



Summary

Real Economy: Economic data for August was strong. Indicators of consumer spending and PMI picked up with the growth of the former reaching a two year high. Latest GDP data shows that year-on-year economic growth remained strong in the first half of the year.

Money Supply: Money supply growth touched a thirteen month high in August, prompting the monetary Authority to step up the issuance of SAMA bills in order to absorb some of the liquidity in the banking sector and reduce the potential impact on inflation.

Bank indicators: Bank lending to the private sector recorded another solid gain in August.

SAMA reserve assets: SAMA reserve assets increased by \$4.4 billion in August, their highest monthly gain since March this year.

Inflation: Year-on-year inflation edged upwards in August for the first time in four months, reversing the flat trend seen since May. The shift was mainly helped by an acceleration of both domestic food price and rental inflation.

Trade: Non-oil exports maintained robust year-on-year growth in July, but declined slightly in absolute terms. In contrast, imports continued to fall for the third consecutive month, in both absolute and year-on-year terms.

Oil –Global: Accelerating US production, weaker than expected global demand, stabilization in geopolitics, and an appreciation of the dollar led to oil prices dropping.

Oil –Regional: Ample global supply resulted in Saudi production dropping to 9.6 mbpd in August.

Exchange rates: The dollar strengthened against the euro and the Japanese yen in September.

Stock market: A combination of profit-taking before the Eid holidays and investors cutting positions to free up cash before IPO/rights issues, saw the TASI fall in September for the first time in two months.

Volumes: Average daily turnover fell in September.

Valuations: In September, the TASI's price-to-earnings (PE) valuation decreased to 20.68, moving closer towards the two year average of 16.58.

Sectoral performance: All but three of the fifteen sectors saw negative performances in September as investor selling was felt across most of the market.

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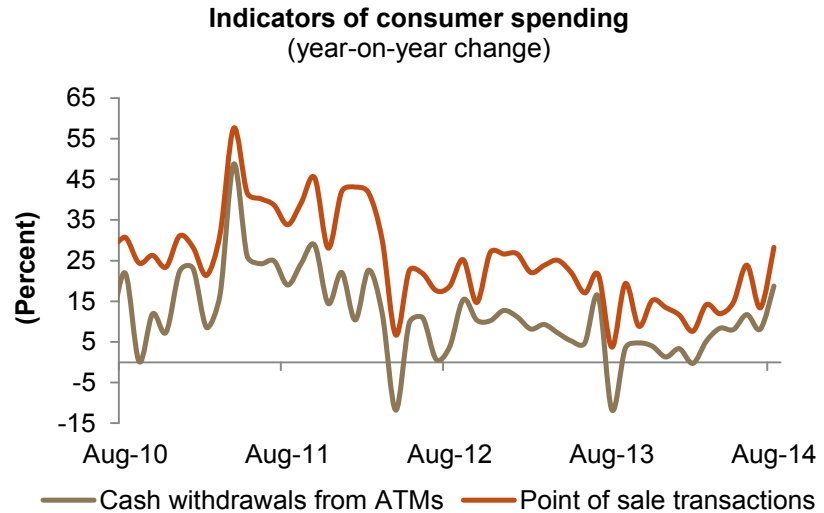
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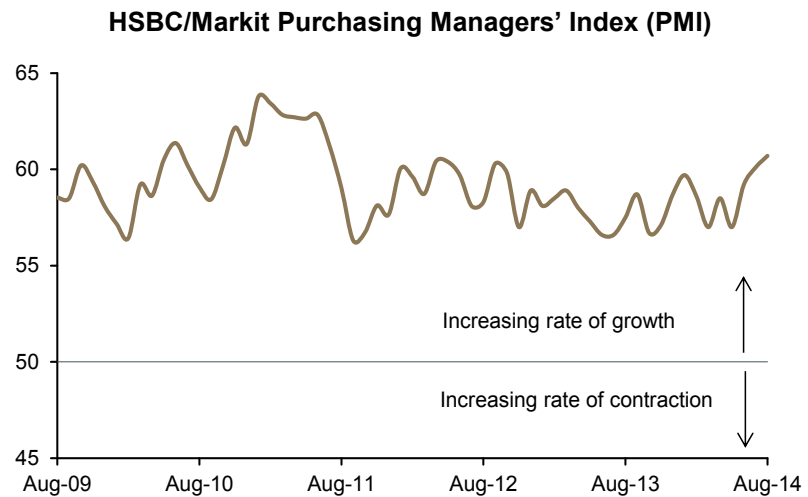
Real Economy

Economic data for August was strong. Indicators of consumer spending and PMI picked up with the growth of the former reaching a two year high. Latest GDP data shows that year-on-year economic growth remained strong in the first half of the year, though non-oil private sector probably grew at its lowest rate since 2011.

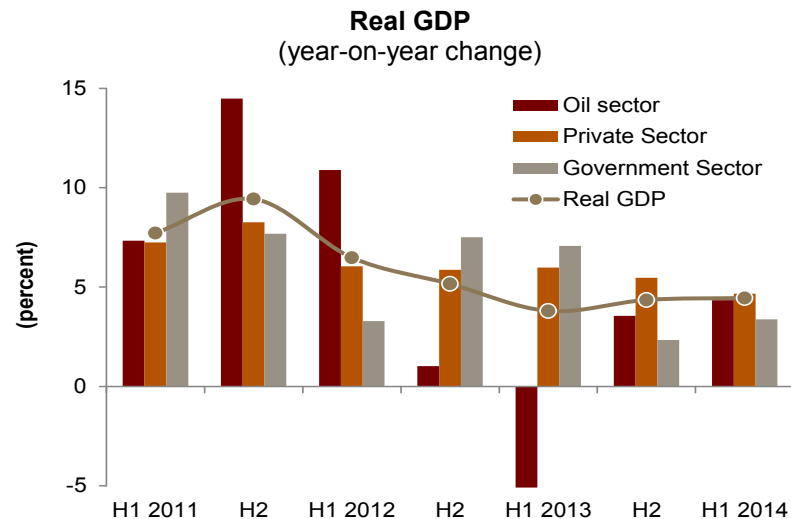
The growth of both cash withdrawals from ATMs and point of sale transactions picked up in August.



The overall non-oil Markit/HSBC PMI remained on an upward trend for the third consecutive month in August, registering 60.7, the fastest rate of expansion since March 2012.



Recently released GDP data shows that year-on-year economic growth recorded 4.5 percent in the first half of the year, the highest since the second half of 2012, though non-oil private sector grew at its lowest rate since 2011.



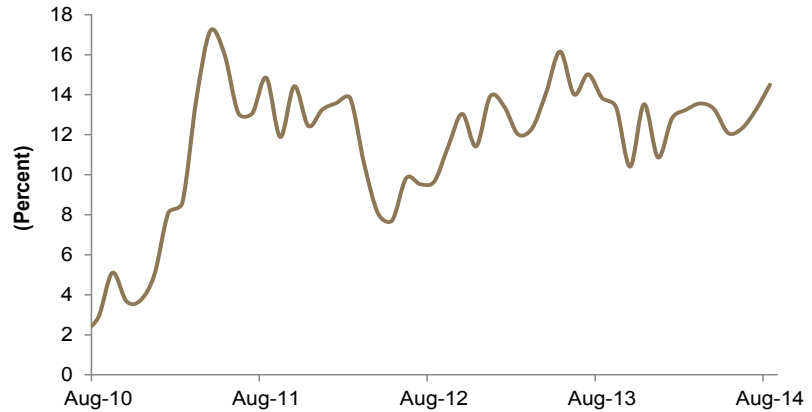


Money supply

Money supply growth touched a thirteen month high in August, prompting the monetary Authority to step up the issuance of SAMA bills in order to absorb some of the liquidity in the banking sector and reduce the potential impact on inflation.

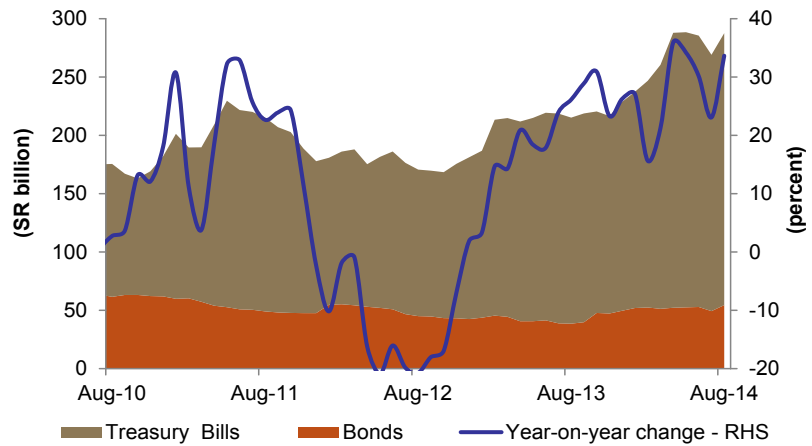
Year-on-year money supply growth maintained an upward trend in August, reaching 14.5 percent growth year-on-year.

Broad money supply (M3)
(year-on-year change)



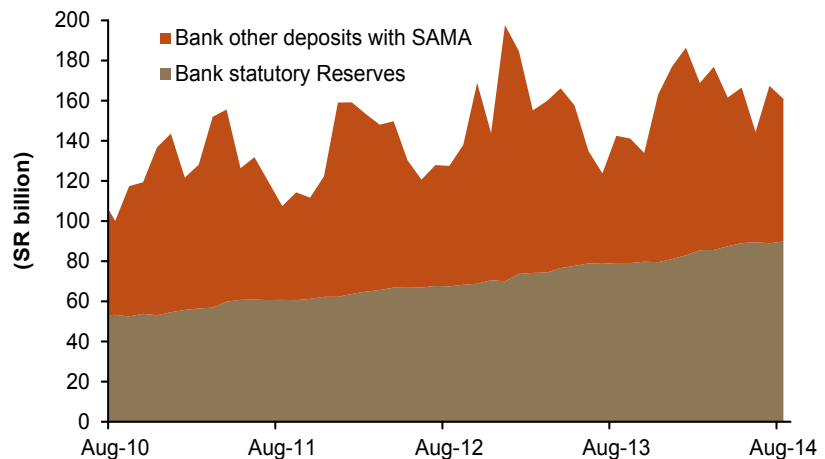
To reduce the inflationary effect of the rise in money supply, the monetary authority stepped up the issuance of SAMA bills...

Bank holdings of government securities



...which only slightly reduced excess liquidity from banks.

Banks deposits with SAMA



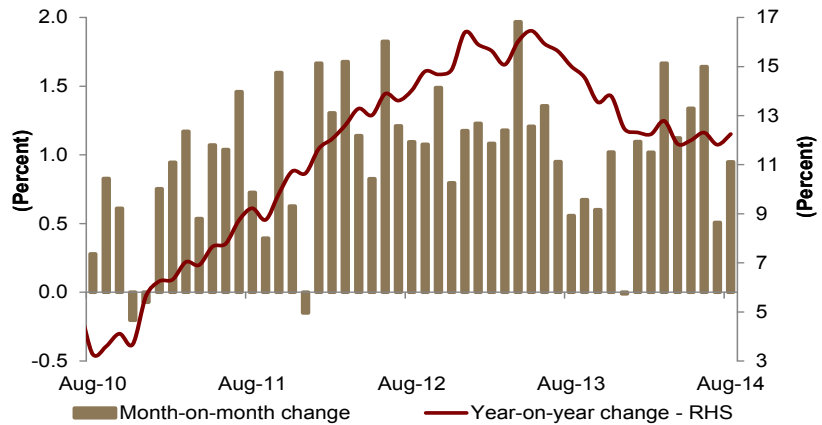


Banking indicators

Bank lending to the private sector recorded another solid gain in August. The growth of bank deposits also remained healthy as time and saving deposits continued to benefit from the prospect of higher interest rate while heightened activity in the stock market exerted little impact on demand deposits.

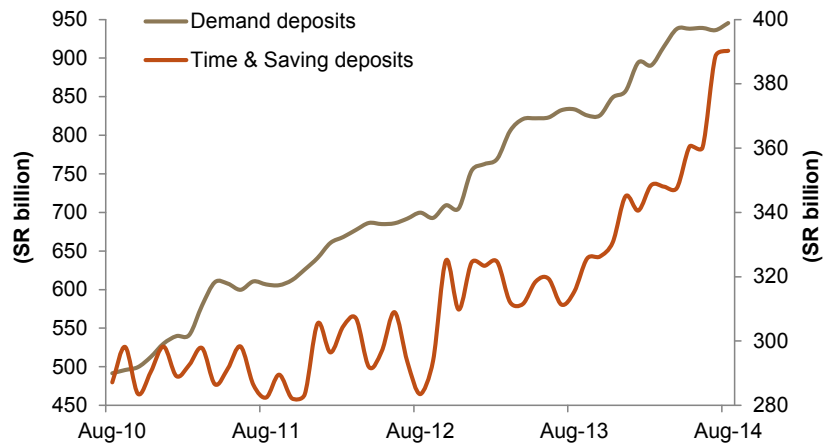
Bank lending to the private sector rose by almost 1 percent in August, lifting the year-on-year rate to 12.2 percent.

Bank lending to the private sector



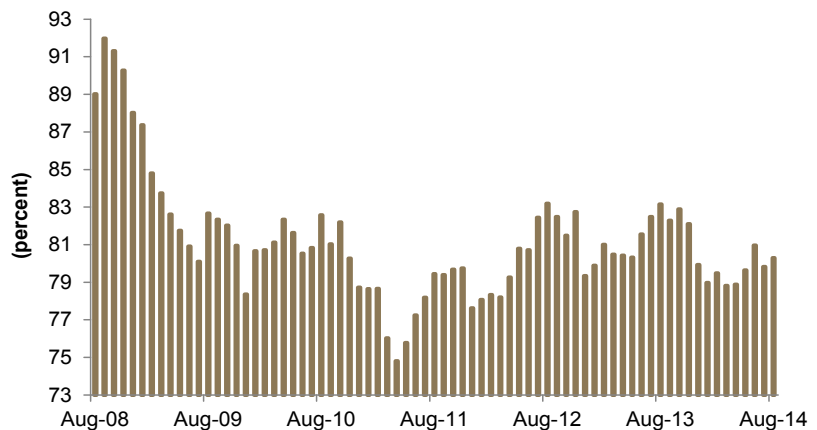
With both demand and time and savings deposits of businesses and individuals going up in August, it does not yet seem that funds are being drawn down to finance elevated activity in the stock market.

Breakdown of bank deposits by type



At 80 percent, the loan-to-deposit ratio shows that banks still have plenty of scope to further increase lending.

Commercial bank loan-to-deposit ratio





SAMA reserve assets

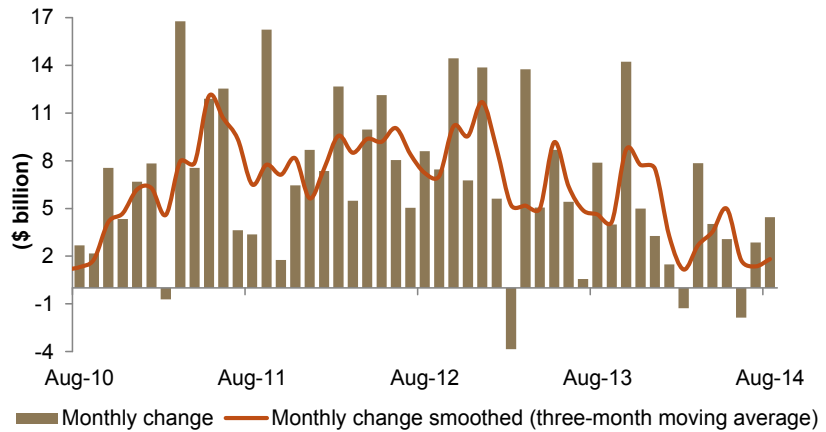
SAMA reserve assets increased by \$4.4 billion in August, their highest monthly gain since March this year. The bulk of the increase in August took the form of investments in foreign securities. The increase probably reflects the transfer of funds that were earned over a longer period of time, since oil revenues in August alone do not justify such increase.

SAMA net foreign assets increased by \$4.4 billion in August. The average monthly growth for the first eight months of this year was \$2.6 billion, the lowest since 2009.

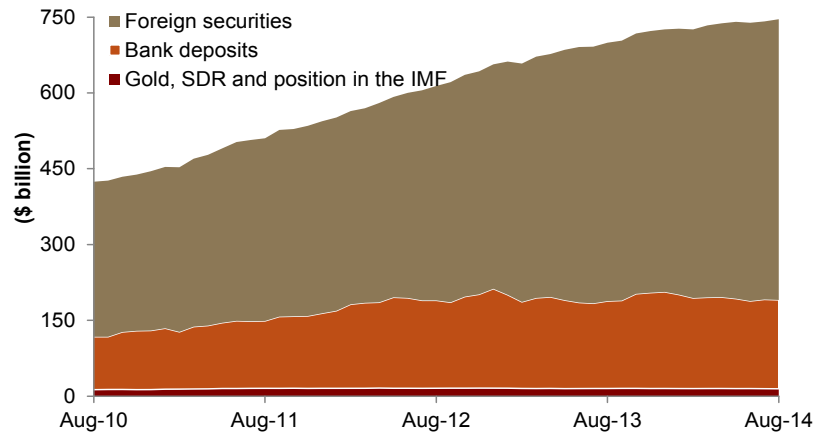
The bulk of the increase in August took the form of investments in foreign securities, which rose by \$5.3 billion. The distribution between securities and deposits is volatile on a monthly basis.

The accumulation of reserve assets is set to slow over the coming months as oil export revenues fall in line with lower prices and output.

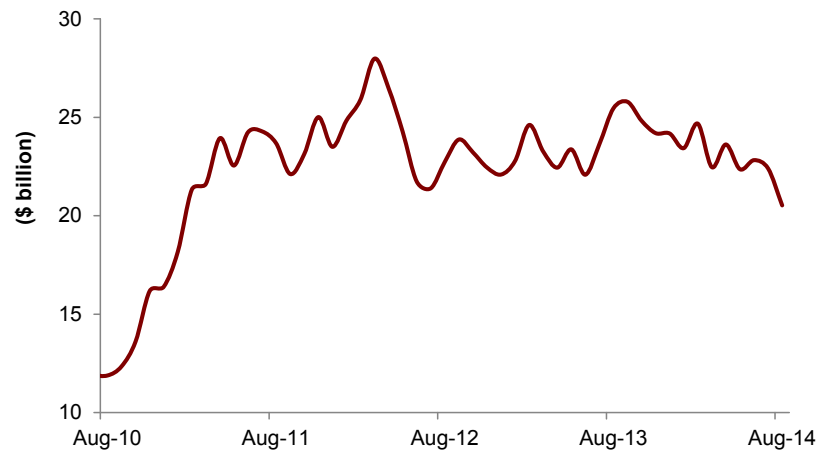
Change in SAMA reserve assets



Breakdown of SAMA reserve assets



Monthly oil revenues (Jadwa estimates)

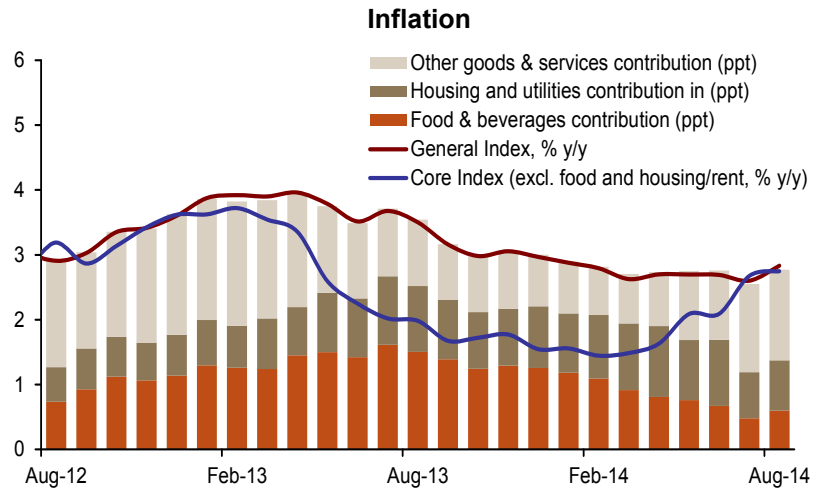




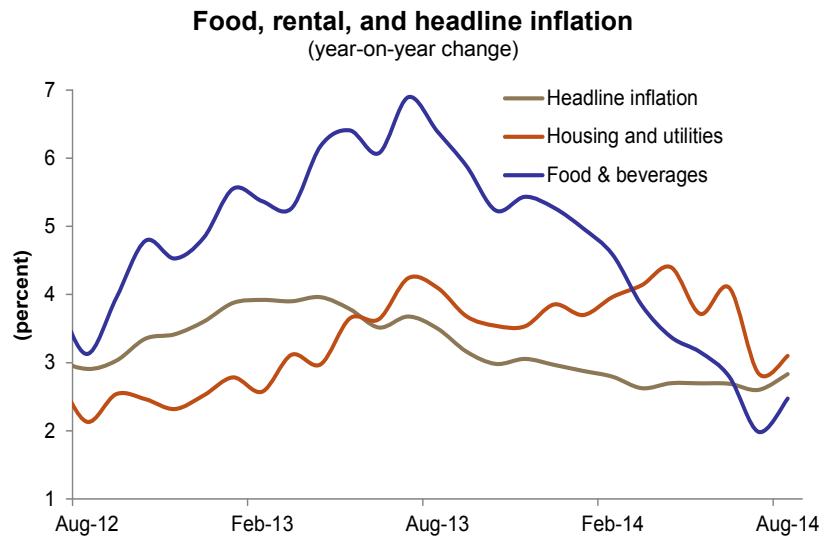
Inflation

Year-on-year inflation edged upwards in August for the first time in four months, reversing the flat trend seen since May. The shift was mainly helped by an acceleration of both domestic food price and rental inflation. Other components of the cost of living index recorded sustained levels of relatively higher inflation.

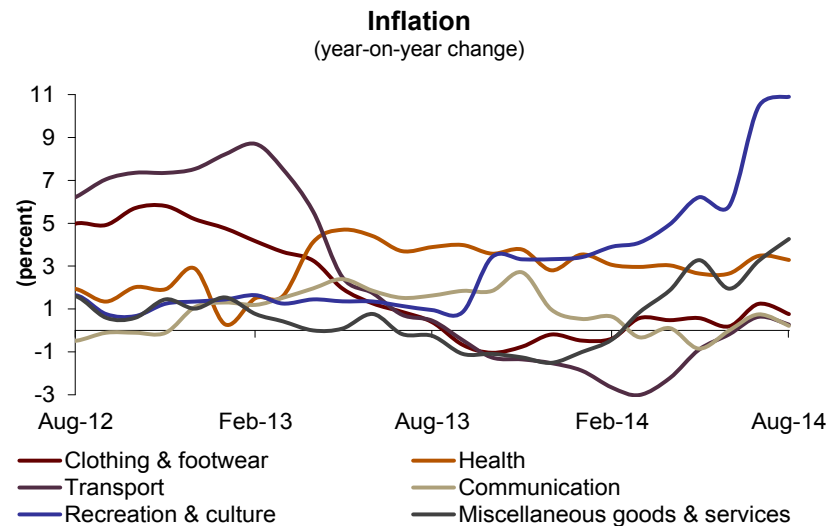
Year-on-year inflation edged upwards to 2.8 percent in August, accelerating for the first time in four months.



An acceleration in both food price and rental inflation pushed up the headline figure...



...while other components recorded sustained levels of relatively higher inflation.

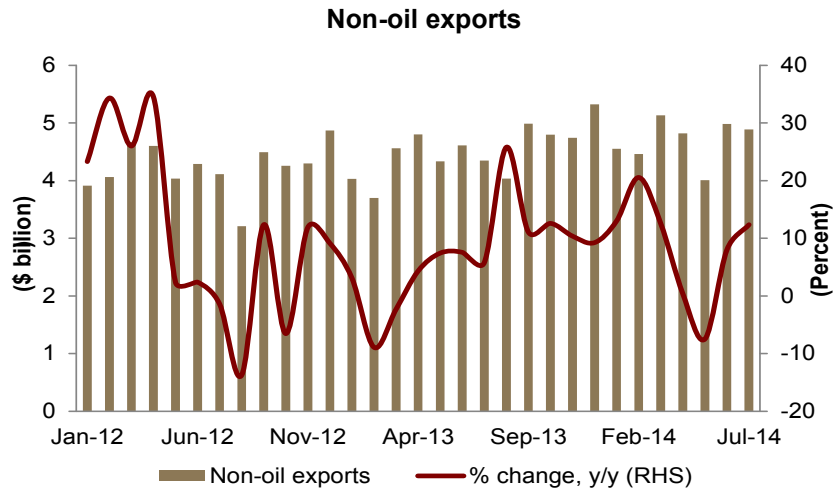




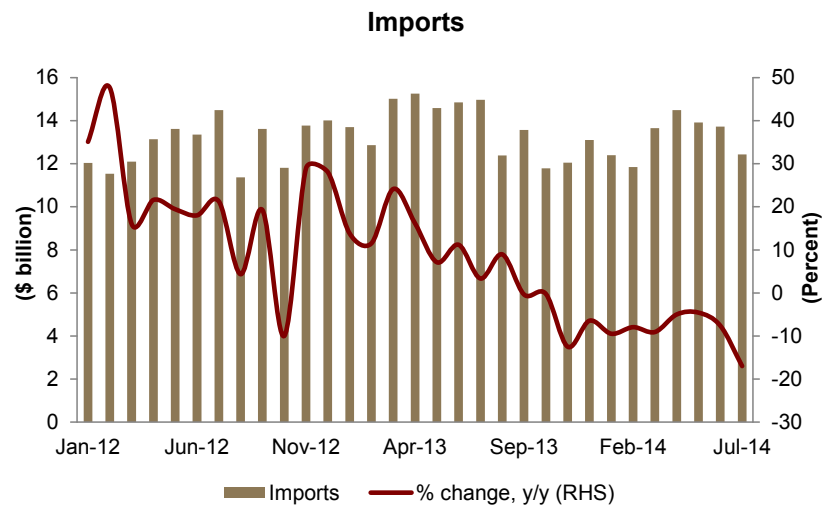
Trade

Non-oil exports maintained robust year-on-year growth in July, but declined slightly in absolute terms. In contrast, imports continued to fall for the third consecutive month, in both absolute and year-on-year terms. Data on letters of credit issued for imports suggests a reversal in this trend is possible in the months ahead.

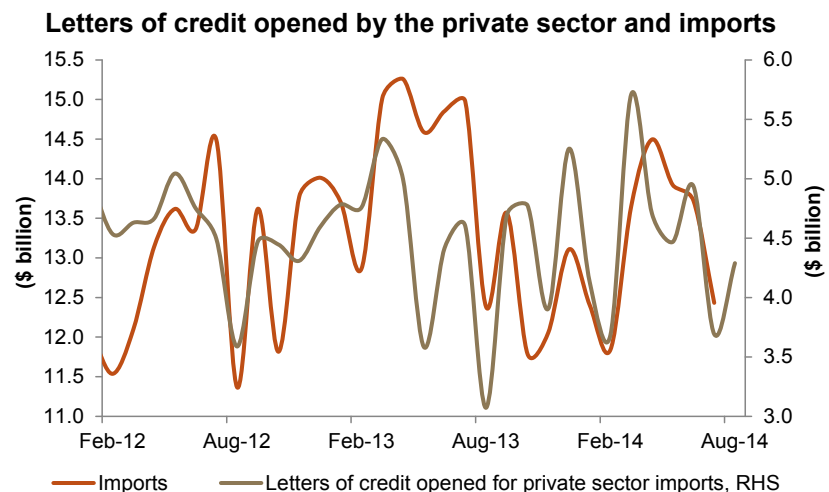
Non-oil exports maintained robust year-on-year growth in July...



... while imports declined for the third consecutive month in July in both absolute and year-on-year terms (down by \$4.8 billion month-on-month and 17 percent, respectively).



New letters of credit opened by the private sector at commercial banks point to a possible reversal in demand for imports over the coming months.

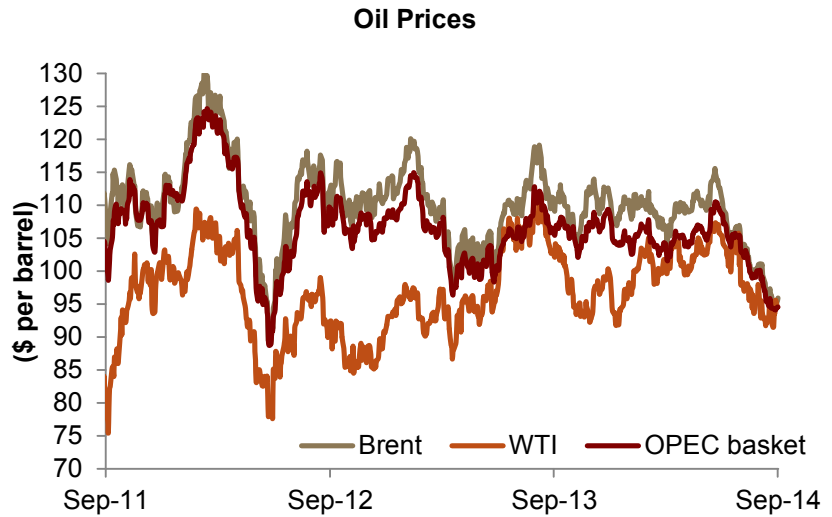




Oil - Global

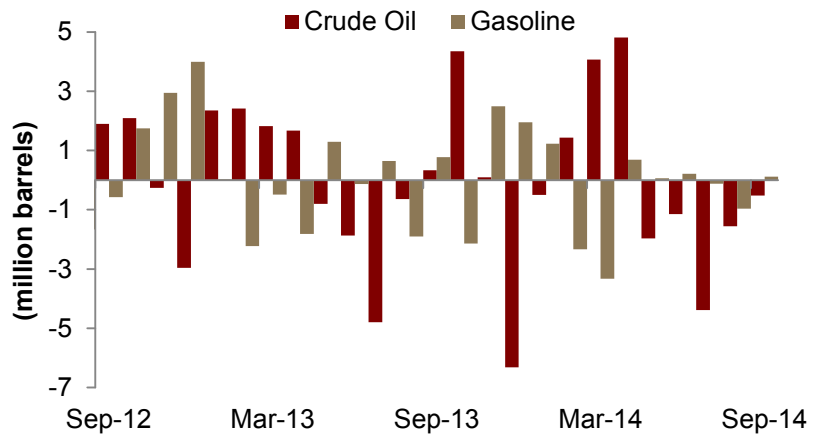
Accelerating US production, weaker than expected global demand, stabilization in geopolitics, and an appreciation of the dollar led to oil prices dropping by 5 percent in Brent and 3.4 percent WTI in September. Brent averaged \$97 per barrel in September compared to \$101 per barrel in August and \$106.7 per barrel in July.

Weaker than expected demand in China, Japan and the EU is putting downward pressure on prices...



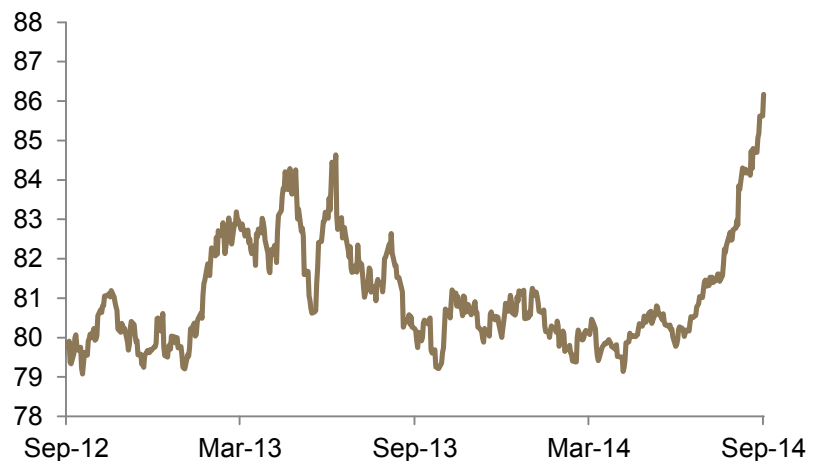
Change in US Commercial Crude and Gasoline Stock

...in the US, limited depletion of commercial stocks, due to ample supply, is also keeping downward pressure on prices.



Trade-weighted dollar

Meanwhile, the dollar continues to appreciate, making oil more expensive for non-US consumers.



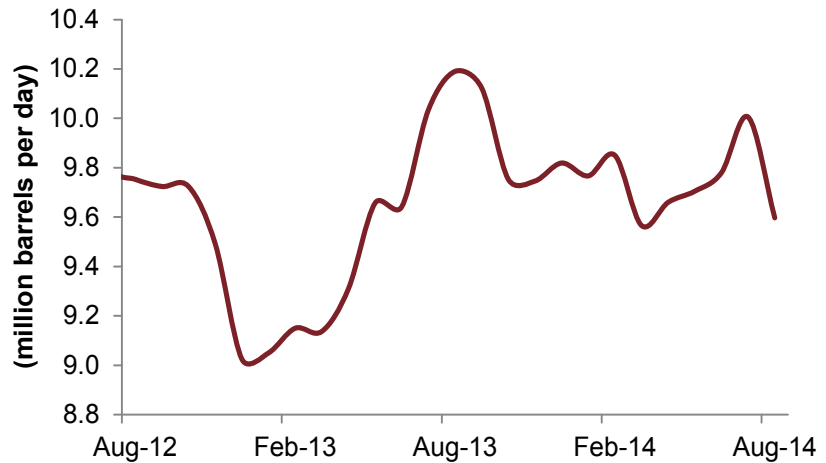


Oil - Regional

Ample global supply resulted in Saudi production dropping to 9.6 mbpd in August. Iraq, Iran saw oil output remain virtually flat, month-on-month, whilst Libyan production was down 5.8 percent. Higher domestic consumption and weaker global demand meant Saudi exports remained at 6.9 mbpd, month-on-month, in July.

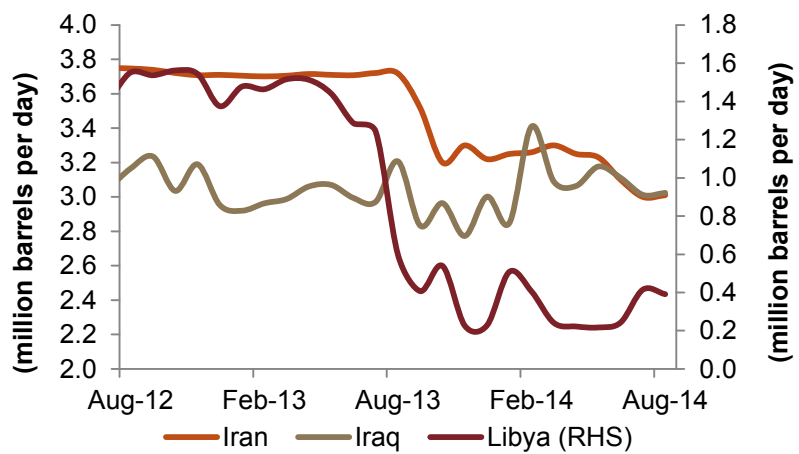
Saudi production dropped to 9.6 mbpd, the lowest for the month of August in four years.

Saudi crude production

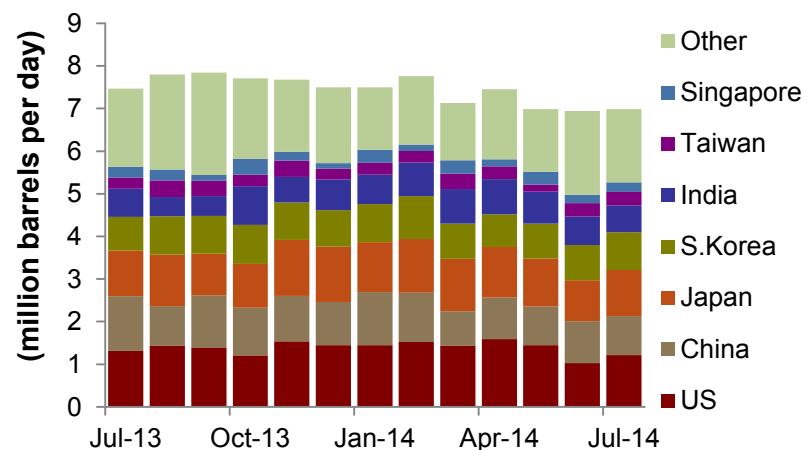


Technical issues, rather than violence, at sites which have been redundant for over a year, meant Libyan production was down in August.

Libyan, Iraqi and Iranian oil supply



Saudi crude exports by country



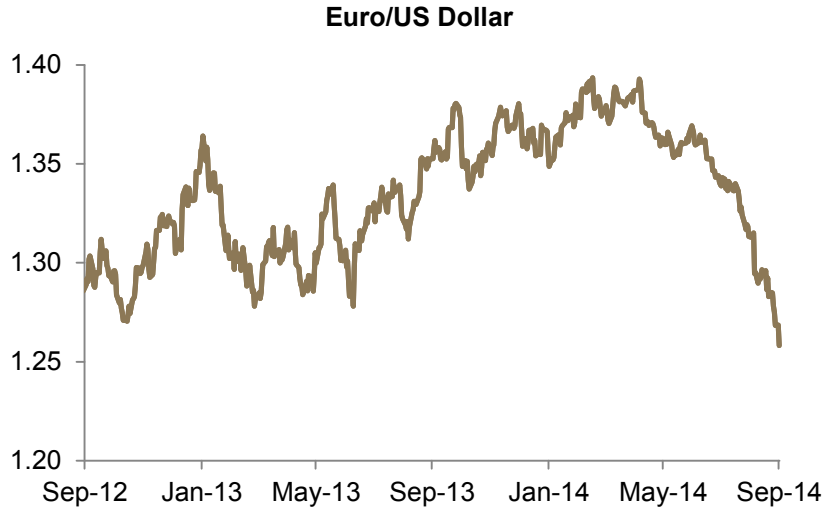
Latest data available shows that Saudi exports remained below 7 mbpd for the third month in a row, in July.



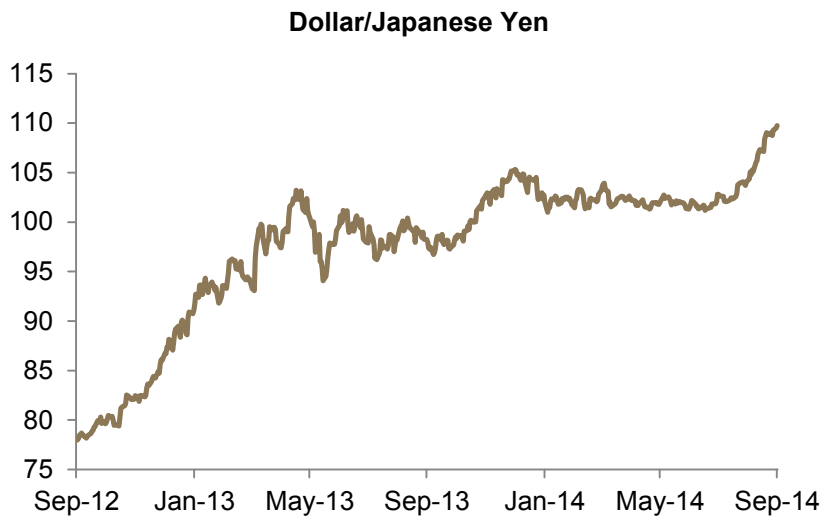
Exchange Rates

The dollar strengthened against the euro and the Japanese yen in September. The current dollar strength is a result of expectations about rising interest rates in the US with looser policy in the EU and Japan pushing down the euro and yen. A weaker export outlook and uncertain monetary policy weakened the Malaysian ringgit.

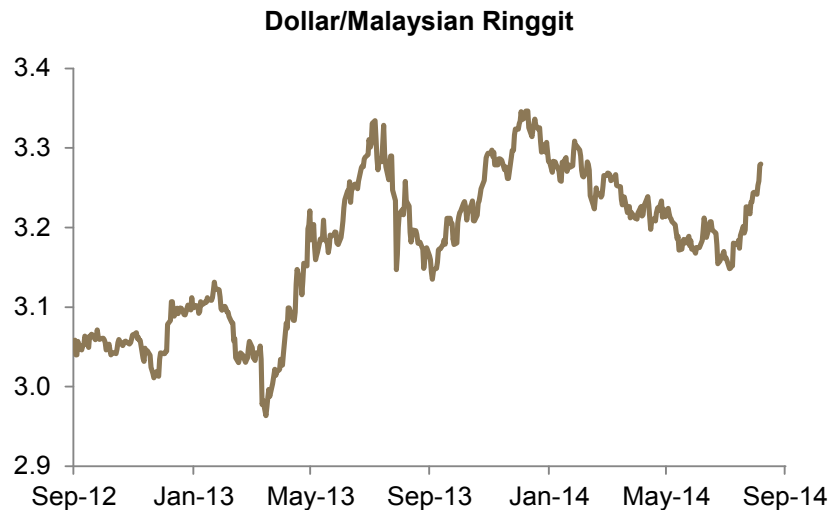
The euro weakened further in September as the European Central Bank (ECB) cut interest rates to 0.05 percent at the start of the month.



The yen also weakened as the Japanese Central Bank stated that it could loosen monetary policy to reach inflation targets.



Uncertainty over the Malaysian Central Bank's future policy and weakness in China, an important export market, saw the ringgit lose value.





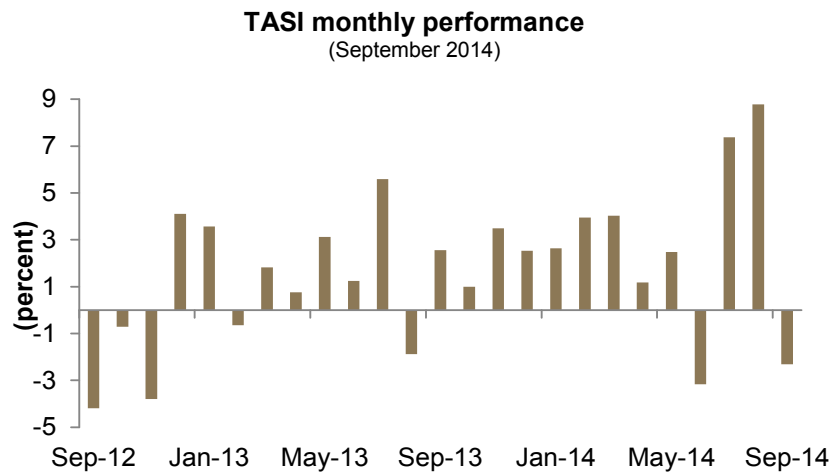
Stock Market

A combination of profit-taking before the Eid holidays and investors cutting positions to free up cash before IPO/rights issues, saw the TASI fall in September for the first time in two months. Furthermore, falling oil prices also negatively affected investor confidence.

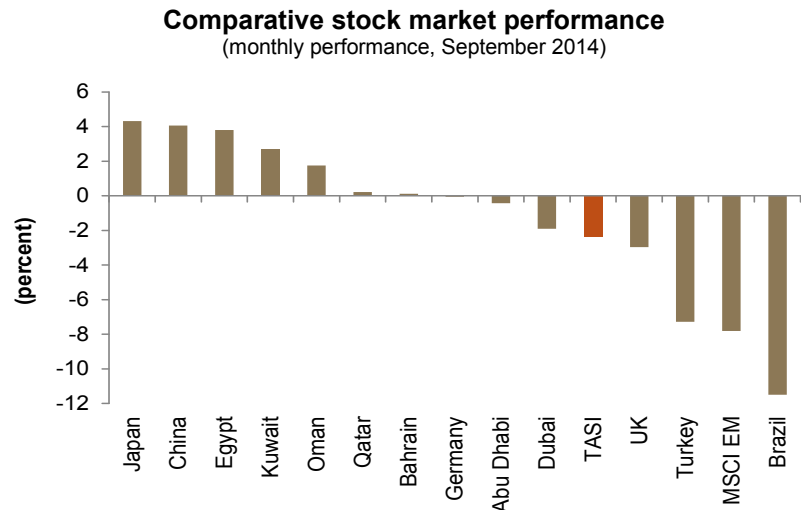
The TASI dipped back under 11,000 mark in September...



...resulting in a 2.3 percent drop in monthly performance.



The TASI performed less favorably against other global bench marks, in a month characterized by mixed performances by major international indices.



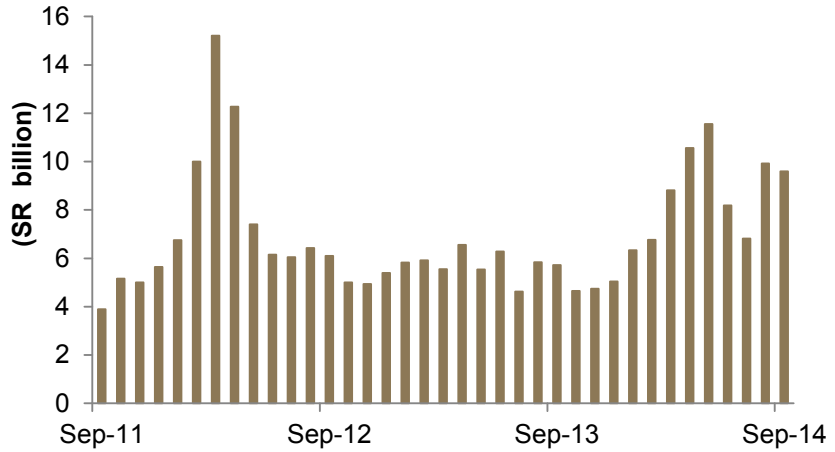


Volumes

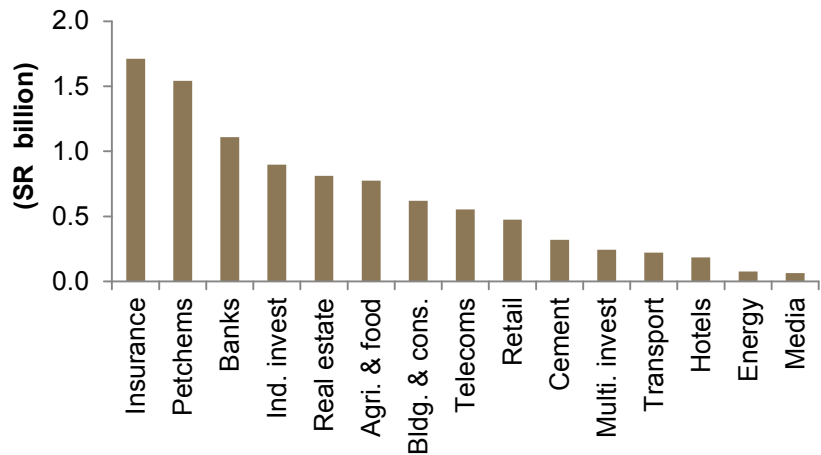
Average daily turnover fell in September. Banks and petchem sectors were prominent again, but the insurance sector, in both daily turnover and as percentage of market capitalization, saw the highest level of traded volumes.

Average daily turnover in September dropped by 3.2 percent, month-on-month, to SR9.6 billion.

Daily average stock market turnover

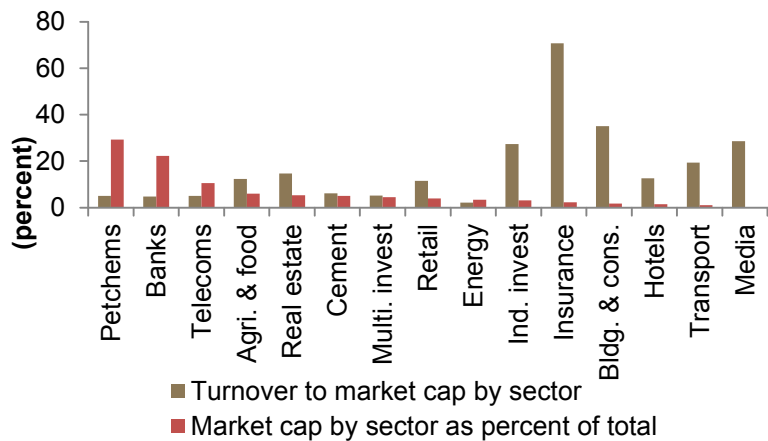


Turnover by sector (daily average)



The insurance sector's daily turnover exceeded both banking and petrochemical sectors...

Turnover as percent of market cap (September, 2014)



...resulting in its turnover to market cap being much higher than all other sectors.

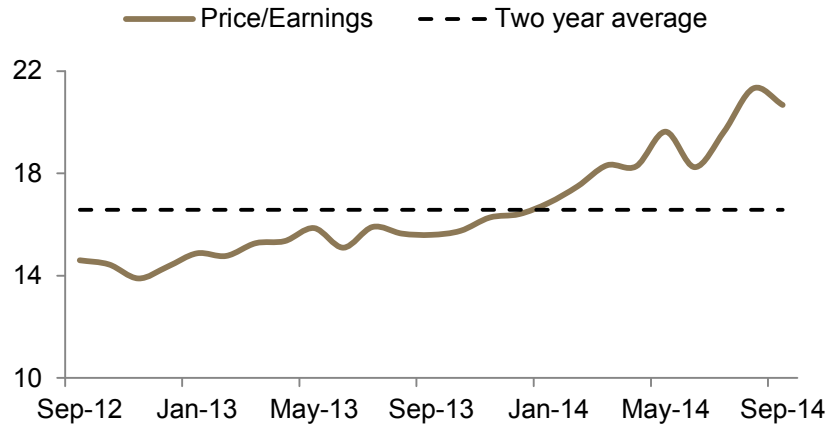


Valuations

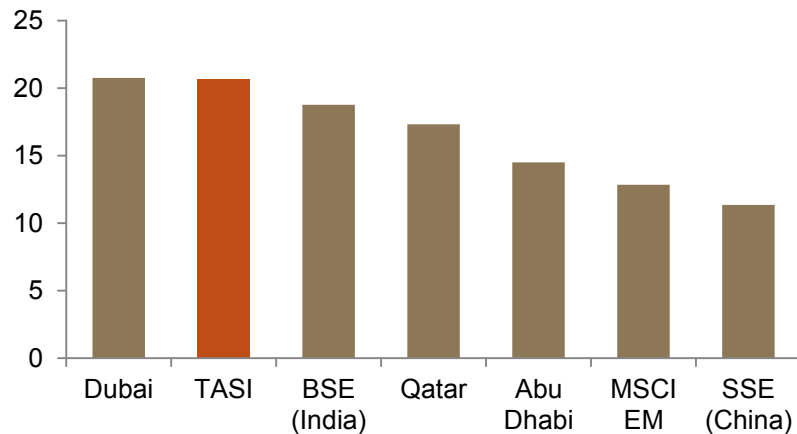
In September, the TASI's price-to-earnings (PE) valuation decreased to 20.68, moving closer towards the two year average of 16.58. PE was higher than comparable indices, except for Dubai. Although dividend yield increased to 2.64, month-on-month, it is still at the lower end when compared to regional and emerging markets.

The risks in over pricing seem to be abating somewhat with the TASI's PE declining in September...

TASI Price-to-Earnings ratio

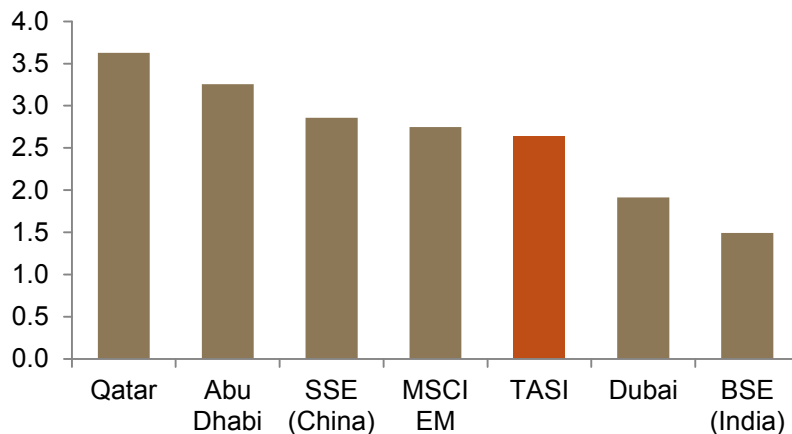


Comparative Price-to-Earnings ratios
(September 30, 2014)



...but is still quite expensive compared to regional and emerging markets ...

Comparative Dividend Yield ratios
(September 30, 2014)



...with dividend yield still remaining comparably low.



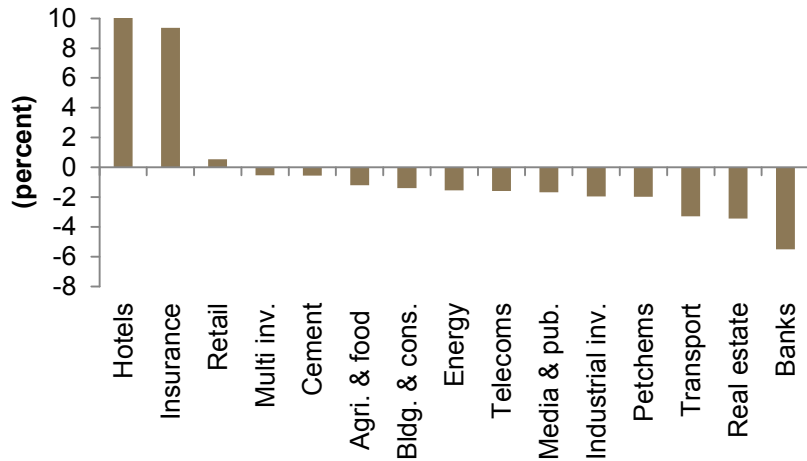
Sectoral Performance

All but three of the fifteen sectors saw negative performances in September as investor selling was felt across most the market. Only the hotel and insurance sectors performed well, whereas even the larger sectors, such as banks and real estate, performed poorly.

Selling of stocks by investors was felt across most sectors, except in the hotel and insurance sector.

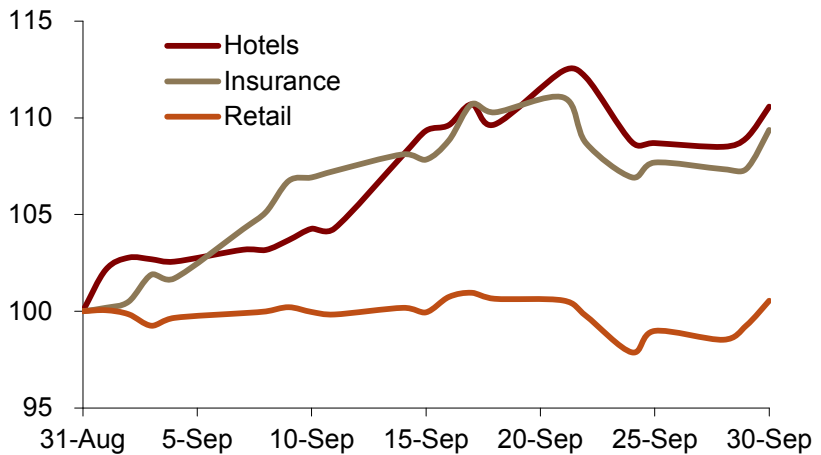
Performance by sector

(rebased; 31 August = 100)



Best Performing Sectors

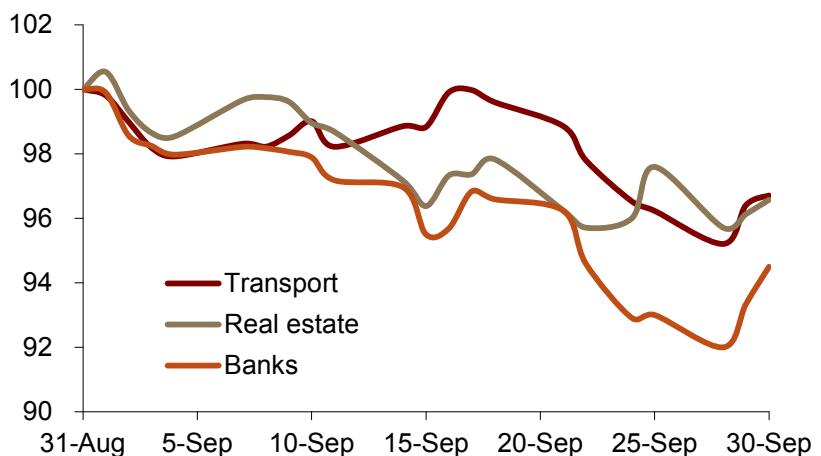
(rebased; 31 August = 100)



The insurance sector was buoyed by strong interim financial results and hotels benefitted from an expected uplift in the forthcoming holiday period.

Worst Performing Sectors

(rebased; 31 August = 100)



Profit-taking in previously stronger performing sectors resulted in poorer performance in September.



Key Data

	2007	2008	2009	2010	2011	2012	2013	2014 F	2015 F
Nominal GDP									
(SR billion)	1,559	1,949	1,609	1,976	2,511	2,752	2,807	2,965	3,037
(\$ billion)	415.7	519.8	429.1	526.8	669.5	734.0	748.4	790.6	809.8
(% change)	10.4	25.0	-17.4	22.8	27.1	9.6	2.0	5.6	2.4
Real GDP (% change)									
Oil	-3.8	4.3	-8.0	0.3	11.0	5.7	-1.0	0.4	-1.1
Non-oil private sector	12.0	11.1	4.9	10.3	7.7	6.0	6.0	5.5	4.8
Government	4.9	6.2	6.3	7.5	8.7	5.5	3.7	4.2	3.0
Total	6.0	8.4	1.8	7.4	8.6	5.8	4.0	4.2	3.3
Oil indicators (average)									
Brent (\$/b)	72.9	97.2	61.7	79.8	112.2	112.4	109.6	109.0	104.7
Saudi (\$/b)	67.2	94.0	60.4	77.5	103.9	106.1	104.2	105.0	100.7
Production (million b/d)	8.8	9.2	8.2	8.2	9.3	9.8	9.6	9.7	9.5
Budgetary indicators (SR billion)									
Government revenue	643	1,101	510	742	1,118	1,247	1,156	1,174	1,045
Government expenditure	466	520	596	654	827	873	976	1,070	1,021
Budget balance	177	581	-87	88	291	374	180	104	24
(% GDP)	11.3	29.8	-5.4	4.4	11.6	13.6	6.4	3.5	0.8
Domestic debt	267	235	225	167	135	99	75	68	61
(% GDP)	17.1	12.1	14.0	8.5	5.4	3.6	2.7	2.3	2.0
Monetary indicators (average)									
Inflation (% change)	5.0	6.1	4.1	3.8	3.7	2.9	3.5	2.9	3.1
SAMA base lending rate (% , year end)	5.5	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
External trade indicators (\$ billion)									
Oil export revenues	208.3	284.1	166.9	215.2	317.6	337.5	323.1	317.9	283.0
Total export revenues	233.2	313.5	192.3	251.1	364.7	388.4	377.0	374.6	342.2
Imports	81.5	100.6	86.4	97.4	120.0	141.8	152.7	158.3	172.1
Trade balance	151.7	212.8	105.9	153.7	244.7	246.6	224.3	216.3	170.0
Current account balance	93.3	132.3	21.0	66.8	158.5	164.8	134.3	133.3	81.4
(% GDP)	22.5	25.5	4.9	12.7	23.7	22.4	17.9	16.9	10.0
Official reserve assets	305.6	442.7	410.1	445.1	544.0	656.6	725.7	769.0	799.9
Social and demographic indicators									
Population (million)	24.9	25.8	26.7	27.6	28.4	29.2	30.0	30.9	31.8
Unemployment (15+, %)	11.2	10.0	10.5	11.2	12.4	12.0	11.7	10.7	10.5
GDP per capita (\$)	16,667	20,157	16,095	19,113	23,594	25,139	24,953	25,614	25,489

Sources: Jadwa forecasts for 2014 and 2015. 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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