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Event Update - IMF Releases World Economic Outlook Update

January-2017

Global growth forecasts left unchanged from Oct-16 expectations: IMF left its global growth estimates for 2017 and 2018 unchanged at 3.4% and 3.6% respectively, in its World Economic Outlook (WEO) update released in January-17. Changing policy mix under the new administration in the US and its global ramifications are key assumptions shaping the current forecasts, while Emerging Economies are expected to continue as the driver of growth globally.

Global GDP growth in 2016 remained modest at 3.1%: Global growth in 2016 is expected to have come in lower by 10 bps than in 2015 (3.2% y-o-y), as the year saw two halves unfold with a weaker H1-16 initially, and followed by a stronger H2-16 for key economies, barring few regions. The slowdown is largely ascribed to an unexpected slowdown in emerging market economies, partially offset by stronger-than-expected growth in advanced economies from a marginal recovery in manufacturing output and reduced drag from inventories.

Saudi Arabia's growth slashed by 160 bps for 2017: Real GDP growth in Saudi Arabia for 2016 is estimated to come in at 1.4%, down from 4.1% in 2015, as per the IMF. Real GDP growth expectations for 2017 and 2018 is projected to be lower at 0.4% and 2.3% respectively, than earlier expected in Oct-16, and was revised downwards following the expected impact following the lower oil production, as agreed in the OPEC meet in late 2016.

Saudi Arabia growth revision signals cuts for GCC; but overall outlook for 2017 remains intact: Though the revision of Saudi Arabia's growth is significant, it comes as little surprise to us following the oil production cuts of reportedly 486 tb/d. The production cuts nevertheless have firmed oil prices, as oil prices remain over USD 50/bbl, and if it sustains, should translate into higher revenues. The reduction of growth in real terms also signals towards similar revisions for other GCC countries, in our view. Nevertheless KAMCO Research continues to believe that global growth, a strong USD and stable commodity prices would positively affect state finances and balance of trade terms as they would translate into higher revenues and lower import bills, keeping the overall GCC outlook for 2017 at a balance.

IMF Estimates	Current Estimates Jan-17			Revisions by IMF		Previous Estimates Oct-16	
Real GDP Growth	**2016E**	**2017 F**	**2018 F**	**2017 F**	**2018 F**	**2017 F**	**2018 F**
Percentage							
US	1.6%	2.3%	2.5%	0.1%	0.4%	2.2%	2.1%
Europe	1.7%	1.6%	1.6%	0.1%	0.0%	1.5%	1.6%
UK	2.0%	1.5%	1.4%	0.4%	-0.3%	1.1%	1.7%
Japan	0.9%	0.8%	0.5%	0.2%	0.0%	0.6%	0.5%
Russia	-0.6%	1.1%	1.2%	0.0%	0.0%	1.1%	1.2%
China	6.7%	6.5%	6.0%	0.3%	0.0%	6.2%	6.0%
India	6.6%	7.2%	7.7%	-0.4%	0.0%	7.6%	7.7%
Brazil	-3.5%	0.2%	1.5%	-0.3%	0.0%	0.5%	1.5%
Saudi Arabia	**1.4%**	**0.4%**	**2.3%**	**-1.6%**	**-0.3%**	**2.0%**	**2.6%**
Advanced Economies	1.6%	1.9%	2.0%	0.1%	0.2%	1.8%	1.8%
Emerging Market & Developing Economies	4.1%	4.5%	4.8%	-0.1%	0.0%	4.6%	4.8%
MENA, Afghanistan & Pakistan	**3.8%**	**3.1%**	**3.5%**	**-0.3%**	**-0.1%**	**3.4%**	**3.6%**
Real GDP Growth - Global	**3.1%**	**3.4%**	**3.6%**	**0.0%**	**0.0%**	**3.4%**	**3.6%**
Growth in other key economic drivers	**2016E**	**2017 F**	**2018 F**	**2017 F**	**2018 F**	**2017 F**	**2018 F**
Percentage							
CPI - Advanced Economies	0.7%	1.7%	1.9%	0.0%	0.0%	1.7%	1.9%
CPI -Emerging Market & Developing Economies	4.5%	4.5%	4.4%	0.1%	0.2%	4.4%	4.2%
World Trade	1.9%	3.8%	4.1%	0.0%	-0.1%	3.8%	4.2%

Source: IMF WEO Update January 2017

Faisal Hasan, CFA

Head - Investment Research

+(965) 2233 6907

faisal.hasan@kamconline.com

Thomas Mathew

Senior Financial Analyst

+(965) 2233 6741

thomas.mathew@kamconline.com

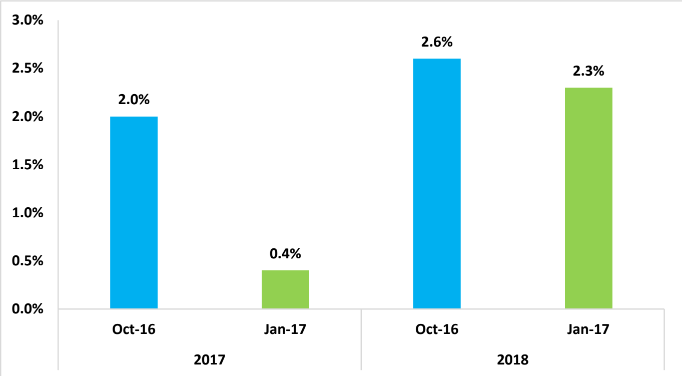
Growth of advanced economies looks more upbeat than before…

Forecasts for growth of Advanced Economies were pushed up by 10 bps and 20 bps for 2017 and 2018 respectively, as growth is expected to clock 1.9% and 2.0% respectively. The upward revision was largely ascribed to higher growth expected in the US, as the country is expected to grow at over 2% in 2017 (2.3%) and 2018 (2.5%). Growth revisions of +10 bps and +40 bps for the current year and coming year respectively are also broadly in line with the Fed's expectations of growth of above 2% for the two years. Fiscal stimulus initiatives from the incoming administration and a less gradual normalization of monetary policy would provide more support and evidence for growth in the US. Other countries in the group that saw growth projections revised upwards were Germany, Japan, Spain, and the UK, mostly on account of a stronger performance witnessed in the latter part of 2016. Global trade growth on other hand for 2017 was kept constant at 3.8% while growth for 2018 was brought down by 10 bps to 4.1%. Protectionist trade policies remains key risk for the forecasts.

…. however other key regions saw their growth forecasts revised downwards from Oct-16...

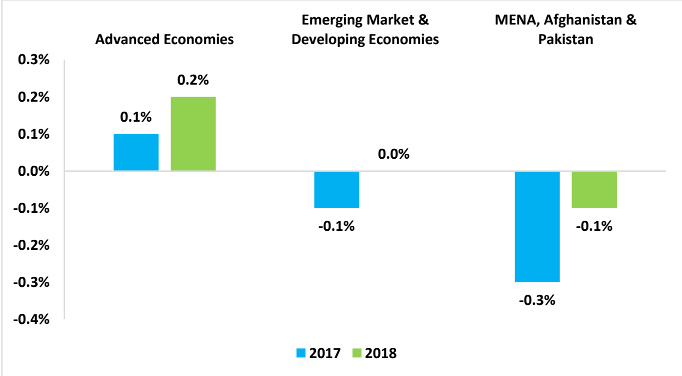
Most revisions of regional growth forecasts by the IMF in Jan-17, barring Advanced Economies were negative, despite global Real GDP growth being kept unchanged for 2017 & 2018 from its earlier update. China's growth forecast for 2017 was however taken up by 30 bps due to pro-growth policy action, while India's growth was brought down by 40 bps, due to the spillover effects from the recent currency demonetization initiative. The MENA, Afghanistan and Pakistan region saw a higher drop in growth expectations than the overall Emerging Markets group, as it witnessed negative revisions of 30 bps and 10 bps for 2017 & 2018, respectively. Key drivers for the revision were ascribed to lower growth in Saudi Arabia and geopolitical risks prevalent in the region, as per the IMF. However, even post the revision and sequential reduction likely to be witnessed in growth, the region is set to grow at 3.1% and 3.5% in 2017 and 2018, respectively. Latin America and the Caribbean saw the maximum reduction in growth in 2017 compared to earlier forecasts as growth was cut by 40 bps. The cut was in most part due to a 60 bps growth reduction in Mexico, due to US foreign policy uncertainty towards the country and slower growth of -(30 bps reduction) to be clocked by Brazil.

KSA Real GDP Growth – 2017 & 2018



Source: IMF WEO Update January 2017, KAMCO Research

Revision in GDP Growth from Oct -16 to Jan -17



Source: IMF WEO Update January 2017, KAMCO Research

H1-17 pivotal for which way the balance tilts for the GCC

IMF forecasts average oil prices to improve by USD 8.5/barrel in 2017, from an average of USD 42.7/barrel achieved over 2016 to USD 51.2/barrel. Further, a marginal increase of USD 1.9/barrel is forecasted for 2017. IMF's forecasts of oil prices above USD 50/barrel in 2017 and 2018 are broadly in-line with consensus estimates.

Though growth in real terms in Saudi Arabia is estimated to come down and have similar implications for the GCC as well, on account of lower oil output, this should provide additional impetus to push non-oil initiatives in 2017 to shore up the gap. The cut in IMF's forecast reveals an interesting contrast to Saudi Arabia's official forecast budget for 2017, which forecasts a 31% increase in revenues as against the previous year, while oil revenues are expected to grow by 46% y-o-y from 2016. Furthermore Saudi Arabia expects a balanced budget by 2020 and remains confident of eliminating budgetary deficits in four years, as outlined in their Fiscal Balance Program released recently. The IMF reportedly mentioned that Saudi Arabia's plans are in line with IMF's recommendations, as they highlighted that eliminating deficits by 2020 appeared possible. For the broader GCC, KAMCO Research expects H1-17 to be pivotal, more from a global signaling perspective, as global trade growth would need to remain intact and protectionist policy initiatives would need to be tempered. This would be crucial to provide stability for commodity prices and more importantly oil prices for the region. Also the policy stance from the US and the finer details of Brexit would be of keen interest, along with further developments surrounding the oil market in terms of the progress of production cuts. Further rate hikes from the Fed translating into higher rates in the GCC would act as a dampener, but with offsetting impacts in our view, as it would lead to a stronger USD and would lead to lower twin deficits.

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KAMCO Investment Company - K.S.C. (Public)
Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq
P.O. BOX : 28873, Safat 13149, State of Kuwait
Tel: (+965) 1852626 Fax: (+965) 22492395
Email : Kamcoird@kamconline.com
Website : http://www.kamconline.com