



## Summary

**Real Economy:** Economic data for May was generally positive. Data on ATM withdrawals and point-of-sales transactions showed a seasonal increase. Cement sales and PMI data also showed a slight acceleration in activity.

**Government Finance:** The change in government accounts at SAMA posted its second consecutive net monthly addition, rising by SR13.1 billion in May.

**SAMA Foreign Reserve Assets:** In May, SAMA FX reserves rose for the first time in 16 months. This increase reflected, in part, the gradual recovery to oil prices, as well as more efficient spending by the government.

**Bank Lending and Liquidity:** The rapid growth in bank claims on the public sector continued in May. Growth in bank credit to the private sector rose month-on-month, but slowed slightly in year-on-year terms.

**Bank Deposits:** Total bank deposits continued to fall in May, pushing the loan-to-deposit ratio to 89.9 percent. This is likely to lead to SAMA increasing the maximum allowable loan-to-deposit ratio from its current 90 percent limit.

**Inflation:** Inflation continued to slow in May. Foodstuffs slowed despite the seasonal demand ahead of the holy month of Ramadan. This is unusual but may reflect effective monitoring of prices by authorities.

**Trade:** Latest data showed that both non-oil exports and imports fell in April following a rise in the previous month.

**Oil-Global:** Despite the impact of 'Brexit' on oil markets, which immediately drove oil prices down by around \$2 pb for four days, both Brent and WTI showed gains in June.

**Oil-Regional:** Saudi crude oil production was flat month-on-month in May, at 10.3 mbpd.

**Exchange Rates:** The UK pound fell by 12 percent against the US dollar immediately following the vote by the UK to leave the European Union (EU).

**Stock Market:** TASI shrugged off the negative effects of the 'Brexit', by posting a slim month-on-month rise of 1 percent in June.

**Volumes:** Turnover in the TASI was down 25 percent in June due to subdued trading as a result of Ramadan.

**Valuations:** The TASI's price-to-earnings (PE) have remained below its two year average since July 2015.

**Sectoral Performance:** The real estate and building & construction sectors were lifted by government's approval of a land tax on undeveloped land.

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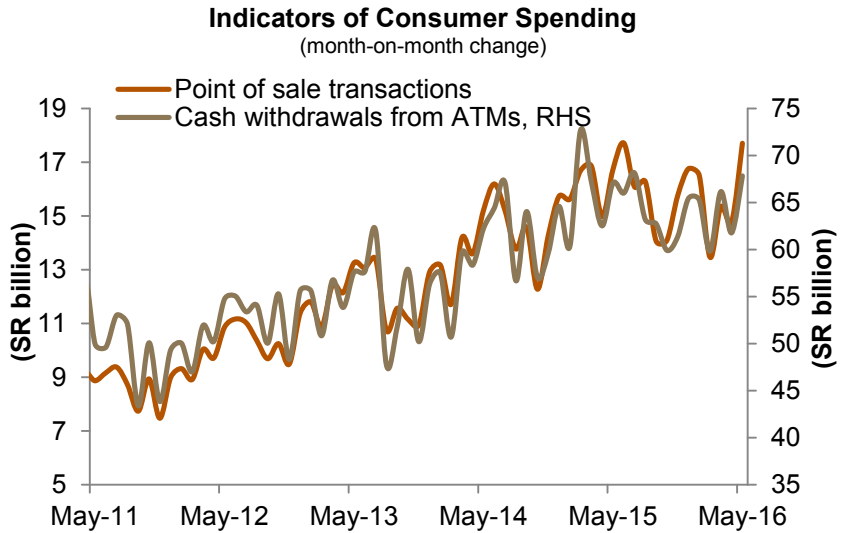
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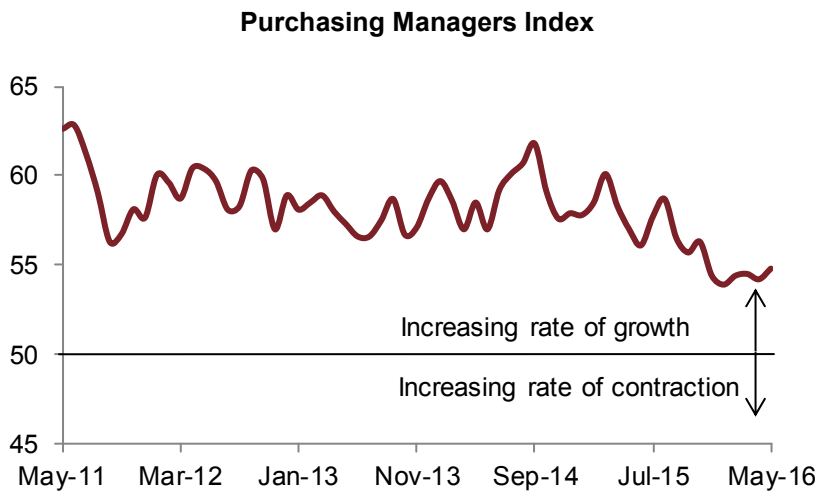
## Real Economy

Economic data for May showed a positive picture. Data on ATM withdrawals and point-of-sales transactions showed a monthly increase, reflecting a seasonal trend ahead of Ramadan. Cement sales also showed a slight increase in May, but is expected to post a seasonal slowdown in June.

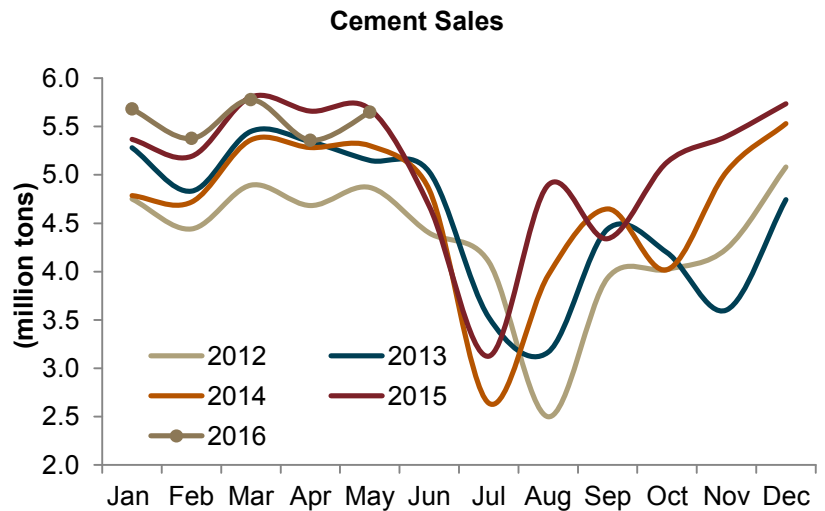
*Data on ATM withdrawals and point-of-sales transactions showed a monthly increase in May.*



*PMI rose to 54.8 in May following a slowdown in the previous month.*



*Cement sales grew by 300 tons in May, but is likely to fall in coming months due to slower seasonal activity in Ramadan.*



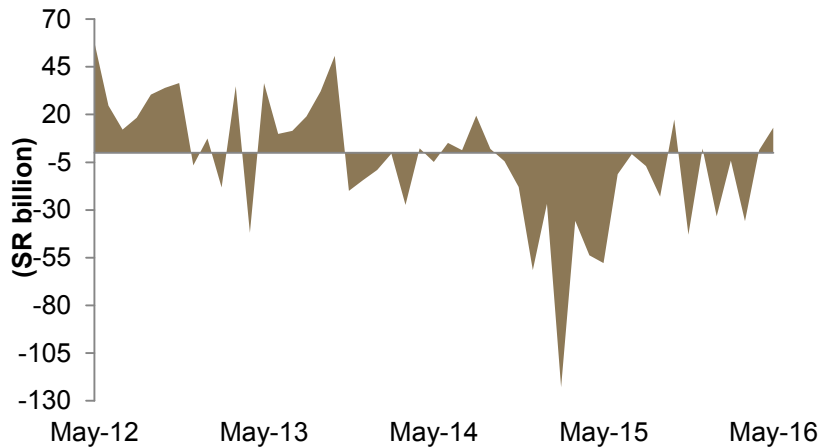


## Government Finance

The change in government accounts at SAMA posted its second consecutive net monthly addition, rising by SR13.1 billion in May. This was mainly through a net addition to government current deposits. The government continued to issue more bonds to domestic banks than earlier in the year.

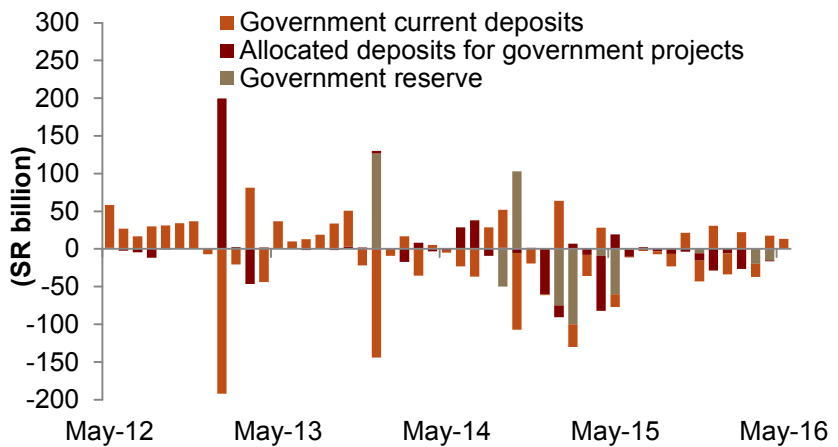
*In May, the net monthly addition to government accounts continued for the second consecutive month...*

**Government Accounts with SAMA**  
(month-on-month change)



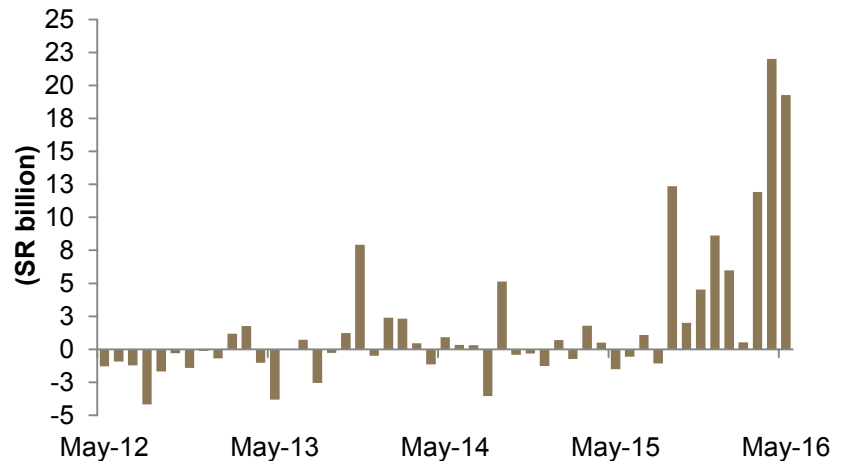
*...mainly owing to a net addition to government current deposits...*

**Breakdown of Government Accounts**  
(month-on-month change)



*...while the government continued to issue domestic bonds, with net bank holdings of government bonds rising by SR19.3 billion in May.*

**Bank Holdings of Government Bonds**  
(month-on-month change)



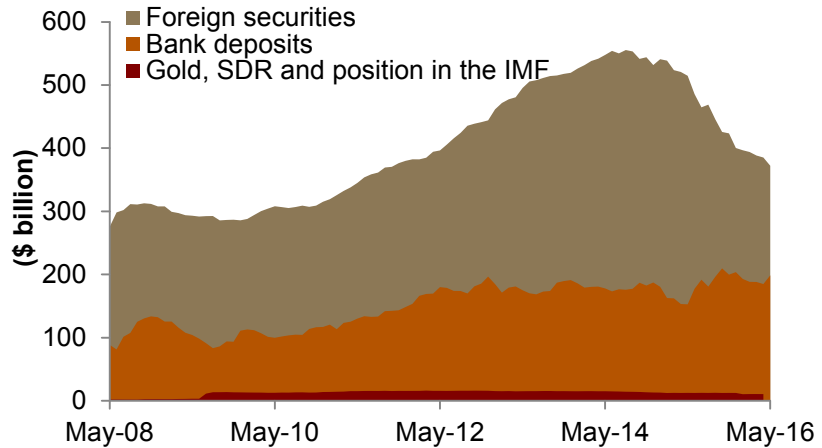


## SAMA Foreign Reserve Assets

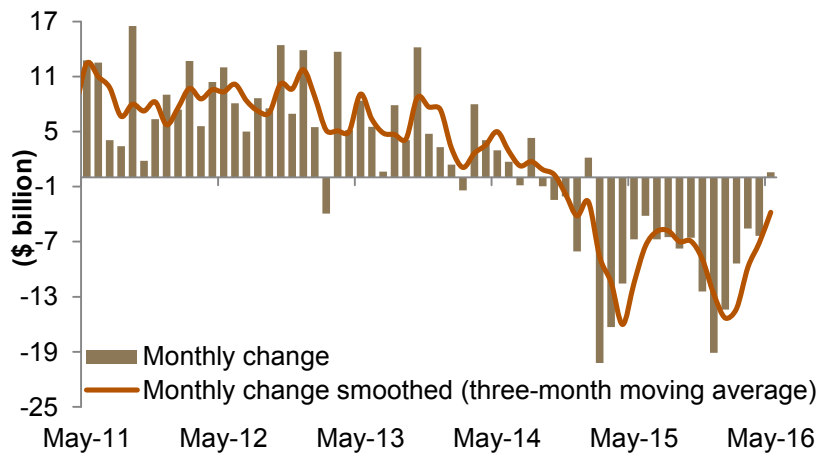
In May, SAMA FX reserves rose for the first time in 16 months to reach \$581.3 billion. The rise was small, at \$600 million, but reflected, in part, the progress of the new financing strategy to include debt issuance. It is also partially due to a rebound in oil export revenues.

*SAMA FX reserve assets reached \$581.3 billion in May...*

**SAMA Total Foreign Reserve Assets**



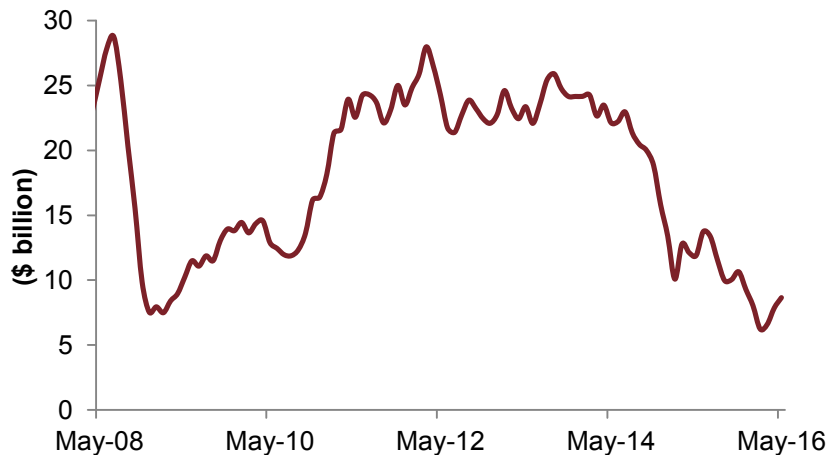
**Net Monthly Change to SAMA Foreign Reserve Assets**



*...rising for the first time in 16 months.*

**Monthly Oil Export Revenues**

(Jadwa Investment estimates)



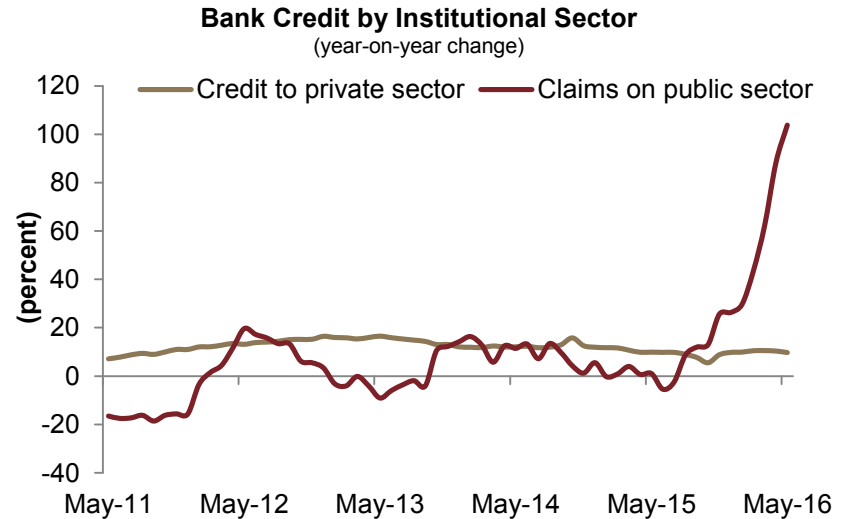
*An apparent recovery in oil export revenues as a result of rebounding oil prices, more efficient spending by the government, and the series of monthly government bond issuances helped reduce the pressure on FX reserve withdrawals.*



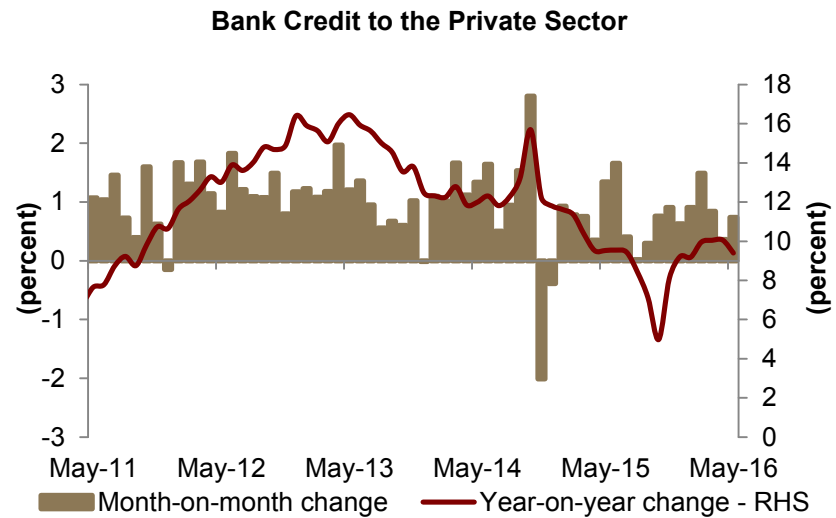
## Bank Lending and Liquidity

The rapid growth in bank claims on the public sector continued in May. Growth in bank credit to the private sector rose, month-on-month, but slowed slightly in year-on-year terms. Our estimate of bank excess liquidity showed a net monthly decline of SR27 billion in May, reaching SR235.2 billion.

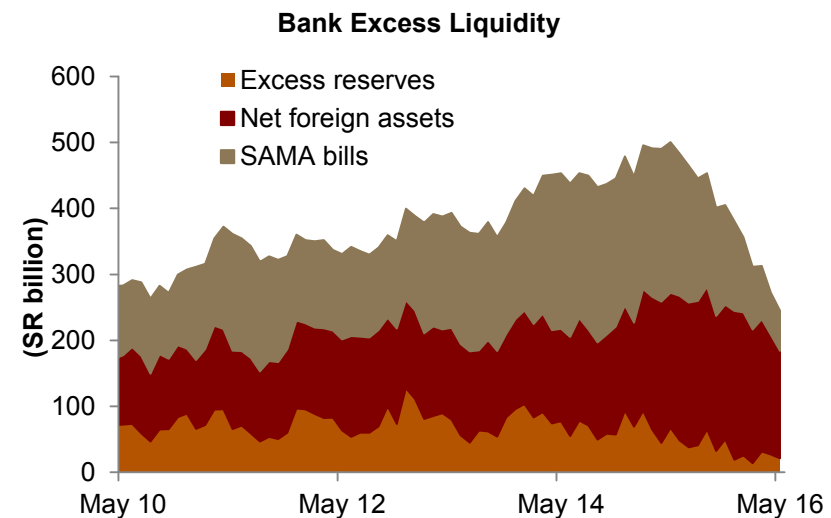
*Bank claims on the public sector rose by 104 percent, year-on-year (7.6 percent month-on-month) in May.*



*Growth in credit to the private sector rose to 0.7 percent month-on-month, but slowed to 9.4 percent year-on-year.*



*Our estimate of bank excess liquidity showed that banks still enjoy healthy liquidity levels at SR235.2 billion, though it is steeply falling from its May 2015 peak of SR500.6 billion.*

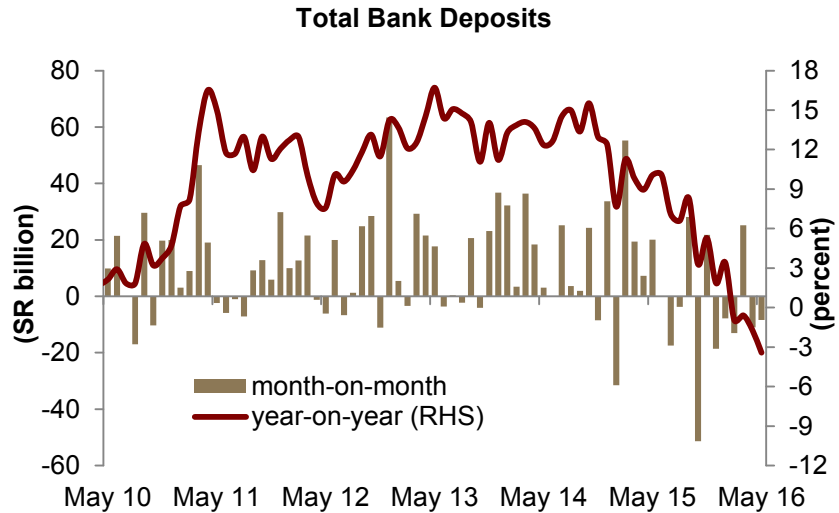




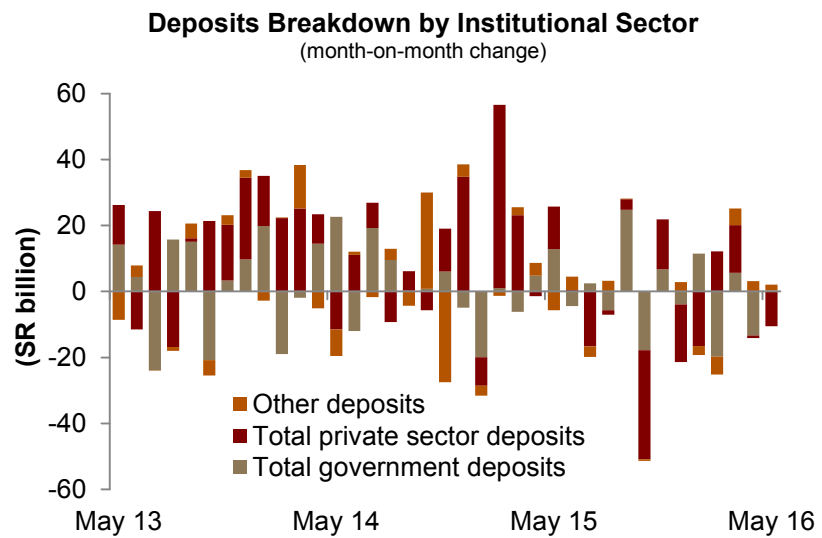
## Bank Deposits

Total bank deposits continued to fall in May. The main source for this decline was a net withdrawal from private sector deposits, whereas there was a net addition to government deposits. The continued fall in deposits pushed the loan-to-deposit ratio to 89.9 percent. This will likely lead SAMA to soon increase the regulated loan-to-deposit ratio from its current 90 percent limit.

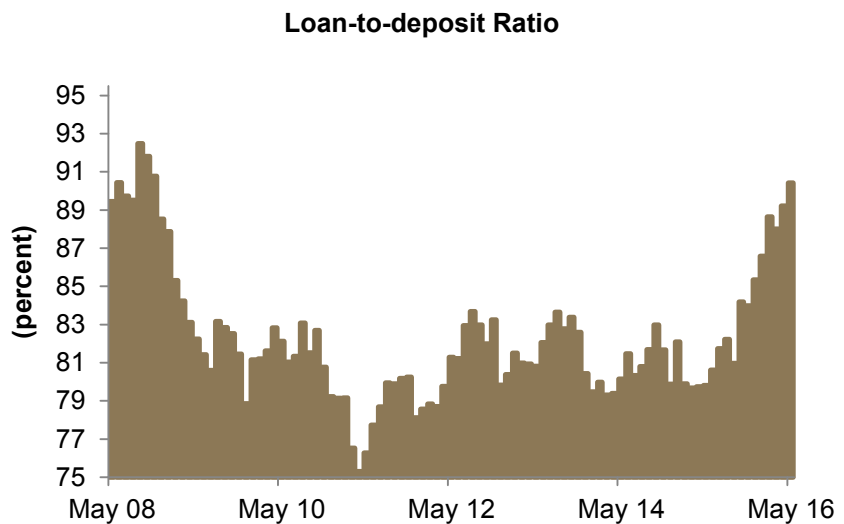
Total deposits declined by SR8.4 billion, month-on-month in May, falling for the second consecutive month.



The decline was mainly due to private sector deposit withdrawals, which fell by SR10.5 billion.



The loan-to-deposit ratio rose to 89.9 percent, its highest level since November 2008.

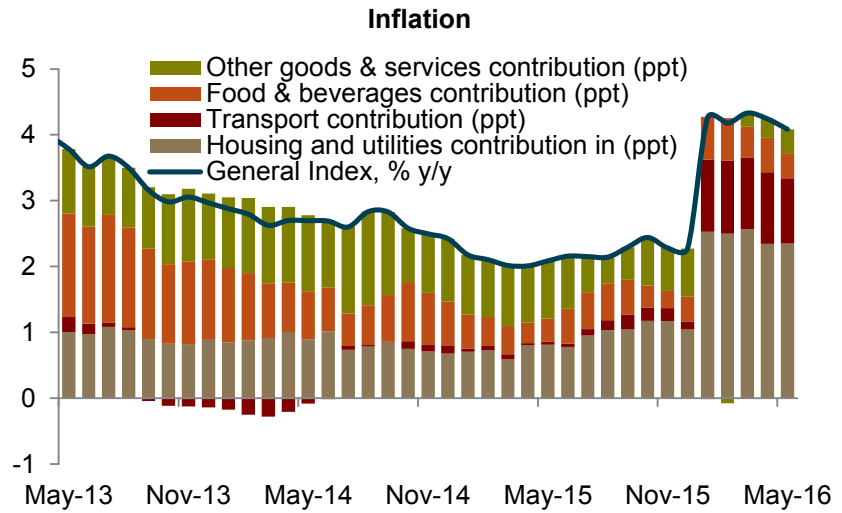




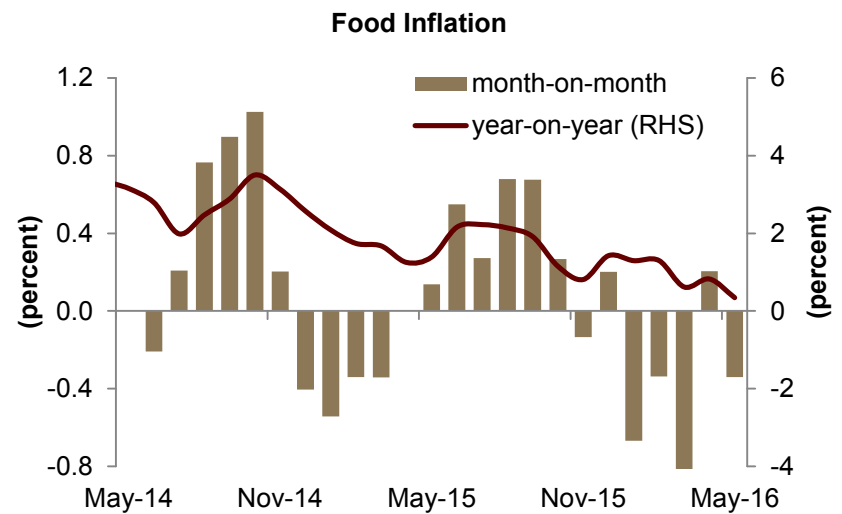
## Inflation

Inflation continued to slow in May. Foodstuffs slowed despite the seasonal demand ahead of the holy month of Ramadan. This is unusual but may reflect effective monitoring of prices by authorities. Further, the deflationary trend in international food prices continued to subside.

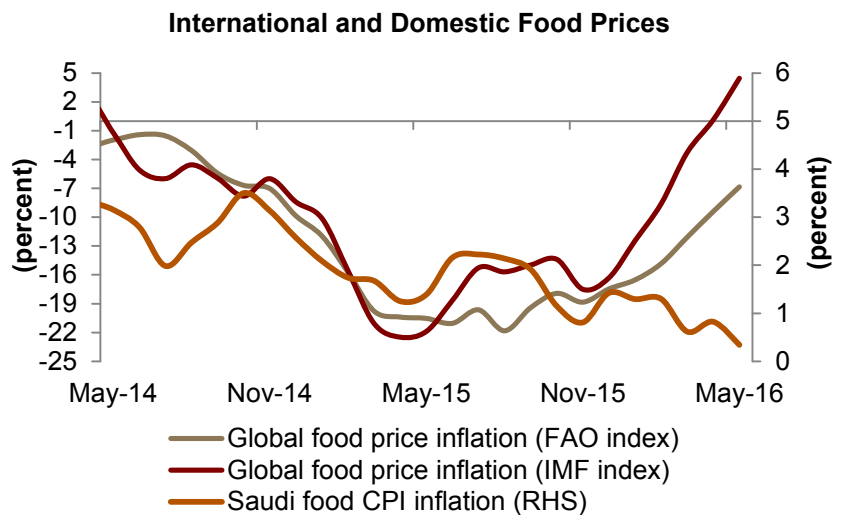
*Inflation continued to slow, reaching 4.1 percent in May.*



*Food inflation was negative, month-on-month despite the seasonal demand ahead of Ramadan...*



*...meanwhile, the deflationary trend in international food prices continued to diminish.*

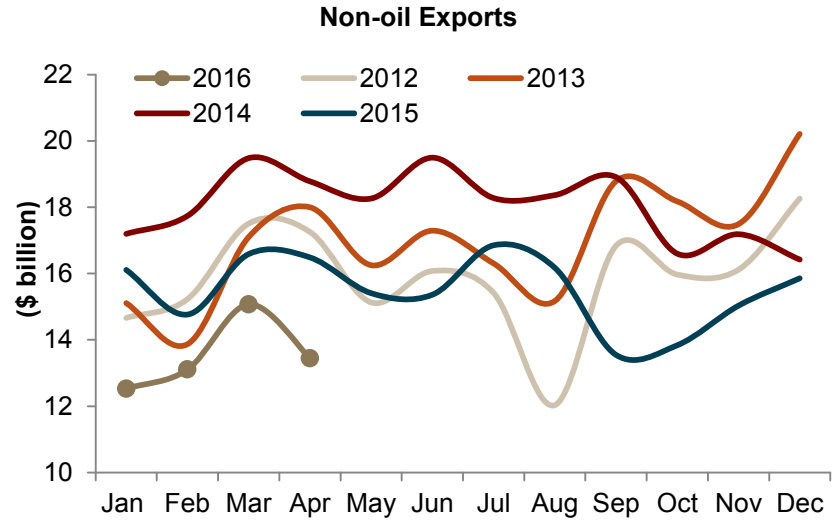




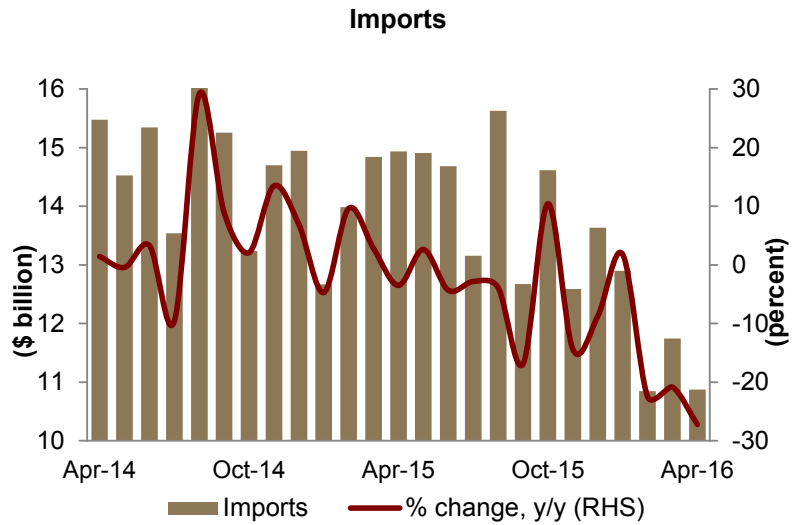
## Trade

Latest data showed that both non-oil exports and imports fell in April following a rise in the previous month. A breakdown of non-oil trade by region showed that the Kingdom enjoyed a small trade surplus with GCC countries, while the non-oil trade deficit with European and East Asian economies remained large.

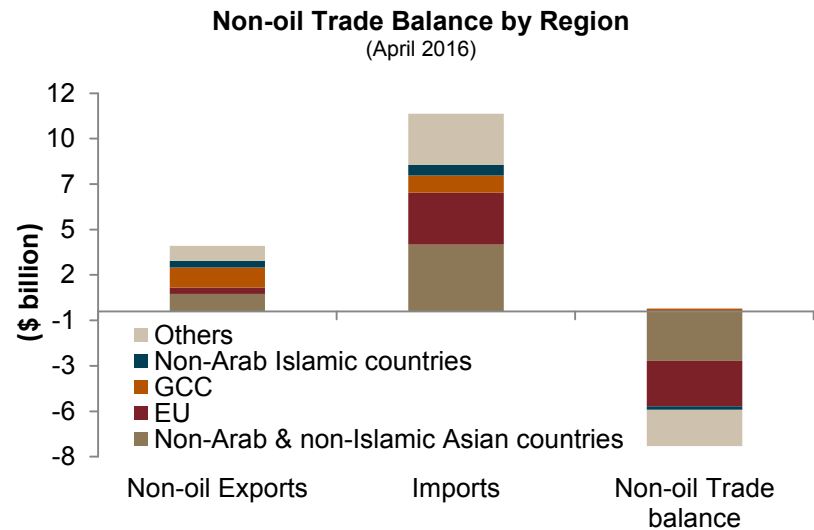
*In April, non-oil exports fell, month-on-month from \$4 billion to \$3.6 billion.*



*Imports fell by \$0.9 billion, month-on-month. In year-on-year terms, imports declined by 27.2 percent.*



*In April, The kingdom enjoyed a small non-oil trade surplus with GCC countries (\$0.5 billion).*





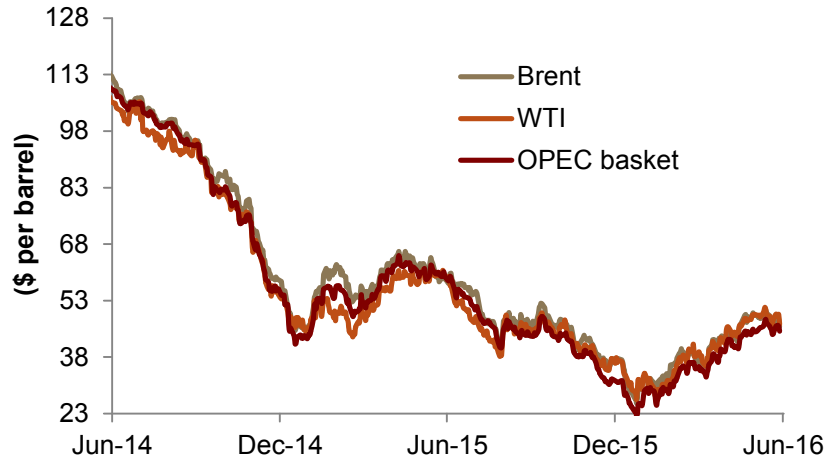


## Oil - Global

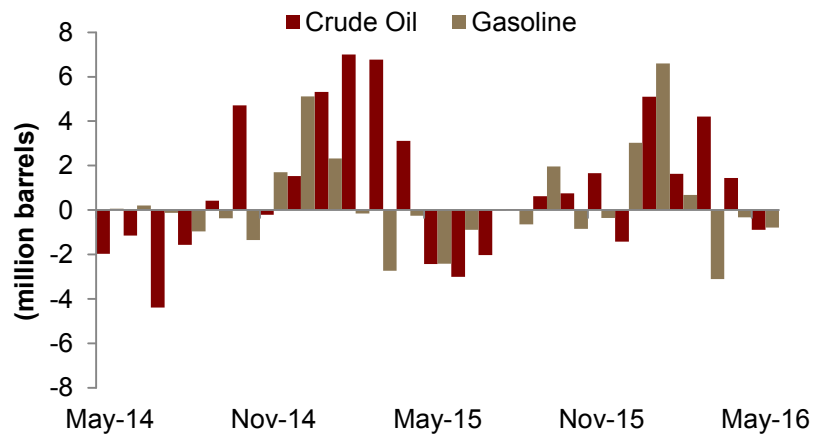
Despite the impact of 'Brexit' on oil markets, which immediately drove oil prices down by around \$2 pb for four days, both Brent and WTI showed gains in June. Brent was up 2 percent whilst WTI was up 4 percent month-on-month as continued temporary outages and rising demand, particularly from the US, helped tighten oil markets.

*WTI averaged \$49 pb in June, \$1 pb higher than Brent...*

**Oil Prices**

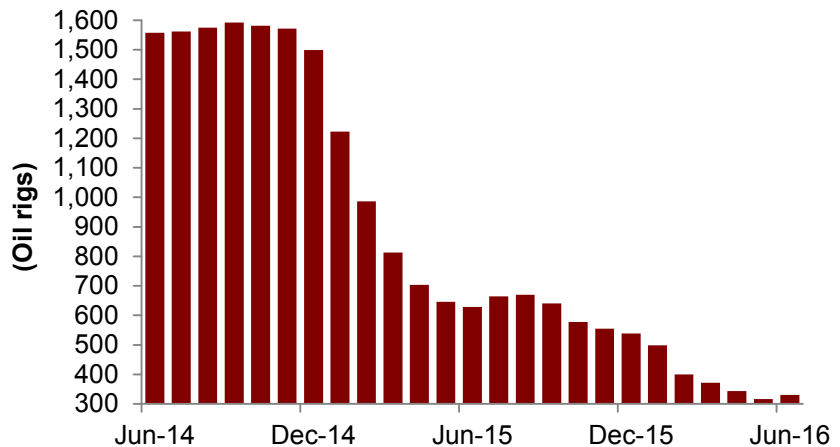


**Change in US Commercial Crude and Gasoline Stocks**  
(average month-on-month change)



*...as strong demand in US led to monthly declines in both crude oil and gasoline commercial stocks...*

**US Oil Rig Count**  
(total at month end)



*...whilst the US oil rig count remains close to record lows, despite edging up slightly.*

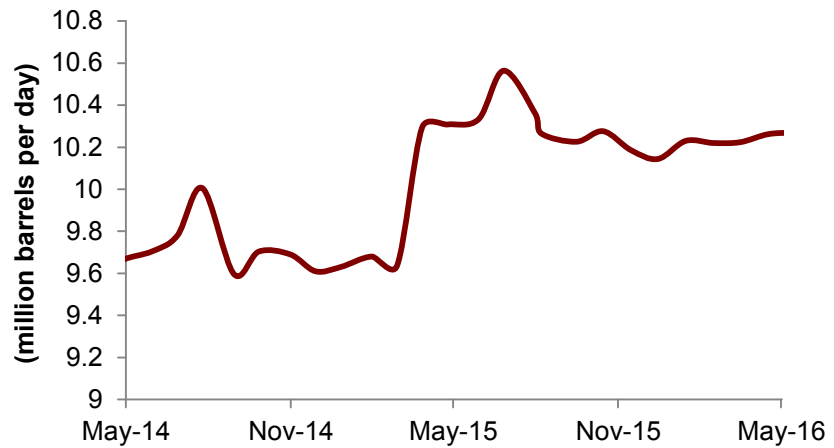


## Oil - Regional

Saudi crude oil production was flat month-on-month in May, at 10.3 mbpd. Meanwhile, Iranian crude oil production is close to pre-sanctions levels whilst Venezuela is finding it difficult to reverse long term declines in production. Latest available data shows that Saudi crude oil refined product exports are at record highs of 1.5 mbpd.

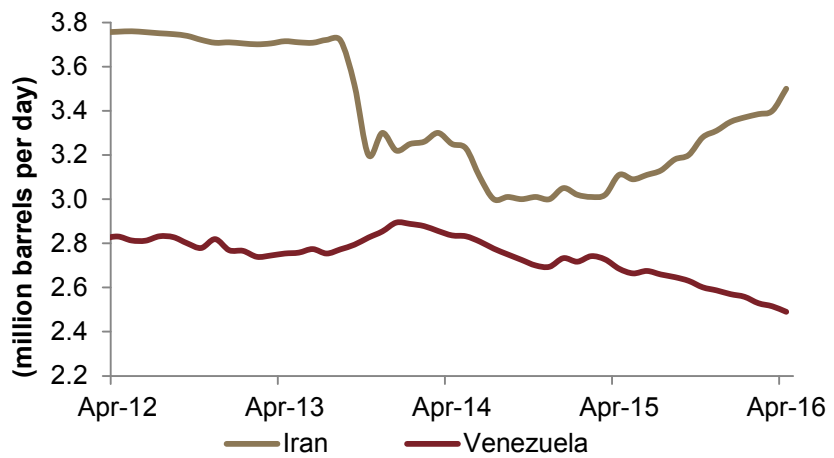
*Saudi production has been flat recently but we expect some rises during the summer months.*

**Saudi Crude Oil Production**

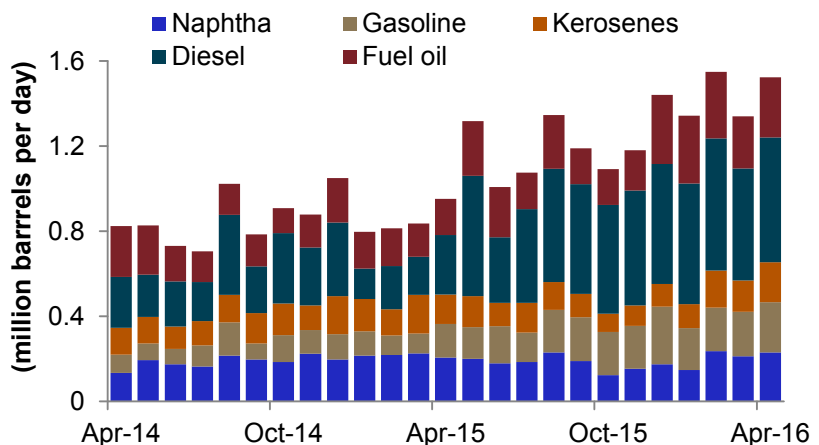


*Iranian production is close to pre-sanction levels meaning less rapid rises in OPEC production going forward.*

**Iran and Venezuela Crude Oil Production**



**Saudi Crude Oil Refined Product Exports by Type**



*Meanwhile, latest available data shows Saudi crude oil refined product exports are at record highs of 1.5 mbpd.*



## Exchange Rates

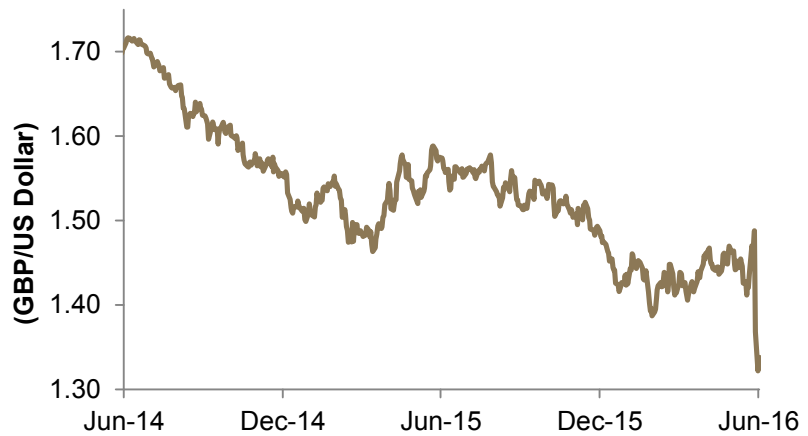
The UK pound fell by 12 percent against the US dollar immediately following the vote by the UK to leave the European Union (EU), resulting in a drop to levels last seen in the mid-1980s. The euro also fell slightly amid elevated volatility but, by contrast, safe haven currencies such as the yen and dollar benefited.

*The UK pound is likely to trade at lower levels against the dollar for the short-to-medium term...*

*...whilst the euro could fall sharply depending on the economic and political impact of 'Brexit' on the EU.*

*As investors take a risk-off approach safe haven assets, such as the Japanese yen, are likely to benefit.*

**British Pound/US Dollar**



**Euro/US Dollar**



**US Dollar/Yen**



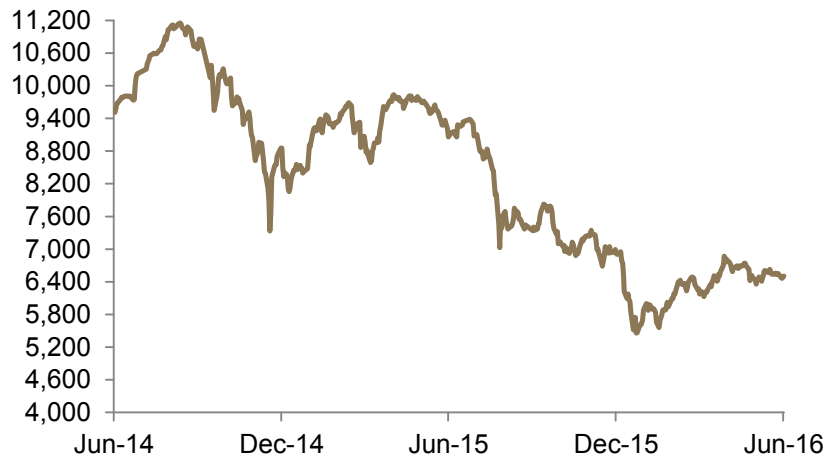


## Stock Market

TASI shrugged off the negative effects of the 'Brexit', with only small decline initially after the event, by posting a slim month-on-month rise of 1 percent in June as better oil prices helped to improve investor sentiment. The fallout from 'Brexit' has been more considerable for developed markets.

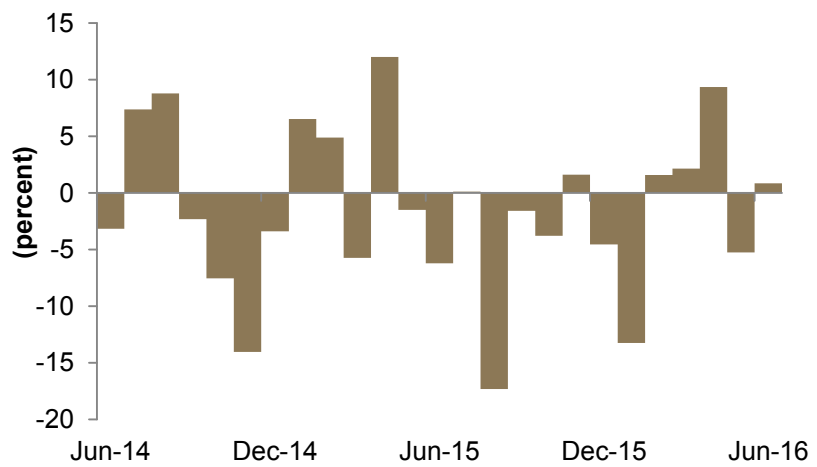
*The TASI has shrugged off the negative effects of the 'Brexit'...*

**TASI**



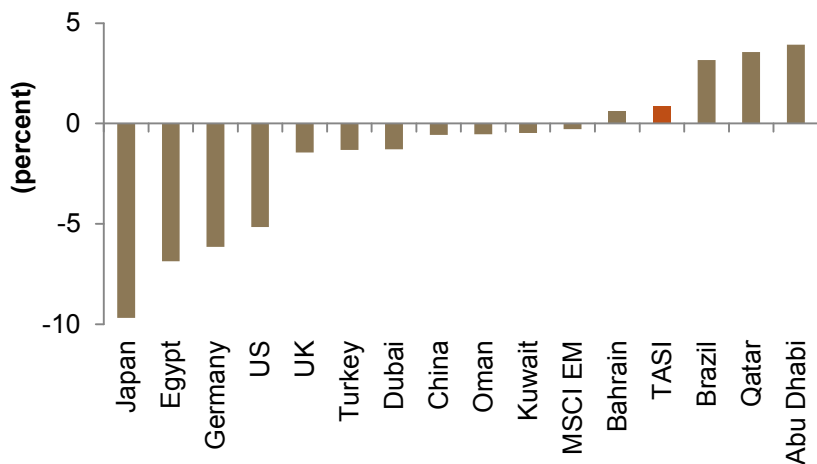
*...by posting a month-on-month rise of 1 percent in June...*

**TASI Monthly Performance**  
(month-on-month change)



*...with the fallout from 'Brexit' more considerable for developed markets.*

**Comparative Stock Market Performance**  
(monthly performance from 1st June 2016)



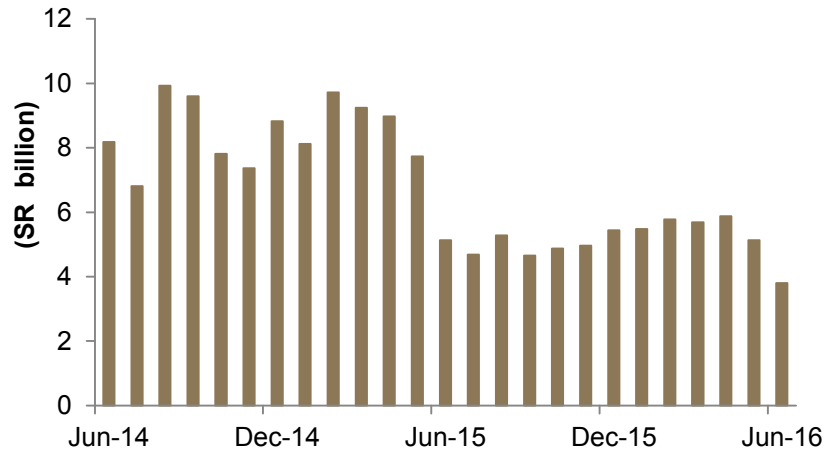


## Volumes

Turnover in the TASI was down 25 percent in June due to subdued trading as a result of Ramadan, in line with historical trends. Most sectors saw turnover below their year-to-date average in June although speculative activity was still apparent in smaller sectors.

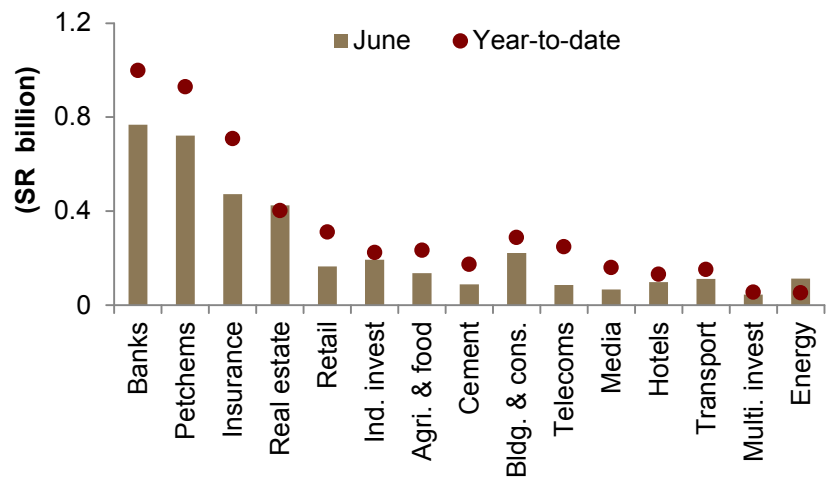
*TASI turnover was down 25 percent, month-on-month in June due to subdued trading in Ramadan.*

**Daily average stock market turnover**



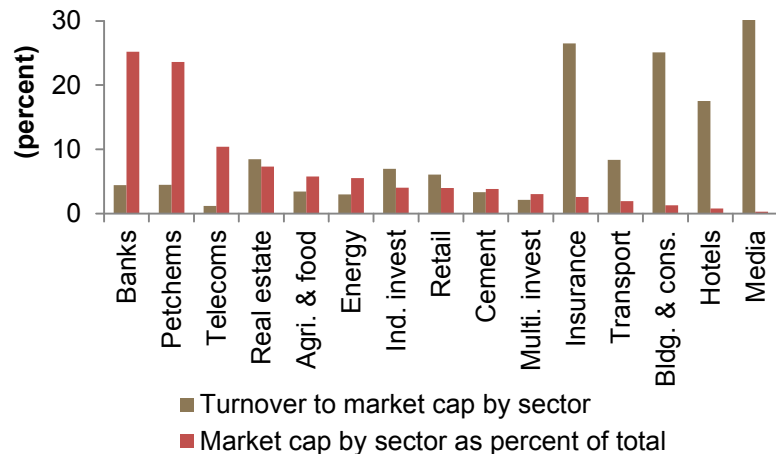
*Most sectors saw lower average turnover in June...*

**Turnover by sector (daily average)**



*...although speculative activity was still apparent, evidenced by larger turnover in smaller sectors.*

**Turnover as percent of market cap (June, 2016)**

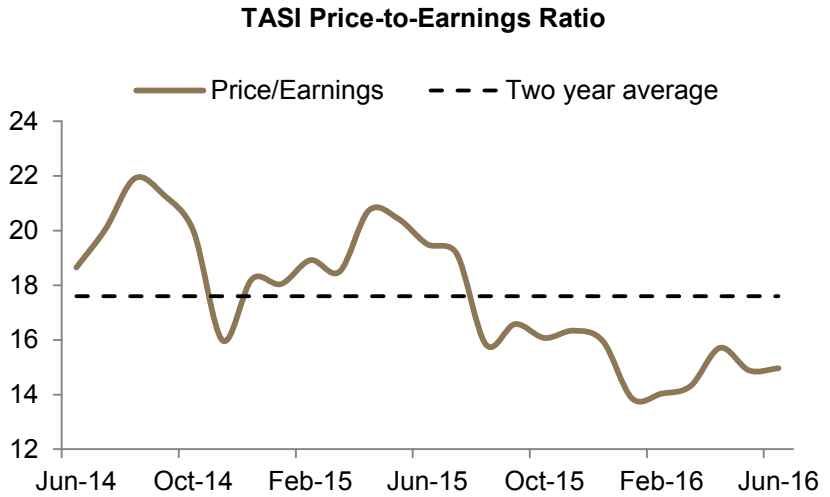




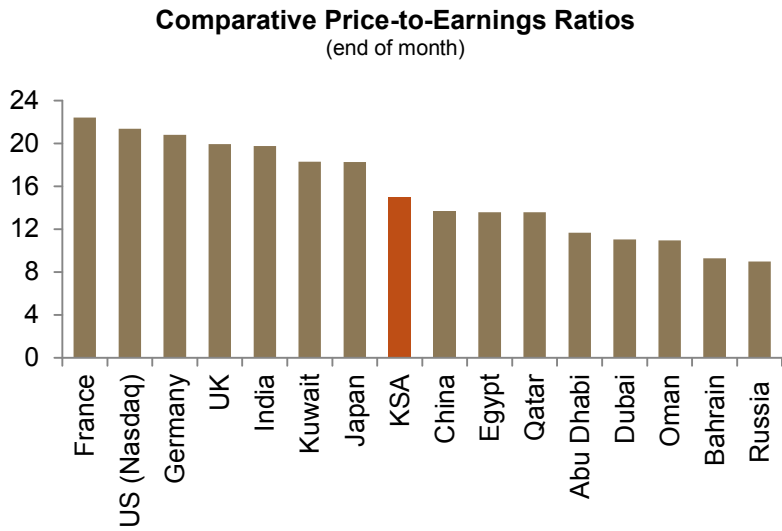
## Valuations

The TASI's price-to-earnings (PE) were flat in June, month-on-month. PE has remained below its two year average since July 2015, having stabilized recently. TASI's PE and dividend yield remains competitive against emerging markets and in line with regional averages.

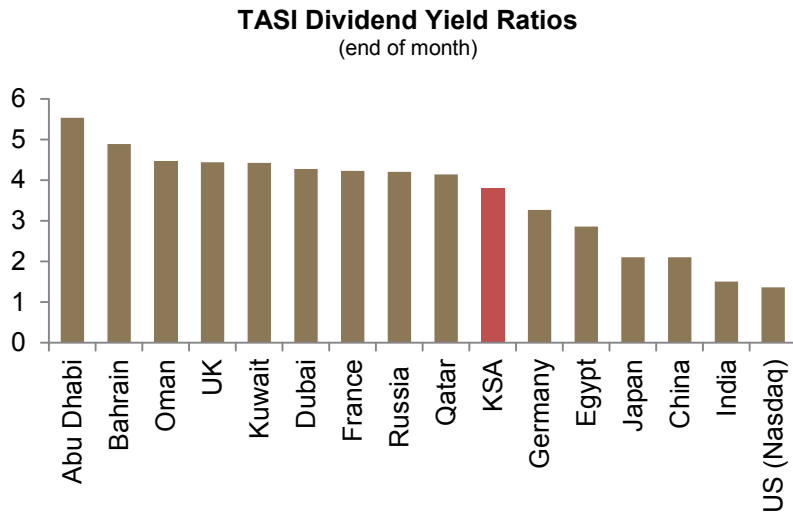
*PE is still trending below the two year average...*



*...bringing it more in line with emerging markets...*



*...which is also the case with dividend yield.*

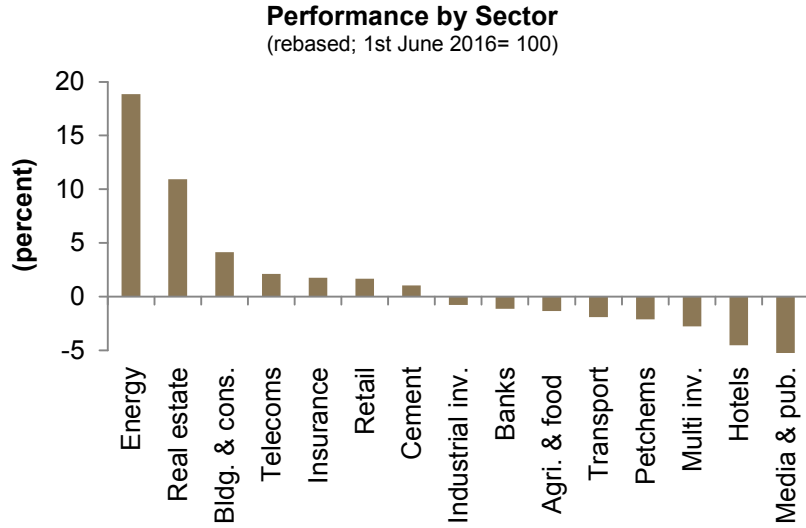




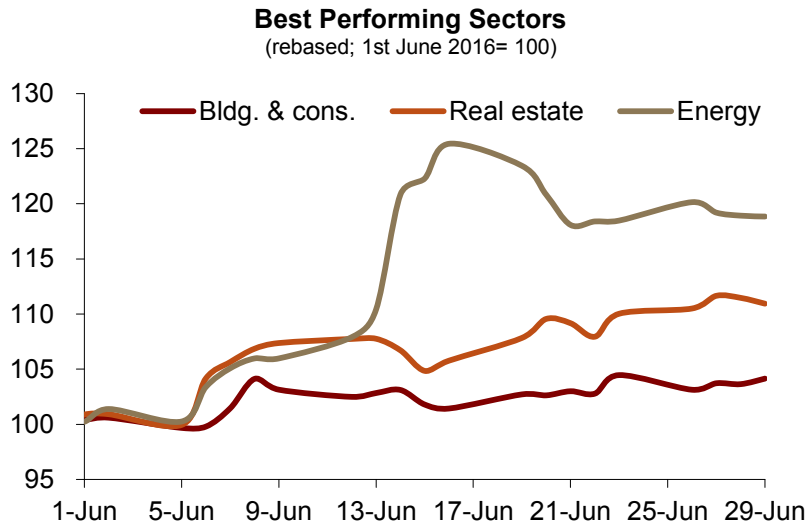
## Sectoral Performance

Seven out of 15 sectors recorded positive performances in June. The energy sector's performance was boosted by a rise in seasonal demand, whilst real estate and building & construction were lifted by government's approval of a land tax on undeveloped land.

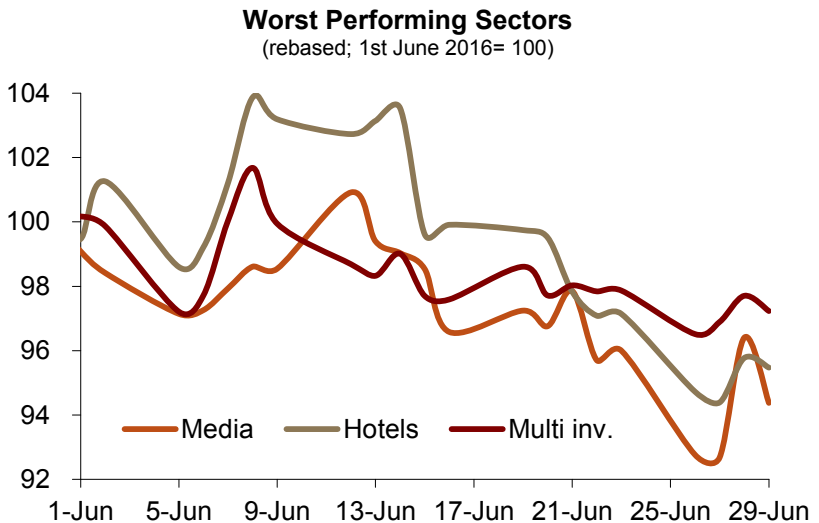
Seven out of 15 sectors recorded positive performances in June.



The energy sector was boosted by seasonal demand, whilst real estate and building & construction were lifted by government's approval of a land tax on undeveloped land.



A modest decline was recorded amongst poorer performing sectors.





## Key Data

	2009	2010	2011	2012	2013	2014	2015	2016F	2017F
<b>Nominal GDP</b>									
(SR billion)	1,609	1,976	2,511	2,752	2,791	2,827	2,423	2,368	2,629
(\$ billion)	429.1	527	670	734	744	754	646	632	701
(% change)	-17.4	22.8	27.1	9.6	1.4	1.3	-14.3	-2.2	11.0
<b>Real GDP (% change)</b>									
Oil	-8.0	-0.1	12.2	5.1	-1.6	2.1	4.0	0.9	2.1
Non-oil private sector	4.9	9.7	8.0	5.5	7.0	5.4	3.4	2.4	2.8
Government	6.3	7.4	8.4	5.3	5.1	3.7	2.5	2.1	2.1
Total	1.8	4.8	10.0	5.4	2.7	3.6	3.5	1.7	2.4
<b>Oil indicators (average)</b>									
Brent (\$/b)	61.7	79.8	112.2	112.4	109.6	99.4	52.1	43.8	54.5
Saudi (\$/b)	60.4	77.5	103.9	106.1	104.2	95.7	49.4	40.8	51.5
Production (million b/d)	8.2	8.2	9.3	9.8	9.6	9.7	10.2	10.2	10.5
<b>Budgetary indicators (SR billion)</b>									
Government revenue	510	742	1,118	1,247	1,156	1,044	616	578	659
Government expenditure	596	654	827	873	976	1,111	978	861	869
Budget balance	-87	88	291	374	180	-67	-362	-283	-210
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.4	-15.0	-12.0	-8.0
Domestic debt	225	167	135	99	60	44	142	263	433
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	5.9	11.1	16.5
<b>Monetary indicators (average)</b>									
Inflation (% change)	4.1	3.8	3.7	2.9	3.5	2.7	2.2	3.9	4.6
SAMA base lending rate (% , year end)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.3	3.0
<b>External trade indicators (\$ billion)</b>									
Oil export revenues	167	215	318	337	322	285	155	129	157
Total export revenues	192	251	365	388	376	342	202	179	212
Imports	87	97	120	142	153	158	155	147	148
Trade balance	105	154	245	247	223	184	47	32	64
Current account balance	21	67	159	165	135	74	-53	-56	-27
(% GDP)	4.9	12.7	23.7	22.4	18.2	9.8	-8.3	-8.8	-3.9
Official reserve assets	410	445	544	657	726	732	616	519	451
<b>Social and demographic indicators</b>									
Population (million)	26.7	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.4
Saudi unemployment (15+, %)	10.5	10.5	12.4	12.1	11.7	11.7	11.5	11.4	11.2
GDP per capita (\$)	16,095	19,211	23,766	25,401	25,146	24,878	20,828	19,912	21,638

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. General Authority for Statistics and Jadwa estimates for oil, social and demographic indicators.





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