



Summary

Real Economy: Economic data for January indicates a slowdown in activity. Consumer spending continued to soften. Monthly steel production fell to a seven-year low.

Government Finance: Net withdrawals from government accounts with SAMA reached SR33.4 billion (\$8.9 billion) in January. The net decline spanned both current deposits and the projects account.

Bank Lending: Bank credit to the private sector remained resilient in January. Most of the growth in credit came from short and medium-term maturities.

Bank Deposits: Total bank deposits fell for the second consecutive month. The slowdown in deposits pushed up the loan-to-deposit ratio to its highest point in seven years.

Banking Indicators: In January, monthly bank profits edged downwards year-on-year for the first time since April 2013.

Inflation: CPI accelerated sharply to a five-year high in January, mainly owing to higher domestic energy prices.

Trade: December data showed that non-oil export volumes rose to a fifteen-month high.

Oil - Global: Brent was supported by the prospect of production freezes agreed upon by Saudi Arabia, Venezuela, Russia and Qatar during the month.

Oil - Regional: Saudi crude production remained unchanged month-on-month, averaging 10.2 mbpd in January.

Exchange Rates: The dollar/riyal one year forward rate declined during February but still remains high.

Stock Market: The slight recovery in oil prices helped push up the TASI in February, particularly towards the end of the month where sharper rise in oil prices were recorded.

Volumes: The better performance of the TASI during the month translated to an improvement in average traded volumes as well.

Valuations: In line with the better overall TASI performance, price to earnings (P/E) also trended upwards in the February.

Sectoral Performance: Nine out of the 15 sectors saw positive performance in February.

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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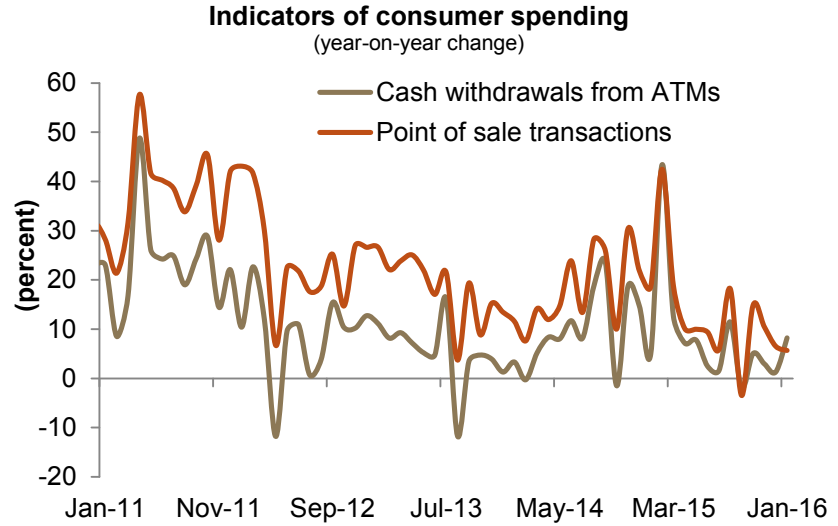
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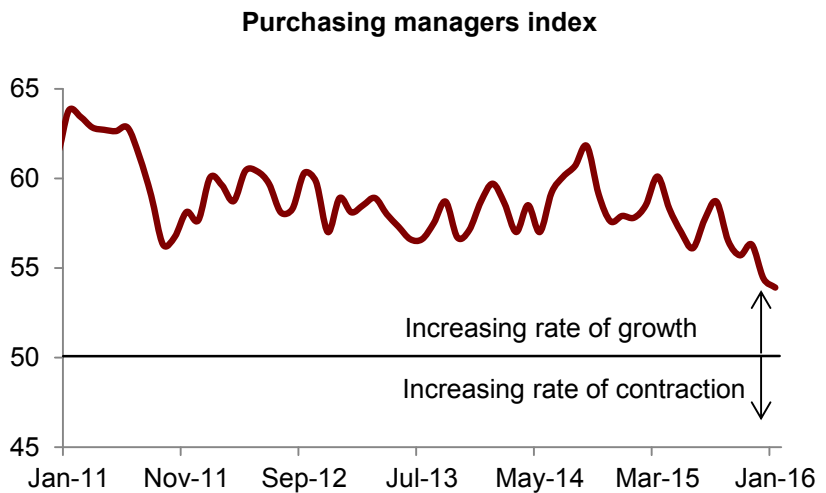
Real Economy

Economic data for January indicates a slowdown in activity. Growth in consumer spending remained positive, with cash withdrawals from ATMs picking up, but point-of-sales transactions slowing. The non-oil PMI fell to another record low. Monthly steel production fell to a seven-year low.

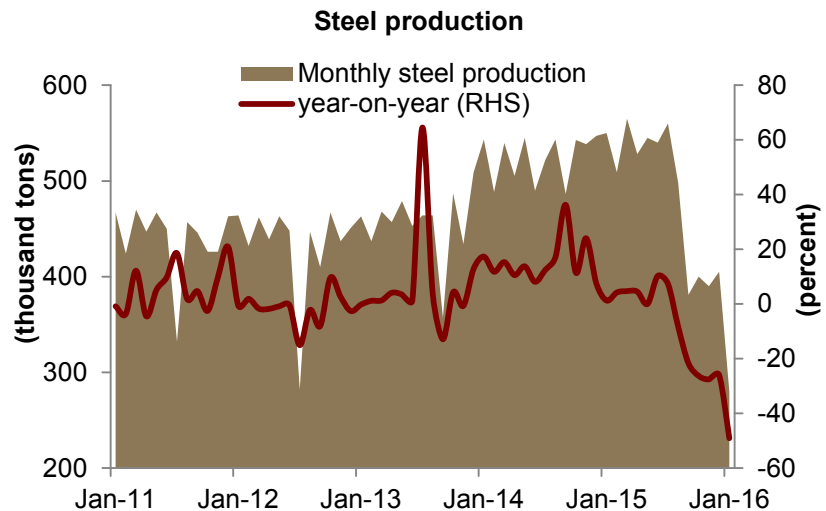
In January, year-on-year growth in cash withdrawals from ATMs rose to 8.2 percent, while point-of-sales transactions continued to soften to 5.7 percent.



The non-oil PMI fell to another new record low of 53.9, but continued to point to an expanding non-oil economy.



Monthly Steel production posted a sharp decline to 280 thousand tons, its lowest level since January 2009.



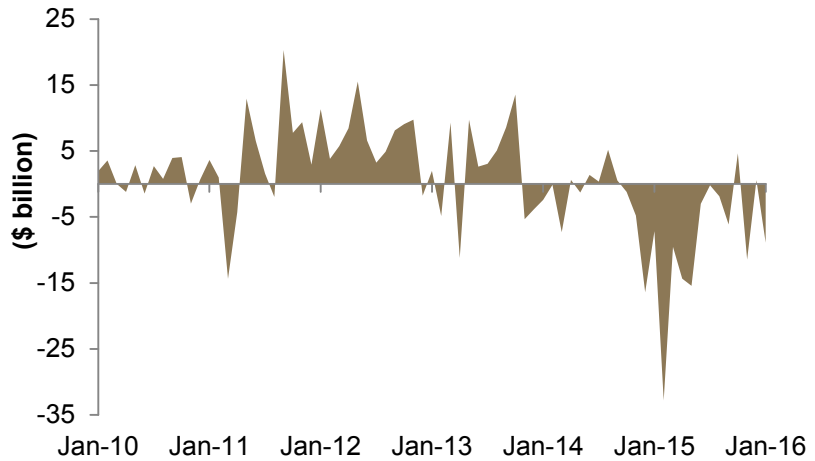


Government Finance

Net withdrawals from government accounts with SAMA reached SR33.4 billion (\$8.9 billion) in January. The net decline spanned both current deposits and the projects account, while the government reserve account saw a small rise. SAMA FX reserves posted another large fall, mainly owing to lower oil prices in December.

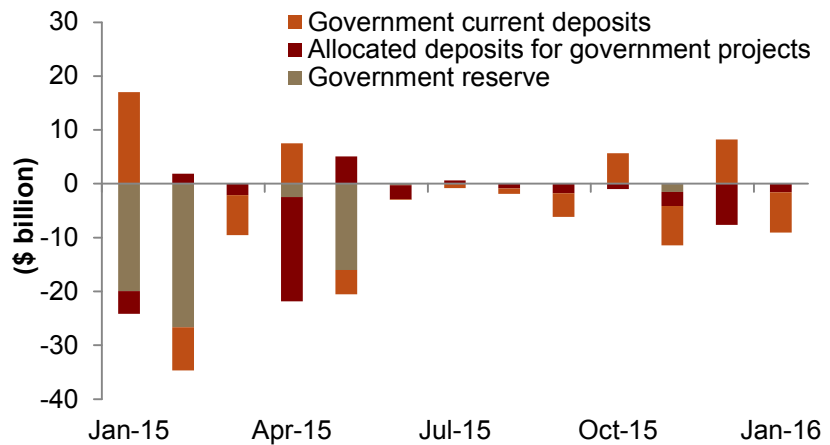
Government accounts with SAMA fell by SR33.4 billion (\$8.9 billion) in January.

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



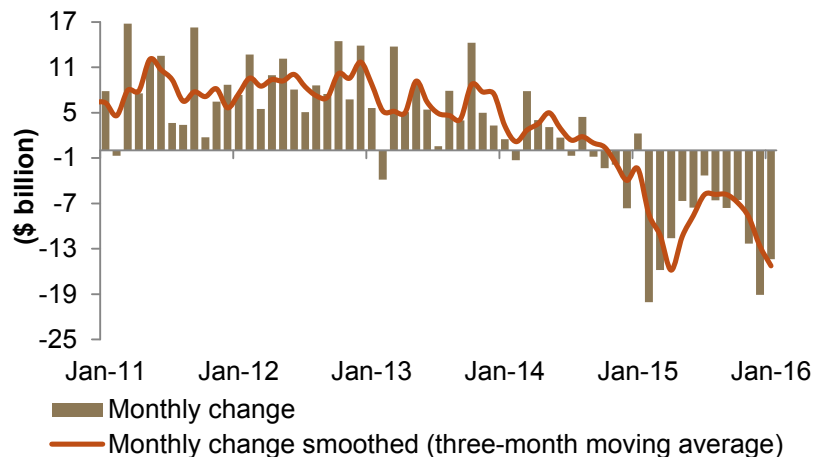
Within these accounts, government current deposits and projects fell by SR28.1 billion (\$7.5 billion), and SR5.9 billion (\$1.6 billion) respectively, while the government reserve rose slightly by SR589 million (\$157 million).

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



SAMA FX reserves posted another large decline in January, falling by \$14.4 billion.

SAMA foreign exchange reserves

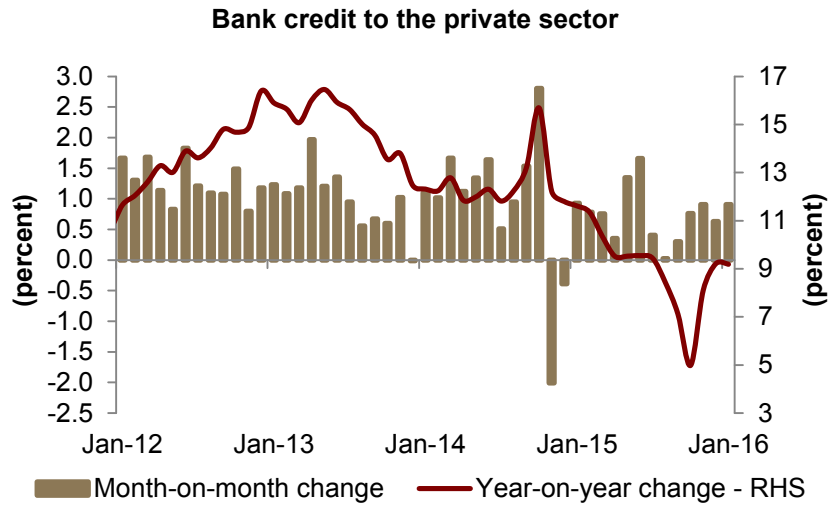




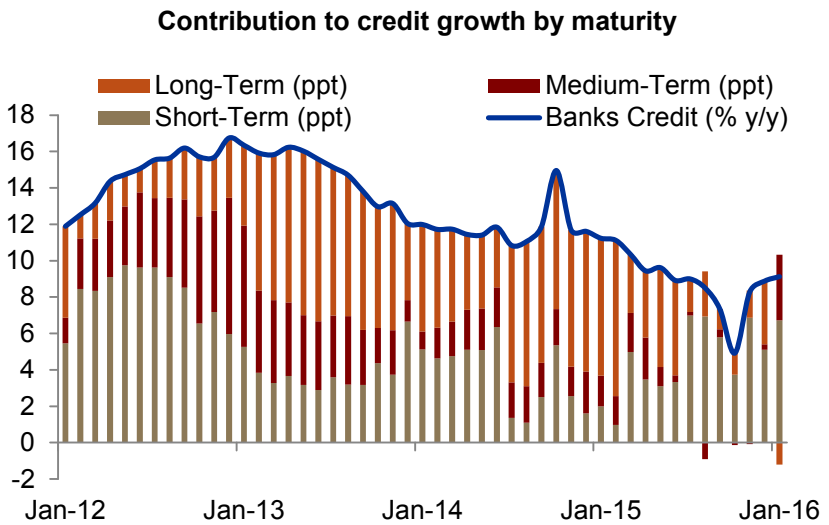
Bank Lending

Bank credit to the private sector remained resilient in January. Most of the growth in credit came from short and medium-term maturities, with long-term debt outstanding posting a decline. We expect demand for credit to be high in coming months as corporations seek to manage their cash flows while the government deters its spending.

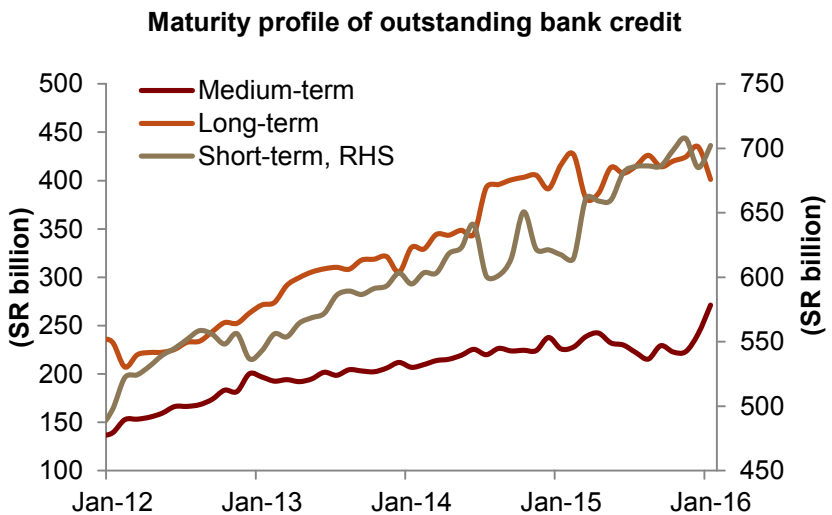
In January, bank credit to the private sector rose by 0.9 percent month-on-month and 9.2 percent year-on-year.



Most of the growth in credit came in the form of short and medium-term maturities, while long-term debt outstanding fell by SR34 billion...



...this could reflect corporations renegotiating their credit profiles with banks as part of their effort to manage their cash flows while the government deters its spending.





Bank Deposits

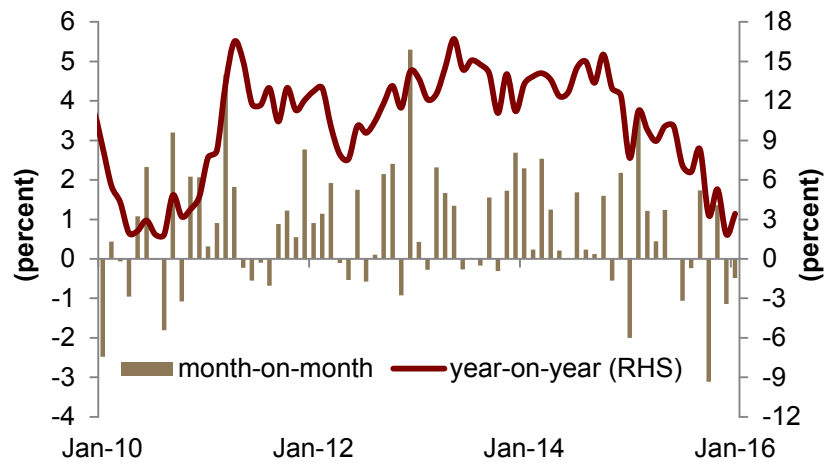
Total bank deposits fell for the second consecutive month. Government deposits rose by SR11.4 billion, while private sector deposits fell by SR16.5 billion. The slowdown in deposits pushed up the loan-to-deposit ratio to its highest point in seven years. We expect the loosening up of liquidity limits by SAMA to boost credit in the next few months.

Total bank deposits fell for the second consecutive months, down by SR7.8 billion in January.

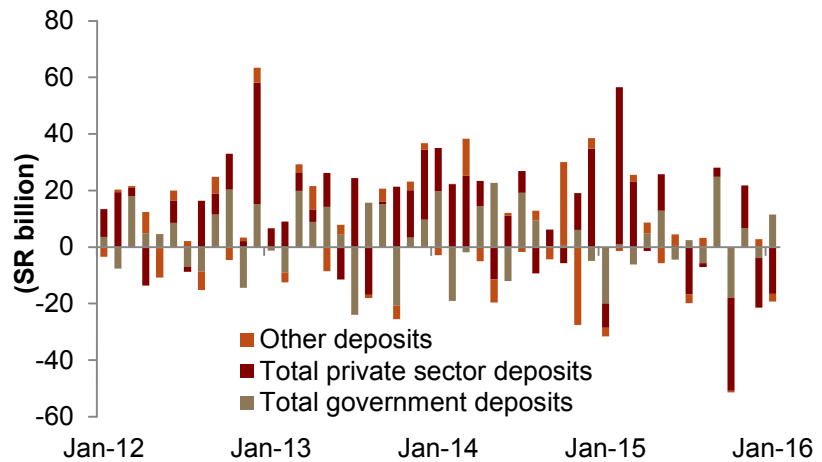
Government deposits rose by SR11.4 billion, while private sector and other deposits fell by SR16.5 billion and SR2.7 billion respectively.

The slowdown in deposits pushed up the loan-to-deposit ratio to 86.1, a seven year high.

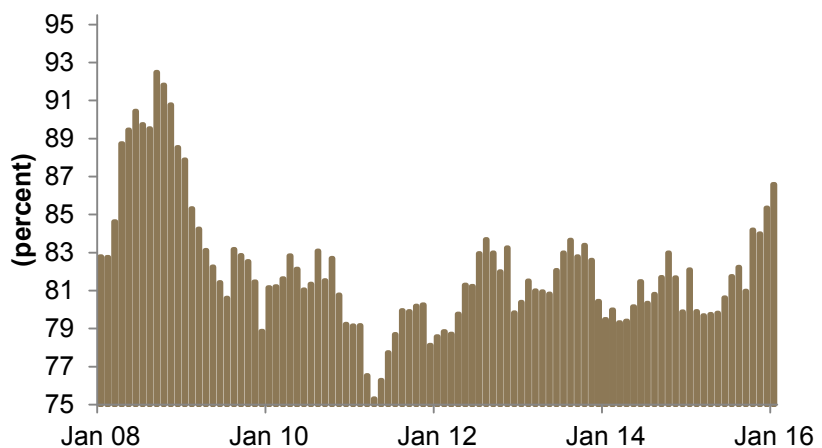
Growth in total deposits



Deposits by institution
(month-on-month change)



Loan-to-deposit ratio

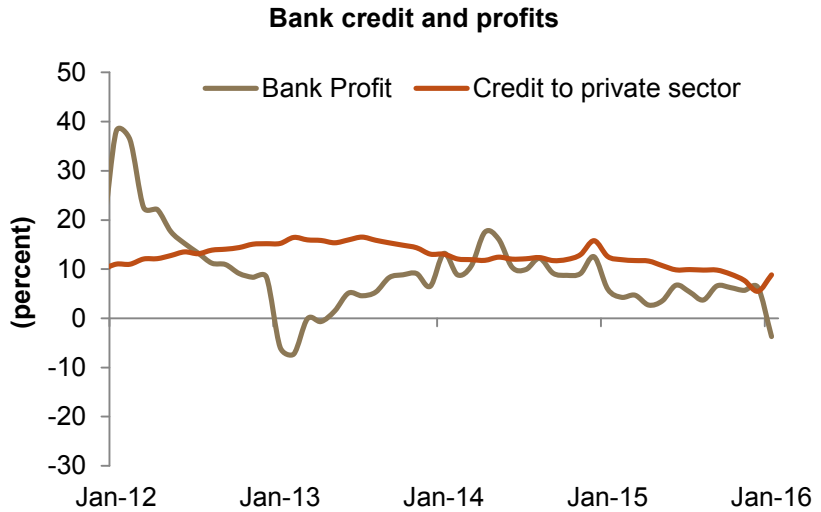




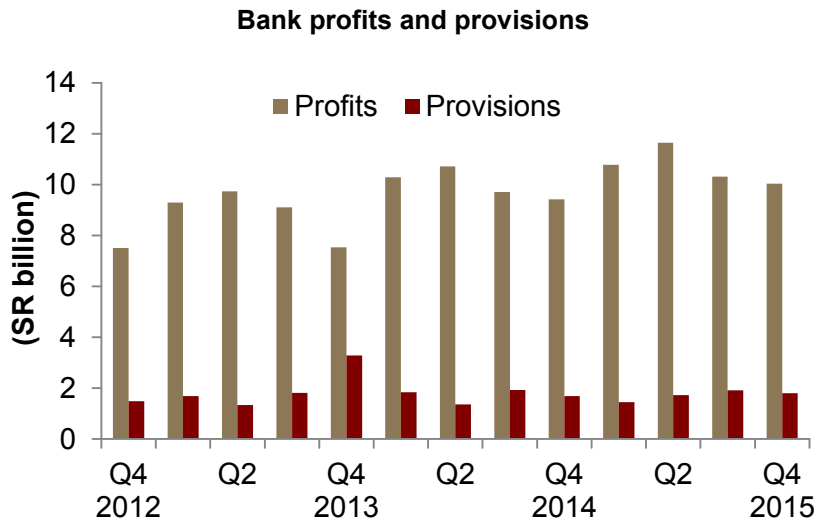
Banking Indicators

In January, monthly bank profits edged downwards year-on-year for the first time since April 2013. During 2015, profits remained strong while bank provisions were at stable levels. The resilience of banks during 2015 came as the value of non-performing loans remained manageable at 1.1 percent of total loans throughout the year.

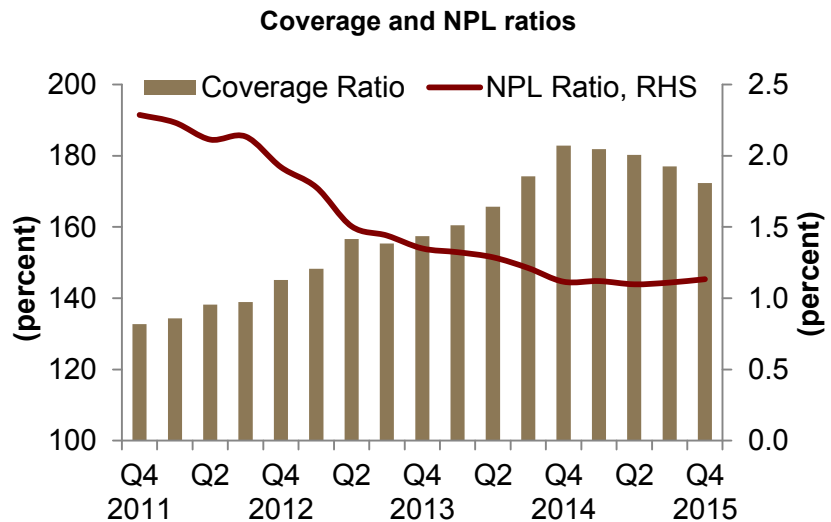
Monthly bank profits fell by 3.7 percent, year-on-year in January...



...likely impacted by a rise in provisions.



The NPL ratio remained stable at 1.1 percent throughout 2015, pointing to limited exposure by banks during 2015.

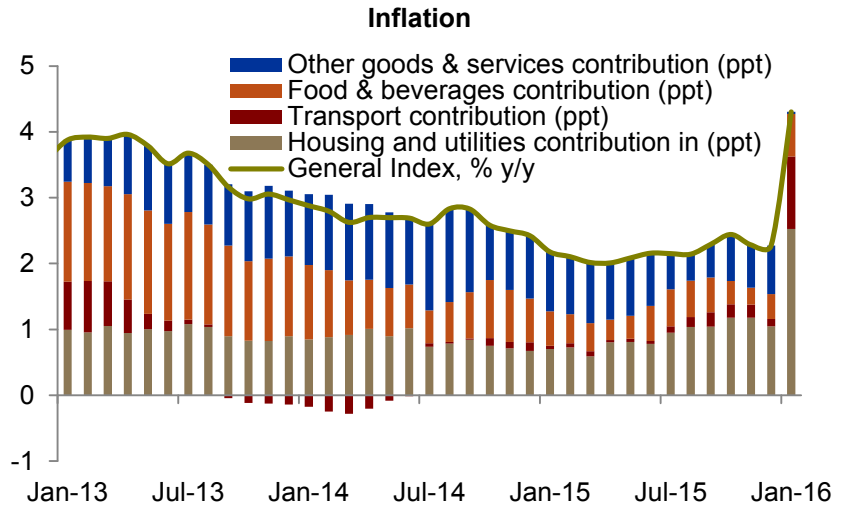




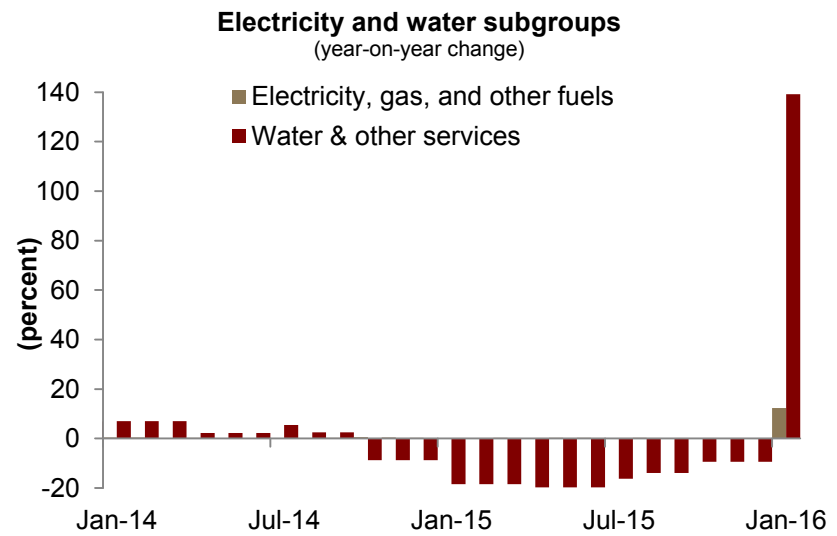
Inflation

Saudi CPI accelerated sharply to 4.3 percent year-on-year in January, its highest in five years, as higher domestic energy prices contributed to a significant rise in the housing and utilities, and transport segments.

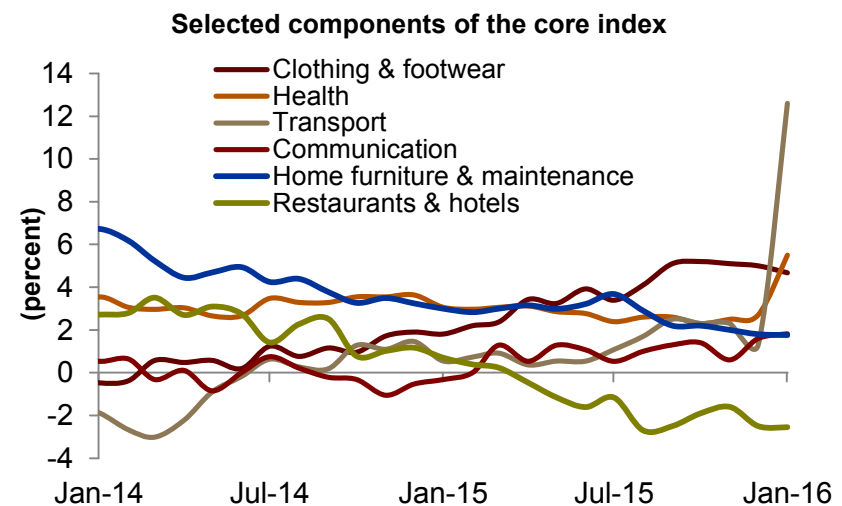
In January, inflation rose sharply to 4.3 percent, pushed mainly by:



(i) the housing and utilities component, which was affected by new electricity and water tariffs...



... and (ii) the transport component, which rose by 12.6 percent due to higher fuel prices.

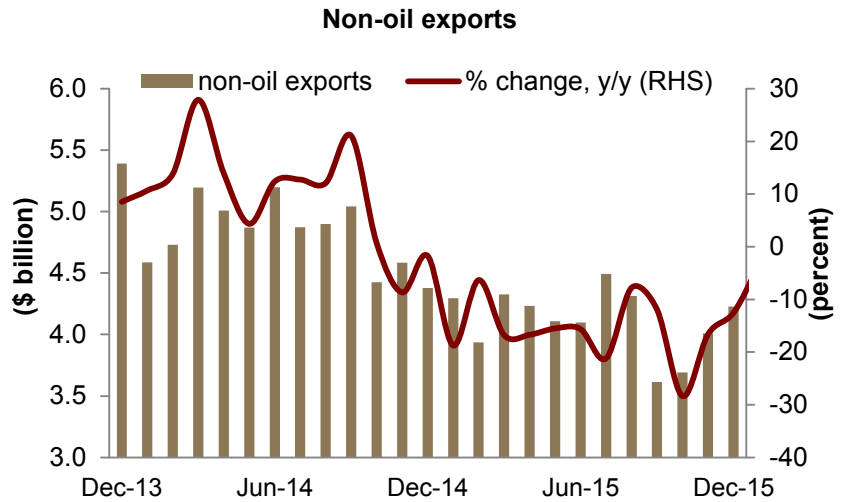




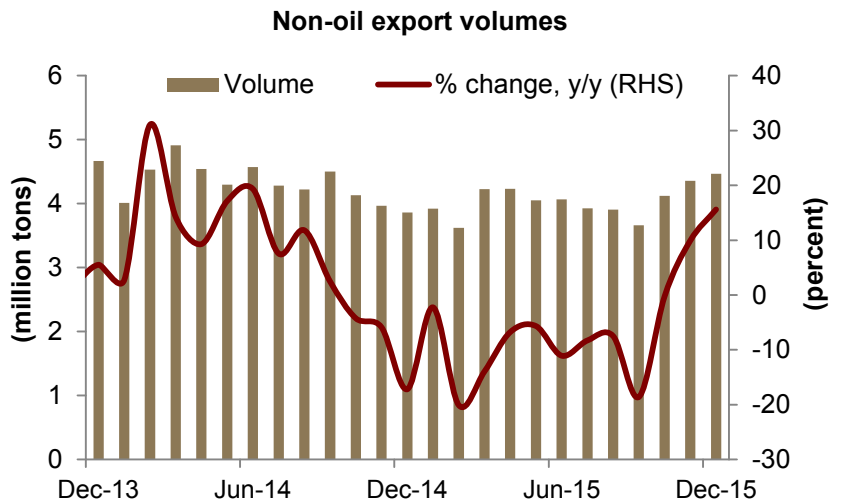
Trade

December data showed that non-oil exports continued to improve month-on-month. Non-oil export volumes continued to rise in both month-on-month and year-on-year terms. Imports rose, month-on-month, but new LOCs point to a likely slowdown in coming months.

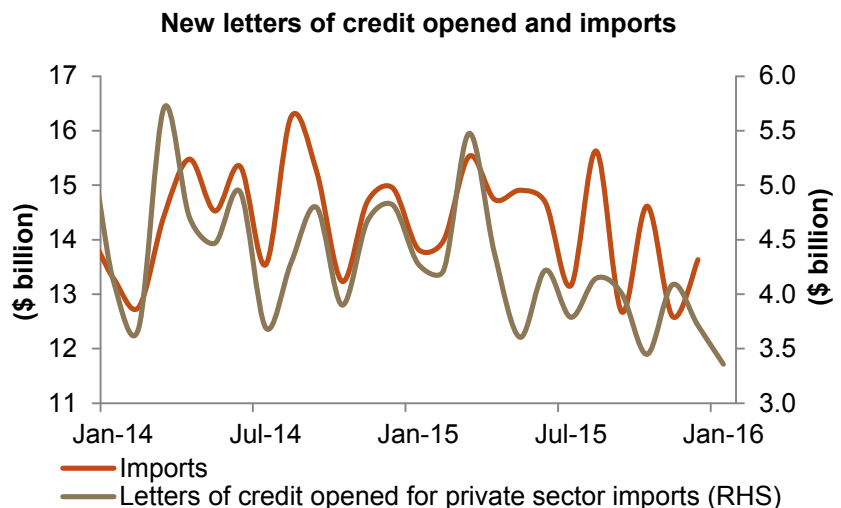
Non-oil exports rose for the third consecutive month, reaching \$4.2 billion in December.



Volumes exported also posted a strong rise, reaching its highest level in fifteen months.



New LOCs opened point to a likely slowdown in imports in coming months.

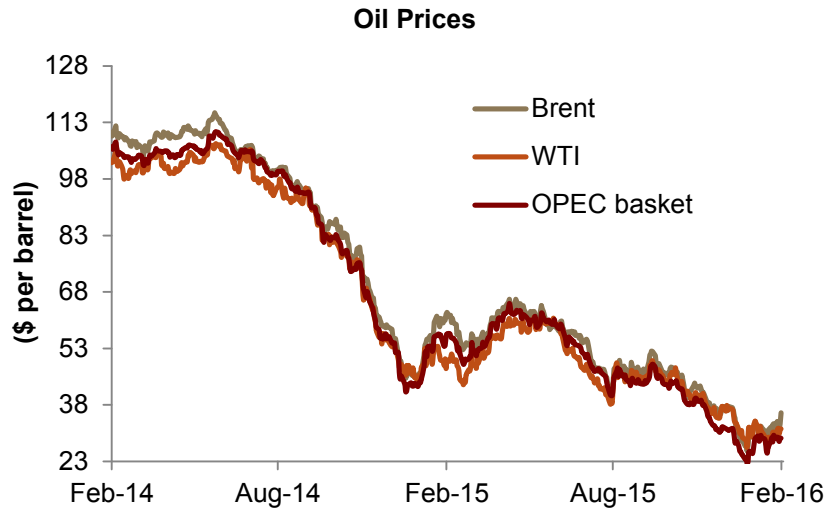




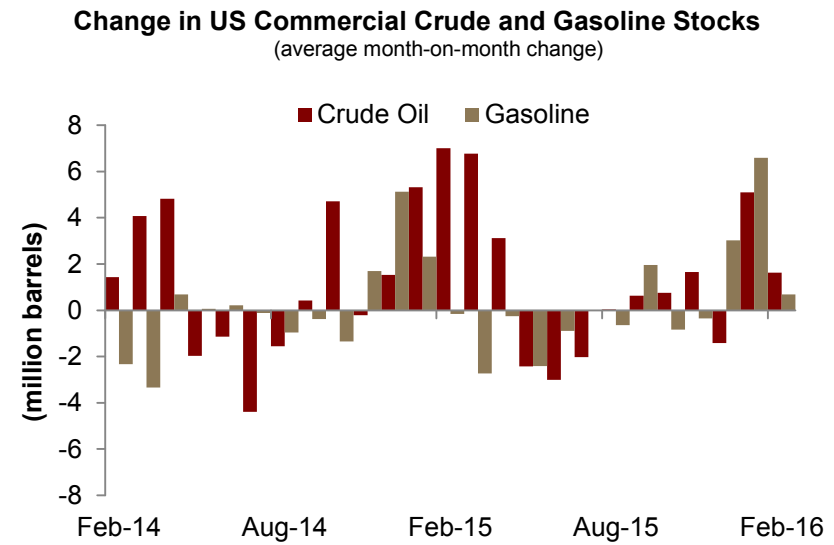
Oil - Global

Brent gain by 3 percent but WTI dropped by 5 percent month-on-month. Brent was supported by the prospect of production freezes agreed upon by Saudi Arabia, Venezuela, Russia and Qatar during the month. WTI was affected by continued gasoline and crude stock build.

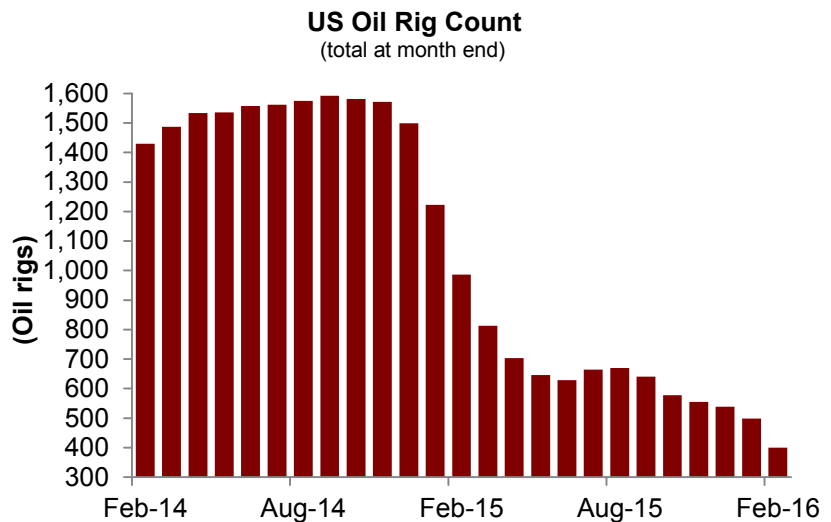
Brent rose during the month but WTI fell...



...as both commercial gasoline and crude stocks built...



...despite record low oil rig count.



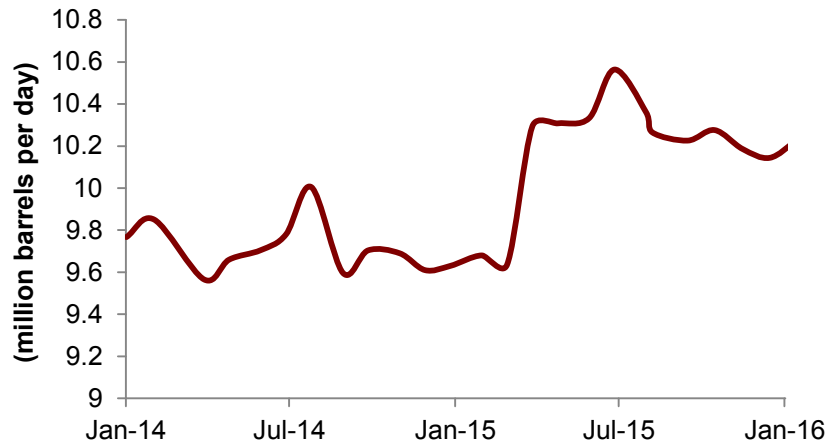


Oil - Regional

Saudi crude production remained unchanged month-on-month, averaging 10.2 mbpd in January. Comments by the Saudi oil minister during the month have suggested there will be no cuts in production. Latest data shows that Saudi crude exports in December averaged 7.5 mbpd.

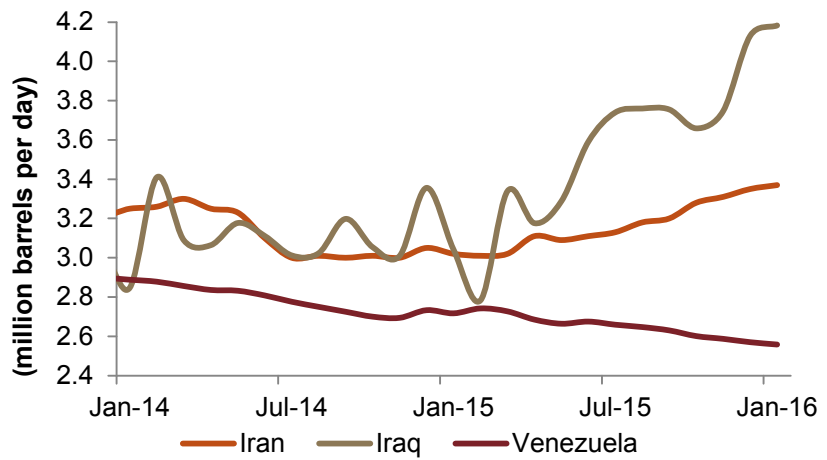
As we have stated previously, we expect Saudi crude production to remain at current levels of 10.2 mbpd throughout 2016.

Saudi crude production

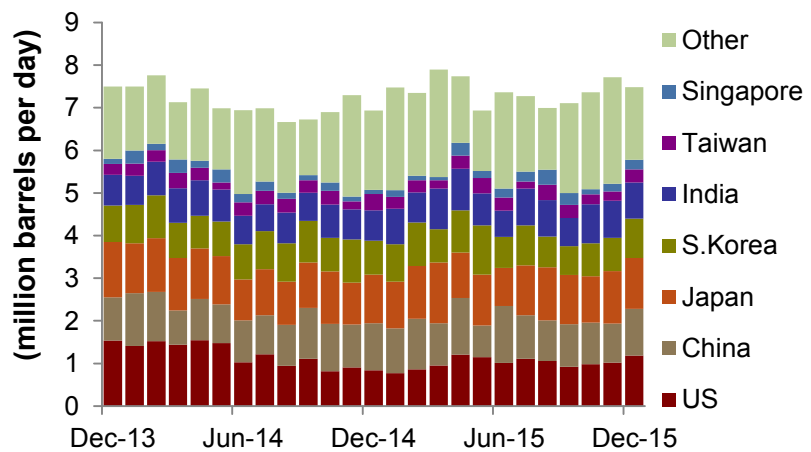


Both Iran and Iraq managed production increases but Venezuelan output continues to follow a downward trend which started in January 2015.

Iraq, Iran and Venezuela production



Saudi crude exports by country



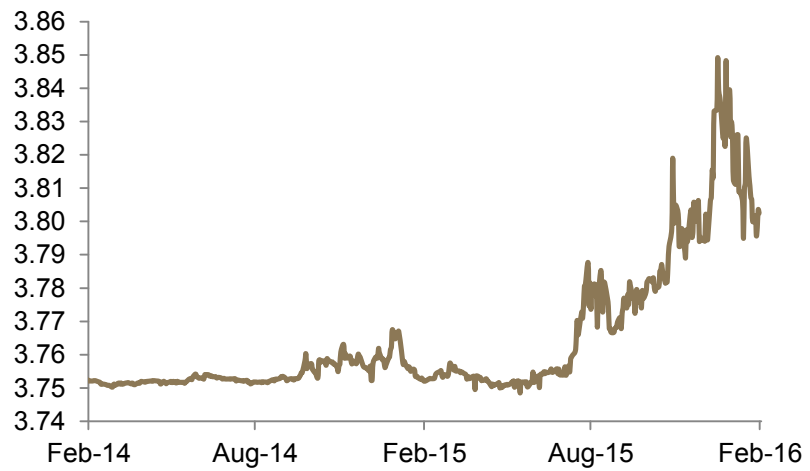
Latest data shows Saudi exports average 7.5 mbpd in December pushing the 2015 export average to 7.4 mbpd.



Exchange Rates

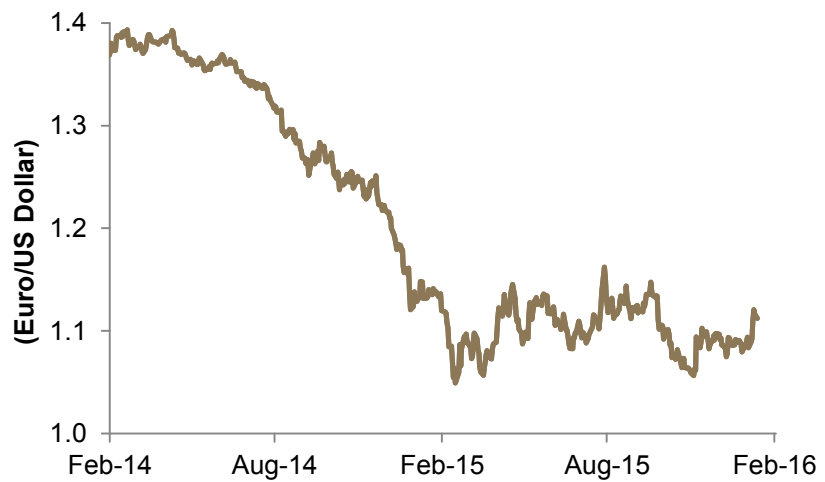
The dollar/riyal one year forward rate declined during February but still remains high. Meanwhile, the US dollar strengthened as positive inflation indicators and strong US consumer data pointed to continued strength in the US economy. The UK pound weakened on speculation of a possible UK exit from the European Union (EU).

US Dollar/Riyal one year forward rate
(USD/Saudi riyal peg = 3.75)



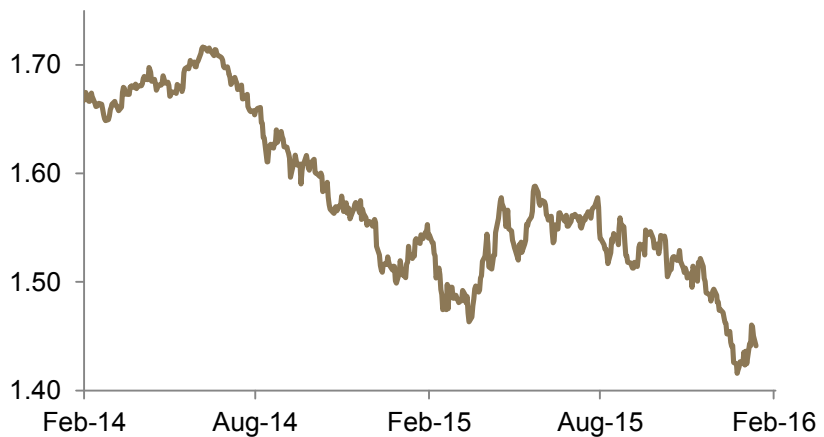
The dollar/riyal forward rate has eased recently after the SAMA again insisted that the peg will not be broken.

Euro/US Dollar



The dollar strengthened slightly as positive US economic data raised the likelihood of an interest rate hike sooner rather than later.

British Pound/US Dollar



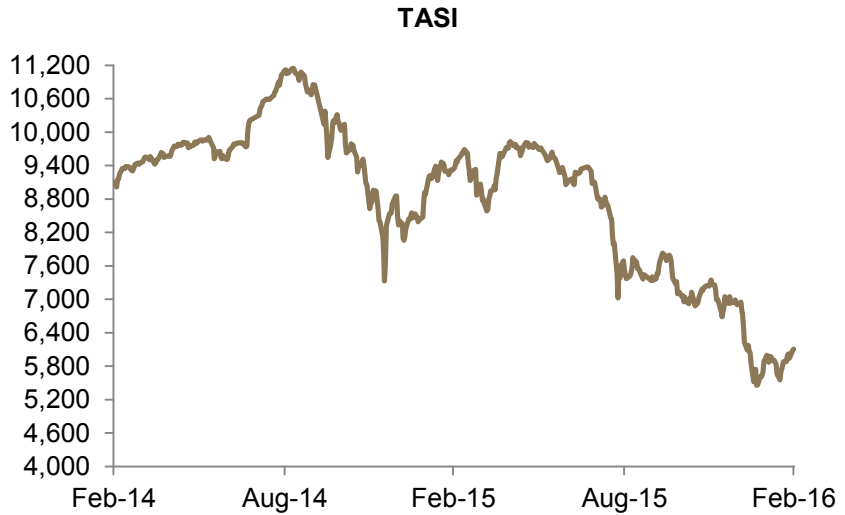
Speculation of a possible 'Brexit' from the EU weakened the UK pound.



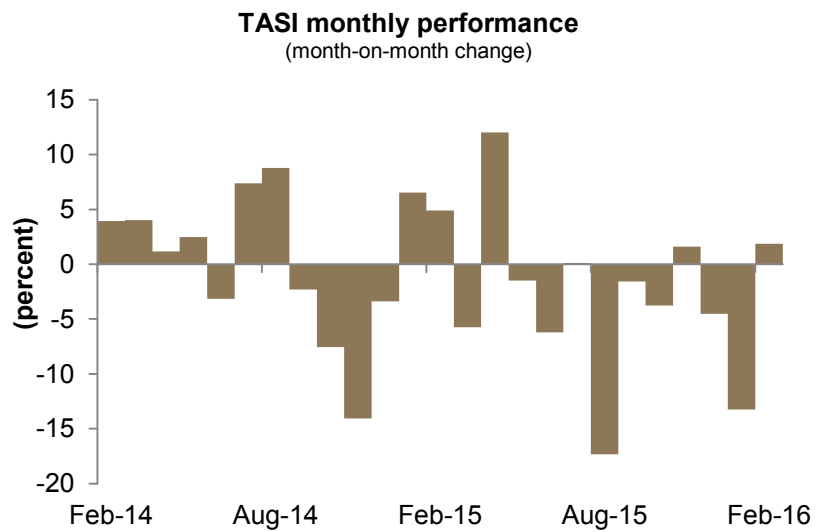
Stock Market

The slight recovery in oil prices helped push up the TASI in February, particularly towards the end of the month where sharper rise in oil prices were recorded. It was the first TASI increase after two previous months of declines. The recovery of the TASI was in line with regional markets.

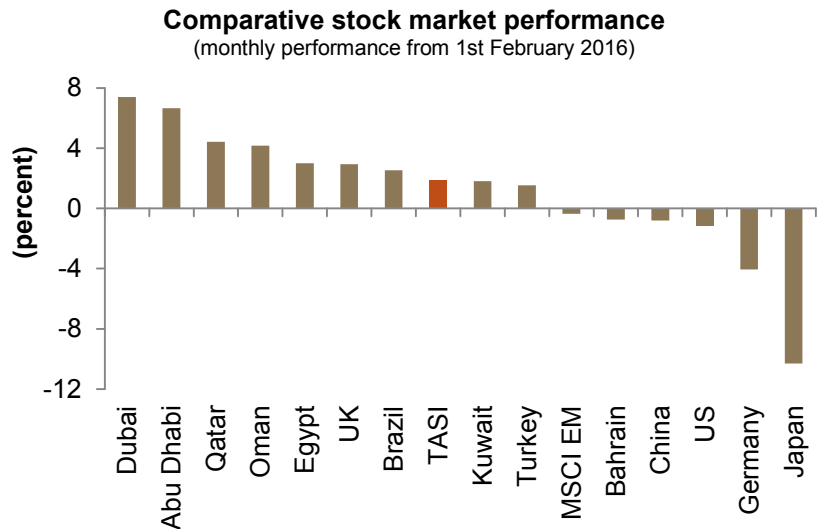
A sharper rise in the TASI was seen towards the end of the month, in line with sharper oil price rises....



...reversing the previous two months negative monthly performance.



The TASI's improvement was in-line with other regional market seen during the month.



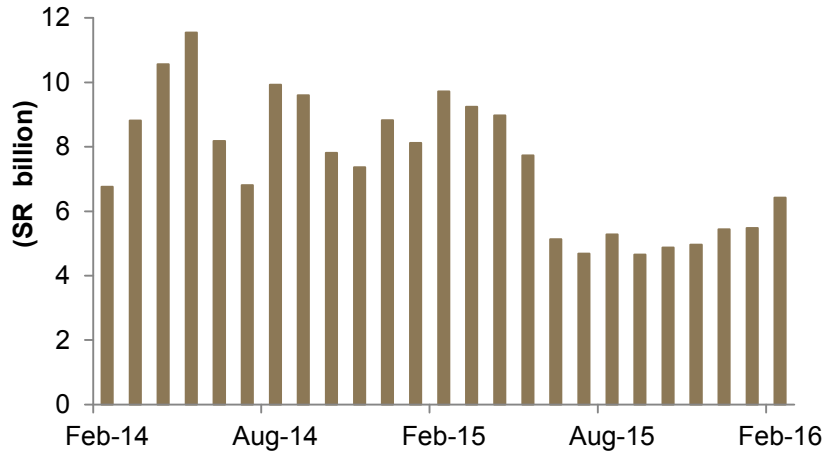


Volumes

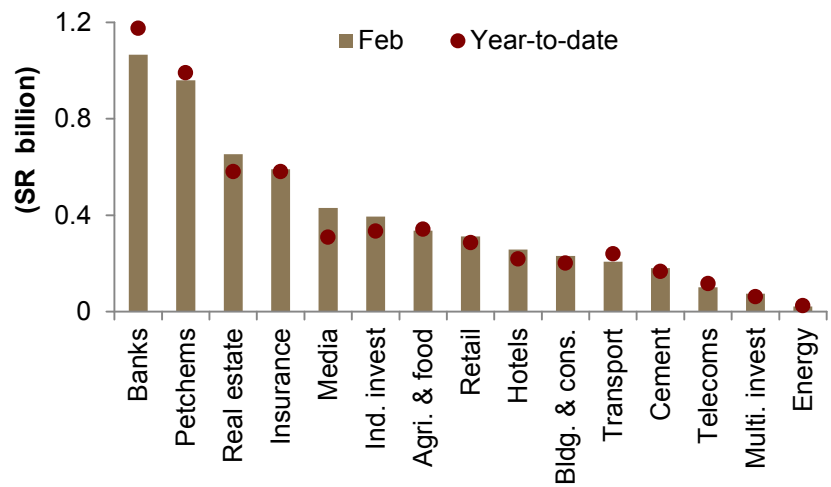
The better performance of the TASI during the month translated to an improvement in average traded volumes as well, although they still remain subdued. Unsurprising the larger sectors showed the largest traded volumes.

Traded volumes, whilst being up month-on-month, still remain subdued compared to levels seen a year ago.

Daily average stock market turnover

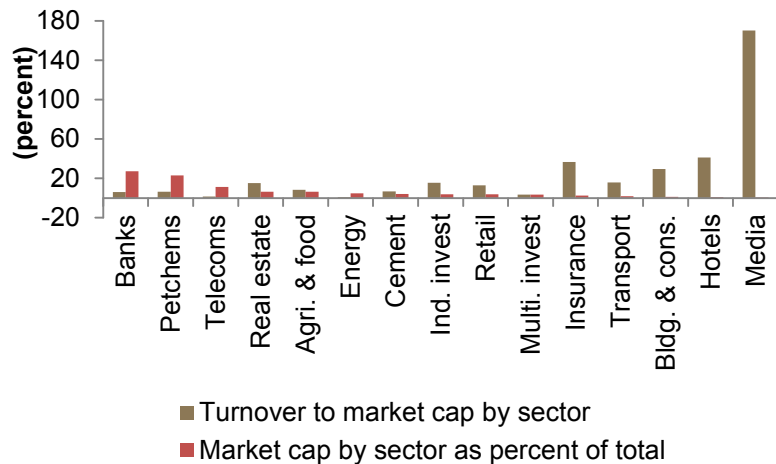


Turnover by sector (daily average)



Unsurprising the larger sectors showed the largest traded volumes....

Turnover as percent of market cap (February, 2016)



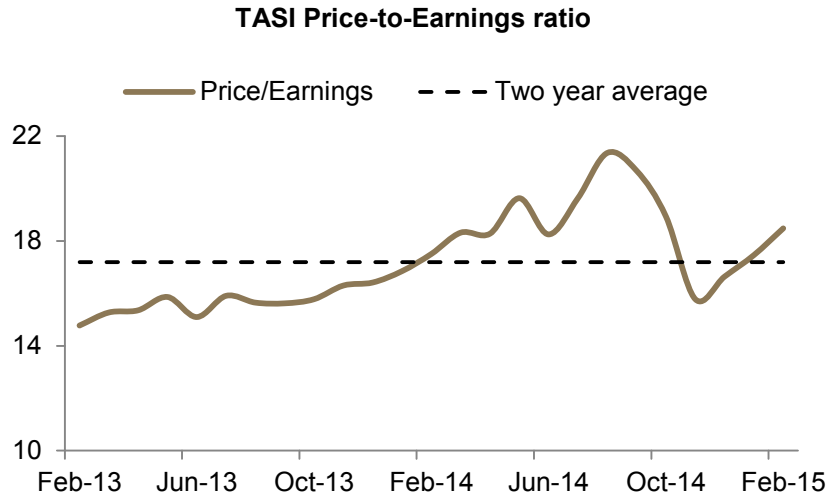
...although the Media sectors traded volumes relative market cap. were elevated on back of speculative activity,



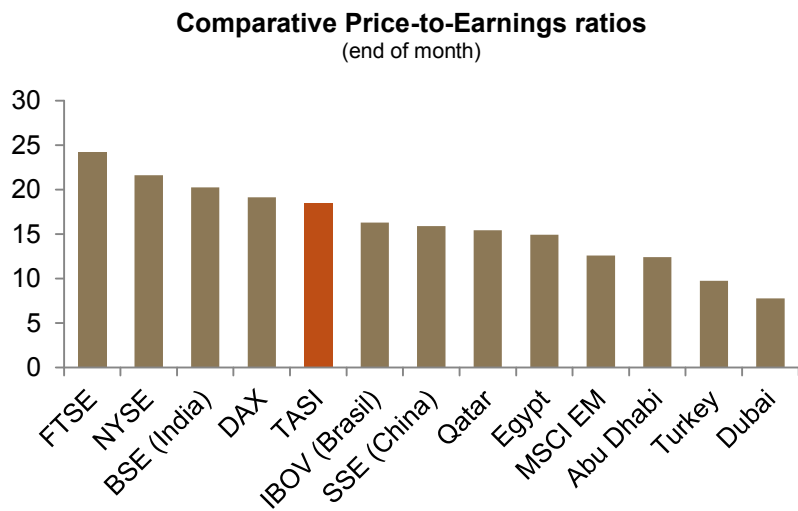
Valuations

The TASI's price to earnings (PE) trended upwards in February to 18.5, rising above the two year average of 17.2. The TASI's PE remains on the higher side when compared to major and regional indices but dividend yield is comparatively better than many emerging market indices.

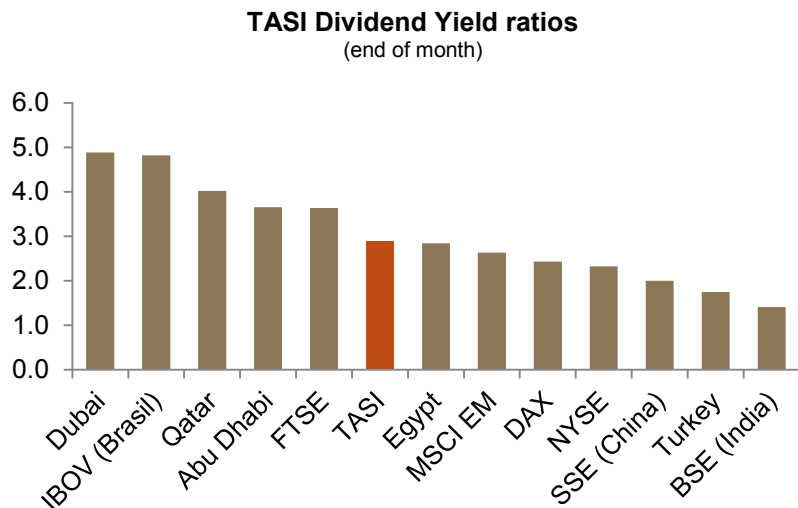
The TASI's PE is moving above the two year average, suggesting it is becoming more expensive...



...especially so when compared to regional indices...



...although dividend yield is comparatively stronger.

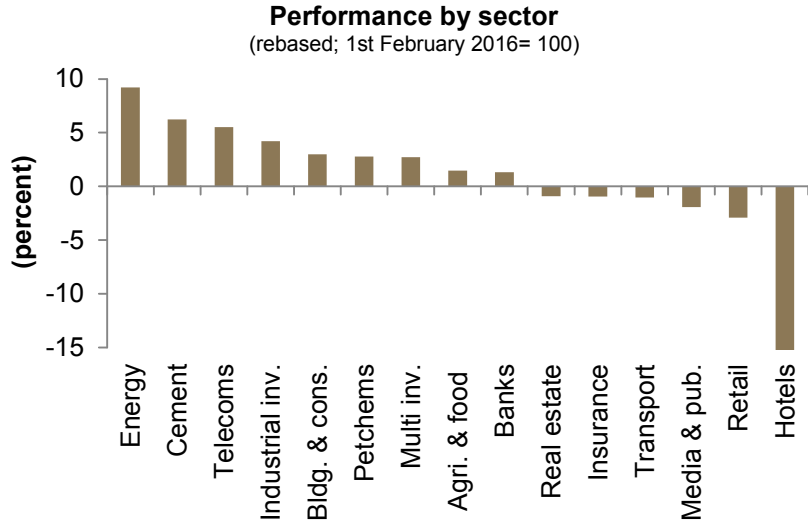




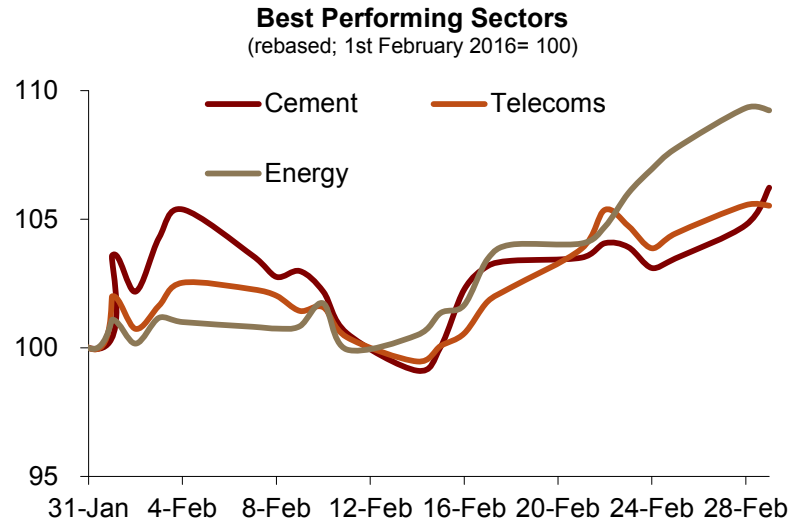
Sectoral Performance

Nine out of the 15 sectors saw positive performance in February reflecting the better performance of the TASI. The onset of hotter weather boosted the energy sector, whilst the worst performing sector, hotels, was affected by seasonality.

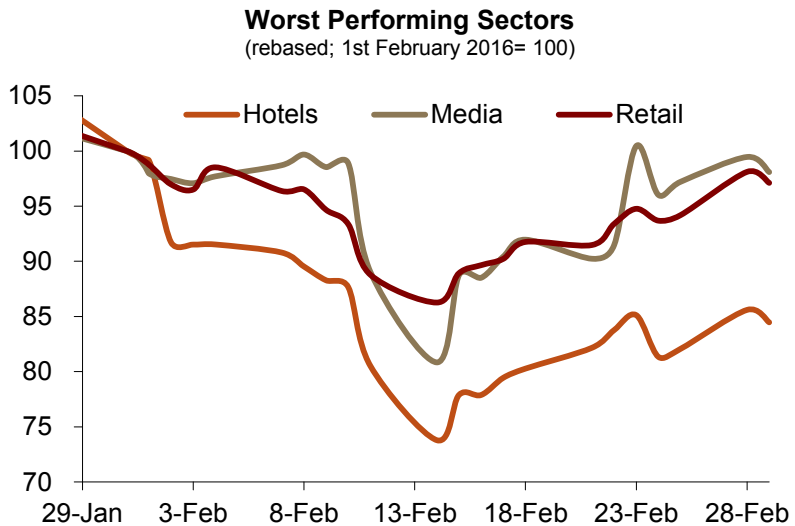
Nine out of the 15 sectors saw positive performance in February.



Both gains and losses for all sectors were modest...



...aside from hotels, which seemed to perform more poorly due to seasonality.





Key Data

	2009	2010	2011	2012	2013	2014	2015 E	2016 F	2017 F
Nominal GDP									
(SR billion)	1,609	1,976	2,511	2,752	2,791	2,827	2,450	2,254	2,509
(\$ billion)	429.1	526.8	669.5	734.0	744.3	753.8	653.2	601.0	669.0
(% change)	-17.4	22.8	27.1	9.6	1.4	1.3	-13.3	-8.0	11.3
Real GDP (% change)									
Oil	-8.0	-0.1	12.2	5.1	-1.6	2.1	3.1	0.9	0.6
Non-oil private sector	4.9	9.7	8.0	5.5	7.0	5.4	3.7	2.6	3.0
Government	6.3	7.4	8.4	5.3	5.1	3.7	3.3	2.5	2.6
Total	1.8	4.8	10.0	5.4	2.7	3.6	3.4	1.9	2.0
Oil indicators (average)									
Brent (\$/b)	61.7	79.8	112.2	112.4	109.6	99.4	52.1	32.8	43.6
Saudi (\$/b)	60.4	77.5	103.9	106.1	104.2	95.7	49.4	30.3	40.6
Production (million b/d)	8.2	8.2	9.3	9.8	9.6	9.7	10.2	10.2	10.2
Budgetary indicators (SR billion)									
Government revenue	510	742	1,118	1,247	1,156	1,040	608	488	568
Government expenditure	596	654	827	873	976	1,111	975	890	901
Budget balance	-87	88	291	374	180	-71	-367	-402	-333
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.5	-15.0	-17.8	-13.3
Domestic debt	225	167	135	99	60	44	142	263	503
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	5.8	11.6	20.1
Monetary indicators (average)									
Inflation (% change)	4.1	3.8	3.7	2.9	3.5	2.7	2.2	3.9	4.6
SAMA base lending rate (% , year end)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.8	3.4
External trade indicators (\$ billion)									
Oil export revenues	166.9	215.2	317.6	337.5	322.0	285.2	157.6	100.7	127.5
Total export revenues	192.3	251.1	364.7	388.4	375.9	342.5	204.6	151.3	182.0
Imports	87.1	97.4	120.0	141.8	153.3	158.5	141.8	141.9	143.1
Trade balance	105.2	153.7	244.7	246.6	222.6	184.0	62.7	9.4	38.9
Current account balance	21.0	66.8	158.5	164.8	135.4	73.8	-41.3	-72.1	-48.6
(% GDP)	4.9	12.7	23.7	22.4	18.2	9.8	-6.3	-12.0	-7.3
Official reserve assets	410.1	445.1	544.0	656.6	725.7	732.4	611.9	499.8	411.4
Social and demographic indicators									
Population (million)	26.7	27.6	28.4	29.2	30.0	30.8	31.5	32.2	32.9
Saudi unemployment (15+, %)	10.5	11.5	12.4	12.1	11.7	11.7	11.5	11.6	11.5
GDP per capita (\$)	16,095	19,113	23,594	25,139	24,816	24,499	20,723	18,637	20,304

Sources: Jadwa Investment forecasts for 2016, and 2017. 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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