

GCC growth pushed out to 2018; hinges on oil production levels

Global growth forecasts lifted for 2017 and 2018: The latest IMF World Economic Outlook (WEO) - Oct-17 pushed global growth higher, by 10bps each for 2017 and 2018, after leaving them unchanged in July-17. Revised global growth estimates came in at 3.6% and 3.7% for 2017 and 2018 respectively. However, growth drivers were recalibrated yet again, as growth rates of Advanced Economies was brought up by 20bps for 2017(2.2%) and 10bps for 2018(2.0%), while Emerging Market and Developing Economies are set to see higher growth(+10bps) in 2018.

Investment and trade activity picks up; business and consumer confidence strengthens: Global trade volumes grew by 2.4% in 2016, as per the IMF, the slowest since 2009 as trade activity was weak in both Advanced Economies and Emerging Market and Developing Economies. Global trade activity growth nevertheless recovered in late 2016 and early 2017, driven by a recovery in global demand and higher capital spending. The agency however mentioned that medium term risks are still skewed towards the downside, with a number of uncertainties remaining, such as US regulatory and fiscal policy stance, potential for trade restrictions, and eventual UK-EU relationship post Brexit.

MENA GDP growth higher next year; Kuwait fastest growing economy in GCC in 2018: GDP growth for the MENA region is now expected to come in 20bps higher and grow at 3.2% in 2018, while growth for 2017 was left unchanged from July-17 estimates. The higher growth estimate by the IMF for 2018 reflects stronger domestic demand from oil importers, and factors in a rebound in oil production from oil exporters post the expiration of the OPEC agreement in Mar-2018. GDP growth for Kuwait in 2018 is pegged at 4.1%, the fastest in the GCC, after declining in 2017, while Qatar is expected to follow, with a GDP growth of 3.1%.

GCC recovery in 2018 still dependent on oil production: Saudi Arabia's GDP growth was left unchanged for 2017 and 2018. Supply-side economics in the oil market and resultant price implications are still the most decisive factors for GCC in terms of balance of trade and real growth. KAMCO Research remains positive on the impact of past and ongoing initiatives introduced by GCC states, led by Saudi Arabia to shore up the non-oil economy and state finances. Nevertheless, more revisions to growth would depend on the firming of oil prices and the possibility of OPEC extending production cuts beyond Mar-2018 to ensure the same.

IMF Estimates	Current Estimates		Revisions by IMF		Previous Estimates	
	Oct-17				Apr-17/Jul-17	
Real GDP Growth - Global	2017 F	2018 F	2017 F	2018 F	2017 F	2018 F
<i>Percentage</i>						
US	2.2%	2.3%	0.1%	0.2%	2.1%	2.1%
UK	1.7%	1.5%	0.0%	0.0%	1.7%	1.5%
Euro Area	2.1%	1.9%	0.2%	0.2%	1.9%	1.7%
Advanced Economies	2.2%	2.0%	0.2%	0.1%	2.0%	1.9%
Emerging Economies	4.6%	4.9%	0.0%	0.1%	4.6%	4.8%
Global Real GDP	3.6%	3.7%	0.1%	0.1%	3.5%	3.6%
Real GDP Growth - GCC & MENA	2017 F	2018 F	2017 F	2018 F	2017 F	2018 F
<i>Percentage</i>						
Saudi Arabia	0.1%	1.1%	0.0%	0.0%	0.1%	1.1%
United Arab Emirates	1.3%	3.4%	-0.2%	-1.0%	1.5%	4.4%
Qatar	2.5%	3.1%	-0.9%	0.3%	3.4%	2.8%
Kuwait	-2.1%	4.1%	-1.9%	0.6%	-0.2%	3.5%
Oman	-0.2%	3.7%	-0.6%	-0.1%	0.4%	3.8%
Bahrain	2.5%	1.7%	0.2%	0.1%	2.3%	1.6%
Real GDP Growth for MENA	2.2%	3.2%	0.0%	0.2%	2.2%	3.0%

Source: IMF WEO October 2017, KAMCO Research

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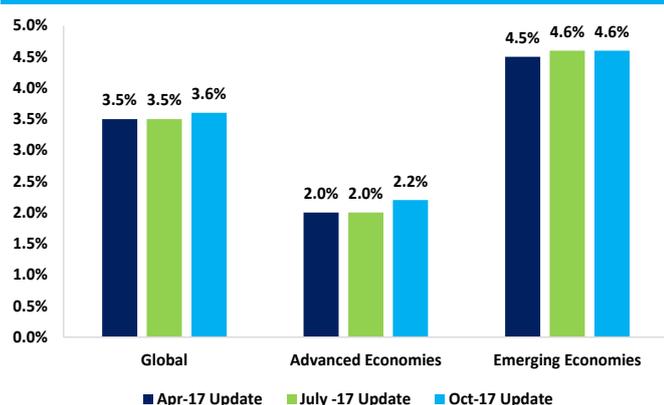
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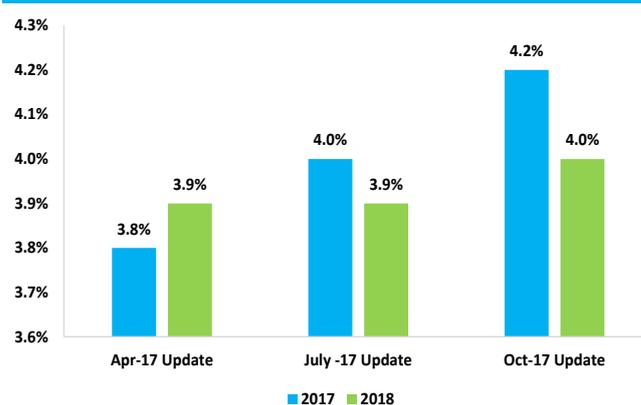
Regional growth scenarios progressively improve for 2017; World trade forecasts point towards growth

Main drivers of growth now look to be broad based as per the IMF, including higher growth expected from Japan, China, emerging Europe and Russia, as growth for Advanced Economies and Emerging Economies are expected to be higher. US growth for 2017 (2.2%) & 2018 (2.3%) was moved higher by 10bps and 20bps respectively led by supportive financial conditions and strong business and consumer confidence. Euro growth is also expected to pick up in 2017 & 2018, by 20 bps each, as compared to Jul-17 forecasts. Growth for the Euro Area is expected to pick up from an acceleration in exports and a broader pickup in global trade. Policy easing and supply-side reforms are expected to drive higher GDP growth for China in 2017 (6.8%). World trade volumes for 2017 & 2018 have also been moved up, the latest of which was a 20 bps (+4.2%) increase in trade volume growth in 2017 and 10 bps for 2018 (4.0%).

Global & Regional Growth Scenarios-2017



World Trade Volumes Forecasts (2017 & 2018)



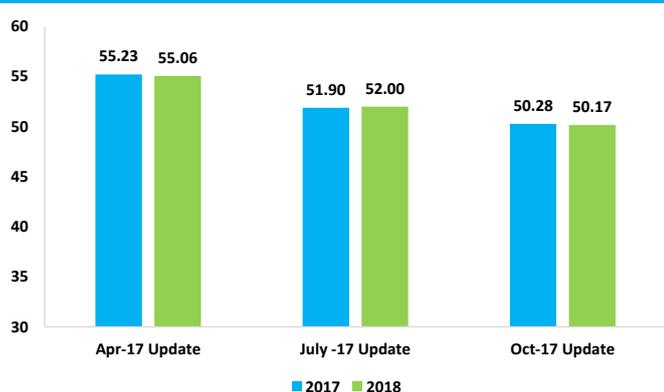
Source: IMF WEO October 2017, KAMCO Research

Source: IMF WEO October 2017, KAMCO Research

Inflation expectations in the GCC still healthy

Most of the Advanced Economies are affected by weak inflation, as per the IMF, and are facing challenges, as GDP per capita are held back by weak productivity growth and rising old-age dependency ratios. However, inflation forecasts for the GCC continue to be positive over the current year (barring Saudi Arabia) and next year, averaging 1.6% for 2017 and 3.7% for 2018. Forecasts of inflation for the MENA as a whole is expected to be even more stronger at 7.1% & 8.1% for 2017 & 2018 respectively, mitigating any deflationary risks in the region.

Oil price forecasts 2017 & 2018



Source: IMF WEO October 2017, KAMCO Research

GCC & MENA inflation trends-2017 & 2018

IMF Estimates	Current Estimates		Revisions by IMF		Previous Estimates	
	Oct-17		2017 F	2018 F	Apr-17/Jul-17	
Inflation, Avg. CPI - GCC & MENA	2017 F	2018 F	2017 F	2018 F	2017 F	2018 F
<i>Percentage</i>						
Saudi Arabia	-0.2%	5.0%	-4.0%	-0.1%	3.8%	5.1%
United Arab Emirates	2.1%	2.9%	-0.7%	-0.8%	2.8%	3.7%
Qatar	0.9%	4.8%	-1.7%	-0.9%	2.6%	5.7%
Kuwait	2.5%	2.7%	-1.7%	-0.9%	4.2%	3.6%
Oman	3.2%	3.2%	-0.9%	0.2%	4.1%	3.0%
Bahrain	0.9%	3.5%	-0.4%	0.1%	1.3%	3.4%
Inflation in MENA	7.1%	8.1%	-1.6%	1.0%	8.7%	7.1%

Source: IMF WEO October 2017, KAMCO Research

Oil price stability as crucial as ever for the GCC going forward

Oil prices have reclaimed the USD 50/bbl mark, but IMF's assumed oil price forecasts based on oil price futures have continued to trend downward in 2017 and continue to exhibit volatility. The forecasts of the latest update are lower by over USD 1.6/bbl and USD 1.8/bbl for 2017 (USD 50.28/bbl) and 2018 (USD 50.17/bbl) respectively, from the Jul-17 update. The oil market is looking at guidance for an extension of production cuts by the OPEC. Going into 2018, the GCC would require oil prices to increase and stabilize in Q4-17 and early 2018, along with higher production levels than under the OPEC agreement, in order to keep IMF's GDP forecasts for the year intact, and have more favourable balance of payments and maintain fiscal manoeuvrability.

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