Fujairah New Silk Road WEEKLY NEWSLETTER

JUNE 22nd 2023
VOL. 163

Supported By:
FOIZ منطقة الفجيرة للصناعة البترولية Fujairah Oil Industry Zone
Port of Fujairah ميناء الفجيرة Port of Fujairah United Arab Emirates

EXCLUSIVE INSIGHTS /// ACTIONABLE INTELLIGENCE /// DATA TRENDS /// LATEST NEWS

"Energy Data Has Deteriorated Significantly!"

Dr. Anas F. Alhajji, Managing Partner, Energy Outlook Advisors LLC

We've had a weak recovery, weak demand, and weak prices in the first half of the year, but it will be completely the opposite in H2, when we expect to see a pickup in oil demand, unless we have a major global recession. But we must pay attention to multiple issues. One of the surprises we got in the first half was an increase in gasoline demand in most of the European countries despite concerns over the cost-of-living crisis. One of the explanations could be that many governments decided to give fuel subsidies, which increased fuel consumption. Today, some of those countries are ending those programs and we will get to see whether that impacts gasoline and diesel consumption meaningfully or not. Another major issue in the last two years has been that energy data has deteriorated significantly, and we see that continuing. That makes it very tough for even the most experienced of analysts to read energy markets. In the US, the EIA publishes weekly data, and we have what we call the adjustment factor which shows any difference between supply and demand that needs to be plugged. However, that difference has become larger and larger, and no one knows where that oil is. And then globally, we have most sanctioned exports from the likes of Russia, Iran or Venezuela going 'dark', with countries trying to hide their imports because they don't want to deal with the legal consequences of defying sanctions rules. Even OPEC depends on other companies for data on its own production; that's why they publish secondary data and that's also why we've seen Saudi Arabia asking the Russians for clarity on their exports because no one knows what's going on.

CONTINUED ON P 3

Fujairah Weekly Oil Inventory Data

7,429,000 bbl	4,596,000 bbl	9,813,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.52 - 4.40/m³

↑ Highest: $4.52/m³
↓ Lowest: $3.38/m³

THE WEEK In Numbers

Weekly Average Oil Prices

Brent Crude:	$76.34/bl
WTI Crude:	$71.81/bl
DME Oman:	$76.67/bl
Murban:	$77.27/bl

*Time Period: Week 4, June 2023
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO

High = $605.00/mt

Low = $558.00/mt

Average = $585.00/mt

Spread = $47.00/mt

MGO

High = $869.00/mt

Low = $818.50/mt

Average = $840.50/mt

Spread = $50.50/mt

IFO380

High = $445.00/mt

Low = $415.50/mt

Average = $430.50/mt

Spread = $29.50/mt

*Source: Ship and Bunker, *Time Period: June 14 – June 21, 2023*

Fujairah Bunker Sales Volume (m^3)

170 180cst Low Sulfur Fuel Oil	468,635 380cst Low Sulfur Fuel Oil	126,586 380cst Marine Fuel Oil
2,021 Marine Gasoil	22,976 Low Sulfur Marine Gasoil	4,723 Lubricants

Source: FEDCom & S&P Global Platts

GI Consultancy Intelligence Publishing

CONTINUED FROM PAGE 1

Dr. Anas F. Alhajji, Managing Partner, Energy Outlook Advisors LLC

Does the recent Saudi voluntary output cut render OPEC+ redundant?

Saudi's objective to cut was literally to control the market narrative, not because of lower demand or because they want higher prices. $75 is good for everyone. If Saudi had not cut, prices would decline by $4-$5, so it has been effective and created a floor in the market. Also, if you look at OPEC+ as a group, they couldn't agree to a cut for several reasons. One is that some countries literally have no option to cut anymore and as OPEC decisions need to be by consensus, they had to show the world that they remained united. The other issue for OPEC is that as a research organization, it also produces monthly reports, and those have been very bullish, so cutting as a group would be seen as contradictory.

Will Brent average above or below $80 in 2H 2023?

We expect prices to be higher than $80 in the second half, but China is not going to like it. It has built inventories and strategic petroleum reserves in the past few months, as they did in the past, and they are going to try and use it to prevent prices from rising. Saudi Arabia is going to set the floor and the Chinese are going to set the ceiling, and the range is going to be very tight.

How much has US Fed policy impacted global demand?

It has wreaked havoc on the world economy, especially for developing countries which have floating currencies. Everyone knows that oil is priced in dollars so even if oil prices stayed flat, the rise in the USD has made oil more expensive for countries already suffering from global inflation. They have no money left for oil. Global demand post COVID should be stronger, but because of the stronger dollar, that growth has been limited.

Outlook for gas demand and prices?

Gas storage in Europe is in good shape but if there's severe weather anywhere, all bets are off. Hurricane season in the Gulf of Mexico could impact US exports of LNG, so Europe and China could be fighting for every molecule, especially if they also have severe weather. We could see Europe resorting to more coal to generate enough electricity to keep things cool in the summer.

Is the Saudi Iranian rapprochement concrete and does it impact the market?

The move is purely political and has nothing to do with energy or oil. It has to do with everything going on in Yemen, Syria, and other places, and with the threats to Saudi Arabia and others. There is a conviction among some analysts that the Saudis have major megaprojects they want to focus on, and so they don't want the distraction from Yemen and the Iranians. As far as Iranian production is concerned, it is exporting at its maximum and won't be able to increase that for a while, even if we end up with a new nuclear deal. At the same time, there are certain factions within the Iranian regime that became awfully rich because of the sanctions, and it is not in their interest to normalize relations with the US, with Europe or with its neighboring countries, because all that money would then go to the government instead.

WATCH FULL INTERVIEW HERE

MARK YOUR CALENDAR
October 10th & 11th, 2023

#EMFWEEK23 ITINERARY

Port of Fujairah
ميناء الفجيرة
Port of Fujairah
United Arab Emirates

ENERGY MARKETS FORUM

October 10th - 11th, 2023
Novotel, Fujairah

GI Consultancy Intelligence Publishing

OCT. 10th

Time: 11:00AM
What: Open Registration

Time: 1:00PM
What: Port of Fujairah EMFWEEK23 Welcome Lunch

Time: 2:00PM - 4:00PM
What: FOIZ Onshore Terminal Tours

Time: 2:00PM - 5:00PM
What: ENOC Oil Markets Workshop

Time: 7:00PM - 9:00PM
What: Aramco Trading Gala Awards Dinner

Time: 9:30PM - 10:30PM
What: GI Networking Social Hour

OCT. 11th

ENERGY MARKETS FORUM 2023

Time: 8:00AM - 9:00AM
What: Breakfast Briefings

Time: 9:00AM - 11:00AM
What: Plenary Session

Time: 11:30AM - 1:00PM
What: Industry Roundtables

Time: 1:00PM - 2:00PM
What: International Energy Journalism Awards Lunch

Time: 2:30PM - 3:30PM
What: Professional Learning Seminars & Industry Roundtables

Time: 2:30PM - 4:30PM
What: Port of Fujairah BOAT TOUR

5:00PM - END OF EMFWEEK23

Fujairah Spotlight

CAA approves SalamAir flights: Muscat to Fujairah

The Civil Aviation Authority has issued its approval for SalamAir to operate four weekly flights between Muscat and Fujairah. In an online announcement, the Authority stated that it has approved SalamAir to operate 4 flights per week between Muscat and Fujairah, starting from July 5th, 2023.

Source: Fujairah Observer

National Bank of Fujairah's launches third edition of 'NBF Technology Academy'

National Bank of Fujairah (NBF) has announced the launch of its exclusive "NBF Technology Academy" for the third consecutive year. Offering a unique opportunity for Emirati technology graduates to receive in-depth training and progressive career opportunities, helping them get "work ready", this year's focus is on "Applications Development & AI", in line with trends in the digital sector, reaffirming the bank's commitment to developing Emirati talent.

Source: Emirates News Agency - WAM

Oil product stockpiles rebound from 2-month low

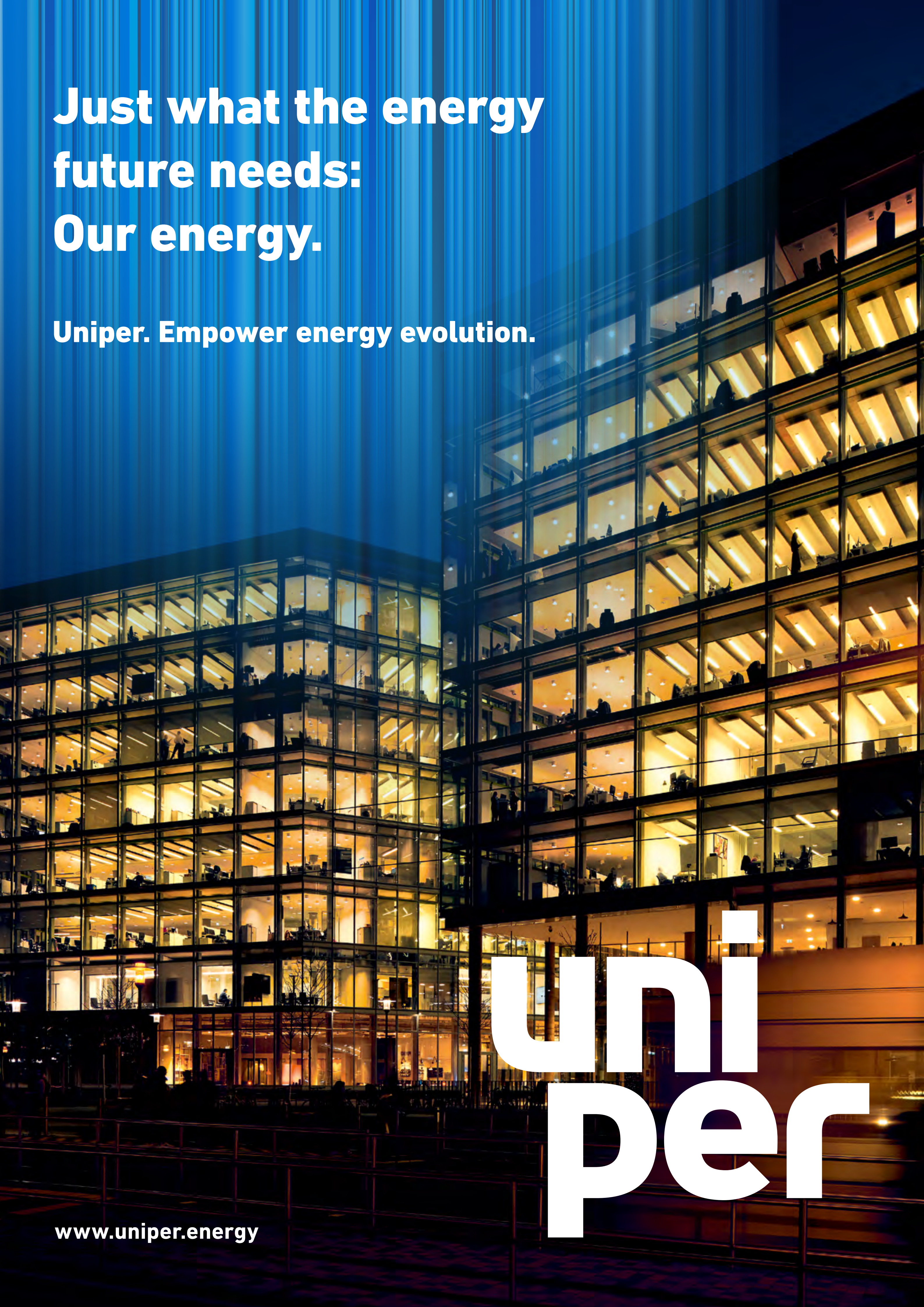
Stockpiles of oil products at the UAE's Port of Fujairah climbed to a two-week high as of June 19, with all categories showing gains from a week earlier, according to June 21 data from the Fujairah Oil Industry Zone. Total inventories rose 12% on the week to 21.838 million barrels as of June 19 after hitting a two-month low a week earlier on June 12, FOIZ data provided exclusively to S&P Global Commodity Insights showed. Total inventories were up 5.7% since the end of 2022.

Source: S&P Global Commodity Insights

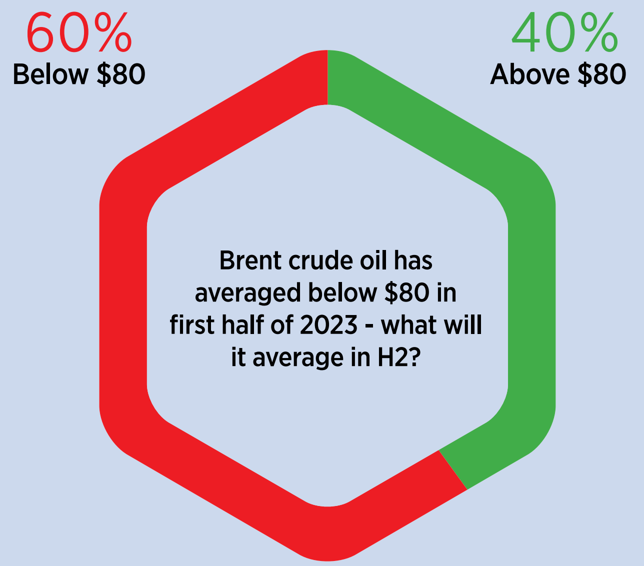
General Civil Aviation Authority, ICAO sign collaboration agreement

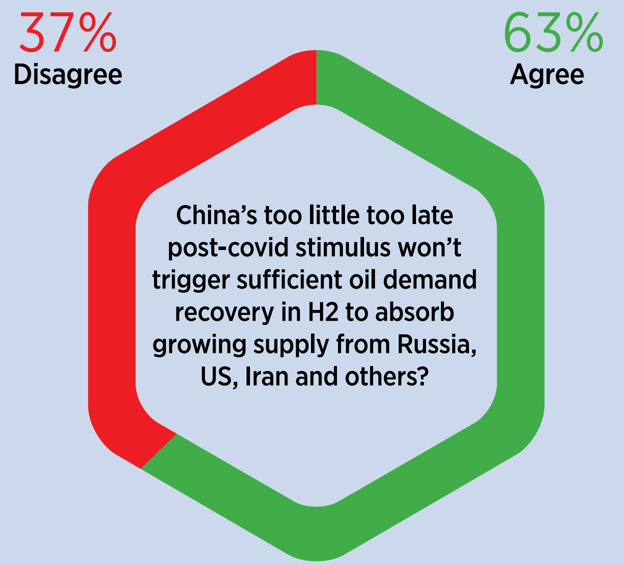
The UAE General Civil Aviation Authority (GCAA) and the International Civil Aviation Organisation (ICAO) signed a joint cooperation agreement at ICAO's HQ in Montreal, Canada. The agreement was signed by Mohammed Abdullah Al-Salami, Chairman, Department of Civil Aviation, in Fujairah, GCAA Deputy Board Chairman, and Juan Carlos Salazar, ICAO Secretary General. This came during Al Salami's visit to ICAO's HQ to discuss measures to improve cooperation on facilitating personnel secondment to ICAO. The two sides discussed joint initiatives, the most notable of which is Fujairah Air Navigation's accession to ICAO's TRAINAIR PLUS Programme, which promotes training collaboration aiming to support a safe, secure, and sustainable development of the global air transport.

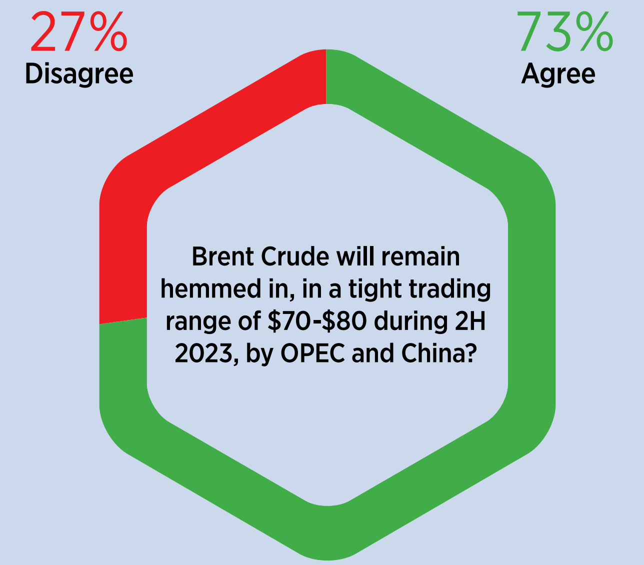
Source: Emirates News Agency - WAM

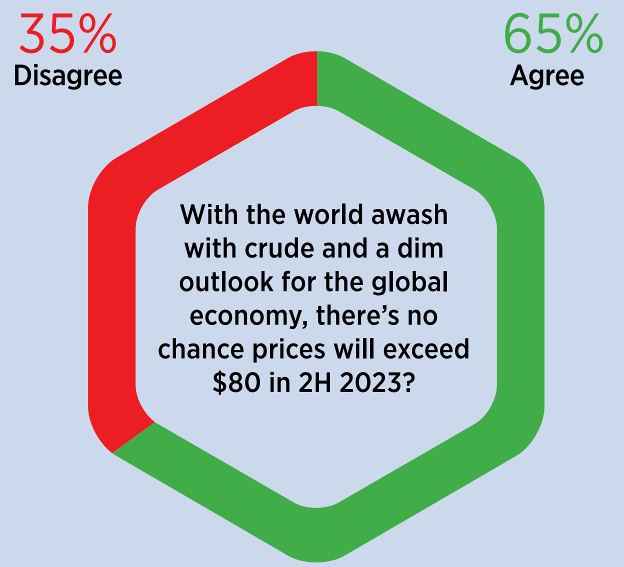

Just what the energy
future needs:
Our energy.
Uniper. Empower energy evolution.
www.uniper.energy

GI Weekly Surveys









Source: GI Research March 2023

Fujairah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone

TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 21.838 million barrels with a rise of 2.272 million or 11.6% week-on-week rising above the 20-million-barrel level. The stocks movement saw a rise across the board for light distillates, middle distillates and heavy residues.

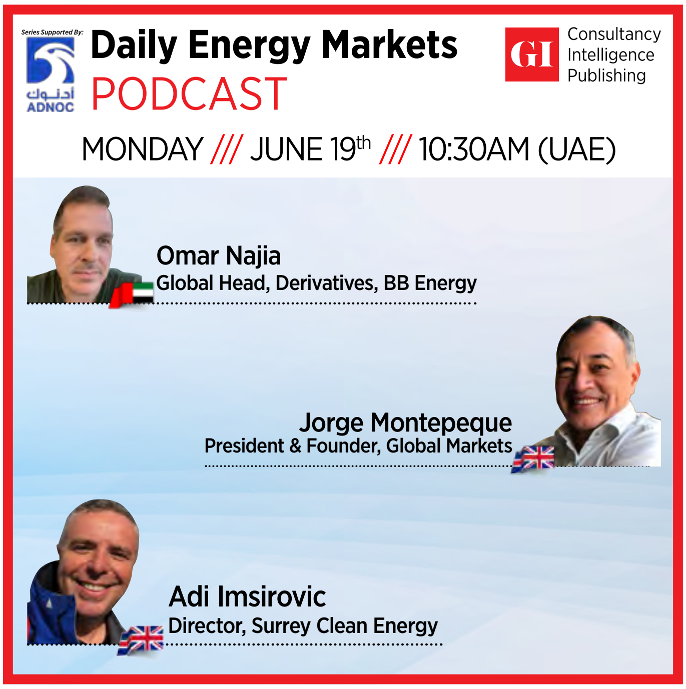
- Stocks of light distillates, including gasoline and naphtha, increased by 802,000 barrels or 12.1% on the week to 7.429 million barrels. The East of Suez gasoline complex softened in early trading June 20 as Malaysia's gasoline demand was heard lackluster despite the upcoming Eid al-Adha festivities, sources said. "Malaysia is seeing some slight increase in lifting activity ahead of Hari Raya Haji, but the rise is not as high as the typical seasonal spike," a source close to the matter said. Gasoline demand from Australia, India and Vietnam remained high amid ongoing and ahead of upcoming refinery turnarounds, market sources said. However, short-term market tightness in India brought about by the temporary closure of Sikka port was expected to ease moving forward as the port reopened late last week and gasoline cargoes were once again able to enter India via the port, sources said.

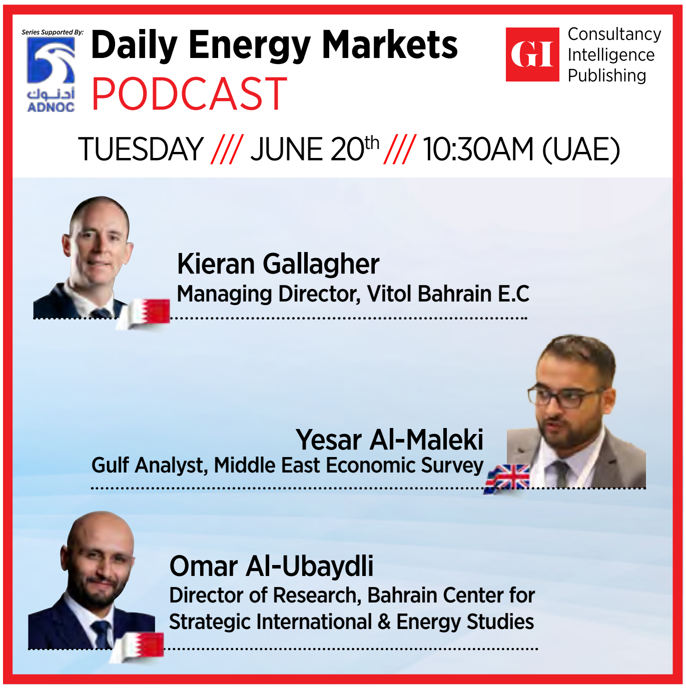
- Stocks of middle distillates, including diesel and jet fuel, rose by 1.028 millions barrels or 28.8% on the week to 4.596 million barrels. Backwardation in the East off Suez gasoil market structure eased slightly, but stable demand and lean supply continued to bolster market sentiment June 20. Demand for the ultra low sulfur grade has remained largely stable in Asia, industry sources said. Vietnam's 200,000 b/d Nghi Son refinery, which suffered an issue with its RFCC in early January, is scheduled to shut for 55 days of planned maintenance from Aug. 25, an official with operator Nghi Son Refinery and Petrochemical said. The maintenance was planned for Q2 but was rescheduled due to delays in delivery of some equipment.

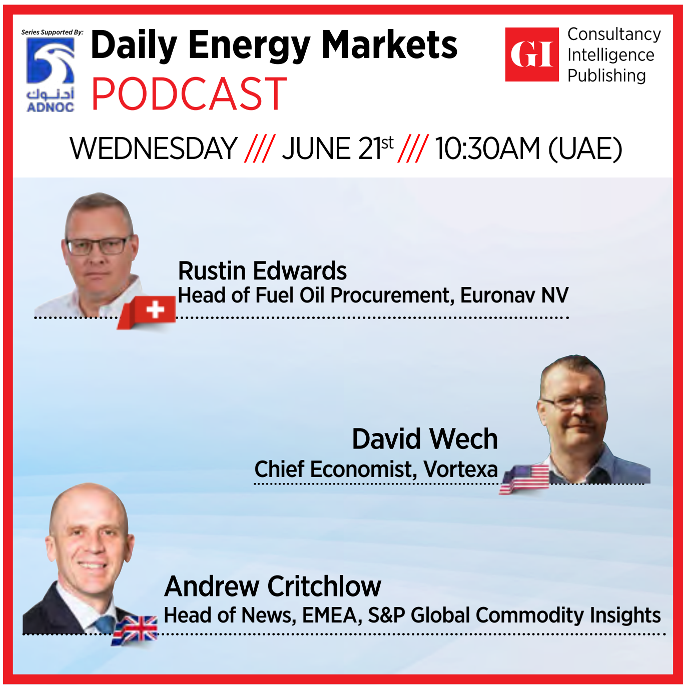
- Stocks of heavy residues rose by 442,000 thousand barrels, up 4.7% on the week as they stood at 9.813 million barrels. Spot trading activity at both the key bunker hubs of Singapore and Fujairah were seen moderate during the second trading day of the week that started June 19, amid lukewarm volumes of bunker inquires, market sources said June 20. Australia's fuel oil imports dropped 19.2% month on month to 434,626 barrels in April, latest preliminary data released by the Australian Department of Climate Change, Energy, the Environment and Water showed June 20. The April fuel oil imports were about 2.4% lower compared with the corresponding month in 2022, the data showed. In the Middle Eastern port of Fujairah, most offers for delivered marine fuel 0.5%S bunker were heard in the mid to high $590/mt level. After the MOC process though, offers were heard to have been dropped to even as low as mid $580/mt levels, traders said. The grade was assessed at $593/mt, $13/mt higher on the day. The premium for Fujairah-delivered marine fuel 0.5%S bunker over Singapore marine fuel 0.5%S cargo fell $1.35/mt on the day at 39 cents/mt.

Source: S&P Global Commodity Insights

Energy Markets COMMENTARY WEEK IN REVIEW







CLICK HERE TO LISTEN

Energy Markets Views You can Use

Adi Imsirovic
Director, Surrey Clean Energy

Could economic stimulus in China boost energy demand?

The problem is that China has a very limited scope for such a stimulus. Most of it so far has gone into its property market and with the subprime situation there, that only makes things worse. China has a mature economy, so it's perfectly normal for it to have slowed down and particularly with the demographic effect of an older population. We also should note that the oil market is not just relying on Chinese demand. The US is finally buying some oil for the SPR, at a couple of million barrels a month for the rest of the year, and we see an increased demand of about a million barrels a day for global jet fuel.

Your thoughts on Saudi's unilateral move to cut output in July?

OPEC, led by the Saudis, is in a very difficult position. They fully understand the expectations of a slowdown in the global economy and at the same time, they would like to keep Russia in the fold. But OPEC+ is now totally redundant simply because Russia is not doing anything and is unlikely to cut exports and production. And this lack of credibility goes back to the cuts announced in October, and then the voluntary cuts of 1.6 million b/d, which resulted only in Saudi cutting. We seem to be going back to the Saudis becoming a swing producer again, which is untenable in a weak market and is also something the Saudis don't want. The problem is this time that the Saudis will find it very hard to push Russia, as they did in 2020, because Russia's focus is on its war. The only thing that can help the market is a pickup in demand later this year.

ENERGY MARKET NEWS

1. API SHOWS U.S. CRUDE, DISTILLATE STOCKS FELL LAST WEEK - MARKET SOURCES
2. INDIA'S RUSSIAN OIL BUYING SCALES NEW HIGHS IN MAY - TRADE
3. GOLD HITS 3-MONTH LOW AS POWELL SUGGESTS MORE HIKES, THEN COMES ROARING BACK
4. RUSSIA'S IDLE PRIMARY OIL REFINING CAPACITY REVISED UP AFTER DRONE ATTACKS
5. U.S. OIL REFINERS AGAIN EXPAND FUEL CAPACITY AFTER BIG SHRINK
6. CHINA IMPORTS RECORD VOLUMES OF IRANIAN CRUDE
7. OFFSHORE OIL SPENDING TO RISE MORE THAN 20% THIS YEAR – SLB
8. MORNING BID: HAWKISH POWELL KEEPS MARKETS ON DEFENSE
9. SLOWING CHINESE ECONOMY OF MORE CONCERN TO EU FIRMS THAN GEOPOLITICS
10. MODI HEADS TO WASHINGTON TO TALK OIL, ARMS, AND INDIA'S SOVEREIGNTY

Series Supported By:

RECOMMENDED READING:

PERSISTENT UK INFLATION SHOULD WORRY EVERYONE

U.S. OIL STOCKS AT CUSHING DELIVERY HUB HIT 2-YEAR PEAK

HOW BEIJING'S NEWEST GLOBAL INITIATIVES SEEK TO REMAKE THE WORLD ORDER

THE GROWING IMPORTANCE OF THE ARABIAN GULF

THE GLOBAL LNG MARKET IS REACTING TO HIGHER NATURAL GAS PRICES IN EUROPE

EXCLUSIVE: INDIA'S WHEAT OUTPUT 10% LOWER THAN GOVERNMENT ESTIMATES- TRADE BODY

Energy Markets Views You can Use

Jorge Montepeque
President & Founder, Global Markets

The main takeaway in 1H 2023 has been the global impact of rising US rates.
There's a large need for maintenance by many governments, which means a misallocation of resources from the private sector to the public sector. This drains money from every person that has to pay a mortgage or buy anything. What I did not account for was the impact it would have on economies linked to the US, such as China, which is also suffering from that drop in private demand. China hasn't had the growth boost that was expected because that was erased by the US interest rates measures.

Outlook for US FED policy in 2H 2023?
Powell has been very clear. He has said he is stopping the rate rises for a while but is also ready to increase them further at some stage. One could interpret that as him being independent from the central government which would like lower rates to ensure reelection, or one could interpret that as him saying the US deficit is so out of control, and the Treasury has to sell so many bonds in the short term, that interest rates will rise as the supply of bonds increases. All of this means that the US government needs to suck in money from the rest of the world to keep the deficit going. We should be ready for a continuing rise in rates, not just in America but also in the UK and Europe. Bottom line, the major economies will have to do the equivalent of printing later this year and when they do, we can expect oil prices to increase as a result.

Will the 2% inflation target remain?
You would have to increase interest rates above 10% for that and the US economy is already in a downward spiral. If it raises interest rates to that level, there will be a huge portion of the budget just to sustain interest payments, leaving no money for anything else. They cannot afford that. So, they will have to print – the only question is when this will happen – later this year or by next spring at the latest.

Expectations from the visit of Blinken to China?
The US is slowly realizing that this is a multi-polar world. Before, it would first try to jawbone an opponent and sanction them. But you would need to be really disconnected from reality if you hadn't realized by now that sanctions have a boomerang effect. Russia is exporting as much oil as they elect to do, and so are Iran and Venezuela. And as the US tries to press China on semiconductors and export policies, China doesn't care and is not listening. We are going to see an increasingly independent China and the West should be very ready to cooperate with it commercially.

GI Soundings Week in Review

"Plentiful Crude Supply Dominates Sentiment Despite OPEC+ Cuts!"

Over the last week, Gulf Intelligence has held high-level interviews with energy experts in the MiddleEast, Asia, Europe, and the US. This intel is harvested from the exclusive briefings.

- **Omar Najia, Global Head, Derivatives, BB Energy**
- **Kieran Gallagher, Managing Director, Vitol Bahrain E.C**
- **Yesar Al-Maleki, Gulf Analyst, Middle East Economic Survey**
- **Omar Al-Ubaydli, Director of Research, Bahrain Centre for Strategic International & Energy Studies**
- **Andrew Critchlow, Head of News, EMEA, S&P Global Commodity Insights**
- **Rustin Edwards, Head of Fuel Oil Procurement, Euronav**
- **David Wech, Chief Economist, Vortexa**
- **Nur Azlin Ahmad, Editor, Crude Oil, Argus Media**
- **Rafiq Latta, Senior Correspondent, Energy Intelligence**
- **Mehmet Öğütçü, Group CEO, Global Resources Partnership, Chairman, London Energy Club**

Omar Najia, Global Head, Derivatives, BB Energy SPECULATIVE MONEY "It's not physical demand that's going to make a difference to the price – it's speculative paper, futures, derivatives – those are at least 100 if not 1000 times more than physical oil and physical gas. It doesn't matter if it's hot in India or cold in Venezuela - it's not going to make a difference. Oil is a financial asset."

Kieran Gallagher, Managing Director, Vitol Bahrain E.C DIESEL DEMAND "What we have seen in May and June is over 1.2 million tonnes per month leaving the AG and west coast India and pointing East on diesel. If the high Chinese diesel export numbers we've seen were having a softening impact on the market, then the East wouldn't need those extra 1.2 million tonnes, so the picture doesn't look so bad in Asia on the diesel demand front."

Yesar Al-Maleki, Gulf Analyst, Middle East Economic Survey CHINA DEMAND "The question that we need to ask is, how much of the strong economic rebound that we had seen in China in H1 is pent-up demand after abolishing its Zero-Covid policy, and how much is actual demand growth. I think the picture is still mixed, and Q3 is going to be a pivotal time to have a much better sense of the Chinese economy."

Omar Al-Ubaydli, Director of Research, Bahrain Centre for Strategic International & Energy Studies QATAR-GCC RELATIONS "When it comes to Bahrain and UAE restoring ties with Qatar, I think the most important step was Qatar restoring ties with Saudi Arabia. Once that happened, it was just a case of administrative delays to get it done, and what we have now is the foundation for a series of Middle Eastern relationships that looks very different to what it might have been five years ago."

Andrew Critchlow, Head of News, EMEA, S&P Global Commodity Insights INTEREST RATES "The cost of capital and cost of debt are the real drivers for economic growth and that's going to feed through to demand. So, OPEC are going to have some hard decisions at the end of the year because they've backed themselves into a corner - how much more can they cut to defend this very clear price floor of $70 a barrel?"

Rustin Edwards, Head of Fuel Oil Procurement, Euronav NV CHINA CRUDE DEMAND "The ESPO barrels that were going to India have shifted back into China, so there's a definite demand there to continue to run or store crude and export products. We also see this on the ton miles for tankers where rates, despite the one-million-barrel OPEC cut, actually went up, because there is more demand pull out of long haul crude into Asia versus the Middle East."

David Wech, Chief Economist, Vortexa RELIABLE DATA "Part of the solution is simply to focus on seaborne trade because you will never know exactly what Chinese oil demand is or what Saudi Arabian production is, due to a lack of independent sources. Different country methodologies and incomplete and delayed data will always mean we are a bit in the dark, but we can see very well what is on the sea."

Nur Azlin Ahmad, Editor, Crude Oil, Argus Media CHINA CRUDE "Russia and Saudi Arabia seem to be competing to be the top supplier to China. In May, Russia supplied about 2.3mn b/d and Saudi Arabia about 1.7mn-2mn b/d. The UAE and Iraq were at roughly a million. So, term volumes moving into China and India from the Gulf are OK, but it's the spot volumes that Russia is taking over."

Rafiq Latta, Senior Correspondent, Energy Intelligence RUSSIAN OIL "It's hard to see a world where Russian oil goes back to the same volumes into Europe. This redirection of flows is permanent and that enormous driver of security of demand that the Gulf has had in China, that whole equation has changed, and that has to be concerning for OPEC."

Mehmet Öğütçü, Group CEO, Global Resources Partnership, Chairman, London Energy Club TURKISH ECONOMY "Erdogan's new cabinet has been received positively by all political circles, but my concern is the very serious financial problems. Turkey's foreign debt will be rescheduled soon, and the current account deficit is $60 billion. And how are we going to finance all these mega energy projects? Don't forget Turkey is 98% and 95% dependent on imports of natural gas and oil respectively."

جدوى للإستثمار
Jadwa Investment

June 2023

Q1 2023 GDP Update

Non-oil GDP growth remains buoyant

- GASTAT data show that the non-oil economy continues to expand at a robust rate. Real non-oil GDP grew by 5.3 percent in Q1, year-on-year, the third quarter running that this mark was achieved, and in line with the 2021-22 quarterly average.

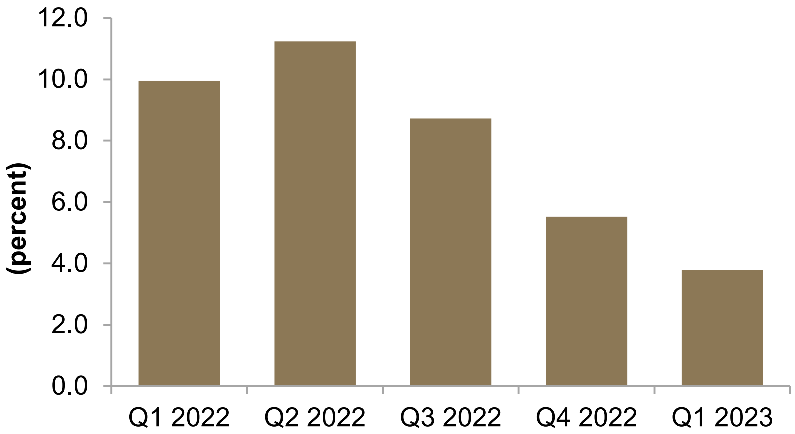
- Overall GDP slowed to 3.8 percent growth from 10 percent in Q1 -22 as oil production growth softened. Oil GDP expanded by just 1.4 percent in Q1, and is set to shrink for the full year given cuts (realized and proposed) to Saudi crude production.

- From a Sectoral perspective, an important driver was Wholesale and Retail Trade, which grew by 7.5 percent, year-on-year. This sector continues to benefit from a steady supply of new entrants to the labor market, and an increasingly diverse offering of spending options.

- Manufacturing contracted slightly, weighed down by weaker oil refining output as the authorities diverted more crude to export markets, along with the impact of some softening in regional demand. The more important subsector, Petrochemicals, saw a 2.3 percent gain. This was well below the average quarterly increase in 2022 (7.9 percent), reflecting the fact that, for the moment at least, China's chemicals' inventories are near capacity. This should begin to unwind in the months ahead and the sector can look forward to decent growth in H2.

- From an Expenditure perspective, Private Consumption now accounts for some 45 percent of domestic demand, up from 36 percent a decade ago. That said, Investment has shown tremendous growth, expanding by 45 percent from the end of 2020 to Q1-23.

Figure 1: Change in Real GDP, year-on-year (2010 prices)



For comments and queries please contact:

James Reeve
Chief Economist
jreeve@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Released: June 21-2023, 16:00 UTC+3

Real GDP grew by 3.8 percent in Q1-23, year-on-year. This marked a slowdown from the 10 percent recorded in Q1-22, mainly reflecting weaker oil production growth.

GASTAT released first quarter GDP data in early June. The data show that real GDP expanded by 3.8 percent, year-on-year, down from 5.5 percent in Q4-22, and from 10 percent in Q1-22 (Figure 1). The main drag on growth was from Oil Activities, which slowed to 1.4 percent growth from 6.1 percent in the previous quarter, and from a colossal 20.2 percent in Q1-22. Meanwhile, Non-oil Activities accelerated to 5.3 percent versus 3.4 percent in Q1-22 (Figure 2).

From a sectoral perspective, Manufacturing was the only sector not to post year-on-year growth. This reflected a contraction in Refining output as the authorities opted to sell more crude abroad.

Table 1: GDP by Institution and Economic Activity, year-on-year percent change, Q1-23 vs Q1-22 (2010 prices)

	Q1 2022	Q1 2023
Overall GDP	**10.0**	**3.8**
By institutional sector		
Oil Sector	20.2	1.4
Non-oil Sector	3.4	5.3
Government Sector	2.9	5.4
Private Sector	3.6	5.2
By economic activity		
Agriculture, Forestry & Fishing	3.2	2.9
Mining & Quarrying	20.4	2.2
a) Crude Petroleum & Natural Gas	20.7	2.3
b) Other Mining & Quarrying	1.0	0.2
Manufacturing	7.3	-0.4
a) Petroleum Refining	17.3	-7.6
b) Manufacturing excluding petroleum refining	4.1	2.3
Electricity, Gas and Water	1.4	1.6
Construction	0.4	5.5
Wholesale & Retail Trade, Restaurants & Hotels	6.3	7.5
Transport, Storage & Communication	5.9	9.3
Finance, Insurance, Real Estate & Business Services	2.5	2.8
a) Real Estate	1.2	1.7
b) Finance, Insurance and Business Services	4.2	4.2
Community, Social & Personal Services	1.1	12.8
Producers of Government Services	2.4	4.9

Figure 2: Change in Real GDP by Institution, Oil and Non-Oil, year-on-year (2010 prices)

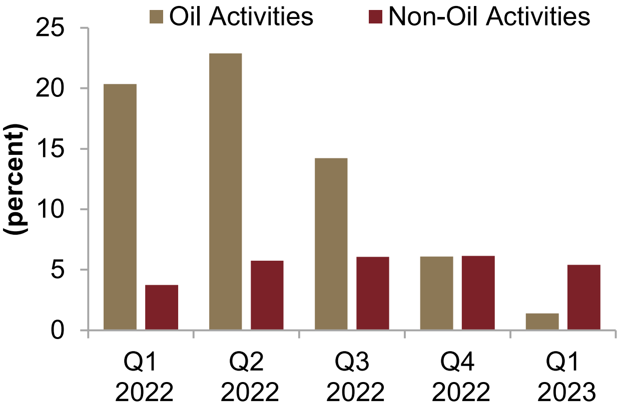
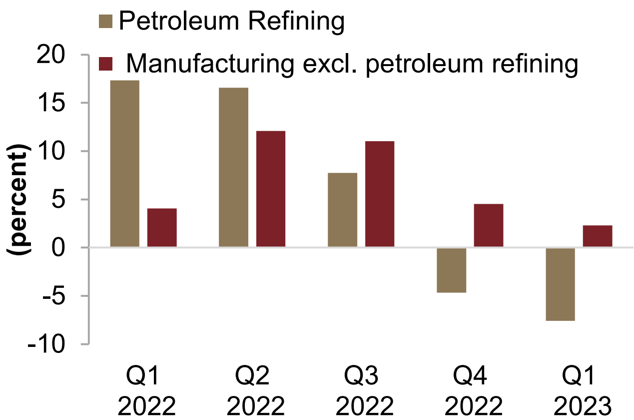


Figure 3: Change in Real Manufacturing GDP, Refining and Petrochemicals, year-on-year (2010 prices)



Oil's contribution to real GDP growth is likely to go into reverse during the remainder of the year given the Kingdom's OPEC-agreed cuts in May and July.

Oil Activities are set to slow further, and indeed go into reverse given the Kingdom's commitment to additional cuts in production as part of OPEC agreements. The second quarter encompasses a 500,000 bpd cut to output, which was made at the beginning of May, and is assumed to stay in place for the remainder of the year (Bloomberg puts the actual cut at 510,000 bpd). This will probably leave output around 3 percent lower than in the second quarter of 2022. Then, in July, a further 1 million bpd cut to Saudi output is promised, which we also assume will apply for the rest of the year. Thus, oil output for the third quarter is likely to be down by at least 15 percent, year-on-year. Barring an unexpected recovery in output in Q4 (which will depend on the authorities' reading of the demand situation) total crude output is likely to be some 8-10 percent lower in 2023 compared with 2022.

Non-oil GDP grew by a solid 5.3 percent. There were strong gains from both "government" and "private" non-oil activities.

Non-oil output grew by a healthy 5.3 percent year-on-year rate, the third quarter running that this mark was achieved. Non-oil activity is split into "government" and "private", with the latter generally accounting for around 70 percent of output (though see Box 1). In this instance government output saw stronger growth (5.4 percent year-on-year), yet private activity was still up by 5.2 percent.

Looking at GDP by Sector, the biggest non-oil growth driver (outside of Government Services) remains Manufacturing, which in turn is dominated by Petrochemicals and Oil Refining (Table 1; Figure 3). Refining struggled in the first quarter, falling by 7.6 percent, which is probably a reflection of the authorities' efforts to push more crude out to export markets at the expense of domestic refining activity, along with the impact of some weakness in regional refining demand. Petrochemicals output decelerated sharply to 2.3 percent as chemicals stocks in China (KSA's main market) neared capacity. Chinese demand is expected to pickup again as its stocks are drawn down, giving support to a sector that suffered more than most during China's lockdowns. Indeed, subsequent data for April show that overall Manufacturing output increased by 10.5 percent.

Wholesale and Retail Trade had another very strong quarter. This reflects buoyant domestic consumption, driven in turn by female labor force entry and burgeoning spending opportunities.

Wholesale and Retail Trade is the next largest sector and this has enjoyed solid growth over the past few years. The sector expanded by 7.5 percent in Q1 and now accounts for just under 10 percent of overall GDP (Figure 4). Demand is being propelled by women joining the workforce, while on the supply side there is ever-increasing scope to spend new incomes on entertainment and domestic tourism.

In terms of sector size, Trade is followed closely by Finance, Insurance, Real Estate and Business Services (9.5 percent of GDP). However, growth in this sector was much more subdued in Q1-23 at 2.8 percent overall, with the Real Estate sub-sector dragging. Real Estate enjoyed outsized growth in 2021 and much of 2022 before higher interest rates began to weigh on mortgage demand. Pent-up demand is still substantial, however, and the sector is likely to see renewed acceleration once interest rates begin to fall (likely H1-2024).

Construction has rebounded forcefully following a challenging few years. The sector is being powered along by the rollout of various giga projects, along with regular central government capex which surged in Q1-23 according to the fiscal accounts.

Following a challenging couple of years (mainly Covid-19-related), the Construction sector appears to have rebounded quite forcefully, growing by an annual 5.5 percent in the first quarter. Indeed, the average for the past four quarters has been 5.9 percent. The sector has obviously benefitted from the surge in public sector investment, most notably around giga-projects, though housing construction has also been a significant tailwind. There are some constraints around labor and other inputs, though this is hardly surprising given the

The biggest "non-oil" sector, Government Services, saw a 4.9 percent Q1 gain, the largest since Q2-18. However, this pace is unlikely to be sustained given the highly uncertain oil demand outlook.

pick-up in pace of project roll-out as interim Vision 2030 deadlines loom.

The biggest non-oil sector is Government Services, though this sector's relationship to oil revenue is obviously pretty tight. This picked up to 4.9 percent annual growth in Q1-23 (from an average of 2.6 percent in the previous four quarters), which is in line with the increase in spending revealed in the government's Q1 fiscal accounts. The 4.9 percent gain was the largest since Q2-18, and reflects in part the increase in procurement costs (associated with a surge in capex) during the quarter. Government spending growth seems likely to moderate in the quarters ahead given the very uncertain oil demand outlook.

Box 1: Defining "private" investment

The GASTAT data put "Non-Government" investment as the largest element of overall investment. However, this needs treating with caution as it includes investments made by the Public Investment Fund (PIF). We can see this from the fact that "government" fixed investment (in current prices) is virtually identical to central government capex from the fiscal reports (if PIF investments were included in the former then the series would not match).

Disentangling public investment from private is not straightforward.

The authorities classify PIF investments as private, reflecting the recipients of its investments, which are often, but not always, private sector entities. However, as the name suggests, the PIF is a public sector actor. Unfortunately, there is not enough detail about PIF investments to separate them out from private investments. The latest PIF financial statement covers 2021 and shows that total PIF assets increased by SR479 billion during the year. However, much of this would have been valuation gains in existing investments (the TASI alone rose more than 30 percent in 2021) along with the impact of the merger between NCB and Samba (in which PIF had pre-existing stakes).

The Fund's spending plans give some insight into the likely deployment of capital in the domestic economy. The PIF has pledged to invest SR150 billion a year domestically, and if we strip out this amount from the "non-government" investment in 2022 (in current prices) we are left with around SR750 billion of private investment, up from SR530 billion in 2021. But this approach clearly has only limited value in gauging the actual level or growth of purely private investment in the Saudi economy.

Figure 4: Change in Real Domestic Trade GDP, year-on-year (2010 prices)

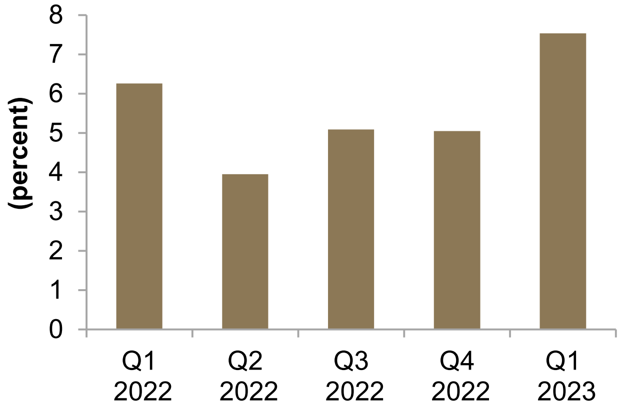
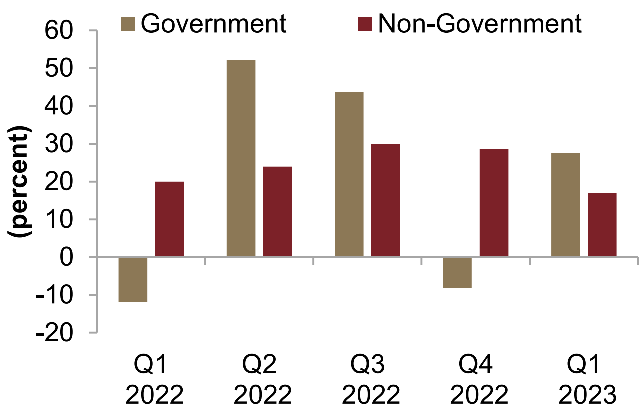


Figure 5: Change in Gross Fixed Capital Formation, Government and Non-Government, year-on-year (2010 prices)



GDP by Expenditure showed very strong gains for Investment and Consumption, offsetting a weak showing from Net Exports.

The strong showing from government services in Q1 is matched in the GDP by Expenditure data (Table 2). These show Government "Final Consumption" expanding by 16.2 percent in real terms, year-on-year—a startling gain on the 6.7 percent average for 2022. Despite this, government consumption is still only around half that of private consumption, which has seen steady and impressive gains over the past couple of years, averaging 7 percent. Private consumption now accounts for 45 percent of final domestic demand (that is, subtracting volatile net exports) up from 36 percent a decade ago. Private consumption will be a durable tailwind for GDP for years to come given that women still represent only 38 percent of the workforce, compared with a global average of around 50 percent.

Table 2: Real GDP by Expenditure, year-on-year percent change, Q1-23 vs Q1-22 (2010 prices)*

	Q1 2022	Q1 2023
Gross Final Consumption Expenditure	4.9	7.8
Govt. Final Consumption Expenditure	2.5	16.2
Private Final Consumption Expenditure	6.1	3.9
Gross Fixed Capital Formation	17.5	17.6
Government	-11.9	27.6
Non-Government	20.0	17.0
Domestic Final Demand	1.5	6.8
Exports of Goods & Services	27.9	2.0
Imports of Goods & Services	5.8	11.2
Gross Domestic Product	**10.0**	**3.8**

**excludes change in inventories*

Real Investment has grown by a phenomenal 45 percent since 2020. Still, the economy is now much more consumption-oriented than it was ten years ago.

Meanwhile, Gross Fixed Capital Formation underscored its role as the primary growth driver of the Saudi economy with a 17.6 percent year-on-year expansion in Q1 (Figure 5). Yet even this eye-watering figure was still some way lower than the 24.2 percent average growth rate recorded in 2022. Fixed investment has grown by a colossal 45 percent in real terms since the Covid-19-afflicted 2020, as giga-projects (and other "lesser" infrastructure additions and improvements) have been ramped up. However, separating private from public investment is not straightforward (Box 1).

Disclaimer of Liability

Consultancy
Intelligence
Publishing