



## Summary

**Real Economy:** Economic data for October showed signs of cooling. The non-oil PMI fell following a 39-month peak in the previous month. Data on consumer spending showed a seasonal decline.

**Bank Lending:** Bank credit to private sector grew strongly in both year-on-year and monthly terms, recording its highest monthly growth since May 2008.

**Bank deposits:** Total deposits continued to record double-digit growth, reaching highest year-on-year growth since May 2013,

**Inflation:** Saudi CPI slowed to 2.6 percent year-on-year in October, its lowest since January 2010. Food price inflation accelerated further to reach 3.5 percent,

**Balance of payments:** The current account surplus rose to \$33 billion in the second quarter, while the trade balance dropped to \$54 billion. Net portfolio inflows reached an all time high at \$6.1 billion.

**Oil –Global:** Oil prices dropped, month-on-month, in November. Brent dropped sharply at the end of month as OPEC decided not to cut production. OPEC non-action combined with a build-up in both oil and gasoline stocks meant that WTI dropped by sizable \$7.8 on the final day of trading in November.

**Oil –Regional:** Saudi crude production remained unchanged, month-on-month, in October regardless of ample global supply.

**Exchange rates:** The dollar continued to climb, reaching its highest level in four years, in November, as investors expectations about a US interest rate rise grew.

**Stock market:** Bearish oil markets continued to affect sentiment in the TASI as it fell month-on-month, in November. The last week of November saw the steepest declines after the OPEC meeting, which added to negative investor sentiment.

**Volumes:** Average daily turnover fell for the fourth month in a row and reached SR7.3 billion in November. Investor speculation increased amongst more volatile smaller sectors as the TASI fell.

**Valuations:** In November, the TASI's price-to-earnings (PE) valuations decreased to 16.6, moving in line with its two year average. This is the third month in a row where PE has declined from a peak of 21.3 back in August.

**Sectoral performance:** All fifteen sectors saw negative performances in November as investor selling was felt across most the market due to negative sentiment over declining oil prices.

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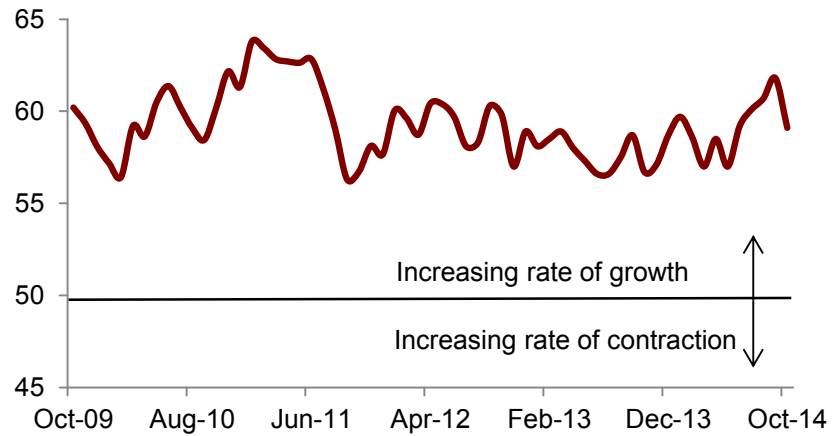


## Real Economy

Economic data for October showed signs of cooling. The non-oil PMI fell following a 39-month peak in the previous month. Both ATM cash withdrawals and point of sale transactions recorded seasonal declines. Data on cement production showed a 0.4 percent year-on-year increase, while sales fell by 4.2 percent year-on-year.

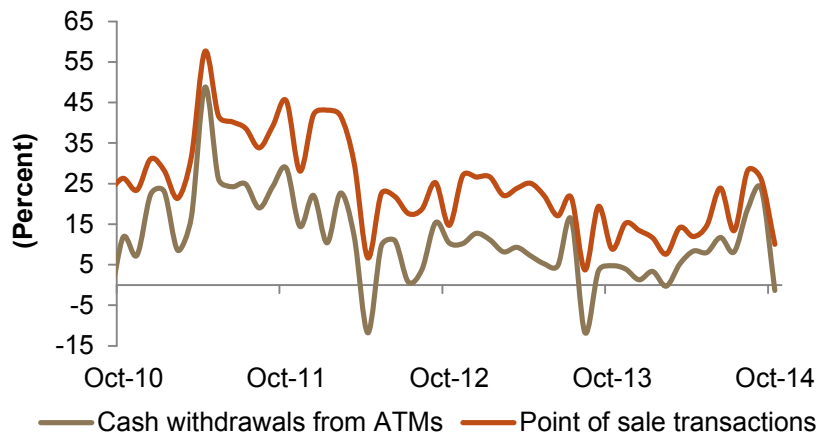
*The non-oil PMI fell in October to 59.1 following a 39-month peak at 61.8 in the previous month.*

**HSBC/Markit Purchasing Managers' Index (PMI)**



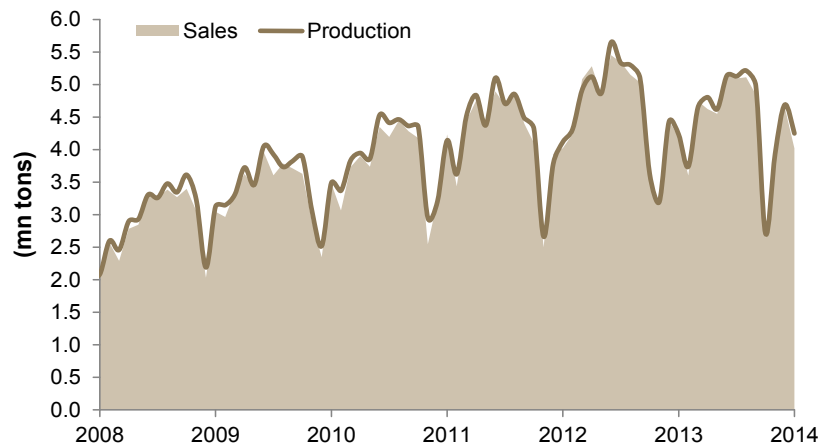
*ATM cash withdrawals were lower by 1.4 percent year-on-year. Point of sale transactions recorded a year-on-year growth of 10 percent, the slowest since February.*

**Indicators of consumer spending**



*Cement production grew by 0.4 percent year-on-year, while sales fell by 4.2 percent year-on-year.*

**Cement production and sales**





## Bank lending

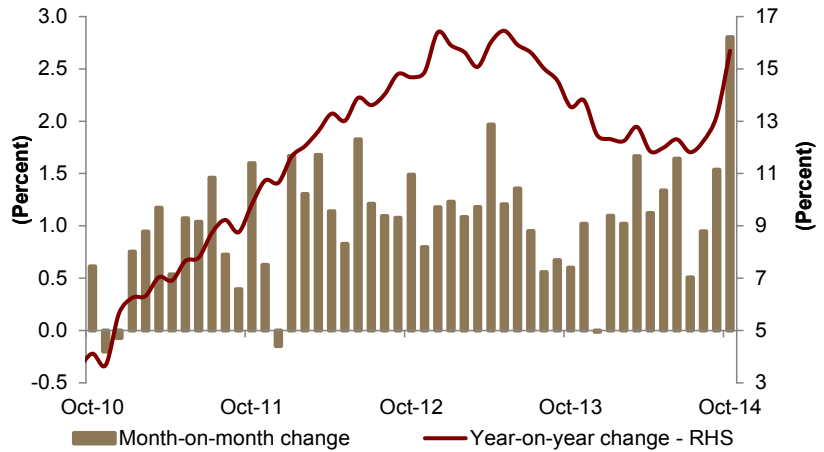
Bank credit to private sector grew strongly in both year-on-year and monthly terms, recording its highest monthly growth since May 2008. Growth mainly came from short-term credit expansion as banks aggressively extended credit to finance subscriptions for NCB's IPO.

*Bank credit to private sector grew strongly in both year-on-year (16 percent), and monthly terms (2.8 percent), recording its highest monthly growth since May 2008.*

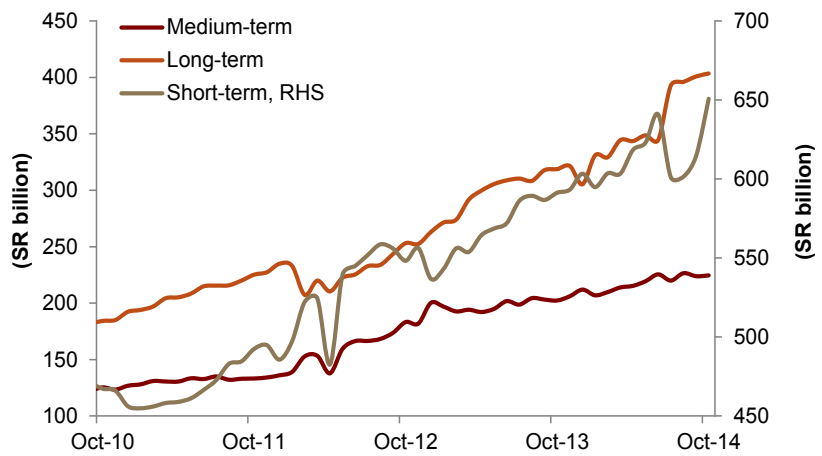
*Growth mainly came from short-term credit expansion as banks aggressively extended credit to finance subscriptions for NCB's IPO.*

*The majority of the growth in lending came in the form of loans, advances, and overdrafts, which grew by 36 percent, month-on-month.*

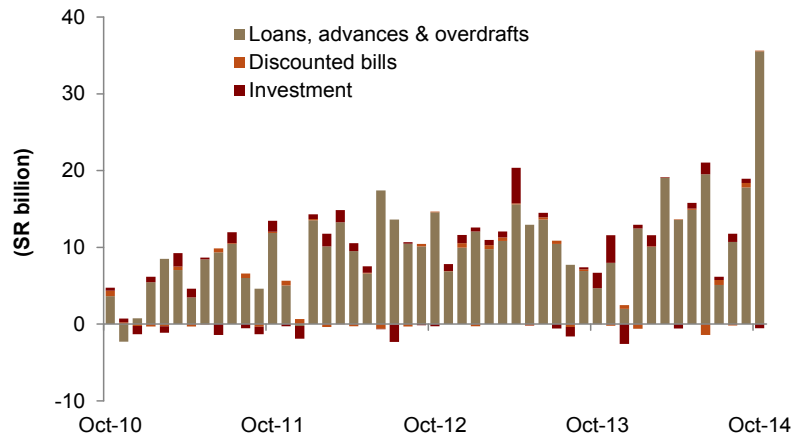
**Bank lending to private sector**



**Bank credit by maturity**



**Bank claims on private sector (month-on-month)**



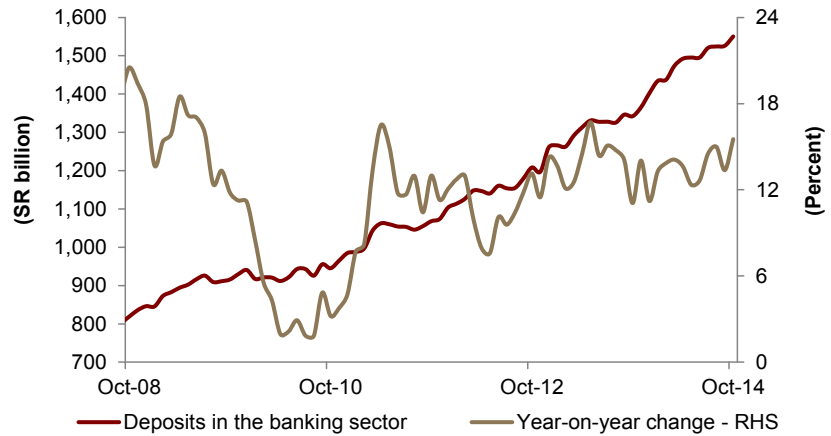


## Bank deposits

Total deposits continued to record double-digit growth, reaching highest year-on-year growth since May 2013, helped this time by a significant uptick in quasi-monetary deposits - particularly letters of credit. The loan-to-deposit ratio increased as a result of higher growth in lending activities during October.

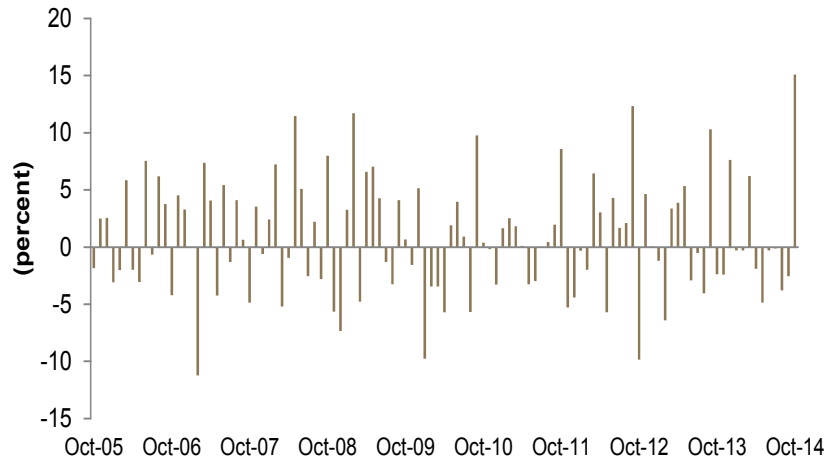
*Bank deposits continued to record double digit growth (15.5 percent), reaching its highest year-on-year growth since May 2013.*

**Total deposits**



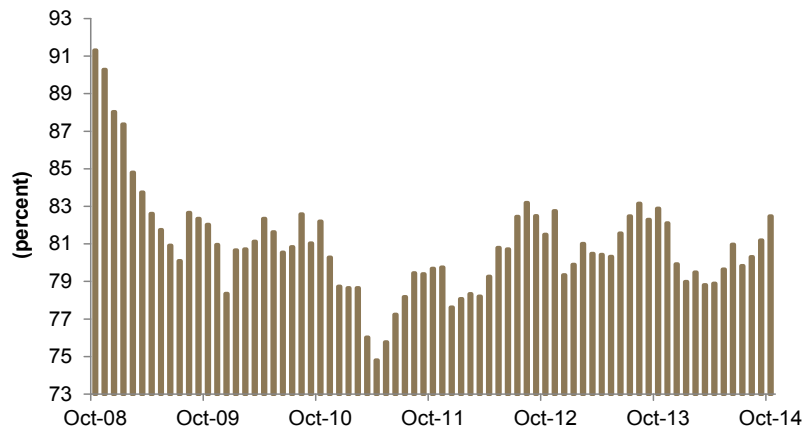
*Monthly growth in Quasi-monetary deposits were the highest on record, growing by 15 percent month-on-month.*

**Quasi-monetary deposits (month-on-month)**



*The much higher growth in loans led to an increase in the loan-to-deposit ratio to 82.5 in October, up from 81.2 in the previous month.*

**Loan-to-deposit ratio**

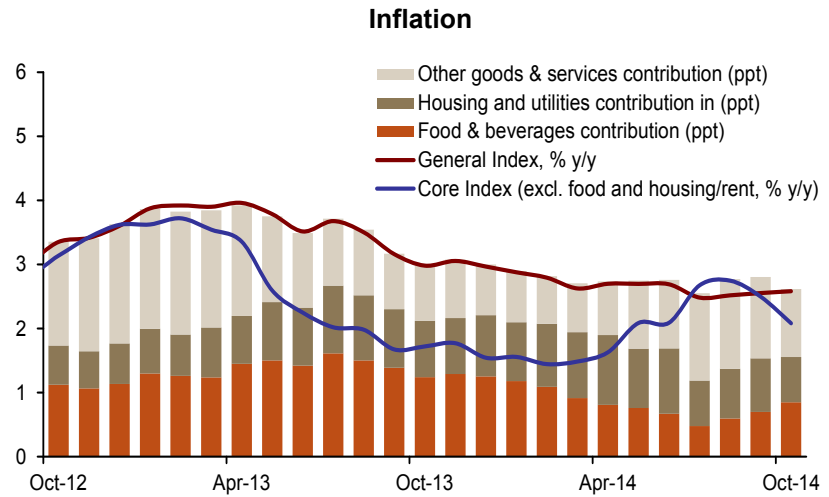




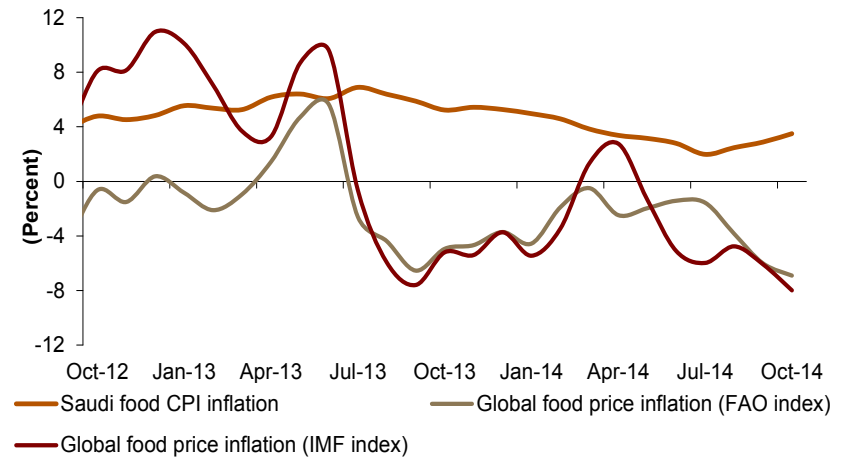
## Inflation

Saudi CPI slowed to 2.6 percent year-on-year. Housing inflation reversed its upward trend as it slowed to 2.8 percent, while foodstuffs accelerated to 3.5 percent year-on-year, diverging further from international food price inflation. Wholesale food price data points to a potential increase in food inflation for the coming months.

*Headline inflation slowed to 2.6 percent, its lowest point since January 2010, with housing and most other components of the core index recording a slowdown.*

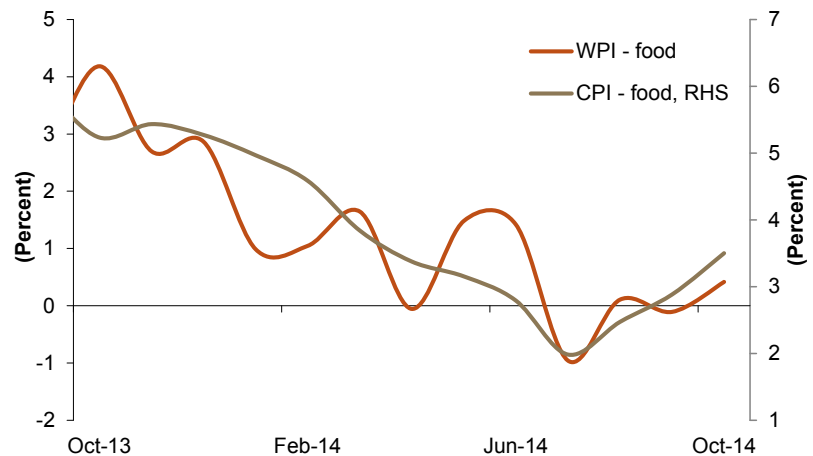


**Domestic and international food inflation**  
(year-on-year change)



*Hajj and Eid holidays helped food price inflation gain pace, with the deflationary trend in international food prices not transmitting domestically.*

**Wholesale and consumer food inflation**  
(year-on-year change)



*Wholesale price data points to further potential increases in consumer food prices for the months ahead.*

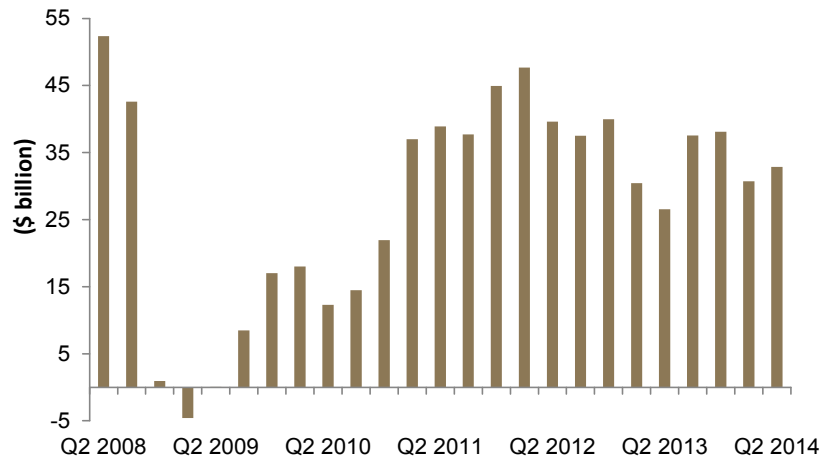


## Balance of payments

In quarterly terms, the current account surplus rose in Q2 to \$33 billion while the trade balance fell by \$6 billion to reach \$54 billion. The current account improvement can be attributed to a significant increase in portfolio inflows into the economy, which have reached an all time quarterly high of \$6.1 billion.

*In quarterly terms, the current account improved by \$2 billion to reach \$33 billion in Q2 2014...*

**Current Account balance**



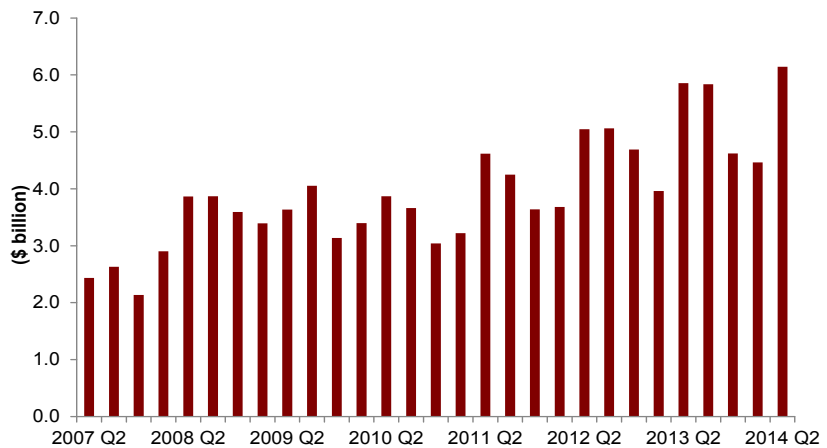
*... while the trade balance continued its decline, falling by \$6 billion to reach \$54 billion.*

**Exports and imports of goods**



*Portfolio investment inflows reached an all time quarterly high, totaling \$6.1 billion in Q2 2014.*

**Portfolio investment inflows**

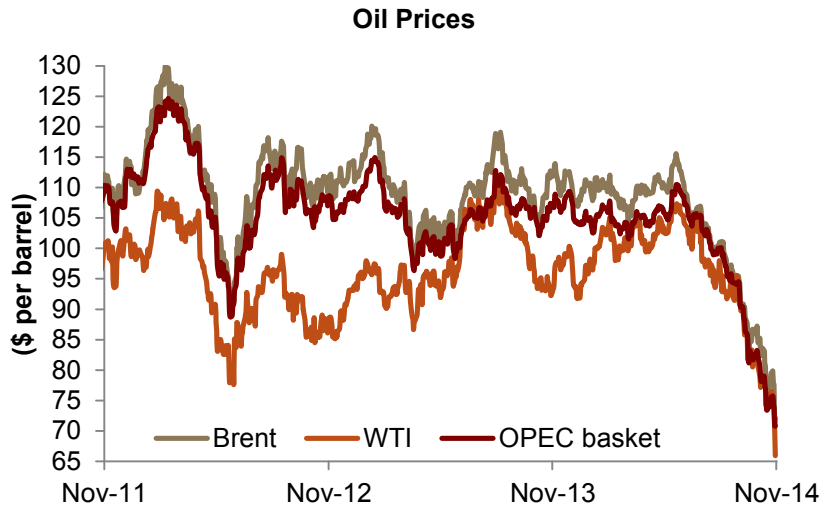




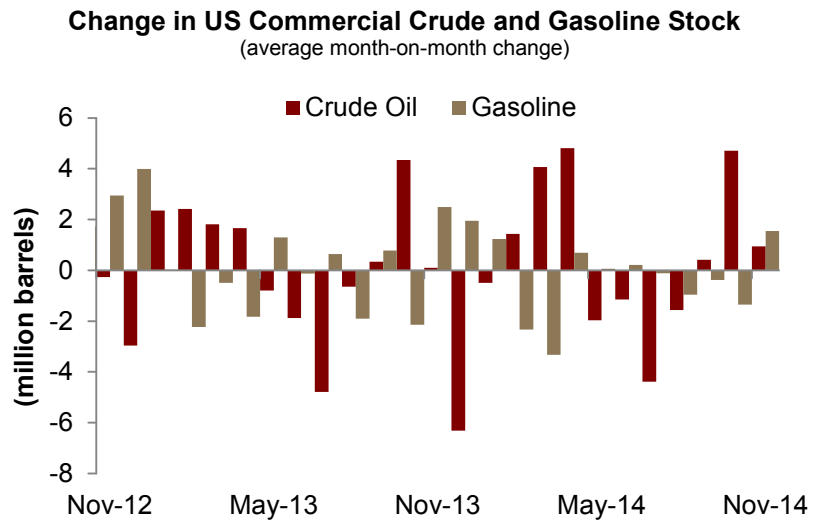
## Oil - Global

Oil prices dropped, month-on-month, in November. Brent dropped sharply at the end of month as OPEC decided not to cut production. OPEC non-action combined with a build-up in both oil and gasoline stocks meant that WTI dropped by sizable \$7.8 on the final day of trading in November.

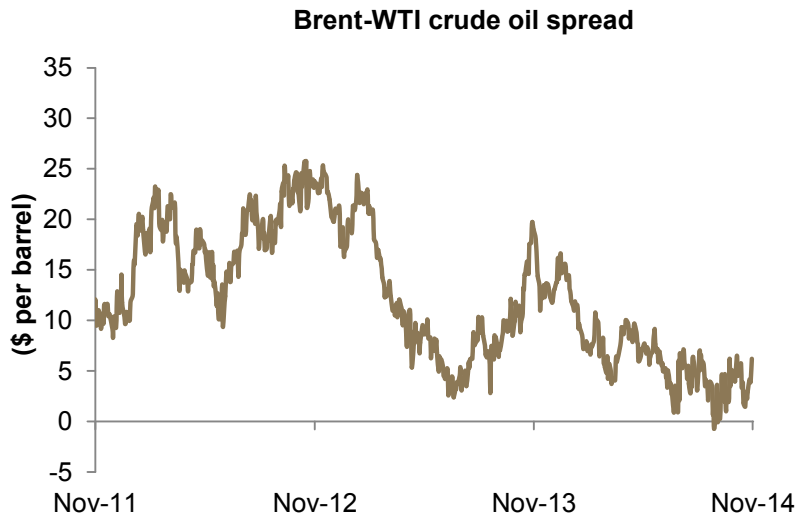
*Brent averaged \$79 per barrel over November compared to \$87.5 per barrel during October.*



*WTI dropped to \$66 at the end of November, its lowest level since May 2010.*



*As a result of the drop in WTI, the Brent-WTI spread recovered to \$6.1 after narrowing to \$1.5 during November.*



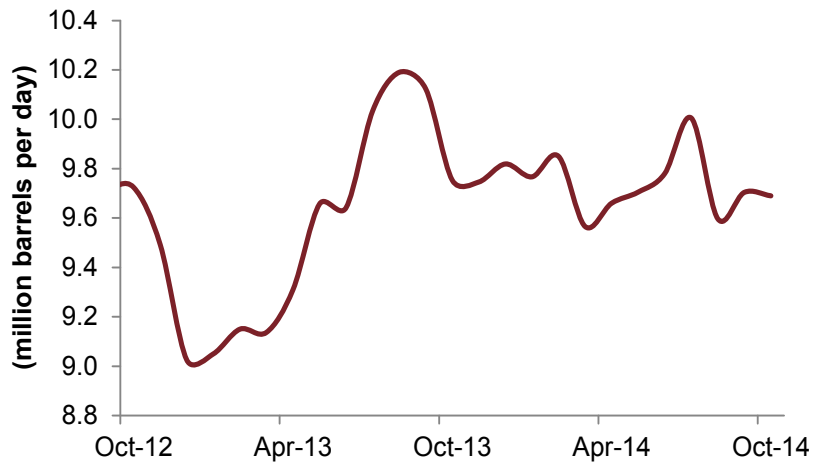


## Oil - Regional

Saudi crude production remained unchanged, month-on-month, in October regardless of ample global supply. Libyan production expanded by 17 percent compared to last month as previously redundant fields came back online. Iranian output was flat whilst Iraqi production dropped slightly due to maintenance work.

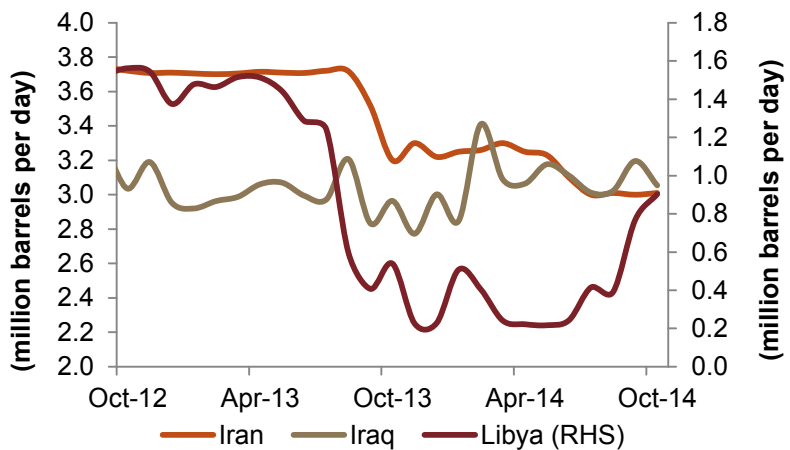
*Saudi crude output was unchanged in October as competition for share in export markets intensified.*

**Saudi crude production**

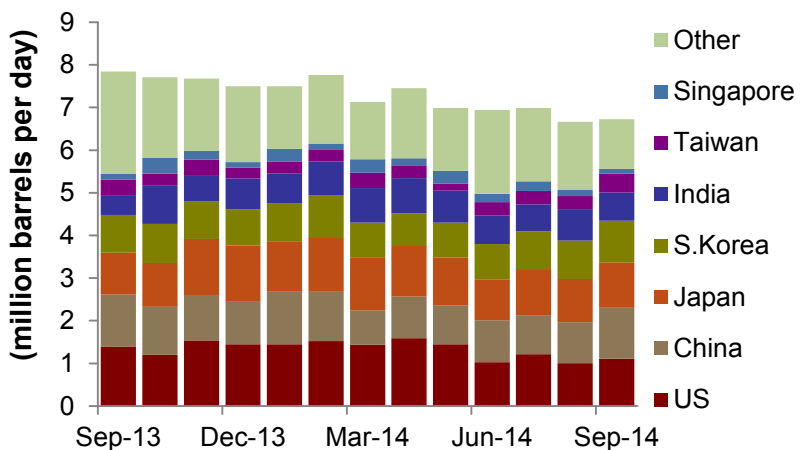


*Although Libyan crude was up month-on-month in October, we expect lower output in November as internal conflict affects output.*

**Libyan, Iraqi and Iranian oil supply**



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



*Latest data for September shows Saudi exports being flat, month-on-month, with declines in Other regions compensated by increases to Asia.*

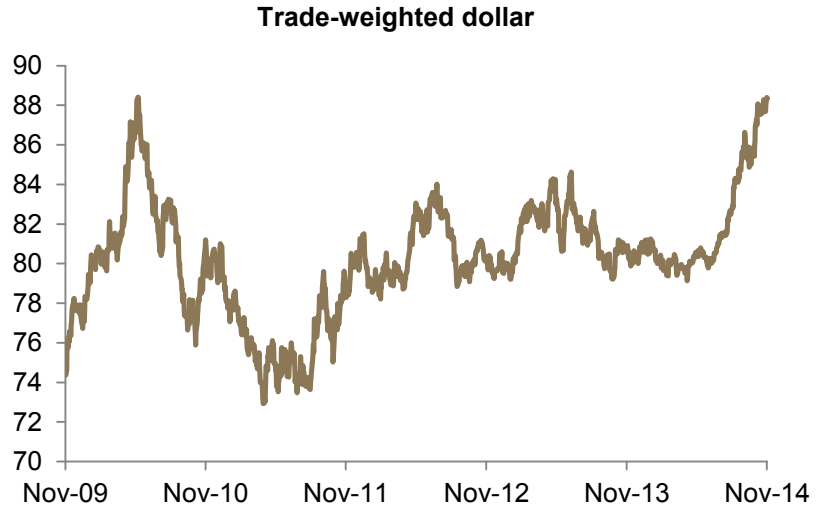




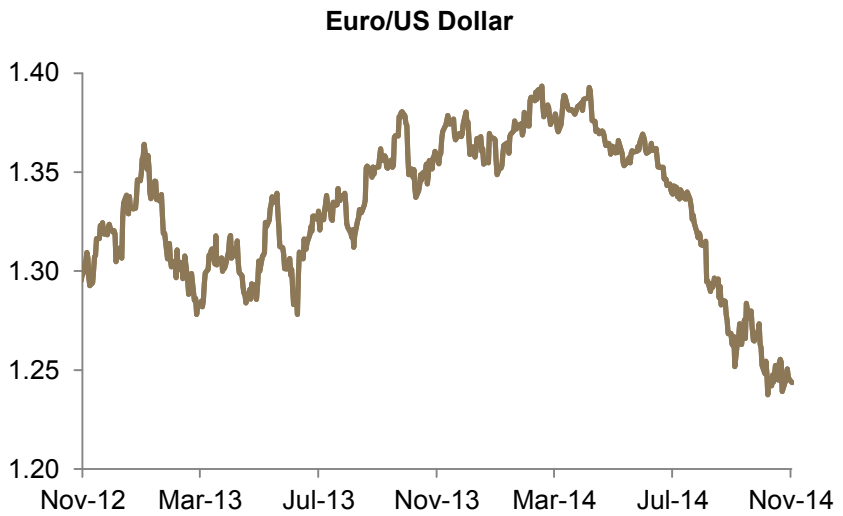
## Exchange Rates

The dollar continued to climb, reaching its highest level in four years, in November, as investors expectations about a US interest rate rise grew. As a consequence most currencies remained weak against the dollar, with the euro languishing at two year lows whilst the Japanese yen dropped to levels last seen seven years ago.

*The dollar continues to strengthen...*



*...with the euro stabilizing at around 1.25 against the dollar in November...*



*...but the yen dropped sharply as the Japanese economy slipped into Recession.*





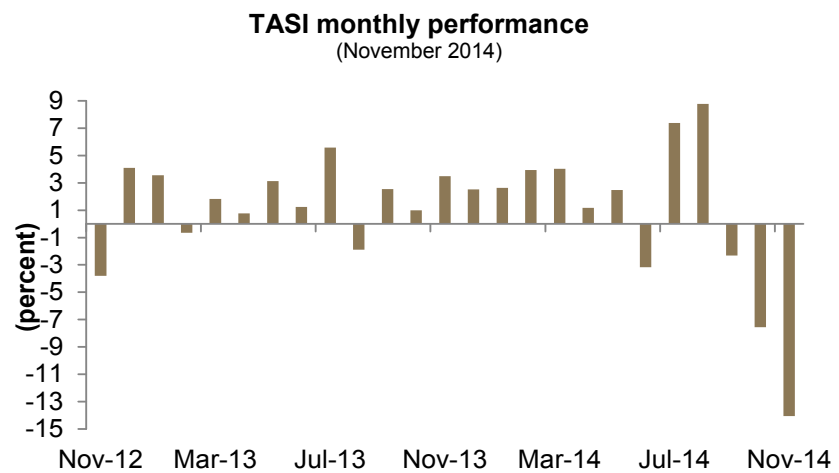
## Stock Market

Bearish oil markets continued to affect sentiment in the TASI as it fell month-on-month, in November. The last week of November saw the steepest declines after the OPEC meeting, where no production cuts by the organization led to further oil price drops, which added to negative investor sentiment.

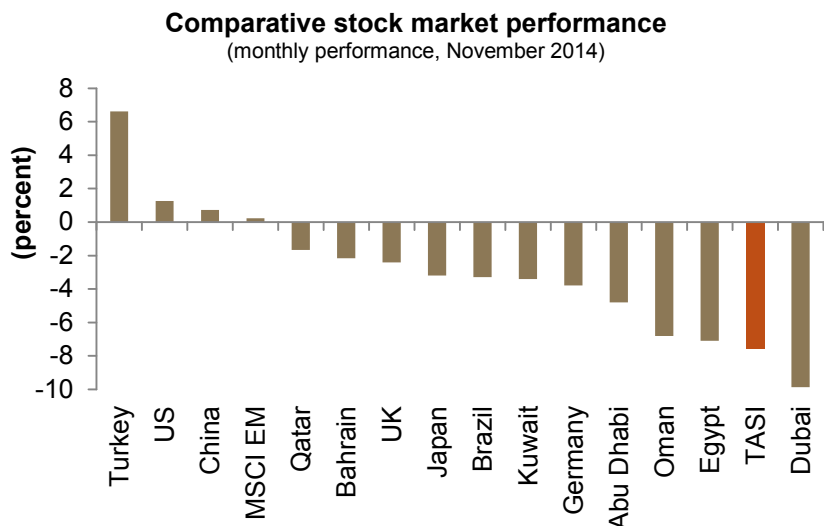
*The TASI index closed at 8,624 points at the end of November...*



*...resulting in a 14.1 percent month-on-month decline, the largest monthly drop in over five years.*



*Most regional indices suffered in November, although the TASI's performance was amongst the worst.*



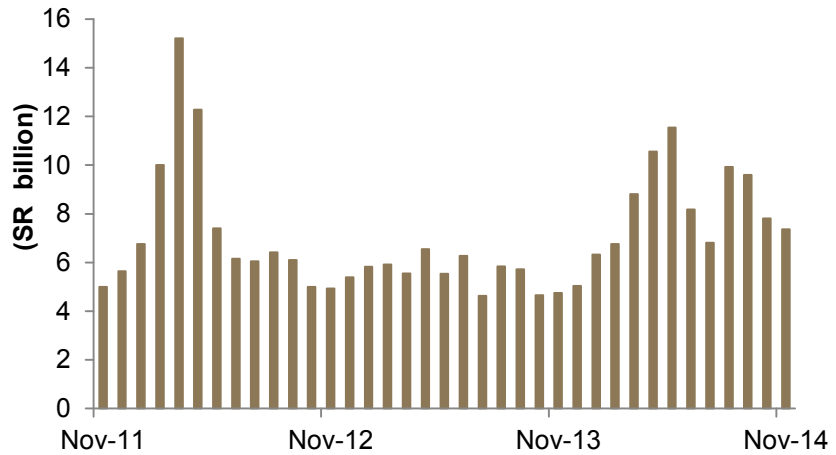


## Volumes

Average daily turnover fell for the fourth month in a row and reached SR7.3 billion in November. Investor speculation increased amongst more volatile smaller sectors as the TASI fell. As such, insurance, buildings and media were more prominent in turnover by sector.

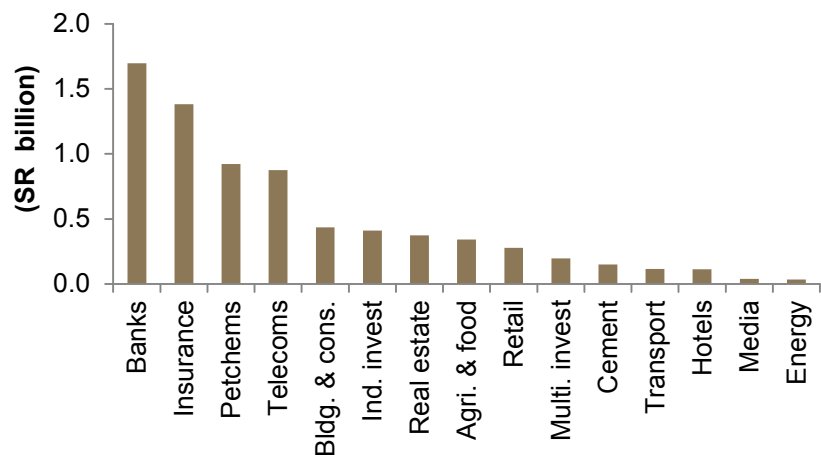
November average daily stock market turnover dropped 5.8 percent, month-on-month.

Daily average stock market turnover



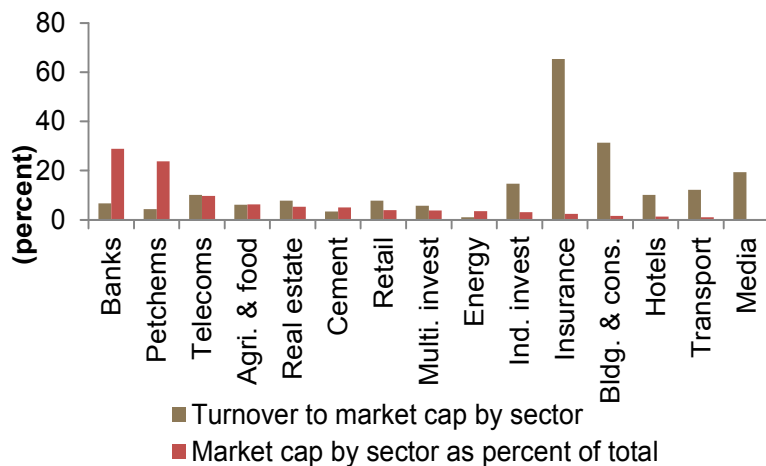
Turnover in smaller sectors was more apparent...

Turnover by sector (daily average)



...reflecting increased investor speculation in a declining market.

Turnover as percent of market cap (November, 2014)

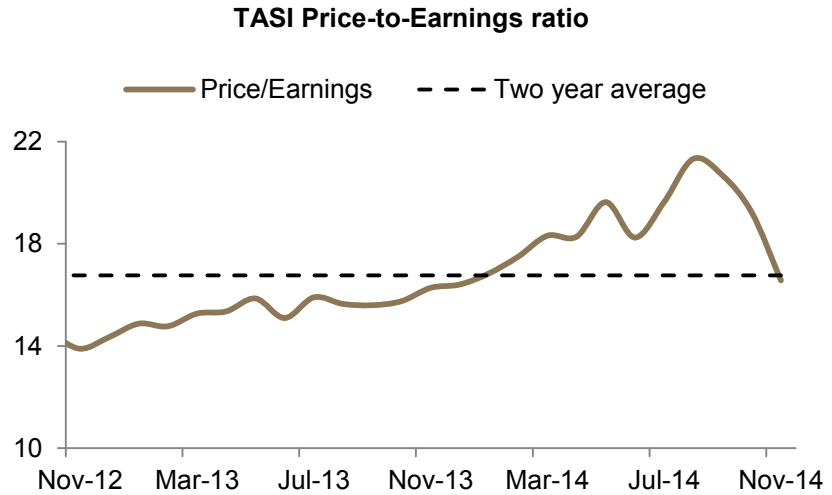




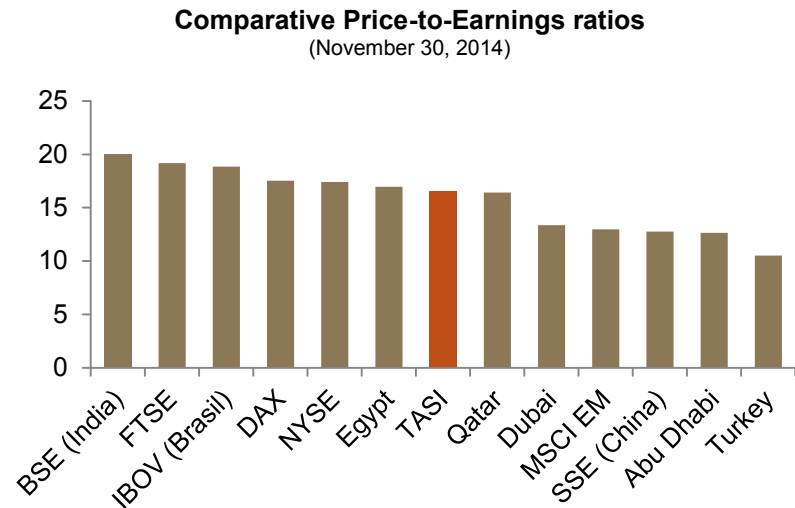
## Valuations

In November, the TASI's price-to-earnings (PE) valuations decreased to 16.6, moving in line with its two year average. This is the third month in a row where PE has declined from a peak of 21.3 back in August. Dividend yield improved, month-on-month, and now is at more attractive level compared to some indices.

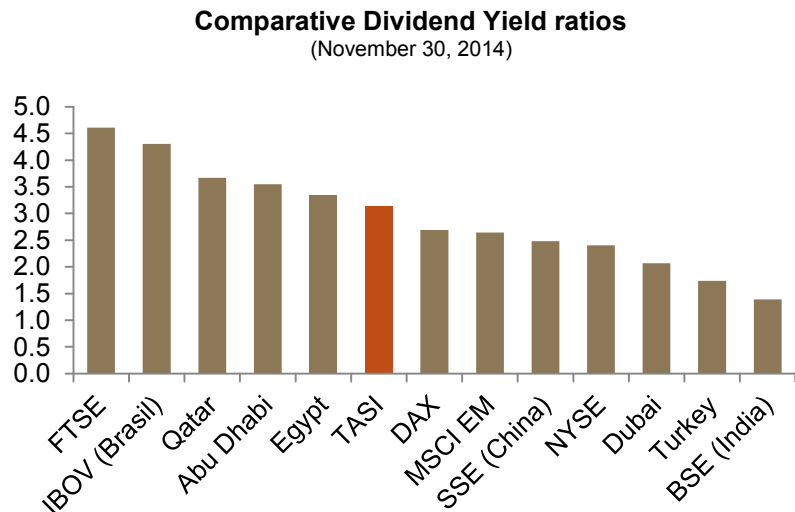
*The downward trend in the TASI has decreased the risk of overpricing...*



*...with TASI's price-to-earnings ratio trending in-line with regional and comparable emerging market indices...*



*...with dividend yield comparably strong.*

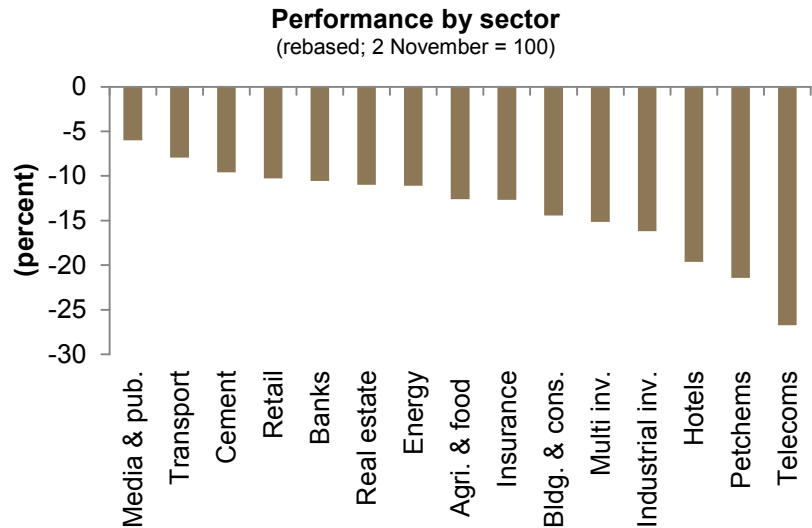




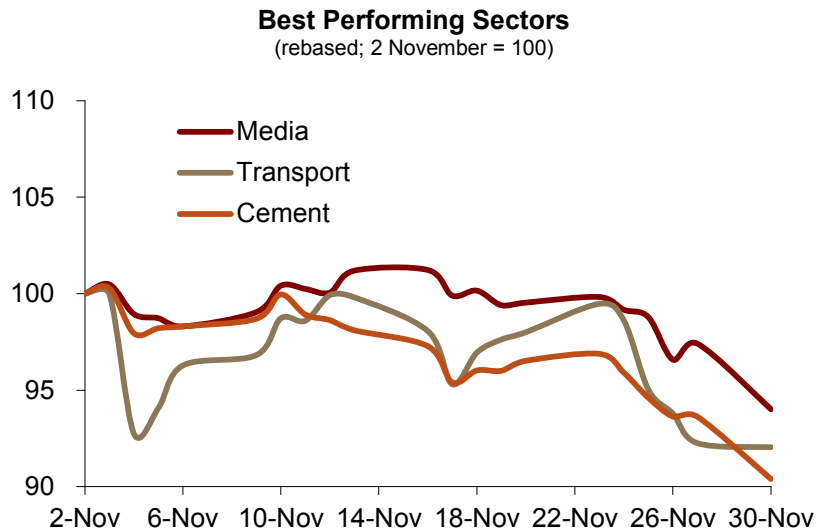
## Sectoral Performance

All fifteen sectors saw negative performances in November as investor selling was felt across most the market due to negative sentiment over declining oil prices. Telecoms was one of the worst performers but petchem and hotels also struggled.

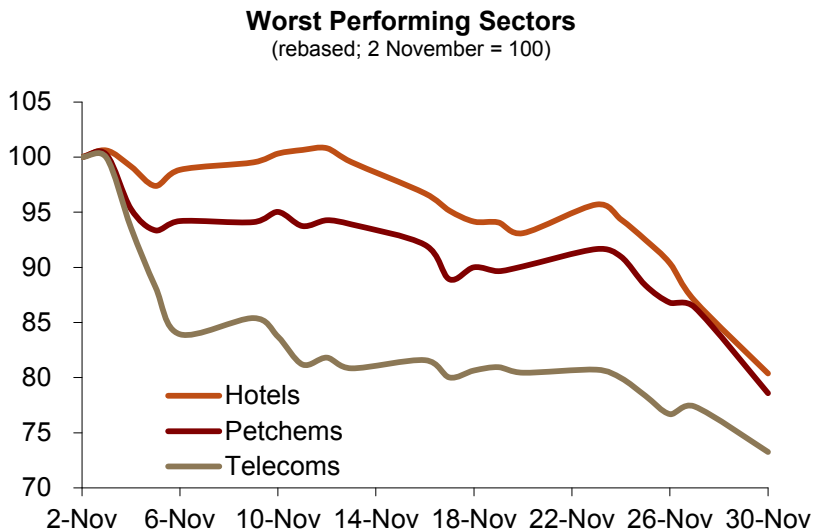
*Selling of stocks by investors was felt across all sectors.*



*No sector saw any positive gains over the month in November...*



*...with telecoms affected by poorer results leading to the steepest declines.*





## Key Data

	2008	2009	2010	2011	2012	2013	2014 F	2015 F	2016 F
<b>Nominal GDP</b>									
(SR billion)	1,949	1,609	1,976	2,511	2,752	2,807	2,876	2,777	2,870
(\$ billion)	519.8	429.1	526.8	669.5	734.0	748.4	767.0	740.5	765.3
(% change)	25.0	-17.4	22.8	27.1	9.6	2.0	2.5	-3.5	3.3
<b>Real GDP (% change)</b>									
Oil	4.3	-8.0	0.3	11.0	5.7	-1.0	0.4	-0.6	-1.6
Non-oil private sector	11.1	4.9	10.3	7.7	6.0	6.0	5.4	4.8	4.6
Government	6.2	6.3	7.5	8.7	5.5	3.7	4.2	3.0	3.6
Total	8.4	1.8	7.4	8.6	5.8	4.0	4.2	3.4	3.2
<b>Oil indicators (average)</b>									
Brent (\$/b)	97.2	61.7	79.8	112.2	112.4	109.6	102.0	85.0	83.0
Saudi (\$/b)	94.0	60.4	77.5	103.9	106.1	104.2	98.0	81.0	79.0
Production (million b/d)	9.2	8.2	8.2	9.3	9.8	9.6	9.7	9.6	9.4
<b>Budgetary indicators (SR billion)</b>									
Government revenue	1,101	510	742	1,118	1,247	1,156	1,077	934	812
Government expenditure	520	596	654	827	873	976	1,017	1,012	976
Budget balance	581	-87	88	291	374	180	61	-78	-164
(% GDP)	29.8	-5.4	4.4	11.6	13.6	6.4	2.1	-2.8	-5.7
Domestic debt	235	225	167	135	99	75	68	61	58
(% GDP)	12.1	14.0	8.5	5.4	3.6	2.7	2.3	2.2	2.0
<b>Monetary indicators (average)</b>									
Inflation (% change)	6.1	4.1	3.8	3.7	2.9	3.5	2.6	2.7	2.9
SAMA base lending rate (% , year end)	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.25
<b>External trade indicators (\$ billion)</b>									
Oil export revenues	284.1	166.9	215.2	317.6	337.5	323.1	270.3	219.6	191.3
Total export revenues	313.5	192.3	251.1	364.7	388.4	377.0	327.0	278.7	255.9
Imports	100.6	86.4	97.4	120.0	141.8	152.7	158.3	162.6	166.8
Trade balance	212.8	105.9	153.7	244.7	246.6	224.3	168.7	116.2	89.1
Current account balance	132.3	21.0	66.8	158.5	164.8	134.3	83.4	23.2	-9.5
(% GDP)	25.5	4.9	12.7	23.7	22.4	17.9	10.9	3.1	-1.2
Official reserve assets	442.7	410.1	445.1	544.0	656.6	725.7	750.1	758.9	749.4
<b>Social and demographic indicators</b>									
Population (million)	25.8	26.7	27.6	28.4	29.2	30.0	30.9	31.8	32.7
Unemployment (15+, %)	10.0	10.5	11.2	12.4	12.0	11.7	10.7	10.5	10.3
GDP per capita (\$)	20,157	16,095	19,113	23,594	25,139	24,953	24,851	23,311	23,438

Sources: Jadwa forecasts for 2014-16. 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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