عـــام زايـــد

YEAR OF ZAYED

بنـك أبـوظبـي الأول

FAB

First Abu Dhabi Bank

The GCC - Facts & Figures

FAB Market Insights & Strategy June 2018

Introduction

The purpose of this presentation is to provide our readers with a very simple economic and market overview of the Gulf Cooperation Council (GCC) region.

A quick reference tool, a snapshot of sorts, that contains basic, but key information about the region. The analysis covers the following topics:

***An economic overview of the GCC region**

***Our current outlook on oil**

***Structure of the GCC FX & Rates market**

Economic Outlook

An oil-driven contraction encourages diversification

- Since its establishment in May 1981, the Gulf Cooperation Council – which consists of Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman – has registered strong regional growth and its members have accumulated fiscal surpluses.

- Per capita income has historically equaled and in some cases exceeded the levels of the G10 nations.

- From 2014, oil prices fell markedly from their previous highs, and this shift had serious economic implications for the region, compounded by continued population growth.

- Due to the implementation of austerity measures and the more recent rebound in crude prices, most GCC members' current account balances have now recovered somewhat from the deficit levels seen in 2015/16, to surpluses now forecast for some in 2018.

- The economic impact of lower oil and gas revenues in recent years has helped to fuel a focused strategy toward diversification of the economy and government revenue generation. The UAE remains the most diversified economy in the region but similar structural changes are also now being adopted in all six GCC countries particularly Saudi Arabia, which has embarked on a massive economic and social reform program called 'Vision 2030'.

- With the recent recovery in the oil price, GCC economic growth should now rebound at its fastest pace in 3 years as governments throttle back on their respective austerity measures.

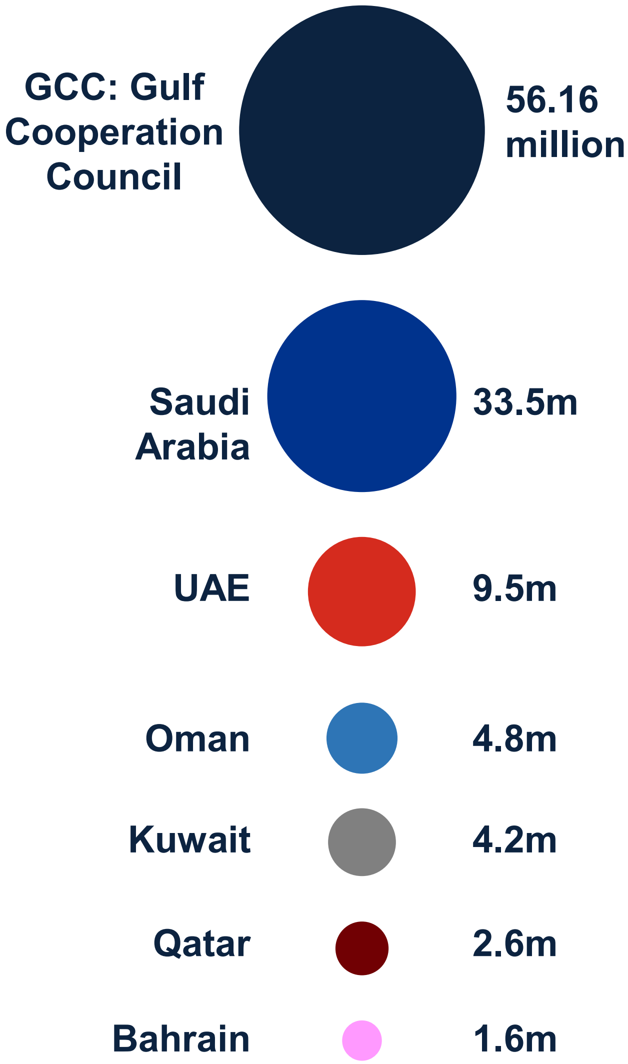
- The IIF sees Oman leading the region's GDP recovery (+3.80%) this year.

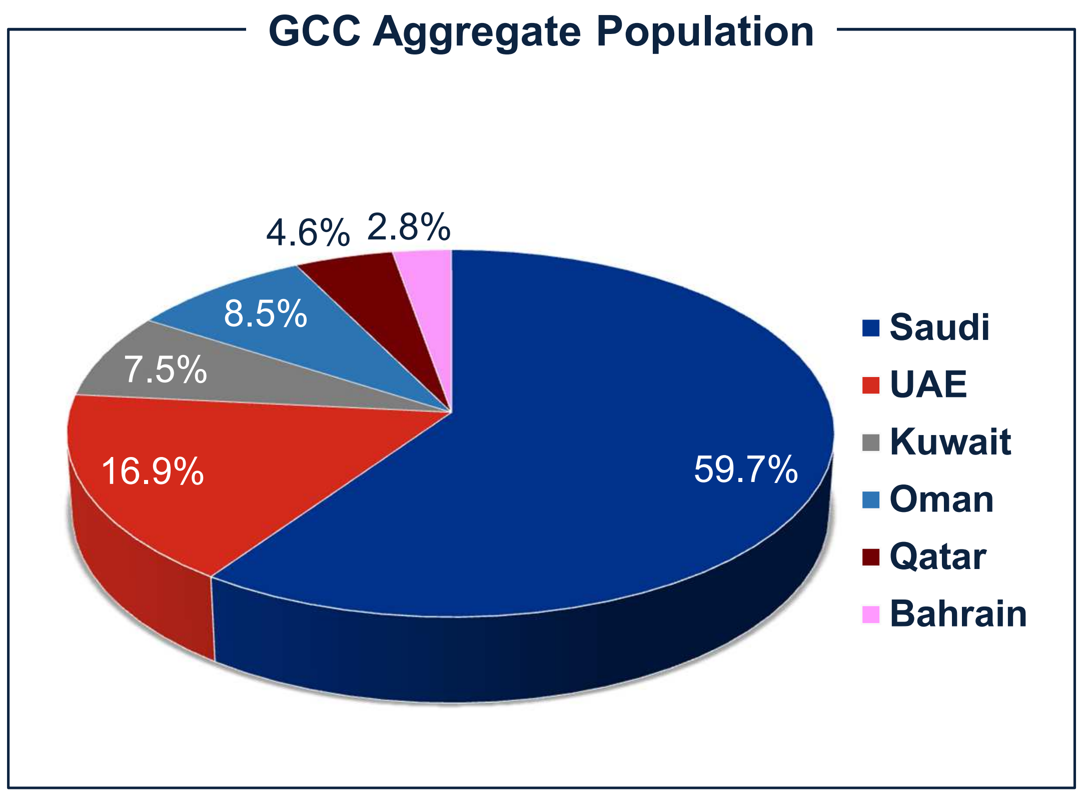
Economic Outlook

Rebound in growth albeit at a slower pace

- Economic activity was weaker than expected across the GCC region during 2017, dragged down by crude oil production cuts and the negative short-term effects of fiscal adjustment.
- IMF reported net GCC GDP growth of just 0.5% in 2017; the weakest in several years, and down from 2.5% in 2016 although this is expected to rebound to 2.1% in 2018.
- Inflation moderated last year in line with overall economic activity, but has picked up again this year, with Oxford Economics forecasting 4.0% for 2018.
- The recent recovery in oil prices as a primary result of the OPEC/NOPEC production cut agreement, suggests economic growth amongst GCC member states should resume in 2018-19, with aggregate growth for the region likely to expand by 2.1 % and 2.7% in 2018 and 2019 respectively.
- The implementation of fiscal adjustment measures and revenue diversification efforts led by the UAE & KSA is an ongoing positive development; eg: subsidy cuts and new taxes such as tourism fees, customs duties & VAT.
- A reduction in red tape and the introduction of more investor friendly regulations; eg: 10Y residency visas and 100% foreign ownership laws should help boost the private sector.
- Inflation in the UAE & KSA spiked during Q1 of this year due primarily to their introduction of a 5% VAT rate, but this has begun to ease back again. Note: Other GCC states are yet to implement this particular tax.
- The five GCC currency pegs to the USD are expected to remain in place in the near to medium-term as central banks continue to track FED moves (Kuwait uses a basket regime).
- Structural reforms need to continue to focus on: economic diversification, private sector development, as well as labor market and fiscal reforms including pensions.
- The GCC nations are adapting to changing global economic conditions, but numerous challenges remain, such as relatively high local unemployment in certain states, a heavy reliance on expatriate workers, and the ongoing dependency on the government sector to drive growth. Deeper private sector involvement must be encouraged, whilst the public sector needs to become more efficient and transparent.

GCC Population - How do the Countries Compare?

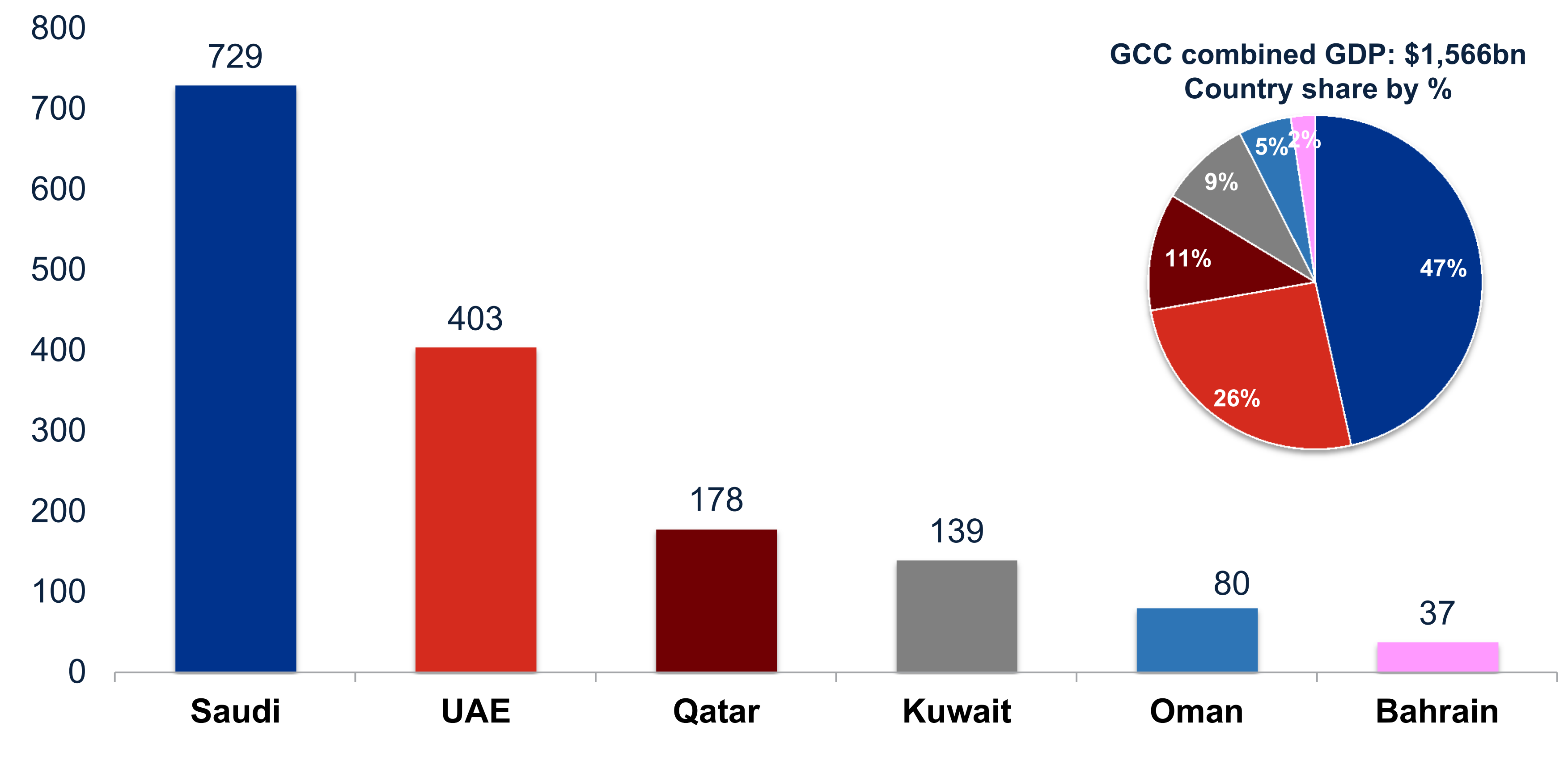




Source: IIF/FAB (2018 Figures)

GDP – Who Generates the Lion's Share?

2018f Nominal GDP in US$ billion

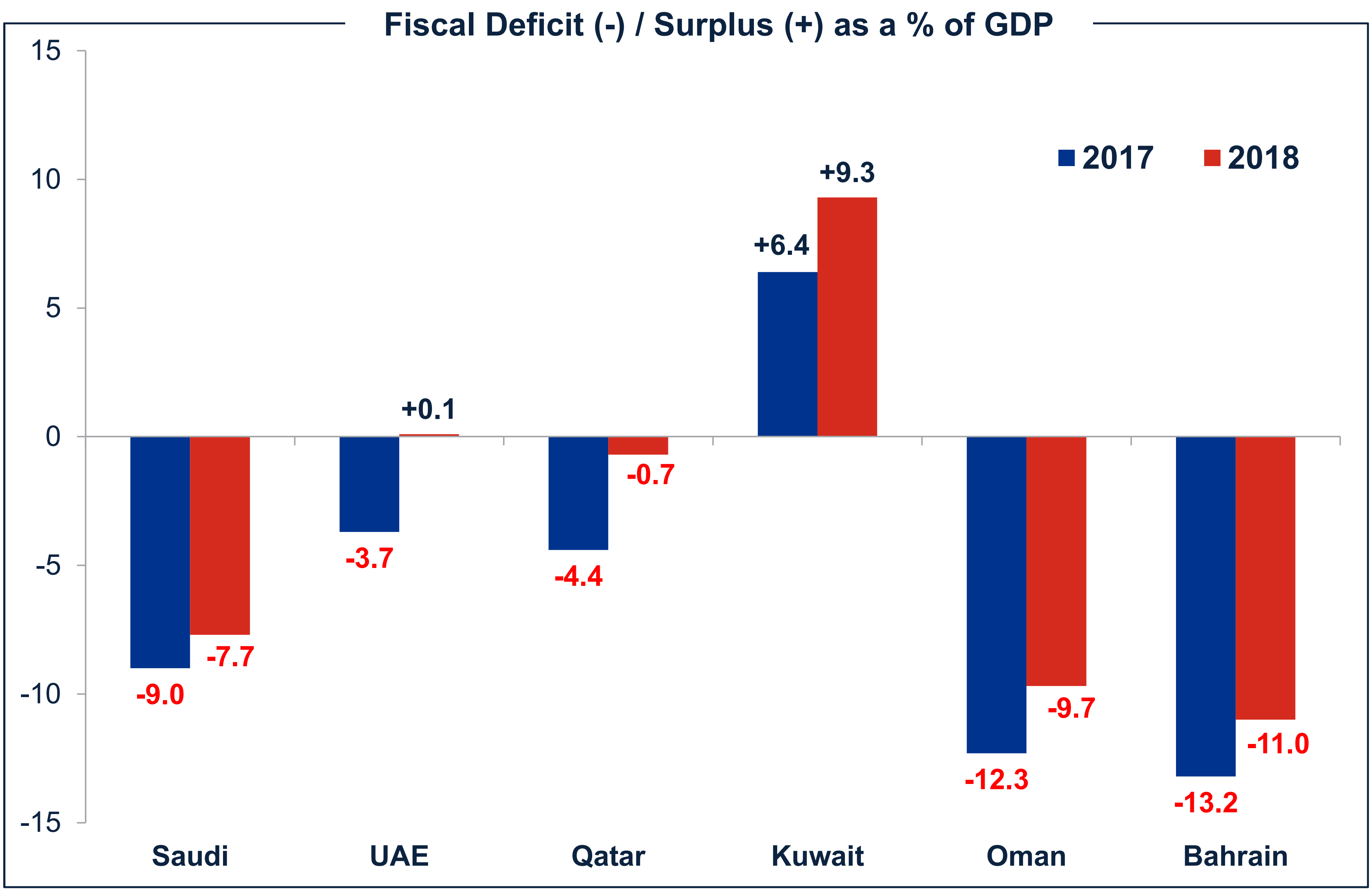


2018f Real GDP Growth (y-o-y)

KSA	Kuwait	Qatar	UAE	Bahrain	Oman
1.90%	1.90%	2.00%	2.70%	3.20%	3.80%

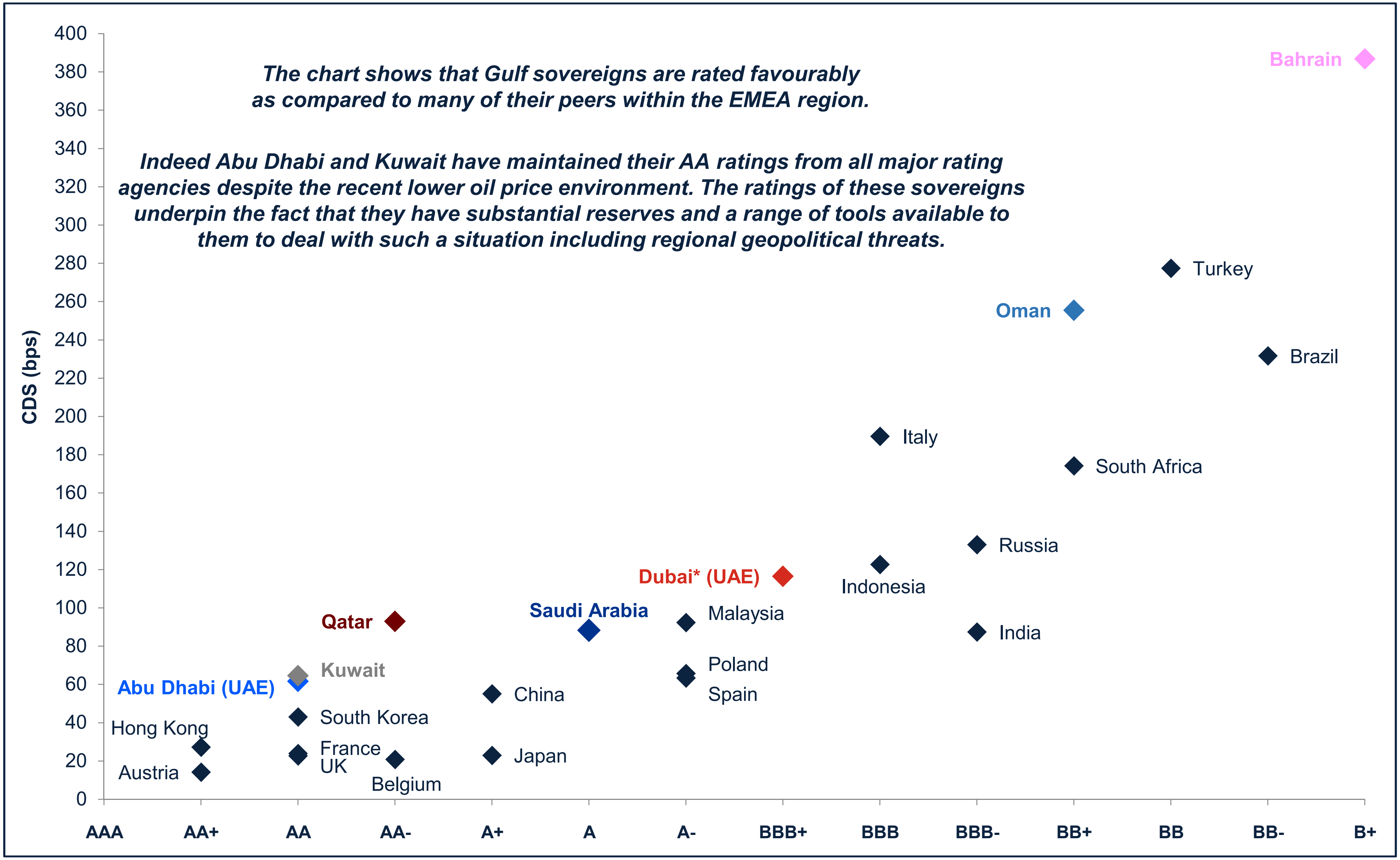
Source: IIF/FAB

GCC Fiscal Balances Improving



Source: IMF/IIF/FAB

GCC Sovereign Credit Ratings and CDS Spreads versus Peers



Notes: * X-axis represents the composite rating (please refer Appendix for calculation method); Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) & Emirate of Sharjah (BBB+); The ratings have been arranged from higher to lower starting from 'AA', followed by 'AA-' and so on; CDS levels are for 4th June 2018; Source: Bloomberg

Crude Market Outlook

Geopolitics & fundamentals:

- Those of you who read our oil forecasts at the beginning of 2016 & 2017 will already have been aware of our more optimistic outlook for crude prices compared to the general consensus view at the time. Since then the market has staged a respectable recovery, with Brent recording an average price of US$54 per barrel last year, which was just below our original forecast of US$57, but much healthier than the US$44 achieved in 2016.

- During Q1 of 2018 this more bullish mood has picked up speed with WTI breaking through the US$70 level in May. The prime drivers for this latest spike has not just been the rise in geopolitical tensions (Iran & Venezuela), but also the ongoing effect of the NOPEC/OPEC cut agreement that was extended to the end of 2018 and which has seen a strong compliance rate by most of the signatories.

	2018 Fiscal Break-Even*	2017 Fiscal Breakeven
Kuwait	48 US$	50 US$
Qatar	55 US$	59 US$
UAE	52 US$	60 US$
Saudi	78 US$	90 US$
Oman	76 US$	80 US$
Bahrain	90 US$	100 US$

Sources: IIF/FAB

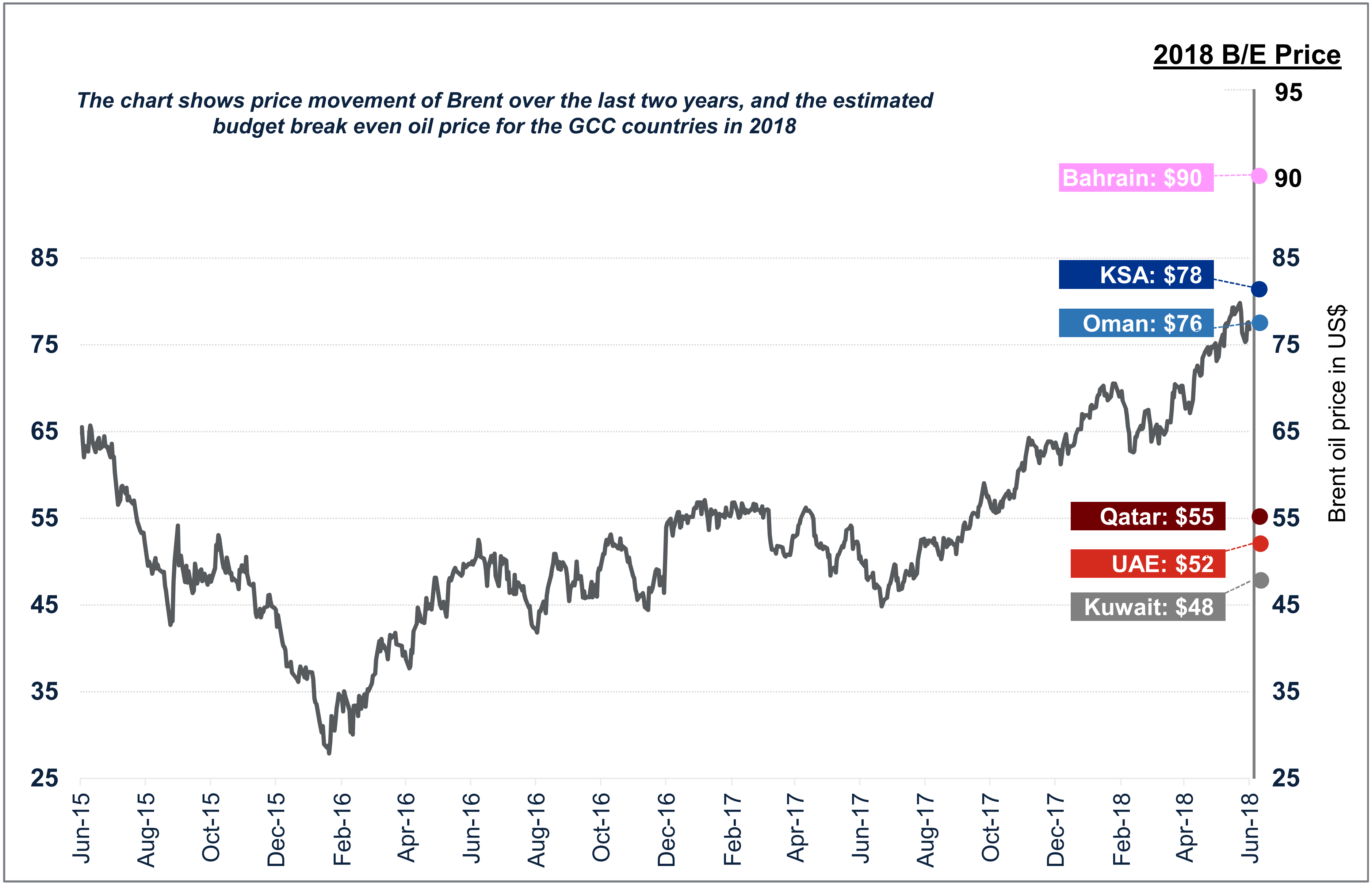
- On top of this the continuing global economic recovery has boosted demand for crude and helped see a slow but steady drawdown of admittedly still high inventories.

- Shale production has recovered too, with overall US output now equaling that of Saudi Arabia. But the price impact of this recovery has been neutralized somewhat by the output cut agreement. Further out we continue to maintain our view that shale is not a long-term game changer and the ongoing weak investment into conventional fields could still provide a shock in the medium term.

- With regards to renewables we agree that this will be the primary game changer for the market in the long-term, but its actual impact on the demand for oil remains very limited for now, and this will only change once the vast network of infrastructure required to support such alternative sources of energy is in place. Electric cars still only make-up just 2% of the global market, and such vehicles are still extremely pricey compared to their internal combustion compatriots, with domestic subsidies generally providing support to their overall sales performance. Meanwhile over 80% of global energy consumption still comes from fossil fuels, and even bio-fuel production in the US appears to be running into headwinds.

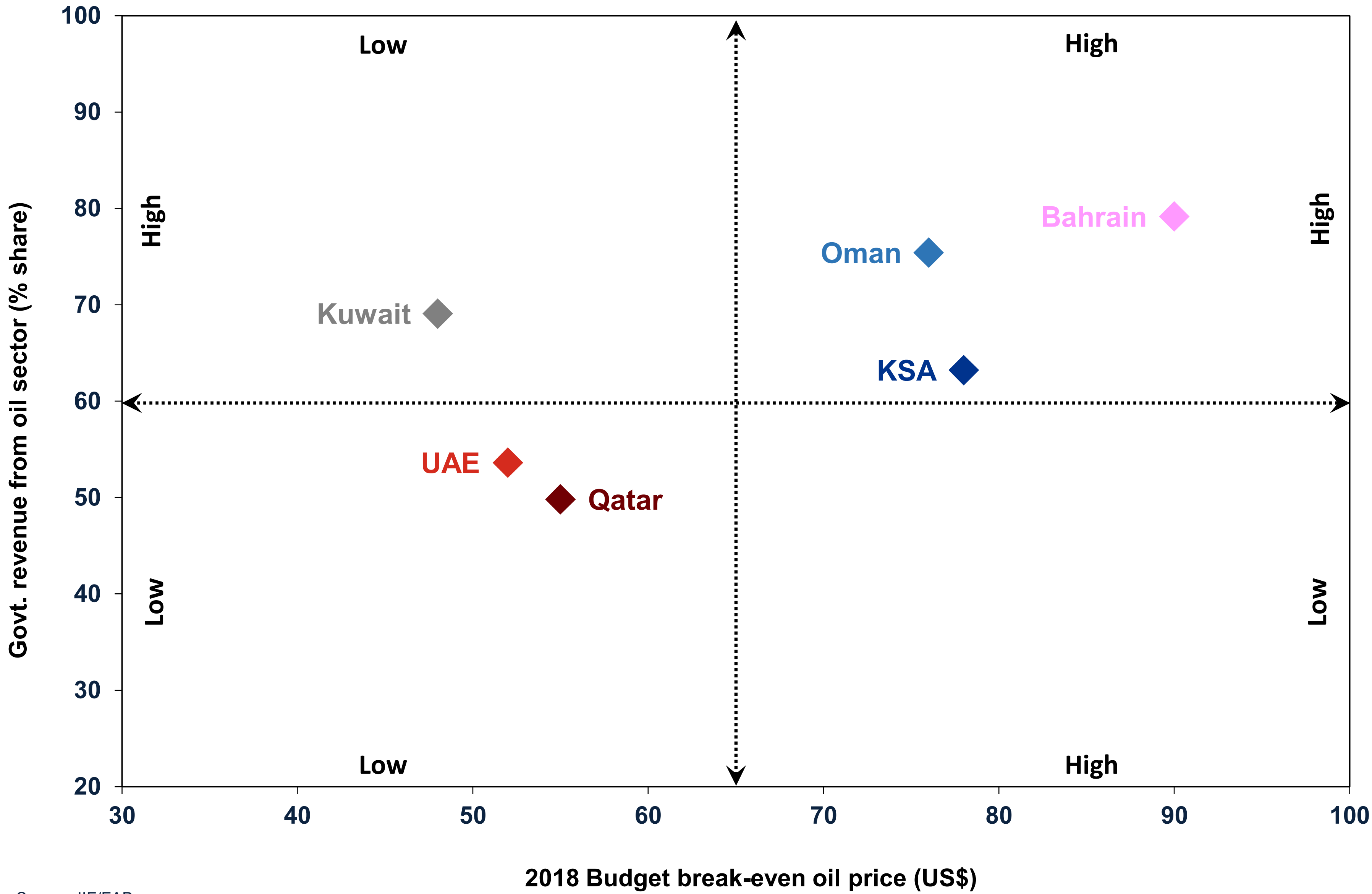
- In conclusion prices have made a substantial recovery since the lows of 2016, and the bullish mood appears intact, however further strong gains past US$80 may be a stretch too far in the near term, even though the US withdrawal from the JCPOA raises the specter for a possible eventual complete collapse of this accord. Our average WTI forecast for 2018 is now US$64 per barrel.

2018 Budget Break-Even Oil Prices (US$)



Source: IIF/FAB

Govt. Dependency on Oil Revenues
(% of govt. revenue from oil vs oil B/E price)



Source: IIF/FAB

GCC Foreign Exchange & Rate Markets

	FX Regime	FX Spot	FX Forwards	IRS/CRS	FX Options	FX Market liquidity
AED	US$ Peg since 1980	Fully convertible	Up to 10Y	Up to 10Y	On request	Average deal size US$25-50 mio
SAR	US$ Peg since 1986	Fully convertible	Up to 10Y	Up to 10Y	On request	Average deal size US$25-50 mio
KWD	Basket since 1975	Fully convertible	Up to 5Y	Fixed KWD leg vs US$	On request	Average deal size US$25-50 mio
QAR	US$ Peg since 2001	Fully convertible	Up to 5Y	Fixed QAR leg vs US$	--	Average deal size US$5-15 mio
OMR	US$ Peg since 1986	Fully convertible	Up to 5Y	Fixed OMR leg vs US$	--	Average deal size US$5-15 mio
BHD	US$ Peg since 1980	Fully convertible	Up to 5Y	Fixed BHD leg vs US$	On request	Average deal size US$5-15 mio

Source: FAB

GCC Economic Snapshot – Key Numbers

Indicators	UAE		Saudi		Oman		Kuwait		Qatar		Bahrain		GCC	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Population	9.4	9.5	32.9	33.5	4.6	4.8	4.1	4.2	2.5	2.6	1.5	1.6	55.0	56.2
Nominal GDP (US$ Billion)	373.0	403.0	684.0	729.0	73.5	80.0	120.0	139.0	166.0	178.0	34.7	37.2	1451.2	1566.2
Real GDP (% change y-o-y)	1.0	2.7	-0.7	1.9	0.4	3.8	-2.9	1.9	1.9	2.0	3.8	3.2	0.0	2.3
Per Capita GDP (US$ Thousand)	39.8	42.3	20.8	21.8	16.0	16.8	29.4	33.0	65.7	69.2	23.5	24.2	26.4	27.9
P. Capita GDP (% change y-o-y)	-0.3	0.6	-2.7	0.1	-3.6	-0.7	-6.6	-1.1	-0.1	0.0	-1.5	0.2	-2.5	0.0
Nominal GDP from oil sector (% share)	30.4	30.0	43.0	42.5	40.9	41.0	52.3	51.7	48.7	48.1	18.4	17.9	40.5	40.1
Gov. Revenue from oil sector (% share)	53.6	49.3	63.2	61.9	75.4	74.2	69.1	71.1	49.8	48.1	79.2	77.8	61.2	59.5
Inflation (% change y-o-y)	2.0	4.0	-0.8	3.6	1.6	2.8	1.6	2.2	0.4	3.2	1.4	2.8	0.4	3.5
Budget Balance (% GDP)	-3.7	0.1	-9.0	-7.7	-12.3	-9.7	6.4	9.3	-4.4	-0.7	-13.2	-11.0		
Debt-to-GDP Ratio	20.9	20.6	17.5	23.1	42.1	51.5	19.0	19.3	48.4	45.6	89.0	92.1	24.9	27.7
FDI (US$ Billion)	10.3	11.0	1.4	6.3	1.8	2.0	0.1	0.4	0.7	0.8	0.5	0.7	15.0	21.1
CB FX reserves (US$ Billion)	86.4	88.9*	495.0	499.0*	17.1	17.8*	33.6	34.1*	27.3	39.8*	2.1	2.1*	660.5	681.7

Sources: IMF/IIF/FAB
**CB FX Reserves as at April 2018*

Disclaimer

The information contained herein has been prepared by First Abu Dhabi Bank P.J.S.C ("FAB"). FAB relies on information obtained from sources believed to be reliable but does not guarantee its accuracy or completeness.

This presentation has been prepared for information purposes only and is not and does not form part of any offer for sale or solicitation of any offer to subscribe for or purchase or sell any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

Some of the information in this presentation may contain projections or other forward-looking statements regarding future events or the future financial performance of FAB. These forward-looking statements include all matters that are not historical facts. The inclusion of such forward-looking information shall not be regarded as a representation by FAB or any other person that the objectives or plans of FAB will be achieved. FAB undertakes no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Market Insights & Strategy
Global Markets
First Abu Dhabi Bank
MarketInsights&strategy@bankfab.com

Please click here to view our recent publications on MENA and Global Markets

Thank You

بنـــك أبـوظبــي الأول
FAB
First Abu Dhabi Bank