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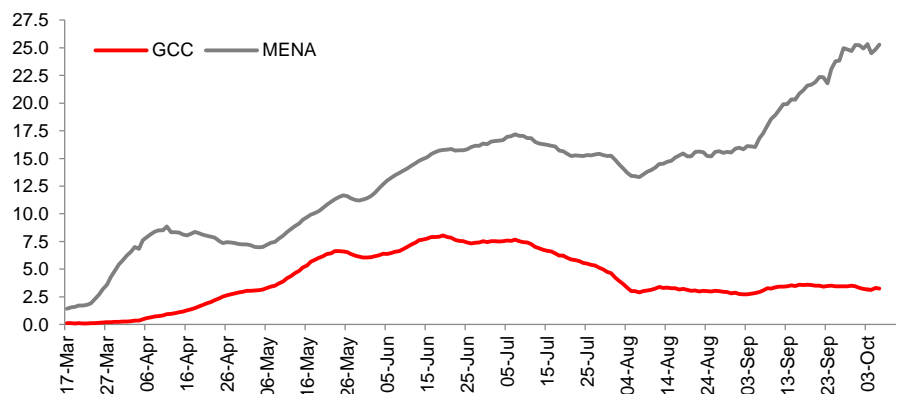
12 October 2020

Executive summary

- Taking stock of GCC economic performance in navigating the oil-virus shocks.** Lockdowns and social distancing measures continue to cautiously ease across the GCC region as authorities attempt to strike the delicate balance between limiting further damage to their economy's weighed against health risks. As far as our regional forecasts are concerned, our base case assumes that we continue on a path of tentative and occasionally interrupted re-opening, rather than seeing further iterative waves of the pandemic that forces a return to draconian lockdowns. However, that does not mean there will be no lingering impact on consumer behaviour from the pandemic or no permanent economic damage from the measures put in place to contain it. Far from it. Our forecasts point to a region which, by end 2021, has a level of activity that is not just well below its pre-pandemic growth trajectory but, in many cases, still below its end 2019 level. We forecast deep recessions across almost all GCC regional economies this year, with overall GCC real GDP growth to decline from +0.5% in 2019, to -4.5% in 2020, but thereafter picking up to +3.7% in 2021.
- MENA PMI's in expansionary territory in September.** MENA regional purchasing manager's index (PMI) data tracked the global momentum higher in September, with each of the MENA economies (bar Lebanon) printing above 50 – the first time in 25 months. Whilst we are past the nadir in contraction across the region with easing's in restrictions shaping the recovery, the PMI gains were modest with labour market pressures continuing to linger, accentuating the constraints confronted with navigating the oil-virus shocks. Overall, the September PMI readings signal that activity gained pace. Notwithstanding a confluence of austerity implementation, and ongoing virus containment measures, corporates remain optimistic in executing risk-reward opportunities. However, employment pressures continue to trigger a surge in expatriate outflows which could undermine consumption and risk labour market shortfalls that could impede output, investment and overall real GDP growth.

LARGE DEVIATION BETWEEN MENA AND GCC REGIONAL VARIATION IN COVID-19 CASES

DAILY CHANGE IN CASE GROWTH (7 DAY MOVING AVERAGE, THOUSANDS)



Source: Bloomberg, MUFG MENA Research

TAKING STOCK OF GCC ECONOMIC PERFORMANCE IN NAVIGATING THE OIL-VIRUS SHOCKS

Reopenings versus health risks

Lockdowns and social distancing measures continue to cautiously ease across the GCC region as authorities attempt to strike the delicate balance between limiting further damage to their economy's weighed against health risks. As far as our regional forecasts are concerned, our base case assumes that we continue on a path of tentative and occasionally interrupted re-opening, rather than seeing further iterative waves of the pandemic that forces a return to draconian lockdowns. However, that does not mean there will be no lingering impact on consumer behaviour from the pandemic or no permanent economic damage from the measures put in place to contain it. Far from it. Our forecasts point to a region which, by end 2021, has a level of activity that is not just well below its pre-pandemic growth trajectory but, in many cases, still below its end 2019 level. We forecast deep recessions across almost all GCC regional economies this year, with overall GCC real GDP growth to decline from +0.5% in 2019, to -4.5% in 2020, but thereafter picking up to +3.7% in 2021.

Twin shocks have been unprecedented but our confidence in MENA regional oil exporters is growing

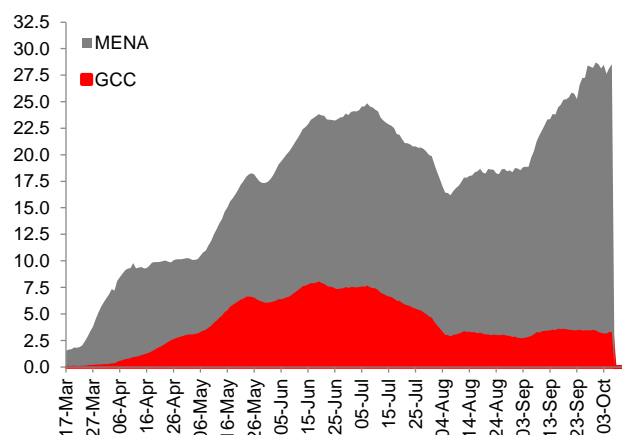
On net, the GCC region has grappled with shocks to both the demand-side (COVID-19 induced consumption evisceration) and the supply-side (lower oil prices and oil production curbs). Facing either one of these shocks would be unprecedented. The combination of the two, signals an acute recession in 2020. However, our confidence in these economies capacity to weather the losses has strengthened recently – primarily given the firming in global oil markets and corporates learning to live and embrace the virus.

Policy options are limited

Policy options are hitting limits. For the GCC region, the headwinds are especially evident, with this year's challenging oil market environment compelling policy onto the defensive. Granted, there has been some progress and authorities have actioned what has been feasible – Saudi has paid part of the salaries of those working in the private sector, and joined the UAE in postponing the collection of fees and taxes. Though, the support has started to roll off and the data highlights that the overall tilt has been contractionary, given that the revenue decline has taken its toll. Capital expenditures fell by more than 30% in Saudi in H1 2020 and by 25% in Oman, with the deceleration in projects scheduled and ongoing signalling that the regional as a whole is following a similar (smaller) spending trajectory. Saudi's decision to triple VAT to 15% from July, which comes at a time when much of the rest of the world has looked to cut, highlights the regional pro-cyclical bias more clearly still.

LARGE DEVIATION BETWEEN MENA AND GCC REGIONAL VARIATION IN COVID-19 CASES ...

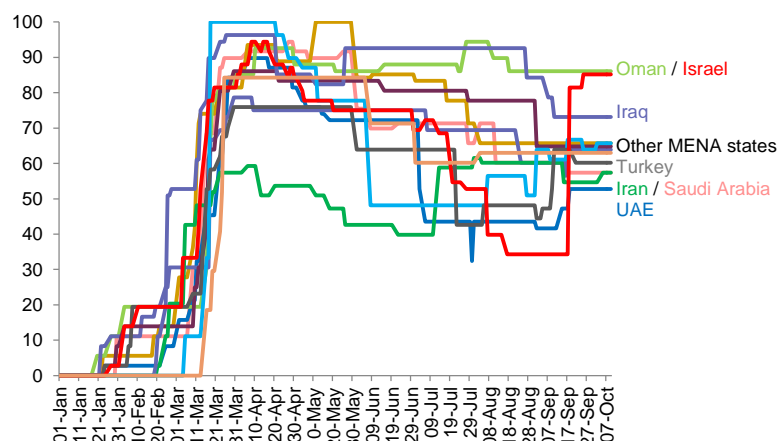
DAILY CHANGE IN CASE GROWTH (7 DAY MOVING AVG., THOUSANDS)



Source: Bloomberg, ourworldindata.org, MUFG MENA Research

... ALBEIT EASING IN RESTRICTIONS HAVE BEEN BROADLY UNIFORM TO DATE

OXFORD UNIVERSITY STRINGENCY INDEX (100 = MOST STRINGENT)



Source: Bloomberg, Oxford University, MUFG MENA Research

Austerity set to continue

While we believe that the most acute phase of the consolidation is over, fiscal deficits will remain sizable and the policy stance will likely remain prudent and conservative. Upside risks stem from oil prices trading beyond our bullish USD45-60/b band between now and end 2021. Indeed, Saudi Arabia's pre-budget 2021 statement points to a 7% cut in spending on this year's estimated outturn. Expenditure profiles will also be susceptible to both potential oil price volatility pre-and-post US elections. Moreover, challenges in access capital markets – notably for Oman and to a lesser extent Bahrain – stand out given their high breakeven oil prices and elevated levels of net debt. Separately, Kuwait's policy discord could prompt fresh consolidation pressures there, notwithstanding its ample wealth buffers.

High frequency data has rebounded from record lows recorded during April's nadir, though recovery remains uneven and heterogeneous

As lockdowns in many parts of the region have been easing, it's no surprise that much of the data has picked up off their record lows. PMIs continue to demonstrate that the rebound in corporate conditions is ongoing, albeit unevenly, and high frequency data in terms of mobility as well as spending have recovered somewhat. However, the recovery remains heterogeneous. Google's mobility data shows that while the amount of time spent at retail and recreational venues has increased in all of the regional economies, the pace of recovery has in fact varied.

Central Banks financial system liquidity and corporate support schemes is showing up in credit growth data

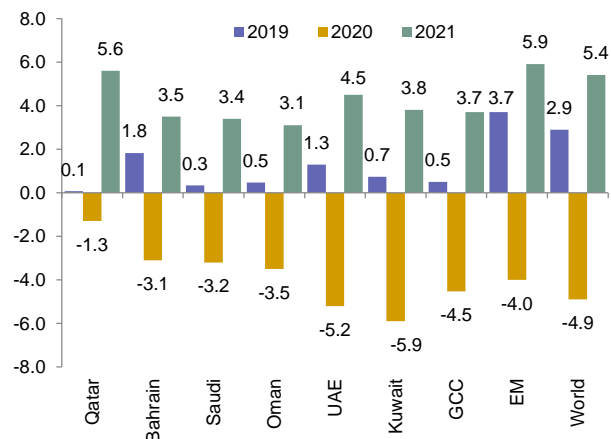
Beyond high frequency data, central banks financial system liquidity and corporate support schemes is showing up in credit growth data. The initial policy response across the region was led by central banks, focusing on financial system liquidity as well as direct corporate support to minimise the economic fallout. The UAE's USD70bn Targeted Economic Support Scheme (TESS), the USD26bn stimulus provided by SAMA and the QCB's USD13.7bn zero-interest repo window to provide liquidity to banks for postponing loan installments (or granting new bank loans), demonstrate that these actions have channelled through into a sharp rise in lending growth – indicative that efforts to offset the fallout from the downturn are bearing fruit.

Risks abound but going forward, there is hope, tempered with caution

Looking ahead, there is much about the pandemic that we can't be sure of. Iterative virus waves certainly cannot be ruled out. Though one actuality is clear – debt ratios will be higher – for individuals, corporates and governments. In the absence of strong growth, there are only so many ways the latter can be addressed: austerity, default, inflation or taxation. Across the region, we are likely to see some mixture of all of these in some scope, magnitude and in various timeframes. Bottom line – despite easing in restrictions, the region is not out of the woods. The past seven months have been strenuous and destabilising. The region is steadily looking to life post-COVID-19 towards a path of the next normal, but there continues to remain more questions than answers. However, there's room for hope, tempered with caution.

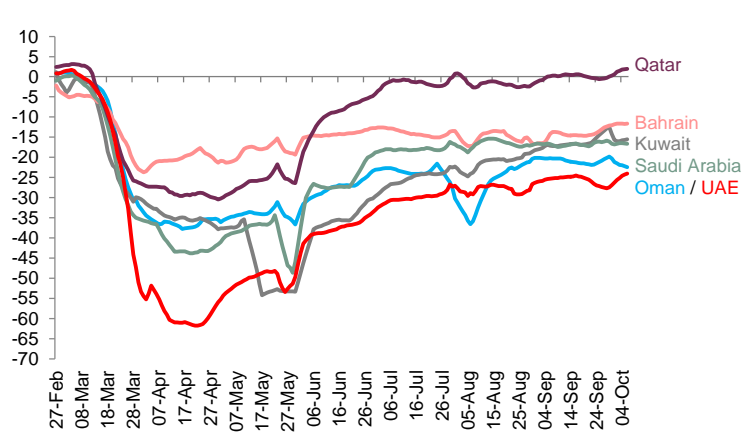
A DEEPER RECESSION AND SHALLOWER RECOVERY IN THE GCC COMPARED TO THE EM AVERAGE ...

REAL GDP GROWTH (%)



Source: Bloomberg, CEIC, IMF, MUFG Research

... WITH QATAR'S MOBILITY DEMONSTRATING AN OUTPERFORMANCE WITH LEVELS BACK TO PRE-VIRUS GOOGLE MOBILITY INDEX (7 DAY AVG. OF EACH FIVE COMPONENTS)



Source: Bloomberg Google, MUFG Research

MENA PMI'S IN EXPANSIONARY TERRITORY IN SEPTEMBER

PMI's trend higher in September

MENA regional purchasing manager's index (PMI) data tracked the global momentum higher in September, with each of the MENA economies (bar Lebanon) printing above 50 – the first time in 25 months. Whilst we are past the nadir in contraction across the region with easing's in restrictions shaping the recovery, the PMI gains were modest with labour market pressures continuing to linger, accentuating the constraints confronted with navigating the oil-virus shocks.

Better headline reading though the employment index remains in contractionary territory for the ninth consecutive month

The UAE's headline reading showed a slight improvement, rising from 49.4 in August to 51.0 in September as output registered a mild increase following the impact of lockdown measures. The breakdown suggested that output and new orders both registered above 50 levels for a fourth successive month – a testament of that corporates were bearing the fruits of improvements in domestic demand (likely driven by aggressive price discounting given that selling prices declined at the fastest rate thus far in 2020 last month). Having said, that, the employment index remains subdued and still in contractionary territory for the ninth consecutive month, albeit rising from 41.5 in August to 47.7 in September.

Saudi was the region's best performer in September

Saudi's PMI was the most robust in the region with the headline reading increased from 48.8 in August to 50.7 in September – the highest since February. The breakdown signalled that new orders and new export orders were the main drivers of the higher overall print – a testament that corporate sentiment continues its optimistic momentum. Having said that, input and output price growth slowed given the tripling of VAT showed up in the survey. Finally, as in the UAE, employment remained in contractionary territory – for the seventh consecutive month – in line with the sharp increase in Q2 unemployment figures released last week.

Qatar still recorded an expansionary territory reading but the headline rate fell sharply

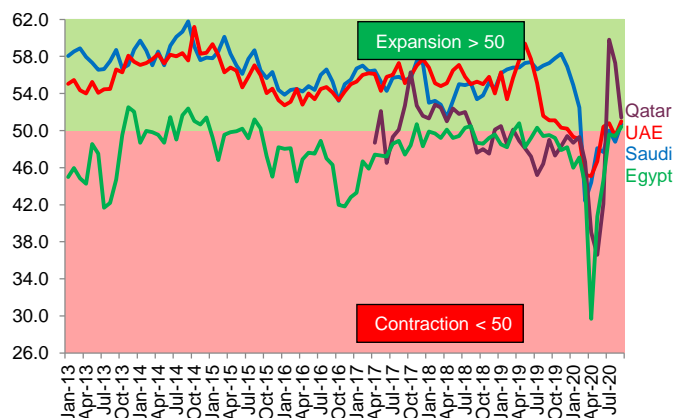
Qatar's PMI print demonstrated the challenges still facing the region in navigating the oil-virus shocks. Granted, the overall heading figure remained in expansionary territory, but it fell from 57.3 in August to 51.4 in September. As with elsewhere in the region, employment continued to contract.

Activity is gaining pace but labour market pressures are a real concern

Overall, the September PMI readings signal that activity gained pace. Notwithstanding a confluence of austerity implementation, and ongoing virus containment measures, corporates remain optimistic in executing risk-reward opportunities. However, employment pressures continue to trigger a surge in expatriate outflows which could undermine consumption and risk labour market shortfalls that could impede output, investment and overall real GDP growth.

MENA REGIONAL PMI'S FOR CORE COUNTRIES WERE ALL IN EXPANSIONARY (>50) LEVELS IN SEPTEMBER ...

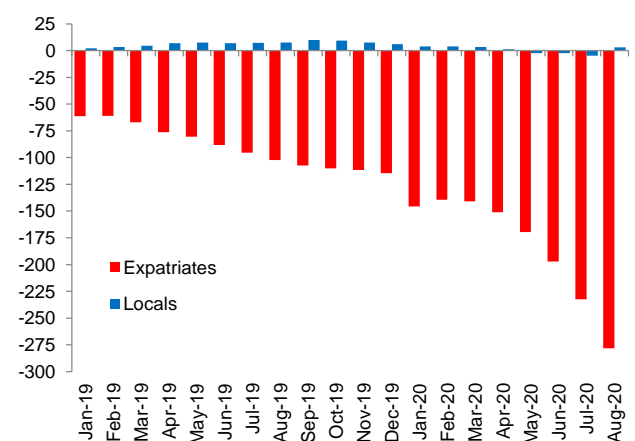
PMI (100 = HIGHEST)



Source: Bloomberg, Markit, MUFG Research

... THOUGH EMPLOYMENT PRESSURES ACROSS THE REGION REMAIN ACUTE

OMANI LABOUR FORCE – CUMULATIVE JOB GAINS/LOSS (THOUSANDS)

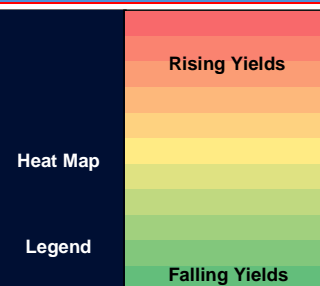


Source: Bloomberg CEIC, MUFG Research

MENA Market Indicators – Tables

Benchmark Bond Yields (% Local Currencies)

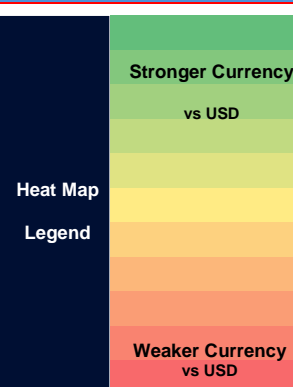
	Maturity	02-Oct	09-Oct	Change in Yield (bps)		
				Week	MTD*	YTD*
Advanced Countries						
US	10 yrs	0.70	0.77	7.3	9.0	-114.4
Germany	10 yrs	-0.54	-0.53	0.9	-0.5	-34.2
Italy	10 yrs	0.78	0.72	-6.0	-14.2	-68.8
Japan	10 yrs	0.02	0.04	1.4	2.0	4.7
MENA Countries						
Bahrain***	10 yrs	3.69	3.43	-26.0	56.7	44.0
Egypt	4 yrs	14.23	14.19	-3.8	10.7	-2.4
Qatar***	10 yrs	1.93	1.79	-13.3	-17.9	-85.9
Saudi Arabia**	10 yrs	2.49	2.55	6.5	8.0	-48.9
Abu Dhabi***	7 yrs	1.38	1.28	-10.1	-13.8	-113.0
Dubai***	9 yrs	2.80	2.60	-19.9	-24.5	-56.2



Note: * Month to Date and Year to Date; ** 10-year swap rate; *** USD denominated

Exchange Rates vs USD

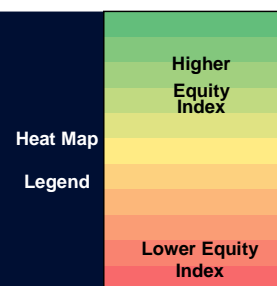
	02-Oct	09-Oct	Change (%)		
			Week	MTD	YTD
Advanced Countries					
US Dollar Index	93.844	93.057	-0.8	-0.9	-3.5
Euro Area*	1.172	1.181	0.8	0.7	5.3
Japan	105.290	105.820	-0.5	-0.3	2.6
MENA Countries					
Egypt	15.755	15.717	0.2	0.2	2.2
Kuwait	0.306	0.306	0.0	0.0	-1.0
UAE 12M Forward	3.676	3.676	0.0	0.0	0.1
Bahrain 12M Forward	0.379	0.379	0.0	0.0	-0.2
Oman 12M Forward	0.391	0.391	0.0	0.1	0.1
Qatar 12M Forward	3.681	3.682	0.0	-0.1	-1.1
Saudi Arabia 12M Forward	3.757	3.755	0.1	0.1	-0.1
UAE Spot	3.673	3.673	PEGGED		
Bahrain Spot	0.377	0.377			
Oman Spot	0.385	0.385			
Qatar Spot	3.642	3.642			
Saudi Arabia Spot	3.751	3.751			



Note: * Exchange rate quoted as amount of USD per currency in line with market convention, other exchange rates are amount per USD

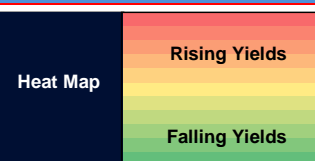
Equity Indices

	02-Oct	09-Oct	Change (%)		
			Week	MTD	YTD
Advanced Countries					
US (S&P 500)	3,348	3,477	3.8	3.4	7.6
Europe (STOXX 50)	3,191	3,273	2.6	2.5	-12.6
Japan (Nikkei 225)	23,030	23,620	2.6	1.9	-0.2
MENA Countries					
Bahrain (BB)	1,434	1,473	2.7	2.7	-8.5
Egypt (EGX 30)	10,987	11,360	3.4	3.4	-18.6
KSA (Tadawul)	8,284	8,513	2.8	2.6	1.5
Kuwait (KSE)	5,445	5,777	6.1	6.1	-8.0
Oman (Muscat 30)	3,593	3,591	-0.1	-0.7	-9.8
Qatar (Doha 20)	9,990	10,001	0.1	0.1	-4.1
UAE (Abu Dhabi)	4,518	4,493	-0.6	-0.6	-11.5
UAE (Dubai)	2,273	2,224	-2.2	-2.2	-19.6



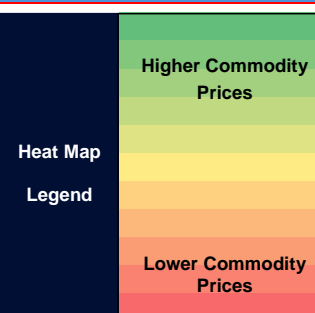
5 Year USD CDS Spreads

	02-Oct	09-Oct	Change in Yield (bps)		
			Week	MTD*	YTD*
MENA Countries					
Bahrain	345.86	323.80	-22.1	-23.0	147.8
Kuwait	60.73	56.71	-4.0	-4.0	20.0
Qatar	50.29	38.56	-11.7	-13.6	1.9
Saudi Arabia	88.96	70.49	-18.5	-21.1	13.6
UAE (Abu Dhabi)	50.76	39.50	-11.3	-13.9	3.4
UAE (Dubai)	153.51	153.62	0.1	-7.2	62.6



Commodity Prices*

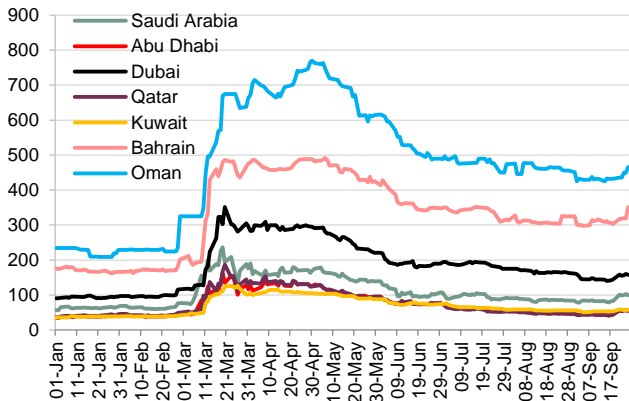
	02-Oct	09-Oct	Change (%)		
			Week	MTD	YTD
Energy					
Brent	39.3	42.9	9.1	4.3	-35.3
WTI	37.1	40.6	9.6	0.9	-33.5
LNG	1,555.0	1,577.2	1.4	1.6	41.6
Precious Metals					
Gold	1,900	1,930	1.6	2.4	27.2
Silver	23.7	25.2	6.0	8.3	40.9
Industrial					
Copper	6,553	6,763	3.2	1.4	9.5
Steel	624	633	1.4	2.9	7.7
Aluminum	1,768	1,842	4.2	4.3	1.7
Wheat	570	594	4.1	2.3	5.9



Note: * Spot prices or nearest expiring future

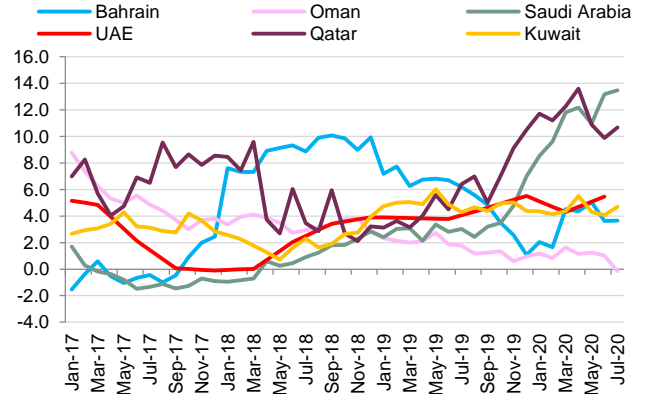
MENA Market Indicators – Charts

CHART 1. GCC 5 YEAR CDS SPREADS (BASIS POINTS)



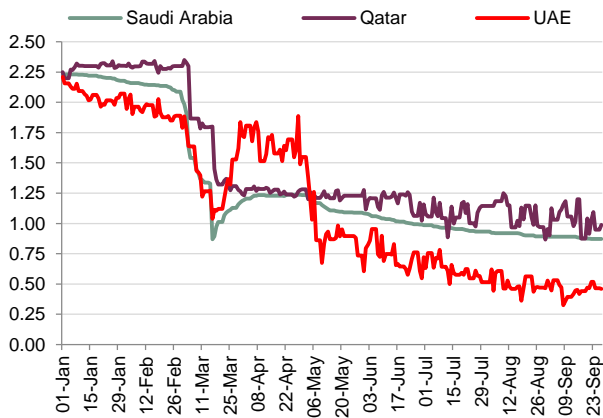
Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 2. GCC PRIVATE SECTOR CREDIT GROWTH (% Y/Y)



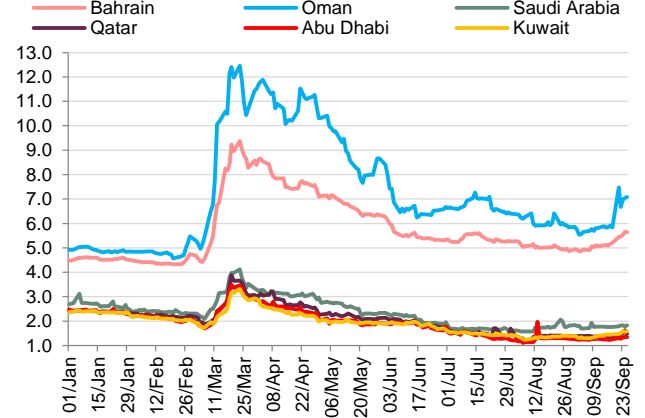
Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 3. CORE GCC 3 MONTH INTERBANK RATES (%)



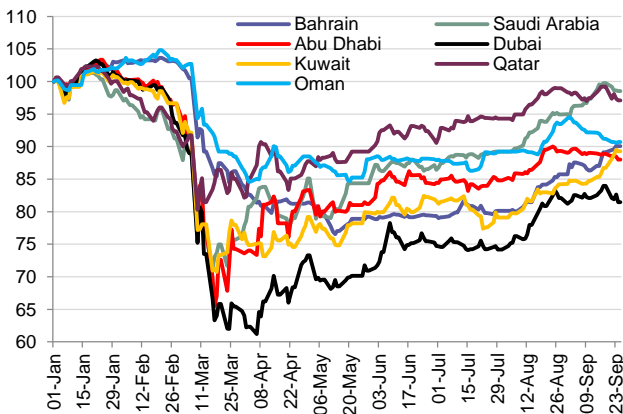
Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 4. GCC 10 YEAR SOVEREIGN BOND YIELDS (%)



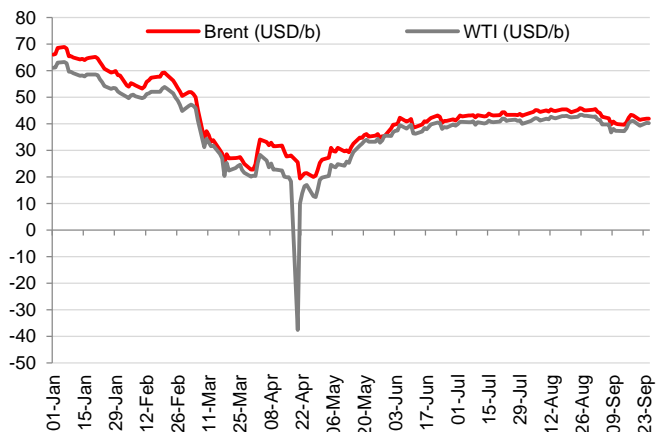
Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 5. GCC EQUITY MARKETS (REBASED JANUARY 2017 = 100)



Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 6. BRENT AND WTI CRUDE PRICES (USD/B)



Source: Bloomberg, CEIC Database, MUFG MENA Research

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