



Summary

Real Economy: Data for June shows that the economy remained robust. The two key indicators of consumer spending we track were both strong owing to seasonal factors. Cement sales declined in line with the seasonal trends.

Bank lending: Bank lending to the private sector continued to increase at a healthy pace in June. Most new lending is going to the manufacturing and commerce sectors. Greater lending is financed by a reduction in banks' excess deposits at SAMA.

Inflation: Both headline and core inflation rates were not changed in year-on-year terms in June. Food prices surprised with a decline of 0.2 percent month-on-month, but still remain the second largest contributor to annual inflation.

Balance of payments: The current account surplus fell in the first quarter owing to a record high deficit in the services account. The deficit on the government goods and services account also recorded an all-time high of around \$12 billion. Both imports and exports fell in the first quarter compared with the last quarter of 2013.

Oil –Global: Both Brent and WTI benchmarks declined in July, month-on-month, as IMF cut global economic growth rates and Libya reopened some oil terminals. WTI fell more steeply as oil demand in the US was weaker than expected.

Oil –Regional: Saudi production increased in June, month-on-month, to meet the seasonal rise in domestic electricity generation. A decline in exports affected both Iraqi and Iranian output, but Libyan output was unchanged, month-on-month.

Exchange rates: The euro weakened against the dollar after the IMF cut the Euro zone's growth rate, whilst the increased likelihood of another round of sanctions over the Ukrainian crisis led to the Russia ruble dropping.

Stock market: The TASI moved above the 10,000 mark, in July, for the first time in six years as the Saudi authorities announced that the stock market would be open to foreign investors.

Sectoral performance: All fifteen sectors saw positive gains as a result of the huge rise in the index in July. Larger sectors, such as petchems and real estate performed well whereas smaller sectors, such as multi investment and media performed less strongly.

Second quarter results: Net income of listed companies totaled SR32.2 billion in Q2 2014 with the petchem and banking sector leading the way.

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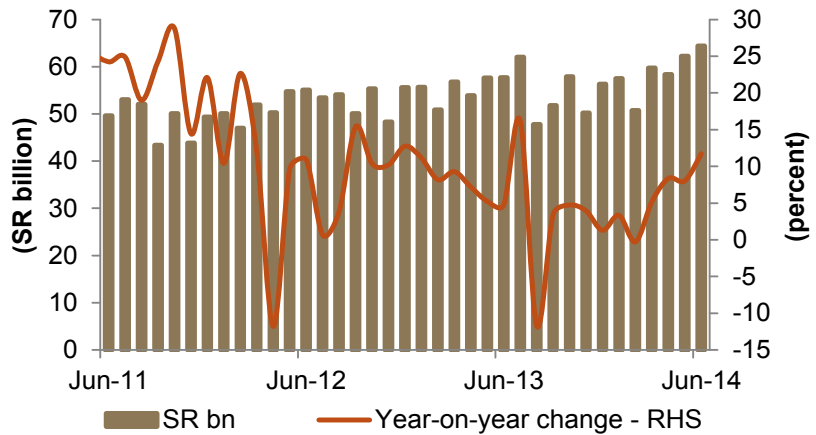


Real Economy

Data for June shows that the economy remained robust. The two key indicators of consumer spending we track were strong owing to seasonal factors, with both the value of sale transactions and cash withdrawals from ATMs hitting an all-time high. Cement sales declined in line with the seasonal trends.

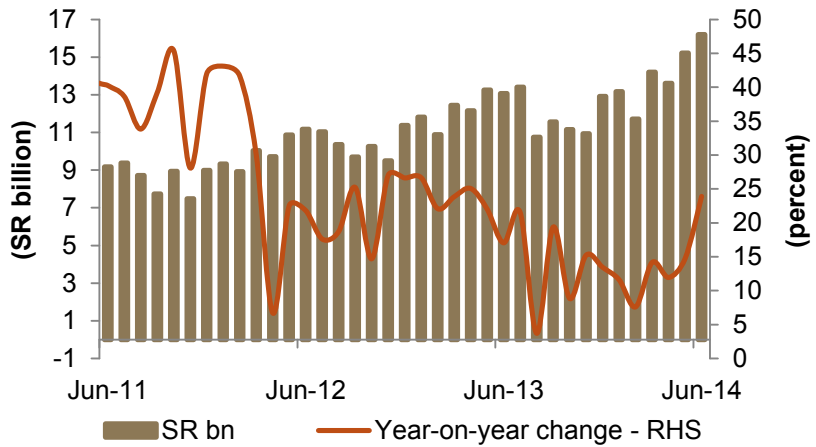
The value of cash withdrawals from ATMs in June recorded an all time high with a 11.7 percent rise, year-on-year...

Cash withdrawals from ATMs



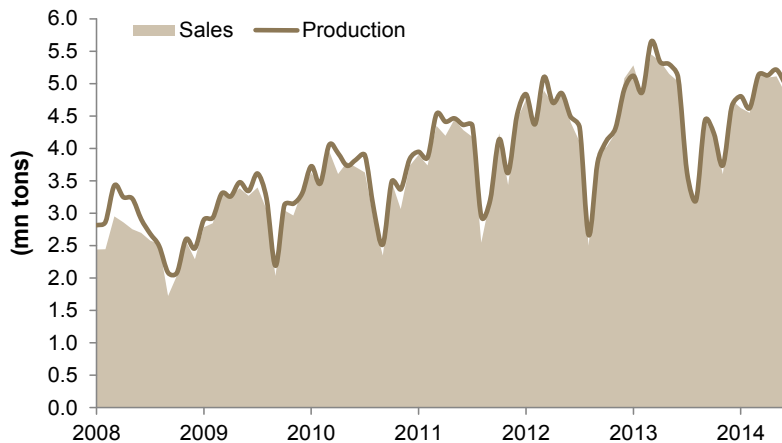
...and record high point of sale transactions also suggest strong consumer spending ahead of Ramadan.

Point of sale transactions



Cement sales plunged in June in line with the seasonal trend as working hours are reduced during the summer months. Cement sales were 3.7 percent lower than in June 2013.

Cement Production and Sales



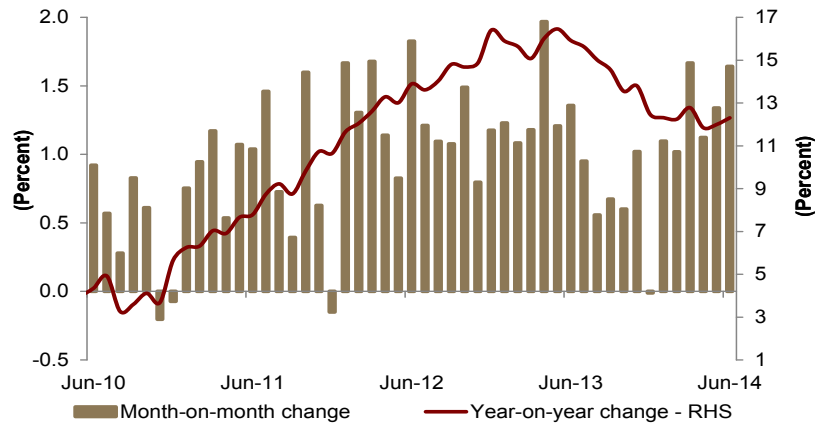


Bank lending

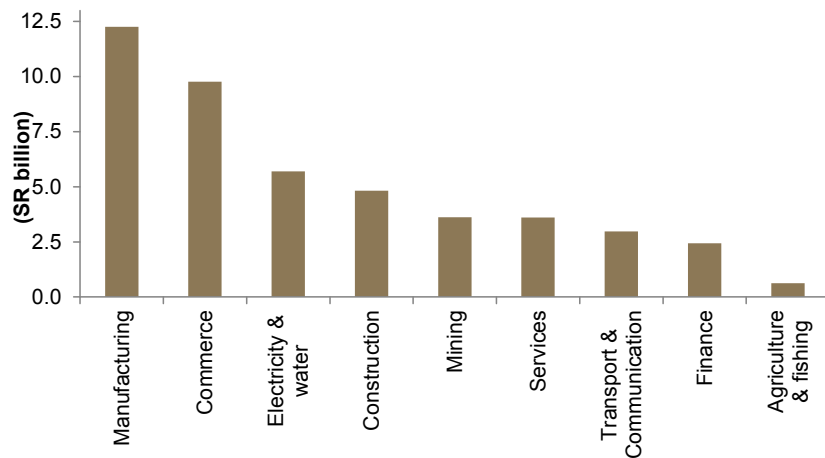
Bank lending to the private sector continued to increase at a healthy pace in June. Month-on-month growth was the second fastest since April 2013. Most new lending is going to the manufacturing and commerce sectors. Greater lending is financed by a reduction in banks' excess deposits at SAMA.

Bank lending to the private sector jumped in June. Monthly growth was the second highest since April 2013. This lifted the year-on-year increase to 12.3 percent.

Bank lending to the private sector

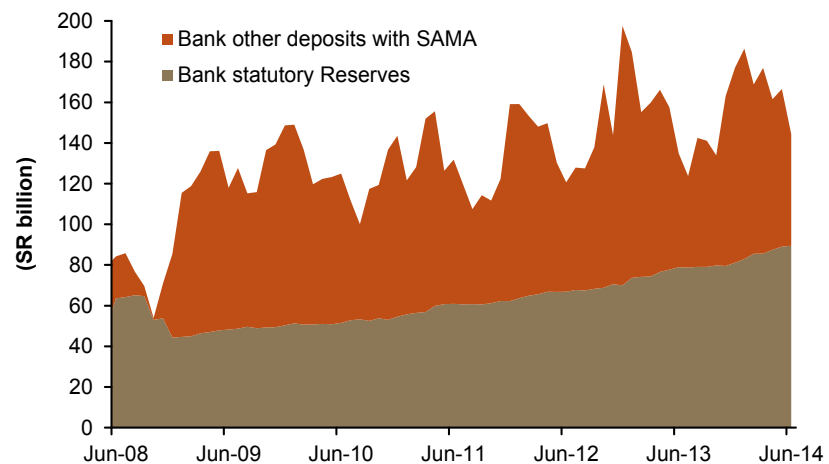


Change in bank lending by sector in first six months of 2014



Manufacturing accounted for the largest share of new lending in the first half of the year, followed by commerce. Despite ongoing major infrastructure spending, credit outstanding to construction companies remains relatively low.

Commercial bank deposits at SAMA



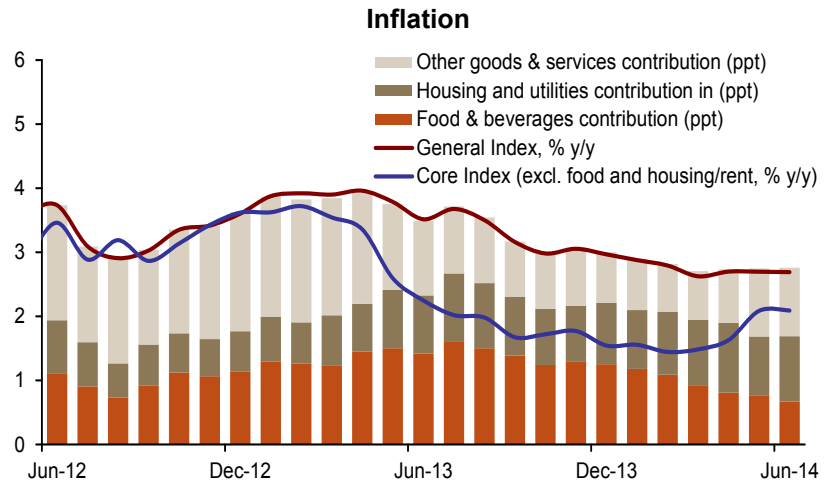
Banks drew down their excess deposits to finance the increase in lending.



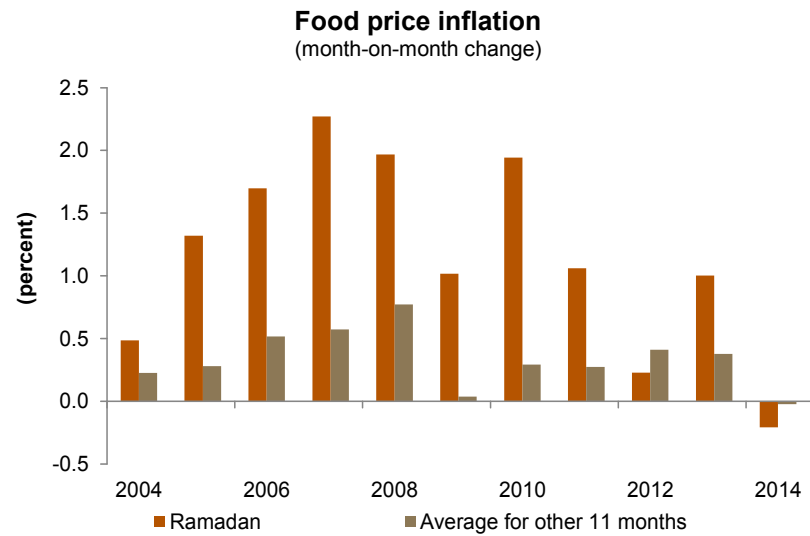
Inflation

Both headline and core inflation rates were not changed in year-on-year terms for a third consecutive month in June. Food prices surprised with a decline of 0.2 percent month-on-month, but still remain the second largest contributor to annual inflation, after rental and housing related services.

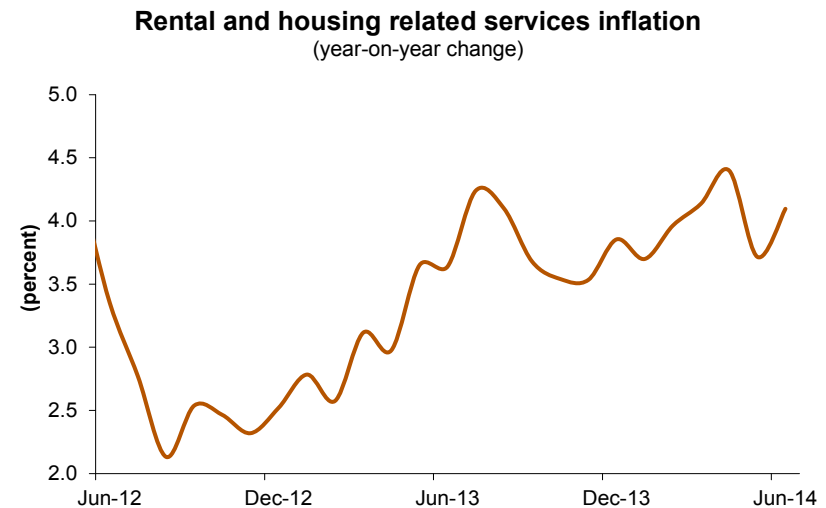
Year-on-year inflation remained unchanged at 2.7 percent for the third consecutive month in June.



Food prices surprised with a decline of 0.2 percent month-on-month, reversing a regular trend of higher food prices ahead of Ramadan.



Rental inflation reversed the previous month's drop and rose to 4.1 percent year-on-year in June, making it the largest single contributor to headline inflation.



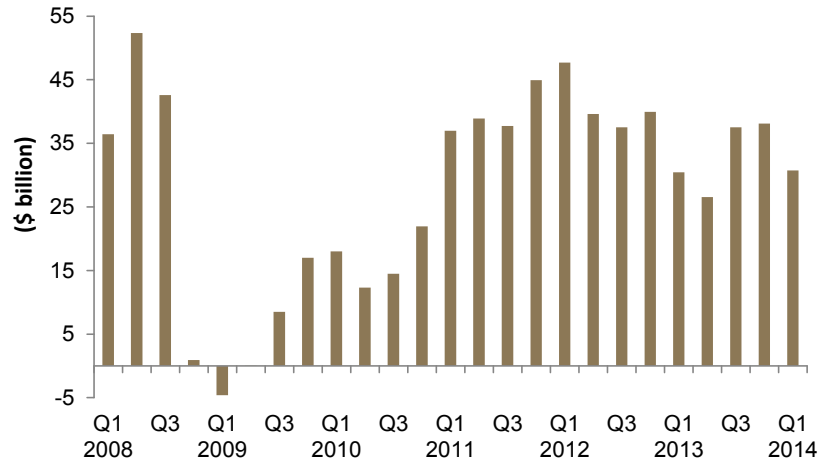


Balance of payments

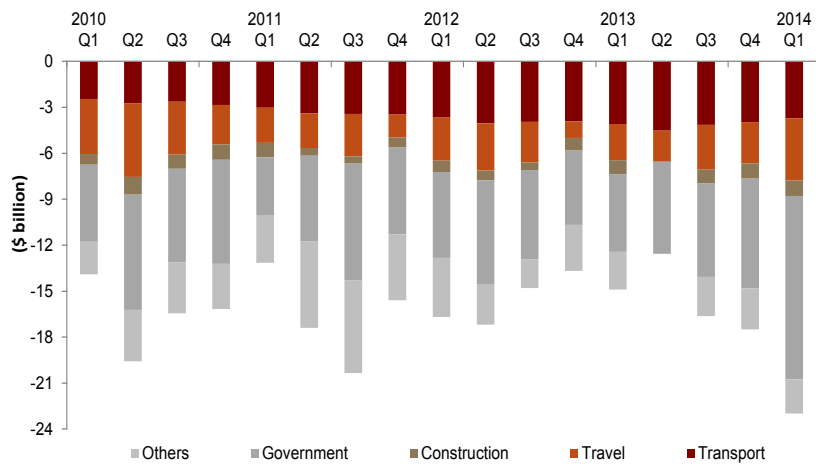
The current account surplus fell in the first quarter owing to a record high deficit in the services account. The deficit on the government goods and services account also recorded an all-time high of around \$12 billion. Both imports and exports fell in the first quarter compared with the last quarter of 2013.

The current account surplus fell to \$30.7 billion in the first quarter 2014, from \$38.1 billion in the fourth quarter 2013...

Current account balance



Breakdown of the services account



...owing to a record high deficit in the services account. A notable change in the latter is an all-time deficit in the government goods and services account (probably related to elevated level of external financial aid and assistance granted to other Middle Eastern countries).

Exports and imports of goods



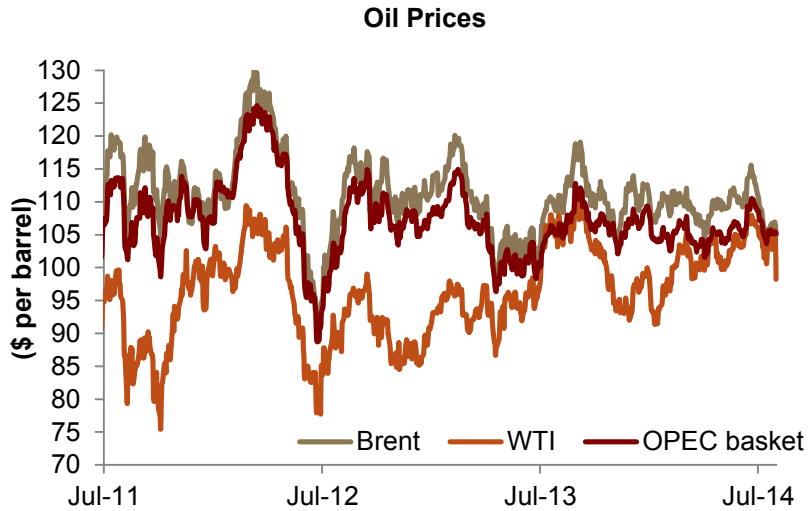
Both imports and exports fell in the first quarter compared with the last quarter of 2013. In year-on-year terms, however, higher oil production supported exports while imports fell by almost 10 percent.



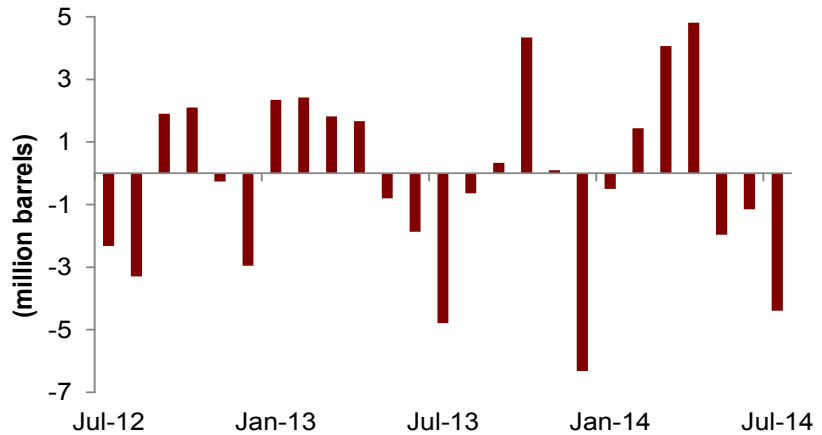
Oil - Global

Both Brent and WTI benchmarks declined in July, month-on-month, as IMF cut global economic growth rates and Libya reopened some oil terminals. WTI fell more steeply as oil demand in the US was weaker than expected. The Brent-WTI spread was at \$6.6 per barrel at the end of the month.

The combination of the IMF cutting global growth rates from 3.7 to 3.4 percent for 2014, and the opening of oil terminals in Libya led to prices falling.

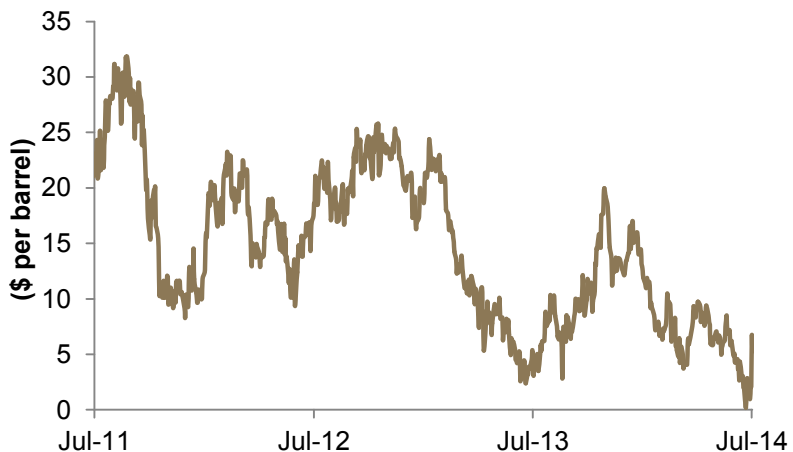


Change in US Commercial Crude Stock
(average month-on-month change)



Although US crude stocks dropped in July, weaker than expected demand and an unplanned shutdown in a refinery resulted in WTI prices dropping by 7.4 percent, month-on-month,...

Brent-WTI crude oil spread



...resulting in the Brent-WTI spread recovering to \$6.6 per barrel after narrowing to \$0.2 per barrel earlier in the month.

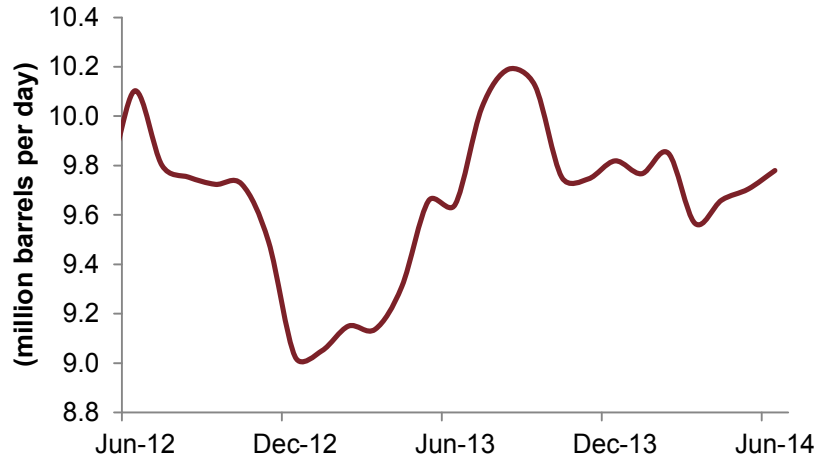


Oil - Regional

Unsurprisingly, Saudi production increased in June, month-on-month, to meet the seasonal rise in domestic electricity generation. A decline in exports, in June, affected both Iraqi and Iranian output, but Libyan output was unchanged, month-on-month. Latest available data shows that Saudi exports declined in May.

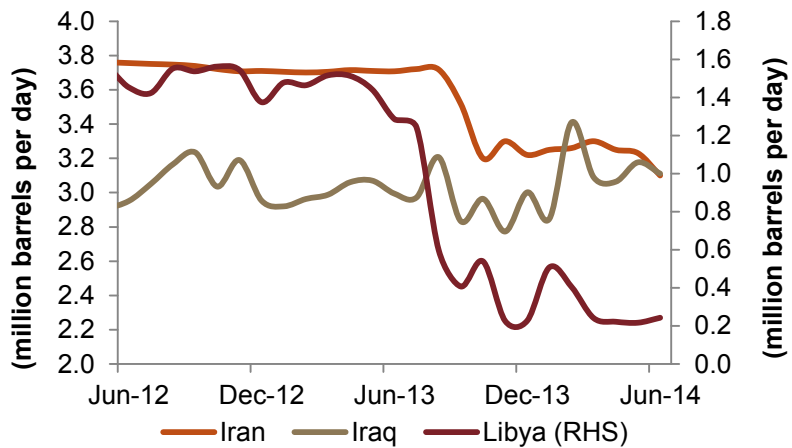
With domestic demand for power generation typically higher in June than in May, Saudi production rose slightly, month-on-month.

Saudi crude production



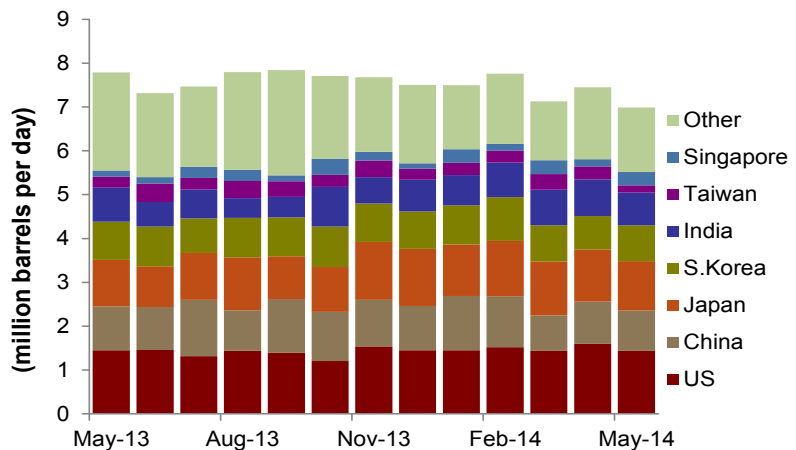
Iraqi output declined due to technical problems with infrastructure and a decrease in export demand led to a dip in Iranian output.

Libyan, Iraqi and Iranian oil supply



Latest available data shows Saudi crude exports declining in May. This was due to increased Saudi consumption and larger crude output from both OPEC and non-OPEC sources.

Saudi crude exports by country
(monthly average)

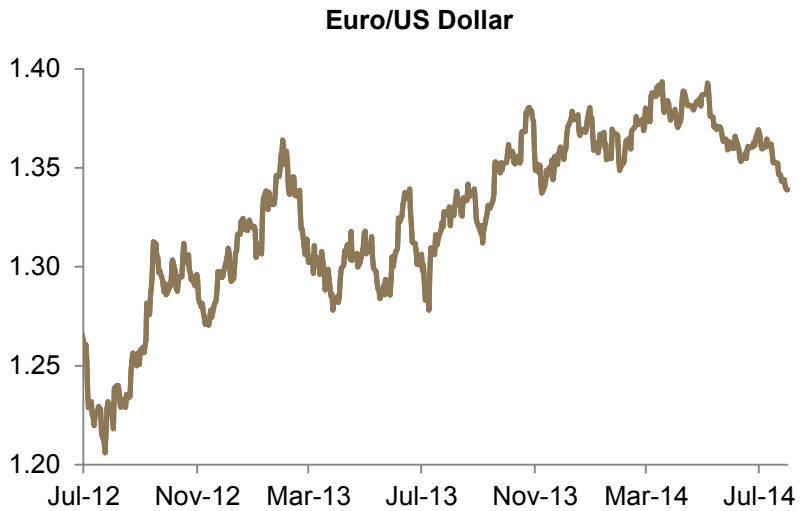




Exchange Rates

The euro weakened against the dollar after the IMF cut the Euro zone's growth rate, whilst the increased likelihood of another round of sanctions over the Ukrainian crisis led to the Russia ruble dropping which also negatively impacted other regional currencies, including the Polish zloty.

The euro weakened in July as the IMF cut the euro zone's growth for 2014 to 1.0 percent from 1.1 percent.



A worsening of tensions in Ukraine and the prospect of further sanctions on Russia led to the ruble weakening...



...and negatively impacted other regional currencies, including the Polish zloty.





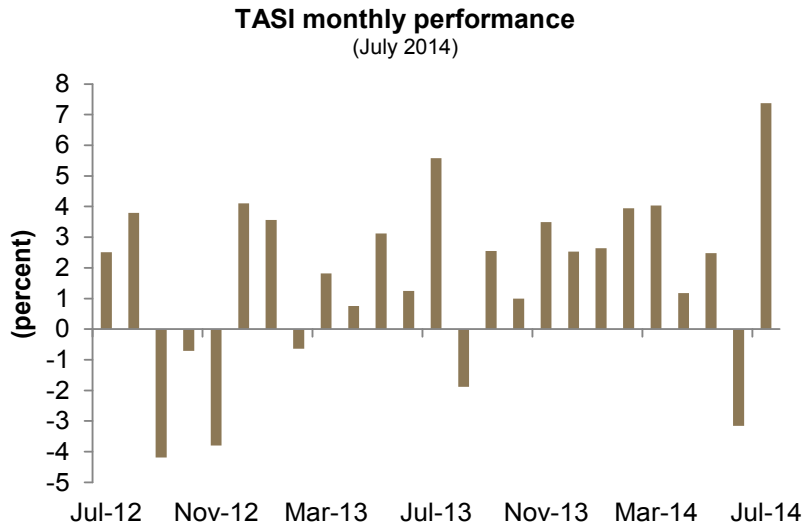
Stock Market

The TASI moved above the 10,000 mark, in July, for the first time in six years as the Saudi authorities announced that the stock market will open to foreign investors. This news brought about a large positive swing in monthly performance and saw the largest net purchases of swap agreements by foreign investors.

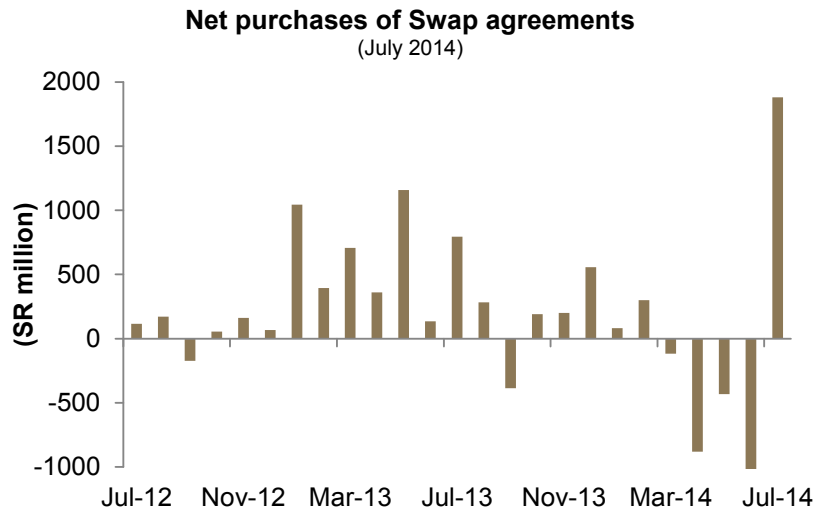
The Saudi authorities proposal to open up the TASI pushed the index to levels last seen back in May 2008.



Buoyed by the positive news investors brought about the largest monthly swing in performance in two years...



...whilst the value of shares bought by foreign investors, via swap agreements, reached record levels in July.





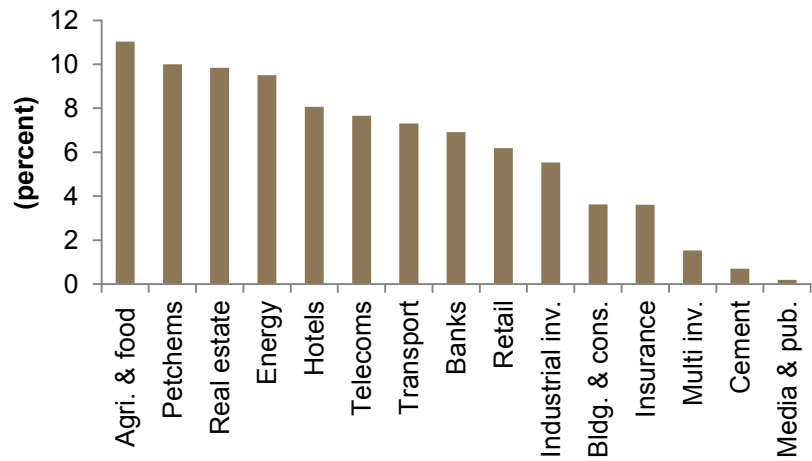
Sectoral Performance

All fifteen sectors saw positive gains as a result of the huge rise in the index in July. Larger sectors, such as petchems and real estate performed well, whereas agriculture and foods benefited from seasonal uplift. Smaller sectors, such as multi investment and media performed less strongly.

All sectors showed positive gains during July...

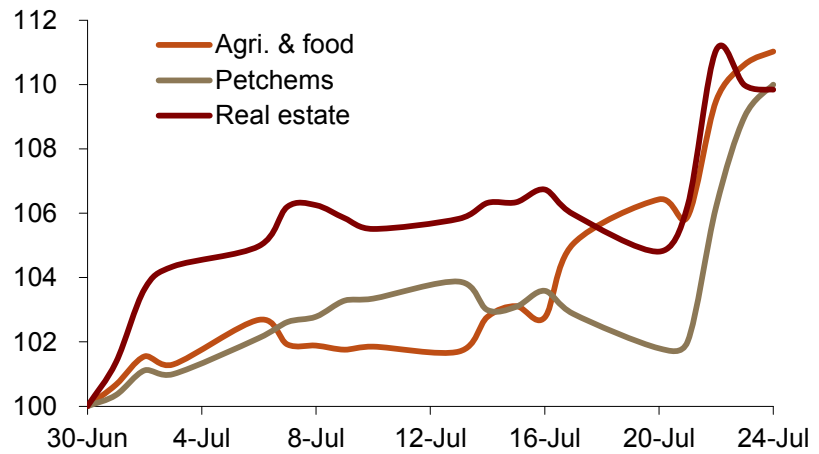
Performance by sector

(rebased; 30 June = 100)



Best Performing Sectors

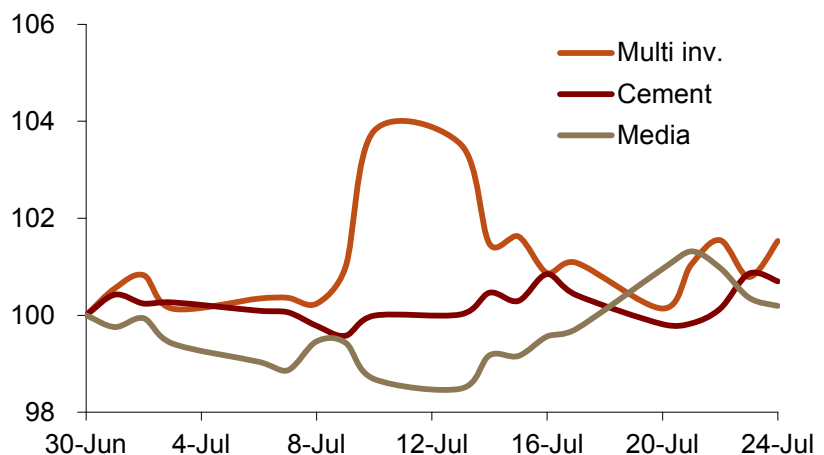
(rebased; 30 June = 100)



...larger sectors were the biggest gainers overall, but agriculture and food benefitted from the Ramadan period.

Worst Performing Sectors

(rebased; 30 June = 100)



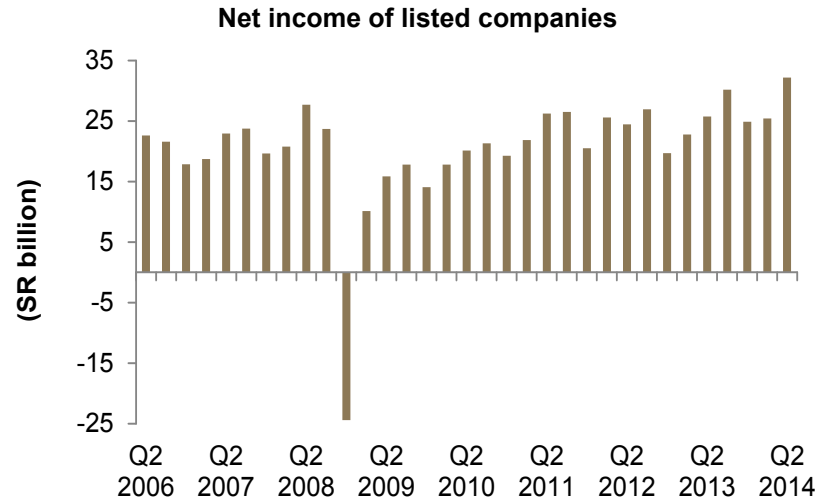
The cement sector suffered due to seasonality, whereas the media sector is struggling to recover from recent negative sentiment.



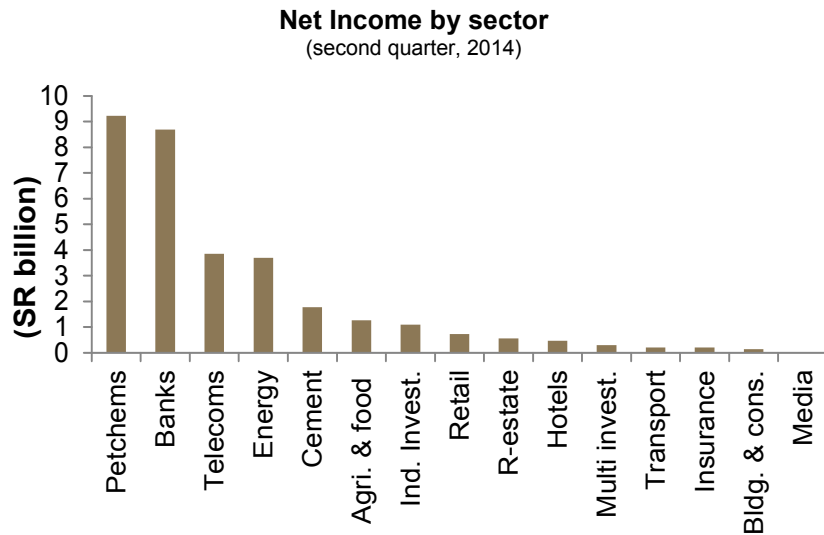
Second quarter results

Net income of listed companies totaled SR32.2 billion in Q2 2014 with the petchem and banking sector leading the way. The energy and telecoms sectors were boosted by one-off events which, together with petchems, saw the largest rise in profits, year-on-year.

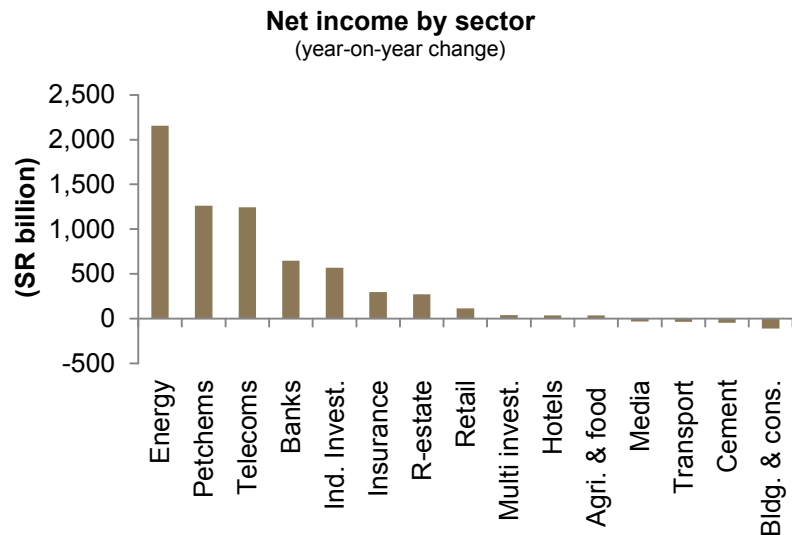
A macro-economic environment underpinned by high government spending and strong oil revenues supported net income growth, which rose by 26 percent, quarter on quarter, to a record SR32.2 billion.



Petchems and banks remain the overall outstanding performers, contributing 56 percent to total net income in Q2 2014.



One-off exceptions boosted both energy and telecoms sector profits, whilst increased international sales and higher product prices supported the petchem sector.





Key Data

	2007	2008	2009	2010	2011	2012	2013	2014 F	2015 F
Nominal GDP									
(SR billion)	1,559	1,949	1,609	1,976	2,511	2,752	2,807	2,965	3,037
(\$ billion)	415.7	519.8	429.1	526.8	669.5	734.0	748.4	790.6	809.8
(% change)	10.4	25.0	-17.4	22.8	27.1	9.6	2.0	5.6	2.4
Real GDP (% change)									
Oil	-3.8	4.3	-8.0	0.3	11.0	5.7	-1.0	0.4	-1.1
Non-oil private sector	12.0	11.1	4.9	10.3	7.7	6.0	6.0	5.5	4.8
Government	4.9	6.2	6.3	7.5	8.7	5.5	3.7	4.2	3.0
Total	6.0	8.4	1.8	7.4	8.6	5.8	4.0	4.2	3.3
Oil indicators (average)									
Brent (\$/b)	72.9	97.2	61.7	79.8	112.2	112.4	109.6	109.0	104.7
Saudi (\$/b)	67.2	94.0	60.4	77.5	103.9	106.1	104.2	105.0	100.7
Production (million b/d)	8.8	9.2	8.2	8.2	9.3	9.8	9.6	9.7	9.5
Budgetary indicators (SR billion)									
Government revenue	643	1,101	510	742	1,118	1,247	1,156	1,174	1,045
Government expenditure	466	520	596	654	827	873	976	1,070	1,022
Budget balance	177	581	-87	88	291	374	180	104	24
(% GDP)	11.3	29.8	-5.4	4.4	11.6	13.6	6.4	3.5	0.8
Domestic debt	267	235	225	167	135	99	75	68	61
(% GDP)	17.1	12.1	14.0	8.5	5.4	3.6	2.7	2.3	2.0
Monetary indicators (average)									
Inflation (% change)	5.0	6.1	4.1	3.8	3.7	2.9	3.5	3.0	3.3
SAMA base lending rate (% , year end)	5.5	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
External trade indicators (\$ billion)									
Oil export revenues	208.3	284.1	166.9	215.2	317.6	337.5	323.1	317.9	283.0
Total export revenues	233.2	313.5	192.3	251.1	364.7	388.4	377.0	374.6	342.2
Imports	81.5	100.6	86.4	97.4	120.0	141.8	152.7	158.3	172.1
Trade balance	151.7	212.8	105.9	153.7	244.7	246.6	224.3	216.3	170.0
Current account balance	93.3	132.3	21.0	66.8	158.5	164.8	134.3	133.3	81.4
(% GDP)	22.5	25.5	4.9	12.7	23.7	22.4	17.9	16.9	10.0
Official reserve assets	305.6	442.7	410.1	445.1	544.0	656.6	725.7	769.0	799.9
Social and demographic indicators									
Population (million)	24.9	25.8	26.7	27.6	28.4	29.2	30.0	30.9	31.8
Unemployment (15+, %)	11.2	10.0	10.5	11.2	12.4	12.0	11.5	10.7	10.5
GDP per capita (\$)	16,667	20,157	16,095	19,113	23,594	25,139	24,953	25,614	25,489

Sources: Jadwa forecasts for 2014 and 2015. 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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