



Welcome to the first edition of Jadwa's Saudi Chartbook. In this publication we will provide a quick chart-based briefing on the key developments and trends in the Saudi economy and stock market over the past month. The Saudi Chartbook will be released shortly after the end of each month.

Summary

Real economy: December data present a mixed picture for the economy. Consumer spending continued to recover, but credit to the private sector fell sharply.

Inflation: Inflation rose again in December, as the effect of the slump in commodity prices and dollar appreciation of the final quarter of 2008 fed into the annual comparison.

Trade: Non-oil exports have started to recover in year-on-year terms after plunging commodity prices pulled them down sharply in the final quarter of 2008. Importers reacted slower to the downturn and recent data shows less sign of a revival in imports.

Oil: Oil prices fell throughout January as the exceptionally cold weather in North America and northern Europe eased and the dollar strengthened. Oil demand is continuing to rise, but supply is growing as compliance to Opec output quotas slips, and stocks remain high.

Exchange rates: The dollar has strengthened against most major currencies over the past month owing to investors becoming less tolerant to risk in the wake of tough proposed bank reforms, policy tightening in China and political tensions.

Stock market: In contrast to most global markets, the TASI rose during January. However, performance was disappointing given the solid fourth quarter earnings reported during the month.

Sector performance: In January the best performing sectors were multi investment, energy and utilities and transportation. Building and construction continued to lag.

TASI valuation: Despite the underperformance of the TASI last year, the P/E is on a par with many major emerging markets, where there are concerns about asset price bubbles. However, the current TASI valuation is not a concern.

Dividend yield: The dividend yield on the TASI outranked major global and emerging markets at the end of January, reflecting the preference for high dividends in the region. With interest rates very low, investors are keen on those stocks paying high dividends.

For comments and queries please contact the authors:

Paul Gamble
Head of Research
pgamble@jadwa.com

and:

Gasim Abdulkarim
Associate Director: Research
gabdulkarim@jadwa.com

or:

Brad Bourland, CFA
Chief Economist
jadwaresearch@jadwa.com

Head office:
Phone +966 1 279-1111
Fax +966 1 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com



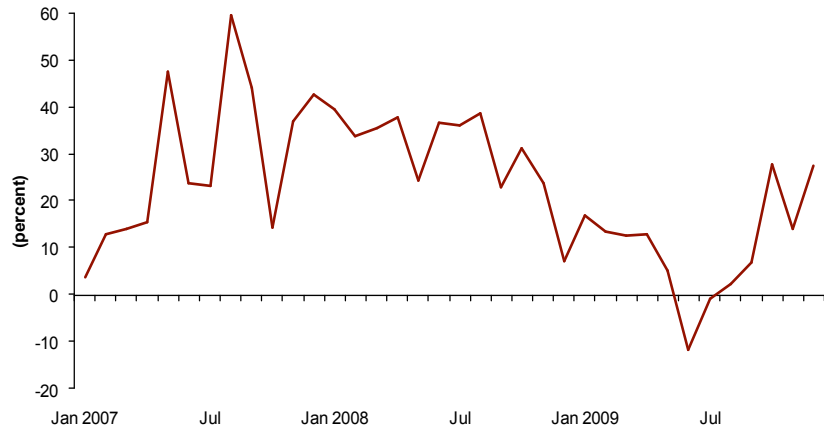
Real economy

December data present a mixed picture for the economy. Consumer spending continued to recover, spurred by improving confidence and low interest rates. In contrast, credit to the private sector fell sharply. Lack of credit remains the main problem for the private *(continued over)*

Retail sales maintained their upward trend.

Point of sale terminal transactions

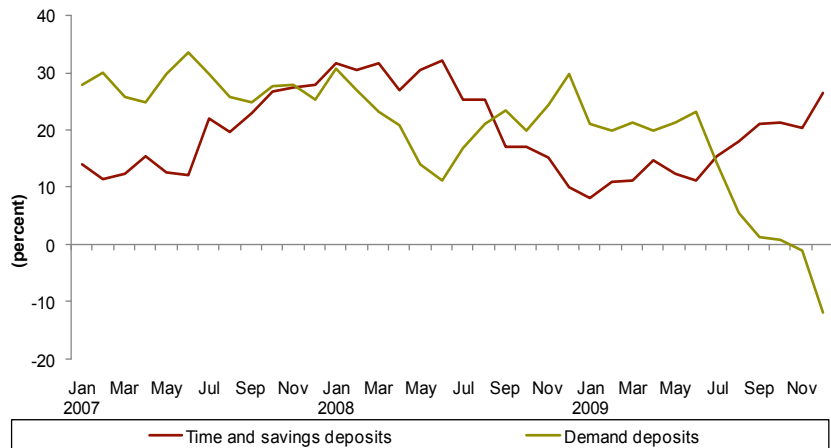
(Year on year change)



Low interest rates have encouraged switch into demand deposits, potentially supporting consumer spending.

Money supply

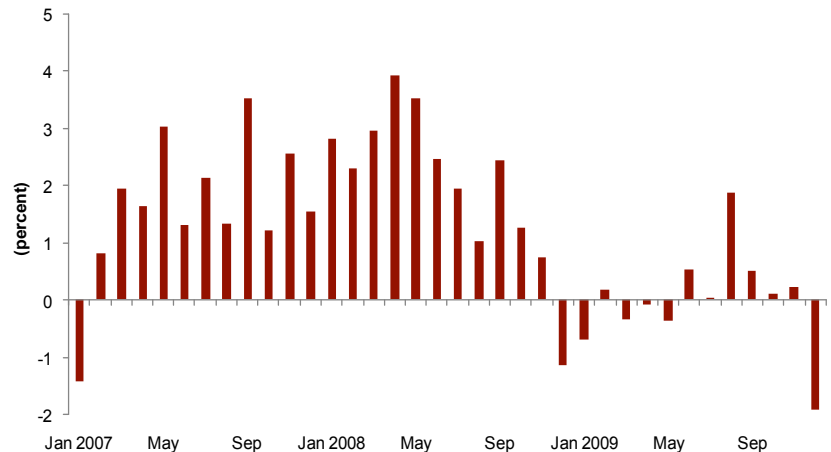
(Year on year change)



Lending to the private sector fell for the first month since May...

Bank credit to the private sector

(Month on month change)

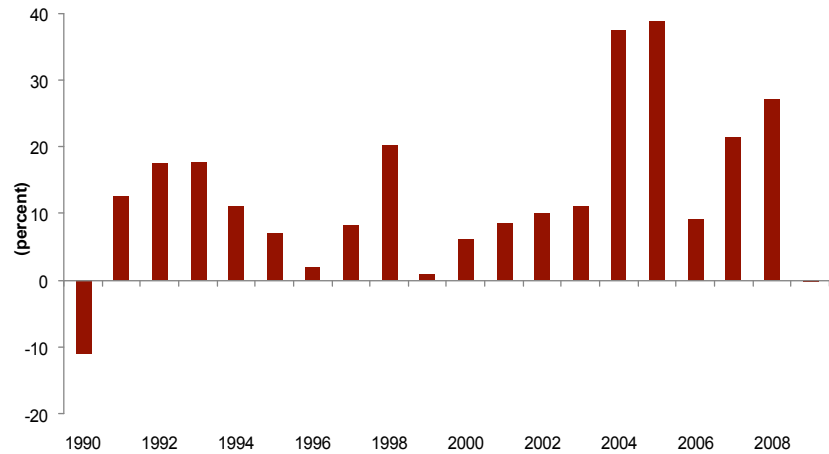




sector. Banks are still concerned about the lending environment and prefer to build up their deposits with SAMA. Fourth quarter bank results suggest several banks have provisioned for the bulk of their bad debts, raising the prospect of a more sustainable recovery in bank lending during 2010.

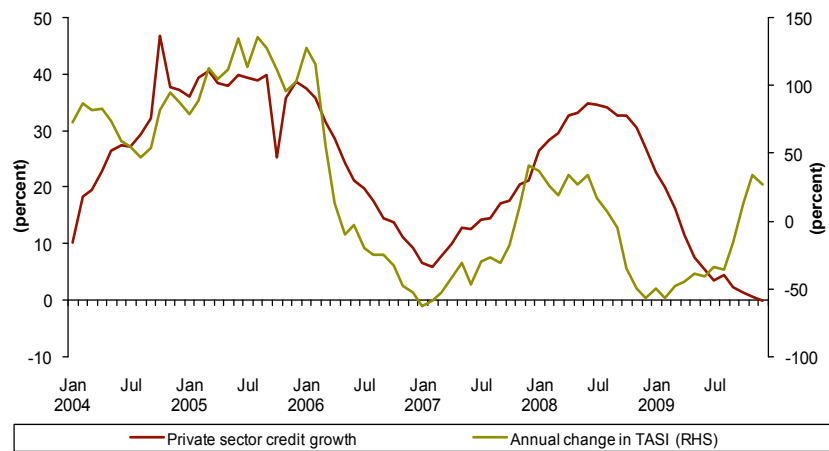
...and fell for the first year since 1990.

Bank credit to the private sector
(Annual change)



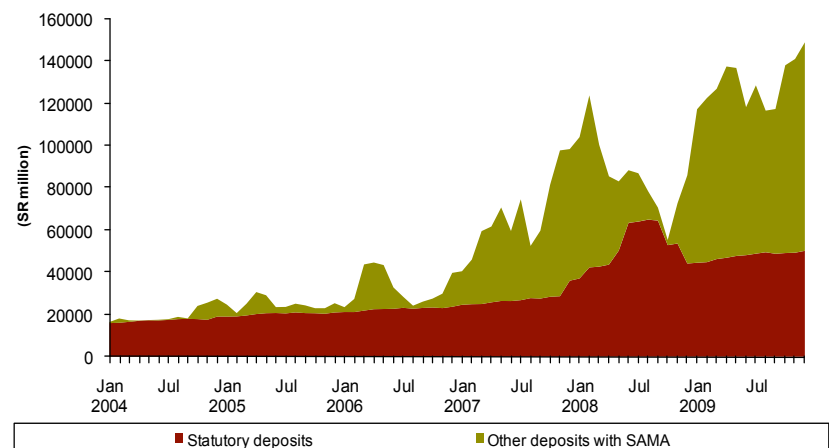
Relationship between credit and the TASI has broken owing to bank caution about lending and investor wariness about the market.

Bank credit to the private sector and the TASI
(Year on year change)



Banks' excess deposits at SAMA now exceed SR98 billion.

Commercial bank deposits at SAMA

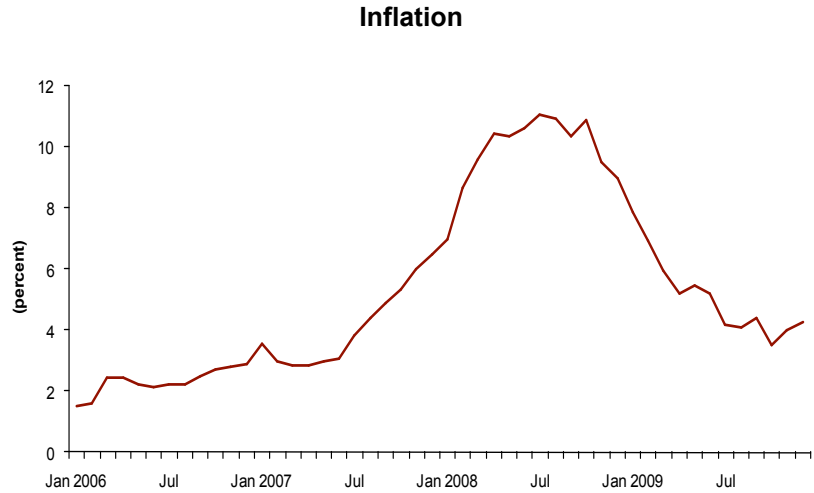




Inflation

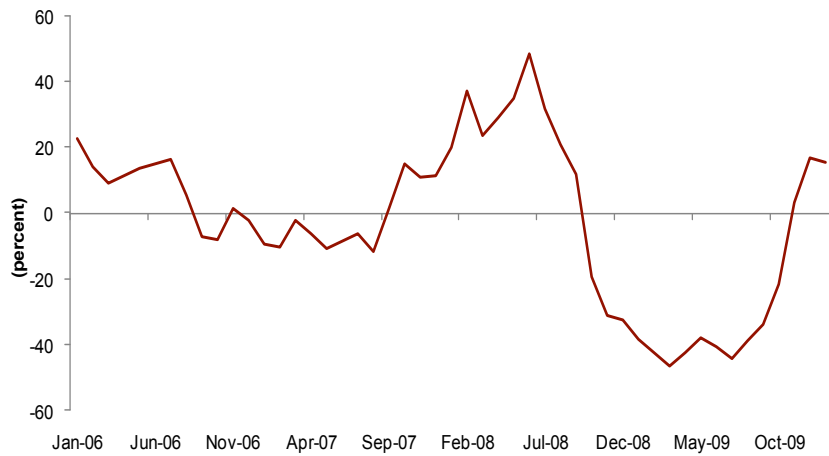
Inflation rose again in December, as the effect of the slump in commodity prices and dollar appreciation of the final quarter of 2008 fed into the annual comparison. Inflation will probably rise further during the first quarter before slipping back to around 4 percent.

Higher food and other commodity prices lifted inflation to 4.2 percent in December.



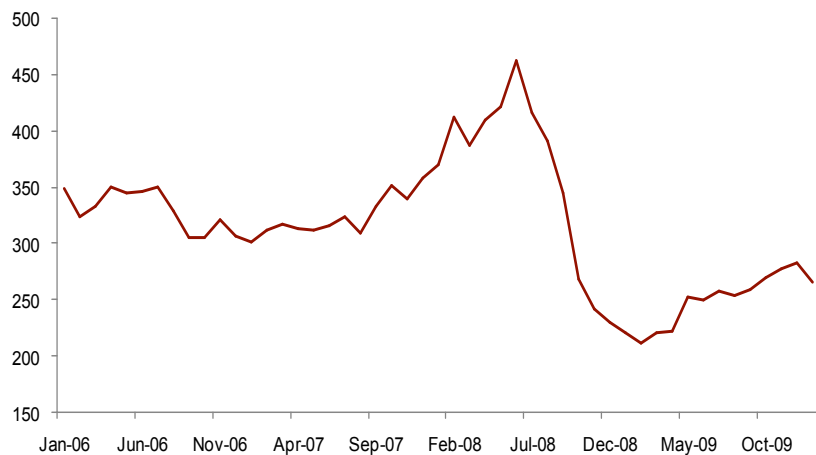
Annual change in commodity prices
(Reuters commodity price index)

Commodity prices are well above their level of one year ago...



Commodity price index
(Reuters commodity price index)

...but not far from where they were for the final seven months of last year.



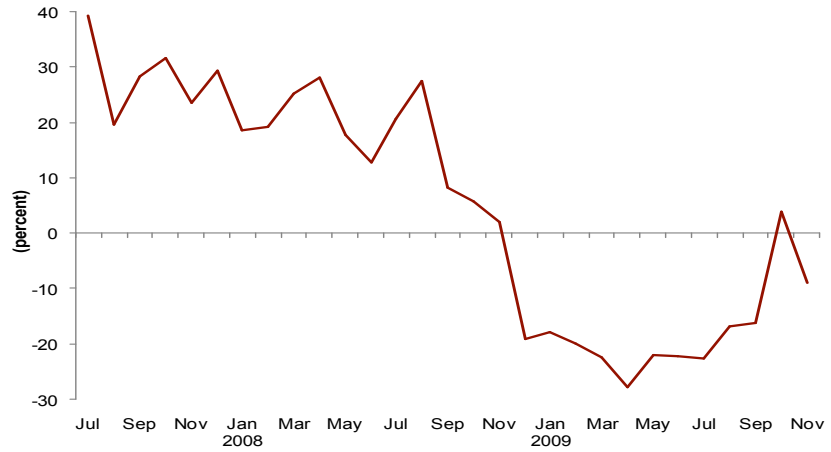


Trade

Non-oil exports have started to recover in year-on-year terms after plunging commodity prices pulled them down sharply in the final quarter of 2008. Importers reacted slower to the downturn and recent data shows less sign of a revival in imports.

Higher prices for key commodities have led to a rebound in non-oil export values.

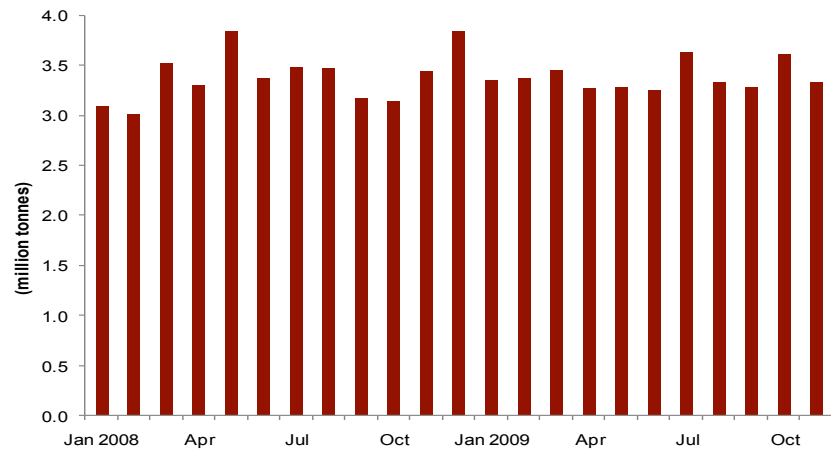
Non-oil exports



In volume terms they have held up pretty well.

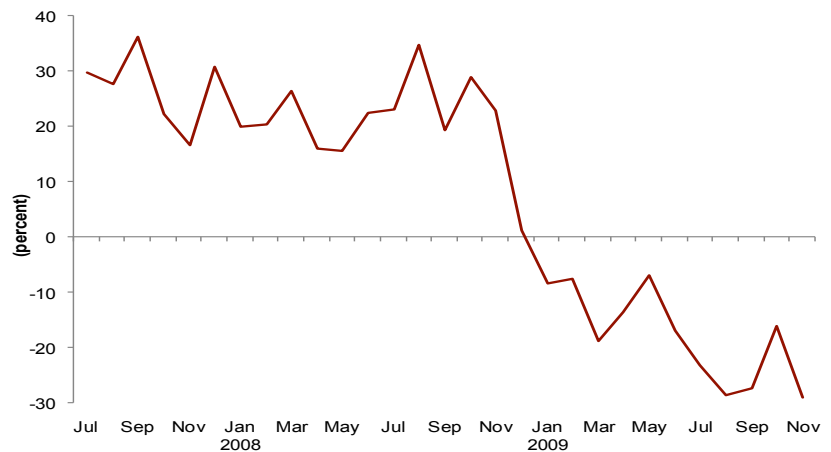
Non-oil export volumes

(Exports through the Kingdom's ports excluding refined products)



Imports remain well down.

Imports
(Year on year change)



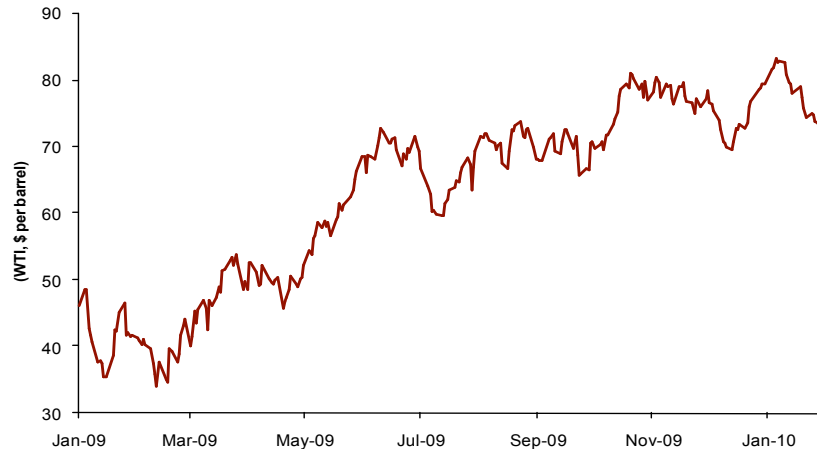


Oil

Oil prices fell throughout January as the exceptionally cold weather in North America and northern Europe eased and the dollar strengthened. Oil demand is continuing to rise, but supply is growing as compliance to Opec output quotas slips, and stocks remain high.

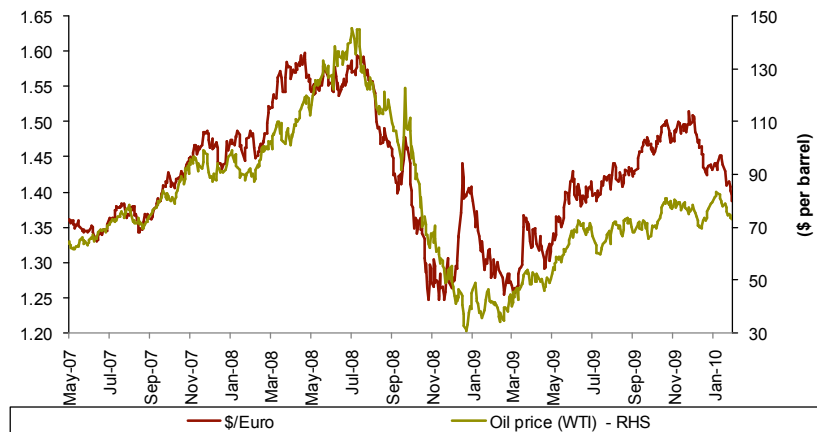
WTI is down 12 percent from its early-January high.

Oil price



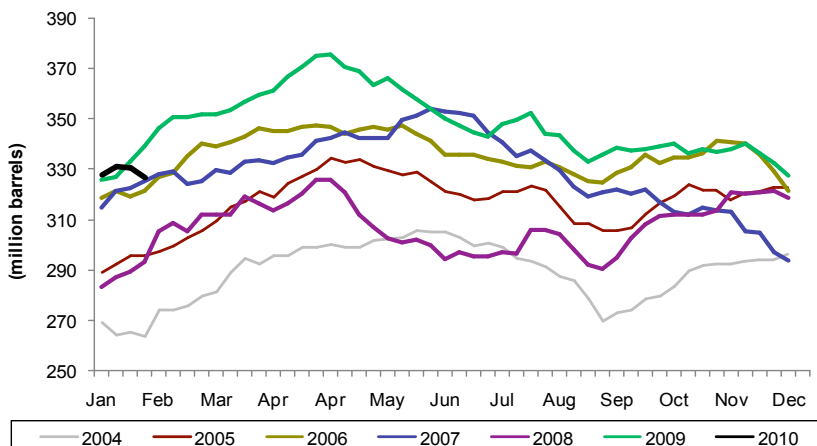
Relationship between oil and the dollar remains fairly close.

Oil prices and the dollar



Stocks are down but still high.

US crude oil stocks



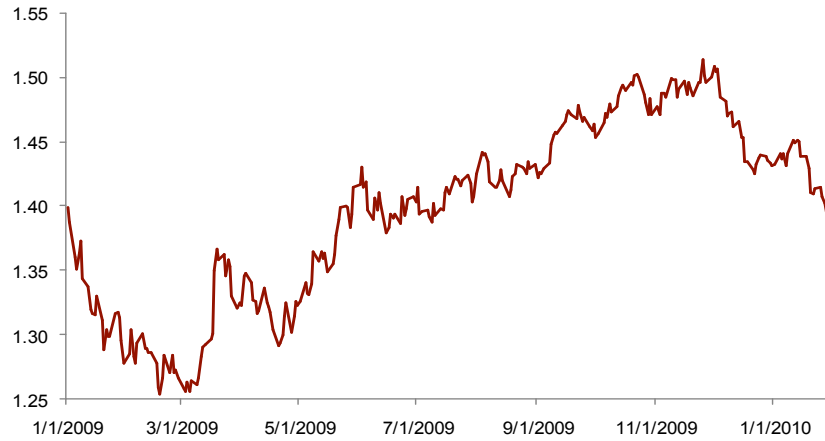


Exchange rates

The dollar (and hence the riyal) has strengthened against most major currencies over the past month owing to investors becoming less tolerant to risk in the wake of tough proposed bank reforms, policy tightening in China and political tensions.

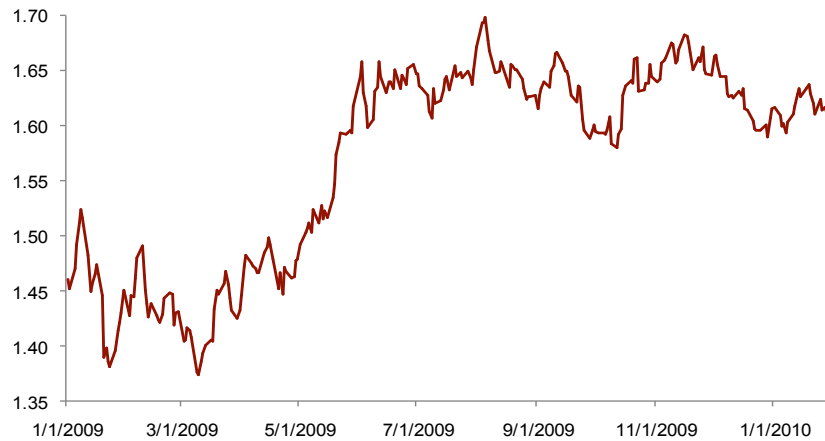
Economic troubles in Greece and weaker economic data throughout the Eurozone have pushed the euro to a six-month low.

Dollar/euro



The pound has performed better as a result of improved economic data in the UK.

Dollar/pound



Rising risk aversion tends to strengthen the yen.

Yen/dollar



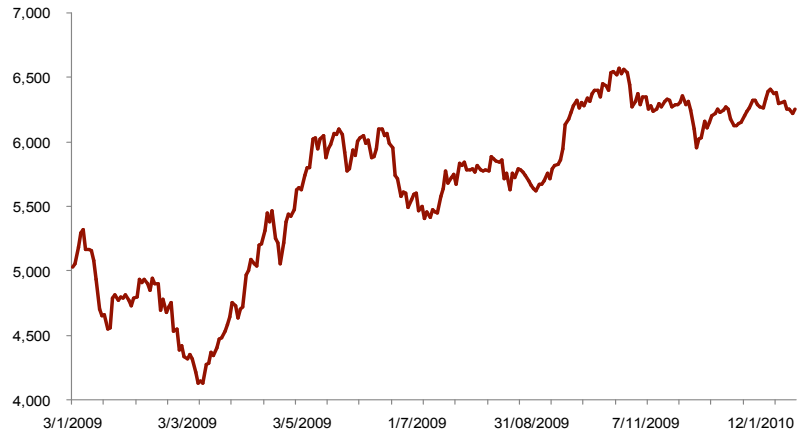


Stock market

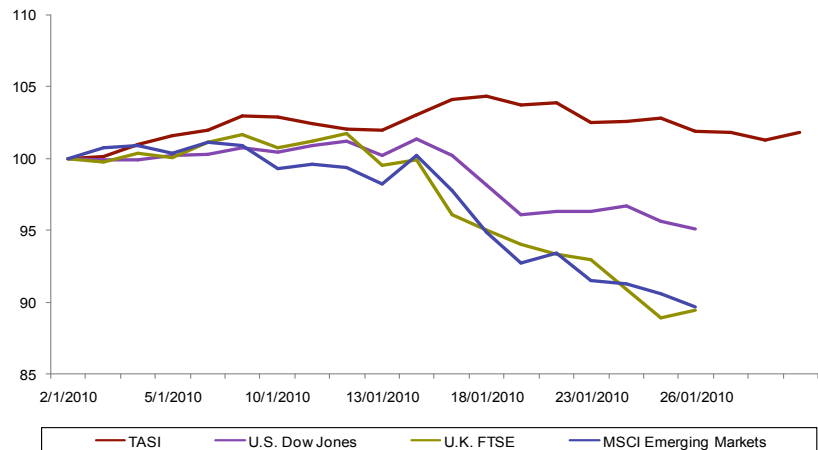
In contrast to most global markets, the TASI rose during January. However, performance was disappointing given the solid fourth quarter earnings reported during the month. Worsening sentiment in global markets held the TASI back.

Up by 2.1 percent in January...

TASI

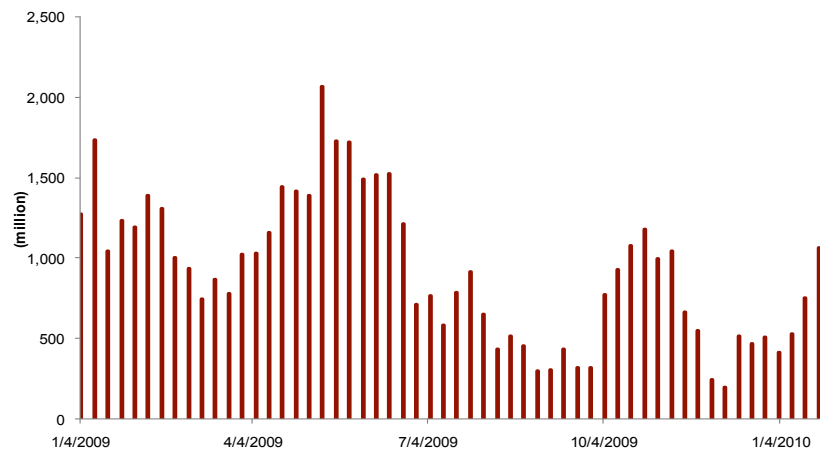


TASI versus global and emerging markets
(rebased, January 2, 2010=100)



...when it outperformed major global and emerging markets after a long period of underperformance.

Weekly trading volume



Volumes were higher in line with the seasonal trend.

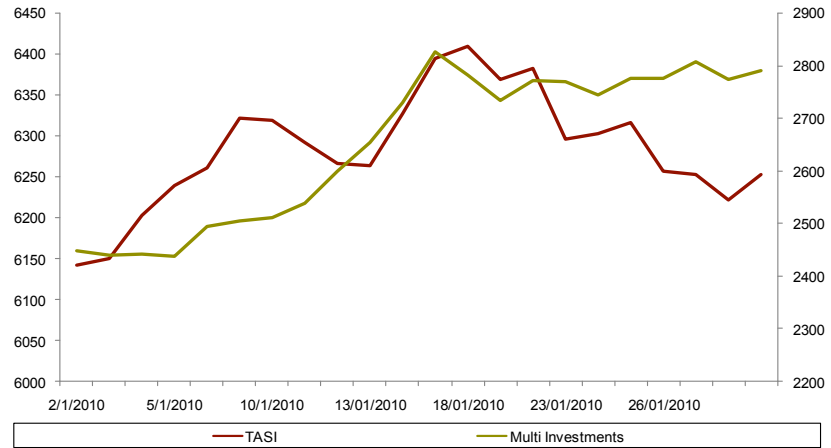


Sector performance

In January multi investment was the best performing sector, followed by energy and utilities and transportation. Agriculture and banking were also up. Building and construction continued to lag despite the announcement of another huge allocation for (continued over)

Multi investment recorded the largest gains owing to a financial restructuring that transformed the health of Kingdom Holding, which dominates the sector.

Multi Investment sector and the TASI



Better than anticipated results caused the banking sector to outperform, which is encouraging as...

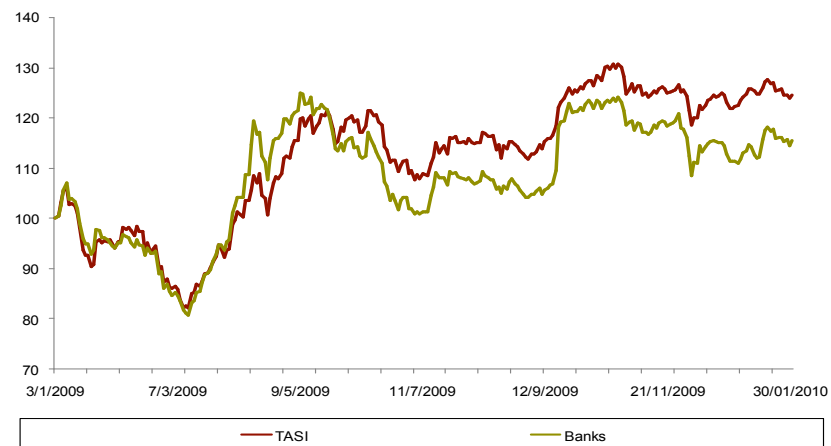
Banking sector and the TASI



...banks were the main drag on the market last year.

Banking sector and the TASI

(rebased, 3/1/2009 = 100)

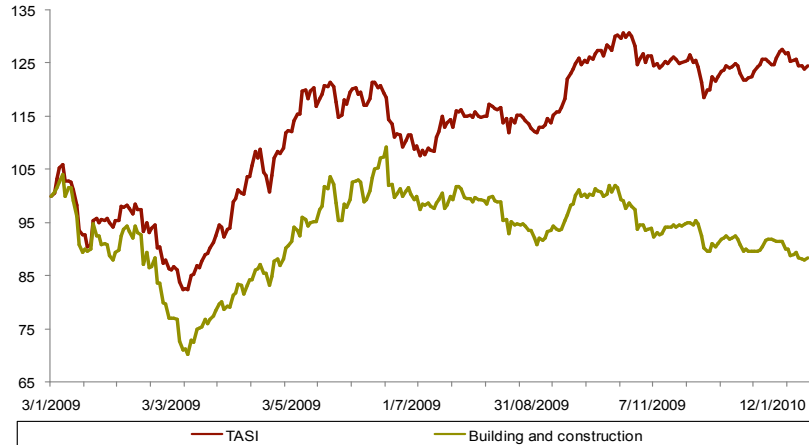




government spending on projects in the budget. The petrochemicals and telecommunications sectors were also down despite generally strong results for the fourth quarter. Ten out of the 15 sectors were up in January. Among the other laggards were media and publishing, industrial investment and building and construction.

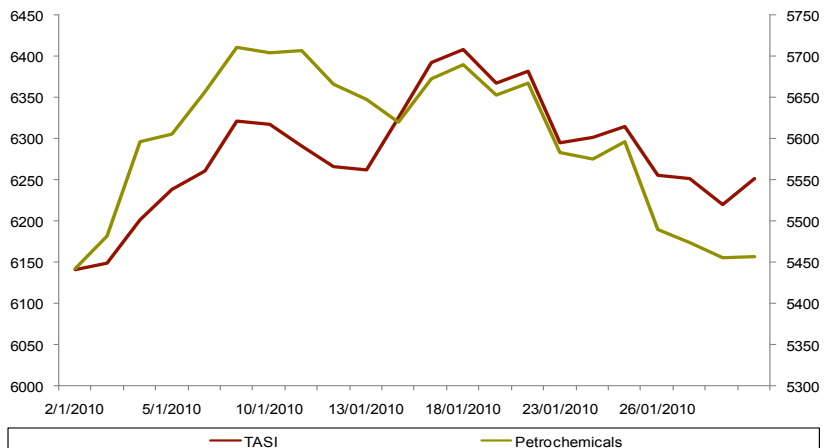
Still heading down despite large government spending commitments.

Building and construction sector and the TASI
(rebased, 3/1/2009 = 100)



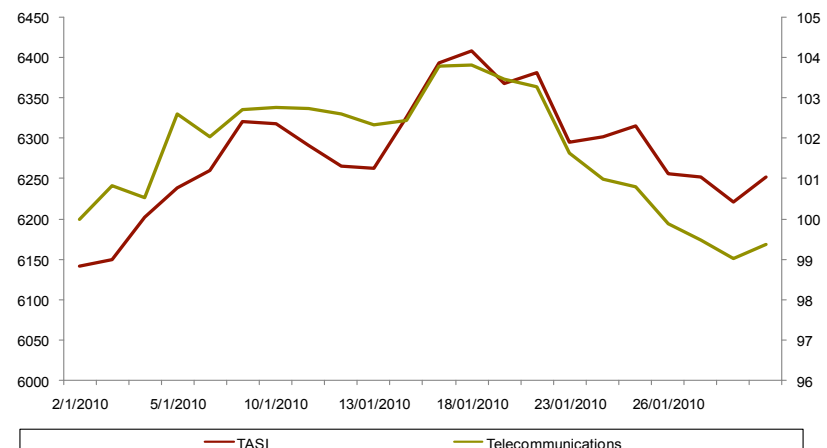
Falling oil prices outweighed the impact of strong results from Sabic.

Petrochemicals sector and the TASI



The failure of Zain to meet loan covenants offset good results from other operators, particularly Mobily.

Telecommunications sector and the TASI



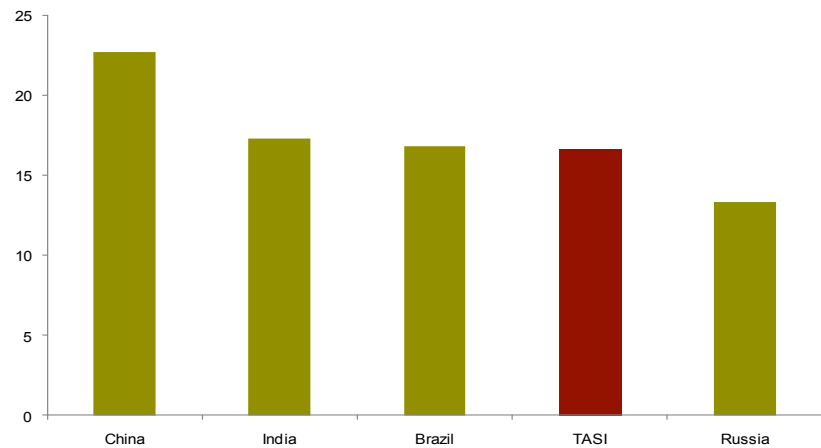


Market valuation

Despite the underperformance of the TASI last year, the P/E is on a par with many major emerging markets, where there are concerns about asset price bubbles. However, the TASI generally trades on a relatively high P/E and current valuations are not a concern.

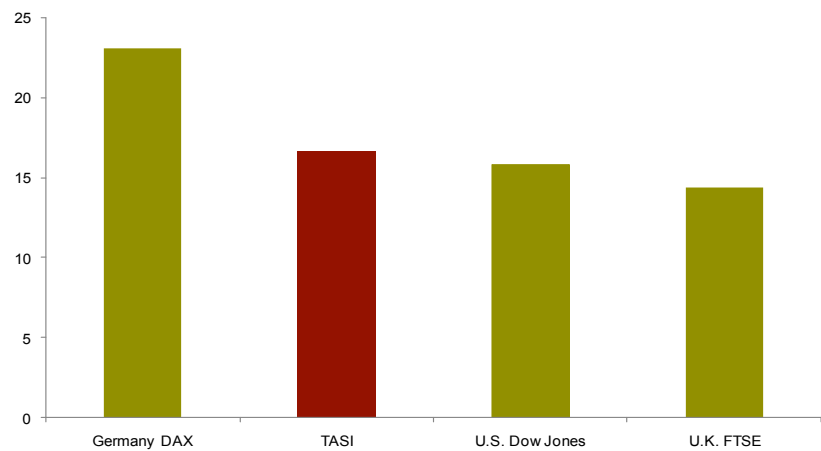
TASI P/E is in line with some strongly performing emerging markets...

TASI P/E versus emerging markets
(January 31, 2010)



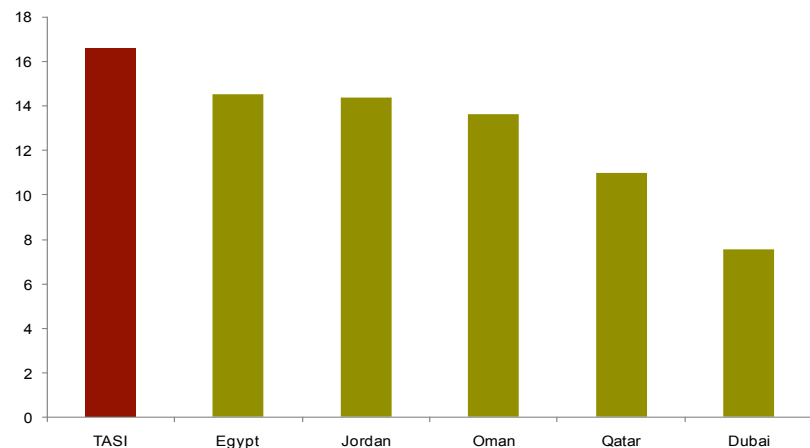
...as well as leading global markets.

TASI P/E versus leading global markets
(January 31, 2010)



It is the most expensive market in the MENA region on this basis.

TASI P/E versus MENA markets
(January 31, 2010)



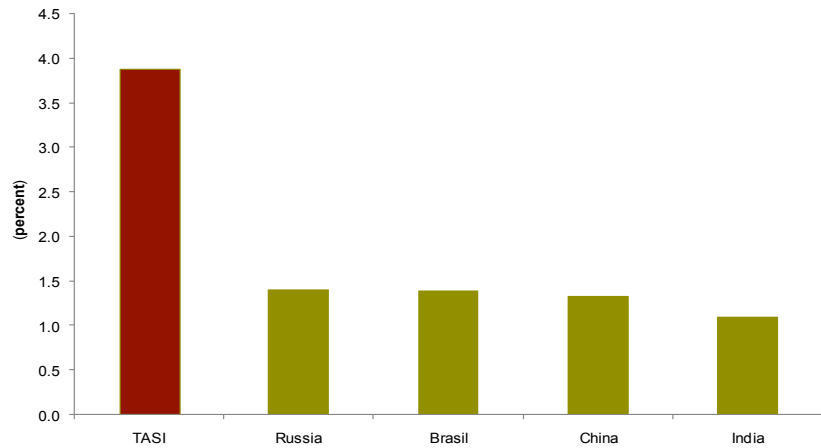


Dividend yield

The dividend yield on the TASI outranked major global and emerging markets at the end of January, reflecting the preference for high dividends in the region. With interest rates very low, investors are keen on those stock paying high dividends.

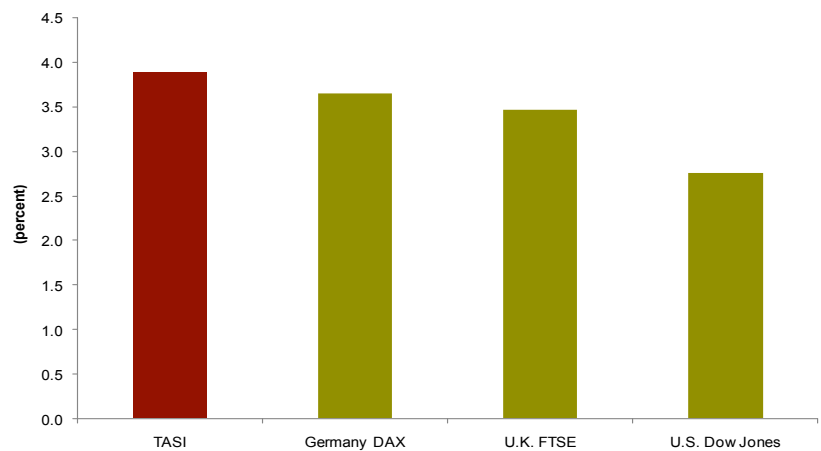
Dividend yield notably greater than in emerging markets...

Dividend yield versus emerging markets
(January 31, 2010)



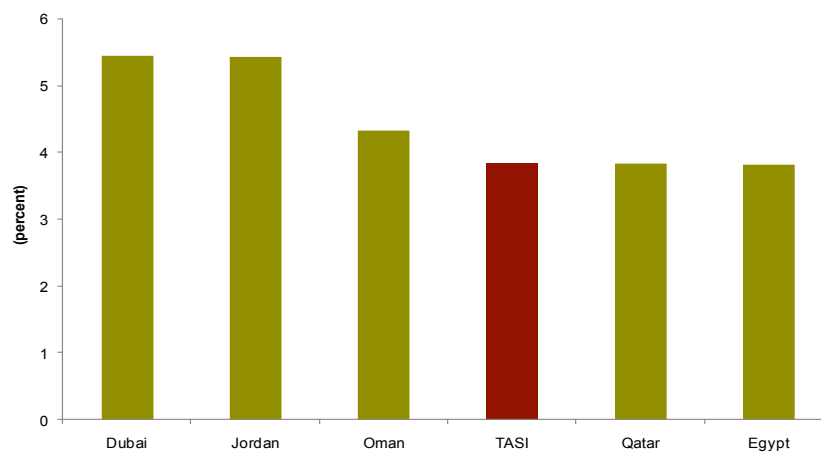
...and above that in major developed markets...

Dividend yield versus leading global markets
(January 31, 2010)



...but in line with those in regional markets reflecting preference for high dividends.

Dividend yield versus MENA markets
(January 31, 2010)





Key data

	2002	2003	2004	2005	2006	2007	2008	2009E	2010F
Nominal GDP									
(SR billion)	707.1	804.6	938.8	1182.5	1335.6	1442.6	1781.6	1384.4	1571.3
(\$ billion)	188.6	214.6	250.3	315.3	356.2	384.7	475.1	369.2	419.0
(% change)	3.0	13.8	16.7	26.0	12.9	8.0	23.5	-22.3	13.5
Real GDP (% change)									
Oil	-7.5	17.2	6.7	6.2	-0.8	-3.6	4.2	-6.4	4.0
Non-oil private sector	4.1	3.9	5.3	5.8	6.1	5.5	4.8	2.5	4.2
Government	2.9	3.1	3.1	4.0	3.1	3.0	3.7	4.0	3.6
Total	0.1	7.7	5.3	5.6	3.2	2.0	4.3	0.1	4.0
Oil indicators (average)									
WTI (\$/b)	26.2	31.1	41.5	56.6	66.1	72.3	99.7	62.0	75.0
Saudi (\$/b)	23.7	26.9	34.7	49.5	60.5	68.1	93.4	60.7	70.1
Production (million b/d)	7.5	8.8	9.0	9.5	9.2	8.7	9.2	8.1	8.3
Budgetary indicators (SR billion)									
Government revenue	213	293	392	564	674	643	1101	505	616
Government expenditure	234	257	285	346	393	466	520	550	603
Budget balance	-21	36	107	218	280	177	581	-45	13
(% GDP)	-2.9	4.5	11.4	18.4	21.0	12.2	32.6	-3.3	0.8
Domestic debt	660	660	614	475	366	267	237	225	210
(% GDP)	93.3	82.0	65.4	40.2	27.4	18.5	13.3	16.3	13.4
Monetary indicators (average)									
Inflation (% change)	0.2	0.6	0.3	0.7	2.3	4.1	9.9	5.1	4.4
SAMA base lending rate (% , year end)	2.00	1.75	2.50	4.75	5.20	5.50	2.50	2.00	2.50
External trade indicators (\$ billion)									
Oil export revenues	63.6	82.0	110.4	161.6	188.2	205.3	281.0	157.4	186.6
Total export revenues	72.3	93.0	125.7	180.4	210.9	233.1	313.3	184.5	215.8
Imports	29.6	33.9	41.1	53.8	63.0	81.5	100.6	80.4	82.8
Trade balance	42.6	59.1	84.6	126.6	147.8	151.6	212.7	104.1	133.0
Current account balance	11.9	28.0	51.9	90.0	98.9	93.3	134.0	20.5	43.8
(% GDP)	6.3	13.1	20.7	28.5	27.8	24.3	28.2	5.6	10.4
Official foreign assets	73.3	97.1	127.9	195.5	273.4	359.8	506.3	461.1	508.7
Social and demographic indicators									
Population (million)	21.5	22.0	22.5	23.1	23.7	24.2	24.8	25.6	26.4
Unemployment (male, 15+, %)	7.6	8.2	8.5	8.8	9.1	9.0	8.8	8.5	8.2
GDP per capita (\$)	8773	9745	11112	13640	15041	15868	19151	14424	15887

Sources: Jadwa estimates for 2009 and forecasts for 2010. 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.



Disclaimer of Liability

Unless otherwise stated, all information contained in this document (the "Publication") shall not be reproduced, in whole or in part, without the specific written permission of Jadwa Investment.

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

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that contain in the Publication. It is not the intention of the Publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future.