



مجلس الأعمال السعودي الأمريكي
U.S.-Saudi Arabian Business Council

Weekly Market Brief

Week Ending September 28, 2018

SAUDI ARABIAN MARKET

Saudi Arabia Macroeconomic Developments

- Saudi Arabia will boost its crude oil production in the coming months as it expects stronger demand, according to Energy, Industry and Mineral Resources Minister Khalid al-Falih. Saudi Arabia pledged in June to increase its crude oil production to help rein in prices, but July saw disappointing daily figures at 10.29 million bpd. In August production rose further, to 10.42 million bpd and this month, said Al-Falih, it will be even higher.
- The Ministry of Finance released its preliminary estimates for government revenues, expenditures and deficits. The government expects 2018 revenues to be higher by 13 percent and expenditure to be up 5 percent as compared to previous estimates. On a y-o-y basis, revenues and expenditures are expected to be up 27% and 11% respectively leading to an expected fiscal deficit of SAR148bn (vs SAR195bn previously). The increase in expenditure will imply significant spending in the remaining months pushing up growth and jobs. Even real GDP growth, estimated at 2.1 percent in 2018 (up to 2.4 percent to 2021), is conservative given the change in input factors and changing economic structure leading to cautious growth estimates.
- The Council of Ministers affirmed that a royal decree has been issued approving the adoption of the Sustainable Rural Agricultural Development Program to support farmers in various regions of the Kingdom. Financial allocations for the project amount to \$1.96 billion (SAR7.35 billion) for a period of seven years in addition to \$400 million (SAR1.5 billion) as the capital cost for the project.

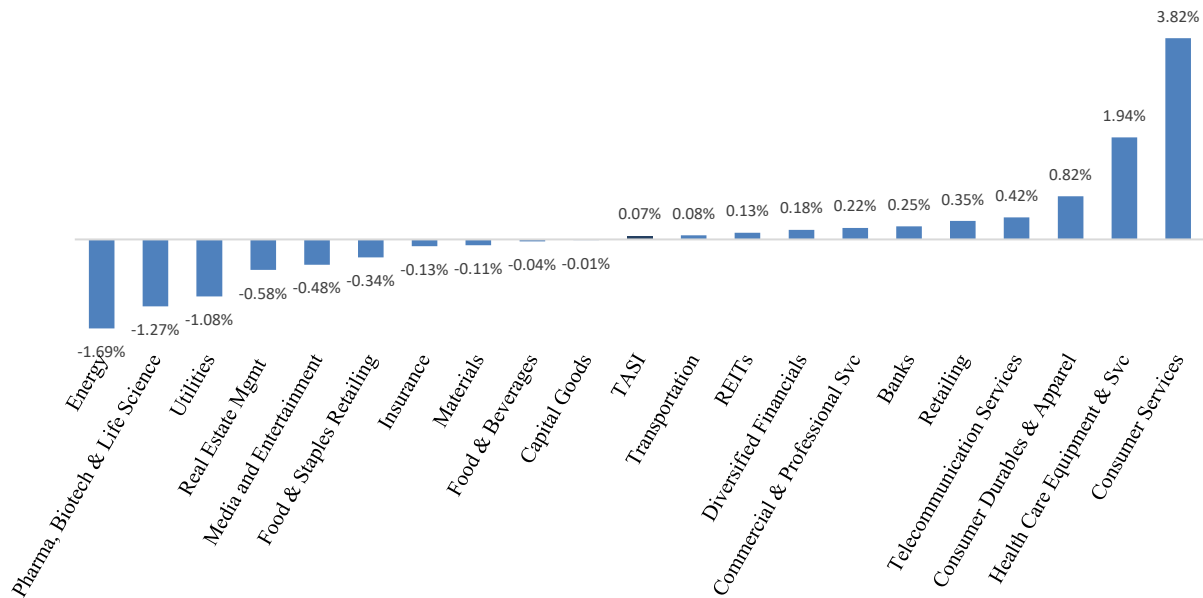


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Tadawul

The TASI grew for the second consecutive week, climbing by .07 percent. Like last week, 10 sectors ended the week with positive growth. ‘Consumer Services’ and ‘Healthcare Equipment & Svc’ led the way and accounted for the largest growth of all 20 sectors. ‘Energy’ and ‘Pharma, Biotech & Life Science’ dragged the TASI down near marginal growth for the week.

Tadawul *Weekly* Index Performance - September 28, 2018



Source: Tadawul, USSABC

The NOMU parallel market ended the week with a 1.02 percent decline.

Saudi Arabia’s Capital Markets Authority has approved a request from Gulf Steel Works Factory (GSW) to list 6,000 shares representing 30% of its share capital on the Saudi Stock Exchange. GSW must conduct the initial public offering within six months, after which it would be required to reapply for approval. The Jubail-based structural steel fabricator also produces process equipment, weld overlay, storage tanks, and skids, as well as performing pipeline construction and



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repair. Its 60,000 tons/year capacity fabrication plant operated at 70% utilization in the fiscal year ending in through March 2017.

Investment and Trade

- Moody's Investors Service has assigned an A1 instrument rating to the proposed new senior unsecured notes that will be issued by SABIC Capital II BV and unconditionally and irrevocably guaranteed by Saudi Basic Industries Corporation (SABIC). Concurrently, Moody's has affirmed SABIC's A1 long-term issuer rating and A1 senior unsecured ratings of SABIC Capital I BV and SABIC Capital II BV. The outlook on all ratings is stable.
- Saudi Arabian Airlines' cargo unit has signed a \$320 million (SAR1.2 billion) Islamic loan. The proceeds will fund the expansion of Saudi Airlines Cargo Co.'s facilities at King Abdul Aziz International Airport in Jeddah and King Khalid International Airport in Riyadh.
- Saudi Arabia amended an anti-corruption law to remove a 60-day statute of limitations for investigating allegations against current or former ministers, as part of efforts to tackle graft and abuse of power.
- Saudi Arabia and four other Gulf states will enter JP Morgan's emerging market government bond indexes next year, a move likely to lure billions of dollars of new foreign investment into their debt. The indexes are key performance benchmarks for international investors in emerging market debt, so membership can help a country sell bonds and reduce its borrowing costs. Sovereign and quasi-sovereign debt issuers from Saudi Arabia, Qatar, the United Arab Emirates, Bahrain and Kuwait - all members of the Gulf Cooperation Council (GCC) - will become eligible for the EMBI Global Diversified (EMBIGD), EMBI Global (EMBIG) and EURO-EMBIG indexes.
- Saudi Arabia has put the U.S. on its shortlist of potential partners competing to build nuclear-power plants in the kingdom, while the two countries negotiate how to do a deal without spreading nuclear weapons, according to Energy Secretary Rick Perry.



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Banking

Over the past week, Money Supply M1 and M2, and M3 grew. M1 climbed by 0.34 percent and money supply M2 jumped by 0.30 percent. Money supply M3 grew the highest, settling at 0.46 percent.



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U.S. MARKET

U.S. Macroeconomic Developments

- The Federal Reserve raised the target range for the federal funds rate by 25bps to 2 percent to 2.25 percent during its September 2018 meeting, in line with market expectations. Policymakers see one more rate hike this year, 3 increases in 2019 and 1 in 2020, in line with previous projections.
- Consumer confidence hit its highest level since 2000. September's consumer confidence level reached 138.4 points. Since 1967, only in 11 individual months has the confidence level been higher.
- Sales of new homes rose 3.5 percent to a 629,000-unit pace in August. While August marks an improvement, sales over the past three months were also revised lower. Inventory levels improved for the fifth consecutive month.
- Durable goods orders rose 4.5 percent in August, fueled by aircraft and defense orders. Core capital goods orders and shipments continue to point to equipment spending moderating from the impressive pace of 2017.
- Wages and salaries posted the largest monthly increase since January, but increasingly higher gas prices and other energy costs are commanding a larger share of consumer spending. Personal income increased 0.3 percent in August, which was a bit shy of the 0.4 percent that had been expected by the consensus. More than two thirds of the increase was due to the fact wages and salaries notched a solid 0.5 percent gain. That was the best monthly increase since January and the latest indication that the hot job market is at last translating into meaningful improvement in wages.



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Fixed Income

The yield on the ten-year Treasury slipped this past week, closing at 3.05 percent.

Equity

Over the past week, the Dow dipped by approximately 1.06 percent to level at 26,458.31. The S&P 500 also declined, reaching 0.57 percent to level at 2,913.98. The NASDAQ grew on the other hand, as it inched up by 0.74 percent for the week to settle at 8,046.35.



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GLOBAL MARKETS

- Oil prices rose more than 1 percent on Friday, with Brent climbing to a four-year high, as U.S. sanctions on Tehran squeezed Iranian crude exports, tightening supply even as other key exporters increased production. Brent crude futures rose \$1 to settle at \$82.72 a barrel. The session high of \$82.87 was the contract's highest since Nov. 10, 2014. In the third quarter, Brent has gained about 4 percent. U.S. West Texas Intermediate (WTI) crude futures rose \$1.13 to settle at \$73.25 a barrel. The session high of \$73.73 was the highest since July 11. The contract is up about 5 percent this month but down around 1 percent for the quarter.
- The unemployment rate in the Euro Area edged down to 8.1 percent in August 2018 from the previous month's figure of 8.2 percent and below 9 percent a year earlier. It was the lowest jobless rate since November 2008, as the number of unemployed continued to fall.
- The Official NBS Manufacturing PMI in China fell to 50.8 in September of 2018 from 51.3 in the previous month and missing market consensus of 51.2. It was the weakest reading since February, as output (53 vs 53.3 in August) and new orders (52 vs 52.2) increased less, while new export orders contracted for the fourth straight month (48 vs 49.4) as the economy braces for an escalation of trade tension with the U.S. In addition, buying activity rose less (51.5 vs 51.8) amid softening business sentiment (56.4 vs 57). Meantime, employment shrank the most since February (48.3 vs 49.4) and orders in hand (45.2 vs 46.7) fell at a faster rate. On the price front, input prices rose at the steepest pace in nine months while output charge was unchanged.

THE WEEK AHEAD

- The U.S. releases ISM Manufacturing PMI October 1.
- The U.S. releases ISM Non-Manufacturing PMI October 2.
- The U.S. releases Unemployment Rate October 5.
- The U.S. releases Non-Farm Payrolls October 5.



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Sources: *The Wall Street Journal, Bloomberg, Financial Times, Reuters, Wells Fargo, Forbes.com, Tadawul Market Watch, Trading Economics, TradeArabia, SAMA, National Commercial Bank, Al Rajhi Capital, Saudi Gazette, MEED.*