



Summary

Real Economy: Much of March's data reflected the impact of COVID-19 containment measures.

Consumer Spending: POS transactions saw a mild growth rate of 5.8 percent. Looking ahead, we expect POS transactions to nose-dive into the negative territory in April.

Government Finance: The net monthly change to government accounts with SAMA declined by SR34 billion month-on-month in March. We expect a sizable drawdown in government accounts with SAMA in the next few months.

SAMA Foreign Reserve Assets: SAMA FX reserves declined by almost \$24 billion month-on-month in March to stand at \$473 billion. We do not expect similar reserve drawdowns going ahead.

Money Supply: Latest weekly data shows M3 growth declining, reflecting the slowdown in economic activity as a result of measures related to COVID-19.

Bank Deposits: Bank deposits rose by 10.1 percent year-on-year in March, affected by the rise in demand deposits by 12.5 percent year-on-year.

Real Estate: Real estate prices rose by 1.2 percent in Q1 2020, year-on-year, and by 0.4 percent quarter-on-quarter. Looking ahead, we expect real estate prices to drop as the economy contracts, as evidenced by a sharp decline in listed REITs during April.

Inflation: Prices rose in March by 1.5 percent year-on-year, and by 0.1 on a monthly basis.

Labor Market: The Saudi unemployment rate in Q4 2019 stood at 12 percent, unchanged from the previous quarter, but down from 12.7 percent a year ago. In 2020, we see the output of a number of sectors being negatively affected by the containment measures of COVID-19.

Global Economy: According to the International Monetary Fund's (IMF) April edition of the World Economic Outlook (WEO) report, the global economy is projected to contract by 3 percent in 2020.

Domestic Economy: We have updated our economic forecast for Saudi Arabia and we now expect GDP to contract by 1.7 percent in 2020.

Oil-Global: Brent oil prices dropped 54 percent, whilst WTI dropped 43 percent month-on-month in April. More remarkable was the fact that WTI closed negative \$37pb on 20th of the month, before recovering.

Oil-Regional: Under the current OPEC+ agreement, the Kingdom is expected to hit 8.5 mbpd in May and June, and then 9.1 mbpd in H2 2020.

Exchange Rates: Continued volatility in global equity and oil markets saw the dollar maintain its value during April.

Stock Market: TASI rose by 9.3 percent month-on-month in April. However, most of these gains were wiped out on the first day of trading in May as investor sentiment turned negative on the back of anticipated cuts in government expenditure and sharp economic contraction.

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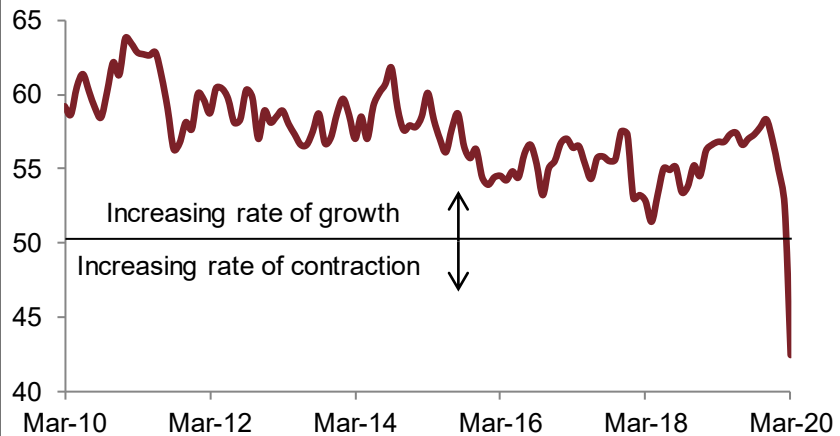


Real Economy

Much of March's data reflected the impact of COVID-19 containment measures. PMI fell to a record low in March to 42.2, affected by lower levels of output and new orders. Meanwhile, although cement sales and production continued to rise in March, we expect these to fall in Q2. Also, non-oil exports declined in February, year-on-year, and will continue to be pressured going forward.

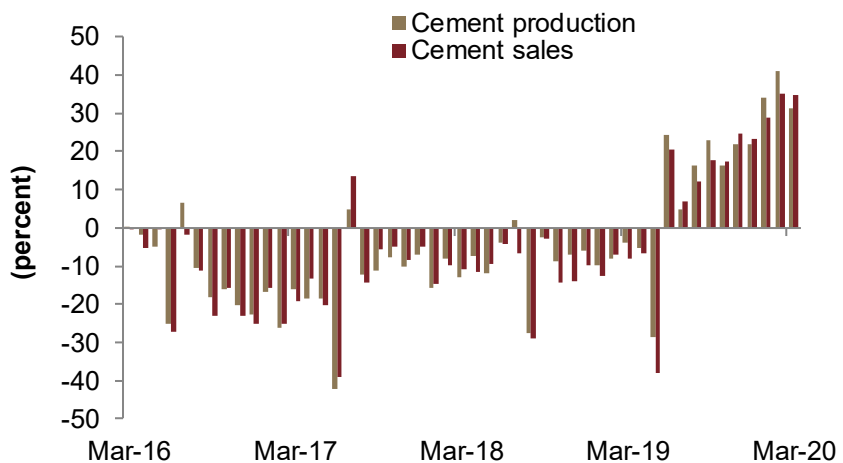
PMI fell to a record low, affected by lower levels of output and new orders, as businesses were affected by the imposed shutdown by authorities to contain the spread of COVID-19 inside and outside the Kingdom. We expect to more declines in the non-oil PMI in April.

Non-oil Purchasing Managers' Index



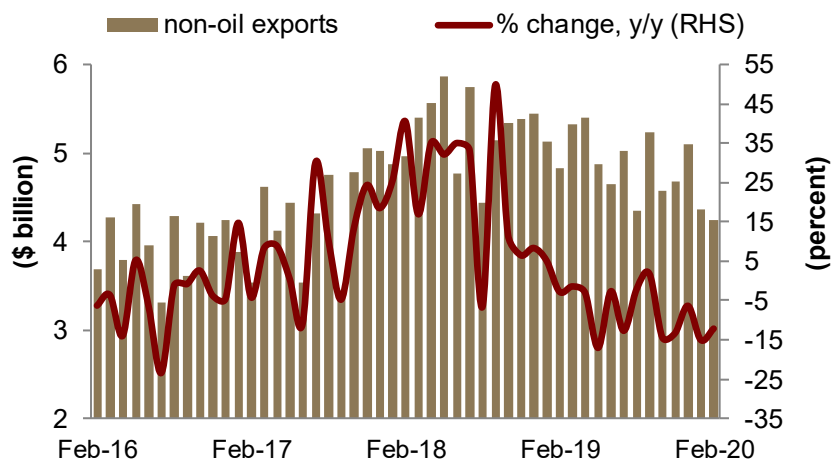
Although cement sales and production continued to rise in March, we expect these to fall in Q2.

Cement Sales and Production
(year-on-year)



Non-oil exports declined by 12.1 percent in February, year-on-year, with a value of \$41.2 billion, the lowest volume of exports since September 2017. Non-oil exports to China fell by 25 percent year-on-year during the month, as a number of areas across China were put under lockdown during the outbreak of COVID-19.

Non-oil Exports
(year-on-year)





Consumer Spending

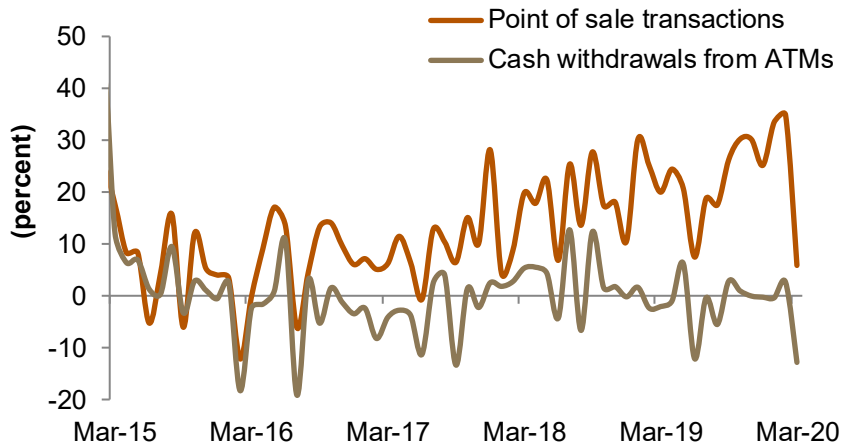
POS transactions saw a mild growth rate at 5.8 percent, the lowest growth in 26 months, whilst cash withdrawals declined by 13 percent year-on-year in March. 'Food & beverages' saw the largest rise during the month, year-on-year, as demand on food retailers rose during the pandemic. Meanwhile, spending on non-essential goods and services such as 'jewelry' and 'clothing' were down.

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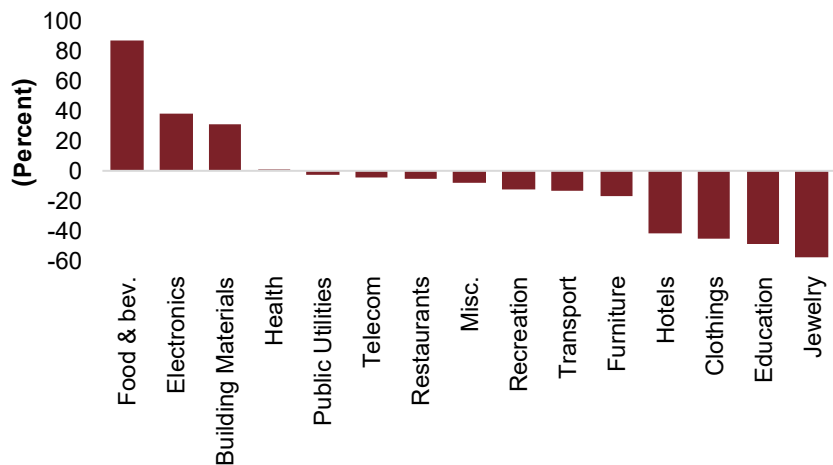
Meanwhile, spending on non-essential goods and services such as 'jewelry' and 'clothing' were down, but 'Food & beverages' saw the largest rise during the month...

.... as demand on food retailers rose during the initial phases of the lockdown period.

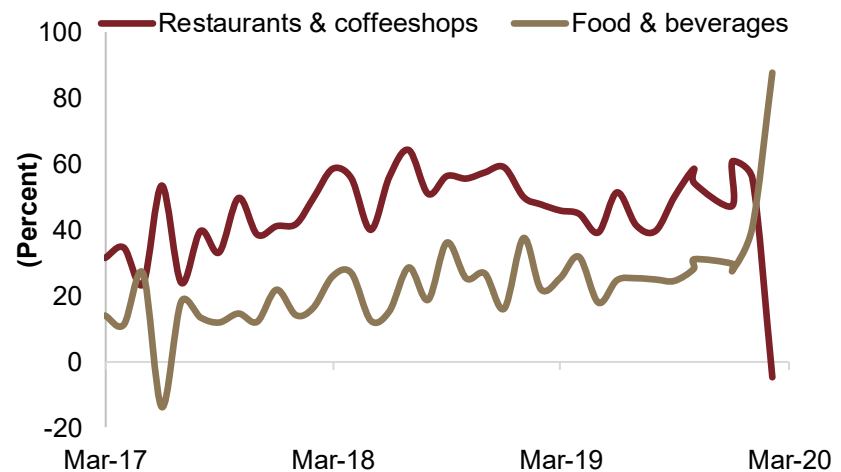
Indicators of Consumer Spending
(year-on-year change)



POS Transactions by Sector in March
(year-on-year change)



Historical POS transactions for Selected Sectors
(year-on-year change)



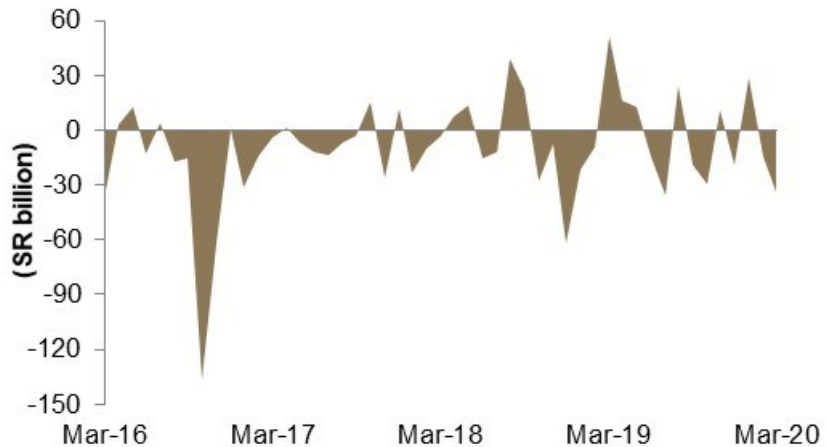


Government Finance

The net monthly change to government accounts with SAMA declined by SR34 billion month-on-month in March, which came mainly as a result of a decrease in government current deposits by SR33 billion. We expect a sizable drawdown in government accounts with SAMA in the next few months as a result of a roll-out of fiscal measures to support the private sector will result in significant expenditure rises in Q2.

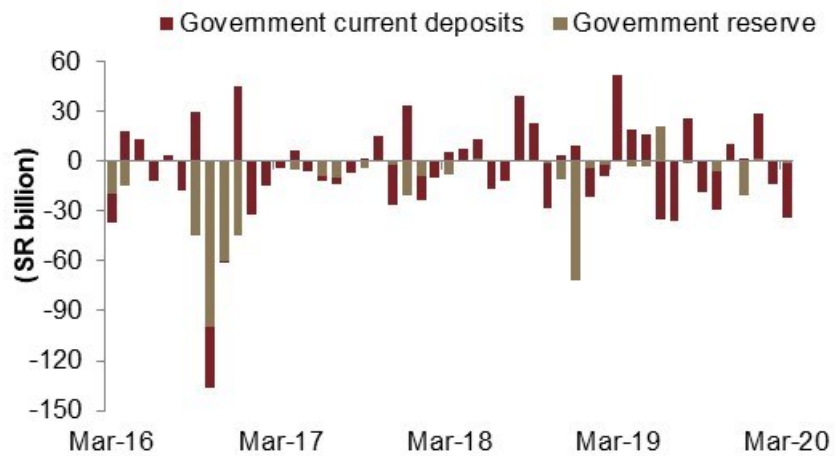
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Net Change to Government Accounts with SAMA
(month-on-month change)



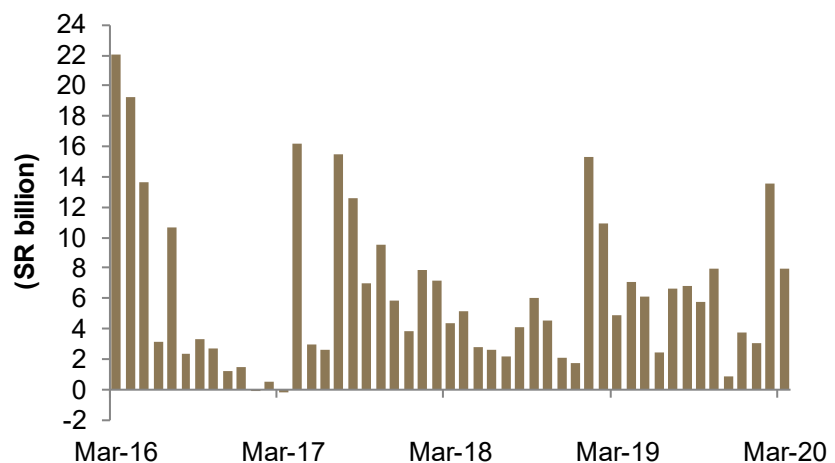
...which came mainly as a result of a decrease in government current deposits by SR33 billion. We expect a sizable drawdown in government accounts with SAMA in the next few months as a result of a roll-out of fiscal measures to support the private sector will result in significant expenditure rises in Q2.

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



Meanwhile, domestic banks net holdings of government debt rose by almost SR8 billion during March. Public debt totaled SR755 billion at the end of April, with SR77 billion debt issued year-to-date. Overall, we expect a further SR99 billion in debt issuance during the remainder of the year (plus SR44 billion in refinancing), thereby pushing total debt to SR854 billion (31.7 percent of GDP) by end of 2020.

Domestic Banks Net Holdings of Government Bonds
(month-on-month change)





SAMA Foreign Reserve Assets

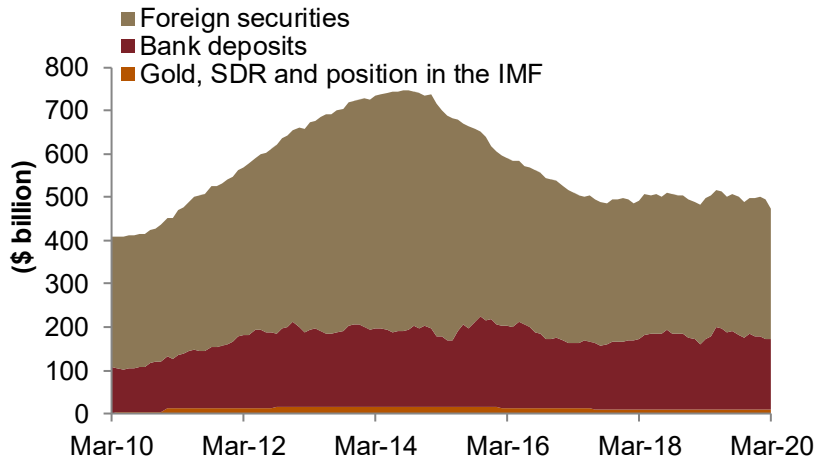
SAMA FX reserves declined month-on-month in March, to stand at \$473 billion. The reduction in reserves is a result of outflows from the current account as oil prices dropped to multi year lows and outflows from the financial account, with the Q1 budget statement showing no use of reserves to finance the deficit during the quarter.

SAMA FX reserves declined by almost \$24 billion month-on-month in March to stand at \$473 billion. The Q1 budget statement showed no use of reserves in financing the deficit during the quarter...

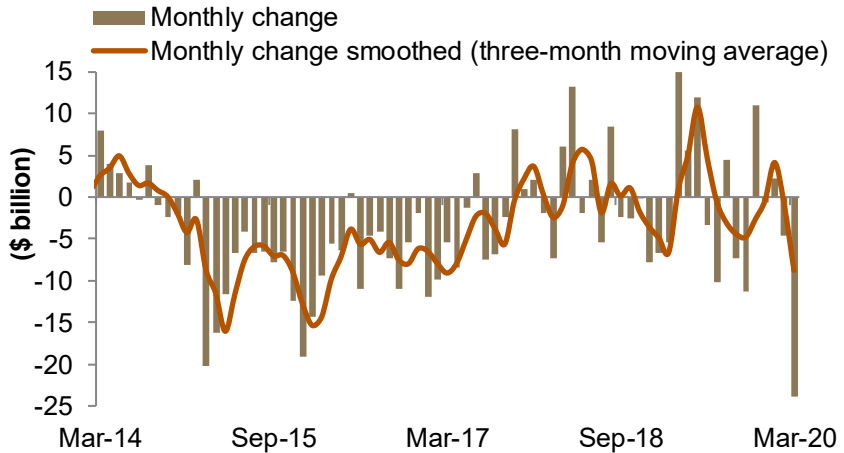
...so we see the reduction in reserves is, in part, likely to be a result of outflows from the current account as oil prices dropped to multi year lows, with imports not falling so significantly over the same period. We also see outflows from the financial account related to i) rise in banks acquisition of US dollars following US Saibor/ US libor spread falling into the negative (which we highlighted in last month's [Chartbook](#)) ii) outflows related to local investors positioning themselves to take advantage of major drop in valuations in global equity markets.

We do not expect similar reserve drawdowns going ahead, especially since the current account is likely to stabilize following a sharp fall in imports (see our [Economic update](#) for more details) and a recent \$7 billion international bond issuance results in financial account inflows.

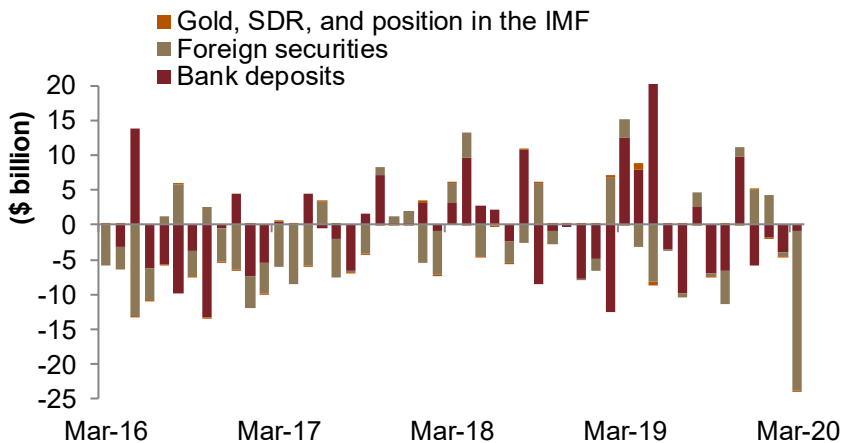
SAMA Total Foreign Reserve Assets



SAMA Foreign Reserve Assets (month-on-month change)



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



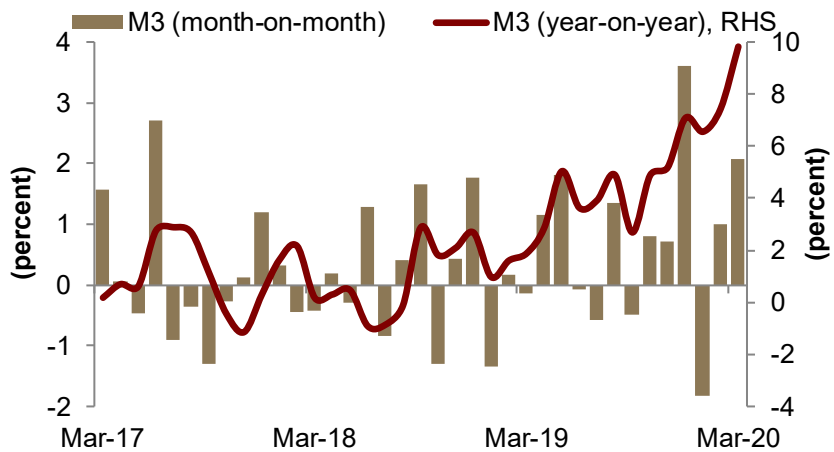


Money Supply

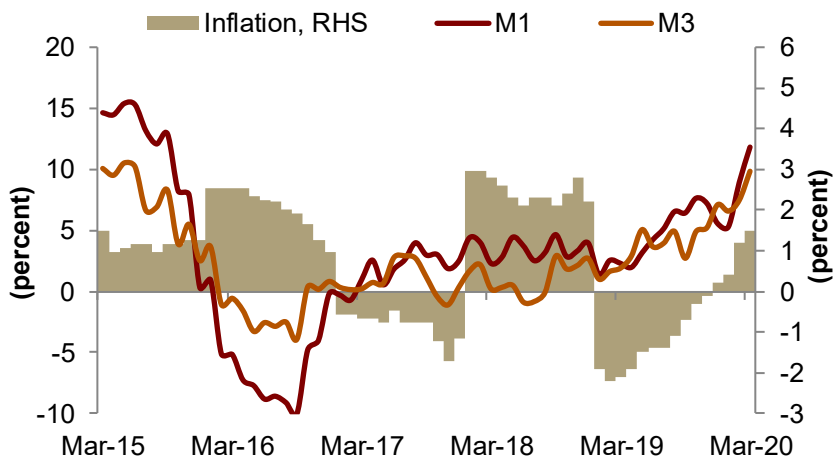
The broad measure of money supply (M3) rose significantly in March, by 9.8 percent year-on-year, the highest rate since June 2015, and by 2.1 percent month-on-month. The growth in M3 came mainly as a result of a rise in demand deposits. Latest weekly data shows M3 growth declining, reflecting the slowdown in economic activity as a result of measures related to COVID-19.

M3 rose significantly in March, by 9.8 percent year-on-year, the highest rate since June 2015, and by 2.1 percent month-on-month.

Growth in Money Supply

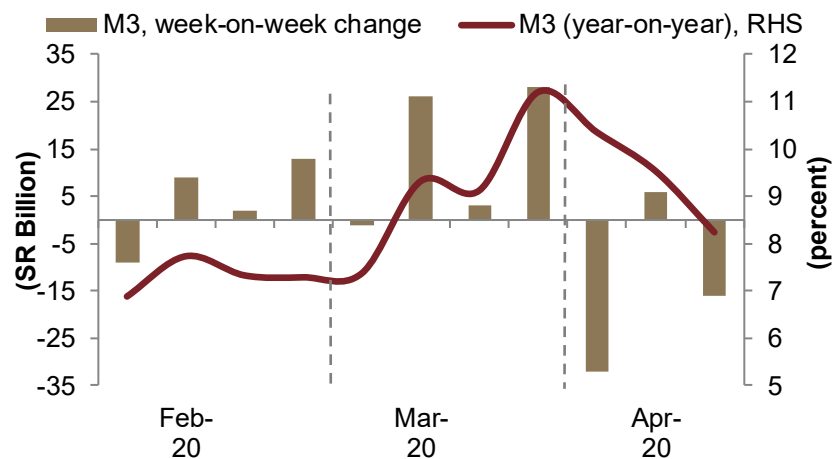


Money Supply Aggregates and Inflation Rate
(year-on-year change)



M1 saw a growth by 11.8 percent, supported by a rise in both demand deposits by 12.5 percent, and in currency outside banks by 7.5 percent, year-on-year during March.

Growth in Money Supply
(week-on-week change)



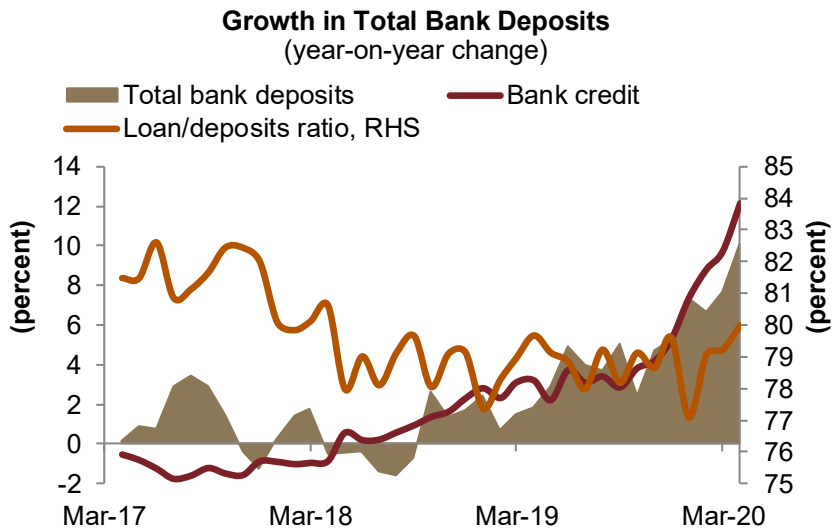
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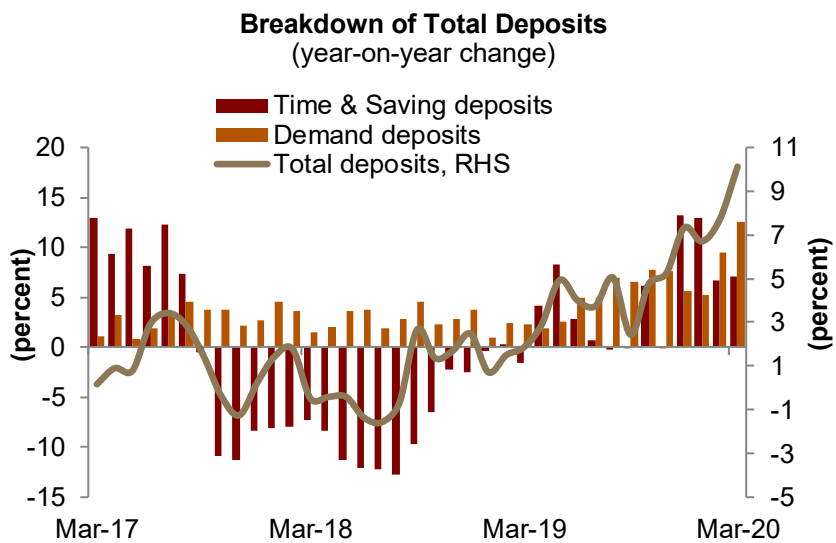
Bank Deposits

Bank deposits rose by 10.1 percent year-on-year in March, affected by the rise in demand deposits by 12.5 percent year-on-year. Meanwhile, time deposits were up by 7.1 percent year-on-year during the month. A breakdown of private sector deposits shows a notable rise in private demand deposits, rising by 10.4 percent year-on-year. Meanwhile, holdings of commercial banks of foreign assets rose by 11.8 percent month-on-month.

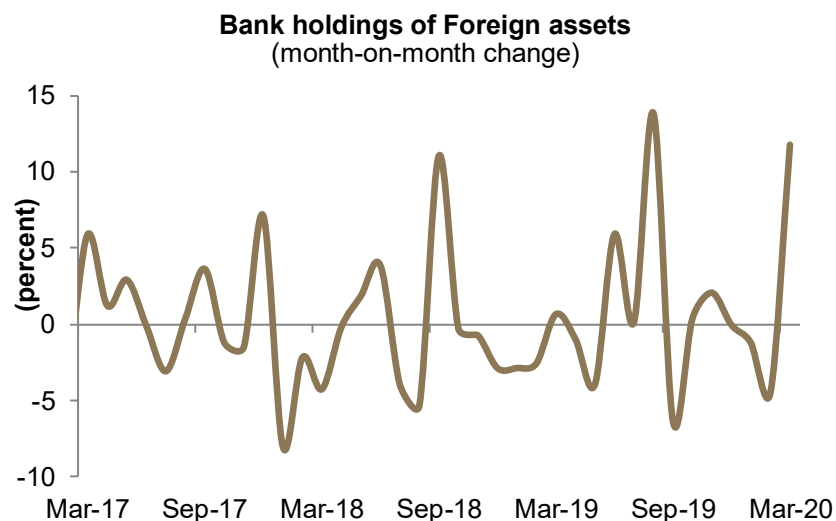
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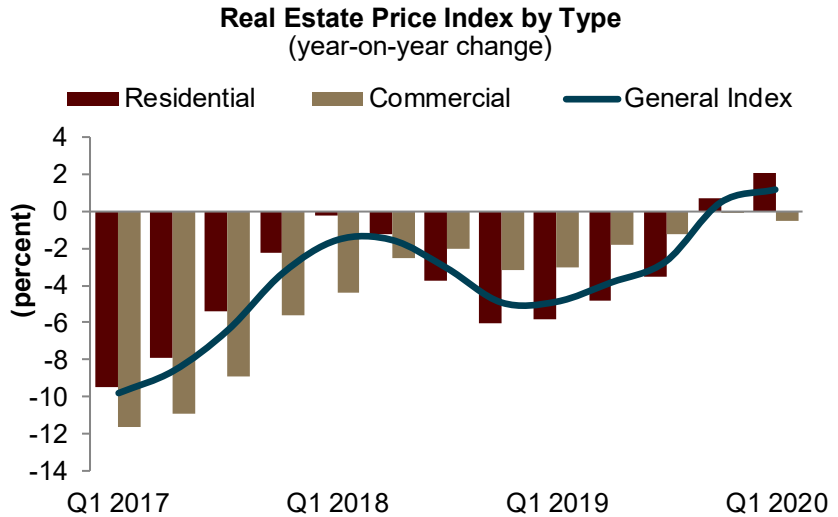




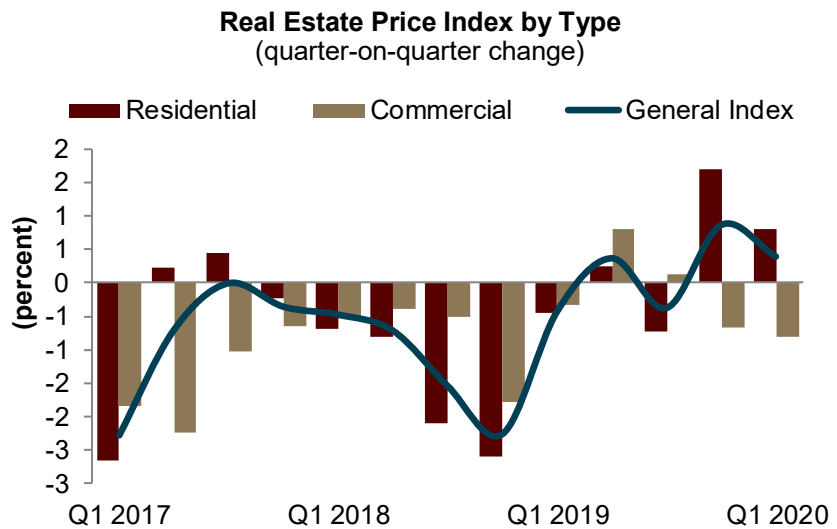
Real Estate

Real estate prices rose by 1.2 percent in Q1 2020, year-on-year, and by 0.4 percent quarter-on-quarter. During Q1, residential real estate prices were up 2.1 percent, whilst commercial real estate prices declined by 0.5 percent, year-on-year. Looking ahead, we expect real estate prices to drop as the economy contracts, as evidenced by a sharp decline in listed REITs during April.

Real estate prices rose by 1.2 percent in Q1 2020, year-on-year...



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Looking ahead, we expect real estate prices to drop as the economy contracts, as evidenced by a sharp decline in listed REITs during April and early May.

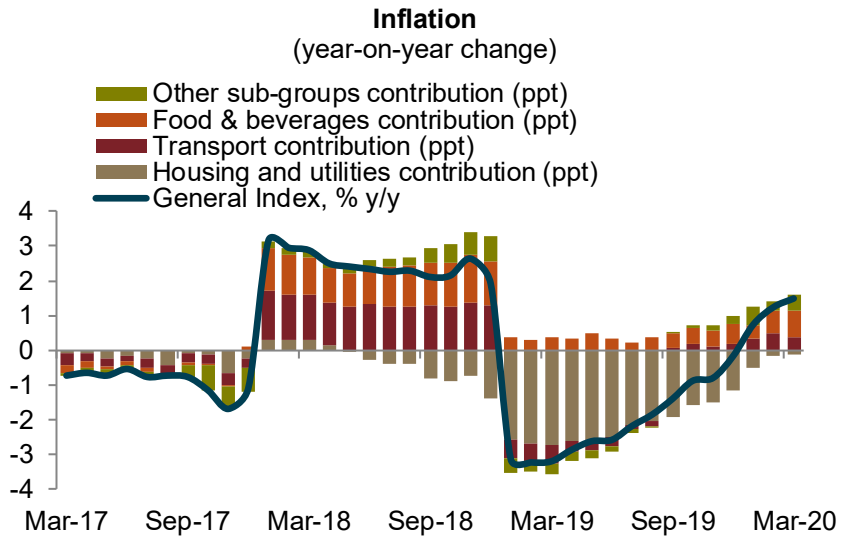




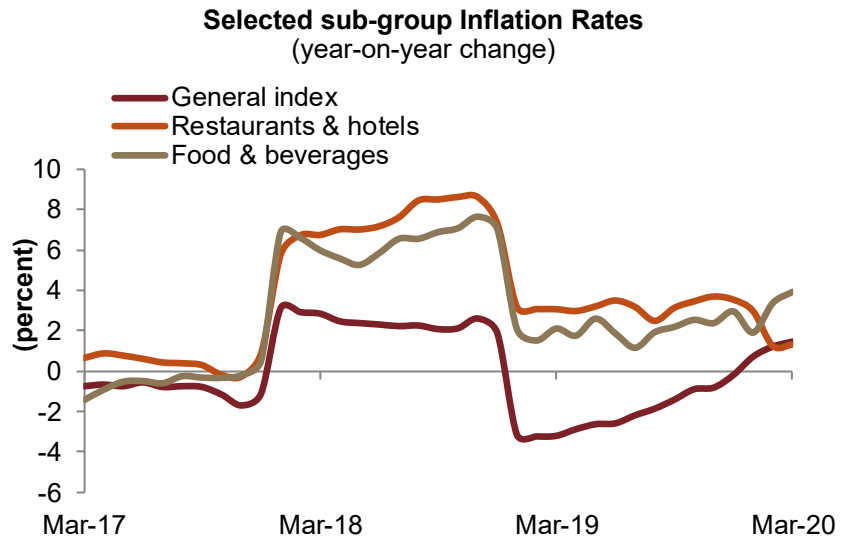
Inflation

Prices rose in March by 1.5 percent year-on-year, and by 0.1 on a monthly basis. Prices in 'restaurants and hotels' were up by 1.3 percent, whilst prices in 'food and beverages' rose by 3.9 percent, year-on-year. Meanwhile, prices in 'housing and utilities' declined by 0.5 percent year-on-year, affected by the continued decline in 'rentals for housing' through Q1 2020.

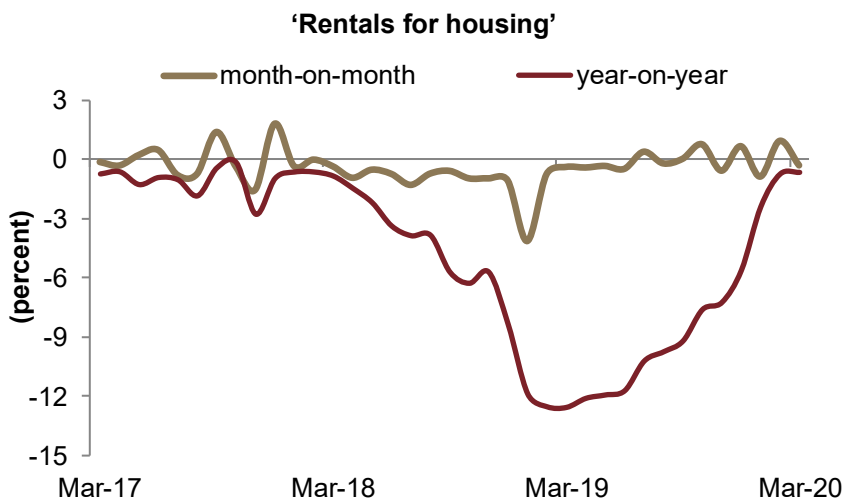
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Prices in 'restaurants & hotels' were up by 1.3 percent, and prices in 'food & beverages' rose by 3.9 percent, year-on-year. In March, demand was up for 'food & beverages' whilst it declined for 'restaurants & hotels', as part of the precautions taken to combat COVID-19 in the Kingdom and instructions regarding social distancing. Prices in all sub-groups did not see any major change during the month.



Meanwhile, prices in 'housing & utilities' declined by 0.5 percent year-on-year, affected by the continued decline in 'rentals for housing' through Q1 2020.



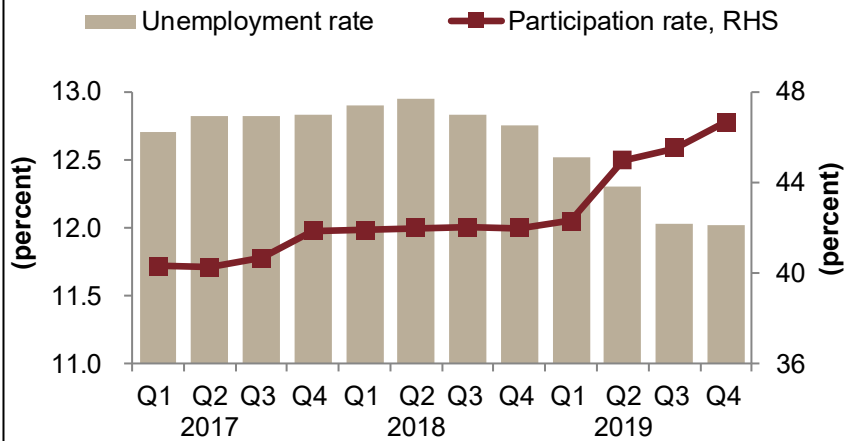


Labor Market

The Saudi unemployment rate in Q4 2019 stood at 12 percent, unchanged from the previous quarter, but down from 12.7 percent a year ago. Both male and female unemployment declined, mainly driven by a decline in youth (20-24 years old) unemployment. In 2020, we see the output of a number of sectors being negatively affected by the containment measures of COVID-19, directly affecting employment in such sectors.

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Unemployment Rate and Labor Force Participation Rate



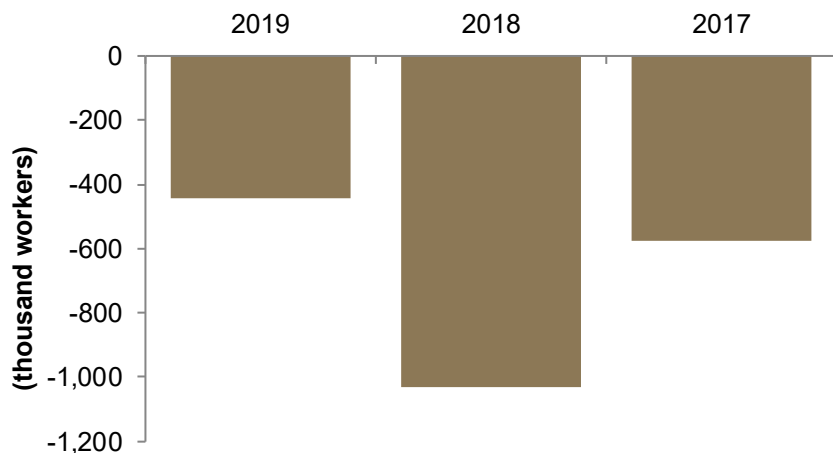
Sectors' exposure to the negative impact of the COVID-19 (numbers as of Q4 2019)

Although a number of sectors which have a large number of Saudi workers are likely to be negatively affected by the containment measures related to COVID-19, a number of measures introduced at an early stage (such as the payment of 60 percent of salaries for nationals for up to three months) should mitigate the impact on employment levels.

Economic sector	Impact on economic output	Level of employment	Saudi workers	% of Saudis in total
Wholesale & retail	High	1,937,468	430,889	22.2
Arts & entertainment	High	24,143	6,598	27.3
Accommodation & food serv.	High	403,651	77,060	19.1
Transport	High	241,397	57,805	23.9
Manufacturing	High	824,736	195,893	23.8
Real estate & business	High	35,611	10,659	29.9
Mining	Medium	184,529	115,250	62.5
Construction	Medium	2,252,257	286,488	12.7
Agriculture	Medium	85,240	14,893	17.5
Utilities	Medium	91,048	42,660	46.9
ICT	Low	72,082	36,689	50.9
Financial services	Low	74,291	61,782	83.2
Human health	Low	352,279	169,483	48.1
Education	Low	153,554	86,817	56.5

Number of Expats Leaving the Labor Market (on a net basis)

In 2019, 445 thousand expat left the Kingdom on a net basis (vs. around one million in 2018). In 2020, we expect to see the number of expat departures to rise again, affected by the slowdown in business activity. This, in turn, will result in a drop in remittances, with the World Bank expecting global remittances to fall by 20 percent year-on-year in 2020.



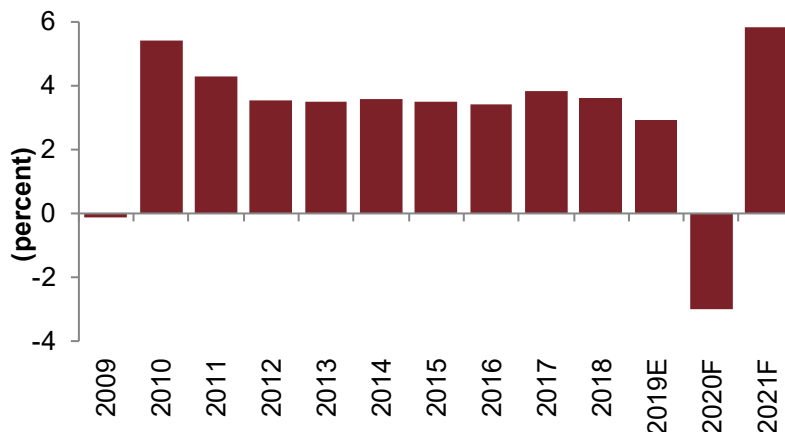


Global Economy

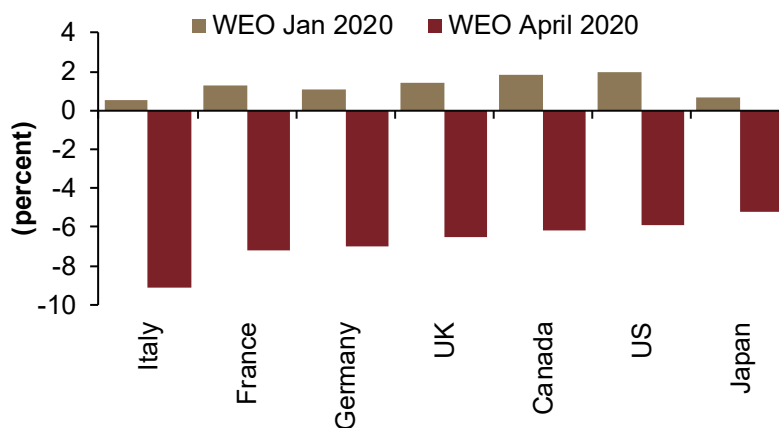
According to the International Monetary Fund's (IMF) April edition of the World Economic Outlook (WEO) report, the global economy is projected to contract by 3 percent in 2020. The WEO report also states that this year's recession will be the worst since the Great Depression of 1929, and therefore considerably worse than the global financial crisis of 2008/2009.

According to the IMF's WEO report, the global economy is projected to contract by 3 percent in 2020. The IMF's base line projection also assumes that the pandemic fades in H2 2020, and that the global economy rebounds strongly by 5.8 percent in 2021.

IMF Global GDP Growth
(2020/21 forecasts)

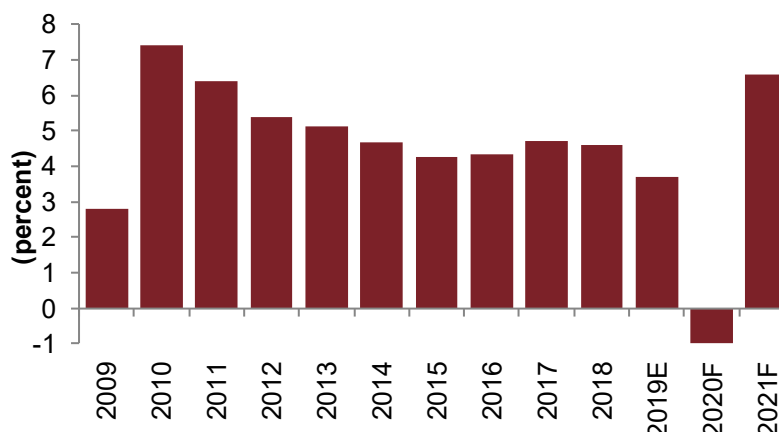


IMF G7 GDP Growth
(2020/21 forecasts)



Sizable revisions in growth were seen in the largest advanced (Group of Seven, G7), economies.

IMF Emerging Market GDP Growth
(2020/21 forecasts)



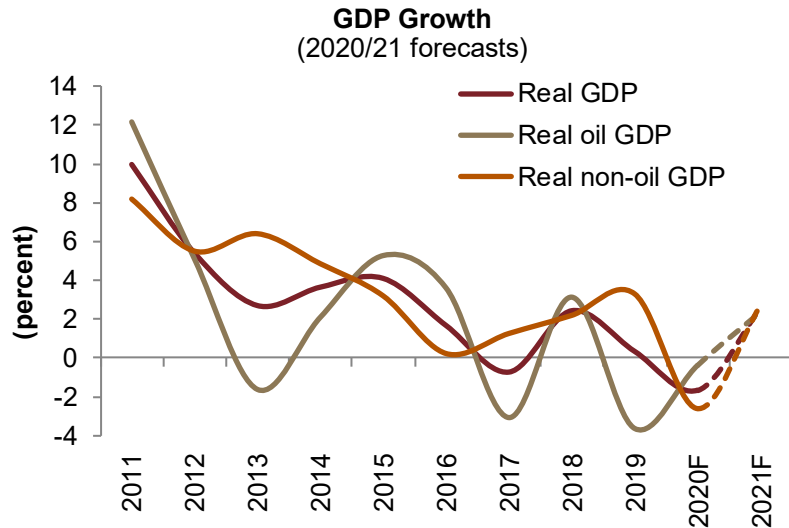
Meanwhile, the IMF expects the contraction in emerging markets to be much less severe overall, with 2020 seeing a mild decline of -1 percent.



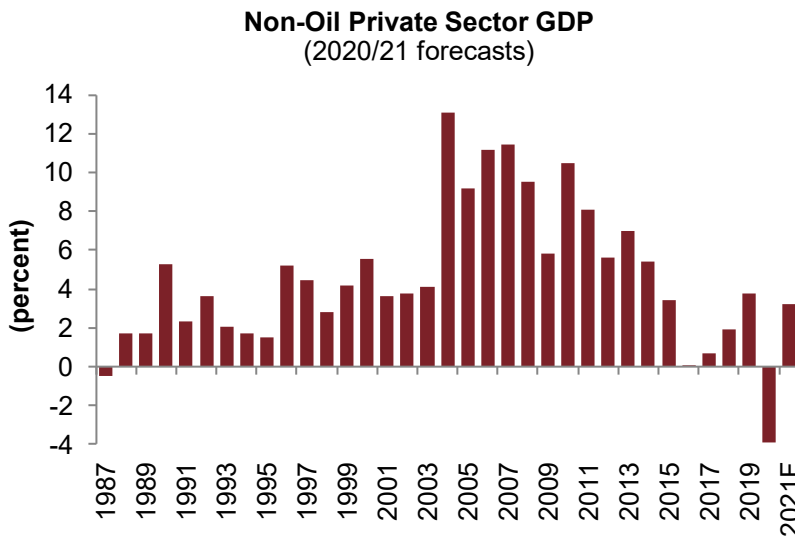
Domestic Economy

We have updated our economic forecast for Saudi Arabia to incorporate both oil market and domestic developments. Overall, we now expect the Kingdom's GDP to contract by 1.7 percent in 2020, with both oil (-0.4 percent) and non-oil GDP (-2.6 percent) declining during the year, with non-oil private sector growth expected to contract by 3.9 percent.

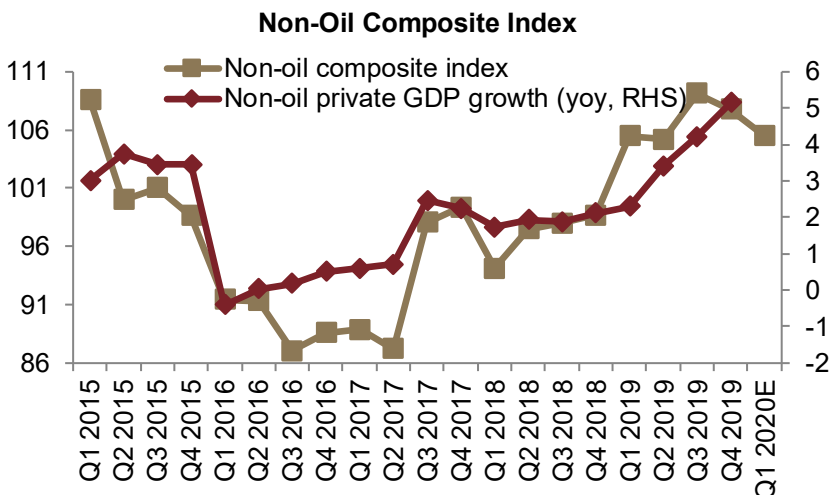
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...with the non-oil private sector growth expected to contract for the first time in 33 years, by 3.9 percent...



...as our non-oil composite index shows a decline in non-oil private sector activity in Q1 2020. We expect Q2 non-oil private growth to decline significantly, reflecting the downturn in economic activity as a result of the preventative measures related to COVID-19.

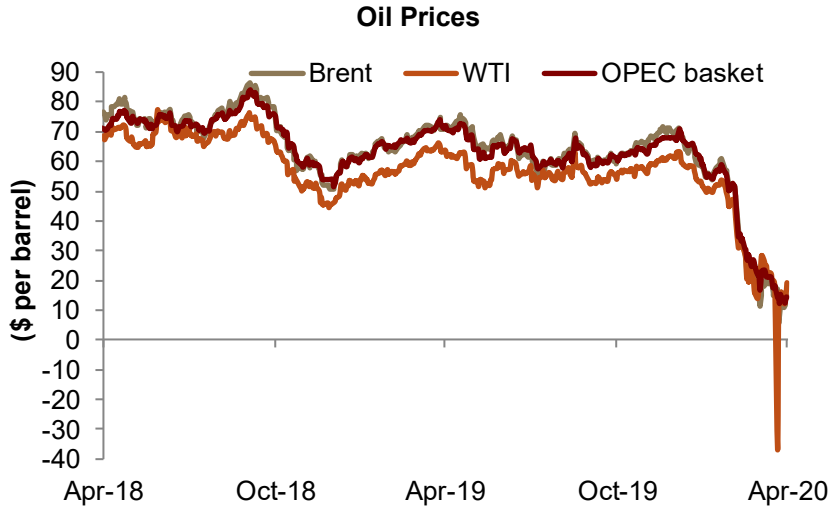




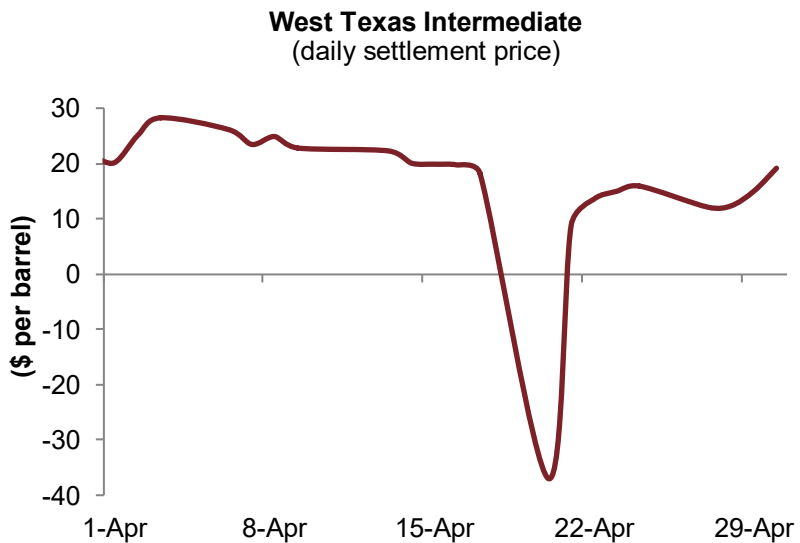
Oil - Global

Brent oil prices dropped 54 percent, whilst WTI dropped 43 percent month-on-month in April. More remarkable was the fact that WTI closed negative \$37pb on 20th of the month, before recovering. This historic fall came about as traders rushed to sell futures contracts of WTI rather than taking physical delivery of the oil, with storage space at the delivery point in Cushing, US, being fully leased or utilized.

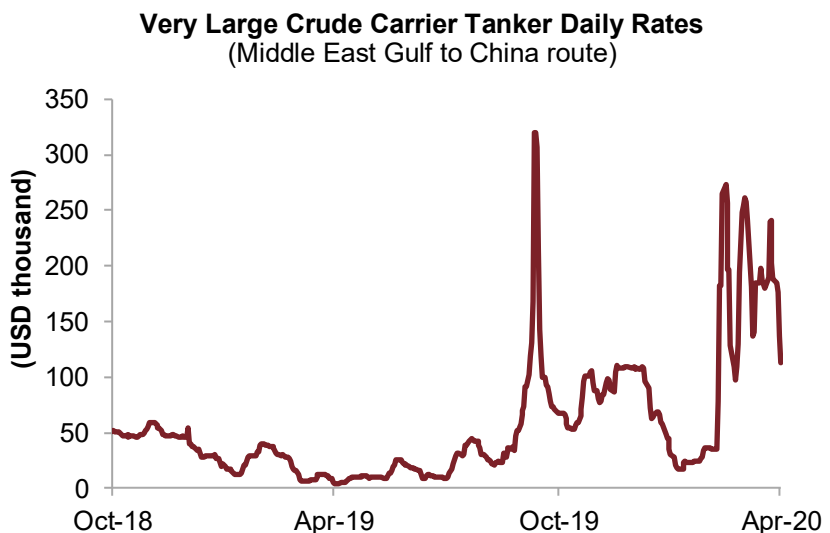
Brent oil prices dropped 54 percent, whilst WTI dropped 43 percent month-on-month in April, with concerns over a free fall in demand as a result of COVID-19 persisting.



More remarkable was the fact that WTI closed negative \$37pb on 20th of the month, before recovering. This historic fall came about as traders rushed to sell futures contracts of WTI rather than taking physical delivery of the oil, with storage space at the delivery point for WTI in Cushing, US, being fully leased or utilized.



Whilst, in theory, Brent could turn negative, it is less likely to do so because of i) multiple delivery points for the oil benchmark and ii) the fact that more storage can be created by leasing oil tankers, or Very Large Crude Carriers (VLCCs). In fact, the recent uptick in daily lease rates for VLCCs suggests this is already occurring.



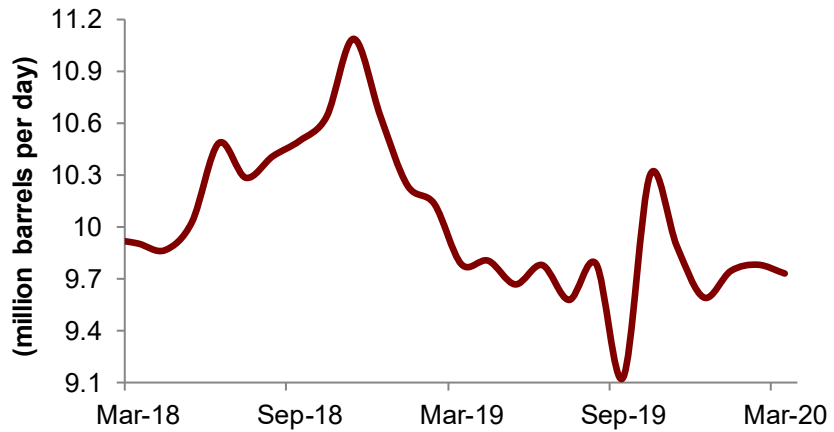


Oil - Regional

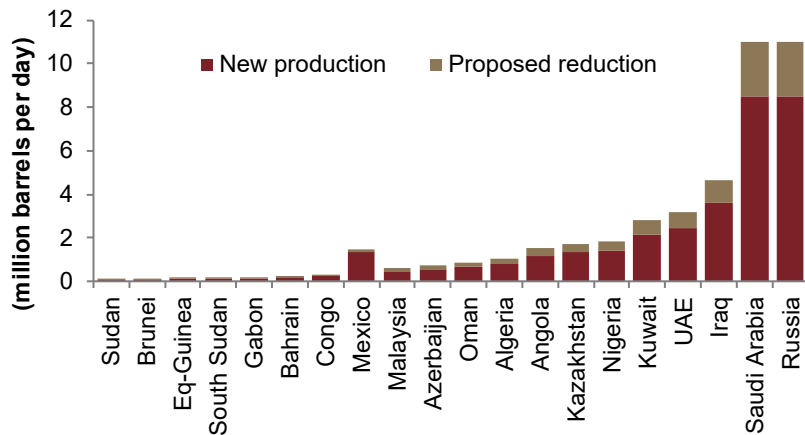
Saudi crude oil production in the first four months of 2020 is expected to average 10.3 million barrels per day (mbpd). Looking ahead, under the current OPEC+ agreement, the Kingdom is expected to hit 8.5 mbpd in May and June, and then 9.1 mbpd in H2 2020. As a result, we now expect Saudi crude oil production to average 9.4 mbpd during 2020, down from 11.4 mbpd previously.

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Average Monthly Saudi Crude Oil Production
(direct communication)

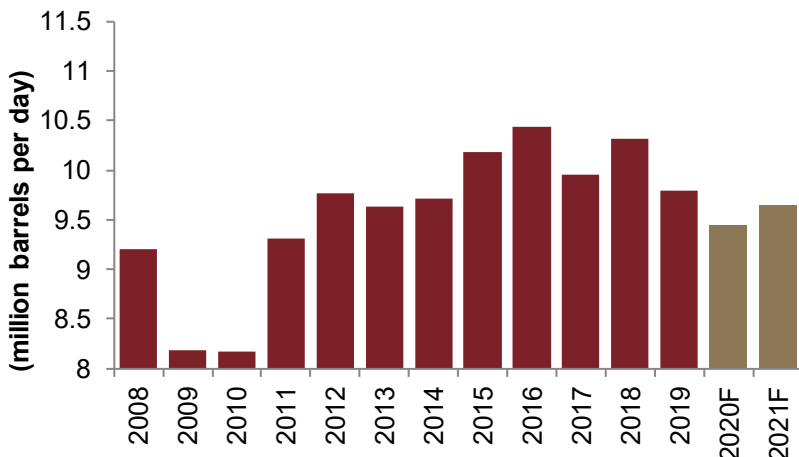


OPEC+ Output Moderation
(expected May and June)



Looking ahead, under the current OPEC+ agreement, the Kingdom is expected to hit 8.5 mbpd in May and June, and then 9.1 mbpd in H2 2020...

Saudi Crude Oil Production
(annual average)



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Exchange Rates

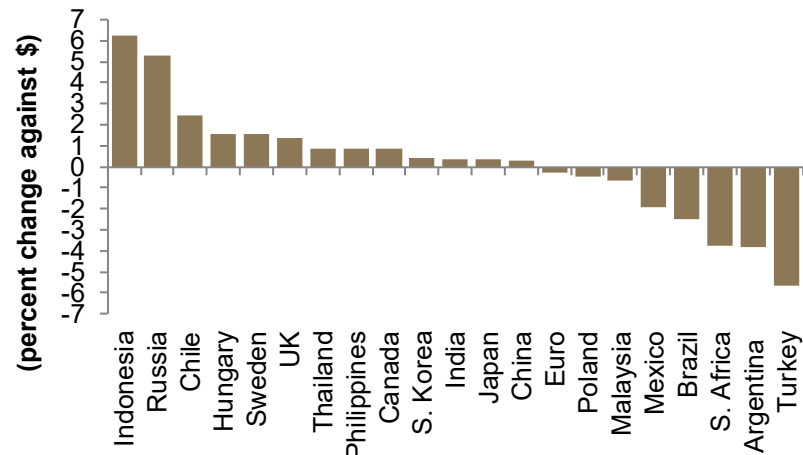
A number of currencies gained against the US dollar during April, reversing some of the losses seen last month. That said, with continued volatility in global equity and oil markets, the dollar, being a safe haven asset, is still trading close to multi-year highs. Meanwhile, the US Dollar/Riyal one year forward rate remains slightly elevated due to speculative activity.

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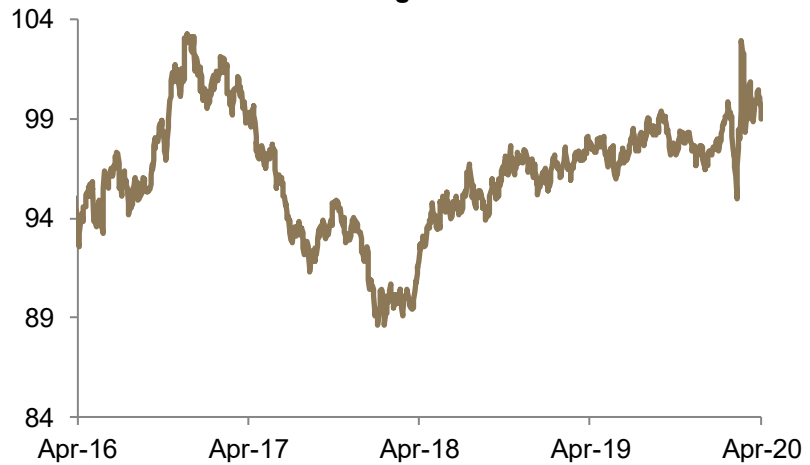
That said, with continued volatility in global equity and oil markets, the dollar, being a safe haven asset, is still trading close to multi-year highs.

Meanwhile, the US Dollar/Riyal one year forward rate remains slightly elevated compared to recent levels. Whilst we see speculative activity driving this up further in the weeks ahead, it is still likely to remain below levels seen in 2015/16.

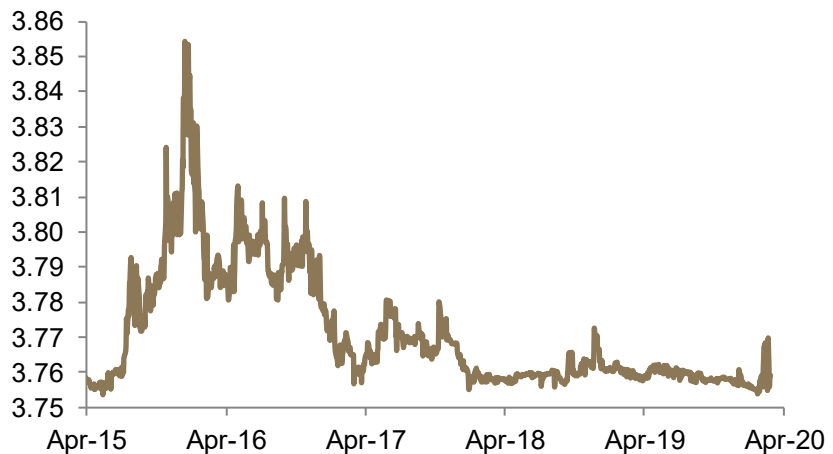
Monthly Gain/Loss Against US Dollar
(April 2020)



Trade Weighted Dollar



US Dollar/Riyal One Year Forward Rate
(USD/Saudi riyal peg = 3.75)

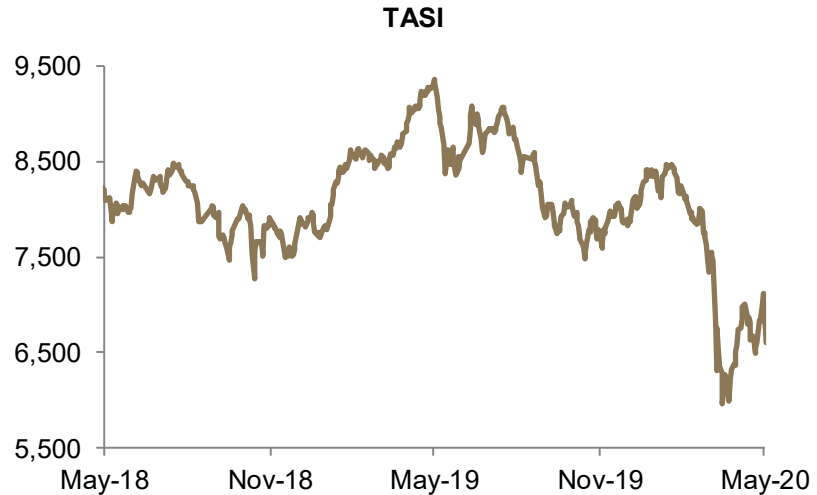




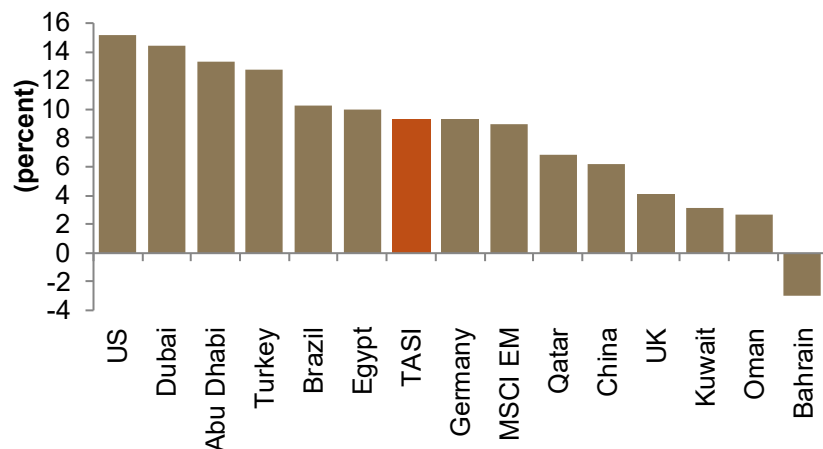
Stock Market

TASI rose by 9.3 percent month-on-month in April. However, most of these gains were wiped out on the first day of trading in May as investor sentiment turned negative on the back of anticipated cuts in government expenditure and sharp economic contraction. Most major regional and global indices saw sizable recoveries during April as a number of countries started formulating plans to restart their respective economies in the next month or so.

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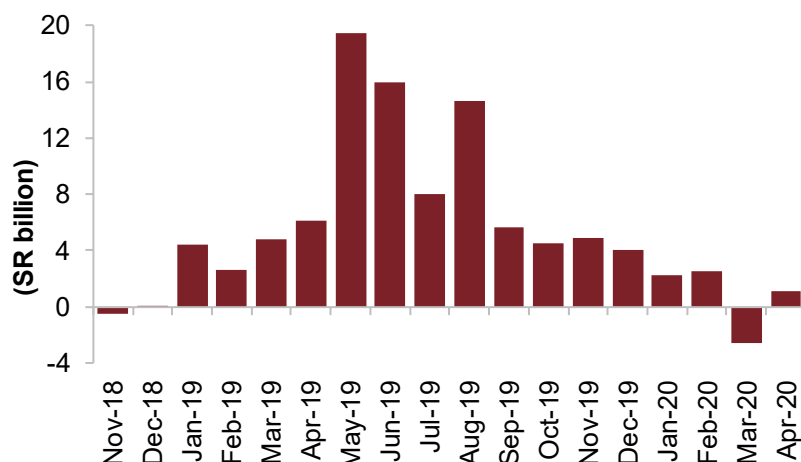


Comparative Stock Market Performance
(April 2020)



Most major regional and global indices saw sizable recoveries during April as a number of countries started formulating plans to restart their respective economies in the next month or so.

Net purchases of SWAPs and buying by QFIs
(monthly total)



Meanwhile, a rebound in TASI in April was accompanied by a resumption of buying of SWAPs and QFI inflows during the month.



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