Cloudy summer in MENA

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- **COVID-19 and the regional economic contraction are putting governments to the test. Political transitions and reform implementation have set the stage for potential public backlashes.**
- **Oman's financing options are expected to remain limited this year. We hope the new economic strategy put forward by Sultan Haitham bin Tariq to opens doors for revenue to counter the country's increasing deficit and sustain its dollar peg.**
- **History repeats itself as Tunisia bids farewell to another prime minister, leaving the country again in a reform-delaying political power struggle.**
- **Restrictions on resuming full flights to China are likely to remain in place until the end of the year, but GCC carriers may be well-placed to take advantage of their pre-pandemic role as China re-opens.**

Table 1 – MENA Dashboard[1]

MENA Oil Exporters	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2019	2020f	2019	2020f
Algeria	2.6	-5.2	-9.3	-20.0
Bahrain	1.8	-3.6	-10.6	-15.7
Iran	-7.6	-6.0	-5.7	-9.9
Iraq	3.9	-4.7	-0.8	-22.3
KSA	0.3	-6.8	-4.5	-12.6
Kuwait	0.7	-1.1	-18.3	-19.8
Libya	9.9	-58.7	8.8	-7.2
Oman	0.5	-2.8	-7.0	-16.9
Qatar	0.1	-4.3	4.1	5.2
UAE	1.3	-3.5	-0.8	-11.1
Yemen	2.1	-3.0	-3.8	-12.6
Average Ex-Libya & Yemen	**0.4**	**-4.2**	**-4.4**	**-13.0**

MENA Oil Importers	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2019	2020f	2019	2020f
Djibouti	7.5	1.0	-0.8	-2.7
Egypt	5.6	2.0	-7.4	-7.7
Jordan	2.0	-3.7	-6.1	-6.7
Lebanon	-6.5	-12.0	-10.7	-15.3
Mauritania	5.9	-2.0	2.1	-3.3
Morocco	2.2	-3.7	-4.1	-7.1
Palestine	0.9	-5.0	-7.4	-10.7
Somalia	2.9	-2.5	0.1	0.2
Sudan	-2.5	-7.2	-10.8	-16.9
Syria	...	...	...	...
Tunisia	1.0	-4.3	-3.9	-4.3
Average Ex-Syria	**1.9**	**-3.7**	**-4.9**	**-7.5**

Saudi Arabia: Looking for lost revenue

Supported by the new output accord, oil prices have managed to stabilise, yet Saudi Arabia's outlook remains fragile due to fiscal pressures and concerns over a potential second wave of COVID-19 infections. In the meantime, the kingdom continues to take steps to shore up revenue.

- Despite the OPEC+ decision to cut oil production by 2M b/pd to 7.7M b/pd for August, Minister of Energy Prince Abdul Aziz bin Salman announced that Saudi Arabia will continue to export at July's output level, below 6M b/pd.
  - The new OPEC+ production cuts are set to remain in effect until the end of the year and to be further eased to 5.8 M b/pd in January 2021 until the end of April 2022. Whether this will hold will depend on the global economic recovery and any accompanying boost in demand.
  - The organisation is confident it can cut production without hurting the rally in oil prices, but Saudi Arabia, struggling to keep its economy afloat and social contracts in place, is less optimistic. This is also compounded by weak oil demand fundamentals and risks that a COVID-19 second-wave could temper prices further.
  - The kingdom plans to use this month's crude oil output for power generation given the peak in summer demand.
- We believe the OPEC+ decision has been well thought out but see the need for oil prices to return to USD 60 p/b for Saudi Arabia's economic wheels to turn again.
  - While prices have rebounded to some degree in recent weeks, with Brent Crude closing around USD 46 pb on August 5, compared with an 18-year low below USD 20 pb on April 21, they remain far below USD 70 pb mark at the end of last year.
  - Given that oil revenue is expected to decline by 34% YoY to USD 133B this year, the kingdom's income may fall to as much as 46% of what was originally budgeted for.
  - The kingdom's oil exports reached 5.7M b/pd in June down from 6.2M b/pd in May and 11.3M b/pd in April. According to Bloomberg's tanker-tracker data, this is the lowest level of oil exports by Saudi Arabia since 2017.
  - Exports to China, the largest purchaser of Saudi oil, fell by 45% in June to 1.1M b/pd. Similarly, after raising its selling price in June by USD 0.70-0.80 a barrel to Asian and European suppliers, Saudi Aramco decided to cut around 10% of its crude supplies of medium and heavy grades to Asian buyers for August.
  - This further signals that Saudi Arabia is not rushing to boost oil production until it mitigates the drawbacks of the global glut and weak demand.
- To offset the downturn in oil revenue, Saudi Arabia's decision to triple VAT to 15% from the initial base introduced in 2018 came into effect earlier this month. Further plans now include privatising state-owned assets and exploring the introduction of income tax to further boost finances.
  - The increase in VAT is expected to generate up to USD 26.6B in revenue annually, around 4% of total GDP.

[1] Arabia Monitor; IMF.

- The new VAT level could backfire and dampen economic recovery, so Saudi Arabia is considering exempting the tax on specific sectors and services, mainly electronic transactions, bank transfers, education and health, and the residential sector.
- With the cancellation of monthly allowances and the current muted consumer spending, we do not expect the tax increase to have a significant effect on revenue this year. A spike in inflation is expected, at least for the short-term, reaching around 6% YoY in July and remaining around this level until end-year.
- The effect, however, will be relatively milder than when VAT was first introduced as it will be counterbalanced by the decline in oil and other commodity prices in the inflation index basket.
- While the introduction of income tax has been put forward as an option, we do not expect this in the short-term, given the complexity around implementation and timing for it to effectively bolster finances.

➢ As part of its continued plans to overhaul the economy, Saudi Arabia is widening its privatisation scope, extending it to sectors that were previously not targeted, including healthcare and education. The sale of assets is forecast to reach over USD 13B over the next four to five years.
  - More recently, the National Center for Privatization and the Saudi Grains Organization announced the sale two of the four government-owned flour mills.
  - One mill was sold for USD 540M to the Raha AlSafi consortium and the other for USD 200M to the Alrajhi-Ghurair-Masafi consortium.

➢ We see these sales and the increase in sectors under consideration for privatisation as crucial to future government efficiency. We expect a continued pattern of privatisation in other sectors as the country grapples with the economic downturn.

UAE: Diversifying to Mars

The UAE continues to reel from the double hit of lower oil prices and the pandemic. It is forecast to stage a comeback to pre-pandemic growth levels in mid-to-late 2021, with full recovery in 2022 based on government restructuring and an uptick in non-oil private sector activity. We expect growth to remain weak given the past five lacklustre years.

➢ The easing of lockdown measures has supported activity in the non-oil private sector, signalling the first stages of recovery.
  - The Purchasing Managers Index (PMI) for June rose over the 50 threshold, which marks expansion, reaching 50.4 after a consecutive four months' contraction. Business activity saw a tentative rise mainly in the construction and retail sectors. However, the sharp drop in employment since March, and the expected hit from an expat exodus, suggest the new activity will be subdued as market conditions and economic sentiment remain weak.
  - With Dubai opening its border to international tourists in early July, and Abu Dhabi promoting domestic tourism, hotel occupancy rates grew, edging up 3% YoY in Abu Dhabi during the first week of July alone. We remain sceptical about residents fully embracing the reopening this quarter.

Figure 2 – UAE Figure 2 – UAE Purchasing Managers Index (PMI)[2]

➢ The more diversified nature of the UAE economy, relative to its GCC counterparts, means it relies on more sectors to rebound. To fill up its coffers, Dubai's key sources of income -- tourism, aviation, logistics and retail -- will need to recovery rapidly.
  - Dubai's GDP plummeted by 3.5% YoY in Q1 2020, in comparison with 2.2% growth in 2019.
  - The depth of this contraction, along with the emirate facing a menacing maturation of government debt, means we do not expect a significant upturn until at least mid-to-late 2021, and then assuming that Dubai Expo in 2021 takes place.
    - Dubai's Expo 2020 was expected to draw the equivalent of 1.5% of the UAE's annual gross GDP (~USD 6.5B).
  - Dubai's maturing debt is estimated at more than USD 21B over the next three years (around 125% of GDP) and an additional USD 30B in 2023.

➢ As on previous occasions, the economic slowdown requires federal support. On July 5, the UAE announced a major government reshuffle, its first since 2017, appointing new Cabinet officials, creating several new ministries, and announcing plans to significantly downsize the federal government.
  - The reshuffle comes at a time when the UAE is seeking to respond to the pandemic and equip itself to operate efficiently.
  - Major themes of the reshuffle include increasing digitisation, streamlining government structures and cutting expenditures.
  - One of the headline moves was the elimination of 50% of government services centres and the transition to digital portals within two years. This reflects the government's plan to accelerate digital technologies as a centrepiece of its economic growth strategy.
  - We expect further changes at the federal and emirate levels in the coming months, with similar consolidations to address new priorities.

➢ On a positive note, the UAE's diversification strategies have not been halted during the pandemic. The recent launch of the first Arab interplanetary mission by the UAE reflects its continued effort in investing for the future, whilst pioneering a knowledge-based economy in science and technology.

[2] Arabia Monitor; The Global Economy.

- The Hope (or Al-Amal) probe, which was delayed twice due to weather conditions, blasted off for Mars on 19 July from Japan's Tanegashima Space Centre. The USD 200M probe, built and supervised by the Mohammad bin Rashid Space Centre, has taken six years to get to this point.
- Following the successful launch, the spacecraft will now undergo a seven month-long journey to Mars to arrive in 2021, coinciding with UAE's 50th anniversary as an independent state. The objective of the mission is to collect data on the Red Planet's atmosphere to offer scientists more clarity on the current Martian weather and ancient climate of Mars.
- Additionally, the UAE believes this mission presents a catalyst for change, to stimulate different sectors in the UAE and inspire its youth to become more involved in science, technology, engineering and math fields.

➢ This recent achievement also marks a stepping stone for stronger ties between Japan and the UAE, beyond the recently growing bilateral trade and defence deals.

➢ It was also something of a publicity coup that the launch took place before Chinese and US Mars probes lifted off -- albeit those plan to land on Mars.

Oman: A wobbly dollar peg

With a wider deficit, a slump in oil prices and subdued demand due to the pandemic, Oman has emerged as one of the more vulnerable states in the GCC. It needs to start tapping into the international debt market, but if market risk appetite remains sour and credit ratings continue to share downbeat views, it will be expensive.

➢ Oman has undertaken relatively bold economic measures to reverse its weak fiscal position, particularly by reducing government spending and establishing the Oman Investment Authority, a merger of the sultanate's two key state assets -- the State General Reserve Fund and the Oman Investment Fund. It needs, however, to take more crucial steps to cushion itself further -- and to avoid abandoning its dollar peg.

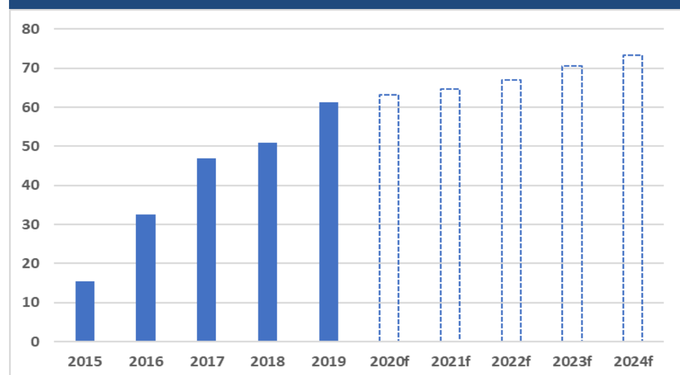
➢ Given that it is not in the GCC's interest for Oman to weaken its fixed exchange rate, financial support from its neighbours may be crucial at this stage, mainly to avoid foreign exchange peg contagion.

- While the sultanate has not officially reached out for assistance, we expect some sort of bail-out. But strings may be attached which can affect Oman's political role as a neutral mediator in the region, including with Iran.

➢ Oman entered the pandemic in a weaker fiscal position than its neighbours with a budget deficit forecast of USD 6.5B, around 8% of its 2020 GDP, compared with 7.6% in 2019.

- Given that the 2020 budget assumed an average oil price of USD 58 pb compared with the current USD 42 pb, we expect the deficit to be closer to the IMF forecast of about 17% of GDP – so more than double. According to the IMF, Oman needs oil prices to reach around USD 87 pb, the highest among the GCC, to balance its budget this year.
- As part of its plan to offset fiscal pressures, Oman is set to introduce a 5% VAT in early 2021, marking it the fourth country among the GCC to introduce VAT[4]. It is expected to generate around USD 780M which is around 1% of total GDP.
- Plans also include introducing an excise tax in October on sweetened drinks, adding to the "sin tax" list that was first introduced in June last year. The list includes alcohol, tobacco, energy drinks and pork meat.
- While we do not expect the new VAT to offset the deficit and the loss of oil revenue, it reflects Oman's move away from oil revenue dependence.

Figure 3 – Oman Gross Government Debt[3]



➢ Discussions to raise a USD 2B loan as part of managing its deficit, have now resumed, after a temporary hold due to the pandemic.

- While there has been no official announcement on loan details yet, we expect Oman's borrowing costs will be higher, particularly following the downgrade of Oman's credit rating further into "junk" by Moody's, which itself followed S&P's downgrade in March.
- The sultanate faces around USD 5.7B in refinancing obligations for this year and next, along with a USD 1.5B Eurobond maturing in June 2021.
- Our baseline scenario is that Oman will continue to use its depleting buffers to sustain its currency peg for the short-term.
- Funding, if not from the Gulf states, will most likely come through albeit costly external debt issuance and a greater drawdown of domestic assets.

Kuwait: A delayed debt law and an ailing emir

The recovery in oil prices and easing of lockdown measures have resulted in better economic conditions over the past weeks. However, the chances of a strong recovery are constrained, not least by Emir Sabah al-Ahmad al-Jaber al-Sabah's recent hospitalisations. A revised debt law to allow for government borrowing is still awaiting approval.

➢ While oil GDP is forecast to remain flat this year, and crude oil production to be unchanged from last year, Kuwait's GDP is forecast to contract by 1.1% in 2020 versus 0.7% growth in 2019. Non-oil GDP is expected

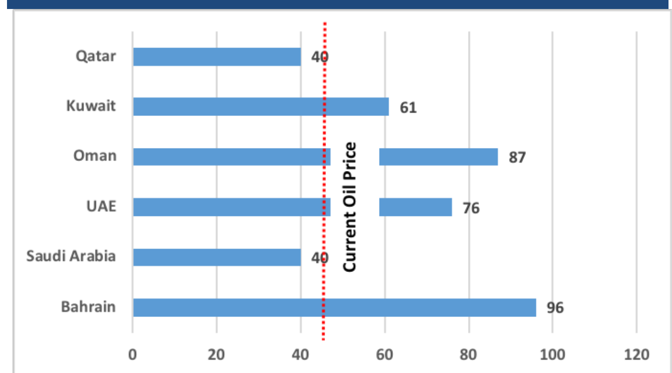
[3] Arabia Monitor; IMF.

[4] VAT in GCC has been introduced by Saudi Arabia, the UAE and Bahrain.

to contract by at least 4% this year, with the private sector experiencing the largest hit.

- Kuwait's budget deficit continues to rise. A shortfall of USD 30.4B is forecast -- 21% of GDP (albeit after 10% transfers to the Future Generations Fund, part of the country's sovereign wealth fund). This is compared with a deficit of 18.3% of GDP in 2019 which was itself double the 7.7% in 2018.
    - With the price of oil at its current level, we project the deficit to be much wider, possibly reaching over 30%, particularly if the government and parliament do not reach an agreement over financing arrangements and pass the long-awaited debt law.
    - Oil and gas revenues account for 87% of the total budget (USD 42.4B), based on an oil price calculations of USD 55 pb. While oil prices have staged a remarkable recovery settling at a three-month high of USD 44 pb, compared with the low USD 35 pb last month, there remains a clear need for a fiscal reform programme to put Kuwait's finances on a more sustainable long-term track, even if oil prices edge higher as demand hikes again.
- The Kuwaiti government used up around USD 4.8B, one-third of its general reserves, in just over a month. The General Reserve Fund (GRF), managed by the country's sovereign wealth fund, Kuwait Investment Authority, declined to almost USD 10B from USD 14.3B.
    - If a debt bill is not forthcoming to allow Kuwait to borrow USD 65B, the government may be forced to tap into the Future Generations Fund (FGF), which is earmarked for the post-oil age. Finance Minister Barrak Al-Sheetan proposed selling USD 7B of GRF assets to the fund. Other options include halting the annual transfer of the 10% total of revenue to FGF this year.
- Until Kuwait can return to international debt markets again, we expect further consolidations, as the state's reserves begin to deplete.
    - Along with government budgets cuts by at least 20% in FY 2020/21, the Cabinet recently approved a series of reforms, including additional subsidy cuts, better management of the public sector wage bill, and the implementation of revenue-boosting measures including an excise tax, VAT and raising utility prices.
- The recent hospitalisation of Emir Sabah, who is 91, throws further questions over the economy, mainly as his succession is not clear.
    - The emir reportedly had surgery in Kuwait and was then flown on a US military plane to Rochester, Minnesota. The reason for the destination was not given but Rochester is the home of the world-renowned Mayo Clinic.
    - Following the emir's hospitalisation, Kuwaiti stocks fell sharply. Boursa Kuwait has been struggling since plummeting in March after a S&P Global Ratings downgrade to negative from stable on the back of the pandemic and oil production cuts. We see this downgrade as driven primarily by current fiscal pressures.

Figure 4 – Fiscal Breakeven Oil Price (USD)[5]



    - Investor confidence is also expected to decline if no clear successor to the emir is agreed. While Crown Prince Sheikh Nawaf Al-Ahmed Al-Sabah has temporarily assumed responsibilities, we do not expect a smooth succession.
    - Given that the throne has been alternating over two centuries between the two main branches of the ruling Sabah family -- the Salem and the Jaber -- we believe a power struggle would not preclude.

Egypt: Dam negotiations

Egypt, Ethiopia and Sudan have sat down at the negotiating table this week to discuss the now inaugurated Grand Ethiopian Renaissance Dam, which Cairo sees as a threat to its water supply. While the move is promising, the three countries are unlikely to reach a solution. The worst case scenario would be military conflict, but although the parties have engaged in a war of words, actual confrontation is unlikely.

- Negotiations are centred on a binding agreement which Egypt is requesting from Ethiopia that Egypt's water flow will not be affected by the dam.
    - The Nile is a vital natural resource for Egyptians as 90% of Egypt's water is sourced from the river.
    - Egypt is relying on an agreement during British rule in 1929 and one just after in 1959 that recognised Egypt's right to the river and gave it the power to veto any construction upstream.
- Ethiopia, however, claims it has a right to the river within its borders. It has already met its early target for filling the reservoir behind the dam at Bameza, about 550 km up-river from Khartoum.
    - Some 85% of the Nile's waters flow from the Blue Nile Tributary in Ethiopia's highlands.
    - The dam would provide a massive economic boost to Ethiopia as it would give it the opportunity to export electricity throughout the region in addition to supplying power to 65 million Ethiopians who are currently without it.
- The dispute between the three countries has been going on for 10 years since the start of construction, but no party is willing to shift position significantly.
    - At its worst, an inability to reach a resolution would threaten the water supply of Egypt's population of

[5] Arabia Monitor; IMF.

100 million, jeopardising their wellbeing, livelihoods and the economy.

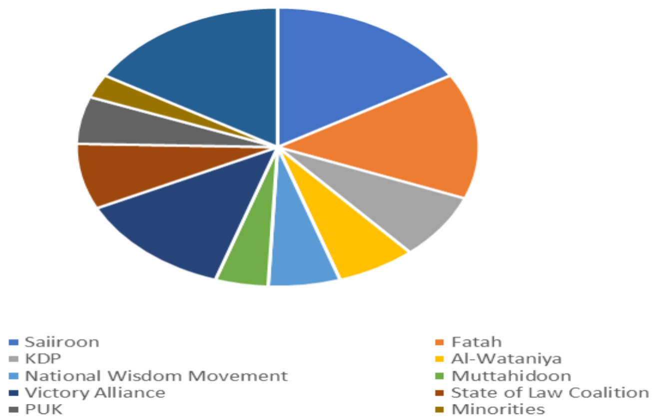
- Investor sentiment, meanwhile, has turned somewhat in Egypt's favour despite the loss of foreign currency from tourism and remittances. IMF funding, including a USD 2.8B emergency financing loan, along with the Central Bank of Egypt's ability to stabilise the Egyptian pound against the dollar, have built some confidence.
  - There have been overseas inflows into local markets, mainly because Egypt is offering some of the highest carry trades among emerging markets, with short-term debt yielding around 13%. Estimates show around USD 3B was raised in local debt from foreigners in the first two weeks of July alone.
  - Geopolitics could threatened this -- if Egypt and Ethiopia fail to reach a deal, for example, or President Abdel Fattah al-Sisi decides to intervene in Libya.
    - The prospect of the latter has already weakened the stock market.
    - The government fiscal deficit would also suffer from foreign adventures. It is expected to widen to 7.7% of GDP, due to lower tax revenues and scaled-up spending.
- Inflows and various central bank policies, however, have stabilised the Egyptian pound, which has been trading around 16 to the USD for most of July.
- The tourism industry, which makes up as much as 15% of foreign currency reserves, and 12% of GDP, is unlikely to recover soon. Unlike Tunisia and Morocco, Egypt has not been added to the EU's COVID-19 safe countries list yet.
  - While international flights returned on July 1, travel restrictions are still in place for most countries and with rising fears of a COVID-19 second wave.
  - The extent to which international tourism will support Egypt's economic recovery is still in doubt.

Tunisia: Fakhfakh's farewell

Tunisia has found itself back with a prime minister-designate -- former Interior Minister Hicham Mechichi -- after Elyes Fakhfakh resigned as premier last month just five months into his term. Mechichi will only become full PM if he is endorsed by Ennahda, the largest party in parliament. The political disruption will only add more delay to Tunisia's needed reforms.

- Fakhfakh was forced to resign in a conflict of interest row with Ennahda, the centre-right grouping that has broadened its scope politically beyond an original democratic Islamist credo.
- There had been speculation about a resignation for weeks, but the move still came as something of a surprise because Fakhfakh had shown little sign of going, even calling for a government reshuffle the week before he left office.
  - Ennahda responded to Fakhfakh's reshuffle announcement by submitting a motion of no-confidence, backed by 105 of 217 parliamentary members.
  - The resignation followed shortly, with Fakhfakh hitting back by dismissing six government ministers belonging to the Ennahda movement.
- Power-sharing in the country has been skewed in favour of Ennahda since the 2019 legislative elections where the party achieved a plurality, with 27.79% of the votes against fractured support amongst other parties.
- President Kaïs Saied, who picks the prime minister, appointed Mechichi, who was once his legal adviser, after an Ennahda-backed candidate failed to get backing in Parliament.
  - The new PM-designate now has less than a month to form a government and get Parliament's approval. If he does not succeed, the assembly will be dissolved and early elections held within three months.
  - Ennahda could choose not to endorse Mechichi but still approve his Cabinet in order not to jeopardise its parliamentary clout in an election.
- The vacuum from a prolonged interim government or new election campaign creates instability in the country and delays urgently-needed economic reforms. The IMF expects Tunisia's economy to contract by 4.3% this year.
- There is also the potential for Mechichi to be approved by Parliament but not get the support of Tunisians, fuelling the anti-government protests that have picked up again.

Figure 5 – Iraq Council of Representatives Members[6]



Iraq: Caught in a Catch-22

Iraqi Prime Minister Mustafa al-Kadhimi has been conducting a balancing act both domestically and internationally, but it remains to be seen if he will be able to keep it up long enough to serve out the duration of the less than 10 months left of his term.

- On his first regional tour at the end of July, al-Khadhimi was scheduled to visit both Saudi Arabia and Iran, a reflection of efforts to balance Iraq's regional relations (as well as showing Iran that it was no longer the only player for Baghdad).
  - The visit to Saudi Arabia was postponed following King Salman bin Abdulaziz's hospitalisation but a small ministerial group did arrive, including Finance Minister Ali Allawi. Al-Kadhmi, meanwhile headed for Tehran, before then flying to the US.
  - The Saudi moves do not mean that the Iran-Iraq relationship is weakened. Al-Kadhimi met with Supreme Leader Ayatollah Ali Khamenei, then held a joint news conference with Iranian President Hassan Rouhani on raising bilateral trade to USD 20B from the current USD 12B.
  - Iraq will not achieve regional impartiality any time soon, remaining close to Tehran, but Saudi Arabia is being courted.

[6] Arabia Monitor.

- Back home, it is different. The Iraqi Cabinet's reform packages under al-Kadhimi have triggered an uptick in violence by militias that is likely to continue as the new PM tries to push legislation through.
  - Finance Minister Allawi continues to try to tackle the country's bloated public sector through austerity measures and taxes on pensions.
    - He is still advocating such measures despite a backlash by Iraqis last month squashing the plans for the time being.
    - However, in a Financial Times interview[7], Allawi has warned that if austerity is not implemented, it would lead to "severe security consequences".
    - Some 4 million Iraqis work for the government, 3 million receive pensions and another million are on social welfare.
  - Al-Kadhimi also attempted to tackle corruption by enforcing tariffs at the Mandili crossing with Iran where border officers were accused of accept bribes for charging lower tariffs.
    - Officers are already speaking about threats of retribution from armed gangs and militia groups.
  - Iraq is clearly stuck in a Catch-22: reforms prompt violence from militia groups and unrest among citizens; lack of reform creates an economic situation so dire that it triggers violence from the same parties.
- The death of one prominent activist and the kidnapping of another last month set a dangerous precedent for similar events.
  - Hisham al-Hashimi a security analyst and informal adviser to the new PM was assassinated by a suspected Popular Mobilization Forces (PMF) group - a move which was seen as directly targeted at al-Khadhimi.
  - Two weeks later Hella Mewis, a German artist and prominent activist, was kidnapped by unnamed militia forces (suspected to be PMF-affiliated) near Bait Tarkib, the art collective she runs for young Iraqis. Mewis has been found and released, according to Iraqi security forces.
  - Iraq's PMFs were set up to fight Islamic State, but have since been reluctant to come under government control.
- If some semblance of stability is not reached in Iraq, we expect the already splintered PMFs to splinter further, multiplying the number of rogue militia groups and violence on the ground.

Iran: Fires and explosions

Iranian threats of retaliation for the U.S. assassination of Islamic Revolutionary Guard Corps Major General Qassim Soleimani earlier this year have picked up, with Supreme Leader Ayatollah Ali Khamenei saying vengeance has yet to be achieved. Future attacks are likely to be low-level and regional, however. As we have previously said, Tehran is likely to be cautious until the U.S. elections in November.

- There were a slew of fires and explosions in the country this month which prompted Iran to point a finger at the US and Israel before any investigations were conducted: an explosion at Natanz, a uranium enrichment facility, struck a particular nerve in Tehran.

Figure 6 – Series of Explosions and Fires in Iran[8]

Date	Event
26-Jun	Blast at a liquid fuel production facility for ballistic missiles in Khojir, close to Parchin, near Tehran; fire at power plant in Shiraz, causing a blackout
30-Jun	Explosion at a medical clinic in Tehran
02-Jul	Blast and fire at Natanz nuclear site
03-Jul	Large fire in Shiraz
04-Jul	Explosion and fire in power plant in Ahwaz; chlorine gas leak at Karoun petrochemical plant in Mahshahr
07-Jul	Explosion at Sepahan Boresh factory in Baqershahr
12-Jul	Fire at Shahid Tondgooyan petrochemical plant due to a hot oil leak
13-Jul	Explosion and fire in power plant in Razavi; fire in eight of the gas tanks at the power plant that led to an explosion
19-Jul	Explosion in power plant in the central province of Isfahan

  - The government acknowledged that the Natanz explosion set back the development of the country's nuclear programme by months.
  - Iranian intelligence attributes the damage to a bomb, according to The New York Times.
  - Iran has threatened consequences for those involved.
- The dozens of other fires and explosions have created a domestic media frenzy, but we suspect most of the incidents occurred because of weak infrastructure rather than from foreign or domestic opposition.
  - As temperature soar in the summer, pipes need to be insulated and if they are not, they can catch fire.
  - Last summer there were close to 100 fires or explosions over two and a half months.
  - Indeed, at a news conference, Tehran's Deputy Police Chief Shahid Daghayeghi put at least some of the fires down to short circuits in power cables.
- However, tensions remain high between Iran and its adversaries. The latest incident inflaming tensions was on 23 July when a Mahan Air passenger plane dropped altitude to avoid a US F15 fighter jet that approached it over Syria.
  - Iranian state media initially blamed the incident on Israel but then backtracked to blame the US.
  - US Central Command issued a statement describing the air mission as routine and being conducted at a safe proximity.
  - By contrast, Ali Bagheri-Kani, head of Iran's official human rights office, said the incident gave grounds for Iran to sue the US military.
- While the events are a cause for concern for further tit-for-tat, any Iranian reprisals are likely to remain regional or some kind of cyber-attack. The government is unlikely to jeopardise its stability with tensions rising domestically under the deteriorating economy.

Sino-MENA: GCC carriers well placed for China flight trade

Before the pandemic, Dubai, Abu Dhabi and Doha were establishing themselves as international travel hubs to China with 94 direct passenger flights there operated by their three airlines each week. It will take time to get things back to normal.

- Passenger flights remain largely disrupted, but cargo capacity has been recovering, initially driven by the need for personal protective equipment (often on chartered or

[7] Financial Times July, 2020.

[8] Arabia Monitor.

military flights) and subsequently by other healthcare items, as well as retail and e-commerce demands.
- Qatar Airways was the first MENA airline to restore its bellyhold cargo service on normal passenger planes to China.
- Emirates resumed Dubai-Guangzhou flights on a weekly basis from 25 July, while Etihad resumed weekly flights to Shanghai from July 27, its first scheduled passenger service to China since flights were grounded over COVID-19.

➢ Restrictions on resuming full flights to China are likely to remain in place until end of the year, but GCC carriers may be well placed to take advantage of their pre-pandemic role as China re-opens.
- China has allowed international airlines to restart flights on strict conditions, including operating on a very limited basis and ensuring passengers are COVID-free. Violations of the latter rule trigger a seven- or 14-day ban.

➢ GCC countries are sandwiched politically between China and the West, which could cause problems for the aviation plans.
- Some countries including Germany and France, for example, have protested against the limited number of flights their national carriers can fly to China by restricting Chinese flights into their own countries.

➢ However, deepening relations and commercial interdependence are more likely to create opportunities for the GCC carriers, making them important transfer hubs for international travellers to China.
- China is more likely to increase the allowed number of flights from countries such as in the GCC with stricter and more successful control of the pandemic than others, facilitating more international travelling.
- GCC airlines are also better financially positioned than many of their Western competitors to manage the sectoral downturn.
- This will have a far-reaching impact on offsetting losses, increasing demand for oil, retaining jobs, and further strengthening GCC-China relations beyond the pandemic.

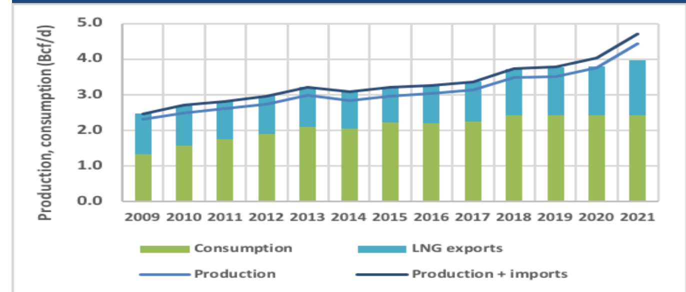
MENA Energy Outlook: Oman's LNG market & projects

Oman has turned around its gas industry impressively since 2017. While the OPEC+ cuts will reduce associated gas output, Oman should have a significant gas surplus in 2020 and 2021 (Figure 1).

➢ Domestic production had been failing to keep up with demand, leading to its LNG plant running below capacity, and to a variety of plans for alternative power generation.
- In September 2017, BP began production from the giant tight Khazzan gas field, ramping up to 1 Bcf/d. Tayseer sour gas started up at 35 MMcf/d in 2019, and the Rabab-Harweel project at 210 MMcf/d in July 2019.

➢ New non-associated production is on its way. The second phase of Khazzan, named Ghazeer, is said to be '99% ready' and could start up earlier than the planned 2021 date, adding another 0.5 Bcf/d.

Figure 7 – Oman Gas Balance[9]



- Shell, Total and Oman Oil are developing the Mabrouk Deep field with plans for 0.5 Bcf/d rising eventually to 1 Bcf/d, and the Yibal Khuff development should bring another 175 MMcf/d. BP/ENI have signed for Block 77, next to Khazzan. Ghazeer will bring Oman's total marketed output, excluding in-field use, to over 4 Bcf/d plus 0.19 Bcf/d of imports from Qatar, with LNG exports about 1.36 Bcf/d and domestic use around 2.42 Bcf/d.

➢ With Oman's economy under pressure from low oil prices and COVID-19, and an expected departure of expatriates, gas use in power generation is set to slow. After a tentative start, Oman is now launching a growing number of renewables projects, with a target of 30% of electricity by 2030.
- For solar energy, projects include the 1021 MWe (thermal) Amal solar steam generation project for heavy oil recovery; the 500 MW solar photovoltaic (PV) Ibri-2 plant; Petroleum Development Oman's 100 MW Amin PV plant which started operations in May 2020; 146 MW of hybrid solar-storage for remote areas; a possible 600 MW solar thermal plant at Duqm.
- For wind energy, projects include the start-up of the Gulf's first utility-scale wind farm, 50 MW in Dhofar; the upcoming tender for the two Manah Sohar PV plants of 500-600 MW each; another 300 MW wind farm; and Belgian firm DEME's plans for 500 MW of wind/solar-powered hydrogen generation at Duqm.
- Plans, however, for a coal plant at Duqm are likely to be shelved.

➢ With a relative gas surplus, Oman is looking at new options for use. Total is studying a 1.2 Mt/yr LNG ship bunkering facility at the port of Sohar, Shell a 40-45 kb/d gas-to-liquids plant -- which however looks unlikely to proceed.
- BP a 1 Mt/y acetic acid plant at Duqm, and the existing Oman LNG should be debottlenecked from 10.4 to 11.8 Mt/y by end-2021.
- A new train of Oman LNG, adding 3 Mt/y, is also possible. There are also several large petrochemical projects at Sohar and Duqm, and the new Duqm refinery will also require gas supply in 2022.

➢ Oman domestic gas prices are relatively high. Given this, and the current weak world LNG market, the Sultanate faces challenges using its gas surplus.
- It could reduce imports from Qatar but these are very low-priced, or it could reduce 'dry' domestic gas output to maximise associated condensate.
- Nevertheless, it needs to attract new investment in industry and innovative new gas schemes (such as the LNG bunkering) to make best use of its surplus.

[9] Qamar Energy.

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