



# MENA ECONOMICS WEEKLY

## Saudi and the “petroyuan”, investors like EGP fall

### “Petroyuan” talk further sign of frayed Saudi-US ties

Comments by Saudi Arabia’s finance minister that the Kingdom could conduct trade in currencies other than the dollar will add fuel to the debate about the rise of a “petroyuan”. There are hurdles to the plan, but it adds to signs that, in a fractured global economy, Saudi may lean towards a China-led bloc.

About a year ago, Saudi officials were reported to be considering accepting renminbi for sales of oil to China. And, after a meeting between Xi Jinping and Gulf leaders last month in which talks were held over the proposal, debate has raged that this could herald the rise of the “petroyuan” and the subsequent demise of the dollar. Saudi Finance Minister, Mohammed al-Jadaan, waded in this week by stating that the Kingdom is open to accepting non-dollar currencies as part of its bilateral trade.

Our Group Chief Economist, Neil Shearing, argued this week that talk of the rise of a “petroyuan” on a sufficient scale to challenge the dollar’s hegemony is [wide of the mark](#). And we looked at this from the Saudi perspective last year [here](#). In short, there are clear reasons why the Kingdom would want to move away from use of the dollar. In particular, the sanctions imposed by the US on Russia have raised questions about the wisdom of transacting in dollars and holding dollar assets as part of official reserves.

But there are practical hurdles. The impact on Saudi Arabia’s foreign exchange reserves could, in principle, be large. The Kingdom is, after all, one of the few countries to run a trade surplus with China and so it could quickly accumulate large holdings of renminbi. It may be reluctant to do so, not least because of concerns regarding convertibility and the implications for its ability to defend the *dollar* peg.

Taking a step back, however, the fact that Saudi officials are now openly discussing such steps reinforces the idea that ties between the Kingdom

and the US are increasingly frayed. As we argued in a piece last year, in a world economy that is fracturing, it looks increasingly likely that [Saudi Arabia will tilt towards a China-led bloc](#).

### Desirable effects of weaker EGP start to materialise

The Central Bank of Egypt released a statement this week in which it declared that close to \$1bn of foreign investment entered the country last Wednesday, the day after the pound plunged to its record low 32/\$. If right, this would provide the first hard evidence that the weaker currency is having the desired effect by attracting investors back to the country. There are other signs that, despite the unfavourable impact that the falls in the pound will have on the [public debt dynamics](#), investors have turned more positive on Egypt. Dollar bond spreads are now at their lowest level since April.

Increased foreign investment, combined with the improvement in [external competitiveness](#), will help to put Egypt’s external position on a more stable footing. As we highlighted in our last [Weekly](#), the central bank may use this an opportunity to rebuild its depleted foreign exchange reserves but there is a risk that this get misinterpreted as an effort by officials to tighten their grip on the currency again.

### Saudi inflation surprises on the upside

Saudi inflation figures released on Sunday showed that the headline rate picked up to an 18-month high of 3.3% y/y in December. That was partly due to higher food inflation. But our measure of core inflation rose too, which almost entirely reflected housing rental inflation hitting its highest rate since 2014 at 6.8% y/y. This may simply be a sign that the more favourable macro backdrop is supporting a recovery in the real estate after years of declining prices and rents. Equally, though, it could be that the [boom in mortgage lending](#) in recent years is starting to create some froth in the real estate market.



# Economic Diary & Forecasts

## Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (GMT)	Previous*	Median*	CE Forecasts*
Fri 20 <sup>th</sup>	<b>Mor</b>	Consumer Prices (Dec.)	-	+0.4%(+8.3%)	-	-
Mon 23 <sup>rd</sup>	<b>Kuw</b>	Consumer Prices (Dec.)	-	+0.2%(+3.2%)	-	-
	<b>Oma</b>	Consumer Prices (Dec.)	-	-0.2%(+2.0%)	-	-
	<b>Qat</b>	Private Sector Credit (Dec.)	-	(+1.5%)	-	-
Tue 24 <sup>th</sup>	<b>Leb</b>	Consumer Prices (Dec.)	-	(+142.4%)	-	-
	<b>Jor</b>	Consumer Prices (Dec.)	-	-0.1%(+5.0%)	-	-
	<b>Egy</b>	Current Account (Q3)	-	-\$3.0bn	-	-
Wed 25 <sup>th</sup>	<b>Sau</b>	Balance of Trade (Nov., SAR)	-	56.8bn	-	-
Thu 26 <sup>th</sup>	<b>Jor</b>	Industrial Production (Nov.)	-	(+5.1%)	-	-

## Selected future data releases and events

30 <sup>th</sup> Jan	<b>Sau</b>	Private Sector Credit (Dec.)	(09.00)	(+13.5%)	-	-
	<b>Kuw</b>	Private Sector Credit (Dec.)	-	(+8.3%)	-	-
	<b>Bah</b>	Consumer Prices (Dec.)	-	-0.1%(+3.9%)	-	-
31 <sup>st</sup> Jan	<b>Sau</b>	GDP (Q4, Preliminary)	(09.00)	(+8.8%)	-	-
2 <sup>nd</sup> Feb	<b>Egy</b>	Interest Rate Decision	-	16.25%	-	-
3 <sup>rd</sup> Feb	<b>Leb</b>	Whole Economy PMI	(09.00)	47.3	-	-
	<b>UAE</b>	Whole Economy PMI	(04.15)	-	-	-
5 <sup>th</sup> Feb	<b>Egy</b>	Whole Economy PMI	(04.15)	-	-	-
	<b>Sau</b>	Whole Economy PMI	(04.15)	-	-	-
6 <sup>th</sup> Feb	<b>Tun</b>	Consumer Prices (Jan.)	-	+0.7%(+10.1%)	-	-
	<b>Egy</b>	Foreign Exchange Reserves (Jan.)	-	\$34.0bn	-	-
9 <sup>th</sup> Feb	<b>Egy</b>	Consumer Prices (Jan.)	-	+3.2%(+21.3%)	-	-
	<b>Sau</b>	Industrial Production (Dec.)	(09.00)	(+8.6%)	-	-
10 <sup>th</sup> Feb	<b>Bah</b>	Private Sector Credit (Dec.)	-	-	-	-
13 <sup>th</sup> Feb	<b>Sau</b>	Consumer Prices (Jan.)	(09.00)	+0.3%(+3.3%)	-	-
	<b>Tun</b>	GDP (Q4)	-	-	-	-
	<b>Qat</b>	Consumer Prices (Jan.)	-	+1.2%(+5.9%)	-	-
16 <sup>th</sup> Feb	<b>Jor</b>	Consumer Prices (Jan.)	-	-0.1%(+4.4%)	-	-

\*m/m(y/y) unless otherwise stated

Sources: Bloomberg, Refinitiv, Capital Economics



# Main Economic & Market Forecasts

Table 1: Central Bank Policy Rates

Policy Rate		Latest (19 <sup>th</sup> Jan.)	Last Change	Next Change	Forecasts	
					End 2023	End 2024
Saudi Arabia	Reverse Repo Rate	4.50	Up 50bp (Dec. '22)	Up 25bp (Feb. '23)	4.25	3.00
Egypt	O/N Deposit Rate	16.25	Up 300bp (Dec '22)	Up 100bp (Feb. '23)	17.75	11.25
UAE	Repo Rate	4.65	Up 50bp (Dec. '22)	Up 25bp (Feb. '23)	4.15	2.90
Algeria	Discount Rate	4.50	Up 50bp (Dec. '22)	Up 25bp (Feb. '23)	6.00	4.75
Qatar	Deposit Rate	5.25	Up 50bp (Dec. '22)	Up 25bp (Feb. '23)	5.50	4.25
Kuwait	Discount Rate	3.50	Up 25bp (Dec. '22)	Up 25bp (Feb. '23)	3.50	2.25
Morocco	Key Rate	2.50	Up 50bp (Dec. '22)	Up 75bp (Feb '23)	4.25	4.00
Oman	O/N Repo rate	4.25	Up 50bp (Dec. '22)	Up 25bp (Feb. '23)	4.75	3.50
Tunisia	BCT Key Rate	7.25	Up 75bp (Dec. '22)	Up 50bp (Feb '23)	8.75	8.50
Jordan	Policy Rate	6.25	Up 50bp (Dec. '22)	Up 25bp (Feb. '23)	6.00	4.75
Bahrain	1-Wk deposit facil.	5.25	Up 50bp (Dec. '22)	Up 25bp (Feb. '23)	5.00	3.75

Sources: Refinitiv, Capital Economics

Table 2: Currencies and Stock Markets

Currency		Latest (19 <sup>th</sup> Jan.)	Forecasts		Stock Market	Latest (19 <sup>th</sup> Jan.)	Forecasts	
			End 2023	End 2024			End 2023	End 2024
Saudi Arabia	SAR/USD	3.7562	3.7500	3.7500	TASI	10,676	10,850	12,200
Egypt	EGP/USD	29.69	26.00	27.00	EGX30	16,074	11,200	11,700
UAE	AED/USD	3.6726	3.6725	3.6725	DFMGI	3,352	3,600	4,050
Algeria	DZD/USD	135.8	160.0	180.0	-	-	-	-
Qatar	QAR/USD	3.6400	3.6400	3.6400	QSI	10,857	12,600	14,100
Kuwait	KWD/USD	0.3053	0.3040	0.3040	BKA	7,221	5,500	6,200
Morocco	MAD/EUR	11.00	10.50	10.00	MASI	10,387	15,800	16,500
Oman	OMR/USD	0.3840	0.3845	0.3845	MSX30	4,803	3,550	3,950
Tunisia	TND/EUR	3.32	3.80	3.90	TUNINDEX	8,231	6,400	7,300
Jordan	JOD/USD	0.71	0.71	0.71	AMGNRLX	2,653	2,200	2,400
Lebanon	LBP/USD	1,505	15,000	15,000	BLSI	1,428	1,050	1,100
Bahrain	BHD/USD	0.3770	0.3761	0.3761	BAX	1,929	1,500	1,650

Sources: Refinitiv, Capital Economics

Table 3: GDP & Consumer Prices (% y/y)

Share of 2010-19 World <sup>1</sup>		Ave.		GDP					Consumer Prices				
				2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Saudi Arabia	1.2	3.5		-4.1	3.2	9.3	2.0	4.3	3.4	3.1	2.5	2.3	2.0
Egypt	1.0	3.9		1.5	7.0	2.8	3.8	5.3	5.1	5.2	14.0	23.3	8.5
UAE	0.5	2.8		-5.0	5.6	8.3	2.8	6.5	-2.0	0.1	3.8	2.0	1.8
Algeria	0.4	2.8		-5.1	3.5	3.5	2.8	3.5	2.4	7.2	9.3	5.3	4.3
Morocco	0.2	3.8		-7.2	7.9	0.0	2.5	3.8	0.7	1.4	6.3	2.8	1.3
Qatar	0.2	7.4		-3.6	1.5	5.8	3.5	2.3	-2.7	2.3	4.5	2.5	1.5
Kuwait	0.1	1.1		-8.9	1.5	9.5	1.8	5.0	2.1	3.4	4.0	2.5	2.5
Oman	0.1	4.1		-3.4	3.1	8.5	2.3	3.0	-0.8	1.5	3.0	1.5	1.5
Tunisia	0.1	2.3		-8.7	3.3	2.5	1.0	1.0	5.6	5.7	8.3	7.5	5.5
Jordan	0.1	3.2		-1.2	2.2	2.5	1.8	2.0	0.3	1.3	4.5	5.5	1.8
Bahrain	0.1	3.4		-4.9	2.2	6.8	3.3	4.8	-2.3	-0.6	3.8	1.3	0.8
Lebanon	0.03	3.8		-25.9	-14.5	2.5	2.0	2.0	84.9	154.8	165.0	45.0	10.0
Mid. East & North Africa <sup>2</sup>	3.9	3.7		-3.8	4.5	5.9	2.7	4.5	2.2	3.4	6.8	5.8	4.4

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2021, PPP terms (IMF estimates). 2) Regional inflation aggregate excludes Lebanon.



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