Looking ahead to 2024 we set out here our views on how we see global events affecting oil markets and ultimately our markets here in MENA focusing on industries and investment themes we think could be affected by these dynamics for the year ahead.

US Elections to impact fiscal and monetary policy

The 2024 US election trail has kicked off with early indications of a trump for Trump, and if initial caucuses are a reliable indication, we may witness a Biden/Trump rematch come November. Whatever the outcome, the impact on US indices will be significant, potentially triggering a swift shift in market sentiment from bull to bear or vice versa. Uncertainty over which direction US monetary and fiscal policy will take requires vigilant observation of inflation indicators, particularly whether non-core inflation continues to soften, a trend supported by CPI signals observed in late 2023. The Fed's stance on inflation and interest rates will significantly influence oil demand. The potential trickle-down impact of this scenario on our markets is addressed in more detail later.

…and leave a mark on GCC and oil considering regional conflict

Trump 2 may fuel positive local MENA sentiment and serve to ease regional geopolitical tension. Regional stability is a key foundation required to facilitate Vision 2030, a top priority for the Kingdom. The current escalation in regional conflict firmly jeopardizes the 'stability element' of the equation. Given the relatively young Abraham accords were concocted under the Trump administration's efforts to broker peace in the region, he is seen as more able to achieve this. We feel, for GCC equities particularly Saudi stocks, regional stability – or the promise thereof - is only a good thing, as such the prospect of a Trump win may have a positive effect in our markets.

As the geopolitical situation intensifies across MENA, the now three-month-old Israel-Hamas war has spurred Houthi rebel attacks on key shipping routes which are having an increasingly material impact on global supply chains. The Houthi attacks have proven significant enough to move the US and UK into conducting coordinated air strikes on Houthi targets in Yemen. Thus far the Kingdom and the UAE have kept their distance, no small feat given hostilities between Saudi Arabia and the Houthis have only very recently (March 2023) subsided. It appears neither party wishes to become fully engaged in regional escalations. For oil and LNG, supply disruptions will likely remain relatively well supportive of prices into 2024. In order to see oil prices breaking significantly higher, there should be a meaningful loss in supply and / or further frontal escalation. Should there be any major (yet unlikely) event, we can expect some downward pressure in our markets contrasting a sharp and sudden surge in oil prices.

Oil will also be impacted by Slow Chinese Recovery

Dismal Chinese economic growth prospects – should they materialize - will lead to lackluster Chinese energy demand which will serve to further depress prices and negatively impact Saudi oil exports for whom China is a key customer. Weak demand prospects and a sudden, sharp re-pricing of propane feedstocks for domestic producers is another dent in the armor for petchems and adjacent sectors in Saudi which will hit margins and subsequently earnings.

US Oil production, OPEC+ reaction, and impact on main GCC economies

Increased US domestic oil production is expected to continue up until the elections if not beyond keeping oil prices in check. By contrast OPEC+ latest agreement signed in November 2023 included an additional voluntary 2.2 mbd in production cuts, as such OPEC+ are expected to support a much-needed minimum price threshold by restricting supply. The real question for 2024 is whether OPEC+ keeps its cuts or opts for a market share fight considering record US oil production. No matter what, Saudi needs robust oil revenues to support its ambitious Vision 2030 plans. The Kingdom maintains a heavy expansionary fiscal spending strategy and is already in a tight funding situation, further drained by mega projects absorbing the local banking liquidity. The fight for capital in Saudi is undeclared yet real. SAMA interfered twice in 2023 to inject liquidity in the market and unlock the money supply situation. We anticipate "Re-pacing, Re-phasing and Re-sizing" of Saudi giga and mega projects – effectively the jewel in the proverbial crown of Vision 2030 aimed at transforming the Kingdom into a global industrial power for an already G20 economy, along with positioning it as a tourism and entertainment hub. Restricted money supply could indicate a slowdown or even a downsizing of these projects which in turn will have a negative impact on affiliated industries including contractors, manufacturing suppliers, and cement producers.

What all this means to GCC economies and markets

An oil price drop in 2024 is not all doom and gloom from an equities perspective, there are those who stand to gain, namely airlines, VLCC tankers (serving as storage facilities), and industries where high feedstock prices have hurt. Reduced or even subdued oil revenues will signal potential changes in fiscal policy in the Kingdom, that could include a move from Zakat to a fixed corporate taxation rate as one way of replenishing state coffers and a further step moving away from a state reliance on oil. The implications on profitability following such a change will be mixed and another '*one to watch'* among Saudi equities.

Big diversification push continues in Saudi

2023's Saudi mining event (22,000 participants, 9,000 of which attended in person) is the perfect example of Saudi ambition in the mining sector, a pillar sector of Vision 2030. It is estimated Saudi mineral resource reserve potential has increased by 90% (an additional USD1.2 trillion in untapped resources). The Kingdom has announced plans to award 30 mining exploration licenses to international investors in 2024 which naturally presents huge opportunities beyond traditional fossil fuels, with extraction expanding the sector into phosphates, copper, gold, silver and other metals. We expect the mining sector in Saudi to make an even bolder entrance in 2024 as over 48 minerals have been identified in the Kingdom and are actively being explored; existing companies, new entrants, and peripheral sectors will be closely monitored in coming months.

Economic diversification, mining, and giga projects aside, tourism, sports, and entertainment remain key sectors in Saudi Arabia undergoing massive development and a huge PR campaign to boot. Admittedly, while the Kingdom has a little way to go to catch up with the UAE which has quite firmly secured its spot as a global tourist attraction, Saudi Arabia's efforts here are really not to be sneezed at. Like mining, the sector presents a healthy serving of opportunity we don't intend to ignore spanning international sporting events, hospitality, and other areas of entertainment (cinemas, festivals etc.). The strong backlog and pipeline of global events for the decade to come (2029 Asian Winter Games, Expo 2030, and 2034 FIFA World Cup) are further testament of the Kingdom's bold ambition of becoming a premiere worldclass destination.

UAE cementing its positioning as a tourism and industrial hub

The UAE doesn't present any plot twist in the coming 12 to 24 months, with the Emirates now a bona fide tourism hotspot and deployment of an effective economic diversification strategy which continues to mature and develop. Changes to the visa regime, corporate ownership structure, a now well-established financial hub, global arbitration seat, and robust real estate market – the UAE is no longer viewed as a transient place to settle or invest in. We predict tourism and real estate will be solid performers in 2024, Dubai's real estate market is expected to continue to expand. Opinions diverge on the rate; however a growth trajectory remains. UAE capital markets are expected to sustain their concerted IPO strategy with a promising pipeline of further listings ahead. Alongside all this, Abu Dhabi's newfound position as an industrial hub, a strategy coming from the highest echelons, the hashtag #Madeinabudhabi, and various other transformation programs and strategies already rolled out, the emirate and its industry is another area where we see potential in 2024.

Qatar looking for catalysts to be led first by the locals

We don't see any exciting developments for Qatar in 2024. The post World Cup and post pandemic environment was expected to be challenging for Qatar and it has been, the Qatari Stock Exchange, has been a continuous laggard for the past few years, we would expect certain local participation to activate the market as evidenced by market making announcement, and new QIA leadership reshuffling. Growth prospects in Qatar remain modest compared to Saudi and the UAE, while there is talk of an uptick in the construction sector in the second half of 2024, we don't anticipate any major changes in the near term.

Kuwait not to be forgotten, as change could be brewing

A changing of the guard in Kuwait does not indicate any change in policy, while the new Emir Meshal al-Ahmad Al-Sabah has now formally succeeded at 83 years old, he has been *de facto* in post since around 2021, as such we don't expect major changes in the country's political and stale economic prospects nor its capital markets. The real question is whether the appointment of the Prime Minister, Sheikh Mohammed Al Sabah, a 68-year-old Harvard educated, and highly respected former Foreign Minister and diplomat, will be nominated Crown Prince, or not. His tentative appointment will grant him the authority to undertake real change and could be a source of optimism and change for the country.

Egypt has some tough decisions to make before being investable

The ongoing capital control and lack of foreign currency remain the key issues in Egypt. Delays in floating the currency and securing hard currency are just pushing the can down the road and increasing the gap between the official and black-market rate. Obviously, any decision to float the currency will be felt massively by the populus and hence the delay in the decision. Until then, Egypt remains uninvestable for foreign investors with hard currency. On the contrary, anyone with EGP is putting it in the market to provide some shield when that inevitable devaluation happens.