



Summary

Real Economy: In August, key consumption indicator data rose, year-on-year. Data on PMI and cement also showed a return to robust levels of activity in the non-oil private sector.

Government finance: The net monthly withdrawals from government accounts continued to be small in August compared to the first half of 2015. Bank holdings of government bonds showed a sharp rise in August, reflecting the new government financing strategy.

SAMA foreign reserve assets: Investment in foreign securities recorded a monthly increase for the first time in 2015, indicating that pressure continued to be relieved off foreign reserves as the main deficit financing tool.

Banking indicators: Year-on-year growth in bank credit to the private sector fell to 8.4 percent in August. However, the slower growth in deposits has caused the loan-to-deposit ratio to rise to 81.7.

Inflation: In August, headline inflation slowed, year-on-year, to reach 2.1 percent. The slowdown was impacted by subdued inflationary pressure from both foodstuffs and the core index

Trade: In July, non-oil exports remained 20.6 percent lower than the same period last year. Imports also came out lower, year-on-year.

Oil-Global: Global oil prices were up marginally, month-on-month, in September. In the first week of October Brent prices edged up above \$50 per barrel for the first time since July 2015.

Oil-Regional: Saudi crude production dropped slightly month-on-month in August, but was up 7 percent compared to a year ago.

Exchange Rates: The dollar edged slightly upwards in September despite the US Federal Reserve not increasing interest rates during the month. The dollar held onto these gains in early October.

Stock Market: Generally poorer performance in global equity markets and continued low oil prices saw the TASI fall slightly in September month-on-month with trading in early October being flat.

Volumes: Market turnover remained subdued during September as seasonal factors contributed to lower month-on-month average daily volumes.

Valuations: Price-to-earnings (PE) in the TASI remained unchanged month-on-month in September.

Sectorial Performance: The generally weaker sentiment resulted in a volatile and mixed performance within sectors in September.

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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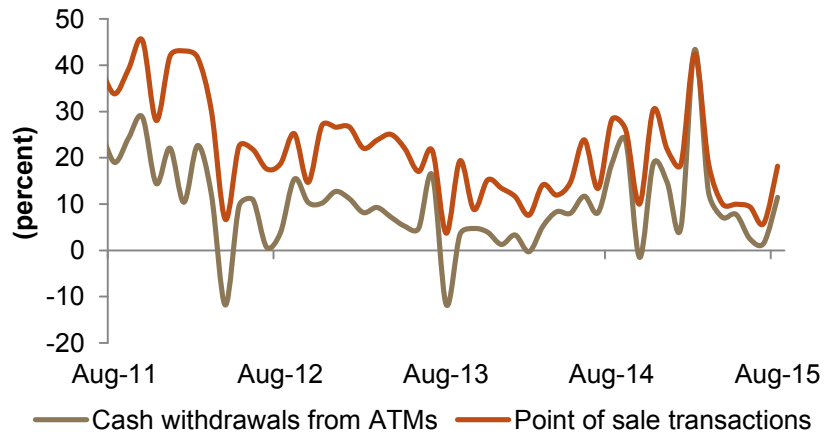


Real Economy

In August, key consumption indicator data rose, year-on-year, reflecting healthy domestic demand. Data on PMI pointed to robust levels of activity in the non-oil private sector in both August and September. Cement production and sales showed a rebound in August following a seasonal dip in the previous month.

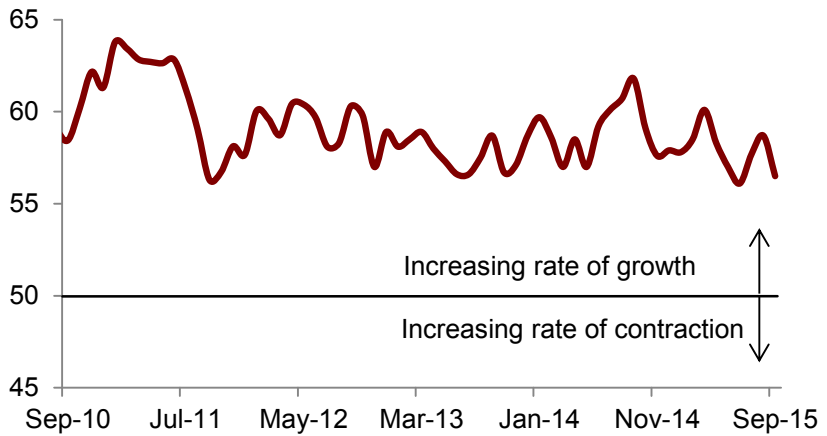
ATM withdrawals and point of sale transactions rose in August by 11.5 percent, and 18.2 percent, year-on-year.

Indicators of consumer spending



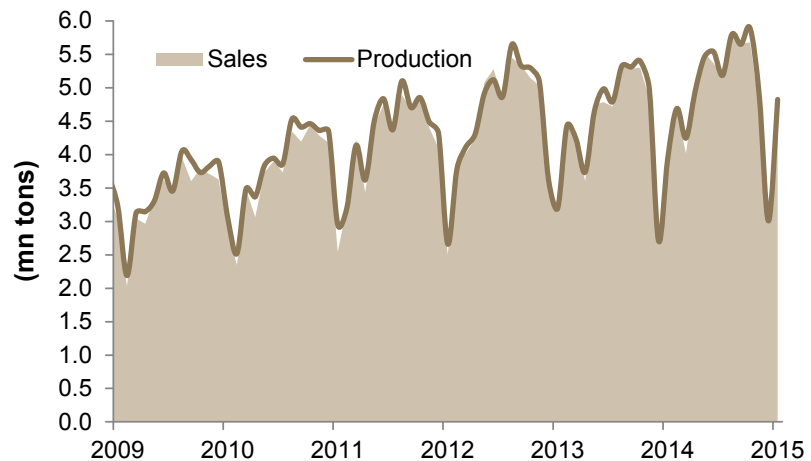
The non-oil private sector PMI rose to 58.7 in August, before cooling slightly to 56.5 in September.

Purchasing Managers Index



Both cement production and sales rebounded strongly in August, rising by 60 percent, and 57 percent month-on-month.

Cement sales





Government Finance

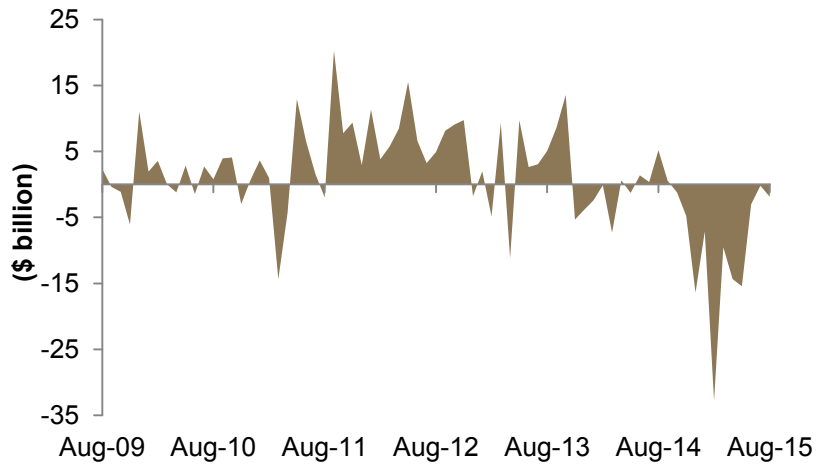
In August, the net monthly withdrawals from government accounts continued to be small compared to the first half of 2015. All three government accounts recorded small negative net monthly changes. Bank holdings of government bonds showed a sharp rise in August, reflecting the new government financing strategy.

In August, the net monthly withdrawals from government accounts remained small at \$1.9 billion, compared to H1 2015 average net monthly withdrawals of \$13.7 billion.

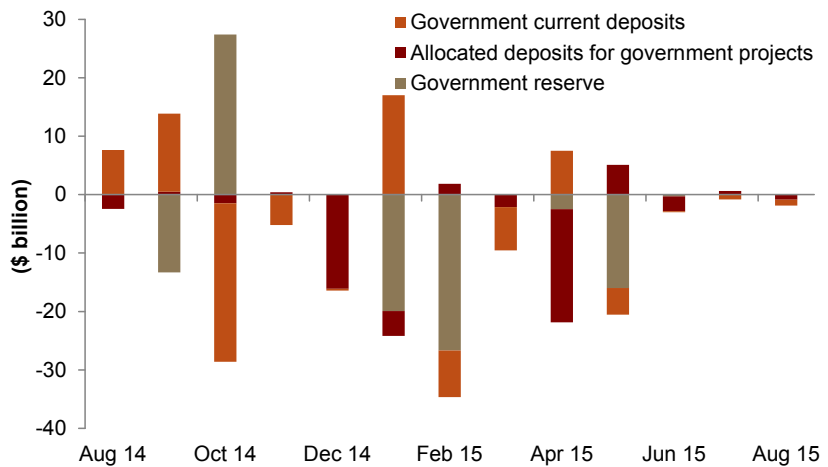
The projects account recorded a negative net monthly change of \$876 million, pointing to more funds being spent on projects.

In August, bank holding of government bonds rose by SR12.4 billion. We expect further increases on a monthly basis as the government issues more bonds to local banks to finance its spending on the economy.

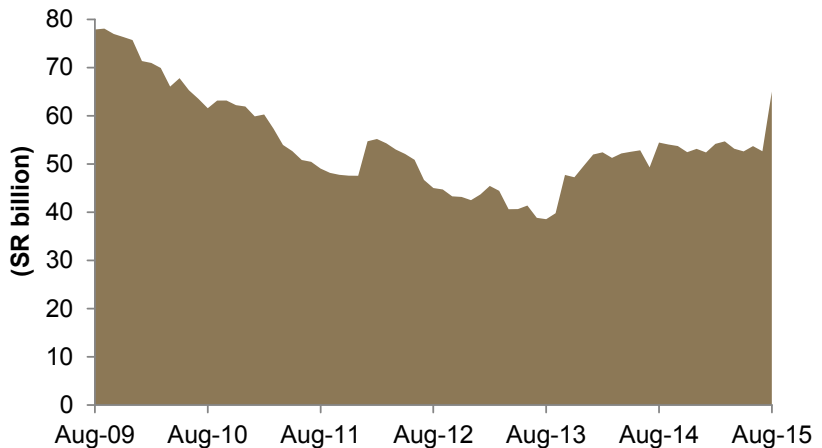
Government accounts with SAMA
(month-on-month change)



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



Bank holdings of government bonds



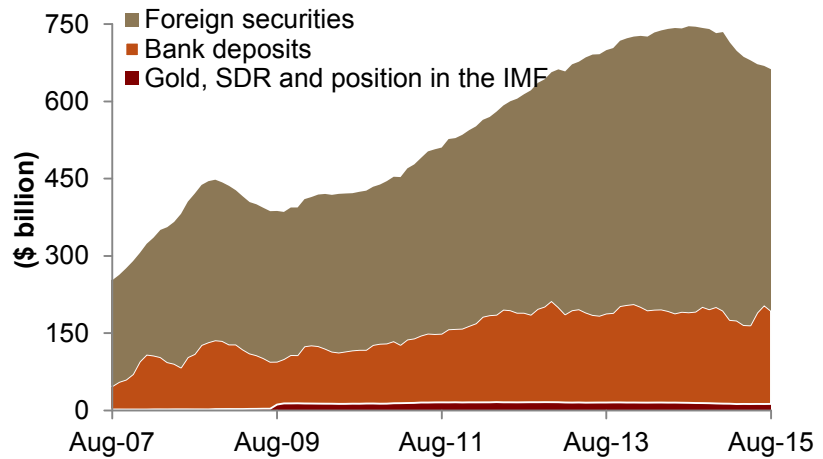


SAMA foreign reserve assets

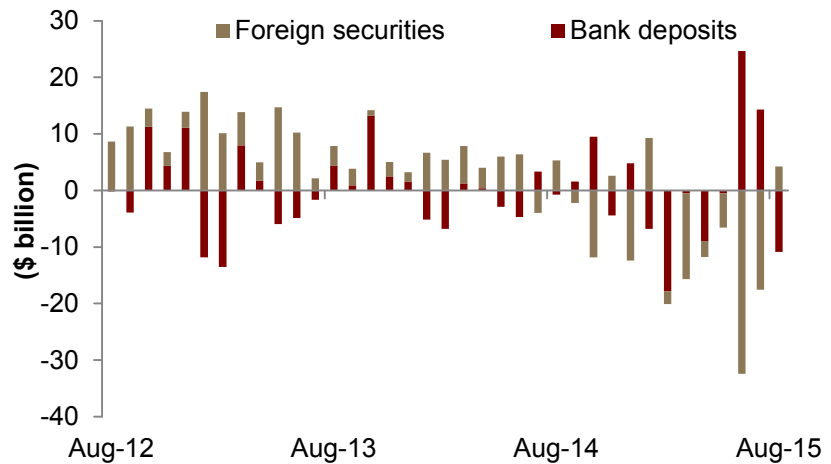
SAMA net foreign assets stood at \$659 billion at the end of August. Investment in foreign securities recorded a monthly increase for the first time in 2015 indicating that pressure continued to be relieved off foreign reserves as the main deficit financing tool. This reflects in part the positive impact of the government's new financing strategy.

SAMA net foreign assets stood at \$659 billion at the end of August.

SAMA total foreign reserve assets

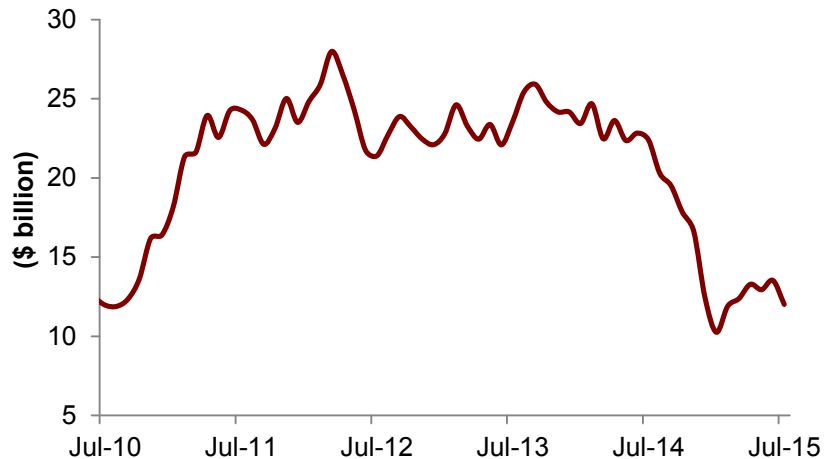


Investment in foreign securities and bank deposits
(month-on-month change)



Investment in foreign securities recorded a monthly increase for the first time in 2015, rising by \$4.2 billion...

Monthly oil revenues
(Jadwa Investment estimates)



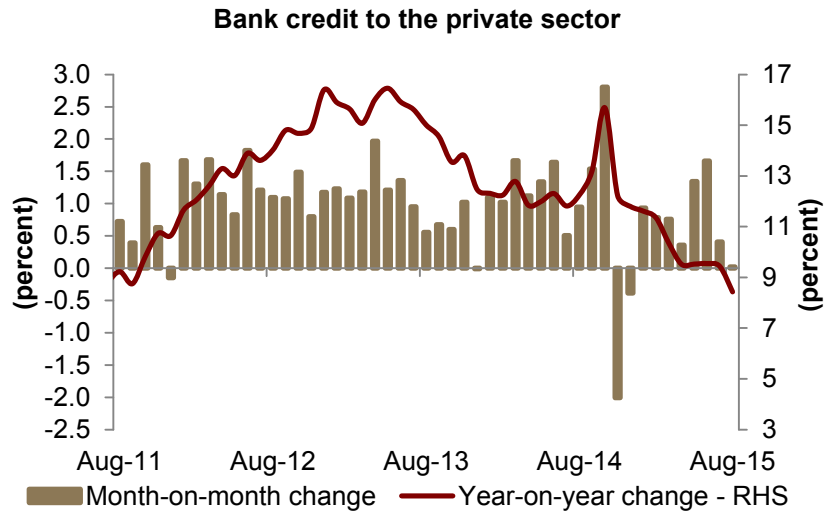
... which we think is partially due to the government's new dual financing strategy that includes debt issuance, as oil revenues remain low.



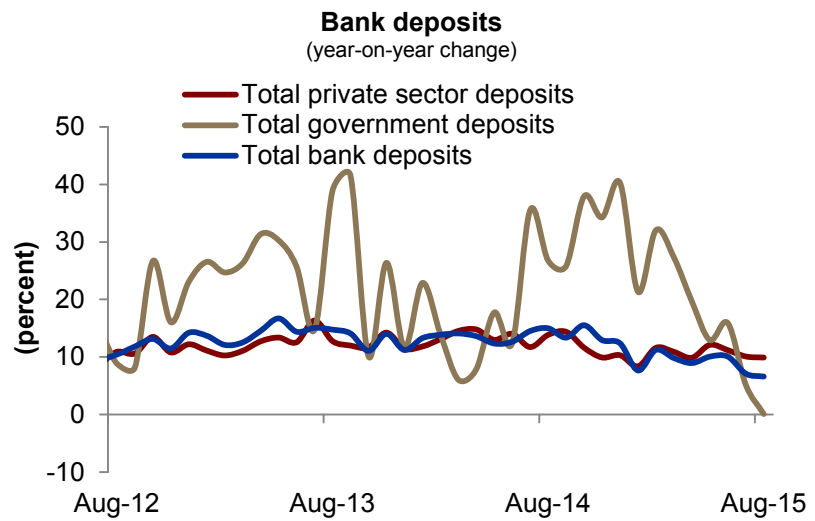
Banking indicators

In August, year-on-year growth in bank credit to the private sector slowed to 8.4 percent. This confirms our earlier expectations of a slowdown in credit growth during 2015 to 9.5 percent. Year-on-year growth in total bank deposits also slowed. The slower growth in deposits relative to credit pushed up the loan-to-deposit ratio to 81.7.

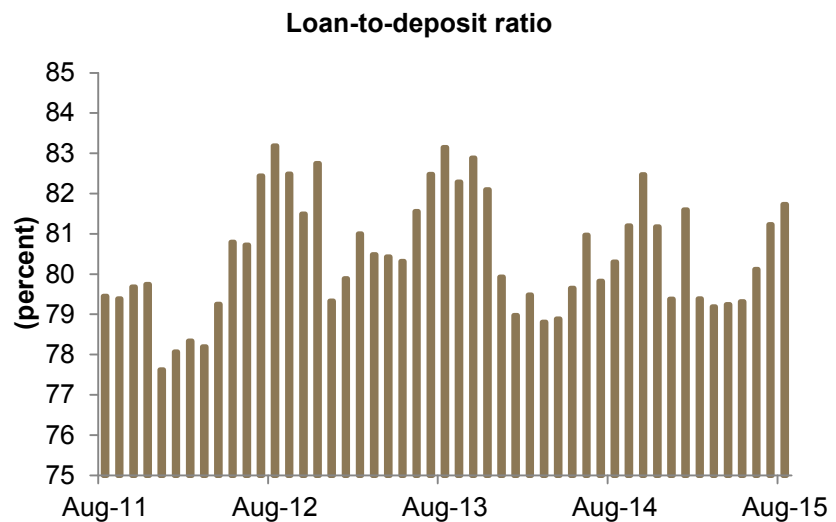
In August, growth in bank credit to the private sector slowed in both month-on-month and yearly terms, reflecting a seasonal downturn during the summer.



Total bank deposit growth slowed slightly to 6.6 percent year-on-year in August, primarily due to a slowdown in government deposit growth.



The slower growth in deposits relative to credit pushed the loan-to-deposit ratio up to 81.7, the highest in 2015.

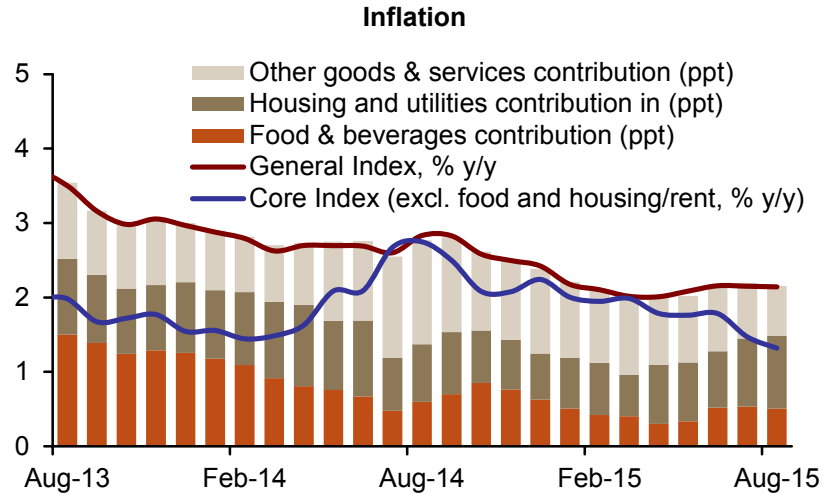




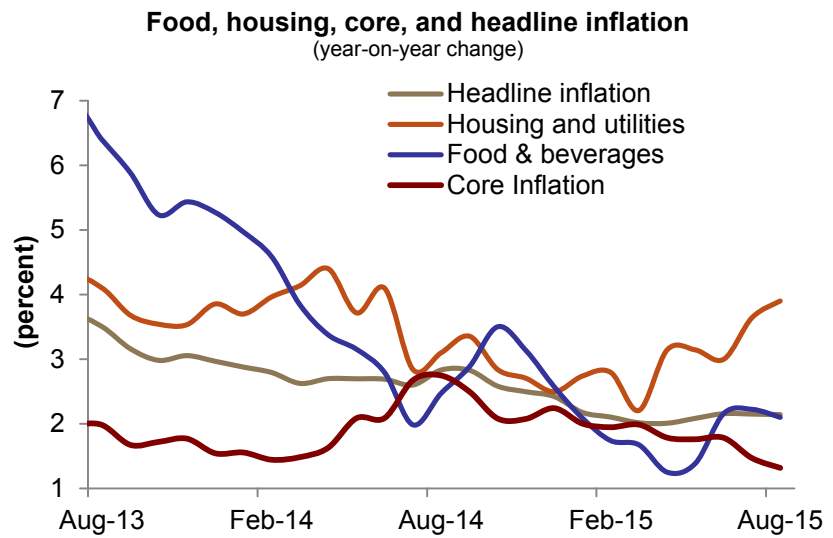
Inflation

Headline inflation slowed in August, year-on-year, to reach 2.1 percent. The slowdown was impacted by subdued inflationary pressure from both foodstuffs and the core index. However, housing inflation continued to be the main source of pressure, pushed up by a continued rise in rentals for housing.

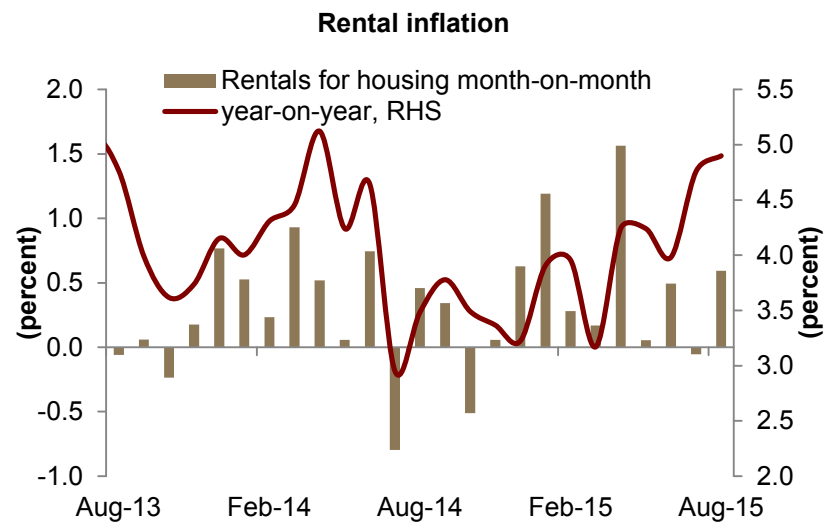
In August, inflation fell to 2.1 percent, down from 2.2 percent in July.



The slowdown was mainly due to subdued prices of foodstuffs and the core index.



Rentals for housing, the main segment of housing inflation, rose to 4.9 percent year-on-year, its highest in fourteen months.

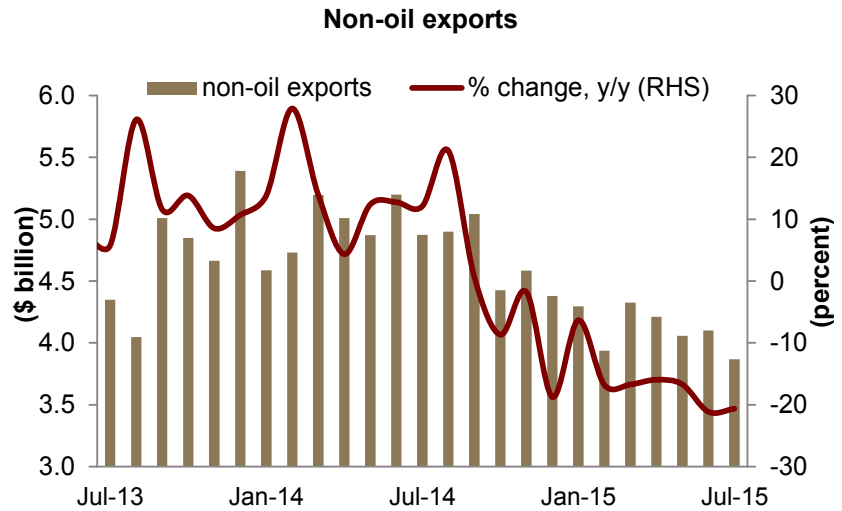




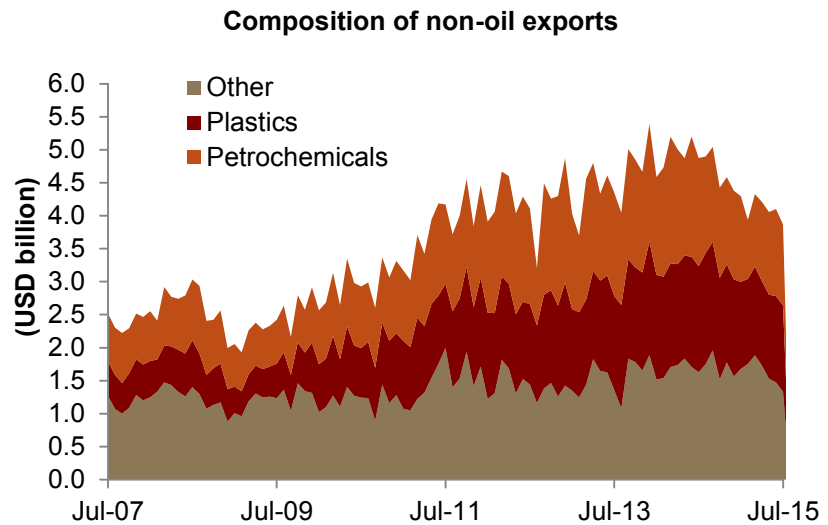
Trade

Non-oil exports in July remained 20.6 percent lower than the same period last year. Petrochemicals and plastics, the two largest non-oil exports, continued to be the hardest hit so far in 2015, falling more so compared to other non-oil exports. Imports also fell by 12.2 percent, year-on-year.

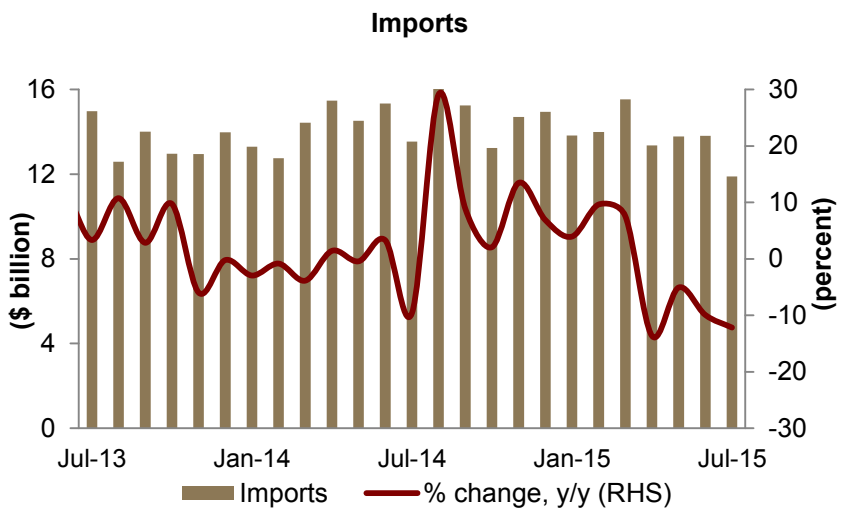
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Imports also came out lower, falling by 12.2 percent, year-on-year.

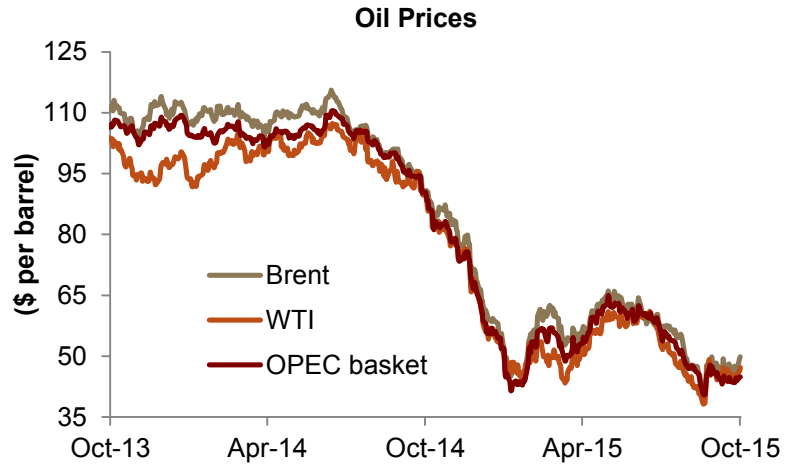




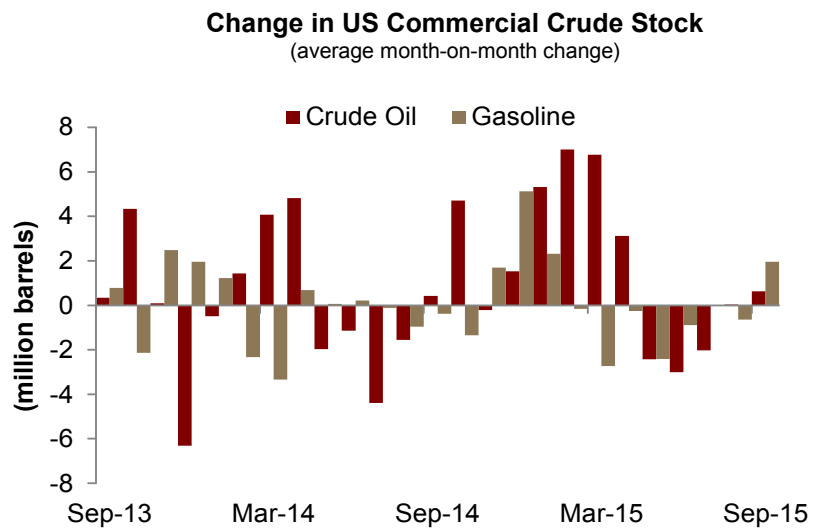
Oil - Global

Global oil prices were up marginally, month-on-month, in September but prices were still below \$50 per barrel for both WTI and Brent as oversupply and sluggish demand continued to weigh-in on prices. A decline in the US oil rig count was a bright spot amongst generally bearish data during the month.

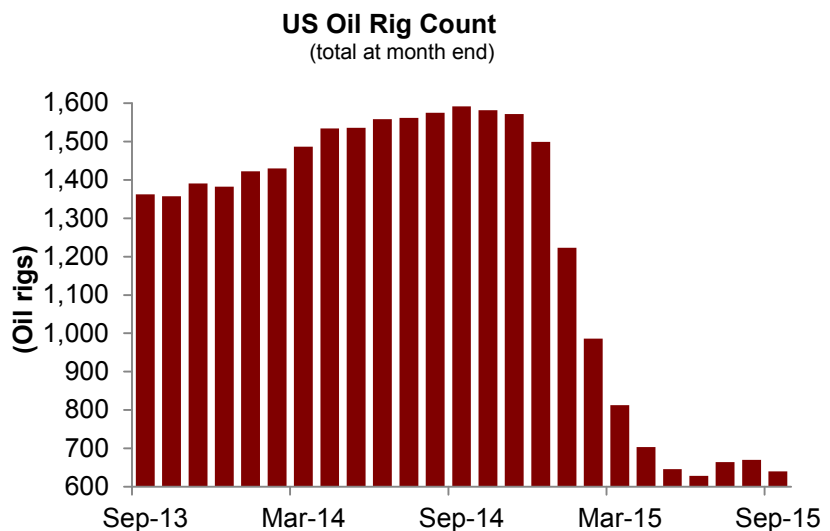
Brent was up 2 percent, month-on-month, but WTI was up 6 percent, month-on-month...



...as US crude and gasoline stocks rose modestly....



...but continued low prices saw the US oil rig count fall to its lowest since July 2015.



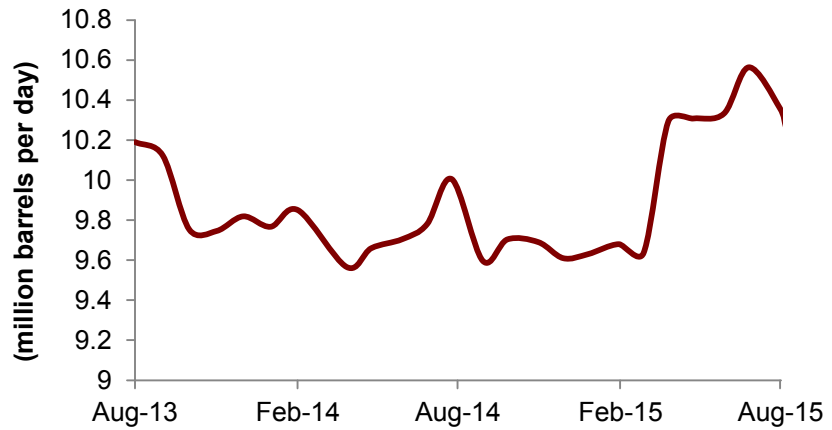


Oil - Regional

Saudi crude production dropped slightly month-on-month in August, but was up 7 percent compared to a year ago. Iraqi production recorded its fifth consecutive monthly increase as exports reached record levels. Iranian production was up 5 percent in August when compared to the first half of 2015.

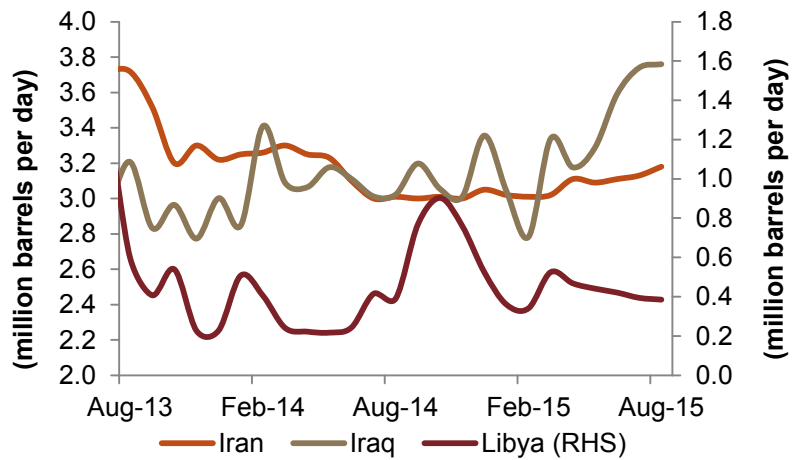
We expect Saudi crude production to decline only marginally throughout the remainder of 2015.

Saudi crude production

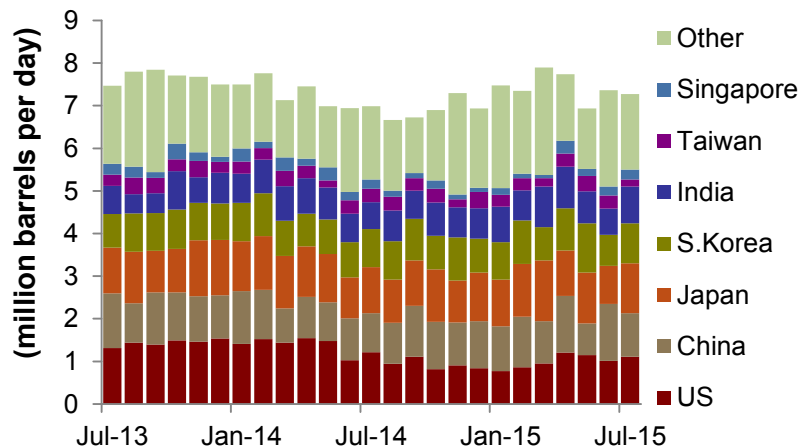


No major increases in Iranian production have materialized and we do not expect major increases in the remainder of 2015.

Iraq, Iran and Libya production



Saudi crude exports by country
(monthly average)



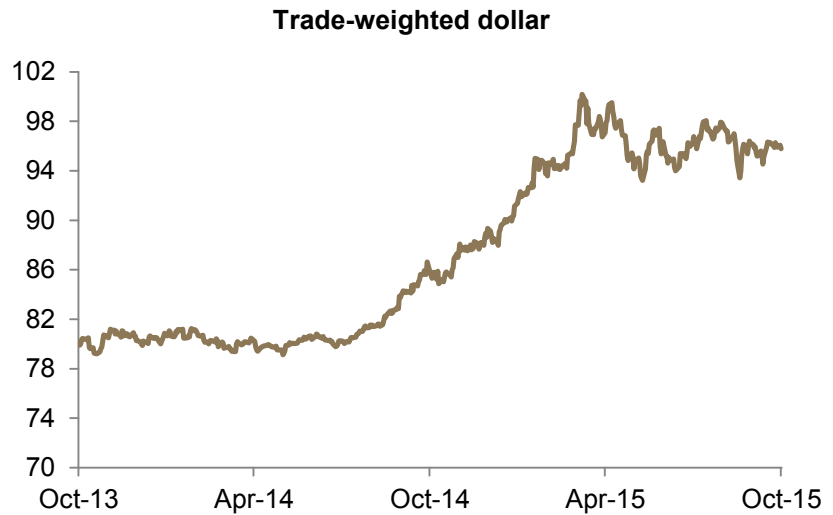
Latest data for July shows Saudi exports edged down slightly month-on-month in July, but were still above the 7 mbpd mark.



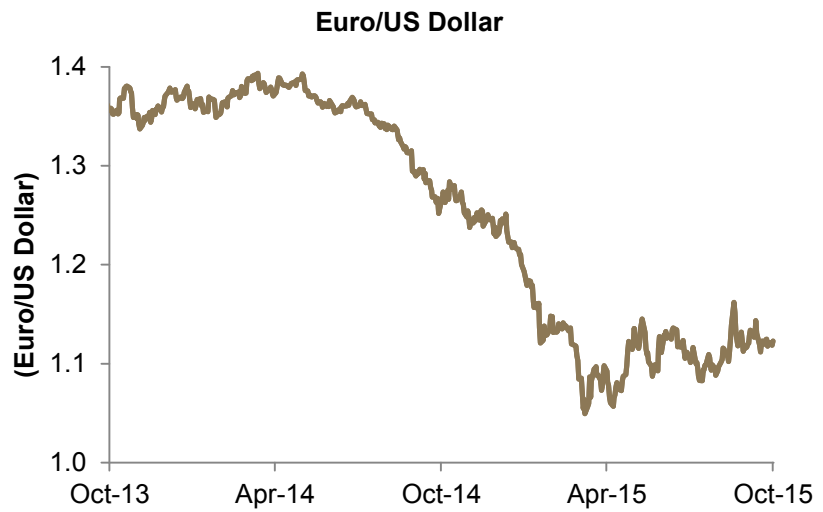
Exchange Rates

The dollar edged upwards in September despite the US Federal Reserve (Fed) not increasing interest rates during the month. Uncertainty over emerging market growth is resulting in increased flows to the dollar and safe-haven currencies, such as the euro. The dollar/Saudi riyal one year forward remains under pressure.

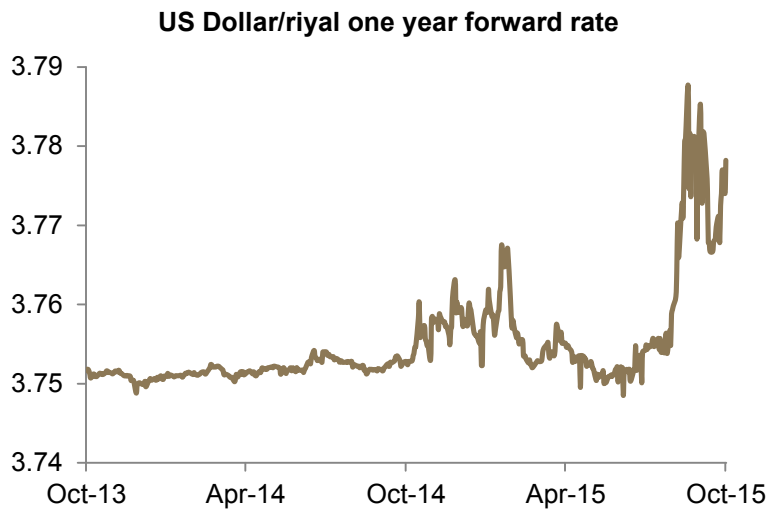
The dollar gained against most major currencies in September...



...except against safe-haven currencies such as the euro and yen.



We see the dollar/riyal forward returning to 3.75 as the issuance of Saudi government debt slows the pace of foreign reserve drawdowns, going forward.

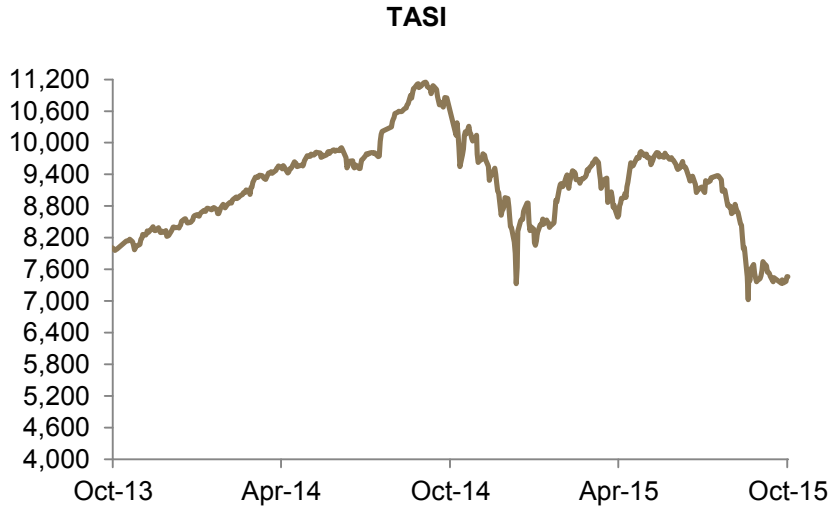




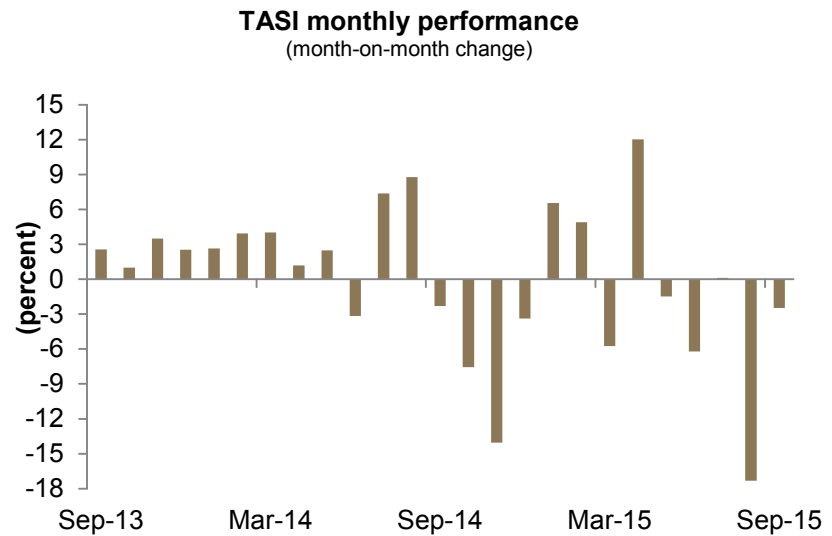
Stock Market

Generally poorer performance in global equity markets and continued low oil prices saw the TASI fall slightly in September month-on-month. It was the second consecutive monthly decline in the TASI. Although the TASI's fall during September was in line with regional markets, it was better than emerging markets as a whole.

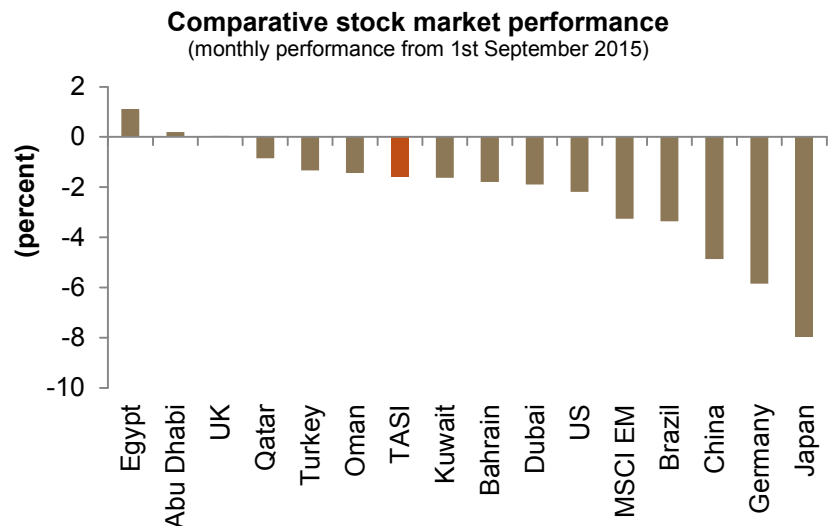
The TASI trended downwards in September...



...for the second month in a row...



...although September's decline was in line with regional and major global indices.



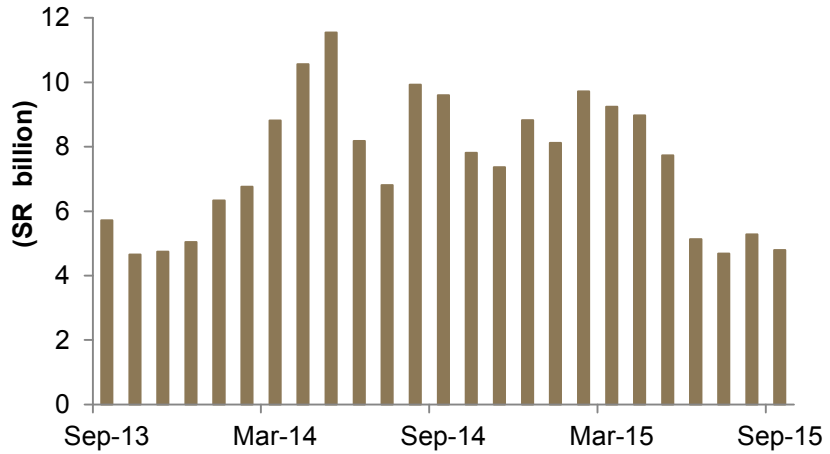


Volumes

Market turnover remained subdued during September as seasonal factors contributed to lower month-on-month average daily volumes. This was also reflected in sectorial volumes, with almost all sectors recording lower than year to date averages.

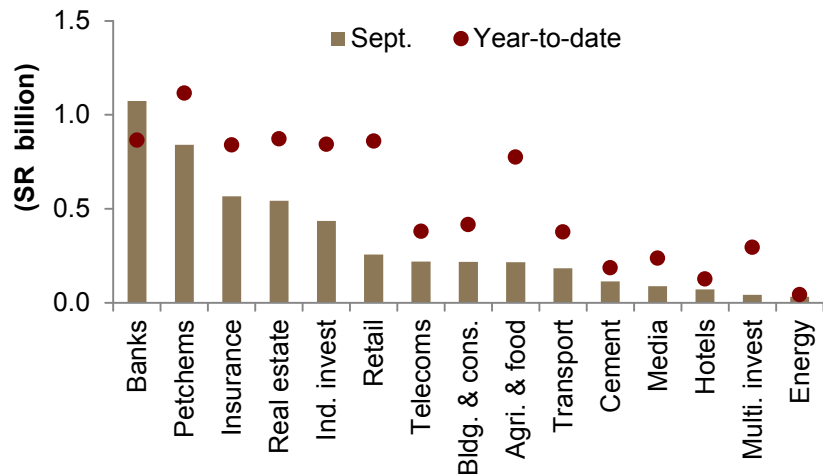
Eid al-Adha holidays contributed to keeping traded volumes low.

Daily average stock market turnover



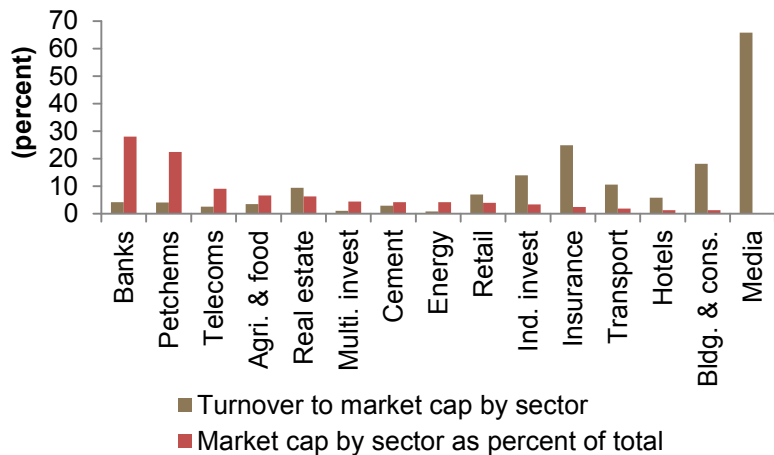
The possibility of the Fed raising interest rates generated higher than year-to-date average turnover in banks.

Turnover by sector (daily average)



No major development in the media sector during September but significantly high turnover to market capitalization suggests speculative activity.

Turnover as percent of market cap (September, 2015)

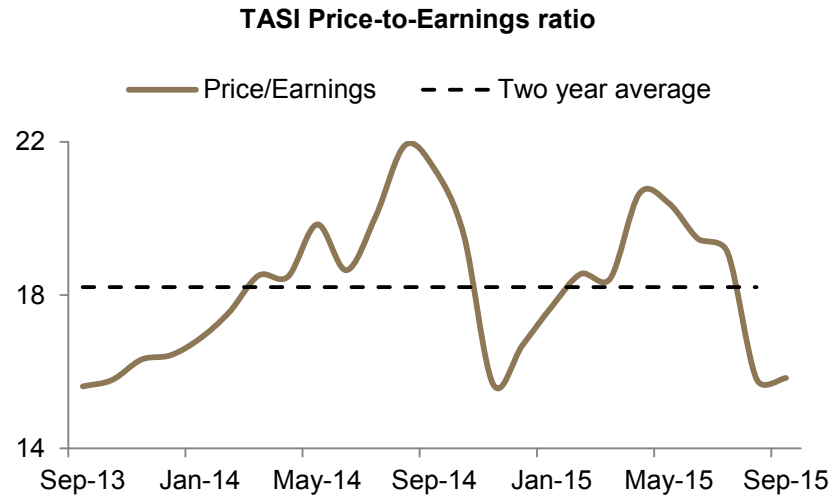




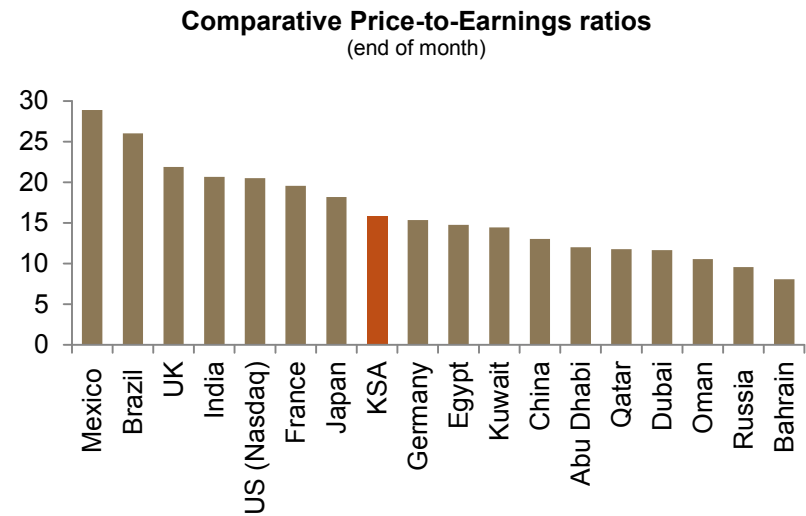
Valuations

Lower trading activity and a small sell-off in shares during September resulted in price-to-earnings (PE) in the TASI remaining unchanged month-on-month, although it is still comparatively expensive to regional markets. Dividend yield has shown limited change month-on-month, remaining average to comparable markets.

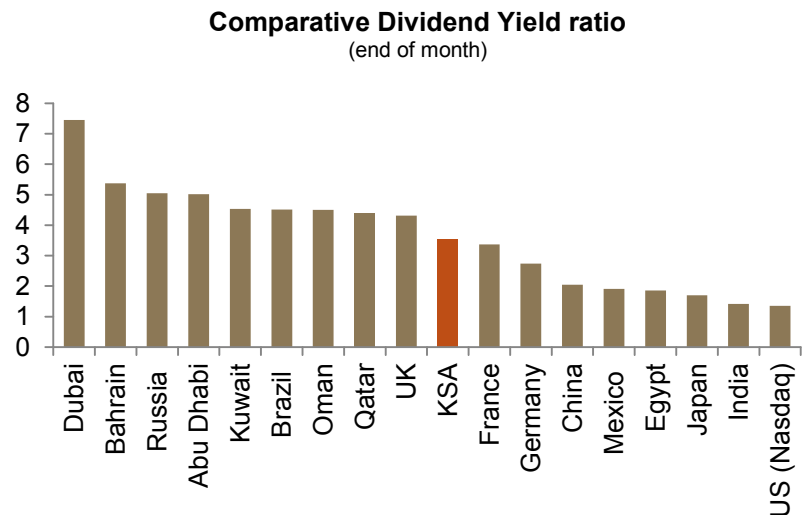
PE has been trending downwards in the last few months...



...but is still relatively expensive compared to regional markets.



Dividend yield remains in line with emerging market averages.

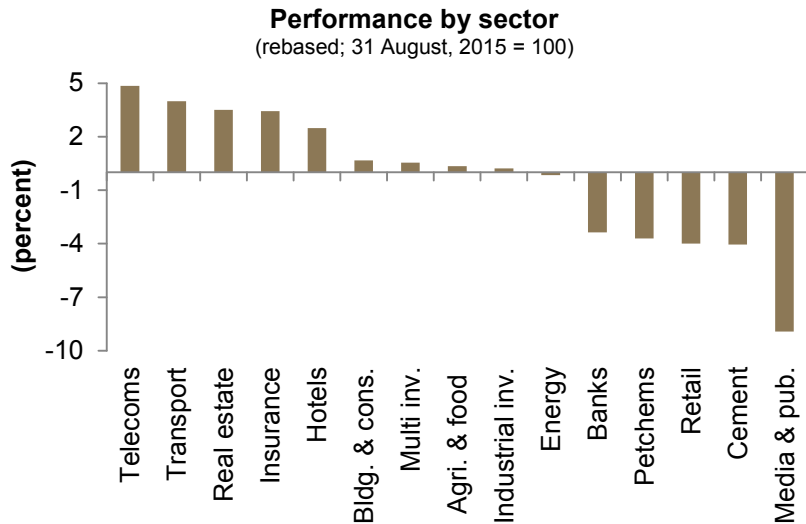




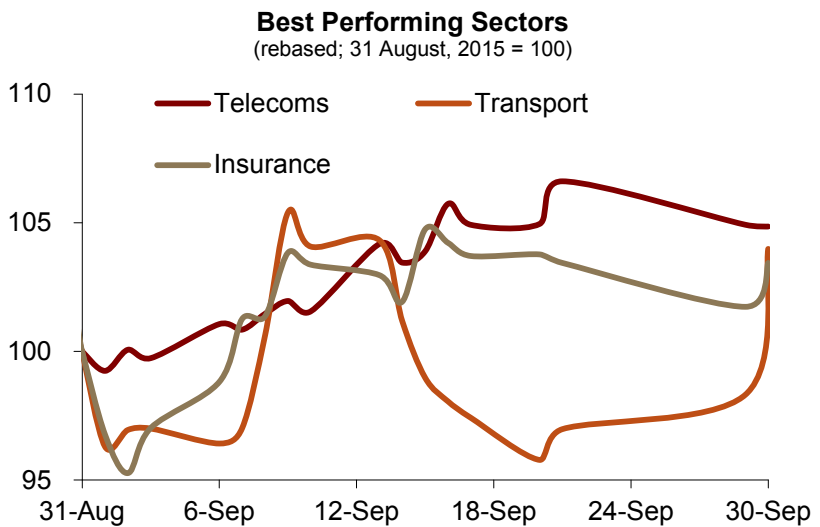
Sectoral Performance

Although nine out of 15 sectors saw positive performance during September, the generally weaker sentiment resulted in a volatile and mixed performance within sectors. Some sectors performance, such as building & construction and cement was affected by seasonality.

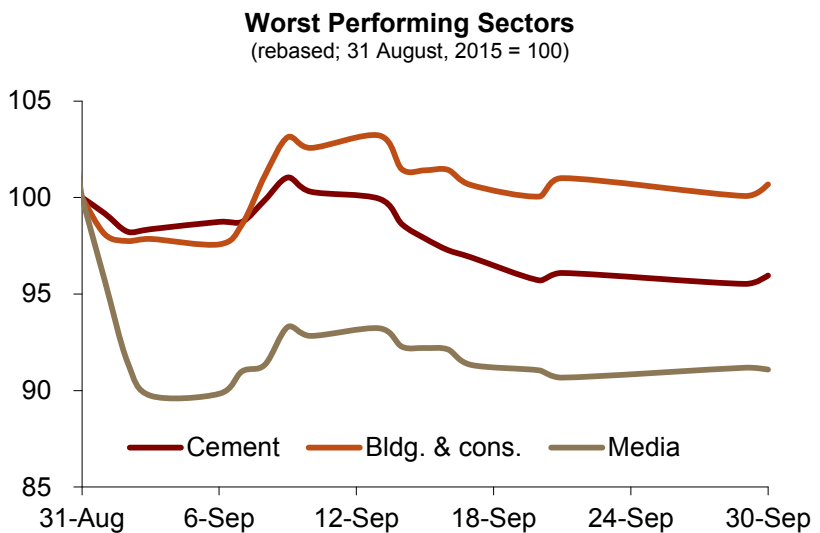
A mixed performance amongst sectors was seen in September.



Even sectors that performed well during the month were marked by volatility.



Building & construction and cement sector performance was affected by seasonality, whilst speculative activity affected media.





Key Data

	2008	2009	2010	2011	2012	2013	2014	2015 F	2016 F
Nominal GDP									
(SR billion)	1,949	1,609	1,976	2,511	2,752	2,791	2,798	2,465	2,610
(\$ billion)	519.8	429.1	526.8	669.5	734.0	744.3	746.2	657.3	696.1
(% change)	25.0	-17.4	22.8	27.1	9.6	1.4	0.3	-11.9	5.9
Real GDP (% change)									
Oil	4.3	-8.0	-0.1	12.2	5.1	-1.6	1.5	3.4	0.2
Non-oil private sector	11.1	4.9	9.7	8.0	5.5	7.0	5.6	3.8	4.7
Government	6.2	6.3	7.4	8.4	5.3	5.1	3.7	2.4	2.0
Total	8.4	1.8	4.8	10.0	5.4	2.7	3.5	3.2	2.3
Oil indicators (average)									
Brent (\$/b)	97.2	61.7	79.8	112.2	112.4	109.6	99.4	56.0	61.0
Saudi (\$/b)	94.0	60.4	77.5	103.9	106.1	104.2	95.7	52.0	57.0
Production (million b/d)	9.2	8.2	8.2	9.3	9.8	9.6	9.7	10.1	10.1
Budgetary indicators (SR billion)									
Government revenue	1,101	510	742	1,118	1,247	1,156	1,044	679	688
Government expenditure	520	596	654	827	873	976	1,111	1,082	991
Budget balance	581	-87	88	291	374	180	-67	-403	-302
(% GDP)	29.8	-5.4	4.4	11.6	13.6	6.5	-2.4	-16.4	-11.6
Domestic debt	235	225	167	135	99	60	44	148	263
(% GDP)	12.1	14.0	8.5	5.4	3.6	2.2	1.6	6.0	10.1
Monetary indicators (average)									
Inflation (% change)	6.1	4.1	3.8	3.7	2.9	3.5	2.7	2.1	1.9
SAMA base lending rate (% , year end)	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.1	3.1
External trade indicators (\$ billion)									
Oil export revenues	284.1	166.9	215.2	317.6	337.5	322.0	285.2	165.7	172.2
Total export revenues	313.5	192.3	251.1	364.7	388.4	375.9	342.3	221.1	232.5
Imports	101.5	87.1	97.4	120.0	141.8	153.3	158.5	158.1	159.1
Trade balance	212.0	105.2	153.7	244.7	246.6	222.6	183.9	63.0	73.4
Current account balance	132.3	21.0	66.8	158.5	164.8	135.4	76.9	-14.3	0.1
(% GDP)	25.5	4.9	12.7	23.7	22.4	18.2	10.3	-2.2	0.0
Official reserve assets	442.7	410.1	445.1	544.0	656.6	725.7	732.4	628.7	623.9
							724.3		
Social and demographic indicators									
Population (million)	25.8	26.7	27.6	28.4	29.2	30.0	30.8	31.5	32.2
Saudi unemployment (15+, %)	10.5	11.5	12.4	12.1	11.7	11.7	11.7	11.7	11.6
GDP per capita (\$)	20,157	16,095	19,113	23,594	25,139	24,816	24,252	20,851	21,586

Sources: Jadwa forecasts for 2015-16. 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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