



Summary

Real Economy: Economic data continues to show a mildly improving picture in April. POS transactions jumped 11.4 percent, year-on-year, and although ATM withdrawals remain negative year-on-year, they showed an upward trend month-on-month, at -2.8 percent.

Government Finance: The net monthly change to government accounts with SAMA were positive in April. The change was due to a rise in government deposits, by SR6 billion, compared to net withdrawals of SR5 billion the month before.

SAMA Foreign Reserve Assets: SAMA foreign reserve assets fell by \$8.4 billion in April month-on-month, which were larger than the declines seen in March, at \$5.4 billion.

Bank Lending and Deposits: Whilst year-on-year growth in short and medium term bank credit to the private sector has been declining recently, longer term credit has risen sharply. As a result, long term credit now makes up 32.4 percent of total private sector loans, compared to 29.3 percent a year ago.

Inflation: Inflation fell for the third consecutive month in April, and remains in a deflationary trend which has been witnessed since the start of year.

Oil - Global: OPECs' decision not to cut deeper, but instead roll-over current cut levels to March 2018, led to oil prices dropping. Both Brent and WTI were down 5 percent month-on-month, in May.

Oil - Regional: Year-to-April crude oil production data shows the Kingdom's total cut averaged 654 thousand barrels per day (tpbd), deeper than the 486 tpbd cut agreed with OPEC in November 2016. This has resulted in average oil production of 9.9 mbpd so far this year, down from 10.1 mbpd over the same period last year.

Exchange Rates: The US dollar dropped in value against most currencies in May, as the US Federal Reserve (Fed) voted not to raise its key interest rate in a meeting, as concerns over the pace of US economic growth were raised.

Stock market: Lower monthly oil prices partly contributed to denting investor confidence and pushed TASI down by 2 percent month-on-month, in May.

First quarter 2017 results: Listed company results were, for the first time in the Kingdom, reported under International Financial Reporting Standards (IFRS), and showed net-income rising by 38 percent in Q1 2017, year-on-year .

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Real Economy

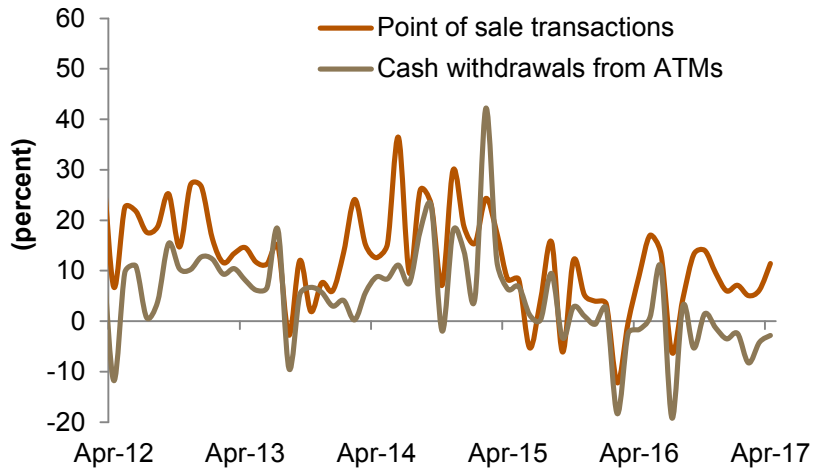
Economic data continues to show a mildly improving picture in April. POS transactions jumped 11.4 percent, year-on-year, and although ATM withdrawals remain negative year-on-year, they showed an upward trend month-on-month, at -2.8 percent. Also, non-oil PMI edged marginally up in April. Meanwhile, cement sales have not shown any major signs of improvement so far.

POS transactions were up 11.4 percent year-on-year, but ATM withdrawals remain in negative territory. We expect both indicators to pick up in the following months as the effects of a reinstatement in allowances for public sector workers and higher seasonal spending during Ramadan take effect.

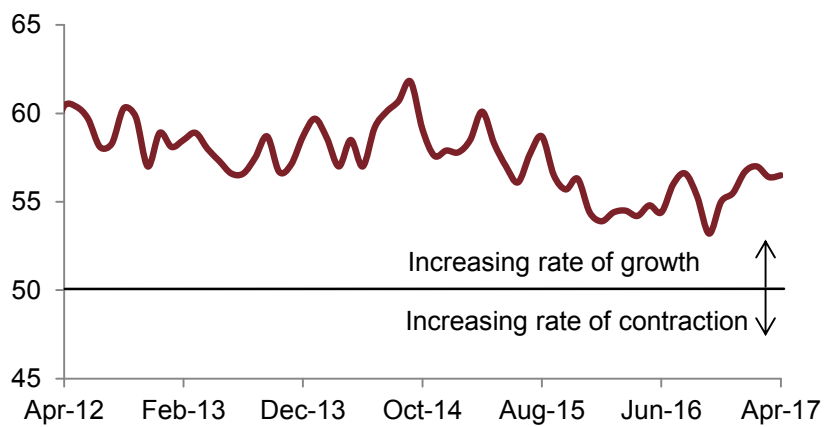
The non-oil PMI edged marginally up in April and remains firmly pointing to expansionary activity.

Meanwhile, cement sales are below previous year averages and are not expected to improve in the months ahead as a seasonal drop in construction activity is seen during Ramadan and summer.

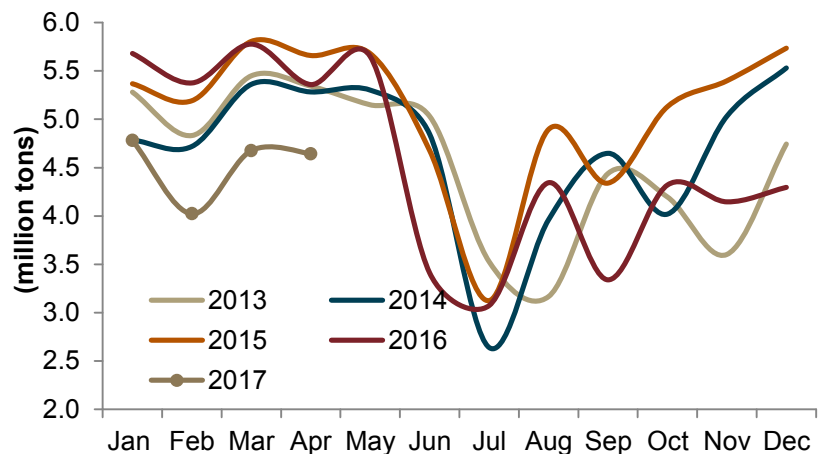
Indicators of Consumer Spending
(year-on-year change)



Purchasing Managers' Index



Cement Sales



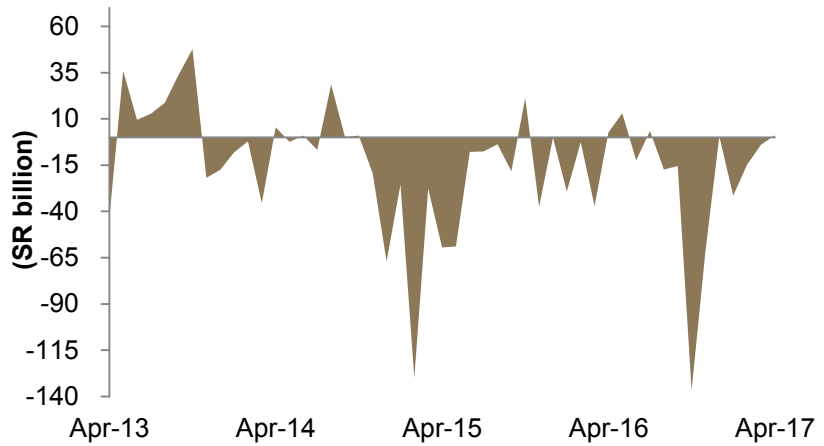


Government Finance

The net monthly change to government accounts with SAMA were positive in April. The change was due to a rise in government deposits, by SR6 billion, compared to net withdrawals of SR5 billion. A change in reporting from SAMA meant it was not possible to see whether withdrawals came from the projects account.

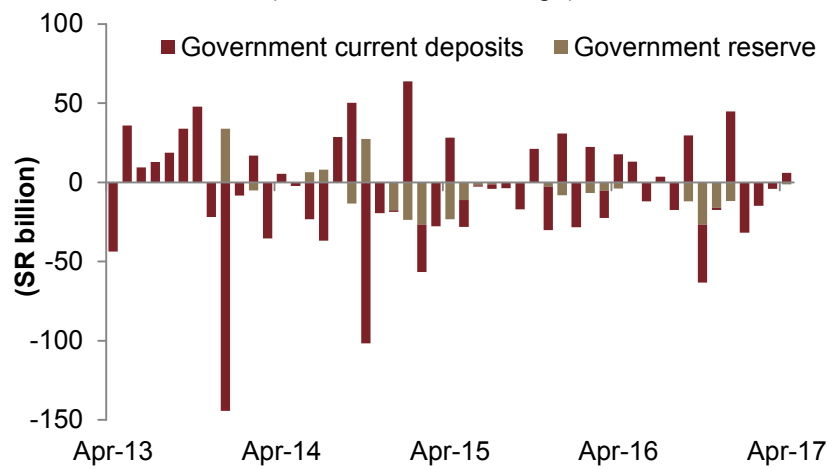
The net monthly change to government accounts with SAMA turned positive in April, by SR1 billion, for the first time in four months.

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



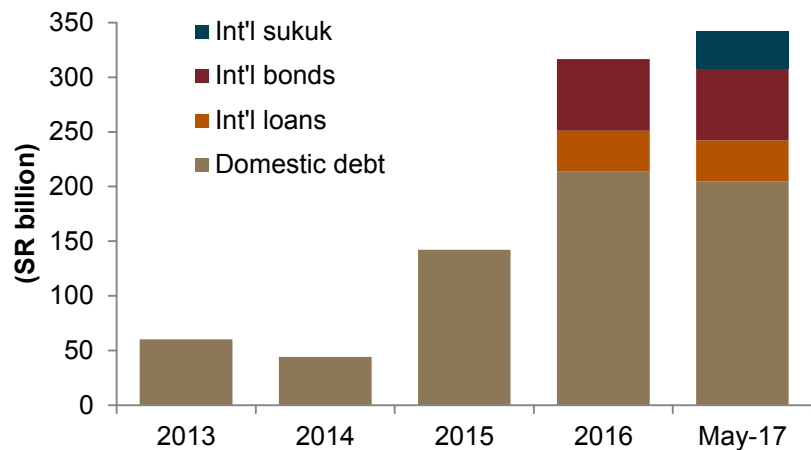
The change was due to a rise in government deposits, by SR6 billion, compared to net withdrawals of SR5 billion.

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



Meanwhile, we estimate that gross public debt in the Kingdom stood at SR342 billion in May 2017, following a \$9 billion (SR34 billion) international sukuk issuance by government in the prior month.

Breakdown of Gross Public Debt
(May 2017)



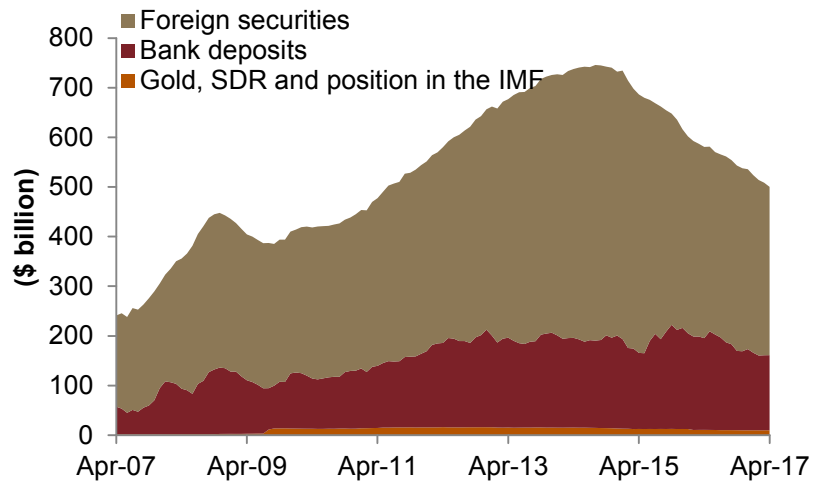


SAMA Foreign Reserve Assets

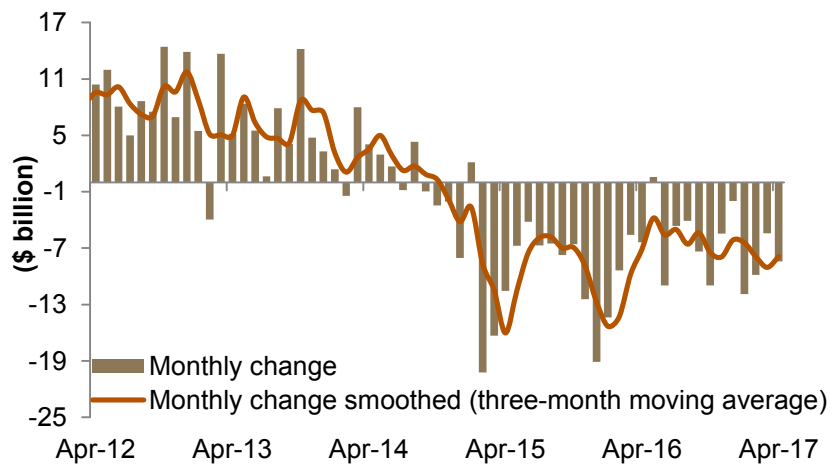
SAMA foreign reserve assets fell by \$8.4 billion in April month-on-month, which was larger than the decline of \$5.4 billion in March. Looking at the breakdown in assets, we can see that virtually all of the declines came from foreign securities, as opposed to bank deposits.

SAMA foreign reserve assets fell by \$8.4 billion in April...

SAMA Total Foreign Reserve Assets

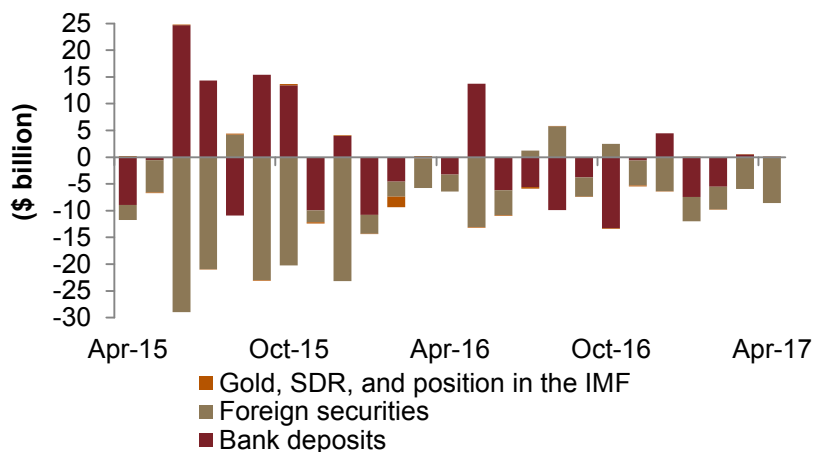


SAMA Foreign Reserve Assets (month-on-month change)



...larger than the decline of \$5.4 billion seen last month.

Breakdown of SAMA Foreign Reserve Assets (month-on-month change)



Virtually all of the declines came from foreign securities in April.

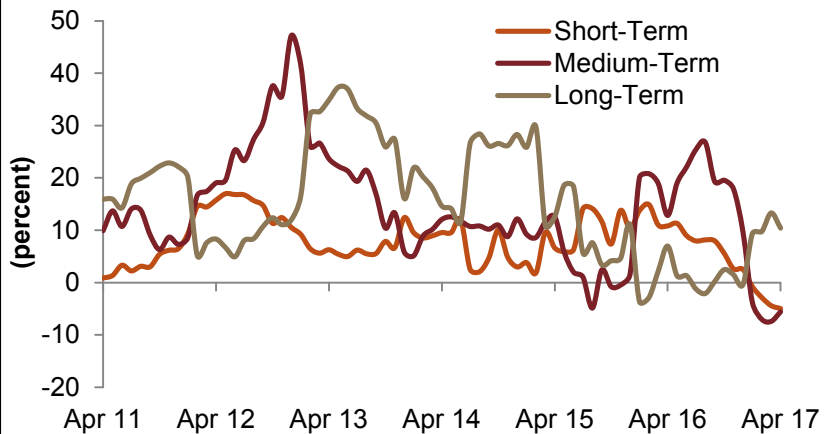


Bank Lending and Deposits

Whilst year-on-year growth in short and medium term bank credit to the private sector has been declining recently, longer term credit has risen sharply. As a result, long term credit now makes up 32.4 percent of total private sector loans, compared to 29.3 percent a year ago. Meanwhile, total bank deposits were up marginally, by SR2.6 billion, month-on-month.

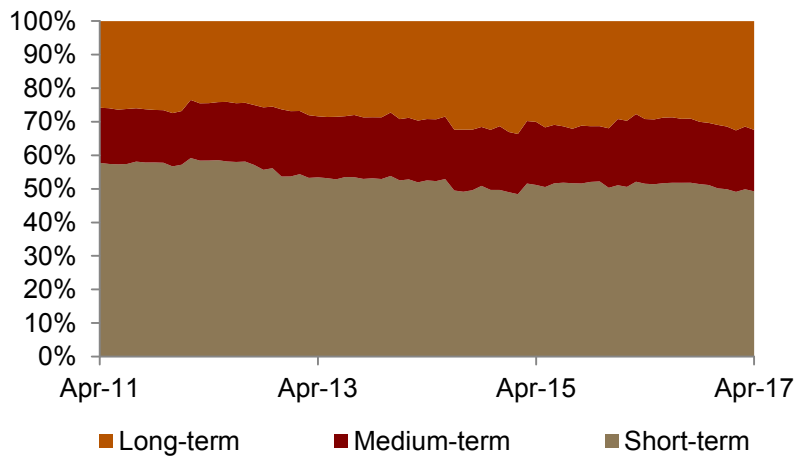
Whilst year-on-year growth in short and medium term bank credit to the private sector has been declining in recent months, longer term credit has risen sharply.

Bank Credit by Maturity
(year-on-year change)



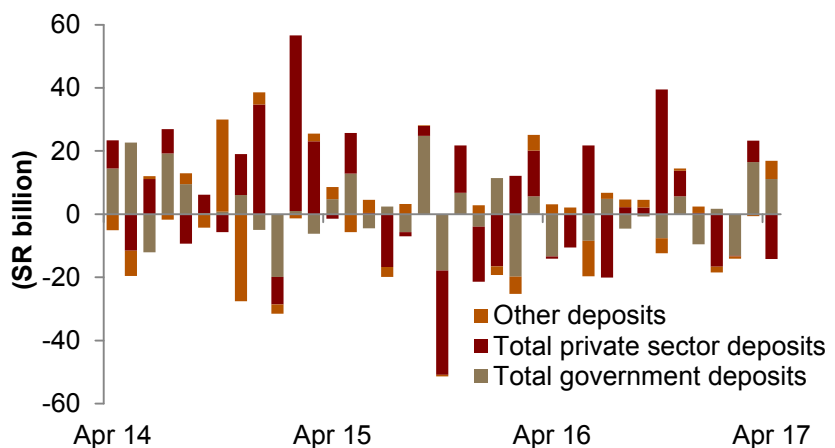
As a result, long term credit now makes up 32.4 percent of total private sector loans, compared to 29.3 percent a year ago.

Bank Credit by Maturity
(percentage of total credit)



Meanwhile, total bank deposits were up marginally, by SR2.6 billion, month-on-month.

Total Bank Deposits

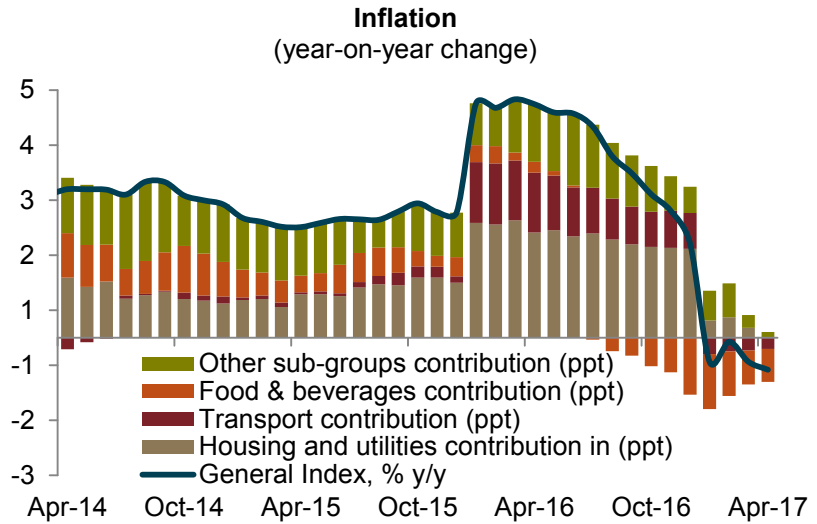




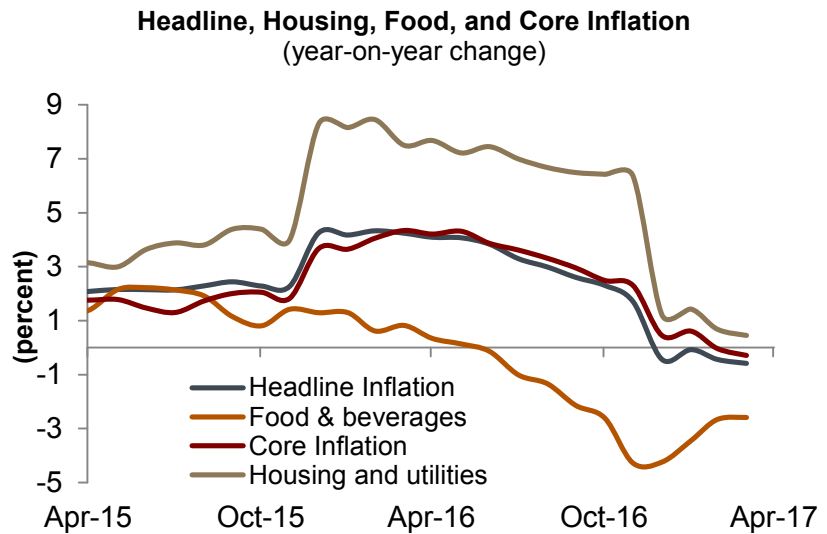
Inflation

Inflation fell for the third consecutive month in April, and remains in a deflationary trend, which has been witnessed since the start of the year. Whilst housing and utilities is the main contributor to this decline, persistent negative growth in the food component, despite a marginal uptick during the month, is also contributing.

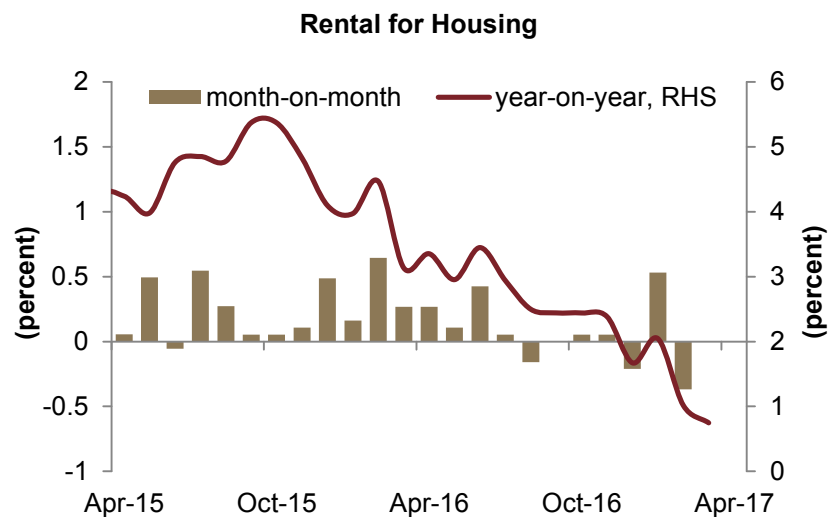
Inflation dropped to -0.6 percent in April, continuing the deflationary trend seen since the start of the year.



Despite a marginal uptick during the month, the food component is still showing negative growth...



...with rental for housing trending close to zero growth on a year-on-year basis.

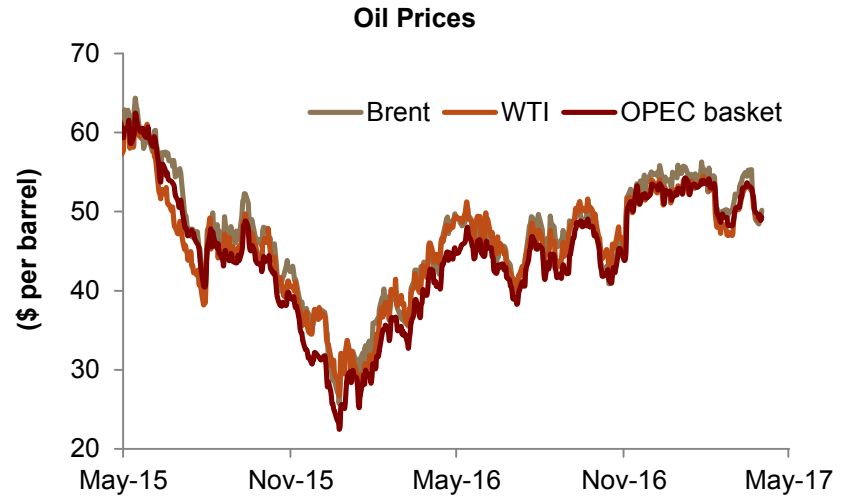




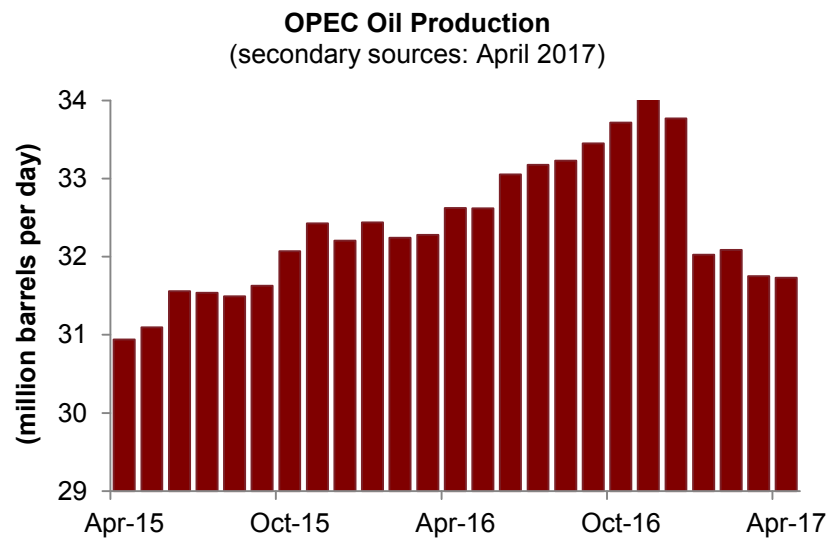
Oil - Global

OPECs' decision not to cut deeper, but instead roll-over current cut levels to March 2018, led to oil prices dropping. Both Brent and WTI were down 5 percent month-on-month, in May. Meanwhile, China, who has been the source of largest growth in oil demand in recent years, saw oil demand dropping month-on-month in April, raising concerns about the pace of global oil demand going forward.

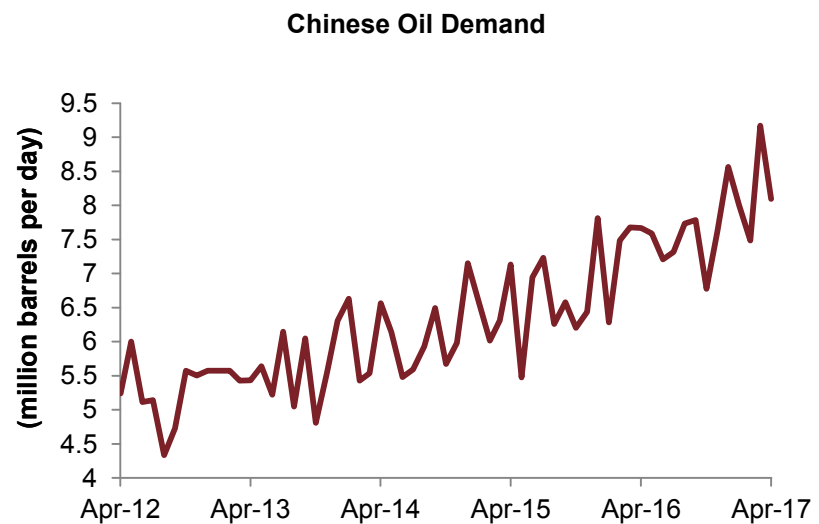
Oil prices were down month-on-month...



...as OPEC decided to roll-over current cut levels to March 2018, rather than to cut deeper.



Meanwhile, Chinese oil demand dropped sharply on a monthly basis in April, for the second time this year.





Oil - Regional

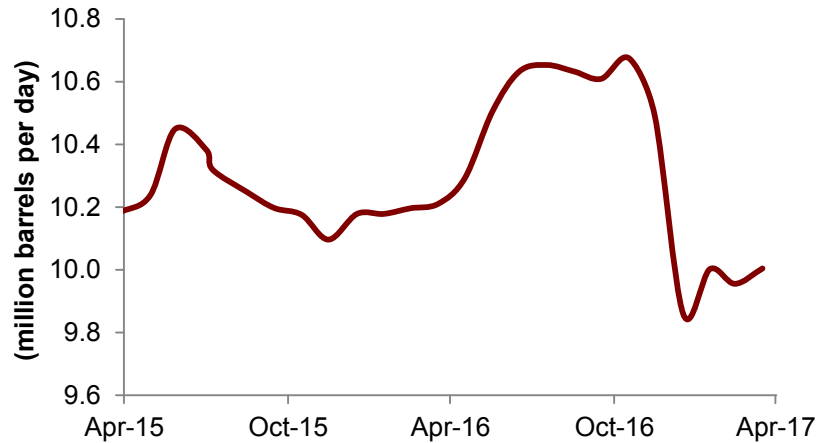
Year-to-April crude oil production data shows the Kingdom's total cut averaged 654 tpbpd, deeper than the 486 tpbpd cut agreed with OPEC in November 2016. This has resulted in average oil production of 9.9 mbpd so far this year, down from 10.1 mbpd over the same period last year. Steeper cuts in production resulted in a 4.5 percent drop in crude oil exports in Q1 2017, year-on-year.

Saudi Arabia has cut deeper than agreed with OPEC, with crude oil production averaging 9.9 mbpd in year-to-April, down 2.2 percent year-on-year.

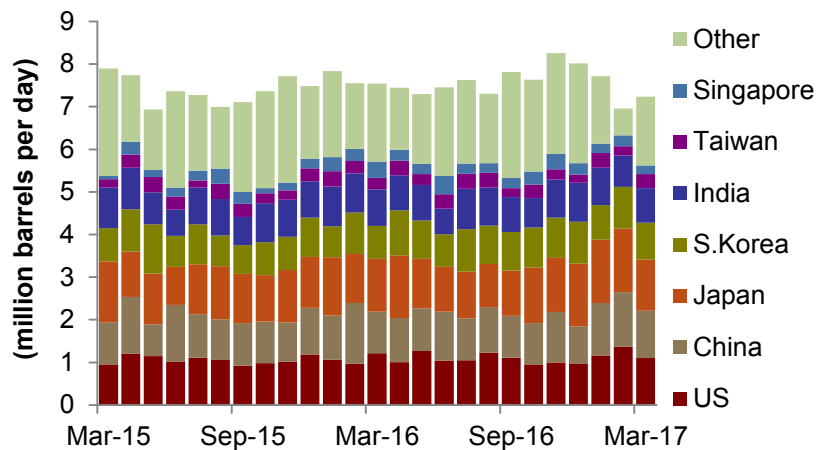
Latest available data shows that steeper cuts in production have resulted in a 4.5 percent drop in crude oil exports in Q1 2017, year-on-year.

Meanwhile, Russian crude oil production averaged 10.95 mbpd in April, exhibiting 95 percent compliance to agreed cuts with OPEC members.

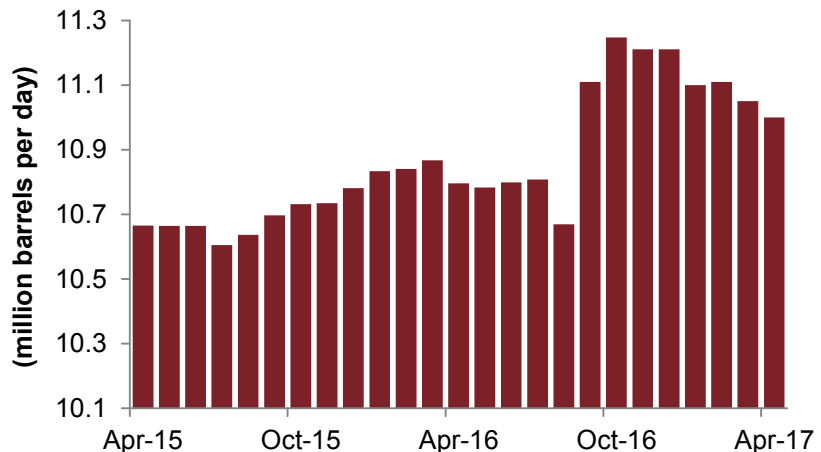
Saudi Oil Production
(secondary sources: April 2017)



Saudi Oil Exports
(March 2017)



Russian Oil Production
(April 2017)



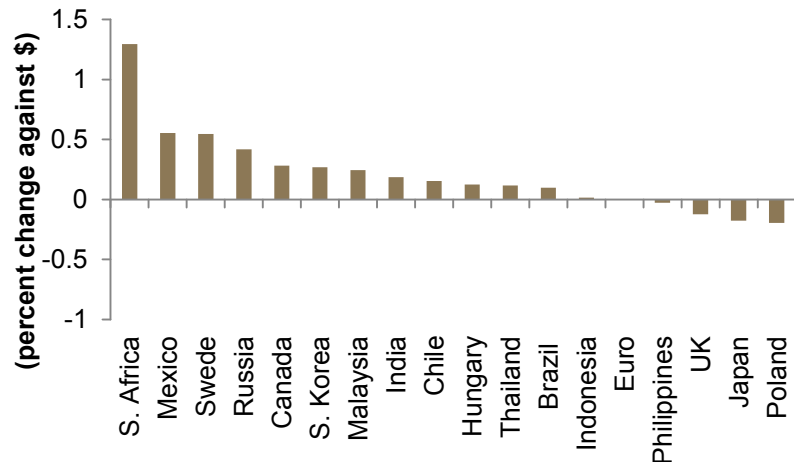


Exchange Rates

The US dollar dropped in value against most currencies in May, as the US Federal Reserve (Fed) voted not to raise its key interest rate as concerns over the pace of US economic growth were raised. However, the Fed is expected to raise interest rates, most likely by 25 basis points (bps), in June.

The US dollar dropped in value against most currencies in May, as the Fed voted not to raise its key interest rate in May, although it is widely expected to raise it by 25 bps in June.

Monthly Gain/Loss Against US Dollar
(May 2017)



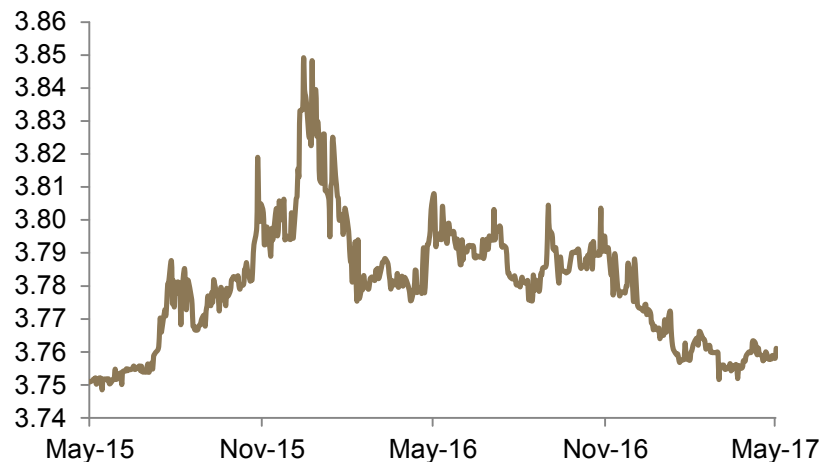
The UK pound was one of the major currencies to lose against the US dollar in May, with the run up to a general election adding to uncertainty.

UK Pound/US Dollar



Meanwhile, the US dollar/riyal one year forward rate remains stable and close to the peg, at 3.75.

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



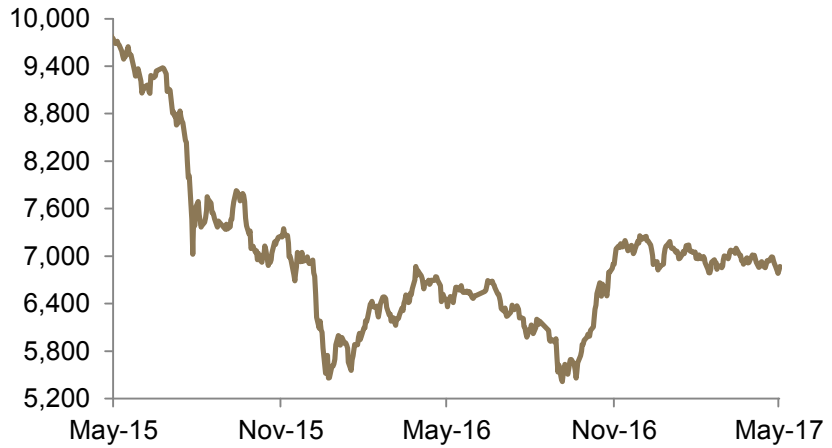


Stock Market

Lower monthly oil prices partly contributed to denting investor confidence and pushing TASI down by 2 percent month-on-month, in May. In addition, as is normally the case in the run up to Ramadan, investor profit taking in anticipation of quieter trading period in weeks ahead also contributed to the drop. In fact, TASI's performance was in line with other Gulf markets.

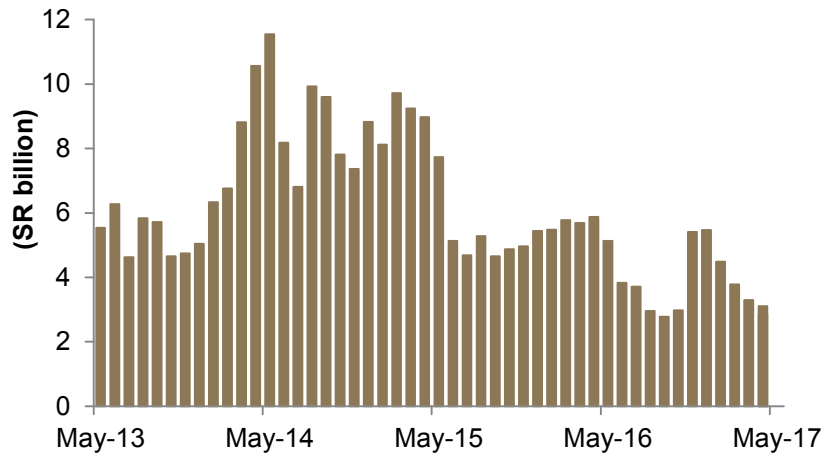
Lower monthly oil prices partly contributed to denting investor confidence and pushing TASI down by 2 percent month-on-month, in May...

TASI



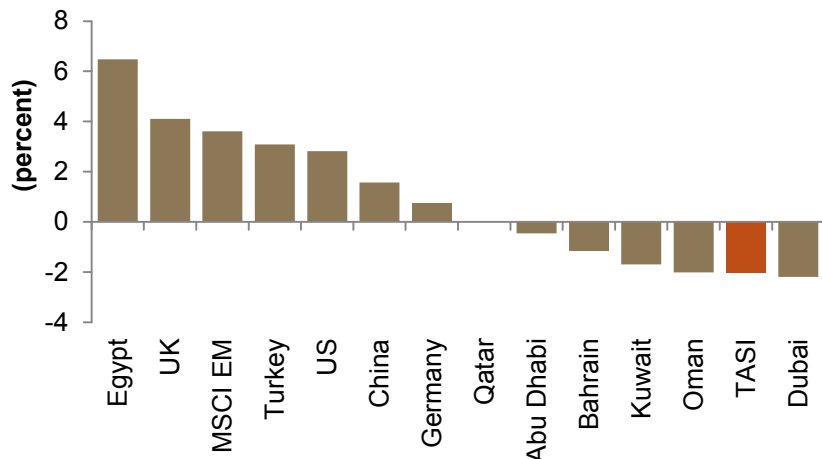
...but so did anticipation of a quieter trading period in the weeks ahead, due to Ramadan, when market turnover declines.

Daily Average Stock Market Turnover



As a result, Saudi market performance was in line with other Gulf markets.

Comparative Stock Market Performance
(month-on-month change)



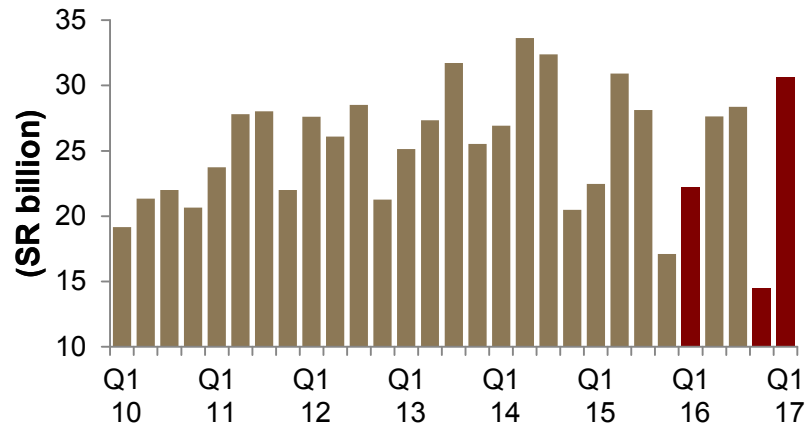


First Quarter 2017 Results

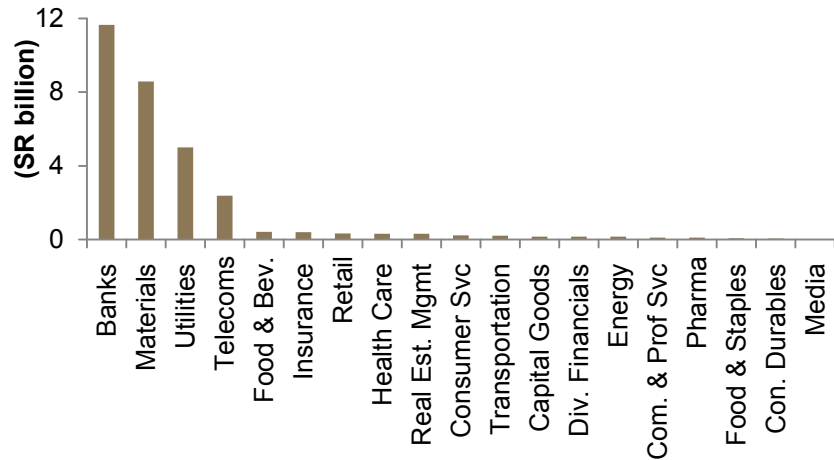
Q1 2017 listed company results were, for the first time in the Kingdom, reported under International Financial Reporting Standards (IFRS). The move to IFRS is one of the number of initiatives being taken by both the Capital Market Authority (CMA) and Tadawul to move the Saudi stock exchange in-line with international standards.

Q1, Q4 2016 and Q1 2017 listed company results were, for the first time, reported under IFRS, with year-on-year net-income rising by 38 percent in Q1 2017.

Net Income of Listed Companies

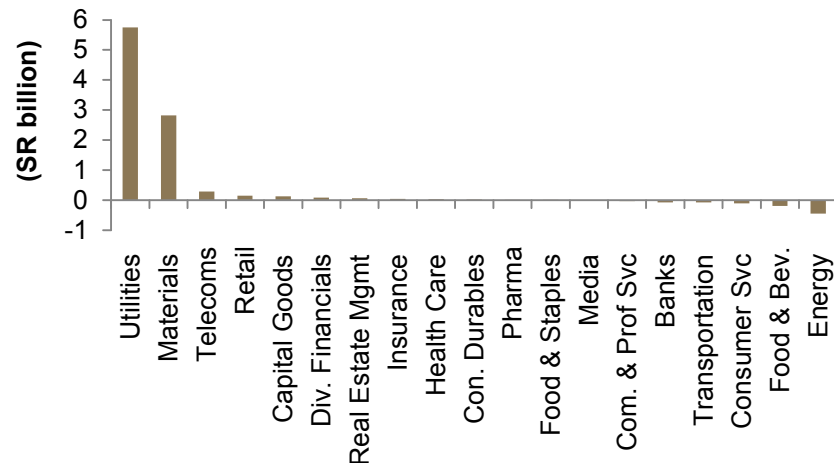


Net Income by Sector
(First quarter, 2017)



Banks and materials companies together contributed 66 percent of total net-income...

Net Income by Sector
(year-on-year change)



...with materials, along with the energy sector, showing the largest yearly gains.



Key Data

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017F | 2018F |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Nominal GDP | | | | | | | | | |
| (SR billion) | 1,976 | 2,511 | 2,760 | 2,800 | 2,836 | 2,444 | 2,399 | 2,639 | 2,819 |
| (\$ billion) | 527 | 670 | 736 | 747 | 756 | 652 | 640 | 704 | 752 |
| (% change) | 22.8 | 27.1 | 9.9 | 1.5 | 1.3 | -13.8 | -1.9 | 10.0 | 6.8 |
| Real GDP (% change) | | | | | | | | | |
| Oil | -0.1 | 12.2 | 5.1 | -1.6 | 2.1 | 5.27 | 3.4 | -0.3 | 0.7 |
| Non-oil private sector | 9.7 | 8.0 | 6.5 | 6.9 | 5.5 | 3.41 | 0.1 | 1.0 | 1.2 |
| Government | 7.4 | 8.4 | 5.3 | 5.1 | 3.7 | 2.72 | 0.5 | 0.0 | 0.2 |
| Total | 4.8 | 10.0 | 5.7 | 2.7 | 3.7 | 4.11 | 1.4 | 0.2 | 0.8 |
| Oil indicators (average) | | | | | | | | | |
| Brent (\$/b) | 79.8 | 112.2 | 112.4 | 109.6 | 99.4 | 52.1 | 43.2 | 54.5 | 60.8 |
| Saudi (\$/b) | 77.5 | 103.9 | 106.1 | 104.2 | 95.7 | 49.4 | 40.6 | 51.5 | 56.8 |
| Production (million b/d) | 8.2 | 9.3 | 9.8 | 9.6 | 9.7 | 10.2 | 10.4 | 10.4 | 10.5 |
| Budgetary indicators (SR billion) | | | | | | | | | |
| Government revenue | 742 | 1,118 | 1,247 | 1,156 | 1,044 | 616 | 528 | 728 | 926 |
| Government expenditure | 654 | 827 | 873 | 976 | 1,110 | 978 | 930 | 890 | 928 |
| Budget balance | 88 | 291 | 374 | 180 | -66 | -362 | -402 | -162 | -2 |
| (% GDP) | 4.4 | 11.6 | 13.6 | 6.4 | -2.3 | -14.8 | -16.8 | -6.1 | -0.1 |
| Gross public debt | 167 | 135 | 99 | 60 | 44 | 142 | 317 | 433 | 628 |
| (% GDP) | 8.5 | 5.4 | 3.6 | 2.1 | 1.6 | 5.8 | 13.2 | 16.4 | 22.3 |
| Monetary indicators (average) | | | | | | | | | |
| Inflation (% change) | 3.8 | 3.7 | 2.9 | 3.5 | 2.7 | 2.2 | 3.5 | 2.0 | 4.7 |
| SAMA base lending rate (% , year end) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.5 | 3.0 |
| External trade indicators (\$ billion) | | | | | | | | | |
| Oil export revenues | 215 | 318 | 337 | 322 | 285 | 157 | 131 | 168 | 188 |
| Total export revenues | 251 | 365 | 388 | 376 | 342 | 204 | 181 | 220 | 243 |
| Imports | 97 | 120 | 142 | 153 | 158 | 159 | 145 | 144 | 147 |
| Trade balance | 154 | 245 | 247 | 223 | 184 | 44 | 36 | 76 | 96 |
| Current account balance | 67 | 159 | 165 | 135 | 74 | -57 | -51 | -12 | 14 |
| (% GDP) | 12.7 | 23.7 | 22.4 | 18.1 | 9.8 | -8.7 | -8.0 | -1.7 | 1.8 |
| Official reserve assets | 445 | 544 | 657 | 726 | 732 | 616 | 523 | 463 | 423 |
| Social and demographic indicators | | | | | | | | | |
| Population (million) | 27.4 | 28.2 | 28.9 | 29.6 | 30.3 | 31.0 | 31.7 | 32.4 | 33.1 |
| Saudi unemployment (15+, %) | 10.5 | 12.4 | 12.1 | 11.7 | 11.7 | 11.5 | 12.0 | 11.6 | 11.1 |
| GDP per capita (\$) | 19,211 | 23,766 | 25,471 | 25,223 | 24,962 | 21,014 | 20,150 | 21,720 | 22,737 |

Sources: Jadwa Investment forecasts for 2017, and 2018. Saudi Arabian Monetary Authority for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. General Authority for Statistics and Jadwa Investment estimates for oil, social and demographic indicators.



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