



## Summary

**Real economy:** Key economic data softened slightly in February, but remained at levels consistent with robust economic growth. Both of the main guides to consumer spending we track dipped in February, but were up by over 20 percent in year-on-year terms.

**Construction indicators:** Early indicators suggest that the construction sector has got off to a strong start in 2012. It is a large beneficiary of government spending and we expect it to be the fastest growing component of the economy this year.

**Bank lending:** Bank lending to the private sector posted another healthy rise in February. There were sharp moves in the maturity profile of outstanding debt. The loan-to-deposit ratio was little changed, meaning banks have plenty of room for further lending.

**Banking indicators:** A rise in bank holdings of Treasury bills in February suggests the government may be becoming concerned about inflation. It does not appear that bank deposits are being drawn down significantly to finance stock market purchases.

**Inflation:** Year-on-year inflation ticked up in February, driven by an increase in rental inflation. Inflation for most other components of the cost of living index also rose. High money supply growth may be adding to inflationary pressures.

**Oil:** Oil prices remained at elevated levels in March. Tensions with Iran continue to add a risk premium to prices that are also being inflated by disruptions to supply. The Kingdom's oil production has stayed high, generating bumper oil export revenues.

**Exchange rates:** The main move over March has been the further weakening of the yen against the dollar after the surprise easing of monetary policy in February. The impact of a weaker yen on China's competitiveness may be behind the modest appreciation of yuan.

**Stock market:** Nothing has happened so far in March to derail the positive momentum that the TASI has built and it is on track to be one of the best performing markets in the world in March. The TASI is on course to be up for the sixth month out of the last seven.

**Volumes:** Stock market volumes have continued to rise, with daily turnover averaging its highest in more than four years. Four sectors accounted for nearly 60 percent of total turnover.

**Sectoral performance:** Two sectors were down so far in March and five of the remaining 13 posted double-digit gains. The best performers have been subject to considerable speculative activity, though the insurance sector, where trading has been highest, is flat.

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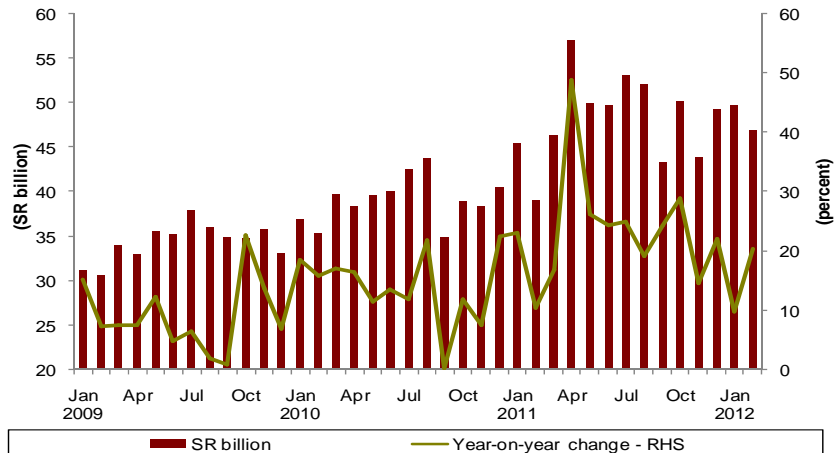


## Real economy

Key economic data softened slightly in February, but remained at levels consistent with robust economic growth. Both of the main guides to consumer spending we track dipped in February, but were up by over 20 percent in year-on-year terms.

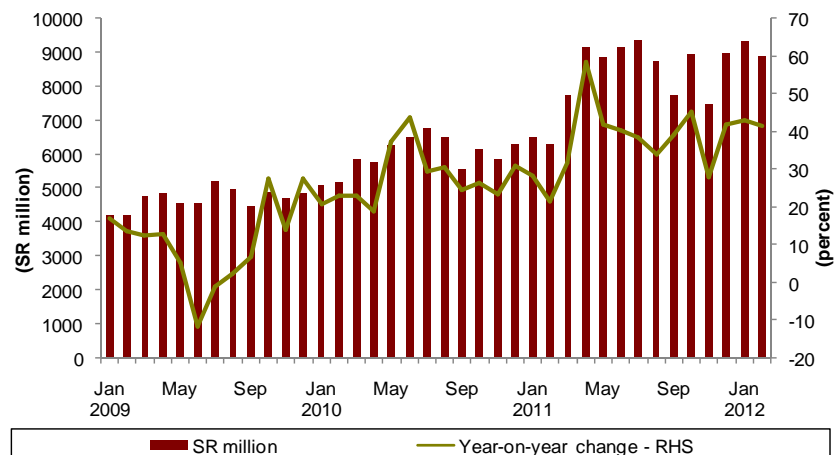
*The value of cash withdrawals from ATMs slipped in February, but in year-on-year terms it rebounded to 20.3 percent.*

**Value of cash withdrawals from ATMs**



*For point of sales transactions, year-on-year growth stayed over 40 percent.*

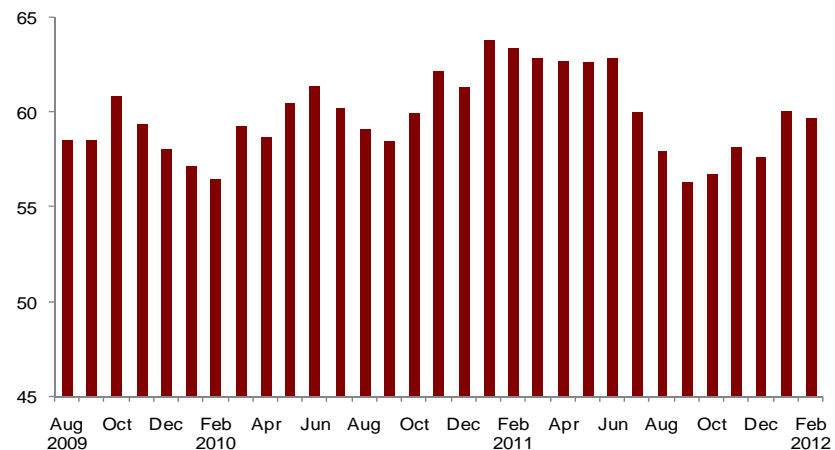
**Value of point of sale transactions**



*Although the PMI also dipped, it remains at a level consistent with strong economic growth.*

**HSBC/Markit Purchasing Managers' Index (PMI)**

(values above 50 indicate that the economy is expanding)



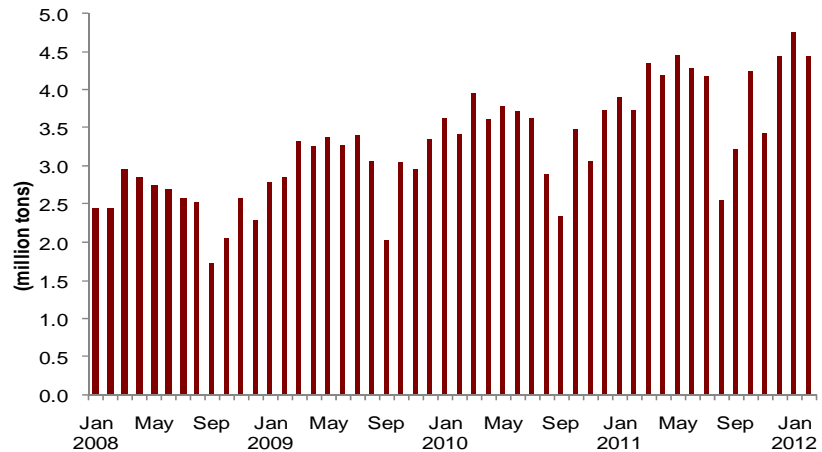


## Construction indicators

Early indicators suggest that the construction sector has got off to a strong start in 2012. It is a large beneficiary of government spending and we expect it to be the fastest growing component of the economy this year.

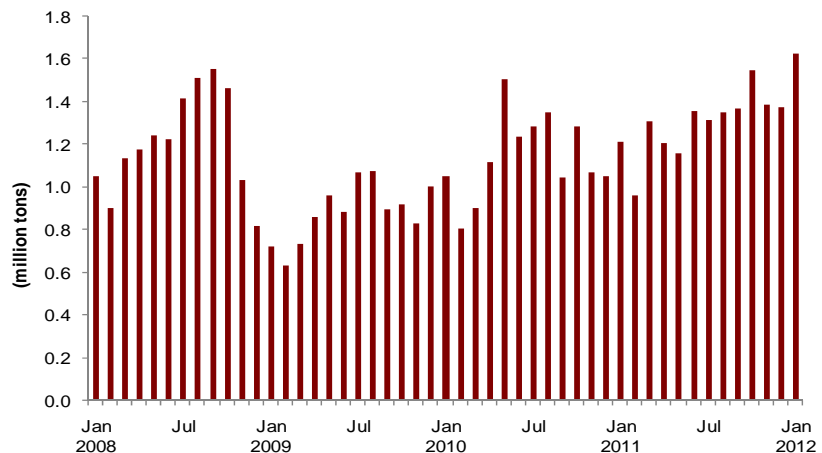
*Cement sales fell from their all-time high of January, but at 4.44 million tons in February were still substantial, and 19 percent above the level of February 2011.*

**Cement sales**



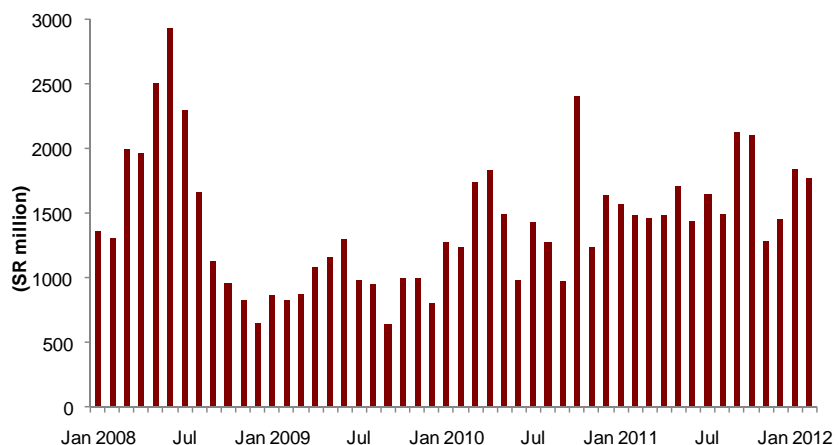
*Imports of construction materials through the Kingdom's ports in January were at their highest level since at least the end of 2007 (which is as far back as our data goes).*

**Imports of construction materials through the ports**



*Letters of credit issued by banks for private sector imports of building materials fell from their January level in February, but were still up by 20 percent in year-on-year terms.*

**Letters of credit opened for imports of building materials**



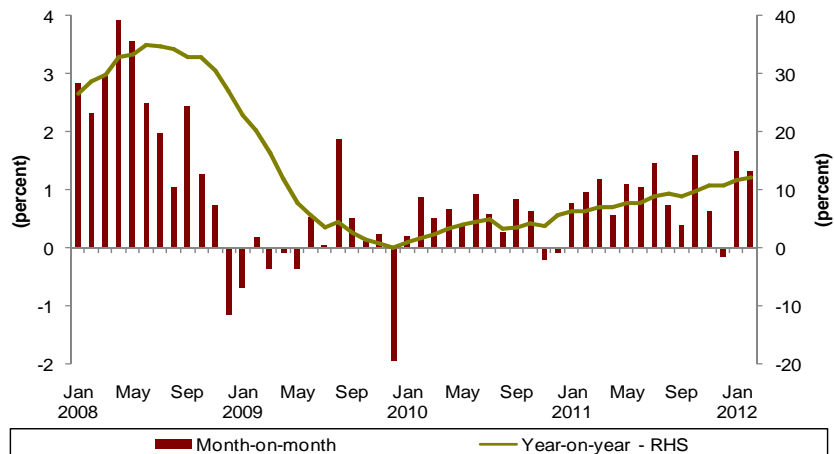


## Bank lending

Bank lending to the private sector posted another healthy rise in February. There were unusually sharp moves in the maturity profile of outstanding debt. The loan-to-deposit ratio was little changed, meaning banks have plenty of room for further lending.

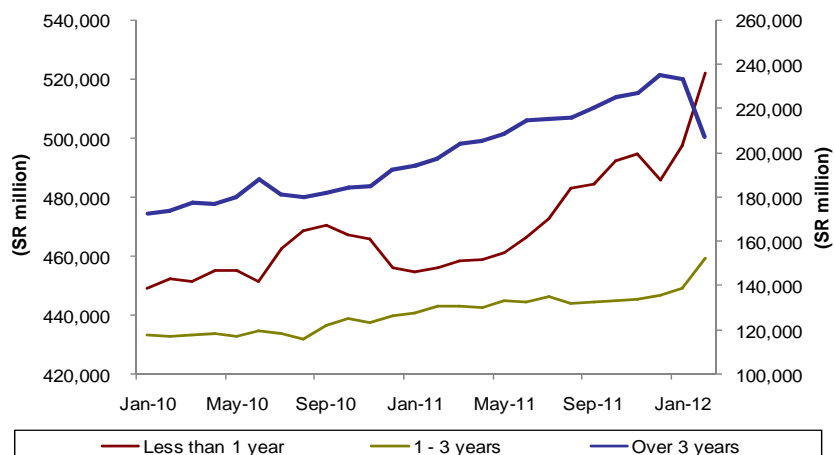
*Bank lending to the private sector rose by 1.3 percent in February, lifting the year-on-year rate to 12.1 percent.*

### Bank lending to the private sector

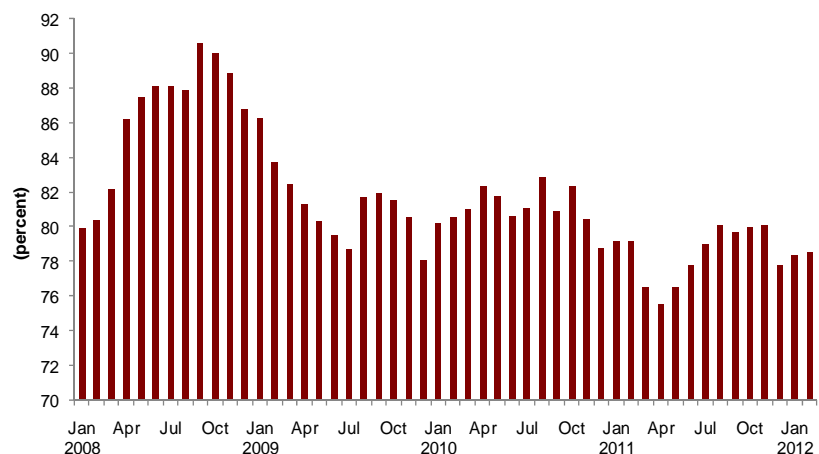


*There was a large fall in debt outstanding for over three years and a jump in debt outstanding at shorter maturities. In part, this could reflect the refinancing of long-term loans at shorter-term maturities. In addition, short-term lending may have been boosted by margin lending against stock market portfolios.*

### Maturity profile of outstanding bank credit



### Loan-to-deposit ratio



*At 78.5 percent, the loan-to-deposit ratio shows that banks still have plenty of scope to further increase lending.*

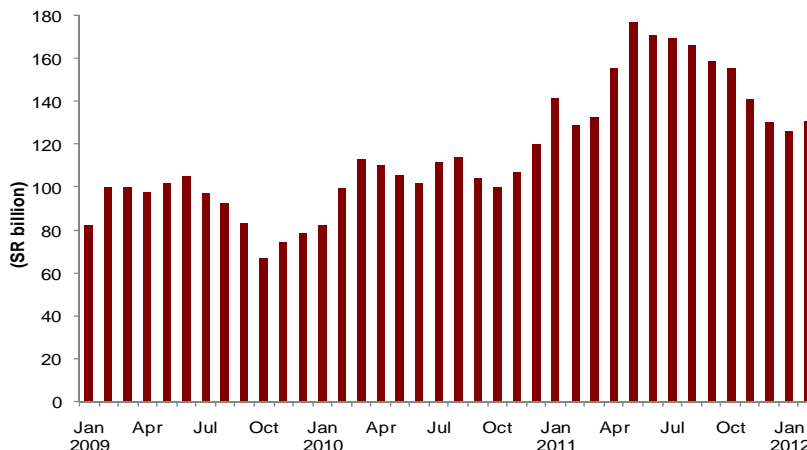


## Banking indicators

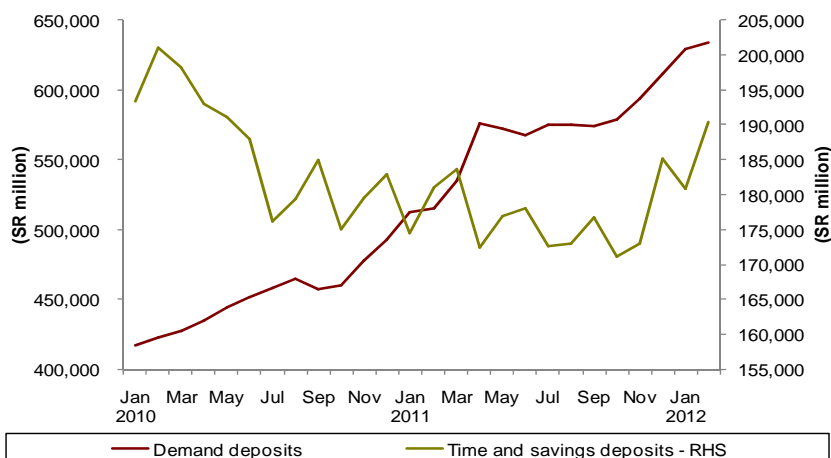
A rise in bank holdings of Treasury bills in February suggests the government may be becoming concerned about inflation. It does not appear that bank deposits are being drawn down significantly to finance stock market purchases. Bank profits jumped again.

*Bank holdings of Treasury bills increased for the first time since May, suggesting that the government may be mopping up liquidity owing to concerns about inflation.*

**Treasury bills held by banks**

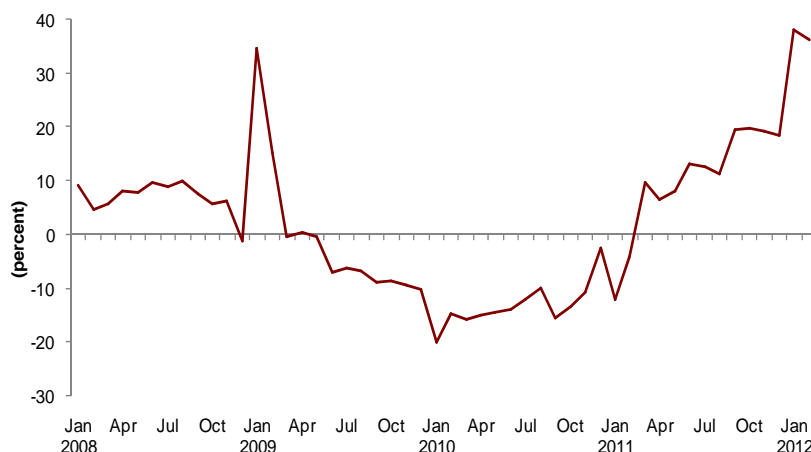


**Breakdown of bank deposits by businesses and individuals**



*With both demand and time and savings deposits of businesses and individuals going up in February, it does not yet seem that funds are being drawn down to finance stock market investment.*

**Bank profits**  
(year-on-year change)



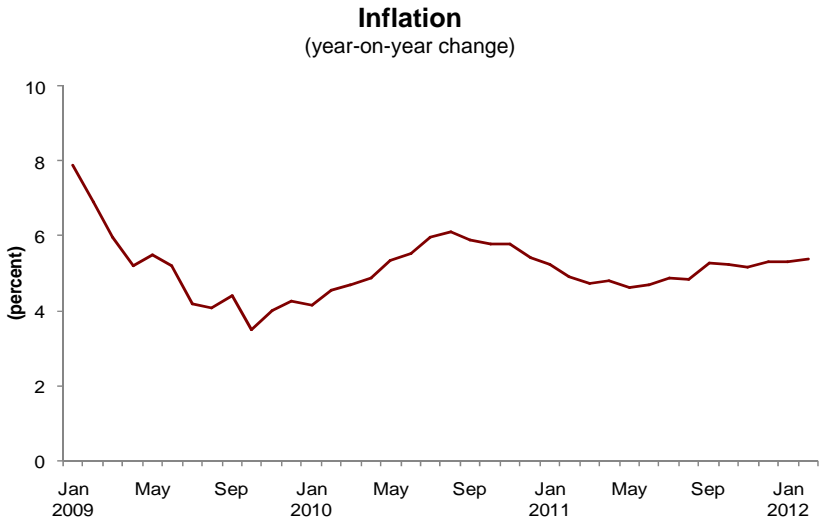
*Higher lending and deposits are boosting bank profits. In year-on-year terms profits for the first two months of the year were up by 36 percent.*



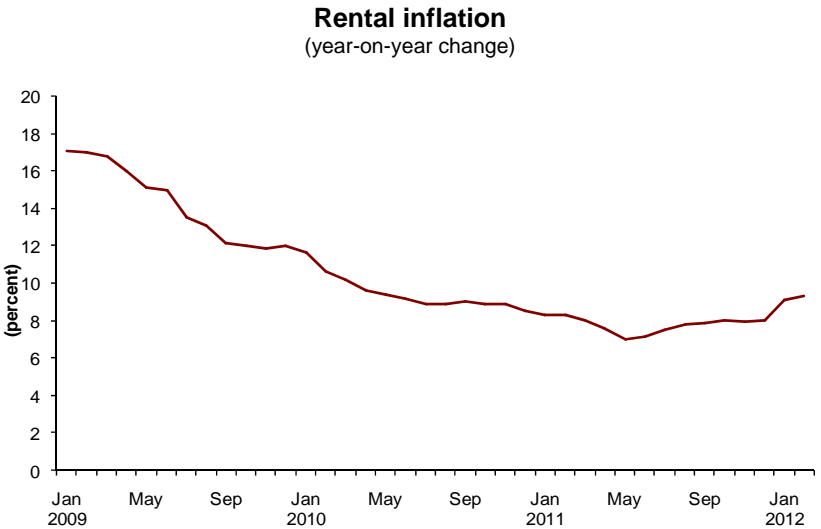
## Inflation

Year-on-year inflation ticked up in February, driven by an increase in rental inflation, which was at its highest since May 2010. Inflation for most other components of the cost of living index also rose. High money supply growth may be adding to inflationary pressures.

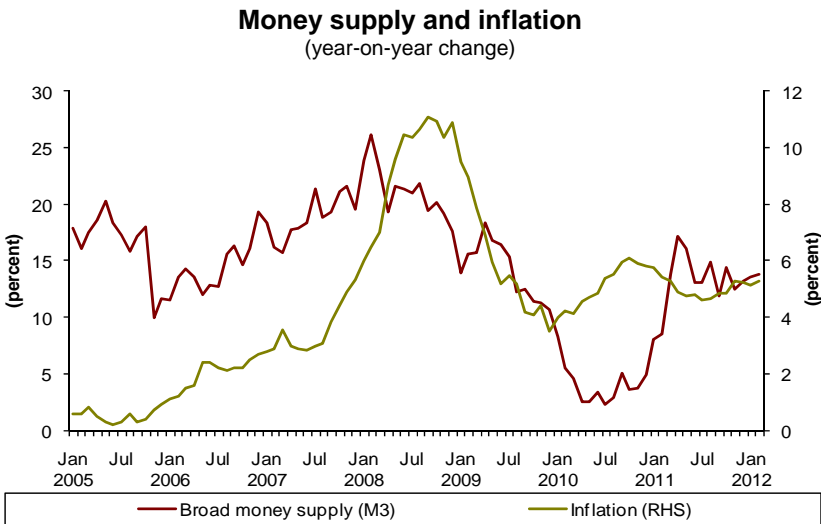
*Year-on-year inflation rose to 5.4 percent in February, the highest since December 2010, from 5.3 percent in January.*



*Rental inflation was the main source of the rise. At 9.3 percent it was at a 20-month high.*



*Money supply growth has been fairly strong recently (up by 4.6 percent over the last three months) which may be adding to inflationary pressures.*



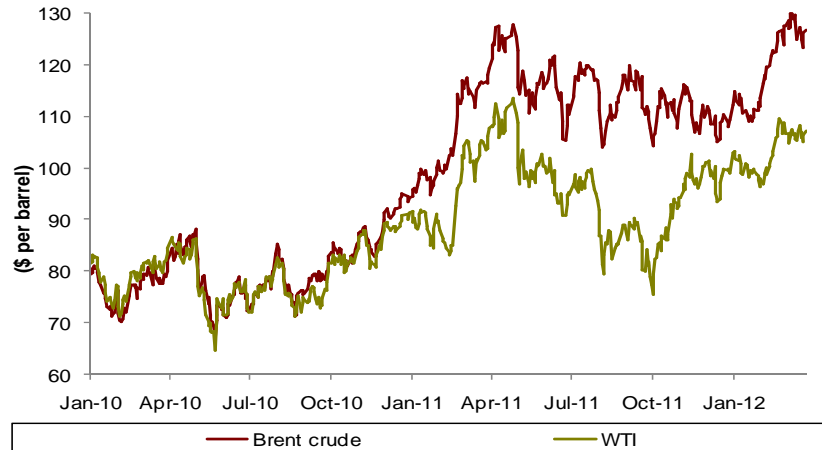


## Oil

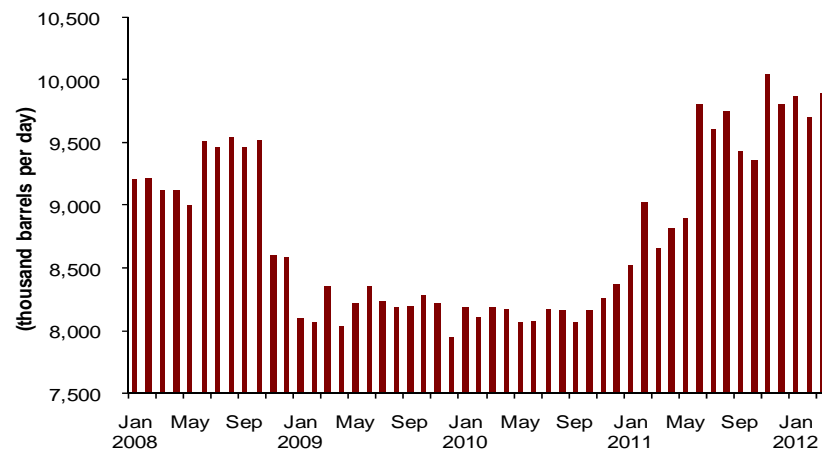
Oil prices remained at elevated levels in March. Tensions with Iran continue to add a risk premium to prices that are also being inflated by disruptions to supply. The Kingdom's oil production has stayed high, generating bumper oil export revenues.

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**Oil prices**

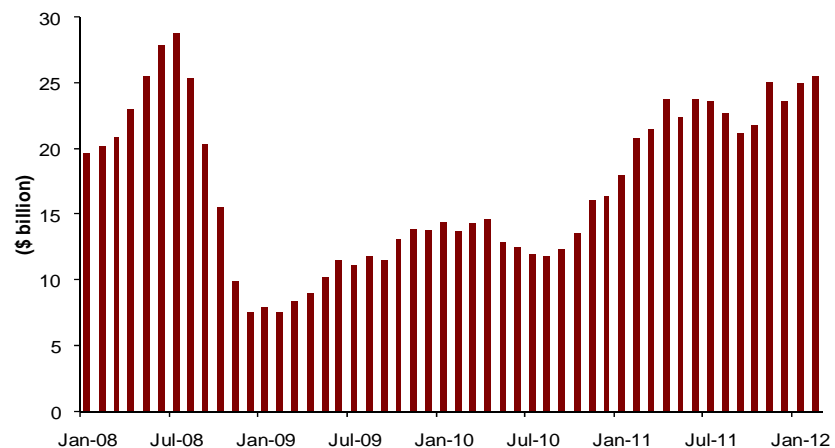


**Saudi oil production**



**Saudi oil export revenues**

(Jadwa estimates)



*The Kingdom's oil production has stayed high. The Oil Minister said that output was running at around 9.9 million barrels per day in March.*

*We estimate that high prices and production lifted oil export revenues to over \$25 billion in February. These revenues have bolstered government savings, with SAMA net foreign asset standing at \$555 billion at the end of February, up by \$20 billion so far this year.*



## Exchange rates

The main move over March has been the continued weakening of the yen against the dollar after the surprise easing of monetary policy in February. The impact of a weaker yen on China's competitiveness may be behind the modest appreciation of yuan.

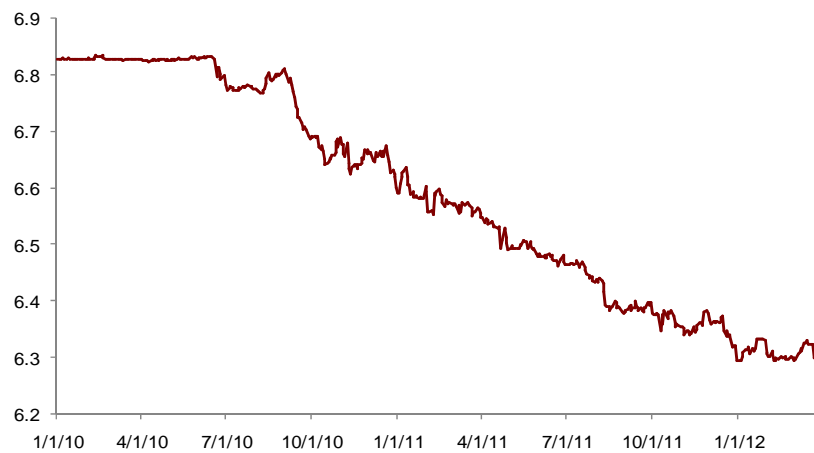
*The yen continued to weaken against the dollar for most of March after the surprise easing of monetary policy by the Bank of Japan in February.*

**Yen/dollar**



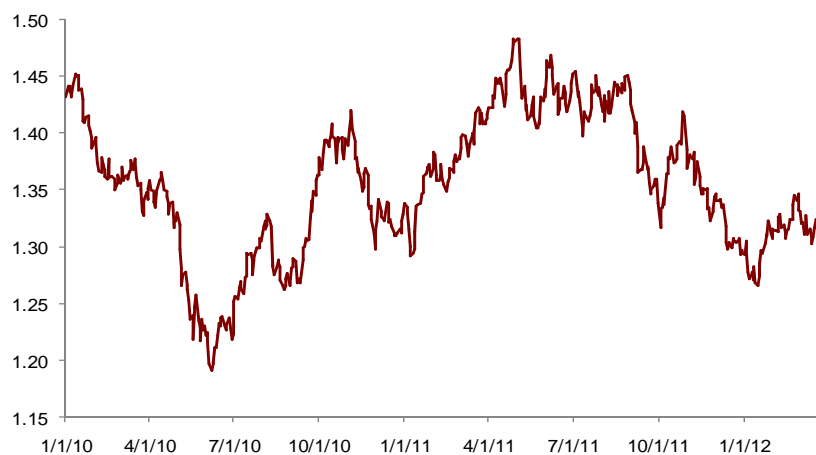
*The impact of a weaker yen on China's competitiveness may be behind the modest appreciation of yuan this month.*

**Chinese yuan/dollar**



*There has been little movement in the dollar/euro exchange rate over the past month.*

**Dollar/euro**





## Stock market

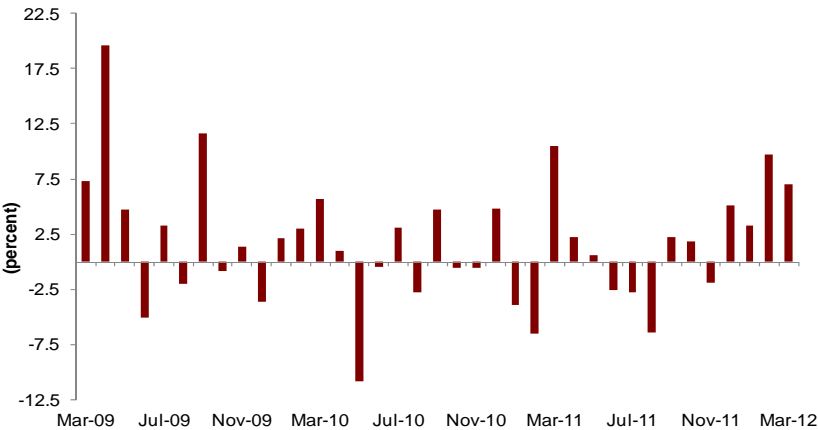
Nothing has happened so far in March to derail the positive momentum that the TASI has built and it is on track to be one of the best performing markets in the world in March. The TASI is on course to be up for the sixth month out of the last seven.

*By end-March 26, the TASI was up by 7 percent over the month and 21.3 percent year to date.*

TASI

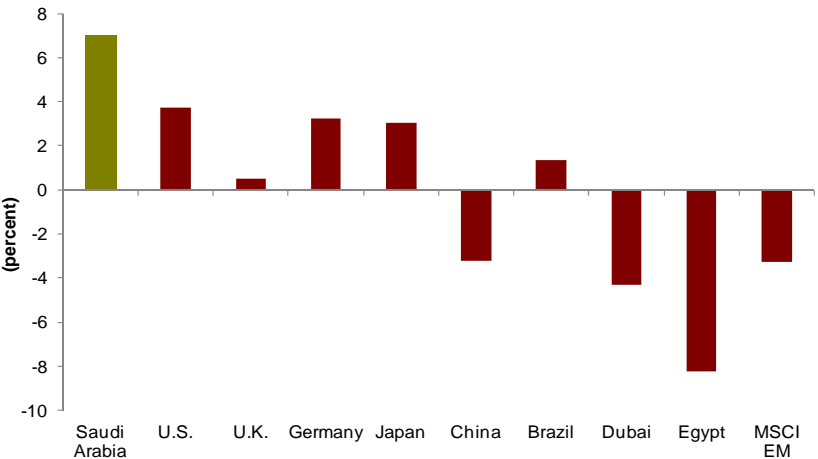


TASI monthly performance  
(as at March 26, 2012)



*The TASI is on course to be up for the sixth month in the past seven. The last time it had a similar run was the second half of 2005.*

Comparative stock market performance  
(as at March 26, 2012)



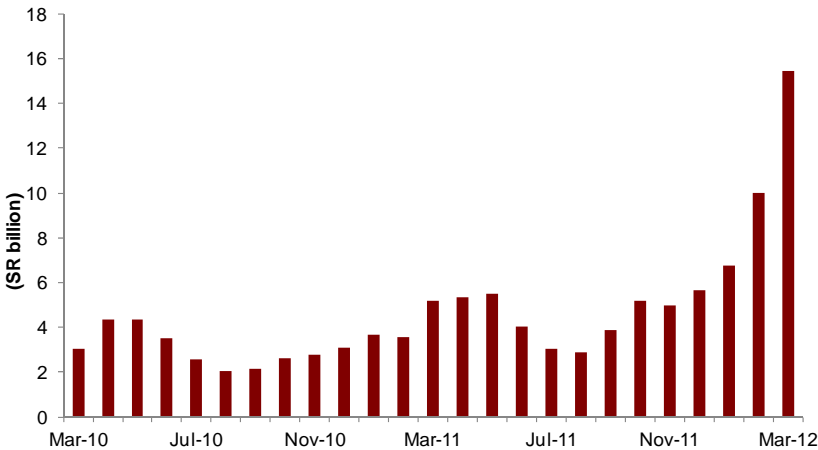
*So far this month it has been among the best performing stock markets in the world.*



## Volumes

Stock market volumes have continued to rise, with daily turnover averaging its highest in more than four years. Four sectors—petrochemicals, insurance, real estate and agriculture and food—accounted for nearly 60 percent of total turnover.

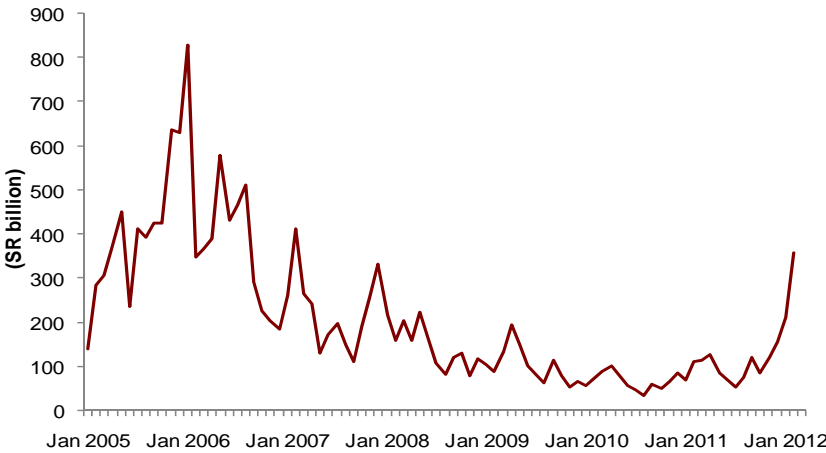
Average daily turnover



Daily turnover has averaged SR15.5 billion so far this month, the highest in more than four years...

Monthly turnover

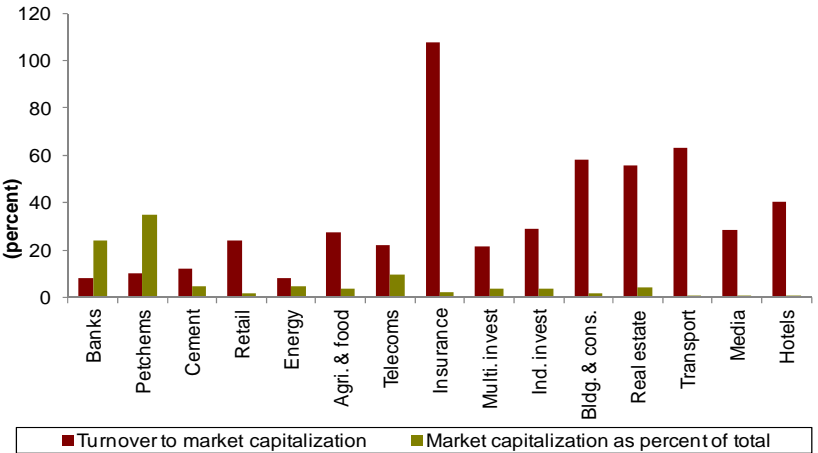
(March 2012 figure based on assumption daily average is maintained)



...but is still a long way from where it was at its peak in early 2006.

Turnover as percent of market cap

(as at March 26, 2012)



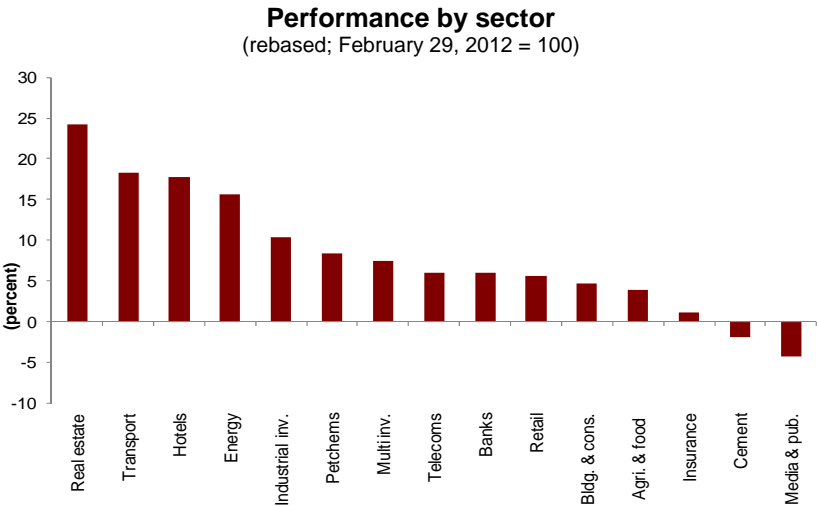
Turnover is disproportionately high in the smaller sectors. The value of insurance shares traded so far in March is greater than the sector's market capitalization.



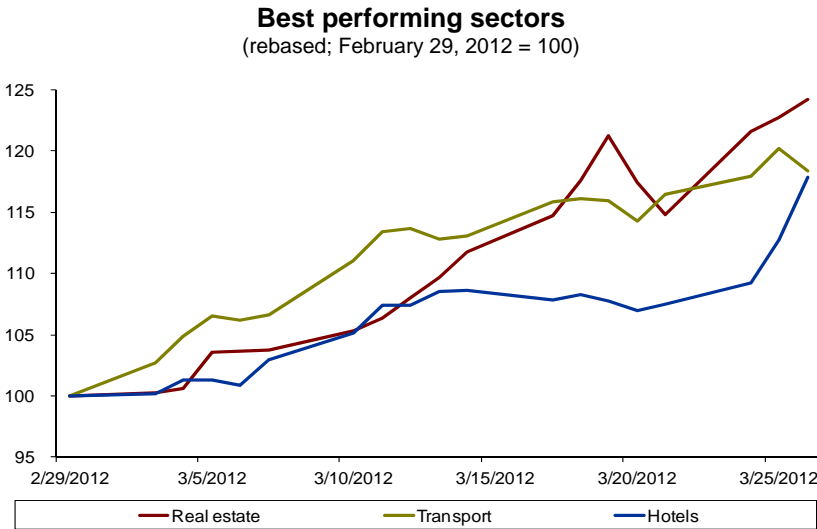
## Sectoral performance

Two sectors were down so far in March and five of the remaining 13 posted double-digit gains. The best performers have been subject to considerable speculative activity, though the insurance sector, where trading has been highest, is flat.

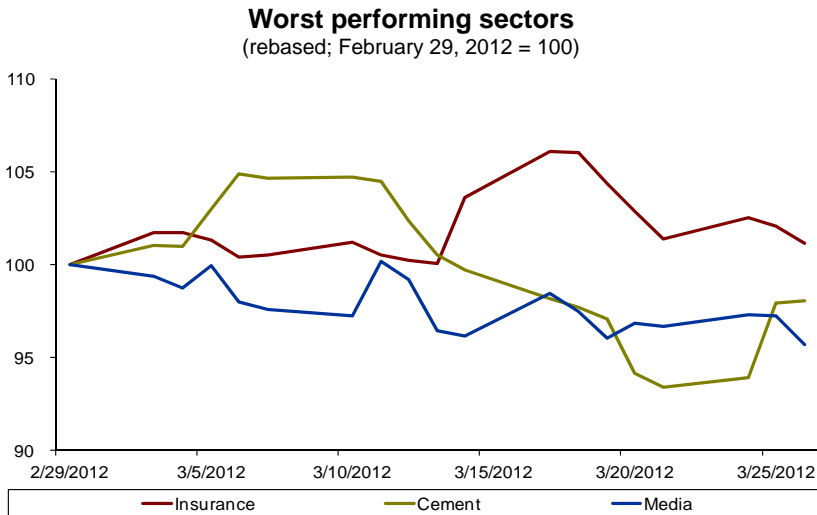
Thirteen sectors were up, with some posting very large gains.



Outperformance of the smaller sectors where there has been little change in fundamentals indicates that speculation still dominates trading activity.



Opening of the local market for cement imports may have hit the cement sector. While the insurance sector was flat, most companies have experienced large share price movements.





## Key data

	2005	2006	2007	2008	2009	2010	2011E	2012F	2013F
<b>Nominal GDP</b>									
(SR billion)	1182.5	1335.6	1442.6	1786.1	1412.6	1690.5	2163.1	2246.1	2227.4
(\$ billion)	315.3	356.2	384.7	476.3	376.7	450.8	576.8	599.0	594.0
(% change)	26.0	12.9	8.0	23.8	-20.9	19.7	28.0	3.8	-0.8
<b>Real GDP (% change)</b>									
Oil	6.2	-0.8	-3.6	4.2	-7.8	2.4	4.3	2.7	-3.8
Non-oil private sector	5.8	6.1	5.5	4.6	2.7	5.3	8.3	5.0	5.7
Government	4.0	3.1	3.0	3.7	5.2	5.9	6.7	6.7	6.7
Total	5.6	3.2	2.0	4.2	0.1	4.6	6.8	4.8	3.5
<b>Oil indicators (average)</b>									
WTI (\$/b)	56.6	66.0	72.3	99.7	62.0	79.5	94.8	93.0	91.5
Saudi (\$/b)	49.5	60.5	68.1	93.4	60.5	77.7	105.0	101.5	94.0
Production (million b/d)	9.4	9.2	8.8	9.2	8.2	8.2	9.3	9.4	9.0
<b>Budgetary indicators (SR billion)</b>									
Government revenue	564	674	643	1101	510	742	1110	1000	854
Government expenditure	346	393	466	520	596	645	804	733	770
Budget balance	218	280	177	581	-87	97	306	267	84
(% GDP)	18.4	21.0	12.2	32.5	-6.1	5.7	14.1	11.9	3.8
Domestic debt	475	366	267	237	225	167	136	115	100
(% GDP)	40.2	27.4	18.5	13.3	15.9	9.9	6.3	5.1	4.5
<b>Monetary indicators (average)</b>									
Inflation (% change)	0.7	2.3	4.1	9.9	5.1	5.3	5.0	4.9	4.5
SAMA base lending rate (% , year end)	4.75	5.20	5.50	2.50	2.00	2.00	2.00	2.00	2.00
<b>External trade indicators (\$ billion)</b>									
Oil export revenues	161.6	188.2	205.3	281.0	163.1	214.9	302.4	274.8	219.4
Total export revenues	180.4	210.9	233.1	313.4	192.2	251.0	343.2	318.0	267.9
Imports	53.8	63.0	81.5	100.6	86.4	96.7	98.7	110.5	123.8
Trade balance	126.6	147.8	151.6	212.7	105.8	154.3	244.5	207.5	144.1
Current account balance	90.0	98.9	93.3	132.3	21.0	67.0	159.5	127.6	61.0
(% GDP)	28.5	27.8	24.3	27.8	5.6	14.9	27.6	21.3	10.3
Official foreign assets	195.5	273.4	359.8	502.0	474.2	520.3	634.8	727.1	772.8
<b>Social and demographic indicators</b>									
Population (million)	23.4	24.1	24.8	25.5	26.3	27.1	27.9	28.8	29.7
Unemployment (male, 15+, %)	11.5	12.0	11.0	9.8	10.5	10.2	11.0	10.5	9.4
GDP per capita (\$)	13503	14806	15523	18651	14311	16612	20651	20797	20010

Sources: Jadwa estimates for 2011 and forecasts for 2012 and 2013. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. Central Department of Statistics and Jadwa estimates for oil, social and demographic indicators.



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