



Summary

Real economy: New economic data are encouraging. They point to a strengthening of performance across the economy. With the TASI also having a good month and oil prices holding above \$80 per barrel, it seems that the revival of private sector confidence is gaining momentum.

Bank lending: Lack of access to bank credit remains the leading private sector concern, so growth in bank lending during February is positive. Nonetheless, as the bulk of lending short term, there is a risk that some companies will be unable to rollover their debt.

Banking indicators: Growth in bank deposits has continued to ease owing to low interest rates, meaning that the loan-to-deposit ratio is up for the second consecutive month. Slowing money supply growth points to subdued domestic inflationary pressure.

Inflation: Inflation jumped to 4.6 percent in February owing to higher food prices. This reflects the very low base for comparison, as food prices plunged during late-2008 and early-2009. Rental inflation fell again, though rents are now 50 percent higher than at end-2006.

Trade: Imports through the ports were 18 percent higher in February than one year earlier, with consumer goods increasing by 26 percent and construction goods up by 37 percent. While this data is healthy, it is largely due to the slump in imports in late-2008 and early-2009.

Oil: Oil prices have been stable over the past month at a level that Opec producers are comfortable with. Their decision not to alter production quotas at their mid-March meeting was therefore not a surprise. High stocks remain a potential concern.

Exchange rates: The dollar has eased after EU members unveiled a plan to support the Greek economy. Future episodes of heightened risk aversion will lead to renewed dollar strength.

Stock market: The TASI rose for the third consecutive month and was up by 11.1 percent over the first quarter. Performance in March was boosted by growing confidence about corporate performance and the launch of the first exchange traded fund.

Sector performance: Fourteen of the 15 sectors rose in March, headed by petrochemicals, which benefitted from high oil prices and expectations of good first quarter results. Multi investment was the weakest sector after very strong performance earlier in the year.

Dividends: Dividend payouts were healthy last year given the tough operating environment. They are likely to pick up in 2010 as conditions improve.

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



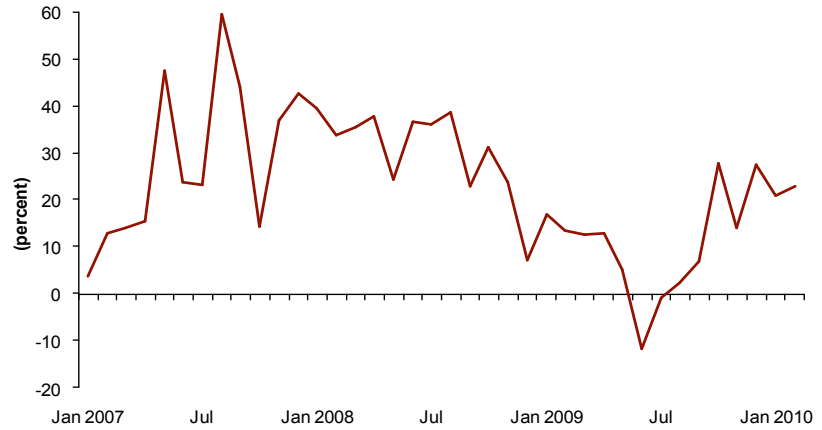
Real economy

New economic data are encouraging. They point to a strengthening of performance across the economy. With the TASI also having a good month and oil prices holding above \$80 per barrel, it seems that the revival of private sector confidence is gaining momentum.

February saw healthy growth in consumer spending...

Point of sale terminal transactions

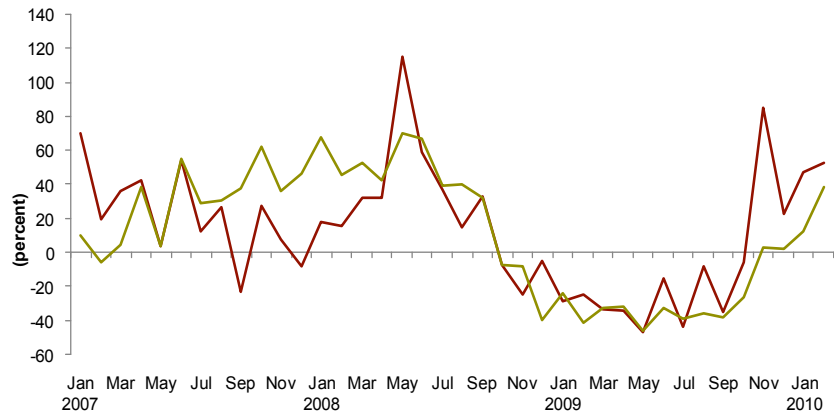
(year-on-year change)



...import intentions (particularly for investment goods)...

Letters of credit opened for private sector imports

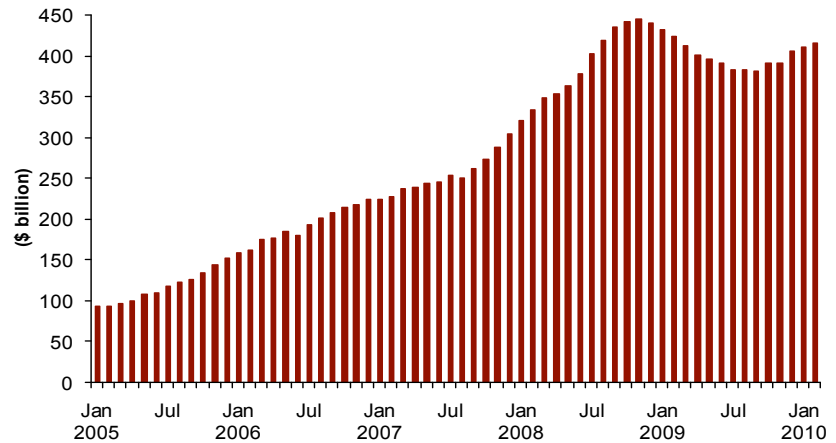
(year-on-year change)



— Letters of credit for machinery and building materials — Total letters of credit

...and SAMA's stock of foreign assets, which are at a 12-month high.

SAMA foreign assets



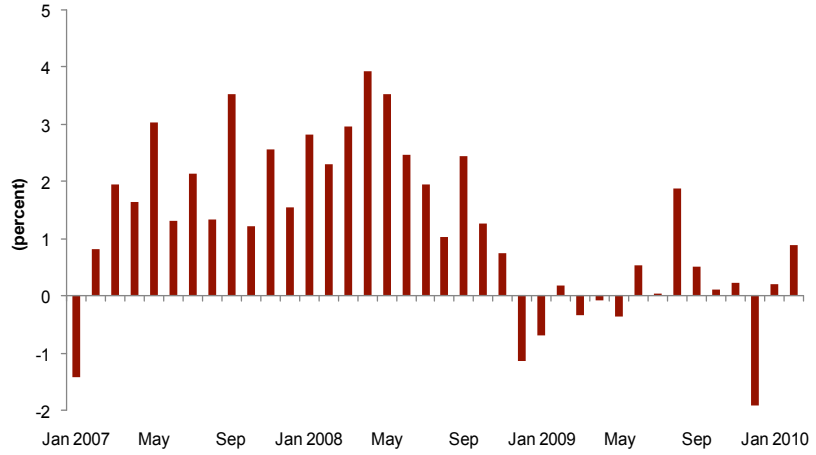


Bank lending

Lack of access to bank credit remains the leading private sector concern, so the growth in bank lending during February is positive. Nonetheless, as the bulk of lending short term, there is a risk that some companies will be unable to rollover their debt.

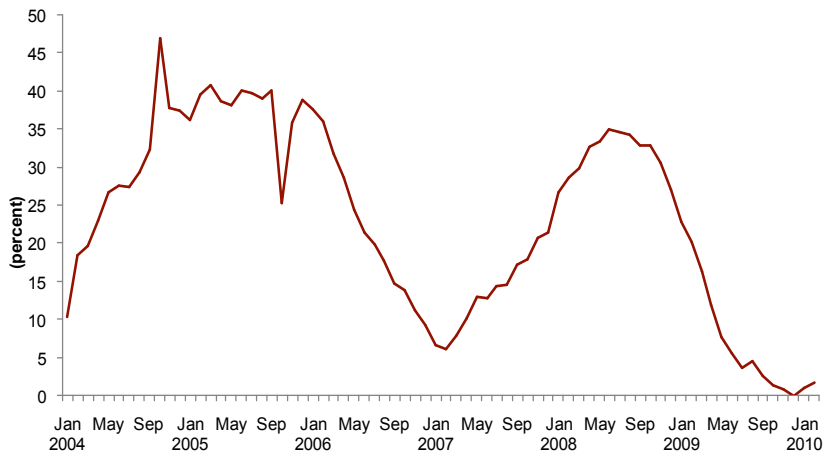
Bank lending to the private sector was up by 0.9 percent in February in month-on-month terms...

Bank credit to the private sector
(month-on-month change)



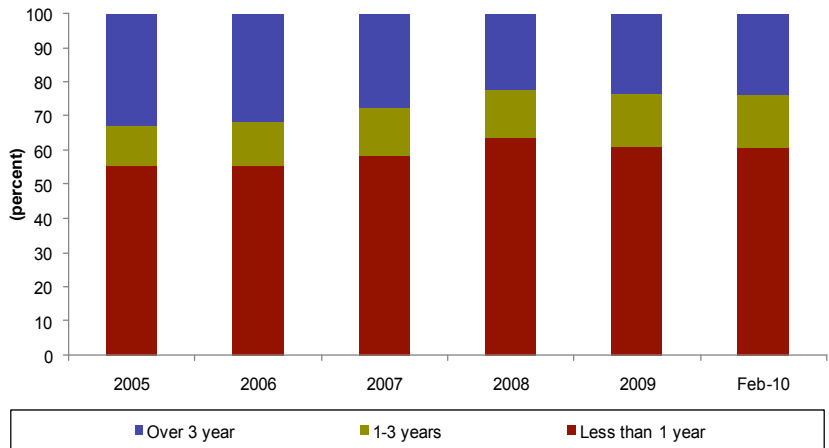
...and has continued to revive in year-on-year terms.

Bank credit to the private sector
(year-on-year change)



Three-quarters of bank credit has a maturity of less than three years.

Maturity structure of bank credit
(end period)



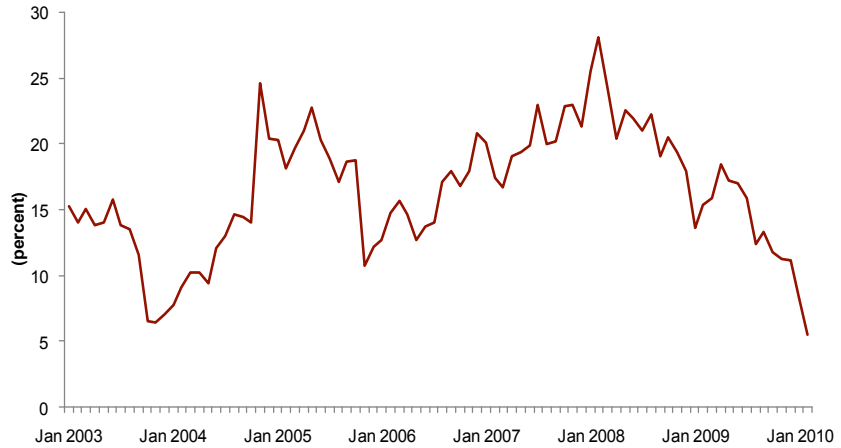


Banking indicators

Growth in bank deposits has continued to ease owing to low interest rates, meaning that the loan-to-deposit ratio is up for the second consecutive month. Slowing money supply growth points to subdued domestic inflationary pressure.

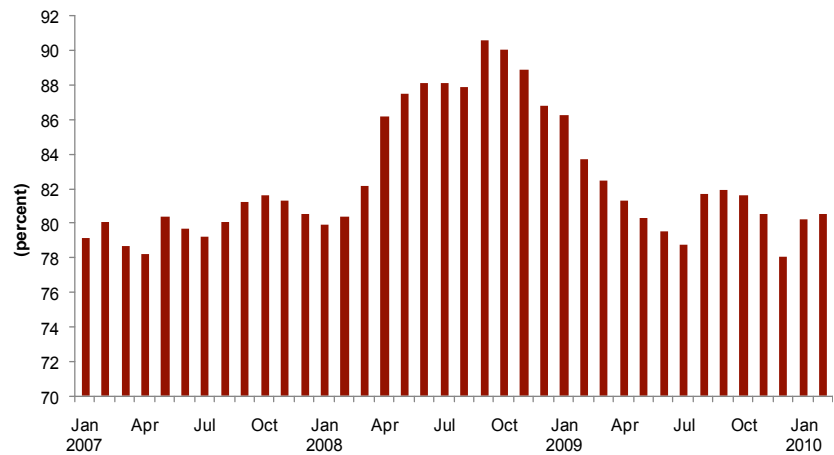
Though up in riyal terms in February, year-on-year growth in bank deposits was the lowest in over a decade...

Deposits in the banking sector
(year-on-year change)



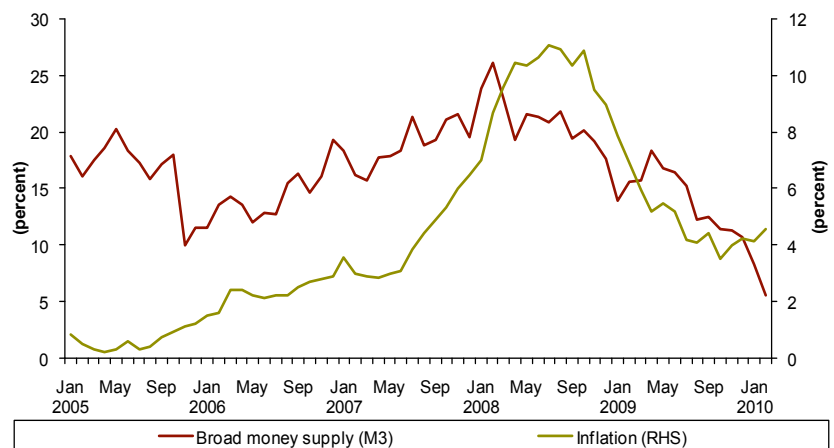
...nudging up the loan-to-deposit ratio.

Loan-to-deposit ratio



Slowing broad money supply growth points to subdued domestic inflationary pressure.

Broad money supply and inflation
(year-on-year change)

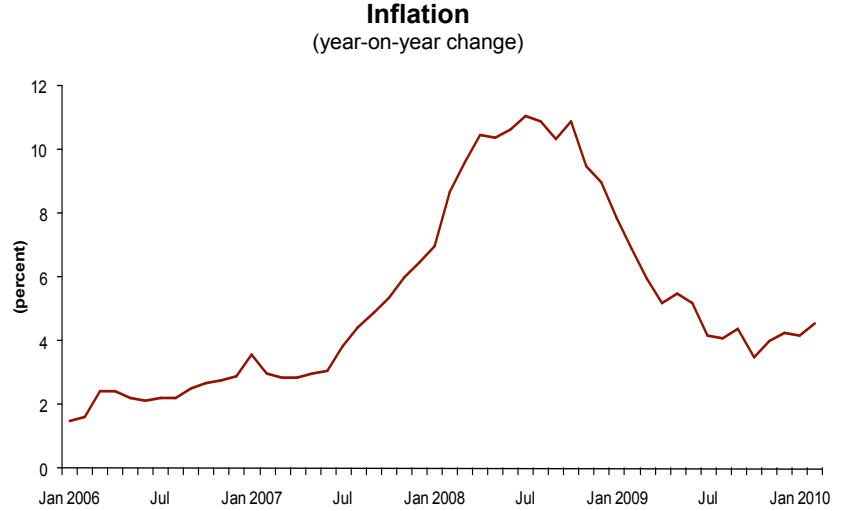




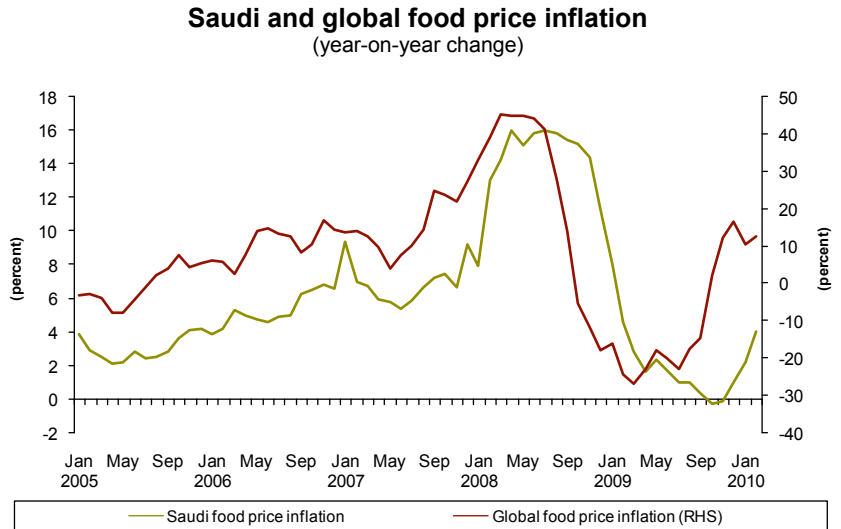
Inflation

Inflation jumped to 4.6 percent in February owing to higher food prices. This reflects the very low base for comparison, as food prices plunged during late-2008 and early-2009. Rental inflation fell again, though rents are now 50 percent higher than at end-2006.

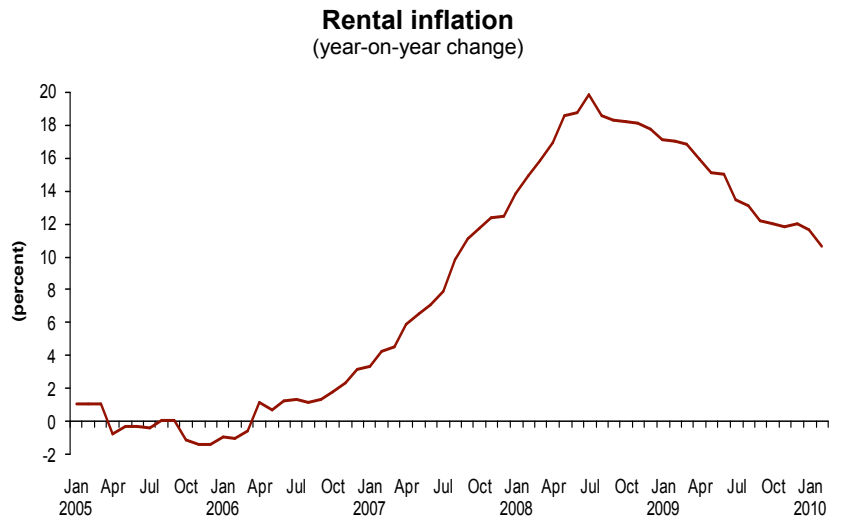
Inflation climbs to a nine-month high...



...pushed up by higher global food prices.



Rental inflation continues to fall.



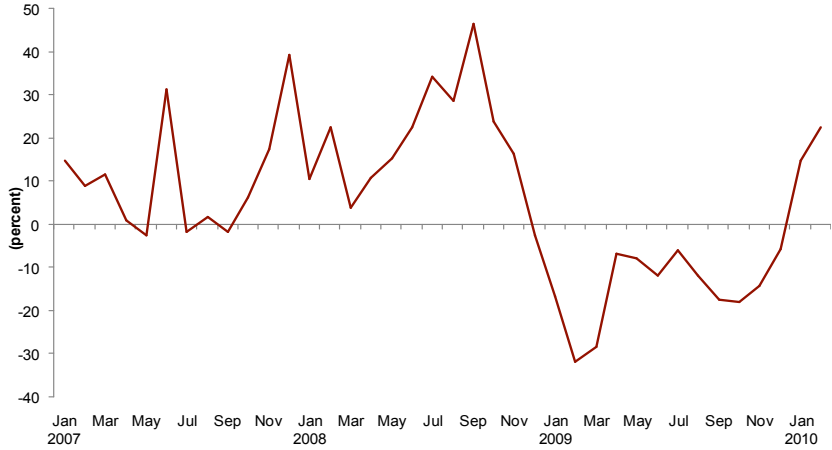


Trade

Imports through the ports were 18 percent higher in February than one year earlier, with consumer goods increasing by 26 percent and construction goods up by 37 percent. While this data is healthy, it is largely due to the slump in imports in late-2008 and early-2009.

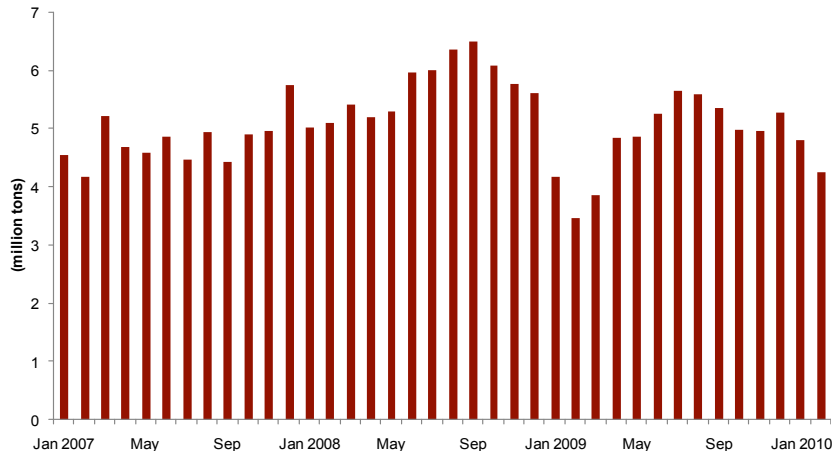
Import volumes (which strip out the impact of changes in prices) are rising in year-on-year terms...

Imports through the Kingdom's ports
(year-on-year change)



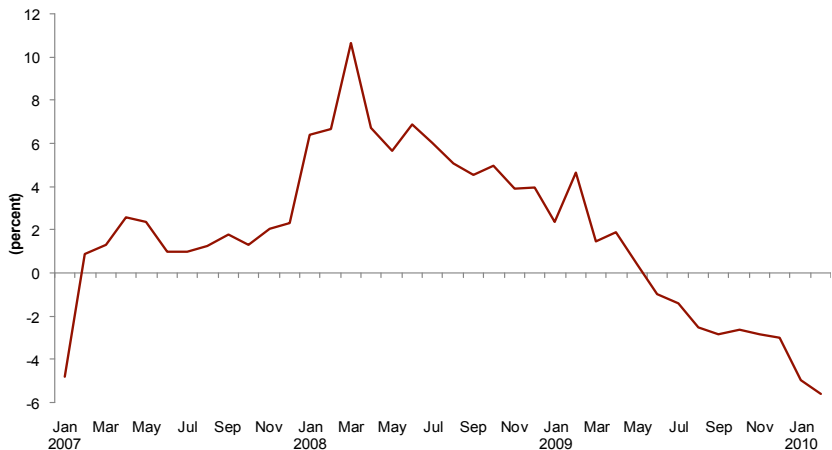
Imports through the Kingdom's ports

...but remain low in absolute terms.



Exports through the Kingdom's ports
(year-on-year change)

Export volumes remain down on where they were one year earlier owing to lower shipments of refined products.



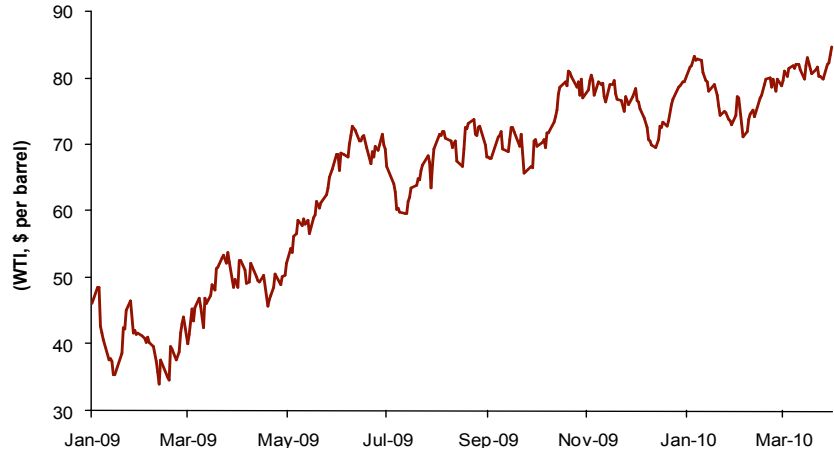


Oil

Oil prices have been stable over the past month at a level that Opec producers are comfortable with. Their decision not to alter production quotas at their mid-March meeting was therefore not a surprise. High stocks remain a potential concern.

Oil prices have remained stable at just above \$80 per barrel.

Oil price



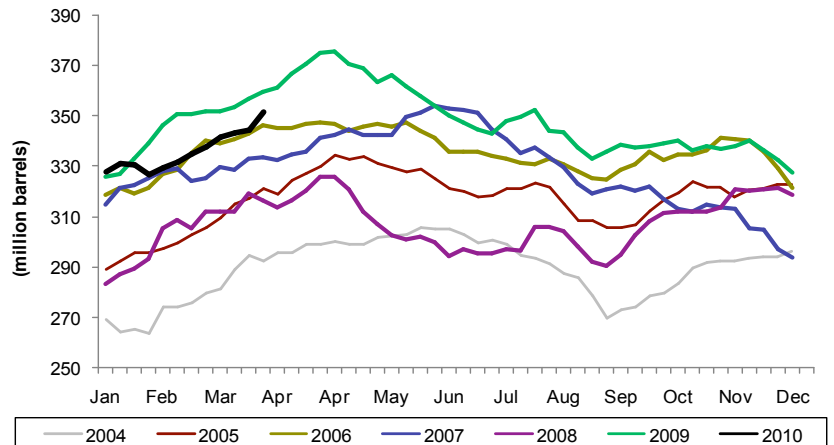
Rising supply is helping to offset higher demand.

Global oil demand and Opec supply
(million barrels per day)



Stocks are rising in line with the seasonal trend and remain above historical norms.

US oil stocks
(EIA measure)



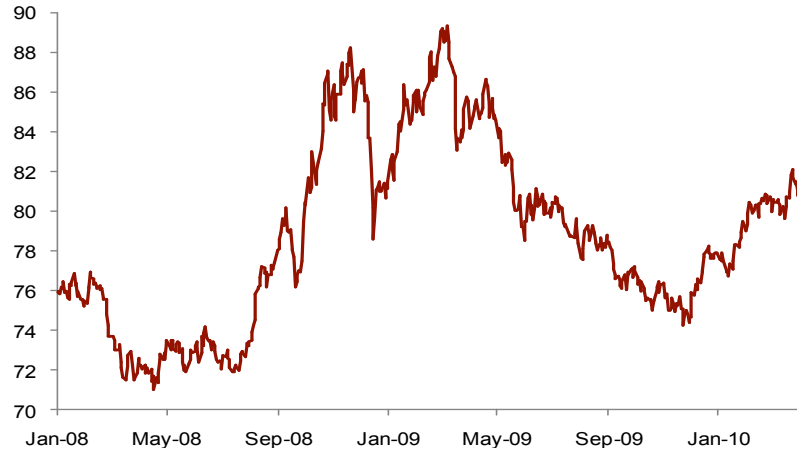


Exchange rates

The dollar has eased after EU members unveiled a plan to support the Greek economy. While US economic fundamentals suggest a weaker currency, other leading economies have serious problems and heightened risk aversion will lead to renewed dollar strength.

The dollar is down from a 10-month high owing to the EU support plan for Greece...

Trade weighted dollar index



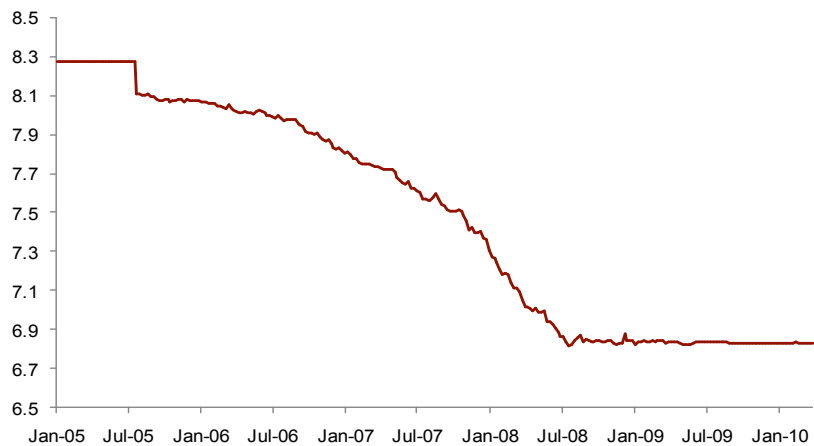
...but concerns about the health of Southern European countries are keeping the euro weak.

Dollar/euro



China has come under pressure to float its currency. A more flexible policy may be adopted later this year, but the Chinese would not want to be seen to make this move in response to foreign pressure.

Chinese yuan/dollar





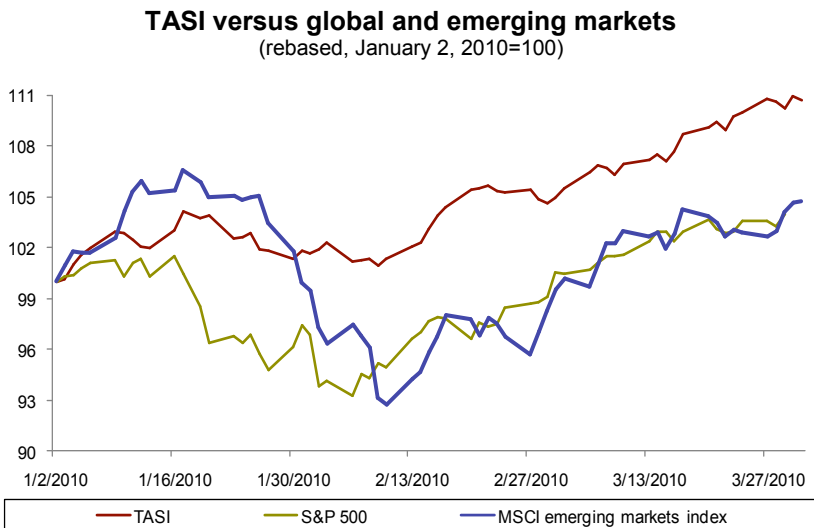
Stock market

The TASI rose for the third consecutive month, resulting in a total gain of 11.1 percent over the first quarter. Performance in March was boosted by growing confidence about corporate performance and the launch of the first exchange traded fund.

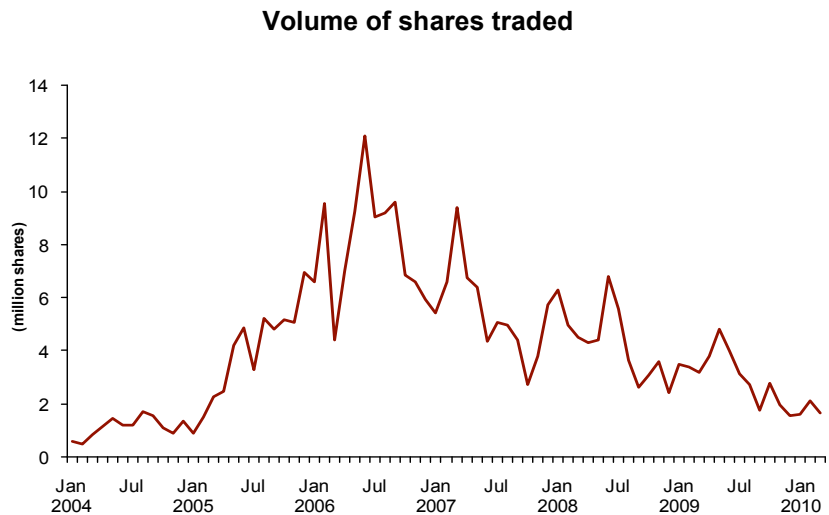
The TASI climbed by 5.6 percent in March, the largest monthly gain so far this year...



...which has widened the outperformance against leading global and emerging markets.



Although still low, volumes picked up in the second half of March.





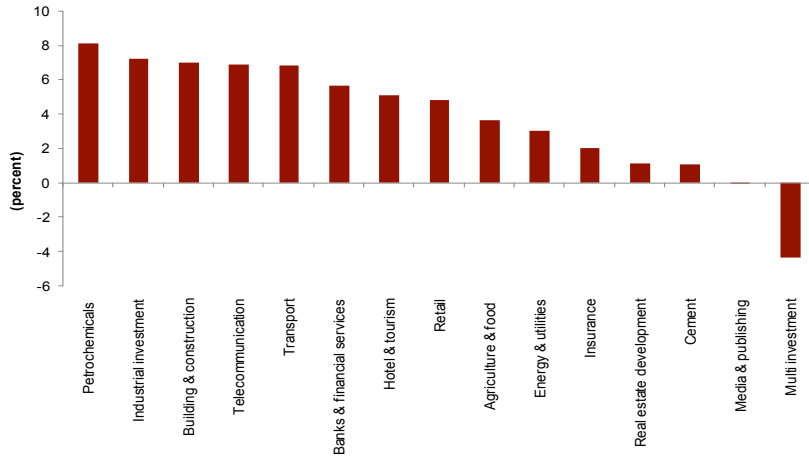
Sector performance

Fourteen of the 15 sectors rose in March, headed by petrochemicals, which benefitted from high oil prices and expectations of good first quarter results. Multi investment was the weakest sector after a period of very strong performance earlier in the year.

Prices of all but one of the sectors on the TASI rose last month.

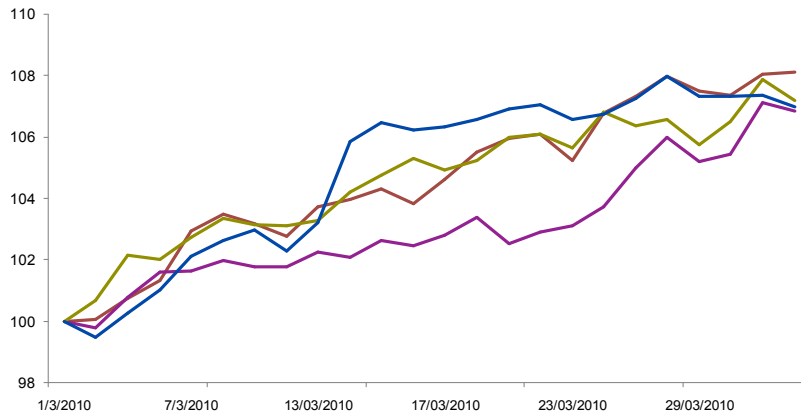
Performance by sector

(February 28 to March 31)



Best performing sectors

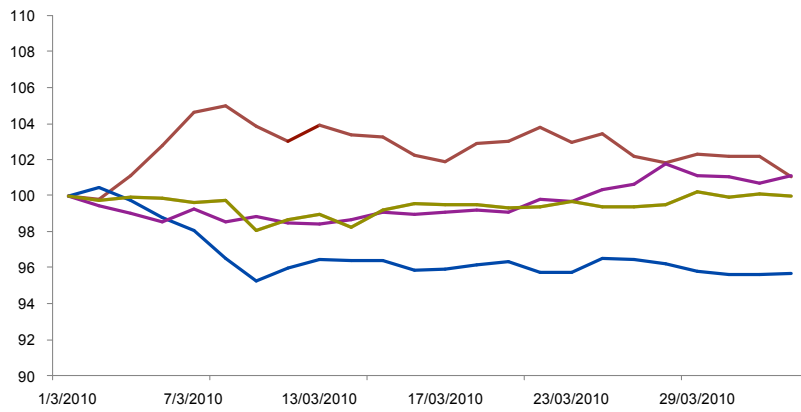
(rebased, February 28, 2010 = 100)



A reviving global economy and strengthening domestic demand pushed up the petrochemicals, industrial investment and building and construction sectors.

Worst performing sectors

(rebased, February 28, 2010 = 100)



Cement and multi investment were weaker after strong performance earlier in the year.

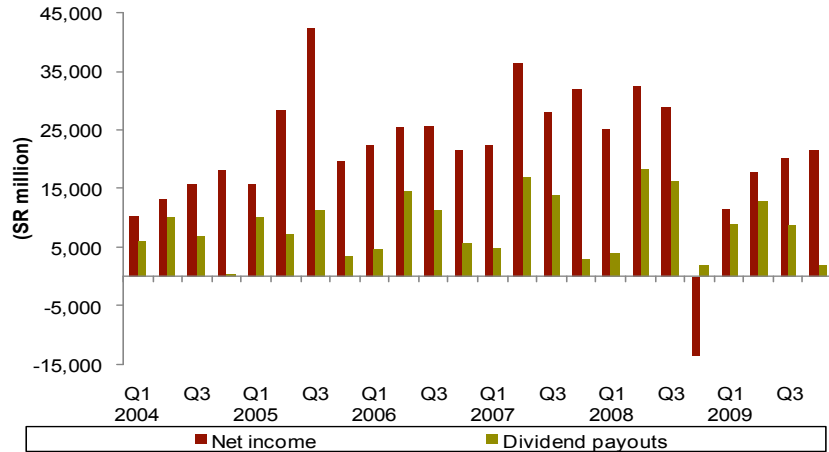


Dividends

Dividend payouts were healthy last year given the tough operating environment. They are likely to pick up in 2010 as conditions improve. Dividends are important as they provide a source of income in the absence of a large bond or sukuk market.

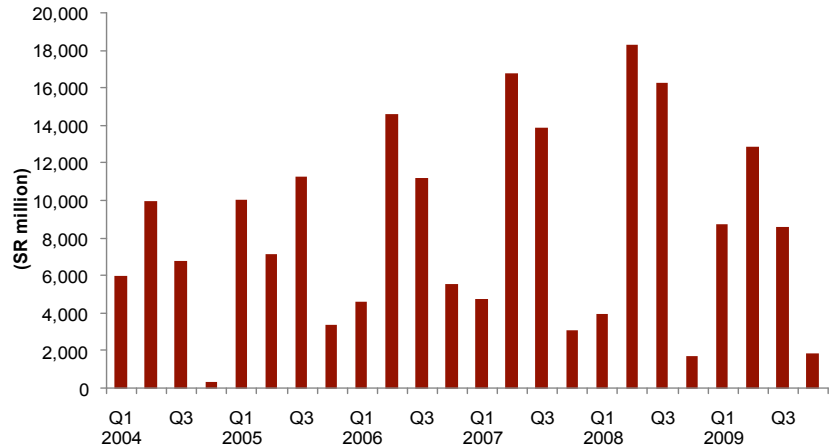
Dividends held up well last year despite the tough environment for corporate profits.

Dividends and earnings



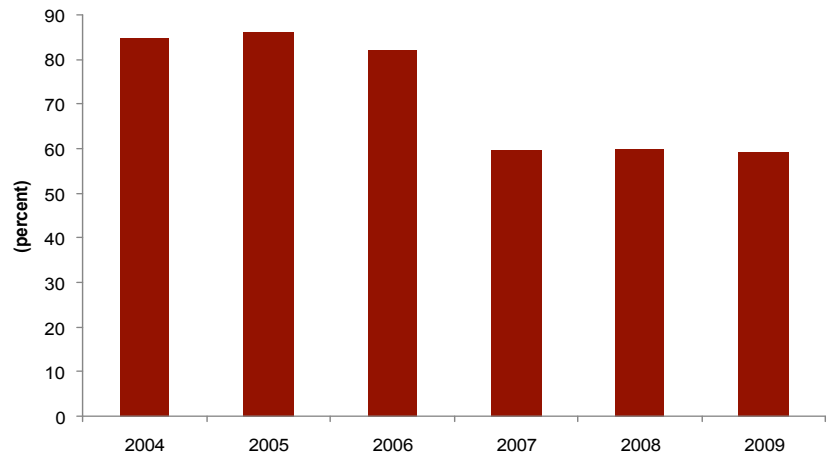
There is a seasonal trend to dividend distributions, with the bulk being paid during the second and third quarters when companies become more comfortable with operating conditions.

Dividends



The number of companies paying dividends should increase this year as more recently listed companies move into profitability.

**Listed companies paying dividends
(percent of total)**





Key data

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E | 2010F | 2011F |
|---|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Nominal GDP | | | | | | | | | |
| (SR billion) | 804.6 | 938.8 | 1182.5 | 1335.6 | 1442.6 | 1781.6 | 1384.4 | 1554.0 | 1680.1 |
| (\$ billion) | 214.6 | 250.3 | 315.3 | 356.2 | 384.7 | 475.1 | 369.2 | 414.4 | 448.0 |
| (% change) | 13.8 | 16.7 | 26.0 | 12.9 | 8.0 | 23.5 | -22.3 | 12.2 | 8.1 |
| Real GDP (% change) | | | | | | | | | |
| Oil | 17.2 | 6.7 | 6.2 | -0.8 | -3.6 | 4.2 | -6.4 | 3.8 | 3.9 |
| Non-oil private sector | 3.9 | 5.3 | 5.8 | 6.1 | 5.5 | 4.8 | 2.5 | 3.8 | 4.4 |
| Government | 3.1 | 3.1 | 4.0 | 3.1 | 3.0 | 3.7 | 4.0 | 3.6 | 3.4 |
| Total | 7.7 | 5.3 | 5.6 | 3.2 | 2.0 | 4.3 | 0.1 | 3.8 | 4.0 |
| Oil indicators (average) | | | | | | | | | |
| WTI (\$/b) | 31.1 | 41.5 | 56.6 | 66.1 | 72.3 | 99.7 | 62.0 | 75.0 | 80.0 |
| Saudi (\$/b) | 26.9 | 34.7 | 49.5 | 60.5 | 68.1 | 93.4 | 60.5 | 71.3 | 74.8 |
| Production (million b/d) | 8.8 | 9.0 | 9.5 | 9.2 | 8.7 | 9.2 | 8.1 | 8.3 | 8.5 |
| Budgetary indicators (SR billion) | | | | | | | | | |
| Government revenue | 293 | 392 | 564 | 674 | 643 | 1101 | 505 | 626 | 672 |
| Government expenditure | 257 | 285 | 346 | 393 | 466 | 520 | 550 | 603 | 621 |
| Budget balance | 36 | 107 | 218 | 280 | 177 | 581 | -45 | 23 | 51 |
| (% GDP) | 4.5 | 11.4 | 18.4 | 21.0 | 12.2 | 32.6 | -3.3 | 1.5 | 3.0 |
| Domestic debt | 660 | 614 | 475 | 366 | 267 | 237 | 225 | 220 | 215 |
| (% GDP) | 82.0 | 65.4 | 40.2 | 27.4 | 18.5 | 13.3 | 16.3 | 14.2 | 12.8 |
| Monetary indicators (average) | | | | | | | | | |
| Inflation (% change) | 0.6 | 0.3 | 0.7 | 2.3 | 4.1 | 9.9 | 5.1 | 4.5 | 3.4 |
| SAMA base lending rate (% , year end) | 1.75 | 2.50 | 4.75 | 5.20 | 5.50 | 2.50 | 2.00 | 2.25 | 3.00 |
| External trade indicators (\$ billion) | | | | | | | | | |
| Oil export revenues | 82.0 | 110.4 | 161.6 | 188.2 | 205.3 | 281.0 | 157.4 | 186.4 | 192.2 |
| Total export revenues | 93.0 | 125.7 | 180.4 | 210.9 | 233.1 | 313.3 | 184.5 | 215.7 | 223.8 |
| Imports | 33.9 | 41.1 | 53.8 | 63.0 | 81.5 | 100.6 | 80.4 | 86.8 | 95.5 |
| Trade balance | 59.1 | 84.6 | 126.6 | 147.8 | 151.6 | 212.7 | 104.1 | 128.9 | 128.3 |
| Current account balance | 28.0 | 51.9 | 90.0 | 98.9 | 93.3 | 134.0 | 20.5 | 37.3 | 34.3 |
| (% GDP) | 13.1 | 20.7 | 28.5 | 27.8 | 24.3 | 28.2 | 5.6 | 9.0 | 7.6 |
| Official foreign assets | 97.1 | 127.9 | 195.5 | 273.4 | 359.8 | 502.0 | 461.1 | 491.1 | 519.0 |
| Social and demographic indicators | | | | | | | | | |
| Population (million) | 22.0 | 22.5 | 23.1 | 23.7 | 24.2 | 24.8 | 25.5 | 26.3 | 27.0 |
| Unemployment (male, 15+, %) | 8.2 | 8.5 | 8.8 | 9.1 | 9.0 | 8.8 | 8.5 | 8.2 | 8.0 |
| GDP per capita (\$) | 9745 | 11112 | 13640 | 15041 | 15868 | 19151 | 14462 | 15774 | 16572 |

Sources: Jadwa forecasts for 2010 to 2011. 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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