New ties, same old struggles

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- **While the peace deal between the UAE and Israel has delayed annexation of West Bank settlements for now, it is unlikely to contribute to wider regional peace. But it does draw out regional divisions and sets the precedent for neighbouring countries in the region to pursue their own deal with Israel.**
- **We expect the new government reshuffle from Sultan Haitham bin Tariq will improve Oman's foreign policy with neighbouring GCC countries and open door for revenue to counter the increasing deficit and bolster the dollar peg.**
- **Iraqi-US ties will continue to grow stronger as long as Prime Minister Mustafa al-Khadimi remains in office. With fresh business deals signed during his recent White House visit, stronger US ties could pave the way for Gulf countries to re-engage more deeply with Iraq.**
- **The UAE, Saudi Arabia, Bahrain, Morocco and Egypt have now joined China in its COVID-19 vaccine development project. This growing partnership is expected to benefit other Sino-MENA ventures, mainly in science and tech exchange.**

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: Times turn austere

Oil revenue has fallen by almost 50% so far this year and the fiscal deficit tripled between the first and second quarters partly as a result of pandemic spending. Unless COVID-19 eases its grip on global oil demand, Saudi Arabia may find next year even more of a challenge, particularly as rising inflation may end up stressing the riyal's dollar peg.

- Lower oil and non-oil revenue led the kingdom to post a budget deficit of USD 29B (3.7% of GDP) in Q1 2020, versus the year-earlier deficit of USD 8.9B (1.3% of GDP). Oil revenues fell by 45% YoY to USD 25.5B in Q2 of this year. This means total revenue dropped around 49% to USD 36B.
  - Saudi Arabia had initially projected a deficit of USD 50B this year, or 6.4% of GDP. But that was before the pandemic and the plunge in oil prices. Minister of Finance Al-Jadaan has said the deficit could now widen to up to 9% of GDP this year from the 4.5% deficit in 2019. We expect it could be even higher, reaching around 13% of GDP.
- This should be temporary. The deficit will start to narrow again as oil prices gradually recover and the government pushes ahead with more austerity measures to curb spending. But this cycle could be slower than previous ones.
  - We see overall debt rising as the government has raised its debt ceiling from 30% to 50% of GDP to finance its deficit. Debt is forecast to reach around 40% of GDP by 2022 versus the low of 2% of GDP in 2014.
  - The kingdom's pandemic stimulus package, which makes up 4% of GDP and is equivalent to 13% of the 2020 budget, has reinforced debt-issuance plans.
  - So far this year, Saudi Arabia has raised USD 12B in international markets and borrowed nearly USD 11B from the domestic market. It plans to tap international debt investors once more in 2020.
  - The kingdom has also dug into its reserves, using around USD 13B in Q2. In addition, it used USD 40B in foreign reserves to support investments of the Public Investment Fund (PIF), the kingdom's sovereign wealth fund.
  - The PIF took advantage of market weakness in Q1 to boost its foreign assets by buying blue-chip stocks that were trading at relative lows. In Q2, it sold some of its stakes in large multinationals, including Facebook. Disney and Boeing, at a value of more than USD 1B.
  - The composition of the fund has changed significantly. Following the Q2 profit-taking, the PIF's stocks and securities focus is increasing towards exchange-traded funds (ETF) -- it has poured nearly USD 4.7B into US real estate, utilities and materials ETFs.
    - To a certain extent, the new portfolio strategy reflects Saudi Arabia's wider economic-diversification policy. But it also marks what the PIF managers see as the most likely industrial and commercial sectors to recover from the pandemic downturn.
- Back home, recovery remains bleak and risks upsetting the general population. This was particularly so in April when various austerity measures were announced.

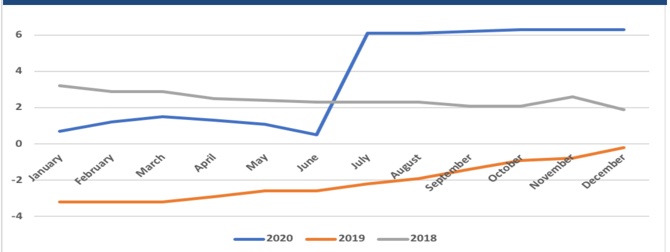
[1] Arabia Monitor; IMF.

- They reflected a policy of relying on fiscal consolidation to survive the downturn, rather than seek a currency devaluation to adjust for low oil prices.
  - The measures included tax increases, including a tripling of VAT to 15%, and the suspension of cost-of-living adjustments.
  - While it will dampen the recovery outlook, given Saudi Arabia's weaker consumer spending and diminished international competitiveness, the budget tightening is essential if the rising deficit is to be controlled.
  - The government cut spending by 17% YoY, amounting to around USD 27B or 10% of 2020 budget total expenditure.
- The VAT increase drove prices up 6.1% in July, the highest monthly rise in inflation since 2012 (and compared with the 0.5% rise reported in June). Food inflation, which makes up 20% of the consumer price index basket, jumped 14.3% YoY in July, versus the 6.4% YoY increase the month before. Transport, registering the largest inflationary increase, rose to 7.2% YoY from the 5.2% YoY price decrease in June.
  - Rising food and transport costs will largely be borne by domestic households and be a drag on real income. This will only slow the economy's recovery.
  - As a result, we do not expect the increase in VAT to generate much revenue this year.
- The key question is whether the current fiscal situation will start to put pressure on the SAR 3.75 to the USD peg. If the riyal floated freely, it would have adjusted to the lower oil revenue stream. But it is held in place, despite a reversal of strong dollar flows.
  - The decades-old currency peg has survived stern tests before, such as before the financial crisis in 2008, during the years of low prices in the 1990s, and 2014's oil crash. But this time around the government budget is relatively squeezed more.
  - While we do not believe that it is in Saudi Arabia's interest to devalue the riyal at this time, and although its reserves are less strained than most of its neighbours, keeping the currency pegged to the dollar increases pressure on sovereign spending.
  - To maintain its peg, Saudi Arabia will need around USD 300B in foreign reserves. This is not a problem at the moment: reserves were at USD 479B in April. But they had slipped that month by USD 24.7B, the largest monthly drop in the last two decades.
- If efforts to boost the private sector and diversification plans do not outweigh its oil-dependency, we expect increased pressure on the currency as the government may be forced to draw down reserves excessively.

UAE: Ushering in a new era

The peace deal between the UAE and Israel was quite a while in the making, and its timing not totally surprising. It has long been known that Gulf states have had surreptitious dealings with Israel, despite still-strong support for the Palestinians among the populace. The formal detente reflects a shared enmity against Iran and will probably lead to other Gulf states pursuing their own deals with Israel.

Figure 1 – Saudi Arabia Inflation Rate (%)[2]



- The historic peace deal is something of a short-term win-win for the UAE, showing Arab leadership, a "regional" anti-Iranian stance, and at least a temporary putting on hold of Israel's planned annexation of Palestinian territory. Neighbouring countries Oman and Bahrain, along with Sudan have already endorsed the move and are likely to be the first to follow suit.
  - Only days after the agreement was announced, Mossad Director Yossi Cohen marked the first official visit of an Israeli official to the UAE, focusing on security (read Iran).
  - Despite this, we do not expect Saudi Arabia to follow the UAE anytime soon. Minister of Foreign Affairs Faisal bin Farhan al-Saud has re-iterated Riyadh's view that normalisation is possible only if an Israeli-Palestinian peace accord is reached.
  - The Palestinian Authority (PA), Hamas and Islamic Jihad, denounced the deal as a betrayal, although all were aware of de facto normalisation for a while.
    - To be blunt, they do not have much to respond with. The PA, for example, was left with announcing it would boycott Dubai Expo, which is set to take place in October 2021.
  - The big test will be what happens if/when Israel picks up its annexation plans again. That will show how far the UAE is willing to side-line the Palestinians.
- Deeper Israeli ties are expected to serve the UAE's vision as the regional hub for science and technology. Trade and tourism links should also grow.
  - While investment ties may not unfold rapidly, we can expect an increase in trade, unlike what has happened with Egypt and Jordan, which have had diplomatic ties since 1980 and 1994, respectively. Exports to Israel from those countries amount to as little as 0.2% of GDP.
  - The UAE-Israel deal, by contrast, is expected to see UAE investments in Israel reach USD 350M very quickly.
  - Tourist flows between both countries are clearly expected, with Dubai being among the key beneficiaries as aviation deals for direct flights emerge.
- We believe the largest implication of the deal, however, is formalising implicit regional alliances -- Israel and the GCC against Iran's influence in the region.
  - Geopolitics have shifted in recent years, as most states in the region no longer view Israel as their main threat and now share Iran as their common enemy.
  - The agreement is certainly bad news for Tehran. The deal further cements its alienation from its neighbours. Yet, Iran is unlikely to take decisive action and will continue only to engage in tough talk for now; it is too imboiled in its own domestic issues to engage in a confrontation that may escalate.
  - The deal will also strengthen the UAE against Turkey. This will most likely play out in Libya, where the UAE are supporting Libyan National Army (LNA) leader Khalifa Haftar against the Tripoli government.

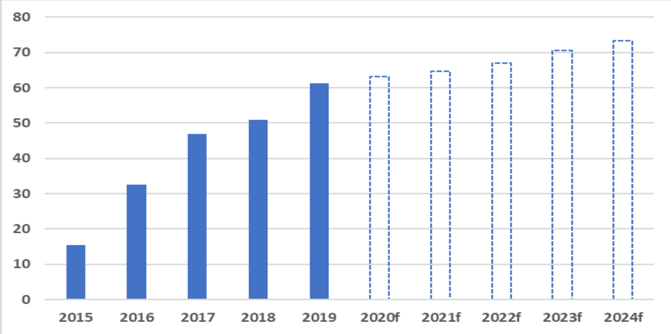
[2] Arabia Monitor; SAMA.

Oman: New faces confront swelling deficit

Responding to Oman's challenging fiscal position, Sultan Haitham Bin Tariq Al Said has revamped his government with a reshuffle. We also see moves towards improving relations with neighbouring GCC countries, potentially leading to financial further support from them to ease Oman's debt burden.

- Following on from the Royal Speech in February, in which Haitham called for a restructured and streamlined government, the sultan in August announced a series of decrees to pare back government spending.
  - The changes mainly focused on downsizing government ministries, creating others, and increasing efficiency in the public sector, while also decentralising his own powers. This reflects efforts to renew the modernisation strategy of his predecessor, the late Sultan Qaboos bin Said.
  - One of the main decrees was the cutting of government ministers to 19 from 26, which existed in the previous council.
    - A Ministry of Economy has been established, taking on the functions of the now-abolished Supreme Council for Planning. This change appears to be part of the move to implement Vision 2040 and its goal of reducing the dependency on oil income and to diversify the economy.
- Haitham has also given up portfolios that were previously held by Qaboos, delegating his authority as Minister of Finance and Minister of Foreign Affairs in hopes of making room for more inclusive decision-making. The sultan has, however, kept his roles as Prime Minister, Minister of Defence and Chief of the Armed Forces.
  - At the Ministry of Finance, Darwish Al Balushi was replaced by Sultan Al Habsi, who formerly served in senior positions, including secretary general of the Supreme Council for Planning and head of the tax authority.
  - Alsayyid Badr Al-Busaidi was named the new Minister of Foreign Affairs, replacing Yusuf bin Alawi bin Abdullah, who served as a Minister of State for Foreign Affairs.
    - Al Busaidi is no stranger to the country's foreign policy as he has been working in diplomatic posts for years, his most recent being secretary general of the ministry.
- We now expect better ties with the Gulf states, which have been strained by Oman's diplomatic ties with Iran and Qatar.
  - An unsurprising development was the sultanate's support for the UAE's decision to normalise ties with Israel. It has plans to follow suit and has been in talks with Israeli Foreign Minister Gabi Ashkenazi.
  - While relations between both states have in recent years warmed, particularly following Prime Minister Benjamin Netanyahu's visit to Oman in 2018, normalising ties (which would be opposed by Iran) could prompt regional financial support to help Oman avoid a currency devaluation.
  - If Oman opts to request support from the GCC, however, its least risky sources would be Kuwait, which is similarly neutral in its approach to Gulf affairs, or Qatar, given the warmer ties since the neighbouring blockade.
  - Our best-case scenario is that the other Gulf countries will be willing to put aside political differences to

Figure 2 – Oman Gross Government Debt[3]



lessen the pressures on Oman's dollar peg. There would be contagion for all GCC currency pegs if one breaks.
- In spite of the continued downbeat views of credit ratings, Oman has returned to the market, securing a one-year USD 2B bridge loan that had been put on temporary hold due to the pandemic.
  - The loan is to be repaid by money raised from international bond issuances, which Oman plans to roll out in the next six months. It has not tapped into overseas debt markets since raising USD 3B last year.
  - The sultanate's dollar-denominated bonds have lost 1.6% so far this year. Nonetheless, Omani bondholders' confidence has remained stable in recent weeks due to the hoped-for bailout from the GCC.
  - We expect Oman's fiscal deficits and external debt maturities will amount to USD 12B through 2022, about 20% of GDP.
    - Government debt is expected to also increase to over 80% of GDP this year, from 60% of GDP in 2019.
  - We believe Haitham is undertaking the right strategies, albeit with painful fiscal measures such as the introduction of VAT in early 2021.
  - We expect more to follow, including an acceleration in Omanisation and privatisation. Diversification will also remain a priority, but the sequencing of the implementation of Vision 2040 will probably need to be revisited and reordered.

Lebanon: Crisis upon crisis

Lebanon's government resigned in disgrace following the explosion that levelled parts of Beirut last month. The public put down the tragedy to just more negligence and incompetence by the elite. Protests are unlikely to stop unless there is a full overhaul of the political system. The economy is now in even worse shape.

- The Lebanese economy was already collapsing under the combined effect of the COVID-19 pandemic, inefficient institutions, and an insolvent financial system. The blast adds to this.
- The damage inflicted will inevitably disrupt international trade, as around three-quarters of the country's imports enter through the devastated port. The explosion destroyed around 85% of Lebanon's stored stocks of grains, which had already depleted to less than one month's supply.
- While reconstruction efforts are to be expected in the near-term, they will come at a heavy cost of USD 3B, around 5% of total GDP.
- Following the explosion, there was also a spike in COVID-19 cases in the country, prompting the interim government to

[3] Arabia Monitor; IMF.

call for a two-week lockdown, which undoubtedly will worsen the already precarious economic situation.

- The Institute of International Finance now reckons the Lebanese economy will contract by 24% this year, while the IMF has also called on the country to audit key institutions such as the central bank and to introduce safeguards to avoid capital outflows.
- Living conditions have worsened significantly, with an estimated 55% of the Lebanese population now living below the poverty line.
    - Prices have also soared as the Lebanese pound's value has plummeted by 80%.
- A donor conference following the blast raised pledges worth USD 298M for immediate humanitarian relief. However, external financing needs have increased to USD 30B over the next 4 years, a target that remains unlikely to be reached unless there are drastic changes in the Lebanese political scene.
    - Most potential donors, notably France, have insisted on the need for the political system to be reformed in order for aid to be given to Lebanon.

➢ What Lebanon needs now is a non-sectarian leadership that will be able to create new, non-sectarian institutions. But it will be difficult for such a leadership to emerge as long as the old guard run the show.
- The country has been caught in the middle of competing outside forces for decades. In particular, Iran and Hezbollah have de facto control over a significant part of Lebanese politics, which is seen as a liability by progressive forces in the country as well as Western countries.
- However, US sanctions that have targetted Hezbollah could backfire by playing into the hands of those they seek to weaken. US "interference" is no more popular in some quarters than it is in Iran.

Egypt: Growth in the time of coronavirus

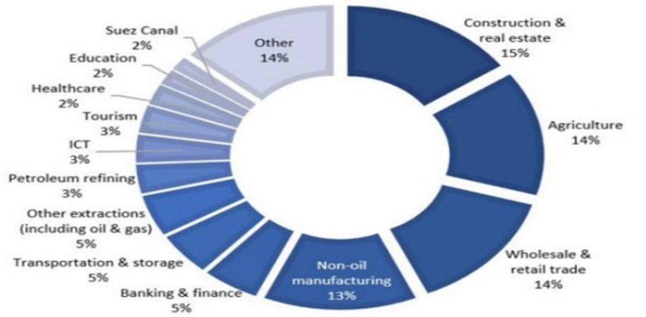
Egypt is likely to be the only country in the MENA region to see its economy grow this year. The IMF has revised its growth forecast downward from 5.2% to a still positive 2%, with a relatively robust recovery in FY 2021/2022 to 6.5%, as Egypt benefits from newly implemented reforms and IMF aid.[5]

➢ The Central Bank of Egypt (CBE) held interest rates steady at their August meeting -- leaving the lending rate at 10.25% and the deposit rate at 9.25%, both of which are the lowest since early 2016.
- Interest rates have been unchanged since the CBE first pre-emptively lowered rates in March to support the economy at the onset of the COVID-19 pandemic.
- With inflation still in retreat, we believe interest rates are likely to be kept steady at this level until the end of the year.
    - Urban consumer price inflation eased to 4.2% YoY in July from 5.6% in June, the lowest level since November 2019. As for core inflation, it declined to 0.7% in July from 1% the month before.

➢ The IMF is also providing support for the economy, via a newly approved 12-month stand-by arrangement worth USD 5.2B to support the country's balance of payments.

➢ The decline in FDI has been notably severe, as inward investment more than halved during the third quarter of the

Figure 3 – Egypt GDP Breakdown, by Sector[4]



2019/2020 fiscal year. Totalling USD 970.5M versus USD 2.3B recorded in the same quarter last year.
- This is particularly significant for Egypt, the largest recipient of FDI in Africa during 2019. Over the last five years, Egypt accounted for 35.2% of the USD 340B FDI invested in the MENA region.
- The main sources of FDI are the UK (41.2%) followed by Belgium (14.9%) and the USA (13.7%).

➢ However, some indicators of economic health are improving: Egypt's PMI hit a 1-year high in July.
- The IHS Purchasing Managers' Index (PMI) came in at 49.6, up from 44.6 in June, inching closer to the 50.0 threshold which separates growth from contraction.

➢ This indicates that investor sentiment is improving, which could be attributed to both the IMF financing and the CBE's successful execution of monetary policy.

➢ On the political front, a new round of African Union-led negotiations between Egypt, Sudan and Ethiopia regarding the latter's USD 4B Nile dam project came to nought.
- The latest negotiations ended abruptly in July when Egypt and Sudan walked out following Ethiopia's attempt to shift the focus of talks to the countries' respective shares in the Nile's water.
- Egypt is already subject to water insecurity: it has one of the lowest per capita shares of water in the world, at 550 cubic metres per person per year, about half the global average.
- Although the three countries have expressed a commitment to reaching agreement, we believe that prospects are still slim, as both Egypt and Ethiopia remain firm on their position.
    - They want guarantees that the massive project will not reduce their water supply and that initially the area behind the dam is filled over no less than 12 years.
    - Ethiopia wants to fill it more quickly in order to ensure its plans for hydroelectric power.
- The underlying concern in Egypt is that it will have no control over its main water supply and be hostage to drought and famine.

Tunisia: Pre-revolutionary party on the rise

Tunisia's latest PM-designate, Hichem Mechichi, has submitted his candidates for his non-political and technocratic government to parliament. Opposition is strong and approval is by no means certain. An anti-democratic party is also on the rise.

➢ Leading the opposition is moderate Islamist party Ennhada, which has the most seats in the Assembly -- 54 of 217 -- and

[4] Arabia Monitor; CBE.

[5] Egypt's fiscal year runs from 1 July to 30 June.

is at least nominally in coalition with four other parties and several independents.
- Ennhada wants to participate in the next government, but its popularity is waning and its days of monopolising the political arena in Tunisia could be numbered.

➢ Our baseline scenario is that Ennahda will choose not to endorse Mechichi but still approve his Cabinet. That way, existing parties can keep their seats and avoid dissolving parliament.
- If both Mechichi and the Cabinet are rejected, parliament will be dissolved, and early elections held within three months.
- An alternative is that other parties could band together against Ennahda to force an election in the hope of gaining more seats.

➢ Going to the polls again would be a gamble given the disenchantment with politics that is pervasive in Tunisia. Nostalgia for ousted strongman Zine El Abidine Ben Ali, who was president for nearly 24 years, is on the rise.
- The Free Destourian party, formerly known as the Destourian Movement, has gained popularity in recent months under its leader, Abir Moussi.
- Moussi aligns herself with Ben Ali and blames democracy for the country's problems.
- A dissolved parliament would work in Free Destourians' favour, adding to the 17 seats the party already holds.
- Polling in the country currently places Free Destourian ahead of Ennahda.

➢ Political uncertainty continues to block reform.
- If approved, Mechichi would be the country's eighth prime minister in 10 years.
- Fakhfakh was forced to resign after only five months in office, in a conflict of interest row.

Algeria: Opening Up to investment

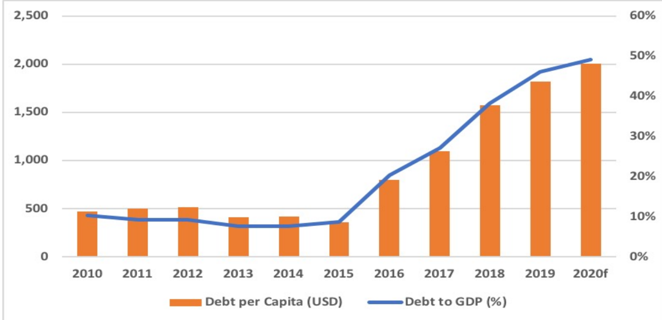
Hit hard by the fall in global crude oil prices, Algeria has responded by accelerating diversification plans and opening previously closed sectors to private investment. While the IMF projects the economy could shrink by as much as 5.2% in 2020, we do not expect that Algeria will turn to the fund for assistance.

➢ In Q1, the Algerian economy shrunk by 3.9%, compared with 1.3% growth during the same period last year.
- The downturn was exacerbated by the fall in oil prices undermining Algeria's dominant energy sector.
- In Q1, the sector contracted by 13.4%, nearly double the 7.1% decline in the first quarter of 2019.
  - Oil and gas account for 60% of the state budget and 93% of total export revenue.
- President Abdelmadjid Tebboune said the government will take steps to increase its non-energy exports to USD 5B next year from the current USD 2B.
- In addition to this, Tebboune has opened the air and maritime travel industries to private investment. This is the latest in a series of moves to allow foreign and private interest in the previously closed Algerian state economy.

➢ The IMF has offered Algeria financing, but despite a more liberal approach to the economy, we do not believe that Fund help will be accepted anytime soon.

➢ The government is attempting to attract money from the informal market, valued at USD 35B, by turning to Islamic finance.
- A majority of Algeria's population of 44 million use cash for their transactions and refuse to use the country's formal banking sector, with some seeing it as incompatible with Islamic practices.
- Islamic finance might woo new investors into the market, as has been the case in neighbouring Tunisia which encourages Islamic finance starting the 1970s.

Figure 4 – Algeria Public Debt[6]



➢ Algeria, nonetheless, is dealing with a liquidity crisis, triggering emergency measures by the government.
- The pandemic has prompted people with cash accounts to make withdrawals. In total, an estimated 84,000 cash withdrawal operations per day took place in the first 6 months of 2020, and USD 3.1B was withdrawn every month from post offices.
- The government recommended that businesses and governmental institutions distribute the payment of salaries, pensions and social assistance over the whole month. Banks have also been required to place a limit on cash withdrawals.

Iraq: Getting cosier with Washington again

While the U.S. continues its policy of disengagement from the region, most noticeably through reduced troop numbers in Iraq, the two countries' bilateral relations are forging ahead through new energy contracts. Stronger ties between the two, which are potentially detrimental to Iran's influence, pave the way for Gulf states to re-engage with Baghdad.

➢ Prime Minister Mustafa al-Kadhimi made his first visit to the White House on 19 August, where President Donald Trump reaffirmed his plan to withdraw U.S. troops from Iraq within three years. Obviously, the outcome of the US elections could well see this plan revised.
- Currently, there are more than 5,000 U.S. troops stationed in Iraq.
- While al-Kadhimi is in general agreement over the removal of US troops on the ground, he lobbied Trump for continued American assistance.

➢ Al-Kadhimi, a favourite in Washington, has been vocal in opposition to Iran's involvement in Iraq and has been working to steer the country away from dependence on its neighbour.
- This is evident through the roughly USD 8B in commercial deals signed between U.S. energy companies and Iraq during al-Kadhimi's visit.
  - The deals involved Honeywell, General Electric, Stellar Energy, Baker Hughes, and Chevron.
  - Three agreements between Iraq's Ministry of Electricity and General Electric are worth more than USD 1.2B; They are designed to ensure reliable electricity access in Iraq, with maintenance programmes at major

[6] Arabia Monitor; IMF.

powerplants, and work to bolster Iraq's transmission network.

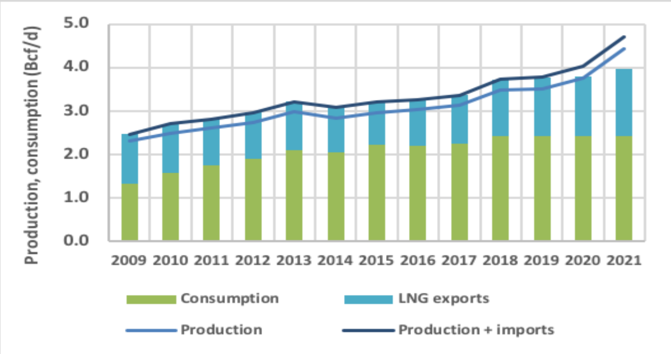
- Additionally, the Iraqi Ministry of Oil created a framework with Chevron for exploration of the Nisiriya oil field in the south, illustrating the investment potential for US companies in the country.
- The White House meeting indicated a shift in policy and a rebalancing in foreign relations for Baghdad, creating a new form of U.S. presence in Iraq.
  - Empowering Iraq's energy sector via U.S. private investment reduces the country's dependence on energy from Iran.
  - Washington's anti-Iran Arab allies will now be encouraged to expand its footprint in Iraq.

Sino-MENA: MENA joins China in COVID vaccine development

The UAE, Saudi Arabia, Bahrain, Morocco and Egypt have joined China in its COVID-19 vaccine development project. The importance of MENA countries in this new area of collaboration can be seen in the limited number of other countries, which so far appear to include just Pakistan, Peru and Argentina.

- In June, Phase 3 testing of Sinopharm's COVID vaccine began in the UAE, in partnership with Abu Dhabi's government and Group 42 (G42), a UAE technology company. This involves around 15,000 volunteers, representing 107 nationalities.
  - The diverse representation is a unique condition that the UAE enjoys given its growth over the past decades.
  - The trial was extended to Bahrain in August, which would involve an estimated 6,000 volunteers over a period of 12 months.
  - Saudi Arabia will also conduct a trial of CanSino Biologics' vaccine on at least 5,000 volunteers in Riyadh, Mecca and Dammam.
  - Morocco signed a cooperation agreement with Sinopharm on a vaccine on 20 August, approving a clinical trial in the North African kingdom.
  - Egypt's Ministry of Health announced plans for VACSERA, the state-owned Holding Company for Biological Products and Vaccines, to manufacture a Chinese vaccine once proven to be effective.
    - Egypt looks to benefit from its growing connection with China, hoping to become the region's centre of vaccine manufacturing. Currently, the vaccine in China (2 doses) is being priced just under USD 150.
- There are several explanations and implications for this growing partnership. China is working with other countries to test the vaccine primarily because the outbreak has been contained domestically, resulting in limited sample sizes.
- MENA countries have become important partners because of growing Sino-MENA relations, as well as the particular nature of governance (rule by king or military) that makes approving and conducting the trial easier and quicker.
- China and the UAE have already committed to 10M doses of vaccine to Indonesia if the trial proves to be effective.
- We believe this growing partnership will also benefit other Sino-MENA ventures in science and tech exchange, particularly in healthcare, including medical tourism and in the treatment of cancers and diabetes.

Figure 5 – Oil prices in 2020[7]



MENA Energy Outlook: A short-lived oil price rally?

After the turbulence of Q2, oil prices have been remarkably stable. Brent has been in the range of USD 37.76-45.09 pb since 3 June.

- The stability of oil prices reflects the lack of strong drivers in either direction. COVID-19 concerns and a resurgence in several countries have led to travel and other economic activity remaining relatively weak.
  - The planned easing of OPEC+ cuts from August onwards would add 2 Mb/d, partly offset by planned over-compliance from countries which under-complied in May-July (mainly Iraq, Nigeria and Angola).
  - We believe that Angola will over-comply from July; Nigeria will continue to under-comply via technical arguments; and Iraq will very slightly over-comply.
  - The additional OPEC+ production has slightly weakened the market, in addition to rising US supplies as shut-in production is largely restored.
  - These factors will prevent a rise above USD 50 pb in the near term. On the other hand, a drop below USD 35 pb would lead to renewed shutdowns.
- We believe prices will probably rise somewhat later in 2020. US drilling has been minimal, with the rig count falling to the lowest level since 1940 in early August.
  - 10 rigs returned by 21st August, indicating that prices are now at a level to permit some low level of activity.
  - Major drilling will probably not resume until WTI prices are sustainably above USD 50 pb. US output, now at 10.7 Mb/d, will probably rise to 11-11.2 Mb/d before falling in Q4 2020 as natural declines take effect.
- Nonetheless, oil prices into 2021 and beyond depend on the interplay of supply, demand and OPEC+ policy.
- A Biden administration could bring back some 1.5 Mb/d of Iranian exports by rejoining the JCPOA nuclear agreement or equivalent, while ~1 Mb/d of blockaded Libyan exports remain a wild card.
- If COVID-19 is controlled by 2021 through a vaccine or other measures, most lost demand will be recovered, with the exception of air travel which IATA expects will not regain its 7 Mb/d level of 2019 until 2024.
- Slower than historic growth can be expected, though, because of the drag of US-China tensions, post-pandemic economic disruption and debt overhangs.
  - OPEC+ will then have to balance prices against regaining its large lost market share (-7.7 Mb/d against its own baseline in August-December 2020). These offsetting factors will likely keep Brent in the range USD 40-60 pb during 2021.

[7] Qamar Energy.

Disclaimer

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