



Saudi Arabian economy

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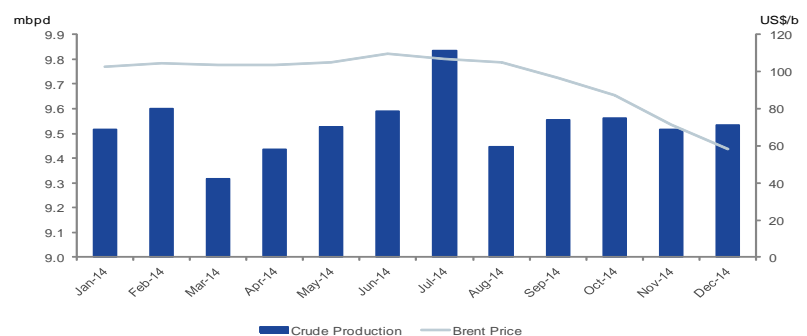
The recent estimates of OPEC and IEA indicate that crude oil production in Saudi Arabia stabilized in December – it stood at around 9.5mbpd. Further, crude oil prices continued the downward trend in January, for the seventh consecutive month across all baskets. Despite the declining crude oil prices, the economic indicators in Saudi Arabia were positive with non-oil foreign trade data showing recovery. Meanwhile, the region's inflation eased to the lowest level since April 2007. Consumer spending improved, while the HSBC non-oil manufacturing PMI for December pointed to an improvement in the private sector. The benchmark index (TASI) was up by 5.6%. However, the credit growth remained slow, while SAMA's foreign reserve assets declined for the fourth month in a row.

Q4 2014 GDP growth: The real GDP growth fell further to 2.0% in the final quarter of 2014 as compared to 2.4% in Q3 2014 and 4.9% in Q4 2013 (base year 1999). This is the third consecutive quarterly decline in GDP growth. One of the reasons for the fall in GDP growth could be attributed to the continuous fall in crude oil prices. Moreover, the CDSI released the annual GDP figures as per the new base year of 2010. As per the new base year, the GDP grew by 3.6% in 2014 versus 2.7% in 2013 primarily due to recovery in the oil sector and strong growth in the manufacturing sector. It is worth mentioning that the oil sector GDP recovered to +1.7% in 2014 from a decline of 1.6% in 2013. The non-oil sector GDP also grew by 5.1% in 2014 from 6.4% in 2013.

Key Indicators: Consumer spending and business indicators showed improvement but less compared to the previous month. Both consumer spending measured by Point of Sale (POS) transactions and ATM cash withdrawals grew by almost 22% y-o-y and 14.7% y-o-y respectively in December. The HSBC SAAB PMI (Composite) posted 58.3 for the December month, indicating an improvement over the previous month. Non-oil foreign trade data showed improvement with non-oil exports increasing by 9.5% m-o-m and non-oil imports declining by 2.4% m-o-m in November. The Tadawul share index also gained by 5.6% m-o-m in January 2015 primarily due to the counter-cyclical budget.

Crude prices outlook: As per the US Energy Information Administration (EIA) estimates, Brent crude oil prices are expected to average around US\$58/barrel in 2015 from the current US\$49/barrel as of January 29, 2015. Global oil inventories are projected to grow by 0.9 mbpd in H1 2015 (current OECD inventories are estimated to be 2.7 billion barrels for 2014) and will subsequently taper off due to reduction in non-OPEC supply growth as a result of lower crude oil prices. The supply-demand imbalance, rising inventories, and slowing global demand are expected to put downward pressure on prices before price starts recovering in the second half of 2015.

Figure 1 Saudi crude production and prices trend



Source: Bloomberg, Al Rajhi Capital

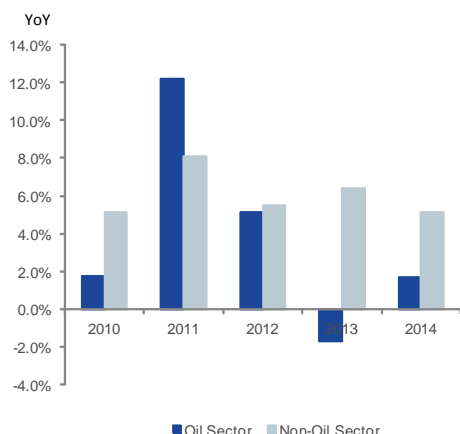


Gross Domestic Product

Oil sector recovery drives GDP growth in 2014

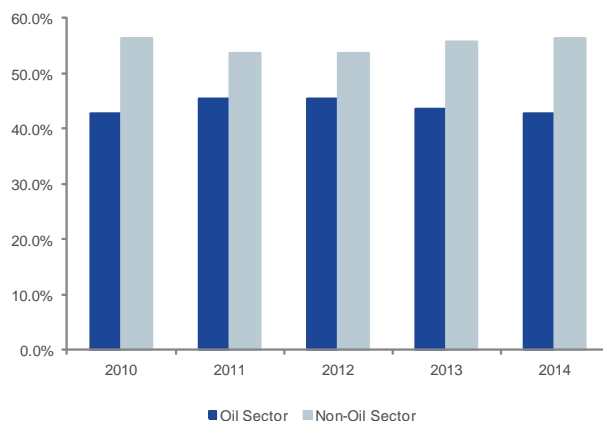
Using 2010 as the new base year, the Kingdom's real GDP growth accelerated to 3.6% y-o-y in 2014 from 2.7% in 2013, primarily driven by higher than expected growth in the oil sector coupled with healthy expansion in the non-oil manufacturing sector (+8.0% y-o-y). "Mining & Quarrying" (almost 40% of the GDP) grew by just 1.0%. As far as the sector-wise growth is concerned, the oil sector GDP recovered in 2014 and registered a marginal growth of 1.7% y-o-y as compared to a decline of 1.7% in 2013. On a quarterly basis (using 1999 as the base year as data was not available as per the new base year), the Q4 2014 GDP growth slowed to 2.0% as compared to 2.4% in Q3 2014 and 4.9% in Q4 2013.

Figure 2 Oil and Non-oil sector growth



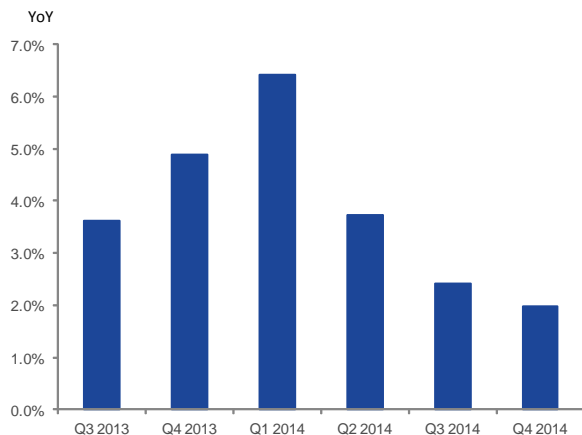
Source: CDSI, Al Rajhi Capital, Base Year=2010

Figure 3 GDP contribution



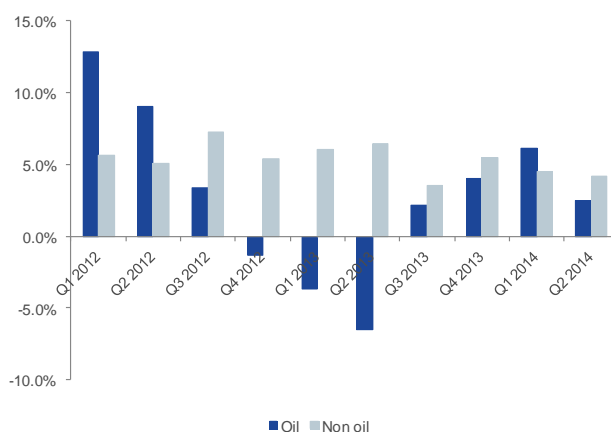
Source: CDSI, Al Rajhi Capital, Base Year=2010

Figure 4 GDP growth (Base year as 1999)



Source: Bloomberg, Al Rajhi Capital

Figure 5 Oil and Non-oil GDP growth trend (Base year as 1999)



Source: Bloomberg, Al Rajhi Capital, Data for Q3 and Q4 2014 were not available



Table 1 GDP by economic activity

Particulars (SAR bn)	Years				YoY		
	2014*	2013	2012	2011	2014*	2013	2012
Agriculture , Forestry & Fishing	50.5	49.6	48.7	48.1	1.7%	1.9%	1.3%
Mining & Quarrying	973.6	963.6	977.5	929.7	1.0%	-1.4%	5.1%
a) Crude Petroleum & Natural Gas	964.3	954.6	968.7	921.3	1.0%	-1.5%	5.2%
b) Other	9.3	9.1	8.8	8.4	2.9%	3.2%	4.1%
Manufacturing	275.8	255.6	247.3	237.6	7.9%	3.4%	4.1%
a) Petroleum Refining	69.5	62.0	65.1	62.5	12.1%	-4.7%	4.1%
b) Other	206.2	193.6	182.2	175.1	6.5%	6.3%	4.1%
Electricity , Gas and Water	31.6	29.8	29.4	27.7	5.9%	1.6%	5.9%
Construction	120.2	112.6	104.5	99.7	6.7%	7.8%	4.8%
Wholesale & Retail Trade, Restaurants & hotels	225.4	212.7	199.6	188.3	6.0%	6.6%	6.0%
Transport , Storage & Communication	136.5	128.6	120.9	115.2	6.1%	6.4%	4.9%
Finance , Insurance , Real Estate ' & Business Services	228.1	218.4	199.9	185.9	4.5%	9.2%	7.5%
Others	393.2	379.4	361.5	340.1	3.6%	4.9%	6.3%
Gross Domestic Product	2434.8	2350.4	2289.3	2172.3	3.6%	2.7%	5.4%

Source: CDSI, Al Rajhi Capital, Base Year=2010, * Preliminary data

Crude oil dynamics

Crude prices continue to trend downward, driven by supply glut and weak demand scenario.

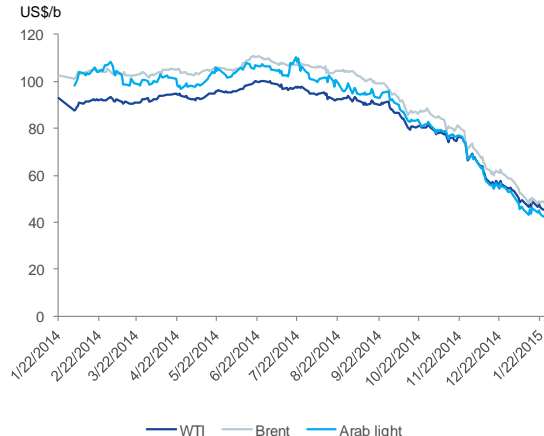
The recent estimates of OPEC and IEA indicate that crude oil production in Saudi Arabia remained steady in December at around 9.5mbpd, reflecting a decline of 0.4% y-o-y (+0.2% m-o-m). Meanwhile, Brent crude prices continued the downward movement settling below US\$50 a barrel for the first times in almost six years.

Figure 6 Crude oil production trend



Source: Bloomberg, Al Rajhi Capital

Figure 7 Crude oil prices trend



Source: Bloomberg, Al Rajhi Capital

Non-oil foreign trade

Improvement in non-oil exports in the month of November after weakness in October

As per the latest preliminary non-oil foreign trade data released by the Central Department of Statistics and Information (CDSI), non-oil exports declined just by 0.3% y-o-y in November versus a decline of 12.4% in October, while non-oil imports rebounded by registering a growth of 4.6% (versus 6.0% decline in October). The UAE is the leading export destination for Saudi Arabia (15.7% of total non-oil exports versus 9% in October and 12% in September), whereas China (15.7% of the total non-oil imports) remains the leading sourcing destination. Non-oil foreign trade data for the month of December is yet to be published by the CDSI.

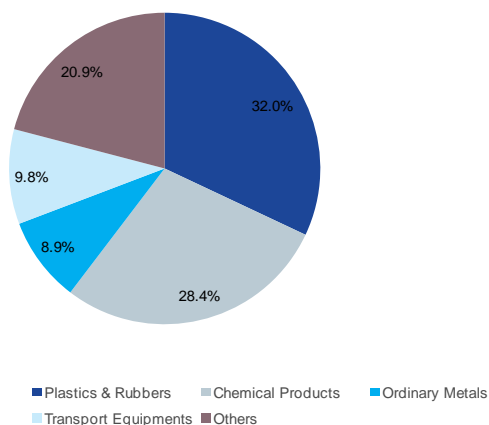


Table 2 Non-oil exports

Commodities (SAR mn)	Sep-14	Oct-14	Nov-14	% y-o-y	% m-o-m
Plastics & Rubbers	6,163	5,786	5,578	0.1%	-3.6%
Chemical Products	5,400	5,122	4,946	-13.5%	-3.4%
Ordinary Metals	1,477	1,211	1,546	35.5%	27.7%
Transport Equipments	1,434	1,096	1,716	-3.9%	56.6%
Others	3,298	2,702	3,649	11.5%	35.0%
Total	17,772	15,917	17,435	-0.3%	9.5%

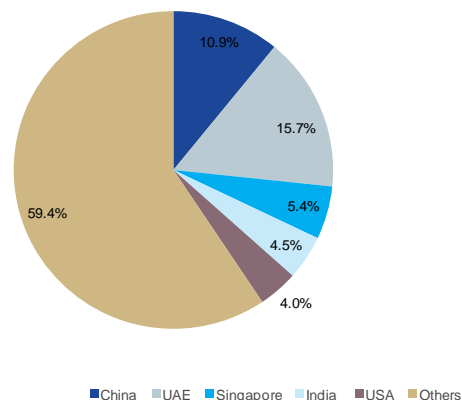
Source: CDSI, Al Rajhi Capital

Figure 8 Components of non-oil exports



Source: CDSI, Al Rajhi Capital

Figure 9 Top export destinations



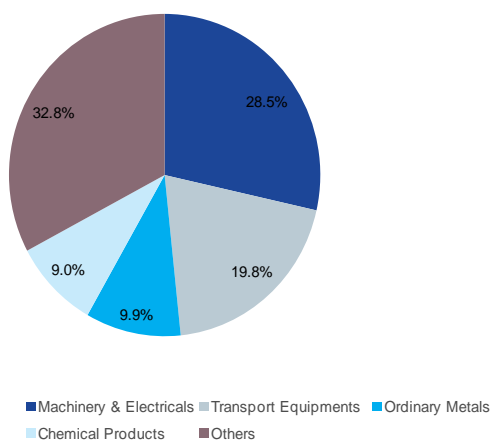
Source: CDSI, Al Rajhi Capital

Table 3 Non-oil imports

Commodities (SAR mn)	Sep-14	Oct-14	Nov-14	% y-o-y	% m-o-m
Machinery & Electricals	12,201	11,060	14,488	17.8%	31.0%
Transport Equipments	10,497	9,158	10,079	15.6%	10.1%
Ordinary Metals	6,163	5,813	5,030	-12.3%	-13.5%
Chemical Products	4,646	3,594	4,563	5.4%	27.0%
Others	18,565	22,447	16,649	-4.9%	-25.8%
Total	52,072	52,072	50,809	4.6%	-2.4%

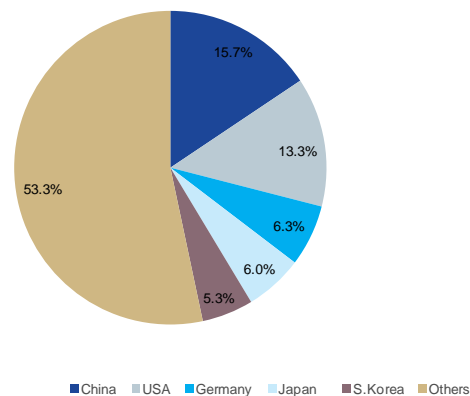
Source: CDSI, Al Rajhi Capital

Figure 10 Components on non-oil imports



Source: CDSI, Al Rajhi Capital

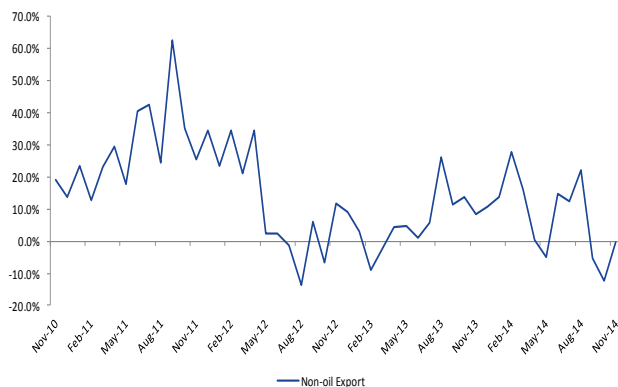
Figure 11 Top source countries



Source: CDSI, Al Rajhi Capital

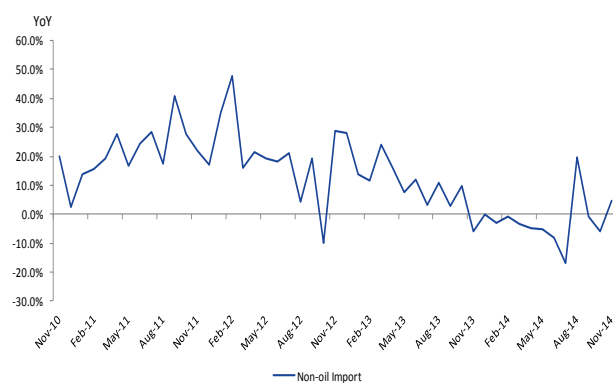


Figure 12 Non-oil export trend (y-o-y)



Source: CDSI, Al Rajhi Capital,

Figure 13 Non-oil imports trend (y-o-y)



Source: CDSI, Al Rajhi Capital,

Monetary and credit indicators

Money supply

Increase in demand deposits drives money supply growth.

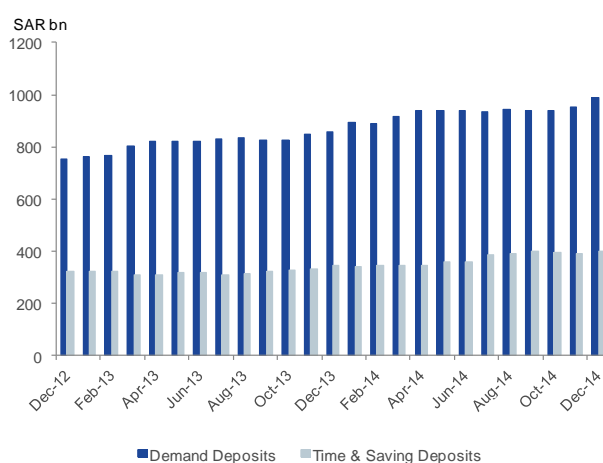
Money supply (M3) growth in the month of December 2014 increased by 12% y-o-y to SAR1,729bn primarily due to increase in demand deposits, which grew by 15.4% as against 12.5% in November. On a m-o-m basis, M3 grew by 2.0% (-0.6% in November) supported by both demand deposits and time & saving deposits, which grew by 3.6% (+1.4% in November) and 1.6% (-1.2% in November) respectively.

Figure 14 Money supply growth



Source: SAMA, Al Rajhi Capital

Figure 15 Deposits break-up



Source: SAMA, Al Rajhi Capital

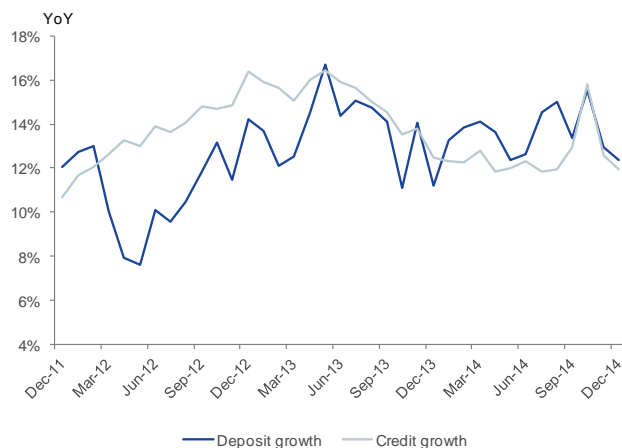
Credit and deposit growth

Decline in total deposit growth slows credit growth, too.

The total credit growth (banks' claim on private sector) in December 2014 stood at 11.9% y-o-y as against 12.6% in the previous month. This was in line with the fall in total deposit growth, which grew by 12.4% y-o-y in December versus 12.9% in November. As a result, the loan-to-deposit ratio declined slightly to 76% at the end of December as against 78% in the previous month.

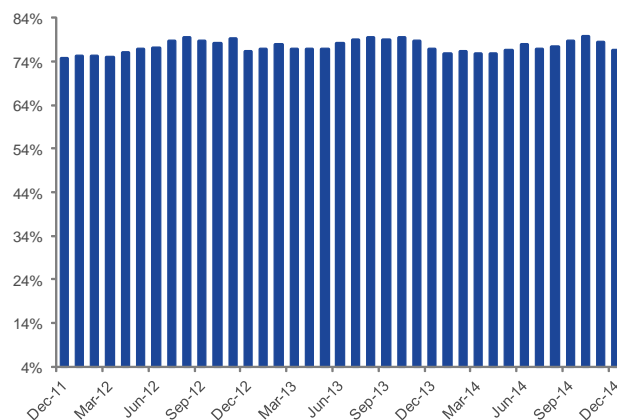


Figure 16 Credit and deposit growth



Source: SAMA, Al Rajhi Capital,

Figure 17 Loans to Deposits



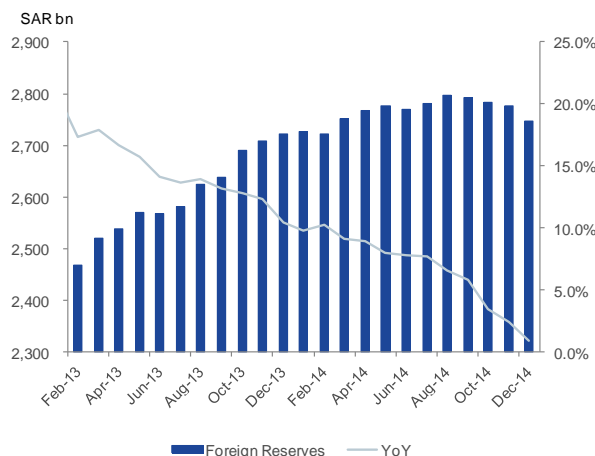
Source: SAMA, Al Rajhi Capital,

Growth in foreign reserves remains challenging given the easing crude oil prices

Foreign reserve assets

The growth in foreign reserves assets fell significantly to 0.9% y-o-y in December 2014 (SAR2,746bn) as against 2.5% in the previous month primarily due to falling crude oil prices. Foreign reserves assets growth has been declining since March 2014 when reserves grew by 9.2% y-o-y. On a m-o-m basis, foreign reserve assets declined by 1.1% in December as against a decline of 0.3% in the previous month.

Figure 18 Foreign reserves



Source: SAMA, Al Rajhi Capital,

Figure 19 Major components of foreign assets



Source: SAMA, Al Rajhi Capital,

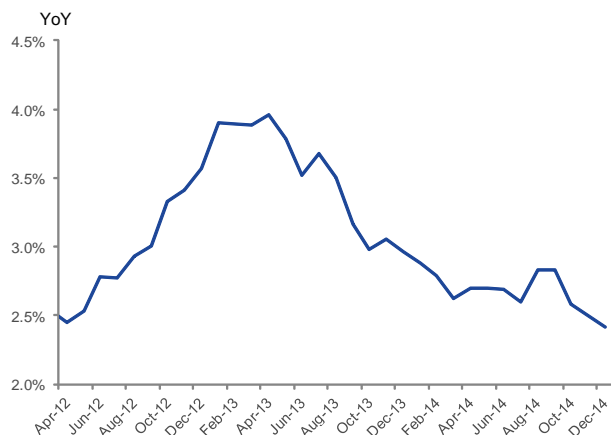
Inflation dynamics

Inflation moderated further in December as both housing and food components slowed

Inflation measured by the CPI declined to 2.4% y-o-y in December, the lowest since April 2007. The drop in overall inflation was driven by a decline in the "Food & Beverages" (2.6% in December v/s 3.1% in November) and "Housings" segments (2.5% in December v/s 2.7% in November).

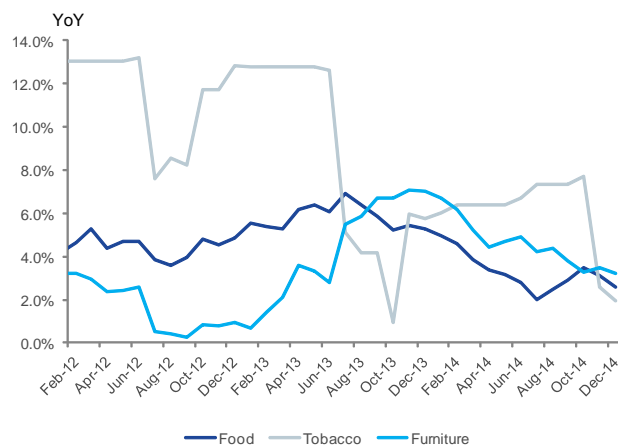


Figure 20 Inflation trend



Source: CDSI, Al Rajhi Capital

Figure 21 Inflation drivers



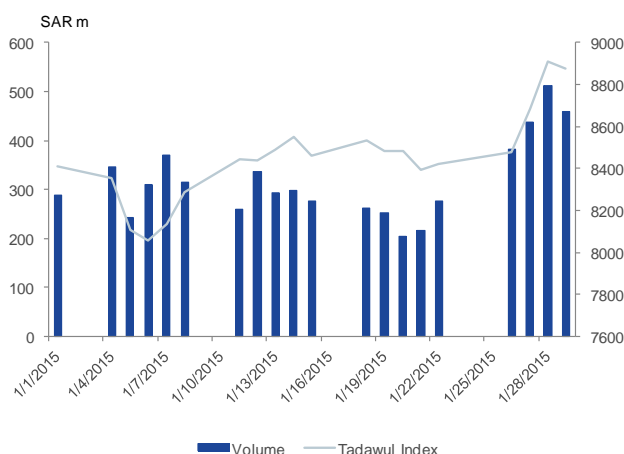
Source: CDSI, Al Rajhi Capital

Stock market indicators

Benchmark Index rises but Telecoms is on the losing side

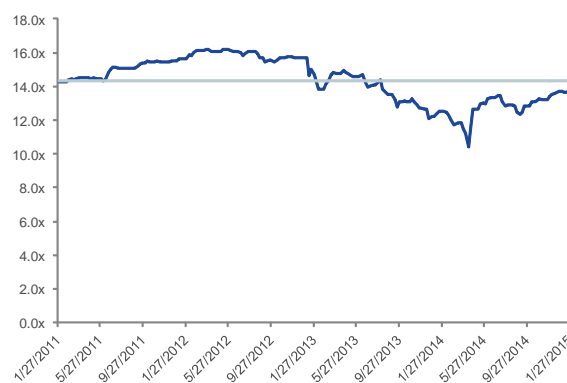
The benchmark index (Tadawul) gained by 5.6% m-o-m in January 2015. The performance was supported by the counter-cyclical budget. All the sectors delivered positive returns except Telecoms, which declined by 9.9% m-o-m in January 2015. Hotel & Tourism, Insurance, and Industrial Investments sectors were the frontrunners posting returns of 16%, 13.3%, and 12.9% respectively. Index heavyweight, Al Rajhi Bank performed well delivering 9.8% m-o-m returns in January 2014.

Figure 22 Tadawul index performance



Source: TASI, Al Rajhi Capital

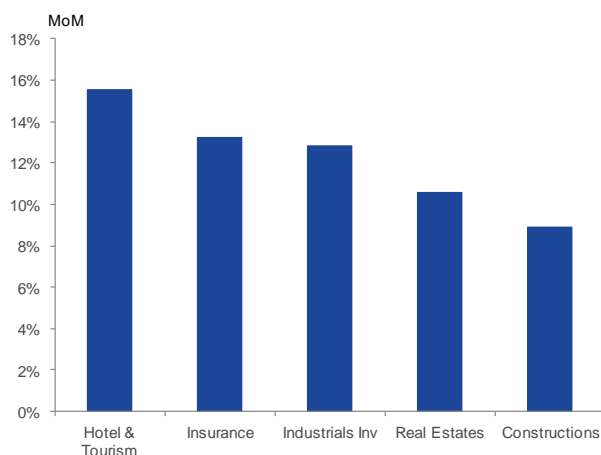
Figure 23 Benchmark index (Tadawul) P/E movement chart



Source: Bloomberg, Al Rajhi Capital

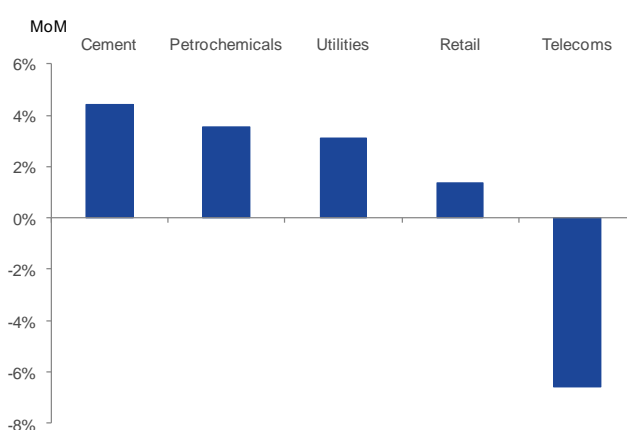


Figure 24 Top performing sectors



Source: TASI, Al Rajhi Capital, Returns calculated for the month of January

Figure 25 Least performing sectors



Source: TASI, Al Rajhi Capital, Returns calculated for the month of January

Table 4 Top 5 gainers

Companies	Avg Volume (SAR m)	Market Cap (SAR bn)	Returns (m-o-m)	Sectors
Al Alamiya for Cooperative Insurance Company	0.3	4.7	92.3%	Insurance
Alujain Corporation	1.5	1.6	35.0%	Petrochemical Ind
The Company for Cooperative Insurance	1.6	6.8	32.8%	Insurance
Alinma Tokio Marine Co	0.6	1.0	29.2%	Insurance
Saudi Arabia Refineries Co.	0.8	1.0	27.7%	Multi Inv

Source: Bloomberg, Al Rajhi Capital, Companies with market cap more than SAR 1bn, Returns calculated for the month of January

Table 5 Top 5 losers

Companies	Avg Volume (SAR m)	Market Cap (SAR bn)	Return (m-o-m)	Sectors
Etihad Etisalat Co	8.1	28.5	-17.0%	Telecoms
National Industrialization Co	1.8	17.9	-3.7%	Chemicals
Mediterranean & Gulf Insurance & Reinsurance Co	1.4	5.1	-2.0%	Insurance
Saudi Dairy & Foodstuff Co	0.1	3.9	-1.8%	Agriculture & Food Industries
Southern Province Cement Co	0.1	15.0	-1.8%	Cement

Source: Bloomberg, Al Rajhi Capital, Companies with market cap more than SAR 1bn, Returns calculated for the month of January

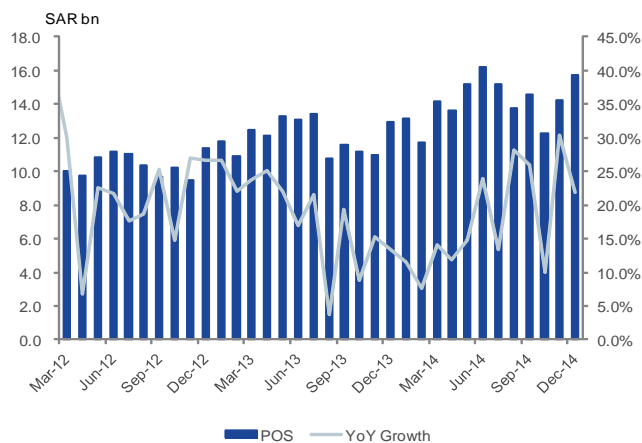
Consumer spending and business indicators

Consumer spending and business indicators showed improvement

Consumer spending measured by Point of Sale transactions (POS) and ATM cash withdrawals showed some improvement in December 2014. POS transactions increased by 22% y-o-y to SAR15.7bn in December as against 30% in the previous month. ATMs cash withdrawals, too, increased by around 14.7% y-o-y to SAR64.6bn in December as against 18.7% in November. On a m-o-m basis, POS increased by 10.3% as against 16.2% in November, whereas, cash withdrawals from ATMS increased by 8.4% as against 4.5% in the previous month. The HSBC composite PMI data was at 58.3 for December 2014 versus 57.6 in the previous month.

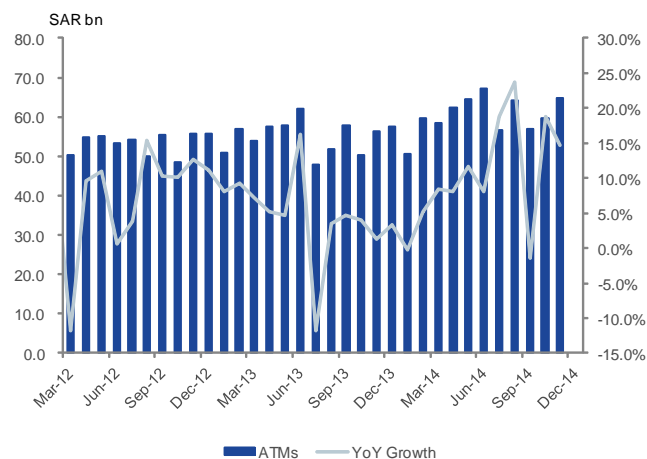


Figure 26 Point of sale transactions (POS) trend



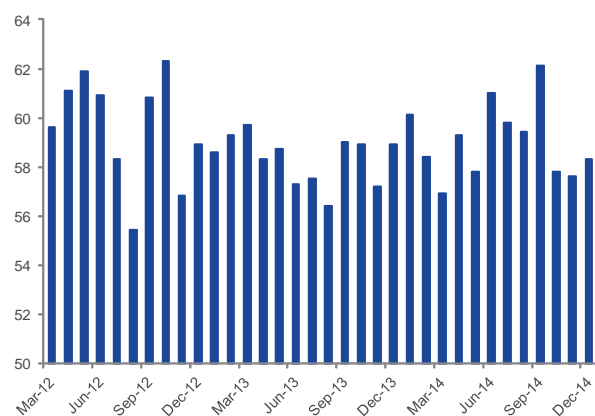
Source: SAMA, Al Rajhi Capital,

Figure 27 ATM cash withdrawals trend



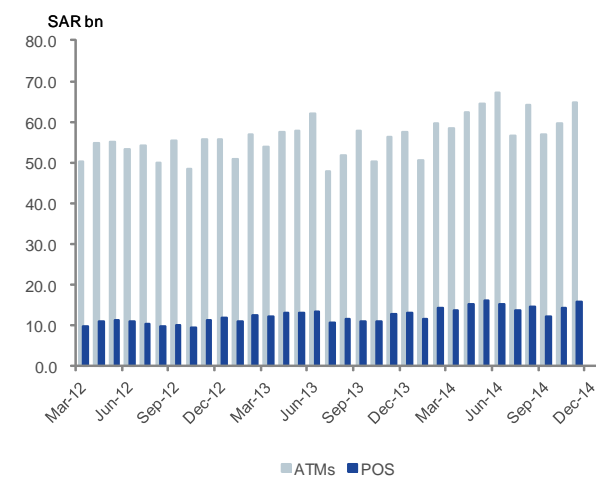
Source: SAMA, Al Rajhi Capital,

Figure 28 SAAB HSBC PMI composite Index



Source: Bloomberg, Al Rajhi Capital

Figure 29 Consumer spending trend (POS and ATM cash Withdrawals)



Source: Bloomberg, Al Rajhi Capital



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