

# Market Insights & Strategy

Global Markets

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## MIDDLE EAST & AFRICAN MONITOR

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### REGIONAL COMMENTARY

#### **Major US Shale Firm In Trouble.**

A Fortune 500 company, which was considered to be at the forefront of the shale boom in the US, Chesapeake Energy, is considering filing for Chapter 11 bankruptcy according to a recent 'USA Today' report. The firm which employed around 2,000 people at the end of 2019 posted a US\$8.3 bio loss for Q1 of this year. *"If the current depressed prices persist, combined with the scheduled reductions in the leverage ratio covenant and an expected significant reduction in our borrowing base in our scheduled determination, then our liquidity and our ability to comply with our financial covenants during the next 12 months will be adversely affected,"* the company said in its latest SEC filing.

#### **Jet Fuel Demand Expected To Take Longer To Recover.**

With air travel currently down over 80% y/y and despite a slow easing of certain countries current lockdowns, IATA believes a recovery by the airline industry will be slower than other sectors due to the potential impact of expected social distancing rules, especially those likely to be applied on aircraft. *"Depending on the aircraft type and the seat configuration, social distancing could reduce the available seat capacity by 33-50%. We estimate that such social distancing would reduce the bookable seat capacity to 62% of normal capacity,"* IATA was quoted as saying by the ICIS website. Consequently this means that any recovery in the demand for jet fuel is also likely to be hindered, with Goldman Sachs suggesting in a recent report that a return to pre-COVID levels of jet fuel consumption may only return during the second-half of 2022. You can read the full IATA statement on the current state of the airline sector [here](#).

#### **Russia To Block US Attempt To Extend UN Arms Embargo On Iran.**

Russia's ambassador to the UN, Vassily Nebenzia, warned yesterday that his country will oppose a US-led draft resolution, which would extend

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the current UN arms embargo on Iran, for an indefinite period. The embargo is due to expire later this year. *"It expires in October, and for us that's clear, that's clear. I do not see any reason why an arms embargo should be imposed on Iran,"* Nebenzia was quoted as saying by the 'AP News' outlet.

#### **Saudi Aramco Publishes Its First Quarter Results.**

Saudi Aramco has announced a net income of US\$16.66 bio for the first quarter this year, down from \$22.2 bio over the same period last year. Meanwhile its free cash flow slipped to US\$15 bio from US\$17.4 bio. However the oil giant stuck to its earlier dividend payment pledge of US\$13.4 bio for Q4 2019, adding that it would pay \$18.75 bio to shareholders in the next quarter. *"The COVID-19 crisis is unlike anything the world has experienced in recent history, and we are adapting to a highly complex and rapidly changing business environment. Aramco has demonstrated resilience during economic cycles, and has an unparalleled position due to a strong balance sheet and low-cost structure. We have delivered solid earnings with robust free cash flow, despite weak energy demand and low oil prices. We remain committed to the safety of our people while delivering on our long-term value-creation strategy for all of our shareholders. Looking ahead to the remainder of 2020, we expect the impact of the pandemic on global energy demand and oil prices to weigh on our earnings,"* Aramco's CEO, Amin Nasser was quoted as saying by the 'Arab News,' adding that; *"We continue to reinforce the business during this period by reducing our capital expenditure and driving operational excellence. Longer term, we remain confident that demand for energy will rebound as global economies recover. Capital expenditure will be held between US\$25 bio and US\$30 bio for the rest of the year, but is under review for next year and beyond. We retain significant flexibility to adjust expenditures, and have considerable experience in managing the business through times of adversity. This resilience will enable us to continue delivering on our commitments to our shareholders."*

#### **Saudi Arabia Raises Its VAT Rate To 15%.**

Saudi Arabia's Finance Ministry announced on Monday, that the Kingdom will increase its VAT rate from 5% to 15 % beginning July 1<sup>st</sup> 2020. The department will also suspend the payment of 'cost-of-living' allowances from next month. Last week the Finance Minister, Mohammed Al Jadaan, warned that *"strict and painful measures"* will need to be implemented in order to absorb the twin impact of the COVID-19 pandemic and sharply lower oil prices. *"We must reduce budget expenditures sharply,"* Al-Jadaan was quoted as saying by the 'Arab News' website, adding that some projects may have to be slowed down in order to reduce overall expenditure. *"Current actions taken to date to cut spending are not enough, and Saudi public finances will need more control and the journey ahead is long."* On the positive side, an increase in VAT will help to further diversify public revenues and could be supportive to growth if the funds raised are channeled quickly back into the economy. The tax which was first introduced by the Kingdom in 2018, raised almost SAR 45 bio in its first year of collection.

#### **Lebanon Prepares To Enter Into Negotiations With The IMF.**

Lebanon's Prime Minister announced yesterday, that his government was set to begin discussions with the IMF today following an introductory session this past Monday. The country is hoping to clinch up to US\$10 bio in financial support from the international lender. Meanwhile the government has re-implemented a nationwide lockdown albeit for a four-day period this time, after the local health authority reported a spike in the number of COVID-19 infections in the country.

#### **Oman Is Able To Meet Its Funding Needs – S&P.**

S&P has said that Oman will be able to meet its current funding needs and expects the USD/OMR peg to remain in place. *"In our baseline scenario, we expect the government of Oman will meet its sizable funding needs (including debt redemptions), totaling almost US\$50 bio over 2020-23 through external debt issuance (63%), drawdowns of domestic and external liquid assets (18.50%), domestic debt (15%), and other financial transactions (3.50%)."* Meanwhile in line with our own long-expressed views on the subject, the ratings agency also said that it expects the Omani Riyal's peg to the US dollar to remain in place for now, and that external support would be forthcoming if required. *"Our ratings on Oman are supported by our expectation that support from GCC countries would be forthcoming if the country were to experience significant external liquidity pressures, particularly those that could threaten the peg,"* an S&P analyst was quoted as saying in a 'Gulf News' article published yesterday.

## 'Things Should No Longer Be Taken For Granted In A Post COVID-19 World' – UAE Minister.

The UAE's Minister for Cabinet Affairs and the Future, Mohammed Al Gergawi, said this week that the current crises will force both individuals and governments to rethink how we work, spend and carry out our daily activities in the future. *"Today, I think there is a great opportunity to change the culture of society and accelerate the transition towards a culture that suits the new situations. We have extravagant costs of living and luxuries, and we need a plan to create a new culture for our society, which enables us after this crisis to have a youth and new generations with a strong financial culture. Do we need 12 years of schooling in the current era, given that the amount of knowledge that a pupil acquires in one year is much higher than it was decades ago? And does a person need four years of university studies, in an era in which one year's knowledge is equivalent? Do we have financial literacy curricula? We must think differently to benefit our society and ensure a better future for our generations,"* Al Gergawi was quoted as saying by the 'National' newspaper. You can access this article in full [here](#).

## Bahrain's Parliament Amends Real Estate Law.

Bahrain's parliament has reportedly approved a series of amendments to the 2001 Non-Bahrainis Ownership of Property and Plots Law. *"The new amendments are vital as they take into consideration the future needs of the Kingdom in having sufficient land and determining sites for residences and investments. Under the amendments, the government will have more flexibility to determine an actual balance between ownership and available spaces while ensuring rights are not violated. The new system will bring Bahrain on par with practices followed in other GCC countries, with rules and regulations only putting restrictions on the location and size of a property but not on the ability to buy property as a national. The rules will not be backdated and there will be no exodus and if someone gets property through inheritance or a will then the size and location will be assessed and if it constitutes a violation then it will be auctioned, not seized,"* Bahrain's Justice, Islamic Affairs and Endowments Minister, Sheikh Khalid bin Ali Al Khalifa, was quoted as saying by the 'Gulf Daily News.'

## Emirates Airlines To Resume Passenger Flights From May 21<sup>st</sup>.

Dubai based Emirates Airlines has announced that will resume regular commercial flights to eight countries from Thursday next week. These will be the first regular, non-repatriation flights out of Dubai since March 24th. The destinations will be: London, Frankfurt, Paris, Milan, Madrid, Chicago, Toronto, Sydney and Melbourne.

## FX/RATES & CRUDE MARKETS:

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Currency	Spot	1M	2M	3M	6M	9M	12M	2Y
USD/AED	3.6730/31	3/6	9/14	18/23	40/50	60/80	85/105	180/280
USD/SAR	3.7560/80	8/13	12/22	15/30	40/55	75/95	130/160	400/500
USD/KWD	0.30880/930	30/45	55/70	80/100	150/180	200/250	270/320	430/530
USD/OMR	0.38496/503	100/150	230/280	340/440	725/825	1000/1300	1500/1800	2800/3800
USD/BHD	0.37730/780	5/15	15/30	20/35	40/70	60/90	75/105	500/800
USD/MAD	9.8100/8900	150/350	300/600	450/950	1000/2000	1600/2600	2100/3100	3000/6000
USD/EGP NDF	15.7500	15.87/15.94	16.03/16.10	16.19/16.26	16.77/16.84	17.37/17.44	17.97/18.04	-
USD/JOD	0.7095/7115	40/90	80/180	100/250	225/375	325/475	400/700	1000/2000
USD/NGN NDF	386.90	399.00/409.00	416.00/426.00	429.00/439.00	458.00/468.00	484.00/494.00	506.00/516.00	(NAFEX)
USD/GHS NDF	5.7750	5.79/5.89	5.86/5.96	5.92/6.02	6.13/6.28	6.37/6.57	6.60/6.85	-
USD/TND	2.8700/2.9200	300/600	450/950	500/1000	1100/2100	1500/3000	2000/4500	4000/7000
<b>Crude Oil</b>	<b>Futures</b>							
WTI	25.65							
Brent	30.10							

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

## AED AND SAR IRS SPREADS

Currency	1Y	2Y	3Y	4Y	5Y	6Y	7Y	10Y
AED SPREAD	+60/66	+65/71	+71/77	+77/83	+84/90	+89/95	+94/100	+113/119
SAR SPREAD	+71/77	+86/92	+102/108	+116/122	+128/134	+140/146	+153/159	+174/180

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

## AND FINALLY...

Did you know that frankincense was once the main source of wealth in Oman and was prized more than gold? The frankincense trees of Oman are now inscribed as a UNESCO World Heritage Site.

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