February 2016

www.alahli.com

NCB الأهلي

Saudi Economic Review

NCB Monthly Views on Saudi Economic and Financial Developments

Contents

Said A. Al Shaikh
Chief Economist | s.alshaikh@alahli.com

Tamer El-Zayat
Senior Economist / Editor | t.zayat@alahli.com

Majed A. Al-Ghalib
Senior Economist | m.alghalib@alahli.com

Yasser A. Al-Dawood
Economist | y.aldawood@alahli.com

Executive Summary

- The direction of oil prices for the rest of 2017 will depend on the pick-up pace of US shale oil production, and on whether OPEC and non-OPEC members will reinstate the agreement through the second half of 2107

- The changing policy mix in the US and China will create a positive global spillover that will provide support for emerging and developing markets currencies

- Rising USD and real interest rates have negatively impacted gold prices which declined 12.9% from June 2016, ending the year at USD1,152.2. On a Y/Y basis, however, the spot price of a troy ounce of gold closed 8.5% higher.

- In December, the cost of living index recorded the first lowest annualized inflation rate since 2002 on the back of a stronger USD.

- The main highlight of last month was the launch of Numo, Tadawul's parallel market, providing a new source of financing for SMEs in the regional economy.

- Signs of easing can be witnessed as SAIBOR fell back below SAMA's 2% repo rate to the lowest levels since April 2016 down from 2.4% in October.

- Imports of transport equipment reached SAR6.7 billion during November falling the most in terms of annualized percentage change by 35.9%.

View of the Month

Trump's presidential campaign revolved around slashing taxes, spending on infrastructure, reassessing trade agreements, and cracking down on immigration. He swiftly, and controversially, issued executive orders to deliver on his promises. The Trans-Pacific Partnership, which accounted for around 40% of global trade, was scrapped and he has been a public critic of the North American Free Trade Agreement.

NCB الأهلي

Macroeconomic Indicators

	2011	2012	2013	2014	2015	2016P	2017F
Real Sector							
Average KSA Crude Spot Price, Arab Light, USD/BBL	108.1	110.2	106.4	97.2	50.2	40.9	50.6
Average Daily Crude Oil Production, MMBD	9.3	9.8	9.6	9.7	10.2	10.4	10.1
GDP at Current Market Prices, SAR billion	2,510.7	2,752.3	2,799.9	2,836.3	2,444.1	2,398.6	2,525.5
GDP at Current Market Prices, USD billion	670.4	734.9	747.6	757.4	652.6	640.5	674.4
Real GDP Growth Rate*	10.0%	5.7%	2.7%	3.7%	4.1%	1.4%	-0.7%
CPI Inflation, Y/Y % Change, Average	3.7%	2.9%	3.5%	2.7%	2.2%	3.5%	2.5%
External Sector							
Current Account Balance, USD billion	158.5	164.8	135.4	73.8	-51.6	-53.4	-35.3
Current Account Balance/GDP	23.6%	22.4%	18.1%	9.7%	-7.9%	-8.3%	-5.2%
Net Foreign Assets with SAMA, USD billion	535.9	648.5	717.7	725.2	609.7	529.3	489.5
Fiscal Sector (Central Government)							
Actual Revenues, SAR billion	1,117.8	1,247.4	1,156.4	1,044.4	612.3	528.0	700.0
Actual Expenditure, SAR billion	826.7	873.3	976.0	1100.0	978.0	825.0	890.0
Expenditure Overrun, %	42.5%	26.6%	19.0%	28.7%	13.7%	-1.8%	0.0%
Overall Budget Balance, SAR billion	291.1	374.1	180.3	-55.6	-365.7	-297.0	-190.0
Budget Balance/GDP	11.6%	13.6%	6.4%	-2.0%	-15.0%	-12.4%	-7.5%
Break-Even Oil Price	75.3	73.9	82.6	99.1	82.9	62.6	66.8
Financial Sector							
USD/SAR Exchange Rate	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Growth in Broad Money (M3)	13.3%	13.9%	10.9%	11.9%	2.6%	0.7%	0.9%
Growth in Credit to the Private Sector	11.0%	16.4%	12.1%	11.9%	9.8%	2.2%	2.3%
Average 3M SAR Deposit Rate	0.7%	0.9%	1.0%	0.9%	0.9%	2.1%	2.5%
Average 3M USD Deposit Rate	0.3%	0.4%	0.3%	0.2%	0.3%	0.7%	1.7%
Spread, in Basis Points, SAIBOR-LIBOR	40.9	55.2	68.7	70.4	56.4	134.7	80.0

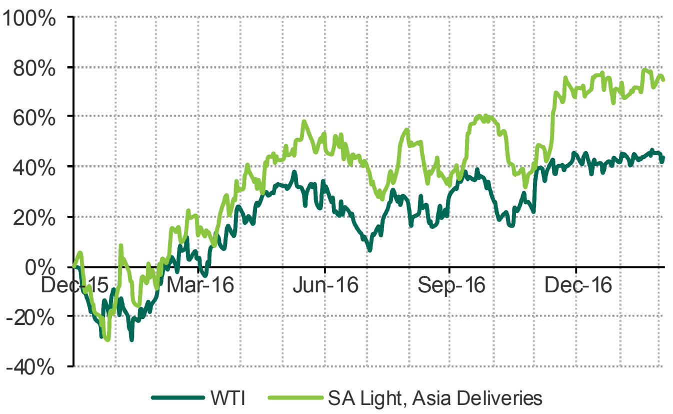
Sources: Thompson Reuters, SAMA, General Authority for Statistics, and NCB
Note: Saudi Economic Review Data, March 2017 Update (Historical and Projections)

Oil Market

OPEC Cut Commitment Weighed by Shale

OPEC crude oil prices averaged USD52.40 a barrel in January, while NYMEX WTI and ICE Brent also recorded gains, averaging USD52.61 a barrel and USD55.45 a barrel, respectively. Oil prices have been steady since OPEC and 11 non-OPEC producers agreed in November 2016 to cut production by 1.8mb/d in the first half of 2017. OPEC's agreement signals a change in its strategy away of defending market share and driving out high-cost non-OPEC producers. While OPEC agreed to cap production at 32.5mb/d, 1.2mb/d below its peak level in October 2016, non-OPEC producers pledged to cut 0.6mb/d, with Russia accounting for half of the reduction. Although Oil prices are projected to move higher as OPEC supply continues to retreat and as demand keeps its pace on improved global economic outlook, it is not expected that prices will average above USD60.0 a barrel. Renewed US shale oil supplies will weigh on the market in the short to medium term. The direction of oil prices for the rest of 2017 will depend on the pick-up pace of US shale oil production, and on whether OPEC and non-OPEC members will reinstate the agreement through the second half of 2107.

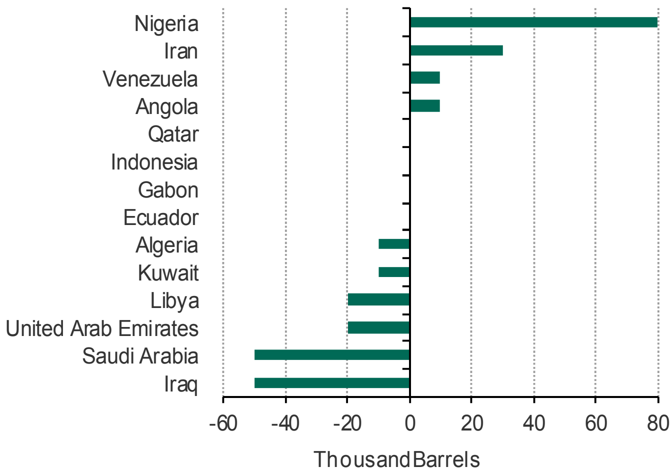
Chart 1: Oil Price Developments, YTD



Source: Thomson Reuters

On the supply side, non-OPEC production growth has been revised up by 0.12mb/d to show an increase of 0.24m/d, attributed to a pick-up in shale drilling activities and investment in the US, according to OPEC Bulletin. In January, OPEC production decreased by 0.89mb/d, to average 32.14mb/d, reflecting strong compliance to the production cuts. In January 2017, Saudi Arabia reduced production more than it had committed, 0.5mb/d lower than December 2016. Due to downward pressure on consumption following increased gasoline prices, along with wider use of natural gas in power generation, Kingdom's crude exports of 7.3mb/d are still maintained with lower output. However, OPEC cuts might be muted by another 0.3-.5mb/d of Libyan or Nigerian supply increases, or non-compliance by countries such as Iraq. Libya and Nigeria are exempted from Novembers' OPEC agreement as production in these two countries is still recovering from security related issues. Libyan production increased in recent months, and is expected to average 0.75mb/d in 2017, but is still less than half of the pre-civil war level. Nigerian oil production increased to 1.7mb/d, yet still below the 2014's level. In Iran, crude oil production increased by 30% to 3.7mb/d in January 2017 since lifting of the sanction early last year. Iraq's production reached 4.6mb/d in December 2016, but expected to ease in adherence to the OPEC's agreement. In the US, oil investment had a significant upward pressure with a dramatic turnaround in drilling activity, as producers have been able to lock in the price for future production at USD50.0 a barrel. The number of rigs reached 525 by end-2016, and since then the rig count has grown at the fastest pace since 2014 to reach 583 in early February. EIA expects the annual US oil production to reach 9.0mb/d in 2017 and 9.5mb/d in 2018.

Chart 2: OPEC's Monthly Oil Production Changes



Source: OPEC Survey

Global demand for oil continues to strengthen as recent dynamics to rebalance the market have come into play, yet a period of slower pace is still expected in the year ahead. The IEA revised up its demand growth estimates to 1.6mb/d for 2016, influenced by stronger than expected economic growth in Europe, alongside the long-term economic growth in China, India and non-OECD countries. However, IEA remains cautious about the outlook, forecasting demand growth at 1.4mb/d in 2107. Across the world, recent economic data releases point to improved economic growth forecast for both developed and emerging market economies, which will support the oil consumption growth outlook.

Said A. Al Shaikh
Chief Economist | **s.alshaikh@alahli.com**

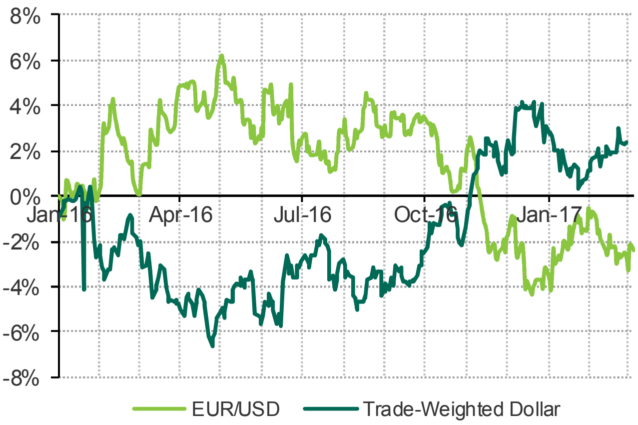
NCB الأهلي

Foreign Exchange

USD to Broadly Appreciate in 2017

According to the IMF's latest global forecast update for 2017, global GDP is set to register a 3.1% annualized growth in 2016, and is expected to accelerate in 2017 to 3.4%. Growth in 2016 was mainly underpinned by an acceleration in advanced economies in the second half of the year. Projected fiscal stimulus in the US, sizeable appreciation of the USD, steepening yield curve, rising equity prices, in addition to firming oil prices are supporting factors for advanced economies going forward. In emerging and developing economies (EMDEs), will be concluded at 4.1% Y/Y in 2016, and is expected to upturn to 4.5% in 2017. The changing policy mix in the US and China will create a positive global spillover that will provide support for emerging and developing markets. Anticipated strong investment in China and fiscal stimulus in the US will boost demand for global commodities improving the prospect for commodity exporters. Robust private and public consumption in India and rising FDI will offset the slowdown faced in 2016, leading the pack in EMDEs in terms of growth rate at 7.2% in 2017.

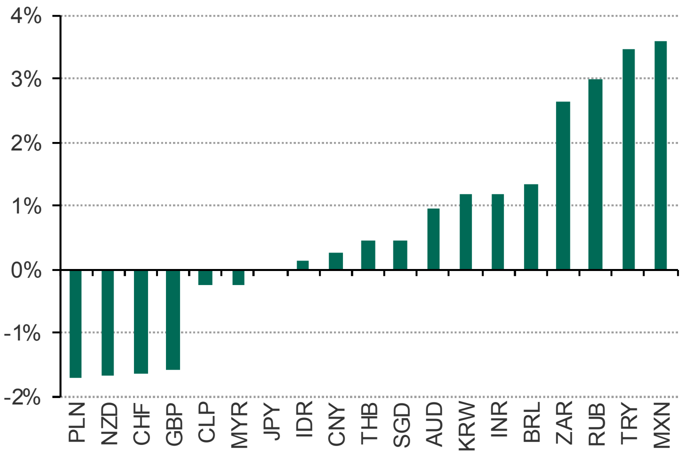
Chart 3: Trade-Weighted Dollar and the Euro



Source: Thomson Reuters

In the US, labor market approached full employment in 2016 with unemployment rate falling to 4.9% which is below the non-accelerating inflation rate of unemployment (NAIRU) estimated by the IMF to be between 5% and 5.2%. Non-farm payroll averaged 187,000 jobs/month during 2016 and is expected to remain elevated in 2017 with an anticipation of corporate tax cuts. Stronger manufacturing data in the US also is ensuring that the economy is currently able to withstand a normal monetary policy. Forward-looking indicators such as University of Michigan consumer confidence and the US PMI soared seeing the highest outlook since March 2016. The US dollar ended 2016 rising by 3.1% Y/Y on the back of strong fundamentals in addition to the Fed actually carrying out one rate hike mid-December with a strong likelihood of two more hikes in 2017. Federal funds rate rose by 25 bps to stay in the range of 0.5% and 0.75%.

Chart 4: Monthly Foreign Exchange Rate Changes



Source: Thomson Reuters

In the Eurozone, the ECB decided to extend its quantitative easing program until September 2017 albeit at a lower rate of monthly asset purchases (EUR60 billion/month down from EUR80 billion/month). This decision is indicative that the single currency is likely to remain under depreciative pressure throughout 2017. In 2016, the EUR weakened by 3.1% versus the dollar, standing at USD1.05. Moreover, political uncertainty remains high in Europe with rising support for nationalist/populist movements. The Brexit impact on the EU will likely be inflationary as tariffs are put in place in the coming years but the depreciation of the pound will ease imported inflation. By the end of 2016, the GBP ended 2016 down by 16.3% Y/Y standing at USD1.2. Emerging market economies are likely to improve after a dismal year in 2016 following a recession in Argentina and Turkey. The Economic downturn in Argentina in 2016 was exacerbated by President Macri's free-market reform which included freezing many of the country's construction projects and allowing the devaluation of the peso. The Argentinean currency slid 22.6% Y/Y to 15.9 for the dollar by the end of 2016. Turkey's economy is showing clear signs of a slowdown amid a series of terrorist attacks which plunged down its tourism sector. Furthermore, pressure on the lira pulled down its spot price by 17.3% Y/Y to 3.5 for the dollar.

Yasser A. Al-Dawood
Economist | **y.aldawood@alahli.com**

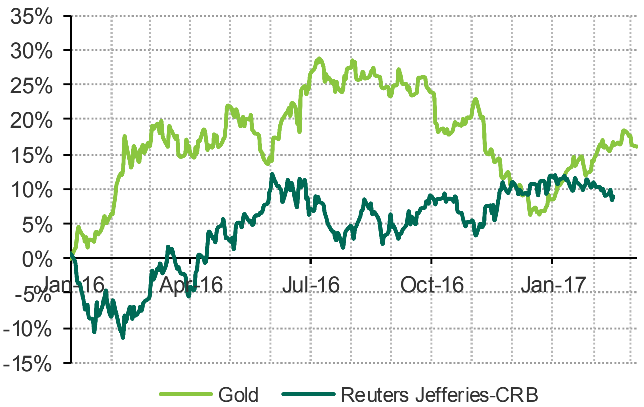
NCB الأهلي

Commodities

High Investment Prospects Boost Metals

The year 2016 saw a divergence between industrial and agricultural commodities in the fourth quarter. The agreements made between OPEC and non-OPEC suppliers firmed up oil prices which rose 10% in 4Q2016 averaging USD49.1/bbl. Recurring supply concerns on base metals emanating from the closures of high-cost smelters in China as well as ore export bans in Indonesia and Malaysia are exerting an upward pressure on prices. Meanwhile, agricultural commodities face a supply abundance and record crops which did not bode well amid weakening commodity currencies. A stronger USD and rising real interest rates in the US pressured gold prices down in the second half of 2016. The unwinding of the commodity super-cycle is still on-going, and headwinds to investment include weak global growth prospects, terms of trade shocks, accumulation of private debt, and higher policy uncertainty in major economies. In 2016, the Thomson Reuters CRB index registered a 9.3% annualized upturn by the end of December.

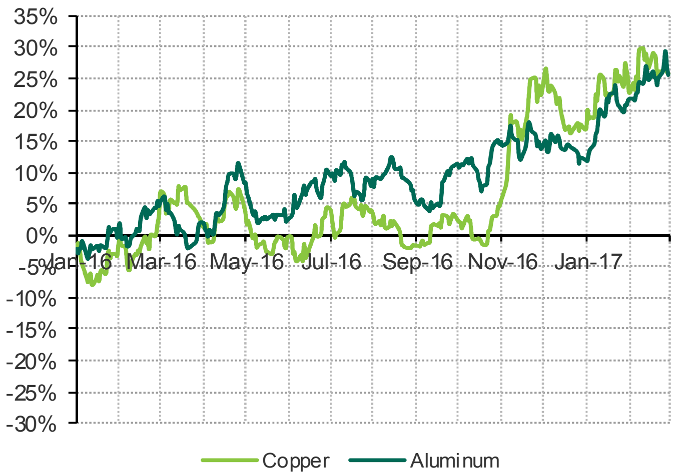
Chart 5: Reuters Jefferies vs. Gold



Source: Thomson Reuters

Despite average metal prices being at relatively low levels compared to last year, credit stimulus in China combined with supply, and environmental constraints, in addition to post-US election higher investment expectations sent prices higher. The closure of older, inefficient smelters in China had a profound impact on prices as China account for over 50% of global industrial metals' consumption. Moreover, China's transition to a consumption/service-led growth coupled with an industrial reform and environmental concern will likely create more investor demand, pressuring prices upward. Copper prices rose 17.7% during the year, closing at USD5,535.5/ton on falling inventories and expectations of higher demand. New capacity build-ups such as that in Peru had reversed some of the upturn by year-end. Despite supply growth in new countries in the coming years, strong demand from China and more closures/supply disruptions will underpin the red metal. The growing industrial use of aluminum had proven its versatility as it surged 12.3% in 2016 standing at USD1,693/ton. Strong global demand, rising production cost and bauxite export bans have carried aluminum prices upwards. However, downward risks in 2017 include Indonesia's decision to roll back on its bauxite export ban, in addition to new Chinese low-cost smelting capacity becoming operational.

Chart 6: Base Metals



Source: Thomson Reuters

Rising USD and real interest rates have negatively impacted gold prices which declined 12.9% from June 2016, ending the year at USD1,152.2. On a Y/Y basis, however, the spot price of a troy ounce of gold closed 8.5% higher. Physical gold demand was generally weak last year, and in particular; India and China. The Indian government attempted to curb illicit cash stock by removing 500 and 1000 rupiahs out of circulation in order to shift savings into financial assets and away from physical assets, notably gold and real estate. In China, demand for gold declined as consumer preference shifted towards leisure activities and other goods in response to higher income.

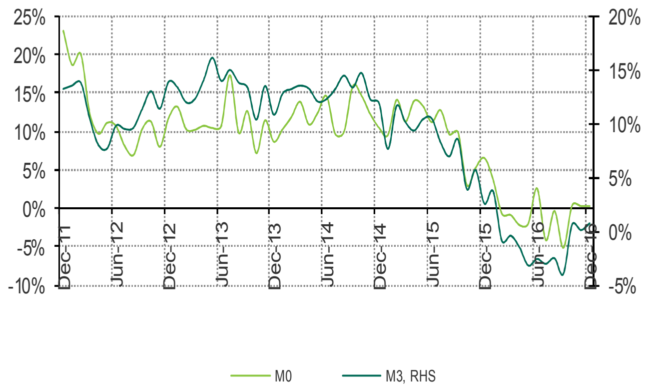
According to the Goldman Sachs agriculture index, soft commodities inched up 3.9% Y/Y by the end of 2016. Upward price pressure was conceived in the first half of the year due to an El-Nino induced scare that pushed the index as high as 19% from year beginning. However, higher than expected crop yield coupled with a weaker global demand and a stronger USD rendered soft commodities faltering. According to the USDA, combined global supply of wheat, maize and rice is projected to reach 2,838 mmt which is about 5% higher than last season's record supply.

Yasser A. Al-Dawood
Economist | **y.aldawood@alahli.com**

Money & Inflation
SAMA's Measures Show Success

The global oil shock which hit in the second half of 2014 continues to derail economic growth in the Kingdom. Persistently low prices created a spillover to the non-oil sector, affecting consumer confidence and liquidity in the financial sector. According to Saudi official data, GDP growth rate in the Kingdom was concluded at 1.4%, the lowest since the financial crisis of 2009. The IMF, however, slashed its growth rate outlook for 2017 down to 0.4% in its latest update, underlining the recent agreements to cut OPEC oil production, in addition to the impact of key fiscal reforms the Kingdom undertook in order to plug its outstanding budget deficit. The challenging task of building investor confidence in Saudi is a long term objective in Vision 2030 aiming to reduce the Kingdom's dependence on oil. Nevertheless, the Kingdom successfully floated the largest emerging market bond sale of USD17.5 billion and aims to borrow another USD15 billion this year.

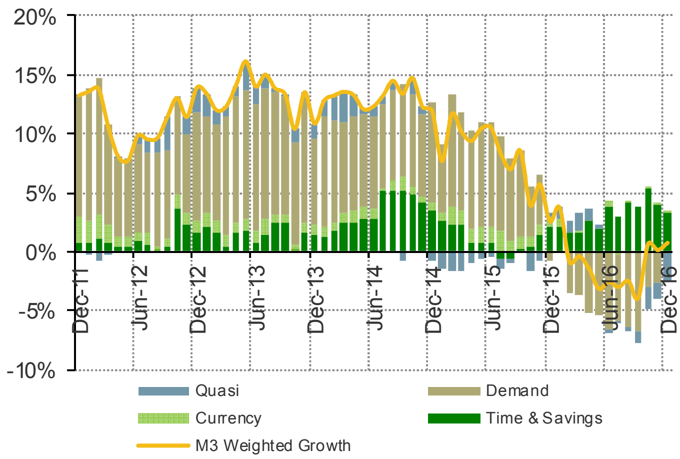
Chart 7: Growth in Monetary Aggregates



Sources: SAMA and NCB Estimates

Broad money supply concluded year 2016 with a positive, albeit mediocre annualized growth of 0.7%. Following eight months of consecutive declines, money supply returned to positive territory in October following liquidity injections which included the sale of sovereign bonds by the size of USD17.5 billion. The monetary base stood at SAR302.4 billion, edging up by 0.3% Y/Y supported by a 0.6% annualized increase in currency outside banks. On the other hand, deposits with SAMA inched down by 0.4% Y/Y to SAR102.4 billion affected by heavy withdrawals by public financial institutions. By the end of December, total deposits in Saudi commercial banks stood at SAR1.617 trillion of which demand deposits make up 60.2% at SAR974.1 billion. On an annualized basis, demand deposits inched down by 0.2% marking the 13th consecutive month of decline. Time and savings deposits, on the other hand, surged to a double-digit growth of 13% Y/Y, standing at SAR491.6 billion reflecting a higher preference to save during the low economic cycle. Quasi monetary deposits recorded the lowest level since 1993 of just SAR151.3 billion, falling by 22% Y/Y on the back of dwindling foreign currency deposits.

Chart 8: Money Supply, Contribution



Sources: SAMA and NCB Estimates

In December, the cost of living index recorded the first lowest annualized inflation rate since 2002 on the back of a stronger USD. The foodstuff sub-index was responsible for the downside pressure on the general index as it fell by 4.3% Y/Y. Low global food grain prices resulted in lower imported inflation which pulled down the index as it makes up 21.7% of the consumer basket. Upside pressure mainly came from housing and utilities recording a 6.4% upturn, largely driven by higher utility costs. In addition, the transport sub-index was markedly higher at 7.5% Y/Y as it was impacted by the reduction of government fuel subsidies. We expect inflation to remain low during the first half of the year under the influence of a stronger dollar and cheaper commodities but expect prices of other categories to rise in the second half as the government continues to withdraw from the remaining subsidy programs towards year 2020.

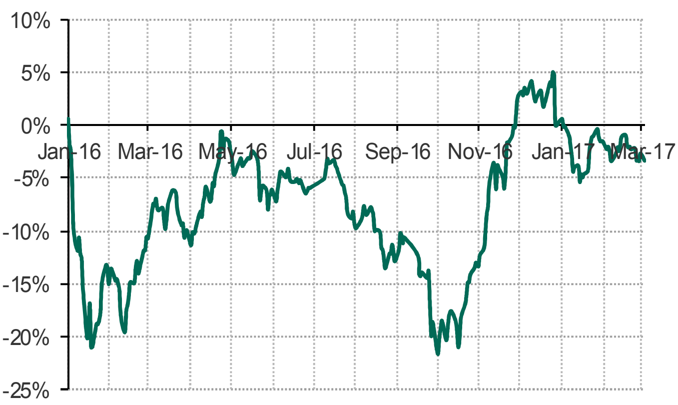
Yasser A. Al-Dawood
Economist | **y.aldawood@alahli.com**

Capital Markets

Development Towards an MSCI Inclusion

During the 4Q16, the Saudi Stock Market, better known as Tadawul, was catapulted by numerous factors which lifted the index well above the 7'000 mark. The government's decision to tap international markets for an emerging market's record issuance of USD17.5 billion alleviated the domestic liquidity crunch, and coupled with OPEC and non-OPEC producers' accord of cutting supplies, the domestic stock market rallied towards the end of the year. However, the momentum faltered as we entered 2017 and the index registered consecutive monthly declines in January and February at 1.5% and 1.8%, respectively. Anticipation of annual corporate profitability pressured stock prices as investors' expectation of weak announcements prevailed. The collective net income for Tadawul declined to SAR94.0 billion last year, falling by 5.3% Y/Y from SAR99.3 billion in 2015. The largest listed stock by market capitalization, SABIC, announced a 4.6% drop in profits to SAR17.9 billion. Yet the petrochemical sector registered an increase of 8.0% in profits as companies such as Yansab and Sahara increasing their production following 2015's scheduled maintenance plans. Meanwhile the cement sector posted a 23.2% decline in their bottom-lines as the domestic construction market continues to face headwinds. As for the banking sector, the 12 listed banks' net income dell to SAR41.3 billion, a 5.4% decline as provision levels increased in anticipation of an economic slowdown.

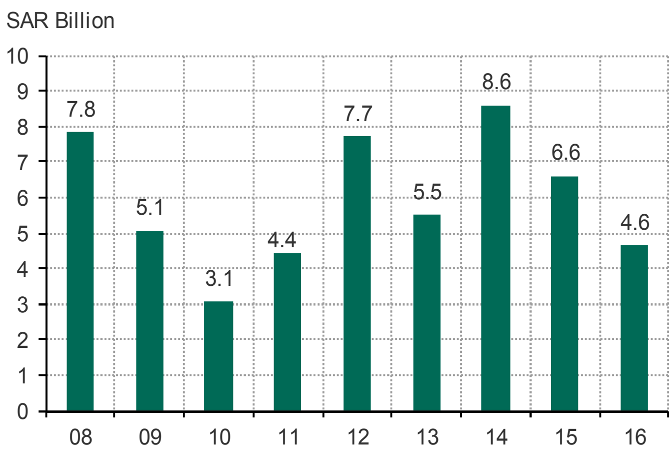
Chart 9: Tadawul All-Share Index



Source: Tadawul

We expect the market to tread carefully in 2017, relying on government announcements to incentivize investments in the riskier asset class. In the month of January, average daily traded values dropped by 18% on a monthly basis to settle at SAR4.5 billion. While Tadawul is largely institutionally owned, around 65%, daily trading is mainly conducted by Saudi individuals, around 90%. This creates undesirable fluctuations based on short-term decisions which overshadow the long-term opportunities for local and international investors. According to the Capital Market Authority (CMA) Vice Chairman, about 50 Qualified financial Institutions (QFI) have been granted access to the domestic market. However, their investments remains benign as their ownership stood at 0.12% by the end of last month while total foreigners own around 4%. The recent announcements to change the settlement cycle to T+2 and relaxed revisions to QFI requirements, along with a reclassification of sectors according to GICS standards will enhance transparency and develop the market further towards inclusion into MSCI indices within the next couple of years which will provide significant capital inflows to the market.

Chart 10: Average Daily Traded Value



Source: Tadawul

The main highlight of last month was the launch of Numo, Tadawul's parallel market, providing a new source of financing for SMEs in the regional economy. A total of 7 companies fulfilled the listing requirements which are less stringent than Tadawul's. The reduced market cap from SAR100 million to SAR10 million, leaner financial disclosure deadlines, as well as lowering the minimum offering share to 20% from 30% will ease entry into capital markets for domestic and GCC businesses. Additionally, investors must qualify to trade in Numo by holding a CME-1 certification, conducting a minimum of SAR40 million worth of transactions through at least 10 deals in each of the past four quarters, and maintaining an average portfolio above SAR10 million over the past twelve months. CMA is targeting to attract 30-35 companies in the first year and will allow foreign investors to access Nomu similarly to Tadawul. Despite allowing stocks listed in the parallel market to fluctuate 20%, the higher complexity of investors will support stability and reduce the noise of individual investors.

Majed A. Al-Ghalib
Senior Economist | **m.alghalib@alahli.com**

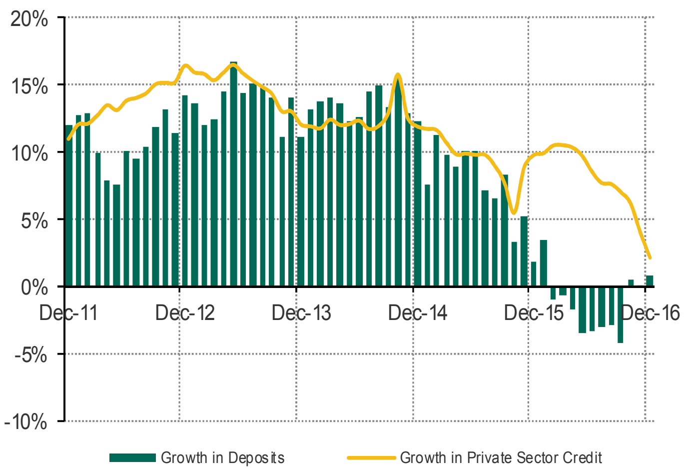
NCB الأهلي

Loans Market

3-M Average SAIBOR Below Threshold

Signs of a prolonged period of persistently low oil prices are inducing a lackluster outturn in government projects and infrastructure spending, thus lower demand for bank credit. By the end of December, annualized growth in private sector credit recorded the lowest rate since April 2010 at 2.2% Y/Y as lower economic activity translated into lower demand for credit. The economic downturn in the Kingdom led to a divergence between credit and deposits resulting in a liquidity tightening. Total deposits in the Saudi banking system stood at SAR1.617 trillion by the end of the year with around 60.2% (SAR974.1 billion) are non-interest-bearing demand deposits. On a Y/Y basis, total deposits edged up only 0.8%, affected by a 13-month contraction in demand deposits which by December inched down by 0.2%. The most affected category in money supply in terms of percentage change was quasi monetary deposits which tumbled by 22% to SAR151.3 billion, the lowest levels since 1994. The main culprit was the rapid decline in foreign currency deposits which fell by 23% Y/Y to SAR123 billion due to heavy withdrawals by government entities.

Chart 11: Private Sector Financing

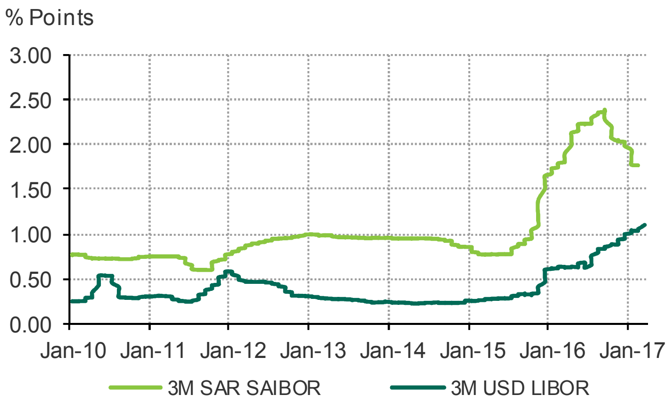


Sources: SAMA and NCB Estimates

However, the liquidity squeeze is expected to ease in 2017 following the removal of some liquidity constraints by SAMA and the successful sale of last year's USD17.5 billion sovereign bond. Signs of easing can be witnessed as SAIBOR fell back below SAMA's 2% repo rate to the lowest levels since April 2016 down from 2.4% in October. Nevertheless, tough funding conditions are expected to be encountered in the second half of 2017 and in 2018 as government reforms such as the introduction of the value-added tax and further subsidy reduce retail spending ultimately.

Credit by economic activity shows a weak growth in the three main activities, commerce, manufacturing, and construction. Commerce, which by weight accounts for 21% of bank credit, grew by around 5% Y/Y in 4Q2016 compared to double-digit growth in the previous three quarters. Credit for manufacturing which account for 13% of total bank credit registered a 2.2% Y/Y growth in 4Q compared with an average of 7.4% Y/Y in the previous quarters in 2016. On the other hand, credit for building and construction contracted by 1.3% Y/Y after averaging 21.2% Y/Y growth in the previous three quarters.

Chart 12: Liquidity and Risk Detector



Source: Thomson Reuters

By the end of 2016, short-term credit made up the bulk of bank credit (about 50.2%) at SAR792.9 billion. Medium-term credit stood at SAR264.9 billion, accounting for 18.9%, whereas long-term credit reached SAR433 billion, making up 30.9% of bank credit. Bank holdings of government bonds totaled SAR178.4 billion, surging by 107.1% Y/Y. In contrast, holdings of T-bills have considerably plummeted by 74.4% down to a total of SAR34.8 billion as holdings shift in favor of longer maturity securities.

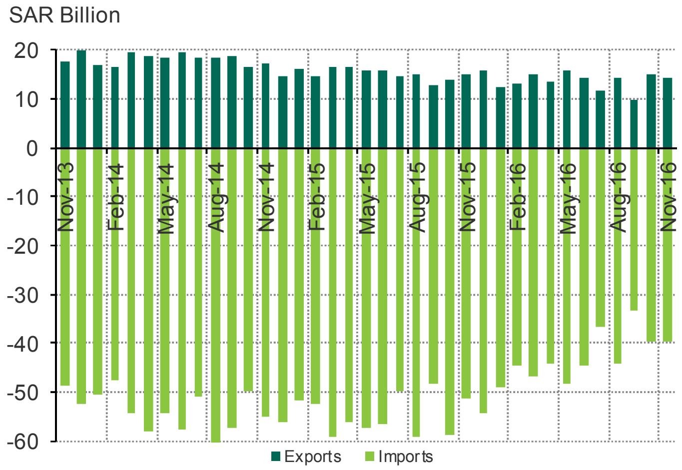
Yasser A. Al-Dawood
Economist | y.aldawood@alahli.com

External Trade

Trade Reflect Global Dynamics

The Kingdom is undergoing a massive economic and social reform in which it lessens the dependence on oil as a primary source of government revenue. Diversification efforts have increasingly put more emphasis on growth of non-oil exports. Encouragingly, non-oil exports have been growing more rapidly than oil exports in recent years, although the sheer size of oil revenue in comparison reflect the challenge facing the Kingdom with respect to economic diversification. The government created the Saudi Export Development Authority which has assumed responsibility for promoting the Kingdom's non-oil products abroad and assisting domestic companies in exporting their goods. Non-oil exports increased five-fold in value terms between 2003 and 2013, growing at an average annual rate of 20% to reach SAR216 billion in 2014. This rise has boosted the share of non-oil exports in non-oil GDP by three percentage points since 2004, reaching 13.6% by 2013, according to the IMF. As the oil shock took place during the second half of 2014, and the USD gained strength, much of non-oil Saudi exports took a hit due to their oil-relatedness.

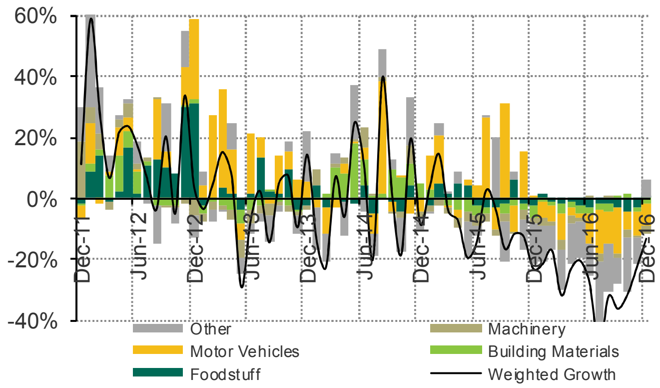
Chart 13: Saudi Non-Oil Trade Balance



Sources: SAMA and NCB

By the end of November 2016, the Kingdom's non-oil trade recorded a 9.1% decline over the 12-month period. On the other hand, lower government expenditure, namely on infrastructure projects also reduced demand for imports which tumbled by 22.3% Y/Y. Non-oil exports largely consist of chemicals and plastics, accounting for around 60% in value terms. According to the General Authority of Statistics, chemical products contributed SAR4.95 billion in November, upturning by 6.9% Y/Y. Chemical products on the other hand recorded SAR3.6 billion, plummeting by 23.9% Y/Y. Base metals accounted for a further 8.5% of total exports, or SAR1.22 billion, inching down by 2.8 Y/Y. By destination, the UAE account for most of the non-oil export contribution by value at SAR2.2 billion (15.1% of the monthly total.) In comparison to last year, non-oil exports to the UAE declined 14.6%. China came in second with a contribution of 12.2% of exports at SAR1.75 billion. By annual comparison, exports to China surged by 25.1% Y/Y. Exports to Singapore during the month totaled SAR 784 million, rising by 5.5% Y/Y.

Chart 14: Attribution Analysis of Letters of Credit Opened



Sources: SAMA and NCB

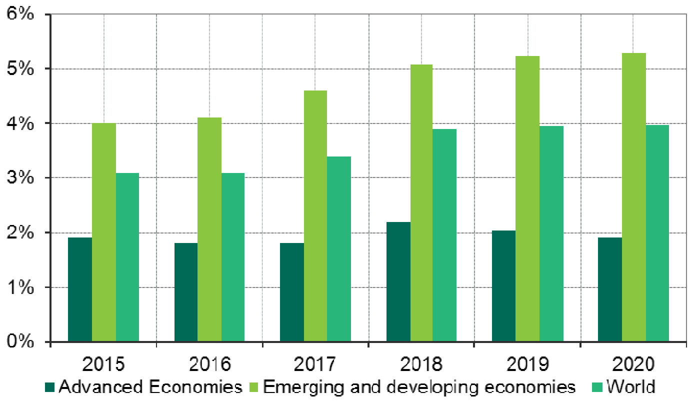
On the import side, we detect double-digit declines across all main categories which is in line with the Kingdom's fiscal consolidation efforts. Imports of machinery and electrical equipment account for 26.2% of the import bill which at SAR10.4 billion tumbled by 26.6% Y/Y. Imports of transport equipment reached SAR6.7 billion during November falling the most in terms of annualized percentage change by 35.9%. Imports of chemical products are the third largest item in the import bill accounting for 9.2%. Their total for the month recorded SAR3.66 billion, falling by 20% Y/Y. By import origins, the US accounted for as much as 20.9% of the import bill at SAR8.29 billion. Compared to last year, US imports to the Kingdom surged by 14%. Imports from China make up about 13.8% of the import bill at SAR 5.48 billion. By annual comparison, however, imports from China slid 18.2%. Germany is the third largest trade partner by import value. The Kingdom's imports from Germany make up 6.4% at SAR 2.54 billion, plummeting by 33.6% Y/Y.

Yasser A. Al-Dawood
Economist | **y.aldawood@alahli.com**

Special Focus:
Trumpenomics – A Hit or Miss?

Since the 2008 Global Financial Crisis, the world has been overwhelmed with economic and political volatility. Governments have ventured into unorthodox measures in order to prop up their faltering economies. The ensuing financial burdens caused geopolitical unrest, namely the Arab Spring, which triggered the creation of ISIS, prompting numerous immigration waves to advanced economies. In 2016, a populist movement in Europe resulted in appointing Theresa May to steer the UK towards a Brexit while nationalist candidates in France, Italy, and the Netherlands are gaining supporters. In the US, businessman turned politician Donald Trump won the elections with a similar rhetoric and on 20 January 2017, he was sworn in as the 45th President of the United States. The outspoken President's intent is clear, to "Make America Great Again". At USD18.6 trillion, the US is the largest economy in the world and any monetary or fiscal policy decisions will create ripple effects that will reverberate in economies around the globe. Trump's headline growth target is at least 4%, however, the US economy registered an expansion of 1.6% last year following 2015's 2.6% which acts as a reality check for his administration.

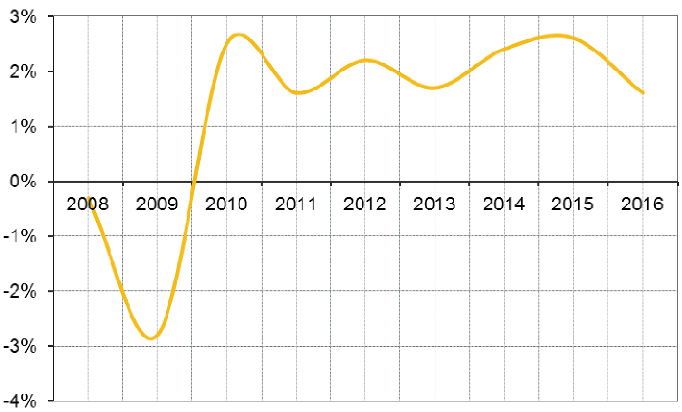
Chart 15: Global Growth



Sources: International Monetary Fund

Trump's presidential campaign revolved around slashing taxes, spending on infrastructure, reassessing trade agreements, and cracking down on immigration. He swiftly, and controversially, issued executive orders to deliver on his promises. The Trans-Pacific Partnership, which accounted for around 40% of global trade, was scrapped and he has been a public critic of the North American Free Trade Agreement. Additionally, he issued a travel ban on seven Muslim-majority countries which ignited a legal backlash and social divide. A construction of a border wall with Mexico continues to fuel controversy as the costs are planned to be billed to the Latin neighbor. Among the executive orders, the approval of two oil pipelines, North Dakota and Keystone, both rejected by the Obama administration. The firings of acting Attorney General and, later on, National Security Adviser emphasizes the concerns regarding the current administration's unclear direction. While his pro-business initiatives such as the USD1 trillion infrastructure spending plan, tax cuts for corporates, and reduced regulations through the "two-out, one-in" approach might stimulate growth, the expected targets neglect the drawbacks of an inflationary policy, global protectionism backlash, and currency wars.

Chart 16: US GDP Growth Rates



Sources: Bureau of Economic Analysis

The Trump effect on Saudi Arabia will continue to unfold, however, Trump's administration announced new sanctions on Iran, a proxy of US-Saudi ties, following their ballistic missile test last month. The Saudi economy is conducting a transition of its own and could possibly be affected by: 1) falling oil prices as Trump is adamant in supporting the domestic energy industry and reducing dependence on foreign oil, evident from approving the controversial pipelines, 2) interest rate hikes by the Federal Reserve as result of a growing US economy which will negatively impact the Saudi domestic lending environment, 3) the ramifications and ongoing developments of JASTA which has been approved by the Senate and congress last year. Meanwhile, a stronger US dollar would positively impact the import bill as the Saudi economy relies heavily on international goods. Dedicated willingness or political naivety might describe the initial days for Trump in the oval office, yet uncertainty clouds the ability to forecast the economic and political outcomes for the next four years.

Majed A. Al-Ghalib
Senior Economist | **m.alghalib@alahli.com**

The Economics Department Research Team

Head of Research

Said A. Al Shaikh
Chief Economist
s.alshaikh@alahli.com

Macroeconomic Analysis

Tamer El Zayat
Senior Economist/Editor
t.zayat@alahli.com

Majed A. Al-Ghalib
Senior Economist
m.alghalib@alahli.com

Yasser A. Al-Dawood
Economist
y.aldawood@alahli.com

Sector Analysis

Ahmed Maghrabi
Associate Economist
a.maghrabi@alahli.com

Sharihan Al-Manzalawi
Associate Economist
s.almanzalawi@alahli.com

Sultan Mandili
Economist
s.mandili@alahli.com

Amal Baswaid
Senior Economist
a.baswaid@alahli.com

To be added to the NCB Economics Department Distribution List:

Please contact: Mr. Noel Rotap
Tel.: +966-2-646-3232 / Fax: +966-2-644-9783 / Email: n.rotap@alahli.com