

Market Insights & Strategy

Global Markets

3rd November 2020

MIDDLE EAST & AFRICAN MONITOR

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REGIONAL COMMENTARY

Crude Market Takes A Breather As US Elections Loom.

As the market turns its attention towards the US Election, one of Trump's last acts within his first term of office was to sign a memorandum this past weekend, which ordered the Secretary of Energy to prepare a report on "*The economic impacts of prohibiting, or sharply restricting, the use of hydraulic fracturing and other technologies.*" In a Tweet yesterday, the President claimed that this memorandum would lead to "*JOBS, low energy bills, and continued AMERICAN ENERGY INDEPENDENCE! Sleepy Joe would BAN fracking and destroy American energy jobs! He has NO clue!!*" (You can access the full White House memorandum [here](#)). However, although a Biden Presidency would likely focus more on developing America's renewable energy sector and tightening some environmental regulations governing the fossil fuel industry, it's highly unlikely he would ban fracking outright, and in any case this specific sector is already shrinking as low oil prices, negative cash flows and declining investor interest takes its toll. This is highlighted in the associated record amount of debt (US\$89 bio) accumulated thus far by Chapter 11 filings within the North American shale sector since the beginning of this year. As previously stated, we believe that this election is Biden's to lose and feel that his victory is somewhat priced-in, but if the worst case scenario occurs, namely a contested result in which neither candidate achieves the all-important 270+ electoral votes in order to win, such an event could lead to a sharp sell-off in the financial and commodity markets. Elsewhere in the world, the shift towards harsher COVID-19 lockdowns in Europe and the UK continues to put downward pressure on overall crude demand and thus prices remain soft. There are also reports of a sharp return in demand for VLCC ships by traders looking for somewhere to place their excess fuel inventories especially diesel.

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More Signals That OPEC+ May Extend Its Output Cut Accord.

According to the 'Interfax' news site, the heads of Russia's largest oil companies attended a meeting with the country's Energy Minister, Alexander Novak, yesterday in which they discussed the possibility of extending the current level of OPEC+ output cuts until March 2021, rather than easing these cuts from January as originally planned. This news helped crude prices retrace some of last week's losses overnight.

Libya's Oil Output Rises Again.

Libya's crude oil output rose again over the weekend, from 680,000 bpd last Thursday to 800,000 bpd yesterday according to 'Refinitiv'. However, although the country's oil production recovery has been sharp since the force majeure was lifted in mid-October, the political situation on the ground remains volatile and therefore the risk of a resumption in fighting leading to another shutdown is still high.

New Activity Reported At Iran's Atomic Plant.

The IAEA said in a recent statement that fresh satellite imagery suggests that Iran has begun constructing a new underground centrifuge assembly plant at its enrichment facility in Natanz. This is understood to be an attempt to replace the original assembly that was destroyed in an unexplained explosion this past July, and which Iranian officials claims was an act of sabotage. *"They have started, but it is not completed, it's a long process,"* the IAEA's Secretary-General, Rafael Grossi, was quoted as saying by the 'Radio Free Europe' website, adding that Iran also appears to be stockpiling greater amounts of low-enriched uranium, although it does not seem to have enough of these stocks to produce a nuclear weapon yet. According to the 'Institute for Science & International Security' the original assembly facility was designed to assemble thousands of advanced centrifuges per annum. Its destruction set back plans to expand the country's centrifuge program by at least one year, although exactly how long will depend on Iran's ability to rebuild the new facility, outfit it with sensitive equipment, and bring it into operation. Meanwhile, Saudi Arabia's Foreign Minister, Faisal bin Farhan, has accused Iran of destabilizing global security and supporting militia groups. *"The practices of this Iranian regime have resulted in destabilizing security and stability at the regional and international levels over the past four decades. We look forward, together with our partners in the international community, to taking into consideration the causes of ongoing tensions in the region, which are represented by the Iranian regime's breaches of international treaties and conventions as well as its insistence on interfering in the internal affairs of the countries in the region, supporting militant sectarian militias and threatening international shipping,"* the minister was quoted as saying by the 'Gulf News' media outlet.

Oman Ponders The Introduction Of An Income Tax.

According to a five-year economic plan, which was released by Oman's Finance Ministry this past weekend, the government is studying the viability of introducing a personal income tax on high earners within the next two years, in order to diversify its revenue streams. *"This initiative is still under study, all aspects of its application are being considered. It is expected to apply this tax in 2022,"* a part of the official document stated. The plan also aims to streamline Oman's water and electricity subsidy system so that only people who genuinely require such support will receive it. None of the GCC states currently collect income tax from individuals, although the UAE, Bahrain and Saudi Arabia have introduced VAT within the last few years and Oman is due to implement its own VAT system at a rate of 5% in early 2021.

Saudi Aramco Declares US\$18.75 Bio Q3 Dividend.

Saudi Aramco has reported net income of US\$11.80 bio for the third quarter of this year and announced that it will be paying \$18.75 bio in dividends. The more than 44% drop in income compared to a year ago, was driven by low crude oil prices as well as weak refining and chemical margins. However, Aramco's CEO said there were some positives to bear in mind. *"We saw early signs of a recovery in the third quarter due to improved economic activity, despite the headwinds facing global energy markets. Our resilience is supported by our unique scale, low upstream carbon intensity and low production costs. As the global economic and social landscape evolves, these strengths and our continued drive to lower GHG emissions mean we are well positioned to support the energy needs of the global economic recovery,"* Amin Nasser was quoted as saying by 'Gulf News', adding that; *"Our resilience is supported by our unique scale, low upstream carbon intensity and low production costs. As the global economic and social landscape evolves, these strengths and our*

continued drive to lower GHG emissions mean we are well positioned to support the energy needs of the global economic recovery. We are making progress on multiple fronts, including the world's first blue ammonia shipment for zero-carbon power generation in Japan, further strengthening our focus on new and innovative solutions that contribute to the global energy transition. We continue to adopt a disciplined and flexible approach to capital allocation in the face of market volatility. We are confident in Aramco's ability to manage through these challenging times and deliver on our objectives."

Egypt's PMI Index Rises.

The IHS Markit non-oil PMI Index for Egypt rose to 51.4 last month, its strongest reading since December 2014 and marks the second consecutive month of growth. October's increase was driven primarily by a jump in new orders, although employment dipped.

Mubadala Takes Minority Stake In Group 42.

Abu Dhabi's sovereign investment firm Mubadala, has purchased a stake in the AI and cloud computing company Group 42. According to a 'Gulf Business' report, this transaction will see Mubadala become a minority shareholder and integrate its Injazat and Khazna Data Centre entities into G42. "For Mubadala, this decision is consistent with our strategy of investing in next-generation technology companies that are poised for substantial growth. We incubated Khazna and Injazat and invested in them to become leaders in their field. G42 will benefit from their strong operational capabilities and complementary offerings," Mubadala's Group CEO, Khaldoon Khalifa Al Mubarak, stated.

Egypt & Iraq Sign 'Oil for Construction' Agreement.

Egypt and Iraq have reportedly reached a preliminary agreement to establish an 'oil-for-reconstruction' mechanism, according to the 'Arab News' website. Once finalized, this mechanism would see Egyptian companies undertake developmental ventures in Iraq in return for supplies of oil. This accord was one of a number of bilateral deals recently signed by Cairo and Baghdad, covering various sectors including; transport, water resources, health, the environment, justice, housing, trade, and finance.

UAE & Sudan Sign MOU On Solar Energy.

The UAE and Sudan have signed an MOU which will see private UAE based firms build and operate solar energy plants in Sudan. These firms will also train and employ Sudanese workers throughout the contract period, with a commitment by the Sudanese government to purchase electricity at a competitive price, according to a recent statement issued by Sudan's Energy Ministry.

SNC Lavalin Wins Design Contract in KSA.

SNC-Lavalin's subsidiary, Atkins, has been awarded the lead design consultant services contract for the Six Flags Qiddiya theme park project which will be located south-west of Riyadh, according to the 'Construction Business News' 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 | 3.6729/30 | Par/+3 | 1/4 | 2/5 | 5/10 | 12/22 | 20/30 | 90/140 |
| USD/SAR | 3.7503/06 | 8/13 | 13/18 | 15/20 | 25/35 | 40/50 | 60/70 | 220/270 |
| USD/KWD | 0.30605/615 | 20/30 | 40/55 | 60/75 | 120/150 | 180/210 | 240/270 | 375/475 |
| USD/OMR | 0.38500/503 | 12/27 | 30/60 | 70/100 | 200/250 | 370/420 | 575/625 | 1200/1500 |
| USD/BHD | 0.37703/706 | 15/25 | 20/35 | 30/50 | 65/85 | 95/125 | 130/180 | 350/500 |
| USD/MAD | 9.2100/2300 | 150/300 | 300/500 | 500/700 | 900/1300 | 1300/2300 | 1800/2800 | 3000/6000 |
| USD/EGP NDF | 15.7150 | 15.84/15.89 | 15.98/16.03 | 16.14/16.19 | 16.55/16.60 | 16.99/17.04 | 17.43/17.48 | - |
| USD/JOD | 0.7082/92 | 65/115 | 80/180 | 130/280 | 250/450 | 325/525 | 425/725 | 1000/1800 |
| USD/NGN NDF | 385.81 | 387.50/389.50 | 390.50/393.50 | 394.50/398.50 | 409.00/414.00 | 426.00/431.00 | 444.50/451.50 | (NAFEX) |
| USD/GHS NDF | 5.8100 | 5.86/5.91 | 5.92/5.99 | 6.01/6.12 | 6.26/6.36 | 6.54/6.64 | 6.83/6.97 | - |
| USD/TND | 2.7600/7800 | 80/220 | 150/350 | 300/500 | 600/1600 | 1000/3000 | 1500/2500 | 4000/8000 |
| Crude Oil | Futures | | | | | | | |
| WTI | 37.90 | | | | | | | |
| Brent | 40.05 | | | | | | | |

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

AED AND SAR IRS SPREADS

| Currency | 1Y | 2Y | 3Y | 4Y | 5Y | 6Y | 7Y | 10Y |
|------------|--------|--------|--------|----------|----------|----------|----------|----------|
| AED SPREAD | +25/31 | +34/40 | +44/50 | +55/61 | +66/72 | +72/78 | +76/82 | +96/102 |
| SAR SPREAD | +64/70 | +76/82 | +88/94 | +104/111 | +119/125 | +129/135 | +139/145 | +166/172 |

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

AND FINALLY...

Did you know that this year's US Election is going to be the most expensive in history? The total cost of the poll is expected to reach an unprecedented US\$14 billion.

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