

HIGHLIGHTS

- **Political Developments**
- **Oil-Related Developments**
- **Other Economic Developments**

Political Developments

1. West Asia stunned by Trump triumph

Like the rest of the world, West Asia reacted with shock as news came in of a Trump victory as the 45th US president. Not only has he no experience of government or foreign affairs, through the campaign, he had also made a number of remarks that were offensive to Muslims and Arabs. He had stated that Arab-Americans had cheered the 9/11 attacks, Muslims needed to be tracked by security agencies and that mosques should have greater surveillance. He had promised the harshest possible action against ISIS members and all terrorists and their family members. He had once even called for prohibiting the entry of Muslims into the USA, later relenting to say that some of them could get in after enhanced checks.

His positions on specific issues are even more disquieting. He has severely criticized the nuclear agreement with Iran and has expressed concern that Iran has become a "regional power" due to this agreement. He has included Saudi Arabia among countries that should assume a fairer share of the burden for their own security, though overall he has shown great support for authoritarian rulers. He has expressed admiration for Russian President Putin for his counter-terrorism posture, suggesting that he might reduce US support for the rebel groups in Syria. He has indicated great warmth for Israeli Prime Minister Netanyahu, has vowed not to impose any solutions on Israel, and has promised to move the US embassy to united Jerusalem, thus dashing Palestinian claims on the eastern part of the city.

The rightwing advisors who are seen as close to Trump have a long record of pro-Israel positions. Generally, West Asian commentators believe that the two-state solution to the Palestine imbroglio is effectively dead; more immediately, Saudi Arabia and the other GCC regimes fear that it will be impossible to dilute the provisions of the Justice Against State Terrorism Act [JASTA] which they had hoped would have been implemented by Congress during the lame-duck session before Trump finally takes over in January 2017.

2. Fight for Mosul slows down

As the assault on Mosul neared the one month mark, GCC media reported steady but slow progress in liberating the town. The elite Counter-terrorism Service has made the fastest progress from the east, but, having taken the outlying districts, has decided to slow down to let other units catch up. These forces are also said to have faced strong resistance from ISIS fighters who have used suicide car bombs, booby traps and even close-quarter fighting against the advancing forces. The respect the Iraqi coalition has for their foes is affirmed by the fact that to take the village of Hammam Al Alil, which had 70 ISIS

fighters, a force of 3000 troops, backed by US air support, was deployed. Overall, 30,000 troops have been deployed against 5-7000 ISIS fighters said to be in Mosul.

Again, to deter the Iraqi advance, ISIS militants have killed the 40 soldiers they had captured in an earlier encounter, moved several thousand civilians from the outskirts to the centre of Mosul to use as human shields against air attacks, and also moved several hundred civilians to the neighbouring town of Talafar, which is the next target for the Iraqi forces. There are also reports of mass graves of people killed by ISIS having been discovered on the outskirts of Mosul.

In a 31-minute tape recording attributed to the ISIS leader, Abu Bakr Al Baghdadi, the latter has exhorted his troops not to weaken in the jihad against the "enemies of God", and urged his suicide bombers "to wreak havoc in their land and make their blood flow as rivers"; he has expressed confidence in the ultimate victory of his forces whom he has also urged to "unleash the fire of their anger" on Turkish troops fighting in Syria and to take the battle into Turkey itself.

On 7 November, the US special envoy to the anti-ISIS coalition, Brett McGurk, said that the fighting was going "ahead of schedule", but added that the final defeat of ISIS in both Iraq and Syria could take three years. Again, the coalition against ISIS seems to be having difficulties in maintaining its unity: there are reports that hundreds of Arab families have been driven out of Kirkuk and their homes demolished by Kurdish forces as retaliation for the ISIS attack on Kirkuk last month, but more likely to maintain the "Kurdish" character of this oil-rich city.

There are apprehensions, both about the humanitarian crisis that might be caused by the final attack on Mosul, given that over a million people are living in it, with several of them being used as human shields, and what the aftermath will bring in terms of inter-sectarian ties in Iraq and the integrity of the country in general.

3. Stalemate in Yemen

The peace plan put forward last month by the UN special envoy, Ismail Ould Sheikh Ahmed (which called for President Abd Rabbo Mansour Hadi to become a figurehead by passing power to the vice president, who would in turn appoint a new prime minister) has been firmly rejected by Hadi and his associates, in spite of the support it enjoys from 18 countries backing the peace process and even some sections of the Saudi media. The veteran Saudi commentator, Abdul Rehman Al Rashed, criticised the Yemeni government for its outright rejection of the plan, noting that it had many "positive" ideas, such as ending the Houthi coup, and making the Houthis surrender their arms and vacate the towns occupied by them.

Thousands of pro-Hadi demonstrators took to the streets in towns under government control to back his regime and reject the latest UN initiative. The government rejected the plan on the ground that it strengthened the Houthi militia and rewarded their coup against the "legitimate" government in Sanaa. On 9 November, Hadi refused to meet the UN envoy. In Riyadh, the UN envoy briefed the 18 envoys backing the peace process and also met the Saudi deputy crown prince who applauded his efforts to promote peace in Yemen. There are unconfirmed reports that the Hadi camp has demanded changes in the plan in terms of which Hadi would retain full powers till the finalisation of the constitution and fresh elections.

In public remarks, the UN envoy said on 8 November that Yemen was on the "brink of the abyss": 7000 people had been killed, 36,000 had been wounded, while 21 million people urgently needed health services, mainly due to cholera and malnutrition. There has so far been no detailed Saudi comment on the peace plan, but it is possible that the Kingdom might be tempted to accept it if the only price to be paid is the dumping of Hadi. But, Saudi Arabia remains concerned about the future role of the Houthis in the new dispensation, and hence might seek some amendments in the plan to restrict their autonomous role.

4. Syria- The attack on Raqqa

A spokesperson of the Syrian Democratic Forces (SDF) said that the battle to re-take Raqqa had begun on 5 November. (The SDF consists of Kurdish, Arab and Turkoman fighters.) The operation is named, "The Wrath of the Euphrates", and will at its peak consist of about 30,000 fighters. US sources have indicated that the operation will take place in two stages: the "isolation phase", in which the surrounding countryside will be

taken and Raqqa isolated, after which the attack on the city itself will commence. They added that Arab fighters were still being recruited and trained and suggested a fairly prolonged operation.

While the taking of Raqqa has considerable importance in the fight against the ISIS, it is not a priority either for Turkey or the Kurds. The Kurds are most interested in consolidating their "Rojava" (Western homeland) along the Syrian-Turkish border, while Turkey's principal interest is to thwart this effort. Hence, as of now, its forces are making steady progress towards taking Al Bab, about 30 km from its border, a town that is coveted by the Kurds as it is crucial for the consolidation of their enclave. US sources have expressed concern that the fall of Al Bab to Arab and Turkoman forces backed by Turkey could lead the Kurds to abandon the fight to take Raqqa and devote themselves to fighting for Al Bab, setting up a possible direct confrontation with Turkey.

Oil-Related Developments

1. Oil prices

The last fortnight saw the global oil market swing between uncertainty and pessimism regarding OPEC's ability to agree on a freeze or cut in production at its Ministerial meeting in Vienna on 30 November. The month opened with Brent and WTI on par at \$ 48.86 and \$ 48.04, respectively. After that, markets reacted to different news reports of comments of ministers of member countries, reports of OPEC production, and forecasts by OPEC and IEA. On 12 November, as reports came in of a record OPEC production in October (33.64 million barrels per day, 240,000 mbd over September), prices settled at \$ 44.75 for Brent and \$ 44.19 for WTI.

OPEC released its "World Oil Outlook" report on 8 November in which it forecast increased oil demand in spite of sluggish global economic growth. The report projected global demand at 95.3 mbd in 2017, 300,000 mbd more than its forecast last year. For 2020, it forecast demand reaching 98.3 mbd, 900,000 more than its earlier projection. In regard to prices, OPEC forecast an average price of \$ 40/barrel for 2016, with increases of \$ 5 annually to 2020. It saw global growth averaging 3.4% between 2015-20, slightly lower than its estimate of 3.6% last year.

While oil demand in OECD countries is likely to fall after 2017 due to increased use of natural gas, nuclear energy and renewables, demand in developing countries will rise and drive overall global demand till 2040. OPEC projects India's demand growing to 5.4 mbd by 2021, a 32% increase from 2015, an estimate that is 470,000 mbd higher than last year's forecast, due to the country's improved economic performance.

In the midst of the global supply glut, OPEC has also stressed the need for continued investments in the oil sector: it has projected the need for investments of about \$ 10 trillion from now to 2040, while noting that investment in the upstream sector had actually dropped by \$ 130 billion in 2015 to \$ 400 billion, and a further drop of \$ 80 billion is expected this year. Over the long term, OPEC sees prices at \$ 60 in 2021 and \$ 92 in 2040 at constant 2015 dollars (at current prices, this would be \$ 65 and \$155, respectively).

IEA has projected higher production of about 500,000 b/d by non-OPEC countries in 2017; increased production is expected from: Russia (by 190,000 b/d), Brazil (280,000 b/d), Canada (225,000 b/d) and Kazakhstan (160,000), leading to a total non-OPEC production of 57.2 mbd.

2. Iran launches upstream tenders

On 6 November, the National Iranian Oil Company (NIOC) called international oil companies to join the pre-qualification process for its upstream tenders, with NIOC hoping to finalise contracts worth \$ 10 billion under its recently approved Iran Petroleum Contract (IPC). NIOC is looking at 50 upstream projects under the IPC, with priority being given to fields that share reserves with neighbouring countries. These include: Phase II of the South Azadegan field, with a potential of 25 billion barrels and the mature field at the Iraq border for which an MOU has been signed with the Russian company, Tatneft, for enhanced oil recovery.

3. Iran gas deal

On 8 November, Iran signed an MOU for a \$ 6 billion contract with Total for the development of an offshore gas field, the first energy contract concluded with a western company since sanctions were eased in January this year. Total [50.1%] will head a consortium consisting of the China National Petroleum Corporation (CNPC) [30%] and the Iranian company Petropars [19.9%] to develop Phase 11 of the South Pars field over a 20-year period. The field is expected to yield nearly 51 million cubic metres of gas per day. The final agreement is expected to be signed in a year's time.

This agreement could encourage other western companies to participate in Iranian energy and other national development projects, though US sanctions still ban direct banking relations with Iran as also investment by US companies in that country. Iran has indicated it needs \$ 30 billion in foreign investment to reach its targets in the energy sector, including 6 mbd of crude over the next decade.

Other Economic Developments

1. Iran concludes Airbus deal

On 7 November, Iran concluded a deal to obtain 17 Airbus commercial aircrafts, as part of its order for 100 jets each from Airbus and Boeing earlier this year. This deal was made possible through the participation of a third party, believed to be Dubai Aerospace, which will buy the aircraft and then lease them to Iran's national carrier. The deal is expected to be paid for in Euros. The same arrangement is expected for the purchase of 20 jets from ATR, which is 50% percent owned by Airbus. Talks are ongoing for the purchase of Boeing aircrafts, which could be based on the same arrangement as the Airbus deal.

2. UAE enters the Space sector

On 2 November, the UAE Prime Minister and ruler of Dubai, Sheikh Mohammed bin Rashid, inaugurated in Dubai the space centre named after him. He also initiated the first step in the manufacture of Khalifa Sat, the Arab world's first satellite, which will be fully developed by UAE engineers and will be launched in 2018. He also formally approved the final design of "Hope Probe", the probe that will finally reach Mars in 2021, placing the UAE among nine countries seeking to explore Mars.

3. Egypt obtains IMF loan

On 12 November, the IMF announced the approval of a \$ 12 billion three-year loan for Egypt to address the country serious economic issues, including the budget deficit, rising debt, slow growth and high unemployment. The IMF announced that \$ 2.75 billion would be reduced immediately, while the rest would be disbursed after periodic reviews. The loan approval followed some reforms undertaken by the Al-Sisi government such as cutting fuel subsidies, announcing the VAT, and floating the Egyptian pound, which lost 45% of its value vis-a-vis the dollar.

The IMF has projected that Egypt will have a growth rate of 3.8% this year and 4% next year; but its budget deficit will be about 12%, while inflation will be 14% this year and 18% next year. On the positive side, there are expectations of higher exports due to the depreciated currency and improved tourism due to a better security environment.

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(The views expressed are personal)