



## Summary

**Real Economy:** Economic data for December indicates a slowdown in activity. Data on consumer spending continued to point to a softening trend, while PMI fell to a record low.

**Government Finance:** In December, the net monthly change to government accounts was negative. SAMA foreign exchange reserves posted the second largest monthly decline during 2015.

**Bank Lending:** Growth in bank credit to the private sector slowed slightly, month-on-month, in December. Bank credit to both consumers and corporations accelerated during the fourth quarter.

**Bank Deposits:** Total deposits trended downward in December, pushed down by a negative monthly change to both private and government deposits.

**Banking Indicators:** Resilience in bank credit combined with slowing deposits has led to some tightening in bank liquidity conditions. The loan-to-deposit ratio rose to a seven-year high.

**Inflation:** In 2015, inflation averaged 2.2 percent. For 2016, we forecast inflation to rise to 3.9 percent.

**Current Account:** Preliminary Q4-2015 data, derived from the budget statement, showed a fourth consecutive current account deficit. The trade balance remained in surplus.

**Oil - Global:** Oil prices improved at the end of the January due to possible coordinated cuts between Russia and OPEC. We see cuts unlikely since it would need widespread agreement with all types of high cost producers such as Canada, Brazil and the US.

**Oil - Regional:** Saudi crude production averaged 10.2 mbpd in 2015 and we expect it to remain unchanged in 2016.

**Exchange Rates:** The US dollar/riyal one year forward rate remains elevated despite SAMA's move to reduce speculation.

**Stock Market:** Fears over weaker global economic growth, rising cost of domestic energy and weaker year-on-year quarterly results combined to push the TASI down in January.

**Volumes:** Volumes were flat month-on-month in January, roughly in line with trading patterns observed in the last nine months.

**Valuations:** Volatility in oil prices and weaker quarterly results saw price-to-earnings (PE) drop further below its five year average.

**Sectoral Performance:** All fifteen sectors were down in January.

**Fourth quarter 2015 results:** Listed company profits were down both in a year-on-year and quarter-on-quarter terms.

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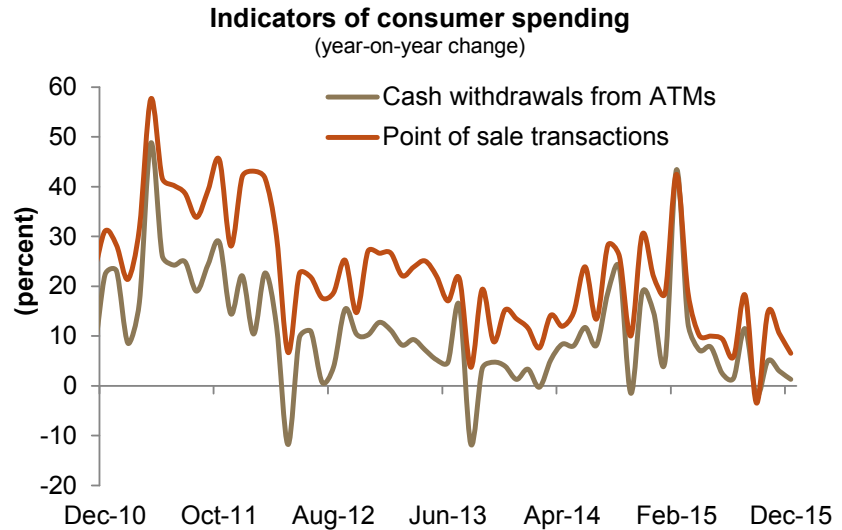
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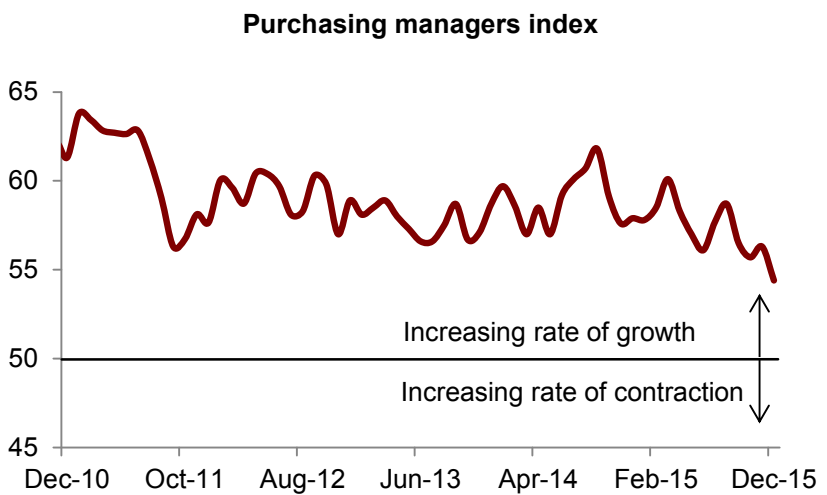
## Real Economy

Economic data for December indicates a slowing trend in activity. Data on consumer spending continued to point to a softening trend. The non-oil PMI fell to a record low. Full year 2015 data on steel production showed a year-on-year decline in production.

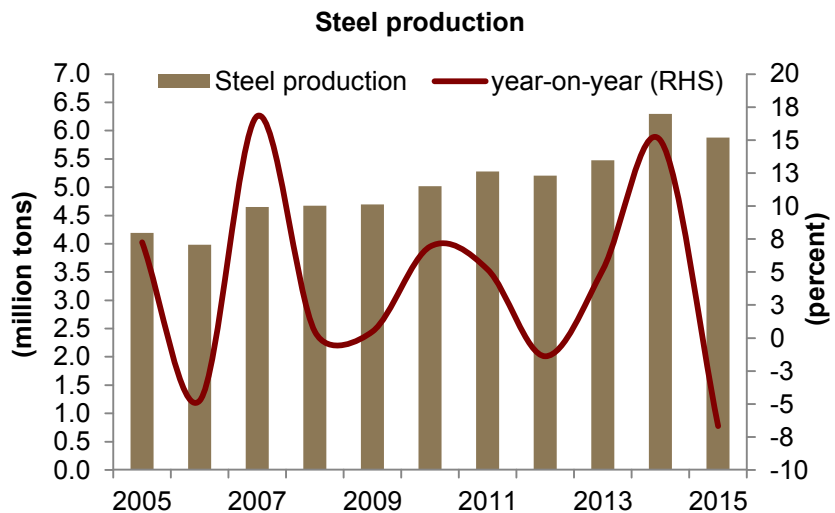
*In December, year-on-year growth in cash withdrawals from ATMs and point-of-sales transactions slowed to 1.3 percent, and 6.5 percent respectively.*



*The non-oil PMI fell to a new record low of 54.4 in December, but continued to point to an expanding non-oil economy.*



*2015 Full-year steel production reached 5.9 million tons, 6.7 percent lower than in 2014, recording its first annual decline since 2012.*



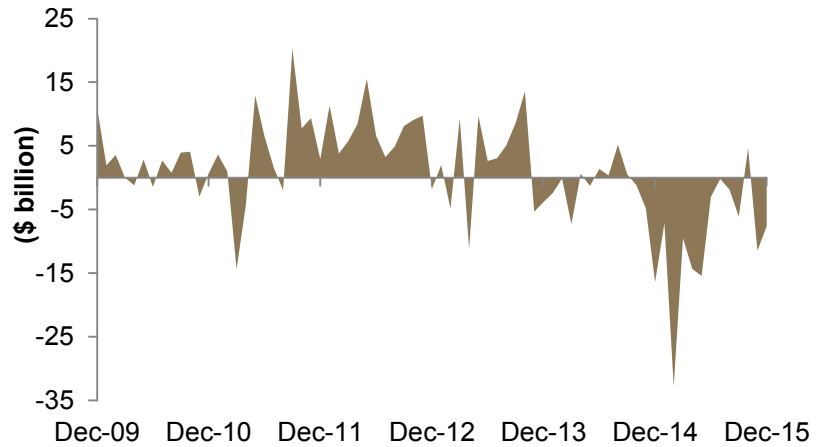


## Government Finance

In December, the net monthly change to government accounts was negative at \$7.6 billion. The decline was due to a net withdrawal from the projects account, while the current deposits and reserve accounts remained unchanged. SAMA foreign exchange reserves posted its second largest monthly decline during 2015.

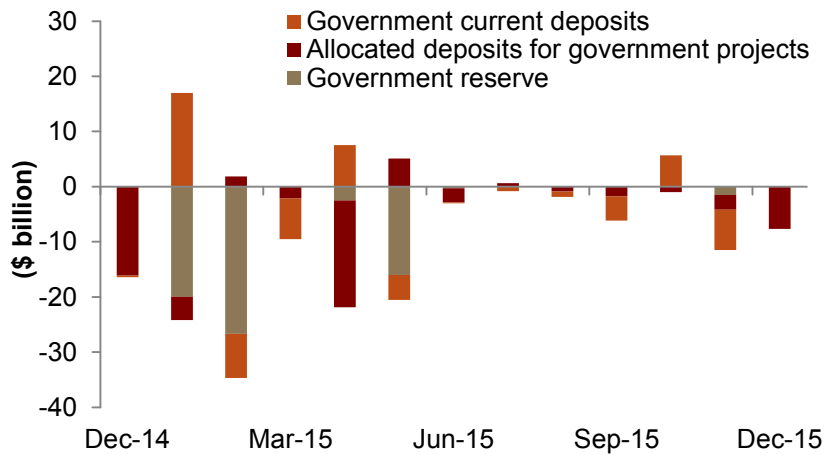
*In December, the net monthly change to government accounts was negative at \$7.6 billion...*

**Government accounts with SAMA**  
(month-on-month change)



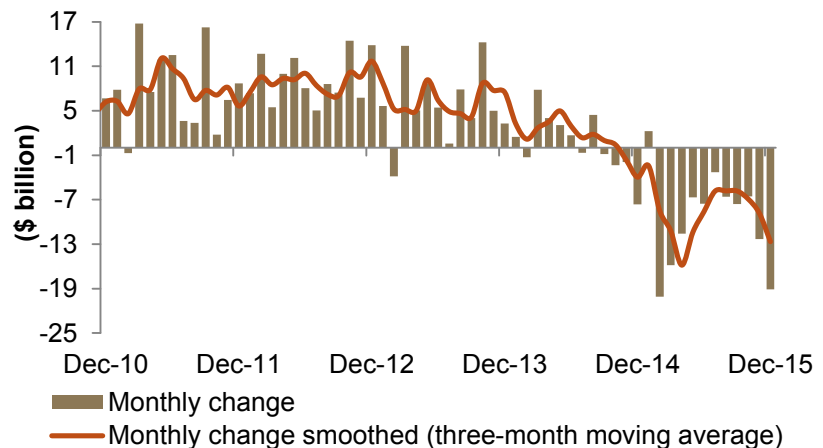
*...mainly owing to a net withdrawal from the projects account.*

**Breakdown of government accounts**  
(month-on-month change)



*A combination of government withdrawals, capital outflows (see page 5), and falling oil export revenues caused foreign reserves to post its second largest monthly decline of 2015 at \$19 billion.*

**SAMA foreign exchange reserves**

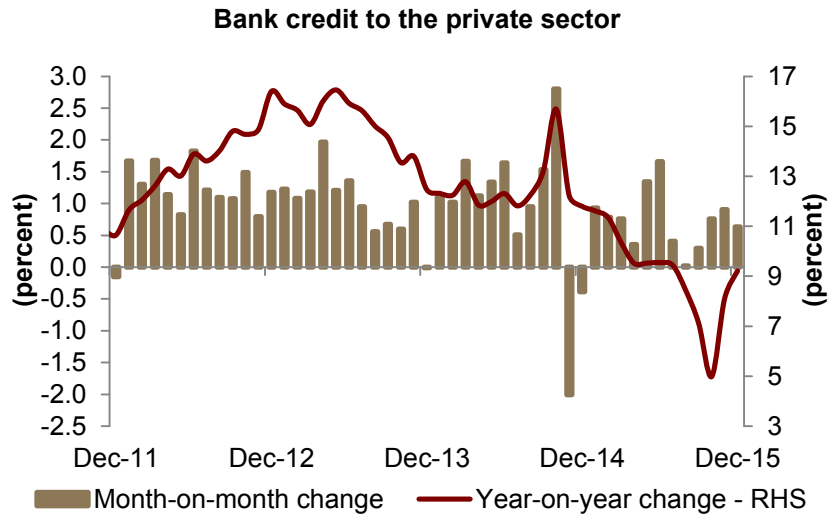




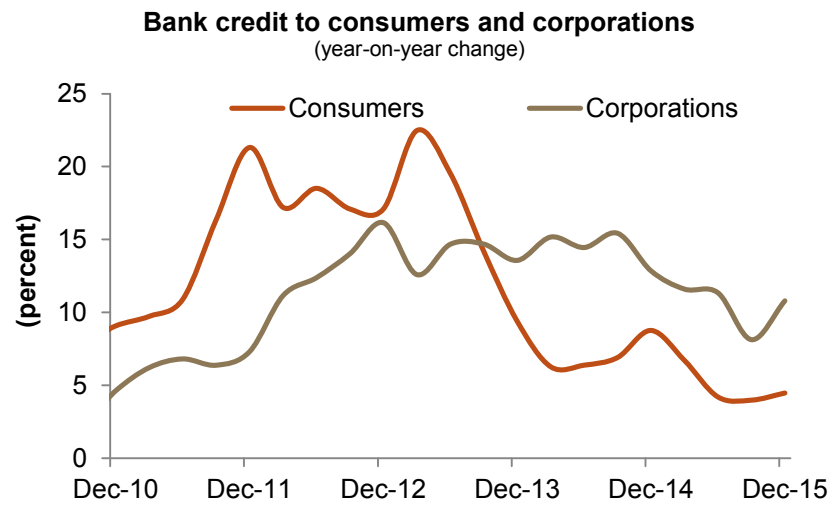
## Bank Lending

Growth in bank credit to the private sector slowed slightly, month-on-month, in December. During the fourth quarter, bank credit to both consumers and corporations accelerated despite the uncertainty surrounding government spending. Net new credit slowed, but remained positive for most sectors in the economy.

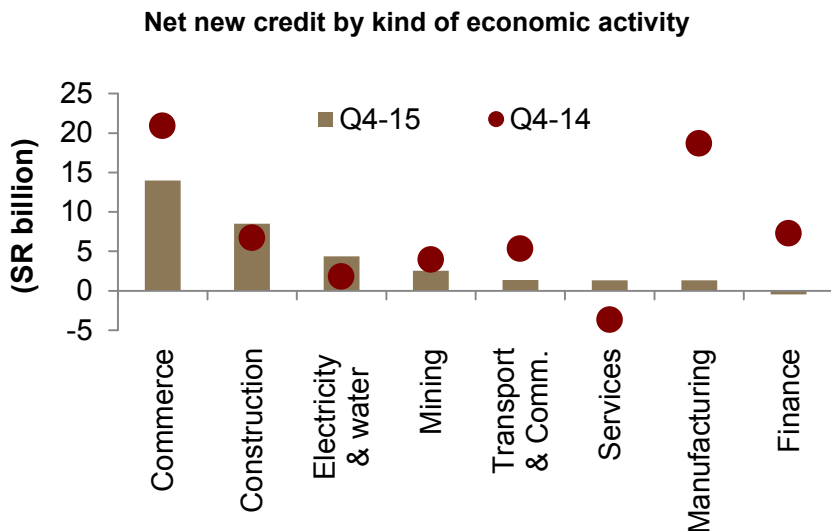
*In December, Bank credit to the private sector grew by 0.6 percent, month-on-month (9.2 percent, year-on-year).*



*During Q4, and despite the uncertainty surrounding government spending, bank credit to both consumers and corporations proved resilient, as it accelerated by 10.8 percent, and 4.5 percent, year-on-year, respectively.*



*In Q4, net new credit was lower, year-on-year for most sectors, with the largest fall in manufacturing (down by SR17.4 billion). That said, net new credit was still positive for all sectors except finance.*

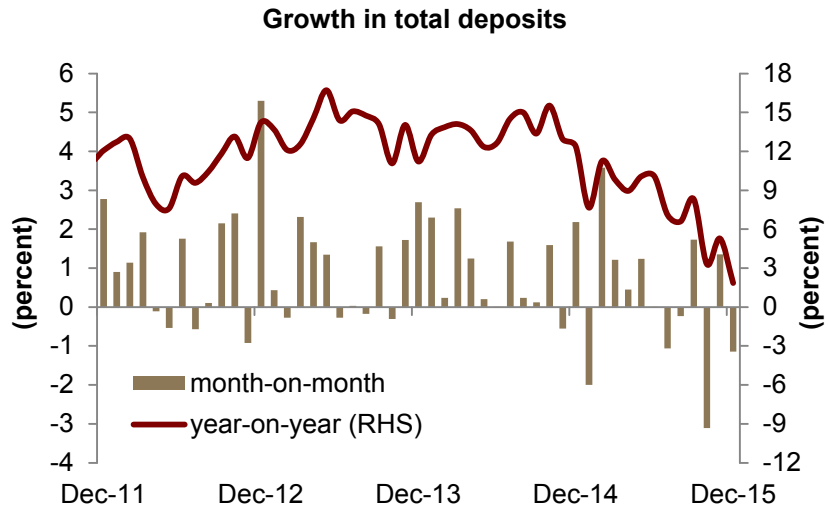




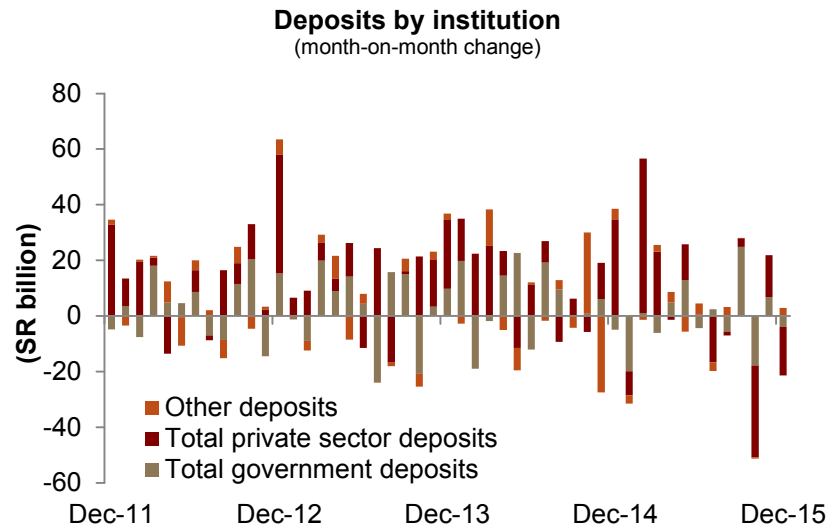
## Bank Deposits

Total deposits trended downwards in December, pushed down by a negative monthly change to both private and government deposits. While government deposits have likely been withdrawn by autonomous government institutions to finance the sovereign bond issuance, private deposits were likely impacted by rising uncertainty

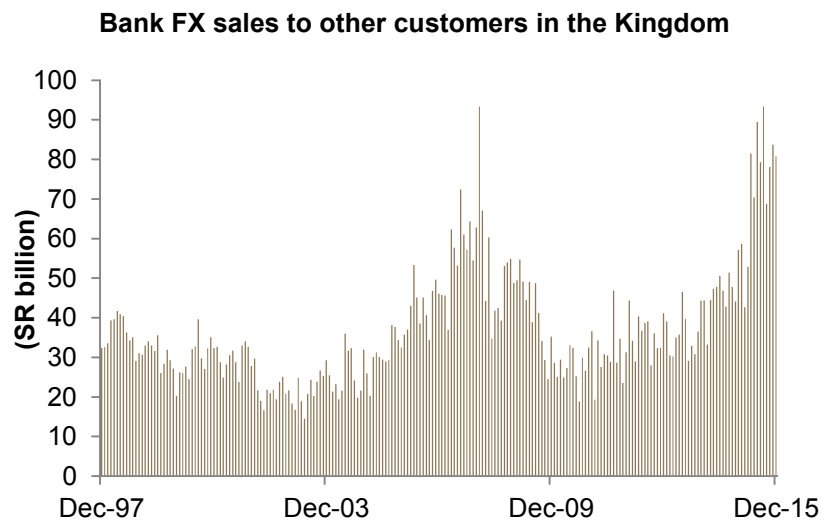
*Annual growth in total deposits continued to slow, falling to 1.9 percent (-1.1 percent, month-on-month).*



*The negative monthly change spanned both government (-SR3.9 billion) and private sector deposits (-SR17.5 billion).*



*Bank FX sales to other customers in the Kingdom rose notably in recent months, reaching SR80.1 billion in December. We think this points to more deposit withdrawals and capital outflows as a result of rising uncertainty.*





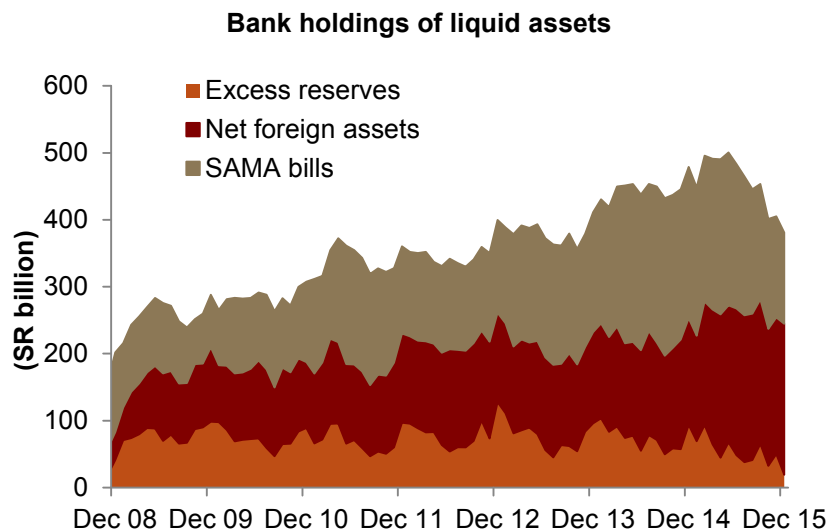
## Banking Indicators

Resilience in bank credit combined with slowing growth in deposits has led to some tightening in bank liquidity conditions in recent months. The 3-month SAIBOR continued to edge upwards as a result. However, we think bank liquidity is still at comfortable levels, which partly reflects the sustained growth in bank credit so far.

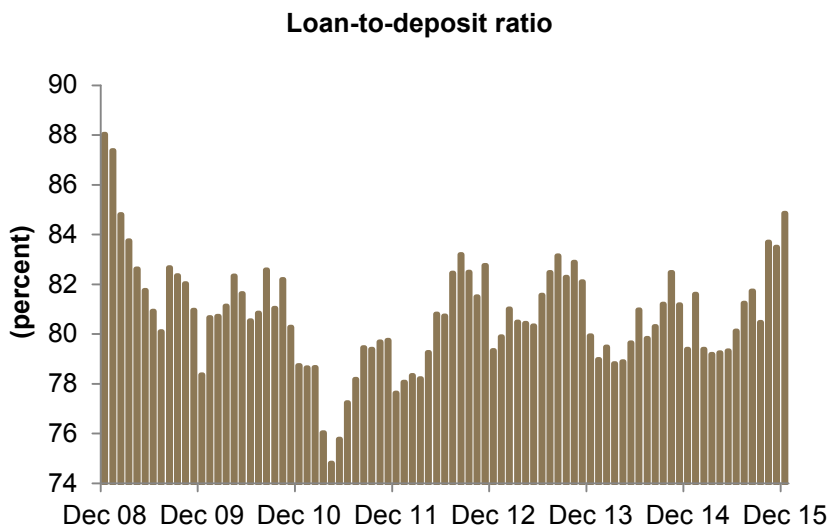
*The 3-month SAIBOR continued to edge upwards at the start of 2016, rising by 16 basis points since the end of December.*



*We think banks still enjoy strong liquidity levels, with holdings of liquid assets of around SR381 billion in December.*



*The combination of slowing deposits and rising credit caused the loan-to-deposit ratio rising to 84.9 in December, the highest since January 2009.*

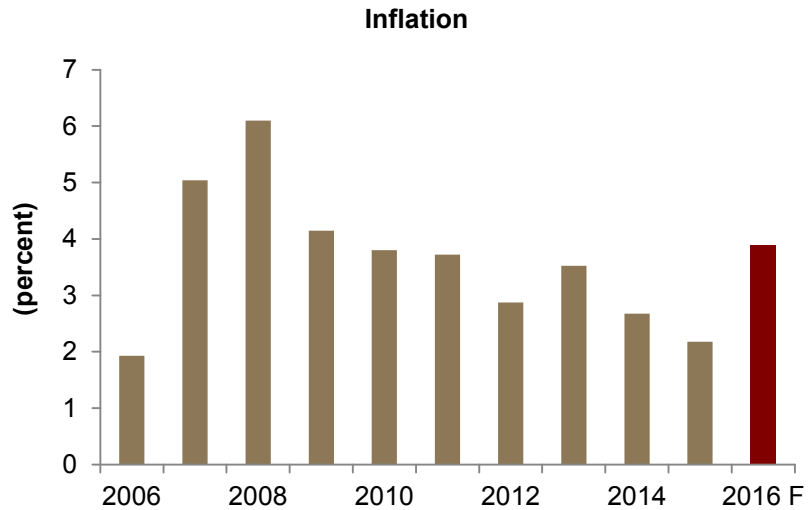




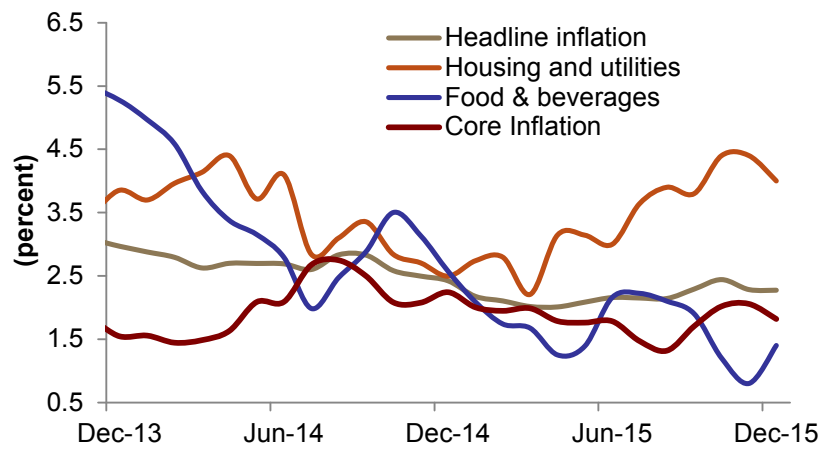
## Inflation

In 2015, inflation averaged 2.2 percent. For 2016, we forecast inflation to rise to 3.9 percent, mainly driven by higher energy prices. December data showed that the housing segment remained at elevated levels, and is likely to be a major source of inflationary pressure in 2016. Prices of local foodstuffs accelerated as the deflationary trend in international food prices eased.

*Inflation averaged 2.2 percent in 2015. We forecast inflation to rise to 3.9 percent in 2016.*

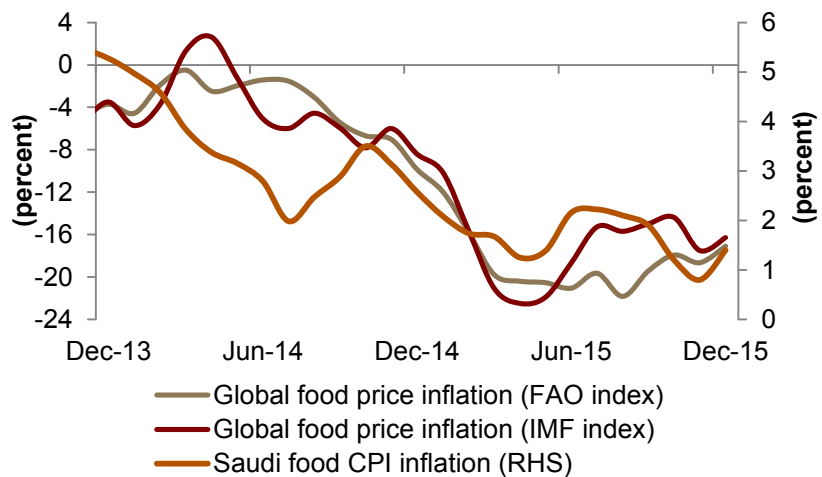


Headline, housing, food, and core inflation



*The food segment accelerated to 1.4 percent, while the housing segment and the core index posted slight slowdowns.*

Domestic and international food prices



*Prices of local foodstuffs accelerated as the deflationary trend in international food prices eased.*

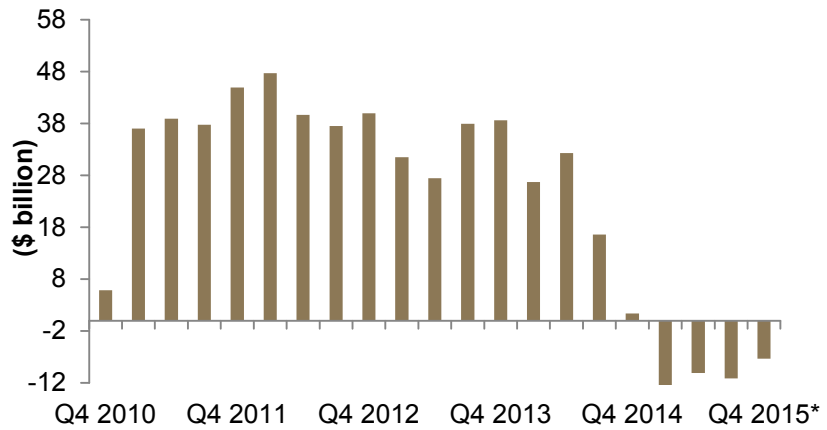


## Current Account

Preliminary Q4-2015 data, derived from the budget statement, showed that the Kingdom posted a fourth consecutive current account deficit. The trade balance remained in surplus. We expect the deficit in Q4 to be revised upwards since we estimate oil export revenues to have fallen towards the end of 2015. Previous incidences have showed that current account data tends to be revised.

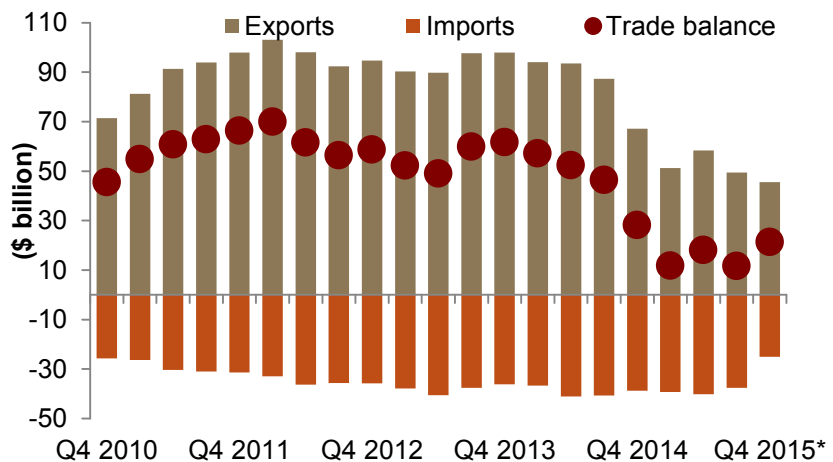
*Preliminary Q4-2015 data showed a current account deficit at -\$7.4 billion. We think the deficit in Q4 will be revised upwards in subsequent data releases.*

**Current account balance**



Note\*: From the 2016 budget statement

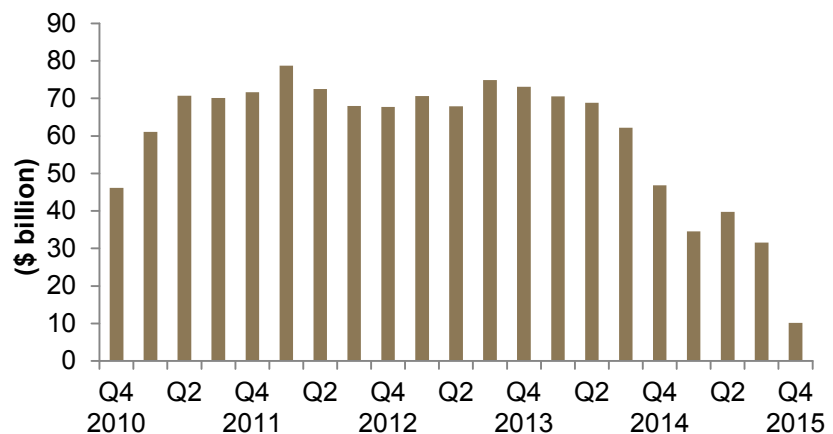
**Trade balance**



Note\*: From the 2016 budget statement

*The trade balance remained in surplus in Q4-2015 at \$21 billion, but is likely to be revised down together with the expected revisions in the current account.*

**Crude oil export revenues**  
(Jadwa Investment estimates)



*We also expect such revisions to occur since oil export revenues have trended downwards in Q4-2015.*



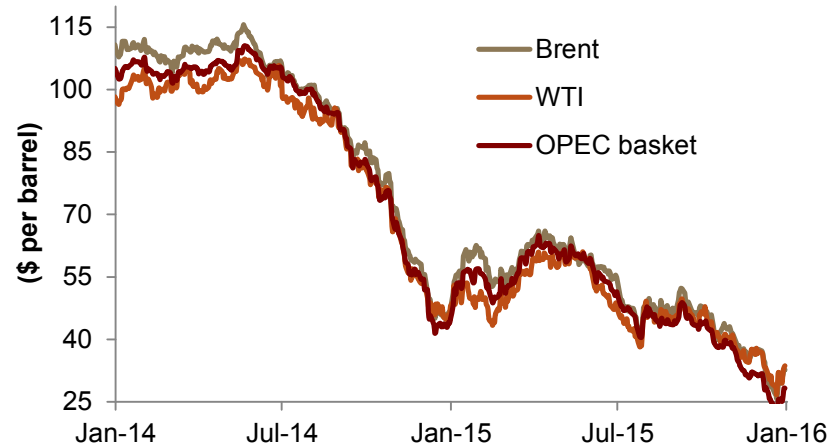


## Oil - Global

Brent prices were down 13 percent, and WTI down 9 percent, month-on-month, as downward revised global economic growth rates by the IMF suggested little upside to oil demand. Oil prices were also affected by the prospect of a faster than expected return of Iranian crude exports after the lifting of sanctions during the month.

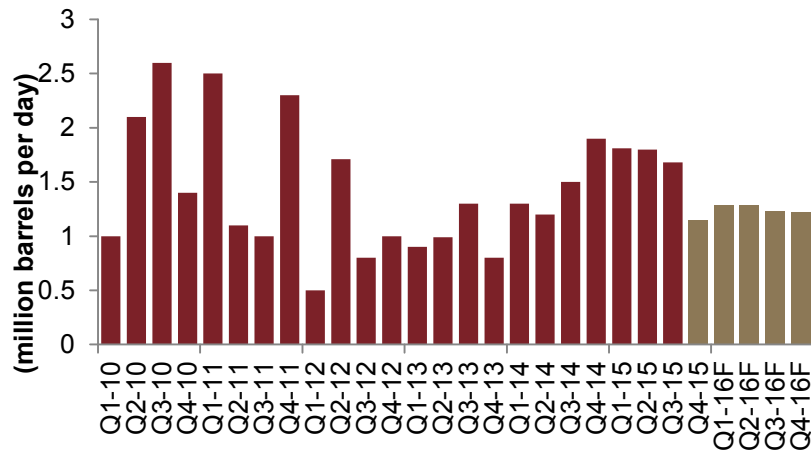
*Oil prices dropped again in January, month-on-month...*

**Oil Prices**



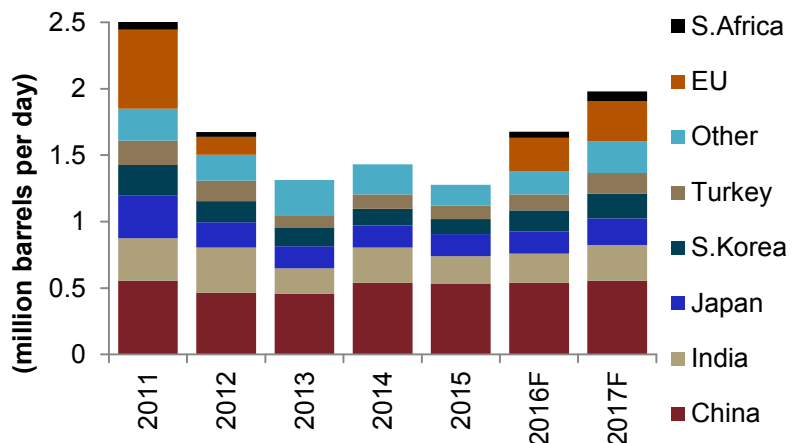
*...as modest demand growth is expected in the year ahead...*

**Global Oil Demand**  
(mbpd, year-on-year change)



*...and already oversupplied markets see additional crude coming online from Iran.*

**Iranian Crude Exports**  
(mbpd)



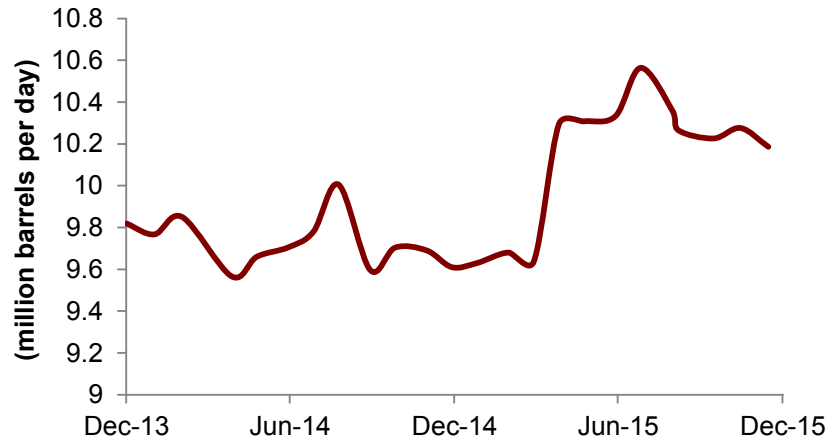


## Oil - Regional

Saudi crude production was virtually unchanged month-on-month in December at 10.2 mbpd. We expect Saudi production to remain at current levels in the following months. Iraq saw large rises in production with some rises in Iranian production too. Latest data shows that Saudi exports rose to 7.7 mbpd in November.

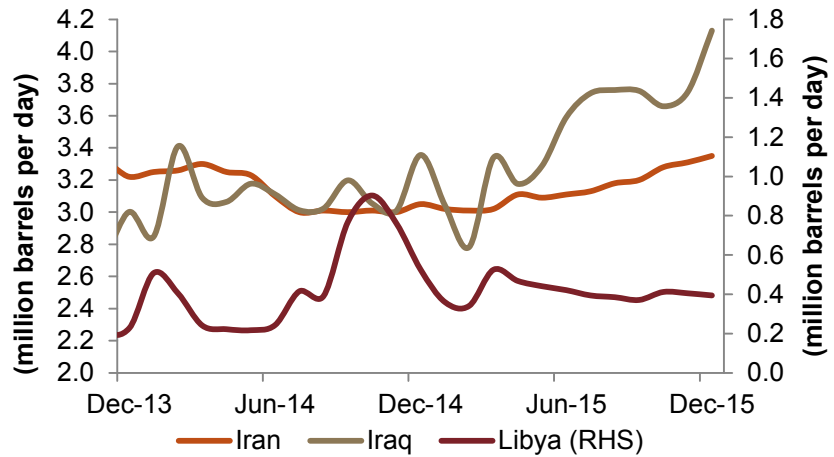
*Annual Saudi crude production averaged 10.2 mbpd in 2015, we see 2016 production at similar levels.*

**Saudi crude production**

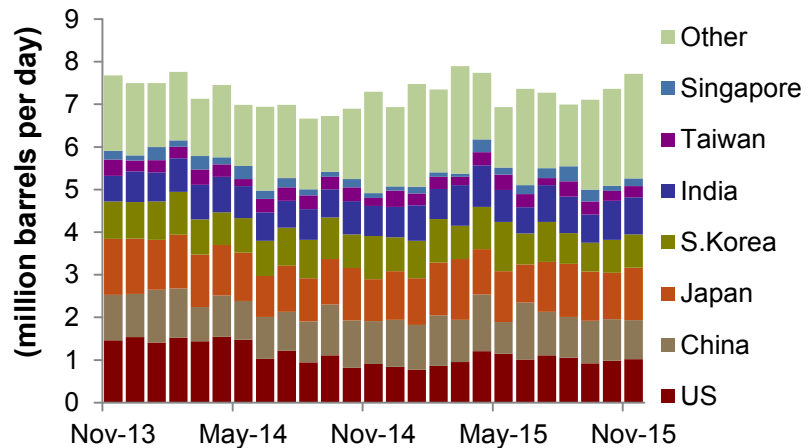


*We expect Iranian crude production to rise in the next few months.*

**Iraq, Iran and Libya production**



**Saudi crude exports by country**  
(monthly average)



*Year-to-November Saudi exports average 7.4 mbpd, up 4 percent year-on-year, and we expect exports to remain at current levels throughout 2016.*



## Exchange Rates

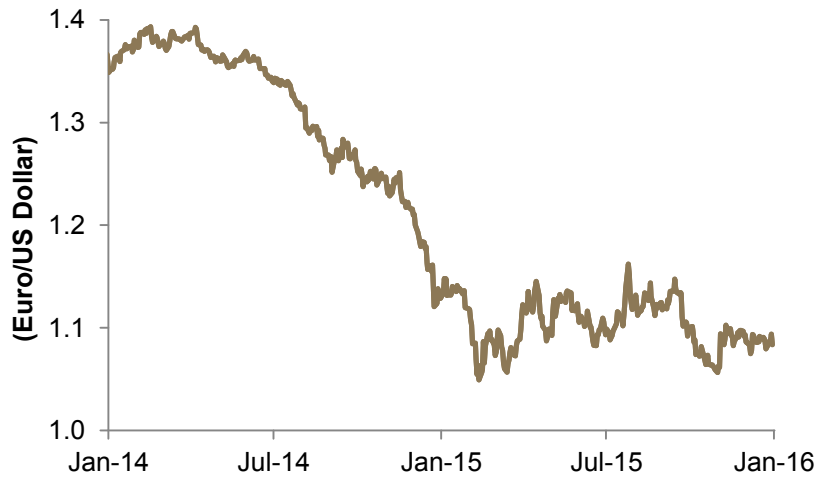
The US dollar/riyal one year forward rate remains elevated despite SAMA's move to reduce speculation by barring domestic banks from dealing in forward contracts on the riyal. The US dollar stabilized as the US Federal Reserve underlined that interest rate rises would be gradual in a meeting during the month.

*Speculative activity on the riyal forward rate declined after SAMA's statement, but still remains high.*

**US Dollar/Riyal one year forward rate**  
(USD/Saudi riyal peg = 3.75)

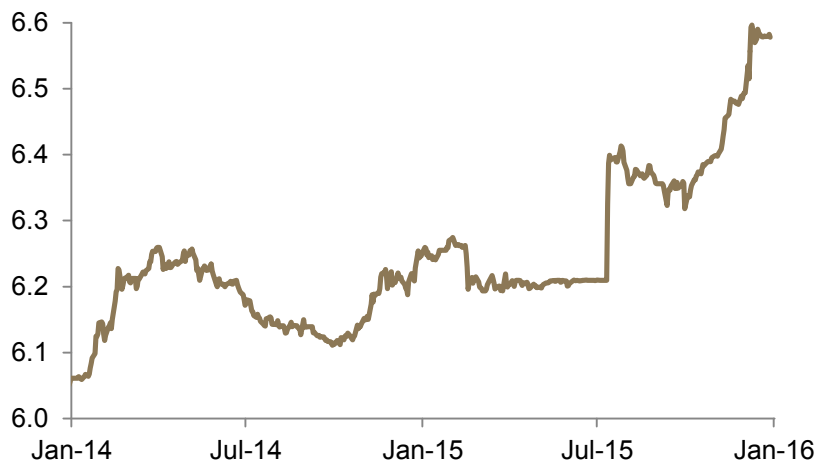


**Euro/US Dollar**



*The US dollar stabilized during January as US interest rate rises are expected to be gradual...*

**Renminbi/US Dollar**



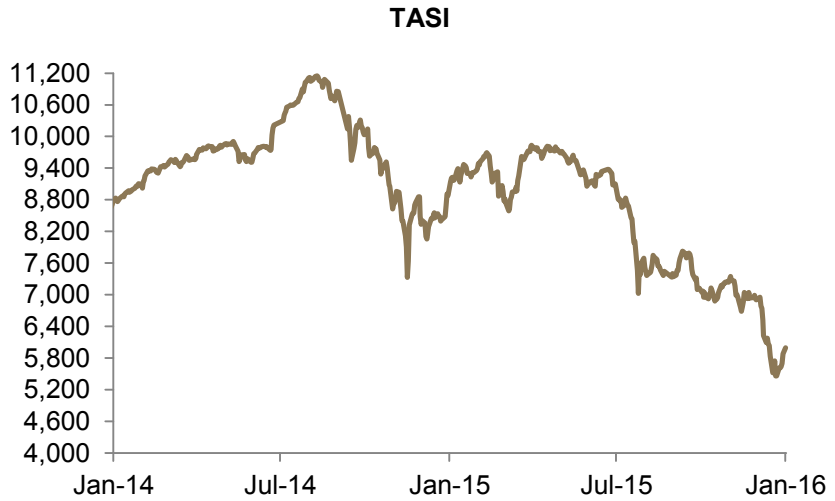
*...although the Chinese renminbi was allowed to devalue against the dollar.*



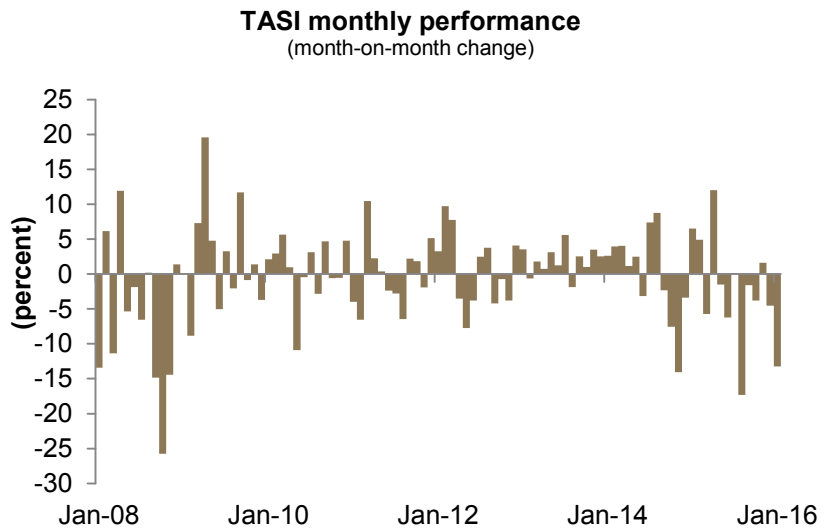
## Stock Market

The TASI dropped by 13 percent month-on-month as a combination of lower oil prices, which touched 2004 levels during January, fears over weaker global economic growth, the rising cost of domestic energy and weaker year-on-year quarterly results all combined to dampen sentiments.

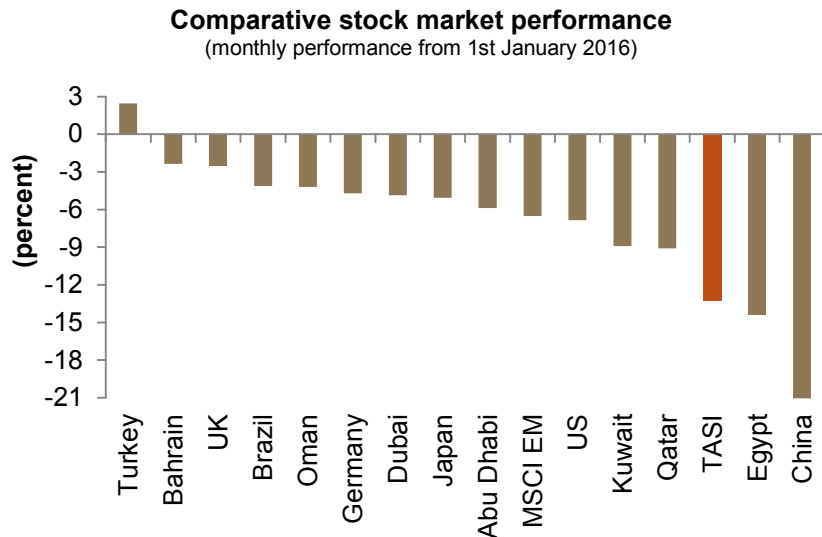
*The TASI fell by 20 percent at one point in January before recovering slightly...*



*..although it still finished down 13 percent month-on-month, the worst start to the year since 2008.*



*The TASI was one of the worst performers during January despite falls in most major and regional equity markets.*



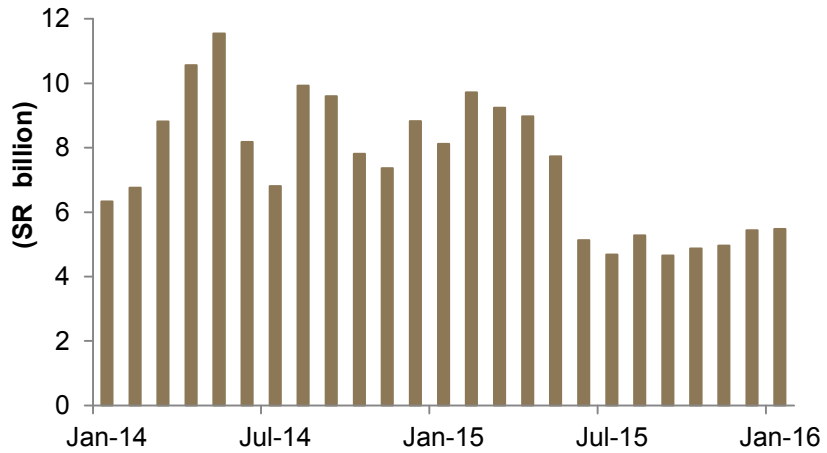


## Volumes

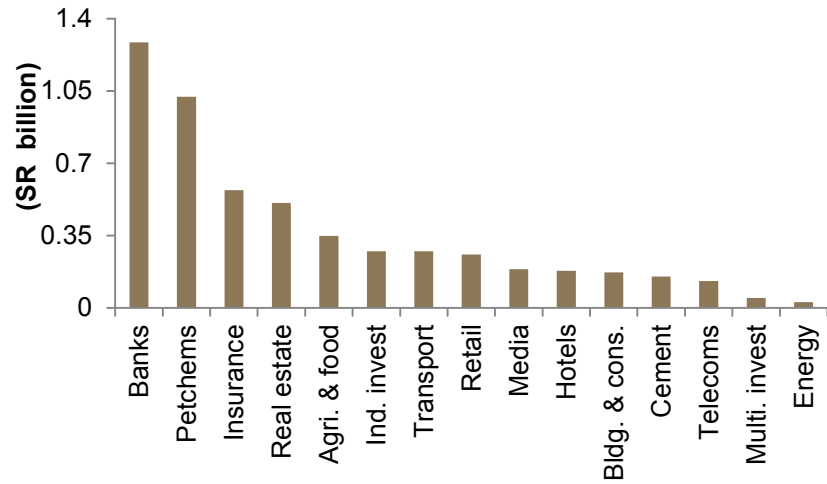
Volumes were flat month-on-month in January, roughly in line with trading patterns observed in the last nine months. Increased volatility in oil prices and the anticipation of weaker quarterly results resulted in investors taking a more cautious approach during January.

*Traded volumes have been virtually flat month-on-month for the last few months.*

**Daily average stock market turnover**

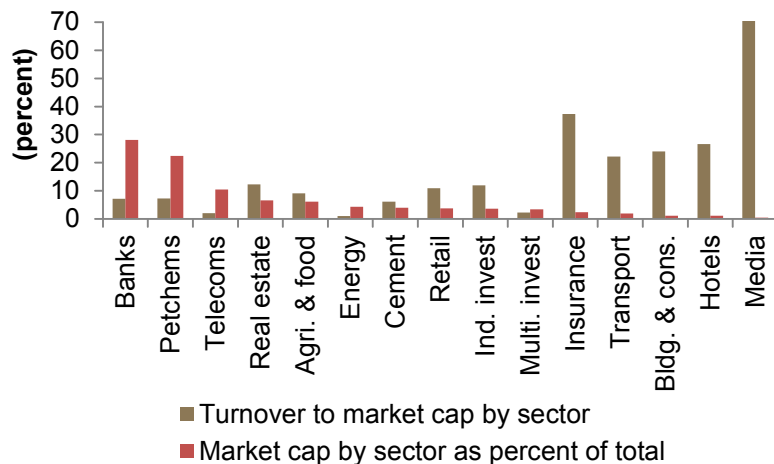


**Turnover by sector**  
(daily average)



*Better quarterly results from Banks led to generally higher traded volumes.*

**Turnover as percent of market cap**



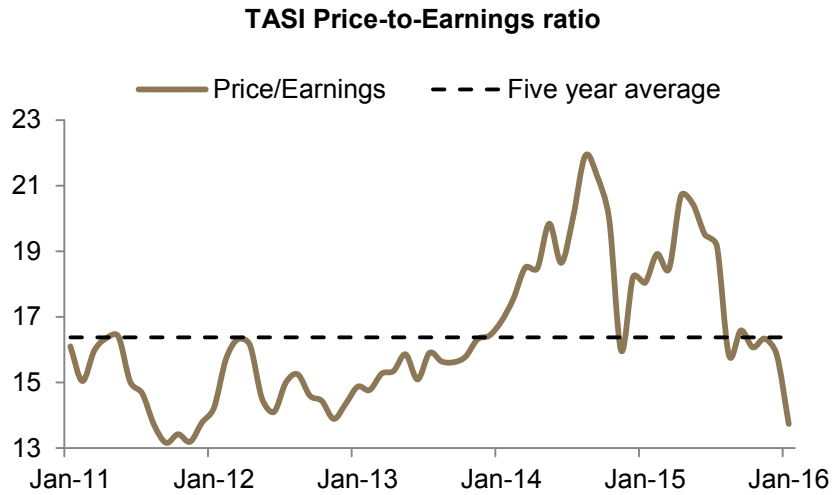
*Despite flatter traded volumes as a whole, speculative activity is apparent in smaller sectors such as Media, Insurance and Transport.*



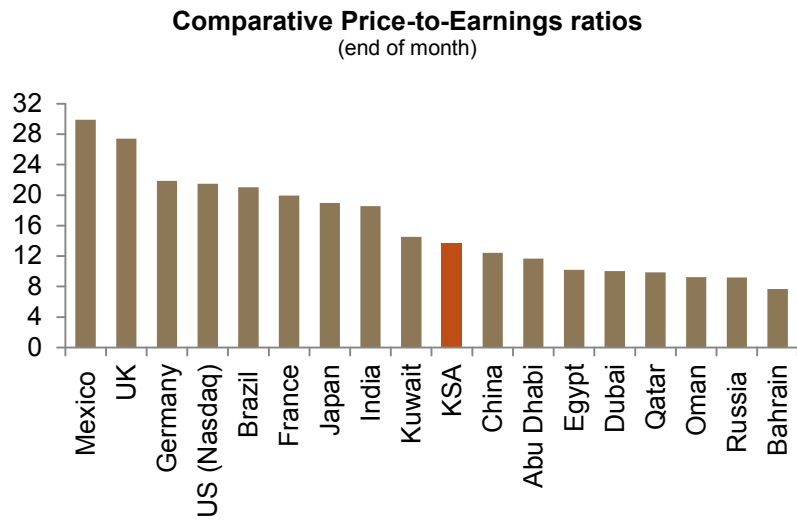
## Valuations

Volatility in oil prices and weaker quarterly results saw price-to-earnings (PE) drop further below its five year average. We expect to see choppy trading in the TASI which may result in PE trending further downwards. Dividend yields, whilst improved, are still marginally lower than regional benchmarks.

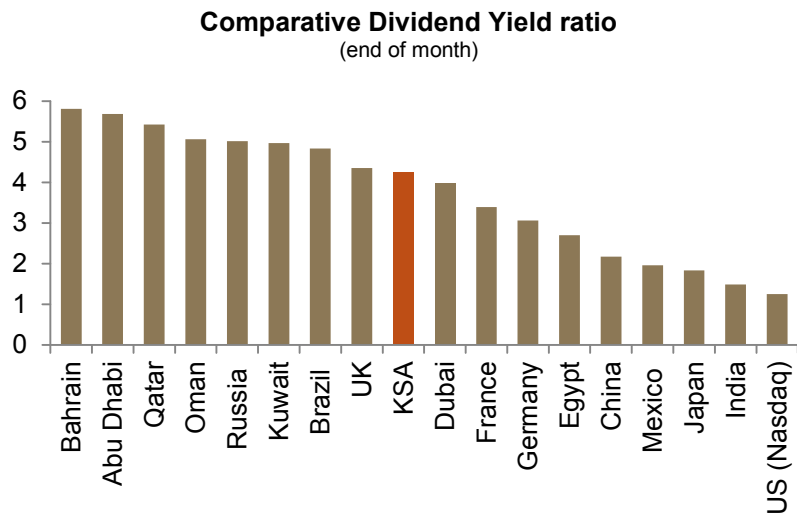
*TASI's PE is at its lowest level since September 2011...*



*...and is currently in-line with regional and emerging market benchmarks.*



*Although dividend yields are higher than most emerging markets, they are lower than most regional markets.*

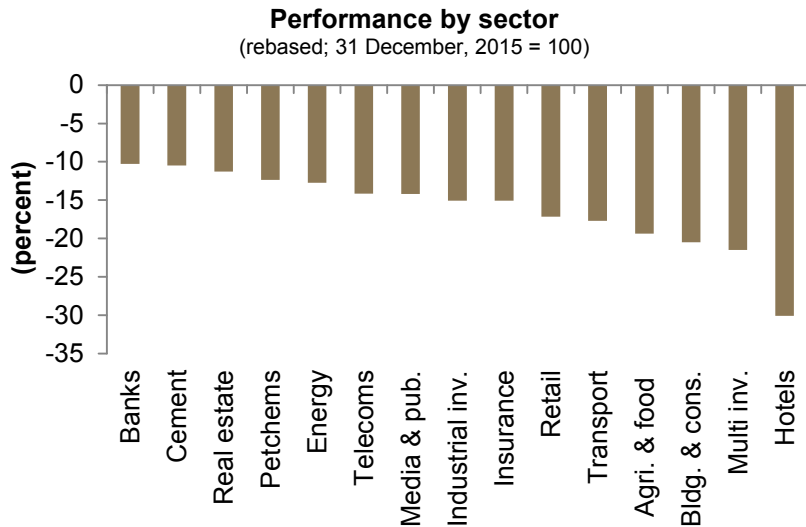




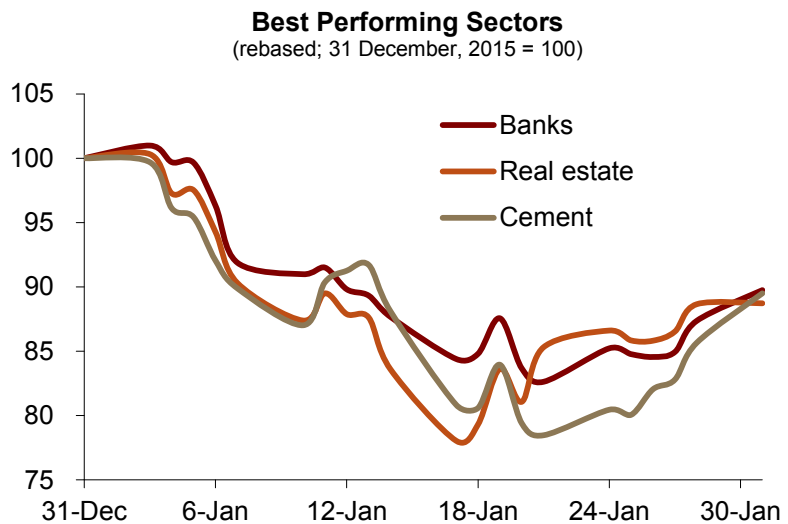
## Sectoral Performance

The weaker performance in the TASI as a whole was reflected on a sectorial basis too with all 15 sectors recording a negative performance in January. We expect some improvement on sectorial activity in February as oil prices rebound slightly.

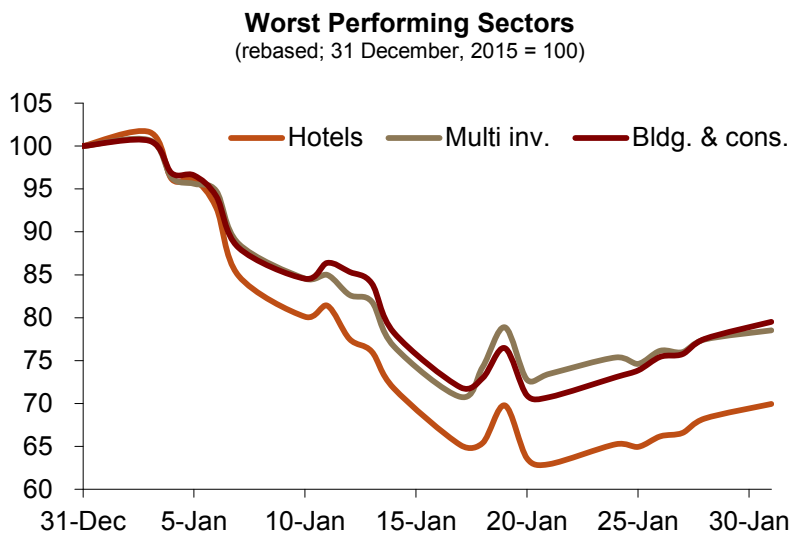
*All sectors were down in January.*



*Trading hit a nadir in mid-January...*



*...and improved mildly throughout the remainder of the month.*

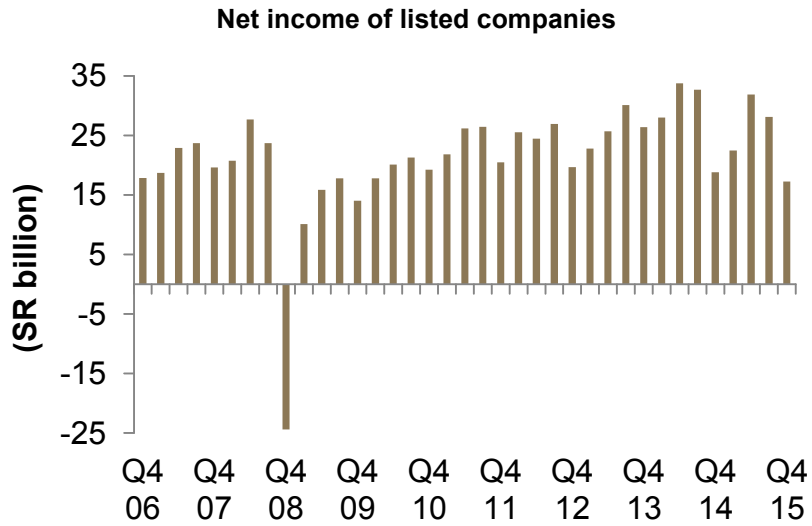




## Fourth quarter 2015 results

Lower oil prices and a government decision not to contract any new projects from mid-November 2015 affected listed companies' profitability in the fourth quarter of 2015. Listed company profits were down both in a year-on-year and quarter-on-quarter terms.

*Net income dropped 8 percent, year-on-year, and 38 percent quarter-on-quarter.*







## Key Data

	2009	2010	2011	2012	2013	2014	2015 E	2016 F	2017 F
<b>Nominal GDP</b>									
(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
<b>Real GDP (% change)</b>					3.2				
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
<b>Oil indicators (average)</b>									
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
<b>Budgetary indicators (SR billion)</b>									
Government revenue	510	742	1,118	1,247	1,156	1,040	608	488	568
Government expenditure	596	654	827	873	976	1,111	975	890	901
Budget balance	-87	88	291	374	180	-71	-367	-402	-333
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.5	-15.0	-17.8	-13.3
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
<b>Monetary indicators (average)</b>									
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	2.8	3.4
<b>External trade indicators (\$ billion)</b>									
Oil export revenues	166.9	215.2	317.6	337.5	322.0	285.2	157.6	100.7	127.5
Total export revenues	192.3	251.1	364.7	388.4	375.9	342.3	204.6	151.3	182.0
Imports	87.1	97.4	120.0	141.8	153.3	158.5	141.8	141.9	143.1
Trade balance	105.2	153.7	244.7	246.6	222.6	183.9	62.7	9.4	38.9
Current account balance	21.0	66.8	158.5	164.8	135.4	76.9	-41.3	-72.1	-48.6
(% GDP)	4.9	12.7	23.7	22.4	18.2	10.2	-6.3	-12.0	-7.3
Official reserve assets	410.1	445.1	544.0	656.6	725.7	732.4	611.9	499.8	411.4
<b>Social and demographic indicators</b>									
Population (million)	26.7	27.6	28.4	29.2	30.0	30.8	31.5	32.2	32.9
Saudi unemployment (15+, %)	11.5	12.4	12.1	11.7	11.7	11.7	11.7	11.6	11.4
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. Central Department of Statistics & Information and Jadwa estimates for oil, social and demographic indicators.



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