JULY 2019

Geopolitical concerns cause spike in subdued oil prices; Tensions escalate as Iran shoots down US military drone; Funding and liquidity to remain tight for Omani banks; Former Egyptian president Mohammed Mursi passes on

**US SANCTIONS**

**US raises sanctions on Iran nuclear programme**

On 22 June, US President Donald Trump announced that fresh Iranian sanctions would take effect from 24 June, aimed at degrading Iran’s uranium enrichment capabilities. Tehran had earlier asserted it would exceed internationally agreed limits on its enriched uranium stockpiles on 27 June. Trump has said economic pressure will continue until Tehran changed course. “We’re putting additional sanctions on,” he told reporters. “In [some] cases we are moving rapidly,” he said.

Separately, the US has launched cyber-attacks against Iranian missile control systems in response to the downing of a US surveillance drone.

**OIL PRICES**

**Geopolitical concerns cause spike in subdued oil prices**

Despite weaker average oil prices in June amid elevated US oil supply, recent hostile actions in the Gulf attributed to Iran have caused a distinct spike in oil prices. The oil price rose by roughly 5 per cent, with Brent cresting the $65 mark on 21 June, after it emerged on 20 June that Iran’s shooting down of a US drone almost led the US military to conduct a conventional strike on the country.

Members of the Opec-plus alliance will nevertheless meet in July to discuss extending oil production cuts, after Brent averaged just $62 a barrel for the first 20 days of June.

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5%

Oil price rise recorded following Iran’s shooting down of a US drone on 20 June

$65

Price of a barrel of Brent crude on 21 June, up from an average of $62 a barrel earlier in the month
GULF ATTACKS

Tensions escalate as Iran shoots down US military drone
On 20 June, Iran’s Islamic Revolutionary Guard Corps (IRGC) shot down a US military drone, significantly ratcheting up tensions in the Gulf and raising fears of armed conflict between Iran and the US.

The drone attack frayed already fraught regional relations after multiple attacks on oil tankers in the Straits of Hormuz earlier in the month. The IRGC said the drone was brought down in Iranian airspace, in a narrative disputed by the US and its allies.

The US military did, however, confirm an earlier attempt by Iran to shoot down a US drone, as well as the downing of another drone on 6 June by Iran-backed Houthi rebel forces in Yemen. June also saw Houthis strike Abha airport, injuring 26, and a power station in Jizan, resulting in no casualties.

IRAQ

Rockets strike site used by international oil firms in Basra
A rocket strike landed just 100 metres short of the Basra headquarters of several international oil companies, including the UK/Dutch Shell Group, Italian energy major Eni and US-based ExxonMobil, on 19 June, wounding two Iraqi workers.

After the rocket hit the Burjesia residential and operations headquarters west of the city, ExxonMobil is reported to have drawn up immediate plans to evacuate some 20 non-Iraqi staff.

Police said the type of rocket used was a short-range Katyusha, the same missile fired in the attack that, on 19 May, landed near the heavily protected Green Zone in Baghdad.

That attack came four days after the US State Department ordered the evacuation of diplomatic staff from the US embassy in Baghdad after intelligence pointed to a possible attack. Between 17 and 18 May, ExxonMobil also withdrew 83 staff from its West Qurna-1 oil field in Basra, before returning them to work in early June.

SAUDI ARABIA

Saudi’s MSCI Index listing a boost for asset managers
Saudi Arabia’s equities were included on the MSCI Emerging Markets Index for the first time on 28 May, in a move that will deepen the liquidity and trading volume of the stocks in the index and attract foreign investors.

The inclusion is also expected to be credit positive for Saudi asset managers such as NCB Capital and Jadwa Asset Management, as well as managers involved in cross-border products, according to Moody’s Investors Service. The addition of Saudi equities to the index will facilitate access to the local stock market and is expected to drive international institutional investor participation. It will increase foreign-investor ownership in the Saudi equity market, which was about 5 per cent of total market capitalisation as of April 2019.

OMAN

Funding and liquidity to remain tight for Omani banks
Omani banks’ funding and liquidity is expected to remain tight over the next 12-18 months as the price of oil stays below breakeven, restraining deposits from the government, Moody’s Investors Service has said.

Moody’s expects the funding squeeze to continue due to the government’s high breakeven point for oil, at $85 a barrel. Banks are likely to respond by paying more for local currency deposits, increasing their lending rates, lending more selectively and raising foreign-currency funding.

Liquidity conditions are tighter in Oman than in other GCC countries because of higher government dependence on oil, Omani banks’ heavier dependence on government deposits and the banks’ faster credit growth. The public sector accounted for 28 per cent of GDP in February, the highest in the Gulf region. Moody’s expects Muscat to maintain its large stock of deposits in the banking system.

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$85
Oman’s breakeven oil price

28%
Proportion of Oman’s GDP accounted for by the public sector in February

Liquidity is tighter in Oman than in other GCC countries
PALESTINE

Palestinians reject $50bn economic revival plan

The Palestinians have rejected the economic component of the US’ Middle East peace plan, which outlines a $50bn programme creating a global investment fund to benefit the Palestinian territories and neighbouring states. The plan includes 179 infrastructure and business projects, as well as a $5bn transport corridor to connect the West Bank and Gaza.

Senior Palestine Liberation Organisation official Hanan Ashrawi told local media the plan is “ignorant of the situation on the ground in East Jerusalem and the West Bank, where Israel maintains a military occupation the Palestinians view as designed to prevent their aspirations for a sovereign state.”

EGYPT

Former Egyptian president Mohammed Mursi dies at 68

Egypt’s former president Mohammed Mursi collapsed and died on 17 June after appearing in court on espionage charges. According to officials in Cairo, he fainted during a recess after having addressed the court from a soundproof cage for five minutes. It has been reported that he died from a heart attack.

Mursi was Egypt’s president from 2012 to 2013. After having been replaced by President Abdul Fattah al-Sisi, Mursi was detained by the Egyptian authorities and appeared in court to answer various charges. Most notably, he was sentenced to death for his involvement in a 2011 mass prison break. This sentence was later overturned, however.

BAHRAIN

Lawmakers push to ban expats from 35 professions

Bahraini parliamentarians have raised a demand to prohibit expatriates from working in up to 35 different professions. While the full list of affected professions has yet to be announced, it is expected to include categories such as education, currency exchange, accounting and marketing. The ‘Bahrainisation’ of the professions would effectively ban any foreign workers from being employed in those job categories.

A second proposal submitted to parliament called for the minimum wage for Bahraini nationals to be increased by 83 per cent to BD550 ($1,462.77) a month. At present, the minimum monthly wage for a Bahraini national is BD300.

83% Proposed increase in monthly minimum wage for Bahraini nationals

$797.87 Current minimum monthly income

FURTHER READING

Saudi Arabia has unveiled a temporary airport to cater to the $500bn Neom project. The Neom Bay airport will “start receiving commercial flights soon”, according to a government spokesperson. Saudi Arabian Airlines (Saudia) flew the first chartered flights to Neom earlier this year.

Iraq and Kuwait are preparing to sign a deal on oil fields near the border between the two countries, according to Kuwait’s Minister of Oil, Electricity and Water, Khaled al-Fadel. He said a deal would be signed once feasibility studies had been finalised and potential crude output had been assessed.

Abu Dhabi National Oil Company (Adnoc) has announced its fertiliser business, Adnoc Fertilisers, will form a joint venture (JV) with the Middle East and North Africa nitrogen fertiliser business of Netherlands-based manufacturer OCI. Adnoc will own a 42 per cent stake in the JV, while OCI will hold a 58 per cent stake.

Saudi Arabia may sell euro-denominated bonds for the first time after testing investor appetite for a possible deal. Riyadh hired Goldman Sachs Group and Societe Generale to meet potential investors during a roadshow in June. Saudi Arabia last sold bonds internationally in January, when it raised $7.5bn.