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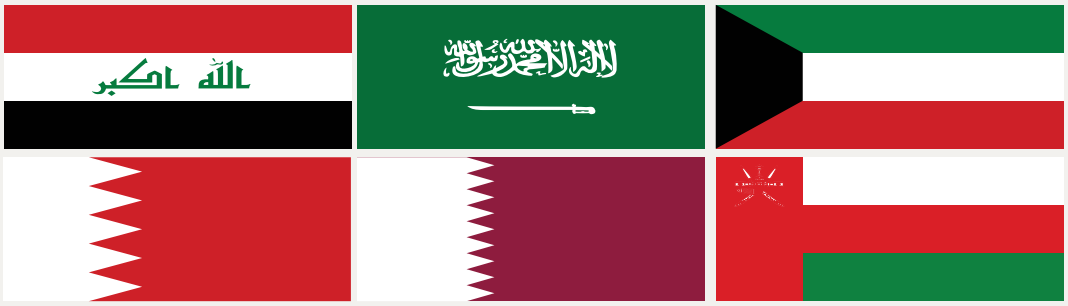
CORPORATE

GCC Bond Haul Set To Smash All Records

Halfway through the year and the GCC has broken all annual records for bond issues. With a major borrowing program in place this total could yet double, but even with low interest rates this accumulation of debt is ringing alarm bells. ***Page 12***



OIL & GAS

Saudi Pipeline Plans Lack Full Coverage

Saudi Arabia is expanding its pipeline network to bolster its economic plans. But the key Jazan project's remote location is problematic and will rely on oil being shipped. ***Page 2, 6***

POWER & WATER

Oman Plans to Boost Power Capacity

Oman is planning a major 4.8GW power generation expansion by 2022. Limited gas availability suggests the Sultanate may be eyeing up alternative fuels. ***Page 7***

OPEC

Gas Plants Aid Saudi Oil Exports

Increased gas production appears to be mitigating seasonal oil burn levels in Saudi Arabia, enabling it to sustain record crude and products exports. ***Page 8***

GEOPOLITICAL RISK

Iraqi PM Faced With Reshuffle Headache

The Iraqi Prime Minister has accepted the resignation of six government ministers. Wrangling over replacements looks set to dominate the political agenda. ***Page 10***

ECONOMICS & FINANCE

Iran Presses on With Banking Overhaul

Iran has unveiled plans to overhaul its fragile banking system. Parliament must give it the green light, but has already voiced objection to certain elements. ***Page 14***

ECONOMICS & FINANCE

IMF Details Swingeing Cuts to Iraq Budget

The IMF has laid out where Iraq should implement $11bn of expenditure cuts. With hefty cuts to public sector wages and pensions, public opposition looks inevitable. ***Page 15***

ECONOMICS & FINANCE

Algeria's Economy Sinking Fast

Algeria is rapidly draining its foreign currency reserves, forcing the PM to acknowledge the need for spending cuts, but oil revenue projections look optimistic. ***Page 16***

OIL & GAS

Iraq's Product Imports Add to Economic Woe

Falling refinery output is forcing Iraq to import record volumes of gasoline and diesel. With the Baiji refinery offline for years to come, there is no respite in sight. ***Page 4***

Saudi Vision Balances Economics With Planned Social Reforms

Saudi Arabia is expanding its pipeline network to facilitate its planned downstream and gas sector expansions. But with major projects being constructed away from this infrastructure, it is clear that economics is not the key element driving them forward.

Saudi Arabia's Vision 2030 envisages ending the kingdom's "addiction to oil" through economic diversification. But this diversification requires the injection of substantial amounts of oil revenue in order to kick start it, ensuring the addiction continues.

More than that, with much of the "diversification" entailing boosting refining and petrochemicals output, the kingdom's economy will remain wedded to oil and gas for the foreseeable future. Factor in the additional electricity demand, and the extent to which Saudi Arabia will need to invest in expanding its internal oil and gas infrastructure becomes very evident.

But with Vision 2030 a hybrid of economic and social targets, some of the key projects that fall under its umbrella are clearly not driven by purely economic rationales – these often predate Vision 2030, but have been highlighted under the scheme.

JAZAN ECONOMIC CITY, A DEVELOPMENT PLAN

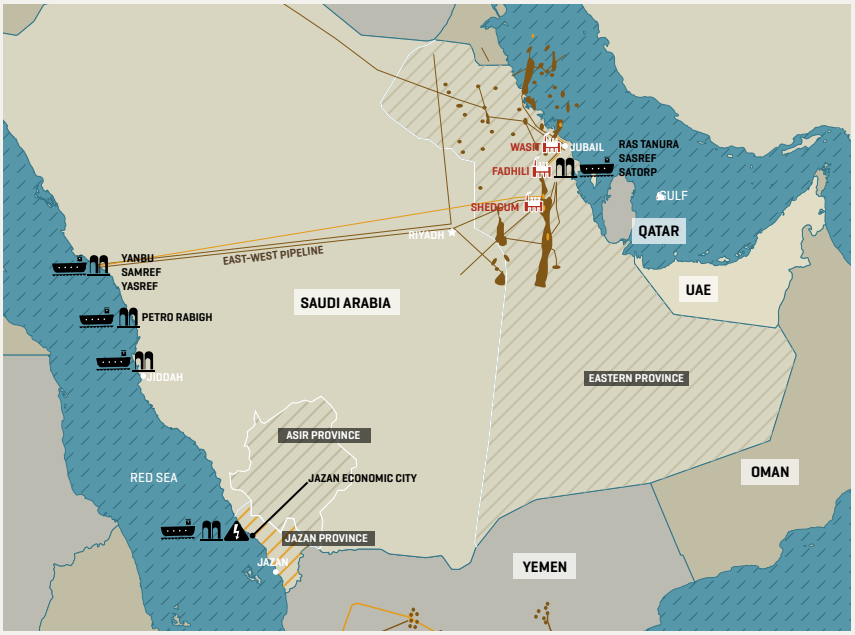
The National Transformation Program 2020 (NTP) is the blueprint for achieving the ambitions of Vision 2030 (MEES, 10 June). One eminently achievable NTP goal is to boost the kingdom's refining capacity from 2.9mn b/d to 3.3mn b/d by 2020.

This 400,000 b/d increase will be met by the Jazan refinery, part of the planned Jazan Economic City in the south west of the kingdom, abutting war-torn Yemen. Unlike other refinery projects, Aramco is going it alone with the project as foreign investors baulked at involvement in a project located so far from existing infrastructure and where the potential for spillover from Yemen presents a constant security threat.

The plans also include the world's largest integrated gasification combined cycle (IGCC) power plant, the 4GW output of which is partly slated to power the economic city. The IGCC plant's feedstock will be created from the vacuum residue from the refinery and an industrial gases unit being built inside the refinery site (see p6).

SAUDI ARABIAN OIL & GAS INFRASTRUCTURE

POWER STATION | REFINERY | KEY OIL PORT | PROCESSING PLANT | OIL FIELDS/PIPELINE | GAS FIELDS/PIPELINE



The Jazan refinery however does not have the option of piped feedstock delivery - it must have oil delivered to it from the kingdom's producing fields some 1,500km away in Eastern Province. Unlike Saudi Arabia's other refineries Jazan is not linked to these fields.

The kingdom's largest refinery, the 550,000 b/d Ras Tanura refinery is located in the Eastern Province oil heartlands, as are the 400,000 b/d Satorp and 300,000 b/d Sasref refineries in Jubail City. The Samref and Yasref (both 400,000 b/d) refineries are in the west coast city of Yanbu, but are linked to Eastern Province through the 5mn b/d East-West oil pipeline.

Samref is a 50:50 venture with US supermajor ExxonMobil, while China's Sinopec has a 37% share in Yasref. Along with Aramco's wholly owned 245,000 b/d Yanbu refinery, the city contains 36% of Saudi Arabia's current refining capacity, although this will fall to 32% once Jazan is running at full capacity.

Aramco announced in May that it plans to expand capacity of the main East-West oil pipeline from its current 5mn b/d capacity to 7mn b/d by the end of 2018. Along with supplying refineries at Yanbu, the pipeline offers an alternative export outlet to Saudi Arabia's primary Ras Tanura terminal on the East Coast, from where tankers have to navigate the chokepoint Strait of Hormuz.

MAINTAINING EXPORT LEVELS

With crude exports averaging 7.53mn b/d in the first five months of 2016, the expanded pipeline would enable the kingdom to maintain high export levels should the Strait be closed (see p8).

But Jazan, which is around 1,000km down the coast from Yanbu, will not be connected to the oil pipeline network. As with the 78,000 b/d Jiddah refinery, located between Jazan and Yanbu, Jazan refinery will be supplied by tanker rather

Continued on – p3

Continued from – p2

than pipeline. A port is being constructed to handle the crude shipments, along with exports of refined products and petrochemicals from the economic city.

MORE THAN JUST ECONOMICS

Given the expense that linking the remote Jazan to Saudi Arabia's pipeline network would entail, and that the kingdom is not countenancing, it is clear that the project is not driven solely by economic rationales. Jazan is the poorest province in Saudi Arabia and the project is aimed at invigorating social and industrial development in areas outside of the current major cities and industrial centers.

Fuad al-Azman, general manager of Jazan Area Project Management said in June that "What we are doing today represents one building block of the Kingdom's bright future based on the ambitious Vision 2030, and Jazan's economic program is vital to the Kingdom's economic strategy. This project will support the development and provide job opportunities for the people of the Jazan area."

Aramco's 2015 report claims the economic city will create 70,000 new jobs over 15 years.

Projects such as Jazan will give potential investors in Aramco pause for thought. Profit maximization is not Aramco's raison d'être, it will remain an arm of the Saudi state following any IPO, and will therefore continue to be used to promote the government's socio-economic agenda.

PUTTING THE FOCUS ON GAS

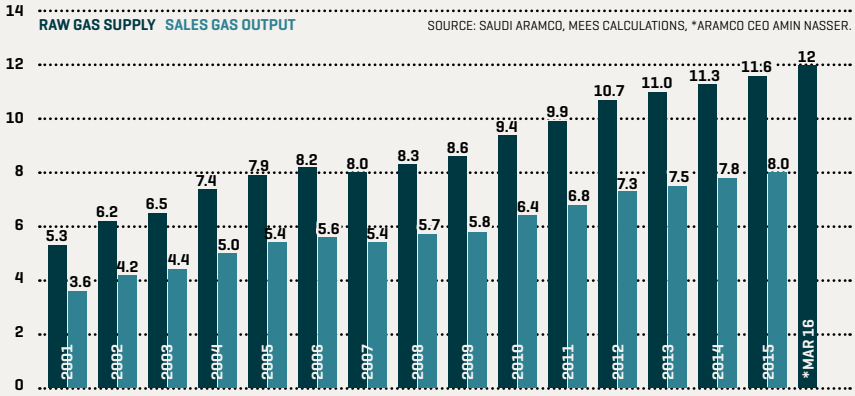
Also integral to Vision 2030 is Saudi Arabia's development of its gas reserves. The kingdom's commitment to ramping up gas production is underlined by the continued record level of gas drilling activity, as shown by rig count data from US oilfield services firm Baker Hughes (see chart 2).

Under the NTP, production capacity will rise to 17.8bn cfd by 2020 – in 2015, Aramco processed 11.6bn cfd of raw gas. The start-up of the Wasit processing plant earlier this year adds 2.5bn cfd to the total. Aramco plans for the 2.5bn cfd Fadhili plant to start up in late 2019 and on 20 July announced it had signed four new contracts for the project worth a combined SR50bn ($13.3bn).

Aramco confirmed that Indian firm Larsen & Toubro (L&T) had won a contract to develop offshore facilities for the plant – Reuters had previously reported that L&T and Singapore's Emas AMC had won a $1bn contract to expand the offshore Hasbah field, which will provide 2bn cfd to Fadhili (MEES, 20 May).

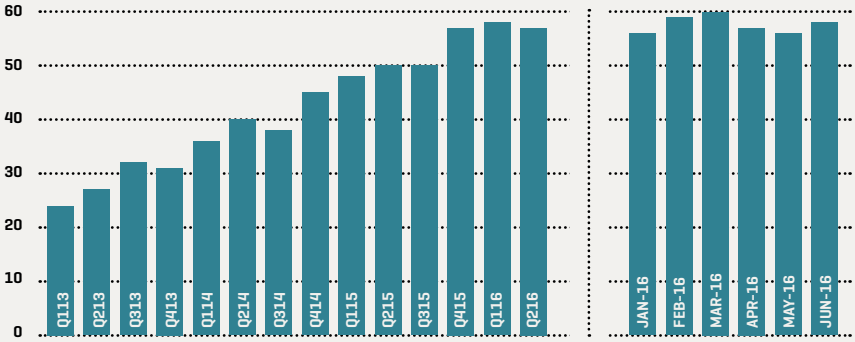
Aramco also confirmed that local firm KAD secured a downstream component of the project and that state-owned

1: SAUDI ARABIA GAS PRODUCTION (BN CFD): CLIMBING TOWARDS 2020 TARGET



SOURCE: SAUDI ARAMCO, MEES CALCULATIONS, *ARAMCO CEO AMIN NASSER.

2: SAUDI ARABIA GAS DRILLING RIGS SUSTAINED AT RECORD LEVELS



SOURCE: BAKER HUGHES.

Saudi Electric Company and France's Engie have won the contract to construct the 1.5GW Fadhili combined heat and power (CHP) power plant which has a planned 2019 start-up date.

The fourth recently awarded contract confirmed by Aramco was to local firm Al Subeae & Sons Investment Holding Company for the Fadhili Residential Camp.

The 75mn cfd Midyan plant is scheduled to come online in December 2016 and Aramco announced last month that the plant is 85% complete. It is slated to produce 75mn cfd of gas, along with 4,500 b/d of condensate. The gas is to be used in power generation at a nearby 570MW plant 84km away at Al-Muwaylih.

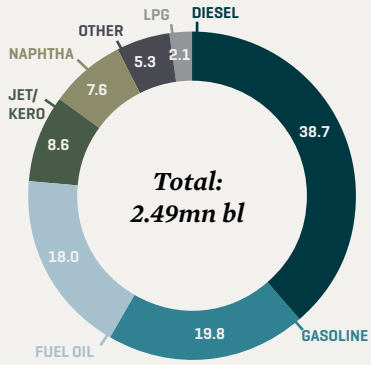
Combined, the three plants will add more than 5bn cfd raw gas to Aramco, taking the total close to 17bn cfd.

The remaining increase is slated from incremental advances at a range of other projects. For instance, some 60-70mn cfd is slated to come from a shale gas project near Turaif in northern Saudi Arabia, to provide some of the fuel for a 1.39GW power plant, powering the nearby Waad al Shamaal phosphate mine (MEES, 3 June).

Efforts to drive the production of unconventional gas in the southern Rub al-Khali (Empty Quarter) have largely collapsed. It was the only area in which foreign firms were permitted to participate in upstream exploration and development in the kingdom, but IOCs found the terms uncommercial due to the low price of gas within Saudi Arabia. Despite the price being raised partially in recent months, Russia's Lukoil announced on 16 June that it was quitting its project there.

The sizeable ramp up in gas production is aimed at providing additional

SAUDI REFINED PRODUCTS BREAKDOWN 2015 (%)



SOURCE: ARAMCO 2015 ANNUAL REVIEW, MEES CALCULATIONS.

gas to power plants to reduce levels of crude burn and also to supply feedstock to petrochemicals plants. As with refined products, Vision 2030 entails an expanded petrochemicals sector in order to maximize revenues and provide an element of diversification.

But this also requires infrastructure investment, this time in expanding gas pipelines. KAD won three pipeline expansion contracts in 2015 to expand the Master Gas System (MGS) worth around $1bn. The first contract is to install more than 400km of pipeline alongside the East-West oil pipeline to provide gas to the plants at Yanbu. The second, is for pipelines in central Saudi Arabia, while the third package is between Riyadh and the 2bn cfd Shedgum gas processing plant along the East-West pipeline.

The award packages are part of Aramco's second-phase expansion of the MGS to 12.5bn cfd sales gas capacity by 2018. In 2015, Aramco produced 7.98bn cfd of sales gas (see chart 1).

Iraq: Record Products Imports Eat Into Crude Export Earnings

Iraqi crude exports are up by 700,000 b/d over the past two years. But, with local products output having collapsed, the need to import record volumes of gasoline and diesel is eating into revenue.

Iraq's refinery output fell to just 388,000 b/d in May, the lowest figure since January 2008 – hardly surprising seeing that earlier data on crude supplied to refineries indicated similar 8-9 year lows (MEES, 15 July). Whilst other regional countries, notably Saudi Arabia (see p8) are looking to maximize the proportion of their crude output refined domestically in order to maximize revenue, Iraq saw a mere 8% of its crude output refined domestically in April and May, the lowest figure on record.

Refinery output nosedived in June 2014 when Islamic State (IS) captured the 310,000 b/d Baiji refinery, the country's largest. Though subsequently retaken, extensive damage means that there is no chance of the plant restarting for several years, if ever.

GASOLINE OUTPUT COLLAPSE

Output of key product gasoline fell to just 38,000 b/d in May, the lowest level since 2003. At the same time demand has risen, hitting 107,000 b/d in May. This has left Iraq reliant on imports to meet a record 65% of demand (see chart 1).

Diesel output is also down, falling to just 62,000 b/d in May, the lowest figure since January 2008, while imports rose to a record high of 43,000 b/d.

And this import record is likely to be broken again in the coming months given many Iraqis' reliance on off-grid diesel-fired power generation. This makes demand for the product highly seasonal, with a summer peak when power demand for aircon usage is highest. Diesel demand rose by 20,000 b/d to 102,000 b/d in May: in 2015 diesel demand peaked at 159,000 b/d in August, up from 94,000 b/d in May.

Fuel oil output, at 181,000 b/d in May, was also at an eight-year low. Falling fuel oil output and increased demand mean the country is spiking far less into its crude export stream than used to be the case. Whilst Iraq blended an average of 120,000 b/d of fuel oil into its crude export stream between 2010 and 2014, this fell to an average of 60,000 b/d for 2014 and just 10,000 b/d for April and May.

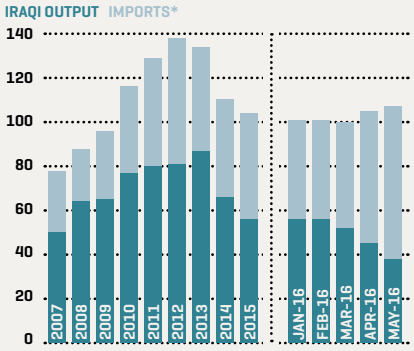
Iraq has seen its output of sales gas rise to a record 961mn cfd in May, up from a 2015 average of 652mn cfd as the Shell-led Basra Gas Company has ramped up throughputs (MEES, 27 May).

BURNING UP

But, though gas output is up, the gains have not so far been sufficient to make a major dent in the volumes of oil burnt in power plants – a practice that cannibalizes the country's key export revenue stream. Crude burning averaged 139,000 b/d for the first five months of 2016, the highest ever January-May figure. If this trend continues, 2016 as a whole will see a burn of 169,000 b/d, up slightly on last year's previous record (see charts 2 & 3). However, some indication that the higher gas output might be curbing the demand for oil burning came with the May figure: at 146,000 b/d it was up sharply on April – to be expected given the highly seasonal nature of demand – but significantly, it is well down on May 2015's 164,000 b/d.

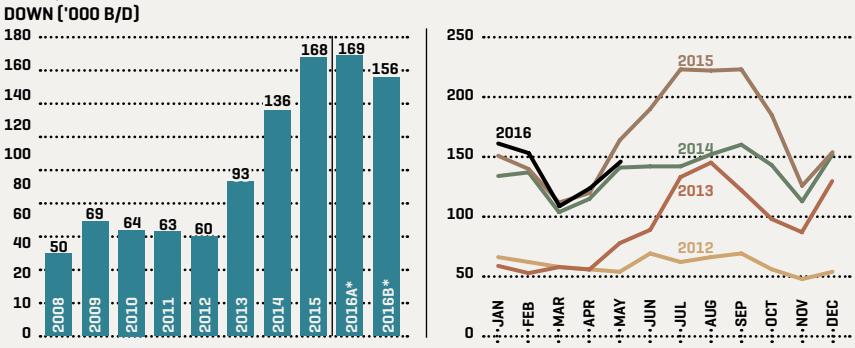
And it's not just crude that is being burnt in power plants in increased quantities. Domestic demand for fuel oil – most of which is burnt – saw near-record volumes in both April and May this year (though, again the fact that May was slightly down on April holds out some hope that increased gas availability is curbing demand). Fuel oil consumption for 2016 as a whole is on target to average at least 180,000 b/d, up from a previous record of 165,000 b/d in 2013 (see charts). ◆◆

1: IRAQ GASOLINE DEMAND ('000 B/D): LOCAL REFINERY OUTPUT OF 38,000 B/D IN MAY MET JUST 35% OF DEMAND, BOTH RECORD LOW FIGURES

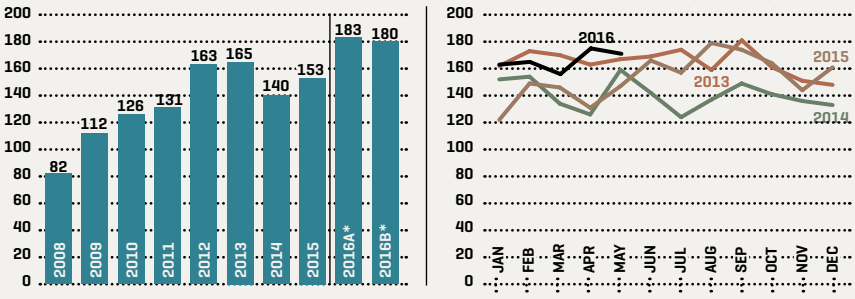


*IMPLIED FROM OUTPUT AND DEMAND STATS. SOURCE: JODI, IRAQ OIL MINISTRY, MEES CALCULATIONS.

2: IRAQ CRUDE BURN FOR FIRST FIVE MONTHS OF 2016 IS UP SLIGHTLY ON 2015'S RECORD, THOUGH MAY IS DOWN ('000 B/D)



3: FUEL OIL BURNING IS UP SHARPLY SO FAR THIS YEAR HAVING DIPPED IN 2014 & 2015 ('000 B/D)



*'A' PRESUMES AVERAGE JAN-MAY '16 VS '15 DIFFERENTIAL CONTINUES FOR REMAINDER OF 2016. 'B' USES MAY '16 VS '15 DIFFERENTIAL. SOURCE: IRAQ OIL MINISTRY, JODI, MEES CALCULATIONS.

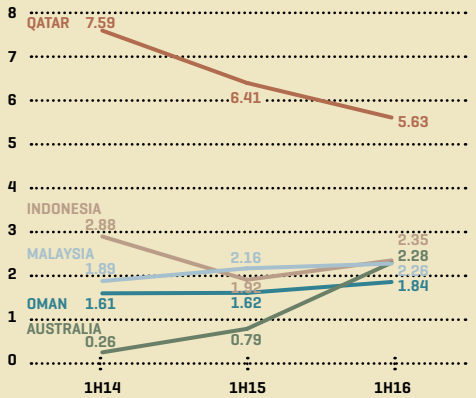
◆◆

SOUTH KOREAN 1H16 LNG IMPORTS: QATAR SHARE DOWN, PRICES TO 5-YEAR LOW

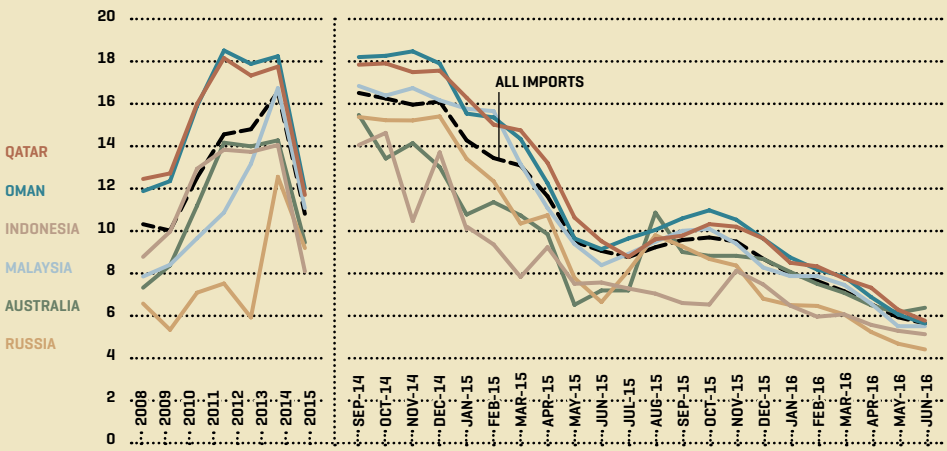
		vs1H15		vs1H14															
VOLUME (MN TONS)	**1H16**	**mn t**	**%**	**mn t**	**%**	**2Q16**	**1Q16**	**4Q15**	**3Q15**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**Jun-16**	**May-16**	**Apr-16**
Qatar	5.63	-0.79	-12.3	-1.97	-25.9	2.58	3.05	3.11	2.93	12.44	12.86	13.35	10.28	8.15	7.45	6.97	1.12	0.88	0.59
*% of total***	*31.7*	*-5.6*		*-5.9*		*37.5*	*28.0*	*33.7*	*42.0*	*37.3*	*35.2*	*33.5*	*28.4*	*22.2*	*22.8*	*27.0*	*44.9*	*39.6*	*26.9*
Oman	2.26	+0.09	+4.4	+0.37	+19.7	0.98	1.28	1.01	0.82	3.99	3.73	4.33	4.13	4.20	4.56	4.55	0.37	0.24	0.37
*% of total***	*12.7*	*+0.1*		*+3.4*		*14.2*	*11.8*	*11.0*	*11.7*	*12.0*	*10.2*	*10.9*	*11.4*	*11.4*	*14.0*	*17.6*	*14.8*	*10.9*	*16.8*
Yemen	0.00	-0.53	-100.0	-1.79	-100.0	-	-	-	-	0.53	3.05	3.59	2.59	2.71	1.65	0.19	-	-	-
Algeria	0.17	-0.02	-9.8	-0.02	-8.3	0.00	0.17	0.13	0.06	0.38	0.37	0.13	0.06	-	-	0.06	0.00	0.00	0.00
Egypt	0.00	-	-	-0.07	-100.0	-	-	-	-	-	0.07	0.60	0.60	0.46	0.74	0.24	-	-	-
Total MENA	**8.16**	**-1.13**	**-12.2**	**-3.36**	**-29.2**	**3.60**	**4.56**	**4.19**	**3.87**	**17.34**	**20.19**	**22.00**	**17.65**	**15.52**	**14.58**	**12.01**	**1.48**	**1.17**	**0.95**
*% of total***	*45.9*	*-8.0*		*-11.0*		*52.4*	*41.9*	*45.4*	*55.4*	*52.0*	*55.2*	*55.2*	*48.8*	*42.3*	*44.7*	*46.5*	*59.7*	*52.7*	*43.8*
Indonesia	2.35	+0.43	+22.2	-0.53	-18.5	0.96	1.39	1.07	0.79	3.78	5.18	5.63	7.45	7.89	5.45	3.08	0.43	0.23	0.30
Malaysia	1.84	+0.21	+13.2	+0.22	+13.9	0.76	1.08	1.31	0.77	3.70	3.67	4.31	4.08	4.14	4.74	5.87	0.23	0.17	0.36
Nigeria	0.35	-0.46	-56.7	-1.35	-79.4	0.06	0.29	0.32	0.12	1.25	2.59	2.77	1.81	1.23	0.89	0.18	0.00	0.06	0.00
Russia	1.02	-0.19	-15.5	+0.00	+0.3	0.51	0.51	1.02	0.45	2.68	1.91	1.84	2.16	2.85	2.93	1.02	0.06	0.19	0.26
Australia	2.28	+1.49	+189.2	+2.02	+780.7	0.74	1.54	0.85	0.32	1.95	0.84	0.62	0.83	0.79	1.03	1.31	0.19	0.31	0.25
Brunei	0.80	+0.29	+56.3	+0.30	+60.2	0.29	0.51	0.33	0.39	1.23	0.72	1.14	0.77	0.76	0.79	0.53	0.09	0.13	0.07
Trinidad&Tobago	0.00	-0.05	-100.0	-	-	-	-	-	-	0.05	0.13	0.52	0.83	1.45	0.54	0.68	-	-	-
Eq. Guinea	0.07	-0.58	-89.0	-0.00	-0.7	-	0.07	-	0.07	0.71	0.07	0.12	0.37	0.85	1.24	1.14	-	-	-
US	0.39	+0.36	+994.2	+0.39	-	-	0.39	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	**17.77**	**+0.55**	**+3.2**	**-2.45**	**-12.1**	**6.88**	**10.89**	**9.23**	**6.98**	**33.37**	**36.56**	**39.88**	**36.18**	**36.68**	**32.60**	**25.82**	**2.48**	**2.22**	**2.17**
PRICES ($/MN BTU*)	**1H16**	**vs1H15**		**vs1H14**		**2Q16**	**1Q16**	**4Q15**	**3Q15**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**Jun-16**	**May-16**	**Apr-16**
ALL IMPORTS	**6.85**	**-5.44**	**-44.2**	**-9.48**	**-58.0**	**6.08**	**7.63**	**9.31**	**9.21**	**10.82**	**16.53**	**14.78**	**14.54**	**12.51**	**10.03**	**10.33**	**5.68**	**5.97**	**6.59**
Qatar	7.36	-6.16	-45.6	-10.35	-58.4	6.50	8.23	10.08	9.41	11.71	17.73	17.31	18.13	15.98	12.72	12.46	5.81	6.33	7.36
vs overall price	*+0.51*	*-0.72*	*-58.6*	*-0.87*	*-63.0*	*+0.42*	*+0.60*	*+0.77*	*-0.70*	*+0.88*	*+1.21*	*+2.53*	*+3.59*	*+3.47*	*+2.69*	*+2.13*	*+0.13*	*+0.36*	*+0.77*
Oman	7.26	-6.19	-46.0	-11.10	-60.5	6.23	8.29	10.40	10.12	12.01	18.22	17.86	18.49	15.88	12.36	11.89	5.68	6.10	6.92
Yemen	na	-	-	-	-	n/a	n/a	n/a	n/a	12.79	14.54	8.31	7.56	6.87	4.78	4.79	n/a	n/a	n/a
Algeria	7.09	-5.45	-43.5	-8.76	-55.3	n/a	7.09	8.96	9.27	10.79	15.80	15.85	17.45	n/a	n/a	7.46	n/a	n/a	n/a
Egypt	na	-	-	-	-	n/a	n/a	n/a	n/a	n/a	18.75	15.99	14.08	12.26	10.03	19.01	n/a	n/a	n/a
Avg MENA Price	*7.24*	*-7.37*	*-54.8*	*-11.43*	*-65.3*	*4.24*	*7.87*	*10.15*	*8.96*	*11.79*	*17.30*	*15.91*	*16.53*	*14.25*	*11.56*	*12.23*	*3.83*	*4.14*	*4.76*
vs overall price	*-0.38*	*-1.93*	*-167.2*	*-1.95*	*-166.1*	*-1.83*	*0.24*	*0.84*	*+0.17*	*+0.97*	*+0.78*	*+1.13*	*+1.98*	*+1.74*	*+1.53*	*+1.90*	*-1.85*	*-1.82*	*-1.83*
Indonesia	5.79	-3.07	-34.7	-8.60	-59.8	5.37	6.20	7.40	7.00	8.11	14.02	13.70	13.80	12.91	9.97	8.79	5.17	5.33	5.61
Malaysia	6.83	-6.26	-47.8	-10.21	-59.9	5.90	7.76	6.98	9.49	11.09	16.71	13.16	10.88	9.67	8.43	7.88	5.55	5.55	6.61
Nigeria	6.12	-4.09	-40.1	-10.32	-62.8	5.02	6.48	9.14	9.91	9.94	19.23	15.19	14.44	12.12	8.90	11.15	n/a	5.02	n/a
Russia	5.59	-4.85	-46.4	-4.65	-45.4	4.81	6.37	7.97	9.07	9.20	12.54	5.95	7.54	7.11	5.37	6.60	4.45	4.72	5.27
Australia	6.99	-3.27	-31.9	-7.76	-52.6	6.39	7.59	8.78	n/a	9.47	14.25	13.97	14.14	11.19	8.40	7.36	6.42	6.19	6.54
Brunei	7.75	-4.31	-35.8	-9.34	-54.7	6.76	8.74	9.91	9.29	10.49	16.81	17.15	18.64	15.09	12.47	14.21	6.22	6.73	7.35
Trinidad &Tobago	n/a	-	-	-	-	n/a	n/a	n/a	n/a	13.44	14.57	12.75	12.00	11.37	8.59	10.63	n/a	n/a	n/a
Eq. Guinea	9.24	-3.01	-24.6	-9.68	-51.2	n/a	9.24	n/a	9.65	12.01	18.92	17.03	13.99	12.09	11.74	11.78	n/a	n/a	n/a
US	6.73	+6.73	-	+6.73	-	n/a	6.73	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*BASED ON 1T LNG =52MN BTU. ACTUAL NUMBER VARIES WITH CALORIFIC CONTENT. ** CHANGES EXPRESSED IN PERCENTAGE POINTS. N/A INDICATES ZERO IMPORTS FOR PERIOD. SOURCE: KOREA CUSTOMS SERVICE, MEES CALCULATIONS.

KOREA'S TOP LNG SUPPLIERS: QATAR STILL IN FRONT BUT VOLUMES SLIDE TO 32% OF TOTAL AS AUSTRALIA DRAWS LEVEL WITH OMAN, INDONESIA AT #2 (MN TONS)



KOREA'S IMPORT PRICES FALL AGAIN TO LOWEST LEVEL SINCE 2007 (KEY SUPPLIERS, $/MN BTU)



Aramco Marks Start Of Work On Key $2.1bn Industrial Gases Unit At Jazan Refinery

Contractors have broken ground on the world's largest air separation unit, which is being built at the Jazan refinery site to process fuels for an integrated IGCC power plant – also a world-beater.

The Jazan Gas Projects Company (JGPC) joint venture of Saudi private power developer Acwa Power and US industrial gases firm Air Products has broken ground for construction of a $2.1bn air separation unit – the world's largest – which is a key component of an integrated refinery and power plant being built at Jazan in Saudi Arabia's remote southwestern region (see p2).

State petroleum firm Aramco awarded the construction contract to JGPC in April 2015. Now JGPC chairman Muhammad Abunayyan says that "construction on-site started a month earlier than planned, initial drawings have been issued and we have a clear plan of mobilization to Jazan from this date." He says the gas plant will be commissioned "in 2018 in tandem with the refinery."

JAZAN'S 'ANCHOR' ROLE

Unlike the 400,000 b/d Satorp and Yasref refineries, developed in joint venture with international firms and brought online in 2013-15, the similarly-sized Jazan refinery is being built by Aramco alone. No international partners were prepared to commit to a project in a region with major security problems due to its proximity to the border with Yemen.

The refinery and power plant are seen as the main anchors of a planned Jazan Economic City, intended as a potential focus for energy-intensive industries. There is little local infrastructure – crude oil for the refinery will arrive by tanker. The refinery will produce 80,000 b/d of gasoline, 250,000 b/d of ultra-low sulfur diesel and over 1mn tons/year of benzene and paraxylene. The refinery will also produce 90,000 b/d of residual oil to be upgraded for burning in the adjoining power plant. Aramco awarded the refinery's main engineering, procurement and construction (EPC) contracts to: local firm Al-Ali Al-Ajmi Group; UK's Petrofac; Korea's Hyundai, Hanwha and SK Engineering and Construction; Japan's JGC and Hitachi; and Spain's Tecnicas Reunidas.

The air separation unit will comprise six trains, producing a total 20,000 tons/day of oxygen and 55,000 t/d of nitrogen. The vacuum residue from the refinery and the gases from the air separation unit will be combined to produce synthesis gas to fuel the 4GW integrated gasification (IGCC) combined cycle power – also the world's largest of its type (MEES, 24 April 2015).

The refinery will require 1.6GW of electricity from the IGCC plant – including 600MW to run the air separation unit – leaving 2.4GW for supply to local industries and the national transmission grid. Besides the refinery and power plants, Riyadh's plans for the Jazan region include titanium and silicon production, an iron sheet works and shipbuilding (MEES, 21 August 2015).

RAS TANURA UPGRADE

Completion of the Jazan refinery will take Saudi Arabia's refining capacity to 3.3mn b/d (see table). With no other greenfield projects currently planned, Aramco's next major refinery project is likely to be a $2bn clean fuels upgrade of the 550,000 b/d Ras Tanura refinery. This will include the addition of new naphtha hydrotreater, isomerate and aromatics units.

Aramco issued a tender for EPC contracts earlier this year, after the project had been put on hold in the wake of the mid-2014 crude oil price collapse, which shrank corporate investment budgets (MEES, 4 March). Although bidders were initially given a May deadline for proposals, the deadline has since been extended.

However, Aramco has separately awarded an EPC contract for an asphalt unit at Ras Tanura. The Saudi Arabian Kentz unit of Canada's SNC-Lavalin was recently contracted to raise capacity of the refinery's asphalt unit from 22,000 b/d to 42,000 b/d. SNC-Lavalin says the project is expected to be completed in 18 months, which suggests it will be operational in 2018. ◆◆

SAUDI REFINING CAPACITY

Onstream:	%	Partner	'000 B/D
Ras Tanura	100		550
Yanbu	100		245
Riyadh	100		126
Jiddah	100		78
Samref, Yanbu	50	ExxonMobil	400
Sasref, Jubail	50	Shell	300
Petro Rabigh, Rabigh	37.5	Sumitomo	400
Satorp, Jubail	62.5	Total	400
Yasref, Yanbu	62.5	Sinopec	400
Total Operating			**2,899**
Planned:			
Jazan (2018)	100		400
Total Op. & Planned			**3,299**

SOURCE: SAUDI ARAMCO.

MOROCCAN REFINER SAMIR FAILS TO CLINCH CRUDE DEAL

Morocco's sole refiner Samir, operator of the 200,000 b/d Mohammedia plant, has failed to secure a crude supply deal almost a year after the plant was shuttered because of financial difficulties. A tanker holding 1mn barrels of crude, which was moored off Morocco for almost a year pending a purchase agreement, has set sail for Europe, according to Reuters vessel tracking data.

Samir was forced into administration by a Moroccan court in March. Trading in the company's shares has been suspended since August 2015, when Moroccan authorities froze the company's bank accounts over a MD13bn ($1.32bn) tax claim. The plant's owner, Saudi businessman Muhammad Husain al-Amudi, has since been trying to negotiate a settlement.

While the Moroccan courts agreed at the end of June to give Samir another six months to restart crude processing, in a bid to attract a buyer for the plant, its future remains in doubt. Although an expansion of the plant's capacity from 120,000 b/d was completed in 2012, it has reached a peak throughput of only 167,000 b/d in March 2014, before stuttering to a halt in August 2015. The last recorded Mohammedia throughput on the Jodi database is 113,000 b/d for July 2015.

◆◆

Oman To Add 4.8GW To Grid By 2022 As Electricity Demand Forecast To Rise 74%

OPWP aims to add 4.8GW of power generating capacity by 2022, to keep ahead of strong demand growth. However, constraints on future fuel gas supply means Oman must consider its options.

Oman's state power and water utility OPWP sees the country's peak electricity demand rising by 4.54GW or almost 74% by 2022 from the 6.15GW peak consumption recorded in 2015. The company plans to increase power generating capacity by 4.8GW or 60% by 2022 to ensure supply security.

Oman's current power generation capacity is almost entirely fueled by gas, which means that the Ministry of Oil and Gas may have to consider alternative supplies or fuels as OPWP's capacity expansion plans take shape.

GAS REQUIREMENT

OPWP says it burned 8.2 bcm of gas in 2015, and that annual gas requirements in its two main grids – the Main Interconnected System (MIS) serving Muscat and the north, and the southern Dhofar grids –will rise by 2.7 bcm or 33% by 2022.

However, MEES calculates that the 4.6GW of new capacity envisaged for MIS and Dhofar would require 5.5 bcm of gas per year (530mn cfd) for combined cycle gas turbine (CGGT) plants – more than double OPWP's forecast – suggesting OPWP is already factoring in alternatives to more gas.

In its latest seven-year forecast, covering the period 2016-22, OPWP says that it consults with the ministry "on a regular basis" to confirm the future availability of gas for power generation and to coordinate planning.

The ministry "has indicated that future gas supply is constrained, but with assurances that the power sector has a priority for future gas allocations." Power plants currently burn about 25% of Oman's gas production.

If further gas is not available for power generation, says OPWP, then in addition to improving the efficiency of existing plants it will need to bring forward plans for new generation capacity using other fuels and discuss with the ministry the feasibility of gas imports for power plants.

Oman currently has 3.52GW of gas-fired generating capacity under development at four plants, which are due to be brought online during 2016-19. The most recently approved – 1.5GW Sohar 3 and 1.45GW Ibri – were the last for which the ministry would guarantee gas supply.

In addition to the projects already being developed, OPWP recently announced a plan to tender for two independent power producer (IPP) projects, one in Muscat and one so far undecided. These will each have 800-1,000MW capacity and are intended for start-up in2021 and 2022 (MEES, 17 June).

MIS CONNECTION

OPWP says that peak electricity demand in the MIS grid is expected to increase by about 8% a year, from 5.57GW in 2015 to 9.53GW in 2022. Total annual consumption in MIS is expected to increase from 28TWh in 2015 to 50TWh in 2022.

While the MIS system is linked to the GCC Interconnection Authority (GCCIA) electricity grid by means of a 400MW capacity transmission link to Mahadha in the UAE, OPWP's forecast does not include power exports or imports – although trading is possible by 2022.

OPWP joined the GCCIA in December 2014 and envisages "tangible benefits to Oman both for planning and operations." The company hopes to pilot electricity trading with other GCC states this year and to begin spot market trading in the MIS system in 2019.

In Dhofar, peak demand is expected to grow at 9% per year, from 495MW in 2015 to 884MW in 2022. Here the 445MW gas-fired Salalah 2 IPP is under construction for completion in January 2018. Duqm is currently supplied by a 67MW diesel-fired plant operated by rural supplier Raeco, which plans to add 80MW of capacity by 2018. Raeco also operates 91MW of diesel capacity in Musandam and is building the 120MW gas-fired Musandam IPP for completion in early 2017. ◆◆

OMAN ELECTRICITY DEMAND PROJECTIONS (GW)

	*2015	2016	2017	2018	2019	2020	2021	2022	Chg 2015-22 GW	Chg 2015-22 %
MIS: Avg Demand	3.24	3.46	3.68	4.05	4.47	4.85	5.28	5.72	2.48	76.6
Peak Demand	5.57	5.89	6.23	6.76	7.47	8.08	8.82	9.53	3.96	71.2
Capacity	6.93	7.18	7.18	8.12	9.64	9.64	10.44	11.24	4.31	62.1
Peak % of Capacity	*80.3*	*82.0*	*86.8*	*83.3*	*77.5*	*83.9*	*84.5*	*84.8*		
Dhofar: Avg Demand	0.34	0.36	0.37	0.40	0.47	0.51	0.55	0.63	0.29	86.0
Peak Demand	0.50	0.53	0.56	0.59	0.66	0.73	0.81	0.88	0.39	78.6
Capacity	0.87	0.72	0.72	1.16	1.16	1.16	1.16	1.16	0.29	33.7
Peak % of Capacity	*56.9*	*73.4*	*77.4*	*51.1*	*57.0*	*62.3*	*69.6*	*76.0*		
Duqm: Peak Demand	0.02	0.03	0.04	0.07	0.09	0.11	0.12	0.12	0.10	434.8
Capacity	0.07	0.07	0.07	0.15	0.15	0.15	0.15	0.15	0.08	119.4
Musandam: Peak Demand	0.07	0.09	0.10	0.12	0.13	0.13	0.14	0.15	0.08	120.0
Capacity	0.09	0.09	0.21	0.21	0.21	0.21	0.21	0.21	0.12	137.8
Total Peak Demand	**6.15**	**6.53**	**6.93**	**7.55**	**8.35**	**9.05**	**9.89**	**10.69**	**4.54**	**73.7**
Total Capacity^	**7.96**	**8.06**	**8.18**	**9.64**	**11.16**	**11.16**	**11.96**	**12.76**	**4.80**	**60.4**

*ACTUAL. ^CONTRACTED AND PROSPECTIVE (EXCLUDING 400MW GCC GRID LINK, 60MW PDO LINK, 320MW INDUSTRY SURPLUS AGREEMENTS). SOURCE: OPWP.

OPWP PROJECTED POWERGEN GAS FUEL REQUIREMENT (BCM)

	2015	2016	2017	2018	2019	2020	2021	2022	Chg 2015-22 bcm	Chg 2015-22 %
MIS	7.4	7.4	7.5	7.8	7.7	8.4	9.1	9.7	2.4	32.2
Dhofar	0.8	0.9	0.9	0.8	0.9	1.0	1.0	1.2	0.3	39.1
Total	**8.2**	**8.2**	**8.4**	**8.7**	**8.5**	**9.3**	**10.1**	**10.9**	**2.7**	**32.9**

SOURCE: OPWP.

SAUDI GAS BOOST CUTS OIL BURN, SAVING MORE FOR EXPORT

OPEC

Saudi Arabia looks to finally be reaping the dividends of gas field development. Output from the Wasit gas processing plant is being gradually ramped up to its 1.7bn cfd capacity following March start up. More gas means that less oil needs to be burnt in Saudi power plants (MEES, 1 April), a development that should enable it to maintain oil export levels during the summer months.

While direct burning of both crude and fuel oil was up in May, not surprising given that power demand spikes as aircon use soars in summer, it rose by markedly less than in May last year.

Direct crude burn in May was down 17,000 b/d year-on-year, with fuel oil consumption down 66,000 b/d, latest data from the Riyadh-based Joint Organisations Data Initiative (Jodi) show (see p9 for full data).

This overall 7% fall in oil burning from May 2015 levels underlines Wasit's capacity to mitigate seasonal oil burning increases, which nevertheless rose 34% to 1.1mn b/d from April.

January-May direct crude burn was still 8.3% higher in 2016 than 2015, but the May fall shows that the annual figure may decrease for the first time since 2013. Saudi Arabia shows no sign of easing back on production however. Official figures show output jumped 280,000 b/d in June to 10.55mn b/d – although MEES estimates a more modest 70,000 b/d rise – just shy of last June's record 10.56mn b/d. This ought to ensure crude export levels in the first half of 2016 average close to 2012's record 7.63mn b/d. They averaged 7.53mn b/d for January-May, 55,000 b/d more than the same period last year despite falling to an eight-month low of 7.30mn b/d in May – typically one of the lowest months of the year due to high crude burn levels.

Refining runs of 2.52mn b/d for the year to-date are 370,000 b/d higher year-on-year. Crude refining capacity reached 2.9mn b/d in October after the 400,000 b/d Yasref refinery reached full capacity (MEES, 20 May).

Throughputs reduced to 2.37mn b/d in May, down from 2.51mn b/d in April and from the record 2.67mn b/d for February. However, products output from refineries rose slightly to 2.73mn b/d for May, which compares with a record 2.85mn b/d in March.

PRODUCTS: RISING SHARE OF EXPORTS

Soaring refinery throughputs have meant a series of product export records in recent months. So increasingly looking at crude export volumes (and revenues) alone only gives part of the picture. While crude export volumes have been fairly static (give or take seasonal variations) averaging 7.4mn b/d since late 2011, the same cannot be said for product exports which have more than doubled to 1.4mn b/d over the same period, averaging 16% of total Saudi crude and products exports over the same period (see chart 2).

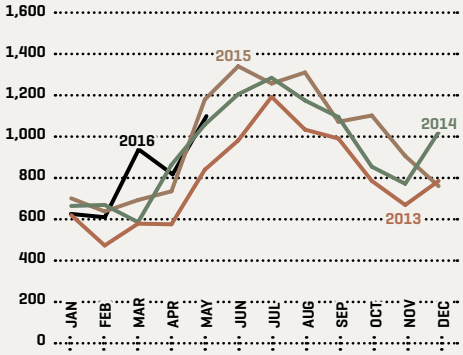
Europe is an increasingly important export market for Saudi products, about 52% of the total in 2015. The latest IEA Oil Statistics report shows that 'OECD Europe' imports from the kingdom in the first four months of the year averaged 211,000 b/d, up from 114,000 b/d for the same period a year earlier. The IEA's July Oil Market Report (OMR) reports that European demand exceeded expectations in Q2, providing a boon for Saudi product exports.

NEW REFINERY OUTPUT RECORDS

Meanwhile, refined products records continue to fall. In May gasoline production reached a new high of 582,000 b/d, up 13,000 b/d (2.3%) on the previous record for March. Diesel/gasoil output also rose sharply, by 11% to 1.12mn b/d for May, although still short of last December's record 1.20mn b/d.

Increased oil burn amid soaring temperatures saw the country's overall refined products demand rise by 10.5% to 1.98mn b/d for May. This was entirely accounted for by increased burning for power generation: fuel oil demand was up by almost 120,000 b/d, while demand for diesel, which fuels small-scale generators, rose by 73,000 b/d. While less so than for crude, Saudi diesel demand is also strongly seasonal (see chart 1). While total crude plus products exports remain high on anything but a short timeframe they have fallen by 500,000 b/d from January's 9.18mn b/d all-time high and fell by a further 3.5% to 8.66mn b/d in May. Net crude plus products exports also fell by 4.3%, from 8.47mn b/d in April to 8.10mn b/d in May: total imports of 556,000 b/d for the month included 200,000 b/d of gasoline and 253,000 b/d of diesel.

1: SAUDI ARABIA OIL BURN* ('000 B/D)



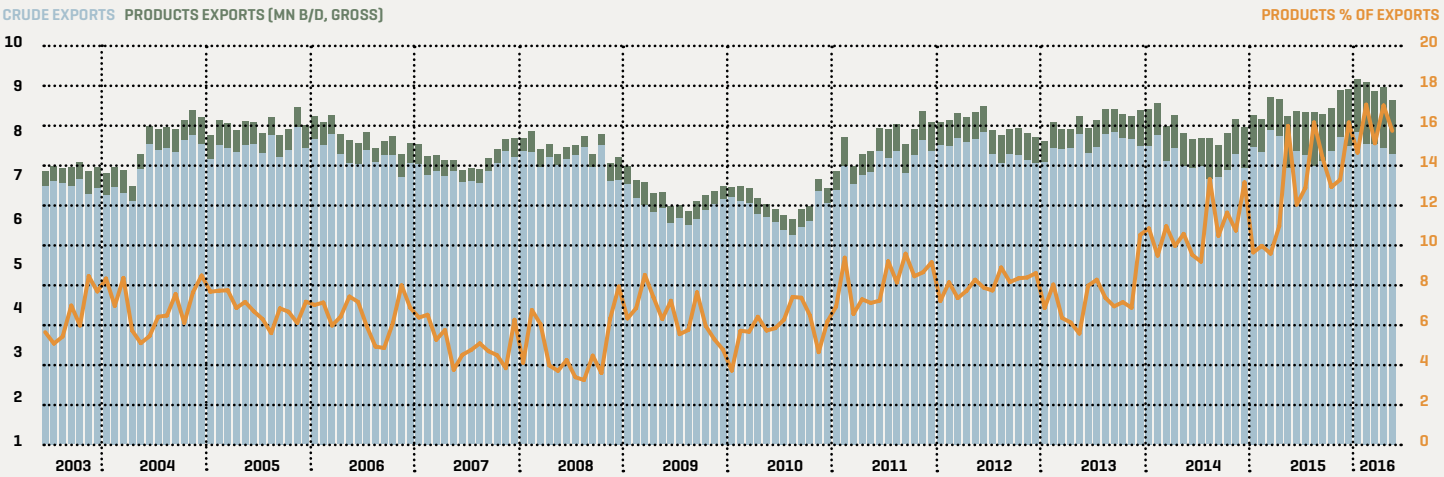
*CRUDE PLUS FUEL OIL. PRESUMES ALL DOMESTICALLY-CONSUMED FUEL OIL IS BURNT. SOURCE: JODI.

MORE STOCK DRAW BOOSTS SUPPLIES

Saudi Arabia has boosted crude supplies since the start of 2016 with an unprecedented draw down in crude stocks. A further 1.7mn barrel (54,000 b/d) draw in May took the total since the start of the year to 36.3mn barrels (239,000 b/d), that is to say the 10.484mn b/d of crude that Saudi Arabia has supplied to market since the start of the year is 2.3% in excess of the country's wellhead output.

And while the crude stocks drawdown slowed in May, that of products accelerated: products stocks saw a 3.9mn barrel draw, of which 2.3mn barrels was diesel. Total Saudi oil stocks fell by a further 180,000 b/d in May to end the month at 379.6mn barrels, some 36.8mn barrels down on peak levels hit last October. ◆◆

2: SAUDI OIL EXPORTS EDGE LOWER FROM RECORD LEVEL (MN B/D)



SAUDI ARABIA KEY OIL DATA ('000 B/D)

OPEC

			May vs Apr			vs Jan-May'15									
	May-16	Apr-16	**'000 b/d	%	J-M '16	**'000 b/d	%	1Q15	2Q15	3Q15	4Q15	1Q16	2012	2013	2014	2015
Crude Production	**10,270**	**10,262**	**+8**	**+0.1**	**10,245**	**+195**	**+1.9**	**9,870**	**10,402**	**10,284**	**10,202**	**10,231**	**9,765**	**9,634**	**9,714**	**10,189**
Crude Exports	**7,295**	**7,444**	**-149**	**-2.0**	**7,534**	**+55**	**+0.7**	**7,574**	**7,346**	**7,128**	**7,523**	**7,643**	**7,411**	**7,542**	**7,106**	**7,393**
% of crude production	*71.0*	*72.5*	*-1.5*		*73.5*	*-0.9*		*76.7*	*70.6*	*69.3*	*73.7*	*74.7*	*75.9*	*78.3*	*73.2*	*72.6*
Refinery Crude Intake	**2,369**	**2,510**	**-141**	**-5.6**	**2,518**	**+369**	**+17.2**	**2,032**	**2,249**	**2,310**	**2,131**	**2,571**	**1,726**	**1,577**	**1,997**	**2,181**
% of crude production	*23.1*	*24.5*	*-1.4*		*24.6*	*+3.2*		*20.6*	*21.6*	*22.5*	*20.9*	*25.1*	*17.7*	*16.4*	*20.6*	*21.4*
Run rate (% of capacity)	*81.5*	*86.3*	*-4.9*		*86.6*	*+12.7*		*69.9*	*77.4*	*79.5*	*73.3*	*88.4*	*81.9*	*72.6*	*80.3*	*75.0*
Direct Burn Crude	**660**	**501**	**+159**	**+31.7**	**428.4**	**+33**	**+8.3**	**314**	**643**	**813**	**519**	**327**	**528**	**483**	**553**	**572**
% of crude production	*6.4*	*4.9*	*+1.5*		*4.2*	*+0.3*		*3.2*	*6.2*	*7.9*	*5.1*	*3.2*	*5.4*	*5.0*	*5.7*	*5.6*
Total Oil Burn^	**1096**	**818**	**+278**	**+34.0**	**819**	**+28**	**+3.5**	**679**	**1085**	**1212**	**924**	**726**	**795**	**794**	**938**	**975**
% of crude production	*10.7*	*8.0*	*+2.7*		*8.0*	*+0.1*		*6.9*	*10.4*	*11.8*	*9.0*	*7.1*	*8.1*	*8.2*	*9.6*	*9.5*
Crude Stocks (mn bl, end period)	**289.2**	**290.9**	**-1.7**	**-0.6**	**289.2**	**-24.1**	**-7.7**	**304.1**	**319.5**	**322.7**	**325.5**	**296.7**	**276.6**	**287.9**	**308.7**	**325.5**
crude stock change (mn bl)	*-1.7*	*-5.8*	*+4.1*	*-71.0*	*-36.3*	*-40.9*	*-893.4*	*-4.7*	*+15.4*	*+3.2*	*+2.8*	*-28.8*	*+36.1*	*+11.3*	*+20.8*	*+16.7*
('000 b/d)	*-54.3*	*-193.4*	*+139.1*	*-71.9*	*-238.8*	*-269.1*	*-888.2*	*-51.9*	*+169.7*	*+35.0*	*+30.0*	*-316.6*	*+98.5*	*+30.9*	*+57.1*	*+45.9*
Crude Supply to Market	**10,324**	**10,455**	**-130.7**	**-1.3**	**10,484**	**+461.5**	**+4.6**	**9,920**	**10,237**	**10,251**	**10,173**	**10,547**	**9,665**	**9,603**	**9,657**	**10,145**
Oil prod. stocks (mn bl, end period)	**90.6**	**94.5**	**-3.9**	**-4.1**	**90.6**	**+2.5**	**+2.9**	**90.4**	**88.8**	**89.9**	**88.5**	**94.7**	**82.7**	**87.6**	**85.5**	**88.5**
of which: Gasoline	32.5	33.0	-0.5	-1.4	32.5	+1.9	+6.2	29.6	29.7	31.8	29.0	31.7	26.4	26.5	28.1	29.0
Jet-Kero	16.9	17.2	-0.3	-2.0	16.9	+2.2	+14.7	14.8	14.5	14.9	15.5	17.1	14.8	16.1	15.4	15.5
Diesel/Gasoil	29.1	31.4	-2.3	-7.4	29.1	-0.4	-1.5	31.2	30.9	29.3	31.3	33.2	28.7	30.8	28.5	31.3
Total Oil Stocks	**379.8**	**385.4**	**-5.6**	**-1.4**	**379.8**	**-21.6**	**-5.4**	**394.4**	**408.3**	**412.6**	**413.9**	**391.3**	**359.3**	**375.6**	**394.2**	**413.9**
oil stock change (mn bl)	*-5.6*	*-6.0*	*+0.4*	*-6.3*	*-34.1*	*-41.4*	*-573.6*	*+0.2*	*+13.9*	*+4.3*	*+1.3*	*-22.6*	*+41.3*	*+16.3*	*+18.6*	*+19.7*
('000 b/d)	*-180.0*	*-198.4*	*+18.4*	*-9.3*	*-224.7*	*-272.4*	*-570.5*	*+2.6*	*+152.5*	*+46.9*	*+14.4*	*-248.5*	*+112.8*	*+44.5*	*+51.1*	*+54.1*
REFINERY OUTPUT	**2,730**	**2,706**	**+24**	**+0.9**	**2,777**	**+469**	**+20.3**	**2,263**	**2,440**	**2,508**	**2,544**	**2,817**	**1,928**	**1,839**	**2,104**	**2,439**
LPG	32	29	+3	+10.3	37	-15	-29.4	53	50	41	40	41	31	38	43	46
Gasoline	582	546	+36	+6.6	549	+101	+22.7	433	492	534	485	539	399	384	425	486
Jet-Kero	225	251	-26	-10.4	250.4	+21	+9.3	229	221	195	251	259	173	160	199	224
Diesel/Gasoil	1123	1,008	+115	+11.4	1078	+261	+32.0	797	901	997	1,072	1,086	637	590	711	942
Fuel Oil	390	458	-68	-14.8	456	-14	-2.9	455	487	449	396	477	463	436	469	447
other products	378	414	-36	-8.7	407	+114	+38.7	296	289	291	300	414	225	231	257	294
REFINED PRODUCTS DEMAND*	**1,976**	**1,789**	**+187**	**+10.5**	**1,874**	**-43**	**-2.3**	**1,818**	**2,074**	**2,024**	**1,950**	**1,869**	**1,634**	**1,723**	**1,861**	**1,967**
LPG*	45	45	-	-	47	+1	+2.6	46	45	41	45	48	45	42	42	44
Gasoline	560	580	-20	-3.4	579.2	+12	+2.1	556	574	564	577	585	483	506	528	568
Jet-Kero	88	93	-5	-5.4	93.4	+8	+9.6	82	88	96	87	95	69	71	79	88
Diesel/Gasoil	780	707	+73	+10.3	707	-33	-4.5	684	840	835	756	683	710	730	753	779
Fuel Oil	436	317	+119	+37.5	390.2	-5	-1.3	365	442	399	405	399	267	311	384	403
other products	67	47	+20	+42.6	57.4	-26	-31.3	85	85	89	80	58	60	64	75	85
PRODUCTS EXPORTS (GROSS)*	**1361**	**1,524**	**-163**	**-10.7**	**1423.8**	**+479**	**+50.8**	**817**	**1,093**	**1,204**	**1,239**	**1,411**	**650**	**600**	**862**	**1,088**
Gasoline	219	237	-18	-7.6	213.4	+92	+76.4	99	160	182	225	204	44	38	99	166
Jet-Kero	140	188	-48	-25.5	152.6	+4	+2.8	152	132	126	96	145	103	82	135	127
Diesel/Gasoil	613	586	+27	+4.6	582.4	+308	+112.1	176	385	497	539	571	98	105	243	399
Fuel Oil	183	283	-100	-35.3	268.8	+82	+43.9	169	221	197	228	293	239	222	197	204
Crude & Prod. Exports (gross)*	**8656**	**8,968**	**-312**	**-3.5**	**8957.4**	**+534**	**+6.3**	**8,391**	**8,439**	**8,332**	**8,762**	**9,054**	**8,061**	**8,142**	**7,968**	**8,481**
% of crude production	*84.3*	*87.4*	*-3.1*		*87.4*	*+3.6*		*85.0*	*81.1*	*81.0*	*85.9*	*88.5*	*82.5*	*84.5*	*82.0*	*83.3*
IMPORTS	**556**	**503**	**+53**	**+10.5**	**493.2**	**+64**	**+14.9**	**377**	**579**	**638**	**757**	**469**	**319**	**482**	**465**	**588**
Gasoline	200	243	-43	-17.7	228.2	+17	+7.9	210	213	204	255	233	92	134	158	221
Diesel/Gasoil	253	185	+68	+36.8	176.8	+41	+29.8	108	237	303	347	149	167	247	236	249
Fuel Oil	100	72	+28	+38.9	78.2	+14	+21.1	41	112	121	122	73	61	101	60	99
NET PRODUCTS EXPORTS*	**805**	**1,021**	**-216**	**-21.2**	**930.6**	**+415**	**+80.6**	**440**	**514**	**566**	**482**	**942**	**331**	**118**	**396**	**500**
Naphtha	206	230	-24	-10.4	206.6	-7	-3.1	220	195	202	151	199	166	153	188	192
Gasoline	19	-6	+25	-416.7	-14.8	+76	-83.6	-111	-53	-23	-31	-29	-48	-96	-60	-54
Jet-Kero	140	187	-47	-25.1	148.2	-0	-0.1	152	132	123	77	138	103	82	135	121
Diesel	360	401	-41	-10.2	405.6	+267	+193.1	68	148	194	192	422	-68	-142	7	150
Fuel Oil	83	211	-128	-60.7	190.6	+68	+56.0	128	109	76	106	220	179	121	137	105
Crude & Products Exports (Net)*	**8100**	**8,465**	**-365**	**-4.3**	**8464.2**	**+470**	**+5.9**	**8,014**	**7,859**	**7,694**	**8,005**	**8,585**	**7,742**	**7,660**	**7,502**	**7,893**

*EXCLUDES FIELD LPG (650-700,000 B/D), NGLS AND CONDENSATE. **OR RESPECTIVE UNITS. CHANGES IN % NUMBERS ARE EXPRESSED IN % POINT TERMS. ^PRESUMES ALL FUEL OIL CONSUMPTION IS BURNT IN POWER PLANTS. SOURCE: JODI, MEES EST.

Iraqi Political Deadlock Exacerbated Following Ministerial Resignations

Prime Minister Haydar al-'Abadi's government is in fresh turmoil after his 18 July order accepting the resignations of six cabinet ministers. While Mr 'Abadi has been seeking to engineer a cabinet reshuffle in order to appoint a "technocratic government" the key obstacle remains the same – securing parliament's approval of any nominated replacements.

In the meantime, economic and social reforms will remain sidelined as Iraq's political factions maneuver over the cabinet's composition.

The now-vacant portfolios are oil, transportation, housing, industry, water resources and the powerful Interior Ministry.

The departure of Oil Minister 'Adil 'Abd al-Mahdi will have little impact on Iraq's oil sector. Mr 'Abd al-Mahdi has been absent from the ministry since announcing in March that he would not be attending cabinet meetings until parliament examined his resignation, tendered in August 2015 (MEES, 25 March).

Deputy Oil Minister Fayadh al-Nema, who belongs to the same political party, the Islamic Supreme Council of Iraq (ISCI), has been carrying out his ministerial responsibilities on his behalf since then. This included attending the last Opec meeting in Vienna in June, and Mr Nema will likely remain in situ on an interim basis until a permanent replacement is agreed on.

TECHNOCRATIC REFORMS REMAIN DISTANT

Mr 'Abadi first kicked off the technocractic initiative in an address to the nation on 9 February after hitting a low-point politically, and the bulk of the political class' attention since that point has been focused on struggles in and around parliament over the effort. The deepening political paralysis will hamper efforts to implement the IMF's conditions for the $5.4bn standby arrangement (SBA, see p15).

The turmoil has included the 30 April sacking of parliament by protesters loyal to Shia cleric Muqtada al-Sadr, and the same group's subsequent vandalizing of the cabinet administration offices on 20 May. Despite military success in Fallujah, a massive terrorist attack in a key population center in Baghdad on 3 July left almost 300 dead and the government's credibility on security in tatters.

Two figures from the ISCI, Oil Minister 'Abd al-Mahdi and Transportation Minister Baqir al-Zubaidi, ostentatiously offered their resignations last August, in what appears to have been an attempt to pressure Mr 'Abadi into treating them as a political partner rather than issuing unilateral decisions. The move came after a reconciliation between Mr 'Abadi and ISCI leaders, although ISCI insists that it suggests replacements at the oil and transportation ministries and then the prime minister can pick one candidate through consultations.

A somewhat different dynamic has played out with Interior Minister Muhammad Salim al-Ghaban, who declared on 5 July he would resign because Baghdad security was managed in a fragmented manner, essentially demanding that he have more power. His Badr Organization, a Shia party that is closely tied to Iran and a rival to Mr 'Abadi, has been more insistent than ISCI that Mr Ghaban be replaced by one of their own.

This could easily become a source of great friction if the current acting minister, who belongs to Mr 'Abadi's Dawa Party, holds on to this powerful office for an extended period. Given Mr 'Abadi's previous failed efforts to replace ministers, it is advisable not to expect a swift resolution.

The remaining three resigning ministers were Sadrists – Water Minister Hasan al-Shamari, Industry Minister Muhammad al-Darraji, and Construction and Housing Minister Tariq Khikani. All three have had their tenures marred by scandals – and in Mr Shamari's case, the mishandling of the vital Mosul Dam repair issue – and Mr Sadr himself demanded their resignation.

Yet Mr Sadr's demands are ultimately incompatible with those of ISCI and Badr, parties with which he has a fierce rivalry. ISCI and Badr demand to choose, or at least propose, the new ministers, while Mr Sadr is a vocal advocate of a government of "technocrats" with no political ties.

Advocating such a development leaves Mr Sadr in a strong political position – regardless of whether or not it is implemented – since he has used protests to set himself up as a popular leader demanding reforms. Since the other Shia factions will naturally always oppose allowing Mr Sadr to be the figure that grants or denies legitimacy to a government, this virtually guarantees continued intra-Shia conflict.

With no hope of having close to a majority in parliament and unilateral executive actions having backfired, Mr 'Abadi's options for any ambitious initiative remain limited. The government's most important bill before parliament now is one is a "ministry merger" bill that would give legitimacy to the prime minister's unilateral abolition or merger of 11 ministries last August (MEES, 6 November), violating the constitutional requirement that parliament must approve the removal of ministers.

As the leading daily newspaper al-Mada reports, parliamentarians are still unhappy with the prime minister's actions (some blocs lost ministers), but at least he is asking for parliament's approval now.

A SURPRISING WELCOME

Prime Minister 'Abadi is also facing pressure from the increasingly confident former premier Nuri al-Maliki, who has given a series of provocative interviews recently, including one with BBC Arabic in which he stated that he was ready to return as prime minister "if I am compelled" to do so.

Mr 'Abadi's immediate predecessor visited Sulaymaniyah in Iraqi Kurdistan on 18 July and, in a surprise to many, received a warm, high-level welcome from leaders of both the Patriotic Union of Kurdistan and Goran. The PUK and Goran have this month sent a joint delegation to Baghdad to meet with a range of Arab political factions.

This included a meeting with Mr Maliki, but still the welcome he received in Sulaymaniyah surprised many in the Iraqi media. The former prime minister is widely detested at the popular level by Kurds both for cutting off the region's budget payments in January 2014 and his repeated claims that Kurdistan sponsors Sunni Arab terrorist groups. The fact that the Kurdish parties closest to Baghdad are willing to reach out to him reflects poorly on their view of Mr 'Abadi's prospects.

Kurdish divisions potentially work to Mr 'Abadi's advantage as well, though. On 21 July, Kirkuk Governor Najm al-Din Karim – of the PUK – visited Baghdad, and was open about the fact that the purpose of the visit was to persuade him to renew oil exports through Kirkuk. The governor also told the media that the province's regular budget payments and the need for administrative decentralization were key agenda items. Mr Karim has pushed for an autonomous Kirkuk province in recent weeks, a prospect opposed both in Baghdad and Iraqi Kurdistan (MEES, 17 June).

Arab-Kurd relations have been generally bad, but both sides have tried to maintain a modicum of public civility to maintain security cooperation ahead of a widely anticipated offensive to liberate Mosul from the Islamic State organization. Recent Iraqi army allegations reported by AFP that Kurdish forces detained and tortured eight federal army soldiers in Makhmur, adjacent to Kirkuk, have put tensions back on edge. ◆◆

Apicorp And Bahri Plan $1.5bn Saudi VLCC Shipping Fund

OAPEC-owned multilateral development bank Apicorp and shipping fleet operator Bahri – owned 22% by the Saudi government's Public Investment Fund (PIF), 20% by state petroleum firm Saudi Aramco and 58% by private investors – plan to launch a $1.5bn shipping fund to acquire around 15 very large crude carriers (VLCCs) in three phases with a total investment of up to $1.5bn of debt and equity financing.

The two organizations signed an agreement on 17 July to establish the Apicorp Bahri Oil Shipping Fund (ABOSF), through which Apicorp will be the main investor and fund manager and Bahri will be the exclusive commercial and technical manager.

Apicorp will put up 85% of the funding and Bahri 15%. The companies say the venture will be a closed-end fund with a 10-year life period and will deliver returns derived from the commercial deployment of the VLCCs.

CAPACITY BOOST

Apicorp and Bahri say the "unique structure" of the deal will enable Bahri to increase its VLCC fleet, which currently comprises 36 vessels with a combined capacity of 11.3mn deadweight tons (dwt). Bahri's existing fleet also includes smaller crude tankers as well as products and chemicals tankers (see table).

The 15 VLCCs planned through the Apicorp/Bahri fund, as well as 10 VLCCs already on order from Korea, would add some 7.5-8mn dwt of capacity to the Bahri fleet, depending upon vessel design, taking Bahri's total VLCC capacity to 18.8-19.3mn dwt in 61 vessels.

Bahri CEO Ibrahim al-Oman says that "with a current fleet of 36 VLCCs and 10 newbuild orders scheduled for delivery in 2017-18, the 15 crude carriers proposed for acquisition under this fund will propel Bahri into becoming the largest operator of VLCCs in the world." Last year Bahri awarded Korea's Hyundai Samho Heavy Industries a contract to build 10 new VLCCs, for delivery during 2017-18.

Bahri chairman 'Abd al-Rahman al-Mufadhi also says the Apicorp/Bahri fund plan aligns with Deputy Crown Prince Muhammad's Vision 2030 strategy of shifting the Saudi economy away from heavy reliance on oil exports revenues towards a more diversified and investment-led economy.

"This fund will not only reduce Saudi Arabia's dependence on external crude carriers, but also its earnings will be reinvested in the local economy," says Mr Mufadhi.

BAHRI/ARAMCO DEAL

Bahri took over Saudi Aramco's Vela shipping unit in 2014, in an agreement which included a long-term contract to provide VLCCs for Saudi Aramco oil exports. Saudi Arabia's crude oil exports have averaged 7.5mn b/d in the first five months of 2016 (see pXX). Bahri's 17 VLCCs plus Vela's 15 gave the merged company an initial total of 32 VLCCs, to which it has since added four second-hand vessels.

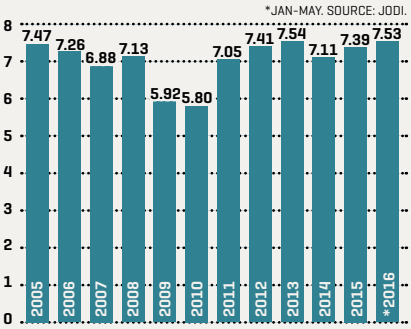
In a separate venture announced in June, Bahri has signed a joint development agreement with Saudi Aramco, Korea's Hyundai Heavy Industries and the UAE's Lamprell Energy for development of a maritime yard at Ras al-Khair in eastern Saudi Arabia. Bahri says the yard will provide engineering, manufacturing and repair services for offshore rigs, commercial vessels and offshore service vessels. ◆◆

BAHRI SHIPPING FLEET

Current	Typical tonnage	No.
VLCCs	320,000 dwt	36
Chemical tankers	45,000 dwt	26
Roll-on/roll-off	25,000 dwt	6
Product tankers	25,000 dwt	5
Dry Bulk vessels	80,000 dwt	5
Medium range tankers	45,000 dwt	4
Aframax tanker	120,000 dwt	1
Planned		
VLCCs (due 2017-18)	320,000 dwt	10
VLCCs (via Fund)	320,000 dwt	15

SOURCE: MEES.

SAUDI CRUDE OIL EXPORTS (MN B/D)



ACWA GETS $1.8BN POWER REFINANCE DEAL

Saudi private power project developer Acwa Power has led a refinancing of the Rabigh 1 independent power producer (IPP) project on Saudi Arabia's western coast. The project reached financial close in September 2009 and started commercial electricity generation in April 2013.

The 1.2GW Rabigh oil-fired plant was built at a total project cost of $2.5bn by Rabigh Electricity Company (Rabec), in which Acwa has 40% equity along with Korea's Kepco (40%) and Saudi electricity utility SEC (20%).

Acwa says Rabigh 1 was the first Saudi IPP project to be procured without a sovereign guarantee. The company adds that it has now secured over $1.825bn of refinancing debt on a combined conventional and Islamic basis.

Conventional debt of over $300mn was provided by a group of Korean insurance companies, including Samsung Life and Dongbu Insurance/Hyundai Asset Management, and commercial banks Natixis of France, Japan's MUGF, France's Credit Agricole, and UK's Standard Chartered Bank.

A wakala ijara tranche of over SR3.2bn ($853.3mn) was provided by Alinma Bank and Al Rajhi Bank, while a procurement tranche of over SR2.4bn ($640mn) was provided by National Commercial Bank, Banque Saudi Fransi, Arab National Bank, Samba Financial Group and Saudi British Bank (SABB).

SEC chief financial officer Fahd al-Sudairi says that "for Saudi Electricity Company the refinancing results in direct savings of around SR1bn ($266.7mn) over the life of the power purchase agreements until March 2033."

Acwa is also involved in the 2.1GW Rabigh 2 IPP project, with partners Samsung of Korea and Dubai-based Mena Infrastructure Fund. Rabigh 2 is owned 50% by the Acwa-led ground and 50% by SEC. The gas-fired plant is scheduled for completion in 2017.

SEC is owned 74% by the Saudi government, 7% by state petroleum firm Aramco and 19% by private investors. It is increasingly reliant on outside finance for capacity expansions.

Most recently SEC secured a $1.5bn loan from China, taking total fundraising since 2007 to $33bn (MEES, 8 July).

◆◆

GCC Bonds' Bumper Year: 1H16 Surpasses All Previous Full-Year Historic Highs

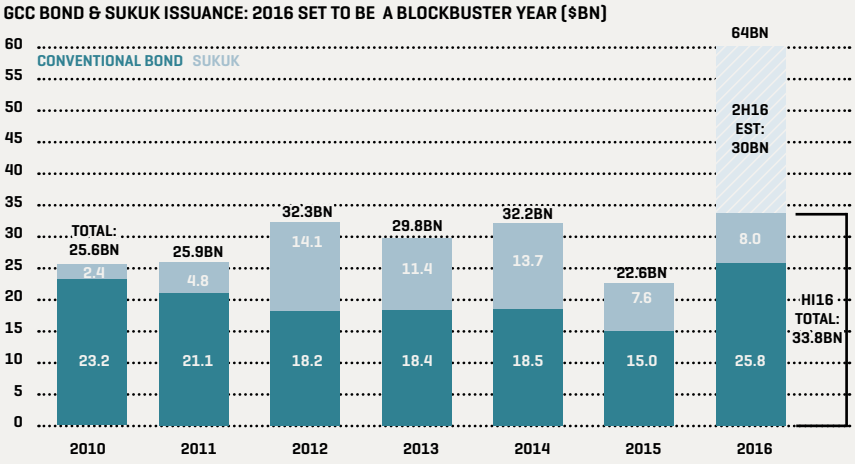
Plunging oil prices since mid-2014 led to a rapid drawdown in GCC foreign reserves and a sharp expansion in budget deficits. Determined to put a lid on this, 2016 is seeing a record breaking surge in Gulf sovereign bonds, but debt repayments will pose a new challenge in the coming years.

If GCC financial activity is remembered for one thing in 2016, it should be for the Gulf sovereigns' unprecedented appetite in tapping cheap bond markets as they seek to counter the 60% fall in oil prices since mid-2014.

While oil prices have rallied in recent months - Brent dropped below $28/B in January but is currently around $47/B - the oil-revenue dependent countries still face economic challenges.

MEES estimates that OPEC countries' oil revenues will be around $384bn for the year, down by $134bn on 2015 (MEES, 1 July). Of this, the GCC Opec countries – Saudi Arabia, UAE, Kuwait and Qatar – account for $78bn of the fall.

GCC BOND & SUKUK ISSUANCE: 2016 SET TO BE A BLOCKBUSTER YEAR ($BN)



BONDS AWAY

With half the year still remaining, 2016 has already smashed all previous full-year records for GCC bond and sukuk (Islamic bond) issuance.

Approximately $34bn worth of bonds and sukuk have been issued so far according to data published by National Bank of Abu Dhabi (NBAD) on 11 July. The bank forecasts full year issuance to reach north of $60bn.

The game-changing aspect is both the frequency and size of bond issuances by GCC sovereigns, which are in turn being met by considerable demand despite many having had ratings downgrades in recent months (MEES, 1 July).

In April, Abu Dhabi attracted $17bn of bids for a $5bn bond and the following month, Qatar attracted $23bn in orders for its $9bn, three-year tranche bond, the largest ever issuance from the Middle East - for now.

In June, Oman raised $2.5bn from its first international bond issue since 1997 to help fund its gaping budget deficit, which is projected at OR3.3bn ($8.6bn) in 2016 as a result of the plunge in oil prices (MEES, 17 June). It posted a shortfall of $11.7bn in 2015 (MEES, 8 January).

The $2.5bn issue was oversubscribed by almost three times and consists of two tranches: $1bn of five-year bonds and $1.5bn of 10-year bonds. Oman had to accept higher pricing for the issue, compared to the two better rated sovereigns of Qatar and Abu Dhabi.

Moody's has downgraded Oman three notches since February 2016 to Baa1, while Standard & Poor's has lowered Oman's ratings by four notches since 2015 to BBB-. Both ratings hover above 'junk grade' territory.

Despite the GCC ratings downgrades, a strong new debt pipeline has already been established for the second half of 2016, with circa $30bn expected to get issued.

Likely future issuers include the UAE's federal government, which is looking into the possibility of raising its own debt, along with bonds sold by individual emirates such as the Dubai government, which is reportedly preparing an international issue later this year.

There is also an expected pipeline of government-related entity (GRE) issuances such as those from the UAE's Emaar, Bank of Sharjah and Kuwait's Burgan Bank.

But all such issuances are set to be dwarfed by that of the Saudi government, pricing circa $15bn in a debut US dollar multi-tenor deal at the end of the summer. Saudi Arabia has chosen Citigroup, HSBC and JP Morgan to manage the bond issue according to Reuters.

Saudi Arabia has already sought external financing to plug its budget deficit through the arrangement of a five-year $10bn bank loan in May, its first international debt issuance since 1991 (MEES, 29 April).

REINING IN SPENDING

Initially, GCC governments were drawing down on their central bank reserves to finance the oil shock, and were slow to curb their expenditure, sending budget deficits soaring.

This was particularly notable in the case of Saudi Arabia's SAMA for whom net foreign reserves dropped from a peak of $732bn in August 2014 to $581bn at end-April 2016, where it remained in May (see p20).

The kingdom's budget deficit soared from around $14.4bn in 2014 to a record $98bn last year (MEES, 8 January), and it has budgeted for a similarly tough 2016, projecting an $87bn deficit.

In May, Moody's downgraded Saudi's long-term credit rating by one notch from Aa3 to A1-, marking the first negative ratings action since it began rating the kingdom two decades ago. This followed similar downgrades by Standard & Poor's and Fitch.

Conscious of the fact that credit rating agencies are closely watching their

Continued on – p13

Continued from – p12

fiscal balances and that downgrades along with further depletion of their reserves, will make it both more difficult and expensive for them to raise capital on international markets, GCC sovereigns are moving quickly to issue bonds.

And as things stand today, these bonds are proving considerably more attractive than other global market debt.

"The current environment is actually pretty conducive for strong GCC entities to tap the debt capital markets and take advantage of the appetite among the global investor base," Chavan Bhogaita, Managing Director and Global Head of Market Insights and Strategy at NBAD tells MEES.

"The prospect of buying A+ or AA rated paper issued by a sovereign or GRE in this region and being paid a relatively attractive yield for holding such risk is highly attractive, especially when compared to other sovereign yields on offer today. The fact that rates are so low and that we have many fixed income papers offering negative yield at present certainly increases the attractiveness of GCC sovereign and GRE paper in the eyes of investors" (see chart).

Indeed, with near zero interest rates, or even negative rates, on bonds in global markets, there are few attractive opportunities globally for bond investors, making it comparatively easy for GCC states and GREs to access capital. In turn, the generally low bond yields mean the cost of raising capital for Gulf governments is very low.

For example, for its $5bn issuance in April, Abu Dhabi borrowed over 10 years at 3.12%, around 125 basis points over US Treasuries. The same sale of debt in 2009 came with a 6.75% rate and a higher spread over the US benchmark.

KICKING THE CAN DOWN THE ROAD

While this bodes well for the short term, such a rapid spate of bond issuances potentially carries risks for the longer term, especially if oil prices stay in their current range.

Simon Williams, HSBC's chief economist for the Middle East, calculates that sovereign, financial and corporate borrowers in the GCC must repay or refinance bonds worth $94bn in 2016 and 2017. But the current Brent futures curve has oil remaining below $54/B over the next 24 months.

The accumulation of debt has led to comparisons with the region's rapid credit expansion in the mid-2000s and subsequent crunch in 2009.

"The concern is that if Gulf sovereigns continue their current level of government expenditure and fiscal outlays, and continue to borrow to the degree that it looks like most want to do this year, there will be a revenue gap. While current fiscal revenues are largely supplied by oil exports, and those revenues have declined significantly since mid 2014, there's just not going to be enough money to service the debt and continue the spending trajectory ," Karen Young, Senior Resident Scholar at the Arab Gulf States Institute in Washington (AGSIW) tells MEES.

"And so there will need to be another strong source of government revenue but it's not yet clear what this will be. Privatizations, selling state assets (either foreign reserves or SWF assets) or creating PPP's are all possibilities but they take tim. The short term becomes the risk, as some of the bonds that Gulf states issuing now are in tranches with the first repayment period beginning in three years' time. For the local bank sector, for local contractors, this creates a risk and tension in government liquidity."

Indeed, in most cases, the steps being taken by the GCC sovereigns to achieve broader reforms and generate new and diversified income streams such as tourism fees and a planned GCC-wide 5% VAT, will take time to be implemented.

"From a funding perspective, if they are using debt as a means of plugging part of the budget deficit in the near term, some of this debt may need to be refinanced or rolled over, as opposed to repaid, until such a time as the current reforms and initiatives generate meaningful incremental revenues and importantly cash inflow," says Mr Bhogaita.

"However, in the longer term we believe that some of the measures being implemented can indeed generate material and recurring revenues for the sovereigns concerned."

While respective GCC sovereigns' ability to service their debts will be borne out by time, this year's blockbuster volume of issuance is clearly beneficial for the development of the region's bond and sukuk industry.

Aside from generating further engagement from global investors, it should help to drive greater activity in the secondary market and give further confidence to first time issuers from the region that may be waiting on the sidelines.

This could particularly be the case for Saudi Arabia with Moody's expecting that from 2017 onwards, its fiscal deficit will be entirely debt financed – most likely by a mix of domestic or international issuance – bonds, bank loans and sukuk.

If Saudi Arabia does start regularly issuing bonds in the international debt capital markets and hence establishes a liquid sovereign benchmark curve, this would likely help private sector companies in the kingdom to issue paper.

Furthermore, they ought then to be able to do so at a more favorable cost of funding, as it could be priced on the basis of a "KSA sovereign benchmark plus X basis points," rather than investors having to ascribe a more arbitrary risk premium.

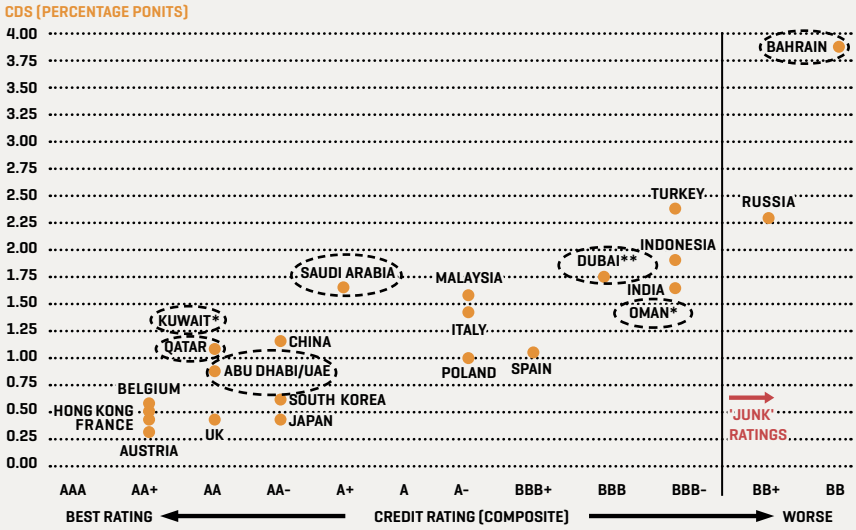
"We think the success of an international Saudi government bond potentially later this year will be seen as a bellwether for how investors view the country as a whole and should help pave the way for increased debt issuances by other domestic entities - be it GREs or private sector companies such as banks," Steffen Dyck, Senior Credit Officer and lead sovereign analyst for Saudi Arabia at Moody's tells MEES.

The Saudi government aims to increase the number of listed companies on the Tadawul from 170 to 250 within seven years. It hopes that developing the equity and debt markets by adding listings and products can serve as a key source of revenue (MEES, 20 May).

"The Saudi bond is also significant in that bond issuances increase transparency – prospectuses have to be quite detailed and include quite a lot of information that has probably not previously been published to a broad audience," says Mr Dyck.

"Borrowing money internationally will also place more scrutiny on the government's fiscal reforms and make them more disciplined in pushing through further reforms to make sure that debt sustainability is achieved."

GCC SOVEREIGN CREDIT RATINGS AND CREDIT DEFAULT SWAP SPREADS – AN INTERNATIONAL COMPARISON



CDS LEVELS AS OF 1 JULY 2016 *ESTIMATES FOR KUWAIT, OMAN. **DUBAI IS NOT RATED. PROXY RATING OF 'BBB' BASED ON COMPARISON WITH OMAN (BBB), BAHRAIN (BB) & DEWA (BBB). SOURCE: BLOOMBERG, NBAD, MEES.

Parliament Likely To Water Down Iran's Planned Banking Sector Overhaul

The Central Bank of Iran (CBI) has unveiled details of the much anticipated banking overhaul plan which is intended to reform Iran's beleaguered banking sector. President Hassan Rohani signed the draft law launching the plan last month, but parliament has already objected to elements of it.

But the law needs the green light from parliament before the government can start addressing problems in the banking sector. With parliamentary approval unlikely to be forthcoming soon, the reforms may not be launched before next year's presidential elections in June, the outcome of which may see them permanently derailed.

The plan which has been in the making for a year, will seek to get financing for short- and medium-term projects back on track, provide a cash cushion to tackle bad loans, promote competition, reorganize the money market by regulating "the army of uncertified credit and financial institutions," and increase bank's lending power through recapitalization.

The CBI says the plan is intended to facilitate management of the interbank system, reinforce and allocate banking resources, balance the reserve requirement of commercial banks, link bank ratings to performance, and enable improved supervision of Iran's beleaguered banks. The plan also covers monetary policies aimed at introducing discipline in the money market. Unlicensed banks play a major role in Iran's banking sector and the government is attempting to license them. However this is perilous as stringent regulations risk causing these institutions to collapse, further destabilizing Iran's banking sector.

The banking sector's problems have exacerbated the recession and created bad debts the CBI says, partly due to the government's failure to settle its obligations. It warns that if the government fails to effectively repay its debts, "a worsening of the recession does not seem far-fetched."

Further monetary policies include raising the capital of private banks, reducing non-performing loans (NPLs), and merging and dissolving ailing banks and credit institutions. The CBI aims to reduce the mountain of government debt, which Governor Valiollah Seif said in May stood at 40% of GDP (MEES, 20 May). With the CBI's latest figures putting GDP at IR10,800 trillion ($349bn), this implies government debt of $139.6bn. Abbas Akhoundi, Minister of Roads and Urban Development paints an even more negative picture, putting government debt at $178.7bn, around 50% of national GDP. This figure includes the government's own debt, debts of government-affiliated companies, and money owed by NIOC.

Mr Seif told local TV that he expects to implement the first phase of the plan focusing on fundamental and infrastructure problems in the sector, the credit crunch and the banks' capital adequacy positions by the end of the current fiscal year in March 2017, but this looks optimistic.

DEPOSIT RATES SET AT 15%

At the end of June the CBI's Money and Credit Council (MCC) lowered lending rates following a decision by private banks to voluntarily lower the one-year deposit rate from 18% to 15%, a measure which was embraced by public-sector lenders.

Before the nuclear agreement, Iran witnessed annual interest rates in excess of 26-27%. Usually interest rates were lower at state-owned banks, while private banks offered higher rates to attract would be depositors. Enforcing the lower lending rates will be a challenge for the CBI given the proliferation of unlicensed institutions.

Further cuts in lending rates are unlikely, given the large number of NPLs in the banking sector – around 15%. Lower rates would increase demand for loans, but this would exacerbate the existing liquidity problems facing the banking sector.

Pushing interest rates down precipitously would therefore risk damaging the fragile banking system, causing bankruptcies and loss of savings by depositors. The government is facing calls for a more protracted approach, despite the current gap between inflation, now in single-digit figures, and interest rates of around 15%.

BANK RECAPITALIZATION: UPHILL STRUGGLE?

Recapitalization of Iranian banks under the banking overhaul plan will not be an easy task, given the current shortage of capital in the economy and the government's limited ability to access its frozen assets in overseas banks, due to residual US sanctions on financial transactions with Iran.

Also some factions within parliament will likely interfere with the plan and delay its prompt implementation.

Mohammad Baqer Nobakht, head of the Management and Planning Organization, says that the government favors a plan to clear some of its debts to banks by accessing the country's foreign exchange reserves, which could also be used to recapitalize some banks. But both the current parliament and the previous one, do rejected this option, because they do not want the government to get used to tapping hard currency reserves for such purposes, as part of the annual budget to support the banking sector.

Nevertheless, the government still intends to pursue this option in further debates in parliament, Iranian reports indicate, pointing to a protracted negotiating process. The government insists that the implementation of the banking sector reform plan is crucial for opening up the post-sanctions economy. International businesses and banks will require international standards from Iranian financial institutions, when they are ready to engage with them. Having been isolated from the global financial market for more than a decade, Iranian banks need to do a lot of catching up to match global financial practices.

Mr Seif says that the government is proceeding to issue Islamic bonds in the capital market, which will help to repay some of the outstanding government debt to contractors and creditors. He did not indicate the size of the bond issue, but Iran's Minister of Finance Ali Tayyebnia stated on various occasions that the government plans to launch some IR400 trillion ($13bn) worth of Islamic bonds in the current fiscal year ending March 2017, to be used to help repay government debt to the private sector.

He added "we intend to replace government debt to people with bonds whose yields will be paid every three months," and that this request to launch a debt market will be sent to the Majlis soon. Mr Tayyebnia noted that the government had issued IR158 trillion ($5bn) worth of Islamic bonds (including sukuk) in the year ending in March 2016.

Repaying government debt to contractors by issuing bonds would ensure economic progress and reduce contractors' problems, the minister said, while at the same time increasing liquidity would in principle help to further bring down deposit and lending rates. Together with the issue of domestic bonds, Iran has already indicated that it is considering tapping the international debt market after an absence of around 14 years (MEES, 15 July 2002). But Iran first needs to be rated by international agencies for financial risk assessment. Deputy CBI Governor Akbar Komijani has said that Fitch has already paid a visit to Tehran to assess the financial and banking sectors.

Bloomberg reported this week that Mr Tayyebnia confirmed that Iran is exploring the international debt market to seek funds for the country's economic recovery in the post sanctions era and for construction of new infrastructure. ◆◆

IMF Details Iraq 2016 Budget Cutbacks

Cash-strapped Iraq has agreed to trim its 2016 planned budget expenditure by ID13 trillion ($11bn), or 13% in nominal terms, as part of the fiscal consolidation demanded by the IMF to approve its $5.4bn standby arrangement (SBA) for Iraq (MEES, 15 July). This downward revision in expenditure became necessary because last October Iraq originally based its 2016 budget on oil price assumption of $45/B, but has since had to lower the oil price to $34.5/B.

If anything, this re-evaluation appears overly pessimistic. Iraq's main Basra Light export grade has averaged $34.94/B in the first half of the year and current futures prices indicate that this could rise to around $39/B for the full year.

In its latest Iraq Country Report, published on 14 July, the IMF said that in 2016 "the government will implement a fiscal program that is significantly more restrictive than the budget approved by parliament but very close in nominal terms to the budget executed in 2015."

According to the IMF report, the downward adjustment will see revenue and grants in 2016 falling by ID18bn to ID64bn, with oil revenue down ID16bn to ID57bn. On the expenditure side, the axe falls on current expenditure which is down by ID9bn to ID68bn, and on investment expenditure which declines by ID4bn to ID22bn.

Under current expenditure the largest cuts are for salaries, while pensions also face major cutbacks (see chart). Thousands protested in Baghdad in November following the announcement of the IMF program, and this crystallization of spending cuts will fuel public dissatisfaction with the government.

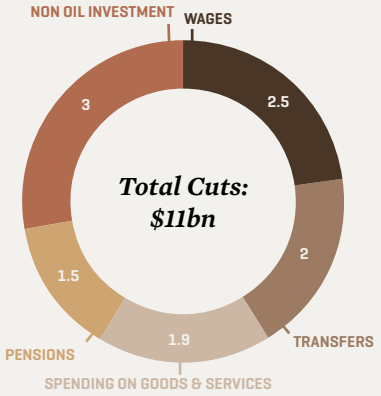
Political instability (see p10) means that the government's ability to implement the necessary reforms that the IMF has requested in order for the approval of the SBA is highly questionable.

Non-oil expenditure is being cut by prioritizing projects already started and focusing on the most crucial new ones, while delaying other projects. However, the IMF notes that oil investment spending will remain at the original 2016 budget level (ID15 trillion) recognizing that oil revenue "is essential to finance public expenditure."

Under the SBA terms, Iraq must pay down the $14bn in debts it built up to IOCs in 2015 and maintain prompt payments for 2016. In a potential sign of growing investor confidence, Eni this week awarded Emirati firm Drake & Skull a ADH226mn ($61mn) EPC contract to help develop its 360,000 b/d Zubair field.

This covers the construction of a water injection network installation project along with a gas supply pipeline system. The company was previously awarded an EPC pipeline installation contract for the oil field in 2012, which it completed last year.

IMF SUGGESTED IRAQI SPENDING CUTS ($BN)



Despite these cutbacks the Iraqi government will still face a large budget deficit in 2016 "that will be financed mainly by indirect monetary financing and the associated drawdown in official foreign exchange reserves, as well as loans by the international community." The 2016 deficit of ID 26 trillion will be mostly financed by domestic banking financing (ID16.6 trillion), local bonds targeting general public and Iraqi diaspora (ID5 trillion) and external financing.

For the coming four years (2016-19), the IMF report calculates that Iraq will have a "remaining financing gap" of $6.1bn (see table). ◆◆

IRAQ'S 2016-19 'FINANCING GAP' AND HOW TO FILL IT ($BN)

	2016	2017	2018	2019	Total: 2016-19	Mode of delivery
Initial financing gap	**4.92**	**8.36**	**3.50**	**1.31**	**18.09**	
Identified financing	**4.92**	**8.36**	**-2.00**	**0.71**	**11.99**	
IMF	1.92	1.39	1.39	0.70	5.40	Three-Year Stand-By Arrangement
World Bank	1.00	1.00	1.00	-	3.00	Development Policy Loans or Policy Based Guarantees
Kuwait	-	4.60	-4.60	-	-	Postponement of war reparation payment by one year
USA	1.00	-	-	-	1.00	Full US guarantee of Iraq Eurobond issue
Germany	-	0.56	-	-	0.56	Loan disbursements: €500mn if possible in 2017, otherwise 2017-19, to implement electricity projects with German export credit guarantees
Japan	-	0.30	0.20	-	0.50	Development Policy Loans in sync with the World Bank Development Policy Loans if possible in 2017 and 2018, otherwise during 2017-2019
France	0.45	-	-	-	0.45	Additional loans made possible by France's $450mn guarantee contribution to the World Bank Guarantee Facilityfor MENA countries under preparation
UK	0.43	-	-	-	0.43	Additional loans made possible by the United Kingdom's £300mn guarantee contribution to the World Bank Guarantee Facility for MENA countries under preparation
Italy	-	0.40	-	-	0.40	Project loan disbursement for $400mn if possible in 2017, otherwise during 2017-19, including $100mn for the co-financing of a World Bank project for the Mosul dam
Canada	0.12	0.01	0.01	0.01	0.15	In 2016, Canada's CAD 160mn guarantee to the World Bank Guarantee Facility for MENA countries under preparation; and, in 2017-19, CAD 38mn in other financial support
European Union	-	0.10	-	-	0.10	
Remaining financing gap	-	-	5.50	0.60	6.10	

SOURCE: IMF, WORLD BANK, G7 COUNTRY AUTHORITIES AND EUROPEAN COMMISION.

◆◆

Algeria's Economy: Sinking Fast Despite 'Titanic Efforts'

Algeria has been rapidly drawing down its foreign currency reserves: from $194bn at the start of July 2014, just before oil prices started to slide, to $143bn at the end of 2015 and $137bn at the end of May (see chart).

Speaking on 15 June, Prime Minister 'Abd al-Malik Sillal said that he expected that the country's forex reserves would fall further to around $116bn be the end of 2016 (see chart).

This is some $27bn down on the end-2015 figure, a rate of depletion that, if it continued, would see the country's reserves exhausted in early 2021.

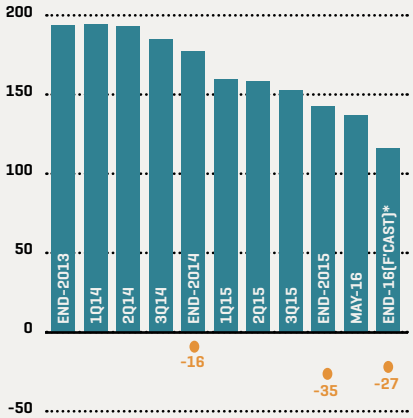
But Mr Sillal says that there is no chance of this happening: the country's reserves "won't fall below $100bn... whatever the circumstances," state news agency APS reports him as saying. Scant evidence has been given for this optimism, save plans to cut spending that have so far not amounted to much.

Algeria has so far largely pressed on with oil exploration spending – the country was one of only four in Opec to drill more wells in 2015 than 2014 (MEES, 15 July), though state oil and gas giant Sonatrach recently announced a 19% cut to its five-year investment plan (MEES, 27 May), presaging cuts ahead.

Now Mr Sillal acknowledges that more general "cuts to state spending" are in the offing, whilst adding in a somewhat Kafkaesque twist that "whatever happens, state policy will not be directed towards austerity."

The state will press on with its "titanic efforts to give hope back to Algerians with economic security," he adds.

ALGERIA'S FOREIGN CURRENCY RESERVES ($BN, END PERIOD)



*FORECAST BY PRIME MINISTER SILLAL, JULY 2016. SOURCE: ALGERIAN CENTRAL BANK, IMF, APS. ORANGE CIRCLES ARE CHANGE VS YEAR EARLIER.

PRAYING FOR OIL PRICE REBOUND

Any hope of Algeria squaring the circle depends on a rapid, large and sustained rebound in oil prices. The state "anticipates hydrocarbons revenues of $35bn in 2017, rising to $45bn in 2018," Mr Sillal says. The 2017 figure is in line with 2015 revenues when prices averaged $53/B. But for the first five months of 2016 Algeria brought in just $9.1bn, the equivalent of $22.0bn on an annualized basis (MEES, 24 June).

In reality, Algeria will almost certainly need a higher average oil price in 2017 than was the case in 2015 in order to bring in the same revenue. Firstly falling output and soaring domestic production means that export volumes will be lower. And secondly, even if oil prices rise sharply, prices for gas, which brings in around half of Algeria's earnings, are set to remain depressed (MEES, 17 June). ◆◆

ALGERIA CUSTOMS FIGURES ($BN): EXPORT EARNINGS ARE DOWN BY OVER 60% SINCE 2014

								2016* v 2015		v 2014				2016 vs 2015	
	2010	2011	2012	2013	2014	2015	*2016	$bn	%	$bn	%	Jan-May16	Jan-May15	$bn	%
Exports	57.05	73.49	71.89	64.97	62.89	37.79	23.65	-14.14	-37.4	-39.24	-62.4	9.82	15.39	-5.57	-36.2
Oil & gas	55.53	71.43	69.80	62.96	60.30	35.72	21.98	-13.74	-38.5	-38.32	-63.5	9.13	14.50	-5.37	-37.0
*% of total^*	*97.3*	*97.2*	*97.1*	*96.9*	*95.9*	*94.5*	*93.0*	*-1.6*		*-2.9*		*93.0*	*94.2*	*-1.2*	
non-hydrocarbon	*1.53*	*2.06*	*2.08*	*2.01*	*2.58*	*2.06*	*1.66*	*-0.40*	*-19.5*	*-0.92*	*-35.7*	*0.69*	*0.89*	*-0.20*	*-22.5*
Imports	40.47	47.25	50.38	55.03	58.58	51.50	47.24	-4.26	-8.3	-11.34	-19.4	19.62	22.62	-3.00	-13.3
Trade Balance	**16.58**	**26.24**	**21.49**	**9.95**	**4.31**	**-13.71**	**-23.60**	**-9.88**	**-72.1**	**-27.90**	**n/a**	**-9.80**	**-7.23**	**-2.57**	**-35.5**
*Exports as % of imports^*	*141*	*156*	*143*	*118*	*107*	*73*	*50*	*-23*		*-57*		*50*	*68*	*-18.0*	
Saharan Blend Crude ($/B)	80.35	112.92	111.51	109.38	99.68	52.79	38.80	-13.99	-26.5	-46.89	-61.1	38.80	57.38	-18.58	-32.4

*JAN-MAY AT ANNUALIZED RATE. ^CHANGES EXPRESSED ON PERCENTAGE POINTS BASIS. SOURCE: ALGERIAN CUSTOMS, OPEC, MEES CALCULATIONS.

WORLD GROWTH FORECASTS DOWNGRADED, AGAIN

The IMF has again downgraded its forecasts for global economic growth, potentially pushing back further hopes of an imminent rebalance in global oil markets (MEES, 15 July).

Such hopes are based on economic growth boosting demand in key consumer countries such as China, the US and India.

But in a 19 July update to April's World Economic Outlook, the IMF cut its global growth projections for both 2016 and 2017 by 0.1 percentage points compared to the April report, which already contained a set of steep downward revisions (MEES, 15 April).

For the US, the 2016 growth forecast has been revised down by 0.2 percentage points to 2.2%, with 2017 for now left unchanged at 2.5%.

India sees forecasts for both 2016 and 2017 revised down by 0.1 percentage points to 7.4%. For China the 2016 projection is edged up by 0.1 percentage points at 6.6% with 2017 unchanged at 6.2%

But it is EU countries that have seen the sharpest downward revisions in the wake of the UK's vote last month to leave the union. Germany sees a 0.4 percentage points downgrade to just 1.2% for 2017. Of the remainder of Europe's 'big 4' economies France and Italy see 0.1 percentage point downgrades for 2017, with the UK itself downgraded by a whopping 0.9 percentage points.

For the Middle East, while "oil exporters are benefiting from the recent modest recovery in oil prices" "geopolitical tensions, domestic armed strife, and terrorism are also taking a heavy toll on the outlook," the IMF says.

Saudi Arabia, the only MENA country to be split out, sees its 2017 forecast raised by 0.1 percentage points to 2% with 2016 left unchanged at 1.2%.

For MENA as a whole, growth is projected at 3.4% in 2016 and 3.3% in 2017.

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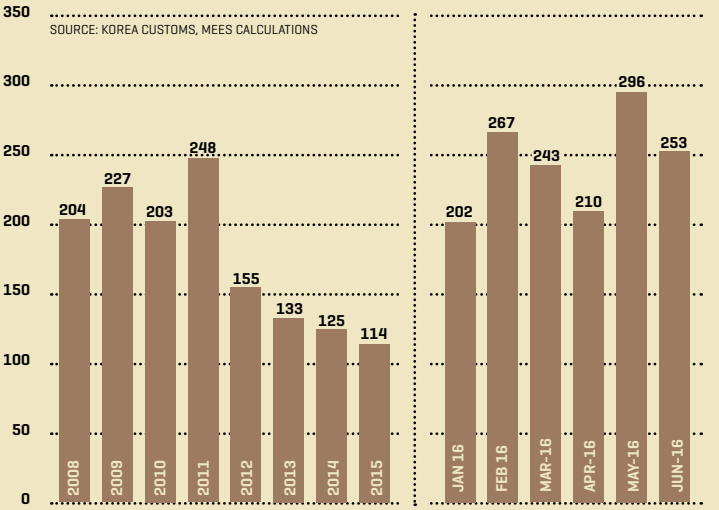
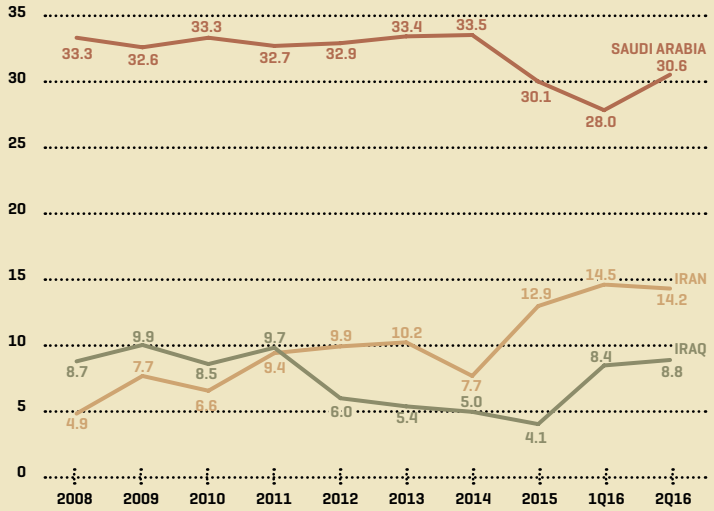
KOREAN CRUDE IMPORTS AT RECORD LEVELS IN Q2: MIDDLE EAST SHARE ON THE RISE

			vs 1Q16		vs 2Q15												
	2Q16	rank	'000 B/D	%	'000 B/D	%	1Q16	4Q15	3Q15	1H16	1H15	Apr-16	May-16	Jun-16	2013	2014	2015
MIDDLE EAST	**2,479.1**		**+75.1**	**+3.1**	**+199.1**	**+8.7**	**2,404.0**	**2,323.8**	**2,247.4**	**2,441.6**	**2,313.6**	**2,544.6**	**2,574.3**	**2,318.4**	**2,150.0**	**2,117.9**	**2,295.1**
% of total	***86.4***		***1.7***		***3.5***		***84.7***	***82.0***	***80.3***	***85.5***	***84.7***	***87.0***	***87.6***	***84.5***	***86.8***	***84.3***	***82.9***
Saudi Arabia (Opec)	879.3	1	83.4	10.5	-	-	795.9	797.7	754.1	837.6	894.0	1020.8	873.2	744.1	827.9	842.6	834.9
Kuwait (Opec)	438.5	2	24.4	5.9	115.1	35.6	414.2	422.0	420.2	426.4	367.5	331.7	556.4	427.5	400.3	387.8	394.3
Iraq (Opec)	409.0	3	-	-	106.4	35.2	411.6	442.8	317.9	410.3	332.8	481.1	297.4	448.4	252.7	193.9	356.6
Iran (Opec)	252.7	4	15.5	6.5	129.2	104.7	237.2	88.9	148.7	244.9	118.9	209.6	295.6	252.9	133.2	125.2	114.3
Qatar (Opec)	227.2	5	-	-	-	-	239.5	272.4	305.9	233.3	338.8	225.3	251.5	204.9	221.3	252.6	314.0
UAE (Opec)	218.2	6	-	-	3.6	1.7	243.9	288.9	287.2	231.0	259.0	210.4	238.1	206.1	305.6	298.9	273.5
Oman	54.1	9	-	-	51.6	2,059.2	61.9	11.0	13.5	58.0	2.7	65.8	62.1	34.5	9.1	16.9	7.5
Libya (Opec)	9.8		-	-	-	-	22.3	0.0	4.8	16.1	10.4	0.0	14.7	14.8	8.9	16.4	6.4
MENA TOTAL	**2,488.9**		**62.6**	**2.6**	**188.0**	**8.2**	**2,426.4**	**2,323.8**	**2,252.2**	**2,457.7**	**2,324.1**	**2,544.6**	**2,589.0**	**2,333.2**	**2,162.3**	**2,137.0**	**2,301.5**
% of total imports	***86.7***		***1.2***		***3.1***		***85.5***	***82.0***	***80.4***	***86.1***	***85.1***	***87.0***	***88.1***	***85.0***	***87.3***	***85.0***	***83.1***
AFRICA (ex-N.Africa)	**95.1**		**18.4**	**24.1**	**48.2**	**102.9**	**76.6**	**82.0**	**92.6**	**85.9**	**34.7**	**66.4**	**116.3**	**102.6**	**7.8**	**44.8**	**61.0**
Equatorial Guinea	34.7	10	-	-	9.8	39.3	37.3	49.8	35.9	36.0	12.4	34.9	33.8	35.3	0.0	2.5	27.7
Angola (Opec)	32.2		32.2	-	32.2	-	0.0	11.0	11.0	16.1	0.0	31.5	32.0	33.1	0.6	0.0	5.5
Gabon	24.1		-	-	9.6	66.1	25.2	7.0	27.0	24.7	18.5	0.0	50.5	21.8	3.6	16.0	17.8
Nigeria (Opec)	4.1		0.2	3.8	-	-	4.0	3.8	8.1	4.1	3.7	0.0	0.0	12.4	0.0	1.9	4.8
AMERICAS	**96.6**		**61.2**	**173.0**	**21.0**	**27.8**	**35.4**	**53.1**	**71.0**	**66.0**	**59.9**	**97.4**	**61.8**	**130.6**	**0.0**	**28.6**	**61.0**
Mexico	96.6	7	64.9	204.8	43.5	82.1	31.7	53.1	30.5	64.1	31.6	97.4	61.8	130.6	0.0	0.0	36.7
FSU/EUROPE	**111.8**		**-**	**-**	**-**	**-**	**178.8**	**265.6**	**273.7**	**145.3**	**204.7**	**154.7**	**69.8**	**111.0**	**153.8**	**183.8**	**237.1**
Russia	83.7	8	-	-	-	-	89.3	179.0	197.9	86.5	145.6	70.3	69.8	111.0	101.4	107.3	167.0
United Kingdom	28.2		-	-	-	-	89.5	86.6	65.0	58.8	57.5	84.5	0.0	0.0	44.8	67.3	66.7
ASIA (ex-FSU)	45.7		-	-	-	-	61.1	64.1	59.4	53.4	57.1	43.3	45.2	48.4	111.2	62.5	59.5
Indonesia (Opec)	19.1		2.3	13.4	-	-	16.8	18.9	25.8	18.0	23.2	23.6	13.1	20.6	30.4	20.9	22.8
Philippines	9.4		-	-	1.9	25.1	12.3	5.5	5.7	10.9	7.6	19.7	0.0	8.6	11.0	9.1	6.6
Malaysia	6.4		6.4	-	6.4	-	0.0	5.0	12.7	3.2	5.3	0.0	19.2	0.0	14.8	11.0	7.1
Vietnam	6.4		-	-	1.2	22.5	7.4	14.8	3.8	6.9	7.4	0.0	0.0	19.3	20.7	5.6	8.4
Brunei	3.1		-	-	-	-	20.8	16.9	10.2	12.0	13.7	0.0	9.4	0.0	20.9	16.0	13.6
Bangladesh	1.2		1.2	-	1.2	-	0.0	0.0	1.3	0.6	0.0	0.0	3.5	0.0	0.0	0.0	0.3
OCEANIA	**32.2**		**-**	**-**	**-**	**-**	**59.5**	**46.3**	**51.6**	**45.9**	**50.9**	**19.5**	**57.6**	**19.5**	**40.9**	**56.4**	**49.9**
Australia	32.2		-	-	-	-	59.5	40.0	49.3	45.9	46.2	19.5	57.6	19.5	40.9	56.4	45.4
TOTAL	**2,870.3**		**32.6**	**1.1**	**117.6**	**4.3**	**2,837.8**	**2,835.0**	**2,800.4**	**2,854.1**	**2,731.3**	**2,926.0**	**2,939.7**	**2,745.3**	**2,476.1**	**2,513.2**	**2,770.0**
of which OPEC	*2,490.2*		*104.9*	*4.4*	*176.8*	*7.6*	*2,385.3*	*2,327.6*	*2,265.1*	*2,437.8*	*2,340.3*	*2,534.0*	*2,572.0*	*2,364.7*	*2,152.2*	*2,129.3*	*2,313.7*
OPEC % of Total	*86.8*		*2.7*		*2.7*		*84.1*	*82.1*	*80.9*	*85.3*	*85.7*	*86.6*	*87.5*	*86.1*	*86.9*	*84.7*	*83.5*

SOUTH KOREAN CRUDE IMPORTS FROM IRAN ARE ABOVE PRE-SANCTIONS LEVELS ('000 B/D)



IRAN HAS MORE THAN DOUBLED ITS SHARE OF THE KOREAN MARKET THIS YEAR. BUT IRAQI VOLUMES ARE ALSO UP, WHILE SAUDI VOLUMES REBOUNDED IN Q2 (% OF TOTAL IMPORTS)



SELECTED DATA

CRUDE OFFICIAL SELLING PRICES ($/B)

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
ABU DHABI															
Upper Zakum (34°)	55.80	47.60	44.40	43.95	39.40	32.65	25.30	28.55	34.65	39.05	44.60	46.40			
Das	57.25	48.40	46.05	46.75	43.05	36.75	29.45	32.50	37.65	41.40	46.75	48.45			
Murban (39.6°)	57.70	48.85	46.60	47.30	43.55	37.25	29.95	33.00	38.20	42.00	47.35	49.05			
ALGERIA (vs Dated Brent)															
Saharan Blend (45.7°)	-0.20	+0.45	+0.75	+0.95	+1.00	+0.43	+0.53	+0.80	+0.90	+0.85	+0.90	+0.70	+0.30		
DUBAI															
Dubai (31°, vs Oman)	-0.20	-0.05	+0.00	-0.05	-0.20	-0.25	-0.25	-0.50	+0.00	-0.20	-0.20	-0.20	+0.00	+0.15	+0.00
outright price	63.42	61.79	56.33	47.83	45.56	45.78	42.03	34.09	27.40	30.03	36.14	39.20	44.33	46.75	
IRAN															
to Asia (FOB Kharg Island, vs Oman/Dubai average)															
Iranian Light (33-34°)	+0.20	+0.10	+0.60	+0.25	-1.45	-1.15	-1.20	-0.60	-0.80	-0.50	-0.60	+0.50	+0.85	+0.45	
vs Saudi Arab Light	+0.20	+0.20	+0.20	+0.15	+0.15	+0.15	+0.20	+0.20	+0.20	+0.25	+0.25	+0.25	+0.25	+0.25	
Iranian Heavy (30-31°)	-1.05	-1.35	-0.85	-1.37	-3.27	-2.97	-3.30	-2.60	-2.60	-2.60	-2.60	-1.60	-1.25	-1.45	
vs Saudi Arab Medium	-0.05	-0.05	-0.05	-0.07	-0.07	-0.07	-0.10	-0.10	-0.20	-0.20	-0.20	-0.30	-0.25	-0.25	
Foroozan (31°)	-0.88	-1.18	-0.68	-1.20	-3.10	-2.80	-3.13	-2.43	-2.43	-2.43	-2.43	-1.40	-1.05	-1.25	
Soroush (18.6°) (vs Iranian Heavy)	-6.50	-6.50	-6.30	-6.78	-6.78	-6.68	-6.65	-6.45	-5.70	-5.65	-5.65	-5.60	-5.55	-5.45	
Norooz (20.6°) (vs Iranian Heavy)*	-6.50	-6.50	-6.30	-6.78	-6.78	-6.80	-6.65	-6.45	-5.70	-5.65	-5.65	n/a	n/a	n/a	
to Northwest Europe/South Africa (FOB Kharg Island, vs BWAVE)															
Iranian Light (33-34°)	-2.85	-2.65	-3.00	-3.55	-3.50	-3.50	-4.30	-4.85	-4.95	-4.65	-4.60	-4.40	-4.75	-4.55	
Iranian Heavy (30.7°)	-4.50	-4.20	-4.40	-5.15	-5.10	-5.10	-6.00	-6.55	-6.30	-6.20	-6.45	-6.40	-6.85	-6.40	
Foroozan (31°)	-4.32	-4.00	-4.20	-4.95	-4.90	-4.90	-5.80	-6.35	-6.10	-6.00	-6.25	-6.20	-6.65	-6.20	
to Mediterranean (FOB Kharg Island, vs BWAVE)															
Iranian Light (33-34°)	-3.20	-2.95	-4.40	-3.95	-4.45	-5.00	-4.55	-4.70	-4.95	-5.00	-5.05	-4.75	-4.85	-5.30	
Iranian Heavy (30-31°)	-4.70	-4.35	-5.65	-5.35	-5.75	-6.25	-5.95	-6.05	-6.40	-6.50	-6.85	-6.75	-7.05	-7.20	
Foroozan (31°)	-4.52	-4.15	-5.45	-5.15	-5.55	-6.05	-5.75	-5.90	-6.25	-6.30	-6.65	-6.55	-6.85	-7.00	
Soroush (18.6°)	-9.65	-8.85	-10.15	-10.15	-10.45	-10.95	-10.85	-10.85	-10.25	-10.35	-10.95	-10.75	-11.20	-11.05	
Norooz (20.6°)*	-9.65	-8.85	-10.15	-10.15	-10.45	-10.95	-10.85	-10.85	-10.25	-10.35	-10.95	n/a	n/a	n/a	
FOB Sidi Kerir (vs BWAVE)															
Iranian Light (33-34°)	-1.60	-1.50	-3.00	-2.45	-2.90	-3.55	-3.30	-3.45	-3.65	-3.50	-3.50	-3.20	-3.30	-3.75	
Iranian Heavy (30-31°)	-3.10	-2.90	-4.25	-3.85	-4.20	-4.80	-4.70	-4.70	-5.00	-5.00	-5.30	-5.20	-5.50	-5.65	
Foroozan (31°)	-2.92	-2.70	-4.05	-3.65	-4.00	-4.60	-4.50	-4.55	-4.85	-4.80	-5.10	-5.00	-5.30	-5.45	
IRAQ															
to Asia (vs Oman/Dubai average)															
Basra Light (FOB)	-1.60	-1.95	-1.45	-1.95	-3.70	-3.35	-3.45	-2.80	-2.60	-2.60	-2.50	-1.40	-1.10	-1.30	
vs Saudi Arab Medium	-0.60	-0.65	-0.65	-0.65	-0.50	-0.45	-0.25	-0.30	-0.20	-0.20	-0.10	-0.10	-0.10	-0.10	
Basra Heavy (FOB)	-5.60	-6.00	-5.55	-6.65	-8.65	-8.15	-8.20	-7.30	-6.30	-6.55	-6.60	-5.70	-5.60	-5.75	
to US (vs ASCI)															
Basra Light (FOB)	-0.15	-0.25	-0.15	-0.65	-0.65	-0.55	-0.80	-0.95	-0.55	-0.55	-0.35	-0.50	-0.50	-0.60	
Basra Heavy (FOB)	-3.50	-3.65	-3.90	-5.65	-5.85	-5.85	-6.25	-6.40	-5.65	-5.65	-5.60	-5.55	-5.45	-5.30	
Kirkuk (FOB Ceyhan)	+0.75	+0.75	+0.50	+0.30	+0.30	+0.30	+0.30	+0.20	+0.70	+0.90	+0.80	+0.80	+0.50	+0.50	
to Europe (vs Dated Brent)															
Basra Light (FOB)	-4.60	-4.05	-5.15	-4.60	-4.60	-5.25	-4.75	-5.05	-4.95	-4.85	-5.00	-4.65	-4.85	-4.70	
Basra Heavy (FOB)	-8.45	-8.10	-9.10	-9.75	-10.35	-10.55	-10.30	-10.40	-9.60	-9.60	-9.75	-9.30	-9.45	-8.95	
Kirkuk (FOB Ceyhan)	-4.25	-4.25	-5.15	-4.60	-4.60	-5.05	-4.65	-4.65	-4.50	-4.55	-4.55	-4.45	-4.40	-4.30	
KUWAIT															
Kuwait Export Blend (31°)															
to Far East (vs Oman/Dubai)	-1.50	-1.80	-1.35	-1.95	-3.80	-3.50	-3.75	-3.05	-2.90	-2.85	-2.90	-1.80	-1.50	-1.70	
vs Saudi Arab Medium	-0.50	-0.50	-0.55	-0.65	-0.60	-0.60	-0.55	-0.55	-0.50	-0.45	-0.50	-0.50	-0.50	-0.50	
to Mediterranean (vs Dated Brent)								-5.50	-5.65	-5.75	-5.75	-5.40	-5.70	-5.40	
to North West Europe (vs Dated Brent)								-6.75	-6.25	-6.05	-6.10	-5.80	-6.15	-5.70	
FOB Sidi Kerir (vs Dated Brent)								-5.25	-5.40	-5.40	-5.40	-5.15	-5.25	-5.75	

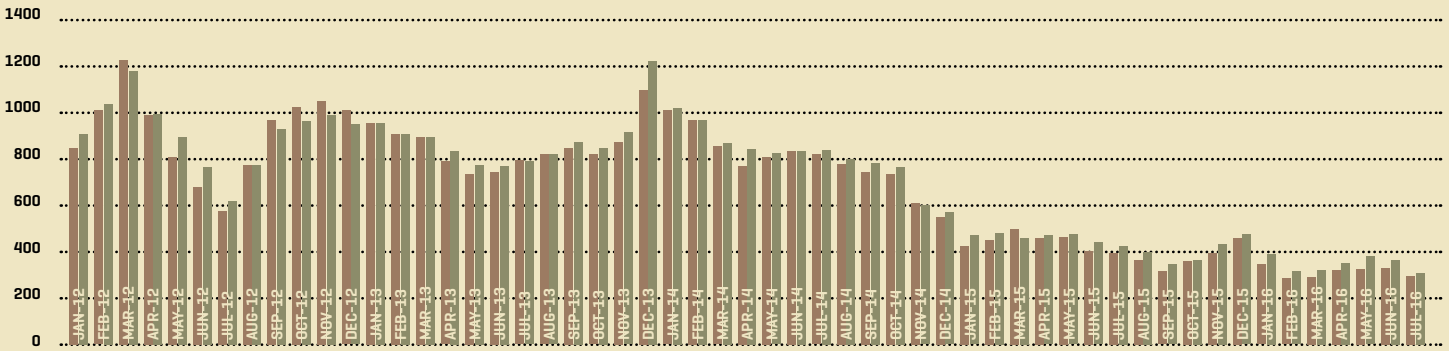
CRUDE OFFICIAL SELLING PRICES ($/B) - CONTINUED

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
LIBYA (vs Dated Brent)															
Zueitina (41°)	+0.00	+0.00	+0.00	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20		
Brega (40°)	-0.50	-0.40	-0.35	-0.35	-0.25	-0.25	-0.15	-0.15	-0.15	-0.05	+0.00	+0.00	-0.05		
Sirtica (41°)	-2.20	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00		
Es Sider (37°)	-1.00	-0.90	-0.90	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00		
Bu Attifel (36°)	+1.20	+1.20	+1.20	+1.10	+1.20	+1.20	+1.20	+1.20	+1.20	+1.20	+1.20	+1.20	+1.20		
Sarir (36°)	-3.10	-2.85	-2.85	-2.75	-2.60	-2.50	-2.10	-2.10	-2.00	-1.80	-1.75	-1.75	-2.05		
Amna (36°)	-1.00	-1.00	-1.00	-1.20	-1.10	-1.10	-1.10	-1.10	-1.10	-1.00	-1.00	-1.00	-1.00		
Esharara (43°)	+0.00	+0.10	+0.20	+0.00	+0.20	+0.20	+0.20	+0.20	+0.20	+0.20	+0.20	+0.20	+0.20		
Mellitah (41.6°)	-0.35								+0.00	+0.00	+0.00	+0.00	+0.00		
vs Russian Urals crude (cif Mediterranean)															
Bouri (26°)	-2.40	-2.40	-2.50	-2.60	-2.70	-3.10	-4.10	-4.10	-4.10	-3.80	-3.70	-3.45	-3.40		
Al Jurf (30°)	-0.45	-0.55	-0.70	-0.90	-0.90	-1.20	-2.20	-2.20	-2.10	-1.95	-1.85	-1.50	-1.40		
OMAN															
Oman (34°)	63.62	61.84	56.33	47.88	45.76	46.03	42.28	34.59	27.40	30.23	36.34	39.40	44.33	46.60	
QATAR															
Qatar Land (40°)	56.80	47.80	45.40	46.25	42.40	36.15	28.85	32.00	37.10	40.90	46.10	47.80			
Qatar Marine (36°)	55.70	46.95	43.95	44.00	39.45	32.65	25.30	28.60	34.55	39.00	44.55	46.15			
SAUDI ARABIA															
to Asia (FOB Ras Tanura, vs Oman/Dubai average)															
Arab Super Light (>40°)	+1.40	+1.90	+2.00	+2.10	+1.10	+2.10	+2.90	+3.90	+2.30	+2.55	+2.95	+3.95	+4.05	+3.35	
Arab Extra Light (36-40°)	+0.90	+1.10	+1.60	+1.60	+0.40	+0.80	+1.00	+1.70	+1.30	+1.65	+1.80	+2.60	+2.60	+1.70	
Arab Light (32-36°)	+0.00	-0.10	+0.40	+0.10	-1.60	-1.30	-1.40	-0.80	-1.00	-0.75	-0.85	+0.25	+0.60	+0.20	
Arab Medium (29-32°)	-1.00	-1.30	-0.80	-1.30	-3.20	-2.90	-3.20	-2.50	-2.40	-2.40	-2.40	-1.30	-1.00	-1.20	
Arab Heavy (<29°)	-2.65	-3.05	-2.15	-2.95	-4.95	-4.45	-4.65	-3.75	-3.05	-3.30	-3.65	-2.75	-2.65	-2.80	
to US (FOB Ras Tanura, vs ASCI)															
Arab Extra Light (36-40°)	+3.55	+3.95	+4.65	+4.15	+3.65	+3.55	+2.85	+2.35	+2.15	+1.85	+2.60	+2.40	+2.10	+1.70	
Arab Light (32-36°)	+1.55	+1.55	+1.55	+0.95	+0.65	+0.45	+0.15	+0.15	+0.15	-0.05	+0.35	+0.35	+0.55	+0.45	
Arab Medium (29-32°)	-0.05	-0.05	+0.05	-0.55	-0.85	-1.05	-1.35	-1.35	-1.25	-1.45	-1.05	-1.25	-1.05	-1.15	
Arab Heavy (<29°)	-0.55	-0.55	+0.35	-0.95	-1.25	-1.45	-1.75	-1.75	-1.75	-1.95	-1.55	-1.75	-1.55	-1.65	
to Northwest Europe (FOB Ras Tanura, vs BWAVE)															
Arab Extra Light (36-40°)	-1.35	-0.75	-0.95	-1.45	-1.65	-2.65	-1.95	-2.35	-2.65	-2.45	-1.85	-1.95	-2.55	-2.55	
Arab Light (32-36°)	-2.90	-2.65	-3.05	-3.55	-3.45	-4.75	-4.25	-4.85	-4.95	-4.60	-4.60	-4.45	-4.80	-4.50	
Arab Medium (29-32°)	-4.55	-4.20	-4.45	-5.15	-5.05	-6.40	-5.90	-6.40	-6.00	-5.80	-6.05	-5.95	-6.45	-5.95	
Arab Heavy (<29°)	-6.90	-6.45	-6.45	-7.35	-7.25	-8.50	-8.10	-8.50	-7.70	-7.50	-8.20	-8.05	-8.60	-7.95	
to Mediterranean (FOB Ras Tanura, vs BWAVE)															
Arab Extra Light (36-40°)	-0.80	-0.70	-1.85	-1.25	-1.25	-1.65	-0.85	-0.85	-1.60	-1.60	-1.10	-1.20	-1.80	-2.60	
Arab Light (32-36°)	-2.30	-1.95	-3.35	-3.00	-3.00	-4.00	-3.60	-3.80	-4.10	-4.10	-4.20	-3.95	-4.05	-4.50	
Arab Medium (29-32°)	-3.85	-3.35	-4.70	-4.45	-4.75	-5.25	-4.95	-4.95	-5.15	-5.25	-5.55	-5.40	-5.70	-5.90	
Arab Heavy (<29°)	-5.65	-4.85	-6.15	-6.15	-6.45	-6.85	-6.75	-6.75	-6.15	-6.35	-6.95	-6.75	-7.20	-7.20	

*SEPARATE PRICE FOR NOROOZ NOT PUBLISHED FROM JUNE 2016. BLENDED WITH SOROUSH.

SAUDI ARAMCO CONTRACT PRICES FOR LPG EXPORTS ($/T)

PROPANE: JULY '16 $295/T (-$55) BUTANE: JULY '16 $310/T (-$55)

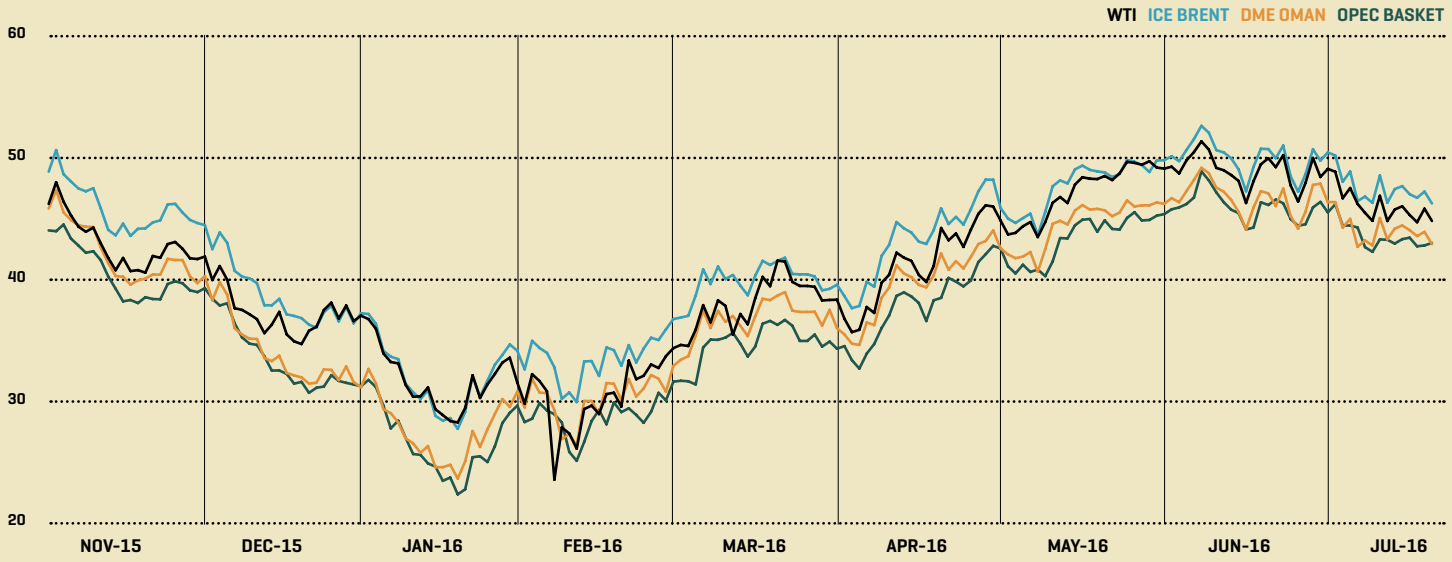


SELECTED DATA

BENCHMARK CRUDE PRICES ($/B)

	21-Jul	11-15 July	4-8 July	Jun-16	May-16	Q2 2016	Q1 2016	Q4 2015	2015	2014	2013
WTI	44.75	45.59	46.87	48.90	46.95	45.75	33.53	42.21	48.83	92.92	98.03
ICE Brent	46.20	47.19	48.00	49.93	47.60	47.01	35.22	44.69	53.59	99.44	108.69
DME Oman	42.84	43.88	44.22	46.62	44.39	43.62	31.69	40.80	51.20	96.95	105.47
ICE Dubai	42.95	43.57	43.91	46.63	44.44	43.70	32.00	40.93	51.37	96.97	105.49
OPEC Basket*	42.93	42.95	44.31	45.88	43.21	42.39	30.14	39.71	49.51	96.30	105.89
JCC	na	na	na	na	40.62	na	33.18	46.31	55.03	105.17	110.38

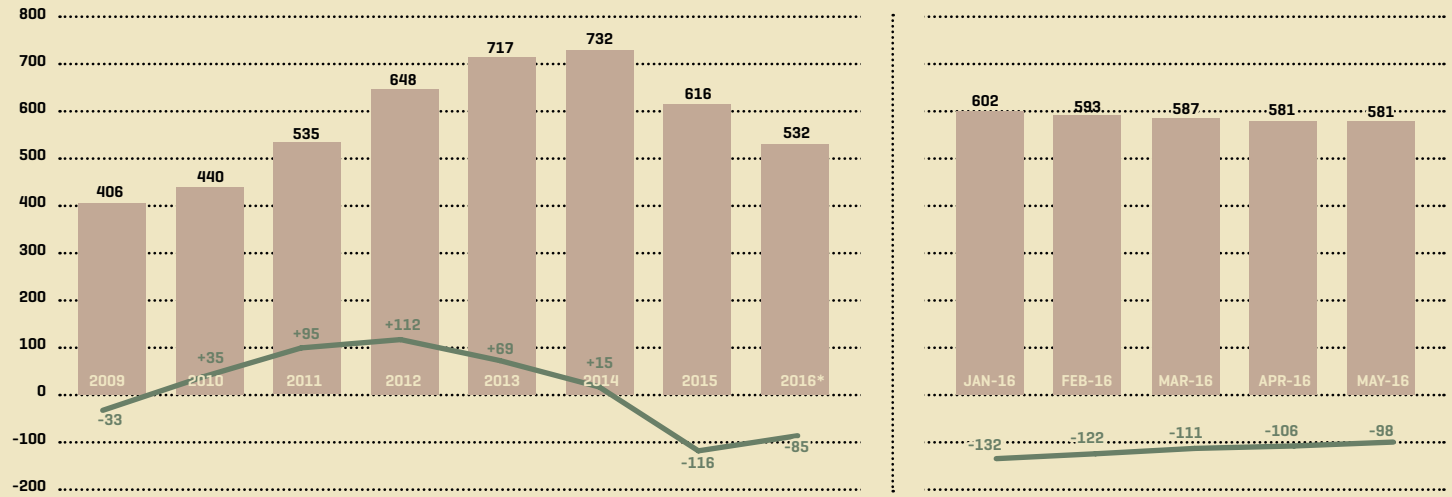
AVERAGE SETTLEMENT PRICES FOR PERIOD IN QUESTION.*OPEC BASKET INCLUDES INDONESIA'S MINAS FROM JANUARY 2016.



SAUDI MONETARY AUTHORITY RESERVES RISE FOR FIRST TIME SINCE 2014 IN MAY (NET FOREIGN ASSETS, $BN END PERIOD)

SAMA ASSETS YEAR-ON-YEAR CHANGE

*FORECAST PRESUMING 2016 DRAWDOWN CONTINUES AT JAN-MAY RATE. SOURCE: SAMA, IMF, MEES.



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