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Saudi Arabian Economy

Improvement in consumption indicators

Improving POS transaction in September (+ 26.2% y-o-y) , increase in ATM transactions (+2.8% y-o-y against -5.6% y-o-y in August) and declining deflation indicates improving consumer spending in the economy. Saudi Arabia's banking sector witnessed huge leap in profits growing 33.9% in September, highest in 2019 (+10.3% y-o-y in August). Further, credit to the private sector continued to rise (+3.8% y-o-y), while bank claims to the public sector rose in September (+23.7% y-o-y). Meanwhile, money supply (M3) grew 2.7% y-o-y supported by growth in M1. However, SAMA foreign reserves continued to fall in the second straight month in September (-1.3% y-o-y). In October, World Bank projected that Saudi Arabia's economy is expected to grow by 1.6% in 2020 and 2.2% in 2021, while giving importance to pronounced reforms needed to boost private sector in the Kingdom. Reforms carried by the government in the recent past has placed the country among World Bank's top 10 improvers in ease of doing business, according to the World Bank Group's 'Doing Business 2020' report.

More details:

Credit to the private sector increased 3.8% y-o-y (+0.9% m-o-m) in September, while bank claims on public sector grew 23.7% y-o-y (+1.1% m-o-m) in the same month. Meanwhile, deposits rose 2.4% y-o-y (-0.4% m-o-m) in September (Figure 10 & 11).

SAMA foreign reserves, on an annual basis, declined 1.3% in September 2019 versus a fall of 0.3% y-o-y in August. Further, on a monthly basis, reserves fell 1.4% in September (0.9% m-o-m in August) (Figure 8 & 9). Meanwhile, as of September, government reserves with SAMA stood at SAR 566.7bn (including government current account) as of September, recording a monthly fall of 3.2%.

World Bank has projected that Saudi Arabia's economic growth is expected to grow by 1.6% in 2020 and 2.2% in 2021, while giving importance to pronounced reforms needed to boost private sector in the Kingdom.

Kingdom raised SAR 7.3bn via its SAR-denominated Sukuk program in October. The government sold SAR 1.1bn of Sukuk which matures in 2025, SAR 0.7bn of Sukuk which matures in 2030, SAR 0.4bn maturing in 2034 and SAR 5.1bn maturing in 2049.

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Index of Industrial Production (IIP) gained 1.6% m-o-m in August, supported by the rise in 'Mining and Quarrying' and 'Manufacturing Industry' sector (together accounting ~96.3% of the total index). However, 'Electricity and Gas' sector witnessed m-o-m drop of 0.6% in August as against the fall of 0.8% in previous month (Figure 2 & 3).

Banking sector profits witnessed a huge leap and grew 33.9% y-o-y to stand at SAR 4,629mn in September (+10.3% y-o-y in August). The cumulative banking sector profits for the year (till September 2019) climbed 5.9% y-o-y in September to stand at SAR 38,547mn (Figure 14 & 15). The Saudi Arabian Monetary Authority (SAMA) has decided to lower the repo rate by 25 basis points from 2.5 per cent to 2.25 per cent and the reverse repo rate by 25 basis points from 2 per cent to 1.75 per cent following the rate cut by Federal Reserve.

Money Supply (M3) increased, though at a decelerating rate, in September (+2.7% y-o-y) to stand at SAR 1,887bn, backed by increase in M1. As per the weekly money supply data by SAMA, M3 may witness a stable growth in October (Figure 12).

Point-of-sale (POS) transactions rose 26.2% y-o-y in September 2019 (+ 17.5% y-o-y in August), while the ATM cash withdrawals grew 2.8% y-o-y in September (-5.6% y-o-y in August). POS transactions growth can be imputed to the growth in 'Restaurants and Hotels' (+49.9% y-o-y), 'Transportation' (+32.0% y-o-y) and 'Food & Beverages' (+24.5% y-o-y) segments (Figure 5, 6 & 7).

Remittances (Personal Transfers) by Saudi nationals halted its growth and turned negative to 5.2% y-o-y in September, as compared to the rise of 5.7% y-o-y in August, whereas growth in remittances by non-Saudi nationals rose after seven months to 4.5% y-o-y in the same month (-4.9% y-o-y in August) (Figure 4).

Cost of living index continued to remain in the deflation zone for the ninth in September. The index fell at a slightly lower rate of 0.7% y-o-y in September, versus the decline of 1.1% y-o-y in August. The 'Housing, Water, Electricity & Gas' sector (accounting ~25.4% of the index) slipped 5.6% y-o-y in September (-6.5% y-o-y in August), however, the 'Food & Beverages' sector (constituting ~18.9% of the index) rose 1.2% y-o-y in September (+1.0% y-o-y August). On a monthly basis, the cost of living index grew for the fifth consecutive month by 0.2% in September (+0.1% m-o-m in August) (Figure 16 & 17).

Crude oil prices (Brent December futures contract) climbed 3.9% MTD in October 2019 due to expected cut in oil production by OPEC and allies. Meanwhile, the Saudi Arabian crude oil production fell 20.6% y-o-y (15% m-o-m), to 8.4mbpd in September, as compared to a fall of 5.9% y-o-y (0.5% m-o-m) in July (Figure 18 & 19).

Crude price outlook: The US Energy Information Administration (EIA) in its October 2019 report estimated Brent crude oil prices to average US$59/barrel for 2019 and US$60/barrel for 2020.

Figure 1 Key macro indicators

Variable	Sep-19	Aug-19	Jul-19	2018	2017
Inflation Rate (2007=100) %	-0.7%	-1.1%	-1.3%	2.5%	-0.8%
	Sep-19	**Aug-19**	**Jul-19**	**2018**	**2017**
Average Oil Price (Arab Light) (US$/Barrel)	62.7	60.8	65.6	70.6	52.5
	Sep-19	**Aug-19**	**Jul-19**	**2018**	**2017**
Money Supply (M3) %	2.7%	4.9%	3.9%	2.7%	0.3%
Total Banking Sector Claims	6.7	6.3	6.9	5.3	3.7
Interbank Interest Rate (3 Month) %	2.382	2.479	2.680	2.451	1.812
Repo Rate %	2.50	2.75	2.75	3.00	2.00
Reverse Repo Rate %	2	2.25	2.25	2.50	1.5
		Q1 2019*	**Q4 2018***	**2018***	**2017**
GDP Rate at Constant Prices (2010=100) %	0.5%	1.7%	4.3%	2.4%	-0.7%
		Q1 2019*	**Q4 2018***	**2018***	**2017***
Current Account to GDP Ratio (current prices) %	6.3%	7.1%	7.9%	9.0%	1.5%
Total Imports (fob) to GDP Ratio (current prices)%	17.7%	16.6%	15.2%	16.0%	17.9%
Non-oil Exports to GDP Ratio (current prices) %	7.6%	8.0%	7.9%	8.0%	7.5%

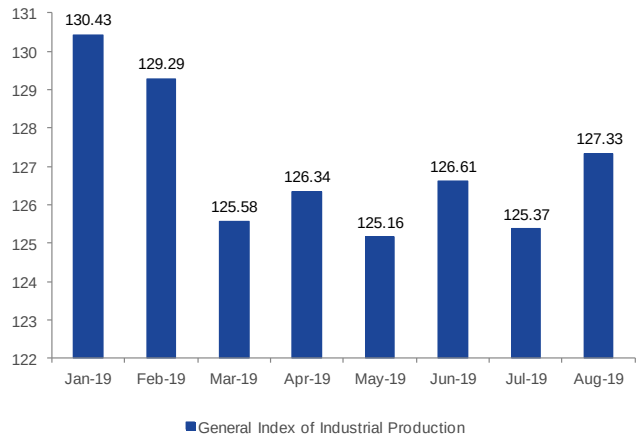
Source: SAMA, Bloomberg * Provisional.

Index of Industrial Production

IIP grew by 1.6% m-o-m in August 2019

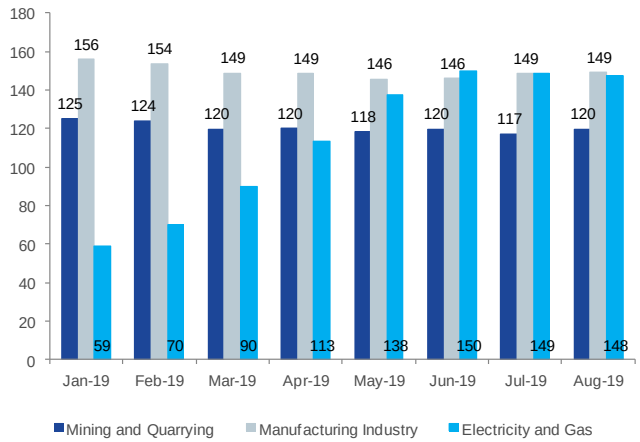
The Index of Industrial Production (IIP) rose by 1.6% m-o-m in August 2019 as against the fall of 1.0% m-o-m in July 2019, supported by strong activity in 'Mining and Quarrying' sector (accounting ~74% of the total index). However, the 'Manufacturing Industry' and 'Electricity and Gas' sectors' activity was broadly stable in August 2019.

Figure 2 General Index of Industrial Production Index



Source: GAS, Al Rajhi Capital

Figure 3 IIP sectors trend



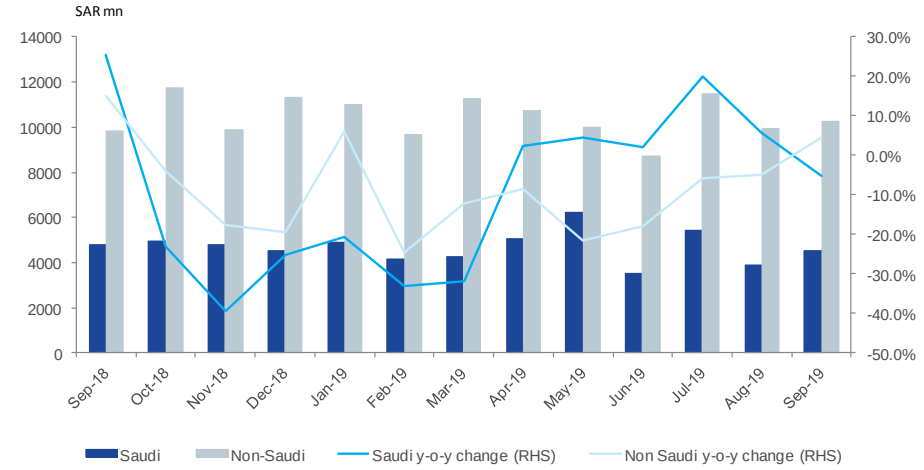
Source: GAS, Al Rajhi Capital

Remittance

Growth in remittances by Saudi nationals turned negative in September

Remittances (Personal Transfers) from Saudi nationals dropped 5.2% y-o-y (+5.7% y-o-y in August) to ~SAR 4.5bn in September 2019, whereas remittances growth from non-Saudi nationals turned positive after seven months and rose 4.5% y-o-y (-5.9% y-o-y in August) to stand at ~SAR 10.3bn.

Figure 4 Remittances



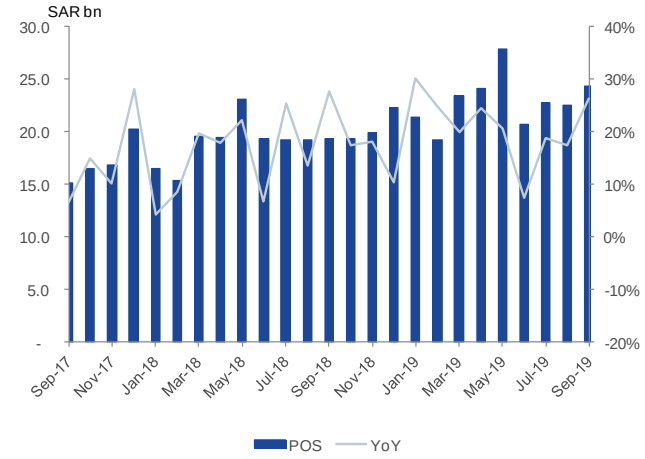
Source: SAMA, Al Rajhi Capital

Consumer spending indicators

POS transactions growth remained strong in September

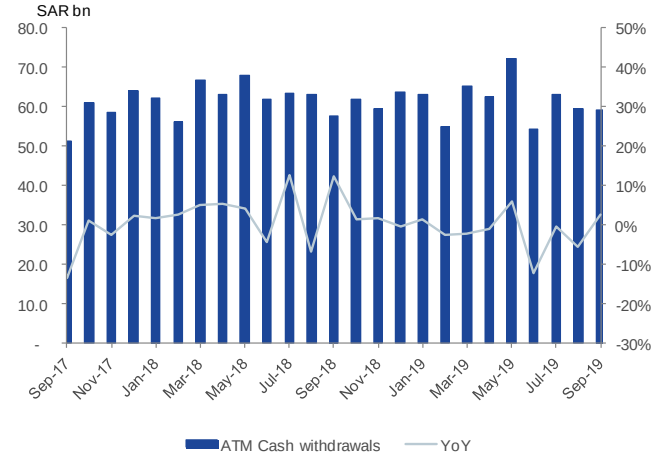
POS transactions jumped 26.2% y-o-y in September 2019 as compared to the annual rise of 17.5% in August, while the growth in ATM cash withdrawals turned positive to 2.8% y-o-y in September, versus the drop of 5.6% y-o-y in August. POS transactions growth was majorly driven by the rise in 'Restaurants and Hotels' (+49.9% y-o-y), 'Transportation' (+32.0% y-o-y) and 'Food & Beverages' (+24.5% y-o-y) segments.

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



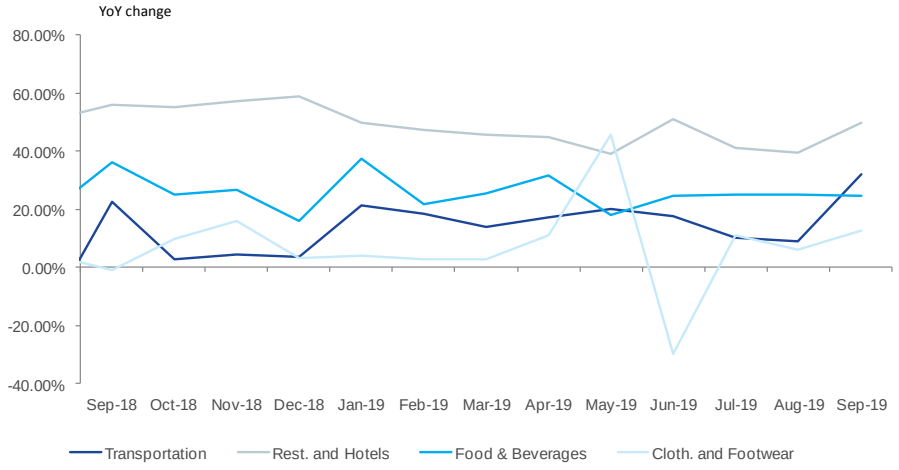
Source: SAMA, Al Rajhi Capital

Figure 6 ATM cash withdrawals trend



Source: SAMA, Al Rajhi Capital

Figure 7 Points-of-sale transactions trend by sectors



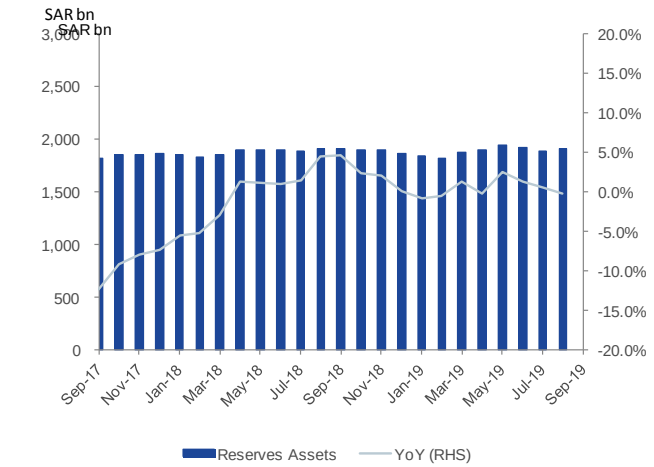
Source: SAMA, Al Rajhi Capital

SAMA Foreign Exchange Reserves

SAMA reserves declined on a monthly basis in September

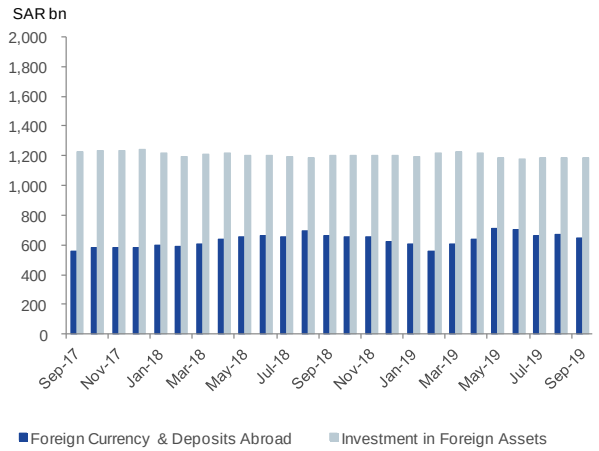
SAMA Foreign Exchange reserves dropped second straight month in September (-1.3% y-o-y Vs -0.3% y-o-y in August) to stand at SAR 1,877bn (US$ 500.6bn). On a monthly basis in September, reserves fell -1.4% m-o-m (+0.9% m-o-m in August). Further, foreign currency and deposits abroad declined 1.9% y-o-y (3.9% m-o-m) in September as compared to fall of 2.6% y-o-y (+1.4% m-o-m) in August; while investment in foreign securities decreased 1.3% y-o-y (-0.1% m-o-m) in September as compared to rise of 0.6% y-o-y (+0.6% m-o-m) in August.

Figure 8 Reserves assets



Source: SAMA, Al Rajhi Capital

Figure 9 Major components of foreign assets



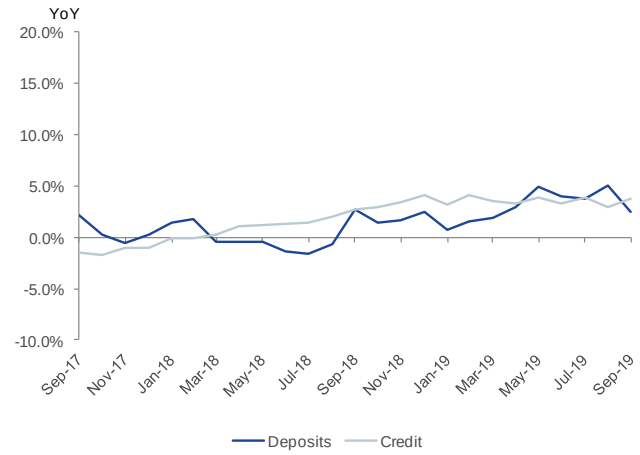
Source: SAMA, Al Rajhi Capital

Credit and deposit growth

Private sector credit continued its steady upper trend in September

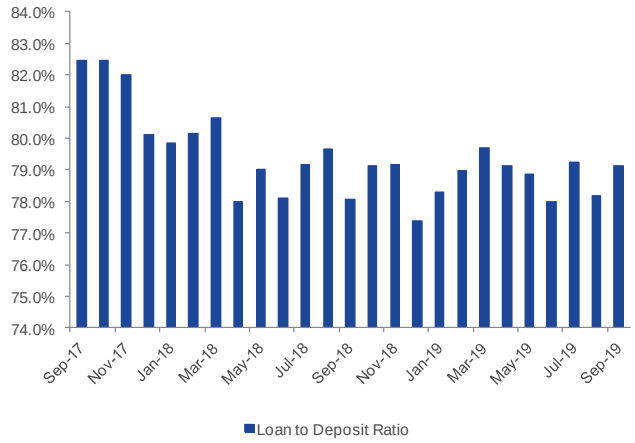
Banking sector credit growth to the private sector remained at steady level at 3.8% y-o-y in September (+0.9% m-o-m), versus the growth of 2.8% y-o-y (0.3% m-o-m) in August. Claims on the public sector rose 23.7% y-o-y (+1.1% m-o-m) in September, as compared to the rise of 25.0% y-o-y (+0.9% m-o-m) in August. Meanwhile, deposits rose by 2.4% y-o-y in September (-0.4% m-o-m), versus the rise of 5.0% y-o-y (+1.5% m-o-m) in August. 'Business and Individual' deposits, which constitute for ~74% of the total deposit base, rose 8.6% y-o-y (+0.6% m-o-m), whereas 'Government Entities' deposits declined 8.8% y-o-y (-1.3% m-o-m).

Figure 10 Credit and deposit growth



Source: SAMA, Al Rajhi Capital

Figure 11 Loans to Deposits



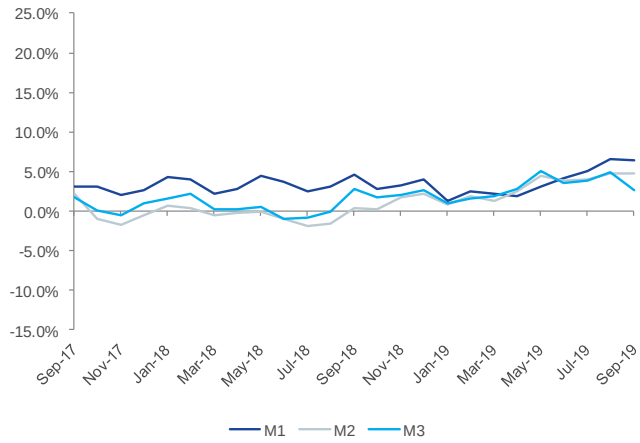
Source: SAMA, Al Rajhi Capital

Money supply

M3 grew at a decelerating rate in September

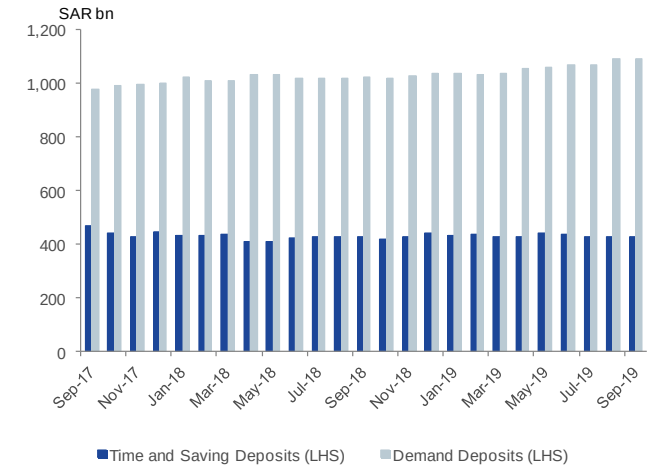
Broader money supply (M3) increased (at a lowest rate in last six months) in September (+2.7% y-o-y) to stand at SAR 1,887bn, versus the growth of 4.9% in August. M1 registered a growth of 6.4% y-o-y (+6.5% y-o-y in August); while M2 grew by 4.7% y-o-y in September, same as in August. However, on a monthly basis, the M3 fell 0.5% in September (+1.4% m-o-m in August). As per the weekly money supply data by SAMA, M3 may grow at a stable rate in October.

Figure 12 Money supply growth (y-o-y)



Source: SAMA, Al Rajhi Capital

Figure 13 Deposits break-up



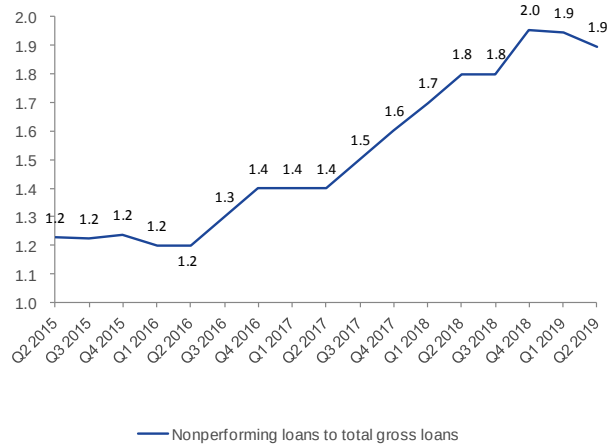
Source: SAMA, Al Rajhi Capital

Banking Sector

Banking sector profits jumped in September

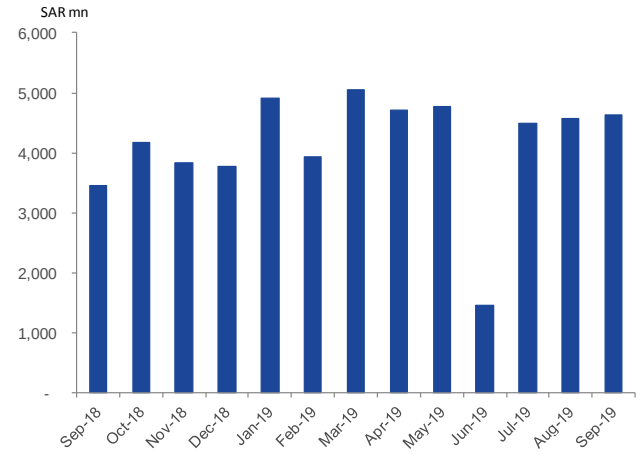
Banking sector profits witnessed significant growth of 33.9% y-o-y in September, to stand at SAR 4,629mn. On a monthly basis, profits rose by 1.2% in September, as against the rise of 1.7% m-o-m in August. The cumulative banking sector profits for the year (till September 2019) grew 5.9% y-o-y in September to stand at SAR 38,547mn.

Figure 14 Non-performing loans (%)



Source: SAMA, Al Rajhi Capital

Figure 15 Net Profit for Banks



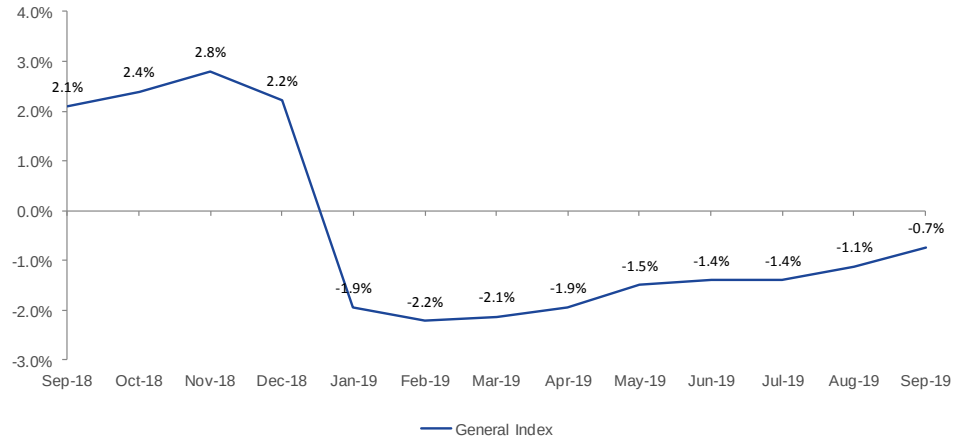
Source: SAMA, Al Rajhi Capital

Inflation dynamics

Deflation in the Kingdom soothed in September

Cost of living index continued its momentum to be in deflation territory in September. The index dropped at a slightly lower rate of 0.7% y-o-y in September, as compared to the decline of 1.1% y-o-y in August. Segment wise, the 'Housing, Water, Electricity & Gas' sector (constituting ~25.4% of the index) dropped 5.6% y-o-y in September (-6.5% y-o-y in August), whereas the 'Food & Beverages' sector (accounting ~18.9% of the index) rose 1.2% y-o-y in September (+1.0% y-o-y last month) and the 'Transport' sector (accounting ~10.0% of the index) rose 1.1% in September (+1.3% y-o-y last month). On a monthly basis, the cost of living index advanced 0.2% in September.

Figure 16 Inflation trend (y-o-y)



Source: GAS, Al Rajhi Capital

Figure 17 Inflation Segments

	Weights	Sep-19	Sep-18	Change (y-o-y)
General Index	100.0%	106.3	107.1	-0.7%
Food & Beverages	18.9%	108.6	107.3	1.2%
Tobacco	0.7%	191.9	192	-0.1%
Clothing & Footwear	6.2%	91.7	92.9	-1.3%
Housing, Water, Electricity and Gas	25.4%	102.5	108.6	-5.6%
Furnishings and Household Equipments	8.6%	104	102.7	1.3%
Health	2.4%	111.6	110.4	1.1%
Transport	10.0%	120.7	119.4	1.1%
Communication	8.5%	99.7	100.1	-0.4%
Recreation & Culture	3.4%	96.8	96.6	0.2%
Education	4.2%	113.2	110.7	2.3%
Restaurants and Hotels	6.1%	114.3	112.2	1.9%
Miscellaneous Goods & Services	5.8%	105	102.4	2.5%

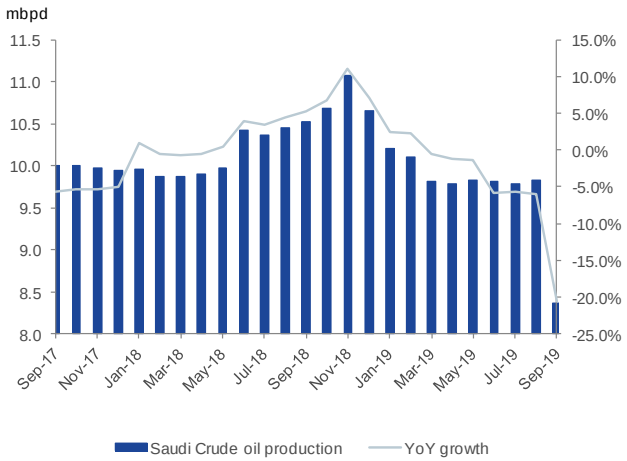
Source: GAS, Al Rajhi Capital

Crude oil dynamics

Crude oil prices rose on a MTD basis in October

Crude oil prices (Brent December futures contract) rose 3.9% MTD in October 2019 amid expectation on oil production cuts by OPEC and allies. Meanwhile, the Saudi Arabian crude oil production significantly dropped 20.6% y-o-y, to 8.6mbpd in September as against the fall of 5.9% in August. On a monthly basis, the Saudi Arabian crude oil production declined 15.0% in September. This notable drop was majorly caused by the attack on Saudi Aramco's production facility in mid September.

Figure 18 Saudi crude oil production trend (mbpd)



Source: Bloomberg, Al Rajhi Capital

Figure 19 Crude oil prices trend (US$/bbl)

Source: Bloomberg, Al Rajhi Capital

Non-oil foreign trade

Non-oil exports continued to fall in August at lower rate

Kingdom's non-oil exports fell and remained in the negative trajectory for the eighth consecutive month in August 2019, by 5.6% y-o-y, compared to a decline of 14.0% y-o-y in July. This decline was majorly due to the fall in plastic & rubbers (-13.0% y-o-y) accounting for ~36.5% of total exports. However, chemical products witnessed double digit growth in August (+15.2% y-o-y) accounting for ~33.2% of total exports. Further, non-oil imports declined 2.8% y-o-y in August, as compared to the rise of 4.5% y-o-y in July. This was due to fall in imports of other commodities (-15.5% y-o-y), partially offset by rise in machinery & electrical (+10.2% y-o-y) and transport & equipment (20.8% y-o-y) together constituting ~39.6% of the total imports. Meanwhile, China continued to be the top export destination and also the largest import country in August.

Figure 20 Non-Oil Exports

Commodities (SAR mn)	Jun-19	Jul-19	Aug-19	% y-o-y	% m-o-m
Plastics & Rubbers	5,682	6,152	5,740	-13.0%	-6.7%
Chemical Products	5,795	5,882	5,213	15.2%	-11.4%
Ordinary Metals	1,074	1,310	1,178	-21.9%	-10.1%
Transport Equipments	1,672	1,012	759	-38.6%	-25.0%
Others	2,821	4,170	2,815	1.7%	-32.5%
Total	17,044	18,526	15,705	-5.6%	-15.2%

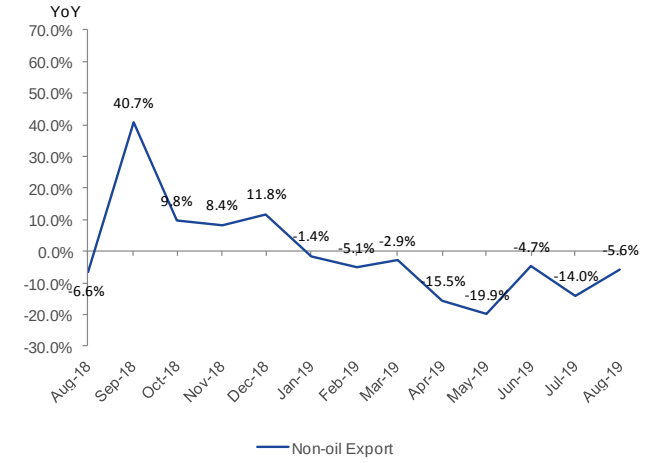
Source: GAS, Al Rajhi Capital

Figure 21 Non-Oil Imports

Commodities (SAR mn)	Jun-19	Jul-19	Aug-19	% y-o-y	% m-o-m
Machinery & Electricals	7,797	11,669	7,962	10.2%	-31.8%
Transport Equipments	8,596	9,525	6,394	20.8%	-32.9%
Ordinary Metals	3,266	4,712	3,380	6.3%	-28.3%
Chemical Products	3,882	5,095	3,303	-8.5%	-35.2%
Others	14,195	19,560	15,177	-15.5%	-22.4%
Total	37,736	50,561	36,216	-2.8%	-28.4%

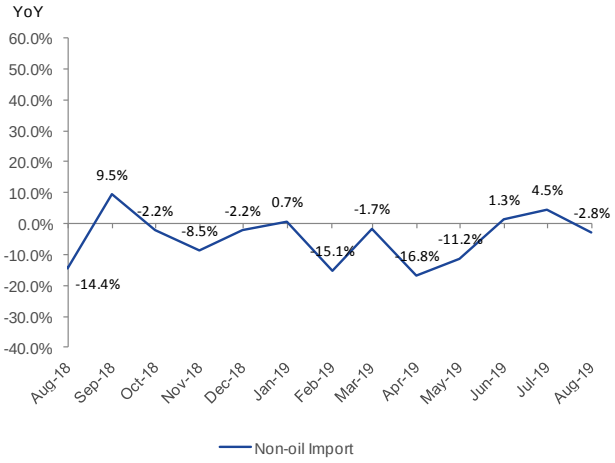
Source: GAS, Al Rajhi Capital

Figure 22 Non-oil export trend (y-o-y)



Source: GAS, Al Rajhi Capital

Figure 23 Non-oil import trend (y-o-y)



Source: GAS, Al Rajhi Capital

Figure 24 Impact of currencies on Weighted-average Saudi imports (m-o-m) *

	February	March	April	May	June	July	Aug
FX movement (USD/Unit)							
EUR	-0.6%	-1.3%	0.0%	-2.2%	1.8%	-2.6%	-0.8%
YUAN	-0.3%	-0.3%	-0.3%	-0.7%	0.6%	-0.3%	-3.8%
YEN	-0.7%	0.5%	-0.5%	-0.2%	0.4%	-0.8%	2.4%
FX impact on weighted average imports							
Germany	NA	NA	NA	NA	NA	NA	NA
China	0.0%	-0.1%	-0.1%	-0.1%	0.1%	0.0%	-0.7%
Japan	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%

Source: Bloomberg, GASTAT, Al Rajhi Capital

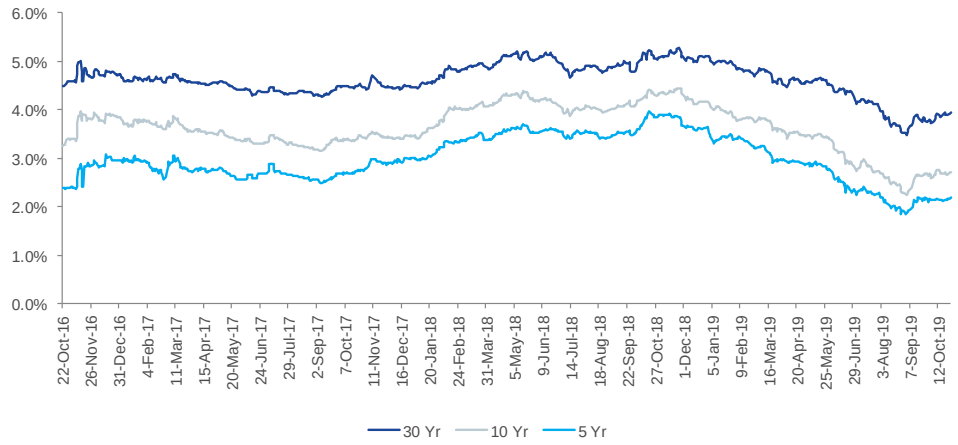
* Out of the 5 top-ranked countries of import, currency of UAE is pegged and so would its variance with the USD and therefore, it has been ignored. USD itself is the currency of comparison and so US has also not been taken. Currency movement of Germany, China and Japan has been taken up for analysis. For calculation of weights of the countries of import, data from August has been chosen and assumed constant for preceding period, as consistent data sets is not available for all the countries chosen for analysis. For August 2019, the weights are China (19.5%), Germany (NA) and Japan (5.0%).

Saudi international bond yields

Saudi International bond yields rose on a MTD basis in October

Saudi international bond yields with 5 year and 10 year maturity increased by 0.7bps and 3.7bps MTD, respectively to 2.178% and 2.71% in October 2019. Meanwhile, bond yields with 30 year maturity rose by 18.7bps to 3.946%.

Figure 25 International Bond Yields



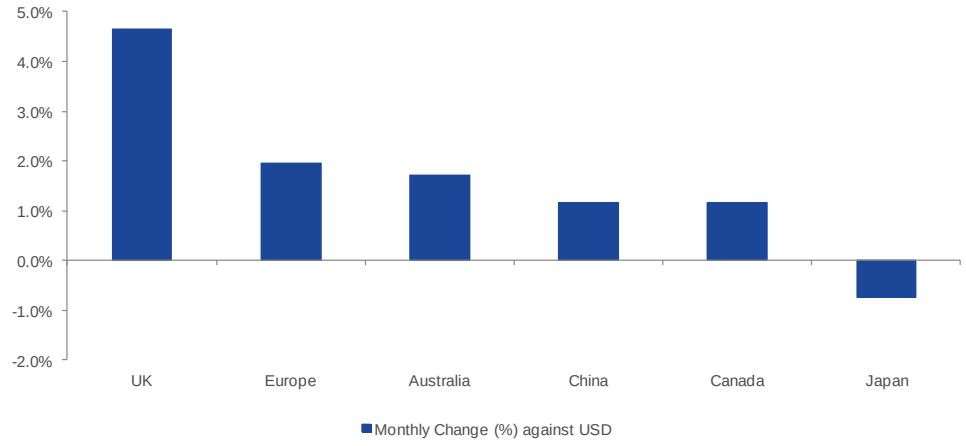
Source: Bloomberg, Al Rajhi Capital

Exchange Rates

GBP, EUR, AUD, CNY and CAD, rose on a MTD basis against the USD

On the forex front, the British Pound, the Euro, the Australian Dollar, the Chinese Yuan and the Canadian Dollar rose against the US Dollar on a MTD basis in October, whereas the Japanese Yen fell against the US Dollar.

Figure 26 Monthly Change (%) against the US Dollar



Source: Bloomberg, Al Rajhi Capital

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