



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

Weekly Market Brief

Week Ending November 2, 2018

SAUDI ARABIAN MARKET

Saudi Arabia Macroeconomic Developments

- The Ministry of Finance sold \$866.4 billion (SAR3.25 billion) of local currency sukuk. The sukuk were divided into three tranches of five, seven and 10 years. Approximately \$621 million (SAR2.33 billion) were raised in five-years sukuk, \$96 million (SAR360 million) with a seven-year maturity, and \$149.33 million (SAR560 million) with a 10-year maturity.
- The Saudi Arabian Monetary Authority's (SAMA) net foreign assets grew by approximately 4.5 percent at the end of the third quarter of 2018 in comparison to 2017. SAMA's foreign assets amounted to over \$480 billion (SAR1.8 trillion).
- Saudi Arabia reduced its budget deficit by 60 percent to \$13 billion (SAR49 billion) in the first nine months of 2018. Government revenues during this period grew by 50 percent to \$177 billion (SAR663 billion) y-o-y. Revenues for the third quarter reached \$59.47 billion (SAR223 billion), an increase of 57 percent q-o-q. Both, oil and non-oil revenues contributed to the strong growth in 2018.
- Government expenditures during the first nine months of 2018 reached \$190 billion (SAR712 billion) out of the recently revised \$274 billion (SAR1.03 trillion) for this year. Expenditures in the third quarter grew by 20.8 percent y-o-y while it dropped by 17.9 percent q-o-q. The bulk of the expenditures were attributed to subsidies/social benefits to Saudi nationals and salaries.
- Through the first nine months of 2018 the government's fiscal position reflects a \$13.1 billion (SAR49 billion) deficit, 59.7 percent less than the same period in 2017, which registered a \$32.4 billion (SAR121.5 billion) deficit.

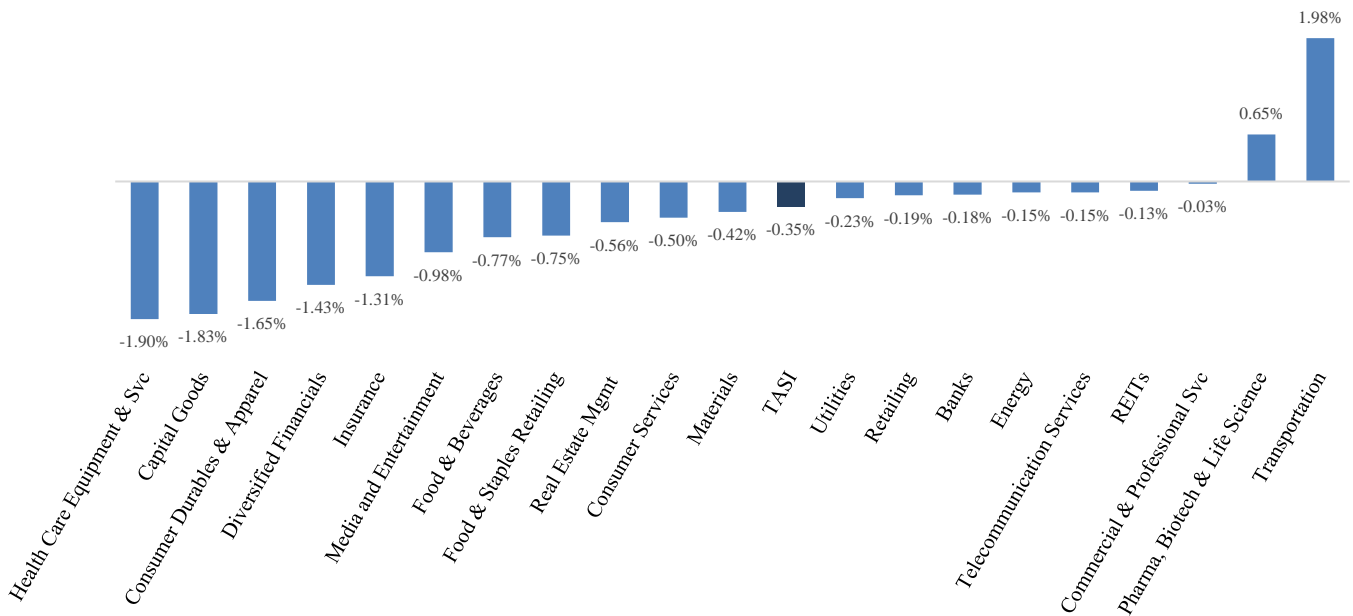


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Tadawul

The TASI dipped back down this week and all but two sectors ended the week in negative territory. “Transportation” and ‘Pharma, Biotech & Life Sciences’ were the only sectors that kept the momentum from last week’s strong performance. ‘Healthcare Equipment & Svc,’ ‘Capital Goods,’ and ‘Diversified Financials’ anchored the TASI down.

Tadawul *Weekly* Index Performance - November 2, 2018



Source: Tadawul, USSABC

The NOMU parallel market continued to grow from a week ago to 0.75 percent.

The Tadawul witnessed a sell-off by foreigners in the week ending October 25. Approximately \$624 million (SAR2.34 billion) was sold, however local Saudi Arabian institutions were supportive and bought \$2.15 billion (SAR8.06 billion) worth of Saudi stocks.

Alkhabeer Capital plans to list a REIT on the Tadawul as the Capital Market Authority (CMA) approved Alkhabeer’s request in October. REITs began enlistment on the Tadawul in 2016.



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Investment and Trade

- The Greenbrier Companies, Inc. and Saudi Railway Company announced an agreement to form a joint-venture whereby \$270 million (SAR1 billion) worth of capital will be generated. The JV will be expected to execute railway projects and supply railcars for profitable growth in the Saudi Arabian freight rail market.
- Saudi Arabia led the MENA IPO activity in the third quarter of 2018, accounting for \$220.6 (SAR827.3 million) of the total \$349.9 million (SAR1.31 billion) through four IPOs. Leejam Sports Company's IPO was the sole IPO in Saudi Arabia during Q3.
- SoftBank Group Corporation's SoftBank Vision Fund, which is largely funded by PIF, plans on investing \$1.1 billion (SAR293 million) in View Inc., a Silicon Valley-based maker of glass used in internet connected windowpanes.
- Softbank's Vison Fund made additional investments as it contributed \$375 million (SAR1.41 billion) in Zume, a Silicon Valley start-up that uses robots to make pizza, at a valuation of \$1.5 billion (SAR5.63 billion)

Banking

Over the past week, Money Supply M1 and M3 had a positive weekly change, while M2 was negative. M1 grew by 0.68 percent. M2 marginally contracted by 0.01 percent. M3 grew by 0.18 percent.



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U.S. MARKET

U.S. Macroeconomic Developments

- U.S. crude oil production reached 11.3 million barrels per day (b/d) in August 2018, according to EIA's latest *Petroleum Supply Monthly*, up from 10.9 million b/d in July. This is the first time that monthly U.S. production levels surpassed 11 million b/d. U.S. crude oil production exceeded the Russian Ministry of Energy's estimated August production of 11.2 million b/d, making the United States the leading crude oil producer in the world.
- Households saw a more modest rise in income for September even though spending remained strong. Personal spending rose 0.4 percent in September but personal income inched up 0.2 percent. The savings rate slid to 6.2 percent, which is still considered to be healthy.
- Consumer confidence came in at 137.9, which was better than expected. This occurred despite gyrations in financial markets and worries about late cycle dynamics.
- Employment costs rose 0.8 percent in Q3, led by a 0.9 percent increase in wages. Benefit costs moderated slightly over the quarter. With the labor market continuing to tighten, costs should climb faster over the short-term.
- Productivity eased to a 2.2 percent annualized rate in Q3, still above the expansion's average. Stronger productivity over the past year has helped to minimize unit labor costs.
- Overall construction spending was unchanged in September although the prior month's data was revised upwards. Private outlays rose 0.3 percent in September, while public construction fell 0.9 percent.
- The ISM manufacturing index slipped in October to a still-strong reading of 57.7. A sharp drop in new orders suggests a further slowdown may be possible.
- Nonfarm employment spiked up by 250,000 in October after hurricane-distorted weakness in September. The unemployment rate remained steady, but average hourly earnings rose at the highest rate in this cycle.



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Fixed Income

The yield on the ten-year Treasury increased this past week, closing at 3.22 percent.

Equity

Over the past week, the U.S. stock market rebounded on in all major indexes. The Dow closed last Friday at 25,270.83 points, reflecting a 2.36 percent increase. The S&P 500 ended the week at 2,723.06 points, reflecting a 2.42 percent jump. The NASDAQ ended the week at 7,356.99 points, reflecting a 2.65 percent uptick.



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GLOBAL MARKETS

- Oil prices fell about 1 percent on Friday and notched a weekly loss of over 6 percent, as investors worried about oversupply after the United States said it will temporarily spare eight jurisdictions from Iran-related sanctions. Brent crude futures fell 6 cents to settle at \$72.83 a barrel. U.S. crude declined 55 cents to end the session at \$63.14 per barrel, a 0.86 percent loss. Both contracts have fallen by more than 15 percent from the near four-year highs touched in early October on worries the looming Iran sanctions could drain supply from global markets.
- The Eurozone economy grew 1.7 percent year-on-year in the third quarter of 2018, following an upwardly revised 2.2 percent expansion in the previous period and missing market expectations of a 1.8 percent advance, a flash estimate showed.
- The unemployment rate in the Euro Area was unchanged at 8.1 percent in September 2018, the same as in the previous month's figure, below 8.9 percent a year earlier and in line with market expectations. It remained the lowest jobless rate since November 2008.

THE WEEK AHEAD

- The U.S. releases ISM Non-Manufacturing PMI November 5.
- The U.S. releases FED Interest Rate Decision November 8.
- The U.S. releases Michigan Consumer Sentiment November 9.

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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.