



Summary

Real GDP: Data recently released by CDSI showed that real GDP growth has decelerated slightly in 2015.

Real Economy: Economic data for November showed a mixed picture. Data on consumer spending showed a moderation. The non-oil PMI rose from its lowest point on record in October.

Government Finance: The net monthly change in government accounts returned to negative territory in November, falling by \$11.5 billion.

Foreign Reserves: SAMA FX reserves fell by \$12 billion, month-on-month, to reach \$632 billion in November.

Banking Indicators: Year-on-year growth in bank credit to the private sector rebounded in November, following a slowdown in October which was owed to a higher base last year. In December, SAMA raised the reverse repo rate for the first time since May 2008.

Inflation: In November, inflation reversed its accelerating trend during the previous two months to reach 2.3 percent. Looking ahead, we expect higher energy prices, as a result of the recent subsidy reform, to lead to an acceleration in inflation.

Energy Subsidies: The 2016 Saudi budget included price increases for domestic energy consumers.

Current account: In 2015, the Kingdom's current account posted its first deficit since 1998 at -\$43 billion (6.3 percent of GDP).

Oil - Global: Brent averaged \$52 and WTI \$49 per barrel in 2015. Rising regional geopolitical tensions pushed Brent up slightly in early January. We forecast 2016 average Brent prices at \$ 47 per barrel.

Oil - Regional: Saudi crude production is expected to average 10.2 mbpd in 2015 and we expect it to remain unchanged in 2016.

Exchange Rates: The US Dollar/Riyal forward rate remained elevated partly due to geopolitical issues. We see no change in the peg due to the Kingdom's strong economic fundamentals.

Stock Market: The TASI declined by 4.6 percent during December. Early January trading saw the TASI decline further due to regional geopolitical tension and a slump in Chinese stocks.

Volumes: Uncertainty over a number of events taking place during December meant monthly turnover was subdued.

Valuations: The weaker performance of the TASI in December saw price-to-earnings (PE) drop further below its two year average.

Sectoral Performance: Ten out fifteen sectors were down in the month of December.

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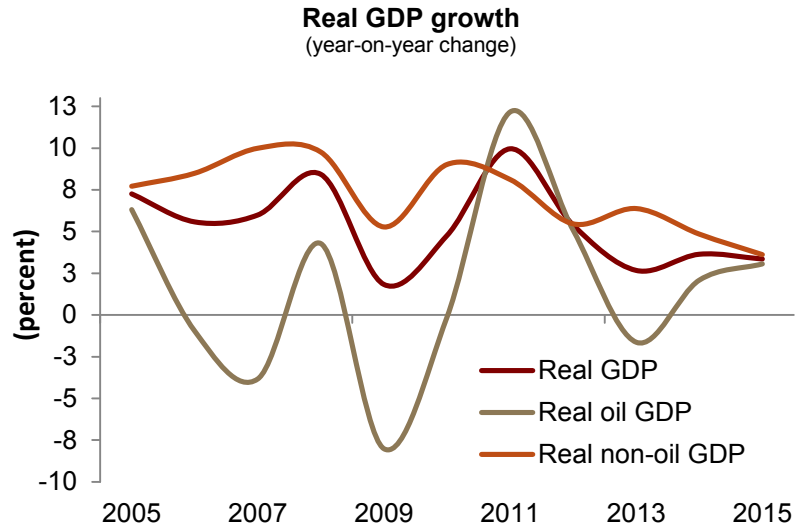
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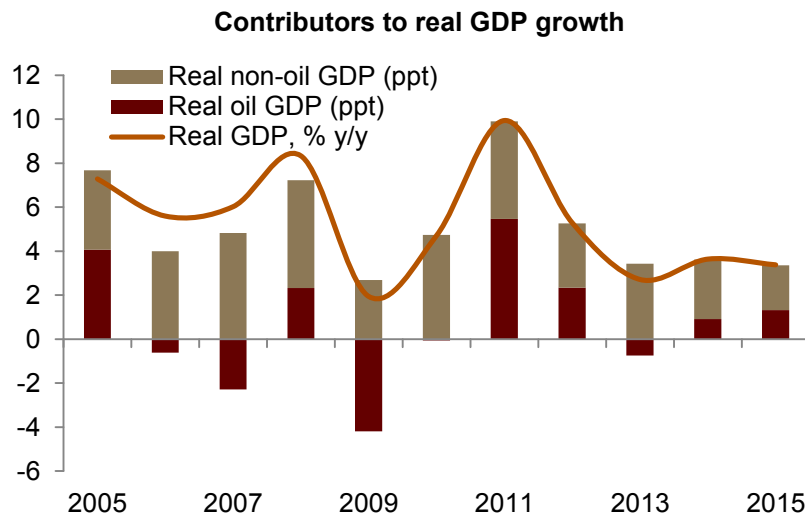
Real GDP

Data recently released by CDSI showed that real GDP growth decelerated slightly in 2015. This was mainly due to a slowdown in the non-oil sector. Whilst most sectors within the non-oil private economy posted a year-on-year slowdown, growth in utilities accelerated. Transport and construction were the fastest growing sectors in 2015.

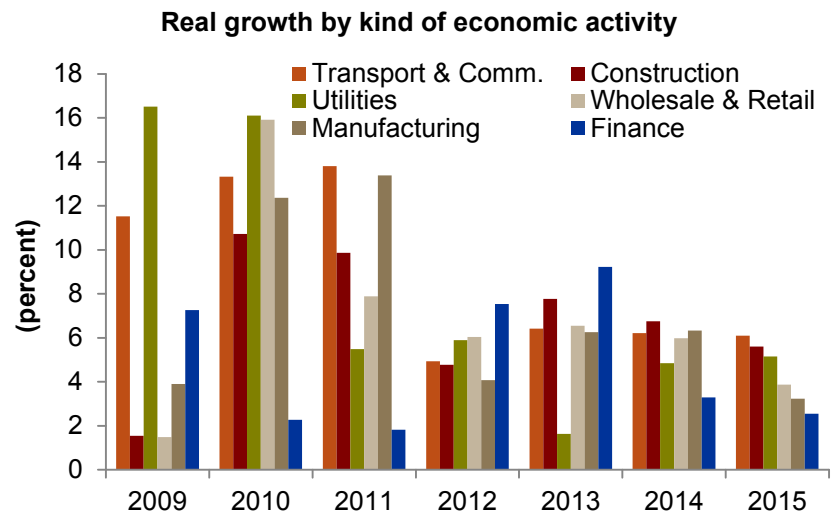
2015 real GDP growth slowed slightly to 3.4 percent, mainly owing to slower non-oil sector growth.



However, the non-oil sector remained the major driver for overall growth in 2015.



In 2015, within the non-oil economy, the fastest growing sectors were transport (6.1 percent), construction (5.6 percent), and utilities (5.1 percent).

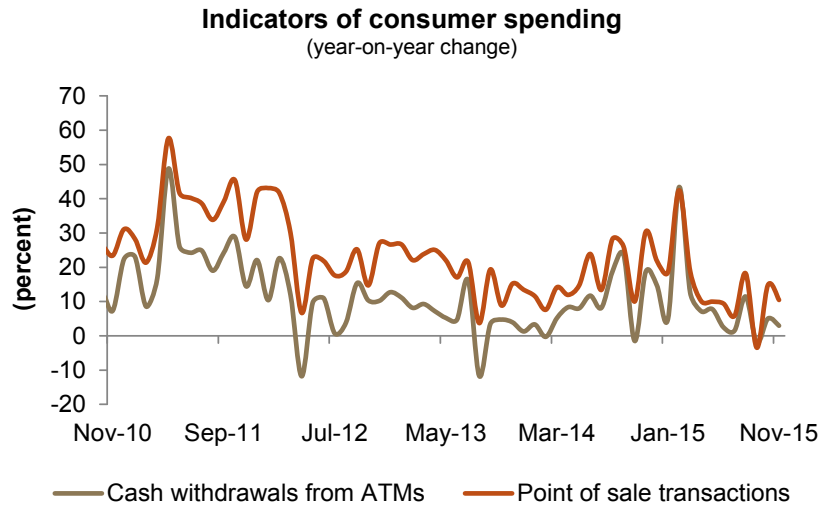




Real Economy

Economic data for November showed a mixed picture. Data on consumer spending showed a moderation. The non-oil PMI rose from its lowest point on record in October. Data on cement showed a healthy performance in November, with sales rising by 7.3 percent, year-on-year.

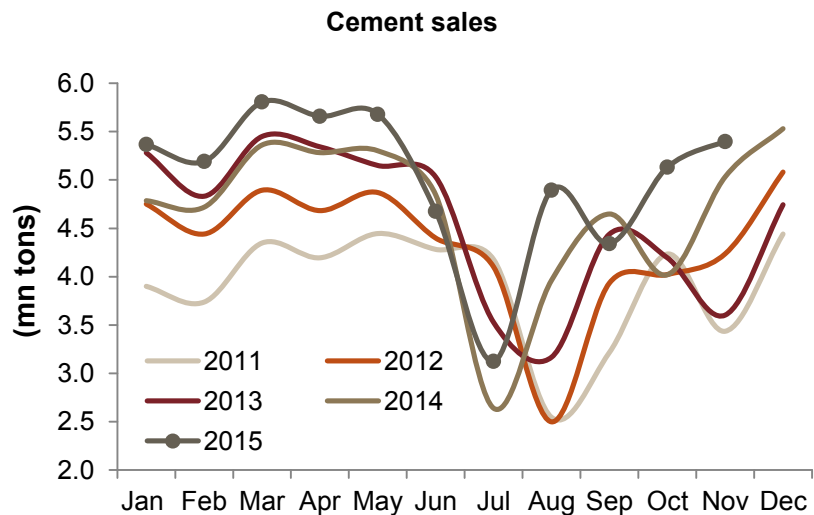
Data on cash withdrawals from ATMs and point-of-sale transactions showed a year-on-year slowdown



The non-oil PMI rose from its lowest point on record to register 56.3 in November



November data also showed strong cement sales at 5.4 million tons, rising by 7.3 percent, year-on-year



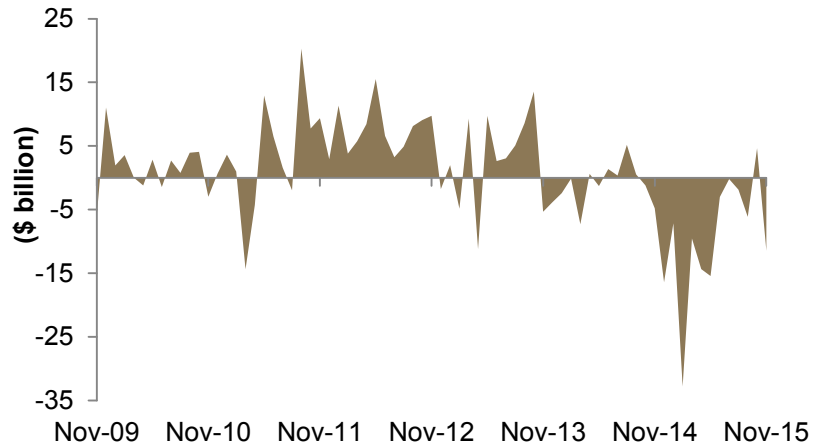


Government Finance

The net monthly change in government accounts returned to negative territory in November, falling by \$11.5 billion. All three government accounts posted a negative net monthly change, with the largest decline in government current deposits. Meanwhile, banks continued to increase their holdings of government bonds.

The net monthly change in government accounts returned to negative territory in November, falling by \$11.5 billion .

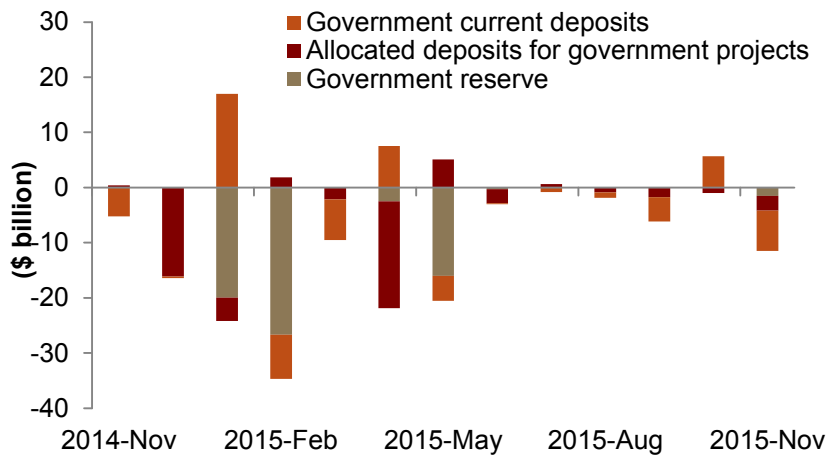
Government accounts with SAMA
(month-on-month change)



The net decline spanned all three government accounts:

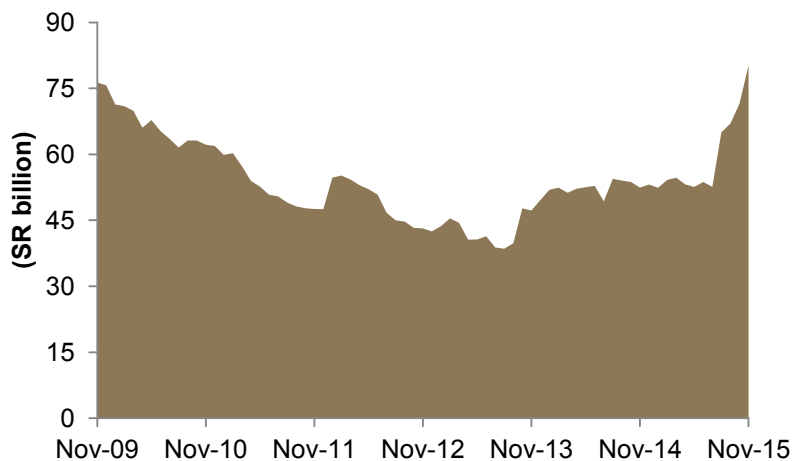
- 1) Government current deposits (-\$7.3 billion).
- 2) Projects (-\$2.6 billion).
- 3) Government reserve (-\$1.5 billion).

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



Meanwhile, banks increased their holdings of government bonds to SR80.2 billion in November, up from SR71.1 billion in October.

Bank holdings of government bonds

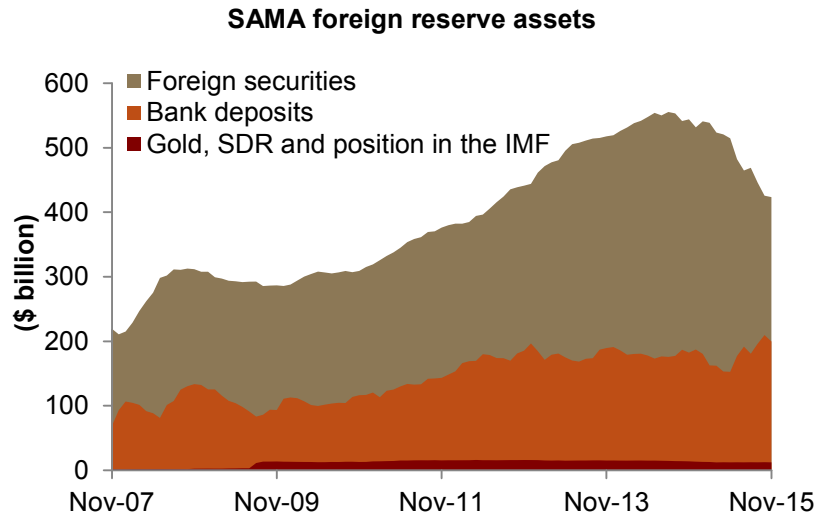




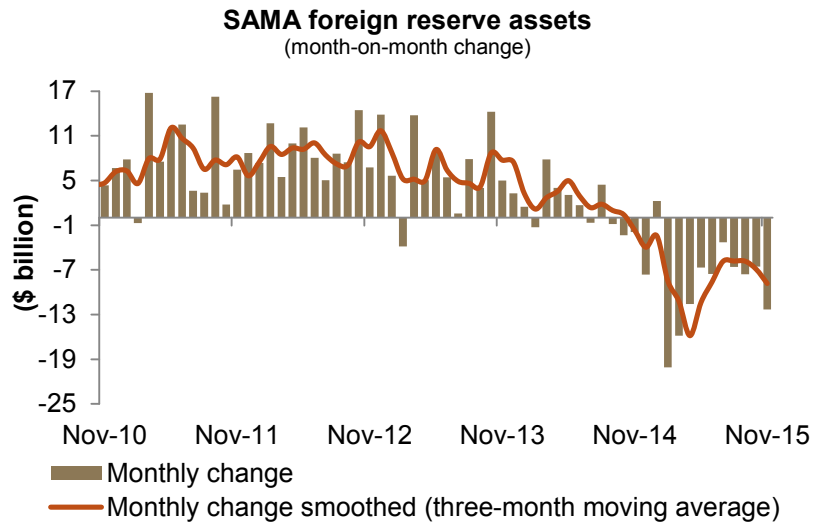
Foreign reserves

SAMA FX reserves fell by \$12 billion, month-on-month, to reach \$632 billion in November. Looking ahead, we think the government will try more to limit the extent of withdrawals from foreign reserves. Foreign assets of independent government organizations were much more stable during the year, falling by only 0.5 percent, year-to-November.

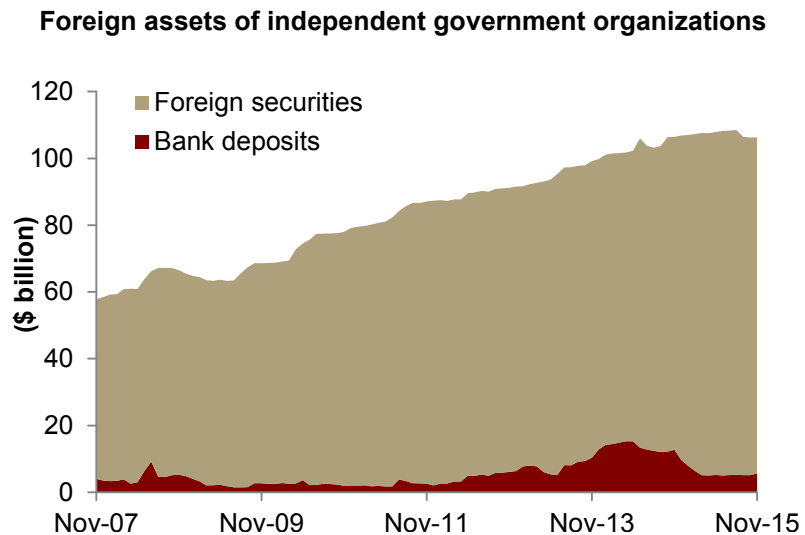
SAMA FX reserves fell to \$632 billion in November...



... declining by \$12 billion, month-on-month, compared to a \$6.6 billion fall in October.



Foreign assets of independent government organizations fell by only 0.5 percent, year-to-November.

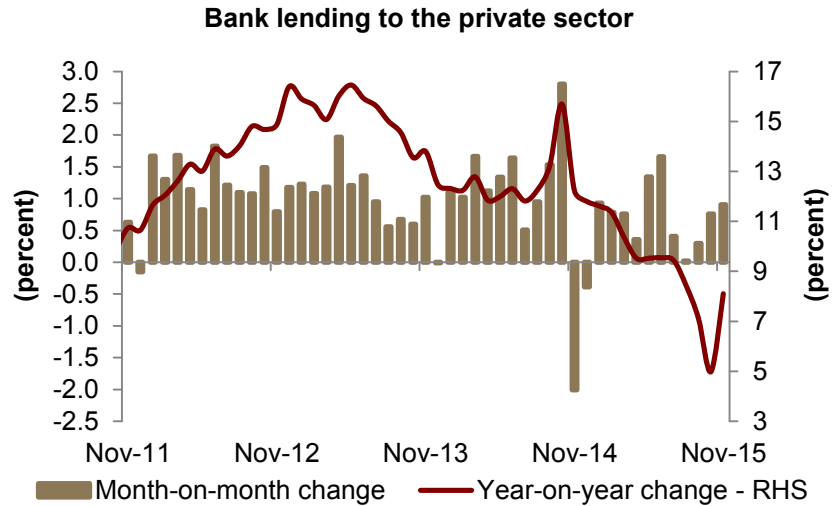




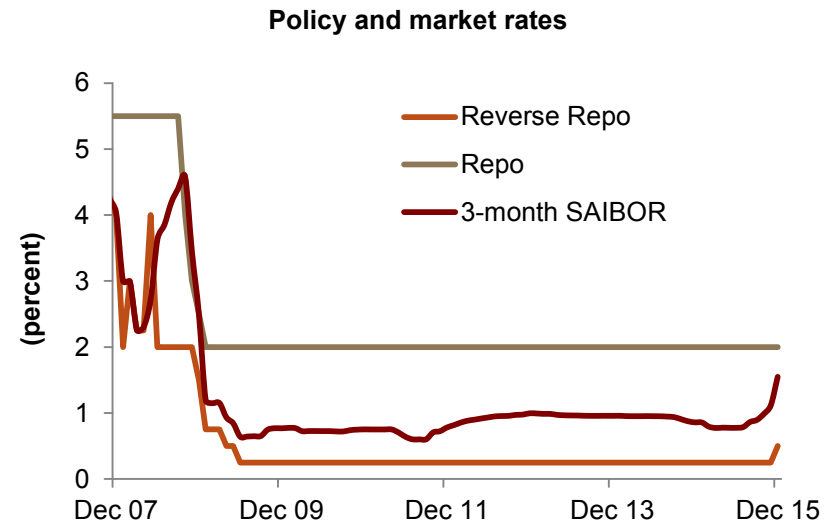
Banking indicators

Year-on-year growth in bank credit to the private sector rebounded in November, following a slowdown in October that was owed to a higher base last year. In December, SAMA raised the reverse repo rate for the first time since May 2008. Total deposits rose in November following a net decline during the previous month.

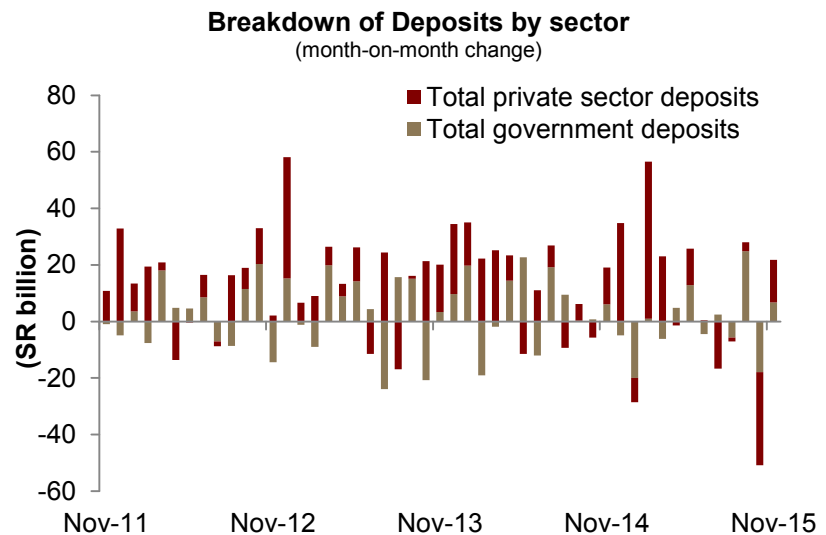
Year-on-year growth in bank credit to the private sector reached 8.1 percent in November (0.8 percent, month-on-month)



SAMA raised the reverse repo rate by 25 basis points to 0.50 percent in mid-December. The 3-month SAIBOR had already edged upwards in recent months, climbing from 0.776 in July to 1.548 in December.



Total deposits in the banking sector rose by SR21.7 billion, month-on-month, in November, following a net decline in the previous month.

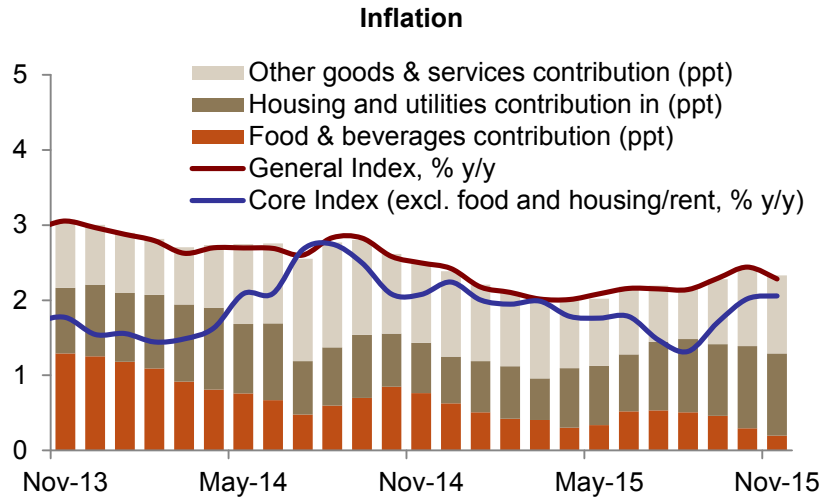




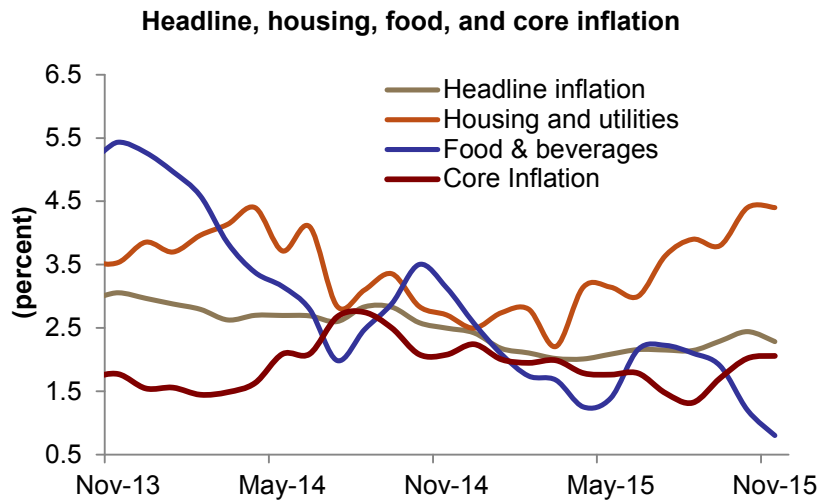
Inflation

In November, inflation slowed to 2.3 percent. This was mainly due to a slowdown in food prices, which was impacted by the deflationary trend in international food prices. Looking ahead, we expect higher energy prices, as a result of the recent subsidy reform (see next page), to lead to an acceleration in inflation. This acceleration will most likely come from the housing and utilities, and transport components.

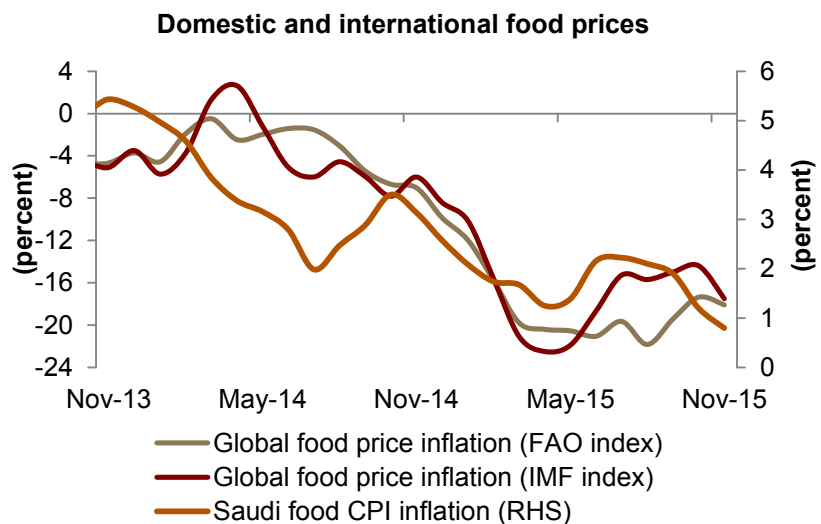
Inflation slowed to 2.3 percent in November, reversing a two-month acceleration...



... mainly dragged by lower food prices, which have reached a six-year low.



Foodstuffs continued to be impacted by the deflationary trend in international food prices, though reform to domestic energy prices will likely put upward pressure on inflation in coming months (see next page)

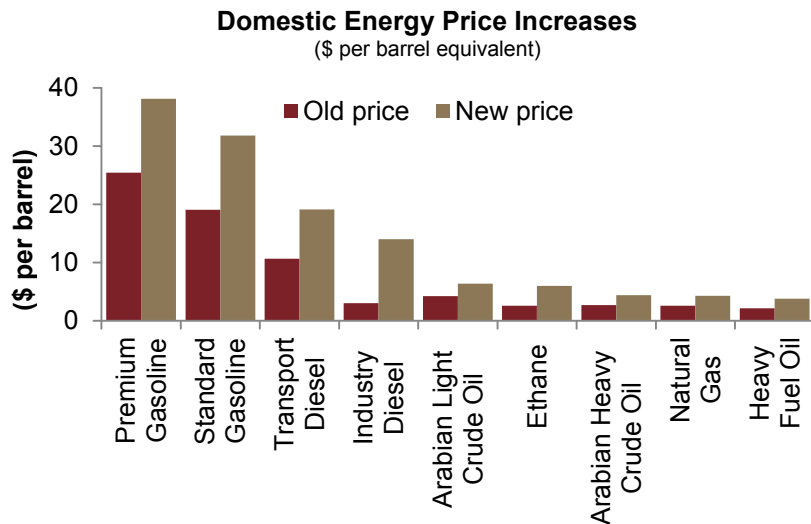




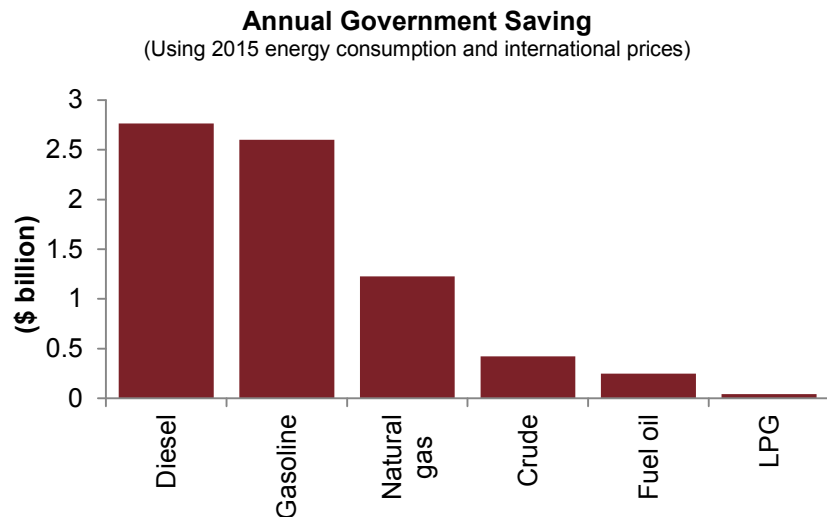
Energy Subsidies

The 2016 Saudi budget included price increases for domestic energy consumers. Gasoline, diesel, crude oil, ethane, natural gas, fuel oil and electricity tariffs were all raised. A number of companies reported that they expected higher costs in 2016.

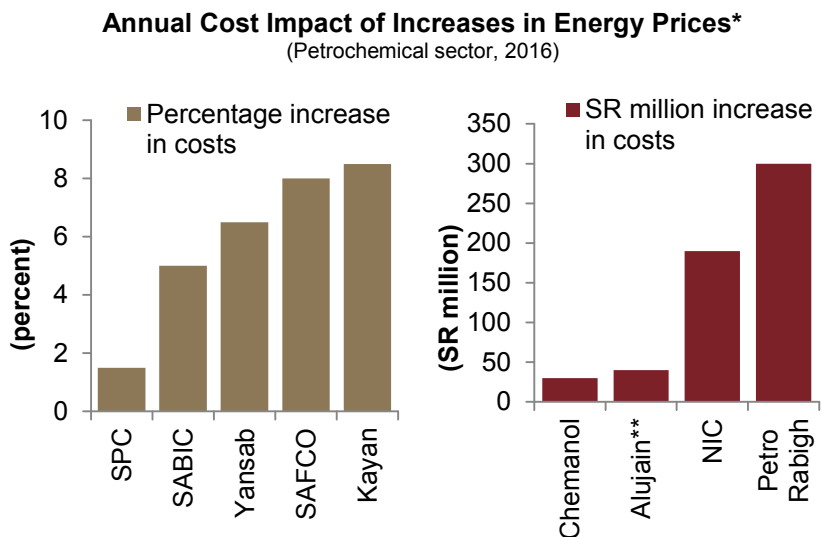
Prices were raised across all types of energy inputs.



We estimate that the price rises will save the government \$7 billion annually.



A number of petrochemical sector companies reported the direct impact of higher energy prices although it was not the only sector affected. Companies in the cement, mining and construction sector also predicted higher costs in 2016.



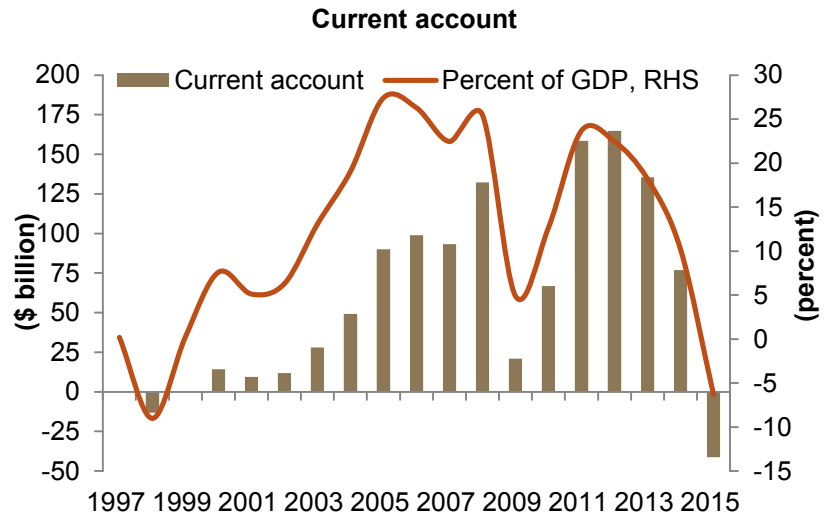
*As reported by stated companies
 **Note: Between 10 to 40 Million



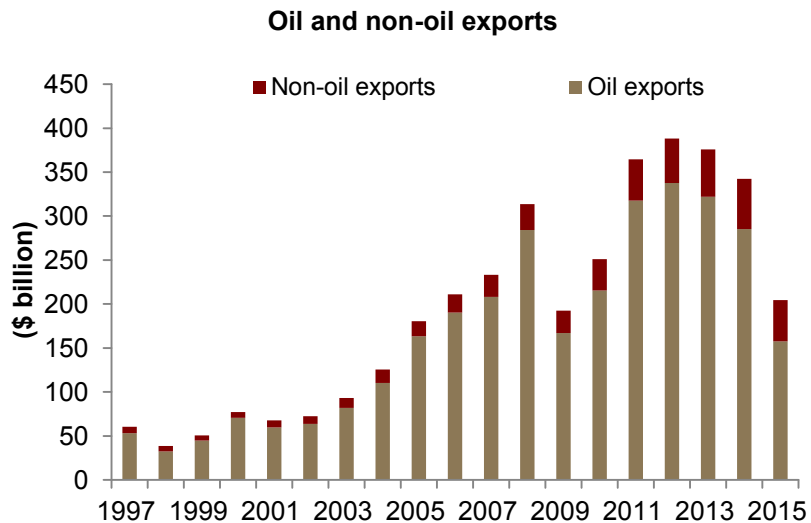
Current account

Preliminary data from the budget announcement showed that in 2015, the Kingdom's current account posted its first deficit since 1998 at $-\$43$ billion. The deficit was caused by a fall in both oil and non-oil exports, which fell by $\$128$ billion, and $\$10$ billion, year-on-year, respectively. Imports also posted a year-on-year decline, falling by $\$16.6$ billion. The trade balance remained positive at $\$62.7$ billion.

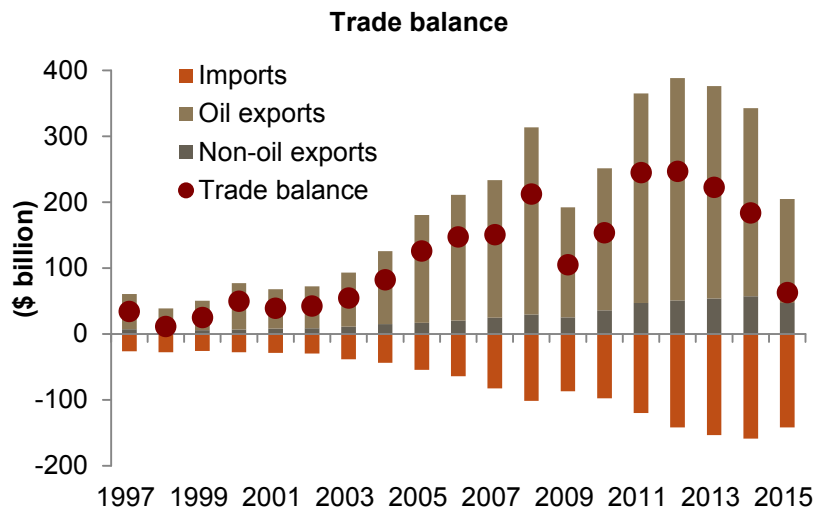
Preliminary 2015 data showed that the Kingdom's current account posted its first deficit since 1998 at $-\$43$ billion (6.3 percent of GDP).



Both oil and non-oil exports fell by $\$128$ billion (45 percent), and $\$10$ billion (18 percent), year-on-year, respectively.



The trade balance fell, year-on-year, but remained positive at $\$62.7$ billion.

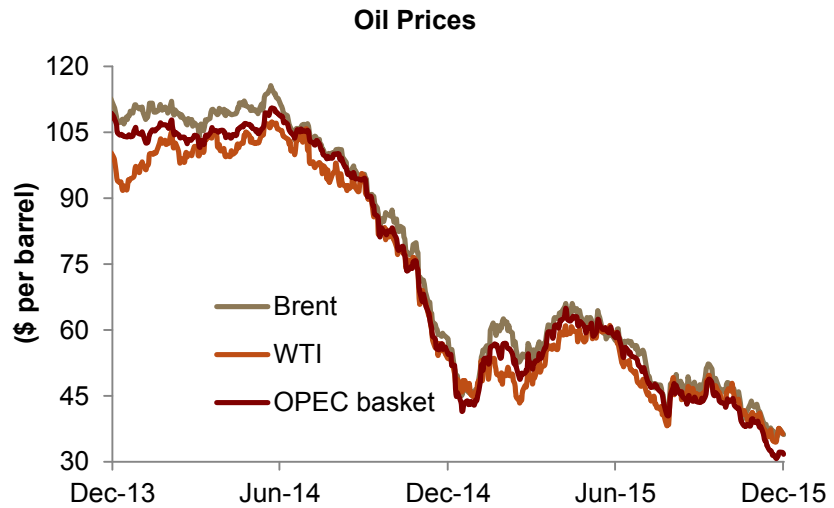




Oil - Global

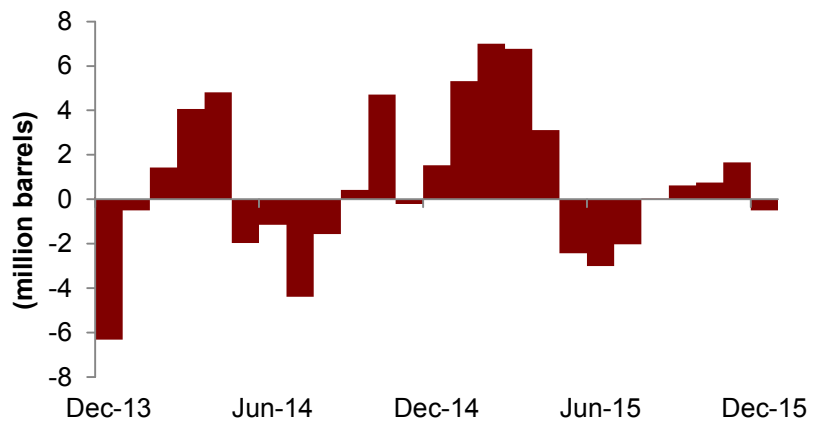
A combination of OPEC failing to agree on output and dropping the notional idea of production quotas plus the lifting of a 40 year old crude export ban in the US and the anticipation of Iranian crude in 2016, all added further pressure on prices. This led to Brent falling 14 percent and WTI 10 percent month-on-month in December.

Brent is currently trading at around \$37 per barrel, close to a 11 year low.



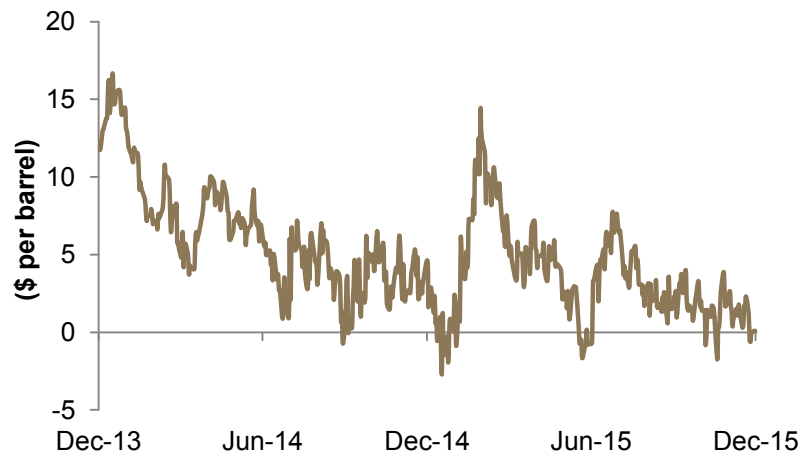
Change in US Commercial Crude Stock
(average month-on-month change)

US crude stocks were down in December but this did not represent an increase in demand in the US...



Brent-WTI Differential

...rather an incentive to raise exports of WTI crude as the lifting of the export ban led to the Brent-WTI differential narrowing to zero.



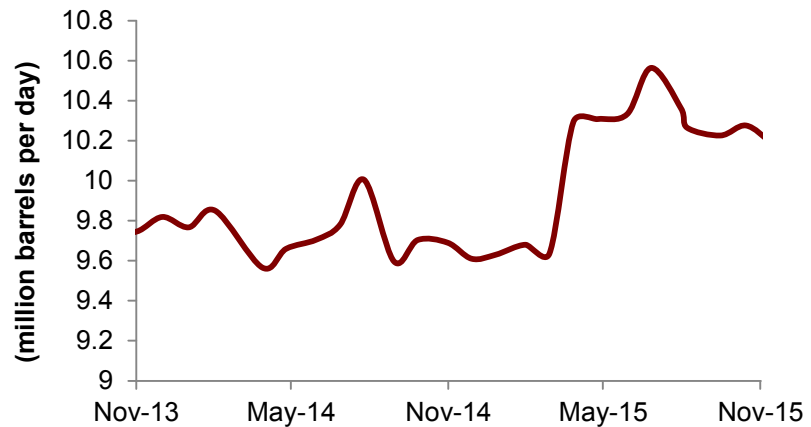


Oil - Regional

Saudi crude production remained virtually unchanged month-on-month in November at 10.2 mbpd. Annual 2015 Saudi production is expected to average 10.2 mbpd, slightly above our forecast of 10.1 mbpd. We expect no change in crude production in 2016 as the battle for market share intensifies.

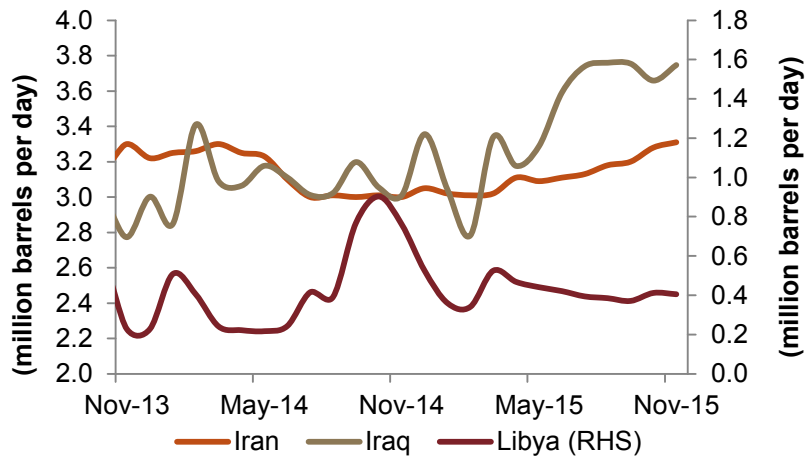
Saudi crude production will remain at current levels in the months ahead...

Saudi crude production

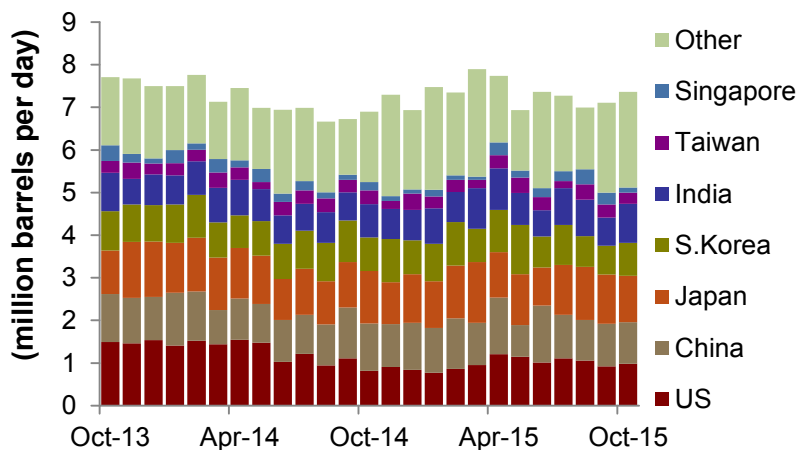


...but Iranian production will begin to rise gradually in the run-up to sanctions being lifted. Iraqi production should rise too, but at a slower rate than in the last few months as production capacity becomes tighter.

Iraq, Iran and Libya production



Saudi crude exports by country



Latest data from October showed exports increased by 250 thousand barrels per day month-on-month to 7.36 mbpd. We expect Saudi exports to remain at these levels throughout 2016.

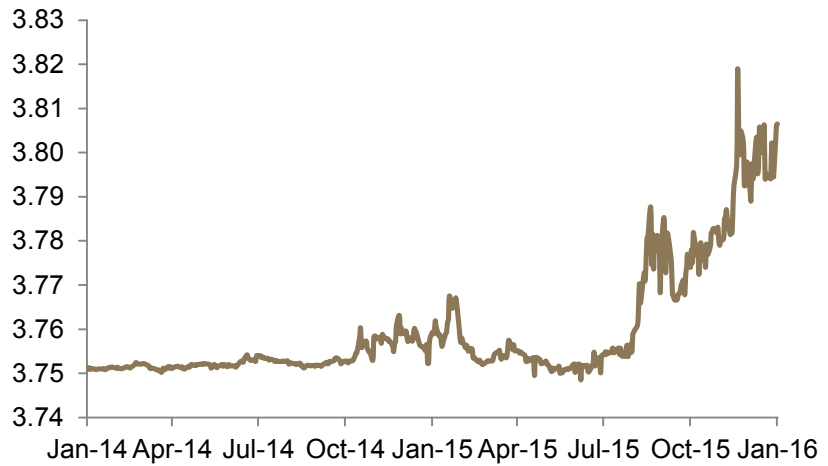


Exchange Rates

The US Federal Reserve (Fed) increased its benchmark rate by 0.25 percent in December. This did not lead to the US Dollar strengthening during the month. Investors had already priced in the rise prior to the Fed's decision, as highlighted by the greenback's gains against major international currencies throughout the year.

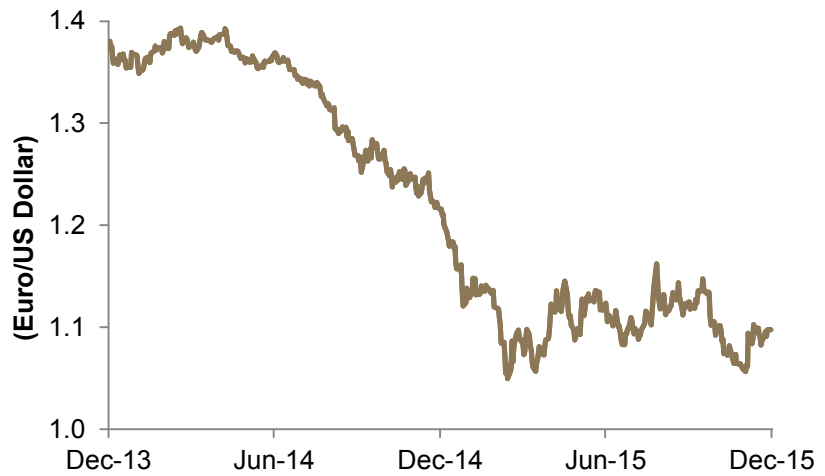
The US Dollar/Riyal forward rate remains elevated. We see no change in the peg due to the Kingdom's strong economic fundamentals and more disciplined expenditure approach outlined in the 2016 Saudi budget.

US Dollar/Riyal one year forward rate

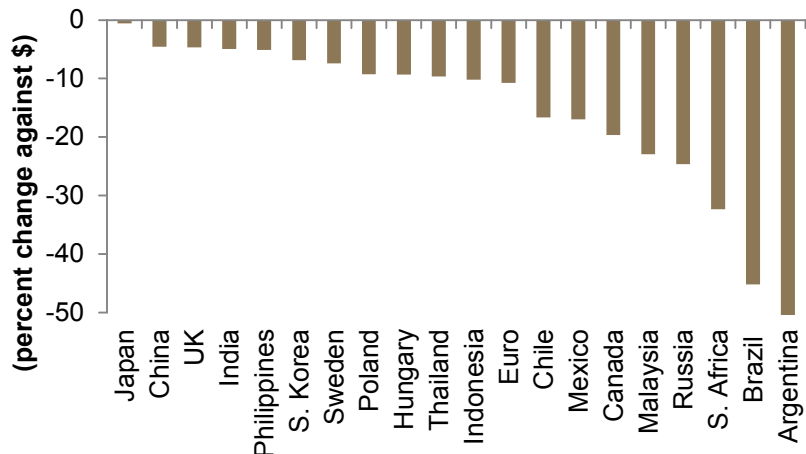


The US Dollar flattened against the euro during December suggesting that investors view the pace of future Fed rate hikes as being gradual.

Euro/US Dollar



US Dollar versus international currencies
(percentage change since 31 December 2014)



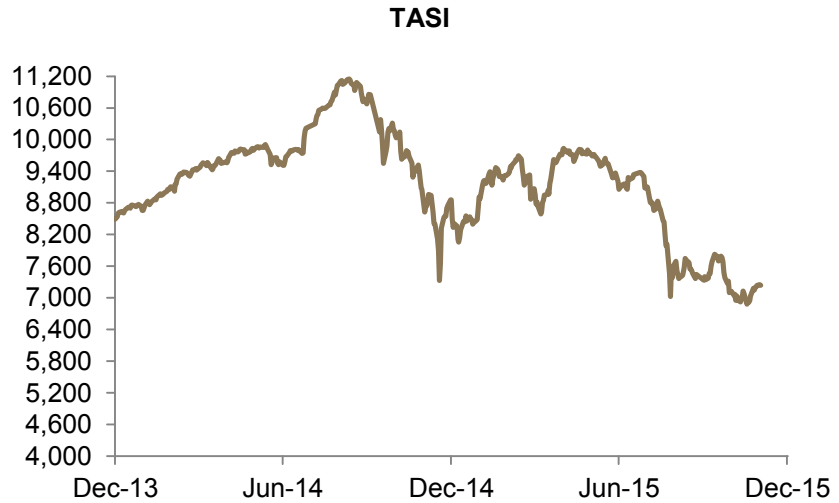
Nevertheless the Dollar has shown remarkable strength during the year, finishing 2015 stronger against all major developed and emerging market currencies.



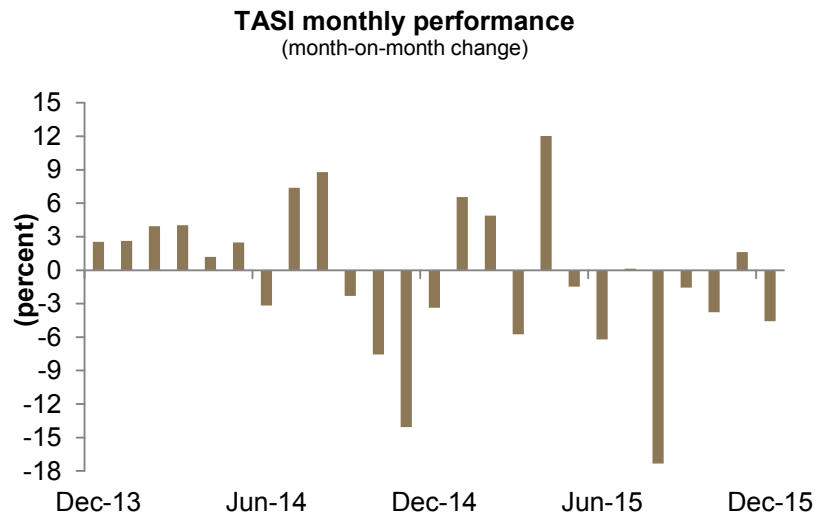
Stock Market

Lower monthly oil prices, a tighter fiscal budget and a rise in energy prices for domestic users combined to push the TASI down in December. The TASI declined by 4.6 percent during the month and led to the Saudi bourse dropping to its lowest point in two years. We expect the TASI to stabilize around current levels in early 2016.

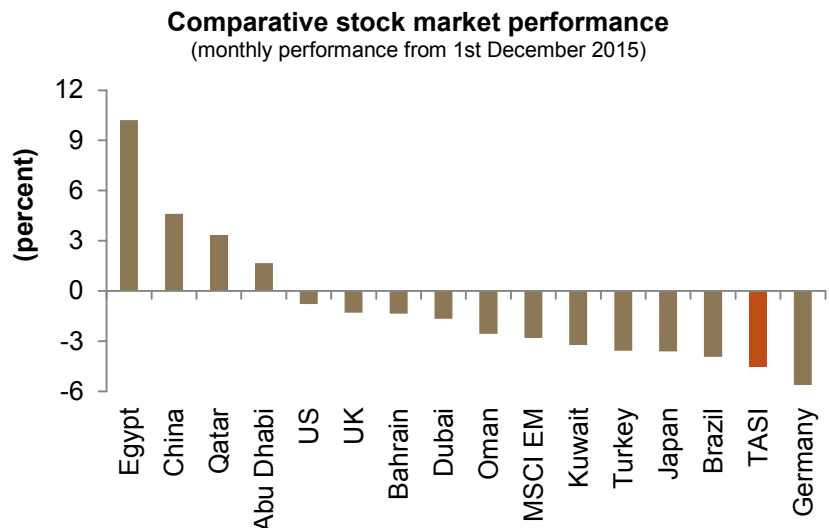
The TASI dropped as sentiments remained weak.



December's decline reversed the gains of the previous month...



...and resulted in the TASI being one of the worst performers compared to major regional and global indices in December.



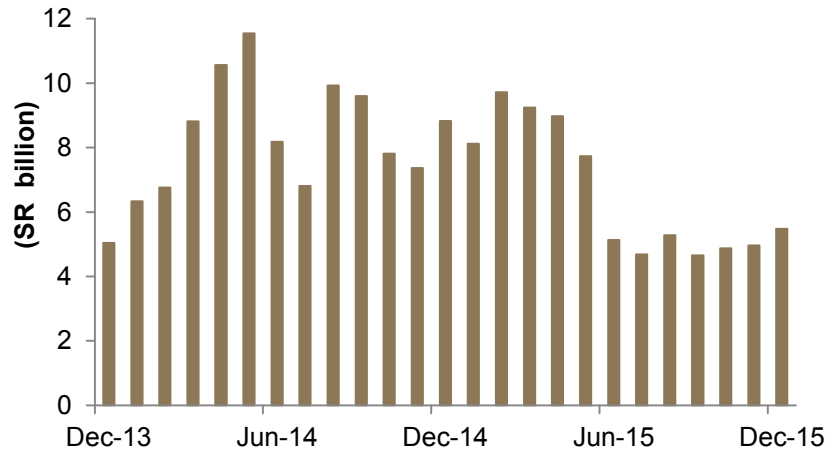


Volumes

Uncertainty over a number of events taking place during December meant monthly turnover was subdued. Investors seem to have taken a cautious approach during the month as key decisions relating to the Fed rate, OPEC output and Saudi budget were taken.

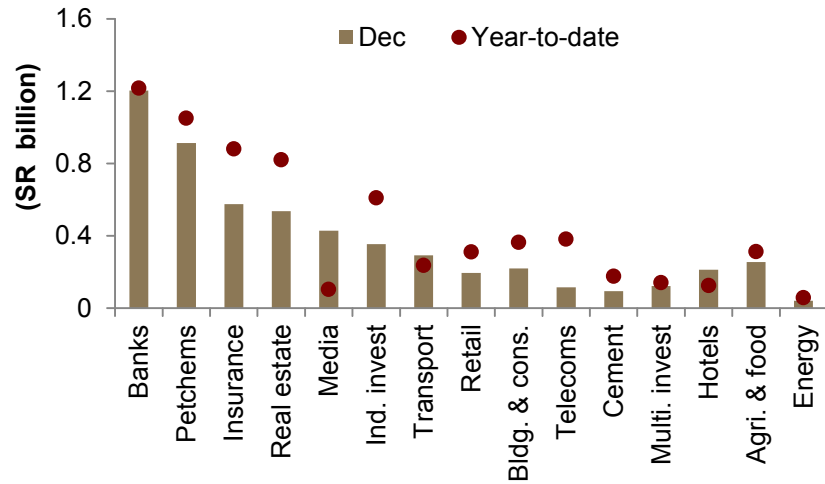
The TASI saw a marginal rise in turnover during the month.

Daily average stock market turnover



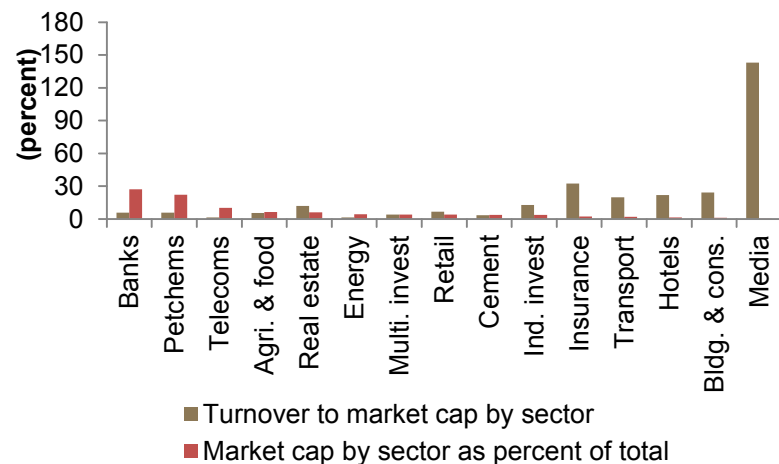
Higher turnover in Banks was related to rise in Fed interest rates during the month...

Turnover by sector (daily average)



...whilst speculative activity was high amongst smaller sectors.

Turnover as percent of market cap (December, 2015)

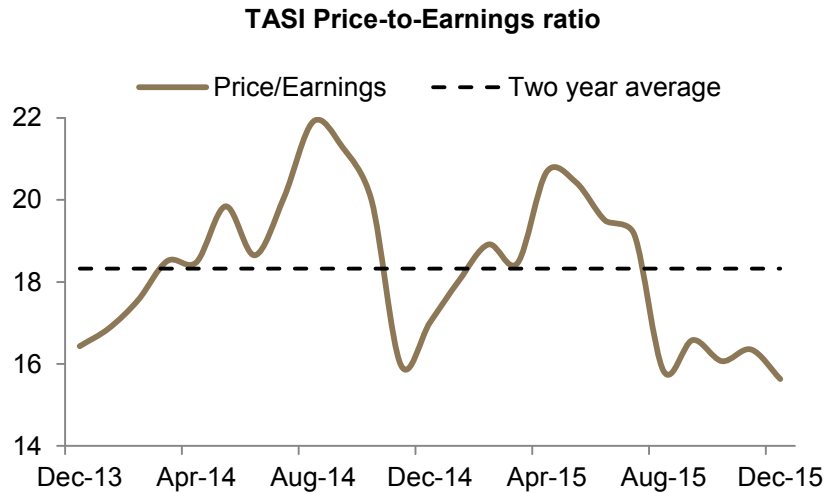




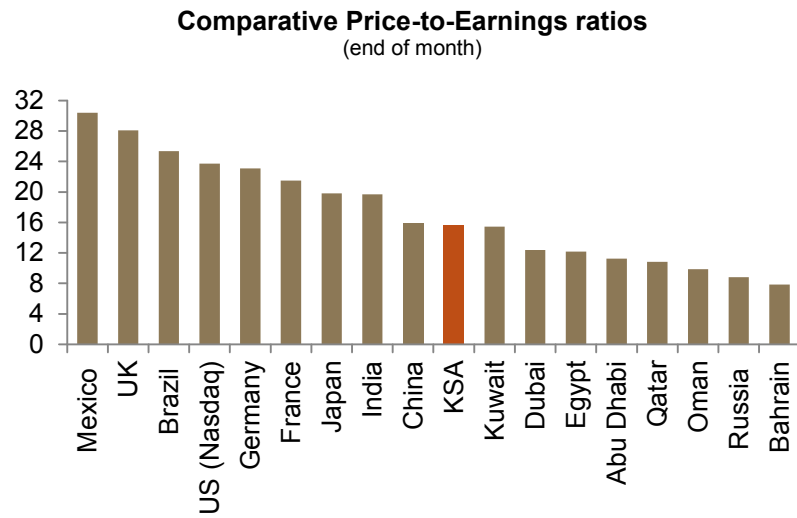
Valuations

The weaker performance of the TASI in December saw price-to-earnings (PE) drop further below its two year average. We expect some stabilization in valuations going forward as investors become clearer about the government's short to mid-term spending plans and this brings some confidence back into the market.

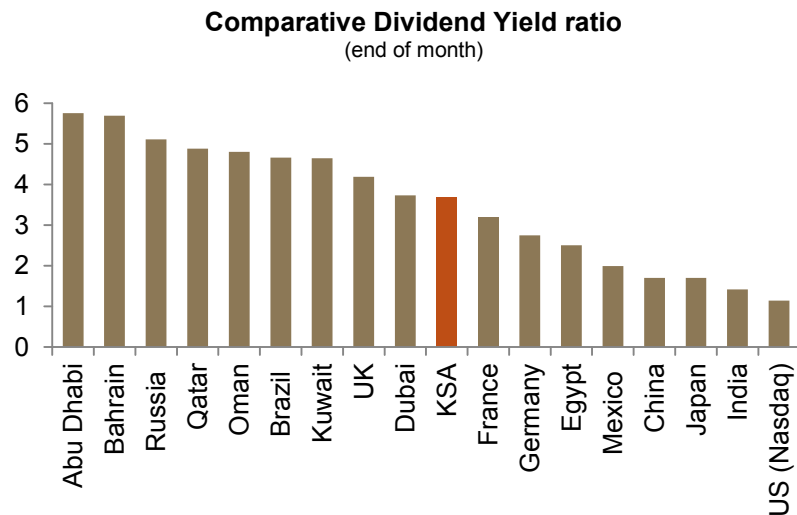
PE dropped further below the two year average...



...moving in-line with regional averages...



...although dividend yield remains flat month-on-month.

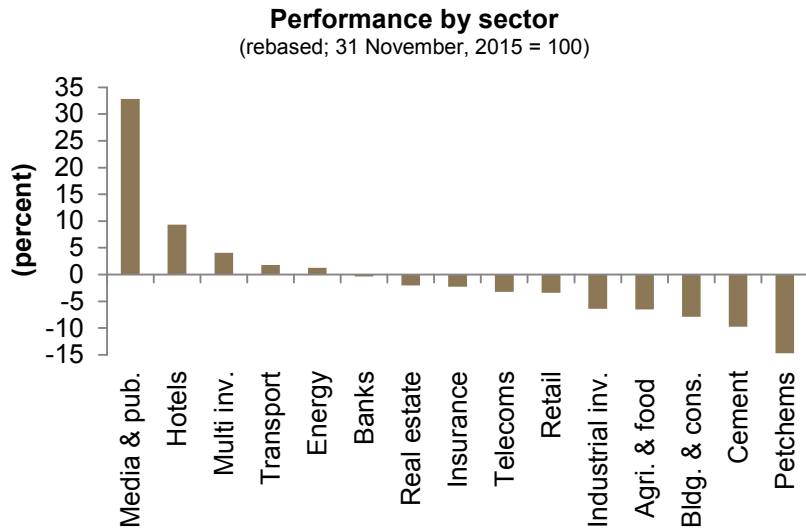




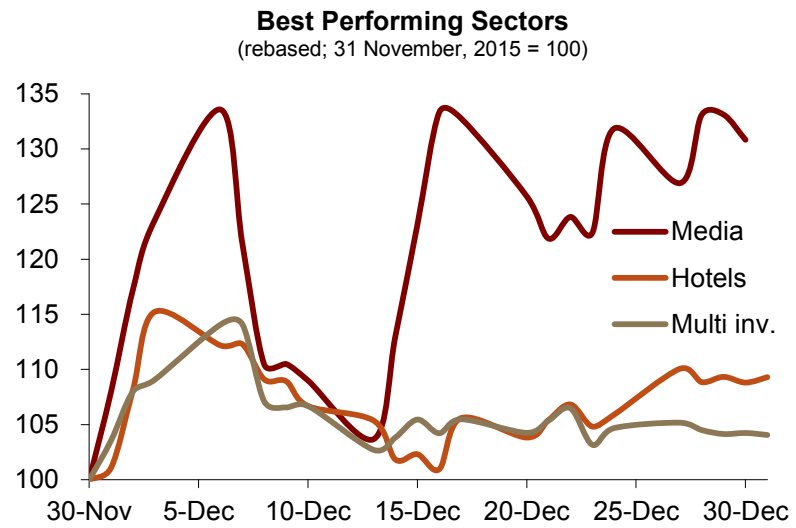
Sectoral Performance

Ten out fifteen sectors were down in the month of December. A mixture of positive developments from the previous month and some element of speculative activity seems to have lifted the media sector's performance above the other sectors.

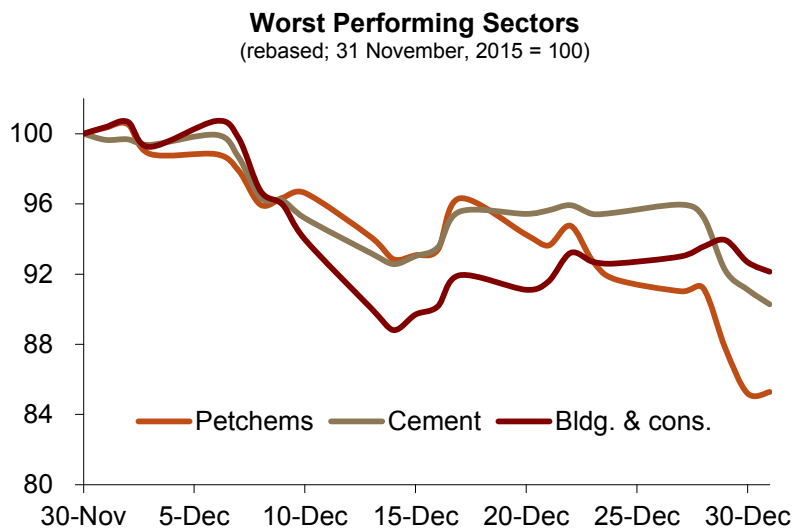
The Media sector was the best performer during the month.



Hotels were boosted by seasonality whilst multi investment was lifted by a number positive developments relating to Kingdom Holdings.



Amongst the worst performing sectors were those that will be most affected by domestic energy price rises.





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	2,455	2,721
(\$ billion)	429.1	526.8	669.5	734.0	744.3	753.8	653.2	654.6	725.7
(% change)	-17.4	22.8	27.1	9.6	1.4	1.3	-13.3	0.2	10.9
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	2.8	3.3
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	2.1
Oil indicators (average)									
Brent (\$/b)	61.7	79.8	112.2	112.4	109.6	99.4	52.1	47.0	58.0
Saudi (\$/b)	60.4	77.5	103.9	106.1	104.2	95.7	49.4	44.5	55.0
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	609	630
Government expenditure	596	654	827	873	976	1,111	975	922	923
Budget balance	-87	88	291	374	180	-71	-367	-313	-293
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.5	-15.0	-12.8	-10.8
Domestic debt	225	167	135	99	60	44	142	263	461
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	5.8	10.7	17.0
Monetary indicators (average)									
Inflation (% change)	4.1	3.8	3.7	2.9	3.5	2.7	2.2	2.5	3.1
SAMA base lending rate (% , year end)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	3.1	3.7
External trade indicators (\$ billion)									
Oil export revenues	166.9	215.2	317.6	337.5	322.0	285.2	157.6	138.6	147.5
Total export revenues	192.3	251.1	364.7	388.4	375.9	342.3	204.6	189.3	202.3
Imports	87.1	97.4	120.0	141.8	153.3	158.5	141.8	142.1	143.6
Trade balance	105.2	153.7	244.7	246.6	222.6	183.9	62.7	47.1	58.7
Current account balance	21.0	66.8	158.5	164.8	135.4	76.9	-41.3	-42.9	-40.5
(% GDP)	4.9	12.7	23.7	22.4	18.2	10.2	-6.3	-6.5	-5.6
Official reserve assets	410.1	445.1	544.0	656.6	725.7	732.4	628.7	585.3	568.0
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+, %)	11.5	12.4	12.1	11.7	11.7	11.7	11.7	11.6	11.4
GDP per capita (\$)	16,095	19,113	23,594	25,139	24,816	24,499	20,723	20,298	22,025

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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