



Summary

Real Economy: October data showed a mixed picture for domestic economic activity. Data on consumer spending point to healthy growth, while PMI fell to its lowest point on record.

Government Finance: In October, the net monthly change to government accounts with SAMA came out positive for the first time in eleven months.

Foreign Reserves: SAMA foreign reserves fell to \$644 billion in October. However, the net monthly withdrawals continued to be smaller than the first half of 2015.

Banking Indicators: In month-on-month terms, bank lending to the private sector rose by 0.8 percent. Total bank deposits fell by SR 51 billion, with independent government institutions withdrawing deposits to free up liquidity in order to purchase government bonds. The loan-to-deposit ratio rose to 83.7, its highest point since 2009.

Inflation: Inflation continued to edge upwards for the third consecutive month to reach 2.4 percent in October. Housing inflation was again the main force behind this rise as it accelerated to 4.4 percent.

Trade: In September, non-oil exports continued to trend downwards due to weaker global demand so far in 2015. Imports continued to post a year-on-year decline as well, both in value and volume terms.

Oil-Global: Brent oil prices averaged \$44 per barrel (pb) during November, down from \$48 pb (-10 percent) in the previous month.

Oil-Regional: Saudi Arabian crude production was flat month-on-month, at around 10.2 mbpd in October. We do not see any significant policy change at the OPEC meeting in early December.

Exchange Rates: The dollar/riyal peg remains under speculative pressure despite ample government reserves and a clear commitment by SAMA to maintain the peg. The euro dropped against the dollar in November as the likelihood of the Federal Reserve (Fed) tightening monetary policy in December increased.

Stock Market: The TASI rose by 1.6 percent, month-on-month, in November as it became apparent that it had been oversold in the previous three months.

Volumes: November turnover in the TASI was flat month-on-month.

Valuations: The improvement in the TASI's monthly performance was reflected in the slight upward movement in the Saudi benchmark's price-to-earnings (PE) during the month of November.

Sectoral Performance: Ten out of the 15 sectors in the TASI saw positive performance in the month of November.

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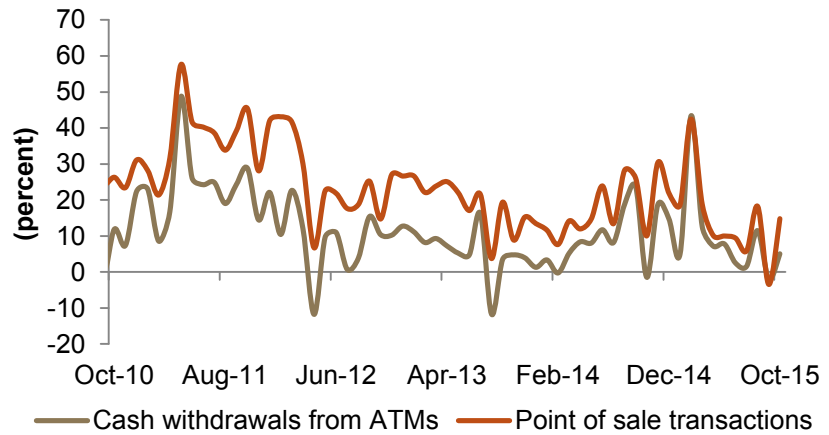


Real Economy

October data showed a mixed picture for domestic economic activity. Data on ATM withdrawals and point-of-sales transactions indicate healthy growth in consumer spending. PMI fell to its lowest point on record but continues to show an expanding non-oil sector. Cement production and sales were up both in year-on-year and monthly terms.

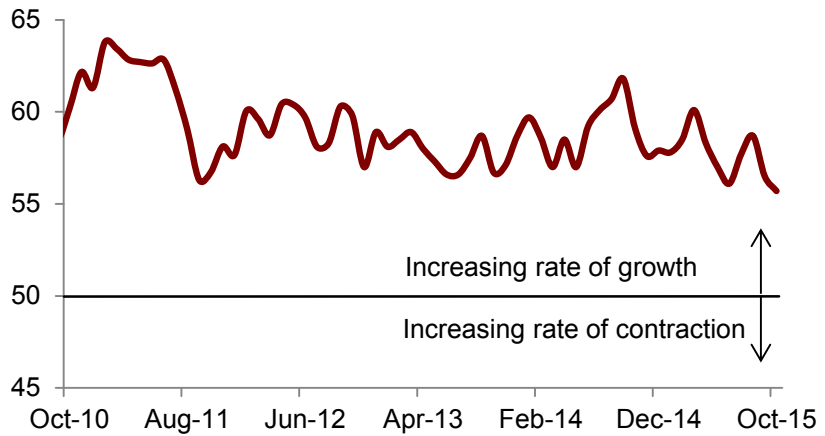
ATM withdrawals and point-of-sales transactions were up 5 percent, and 14.8 percent, year-on-year respectively.

Indicators of consumer spending



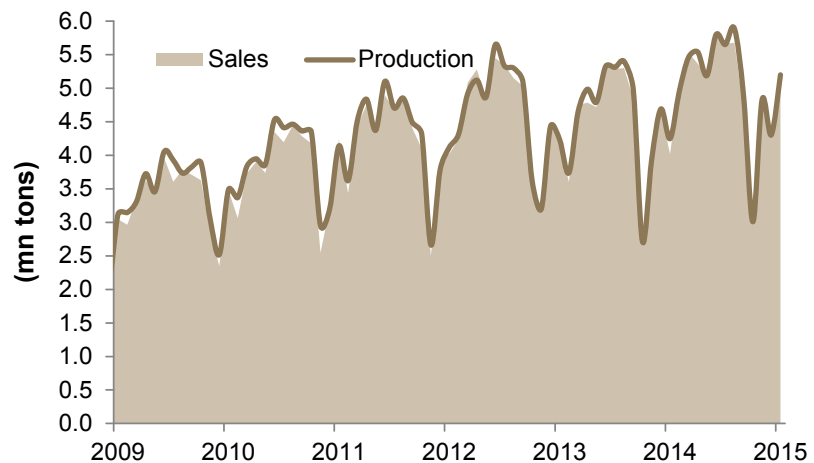
PMI fell to 55.7, its lowest on record, but continues to show an expansion in the non-oil sector.

Purchasing managers index



Cement production and sales were up by 22.4 percent, and 27.7 percent, year-on-year, respectively.

Cement production and sales



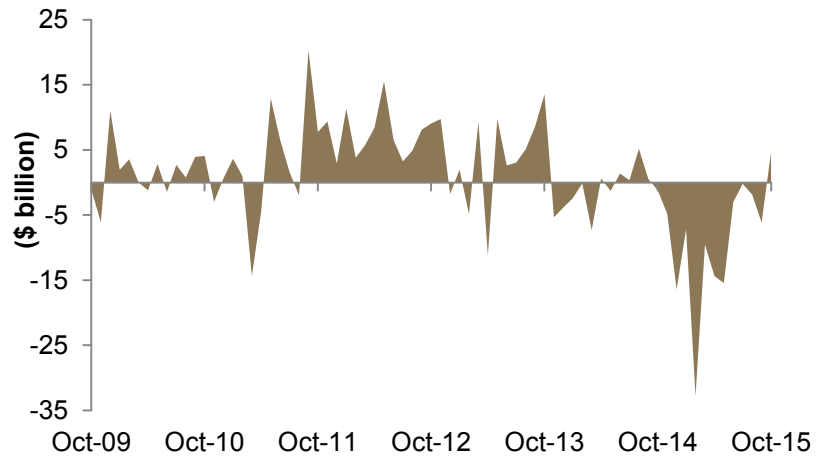


Government Finance

In October, the net monthly change in government accounts with SAMA came out positive for the first time in eleven months. We think this improvement reflects the lower spending by the government compared to earlier in the year.

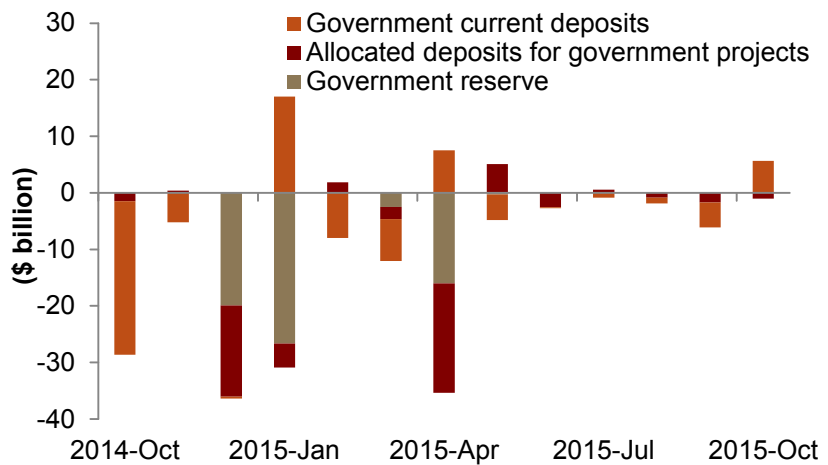
The net monthly change to government accounts recorded its first increase in eleven months, rising by \$4.6 billion...

Government accounts with SAMA
(month-on-month change)



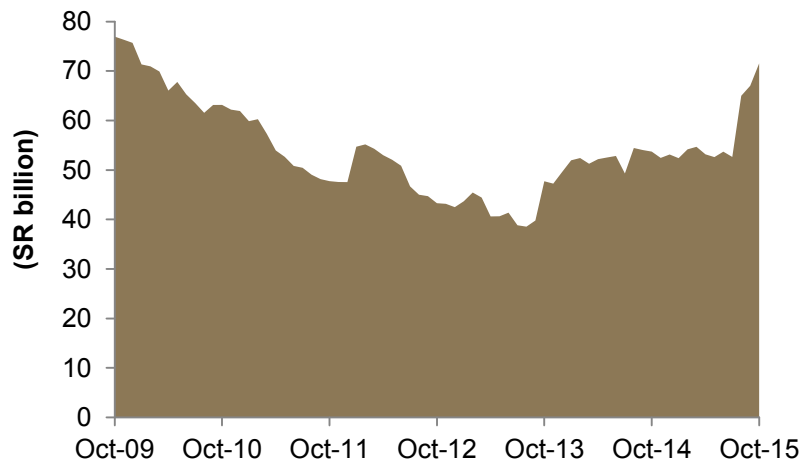
... the increase was mainly due to a \$5.6 billion net monthly addition to current deposits.

Breakdown of government accounts
(month-on-month change)



Bank holdings of government bonds rose by SR 4.5 billion, month-on-month.

Bank holdings of government bonds



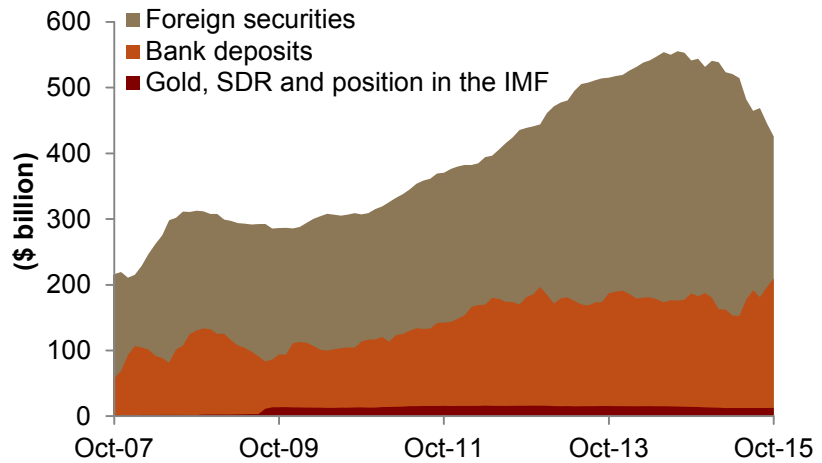


Foreign reserves

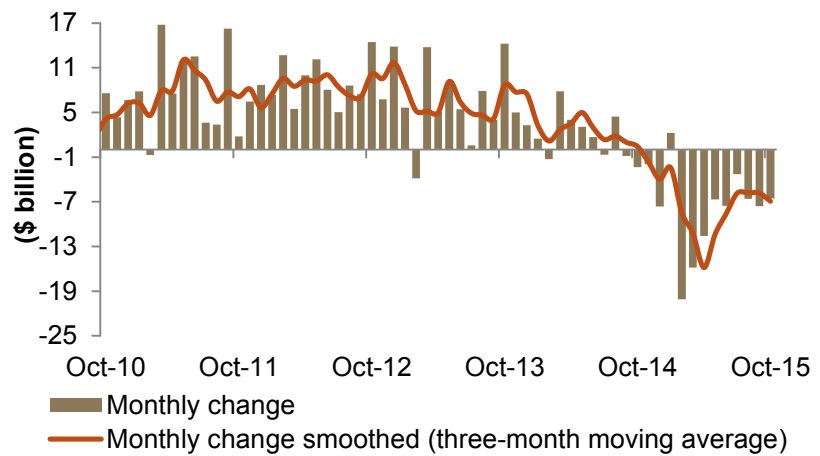
SAMA foreign reserves fell to \$644 billion in October. However, the net monthly withdrawals continued to be at a slower rate than the first half of 2015, reflecting the effectiveness of the new financing strategy. Within foreign reserves, bank deposits now constitute 32.4 percent of total reserves in October, rising from 24.6 percent in January.

SAMA foreign reserves fell to \$644 billion in October, compared to \$651 billion in the previous month.

SAMA foreign reserve assets

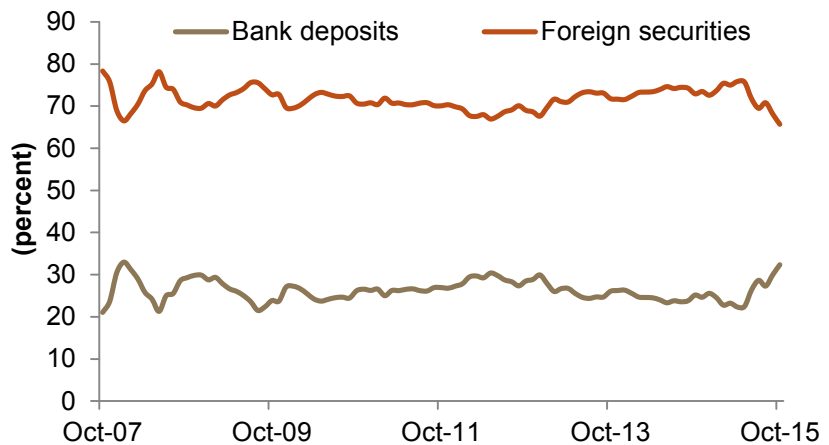


SAMA foreign reserve assets (month-on-month change)



The net monthly withdrawals continued to be smaller than the first half of 2015.

Breakdown of SAMA foreign reserves (percent of total reserves)



Within foreign reserves, deposits with banks abroad rose by \$22.4 billion since the start of the year.

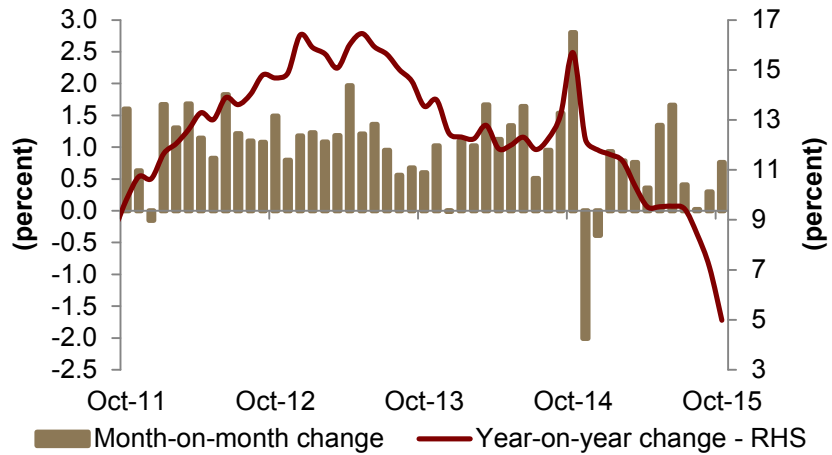


Banking indicators

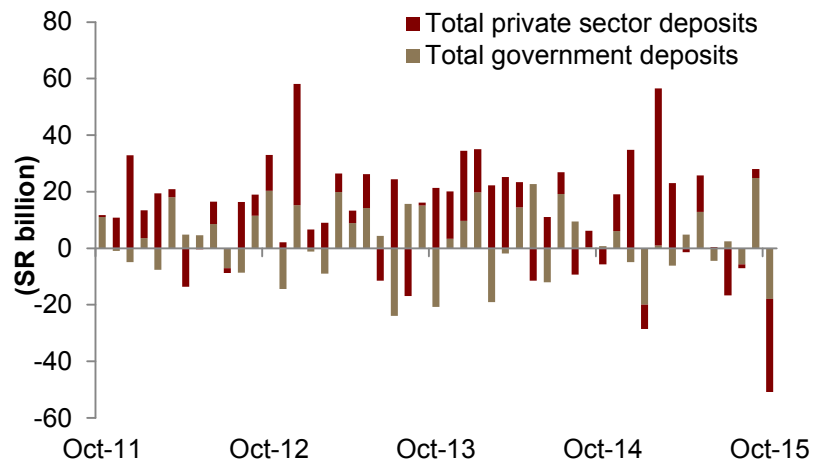
Growth in bank lending to the private sector slowed to 5.0 percent, year-on-year, mainly due to a higher base effect. In month-on-month terms, bank lending rose by 0.8 percent, while deposits fell by SR 51 billion. The negative monthly growth in deposits relative to credit pushed the loan-to-deposit ratio to its highest point since 2009.

The slower year-on-year rise of 5.0 percent was mainly due to a higher base in October 2014, when banks aggressively extended credit to finance subscriptions for National Commercial Bank's IPO.

Bank lending to the private sector

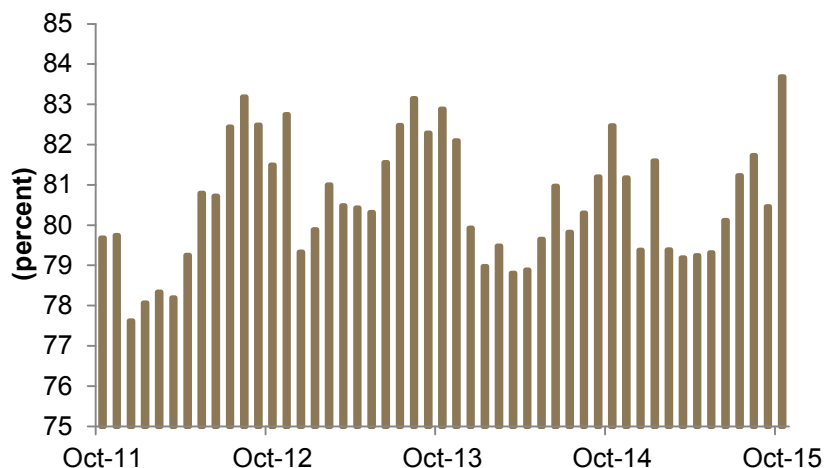


Deposits by institutional sector
(month-on-month change)



Total deposits fell by 3.1 percent (SR 51 billion), month-on-month, dragged down by withdrawals from independent government institutions to free up liquidity in order to purchase government bonds.

Loan-to-deposit ratio



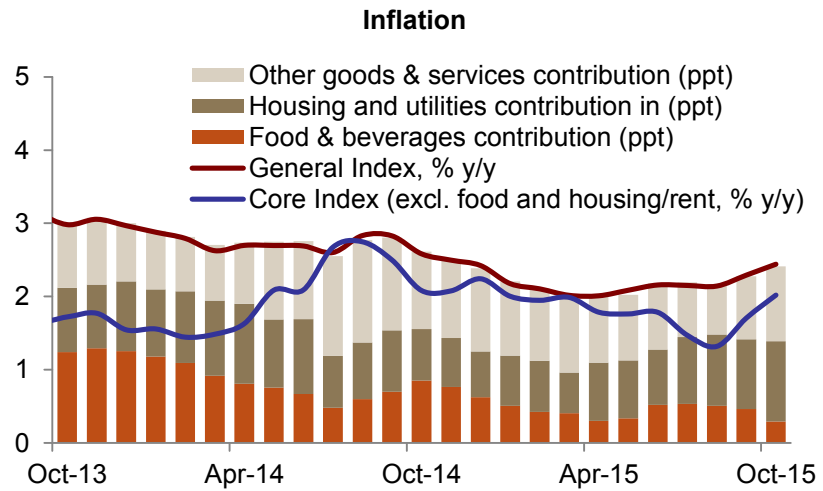
Negative monthly growth in deposits relative to a positive 0.8 monthly growth in credit pushed up the loan-to-deposit ratio to 83.7, a six-year high.



Inflation

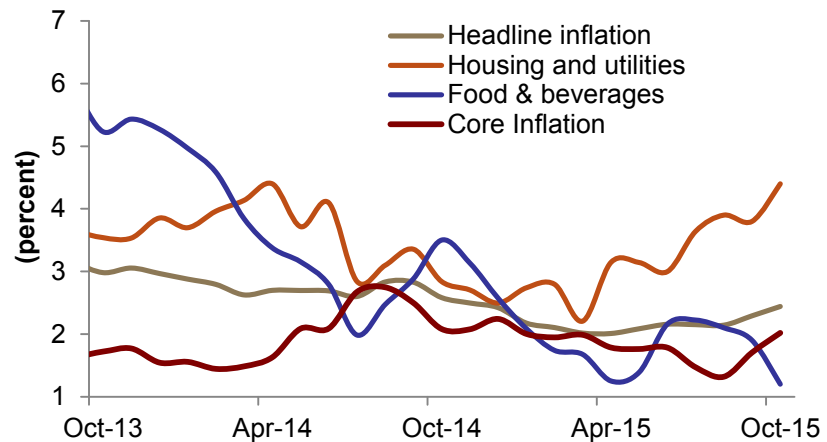
Inflation continued to edge upwards for the third consecutive month to reach 2.4 percent in October. Housing inflation was again the main force behind this rise as it accelerated to 4.4 percent, its fastest in eighteen months. The core index rose as well, reaching its highest point in 2015, while food inflation trended downwards.

Inflation rose to 2.4 percent in October, mainly due to an acceleration in housing inflation.



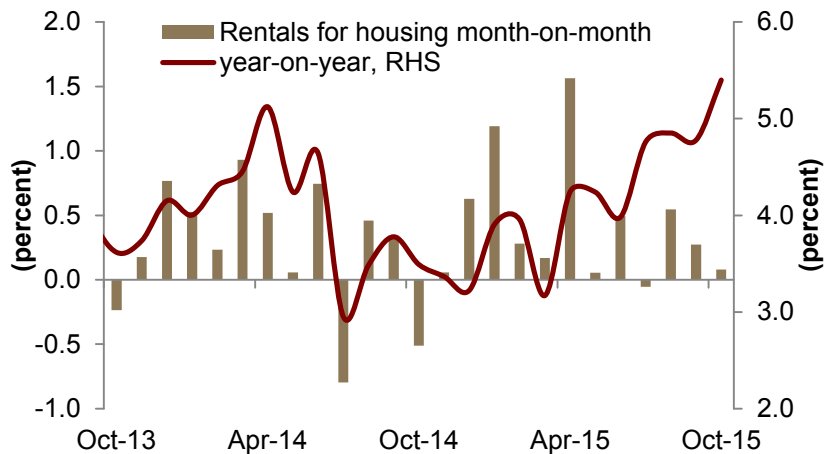
Headline, housing, food, and core inflation
(year-on-year change)

The core index rose to 2 percent, while food inflation slowed to 1.2 percent.



Rental inflation

Housing inflation was pushed up by a record rise in rentals for housing. We think this rise reflects increasing preference in renting over owning properties, as anticipation of further progress in housing initiatives builds up.

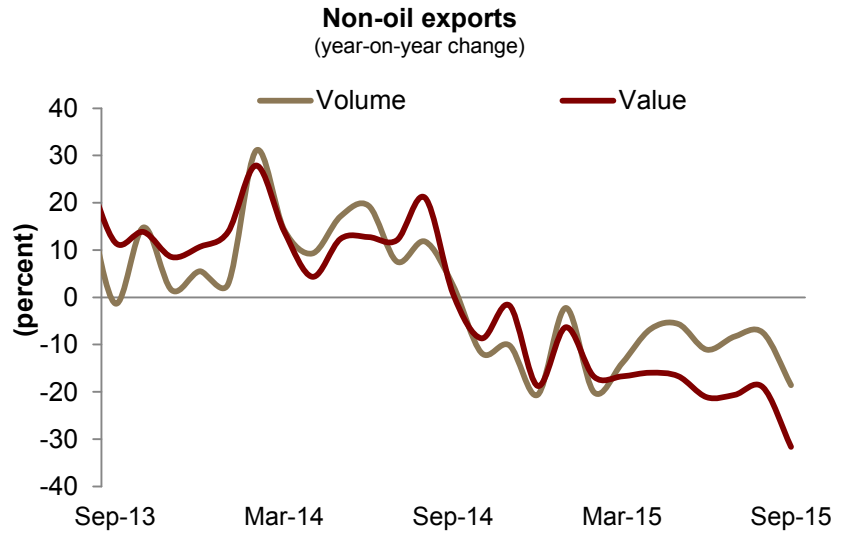




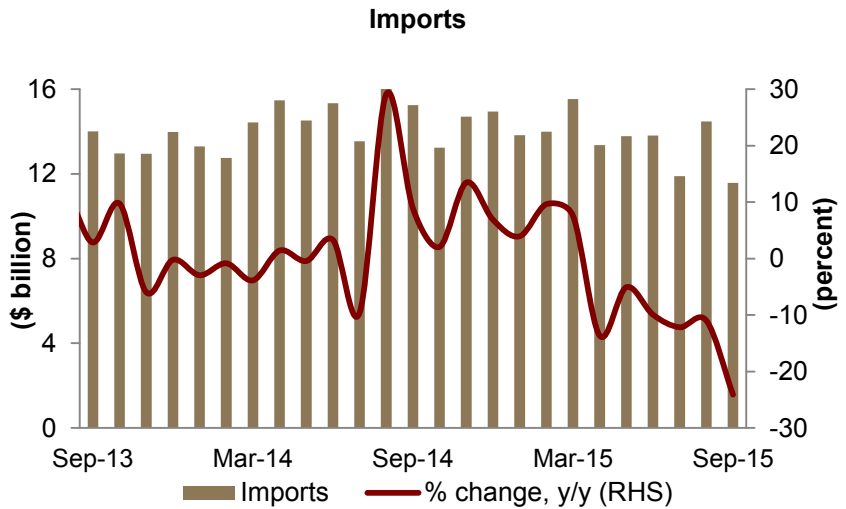
Trade

In September, non-oil exports continued to trend downwards due to weaker global demand so far in 2015. Imports continued to post a year-on-year decline in both in value and volume terms as well. The value of new letters of credit opened by the private sector point to a likely continuation of lower imports in coming months.

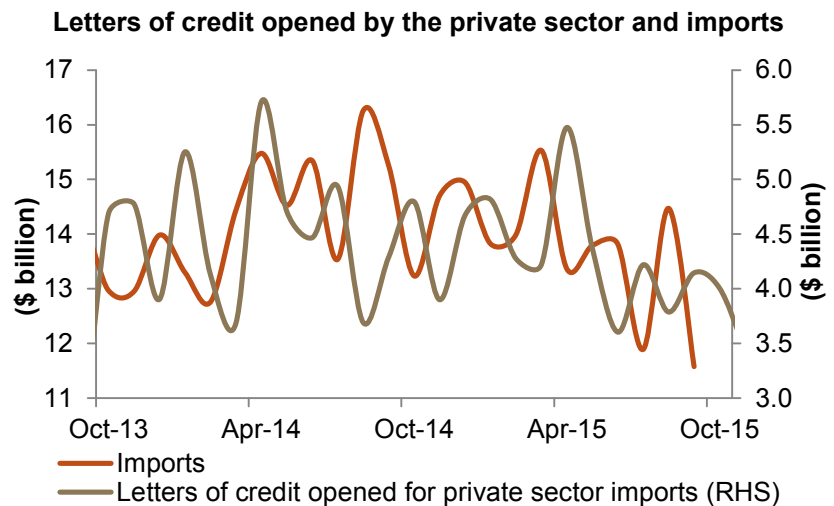
Non-oil exports continued to post negative year-on-year growth in September, falling by 31.6 percent in value and 18.6 percent in volume.



Imports fell by 6.6 percent year-to-September, compared to the same period in 2014.



Data on new LOCs opened point to a likely continuation of lower imports in coming months.

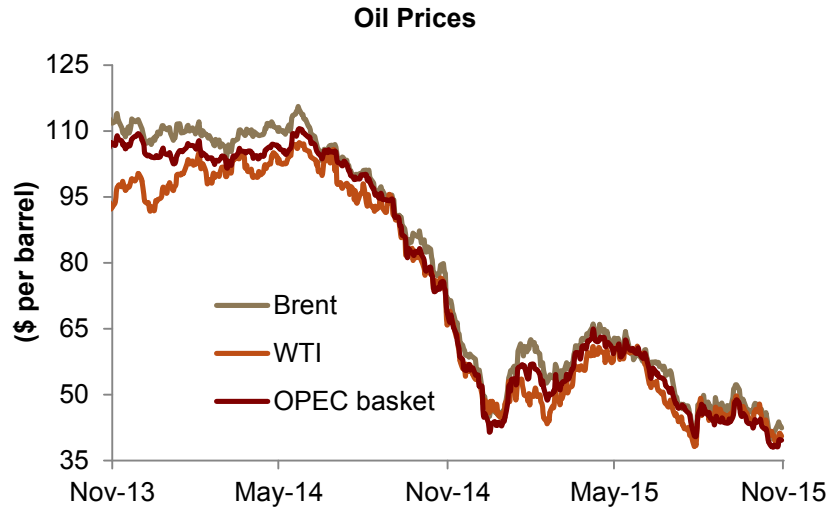




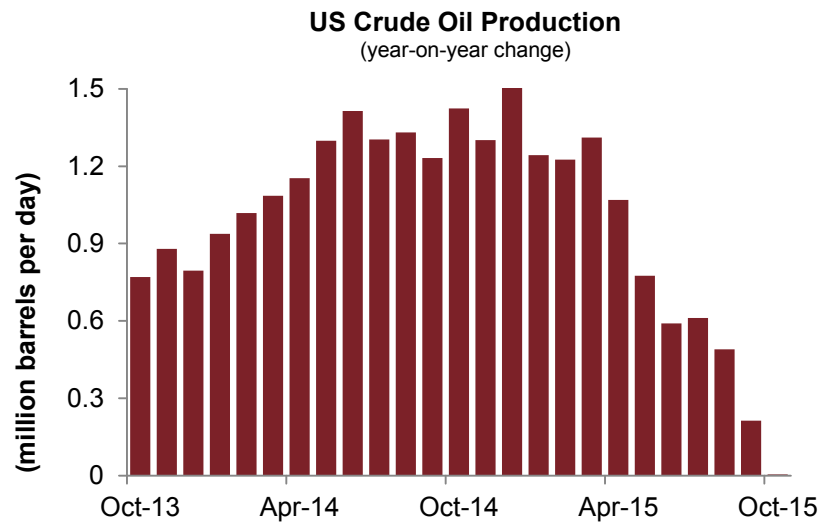
Oil - Global

Brent oil prices averaged \$44 per barrel (pb) during November, down from \$48 pb (-10 percent) in the previous month. Although supply from non-OPEC sources, namely shale oil, has showed signs of slower year-on-year growth, this has been compensated by higher OPEC output.

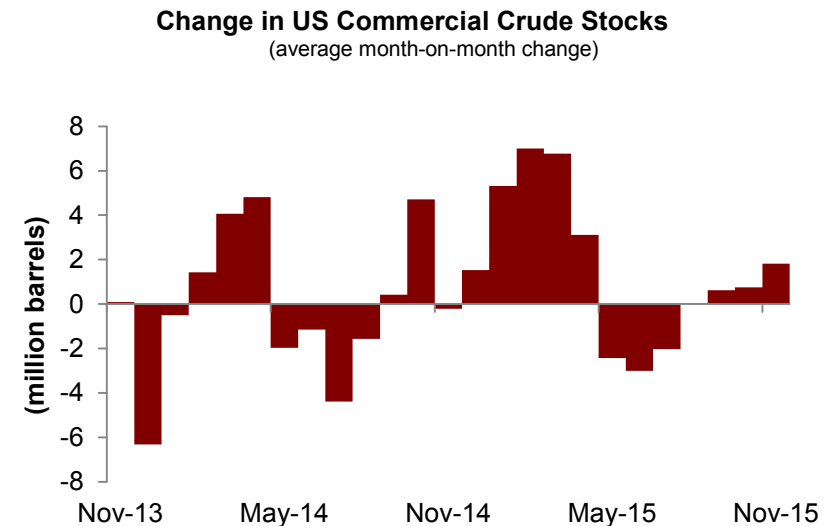
Both WTI and Brent trended downwards in November as oversupplied markets remains an issue...



...even as year-on-year growth in US production dropped to near-zero...



...although US crude commercial stocks continued to build.



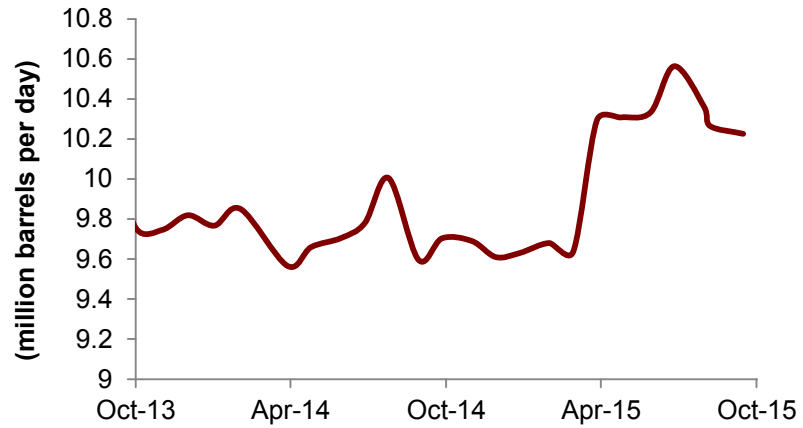


Oil - Regional

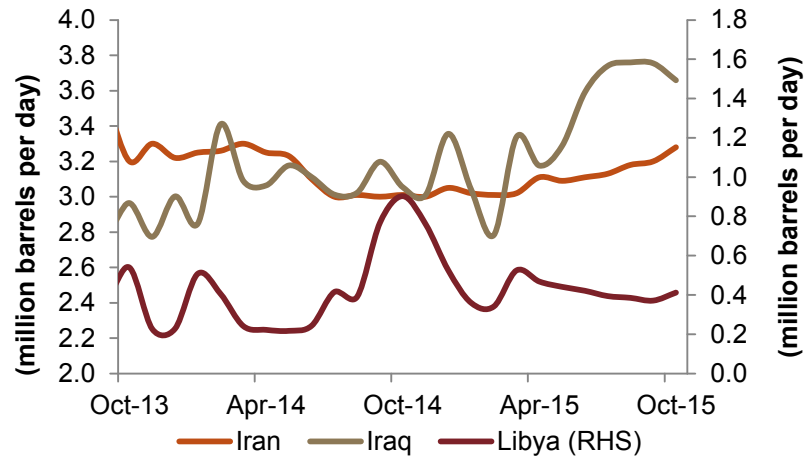
Saudi Arabian crude production was flat month-on-month, at around 10.2 mbpd in October. We do not see Saudi Arabia changing course on its strategy of retaining market share and therefore there is unlikely to be any significant policy change at the OPEC meeting in early December.

In late November the Saudi cabinet did indicate that it was willing to work with both OPEC and non-OPEC members to stabilize prices...

Saudi crude production

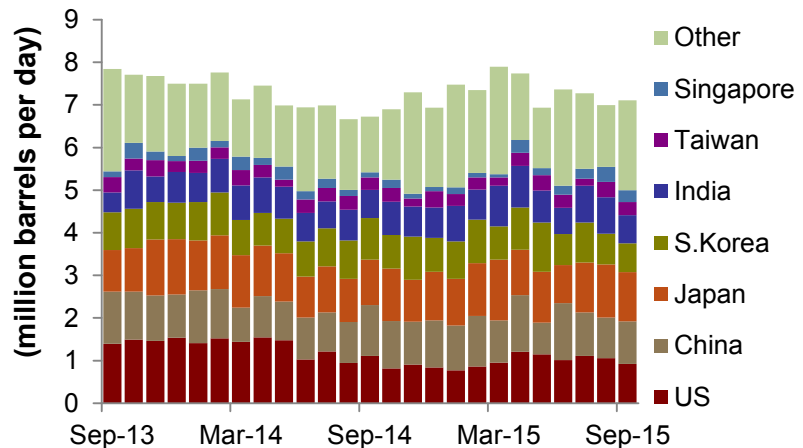


Iraq, Iran and Libya production



.... but we see cuts in production in OPEC materializing only if large non-OPEC producers carry out coordinated output cuts too.

Saudi crude exports by country
(monthly average)



Meanwhile, latest available data on Saudi exports showed a month-on-month rebound in September back above 7 mbpd.

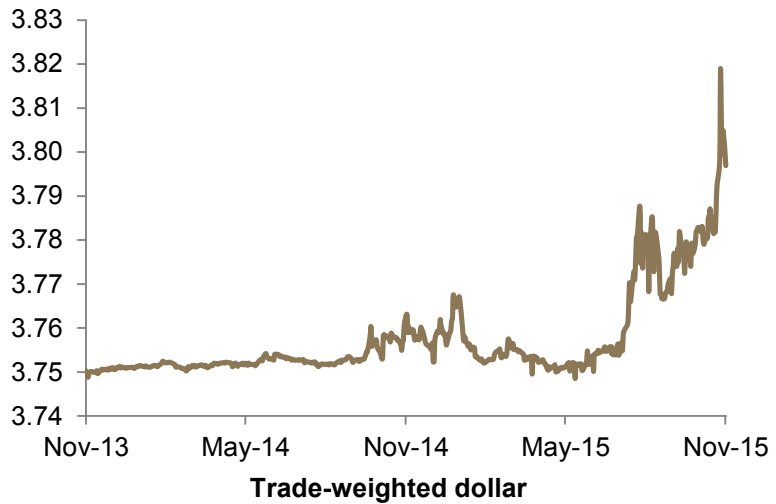


Exchange Rates

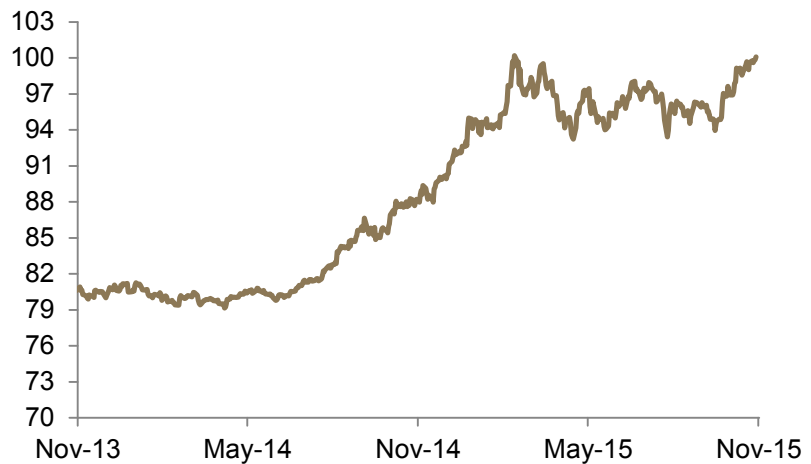
Although speculative pressure continued on the dollar/riyal forward rate peg during November, we see no risk to the peg that has been in place for 30 years. The euro dropped sharply against the dollar in November as the likelihood of the Federal Reserve (Fed) tightening monetary policy in December increased.

The dollar/riyal peg remains under speculative pressure despite ample government reserves and a clear commitment by SAMA to maintain the peg.

US dollar/riyal one year forward rate



The trade-weighted dollar has picked up momentum in recent months as Fed monetary tightening looms.



The euro is nearing parity with the dollar as further quantitative easing (QE) in the euro-zone will be needed as inflation is still below the European Central Bank's (ECB) target.

Euro/US dollar





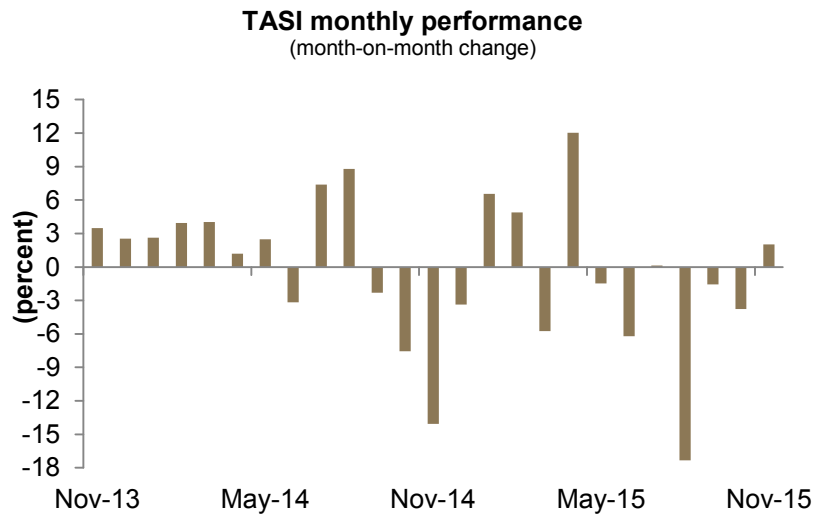
Stock Market

The TASI rose by 1.6 percent, month-on-month, in November as it became apparent that it had been oversold in the previous three months. A number of positive developments, including an announcement by Alandalus Property Co. that it will launch an initial public offering (IPO) in mid-December, helped lift the Saudi bourse.

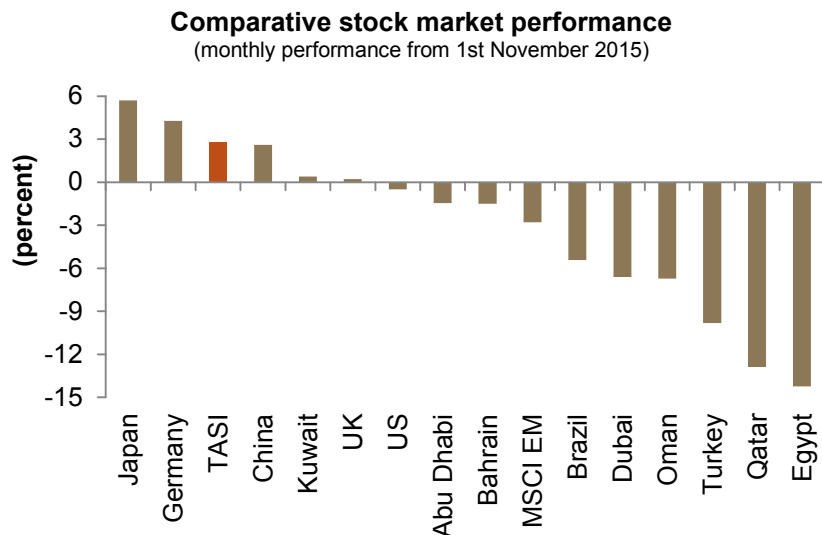
The TASI was up 1.6 percent month-on-month...



...reversing the trend of the previous three months...



...and outperforming most regional and emerging markets.



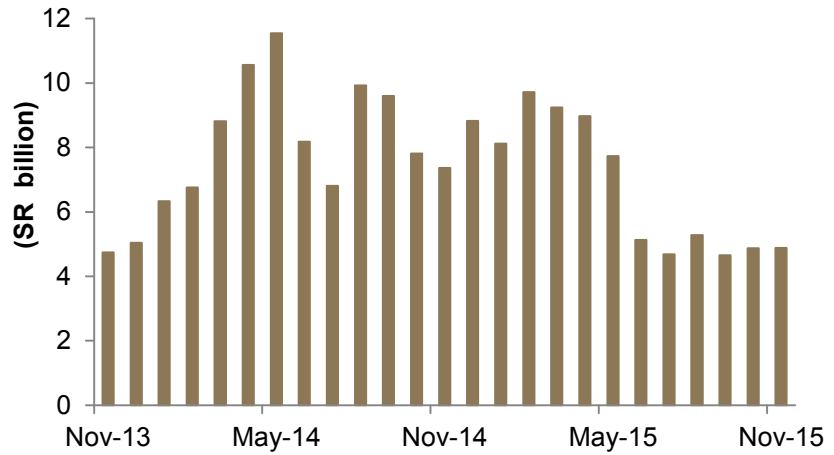


Volumes

TASI turnover in November was flat, month-on-month, with all but one sector (media) exhibiting lower turnover than year-to-date averages. The media sector's turnover rose enormously due to a transaction relating to Saudi Research & Marketing Group (SRMG).

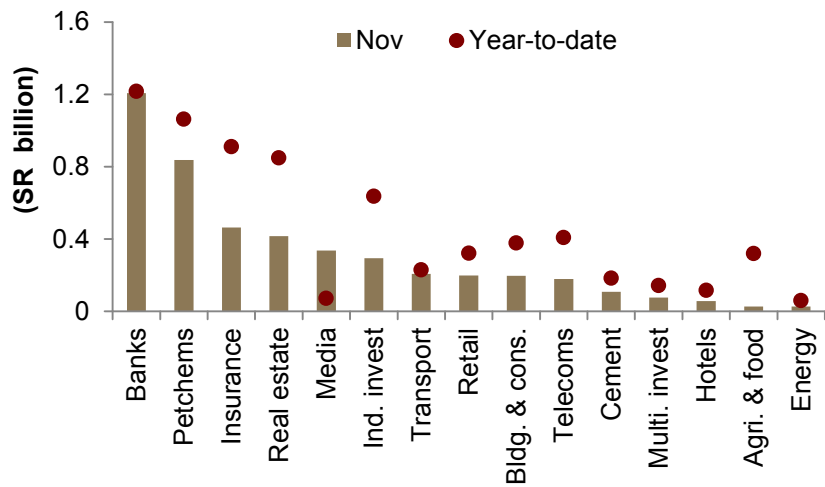
Turnover was flat month-on-month...

Daily average stock market turnover



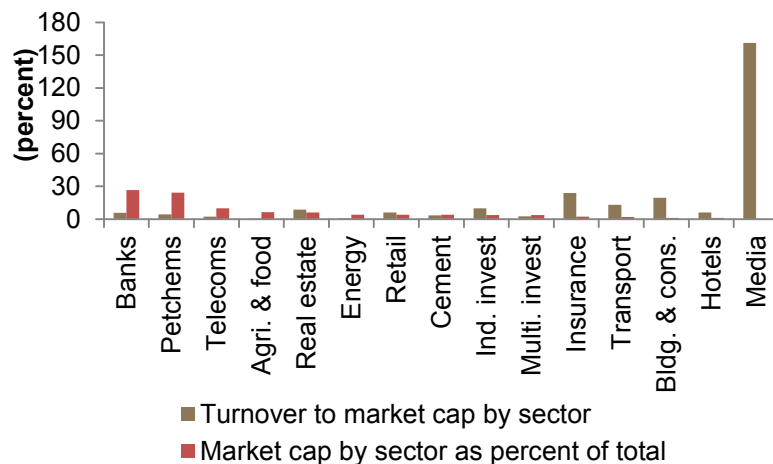
...with only the media sector exceeding its year-to-date average...

Turnover by sector (daily average)



...resulting in a massive rise in the sector's turnover relative to its market capitalization.

Turnover as percent of market cap (November, 2015)

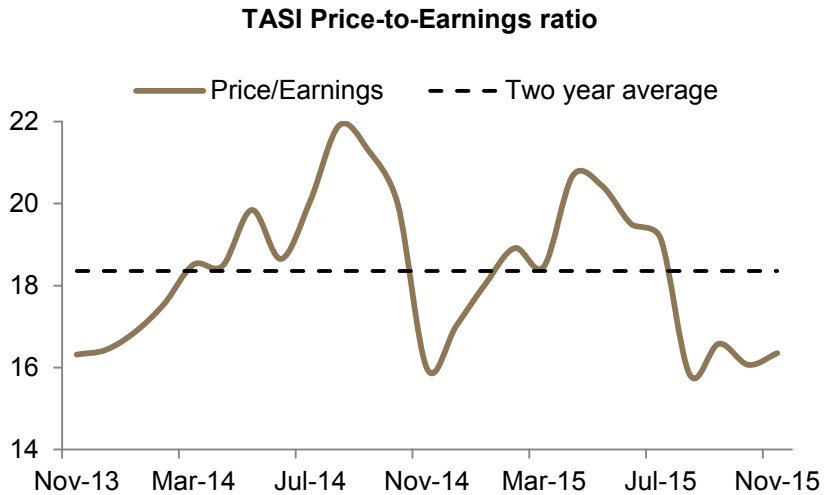




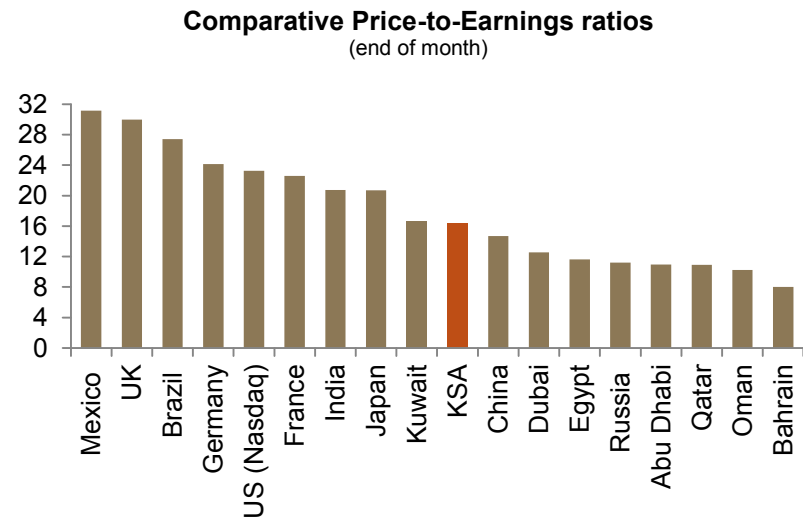
Valuations

The improvement in the TASI's monthly performance was reflected in the slight upward movement in the Saudi benchmark's price-to-earnings (PE) during the month of November. The TASI's PE is still trending below the two year average but is now more in-line with regional and emerging markets.

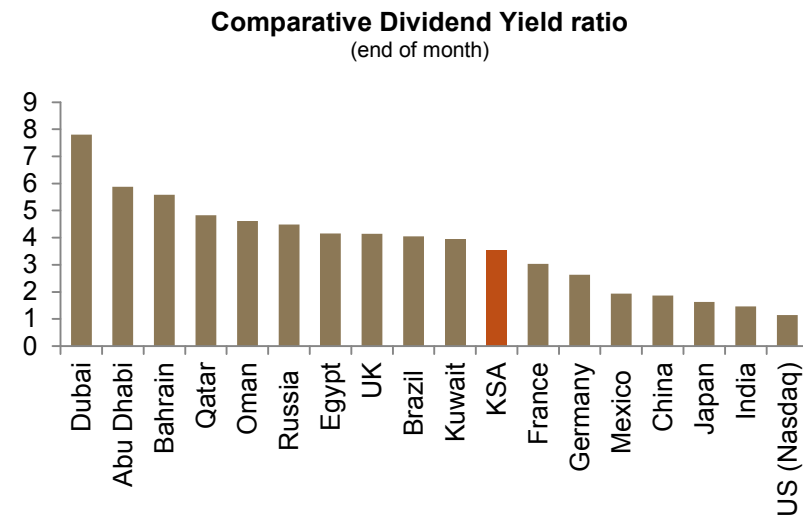
PE trended slightly upwards to 16.35 but remains below the two year average of 18.36...



...and is now more in-line with comparable regional and emerging markets...



...although dividend yield remains behind regional benchmarks.



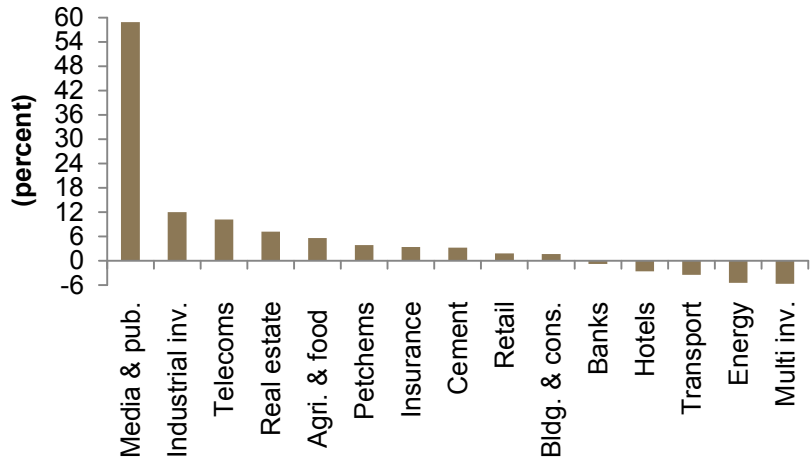


Sectoral Performance

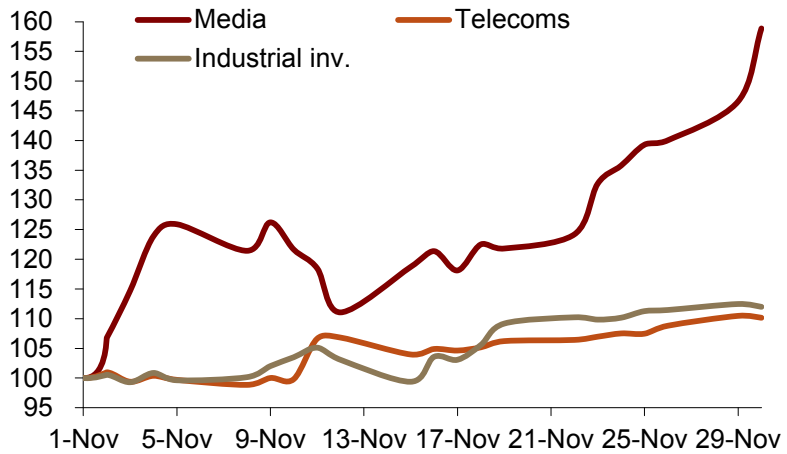
Ten out of the 15 sectors in the TASI saw positive performance in the month of November. The media sector's performance benefitted from a transaction involving SRMG announced at the beginning of the month.

Ten sectors saw positive performance.

Performance by sector
(rebased; 1 November, 2015 = 100)

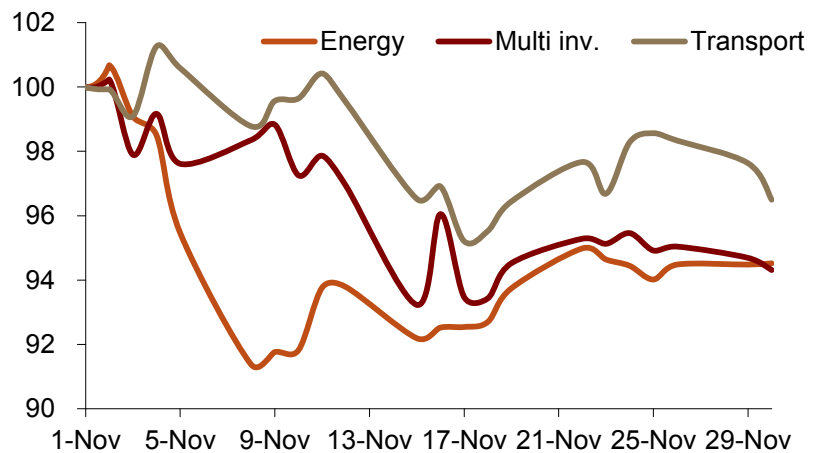


Best Performing Sectors
(rebased; 1 November, 2015 = 100)



The media sector, which is often subject to speculative activity, was lifted due to a transaction involving SRMG...

Worst Performing Sectors
(rebased; 1 November, 2015 = 100)



...in an otherwise subdued performance by the remaining sectors.



Key Data

	2009	2010	2011	2012	2013	2014	2015 F	2016 F	2017 F
Nominal GDP									
(SR billion)	1,609	1,976	2,511	2,752	2,791	2,798	2,465	2,610	2,897
(\$ billion)	429.1	526.8	669.5	734.0	744.3	746.2	657.3	696.1	772.5
(% change)	-17.4	22.8	27.1	9.6	1.4	0.3	-11.9	5.9	11.0
Real GDP (% change)									
Oil	-8.0	-0.1	12.2	5.1	-1.6	1.5	3.4	0.2	0.8
Non-oil private sector	4.9	9.7	8.0	5.5	7.0	5.6	3.8	4.7	4.7
Government	6.3	7.4	8.4	5.3	5.1	3.7	2.4	2.0	2.0
Total	1.8	4.8	10.0	5.4	2.7	3.5	3.2	2.3	2.6
Oil indicators (average)									
Brent (\$/b)	61.7	79.8	112.2	112.4	109.6	99.4	56.0	61.0	72.0
Saudi (\$/b)	60.4	77.5	103.9	106.1	104.2	95.7	52.0	57.0	68.0
Production (million b/d)	8.2	8.2	9.3	9.8	9.6	9.7	10.1	10.1	10.1
Budgetary indicators (SR billion)									
Government revenue	510	742	1,118	1,247	1,156	1,044	679	692	712
Government expenditure	596	654	827	873	976	1,111	1,082	991	989
Budget balance	-87	88	291	374	180	-67	-403	-299	-277
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.4	-16.4	-11.5	-9.6
Domestic debt	225	167	135	99	60	44	148	263	368
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	6.0	10.1	12.7
Monetary indicators (average)									
Inflation (% change)	4.1	3.8	3.7	2.9	3.5	2.7	2.1	1.9	2.1
SAMA base lending rate (% , year end)	2.0	2.0	2.0	2.0	2.0	2.0	2.1	3.1	3.7
External trade indicators (\$ billion)									
Oil export revenues	166.9	215.2	317.6	337.5	322.0	285.2	165.7	172.2	182.0
Total export revenues	192.3	251.1	364.7	388.4	375.9	342.3	221.1	232.5	247.7
Imports	87.1	97.4	120.0	141.8	153.3	158.5	158.1	159.1	161.0
Trade balance	105.2	153.7	244.7	246.6	222.6	183.9	63.0	73.4	86.7
Current account balance	21.0	66.8	158.5	164.8	135.4	76.9	-14.3	0.1	2.0
(% GDP)	4.9	12.7	23.7	22.4	18.2	10.3	-2.2	0.0	0.3
Official reserve assets	410.1	445.1	544.0	656.6	725.7	732.4	628.7	586.5	548.7
Social and demographic indicators									
Population (million)	26.7	27.6	28.4	29.2	30.0	30.8	31.5	32.2	32.9
Saudi unemployment (15+, %)	11.5	12.4	12.1	11.7	11.7	11.7	11.7	11.6	11.4
GDP per capita (\$)	16,095	19,113	23,594	25,139	24,816	24,252	20,851	21,586	23,446

Sources: Jadwa Investment forecasts for 2015, 2016, and 2017. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. Central Department of Statistics & Information and Jadwa estimates for oil, social and demographic indicators.



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