



New trade data highlights important trends

Recently released detailed data on trade and the balance of payments in 2009 reveals some interesting trends. High oil revenues ensured healthy surpluses on the trade and current accounts, though both were well down on the all-time highs of 2008 due to lower oil prices. Imports also declined and fell was roughly the same proportion among all leading trading partners, regardless of the pace of growth in previous years. Elsewhere, a reduction in payments to foreign services providers suggests a growing domestic capacity, income from foreign investment held up much better than anticipated and expatriate remittances surged again.

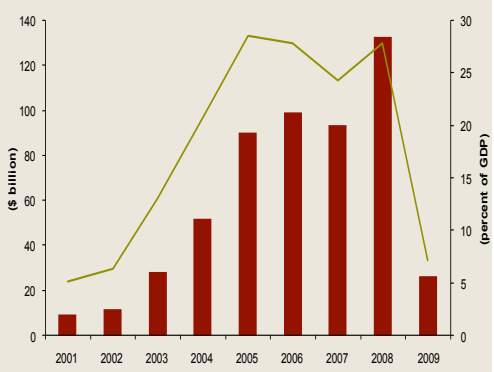
The new data put the Kingdom's trade surplus at \$107.4 billion last year, less than half of the 2008 level and the lowest since 2004. This was not a surprise given lower oil prices and production. Non-oil exports and imports also fell, by 16 percent and 19 percent, respectively. These two figures were in line with the preliminary estimates released in the budget statement, but the oil export total was higher, at \$162.6 billion against the earlier projection of \$157.4 billion.

The fall in non-oil exports was the result of lower revenues from petrochemicals, plastics and metals. These three categories account for 53 percent of non-oil exports (71 percent if re-exports are excluded) and the prices of all were hit by a drop in global demand last year. In contrast, exports of foodstuffs rose and are now almost double their 2006 level. Re-exports (goods imported into the Kingdom and then transferred directly to other countries) jumped by 35 percent last year, which is surprising given that demand across the region was subdued.

Almost all categories of imports fell last year. The largest decline was for imports of base metals, the third largest type of import, which were down by 40 percent owing to lower international prices. Imports of machinery, which constitute 29 percent of total imports, were only 12 percent lower, reflecting the ongoing industrial development within the Kingdom. Transport equipment, which makes up 17 percent of total imports, fell by 20 percent, probably the result of lower imports of cars.

Imports were down from every trading partner where they exceed SR1 billion apart from Austria. The fall was broadly consistent across trading partners; 18 percent for Asia, 14 percent for the EU and 15 percent for North America. Consistent with this pattern, imports from China, which had surged in previous year to make China the second largest supplier to the Kingdom (behind the US), were down by 15 percent. Imports from other GCC countries were down by only 6 percent, though this was heavily influenced by re-export trade.

Current account balance



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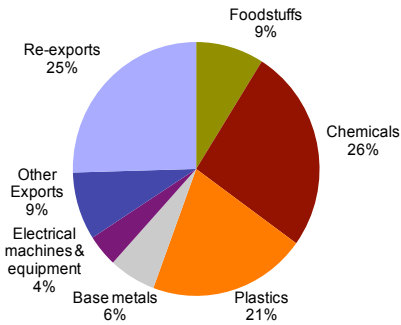
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Breakdown of non-oil exports



Imports
(SR billion)

	2005	2006	2007	2008	2009
Machinery	54	67	100	117	103
Transport equipment	47	50	59	78	62
Food	33	36	45	62	53
Base metals	24	39	51	66	40
Chemicals	18	21	26	33	31
Others	47	49	58	76	69
Total	223	261	338	432	358

A breakdown of total exports has yet to be published. The breakdown for non-oil exports shows that the UAE was the largest destination, accounting for 19 percent of the total. Again, the bulk of these were re-exports. China is now the second largest destination for non-oil exports from the Kingdom. Non-oil exports to China were worth SR8.8 billion last year, exceeding the value of total exports to China in 2001. They were only SR1 billion below non-oil exports to the whole of the EU and over three times greater than the value of non-oil exports to the US.

Main trading partners
(SR billion)

	Destination of exports			Source of imports		
	2007	2008	2009 ¹	2007	2008	2009
EU	97	124	10	110	126	109
US	147	196	3	46	59	51
Japan	134	179	1	30	35	27
China	60	105	9	33	48	41
Korea	74	102	1	15	19	16
GCC	71	83	42	14	19	18

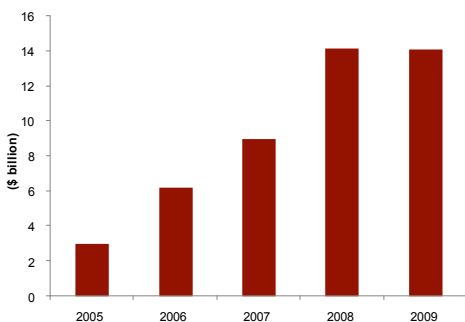
¹Non-oil exports

Another surplus was recorded on the current account, which includes payments and receipts for services, incomes and transfers abroad, in addition to the trade in goods. At \$26.5 billion, the current account surplus was bigger than the preliminary estimate of \$20.5 billion published in the budget. 2009 was the eleventh consecutive year that the Kingdom has posted a current account surplus, though the total was 80 percent lower than in 2008 because of the fall in oil export revenues.

One important trend that emerges from the services account is the fall in payments to many foreign service providers. The slowdown in the economy last year influenced this, but the decline appears to be part of a longer-term pattern. Payments for imported construction and financial services were \$4.5 billion last year compared to \$8.8 billion in 2007. In addition, receipts for use by foreigners of insurance, financial and communications services originating from within the Kingdom rose to \$1.5 billion from \$0.2 billion over the same period. This data illustrates the growing ability of local service companies to satisfy the needs of the local market and to begin to address the needs of companies in other countries.

The income balance is dominated by income earned on the government's foreign assets. We had anticipated a significant drop in this due to much lower average yields on US government bonds, which we think constitute the bulk of SAMA's foreign investment portfolio. In fact, income from portfolio investment was little changed,

Portfolio investment receipts



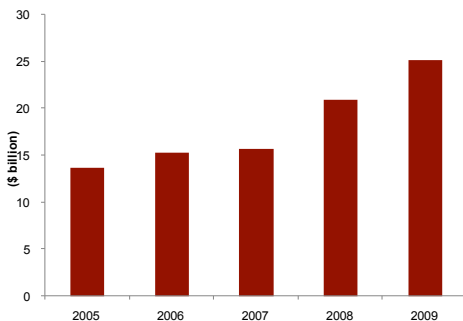


at \$14.2 billion, though there were falls in other types of investment income.

Balance of payments
(\$ billion)

	2005	2006	2007	2008	2009
Oil Exports	161.6	188.2	205.3	281.0	162.6
Other Exports	22.6	27.8	32.3	27.0	29.2
Imports	-53.8	-63.0	-81.5	-100.6	-81.6
Trade balance	147.2	150.6	212.0	107.4	133.6
Services	-21.7	-35.3	-46.7	-65.9	-62.4
Transport	-3.0	-3.3	-7.3	-13.3	-9.0
Travel	-4.5	-8.2	-14.2	-9.2	-12.9
Communications	-0.2	-0.3	-0.6	-1.0	-0.8
Construction	-1.4	-3.2	-6.3	-4.5	-3.3
Insurance	-0.5	-0.6	-1.0	-1.7	-1.1
Financial	-3.5	-6.5	-2.5	-1.1	-0.3
Government	-13.2	-19.8	-16.5	-25.4	-27.7
Other	4.5	6.6	1.8	-9.7	-7.4
Income	0.4	3.8	6.4	9.2	8.6
Investment income	0.9	4.4	7.0	9.7	9.2
Transfers	-14.8	-16.8	-17.0	-23.0	-27.2
Workers' remittances	-13.7	-15.3	-15.7	-20.9	-25.2
Other	-1.1	-1.5	-1.3	-2.1	-2.0
Invisibles balance	-36.0	-48.3	-57.3	-79.7	-80.9
Capital and financial account	-55.3	-78.4	-77.7	-102.3	13.8
Errors and omissions	-34.7	-20.5	-15.6	-30.0	-40.3
Current account balance	90.0	98.9	93.3	132.3	26.5
(percent of GDP)	28.5	27.8	24.3	27.9	7.2

Workers' remittances



Remittances by expatriate workers make up the bulk of current transfers. Remittances increased by 57 percent last year and are up by \$9.2 billion since 2007 to stand at \$25.2 billion. The increase can be partly attributed to the rise in the number of expatriate workers in the Kingdom, though it runs well beyond the growth in the number of work visas issued; higher wages for expatriates could also be a factor. The better capture of remittance flows is likely to be a key reason for the jump, as more money transfers are undertaken through the banking sector. Nonetheless, it is likely that the data understates the true level of remittances.

While we think that the new data provides a good guide to what happened in the economy last year and highlights some important trends, one note of caution is the very large total for errors and omissions. This features things not captured or incorrectly captured in the rest of the breakdown. Last year, errors and omissions amounted to \$40.3 billion, greater than total investment income and non-oil exports combined. Major revisions in the capital and financial account also raise doubts about some of the figures.

We have changed our forecasts in light of the new data, raising our projections for oil revenues, investment income and workers' remittances, among others. This results in a larger projected current account surplus for 2010 and 2011. We now forecast a current account surplus of \$45.3 billion (10.9 percent of GDP) in 2010 and \$41.9 billion (9.4 percent of GDP) in 2011, up by \$8 billion and \$7.6 billion from our previous projections, respectively. This is a very healthy current account position and should allow a further increase in foreign exchange reserves.



Stock market watch

SAMA data good guide to bank profits

Monthly bank profit data published by SAMA has been attracting a lot of attention due to investor interest in the health of the banking sector. We find that the SAMA numbers are generally a good fit with actual bank performance, though there can be large discrepancies at times of extreme financial market volatility.

In recently quarters, investors have reacted to the publication of bank profit data by SAMA. As the data is issued monthly, while banks only report on a quarterly basis, the data for the second month of each quarter is of particular interest. The November 2009 numbers, issued in December, caused the TASI to slip by around 2 percent; there was less of a reaction in March when the February numbers were released as it was the final day of the quarter. (Note that banks issue their quarterly results before the SAMA data for the final month of the quarter is published.)

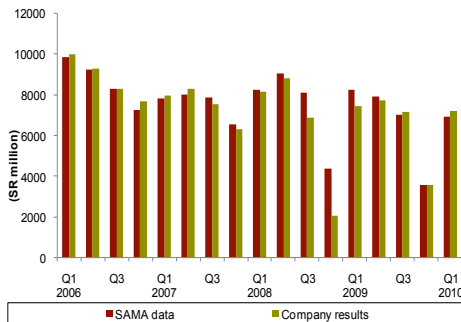
We find that in general the SAMA data is a good proxy for actual bank profits. The chart to the left compares the data from SAMA on a quarterly basis and the profits recorded by all the listed commercial banks and National Commercial Bank. It shows that the average discrepancy between the two series from the first quarter of 2006 and the first quarter of 2010 is 4.2 percent. If the third and fourth quarters of 2008 and first quarter of 2009 are excluded the discrepancy is just 0.5 percent.

The reason for the large divergence between the two measures in these quarters is unclear, but probably reflects an incomplete capture of investment write-downs in the SAMA data. Those quarters where the discrepancy was the largest were those that encompassed the plunge in global asset values plunged between September 2008 and March 2009.

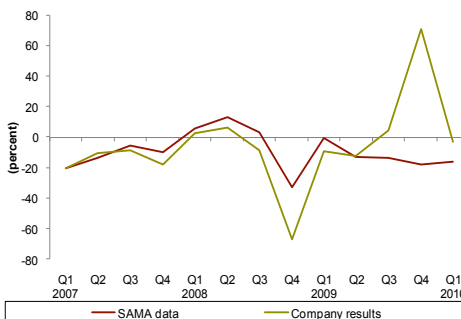
Nonetheless, SAMA's methodology seems sound. Banks only report their profit data on a quarterly basis, so the SAMA numbers are derived from changes in the capital account of the banking sector. The profit figure appears to be the funds remaining in the capital account once paid-up share capital and statutory reserves have been accounted for. This primarily consists of retained earnings and also includes changes in the value of investments categorized as available for sale, non-trading investments and provisions for impairments of financial assets.

Data for recent quarters suggest that the relationship between the SAMA data and bank results has returned to normal and that the monthly numbers will provide an important guide to the performance of listed banks. Under both measures bank profits were down in the first quarter of 2010 compared with the same period of last year, but were well up on the final quarter of 2009, when banks undertook significant provisioning for bad debts. Total bank provisions in final quarter were SR5 billion, compared to SR2.2 billion in the first quarter (and SR2.4 billion in the third quarter of 2009). We expect bank profits to improve during the year as lending pick up, earnings from capital market activity improve and less funds are set aside to provision for bad debts.

Bank profits

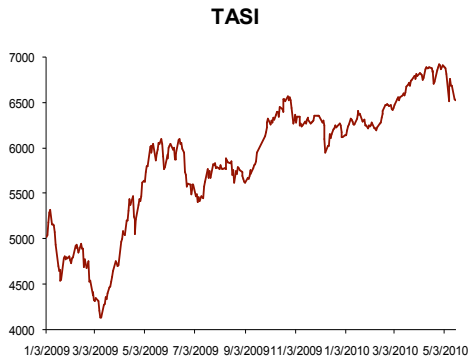


Annual change in bank profits

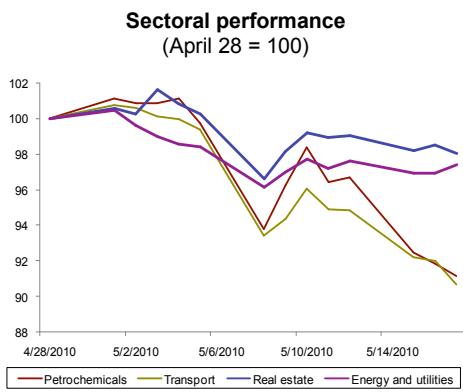




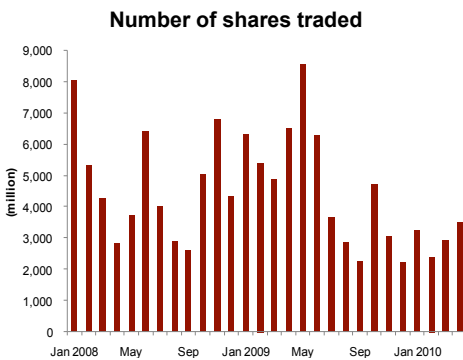
In brief: Stock market



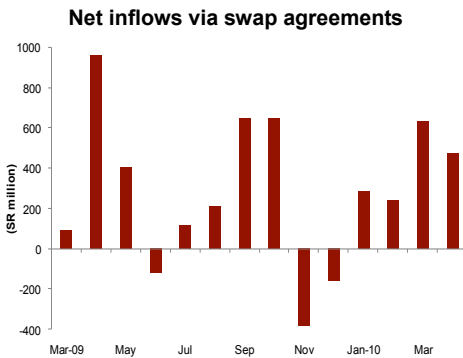
The TASI has dropped in May in line with falls in global stock markets. So far this month, it has fallen by 5.4 percent to a two-month low of 6,494. If the TASI stays at this level for the remainder of the month, share price performance in May would be the worst in any month since February 2009. Global markets are being driven by concerns about sovereign debt default, bank health and economic growth in the eurozone. Direct linkages between the Kingdom and the troubled eurozone economies are small, but broader concerns about the global economy have pulled down oil prices and dampened investor confidence.



Sectoral performance so far in May has generally reflected exposure to the global economy. Transport, petrochemicals and multi-investment are among the worst performing sectors. Transport would be hit by lower trade volumes, petrochemicals is vulnerable to lower exports and oil prices and the multi-investment sector would suffer as the company which dominates it generates the bulk of its revenues from investments outside the Kingdom. Real estate is the best performing sector so far this month, followed by energy and utilities and insurance, all of which are driven by the domestic economy. Banks are also among the top performers, as they have minimal exposure to the debts of the troubled eurozone countries; in addition, their share prices may be recovering after being hit last month following disappointing results.



The declines in the TASI over the first half of May occurred as volumes were picking up. The number of shares traded was at a seven-month high in April and is still on target to exceed this in May. We think that the gains in the TASI during the year had encouraged more local investors to return to the market. The total number of shares purchased by Saudi individuals during April was the highest since October and the proportion of total transactions by Saudi individuals rose to 87.9 percent in last month, up from 84.4 percent in March. The ability of the TASI to bounce back from recent setbacks should determine whether the upward trend in volumes can be maintained.

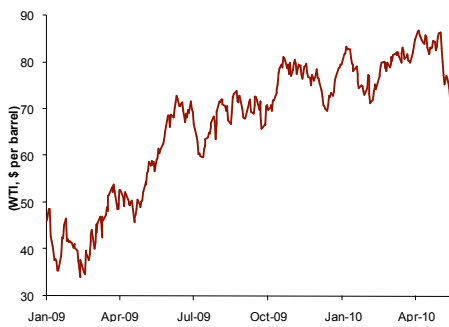


Foreign participation in the stock market rose again in April, though there are indications that some foreign money was withdrawn during the first half of May. Net foreign investment through swap agreements over the first four months of the year totaled SR1.6 billion, SR1.1 billion of which occurred during March and April. It is too early to determine whether there will be a net outflow during May, but the limited period for which data is available suggests that foreign investors scale back their positions during times of stress in global and regional markets. The largest net outflows in the 13 months that the data has been released were in November and December during the Dubai World debt problems.



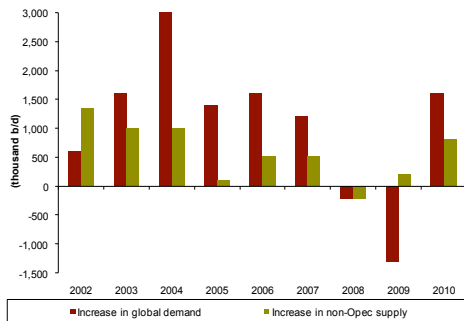
In brief: Oil market

Oil price



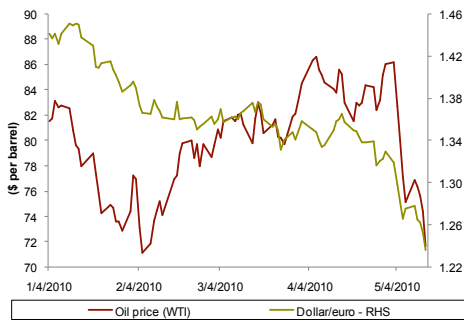
Oil prices have fallen sharply so far in May. WTI dropped from \$86.2 per barrel on May 3 to \$71.2 per barrel on May 17, a fall of 17 percent, as tensions over the debt problems in Greece and other EU members intensified. This raised concerns about oil demand, in the event that the global economic recovery falters, and heightened risk aversion, which hit investor demand. Despite a huge package of loan guarantees, questions about the ability of the affected eurozone countries to make the necessary cutbacks and the impact on economic growth of the cutbacks have pushed oil prices to a three-month low. Nonetheless, at their current level, oil prices are closer to the Kingdom's preferred price of around \$75 per barrel than they were at the start of the month.

Oil demand and non-Opec supply



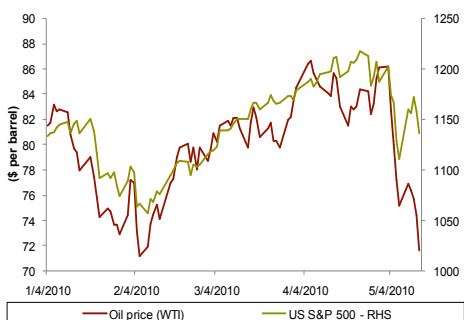
The International Energy Agency has trimmed its projection for global oil demand this year. Its forecast for 2010 was cut by 220,000 barrels per day to 86.4 million barrels per day owing to a change in historical data, rather than the problems in the eurozone. The projection for non-Opec supply was raised by 200,000 barrels per day owing to expectations of higher output from North America and China. The IEA noted that the huge oil spill in the US Gulf would not impact on production this year, but may have a longer-term effect through tougher safety measures, which could raise costs and delay new drilling.

Oil and the dollar



We have previously said that the relationship between oil prices and the dollar was loosening and although oil prices have fallen in line with the strengthening of the dollar so far in May, we still think that the relationship has become less important. The chart to the left shows that over the course of this year oil prices fell through January, then rose until late March and had stabilized before the recent jolt. In contrast, the dollar has strengthened consistently against the euro during the year (the same pattern is true for the trade weighted dollar, which includes other trading partner currencies).

Oil and the US stock market



Investment flows are still playing an important role in driving oil price movements, though these movements are now more closely related to those of share prices. The chart on the left shows the relationship between oil prices and the US S&P 500 so far this year. The tight relationship suggests that financial investors are increasingly using oil as a play on the health of global economy rather than a hedge against the dollar. Financial investors therefore continue to have a role in determining oil prices in the short term, but their reason for investing in oil varies over time.



Key data

	2003	2004	2005	2006	2007	2008	2009	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	3.9	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	162.6	192.6	200.4
Total export revenues	93.0	125.7	180.4	210.9	233.1	313.4	189.6	221.8	231.9
Imports	33.9	41.1	53.8	63.0	81.5	100.6	81.6	88.2	97.0
Trade balance	59.1	84.6	126.6	147.8	151.6	212.7	108.0	133.6	135.0
Current account balance	28.0	51.9	90.0	98.9	93.3	132.3	26.5	45.3	41.9
(% GDP)	13.1	20.7	28.5	27.8	24.3	27.9	7.2	10.9	9.4
Official foreign assets	97.1	127.9	195.5	273.4	359.8	502.0	461.1	496.7	530.1
Social and demographic indicators									
Population (million)	22.0	22.5	23.1	23.7	24.2	24.8	25.4	26.1	26.9
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	14550	15871	16675

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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