KAMCO Research

Event Update - IMF Releases World Economic Outlook Update

July-2017

Global growth forecasts left unchanged from April-17 expectations: IMF left its global growth estimates for 2017 and 2018 unchanged at 3.5% and 3.6% respectively, in its World Economic Outlook (WEO) update released in July-17. However, contribution to global growth from constituents at the country level was different, as US growth was brought down to 2.1% for both 2017 (-20bps) and 2018 (-40bps), while Japan and Euro Area growth were pushed up.

Emerging Economies growth in 2017 higher than Apr-17 expectations: Regionally, the growth of Advanced Economies was kept stable in 2017, but was lowered by 10 bps for 2018 (1.9%). The downgrade was driven by negative revisions in US growth, despite positive revision in Euro countries such as France, Germany, Italy and Spain, where Q1-17 growth surprised positively. Emerging Economies continued to see positive revisions in growth, as 2017 growth (4.6%) was revised higher driven by growth of commodity importers, while early signs of improvement are starting to emerge as well from large commodity exporters.

Saudi Arabia's growth slashed by 160 bps for 2017: Saudi Arabia's Real GDP growth for 2017 and 2018 are projected to be lower at 0.1% (-30bps) and 1.1% (-20 bps) respectively, than earlier expected. These downward revisions were mainly ascribed to the expected impact of lower oil production, following the agreement to extend production cuts until Mar-2018, as agreed in the OPEC meet earlier in 2017.

Oil production cuts, firming global growth should keep GCC fiscal initiatives going: Despite the IMF reiterating that global growth is stabilizing, oversupply concerns in oil markets and oil inventory overhang have led to oil prices dropping below USD 50/b. For GCC countries, lower prices and production cuts should be counterproductive to oil-GDP forecasts, which should witness downward revisions similar to Saudi Arabia, if oil prices do not recover. Nevertheless, KAMCO Research believes that more firming of global growth would stabilize oil prices and the current backdrop of low oil prices and stable global growth should further set the precedent for further fiscal and revenue consolidation measures for GCC countries.

IMF Estimates	Current Estimates Jul-17			Revisions by IMF		Previous Estimates Apr-17	
Real GDP Growth	**2016**	**2017 F**	**2018 F**	**2017 F**	**2018 F**	**2017 F**	**2018 F**
Percentage							
US	1.6%	2.1%	2.1%	-0.2%	-0.4%	2.3%	2.5%
Europe	1.8%	1.9%	1.7%	0.2%	0.1%	1.7%	1.6%
UK	1.8%	1.7%	1.5%	-0.3%	0.0%	2.0%	1.5%
Japan	1.0%	1.3%	0.6%	0.1%	0.0%	1.2%	0.6%
Russia	-0.2%	1.4%	1.4%	0.0%	0.0%	1.4%	1.4%
China	6.7%	6.7%	6.7%	0.1%	0.2%	6.6%	6.5%
India	7.1%	7.2%	7.7%	0.0%	0.0%	7.2%	7.7%
Brazil	-3.6%	0.3%	1.3%	0.1%	-0.4%	0.2%	1.7%
Saudi Arabia	**1.7%**	**0.1%**	**1.1%**	**-0.3%**	**-0.2%**	**0.4%**	**1.3%**
Advanced Economies	1.7%	2.0%	1.9%	0.0%	-0.1%	2.0%	2.0%
Emerging Market & Developing Economies	4.3%	4.6%	4.8%	0.1%	0.0%	4.5%	4.8%
MENA, Afghanistan & Pakistan	**5.0%**	**2.6%**	**3.3%**	**0.0%**	**-0.1%**	**2.6%**	**3.4%**
Real GDP Growth - Global	**3.2%**	**3.5%**	**3.6%**	**0.0%**	**0.0%**	**3.5%**	**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	0.8%	1.9%	1.8%	-0.1%	-0.1%	2.0%	1.9%
CPI -Emerging Market & Developing Economies	4.3%	4.5%	4.6%	-0.2%	0.2%	4.7%	4.4%
World Trade	2.3%	4.0%	3.9%	0.2%	0.0%	3.8%	3.9%

Source: IMF WEO Update July 2017

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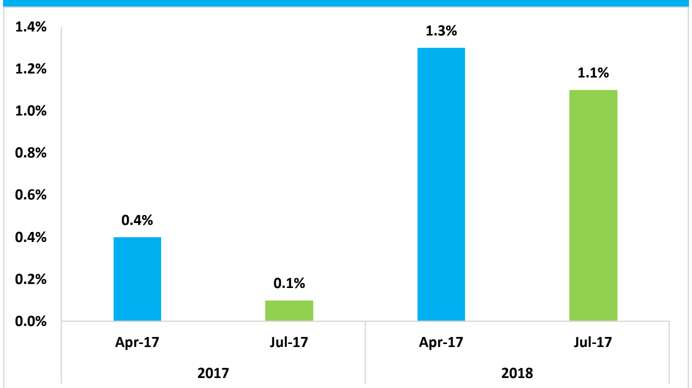
Growth components of advanced economies change …

US growth was revised down from 2.3% to 2.1% in 2017, while 2018 growth was revised down more from 2.5% to 2.1%, which pulled down GDP of Advanced Economies by 0.1%. US growth for 2017 was reduced primarily due to a weak Q1-17, while the revision for 2018 was mostly ascribed to the expectation of a less expansionary fiscal policy. UK growth was also brought down for 2017 by 30 bps to 1.7%, due to weaker than expected economic activity in Q1-17. On the other hand, Euro area growth picked up the slack in growth, and estimates was pushed up both for 2017 (+20bps) and 2018 (+10bps). Key drivers for the upgrade are, stronger momentum in domestic demand and positive growth revisions to high frequency indicators for Q2-17, as per the IMF. Japan is also expected to grow faster than prior expectations, as private consumption, investment, and exports drove Q1-17 growth and similar indicators look promising for Q2-17 as well. CPI forecasts for Advanced Economies were revised lower by 10bps each for 2017 and 2018 and are slightly under 2% per annum.

….however other key regions witness mixed revision in forecasts...

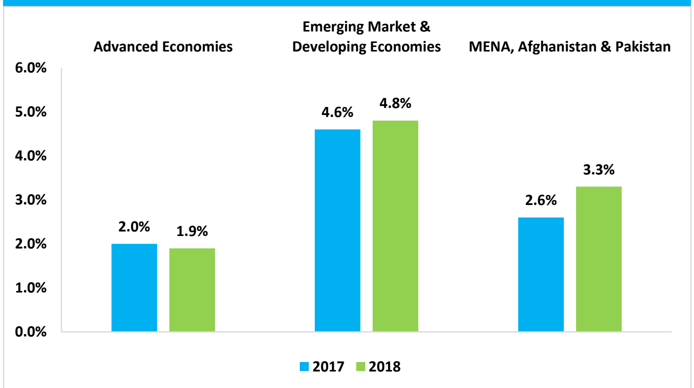
Emerging and developing economies are forecasted to see a sustained growth in activity, with GDP growth rising to 4.6% in 2017 (+10bps) and 4.8% in 2018. India and China continue to dominate as the fastest growing large economies in the region. China's GDP growth was revised upwards by 10bps and 20bps respectively to average 6.7% per annum over 2017 and 2018. The upgrade reflects stronger than expected growth that came in Q1-17 underpinned by previous policy easing and supply-side reforms , as per the IMF. In Emerging and Developing Europe, growth is forecasted to be faster in 2017 (+50 bps), driven by higher growth from Turkey, where exports recovered strongly in Q4-16 and Q1-17. IMF expects external demand to be stronger with improved prospects for Euro area trading partners. MENAP (Middle East, North Africa and Pakistan) growth was retained for 2017, but brought down by 10 bps for 2018, likely due to the reduction in growth of Saudi Arabia for the year, and risks of lower oil prices on the GCC region.

KSA Real GDP Growth - 2017 & 2018



Source: IMF WEO Update July 2017, KAMCO Research

Regional GDP Growth - 2017 & 2018



Source: IMF WEO Update July 2017, KAMCO Research

Non-oil economy in the GCC showing resilient signs

IMF forecasts average oil prices to increase by USD 9.1/b in 2017, from an average of USD 42.8/b achieved over 2016 to USD 51.9/b. Further, a marginal increase to USD 52.0/b is forecasted for 2018. The recent agreement in May-17 to extend production cuts until Mar-18 should result in lower oil revenues for GCC countries for 2017. Nevertheless, there has been improvements seen in the non-oil sectors of Saudi Arabia and UAE with PMI numbers published by Emirates NBD showing sharp increases in output and other indicators. KAMCO Research expects this trend to continue if global growth is expected to stabilize further, as policy initiatives should lead to more improvement in key indicators relating to the non-oil economy. The incremental impact of newer challenges seem to be diminishing in our view, as the regions seems focused on fiscal consolidation and bolstering revenue side initiatives.

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