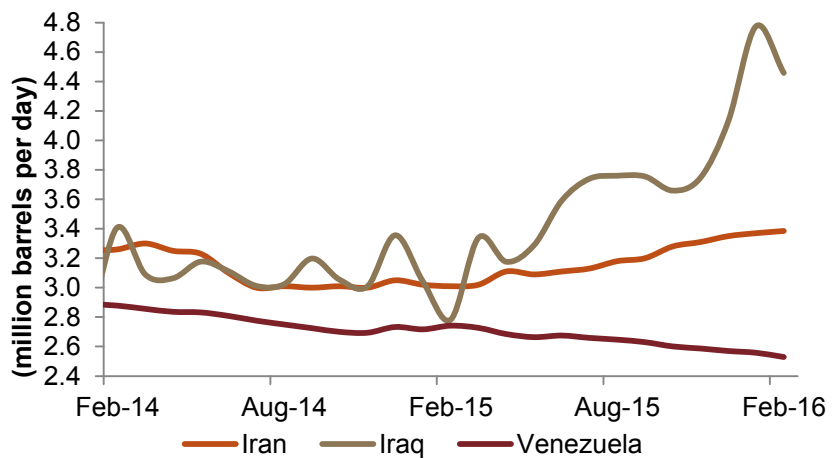
February Saudi production was unchanged month-on-month at 10.2 mbpd.

Saudi Crude Production



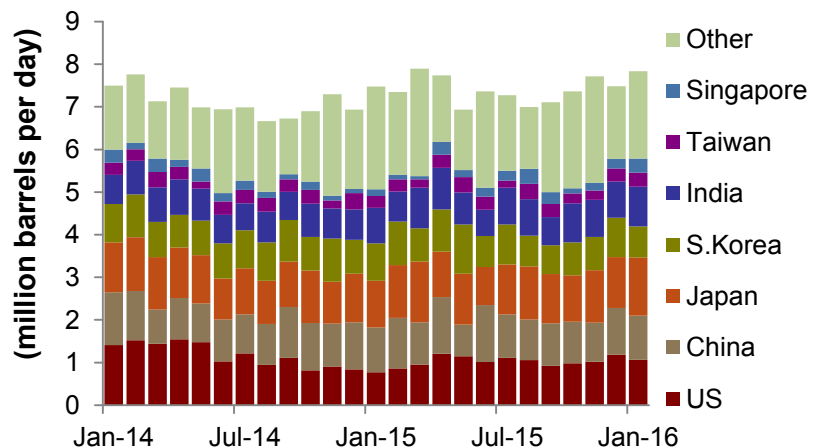
Iraqi production was down steeply after a pipeline outage. Venezuelan output continued slowing whilst Iranian production has increased slower than expected.

Iraq, Iran and Venezuela Production



Latest data shows Saudi exports reached near record levels in January, at 7.8 mbpd, supported by the largest crude stock drawdown in almost five years.

Saudi Crude Exports by Country
(monthly average)





Exchange Rates

A rise in oil prices helped ease speculative pressure on the one year US dollar/riyal forward rate during the month. The euro gained in value despite the European Central Bank (ECB) instituting further monetary easing whilst the UK pound has not regained the losses seen in recent months as speculation over a 'Brexit' remains.

Higher oil prices and a report by an international ratings agency confirming that peg will be maintained led to a decline in the one year US dollar/riyal forward rate.

US Dollar/Riyal One Year forward Rate
(USD/Saudi riyal peg = 3.75)



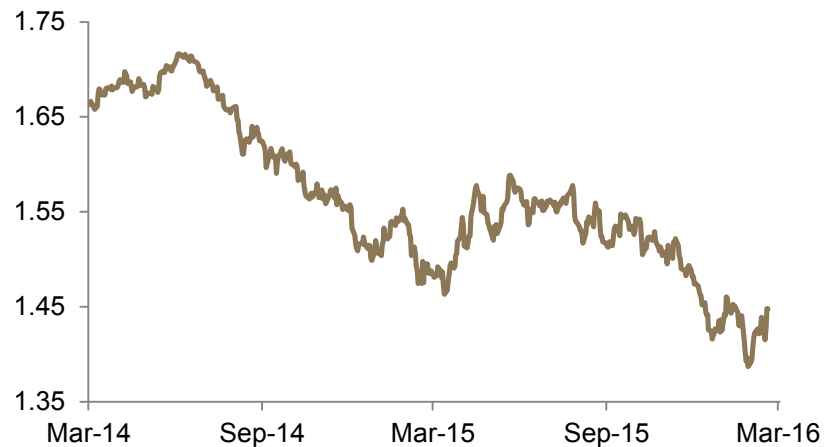
Although additional monetary easing was announced by the ECB in March, no interest rate rises from the US Federal Reserve meeting resulted in the euro gaining value.

Euro/US Dollar



The UK pound regained some value during the month but still remained pressured due to a possible UK exit from the European Union.

British Pound/US Dollar





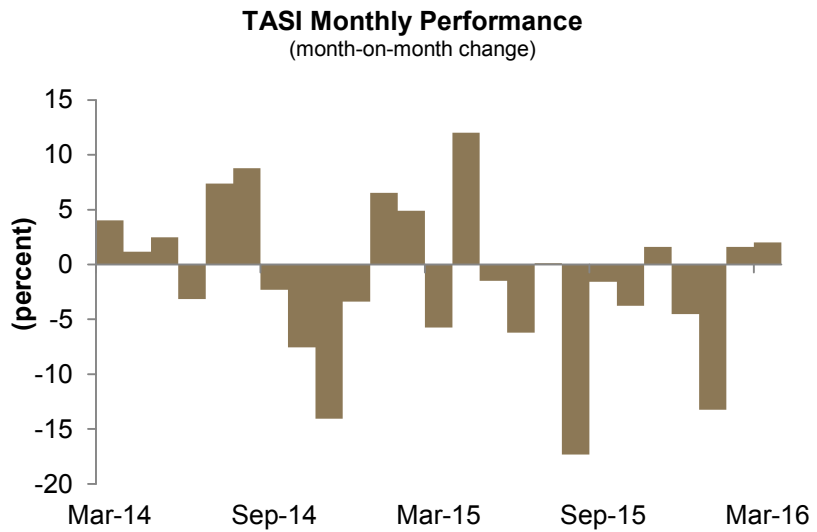
Stock Market

Investor sentiment was boosted as global equity markets improved and oil prices firmed around \$40 per barrel. This led to a second consecutive month in rises for the TASI, the first time in over a year. We expect further volatile trading in the month ahead as first quarter net-income results of listed companies are released.

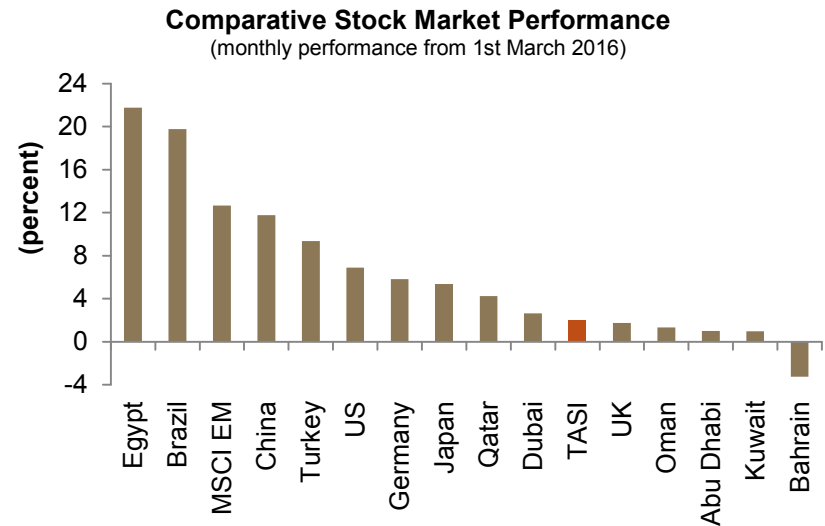
The TASI rose in March...



...for a second consecutive month...



...in line with most major and regional indices.



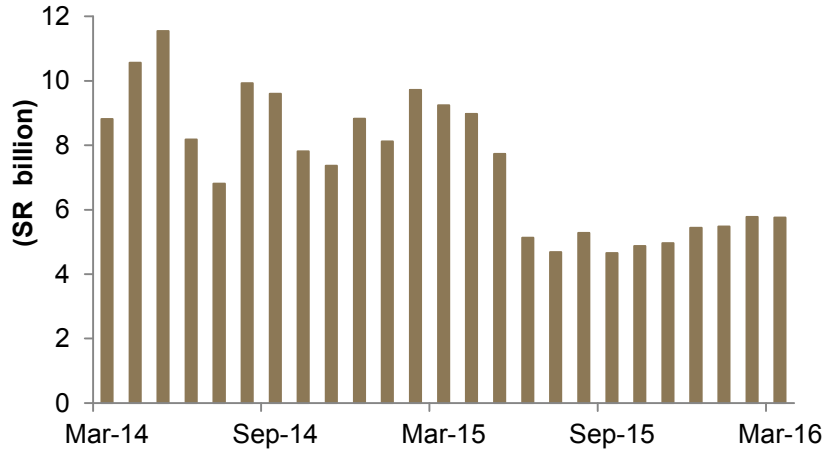


Volumes

A lack of major news developments related to TASI resulted in value of traded volumes being flat month-on-month in March. This is likely to have contributed to elevated levels of speculative trading amongst smaller sectors.

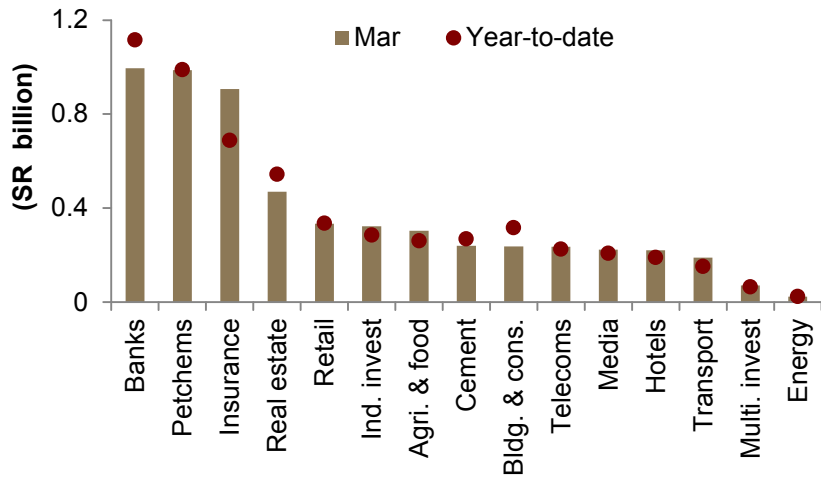
Market turnover was flat month-on-month...

Daily Average Stock Market Turnover



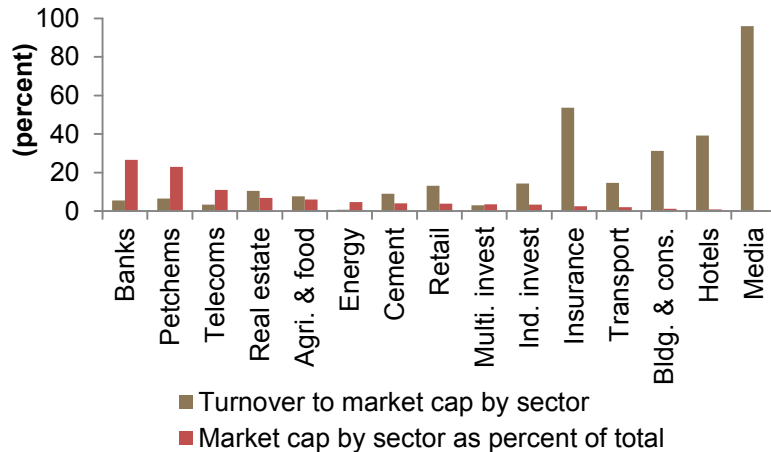
...due to a relatively quieter month in terms of news developments potentially affecting the TASI...

Turnover by Sector (daily average)



...which likely led to speculative activity increasing amongst smaller sectors.

Turnover as Percent of Market Cap (March, 2016)

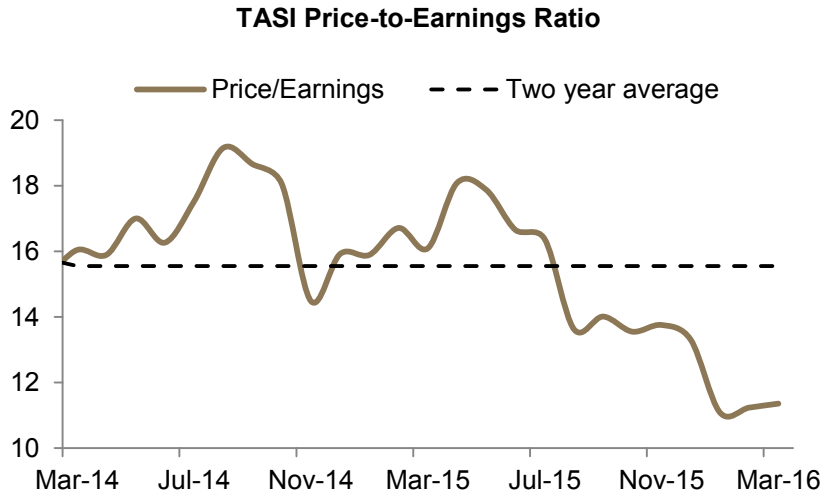




Valuations

The stronger performance of the TASI during the month saw price-to-earnings (PE) recover from two year lows. The TASI seems to be much better value as PE has moved in-line with regional markets. Dividend yield also improved, making the TASI a more attractive prospect.

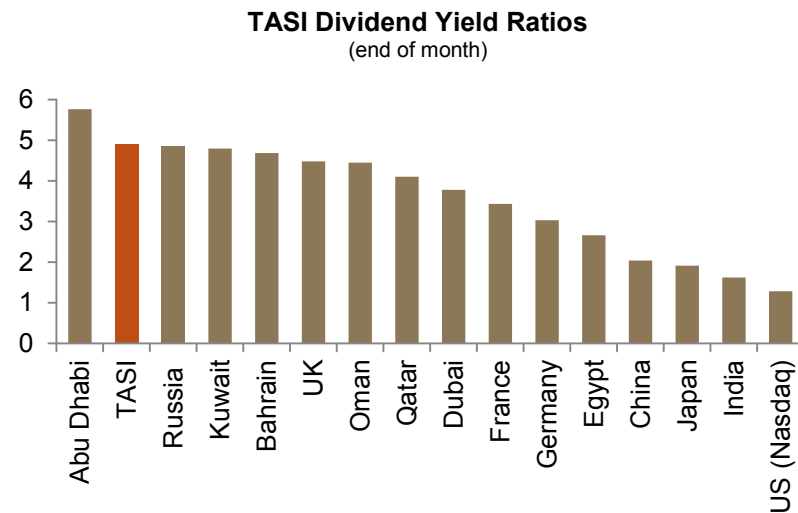
TASI PE has recovered from a two year low...



...and is now priced more in line with regional markets...



...with dividend yield also improving.

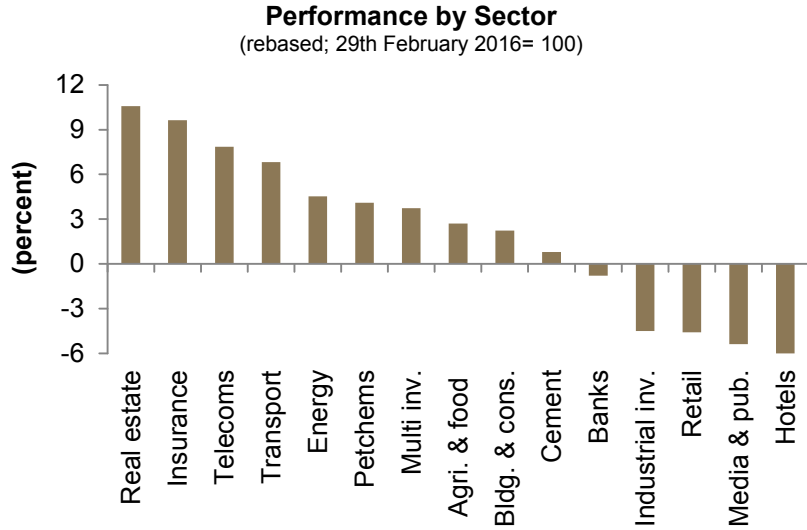




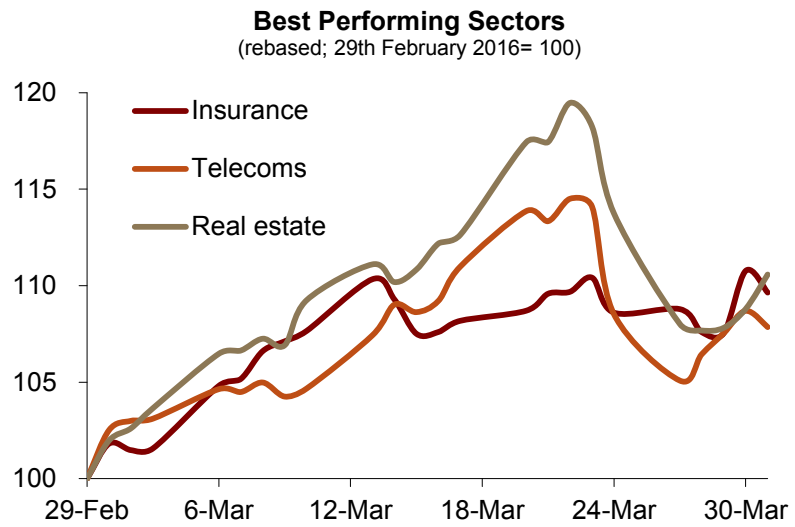
Sectoral Performance

Ten out of 15 sectors performed positively during March reflecting the better overall performance of the TASI. With a subdued month in terms of the traded volumes, speculative activity seems to have driven the best and worst performers during the month.

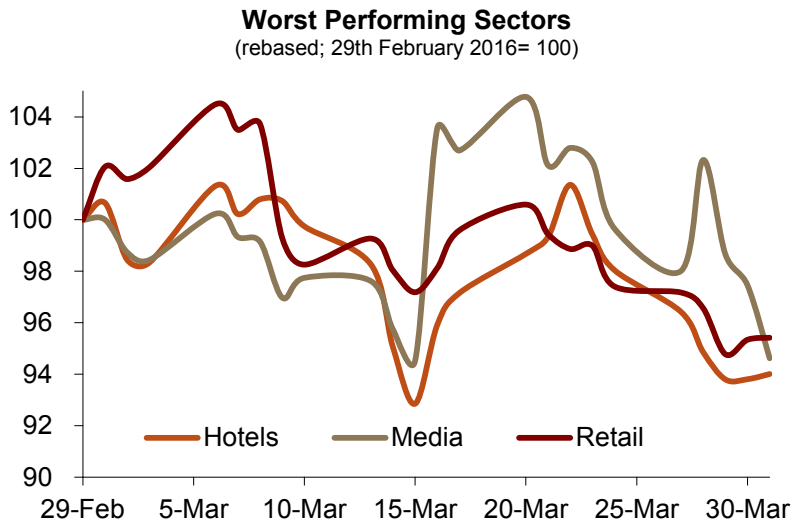
Ten sectors performed positively...



...with the top performing sectors retreating slightly mid-month due to profit-taking.



The worst performing sectors saw volatile trading during the month.





Key Data

	2009	2010	2011	2012	2013	2014	2015 E	2016 F	2017 F
Nominal GDP									
(SR billion)	1,609	1,976	2,511	2,752	2,791	2,827	2,450	2,254	2,509
(\$ billion)	429.1	526.8	669.5	734.0	744.3	753.8	653.2	601.0	669.0
(% change)	-17.4	22.8	27.1	9.6	1.4	1.3	-13.3	-8.0	11.3
Real GDP (% change)									
Oil	-8.0	-0.1	12.2	5.1	-1.6	2.1	3.1	0.9	0.6
Non-oil private sector	4.9	9.7	8.0	5.5	7.0	5.4	3.7	2.6	3.0
Government	6.3	7.4	8.4	5.3	5.1	3.7	3.3	2.5	2.6
Total	1.8	4.8	10.0	5.4	2.7	3.6	3.4	1.9	2.0
Oil indicators (average)									
Brent (\$/b)	61.7	79.8	112.2	112.4	109.6	99.4	52.1	32.8	43.6
Saudi (\$/b)	60.4	77.5	103.9	106.1	104.2	95.7	49.4	30.3	40.6
Production (million b/d)	8.2	8.2	9.3	9.8	9.6	9.7	10.2	10.2	10.2
Budgetary indicators (SR billion)									
Government revenue	510	742	1,118	1,247	1,156	1,040	608	489	569
Government expenditure	596	654	827	873	976	1,111	975	890	901
Budget balance	-87	88	291	374	180	-71	-367	-401	-332
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.5	-15.0	-17.8	-13.2
Domestic debt	225	167	135	99	60	44	142	263	503
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	5.8	11.6	20.1
Monetary indicators (average)									
Inflation (% change)	4.1	3.8	3.7	2.9	3.5	2.7	2.2	3.9	4.6
SAMA base lending rate (% , year end)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5	3.3
External trade indicators (\$ billion)									
Oil export revenues	166.9	215.2	317.6	337.5	322.0	285.2	155.3	100.7	127.5
Total export revenues	192.3	251.1	364.7	388.4	375.9	342.5	202.3	151.3	182.0
Imports	87.1	97.4	120.0	141.8	153.3	158.5	155.0	148.1	149.4
Trade balance	105.2	153.7	244.7	246.6	222.6	184.0	47.3	3.2	32.7
Current account balance	21.0	66.8	158.5	164.8	135.4	73.8	-53.5	-76.9	-53.3
(% GDP)	4.9	12.7	23.7	22.4	18.2	9.8	-8.2	-12.8	-8.0
Official reserve assets	410.1	445.1	544.0	656.6	725.7	732.4	611.9	493.7	398.9
Social and demographic indicators									
Population (million)	26.7	27.6	28.4	29.2	30.0	30.8	31.5	32.2	32.9
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	19,113	23,594	25,139	24,816	24,499	20,723	18,637	20,304

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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