

Weekly Insights

19 August 2023

Oil production declines, lowering revenues, amid easing inflation & resilient air transport

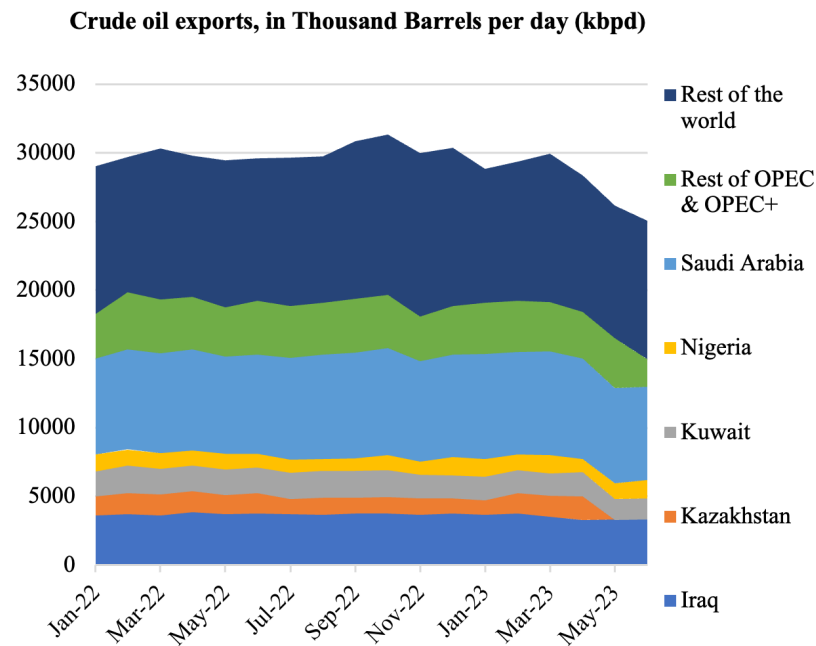
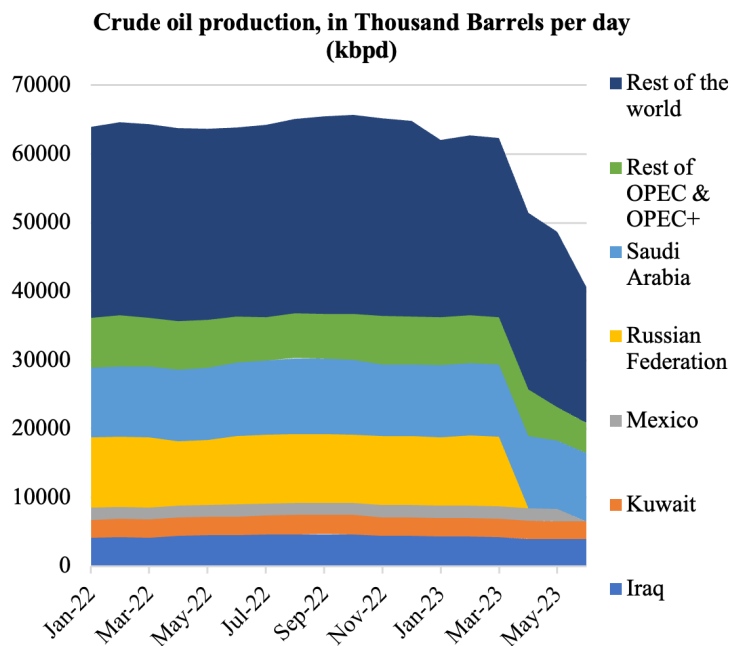
- *Saudi Arabia's crude oil production and exports fell in Jun, contributing to tighter global oil supplies*
- *Oman's fiscal surplus touches OMR 656mn in H1 2023*
- *CPI in Saudi Arabia eased in Jul, while wholesale prices decline for the third month in a row*
- *Middle East airlines highlight a strong first half in 2023*
- *Pressures on airlines' operating costs ticking up again in 2023; Middle East carriers to post a net profit*

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— & ASSOCIATES —

Saudi Arabia's crude oil production and exports fell in Jun, contributing to tighter global oil supplies

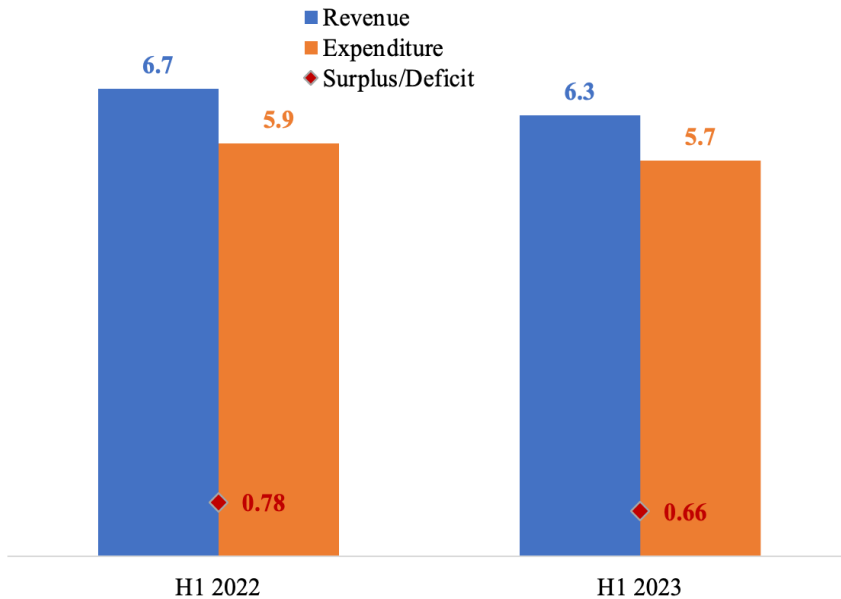
- **Figures from the Joint Organizations Data Initiative (JODI)** show the **massive decline in crude oil production following the additional voluntary cuts**: Saudi oil production declined to 9.956mn barrels per day (bpd) in Jun (May: 9.959mn bpd); together OPEC and OPEC+ nations' oil production slipped to 20.88mn bpd in Jun (May: 23.14mn bpd) according to available estimates.
- **Combined crude oil exports of OPEC & OPEC+ nations have also declined**: to 14.97mn bpd (May: 16.5mn bpd). However, there are variations across nations: while Saudi exports fell to a 21-month low of 6.8mn bpd in Jun (May: 6.93mn bpd), exports from Iraq and Nigeria inched up to 3.34mn bpd (May: 3.31mn bpd) and 1.31mn bpd (May: 1.15mn bpd) respectively.
- **India and China together import more than 80% of Russian crude oil**: amid sanctions from the West, Russia's deep discounts were welcomed. **India imported 1.4mn bpd from Russia as of mid-Aug** (lower than Jul's 1.9mn bpd, given Russia's voluntary cut of 500k bpd), **about 46% of the total Russia oil exports, while China accounted for another 40%** (Source: Vortexa).
- Weak and deteriorating Chinese data and a potential higher-interest-rates-for-longer scenario add uncertainty to the growth outlook and oil demand, as oil supply remains tight and the USD strengthens.



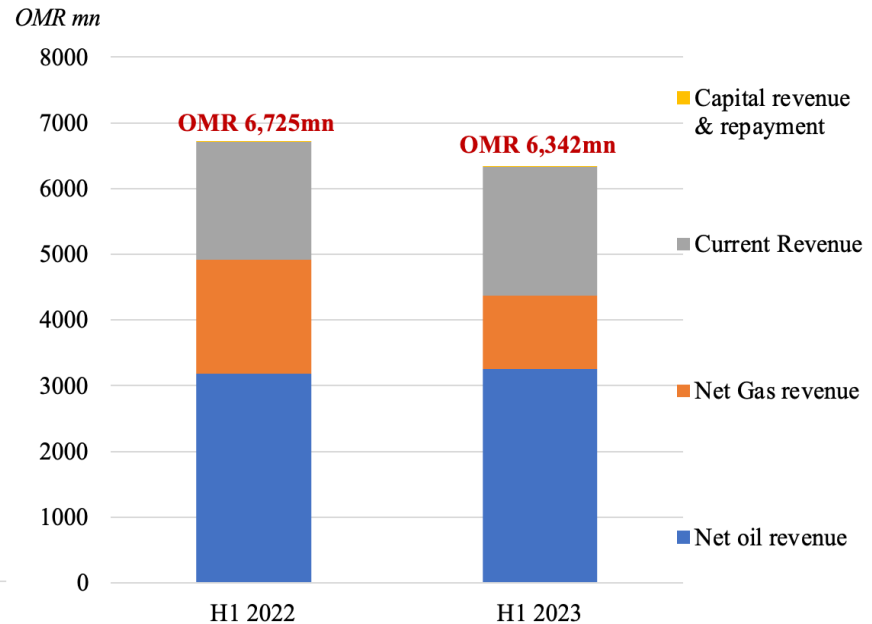
Oman's fiscal surplus touches OMR 656mn in H1 2023

- **Oman posted a budget surplus of OMR 656mn at end-Jun 2023:** total revenue decreased by 6% yoy to OMR 6.3bn while spending fell by 4%. This compares to a projected deficit of OMR 1.3bn as per the 2023 budget.
- While oil production increased by 2% to 1.061mn barrels per day at end-H1 2023, oil price fell by 5% to USD 83, leading to a **2.2% increase in net oil revenue to OMR 3.3bn** in H1 2023.
- **Net gas revenues tumbled** by 35.5% to OMR 1.12bn (largely due to “the deduction of gas purchase and transport expenses from total revenue collected from Integrated Gas Company” according to the ministry). But together **net oil and gas revenues accounted for close to 70% of total public revenue**, making it more vulnerable to volatility in the oil & gas markets.
- **Spending** was lower in H1 2023, as a result of a **10% yoy decline in both current and development expenditures** while oil and transport sector subsidies amounted to OMR 155mn and OMR 54mn respectively in H1 2023. At end-Jun, development expenditure touched OMR 383mn, about 43% of total development spending allocated for 2023.
- **Oman repaid more than OMR 1.5bn against public debt, lowering total public debt to OMR 16.3bn** (vs OMR 20.8bn in 2021).

Oman: Revenue fell by 6% yoy in H1 2023 while spending declined by 4%, resulting in a lower surplus of OMR 0.66bn

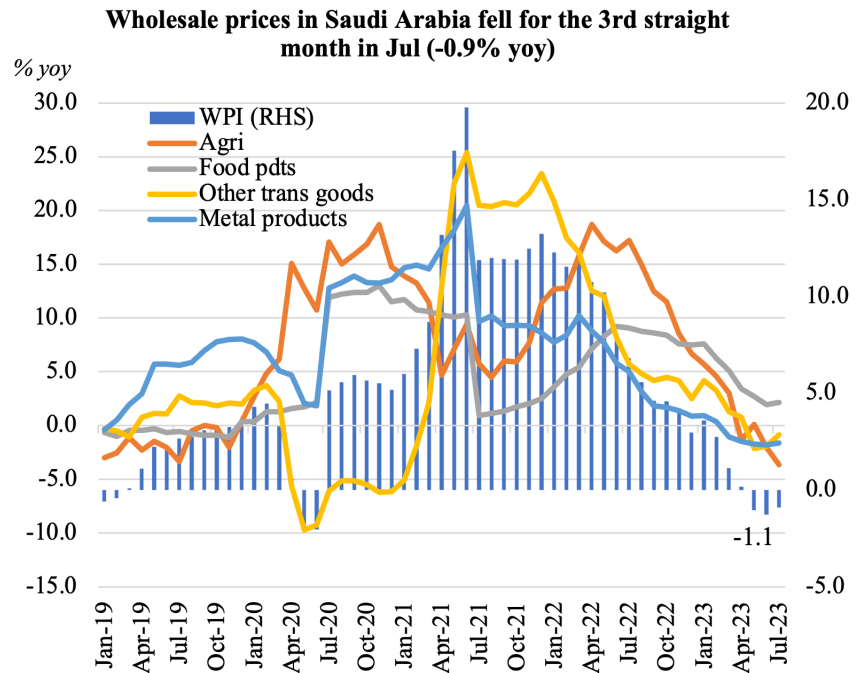
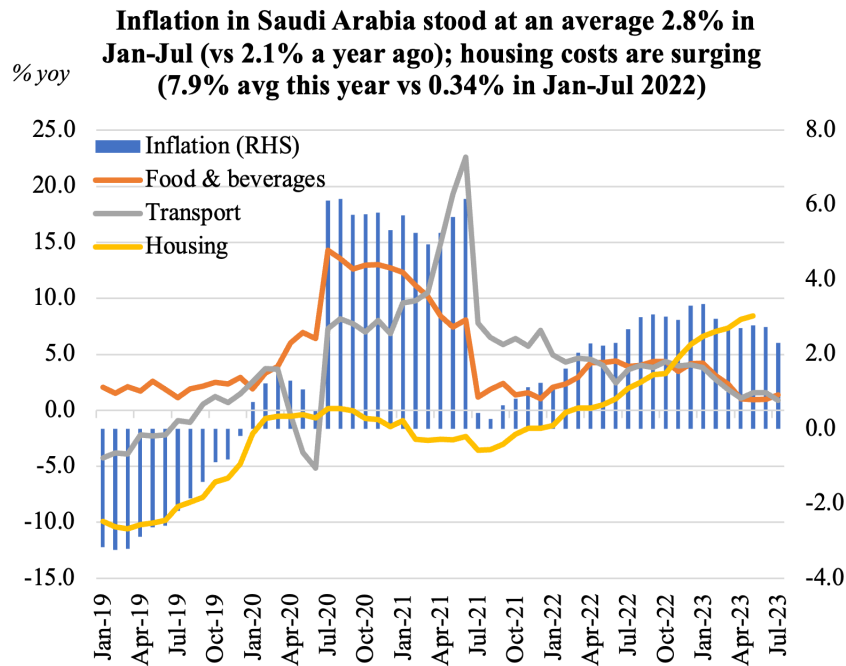


Oman's revenues declined in H1 2023, dragged down by the 36% yoy drop in net gas revenues while net oil rev inched up by 2% (together, accounting for 69% of total revenues)

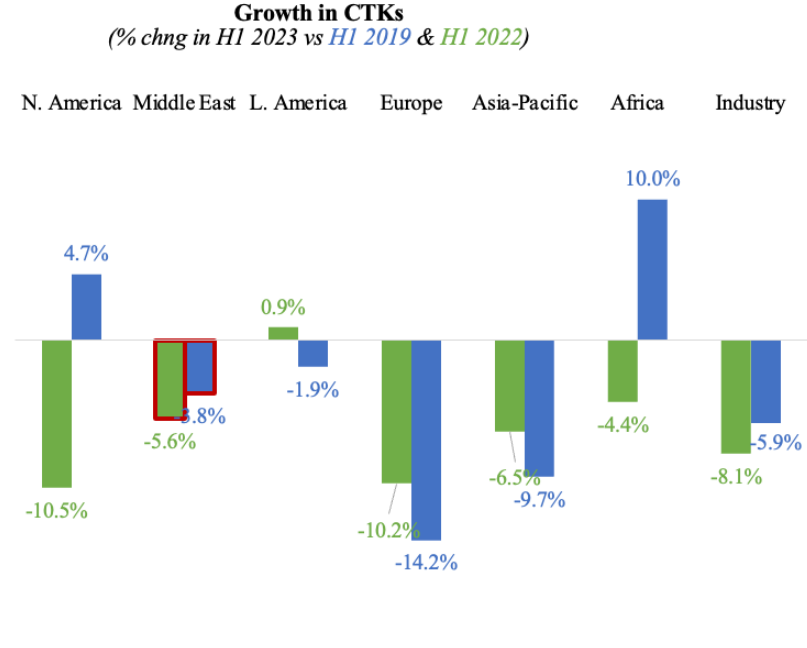
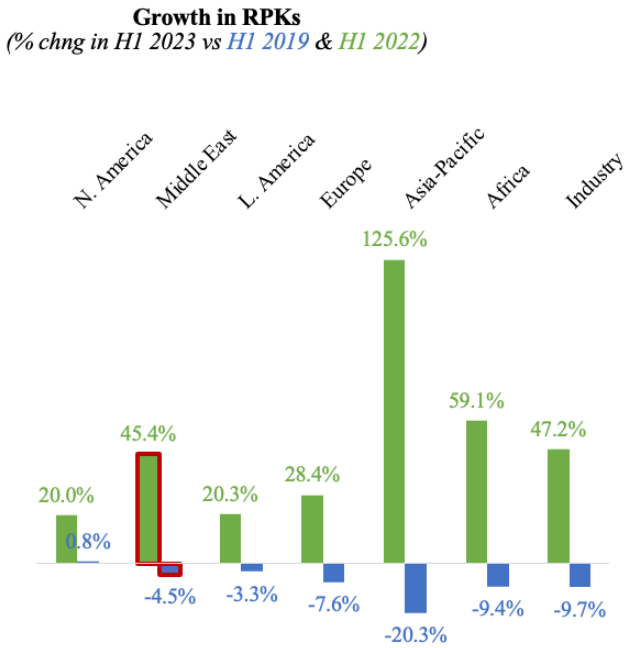


CPI in Saudi Arabia eased in Jul, while wholesale prices declined for the third month in a row

- **Consumer price inflation in Saudi Arabia eased to 2.3% yoy in Jul** (Jun: 2.7%), driven by higher housing costs (8.64%). **Overall housing rents surged** (10.3% yoy) alongside apartments rents (21.1%), given higher demand for expatriate accommodation. Inflation in Saudi Arabia remains **one of the lowest in the GCC/ MENA region**.
- **In the period Jan-Jul 2023, consumer inflation had inched up to 2.8% versus 2.1% in the same period a year ago.** Housing & utilities costs have climbed by 7.9% (from 0.34%) and restaurants & hotels costs are up by 5.4% (from 3.7%) with **easing** food prices (2.0% versus 3.5%) and **transport costs** (1.9% from 4.1%).
- **Wholesale prices in Saudi Arabia fell in Jul, declining for the third month in a row,** with declines seen in 3 of the five categories. WPI plunged to 0.6% in the Jan-Jul 2023 period, from the double-digit 10.25% surge a year ago. The declines softened in Jul: other transportable goods (-0.9% from -1.9% in Jun) and metal products (-1.6% from -1.8%); ores and minerals saw prices edge up to 0.07% from Jun's 0.8% dip while **food prices were up 2.1% (Jun: 1.96%)**.



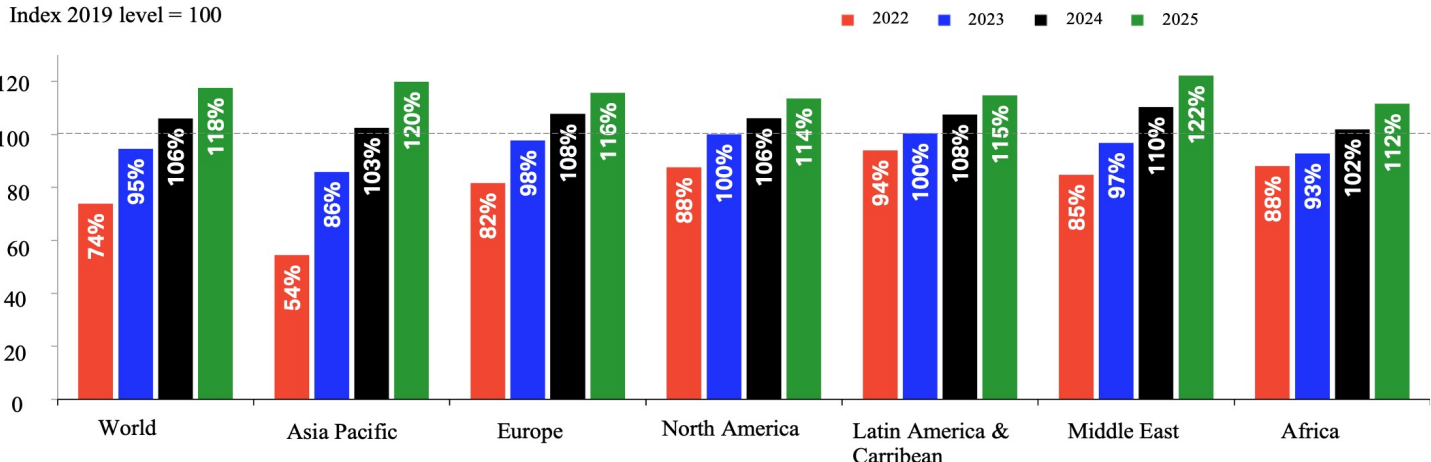
Middle East airlines highlight a strong first half in 2023, supported by buoyant pent-up demand, while cargo pulls back slightly



- **Revenue passenger kilometres (RPKs) in the Middle East grew by 45.4%** yoy in H1 2023 but remained below 4.5% of Q1 2019 levels. International RPKs also grew but remained 4.2% below pre-pandemic levels.
- **Passenger traffic recovery is expected to cross 2019 levels in 2024 in the Middle East;** North America & Latin America to recover in 2023.
- **The decline in cargo activity** meanwhile is reflective of the global slowdown. However, **global cargo demand fell by 3.4% in Jun**, the smallest decline since Feb 2022.
- **Year- to-date cargo tonne-kilometers (CTGs) in the Middle East were 5.6% below last year’s level (3.8% below 2019).** **Major trade route areas connecting Middle East-Asia and Middle East-Europe saw yoy growths**, with CTGs rising by 1.8% & 2.1%, respectively.

Source: IATA, Air Passenger Monthly Analysis (June 2023)

Passenger traffic forecast and estimated year of recovery to 2019 levels

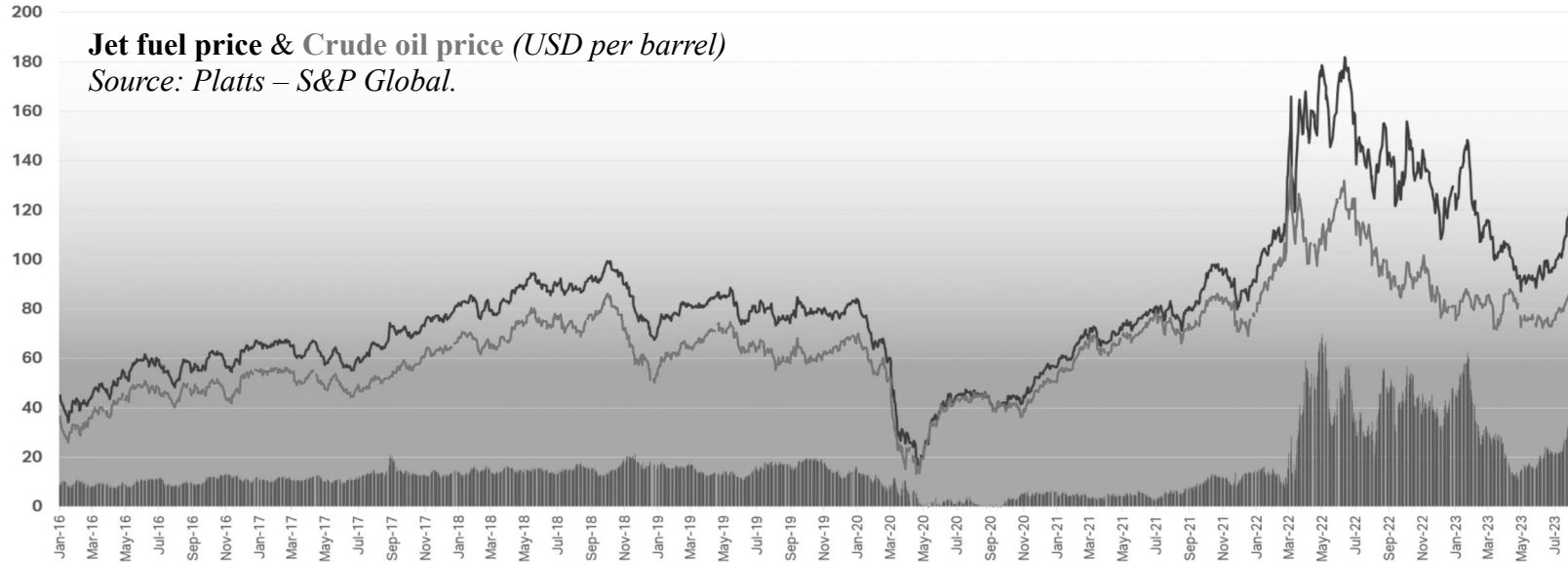


Source: IATA Tourism Economics/IATA Sustainability and Economics Air Passenger Forecasts (Mar 2023)

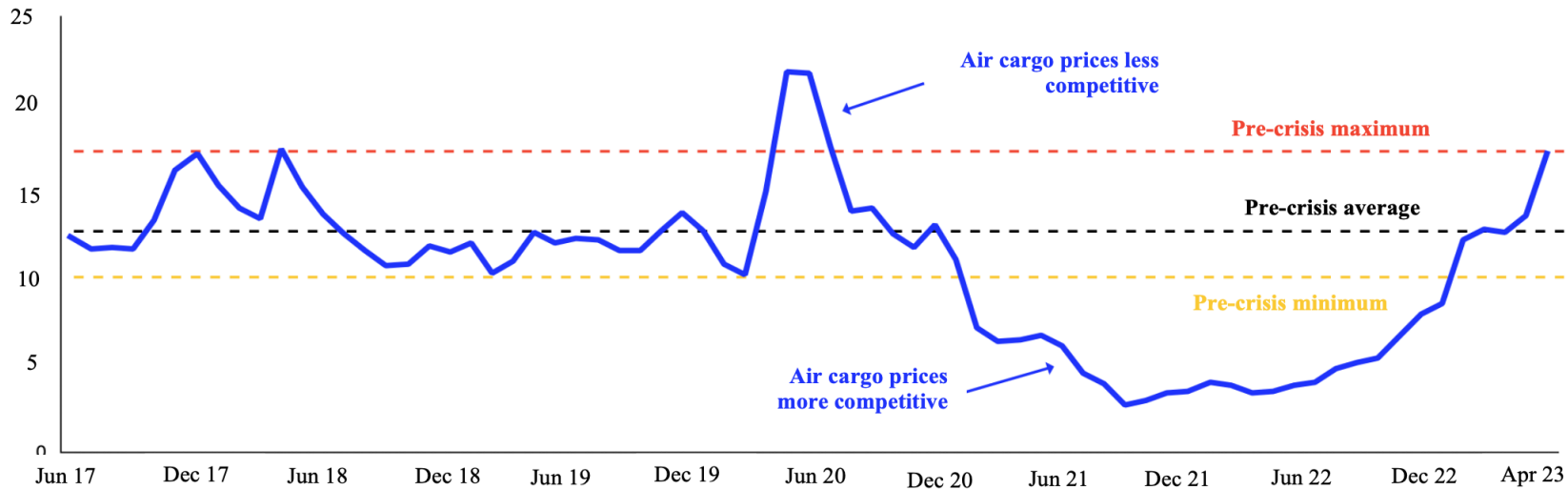


Pressures on airlines' operating costs ticking up again in 2023; air cargo lost its recent relative price advantage over ocean shipping

Fuel accounts for a large share of airline costs; together with labour costs, it makes up around 50% of total costs. IATA expects Middle East carriers to post a net profit of USD 2bn this year, at a 3.8% margin.



The relative price of shipping by air versus maritime cargo, ratio of air cargo yields to maritime cargo yields



Sources: Boeing, IATA CargoIS, Freightos Baltic Index

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