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## **Weekly Market Brief**

*Week Ending September 28, 2018*

### **SAUDI ARABIAN MARKET**

#### **Saudi Arabia Macroeconomic Developments**

- The Ministry of Finance (MoF) released its preliminary estimates for 2018 and 2019. The MoF expects 2018 revenues to be higher by 13 percent and expenditures to be up 5 percent compared to the last estimate. Year-over-year revenues and expenditures are expected to be up 27 percent and 11 percent respectively, leading to an expected fiscal deficit of \$39.5 billion (SAR148 billion) versus the budgeted estimate of \$52 billion (SAR195 billion). Given adequate oil price levels, the estimate may be on the conservative side.
- Saudi Arabia's current account balance recorded a surplus in Q2 2018 to even at \$19 billion (SAR71 billion) versus \$9 billion (SAR34 billion) in Q1. SAMA foreign reserves rose at the fastest yearly pace (4.5 percent y-o-y) in nearly four years in August. This was mostly attributed to higher oil revenues and debt issuances negating the reliance on tapping foreign reserves.
- Credit to the private sector increased 1 percent y-o-y in August, while bank claims on the public sector rose 21.7 percent y-o-y. Meanwhile, deposits dropped 0.6 percent y-o-y in August.
- The cost of living index rose by 2.2 percent y-o-y in August, equaling July's growth rate. The 'Food & Beverages' sector witnessed a drop, whereas the 'Transport' sector recorded a rise.



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- Saudi Arabia's non-oil private sector witnessed slower growth at the end of Q3, according to September's Purchasing Managers' Index (PMI) data. The index declined from 55.1 in August to 53.4 in September. The drop was attributed to easing growth of output, new orders and employment figures.

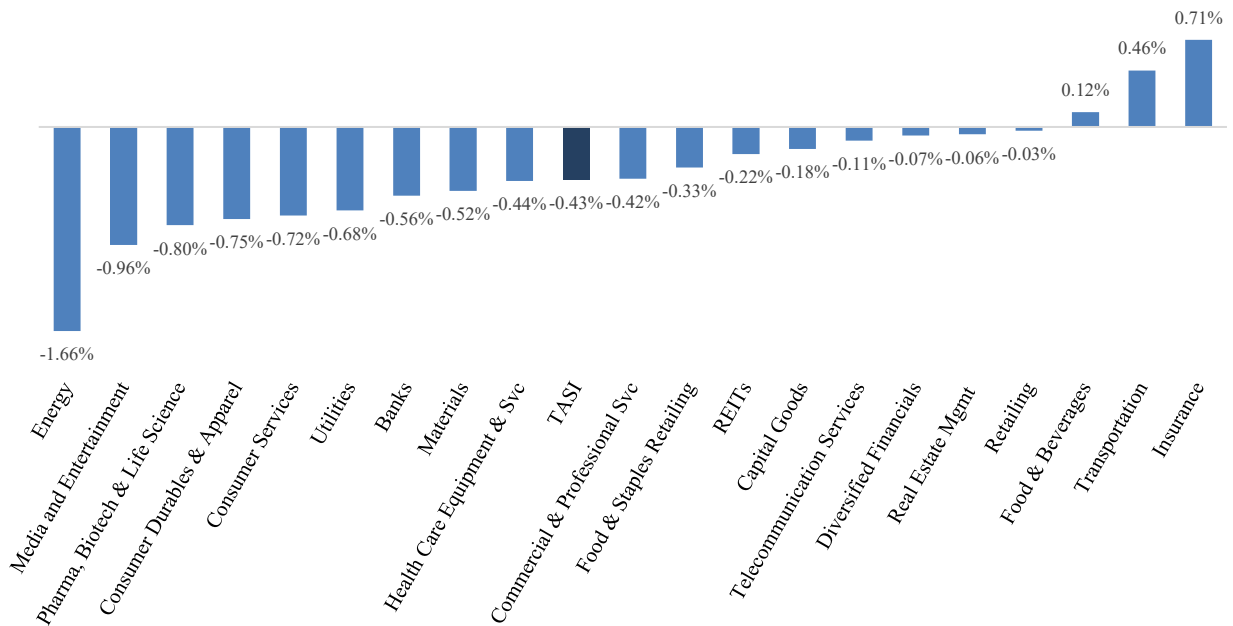


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**Tadawul**

The TASI retreated this past week, declining by 0.43 percent. The Tadawul witnessed losses across 17 of the 20 sectors as the ‘Energy’ sector accounted for biggest decline, accounting for a 1.66 percent drop. ‘Insurance,’ ‘Transportation,’ and ‘Food & Beverages’ ended the week in positive territory.

**Tadawul *Weekly* Index Performance - October 5, 2018**



Source: Tadawul, USSABC

The NOMU parallel market ended the week with a growth of 0.93 percent.



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## Investment and Trade

- Al Akaria Saudi Real Estate Company signed a fund establishment agreement with Alinma Investment Company to establish a fund that will work on three sites in Riyadh. The fund will transform three sites into mixed-use developments, with a combined debt and equity structure valued at approximately \$400 million (SAR1.5 billion).
- Saudi Arabia, the world's largest importer of feed barley, will restore a private sector role in the trade after two years during which it was handled by the government controlled Saudi Grains Organization.
- Saudi British Bank (SABB) and smaller rival Alawwal Bank are merging to create Saudi Arabia's third-biggest lender with a market capitalization of about \$17.2 billion (SAR64.5 billion). The deal values the smaller Alawwal Bank, partly owned by a consortium including Royal Bank of Scotland, at \$5 billion, in the largest Saudi banking merger and acquisition deal. Alawwal's assets and liabilities will be transferred to SABB, partly owned by HSBC Holdings. HSBC will own 29.2 percent of the combined entity, Olayan Saudi Investment 18.2 percent and a consortium including RBS will have a 10.8 percent stake. The Kingdom's General Organization for Social Insurance will hold 9.9 percent.
- Saudi Arabia's sovereign wealth fund has purchased a significantly sized plot of land in northern Riyadh for \$578.64 million (SAR2.17 billion) in what the auction operator and Saudi Arabian media described as the largest real estate transaction in the kingdom. The land, with an area of 434,400 square meters, was sold for \$1,333.26 (SAR5,000) per square meter.

## Banking

Over the past week, Money Supply M1 and M3 grew, while M2 slipped. M1 climbed by 1.01 percent and money supply M3 jumped by 0.39 percent. Money supply M2 declined by 0.03 percent.

Banking sector profits rose 4.6 percent y-o-y to stand at \$1.1 billion (SAR4.15 billion) in August. The cumulative banking sector profits for the year (Until August 2018) stood at \$8.8 billion (SAR33 billion), recording a rise of 9.2 percent y-o-y.



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## **U.S. MARKET**

### **U.S. Macroeconomic Developments**

- ISM manufacturing slowed to 59.8 in September. New orders and order backlogs both fell and are now below their respective six-month averages. Tariffs are believed to be the main source of the slower pace.
- Total construction spending rose 0.1 percent in August. Most of the gain occurred in the nonresidential category. Higher building costs are likely limiting activity, but spending should remain solid for the rest of the year.
- Economic activity strengthened in September with the ISM non-manufacturing index rising to a 21-year high. Fueling the gain was a record-high employment index.
- Payroll growth slowed to 134,000 in September, partly due to Hurricane Florence. Other labor market indicators, including a decline in unemployment and rising earnings, are still going strong.
- The trade deficit widened in August as foreign tariffs on soybeans have distorted the overall value of American exports in recent months. Real net exports, which provided a positive boost to GDP growth in Q2, will potentially negatively affect Q3 figures.

### **Fixed Income**

The yield on the ten-year Treasury climbed this past week, closing at 3.23 percent.

### **Equity**



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Over the past week, the Dow dipped by approximately 0.04 percent to level at 26,447.05. The S&P 500 also declined, reaching 0.97 percent to level at 2,885.57. The NASDAQ had the biggest drop, as slipped by 3.2 percent for the week to settle at 7,788.45.

### **GLOBAL MARKETS**

- Crude futures steadied on Friday after climbing to four-year highs earlier last week, and both Brent and U.S. crude marked weekly gains ahead of U.S. sanctions on Iranian oil exports. U.S. West Texas Intermediate (WTI) crude futures rose 1 cent to settle at \$74.34 a barrel. Global benchmark Brent crude futures for December delivery fell 42 cents to settle at \$84.16 a barrel. On Wednesday, Brent hit its highest price since late 2014, at \$86.74.
- The U.S. Canada, and Mexico reached an agreement on a new trade deal. Among key provisions in the final deal pertained to Canada's currency and economic outlook, whereby the sunset clause will ensure up to a 16-year term on the new agreement. The provision removes much of the uncertainty regarding business investment decisions, and should support strong economic growth, while likely accelerating the Bank of Canada's projected pace of monetary tightening, even as concerns may linger about the state of highly-leveraged Canadian households.
- The Consumer Confidence Index in Japan came in at 43.4 in September 2018, little-changed from a year-low of 43.3 in the previous month and above market consensus of 43.0. There were improvements in both households' perceptions on income growth (up 0.1 points to 41.9) and willingness to buy (up 0.4 points to 42.4). Meanwhile, the employment sub-index was unchanged at 47.7, while the gauge measuring overall livelihood declined 0.2 points to 41.5.

### **THE WEEK AHEAD**

- The U.S. releases Core Inflation Rate October 11.
- The U.S. releases Michigan Consumer Sentiment October 12.
- The U.S. releases Retail Sales October 15.



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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.*