



Saudi Economic Chartbook

Third 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

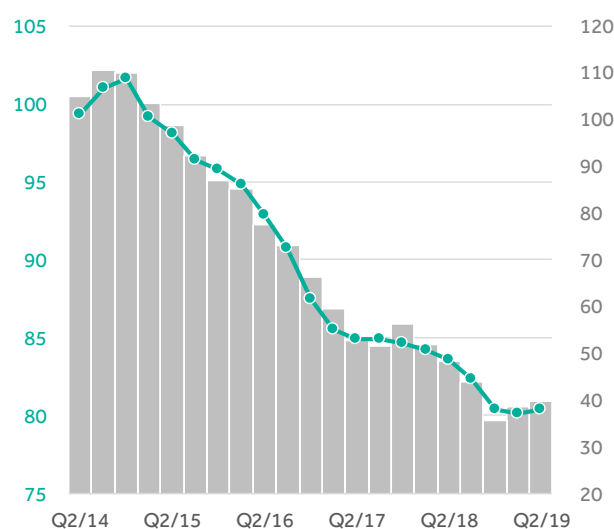
Saudi Equity Market 16

Saudi Economic Outlook 18

The Saudi Real Estate Market Starting to Bottom Out

- After a strong improvement since the beginning of 2019, some economic indicators such as the Purchasing Manager Index or Point-of-Sales transactions show signs of consolidation by the mid of the year. Yet, we see the Saudi non-oil economy still on a solid growth trajectory.
- In H1 2019, fiscal revenues have been in-line with official budget figures while fiscal spending has lagged the budget target. For H2 2019, we expect a strong spending increase with a positive impact on the domestic economy.
- The Saudi real estate market has started to bottom out after a protracted decline since 2015. This view is supported by stabilizing real estate prices and a pick up of transaction activity since the beginning of the year (see chart below).
- Saudi crude oil production remains below 10 mbd since March and crude exports have notably dropped below 7.0 mbd by June. Overall, OPEC oil output has declined by 2.5 mbd since last October to 29.6 mbd in July in a strong effort to rebalance the market.
- The US and the Saudi central bank have cut their key interest rates in July for the first time since more than 10 years. Meanwhile, in anticipation of further rate cuts the SAR yield curve has inverted most recently
- The Saudi equity market has performed very well so far this year on the back of the ongoing inclusion process in major Emerging Market indices. Meanwhile, fundamental valuation multiples look somewhat elevated in a historical perspective.

KSA Real Estate Market Starting to Bottom Out in 2019



Saudi real estate prices have generally stabilized and transaction volumes have picked up since the beginning of 2019.

- GASTAT General real estate price index, l.h.s.c.
- Total quarterly real estate transaction volume, in bln SAR, 4Q MA, r.h.s.c.

source: GASTAT, MoJ, RC

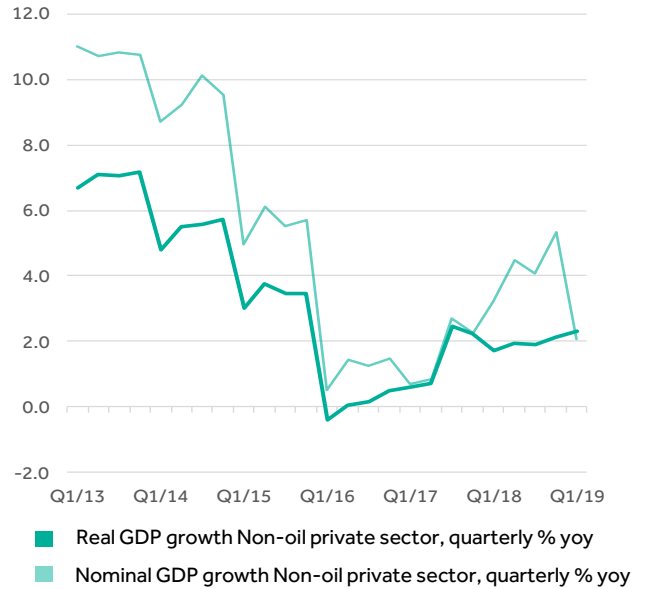
Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector



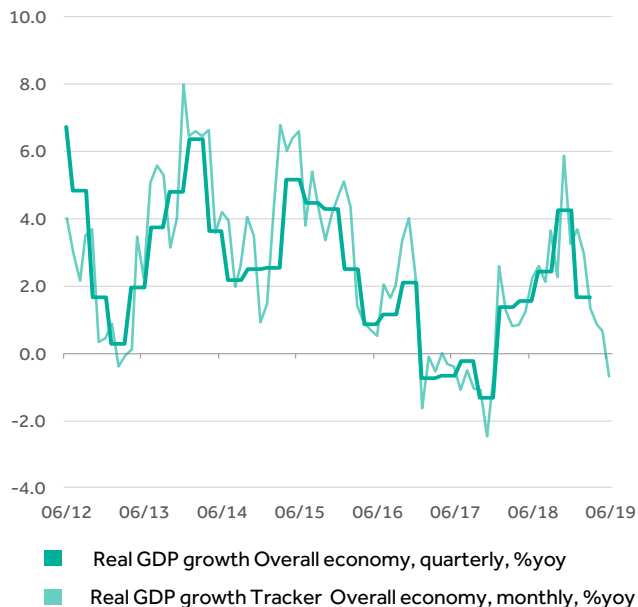
source: GASTAT

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



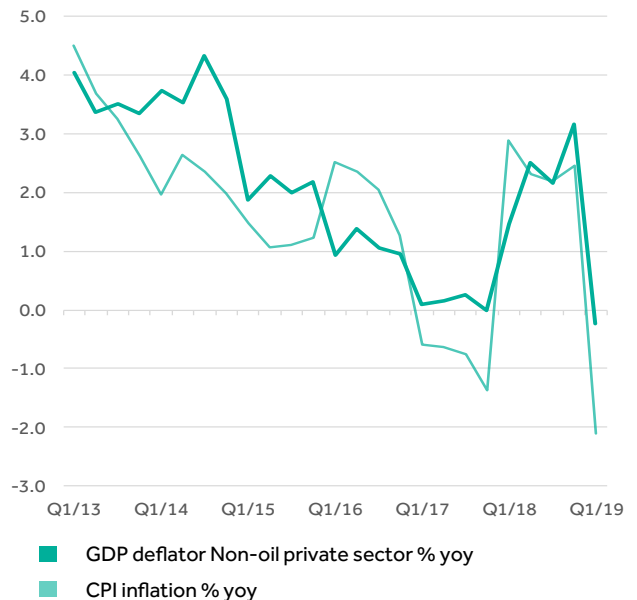
source: GASTAT

Figure 3:
Monthly GDP Tracker of Overall Economy



source: GASTAT, RC

Figure 4:
GDP Deflator and CPI Inflation



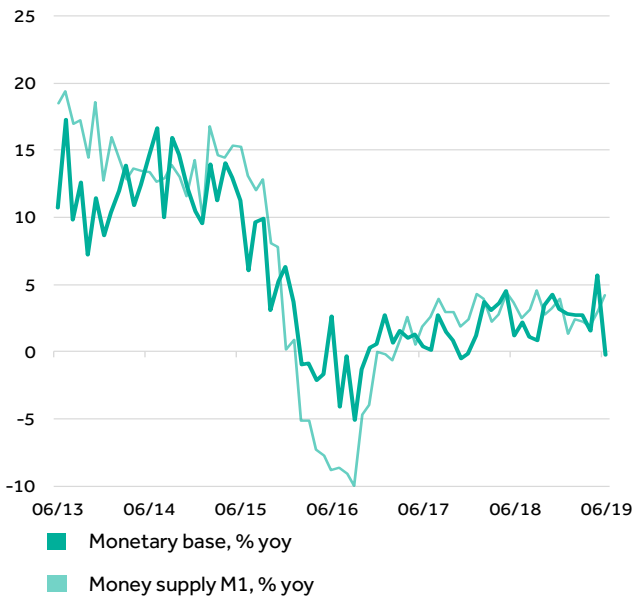
source: GASTAT

Real and nominal GDP of the non-oil private sector both expanded by similar growth rates (2.3%yoy and 2.1%yoy) in Q1 2019 after a divergence during 2018 due to the inflationary impact of the VAT and

energy price increases. Meanwhile, overall economic growth continued to slowdown in Q2 2019 according to our tracker model estimates as a result of further crude oil output cuts during this period.

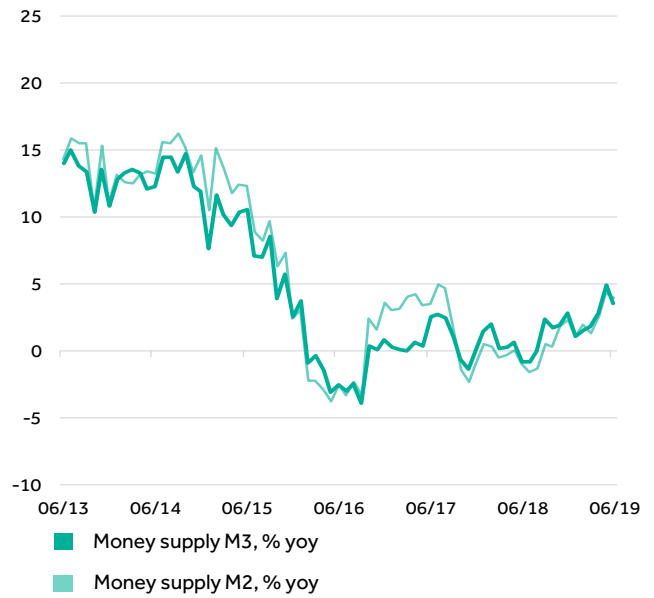
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Money Supply M1



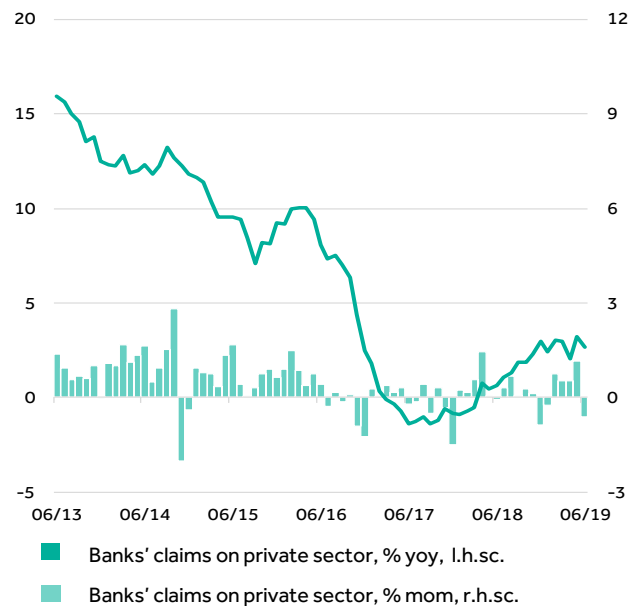
source: SAMA

Figure 2:
Growth Rate Money Supply M2 and M3



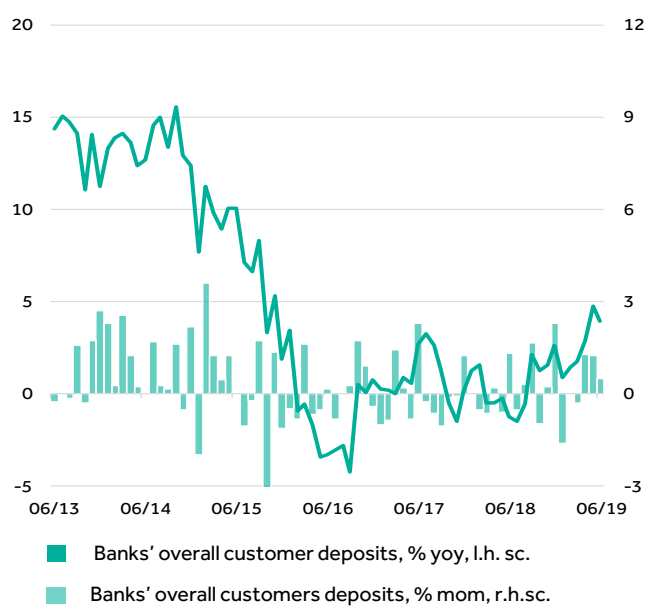
source: SAMA

Figure 3:
Growth of Credit to the Private Sector



source: SAMA

Figure 4:
Growth of Commercial Banks' Deposits



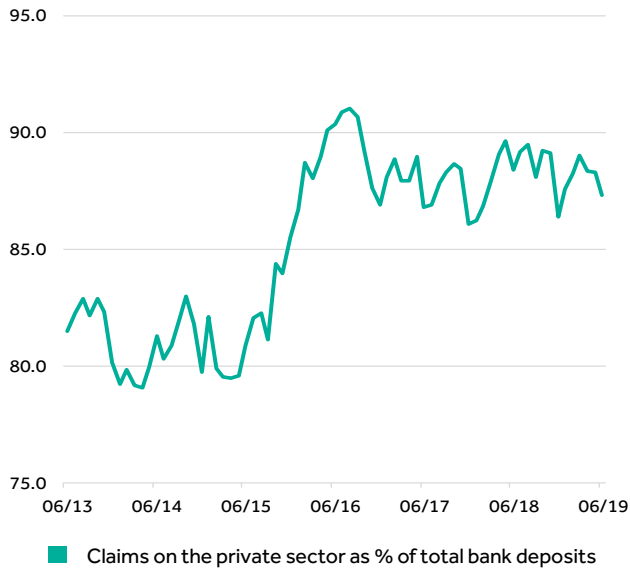
source: SAMA

Money supply growth rates generally picked up in Q2 with a (temporary) slowdown in June which may be explained by a seasonal impact of Ramadan. By end of June money supply M3 grew by 3.6%/yoy

after 4.9% in May. The same trend can be observed for outstanding credit to the private sector which showed positive monthly growth rates from February to May and expanded by 2.6%/yoy in June.

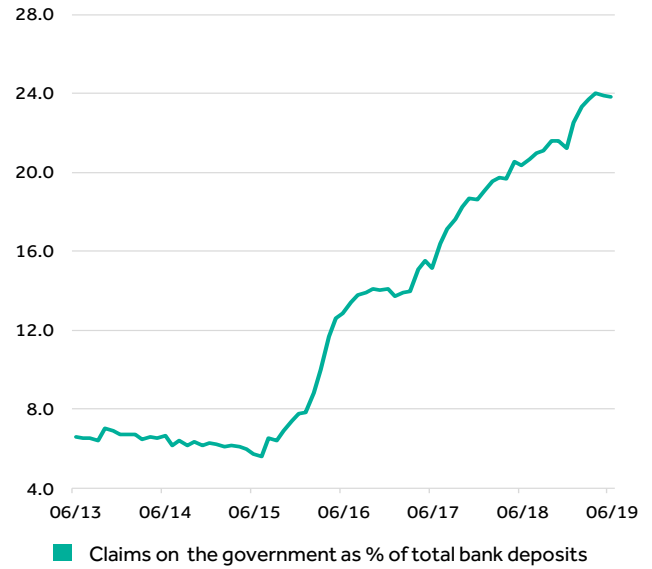
Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio



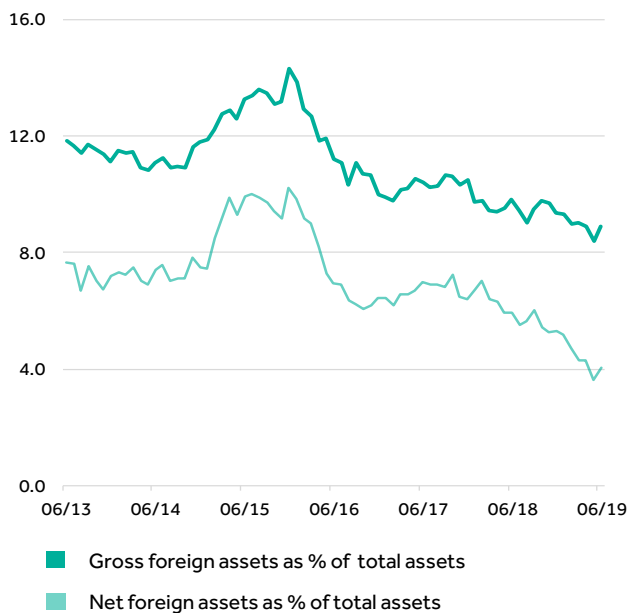
source: SAMA

Figure 2:
Government Sector Loan-Deposit-Ratio



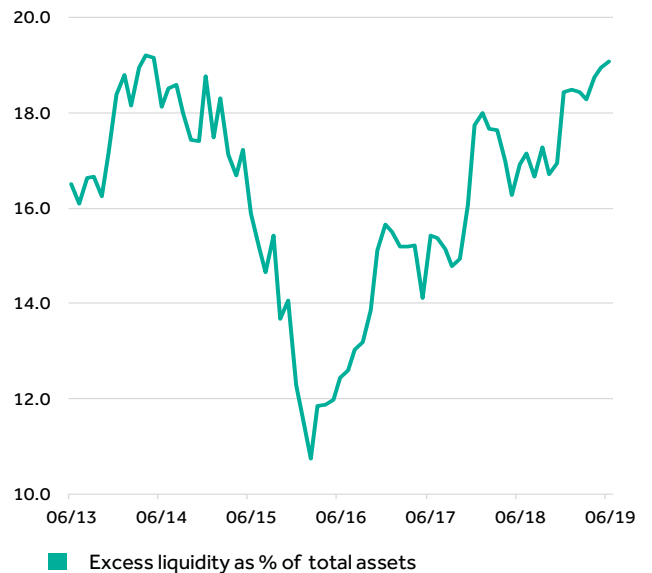
source: SAMA

Figure 3:
Foreign Assets to Total Assets Ratio



source: SAMA

Figure 4:
Excess Liquidity to Total Assets Ratio



source: SAMA

Solid growth of customer deposits at commercial banks outpacing credit to the private sector resulted in an easing of the corresponding loan-deposit-ratio (LDR) from 89.0 to 87.3 from March to June.

On the other hand, government bonds held by commercial banks increased by a moderate 16 bln SAR over the same period leading to a marginal increase in the corresponding LDR from 23.7 to 23.8.

SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA

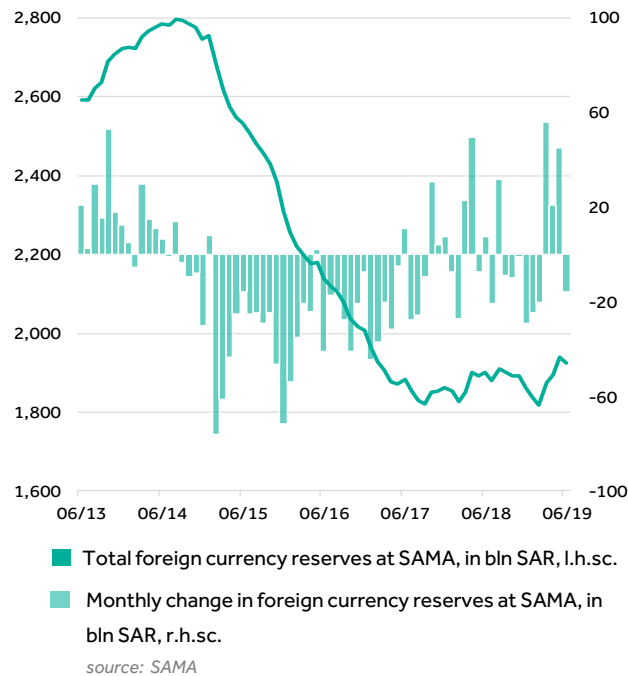


Figure 2:
Government Deposits at SAMA

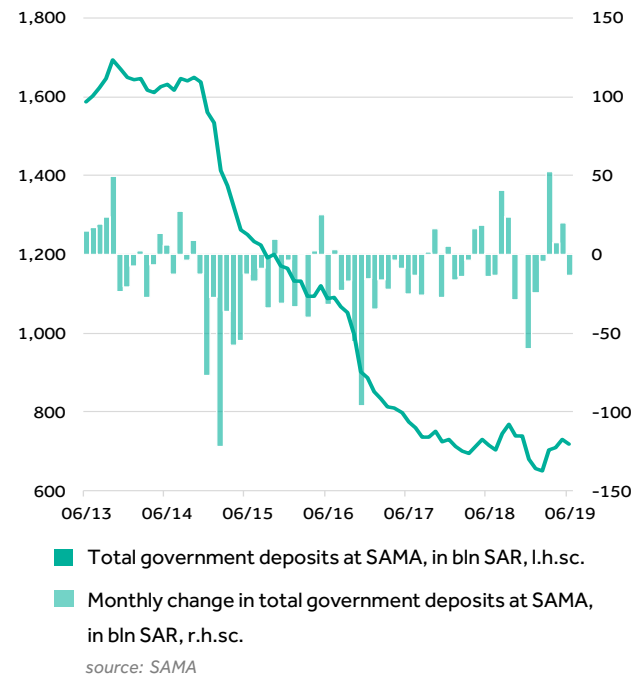


Figure 3:
Breakdown of Foreign Currency Reserves at SAMA

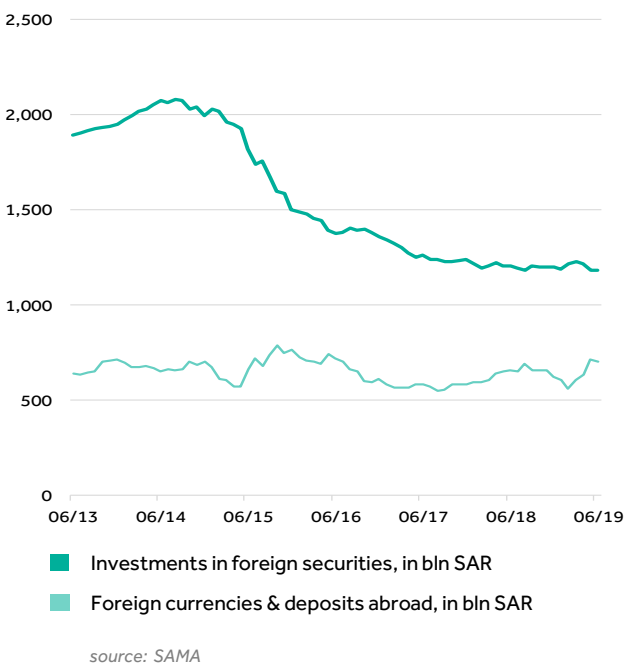
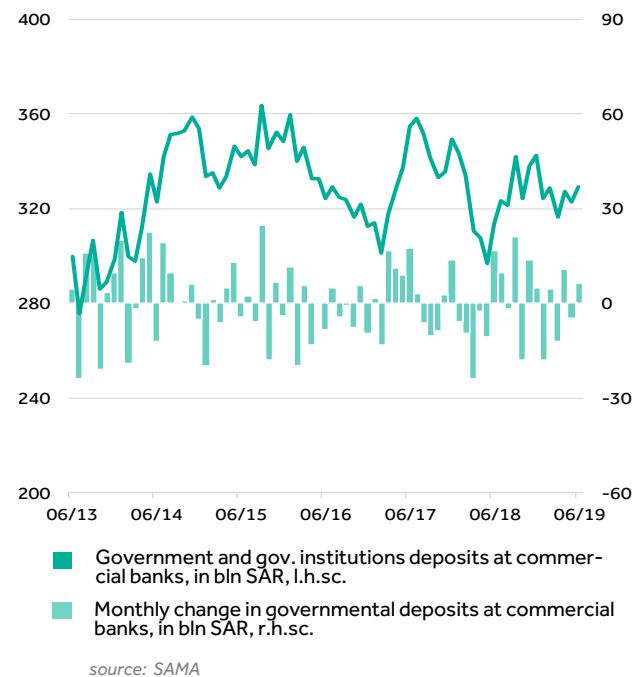


Figure 4:
Government Deposits at Commercial Banks

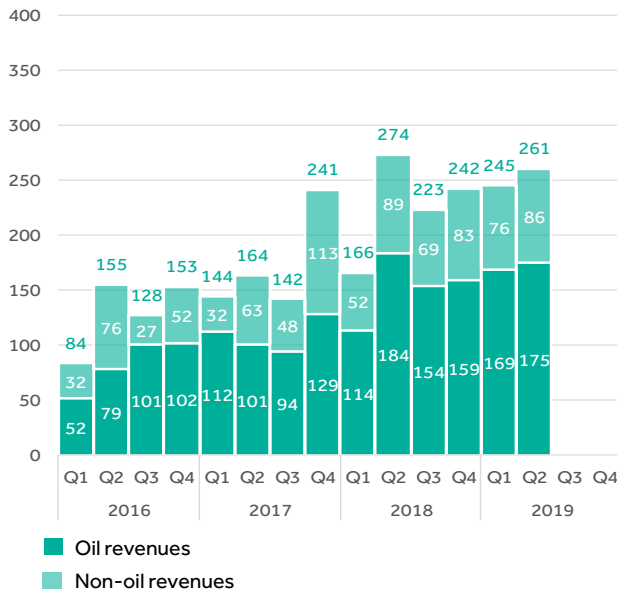


SAMA foreign reserves moderately dropped in June by 16 bln SAR but picked up in H1 2019 by overall 61 bln SAR indicating a first notable recovery in the last 3 years. Government deposits at SAMA witnessed a

small reduction by 13 bln SAR in June but increased by 33 bln SAR since end of last year as a result of a contained budget deficit in H1 of 6 bln SAR and continued borrowing activity by the government.

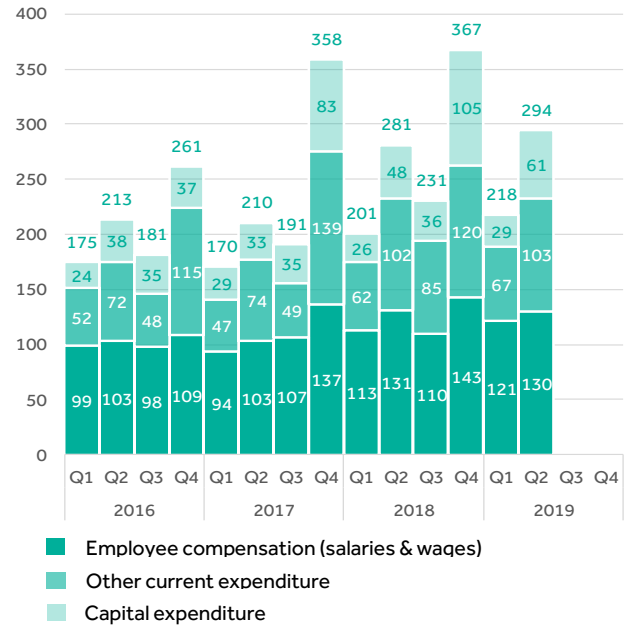
Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)



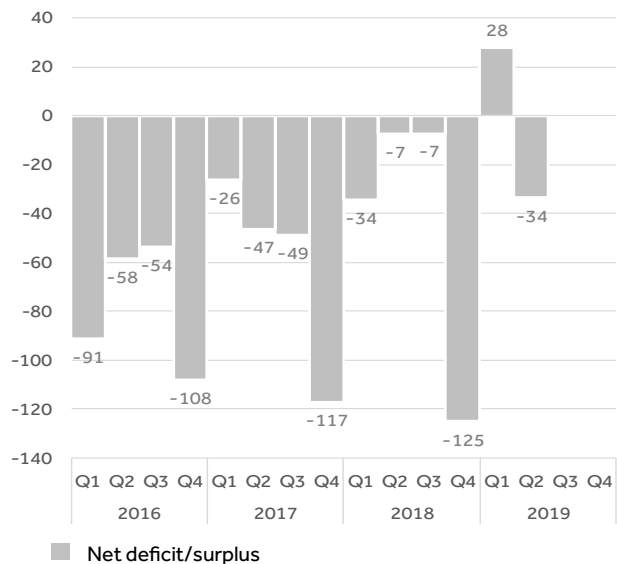
source: MoF

Figure 2:
Quarterly Fiscal Expenditure (in bln SAR)



source: MoF

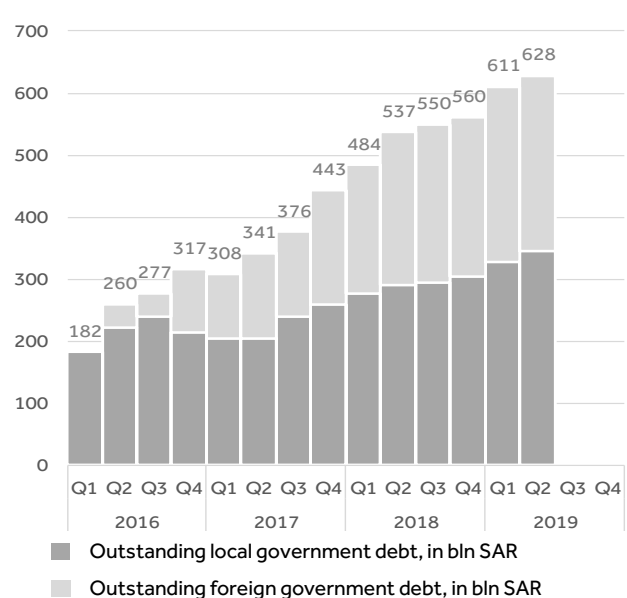
Figure 3:
Quarterly Fiscal Deficit/Surplus (in bln SAR)



source: MoF

After a surplus in Q1, the government witnessed a deficit of 34 bln SAR in Q2 due to sharply higher fiscal spending. In particular, capital expenditure picked up by 31 bln SAR vs. Q1. For H1 2019, fiscal

Figure 4:
Outstanding Government Debt (End of Quarter)

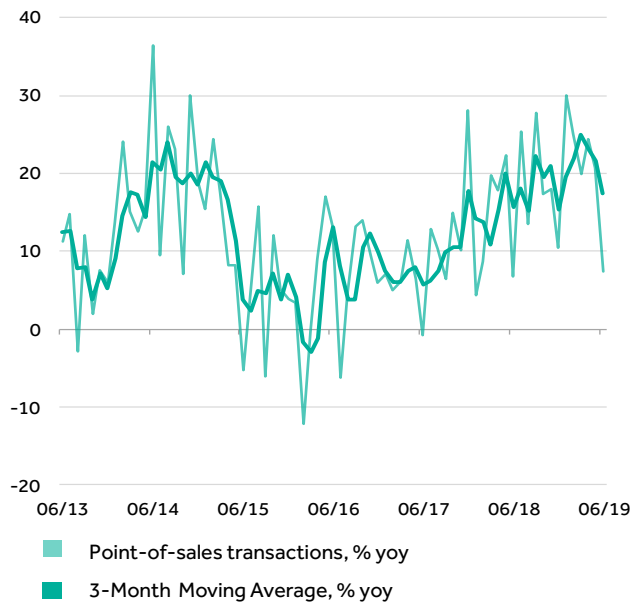


source: MoF

revenues are in-line with the pro-rata budget while fiscal spending is still about 7.5% behind the budgeted target. For H2 2019, we expect a strong spending increase and likewise a higher deficit.

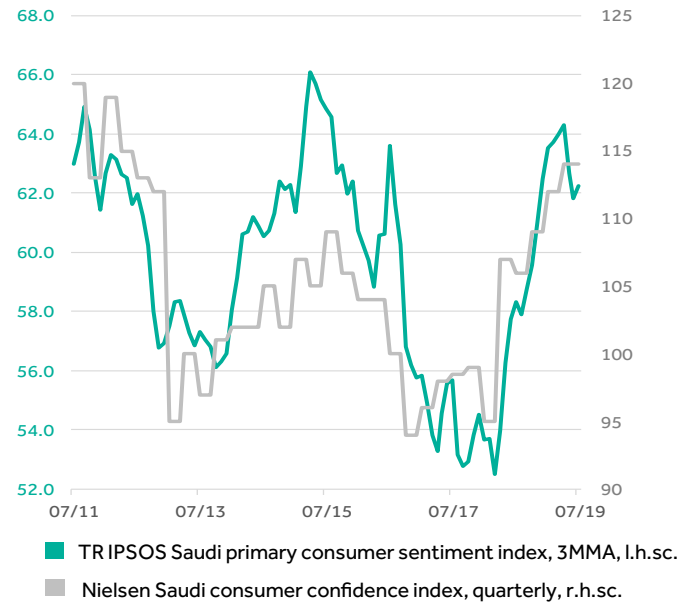
Private Spending Indicators and Non-Oil Foreign Trade

Figure 1:
Point-of-Sales Transactions



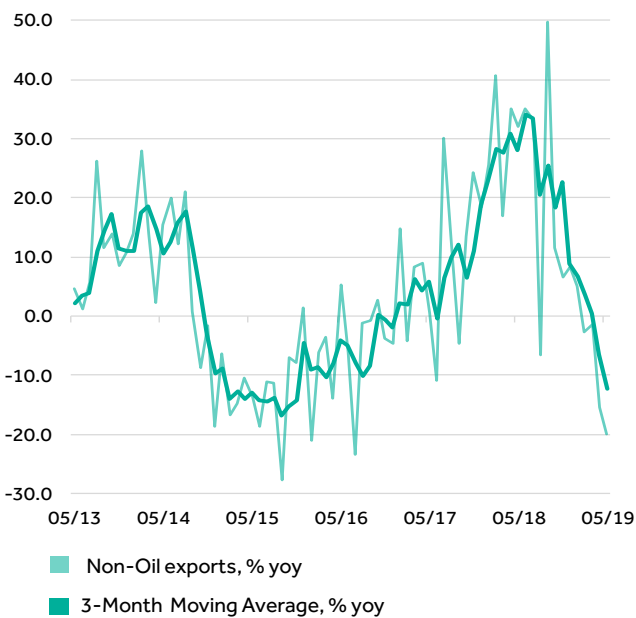
source: SAMA

Figure 2:
Consumer Sentiment



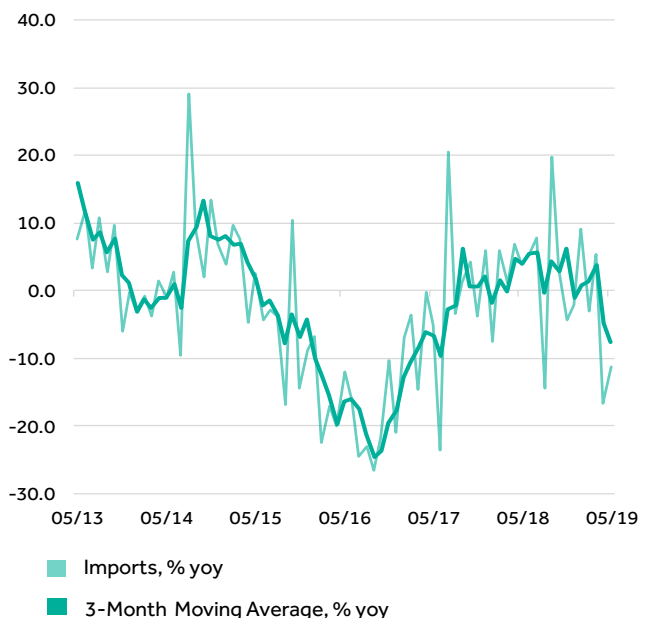
source: Thomson Reuters, Nielsen

Figure 3:
Growth of Non-Oil Exports



source: GASTAT

Figure 4:
Growth of Imports



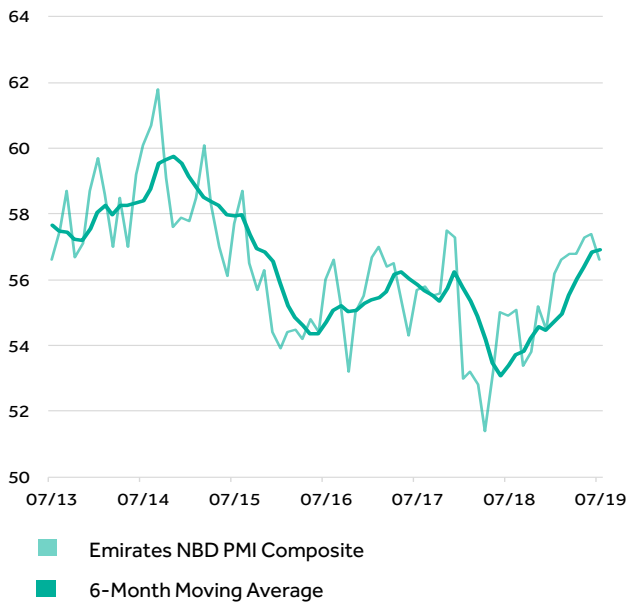
source: GASTAT

While consumer sentiment remains strong by mid-2019, the growth rate of point-of-sales transactions declined to 7.5%yoy in June, most likely also due to a seasonal effect of Ramadan. Growth of non-oil

exports continued to drop in Q2 reflecting the current weakness of the global economy, in particular weak demand for petrochemical products which constitute about two-third of total non-oil exports.

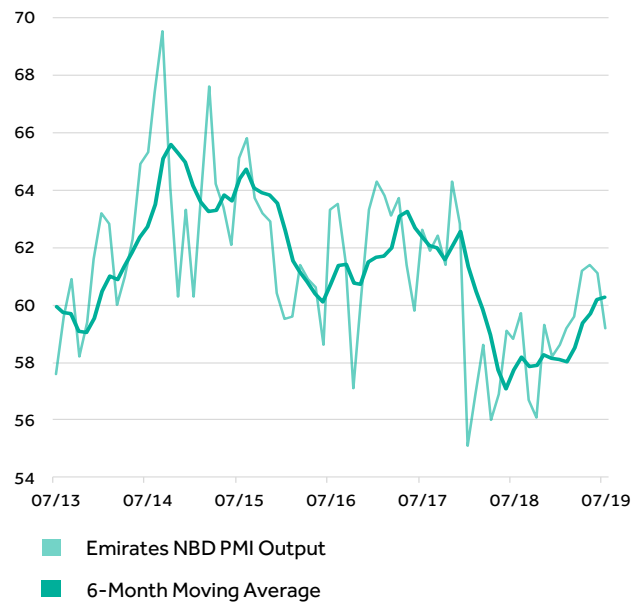
Non-Oil Private Sector Business Climate Indicators

Figure 1:
Purchasing Manager Index Composite



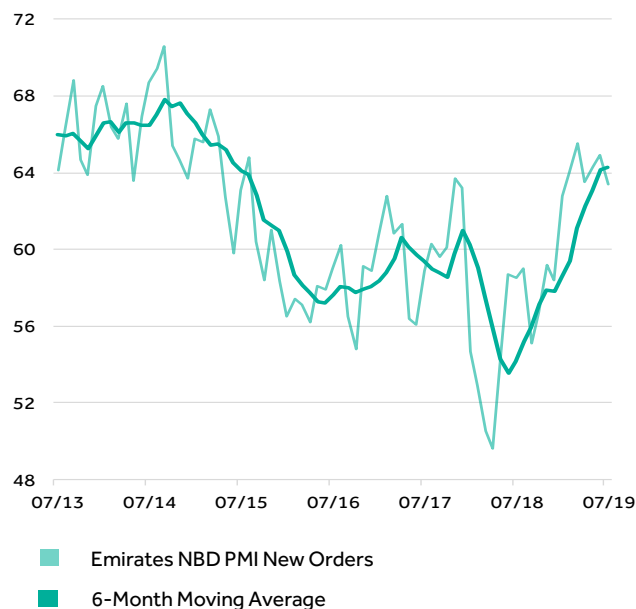
source: Markit

Figure 2:
Purchasing Manager Index Output



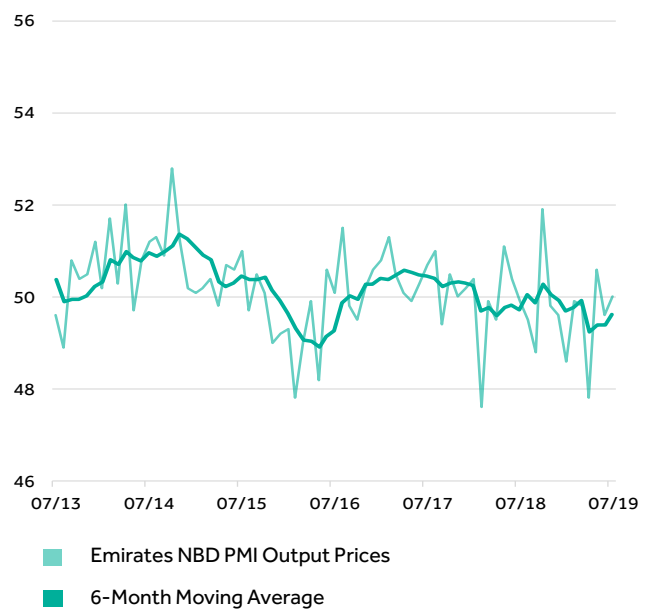
source: Markit

Figure 3:
Purchasing Manager Index New Orders



source: Markit

Figure 4:
Purchasing Manager Index Output Prices



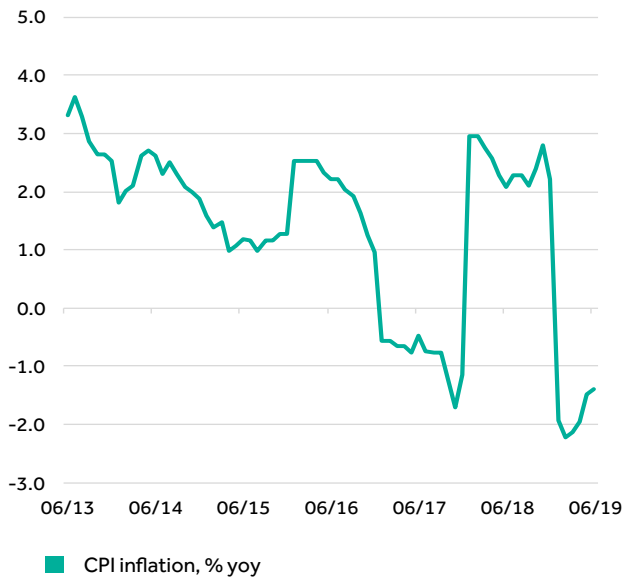
source: Markit

By mid-year 2019, the business climate of the Saudi non-oil economy is still strong. However, purchasing manager indices have started to consolidate with the composite index slowing from a 18-month

high in June 2019 of 57.4 to 56.6 in July. Meanwhile, the sub-index for output prices signals a stabilization in pricing power of Saudi corporates with a reading of 50.0 in July after a low at 47.8 in April.

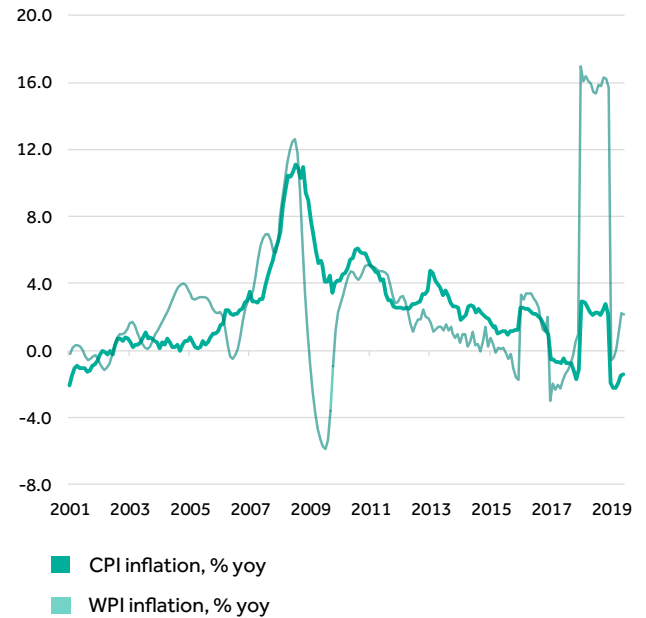
Consumer and Wholesale Price Inflation

Figure 1:
Consumer Price Inflation All Items



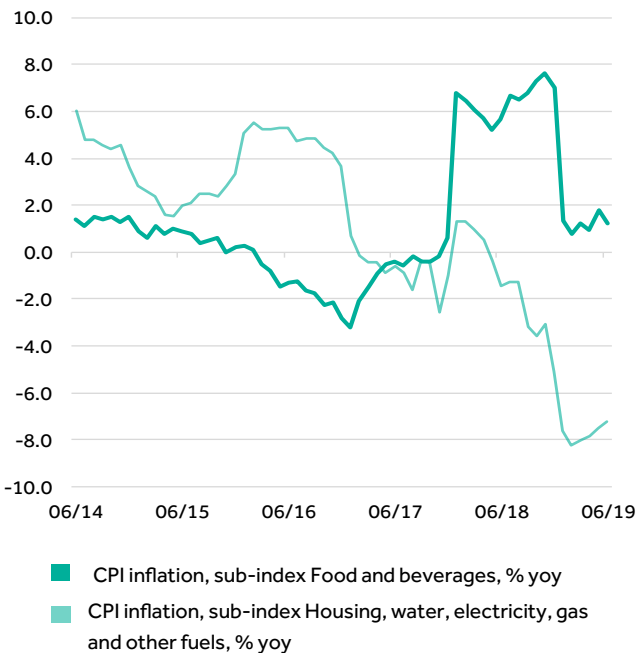
source: GASTAT

Figure 2:
Consumer Price and Wholesale Price Inflation



source: GASTAT

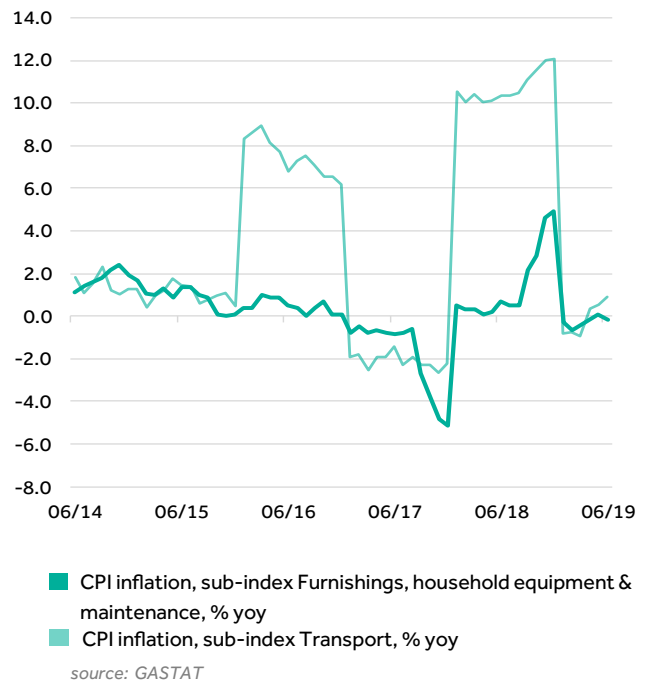
Figure 3:
CPI Inflation Food & Housing



source: GASTAT

The deflationary trend of consumer prices continued to ease with an inflation rate of -1.4% in June after a low at -2.2% in February. In fact, the majority of CPI categories shows a stable or positive price

Figure 4:
CPI Inflation Furnishings & Transportation

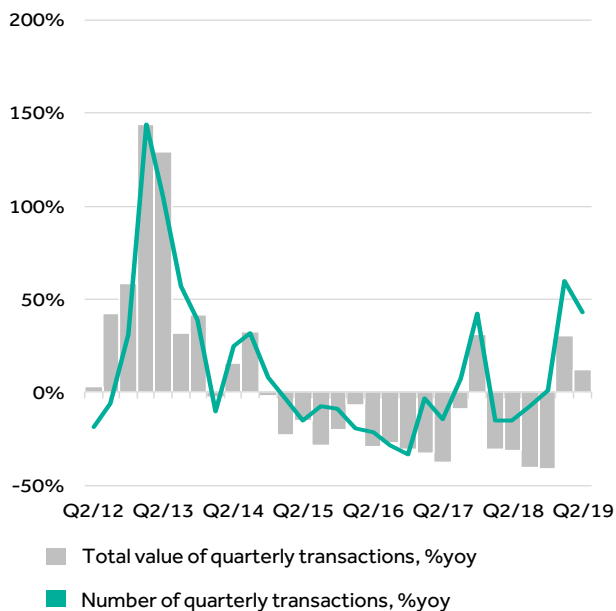


source: GASTAT

trend (e.g. food & beverages at $+1.2\%$ yoy). The sub-index housing, water, electricity is the only remaining index group in outright deflation territory with still -7.2% yoy in June (after -8.3% in February).

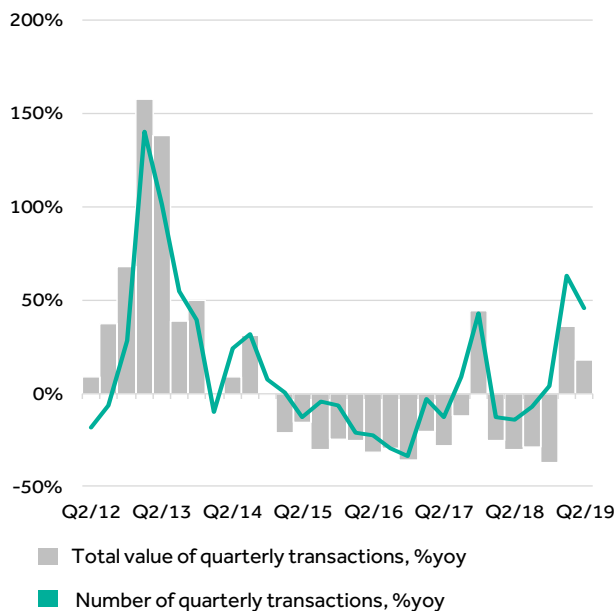
Real Estate Market: Transaction Activity

Figure 1:
Quarterly Real Estate Transactions Overall Country



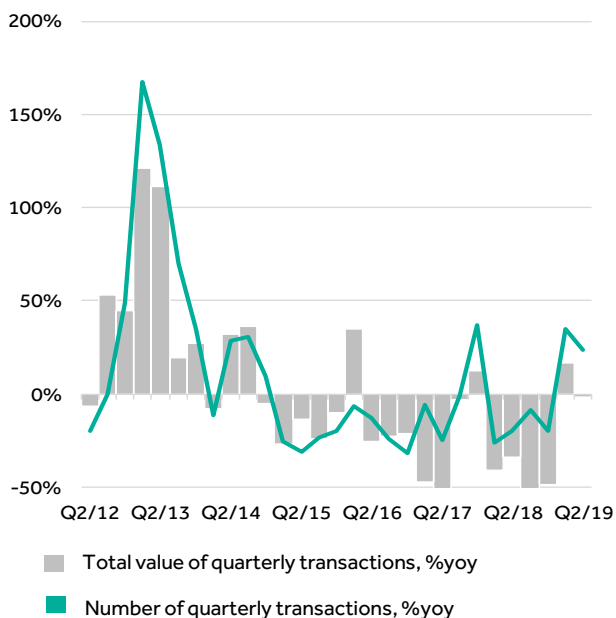
source: MOJ, RC

Figure 2:
Quarterly Residential Real Estate Transactions



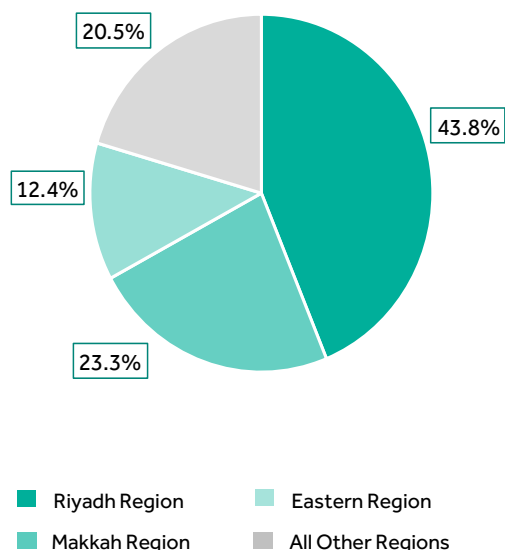
source: MOJ, RC

Figure 3:
Quarterly Commercial Real Estate Transactions



source: MOJ, RC

Figure 4:
Breakdown of Transaction Value by Regions (Q2 2019)



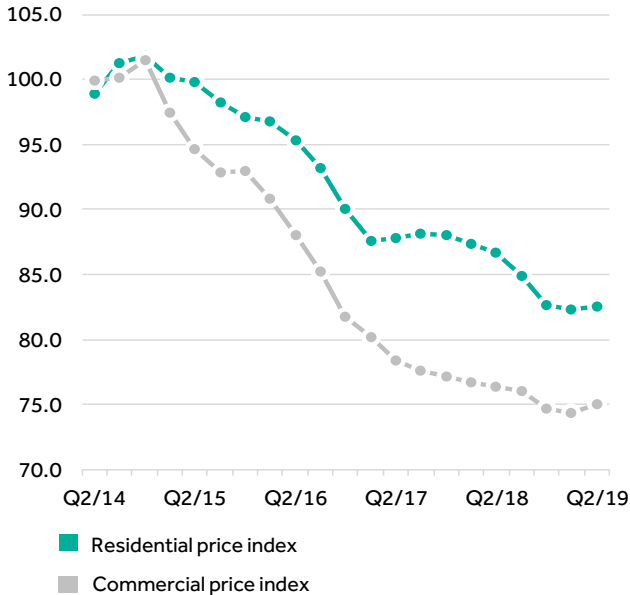
source: MOJ, RC

The recovery of real estate transaction activity which had already started in Q1 2019 continued in Q2 albeit at a gradually lower rate. In the first half 2019 transaction volumes overall picked up by 22%

compared to the previous year. The rebound turned out to be more pronounced in the residential area with a half-yearly growth rate of 28% while the commercial area gained 9% over the same period.

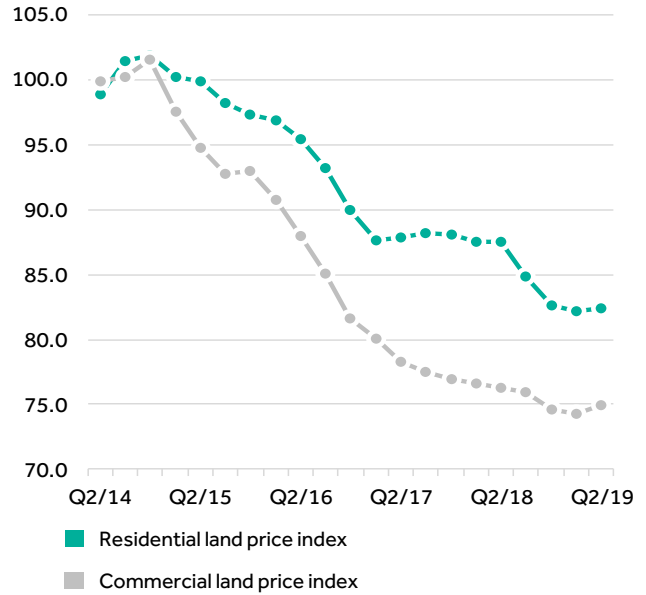
Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices



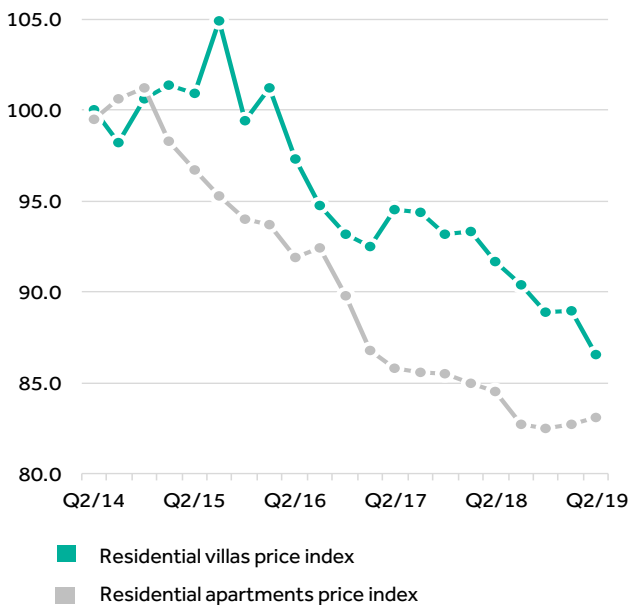
source: GASTAT

Figure 2:
Residential and Commercial Land Price Indices



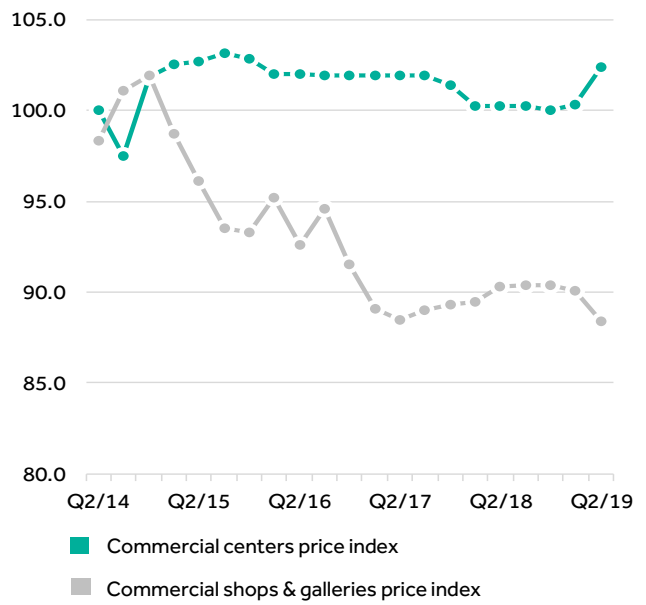
source: GASTAT

Figure 3:
Residential Villas and Apartments Price Indices



source: GASTAT

Figure 4:
Commercial Shops and Centers Price Indices



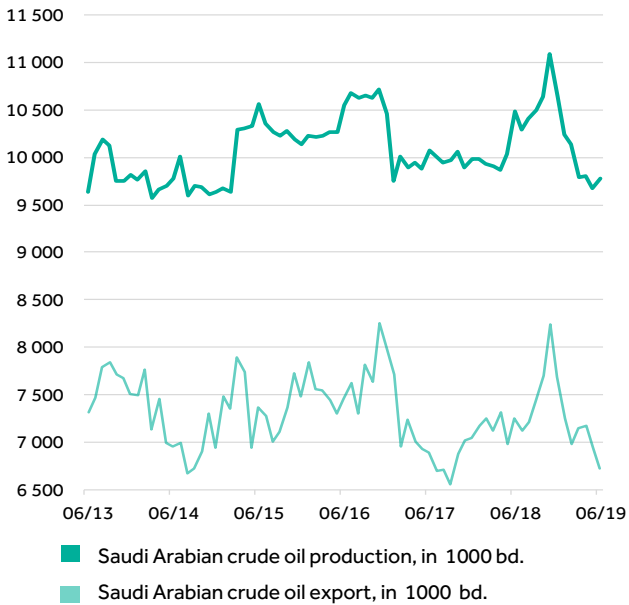
source: GASTAT

Real estate prices have started to stabilize in H1 2019. This particularly applies to (unused) land prices in both the residential and commercial area. Combined with the rebound in transaction activity

in the first half of 2019, this may indicate that the Saudi real estate market has started to bottom out after a protracted decline of about 17% (residential prices) resp. 25% (commercial prices) since 2015.

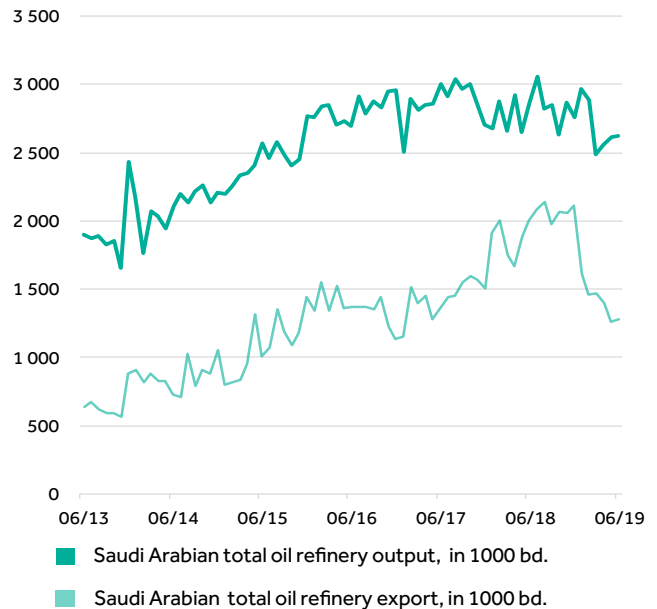
Oil Market Statistics: Production, Exports, Refinery and Prices

Figure 1:
Saudi Crude Oil Production and Exports



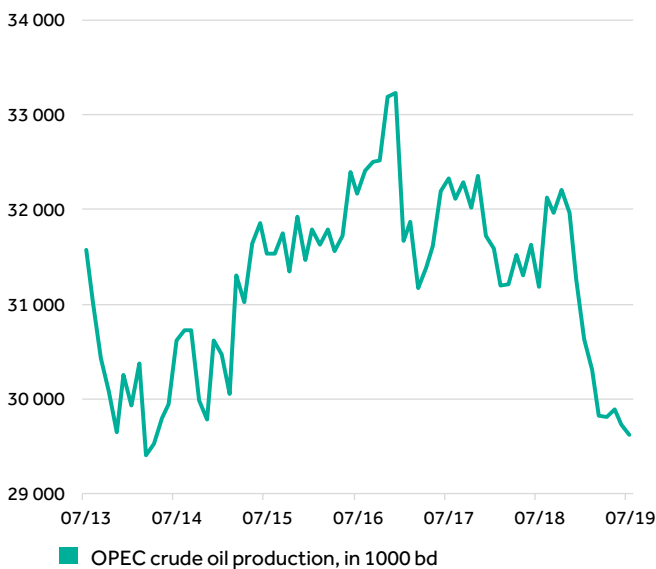
source: JODI, Bloomberg

Figure 2:
Saudi Crude Refinery Output and Exports



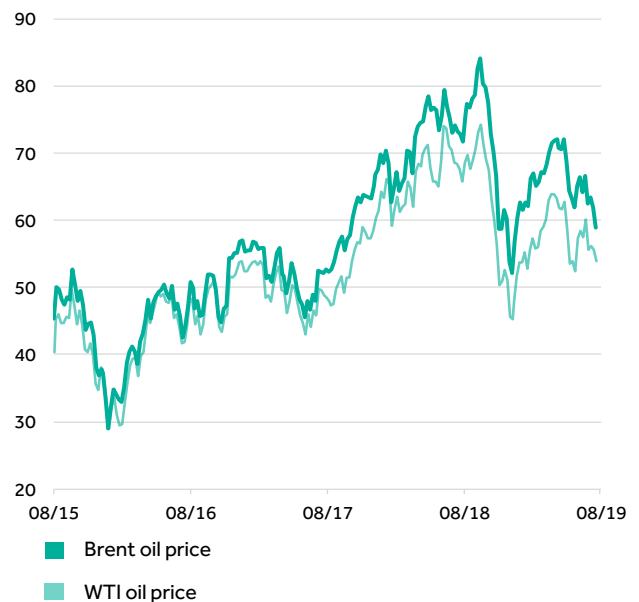
source: JODI

Figure 3:
OPEC Crude Output



source: JODI, Bloomberg

Figure 4:
Oil Prices



source: Bloomberg

By mid-year 2019, the Saudi crude oil production remains clearly below 10.0 mbd, reflecting a strong overcompliance to the assigned OPEC output target (10.3mbd). Correspondingly, crude exports

dropped below 7.0 mbd in June. Deepening concerns about the state of the global economy and the continued US-China trade dispute weighed on oil prices with Brent falling below 60 USD in August.

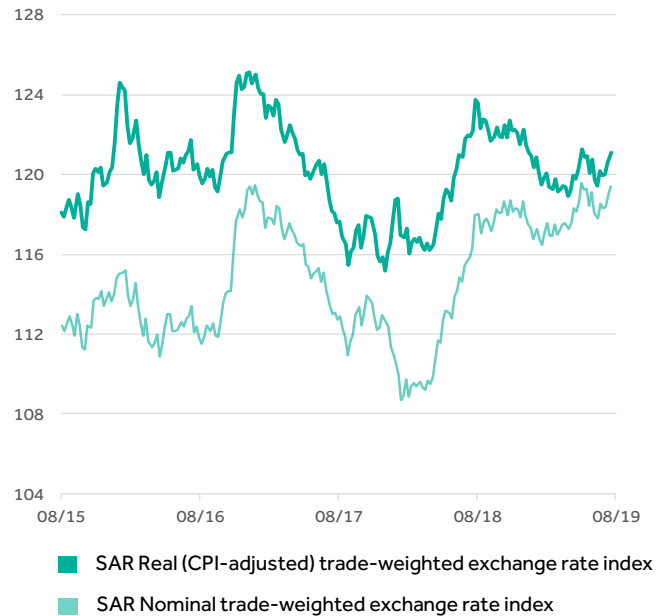
Foreign Exchange: Forward Rates and Effective Exchange Rate Index

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



source: Bloomberg

Figure 2:
SAR Nominal and Real Effective Exchange Rate



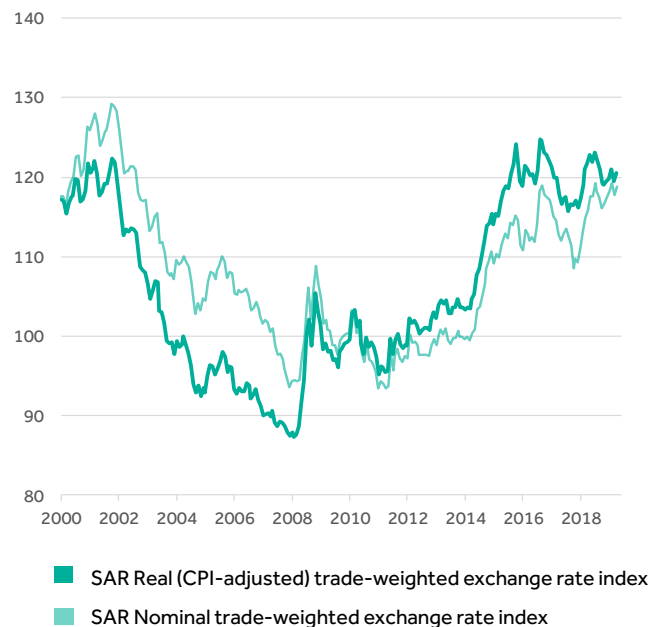
source: Bloomberg, JPMorgan

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



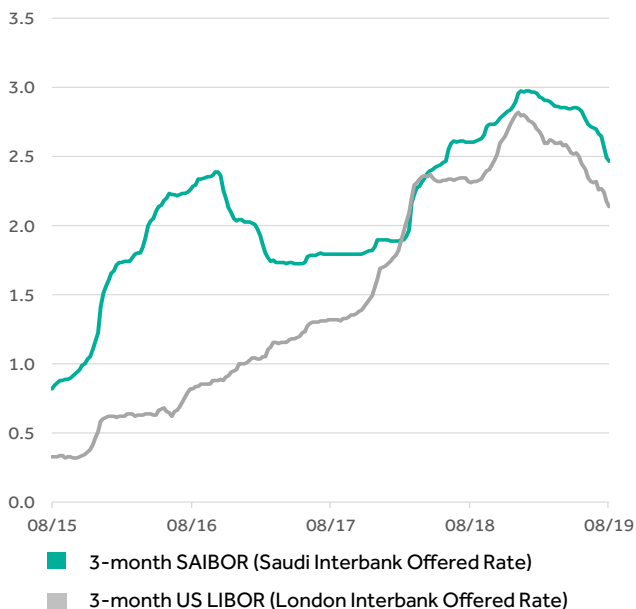
source: Bloomberg, JPMorgan

As a sign of stability, the 12M USD/SAR FX-forward premium has settled at historically low levels, trading in a narrow 40-60 bp range. Meanwhile, the USD continued to strengthen against major currencies in

July and August on the back of an increasing risk aversion on global financial markets. As a consequence, the real and nominal trade-weighted SAR exchange rate also appreciated during this period.

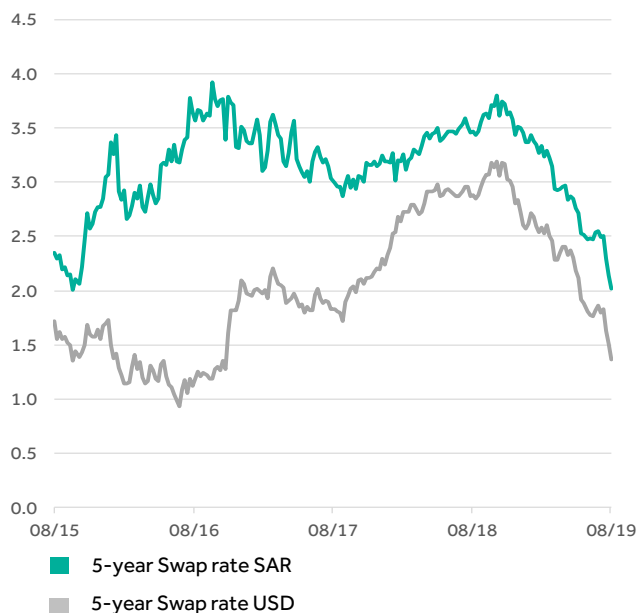
Interest Rates: Money Market, Capital Market and Central Bank Rates

Figure 1:
3-Months SAIBOR vs. USD LIBOR



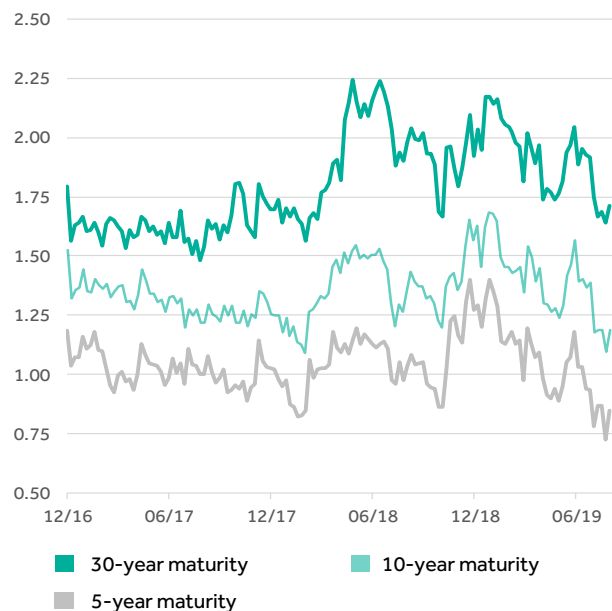
source: Bloomberg

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



source: Bloomberg

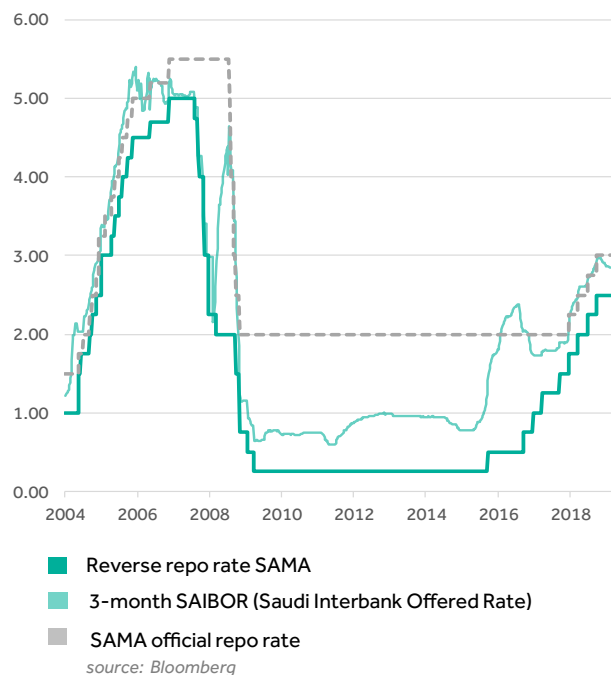
Figure 3:
KSA USD-Bonds Yield Spread to US Treasuries



source: Bloomberg

In July the Federal Reserve cut its FED fund target rate by 25bp to 2.25% (upper boundary). Accordingly, SAMA reduced the official repo rate and the reverse repo rate each by 25bp to 2.75% resp. 2.25%.

Figure 4:
Central Bank Rate and 3-Months SAIBOR

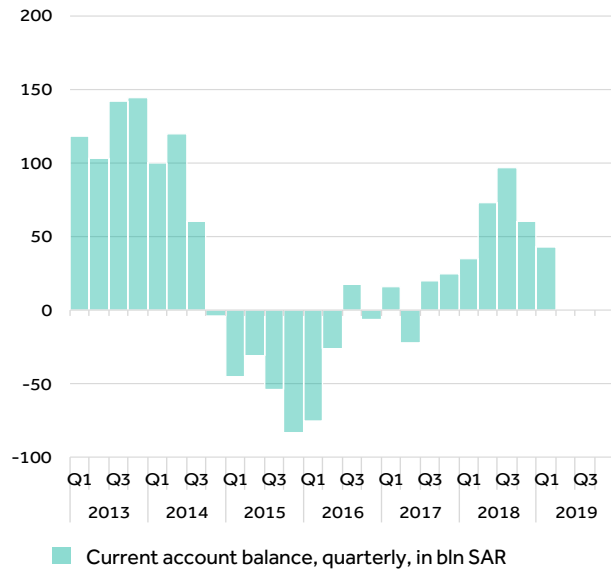


source: Bloomberg

In expectation of further rate cuts by the US central bank, the yield curves in USD and SAR have shifted considerably downwards and are meanwhile inverted (longer-term yields below short-term yields).

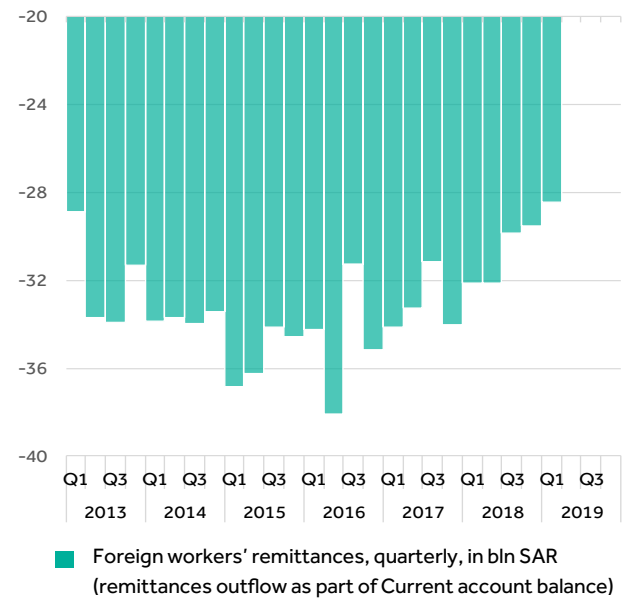
Saudi Balance of Payments

Figure 1:
Current Account Balance



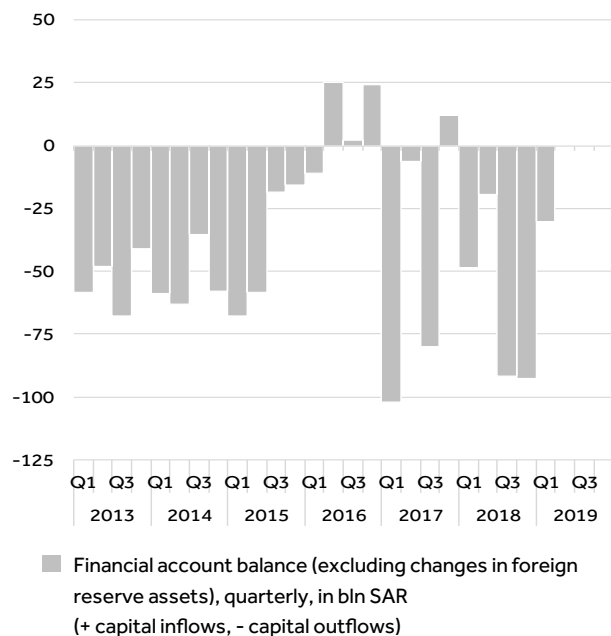
source: SAMA

Figure 2:
Foreign Workers' Remittances



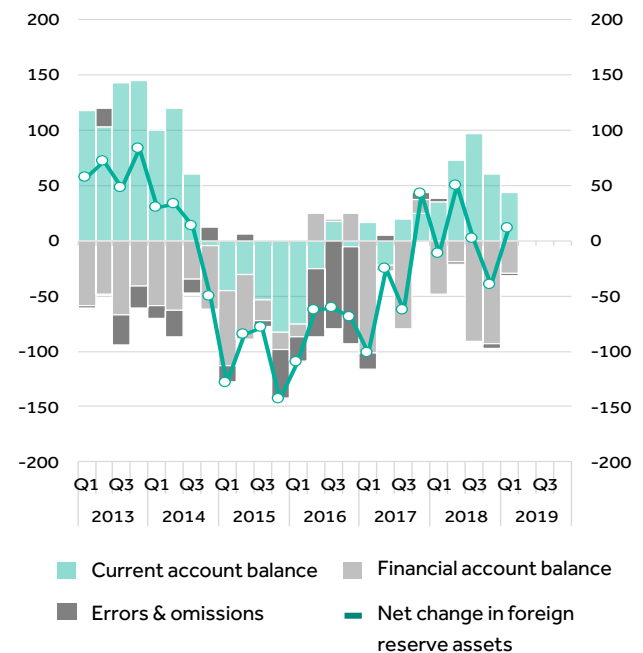
source: SAMA

Figure 3:
Financial Account Balance



source: SAMA

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



source: SAMA

In Q1 2019 the current account surplus amounted to 43bln SAR, about 17bln SAR below Q4 2019, mainly due to lower oil export revenues. However, as the deficit of the financial account balance turned

out to be significantly lower than in the previous quarter (-30bln SAR vs. -93bln SAR), the balance of payment showed an overall surplus of 11bln SAR in Q1 2019 (i.e. increase in foreign reserve assets).

Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index

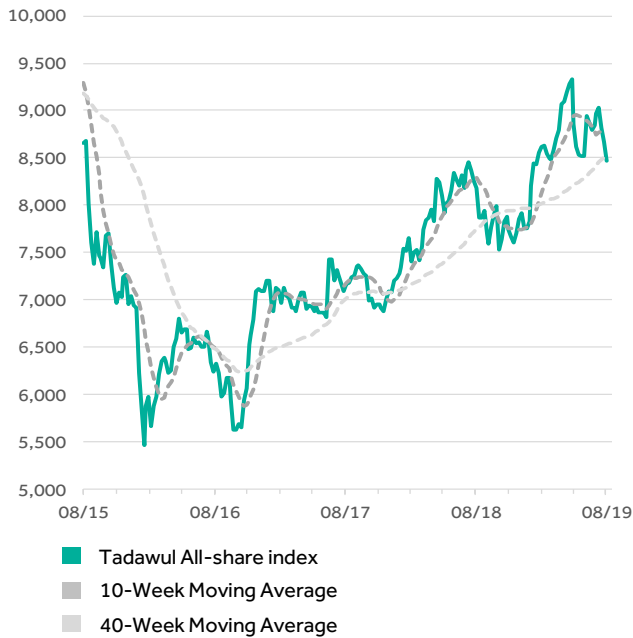


Figure 2:
Tadawul Average Daily Traded Value

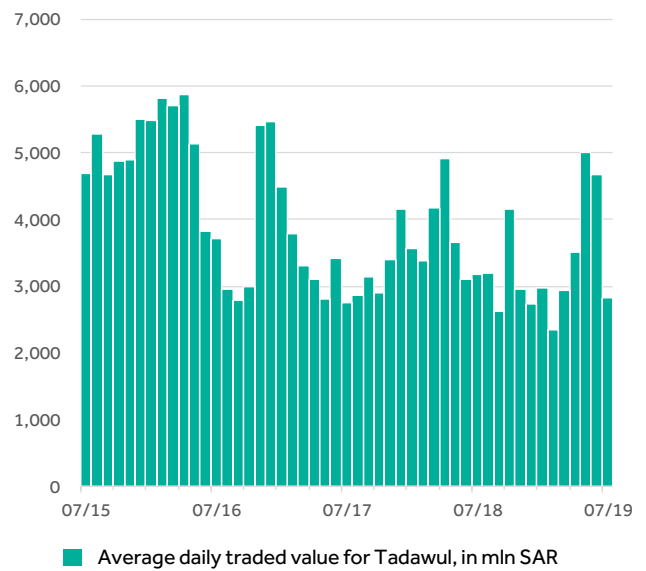


Figure 3:
Weekly Net Purchase by Ownership (in bln SAR)

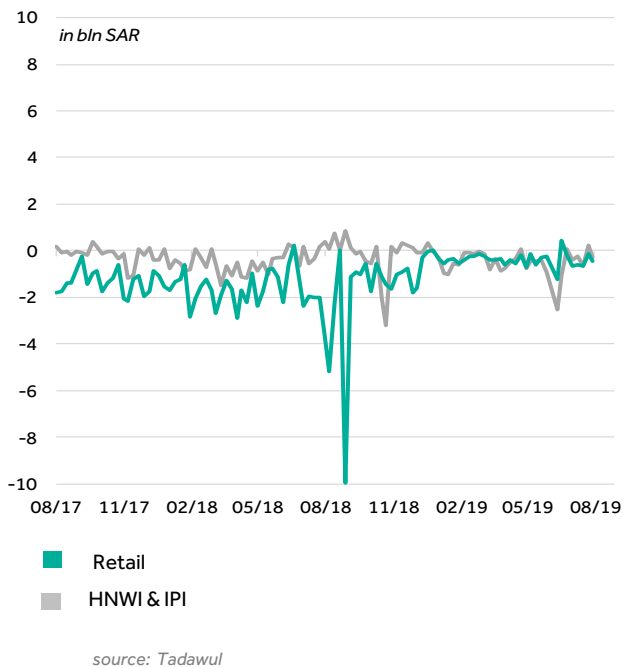
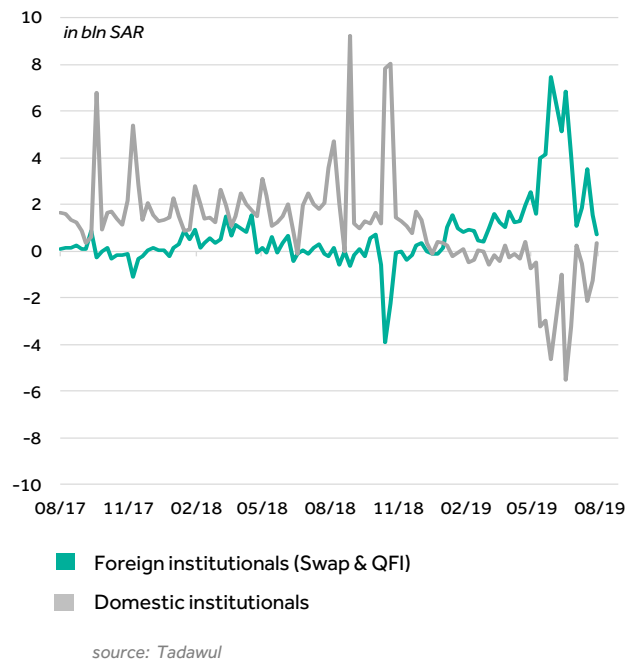


Figure 4:
Weekly Net Purchase by Ownership (in bln SAR)

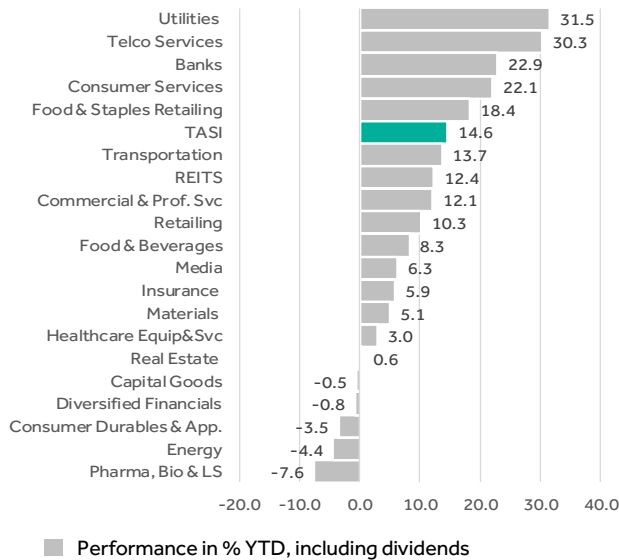


The inclusion of Saudi equities in major Emerging Market indices (MSCI and FTSE) has not only impacted prices but also affected turnover. During May and June, a period with some major inclusion

dates, the daily average traded value jumped to 5.1 bln SAR resp. 4.7 bln SAR. While foreign institutional investors were major buyers, domestic institutions acted as major sellers during this period.

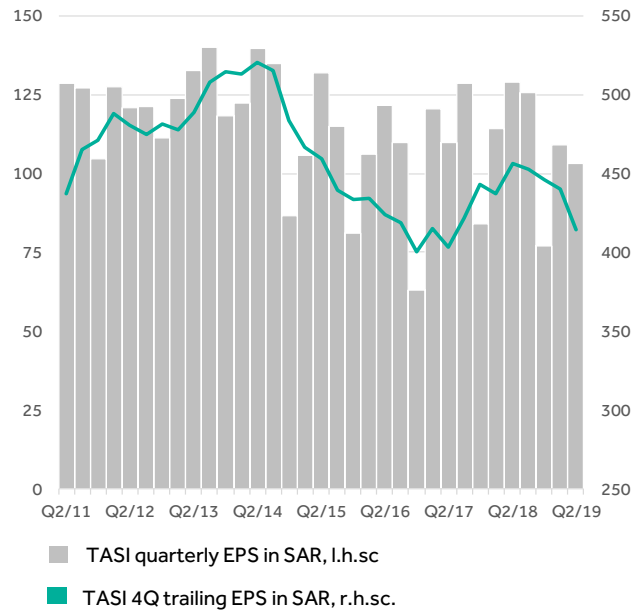
Tadawul: Saudi Equity Market Statistics

Figure 1:
Performance TASI Sectors July 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

TASI performed well so far in 2019 with a total return of 14.8% until end of July. This positive performance somewhat contrasts with the fundamental development of corporate earnings in the last 12

months. TASI 12M trailing earnings declined from 456 SAR in Q2 2018 to 410 SAR in Q2 2019. This also caused valuation multiples for TASI to expand to elevated levels in a historical comparison.

Saudi Economic Outlook

We expect the Saudi non-oil economy to further gain pace in the course of this and next year. We, therefore, forecast the real growth of the private non-oil sector to accelerate from 1.9% in 2018 to 2.4% in 2019 and 2.7% in 2020. This projection has to be seen on the back of an expansionary fiscal policy pursued by the Saudi government in order to further stimulate the domestic economy.

On the other hand, we expect Saudi oil production for 2019 to fall below last year's level on the back of the extended OPEC output agreement. With a view on the strong Saudi compliance to its defined target so far this year, we gradually reduce our average crude production estimate for 2019 and 2020 by 100k bd to 10.0 mbd resp. 10.1 mbd.

As a consequence, we forecast the oil sector GDP growth contribution to decline to -1.2% this year and to rebound to 1.8% in 2020. Hence, GDP growth of the overall economy will slow down to 0.8% in 2019 and recover to 2.2% 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 5.5% of GDP in 2019 and 5.0% in 2020

Average CPI inflation for 2019 is forecasted at -1.4% before picking up to 0.9% in 2020. In particular, we expect the sharp decline of housing rents as the major driver for the current CPI deflation to fade in the course of 2020 on the back of an anticipated stabilization of the Saudi residential real estate market.

SAIBOR rates had already started to decline in the first half 2019 in anticipation of the first rate cut by the US FED and SAMA in July. We expect this trend to continue and forecast the US and the Saudi central bank to reduce their key interest rates by another 0.50% until end of 2020.

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	0.8	2.2
Non-oil Private sector	1.5	1.9	2.4	2.7
Government sector	0.7	2.9	2.0	1.6
Oil sector	-3.1	3.1	-1.2	1.8
Fiscal Balance and Government Debt				
Fiscal Balance in bln SAR	-238	-174	-188	-191
Fiscal Balance in % GDP	-9.3	-5.9	-6.0	-5.9
Government debt in bln SAR	443	560	690	815
Government debt as % GDP	17.3	19.1	22.0	25.2
Trade and Current Account				
Trade Balance in bln SAR	369	639	530	511
Trade Balance in % GDP	14.4	21.8	16.9	15.8
Current Account in bln SAR	39	271	174	163
Current Account in % GDP	1.5	9.2	5.5	5.0

source: GASTAT, SAMA, RC

	2017	2018	2019f	2020f
Oil Prices and Production (yearly average)				
Brent price (USD pb)	54.8	71.7	66.0	65.0
WTI price (USD pb)	50.9	64.9	58.0	57.0
OPEC Basket price (USD pb)	52.4	69.8	65.0	64.0
KSA oil production (mln bd)	9.9	10.3	10.0	10.1
Inflation and Interest Rates (year end)				
CPI Inflation (yearly average)	-0.84	2.47	-1.40	0.90
3M SAIBOR SAR	1.90	2.98	2.35	2.15
Reverse Repo Rate	1.50	2.50	2.00	1.75
Official Repo Rate	2.00	3.00	2.50	2.25
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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