



Summary

Real GDP: New data released by CDSI showed a change in the base year (from 1999 to 2010) used for calculating real growth, as well as a revision to sectoral shares of real GDP. Real GDP growth improved in 2014 as oil sector growth was higher than expected, while the nonoil sector continued its healthy expansion.

Real Economy: November data showed a rebound in consumer spending compared to the previous month. PMI index slowed for the second consecutive month.

Monetary indicators: Month-on-month bank lending to private sector declined for the first time since December 2011.

Inflation: Inflation further cooled off during November as both the food and housing components slowed.

Balance of payments: The current account surplus fell in the third quarter owing to a record high deficit in the services account.

Oil –Global: Brent crude oil fell to a five and half year low below \$57 per barrel in December as ample global supply outweighed lost production from Libya. WTI came under pressure as both U.S crude and gasoline stocks surged, month-on-month.

Oil –Regional: Saudi crude production declined slightly, month-on-month, in November. Libyan production declined once more as internal conflict in the country resurfaced.

Exchange rates: Diverging expectations about monetary policies in the U.S on one side and the Euro zone and Japan on the other side saw the dollar continuing to strengthen in December.

Stock market: Investor sentiment continues to be negatively affected by lower oil prices but seasonal factors, such as the holiday period in most parts of the world, also dampened investor appetite during December.

Volumes: Average daily turnover jumped by 19.8 percent in December, month-on-month, reversing the negative trend of the three previous months.

Valuations: The decline in the TASI during December saw valuations recover, month-on-month, although price to earnings (P/E) still remain below the two year average.

Sectoral performance: The drop in TASI during December meant that only three sectors saw positive performance during the month.

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

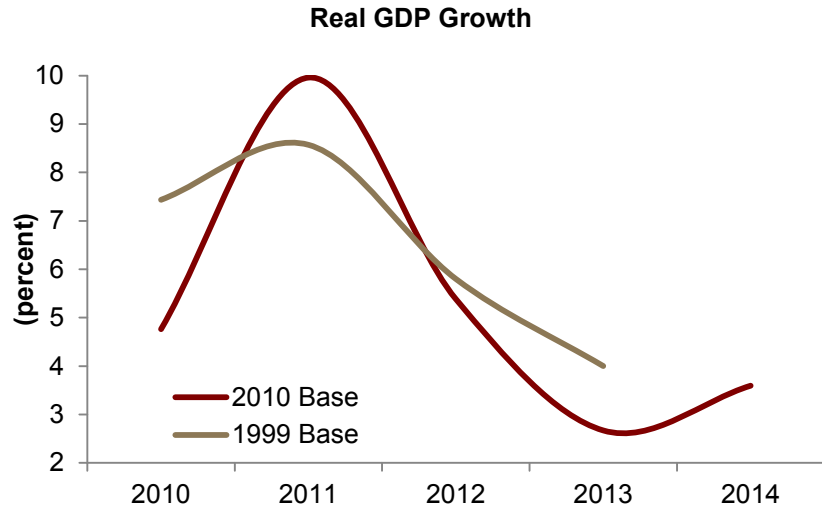
Head office:
Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com



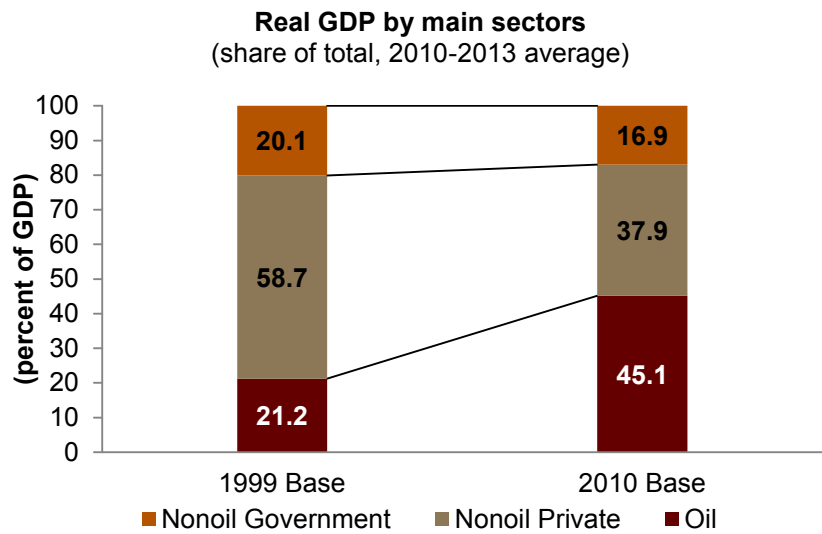
Real GDP

New data released by the Central Department of Statistics and Information showed a change in the base year (from 1999 to 2010) used to estimate real growth, as well as a revision to sectoral shares of real GDP. This resulted in the oil sector getting a larger share of overall GDP, with most other sectors seeing declines in their share.

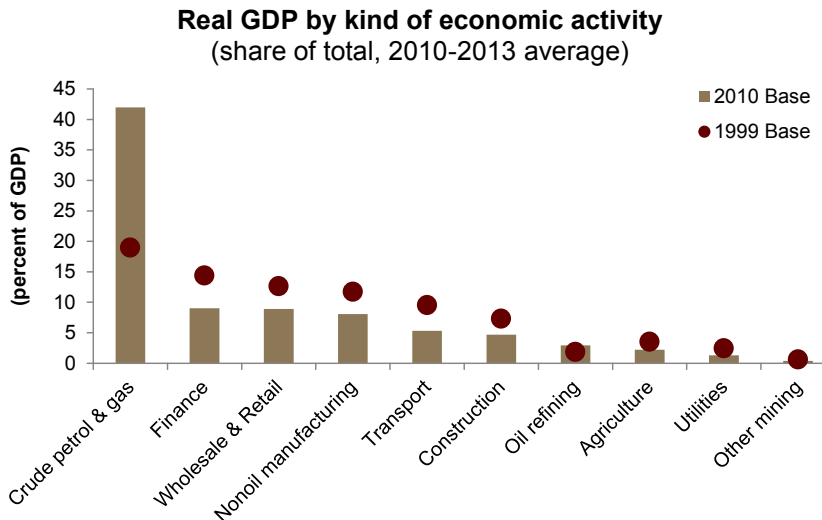
The recently introduced changes have resulted in lower real GDP growth in recent years...



... mainly owing to the oil sector's larger share of overall GDP, which increased significantly to 45.1 percent under the new classification...



...while the breakdown by kind of economic activity shows declining shares to all other nonoil sectors.

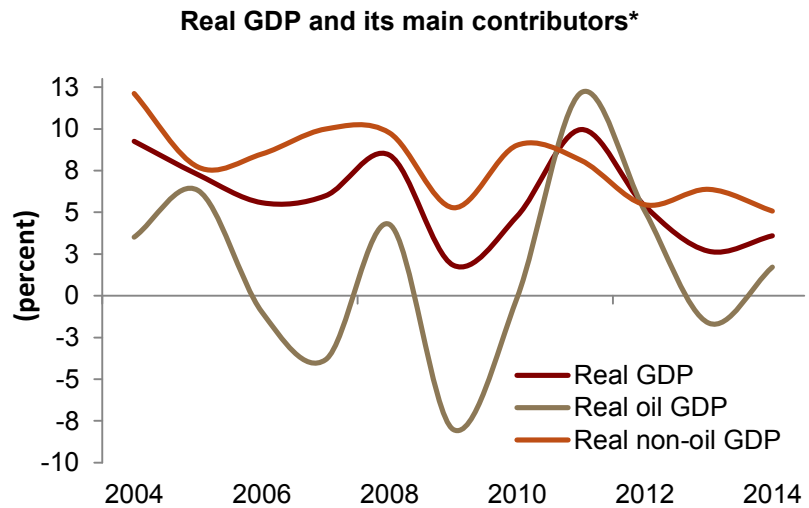




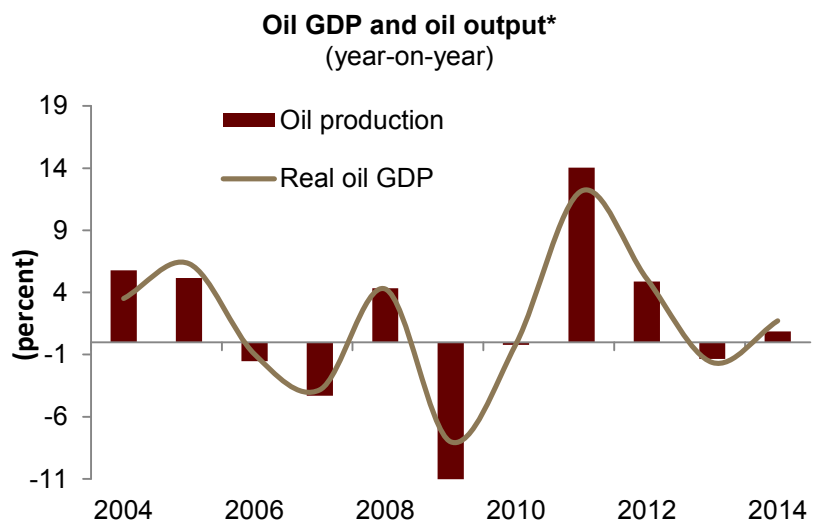
Real GDP (cont.)

Using 2010 as the new base year, real GDP growth improved in 2014 as growth in the oil sector was higher than anticipated, while the nonoil sector continued its healthy expansion. The nonoil private sector recorded robust growth, continuing to be the main driver of overall GDP growth.

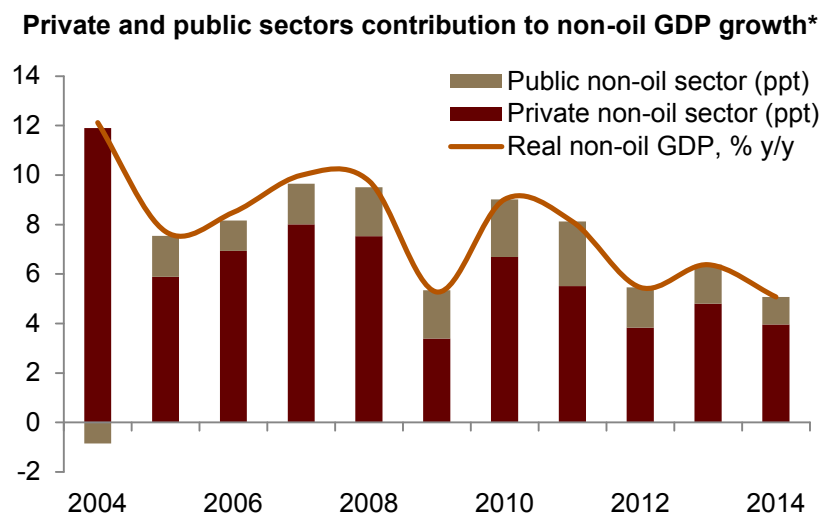
Using 2010 as the new base year, real GDP growth accelerated from 2.7 percent in 2013 to 3.6 percent last year.



Oil production increased slightly, year-on-year, leading to marginal oil sector growth of 1.7 percent in 2014.



Nonoil GDP growth retained its position as the main contributor to overall GDP growth, with private sector continuing to play a vital role in this regard.



Note: * CDSI did not release real GDP growth numbers for the period from 2004-09 using the new base year. We thus estimate growth figures according to the old GDP series.

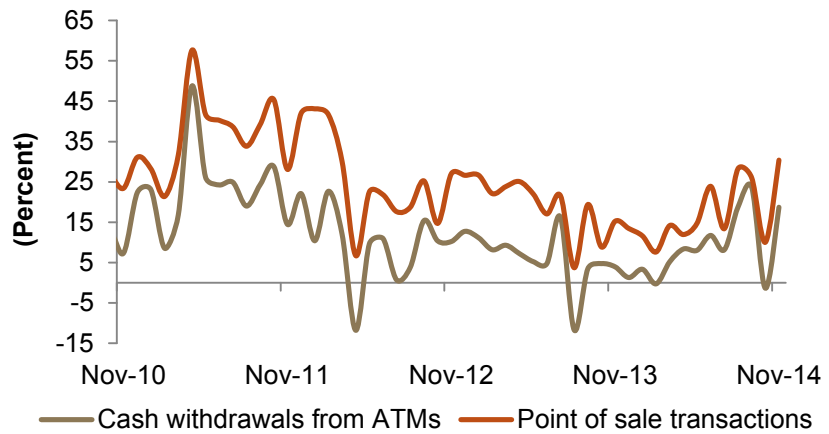


Real Economy

November data showed a rebound in consumer spending compared to the previous month. While the PMI index slowed for the second consecutive month, it still points to an expanding economy. Year-to-November cement sales were almost at the same level compared to last year.

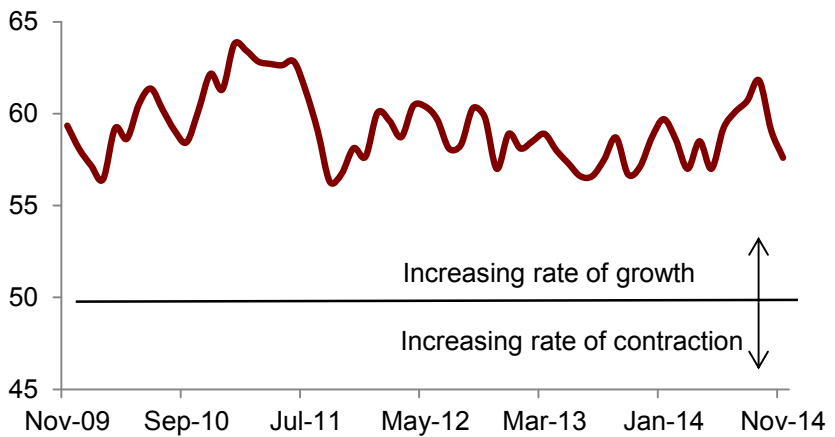
Year-on-year growth in point of sale transactions and cash withdrawals from ATMs rebounded strongly to 30 and 19 percent respectively, following a dip in the previous month.

Indicators of consumer spending
(Year-on-year)



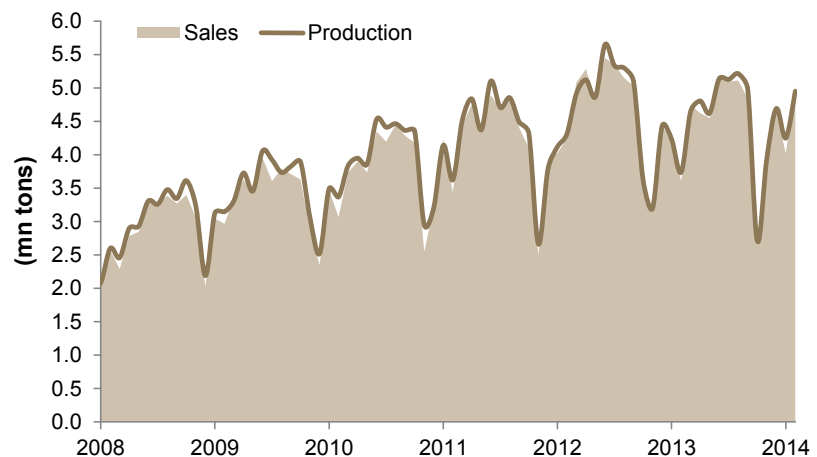
PMI fell for the second consecutive month in November, but remained at healthy levels, pointing to a sustained growth and a continued expansion in the non-oil economy.

HSBC/Markit Purchasing Manager's Index (PMI)



Year-to-November cement sales stood at 50 million tons, remaining unchanged compared to the same period in 2013.

Cement production and sales



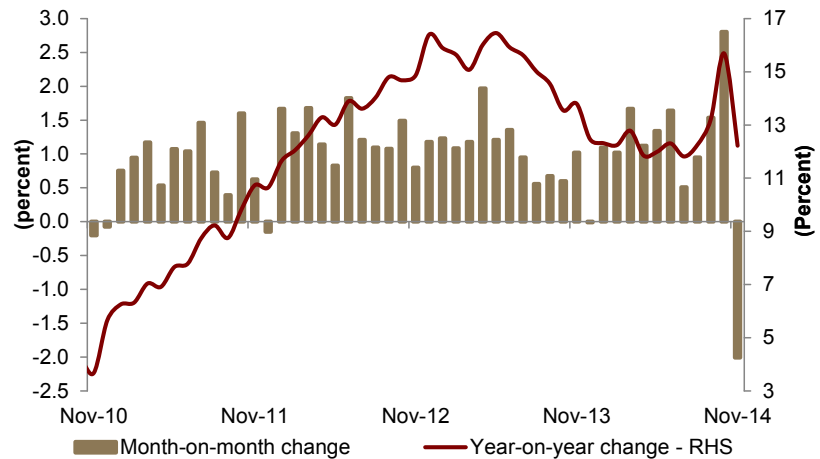


Monetary indicators

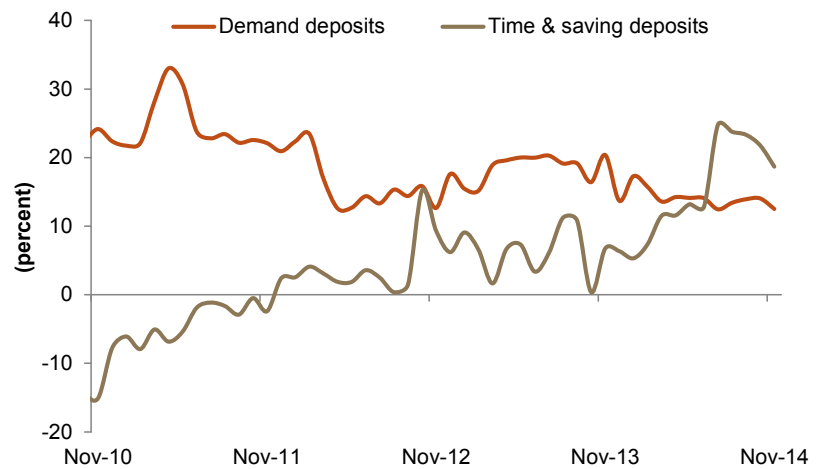
Bank lending to private sector declined, month-on-month, in November for the first time in two years, owing to a larger base effect. The commencement of new mortgage lending rules also played a role in our view. Annual growth of time and savings deposits slowed. The loan-to-deposit ratio declined to 81.2 percent.

Month-on-month Bank lending to private sector recorded in November its first negative growth (-2 percent) since December 2011. This was mostly due to a larger base effect given the previous month's significant bank financing of NCB's IPO subscriptions.

Bank lending to the private sector

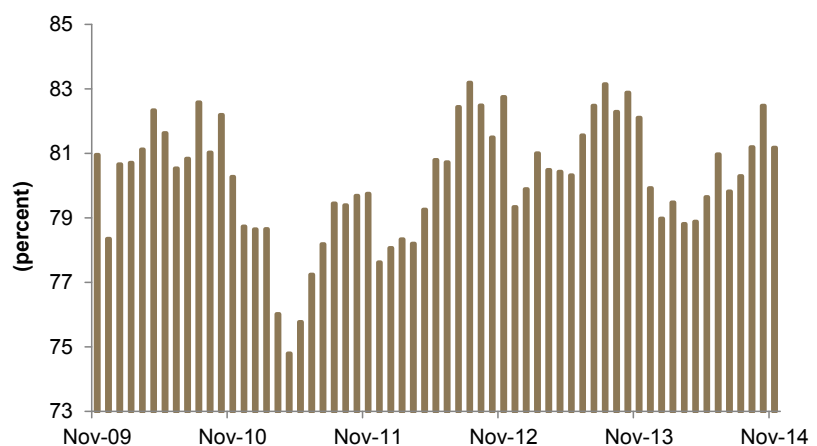


Bank deposits (year-on-year)



Annual growth of time and savings deposits slowed in November for the second consecutive month, but maintained its strong double digit growth in 2014.

Loan-to-deposit ratio



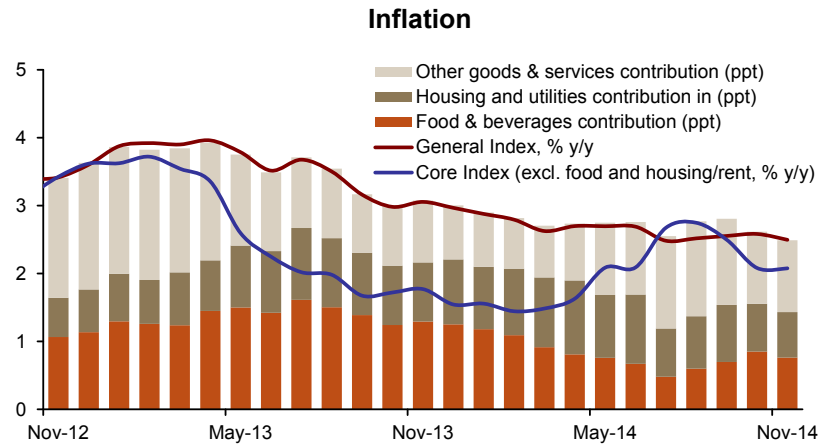
The loan-to-deposit ratio fell back to its September level of 81.2, down from its 2014 peak in October at 82.5.



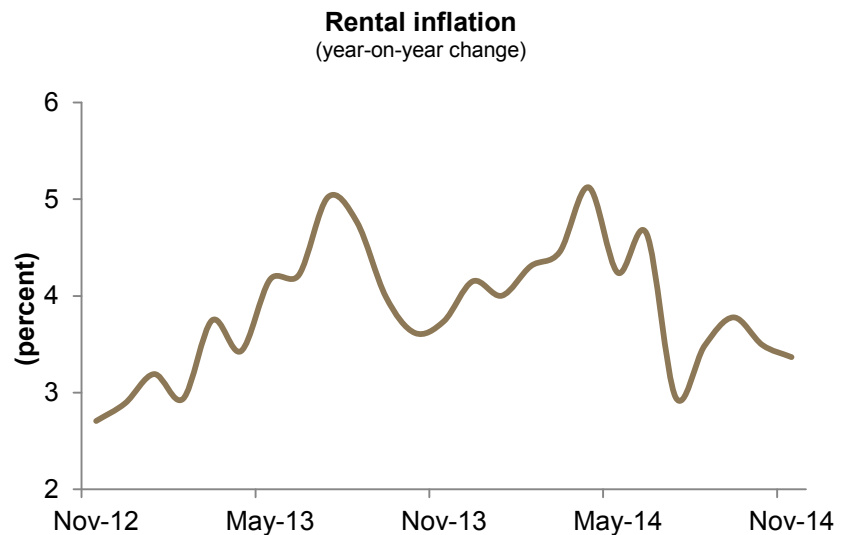
Inflation

Inflation cooled further during November as both the food and housing components slowed. Food inflation slowed for the first time since July, while rental inflation –the major subgroup of the housing component– recorded a mild slowdown. Other components of the core index recorded mixed results.

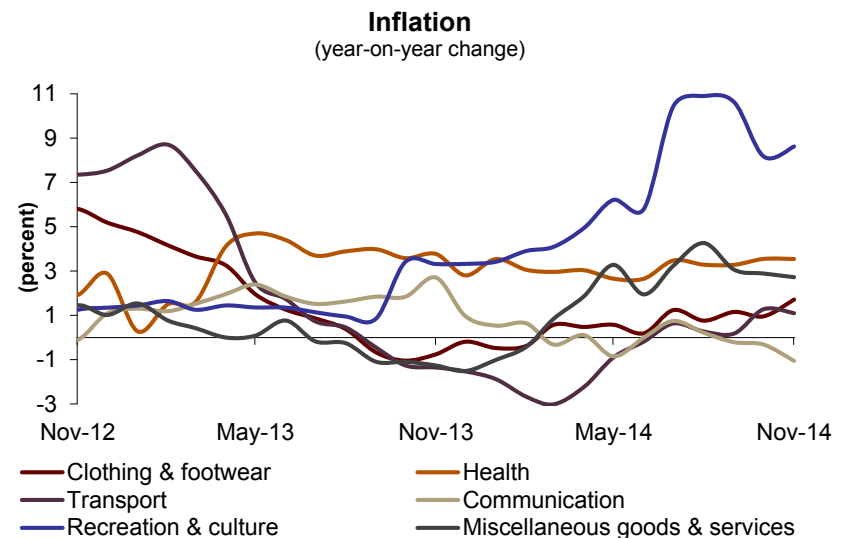
Inflation cooled further during November as both the food and housing components slowed.



Rental inflation, the major subgroup under the housing component, slowed for the second consecutive month.



Components of the core index recorded mixed results, with communication continuing to be in the negative territory for the third consecutive month.



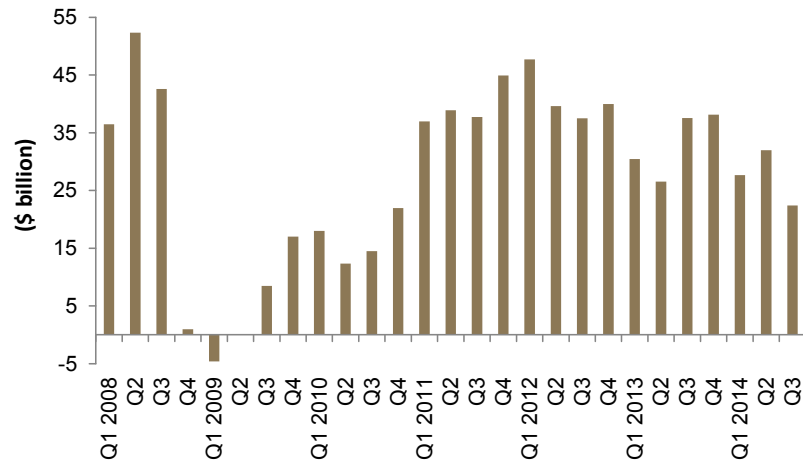


Balance of payments

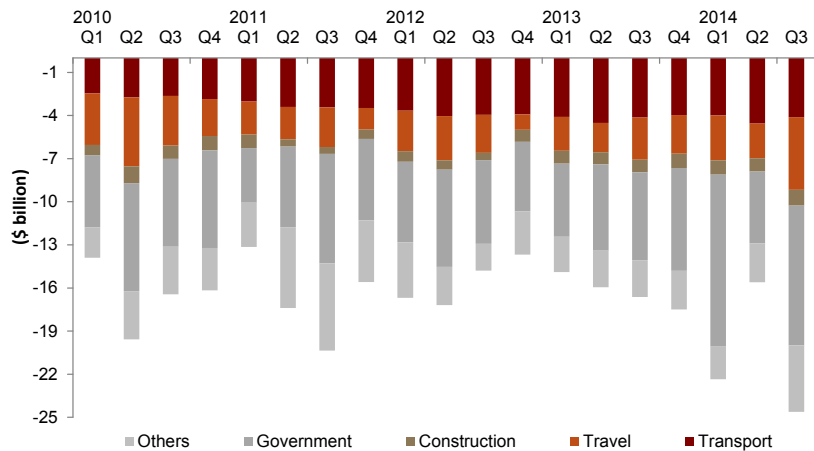
The current account surplus fell in the third quarter owing to a record high deficit in the services account. We believe that the annual surplus would be lower than the \$106.4 billion announced in the budget statement. Both imports and exports fell, with a larger fall in imports resulting in a slight improvement in the trade balance.

The current account surplus fell to \$22.4 billion in the third quarter, down from \$31.9 billion in the second quarter.

Current account balance

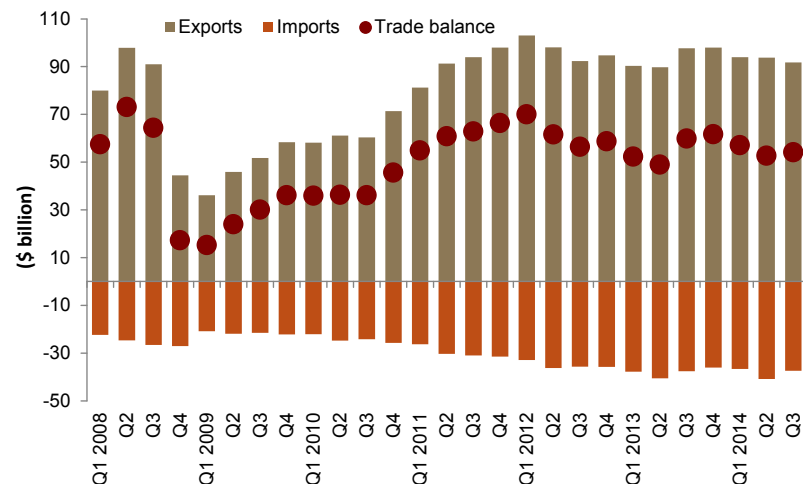


Breakdown of services account



For the second time in 2014, the services account reached its highest deficit on record. The majority of the deficit again came from the government goods and services account, which is likely to be related to elevated levels of external financial aid and assistance granted to other Middle Eastern countries.

Exports and imports of goods



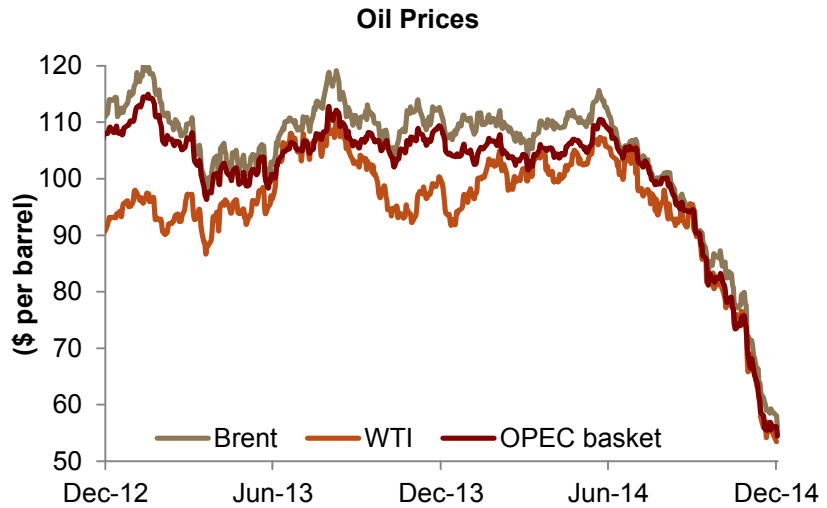
Both import and exports fell in the third quarter compared to the second quarter. The larger fall in imports caused the trade balance to slightly improve from \$53 billion to \$54 billion.



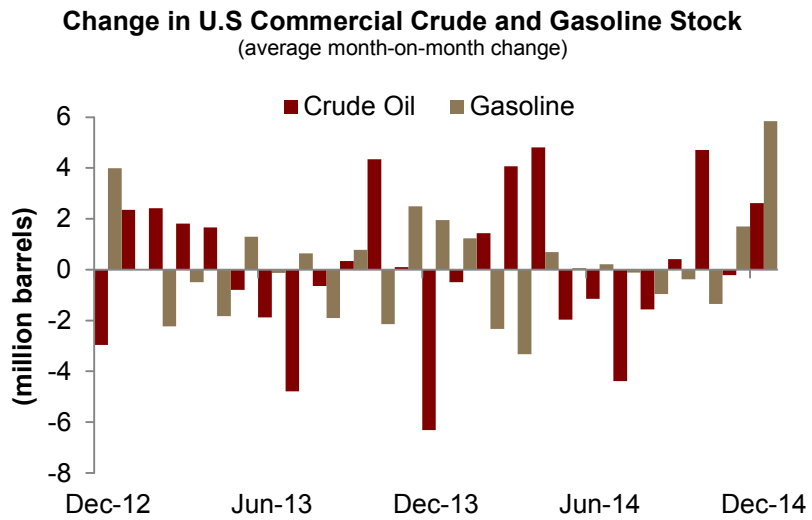
Oil - Global

Brent crude oil fell to a five and half year low below \$57 per barrel in December as ample global supply outweighed lost production from Libya. WTI came under pressure as both U.S crude and gasoline stocks surged, month-on-month. The count in U.S land oil rigs fell for the second month in a row to December.

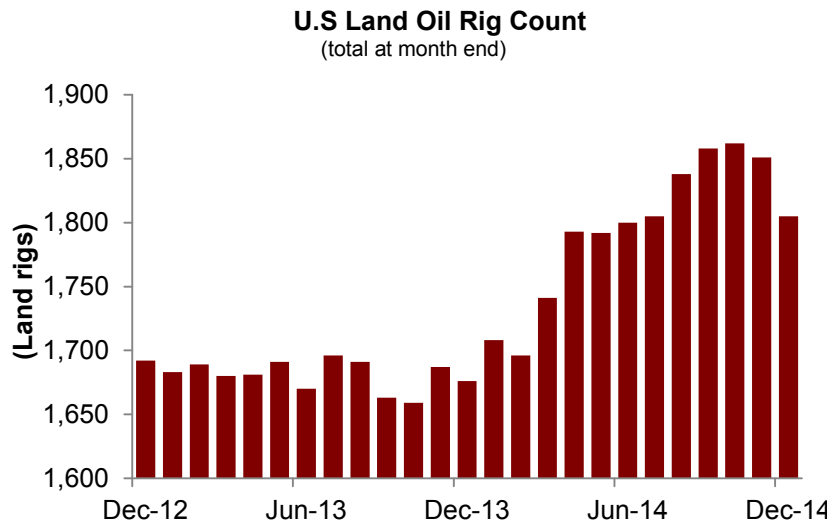
Brent fell 23.9 percent, month-on-month, averaging \$63 per barrel over December.



An uncharacteristic rise in crude stocks in the month of December pressured WTI prices.



Lower WTI prices also led to the U.S land rig count fall for the second consecutive month to December.



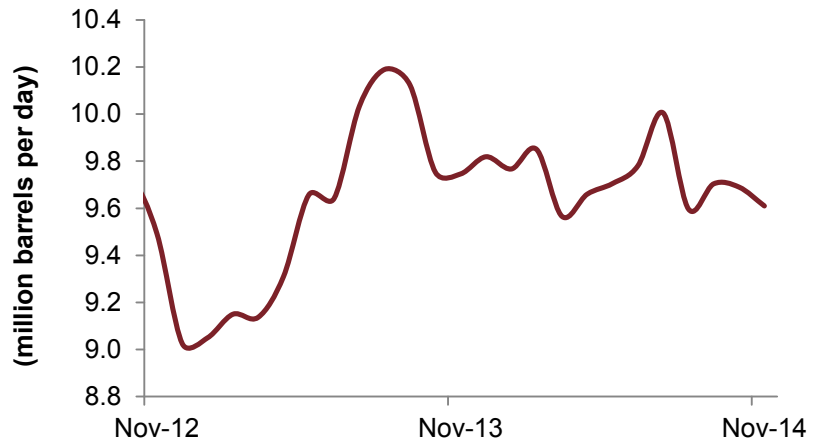


Oil - Regional

Saudi crude production declined slightly, month-on-month, in November. Libyan production declined once more as internal conflict in the country resurfaced, production will decline further since the conflict has escalated setting ablaze the country's largest oil port of Es Sider.

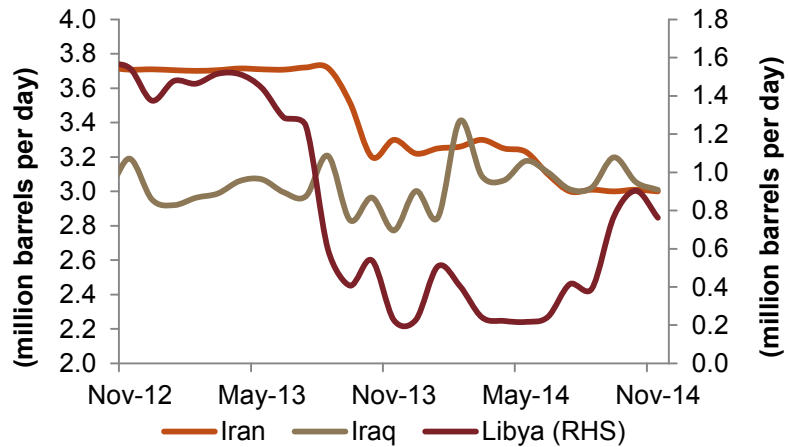
Saudi crude output declined only slightly in November, month-on-month, as competition over market share intensified.

Saudi crude production



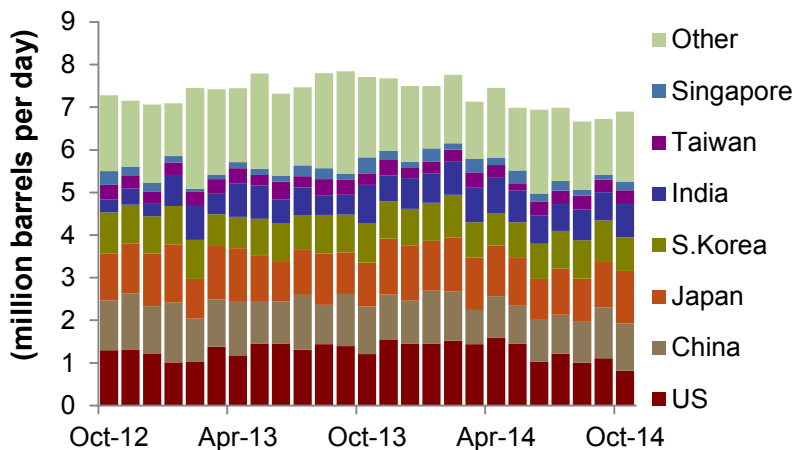
Internal conflict caused Libyan production to decline, month-on-month, in November.

Libyan, Iraqi and Iranian oil supply



Latest data for October shows Saudi exports rising slightly, with Asia being the major source of demand.

Saudi crude exports by country
(monthly average)

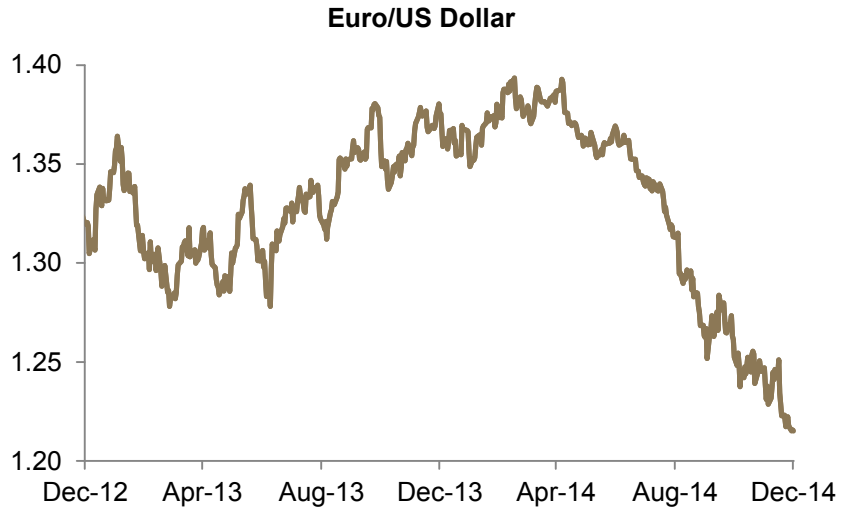




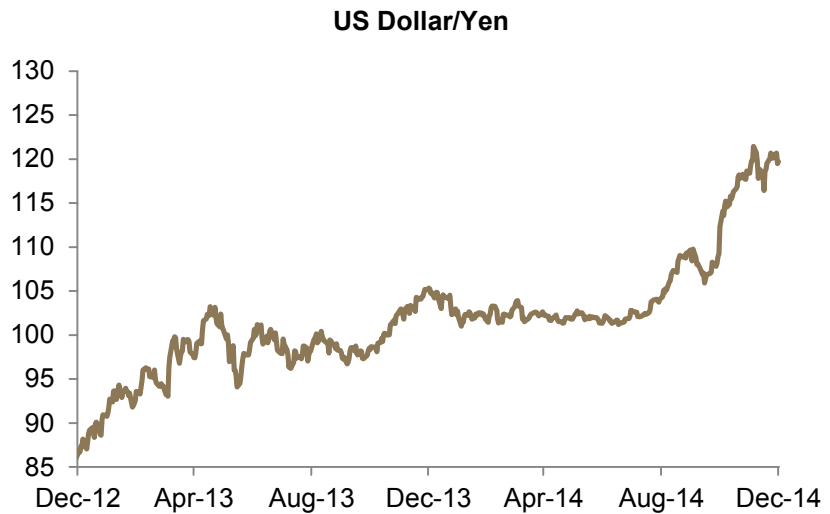
Exchange Rates

Diverging expectations about monetary policies in the U.S on one side and the Euro zone and Japan on the other side saw the dollar continuing to strengthen in December. The euro was further weakened by political developments in Greece. The Russian ruble's free fall was reversed after interest rates increased to 17 percent.

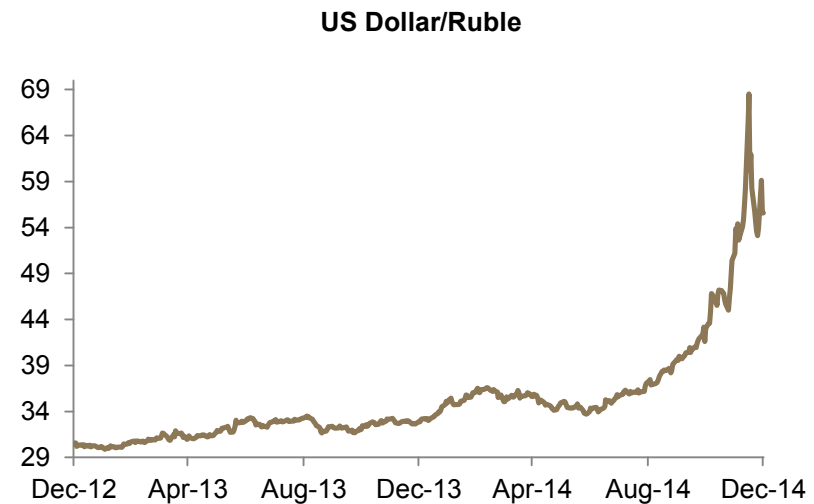
The euro declined against the dollar over concerns that next month's Greek elections could derail the country's bailout agreement.



The yen remained weak against the dollar as further monetary easing is expected in Japan.



The Russian central bank had to raise interest rates to 17 percent to stem record ruble losses in December.

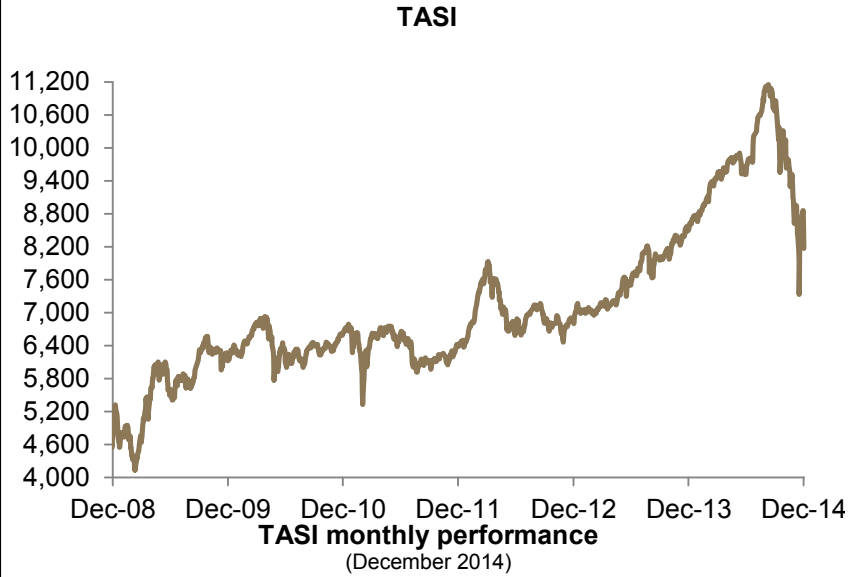




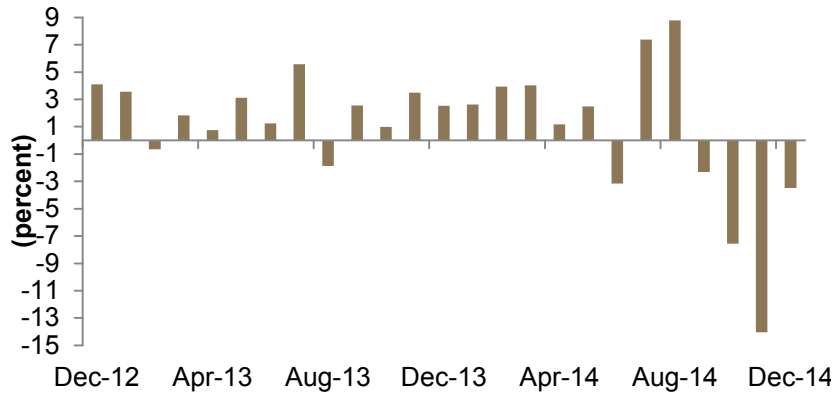
Stock Market

Investor sentiment continues to be negatively affected by lower oil prices but seasonal factors, such as the holiday period in most parts of the world, also dampened investor appetite during December. Seasonality was partially behind the negative performance in most major indices, apart from China.

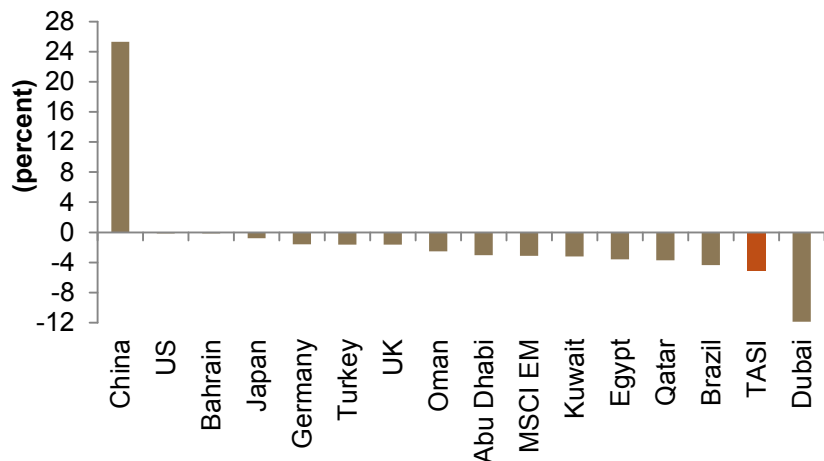
The TASI dropped for the fourth consecutive month to December, as sentiment was again affected by lower oil prices...



...although an expansionary Saudi budget for 2015 provided some good news, helping limit monthly losses.



Comparative stock market performance (monthly performance, December 2014)



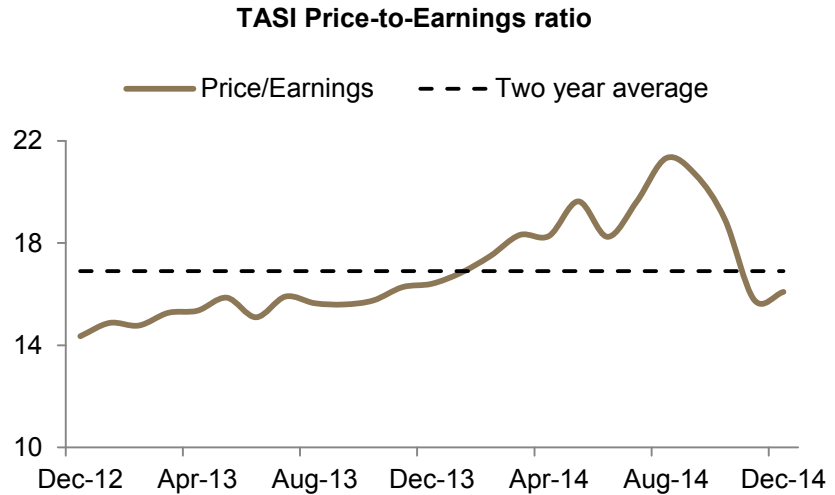
With the real estate market struggling in China, investors ploughed money into the stock market resulting in a disconnect with global trends.



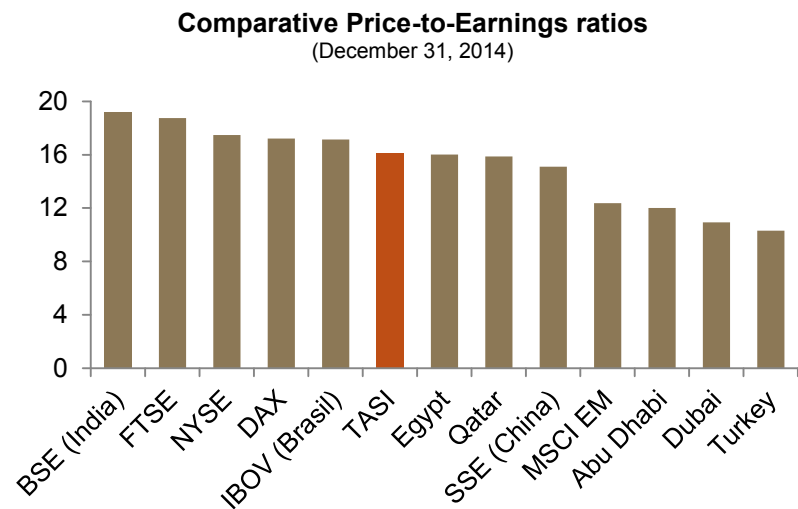
Valuations

The decline in the TASI during December saw valuations recover, month-on-month, although price to earnings (P/E) still remain below the two year average. TASI valuations have improved in recent months, and are more competitive, but remain on the lower end when compared to selected regional benchmarks.

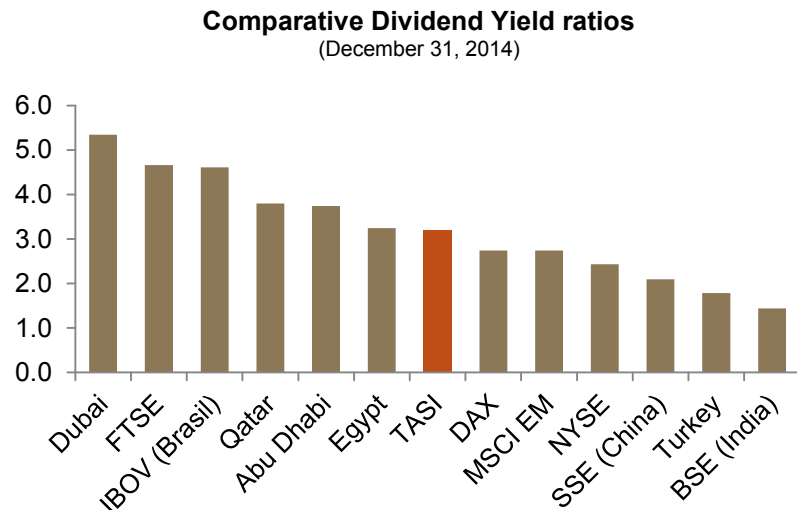
P/E recovered in December but is sitting below the two year average of 16.9...



...bringing the TASI in line with major developed and emerging market indices.



Dividend yields are competitive but slightly below regional indices.

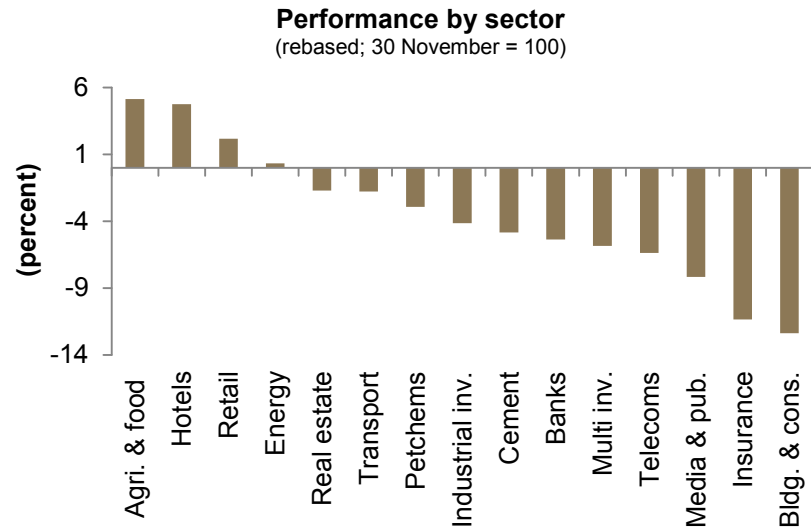




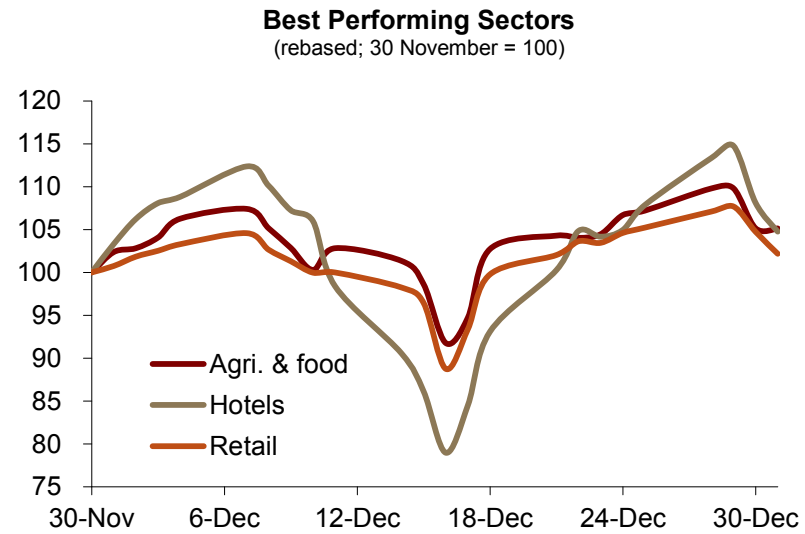
Sectoral Performance

The drop in TASI during December meant that only three sectors saw positive performance during the month. Agriculture & food was the largest gainer as the sector benefitted from the conclusion of an acquisition deal.

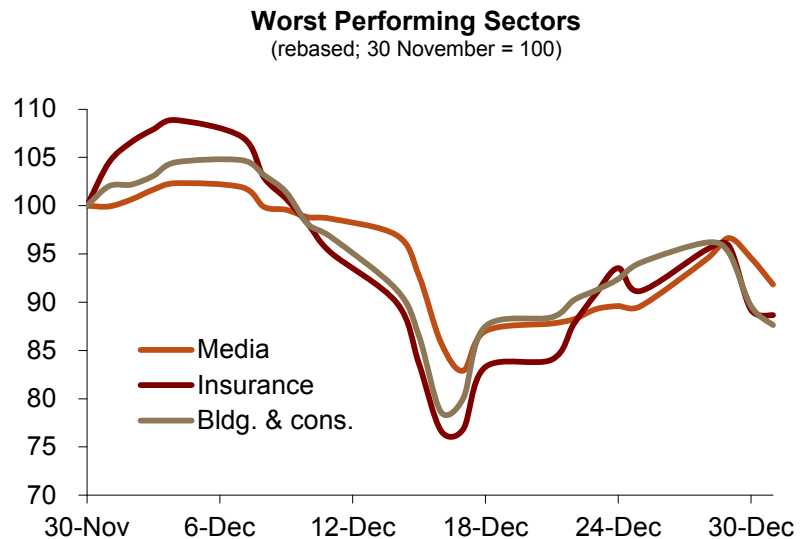
Three of the 15 sectors saw positive performance in December.



All sectors saw sell-offs in the first half of December...



...but this reversed in mid-December after the Ministry of Finance pledged strong government spending for 2015.





Key Data

	2008	2009	2010	2011	2012	2013	2014 E	2015	2016 F
Nominal GDP									
(SR billion)	1,949	1,609	1,976	2,511	2,752	2,791	2,822	2,759	2,875
(\$ billion)	519.8	429.1	526.8	669.5	734.0	744.3	752.5	735.8	766.7
(% change)	25.0	-17.4	22.8	27.1	9.6	1.4	1.1	-2.2	4.2
Real GDP (% change)									
Oil	4.3	-8.0	-0.1	12.2	5.1	-1.6	1.7	-0.6	-1.6
Non-oil private sector	11.1	4.9	9.7	8.0	5.5	7.0	5.7	5.3	4.7
Government	6.2	6.3	7.4	8.4	5.3	5.1	3.7	3.5	3.3
Total	8.4	1.8	4.8	10.0	5.4	2.7	3.6	2.5	1.8
Oil indicators (average)									
Brent (\$/b)	97.2	61.7	79.8	112.2	112.4	109.6	99.5	79.0	83.0
Saudi (\$/b)	94.0	60.4	77.5	103.9	106.1	104.2	95.5	75.0	79.0
Production (million b/d)	9.2	8.2	8.2	9.3	9.8	9.6	9.7	9.6	9.4
Budgetary indicators (SR billion)									
Government revenue	1,101	510	742	1,118	1,247	1,156	1,046	836	737
Government expenditure	520	596	654	827	873	976	1,100	1,003	968
Budget balance	581	-87	88	291	374	180	-54	-167	-231
(% GDP)	29.8	-5.4	4.4	11.6	13.6	6.5	-1.9	-6.1	-8.0
Domestic debt	235	225	167	135	99	60	44	40	38
(% GDP)	12.1	14.0	8.5	5.4	3.6	2.2	1.6	1.4	1.3
Monetary indicators (average)									
Inflation (% change)	6.1	4.1	3.8	3.7	2.9	3.5	2.7	2.6	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
External trade indicators (\$ billion)									
Oil export revenues	284.1	166.9	215.2	317.6	337.5	323.1	270.3	214.1	191.4
Total export revenues	313.5	192.3	251.1	364.7	388.4	377.0	325.8	272.1	254.8
Imports	100.6	86.4	97.4	120.0	141.8	152.7	150.4	154.7	158.6
Trade balance	212.8	105.9	153.7	244.7	246.6	224.3	175.4	117.4	96.1
Current account balance	132.3	21.0	66.8	158.5	164.8	134.3	125.1	27.1	2.5
(% GDP)	25.5	4.9	12.7	23.7	22.4	18.0	16.6	3.7	0.3
Official reserve assets	442.7	410.1	445.1	544.0	656.6	725.7	765.9	779.0	796.1
Social and demographic indicators									
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	24,816	24,379	23,160	23,482

Sources: Jadwa estimates for 2014 and 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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