

HIGHLIGHTS

- Political Developments
- The Oil Scenario
- Non-Oil Economic Developments

Political Developments

1) Gulf Rocked By Terrorist Attacks

THE LAST WEEK OF THE HOLY MONTH OF RAMADAN witnessed several terrorist attacks perpetrated by the Islamic State of Iraq and Syria (ISIS). This included a suicide attack at Istanbul airport, an attack at an upmarket restaurant in Dhaka, three attacks in Saudi Arabia, and the most horrendous bomb explosions in Baghdad, in which nearly 300 people have been killed.

In Saudi Arabia, the targets were carefully chosen for their political significance: the US consulate in Jeddah, representing the hated enemy of the jihadis; a Shia mosque in Qatif, the sectarian foe of the ISIS, and, most poignantly, the Prophet's Mosque in Madinah, which has historically been targeted by extreme Wahhabis forces who see in the reverence for the prophet's mausoleum, an expression of idolatry.

The bombings in Baghdad on 3rd July took place in the Karrada shopping area, which was then crowded with Ramadan shoppers. Throughout the six months of this year, ISIS have carried out a series of lethal bombings that have generally targeted the Shia community, thus ensuring that the sectarian divide in the country remains deep and does not heal. Confirming this was the ISIS attack four days later on a Shia mausoleum in Baghdad. These attacks have taken place just as the ISIS was ousted from the town of Fallujah, marking its steady loss of territory in Iraq, and the military pressures it is experiencing in Syria. The recent attacks suggest that ISIS will increasingly revert to its role as a jihadi movement by perpetrating lethal acts of terror against innocent victims.

At the same time, Iraqi forces, backed by a few hundred US "advisers", have escalated their attacks on the ISIS stronghold of Mosul. The military campaign is to be launched from the airforce base at Qayara, 60 km from Mosul, which has been recently re-taken from ISIS.

2) Yemen Peace Talks In Kuwait

YEMEN PEACE TALKS IN KUWAIT remained stalled over the last fortnight, though the UN special envoy has said that the two sides will return to the negotiating table later in July. President Abd Rabbo Mansour Hadi, during a rare visit to his country, announced at Marib, a government-controlled city east of Sanaa, that all of Yemen would soon be cleansed of "this deviant group", a pejorative reference to the Houthis. He added that he would never agree to legitimise the coup of the Houthis by conceding to their demands in Kuwait, a reference to the Houthi insistence on a national unity government in the country, which has stalled the talks in Kuwait.

The Oil Scenario

OIL PRICES REMAINED AT AROUND \$47/BARREL through the last week. In the first knee-jerk reaction to the Brexit vote, Brent crude fell nearly 4% to \$ 48.26, while the US crude marker, WTI, fell 3.9% to \$47.10; the subsequent uncertainties relating to the implications of the vote have kept the price well below the high of \$53, reached in June.

Supplies have also increased as Canadian oil is slowly re-entering the market, as is Nigerian oil.

Several OPEC members from the Gulf and Libya also increased production in June to 264,000 b/d higher than in May, to reach the total June production level of 32.86 mbd. The sense of the market is that, while prices are not likely to slide downward to say \$ 30/barrel, the global economy growth outlook has not yet indicated the capacity to push prices to \$60.

The US oil scenario presents a confusing picture. Since early 2015, eighty-one North American oil and gas companies have filed for bankruptcy, taking US production down to levels of late 2014. At the same time, due to improvements in fracking technology, the yield of shale oil fields is showing considerable improvement, thus addressing one of the most important concerns with regard to shale oil production. For instance, it is reported that the Permian Basin in West Texas has shown a decline of 18% in the fourth month of its life in 2015, as against a 31% decline in 2012 and 28% in 2013. Similarly, the Bakken shale basin has had a 16% decline in 2015, as against 31% in 2012. However, as of now, these improvements are limited and unevenly spread, and have not had a significant impact on overall US production.

OPEC, in its monthly report released on 12th July, reduced its outlook for global growth in 2016 from 3.3% to 3% in the context of uncertainties generated by the Brexit vote, but remained optimistic regarding production. It forecast that global oil demand this year would rise by 1.19 million barrels per day (mbd), and by a slightly lower 1.15 mbd, in 2017. It also projected a fall in non-OPEC production this year of 800,000 b/d due to reduced production in Canada, USA, Colombia, Australia and China, and a further fall of 110,000 b/d in 2017. OPEC has forecast total production of 32.98 mbd in 2017, suggesting a possible supply deficit if its production remains steady.

Increasing confidence in the long term hydrocarbon outlook is reflected in the two major projects announced by oil majors: a \$37 billion expansion project at the giant Tengiz oil field in Kazakhstan by Chevron, and an \$ 8 billion expansion of an LNG plant by BP in Indonesia. Analysts have suggested that two more major projects could be announced shortly: an exploration development in the Gulf of Mexico by BP, and LNG development in Mozambique by ENI.

Non-Oil Economic Developments

1. The most important news last fortnight was the announcement that the two major UAE government entities, IPIC and Mubadala, would be merging. IPIC primarily invests in the oil and gas sector globally, though its sister company, Aabar Investments, has holdings in diverse areas such as: automobiles, banking, construction, aviation and sports. Mubadala has a more diversified portfolio covering aerospace, oil and gas, semi-conductors, information and telecommunications, utilities, real estate and infrastructure, and international finance. The merged entity will have combined assets of \$130 billion. The merger will yield greater fiscal efficiency.

This proposed merger follows on the heels of the merger discussions between two major UAE banks, First Gulf and National Bank of Abu Dhabi, both of which are seen as responses to decline in oil prices, which has led to falls in the earnings of important UAE and regional commercial entities. For instance, IPIC suffered a loss of \$ 2.7 billion in 2015, following a profit of \$ 1.52 billion in 2014, largely due to the slump in oil prices.

2. The UAE renewable energy company, Masdar, has won the contract to build the 800-megawatt third phase of the Mohammed bin Rashid solar park in Dubai, in association with Spanish renewable energy companies, Fotowatio and Gransolar. Masdar are now seeking funding of about \$800 million to execute the project. This consortium has contracted to provide power at 2.99 cents/kilowatt-hour, which is the world's cheapest price for solar-generated power. This project is part of a \$14 billion project to generate 5000 megawatts of solar power in Dubai by 2030.

3. The UAE's direct non-oil trade for the first quarter of 2016 was \$75 billion, the same as for this period last year; imports amounted to \$46 billion, of which 43% came from Asia, followed by Europe (25%). Exports were valued at \$13 billion and re-exports at \$16 billion. The top items imported were: raw and manufactured gold - \$6.7 billion; motor cars — \$3.3 billion; and diamonds — \$2.7 billion. Diamonds were at first place among re-exports (\$3 billion), followed by jewelry (\$2.2 billion), and cars (\$1.13 billion).

These figures suggest that, in spite of the oil price slump, the UAE has retained its position as a world leader in global trade and re-exports.

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(The views expressed are personal)