



Saudi Arabian Economy

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Kingdom records fiscal surplus in Q1 2019

Saudi Arabia has witnessed a fiscal surplus for the first time since 2014 in Q1 2019, supported by higher oil revenue. Kingdom's revenues registered a 48% y-o-y growth in Q1 2019, with oil revenues rising by 48% y-o-y and non-oil revenues by 46% y-o-y. Meanwhile, the Kingdom's expenditures climbed 8% during to quarter, thereby leading a fiscal surplus of SAR 27.8bn in Q1 2019 (SAR34.3bn deficit in Q1 2018). Saudi Arabia's fiscal position has witnessed an improvement due to a rise in oil revenue coupled with the introduction of VAT, expat levy and subsidy cuts. We believe that the Kingdom's fiscal position will remain on the trajectory of improvement, amid higher oil revenue due to healthy oil prices.

Monthly indicators: Meanwhile, the latest data released by SAMA signals a continuous improvement in the Saudi Arabian economy. Credit to the private sector recorded a rise for the 12th straight month (+3.1% y-o-y; +0.6% m-o-m) in March, while bank claims to the public sector also increased (+22.1% y-o-y; +1.1% m-o-m). Further, SAMA foreign reserves rose for the first time, on an annual basis, in four months (+1.2% y-o-y; +3.1% m-o-m) in March, supported by higher oil revenues coupled with debt issuances by the government which has limited its need to tap reserves to plug the fiscal deficit. POS transactions continued its robust rise in March (+19.9% y-o-y; +21.8% m-o-m), driven by 'Restaurants and Hotels', 'Food and Beverage' and 'Transportation' segments. In addition, personal transfers by Saudi nationals and non-Saudi nationals dropped 31.9% y-o-y and 12.0% y-o-y, respectively in March.

The cost of living index remained in the deflation territory for the third consecutive month (-2.1% y-o-y; -0.1% m-o-m) in March. The 'Housing, Water, Electricity, Gas' and the 'Transport' sectors (together accounting ~35.3% of the index) weighed on the index. Moreover, the real estate prices index declined in Q1 2019 (-4.9% y-o-y Vs -5.0% y-o-y in Q4 2018), dragged down by 'Residential' and 'Commercial' segments. Meanwhile, the government recently announced a US\$3bn package in order to support the private sector and has also set up a venture capital fund worth US\$400mn for improving investments. Overall, we continue to believe that the Saudi Arabian economy will improve further, due to government's commitment to support the non-oil economy coupled with firm oil prices.

Saudi Arabia's Q1 2019 fiscal surplus stood at SAR 27.8bn compared to a deficit of SAR 34.3bn in Q1 2018. For Q1 2019, revenue jumped 48% y-o-y to SAR 245.4bn, largely supported by higher oil revenue (+48% y-o-y). Meanwhile, expenditure grew by 8% y-o-y to SAR 217.6bn (Figure 2).

Real Estate Price Index fell by 4.9% y-o-y in Q1 2019 compared to the drop of 5.0% y-o-y in the previous quarter. The residential property prices declined at a slower pace (-5.8% y-o-y in Q1 2019 Vs -6.0% y-o-y in Q4 2018). Meanwhile, the commercial (-3.0% y-o-y Vs -3.1% y-o-y) and agricultural (-0.4% y-o-y Vs -0.3% y-o-y) property prices also registered a fall (Figure 3).



Deposits grew 1.7% y-o-y (-0.3% m-o-m) in March, while **credit to the private sector** increased 3.1% y-o-y (+0.6% m-o-m) in the same month. Meanwhile, for Q1 2019, the private sector credit climbed 3.6% y-o-y (+1.2% q-o-q). Credit to the 'Manufacturing & Processing' and 'Building & Construction' sectors registered an annual rise in Q1 2019; whereas credit to 'Commerce' sector witnessed a fall (y-o-y basis) in the same quarter (Figure 10, 11, 12 & 13).

SAMA foreign reserves, on an annual basis, rose for the first time in four month by 1.2% in March (-0.5% y-o-y in February). On a monthly basis, reserves increased 3.1% in March (-1.1% m-o-m in February) (Figure 8 & 9). Meanwhile, government reserves with SAMA stood at SAR 583.2bn (including government current account) as of March, recording a monthly rise of 9.7%.

Kingdom raised SAR 11.619bn via its SAR-denominated Sukuk program. The government sold SAR 0.768bn of bonds which matures in 2024, SAR 0.918bn in 2028, SAR 0.686bn in 2034 and SAR 9.247bn of bonds which matures in 2049. Saudi Arabia introduced its first 30-year Sukuk in the domestic market this month.

Banking sector profits climbed 20.1% y-o-y to stand at SAR 5,047mn in March (+3.3% y-o-y in February). Meanwhile, on a monthly basis the profits rose by 28.4% in March (-19.8% m-o-m in February). The cumulative banking sector profits for the year (till March 2019) stood at SAR 13,875mn, registering a rise of 14.0% y-o-y (Figure 17).

Money Supply (M3) rose in March to SAR 1,813bn, led by the rise in M1. Meanwhile, as per the weekly money supply data, published by SAMA, M3 may witness a rise in April (Figure 14).

Point-of-sale (POS) transactions rose by 19.9% y-o-y in March (+25.0% y-o-y in February), supported by the 'Restaurants and Hotels' (+32.3% y-o-y), 'Food and Beverage' (+25.4% y-o-y) and 'Transportation' (+13.9% y-o-y) segments. However, ATM withdrawals fell by 2.1% y-o-y in March (-2.4% y-o-y in February) (Figure 5, 6 & 7).

Remittances (Personal Transfers) by Saudi nationals slipped 31.9% y-o-y in March, versus the fall of 33.2% y-o-y in February, while remittances by non-Saudi nationals declined 12.0% y-o-y in the same month (-24.6% y-o-y in February) (Figure 4).

Cost of living index remained in the deflation territory for the third consecutive month in March. The index fell by 2.1% y-o-y in March, as against the fall of 2.2% y-o-y in the previous month. The fall in 'Housing, Water, Electricity & Gas' (-8.1% y-o-y) and 'Transport' (-0.9% y-o-y) sectors, which together account ~35.3% of the index, weighed on the index. On a monthly basis, the index dropped 0.1% in March, compared to -0.2% m-o-m in February (Figure 18 & 19).

Crude oil prices (Brent June futures contract) rose 10.0% MTD in April, due to tightening global crude oil supplies. Further, the US' announcement to end waivers on countries importing oil from Iran also supported oil prices. Meanwhile, Saudi Arabian crude oil production fell by 2.8% m-o-m, to 9.8mbpd in March 2019; compared to the fall of 2.8% m-o-m in February (Figure 20 & 21).

Crude price outlook: The US Energy Information Administration (EIA) in its April 2019 report estimated Brent crude oil prices to average US\$65/barrel for 2019 and US\$62/barrel for 2020.



Figure 1 Key macro indicators

Variable	Apr-19	Mar-19	Feb-19	2018	2017
Inflation Rate (2007=100) %	-	-2.1%	-2.2%	2.5%	-0.8%
Average Oil Price (Arab Light) (US\$/Barrel)	72.1	67.4	64.8	70.6	52.5
Money Supply (M3) %	-	1.8%	1.5%	2.8%	0.2%
Total Banking Sector Claims	-	6.5	6.4	5.4	3.8
Interbank Interest Rate (3 Month) %	2.856	2.892	2.940	2.451	1.812
Repo Rate %	3.00	3.00	3.00	3.00	2.00
Reverse Repo Rate %	2.5	2.5	2.50	2.50	1.5
GDP Rate at Constant Prices (2010=100) %	-	3.6%	2.3%	2.2%	-0.7%
Current Account to GDP Ratio (current prices) %	-	9.3%	13.3%	9.2%	1.5%
Total Imports (fob) to GDP Ratio (current prices)%	-	15.1%	15.9%	15.9%	17.9%
Non-oil Exports to GDP Ratio (current prices) %	-	8.2%	8.0%	8.0%	7.5%

Source: SAMA, Bloomberg * Provisional **Estimated. Arab Light and Interbank interest rate data is as on 26th Apr 2019 and 25th Apr 2019, respectively.

Figure 2 Fiscal Performance for Q1 2019 (SAR bn)

	Q1 2019	Q1 2018	Change (y-o-y)
Revenue	245.4	166.3	48%
Oil Revenue	169.1	113.9	48%
Non-oil Revenue	76.3	52.3	46%
Expenditure	217.6	200.6	8%
Surplus (Deficit)	27.8	(34.3)	

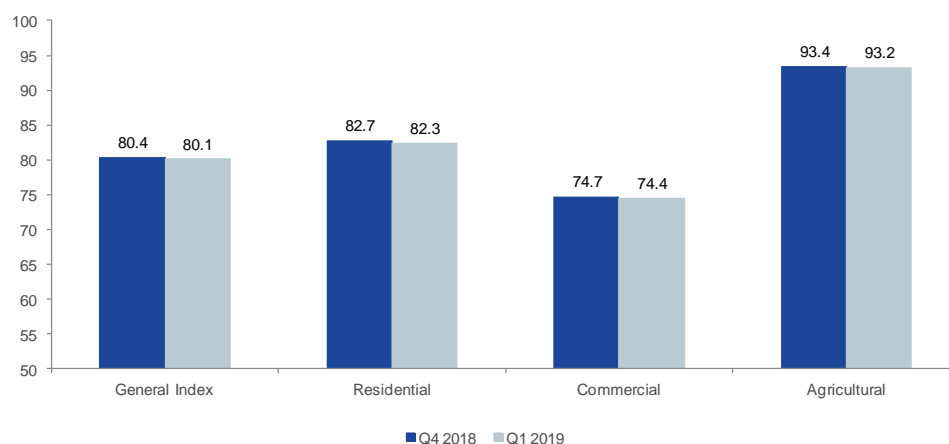
Source: Bloomberg, Al Rajhi Capital

Real Estate Price Index

Real Estate Price Index dropped in Q1 2019

According to the data released by GASTAT, real estate prices dropped by 4.9% y-o-y in Q1 2019, versus the fall of 5.0% y-o-y in Q4 2018. The residential (-5.8% y-o-y in Q1 2019 Vs -6.0% y-o-y in Q4 2018) and the commercial (-3.0% y-o-y Vs -3.1% y-o-y) property prices declined at a slower pace in Q1 2019. However, agricultural (-0.4% y-o-y Vs -0.3% y-o-y) property prices dropped at the faster rate.

Figure 3 Real Estate Price Index



Source: GAS, Al Rajhi Capital

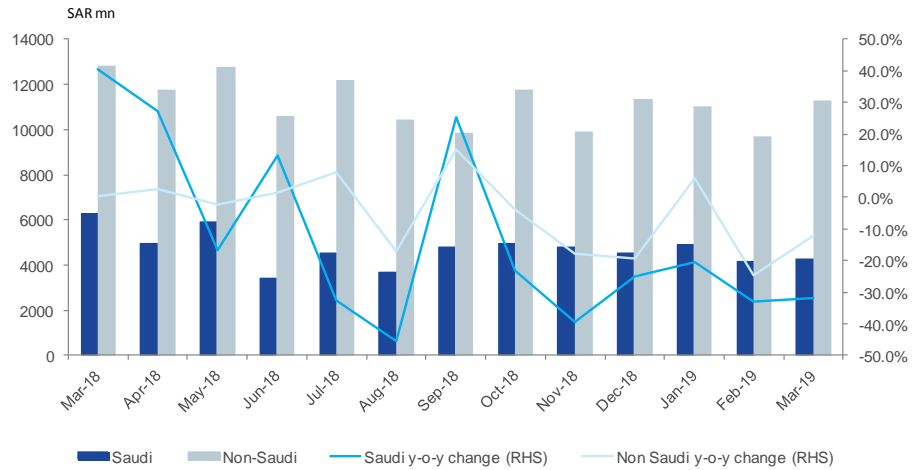


Remittance

Remittances continued to drop in March

Remittances (Personal Transfers) from Saudi nationals dropped 31.9% y-o-y (-33.1% y-o-y in February) to ~SAR 4.3bn in March 2019, while remittances from non-Saudi nationals fell by 12.0% y-o-y (-24.6% y-o-y in February) to stand at ~SAR 11.3bn.

Figure 4 Remittances



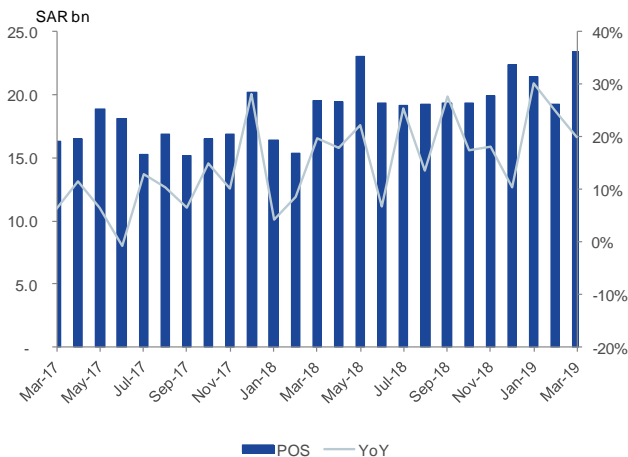
Source: SAMA, Al Rajhi Capital

Consumer spending indicators

POS transactions continued to rise in March

POS transactions climbed 19.9% y-o-y in March 2019 as against the annual rise of 25.0% in February, whereas the ATM cash withdrawals dropped 2.1% y-o-y in March (-2.4% y-o-y in February). POS transactions growth can be attributed to the increase in 'Restaurants and Hotels' (+32.3% y-o-y), 'Food and Beverage' (+25.4% y-o-y) and 'Transportation' (+13.9% y-o-y) segments.

Figure 5 Point-of-sale transactions (POS) trend



Source: SAMA, Al Rajhi Capital

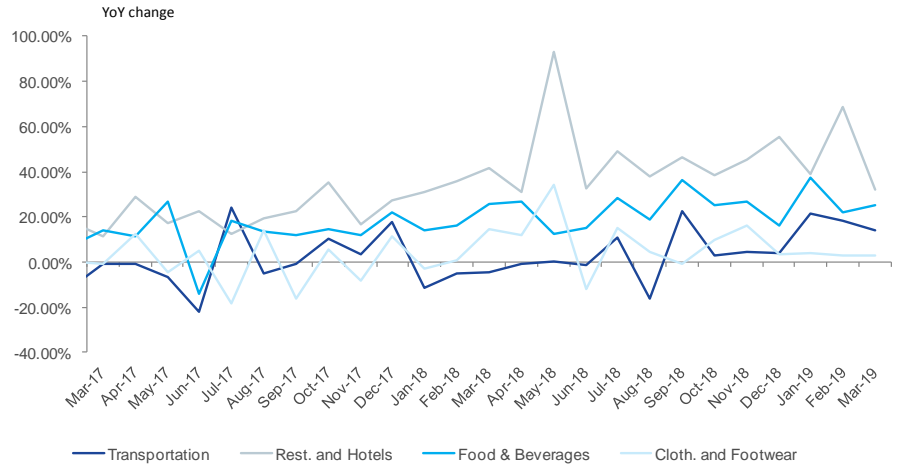
Figure 6 ATM cash withdrawals trend



Source: SAMA, Al Rajhi Capital



Figure 7 Points-of-sale transactions trend by sectors



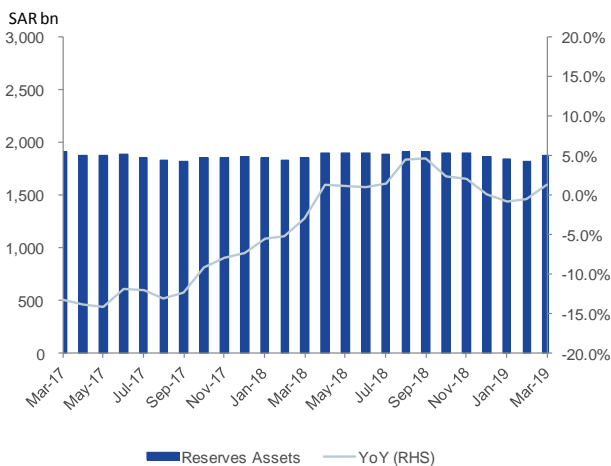
Source: SAMA, Al Rajhi Capital

SAMA Foreign Exchange Reserves

SAMA reserves increased in March

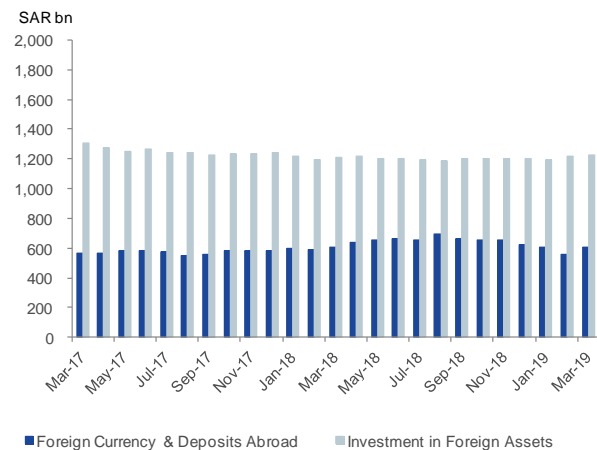
SAMA Foreign Exchange reserves, on a yearly basis, rose for the first time in four months in March 2019 (+1.2% y-o-y Vs -0.5% y-o-y in February) to stand at SAR 1,873bn (US\$ 499.5bn), supported by higher oil revenues along with debt issuances by the government, which curbs the need to tap its reserves to plug fiscal deficit. On a monthly basis, reserves increased after falling for three straight months by 3.1% in March 2019. Meanwhile, investment in foreign securities rose by 0.8% m-o-m in March (+2.1% m-o-m in February); while foreign currency and deposits abroad jumped 8.3% m-o-m in March versus the fall of 7.7% m-o-m in February.

Figure 8 Reserves assets



Source: SAMA, Al Rajhi Capital

Figure 9 Major components of foreign assets



Source: SAMA, Al Rajhi Capital



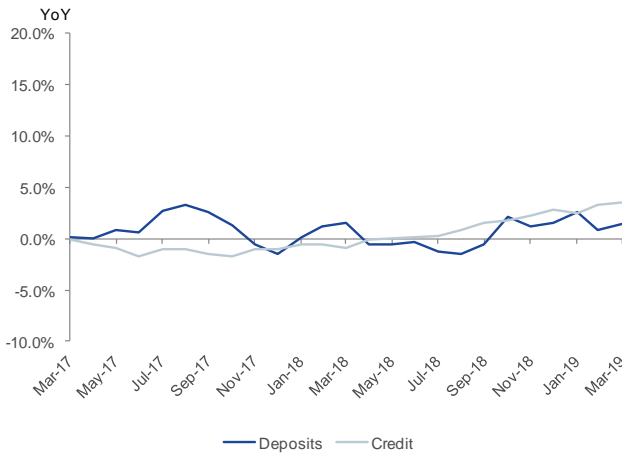
Credit and deposit growth

Private sector credit continued to rise in March

Banking sector credit to the private sector increased 0.6% m-o-m in March (+3.1% y-o-y), as against +0.8% m-o-m in the previous month (+3.1% y-o-y). Meanwhile, for Q1 2019 the private sector credit climbed 3.6% y-o-y (+1.2% q-o-q). The 'Manufacturing & Processing' (+9.7%) and 'Building & Construction' (+9.4% y-o-y) sectors rose in Q1 2019; whereas the 'Commerce' (-14.4% y-o-y) sector registered a fall in Q1 2019.

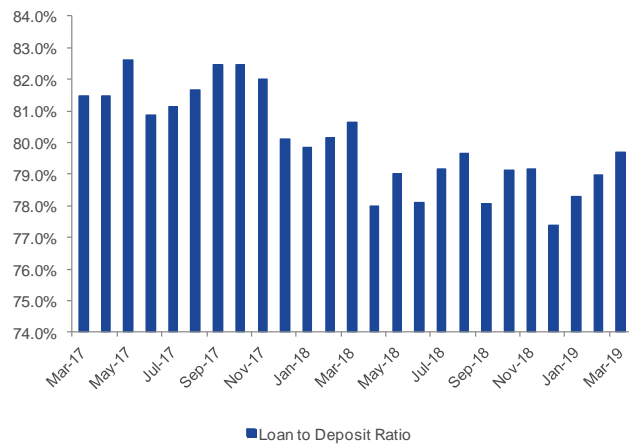
Claims on the public sector increased by 22.1% y-o-y (+1.1% m-o-m) in March 2019, compared to the rise of 21.2% y-o-y (+3.6% m-o-m) in the previous month. Meanwhile, deposits increased by 1.7% y-o-y in March (-0.3% m-o-m). 'Business and Individual' deposits, which constitute ~73% of the total deposit base, rose by 2.1% y-o-y (+0.3% m-o-m), whereas 'Government Entities' deposits dropped 2.3% y-o-y (-2.8% m-o-m).

Figure 10 Credit and deposit growth



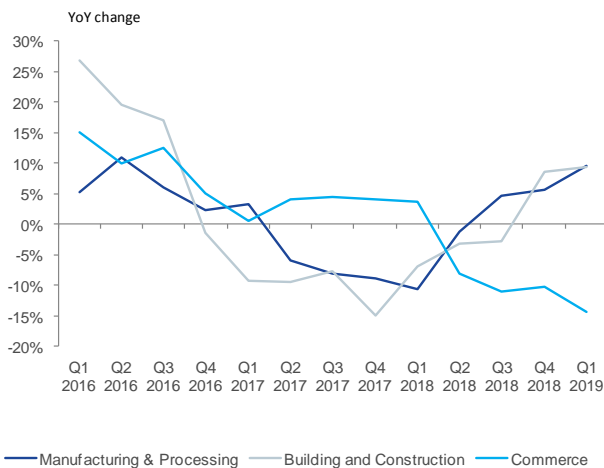
Source: SAMA, Al Rajhi Capital

Figure 11 Loans to Deposits



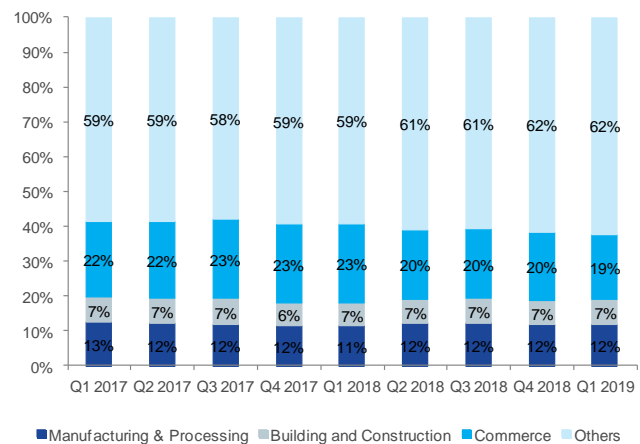
Source: SAMA, Al Rajhi Capital

Figure 12 Y-o-Y growth/decline in credit by sector



Source: SAMA, Al Rajhi Capital

Figure 13 Banking sector exposure by economic activity



Source: SAMA, Al Rajhi Capital

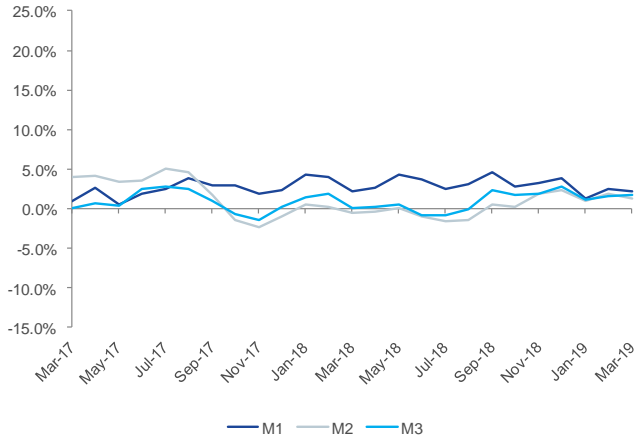


Money supply

M3 rose in March

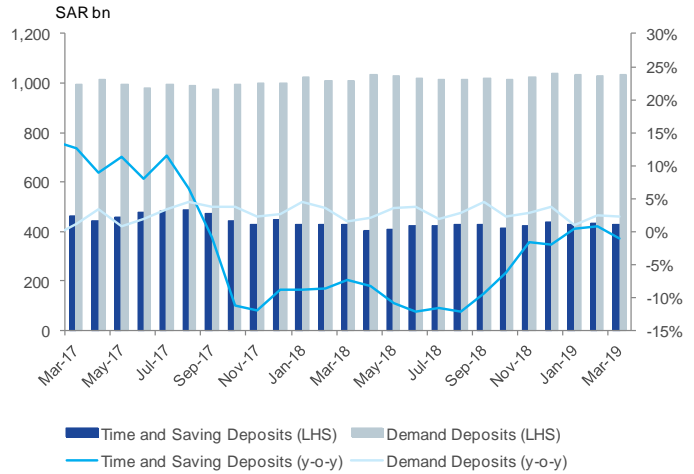
Broader money supply (M3) increased in March (+1.8% y-o-y) to stand at SAR 1,813bn, as against the rise of 1.5% in February. M1 recorded a rise of 2.2% y-o-y; while M2 increased by 1.3% y-o-y in March. On a monthly basis, the M3 slipped 0.1% in March (+0.1% m-o-m in February). As per the weekly money supply data by SAMA, M3 may witness a rise in April.

Figure 14 Money supply growth (y-o-y)



Source: SAMA, Al Rajhi Capital

Figure 15 Deposits break-up



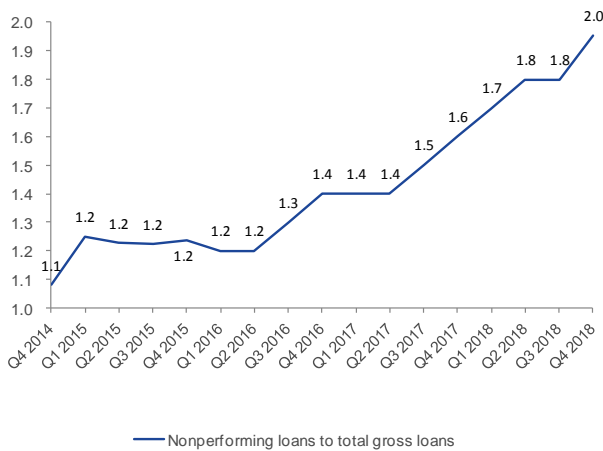
Source: SAMA, Al Rajhi Capital

Banking Sector

Banking sector profits grew in March

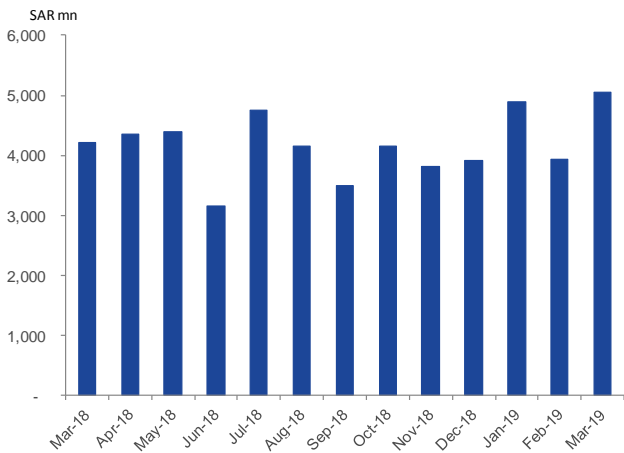
Banking sector profits increased by 20.1% y-o-y in March (+3.3% y-o-y in February), to stand at SAR 5,047mn. On a monthly basis, banking sector profits climbed 28.4% in March compared to a 19.8% m-o-m fall in February. The cumulative banking sector profits for the year (till March 2019) stood at SAR 13,875mn, registering a rise of 14.0% y-o-y.

Figure 16 Non-performing loans (%)



Source: SAMA, Al Rajhi Capital

Figure 17 Net Profit for Banks



Source: SAMA, Al Rajhi Capital

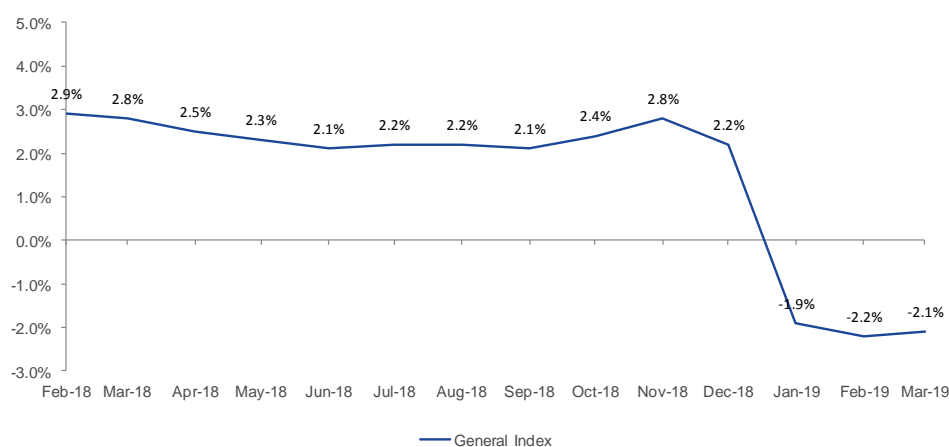


Cost of living index remained in deflation territory in March

Inflation dynamics

Cost of living index remained in the deflation territory for the third consecutive month in March 2019. The index fell at a slower pace of 2.1% y-o-y in March 2019, compared to the drop of 2.2% y-o-y in February. The 'Housing, Water, Electricity & Gas' sector (accounting ~25.4% of the index) declined 8.1% y-o-y in March 2019 (-8.2% y-o-y in February 2019), while the 'Transport' sector (constituting ~9.95% of the index) fell 0.9% y-o-y in March (-0.8% y-o-y in the previous month). On a monthly basis, the cost of living index dropped by 0.1% in March 2019, as against 0.2% in February 2019.

Figure 18 Inflation trend (y-o-y)



Source: GAS, Al Rajhi Capital

Figure 19 Inflation Segments

	Weights	Mar-19	Mar-18	Change (y-o-y)
General Index	100.0%	105.6	107.9	-2.1%
Food & Beverages	18.9%	106.7	105.4	1.2%
Tobacco	0.7%	192.5	192	0.2%
Clothing & Footwear	6.2%	92.4	93.7	-1.5%
Housing, Water, Electricity and Gas	25.4%	104.1	113.2	-8.1%
Furnishings and Household Equipments	8.6%	102.4	102.8	-0.4%
Health	2.4%	110.3	110.2	0.1%
Transport	10.0%	118.5	119.6	-0.9%
Communication	8.5%	99.7	100.8	-1.1%
Recreation & Culture	3.4%	95.7	96.5	-0.8%
Education	4.2%	111	109.7	1.2%
Restaurants and Hotels	6.1%	112.1	110.4	1.5%
Miscellaneous Goods & Services	5.8%	102.3	102.9	-0.6%

Source: GAS, Al Rajhi Capital

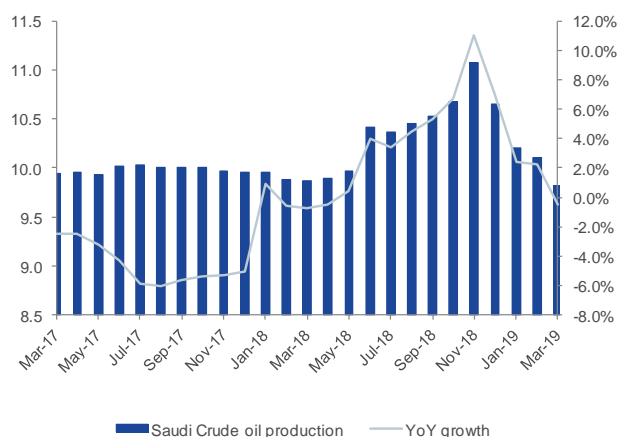
Crude oil prices climbed on a MTD basis in April

Crude oil dynamics

Crude oil prices (Brent June futures contract) rose 10.0% MTD in April 2019, owing to tightening crude oil supplies by the OPEC and its allies. Further, the US' announcement to end waivers on countries importing oil from Iran also aided oil prices. Meanwhile, the Saudi Arabian crude oil production declined 2.8% m-o-m, to 9.8mbpd in March 2019, as against the monthly drop of 2.8% in February. On an annual basis, the Saudi Arabian crude oil production slipped 0.5% in March compared to the rise of 2.2% in the previous month.



Figure 20 Saudi crude oil production trend (mbpd)



Source: Bloomberg, Al Rajhi Capital

Figure 21 Crude oil prices trend (US\$/bbl)



Source: Bloomberg, Al Rajhi Capital

Non-oil exports dropped in February

Non-oil foreign trade

Kingdom's non-oil exports declined for the second month in a row in February 2019, by 5.1% y-o-y, versus the fall of 1.4% in January. The fall can be attributed to the decline in chemical products (-12.9% y-o-y) and plastic & rubbers (-4.0% y-o-y), together accounting ~63.9% of total exports. Meanwhile, non-oil imports fell 15.1% y-o-y in February, after a brief rise of 0.7% y-o-y in January. The fall was owing to the decrease in imports of transport equipments (-41.9% y-o-y) and machinery & electrical (-15.5% y-o-y) together constituting ~37.6% of the total imports. Meanwhile, China was the top export destination and the largest import country in February.

Figure 22 Non-Oil Exports

Commodities (SAR mn)	Dec-18	Jan-19	Feb-19	% y-o-y	% m-o-m
Plastics & Rubbers	6,921	6,682	6,014	-4.0%	-10.0%
Chemical Products	6,817	5,211	5,282	-12.9%	1.4%
Ordinary Metals	1,785	1,537	1,344	-24.0%	-12.6%
Transport Equipments	1,658	1,176	1,352	-1.1%	15.0%
Others	3,873	3,431	3,695	16.5%	7.7%
Total	21,054	18,037	17,687	-5.1%	-1.9%

Source: GAS, Al Rajhi Capital

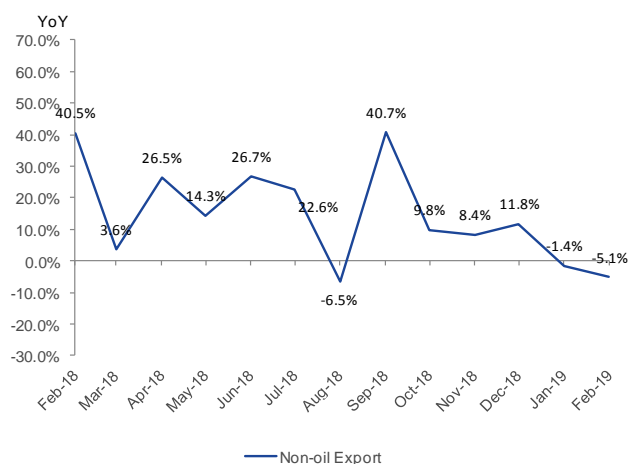
Figure 23 Non-Oil Imports

Commodities (SAR mn)	Dec-18	Jan-19	Feb-19	% y-o-y	% m-o-m
Machinery & Electricals	9,198	9,201	7,125	-15.5%	-22.6%
Transport Equipments	7,201	7,207	6,158	-41.9%	-14.6%
Ordinary Metals	3,318	3,587	3,377	-7.6%	-5.9%
Chemical Products	4,639	4,378	3,296	-13.5%	-24.7%
Others	17,522	17,546	15,351	1.9%	-12.5%
Total	41,878	41,919	35,307	-15.1%	-15.8%

Source: GAS, Al Rajhi Capital

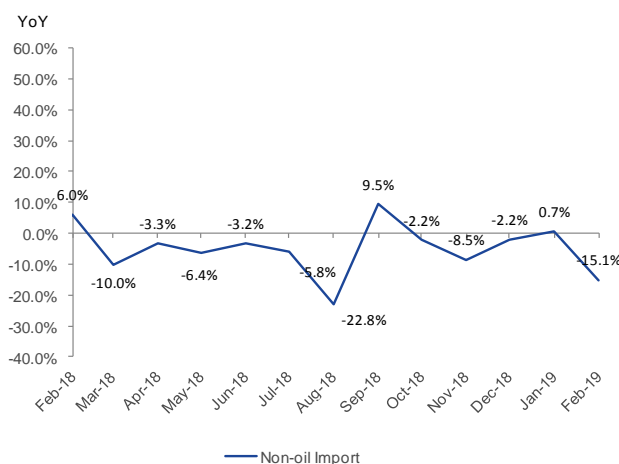


Figure 24 Non-oil export trend (y-o-y)



Source: GAS, Al Rajhi Capital

Figure 25 Non-oil import trend (y-o-y)



Source: GAS, Al Rajhi Capital

Figure 26 Impact of currencies on Weighted-average Saudi imports (m-o-m) *

	August	September	October	November	December	January	February
FX movement (USD/Unit)							
EUR	-0.8%	0.0%	-2.5%	0.0%	1.3%	-0.2%	-0.6%
YUAN	-0.3%	-0.5%	-1.5%	0.2%	1.2%	2.7%	-0.3%
YEN	0.7%	-2.3%	0.7%	-0.5%	3.5%	0.7%	-0.7%
FX impact on weighted average imports							
Germany	0.0%	0.0%	-0.1%	0.0%	0.1%	0.0%	0.0%
China	0.0%	-0.1%	-0.2%	0.0%	0.2%	0.5%	0.0%
Japan	0.0%	-0.1%	0.0%	0.0%	0.2%	NA	0.0%

Source: Bloomberg, GASTAT, Al Rajhi Capital

* Out of the 5 top-ranked countries of import, currency of UAE is pegged and so would its variance with the USD and therefore it has been ignored. USD itself is the currency of comparison and so US has also not been taken. Currency movement of Germany, China and Japan has been taken up for analysis. For calculation of weights of the countries of import, data from February has been chosen and assumed constant for preceding period, as consistent data sets is not available for all the countries chosen for analysis. For February 2019, the weights are China (19.4%), Germany (5.0%) and Japan (5.0%).

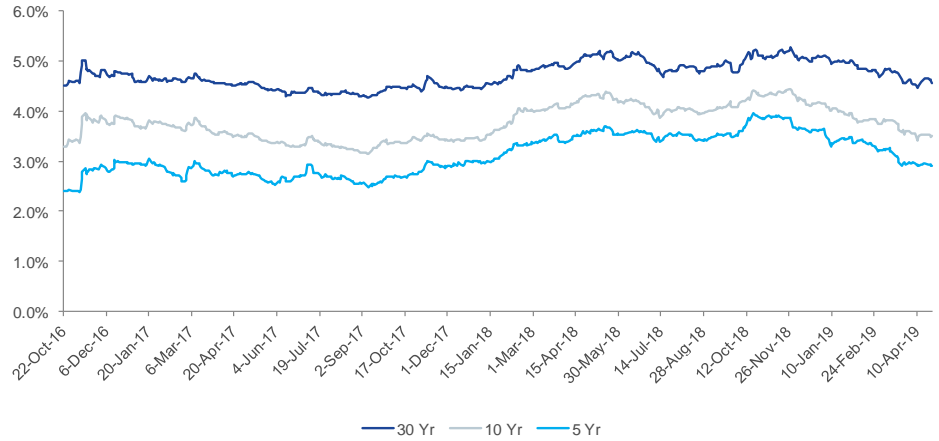
Saudi international bond yields

Saudi International bond yields dropped on a MTD basis in April

Saudi international bond yields with 5 year maturity fell by 6.4bps MTD to 2.897% in April 2019. Meanwhile, bond yields with 10 and 30 year maturities dropped by 11.6bps and 9bps, respectively to 3.479% and 4.543%.



Figure 27 International Bond Yields



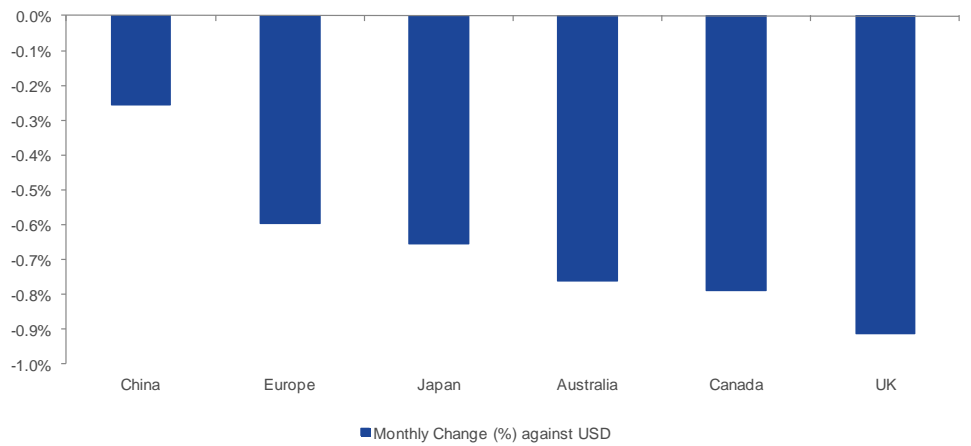
Source: Bloomberg, Al Rajhi Capital

Exchange Rates

Most major currencies fell on a MTD basis against the USD

On the forex front, major currencies (the Canadian Dollar, the Euro, the British Pound, the Chinese Yuan, Japanese Yen and the Australian Dollar) dropped on a MTD basis in April against the US Dollar.

Figure 28 Monthly Change (%) against the US Dollar



Source: Bloomberg, Al Rajhi Capital



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