جدوى للإستثمار
Jadwa Investment

October 2020

Saudi Chartbook

Summary

Real Economy: The non-oil PMI declined in August, after registering the highest figure in six months during July. Meanwhile, cement sales and production continued to rise.

Consumer Spending: POS transactions rose by 31 percent year-on-year in August, but declined by 1.2 percent month-on-month.

Government Finance: The net monthly change to government accounts with SAMA rose by SR40 billion month-on-month in August, the highest monthly rise in 17 months.

SAMA Foreign Reserve Assets: SAMA FX reserves increased by $5.5 billion month-on-month in August, to stand at $453.4 billion.

Money Supply: The broad measure of money supply (M3) rose by 9.4 percent year-on-year in August, and by 1.2 percent month-on-month.

Bank Deposits: Bank deposits rose by 9.4 percent year-on-year in August, as demand deposits rose by 12.5 percent year-on-year.

Bank Credit: Total bank claims rose by 15.5 percent in August year-on-year. Claims on the public sector were up by 20 percent, meanwhile, credit to the private sector rose by 14 percent, year-on-year.

Inflation: Prices in August rose by 6.2 percent year-on-year, and by 0.2 percent month-on-month, boosted mainly by annual and monthly rises in ‘food and beverages’ and ‘transport’.

Labor Market: The Saudi unemployment rate rose in Q2 2020, to reach 15.4 percent, up from 11.8 percent in Q1 2020.

Q2 2020 GDP: Data on Q2 2020 real GDP showed that the economy contracted by 7 percent, year-on-year.

2021 Preliminary Budget Report: The government’s preliminary budget statement revised 2020 numbers but kept 2021-22 forecasts virtually unchanged compared to last year’s budget statement.

Balance of Payments: As expected, Q2 2020 data showed that the current account moved into a deficit of $18 billion (vs. a surplus of $11.4 billion & $2.2 billion in Q2 2019 & Q1 2020 respectively).

Oil-Global: Oil prices weakened, with Brent oil prices down 10 percent month-on-month in September, as a number of countries (especially in Europe) saw rising cases in what is evidently a second wave of COVID-19.

Oil-Regional: Latest available Joint Organizations Data Initiative (JODI) numbers for July shows that direct crude oil burn hit its highest level in three years on back of higher domestic electricity consumption.

Exchange Rates: Most currencies depreciated against the US dollar during September.

Stock Market: Optimism over the path to recovery for the economy, as well as talks of a potential consolidation within the ‘Materials’ sector, helped TASI rise 4.5 percent month-on-month.

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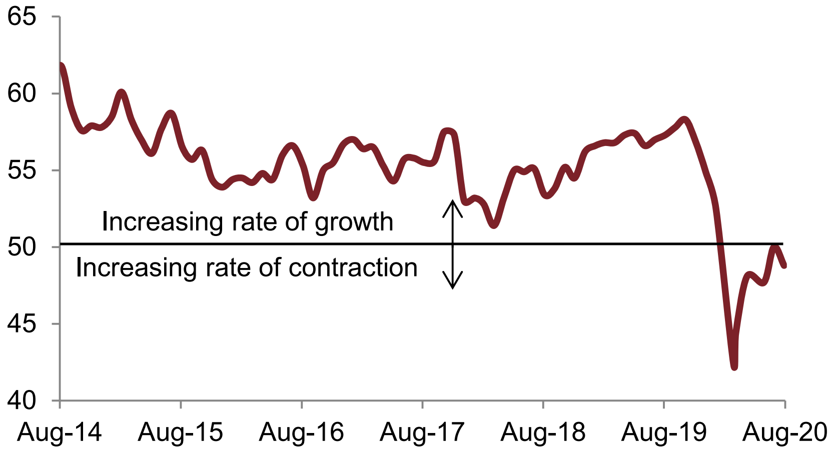
Real Economy

The non-oil PMI declined in August, after registering the highest figure in six months during July. The decline in August was due to lower output and higher output prices during the month. Meanwhile, cement sales and production continued to rise in August, by 41 and 35 percent year-on-year, respectively, indicating continued rebound in construction activity since the lifting of lockdown measures.

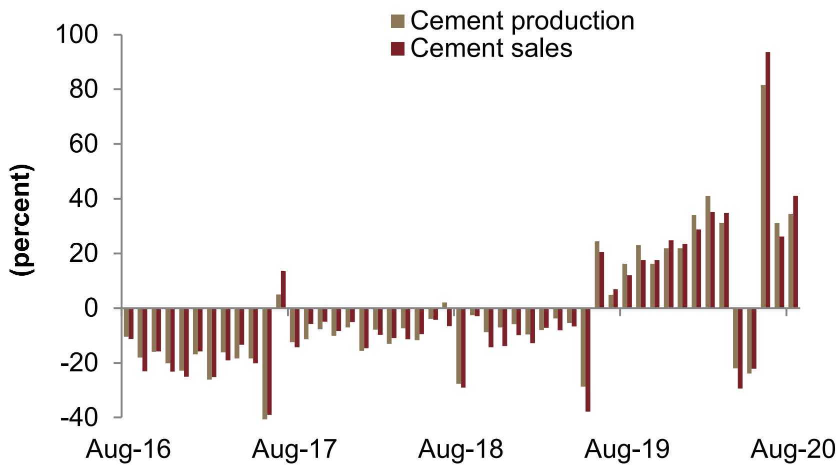
Non-oil PMI declined in August, due to lower output and higher output prices during the month.

Non-oil Purchasing Managers' Index



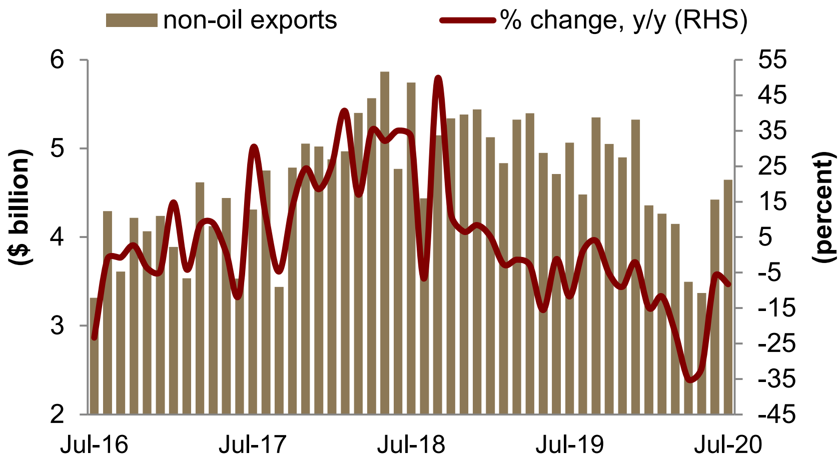
Cement sales & production continued to rise in August, by 41 and 35 percent year-on-year, respectively, indicating continued rebound in construction activity since the lifting of lockdown measures.

Cement Sales and Production
(year-on-year change)



Meanwhile, latest available data for July shows that whilst non-oil exports continued to rise month-on-month (by 5 percent), they were down by 6 percent on an annual basis. The monthly rise was supported by rises in exports of petrochemicals and plastics, up 8 percent and 10 percent month-on-month, respectively.

Non-Oil Exports
(year-on-year change)

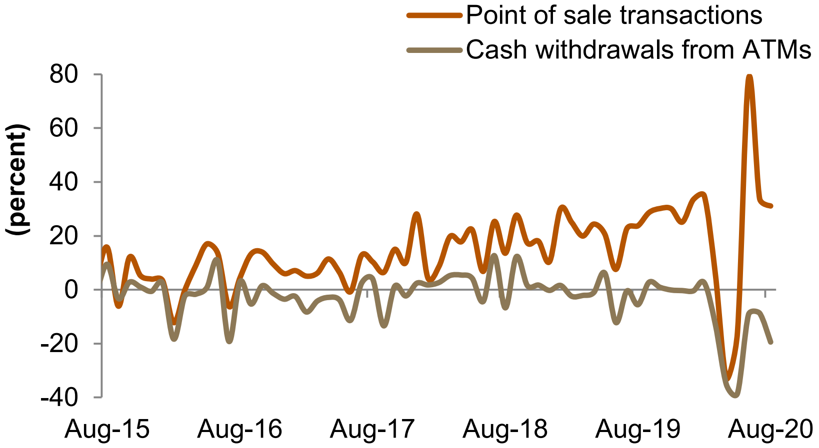


Consumer Spending

POS transactions rose by 31 percent year-on-year in August, but declined by 1.2 percent month-on-month. Meanwhile, more recent weekly data shows POS transactions slowed in September, following a notable rise in the last week of August. A number of groups such as 'education', 'recreation & culture', 'food & beverage', and 'telecommunication', witnessed the largest declines during September.

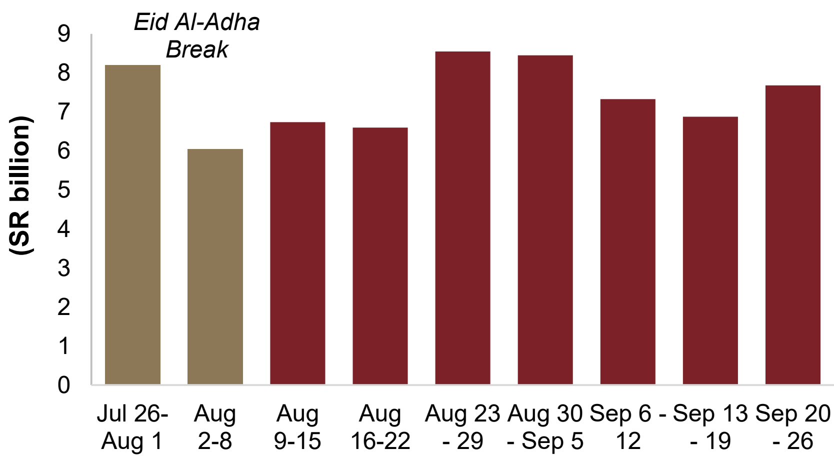
POS transactions rose by 31 percent year-on-year in August, whilst cash withdrawals continued the downward trend, declining by 19.4 percent year-on-year during the month.

Indicators of Consumer Spending
(year-on-year change)



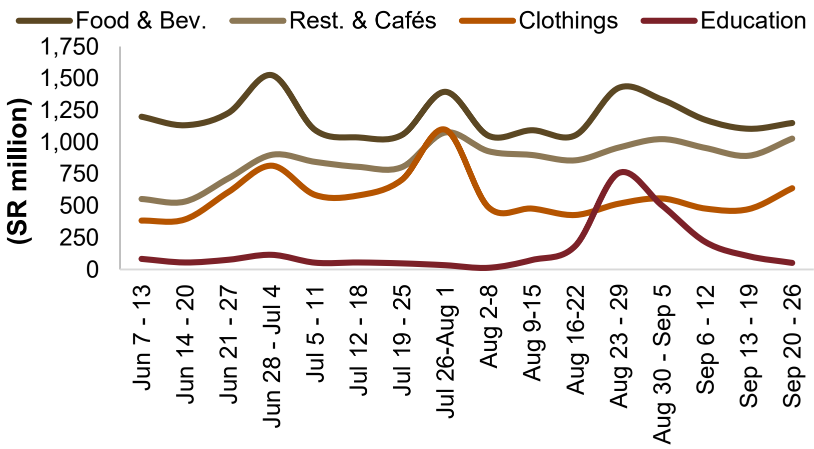
Meanwhile, more recent weekly data shows POS transactions slowed in September, following a notable rise in the last week of August...

Latest Weekly POS Transactions
(SR Billion)



...which is likely linked to 'education' spending, which saw week-on-week declines in most of September, following a significant rise in the last week of August and the first week of September, in-line with the virtual commencement of schools.

Latest Weekly POS Transactions for Selected Sectors
(SR Million)

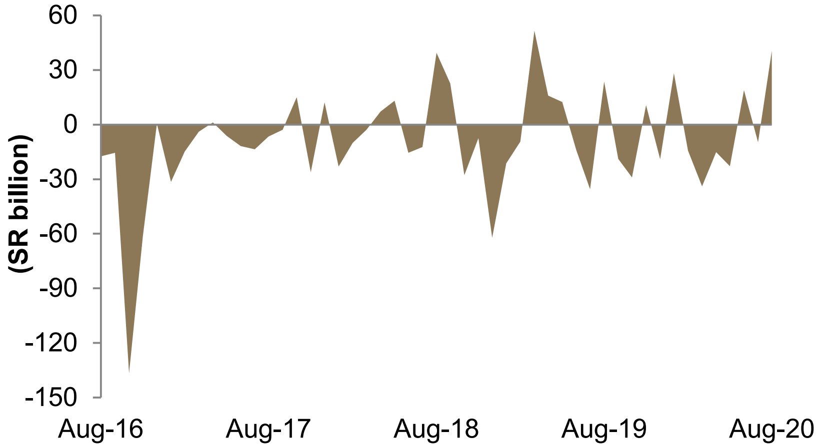


Government Finance

The net monthly change to government accounts with SAMA rose by SR40 billion month-on-month in August, the highest monthly rise in 17 months. The breakdown shows the hike came totally from a rise in government current deposits by SR40 billion, whilst government reserves remained unchanged during the month. Meanwhile, domestic banks net holdings of government bonds declined by SR4 billion during August.

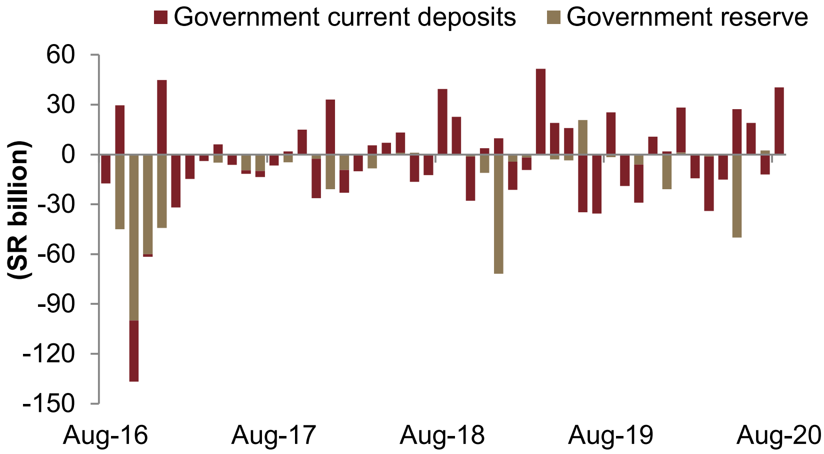
The net monthly change to government accounts with SAMA rose by SR40 billion month-on-month in August, the highest monthly rise in 17 months.

Net Change to Government Accounts with SAMA
(month-on-month change)



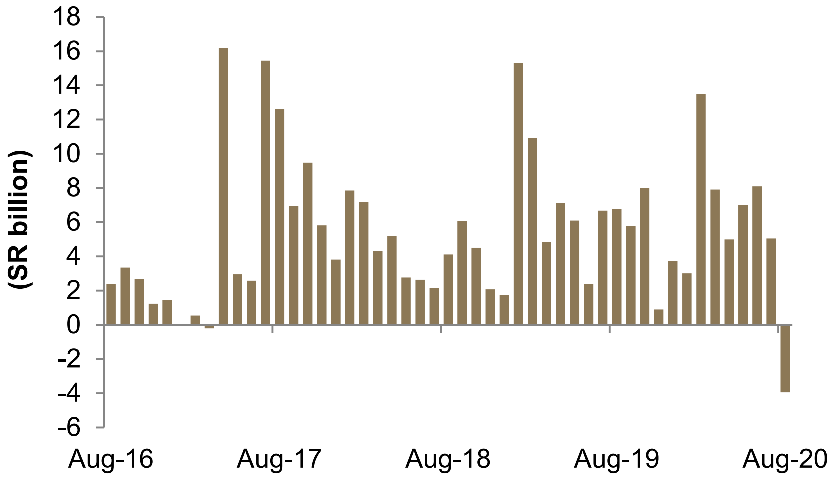
The breakdown shows the hike came totally from a rise in government current deposits by SR40 billion, whilst government reserves remained unchanged during the month.

Breakdown of Government Accounts with SAMA
(month-on-month change)



Domestic banks net holdings of government bonds declined by SR4 billion in August, as the Ministry of Finance (MoF) announced the completion of an early redemption of a portion of outstanding bonds maturing in August, September, November and December 2020, with a total value of SR34 billion. At the same time, the MoF also announced it has closed the August 2020 issuance of the local Sukuk program with a size of SR0.5 billion.

Domestic Banks Net Holdings of Government Bonds
(month-on-month change)

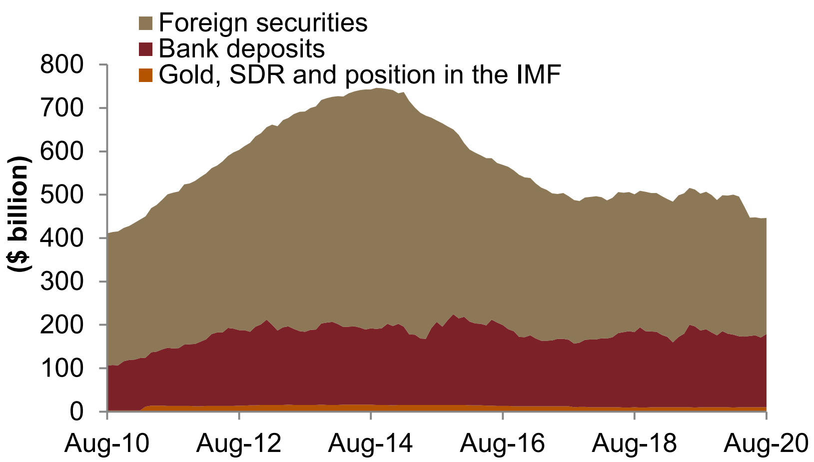


SAMA Foreign Reserve Assets

SAMA FX reserves increased by $5.5 billion month-on-month in August, to stand at $453.4 billion. A breakdown of FX reserves shows that whilst there was a monthly increase in SAMA's foreign securities by almost $5 billion, there was only a small rise in bank deposits by $0.5 billion during the month.

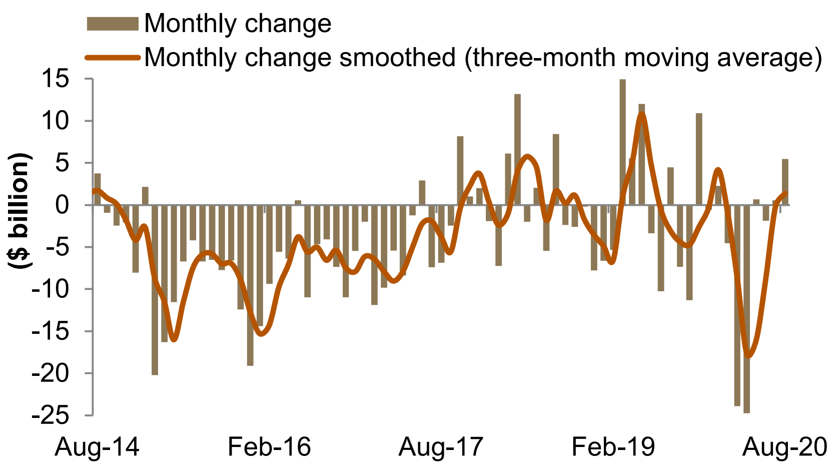
SAMA FX reserves increased by $5.5 billion month-on-month in August…

SAMA Total Foreign Reserve Assets



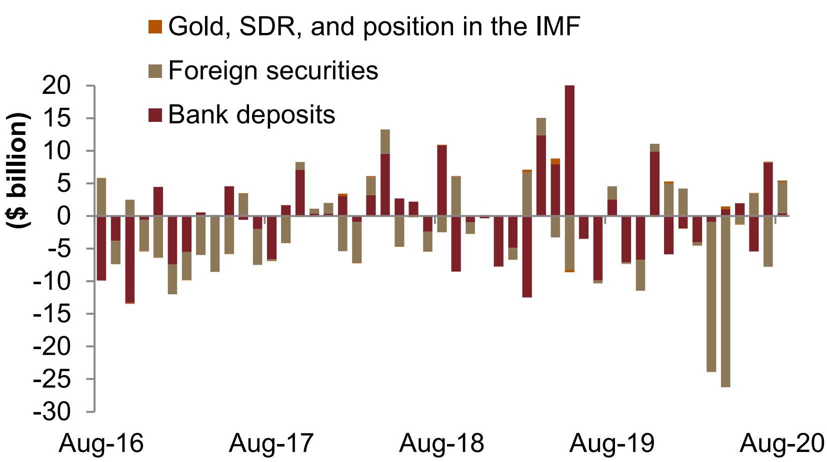
...to stand at $453.4 billion.

SAMA Foreign Reserve Assets
(month-on-month change)



A breakdown of FX reserves shows that whilst there was a monthly increase in SAMA's foreign securities by almost $5 billion, there was only a small rise in bank deposits by $0.5 billion during the month.

SAMA Foreign Reserve Assets
(August 2020)

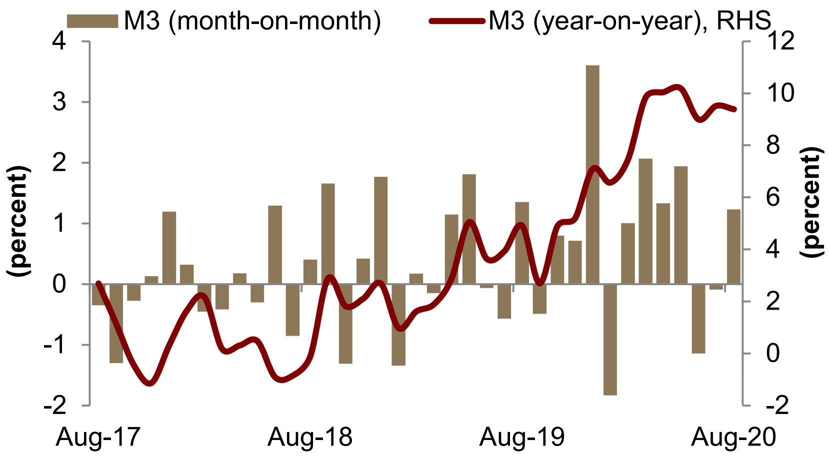


Money Supply

The broad measure of money supply (M3) rose by 9.4 percent year-on-year in August, and by 1.2 percent month-on-month. Growth in demand deposits continued in August, rising by 12.5 percent year-on-year, which has supported rises in M3 in the last few months. Meanwhile, latest weekly money supply data shows M3 continuing the upward yearly trend into September.

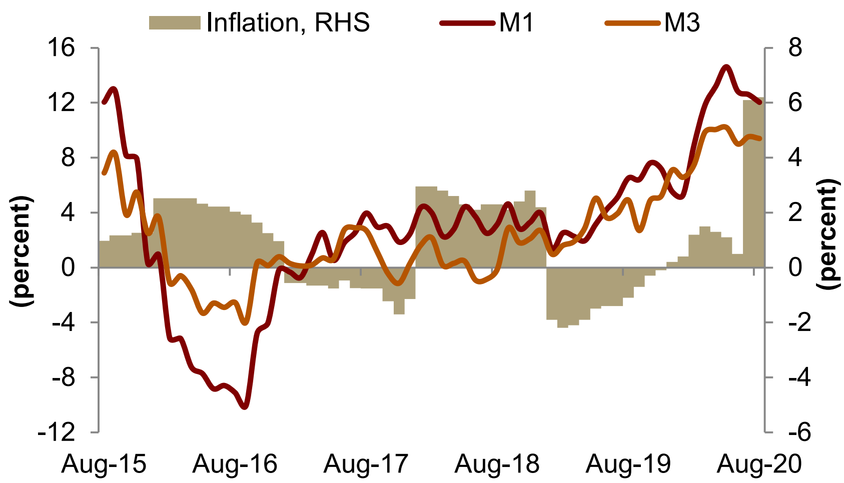
M3 rose by 9.4 percent year-on-year in August, and by 1.2 percent month-on-month.

Growth in Money Supply



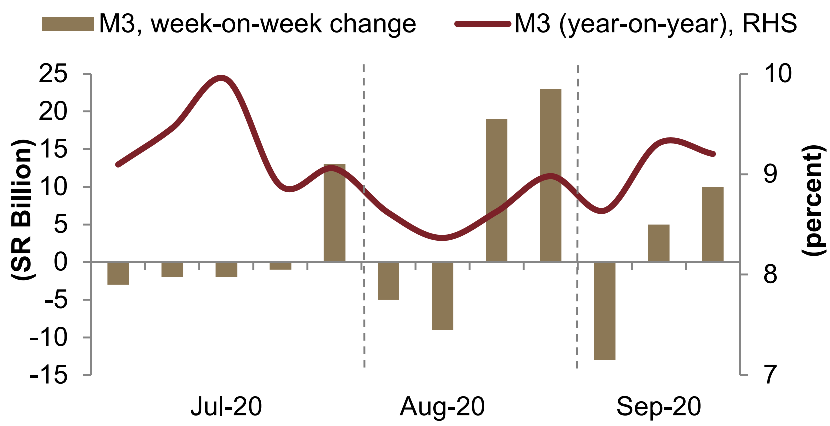
Growth in demand deposits continued in August, rising by 12.5 percent year-on-year, which has supported rises in M1, and therefore M3, in the last few months.

Money Supply Aggregates and Inflation Rate
(year-on-year change)



Meanwhile, latest weekly money supply data shows M3 continuing the upward yearly trend into September.

Growth in Money Supply
(week-on-week change)

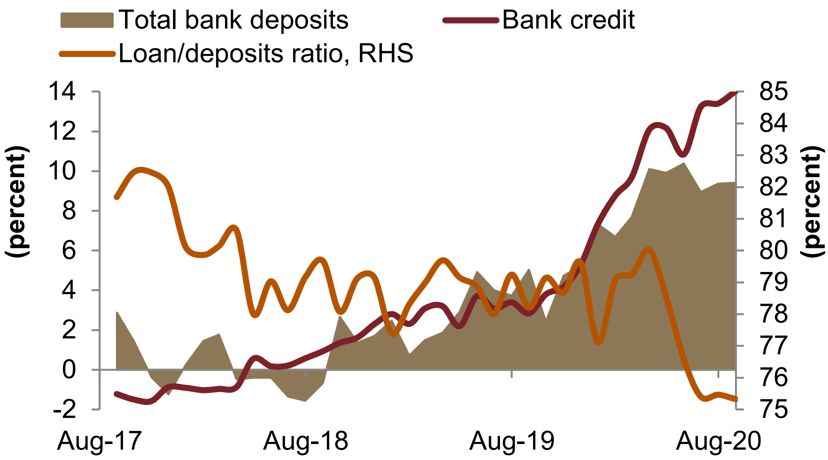


Bank Deposits

Bank deposits rose by 9.4 percent year-on-year in August, as demand deposits rose by 12.5 percent year-on-year. The breakdown of the data shows a rise in both private and government demand deposits, rising by 9 and 46 percent year-on-year, respectively. On a monthly basis, government deposits rose by 8 percent, the highest rise in three months, whilst private deposits were almost flat.

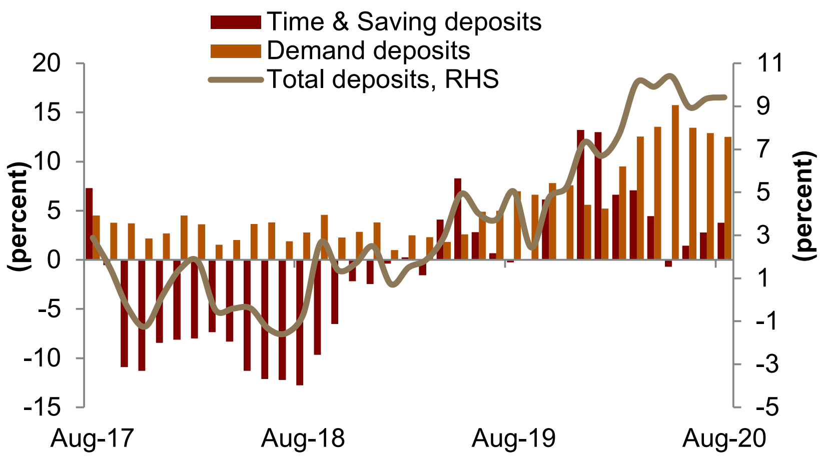
Bank deposits rose by 9.4 percent year-on-year in August…

Growth in Total Bank Deposits
(year-on-year change)



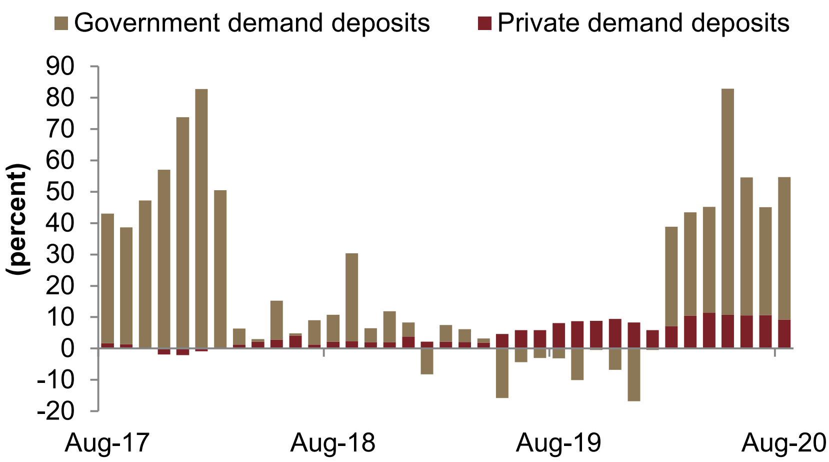
...as demand deposits rose by 12.5 percent year-on-year. Meanwhile, time & saving deposits were rising gradually during the past three months, year-on-year.

Breakdown of Total Deposits
(year-on-year change)



The breakdown of the data shows a rise in both private and government demand deposits, rising by 9 and 46 percent year-on-year, respectively. On a monthly basis, government deposits rose by 8 percent, the highest rise in three months, whilst private deposits were almost flat.

Breakdown of Demand Deposits
(year-on-year change)



Bank Credit

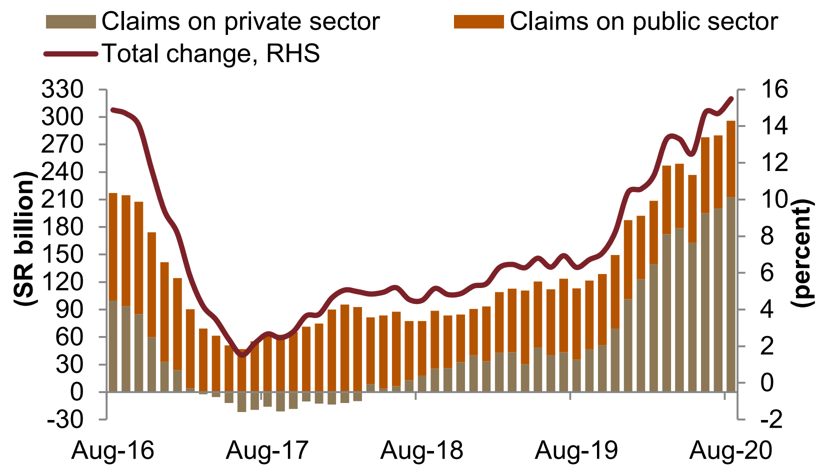
Total bank claims rose by 15.5 percent in August year-on-year. Claims on the public sector were up by 20 percent, meanwhile, credit to the private sector rose by 14 percent, year-on-year.

On a monthly basis, claims on both public and private sectors have shown steady rises since the beginning of the year, with August data showing rises by 1.5 and 0.8 percent month-on-month, respectively.

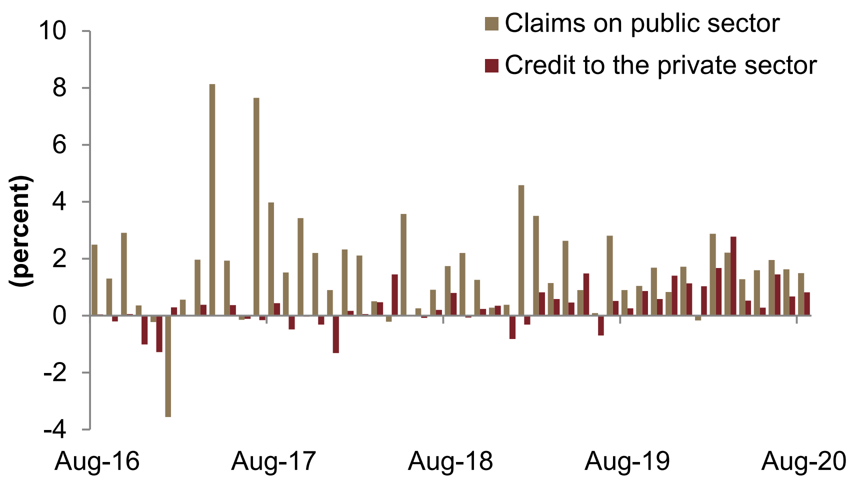
New mortgages from banks rose by 102 percent year-on-year in August, standing at SR9.9 billion, marginally below Q1 average of SR10.4 billion, and well below June's level of SR13 billion, when demand rebounded following an easing of lockdown measures.

Total bank claims rose by 15.5 percent in August year-on-year. Claims on the public sector were up by 20 percent, meanwhile, credit to the private sector rose by 14 percent, year-on-year. On a monthly basis, claims on both public and private sectors have shown steady rises since the beginning of the year, with August data showing rises by 1.5 and 0.8 percent month-on-month, respectively.

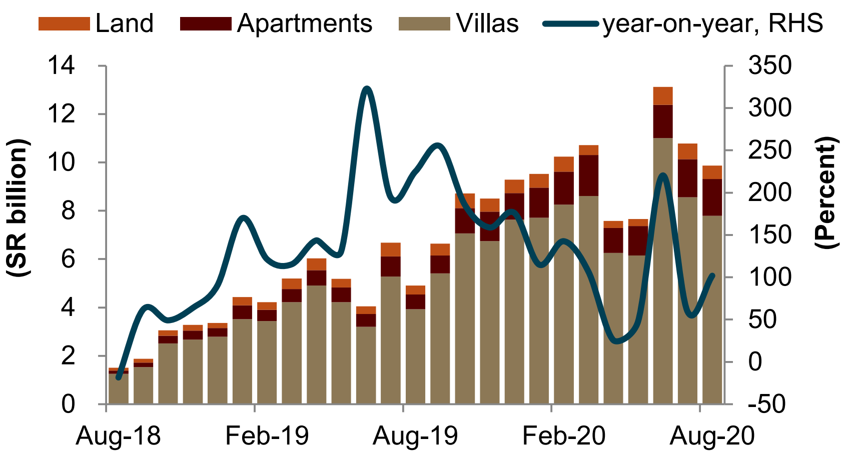
Breakdown of Bank Claims
(year-on-year change)



Breakdown of Bank Claims
(month-on-month change)



New Mortgages Provided by Banks

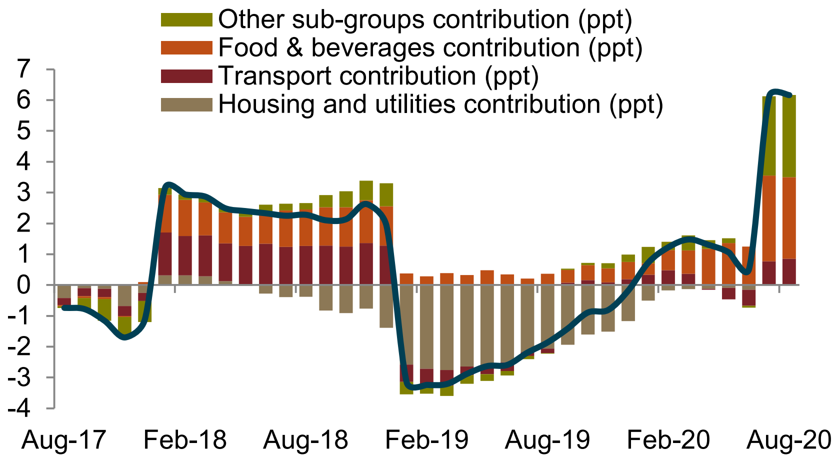


Inflation

Prices in August rose by 6.2 percent year-on-year, and by 0.2 percent month-on-month, boosted mainly by annual and monthly rises in ‘food and beverages’ and ‘transport’. Meanwhile, prices in ‘housing and utilities’ saw a marginal rise by 0.2 percent year-on-year. Within this, although the ‘rentals for housing’ sub-category declined by 0.5 percent year-on-year, a sharp rise by 11 percent year-on-year was seen in ‘maintenance for dwellings’ sub-category.

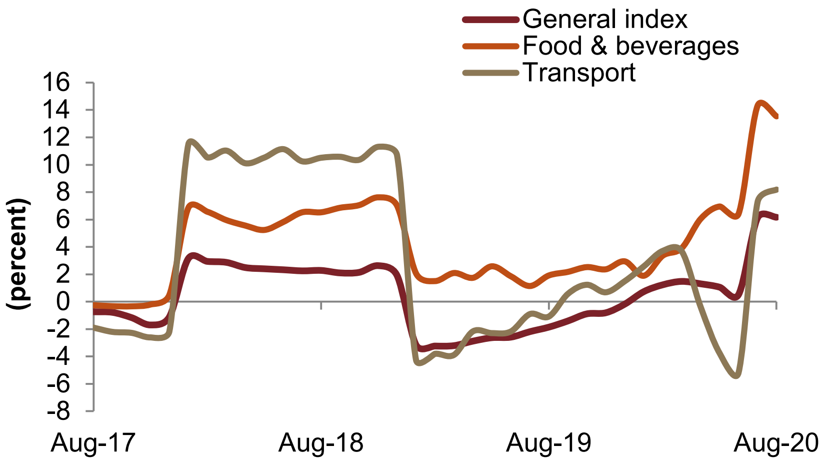
Prices in August rose by 6.2 percent year-on-year, and by 0.2 percent month-on-month…

Inflation
(year-on-year change)



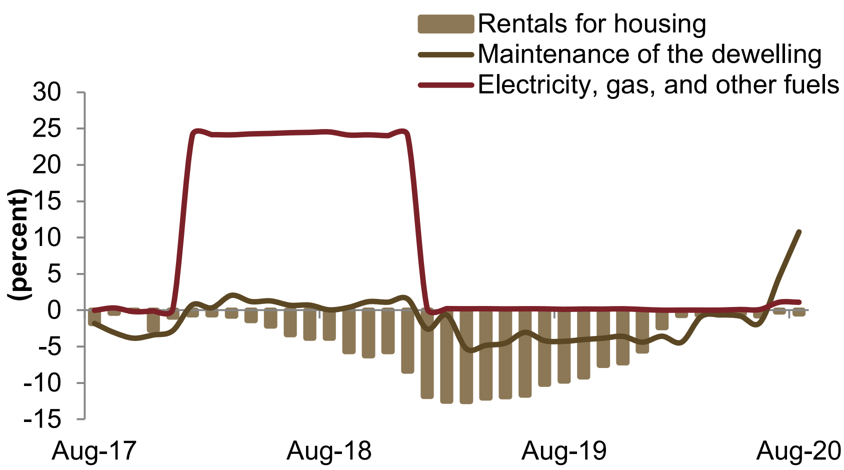
...boosted mainly by annual and monthly rises in ‘food & beverages’ and ‘transport’, with the latter being affected by higher monthly gasoline prices.

Inflation Rates in Selected Sub-groups
(year-on-year change)



Meanwhile, prices in ‘housing and utilities’ saw a marginal rise by 0.2 percent year-on-year. Within this, although the ‘rentals for housing’ sub-category declined by 0.5 percent year-on-year, a sharp rise by 11 percent year-on-year was seen in ‘maintenance for dwellings’ sub-category. Higher maintenance services prices may reflect both lower supply of such services and pent-up demand after lifting of the containment measures related to COVID-19.

Rentals for Housing

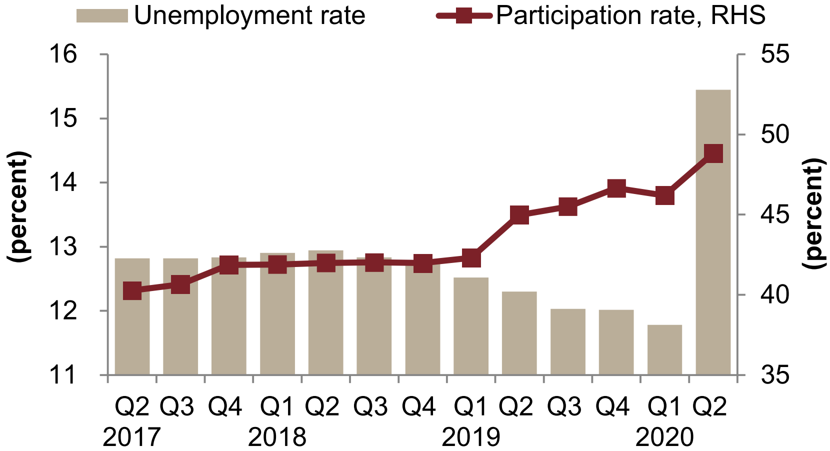


Labor Market

The Saudi unemployment rate rose in Q2 2020, to reach 15.4 percent, up from 11.8 percent in Q1 2020. Both male and female unemployment rose, mainly driven by a significant rise in youth (20-24 years old) unemployment. During Q2 2020, a total of 19.1 thousand expat workers left the labor market, following a notable rise during Q1 2020, by 243 thousand workers.

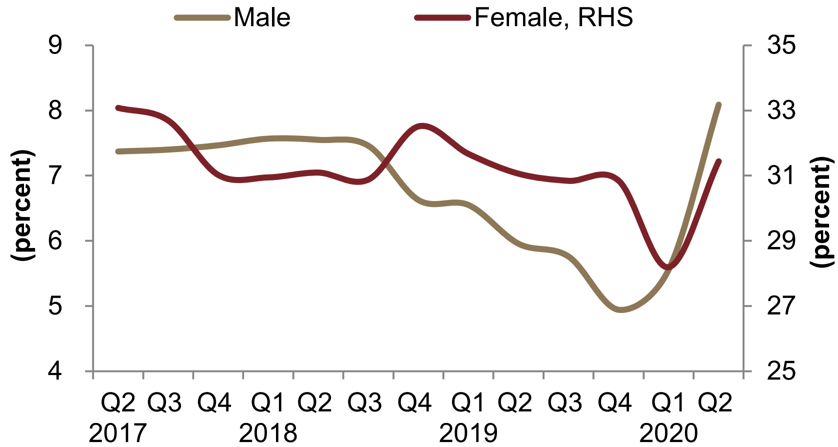
The Saudi unemployment rate rose in Q2 2020, to reach 15.4 percent, up from 11.8 percent in Q1 2020. As we highlighted in our latest [labor report,](#) we expect unemployment to rise during the year but to improve towards Q4, as economic activity picks up.

Unemployment Rates



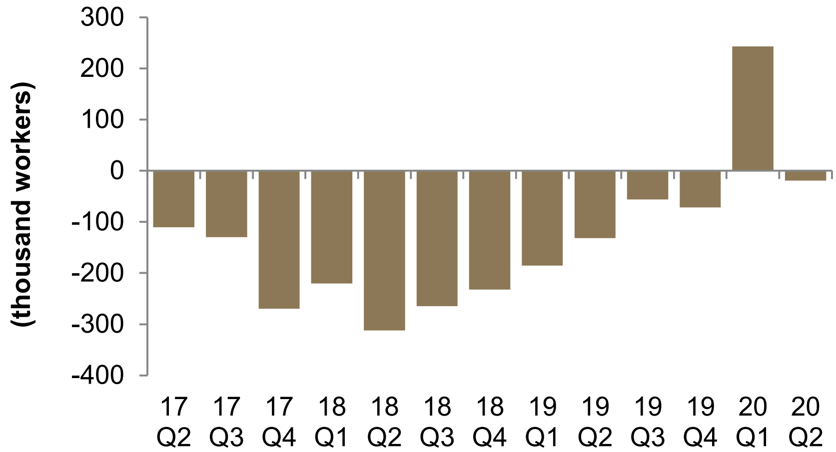
Both male and female unemployment rose. This was mainly due to a significant rise in youth unemployment, which rose from 31 percent in Q1 to 35 percent in Q2 2020.

Unemployment Rate by Gender



The number of expat departures on a quarterly basis slowed to its lowest level since Q1 2017, following a significant rise in Q1 2020 by 243 thousand workers.

Net change in the number of Expat workers in the Labor Market
(Excluding domestic workers)

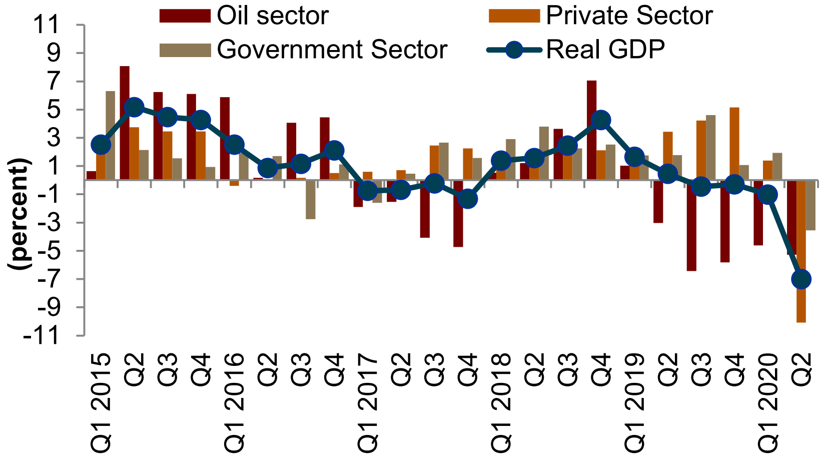


Q2 2020 GDP

Data on Q2 2020 real GDP showed that the economy contracted by 7 percent, year-on-year. The oil sector declined by 5.3 percent (43 percent share of GDP), whilst non-oil GDP declined by 8.2 percent. Within the non-oil sector, non-oil private sector GDP was down 10.1 percent (43 percent share of GDP) and the government sector's GDP declined by 3.5 percent (14 percent share of GDP).

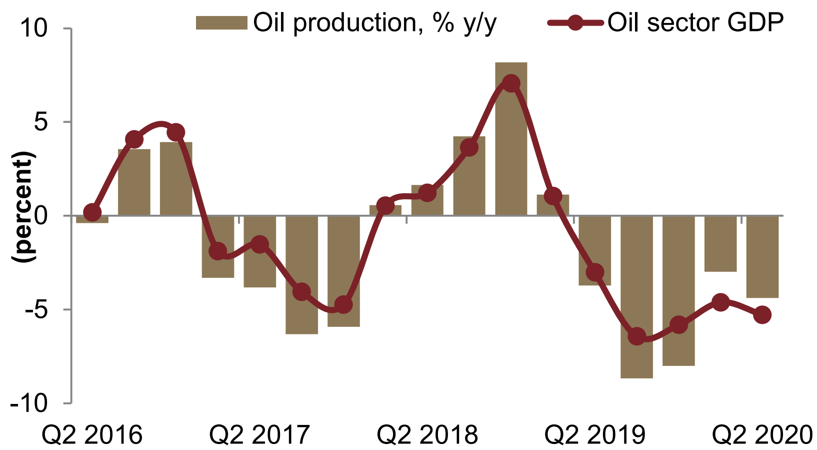
Data on Q2 2020 real GDP showed that the economy contracted by 7 percent, year-on-year. Looking ahead, whilst uncertainty related to COVID-19 will persist, the overall business environment is expected to progressively improve in the remainder of 2020. As such, we maintain our overall GDP forecast of -3.7 percent for Saudi Arabia in 2020.

GDP by Economic Sector
(year-on-year growth)



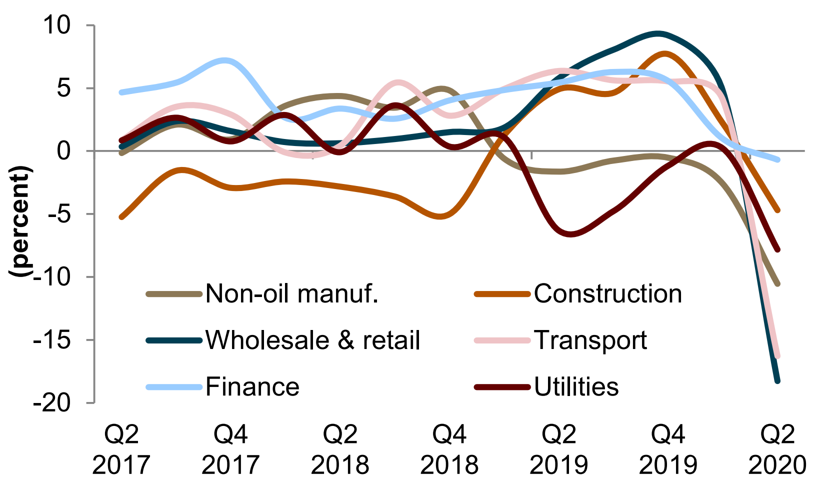
The oil sector declined by 5.3 percent (43 percent share of GDP) due to Saudi Arabia's compliance with OPEC and partners (OPEC+) agreement, and as a result of an additional voluntary reduction (by 1 million barrels per day) in June. Looking ahead, ongoing efforts by OPEC+ to stabilize oil markets means we expect to see continued yearly declines in oil GDP in H2 2020, with full year oil GDP expected at -4.8 percent.

Oil Sector GDP
(year-on-year growth)



Non-oil private sector GDP was down 10.1 percent (43 percent share of GDP). Whilst representing a huge decline, it comes as no surprise considering the implementation of national lockdowns and curfews during the second quarter. In line with our projections (in our macroeconomic update), the 'Wholesale & Retail Trade etc','Transport, Storage & Communication', and ''Other Manufacturing, sectors were worst hit during Q2.

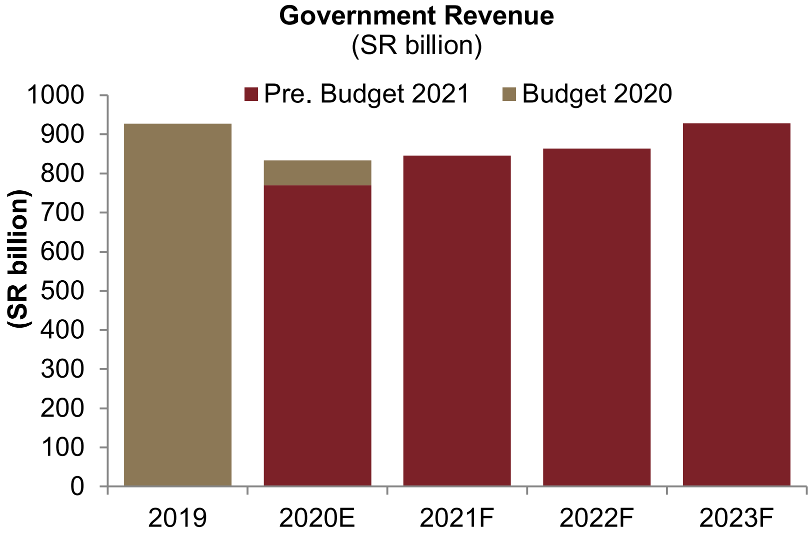
Non-Oil Private Sector GDP
(year-on-year growth)



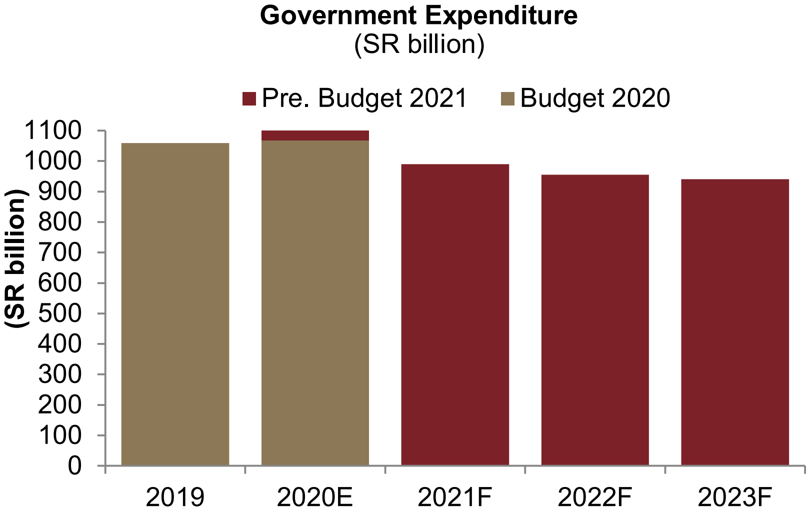
2021 Preliminary Budget Statement

The government's preliminary budget statement revised 2020 numbers but kept 2021-22 forecasts virtually unchanged compared to last year's budget statement. Overall, for 2020, lower levels of projected revenue, at SR770 billion (vs. SR833 billion previously) and higher expenditure, at SR1068 billion (vs. SR1020 billion previously) is expected to widen the fiscal deficit further by SR111 billion, at a total of SR298 billion (or -12 percent of GDP).

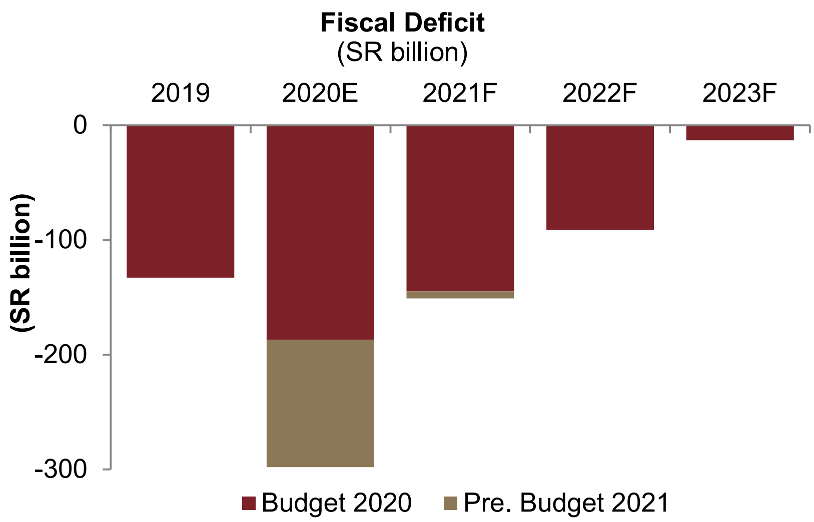
In 2020, revenue is expected to total SR770 billion, around SR63 billion (or 8 percent) lower than previously budgeted total of SR833 billion in last year's budget statement. Meanwhile, 2021-22 forecasts remained virtually unchanged.



Again, on the expenditure side, the major change in MoF's forecasts relate to 2020, with expenditure expected to be SR48 billion higher than previously projected, at SR1068 billion, with negligible changes to 2021-22 forecasts.



As a result, the MoF now expects the fiscal deficit to hit SR298 billion or -12 percent of GDP, compared to SR187 billion (-6.4 percent of GDP) previously (versus our forecast of SR366 billion or -13.4 percent of GDP). Despite an upward revision in 2020 total debt issuance, public debt is expected to grow more or less in line with previous forecasts between 2021-22, and will total SR1029 billion in 2023 (31.8 percent of GDP) according to the statement.



Balance of Payments

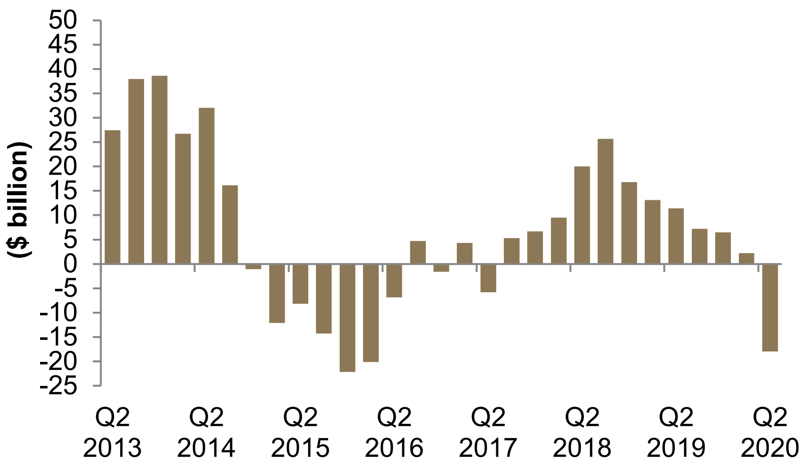
As expected, Q2 2020 data showed that the current account moved into a deficit of $18 billion (vs. a surplus of $11.4 billion & $2.2 billion in Q2 2019 & Q1 2020 respectively).

The deficit was brought about by a sharp deterioration in the trade balance during the quarter, with a steeper decline in exports (by -54 percent year-on-year), than imports (-22 percent year-on-year).

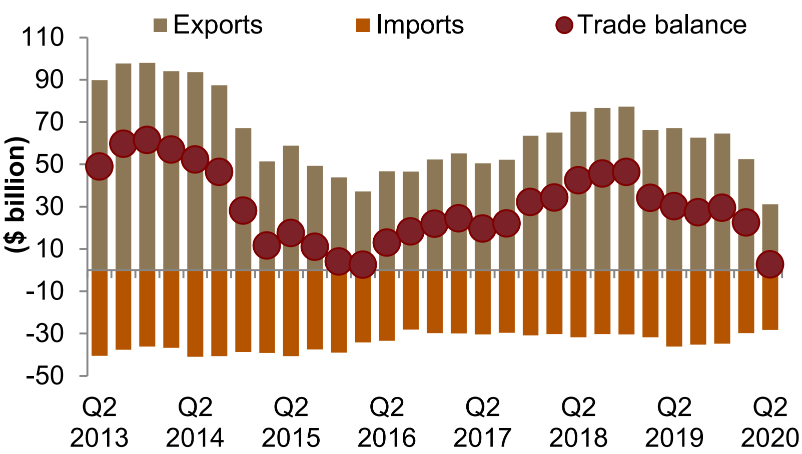
Looking ahead, we expect the current account to improve in H2 2020, thereby resulting in a mild deficit for the full year.

As expected, Q2 2020 data showed that the current account moved into a deficit of $18 billion or -12 percent of GDP (vs. a surplus of $11.4 billion in Q2 2019 or 5.8 percent of GDP). The deficit was brought about by a sharp deterioration in the trade balance during the quarter, with a steeper decline in exports (by -54 percent year-on-year), than imports (-22 percent year-on-year).

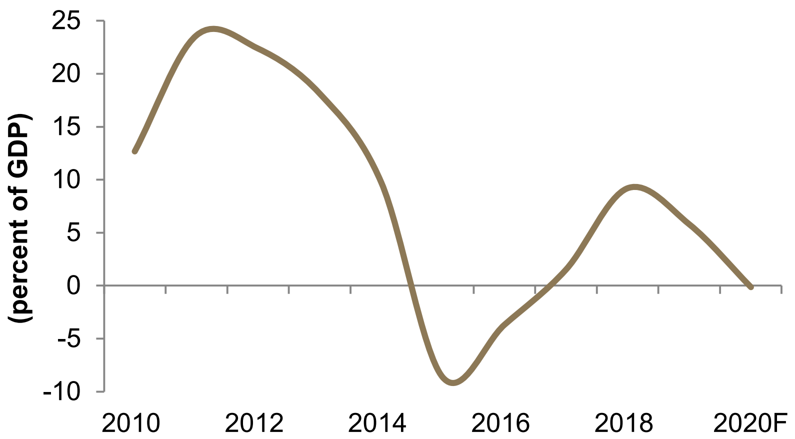
Current Account Balance



Trade Balance



Current Account Balance
(forecast)

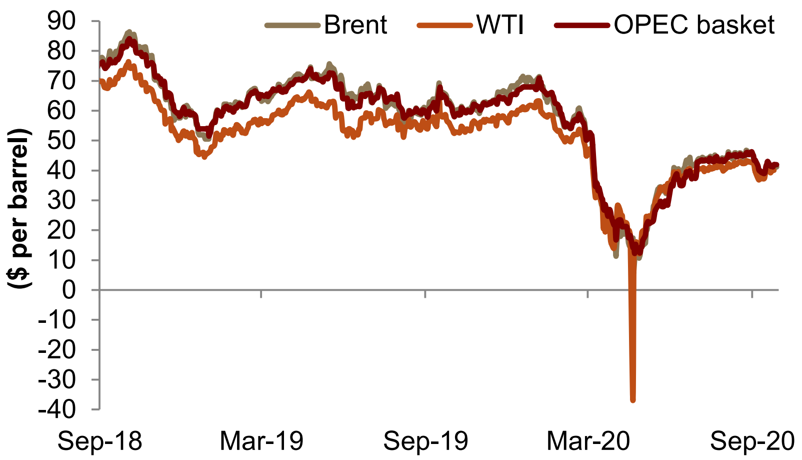


Oil - Global

Oil prices weakened month-on-month in September as a number of countries (especially in Europe) saw rising cases in what is evidently a second wave of COVID-19. The potential impact on oil demand of various preventative measures associated with a second wave is being somewhat exacerbated by the prospect of higher oil supply from Libya, in turn, adding more downward pressure on oil prices.

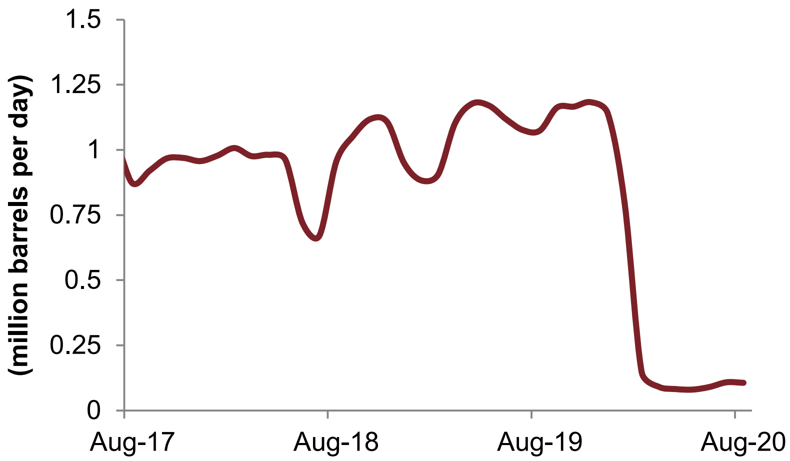
Oil prices weakened, with Brent oil prices down 10 percent month-on-month in September, as a number of countries (especially in Europe) saw rising cases in what is evidently a second wave of COVID-19.

Oil Prices



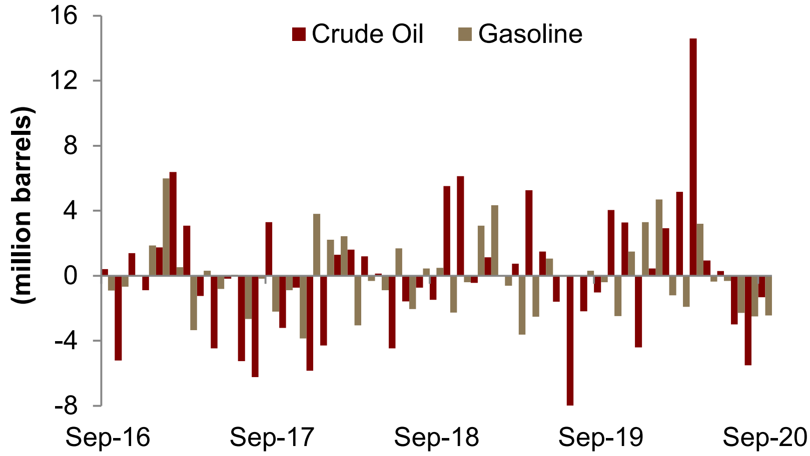
The prospect of higher oil supply from Libya is also adding downward pressure on oil prices. Initial reports suggest that Libyan oil production has surged 300 percent compared to August's output of 100 thousand barrels per day (tbpd). Whilst there are still a number of challenges in restoring Libyan oil output to previous highs of circa 1 million barrels per day (mbpd), needless to say, any further sizable output will weigh on the outlook of oil prices henceforth.

Libyan Crude Oil Production
(secondary sources)



Meanwhile, US commercial oil and gasoline stocks showed monthly declines during September, despite the end of the summer driving season (when demand for gasoline is typically at its seasonal peak), perhaps explaining why the US oil benchmark, WTI, declined by a lesser level of 7 percent month-on-month.

Change in US Commercial Oil and Gasoline Stocks
(month-on-month change)



Oil - Regional

Saudi crude oil production rose by 0.5 million barrels per day (mbpd) month-on-month in August to just under 9 mbpd, in-line with OPEC+ levels. Meanwhile, latest available Joint Organizations Data Initiative (JODI) numbers for July shows that direct crude oil burn hit its highest level in three years on the back of higher domestic electricity consumption.

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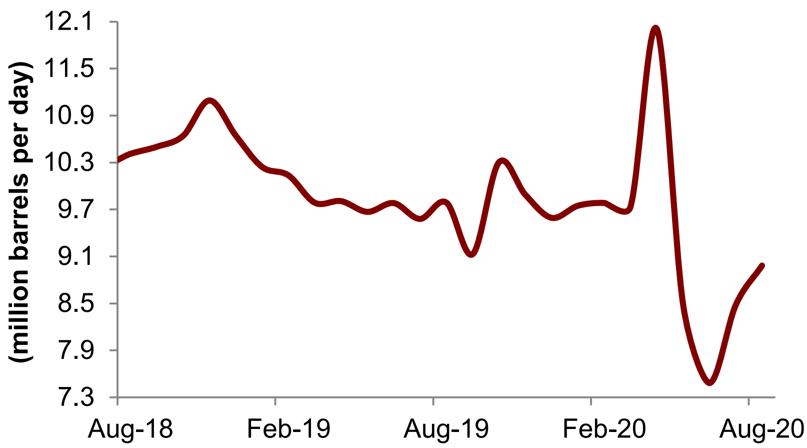
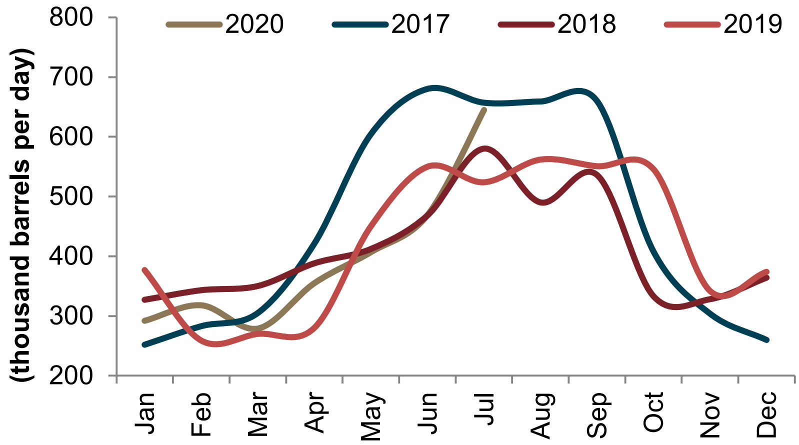
Average Monthly Saudi Crude Oil Production
(direct communication)



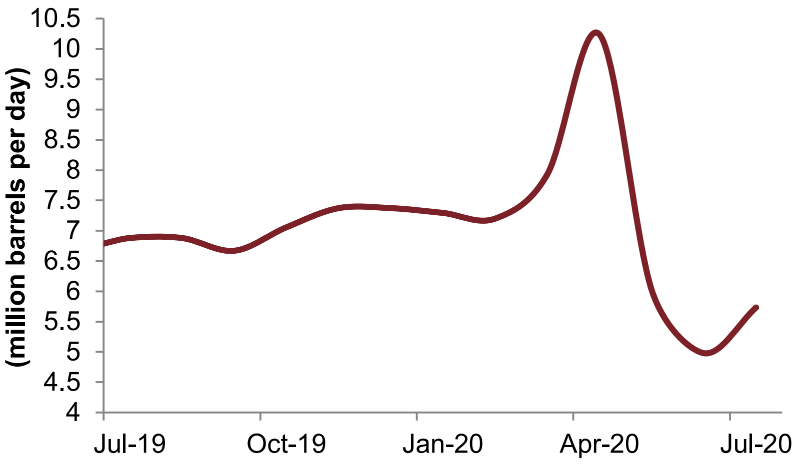
Meanwhile, the combination of soaring summer temperatures, higher residential electricity demand (due to a ban on commercial air travel), and lower associated gas output (due to lower yearly Saudi oil output) meant July saw the highest level of direct crude oil burn in three years.

Saudi Direct Crude Oil Burn
(monthly average)



Moreover, as a result of higher crude oil burn, Saudi oil exports did not rise as much as overall oil production month-on-month in July.

Saudi Crude Oil and Refined Product Exports
(monthly average)

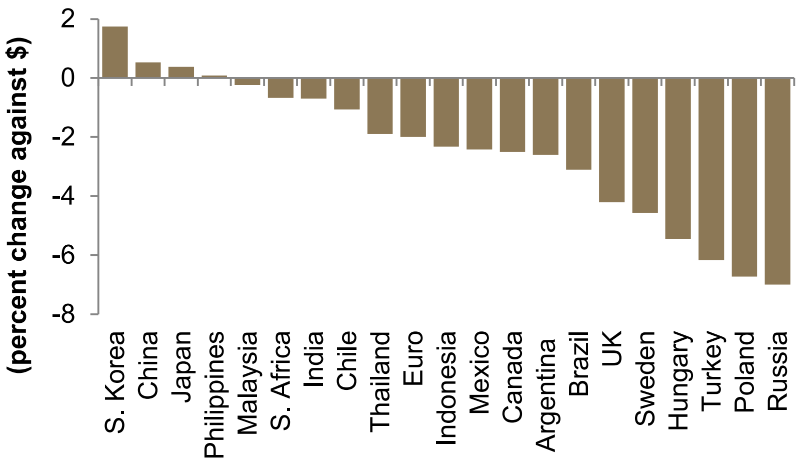


Exchange Rates

Most currencies depreciated against the US dollar during September despite the US Federal Reserve (Fed) reiterating, in a recent meeting, that it expected short-term borrowing rates to remain unchanged for the foreseeable future. The recent strength in the US dollar is likely to be short-lived, with global investors rushing to safe haven assets as concerns built over a second wave in COVID-19 in various parts of the world.

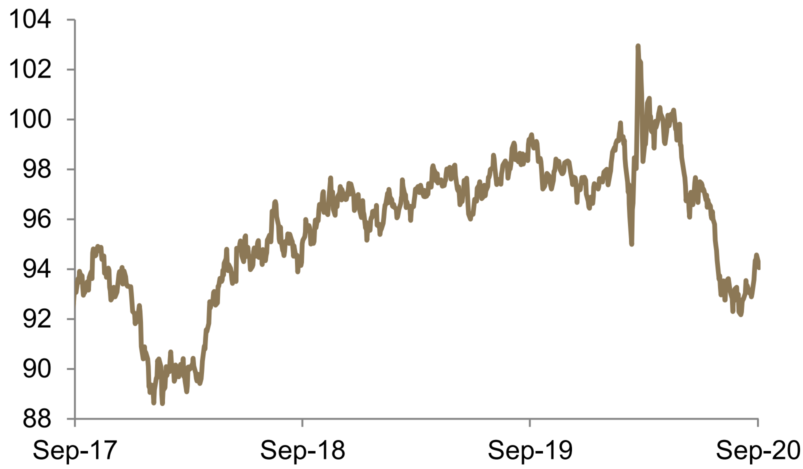
Most currencies depreciated against the US dollar during September.

Monthly Gain/Loss Against US Dollar
(September 2020)

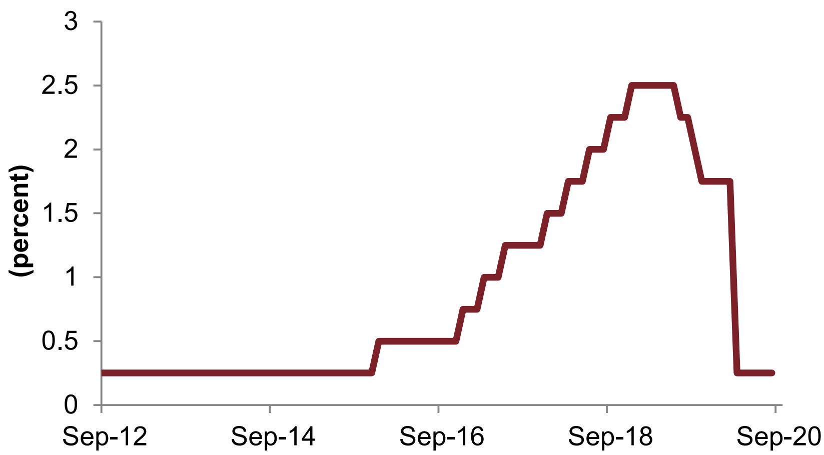


The recent strength in the US dollar is likely a result of risk-off sentiment seen by global investors due to concerns of a second wave in COVID-19 cases around the world.

Trade Weighted Dollar



US Federal Fund Target Rate



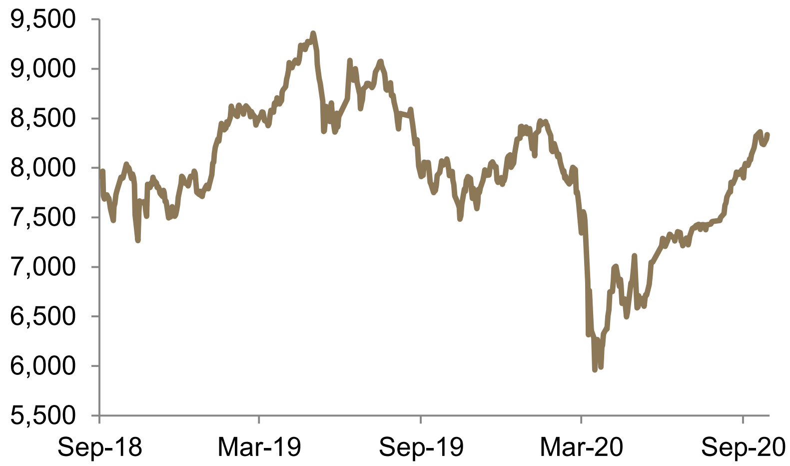
That said, the overall consensus seems to point to a steadily weakening US dollar over the near-to-medium term, with the US Fed recently outlining that interest rates would likely remain unchanged until inflation averaged 2 percent (currently 1.7 percent) over an unspecified period of time.

Stock Market

Optimism over the path to recovery for the economy, as well as talks of a potential consolidation within the 'Materials' sector, helped TASI rise 4.5 percent month-on-month. We also see some of the recent rises in TASI being partly supported by larger participation of retail investors. Meanwhile, net purchases of SWAPs and buying by qualified foreign investors (QFIs) continued in September, pushing year-to-date inflows to SR16.8 billion ($4.4 billion).

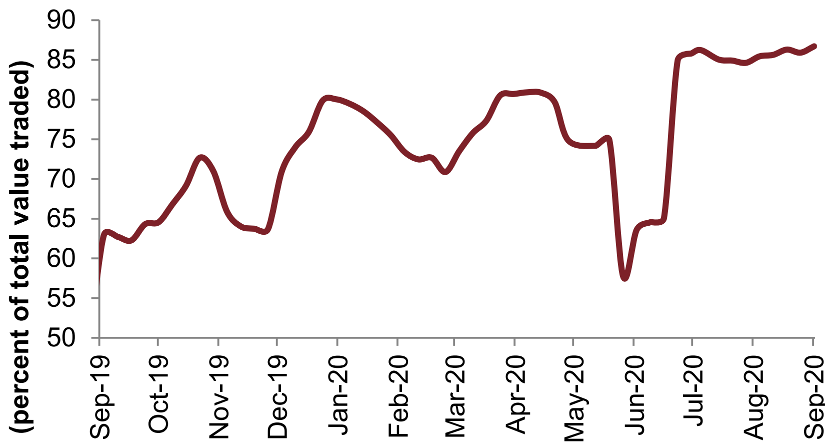
Optimism over the path to recovery for the economy, with a partial lifting of air travel restrictions, as well as talks of a potential consolidation within the 'Materials' sector, helped TASI rise 4.5 percent month-on-month.

TASI



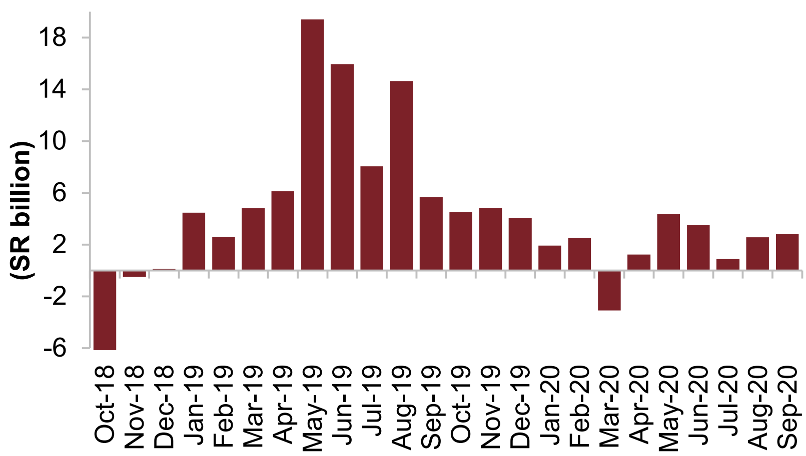
We also see some of the recent rises in TASI being partly supported by a larger participation from retail investors, with this segment's portion to total value traded rising to around 85 percent since July 2020, versus an average of 73 percent in the preceding year.

Individual Investors as a Percentage of Total Value Traded
(four week moving average)



Meanwhile, net purchases of SWAPs and buying by qualified foreign investors (QFIs) continued in September, pushing year-to-date inflows to SR16.8 billion ($4.4 billion).

Net purchases of SWAPs and buying by QFIs
(monthly total)



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The data contained in this research is sourced from Reuters, Bloomberg, The World Bank, Tadawul and national statistical sources unless otherwise stated.

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Key Data

	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Nominal GDP									
(SR billion)	2,800	2,836	2,454	2,419	2,582	2,934	3,044	2,722	3,061
($ billion)	747	756	654	645	689	782	812	726	816
(% change)	1.5	1.3	-13.5	-1.4	6.8	13.6	3.7	-10.6	12.5
Real GDP (% change)									
Oil	-1.6	2.1	5.3	3.6	-3.1	3.1	-3.6	-4.8	4.3
Non-oil private sector	7.0	5.4	3.4	0.1	1.5	1.9	3.8	-4.5	3.2
Non-oil government	5.1	3.7	2.7	0.6	0.7	2.9	2.2	0.5	1.5
Total	2.7	3.7	4.1	1.7	-0.7	2.4	0.3	-3.7	3.3
Oil indicators (average)									
Brent ($/b)	110	99	52	43	54	71	66	43	55
Production (million b/d)	9.6	9.7	10.2	10.4	10.0	10.3	9.8	9.2	9.6
Budgetary indicators (SR billion)									
Government revenue	1,156	1,044	616	519	692	906	917	653	856
Government expenditure*	994	1,140	1,001	936	930	1,079	1,048	1,019	990
Budget balance	162	-96	-385	-417	-238	-173	-131	-366	-134
(% GDP)	5.8	-3.4	-15.7	-17.2	-9.2	-5.9	-4.3	-13.4	-4.4
Gross public debt	60	44	142	317	443	560	678	854	948
(% GDP)	2.1	1.6	5.8	13.1	17.1	19.1	22.3	31.4	31.0
Monetary indicators (average)									
Inflation (% change)	3.5	2.2	1.2	2.1	-0.8	2.5	-2.1	3	3.2
SAMA base lending rate (%, end year)	2.0	2.0	2.0	2.0	2.0	3.0	2.3	0.50	0.75
External trade indicators ($ billion)									
Oil export revenues	322	285	153	137	171	232	202	132	171
Total export revenues	376	342	204	184	222	294	262	176	218
Imports	153	158	159	128	123	126	132	100	122
Trade balance	223	184	44	56	98	169	129	76	96
Current account balance	135	74	-57	-24	10	72	47	-1.0	22
(% GDP)	18.1	9.8	-8.7	-3.7	1.5	9.2	5.8	-0.1	2.7
Official reserve assets	726	732	616	536	496	497	500	426	429
Social and demographic indicators									
Population (million)	29.6	30.3	31.0	31.7	32.7	32.5	32.6	31.8	32.0
Saudi Unemployment (15+, %)	11.7	11.7	11.5	12.5	12.8	12.7	12.0	12.0	11.8
GDP per capita ($)	25,223	24,962	21,095	20,318	21,048	24,065	24,890	22,794	25,477

Sources: Jadwa Investment forecasts for 2019 and 2020. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.
*Note: 2016 government expenditure includes SR105 billion in due payment from previous years.