



Saudi Economic Chartbook

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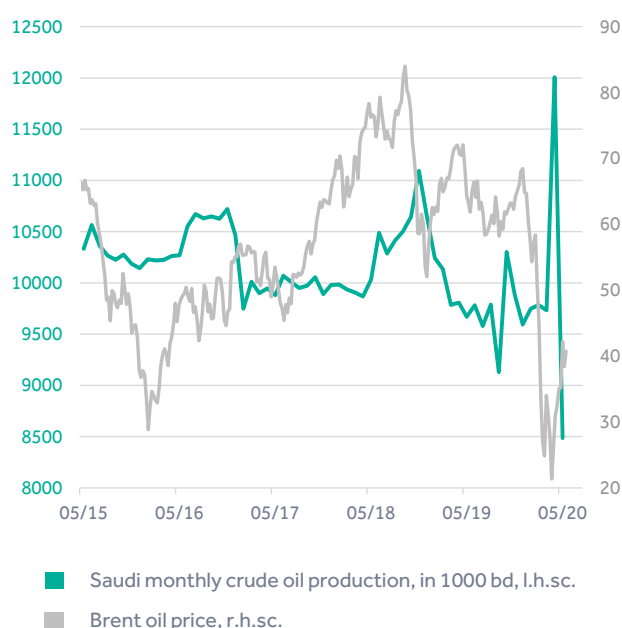
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Unprecedented Oil Production Cut to Rebalance the Market

- While the Saudi economy turned out to be still comparably robust in the first few months of 2020, more recent indicators of the non-oil economy, such as point-of-sales transactions and business climate indices, point towards a notable slowdown in the course of Q2 2020.
- Meanwhile, money supply growth continued to accelerate with M3 growing by 10.0%yoy in April. Credit to the private sector expanded by not less than 12.2%yoy in the same period - a growth rate last seen back in 2014.
- SAMA foreign currency reserves dropped by an unusually high total amount of 183bln SAR in March and April. However, this can largely be explained by a transfer of 150bln SAR from SAMA to PIF in the framework of a general foreign assets return optimization strategy.
- The historic OPEC+ agreement in April induced a significant Saudi production cut in May in an effort to rebalance global oil markets (see chart below). Meanwhile, oil prices considerably recovered from their lows in April.
- The Coronavirus outbreak caused the US Federal Reserve and SAMA to substantially cut their key interest rates in Spring. As a result, 3M SAIBOR dropped from 2.2% in January to 1.0% by mid-June. We expect SAIBOR to further slide in the next 12-18 months.
- The Saudi equity market was subject to notable corrections in March but managed to partly recover in April and May. From a fundamental perspective, the market looks rather expensive at this juncture.

Saudi Crude Oil Production and Oil Price

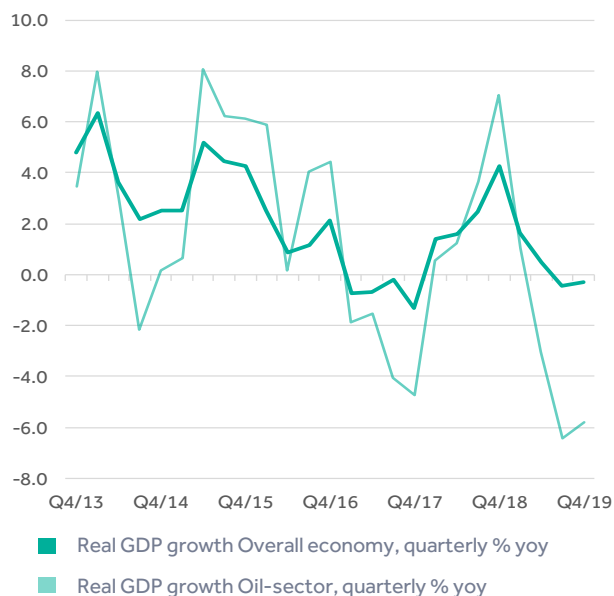


The historic OPEC+ agreement in April led to a sharp drop in Saudi crude oil production in May. On top, the Kingdom announced a further cut by 1 mbd for June. Overall, this represents an unprecedented effort to rebalance global oil markets.

source: JODI, Bloomberg

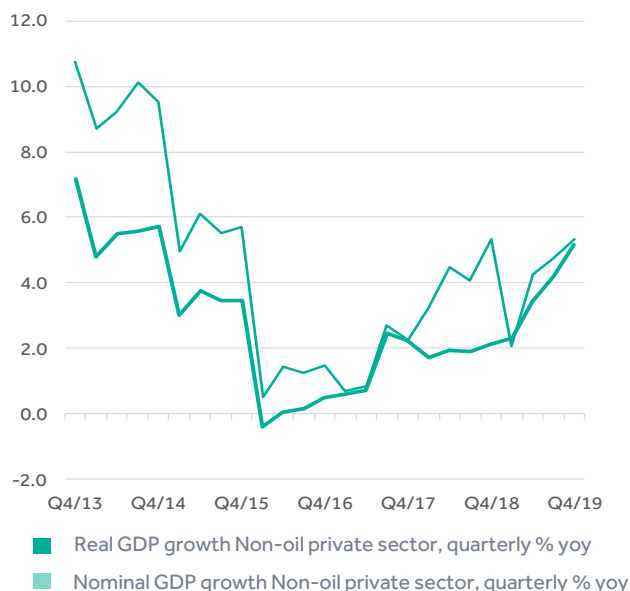
Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector



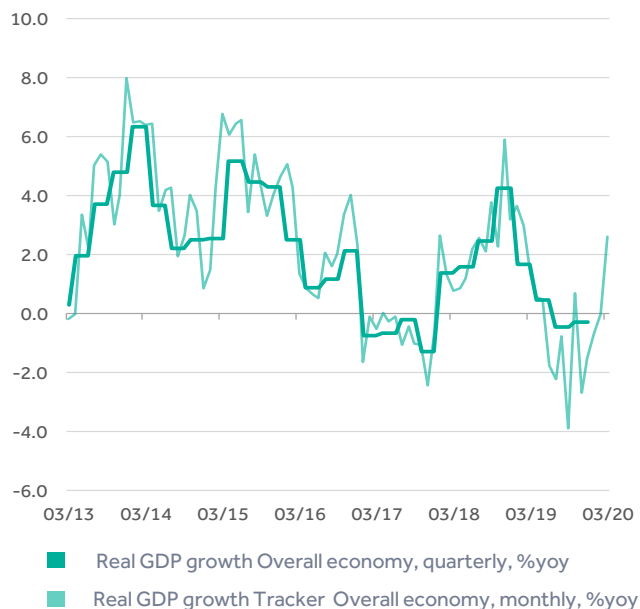
source: GASTAT

Figure 2:
Nominal and Real GDP Non-Oil Private Sector



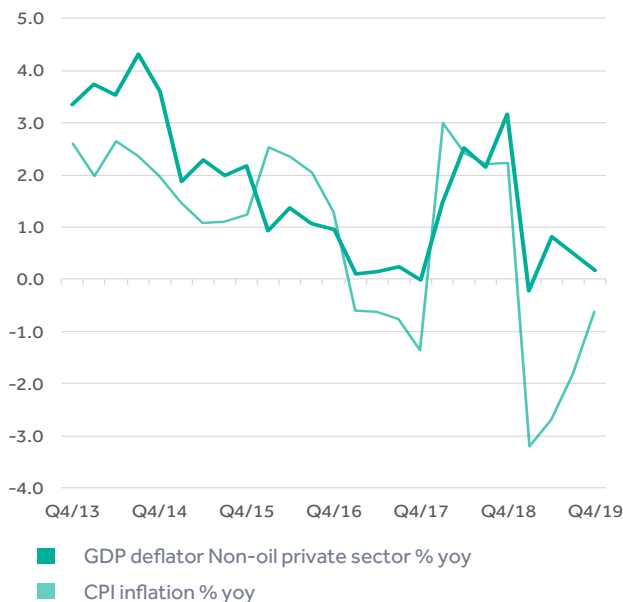
source: GASTAT

Figure 3:
Monthly GDP Tracker of Overall Economy



source: GASTAT, RC

Figure 4:
GDP Deflator and CPI Inflation



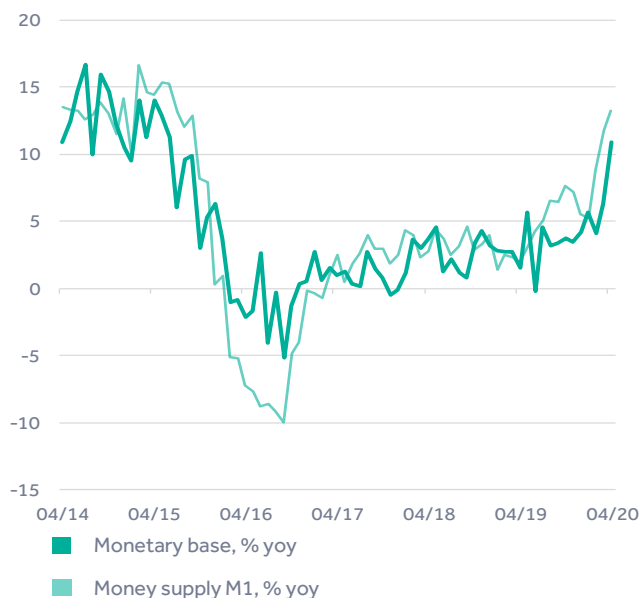
source: GASTAT

By end of last year, non-oil private sector growth reached 5.2% yoy - a growth level last seen in 2014. For Q1 2020, our GDP Tracker model for the overall economy indicates a growth recovery. Next to a

fading growth contraction of the oil sector, this can be explained by a still robust non-oil economy. The fallout of the Coronavirus outbreak is expected to notably affect Saudi GDP growth from Q2 2020.

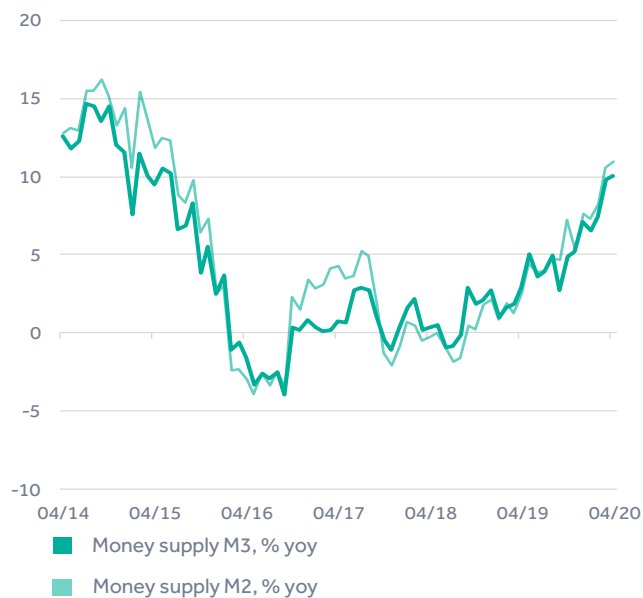
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Money Supply M1



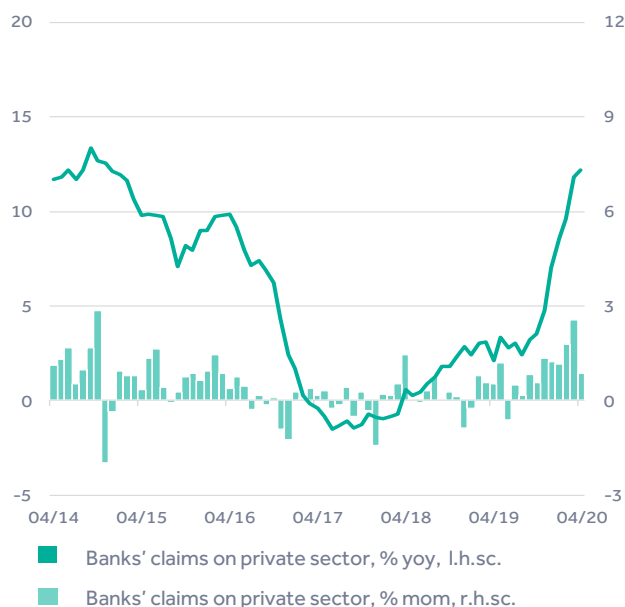
source: SAMA

Figure 2:
Growth Rate Money Supply M2 and M3



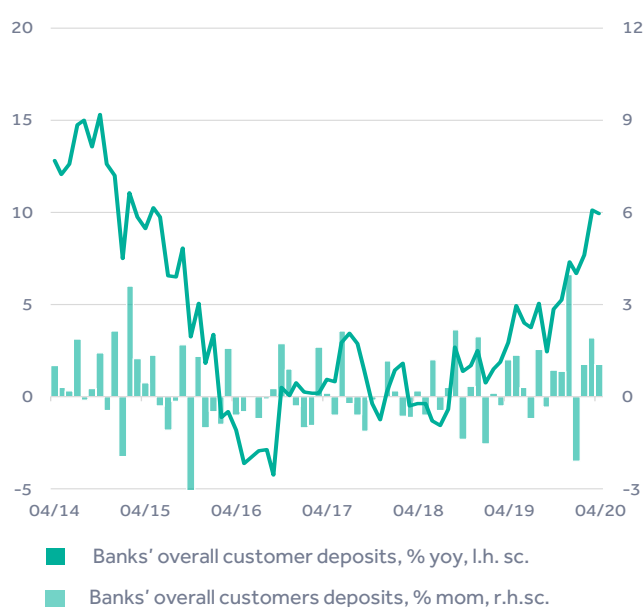
source: SAMA

Figure 3:
Growth of Credit to the Private Sector



source: SAMA

Figure 4:
Growth of Commercial Banks' Deposits



source: SAMA

In the first four months of the year, money supply growth continued to accelerate with M1 expanding in April by 13.2%yoy and M3 by 10.0%yoy. This can be explained by a strong growth pick-up of credit to

the private sector over this period (April 12.2%yoy). Accordingly, bank deposits expanded by 9.9%yoy which was primarily driven by a substantial growth of non-interest bearing demand deposits.

Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio

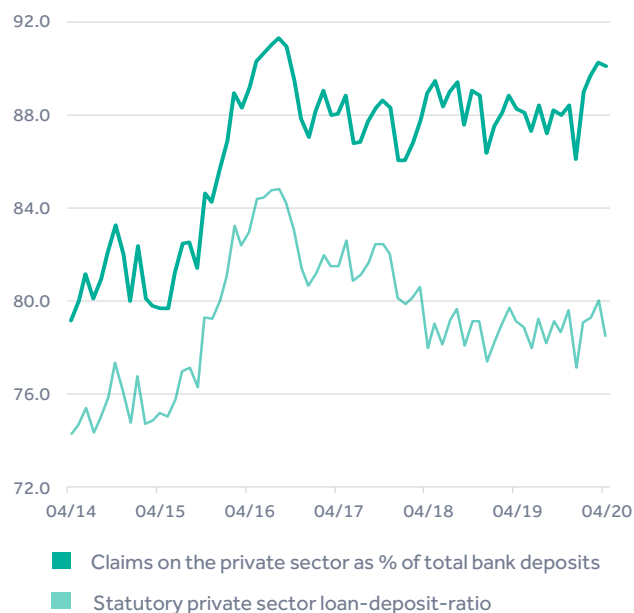


Figure 2:
Government Sector Loan-Deposit-Ratio

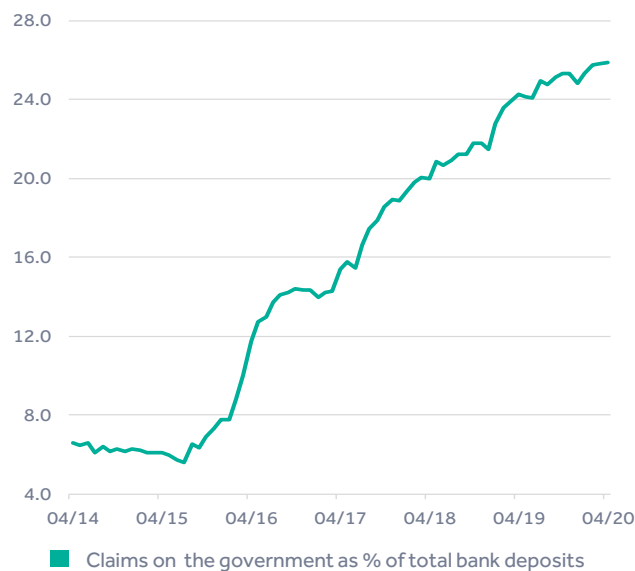


Figure 3:
Foreign Assets to Total Assets Ratio

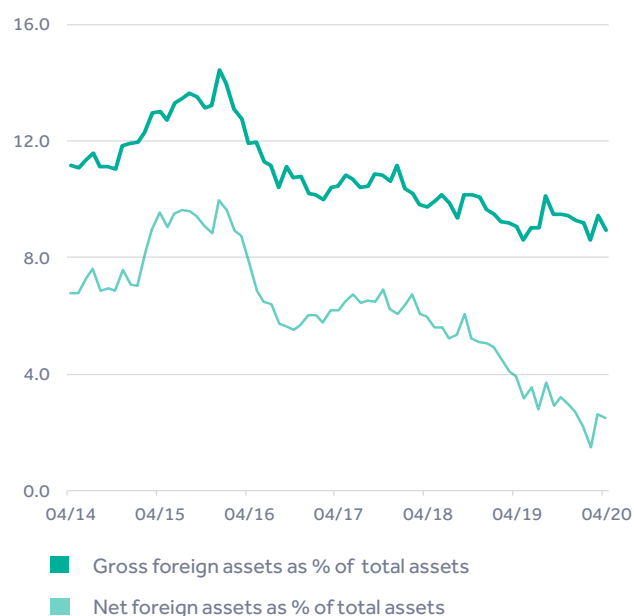
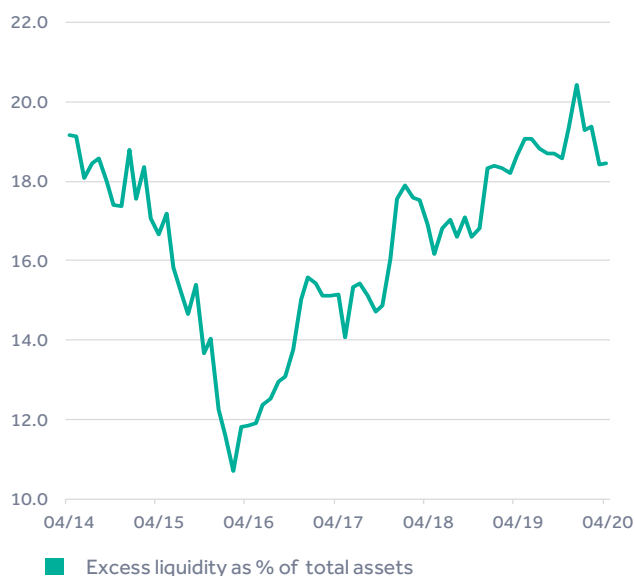


Figure 4:
Excess Liquidity to Total Assets Ratio



As growth rates of credit to the private sector exceeded bank deposit growth since the end of 2019, the private sector loan-deposit-ratio (LDR) picked up over this period. However, with a reading of

78.5% in April, the statutory LDR is still well below its regulatory cap at 90%. The decline of the banking sector's excess liquidity since end of 2019 is mainly due to a reduction of banks' deposits at SAMA.

SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA

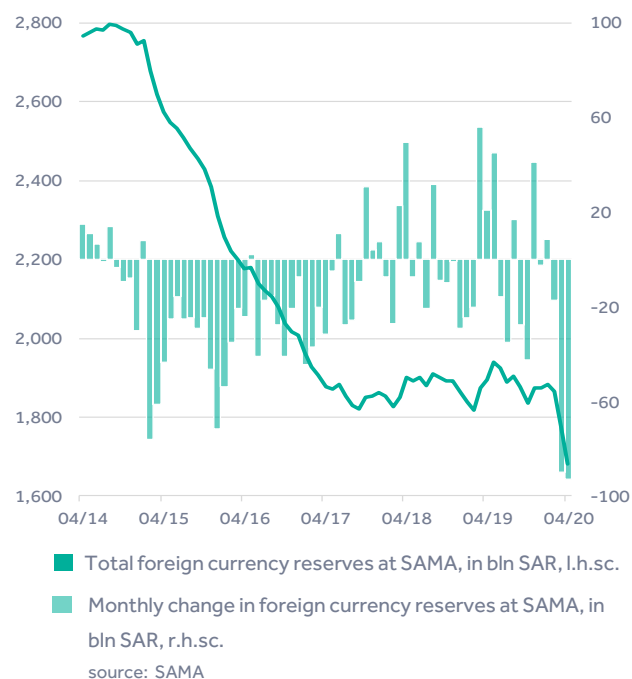


Figure 2:
Government Deposits at SAMA

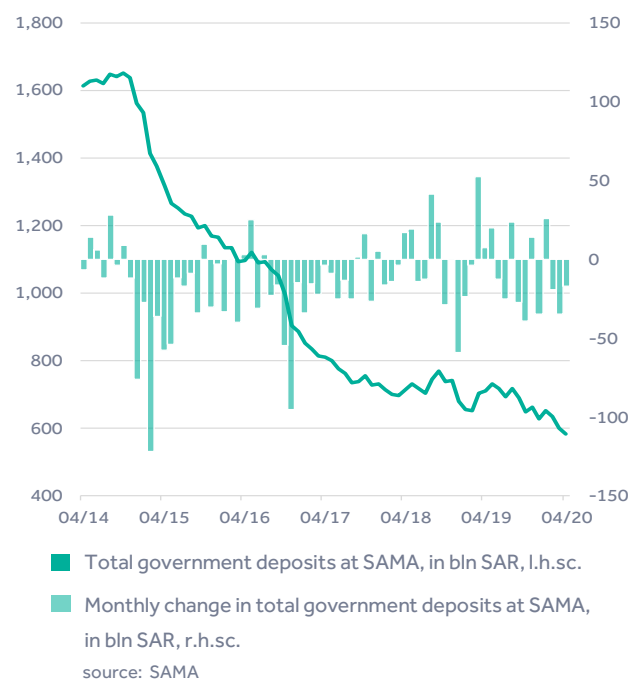


Figure 3:
Breakdown of Foreign Currency Reserves at SAMA

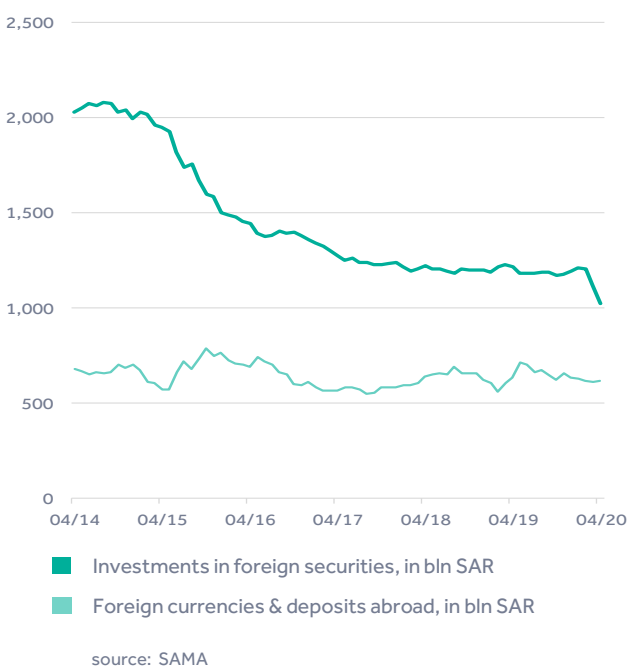
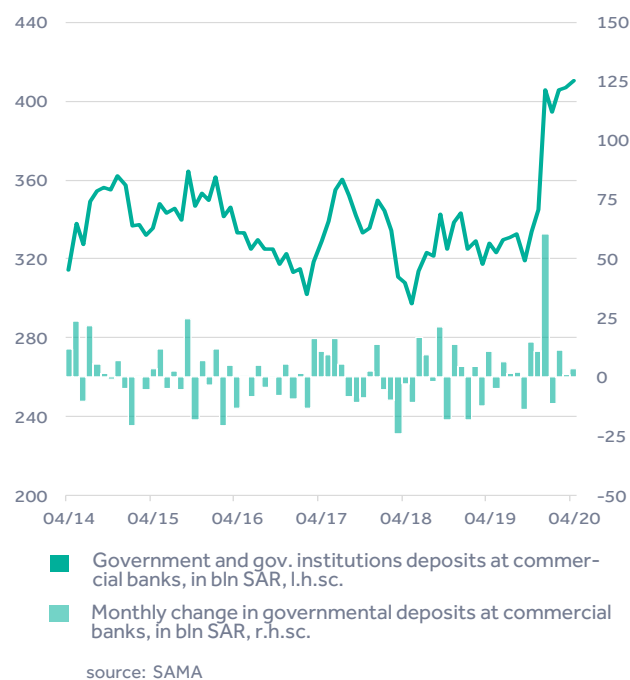


Figure 4:
Government Deposits at Commercial Banks

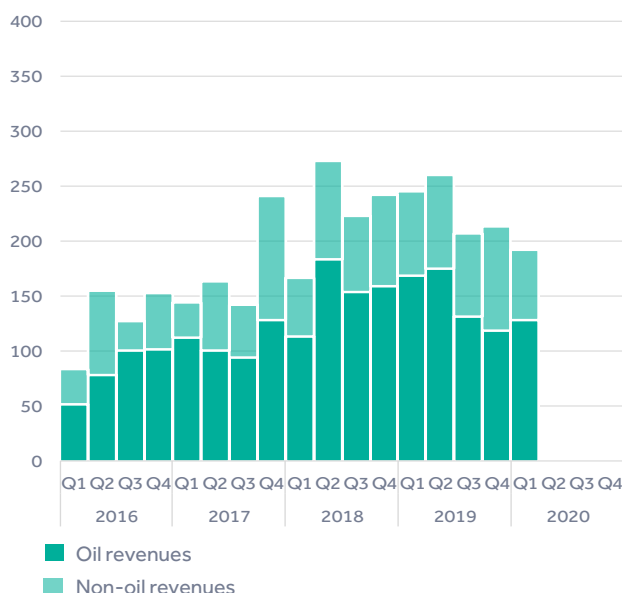


SAMA reported the largest two monthly foreign currency reserves outflows on record in March and April (90bln and 93bln SAR). However, this can almost entirely be explained by an extraordinary

transfer of 150bln SAR from SAMA to PIF. This transaction must be seen against the background of a general foreign assets return optimization strategy in an environment of low global interest rates.

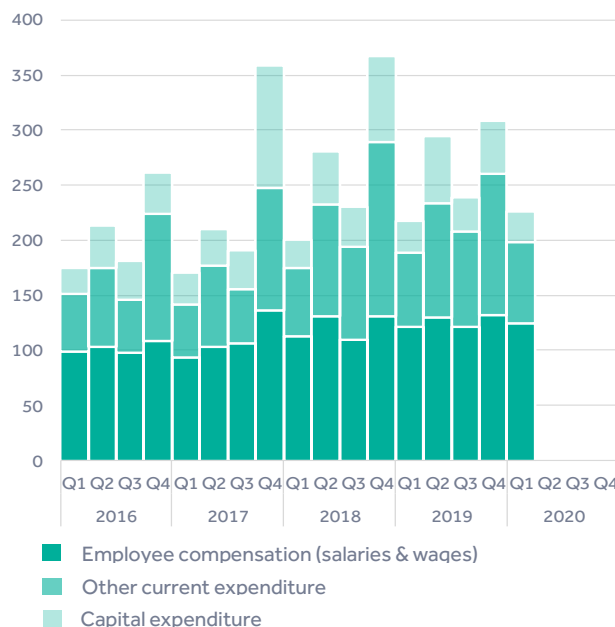
Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)



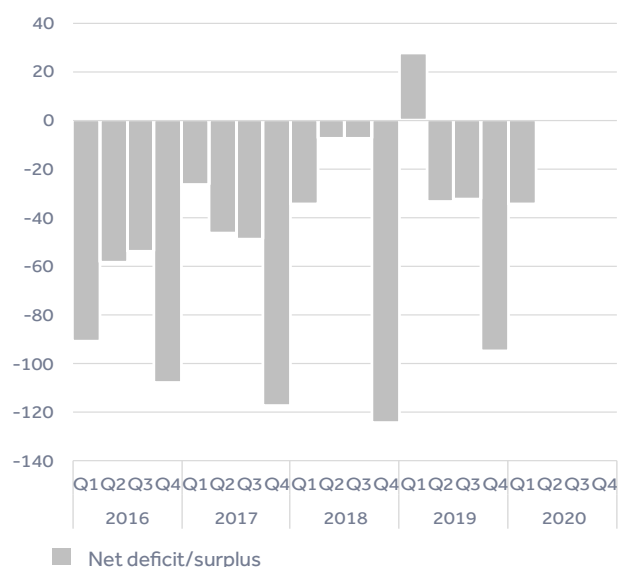
source: MoF

Figure 2:
Quarterly Fiscal Expenditure (in bln SAR)



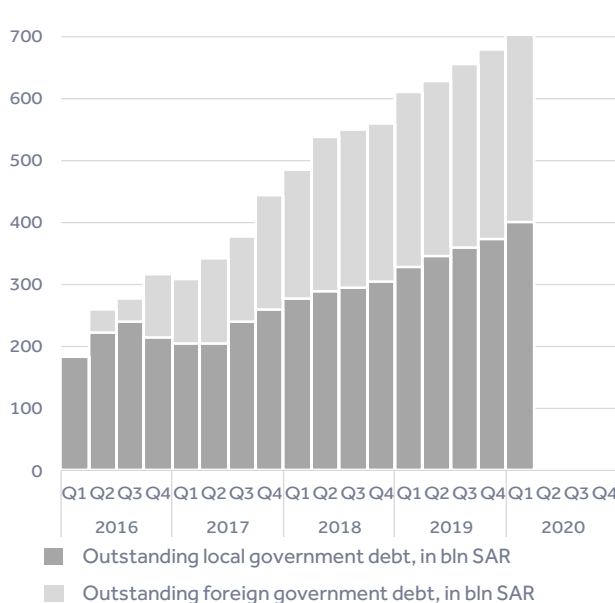
source: MoF

Figure 3:
Quarterly Fiscal Deficit/Surplus (in bln SAR)



source: MoF

Figure 4:
Outstanding Government Debt (End of Quarter)



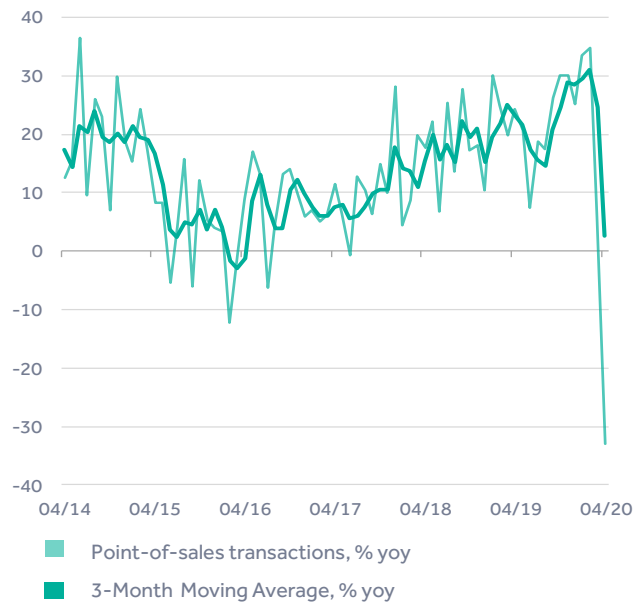
source: MoF

Fiscal revenues in Q1 2020 declined by 21.7% compared to Q1 2019, due to lower oil and non-oil revenues. Quarterly fiscal expenditure increased by 4.0% versus the previous year. As a result, the fiscal

deficit in Q1 2020 amounted to 34bln SAR. We expect this deficit to widen in the course of 2020 as fiscal revenues are clearly impacted by the fallout of the pandemic and by lower oil prices.

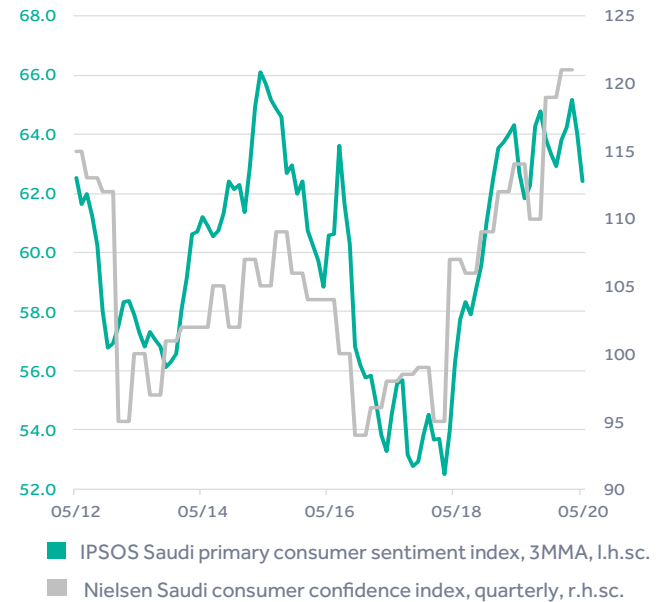
Private Spending Indicators and Non-Oil Foreign Trade

Figure 1:
Point-of-Sales Transactions



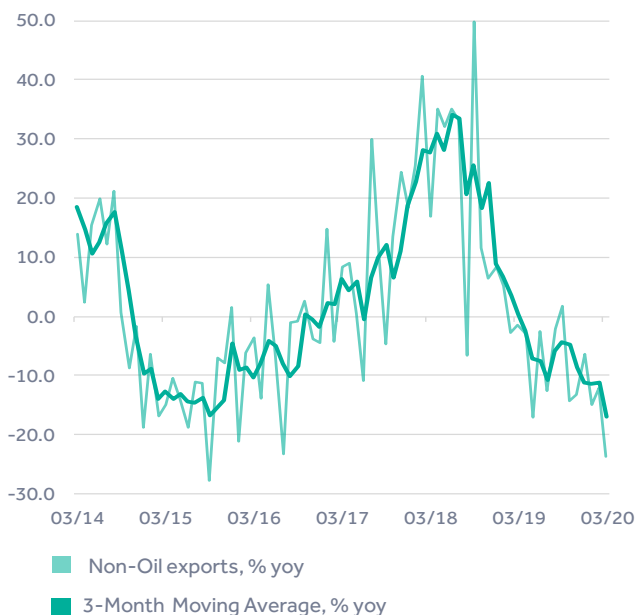
source: SAMA

Figure 2:
Consumer Sentiment



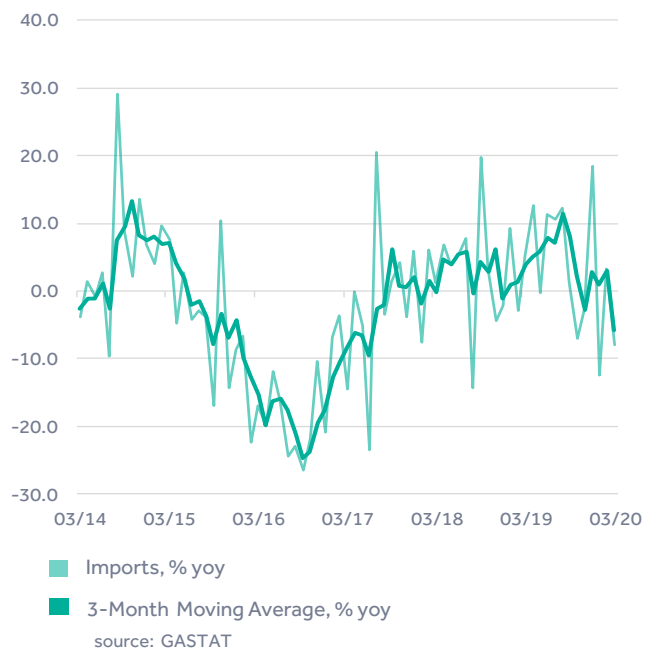
source: Refinitiv, Nielsen

Figure 3:
Growth of Non-Oil Exports



source: GASTAT

Figure 4:
Growth of Imports



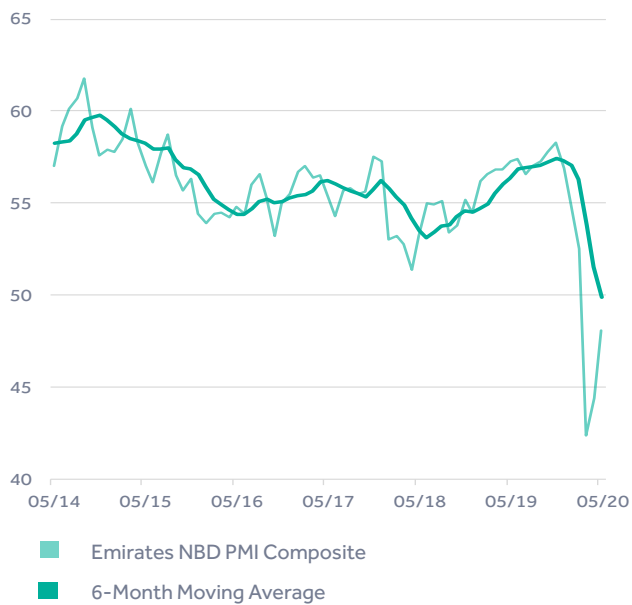
source: GASTAT

The economic shutdown due to the Coronavirus outbreak translated into a sharp drop of point-of-sales transactions by 33%yoy in April. Meanwhile, consumer sentiment started to falter in Q2 2020,

based on the IPSOS survey. Non-oil exports continued to decline on the back of a weaker global economy and challenging global market conditions specifically for petrochemical export products.

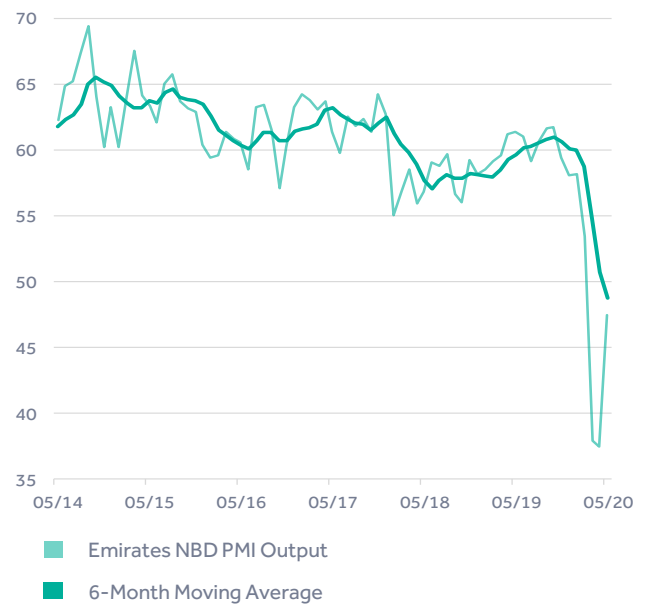
Non-Oil Private Sector Business Climate Indicators

Figure 1:
Purchasing Manager Index Composite



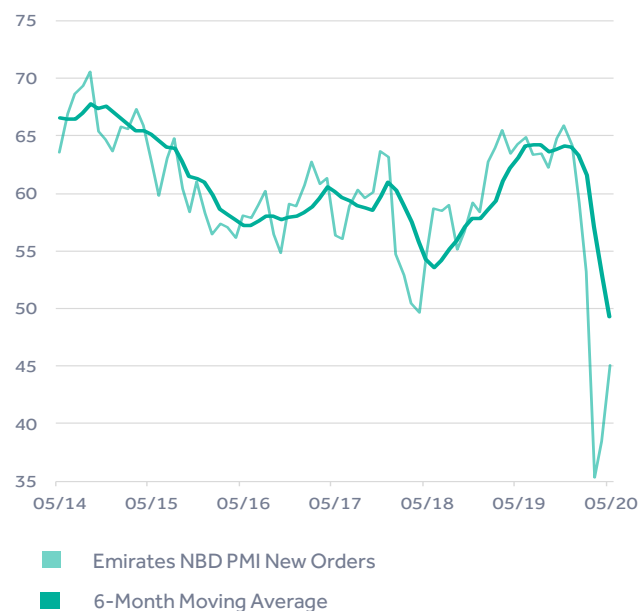
source: Markit

Figure 2:
Purchasing Manager Index Output



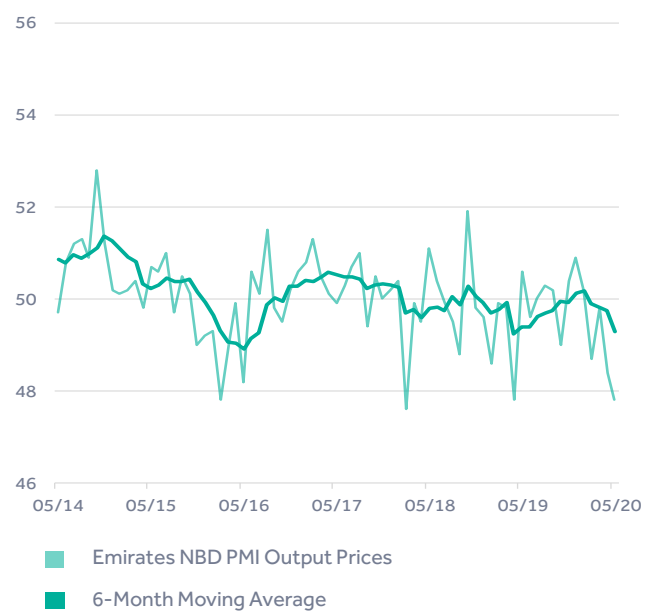
source: Markit

Figure 3:
Purchasing Manager Index New Orders



source: Markit

Figure 4:
Purchasing Manager Index Output Prices



source: Markit

The business climate of the non-oil economy, measured by the Purchasing Manager Index (PMI), further improved in May to 48.1 from a trough at 42.4 in March. However, the latest reading, being

still below the threshold of 50, continues to indicate economic contraction in Q2 2020. The economic slowdown also leads to fading pricing power, reflected in the recent decline of PMI output prices.

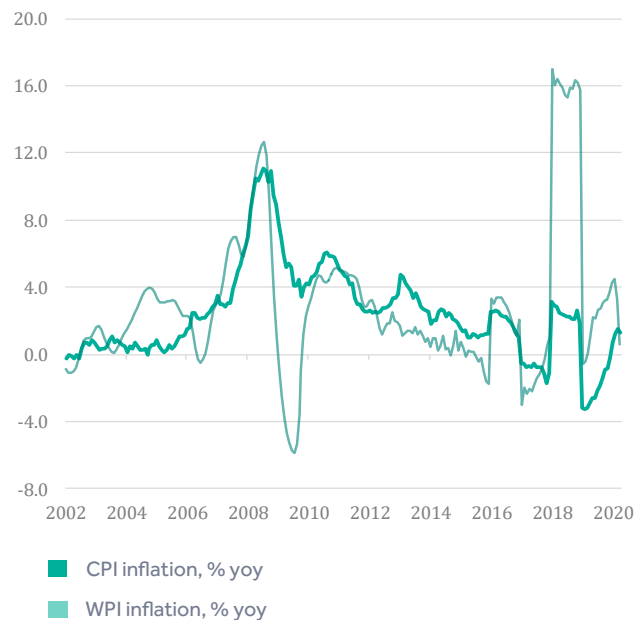
Consumer and Wholesale Price Inflation

Figure 1:
Consumer Price Inflation All Items



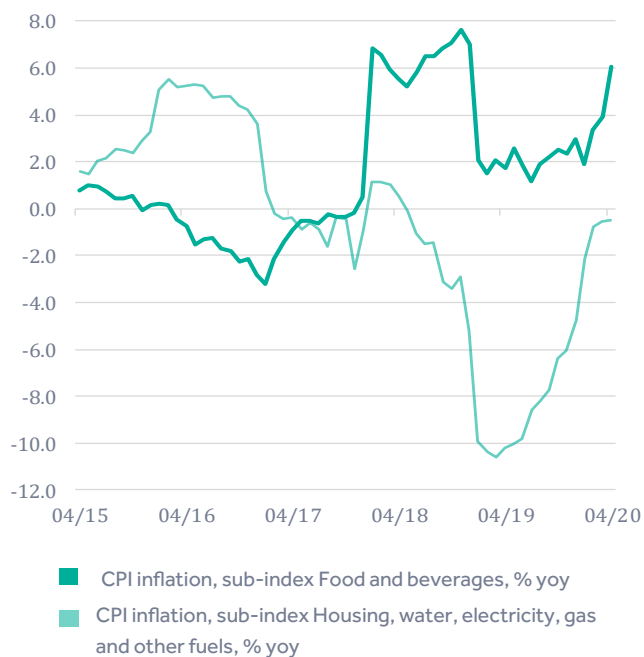
source: GASTAT

Figure 2:
Consumer Price and Wholesale Price Inflation



source: GASTAT

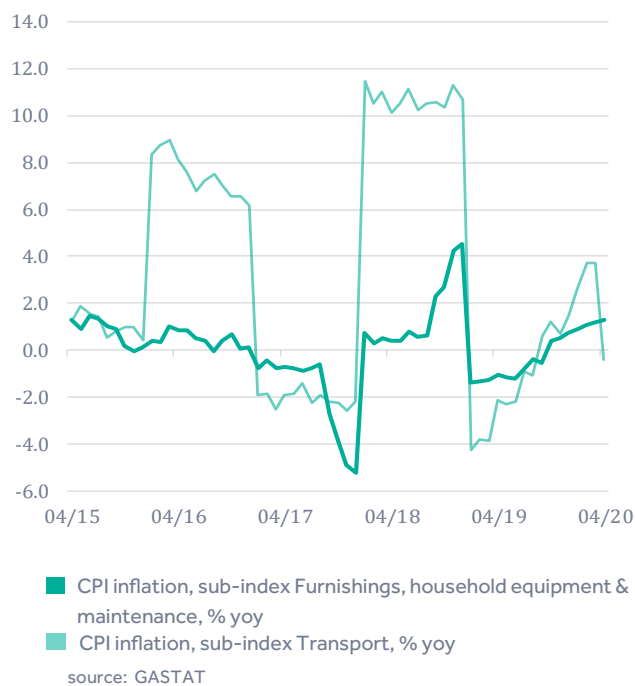
Figure 3:
CPI Inflation Food & Housing



source: GASTAT

CPI inflation has gradually eased in April to 1.3%yoy from 1.5% in March. However, from a medium-term perspective, inflation has rebounded since the deflation period last year. Specifically, food&beverage

Figure 4:
CPI Inflation Furnishings & Transportation



source: GASTAT

prices notably picked up to 6.0%yoy in April. The VAT rate increase from 5% to 15% by mid-year will, according to our estimates, lead to bounce of CPI inflation to approximately 8%yoy in July.

Real Estate Market: Transaction Activity

Figure 1:
Quarterly Real Estate Transactions Overall Country

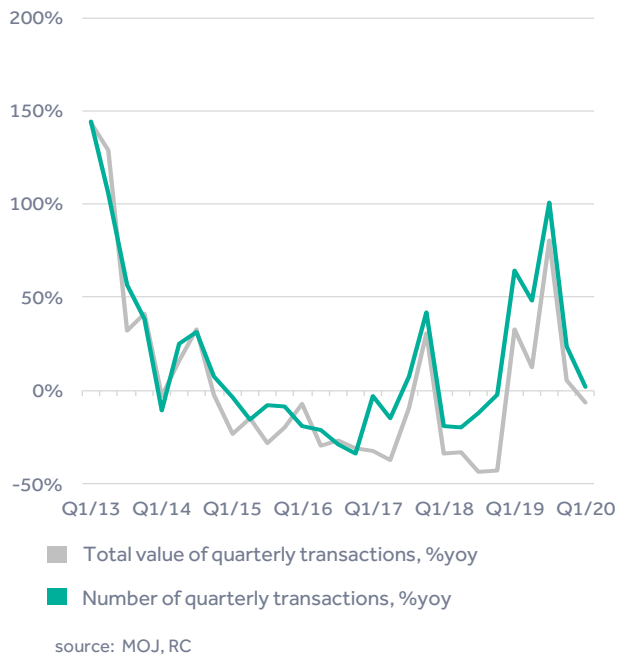


Figure 2:
Quarterly Residential Real Estate Transactions

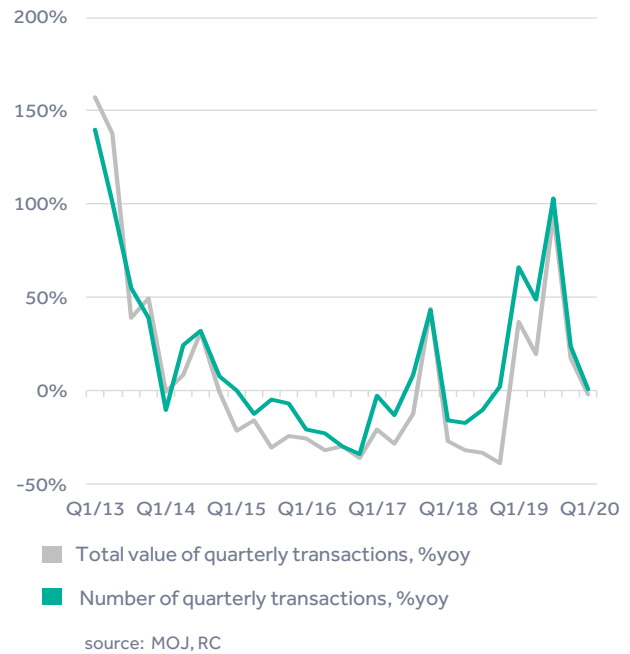


Figure 3:
Quarterly Commercial Real Estate Transactions

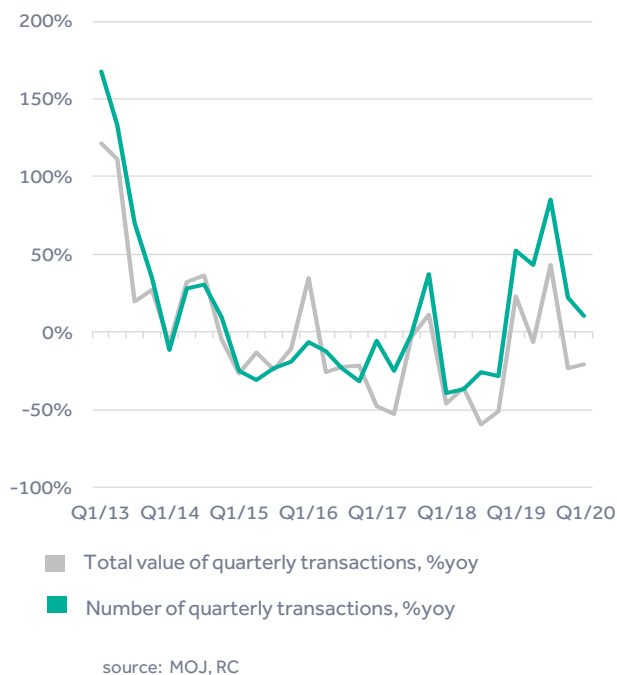
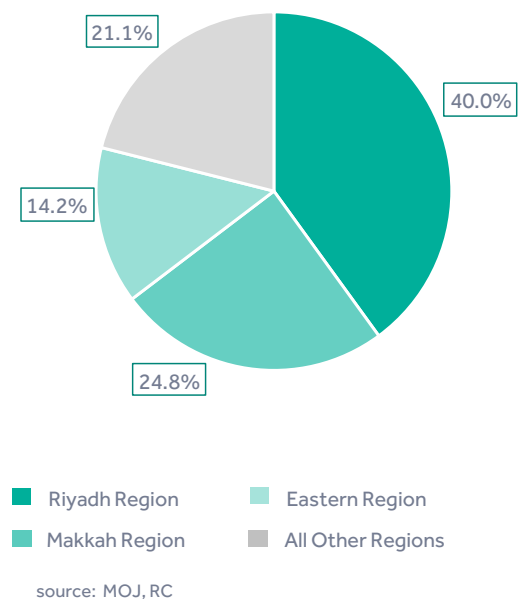


Figure 4:
Breakdown of Transaction Value by Regions (Q1 2020)



The growth rate of real estate transactions continued its slide which had started in Q4 2019 with transaction turnover declining in Q1 2020 by -6.8% yoy, while the number of transactions slowed to

1.8%yoy. The reduction in turnover was more pronounced in the case of commercial property with a decline of -20.8% vs. a marginal drop of residential property transaction volume of -2.0% in Q1 2020.

Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices

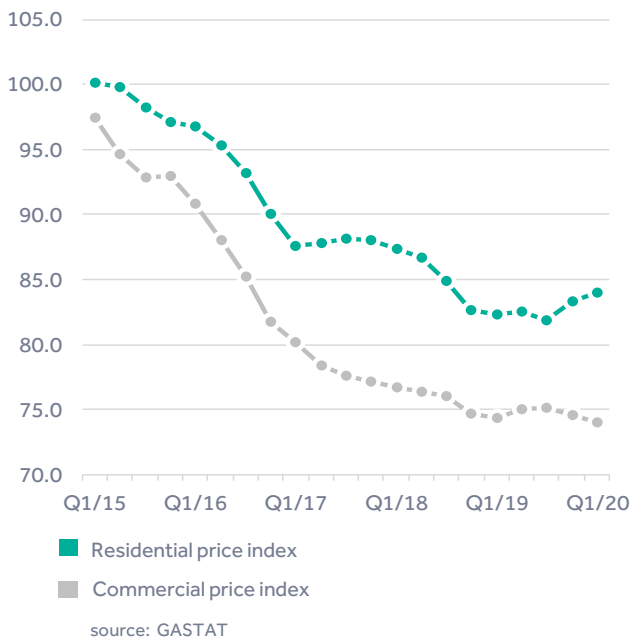


Figure 2:
Residential and Commercial Land Price Indices

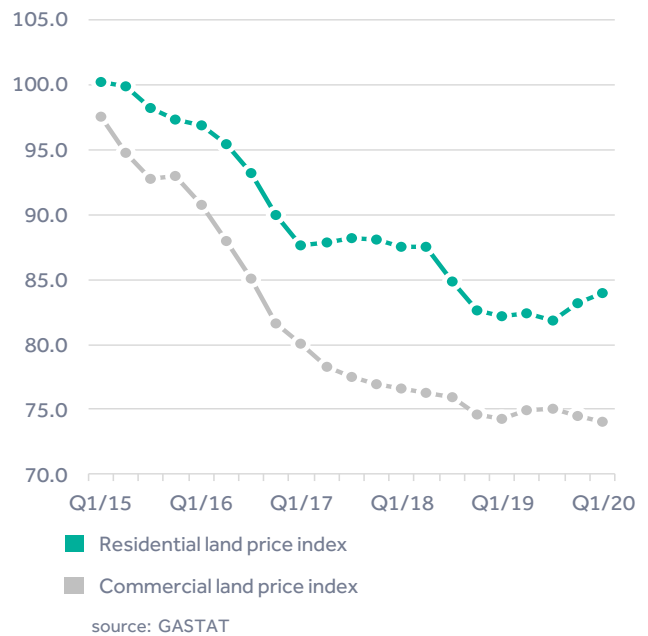


Figure 3:
Residential Villas and Apartments Price Indices

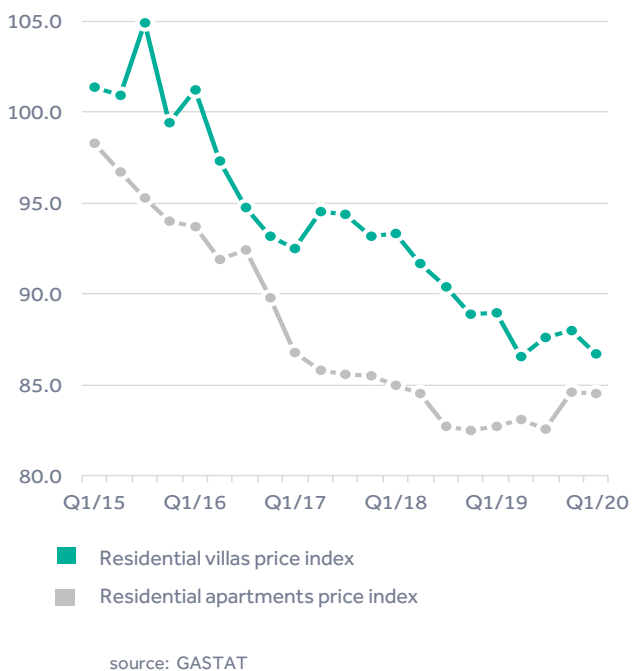
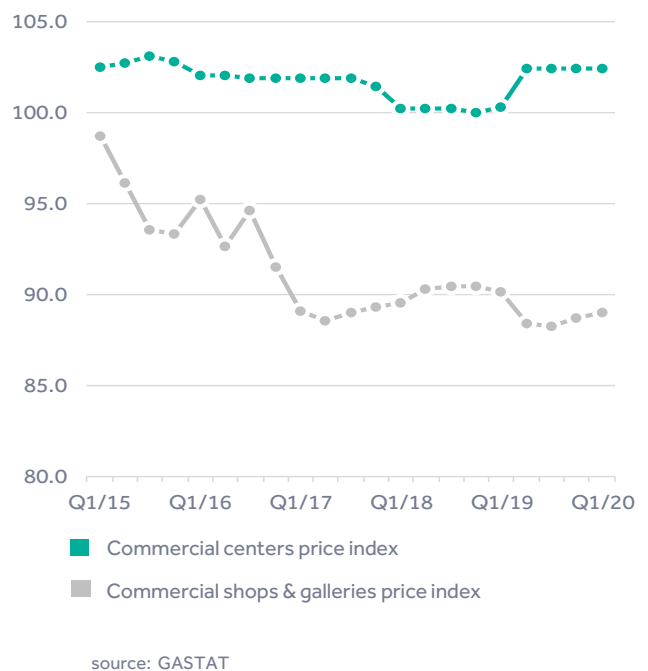


Figure 4:
Commercial Shops and Centers Price Indices

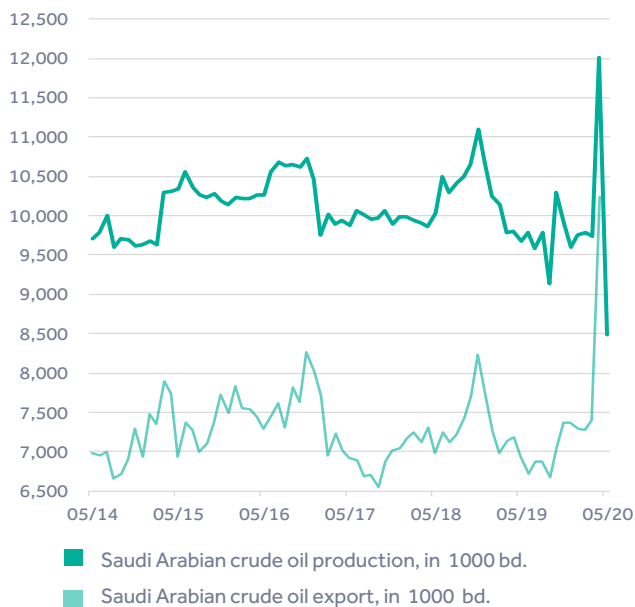


Real estate sales price data for Q1 2020 confirm that the Saudi real estate market is stabilizing after the protracted decline since 2014. Residential prices gradually picked up in Q1 2020 by 0.8% vs. the

previous quarter and by 2.1% vs. the previous year. Commercial real estate prices marginally declined by -0.8% vs. Q4 and by -0.5% vs. Q1 2019. These data also reflect the trend in land price indices.

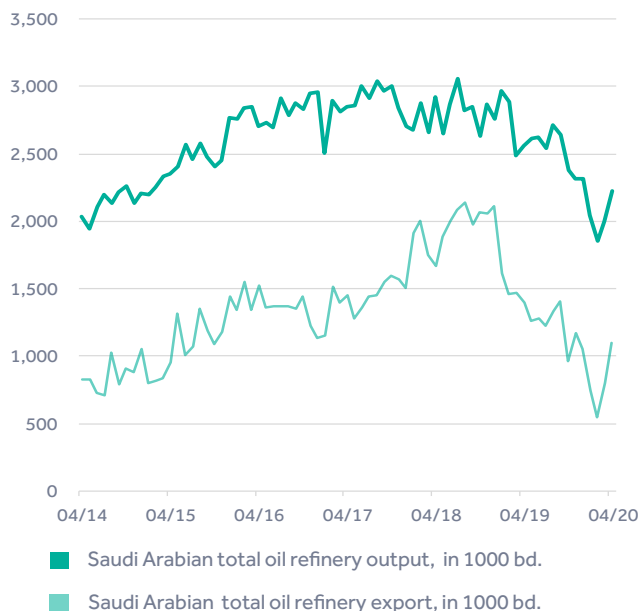
Oil Market Statistics: Production, Exports, Refinery and Prices

Figure 1:
Saudi Crude Oil Production and Exports



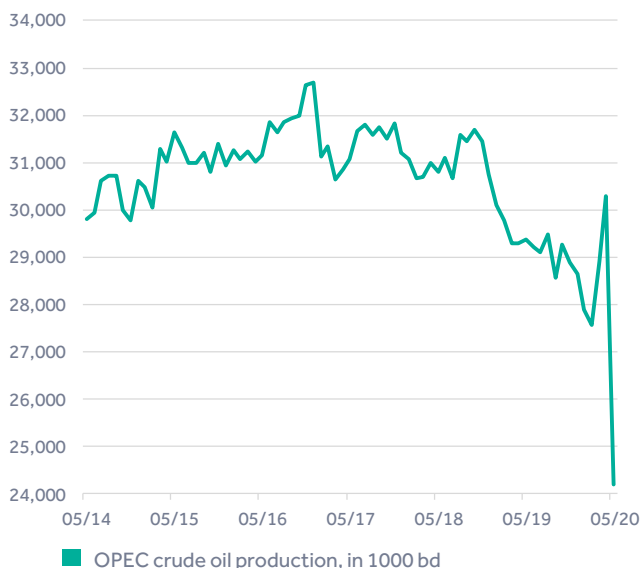
source: JODI, Bloomberg

Figure 2:
Saudi Crude Refinery Output and Exports



source: JODI

Figure 3:
OPEC Crude Output



source: JODI, Bloomberg

Figure 4:
Oil Prices



source: Bloomberg

Saudi crude oil production temporarily peaked at 12.0 mbd in April. The implementation of the new OPEC+ agreement translated into a sharp production cut towards 8.5 mbd in May. A further reduction

by 1mbd has been announced for June. OPEC crude production declined from 30.4 mbd in April to 24.2 mbd in May. Meanwhile, oil prices substantially recovered from their multi-year lows in April.

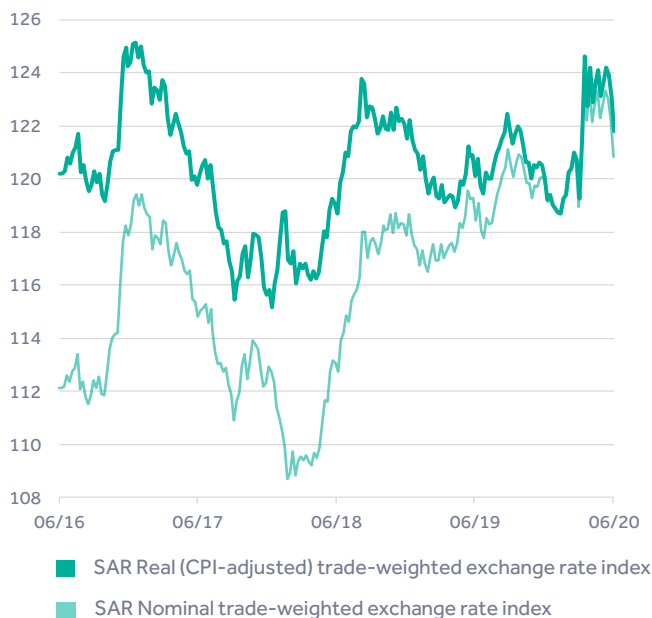
Foreign Exchange: Forward Rates and Effective Exchange Rate Index

Figure 1:
12-Months Forward Exchange Rate USD/SAR



source: Bloomberg

Figure 2:
SAR Nominal and Real Effective Exchange Rate



source: Bloomberg, JP Morgan

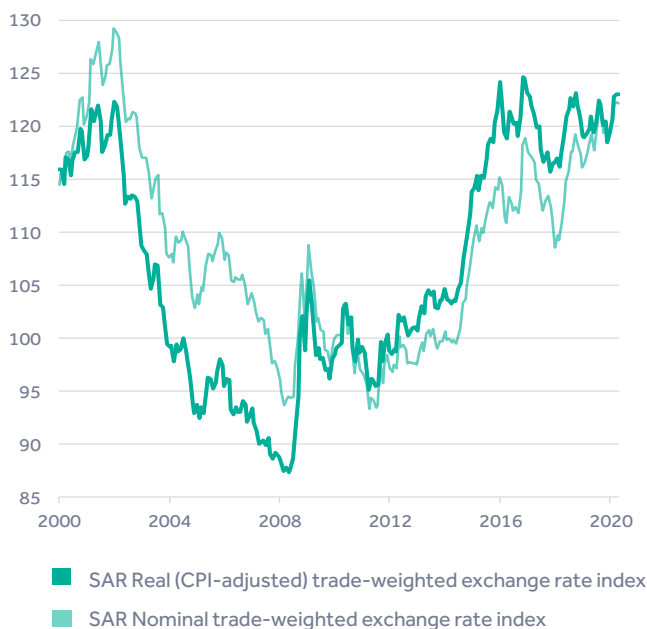
Figure 3:
12-Months Forward Exchange Rate USD/SAR in the Long Term



source: Bloomberg

The FX-forward rate for USD/SAR temporarily rose to 3.78 in March on the back of increased global market volatility due to the pandemic outbreak, but has gradually receded since then. Similarly, the USD

Figure 4:
SAR Nominal and Real Effective Exchange Rate in the Long Term



source: Bloomberg, JPMorgan

strength in March led to a temporary appreciation of the trade-weighted SAR exchange rate index which, however, reverted subsequently due to a wide spread USD weakness in the following months.

Interest Rates: Money Market, Capital Market and Central Bank Rates

Figure 1:
3-Months SAIBOR vs. USD LIBOR

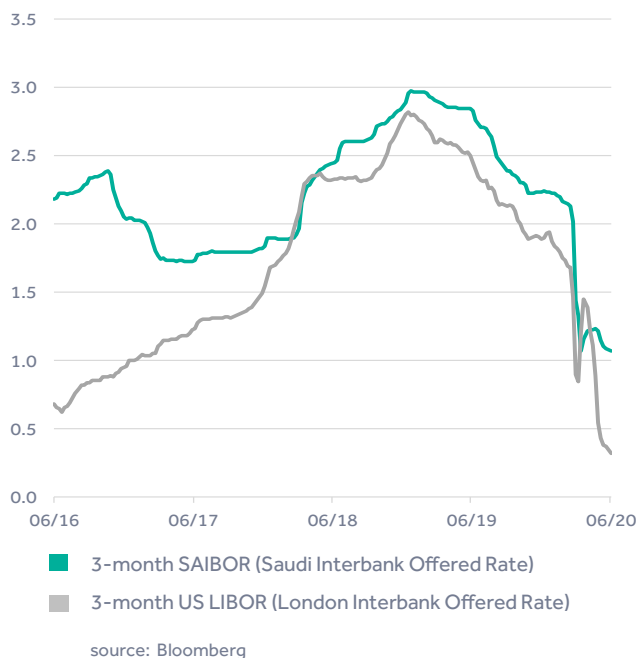
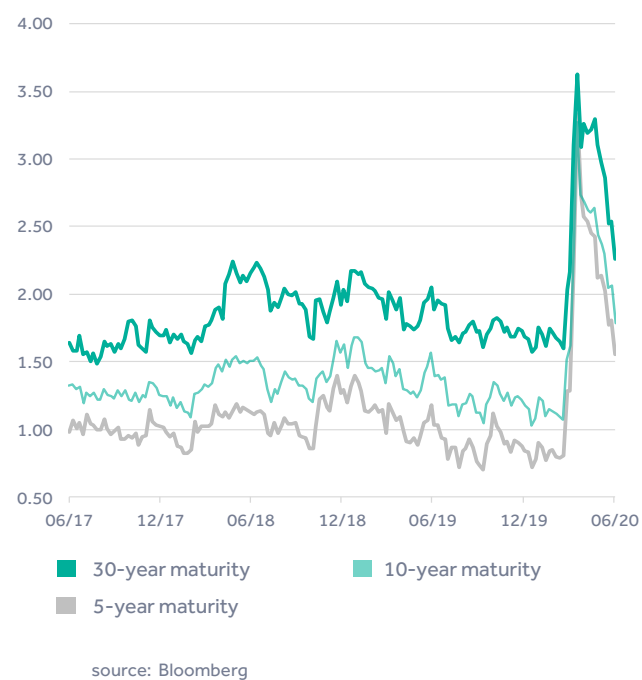


Figure 2:
5-Year Swap Rate SAR vs. USD

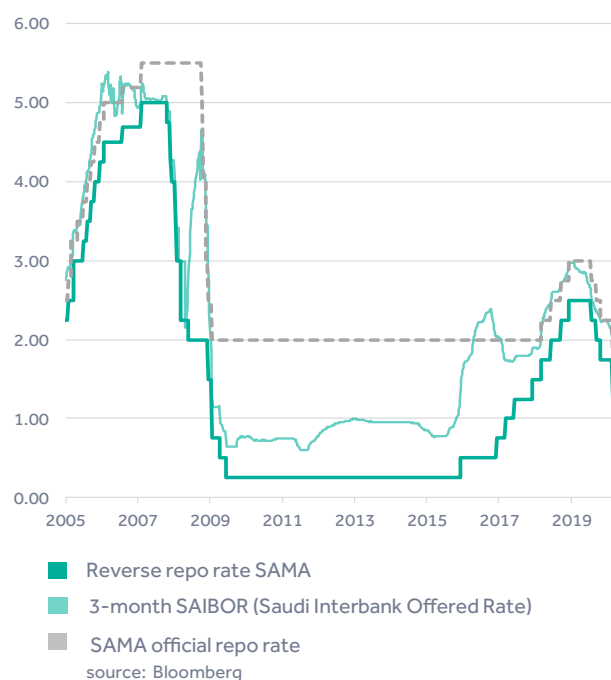


Figure 3:
KSA USD-Bonds Yield Spread to US Treasuries



In March, the US Federal Reserve cut its key interest rates in two steps by overall 150bp. Accordingly, SAMA reduced its key rates by 125bp. This caused USD and SAR short-term interest rates to

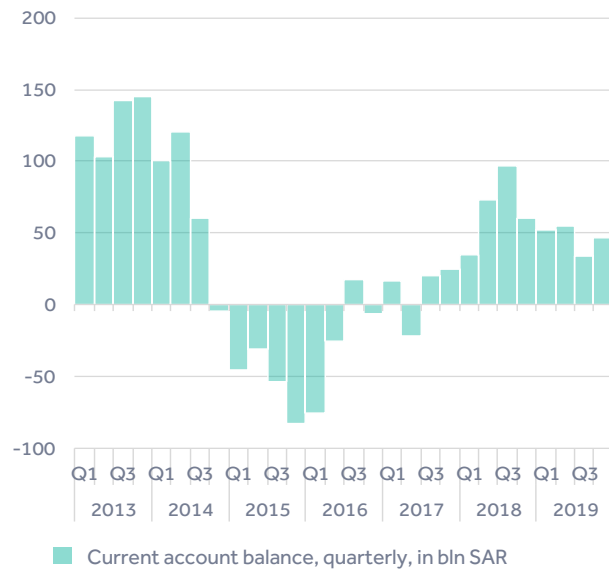
Figure 4:
Central Bank Rate and 3-Months SAIBOR



drop sharply while the SAIBOR-LIBOR spread gradually widened. The market volatility in March also led to a temporary yield expansion between Saudi USD government bonds and US Treasury debt papers.

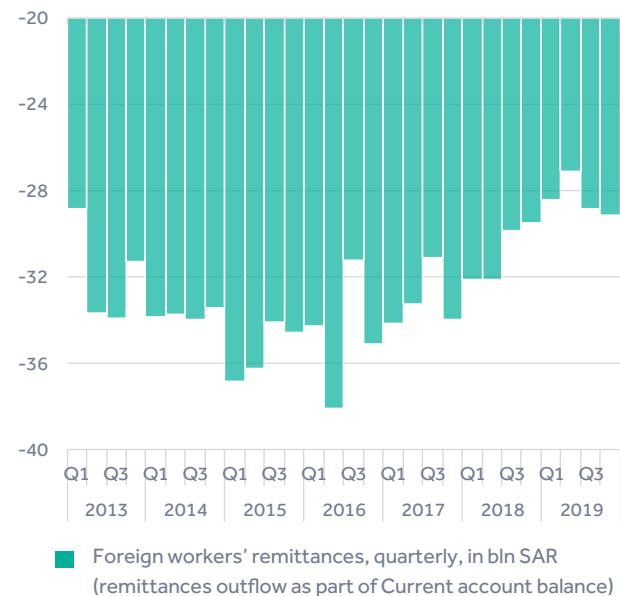
Saudi Balance of Payments

Figure 1:
Current Account Balance



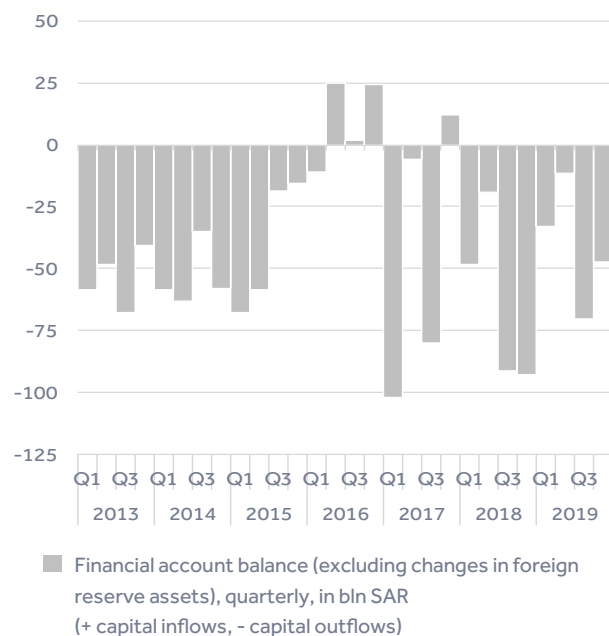
source: SAMA

Figure 2:
Foreign Workers' Remittances



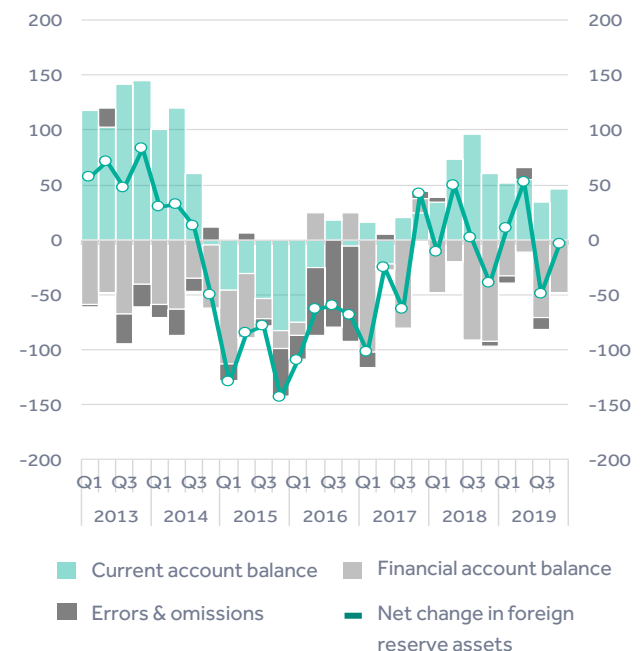
source: SAMA

Figure 3:
Financial Account Balance



source: SAMA

Figure 4:
Contribution to Balance of Payments (in bln SAR)



source: SAMA

Last year, the Saudi current account balance reached a solid surplus of 187bln SAR, equivalent to 6.3% of GDP. For 2020, we expect the current account balance to turn to a deficit due to sharply low-

er oil prices and reduced non-oil exports. Meanwhile, the 150 bln SAR transfer from SAMA balance sheet to PIF in Spring will technically lead to a widening of the financial account deficit in H1 2020.

Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index



Figure 2:
Tadawul Average Daily Traded Value

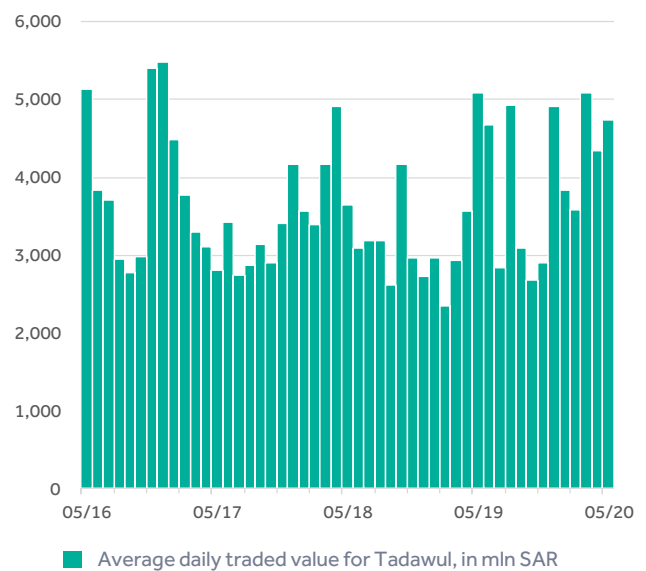


Figure 3:
Weekly Net Purchase by Ownership (in bln SAR)

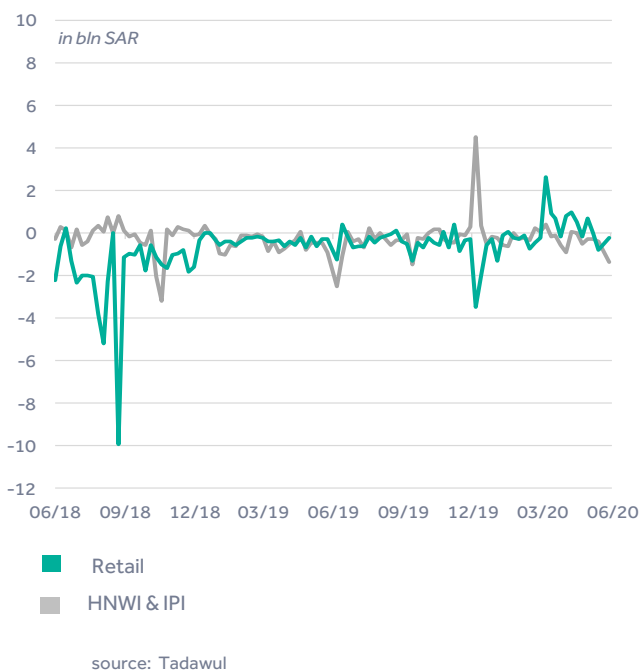
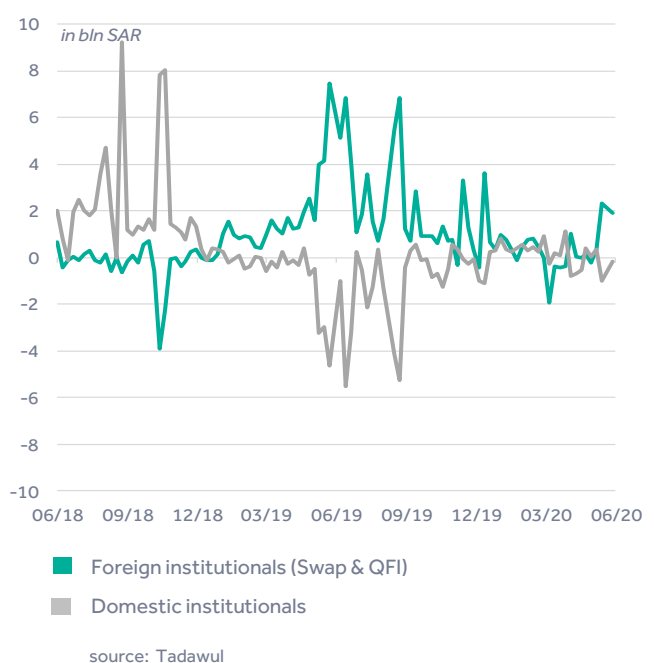


Figure 4:
Weekly Net Purchase by Ownership (in bln SAR)

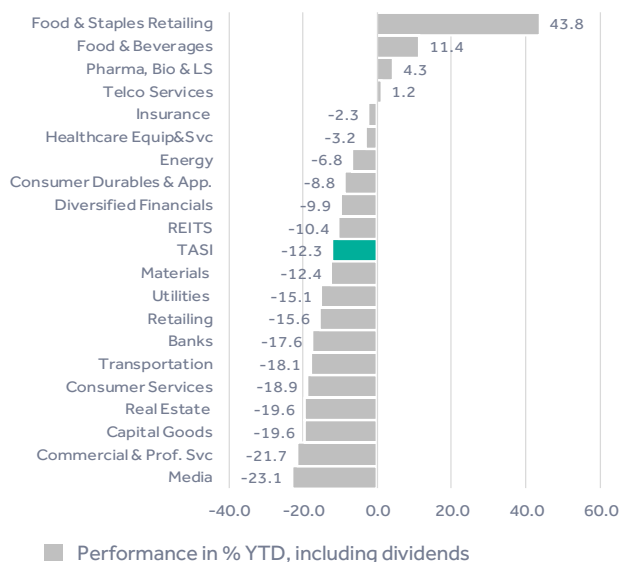


The Saudi equity market was subject to corrections in Q1 2020 due to the expected economic fallout of the pandemic outbreak. In Q2, the market managed so far to gradually recover from its lows. Meanwhile,

market turnover rose remarkably in the recent months. During the correction phase, retail investors turned out as major net buyers, while most recently, foreign investors have taken on this role.

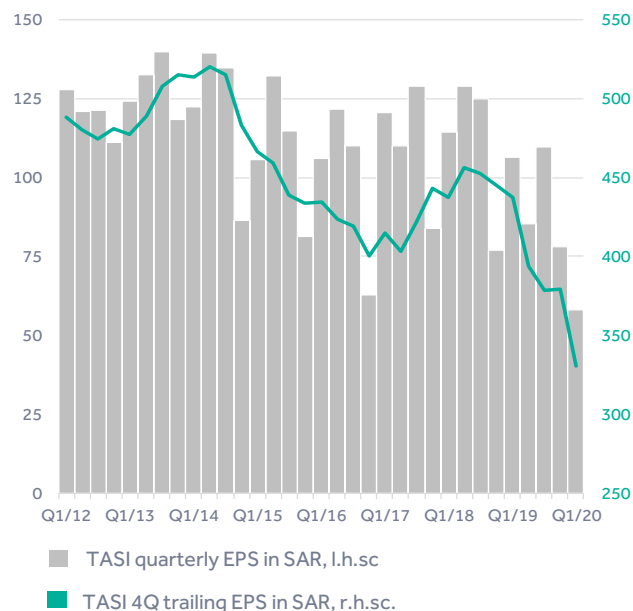
Tadawul: Saudi Equity Market Statistics

Figure 1:
Performance TASI Sectors May 2020YTD



source: Bloomberg

Figure 2:
Quarterly Earnings TASI



source: Bloomberg

Figure 3:
Valuation TASI: PE-Ratio Trailing



source: Bloomberg

Figure 4:
Valuation TASI: PE-Ratio Forward



source: Bloomberg

In the first five months of 2020, food producers and retailers were the top performing sectors of TASI, while more cyclical sectors, such as capital goods and real estate developers, underperformed. TASI

earnings declined in Q1 2020 by -45% vs. Q1 2019. For the full year 2020, they are expected to drop by about 20%. This translates into an expensive valuation on the basis of the 12M forward PE-ratio.

Saudi Economic Outlook

In 2020, the Saudi economy is affected by two major factors: The fallout of the Coronavirus outbreak and the decline of oil prices due to the global economic shutdown.

In our baseline scenario, the non-oil private sector economy is expected to notably slow down with a cyclical trough in the second quarter and a gradual recovery towards the end of the year. For the full year 2020, we forecast non-oil private sector growth to contract by -4.6%.

Based on the assumption that the impact of the Coronavirus pandemic will fade in 2021, we project a recovery of the non-oil private sector in the course of next year with a full year growth rate of 4.0%

On the back of the OPEC+ output cut agreement the Saudi oil production is expected to decline in 2020 which will translate into a negative GDP growth contribution by the oil sector of -3.2%. For next year, we project a rebound in the order of 3.4%.

As a result, GDP growth of the overall economy is forecasted to decline by -3.3% in 2020 and projected to recover to 3.4% next year.

The fiscal deficit is forecasted to widen to -12.7% of GDP due to distinctly lower oil and non-oil revenues in 2020. The expected economic recovery and higher oil prices will lead to a notable reduction of the fiscal deficit to -7.4% of GDP in 2021.

We expect oil prices to further recover in H2 2020 and forecast Brent prices to reach 50USD by end of the year. For 2021, our baseline scenario projects an average Brent price of 53USD.

CPI inflation is forecasted to notably pick up in 2020 due to the VAT rate increase in July. For the full year 2020, we expect an average inflation of 5.1% after a negative rate of -2.1% in 2019.

As this VAT rate hike is introduced by mid-year, inflation will remain elevated in the first half of next year which will keep the average inflation rate close to 5% also in 2021.

The US Federal Reserve is expected to keep interest rates unchanged at least until 2022. As a result, SA-MA will also leave its repo and reverse repo rate at current levels. Hence, we expect 3M SAIBOR to gradually decline to 0.75% until end of next year.

Facts and Forecasts at a Glance

	2018	2019	2020f	2021f
Real GDP Growth				
Overall economy	2.4	0.3	-3.3	3.4
Non-oil Private sector	1.9	3.8	-4.6	4.0
Government sector	2.9	2.2	-0.5	2.1
Oil sector	3.1	-3.6	-3.2	3.4
Fiscal Balance and Government Debt				
Fiscal Balance in bln SAR	-174	-133	-322	-214
Fiscal Balance in % GDP	-5.9	-4.5	-12.7	-7.4
Government debt in bln SAR	560	678	898	1048
Government debt as % GDP	19.0	22.8	35.5	36.1
Trade and Current Account				
Trade Balance in bln SAR	633	485	183	327
Trade Balance in % GDP	21.5	16.3	7.2	11.3
Current Account in bln SAR	265	187	-85	52
Current Account in % GDP	9.0	6.3	-3.3	1.8

source: GASTAT, SAMA, RC

	2018	2019f	2020f	2021f
Oil Prices and Production (yearly average)				
Brent price (USD pb)	71.7	64.1	41.0	53.0
WTI price (USD pb)	64.9	57.0	37.0	51.0
OPEC Basket price (USD pb)	69.8	64.0	40.0	52.0
KSA oil production (mln bd)	10.3	9.8	9.2	9.5
Inflation and Interest Rates (year end)				
CPI Inflation (yearly average)	2.46	-2.09	5.10	4.90
3M SAIBOR SAR	2.98	2.23	0.85	0.75
Reverse Repo Rate	2.50	1.75	0.50	0.50
Official Repo Rate	3.00	2.25	1.00	1.00
Labor Market (yearly average)				
Unemployment rate total in %	6.0	5.6	5.7	5.6
Unemployment rate Saudi in %	12.8	12.2	12.3	12.2
Labor force part. total in %	56.0	57.9	58.9	59.1
Labor force part. Saudi in %	42.0	44.9	46.9	47.2

source: GASTAT, SAMA, Bloomberg, RC

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