Event Update - IMF Releases World Economic Outlook Update

July-2016

Global growth visibility impaired post Brexit...

Global growth lowered amidst uncertainties: IMF revised its global growth estimates lower yet again, in its World Economic Outlook (WEO) released in July-16, largely due to an increase in uncertainties post the UK referendum event, and lower visibility of future macroeconomic and political events. Key drivers for the downward revision in global growth, was lower growth expectations from the UK and Europe as a whole.

Global GDP growth in 2016 & 2017 revised lower by 0.1% each: Latest forecasts for global GDP growth came in at 3.1% for 2016 and 3.4% for 2017, as the IMF expects the global economy to weaken further, albeit marginally as per its baseline assumptions. However, the agency did allude to positive developments so far in 2016, as real activity in emerging markets like China, Brazil and Russia were stronger than expected, along with better Euro area growth, which counterbalanced weaker US growth. Nevertheless, GDP growth for UK was slashed by 0.9% for 2017, while downward revisions were made throughout the Euro area as well for the next year. The lower visibility also implied additional risk scenarios, which could drag growth down further, by 0.3% - 0.6% per annum in 2017, as compared to the current baseline scenario.

Saudi Arabia's growth for 2017 revised higher by 0.1%: Growth for Saudi Arabia in 2016 was kept stable at 1.2%, while growth for 2017 was pushed higher to 2.0% (Apr-16: 1.9%) as per latest IMF expectations, despite the reported 0.7% contraction in non-oil GDP in Q1-16. This decline was more than offset by a 1.8% increase in oil-GDP, which benefitted from the higher oil-production. We believe that oil will continue to drive growth in the coming years on the back of higher production that will also help to replenish lower inventory levels in Saudi Arabia and spikes in intermittent demand, as seen recently.

Fiscal consolidation to remain the main theme in the GCC, alternate risk scenarios & lower oil key risks: KAMCO Research believes that the onus would continue to remain on fiscal consolidation for GCC nations, despite a recovery of oil prices from its lows in early 2016. Public spending initiatives would need to be intensified, along with the implementation of other policy side initiatives, which were either recently announced or are in the pipeline, to propel the non-oil economy to higher growth. Nevertheless, if the alternate global risk scenarios were to materialize, this would have a direct impact on oil-demand growth, and the resultant growth of GCC economies from lower oil revenues.

IMF Estimates	Current Estimates Jul-16			Revisions by IMF		Previous Estimates Apr-16	
Real GDP Growth	**2015**	**2016 F**	**2017 F**	**2016 F**	**2017 F**	**2016 F**	**2017 F**
Percentage							
US	2.4%	2.2%	2.5%	-0.2%	0.0%	2.4%	2.5%
Europe	1.7%	1.6%	1.4%	0.1%	-0.2%	1.5%	1.6%
UK	2.2%	1.7%	1.3%	-0.2%	-0.9%	1.9%	2.2%
Japan	0.5%	0.3%	0.1%	-0.2%	0.2%	0.5%	-0.1%
Russia	-3.7%	-1.2%	1.0%	0.6%	0.2%	-1.8%	0.8%
China	6.9%	6.6%	6.2%	0.1%	0.0%	6.5%	6.2%
India	7.6%	7.4%	7.4%	-0.1%	-0.1%	7.5%	7.5%
Brazil	-3.8%	-3.3%	0.5%	0.5%	0.5%	-3.8%	0.0%
Saudi Arabia	**3.5%**	**1.2%**	**2.0%**	**0.0%**	**0.1%**	**1.2%**	**1.9%**
Advanced Economies	1.9%	2.6%	3.9%	-0.1%	-0.2%	2.7%	4.1%
Emerging Market & Developing Economies	4.0%	2.9%	3.9%	0.0%	0.0%	2.9%	3.9%
MENA, Afghanistan & Pakistan	**2.3%**	**3.4%**	**3.3%**	**0.3%**	**-0.2%**	**3.1%**	**3.5%**
Real GDP Growth - Global	**3.1%**	**3.1%**	**3.4%**	**-0.1%**	**-0.1%**	**3.2%**	**3.5%**
Growth in other key economic drivers	**2015**	**2016 F**	**2017 F**	**2016 F**	**2017 F**	**2016 F**	**2017 F**
Percentage							
CPI - Advanced Economies	0.3%	0.7%	1.6%	0.0%	0.1%	0.7%	1.5%
CPI -Emerging Market & Developing Economies	4.7%	4.6%	4.4%	0.1%	0.2%	4.5%	4.2%
World Trade	2.6%	2.7%	3.9%	-0.4%	0.1%	3.1%	3.8%

Source: IMF WEO Update July 2016

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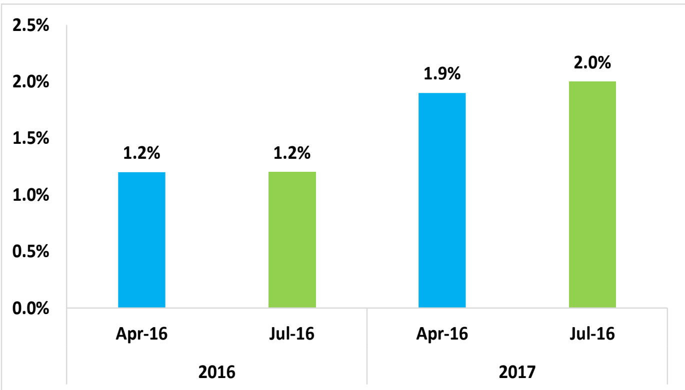
Downward revisions to UK & Euro area growth weighs on growth forecasts of advanced economies

The IMF's growth forecasts of advanced economies were brought down by 0.1% and 0.2% for 2016 & 2017, mainly due to a downward revision of growth in the UK, as the increased uncertainty regarding the transition following Brexit is expected to significantly weaken domestic demand, as compared to previous forecasts. Also the Euro region post the event, going forward is likely to witness an increase in uncertainty of consumer and business confidence, and potential stress on the banking sector, as per the IMF. Although the impact on US economic growth from the event is expected to be muted, economic growth in Japan is expected to be lower, as growth for 2016 was reduced to 0.3% (20 bps) in 2016, largely due to the impact of a stronger Yen on economic growth, as investors chase safer haven assets.

Materialization of risk scenarios would impact both advanced and emerging markets

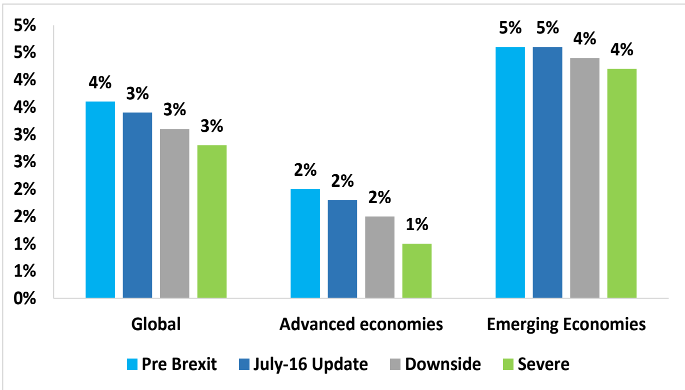
In the baseline scenario, the IMF expects growth in the emerging market economies to remain stable, as compared to their previous forecasts from Apr-16. However, as a result of Brexit and the economic and political uncertainty following the event, the agency deems more negatives outcomes as plausible, and outlined the potential ramifications on the global economic outlook under two alternative scenarios - "downside scenario" and "severe scenario". Under the downside scenario, consumption and investment activity is expected to be weak globally until H1-2017, along with tighter financial conditions, which would drag economic activity lower. Though less probable, the severe scenario factors in a UK recession, and trade and financial spillovers are expected to be more significant than expected under the baseline scenario, driven by an intensification of financial stress, especially in advanced economies in Europe. In the event that the alternate risk scenarios do occur, economic growth of advanced economies are expected to be lower by 0.3% -0.8% per annum in 2017, while emerging market and developing economies are expected to see lower declines in growth of 0.2%-0.4% per annum over the same period.

KSA Real GDP Growth –2016 & 2017



Source: IMF WEO Update July 2016, KAMCO Research

Global & Regional Growth Scenarios - 2017



Source: IMF WEO Update July 2016, KAMCO Research

Fiscal prudence discipline paramount for the GCC in all scenarios

As per the IMF, oil prices assumed for their July update were higher by USD 10/barrel for 2016 & 2017, as compared to Apr-16 forecasts. Nevertheless, we believe the resumption of oil production activity in Nigeria and Canada should put additional pressure on the demand-supply situation and on oil prices (see our Oil Market Monthly Report - July-16).

KAMCO Research believes that GCC economies would continue with their fiscal consolidation efforts in 2016 & 2017, in an effort to strengthen the non-oil economy. Public spending remains key, and would be needed along-side other policy side initiatives, which have been introduced, or are in the pipeline in ensuring a smoother transition towards desired objectives. Nevertheless, the downside and severe scenarios are expected to have a negative impact on the growth of GCC economies as well. If these scenarios play out, it would result in lower global growth and subdued business and consumer confidence leading to underinvestment, mainly in Europe and the UK. This would in turn affect demand for oil. Under such scenarios, we further expect the economic transition for the GCC to take longer than expected.

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