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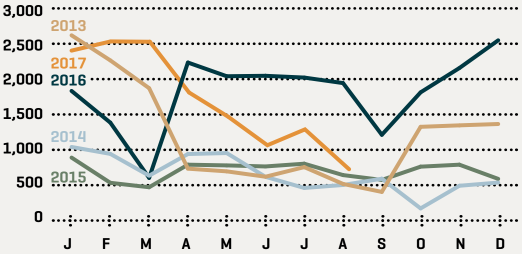
OIL & GAS, TRANSPORTATION

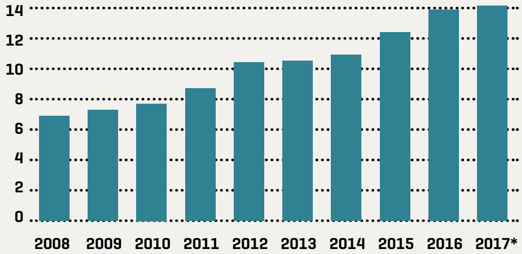
Algeria Pushes For Gas Start-Ups Amid $11bn Deficit

Algeria's gas exports are up. They may well rise further as the country races to start key fields by end-2017. But demand is also soaring and prices are under pressure. With little-to-no progress made on economic diversification, a record string of trade deficits will continue. ***Page 3, 4***

GAS SHIPMENTS TO ITALY COLLAPSE...



...AMID RECORD POWER DEMAND AT HOME



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GEOPOLITICAL RISK

Algeria Halts Reform As PM Axed

Faced with powerful business interests, Algerian efforts to cut corruption and promote social inclusion have come to an abrupt and premature end. ***Page 10***

OPEC

GCC Currency Pegs: Should They Remain?

Opec's core GCC countries see the pegging of their currencies to the US dollar as a bedrock of their economies. Does this still make sense in a low oil price world? ***Page 8***

ECONOMY & FINANCE

Oman To Shrink Deficit, A Bit

Oman's finances look a little less dire. But, on track for a $13bn deficit, ratings agencies are worried. Sohar refinery expansion and BP's Khazzan will provide a boost. ***Page 12***

POWER & WATER

Saudi: $1.75bn Power Loan, $3.5bn Sukuk

Saudi Arabia has slowed its reserves drawdown, but only by a massive expansion of its international borrowing with a new sukuk and SEC tapping the markets. ***Page 7, 2, 11***

OIL & GAS

Aramco Advances Gas Plans

Bids are in for Aramco plans to add 1.3bn cfd of capacity at Hawiyah gas processing plant, part of a program to double gas production capacity to 23bn cfd. ***Page 2***

REFINING & PETCHEMS

Kuwait: Al-Zour Award, Delay Likely

Kuwait has for the second time awarded a contract to build a pipeline to deliver crude oil to its planned Al-Zour refinery. But the 2019 start-up target looks unlikely. ***Page 6***

OIL & GAS

Total/Maersk: Algeria Boost, Shaheen Stable

Total's $7.5bn takeover of Maersk Oil casts new light on last month's handover at Qatar's 300,000 b/d Al Shaheen field. It also boosts Total in Algeria. ***Page 3***

SELECTED DATA

Saudi Stocks: Crude Down, Products Steady

Saudi Arabia's crude stocks have fallen by 22% from their October 2015 peak, but diesel, gasoline and jet stocks remain at near-record levels. ***Page 16 (chart)***

Aramco Receives Bids For Hawiyah Gas Plant Expansion, Targets Gas Supply Boost

Aramco plans to add 1.3bn cfd of capacity at Hawiyah, as part of a program to support an almost doubling of gas production capacity to 23bn cfd.

State petroleum firm Saudi Aramco has received bids from engineering companies for a planned 1.3bn cfd expansion of the Hawiyah gas processing plant, which handles non-associated gas from the giant Ghawar onshore oil field.

The companies submitting proposals are South Korea's Samsung Engineering, Spain's Tecnicas Reunidas, Taiwan's CTCI, Italy's Saipem, UK's Petrofac, India's Larsen & Toubro and a consortium of Hyundai Engineering and Hyundai Engineering & Construction, according to Reuters.

The Hawiyah gas processing plant came online in December 2001, with capacity to process 1.6bn cfd of raw gas, delivering 1.4bn cfd of sales gas and 170,000 b/d of condensate. Aramco expanded the plant in 2009 to raise processing capacity by 800mn cfd to 2.4bn cfd. Last year Aramco processed a record 12.0bn cfd of raw gas, up from 11.6bn cfd in 2015, to deliver 8.3bn cfd of sales gas. Capacity has more than doubled over the past 15 years (see chart).

Saudi Arabia's medium-term National Transformation Program (NTP) calls for raw gas production to be increased to 17.8bn cfd by 2020. Aramco CEO Amin Nasser recently said that beyond 2020 the company aims to almost double gas production to 23bn cfd over the next 10 years (MEES, 14 July).

To support the gas output expansion, Aramco plans to bring three gas processing plants with a total 5.75bn cfd processing capacity online from 2016 to 2020. The first of these, the 2.5bn cfd Wasit plant, built to the north of Jubail on the Saudi Gulf coast, was started up in 2016 and is now at full capacity. Wasit processes non-associated gas from the offshore Arabiyah and Hasbah fields.

The 75mn cfd Midyan non-associated gas processing plant in the Tabuk region of northwestern Saudi Arabia is almost complete and is expected to begin delivering sales gas this year. Some of the gas is earmarked for burning at a 610MW integrated solar combined cycle power plant that state utility SEC is developing at Dhuba.

The 2.5bn cfd Fadhili processing plant, being built 30km west of Jubail industrial city, is scheduled to begin operations in 2019. Like Wasit it is expected to deliver 1.7bn cfd of sales gas. Fadhili's raw gas will come from the offshore Hasbah Phase 2 development and the onshore Khursaniyah field.

GAS VS LIQUIDS

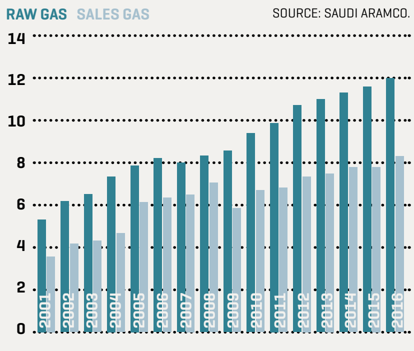
In its 2016 Annual Review Aramco says that increasing supplies of natural gas will help reduce domestic reliance on liquid fuels for power generation, freeing up liquids for exports and providing additional feedstocks for petrochemical industries to spur regional development.

Whether increased gas availability is contributing to reduced Saudi burning of liquids in power plants is a moot point. Certainly direct crude burning is declining: first half 2017 direct burn was 424,000 b/d, down 50,000 b/d on H1 2016. MEES forecasts that Saudi crude burning will average 445,000 b/d for 2017 as a whole.

However, increased Saudi burning of fuel oil in power plants appears currently to be canceling out any decline in crude burning. MEES estimates that Aramco is on track to provide 546,000 b/d of fuel oil to power generators in 2017, up 73,000 b/d on 2016 and 143,000 b/d on 2015. Add the fuel oil and crude volumes together and total Saudi oil burning for 2017 is on track to at least equal the 2015 record of 975,000 b/d (MEES, 18 August).

SAUDI GAS OUTPUT (BN CFD)

SOURCE: SAUDI ARAMCO.



In the petchems sector, Aramco is adding to the pressure on its gas resources by expanding its own production capacity. Aramco and Japan's Sumitomo, partners in the Petro Rabigh refining and petchems JV, are expanding the plant and bringing new units online this year. Central to the expansion is a hike from 95mn cfd to 125mn cfd in the capacity of the complex's ethane cracker.

Meanwhile Aramco and US firm Dow Chemical recently started the last of the units at their giant Sadara JV petchems complex at Jubail. Sadara includes a mixed feed cracker for which Aramco is contracted to supply up to 85mn cfd of ethane and 53,000 b/d of naphtha. ◆◆

SAUDI RAISES $3.5BN SUKUK

Saudi Arabia's second domestic sukuk has raised SR13bn ($3.5bn), slightly less than the first sukuk issue of $4.5bn sold last month (MEES, 28 July). The latest issue, almost three times oversubscribed, consisted of three tranches: SR2.1bn ($560mn) maturing in 2022; SR7.7bn ($2.05bn) due in 2024; and SR3.2bn ($853mn) maturing in 2027, the Ministry of Finance announced this week.

With the plunge in oil prices since mid-2014 Saudi Arabia is increasingly resorting to borrowing from the domestic and international debt markets to cover its fiscal deficit rather than to run down its foreign reserves which had fallen by 32.5% from $732.4bn at end-2014 to $494.5bn at end-July.

In April the kingdom tapped the international debt market with a larger $9bn sukuk, which was four-times oversubscribed (MEES, 21 April). Last October saw Saudi Arabia's debut international bond sale, by far the largest Middle East offering with $17.5bn raised (MEES, 21 October 2016).

Saudi Arabia, like other GCC countries (though not Algeria – see p4), is taking advantage of low borrowing costs to raise debt from regional and international markets. Saudi public debt stood at $91bn at end-June, up from $84.4bn at end-2016, according to the finance ministry's Debt Management Office.

Saudi Arabia is on track to cut its budget deficit in 2017. Actual numbers from the finance ministry show a deficit of $19.4bn in the first half of the year, which on a pro-rated basis would rise to $39.1bn for the full year, down by 26% from the original budget projection of $52.8bn, thanks to firmer oil prices (MEES, 18 August).

◆◆

Algeria Pushes For Late-2017 Gas Start-Ups

Cash-strapped Algeria is hoping to start up key gas projects, and boost revenue, before the end of 2017 with over 10bcm/year set to be added by mid-2018.

Algiers has announced a new timetable for the long delayed South West Gas Project (SWGP), a series of field developments on which the country is relying to keep pace with export commitments and rapidly rising domestic demand (see p4). The three SWGP Phase-1 projects are slated to add 10.7bcm/year to Algeria's gas output.

Reggane North is now expected to begin production in November; the Touat development is due onstream in December; and the Timimoun project is expected in February 2018, a spokesman for Algeria's national gas distribution agency this week told state news agency APS. Though all these projects are extremely delayed (MEES, 14 July) at least these latest official estimates are roughly in line with the most recent projections from of the companies involved.

REGGANE: 'NEARING COMPLETION'

Reggane North, which will have estimated production capacity of 4.4bcm/y, was tabled for 2016 start-up before that was put back to mid-2017 early this year (MEES, 17 February). The concession, on Blocks 351c and 352c, is being developed by a consortium led by Spain's Repsol (29.25%) with Germany's Dea (19.5%), Italy's Edison (a subsidiary of Electricité de France, 11.25%) as well as state firm Sonatrach (40%).

The project is "nearing completion," Dea says in its Q2 results on 17 August, adding that capex spending on the project is thus winding down. "Production is expected to commence in 2017," the firm said in June. Repsol appears somewhat less confident: "We are working towards achieving first gas from... Reggane in Algeria, by the end of 2017 or early next year," CFO Miguel Martínez told the firm's Q2 earnings call on 27 July.

The original 2010 targets for Touat and Timimoun were delayed to 2013, and then again and again. Touat has estimated reserves of 68.5bcm (2.4 tcf), with planned 4.5bcm/y plateau output; Timimoun is expected to produce 1.8bcm/y of gas.

Not so long ago the Touat project, which will see the development of 10 fields on Blocks 352a and 353, was set to begin production in 2016 or early in 2017, before then Energy Minister Noureddine Boutarfa in January said the project would be delivered by the end of 2017. This tallies with the latest estimate of France's Engie, the operator with 65% (Sonatrach has 35%).

The reiteration of a December target for the field offers some reassurance that the project's timetable is not expected to be affected by Engie's recent decision to sell its upstream subsidiary, which also has Egyptian and North Sea assets, to London-based private equity-backed Neptune Energy (MEES, 19 May). Though the sale is not yet final, Engie scrubbed all mention of the 'Engie E&P' subsidiary from its Q2 results.

At Timimoun, the latest official target of February 2018 is actually sooner than the "mid-2018" estimate given by operator Total (37.75%) earlier this year (MEES, 21 April). Sonatrach has a 51% share in the project, alongside Total (37.75%) and Spain's (Abu Dhabi-owned) Cepsa (11.25%).

PIPELINE: ACTION STATIONS

The additional pipeline capacity to evacuate gas from Touat, Timimoun and Reggane North will come from the 770km, 8.8bcm/y capacity GR-5 pipeline linking Reggane with the Hassi R'Mel gas hub. The pipeline was completed in 2016, according to Sonatrach, but work on compression stations is still ongoing.

On a visit to Hassi R'Mel at the end of July, Sonatrach chairman Abdelmoumene Ould Kaddour inaugurated the second compression station on the GR-5 pipeline, after that at Krechba in the Timimoun basin, north of In Salah.

Further compression stations are planned to increase the capacity of the pipeline to 21bcm/y by 2020. This will enable it to accommodate the addition of gas from several other fields for which development is either ongoing or planned: Ahnet, Hassi Ba Hamou North and South, Hassi Mouina, Tidikelt South, and Akabli, according to APS. ◆◆

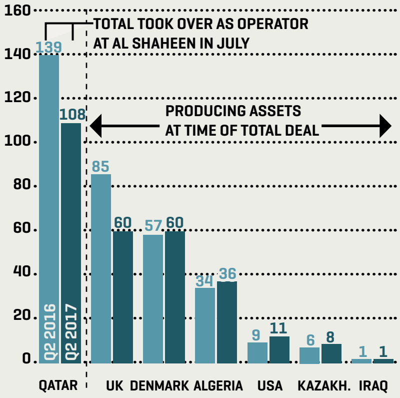
TOTAL EXPANDS WITH MAERSK PURCHASE

Total is paying $7.5bn to take over the oil unit of Denmark's Maersk, the companies announced 21 August. Following the loss of operatorship of Qatar's 300,000 b/d Al Shaheen on 13 July, Maersk Oil has 160,000 boe/d of "mainly liquids production" concentrated on the North Sea. It operates Denmark's DUC fields with 60,000 boe/d net output, and also has UK and Norway assets. Total is moving its North Sea HQ to Copenhagen as part of the deal.

Post-Al Shaheen, Maersk's key Mena interest is minority stakes averaging around 10% in three giant fields in Algeria's Berkine Basin: Anadarko-operated El Merk and HBNS, and Cepsa-operated Ourhoud. Gross output was 358,000 b/d in Q2; El Merk with 146,000 b/d was the largest contributor. Maersk's net share was 36,000 b/d. Total owned 50% of Cepsa until 2011 but the firm's current Algerian output comes from 35% of the 700mn cfd Tin Fouye Tabankort (TFT) wet gas field to the south of the Berkine Basin. The Maersk purchase makes Total the second largest foreign producer in Algeria (after Eni), "further strengthening [our] Algerian base after [April's] global partnership agreement with Sonatrach," Total says. Maersk also has 18% of the KRG's 8,000 b/d Sarsang field, operated by minnow HKN.

The deal shines a new light on Total's takeover from Maersk as Al Shaheen operator just a month earlier (MEES, 14 July). Given the consensual nature of the Total/Maersk deal it must have been in the works before the Al Shaheen handover. This in turn suggests a greater-than-previously-envisaged degree of continuity. After all, those previously operating the field for Maersk are now Total employees.

MAERSK OIL NET OUTPUT ('000 BOE/D)



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Algeria On Track For $11bn Deficit Despite Gas Export Boost

Algeria's gas exports rose 5.5% in 1H17. With higher prices its deficit halved. But soaring demand is cutting into exports as prices ease. With Algiers still on track for an $11bn trade deficit, the third highest ever, its politicians must be worried.

Algeria's first half trade figures present a positive picture, at least compared to the disaster years of 2015 and 2016, when the country notched up trade deficits of $17.0bn and $17.8bn respectively, the two highest figures on record (MEES, 20 January). The first half of 2017 saw a trade deficit of 'only' $4.85bn, less than half the H1 2016 figure, on the back of gas exports which rose by 5.5% to 27.3bcm, and this from 2016 levels which were already at a six-year high (MEES, 7 April).

GAS OUTPUT UP, OIL PRICES UP

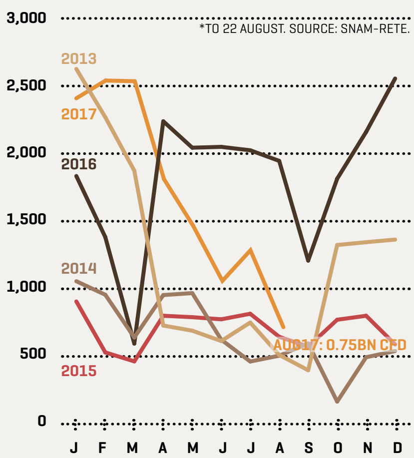
The key H1 2017 volume boost came from In Amenas, boosted by last July's restart of the third train (badly damaged in a January 2013 terrorist attack) followed by the November completion of a $700mn compression project. Output hit 9bcm/year capacity in Q2 for the first time since Q1 2011.

Sonatrach's 54bcm 2017 export target, based on an expected late-year first-gas boost from the Reggane and Touat projects in the southwest of the country (see p3), looks achievable. That said, whilst this is only a modest increase on 2016's 53.6bcm export figure, domestic demand is also up strongly – Sonatrach CEO Abdelmoumen Ould Kaddour last month acknowledged that this meant the firm would have to work "very hard" to meet the export target.

Of course higher oil prices also played a key role in boosting export revenue. Prices for Algeria's key Saharan Blend export grade, which typically trades at near-parity to Brent, averaged $51.5/B in H1 2017, up $11/B (27%) on the H1 2016 average. Current futures prices imply an average price only slightly lower ($51.4/B) for 2017 as a whole.

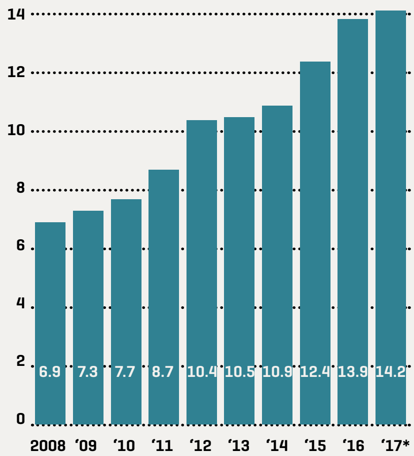
Plugging in the latest price expectations and export data – official Algerian stats to June as well as customers' import data, some more recent – MEES now estimates that Algeria will notch up a trade deficit of $11.0bn this year, down sharply on 2016 but still the third highest figure on record (see table). Though this latest forecast is somewhat lower than MEES' previous $11.4bn estimate (MEES, 30 June), the improvement is more than

ITALIAN PIPED GAS IMPORTS FROM ALGERIA: VOLUMES HAVE FALLEN BACK SHARPLY SINCE HITTING 7-YR HIGHS IN Q1. AUGUST* HAS SEEN THE LOWEST DELIVERIES IN TWO YEARS (MN CFD)...

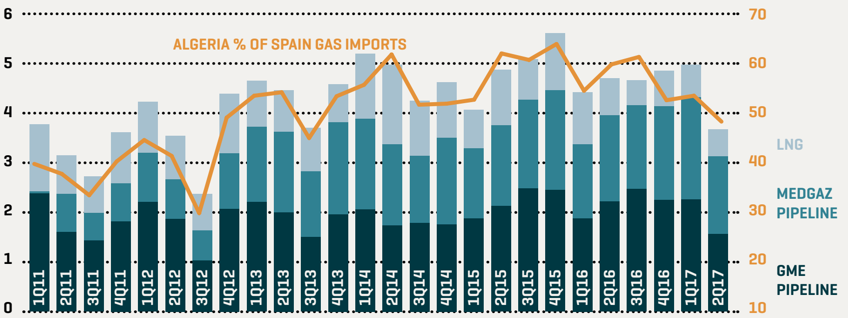


...AMID RECORD POWER DEMAND AT HOME (ANNUAL PEAK, GW)

*30 JUL17. SOURCE: SONELGAZ.



SPANISH GAS IMPORTS FROM ALGERIA FELL TO 5-YR LOW IN Q2, MARKET SHARE BELOW 50% FOR FIRST TIME SINCE 2013 (BCM)



wholly accounted for by higher oil prices – plug in the previous $49.9/B assumption and the deficit balloons to $12.9bn.

To say the country is heavily exposed to the oil price is an understatement: hydrocarbons account for a whopping 95% of export revenue. Revenues are split fairly evenly between oil and gas with prices for the latter roughly tracking those for oil. (Algeria's 27.3bcm of H1 2017 gas exports equates to 5.3bn cfd, or around 950,000 barrels/day of oil equivalent; gross oil exports were higher at 1.21mn b/d, though include NGLs with gas rather than oil and the picture is reversed.)

ITALY GAS: UP, THEN DOWN

Rising oil prices and gas volumes mean that the country's export revenues rose by 36% year-on-year to hit $18.1bn in H1 2017.

Italy is the top customer, accounting for $3.12bn of first half exports, some 17.2% of the total. The vast bulk of this is accounted for by gas, which Italy imports via the Trans-Mediterranean pipeline which traverses Tunisia before landing at Mazara in Sicily. (Italy took just 33,400 b/d of crude from Algeria in H1 2017, a mere 2.6% of its imports – MEES, 11 August).

The two key Italian importers are Eni (7.49bcm for H1 2017, almost 75% of the Algeria-to-Italy total, and up 22% year-on-year) and Edison, both of whom have been active in securing upstream gas positions in Algeria.

Italian gas volumes were up strongly

Continued on – p5

Continued from – p4

in the first half of 2017: at 10.1bcm (37% of Algeria's gas exports) they were up 16% year-on-year to record the highest half-yearly volumes since 2012 with demand for Algerian gas boosted by low and intermittent supplies from Libya.

But the good times haven't lasted. Algerian gas arrivals in Italy have slid sharply in recent months, to an average of just 21.1mn m³/day (746mn cfd) in the first 22 days of August, the lowest figures in two years. This comes as domestic demand in Algeria has soared. Algerian demand for power – the vast bulk of which is gas-fired – hit a record 14.18GW on 31 July, some 11% higher than 2016 peak demand. And this figure may be topped in August (see charts).

Taking into account the latest data, MEES forecasts that Italy will import 18.3bcm of gas from Algeria in 2017 as a whole, down 5% on 2016's four-year-high volumes. Algeria has a more balanced trade slate with its second largest trading partner, France, the largest export market for non-hydrocarbon exports (though, remember that these only account for 5% of the total). France took 5.9bcm of Algerian gas for 2016 (11% of Algeria's gas exporters) as well as 89,000 b/d of crude – making it Algeria's largest single crude customer. Revenue from France in H1 2017, at 2.22bn, was up 29% on H1 2016, closely mirroring the 27% rise in oil prices – though the fact that receipts were sharply higher in Q2 (when oil prices were lower) than in Q1 suggests that changing oil import volumes are far from the only variable at play.

For number three customer Spain, gas is again the key commodity. Spanish crude imports from Algeria, at 30,200 b/d in H1 2017, are relatively puny though up 15% year-on-year (see data, p15). Together with higher oil prices this helped boost export revenue from Spain by 5.5% year-on-year to $2.07bn despite lower gas volumes, with the fall particularly marked in Q2 (see chart).

Revenues from number four customer the USA were up 22% in H1 2017. The US took 76,000 b/d of Algerian crude in Jan-May 2017, higher than any annual average since 2012 (though Q4 2016 saw 132,000 b/d). Volumes dwindled to near zero in 2014 and 2015 as US output ramped up, though with US producers allowed to export since last year, light naphtha-rich Algerian oil has again found a place in the US refining slate.

LOWER IMPORTS, MORE AUSTERITY

So Algeria's progress in cutting its trade deficit this year is largely down to higher oil prices. But of course it would be highly risky (and run in the face of the current, largely flat, futures curve) to expect further price rises to restore Algeria to trade balance. Progress elsewhere is needed. Key gas projects due onstream at end-2017 and in 2018 mean gas exports may rise further next year – though bumper plans to boost exports from the US, Australia, Qatar and Russia will keep gas prices under pressure going forward even if oil prices rise.

Algerian politicians have repeatedly talked a good game on developing non-oil sectors of the economy, though the trade figures indicate precious little to show for this – at $950mn for the first half of 2017 non-hydrocarbon exports are no higher than the average for the last six years.

Where Algeria has made progress is in 'fiscal consolidation,' basically cutting spending – the evidence of which can be seen in lower imports. Algeria spent $23.0bn on imports in H1 2017, down 4% year-on-year, with 2017 on track to see the lowest spend since 2010 (in nominal terms – adjust for inflation and 2017 is set to be the lowest since 2007). Algeria's 'rate of import coverage' (exports as a percentage of imports) rose to 81.4% in Q2, the highest level since 2014 – when oil prices were over $100/B.

Criticism of this policy of attempting to cut spending to match (or at least approach) revenue has come from a perhaps unlikely quarter – the IMF. Algeria would be better off taking advantage of low interest to borrow and invest in capital spending to lay the groundwork for a more diversified economy, the IMF recommends (MEES, 30 June). The fund notes that Algeria has next to no foreign debt.

However Algiers, which has a strong isolationist foreign policy streak, including an aversion to foreign debt, is so far paying little heed. Politicians continue to stress austerity. Algerians must "meet the challenge" of continued low oil prices without "losing Algeria's economic sovereignty" by taking on foreign debt, Veterans Minister Tayeb Zitouni said in a 19 August speech given in the name of ailing President Abdelaziz Bouteflika. ◆◆

ALGERIA KEY TRADE DATA ($BN*)

		vs 1H16				vs 1Q17				vs 2016							
	1H17	*$bn	%	1H16	2Q17	*$bn	%	1Q17	2017F	*$bn	%	2016	2015	2014	2013	2012	2011
Exports	**18.14**	**+4.82**	**+36.2**	**13.32**	**9.20**	**+0.25**	**+2.8**	**8.94**	**35.39**	**+6.51**	**+22.5**	**28.88**	**34.69**	**62.89**	**64.97**	**71.89**	**73.49**
Oil & Gas	17.19	+4.76	+38.3	12.43	8.72	+0.24	+2.9	8.47	33.47	+6.37	+23.5	27.10	32.70	60.30	62.96	69.80	71.43
*% of total^*	*94.8*	+1.5		*93.3*	*94.8*	+0.1		*94.7*	*94.6*	+0.7		*93.8*	*94.3*	*95.9*	*96.9*	*97.1*	*97.2*
non-h'carbon	0.95	+0.06	+6.5	0.89	0.48	+0.01	+1.9	0.47	1.92	+0.14	+7.7	1.78	1.99	2.58	2.01	2.08	2.06
top 4 Countries: Italy	3.12	+0.46	+17.4	2.66	1.38	-0.36	-20.4	1.74	5.65	+0.87	+18.2	4.78	5.24	8.37	9.01	11.51	10.45
France	2.22	+0.51	+29.4	1.72	1.33	+0.43	+47.7	0.90	4.47	+1.28	+40.1	3.19	4.56	6.74	6.74	6.12	6.54
Spain	2.07	+0.11	+5.5	1.96	1.16	+0.24	+26.7	0.91	4.17	+0.60	+17.0	3.56	6.78	9.71	10.33	7.81	7.19
USA	1.71	+0.31	+21.7	1.41	0.81	-0.09	-10.4	0.90	3.45	+0.22	+6.8	3.23	1.99	4.69	5.33	10.78	15.03
Imports	**22.99**	**-0.90**	**-3.8**	**23.89**	**11.30**	**-0.38**	**-3.3**	**11.68**	**46.35**	**-0.37**	**-0.8**	**46.72**	**51.70**	**58.58**	**55.03**	**50.38**	**47.25**
Foodstufs	4.44	+0.39	+9.6	4.05	2.17	-0.09	-3.9	2.26	8.95	+0.73	+8.9	8.22	9.32	11.01	9.58	9.02	9.85
Oil Products	0.66	-0.05	-7.2	0.71	0.44	+0.27	+101.4	0.22	1.32	+0.03	+2.5	1.29	2.38	2.88	4.39	4.96	1.16
Trade Balance	**-4.85**	**+5.72**	**-54.1**	**-10.57**	**-2.11**	**+0.63**	**-23.2**	**-2.74**	**-10.97**	**+6.87**	**-38.5**	**-17.84**	**-17.01**	**+4.31**	**+9.95**	**+21.49**	**+26.24**
Oil & Gas	16.53	+4.81	+41.0	11.72	8.28	+0.02	+0.3	8.26	32.14	+6.33	+24.5	25.81	30.32	57.43	58.58	64.85	70.26
*exports % of imports^*	*78.9*	+23.2		*55.8*	*81.4*	+4.8		*76.5*	*76.3*	+14.5		*61.8*	*67.1*	*107.4*	*118.1*	*142.7*	*155.5*
Gas Exports (BCM)	**27.3**	**+1.4**	**+5.5**	**25.9**	**11.54**	**-4.3**	**-27.0**	**15.80**				**53.6**	**42.9**	**44.3**	**46.6**	**51.6**	**53.2**
Italy**	10.1	+1.4	+15.8	8.7	3.74	-2.6	-41.0	6.34	18.3	-0.8	-4.4	19.1	7.3	6.8	11.9	20.9	22.2
Spain	8.7	-0.5	-5.0	9.1	3.68	+0.3	+9.2	3.37	18.4	-1.0	-5.0	19.4	20.3	19.8	18.0	15.1	14.2
Oil Exports ('000 B/D)	**1,219**	**+18**	**+1.5**	**1,201**	**1,270**	**+83**	**+7.0**	**1,187**				**1,274**	**1,223**	**1,057**	**1,059**	**1,085**	**1,165**
o/w Crude	**554**	**+24**	**+4.5**	**530**	**596**	**+69**	**+13.1**	**527**	**554**	**-28**	**-4.9**	**582**	**578**	**564**	**630**	**691**	**707**
Refined Products	345	+4	+1.2	341	316	-48	-13.1	364	345	+7	+2.1	337	346	359	274	247	288
Condensate/NGLs	321	-10	-3.0	331	358	+62	+20.8	296	321	-33	-9.4	354	299	134	155	147	170
Saharan Blend ($/B)	**51.50**	**+11.00**	**+27.2**	**40.50**	**47.94**	**+9.59**	**+25.0**	**53.67**	**51.40**	**+7.12**	**+16.1**	**44.28**	**52.79**	**99.68**	**109.38**	**111.51**	**112.92**

*OR RESPECTIVE UNITS. **SUB-ANNUAL NUMBERS FOR PIPELINE DELIVERIES ONLY. ANNUAL FIGURES INCLUDE SMALL VOLUMES OF LNG. ^CHANGES EXPRESSED ON PERCENTAGE POINTS BASIS. F=FORECAST BASED ON 1H PRO RATA AND MORE RECENT DATA WHERE AVAILABLE. SOURCE: ALGERIAN CUSTOMS, JODI, OPEC, CORES, SNAM-RETE, EIA, MEES CALCULATIONS.

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Kuwait: Al-Zour Re-Award But Delay Likely

Kuwaiti state upstream firm KOC has for the second time awarded a contract to build a pipeline to deliver crude oil to a new 615,000 b/d refinery under construction at Al-Zour in Kuwaiti portion of the Neutral Zone. Kuwait's Supreme Petroleum Council canceled the original contract – awarded to Dubai's Dodsal Group at a cost of KD260mn ($853mn) – after the government's central tenders committee heard that the bid was not the lowest. India's Larsen & Toubro had submitted a KD230mn ($754mn) bid, but later withdrew from the tender (MEES, 10 February).

This week Italy's Saipem announced it has been awarded a contract worth "approximately $850mn" for engineering, procurement, construction and commissioning a "system of pipelines" totaling 450km "for the transportation of crude oil and gas from various KOC South Tank Farm manifolds [at Mina al-Ahmadi 50km to the north] to the new Al-Zour refinery."

"The project also includes the realization of a network for the transportation of the refined products to the storage areas present in the refinery of Mina al-Ahmadi. These products will also be used to feed the Northern Power Station owned by the ministerial body for water and electricity," Saipem adds.

No start-up target date for the pipeline has been announced, suggesting that the 2019 target is no longer thought achievable. However, the Al-Zour refinery has already suffered long delays. The final construction contract – to Saipem and India's Essar for a tank farm and pipelines – was only awarded in mid-2015, more than a decade after the project was first proposed. Although government has been keen to develop the refinery, Kuwait's parliament repeatedly blocked progress (MEES, 21 August 2015).

CAPACITY PLANS

Completion of Al-Zour will take Kuwait's domestic refining capacity to 1.42mn b/d, almost double the current figure. Kuwait's refining capacity was 936,000 b/d until the end of March, when the ageing 200,000 b/d Shuaiba refinery was shut in.

KNPC had intended to keep Shuaiba operational until the completion of a clean fuel upgrade and expansion project at its Mina al-Ahmadi and Mina Abdullah refineries. This is expected to be finished in 2019 and will increase their combined capacity to just over 800,000 b/d (see table).

Shuaiba's demise followed a series of unscheduled outages, but the plant's economics were increasingly unattractive given the fact that its output, most of which was exported, could not meet tighter fuel standards in many countries. Now KNPC plans to convert Shuaiba into a storage terminal. It has capacity to store 11.8mn barrels of crude and products and has a three-berth oil pier (MEES, 31 March).

The shutdown of Shuaiba has freed up additional crude oil for export until the Al-Zour refinery is brought online. Kuwait exported 2.112mn b/d of crude in Q2, up 173,000 b/d (9%) on the 1.939mn b/d Q1 figure. Kuwait is increasingly looking overseas to expand its refining operations and secure markets for crude exports. KPC is currently delivering a 2mn barrel cargo of crude to the Nghi Son refinery in Vietnam, in which overseas downstream firm KPI holds equity (MEES, 4 August). KPI has also taken a stake in the Duqm export refinery in Oman (see column). ◆◆

KUWAIT REFINING CAPACITY ('000 B/D)

	Now	2021	
		Gross	Net
Domestic (KNPC)	**736**	**1,416**	**1,416**
Mina al-Ahmadi	466	347	347
Mina Abdullah	270	454	454
Al-Zour	n/a	615	615
Overseas (KPI)*	**248**	**1,138**	**539**
Milazzo, Italy (50%)	248	248	124
Nghi Son, Vietnam (35.1%, 2017)	n/a	200	70
Duqm, Oman (50%, 2021)	n/a	230	115
Indonesia (MOU only)*	n/a	160	80
China (MOU only)*	n/a	300	150
TOTAL	**984**	**2,554**	**1,955**

*ASSUMES INDIA, CHINA PLANTS DEVELOPED BY 2021 AND KPI TAKES 50% OF EACH. SOURCE: KNPC, KPI, MEES.

SPILLS MYSTERY

KPC this week said it had contained an oil spill near Al-Zour. Local estimates put the quantity of crude at 35,000 barrels with the source reckoned to be an old 50-km pipeline in the offshore Al-Khafji field in the Neutral Zone. Oil Minister Isam al-Marzuq says samples will be analyzed to determine the source.

The spill is unlikely to hasten a solution to a dispute between Kuwait and Saudi Arabia over Neutral Zone operations, which has seen 300,000 b/d Khafji field shut in since October 2014 and the 200,000 b/d onshore Wafra field since March 2015. Saudi Arabia unilaterally halted output, citing environmental concerns, although a key factor was escalating disagreements over management of the zone (MEES, 16 December 2016).

Oman Appoints Project Manager For Duqm Refinery

The DRPIC joint venture of state upstream firm Oman Oil Company (OOC) and Kuwait's overseas downstream unit KPI has awarded UK's Amec Foster Wheeler (AFW) the project management contract for the 230,000 b/d newbuilt refinery at Duqm on Oman's Arabian Sea coast.

AFW's scope of work is for project management as part of an integrated management team with DRPIC. The team will monitor the performance of the project's engineering, procurement, construction and commissioning contractors.

Earlier this month DRPIC announced the contractors that will be awarded the Duqm EPCC contracts: Spain's Tecnicas and Korea's Daewoo E&C will build the process units; UK's Petrofac and Korea's Samsung Engineering will build utilities and offsites; and Italy's Saipem will build a products export terminal at the refinery and an 80km pipeline to bring crude oil from Ras Markaz (MEES, 11 August).

Duqm refinery is a 50:50 joint venture export refinery, for which Kuwait will provide 65% of the feedstock – almost 150,000 b/d – and Oman will provide the remainder. Duqm is one of a number of overseas joint ventures which Kuwait is undertaking to secure outlets for its crude (see left).

Oman's state refiner Orpic currently operates two refineries with a combined capacity of 222,000 b/d – 116,000 b/d Sohar and 106,000 b/d Mina al-Fahal.

Orpic recently announced mechanical completion of an expansion and upgrading project at Sohar, which will increase its crude distillation capacity by 81,000 b/d to 197,000 b/d.

Orpic appears to be commissioning the new units now. Sohar's combined output of four key products – diesel, gasoline, jet-kero and LPG – reached a monthly record of just over 180,000 b/d in July (see p12).

Saudi Electricity Taps $1.75bn Loan For Capacity Expansion

Saudi state power firm SEC has tapped the international finance market for the first time this year, taking its total outside funding since 2007 to $36.2bn.

Saudi Electricity Company (SEC), the kingdom's largest power generator and the sole operator of its transmission and distribution grids, has secured a $1.75bn international syndicated loan to help fund expansion of its capacity to both supply and deliver electricity.

The banks stumping up the funds are: Japan's Bank of Tokyo-Mitsubishi, Sumitomo Mitsui, and Mizuho; UK's HSBC and Standard Chartered; the US' Citibank; France's Natixis; and First Abu Dhabi Bank.

"Due to the significantly oversubscribed loan book...SEC was able to close the financing deal at a higher than expected size at very favorable terms and conditions," SEC CEO Ziyad al-Shiha says whilst declining to indicate the original sum targeted or the rate achieved.

The deal is SEC's largest syndicated loan to date. It takes to $36.2bn the outside funding the utility has secured since 2007, although the biggest single contribution was a $13.2bn 'soft loan' from the Ministry of Finance in 2014 (see table).

The syndicated loan is SEC's first foray into the international finance market in 2017. Last year saw the company raise $5.1bn in three deals, an annual record if the 2014 finance ministry loan is excluded (see chart). SEC says the latest agreement is for a five-year 'bullet' repayment loan. Bullet loans require the entirety of the loan amount to be repaid at maturity – August 2022 in this case. The company has not disclosed whether interest payments will be made at maturity or separately.

CAPACITY PLAN

SEC is the largest utility in the MENA region and one of the largest worldwide, with total assets worth SR441.2bn ($117.7bn) as of end-June, according to the company's reckoning.

SEC's generating capacity was 55GW at the end of 2016, although the company can supply up to 74.3GW to customers as some firms with their own power plants have agreements to supply surplus electricity to the grid. Last year SEC added 4.74GW capacity – a 9.4% increase on end-2015 – through the completion of the 2.89GW South Jeddah power plant development and the addition of new units at existing plants.

SEC has announced plans for more than 22GW of conventional oil or gas-fired capacity, of which contracts for plants with a combined 10GW of capacity have been awarded so far (MEES, 18 November 2016). But how much of this capacity will be developed by SEC is uncertain given government plans to break the company into four generating companies and an independent grid operator as part of a privatization program (MEES, 19 May).

SEC already faces competition from state petroleum firm Saudi Aramco, which as of end-2016 had 2.54GW of generating capacity at its facilities, up 980MW on end-2015 with the addition of three cogeneration plants. Aramco is currently building a 4GW integrated gasification combined cycle power plant at Jizan, expected online in 2018. This will power a 400,000 b/d refinery that is being built alongside, as well as delivering electricity to the grid.

SOLAR SHIFT

Besides conventional projects, SEC had announced plans for solar capacity and had begun tendering for two 50MW solar PV projects – one in the Al-Jawf region and one at Rafha in the Northern Borders region. However, SEC's solar projects were canceled after the Ministry of Energy took over the Saudi renewables program last year.

Although government in 2013 announced ambitious plans for renewables, so far the kingdom only has 48MW of solar capacity in small-scale projects and a single 2.75MW wind turbine operated by Aramco. SEC recently completed a 3MW rooftop solar unit comprising 12 photovoltaic panels and storage batteries at its Dammam complex.

However, the energy ministry's Renewable Energy Project Development Office (Repdo) has begun tendering for 300MW of solar PV at Sakaka and a 400MW wind farm to be built at Dumat Al-Jandal, both in the northwestern Al-Jawf region.

Now Repdo is charged with developing 3.45GW of renewables capacity by 2020 under Riyadh's National Transformation Program (NTP), rising to 9.5GW of renewables capacity by 2023 in support of Vision 2030.

Riyadh is also looking to encourage consumers to install their own small-scale 'rooftop' solar systems. Riyadh's Electricity and Cogeneration Regulatory Authority (Ecra) this week issued regulations for net metering, which will enable building owners to sell excess electricity to the grid.

The Ecra rules will come into effect on 1 July 2018 and will cover solar installations of up to 2MW capacity. Ecra had initially drafted terms for solar installations ranging in capacity from 1kW to 1MW, which suggests that Riyadh's expectations for rooftop solar have been raised.

Reuters reports Ecra's director general for technical affairs Fayiz al-Jabri as saying that the rooftop solar regulations represent "an essential step towards the realization of the deployment of renewable energy in the kingdom."

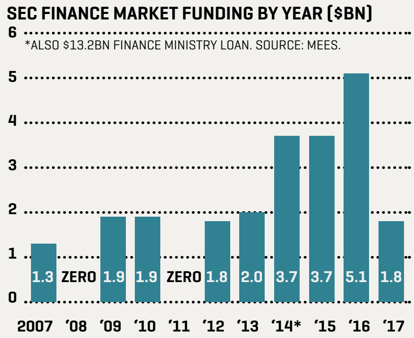
Economic incentives will likely also be needed given the low, heavily subsidized, price of current fossil-fuel derived supplies. ◆◆

SEC PROJECT FINANCE

	Source	Purpose	$Bn
2007	Sukuk	Capital projects	1.3
2009	Sukuk	Capital projects	1.9
2010	Sukuk	Capital projects	1.9
2012	Sukuk	Capital projects	1.8
2013	Sukuk	Rabigh-2 project	2.0
2014: Jan	Sukuk	Capital projects	1.2
Mar	Finance Ministry	Capital projects	13.2
Apr	Credit	Capital projects	2.5
2015: Dec	Kexim	Capital projects	3.0
	NCB, Samba	Capital projects	0.7
2016: Jan	Japanese banks	Capital projects	1.4
May	Kexim, int. banks	Shuqaiq project	0.9
Jun	ICBC	Capital projects	1.5
Sep	Sukuk	Capital projects	1.3
2017: Aug	Int. banks	Capital projects	1.8
Total Secured			**36.2**

SEC FINANCE MARKET FUNDING BY YEAR ($BN)

*ALSO $13.2BN FINANCE MINISTRY LOAN. SOURCE: MEES.



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GCC CURRENCIES: TO PEG OR NOT TO PEG?

OPEC

Opec's core GCC countries peg their currencies to the US dollar, an anchor that has served them well given that it is the currency in which their key export is denominated. But as the third anniversary of the late 2014 collapse in oil prices approaches, debate is becoming more lively as to whether their currency pegs to the dollar still make sense. While opinion is divided, the consensus is that they will remain in place for now.

The debate over whether the GCC countries should keep their peg to the US dollar has rattled on for many years now but it has taken on new urgency since mid-2014 in light of the sustained oil price slump and resurgent dollar.

According to international ratings agency Moody's, the fall in the oil price in 2014 led to an aggregate current account deficit of -1.8% of GDP in the GCC through 2016, compared to an average surplus of close to 18% during the 2005-14 period.

This, combined with a strengthening dollar, has exerted considerable pressures on GCC currencies, forcing the six countries – Saudi Arabia, the UAE, Kuwait, Qatar, Oman and Bahrain – to individually impose painful fiscal consolidation measures that continue to this day.

All six countries' currencies are pegged to the dollar (in Kuwait's case as part of a currency basket in which the US currency is the key component), whilst all except Oman and Bahrain are members of Opec.

SAUDI STRETCHED

Saudi's budget deficit of $19.4bn in H1 2017 was covered from a financing package of SR80.75bn ($21.5bn) consisting of SR32bn ($8.5bn) from residual current account balances in 2016; SR15bn ($4bn) from foreign reserve assets; and SR33.75bn ($9bn) from external loans, according to the Finance Ministry Quarterly Budget Performance Report for Q2. (MEES, 18 August)

Saudi Arabian Monetary Authority (Sama) net foreign assets fell to $495bn at end-July, a six-year low and down almost one-third on the $732bn end-2014 figure (see chart, p16). And whilst the reserves drawdown has slowed, this has only been thanks to the country tapping international finance markets for additional funds – the country this week raised a further $3.5bn in an international sukuk, taking the total to $8bn in the space of a month (see p2).

Given the extent of the fiscal consolidation that has been underway, there have been growing calls for Gulf states to also loosen monetary policy.

To maintain their dollar pegs, all GCC members track the US Federal Reserve's interest rate which has been ratcheted up on three occasions over the past seven months.

The most recent hike occurred on 14 June when the Fed increased interest rates by 25 basis points to 1.25%.

COUNTER-CYCLICAL RATE RISE

Immediately after the hike, central banks across the GCC followed suit by hiking their interest rates by 25 basis points even though this was counter-cyclical based on the demands of their domestic economies.

Such monetary tightening will pose further headwinds to the already slow economic growth across the GCC by compounding fiscal tightening, unlike in the US where the economy is on an upward growth trajectory.

Furthermore, for GCC governments and large corporates, such rate hikes have increased the cost of raising debt from the bond market.

The Fed is widely expected to hike rates once more in December. The Fed is big on 'forward guidance': after the 15 March rise Fed officials indicated two more rate hikes this year, in June (which came to pass) and December.

This divergence in economic needs has led some industry experts to call for the GCC to opt for a flexible exchange rate regime, enabling their currencies to fall against the greenback.

"The implementation of monetary normalization [interest rate rises from record low levels] by the Fed means a rising path of interest rates and monetary tightening. With a strict peg, this means that the GCC countries will also have to raise interest rates. This conflicts with the need for the GCC to conduct a counter-cyclical policy including monetary loosening and lower interest rates in order to adjust to the 'new oil normal' and low oil prices," Nasser Saidi president of Dubai-based economic consultancy Nasser Saidi & Associates, tells MEES.

"The GCC needs to pursue independent exchange rate and monetary policies directed at dealing with the business cycle conditions of their main trade and investment partners, which are now the Asian countries and not the US and Europe. I am an advocate of the GCC moving to greater exchange rate flexibility through the adoption of a currency basket, with a band. This would allow the GCC to adjust to external and internal real and nominal shocks."

However, other industry experts believe the disadvantages of de-pegging would outweigh the advantages.

"The benefits of moving to a flexible exchange rate would be small," Mathias Angonin, analyst at Moody's, tells MEES. "Firstly, imports and exports are mostly priced in US dollars, so the elasticity of the trade balance to the exchange rate is limited. Secondly, even though they cannot control interest rates, GCC authorities have developed other regulatory tools to manage inflation expectations and avoid credit boom and bust cycles."

Conversely, Mr Angonin points out that the cost of changing the exchange rate would be high relative to the benefits for two key reasons.

PURCHASING POWER

Firstly, the move to a flexible exchange rate would affect exchange rate expectations and have an inflationary impact due to higher risk premiums. Secondly, any currency depreciation would be socially challenging because it would lower the purchasing power of local populations and would likely be followed by adjustments in nominal salaries and prices.

To date, the countries with the higher external breakeven oil prices – Bahrain, Oman and Saudi Arabia – have unsurprisingly been most impacted by the oil price drop, while Kuwait and the UAE have managed to return to small surpluses.

Indeed, while they are often considered a relatively homogeneous block, the GCC states' individual fiscal strength varies quite considerably. As the Gulf states with the weakest external balance of payments, both Bahrain and Oman have experienced the greatest pressure to their dollar pegs.

OMAN, BAHRAIN: UNDER PRESSURE

Currency pressures have been building in Bahrain because of its low foreign exchange reserves, while Oman is grappling with a large current account deficit. The current accounts of Oman and Bahrain swung from surpluses of 4.2% and 5.2% of GDP in 2014 to average deficits of 17.4% and 2.8% of GDP in 2015-16, respectively, according to Moody's.

Oman's budget deficit was $6.32bn for the first half of 2017, indicating an expected full year deficit of $12.74bn on a pro-rata basis, according to MEES number-crunching (see p12).

In May this year, ratings agency S&P Global cut Oman's credit rating to junk, citing an erosion in the country's external reserves to the point they could no longer offset the threat of low oil prices. It also placed it on watch for a further downgrade (MEES, 19 May). Moody's went on to downgrade Oman in July.

Meanwhile, Bahrain was downgraded to below investment-grade by all three of the major credit ratings agencies in 2016.

Bahrain has been hit the hardest by the oil price slump and has chosen to finance its deficits through a fairly even split between external and domestic borrowing.

Consequently, the Institute of International Finance (IIF, a global trade body of financial firms) projects that Bahrain's public debt will rise to 78% of GDP in 2017, from 18% in 2008, peaking at about 83% in the next few years.

Continued on – p9

Continued from – p8

Furthermore, with low and volatile foreign exchange reserves, it has had to rely on other GCC states – most notably Saudi Arabia – for financial support. Oman has also had to lean on its neighbors – Kuwait is helping fund a new refinery (see p6), and the UAE its wind power plans (see p11).

Consequently, the timeliness and degree of future GCC support to Bahrain and Oman could influence their decision and capacity to maintain their currency pegs.

SINGULAR OR COLLECTIVE DE-PEGGING?

This has led some to argue that the likelihood of GCC states de-pegging should be treated on a case-by-case basis given the variations between their economies in terms of their oil breakeven prices, current account deficits and trade relationships.

"In principle, the decision to de-peg would have to be agreed by all GCC countries, particularly Saudi Arabia and the UAE, the two largest economies," Garbis Iradian, IIF chief Mena economist tells MEES.

"However, the risk of de-pegging singularly beyond the short-term – say beyond 2018 – rises under a scenario of sustained sub-$50/B oil prices," he adds.

Under IIF's baseline scenario of oil prices remaining in the $50-57/B range for 2017-20, Mr Iradian does not expect de-pegging in any of the GCC countries, at least in the next two years. But the chances of de-pegging would rise to more than 60% by 2019 if oil prices fall further and stay below $40/B for more than two years.

The Omani rial has been pegged to the greenback since 1986, the UAE dirham since 1997, the Qatari and Bahraini dinar since 2001, and the Saudi riyal since 2003.

Kuwait struck out on its own in 2007, choosing to peg the dinar against a more diversified basket of currencies. It had previously also maintained a more flexible exchange rate between 1975 and 2003.

Leaving aside ostracized Qatar, it seems likely that any decision to de-peg or adjust the exchange rate would have to be agreed by at least the four other GCC members. However, an independent move by one or two of the GCC states cannot be ruled out completely.

"The GCC tends to prefer to make such big decisions collectively as they are part of a partial economic union and want to avoid arbitrage across countries. Once one country changes the exchange rate, they worry others will follow," Rachel Ziemba, managing director of research at 4CAST-RGE, tells MEES.

"However, the deterioration in total and external reserves is a trend to watch, as is total debt. It is possible financing facilities would be made available but it might still leave countries with debt levels that are unsustainable."

Indeed, some of the GCC states' external reserve positions are unlikely to recover quickly even if oil prices do stay on an upward trajectory and there are disadvantages to providing financial support to countries such as Bahrain and Oman in order to stave off devaluation.

"If we get into 2019 with international public assets substantially depleted, particularly in Saudi Arabia, Oman and Bahrain, and it is clear that the oil price is going to remain below $40/B and that fiscal deficits will remain at high levels, then a significant devaluation may be the only option," says Mr Iradian.

BASKET CASE

In the event that the GCC countries do de-peg from the dollar then opinion varies as to what, if any, new linkage – in terms of currencies and/or commodities – they should adopt.

Some have suggested copying Kuwait in following a basket of currencies – albeit less dominated by the US dollar – and incorporating the oil price as that would provide more flexibility on the exchange rate. This would enable GCC currencies to generally move with the global price of oil while dampening the volatility associated with a pure oil peg.

"Pegging to a currency basket allows for monetary policy independence and exchange rates that respond to macroeconomic shocks," says Mr Saidi who advocates a move to a currency basket that would include the US dollar, the Euro, the Japanese Yen, the UK pound and the Chinese Yuan whereby countries could have different weights for the currency components depending on their trade, investment, inflation and business cycle links to their main economic partners.

OIL PRICE LINK

"Given the region's dependence on oil exports, I am in favor of oil-price augmented currency baskets, for example, including oil prices with a weight of 15-20% in the basket, that allow adjustment to terms of trade shocks/real shocks and imply a depreciation of GCC currencies given a decline in oil prices. This would help develop the non-oil sector and diversify exports," adds Mr Saidi.

"A basket of some sort based on trade-weighted currencies and the US dollar might be a temporary approach, but I would imagine, like China, they would end up managing it heavily," says Ms Ziemba. "Eventually they should probably move to one that explicitly or implicitly tracks the oil price, such as for example Russia or Colombia, which are mostly free-floating but allow the country to maximize oil earnings in local currency terms."

However, in the short-term at least, industry consensus is that the GCC will remain committed to maintaining its dollar peg.

> The GCC needs to pursue independent exchange rate and monetary policies... their main trade and investment partners are the Asian countries and not the US and Europe."
>
> *-Nasser Saidi, Nasser Saidi & Associates*

Given the slow pace of economic diversification, import and export volume elasticities with respect to real exchange changes are very low due to the limited domestic manufacturing and non-oil tradable goods sectors in the GCC.

As countries struggle to balance the books, the urgency and need for the hydrocarbon-fueled GCC states to diversify their economies becomes ever clearer.

The boldest of these plans is the Saudi Vision 2030 and its related National Transformation Program (NTP) which present a comprehensive blueprint intended to raise non-oil revenues to around 20% of GDP by 2020 through a raft of initiatives and reforms (MEES, 10 June, 2016).

However, while the IMF has welcomed Saudi Arabia's reform and fiscal consolidation efforts, the reality is that these programs will only yield fruit over the medium-term.

The IMF's July forecasts downgrade Saudi growth for 2017 to just 0.1% (from 0.4% three months earlier) and to 1.1% (from 1.3%) for 2018, while also projecting that the country's fiscal deficit will fall from a whopping 17.2% of GDP for 2016 to a still-high 9.3% this year.

A FLEXIBLE FUTURE?

"Adjustment to the new oil normal shock requires greater exchange rate flexibility but also requires growth of the non-oil sector and exports," says Mr Saidi. "So, successful implementation of current diversification plans, plus fiscal reform to diversify sources of government revenue, would provide the GCC countries with more ammunition to embark on a path of greater exchange rate flexibility."

Moving to a flexible exchange rate requires building capacity to manage an independent monetary policy that could take a long time to achieve. However, a managed floating exchange rate would have the advantage of allowing the GCC countries to use monetary policy to smooth business cycles. It would also allow the countries to absorb large, adverse real shocks more easily than a fixed exchange rate regime.

As GCC economies diversify over time, and non-oil sectors become increasingly important, more flexible exchange rate regimes will become both more appropriate and more likely.

Algeria PM Sacked As Tebboune Bites Off More Than He's Allowed

Faced with powerful business interests, efforts to cut corruption and promote social inclusion have come to an abrupt and premature end.

Algeria's government has carried out a major reshuffle less than three months after the most recent round of cabinet changes. In a shock move undertaken in the name of President Abdelaziz Bouteflika, Prime Minister Abdelmajid Tebboune has been dismissed along with three of his ministers. He is replaced by Ahmed Ouyahia, a career diplomat who has been prime minister three times before.

The others to lose their jobs are: Mahdjoub Bedda, displaced at the ministry of industry and mines by Youcef Yousfi; Ahmed Saci, who loses his minister of trade portfolio to Mohammed Benmeradi; and Youcef Chorfa, replaced as minister of housing by Abdelwahid Temmar.

Other key roles, including the minister of energy (Mustapha Guitouni) and the minister of finance (Abderrahmane Raouia), were unaffected by the reshuffle. Which is just as well as they were only appointed in late May as part of the previous cabinet reshuffle in which the prime minister and 11 other ministers were also sacked (MEES, 9 June). It is unusual for Algeria to undergo such rapid changes in government personnel. The May changes were less of a surprise, coming as they did in the aftermath of parliamentary elections (MEES, 19 May).

FAILED EXPERIMENT

In hindsight, the May reshuffle now looks like a failed experiment. The idea behind the replacement of Abdelmalek Sellal with Mr Tebboune was to put an emphasis on policies that were more socially responsible and more socially responsive. Mr Tebboune had previously headed up the ministry of housing, where he had made a decent stab at tackling the country's severe shortage of affordable accommodation. The word was that Mr Tebboune had been given a remit to streamline the economy and to mitigate the impact of rapidly rising prices and austerity politics, including the removal of subsidies on consumer fuels. It was hoped that this would help to slow the steepening fiscal deficit and stem popular discontent with the regime.

In order to do this Mr Tebboune was given licence to subtly shift the economy away from the elite and to reduce the wastefulness associated with the most egregious handouts. What brought such a premature end to this experiment, it seems, was that it was carried out with little subtlety, and quickly ran up against concerted opposition from the elites whose privileges were coming under threat.

CORRUPTION CLAMPDOWN

Once in office Mr Tebboune wasted no time in embarking on his reform program. On 2 July, he issued an urgent directive tasking his ministers with identifying all contracts awarded by their predecessors by direct negotiation rather than competitive bidding, according to a report in local daily El Watan. It is this that likely sowed the seeds of Mr Tebboune's downfall, by both ruffling the feathers of those affected and by raising suspicions that Mr Tebboune's policies were motivated at least in part by a desire to promote his own ambitions at the expense of his political rivals.

The minister of transport and public works, Abdelghani Zaalane, responded to the directive by reporting that €4.85bn in contracts had been awarded to ETRHB Haddad, a construction conglomerate owned by Ali Haddad, an influential businessman and chair of an organization grouping business chiefs. In response, Mr Tebboune blocked the most recent ETRHB project, worth some €900mn, which was still in the preliminary stages, reported El Watan.

Mr Haddad was quickly angered by Mr Tebboune's moves. The businessman is close to the regime, and an ally of the president's younger brother, Saïd Bouteflika. It is widely believed that the younger Bouteflika, a conservative member of the regime keen to protect his own interests and those of the people around him, was influential in Mr Tebboune's sacking. Within a largely opaque regime, his influence has grown since his elder brother was almost incapacitated in 2013 by a series of strokes. On 8 August, local TV station Ennahar, with which Saïd Bouteflika has ties, reported that a Paris meeting between Mr Tebboune and his French counterpart had not been authorized by the president. Whether or not this is true is immaterial. The prime minister's role does not traditionally give him a hand to determine foreign policy, and Mr Tebboune created an opportunity to suggest that he was overstepping his authority.

The other ministers who lost their jobs played roles in Mr Tebboune's program. Industry minister Mr Bedda was investigating price manipulation in the car imports business: holding an imports licence is considered something of a sinecure. For similar reasons, the decision of trade minister Mr Saci to suspend the imports of certain goods met with vociferous opposition among those who held the licenses to do so. At the housing ministry, Mr Chorfa had opened an investigation into construction projects that were suffering delivery overruns or misreporting the proportion of work completed to date.

It seems unlikely that the new administration will pursue economic reforms with such vigor. The Algerian press has tended to explain the new appointments as a means of steadying the ship. Mr Ouyahia, the incoming PM, twice served Mr Bouteflika in the position, from 2003-06 and 2008-12, before briefly falling out of favor. The co-founder and rehabilitated leader of parliament's second-largest party, the RND, Mr Ouyahia has been on the rise since he was appointed director of the president's cabinet in March 2014. In June 2015 the RND appointed Mr Ouyahia interim secretary-general, a post he had resigned in January 2013, and in May 2016 the appointment was made permanent.

The 75-year-old Mr Yousfi has been an energy advisor to the president since 2015, before which he was energy minister from 1997-99 and 2010-15 and, briefly in 2014, acting PM (MEES, 29 May 2015).

Mr Benmeradi (63), has held several ministerial positions under president Bouteflika in the last few years, while not lasting long in each. He was made minister of industry in 2010, replacing Abdelhamid Temmar, who at the time had been trying (and largely failing) to implement privatization plans.

Abdelwahid Temmar, the new housing minister, was previously mayor of the town of Mostaganem but has little frontline political experience. A specialist in urban architecture, he has held posts as director of urban planning in housing ministry and the municipality of Oran. "The department's objectives have been laid out and they are the same," he said when asked about his policies at a press conference following his appointment. "It's only the manner of implementation that differs from one minister to another." ◆◆

UAE Joins Saudi In Taking A Pop At Fizzy Drinks

In a bid to diversify the economy away from its reliance on energy revenue, the UAE has issued a federal law to levy excise taxes on a number of selected products, namely tobacco and fizzy drinks, with effect from 1 October. An excise tax is paid on a specific good and is a percentage of the sale price.

The UAE will be following in the footsteps of Saudi Arabia which in June introduced taxes on selected products including a 100% tax on tobacco and 50% on fizzy drinks (MEES, 2 June).

These two countries will be the first among the GCC member states to implement a GCC Supreme Council decision adopted last December to levy excise taxes on certain goods including tobacco and soft drinks.

The UAE law stipulates that, upon the recommendations of the Minister of Finance Shaikh Hamdan bin Rashid Al Maktum, the cabinet will determine the tax rate on the selected products which cannot exceed a ceiling of 100% of their original retail sale price.

Shaikh Hamdan, who is also Deputy Ruler of Dubai and Chairman of the Federal Tax Authority (FTA), says "we are making remarkable progress in our plans to establish a sound legislative infrastructure to support the UAE's tax system and make sure that it meets and exceeds international best practices."

He went on to say that in addition to boosting the government's revenue streams, the excise taxes will help to make our society healthier and safer.

The excise taxes will "discourage the consumption of products that negatively impact the environment and more importantly people's health," while the revenues generated will help support advanced services for all members of society, he adds.

$1.9BN ANNUAL BOOST

According to the undersecretary of the Ministry of Finance, Yunis al-Khouri, the new law will target tobacco and fizzy drinks, but no other goods. State news agency WAM estimates that the excise tax will generate around Dh7bn ($1.9bn) in annual revenue for the federal budget.

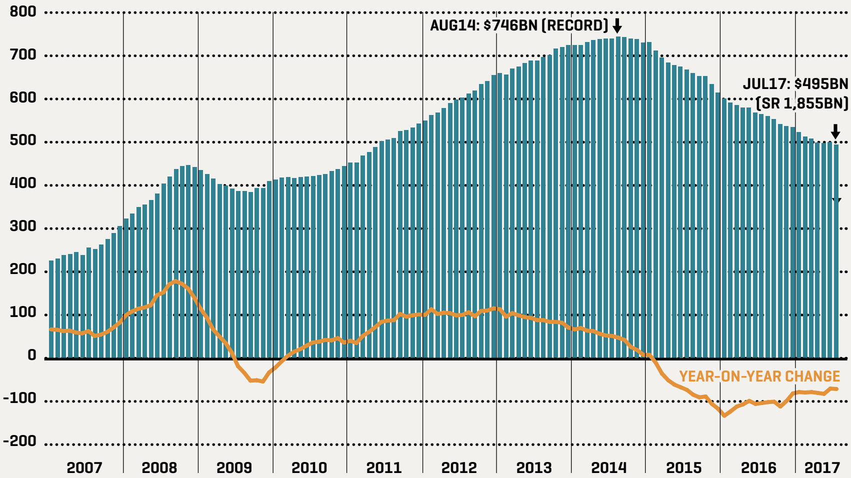
The introduction of excise taxes and VAT in the UAE is expected to raise the inflation rate by a one-off 1.4%, according to the head of the country's FTA, Khalid al-Bustani, who expects that some 250 companies will be subjected to the excise tax on their products, with registration of companies with the FTA expected to start in September.

VAT FROM 2018, MAYBE

Following the issue of the excise tax law, the UAE is due to shortly publish its value added tax (VAT) law. All GCC states under their unified agreement on VAT have committed to start on 1 January 2018 charging a 5% VAT rate – a tax measure among other economic reforms that the IMF has been pressing the GCC states to implement, especially after the collapse in oil prices in mid-2014.

But with the current crisis between Saudi Arabia, Bahrain and the UAE on the one hand, and Qatar on the other, the implementation date of the VAT agreement could possibly be postponed, until the crisis is resolved. ◆◆

SAUDI RESERVES FALL TO NEW 6-YEAR LOW OF $495BN AT END-JULY BUT RATE OF DECLINE EASES (SAMA NET FOREIGN ASSETS, $BN END-PERIOD)



Oman Taps Abu Dhabi For Wind Farm Cash

Oman's Rural Areas Electricity Company (Raeco) has awarded a consortium led by Abu Dhabi's renewable energy firm Masdar an engineering, procurement and construction (EPC) contract for a 50MW wind farm to be built at Harweel in the southern Dhofar governorate.

While the resources of the Muscat government are overstretched, leading it to raise $10.55bn of funding from the international finance market already this year (see p12), the Abu Dhabi Fund for Development (ADFD) is already lined up to back the $200mn wind project.

Raeco originally aimed to have the wind farm online in 2017. However, its earlier estimate that the development work would take 24 months suggests that start-up is unlikely before the second half of 2019 (MEES, 17 October 2014).

Masdar's partners in building the wind farm will be US conglomerate General Electric (GE) and Spanish engineering contractor TSK. GE will provide the farm's 13 wind turbines, each with 3.8MW generating capacity, while TSK will provide auxiliary equipment.

Raeco currently operates 34 diesel-fuelled power plants with a combined capacity of 270MW. The company's net power supply was 880GWh in 2016, up by 9% from 807GWh in 2015.

Raeco aims to develop 90MW of wind and solar capacity by 2020. So far it has completed a 300kW pilot solar photovoltaic (PV) plant at Mazyunah in the Dhofar region in the south of the country and plans 7MW more in small projects.

Raeco operates around 3.5% of Oman's power generating capacity, which state utility OPWP said was 7.77GW at the end of 2016. OPWP estimates that Oman will need to raise generating capacity to 11.7GW in 2023 to meet anticipated demand (MEES, 26 May).

◆◆

Oman Set To Shrink Deficit, But Not By Much

Oman's finances look a little less dire than they did last year. With the country on track to rack up a $12.7bn deficit, ratings agencies have reason to be worried. At least the Sohar refinery expansion and BP's Khazzan start-up will provide a boost.

Oman has been tapping new and expanded sources of finance in a bid to plug its 2017 deficit. It hit the market for a $5bn conventional bond in March (MEES, 10 March) and raised $2bn from its first ever international Sukuk in late May (MEES, 9 June).

This seemed more-or-less sufficient to cover the OR3bn deficit ($7.8bn at a fixed OR1=$2.60) forecast in Oman's 2017 budget (MEES, 6 January). But Muscat recently returned to the market, tapping key crude buyer China for $3.55bn (MEES, 4 August), bringing 2017 fundraising to $10.55bn.

The finance ministry says the China loan completes Oman's 2017 funding requirements; but then it said the same after the May Sukuk. Even with Oman this week announcing the sale next month of $390mn of 10-year bonds, MEES number-crunching indicates more may yet be needed. Oman's deficit was $6.32bn for 1H16 alone, indicating an expected 2017 deficit of $12.74bn on a pro-rata basis (see chart, and table, p13).

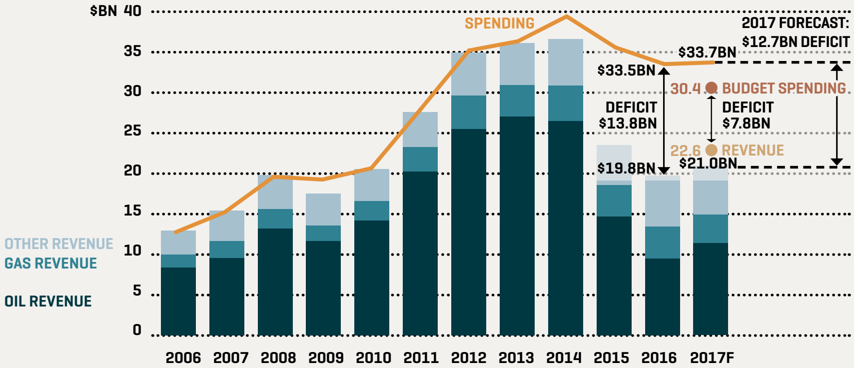
Oman's previous record deficit of $13.76bn, some 22% of GDP, was recorded last year. Ratings agencies are less than enamoured with Oman. S&P downgraded it to junk status in May (MEES, 19 May). Moody's last month also downgraded Oman, although it still rates the country at investment grade.

Oil revenue, at $5.65bn for 1H17 is up 46% year-on-year, just shy of the 48% rise in crude prices ($51.8/B versus just $35.0/B for 1H16 for Oman crude). But gas revenues are up much less with key importers Japan and South Korea paying an average of $7.98/mn BTU and $8.61/mn BTU for Omani LNG in 1H17, up by an average of $1/mn BTU (14%).

Although oil prices were higher year-on-year in the first half of 2017, Oman produced less in line with its commitment to Opec. Omani crude and condensate output averaged 968,000 b/d for the first seven months of 2017, actually a touch less than the 970,000 b/d collective target it has set the country's producers in line with the 10 December Opec/non-Opec agreement (MEES, 20 January). Oman's oil output hit an annual record of 1.004mn b/d last year of which 909,000 b/d crude and 95,000 b/d condensate.

Crude and condensate exports are down

OMAN ON COURSE TO RECORD $12.7BN 2017 DEFICIT, ONLY MODESTLY DOWN ON 2016'S RECORD $13.8BN AND OVER 60% ABOVE THE 2017 BUDGET FIGURE



F= FORECAST BASED ON 1H17 PRO-RATA. SOURCE: OMAN NATIONAL STATISTICS, MEES.

by substantially more than the fall in production. Oman exported just 809,000 b/d in the first six months of 2017, down 10.5% on the same period a year earlier. China remains the key customer taking almost 80% of supplies. July saw a VLCC (1.90mn barrels) head for the USA for the first time this year as well as the first ever shipment to Myanmar – this may well also be headed for China: CNPC's 260,000 b/d Anning refinery in Yunnan province, whose sole means of supply is a freshly-commissioned 2,400km pipeline from the Myanmar port of Sittwe, began trial operations earlier this month.

RECORD REFINERY OUTPUT

Lower crude exports come as the country has ramped up refinery throughputs in recent months. Q2 2017 saw a collective output record for the four key products for which Oman's national statistical body releases prompt figures – diesel, gasoline, jet-kero and LPG – and July saw a monthly record (see chart).

This suggests that the commissioning of new units at the Sohar refinery, which is being upgraded and expanded by 81,000 b/d to 197,000 b/d is well underway (MEES, 17 February). Oman's diesel output rose to a record 78,000 b/d in June, with July's 74,000 b/d the second highest ever. Refinery LPG output at 15,700 b/d in July was also a record. Gasoline is below record levels set in 2013-14 but is nevertheless, at an average of 74,000 b/d for April-July, at the consistently highest levels since.

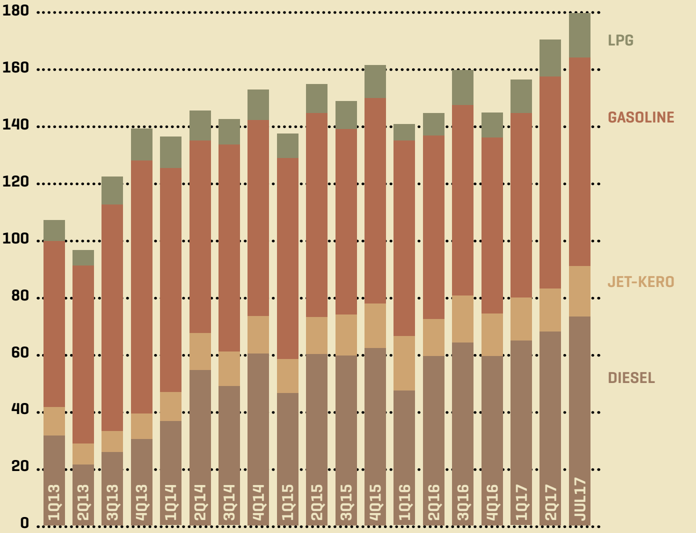
Oman's other key reason to hope that its finances will improve later in the year is the start-up of the first 500mn cfd train at the BP-operated 1bn cfd Khazzan tight gas development. "Our latest estimate for start-up should be by October, overall progress on the project is up around 99.8%. We have gas that is filling the plant now," BP CEO Bob Dudley told his firm's Q2 earnings call on 1 August.

Whilst Oman has only released official trade stats to March, MEES calculations indicate Q2 oil and gas export revenues at $4.51bn were level with Q1. Crude and condensate revenues at $3.81bn are up a touch on $3.75bn for Q1 (most of the 'gains' are accounted for by the extra day in Q2 versus Q1). Products export revenues likely rose given the higher refining throughputs, whilst LNG import data for South Korea and Japan (who between them take almost all Omani volumes) suggest that Oman shipped sharply lower volumes in Q2 with modest pricing gains insufficient to compensate.

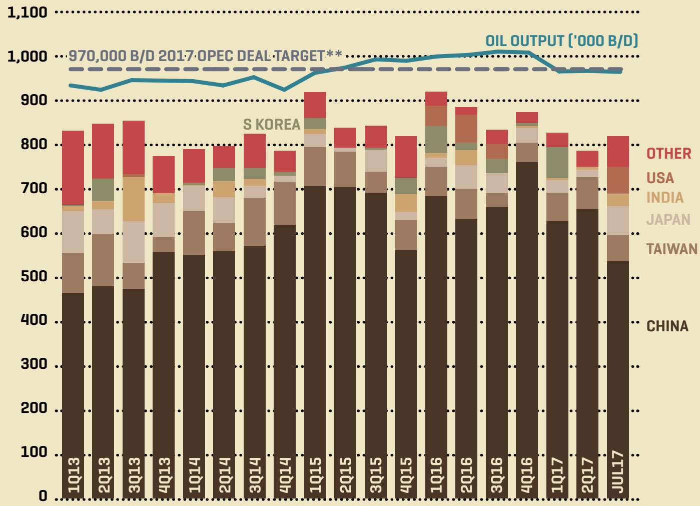
Oil and gas account for over 60% of Oman's total export revenues. Presuming that non-hydrocarbon revenues and imports held roughly steady in Q2, the figures for oil and gas imply that Oman notched up a trade surplus of $2.56bn in the first half of 2017 the highest figure since 2014 when Oman notched up a $22.2bn trade surplus on the back of $34.8bn in hydrocarbon exports with an average $103/B oil price. ◆◆

Continued on – p13

OMAN: OUTPUT OF KEY PRODUCTS AT RECORD LEVELS WITH SOHAR EXPANSION ('000 B/D)



OMAN OIL* OUTPUT & EXPORTS ('000 B/D): 85% OF OUTPUT IS EXPORTED WITH AROUND 80% OF THIS GOING TO CHINA



*CRUDE AND CONDENSATE. **AS DEFINED BY OMAN (SEE MEES, 20 JANUARY).

OMAN: KEY OIL, TRADE AND FINANCE STATS, 1H 2017

	1H17	vs 1H16	%	1H16	2Q17	1Q17	4Q16	3Q16	2Q16	1Q16	2016	2015	2014	2013	2017 by month Jan	Feb	Mar	Apr	May	Jun	Jul
Oil Output ('000 B/D)	**968**	**-32**	**-3.2**	**1,000**	**969**	**968**	**1,007**	**1,009**	**1,002**	**999**	**1,004**	**981**	**943**	**942**	**966**	**970**	**967**	**967**	**971**	**969**	**967**
Crude	880	-23	-2.5	903	880	881	915	913	905	901	909	885	856	844	884	883	875	879	880	881	883
Condensate	88	-9	-9.4	97	89	87	92	96	97	97	95	96	87	98	82	87	93	89	91	88	84
Exports	**809**	**-95**	**-10.5**	**904**	**788**	**830**	**876**	**835**	**886**	**922**	**880**	**844**	**800**	**833**	**860**	**805**	**825**	**758**	**800**	**805**	**821**
^% of production	*83.5*	*-6.8*		*90.4*	*81.3*	*85.8*	*86.9*	*82.8*	*88.4*	*92.4*	*87.6*	*86.0*	*84.8*	*88.5*	*89.0*	*83.0*	*85.3*	*78.4*	*82.5*	*83.1*	*84.9*
by destination: **China**	642	-18	-2.7	659	655	628	762	660	634	685	686	651	577	495	552	664	668	725	646	595	537
^% of total	*79.3*	*+6.4*		*73.0*	*83.2*	*75.7*	*87.1*	*79.0*	*71.5*	*74.4*	*78.0*	*77.1*	*72.1*	*59.4*	*64.2*	*82.5*	*81.0*	*95.6*	*80.7*	*74.0*	*65.4*
Taiwan	69	+3	+4.4	66	73	65	44	31	67	66	51	76	93	75	65	70	61	33	61	125	61
Japan	22	-15	-40.6	37	17	28	33	46	54	21	39	26	38	80	16	36	32	0	16	33	64
S Korea	35	-4	-11.2	39	0	70	6	33	17	62	29	16	17	13	143	36	31	0	0	0	0
other	41	-61	-59.9	101	43	39	31	65	115	88	74	74	76	170	84	0	32	0	78	51	160
Oman Crude ($/B)	**51.8**	**+16.8**	**+47.9**	**35.0**	**53.2**	**50.4**	**45.7**	**44.8**	**35.3**	**34.8**	**40.1**	**56.5**	**103.2**	**105.5**	**44.5**	**52.7**	**53.9**	**55.1**	**51.7**	**52.8**	**50.6**
Refinery Output: LPG	**12.3**	+5.4	+77.9	6.9	**12.9**	**11.7**	**8.7**	**12.2**	**8.0**	**5.8**	**8.8**	**10.1**	**10.4**	**8.5**	**11.6**	**10.1**	**13.4**	**13.5**	**13.1**	**12.0**	**15.7**
Gasoline	69.7	+3.0	+4.5	66.7	74.6	64.9	62.1	67.2	64.5	68.9	65.9	70.1	72.1	72.4	69.3	63.3	62.0	76.4	73.0	74.3	73.4
Jet-Kero	15.2	-0.9	-5.8	16.1	15.1	15.3	14.9	16.4	13.1	19.2	14.2	13.7	12.2	8.5	15.3	15.5	15.0	13.5	13.2	18.7	17.6
Diesel	66.5	+13.1	+24.6	53.4	68.2	64.9	59.5	64.3	59.5	47.3	59.7	57.2	50.1	27.3	62.3	64.6	67.6	65.4	61.4	77.9	73.5
TRADE ($bn):																					
Export Revenue				**12.87**		**7.41**	**6.48**	**6.62**	**6.15**	**6.71**	**26.0**	**34.7**	**53.1**	**56.3**	**2.29**	**2.43**	**2.69**				
Oil & Gas	**9.02**	**+2.23**	**+32.8**	**6.80**	**4.51**	**4.51**	**4.36**	**4.01**	**3.28**	**3.52**	**15.2**	**20.2**	**34.8**	**37.3**	**1.45**	**1.43**	**1.63**				
^% of total				*52.8*		*60.9*	*67.2*	*60.6*	*53.3*	*52.4*	*58.4*	*58.2*	*65.5*	*66.1*	*63.1*	*59.1*	*60.7*				
Crude&Condensate	**7.56**	**+1.84**	**+32.3**	**5.72**	**3.81**	**3.75**	**3.67**	**3.44**	**2.85**	**2.87**	**12.8**	**17.3**	**30.1**	**32.0**	**1.19**	**1.19**	**1.38**	**1.25**	**1.28**	**1.28**	**1.29**
Refined Oil	0.42	+0.26	+152	0.17	0.23	0.20	0.18	0.14	0.08	0.08	0.48	0.47	0.80	0.89	0.06	0.06	0.08				
LNG	1.04	+0.12	+13.7	0.91	0.47	0.57	0.65	0.44	0.35	0.56	2.00	2.48	3.88	4.34	0.20	0.19	0.18				
Imports ($bn)				**10.99**		**6.13**	**6.07**	**6.06**	**5.62**	**5.36**	**23.1**	**29.6**	**30.9**	**35.5**	**1.99**	**1.54**	**2.59**				
Trade Balance ($bn)	**+2.56**	**+0.68**	**+36.1**	**+1.88**	**+1.28**	**+1.28**	**+0.41**	**+0.57**	**+0.53**	**+1.35**	**+2.9**	**+5.0**	**+22.2**	**+20.8**	**+0.30**	**+0.88**	**+0.10**				
PUBLIC FINANCES ($bn):																					
Revenue*	**10.41**	**+2.33**	**+28.9**	**8.08**	**6.09**	**4.32**	**6.83**	**4.53**	**4.30**	**3.78**	**19.8**	**23.5**	**36.6**	**36.1**	**0.79**	**1.71**	**1.82**	**2.30**	**2.00**	**1.78**	
Oil Revenue*	5.65	+1.78	+46.0	3.87	2.97	2.68	3.11	2.50	1.64	2.23	9.5	14.7	26.5	27.1	0.54	1.02	1.11	0.96	0.95	1.06	
Gas Revenue	1.77	+0.20	+12.5	1.58	0.90	0.87	1.39	1.03	0.75	0.83	4.0	3.9	4.4	3.9	0.21	0.32	0.34	0.33	0.31	0.26	
Spending**	**16.73**	**-0.45**	**-2.6**	**17.17**	**8.37**	**8.36**	**12.07**	**7.25**	**9.13**	**8.04**	**33.5**	**35.6**	**39.4**	**36.3**	**2.54**	**2.55**	**3.27**	**2.77**	**2.79**	**2.81**	
Balance (Deficit)**	**-6.32**	**+2.78**	**-30.5**	**-9.10**	**-2.28**	**-4.04**	**-5.24**	**-2.72**	**-4.83**	**-4.26**	**-13.8**	**-12.0**	**-2.8**	**-0.2**	**-1.74**	**-0.85**	**-1.45**	**-0.46**	**-0.79**	**-1.03**	

*NET OF PARTIAL TRANSFER OF OIL REVENUE TO RESERVE FUNDS. **INCLUDES 'EXPENDITURE UNDER SETTLEMENT'. ^CHANGES EXPRESSED ON PERCENTAGE POINTS BASIS.
SOURCE: OMAN NATIONAL STATISTICS, JODI, JAPAN & S KOREA IMPORT STATISTICS, MEES ESTIMATES & CALCULATIONS.

SELECTED DATA

TAIWAN 1H17 CRUDE IMPORTS ('000 B/D): MIDDLE EAST SHARE DOWN, SAUDI VOLUMES AT MULTI-YEAR LOW, IRAQ THE BIG WINNER

		vs 1Q17		vs 2Q16							vs 1H16								
	2Q17		%		%	1Q17	4Q16	3Q16	2Q16	1H17		%	1H16	Apr17	May17	Jun17	2014	2015	2016
Middle East	641.5	-21.9	-3.3	-85.2	-11.7	663.4	642.8	638.0	726.7	652.4	-62.4	-8.7	714.9	816.4	639.4	468.7	727.2	723.9	678.2
*% of total	76.4	-3.4		-5.1		79.8	75.8	73.9	81.5	78.1	-3.6		81.7	73.5	84.8	71.4	83.6	87.0	78.3
Saudi Arabia (Opec)	232.5	-54.1	-18.9	-70.4	-23.2	286.6	239.5	288.0	302.9	259.5	-40.7	-13.6	300.3	283.7	239.5	174.3	286.2	267.7	282.1
Kuwait (Opec)	133.9	-49.9	-27.2	-66.3	-33.1	183.9	184.5	141.3	200.2	158.9	-44.2	-21.8	203.1	147.7	161.1	93.0	166.0	181.0	183.3
Iraq (Opec)	99.7	+87.0	+685.8	+34.7	+53.4	12.7	66.1	70.2	65.0	56.2	-9.5	-14.5	65.7	164.0	65.0	70.1	96.7	75.9	66.9
UAE (Opec)	95.8	+4.2	+4.6	+44.1	+85.3	91.5	54.9	46.7	51.7	93.7	+42.5	+83.1	51.1	156.8	16.3	114.2	75.4	72.8	51.0
Oman	52.7	-13.9	-20.9	-12.1	-18.7	66.7	55.2	71.2	64.9	59.7	-3.0	-4.8	62.7	64.2	94.1	0.0	91.7	105.0	62.9
Iran (Opec)	21.1	-0.9	-4.3	-20.9	-49.7	22.1	42.6	20.8	42.0	21.6	-10.3	-32.2	31.8	0.0	63.3	0.0	3.6	10.7	31.9
Qatar (Opec)	5.7	+5.7	-	+5.7	-	0.0	0.0	0.0	0.0	2.8	+2.8	-	0.0	0.0	0.0	17.1	7.5	10.8	0.0
Africa	112.7	+70.3	+165.9	+11.3	+11.1	42.4	89.2	93.6	101.4	77.5	-10.9	-12.4	88.5	146.8	66.8	124.4	104.7	70.7	90.1
Angola (Opec)	73.2	+30.8	+72.8	-20.6	-21.9	42.4	82.8	73.0	93.8	57.8	-20.0	-25.7	77.8	63.2	32.1	124.4	74.9	63.1	78.0
Nigeria (Opec)	22.6	+22.6	-	+22.6	-	0.0	0.0	10.4	0.0	11.3	+11.3	-	0.0	67.7	0.0	0.0	2.5	0.0	2.6
Algeria (Opec)	11.6	+11.6	-	+4.0	+51.9	0.0	0.0	0.0	7.6	5.8	+2.0	+53.6	3.8	0.0	34.7	0.0	0.0	0.0	1.9
Chad	5.3	+5.3	-	+5.3	-	0.0	6.4	0.0	0.0	2.7	+2.7	-	0.0	16.0	0.0	0.0	3.9	2.5	1.6
FSU/Caspian/N Sea	45.9	-0.8	-1.7	+2.4	+5.6	46.7	67.6	67.7	43.5	46.3	-4.0	-8.0	50.4	137.8	0.0	0.0	20.0	17.7	59.0
Azerbaijan	45.9	-0.8	-1.7	+2.4	+5.6	46.7	67.6	67.7	43.5	46.3	-4.0	-8.0	50.4	137.8	0.0	0.0	14.0	11.0	59.0
Asia-Pacific	18.8	-3.3	-14.9	-1.4	-7.0	22.1	15.8	31.3	20.2	20.5	-0.8	-3.6	21.2	9.0	15.8	31.7	15.7	17.7	22.4
Indonesia	18.8	-3.3	-14.9	-1.4	-7.0	22.1	15.8	31.3	20.2	20.5	-0.8	-3.6	21.2	9.0	15.8	31.7	15.7	14.2	22.4
Latin America	21.1	-35.5	-62.8	+21.1	-	56.6	32.2	32.8	0.0	38.9	+38.9	-	0.0	0.0	31.7	31.6	2.0	2.0	16.3
Brazil	21.1	-35.5	-62.8	+21.1	-	56.6	32.2	32.8	0.0	38.9	+38.9	-	0.0	0.0	31.7	31.6	0.0	0.0	16.3
TOTAL	840.0	+8.8	+1.1	-51.8	-5.8	831.2	847.6	863.4	891.8	835.6	-39.3	-4.5	874.9	1,110.0	753.6	656.4	869.6	832.0	866.0
of which Opec	696	+57.0	+8.9	-87.3	-11.1	639	686	681	783	668	-62.3	-8.5	730	883	612	593	715	682	720
*% of total	82.9	+6.0		-5.0		76.9	81.0	78.9	87.8	79.9	-3.5		83.4	79.6	81.2	90.4	82.2	82.0	83.2

TAIWAN 1H17 LNG IMPORTS: QATAR CONTINUES TO LOSE MARKET SHARE, WITH VOLUMES DOWN 20% YEAR ON YEAR

		vs 1Q17		vs 2Q16							vs 1H16								
MN TONS	2Q17	mn t	%	mn t	%	1Q17	4Q16	3Q16	2Q16	1H17	mn t	%	1H16	Apr17	May17	Jun17	2014	2015	2016
Qatar	1.20	-0.12	-8.8	-0.32	-20.8	1.32	1.32	1.86	1.52	2.53	-0.64	-20.1	3.16	0.38	0.44	0.38	5.95	7.03	6.34
*Qatar %	28.0	-7.8		-12.9		35.8	34.3	43.0	41.0	31.6	-14.8		46.5	29.6	30.3	24.6	44.0	48.2	42.3
Indonesia	0.55	-0.09	-14.5	+0.12	+26.8	0.65	0.55	0.49	0.44	1.20	+0.21	+21.6	0.99	0.25	0.12	0.18	2.21	2.35	2.03
Malaysia	0.72	+0.39	+115.2	-0.11	-13.2	0.34	0.84	0.66	0.83	1.06	-0.01	-1.0	1.07	0.12	0.36	0.24	2.96	2.30	2.57
PNG	0.62	+0.21	+50.0	+0.33	+113.6	0.41	0.44	0.38	0.29	1.03	+0.59	+130.9	0.45	0.23	0.16	0.24	1.01	1.36	1.27
Russia	0.52	+0.26	+99.9	+0.20	+65.1	0.26	0.39	0.38	0.31	0.78	+0.34	+76.3	0.44	0.19	0.07	0.26	0.06	0.25	1.21
Australia	0.19	-0.13	-39.7	+0.06	+43.2	0.32	0.07	0.07	0.13	0.51	+0.37	+280.7	0.13	0.06	0.13	-	0.19	0.25	0.27
Brunei	0.12	+0.06	+101.5	+0.12	-	0.06	-	0.18	-	0.18	+0.06	+51.8	0.12	-	0.12	-	0.51	0.69	0.30
Nigeria	0.12	+0.06	+113.2	-0.07	-35.0	0.06	0.12	0.06	0.19	0.18	-0.21	-53.4	0.39	-	0.06	0.06	0.12	0.06	0.57
Oman	-	-0.13	-100.0	-	-	0.13	0.06	0.06	-	0.13	+0.13	-	-	-	-	-	0.06	-	0.12
TOTAL	4.30	+0.61	+16.6	+0.58	+15.7	3.68	3.84	4.33	3.71	7.98	+1.18	+17.3	6.80	1.29	1.46	1.54	13.51	14.58	14.97
*Mena %	31.0	-8.3		-10.0		39.3	37.5	45.9	41.0	34.8	-11.7		46.5	34.4	30.3	28.8	46.3	48.2	44.0
$/MN BTU	**2Q17**	**vs 1Q17**		**vs 2Q16**		**1Q17**	**4Q16**	**3Q16**	**2Q16**	**1H17**	**vs 1H16**		**1H16**	**Apr17**	**May17**	**Jun17**	**2014**	**2015**	**2016**
Qatar	5.61	-0.35	-5.8	+0.01	+0.2	5.96	5.69	5.99	5.60	5.79	-0.01	-0.3	5.81	5.45	5.48	5.92	11.20	7.09	5.64
vs all imports	-1.82	+0.04	-2.3	-1.28	+234.3	-1.86	-1.30	-0.74	-0.54	-1.82	-1.30	+253.7	-0.51	-2.09	-1.95	-1.41	-3.15	-1.28	-0.84
Indonesia	9.23	-0.15	-1.6	+1.37	+17.4	9.38	8.55	9.03	7.86	9.31	+1.91	+25.8	7.40	8.73	10.11	9.31	17.22	9.89	7.85
Malaysia	9.04	-0.04	-0.4	+2.32	+34.6	9.07	7.77	7.88	6.72	9.05	+2.14	+31.0	6.91	9.56	9.17	8.58	17.71	9.90	7.43
PNG	7.75	-0.93	-10.7	+1.72	+28.6	8.68	7.21	7.16	6.02	8.12	+1.84	+29.2	6.28	8.40	7.45	7.32	14.38	8.87	6.81
Russia	7.55	-1.55	-17.0	+1.96	+35.0	9.10	7.20	6.58	5.59	8.07	+1.63	+25.3	6.44	7.51	7.00	7.73	13.07	7.69	6.73
Australia	7.35	-1.10	-13.0	+1.36	+22.7	8.45	8.28	5.69	5.99	8.04	+2.05	+34.2	5.99	9.28	6.39	-	18.72	9.60	6.46
Brunei	9.19	+0.03	+0.3	-	-	9.16	-	5.80	-	9.18	+2.19	+31.4	6.99	-	9.19	-	17.12	9.68	6.12
Nigeria	6.46	-1.60	-19.8	+1.07	+19.9	8.06	7.02	5.94	5.39	6.97	+1.21	+21.0	5.76	-	6.49	6.44	17.38	7.83	6.05
Oman	-	-	-	-	-	9.14	7.19	5.27	-	9.54	-	-	-	-	-	-	10.52	-	6.51
ALL IMPORTS	7.43	-0.39	-5.0	+1.29	+21.0	7.82	6.99	6.73	6.14	7.61	+1.29	+20.4	6.32	7.54	7.44	7.33	14.35	8.37	6.48

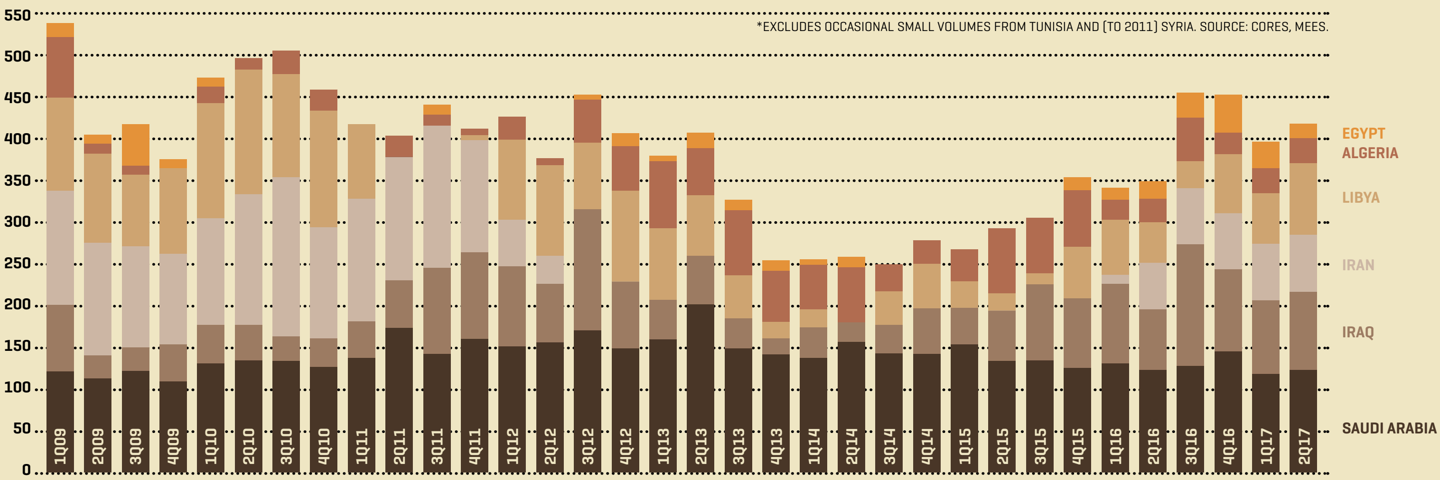
*PERCENTAGE CHANGES EXPRESSED IN PERCENTAGE POINT TERMS. SOURCE: TAIWAN CUSTOMS, MEES CALCULATIONS.

SELECTED DATA

SPAIN 2Q17 CRUDE IMPORTS ('000 B/D): IMPORTS FROM LIBYA ON THE RISE, UP 79% ON YEAR-AGO LEVELS

		vs 1Q17		vs 2Q16							vs 1H16								
	2Q17		%		%	1Q17	4Q16	3Q16	2Q16	1H17		%	1H16	Apr17	May17	Jun17	2014	2015	2016
Middle East	**285.1**	***+11.0***	***+4.0***	***+33.3***	***+13.2***	**274.2**	**311.1**	**341.1**	**251.9**	**279.7**	***+31.7***	***+12.8***	**248.0**	**353.1**	**217.1**	**285.3**	**182.2**	**206.0**	**286.8**
% of total	*22.9*	*+2.2*		*+1.3*		*20.7*	*23.5*	*25.6*	*21.6*	*21.8*	*+1.6*		*20.1*	*27.3*	*17.9*	*23.2*	*15.4*	*15.9*	*22.4*
Saudi Arabia (Opec)	122.7	*+4.5*	*+3.8*	*-0.3*	*-0.2*	118.2	145.1	127.4	123.0	120.5	*-6.3*	*-4.9*	126.8	166.0	115.9	86.4	144.8	136.2	131.4
Iraq (Opec)	94.0	*+5.5*	*+6.2*	*+21.3*	*+29.3*	88.5	99.1	146.6	72.7	91.3	*+6.9*	*+8.2*	84.4	120.6	67.2	94.3	37.4	69.8	103.7
Iran (Opec)	68.4	*+1.0*	*+1.5*	*+12.2*	*+21.8*	67.4	66.9	67.1	56.1	67.9	*+34.5*	*+103.3*	33.4	66.5	34.1	104.6	0.0	0.0	50.0
North Africa	**133.4**	***+10.4***	***+8.4***	***+36.0***	***+36.9***	**123.0**	**142.1**	**115.1**	**97.4**	**128.2**	***+27.3***	***+27.1***	**100.9**	**102.8**	**143.6**	**153.7**	**81.1**	**99.8**	**114.5**
Libya (Opec)	86.1	*+25.3*	*+41.6*	*+37.9*	*+78.6*	60.8	70.9	32.7	48.2	73.4	*+16.0*	*+27.9*	57.4	62.2	96.3	99.7	28.8	32.4	54.4
Algeria (Opec)	30.2	*-0.0*	*-0.0*	*+1.5*	*+5.1*	30.2	26.0	52.0	28.7	30.2	*+3.9*	*+14.8*	26.3	25.2	26.9	38.5	44.8	63.1	32.6
Egypt	17.1	*-14.9*	*-46.6*	*-3.4*	*-16.5*	32.0	45.3	30.4	20.5	24.6	*+7.4*	*+43.1*	17.2	15.4	20.5	15.4	4.7	3.9	27.5
MENA total	*418.5*	*+21.3*	*+5.4*	*+69.2*	*+19.8*	*397.2*	*453.2*	*456.1*	*349.3*	*407.8*	*+59.0*	*+16.9*	*348.9*	*455.8*	*360.7*	*439.0*	*263.3*	*305.8*	*401.4*
**% of total*	*33.6*	*+3.6*		*+3.6*		*30.0*	*34.2*	*34.2*	*30.0*	*31.7*	*+3.4*		*28.3*	*35.2*	*29.8*	*35.7*	*22.3*	*23.6*	*31.4*
Africa (sub-Saharan)	**250.5**	***-35.8***	***-12.5***	***-30.5***	***-10.9***	**286.3**	**285.6**	**254.1**	**281.0**	**268.4**	***-50.9***	***-15.9***	**319.3**	**181.6**	**314.5**	**255.4**	**358.5**	**408.5**	**294.3**
Nigeria (Opec)	184.6	*-6.3*	*-3.3*	*+8.1*	*+4.6*	191.0	145.7	114.1	176.6	187.8	*-11.2*	*-5.6*	199.0	149.9	240.9	163.0	201.0	219.7	164.2
Angola (Opec)	33.3	*-12.2*	*-26.8*	*-20.8*	*-38.5*	45.5	41.3	96.8	54.1	39.4	*-10.1*	*-20.4*	49.5	31.7	0.0	68.2	104.8	118.2	59.2
Eq. Guinea (Opec)	22.2	*+11.1*	*+100.9*	*-11.4*	*-33.9*	11.0	55.8	22.7	33.6	16.6	*-11.1*	*-40.0*	27.7	0.0	42.3	24.2	8.2	30.2	33.5
Gabon (Opec)	0.0	*-6.1*	*-100.0*	-	-	6.1	10.8	0.0	0.0	3.0	*-7.6*	*-71.4*	10.6	0.0	0.0	0.0	12.9	19.6	8.0
other Africa	10.4	*-22.3*	*-68.2*	*-6.4*	*-38.0*	32.7	32.0	20.5	16.8	21.6	*-11.0*	*-33.7*	32.5	0.0	31.2	0.0	31.6	20.8	29.4
Russia/Caspian	**165.6**	***+17.0***	***+11.4***	***-24.5***	***-12.9***	**148.6**	**150.0**	**218.1**	**190.0**	**157.1**	***-45.4***	***-22.4***	**202.5**	**236.8**	**129.5**	**130.4**	**172.2**	**164.1**	**193.7**
Kazakhstan	99.1	*+21.4*	*+27.5*	*+30.1*	*+43.7*	77.7	47.1	35.2	69.0	88.4	*+11.5*	*+14.9*	77.0	126.6	84.1	86.7	55.6	60.6	59.1
Russia	51.7	*+2.0*	*+3.9*	*-36.7*	*-41.5*	49.7	88.2	132.8	88.4	50.7	*-41.3*	*-44.9*	92.0	87.7	23.6	43.7	91.5	80.3	101.6
Azerbaijan	14.7	*-6.4*	*-30.2*	*-17.9*	*-54.9*	21.1	14.7	50.0	32.7	17.9	*-15.6*	*-46.6*	33.5	22.5	21.8	0.0	25.1	23.1	33.0
North Sea	**88.5**	***-24.6***	***-21.7***	***+30.0***	***+51.4***	**113.1**	**81.0**	**33.5**	**58.5**	**100.8**	***+47.8***	***+90.1***	**53.0**	**84.0**	**81.7**	**100.0**	**51.5**	**64.0**	**55.4**
Norway	56.0	*-9.9*	*-15.0*	*+36.9*	*+193.3*	65.9	7.5	14.9	19.1	60.9	*+34.2*	*+127.6*	26.8	84.0	42.4	41.6	23.9	27.5	19.0
UK	32.5	*-14.6*	*-31.0*	*-6.9*	*-17.4*	47.2	73.5	18.6	39.4	39.9	*+13.6*	*+51.8*	26.3	0.0	39.3	58.4	27.6	36.5	36.3
other Europe	*19.2*	*+11.6*	*+152.2*	*+15.2*	*+379.9*	*7.6*	*10.9*	*7.9*	*4.0*	*13.4*	*+5.1*	*+61.2*	*8.3*	*18.3*	*13.5*	*25.7*	*7.2*	*9.0*	*8.9*
Americas	**303.4**	***-68.5***	***-18.4***	***+20.5***	***+7.3***	**371.9**	**343.6**	**363.1**	**282.8**	**337.6**	***+38.2***	***+12.8***	**299.4**	**318.8**	**310.5**	**280.7**	**329.4**	**343.4**	**326.5**
Mexico	175.4	*-30.3*	*-14.7*	*+11.3*	*+6.9*	205.7	201.8	179.1	164.1	190.6	*+30.0*	*+18.7*	160.5	238.0	164.8	123.4	163.2	169.4	175.6
Brazil	100.2	*+49.1*	*+96.0*	*+61.3*	*+157.2*	51.1	38.9	90.5	39.0	75.7	*+28.2*	*+59.4*	47.5	34.3	145.7	120.6	22.8	37.9	56.3
Colombia	15.5	*-21.6*	*-58.3*	*-21.2*	*-57.8*	37.1	47.6	66.9	36.7	26.3	*-24.3*	*-48.0*	50.6	46.5	0.0	0.0	80.4	63.3	53.9
Venezuela (Opec)	4.9	*-34.1*	*-87.4*	*-16.4*	*-76.9*	39.1	27.8	4.8	21.3	22.0	*-4.8*	*-18.0*	26.8	0.0	0.0	14.7	56.1	61.4	21.5
USA	0.0	*-7.5*	*-100.0*	*-21.8*	*-100.0*	7.5	6.8	13.9	21.8	3.7	*-7.2*	*-65.6*	10.9	0.0	0.0	0.0	0.0	0.0	10.6
Canada	0.0	*-27.5*	*-100.0*	-	-	27.5	20.7	7.9	0.0	13.8	*+10.7*	*+353.2*	3.0	0.0	0.0	0.0	4.9	11.4	8.8
TOTAL	**1,246**	***-79.0***	***-6.0***	***+80.0***	***+6.9***	**1,325**	**1,324**	**1,333**	**1,166**	**1,285**	***+53.8***	***+4.4***	**1,231**	**1,295**	**1,210**	**1,231**	**1,182**	**1,295**	**1,280**
of which Opec	*646.4*	*-11.4*	*-1.7*	*+32.1*	*+5.2*	*657.8*	*689.3*	*664.1*	*614.3*	*652.1*	*+6.9*	*+1.1*	*645.2*	*622*	*624*	*694*	*641*	*751*	*660*
Opec %	*51.9*	*+2.2*		*-0.8*		*49.7*	*52.0*	*49.8*	*52.7*	*50.9*	*-1.6*		*52.5*	*48.0*	*51.5*	*56.3*	*54.2*	*58.0*	*51.6*

SPAINSH CRUDE IMPORTS FROM MENA* ('000 B/D): SAUDI SQUEEZED, IRAQ STRONG, LIBYA & IRAN RESURGENT

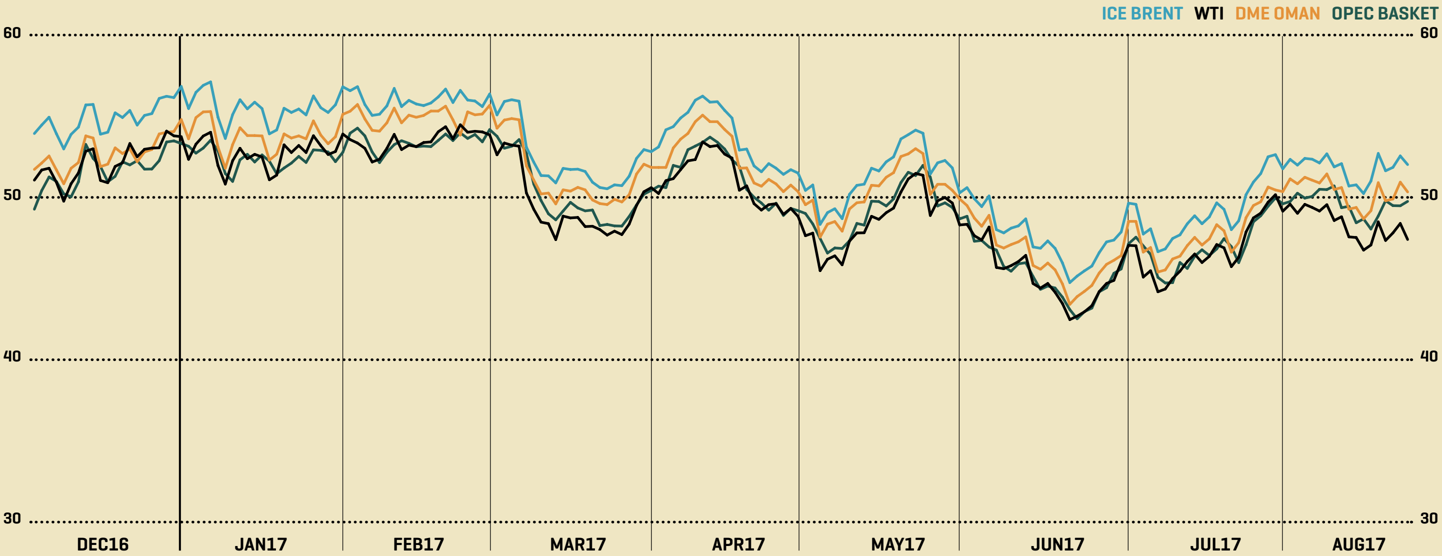


SELECTED DATA

BENCHMARK CRUDE PRICES ($/B)

	24Aug	14-18Aug	7-11Aug	Jul17	Jun17	Q2 2017	Q1 2017	Q4 2016	2017 (>24Aug)	2016	2015	2014
WTI	47.43	47.50	49.11	46.70	45.21	48.18	51.85	49.32	49.43	43.43	48.83	92.92
ICE Brent	52.04	51.11	52.24	49.15	47.55	50.79	54.57	51.06	52.15	45.13	53.59	99.44
DME Oman	50.35	49.50	50.91	47.76	46.34	49.65	53.30	48.68	50.89	42.00	51.20	96.95
ICE Dubai	50.24	49.63	51.07	47.89	46.74	49.76	53.41	48.73	51.00	42.09	51.37	96.97
OPEC Basket	49.76	48.71	50.22	46.93	45.21	48.47	51.95	47.52	49.73	40.76	49.51	96.30
JCC	na	na	na	na	52.21	53.36	54.93	47.05	na	41.86	55.03	105.17

AVERAGE SETTLEMENT PRICES FOR PERIOD IN QUESTION.



SAUDI OIL STOCKS: CRUDE STOCKS HAVE FALLEN BY 73MN BARRELS (22%) SINCE PEAKING IN OCTOBER 2015, BUT PRODUCTS STOCKS REMAIN AT NEAR-RECORD LEVELS (MN BL, END PERIOD)

SOURCE: JODI, MEES.