

# Market Insights & Strategy

Global Markets

6<sup>th</sup> May 2020

## MIDDLE EAST & AFRICAN MONITOR

- **Crude Prices Continue To Recover.**
- **Potential Risk Of An Oil Supply Crunch By 2025 – Rystad Energy.**
- **Iraq's Kurdish Region Faces Major Revenue Crises**
- **KSA Remains Committed To Its US Dollar Peg Regime – SAMA.**
- **Lebanon To Switch To Flexible Currency System - PMI Hits Record Low.**
- **Iran To Redenominate The IRR As Inflation Bites.**
- **Bahrain Considers Dual-Tranche US Dollar Bond Issue.**
- **Algeria Unveils Deep Spending Cuts.**
- **Nigeria Adjusts Its Budget Based On An Oil Price Of US\$20.**
- **McDermott Wins Three EPFC Contracts In Saudi Arabia.**

### REGIONAL COMMENTARY

#### **Crude Prices Continue To Recover.**

The main crude oil benchmarks were up again this morning with WTI now trading around US\$25 a barrel while Brent is hovering above US\$31. This more positive mood continues to be supported by fresh data suggesting that some demand has started to return as various economies begin easing their relevant lockdown restrictions, the implementation of OPEC+ cuts and an apparent easing in the global storage squeeze. Of course this recovery is slow and fragile and any major second outbreak of COVID-19 infections could reverse these recent gains quickly.

#### **Potential Risk Of An Oil Supply Crunch By 2025 – Rystad Energy.**

A recent report published by Rystad Energy suggests that global oil demand could rise to 105 mio bpd by 2025 opening up the risk for a potential supply shortage in the future. The research house backs this analysis by highlighting the expected US\$ 131 bio reduction in CAPEX by producers and oil exploration companies over the next 12 to 18 months. This would be an almost 70% drop in such spending. *"The current low oil price has tightened the medium-term supply and demand balance considerably. Despite high growth in tight oil, oil production outside the OPEC Middle East countries is expected to stay flat over the next five years. As demand is expected to recover, the core OPEC countries will need to increase their supply significantly or the market will face even higher prices than our base-case forecast,"* the report read. We support their view and add the comment that with shale fields already shutting down across North America the likelihood of record US oil output returning is low. Bear in mind that sealing production on a regular shale field damages the geology and makes reopening such a rig expensive, while any consequent extraction will not be of the same quantity or quality. On top of this geopolitical risks continue to bubble away in the background, some of which have the potential to impact oil markets in the future. We discuss some of these 'Grey Swans' in our recent publication **'Known Unknowns'** which you can access via the 'Hot Topics' section on our website [here](#).

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### **Iraq's Kurdish Region Faces Major Revenue Crises.**

A delegation representing members of Iraq's semiautonomous regional government of Kurdistan, have been holding talks with the federal authorities in Baghdad since yesterday in an attempt to resolve long-standing oil related disputes and the recent decision by the central government, to suspend payments of the region's share of the national budget. *"The KRG budget and salaries must not be politicized,"* the Kurdistan Region's President Nechirvan Barzan, was quoted as saying on Monday by the 'Kurdistan-24' news site, adding that he had asked the UN Special Representative for the area *"to mediate in resolving the ongoing dispute."*

### **KSA Remains Committed To Its US Dollar Peg Regime – SAMA.**

Saudi Arabia's Central Bank said in a statement issued earlier this week that it; *"Remains committed to maintaining the exchange rate at the official rate of SAR 3.75 to the dollar as an anchor of monetary and financial stability. SAMA's foreign exchange reserves remain sufficient to meet all demands of the national economy for foreign exchange, with foreign exchange reserves covering 43 months of imports and 88% of broad money (M3). As such, SAMA affirms that the current exchange rate arrangement is a primary driver for monetary stability and sustainable economic growth."* As we have stressed in our previous publications and commentaries, we do not currently anticipate any adjustment to the five US dollar/GCC currency pegs namely the AED, SAR, QAR, BHD and OMR. (KWD is a basket).

### **Lebanon To Switch To Flexible Currency System - PMI Hits Record Low.**

Lebanon's Finance Minister, Ghazi Wazni, announced earlier today that the country's currency regime will eventually be switched from a US dollar peg to a more flexible system, adding that an immediate move towards such a float was not on the cards, at least until the government manages to secure the external funding it needs in order to stabilize the economy. In the meantime the fixed-rate system will remain in place. *"Floating the currency before regaining confidence, bolstering the economic and financial environment and getting funding from the International Monetary Fund and donor countries will lead to complete chaos in prices of goods and a sharp deterioration in the exchange rate,"* Wazni was quoted as saying by Bloomberg. Lebanon's ongoing economic crises, limited FX reserves and a shortage of hard currency has made the 30-year old peg unsustainable so this decision was inevitable. It also comes soon after the government applied for IMF assistance and would be on the international lender's list of conditions anyway. Wazni also revealed that talks with creditors over restructuring Lebanon's debt load began two weeks ago. Meanwhile the Blominvest Bank & IHS Markit PMI index for Lebanon fell to 30.9 last month, its lowest recorded level since the survey began.

### **Iran To Redenominate The IRR As Inflation Bites.**

Iran's parliament has passed a draft bill, that would see four zeros removed from its local banknotes making it easier for people to conduct cash transactions, although the bill must still be approved by the country's 'Guardian Council' before it can be implemented. According to this new law, the Iranian Rial will be taken out of circulation over the next few years and replaced by the Toman. One Toman will be equal to IRR 10,000. This move comes as Iran continues to face high levels of inflation which has all but wiped out the value of its local currency, which was last reportedly trading at around IRR 156,000 for one US dollar in the 'kerb' market, compared to the official USD/IRR rate of 42,000.

### **Bahrain Considers Dual-Tranche US Dollar Bond Issue.**

Bahrain has reportedly hired banks for a potential 4.5 and 10 year US dollar bond issuance according to unnamed sources quoted by Reuters and Bloomberg earlier today.

### **Algeria Unveils Deep Spending Cuts.**

In a statement issued by President Abdelmadjid Tebboune's office this past Sunday, Algeria's government plans to slash its budget by 50% this year. However despite this cut, the statement also said that country's the minimum wage would be raised by 2,000 dinars from 18,000 to 20,000 per month, whilst income tax will be abolished for those earning 30,000 dinars or less. Almost 85% of Algeria's exports are linked to the oil and gas sector. Meanwhile Algeria's CB expects its FX reserves to fall to US\$44 bio by the end of this year from its current level of around US\$60 bio and down from US\$72.60 bio this time last year according to Reuters.

### **Nigeria Adjusts Its Budget Based On An Oil Price Of US\$20.**

Nigeria's Finance Minister, Zainab Ahmed, said yesterday that the government plans to amend its current budget and base it on an average oil price of US\$20 per barrel, down from its initial forecast of US\$57 at the

beginning of this year. “We are in the process of an amendment that is bringing down the revenue indicator to US\$20 per barrel,” she was quoted as saying by Reuters, warning too that local oil and gas projects will now be “delivered much later than originally planned due to upstream budget cuts.” The sharp budget adjustment must still be approved by MPs.

### McDermott Wins Three EPFC Contracts In Saudi Arabia.

McDermott International's storage solutions arm has been awarded three contracts for the engineering, procurement, fabrication, and construction of 38 tanks and 13 spheres in various locations across Saudi Arabia according to the 'construction week online' website.

### FX/RATES & CRUDE MARKETS:

**Indication Levels Only – Please Contact us on Reuters Dealing Codes FABA/FABU for any live pricing and/or information.**

Currency	Spot	1M	2M	3M	6M	9M	12M	2Y
USD/AED	3.6730/31	3/6	9/14	18/23	40/50	65/85	90/110	220/320
USD/SAR	3.7550/7580	5/10	11/16	15/30	40/55	70/90	120/150	400/500
USD/KWD	0.30880/980	25/40	50/65	75/95	140/170	190/240	250/300	325/525
USD/OMR	0.38490/510	110/160	230/280	375/475	775/875	1100/1400	1600/1900	3000/4500
USD/BHD	0.37725/7825	2/12	10/25	20/35	40/70	60/90	80/110	400/750
USD/MAD	9.8500/10.0000	150/350	300/600	450/950	1000/2000	1600/2600	2100/3100	3000/6000
USD/EGP NDF	15.7550	15.90/16.00	16.10/16.20	16.29/16.39	16.91/17.01	17.51/17.61	18.10/18.20	-
USD/IOD	0.7095/7115	40/90	80/180	100/250	225/375	325/475	400/700	1000/2000
USD/NGN NDF	386.95	402.00/412.00	418.00/428.00	431.00/441.00	462.00/472.00	487.00/497.00	510.00/520.00	(NAFEX)
USD/GHS NDF	5.7750	5.80/5.90	5.86/5.96	5.95/6.05	6.22/6.32	6.45/6.60	6.75/6.90	-
USD/TND	2.8850/9350	300/600	450/950	500/1000	1100/2100	1500/3000	2000/4500	4000/7000
<b>Crude Oil</b>	<b>Futures</b>							
WTI	25.25							
Brent	31.65							

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

### AED AND SAR IRS SPREADS

Currency	1Y	2Y	3Y	4Y	5Y	6Y	7Y	10Y
AED SPREAD	+70/76	+73/79	+79/85	+85/91	+92/98	+97/103	+102/108	+121/127
SAR SPREAD	+70/76	+86/92	+102/108	+116/122	+130/136	+142/148	+153/159	+175/181

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

### AND FINALLY...

Did you know that Bahrain hosted the first Formula One Grand Prix ever to be held in the Middle East in 2004?

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