



Currency Weakness Will Broadly Persist

MENA Monthly Outlook Presentation

September 2022

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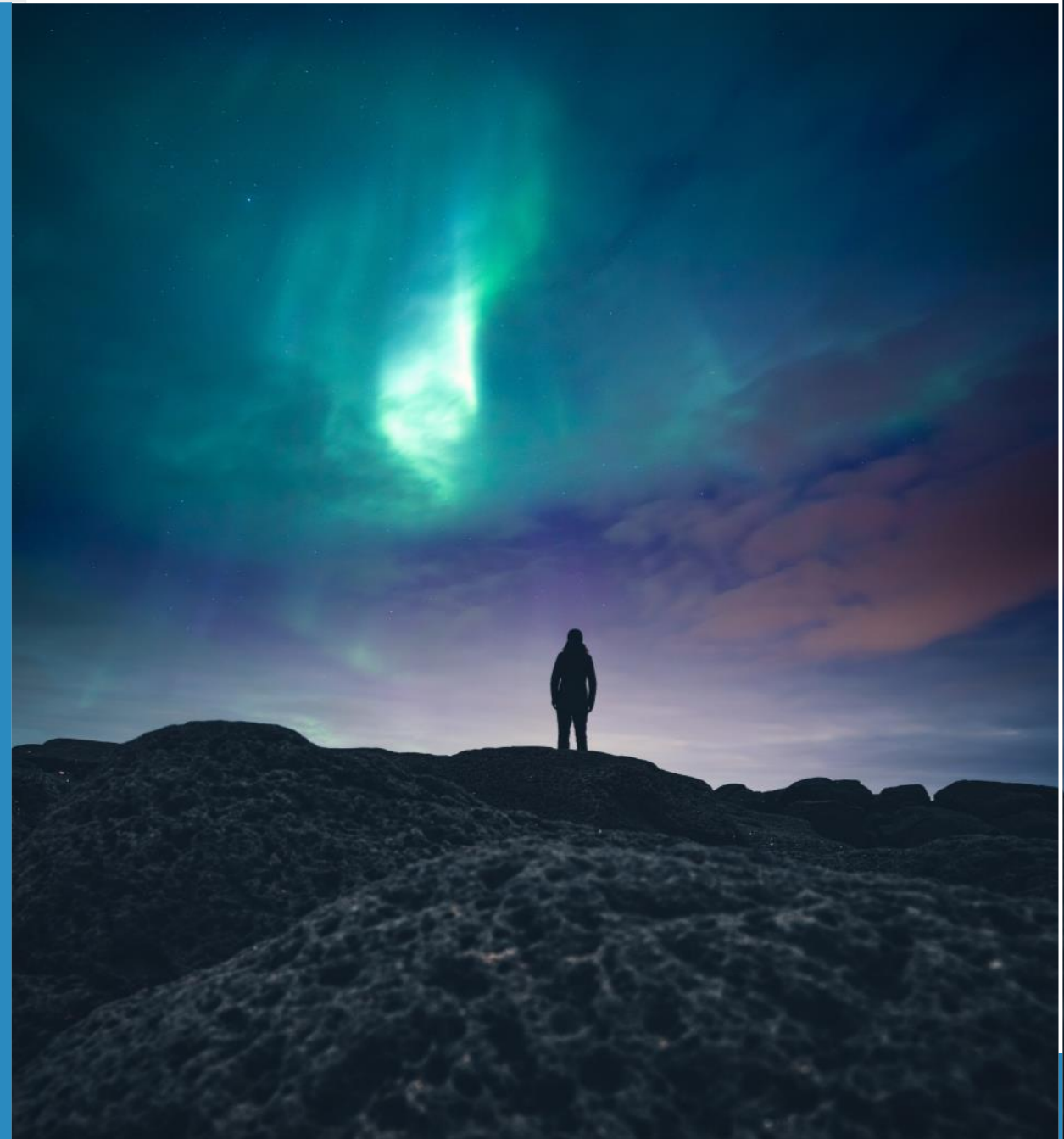
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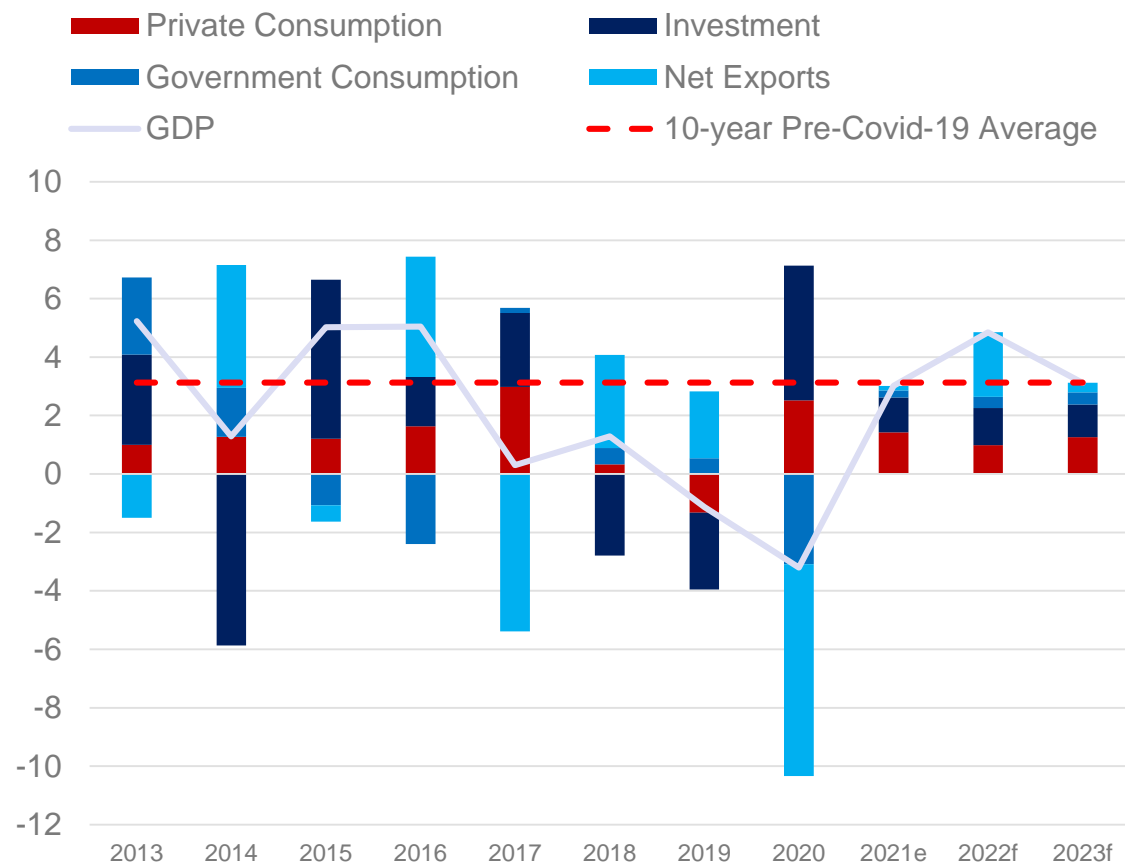


GDP Releases

Oman: Strong Growth In 2022 Supported By The Oil Economy

Oman's Growth Above Pre-Covid-19 Trends In 2022

Oman – Real GDP Growth, % & Contributions, pp



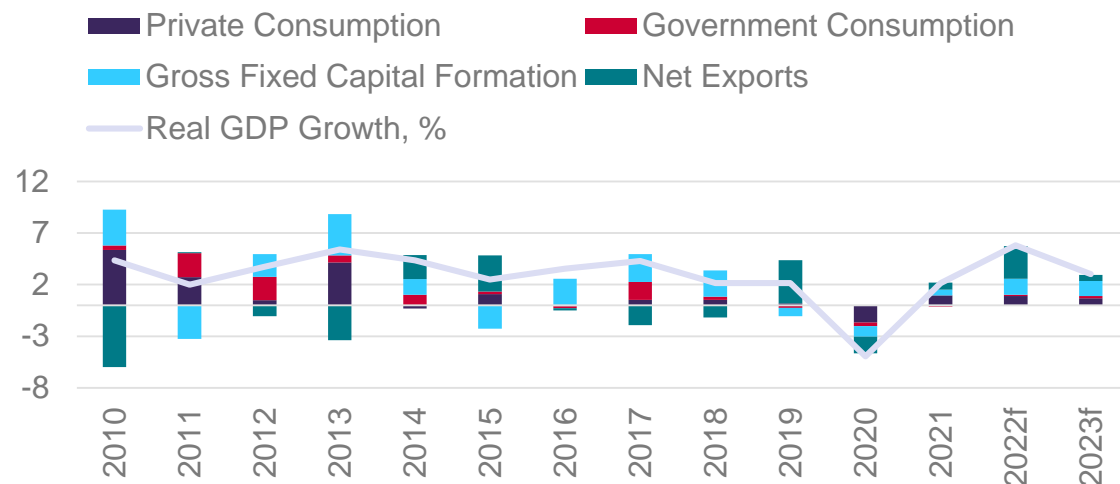
e/f = Fitch Solutions estimate/forecast. Source: NCSI, Fitch Solutions

- Q222 data showed a robust 5.9% y-o-y increase in GDP, marking a sharp acceleration from 2.1% y-o-y in Q122.
- Hydrocarbon-related economic activity will continue to be the main driver of economic growth in H222, as we forecast hydrocarbon production to increase by 7.6% in 2022.
- A surge in hydrocarbon production, strong demand for non-hydrocarbon exports and a recovery in tourism will support net exports contribution to headline growth.
- Investment will remain strong in H222 amid government efforts to diversify sources of economic activity, in line with Oman Vision 2040.
- Meanwhile, inflationary pressures and unfavourable base effects will cause headwinds to private consumption despite a resilient recovery.
- In 2023, a sharp slowdown in hydrocarbon production will weigh on economic growth, which will come in at 3.1%.

Bahrain: Growth Peaked in Q222, Will Slow From H222

Growth Will Slow In 2023, After 14-Year High in 2022...

Bahrain – PP Contribution To % y-o-y Growth

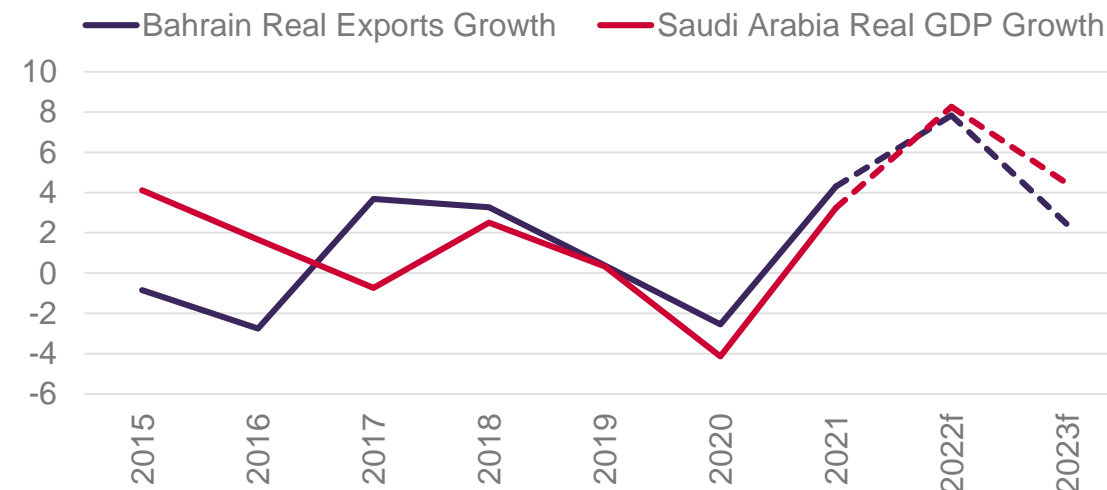


- Q222 GDP data pointed to 6.9% y-o-y growth (the fastest since Q410) and exceeded our expectations, as growth in the non-oil sector, especially in tourism, was stronger than expected.
- This along with stronger growth in the kingdom's main export market and source of tourists, Saudi Arabia, prompted us to raise our 2022 growth forecast for Bahrain from 3.8% to 5.8%, the fastest since 2008.

f = Fitch Solutions forecast. Source: IGA, Fitch Solutions

...Amid Slower Exports Growth

Bahrain – Real GDP Growth & Inflation VS Saudi Arabia - Real GDP Growth, %



- Indeed, strong exports will keep growth robust at 5.5% y-o-y in H222, but this will be slower than H122 mainly due to higher inflation and policy rates which will weigh on private consumption.
- In 2023, headline growth will slow to 3.0% due to the normalisation of economic activity, sticky inflation, and lower external demand and hydrocarbon production. This will weaken private consumption and exports growth.

f = Fitch Solutions forecast. Source: National Sources, Fitch Solutions

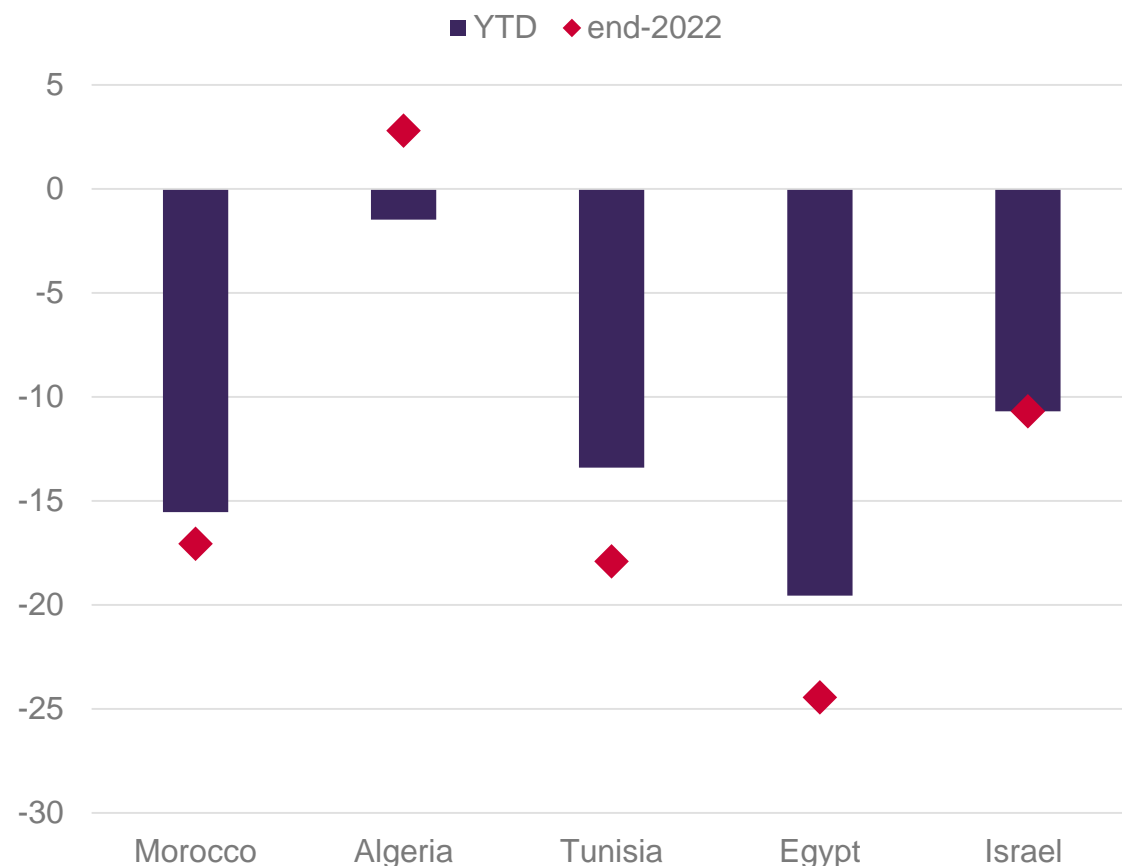


MENA Currency Round-Up

MENA Currencies: Further Short-Term Weakness, Expect For Algeria

Depreciatory Pressures Will Persist Expect On Algerian Dinar

Selected MENA Markets – Depreciation In Exchange Rate vs USD, % chg



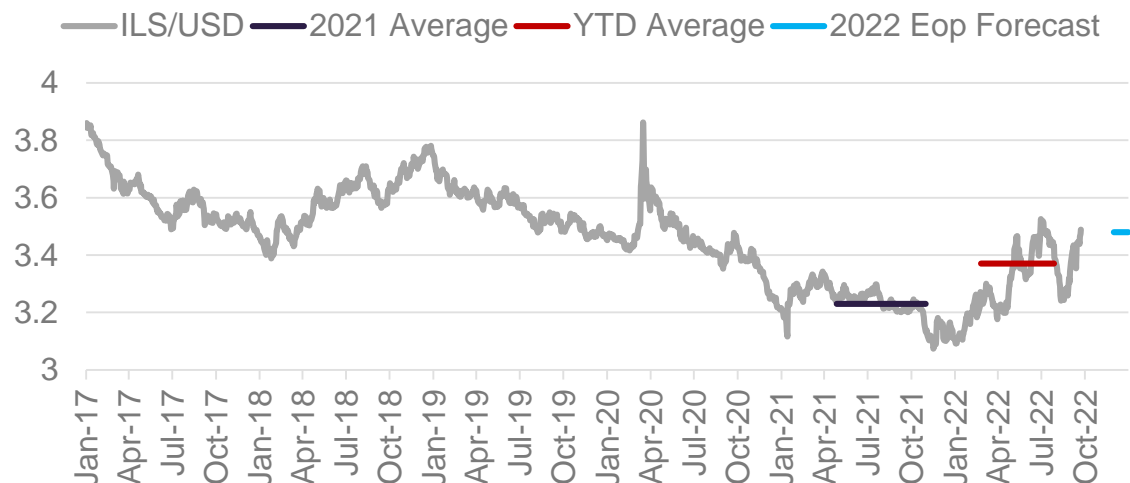
Note: end-2022 change is from end-2021. Source: Bloomberg, Fitch Solutions

- We expect that depreciatory pressures on the majority of MENA currencies, that are not pegged to the US dollar, will persist in the next three to six months.
- Aside from country specific factors, stronger for longer US dollar will be the main source of downward pressure on the currencies in the region.
- Our America's team expects the US dollar Index (DXY) will continue to appreciate, likely peaking over Q422 and Q123, driven by a hawkish US Fed and rising risk aversion.
- This will lead to a further weakening in the Moroccan dirham and the Tunisian dinar, and continue to weigh on the Israeli shekel. It will also weigh on the Egyptian pound and exacerbate domestic pressures.
- Meanwhile, our outlook for the Algerian dinar is more bullish, as we expect that the authorities' market intervention will continue to help the currency recovery its losses this year.

Israel: Pressure On Shekel Will Persist In The Short Term

Weak Outlook In Q422...

Israel – ILS/USD Exchange Rate, Daily

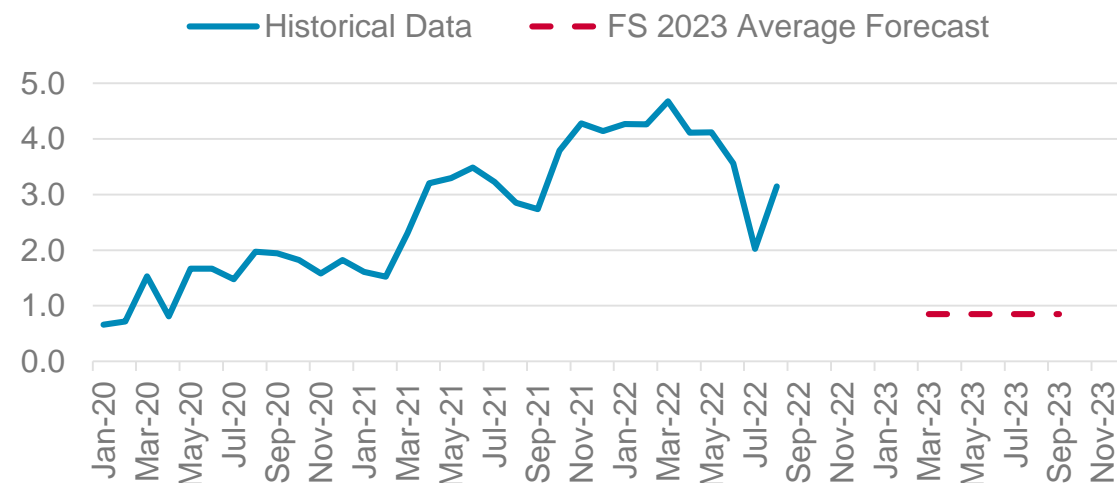


- We expect that the shekel will end 2022 close to its spot price of ILS3.48/USD. This is weaker than its YTD average of ILS3.37/USD and its 2021 average of ILS3.26/USD.
- In Q422, rising inflation, a strong greenback, subdued investor sentiment towards Israeli equities, a weakening growth outlook and dwindling terms of trade will keep weighing on the currency.

Source: Bloomberg, Fitch Solutions

... And Will Likely Persist In Q123

Israel & US – Real Rates Differential



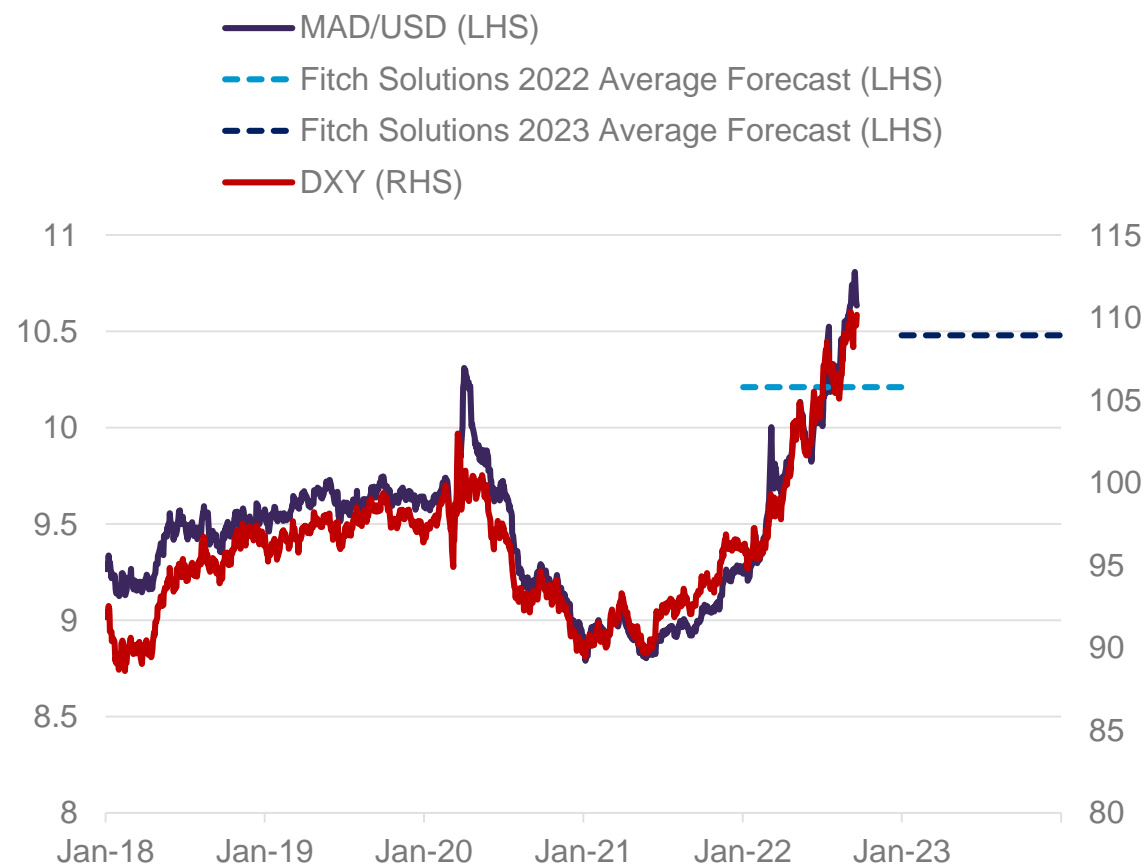
- In Q123, the shekel will continue to trend close to ILS3.48/USD, due to expectations of a narrowing differential between the Israeli and US real rates in 2023 and weak global investor sentiment.
- Risks to our outlook are skewed to the downside, as failure to form a new government after the upcoming elections could spook the markets and weaken the currency even further in coming months.

Source: Bloomberg, Fitch Solutions

Morocco: Strong US Dollar Will Weigh On The Dirham

Moroccan Dirham To Further Depreciate

Morocco – Daily Exchange Rate, MAD/USD & DXY



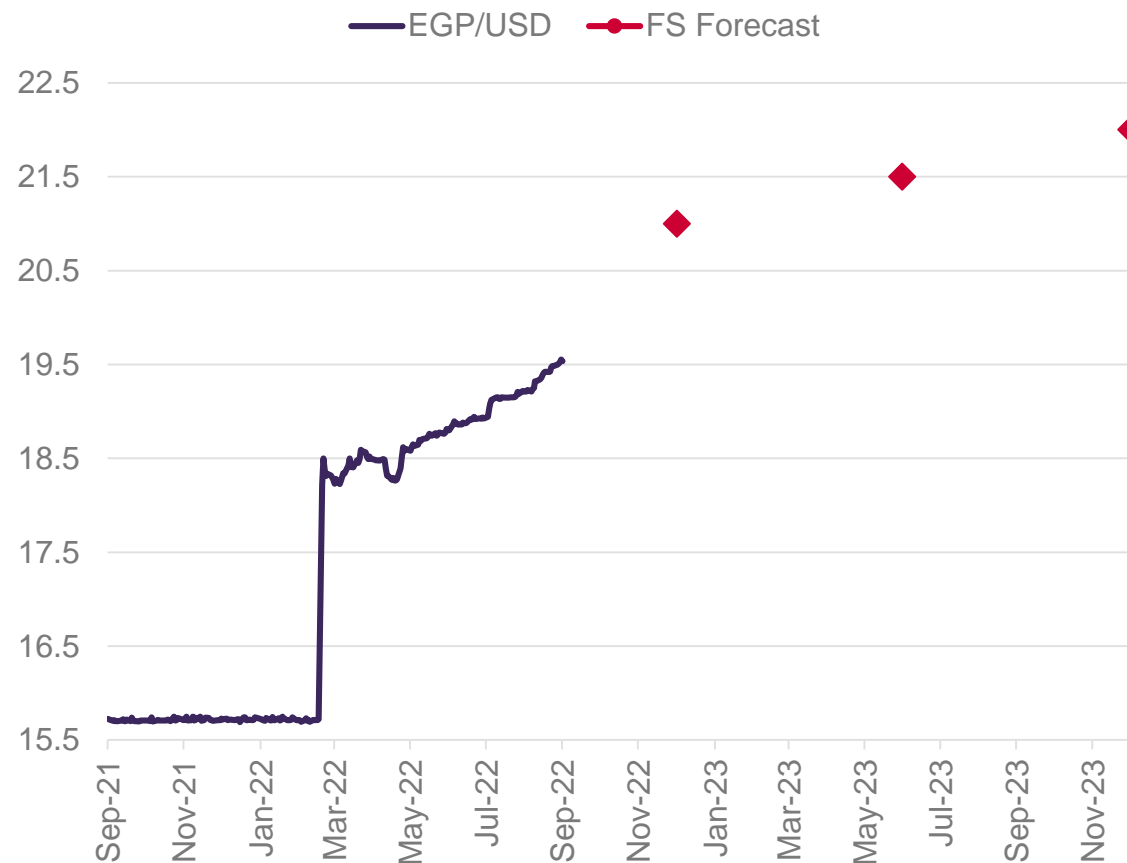
Source: Bloomberg, Fitch Solutions

- We expect the Moroccan dirham will depreciate from a spot price of MAD10.95/USD to MAD11.15/USD by the end of 2022.
- The weakening of the dirham will be driven by a stronger greenback as the US Federal Reserve grows more hawkish.
- Movements in the US dollar will continue to determine the value of the dirham given Morocco's managed currency system. Indeed, the dirham tracks a basket of currencies weighed at 60.0% to the euro and 40.0% to the US dollar with a 7.5% trading band.
- The dirham will slowly start to appreciate from Q123 onwards, in line with our view that the US dollar strength will peak in the coming quarters.
- We forecast the dirham will average MAD10.48/USD in 2023, compared to an average of MAD10.21/USD in 2022.

Egypt: Weaker Pound On Strong Dollar And Challenging Fundamentals

Weaker Pound Ahead

Egypt – Daily Exchange Rate, EGP/USD



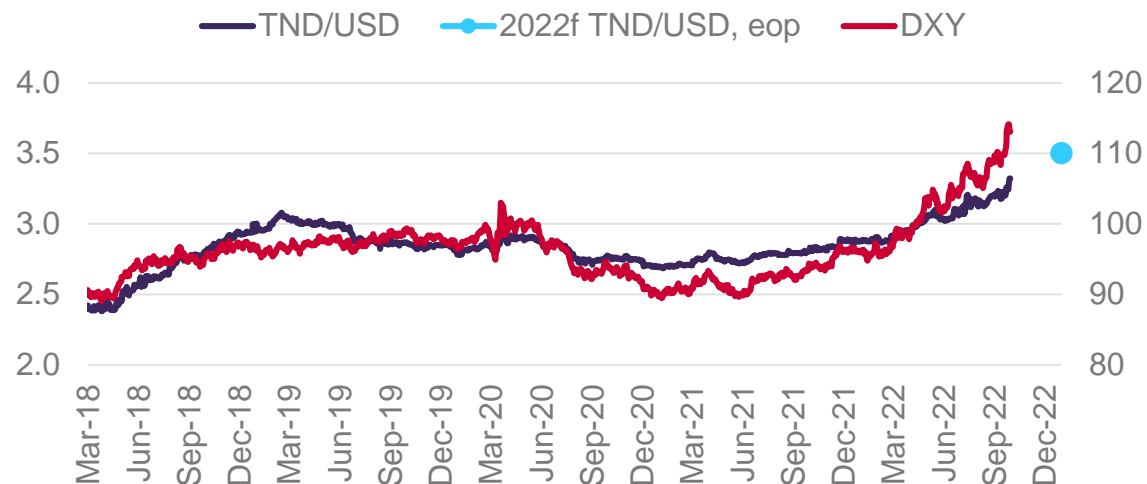
Source: Bloomberg, Fitch Solutions

- After reaching a record-low of EGP19.60/USD, we expect the Egyptian pound will continue to weaken in coming weeks, ending the year close to EGP21.0/USD.
- While our overall narrative of a gradual adjustment of the currency is still holding, a strong US dollar and delays in reaching an IMF agreement have led to a faster depreciation than we had expected.
- Until authorities reach a deal with the IMF, pressure on the currency will persist from a strong US dollar, as well as shortages of US dollars in the market and speculation of a weaker currency.
- Indeed, demand for dollars on the black market will persist from individuals looking to hedge against a weaker pound and from businesses looking to finance their imports.
- In H123, we expect the official and black-market rates will converge reaching EGP21.50/USD before the pace of the depreciation slows. By then, the strength of the dollar will peak, the Egyptian economy will stabilize and capital inflows (FDI/portfolio inflows) start to materialise. The currency will end 2023 at EGP22.00/USD.

Tunisia: Stronger US Dollar Will Weigh On Dinar In Short Term

Depreciatory Pressure Will Persist In The Short Term...

Tunisia – USD/TND Daily Exchange Rate vs US Dollar Index

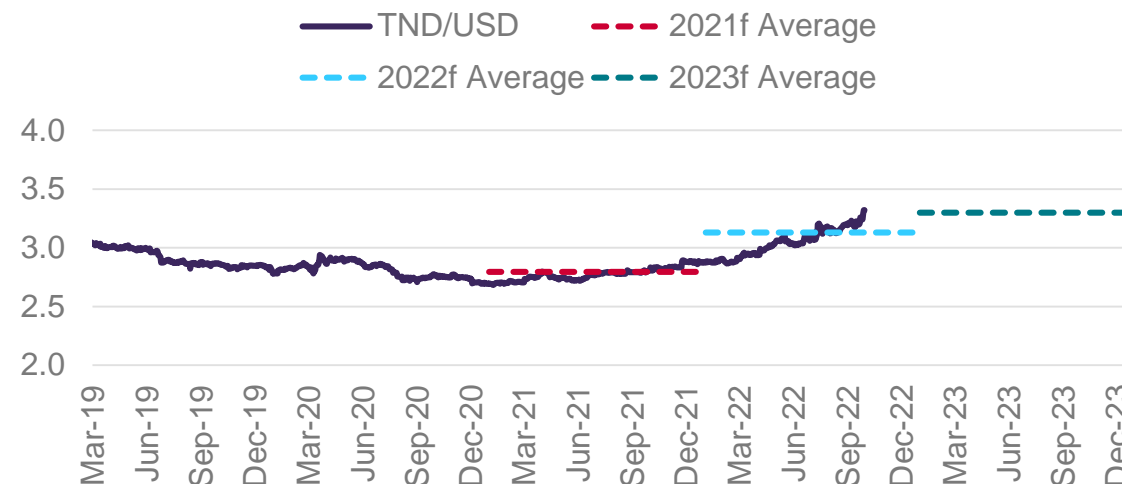


- We expect that the Tunisian dinar will further weaken from its current spot rate of TND3.32/USD to TND3.50/USD at the end of 2022.
- Continued strengthening in the US dollar, looser monetary policy vis-à-vis the US, accelerating domestic inflation and weakening fiscal and external positions will sustain the depreciatory pressures on the dinar in Q422 and Q123.

f = Fitch Solutions forecast. Source: Bloomberg, Fitch Solutions

...Before Easing From Q223 Onwards

Tunisia – USD/TND Daily Exchange Rate



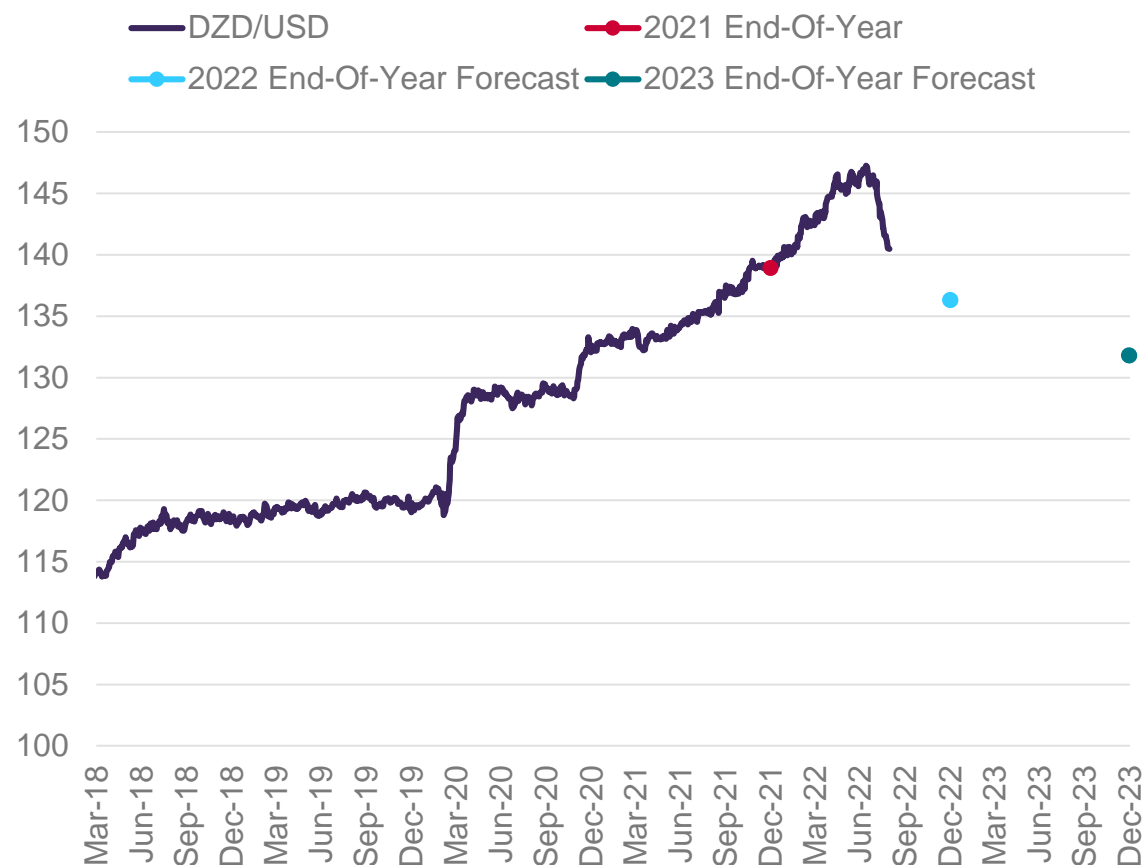
- From Q223 onwards, we expect that the depreciatory pressures on the dinar will ease, mainly due to a softer US dollar.
- Also, tighter domestic monetary policy and easing inflationary pressures by then will support Tunisia's real rates, while an agreement with the IMF – likely in H222 – will improve investors' confidence and foreign currency reserves, supporting the dinar.

f = Fitch Solutions forecast. Source: Bloomberg, Fitch Solutions

Algeria: Dinar To Appreciate On Market Intervention

Authorities To Support The Algerian Dinar

Algeria – Daily Exchange Rate, DZD/USD



Source: Bloomberg, Fitch Solutions

- We expect the Algerian dinar will appreciate from a spot of DZD140.16/USD to DZD136.3/USD by the end of 2022, ending the year 1.8% stronger than its level at end-2021, the first such appreciation since 2007.
- The recent appreciation of the dinar (which is a managed currency) has come after President Abdelmadjid Tebboune promised to support the currency in order to preserve consumers' purchasing power and tame down inflationary pressures.
- We expect that the authorities will keep supporting the dinar in 2023, which will reach DZD131.8/USD by the end of the year.
- Elevated energy prices will give authorities access to higher foreign currency inflows, and put them in a good position to keep supporting the currency.
- A stronger dinar in H222 will reduce inflationary pressures, with inflation averaging 9.0% in 2022 as a whole, down from our previous forecast of 9.7%.



Data & Forecasts

Fitch Solutions Vs Bloomberg Consensus

2022 Real GDP Growth

%

| Country | Fitch Solutions | Bloomberg Consensus | Consensus Last Month |
|--------------|-----------------|---------------------|----------------------|
| Algeria | 3.59 | - | - |
| Egypt | 6.59 | 5.50 | 5.50 |
| Iran | 7.77 | - | - |
| Iraq | 9.18 | - | - |
| Israel | 5.14 | 5.00 | 4.95 |
| Kuwait | 8.02 | 7.60 | 7.00 |
| Lebanon | 3.53 | -1.50 | -1.00 |
| Libya | 1.47 | - | - |
| Morocco | 1.50 | 1.30 | 1.30 |
| Oman | 4.84 | 4.50 | 4.50 |
| Qatar | 4.26 | 4.70 | 4.70 |
| Saudi Arabia | 8.27 | 7.60 | 7.60 |
| Tunisia | 2.26 | 2.30 | 2.30 |
| UAE | 6.01 | 5.70 | 5.60 |

End-2022 Exchange Rate

| Currency | Fitch Solutions | Bloomberg Consensus | Consensus Last Month |
|----------|-----------------|---------------------|----------------------|
| DZD/USD | 136.30 | - | - |
| EGP/USD | 21.00 | 20.18 | 19.30 |
| IRR/USD | 48,000.00 | - | - |
| IQD/USD | 1,460.00 | - | - |
| ILS/USD | 3.48 | 3.30 | 3.45 |
| KWD/USD | 0.32 | 0.30 | 0.30 |
| LBP/USD | 35,000.00 | - | - |
| LYD/USD | 4.68 | - | - |
| MAD/USD | 11.15 | - | - |
| OMR/USD | 0.39 | - | - |
| QAR/USD | 3.64 | 3.64 | 3.64 |
| SAR/USD | 3.75 | 3.75 | 3.75 |
| TND/USD | 3.25 | - | - |
| AED/USD | 3.67 | 3.67 | 3.67 |

Last updated September 29. Source: Bloomberg, Fitch Solutions

Fitch Solutions Vs Bloomberg Consensus

2022 Average Inflation

%

| Country | Fitch Solutions | Bloomberg Consensus | Consensus Last Month |
|--------------|-----------------|---------------------|----------------------|
| Algeria | 9.00 | - | - |
| Egypt | 13.20 | 12.30 | 12.30 |
| Iran | 33.00 | - | - |
| Iraq | 5.30 | - | - |
| Israel | 4.40 | 4.30 | 4.00 |
| Kuwait | 3.90 | 4.45 | 4.45 |
| Lebanon | 178.00 | 175.00 | 174.50 |
| Libya | 6.80 | - | - |
| Morocco | 6.40 | 5.00 | 5.00 |
| Oman | 2.60 | 3.00 | 3.00 |
| Qatar | 4.70 | 4.40 | 4.40 |
| Saudi Arabia | 2.50 | 2.50 | 2.50 |
| Tunisia | 8.10 | 8.30 | 8.30 |
| UAE | 5.60 | 3.85 | 3.85 |

End-2022 Policy Interest Rate

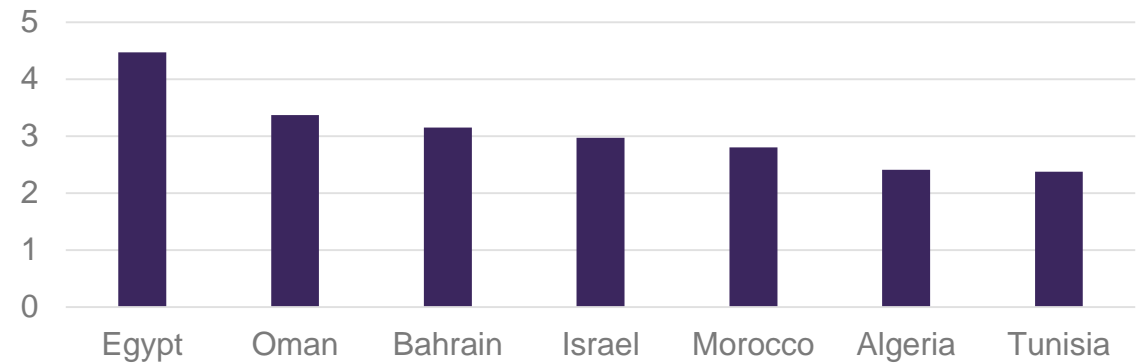
%

| Country | Fitch Solutions | Bloomberg Consensus | Consensus Last Month |
|--------------|-----------------|---------------------|----------------------|
| Algeria | 3.50 | - | - |
| Egypt | 13.25 | - | - |
| Iran | - | - | - |
| Iraq | 4.00 | - | - |
| Israel | 3.25 | 3.00 | 1.70 |
| Kuwait | 4.00 | - | - |
| Lebanon | 10.00 | - | - |
| Libya | 3.00 | - | - |
| Morocco | 2.50 | - | - |
| Oman | 4.50 | - | - |
| Qatar | 4.75 | - | - |
| Saudi Arabia | 4.50 | - | - |
| Tunisia | 8.25 | - | - |
| UAE | 4.40 | - | - |

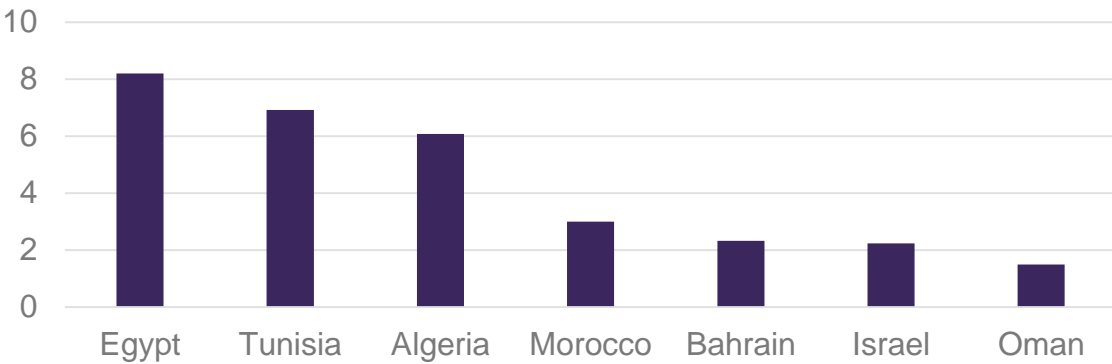
Last updated September 29. Source: Bloomberg, Fitch Solutions

Data Pack

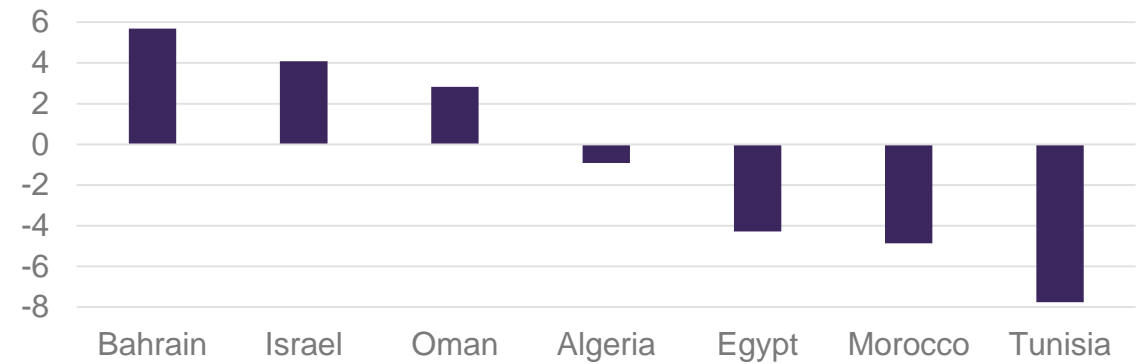
Real GDP Growth, % (2022-2026)



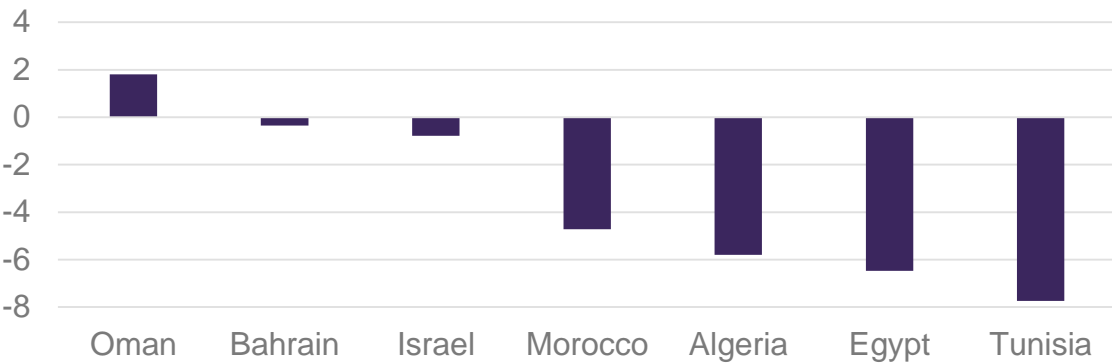
Consumer Price Inflation, % (2022-2026)



Current Account Balance, % of GDP (2022-2026)



Budget Balance, % of GDP (2022-2026)



Source: National Sources, Fitch Solutions

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