

MONTHLY MACROECONOMIC REVIEW – SAUDI ARABIA



March 2018

Review of economic developments till end of February 2018

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A. Executive Summary and Review

Executive Summary

The key highlights are:

1. **Oil production** – KSA marginally decreased oil production, producing 9.88 million barrels of oil per day (mbpd) in February 2018 (Refer Figure 1, Page 12), to keep below the production limit.
2. **Inflation** – Inflation rate during January 2018 rose 3.0% YoY (Refer Figure 5, Page 6), to its highest level since the start of 2015 i.e. since the new base (2013) is being considered, due to the impact of implementation of 5% VAT and reforms in electricity and fuel prices. Inflation is expected to rise further in the coming months, as consumer spending recovers from the initial impact of VAT and companies and retailers raise the prices instead of absorbing additional costs.
3. **Non-oil private sector growth** – Saudi Arabia's PMI improved slightly to 53.2 in February 2018 from 53.0 in the previous month (Refer Figure 7, Page 6). While output growth accelerated, growth in new orders decelerated compared to the previous month.
4. **Bank Credit** – Bank credit declined for an 11th consecutive month, as it decreased 0.6% YoY in January 2018 to SAR 1.388tn (Refer Figure 20, Page 8), mainly due to 0.9% decline in private sector lending.
5. **POS transactions**– POS transactions declined 19% MoM to SAR 16.4bn in January 2018, from SAR 20.2bn in December 2017, the highest figure in 22 years. (Refer Figure 38, Page 10). It however increased 4.3% YoY.
6. **Money Supply**– Money supply grew 1.4% YoY in January 2018 to SAR 1.794tn (Refer Figure 25, Page 9), mainly due to 4.5% growth in demand deposits that constituted around 57% of the total money supply.

Data Releases

Indicator	Data
Inflation (January 2018)	3.0%
PMI (February 2018)	53.2
SAMA Reserve Assets Growth MoM (January 2018)	-0.4%
Bank Credit Growth YoY (January 2018)	-0.6%
Bank Deposit Growth YoY (January 2018)	1.2%
Loan to Deposit Ratio (January 2018)	0.86
Money Supply Growth YoY (January 2018)	1.4%
3M SAIBOR (February 2018)	1.92%
ATM Withdrawals Growth YoY (January 2018)	1.8%
PoS Transactions Growth YoY (January 2018)	4.3%
Saudi Oil Production (February 2018)	9.88 mbpd
Saudi Oil Export (December 2017)	7.0 mbpd
OPEC Production (February 2018)	32.3 mbpd
Global Oil Supply – Demand (January 2018)	0.6 mbpd
US Rig Count (February 2018)	799

Non-oil private sector growth picks up slightly

Saudi Arabia's PMI improved slightly to 53.2 in February 2018 from 53.0 in January 2018, a month in which VAT and fuel and electricity price hikes were implemented. Output growth increased to 56.9 in February from 55.1 in January, but growth in new orders slowed down to 52.9 from 54.7 in the previous month. Employment growth declined slightly. Input price inflation fell to 53.8 in February as the initial impact of a tax and fuel price hike subdued, while output price inflation turned negative to 47.6, a sign that companies might be discounting to maintain market share in the wake of weak consumer demand.

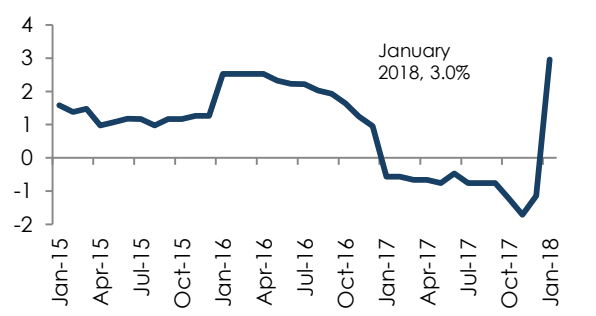
Inflation jumps to 3.0% after VAT, fuel price hike

Inflation rate jumped to 3.0% YoY in January 2018 after the government introduced a 5% Value Added Tax (VAT) and hiked domestic gasoline and electricity prices, from the start of the month. **General Authority of Statistics** changed the base year for the consumer price index to 2013 from 2007 from January 2018 and also adjusted the basket of goods and services. As per the new base, the inflation rate reached the highest level since January 2015, also increasing 3.9% MoM over December 2017.

The food and beverages index, whose weightage in the general index was reduced to just below 19% from 22% earlier, rose 6.8% YoY; while transport costs surged 10.5%, showing direct impact of fuel price hike, in addition to VAT. Housing and utilities, which were given a higher weightage of 25% from 20.5% earlier, rose 1.3% YoY. Residential rents are exempt from VAT. Consumer prices in restaurants and hotels rose 5.8% YoY, while those in communication, furnishing and housing equipment were relatively stable. Clothing and footwear prices, however, declined 8.0% YoY, which is probably due to higher discounting by retailers in response to low consumer spending.

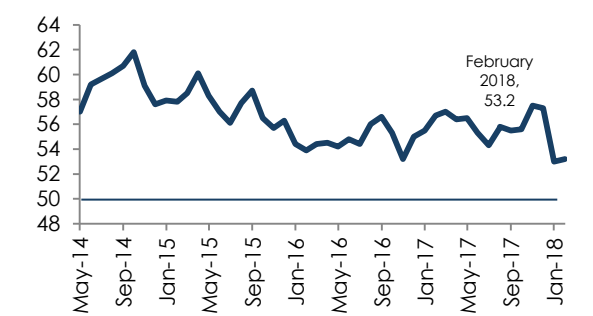
Inflation is expected to rise further in the coming months, as consumer spending can be expected to recover from the initial impact of VAT and companies and retailers would raise the prices instead of absorbing additional costs.

Figure 1: Inflation (% YoY)



Source: SAMA

Figure 2: PMI Index



Source: Bloomberg

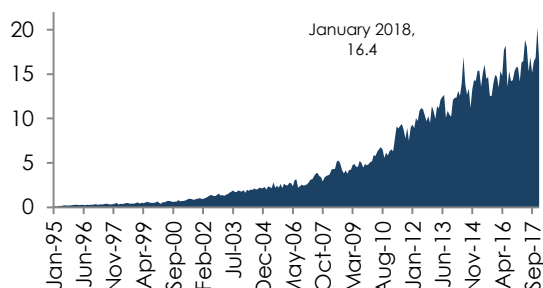
Consumer Spending slows down in January

Point-of-sale (POS) transactions in Saudi Arabia grew at the slowest rate in seven months (4.3% YoY) in January 2018 to SAR 16.4 bn. On a MoM basis, there was a marked drop of 19% from SAR 20.2 bn in December 2017, the highest figure in 22 years; as the implementation of VAT and fuel price hikes resulted in a more rationalized spending. It is expected that withdrawals were higher in December in anticipation of VAT introduction in January. ATM withdrawals grew by 1.8% YoY as compared to 2.4% in December. On a MoM basis, ATM withdrawals declined by 2.8% to SAR 62.2 bn.

Bank Credit to private sector continues to shrink

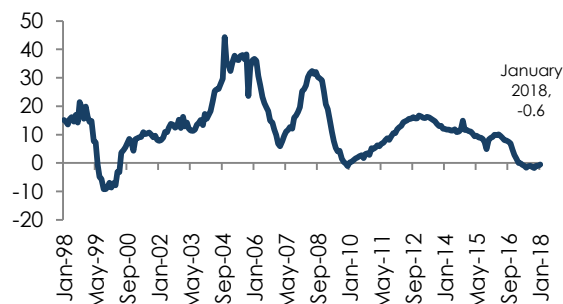
Bank credit continued to decline for 11th straight month, the longest such stretch in about two decades. Bank credit declined 0.6% YoY in January 2018 to SAR 1.389tn, mainly due to 0.9% decline in private sector lending. Public sector lending, however, significantly grew by 13% YoY, on account of investment activities by the government. In terms of maturity, the YoY drop in credit was mainly contributed by the drop in short term lending (less than 1 year), which dropped 2.3% YoY; while the medium term credit (1 to 3 years) grew 3.1% YoY and Long term credit (more than 3 years) was relatively unchanged. On MoM basis, bank credit increased 0.2%; mainly due to private sector lending growing 0.3% MoM.

Figure 3: POS Transactions (SAR bn)



Source: SAMA

Figure 4: Bank Credit Growth (% YoY)



Source: SAMA

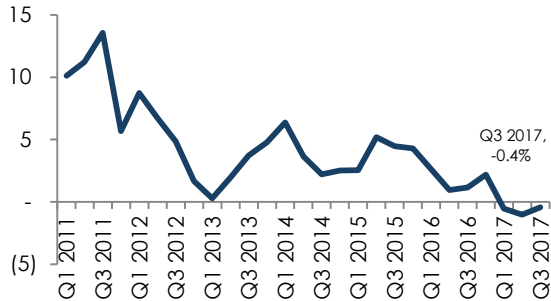
Money Supply Growth

Money supply increased 1.4% YoY in January 2018 to SAR 1.794tn, mainly owing to 4.5% growth in demand deposits that constituted around 57% of the total money supply. The growth in demand deposits more than offset the decline of 8.9% YoY in Time & savings deposits, which constituted around 24% of the total money supply. On MoM basis, money supply grew by 0.2%, mainly on account of 2.4% growth in demand deposits. Time & saving deposits declined 4.5% MoM, on the other hand.

Chart Pack

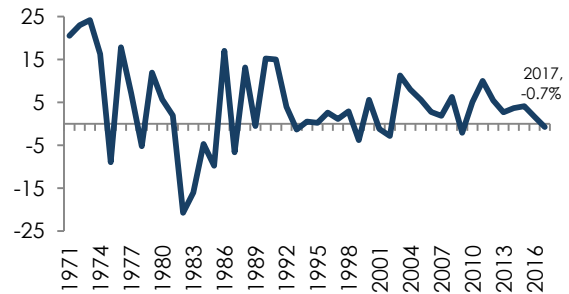
I. Macroeconomic Indicators

Figure 1: GDP (Constant prices) growth (quarterly - % YoY)



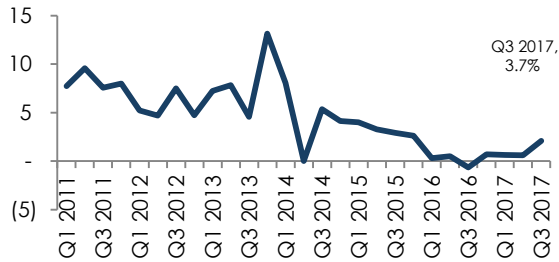
Source: General Authority of Statistics

Figure 2: GDP growth (annual - % YoY)



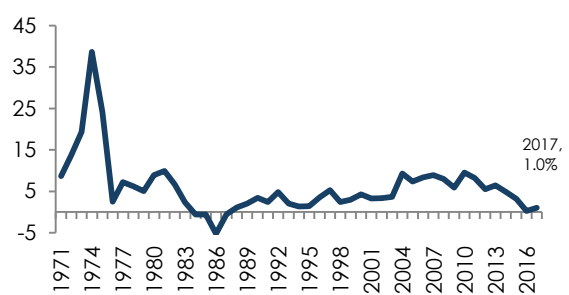
Source: General Authority of Statistics

Figure 3: Non-oil GDP growth (quarterly - % YoY)



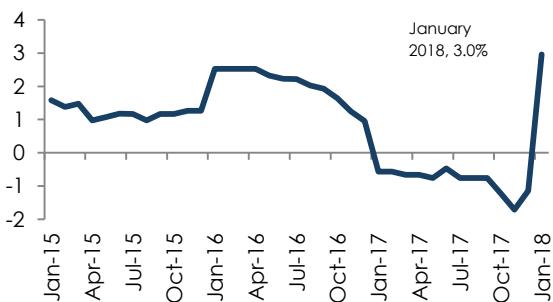
Source: General Authority of Statistics

Figure 4: Non-oil GDP growth (annual - % YoY)



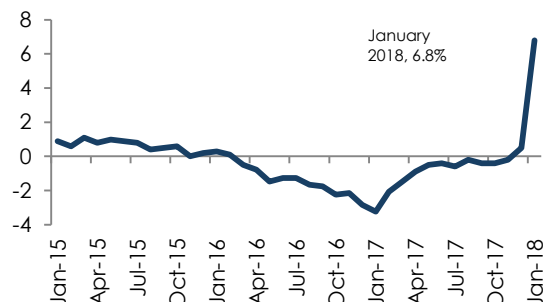
Source: General Authority of Statistics

Figure 5: Inflation (% YoY)



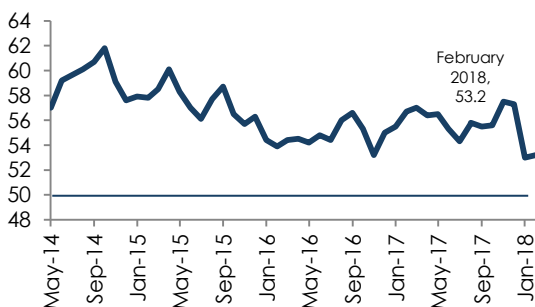
Source: Saudi Arabia Monetary Authority (SAMA)

Figure 6: Food inflation (% YoY)



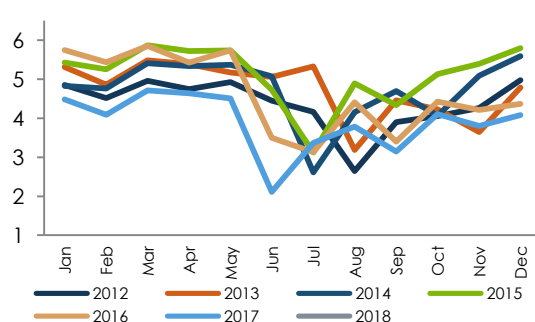
Source: SAMA

Figure 7: PMI index



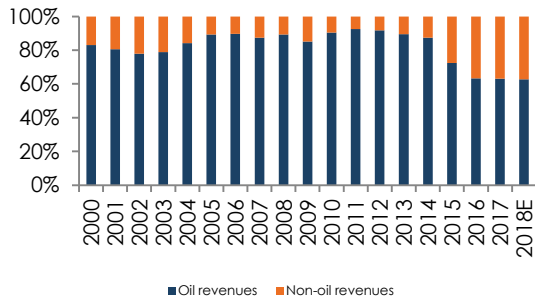
Source: Bloomberg

Figure 8: Cement Sales (Mn tons)



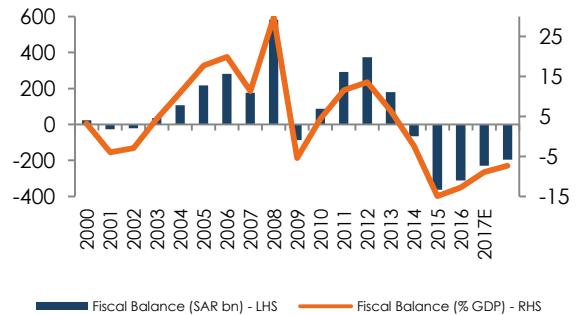
Source: Yamama Cement

Figure 9: Oil vs Non-oil revenues (% share)



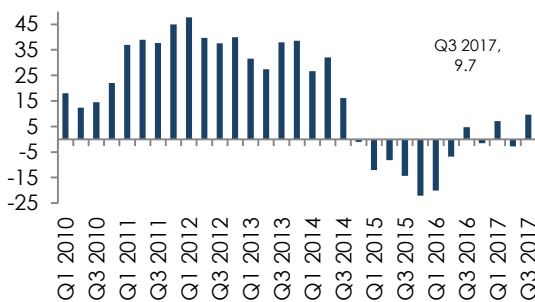
Source: Saudi Arabia Finance Ministry, E- Estimate

Figure 10: Annual fiscal balance (SAR bn)



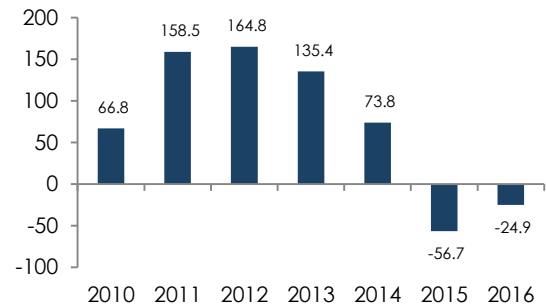
Source: Saudi Arabia Finance Ministry, E-Estimate

Figure 11: Current account balance - quarter (USD bn)



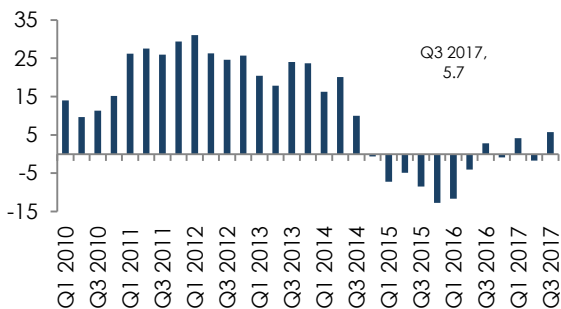
Source: SAMA

Figure 12: Current account balance -yearly (USD bn)



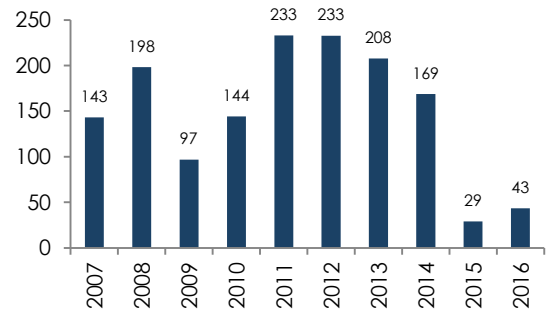
Source: SAMA

Figure 13: Current Account Balance (%GDP)



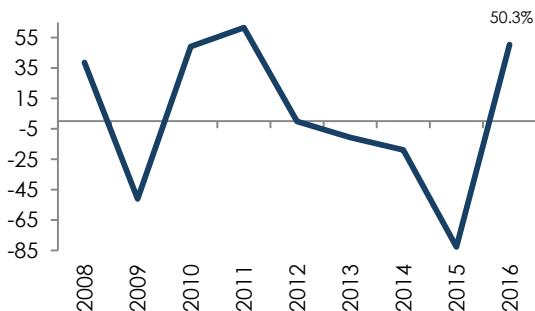
Source: SAMA

Figure 14: Trade balance (SAR bn)



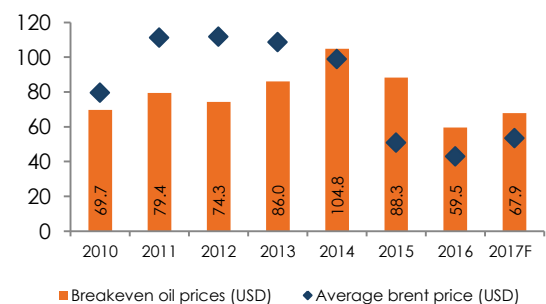
Source: SAMA

Figure 15: Trade balance change (% YoY)



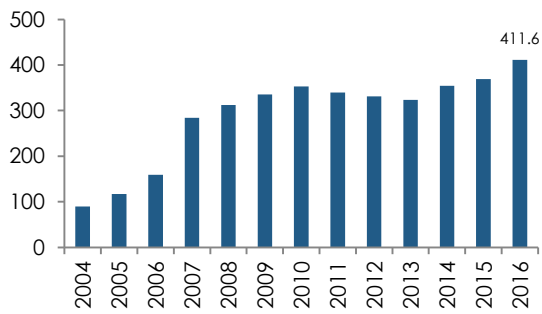
Source: SAMA

Figure 16: KSA breakeven oil price (USD/bbl)



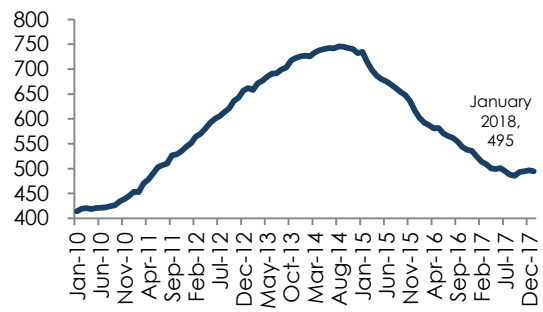
Source: Ministry of Finance, Thomson Reuters, MEFIC estimate

Figure 17: Total External Debt (SAR bn)



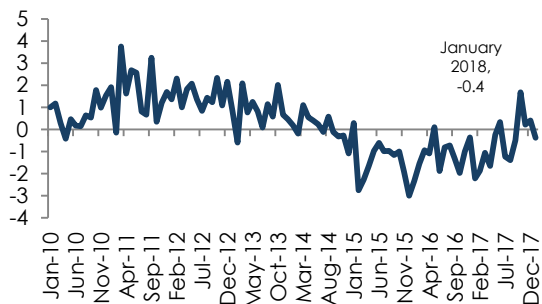
Source: SAMA

Figure 18: SAMA Reserve Assets* (USD bn)



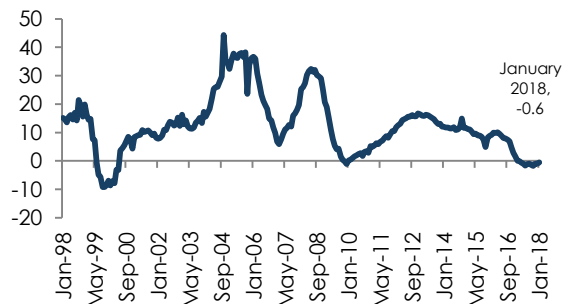
Source: SAMA, *- includes special drawing rights

Figure 19: Reserve Assets (% MoM)



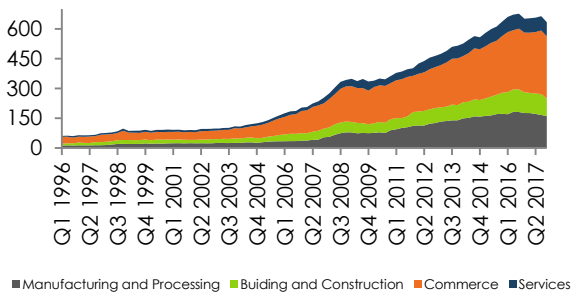
Source: SAMA

Figure 20: Bank credit growth (% YoY)



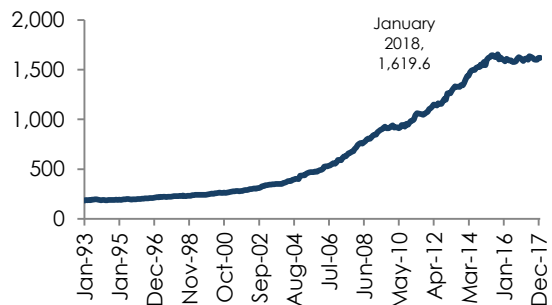
Source: SAMA

Figure 21: Bank credit across major sectors (SAR bn)



Source: SAMA

Figure 22: Bank Deposits (SAR bn)



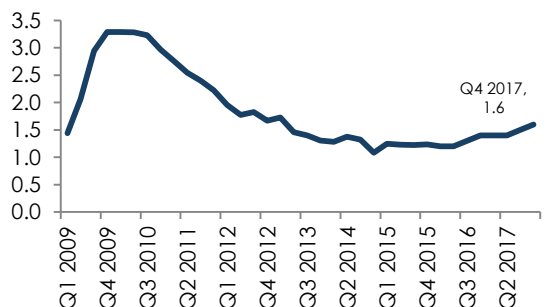
Source: SAMA

Figure 23: Loan-to-Deposit Ratio (%)



Source: SAMA

Figure 24: NPL-to-Total Loans (%)



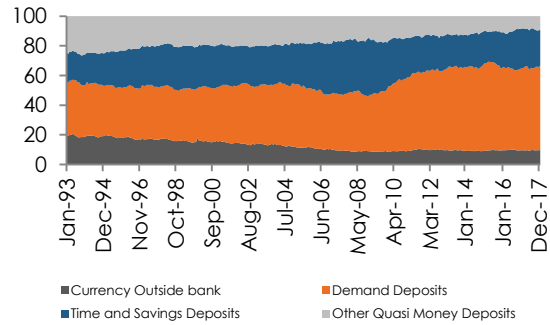
Source: SAMA

Figure 25: Money Supply/M3 growth (% YoY)



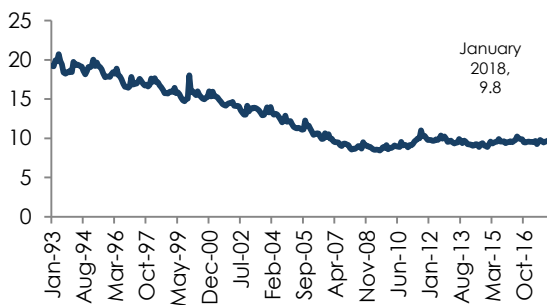
Source: SAMA

Figure 26: Composition of M3 money supply (% share)



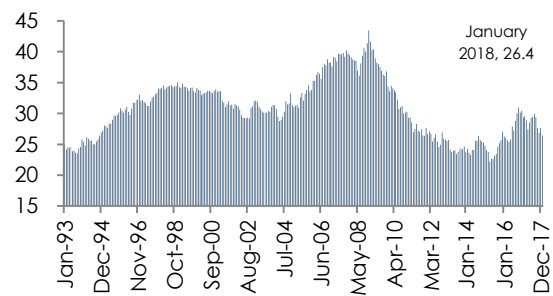
Source: SAMA

Figure 27: Currency Outside Banks (% share of M3)



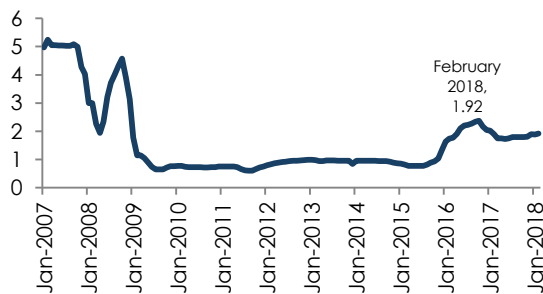
Source: SAMA

Figure 28: Time & Savings Deposits/Total Deposits (%)



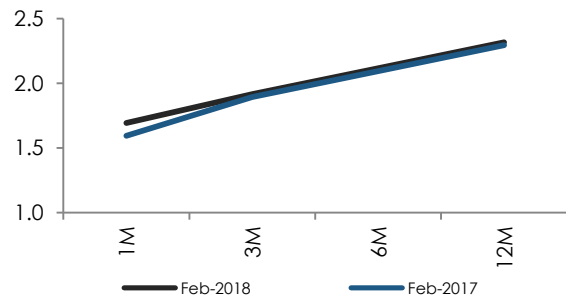
Source: SAMA

Figure 29: 3M SIBOR (%)



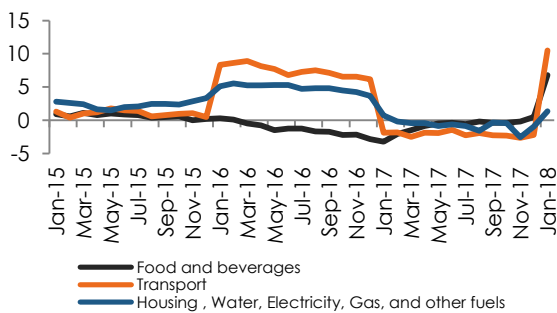
Source: SAMA

Figure 30: Short term interest rate curve (1w to 52 w)



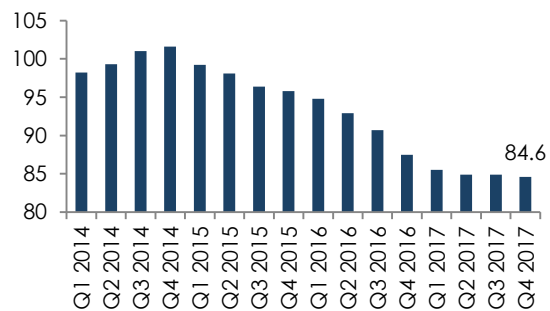
Source: SAMA

Figure 31: Inflation (major sub-indices)



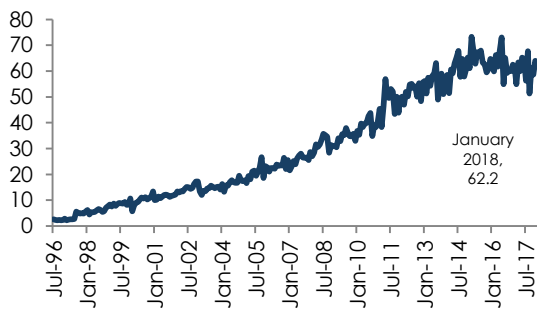
Source: SAMA

Figure 32: Real Estate Price Index (100=2013)



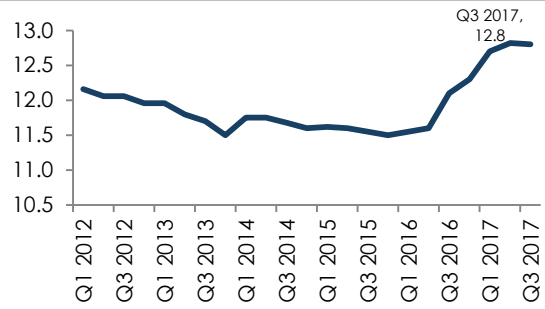
Source: General Authority for Statistics

Figure 33: ATM Cash Withdrawals (SAR bn)



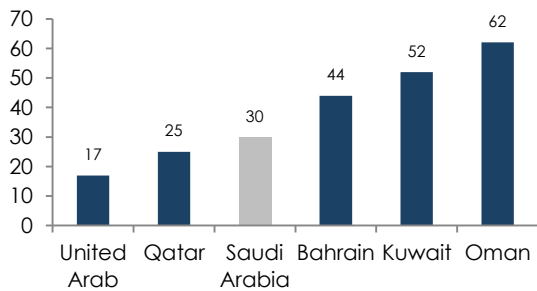
Source: SAMA

Figure 34: Saudi unemployment rate (%)



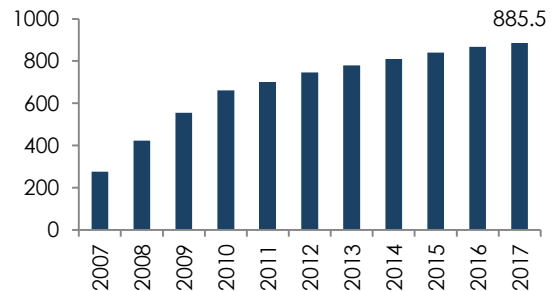
Source: Bloomberg

Figure 35: Competitiveness ranking/indicator



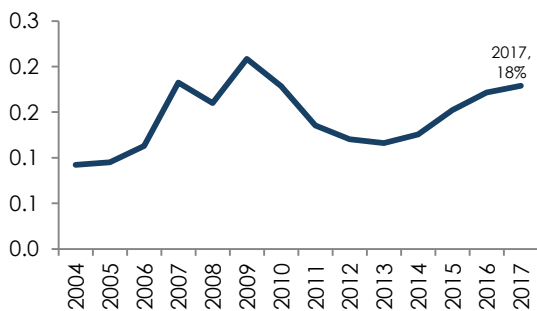
Source: World Economic Forum (2017-2018)

Figure 36: FDI (accumulated, SAR billions)



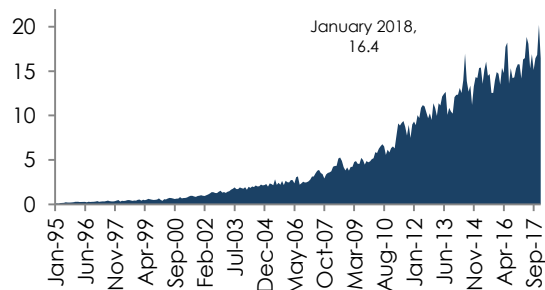
Source: SAMA

Figure 37: External debt-to-GDP (%)



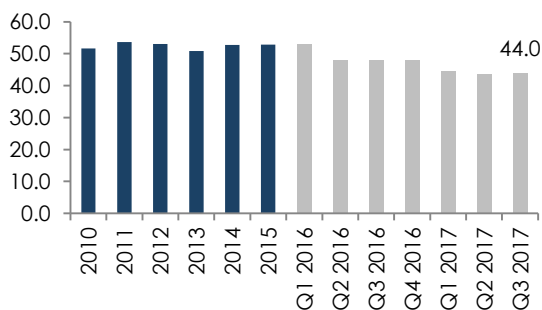
Source: International Monetary Fund

Figure 38: POS Transactions Sales (SAR bn)



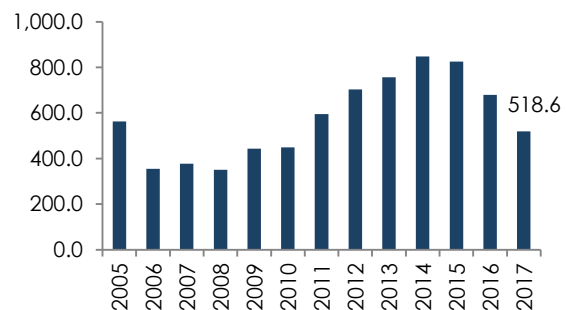
Source: SAMA

Figure 39: Mobile/Telecom Subscribers (mn)



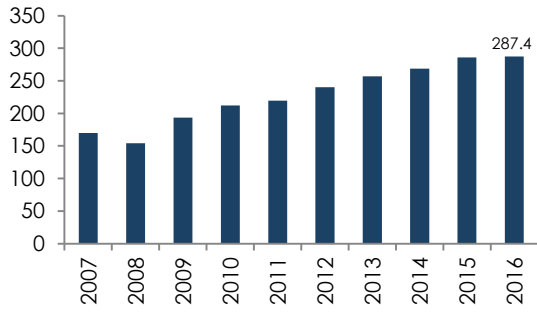
Source: Ministry of Communication and IT, Q3 2016 taken as average of Q2 and Q4 2016

Figure 40: Automobile Sales ('000s)



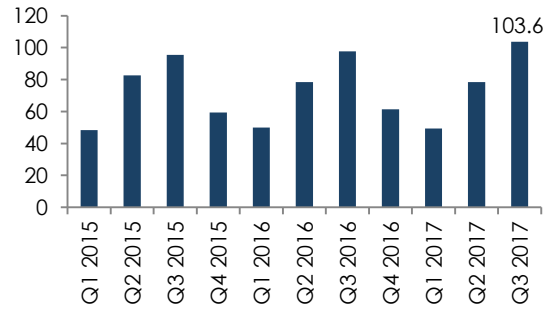
Source: Car Sales Base

Figure 41: Electricity Generation (TWh)



Source: Electricity and Cogeneration Regulatory Authority

Figure 42: Electricity Generation - Quarterly (TWh)



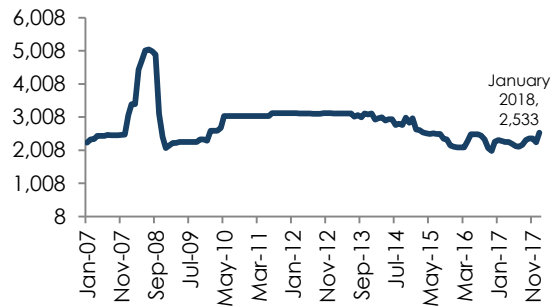
Source: Saudi Electric Company

Figure 43: Cement Prices (SAR, 50kg)



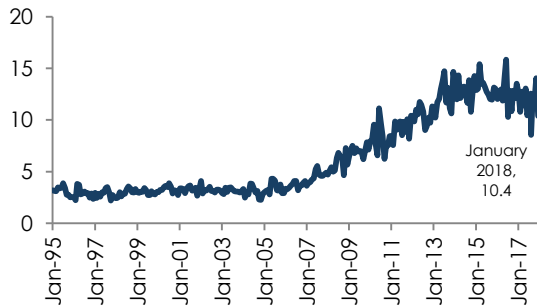
Source: General Authority of Statistics

Figure 44: Steel Prices (SAR/ton)



Source: General Authority of Statistics

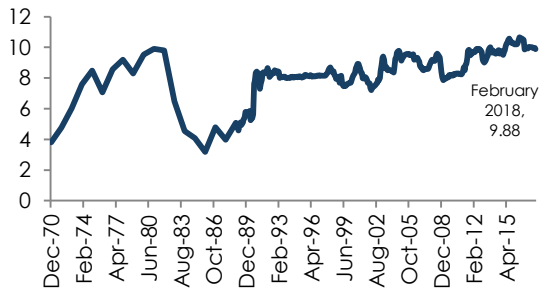
Figure 45: Expat Remittances (SAR bn)



Source: SAMA

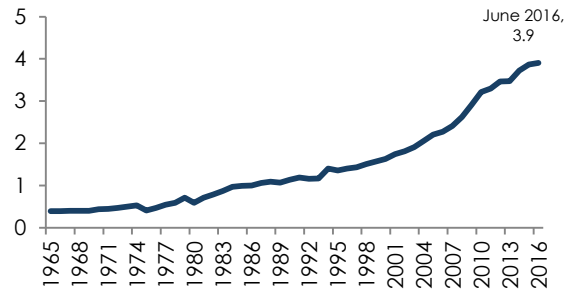
II. Oil Indicators

Figure 1: Saudi Oil Production (mbpd)



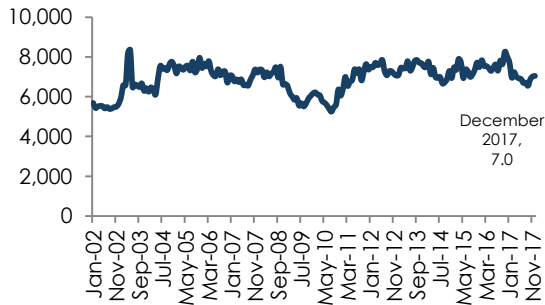
Source: Bloomberg

Figure 2: Saudi Domestic Consumption (mbpd)



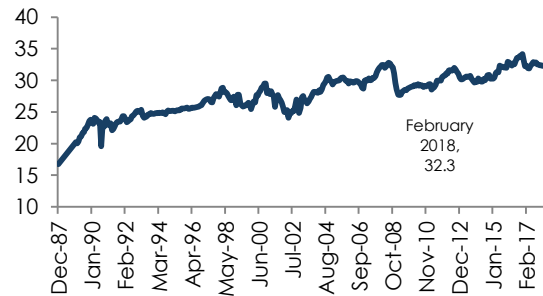
Source: Reuters Datastream

Figure 3: Saudi Oil Export (mbpd)



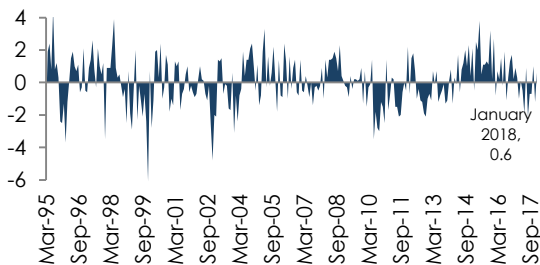
Source: Ministry of Petroleum, JODI,

Figure 4: OPEC Oil Production (mbpd)



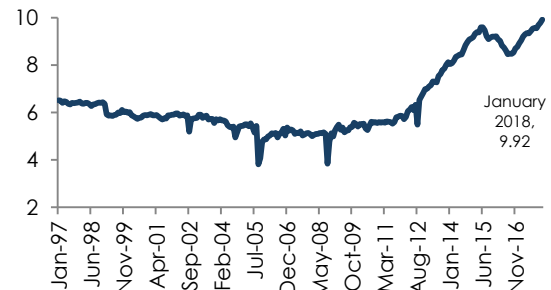
Source: Bloomberg

Figure 5: Global Oil Supply/Demand (mbpd)



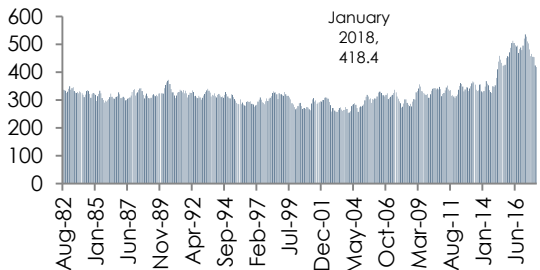
Source: Bloomberg

Figure 6: US Oil Production (mbpd)



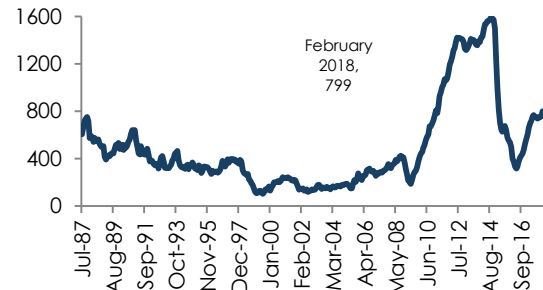
Source: Bloomberg

Figure 7: US Oil Inventory (mb)



Source: Reuters Eikon

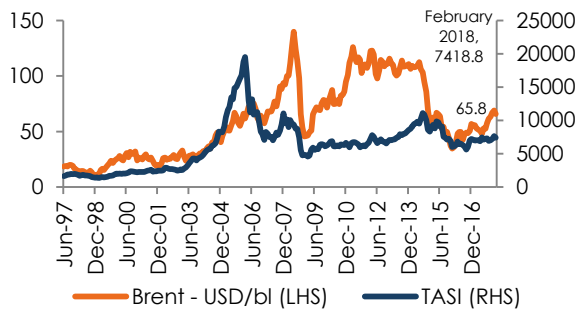
Figure 8: US Rig Count



Source: Bloomberg

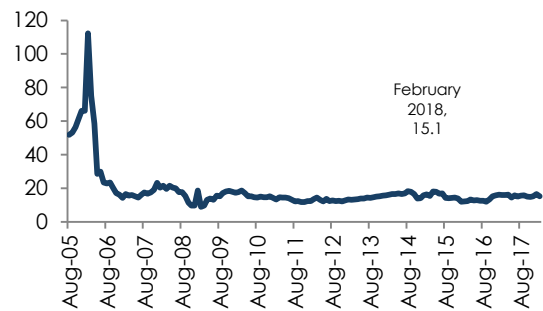
III. Stock Market Indicators

Figure 1: TASI and Oil



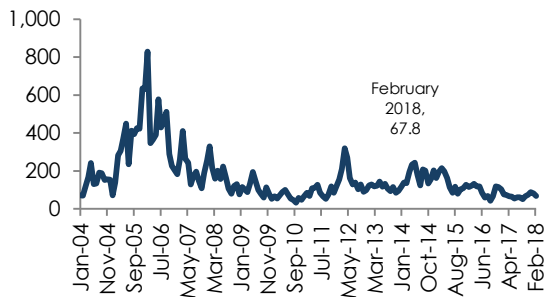
Source: Bloomberg

Figure 2: TASI Price-to-Earnings Ratio (x)



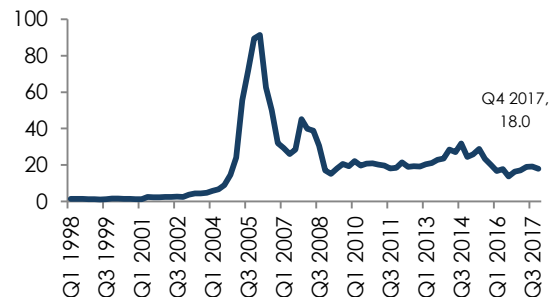
Source: SAMA, Tadawul

Figure 3: Stock Market Turnover (SAR bn)



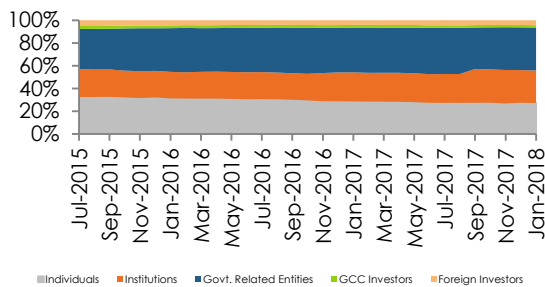
Source: Tadawul, SAMA

Figure 4: Domestic Shares held by Domestic Investment Funds (SAR bn)



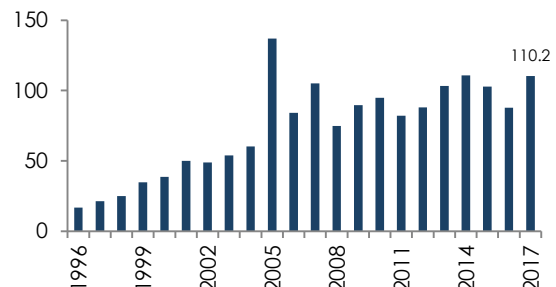
Source: SAMA

Figure 5: Share Ownership Status



Source: SAMA

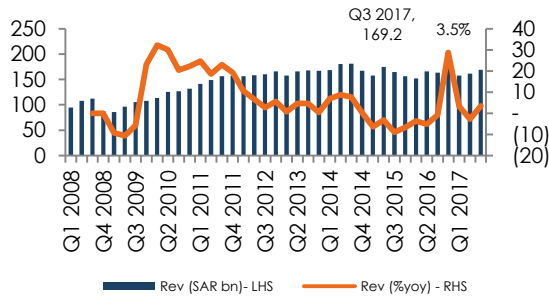
Figure 6: Total Assets of Investment funds (SAR bn)



Source: SAMA

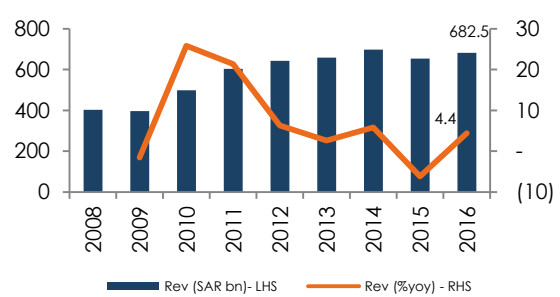
IV. Corporate earnings

Figure 1: TASI Revenue and YoY growth (Quarterly)



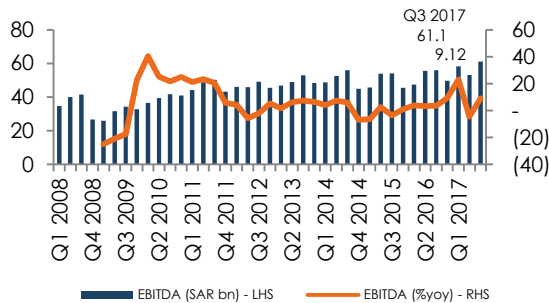
Source: Reuters Eikon

Figure 2: TASI Revenue and YoY growth (Annual)



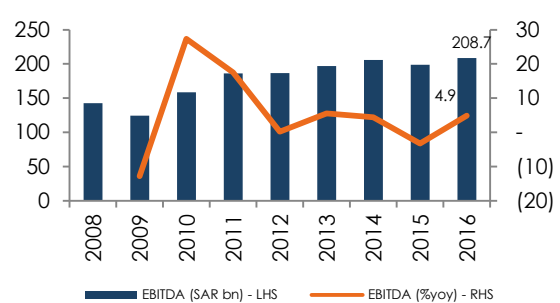
Source: Reuters Eikon

Figure 3: TASI EBITDA and YoY growth (Quarterly)



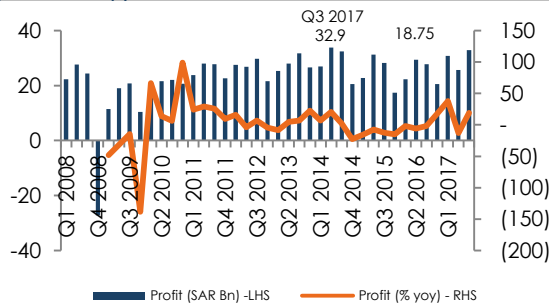
Source: Reuters Eikon

Figure 4: TASI EBITDA and YoY growth (Annual)



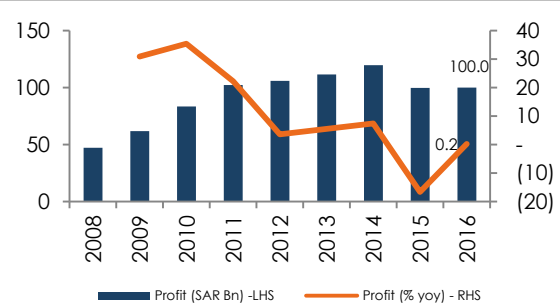
Source: Reuters Eikon

Figure 5: TASI PAT and YoY growth (Quarterly)



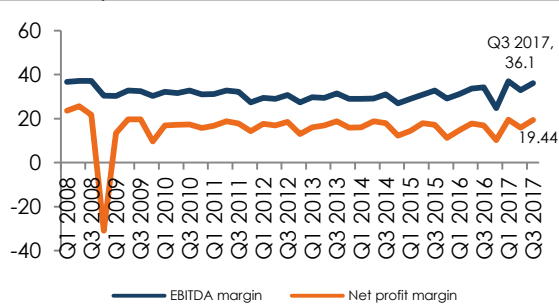
Source: Reuters Eikon

Figure 6: TASI PAT and YoY growth (Annual)



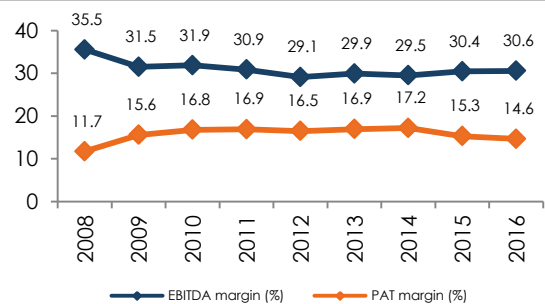
Source: Reuters Eikon

Figure 7: TASI EBITDA and PAT margin (%) - Quarterly



Source: Reuters Eikon

Figure 8: TASI EBITDA and PAT margin (%) - Annual



Source: Reuters Eikon

V. Tadawul Sector Earnings Performance

Earnings (SAR mn)	Market Cap (SAR mn)	Q3 2017	Q3 2016	Q2 2017	% YoY	% QoQ
Materials	570,283	8,702.4	7,908.4	6,077.1	10.0	43.2
Banks	505,673	11,374.1	9,951.1	11,324.0	14.3	0.4
Telecommunication Services	171,339	2,390.0	1,664.4	2,203.6	43.6	8.5
Real Estate	98,895	381.0	288.0	351.1	32.3	8.5
Utilities	86,472	5,300.6	4,434.4	2,269.4	19.5	133.6
Food, Beverage & Tobacco	82,222	1,585.0	952.1	1,011.0	66.5	56.8
Insurance	37,767	740.9	851.9	287.9	-13.0	157.3
Diversified Financials	36,104	261.5	134.3	227.2	94.7	15.1
Energy	34,839	784.9	118.9	486.8	560.4	61.2
Health Care	29,328	292.0	274.4	277.1	6.4	5.4
Retailing	26,606	295.9	348.3	275.6	-15.1	7.3
Transportation	13,894	232.9	355.7	314.2	-34.5	-25.9
Consumer Services	13,117	285.8	341.6	243.8	-16.3	17.2
Capital Goods	9,580	0.4	-33.9	28.2	-101.1	-98.7
Food & Staples Retailing	8,941	152.8	63.1	89.0	142.3	71.6
Commercial Services	8,074	125.9	137.7	118.2	-8.6	6.5
Media	6,537	17.9	-69.3	-16.0	-125.8	-212.1
Pharmaceuticals	3,516	7.9	6.8	46.6	17.3	-83.0
Consumer Durables & Apparel	3,062	-53.7	-40.5	-6.6	32.5	711.3
Total	1,748,249	32,878	27,687	25,608	18.7	28.4

Source: Bloomberg, MCap and results as of March 08, 2017

B. Saudi Arabia Key Statistics

Data	2011	2012	2013	2014	2015	2016	2017E	2018F
Economic Output								
Nominal GDP (USD bn)	669.5	734.0	744.3	753.8	653.2	646.4	678.5	708.5
Nominal GDP YoY (%)	27.1	9.6	1.4	1.3	-13.3	-2.1	5.0	6.1
Real GDP YoY (%)	10.0	5.4	2.7	3.6	3.4	1.2	1.9	2.7
Budget								
Revenue (SAR bn)	1117.8	1247.4	1156.4	1044.4	615.9	519.0	696.0	783.0
Oil Revenue (SAR bn)	1034.4	1144.8	1035.0	913.3	446.4	329.0	440.0	492.0
Non-oil Revenue (SAR bn)	83.4	102.6	121.3	131.0	169.5	190.0	256.0	291.0
Expenditure (SAR bn)	826.7	873.3	976.0	1109.9	978.1	830.0	926.0	978.0
Surplus/(Deficit) (SAR bn)	291.1	374.1	180.3	-65.5	-362.2	-311.0	-230.0	-195.0
Surplus/(Deficit) (% GDP)	11.6	13.6	6.5	-2.3	-15.0	-12.8	-8.9	-7.3
Gross Public Debt (SAR bn)	135.5	83.8	60.1	44.3	142.3	316.5	438.0	555.0
Gross Public Debt (% GDP)	5.4	3.0	2.2	1.6	5.9	12.3	17.0	21.0
Oil statistics								
Production (mbpd)	9.3	9.8	9.6	9.7	10.2	10.2	10.0	10.0
Exports (mb)	2634.6	2783.8	2763.3	2611.0	2614.5	2799.0	2540.4	2540.4
Domestic consumption (mb)	1321.4	1408.6	1423.8	1516.8	1586.5	1535.1	1583.2	1609.1
Trade & External sector								
Exports (US\$ bn)	364.7	388.4	375.9	342.4	203.6	183.6	239.8	242.2
Oil Exports (US\$ bn)	317.6	337.5	321.9	284.6	152.9	136.2	136.3	147.3
Imports (US\$ bn)	131.6	155.6	168.2	173.8	174.7	140.2	204.3	208.1
Trade surplus/(deficit) (US\$ bn)	233.1	232.8	207.7	168.6	28.9	43.4	35.5	34.1
Current Account (US\$ bn)	158.5	164.8	135.4	73.8	-56.7	-24.9	10.8	15.1
Current Account (% GDP)	23.7	22.4	18.2	9.8	-8.7	-3.9	1.5	2.0
SAMA forex reserves (US\$ bn)	544.0	656.6	725.7	732.4	616.4	535.8	496.4	NA
Inflation (%)								
	3.7	2.9	3.5	2.7	2.2	3.5	0.4	5.0
Demographics								
Population (mn)	28.4	29.2	30.0	30.8	31.4	31.7	32.7	33.3
Saudi unemployment rate (% population)	12.4	12.1	11.7	11.7	11.5	12.3	12.3	12.0

Source: SAMA, General Authority of Statistics, Reuters, IMF, MEFIC Research

Notes

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