



## Summary

**Real Economy:** Economic data showed slight improvements in February. POS transactions rose by 27 percent, and non-oil PMI index was marginally up to 56.6 in February.

**Government Finance:** The net monthly change to government accounts with SAMA was down by SR9 billion month-on-month in February.

**SAMA foreign Reserve Assets:** SAMA FX reserves declined by \$5.4 billion month-on-month to stand at \$484.6 billion in February.

**Money Supply:** The broad measure of money supply (M3) rose by 1.5 percent in February, year-on-year, but was flat on a monthly basis.

**Bank Deposits:** Bank deposits rose by 1.4 percent year-on-year in February, mainly due to a rise in total demand deposits.

**Bank Credit:** Total bank claims rose by 6.4 percent in February, year-on-year, and credit to the private sector rose by 3.1 percent year-on-year, marking the highest annual rise since November 2016.

**Interest Rates:** SAMA kept key interest rates unchanged in March, following the US Federal Reserve's decision not to raise interest rates.

**Inflation:** Prices declined for the second month in February by 2.2 percent year-on-year, and by 0.2 percent month-on-month.

**Labor Market:** The Saudi unemployment rate was slightly down in Q4 2018, at 12.7 percent.

**Q4 GDP Results:** Data on Q4 2018 real GDP showed that the economy grew by 3.59 percent, year-on-year, the highest quarterly growth rate in three years.

**Balance of Payments:** A notable rise in the trade balance helped push up the current account to a total of \$72 billion or 9.2 percent of GDP (versus our forecast of 9.1 percent).

**Industrial Production:** The index for industrial production (IIP) rose by 2.3 percent year-on-year, during Q3 2018.

**Oil-Global:** Brent oil prices were up 3 percent month-on-month in March as latest data from OPEC showed continued compliance to agreed output levels.

**Oil-Regional:** Saudi crude oil production continued to decline month-on-month in February, down 1 percent to 10.13 mbpd.

**Exchange Rates:** Most major currencies saw a decline against the US dollar during March despite the Fed's indication, in a recent meeting, that no further interest rate changes would likely take place during 2019.

**Stock Market:** TASI rose by 4 percent month-on-month in March as the Saudi index received the first tranche of passive inflows.

For comments and queries please contact:

Asad Khan  
Head of Research  
rkhan@jadwa.com

Nouf N. Alsharif  
Economist  
nalsharif@jadwa.com

Head office:

Phone +966 11 279-1111  
Fax +966 11 293-7988  
P.O. Box 60677, Riyadh 11555  
Kingdom of Saudi Arabia  
www.jadwa.com

Jadwa Investment is licensed by the Capital Market Authority to conduct Securities Businesses, license number 6034-37.

View Jadwa Investment's research archive and sign up to receive future publications:  
<http://www.jadwa.com>

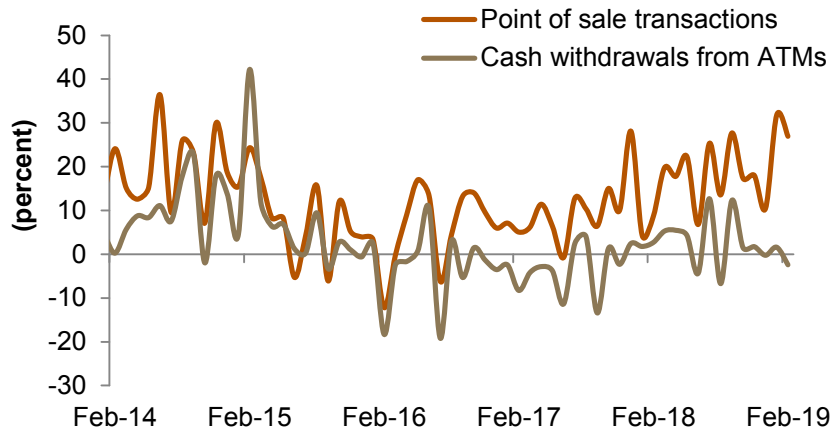


## Real Economy

Economic data showed slight improvements in February. POS transactions rose by 27 percent, whilst cash withdrawals declined by 2 percent during the month, year-on-year. In addition, non-oil PMI index was marginally up to 56.6 in February, supported by a strong rise in new orders. Meanwhile, latest available data shows non-oil exports declined in January by 1.4 percent year-on-year.

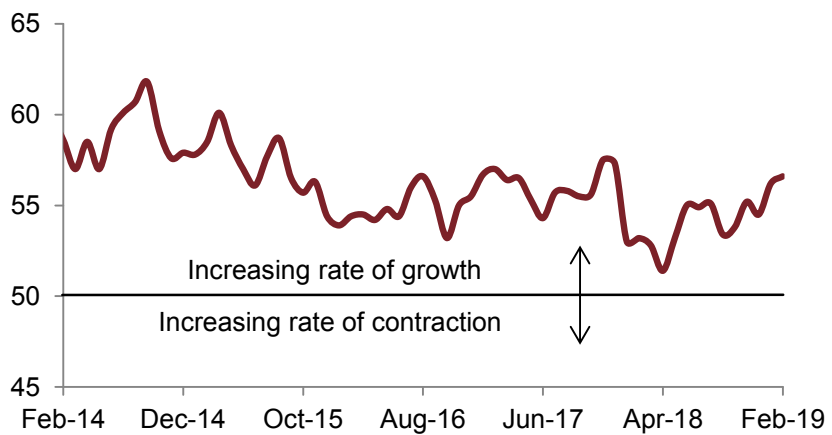
*POS transactions rose by 27 percent, whilst cash withdrawals declined by 2 percent in February, year-on-year.*

**Indicators of Consumer Spending**  
(year-on-year change)



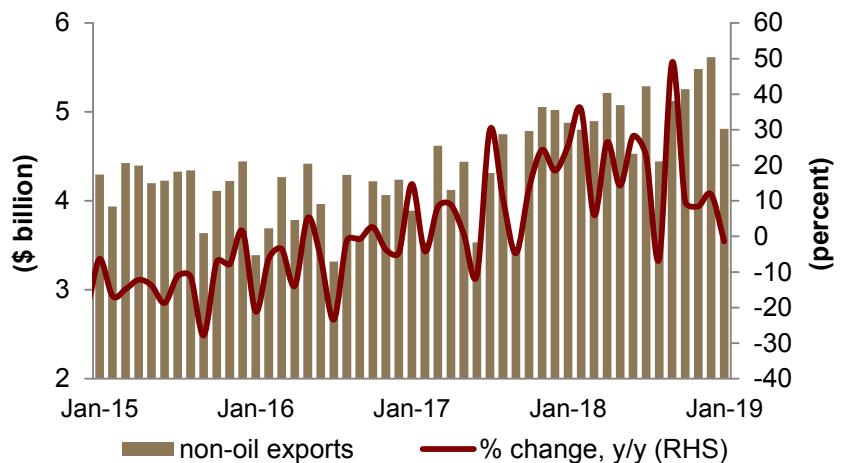
*Non-oil PMI index was marginally up to 56.6 in February, supported by a strong rise in new orders.*

**Non-oil Purchasing Managers' Index**



*Non-oil exports declined in January by 1.4 percent year-on-year, driven by a decline in petrochemical exports by 11 percent year-on-year during the month.*

**Non-Oil Exports**



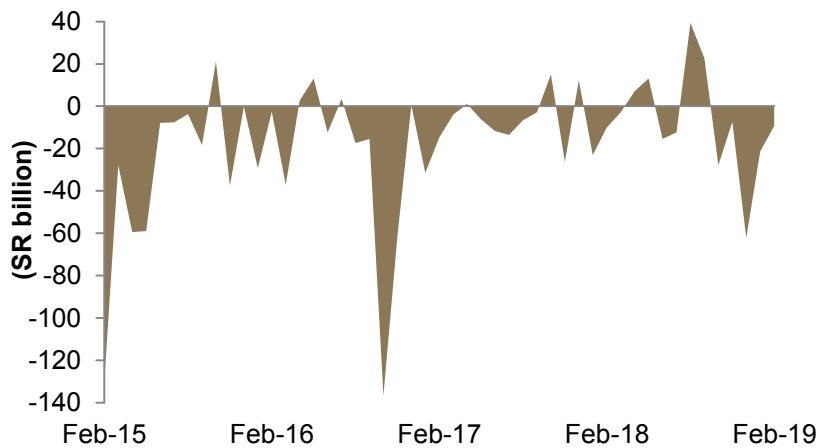


## Government Finance

The net monthly change to government accounts with SAMA was down by SR9 billion month-on-month in February, affected by a decline in government current deposits by SR7 billion during the month. Meanwhile, domestic banks net holdings of government debt rose by SR11 billion in February, as the Ministry of Finance (MoF) announced that it has sold SR9.4 billion of domestic sukuk during the month.

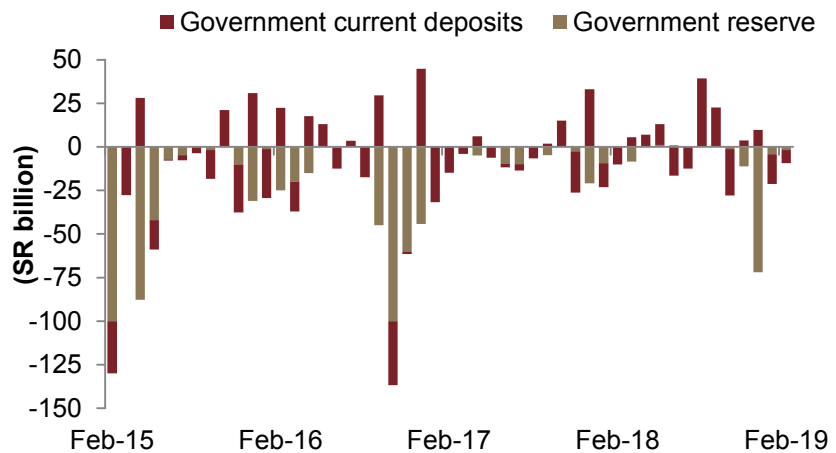
*The net monthly change to government accounts with SAMA was down by SR9 billion month-on-month in February...*

**Net Change to Government Accounts with SAMA**  
(month-on-month change)



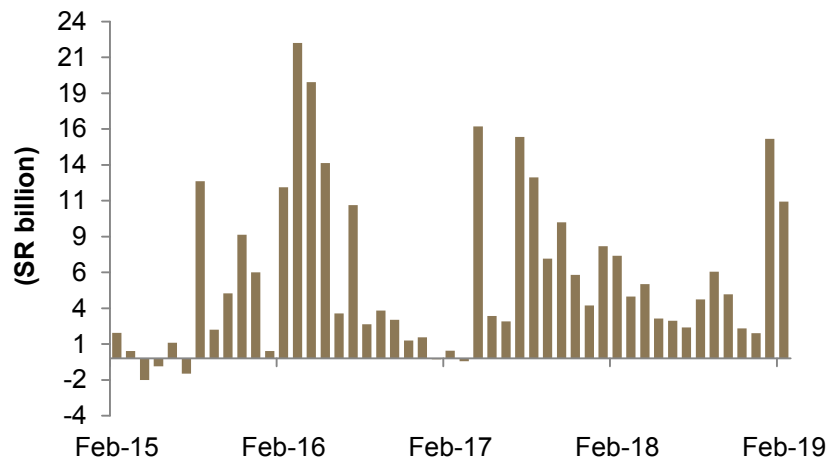
*...affected by a decline in government current deposits by SR7 billion during the month.*

**Breakdown of Government Accounts with SAMA**  
(month-on-month change)



*Domestic banks net holdings of government debt rose by SR11 billion in February, as the MoF announced that it has sold SR9.4 billion of domestic sukuk during the month, under the government's riyal-denominated sukuk program.*

**Domestic Banks Net Holdings of Government Bonds**  
(month-on-month change)

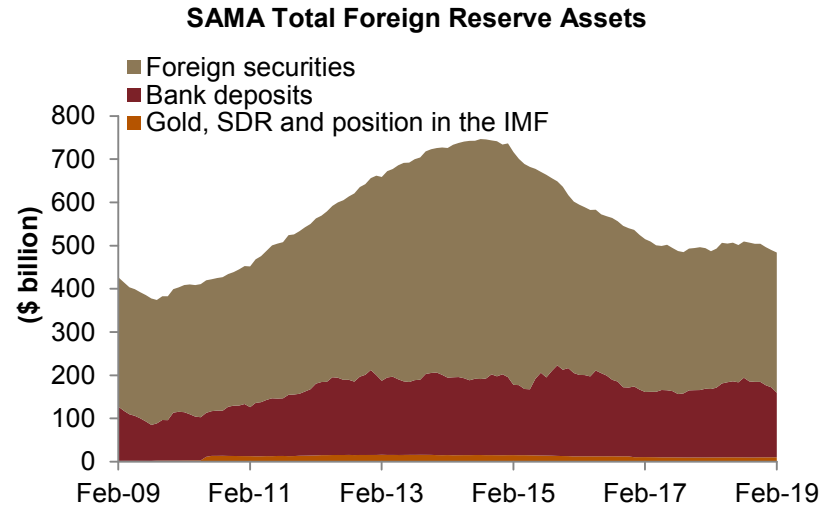




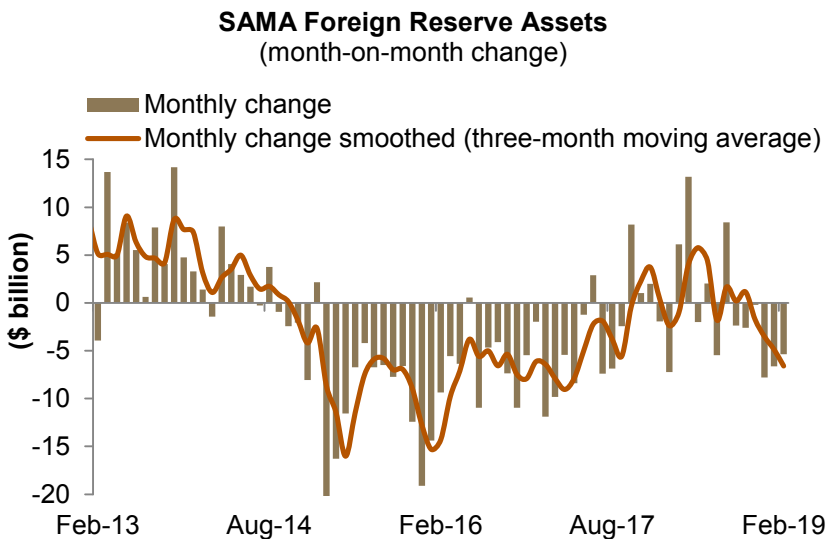
## SAMA Foreign Reserve Assets

SAMA FX reserves declined by \$5.4 billion month-on-month to stand at \$484.6 billion in February. A breakdown of FX reserves shows a monthly decline in SAMA's bank deposits by \$12.5 billion during the month, whilst foreign securities rose by \$6.7 billion month-on-month, marking the highest monthly rise in seven months.

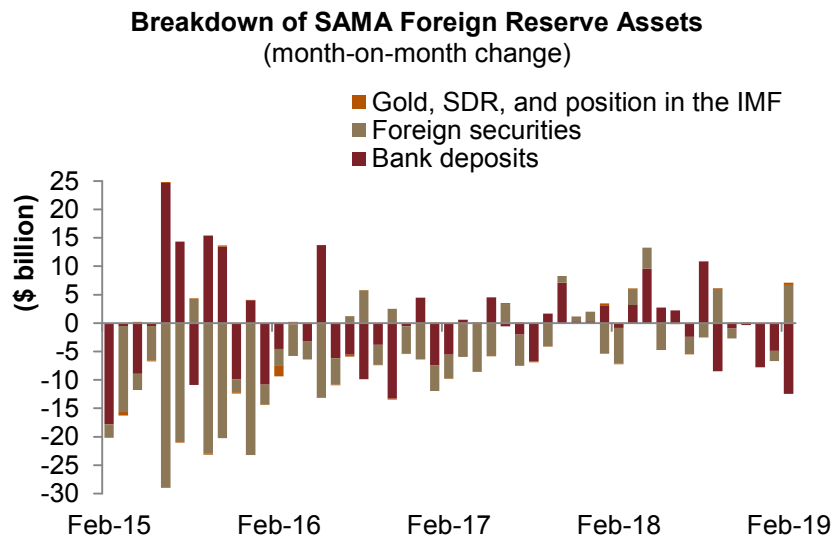
*SAMA FX reserves declined by \$5.4 billion month-on-month...*



*...to stand at \$484.6 billion in February.*



*A breakdown of FX reserves shows a monthly decline in SAMA's bank deposits by \$12.5 billion during the month, whilst foreign securities rose by \$6.7 billion month-on-month, marking the highest monthly rise in seven months.*

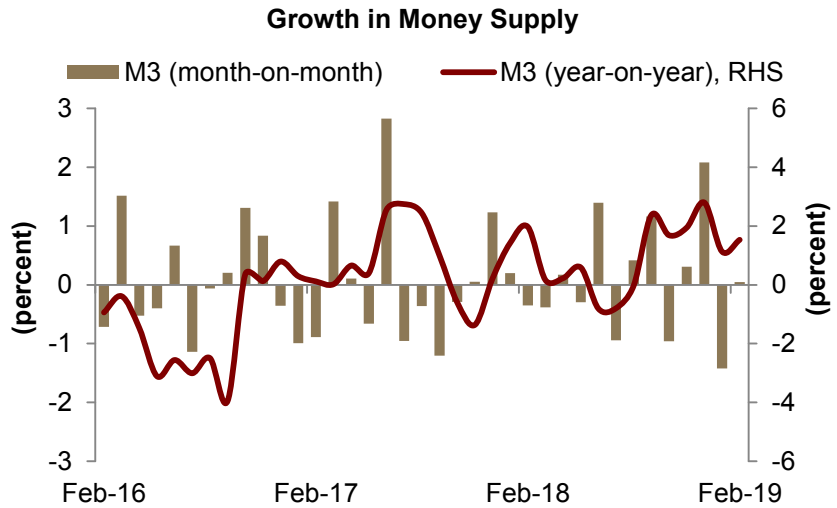




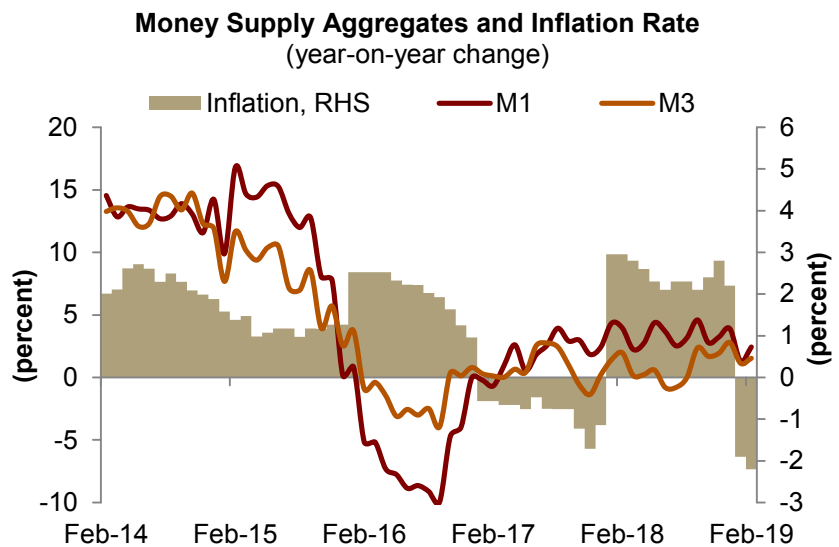
## Money Supply

The broad measure of money supply (M3) rose by 1.5 percent in February, year-on-year, but was flat on a monthly basis. Out of all the money supply aggregates (M1, M2, M3), M1 continues to show the highest rise in February, growing by 2.4 percent year-on-year, supported by a rise in currency outside banks by 2.6 percent year-on-year.

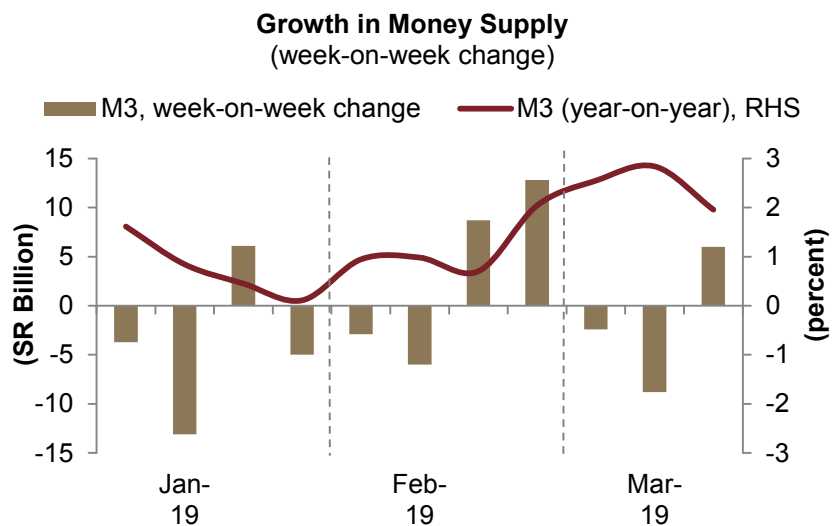
*M3 rose by 1.5 percent in February, year-on-year, but was flat on a monthly basis.*



*Out of all the money supply aggregates (M1, M2, M3), M1 continues to show the highest rise in February, growing by 2.4 percent year-on-year, supported by a rise in currency outside banks by 2.6 percent year-on-year.*



*Latest weekly M3 data shows a pick-up in money supply in March.*

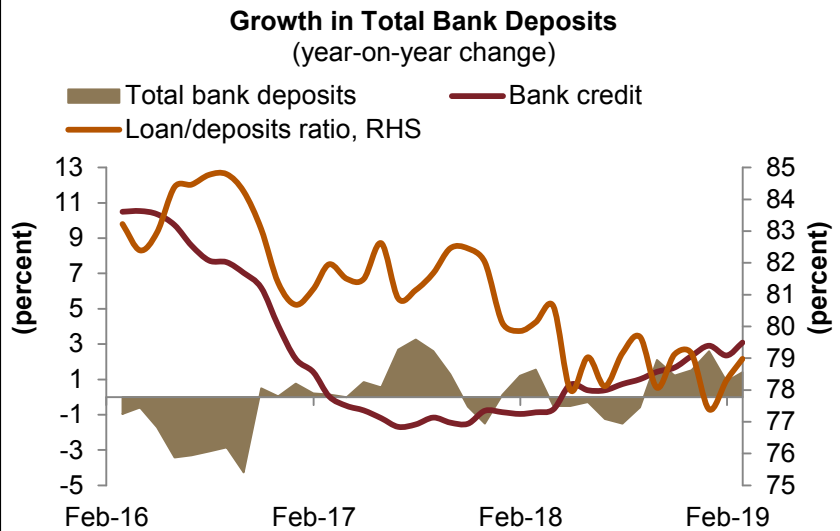




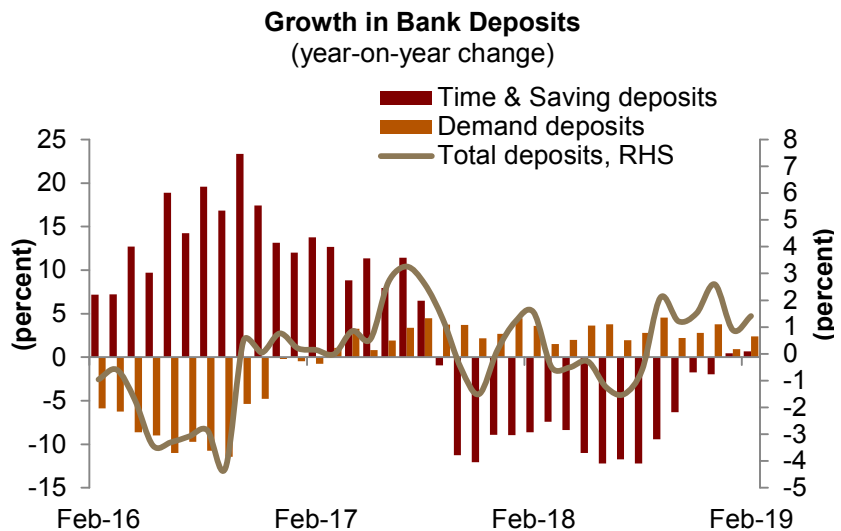
## Bank Deposits

Bank deposits rose by 1.4 percent year-on-year in February, mainly due to total demand deposits, which were up by 2.4 percent year-on-year. Meanwhile, private deposits rose by 2 percent year-on-year, affected by a rise in private time and saving deposits by 8 percent in February, whilst private demand deposits were up by 2.1 percent year-on-year during the month.

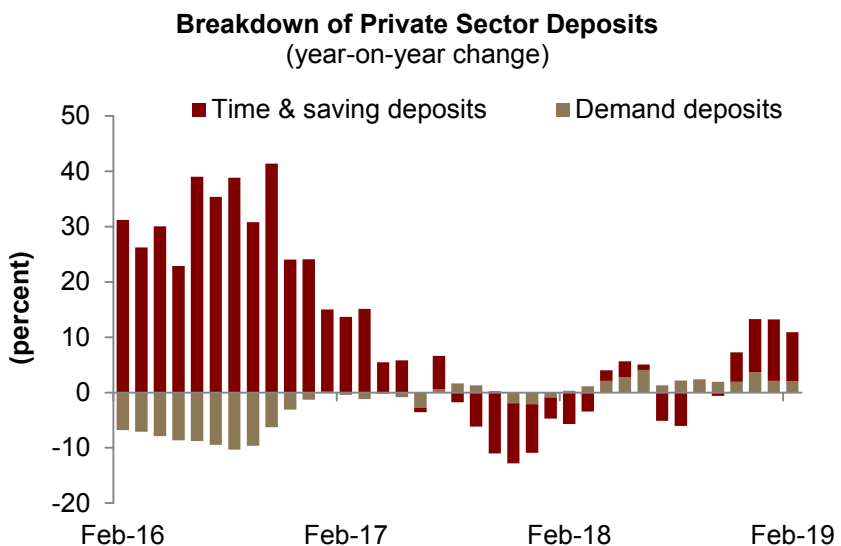
*Bank deposits rose by 1.4 percent year-on-year in February...*



*...mainly due to total demand deposits, which were up by 2.4 percent year-on-year.*



*Private deposits rose by 2 percent year-on-year, affected by a rise in private time and saving deposits by 8 percent in February.*

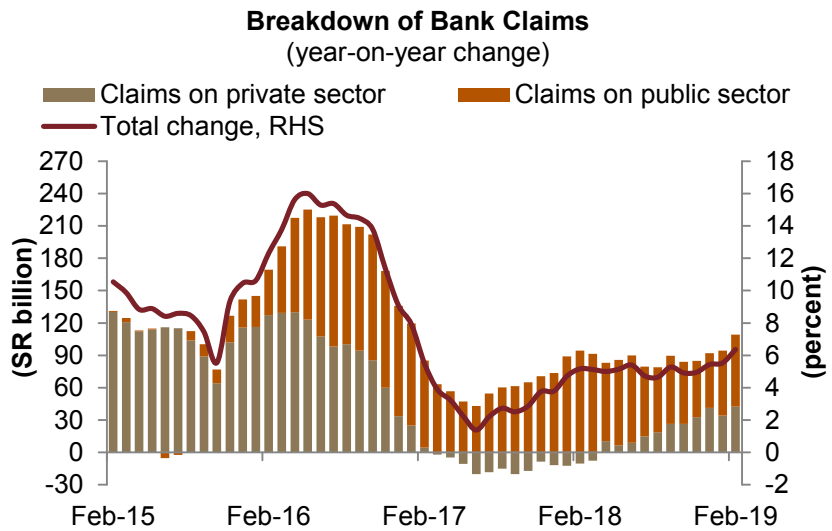




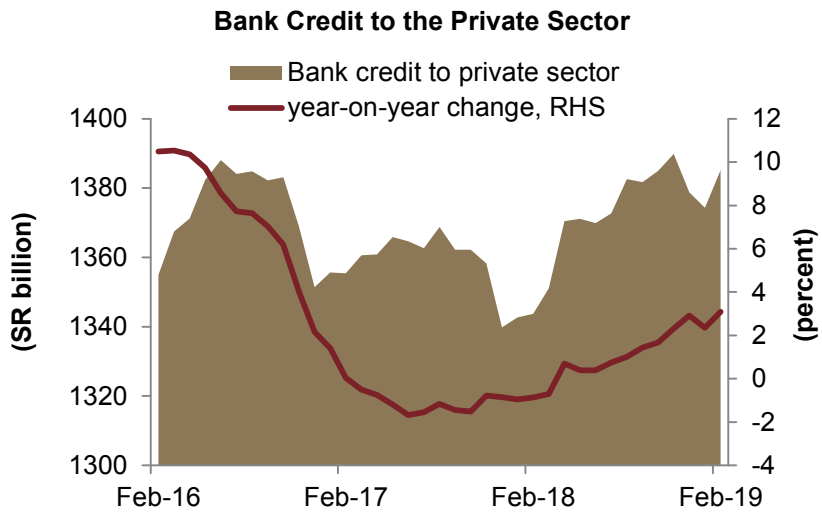
## Bank Credit

Total bank claims rose by 6.4 percent in February, year-on-year. Claims on the public sector rose by 21 percent year-on-year. Meanwhile, credit to the private sector rose by 3.1 percent year-on-year, marking the highest annual rise since November 2016. Meanwhile, credit by maturity shows that short-term credit rose by 1.8 percent, whilst long term credit rose by 4.8 percent, year-on-year.

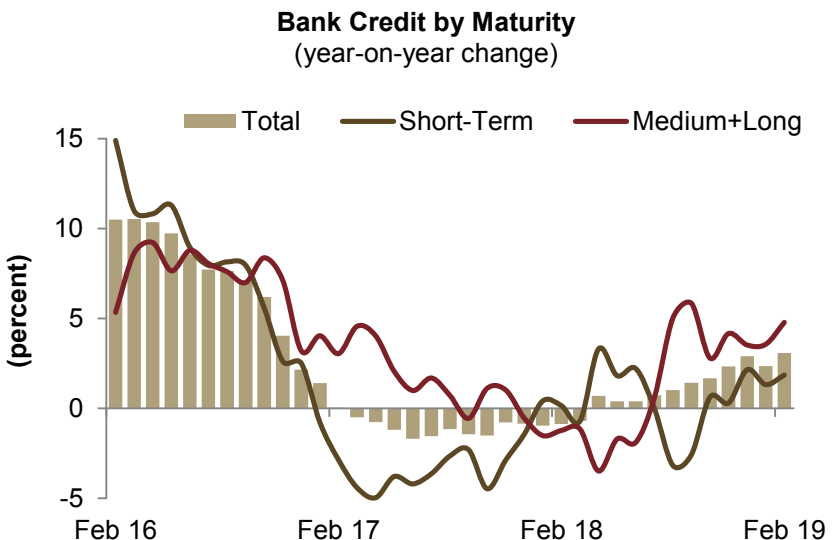
Total bank claims rose by 6.4 percent in February, year-on-year.



Credit to the private sector rose by 3.1 percent year-on-year, marking the highest annual rise since November 2016.



Short-term credit rose by 1.8 percent, whilst long term credit rose by 4.8 percent, year-on-year.



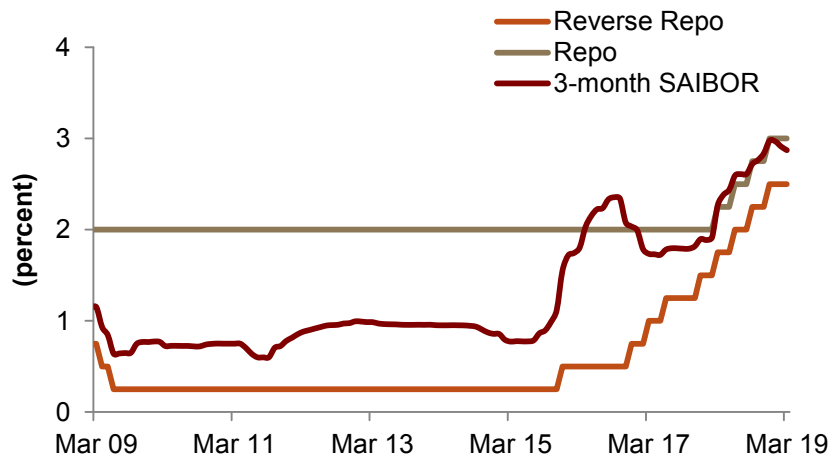


## Interest Rates

SAMA kept its key interest rates unchanged in March, following the US Federal Reserve's (Fed) decision not to raise interest rates. At its latest meeting in March, the Fed revised down its interest rate projections for next two years, with no rate hikes this year. Both SAIBOR and LIBOR were down during the month, with the SAIBOR/LIBOR spread marginally declining.

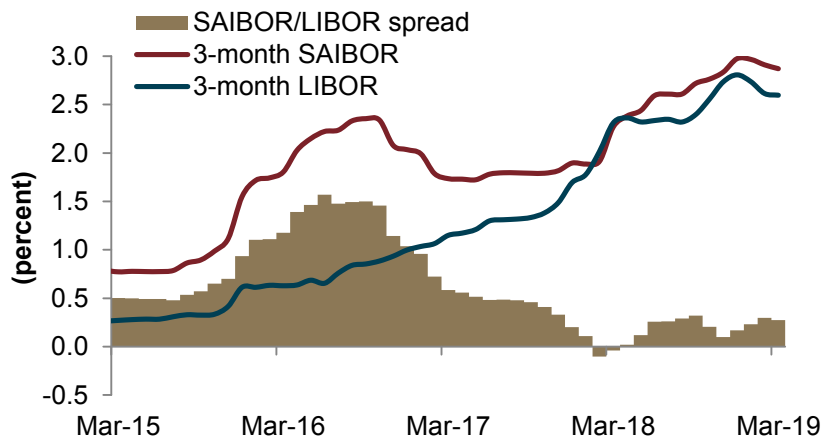
*SAMA kept its key interest rates unchanged in March, following the Fed's decision not to raise interest rates.*

**Latest Repo Rates**

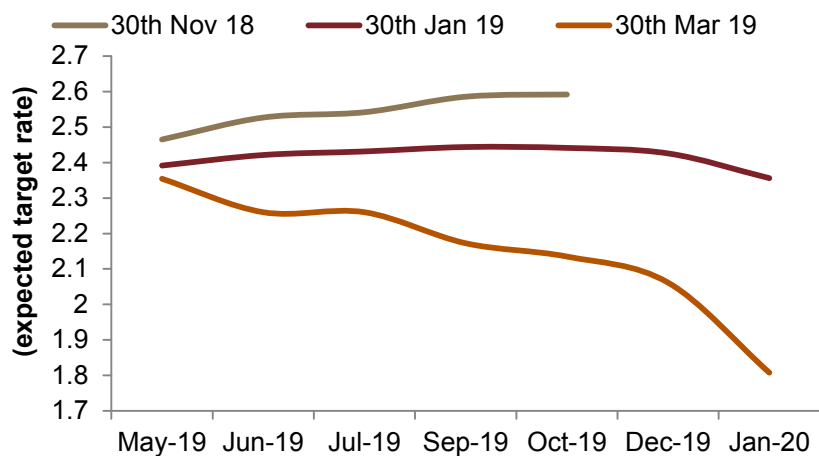


*Both SAIBOR and LIBOR were down during the month, with the SAIBOR/LIBOR spread marginally declining.*

**Saibor and Libor Rates**



**US Interest Rate Survey**



*Despite the Fed's indication of no further interest rate changes during 2019, latest survey data shows a high probability of a cut in US interest rate by 25 bps in December 2019.*

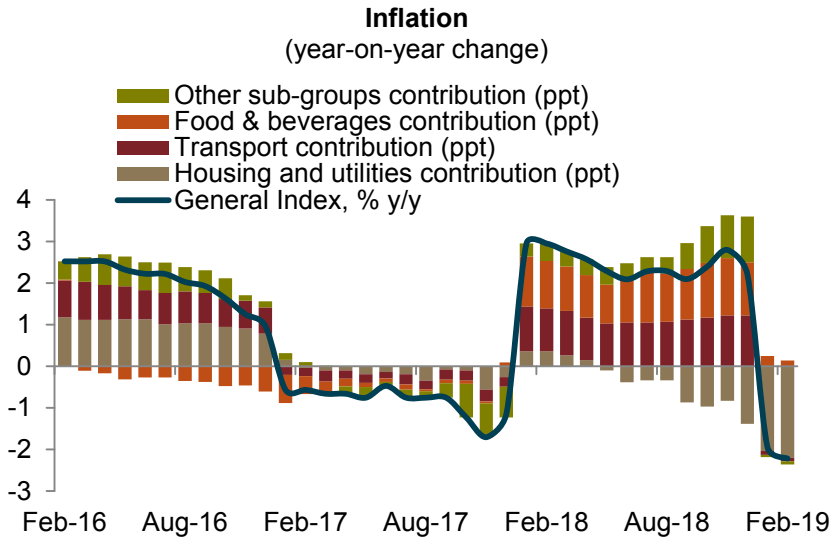




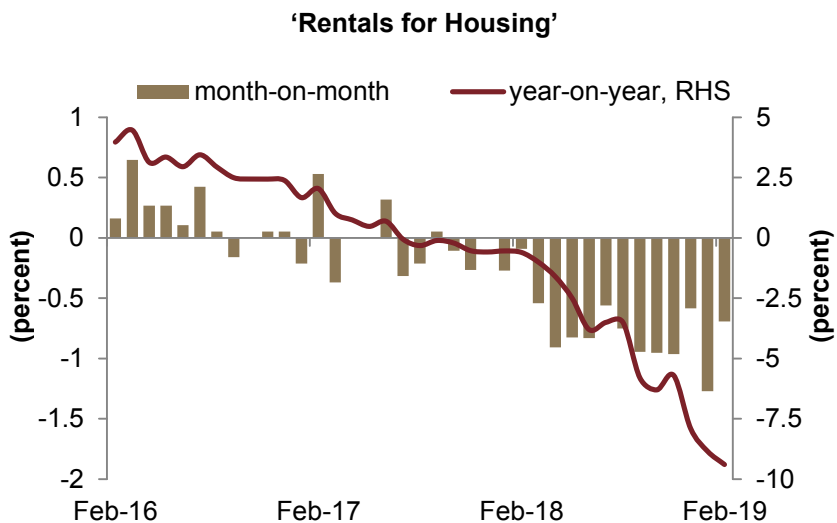
## Inflation

Prices declined for the second month in February by 2.2 percent year-on-year, and by 0.2 percent month-on-month. "Housing and utilities" decreased by 8.3 percent, year-on-year, as "rentals for housing" continued to decline, falling by 9.4 percent year-on-year during the month. Meanwhile, "food and beverages", "education" and "restaurants and hotels" prices continued to show annual rises.

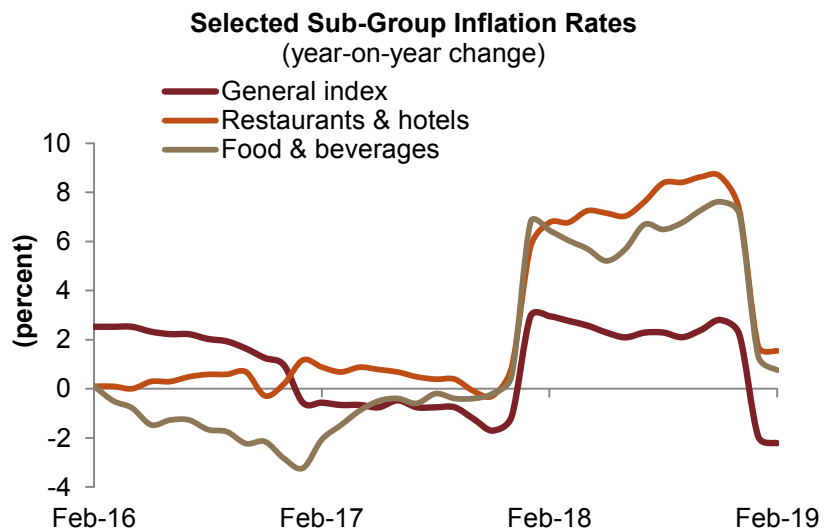
*Prices declined in February by 2.2 percent year-on-year, and by 0.2 percent month-on-month.*



*"Housing and utilities" prices, which constitutes 25 percent of the CPI basket, declined by 8.3 percent, year-on-year, as "rentals for housing" continued to drop, falling by 9.4 percent year-on-year during the month.*



*Meanwhile, "food and beverages", "education" and "restaurants and hotels" prices continued to show annual rises.*





## Labor Market

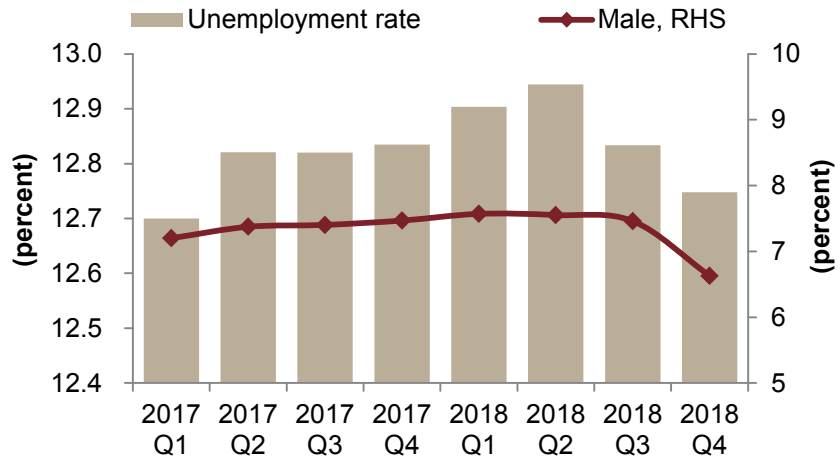
The Saudi unemployment rate was slightly down in Q4 2018, at 12.7 percent. Male unemployment rate declined notably to 6.6 percent, after averaging of 7.4 for almost two years. In addition, youth unemployment rate was also down during Q4 2018, declining to 36.6 percent, down from 43 percent a year ago, mainly affected by a decline in male youth unemployment rate.

The Saudi unemployment rate was slightly down in Q4 2018, at 12.7 percent. Male unemployment rate declined to 6.6 percent, whilst unemployment rate amongst females rose to 32.5 percent, up from 31 percent in Q3 2018.

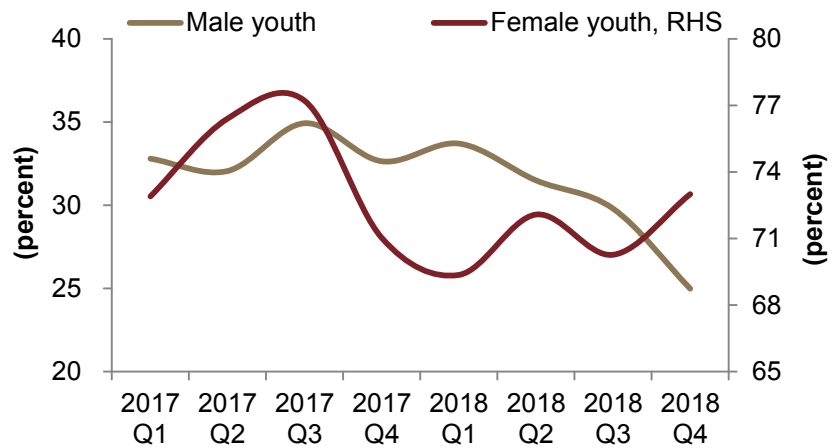
Youth unemployment rate was down during Q4 2018, declining to 36.6 percent, mainly affected by a decline in male youth unemployment rate.

The number of foreigners in the labor market continued to shrink, with 235 thousand leaving the market during Q4 2018, making the total of foreigners who have left the market since the start of 2017 at around 1.6 million workers.

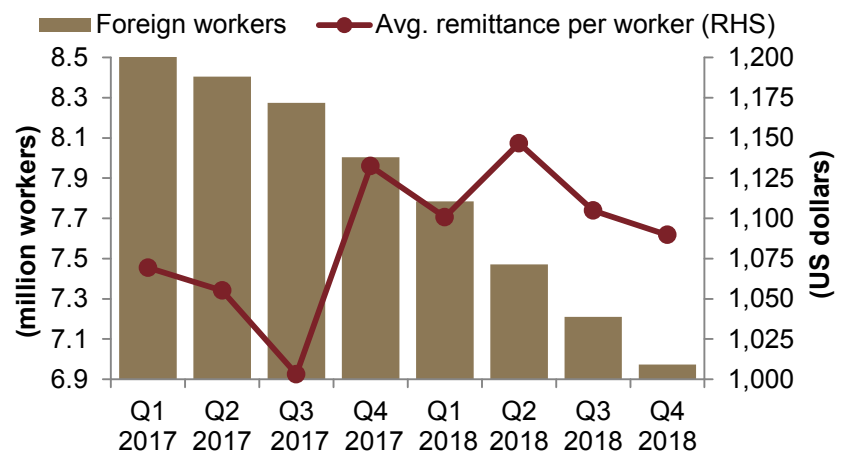
Unemployment Rates



Youth Unemployment Rates, by Gender



Number of Foreign Workers in the Labor Market





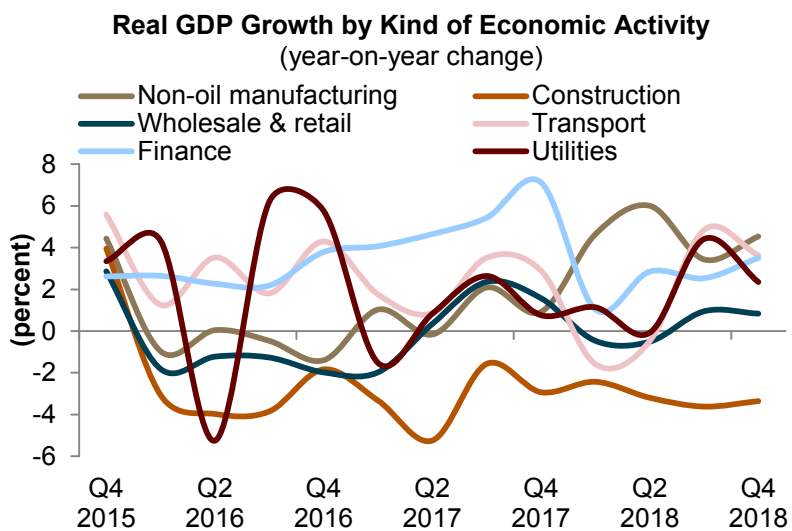
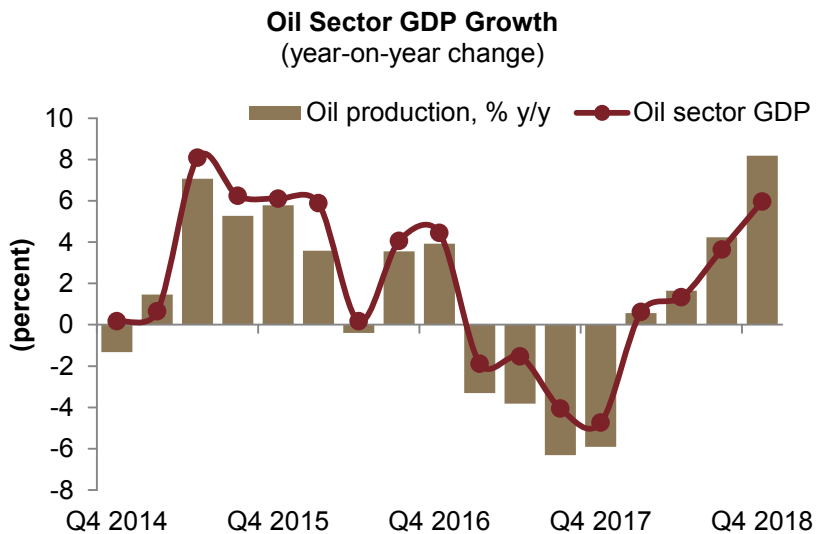
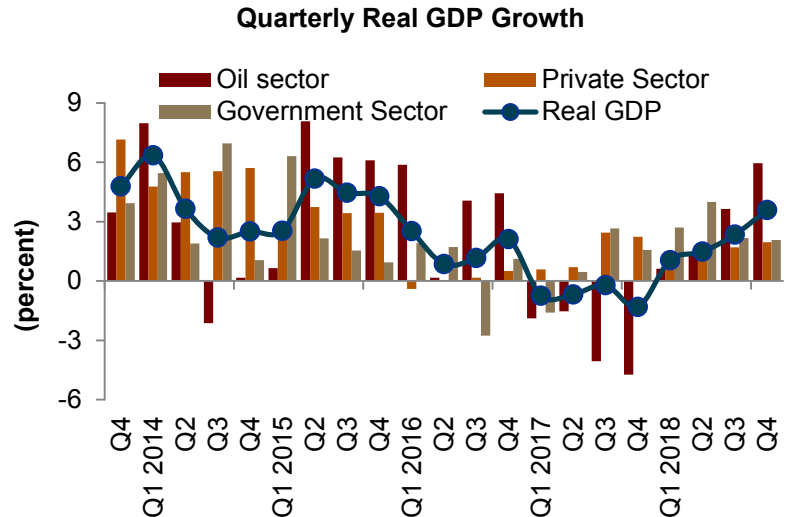
## Quarterly GDP Growth

Data on Q4 2018 real GDP showed that the economy grew by 3.59 percent, year-on-year. In line with our forecasts, growth was mainly pushed up by the oil sector (+5.96 percent), whilst non-oil GDP growth showed no change on a yearly basis, at 2 percent. Within the non-oil sector, private sector GDP grew 1.96 percent, year-on-year, whilst government sector GDP rose by 2.07 percent.

Data on Q4 2018 real GDP showed that the economy grew by 3.59 percent, year-on-year, the highest quarterly growth rate in three years.

The main component of growth was provided by the oil sector, which rose by 5.96 percent, year-on-year in Q4 2018. The rise reflected an increase in oil production by the Kingdom, in anticipation of re-imposition of US sanctions on Iranian oil, which were eventually postponed until May 2019.

Only one sector, construction, showed negative growth in the non-oil economy in Q4, dropping by -3.36 percent. Transport (up 3.64 percent) and manufacturing (up 3.52 percent) were the best performing sectors.





## Balance of Payments

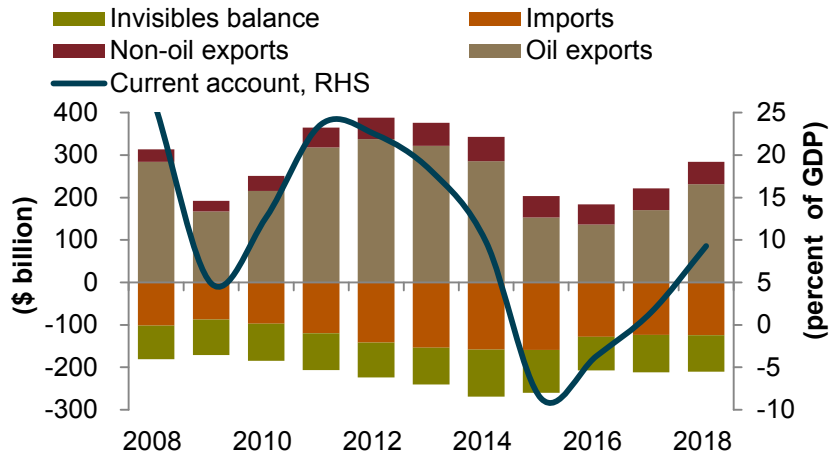
Full year 2018 data showed that the current account surplus continued to improve. A notable rise in the trade balance helped push up the current account to a total of \$72 billion or 9.2 percent of GDP (versus our forecast of 9.1 percent). Meanwhile, the non-reserve financial account balance saw net outflows of \$55 billion during the year, as a result of sizable international investments related to PIF and other independent government entities.

*The Kingdom's current account improved from \$10.5 billion in 2017 (1.5 percent of GDP) to \$72.3 billion in 2018 (9.2 percent of GDP)...*

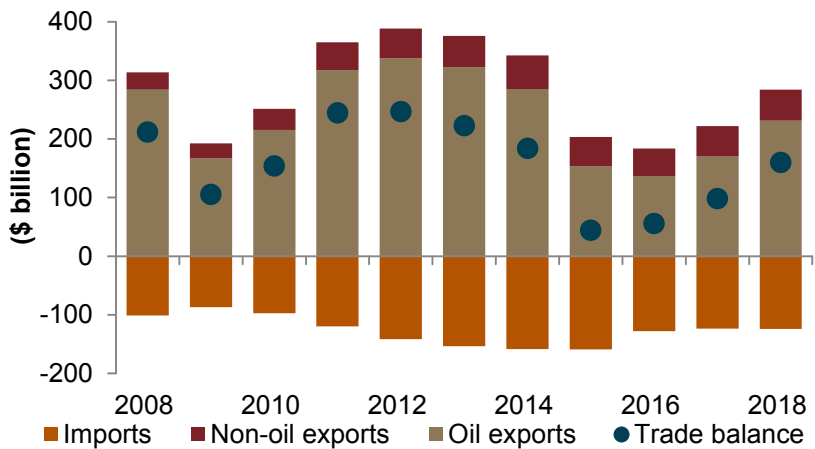
*...as a sizable improvement in oil exports (up 36 percent year-on-year) and non-oil exports (up 22 percent year-on-year) led to a notable rise in the trade balance.*

*Meanwhile, the non-reserve financial account balance saw net outflows of \$55 billion during the year. We believe this was driven, in part, by the PIF, and by other independent government entities, such as pension funds, channeling sizable investments internationally.*

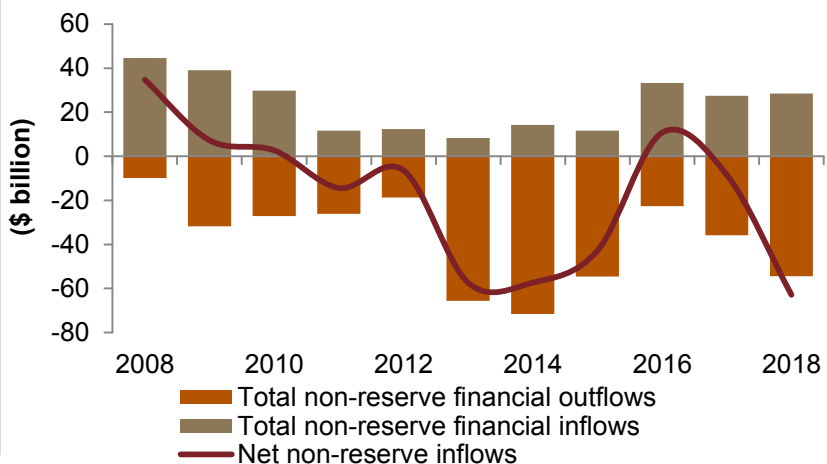
### Current Account Balance



### Trade Balance



### Non-Reserve Financial Account Balance



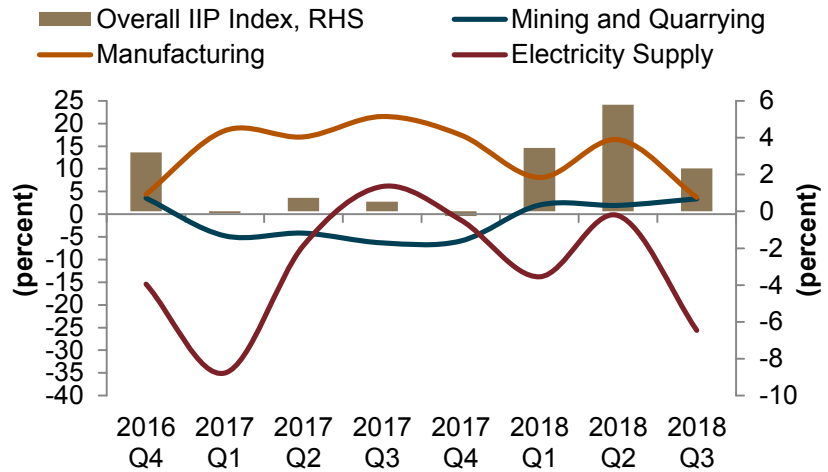


## Industrial Production

The index for industrial production (IIP) was flat quarter-on-quarter, but increased by 2.3 percent year-on-year, during Q3 2018. The rise came mainly from higher output in both manufacturing and mining sectors, rising by 3.7 and 3.4 percent year-on-year, respectively.

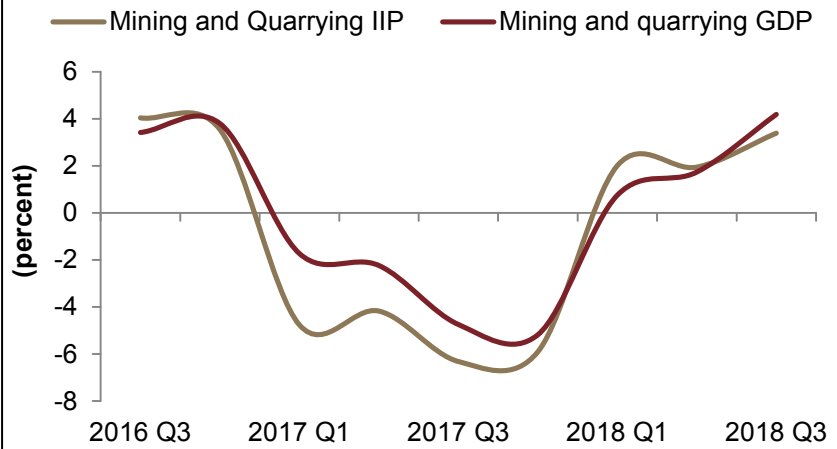
The index for industrial production (IIP) increased by 2.3 percent year-on-year, during Q3 2018, despite a drop in electricity supply output by 26 percent year-on-year, which weighs only 4 percent of the IIP index.

Index for Industrial Production (IIP)



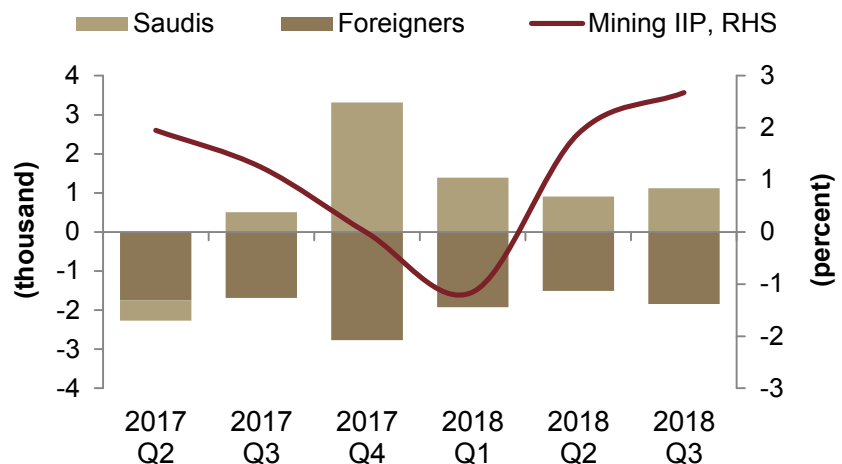
Mining output saw a notable rise in Q3 2018, increasing by 3.4 percent year-on-year, and 2.7 percent quarter-on-quarter.

Mining GDP Growth and IIP



Despite the output growth in mining during Q3 2018, the sector saw a decline in total number of workers, affected by the drop in the number of foreigners by 1.8 thousand workers, quarter-on-quarter. However, the number of Saudis increased in the sector, by 1.1 thousand workers quarter-on-quarter.

Mining Employment and IIP (quarter-on-quarter change)

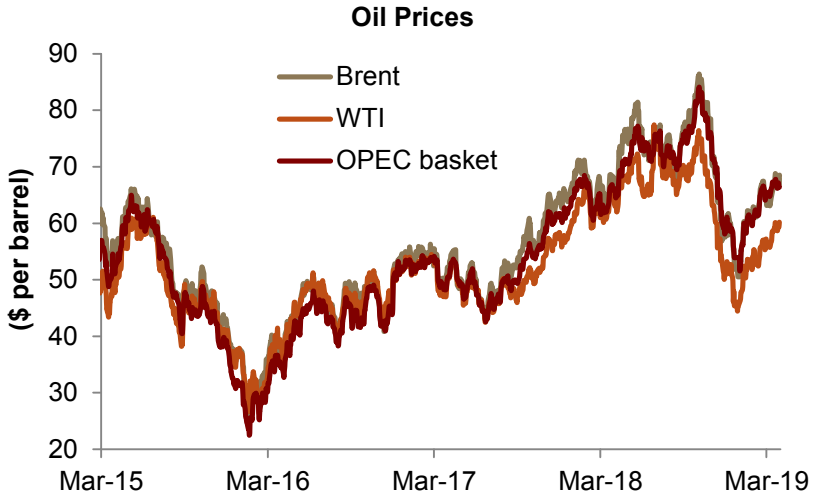




## Oil - Global

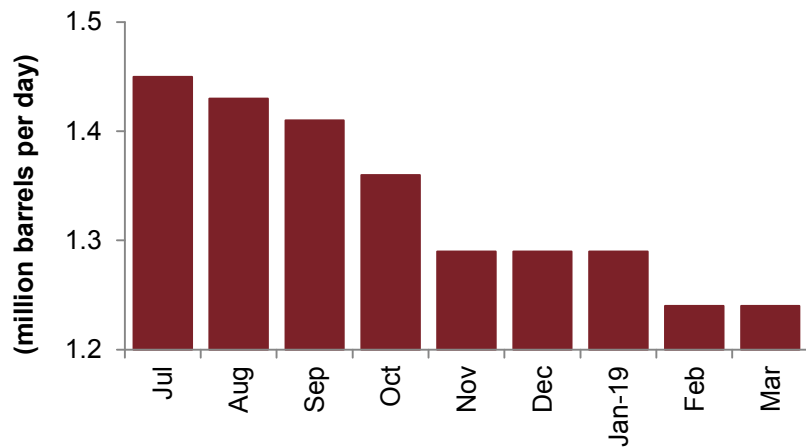
Brent oil prices were up 3 percent month-on-month in March as latest data from OPEC showed continued compliance to agreed output levels. That said, concerns over global economic growth has put the spotlight back on global oil demand, with downward revisions in oil demand growth recently. Meanwhile, WTI prices were up 6 percent month-on-month as commercial oil stocks declined.

*Brent oil prices were up 3 percent month-on-month in March, as latest data from OPEC showed reduction in output levels in February.*



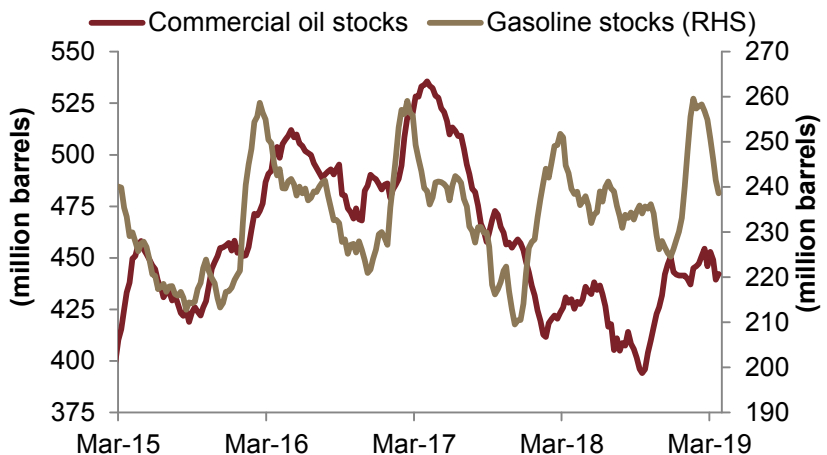
### OPEC Global Oil Demand Growth

(Forecast for 2019 in Corresponding Monthly Oil Report)



*That said, concerns over global economic growth has put the spotlight back on global oil demand, with OPEC recently revising down oil demand growth for 2019.*

### US Commercial Oil & Gasoline Stocks



*Meanwhile, WTI prices were up 6 percent month-on-month as data showed continued decline in commercial oil and gasoline stocks during March.*

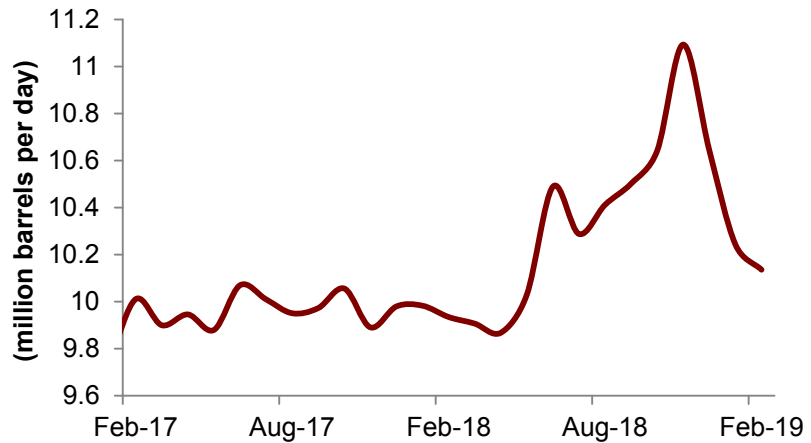


## Oil - Regional

Saudi crude oil production continued to decline month-on-month in February, down 1 percent to 10.13 mbpd. Latest available data for January showed oil exports were also down a sizable 6 percent month-on-month, to 7.2 mbpd. Looking ahead, we expect to see both oil production and exports trending further downwards in the next couple of months.

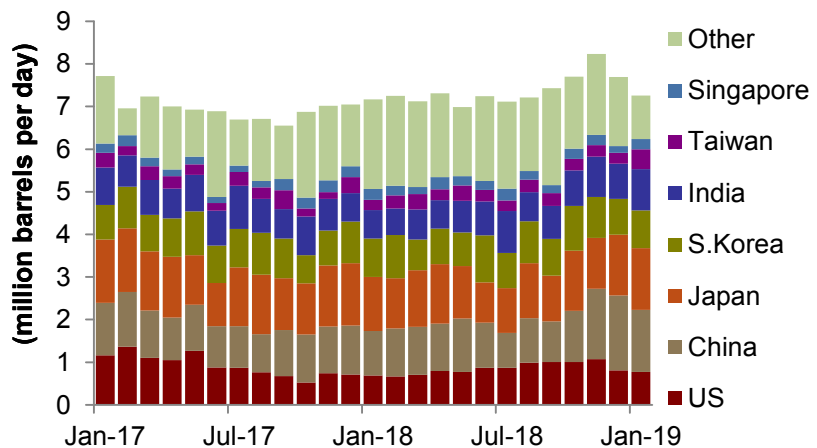
*Saudi crude oil production continued to decline in February, reaching 10.13 mbpd.*

**Saudi Crude Oil Production**  
(Direct communication)

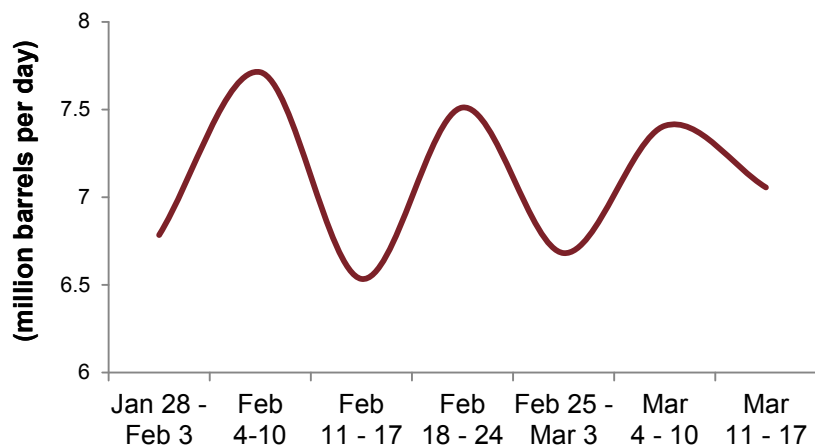


*Latest available official data for January showed oil exports were also down a sizable 6 percent month-on-month, to 7.2 mbpd.*

**Saudi Crude Oil Exports**



**Expected Saudi Crude Oil Exports**  
(February 2019—March 2019)



*Looking ahead, we expect to see both oil production and exports trending downwards. In fact, unofficial survey data shows exports to be trending around the 7 mbpd mark in February and early March.*

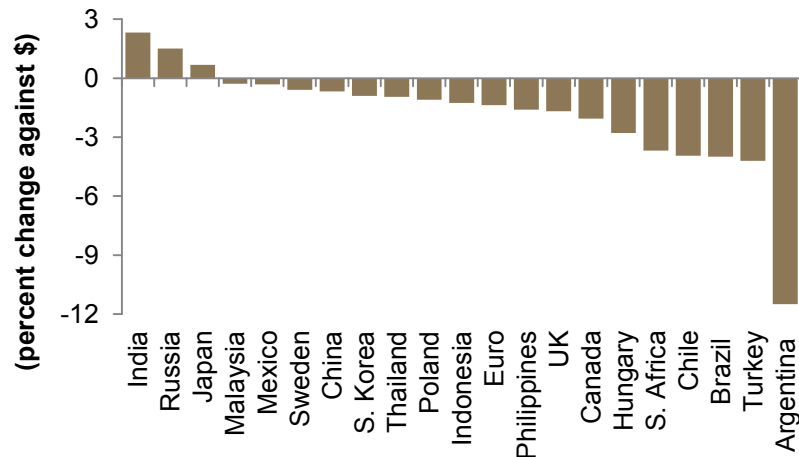


## Exchange Rates

Most major currencies saw a decline against the US dollar during March despite the Fed's indication, in a recent meeting, that no further interest rate changes would likely take place during 2019. It seems growing concern over the health of the global economy has led many investors to move into 'safe haven' assets such as the US dollar and indeed the Japanese yen.

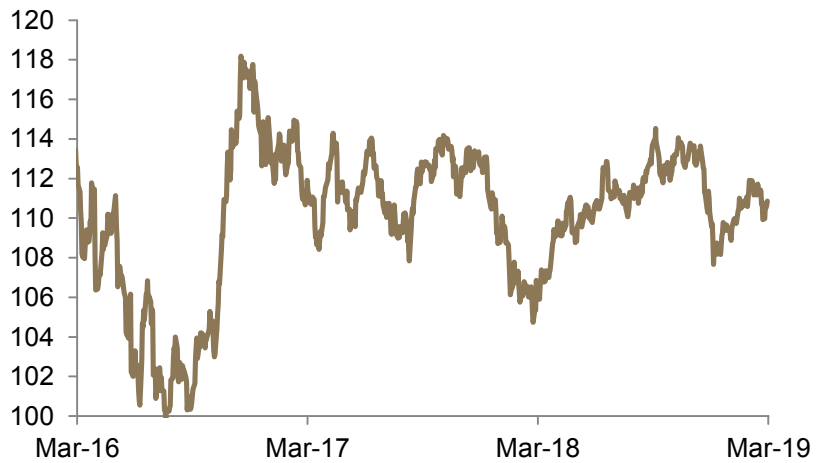
*It seems growing concern over the health of the global economy has led many investors to move into 'safe haven' assets such as the US dollar...*

**Monthly Gain/Loss Against US Dollar**  
(March 2019)



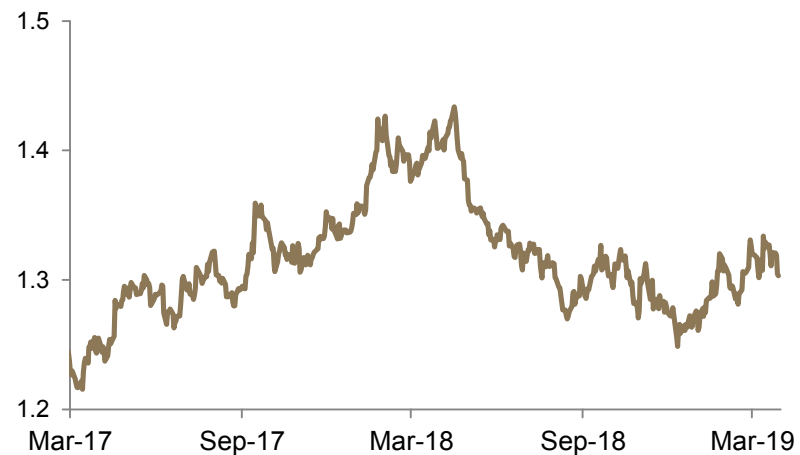
*...and indeed the Japanese yen.*

**US Dollar/Japanese Yen**



*Meanwhile, the UK pound has been trading around the 1.3 mark versus the US dollar prior to a critical sequence of events related to Brexit. If no agreement is reached, a 'no deal Brexit' could transpire on 12th April, which could push the UK pound towards recent lows of 1.2.*

**GBP/US Dollar**







## Stock Market

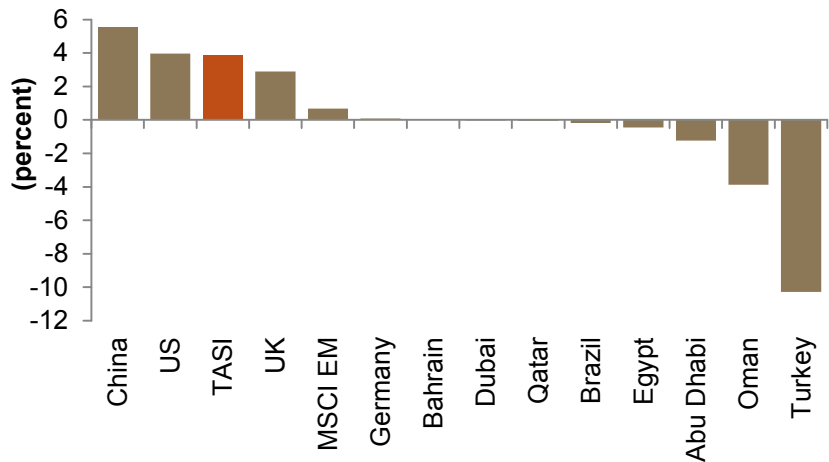
TASI rose by 4 percent month-on-month in March as the Saudi index received the first tranche of passive inflows. Around \$600-\$700 million (SR2.2-2.6 billion) of inflows are expected to have been received in March in relation to the FTSE EM index inclusion. Passive inflows from both FTSE EM and MSCI EM inclusion are expected to total around \$17 billion (SR64 billion) by March 2020.

*TASI rose by 4 percent month-on-month in March as the Saudi index received the first tranche of passive inflows for the year in relation to the FTSE EM index ...*

**TASI**  
(March 2019)

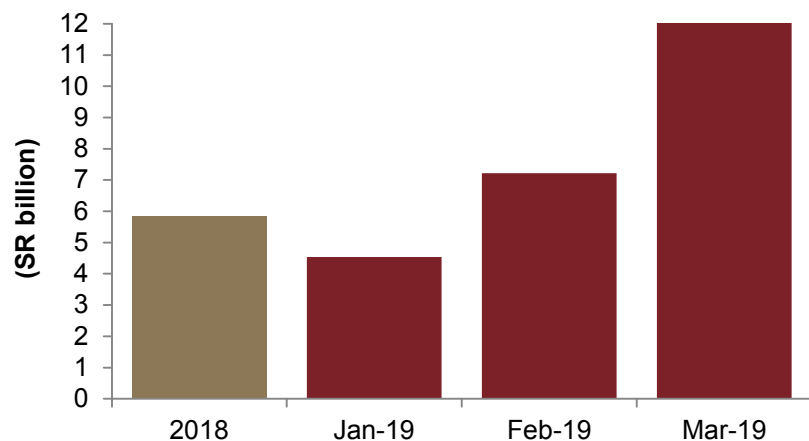


**Comparative Stock Market Performance**  
(March 2019)



*...with the Saudi market being one of the best performing indices amongst major and regional bourses during the month.*

**Net purchases of SWAPs and QFIs**  
(Total in 2018 versus cumulative in 2019)



*So far in 2019, net purchases of SWAPs and QFIs have totaled SR12 billion, just over double the amount for 2018 as a whole.*



## Key Data

	2012	2013	2014	2015	2016	2017	2018E	2019F	2020F
<b>Nominal GDP</b>									
(SR billion)	2,760	2,800	2,836	2,454	2,419	2,582	2,934	3,065	3,258
(\$ billion)	736	747	756	654	645	689	782	817	869
(% change)	9.6	1.5	1.3	-13.5	-1.4	6.8	13.6	4.5	6.3
<b>Real GDP (% change)</b>									
Oil	5.1	-1.6	2.1	5.3	3.6	-3.1	2.8	1.6	2.1
Non-oil private sector	5.6	7.0	5.4	3.4	0.1	1.5	1.7	2.0	2.4
Non-oil government	5.3	5.1	3.7	2.7	0.6	0.7	2.8	3.0	2.3
Total	5.4	2.7	3.7	4.1	1.7	-0.7	2.2	2.0	2.2
<b>Oil indicators (average)</b>									
Brent (\$/b)	112	110	99	52	43	54	71	66	68
Saudi (\$/b)	106	104	96	49	41	51	69	65	67
Production (million b/d)	9.8	9.6	9.7	10.2	10.4	10.0	10.3	10.3	10.5
<b>Budgetary indicators (SR billion)</b>									
Government revenue	1,247	1,156	1,044	616	519	692	895	938	973
Government expenditure*	916	994	1,140	1,001	936	930	1,030	1,106	1,143
Budget balance	331	162	-96	-385	-417	-238	-136	-168	-170
(% GDP)	12.0	5.8	-3.4	-15.7	-17.2	-9.2	-4.6	-5.5	-5.2
Gross public debt	99	60	44	142	317	443	560	678	754
(% GDP)	3.6	2.1	1.6	5.8	13.1	17.1	19.1	22.1	23.1
<b>Monetary indicators (average)</b>									
Inflation (% change)	2.9	3.5	2.2	1.2	2.1	-0.8	2.5	1.1	1.6
SAMA base lending rate (% , end year)	2.0	2.0	2.0	2.0	2.0	2.0	3.0	3.25	3.25
<b>External trade indicators (\$ billion)</b>									
Oil export revenues	337	322	285	153	137	170	232	223	227
Total export revenues	388	376	342	204	184	222	295	281	287
Imports	142	153	158	159	128	123	124	129	134
Trade balance	247	223	184	44	56	98	171	151	153
Current account balance	165	135	74	-57	-24	10	72	65	72
(% GDP)	22.4	18.1	9.8	-8.7	-3.7	1.5	9.2	7.9	8.3
Official reserve assets	657	726	732	616	536	496	497	508	516
<b>Social and demographic indicators</b>									
Population (million)	28.9	29.6	30.3	31.0	31.7	32.7	32.5	32.6	33.0
Saudi Unemployment (15+, %)	12.1	11.7	11.7	11.5	12.5	12.8	12.7	12.4	12.1
GDP per capita (\$)	25,471	25,223	24,962	21,095	20,318	21,048	24,065	25,065	26,291

Note\*: 2016 Government expenditure includes SR105 billion in due payments for previous years

Sources: Jadwa Investment forecasts for 2018 to 2019. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. General Authority for Statistics and Jadwa Investment estimates for oil, social and demographic indicators.



## Disclaimer of Liability

Unless otherwise stated, all information contained in this document (the "Publication") shall not be reproduced, in whole or in part, without the specific written permission of Jadwa Investment.

The data contained in this research is sourced from Reuters, Bloomberg, The World Bank, Tadawul and national statistical sources unless otherwise stated.

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that contain in the Publication. It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action(s) that may take place in future.