



Saudi Economic Chartbook

Fourth Quarter 2019

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Table of Contents:

GDP Data 2

Monetary and Financial Indicators 3

Fiscal Balance and Government Debt..... 6

Private Spending and Foreign Trade 7

Non-Oil Business Climate Indicators 8

Inflation Indicators 9

Real Estate Market 10

Oil Market 12

Foreign Exchange and Interest Rates 13

Saudi Balance of Payments 15

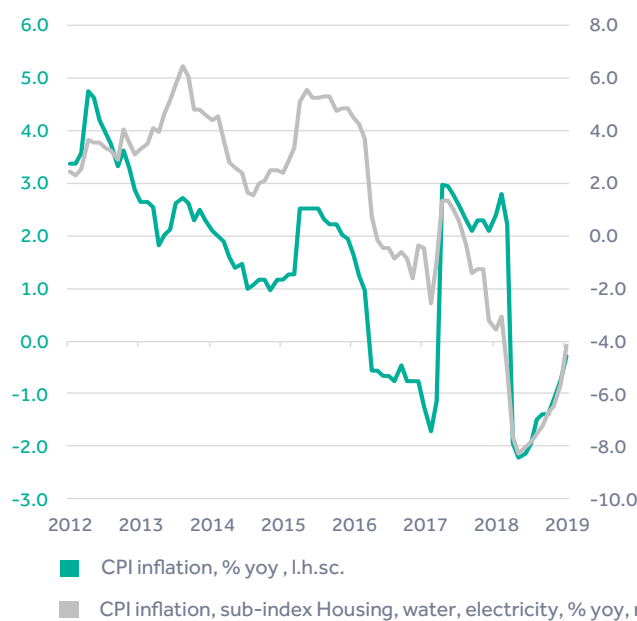
Saudi Equity Market 16

Saudi Economic Outlook 18

The Period of CPI Deflation is Ending

- The Saudi economy exhibits a distinct growth divergence between the oil sector and the non-oil sector economy in 2019. While growth of the oil sector has declined due to a crude output reduction, the non-oil private sector economy has been gaining pace in the course of the year.
- The strength of the non-oil economy is illustrated by the point-of-sales transactions, a proxy for private consumption, which have substantially picked up and the PMI Composite, a gauge for the business climate, which has reached a 4-years' high at the beginning of the 4th quarter.
- The deflation period for Saudi consumer prices is about to end and inflation is expected to turn positive again by beginning of next year. This is primarily due to a stabilization of housing rents after a strong decline in the last two years (see chart below).
- Transaction activity in the Saudi real estate market has continued to recover during the third quarter. Transaction turnover has climbed by 72% compared to the previous year's period, while the number of transactions has soared by 94%.
- The US and the Saudi central bank have cut their key interest rates since July in three steps by a total of 0.75%. As a consequence, interest rates across the entire yield curve have generally been in decline in H2 2019.
- The Saudi equity market has seen some profit taking in the course of the third quarter after a strong performance in the first half 2019 due to the inclusion of Saudi equities in MSCI and FTSE Emerging Market indices. The market correction has been accompanied by declining trading volumes.

Consumer Price Deflation Ending Due to Stabilizing Housing Rents

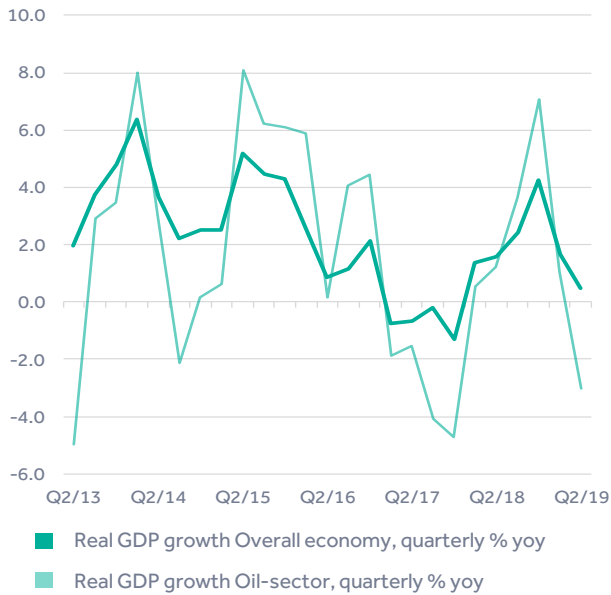


source: GASTAT

CPI Inflation is expected to turn positive again as housing rents, which are the most important item in the sub-index Housing, water & electricity, are expected to stabilize in 2020.

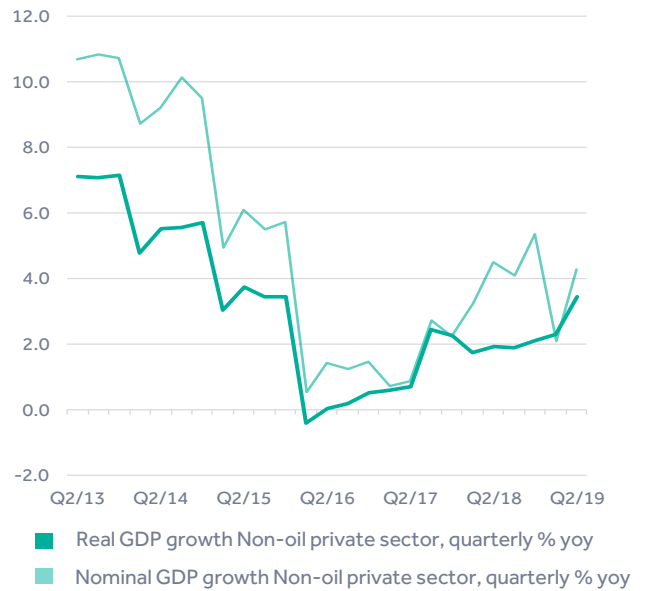
Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector



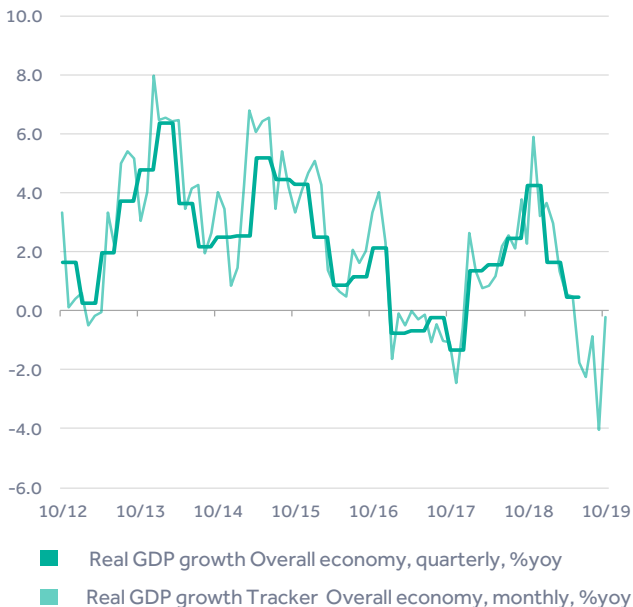
source: GASTAT

Figure 2:
Nominal and Real GDP Non-Oil Private Sector



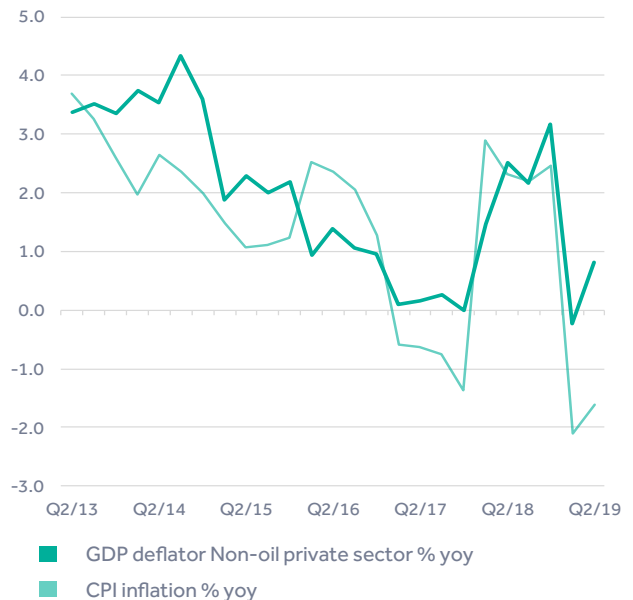
source: GASTAT

Figure 3:
Monthly GDP Tracker of Overall Economy



source: GASTAT, RC

Figure 4:
GDP Deflator and CPI Inflation



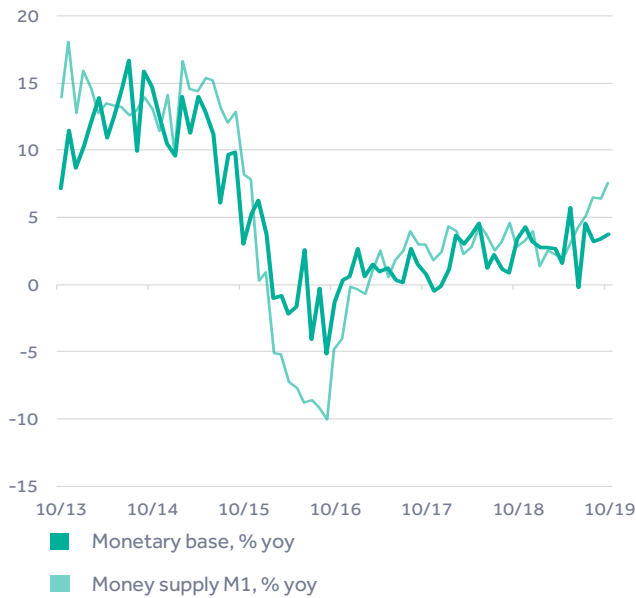
source: GASTAT

In H1 2019 the oil sector GDP contracted by -1.0% due to the OPEC output cut agreement while the non-oil private sector economy witnessed strong growth momentum with +2.9%. Based on our GDP

tracker model, this growth divergence has carried over into the third quarter where a notable crude oil output reduction has caused overall GDP growth to drop temporarily into negative territory.

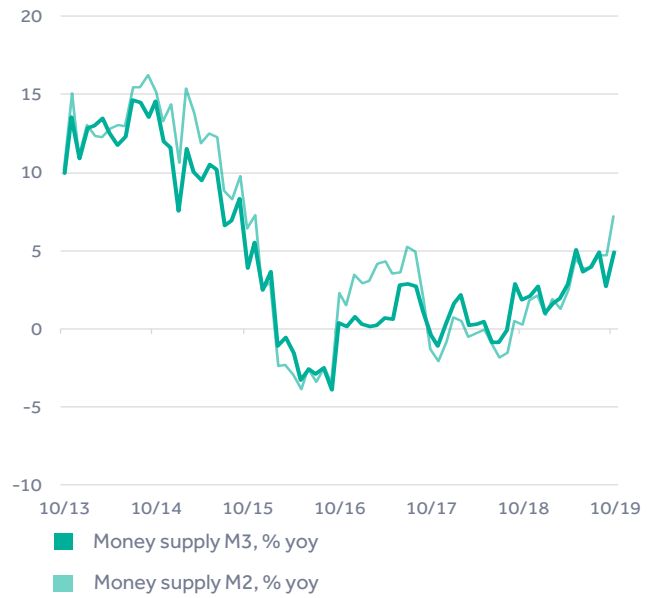
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Money Supply M1



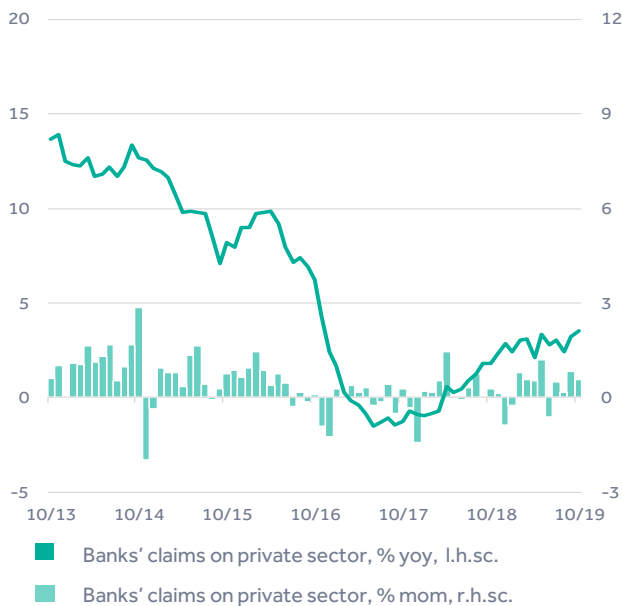
source: SAMA

Figure 2:
Growth Rate Money Supply M2 and M3



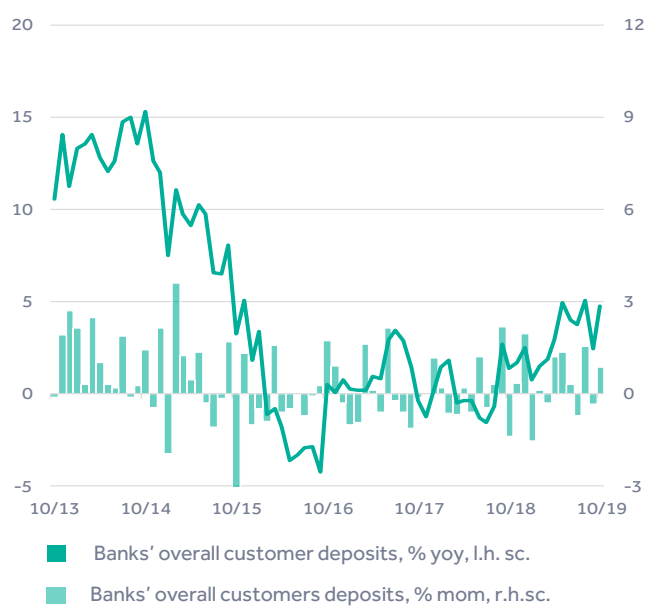
source: SAMA

Figure 3:
Growth of Credit to the Private Sector



source: SAMA

Figure 4:
Growth of Commercial Banks' Deposits



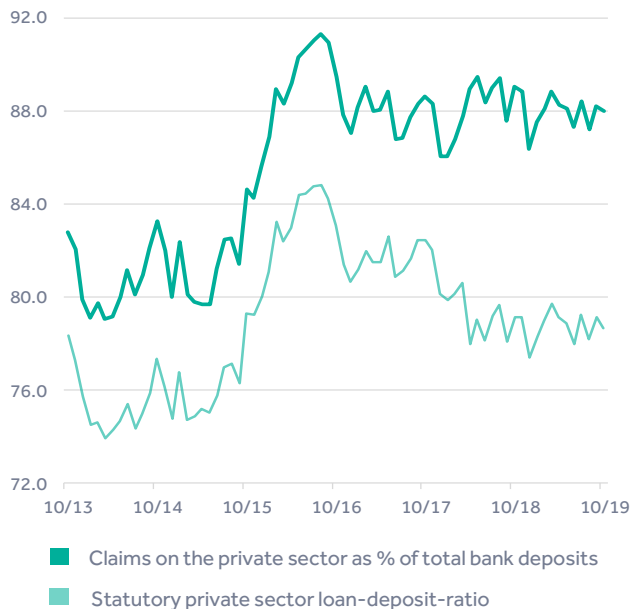
source: SAMA

Liquidity in the Saudi economy is sustainably improving with narrow money supply M1 growing by 7.6% yoy and broad money supply M3 expanding by 4.9% yoy in October. Meanwhile, credit to the

private sector shows a growth rate of 3.5% yoy at the beginning of Q4. Major credit driver are still residential mortgage loans which expanded by a remarkable 33% yoy in Q3 2019.

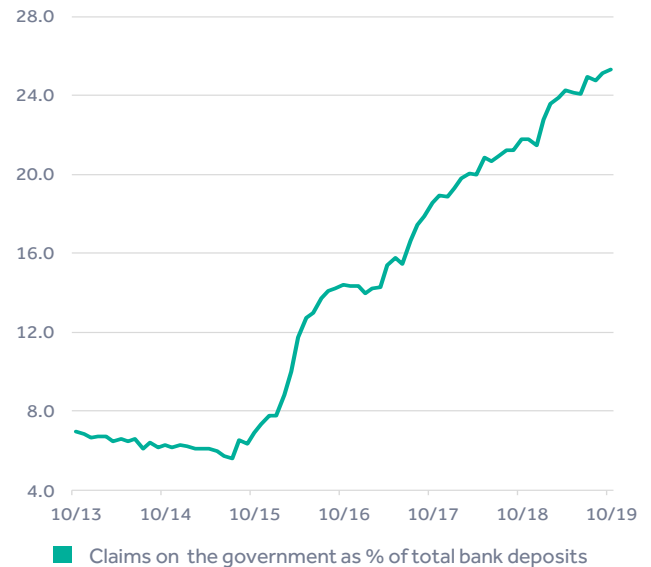
Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio



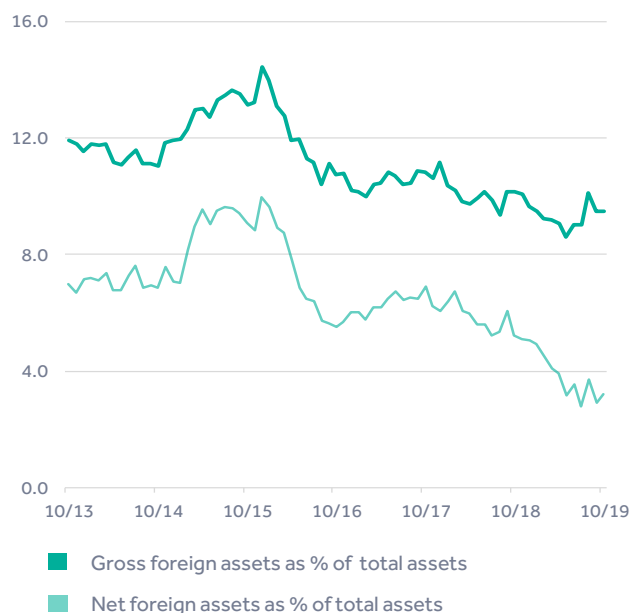
source: SAMA

Figure 2:
Government Sector Loan-Deposit-Ratio



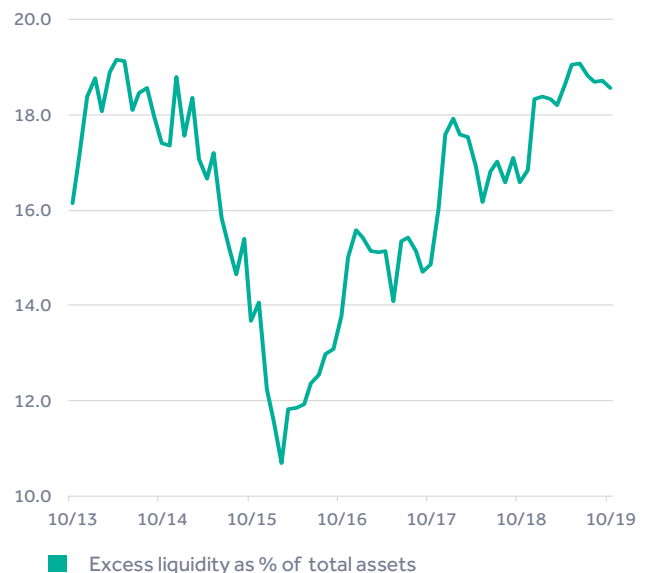
source: SAMA

Figure 3:
Foreign Assets to Total Assets Ratio



source: SAMA

Figure 4:
Excess Liquidity to Total Assets Ratio



source: SAMA

At the beginning of the 4th quarter 2019 the statutory loan-deposit-ratio is still well below 80% which implies sufficient liquidity in the banking sector. This is particularly important with a view on the Aramco

IPO in December and its impact on the banks' balance sheets. Correspondingly, the banks' excess liquidity amounts to a comparably high level of 18.6% of total assets by end of October.

SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA

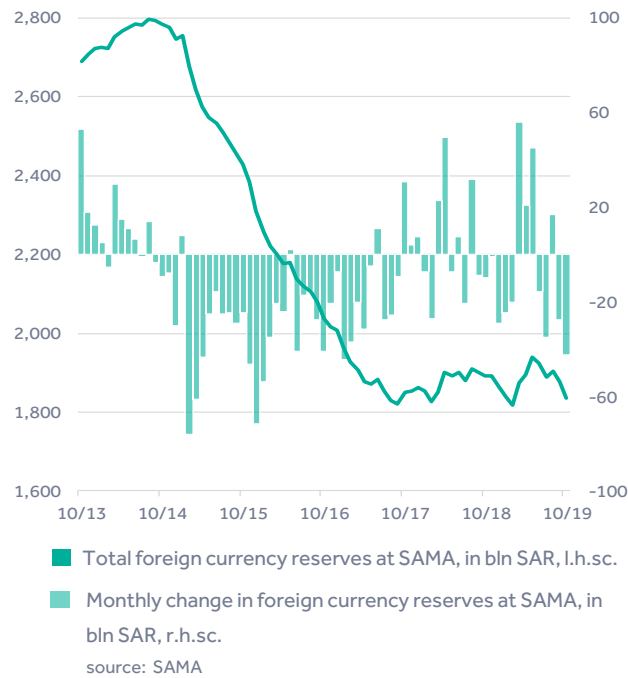


Figure 2:
Government Deposits at SAMA

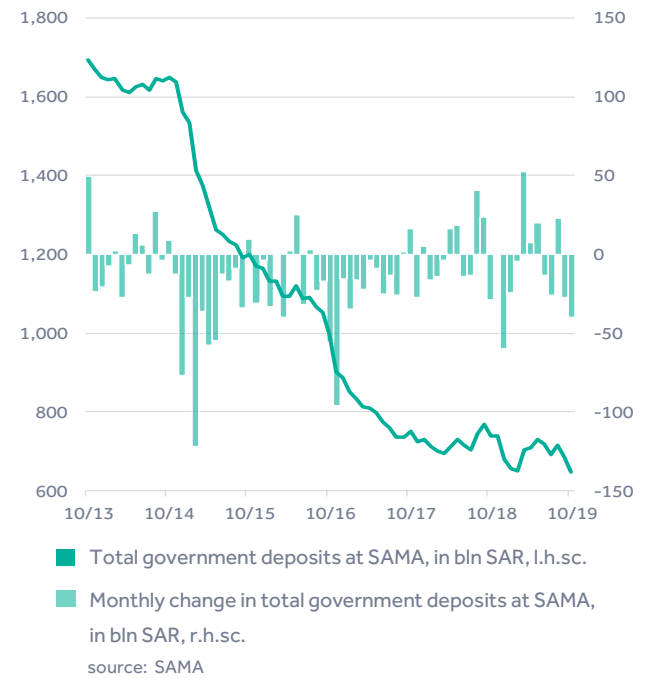


Figure 3:
Breakdown of Foreign Currency Reserves at SAMA

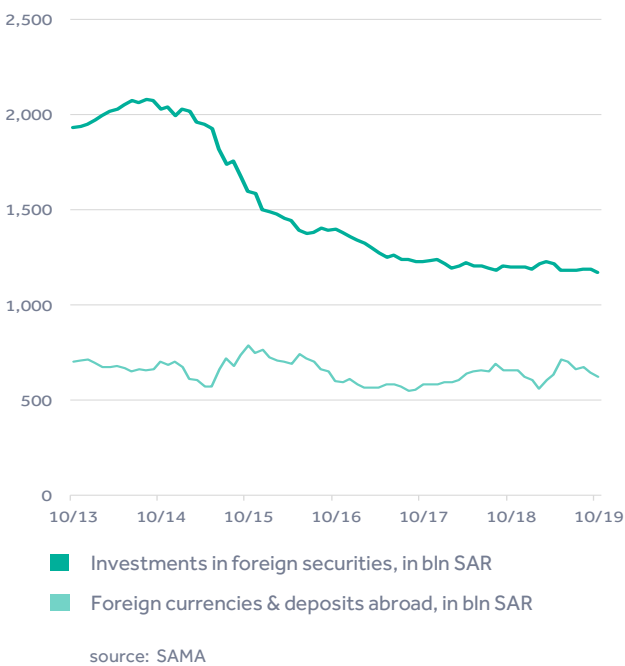
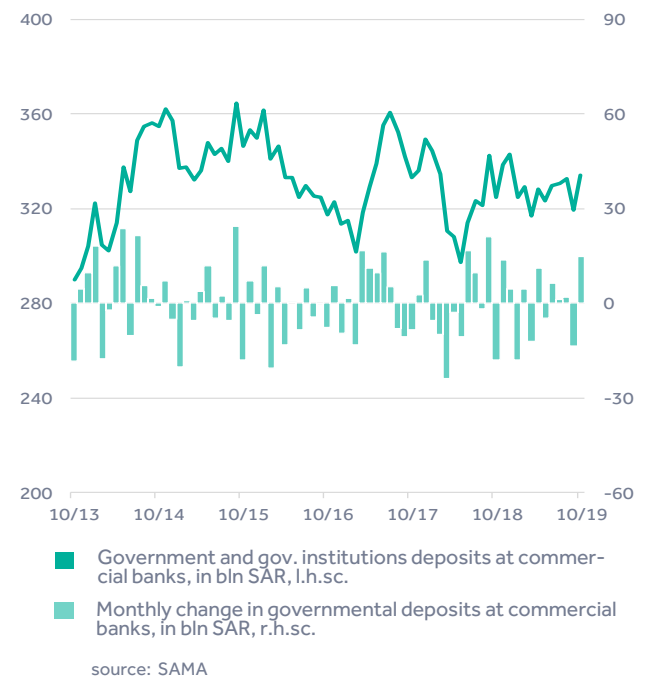


Figure 4:
Government Deposits at Commercial Banks

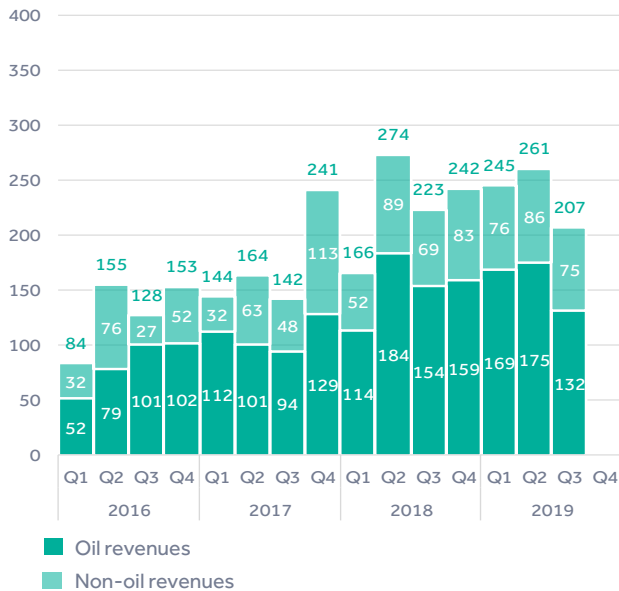


After a recovery phase until May 2019, SAMA foreign reserves declined from June to October by 104 bln SAR. This may be seen on the back of a corresponding withdrawal of 83 bln SAR from govern-

ment deposits over the same period which reflects a more expansionary fiscal policy by the government since May. This typically leads to higher imports which causes official reserves to decline.

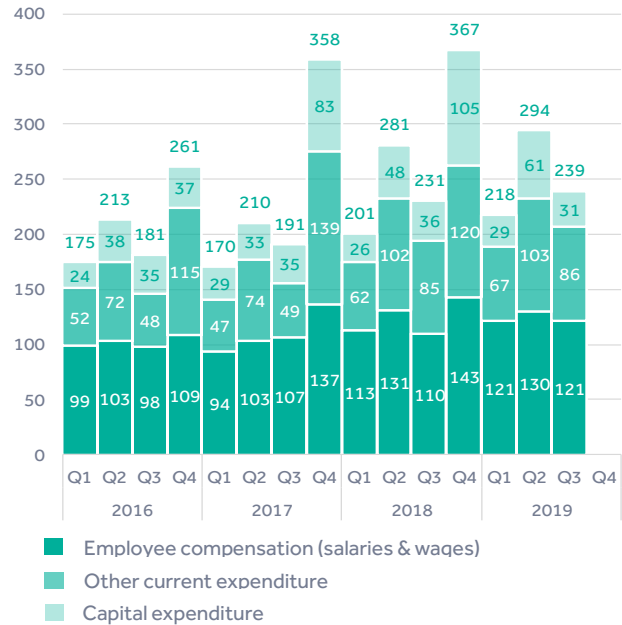
Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)



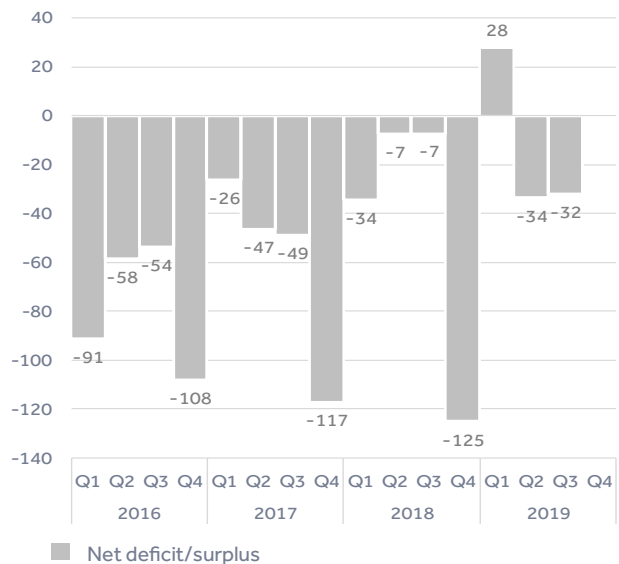
source: MoF

Figure 2:
Quarterly Fiscal Expenditure (in bln SAR)



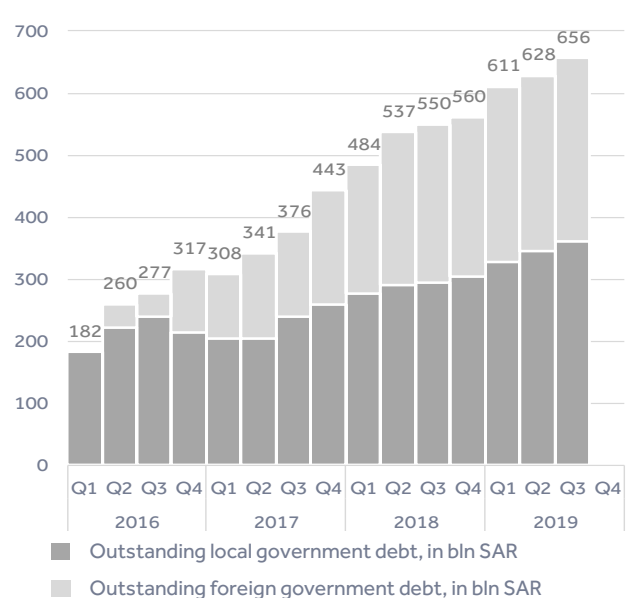
source: MoF

Figure 3:
Quarterly Fiscal Deficit/Surplus (in bln SAR)



source: MoF

Figure 4:
Outstanding Government Debt (End of Quarter)



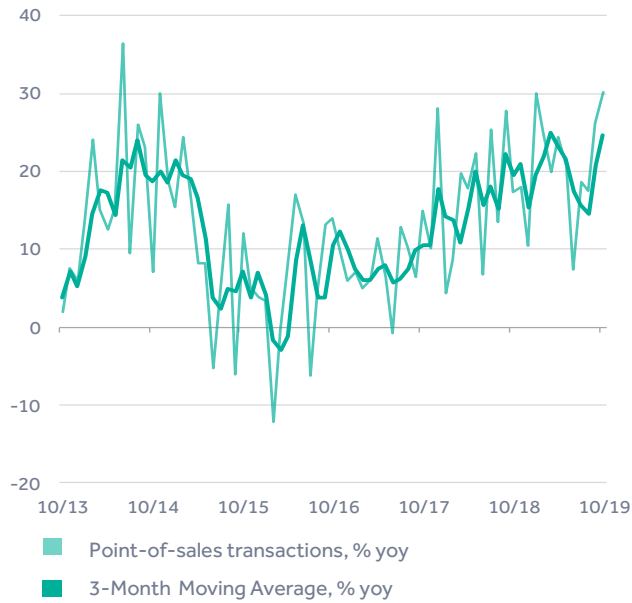
source: MoF

Fiscal revenues dropped in the third quarter by -7% vs. the previous year's period and by -21% vs. the previous quarter. This has primarily been the result of lower oil revenues which can partly be explained

by lower oil prices. Fiscal spending has been higher yoy (+3.5%) but notably lower compared to Q2/2019 (-19%). As a result, the accumulated fiscal deficit after 9 months amounts to -38 bln SAR.

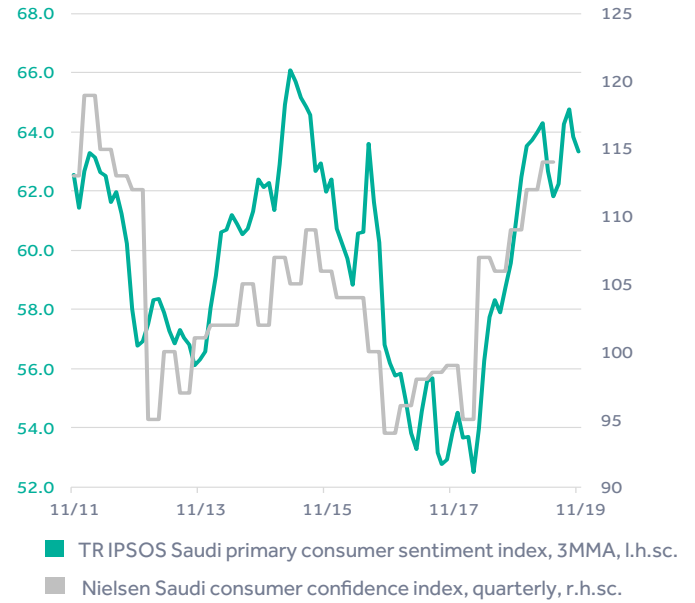
Private Spending Indicators and Non-Oil Foreign Trade

Figure 1:
Point-of-Sales Transactions



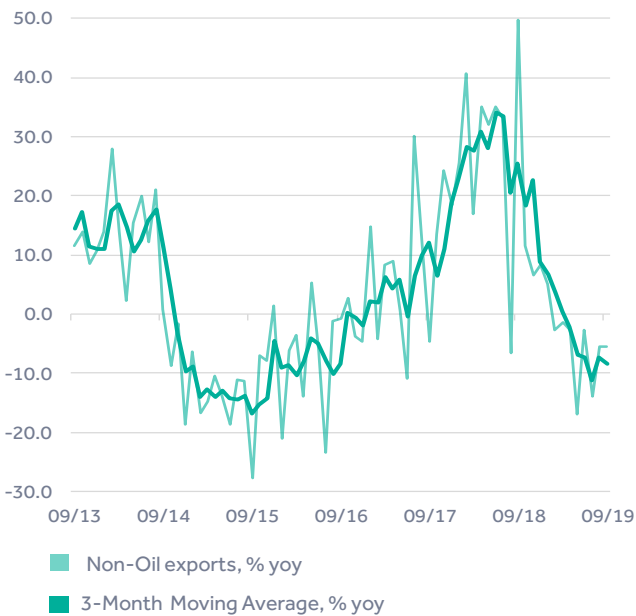
source: SAMA

Figure 2:
Consumer Sentiment



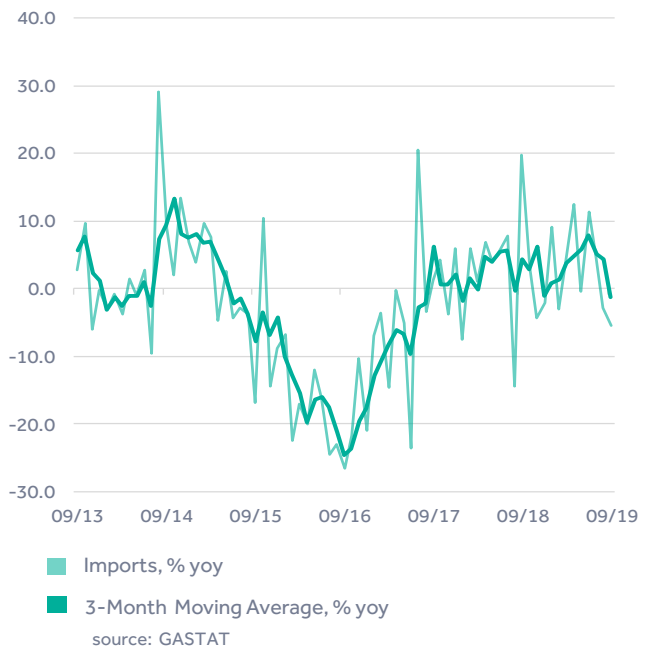
source: Thomson Reuters, Nielsen

Figure 3:
Growth of Non-Oil Exports



source: GASTAT

Figure 4:
Growth of Imports



source: GASTAT

The growth rate of point-of-sales transactions has substantially recovered since a trough by mid-year and has reached 30% yoy in October. This strong rebound in consumer spending is underpinned by a

still high consumer confidence of private households. Meanwhile, non-oil export growth remains in negative territory, primarily reflecting the challenging global market conditions of the petrochemical industry.

Non-Oil Private Sector Business Climate Indicators

Figure 1:
Purchasing Manager Index Composite

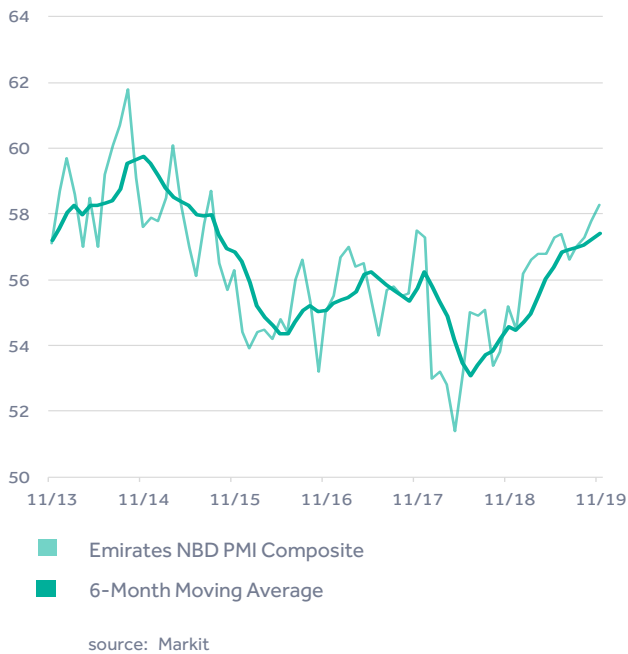


Figure 2:
Purchasing Manager Index Output

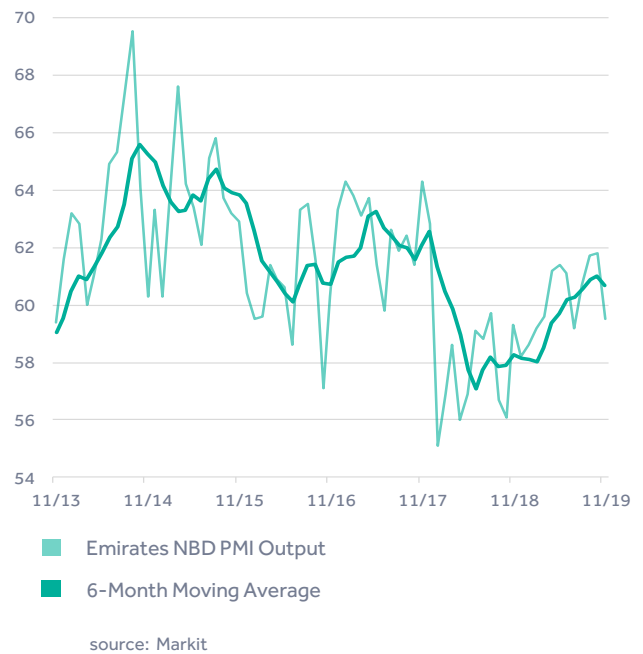


Figure 3:
Purchasing Manager Index New Orders

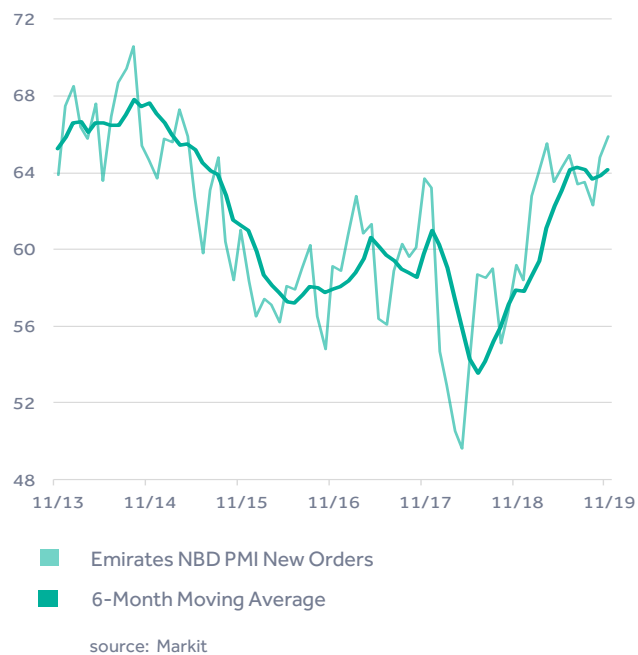
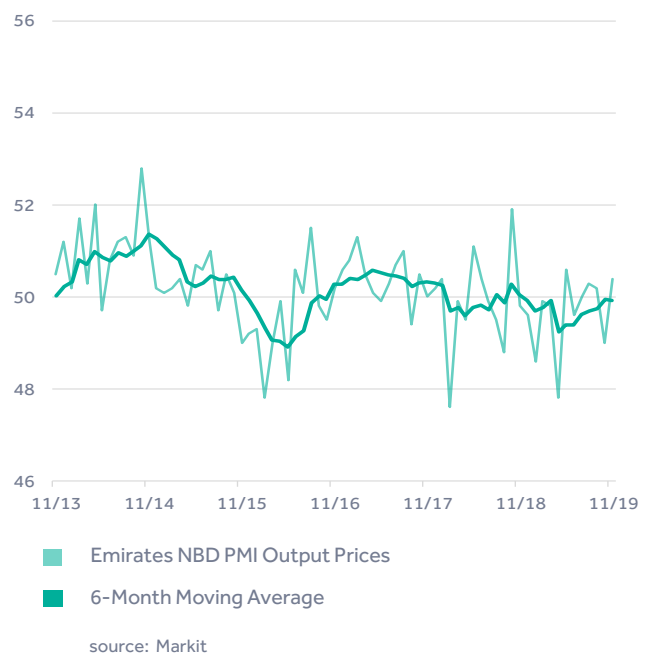


Figure 4:
Purchasing Manager Index Output Prices

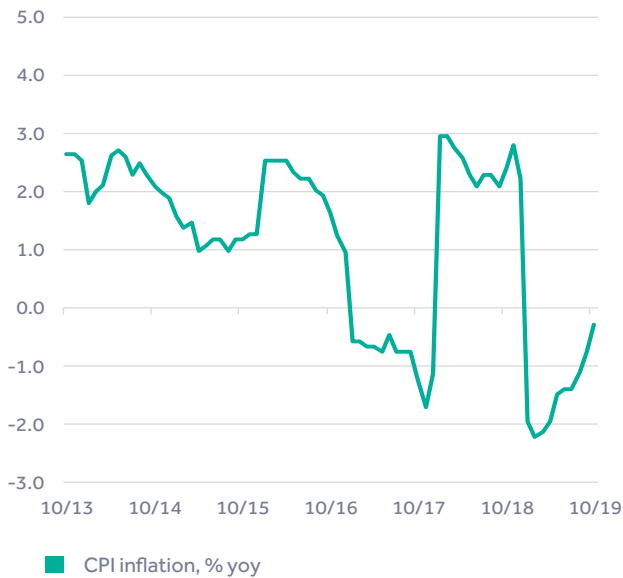


By beginning of the 4th quarter, the business climate indicators of the Saudi non-oil economy still point towards solid expansion. The PMI Composite index reached 58.3 in October, a level last seen in

2015. Meanwhile, the PMI New Orders index, which we consider as the best medium-term proxy for non oil private sector GDP growth, is consolidating at an elevated level.

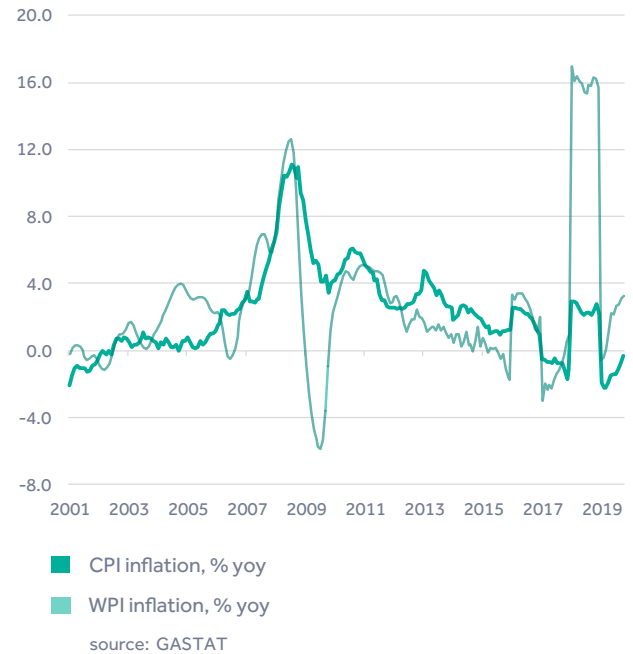
Consumer and Wholesale Price Inflation

Figure 1:
Consumer Price Inflation All Items



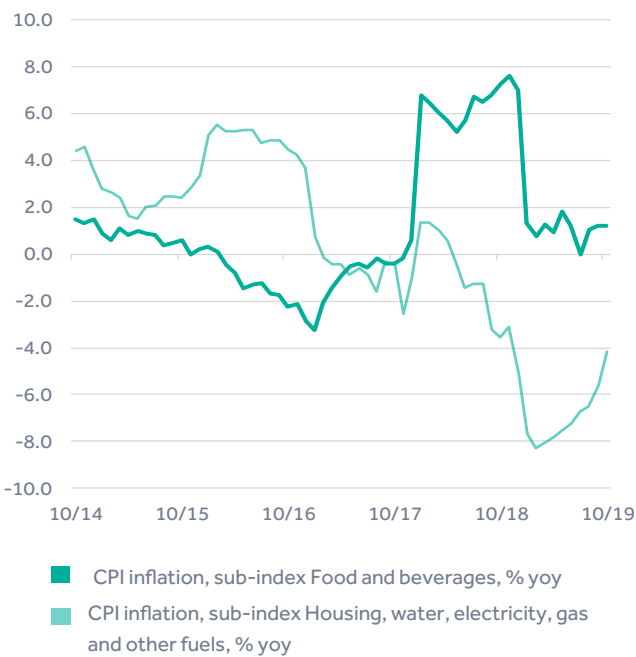
source: GASTAT

Figure 2:
Consumer Price and Wholesale Price Inflation



source: GASTAT

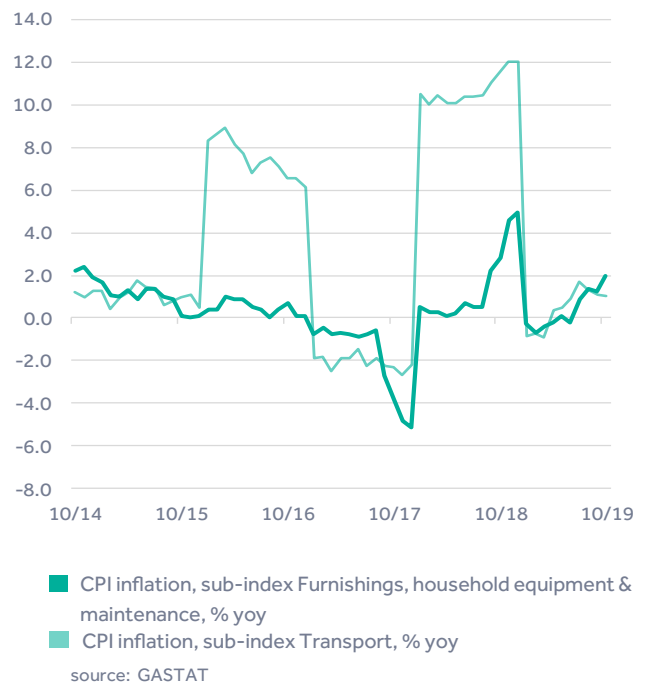
Figure 3:
CPI Inflation Food & Housing



source: GASTAT

The negative CPI inflation has continued to ease with -0.3%yoy in October after a trough at -2.2% yoy in February. This can primarily be explained by a vanishing pressure on housing rents during 2019.

Figure 4:
CPI Inflation Furnishings & Transportation



source: GASTAT

Housing rents dominate the sub-index Housing, water, electricity and are the single most important item in the CPI (21%) . As a result, CPI inflation is expected to turn positive by beginning of 2020.

Real Estate Market: Transaction Activity

Figure 1:
Quarterly Real Estate Transactions Overall Country

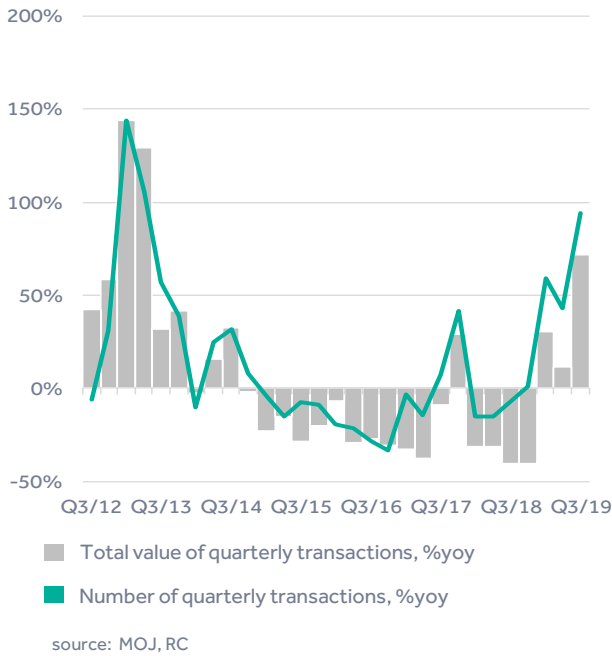


Figure 2:
Quarterly Residential Real Estate Transactions

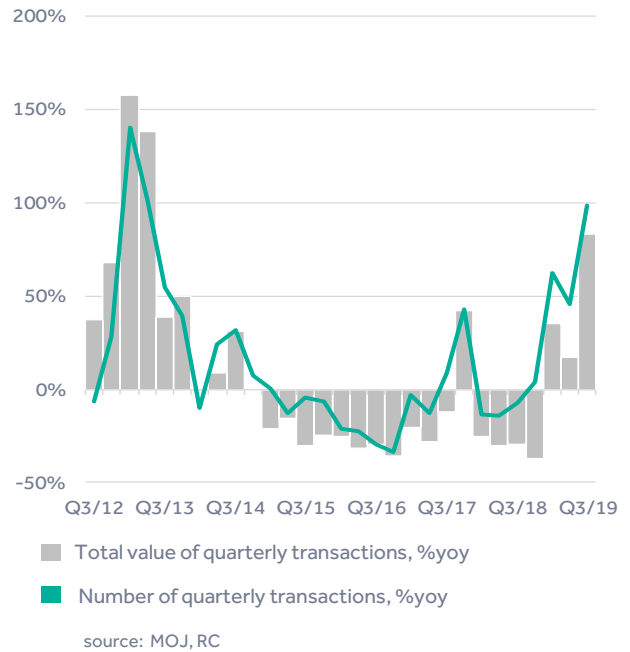


Figure 3:
Quarterly Commercial Real Estate Transactions

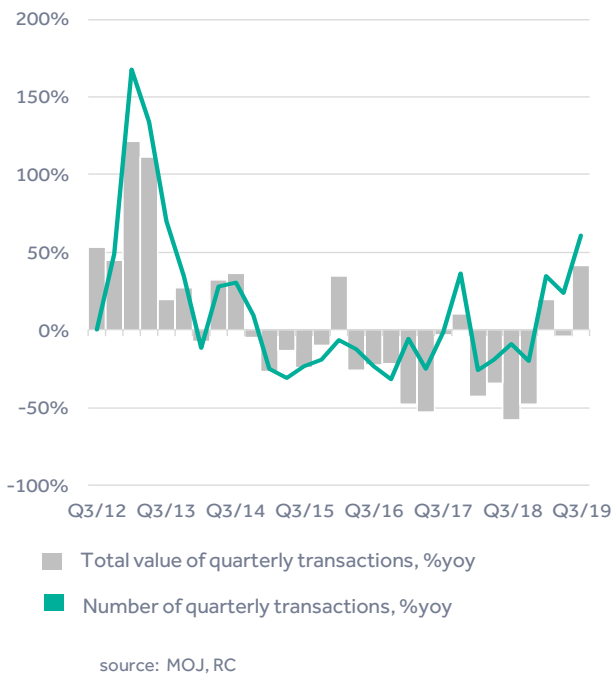
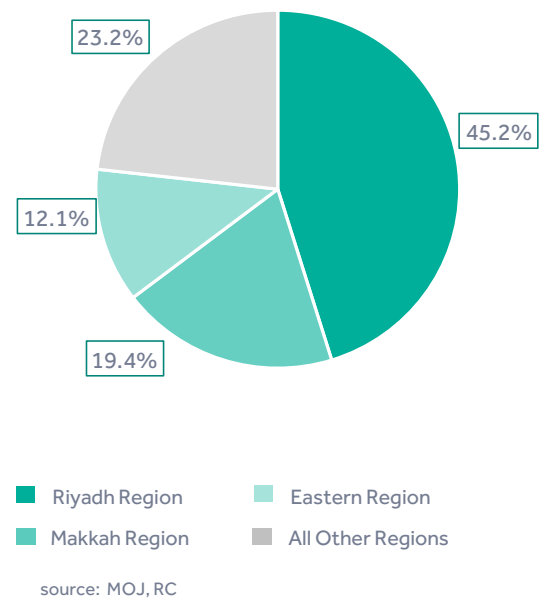


Figure 4:
Breakdown of Transaction Value by Regions (Q3 2019)



The year 2019 has so far shown a considerable recovery of real estate activities. In Q3, the total transaction value ascended by +72% compared to the previous year, the number of transactions

picked up by +94%. This rebound has been more pronounced in the residential area where the transaction value soared by +83% and the number of transactions almost doubled (+99%).

Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices

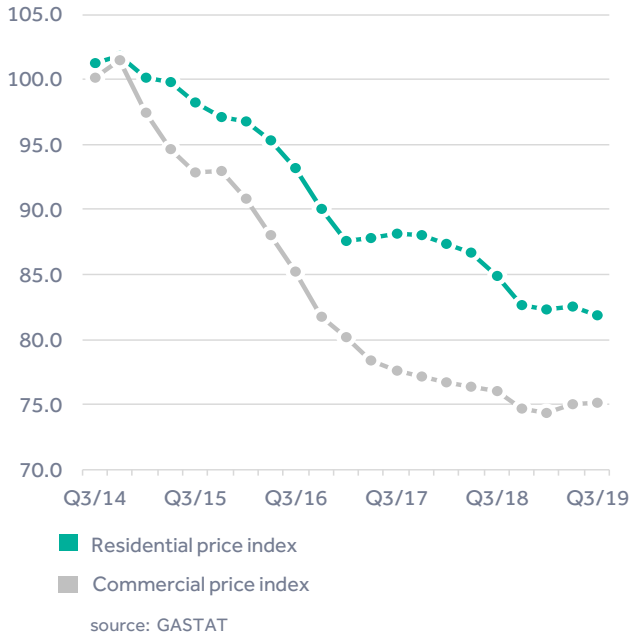


Figure 2:
Residential and Commercial Land Price Indices

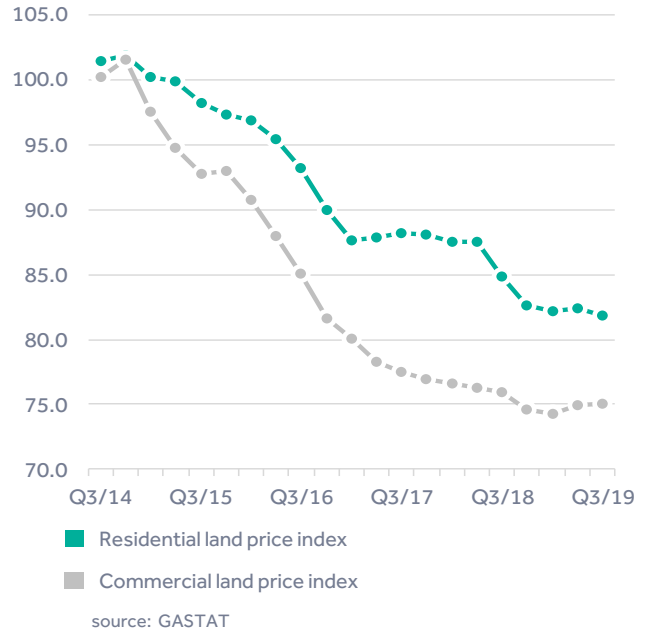


Figure 3:
Residential Villas and Apartments Price Indices

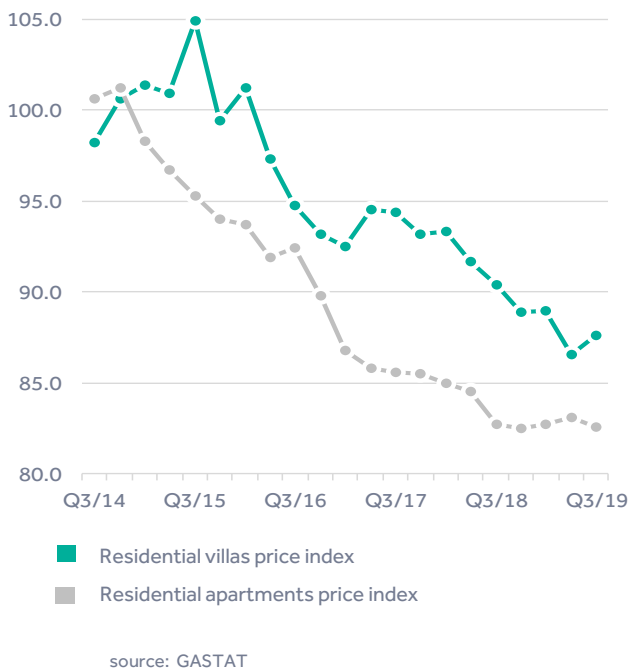
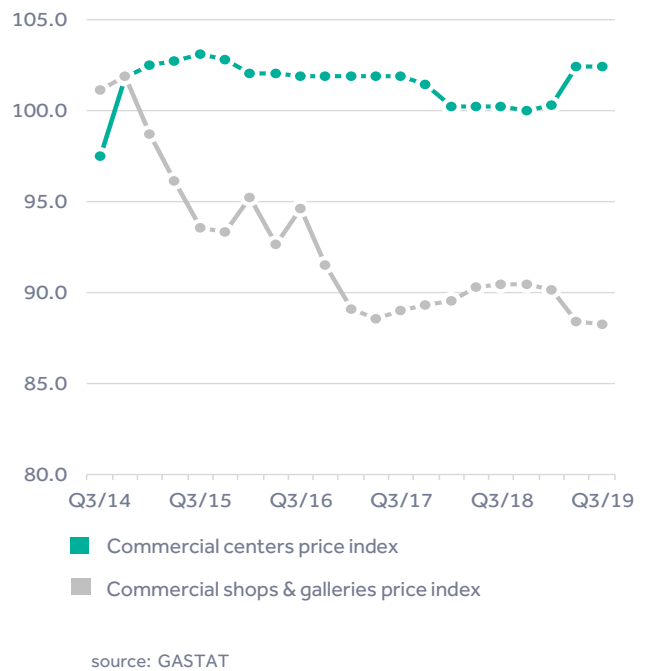


Figure 4:
Commercial Shops and Centers Price Indices

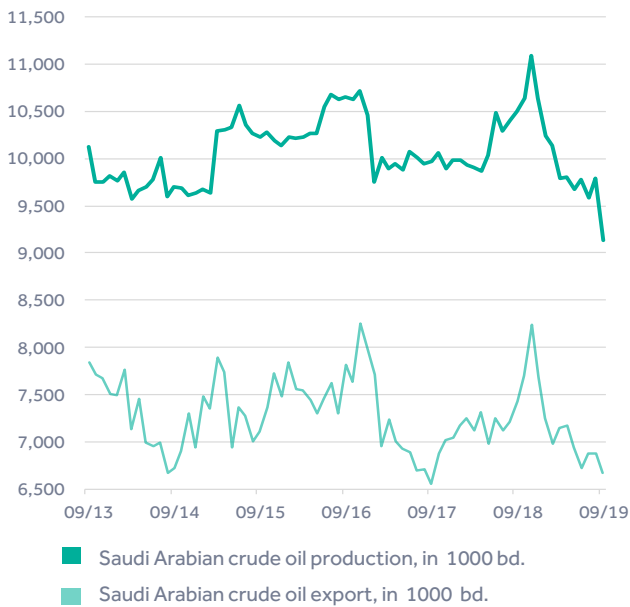


Real estate land prices were little changed in Q3 2019 compared to the previous quarter with -0.7% in the residential area and +0.1% in the commercial segment. Compared to the previous year's period

they were only moderately lower (residential -3.7%, commercial -1.2%). This underpins our view that the Saudi real estate market is about to bottom out and stabilize after a protracted decline since 2015.

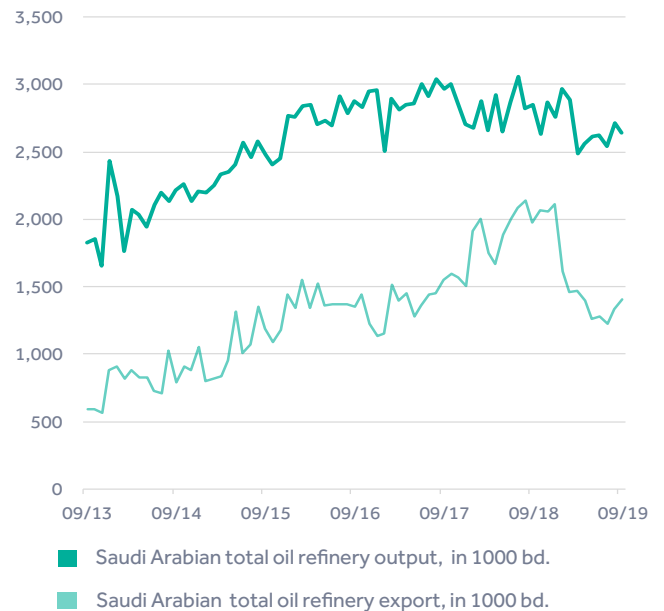
Oil Market Statistics: Production, Exports, Refinery and Prices

Figure 1:
Saudi Crude Oil Production and Exports



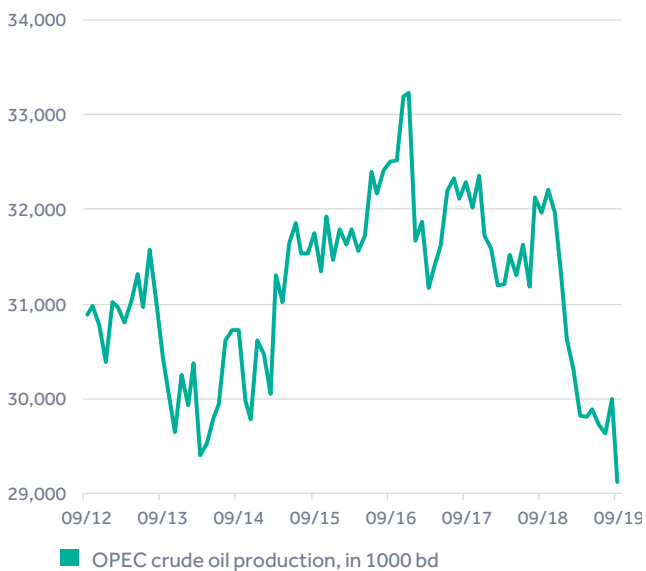
source: JODI

Figure 2:
Saudi Crude Refinery Output and Exports



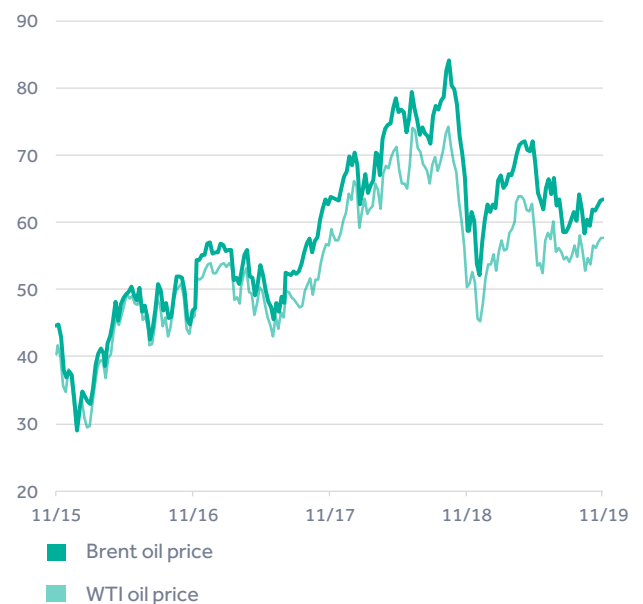
source: JODI

Figure 3:
OPEC Crude Output



source: JODI, Bloomberg

Figure 4:
Oil Prices



source: Bloomberg

Saudi crude oil production temporarily dropped to 9.1 mbd in September due to an outage caused by the attacks on Aramco infrastructure during that month. As a consequence, OPEC output declined to

a multi-year low at 29.1 mbd. On the other hand, Saudi refinery output and exports were not affected by these events. Meanwhile, oil prices recovered above 60USD (Brent) in the course of November.

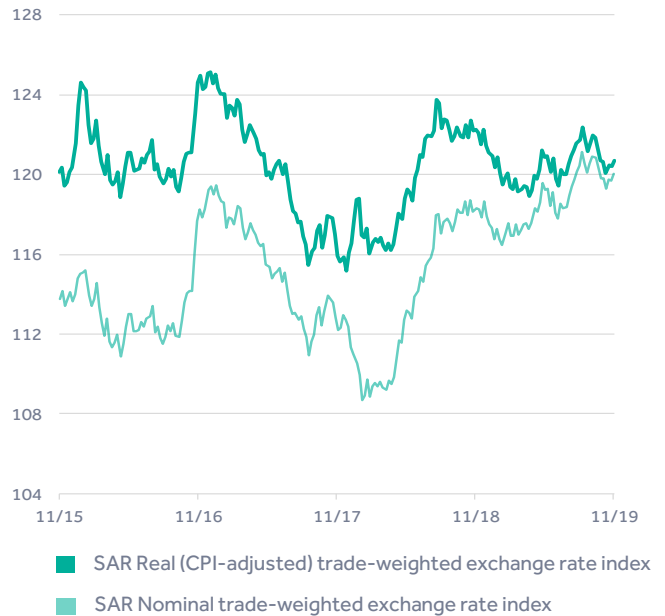
Foreign Exchange: Forward Rates and Effective Exchange Rate Index

Figure 1:
12-Months Forward Exchange Rate SAR/USD



source: Bloomberg

Figure 2:
SAR Nominal and Real Effective Exchange Rate



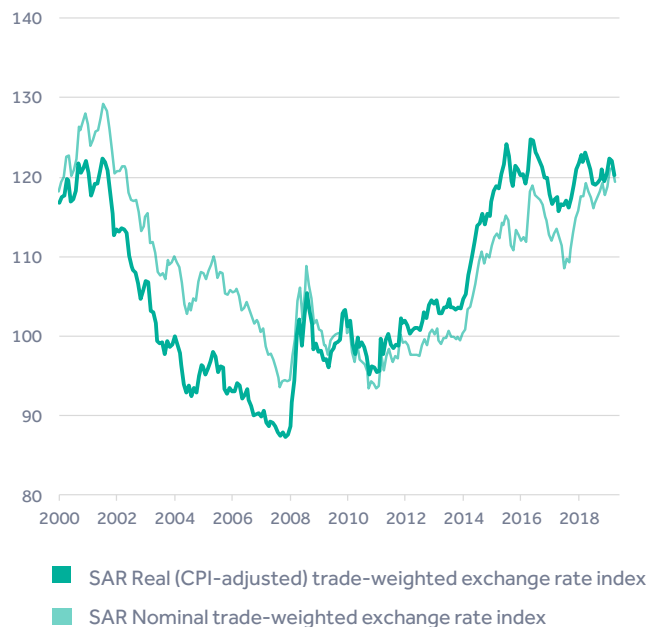
source: Bloomberg, JP Morgan

Figure 3:
12-Months Forward Exchange Rate SAR/USD in the Long Term



source: Bloomberg

Figure 4:
SAR Nominal and Real Effective Exchange Rate in the Long Term



source: Bloomberg, JPMorgan

The FX-forward premium for USD/SAR continues to trade at historically low levels, illustrating the stable macro framework of the Saudi economy at this juncture. Meanwhile, the SAR effective exchange

rate gradually weakened from August to November, following a moderate decline of the USD. From a longer-term perspective, however, the SAR effective exchange rate is still trading at elevated levels.

Interest Rates: Money Market, Capital Market and Central Bank Rates

Figure 1:
3-Months SAIBOR vs. USD LIBOR

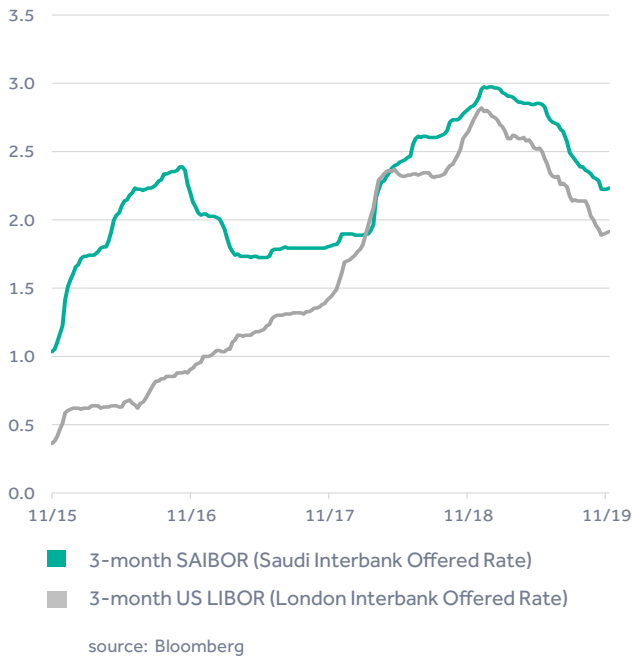


Figure 2:
5-Year Swap Rate SAR vs. USD

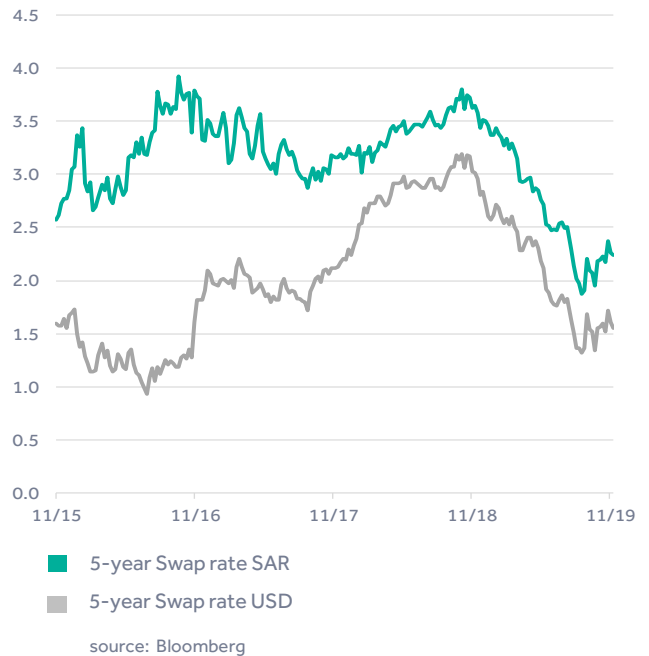
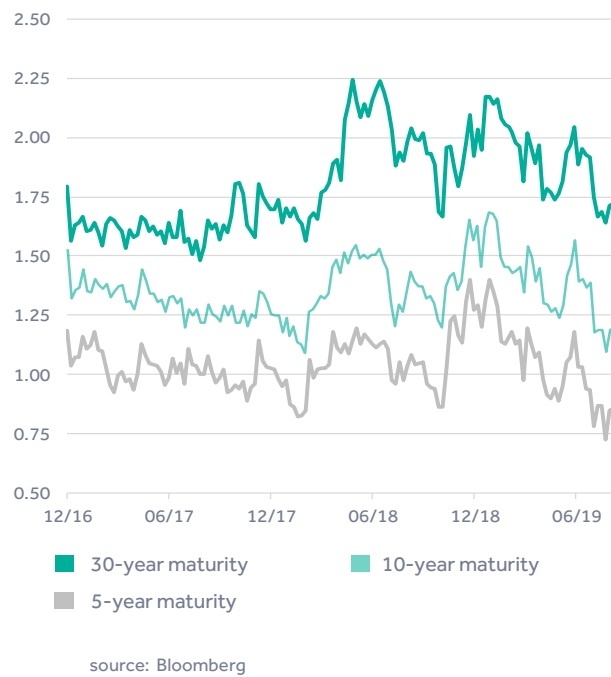
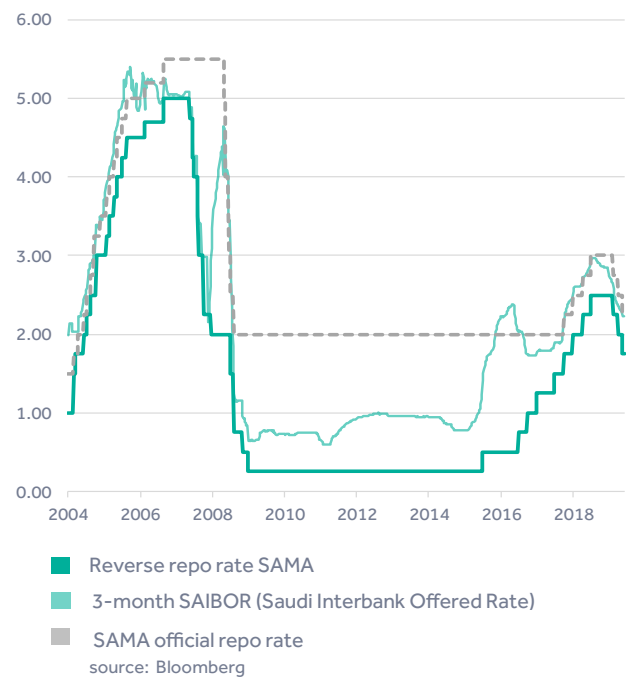


Figure 3:
KSA USD-Bonds Yield Spread to US Treasuries



In the second half of 2019, the Federal Reserve cut its FED fund target rate so far three times from 2.50% to 1.75%. Accordingly, SAMA reduced the official repo rate and the reverse repo rate each by

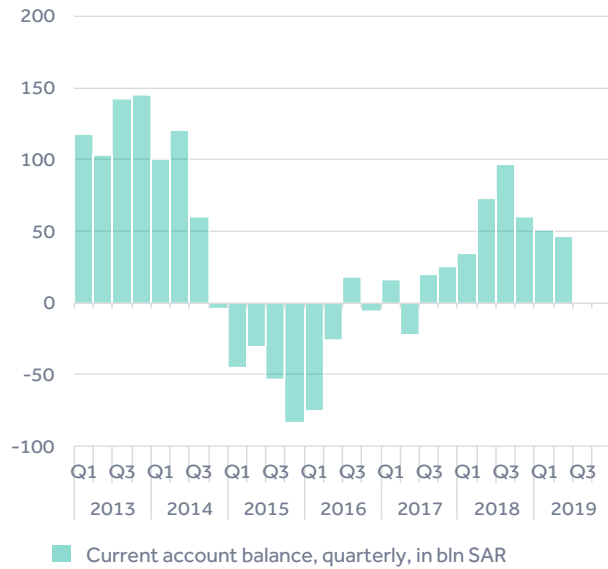
Figure 4:
Central Bank Rate and 3-Months SAIBOR



75bp to 2.25% resp. 1.75%. Against this background, USD and SAR interest rates across the entire yield curve continued their decline which had already started by end of last year.

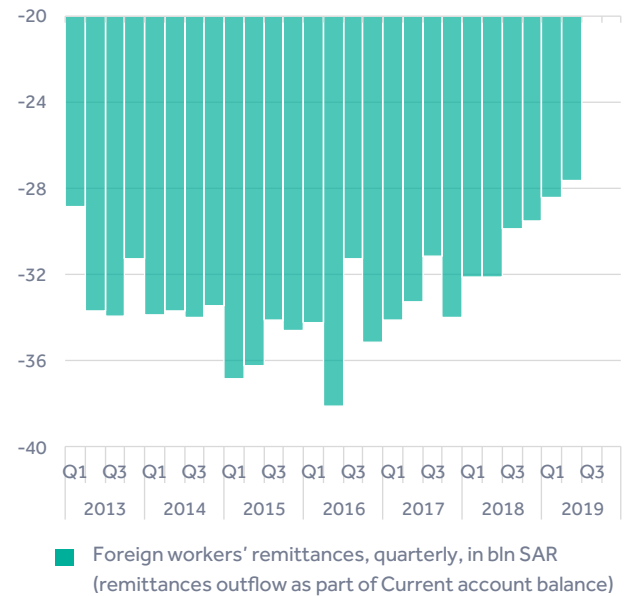
Saudi Balance of Payments

Figure 1:
Current Account Balance



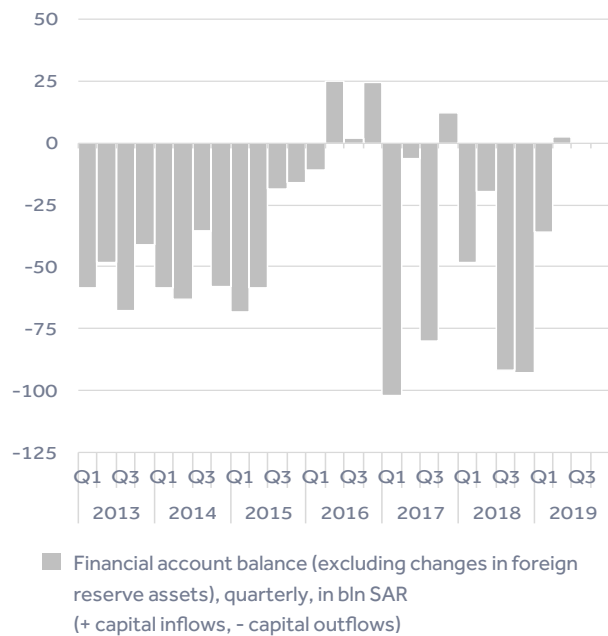
source: SAMA

Figure 2:
Foreign Workers' Remittances



source: SAMA

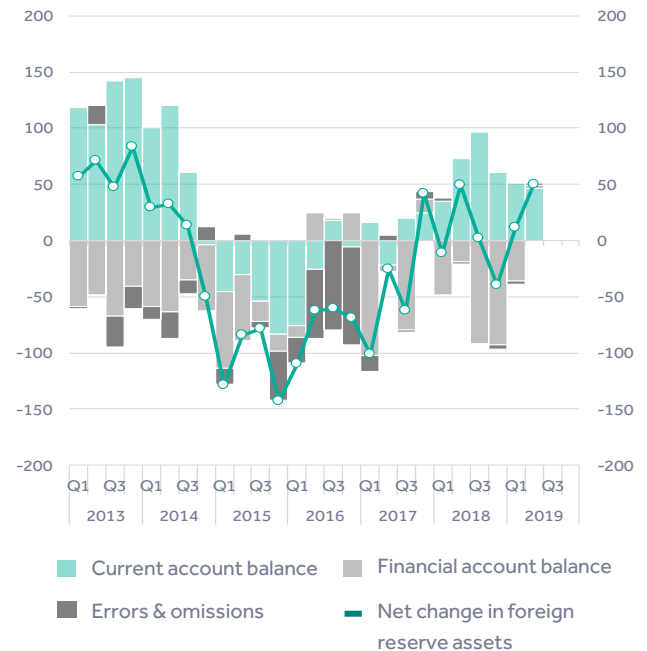
Figure 3:
Financial Account Balance



source: SAMA

Foreign workers' remittances continued to decline in 2019 as a result of the expat exodus in the last years. They amounted to 56.1 bln SAR in H1 2019 vs. 64.3 bln SAR in H1 2018. Meanwhile, the lower

Figure 4:
Contribution to Balance of Payments (in bln SAR)



source: SAMA

current account balance in Q2 was mitigated by a sharply improved financial account balance which ended in a balance of payment surplus and, hence, an increase in foreign reserve assets of 50 bln SAR.

Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index



Figure 2:
Tadawul Average Daily Traded Value

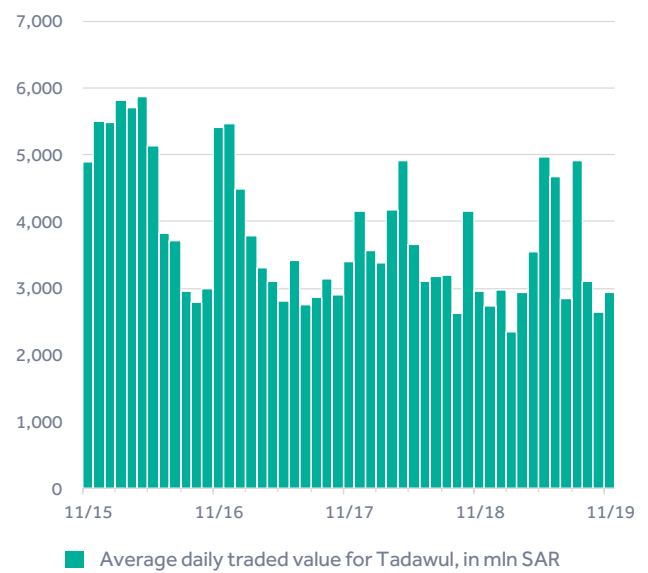


Figure 3:
Weekly Net Purchase by Ownership (in bln SAR)

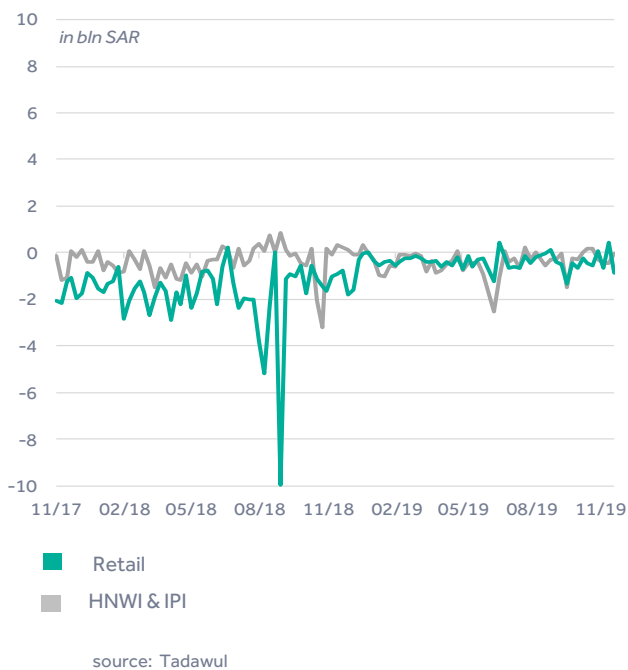
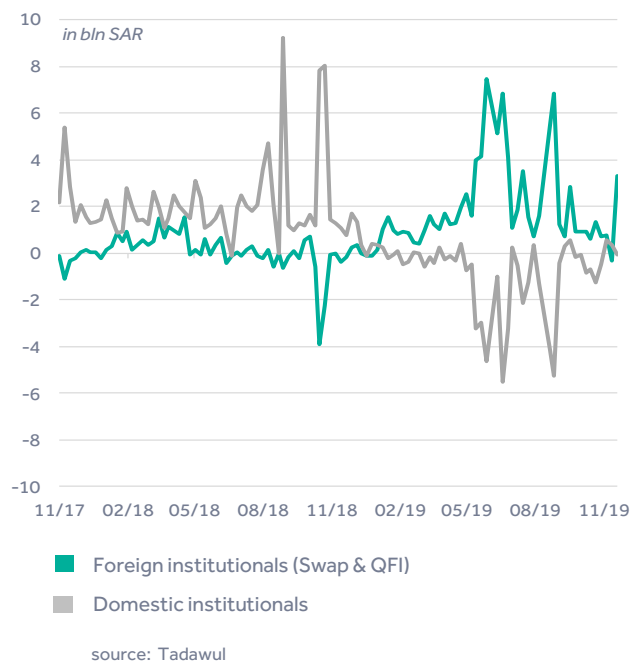


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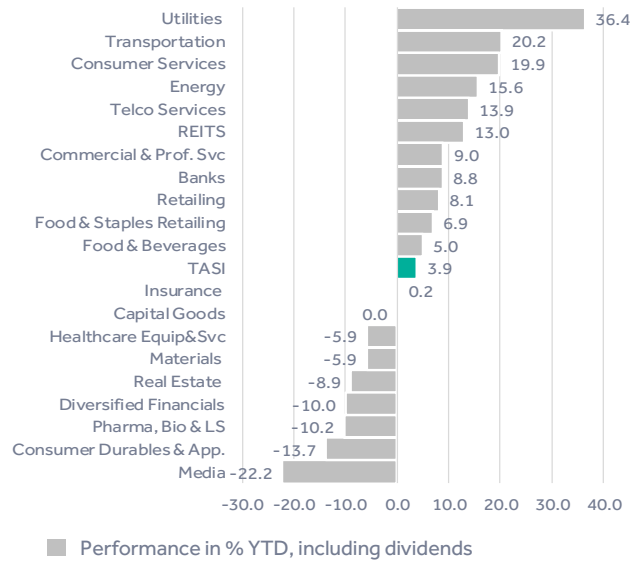


The Saudi equity market was subject to a notable correction in the third quarter as investors started to take profits after the strong market performance due to the inclusion of Saudi equities in major EM

indices (MSCI, FTSE). After the end of the index inclusion period, trading volumes also considerably declined with the average daily traded value dropping below 3bln SAR in the last two months.

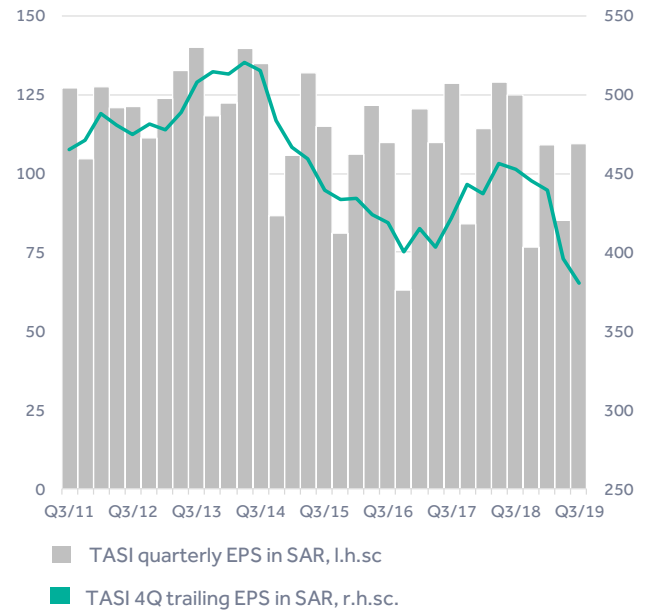
Tadawul: Saudi Equity Market Statistics

Figure 1:
Performance TASI Sectors November 2019YTD



source: Bloomberg

Figure 2:
Quarterly Earnings TASI



source: Bloomberg

Figure 3:
Valuation TASI: PE-Ratio Trailing



source: Bloomberg

Figure 4:
Valuation TASI: PE-Ratio Forward



source: Bloomberg

Despite the correction phase in Q3, TASI still exhibits a positive total return YTD by end of November (+3.9%). Amongst the major sectors, Banks managed to outperform (+8.8%), while Materials

clearly underperformed the market (-5.9%). Corporate earnings continued to decline compared to the previous year in the third quarter. This caused the valuation for TASI to remain at elevated levels.

Saudi Economic Outlook

The Saudi economy exhibits a distinct growth divergence between the oil sector and the non-oil sector economy in 2019. As a result, growth of the overall economy will turn out to be subdued for this year.

The non-oil private sector continues to gain pace since the beginning of this year, which has caused us to upgrade our growth outlook for this part of the economy from 2.4% to 2.9% in 2019 and from 2.7% to 3.2% in 2020.

On the other hand, oil sector GDP growth has been downgraded from -1.2% to -3.2% for this year as a consequence of a notable oil output reduction in the course of 2019. For next year, we expect a gradual recovery by +1.9%.

As a result, the overall economy will expand by 0.1% this year and by 2.4% in 2020.

Our revised crude output estimates also imply lower petroleum exports which affects the trade balance and the current account balance accordingly. However, our new export projections still translate into a strong current account surplus of 4.6% of GDP in 2019 and 4.4% in 2020.

The average Brent oil price is expected to be gradually lower next year on the back of a potentially over-supplied global market in H1 2020.

Average CPI inflation for 2019 is forecasted at -1.2%. We expect the Saudi inflation rate to turn positive at the beginning of 2020 and forecast an average inflation rate of 1.4% for next year.

In particular, we expect the decline of housing rents as the major driver for the current CPI deflation to fade in 2020 on the back of an anticipated stabilization of the Saudi residential real estate market.

SAIBOR rates have considerably declined throughout 2019 on the back of three rate cuts by the FED and by SAMA. We expect one final rate cut in 2020 and forecast 3M SAIBOR to drop below 2.0% in the course of next year.

We forecast the unemployment rate for Saudi nationals to decline to 12.1% in 2020. Combined with an expected increase of the Saudi labor force participation rate to 43.1%, this implies that the Saudi economy will create approximately 170k-190k new jobs for Saudis in the year 2020.

Facts and Forecasts at a Glance

	2017	2018	2019f	2020f
Real GDP Growth				
Overall economy	-0.7	2.4	0.1	2.4
Non-oil Private sector	1.5	1.9	2.9	3.2
Government sector	0.7	2.9	2.0	1.6
Oil sector	-3.1	3.1	-3.2	1.9
Fiscal Balance and Government Debt				
Fiscal Balance in bln SAR	-238	-174	-154	-191
Fiscal Balance in % GDP	-9.2	-5.9	-5.5	-6.6
Government debt in bln SAR	443	560	690	815
Government debt as % GDP	17.2	19.0	24.4	28.2
Trade and Current Account				
Trade Balance in bln SAR	369	639	485	474
Trade Balance in % GDP	14.3	21.7	17.2	16.4
Current Account in bln SAR	39	271	129	127
Current Account in % GDP	1.5	9.2	4.6	4.4

source: GASTAT, SAMA, RC

	2017	2018	2019f	2020f
Oil Prices and Production (yearly average)				
Brent price (USD pb)	54.8	71.7	65.0	64.0
WTI price (USD pb)	50.9	64.9	56.0	57.0
OPEC Basket price (USD pb)	52.4	69.8	64.0	63.0
KSA oil production (mln bd)	9.9	10.3	9.7	9.8
Inflation and Interest Rates (year end)				
CPI Inflation (yearly average)	-0.84	2.47	-1.20	1.40
3M SAIBOR SAR	1.90	2.98	2.15	1.85
Reverse Repo Rate	1.50	2.50	1.75	1.50
Official Repo Rate	2.00	3.00	2.25	2.00
Labor Market (yearly average)				
Unemployment rate total in %	5.9	6.0	5.9	5.8
Unemployment rate Saudi in %	12.8	12.8	12.4	12.1
Labor force part. total in %	54.9	56.0	56.2	56.5
Labor force part. Saudi in %	40.8	42.0	42.5	43.1

source: GASTAT, SAMA, Bloomberg, RC

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