

MONTHLY MACROECONOMIC REVIEW – SAUDI ARABIA



November 2018

Review of economic developments till end of October 2018

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A. Executive Summary and Review

Executive Summary

The key highlights are:

1. **Q3 2018 Budget** – Saudi Arabia reduced its budget deficit in Q3 2018 to SAR 7.29 bn compared to 7.36 bn in Q2 2018 and SAR 48.73 bn in Q3 2017. The overall deficit by the end of Q3 2018 amounted to SAR 48.98 bn, which accounts for just 33% of the revised deficit target of SAR 148 bn for FY 2018.
2. **Oil production** – Saudi Arabia increased oil production 1.4% MoM to 10.68 million barrels of oil per day (mbpd) in October 2018, to its record highest monthly level (Refer Figure 1, Page 12).
3. **Inflation** – Saudi Arabia's inflation rose 2.1% YoY in September 2018, down from 2.2% recorded in August. (Refer Figure 5, Page 6). The fall is attributed to decreased inflation in housing, water, electricity, gas and other fuels (-3.2% YoY), to its lowest level since the base was changed to 2013.
4. **Non-oil private sector growth** – Growth in Saudi Arabia's non-oil private sector marginally improved in October 2018 to 53.8, from 53.4 recorded in September (Refer Figure 7, Page 6) due to uptick in employment and new order growth. Employment index increased to 51.3 from a 10-month low of 50.7 in September. Output (selling prices) increased marginally in October, after declining in prior three months. Input costs also declined slightly, which will help to improve margins. Consequently, business optimism about future output increased in October, with half of surveyed firms expecting output to be higher in the next one year, while rest half expected current output to be sustained.
5. **Bank Credit** – Total bank credit recorded its highest rate of growth (+1.5% YoY) this year so far, reaching SAR 1.43tn in September (Refer Figure 20, Page 8). This was contributed by growth in both private sector credit (1.4% YoY) and public sector loans (4% YoY).
6. **Consumer Spending** – PoS Transactions rose 27.7% YoY to SAR 19.3 bn (Refer Figure 38, Page 10); while ATM withdrawals rose 12.3% YoY to SAR 57.6 bn (Refer Figure 33, Page 10).

Data Releases

Indicator	Data
Inflation (September 2018)	2.1%
PMI (October 2018)	53.8
SAMA Reserve Assets Growth MoM (September 2018)	-0.5%
Bank Credit Growth YoY (September 2018)	1.5%
Bank Deposit Growth YoY (September 2018)	2.1%
Loan to Deposit Ratio (September 2018)	0.87
Money Supply Growth YoY (September 2018)	2.4%
3M SAIBOR (October 2018)	2.76%
ATM Withdrawals Growth YoY (September 2018)	12.3%
PoS Transactions Growth YoY (September 2018)	27.7%
Saudi Oil Production (October 2018)	10.7 mbpd
Saudi Oil Export (August 2018)	7.2 mbpd
OPEC Production (October 2018)	33.3 mbpd
Global Oil Supply – Demand (September 2018)	1.3 mbpd
US Rig Count (October 2018)	875

Saudi Arabia shrinks its budget deficit in Q3 2018, with non-oil revenues surging 45% YoY

Saudi Arabia reduced its budget deficit in Q3 2018 to SAR 7.29 bn compared to 7.36 bn in Q2 2018 and SAR 48.73 bn in Q3 2017. The overall deficit by the end of Q3 2018 (first nine months of 2018) amounted to SAR 48.98 bn, which accounts for just 33% of the revised deficit target of SAR 148 bn for FY 2018. The deficit in Q3 reduced 85% on YoY basis and 1% on QoQ basis. Overall deficit reduced 60% YoY during the first nine months of 2018. The Saudi Finance Ministry stated *"The reduction in the budget deficit is a result of significant growth in oil and non-oil revenues, reflecting the effectiveness of economic reforms and fiscal measures targeting fiscal sustainability as well as the effective management of public finances."*

Total revenue rose 57% YoY to SAR 223.3 bn in Q3, with oil revenue increasing 63% YoY to SAR 154 bn supported by higher oil prices and volumes. Non-oil revenues surged 45% YoY to SAR 69.3 bn due to additional levying of Value Added Tax (VAT) on goods and services. Total expenditure increased 21% YoY to SAR 230.5 bn in Q3, mainly due increased expenditure on financing, subsidies, goods and services and social benefits. In terms of budget allocation, Infrastructure & Transportation remains the most underspent sector, with only 37% of the total annual budgeted expenditure utilized by the end of Q3 2018. The deficit for Q3 was financed through the debt borrowed in previous quarters. The Kingdom's public debt rose to SAR 549.5 bn by the end of Q3 2018 compared to SAR 537 bn at the end of Q2 2018 and SAR 443.3 bn at the end of 2017.

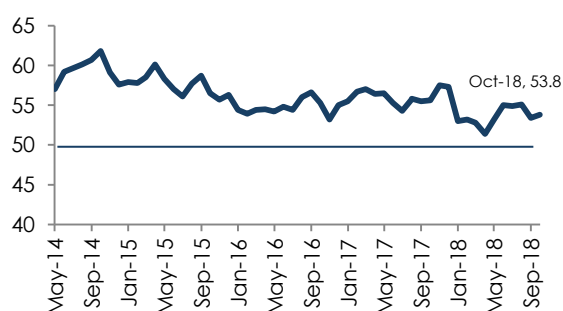
Private sector growth improves marginally in October

Growth in Saudi Arabia's non-oil private sector improved marginally to 53.8 from a four-month low of 53.4 in September 2018. The improvement was contributed by better employment and new order growth indicators. Employment index improved to 51.3 in October from a 10-month low of 50.7 in September. Both new orders and new export orders improved in October from September. Most importantly, business optimism about future output improved in October compared to previous month. Half of all firms surveyed expected their output to be higher in one year's time, while rest half expected the output to remain same as this year.

Inflation rate slows down in September

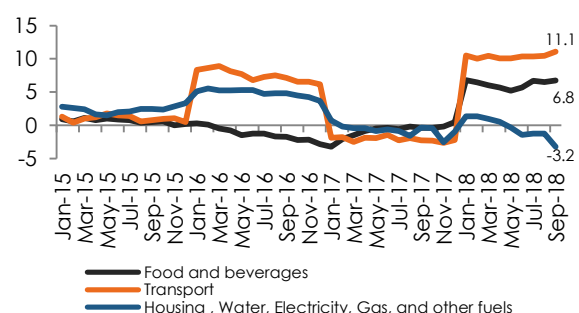
Saudi Arabia's inflation rose 2.1% YoY in September 2018, down from 2.2% recorded in August. The fall is mainly attributed to decreased inflation in housing, water, electricity, gas and other fuels, which fell from -1.3% YoY in August to -3.2% YoY in September, its lowest level since January 2015 (since the base was changed to 2013 prices). This offset the rise in prices of Food and beverages (+6.8% YoY) and Transport (+11.1% YoY). Overall inflation averaged 2.5% over the first nine months of 2018.

Figure 1: PMI Index



Source: Bloomberg

Figure 2: Inflation YoY%: major sub-indices



Source: SAMA

Bank credit grows at the highest rate this year in September

Total bank credit recorded its highest rate of growth (+1.5% YoY) this year so far, reaching SAR 1.43tn in September (Refer Figure 20, Page 8). This was contributed by growth in both private sector credit (1.4% YoY) and public sector loans (4% YoY). While private sector credit achieved the highest rate of growth so far this year, public sector credit turned positive for the first time since January 2018. In terms of sectorial breakup of credit, banks increased their exposure to Manufacturing and processing sector by 2.9% in Q3 2018 compared to the previous quarter, while Building and construction sector witnessed a growth of 3.3%.

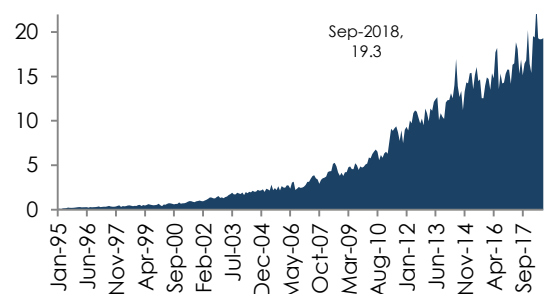
In terms of maturity, the credit growth was strongly contributed by the growth in long term credit (more than 3 years), which increased 15.6% YoY. On the other hand, short term lending (less than 1 year) fell 2.5% YoY; while the medium term credit (1 to 3 years) fell 10.4% YoY.

Figure 3: Bank Credit Growth (% YoY)



Source: SAMA

Figure 4: POS Transactions (SAR bn)



Source: SAMA

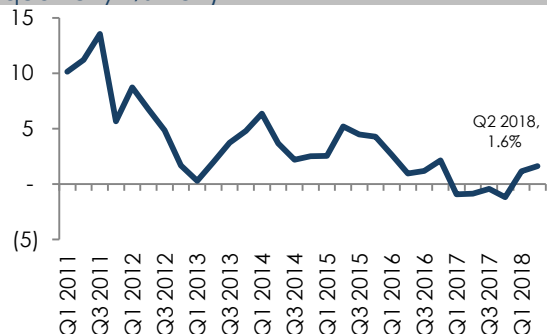
Growth in consumer spending stays strong in September

YoY growth in consumer spending stayed strong during the month of September, with PoS Transactions rising 27.7% YoY to SAR 19.3 bn in September, from SAR 19.2 bn in the previous month. ATM withdrawals rose 12.3% YoY to SAR 57.6 bn; but fell 8.8% on MoM basis.

Chart Pack

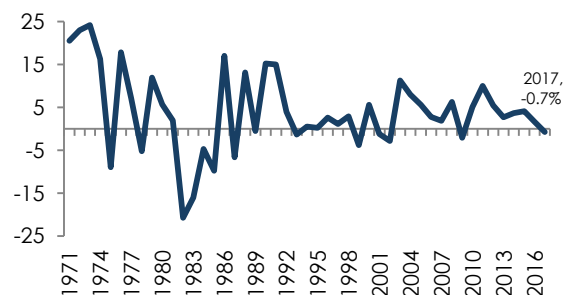
I. Macroeconomic Indicators

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



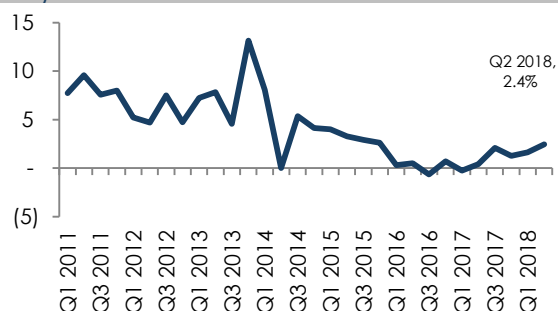
Source: General Authority of Statistics

Figure 2: GDP growth (annual - % YoY)



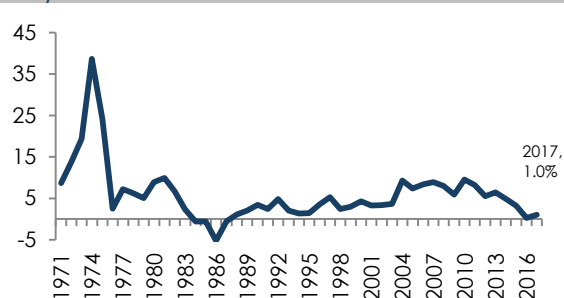
Source: General Authority of Statistics

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



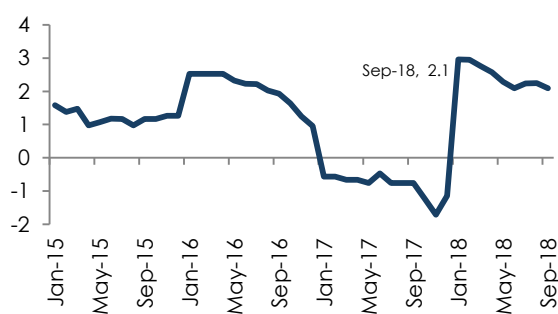
Source: General Authority of Statistics

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



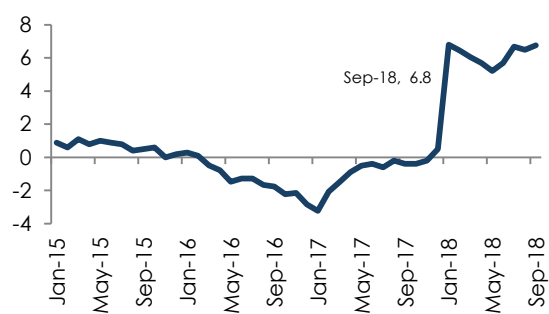
Source: General Authority of Statistics

Figure 5: Inflation (% YoY)



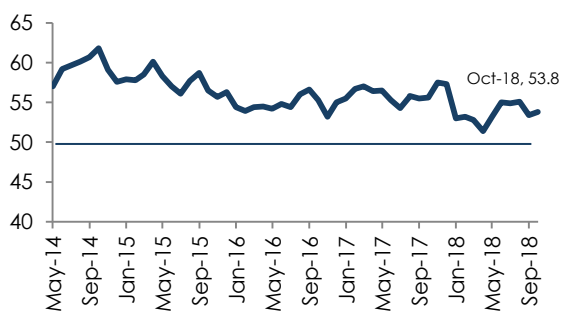
Source: Saudi Arabia Monetary Authority (SAMA)

Figure 6: Food inflation (% YoY)



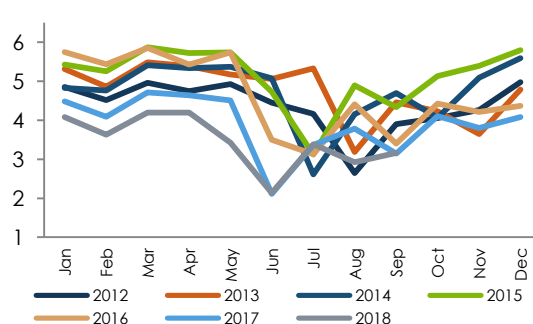
Source: SAMA

Figure 7: PMI index



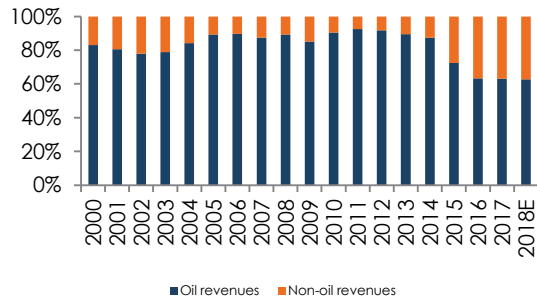
Source: Bloomberg

Figure 8: Cement Sales (Mn tons)



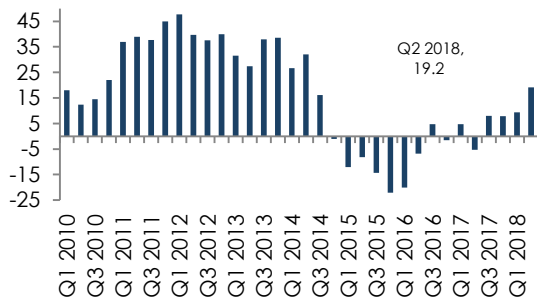
Source: Yamama Cement

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



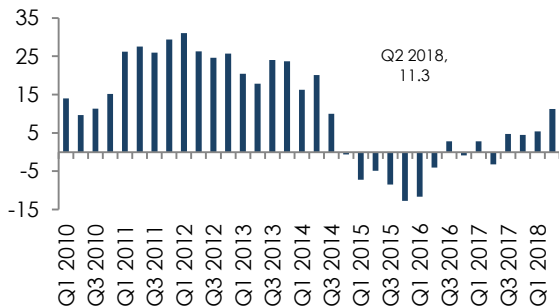
Source: Saudi Arabia Finance Ministry, E-Estimate

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



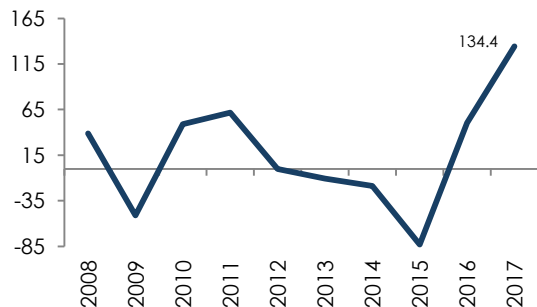
Source: SAMA

Figure 13: Current Account Balance (%GDP)



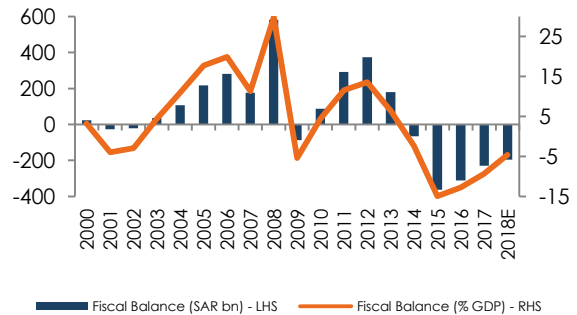
Source: SAMA

Figure 15: Trade balance change (% YoY)



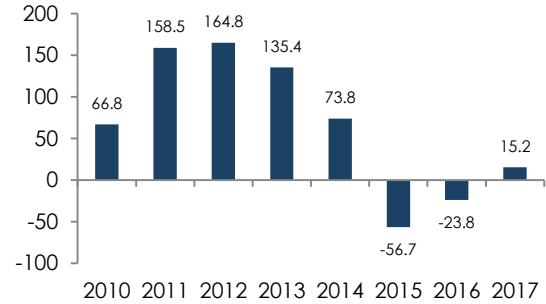
Source: SAMA

Figure 10: Annual fiscal balance (SAR bn)



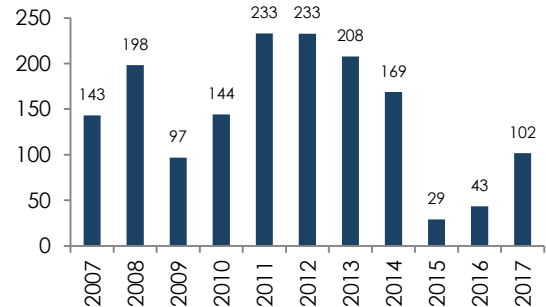
Source: Saudi Arabia Finance Ministry, E-Estimate

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



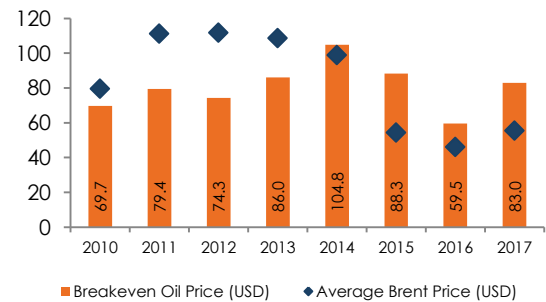
Source: SAMA

Figure 14: Trade balance (USD bn)



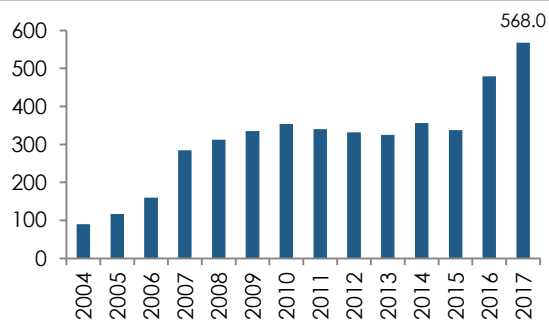
Source: SAMA

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



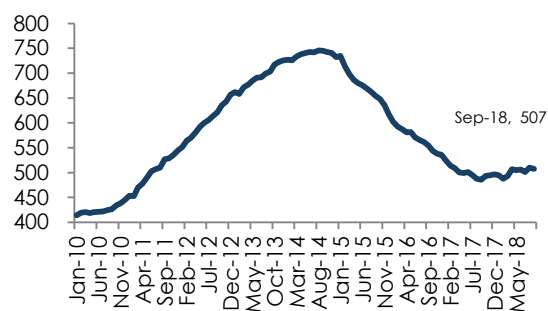
Source: Ministry of Finance, Thomson Reuters

Figure 17: Total External Debt (SAR bn)



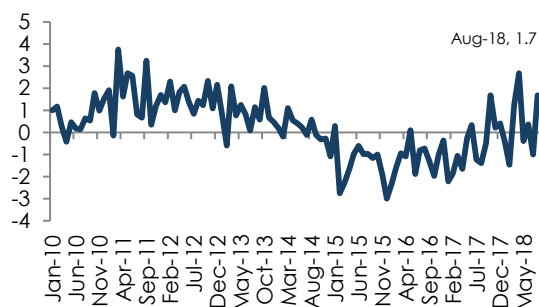
Source: SAMA

Figure 18: SAMA Reserve Assets* (USD bn)



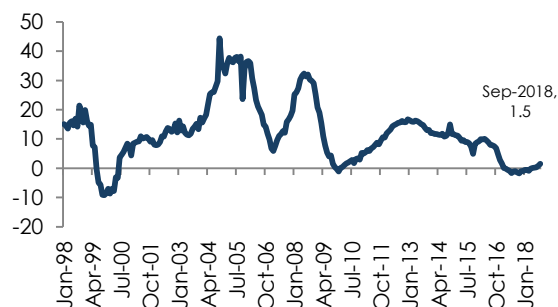
Source: SAMA, *- includes special drawing rights

Figure 19: Reserve Assets (% MoM)



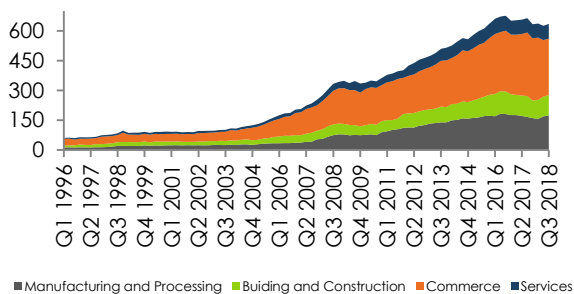
Source: SAMA

Figure 20: Bank credit growth (% YoY)



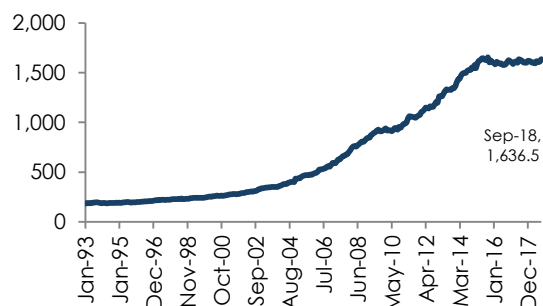
Source: SAMA

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



Source: SAMA

Figure 22: Bank Deposits (SAR bn)



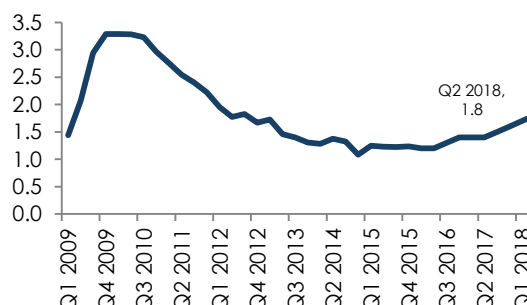
Source: SAMA

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



Source: SAMA

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



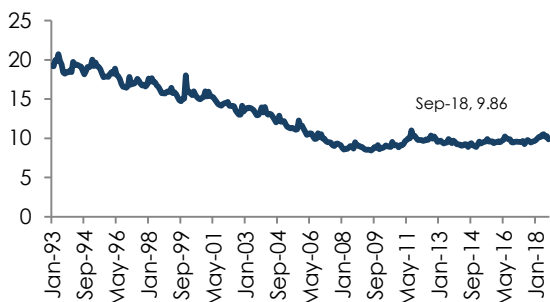
Source: SAMA

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



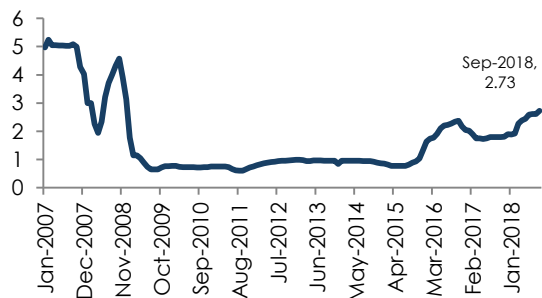
Source: SAMA

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



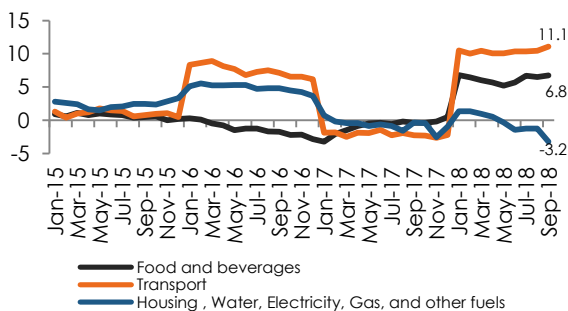
Source: SAMA

Figure 29: 3M SIBOR (%)



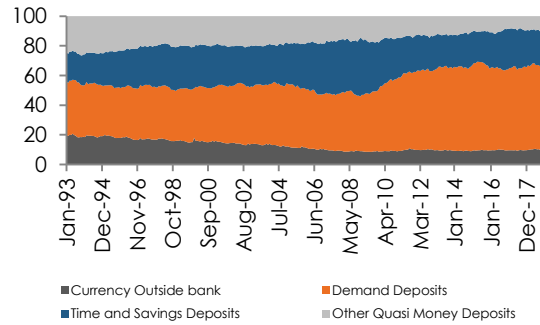
Source: SAMA

Figure 31: Inflation YoY% (major sub-indices)



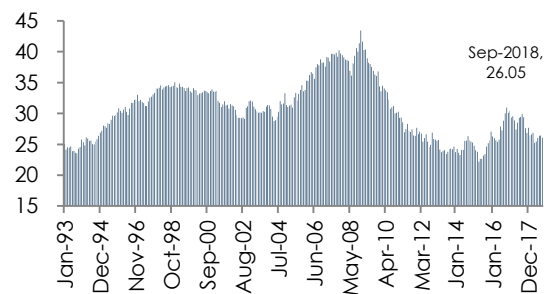
Source: SAMA

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



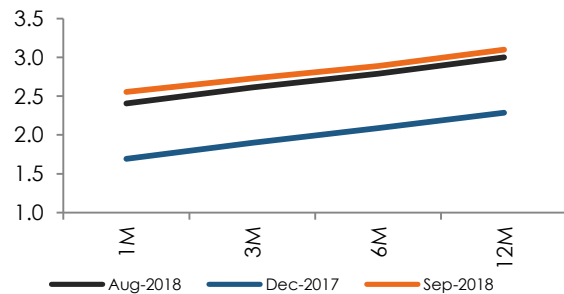
Source: SAMA

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



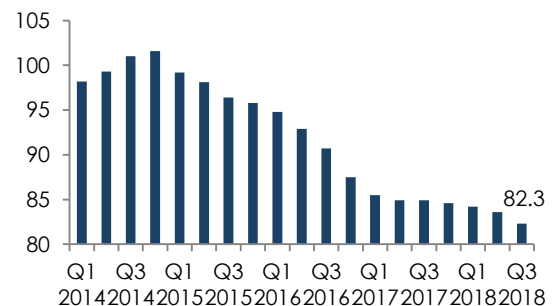
Source: SAMA

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



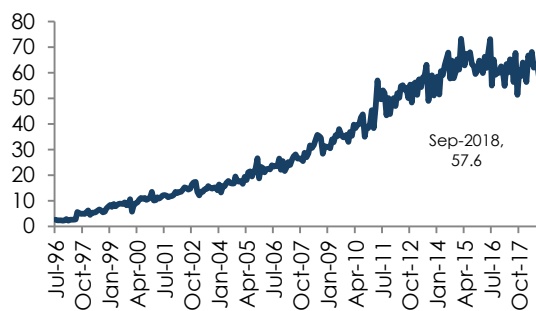
Source: SAMA

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



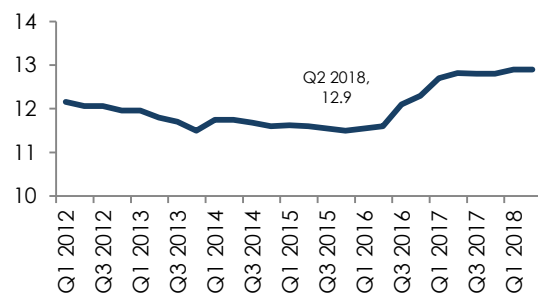
Source: General Authority for Statistics

Figure 33: ATM Cash Withdrawals (SAR bn)



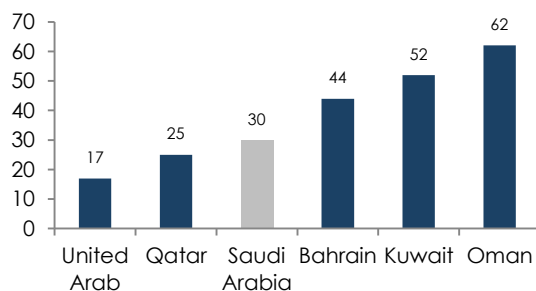
Source: SAMA

Figure 34: Saudi unemployment rate (%)



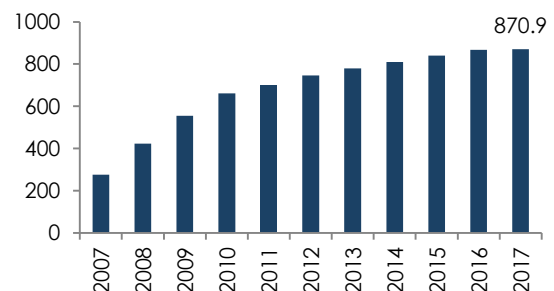
Source: General Authority for Statistics

Figure 35: Competitiveness ranking/indicator



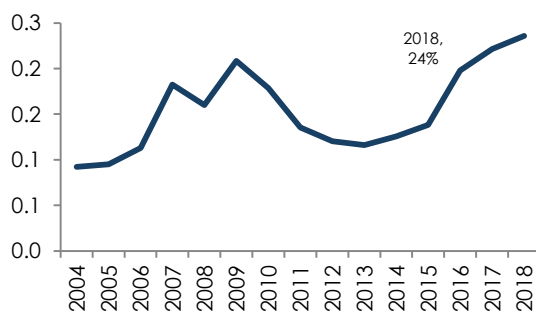
Source: World Economic Forum (2017-2018)

Figure 36: FDI (accumulated, SAR billions)



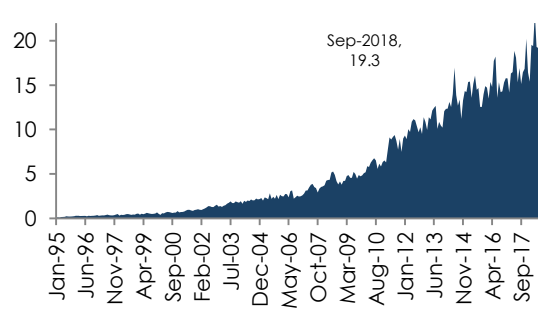
Source: SAMA

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



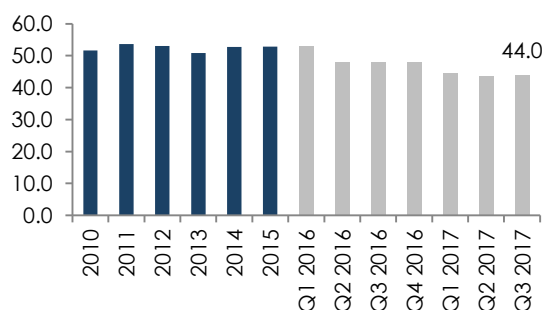
Source: International Monetary Fund

Figure 38: POS Transactions Sales (SAR bn)



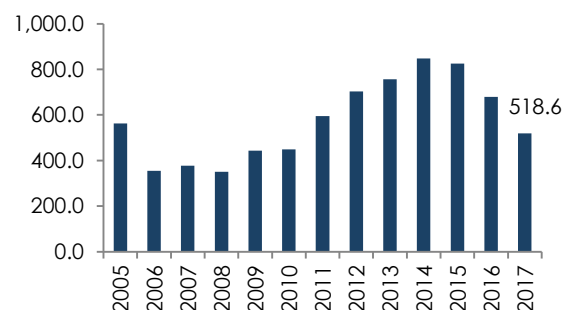
Source: SAMA

Figure 39: Mobile/Telecom Subscribers (mn)



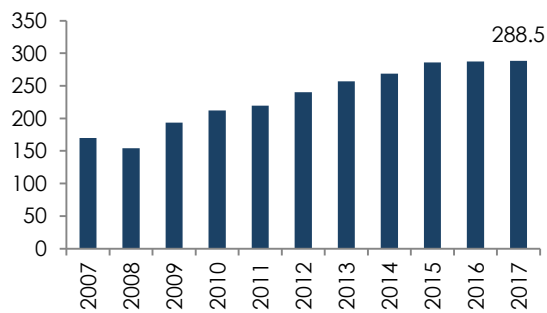
Source: Ministry of Communication and IT, Q3 2016 taken as average of Q2 and Q4 2016

Figure 40: Automobile Sales ('000s)



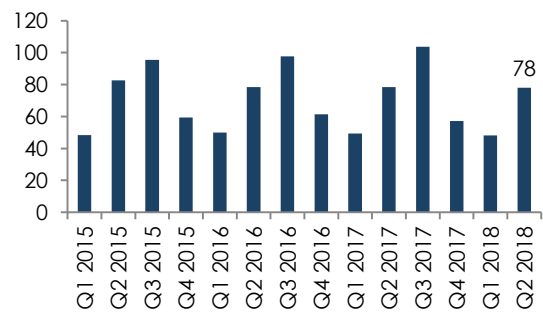
Source: Car Sales Base

Figure 41: Electricity Generation (TWh)



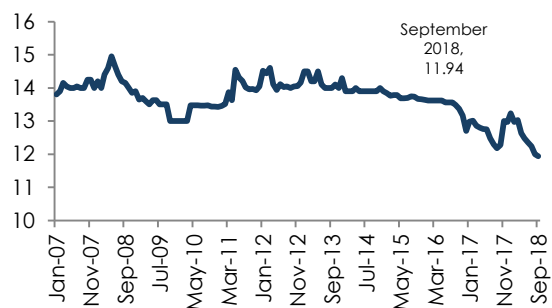
Source: Electricity and Cogeneration Regulatory Authority

Figure 42: Electricity Generation - Quarterly (TWh)



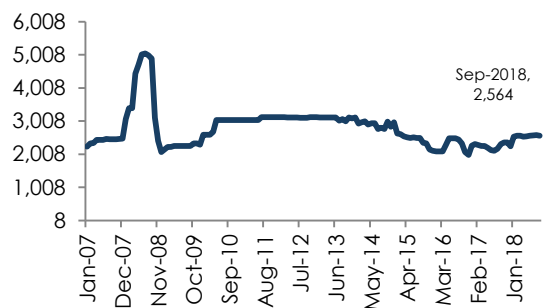
Source: Saudi Electric Company

Figure 43: Cement Prices (SAR, 50kg)



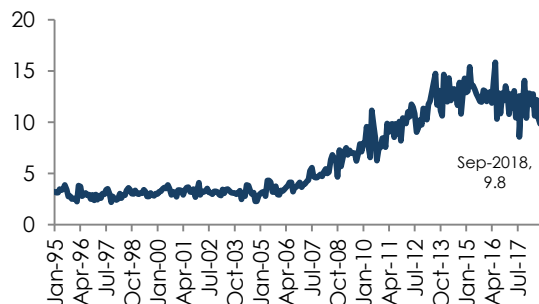
Source: General Authority of Statistics

Figure 44: Steel Prices (SAR/ton)



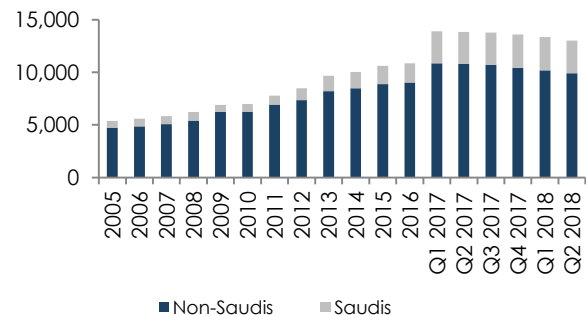
Source: General Authority of Statistics

Figure 45: Expat Remittances (SAR bn)



Source: SAMA

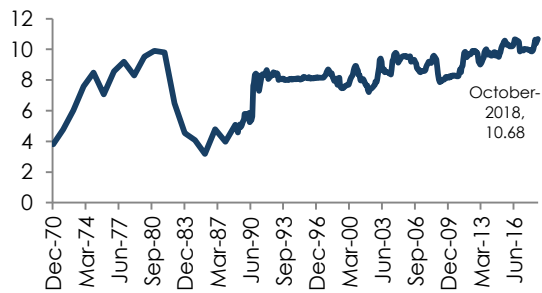
Figure 46: Labor Force Breakdown ('000)



Source: Ministry of Labor, Quarterly data displayed for 2017 onwards

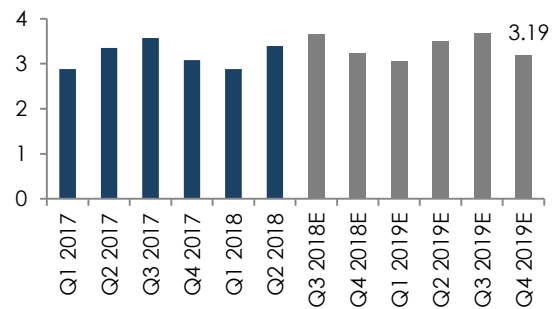
II. Oil Indicators

Figure 1: Saudi Oil Production (mbpd)



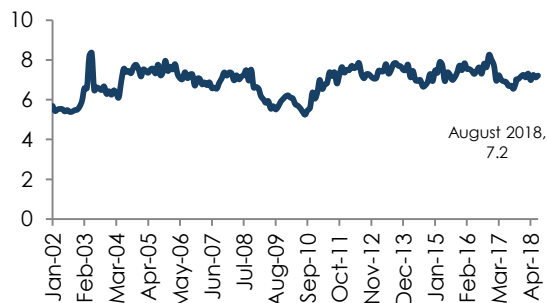
Source: Bloomberg

Figure 2: Saudi Domestic Oil Demand (mbpd)



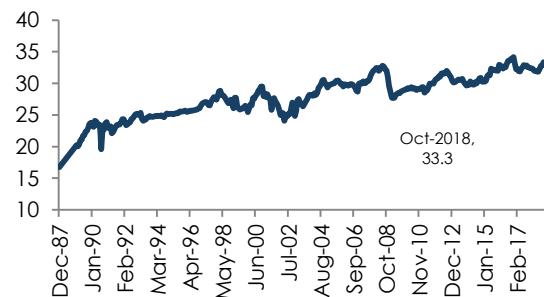
Source: IEA

Figure 3: Saudi Oil Export (mbpd)



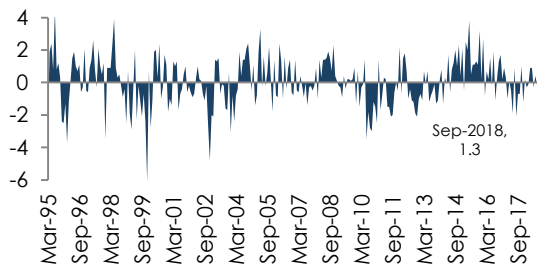
Source: Ministry of Petroleum, JODI

Figure 4: OPEC Oil Production (mbpd)



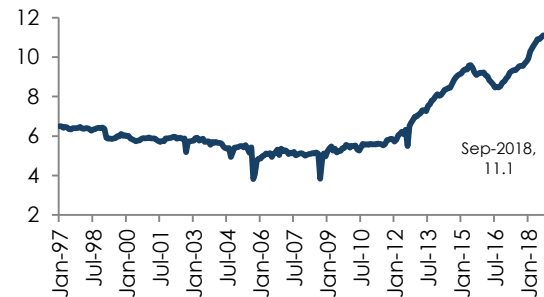
Source: Bloomberg

Figure 5: Global Oil Supply/Demand (mbpd)



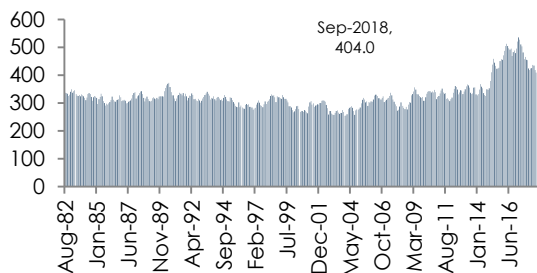
Source: Bloomberg

Figure 6: US Oil Production (mbpd)



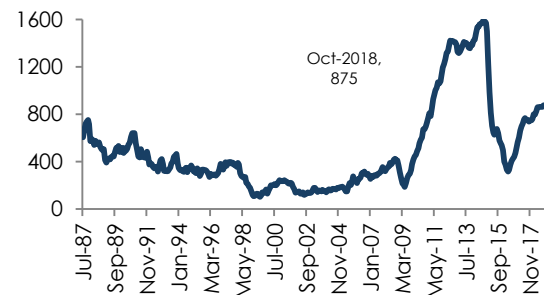
Source: Bloomberg

Figure 7: US Oil Inventory (mb)



Source: Reuters Eikon

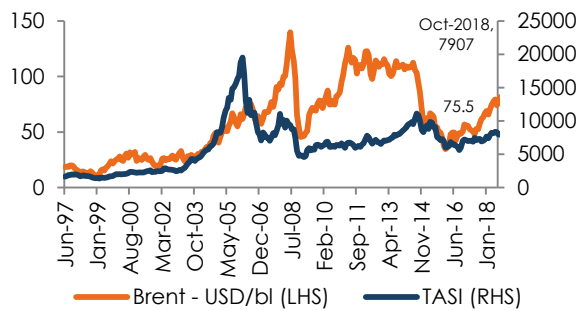
Figure 8: US Rig Count



Source: Bloomberg

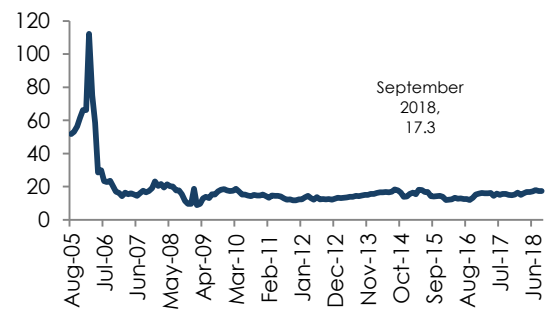
III. Stock Market Indicators

Figure 1: TASI and Oil



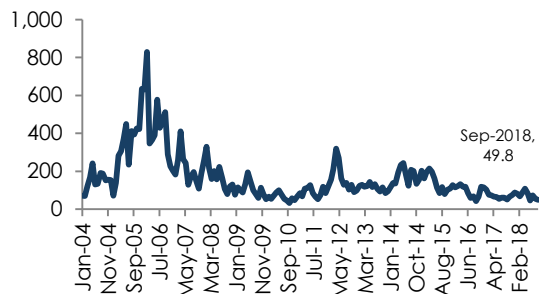
Source: Bloomberg

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



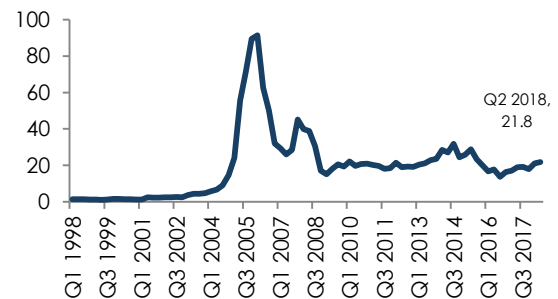
Source: SAMA, Tadawul

Figure 3: Stock Market Turnover (SAR bn)



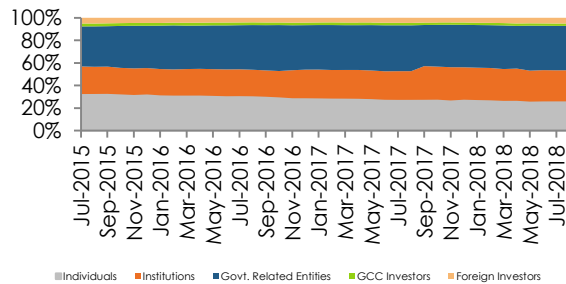
Source: Tadawul, SAMA

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



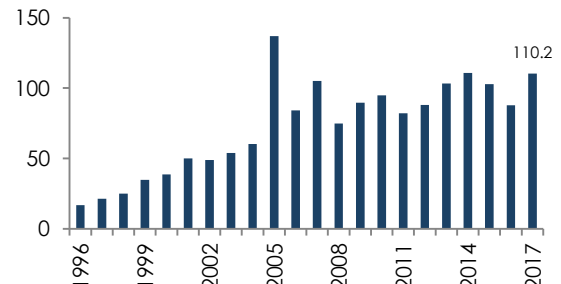
Source: SAMA

Figure 5: Share Ownership Status



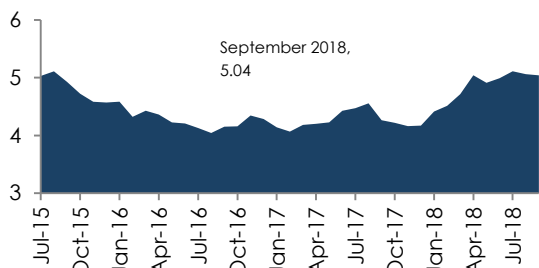
Source: SAMA

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



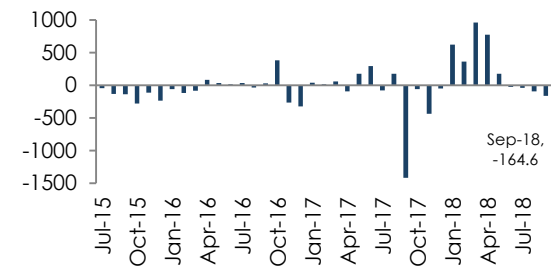
Source: SAMA

Figure 7: Foreign Ownership %



Source: Tadawul

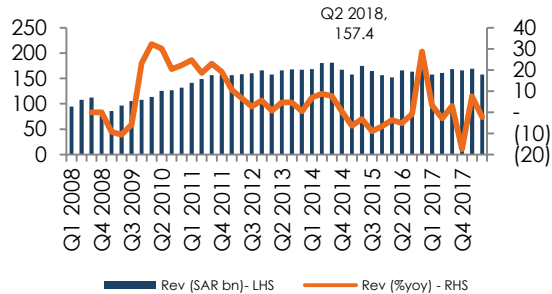
Figure 8: Net Foreign Inflows (USD mn)



Source: Tadawul

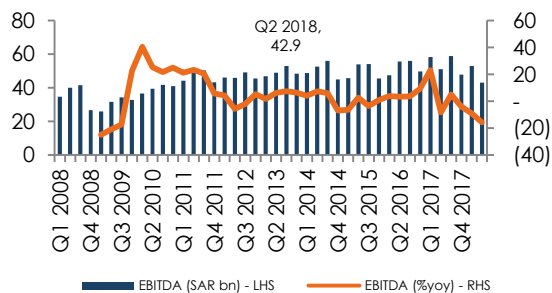
IV. Corporate earnings

Figure 1: TASI Revenue and YoY growth (Quarterly)



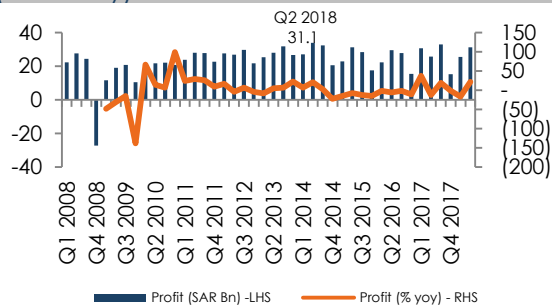
Source: Reuters Eikon

Figure 3: TASI EBITDA and YoY growth (Quarterly)



Source: Reuters Eikon

Figure 5: TASI PAT and YoY growth (Quarterly)



Source: Reuters Eikon

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

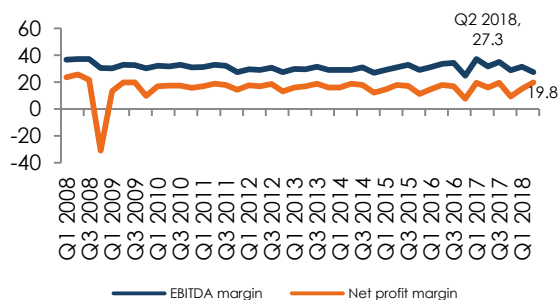
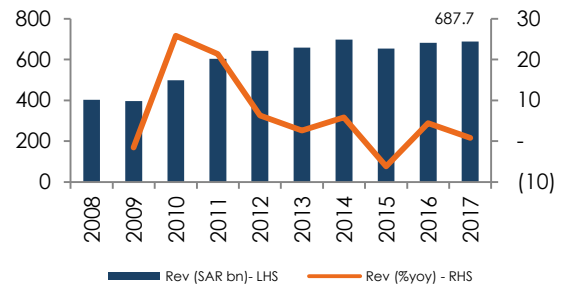
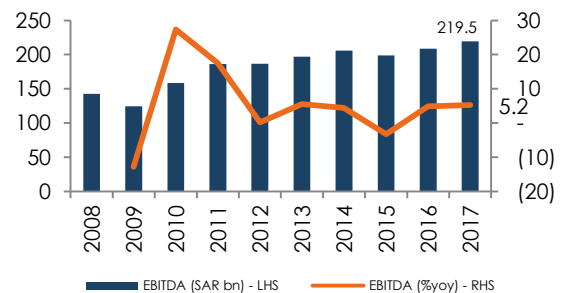


Figure 2: TASI Revenue and YoY growth (Annual)



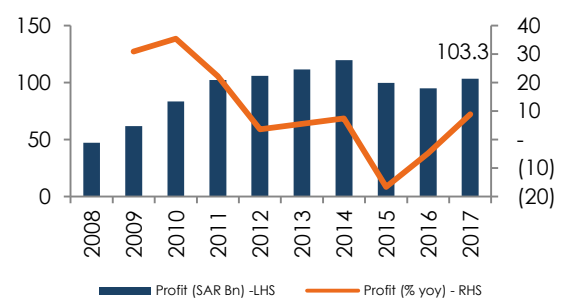
Source: Reuters Eikon

Figure 4: TASI EBITDA and YoY growth (Annual)



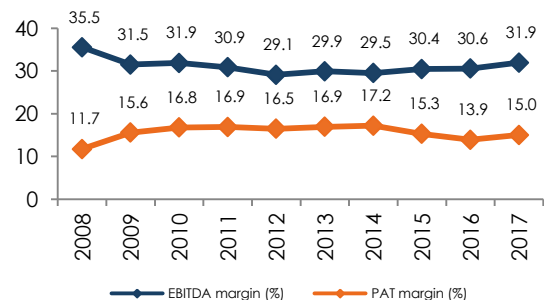
Source: Reuters Eikon

Figure 6: TASI PAT and YoY growth (Annual)



Source: Reuters Eikon

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



V. Tadawul Sector Earnings Performance

Earnings (SAR mn)	Market Cap (SAR mn)	Q2 2018	Q2 2017	Q1 2018	% YoY	% QoQ
Materials	628,512	11,084.6	6,076.8	10,420.4	82.4	6.4
Banks	568,995	12,654.7	11,319.6	12,578.3	11.8	0.6
Telecommunication Services	179,330	2,327.4	2,174.9	2,417.1	7.0	-3.7
Real Estate	81,996	30.4	113.8	311.8	-73.3	-90.2
Food & Beverages	76,914	908.7	950.2	280.4	-4.4	224.1
Utilities	73,206	1,878.8	2,269.8	-1,175.2	-17.2	259.9
Energy	35,237	438.1	487.2	442.5	-10.1	-1.0
Diversified Financials	34,348	242.9	227.2	160.6	6.9	51.3
Insurance	31,568	451.0	352.9	135.7	27.8	232.3
Retailing	26,850	451.7	449.2	68.0	0.5	564.3
Health Care	23,562	190.2	212.0	306.1	-10.3	-37.9
Transportation	12,752	137.7	233.5	146.5	-41.0	-6.0
Consumer Services	11,432	132.3	318.9	153.4	-58.5	-13.7
Capital Goods	8,498	-169.7	105.3	-49.2	-261.1	-244.6
Commercial Services	8,225	118.1	119.3	103.2	-1.0	14.4
Media	8,204	86.5	8.3	10.1	941.8	752.8
Food & Staples Retailing	7,214	65.1	82.4	71.9	-21.0	-9.5
Pharma & Biotech	3,732	35.5	53.4	55.8	-33.6	-36.4
Consumer Durables & Apparel	2,905	59.9	57.0	35.6	5.1	68.0
Total	1,823,479	31,124	25,612	26,473	21.5	17.6

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

B. Saudi Arabia Key Statistics

Data	2011	2012	2013	2014	2015	2016	2017	2018E
Economic Output								
Nominal GDP (USD bn)	669.5	734.0	744.3	753.8	653.2	646.4	678.5	782.4
Nominal GDP YoY (%)	27.1	9.6	1.4	1.3	-13.3	-2.1	5.0	13.9
Real GDP YoY (%)	10.0	5.4	2.7	3.6	3.4	1.2	-0.7	1.9
Budget								
Revenue (SAR bn)	1117.8	1247.4	1156.4	1044.4	615.9	519.0	696.0	882.0
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	1030.0
Surplus/(Deficit) (SAR bn)	291.1	374.1	180.3	-65.5	-362.2	-311.0	-230.0	-148.0
Surplus/(Deficit) (% GDP)	11.6	13.6	6.5	-2.3	-15.0	-12.8	-8.9	-5.0
Gross Public Debt (SAR bn)	135.5	83.8	60.1	44.3	142.3	316.5	438.0	576.0
Gross Public Debt (% GDP)	5.4	3.0	2.2	1.6	5.9	12.3	17.0	20.0
Oil statistics								
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	3051.6
Domestic consumption (mb)	1321.4	1408.6	1423.8	1516.8	1586.5	1535.1	1583.2	1609.1
Trade & External sector								
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
Inflation (%)								
	3.7	2.9	3.5	2.7	2.2	2.1	-0.8	2.8
Demographics								
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	12.8	12.9

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

Notes

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