



Summary

Real economy: Key consumption indicator data continued to soften in April, but remained at healthy levels. PMI continued to point to a healthy expansion in the non-oil private sector.

Government finance: In April, net monthly change to government accounts remained negative. The majority of the fall came from a net negative change in the projects account.

Bank lending: Growth in bank credit to the private sector continued to slow in April. Credit to both consumers and corporates slowed during the first quarter.

Bank deposits: Year-on-year growth in total bank deposits fell to 8.9 percent in April down from 9.8 percent in the previous month.

Inflation: In April, headline inflation stayed unchanged, year-on-year, following a slowdown for seven consecutive months.

Balance of payments: According to data recently released by SAMA, the Kingdom's current account surplus fell to \$81.2 billion in 2014.

Trade: In March, non-oil exports rebounded following three consecutive monthly declines, while non-oil export volumes recorded its highest level in twelve months.

Oil –Global: Brent averaged \$64 per barrel in May, up 8 percent, month-on-month, whilst WTI was up 9 percent, month-on-month, to \$59 per barrel.

Oil –Regional: Higher demand domestically and internationally meant Saudi maintained production levels of above 10 mbpd in April.

Exchange rates: The dollar strengthened in May as higher-than-expected US inflation was followed by the Federal Reserve's strong indication that interest rates would rise this year.

Stock market: A lack of major corporate results and generally lower investor activity during the slower summer months resulted in the TASI's performance being broadly flat, month-on-month, in May.

Volumes: TASI's daily average turnover dropped by 14 percent in May, month-on-month, as corporate news and results were subdued and the quieter summer period drew closer.

Valuations: Lower trading volumes and limited news related to corporate results, in the month of May, saw price to earnings (PE) edge down slightly, month-on-month.

Sectoral performance: The overall flat performance of the TASI, month-on-month, during May was also reflected in the individual sectorial performance.

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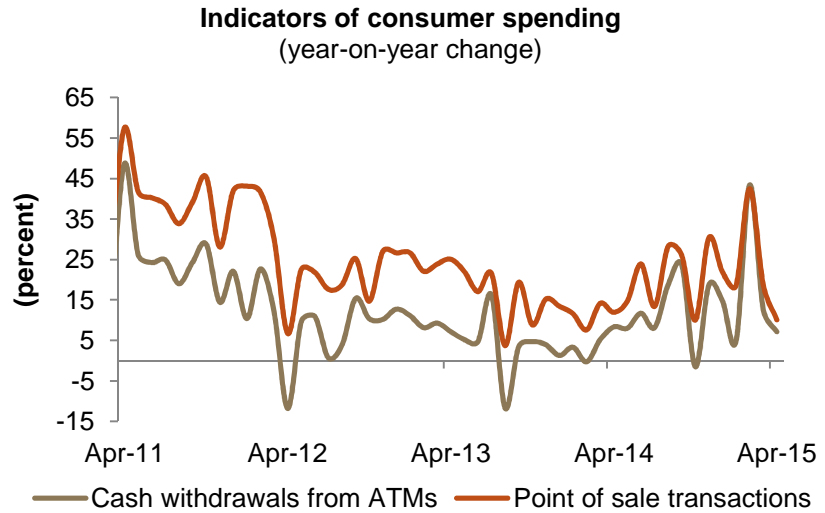
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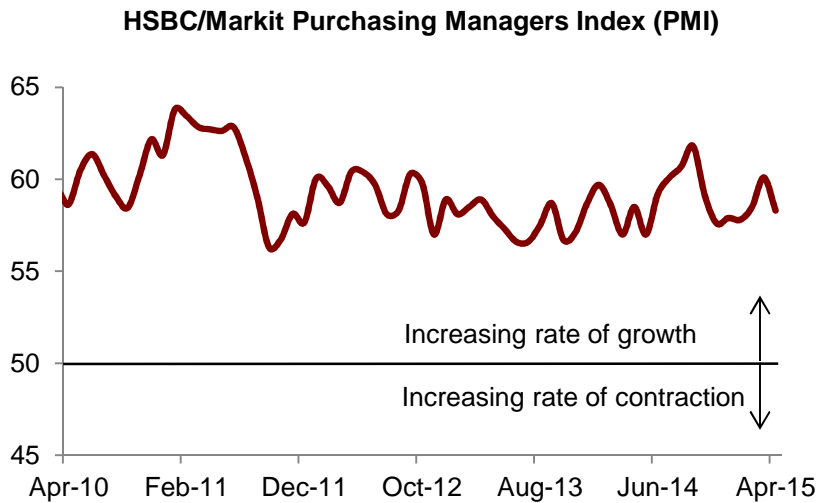
Real Economy

Key consumption indicators continued to soften in April, but remained at healthy levels. PMI pointed to robust performance in the non-oil private sector with a healthy expansion in output and new orders. Cement sales continued exhibiting strong growth during April.

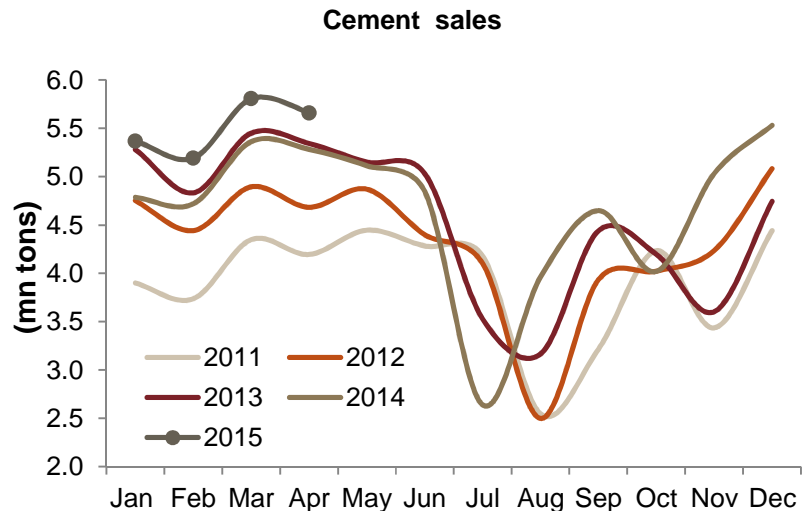
In monthly terms, the total value of both cash withdrawals and point of sale transactions fell in April, but increased by 7.7 percent, year-on-year.



The non-oil private sector PMI fell to 58.3, down from a six month high in the previous month, but continued to point to a healthy expansion in output and new orders.



Cement sales continued to post strong growth, increasing by 7.1 percent, year-on-year in April.



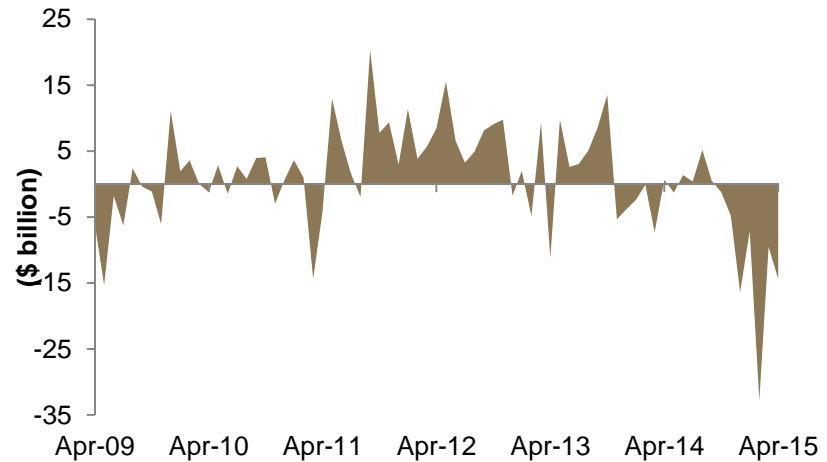


Government Finance

In April, net change to government accounts remained negative, month-on-month. The majority of the fall came from a net negative change in the projects account, which suggests more funds are being spent on capital projects. Foreign reserves declined for the third consecutive month, falling by \$11.6 billion.

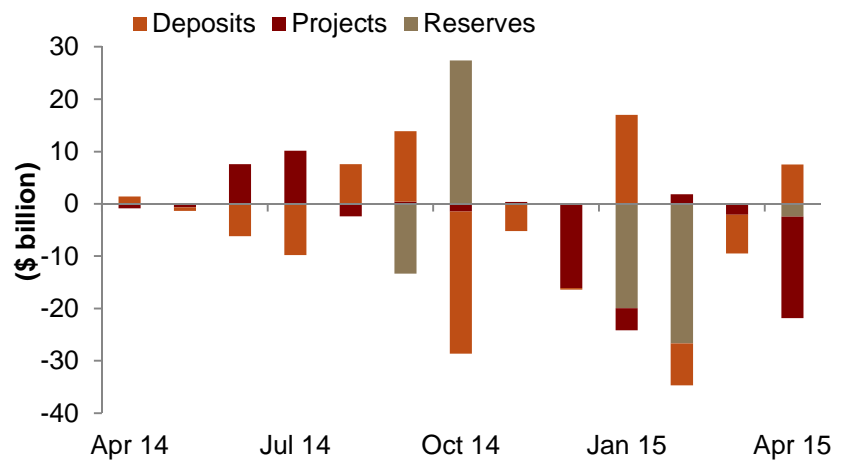
In April, net government accounts at SAMA declined for the sixth consecutive month, falling by \$14.3 billion, month-on-month...

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



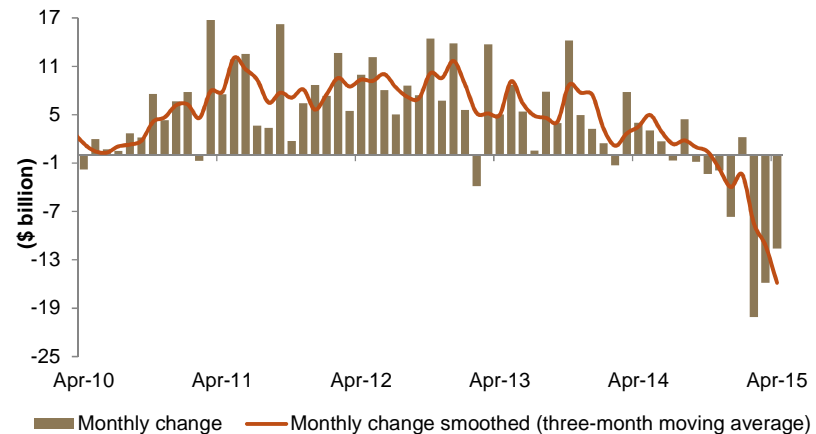
...the majority of the fall came from a net negative change in the projects account, which fell by \$19.4 billion, month-on-month.

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



Foreign reserves declined for the third consecutive month, falling by \$11.6 billion to reach \$683 billion in April.

Change in foreign reserve assets

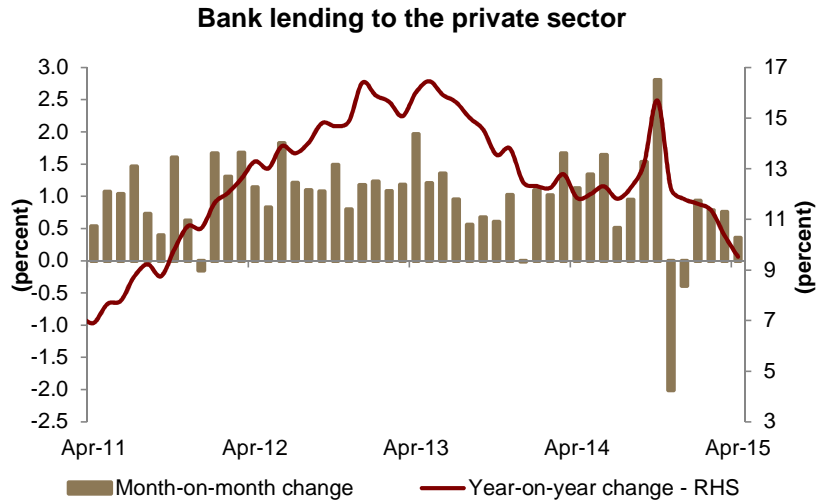




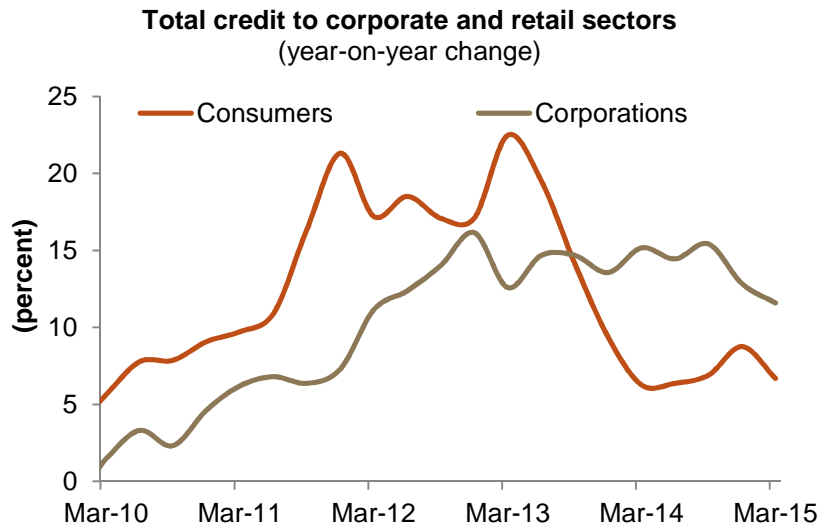
Bank lending

In April, bank credit to the private sector continued to slow. In quarterly terms, credit to both consumers and corporates slowed during Q1 2015. Net real estate credit (issued for new retail loans) also fell by 77.2 percent, quarter-on-quarter. This was due to the newly introduced 30 percent down payment requirement on new home-seekers.

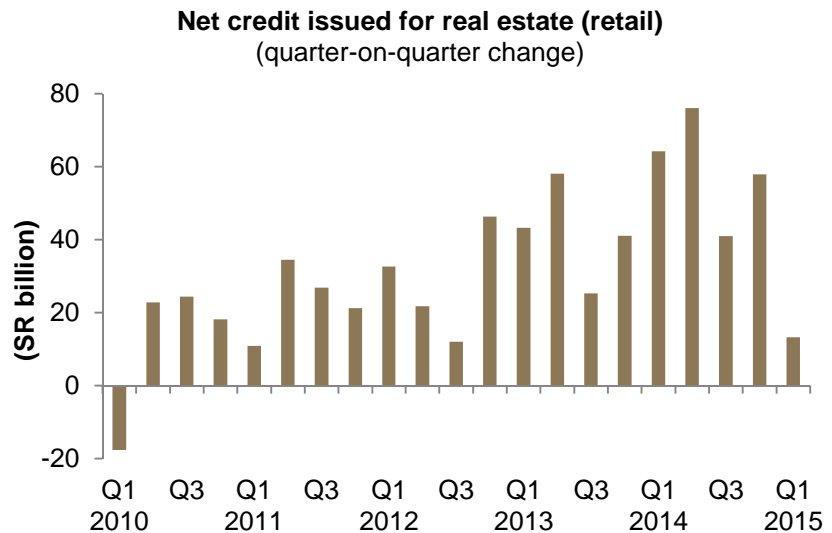
Growth in bank credit to the private sector fell to 0.4 percent, month-on-month. Year-on-year growth is at its lowest in four years, at 9.5 percent.



Q1 2015 credit to both consumers and corporates slowed, year-on-year. Consumer credit reached 6.7 percent, while corporate credit grew by 11.6 percent, year-on-year.



Net credit issued for real estate loans fell by SR4.5 billion (77.2 percent), quarter-on-quarter, as a result of the new 30 percent down payment requirement on new home-seekers.

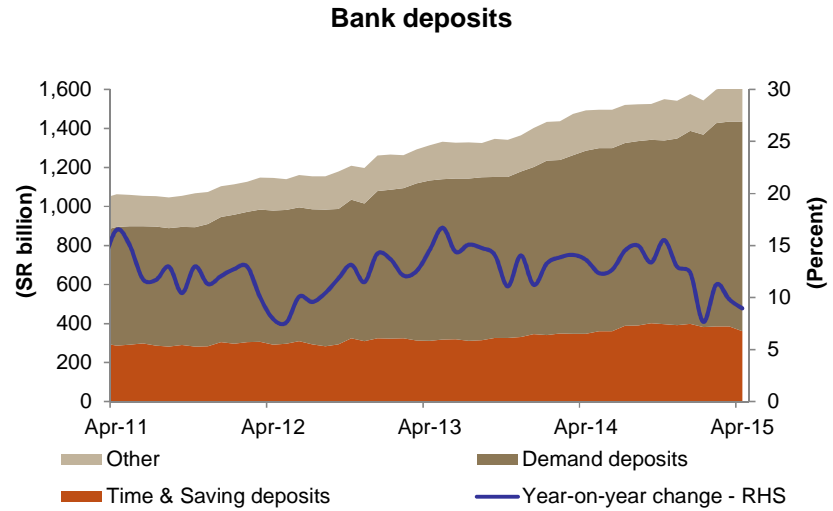




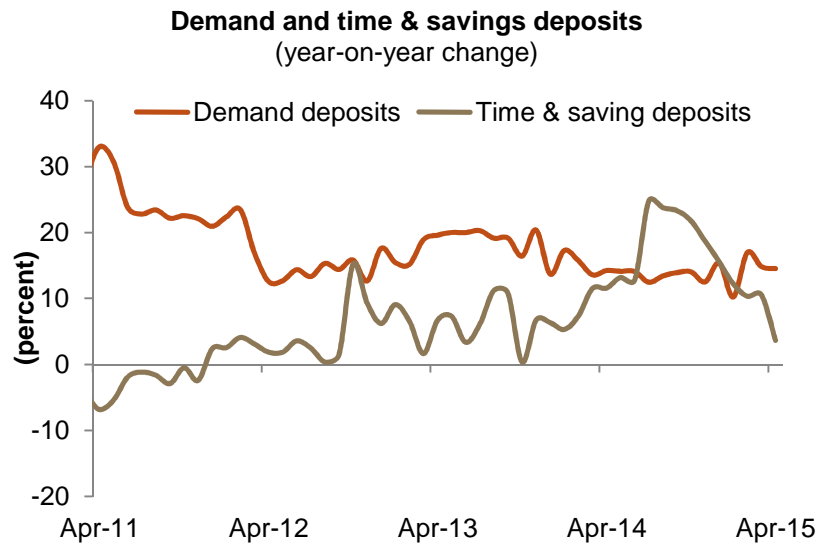
Bank deposits

Year-on-year growth in total bank deposits decreased 8.9 percent, month-on-month. Growth in time and savings deposits fell to its slowest point in eighteen months. The combination of slowing credit and deposit growth resulted in the loan-to-deposit ratio remaining virtually unchanged.

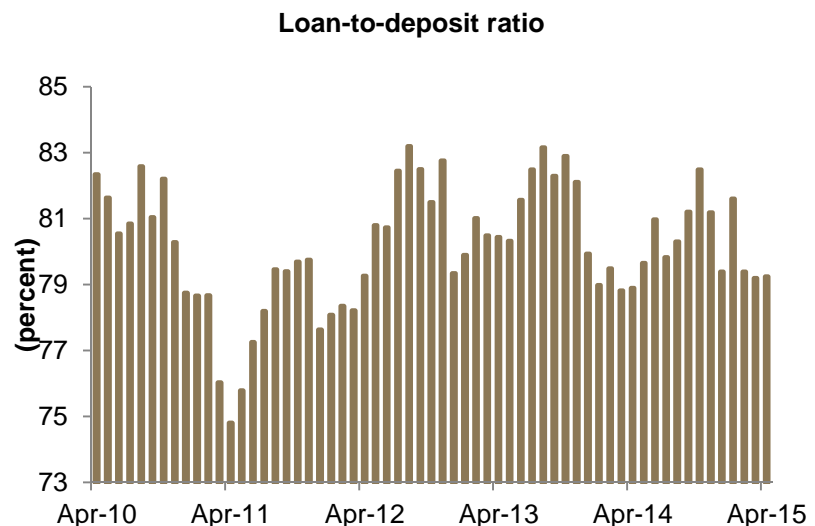
Year-on-year growth in total bank deposits fell to 8.9 percent in April.



During April, growth in time and savings deposits fell to its slowest point in eighteen months, reaching 3.7 percent year-on-year.



The combination of slowing credit and deposit growth has led to the loan-to-deposit ratio remaining virtually unchanged.

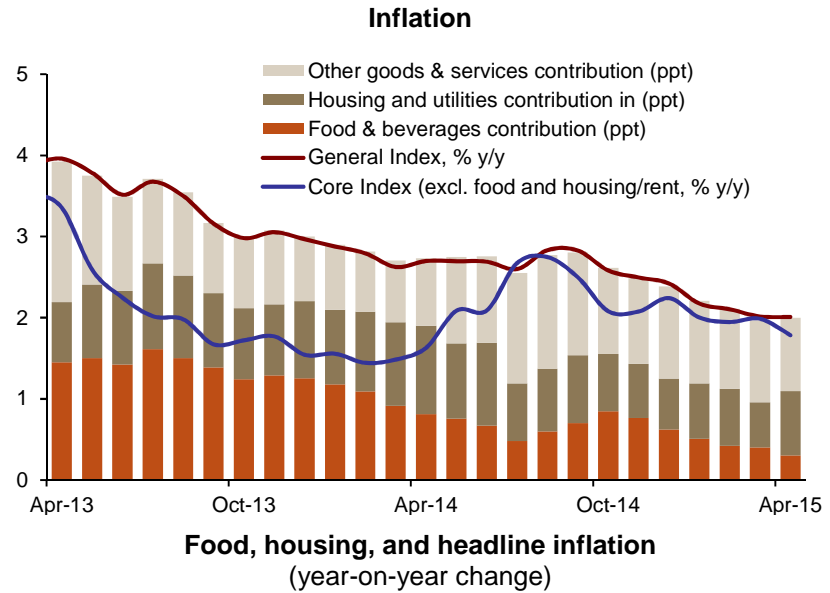




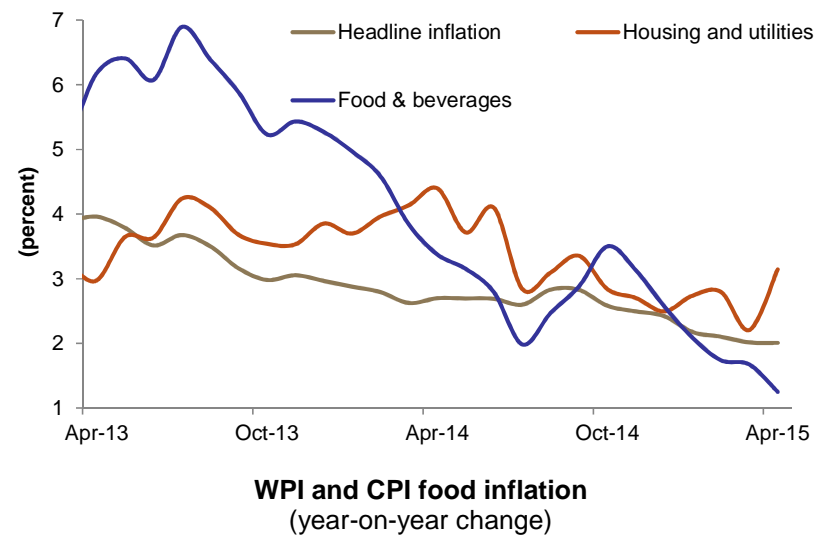
Inflation

In April, headline inflation was unchanged, year-on-year, as the rate of inflation slowed for the seventh consecutive month. Housing inflation accelerated while foodstuffs continued its slowing trend, year-on-year, pushed down by the continued deflationary environment in international food prices.

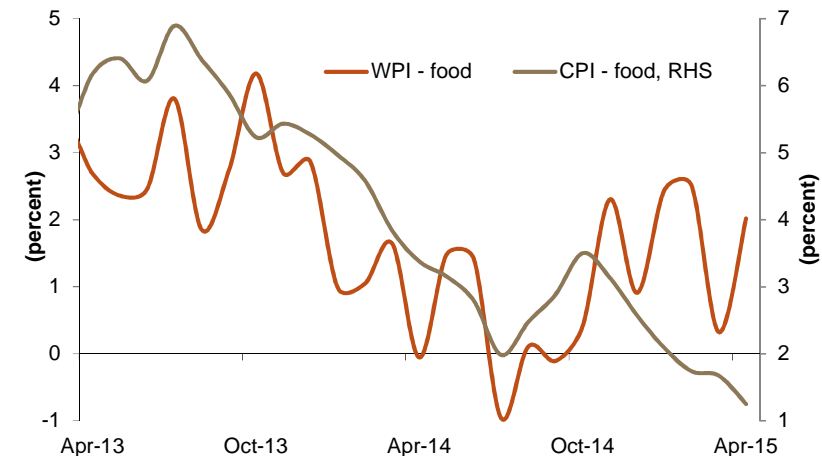
In April, headline inflation stayed unchanged at 2 percent, year-on-year.



Year-on-year housing inflation accelerated to 3.1 percent in April, while foodstuffs fell to 1.3 percent, year-on-year, in April...



... however, a reversal in year-on-year food prices is likely, particularly since food inflation regularly spikes ahead of Ramadan.





Balance of payments

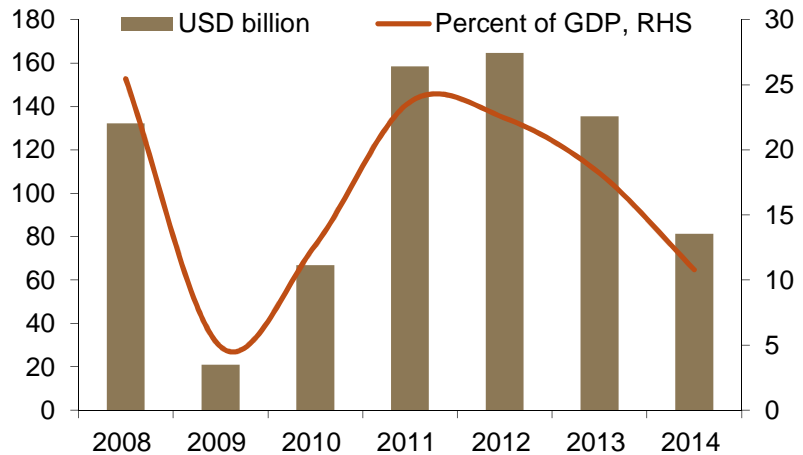
According to latest SAMA data, the Kingdom's current account surplus fell to \$81.2 billion in 2014 (compared to \$106.4 billion in the budget announcement). Net investment flows into the economy increased slightly, pushed by a rise in net portfolio investment. Payments for services spiked in 2014, mainly due to record government spending.

Between 2013 and 2014, the Kingdom's current account surplus fell from \$135.5 billion (18.2 percent of GDP) to \$81.2 billion (10.8 percent of GDP). This is \$25 billion lower than the Ministry of Finance's announcement last December.

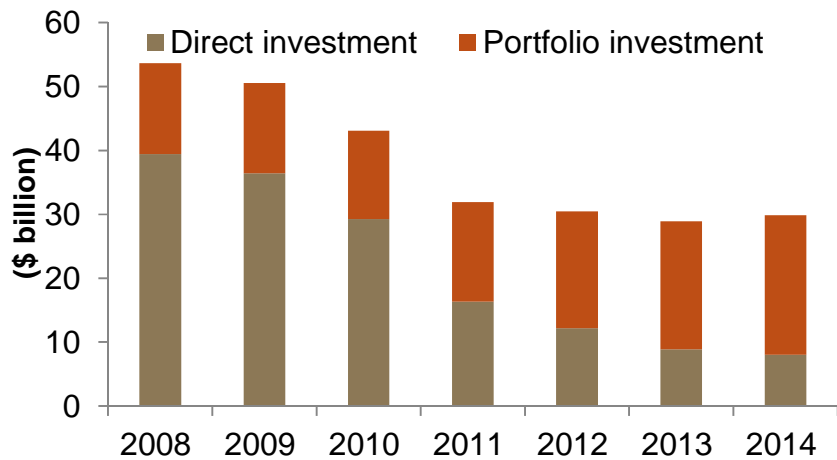
Net investment flows into the economy rose by \$1 billion during 2014. The increase was due to a \$1.8 billion rise in portfolio investment, while foreign direct investment (FDI) fell by \$900 million, year-on-year.

The services account was the major source for growth in payments during 2014, with an annual increase of \$20 billion, largely as a result of elevated levels of external financial aid and assistance.

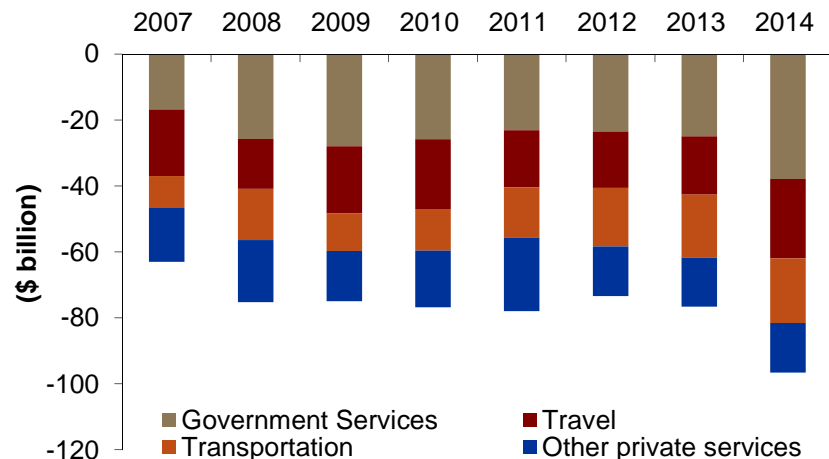
Current account balance



Net investment inflow



Breakdown of services account

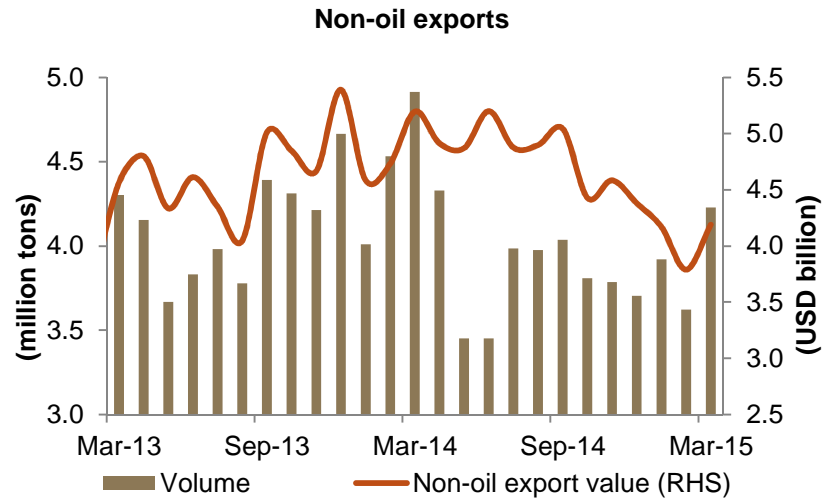




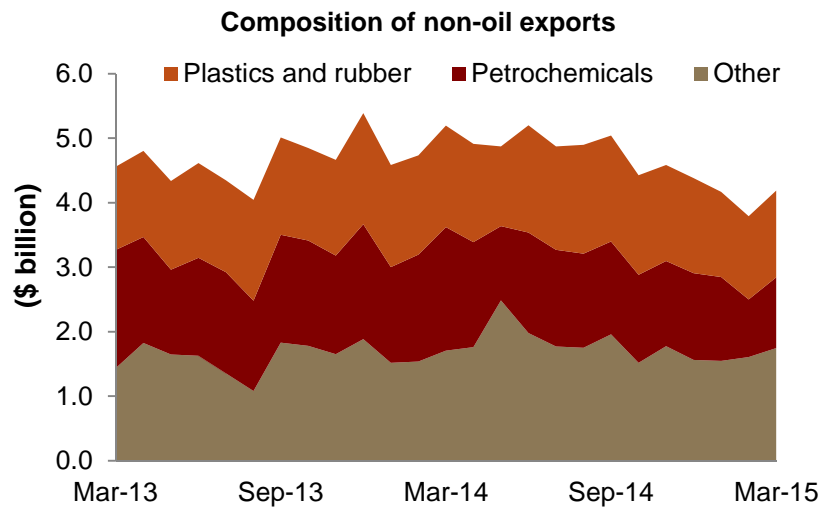
Trade

In March, non-oil exports rebounded following three consecutive monthly declines, while non-oil export volumes recorded its highest level in twelve months. For each of the last twelve months, exports of plastics have consistently been higher than petrochemicals. Imports increased in March, growing by 2.8 percent, year-on-year.

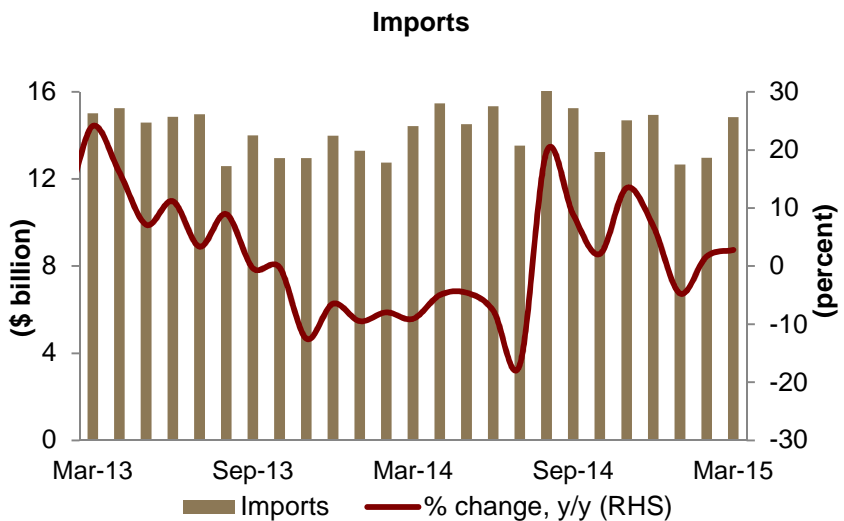
In March, non-oil exports rose to \$4.2 billion, its highest level since December. Volumes exported climbed to 4.2 million tons.



Exports of plastics have consistently been higher than petrochemicals in the last year. March exports of plastics stood at \$1.3 billion, while exports of petrochemicals reached \$1.1 billion.



March imports increased by \$2 billion, month-on-month. Growth in imports accelerated by 2.8 percent, year-on-year.

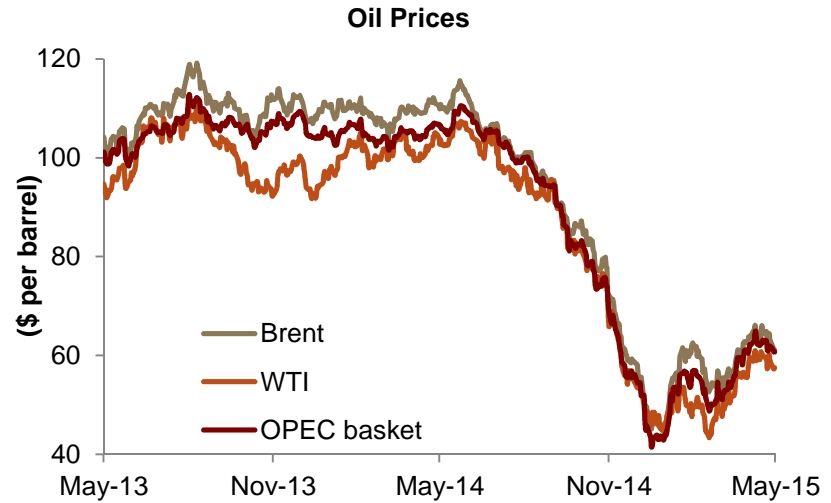




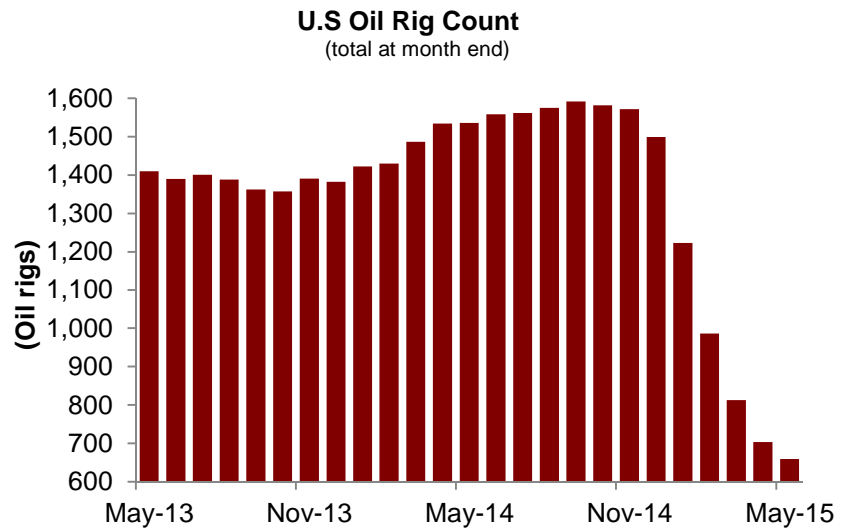
Oil - Global

Brent averaged \$64 per barrel in May, up 8 percent, month-on-month, whilst WTI was up 9 percent, month-on-month, to \$59 per barrel. Both crude types saw increased demand in the run up to the summer peak season. WTI was also supported by the continued decline in the US rig count.

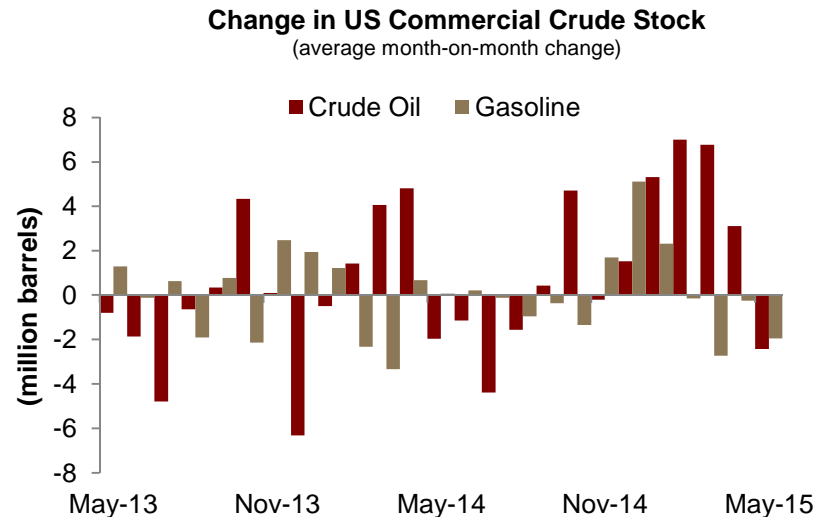
Stronger demand from Asia, especially China, supported Brent.



Eight consecutive monthly declines in the US oil rig count...



...and drawdown in both gasoline and crude oil stocks, supported WTI.



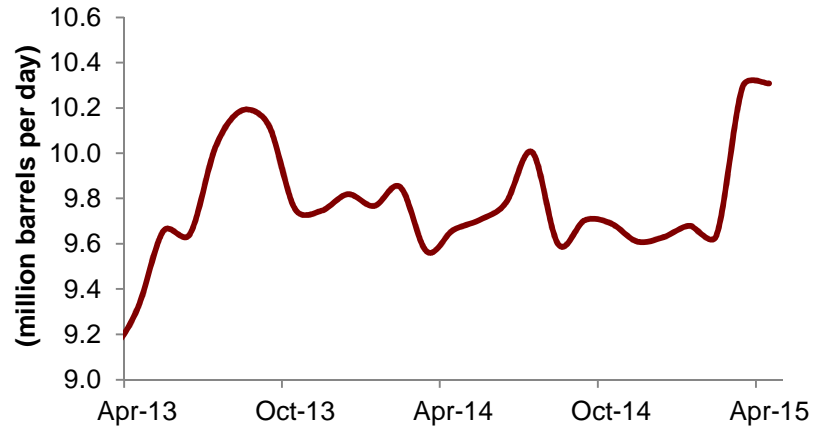


Oil - Regional

Higher demand domestically and internationally meant Saudi maintained production levels of above 10 mbpd in April. Iraqi exports were up to a record 3 mbpd even though production was down, month-on-month. Latest data shows that Saudi exports rose to a 7.9 mbpd in March, the highest since November 2005.

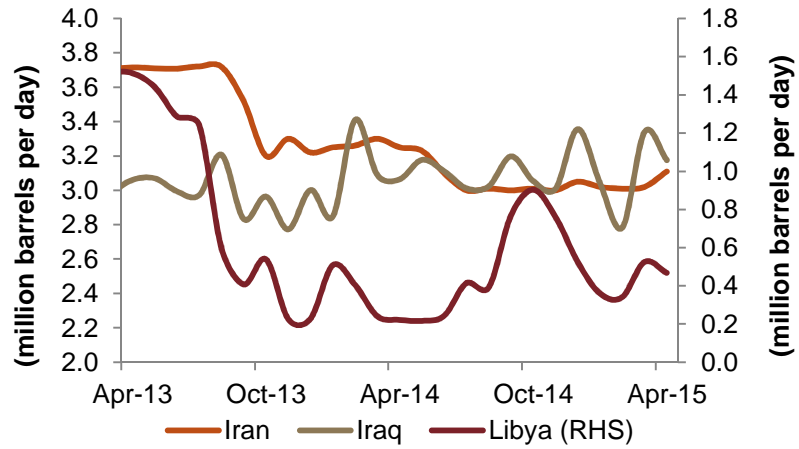
Saudi production is likely to remain above 10 mbpd over the summer months.

Saudi crude production



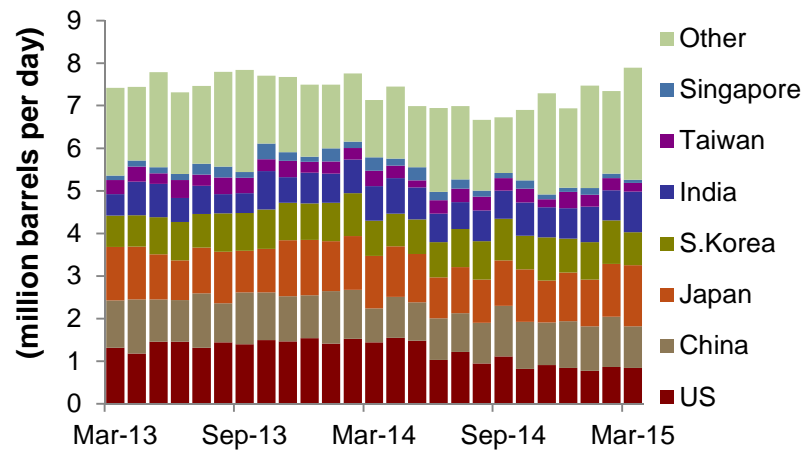
Iranian production has not changed significantly in the last few months. Libyan and Iraqi production remains volatile.

Iraq, Iran and Libya production



Latest data for March shows that the largest increase, month-on-month, came from Japan, India and Europe (recorded under 'Other').

Saudi crude exports by country



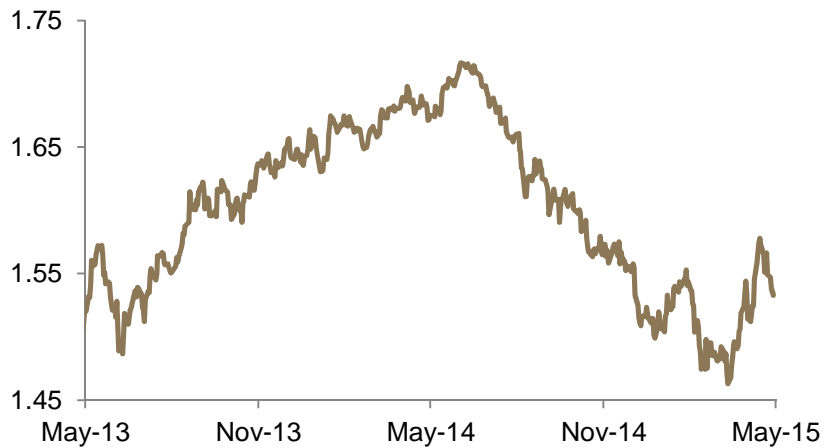


Exchange Rates

The dollar strengthened in May as higher-than-expected US inflation was followed by the Federal Reserve's strong indication that interest rates would rise this year. Meanwhile, the euro's weakness remains tied to the issue of Greece's debt standoff, with the euro being one of the biggest losers against the dollar, in 2015, so far.

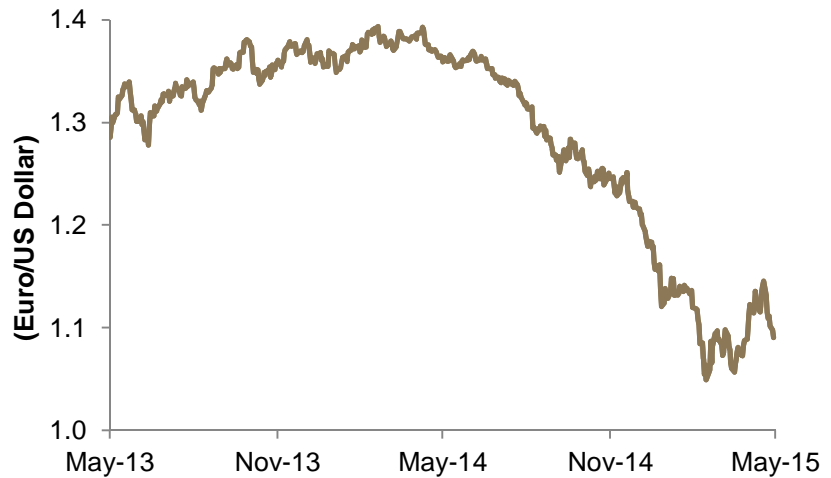
The dollar gained against most currencies in May, including the UK pound...

UK pound/US Dollar



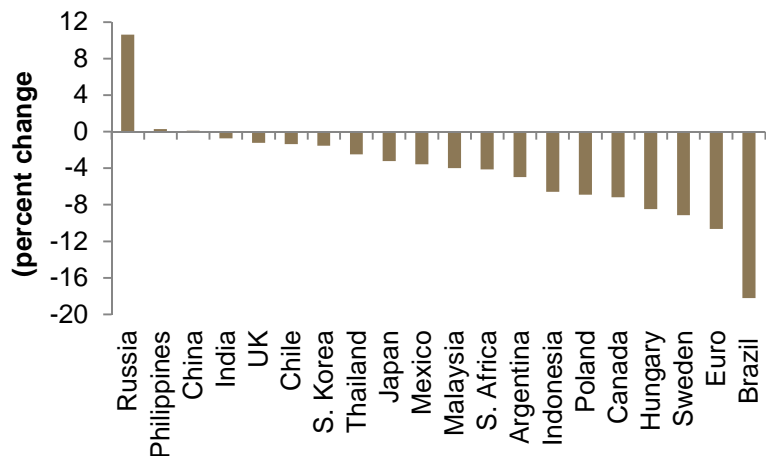
...but worries over Greece's ability to service debt repayments next month, added further downward pressure on the euro.

Euro/US Dollar



The euro is now amongst the biggest losers against the dollar, year-to-date.

Trade-weighted dollar

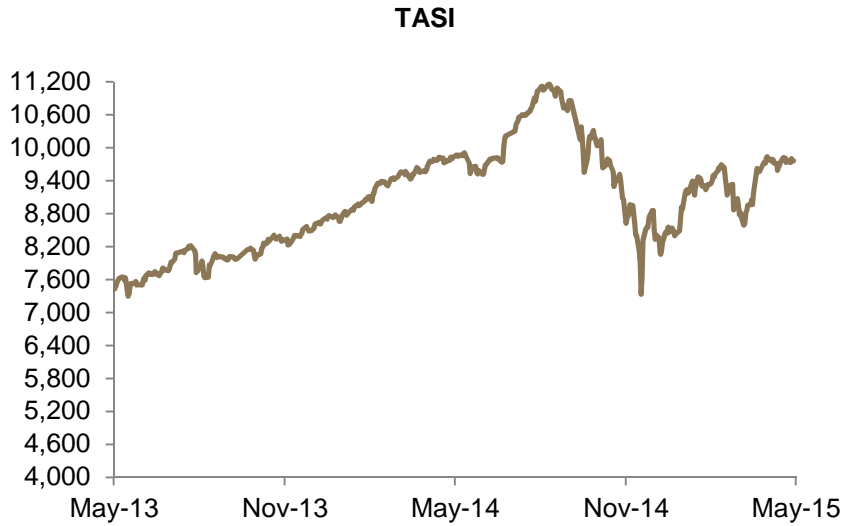




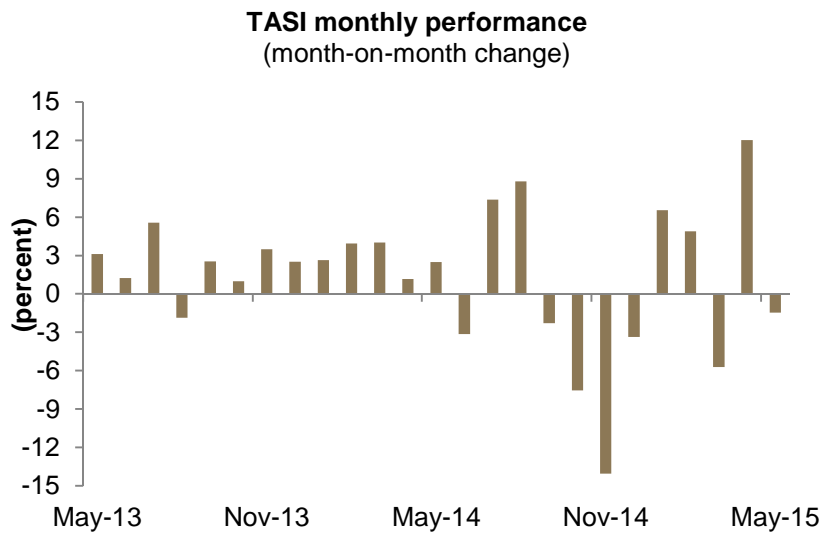
Stock Market

A lack of major corporate results and generally lower investor activity during the slower summer months resulted in the TASI's performance being broadly flat, month-on-month, in May. This was broadly in line with most major global indices. The TASI still fared better than most regional indices during the month.

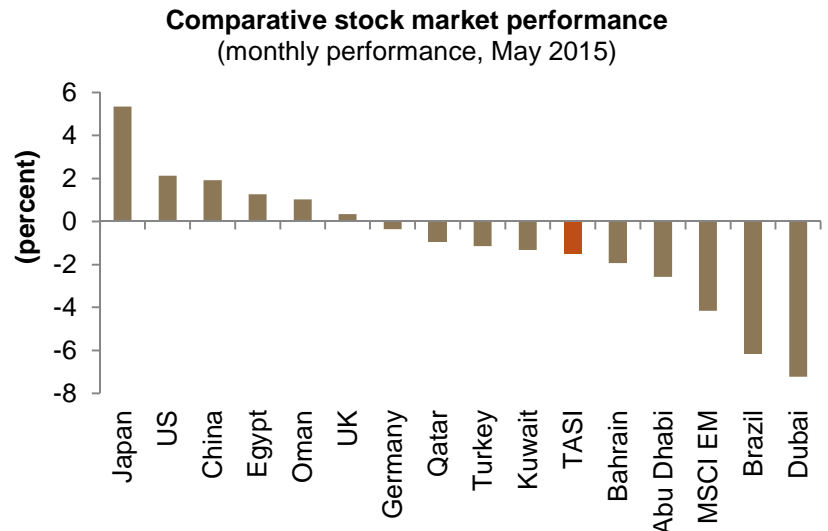
The TASI was broadly flat, month-on-month, in May...



...as monthly performance dipped by 1.5 percent...



...although this was better than most regional indices and the MSCI EM benchmark.



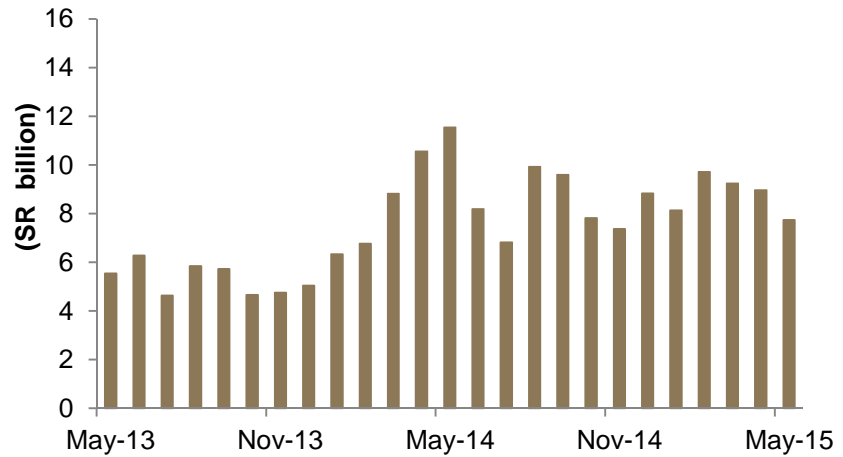


Volumes

TASI's daily average turnover dropped by 14 percent in May, month-on-month, as corporate news and results were subdued and the quieter summer period drew closer. Turnover activity will decline even further in June as the holy month of Ramadan begins.

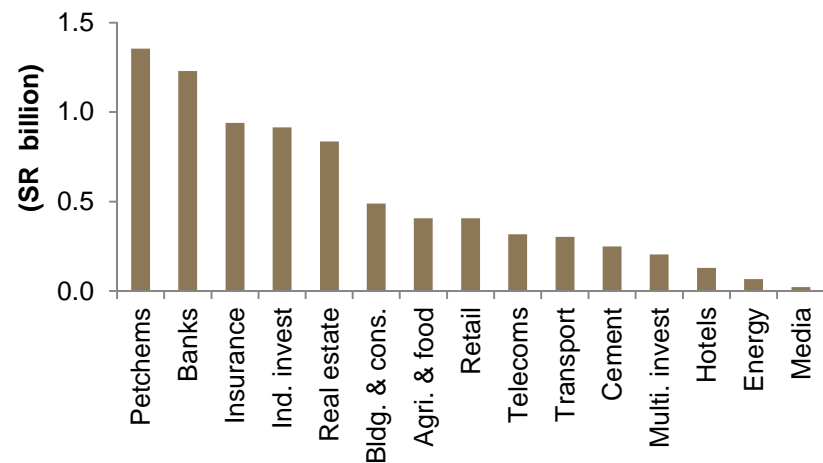
Traded volumes declined in May, as per the case usually around the summer months.

Daily average stock market turnover



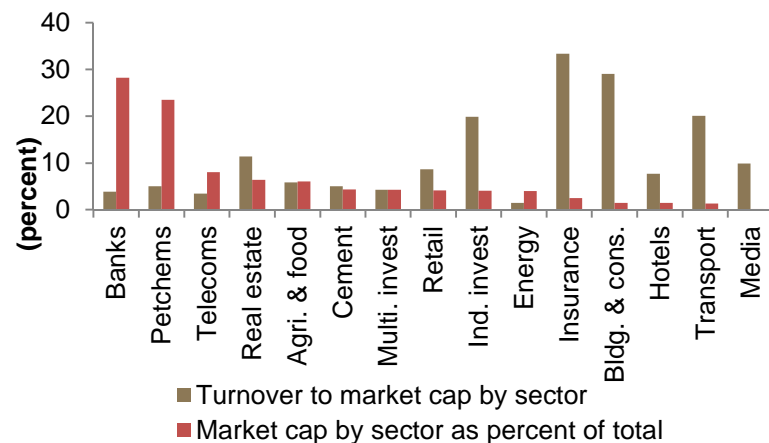
Traded volumes were generally lower, month-on-month, across all sectors...

Turnover by sector (daily average)



...although industrial investment saw larger volumes (relative to market cap) than usual as the sector benefitted from improving sentiment.

Turnover as percent of market cap (May, 2015)





Valuations

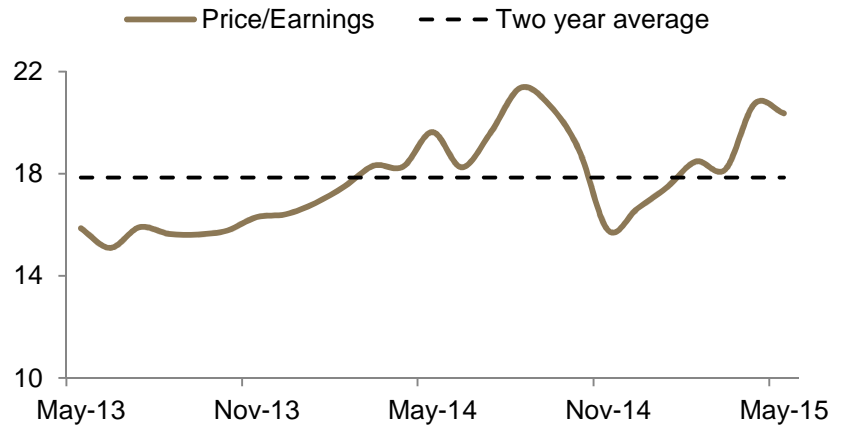
Lower trading volumes and limited news related to corporate results, in the month of May, saw price to earnings (PE) edge down slightly, month-on-month. PE is still at relatively high levels when compared historically and to regional markets. TASI dividend yield is around the MSCI EM average of 3 percent.

Current valuations are elevated due to positive sentiment relating to opening up the market to qualified foreign investors (QFIs).

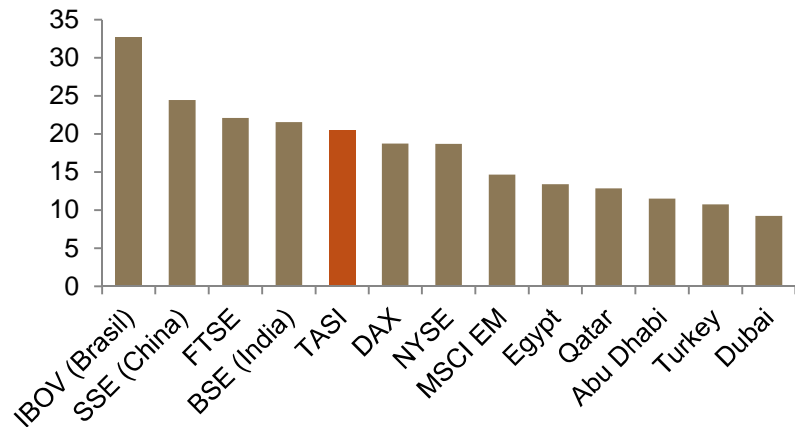
PE is high relative to comparable markets, especially in the context of expected earnings during lower year-on-year oil prices.

Dividend yield is average, in line with MSCI EM.

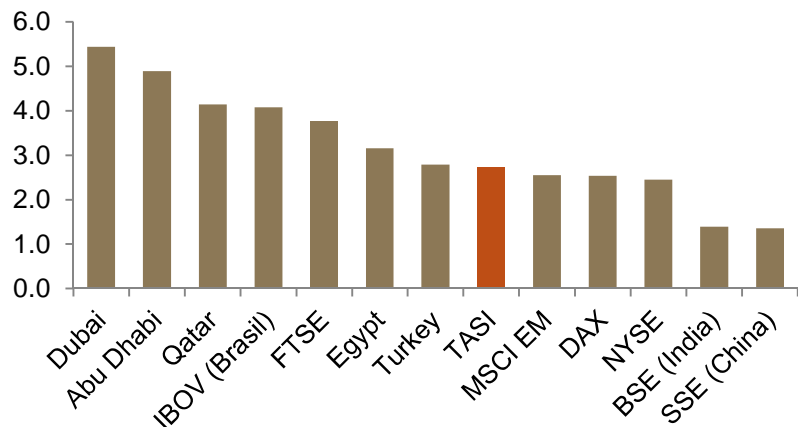
TASI Price-to-Earnings ratio



Comparative Price-to-Earnings ratios (end of month)



TASI Dividend Yield ratios (end of month)

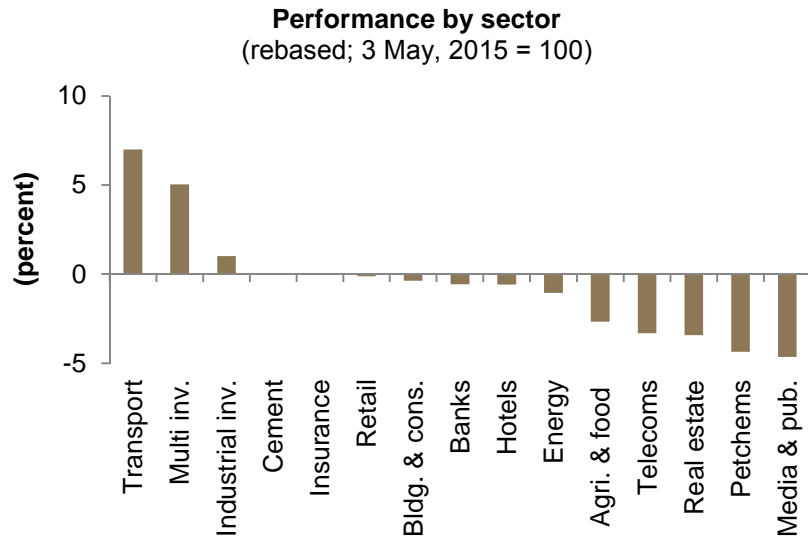




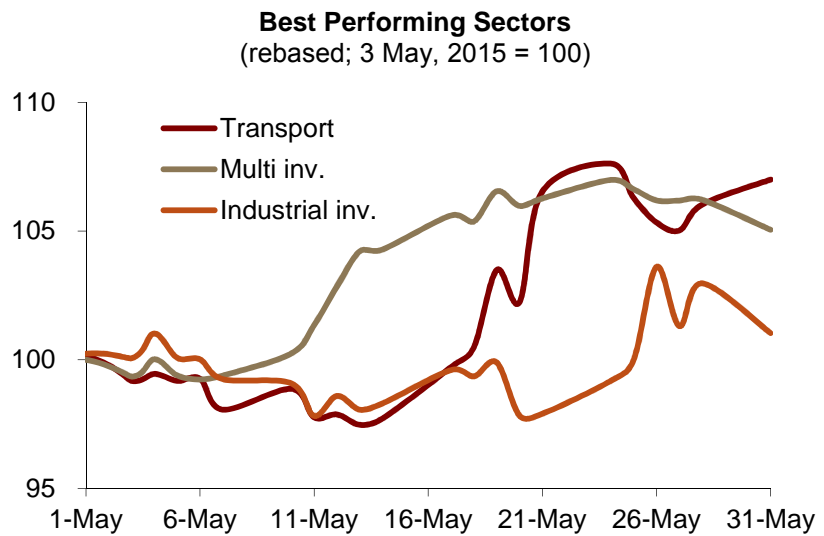
Sectoral Performance

The overall flat performance of the TASI, month-on-month, during May was also reflected in the individual sectorial performance. All but three sectors were down in May. We expect to see similar level of subdued activity in the following few months.

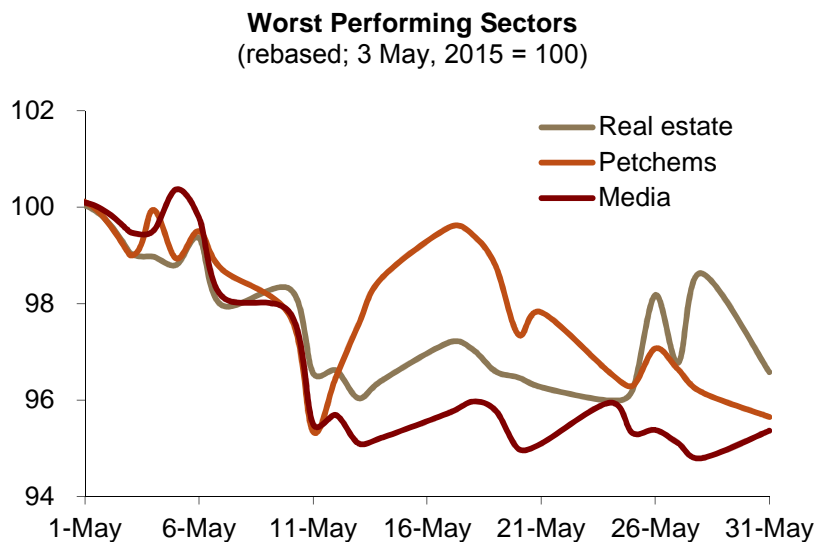
All but three sectors were down in May...



...but gains amongst the top three performing sectors were modest...



...as were the losses amongst the worst performers.





Key Data

	2008	2009	2010	2011	2012	2013	2014 E	2015 F	2016 F
Nominal GDP									
(SR billion)	1,949	1,609	1,976	2,511	2,752	2,791	2,798	2,533	2,704
(\$ billion)	519.8	429.1	526.8	669.5	734.0	744.3	746.2	675.6	721.1
(% change)	25.0	-17.4	22.8	27.1	9.6	1.4	0.3	-9.5	6.7
Real GDP (% change)									
Oil	4.3	-8.0	-0.1	12.2	5.1	-1.6	1.5	1.6	-0.8
Non-oil private sector	11.1	4.9	9.7	8.0	5.5	7.0	5.6	5.0	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	3.5	3.3	2.1
Oil indicators (average)									
Brent (\$/b)	97.2	61.7	79.8	112.2	112.4	109.6	99.4	61.0	68.0
Saudi (\$/b)	94.0	60.4	77.5	103.9	106.1	104.2	95.7	57.0	64.0
Production (million b/d)	9.2	8.2	8.2	9.3	9.8	9.6	9.7	9.8	9.7
Budgetary indicators (SR billion)									
Government revenue	1,101	510	742	1,118	1,247	1,156	1,046	685	697
Government expenditure	520	596	654	827	873	976	1,100	1,090	997
Budget balance	581	-87	88	291	374	180	-54	-404	-300
(% GDP)	29.8	-5.4	4.4	11.6	13.6	6.5	-1.9	-16.0	-11.1
Domestic debt	235	225	167	135	99	60	44	244	344
(% GDP)	12.1	14.0	8.5	5.4	3.6	2.2	1.6	9.6	12.7
Monetary indicators (average)									
Inflation (% change)	6.1	4.1	3.8	3.7	2.9	3.5	2.7	2.5	2.9
SAMA base lending rate (% , year end)	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.4	3.4
External trade indicators (\$ billion)									
Oil export revenues	284.1	166.9	215.2	317.6	337.5	323.1	285.0	171.8	182.1
Total export revenues	313.5	192.3	251.1	364.7	388.4	376.0	343.3	232.7	248.7
Imports	101.5	87.1	97.4	120.0	141.8	153.4	155.5	157.1	156.3
Trade balance	212.0	105.2	153.7	244.7	246.6	222.6	187.8	75.6	92.4
Current account balance	132.3	21.0	66.8	158.5	164.8	135.5	81.2	-20.4	-3.2
(% GDP)	25.5	4.9	12.7	23.7	22.4	18.2	10.9	-3.0	-0.4
Official reserve assets	442.7	410.1	445.1	544.0	656.6	725.7	732.4	650.0	637.3
Social and demographic indicators									
Population (million)	25.8	26.7	27.6	28.4	29.2	30.0	30.8	31.5	32.3
Saudi unemployment (15+, %)	10.0	10.5	11.2	12.4	12.0	11.7	11.7	11.3	11.1
GDP per capita (\$)	20,157	16,095	19,113	23,594	25,139	24,816	24,252	21,429	22,353

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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