

# Market Insights & Strategy

Global Markets

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## MIDDLE EAST & AFRICAN MONITOR

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### REGIONAL COMMENTARY

#### **Oil Prices Stabilize But US/China Trade Dispute Still Weighs.**

Crude prices edged higher this morning on the back of indications from the OPEC+ grouping that an extension of the supply cut agreement is likely, the active US oil rig count hit its lowest level since February 2018 and the Trump administration withdrew its threat to raise trade tariffs on Mexico. However major gains by crude will probably remain limited until/when Washington and Beijing can solve their ongoing trade dispute, and it's not completely clear yet if Russia will agree to extending the oil production caps although its Deputy Energy Minister, Pavel Sorokin, said this morning that any decision by OPEC+ would be a "consolidated" one and be based on "what the market needs." Last Friday Saudi Arabia's Oil Minister, Khalid Al Falih, was quoted as saying that US\$60 per barrel was too low, and suggested that the signatories to the output cut accord would probably have to extend the deal when it comes up for renewal again later this month. "The last couple of years have been good. The last few weeks have not been so good, and going to the June meeting we are seeing a consensus emerging that we need to continue the supply management regime that we established," Al Falih stated, although warning too that market fundamentals were currently being usurped by other issues such as the trade war. "We cannot even talk about prices for tomorrow. The fundamental factors that usually determine the oil prices, the balance of supply and demand, are taking a back seat to news, sanctions, trade wars, it is unpredictable," he added.

#### **World Bank Amends Its Economic Outlook On Iran – US Implements New Penalties.**

In its latest global report the World Bank said that it expects Iran's GDP to shrink by as much as 4.50% this year, due primarily to the re-introduction of sanctions on the country's oil industry and its consequent impact on the local currency, inflation and government spending. The WB had initially forecast a 3.50% contraction in 2019. The official inflation rate in Iran was estimated to be over 50% last month compared

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to 10% in April last year, although some analysts suggest it could be much higher and the IMF has said previously that it expects the Iranian economy to shrink by as much as 6.00% this year. In a separate development, the US took aim at Iran's petrochemical industry last week by sanctioning the country's largest chemical firm PGPIC, accusing the conglomerate of providing financial support to the Revolutionary Guard. "This action is a warning that we will continue to target holding groups and companies in the petrochemical sector and elsewhere that provide financial lifelines to the IRGC," the US Treasury Secretary stated, while also adding that any international companies continuing to work with the PGPIC or its subsidiaries "will themselves be exposed to US sanctions." Meanwhile Tehran has said it would not enter into any fresh negotiations with either Washington or Europe outside of the terms of the 2015 JCPOA agreement. "Talking about issues beyond the deal will lead to further mistrust among the remaining signatories of the deal," a spokesperson for Iran's Foreign Ministry was quoted as saying late last week by the UAE's National newspaper.

#### **China To Continue To Drive The Global Demand For Natural Gas.**

The global demand growth rate for gas is expected to average 1.60% y/y over the next few years to reach 4.33 tril cu/m by 2024 and will be driven primarily by Asian consumers especially China, according to a recent report by the IEA. This forecast is lower than the 4.60% rise achieved last year due in part to a potential slowdown in the global economy. "2018's strong growth is unlikely to be the norm in the future because of slowing economic growth, declining potential for switching from coal to gas, and a return to average weather conditions after last year's exceptionally hot summer in the northern hemisphere," the IEA report read, but added that China would remain the biggest source of demand. "China will be the main driver of gas demand growth with an average rate of 8%, down from the double-digit growth rate experienced in the recent past. It is expected to account for almost 60% of the total consumption increase to 2024," an IEA official was quoted as saying in an article published on the S&P Global Platts website.

#### **Nigeria's CB To Restrict Local Banks Access To Government Securities.**

Nigeria's Central Bank Governor, Godwin Emefiele, has said that the bank will implement a recently announced proposal which would restrict local banks' access to the domestic T-Bill and T-Bond markets. "According to our regulation, there is a particular minimum percentage of a treasury bill or government securities that the banks must invest in in order to remain liquid. But unfortunately and increasingly so, the banks, rather than focusing credit to the private sector, they tend to direct their focus mainly on buying government securities. The MPC has frowned at that and has directed the management of CBN to put in place policies or regulations that will restrict the banks from unlimited access to government securities. It is important and expedient that the committee gave this directive to the bank's management because this country badly needs growth," Emefiele was quoted as saying by the Vanguard news outlet. This move should not have any impact on the purchase of such securities by foreign investors.

#### **Ethiopia Pushes Forward With Economic Reforms.**

Ethiopia's parliament is today expected to approve a draft law which would open up the country's telecom sector to foreign players for the first time. As one of Africa's fastest growing economies, such an opportunity for global telecommunications is tantalizing and South Africa's MTN Group has already expressed a strong interest in seeking an operator license there.

#### **Both Saudi Arabia & UAE's Non-Oil PMI Rises.**

The Emirates NBD PMI Index for Saudi Arabia rose to a 17-month high of 57.30 last month from 56.80 in April as growth in the Kingdom's non-oil related private sector continues to improve. Job creation also expanded to 50.50 from 50.10 while output increased to 61.40 from 61.20 the previous month on the back of rising demand. The same sector in the UAE also saw an improvement with the ENBD PMI Index for the Emirates rising to 59.40 in May, its best level since late 2014, although job growth dipped slightly to 50.10.

#### **Egypt's CPI Rate Up – PMI Dips.**

Egypt's CPI rate rebounded to 14.10% in May from 13.00% the previous month according to the latest official data. Meanwhile private sector activity declined last month with ENBD's PMI Index for Egypt slipping to 48.20 from 50.80 in April, although most analysts expect activity to pick up again in the latter part of this year.

### Kuwait's SWF Assets Expand – Moodys.

In a recent report on Kuwait, Moodys Investors Service has highlighted the rebound in assets managed by the country's sovereign wealth funds since the collapse in crude prices in 2014. According to the ratings agency the 'Future Generations Fund' assets alone now equals 309% of GDP, but warned too that until the National Assembly signs off on a new debt law, which would raise Kuwait's current debt ceiling to KWD 25 bio and widen the tenor limit from 10 years to 30 years, Kuwait may again be forced to dip into its SWF holdings in order to fund future budget deficits, as it did from the 'General Reserve Fund' in 2015-16.

### Oman Prepares To Introduce New Excise Tax.

Oman will introduce a 50-100% excise tax on various products including, pork, soft drinks, tobacco and alcohol from next week. "The implementation of this law will expand the tax base by providing the public budget with new tax revenue expected to reach OMR100 million per year," the Director-General of Survey & Tax agreements was quoted as saying by the Gulf Business website. A similar 'sin' tax regime has already been implemented by Bahrain, Saudi Arabia and the UAE.

### US\$13 Bio Construction Contracts Awarded In KSA.

According to the US-Saudi Arabian Business Council, the total value of construction contracts awarded in the Kingdom during Q1 of this year jumped by 113% to US\$13 bio compared to the same period last year. More than two-thirds of these contacts were linked to the energy, water and transportation sectors. You can read more on this story [here](#).

### Investcorp Increases Exposure To US Real Estate.

Bahrain's Investcorp has announced a US\$370 mio purchase of eleven 'multi-family' properties in the United States, the firm's largest US real estate portfolio investment in ten years.

### FX/RATES & CRUDE MARKETS:

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Currency	Spot	1M	2M	3M	6M	9M	12M	2Y
USD/AED	3.67285/295	1/3	4/7	6/11	14/19	23/33	34/44	110/130
USD/SAR	3.7503/05	2/5	6/9	10/15	25/30	48/58	74/84	230/260
USD/QAR	3.6545/60	-9/-4	-18/-10	-28/-15	-40/-25	-50/-30	-52/-32	-90/-30
USD/KWD	0.30350/380	Par/+5	1/6	3/13	7/17	10/25	15/35	20/70
USD/OMR	0.38497/502	15/25	35/55	60/80	140/170	250/300	380/430	800/900
USD/BHD	0.37697/702	Par/+5	5/15	12/22	35/55	65/85	100/130	300/400
USD/MAD	9.6175/6375	60/160	150/350	300/700	900/1400	1600/2600	2000/3000	3500/6500
USD/EGP NDF	16.76	16.82/16.87	16.93/16.99	17.07/17.12	17.53/17.58	17.99/18.04	18.45/18.50	-
USD/IOD	0.7082/87	50/100	90/190	160/260	300/500	350/650	425/725	500/1500
USD/NGN NDF	360.41	361.00/362.00	362.25/363.75	364.00/365.50	369.50/372.00	376.00/378.00	384.00/387.00	(NAFEX)
USD/GHS NDF	5.3533	5.39/5.44	5.43/5.48	5.48/5.53	5.63/5.73	5.80/5.90	6.00/6.10	-
USD/TND	2.9600/3.0000	450/950	700/1700	1300/2300	2000/3500	2500/4500	3000/5000	5000/7500
Crude Oil	Futures							
WTI	54.50							
Brent	63.75							

\*\* (GCC FX indications above are offshore levels only)

### AED AND SAR IRS SPREADS

Currency	1Y	2Y	3Y	4Y	5Y	6Y	7Y	10Y
AED SPREAD	+24/30	+26/32	+34/40	+44/50	+56/62	+68/74	+80/86	+110/116
SAR SPREAD	+38/44	+43/49	+49/55	+56/62	+63/69	+70/76	+78/84	+108/114

Note: We can quote options in the AED, SAR & KWD.

### AND FINALLY...

Did you know that Saudi Arabia is the world's largest producer of desalinated water? The Kingdom currently pumps an estimated 5 million cubic meters of water per day.

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