



# MENA ECONOMICS WEEKLY

## OPEC, peace to business for UAE & Israel, Saudi mills

### **OPEC meets as clouds gather over the oil market**

The OPEC ministerial meeting that takes place today is unlikely to result in any immediate policy changes, but the cartel will probably acknowledge the worsening demand outlook and may signal that it stands ready to take fresh action to support oil prices.

OPEC marks its 60th birthday this week, but the event is being overshadowed by the fresh deterioration in the outlook for oil demand. With coronavirus outbreaks worsening again in many parts of the world, particularly in Europe, earlier this week OPEC revised down its estimates for oil demand for this year and next. (See the forthcoming [OPEC Watch](#) on our *Energy* service.)

This is likely to frame discussions at today's (virtual) ministerial meeting. For now, it's highly unlikely that the cartel will respond by deepening its oil output cuts. Instead, the focus will probably remain on pressuring those countries which are currently failing to comply with their output quotas. Nigeria, Angola and Iraq had previously provoked the ire of the cartel's de facto leader, Saudi Arabia, for overproducing. But the attention has recently shifted to the UAE, which pumped close to 200,000 bpd above its quota last month. Policymakers in the UAE have pinned this on higher local demand for power generation and said that they will make compensatory cuts in the coming months.

If the outlook for oil demand continues to weaken and oil prices suffer further falls, talk amongst OPEC and its allies will probably quickly shift towards taking fresh action. This poses a downside risk to our GDP growth forecasts for the Gulf.

### **After peace comes business for UAE and Israel**

US President Trump hosted officials from Israel, UAE and Bahrain this week for an official signing of peace deals between the two Gulf countries and Israel and attention has quickly shifted towards establishing economic and financial ties.

Dubai's port operator, DP World, is in talks to acquire Haifa port, the largest port in Israel. And the Dubai-based bank, Emirates NBD, has signed memorandums of understanding with major Israeli banks. Diamond exchanges in both countries have also agreed on cooperation. That said, the experience from Jordan and Egypt provides reason for caution that the normalisation of relations will provide a significant economic boost. (See [here](#).)

Bahrain's peace deal with Israel had raised expectations that Saudi Arabia will soon normalise relations too. President Trump said that he expects the Kingdom to do so "at the right time". Crown Prince Mohammed bin Salman has certainly made overtures to Israel in recent years and appears keen to establish ties in order to show a united front against Iran and tap into Israel's technology sector. But King Salman appears to be more hesitant. The king had previously been in charge of raising funds for Palestinians and so may be less willing to undermine the Palestinian cause.

### **Saudi privatisations grind on slowly**

Saudi Arabia moved a step closer this week to the full privatisation of its grain mills but rather than being an endorsement of the Kingdom's reform plans, it highlights the slow progress so far.

The process of selling these mills started four years ago and, apart from the sale of a small stake in the state oil company Aramco, is the only major privatisation to have been followed through so far. Privatisations are certainly required in the Kingdom in order to raise funds and reduce the government's role in the economy. (See [here](#).) The experience so far, though, doesn't bode well.

### **The week ahead**

The main highlight will be the Central Bank of Egypt's monetary policy meeting where, despite inflation falling to nine-month low last month, we expect interest rates to be left on hold.



# Data Previews

## Egypt Interest Rate Announcement

Thu. 23<sup>rd</sup> Sep.

Forecasts	Time (BST)	Previous	Consensus	Capital Economics
Overnight Deposit Rate (%)	-	9.25	-	9.25

### *CBE to keep rates on hold, despite low inflation*

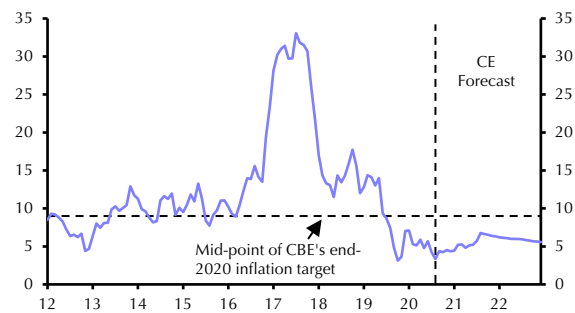
We think that the Central Bank of Egypt (CBE) will keep its overnight deposit rate unchanged at 9.25% when the MPC meets on Thursday.

Headline inflation dropped from 4.2% y/y in July to a nine-month low of 3.4% y/y in August, leaving it well below the central bank’s target of 9±3% for the end of this year. This came on the back of a sharp fall in food inflation. (See [here](#).) We expect inflation to rise over the coming months but it is likely to remain below target. (See Chart 1.)

Even so, the experience from recent months is that the central bank is reluctant to provide more monetary stimulus. The CBE appears to have shifted its focus on keeping rates high to support the pound and rebuild its foreign exchange reserves. The IMF

has also suggested that interest rates should be kept on hold. The upshot is that the easing cycle is unlikely to be resumed at this meeting but we still think renewed rate cuts lie in store further ahead.

Chart 1: Egypt Consumer Prices (% y/y)



Sources: CEIC, Capital Economics



## Economic Diary & Forecasts

### Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Previous*	Median*	CE Forecasts*
20 <sup>th</sup> Sep	-	No Significant Data Released	-	-	-	-
21 <sup>st</sup> Sep	<b>Kuw</b>	Consumer Prices (Aug.)	-	+0.4%(+1.9%)	-	-1.3%(+0.5%)
	<b>Mor</b>	Consumer Prices (Aug.)	-	-0.3%(-0.1%)	-	+0.2%(-0.3%)
	<b>Qat</b>	Private Sector Credit (Aug.)	-	(+12.4%)	-	-
22 <sup>nd</sup> Sep	<b>Mor</b>	Interest Rate Announcement (Sep.)	-	1.50%	-	1.25%
23 <sup>rd</sup> Sep	<b>UAE</b>	Private Sector Credit (Jul.)	-	-	-	-
	<b>UAE</b>	Private Sector Credit (Aug.)	-	-	-	-
	<b>Leb</b>	Consumer Prices (Aug.)	-	+11.4%(+112.4%)	-	+25.7(+166.9%)
24 <sup>th</sup> Sep	<b>Egy</b>	Interest Rate Announcement (Sep.)	-	9.25%	-	9.25%
<b>Selected future data releases and events</b>						
28 <sup>th</sup> Sep	<b>Bah</b>	Consumer Prices (Aug.)	-	-	-	-
	<b>Sau</b>	Private Sector Credit (Aug.)	-	-	-	-
29 <sup>th</sup> Sep	<b>Bah</b>	GDP (Q2)	-	(-1.1%)	-	-
30 <sup>th</sup> Sep	<b>Qat</b>	GDP (Q2)	-	-	-	-
	<b>Jor</b>	GDP (Q2)	-	(+1.3%)	-	-
	<b>Sau</b>	GDP (Q2)	-	(-1.0%)	-	-
1 <sup>st</sup> Oct	<b>Egy</b>	Foreign Exchange Reserves (Sep.)	-	-	-	-
	<b>Mor</b>	GDP (Q2, q/q(y/y))	-	-4.3%(+0.1%)	-	-
5 <sup>th</sup> Oct	<b>Egy</b>	Whole Economy PMI (Sep.)	-	49.4	-	-
	<b>Sau</b>	Whole Economy PMI (Sep.)	-	48.8	-	-
	<b>UAE</b>	Whole Economy PMI (Sep.)	-	49.4	-	-
	<b>Leb</b>	Whole Economy PMI (Sep.)	-	40.1	-	-
8 <sup>th</sup> Oct	<b>Tun</b>	Consumer Prices (Sep.)	-	-	-	-
9 <sup>th</sup> Oct	<b>Egy</b>	Consumer Prices (Sep.)	-	-	-	-
	<b>Bah</b>	Private Sector Credit (Aug.)	-	+0.4%(-2.7%)	-	-
	<b>Jor</b>	Consumer Prices (Aug.)	-	+0.1%(-0.6%)	-	-
10 <sup>th</sup> Oct	<b>Egy</b>	Core Consumer Prices Sep.)	-	-	-	-
12 <sup>th</sup> Oct	<b>Kuw</b>	Private Sector Credit (Aug.)	-	-	-	-
13 <sup>th</sup> Oct	<b>OPEC</b>	OPEC Monthly Oil Market Report	-	-	-	-
	<b>UAE</b>	Consumer Prices (Aug.)	-	-	-	-
	<b>Oma</b>	Private Sector Credit (Aug.)	-	-	-	-

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

Sources: Bloomberg, Refinitiv, Capital Economics



## Main Economic &amp; Market Forecasts

Table 1: GDP &amp; Consumer Prices (% y/y)

	Share of 2008-18 World <sup>1</sup>		GDP					Consumer Prices				
	Ave.		2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Saudi Arabia	1.3	3.5	2.4	0.3	-7.3	6.5	2.3	2.5	-2.1	3.5	4.0	2.5
Egypt	1.0	3.9	5.4	5.5	-3.5	8.8	5.8	14.4	8.6	5.5	6.5	6.0
UAE	0.5	2.8	1.7	3.0	-10.5	7.8	4.0	3.1	-1.9	-2.3	2.5	3.0
Algeria	0.5	2.8	1.5	0.8	-9.0	1.8	1.5	4.3	2.0	3.3	6.0	6.5
Qatar	0.3	7.4	1.4	-0.4	-2.3	4.5	5.5	0.3	-0.6	-0.5	1.5	2.5
Morocco	0.2	3.8	3.0	2.3	-6.8	7.0	3.8	1.8	0.7	0.8	1.8	2.0
Kuwait	0.2	1.1	1.2	0.4	-6.0	4.0	2.8	0.6	1.1	1.0	2.5	2.5
Oman	0.1	4.1	2.0	0.5	-7.3	4.5	2.0	0.9	0.1	-0.5	5.0	1.8
Tunisia	0.1	2.3	2.5	1.0	-7.0	5.0	3.0	7.3	6.7	6.0	5.0	5.0
Jordan	0.1	3.2	2.0	2.5	-6.8	8.8	3.3	4.5	0.8	0.3	3.3	4.0
Lebanon	0.1	3.4	0.2	-3.0	-30.0	-13.5	2.5	6.1	2.9	99.3	60.0	6.0
Bahrain	0.1	3.8	2.0	1.8	-4.5	3.3	1.3	2.1	1.0	-1.8	1.8	2.3
<b>Middle East &amp; North Africa</b>	<b>4.5</b>	<b>3.7</b>	<b>2.7</b>	<b>1.9</b>	<b>-6.9</b>	<b>6.1</b>	<b>3.5</b>	<b>5.1</b>	<b>1.4</b>	<b>3.9</b>	<b>5.1</b>	<b>3.8</b>

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2019, PPP terms (IMF estimates).

Table 2: Central Bank Policy Rates

Country	Policy Rate	Latest (17 <sup>th</sup> Sep.)	Last Change	Next Change	Forecasts	
					End 2020	End 2021
Saudi Arabia	Reverse Repo Rate	0.50	Down 75bp (Mar. '20)	None on the horizon	0.50	0.50
Egypt	Overnight Deposit Rate	9.25	Down 300bp (Mar. '20)	Down 50bp (Q4 '20)	8.00	7.00
UAE	Repo Rate	0.75	Down 75bp (Mar. '20)	None on the horizon	0.75	0.75
Algeria	Discount Rate	3.25	Down 50bp (Mar. '20)	None on the horizon	3.25	3.25
Qatar	Deposit Rate	1.00	Down 50bp (Mar. '20)	None on the horizon	1.00	1.00
Kuwait	Discount Rate	1.50	Down 100bp (Mar. '20)	None on the horizon	1.50	1.50
Morocco	Key Rate	1.50	Down 50bp (Jun. '20)	None on the horizon	1.50	1.50
Oman	Overnight Repo rate	0.50	Down 100bp (Mar. '20)	None on the horizon	0.50	0.50
Tunisia	BCT Key Rate	6.75	Down 100bp (Mar. '20)	None on the horizon	6.75	6.75
Jordan	Overnight Deposit Rate	1.75	Down 100bp (Mar. '20)	None on the horizon	1.75	1.75
Lebanon	Repo Rate	10.00	Down 200bp (Dec '09)	None on the horizon	10.00	10.00
Bahrain	1-week deposit facility	1.00	Down 75bp (Mar. '20)	None on the horizon	1.00	1.00

Sources: Bloomberg, Capital Economics

Table 3: Currencies and Stock Markets

Country	Currency	Latest (17 <sup>th</sup> Sep.)	Forecasts		Stock Market	Latest (17 <sup>th</sup> Sep.)	Forecasts	
			End 2020	End 2021			End 2020	End 2021
Saudi Arabia	SAR/USD	3.7508	3.7500	3.7500	TASI	8,338	8,200	9,450
Egypt	EGP/USD	15.70	17.00	18.00	EGX30	11,050	12,600	15,200
UAE	AED/USD	3.6728	3.6725	3.6725	DFMGI	2,321	2,325	2,800
Algeria	DZD/USD	128.7	145.0	160.0	-	-	-	-
Qatar	QAR/USD	3.6400	3.6400	3.6400	QSE	9,942	10,050	12,050
Kuwait	KWD/USD	0.3055	0.3040	0.3040	KWSE	6,009	7,900	8,950
Morocco	MAD/EUR	10.90	11.50	11.80	MADEX	8,200	11,250	12,750
Oman	OMR/USD	0.3850	0.3845	0.3845	MSM30	3,648	4,000	4,750
Tunisia	TND/EUR	3.25	3.60	3.80	TUNINDEX	6,844	8,100	9,200
Jordan	JOD/USD	0.71	0.71	0.71	ASE	1,586	2,000	2,050
Lebanon	LBP/USD	1505.7	7,500	7,500	BLOM	618	600	650
Bahrain	BHD/USD	0.3770	0.3761	0.3761	BHSE	1,435	1,550	1,850

Sources: Bloomberg, Capital Economics



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