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Saudi Aramco reached its USD 2 trillion valuation in early trading after its initial public offering (IPO), which is a landmark achievement for the kingdom's authorities.

The integrated oil and gas company is now the largest in the world, eclipsing Apple Inc. and Amazon Inc., elevating the Saudi stock exchange's international profile and laying the ground work for more privatisation efforts underway in the kingdom.

The USD 25.6 billion (SAR 96 billion) raised also makes Saudi Aramco's IPO the largest flotation in history.

The debut was cheered by Saudi and Gulf investors, who see the stock price supported by Aramco's guaranteed dividends, buying by index-tracking funds and the fact that the region doesn't have any other listed major oil companies.

The 2020 budget builds on these gains, and will play a simulative role in targeting real GDP growth of 2.3%.

"Reforms in public financial management will continue to promote the efficiency of spending and ensure the realisation of improved social and economic returns," according to the 2020 budget document.

The total expenditure in the next fiscal year is expected to reach about SAR 1,020 billion before declining to SAR 955 billion in 2022 due the expected completion of several planned projects by that date.

"We reaped the benefits of the spending efficiency programme, as a result of which there was an abundance of government expenditures during the year in which we achieved control of deficit levels in the economic side," said minister of finance Mohammed bin Abdullah Al-Jadaan, noting that there was very significant support and empowerment for the private sector, which contributed to the sector's massive demand for infrastructure projects that were proposed by the government in the mining, water, energy and wastewater treatment sector.

"This has resulted in a reduction in the level of government spending and the promotion of non-oil GDP growth well, especially with regard to the growth of GDP for the private sector," he said.

ECONOMIC TRENDS

The oil-rich country's economy is set to expand further next year, fuelled in huge part by the non-oil sector.

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PETROCHEMICALS

Aramco's acquisition of a majority stake in SABIC is seen as a huge contributing factor in raising the kingdom's profile as a global petrochemical hub.

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VISION 2030

The long-awaited flotation is a realisation of the Saudi authorities' commitment to diversify the kingdom's economy.

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2020 POISED TO BE A YEAR OF GROWTH FOR SAUDI

Saudi Arabia's real GDP is expected to grow by 2.3% next year, as the non-oil sector expands and mega-projects boost economic activity.

The non-oil economy has been the main engine of growth over the past year or so. In the first half of 2019, non-oil GDP rose by 2.5%, led by a robust 2.9% growth in the second quarter, which has been the best period of economic growth since 2015, according to the Ministry of Finance.

"In FY2020 and the medium term, the government will continue to empower the private sector by supporting a stable economic environment and an appropriate investment climate," according to the Ministry of Finance's 2020 Budget Statement.

"The government also plans to upgrade the infrastructure and legislative framework as well as enhance the social protection network and private sector empowerment. The private sector is expected to increase its contribution to growth and job creation in the medium term."

The ministry expects Saudi GDP to continue growing at a brisk pace of about 2.2% in 2021 and 2.3% a year later. This expansion will be backed by a benign inflation rate environment, which will remain in or around 2% over the next few years.

The US Federal Reserve's focus on maintaining low interest rates is another tailwind for the Saudi economy, which will benefit from loose monetary policy.

However, the Saudi government is conscious of external factors such as slower growth expected by key trading partners, which has compelled it to prudently revise its outlook and maintain fiscal sustainability.

"Budget 2020 comes in light of a global economic climate that prevails challenges, risks and protectionist policies, which requires flexibility in managing the public finances and enhancing the ability of the economy to address these challenges and risks," according to His Royal Highness Prince Mohammad bin Salman bin Abdulaziz Al Saud, crown prince, deputy prime minister and minister of defence.

"We aim, through this budget, to take advantage of what has been achieved from programmes and build on it, so that the balance is continued between the pace of economic growth rates and the maintaining of sustainable financial stability that ensures support for this growth," adds the prince, who is also chairman of the Economic and Development Affairs Council.

REVENUE GENERATION

A key target would be to focus on non-oil revenues, which are estimated to reach SAR 320 billion in 2020 – the highest ever on record. Tax revenues (SAR 200 billion), taxes on income, profits and capital gains (SAR 16 billion) and taxes on goods and services (SAR 142 billion) will contribute to the growth.

"Other revenues, including oil revenues, are estimated at SAR 633 billion in FY2020, 11.3% lower than FY2019 estimates," the ministry noted. "Oil revenues are estimated to be SAR 513 billion, compared to SAR 602 billion in 2019, 14.8% lower than FY2019 estimates."

Total revenues will stand at SAR 833 billion in 2020, 9.1% lower than its 2019 estimates, owing to global headwinds and estimated subdued oil prices.

Total expenditure next year will stand at SAR 1,020 billion, 2.7% lower than 2019 estimates, as the government encourages private sector to take the lead in financing projects and stimulating economic activity.

"The government will continue its efforts to contain budget deficit," the ministry noted. "In FY2020, the budget deficit is estimated to be 6.4% of GDP. The budget deficit is projected to gradually decrease to sustainable levels in the medium-term. By the end of FY2022, the budget deficit is projected to decline to 2.9% of GDP."

STRONG 2019

During the first half of FY2019, non-oil private sector GDP registered growth of 2.9%, despite the decline in oil GDP of-1.0% during the same period due to crude oil production policies. Preliminary estimates indicate GDP growth of approximately 0.4% in 2019, led by non-oil GDP growth.

Indeed, the non-oil sector has been playing a major role in economic activity, in line with the authorities' efforts to diversify the Saudi economy. The sector is expected to contribute just over 34% of GDP this year, compared to 9.5% at the start of the decade, the Ministry of Finance document shows.

The growth is impressive given that the government continues to rationalise spending, and is on track to spend 2.9% lower than it budgeted for 2019.

Business sentiment has also been upbeat due to economic activity in the non-oil sector.

November saw a further improvement in the health of Saudi Arabia's non-oil private sector, with the latest IHS Markit PMI data indicating a quickening of growth momentum.

"This was driven by the sharpest rise in new work since April 2015. Employment among non-oil private sector companies also rose in November, though the rate of job creation was marginal and subdued by historical standards," the research consultancy said in its monthly reading of business sentiment.

Firms confidently raised purchasing activity, citing forecasts of strong underlying economic conditions – indeed, the degrees of optimism was the highest in April.

"This partly reflected a further pick-up in new export orders, which increased at a sharper pace than in October," IHS said in its note.

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SAUDI EYES BRIGHT FUTURE AS DOWNSTREAM HUB

With all the news about Saudi Aramco's initial public offering – making it the world's most valuable listed company – it is often forgotten that the oil and gas giant also has a formidable petrochemicals business.

Aramco, of course, launched its IPO in December on the Tadawul stock exchange, which quickly smashed all expectations and has become the world's first USD 2 trillion company.

Aramco has a majority stake in Saudi Arabian Basic Industries Corp. (SABIC), which gives its chemicals business foothold in more than 50 countries and allows it to produce a range of chemicals, including olefins, ethylene, ethylene glycol, ethylene oxide, methanol, methyl tert-butyl ether (MTBE), polyethylene and engineering plastics and their derivatives.
As of 31 December 2018, SABIC had a net and gross chemical production capacity of 16.7 million and 33.2 million tonnes per year, according to the company prospectus.

Aramco's chemicals business continues to grow through capacity expansions in the kingdom, increasing ownership positions in affiliates and new investments, including the proposed acquisition of the Public Investment Fund's 70% equity interest in SABIC, which is currently expected to close in the first half of 2020.

The IPO proceeds will help Aramco "to become a major petrochemicals producer globally," as stated in its prospectus.

Aramco believes it can leverage its experience as an efficient and low-cost operator to improve operational and financial performance of its downstream business, including capacity increases, asset upgrades, improvements in product yield and petrochemical integration at low capital requirements.

It also mentioned that with operational efficiencies, it can increase its net refining capacity in excess of 70,000 barrels per day (bpd) at SATORP, a joint operation with French company Total SA and YASREF, a joint venture with Chinese oil giant Sinopec.

"The company continues to play an active managerial role in other ventures in its global downstream portfolio. The company also is exploring new opportunities for downstream investments globally," according to Aramco. "Further projects are under consideration to increase this level of integration and capture additional value across the hydrocarbon chain, with a focus on integration of the company's refining assets."

SAGIA DEALS

Other major Saudi companies are also contributing to the kingdom's effort to emerge as a downstream hub.

In November, Saudi Arabian General Investment Authority, or SAGIA, signed five memorandums of understanding (MoUs) amounting to USD 2 billion with a number of major petrochemical companies to boost refining and petrochemical activity in the kingdom.

SAGIA and Japan's Mitsui & Co signed a USD 1 billion deal to evaluate the creation of an ammonia plant in Jubail with an estimated production capacity of 1 million tonnes per year in a sustainable manner. In addition, both entities agreed to jointly develop a specialty chemicals downstream opportunity.

A separate deal was signed with BASF SE of Germany "aimed at evaluating and assessing opportunities in Saudi Arabia.

Another MoU was inked between SAGIA and French company SNF Group to evaluate the establishment of a polyacrylamide plant in Jubail – a city in the Eastern province of Saudi Arabia.

SABIC also said that it was partnering with Advanced Metallurgical Group N.V. and Shell Overseas Services Ltd. for a USD 400 million deal to assess the feasibility of building a facility to reclaim and recycle valuable metals in the kingdom.

The MOU will allow SAGIA, Shell and AMG to explore the feasibility of building a world class facility to reclaim valuable metals by recycling spent residue upgrading catalysts generated by refineries in Saudi Arabia and the surrounding region, according to the companies.

"Residue upgrading catalysts help refineries upgrade the bottom of the oil barrel into more valuable products, including generation of petrochemicals feedstocks. Such a facility would help maximise the benefits from the kingdom's natural resources while addressing the need to provide environmentally responsible management of spent residue upgrading catalysts," the companies said.

Separately, SAGIA also agreed with Shell to look into the possibility of building a state-of-the-art residue upgrading catalyst manufacturing facility in a USD 150 million MoU.

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VISION 2030 REACHES MILESTONE WITH ARAMCO IPO

A big goal of the Saudi Vision 2030 programme has been to publicly list a portion of Saudi Aramco on the stock exchange. For Saudi, 11 December proved to be a landmark day as Aramco began trading on the Tadawul at a share price of SAR 32 per share.

The offering process generated subscriptions by institutional and individual subscribers of SAR 446 billion (USD 119 billion), or 4.65 times the total offer and attracted more than 5 million subscribers, the company said.

The government sold 3 billion shares in the exchange, equivalent to 1.5% of the share capital, generating proceeds of SAR 96 billion or USD 25.6 billion, making it the world's largest initial public offering.

His Royal Highness Prince Mohammad bin Salman bin Abdulaziz Al Saud, crown prince, deputy prime minister and minister of defence who is also chairman of the Economic and Development Affairs Council, "pointed to Aramco's IPO as a major step and supporter in enhancing the role and participation of the private sector in the economy, and that the prospects for opportunities for the private sector will increase during the coming period, enhancing its role in the growth and diversification of the economy and increasing employment rates in the medium and long term."

Indeed, the IPO allows the government to focus on a number of its goals focused on diversifying the economy.

"Today's milestone underlines the kingdom's commitment to nurturing a strong capital market and demonstrates further significant progress in delivering Vision 2030 – the kingdom's transformation, economic growth and diversification programme that continues with pace and determination," according to Yasir Othman Al-Rumayyan, chairman of the board of directors at Saudi Aramco.

VISION 2030 PROGRESS

Saudi government entities, ministries and the private sector also continue to work on projects aligned with the Saudi Vision 2030.

These include mega projects, along with Vision Realisation Programmes that promote private sector investment in promising sectors such as manufacturing and mining, financial services, IT, tourism, entertainment and sports.

"We aim to create an attractive investment environment that contributes in directing the national economy towards wider prospects of diversification, growth and prosperity," according to His Royal Highness Prince Mohammad bin Salman bin Abdulaziz Al Saud.

"The government will continue to move forward in implementing the stages of economic transformation and progress in diversifying the productive base in the economy while maintaining financial sustainability and providing wider opportunities for a better future for the current and upcoming generations," he said.

The 2020 budget is part of the bigger 2030 targets, and aims to reinforce the commitment to implement reforms, plans and programmes aimed at achieving what was included in the strategy, as it sets specific goals and multiple domains to achieve a vibrant society, a prosperous economy.

The government aims to launch 20 projects in partnership with the private sector next year, according to minister of finance Mohammed bin Abdullah Al-Jadaan. These would be in addition to water, sanitation, education and health sectors, and privatisation of a number of services, in an effort to reduce the burden on public finances and raise efficiency in the private sector, especially as privatisation is a priority for the government.

A number of social programmes such as Citizen's Accounts, "Almwatin Account", will continue, while the Ministry of Health has started launching the "Mawid" platform, which benefits 20 million beneficiaries in booking appointments through the app without having to go to the hospital, as part of its Vision 2030 goal to raise the health standards and well-being of Saudi citizens.

In addition, a number of mega projects targeting the country's infrastructure is underway, including Neom, Qiddiya, and the Red Sea project.

To that end, the Public Investment Fund, which is managing the Qiddiya project, 334 square kilometres west of Riyadh, approved a new board of directors to expedite the project.

The government has also moved swiftly to incentivise investments in manufacturing and mining, financial services, IT, tourism, entertainment and sports, apart from financing facilities to encourage private sector investments in tourism.

"In addition, the tourist visa system was launched, allowing visas to be obtained via an e-platform and at airports and land ports. Another investment fund has been established to focus on entertainment, culture, sports and tourism," according to the 2020 budget.

GLOBAL FACTORS GIVE USD AND GBP FRESH IMPETUS

The US Federal Reserve's decision to pause interest rate hikes in December after slashing rates by 75 basis points this year, signals its belief that the US economy does not need additional monetary stimulus for the time being.

Chairman Jerome Powell reiterated that the current stance of monetary policy is likely to remain appropriate if incoming data are broadly consistent with the Fed's outlook.

The statement dropped an earlier reference to uncertainties about the economic outlook, a change that could be interpreted as slightly hawkish, but still noted that "global developments and muted inflation pressures" will influence the future path of monetary policy.

"Job gains have been solid, on average, in recent months, and the unemployment rate has remained low," the Fed said. "Although household spending has been rising at a strong pace, business fixed investment and exports remain weak. On a 12 month basis, overall inflation and inflation for items other than food and energy are running below 2%."

The US Dollar index is up just over 1% against a basket of currencies year to date, even though it has erased some of its gains from earlier this year.

Meanwhile, the US stock markets also performed well with the S&P 500 up 25.8%, Dow Jones Industrial Average (DJIA) climbing 20.7%, and Nasdaq Composite surging 31.2% in the first 11 months of 2019.

GLOBAL ECONOMY

The global economy had been worried about the US-China standoff and Brexit, and both situations show signs of easing in early December.

The Conservative party won a strong majority in the latest UK elections, pushing the GBP/USD to highs above 1.3500. The British pound is now up 4.45% against the US dollar.

Having run on the promise to "get Brexit Done" and to not seek an extension to the transition period, prime minister Boris Johnson has the daunting task to follow through, which could limit sterling upside. Johnson's large majority will allow the UK and EU to move onto the transition period, where the UK and EU will negotiate trade, immigration, legal and security issues, among others, by the end of 2020.

The UK's FTSE 100 had risen 10.2% in the first 11 months of the year, lagging its European counterparts such as DJ Stoxx 600, which is up 21% during the same period. More clarity on Brexit could lead to a relief rally in the FTSE.

The European Central Bank, under new president Christine Lagarde, also maintained interest rates in December.

"The risks surrounding the euro area growth outlook, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, remain tilted to the downside, but have become somewhat less pronounced," Lagarde said in her speech on 12 December.

The euro is down 3% against the US dollar this year, and this underperformance will likely remain as the US economy is expected to outperform the EU next year.

In December, the Bank of Japan also decided to leave monetary policy unchanged, maintaining the current level of short- and long-term rates and the specifics of its asset purchase programmes. It also announced details of its forthcoming exchange-traded funds lending facility.

The decision to hold came as the BoJ sees global risks to growth abating and bond yields have trended closer to 0% in recent weeks. With the government's recently announced stimulus package likely to bolster growth in 2020, there is less pressure on the BoJ to act. Still, the Bank is keeping a close eye on global risks.

"It's true we've seen some positive developments regarding overseas risks," Bank of Japan Governor Haruhiko Kuroda said, welcoming receding fears of a disorderly Brexit and recent progress made by Washington and Beijing to de-escalate their bruising trade war.

"Things are moving forward but uncertainty remains high. We still need to guard against downside risks to Japan's economy," he told a news conference.

The yen has remained largely stable against the U.S. dollar this year, down 0.19% year-to-date to 109.38 at the end of the third week of December.

Finally, the U.S.-China trade truce should have a positive impact on the Chinese yuan, coupled with stronger economic data of late emerging from the country's economy.

The Chinese yuan has risen just under 2% year-to-date against the greenback. Loosening of more tariffs in 2020 could see more appreciation in the Chinese currency.

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SAUDI EASES PATH FOR SMALL BUSINESSES WITH NEW RULES

The Saudi Arabian Monetary Authority (SAMA) has issued new rules in December that govern microfinance companies, small businesses and start-ups.

In line with SAMA's efforts to build strong financial controls and support economic development as part of the Vision 2030 plan, the new rules have been designed to regulate licensing and organise activities.

They also aim to attract new investors, set the minimum paid-up capital of SAR 20 million, and cap financing to the company at SAR 50,000.

Firms operating under this umbrella will also be required to adhere to certain requirements issued by SAMA on security of information, corporate governance, internal regulation, risk management, compliance and internal audit.

Saudi Arabia aims to increase the contribution made by SMEs to 35% of GDP, from 20% when the plan was launched in 2016, as part of its Vision 2030 goal.

In November, the kingdom launched Qiwa, a work-visa programme, which will enable young Saudis to launch start-up projects, open small business and boost economic activity.

Ahmed Al-Rajhi, the minister of labour and social development, said the ministry aims to "provide a comprehensive set of integrated tools for small business owners, along with a framework for nationalising the workforce of such enterprises, after an initial grace period, under the Saudi nationalisation scheme, Nitaqat. This will help to maintain the stability and continuity of the business during its early days."

COLLABORATION WITH UAE

In November, Misk Foundation and the UAE's Hub71 start-up incubator signed a memorandum of understanding (MoU) to create a more dynamic market for start-ups between the United Arab Emirates and the Kingdom of Saudi Arabia.

The MoU envisions a shared ecosystem aimed at helping start-ups access the Saudi and UAE markets by offering shared in-market business development insights, introductions to investors, mentor networks and strategic partnerships. The MoU also aims to provide other business services and mentorship from local and international experts, as well as offer access to a close-knit community and ecosystem supporting entrepreneurs.

"At Misk we're committed to empowering young people around the world to realise their potential in the future economy. A vital part of that is supporting innovative entrepreneurship and exciting founder-led ideas," said Shaima Hamidaddin, executive manager, Misk Global Forum. "This strategic MoU with Hub71 will allow us to create a more open and dynamic environment for these start-ups and others in the future, to grow, flourish, and succeed."

Venture capital is also gearing up in the kingdom to boost start-ups and small enterprises. The Saudi Arabian General Investment Authority signed up 18 international venture capitals, including those from the United States, United Kingdom, and France, in a number of areas.

"This is a huge leap for the kingdom, as we are opening doors for foreign venture capitals, while encouraging investors and entrepreneurs to branch out to KSA; especially after amending 60% of the license requirements and allowing 100% ownership for the foreign investors," said Sultan Mofti, SAGIA's deputy governor of investment attraction and development.

'Angel by Invest Saudi,' a new SAGIA initiative, will allow foreign start-ups that are endorsed by angel investors to obtain an Instant Entrepreneurship License from SAGIA with 100% foreign ownership within three hours.

The two largest angel groups joining the initiative are Oqal Group and Dubai Angel Investors.

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GLOBAL TRADE FINDS FRESH HOPE WITH NEW US-CHINA DEAL

The United States' agreement with China in December on Phase 1 of a trade deal is a welcome development that will unlock trade flows across the world.

The deal will require structural reforms and other changes to China's economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange, according to the Office of the United States Trade Representative.

The global economy has been weighed down by trade disagreements between the world's two largest economies, crimping growth across the commodities, manufacturing and services industries.

The United Nations Conference on Trade and Development (UNCTAD) noted in its latest report that merchandise trade is predicted to drop by 2.4% to USD 19 trillion, after significant growth rates in 2018 (9.7%) and 2017 (10.7%). Trade in services is predicted to only increase by 2.7% to USD 6 trillion, a considerable deceleration from 7.7% in 2018 and 7.9% in 2017.

Real global economic output (gross domestic product) is now expected to grow by 2.3% this year, 0.7 percentage points less than last year. Equally crucial, it should boost the Chinese economy, which is a key trading partner of many emerging economies, including Saudi Arabia.

Amid the backdrop of slow global growth, Saudi Arabia's exports in the first nine months of the year stood at SAR 738.9 billion, while imports stood at a shade under SAR 400 billion, according to data gleaned from the General Authority for Statistics.

The export figures for the first nine months of the year is a 9.2% decline compared to the same period last year, but it is understandable given lower oil prices, Saudi Arabia's decision to maintain oil production cuts as part of a wider agreement with other OPEC producers, and a retooling of the overall economy.

Beyond the short-term blips, Saudi trade is expected to secure a big boost amid a focus on diversification of trade, and developing a non-oil manufacturing and industrial hub in the country.

Saudi Arabia emerged as among the top 10 developing economies in UNCTAD's latest Business-to-Consumer E-Commerce Index. The kingdom was ranked 49th globally in the overall rankings, an improvement of three places, out of 152 nations.

GCC EYES GREATER TRADE

The recently concluded GCC Supreme Council summit in Riyadh also focused on trade, noting that the region must strengthen strategic relations and economic co-operation with France, Russia, the European Union, the European Free Trade Association (EFTA), the South American Common Market (MERCOSUR) and other countries as well as the international and regional organisations active in the EU and America.

The GCC Supreme Council also focused on improving strategic relations and economic co-operation with a number of Asian countries, including China, Pakistan, India, Japan, South Korea and the Association of Southeast Asian Nations (ASEAN).

Indeed, Saudi Arabia has been paying close attention to its neighbouring emerging markets. In October, the kingdom signed a number of memorandums of understanding (MoUs) with the Indian government in several areas including energy, civil aviation, medical product regulation, security co-operation and defence.

Meanwhile, the Saudi Logistics Hub, a government initiative mandated to drive growth in the kingdom's thriving logistics sector, has been on a global roadshow to promote the country's infrastructure in the UAE, Jordan, Egypt, China, Japan, India, and Germany.

"Saudi Arabia currently commands a 55% share of the logistics market in the GCC region. Over the last decade, the country has invested more than USD 100 billion in its transport and logistics infrastructure, resulting in a comprehensive nationwide network," according to the company. "In 2019, Saudi Arabia saw a 47% increase in the number of new foreign transport and logistics companies establishing operations," according to the Saudi Arabian General Investment Authority (SAGIA).

Saudi Arabia is also forging closer trade ties with its neighbour, the UAE. Non-oil trade exchange between the two countries has reached AED 417.6 billion over the past five years, according to Sultan Bin Saeed Al Mansouri, UAE's minister of economy.

Non-oil exchange between the UAE and Saudi reached AED 107.4 billion in 2018, a surge of 35% over 2017.

In November, the two countries agreed to issue joint tourist visas, speed up the flow of traffic at the entry ports, and signed four new MoUs in the areas of health, culture, space and food security.

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