

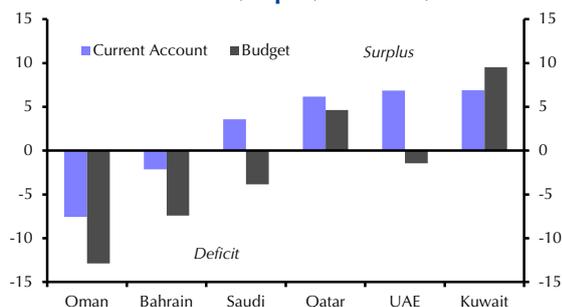


MENA ECONOMICS UPDATE

OPEC extends deal, Gulf signals comfort with \$60pb oil

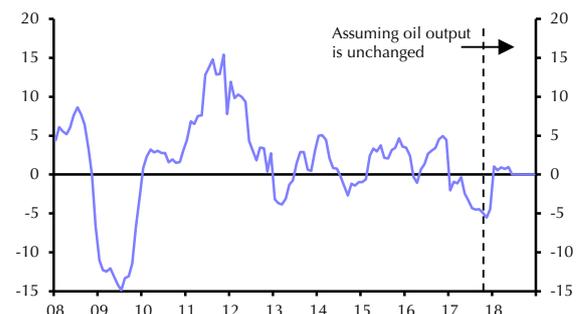
- **OPEC's decision to extend its oil production cuts until the end of 2018 was widely expected and indicates that the Gulf countries are content with oil prices at around \$60pb. Despite the deal, the drag on GDP growth from oil output cuts should ease in 2018.**
- Earlier today, the oil cartel, OPEC, announced that it, along with Russia and several other non-OPEC producers, had reached an agreement to extend its production deal for a further nine months. This would shift the expiration date of the agreement from March to the end of 2018. The agreement is on the same terms as those agreed in November last year.
- **An extension to the agreement had been well signalled by OPEC oil ministers.** While compliance with the agreement has been better than expected and crude stocks have been drawn down over the past year, market rebalancing has been slower than the cartel had anticipated. Indeed, crude stocks in the OECD remain above their five-year average – the target that OPEC has regularly cited.
- Our *Energy* service is the place to look for more detailed analysis of what today's decision means for the oil market. In short, we still expect some downward pressure on prices over the next year. Our forecast is for Brent to end 2018 at around \$55pb, down from \$64pb at the time of writing.
- In terms of what all of this means for the Gulf economies, we think there are two key points worth making. **First, the Gulf countries appear to be comfortable with oil prices in a range of \$60-65pb.** There are fears that efforts to boost prices further could backfire if they were to encourage shale producers in the US to ramp up output. While long-standing concerns over market share have been put to one side over the past year, they have not completely disappeared.
- In any case, if these prices stay around their current levels, most countries would be running current account surpluses and budget deficits would narrow sharply. (See Chart 1 and our *Update*, "What does oil at \$60pb mean for the Gulf?", 30th Oct.) Even if prices do drop back, we still expect the pace of austerity to slow in most countries in 2018-19, which should provide a boost to the region's non-oil sectors – the key exceptions are Bahrain and Oman.
- Saudi Arabia may also feel that its actions so far have been enough to lay the foundations for a successful privatisation of the state-owned oil company, Aramco. Policymakers' satisfaction with oil prices at their current levels is also evident from the re-emergence of talk of an "exit strategy" from the OPEC deal. The Gulf countries (and probably Russia) are seeking to engineer a smooth end to the agreement.
- **Second, despite today's deal, the direct hit from lower oil output on GDP growth should fade next year.** The cuts have weighed on the region's oil sectors this year and, as a result, the Gulf countries are set to record their weakest pace of GDP growth since 2009. But even if output is held steady, the year-on-year decline will slow (see Chart 2) and the drag on growth will ease. In Saudi Arabia, we expect the oil sector to contribute around 0.2%-pts to GDP growth in 2018, having shaved more than 1.5%-pts off this year.

Chart 1: Current Account & Budget Balances with Oil
Prices at \$60pb (% of GDP)



Sources: Thomson Reuters, Capital Economics

Chart 2: Gulf Oil Production (% y/y)



Sources: OPEC, Capital Economics



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