

Market Insights & Strategy

Global Markets

26th September 2022

MIDDLE EAST & AFRICAN MONITOR

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REGIONAL COMMENTARY

Crude Prices Hit Lows Not Seen Since January.

Benchmark oil prices have returned to levels not seen since the beginning of this year, driven again by recession fears, a strong US dollar and by thin liquidity. With regards to the latter there does appear to be a growing disconnect between the paper and physical market and this in turn has seen 2022 become one of the most volatile in terms of trading conditions. With WTI ending last week at its lowest level since January, traders will be keeping an eye out for a possible cut in production by the OPEC+ grouping as well as on the path of a large storm heading towards the US Gulf coast and which could develop into a hurricane this week.

US Oil Production Outweighs SPR Risks.

Much has been written about the US administration's decision to release a record amount of crude from the country's strategic petroleum reserves this year in an effort to cool prices at the pump. Some have warned that the SPR will soon need to be restocked, which in turn could push prices up again and barrels paid for at levels above where they were originally sold. However, it should also be borne in mind that the US is now a net exporter of crude and thus no longer in the difficult position it faced following the 1973 oil shock or even in the early 2000s'. In 2005 the US imported an average of 10.10 mio bpd, but thanks to the rise of shale the country only imported an estimated 6.10 mio bpd of oil last year, most of which was then refined into fuel products and re-exported. It's true that the current level of the SPR (427 mio barrels) is its lowest since 1984, and a major unexpected disruption of domestic supplies (such as a hurricane) could force another release of SPR barrels, but there is still more than enough to cover most such events and when combined with commercial oil stocks (another 430 mio barrels) the total far exceeds the IEA's minimum required level of 90 days net oil imports. All this also indicates that the Biden administration will most likely not begin restocking the SPR unless prices fall significantly and for an extended period.

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Libya's Crude Production Rebounds.

Libya's oil output rose to just over 1.20 mio bpd this month making it Africa's largest oil producer and highlights the sharp recovery from around 600,000 – 700,000 bpd earlier this year when protests and blockades at key facilities crimped output. However, the political situation on the ground remains extremely fluid and thus fresh disruptions cannot be ruled out.

Street Protests In Iran Continue.

Protests across Iran over the death of a 22-year-old woman Mahsa Amini, who died in custody after being detained by the country's morality police, continued this past weekend. On Saturday Iran's state news agency claimed that 41 people had been killed during clashes with the security forces thus far, it also quoted President Raisi as saying that Iran must *"deal decisively with those who oppose the country's security and tranquility."* Meanwhile also on Saturday, the IRGC launched an artillery attack on armed Kurdish opposition groups in neighboring Iraq which the Guard claimed was aimed at three training bases belonging to *"anti-Iran terrorist groups"* in Iraq's Kurdistan region, according to the semi-official 'Tasnim' news outlet. In a separate development, the US Assistant Secretary of State for Near Eastern affairs, Barbara Lea, said during an interview with the UAE's 'National' newspaper that talks to revive the JCPOA agreement with Iran remained *"stuck because Iranian leaders haven't made the decision to go back in,"* adding that Tehran had *"brought in extraneous issues and it's not just we who view them as extraneous, the collective group views them as extraneous"*.

Egypt's CB Keeps Rates Unchanged But Raises Reserve Ratio.

The Egyptian Central Bank surprised many analysts, including ourselves, by keeping its benchmark rates unchanged at last week's MPC meeting. However, it did an indirect form of tightening by raising the reserve ratio requirement for banks by 400bp to 18.00% and this in turn should reduce the current level of excess liquidity by more than EGP 150 bio. A CBE statement explained this decision by saying that the current level of key interest rates *"coupled with the increased required reserve ratio are consistent with achieving price stability over the medium term."* Meanwhile, Egypt's Planning Minister, Hala Elsaid, said over the weekend that her country expects to raise up to US\$6 bio by June next year via the sale of stakes in certain state-owned companies, adding that this program might include offering shares to the public, or selling shares to strategic investors, with the support of the country's sovereign fund. In May this year, Egypt unveiled a wide array of state assets that it plans to will offer to private investors, with the Prime Minister, Moustafa Madbouly, saying at the time that the government wanted private investment to rise to 65% of the country's total within three years, up from its current level of around 30%.

Nigeria's Economic Outlook Is 'Uncertain' – World Bank.

In a recent draft World Bank report on Nigeria titled 'State Action on Business Enabling Reforms', the international lender warned that *"the outlook for Nigeria's growth is uncertain and highly dependent on external factors and the government's overall policy response to longstanding issues,"* adding that *"Even in the most favorable global context, the policy response of Nigeria's authorities will be crucial to lay the foundation for a robust recovery. The authorities can boost growth by strengthening macroeconomic reform efforts, including measures aimed at: (a) adopting a more flexible and transparent foreign exchange management regime; (b) accelerating revenue-based fiscal consolidation; (c) strengthening expenditure and debt management; and (d) improving the business enabling environment. Catalyzing private investment is needed to boost growth and create jobs; however, Nigeria's ability to attract domestic and foreign investment is low compared to its peers and declining. The current fiscal pressures faced by the country have further underlined the imperative that crowding in private investment at scale is needed to achieve Nigeria's development priorities."* You can access the WB document in full [here](#).

Bahrain's Economy Expanded By 6.90% In Q2 2022.

Bahrain's economy expanded by 6.90% during the second-quarter of this year, according to data released by the Ministry of Finance. This is the Kingdom's highest growth rate recorded in more than 10 years and was driven in part by the non-oil sector. Bahrain's official news agency said that this in turn was led by the hospitality sector which grew by 18.10% y/y whilst the transport and communication industry expanded by 15.10% and manufacturing by 7.60%.

UAE & Germany Sign ESIA Accord.

The UAE and Germany have signed an Energy Security and Industry Accelerator Agreement aimed at promoting joint-projects linked to energy security, emissions reduction and climate action including collaboration in the field of hydrogen. In this regard a 'Gulf Business' article reported that ADNOC has entered into an agreement with the German utility giant RWE, whereby the UAE producer will begin supplying LNG cargos to Germany towards the end of this year.

New Iraqi Refinery Prepares To Enter Service.

Iraq's Oil Minister, Ihsan Abdul Jabbar Ismaeel, announced yesterday that the new Karbala refinery outside of Baghdad is undergoing initial test runs. Once fully operational the refinery will be able to process up to 140,000 bpd of oil into gasoline, LPG, asphalt and jet fuel, most of which will be used locally in order to reduce the country's fuel product imports by as much as 60%.

Saudi Arabia Signs SAR 40 Bio Infrastructure Deal.

Saudi Arabia's Ministry of Municipal, Rural Affairs and Housing has reportedly signed an agreement worth more than SAR 40 bio, aimed at developing the infrastructure of 11 cities in the country. The deal with the National Housing Company ,which will see the construction of more than 150,000 housing units as well as public facilities and roads also includes financing, according to the 'Arabian Business' news site. You can read more on this topic [here](#).

FX/RATES & CRUDE MARKETS:

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Currency	Spot	1M	2M	3M	6M	9M	12M	2Y
USD/AED	3.67295/305	-2/+1	-3/Par	-3/Par	-6/-1	-7/-2	-9/-4	10/40
USD/SAR	3.7570/90	8/13	9/19	10/20	15/30	20/35	20/40	25/55
USD/KWD	0.31057/077	-35/-25	-65/-45	-80/-50	-140/-90	-160/-110	-180/-130	-180/-80
USD/OMR	0.38500/505	-17/-12	-30/-15	-35/-20	-50/-20	-50/Par	-30/+20	50/200
USD/BHD	0.37699/704	18/28	33/43	40/60	80/110	110/160	150/200	250/450
USD/MAD	10.8500/8900	Par/+50	Par/+80	Par/+150	50/250	50/300	50/350	100/1500
USD/EGP NDF	19.4828	20.80/21.40	21.50/22.10	21.85/22.45	22.65/23.45	23.50/24.30	24.00/25.00	-
USD/JOD	0.7095/7100	40/140	125/275	225/425	450/700	600/1000	700/1200	800/1800
USD/NGN NDF	435.63	437.00/443.00	440.00/447.00	444.00/454.00	469.00/479.00	494.00/509.00	521.00/537.00	(NAFEX)
USD/GHS NDF	10.2000	10.3500/10.5000	10.5500/10.7000	10.7000/10.9000	11.2500/11.5000	11.8000/12.2000	12.4000/12.8000	-
USD/TND	3.2700/3000	20/120	50/250	75/425	200/1500	1000/2000	1500/3000	3000/6000
Crude Oil	Futures							
WTI	\$78.05							
Brent	\$85.35							

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

AED AND SAR IRS SPREADS

Currency	1Y	2Y	3Y	4Y	5Y	6Y	7Y	10Y
AED SPREAD	-17/-7	-8/+2	+6/16	+19/29	+31/41	+40/50	+45/55	+55/65
SAR SPREAD	+30/40	+39/49	+49/59	+49/59	+60/70	+77/87	+93/93	+94/104

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

AND FINALLY...

Did you know that as at March 2022 the average price paid for the oil in the US Strategic Reserve was around US\$29.70 per barrel?

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