Sino-MENA: Eastern promises

Florence Eid-Oakden, Ph.D, Chief Economist
Abdelgadir Shukri, Analyst

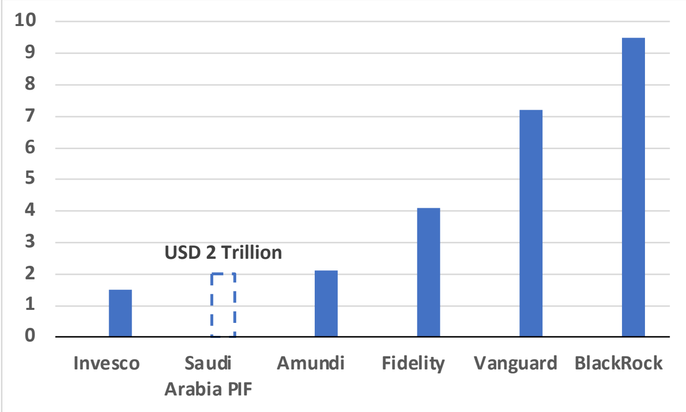
- **Although Saudi Arabia's Public Investment Fund (PIF) is the ninth-largest of its kind in the world, it is quickly climbing the rankings.**
- **Despite record investments in US stocks by GCC funds in 2020, larger portions of capital are being directed to an eastern rival: China.**
- **The UAE's sovereign wealth fund recently surpassed that of Singapore to become the second-largest holder of Chinese A-shares. With Saudi Arabia now stirring, this position may be challenged in the years ahead.**

Sino-MENA: Saudi fund fashionably late

As Saudi Arabia sails towards its 2030 vision, Chinese equity markets offer exciting new opportunities. The kingdom now wants to catch up with regional rivals in terms of securing these eastern ambitions.

- Crown Prince Mohammed Bin Salman is utilising Saudi Arabia's PIF to realise the goals of Saudi Vision 2030, an ambitious initiative which seeks to dilute the kingdom's dependency on oil and to diversify its economy.
  - Equipped with around USD 450B of Assets under management (AUM), the PIF has grown rapidly in recent years. Indeed, it is ranked as the ninth-largest sovereign wealth fund in the world.
- In an effort to maintain this momentum, the kingdom has been looking eastwards for investment opportunities, and is now drawn to the world's second-largest economy: China.
  - Currently, China is Saudi Arabia's largest trading partner as well as the top customer of Saudi Aramco, the kingdom's national oil company. Aramco is chaired by Yasir al-Rumayyan (who also happens to be the governor of the PIF).
    - Between 1995 and 2019, Saudi exports to China increased at an annualised rate of 22%, from around USD 390M to almost USD 46B.
    - Before being disrupted by the COVID-19 pandemic, shipments of Saudi crude oil to China in 2019 totalled a record 83M tonnes, a 47% YoY increase. By comparison, crude oil from Russia (China's second-largest supplier) accounted for around 77M tonnes.
  - The kingdom intends to develop strong Saudi-Sino economic relations by investing in Chinese markets through the PIF.
    - Saudi Arabia believes that an entry into Chinese equity markets is the next logical step by which to expand the PIF and to diversity its portfolio.
- Earlier this month, the PIF revealed its hand. It plans to start making major investments in Chinese companies by applying for a Qualified Foreign Institutional Investor (QFII) license in China.
  - Once awarded, the QFII will enable the PIF to trade Chinese RMB-denominated stocks, also known as 'A-shares'.
- We believe that entering Chinese equity markets is a natural move for the kingdom. This is especially true given the PIF's ambition to accumulate around USD 2T AUM by 2030, and to establish Saudi Arabia as a global investment powerhouse. Until then, the ostensible medium-term goal is to grow by more than 100%, generating around USD 1.1T AUM by 2025.

Figure 1: How the PIF plans to compare with the world's largest private funds in 2030 (AUM, USD T)[1]



- Unsurprisingly, traditional targets of foreign acquisition for MENA-based investment funds are Europe and the US.
  - This trend was underscored last year, when GCC funds collectively invested a record USD 14.7B in US assets. This represents a 127% YoY increase from the USD 6.48B invested throughout 2019.
    - However, this figure is partly explained by COVID-19-related bearish stock market conditions.
  - During the past four years, the PIF has increased its share of international investments from 3% to 20%, most of which are directed towards Europe and the US.
    - By the end of Q2 2021, the PIF's US equity holdings amounted to around USD 16B, a 58% YoY increase.
  - Elsewhere, the Kuwait Investment Authority (KIA) has over 50% of its overseas holdings in the US.
- Although we foresee the status quo to continue in the medium term, the past decade has witnessed a slight angling of GCC funds towards Chinese markets.
  - Among the GCC's sovereign investment funds, the Abu Dhabi Investment Authority (ADIA) is leading the pack. ADIA currently sits on around USD 650B AUM.
    - ADIA ranks fifth overall in the Chinese QFII programme, in which it is also the highest-ranking of all MENA funds.
    - Since 2018, ADIA shareholdings of Chinese A-shares have increased eight-fold from USD 0.2B to USD 1.6B. They lingered at around the USD 0.3B mark between 2015-18.
    - In H1 2021, ADIA augmented its holdings of mainland Chinese stocks by taking large positions in A-shares and increasing its exposure to Chinese

[1] Arabia Monitor; Sovereign Wealth Fund Institute.

financial brokerage and pharmaceutical industries.

- The KIA is the next key investor; it sits on around USD 692B AUM.
    - Compared to ADIA, the KIA has not posted the same sharp rise since 2018; its Chinese A-share holdings have grown from USD 0.1B to USD 0.6B.
- The Qatar Investment Authority (QIA) first started purchasing Chinese equities in 2012.

➢ Compared to its neighbours, Saudi Arabia is regarded as a latecomer to the Chinese market.

- Despite this tardiness, we expect the kingdom to catch up very soon.
    - Now that the PIF has set its sights on China, we expect the ratio of its investments allocated to Chinese markets to grow steadily.

➢ Globally, GCC funds have been making their presence felt in the Chinese equities market for the past decade. Only Norway's sovereign wealth fund (the largest in the world) is considered as being far ahead of the pack; it currently holds around USD 2.2B of Chinese stocks.

- ADIA has surpassed Singapore's sovereign fund (which holds around USD 1.2B) in the rankings of state-owned investors within the Chinese A-shares market. The city-state has actually been offloading shares in recent years, meaning that ADIA currently enjoys a second-place position within the rankings (as of early 2021).

➢ We believe that the PIF will inject competitive amounts of capital in the coming years, albeit gradually.

➢ The PIF is buttressed by liquidity flowing from excess foreign reserves held by the Saudi Arabian Monetary Authority (SAMA), the kingdom's central bank. An initial burst of PIF activity in 2015 can be viewed as a strategic move to raise the fund's global profile.

- Looking ahead, the PIF is set to become more sophisticated when allocating assets.

➢ The fund's application for a QFII license comes on the heels of a regulatory crackdown by China against its stock market, a move which wiped out over USD 1T from mainland Chinese stocks.

- We believe that the PIF, which has a long-term investment outlook, perceives this crackdown as an opportunity to snap up under-priced tech stocks.
    - We know from analysing the aftermath of the COVID-19 pandemic that the Saudi fund has been able to take advantage of market weaknesses.

➢ Although China is currently facing fears of systemic risk in its banking sector in the wake of the Evergrande saga (a Chinese property developer at serious risks of defaulting on its debt), we assess that the PIF still expects China to drive global growth for years to come.

Figure 2: Saudi Arabia PIF investments in US stocks (USD B)[2]

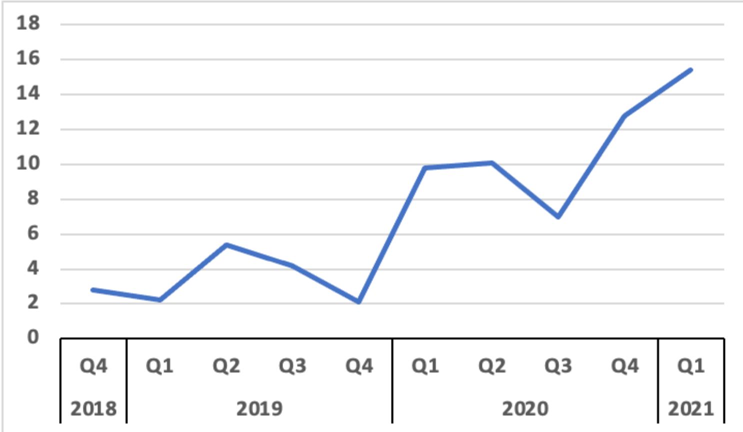


Figure 3: Largest sovereign wealth funds (AUM, USD B)[3]

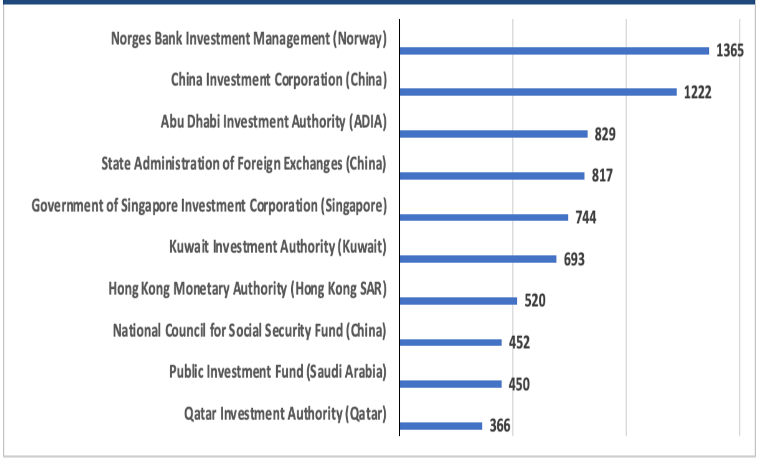
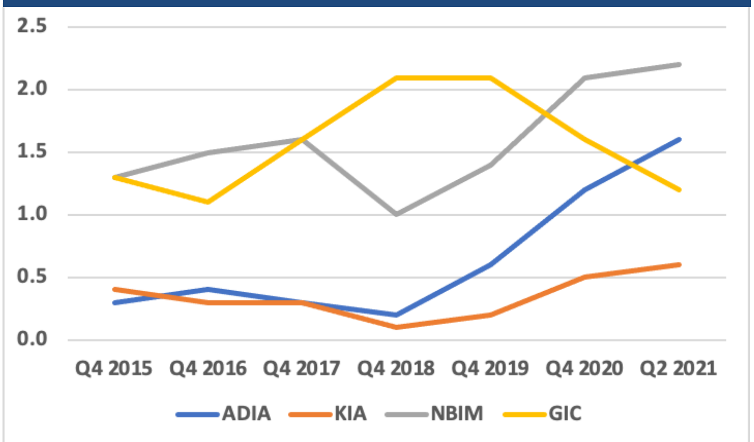


Figure 4: Sovereign wealth fund holdings in Chinese A-shares (USD B)[4]



[2] Arabia Monitor; Global SWF.
[3] Arabia Monitor; Statista.
[4] Arabia Monitor; EastMoney.

Disclaimer

The information contained herein does not constitute an offer or solicitation to sell any security or fund to or by anyone in any jurisdictions, nor should it be regarded as a contractual document. Under no circumstances should the information provided on this publication be considered as investment advice, or as a sufficient basis on which to make investment decisions. The information contained herein has been gathered by AM Ltd from sources deemed reliable as of the date of publication, but no warranty of accuracy or completeness is given. AM Ltd is not responsible for and provides no guarantee with respect to any of the information provided herein or through the use of any hypertext link.

Arabia Monitor is an independent research firm specialising in economic and market studies on the Middle East & North African region, which we view as the new emerging market. Our forward-looking perspective allows us to place recent developments in the region within a broader context and a long-term view. Our analysis is based on the macroeconomic and financial balance sheet of Arab countries to deliver unique strategy insights and forecasts to businesses across a wide range of sectors.

Arabia Advisors specialises in portfolio strategy and private placements. It works with firms, family offices and government related organisations that are looking to streamline, re-balance or diversify their asset portfolios. Based in the UAE as an offshore company, Arabia Advisors services a regional and international client base with interest in the Arab countries.

Arabia Monitor
Aston House| Cornwall Avenue| London N3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.com