

MIDDLE EAST & AFRICAN MONITOR

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REGIONAL COMMENTARY

Oil Market Risks A Potential “Super Spike” In Prices – US Research House.

A well-known New York based analysis house, Bernstein Research, issued a report recently in which it warned about the chronic under-investment in new crude discoveries and production, suggesting that if this situation were to continue for much longer it could lead to a major supply shortage and a consequent spike in prices of over US\$150 a barrel. “Investors who had egged on management teams to reign in capex and return cash will lament the underinvestment in the industry. Any shortfall in supply will result in a super-spike in prices, potentially much larger than the US\$150 a barrel spike witnessed in 2008,” the report read. Their view may be somewhat more aggressive than ours in terms of potential medium term price movement, but it supports our own long expressed concerns over the sharp drop in CAPEX in conventional oil over the past decade or so.

More European Companies Cut Trade Ties With Iran.

As the deadline for the resumption of US sanctions on Iran approaches and ongoing talks between the P5 grouping (China, France, Germany, Russia, UK) and Tehran, is yet to produce any viable alternative agreement to keep trade with the Middle East nation flowing, two more European corporates have announced their withdrawal from such activity. The CEO of the French shipping giant CMA-CGM announced yesterday that; “Because of the Trump administration, we have decided to end our service to Iran. Our Chinese competitors are hesitating a bit, so they may have different relationships with the Trump administration, but we apply the rules,” he was quoted as saying by the Radio Free Liberty website. Meanwhile the Dutch airline, KLM, revealed on Saturday that it would be suspending its flights to Tehran soon. “For commercial reasons KLM Royal Dutch Airlines has decided to suspend its direct flights to Tehran, Iran for the time being as of 24 September. As a result of the negative results and financial outlook for the Tehran operation, the last flight will take off from Amsterdam on 22 September 2018 and land at Schiphol on 23 September,” a KLM statement read. The Iranian regime has warned that unless the remaining signatories to the nuclear accord come up with a plan to ensure Iran continues to receive economic benefits despite US sanctions, it would withdraw from the deal too. The Iranian President, Hassan Rouhani,

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also suggested last week that his country could decide to disrupt the transport of other regional countries crude via the Strait of Hormuz, in response to the US administration efforts to block Iranian crude exports. "The Americans say they want to reduce Iranian oil exports to zero. It shows they have not thought about its consequences," Rouhani reportedly stated.

Libya & Italy To Reactivate 'Friendship' Treaty

The Italian government and Libya's UN recognized 'Government of National Accord' reportedly agreed during this past weekend to reactivate a 2008 agreement which was suspended in 2011, as Rome looks for ways to end the migrant crises affecting both Italy and most of Europe. The original deal foresaw illegal African migrants being prevented from making the crossing towards Europe and returned to Libya, if Italy paid EUR 4.2 bio in compensation for the period of colonial rule. Meanwhile the EU is also reportedly considering opening up migrant reception centers in the North African country.

Egypt's Economic Reform Program is "85%" Complete – PM.

Egypt's Prime Minister, Mostafa Madbouly, was quoted during a parliamentary session last week stating that the government's economic reform program was continuing to produce tangible results and is almost 85% complete. Egypt's GDP growth hit 5.40% in the 2017/2018 fiscal year, Madbouly reported, adding that his administration expected this to rise to 8% by 2022. In its most recent review of the country the IMF has praised Egypt's reform efforts and also predicted a stronger near-term growth outlook, boosted in part by the tourism and gas sectors, whilst also underlining the need for the implementation of such economic changes to continue; "The economic situation has continued to improve during 2018, this positive performance has been instrumental in achieving macroeconomic stabilization, with external and fiscal deficits narrowing, inflation and unemployment are declining, and growth accelerating. The expanded structural reform agenda under the authorities' reform program aims to address key impediments to private sector development, including steps to enhance transparency in industrial land allocation, strengthen competition and public procurement, improve transparency and accountability of state owned enterprises, and tackle corruption. The healthy level of foreign reserves and flexible exchange rate leaves Egypt well positioned to manage any acceleration in outflows, but this reinforces the importance of a sound macroeconomic framework and consistent policy implementation," David Lipton, the IMF's deputy director, said last week according to the Ahram website.

IMF Calls On Oman To Further Reduce Deficit.

In its latest review of the country, the IMF said that Oman has made good progress in improving its fiscal situation and encouraging further economic diversification, although adding that more effort on both fronts is still required. "Preliminary budget execution data point to a significant improvement in the fiscal position last year as higher oil prices and spending restraint brought the overall deficit down to below 13% of GDP. Nonetheless, budget implementation proved challenging, with some spending overruns and tax revenue underperformance compared to the budget. At the same time, the current account deficit is estimated to have improved by about 3 percentage points of GDP. The government is undertaking further reforms to raise non-hydrocarbon revenue, such as introducing value-added and excise taxes, and intends to continue with spending restraint. This would bring the deficit to around 4% of GDP in the next two years," the IMF statement read and which you can access in full here.

Kuwait's Parliament Approves 2018/19 Budget.

Kuwait's parliament approved the government's 2018/19 budget last week, which includes a deficit equal to 17.50% of the Gulf state's GDP and marks the 4th year in a row that Kuwait will post a deficit. It should be noted however that the latest budget is based on a conservative average oil price of US\$50 per barrel. Meanwhile the Kuwaiti cabinet has rejected a recent proposal for the introduction of a tax on expat remittances, and will instead focus on the implementation of VAT.

Tunisia Receives US\$250 Mio Loan Disbursement From IMF.

The IMF approved a US\$250 mio disbursement to Tunisia last Friday as a part of a 4 year US\$2.8 bio loan program which was initiated back in 2016. This latest payment was released under the condition that the government in Tunis maintains a tight grip on public spending.

Number of Expat Workers In KSA Drops Sharply.

According to Saudi Arabia's official statistics agency, 466,000 expatriate workers departed the Kingdom on exit visas during Q4 of 2017, and a further 234,000 foreigners lost their jobs in the country during the first quarter of this year. The number of non-Saudi employees reportedly fell to 10.18 million at the end of Q1 2018 from 10.42 mio at the end of last year, as the country moves forward with its 'Saudization drive'. In January this year, a new law was passed which banned foreign workers from 12 jobs within the country's retail sector.

UAE & Russia Sign Visa Waiver Agreement.

Russia and the UAE have signed a bilateral travel visa exemption agreement as a part of a series of deals which it is hoped will increase tourism and investment ties between the two countries. The total value of non-oil related trade between Russia and the UAE rose to US\$2.5 bio last year from US\$2.1 bio in 2016, according to a recent report in the Khaleej Times newspaper.

UAE Extends Compulsory Military Service Period.

The Headquarters of the UAE's Armed Forces has announced that the compulsory national service period for the country's male citizens aged between 18-30 and who hold a high school certificate or more has been increased to 16 months from a previous 12 months. In response to the move, a statement by the WAM state news outlet said that; "Since its implementation in 2014, the national service program has achieved positive results and reflected positively on the conduct of the recruits. It is considered one of the UAE's most effective and important strategic move, in the light of its anticipated strategic outcomes in political, military, security, national, social and economic terms."

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	-1/+2	Par/+3	1/4	Par/+10	10/20	20/35	90/120
USD/SAR	3.7501/04	-2/Par	-3/+2	-3/+2	2/12	15/30	45/65	180/210
USD/QAR	3.6440/6540	-35/-15	-37/-12	-40/-10	-40/+10	-20/+30	-20/+30	Par/+100
USD/KWD	0.29755/775	-30/-20	-60/-40	-80/-50	-160/-120	-220/-170	-280/-230	-350/-150
USD/OMR	0.38497/500	5/15	15/30	30/50	80/130	170/270	280/380	700/850
USD/BHD	0.37760/90	-10/Par	-10/Par	-10/+5	Par/+50	40/90	140/190	525/625
USD/MAD	9.4050/4250	100/200	200/500	300/700	800/1300	1000/2000	1500/3000	2800/4800
USD/EGP NDF	17.88	18.02/18.12	18.23/18.33	18.39/18.49	18.89/18.99	19.39/19.49	19.87/19.97	-
USD/JOD	0.70977/102	40/90	50/150	100/200	150/300	275/575	300/800	500/1500
USD/NGN NDF	361.74	362.00/363.00	363.00/365.00	364.00/366.00	369.00/372.00	374.00/379.00	379.00/384.00	(NAFEX)
USD/GHS NDF	4.8050	4.79/4.89	4.88/4.98	4.94/5.04	5.15/5.30	5.35/5.50	5.50/5.70	-
USD/TND	2.6500/6800	200/300	400/600	500/800	1000/1500	1500/2500	2000/3000	4000/6000
Crude Oil	Futures							
WTI	73.63							
Brent	77.65							

** (offshore levels only)

AED AND SAR IRS SPREADS

Currency	1Y	2Y	3Y	4Y	5Y	6Y	7Y	10Y
AED SPREAD	+22/28	+26/32	+31/37	+38/44	+47/53	+55/61	+63/69	+85/93
SAR SPREAD	+29/34	+34/39	+41/46	+49/54	+58/63	+66/72	+74/80	+95/103

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

AND FINALLY...

"Ask the experienced rather than the learned" – Arabic Proverb.

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