



Saudi Arabian Economy

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Reopening of the KSA economy post COVID-19

After approximately two prolonged months, the government has eased the economy. Gyms, restaurants and malls are working with 50%-70% customers. However, the travel and tourism sector may take some time to revive as people will tend to avoid, both inbound and outbound, traveling for the next few months. As per the latest data by SAMA, the impact of the COVID-19 pandemic was witnessed in May 2020. Further, according to a new projection from the International Monetary Fund (IMF), Saudi Arabia's GDP is expected to contract by 6.8% this year due to low oil prices and the adverse effect of the coronavirus pandemic on the economy. The monthly data released for May showed that the banking sector profits fell 39.4% y-o-y (-10.7% m-o-m) in May. POS transactions declined 15.7% y-o-y as compared to the decline of 33.0% y-o-y in April. SAMA foreign reserves witnessed a y-o-y decline in growth (-13.1% in May Vs -11.2% in April). Furthermore, remittances by Saudi Nationals witnessed a negative growth of 52.1% y-o-y in May as compared to 41.6% y-o-y in April. However, credit to the private sector continued to show a healthy growth (+10.7% y-o-y in May 2020 Vs +11.7 y-o-y in April 2020) along with 48% y-o-y growth in residential mortgage finance by banks Vs 26% y-o-y in April. Further, credit to public sector enterprises grew by 6.1% y-o-y. Meanwhile, deposits grew 10.4% (+1.8% m-o-m), which was mainly driven by the 'Business and Individual' segment. Going forward, Saudi Arabia would be working to activate the role of the private sector to drive economic growth in the post-COVID-19 pandemic period, which is expected to be a vital contributor to the overall economic growth. The ministry of tourism planning to start a tourism development fund with an initial capital investment of SAR 15bn, to diversify the Kingdom's economy and attract more foreign travelers and also create more job opportunities. Overall, we believe that the Saudi Arabian economy will continue to improve, supported by the government's commitment to boost the non-oil sector.

Meanwhile, the cost of living index continued to be in a positive trajectory in May (+1.1% y-o-y Vs +1.3% y-o-y in April). The growth in the Saudi Arabian money supply continued its uptrend in May at +10.2% y-o-y, supported by the rise in both M1 and M2. Further, the Index of Industrial Production increased 11.4% m-o-m in April (-0.4% m-o-m in March), mainly due to the strong activity in two sectors namely, 'Mining and Quarrying' and 'Electricity & Gas' sectors'.

More details:

Credit to the private sector increased 10.7% y-o-y (+0.3% m-o-m) in May 2020, while bank claims on public sector advanced 20.5% y-o-y (+1.6% m-o-m) in the same month. Meanwhile, **deposits** rose 10.4% y-o-y (+1.8% m-o-m) in May 2020 (Figure 10, 11, 12 & 13).

Point-of-sale (POS) transactions declined 15.7% y-o-y in May 2020 (-33.0% y-o-y in April). Further, the ATM cash withdrawals decreased by 40.1% y-o-y in May as compared to a decline of 43.4% in April. The fall in POS transactions was due to a decline in 'Clothing & Footwear', 'Transportation' and 'Restaurants and Hotels' segments falling 51.8% y-o-y, 41.5% y-o-y and 13.8% y-o-y, respectively (Figure 5, 6 & 7). However, the 'Food & Beverages' segment increased +57.4% y-o-y.

Saudi Arabia maintained its upward trend in the global competitiveness rankings, moving up two notches to the 24th position as the most competitive economy, compared to 26th in 2019 and 39th in 2018, according to the World Competitiveness Yearbook 2020, published by the International Institute for Management Development (IMD).

The **International Monetary Fund (IMF)** projected Saudi Arabia's GDP to contract by 6.8% this year, but to rebound back to a 3.1% growth in 2021. In April, the Washington-based international crisis lender had forecasted a 2.3% GDP contraction this year and a 2.9% growth in 2021.

SAMA foreign reserves, on an annual basis, fell 13.1% in May 2020 versus a decline of 11.2% y-o-y in April. However, on a monthly basis, reserves increased 0.2% in May (-5.2% m-o-m in April) (Figure 8 & 9). Meanwhile, as of May, government reserves with SAMA stood at SAR 471.18bn (including government current account), a monthly decline of 4.6%.

Residential new mortgage finance to individuals by banks witnessed a robust growth of 48% in May 2020 Vs 26% in April. Further, 62% of the total new mortgage to individuals by banks in 2019 has already been achieved in the first five months of 2020.

Index of Industrial Production (IIP) advanced 11.4% m-o-m in April, supported by an increase in 'Mining and Quarrying' and 'Electricity and Gas' sectors' activity, 23.3% and 3.3% m-o-m, respectively. However, 'Manufacturing Industry' sectors saw m-o-m decline of 23.6% in April as against the decline of 1.8% in the previous month (Figures 2 & 3).

Banking sector profits declined 39.4% y-o-y to stand at SAR 2,895mn in May 2020 (-31.3% y-o-y in April 2020). Further, on a monthly basis, the banking sector profits declined by 10.7% m-o-m in May (-10.3% m-o-m in April (Figure 16 & 17).

Money Supply (M3) continued to grow in May (+10.2% y-o-y) to stand at SAR 2,075bn, supported by rise in both M1 and M2. As per the weekly money supply data by SAMA, M3 may be lower in June than in May (Figure 14).

Remittances (Personal Transfers) by Saudi nationals declined by 52.1% y-o-y in May (-41.6% y-o-y in April), while growth in remittances by non-Saudi nationals advanced 18.4% y-o-y in the same month (-8.7% y-o-y in April) (Figure 4).

Saudi Arabia posted a trade deficit of SAR 970mn in April 2020, for the first time since February 2016, compared to SAR 36.4bn surplus in the year-earlier period, data issued by the General Authority for Statistics (GASTAT) showed. In the previous month, the Kingdom reported a trade surplus of SAR 6.5bn.

Cost of living index continued to be in a positive trajectory in the month of May 2020. The index rose 1.1% y-o-y in May, versus the rise of 1.3% y-o-y in April. The 'Housing, Water, Electricity & Gas' sector (accounting ~25.5% of the index) decreased 0.4% y-o-y in May (-0.5% y-o-y in April), whereas, the 'Food & Beverages' sector (constituting ~18.8% of the index) rose 7.0% y-o-y (+6.1% y-o-y in the previous month). On a monthly basis, the cost of living index fell 0.2% in May (-0.1% m-o-m in April) (Figure 18 & 19).

Crude oil prices (Brent June futures contract) increased 8.4% MTD in June 2020, supported by increased investor sentiments over production cuts by major oil producers. Meanwhile, the Saudi Arabian crude oil production declined 11.5% y-o-y (-24.9% m-o-m), to 8.700mbpd in May, as compared to the rise of 18.4% y-o-y in April (Figure 20 & 21).

Crude price outlook: The US Energy Information Administration (EIA) in its June 2020 report estimated monthly Brent crude oil prices will average US\$37/barrel during the second half of 2020 and rise to an average of US\$48/barrel in 2021.



Figure 1 Key macro indicators

Variable	May-20	Apr-20	Mar-20	2019	2018
Inflation Rate (2018=100) %	1.1%	1.3%	1.5%	-2.1%	2.5%
Average Oil Price (Arab Light) (US\$/Barrel)	25.0	18.3	35.6	65.0	70.6
Money Supply (M3) %	10.2%	10.0%	9.8%	7.1%	2.7%
Total Banking Sector Claims	12.5	13.3	13.3	10.4	5.3
Interbank Interest Rate (3 Month) %	1.129	1.228	1.302	2.632	2.451
Repo Rate %	1.00	1.00	1.00	2.25	3.00
Reverse Repo Rate %	0.5	0.5	0.50	1.75	2.5
GDP Rate at Constant Prices (2010=100) %	-0.3%	-0.5%	-0.5%	0.3%	2.4%
Current Account to GDP Ratio (current prices) %	-	4.5%	4.6%	5.9%	9.2%
Total Imports (fob) to GDP Ratio (current prices)%	-	15.5%	17.0%	16.7%	16.0%
Non-oil Exports to GDP Ratio (current prices) %	-	7.0%	7.3%	7.5%	8.0%

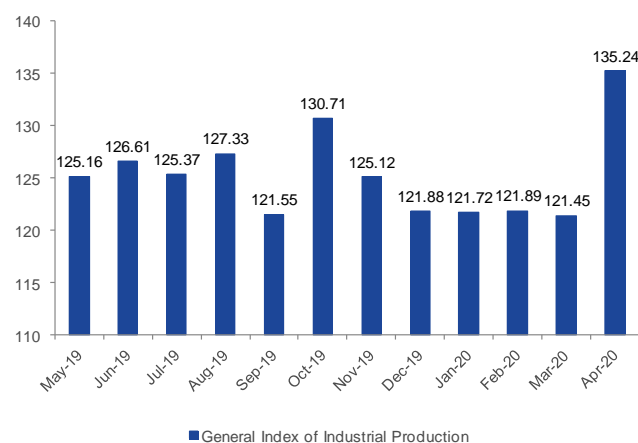
Source: SAMA, Bloomberg; *Provisional.

Index of Industrial Production

IIP saw m-o-m growth of 11.4% in April 2020

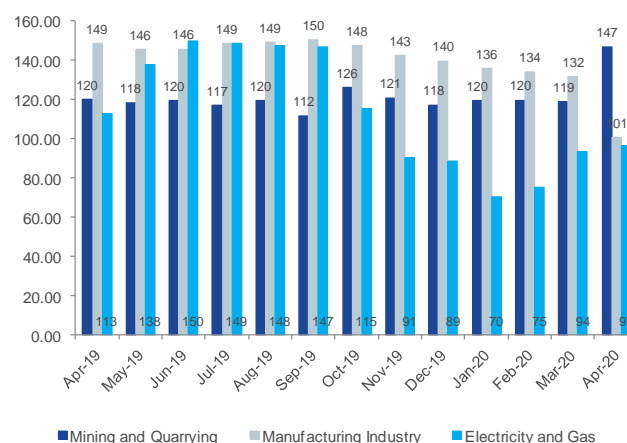
The Index of Industrial Production (IIP) advanced 11.4% m-o-m in April 2020 as against the decline of 0.4% m-o-m in March 2020, supported by strong activity in 'Mining and Quarrying' and 'Electricity & Gas' sectors' activity.

Figure 2 General Index of Industrial Production Index



Source: GASTAT, Al Rajhi Capital

Figure 3 IIP sectors trend



Source: GASTAT, Al Rajhi Capital

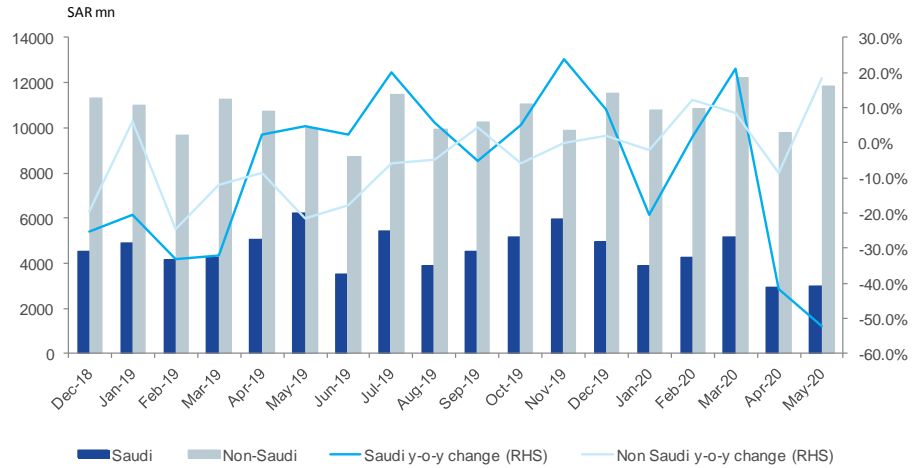


Remittance

Remittances by Saudi and non-Saudi nationals declined in May

Remittances (Personal Transfers) from Saudi nationals declined 52.1% y-o-y (-41.6% y-o-y in April) to ~SAR 2.98bn in May 2020, whereas remittances growth from non-Saudi nationals increased 18.4% y-o-y (-8.7% y-o-y in April) to stand at ~SAR 11.8bn.

Figure 4 Remittances



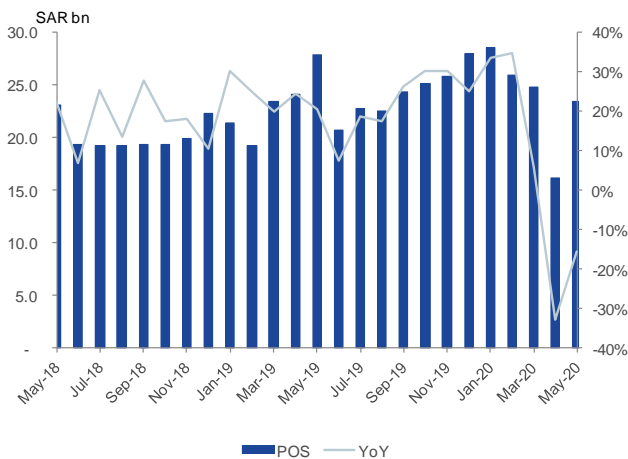
Source: SAMA, Al Rajhi Capital

Consumer spending indicators

POS transactions declined in May

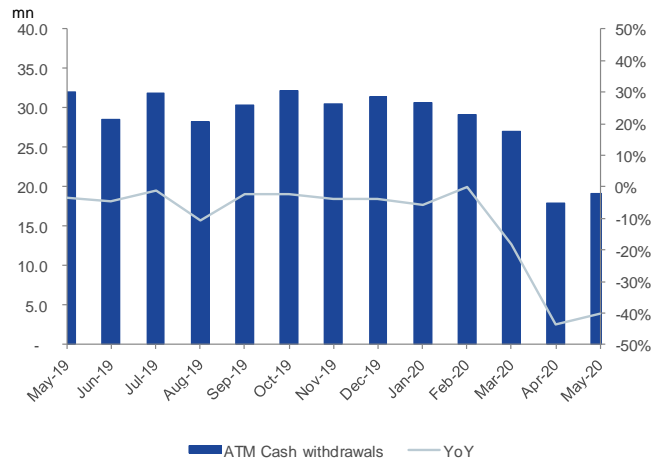
POS transactions declined 15.7% y-o-y in May 2020 (-33.0% y-o-y in April), whereas the growth in ATM cash withdrawals dropped 40.1% y-o-y in May (-43.4% y-o-y in April). The decline in POS transactions was primarily due to fall in 'Clothing and Footwear' (-51.8% y-o-y), 'Transportation' (-41.5% y-o-y) and 'Restaurants and Hotels' (-13.8% y-o-y) segments. However, 'Food & Beverages' segment increased 57.4% y-o-y.

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



Source: SAMA, Al Rajhi Capital

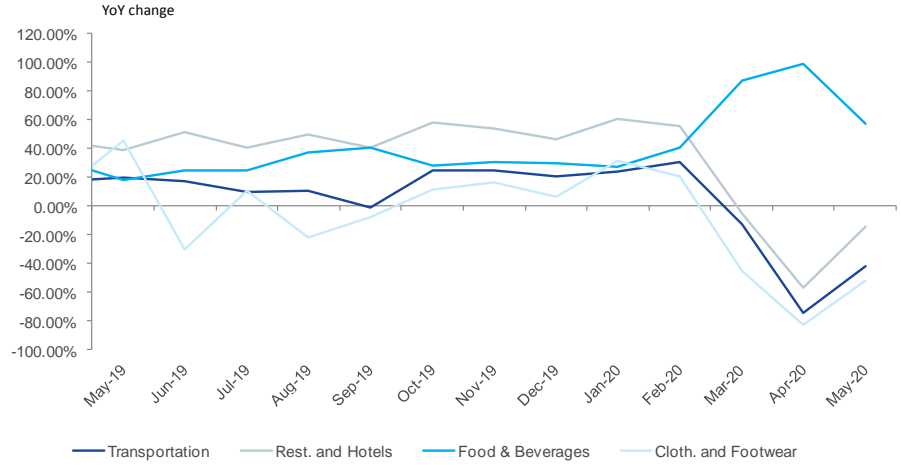
Figure 6 ATM cash transactions withdrawals trend



Source: SAMA, Al Rajhi Capital



Figure 7 Points-of-sale transactions trend by sectors



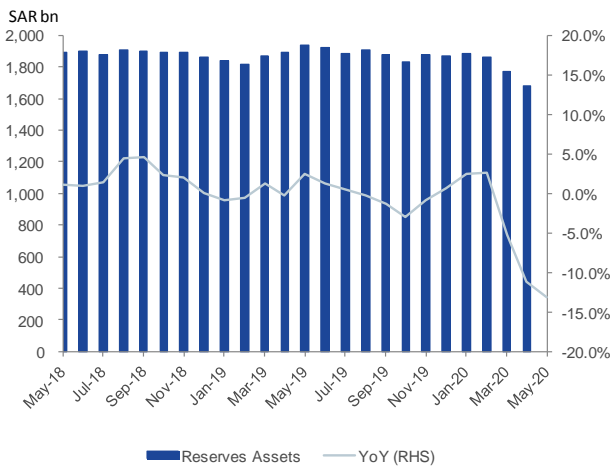
Source: SAMA, Al Rajhi Capital

SAMA Foreign Exchange Reserves

SAMA reserves declined in May

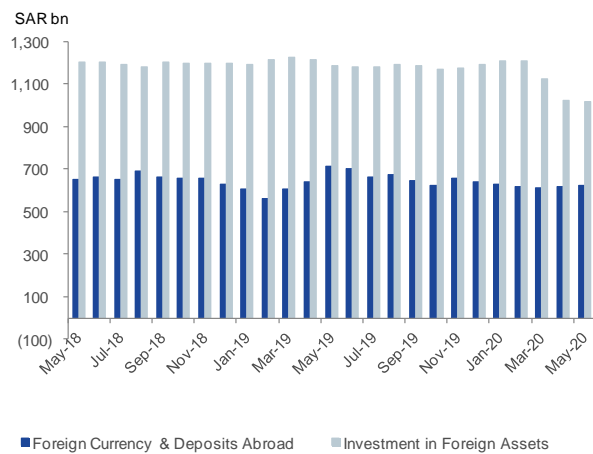
SAMA Foreign Exchange reserves fell 13.1% y-o-y in May and stood at SAR 1,685bn (US\$ 449.3bn) as compared to decline of 11.2% y-o-y in April. On a monthly basis in May, reserves increased 0.2% m-o-m (-5.2% m-o-m in April). Further, foreign currency and deposits abroad declined 12.8% y-o-y (+1.2% m-o-m) in May as compared to the decline of 3.4% y-o-y (+0.6% m-o-m) in April; while investment in foreign securities fell 13.9% y-o-y (-0.4% m-o-m) in May as compared to a decline of 15.7% y-o-y (-8.8% m-o-m) in April.

Figure 8 Reserves assets



Source: SAMA, Al Rajhi Capital

Figure 9 Major components of foreign assets



Source: SAMA, Al Rajhi Capital



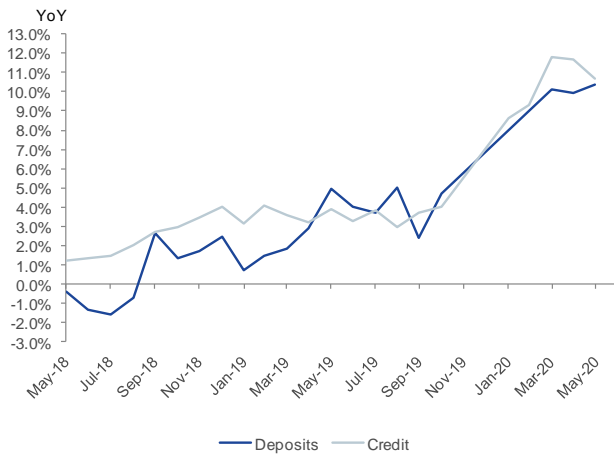
Credit and deposit growth

Private sector credit continued its upper trend in May

Banking sector credit growth to the private sector continued to witness positive growth (+10.7% y-o-y; +0.3% m-o-m in May 2020), versus the growth of (+11.7% y-o-y; +0.5% m-o-m in April 2020). Further, claims on the public sector increased 20.5% y-o-y (+1.6% m-o-m) in May 2020, as against the rise of 19.6% y-o-y (+1.3% m-o-m) in April. Mortgage could be the main driver for this growth.

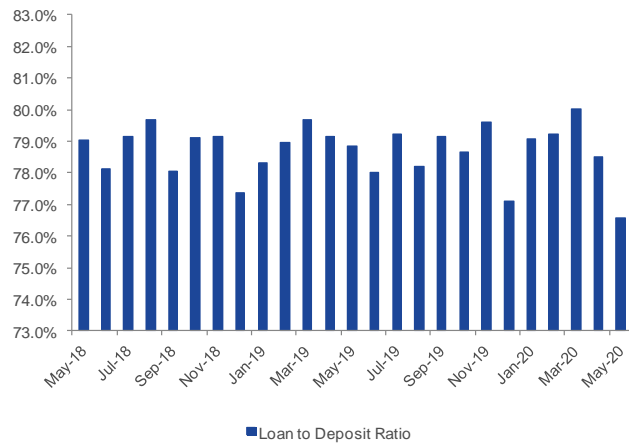
Meanwhile, deposits grew by 10.4% y-o-y in May 2020 (+1.8% m-o-m), versus the growth of 9.9% y-o-y (+1.0% m-o-m) in April 2020. 'Business and Individual' deposits, which constitute for ~70% of the total deposit base, grew 6.1% y-o-y (+1.2% m-o-m), while 'Government Entities' deposits jumped 37.0% y-o-y (+2.5% m-o-m).

Figure 10 Credit and deposit growth



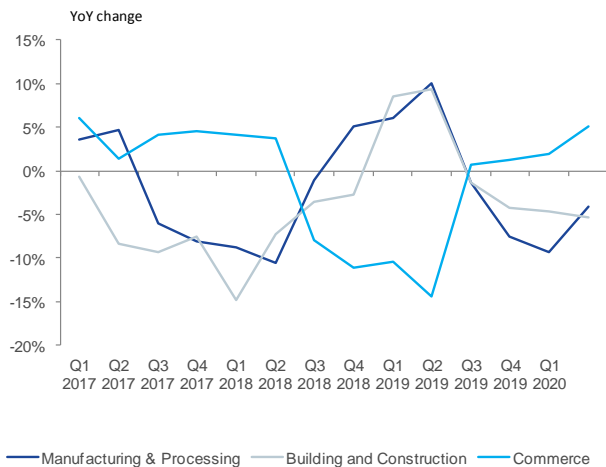
Source: SAMA, Al Rajhi Capital

Figure 11 Loans to Deposits



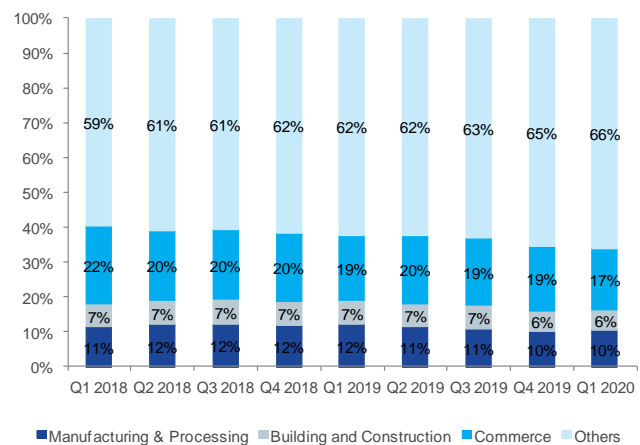
Source: SAMA, Al Rajhi Capital

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



Source: SAMA, Al Rajhi Capital

Figure 13 Banking sector exposure by economic activity



Source: SAMA, Al Rajhi Capital

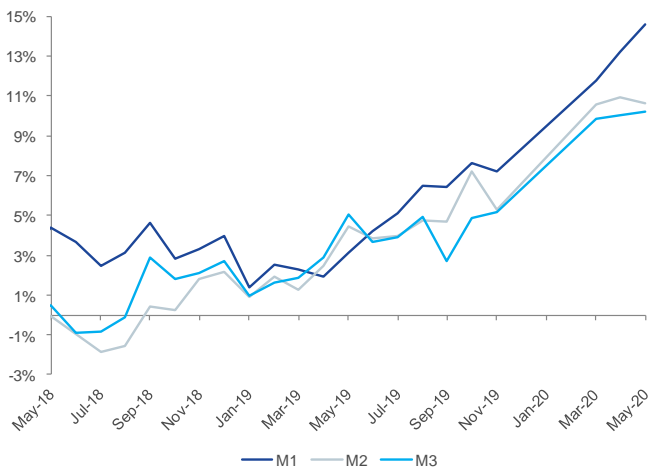


Money supply

M3 grew y-o-y in May

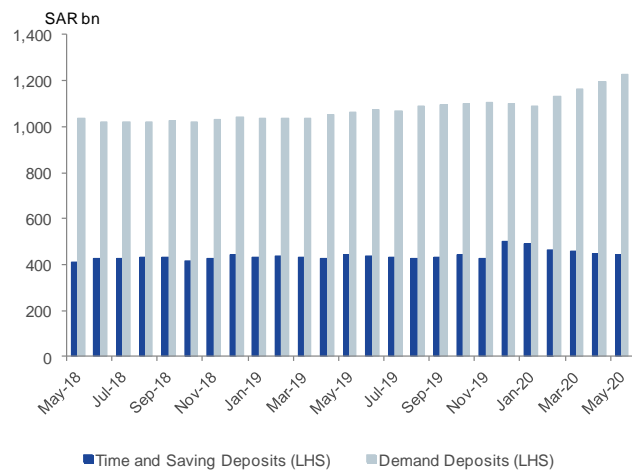
Broader money supply (M3) grew in May (+10.2% y-o-y) to stand at SAR 2,075bn, versus the growth of 10.0% in April. M1 advanced 14.6% y-o-y (+13.2% y-o-y in April); while M2 increased 10.6% y-o-y in May (+11.0% y-o-y in April). Further, on a monthly basis, the M3 rose 1.9% in May (+1.3% m-o-m in April). As per the weekly money supply data by SAMA, M3 may be lower in June than in the month of May.

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



Source: SAMA, Al Rajhi Capital

Figure 15 Deposits break-up



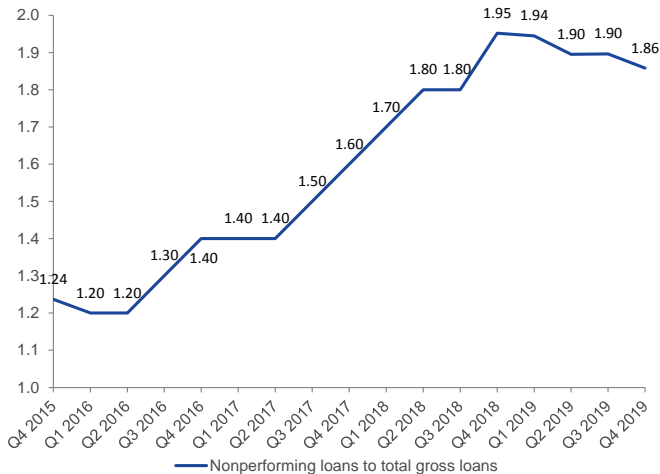
Source: SAMA, Al Rajhi Capital

Banking Sector

Banking sector profits fell in May.

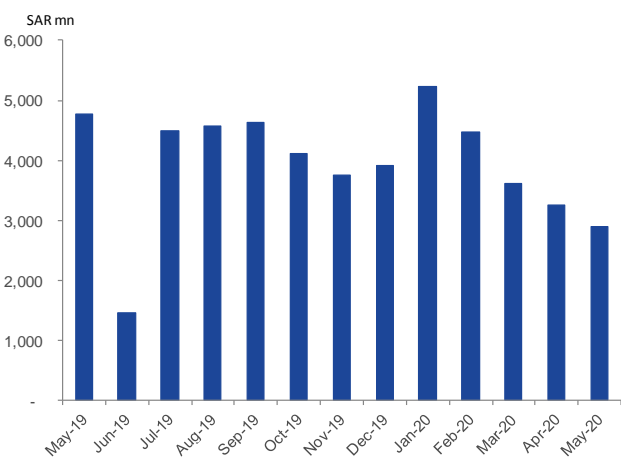
Banking sector profits declined 39.4% y-o-y in May 2020 (-31.3% y-o-y in April 2020), to stand at SAR 2,895mn. On a monthly basis, profits declined by 10.7% in May 2020, as against the decline of 10.3% m-o-m in April 2020.

Figure 16 Non-performing loans (%)



Source: SAMA, Al Rajhi Capital

Figure 17 Net Profit for Banks



Source: SAMA, Al Rajhi Capital

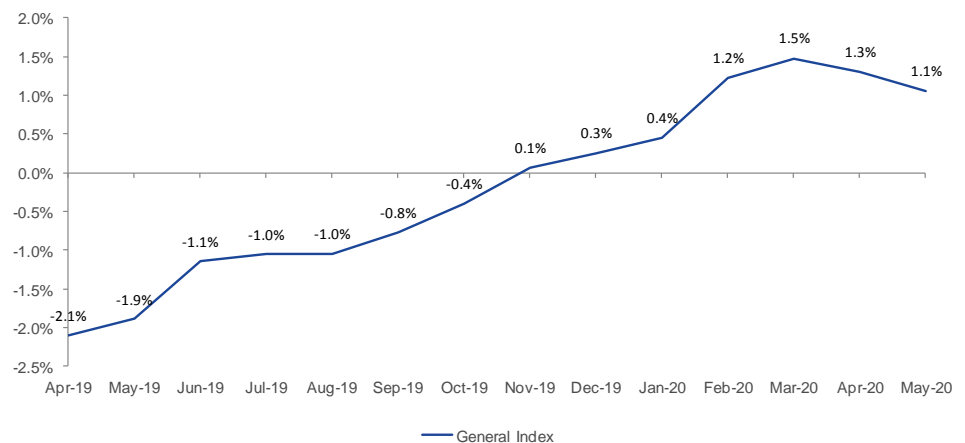


Cost of living index continued to be in positive trajectory in May

Inflation dynamics

Cost of living index continued to be in the positive trajectory. The index rose at a rate of 1.1% y-o-y in May, as compared to the rise of 1.3% y-o-y in April. Segment wise, the 'Housing, Water, Electricity & Gas' sector (constituting ~25.5% of the index) declined 0.4% y-o-y in May (-0.5% y-o-y in April), whereas the 'Food & Beverages' sector (accounting ~18.8% of the index) increased 7.0% y-o-y in May (+6.1% y-o-y last month). The 'Transport' sector (accounting ~13.1% of the index) lost 3.8% in May (-0.4% y-o-y last month). On a monthly basis, the cost of living index fell 0.2% in May as compared to the decline of 0.1% in April.

Figure 18 Inflation trend (y-o-y)



Source: GASTAT, Al Rajhi Capital (*Numbers are restated according to the base year 2018)

Figure 19 Inflation Segments

	Weights	May-20	May-19	Change (y-o-y)
General Index	100.0%	98.5	97.47	1.1%
Food & Beverages	18.8%	108.46	101.41	7.0%
Tobacco	0.6%	102.07	101.01	1.0%
Clothing & Footwear	4.2%	98.57	99.42	-0.9%
Housing, Water, Electricity and Gas	25.5%	90.83	91.17	-0.4%
Furnishings and Household Equipments	6.7%	100.3	98.91	1.4%
Health	1.4%	99.86	100.26	-0.4%
Transport	13.1%	94.26	97.94	-3.8%
Communication	5.6%	98.11	98.94	-0.8%
Recreation & Culture	3.1%	97.7	96.9	0.8%
Education	2.9%	103.37	102.14	1.2%
Restaurants and Hotels	5.6%	103.35	102.78	0.6%
Miscellaneous Goods & Services	12.6%	101.06	98.73	2.4%

Source: GASTAT, Al Rajhi Capital (Base year 2018)

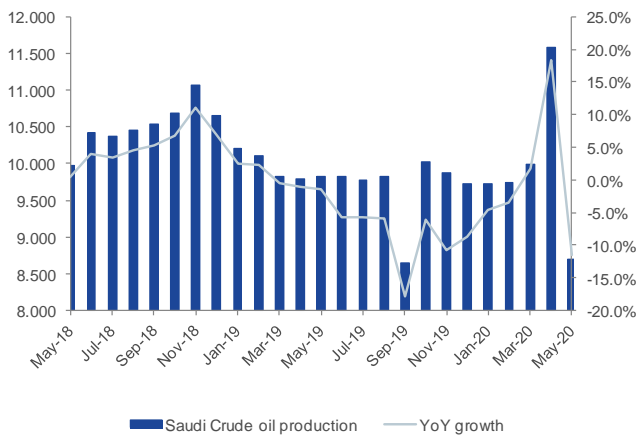


Crude oil prices increased on a MTD basis in June

Crude oil dynamics

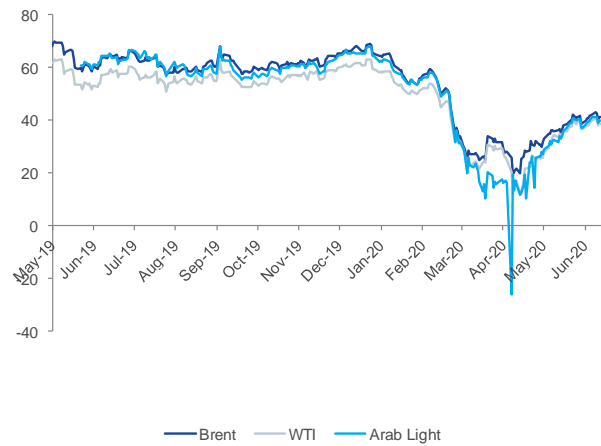
Crude oil prices (Brent June futures contract) rose 8.4% MTD in June 2020. The month's gain was aided by positive investor sentiments after production cut by major oil producers. Meanwhile, the Saudi Arabian crude oil production declined 11.5% y-o-y, to 8.70ombpd in May as against the rise of 18.4% in April. Further, on a monthly basis, the Saudi Arabian crude oil production declined 24.9% in May.

Figure 20 Saudi crude oil production trend (mbpd)



Source: Bloomberg, Al Rajhi Capital

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



Source: Bloomberg, Al Rajhi Capital

Non-oil exports growth continued to be in the negative

Non-oil foreign trade

Kingdom's non-oil exports growth fell and remained in the negative zone for the fifteenth consecutive month in April 2020, by 35.2% y-o-y, compared to a decline of 22.1% y-o-y in March. This decline was majorly due to the fall in plastics & rubbers (-26.8% y-o-y), chemical products (-38.3% y-o-y) and Ordinary Metals (-38.0% y-o-y) accounting for ~35.1%, ~29.3% and ~7.3% of total exports, respectively. Further, non-oil imports declined 28.4% y-o-y in April 2020, as compared to the decline of 4.6% y-o-y in March. The decline was due to fall in transport & equipment (-31.5% y-o-y) and machinery & electrical (-30.0% y-o-y), accounting for ~19.7% and ~19.0% of total imports, respectively. Meanwhile, China is the top export destination and also continued to be the largest import country in April.



Figure 22 Non-Oil Exports

Commodities (SAR mn)	Feb-20	Mar-20	Apr-20	% y-o-y	% m-o-m
Plastics & Rubbers	4,543	4,750	4,602	-26.8%	-3.1%
Chemical Products	4,760	4,851	3,839	-38.3%	-20.9%
Ordinary Metals	1,410	1,433	959	-38.0%	-33.1%
Transport Equipments	1,320	449	953	-35.6%	112.4%
Others	3,899	4,075	2,759	-41.4%	-32.3%
Total	15,932	15,557	13,111	-35.2%	-15.7%

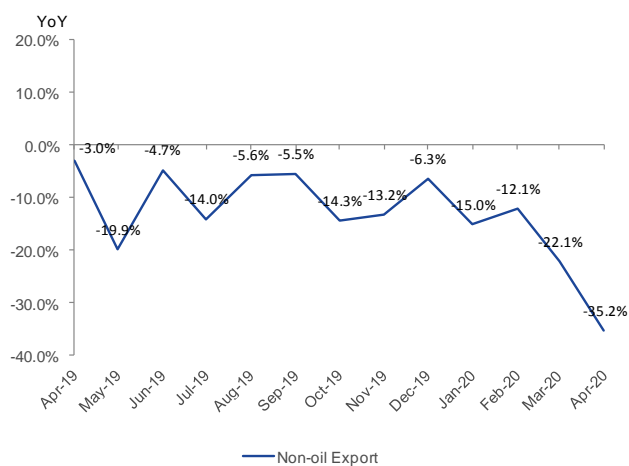
Source: GASTAT, Al Rajhi Capital

Figure 23 Non-Oil Imports

Commodities (SAR mn)	Feb-20	Mar-20	Apr-20	% y-o-y	% m-o-m
Machinery & Electricals	8,247	8,053	7,218	-30.0%	-10.4%
Transport Equipments	7,402	6,623	7,501	-31.5%	13.3%
Ordinary Metals	3,931	4,972	3,797	-19.1%	-23.6%
Chemical Products	4,515	4,937	4,305	-9.9%	-12.8%
Others	17,544	17,424	15,264	-31.9%	-12.4%
Total	41,639	42,009	38,085	-28.4%	-9.3%

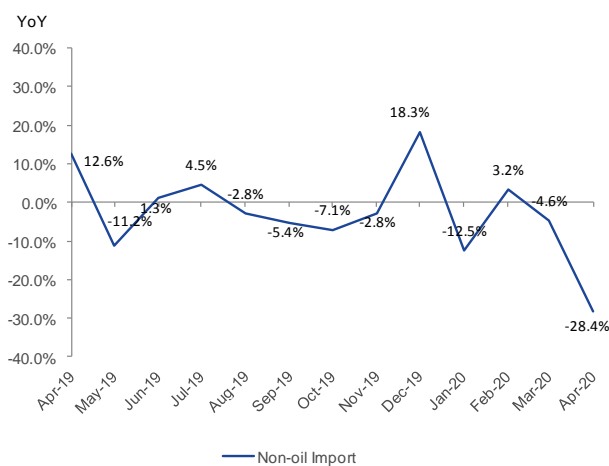
Source: GASTAT, Al Rajhi Capital

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



Source: GASTAT, Al Rajhi Capital

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



Source: GASTAT, Al Rajhi Capital

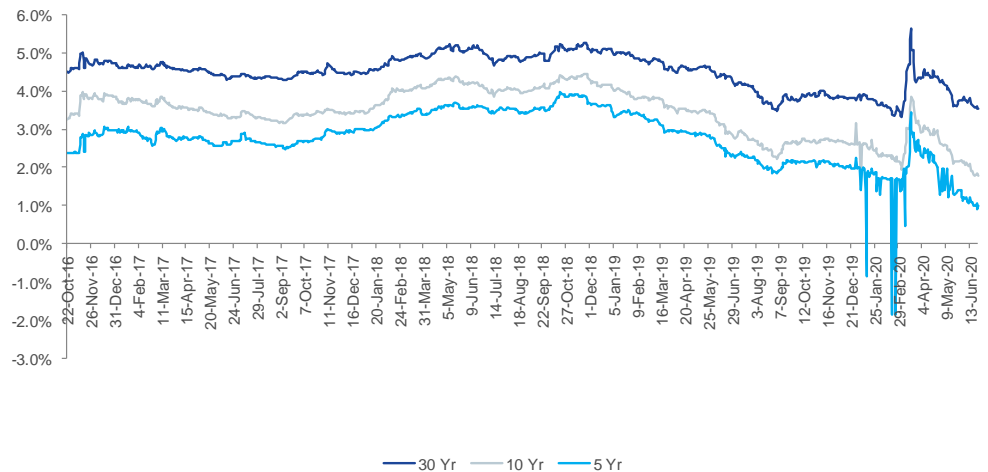


Saudi International 30, 10 and 5 year bond yields fell on a MTD basis in May

Saudi international bond yields

Saudi international bond yields with 30 year maturity, 10 year maturity and 5 year maturity declined by 20.1bps to 3.544%, 37.7 bps to 1.768% and 42.3 bps to 0.983% MTD, respectively, in June 2020.

Figure 26 International Bond Yields



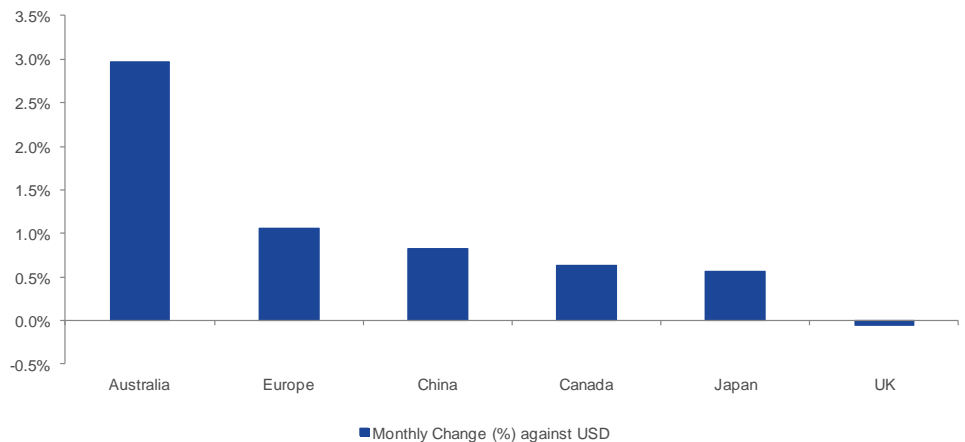
Source: Bloomberg, Al Rajhi Capital

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

Exchange Rates

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

Figure 27 Monthly Change (%) against the US Dollar



Source: Bloomberg, Al Rajhi Capital



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