KSA Banks and Macro
Chartbook

June 2016

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Executive Summary

SAMA foreign assets rose for the first time since Jan 2015 in May, rising marginally by US$ 0.7 bn, bolstered by the government's US$10 bn syndicated loan from a consortium of banks. Money supply growth is now significantly weaker than projected nominal GDP growth (with 2016 real GDP growth estimates revised downwards by international agencies), and domestic interest rates have continued to move higher, with a growing divergence seen with other GCC economies. Banking sector profitability strengthened M/M in May 2016 and YTD profits in May 2016 are up 2.2% Y/Y. Lending continues to remain buoyant (9.4% Y/Y), if relatively concentrated in short term working capital financing. Interbank lending is on a downward trajectory, which suggests that sector liquidity may stabilize in coming months. No further news flow seen in how the government intends to pay contractors for past dues after reports that the government was considering option to issue IOUs.

May saw spending rise with the month of Ramadan approaching, with POS value and number of transactions rising. Average basket size improved to SAR 362 per POS transaction in May 2016, versus SAR 358 in April 2016 (lowest level in our data set going back to 2010). Spending in Ramadan will be a key barometer for the health of the consumer.

The gov't could raise oil production in the coming months to meet domestic needs as well as compete more strongly for market share in China, which should be supportive for real GDP growth in 2016.

With the release of the NTP, the government has moved quickly on several initiatives to bolster housing, wholesale / retail trade and pushing for greater FDI flows.

Banking sector key trends:

- Loan growth is buoyant (c.9.4% Y/Y), driven by demand from building/construction and commerce sectors. Deposit growth remains in negative territory (down 3.4% Y/Y in May 2016)
- Demand deposits as a share of total deposits appear to be stabilizing above 60%, this is likely to persist limiting cost of funds increases. Probability of US Fed rate hikes receded significantly with the Brexit vote in the UK.
- Sector profitability improved from SAR 3.7 bn in April 2016 to SAR 3.95 bn in May.

Macroeconomic key trends:

- M1 and M2 growth remain in negative territory at -7.8% Y/Y and -3.8% Y/Y respectively
- International agencies are forecasting KSA real GDP growth at 2% or below for 2016, which would place nominal GDP growth in the range of 5-6%. Thus monetary conditions remain very tight.

Monetary Policy

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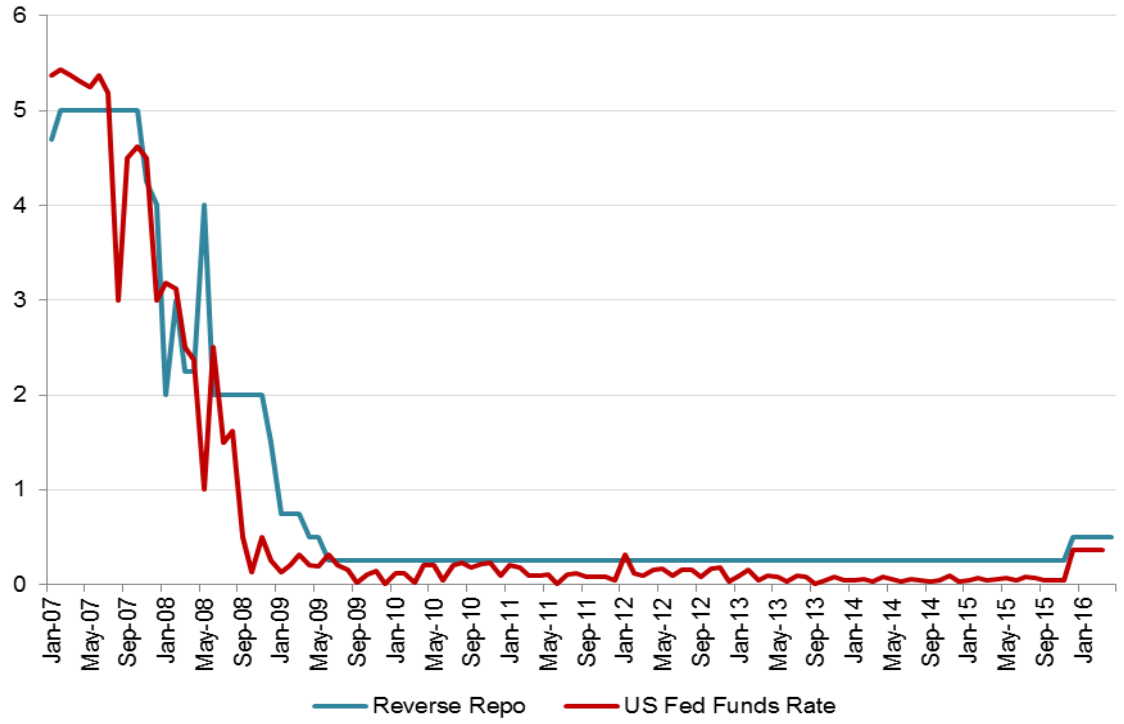
Chart 1: Via the SARUSD peg, the KSA reverse repo rate and US Fed Funds Rate have had a fairly tight historical relationship. FFR hike of 25 bps in Dec-15, matched by SAMA. Fed expects to hike by 50 bps in 2H2016.



Source: *SAMA, Bloomberg*

- Brexit risk was one of prime reasons for the US Fed to not hike in June (alongside a very weak NFP), and its caution seems to have been warranted with a surprise win for the Leave camp. This poses risks to underlying growth in Europe, and has potential global repercussions, and may stay the Fed's hand for the remainder of the year. Only strong NFP gains and sharply higher US wages likely to reignite rate hike expectations in 3Q 2016.

Monetary Trends

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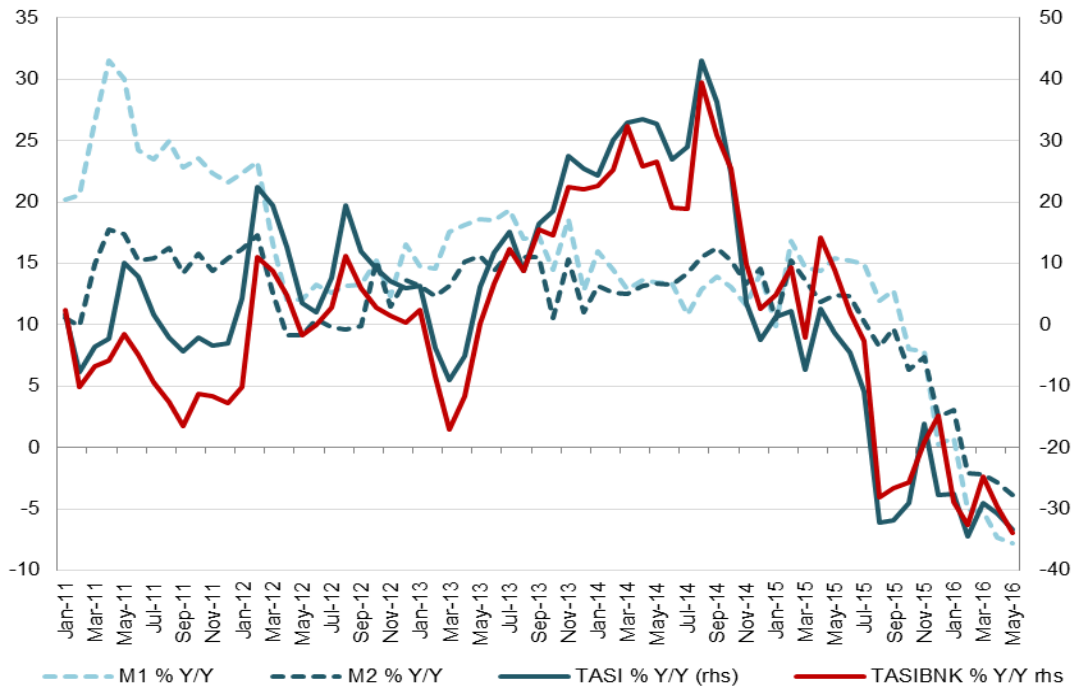
Chart 2: Despite stronger oil prices in May, Brent averaged US$ 47/bbl, M1 and M2 Y/Y growth fell further into negative territory, maintaining lid on Y/Y TASI performance.



Source: *SAMA, Bloomberg*

- M1 and M2 both in firmly negative territory for the 4th month in a row at -7.8% Y/Y and -3.8% Y/Y respectively, compared with projected nominal GDP growth in the region of 6.5-7%, monetary conditions are very tight.
- Deposit growth has now been negative on a Y/Y basis for 4 consecutive months, which along with strong loan growth and government borrowing appetite, has resulted in sharply higher domestic interest rates.

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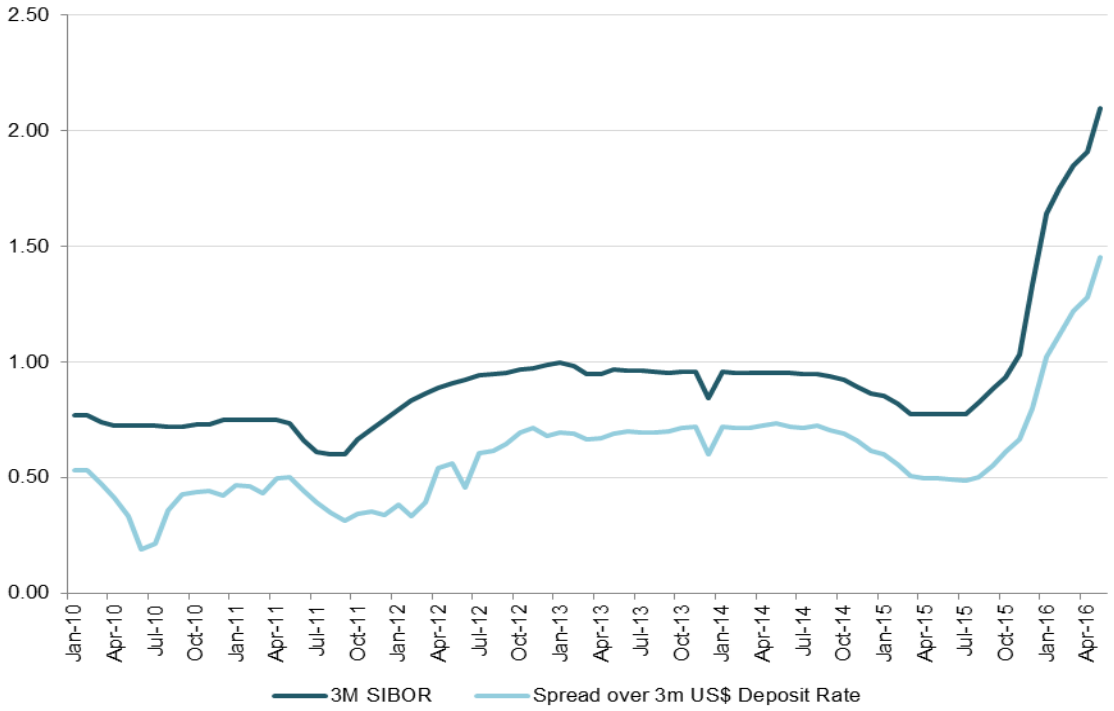
Chart 3: Terms of trade shock and uptick in inflation outlook contributing to widening of spread over US$ interest rates



Source: *SAMA, Bloomberg*

- Barring an inflationary shock, we expect the spread to level out in the months ahead, as Fed remains on hold, oil prices hold up above US$50/bbl and the government diversifies funding sources.
- CPI is up 4.2% Y/Y.

Monetary Trends

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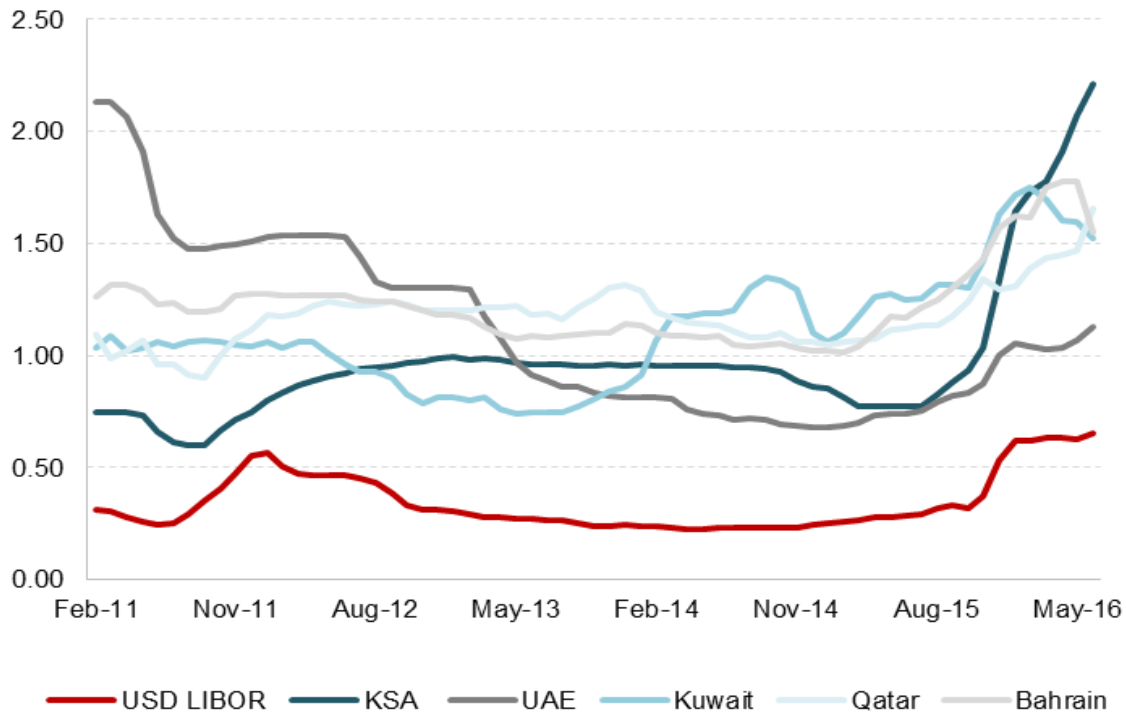
Chart 4: KSA interest rates have appreciated more than other GCC countries, including Bahrain which has the lowest credit rating



Source: *SAMA, Bloomberg*

- KSA interest rates have appreciated more sharply than GCC neighbours, including Bahrain which has seen its credit rating cut to 'Junk' grade.
- KSA interest rates however remain at negative real levels (against CPI of 4.2%), which partly explains still buoyant credit demand.

Banking Sector Drivers

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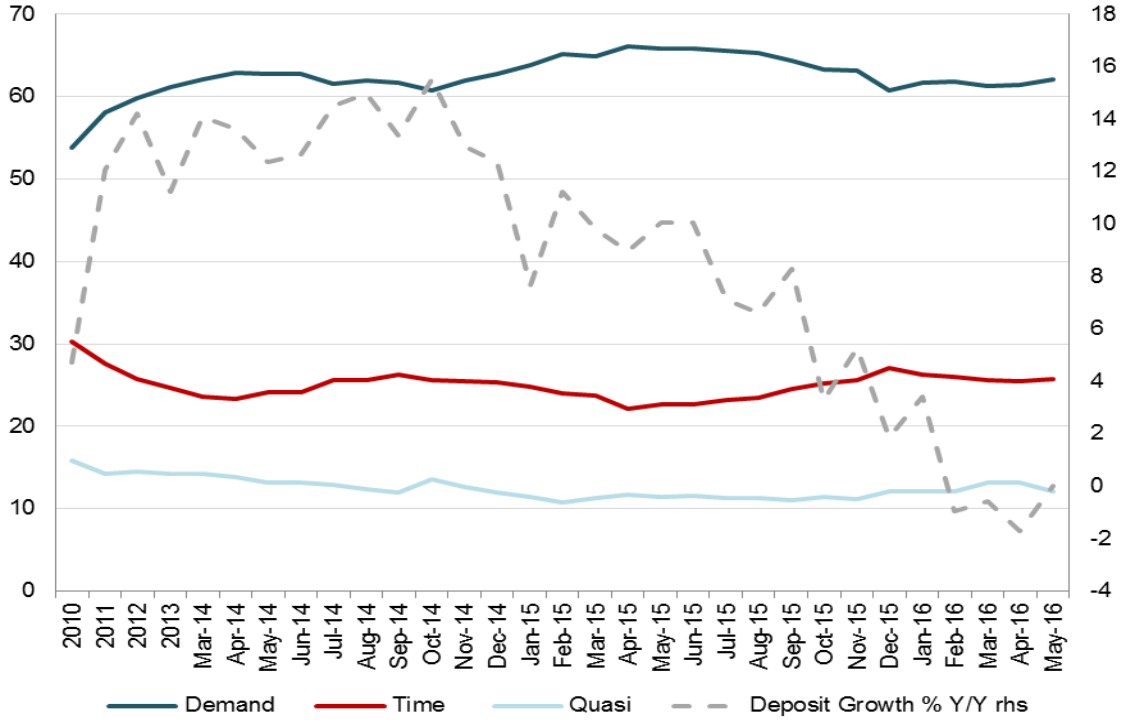
Chart 5: Banking sector deposit growth stayed in negative territory in May 2016, declining 3.4% Y/Y.



Source: *SAMA*

- Demand deposits as a share of total deposits have ticked up 2 ppt since Dec 2015 low, which should support 2Q 2016 profitability. On the other hand, negative Y/Y deposit growth remains a significant risk.
- M/M FCY deposits were lower as higher oil prices and a weaker US$ dampened speculation regarding the SAR peg..
- Gov't/Quasi-Gov't deposits have declined by SAR27bln since Jan 2016 and now comprise around 21% of total deposits. Previous high was 22.5% at the beginning of the year.

Banking Sector Drivers

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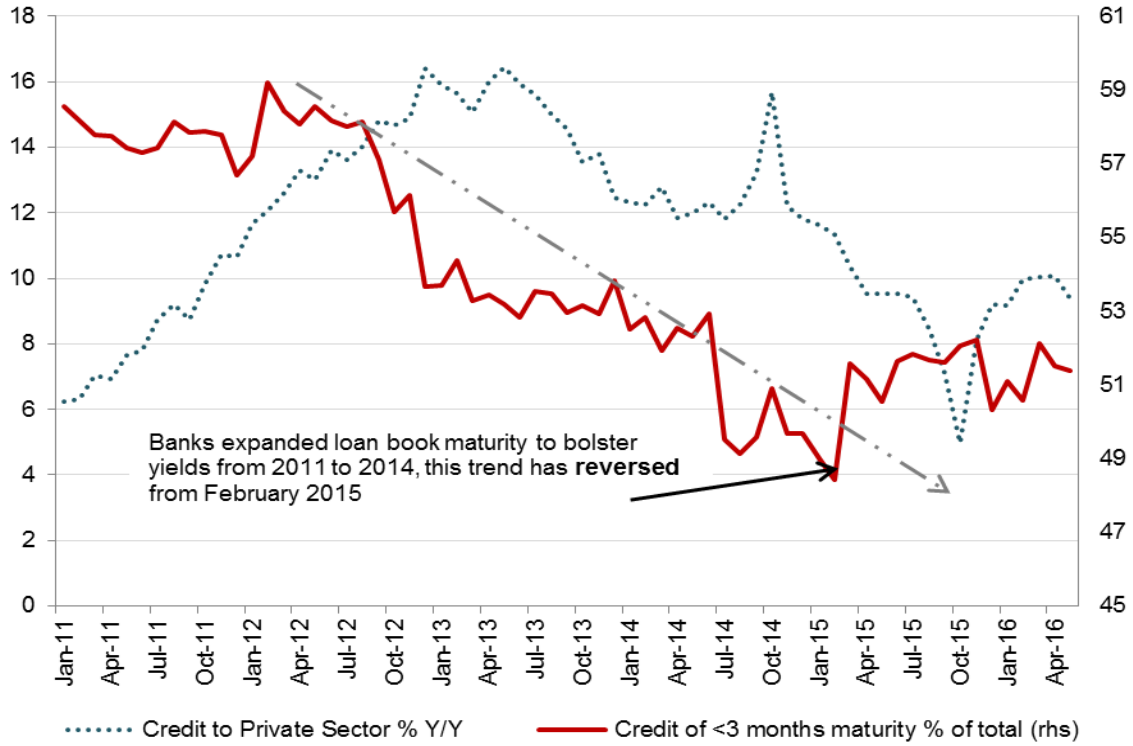
Chart 6: Banking sector lending growth remains buoyant driven by building/construction and commerce sectors. However, this may slow as the gov't releases delayed contractor payments and due to weak deposit growth



Source: *SAMA*

- Loan book maturity profile continues to be relatively short as loan demand is primarily for working capital financing needs.
- Maturity needs to expand before meaningful expansion is seen in sector's NIM.
- Loan growth running at 9.4% Y/Y.

Banking Sector Drivers

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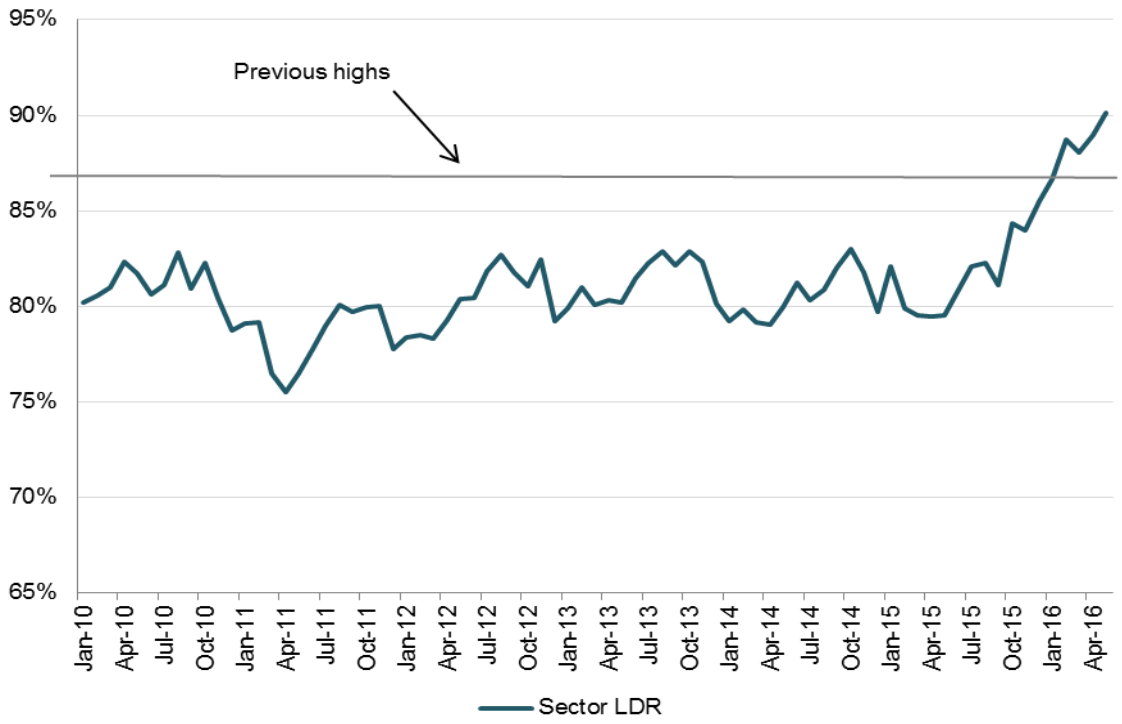
Chart 7: Banking sector simple LDR breached 90% in May 2016 as deposits fell 3.4% Y/Y



Source: *SAMA*

- Loan growth remained strong in May 2016, rising to 9.4% Y/Y.
- Weakness in deposits is persisting, down 3.4% Y/Y.
- SAMA has prudently adopted a more lenient stance with respect to bank LDR ceiling.

Banking Sector Drivers

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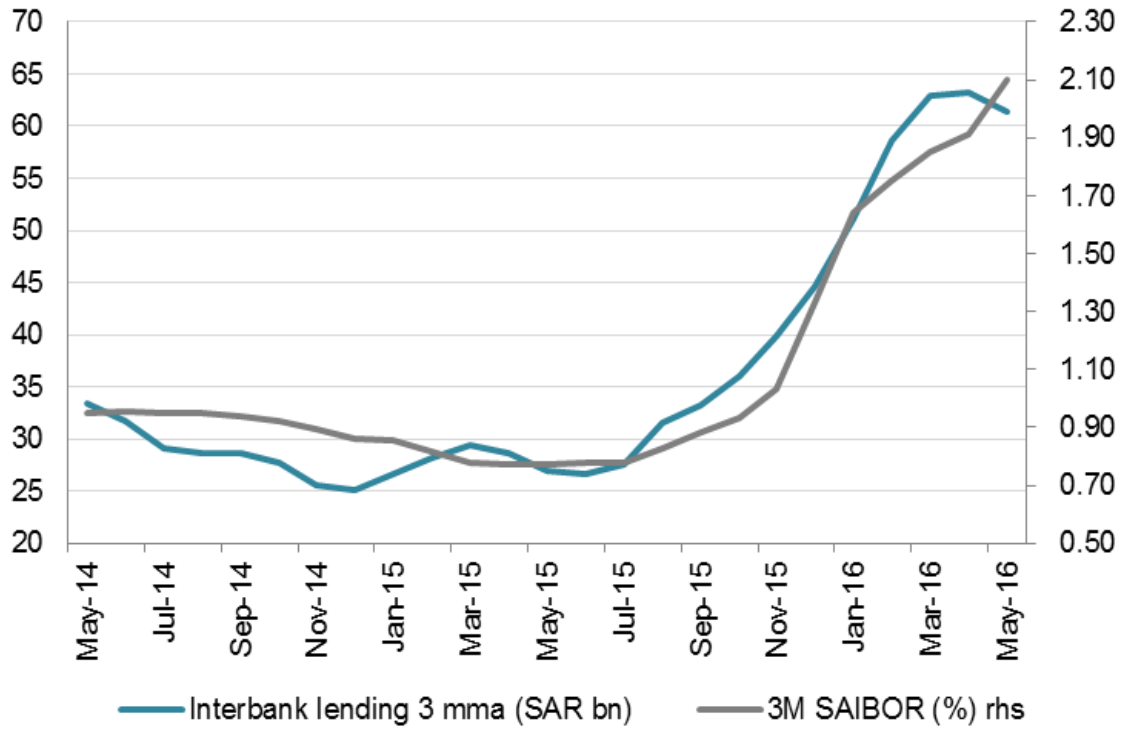
Chart 8: Interbank lending appears to be declining, suggesting liquidity is easing



Source: *SAMA*

- Net Interbank lending rose to SAR 65.6 bn in May, versus SAR 57.7 bn in the month prior, however the smoothed 3m MA continues to trend lower suggesting banking sector liquidity is easing.

Banking Sector Drivers

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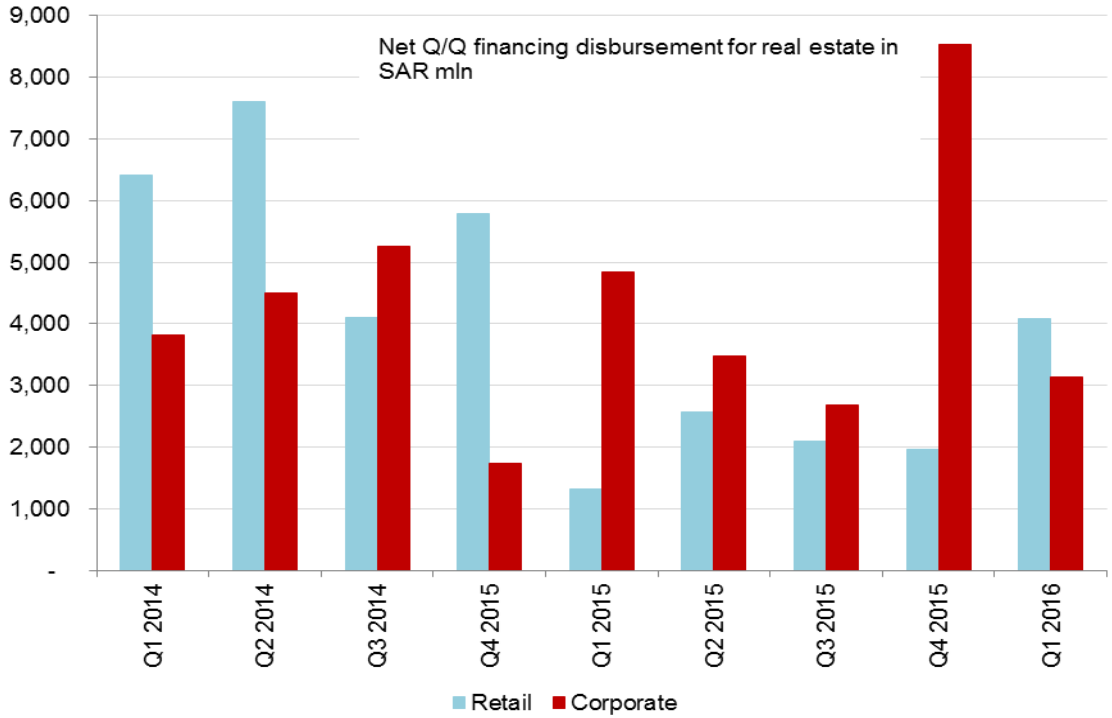
Chart 9: Retail borrowing for real estate picked up in 1Q 2016, while corporate real estate borrowing returned to trend



Source: *SAMA*

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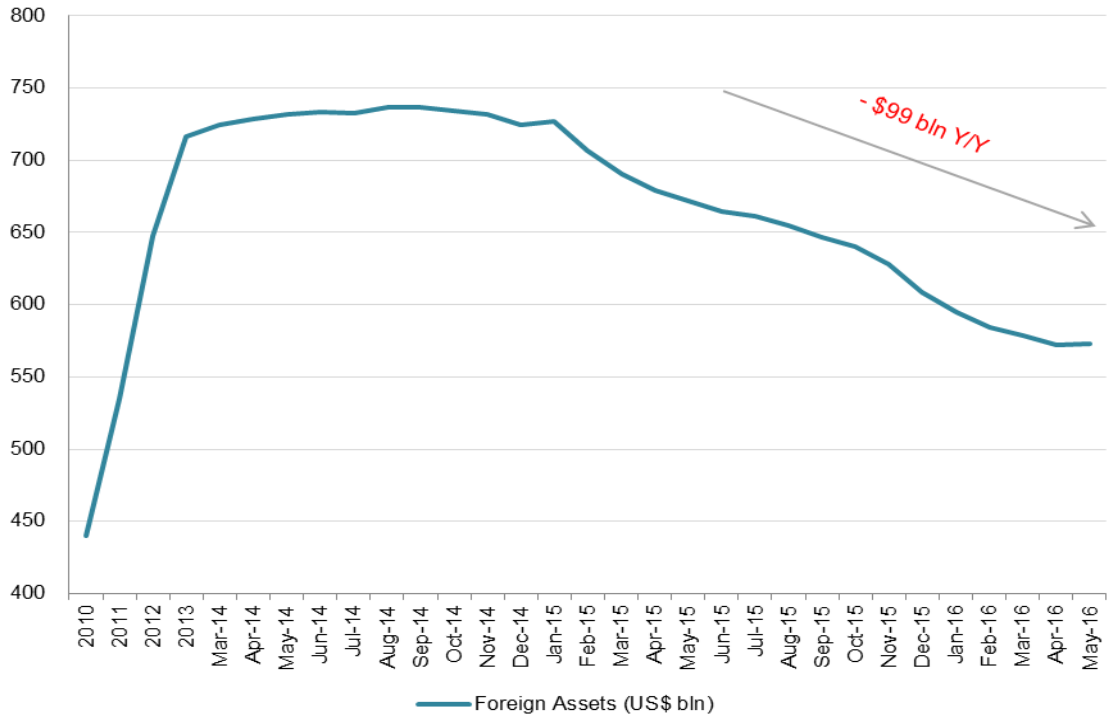
Chart 10: KSA Foreign Assets have risen slightly by US$ 0.7.bn in May 2016, the first rise since Jan 2015.

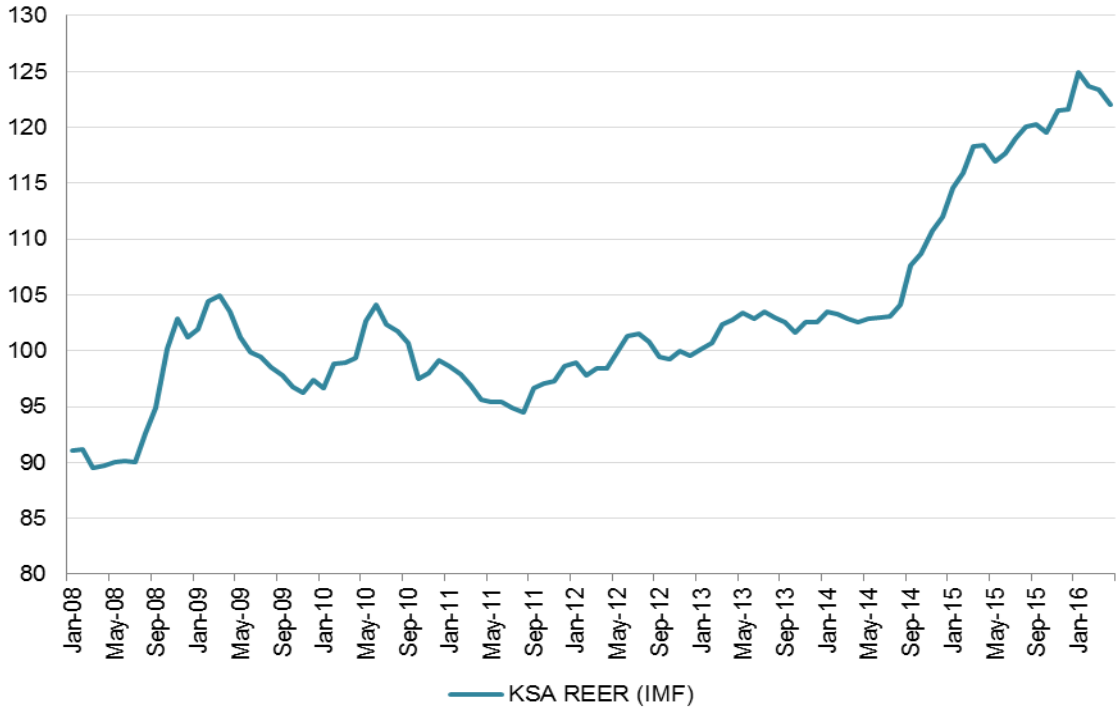


Source: *SAMA*

- Foreign assets held by SAMA peaked in August 2014 at US$ 737 bln.
- The US$ 0.7 bn rise in SAMA foreign assets for the month of May 2016 was the first rise since Jan 2015.
- Commercial bank foreign assets continued to decline, falling a further SAR 18.5 bn in May. They are down SAR 62.8 bn since end-2015..

External Sector

Chart 11: US$ weakness is driving a weaker SAR REER in recent months, as the US Fed remains on hold. Brexit related US$ strength could power KSA REER higher in June.



Source: *IMF*

- KSA CPI has ticked up to above 4% Y/Y in 2016 following removal / modification of some subsidies in the Budget.

Consumption and Imports

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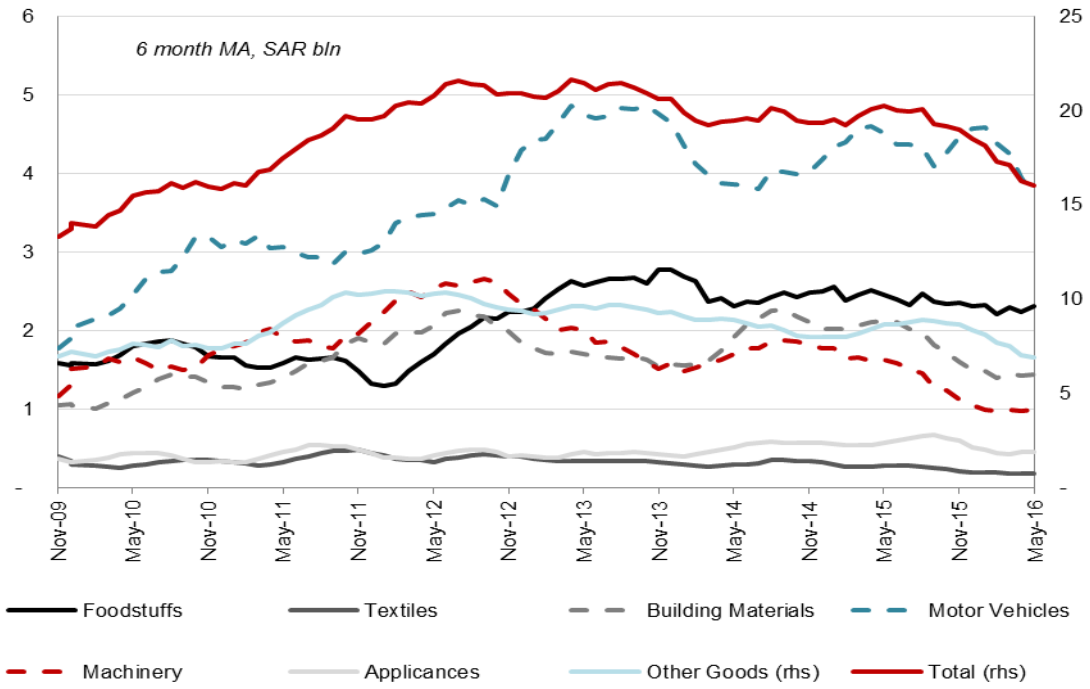
Chart 12: Total imports are trending lower indicating weaker investment and consumer demand, some pre-Ramadan strength apparent in May however.



Source: *SAMA*

- Monthly imports have declined from above SAR 20 bln (6m MA) through most of 2012 and 2013, to just below SAR 17 bln.
- Machinery and building material imports have specially been hit, both declining to approximately half their peaks. Building materials imports have moved slightly higher over last couple of months. Real estate and Housing development are key pillars of the NTP, with the government moving fast to accelerate growth in this sector.

Consumption

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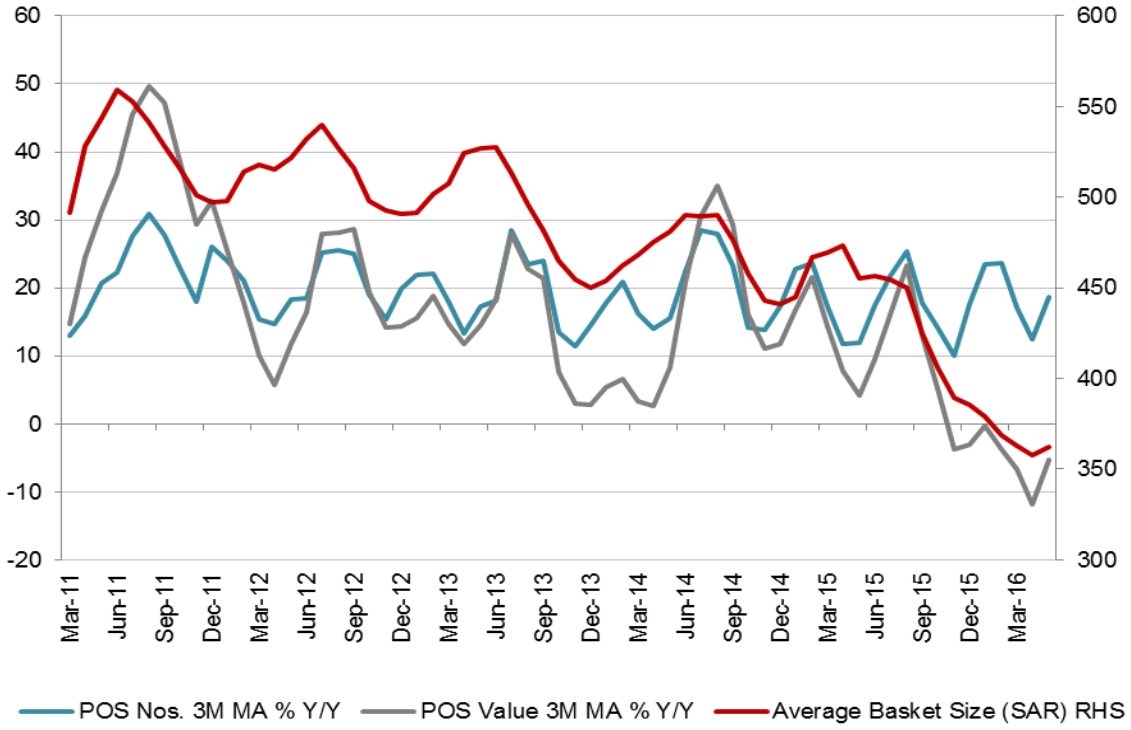
Chart 13: POS transactions continued to grow, but value of POS transaction has fallen sharply



Source: *SAMA*

- Some pre-Ramadan strength apparent as both value and number of POS transactions move higher.
- While average basket size has been declining for throughout the period of this chart (probably driven by wider adoption of cards), it has fallen off very sharply from 3Q 2015 as oil prices plunged. In May 2016, it has risen for the first time in a year.
- ***SAMA has revised prior period POS data in the latest statistical bulletin.***

Banking sector profitability

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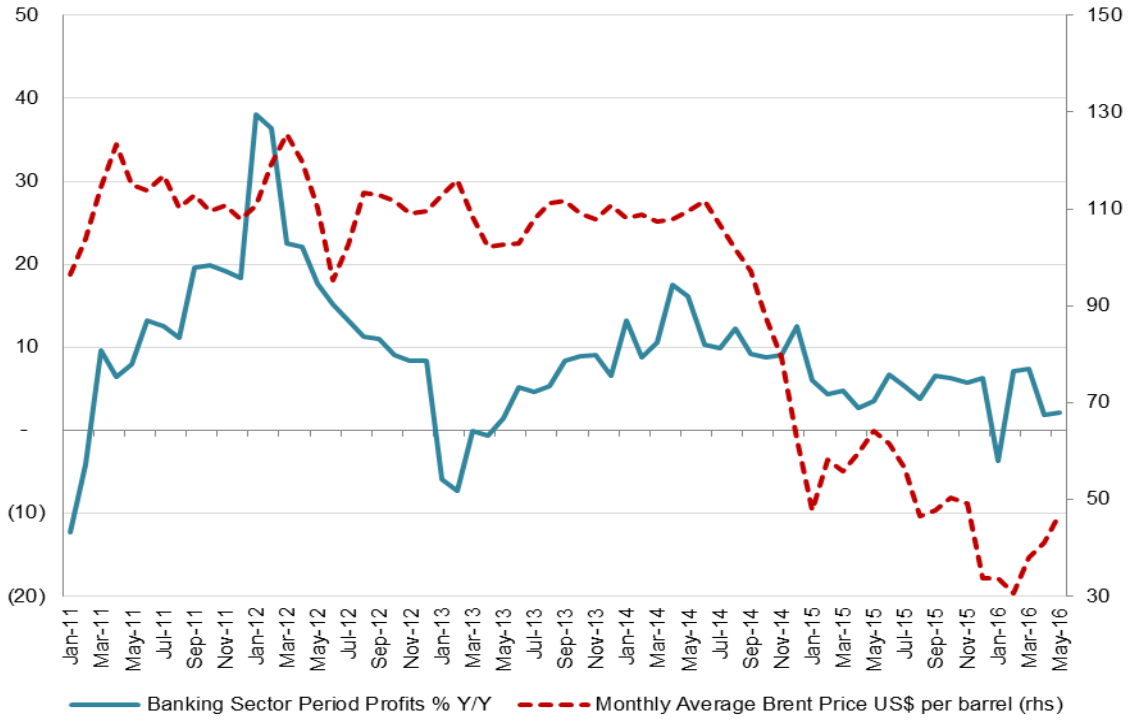
Chart 14: Banking sector profits YTD May 2016 are up 2.2% Y/Y

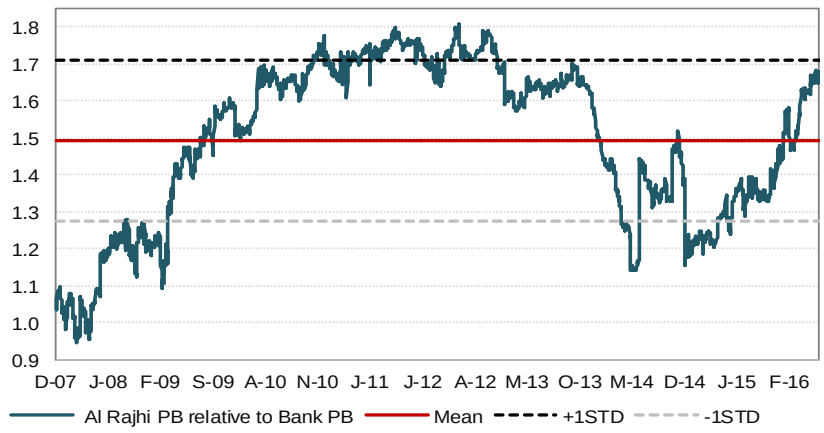


Source: *SAMA, Bloomberg*

- Banking sector profitability up 2.2% in YTD May 2016 versus the same period last year.
- M/M profits were up 6.4%, most likely on account of marginally lower cost of funds as the liquidity squeeze eased somewhat

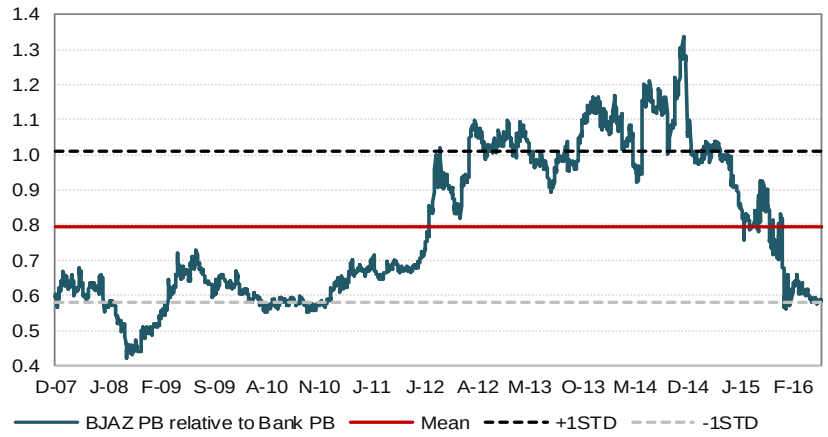
Trailing PBV vs. Sector

Al Rajhi P/B relative to Bank index P/B



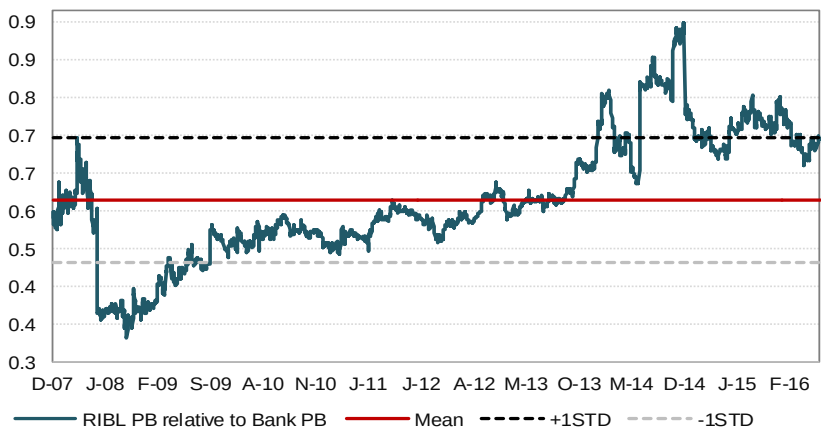
Source: Bloomberg, SFC

Bank Aljazira P/B relative to Bank index P/B



Source: Bloomberg, SFC

Riyad Bank Alinma P/B relative to Bank index P/B



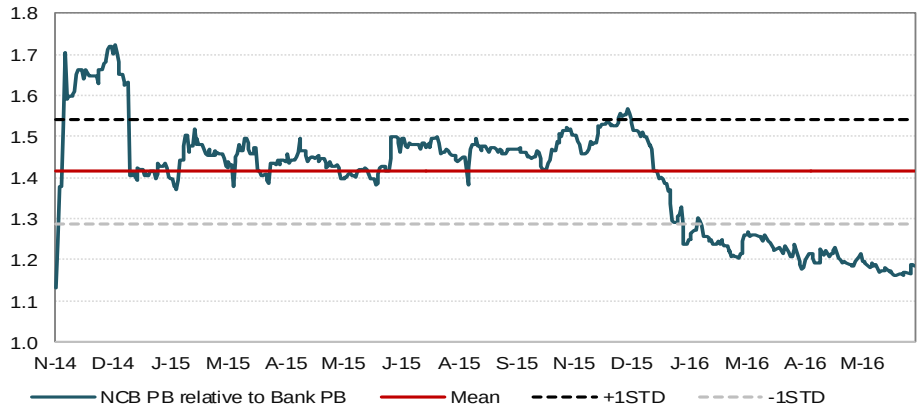
Source: Bloomberg, SFC

Saudi Investment Bank P/B relative to Bank index P/B

Source: Bloomberg, SFC

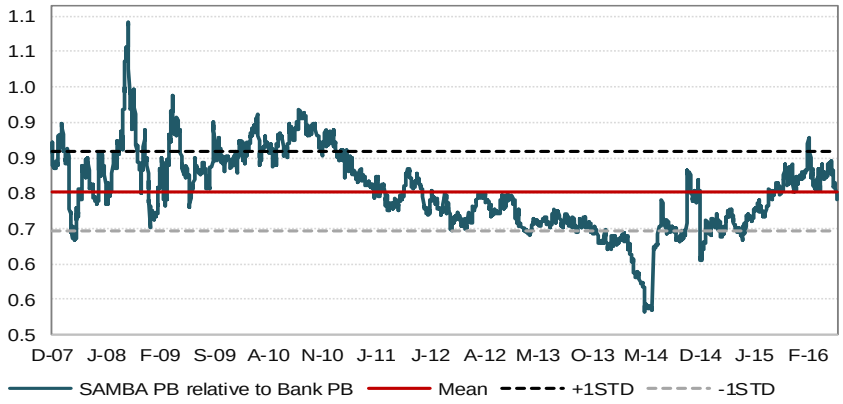
Trailing PBV vs. Sector (cont.)

National Commercial Bank P/B relative to Bank index P/B



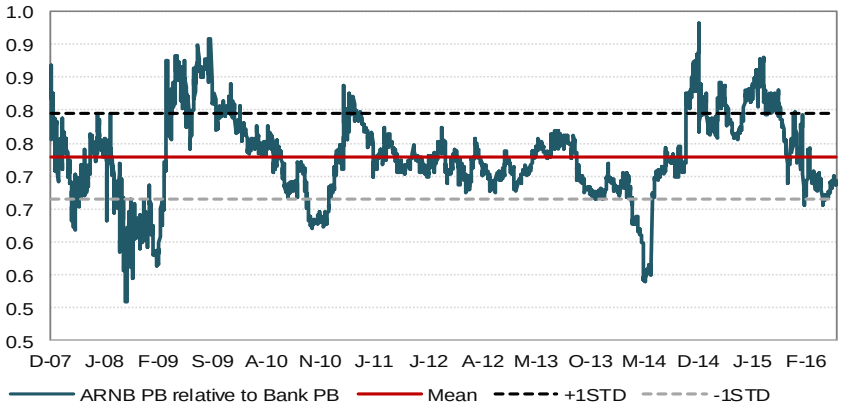
Source: Bloomberg, SFC

Samba Financial Group P/B relative to Bank index P/B



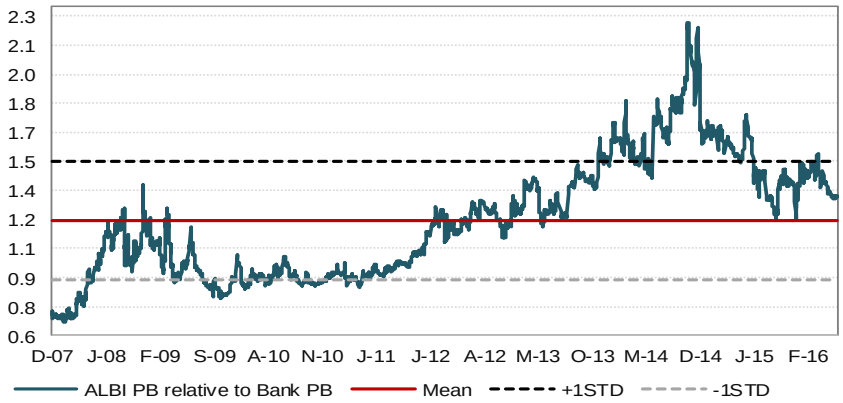
Source: Bloomberg, SFC

Arab National Bank P/B relative to Bank index P/B



Source: Bloomberg, SFC

Bank Albilad P/B relative to Bank index P/B



Source: Bloomberg, SFC

Trailing PBV vs. Sector (cont.)

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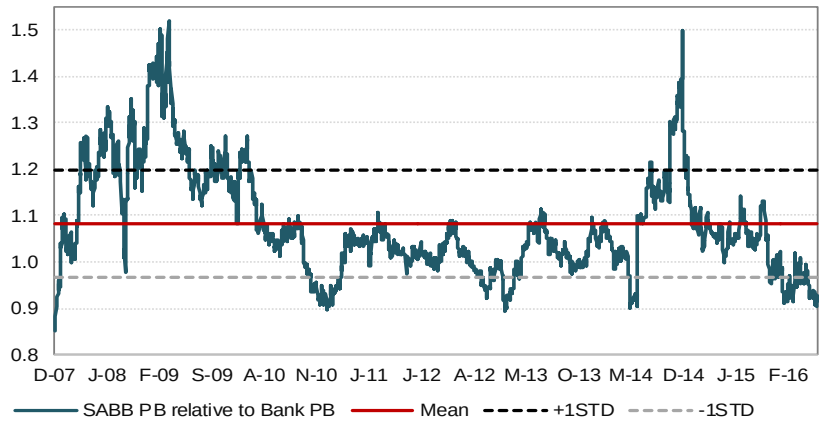
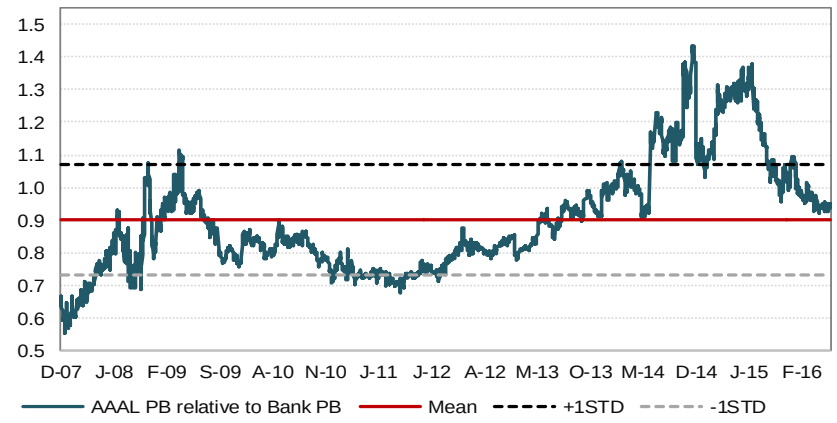
Saudi British Bank P/B relative to Bank index P/B



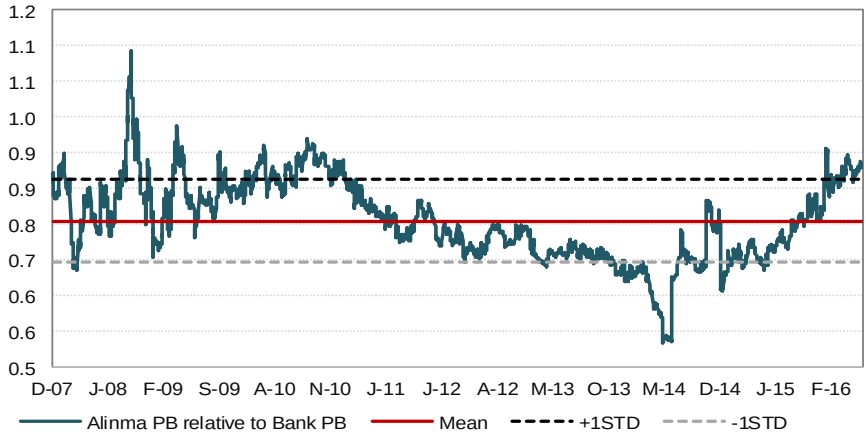
Source: Bloomberg, SFC

Saudi Hollandi Bank P/B relative to Bank index P/B



Source: Bloomberg, SFC

Alinma P/B relative to Bank index P/B



Source: Bloomberg, SFC

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