



Summary

Real Economy: The partial easing of lockdown restrictions in May reflected a mild improvement in some economic indicators during the month. Specifically, non-oil PMI, whilst remaining contractionary, rose month-on-month to 48.1, boosted by higher output and new orders.

Consumer Spending: Despite the partial easing of lockdowns in May, POS transactions were down by 15.7 percent year-on-year.

Index of Industrial Production: The index of non-oil manufacturing declined by 32.1 percent year-on-year in April. A breakdown of manufacturing industries show that most manufacturers saw declining production during the month.

Government Finance: The net monthly change to government accounts with SAMA declined by SR22 billion month-on-month in May, which came mainly as a result of a decrease in government reserves.

SAMA Foreign Reserve Assets: SAMA FX reserves rose marginally month-on-month in May, with a rise of \$0.7 billion, following a 3-month decline by \$53 billion.

Money Supply: The broad measure of money supply (M3) rose significantly in May, by 10.2 percent year-on-year, and by 2 percent month-on-month.

Bank Deposits: Bank deposits rose by 10.4 percent year-on-year in May, affected by the rise in demand deposits by 15.7 percent year-on-year.

Bank Credit: Total bank claims rose by 12.5 percent in May year-on-year.

Inflation: Prices rose in May by 1.1 percent year-on-year, and declined by 0.2 on a monthly basis.

GDP Q1 2020: Data on Q1 2020 real GDP showed that the economy contracted by 1 percent, year-on-year. The oil sector declined by 4.6 percent, whilst non-oil GDP rose by 1.6 percent.

Balance of Payments: Q1 2020 data showed that the current account surplus stood at \$2.9 billion (vs. \$13.8 billion in Q1 2019).

Oil-Global: Brent oil prices rose for the second consecutive month in June, due to strong compliance from OPEC and partners (OPEC+) and progressive easing of lockdowns in some parts of the world.

Oil-Regional: Saudi Arabia's oil exports have not fallen as sharply as oil production in recent months due to domestic energy consumption also declining.

Exchange Rates: The trade weighted dollar held steady during the month, but future movements may be influenced by developments around the pandemic and its potential impact on the economic recovery in the US.

Stock Market: TASI was virtually unchanged month-on-month in June. Looking at the month ahead, without any significant developments, the index may struggle to see any upside.

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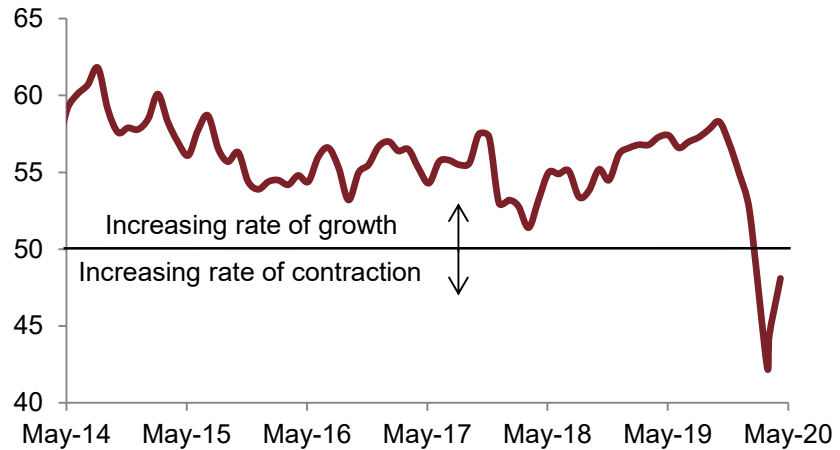


Real Economy

The partial easing of lockdown restrictions in May reflected a mild improvement in some economic indicators during the month. Specifically, non-oil PMI, whilst remaining contractionary, rose month-on-month to 48.1, boosted by higher output and new orders. That said, cement sales and production continued to decline in May, by 22 and 24 percent year-on-year, respectively.

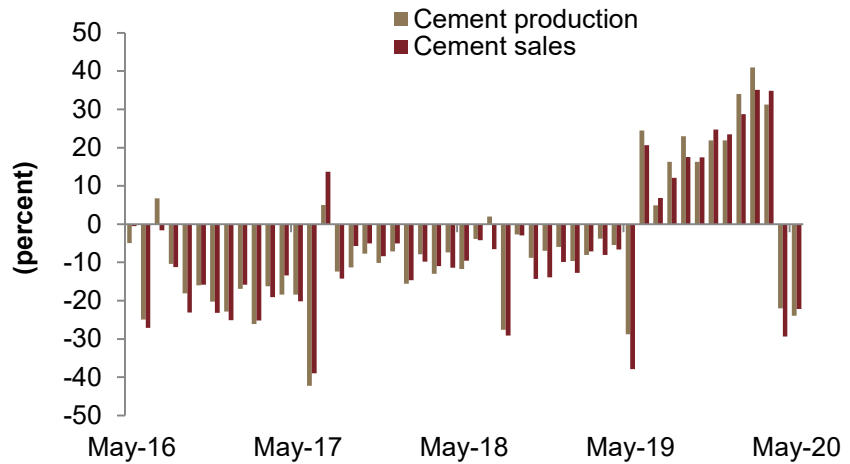
The partial easing of lockdown restrictions in May reflected a mild improvement in some economic indicators during the month. Specifically, non-oil PMI, whilst remaining contractionary, rose month-on-month to 48.1, boosted by higher output and new orders.

Non-oil Purchasing Managers' Index



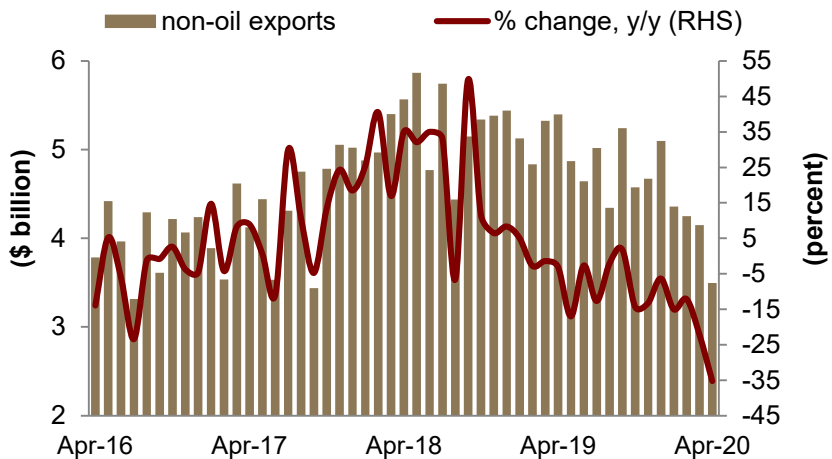
That said, cement sales and production continued to decline in May, by 22 and 24 percent year-on-year, respectively...

Cement Sales and Production
(year-on-year)



...whilst non-oil exports declined by 35 percent year-on-year in April, as exports from petrochemicals and plastics were down by 33 and 20 percent year-on-year, respectively.

Non-Oil Exports
(year-on-year change)



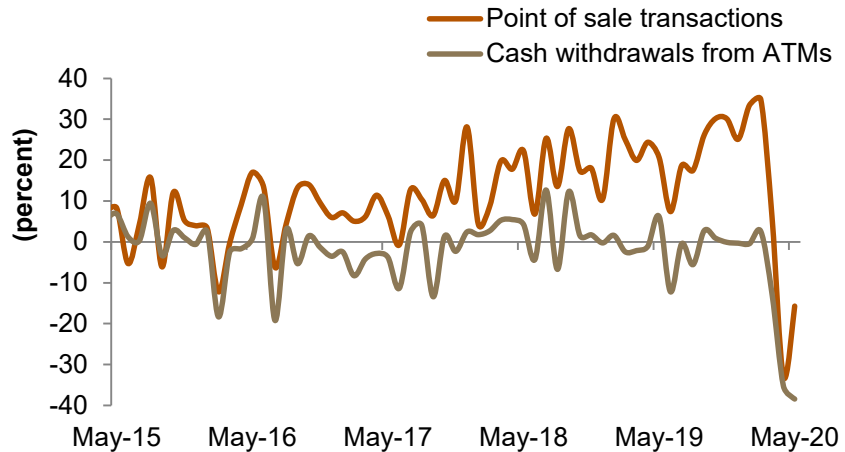


Consumer Spending

Despite the partial easing of lockdowns during most of May, POS transactions were down by 15.7 percent year-on-year, likely effected by a stricter lockdown during the last week of the month. Meanwhile, cash withdrawals were down by 38 percent year-on-year. On a sectorial basis, POS transactions were down in most categories except food & beverages, which continued to show yearly rises.

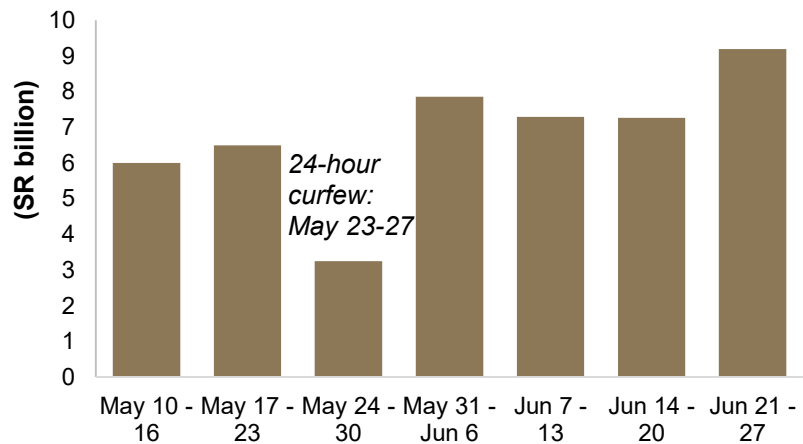
POS transactions were down by 15.7 percent year-on-year in May, but saw a rebound by 45 percent month-on-month.

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

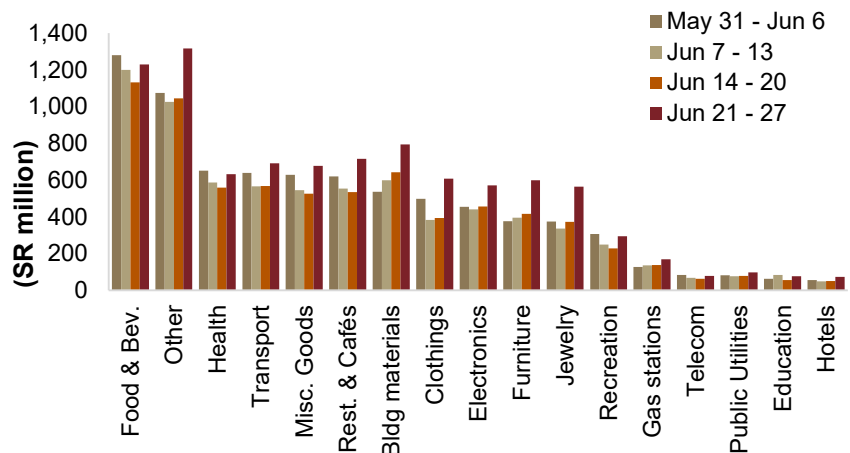


Despite the partial easing of lockdowns during most of May, POS transactions were down by 15.7 percent year-on-year, likely effected by a stricter (5-day 24 hour curfew) lockdown during the last week of the month. In the first week of June, POS transactions saw a significant rebound...

Latest Weekly POS Transactions
(SR Billion)



Latest Weekly POS Transactions by Sector
(SR Million)



...with some sectors witnessing an upward trend, such as building material and furniture, which were likely boosted by higher demand before the rise in VAT from July onwards (for more on this please refer to our recent [Inflation update](#))

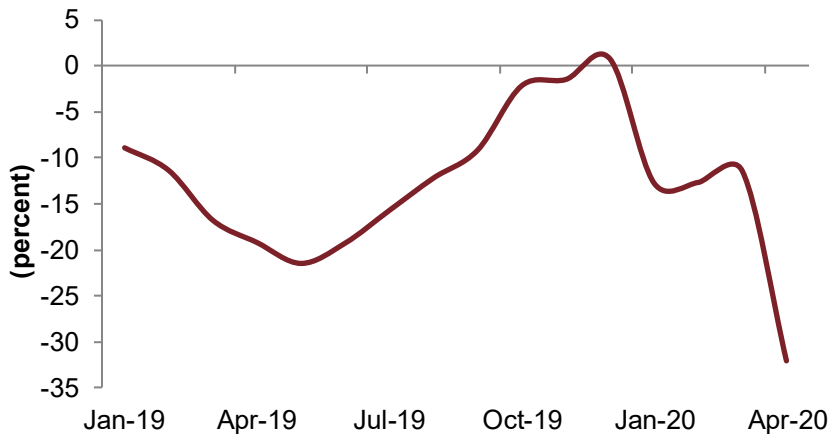


Index of Industrial Production (IIP)

The index of non-oil manufacturing declined by 32.1 percent year-on-year in April. A breakdown of manufacturing industries show that most manufacturers saw declining production in April, with the steepest declines seen in 'wearing apparel'. New investments in the non-oil manufacturing sector declined further in May month-on-month, indicating further negative impact on this sector in the months ahead.

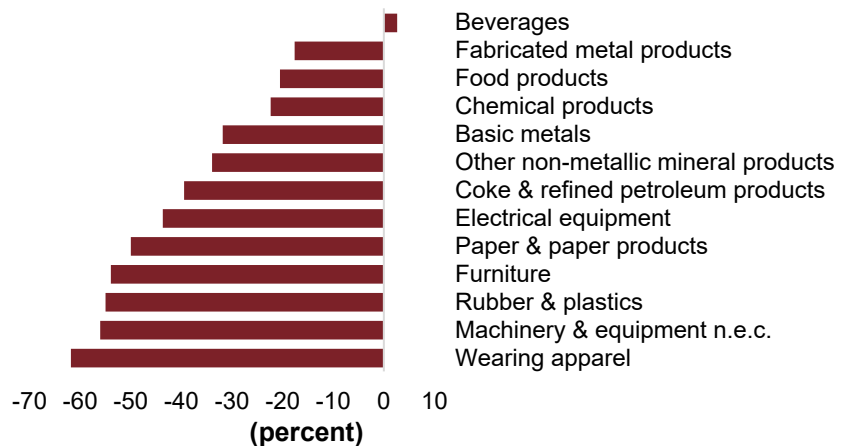
The index of non-oil manufacturing declined by 32.1 percent in April, year-on-year.

Index of Industrial Production - Non-Oil Manufacturing
(year-on-year change)



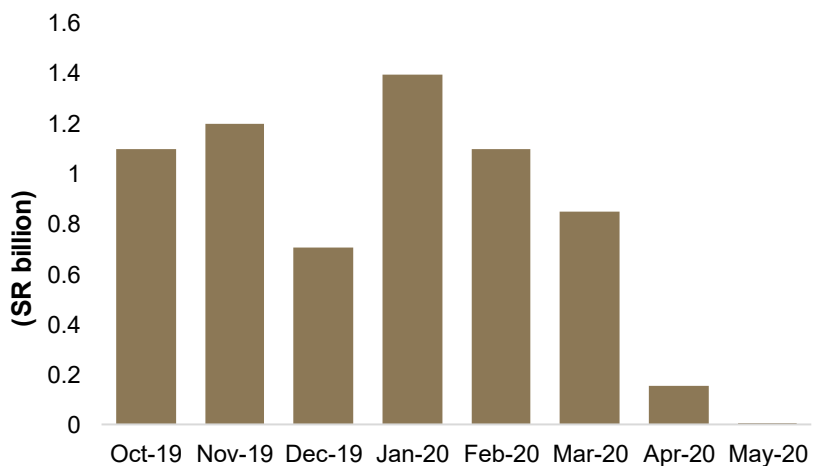
Non-Oil Manufacturing Production in April 2020
(year-on-year change)

The steepest declines were seen in wearing apparel and machinery and equipment, during April.



New Monthly Investments in Non-Oil Manufacturing

New investments in the non-oil manufacturing sector declined further in May month-on-month, indicating further negative impact on this sector in the months ahead.



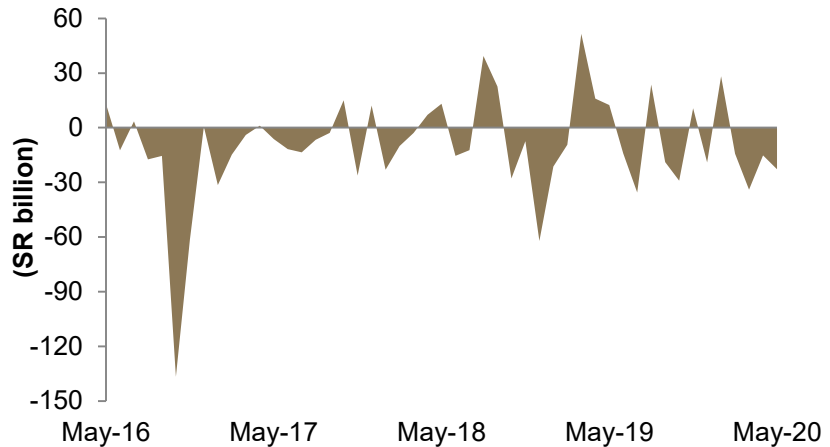


Government Finance

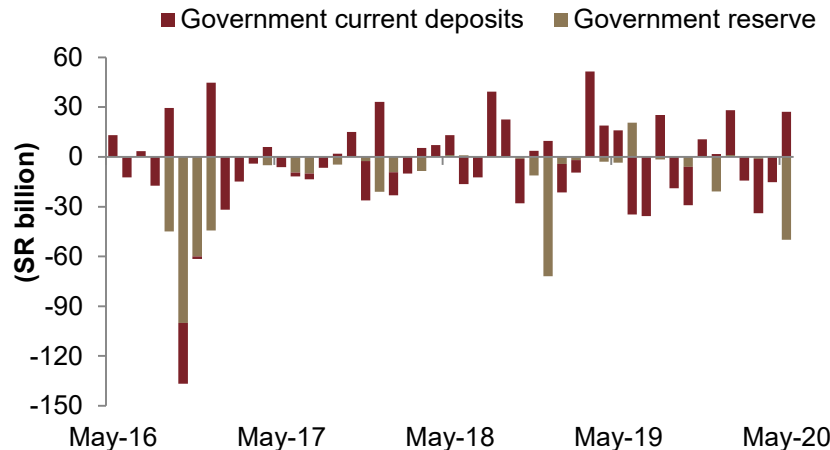
The net monthly change to government accounts with SAMA showed a decline of SR22 billion month-on-month in May. The breakdown shows the decline came wholly from a drop in government reserves by SR50 billion, whilst government current deposits rose by SR27 billion, month-on-month. At the same time, domestic banks net holdings of government debt rose by almost SR7 billion in May.

The net monthly change to government accounts with SAMA declined by SR22 billion month-on-month in May...

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

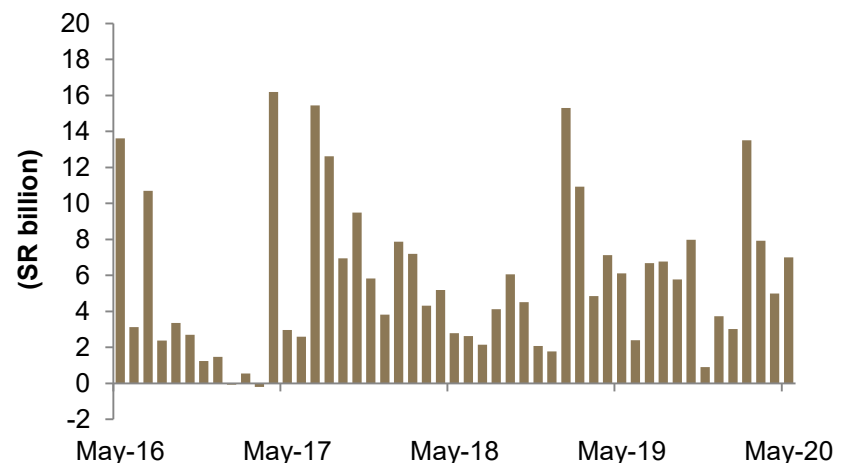


Breakdown of Government Accounts with SAMA
(month-on-month change)



...the breakdown shows the decline came wholly from a drop in government reserves by SR50 billion, whilst government current deposits rose by SR27 billion, month-on-month. Looking ahead, we expect government accounts with SAMA to continue declining for the next few months.

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



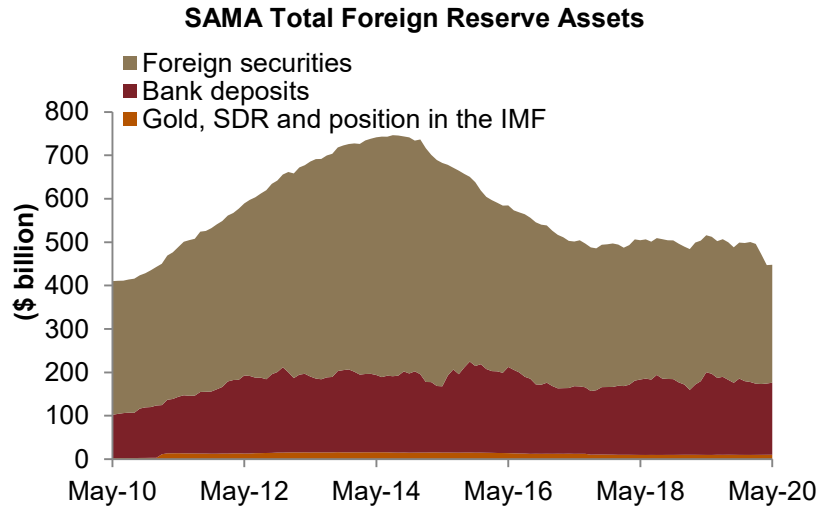
Domestic banks net holdings of government debt rose by almost SR7 billion in May, as the Ministry of Finance (MoF) announced it has closed the May 2020 issuance under the Saudi Arabian Government SR Sukuk Program with a size of SR5.8 billion.



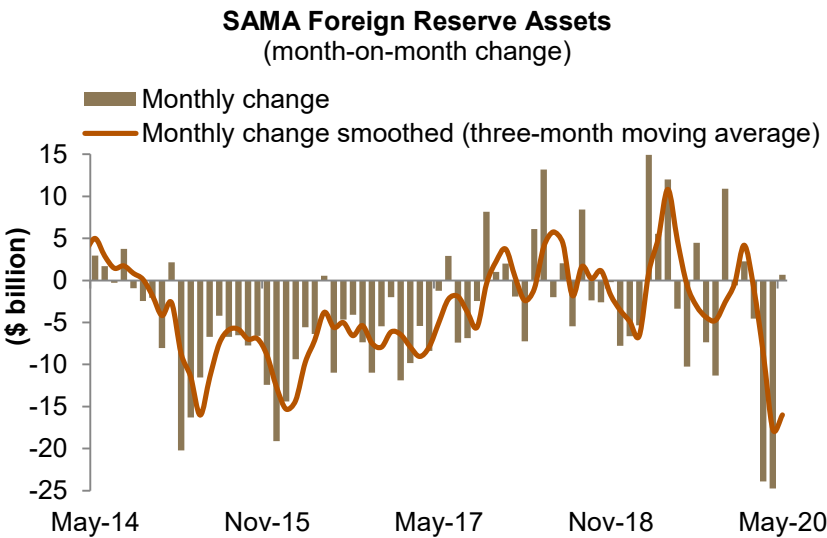
SAMA Foreign Reserve Assets

SAMA FX reserves rose marginally month-on-month in May, by almost \$0.7 billion, following a 3-month decline by \$53 billion. A breakdown of FX reserves shows a monthly increase in SAMA's bank deposits by \$2 billion, with a decline in foreign securities by \$1.2 billion during the month.

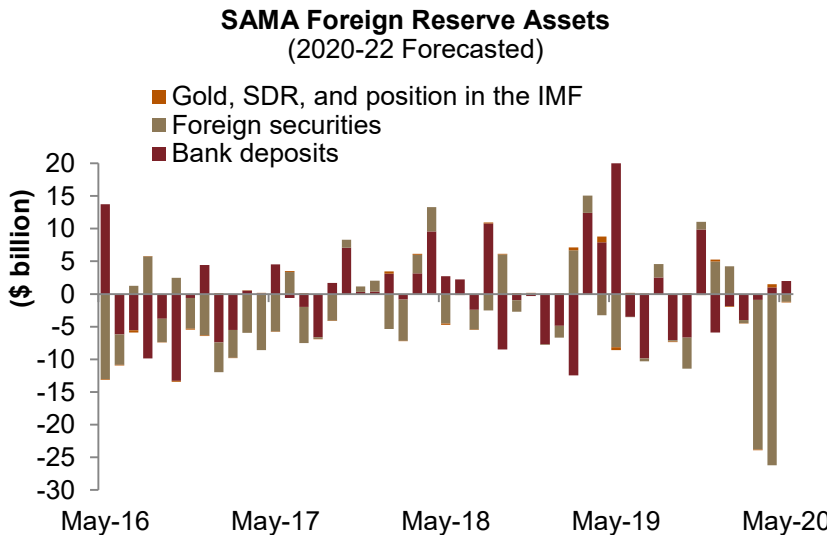
SAMA FX reserves rose marginally month-on-month in May...



...with a rise of \$0.7 billion, following a 3-month decline of \$53 billion, of which around \$40 billion was attributable to an exceptional transfer to Public Investment Fund (PIF).



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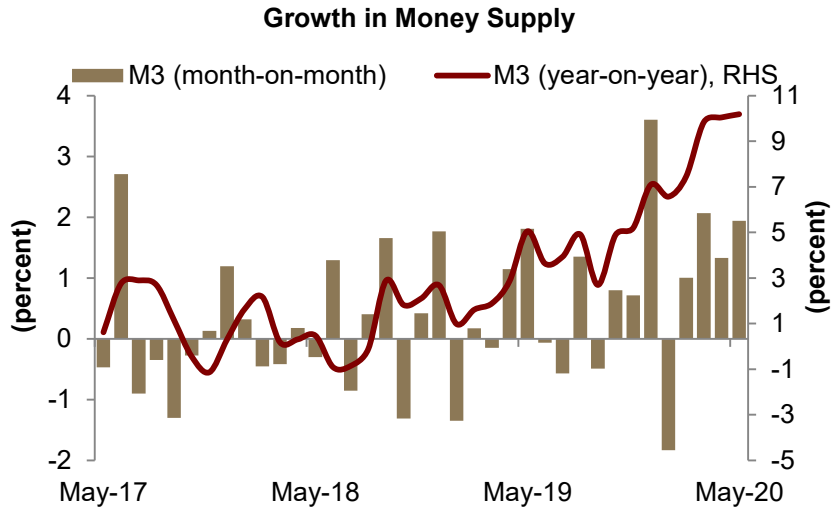




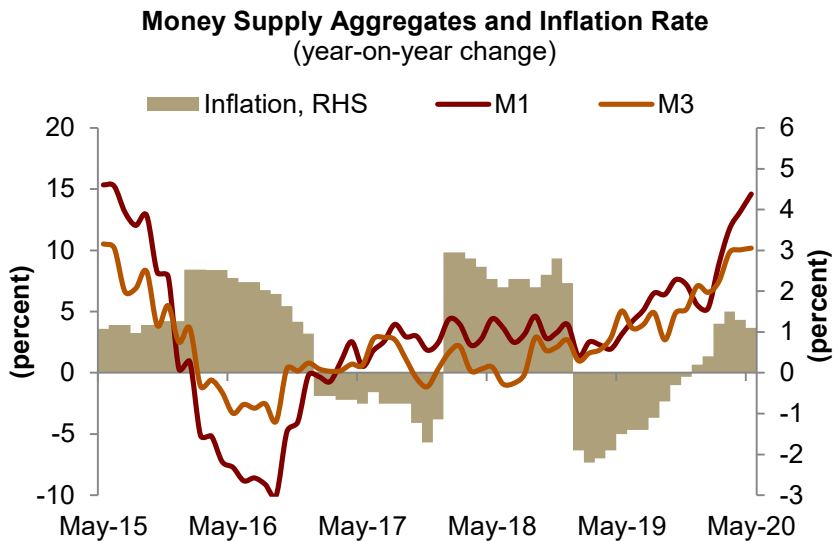
Money Supply

The broad measure of money supply (M3) rose significantly in May, by 10.2 percent year-on-year, and by 2 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 in June, year-on-year.

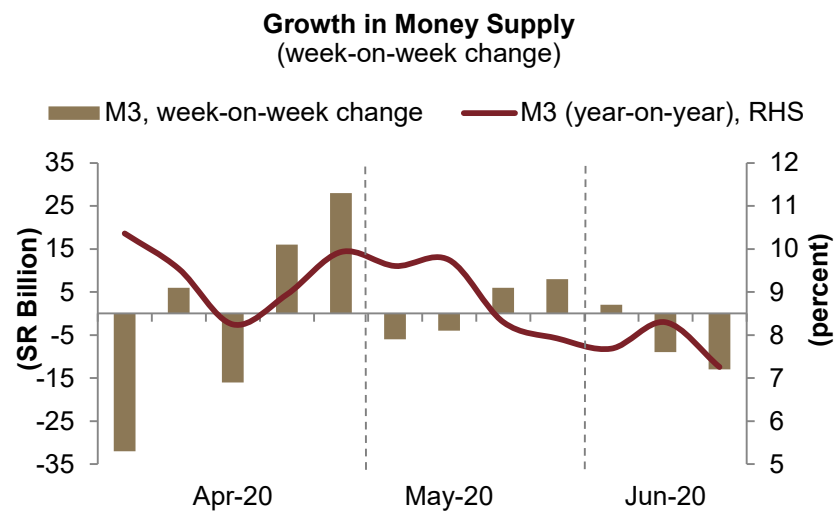
M3 rose significantly in May, by 10.2 percent year-on-year, and by 2 percent month-on-month.



M1, the narrowest measure of money supply, rose by 14.6 percent year-on-year in May, affected by a rise in both currency outside banks and demand deposits, rising by 8.5 and 15.7 percent year-on-year, respectively.



Latest weekly data shows M3 growth declining in June, year-on-year.



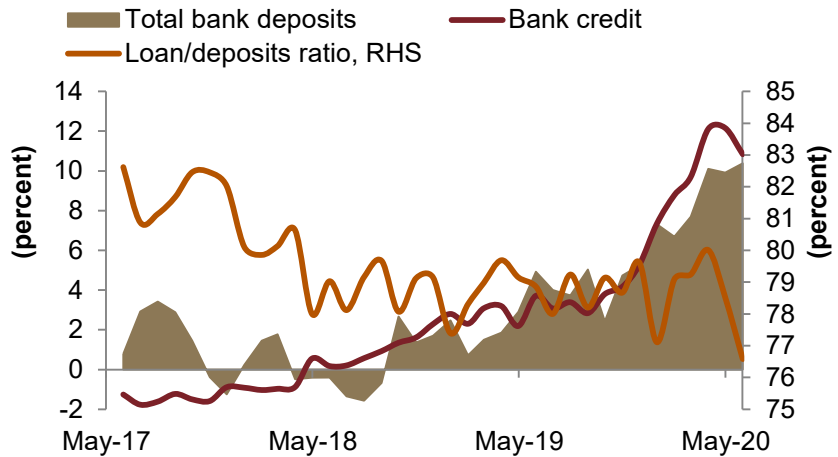


Bank Deposits

Bank deposits rose by 10.4 percent year-on-year in May, affected by the rise in demand deposits by 15.7 percent year-on-year. Meanwhile, time deposits were mostly unchanged year-on-year during the month. A breakdown of total demand deposits shows a notable rise in both private and government demand deposits, which were up 10.7 percent and 72 percent year-on-year, respectively.

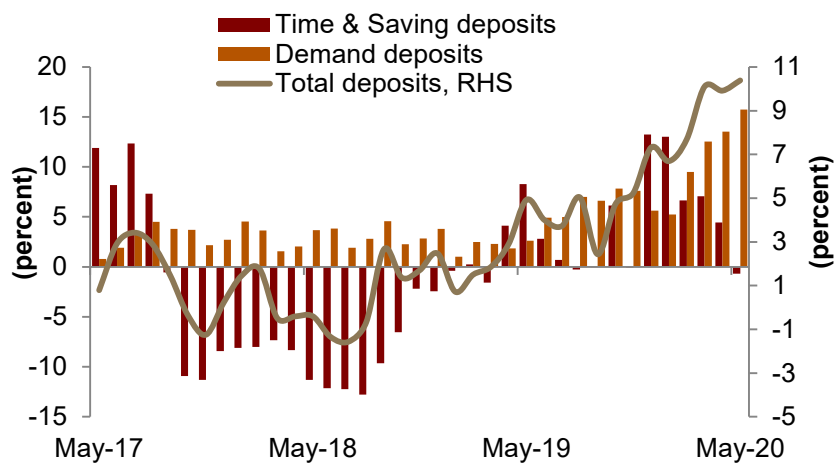
Bank deposits rose by 10.4 percent year-on-year in May...

Growth in Total Bank Deposits
(year-on-year change)



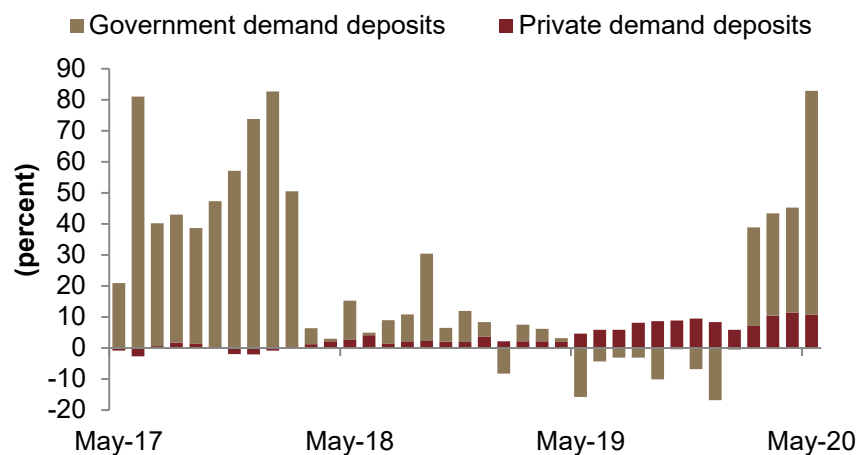
...affected by the rise in demand deposits by 15.7 percent year-on-year. Meanwhile, time deposits were mostly unchanged year-on-year during the month.

Breakdown of Total Deposits
(year-on-year change)



A breakdown of total demand deposits shows a notable rise in both private and government demand deposits, which were up 10.7 percent and 72 percent year-on-year, respectively. Looking forward, we expect demand deposits to continue rising in June, as SAMA announced it would provide the banking system with SR50 billion to support liquidity.

Breakdown of Demand Deposits
(year-on-year change)

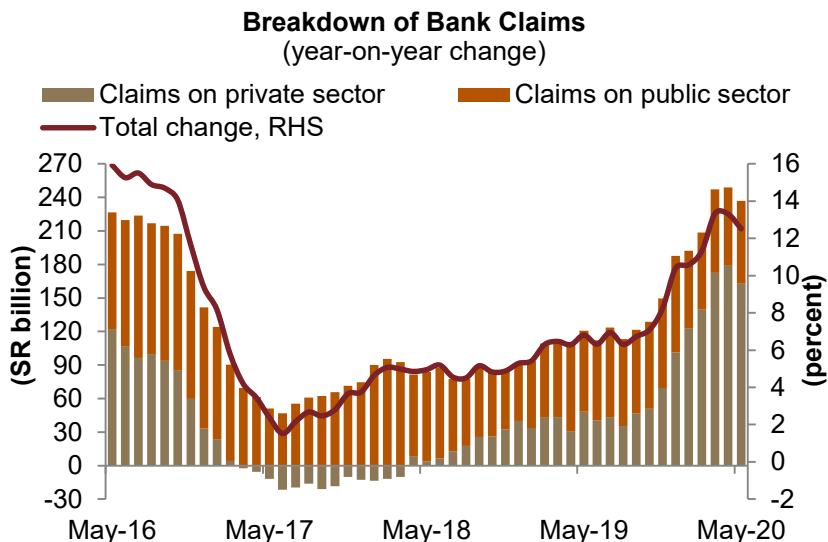




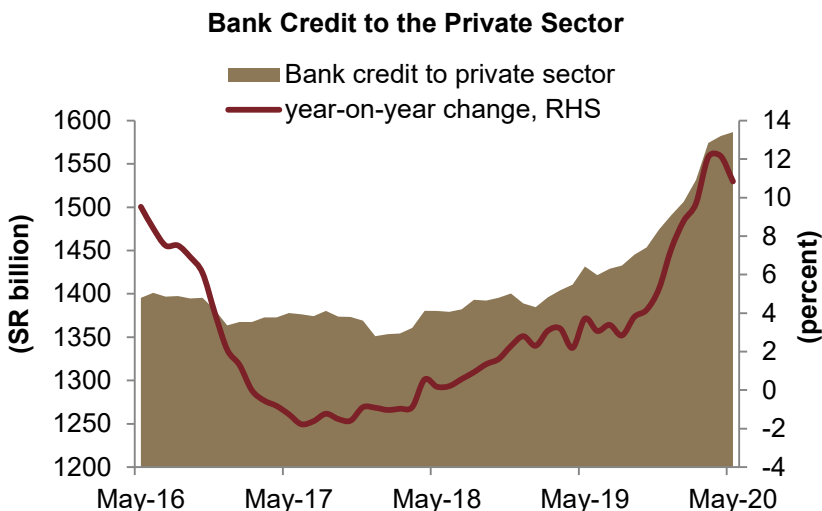
Bank Credit

Total bank claims rose by 12.5 percent in May year-on-year. Claims on the public sector were up by 18.2 percent, meanwhile, credit to the private sector rose by 10.8 percent, year-on-year. Looking forward, we expect to see further rises in credit to the private sector as a result of easing lockdown restrictions and higher business activity.

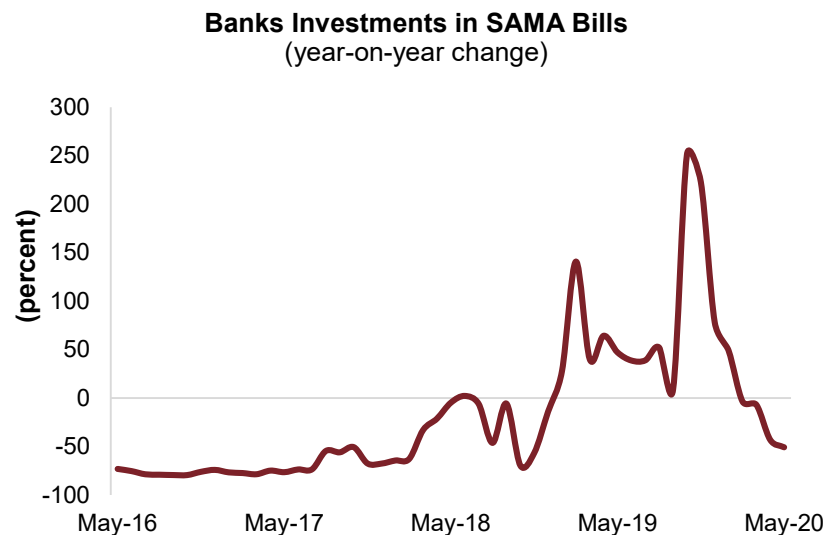
Total bank claims rose by 12.5 percent in May year-on-year. Claims on the public sector were up by 18.2 percent...



...meanwhile, credit to the private sector rose by 10.8 percent, year-on-year.



After seeing significant rises in 2019, banks investments in SAMA bills have been declining since the beginning of 2020.

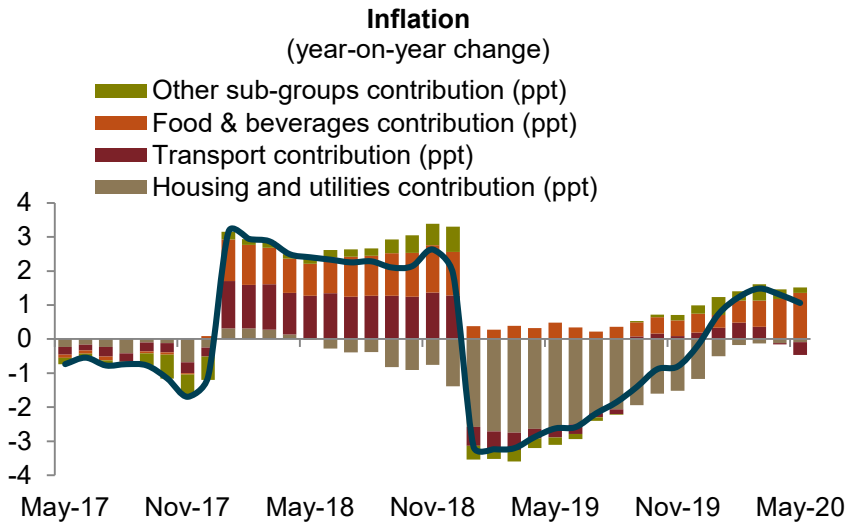




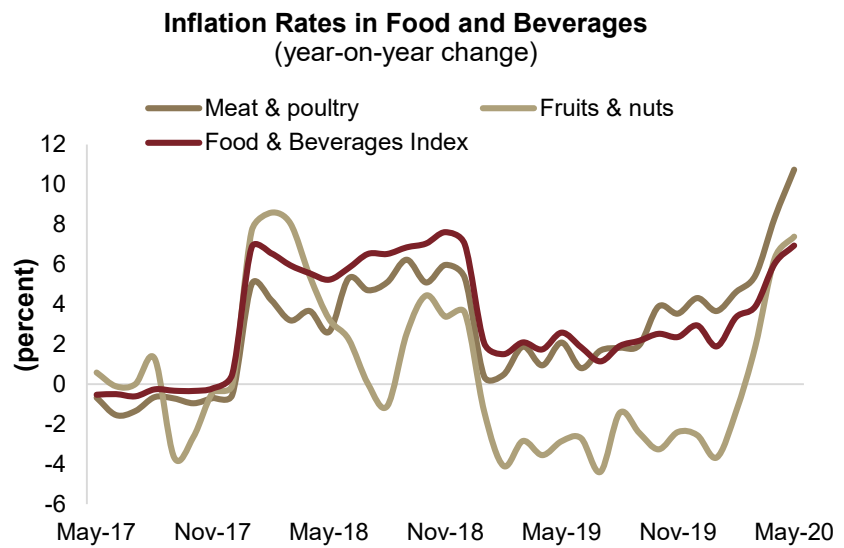
Inflation

Prices rose in May by 1.1 percent year-on-year, and declined by 0.2 on a monthly basis. Prices in 'transport' were down by 3.8 percent, affected by lower gasoline prices. Meanwhile, prices in "food and beverages" rose by 7 percent, year-on-year, and prices in "home furniture and maintenance" rose by 1.4 percent year-on-year, the highest rise since December 2018.

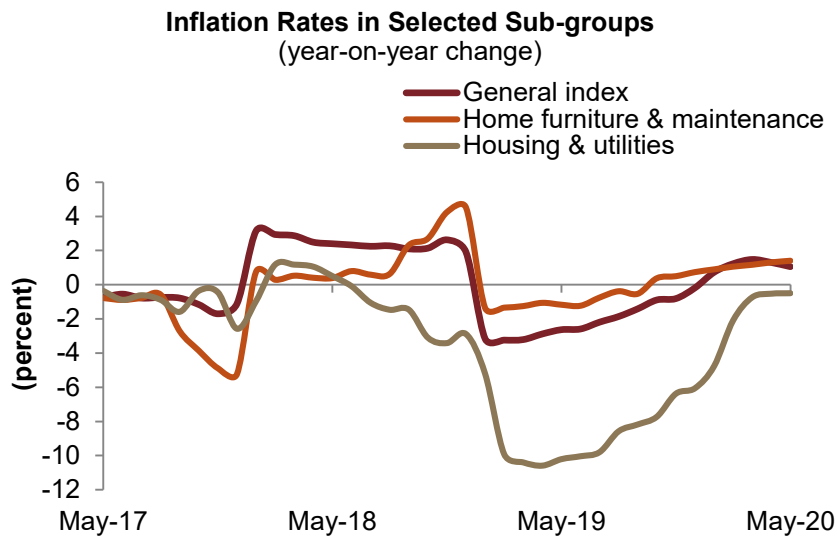
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Prices in "food & beverages" rose by 7 percent, year-on-year, boosted by higher prices in "meat & poultry" and "fruits & nuts".



Prices in "home furniture & maintenance" rose by 1.4 percent year-on-year, the highest rise since December 2018, despite lower prices in "housing & utilities".

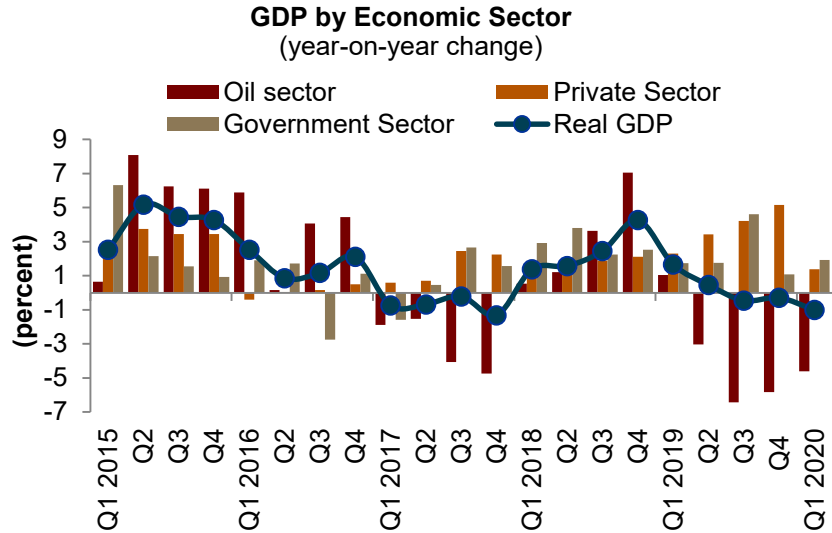




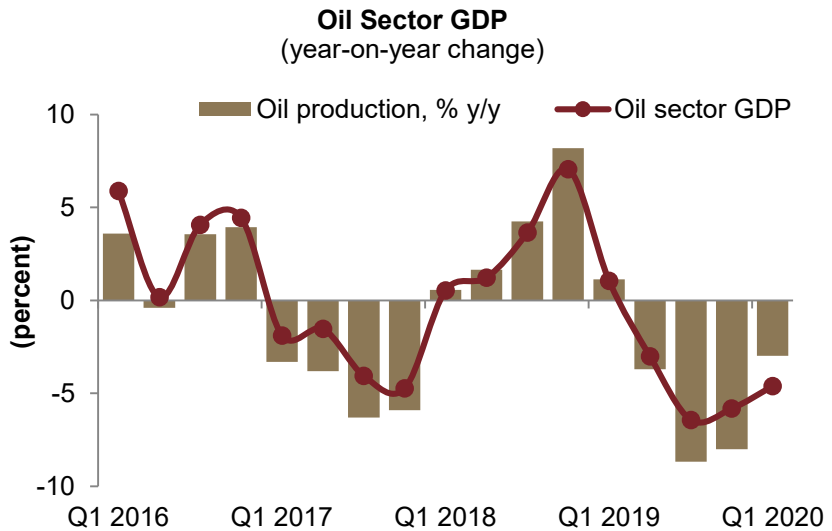
GDP Q1 2020

Data on Q1 2020 real GDP showed that the economy contracted by 1 percent, year-on-year. The oil sector declined by 4.6 percent (40 percent share of GDP), whilst non-oil GDP rose by 1.6 percent. Within the non-oil sector, non-oil private sector GDP was up 1.4 percent (41 percent share of GDP) and the government sector's GDP rose by 1.9 percent (18 percent share of GDP).

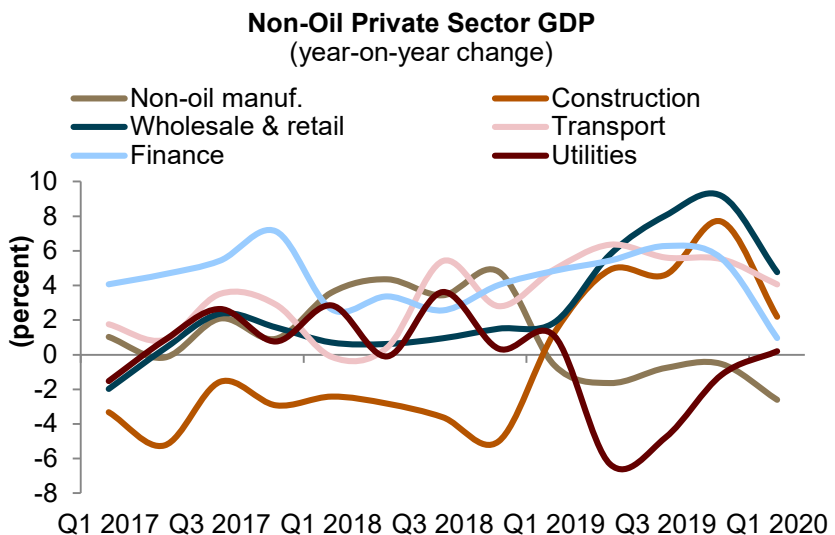
Data on Q1 2020 real GDP showed that the economy contracted by 1 percent, year-on-year...



...with the oil sector declining by 4.6 percent. Looking ahead, we expect oil and non-oil GDP to show steep declines in Q2 2020, reflecting both Saudi Arabia's lower oil output as part of OPEC+ agreement and the effects of pandemic induced lockdowns on the non-oil economy.



On the non-oil private sector side, 'wholesale & retail', and 'transport' were the best performers, rising by 4.8 percent and 4.1 percent year-on-year, respectively. Meanwhile, 'non-oil manufacturing' and 'ownership of dwellings' declined by 2.6 percent and 1.4 percent year-on-year, respectively, during Q1.





Balance of Payments

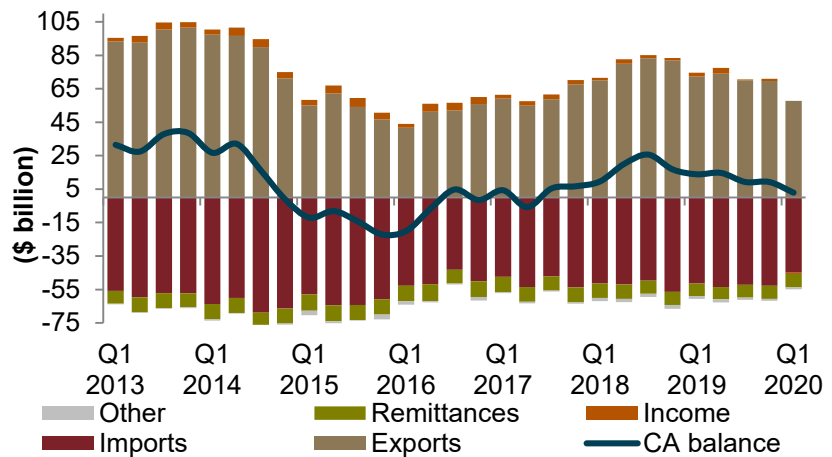
Q1 2020 data showed that the current account surplus stood at \$2.9 billion (vs. \$13.8 billion in Q1 2019). The decline was mainly due to a decline in oil exports (-22 percent year-on-year) and non-oil exports (-17 percent year-on-year), although imports were also lower (-13 percent year-on-year). We expect the current account to flip into mild deficit in Q2 2020.

Q1 2020 data showed that the current account surplus stood at \$2.9 billion (vs. \$13.8 billion in Q1 2019). The decline was mainly due to a decline in oil exports (-22 percent year-on-year) and non-oil exports (-17 percent year-on-year), although imports were also lower (-13 percent year-on-year).

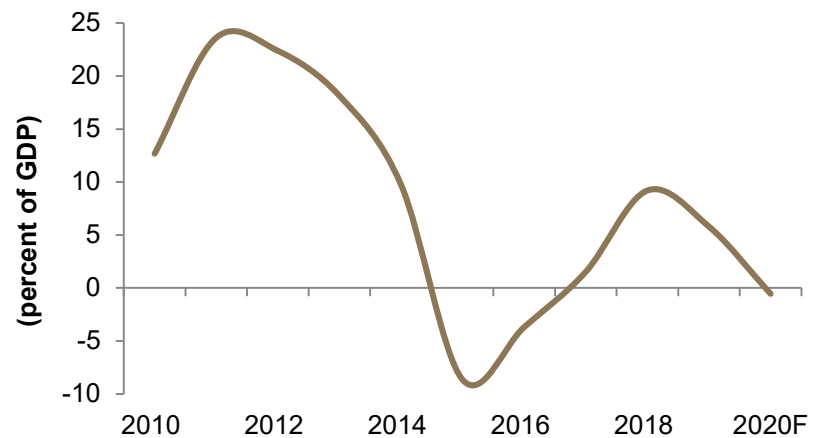
Whilst we expect declines in both oil and non-oil exports this year, we also expect to see lower yearly imports and the invisible balance to shrink as well. Overall, we expect a mild current account deficit of -0.4 percent of GDP in 2020.

Foreign Direct Investment (FDI) into the Kingdom was up 29 percent year-on-year in Q1 2020, to a total of \$1.6 billion. Looking ahead, the spread of COVID-19 globally will make attracting FDI a difficult task in 2020, with the United Nations Conference on Trade and Development (UNCTAD) recently stating that global FDI flows could fall by 30-40 percent over the next couple of years.

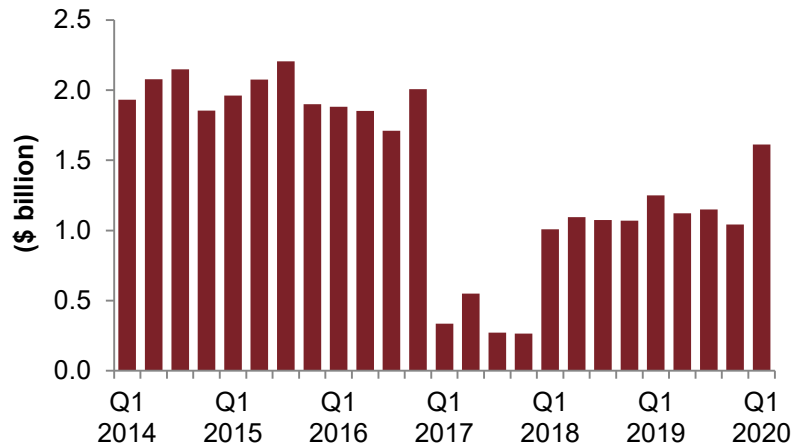
Current Account Balance



Current Account Balance (forecast)



Foreign Direct Investment

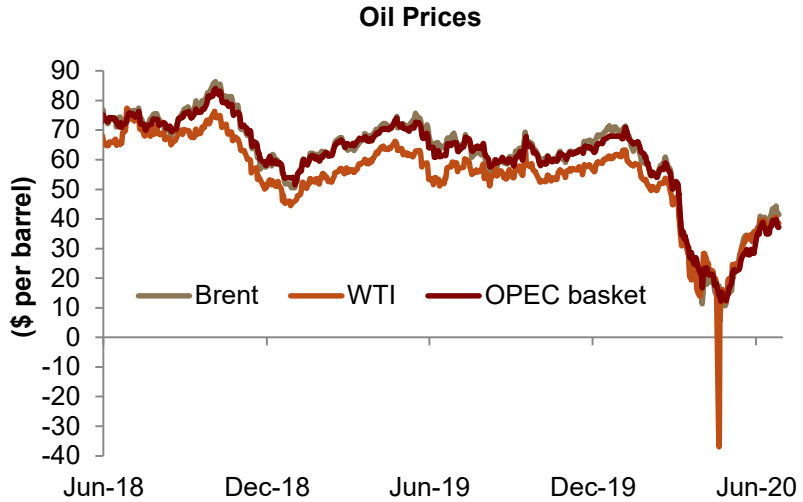




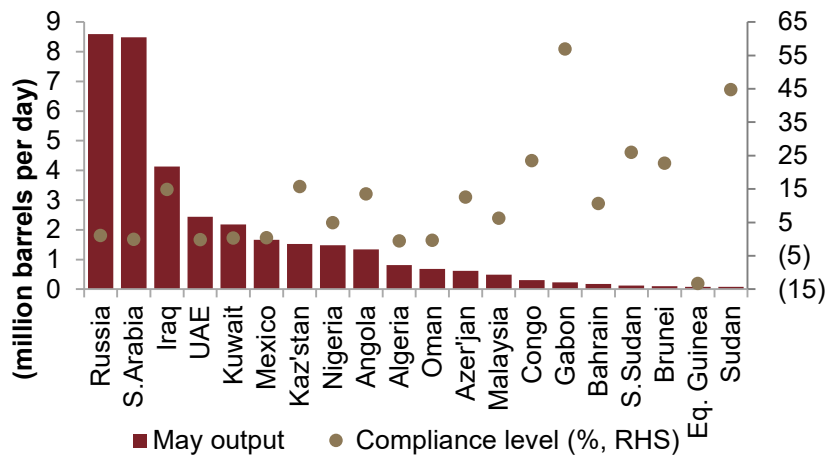
Oil - Global

Brent oil prices rose for the second consecutive month in June, due to strong compliance from OPEC and partners (OPEC+) and progressive easing of lockdowns in some parts of the world. Looking ahead, oil prices remain vulnerable to a potential 'second wave', with some areas in China and US (the two largest consumers of oil) reporting local outbreaks and sharp rises in COVID-19 cases.

Brent oil prices rose for the second consecutive month in June (up 44 percent month-on-month), due to a progressive easing of lockdowns in some parts of the world...

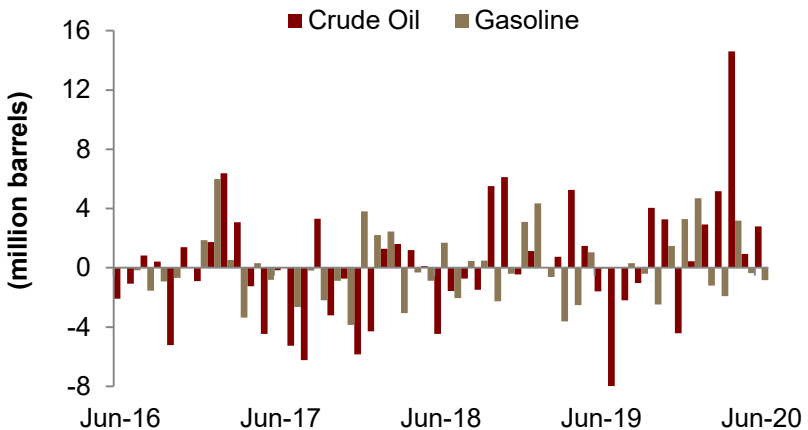


OPEC and Partners Compliance
(total output and compliance level as a percent)



... and strong compliance from the larger producers in OPEC+, with the alliance agreeing to roll over June's lower level of production until the end of July.

US Commercial Oil and Gasoline Stocks
(average monthly rise/fall)



In the US, WTI oil prices rose 34 percent month-on-month on the back of slowdown/decline in oil/gasoline stocks.



Oil - Regional

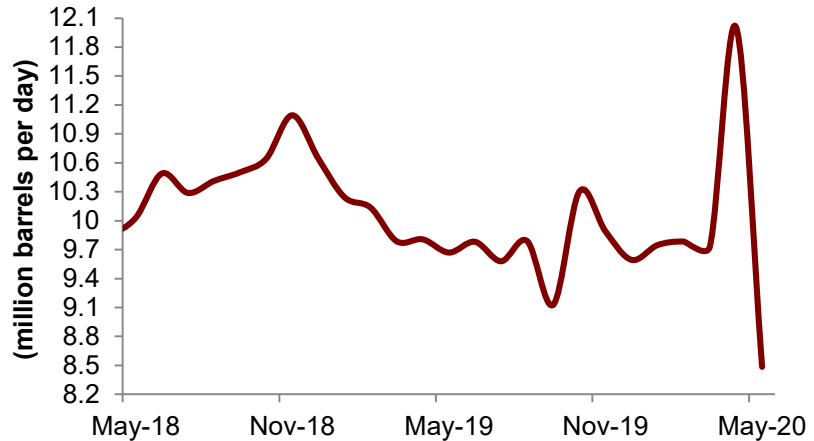
Saudi crude oil production declined 30 percent month-on-month in May, to 8.5 million barrels per day (mbpd) in line with OPEC+ agreement levels. Looking ahead, June's output is expected to average 7.5 mbpd, in line with Saudi Arabia's commitment to voluntarily reduce an extra 1 mbpd during the month, with preliminary data showing oil exports averaging around 6 mbpd.

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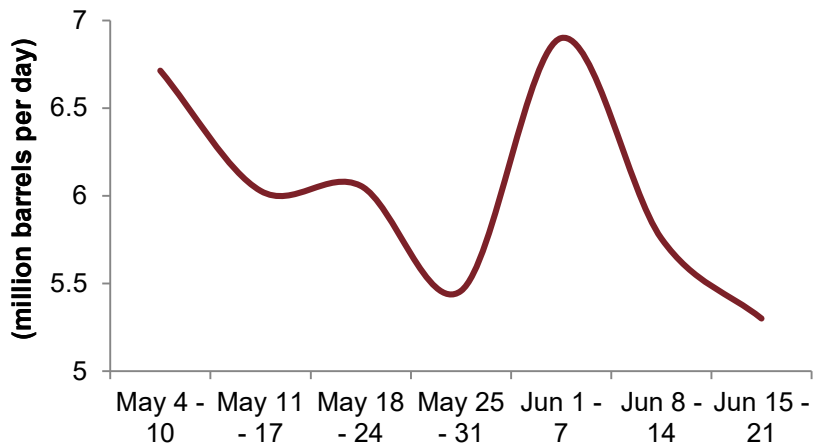
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Saudi Arabia's oil exports have not fallen as sharply as oil production in recent months due to domestic energy consumption also declining (something we anticipated in our [Oil Update](#) in April). Latest available data shows Saudi domestic energy demand fell to 1.7 mbpd during April, down 15 percent year-on-year and compared to an average of 2.3 mbpd during 2019 as a whole.

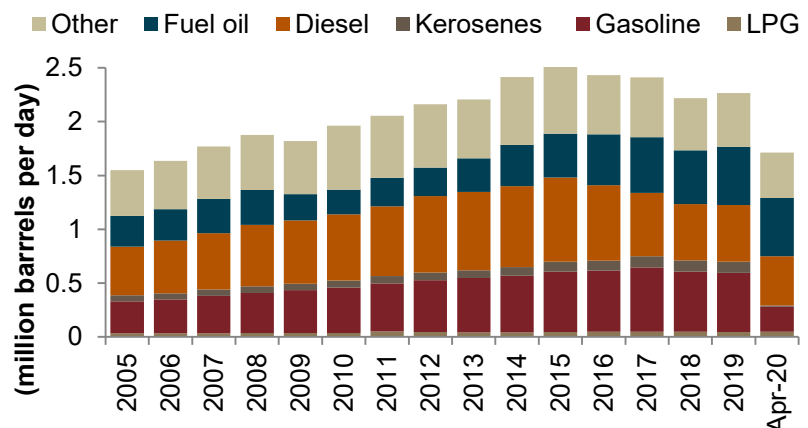
Average Monthly Saudi Crude Oil Production
(direct communication)



Expected Saudi Crude Oil Exports
(May & June 2020)



Saudi Domestic Energy Consumption
(latest April 2020)



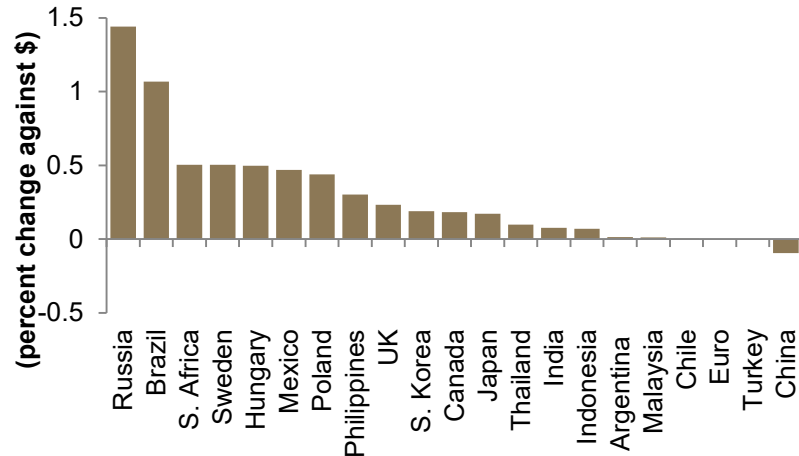


Exchange Rates

Most countries saw a moderate rise against the US dollar during the month of June. Meanwhile, the trade weighted dollar held steady during the month, but future movements may be influenced by developments around the pandemic (with a number of US states reporting rising cases) and its potential impact on the economic recovery in the US.

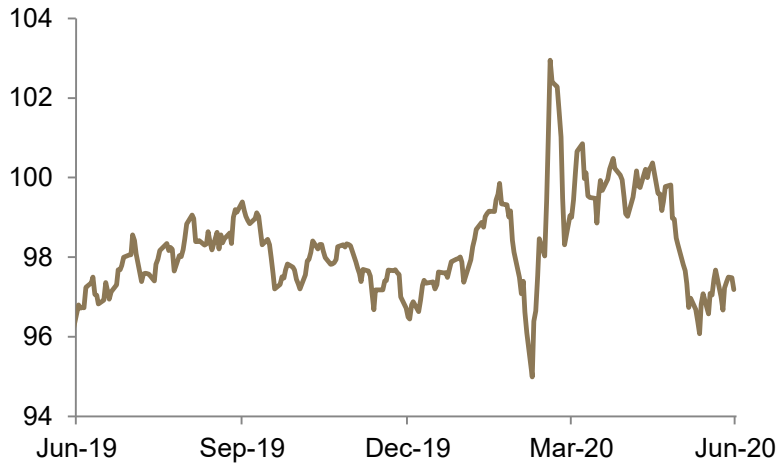
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Monthly Gain/Loss Against US Dollar
(June 2020)

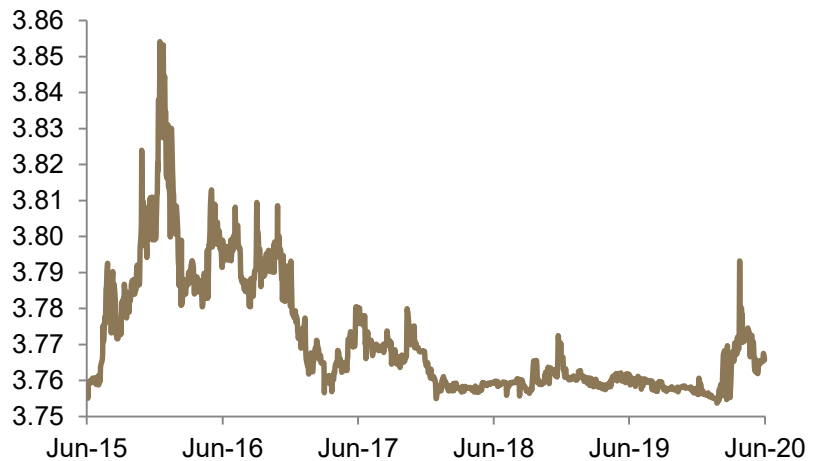


The trade weighted dollar held steady during the month, but future movements may be influenced by developments around the pandemic (with a number of US states reporting rising cases) and its potential impact on the economic recovery in the US.

Trade Weighted Dollar



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



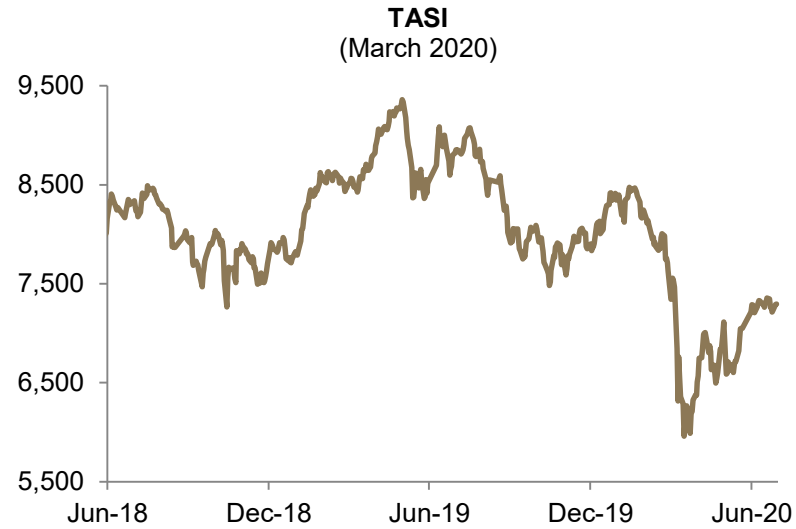
Meanwhile, whilst the US Dollar/Riyal one year forward rate remained relatively elevated, we expect this to ease a little as latest data shows a stabilization of Saudi FX reserves at \$449 billion.



Stock Market

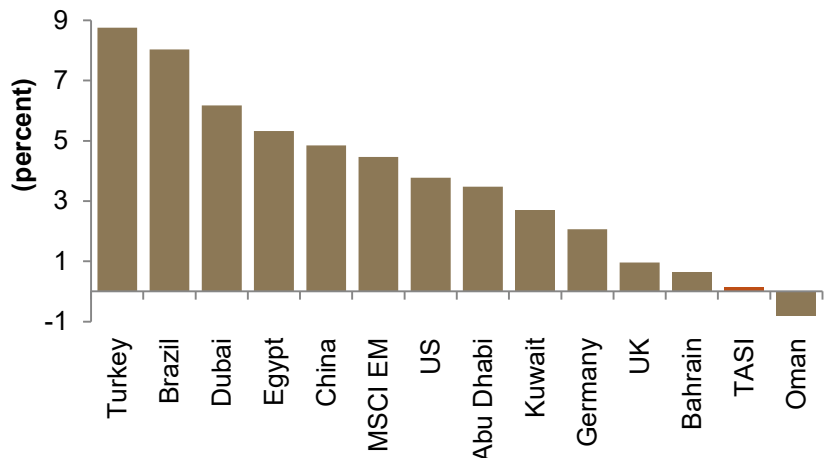
TASI was virtually unchanged month-on-month in June. Looking at the month ahead, without any significant developments, the index may struggle to see any upside, especially as companies begin reporting Q2 results, which are expected to show the massive impact of pandemic induced lockdown. The index may also see some profit-taking prior to closing for a week during Eid al-Adha, at the end of month.

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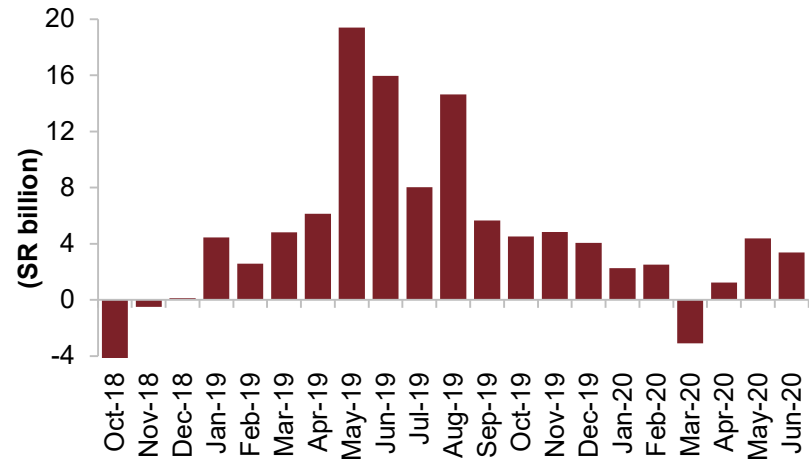


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Comparative Stock Market Performance (June 2020)



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



Meanwhile, the last two months have seen a notable rebound in net purchases of SWAPs and buying by qualified foreign investors (QFIs), pushing up year-to-date inflows to SR10.7 billion (\$2.8 billion).



Key Data

	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Nominal GDP									
(SR billion)	2,800	2,836	2,454	2,419	2,582	2,934	3,044	2,680	3,068
(\$ billion)	747	756	654	645	689	782	812	715	818
(% change)	1.5	1.3	-13.5	-1.4	6.8	13.6	3.7	-12.0	14.5
Real GDP (% change)									
Oil	-1.6	2.1	5.3	3.6	-3.1	3.1	-3.6	-2.9	3.2
Non-oil private sector	7.0	5.4	3.4	0.1	1.5	1.9	3.8	-4.5	3.2
Non-oil government	5.1	3.7	2.7	0.6	0.7	2.9	2.2	0.5	1.5
Total	2.7	3.7	4.1	1.7	-0.7	2.4	0.3	-3.0	2.9
Oil indicators (average)									
Brent (\$/b)	110	99	52	43	54	71	66	39	55
Production (million b/d)	9.6	9.7	10.2	10.4	10.0	10.3	9.8	9.3	9.6
Budgetary indicators (SR billion)									
Government revenue	1,156	1,044	616	519	692	906	917	657	856
Government expenditure*	994	1,140	1,001	936	930	1,079	1,048	1,019	990
Budget balance	162	-96	-385	-417	-238	-173	-131	-362	-134
(% GDP)	5.8	-3.4	-15.7	-17.2	-9.2	-5.9	-4.3	-13.5	-4.4
Gross public debt	60	44	142	317	443	560	678	854	948
(% GDP)	2.1	1.6	5.8	13.1	17.1	19.1	22.3	31.9	30.9
Monetary indicators (average)									
Inflation (% change)	3.5	2.2	1.2	2.1	-0.8	2.5	-2.1	3	3.2
SAMA base lending rate (% end)	2.0	2.0	2.0	2.0	2.0	3.0	2.3	0.50	0.75
External trade indicators (\$ billion)									
Oil export revenues	322	285	153	137	171	232	202	133	171
Total export revenues	376	342	204	184	222	294	262	161	221
Imports	153	158	159	128	123	126	132	100	122
Trade balance	223	184	44	56	98	169	129	61	99
Current account balance	135	74	-57	-24	10	71	50	-3	24
(% GDP)	18.1	9.8	-8.7	-3.7	1.5	9.0	6.1	-0.4	3.0
Official reserve assets	726	732	616	536	496	497	500	420	426
Social and demographic									
Population (million)	29.6	30.3	31.0	31.7	32.7	32.5	32.6	31.8	32.0
Saudi Unemployment (15+, %)	11.7	11.7	11.5	12.5	12.8	12.7	12.0	12.0	11.8
GDP per capita (\$)	25,223	24,962	21,095	20,318	21,048	24,065	24,890	22,439	25,535

Sources: Jadwa Investment forecasts for 2020 and 2021. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.



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