

MIDDLE EAST & AFRICAN MONITOR

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REGIONAL COMMENTARY

US Casts JCPOA Agreement Aside – What Now ?

President Trump's decision to pull out completely from the Iran nuclear agreement was not wholly unexpected, although we had initially thought that after the recent calls for restraint by Paris, London and Berlin he was going to give the Europeans a couple more months to try and extract some changes in the deal from Tehran before pulling the plug. Anyway that is now all purely academic, the question now is what comes next? Firstly when it comes to the re-application of US sanctions the first deadline to watch will be the 6th of August 2018 when trading in precious metals, US dollar notes, aviation and car parts etc.. will be banned by the US Treasury department. Then from the 4th of November this year oil related sanctions will be re-imposed. These measures of course will not only affect US firms (especially Boeing) but also foreign companies and institutions. US allies will also be asked to cut their purchases of Iranian oil, although we expect that a number of countries like Japan and South Korea will apply for a waiver. Meanwhile its likely European governments will already be making plans to push Washington into excluding those commercial contracts already signed between Iran and certain European companies prior to this week's decision. It's debatable how open the White House will be to such applications and we suspect that, even though the Europeans (as well as the Russians and the Chinese) have said they will stick with the deal for now, it will be very hard to convince most banks and firms from entering into any new contracts with Iran due to the risk of breaking of US laws. Iran's oil exports will also be affected although this will only probably be felt from 2019 due to the 180 day transition period mentioned above. Of course the overall extent of this impact will depend on the action taken by the main buyers of Iranian crude like China and India, although Beijing is expected to continue such purchases especially via Petro-Yuan contracts, so until this situation is clearer we estimate that renewed US sanctions could initially knock 300,000-500,000 barrels of Iranian crude off the market next year. Therefore this event will no doubt continue to support crude prices in the near-term, but any major supply gap will likely be filled by other producers from the Arabian Gulf and elsewhere. The next question is the effect these sanctions will have on the Iranian economy which has already been trying to deal with the ongoing fall in value of the local currency, which in turn has pushed up the cost of living and was last reportedly trading at around IRR75,000 to the US dollar in the kerb

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market, compared to an official rate of 42,000. We also wait for any action by Rouhani's administration, which was already facing criticism by hardliners within the regime for signing the nuclear deal in the first place even before Trump's decision. This internal criticism is likely to become more elevated and vocal.

UAE Adds 9 Iranian Entities & Individuals To Terror List.

The UAE and the US yesterday added nine Iranian entities and individuals onto their terror lists. According to a report in the Khaleej Times newspaper these persons and organizations are accused of being involved in the purchase and transfer of millions of US dollars to the 'Quds Force', a unit of the Iranian Revolutionary Guards, and its agents to finance destabilizing activities in the region by concealing the reason for the funding.

Arab Youth Survey Reveals Strong Domestic Support For Saudi Crown Prince.

A recent Arab youth survey, which covered 16 Arab countries and is conducted annually by ASDAA Burson-Martins, has compiled some interesting data this year. For example 91% of young people aged between 18-24 in Saudi Arabia said that they support Crown Prince Mohammed bin Salman and believe he is driving the country in the right direction, while 94% approved of his crackdown on high profile corruption. The full survey can be found [here](#). Meanwhile the governor of the Saudi Arabian General Investment Authority, Ibrahim Al Omar, was quoted by CNBC yesterday stating that FDI flows into the Kingdom was growing, as is interest in large diversification projects such as NEOM. "We have seen a growth in foreign investment, of about 50% comparing the first quarter this year to the same period last year. Also, the FDI inflows we have seen is up about 40%," Al Omar said, adding that the Kingdom was working hard to improve its business environment.

Nigeria's Oil Production Rises – Reform Bill Sent To Parliament.

Nigeria's oil output rose to 2.07 mio bpd last month, an 11% increase from the same period last year according to official sources. A statement by the country's oil ministry claims that Nigeria is now on track to reach this year's production target of 2.3 mio bpd. Meanwhile a draft bill aimed at reforming the country's energy industry, including the creation of a 'Petroleum Regulatory Commission' and the introduction of time limits for various petroleum licenses, has been completed and will now go to parliament for ratification. The head of Nigeria's Senate, Bukola Saraki, was quoted by Reuters as saying earlier this week that he expects the bill to be passed by the end of July 2018.

Ghana Conducts Successful US\$2 Bio Bond Issue.

Ghana raised US\$2 billion yesterday, via the sale of 10Y and 30Y Eurobonds at slightly lower than expected yields of 7.625% and 8.625% respectively.

Egyptian Pound Under Pressure.

The Egyptian Pound has found itself somewhat under pressure over the past week or so, triggered by the broader emerging markets sell-off as well as a couple of large US\$ purchase orders, which in turn led to some panic buying in the small offshore NDF market and forced the curve sharply to the right. For instance, 12-month USD/EGP NDF prices rose from a 19.10 mid-price to 20.10 in the space of 5 days. The spot market meanwhile has climbed from 17.65 to 17.78 in the same period. Going forward we anticipate the following: 1) The Central Bank's next MPC meeting will be held on May 17th and up to now we had been looking for a possible cut of up to 100bp. However there is now some added risk to this scenario if EM contagion continues to spread, because at the end of the day, Egypt still has large twin deficits (budget and current account) and a big oil importer. The CB may also decide to be cautious ahead of a planned reduction in fuel subsidies. 2) We feel that the Central Bank will try to keep USD/EGP spot rate stable which we interpret as within +/- 2% of the current levels for the coming few months. As we mentioned previously the bank's main objective at the moment is to lower borrowing costs whilst keeping all other parameters stable/unchanged. Taking the above into account, we still feel that the bullish Egypt story remains intact overall, but for those who are already long EGP T-bills it may be worth looking to hedge any uncovered FX exposure on the dips.

Mixed Report On Egyptian Inflation.

Egypt's core inflation rate edged up to 11.62% y/y last month from 11.59% in March, although conversely CPI dipped to 13.10% y/y from 13.30% according to data from the country's official statistics office.

IMF Says UAE's VAT Program Has Been Successful.

The head of the IMF mission in the UAE, Natalia Tamirisa, was quoted by Reuters yesterday saying that the introduction of VAT in the Emirates had gone smoothly and that inflation, which rose sharply in reaction to the tax, will moderate. "Given the challenges, VAT introduction has been well managed and relatively smooth," Tamirisa stated, adding that the IMF expects UAE's inflation rate to average 3.50% this year before easing back to around 2.50%.

Decline In Remittances From Kuwait.

Expatriate remittances from Kuwait fell by more than 9% last year to KWD 4.14 bio according to data released by the country's Central Bank recently. Kuwait's cabinet is currently mulling the introduction of a new law which would apply a 1-5% tax on expat remittances from the country. The draft bill proposing such a move was already approved by a parliamentary committee last month. A few years ago the IMF warned against the implementation of remittance taxes on expatriate workers describing them as "inefficient and difficult" to administer.

STRATA Wins Boeing Contract.

The UAE's Strata Manufacturing Co has signed an agreement with Boeing to manufacture composite empennage ribs for the US firm's new 777X aircraft. According to Trade Arabia, Strata will build these ribs at its state-of-the-art facility in the Nibras Al Ain Aerospace Park in Abu Dhabi.

FX/RATES & CRUDE MARKETS:

Indication Levels Only – Please Contact us on Reuters Dealing Code NBAD for any pricing or information.

Currency	Spot	1M	2M	3M	6M	9M	12M	2Y
USD/AED	3.67295/305	-3/Par	-2/+3	-1/+4	5/15	15/30	20/35	80/130
USD/SAR**	3.7503/05	-6/-3	-8/-5	-10/-5	-5/+5	10/20	30/45	170/200
USD/QAR**	3.6400/6500	-2/+8	5/20	10/30	15/55	60/110	80/130	125/225
USD/KWD	0.30170/180	-20/-10	-40/-10	-60/-30	-100/-70	-130/-80	-160/-110	-150/-50
USD/OMR	0.38499/502	5/15	10/30	25/45	90/140	180/280	300/400	800/1000
USD/BHD	0.37709/14	5/15	20/40	30/50	65/95	125/225	150/250	700/900
USD/MAD	9.3450/3650	80/180	200/500	300/700	650/1650	1000/3000	1500/3500	3000/6000
USD/EGP NDF	17.78	17.95/18.05	18.10/18.20	18.25/18.35	18.75/18.85	19.25/19.35	19.70/19.80	-
USD/JOD	0.7090/7100	30/70	50/150	80/180	100/300	200/500	275/675	400/800
USD/NGN NDF	360.00	362.50/367.50	364.00/369.00	365.00/370.00	372.00/377.00	377.00/387.00	383.00/393.00	(NAFEX)
USD/GHS NDF	4.5400	4.58/4.68	4.62/4.72	4.65/4.75	4.77/4.87	4.90/5.00	4.95/5.10	-
USD/TND	2.5550/5950	200/300	400/600	500/800	1000/1500	1500/2500	2000/3000	4000/6000
Crude Oil	Futures							
WTI	71.45							
Brent	77.40							

NOTE: ** (offshore levels) - Also please note we are now using the NAFEX fixing for NGN.

AED AND SAR IRS SPREADS

Currency	1Y	2Y	3Y	4Y	5Y	6Y	7Y	10Y
AED SPREAD	+15/21	+21/27	+28/34	+37/43	+47/53	+56/62	+63/69	+83/91
SAR SPREAD	+16/22	+24/30	+33/39	+43/49	+53/59	+63/69	+73/78	+92/100

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

AND FINALLY...

Did you know that 70% of the world's cocoa beans come from just four countries? They are the Ivory Coast, Ghana, Nigeria and Cameroon.

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