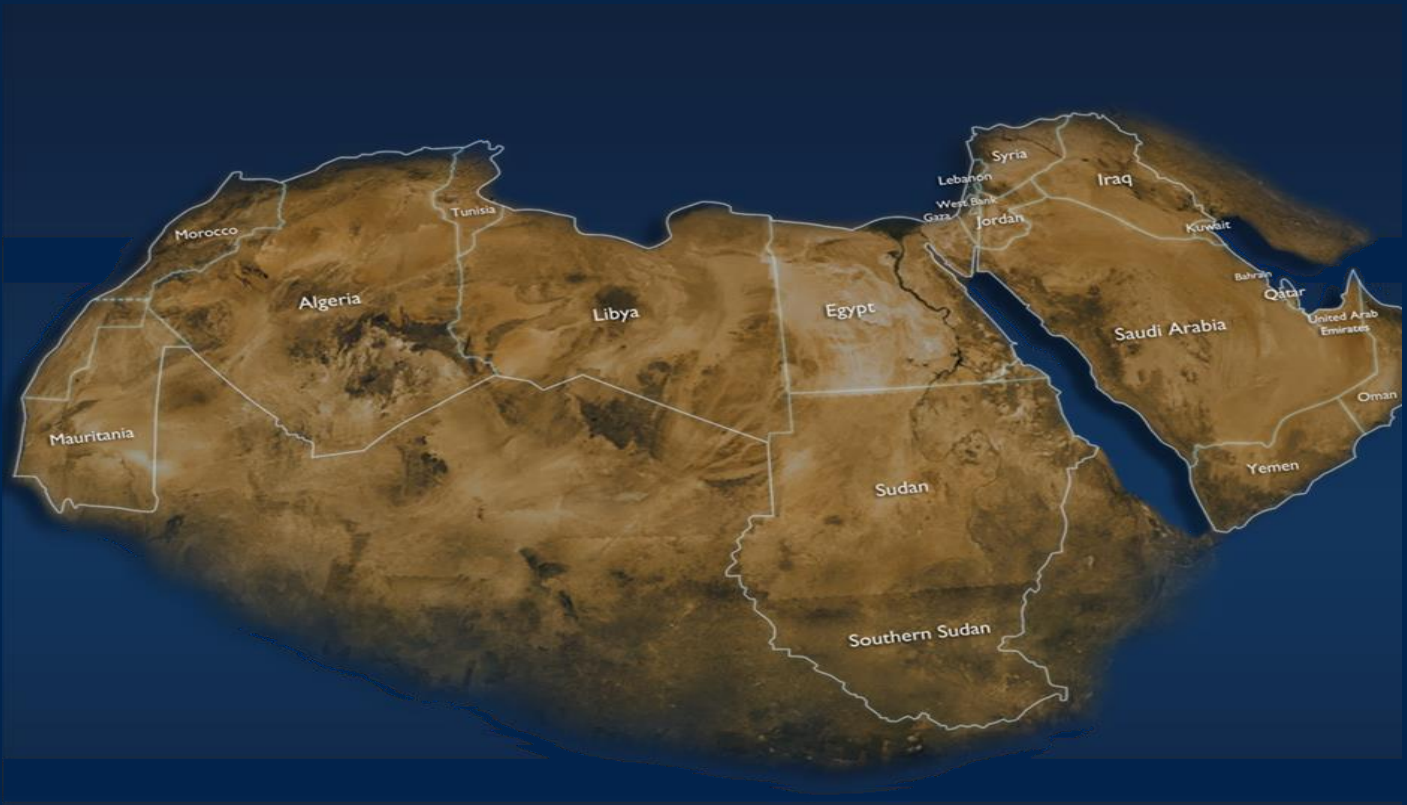
ARABIA MONITOR ENERGY

Arabia Monitor in collaboration with Qamar Energy

Sample 2017



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Main Highlights

- Oil prices rose, lifted by indications that supply is gradually tightening, especially in the United States. The Brent crude contract for October fell USD 1.06 to USD 51.66/bbl. The November contract dropped USD 1.13 to USD 51.28/bbl.
- Saudi Arabia's OPEC compliance was the lowest since January 2017 (98% in July) due to rising domestic demand in the summer, and raising concerns over a further extension to the OPEC production cut deal beyond March 2018.
- Iraq named 9 new oil and gas blocks available for investors, offering potential for new production. However, the country's expansion strategy remains unclear.
- Sharjah National Oil Corp. (SNOC) is reviving oil and gas exploration in the emirate with a new 3D seismic survey, hoping to replace declining gas production that is requiring LNG imports.
- Electric vehicles have been advancing, continuing concerns over future oil demand. By the end of 2016 in the US, there were about 30 different EV offerings, with total sales of 158,614 vehicles. Despite the decline in 2015, EVs in the US increased by 32% compound annual growth rate (CAGR) since 2011.
- The Qatar rift with the Saudi-led countries -- now into its fourth month -- shows no sign of ending but set to escalate, with the restoration of ties with Iran.
- Iran's new cabinet features little change at the top but faces significant challenges, particularly mounting pressure after missile tests were carried out and resulted in new sanctions by the US, with each accusing the other of violating the spirit of the agreement.

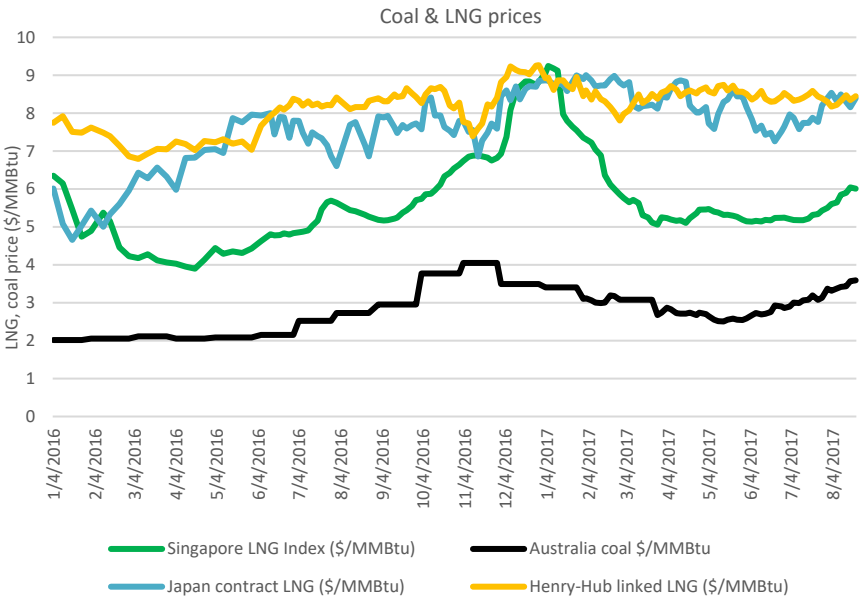
OIL PRICE SCORING (Rated Based on Impact on Oil Price)

OPEC Agreement	●	⬇	OPEC July compliance slightly up from June, but many countries are barely complying (Iraq), some not at all (Gabon), some overcompensating (Angola & Venezuela due to crisis).
OPEC supply outlook	●	⬇	Production hit highest level in Nigeria since April 2016 and highest level in Libya since 2014 (reached 1 mb/d).
Non-OPEC supply outlook	●	⬆	OPEC revised its supply changes: US output to increase by 700 kb/d (down from 800 kb/d) in 2017; OPEC predicts Canada (170 kb/d) and Brazil (240 kb/d) to raise supply growth this year, while Chinese output declines (by 120 kb/d).
Global demand	●	⇔	Higher demand from South Korea is expected to alleviate lower demand from Japan; OECD oil demand declining from slower-than-expected industrial activity.
Progress of non-oil technologies	●	⇔	Strong demand for UK electric vehicles; Prices of solar and wind power are at record lows

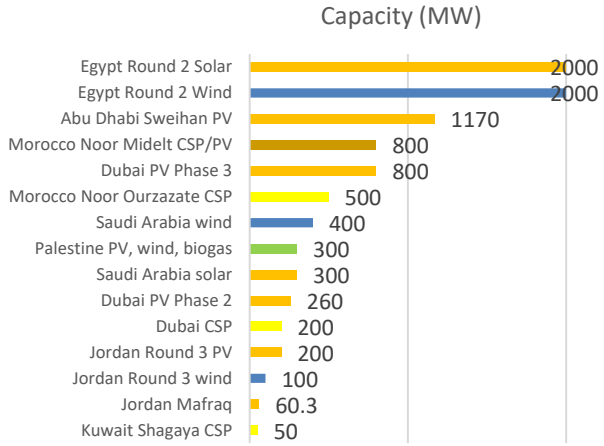
● Very positive; ● Positive; ● Neutral; ● Negative; ● Vey negative
⬆ Improvement in last month; ⇔ No change ⬇ Deterioration in last month

Section Snapshot

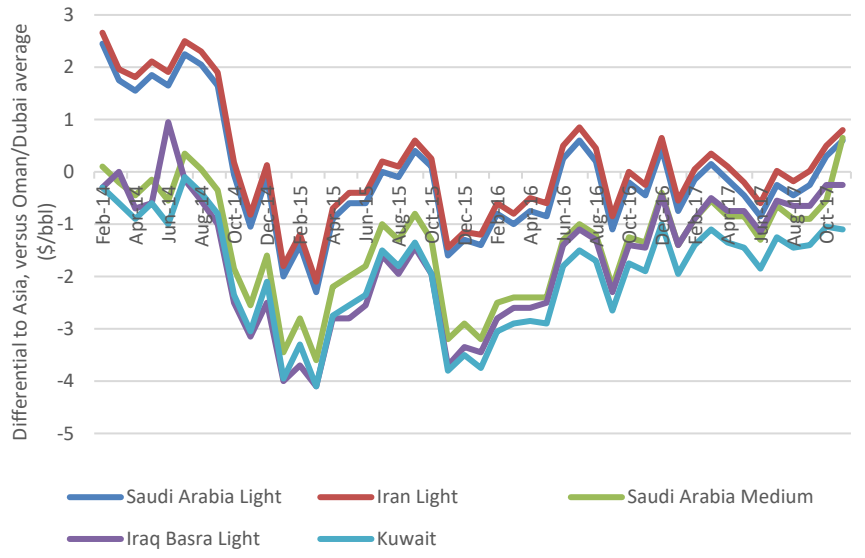
- Saudi Arabia cut August pricing for most of its crude grades to Asia as it sought to stay competitive with Iran and Iraq.
- Fujairah's commercial stocks of heavy distillates and residues were at a 9-week low attributable to several fuel oil shipments to Pakistan.
- Stocks of middle distillates are at a 10-week low due to strong Gulf demand in the summer.
- Saudi Arabia is delaying subsidy cuts. Plans to raise gasoline and other energy prices, with gasoline being linked to international prices, will be delayed to late 2017 or early 2018, raising concerns over commitment to reform and reducing the budget deficit.
- Renewable energy is set to grow fast in the MENA region. The International Energy Agency has forecast that MENA renewable energy capacity will grow 78% by 2021, led by the UAE, Egypt and Morocco. This is primarily solar power, and in the right locations (Egypt, western Saudi Arabia, Jordan, Morocco, Iran) wind.



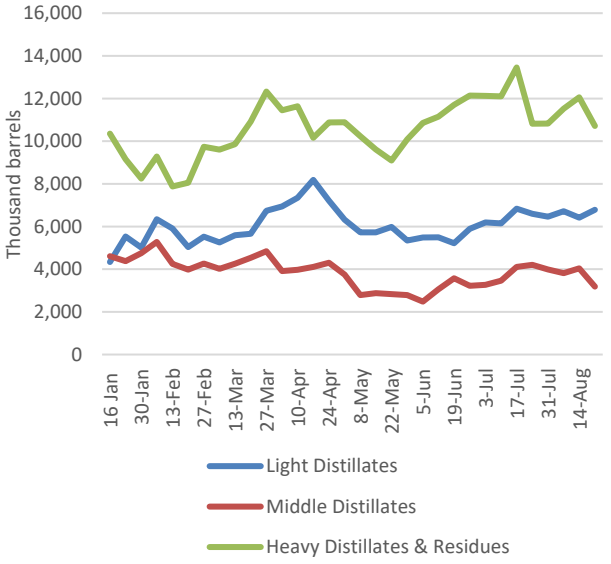
Source: SPLNG; EIA; Qamar Energy



Selected 2016-17 renewable energy projects in MENA. Source: Official & media reports



Source: News sources; NIOC; SOMO; Qamar Energy.



Source: FEDCom/Platts Fujairah Inventory Data; Qamar Energy

Headline Developments

Established Producers Supply: **Saudi Aramco** is tendering large contracts for its offshore fields. A USD 1B contract for the Safaniya field, the world's largest offshore oil field is intended to maintain capacity at 1.2-1.3 mb/d, covering the installation of several new platforms, pipeline facilities, well head jackets and other work. Aramco is investing heavily in this field to maintain and increase its production capacity because it still has large remaining oil reserves of around 16B barrels. This 6th redevelopment phase is likely to go to one of the companies with which Aramco has a Long Term Agreement (LTA). Saipem won the 4th phase and McDermott the 5th last year. New companies on the LTA list include a JV of Larsen & Toubro, EMAS Chiyoda and Dynamic Industries; and NPCC of Abu Dhabi. These companies are expected to be contenders for contracts to expand capacity at the offshore Berri and Marjan fields too. These awards show that spending is gearing up again.

Sharjah, UAE is relaunching oil and gas exploration. Onshore gas production has dropped sharply from more than 300 MMscf/d in 2006 to less than 50 MMscf/d today, requiring LNG imports (to start next year) to meet utility SEWA's fuel demand. Crescent/Rosneft drilled a dry well in the southeast of the emirate in 2010 (Sharjah Onshore Concession), using only 2D seismic. A new 3D survey has now been acquired (completed in February 2017) covering most of the emirate. The most promising area identified is 40 km SE of Sharjah city, between Al Madan and Al Seyouh, and the survey interpretation is to be finished in early 2018. Any discovery could quickly be tied into existing spare processing capacity and would help reduce the need for LNG and/or Dolphin pipeline imports.

Abu Dhabi is planning to split the ADMA concession which expires in March 2018. ADMA groups ADNOC (60%), BP (14.66%), Total (13.34%), and Japan's Inpex (JODCO) (12%). It produces 675 kbpd, and is currently in the process of being merged operationally with the other main offshore operator Zadco (while the existing shareholders retain their different interests in the field assets). Abu Dhabi is now proposing to split ADMA into two or more parts when it is renewed, and says over 12 companies have shown interest. The Lower Zakum field (345 kbpd) could be combined with ExxonMobil/Inpex's Upper Zakum to realise operational synergies, Umm Shaif (300 kbpd) could be split as a separate asset, and Nasr, Umm Lulu and Satah Al Razboot, which produce 30 kbpd and are being developed/expanded to 275 kbpd, as a third group. Alongside the existing shareholders, CNPC, Shell, Rosneft and Statoil are possible bidders. ADNOC favours bidders who bring something additional in terms of partnerships, markets or participation in other parts of the value chain.

Table 1 Production of ADMA & ZADCO contract areas[1]

Field	Operator	Current production	Planned production
Umm Shaif	ADMA	675 kbpd	970 kbpd by 2020
Lower Zakum	ADMA		
Nasr	ADMA		
Umm Lulu	ADMA		
Satah Al Razboot	ADMA		
Upper Zakum	ZADCO	630 kbpd	750 kbpd by 2018 → 1 Mbpd by 2024
Satah	ZADCO	19 kbpd	
Umm al-Dalkh	ZADCO	14 kbpd	
Total		***1,338 kbpd***	

Duqm Refinery & Petrochemical Industries Co. LLC (DRPIC), a joint venture of state-owned Oman Oil Co. and Kuwait Petroleum International Ltd., has awarded the final two of three main contract packages for engineering, procurement, and construction of its long-planned USD 7B, 230 kbpd refinery and petrochemical complex to be built in the Duqm Special Economic Zone (SEZAD), **Oman**. EPC 1 went to the consortium of Tecnicas Reunidas and Daewoo Engineering & Construction. EPC 2 was awarded to the joint venture of Petrofac and Samsung Engineering while EPC 3 was awarded to Saipem. The refinery will be the third in the Sultanate after the Mina Al Fahal refinery (106 kbpd) and the Sohar refinery (116 kbpd, being expanded to 198 kbpd). Separately, a port also has been planned at Duqm to support the infrastructure. Crude oil and liquid products naphtha, jet A-1, diesel, refrigerated LPG, sulphur pellets and coke would be imported/exported at the adjacent Port of Duqm. The refinery is expected to be completed in 2023[2]. It is a key part of the development of Duqm as a refining, oil storage and petrochemical hub, to develop the relatively remote and politically sensitive Dhofar area.

Emerging Producers Supply: **Libya's** largest oil field has been shut down numerous times over the past several weeks due to protests by oil workers and armed guards. The Sharara oil field operated by Libya's NOC (50%), Repsol (20%), OMV (15%) and Total (15%) is currently producing 280 kb/d. Optimism on Libya's ability to maintain oil production above 1 mb/d is wishful thinking given that the location of the blockade, as well

[1] Approximate figures. Source: Wood Makenzie; Qamar Energy

[2] MEED Projects

as the demands of the protesters continue to remain unknown. Even though the domestic oil market situation has improved slightly, owing to oil minister Sanallah's efforts in restarting fields, and physically visiting sites of blockades to strike deals with protestors, the political tensions between the two opposing governments, the government of Tripoli led by Fayez al-Sarraj and Tobruk-based Libyan National Army (LNA) led by General Khalifa Haftar in the east, are volatile. This is further complicated by smaller factions operating between the two main governments, including ISIS notably around Sirte. Resolution between the two governments remains doubtful. For it to happen, Haftar would have to accept weakening his position and even his army (LNA) to al-Sarraj's government, which is unlikely. Haftar is under no immediate pressure to compromise, especially with the strong backing of Russia, Egypt and the UAE.

Egypt is investing in fuel oil upgrading but diesel demand remains high. Egyptian Refining Company (ERC), a private company, is building a 107.2 kbpd hydrocracker refinery which will upgrade residual fuel oil from the Cairo refinery; Alexandria Mineral Oils Company (Amoc), 80% state-owned, is planning to build a hydrocracker of about 20 kbpd at its 35 kbpd refinery; and the Midor, Assiut and Suez refineries have various units under design. These projects total USD 8.6B with another USD 10.95B of projects under study. But with diesel demand at 303 kbpd and rising sharply since 2014, refining output is only 140 kbpd and has been almost flat since 2002. Both Midor and Amoc are set for part-privatisation.

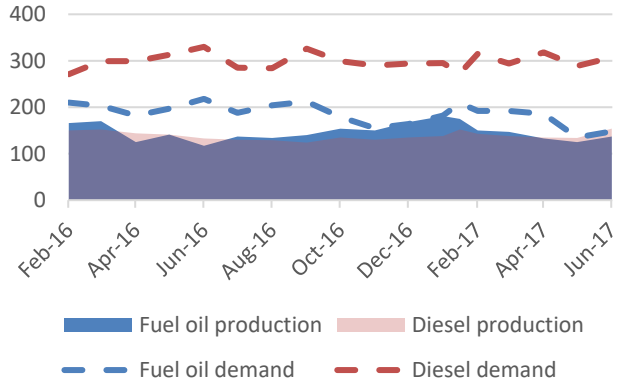


Figure 1: Egyptian Fuel Oil & Diesel Production & Demand (kbpd)[3]

Demand: OPEC increased its forecast for electric vehicles (EV) adoption, anticipating 266 million cars by 2040 instead of the 46 million it predicted in last year's forecast. The five-fold increase comes after several oil majors and consultancies also raised their expectations of EV fleet capacity. BP for example expects EVs to reduce oil demand 8M barrels by 2040 (25% of OPEC's current output). The trend is underpinned by falling battery costs, the recognition that automakers will introduce more EV models in the near future, and new energy efficiency strategies by countries. Volvo announced that it is phasing out cars that rely on internal combustion engines and France plans to end the sale of fossil fuel powered vehicles by 2040, though such targets remain political aspirations that could easily be reversed.

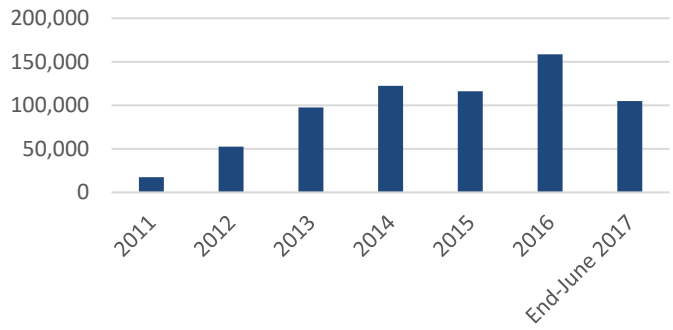


Figure 2: US Electric Car Sales (Number of Cars Sold)[4]

Exports: The State Oil Marketing Company in Iraq (SOMO) is thinking about changing pricing strategy for its Basra crude to Asia (only to Asia and not US or Europe). That would mean dropping the average of Oman and Dubai quotes by S&P Global Platts and change to Dubai Mercantile Exchange (DME) Oman futures. It would continue using the Dated Brent and the Argus Sour Crude Index for Europe and US, respectively. The advantages of developing an approach based on DME pricing include increasing the attractiveness of Iraqi crude to buyers, hence building market share. Middle Eastern crude benchmarks currently do not include Iraqi crude grades. Moreover, it is a strategy to move away from Saudi Arabia whose official selling prices (OSP) of using S&P price assessments are usually followed by the other main producers in the region. If implemented, the change would involve the pricing of around 2 mb/d of Iraq's exports to Asia from Basra.

The federal Iraq government exported 3.230 mb/d, of crude oil, down slightly from 3.273 mb/d in June. Independent exports by Iraqi Kurdistan rose slightly, from 538 kb/d in June to 571 kb/d in July.

Saudi Aramco's trading unit plans to trade 3rd-party crude mainly to Asia and Africa. Its trading unit was set up 5 years ago, predominantly to trade products, anticipating the start-up of Aramco's large new export-oriented refineries and also the kingdom's own import needs. Of its 1.5 Mbpd of traded products, about 0.5 Mbpd is from third parties. Aramco will continue to sell its own crude under long-term contracts to refiners and there is no sign that it plans to change that, although such a shift may be inevitable with the development of its competitors' strategies, such as Iraq. Iraq formed a joint

[3] JODI; Qamar Energy
[4] InsideEVs

venture with Litasco SA, the trading arm of Lukoil PJSC and is considering selling crude on the Dubai Mercantile Exchange. Saudi Aramco's move will probably not have a significant impact on the planned IPO. Aramco Trading will set-up an office in Singapore by the end of September and will consider expansion offices in London.

Iran exports to India dropped by 25% from July to 310 kbpd in August, the lowest since February 2016. Although blamed on the dispute over the development of the Farzad-B gas field by an Indian consortium, it is more related to the end of the favourable payment terms Iran had been granting India during the sanctions period (with credit period falling from 90 days to 60), and to competition from cheaper Russian crude. In June, Essar, one of the largest Indian refiners, cut its purchases from Iran by 32% to 122.5 kb/d, with Venezuela and Iraq picking up the difference.

Saudi Arabia's August exports are expected to be the lowest this year, 600 kb/d below July, at around 6.6 mb/d, with Asian allocations falling about 200 kb/d to 3.5 mb/d, US below 800 kb/d, Europe down 70 kb/d to 520 kb/d, and oil major lifters 200 kb/d down to 780 kb/d. Shipments to the US will be the lowest in summer for almost 30 years. Meanwhile, although Saudi Arabia gained market share in Japan, it has lost it in China, including to US oil exports. China and India may increase their imports from the US, Iraq and Iran if Saudi Arabia continues to decrease its supplies. The rise in domestic consumption due to the summer season led to the fall in inventories and cut in exports this summer. Stockpiles declined to just 257M barrels, the lowest since 2012.

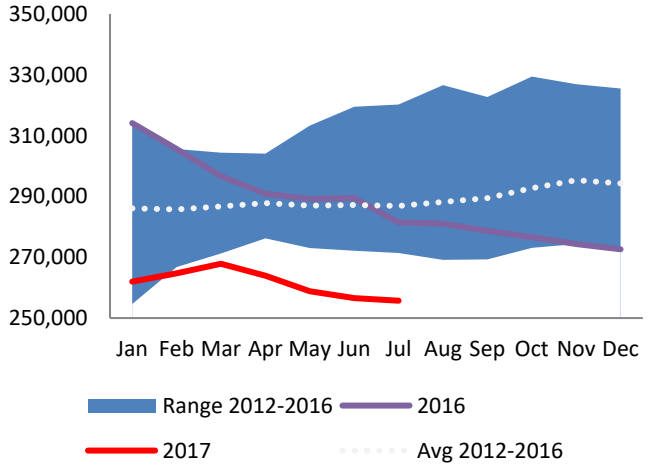


Figure 3: Saudi Arabia's Crude Oil Inventories (K, Barrels)[5]

OPEC: OPEC will discuss at a meeting in November whether to extend production cuts beyond March 2018 or end the production cuts on the agreed end of Q1 2018. The cuts could be extended to keep prices in the USD 50s range, but not deepened. In general, deeper cuts are unlikely because of: a) weakening compliance generally amid frustration over the slow pace of the deal's results; b) higher domestic demand in Saudi Arabia in summer; c) the trend for Russian production to rise in the second half of each year; d) a likely return to Iraqi production growth as investment picks up; e) Iranian ambitions for production growth, even if, as argued above, these are unlikely to materialise in the short term.

The Kuwaiti Oil Minister stated that the impact of OPEC cuts is observed with the reduction of US inventories falling more than expected (which was true after Saudi Arabia held back exports to the US in July to manufacture a drop in the US inventories as they are closely watched). As shown in Figure 4, US commercial crude inventories have fallen by almost 13% from their March peaks, to 466.5M barrels by 11 August 2017. The US Department of Energy plans to sell around 270M barrels of crude oil from the US Strategic Petroleum Reserve (SPR) and leave 260M in reserve (half of the reserves) over 10 years beginning in fiscal 2018.

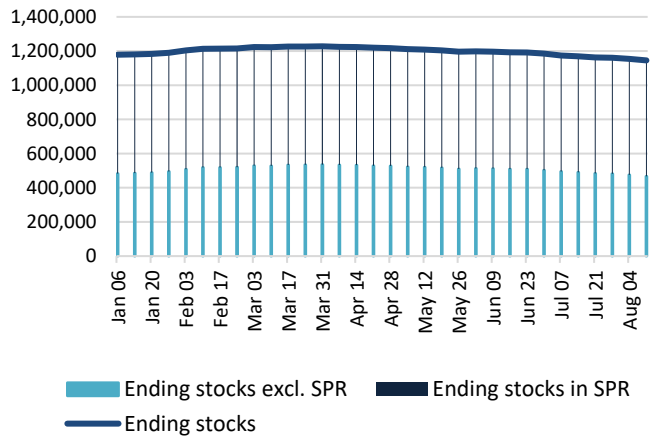


Figure 4: US Weekly Crude Oil Inventories in 2017 (K, Barrels)[6]

If the Trump administration decides to levy sanctions on **Venezuelan** crude in the US, the refineries that were importing the crude would have to source it from somewhere else, probably Canada, Mexico and the Middle East. So far, the US has exempted PDVSA's US subsidiary Citgo from sanctions. The US imported 741 kb/d of crude oil and 55 kb/d of oil products from Venezuela in 2016. If imposed, Venezuela would probably not be able to find Asian markets immediately for all its exports. The US, of course, does not import Iranian crude, and therefore in this case we could expect Iran's market share in Asia to jump markedly.

Qatar's compliance has been high despite the decision of Saudi Arabia and UAE to sever diplomatic and transport links with Qatar in June. The UAE's compliance, however, has not been more than 82% since the start of the cuts. In July, the UAE

[5] JODI; Qamar Energy.

[6] EIA; Qamar Energy.

pledged further OPEC cuts after Saudi Minister of Energy and Industry, Khalid Al-Falih, announced that they would escalate the matter of low compliance to the highest levels of government if it does not improve, which would probably be the Crown Prince of Saudi Arabia speaking to HH Mohammed Bin Zayed Al Nahyan.

Table 2: OPEC Compliance to Production Cuts[7]

Country	June Compliance %	July Compliance %
Algeria	58	60
Angola	110	135
Ecuador	77	46
Gabon	44	-33
Iraq	29	44
Kuwait	97	103
Qatar	110	97
Saudi Arabia	105	98
UAE	73	78
Venezuela	125	142
OPEC	***83***	***85***

Major New Oil Supplies/Discoveries: **Iraq's** Ministry of Oil (MoO) has named nine oil and gas projects along the borders with Iran (Naft Khana, Zarbatiya, Shihabi, Huwaiza and Sindibad) and Kuwait (Khidr Al Maa, Jabal Sanam and Umm Qasr) for foreign investment by the end of the year. This is part of the Oil Minister's plan to increase oil production to 6 mb/d by 2020. **Iraq** also entered negotiations with PetroChina and China National Offshore Oil Corporation (CNOOC) for the long-delayed Nassiriya refinery and oil field development project to build a USD 9B refinery, but the MoO has rejected that proposal as too costly. The Nassiriya oil field is estimated to hold more than the previously-estimated proven 4.4B barrels.[8]

Geopolitics: There was a gunfire attack near a gas-oil separation station at the Garraf oil field (operated by Petronas) in southern Dhi Qar province **Iraq** by residents of a nearby village claiming that oil operations are causing a series of earthquakes in their area. Workers were evacuated from the oil field, but the 100 kb/d production from the field was not affected. The provincial council in Dhi Qar has promised to intervene to identify the reason behind the earthquakes.

Iraqi Kurdistan is receiving pressure from Federal Iraq officials to delay the referendum on independence on 25 September 2017. Iran, Turkey and the US have also voiced their disapproval. According to Kurdish leaders, the condition for postponement is the re-start of budget transfers from the Federal government in Baghdad and the commencement of legal discussions to settle the country's disputed territory. It is unlikely that Baghdad would agree to these terms in return for the postponing of the referendum. If it is to be delayed, it would be because of internal mismanagement within the Kurdish government.

French president Macron convened a discussion between Fayez al-Sarraj and Khalifa Haftar of rival **Libyan** factions to attempt reunite the country's two power sharing sides, however, they failed to come to a signed agreement. There has been little sign of the Trump administration taking any direct role in the conflict, leaving Europe, particularly Italy, largely responsible. Italy and France are keen to stop the influx of Libyan migrants to Europe. France and Italy may officially be on the side of Tripoli (UN-backed), but they did show support for General Haftar as his forces were instrumental in liberating the coastal city of Benghazi from Islamists.

With regards to the **Iran** nuclear deal compliance, the US is demanding that the UN's international investigators check military sites in Iran, which Iran refused. Tensions between both countries remain high especially after Trump's recent visit to the Middle East – after which the Qatar crisis also began. Due to the severe scrutiny of the nuclear deal, Iran's President has declared that the country could quit the deal in 'hours' if the US imposed any new sanctions. A US refusal to continue the deal, and an attempt to reimpose sanctions, would be met with opposition from the EU, Russia and China. However, European companies at least, including investors in the oil sector, may be deterred by extraterritorial sanctions. The outcome of a breakdown of the deal would depend on what kind of sanctions the US attempted to reimpose, how successful it was in coercing other countries to comply, and whether the likely resumption of Iranian nuclear activities led eventually to US military action.

The fears of Iranian influence proliferating in **Iraq** with its present Shi'a-dominated government are increasing in the Gulf and West. Iran's role in helping Iraq's Popular Mobilisation Forces (PMF) (coalition of paramilitary groups) against ISIS by providing military supplies has led to a deepening of Iranian influence in the country. Many units of the PMF currently are extremely pro-Iran and have stated that it will remain regardless of what the Iraqi government says. Nevertheless, Iraqi people and political parties, although majority Shiites, are generally opposed to increased Iranian influence. Only the former Prime Minister, Nouri Al Maliki and his party, have adopted a pro-Iranian political platform for the upcoming general elections in the country, while other major parties have kept their distance from Iran. Saudi Arabia has been vocal about the Iranians making gains in Iraq. In response, Saudi has met Iraqi Prime Minster Abadi and an influential Iraqi Shiite leader, Moqtada Al Sadr. In the wake of these visits, Saudi Arabia has flexed its soft power muscles and has promised the opening of a consulate in Najaf and other humanitarian and economic projects – for example the building of a hospital in

[7] OPEC secondary sources; Qamar Energy.

[8] Iraq Oil Report

Baghdad and Basra and to open border crossings between both countries.

Spotlight this Month: Aramco IPO & Saudi Policy

Some speculation on the Aramco IPO has proposed that Saudi Arabia is trying to boost prices over the 2017-18 period to get the best possible price for the IPO. In our view, this makes little sense, as it a) assumes markets are myopic and value Aramco on short-term oil prices; b) over-states the Saudi ability to manage prices. In reality, we have seen repeatedly in recent months that, when oil prices rise much above USD 50/bbl, shale drilling increases and prices then fall back again.

The Aramco IPO is part of a wider economic reform package, designed to diversify the economy and the government's revenue base. If successful, this would enhance Saudi Arabia's ability to fight a prolonged price war, and will give it more freedom of manoeuvre. But it is unlikely that it will have a major impact in the near term. In March 2017, a decree was passed to reduce Aramco's tax rate from 85% to 50%. The 35% reduction in tax revenue would be replaced by dividends to the government. This would mean the government would see a decline in oil revenue, but a rise in non-oil revenue, another move to diversify 'non-oil' income, effectively by reclassifying oil taxes as investment income. This will better-align the interests of outside shareholders and government, but does leave the door open for future tax rises.

Saudi policy on both the economic and political fronts has been unpredictable and indecisive in recent months. This may partly reflect the tensions within the royal family over the accession of Mohammed bin Salman (MBS) to Crown Prince, but it also seems to be indicative of his style of decision-making, and in some cases to the incapacity of the state bureaucracy. For instance in the energy sector, renewable energy plans have been repeatedly rethought and delayed, with the latest changes involving a change to a 400 MW wind project, and apparently an overall rethink of the programme focussing more on smaller-scale renewables.

Saudi Arabia also seems to be losing appetite for subsidy reform, with one camp arguing that the kingdom should make the most of its advantage in low-cost energy. Along with slow progress in renewables, this will mean higher domestic energy consumption and so lower oil exports, as well as a possible need for LNG imports (Aramco has discussed participating in Russian LNG projects). These are longer-term effects, but even in the short-medium term (one to two years), a lack of subsidy reform will lead to higher consumption of diesel, gasoline, fuel oil (in power plants) and crude oil (also in power plants).

The country is also getting contradictory advice from consultants and international agencies. The IMF has recommended that Saudi Arabia eases austerity measures to avoid a slowdown in the non-oil economy. In June 2017, all allowances and bonuses for military and civil servants, that were suspended in September 2016, were restored. This was also intended to smooth the path of MBS' succession. This will boost the domestic economy (and hence local fuel demand) in the short term, but it will erode Saudi financial reserves in the longer term.

Reserves fell from USD 746B in August 2014 to USD 487B at the end of July 2017. If that pace is continued (assuming no oil price recovery nor fiscal consolidation), they would be exhausted within six years or so. It would have to maintain minimum reserves of around USD 200B-300B to avoid pressure on the currency peg. The kingdom can borrow (as it already is), but its sovereign assets, now being placed in the Public Investment Fund (PIF), are also intended to diversify the economy, as well as earning a return to support the budget.

Military spending is officially put at USD 51B in 2017, with other estimates up to USD 80B. The war in Yemen cost USD 5.3B in 2015 and likely more in 2016, with some estimates putting it at USD 4B-6B per month. Without an easing of regional tensions, including the wars in Yemen and Syria, the breach with Qatar and the escalating hostility with Iran, military spending will remain high. MBS also faces the issue of maintaining the loyalty of the armed forces, including what to do with Prince Miteb bin Abdullah, commander of the national guard, son of the former king, and the last remaining senior prince in a position to challenge MBS.

The IPO will open up Aramco to new perspectives, but is unlikely to change its fundamental approach to business, or its role in managing oil markets, even if this is notionally delegated to government bodies overseeing Aramco.

If Saudi Arabia is in a weaker fiscal position, this moves it closer to the position of the OPEC 'hawks' (who favour production cuts), and away from the 'doves' (who favour higher production and lower prices to retain market share). The UAE, traditionally very close to the Saudis on oil policy, has been privately sceptical of the impact of the cuts, and its compliance has been relatively weak. Riyadh's financial position remains, of course, far stronger than those of Iraq, Oman, Algeria or Nigeria, let alone Libya or Venezuela, and those countries may run into fiscal crisis first.

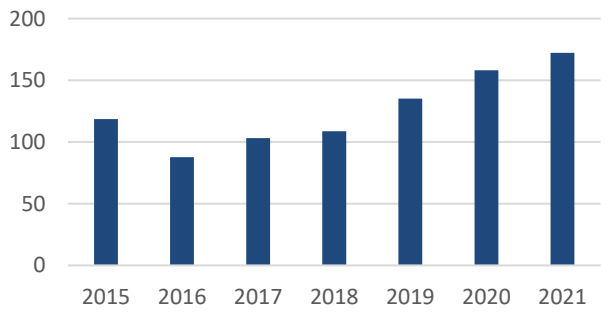


Figure 5: Saudi Arabia Oil Revenue (USD, B)[9]

[9] SAMBA August 2017 report

Scenarios to Watch

LONG-TERM SLUMP IN OIL AND GAS PRICES AS RENEWABLE ENERGY AND ELECTRIC VEHICLES TAKE OVER

Timing: 2040+

Event Oil prices, which had been recovering from the 2014 crash, fall sharply again as oil demand appears set to enter a long decline from increasing renewable energy power generation and electric car sales in the MENA region and globally. This hits government budgets and economies of oil-exporting countries, and diminishes their political importance. Several major oil companies end up filing for bankruptcy. Demand for electric cars grows substantially in major GCC energy trade partners - USA, China, and Japan.

Mitigation: Oil exporting countries in MENA shift attention from China and Japan as demand hubs to Africa and Latin America who are lagging on adapting to new energy efficiency technology. Asian consumers Pakistan and India are still however heavily reliant on Middle East oil for their manufacturing sectors. India and Pakistan are growing consumers for compressed natural gas for transportation. To remain agile, GCC invests more in renewable energy and shelves planned projects in refineries and storage facilities domestically and internationally. The GCC expands its renewable energy capacity to meet domestic peak demand in summer and starts international exports of electricity. The countries shift and adapt to exporting solar power to neighbouring countries during the cold winters, such as India and Pakistan. SWFS, NOCs and other government entities invest in EV technology or even JV with EV automakers to benefit from the boom.

Impact: Oil revenue for the GCC countries drops drastically resulting in sharp trimming of public spending. The governments focus on diversifying their economies to increase non-oil revenues, mainly through additional fees and higher taxes (VAT and excise taxes). MENA oil exporters, mainly GCC countries, Iran and Iraq fight for market share in India, Pakistan and Africa. Saudi Arabia, Iraq and Iran start awarding upstream and energy EPC contracts to India and African firms to get priority oil exports.

Scenario Probability: 30%

Alternative Futures

1) 30%: The electric car and renewable energy market is adopted more slowly than expected.

2) 25%: The impact of EV on the oil markets is not as hard as expected. No technological breakthrough was invented by 2040 to recharge batteries faster and EV adaptation is not extended to heavy duty vehicles.

3) 25%: Demand in India, Africa, etc., for petrol/diesel vehicles remains strong, making up for the lower oil demand.

MUBADALA BUYS BHP BILLITON SHALE OIL BUSINESS

Timing: 2018

Event: Mubadala sees the opportunity of investing in US shale oil assets to learn and profit from the business which the GCC OPEC members once disregarded as a real threat to oil prices. In the GCC, Saudi Arabia and Abu Dhabi both have unconventional resources which they have not yet developed.

Opportunity: A Mubadala joint venture (JV) with ADNOC diversifies their international upstream portfolio and invests in US shale oil to learn and apply the drilling methods in US shale to ADNOC's unconventional resources in the Shilaif Formation which also require long horizontal wells and hydraulic fracturing. The JV profits greatly from the BHP investment by hedging prices on future shale output.

Impact: Shale output in the US rises rapidly in line with EIA forecasts benefiting the producers. The JV maintains the investment for at least 5-10 years before the asset start depleting, then sells it off to another player. After that, the JV starts development of UAE unconventionals by applying technology efficiencies and drilling techniques on the Shilaif Formation.

Scenario Probability: 10%

Alternative Futures

1) 60%: Abu Dhabi does not make the investment.

2) 10%: The investment is badly managed and is proved a failure so Abu Dhabi decides to sell it off.

3) 10%: Another competitor (Qatar) makes the investment.

4) 5%: ADNOC makes the investment in partnership with another GCC state (Saudi Arabia, Kuwait or Oman).

5) 5%: BHP decides not to sell off its US assets.

Top Projects in the News

Project	Summary	Timeline	Client	Contractor	Implications
205 kWp solar PV plant in Dubai	YDE will manage the construction, operation and maintenance of the solar PV plant for the next 15 years.	4 months	Dubai Electricity and Water Authority (DEWA)	Yellow Door Energy	As part of Middle East Insulation's commitment to transfer to green manufacturing activities, the new plant will provide 347,000 kWh of electricity per year.YDE is a leading player in the UAE's cladding and roof industry. So far, under the Shams Dubai programme, 15.6 MW of rooftop solar has been installed.
Construction of two substations in Egypt	Siemens will be responsible for the design, engineering, construction, supply, installation and commissioning of the two 500/220-kV substations. To date, 50% cent of the substations in Egypt are built by Siemens technology.	15 months	The Egyptian Electricity Transmission Company (EETC)	Siemens	The two new substations at Samanoud and Aboul Matameer will enable power delivery to Egyptian homes as well as various industries in the Delta region. They will also help increase the capacity of the national grid, which is a key requirement to foster economic growth as defined by the goals of Egypt's vision 2030.
Upgrading the 110 bp/d Tebriz Oil Company refinery in Iran	The project, worth USD 1.6B, will renovate the Iranian company's refinery facility which opened in 1976.	36 months	Oil Design and Construction Company (ODCC)	SK Engineering & Construction	Tabriz Refinery operates with a capacity of 110 kb/d, turning crude oil to liquefied petroleum gas, gasoline and diesel.
Expansion of Jebel Ali refinery in UAE	This contract is the last of three for Enoc's USD 1B refinery expansion project.	24 months	Emirates National Oil Company (Enoc) Group	Overseas-AST	Once the expansion project is completed, the production capacity of the refinery will go up to 210 kb/d from the current 140 kb/d.

Table 2: Macro Dashboard – MENA Oil Exporters[10]

	Real GDP (%)		Fiscal Balance (% of GDP)	
	2016e	2017f	2016e	2017f
Algeria	3.4	2.9	-15.6	-12.2
Bahrain	2.1	1.8	-11.3	-11.7
Iraq	10.3	1.1	-14.4	-14.7
KSA	1.8	0.1	-13.0	-9.5
Kuwait	2.5	2.6	-30.2	...
Libya	-3.3	13.7*	-56.6	-43.8
Oman	1.8	2.6	-13.0	-10.3
Qatar	3.2	3.4	-8.2	-4.5
UAE	2.3	2.5*	-4.0	-1.9
Yemen	-4.2	12.6*	-11.3	-5.5
Average Ex-Libya & Yemen	**3.4**	**2.1**	**-13.7**	**-9.3**

Table 3: Macro Dashboard – MENA Oil Importers

	Real GDP (%)		Fiscal Balance (% of GDP)	
	2016e	2017f	2016e	2017f
Egypt	4.0	3.5	-9.4	-9.7
Jordan	2.8	3.3	-3.8	-2.6
Lebanon	2.5	2.0	-8.0	-9.5
Mauritania	4.1	3.9	-3.2	-3.5
Morocco	1.3	4.4	-3.5	-3.0
Sudan	3.0	3.5	-2.0	-2.1
Syria	...	...	...	...
Tunisia	1.5	2.8	-4.5	-3.6
Palestine	2.5	4.2	-14.7	-13.6
Average	**2.7**	**3.5**	**-6.1**	**-6.0**

[10] Arabia Monitor; IMF. *Subject to revision.

Macro Dashboard

	Economic Update	Comment
Inflation	- Egypt's core inflation rate jumped to 33% in July, up from 29.8% in June.	- The rise is driven by an increase in fuel prices. The authorities expect inflation to remain above 30% over the next two months, especially after an increase in electricity, transportation and drinking water prices. Egypt raised fuel prices in June by 55% for the commonly used 80-octane gasoline and diesel. It also doubled the price of the butane gas canisters, used in most Egyptian households for cooking.
Fixed Income Markets	- The government of Jordan has asked banks to submit proposals to arrange a US dollar conventional or Islamic bond issue. Jordan issued its first domestic sukuk last year, but should it opt for an Islamic bond, the planned debt sale would be the first international sukuk ever issued by the country.	- Jordan raised USD 500M in April through a tap of its existing USD 500M bond issued in November 2015 and maturing in 2026. In October 2016, it also issued a USD 1B bond maturing in January 2027, with Citi and JPMorgan leading the transaction. Jordan is rated B1 by Moody's and BB-minus by Standard & Poor's, and is receiving support from the IMF through a three-year, USD 723M Extended Fund Facility, which was approved in August 2016. Before the issue of USD 500M in bonds in November 2015 as a standalone credit, Jordan issued bonds fully guaranteed by the US government through the US Agency for International Development.
	- On 9 August, the Iraqi Government raised from the international capital markets USD 1B in a five-year bond issue with a yield of 6.75%.	- It was the first unguaranteed new Iraqi sovereign bond in more than a decade and follows a USD 1B 5-year US-guaranteed deal in January. Citibank, JP Morgan Chase and Deutche Bank were the lead managers and the Trade Bank of Iraq was the co-manager. The issue was rated as B- stable by Fitch and B- stable by S&P.
PMI	- The non-oil private sector in the UAE remained strong in July. The Emirates NBD Purchasing Managers' Index for the UAE nudged up to 56 in July from 55.8 in June and 54.3 in May 2017.	- Output increased at a faster rate with firms citing favourable economic conditions and new projects as factors driving higher output. New orders also increased sharply in July, lower new export orders for the second month in a row. Overall, the PMI data for H1 2017 shows that the non-oil sector grew at a faster pace relative to H1 2016.
	- Saudi Arabia's PMI rose to 55.7 in July from 54.3 in June, for the highest reading in three months.	- Growth in the non-oil private sector picked up on the back of sharper increases in output and new orders. The reading suggested that the non-oil economy has remained healthy with the strongest rate of job creation since August 2016.
Policy & Geopolitics	- Details have emerged of US Republican Congressman Edward Royce's proposed bill calling for broader sanctions against Hezbollah which officially includes the party's lawmakers and ministers in the list of individuals who will be subject to these penalties. The bill names Bayt al-Mal, Jihad al-Bina, the Islamic Resistance Support Association, the Foreign Relations Department of Hezbollah, the External Security Organization of Hezbollah. The list also includes Al-Manar TV, Al Nour Radio, or the Lebanese Media Group associated with the party.	- The amending legislation would further restrict Hezbollah's ability to raise funds and recruit, increase pressure on banks not to do business with Hezbollah, and punish foreign states for supporting Hezbollah. The draft bill is expected to be reviewed and endorsed in September. Following the meeting with Prime Minister Saad Hariri last month, Trump said he would be deciding on his anti-Hezbollah strategy very soon. Unsurprisingly, Hezbollah dismissed the prospect of tougher US sanctions against them. We do not expect the sanctions to have a material impact on the Lebanese banking sector and even President Trump had acknowledged the role played by Banque du Liban in cracking down on Hezbollah's illicit finances. Any impact will be mostly on the political scene

		wherein Hezbollah could get more defensive. President Aoun could also come to the defence of Hezbollah.
	- In Morocco, the situation in Al Hoceima area remains tense, as protests continue to demand the release of detained activists and meet the social and economic demands of local residents. La Fédération de la gauche démocratique (FGD), a coalition of three left-wing parties, has called for a national march on 27 August in Rabat to demand the release of detained Rif activists. The youth wings of the three parties issued a joint statement condemning the excessive use of violence against the Hirak (protest movement in Al Hoceima and its nearby towns in Rif), which led to the death of activist Imad El Attabi.	- The latest reactions from the Moroccan government have included: (1) the Prime Minister cancelled the summer vacation of 10 ministers to ensure progress on the development projects in the Rif region; (2) The King tasked Abdelouafi Laftit and Mohamed Boussaïd, Ministers of the Interior and Finance, respectively, to supervise the progression of development projects in Al Hoceima and the surrounding areas; (3) On Throne Day (30 July), the King pardoned a number of people arrested during the protests although over 200 people including the leader of the Hirak movement, Nasser Zefzafi, are still in prison.
	- On 20 July, the Iranian Parliament gave votes of confidence to 16 out of 17 ministers whom had been nominated by President Hassan Rouhani for his second term. The new cabinet whch features little change at the top faces significant challenges.	- In recent weeks, Iran has come under mounting pressure after missile tests were carried out and resulted in new sanctions by the US, with each accusing the other of violating the spirit of the agreement. On 13 August, lawmakers voted overwhelmingly to increase the country's budget for its ballistic missile programme and foreign operations by the Revolutionary Guards, a direct challenge to new US sanctions. - On 17 August, Rouhani also declared that Iran could abandon the nuclear agreement "within hours" if the US decides to impose new sanctions. The US ambassador to the UN has responded, saying Tehran must comply with the resolutions.
	- On 24 August, Qatar announced it is restoring full diplomatic relations with Iran including sending back its ambassador to Tehran, a move counter to the demands of the Saudi-led states as part of the regional dispute. Qatar seems unlikely the first to blink in this standoff. In August alone, Qatar has taken several measures to cope with sanctions imposed by Saudi Arabia, the UAE, Bahrain and Egypt:	- Qatar will allow visa-free entry for citizens of 80 countries, with immediate effect. The visa exemption scheme will make Qatar the most open country in the region. Citizens of those countries, including China, the US, South Africa, will get a multi-entry waiver at the port of entry. What is worth noting is the fact that only one Arab country was on the list (i.e., Lebanon), a further point in stark contradiction to GCC policy at this stage. - Qatar has launched a new sea route between Hamad Port and Pakistan's Port of Karachi, which will offer a fast and secure corridor for importers and exporters, with transit time of six days from Qatar to Karachi and eight days back. - Qatar Navigation (Milaha), a top Doha-based shipping and logistics group is moving its regional trans-shipment hub from Dubai to Oman's port Sohar. - With the Qatar blockade and the fact that Egypt is the main supplier of blue-collared workers to Qatar (there are up to 350,000 Egyptian workers in Qatar, about 15% of the total population), the country seems to be increasing flights to South Asian countries mainly to get more blue-collar workers from there. Qatar Airways increased its Colombo service from four to five flights per day, effective from 1 September. It also increased the Dhaka service from two to three flights per day.

Outlook for 2018

Any changes to the outlook from the previous issue are highlighted in ***bold italic font***.

	Oil	Gas	Alternative energy	Politics / Geopolitics
Algeria	- Production decline continues. - Start-up of Eni's Central Area Field Complex on Block 405b with peak production of 40 kb/d expected this year.	- ***Reggane Nord to reach full capacity in 2018 (280 MMcf/d).*** - Discussions restarting on shale gas exploration. Government putting production figure up to 80 BCM/yr by 2025 (on top of their conventional production), but no progress on shale gas drilling expected this year.	- Slow and intermittent process. - Challenging target of additional 22 GW by 2030-40.	- Increasing unrest and economic stress met with handouts & repression; - Abdelaziz Bouteflika and his allies to remain in power in 2018, although uncertainty over the president's health will weigh on political stability. - Rising gas production will help support GDP growth with more gas-to-power rather than oil and thus more exports, but we expect GDP growth to be weak with political and external oil price uncertainties.
Egypt	- Continuing production declines amid underinvestment. - Weaker EGP provides some relief on costs. - Continuing active M&A market for smaller players.	- Gas production rises sharply with new developments, but met with growing demand; imports stay high. - Decision point for Shell on what to do with its inherited BG assets. - Shell investigating possibility of piping Israeli & its equity Cyprus gas to Egypt for liquefaction in unused Idku plant for re-export	- Renewables programme restarts as issues with incentives and arbitration resolved. - Agreed with Saudi Arabia on a power export/import scheme, but with political tensions of Egypt siding with Russia in Syria conflict, this may be on hold. - Egypt signed deal with Russia for 4800 MW nuclear plant; Russia's loan to Egypt to cover 85% of the plant.	- Attempting to hedge bets by building relations with Russia. - Politics and commercial realities likely to continue to complicate gas imports from Cyprus, Israel. - Egyptian Oil Minister Tarek El-Molla confirms that plans to import Israeli gas are still on the table. Egypt-Israel deal contingent on USD 2B fine to be paid by Egypt's natural gas companies to Israel's electricity provider. The fine was decided by a Swiss court.
Kuwait	- Continued stagnation on major project awards. - Possible revision of 2020 and 2040 oil production targets (push dates or reduce targeted capacity).	- ***Gas production to continue to lag behind demand; LNG import terminal to meet shortages and possible gas imports from Iraq to cover final reparations payments. Iraq in discussions with Toyo Engineering for building gas pipeline to carry 0.2 bcf/d initially.*** - Target of 2.5 bcf/d by 2030 including the Dorra field (0.5 bcf/d); progress on EPC tender of Jurassic	- ***Clean Fuels Project making to start up in late 2018.***	- Kuwait making little progress with arbitrator role in GCC fallout. - Stronger partnerships with the Chinese for funding and investments in the country. - ***The cabinet resigned in end-October; legislative election likely to take place in 2018.***

		Gas Facility Phase 1; planned upcoming tenders of two new gathering centres in the Northern Kuwait production zone in March 2018.		
Iran	- Production to stay below 3.9 Mb/d. - Decision on development of Changuleh field likely next year. - Tender of Azadegan field delayed by a few months to early 2018. - Iranian Oil Minister Bijan Zanganeh says Total could lose its entire investment if it pulls out of Iran due to fears of the UNSC imposing sanctions.	- New fields on offer can add up to 7.8 bcf/d of gas to production. - Gas exports to Pakistan cancelled under US pressure but Iran still hoping for revival. - Exports to Iraq to increase in 2018/2019.	- UK's Quercus signs MoU for 600 MW solar PV plant	- Europe and China to oppose any renewed sanctions on Iran with interest in LNG. - Russian presence in Iran set to rise. - ***US Congress will decide by January 2018 on a re-imposition of sanctions against Tehran; Iran is pushing to retain its Asian customers through lower crude prices.***
Iraq	- Oil field investment gears up again, but major infrastructure will be slow. - Exports to continue to rise with expansions of southern export capacity. - Production to increase with recapture of Kirkuk fields and plans to increase their production.	- Some continuing progress on capturing flared gas (Shell/Mitsubishi JV in Basra Gas Company), but delayed by late payments. - Less crude oil burning at power plants in as long as Iran imports continue.	- Little interest in projects (e.g. 50 MW SAWA PV Power Plant Project in Al Muthanna only 2 bidders) due to inadequate legal framework.	- ISIS to continue controlling operations at Hamrin and Ajil field and smuggling oil. - Haider al-Abadi in a strong position to win re-election in 2018. - Iraq to begin reparations payments to Kuwait in 2018, but gradual with ongoing fiscal constraints of lower oil prices.
Iraq Kurd-istan	- Production to continue to decline due to lack of investment, reserves downgrade (Taq Taq), difficult geology (Halabja block), and uncertain outlook with Federal Iraq. - Atrush to start production (30-40 kb/d). - To continue independent oil exports, but traders wary of doing business with the KRG from Baghdad threats.	- Rosneft deal for 30 BCM pipeline may eventually allow development of Miran, Bina Bawi, Chemchemal, Topkhana, for local use, export to Turkey and eventually Europe.	- No investment in renewables (priority would be given to thermal power stations).	- Uncertain economic/financial future with weaker position with Baghdad. - Negotiations with Federal Iraq to re-start revenue sharing deal with Bagdad.

Lebanon	- Oil product imports (LPG, gasoline, gasoil, fuel oil, kerosene, asphalt) to continue with rising domestic consumption.	- No progress on proposed LNG import terminal.	- Little investment in renewables other than small-scale.	- No progress on Israel-Lebanon maritime dispute. - Hezbollah to try to gain more power in Lebanon showing weaknesses in Saad Al Hariri's Future Movement.
Libya	- Tentative restart of oil fields and ports continues, but vulnerable. - More attempts by east Libya at independent oil sales.	- Start-up of Bahr Essalam phase 2 in Libya during 2018 (proximity to existing infrastructure). - LNG exports to continue to fall; pipeline exports to Europe to rise.	- UNDP funding solar power panels in hospitals because of lack of power supply. - No other significant investments in renewable energy.	- ***Continued attacks on ports in oil crescent into 2018, but the restart of fields in 2018 will improve economic conditions.*** - ***Progress to be made on UN peace talks, but reconciliation between the two governments remains unlikely.***
Oman	- Crude oil production target of 1 Mb/d after OPEC deal likely to be reached. - Continued investments in EOR techniques by PDO.	- ***Khazzan tight gas output to increase in 2018 likely to reach 750 MMcf/d.*** - Progress on Iran gas deal continues but price remains sticking point; Completion date by 2021 if no further delays.	- Miraah solar steam plant (1,021 MW) under execution. - The Raeco/Masdar wind project (50MW) is expected to complete construction in 2019 with ILF Consulting Engineers as main consultants.	- Increasing financial stress pushes Oman closer to GCC foreign policy line. - Potential for change of leadership. - Sultan bin Qaboos authorises distribution of USD 250M on to low-income population affected by increased fuel prices. This would lower discontent amongst lower-income citizens.
Qatar	- Oil production decline continues. - Natural declines in production assist OPEC compliance - will stay in OPEC deal despite Saudi/UAE dispute.	- End of North Field moratorium raises prospects for new gas production & LNG export expansion – doubling of size of new project to 4 bcf/day. - Continuing moves on international gas E&P investments.	- Launch of 1 GW solar project delayed to 2018 (at least).	- Qatar not expected to agree to demands by Saudi and the UAE to close Al Jazeera TV network and Turkish military base; boycott and blockade of the country is likely to continue. This presents longer-term threats to the import of oil industry equipment, construction materials and personnel.
Saudi Arabia	- New oil-field projects and drilling aimed at sustaining capacity. - Progress on Aramco IPO towards 2018; likely to settle on Tadawul + London.	- Progress on smaller gas projects after Wasit, and Fadhili, insufficient to prevent rising oil burn for power.	- Launch of 10 GW renewables programme likely to proceed, but slower than timetable. - Al Jouf & Rafha 100 MW solar PV projects under tender, Sakaka PV project 300 MW tender underway, Taiba ISCC CSP project planned. - Sakaka bids at world record 1.79 c/kWh (Masdar)	- Competition for influence between Saudi Arabia and Iran will prove destabilising across the region with continued meddling claims. - ***Crown Prince Mohammed bin Salman will continue to tighten his grip on power.*** - ***The arrest of dozens of Saudi Arabia's most powerful individuals will impair investor confidence as debt levels continue to***

				rise; however, it shows that the Vision 2030 is taken seriously and is underway.
Syria	- Continuing US attention on bombing ISIS oil facilities. - Halt to Iranian oil deliveries means escalating power cuts and fuel queues in government-held areas. - Revelations on Syria-Venezuela oil sanctions evasion deal. - Iran says to build refinery in Homs, but unlikely to progress - Syrian Democratic Forces (Kurdish-led, US-backed) taking control of Deir Al Zor oil-fields, but uncertainty over duration of US support.	- Continued ISIS fighting over Palmyra gas fields.	- Homs Solar Power Plant (CSP) and wind power project cancelled and unlikely to be revived. - Concerns over damage to Tabqa Dam near Raqqa.	- Attempts by US to split Russia/Iran approaches on Assad likely to fail. - More intervention by Turkey vs Kurds. - ***The Kurdish-led Syrian Democratic Forces (SDF) recaptured the Al Omar and Tabiyah oil fields in the Deir Al Zor province from IS militants which gained control of the field in April 2014. SDF may hand over the fields to the Syrian Arab Army (SAA) as a step in the reconciliation between the two armed groups.***
UAE	- ADNOC restructuring leading to significant gains in performance. - ADNOC to list up to 20% of ADNOC distribution by Dec 2017. - Increase of crude oil production to 3.5 Mb/d by 2018 but likely to be delayed post 2020. - Any additional output to be exported to Asia.	- Possible progress on Bab sour gas. - Low-profile development of offshore deep, tight gas. - Attempts at marketing LNG in Sharjah & northern Emirates; GSA signed with power utility SEWA.	- Continuing launch of large solar PV projects with Abu Dhabi's Sweihan expanded to 1.18 GW. - Start of 1st nuclear reactor later than planned, possibly in 2018. The second reactor by 2019.	- Escalating tensions with Iran; pressure on Iran-related businesses in UAE. - Dubai's concerns over economic impact of Qatar blockade increase.
Yemen	- Attempts at restarting some fields in more secure areas. - ***Possible restart of LNG exports from Yemen LNG at low levels.***	- Yemen LNG remains shut down.	- Yemen Ministry of Electricity -- 60 MW solar power plant on hold. Unlikely to be revived in the short-term.	- UAE opening bases in Somaliland and Eritrea to support Yemen operations. - Saudi believes Iran is arming Houthis to attack Riyadh and the UAE, and cited the recent Yemen missile attack as an Iranian 'act of war'. - ***Saudi Arabia to step-up attacks in Yemen after death of former president Saleh.***

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