

Protracted global risks confirm 2017 as a year of transition for the GCC

Global GDP growth forecasts for 2016 and 17 left unchanged: The latest IMF World Economic Outlook (WEO) left global growth unchanged for 2016 and 2017, after growth for 2016 was slashed four consecutive times in their previous updates. Global growth was kept unchanged for 2016 and 2017 at 3.1% & 3.4% respectively. However, growth drivers were altered, as growth of Advanced Economies was brought down by 20bps in 2016, while Emerging Market and Developing Economies are set to see higher growth of 10bps for the year.

Global trade revival would require higher growth & policy reforms: Global trade activity growth was negative in 2015(-11.4% y-o-y) for the first time since 2009, and was impacted by weak economic activity and low investment. Nevertheless, the IMF expects world trade volumes to grow by 2.3% & 3.8% respectively for 2016 & 17. GCC trade activity in USD terms fell by a higher 22.9%, even as the trade growth-to-GDP multiplier reached 1.23x, according to our estimates. Higher growth, a pick-up in investment, reduction in trade costs, and reforms would be needed according to IMF to see a resurgence in trade activity globally.

MENA GDP growth higher in 2017; Kuwait best placed in terms of fiscal headroom & current account: GDP for the MENA region is now expected to come in higher in 2017, albeit marginally by 0.1%, and grow at 3.2% each for 2016 & 17, while the growth of Saudi Arabia was left unchanged for 2016 & 17. Higher growth in the GCC from earlier estimates is expected to be held back by ongoing fiscal adjustment to lower oil revenues. The GDP growth for Kuwait was however pushed higher by 10bps in 2016, and the country is expected to return to a fiscal budget surplus in 2017. Furthermore Kuwait is expected to report the highest current account surplus as a % of GDP in the GCC for both 2016 & 17, followed by the UAE.

IMF update confirms our stance on GCC transition spilling over to next year: Global risks pertaining to slower commodities demand, trade activity fall-off, longer period of rebalancing for China, and Fed's second lift-off in interest rates still persist, according to the agency. Nevertheless, a delay in global risk factors materializing in 2016 being pushed into the future would also affect the GCC, in our view. With none of the risks unlikely to alleviate in the current year, this confirms KAMCO Research's view that the transition process underway in the GCC through fiscal and policy action is likely to spillover into 2017.

IMF Estimates	Current Estimates		Revisions by IMF		Previous Estimates	
	Oct-16		2016 F	2017 F	Apr-16/Jul-16	
Real GDP Growth - Global	2016 F	2017 F	2016 F	2017 F	2016 F	2017 F
<i>Percentage</i>						
US	1.6%	2.2%	-0.6%	-0.3%	2.2%	2.5%
UK	1.8%	1.1%	0.1%	-0.2%	1.7%	1.3%
Euro Area	1.7%	1.5%	0.1%	0.1%	1.6%	1.4%
Advanced Economies	1.6%	1.8%	-0.2%	0.0%	1.8%	1.8%
Emerging Economies	4.2%	4.6%	0.1%	0.0%	4.1%	4.6%
Global Real GDP	3.1%	3.4%	0.0%	0.0%	3.1%	3.4%
Real GDP Growth - GCC & MENA	2016 F	2017 F	2016 F	2017 F	2016 F	2017 F
<i>Percentage</i>						
Saudi Arabia	1.2%	2.0%	0.0%	0.0%	1.2%	2.0%
United Arab Emirates	2.3%	2.5%	-0.1%	-0.1%	2.4%	2.6%
Qatar	2.6%	3.4%	-0.8%	0.0%	3.4%	3.4%
Kuwait	2.5%	2.6%	0.1%	0.0%	2.4%	2.6%
Oman	1.8%	2.6%	0.0%	0.9%	1.8%	1.7%
Bahrain	2.1%	1.8%	-0.1%	-0.2%	2.2%	2.0%
Real GDP Growth for MENA	3.2%	3.2%	-0.1%	0.1%	3.3%	3.1%

Source: IMF WEO October 2016, KAMCO Research

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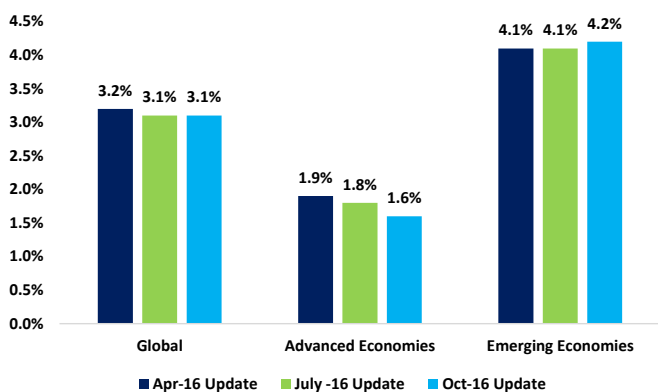
US to drag growth of “Advanced Economies” lower in 2016 & 17; Brexit impact still difficult to ascertain

In its most recent update, the IMF brought down the GDP growth of Advanced Economies for 2016 to 1.6% from 1.8%, mainly driven by slower growth from the US. US H1-16 growth reportedly came in at 2.9%, which was slower than the growth clocked in H2-15. US GDP is now expected to grow by a lower 1.6% for the current year as against the 2.2% earlier forecasted, as weakness in nonresidential investment, sizeable drawdown of inventories and weakness in business fixed investment are expected to have an impact on growth. US growth was brought down to 2.2% from 2.5% for 2017 as well, while UK also witnessed a reduction in growth estimates for the next year from 1.3% to 1.1%, as the impact of Brexit is still unfolding and hard to determine for the UK or the Euro area.

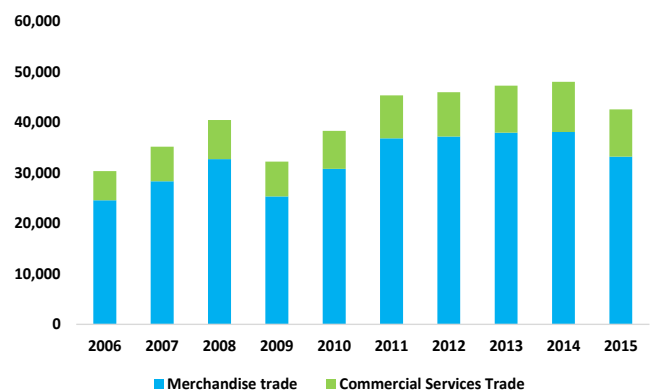
Emerging Market, Developing Economies to see uptick - stress economies improving

The drop in growth of Advanced Economies were picked up by Emerging Asian economies, mainly India, which should drive Emerging Market & Developing Economies to grow at 4.2% in 2016 (July update: 4.1%). India is expected to grow faster by 20bps each in 2016 & 2017 and grow by 7.6% in each year, from stronger trade balances, stronger external buffers and effective policy action. China is expected to maintain its growth rate of 6.6% and 6.2% for the current year and next year, as robust consumption and further rotation in activity from industry to services are expected going forward. Stressed economies such as Russia & Brazil also made progress during the current year, according to the IMF.

Global & Regional Growth Scenarios -2016



World Trade Activity Development (2006-2015)



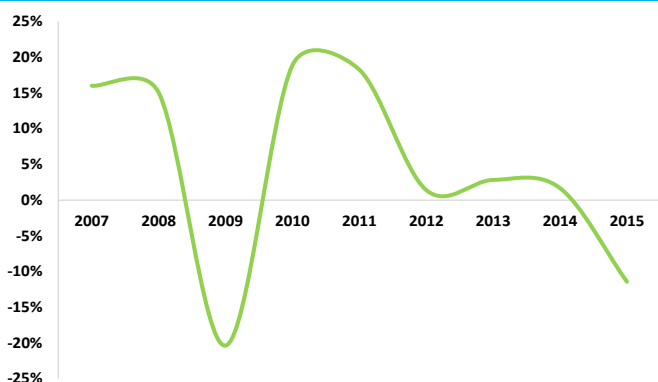
Source: IMF WEO October 2016, KAMCO Research

Source: WTO, KAMCO Research

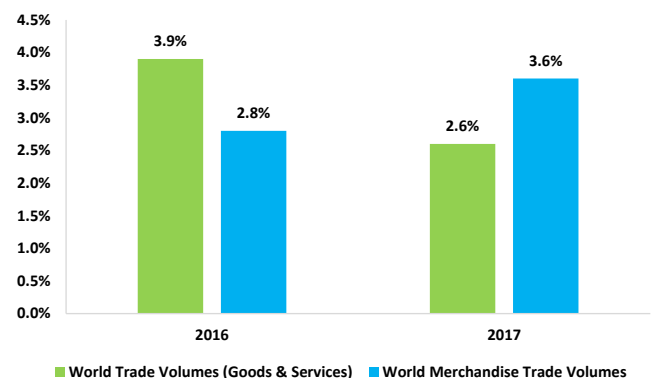
Global trade fall-off in 2015 is worrisome

Globally trade activity declined in 2015 to reach USD 42.6 trillion in value as per our analysis of World Trade Organisation (WTO) estimates. The reported trade activity was the lowest witnessed in the last five years, driven mainly by lower merchandise trade activity. IMF ascribed to weak economic activity, particularly investment as key drivers behind the decline. In order to witness a lift-off in global trade activity, a resumption of stalled trade liberalization, reduction in protectionist policies and slower dispersion of production volumes would be needed, which would require to be supported by growth and investment activity. Moreover the agency advised for a reduction in trade costs by cutting elevated tariffs and full implementation of commitments under trade agreements like the Trade Facilitation Agreement. Nevertheless, along with IMF expecting a trade volume growth, WTO also expects merchandise volumes, (c.78% of the overall trade activity) to grow by 2.8% and 3.6% respectively over 2016 & 17.

World Trade Activity Growth (Y-o-Y%)



World Trade Activity Forecasts - 2016 & 17

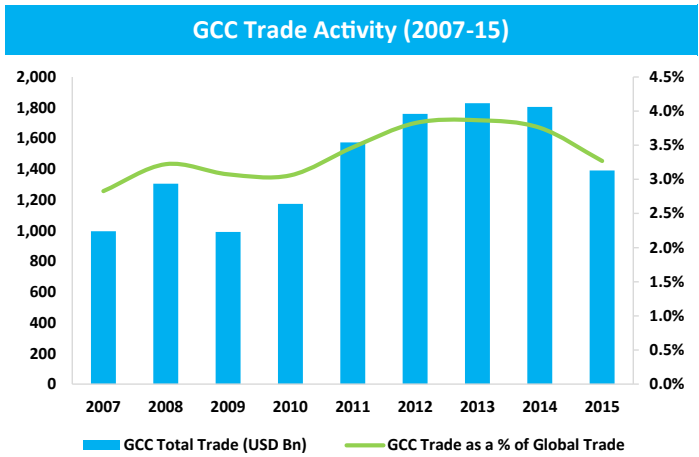
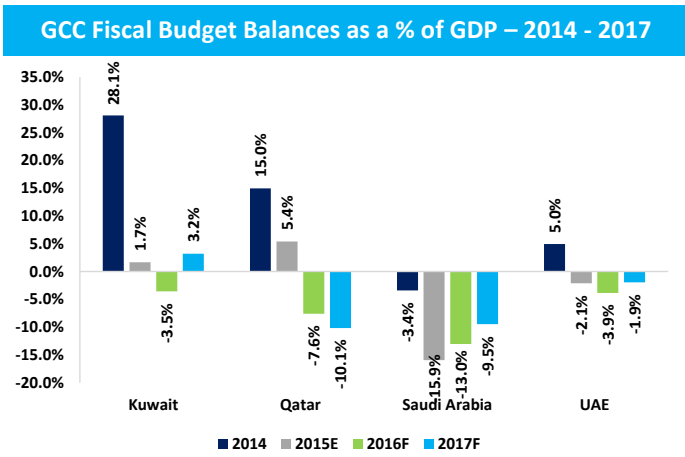


Source: IMF WEO October 2016, WTO, KAMCO Research

KSA growth kept unchanged; Kuwait growth pegged at a faster pace in 2016

Within the MENA region, 2017 GDP forecasts for key GCC countries were kept broadly unchanged barring the UAE. UAE GDP was brought down by 10bps for the next year to 2.5%. Growth forecasts for Saudi Arabia was also kept stable for both years, as the backdrop and themes underlying the forecasts were kept intact from the last update, which included lower oil revenues and declining financial sector liquidity. KSA is expected to grow at 1.2% in 2016, post which it is expected to pick up to 2% in the following year. Qatar’s GDP is expected to grow at a slower pace of 2.6% than the previously expected 3.4% for 2016, while Kuwait’s GDP growth was revised higher to 2.5% in the same year. The forecasts for 2017 for both countries were kept intact. Trade activity in the GCC also declined, similar to global trade trends as dollar trade reached USD 1.39 trillion in 2015 as compared to USD 1.80 trillion in 2014. Trade activity in the GCC was severely impacted by oil prices understandably, and constituted just over 3% of global trade, a trend which has been consistent since 2008.

Fiscal responses in terms of development of newer sources of revenue and cutting expenditure to tackle lower oil revenues for state finances are expected to continue in the GCC, with all countries barring Kuwait expected to report fiscal deficits in 2017. Kuwait is expected report a fiscal budget surplus amounting to 3.2% of GDP in 2017, after a forecasted deficit of around 3.5% of GDP expected in 2016.

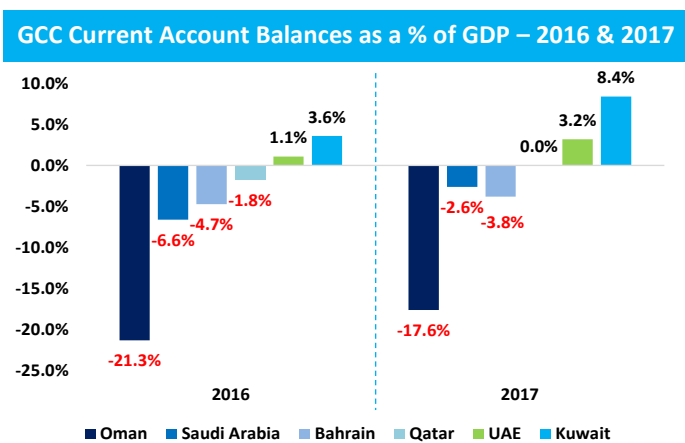


Source: IMF, KAMCO Research

Source: WTO, KAMCO Research

GCC current account balance to GDP ratio in 2016 & 17 better than earlier expected

The current account deficits of individual GCC countries were revised upwards for 2016 & 17 by the IMF, despite oil prices being kept stable from their previous update. The average upward revision to current account-to-GDP forecasts for 2016 in the GCC was +3.2%, while the corresponding upward revision figure for 2017 was +3.4%. Kuwait had the highest current account-to-GDP estimate for the current year and the following year as the estimate for 2016 came in at 3.6% of GDP, while 2017 is expected to be higher at 8.4% of GDP. UAE also witnessed current account surpluses albeit lower, with 2016 current account estimated at 1.1% of GDP, while 2017 is expected to be higher at 3.2% of GDP. Inflation forecasts for the GCC are expected to be positive over the current year and next year, averaging 3.1% for 2016 and 3.0% for 2017. Forecasts of inflation for the MENA as a whole is expected to be even more stronger at 5.4% & 6.1% for 2016 & 17 respectively, mitigating any deflationary risks in the region.



Inflation, Avg. CPI - GCC & MENA	2016 F		2017 F		2016 F		2017 F	
	Percentage	Percentage	Percentage	Percentage	Percentage	Percentage	Percentage	
Saudi Arabia	4.0%	2.0%	0.2%	1.0%	3.8%	1.0%		
United Arab Emirates	3.6%	3.1%	0.4%	0.4%	3.2%	2.7%		
Qatar	3.0%	3.1%	0.6%	0.4%	2.4%	2.7%		
Kuwait	3.4%	3.8%	0.0%	0.3%	3.4%	3.5%		
Oman	3.6%	3.0%	3.4%	0.2%	0.3%	2.8%		
Bahrain	1.1%	3.1%	-2.0%	0.8%	3.2%	2.3%		
Inflation in MENA	5.4%	6.1%	-0.1%	1.4%	5.5%	4.7%		

Source: IMF WEO October 2016, KAMCO Research

Global downside risks pushed out; slower demand & lower productivity core concerns

The IMF reiterated that the major risks for the global economy continue to remain from its previous update in the form of softer commodities demand, longer period of rebalancing in China and Federal Reserve's second lift-off in interest rates. They also alluded to slower growth and low investment negatively affecting trade activity, and the real impact of Brexit as additional risks. The agency highlighted that the global economy runs risks from two debilitating cycles playing out as well, one in the form of an extended shortfall in private demand leading to permanently lower output and low inflation and a second debilitating cycle relating to possible feedback effects between low productivity growth and low investment. These risk themes are expected to remain in 2017, as the impact of some risks on future growth and inflation are still hard to ascertain.

Pushout of several global risks to 2017 reaffirms our view of a spillover of GCC transition well into the next year

The global slowdown in demand and associated risks would have an impact on the GCC as well, although not directly, but mainly via its impact on the price mechanism of oil. **(For our latest view on oil, please read [Oil Market Monthly - Sept'16](#)).** Moreover, the drop in overall output in the GCC over the past year or so, as a result of lower oil GDP has triggered various spending controls for both current and capital spending from the GCC economies. The impact of hiving non-critical projects, raising additional levies in terms of taxes and further slashing budgets are being continuously studied across GCC countries. As a result, we expect the delay in the materialization of key global risks and the implementation of state budgetary measures from individual GCC countries to continue well into 2017.

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