

## MONTHLY MACROECONOMIC REVIEW – SAUDI ARABIA



August 2018

Review of economic developments till end of July 2018

## Table of Content

A. Executive Summary and Review .....	3
Chart Pack .....	7
I. Macroeconomic Indicators.....	7
II. Oil Indicators .....	13
III. Stock Market Indicators .....	14
IV. Corporate earnings .....	15
V. Tadawul Sector Earnings Performance.....	16
B. Saudi Arabia Key Statistics .....	17

## A. Executive Summary and Review

### Executive Summary

The key highlights are:

1. **Oil production** – Saudi Arabia produced 10.63 million barrels of oil per day (mbpd) in July 2018 (Refer Figure 1, Page 13), their highest level since August 2016, after OPEC members had agreed to increase oil production in late June.
2. **Inflation** – Inflation rate further slowed down to 2.1% YoY in June 2018 (Refer Figure 5, Page 7), to its lowest level in year 2018 so far. The decline was mainly owing to lower prices for housing/utilities and clothing/footwear; partially offset by increased prices of food and beverages as well as transport.
3. **Bank Credit** – Overall bank credit grew 0.2% YoY in June after growing 0.1% in May (Refer Figure 20, Page 9), thereby reversing the trend of decline which was prevalent for 14 consecutive months prior to May. The growth was mainly due to credit to private sector increasing 0.4% YoY, partially offset by 5.9% drop in public sector credit.
4. **POS transactions** – Value of POS transactions grew 6.8% YoY to SAR 19.3 bn in June. However, it significantly declined on MoM basis (-16.3%) from the all-time high of SAR 23.1 bn recorded in May (Refer Figure 38, Page 11).
5. **ATM Withdrawals** – ATM withdrawals witnessed a first monthly decline in 2018 (-4.4% YoY) to SAR 62 bn in June, lowest level in 2018 so far (Refer Figure 33, Page 11).
6. **Money Supply** – Money supply in Saudi Arabia witnessed a first YoY decline (-0.8%) in year 2018 during the month of June, to SAR 1.80 trillion (Refer Figure 25, Page 10). However, it grew 1.4% MoM, which happens to be first month-on-month growth in 2018 so far.

### Our View

Overall, the macroeconomic scenario in Saudi Arabia is improving, with positive growth in Q1 2018 GDP, oil production increase, inflation coming down, and credit growth gradually reviving, led by private sector demand. On the other hand, consumption related indicators, such as ATM withdrawals and POS transactions have turned weak in June, after demonstrating a strong trend in 2018 till May. Hence, we are cautiously optimistic and await the next month's consumption related indicators to confirm if the weakness in June was temporary on account of Ramadan holiday season.

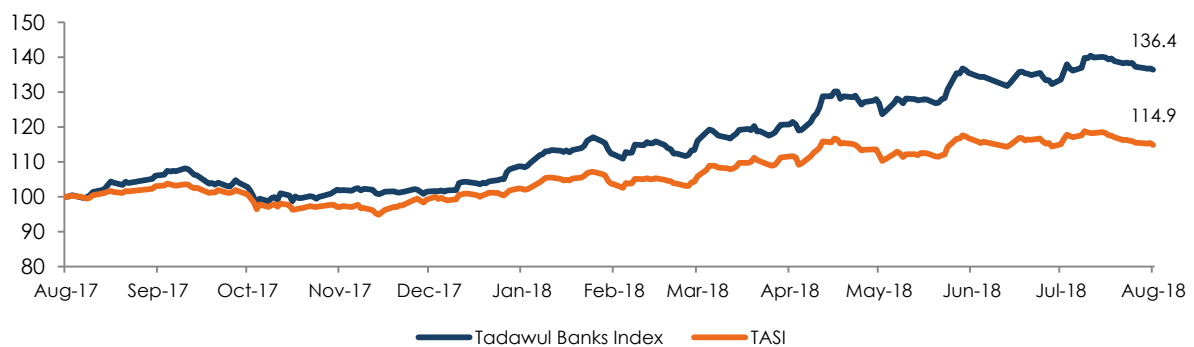
### Data Releases

Indicator	Data
Inflation (June 2018)	2.1%
PMI (June 2018)	55.0
SAMA Reserve Assets Growth MoM (June 2018)	0.4%
Bank Credit Growth YoY (June 2018)	0.2%
Bank Deposit Growth YoY (June 2018)	-1.2%
Loan to Deposit Ratio (June 2018)	0.88
Money Supply Growth YoY (June 2018)	-0.8%
3M SAIBOR (July 2018)	2.61%
ATM Withdrawals Growth YoY (June 2018)	-4.4%
PoS Transactions Growth YoY (June 2018)	6.8%
Saudi Oil Production (July 2018)	10.6 mbpd
Saudi Oil Export (May 2018)	7.0 mbpd
OPEC Production (July 2018)	32.7 mbpd
Global Oil Supply – Demand (June 2018)	-0.3 mbpd
US Rig Count (July 2018)	861

## Sector in Focus: Banks

Banking has been the best performing sector in Saudi stock market so far this year. Tadawul Banks Index has surged 30.5% year-to-date in 2018 (as of August 07), compared to Tadawul All Share Index (TASI), which is up 14.1% during the same period. Robust earnings, Saudi Arabia's inclusion in MSCI Emerging Market index, lower provisioning costs and good asset quality have all contributed to rally in Saudi banks' share prices, among other factors. However, here we would focus on rising interest rate environment which has proven to be especially conducive for the performance of banks.

Figure 1: TASI vs Tadawul Banks Index (Past one year – Rebased to 100)



Source: Tadawul

### Rising interest rate environment supports NIM expansion

As the Saudi Riyal is pegged to the US Dollar, Saudi Arabian Monetary Authority (SAMA) usually follows US Fed rate policy, regarding changes in the key interest rates. The US Fed has raised its target rate twice so far this year, and has also indicated that two more rate hikes would take place during the remainder of the year. Saudi Arabia has also increased its key interest rates twice this year accordingly, by 25 bps each time. Saudi repo and reverse repo rates now stand at 2.5% and 2% respectively.

Table 1: Saudi Listed Banks – Key Indicators (sorted by NIM %)

Bank	NIM (%)	Demand Deposits/ Total Deposits (%)	Loans to Deposits Ratio (%)	Price to Book Ratio (TTM)	Price performance % (2018 YTD)
Al Rajhi Bank	4.19	93.2	84.5	2.71	64.6
Alinma Bank	3.61	50.9	94.9	1.73	19.1
NCB	3.44	79.1	86.2	2.13	55.1
Saudi British Bank	3.34	62.7	88.8	1.50	27.0
Bank Albilad	3.32	55.0	93.6	2.00	20.5
Arab National Bank	3.28	51.7	92.9	1.41	24.7
Riyad Bank	3.12	54.1	96.2	1.45	12.5
Bank Aljazira	3.00	53.9	79.2	1.08	12.7
Samba Financial Group	3.00	58.3	70.9	1.47	23.5
Alawwal Bank	2.79	42.4	95.0	1.22	11.8
Banque Saudi Fransi	2.74	50.6	86.2	1.26	28.6
Saudi Investment Bank	2.48	38.3	85.6	0.95	15.1
<b>Sector</b>	<b>3.19*</b>	<b>64.8</b>	<b>87.8*</b>	<b>1.58*</b>	<b>30.5</b>

Source: Bloomberg, Banks' financial statements

Note: NIM, Demand Deposits/ Total Deposits (%) and Loans to Deposit Ratio as of Q2 2018; price performance data as of August 07, 2018\* \*- Average of all listed banks

Saudi banks have a higher concentration of low-cost deposits, with demand deposits making up about 63% of total deposits in the overall banking system. Since demand deposits generate little or no interest, they cap funding cost in a rising interest rate environment. However, as policy rates increase, banks can charge higher rate of interest on loans, thereby expanding their net interest margins (NIMs).

Banks with higher percentage of demand deposits would benefit the most in rising interest rate environment, as their funding costs would remain low. As can be seen in Table 1, Al Rajhi Bank, which has demand deposits making up 93% of its total deposits, more than any other bank, has also achieved the highest NIM among all banks as of Q2 2018. Its stock price performance has also been the best of the lot, up 64.6% YTD. NCB, which has the second highest percentage of demand deposits vs total deposits (79%), is also second-highest in terms of share price performance (55.1% YTD). Al Rajhi Bank and NCB also happen to be at the highest and the second highest price-to-book valuation in the list respectively, indicating their relative premium over others due to favorable deposits distribution.

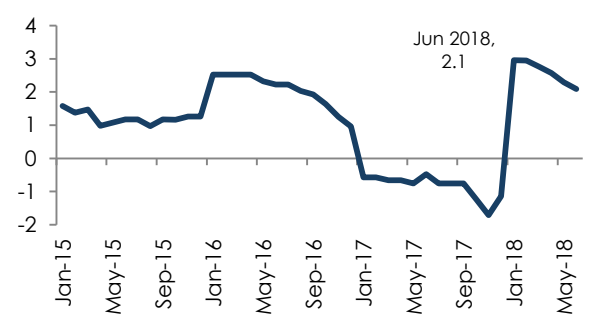
**Bank credit growth starts showing positive trend**

Overall bank credit grew 0.2% YoY in June after growing 0.1% in May, thereby reversing the trend of decline which was prevalent for 14 consecutive months prior to May. The growth was mainly due to credit to private sector increasing 0.4% YoY, partially offset by 5.9% drop in public sector credit. In terms of maturity, short term lending (less than 1 year) grew 2.2% YoY; while the medium term credit (1 to 3 years) grew 7.0% YoY. Long term credit (more than 3 years) declined 6.9% on YoY basis. In terms of credit growth across sectors, banks increased credit exposure to all the sectors except commerce (-9.4% QoQ) compared to the previous quarter. There was a significant increase in the exposure to Mining and quarrying sector by 40.8% QoQ; while manufacturing and processing sector also witnessed 7.8% QoQ growth.

**Inflation rate eases further in June**

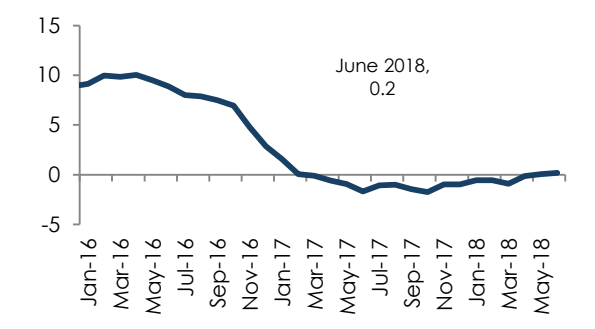
Inflation rate further slowed down to 2.1% YoY in June 2018 to its lowest level in year 2018 so far, after reaching 2.3% in May. The decline was mainly owing to lower prices for housing/utilities and clothing/footwear; partially offset by increased prices of food and beverages as well as transport. Housing and utilities costs, which have the highest weightage of 25% in the general index, declined 1.4% YoY, their highest decline during the year so far. On the other hand, prices for food and transport increased 5.7% YoY and 10.4% YoY respectively.

Figure 2: Inflation (% YoY)



Source: SAMA

Figure 3: Bank Credit Growth (% YoY)

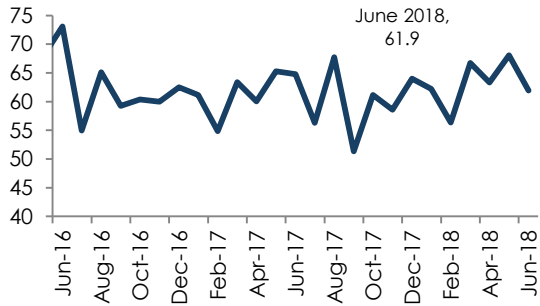


Source: SAMA

**Consumer spending slows in June**

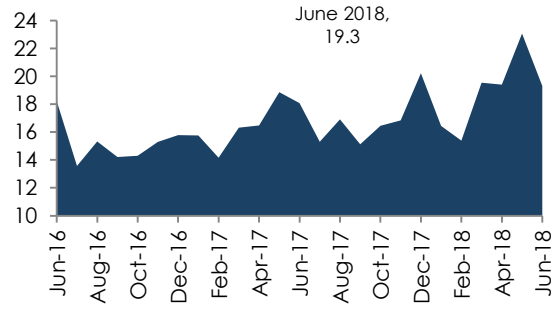
Saudi Arabia's consumer spending slowed down in June as ATM withdrawals witnessed a first monthly decline in 2018 (-4.4% YoY) to SAR 62 bn, lowest level in 2018 so far. Although POS transactions value grew 6.8% YoY to SAR 19.3 bn, it significantly declined on MoM basis (-16.3%) from the all-time high of SAR 23.1 bn recorded in May.

Figure 4: ATM Withdrawals (SAR bn)



Source: SAMA

Figure 5: POS Transactions (SAR bn)

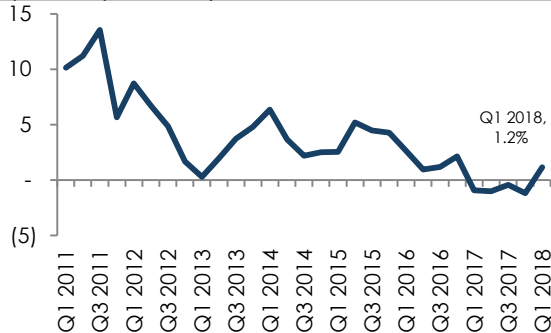


Source: SAMA

# Chart Pack

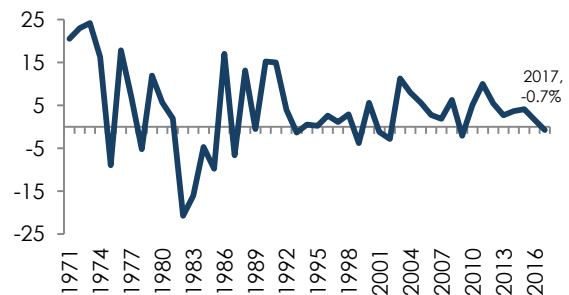
## I. Macroeconomic Indicators

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



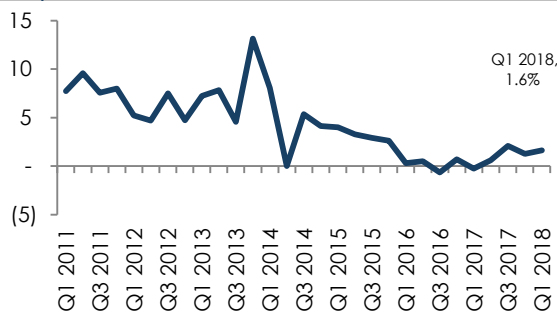
Source: General Authority of Statistics

Figure 2: GDP growth (annual - % YoY)



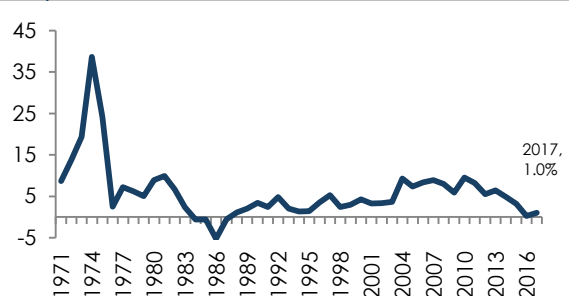
Source: General Authority of Statistics

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



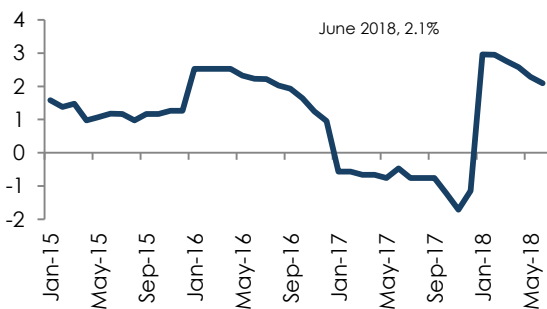
Source: General Authority of Statistics

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



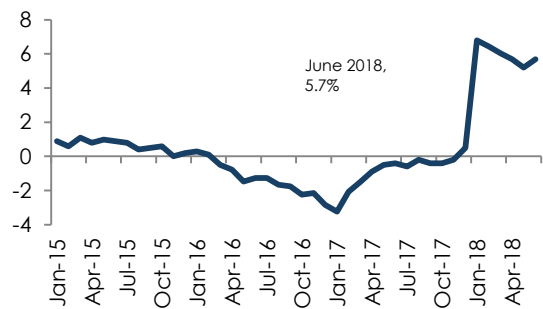
Source: General Authority of Statistics

Figure 5: Inflation (% YoY)



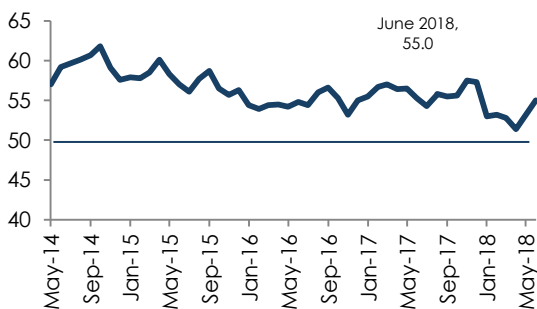
Source: Saudi Arabia Monetary Authority (SAMA)

Figure 6: Food inflation (% YoY)



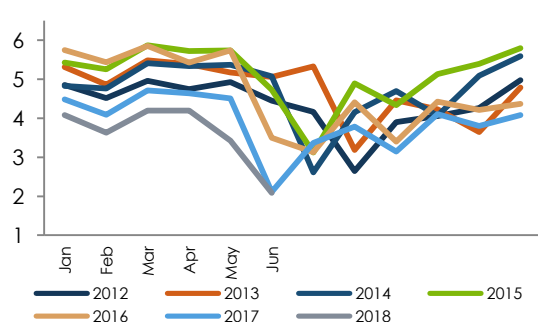
Source: SAMA

Figure 7: PMI index



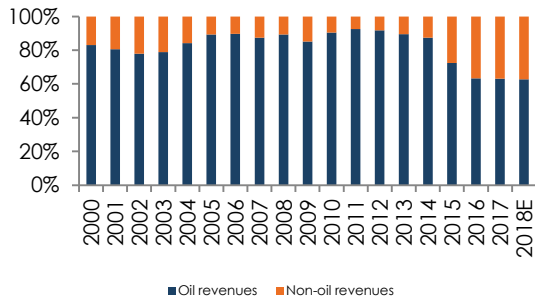
Source: Bloomberg

Figure 8: Cement Sales (Mn tons)



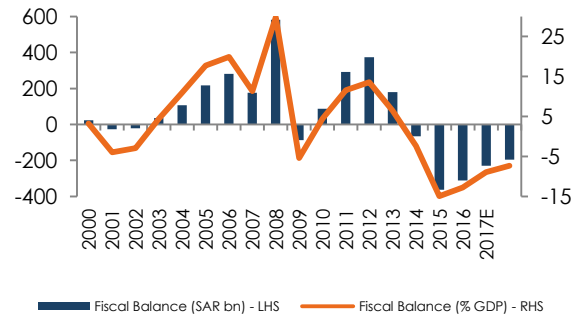
Source: Yamama Cement

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



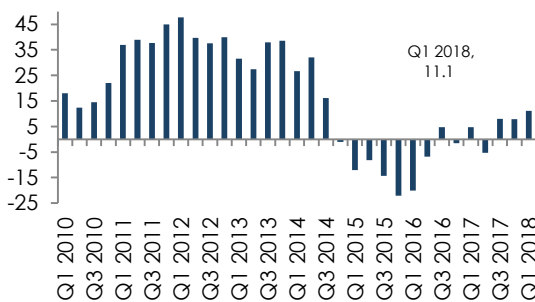
Source: Saudi Arabia Finance Ministry, E- Estimate

Figure 10: Annual fiscal balance (SAR bn)



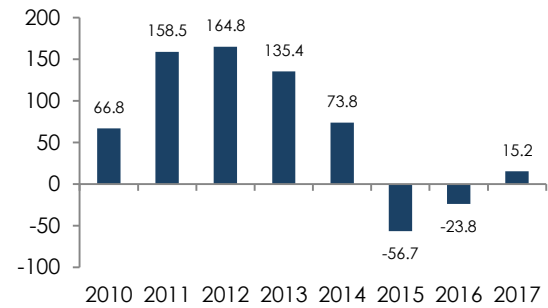
Source: Saudi Arabia Finance Ministry, E-Estimate

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



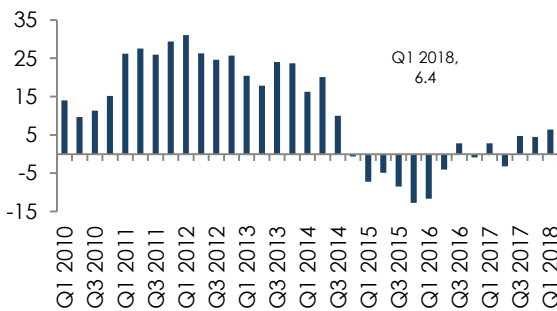
Source: SAMA

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



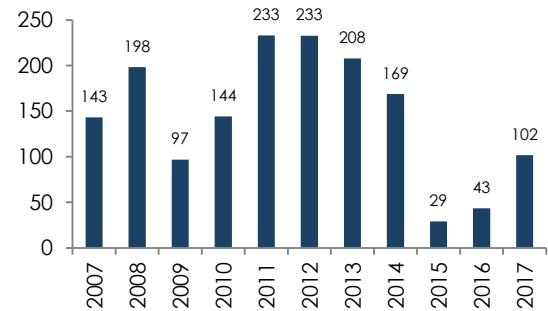
Source: SAMA

Figure 13: Current Account Balance (%GDP)



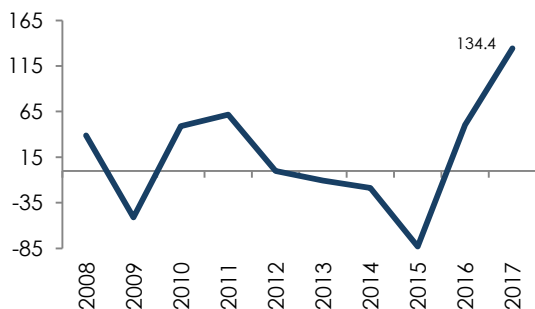
Source: SAMA

Figure 14: Trade balance (USD bn)



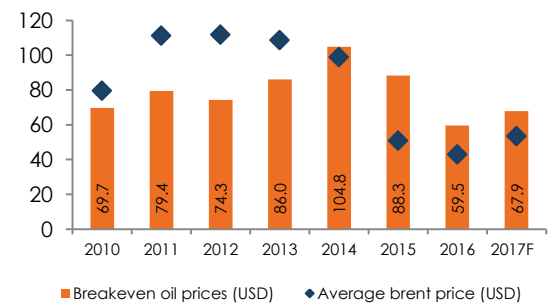
Source: SAMA

Figure 15: Trade balance change (% YoY)



Source: SAMA

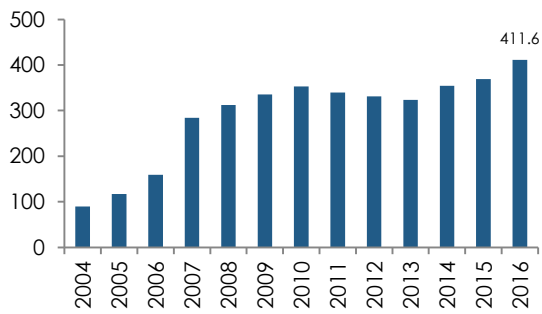
Figure 16: KSA breakeven oil price (USD/bbl)



Source: Ministry of Finance, Thomson Reuters, MEFIC estimate

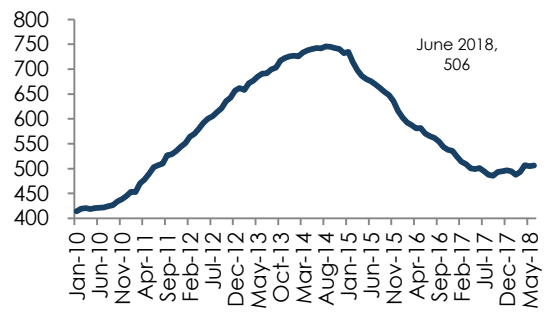


Figure 17: Total External Debt (SAR bn)



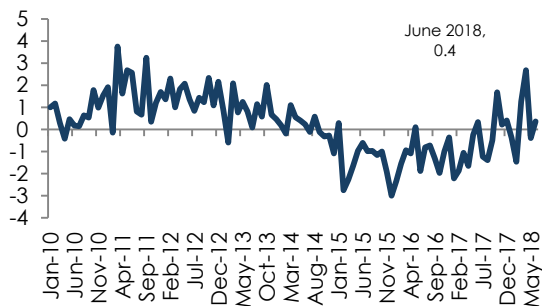
Source: SAMA

Figure 18: SAMA Reserve Assets\* (USD bn)



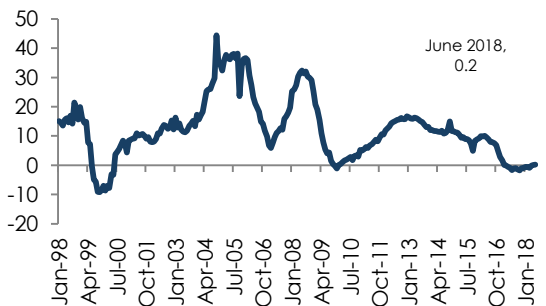
Source: SAMA, \*- includes special drawing rights

Figure 19: Reserve Assets (% MoM)



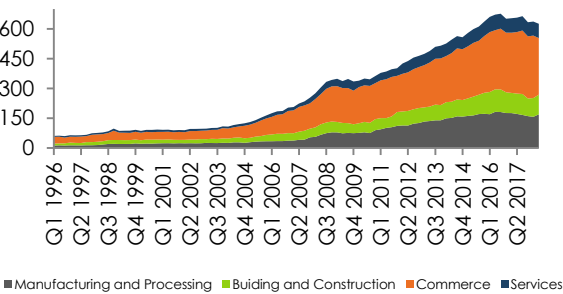
Source: SAMA

Figure 20: Bank credit growth (% YoY)



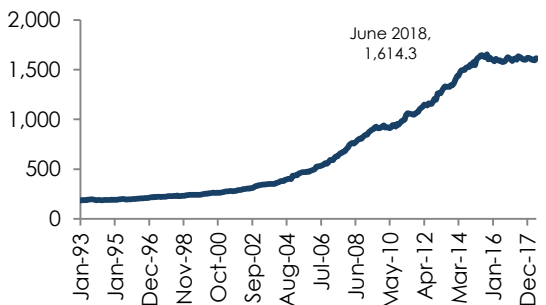
Source: SAMA

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



Source: SAMA

Figure 22: Bank Deposits (SAR bn)



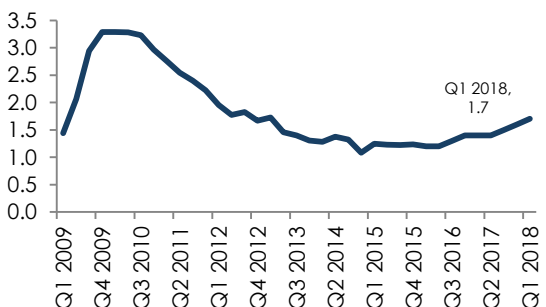
Source: SAMA

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



Source: SAMA

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



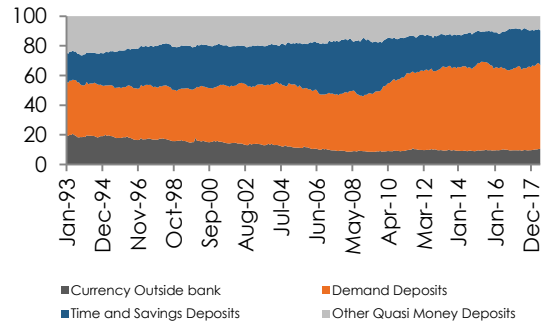
Source: SAMA

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



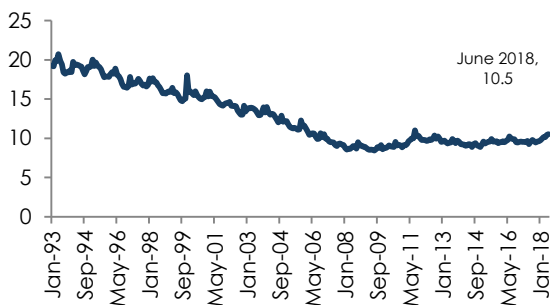
Source: SAMA

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



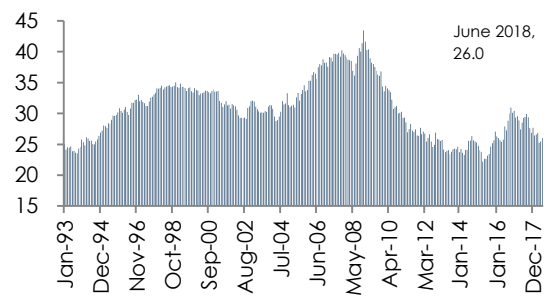
Source: SAMA

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



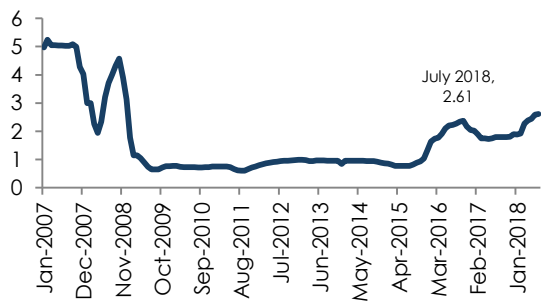
Source: SAMA

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



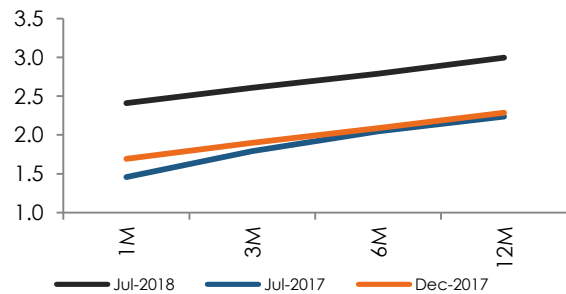
Source: SAMA

Figure 29: 3M SIBOR (%)



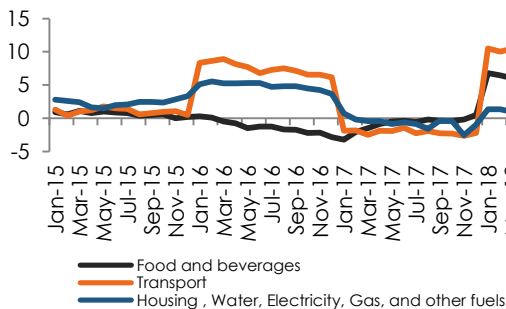
Source: SAMA

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



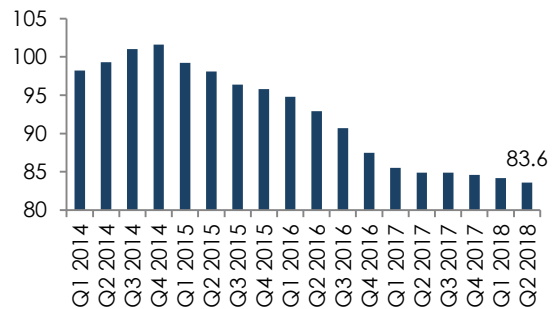
Source: SAMA

Figure 31: Inflation (major sub-indices)



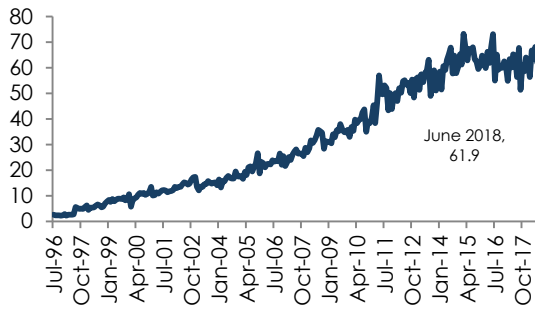
Source: SAMA

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



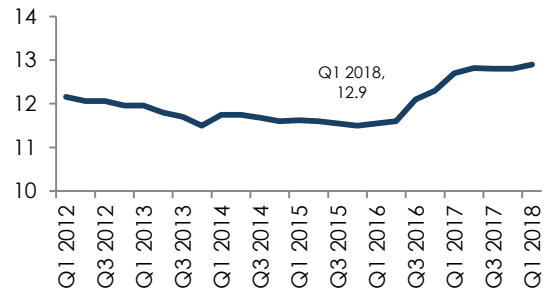
Source: General Authority for Statistics

Figure 33: ATM Cash Withdrawals (SAR bn)



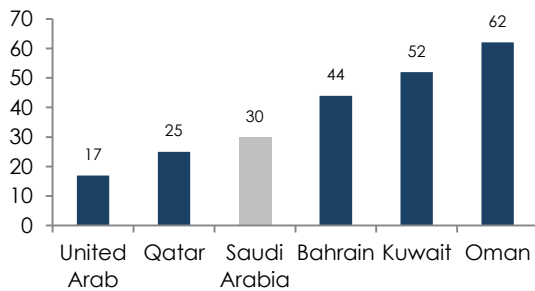
Source: SAMA

Figure 34: Saudi unemployment rate (%)



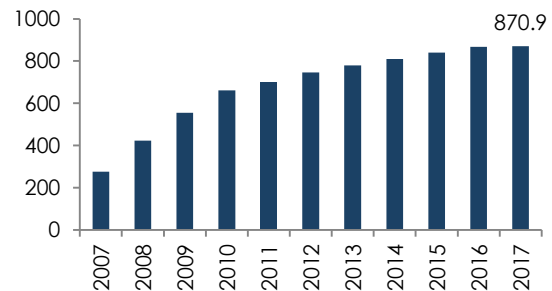
Source: General Authority for Statistics

Figure 35: Competitiveness ranking/indicator



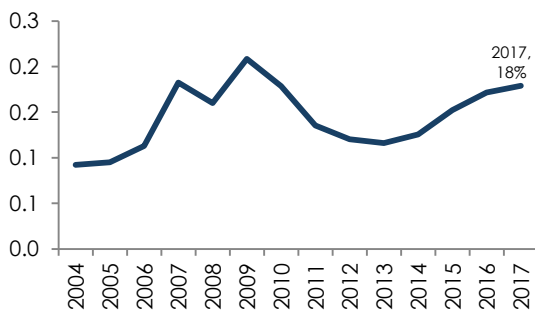
Source: World Economic Forum (2017-2018)

Figure 36: FDI (accumulated, SAR billions)



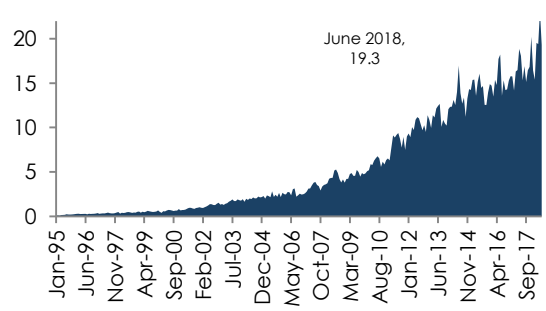
Source: SAMA

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



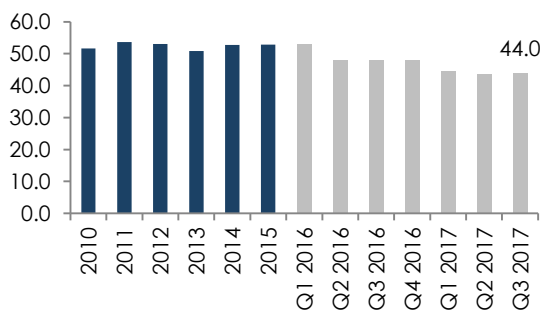
Source: International Monetary Fund

Figure 38: POS Transactions Sales (SAR bn)



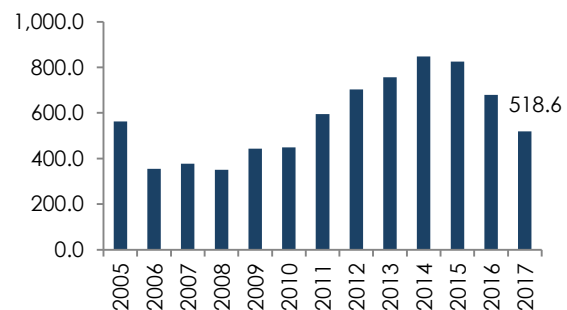
Source: SAMA

Figure 39: Mobile/Telecom Subscribers (mn)



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

Figure 40: Automobile Sales ('000s)



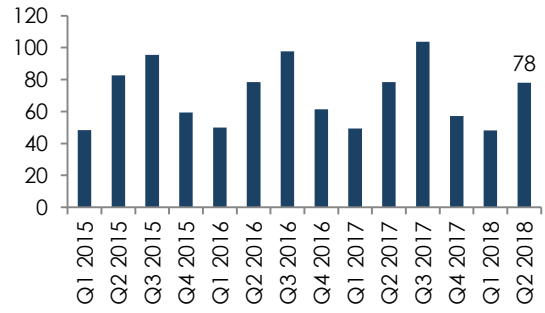
Source: Car Sales Base

Figure 41: Electricity Generation (TWh)



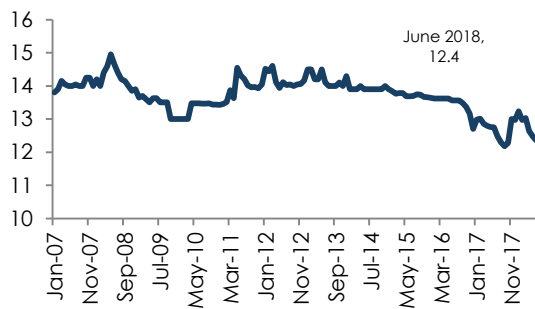
Source: Electricity and Cogeneration Regulatory Authority

Figure 42: Electricity Generation - Quarterly (TWh)



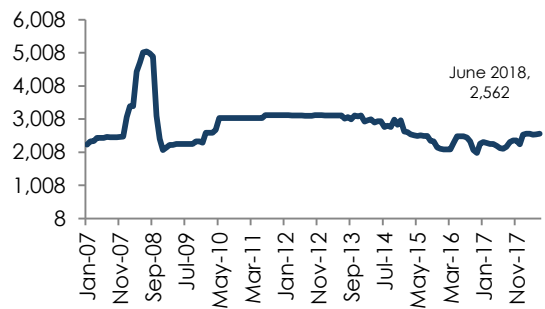
Source: Saudi Electric Company

Figure 43: Cement Prices (SAR, 50kg)



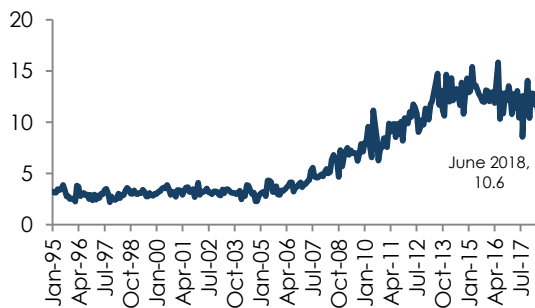
Source: General Authority of Statistics

Figure 44: Steel Prices (SAR/ton)



Source: General Authority of Statistics

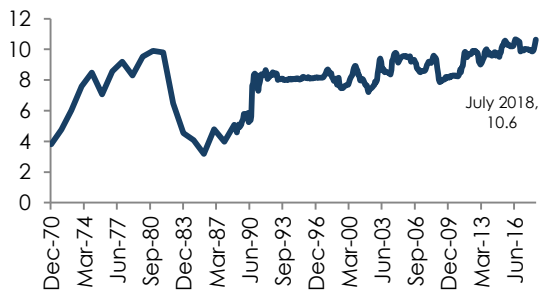
Figure 45: Expat Remittances (SAR bn)



Source: SAMA

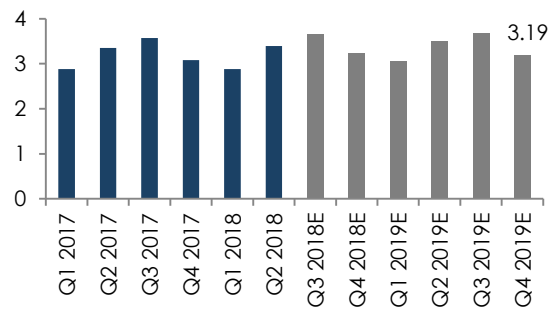
II. Oil Indicators

Figure 1: Saudi Oil Production (mbpd)



Source: Bloomberg

Figure 2: Saudi Domestic Oil Demand (mbpd)



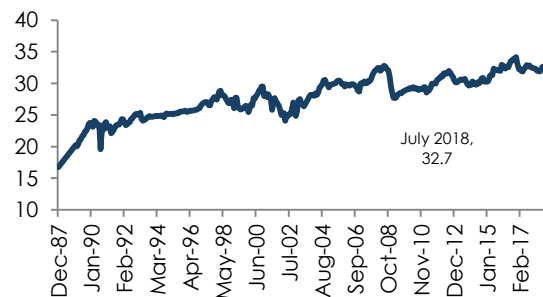
Source: IEA

Figure 3: Saudi Oil Export (mbpd)



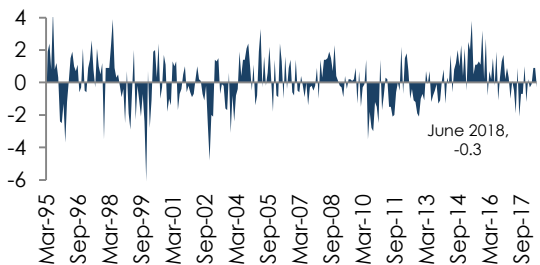
Source: Ministry of Petroleum, JODI

Figure 4: OPEC Oil Production (mbpd)



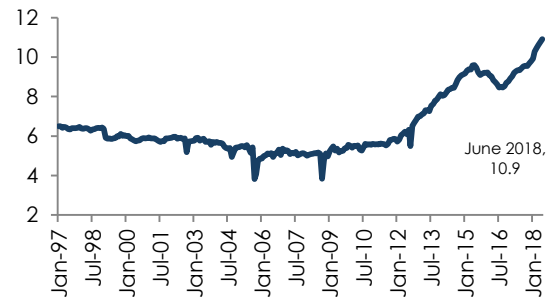
Source: Bloomberg

Figure 5: Global Oil Supply/Demand (mbpd)



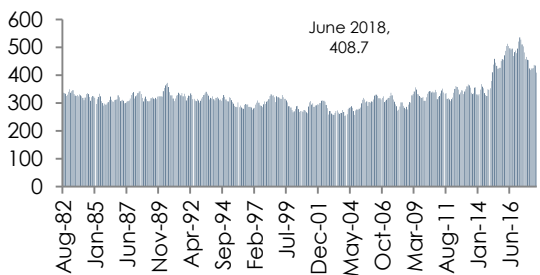
Source: Bloomberg

Figure 6: US Oil Production (mbpd)



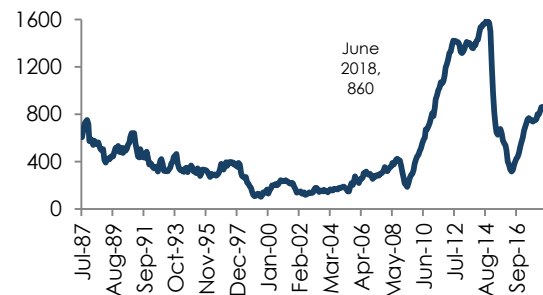
Source: Bloomberg

Figure 7: US Oil Inventory (mb)



Source: Reuters Eikon

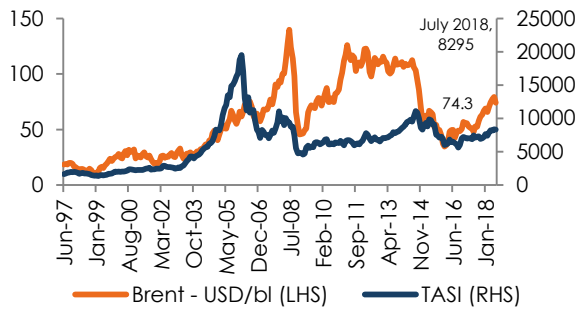
Figure 8: US Rig Count



Source: Bloomberg

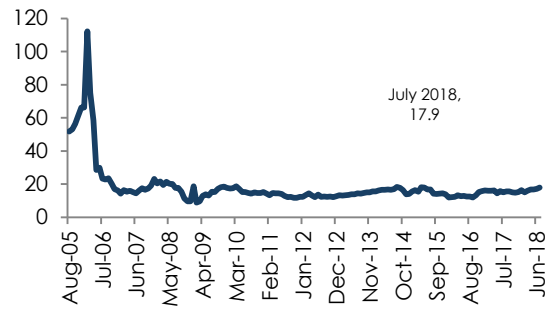
III. Stock Market Indicators

Figure 1: TASI and Oil



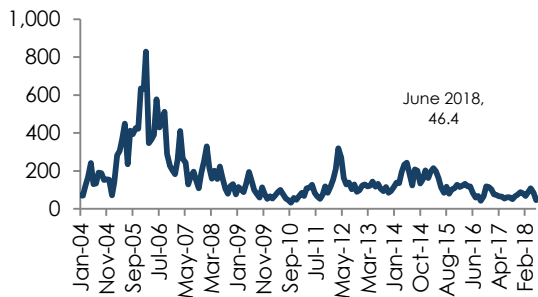
Source: Bloomberg

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



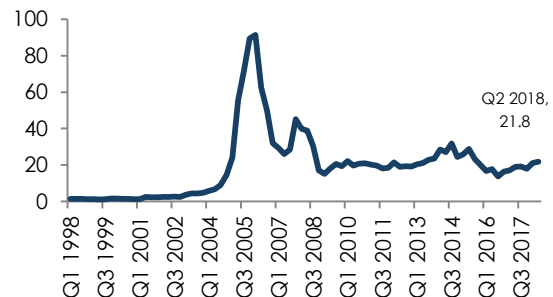
Source: SAMA, Tadawul

Figure 3: Stock Market Turnover (SAR bn)



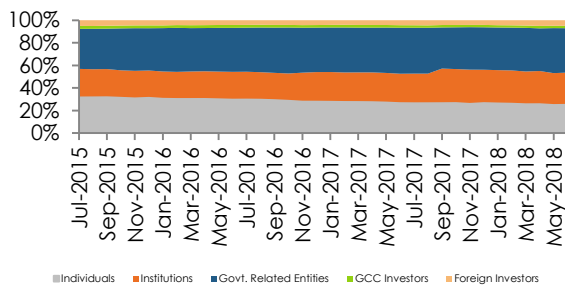
Source: Tadawul, SAMA

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



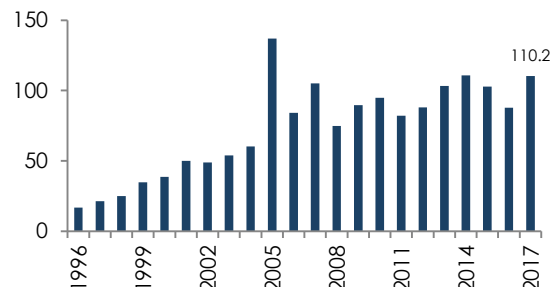
Source: SAMA

Figure 5: Share Ownership Status



Source: SAMA

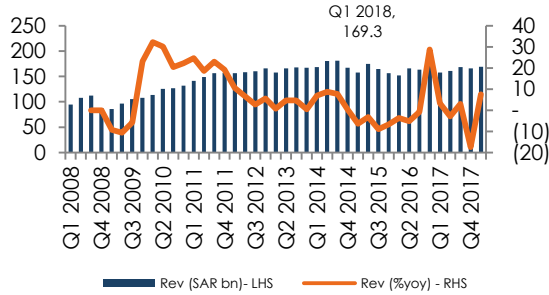
Figure 6: Total Assets of Investment funds (SAR bn)



Source: SAMA

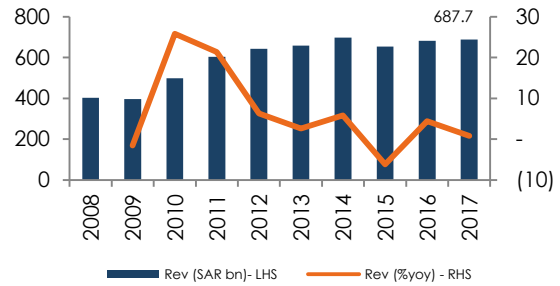
IV. Corporate earnings

Figure 1: TASI Revenue and YoY growth (Quarterly)



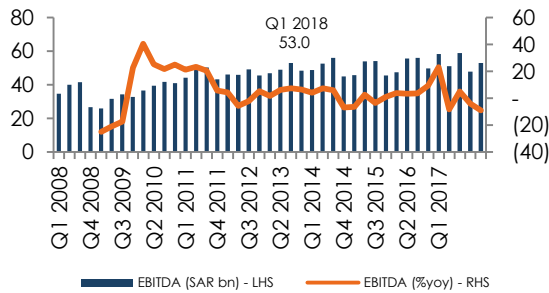
Source: Reuters Eikon

Figure 2: TASI Revenue and YoY growth (Annual)



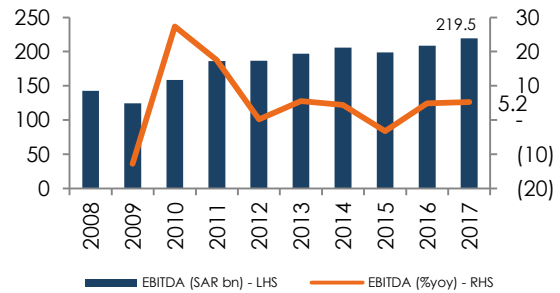
Source: Reuters Eikon

Figure 3: TASI EBITDA and YoY growth (Quarterly)



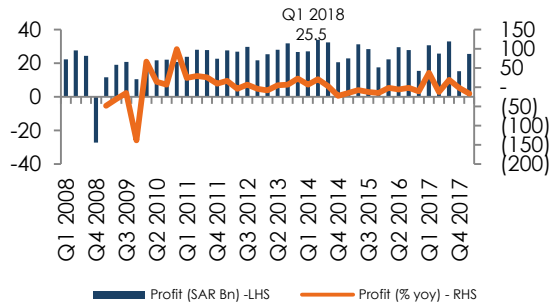
Source: Reuters Eikon

Figure 4: TASI EBITDA and YoY growth (Annual)



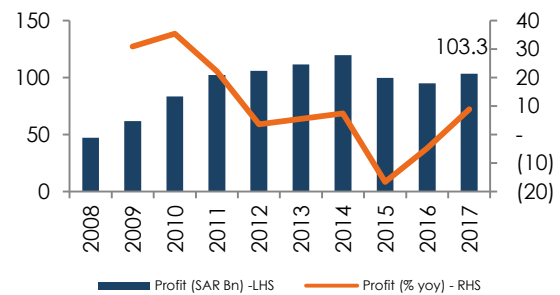
Source: Reuters Eikon

Figure 5: TASI PAT and YoY growth (Quarterly)



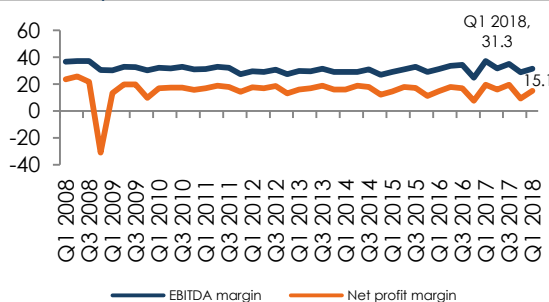
Source: Reuters Eikon

Figure 6: TASI PAT and YoY growth (Annual)



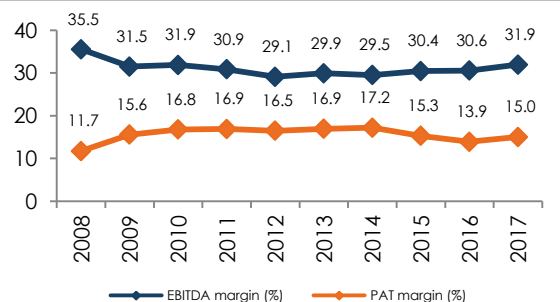
Source: Reuters Eikon

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



Source: Reuters Eikon

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



## V. Tadawul Sector Earnings Performance

Earnings (SAR mn)	Market Cap (SAR mn)	Q1 2018	Q1 2017	Q4 2017	% YoY	% QoQ
Materials	660,762	9,317.5	8,639.2	6,247.4	7.9	49.1
Banks	615,485	12,510.2	11,645.3	10,618.5	7.4	17.8
Telecommunication Services	203,788	2,418.0	2,417.0	2,359.0	0.0	2.5
Utilities	95,630	-1,175.2	5,001.0	-5,535.2	-123.5	78.8
Food & Beverages	95,137	279.2	416.6	474.3	-33.0	-41.1
Real Estate	93,268	312.5	251.2	5.5	24.4	5,617.1
Energy	36,592	442.5	156.5	867.3	182.8	-49.0
Insurance	35,512	135.7	406.3	-375.4	-66.6	136.1
Diversified Financials	34,770	160.6	153.2	-267.9	4.8	160.0
Retailing	29,012	249.1	261.2	280.1	-4.6	-11.1
Health Care	28,836	364.1	378.8	326.5	-3.9	11.5
Transportation	13,531	146.5	232.5	80.4	-37.0	82.2
Consumer Services	12,964	151.8	234.9	86.9	-35.4	74.8
Capital Goods	9,370	-49.6	32.3	-178.1	-253.8	72.1
Commercial Services	8,656	101.6	105.6	62.6	-3.8	62.3
Food & Staples Retailing	8,327	75.2	79.6	168.2	-5.5	-55.3
Media	7,546	11.7	18.0	-3.9	-35.0	400.0
Pharma & Biotech	3,714	55.8	100.0	70.4	-44.1	-20.6
Consumer Durables & Apparel	3,253	19.4	48.4	-18.9	-60.0	202.3
<b>Total</b>	<b>1,996,155</b>	<b>25,527</b>	<b>30,578</b>	<b>15,268</b>	<b>-16.5</b>	<b>67.2</b>

Source: Bloomberg, MCap and results as of June 06, 2018



## B. Saudi Arabia Key Statistics

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

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

## Notes

## Disclaimer

The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose.

This document is based on data sources that are publicly available and are thought to be reliable. MEFIC Capital may not have verified all of this information with third parties. Neither MEFIC Capital nor its advisors, directors or employees can guarantee the accuracy, reasonableness or completeness of the information received from any sources consulted for this publication, and neither MEFIC Capital nor its advisors, directors or employees accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document.

Further, this document is not an offer to buy or sell any security, commodity or currency. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment or currency will depend on an investor's individual circumstances and objectives. The investments referred to in this document may not be suitable for all investors.

This document is not to be relied upon and should not be used in substitution for the exercise of independent judgment.

This document may contain certain statements, estimates, and projections with respect to the anticipated future performance of securities, commodities or currencies suggested. Such statements, estimates, and projections are based on information that we consider reliable and may reflect various assumptions made concerning anticipated economic developments, which have not been independently verified and may or may not prove correct. No representation or warranty is made as to the accuracy of such statements, estimates, and projections or as to its fitness for the purpose intended and it should not be relied upon as such.

Opinions expressed are our current opinions as of the date appearing on this material only and may change without notice.

ميفك كابيتال  
MEFIC Capital



Disclaimer: This report has been prepared and issued by MEFIC Capital a CMA, Saudi Arabia regulated entity. This Report is intended to be circulated for general information only. The information and statistical data herein have been obtained from sources we believe to be reliable but in no way are warranted by us as to its accuracy or completeness. For further information, please contact at Email: [investmentresearch@mefic.com.sa](mailto:investmentresearch@mefic.com.sa)