



Summary

Real Economy: June data showed resilience in economic activity. Data on point-of-sale transactions and ATM withdrawals came out strong, while the non-oil PMI continued to reflect an expanding non-oil economy.

Quarterly GDP Growth: Data on Q1 real GDP growth showed that the economy expanded by 1.5 percent, year-on-year. Growth was mainly due to a positive contribution from the oil sector, while non-oil government GDP contracted for a second consecutive quarter.

Government Finance: The monthly change to government accounts returned to negative territory in June following two consecutive net monthly additions.

SAMA Foreign Reserve Assets: In June, SAMA foreign reserves fell by \$11.2 billion, its fastest monthly decline in six months, reaching \$570 billion.

Bank Lending: Growth in bank credit to the private sector slowed slightly in June, in line with the slower seasonal activity during the month of Ramadan.

Bank Deposits: Total bank deposits rose in June following two consecutive monthly declines. The loan-to-deposit ratio rose to 90 percent, which leads us to believe that SAMA will further ease the limit.

Inflation: Inflation remained unchanged at 4.1 percent in June. The contribution from foodstuffs, housing, and transport declined, while other components saw an increase in their contribution towards overall inflation.

Oil-Global: Both Brent and WTI crude benchmarks were down in July due to concerns over rising inventory levels.

Oil-Regional: Higher production from a number of member countries saw OPEC production reach near record levels in June.

Exchange Rates: Despite the US Federal Reserve not increasing interest rates at the end of the month, the dollar nevertheless maintained its strength against most currencies.

Stock Market: The TASI declined in July, month-on-month, as lower oil prices trumped some positive surprises from listed company results.

Volumes: Turnover in the TASI was flat month-on-month in July with lower seasonal trading apparent during the holiday season.

Valuations: The TASI's price-to-earnings (PE) were flat in July, month-on-month.

Sectoral Performance: The overall weaker performance of the TASI during the month was also reflected in the individual sectoral performance.

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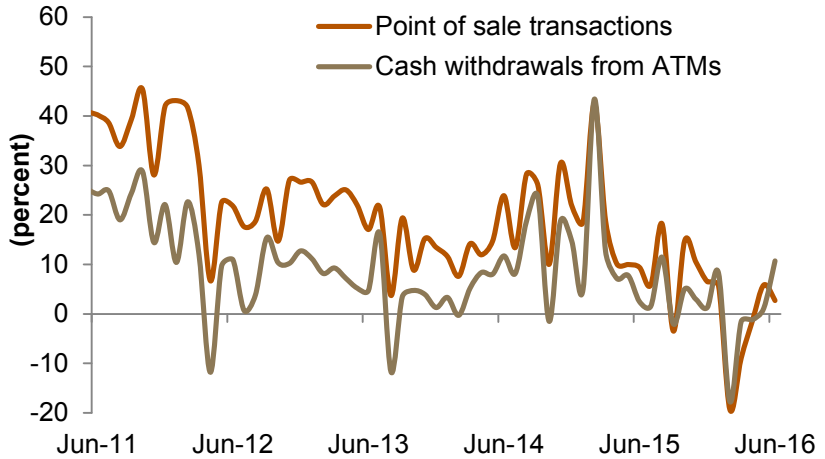


Real Economy

June data showed resilience in economic activity. Data on point-of-sale transactions and ATM withdrawals came out strong, while the non-oil PMI continued to reflect an expanding non-oil economy. A monthly decline in cement sales and production reflected a seasonal slowdown during the month of Ramadan.

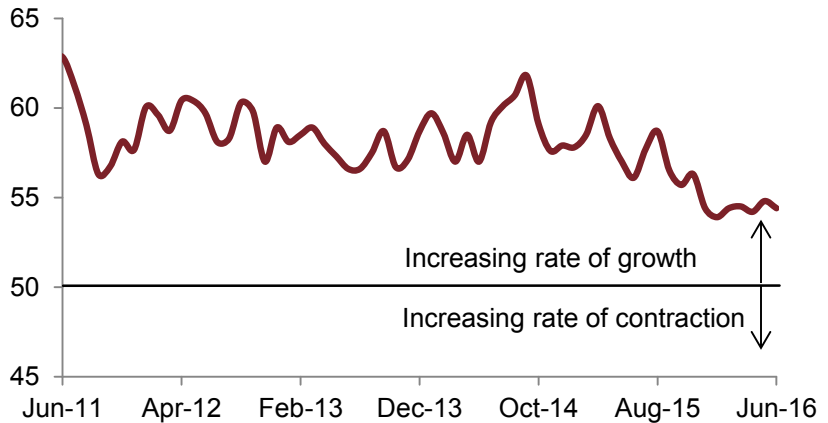
Year-on-year growth in cash withdrawals from ATMs rose from 1.1 percent in May to 10.7 percent in June.

Indicators of Consumer Spending
(month-on-month change)



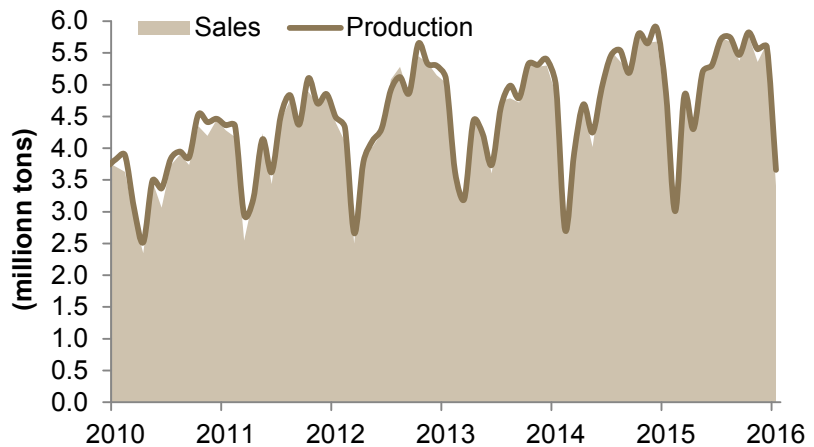
The non-oil PMI slowed marginally to 54.4 in June, but continued to point to an expanding non-oil economy.

Purchasing Managers' Index



The monthly decline in cement sales (-2.2 million tons) and production (-1.9 million tons) was mainly due to lower seasonal activity during the month of Ramadan.

Cement Sales and Production

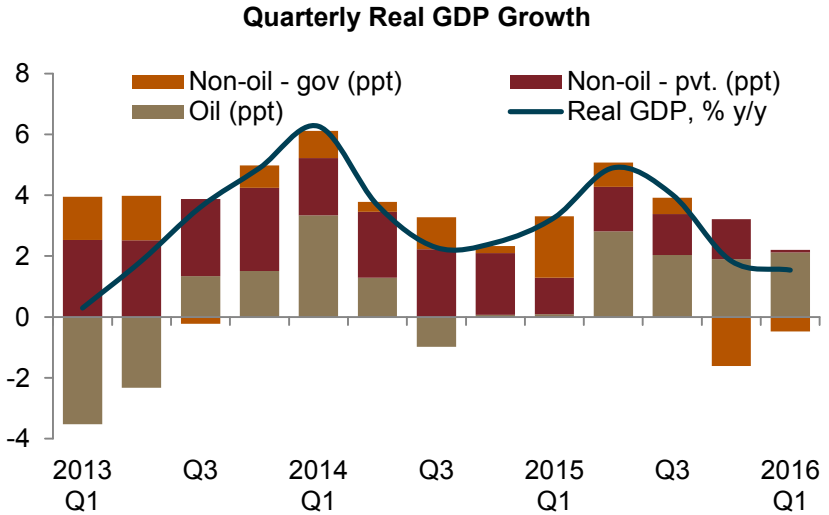




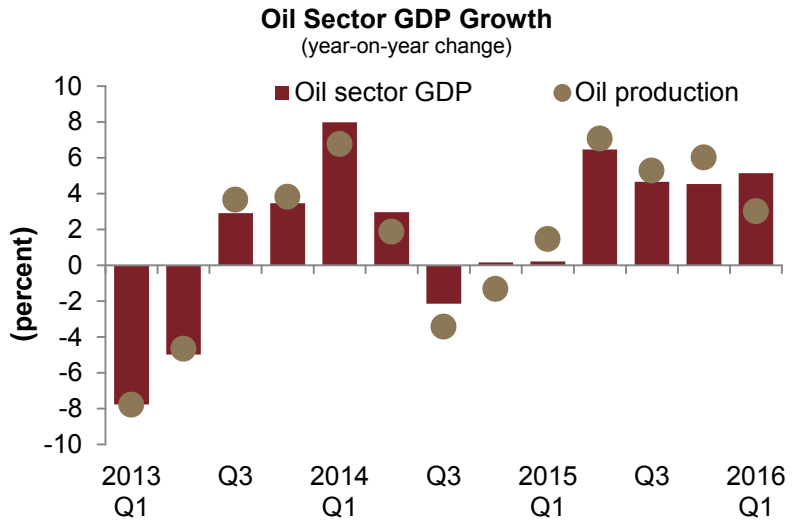
Quarterly GDP Growth

Data on Q1 real GDP growth showed that the economy expanded by 1.5 percent, year-on-year. Growth was mainly due to a positive contribution from the oil sector, while non-oil government GDP contracted for a second consecutive quarter, reflecting the impact of fiscal consolidation. GDP by kind of economic activity points to a general slowdown in most sectors within the non-oil economy.

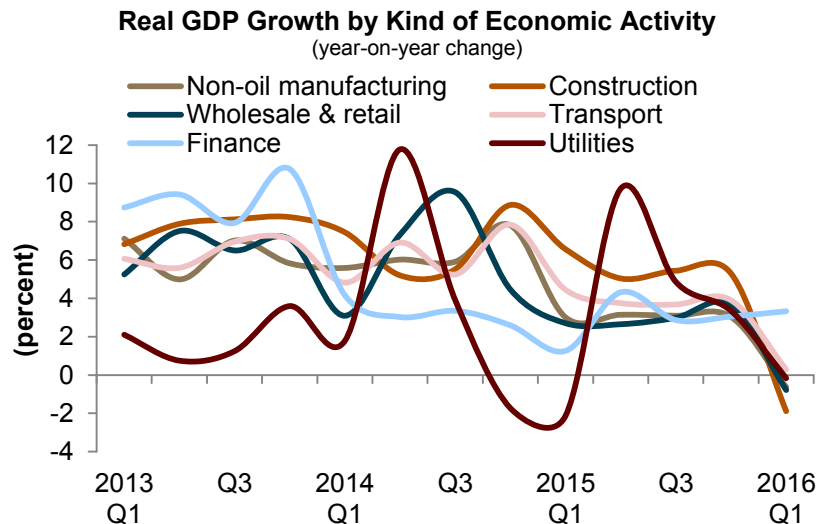
Real GDP growth reached 1.5 percent in Q1 2016, slowing from 1.8 percent in the previous quarter.



The main contribution to GDP growth came from the oil sector, which rose by 5.1 percent, year-on-year.



Most sectors within the non-oil economy saw a slowdown in their growth rates during Q1, with annual growth turning negative in the construction, wholesale & retail, and utilities sectors.





Government Finance

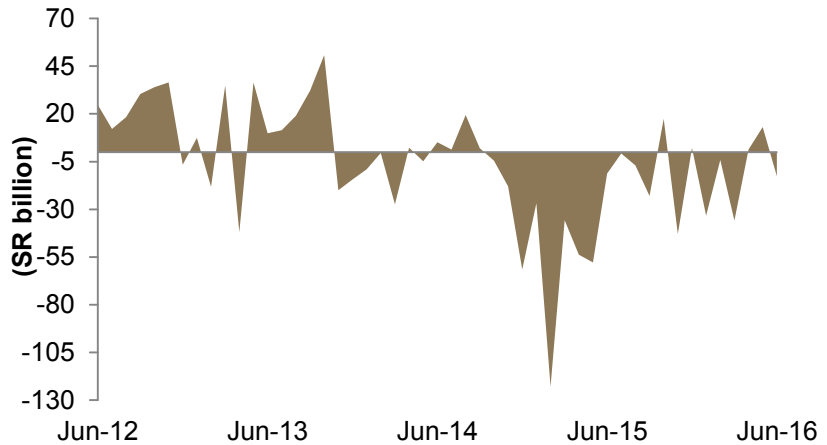
The monthly change to government accounts returned to negative territory in June following two consecutive net monthly additions. Nevertheless, the withdrawals remain significantly lower than those witnessed in the outset of the oil price decline up until Q1 2016. The main source for the June net withdrawal came from government deposits.

The net monthly change to government accounts showed a net withdrawal of SR12.7 billion in June. This is small compared with a -SR22 billion average net monthly withdrawal over the 12 month period ending in March 2016.

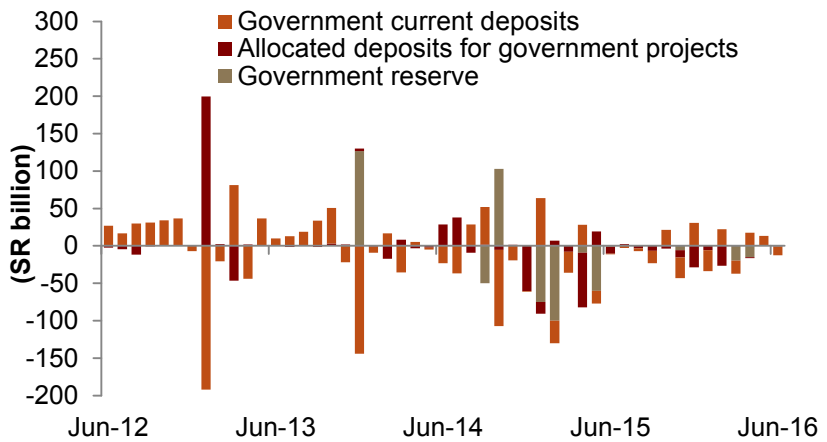
The main source for this net withdrawal came from government deposits, falling by SR11.9 billion.

On a net basis, the government issued less bonds in June (SR 3.1 billion) compared to the previous four months.

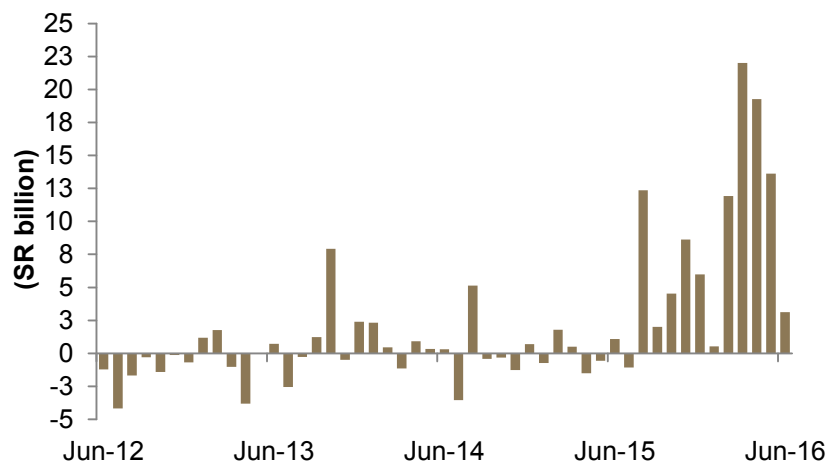
Government Accounts with SAMA
(month-on-month change)



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



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



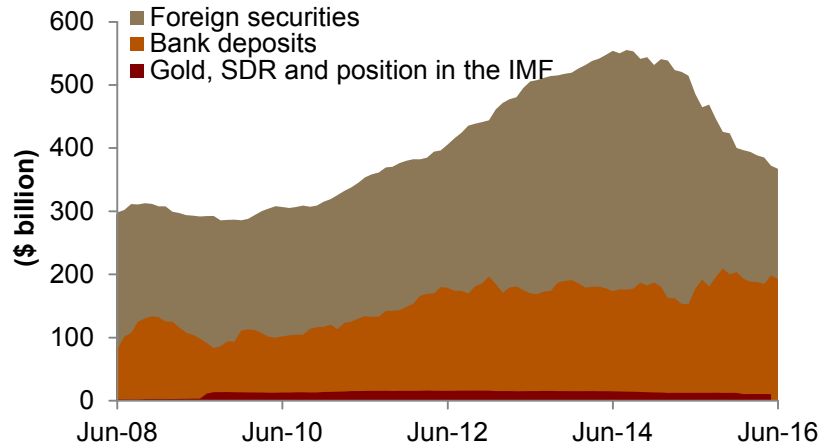


SAMA Foreign Reserve Assets

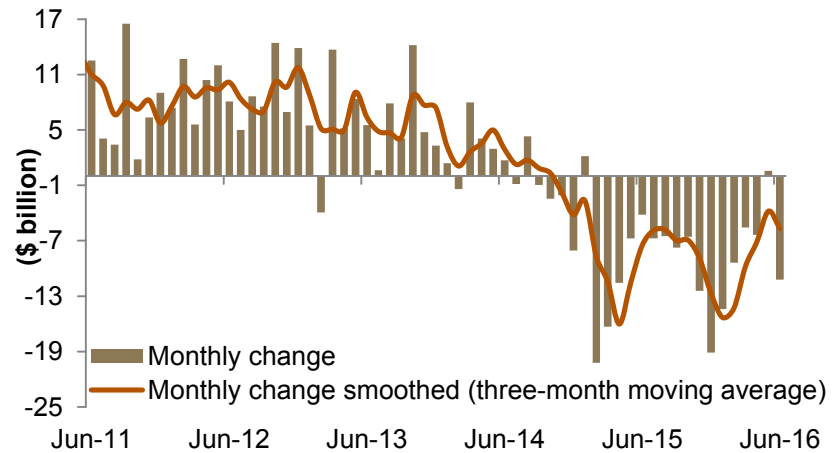
In June, SAMA foreign reserves fell by \$11.2 billion, its fastest monthly decline in six months, reaching \$570 billion. This decline might reflect a higher tendency to finance government spending from FX reserves, particularly in light of the lower bond issuance in June (see previous section). A breakdown of foreign reserves showed a decline in both foreign securities and deposits in banks abroad.

In June, SAMA foreign reserve assets fell to \$570 billion, its lowest since 2012.

SAMA Total Foreign Reserve Assets

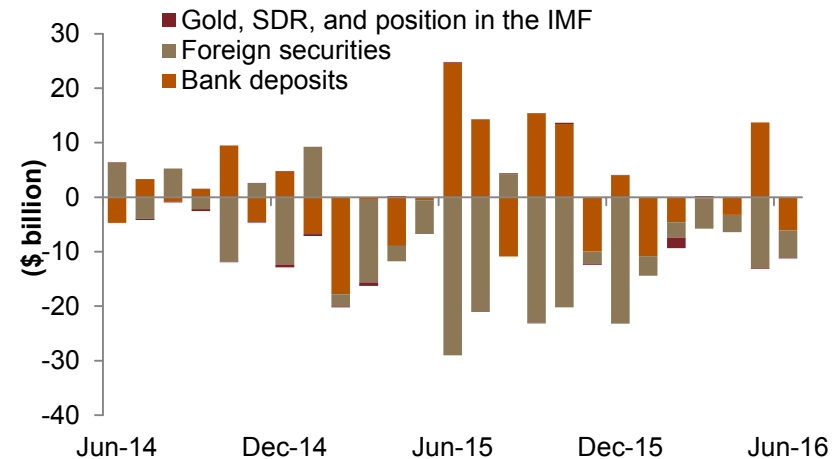


Net Monthly Change to SAMA Foreign Reserve Assets



The \$11.2 billion monthly decline in foreign reserves was the fastest since January 2015, when it fell by \$14.3 billion.

Breakdown of Foreign Reserve Assets
(month-on-month change)



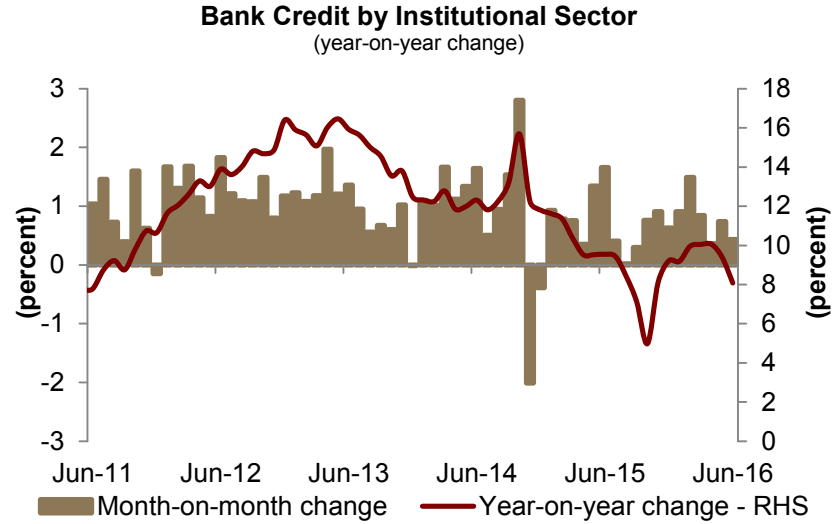
The monthly decline spanned both foreign securities (-\$4.9 billion), and deposits in banks abroad (-\$6.1 billion).



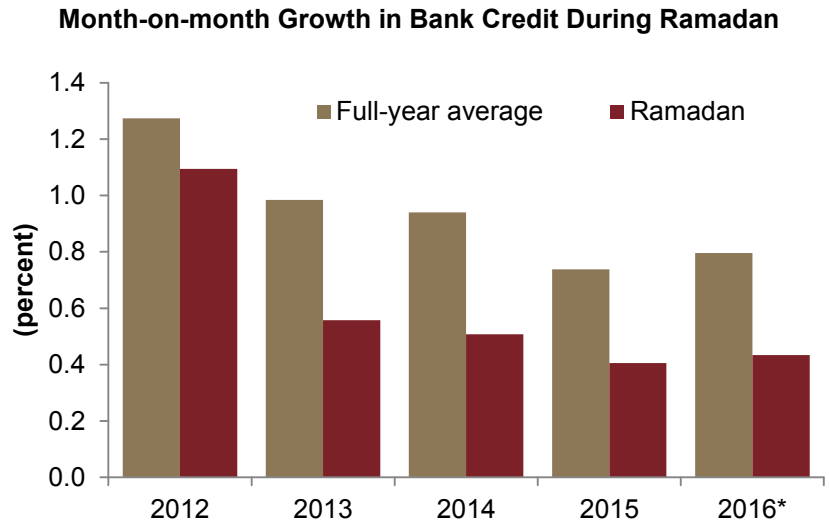
Bank Lending

Growth in bank credit to the private sector slowed slightly in June, in line with the slower seasonal activity during the month of Ramadan. The contribution to credit from longer term maturities have weakened relative to previous years, while short and medium term maturities continued with a healthy contribution towards overall credit growth.

Monthly growth in bank credit to the private sector slowed slightly to 0.4 percent in June, down from 0.7 percent in May...

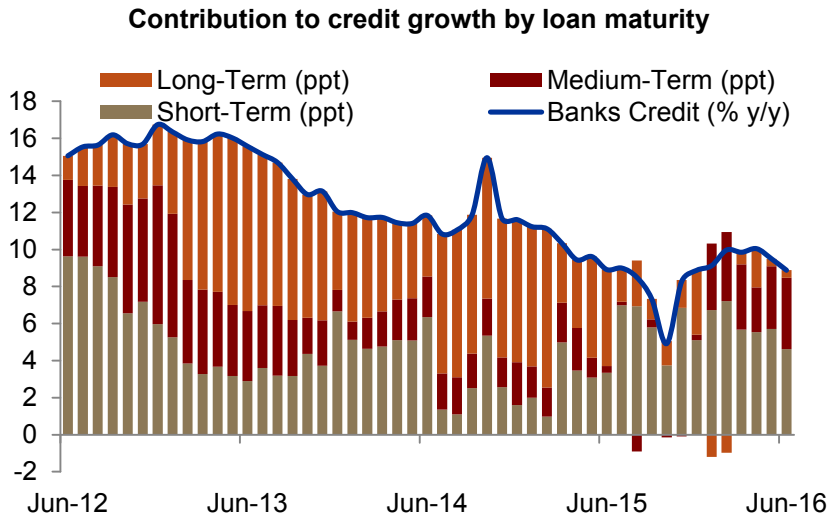


...this is normal given the seasonal trend of lower growth in credit during the month of Ramadan.



Note *: 2016 average monthly growth corresponds to the first six months of the year

The contribution from longer-term loan maturities towards overall credit growth has weakened relative to previous years.

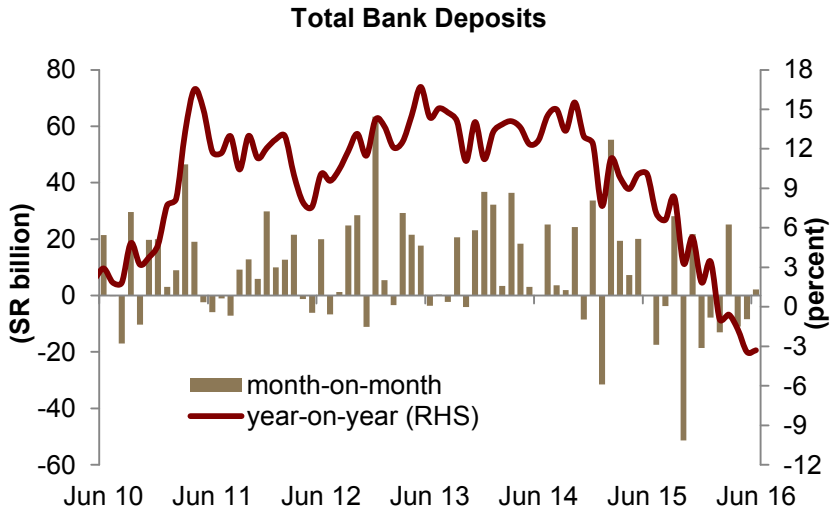




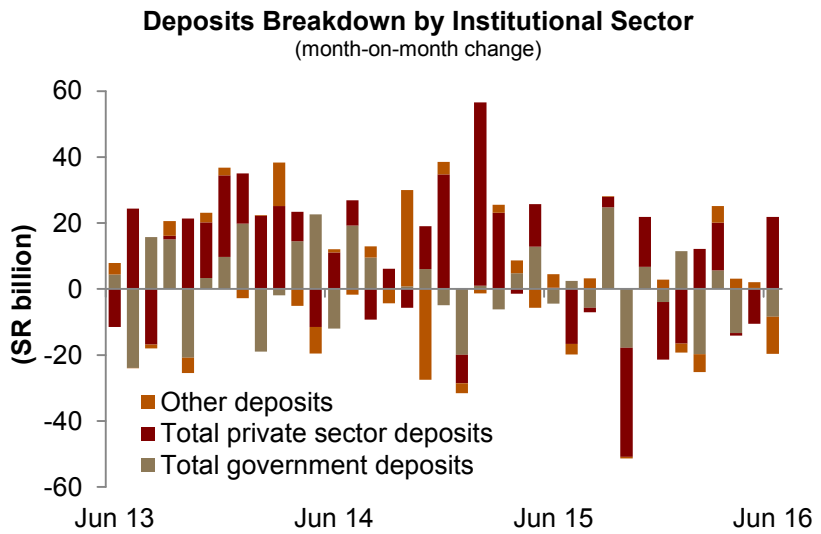
Bank Deposits

Total bank deposits rose in June following two consecutive monthly declines. However, annual growth in total deposits remained nearly unchanged at -3.3 percent. Private sector deposits saw a large monthly addition of SR21.8 billion, while government and other deposits fell. The loan-to-deposit ratio rose to 90 percent, which leads us to believe that SAMA will further ease the limit.

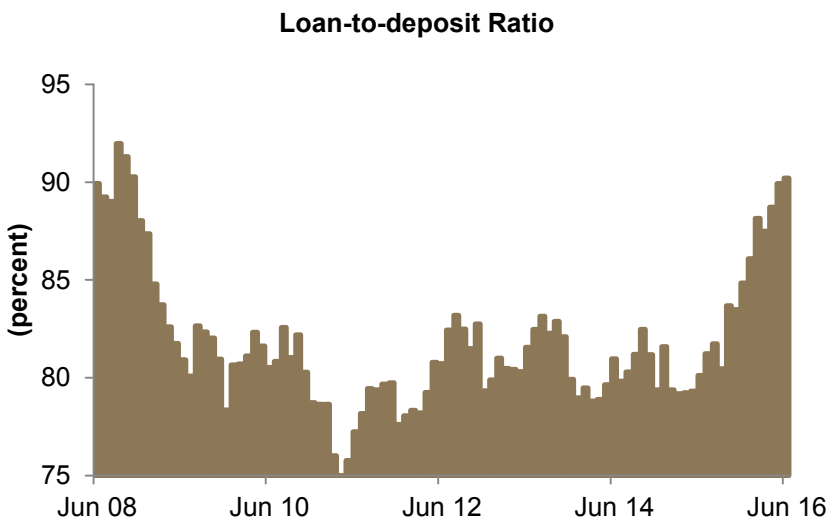
Total bank deposits rose by SR2.1 billion in June...



...pushed mainly by a healthy rise in private sector deposits, while government and other deposits fell by SR8.4 billion, and SR11.3 billion respectively.



The loan-to-deposit ratio rose to 90 percent in June, reaching the regulatory limit set by SAMA in February. We expect SAMA to ease the limit further, particularly since Saudi banks still enjoy healthy profitability levels, (up 2.6 percent year-on-year in June), and ample liquidity (SR236.3 billion)

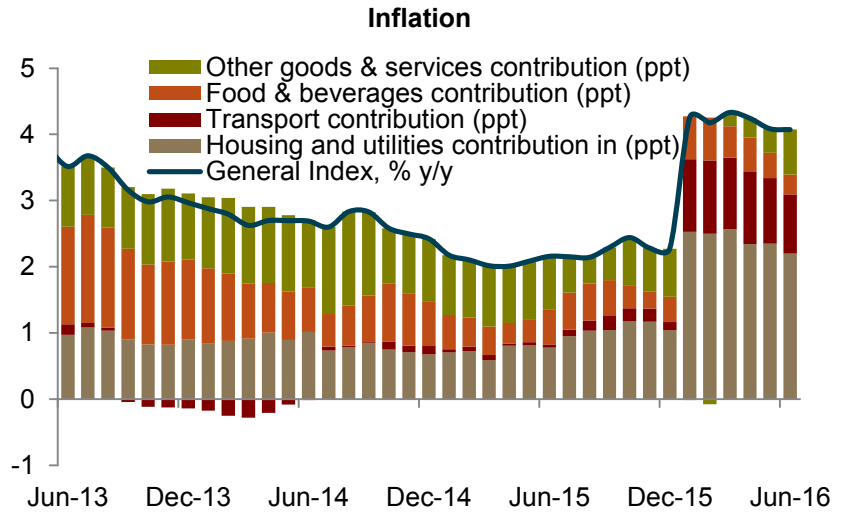




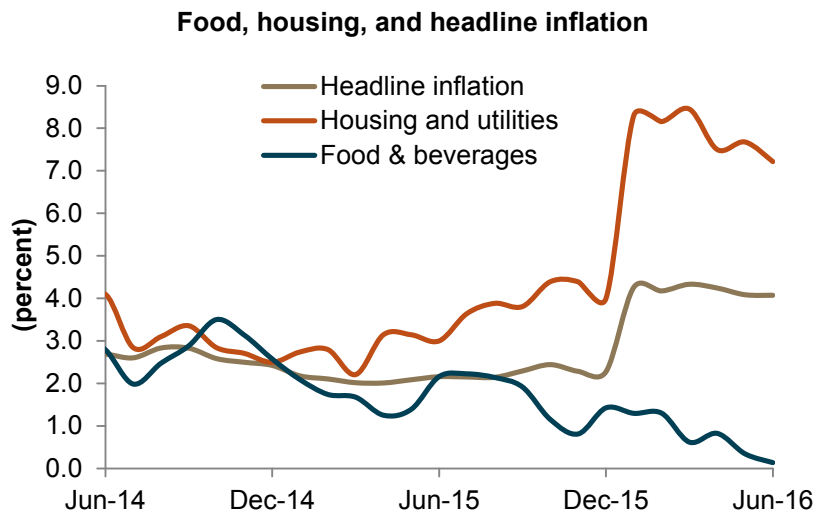
Inflation

Inflation remained unchanged at 4.1 percent in June. The contribution from foodstuffs, housing, and transport declined, while other components saw an increase in their contribution towards overall inflation. The uptick from other components could reflect a second round effect stemming from the energy price increases earlier in the year. However, this uptick still seems muted.

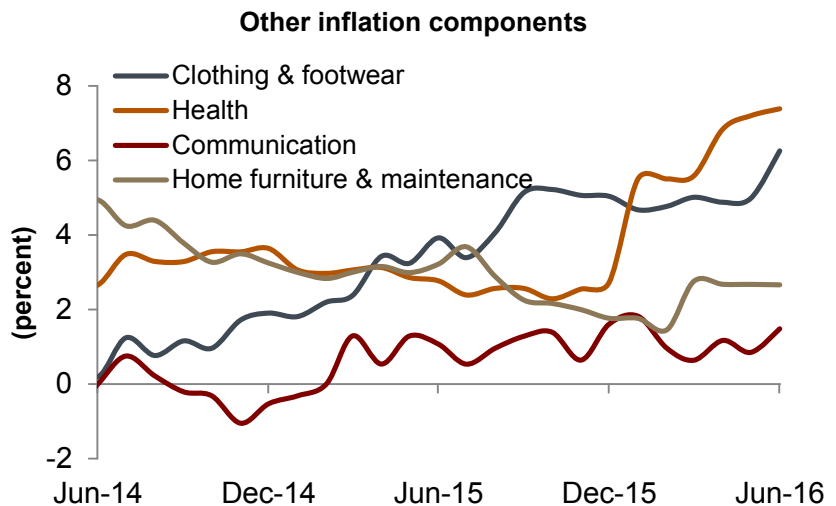
Inflation remained unchanged at 4.1 percent in June...



...this was in spite of lower inflation in foodstuffs and housing, which slowed to 0.1 percent, and 7.2 percent respectively...



...as an acceleration to other components of inflation contributed to keeping the headline figure unchanged.



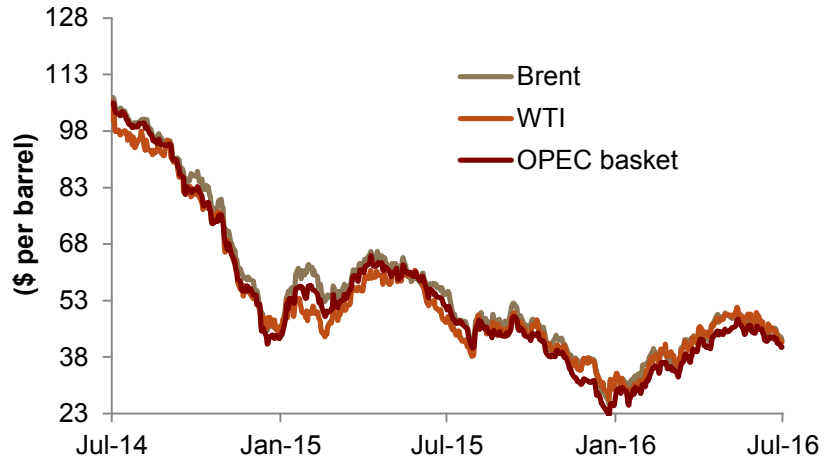


Oil - Global

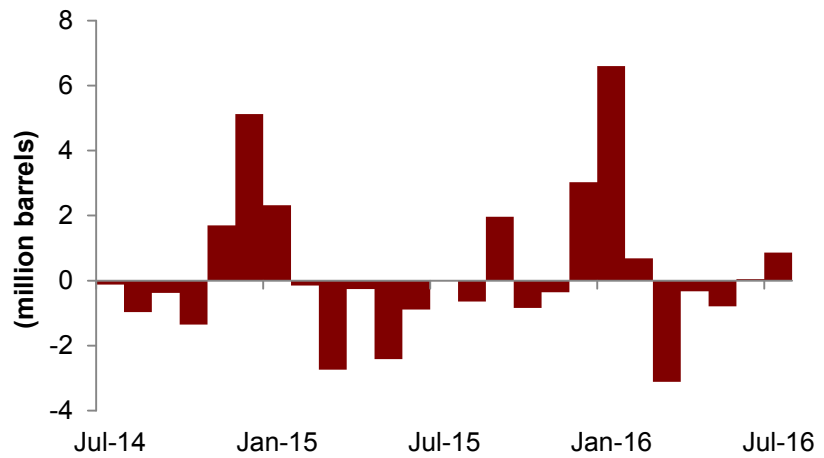
Both Brent and WTI crude benchmarks were down in July. Concerns over rising inventory levels even during the peak summer demand period and no slowdown in global supply led to Brent dropping 6 percent and WTI 8 percent month-on-month in July. We expect prices to remain around current levels in the month ahead.

Both Brent and WTI were down in July, with the latter seeing a larger decline...

Oil Prices

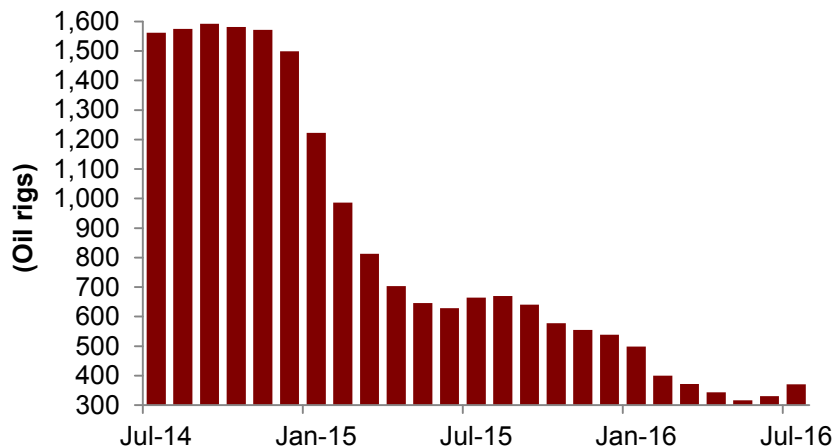


Change in US Gasoline Stocks
(average month-on-month change)



...as commercial gasoline stocks rose despite peak driving season demand in the US...

US Oil Rig Count
(total at month end)



...and the US land oil rig count saw its largest monthly rise more than a year pointing to a possible rebound in shale oil output in the months ahead.

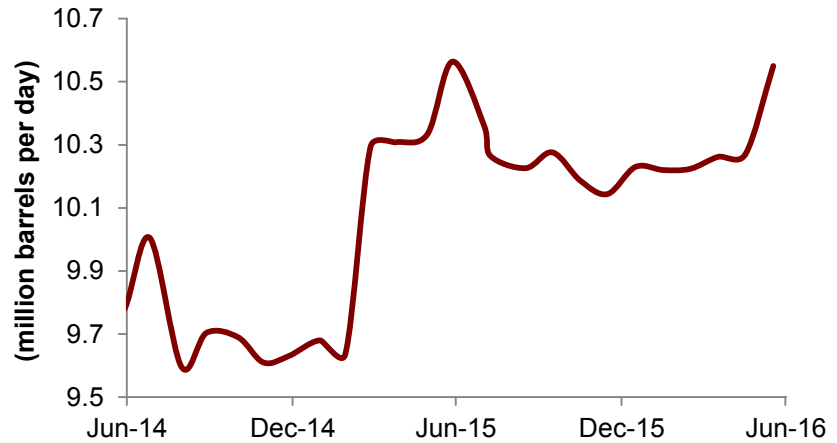


Oil - Regional

Higher production from a number of member countries saw OPEC production reach near record levels in June. Latest available data shows that higher domestic Saudi consumption led to a decline in crude oil exports in May.

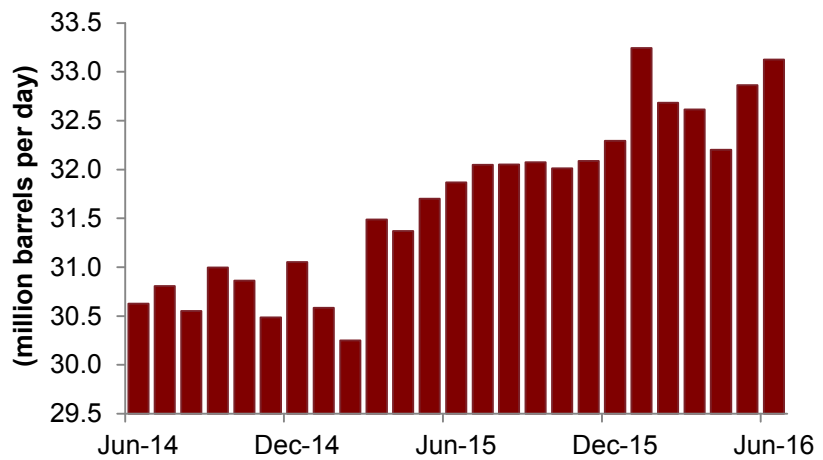
A sizable rise in month-on-month Saudi crude oil production in June...

Saudi Crude Oil Production
(June 2016)



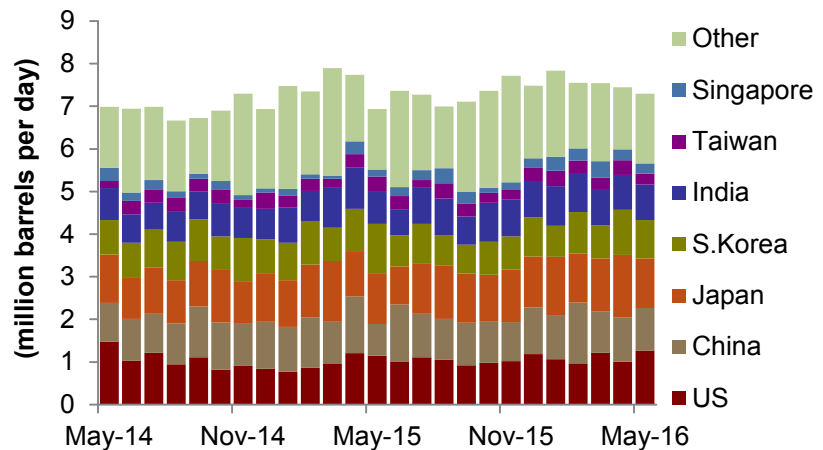
...and proportionally higher output from other member countries pushed OPEC production close to record levels.

OPEC Crude Oil Production
(June 2016)



A rise in Saudi production is likely to reverse the mild decline in crude exports seen in the last few months, going forward.

Saudi Crude Oil Exports by Destination
(May 2016)

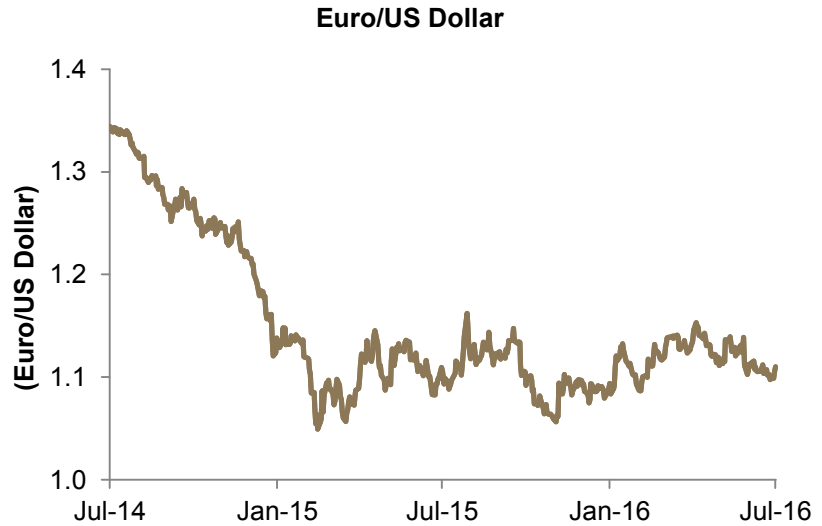




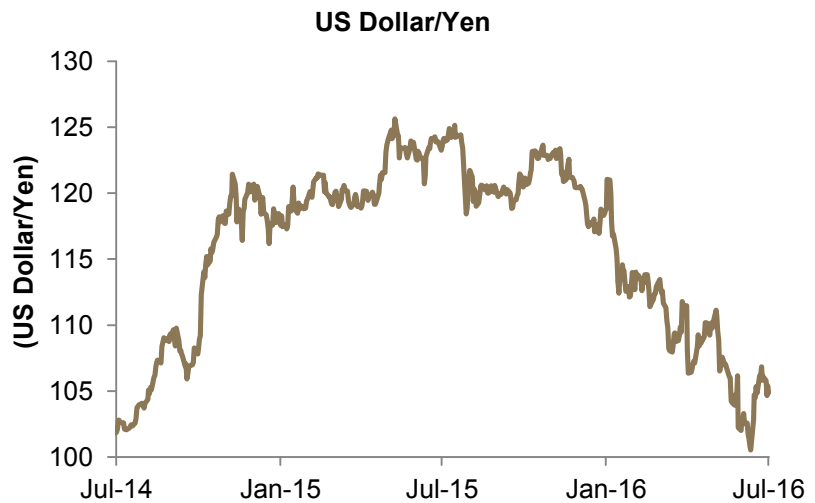
Exchange Rates

The dollar maintained its strength against most currencies, even rising against some, during July, due to a possible interest rate rise. Although the Federal Reserve (Fed) eventually decided not to raise interest rates, the dollar will still maintain its strength in the months ahead as investors anticipate a September hike by the Fed.

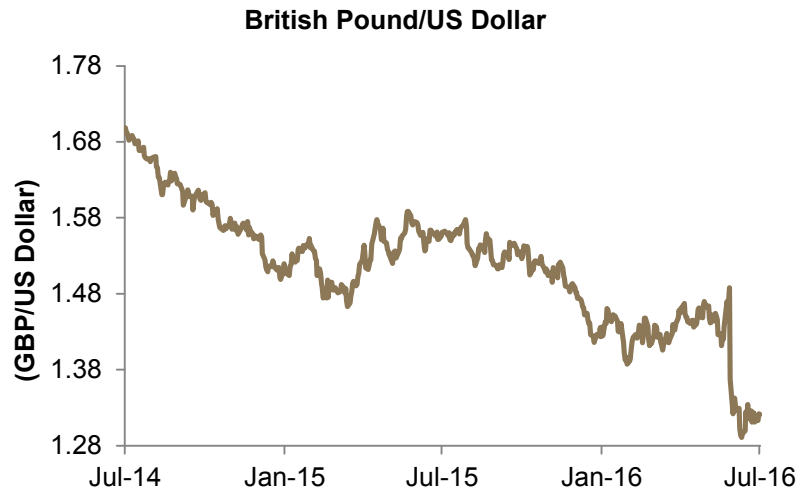
The dollar maintained its strength against the euro...



...and rose against the yen, as speculation mounted that the Fed may raise interest rates towards the end of July.



Although the Fed eventually decided against raising interest rates, the dollar is expected to remain strong as investors anticipate a September hike.





Stock Market

The TASI declined in July, month-on-month, as lower oil prices trumped some positive surprises from company results. A number of companies and sectors, particularly the petrochemical sector, saw Q2 earnings beating analyst expectations, but this has not been enough to lift investor sentiment following softer oil prices.

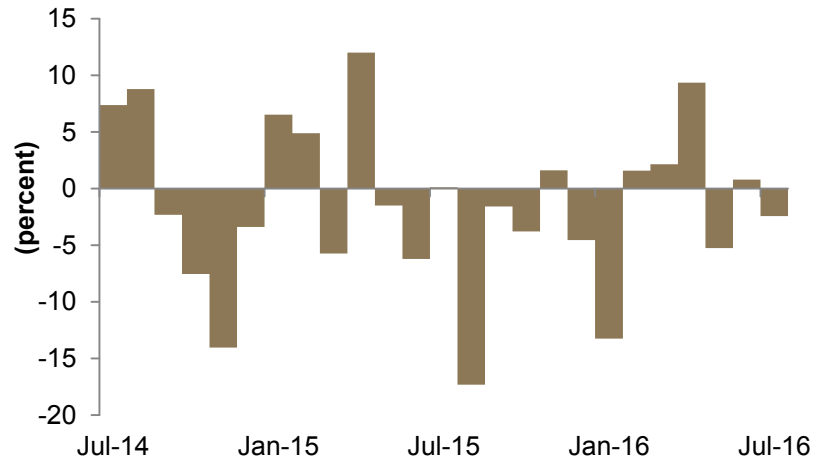
The TASI edged down in July as oil prices dampened investor sentiment...

TASI



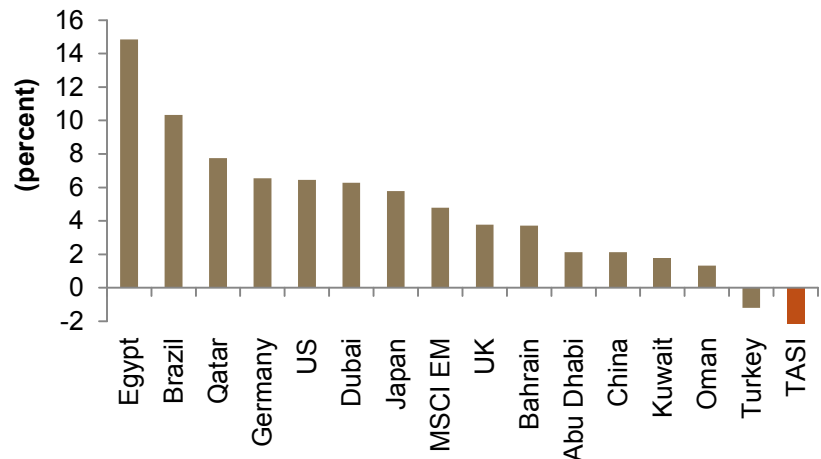
...resulting in the TASI dropping by around 2 percent during the month.

TASI Monthly Performance
(month-on-month change)



Consequently, the TASI was the weakest performer against major regional and international indices. We expect TASI to trade sideways in the weeks ahead as oil prices remain under pressure.

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



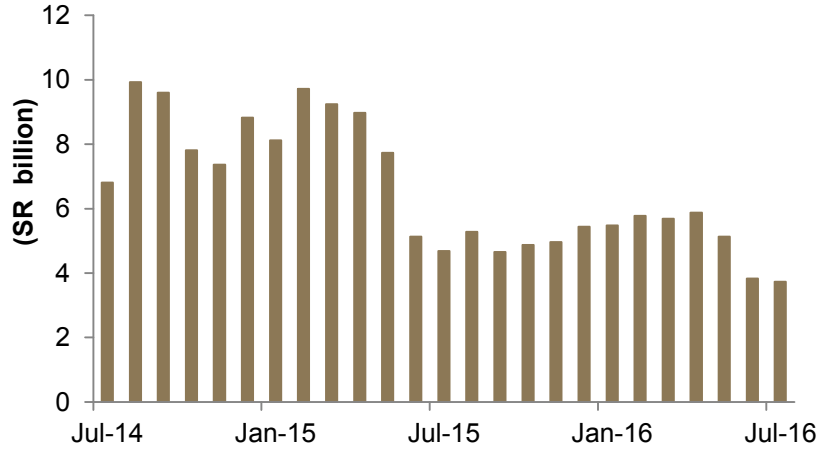


Volumes

Turnover in the TASI was flat month-on-month in July with lower seasonal trading apparent during the holiday season. Most sectors saw turnover below their year-to-date average in July although speculative activity was still apparent in smaller sectors.

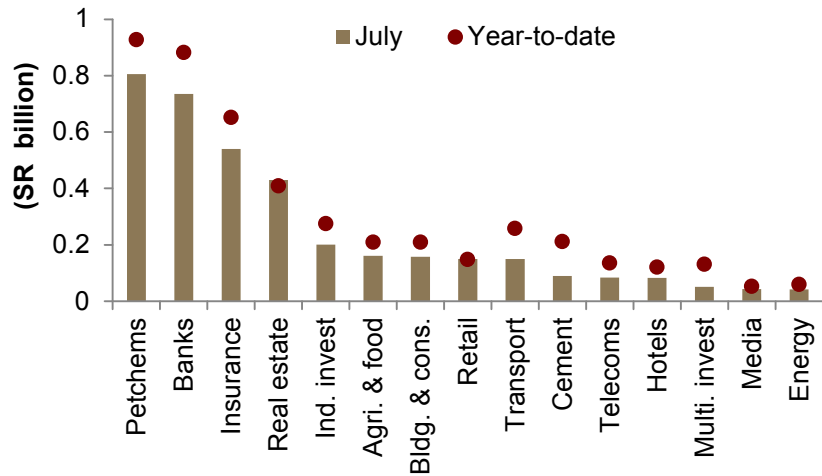
TASI turnover was flat month-on-month in July during the quieter holiday season.

Daily average stock market turnover



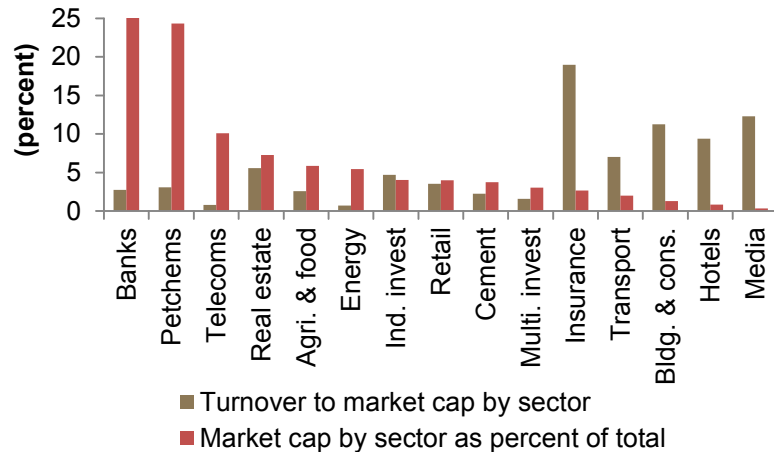
Most sectors saw lower average turnover in July...

Turnover by sector (daily average)



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

Turnover as percent of market cap (July, 2016)

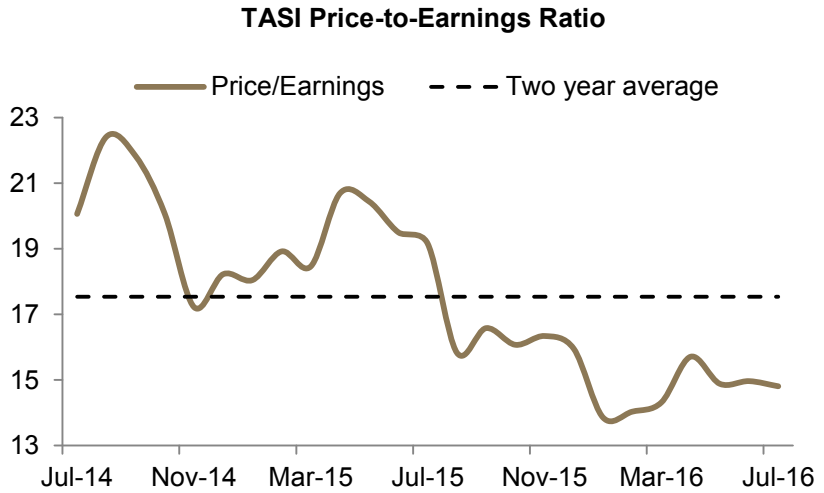




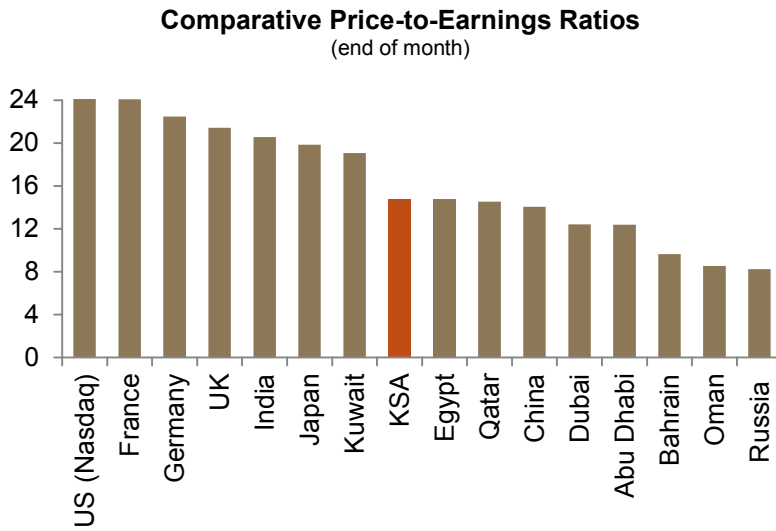
Valuations

The TASI's price-to-earnings (PE) were flat in July, 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.

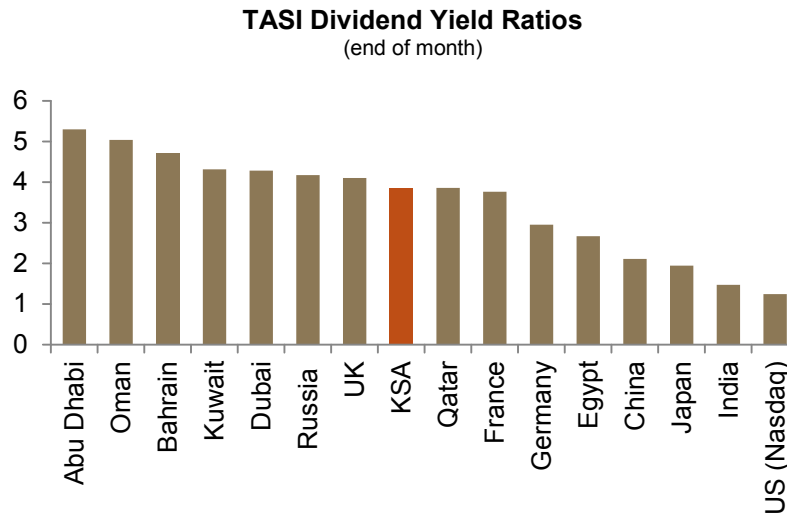
PE is still trending below the two year average...



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



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

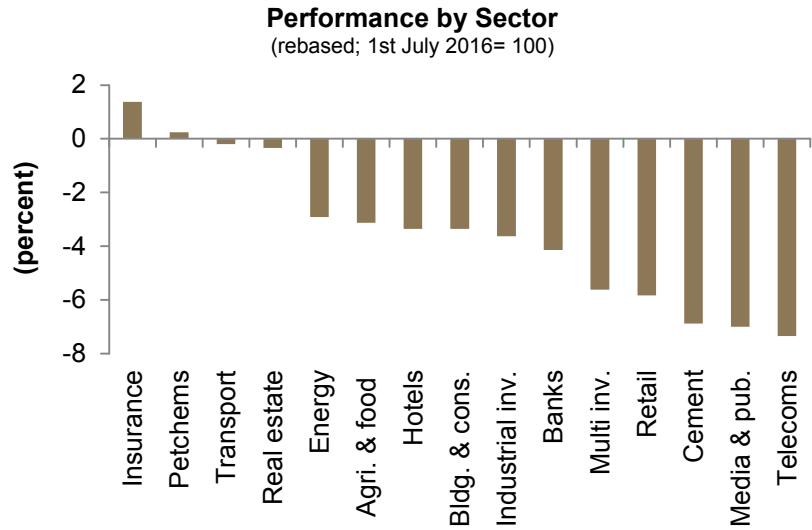




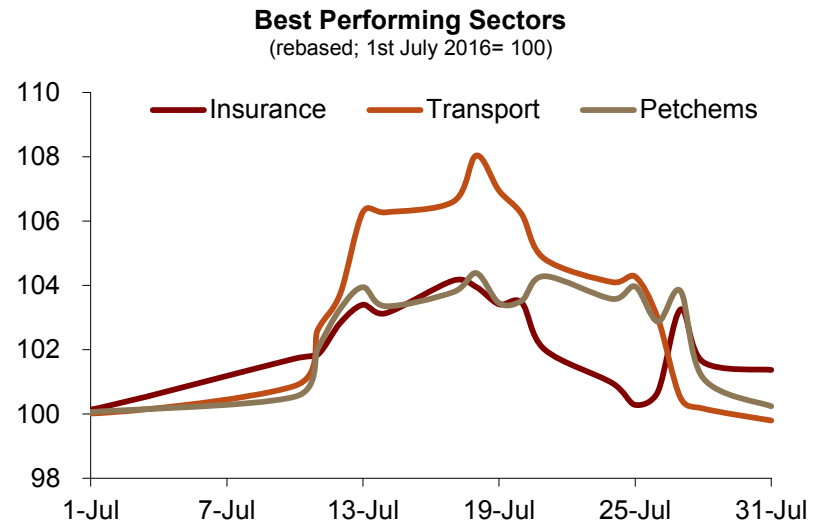
Sectoral Performance

The overall weaker performance of the TASI during the month was also reflected in the individual sectoral performance. All but two sectors were down in July. Pressured oil prices and quieter summer period is likely to mean subdued activity in the following month.

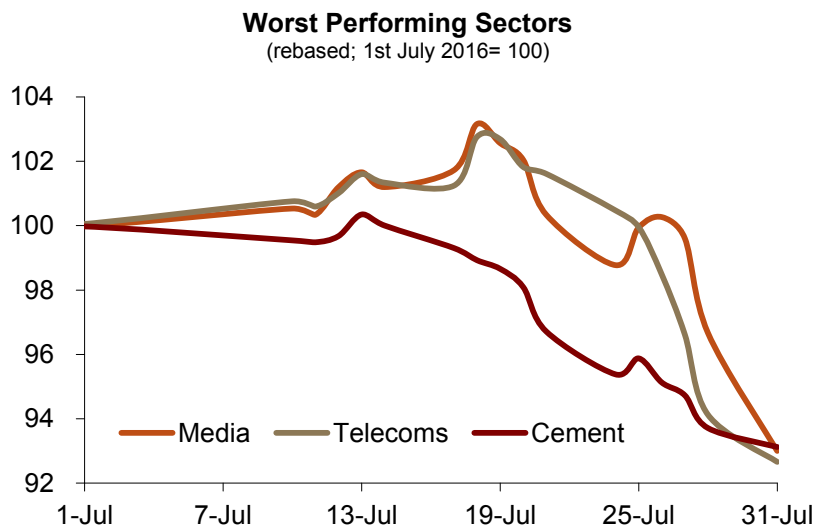
All but two sectors were down in July...



...with gains amongst the top performing sectors being modest...



...with the losses amongst the worst performers steepest in the last week of the month.





Key Data

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Nominal GDP | | | | | | | | | |
| (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 |
| Real GDP (% change) | | | | | | | | | |
| 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 |
| | | | | | | 4.7 | | | |
| Oil indicators (average) | | | | | | | | | |
| 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 |
| Budgetary indicators (SR billion) | | | | | | | | | |
| 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 |
| Monetary indicators (average) | | | | | | | | | |
| Inflation (% change) | 4.1 | 3.8 | 3.7 | 2.9 | 3.5 | 2.7 | 2.2 | 3.9 | 4.3 |
| SAMA base lending rate (% , year end) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.3 | 3.0 |
| External trade indicators (\$ billion) | | | | | | | | | |
| 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 |
| Social and demographic indicators | | | | | | | | | |
| 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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