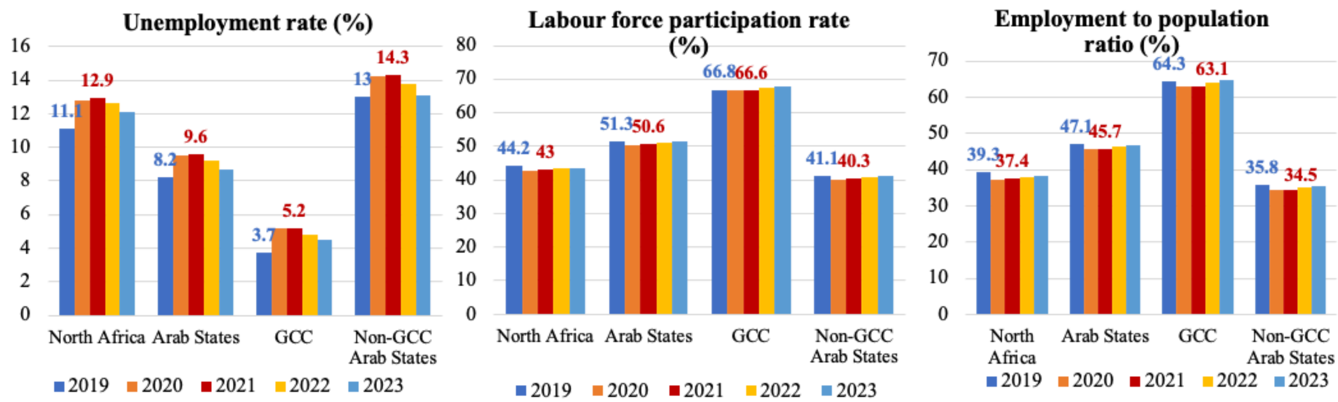
Weekly Insights 20 Jan 2022: Oil is the shining star for the MENA region amid weak labour market recovery

Weekly Insights 20 Jan 2022: Oil is the shining star for the MENA region amid weak labour market recovery

1. ILO's labour market outlook for the MENA region is weak and uneven

- , **substantial losses in working hours & a net decline in employment** Covid19 led to especially in North Africa (yet to receover to pre-Covid levels). The ILO estimates that youth accounted for ~1/3-rd of net job losses in N. Africa (share in employment is 11%)
- **Even pre-Covid, Arab States were characterised by low LFPRs and Employment to** , alongside high unemployment & labour **ratios (EPRs)Population** & EPR is slowly **GCC sees a faster recovery in the labour market** underutilisation. ticking up

	Ratio of total weekly hours worked to population aged 15–64 (%)					Total weekly working hours in full-time equivalent jobs (FTE = 48 hours/week) (in millions)				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
North Africa	18.8	16.8	17.5	18.2	18.4	58.0	53.0	56.0	59.0	61.0
Arab States	22.1	19.9	20.5	21.2	21.5	49.8	45.9	48.3	51.1	53.0
GCC	30.5	27.5	28.5	29.6	30	27.6	25.3	26.5	27.9	28.7
Non-GCC Arab States	16.5	14.9	15.3	15.8	16.1	22.2	20.7	21.7	23.1	24.3
	Employment to population ratio (%)					Employment (millions)				
North Africa	39.3	37.3	37.4	37.9	38.2	64.0	62.0	63.0	65.0	67.0
Arab States	47.1	45.7	45.7	46.4	46.8	53.5	53.2	54.5	56.6	58.6
GCC	64.3	63.1	63.1	64.1	64.9	28.9	28.9	29.4	30.4	31.2
Non-GCC Arab States	35.8	34.4	34.5	35.1	35.6	24.6	24.3	25.1	26.3	27.4

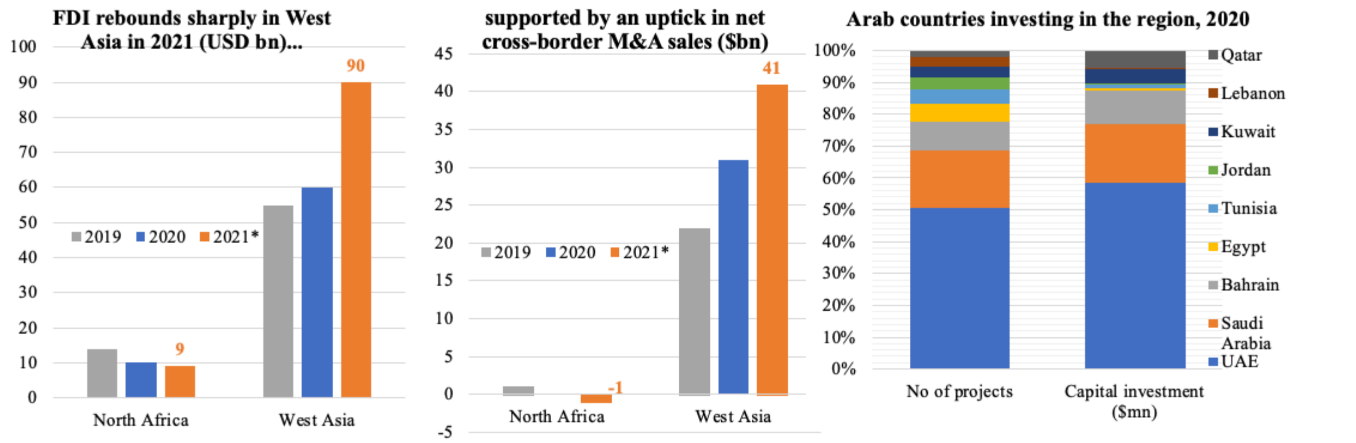


Source: World Employment and Social Outlook: Trends 2022, ILO, Jan 2022. Charts created by Nasser Saidi & Associates

FDI into West Asia jumps in 2021, thanks to cross-border M&As2.

- **jump in global FDIyoy77%** shows a Investment Trends Monitor latest**UNCTAD's** The ; developed nations' FDI grew to USD 777bn **to an estimated USD 1.65trn in 2021** (3-times FDI in 2020)
- now exceeds pre-pandemic **project finance in infrastructure** The report finds that **cross-border M&As is most pronounced in** levels across most sectors; boom in **services**

- **Inflows to Saudi Arabia** , where FDI rose by 49% to USD 90bn.**Uptick in West Asia** to USD 23bn, in part due to an increase in cross-border M&As**quadrupled**
- **): UAE, Saudi Arabia & Bahrain**, data from Dhaman**Inter-Arab investments (2020** together accounted for more than 75% of the number of inter-Arab investment projects **close to 90% of the total capex in 2020**&

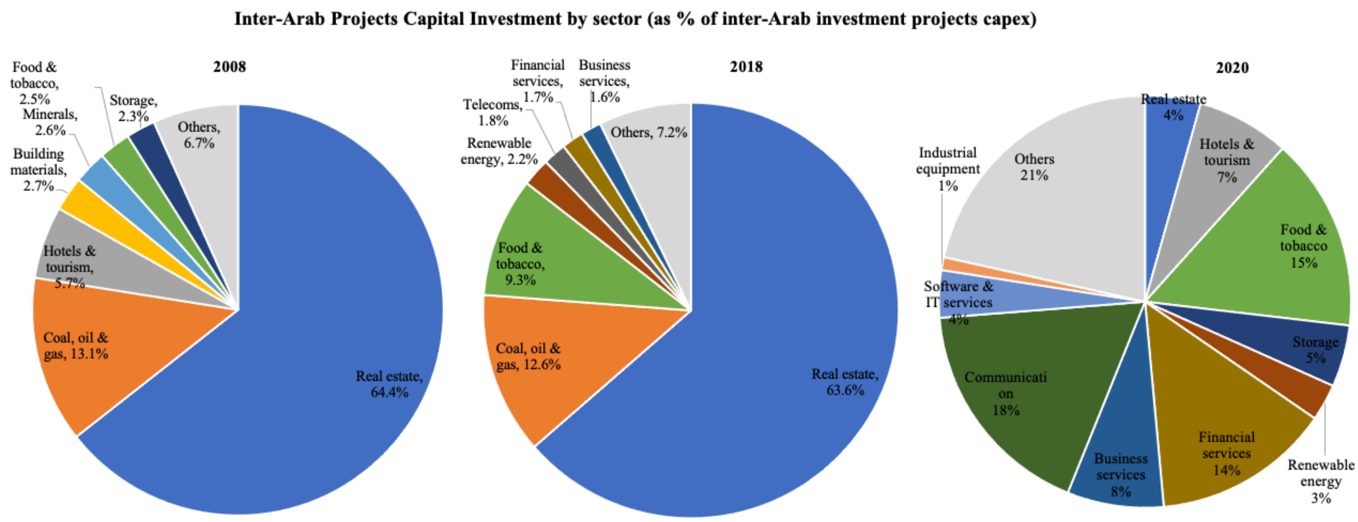


Source: Investment Trends Monitor, UNCTAD, Jan 2022, Arab Investment & Export Credit Guarantee Corporation (Dhaman). Charts created by Nasser Saidi & Associates

Inter-Arab FDI flows into "new" sectors: restricted to pandemic years or a shift? 3.

major fall Sector composition of inter-Arab FDI flows shifted in 2020 (data from Dhman) with a **in the share of real estate sector**

- -(both in number and value): one of the top 5 inter-**Rise in renewable energy projects** rab projects in 2020 was the water desalination plant project in Abu Dhabi
- : financial services (14% in 2020 vs 1.7% in **Investments into "services" increased** 2018), business services (8% in 2020 vs 1.6% in 2018), communication and business services (18% and 8% respectively in 2020)



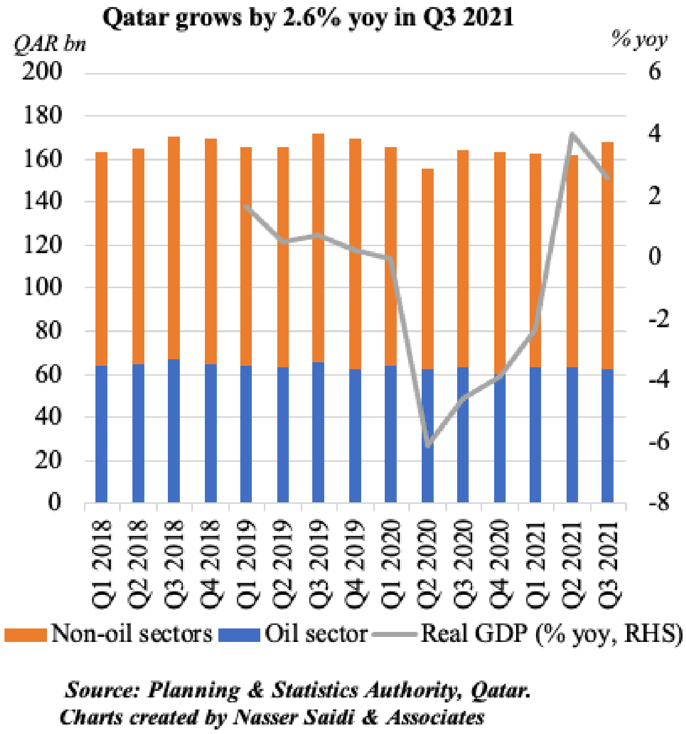
Source: Arab Investment & Export Credit Guarantee Corporation (Dhaman). Charts created by Nasser Saidi & Associates

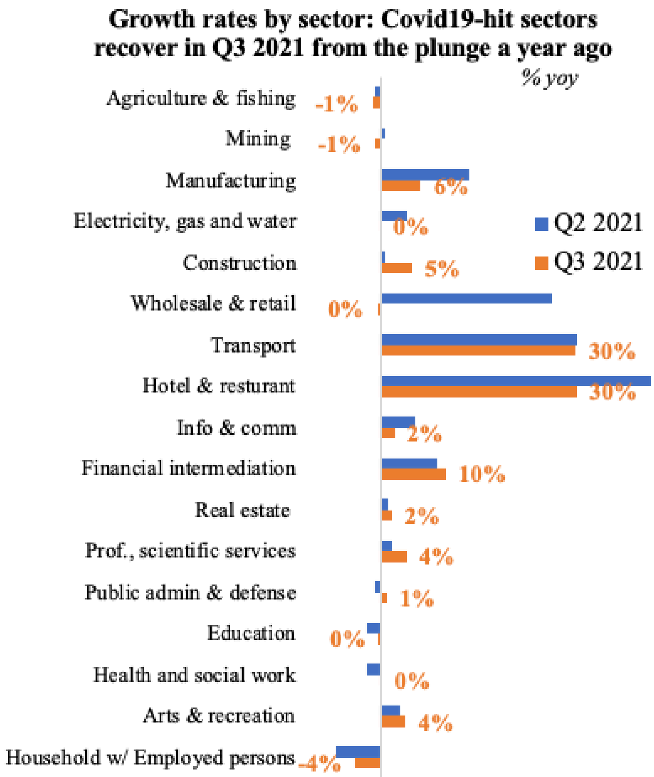
in Q3 2021, thanks to non-oil sector recoveryqoqQatar GDP grows by 4% 4.

- Growth was supported by **Qatar GDP grew by 2.6% yoy and 4.0% qoq in Q3 2021.** the non-oil sector (+4.7% yoy) while the mining & quarrying sector activity dipped by

0.7%.

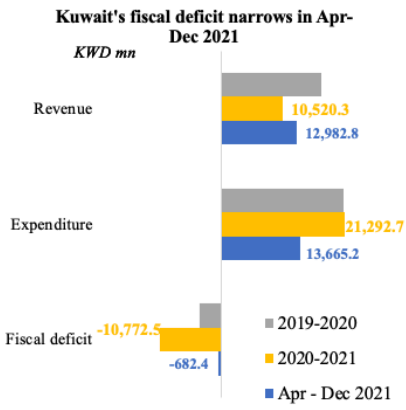
- , **those that were hit hardest by Covid19 recovered the most** Among non-oil sectors, hospitality & transportation (both up by 30% yoy)

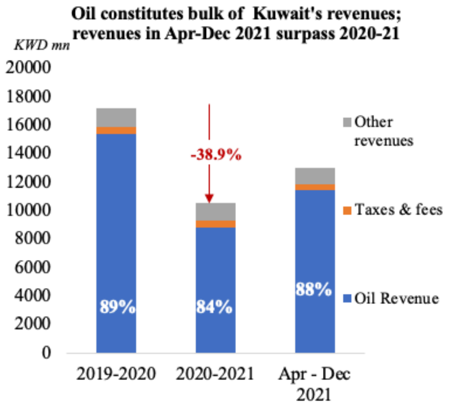


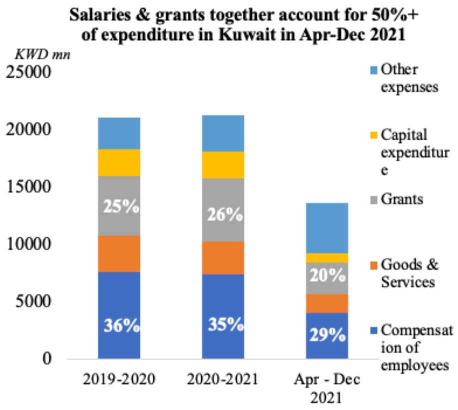


Kuwait deficit slips to KWD 682.4mn in Apr-Dec 2021 due to higher oil revenues5.

- **surpassed** , at KWD 11.5bn (USD 38.1bn),**Kuwait's total revenue in Apr-Dec 2021** Apr 2020 – March 2021 (KWD **the total revenue collected in the last fiscal year** 10.52bn)
- collected in the first 9 months of**Oil revenues accounted for 88% of the total revenue** 2021
- Spending cuts (reducing private sector wage subsidies, restrianing non-essential sepnding etc) and withdrawal of Covid19 related fiscal measures has slowed expenditure
- **significant improvement in** Given the sharp rebound in oil prices, there has been a : a deficit of KWD 682.4mn was recorded in Apr-Dec 2021, down from the**fiscal balance** KWD 10.8bn deficit last year







Source: Ministry of Finance, Kuwait. Charts created by Nasser Saidi & Associates

-6. Oil price: is USD 100 a barrel too far off? A price above USD 80 is likely to be short lived

Oil prices hit a 7-year high on Tuesday this week. Many factors have led to this increase:

(A) On the demand side:

- **Demand for oil has held up**, in spite of the spread of Omicron (many nations in Europe are still reporting highest daily cases, but elected to avoid lockdowns)
- **Fears about the variant are diminishing**. To take air travel as an example: even after initial news about the new variant broke (on 24th Nov), air travel bookings made for Dec performed better than those for travel in Nov (51% and 46% of 2019 levels respectively, according to IATA). International travel bookings show a slowdown, but demand for summer travel is rising
- **China's zero-Covid policy could derail oil demand**, but only if its city-lockdowns are extended over a longer period across the nation (e.g. during Winter Olympics or Lunar New Year)

(B) Supply issues are varied:

- **Tight short-term supply**, given concerns about production & spare capacity: increase in OPEC oil output has undershot the monthly target (given outages and downtimes in Libya, Nigeria…); snails pace of Iran's nuclear deal negotiations (unlikely to get Iran's exports on board this quarter or next)
- **Shale oil could come into play if prices rise further**; for now, production is still low given supply chain issues & high overheads
- **Geopolitics**: Russia-Ukraine tensions & recent attack on fuel depot in the UAE (following which oil firm ADNOC tweeted that business continuity plans had been activated to ensure supply was not disrupted) add a new layer of uncertainty to energy markets

The Fed is expected to raise rates this year in a bid to reduce inflation & **higher oil prices will only feed further into food, hospitality and consumer goods prices among others**, leading to demand for higher wages => an inflationary spiral

Powered by:

REFINITIV™