

Chart 1: Crude oil prices (\$/bbl)

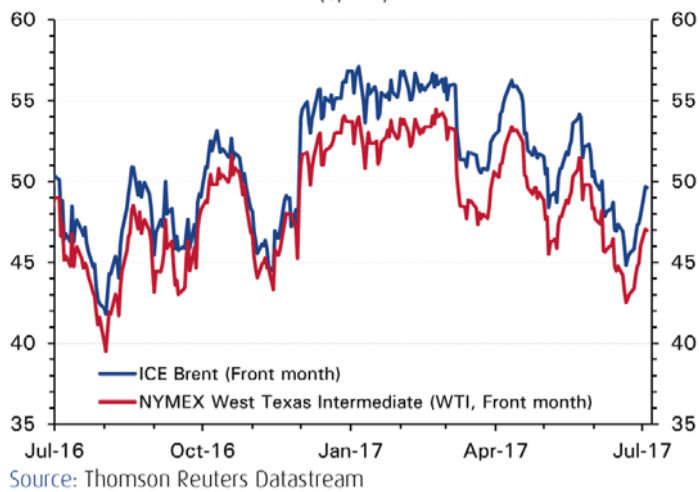
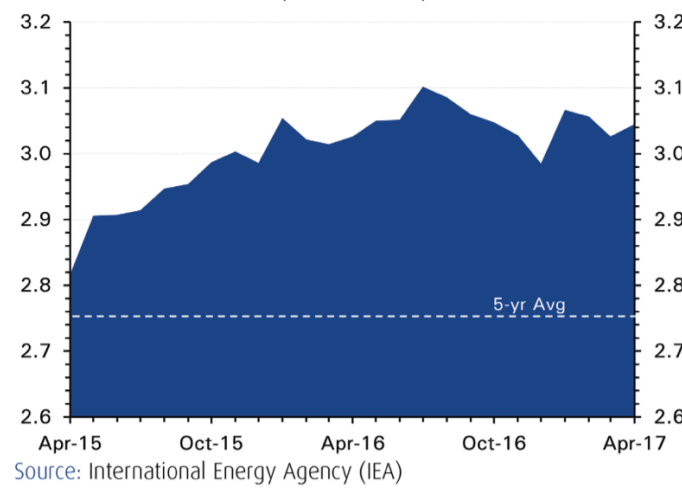


Chart 2: OECD commercial crude and product stocks (billion barrels)



OIL MARKETS REMAIN BEARISH

NBK ECONOMIC REPORT

KUWAIT: It was not meant to happen this way. Another month, another decline in oil prices. This time, in Brent's case, the drop was to its lowest level in ten months when it fell to \$44.8 per barrel (bbl) on 21 June. Since OPEC/non-OPEC rolled over their production cut agreement for an additional 9 months on 25 May, oil prices have fallen by 7 percent. Crude oil benchmarks, Brent and West Texas Intermediate (WTI), closed June at \$47.9/bbl and \$46.0/bbl, respectively, a decline of 15 percent in 2017 on average. Indeed, Brent's performance in the first half of this year was its worst since 1998.

While a late, 8-consecutive day gain at the end of June and in early July—the longest run of gains in seven years—helped spare some of Brent's blushes, there is little escaping the fact that oil bulls have largely deserted the scene and that the markets have fallen into a state of despondency. And the chief culprit is US light tight oil (shale), whose volumes are helping to both offset some of the supplies taken off the market by OPEC/non-OPEC this year and slow the drawdown of crude stocks from storage tanks.

Weekly metrics on these two dynamics are, along with counts of US oil rigs, the most closely watched data by the markets. And they have not made pleasant reading for OPEC in 2017. US crude production is up 5.5 percent to 9.25 mb/d as of 23 June — an additional 480,000 barrels per day (b/d) of crude to partly offset the 1.8 mb/d of supplies that OPEC/non-OPEC have withdrawn from the oil markets since January. US shale's resurgence is even more remarkable since bottoming out at 8.43 mb/d exactly a year ago: an impressive 822,000 b/d, which is a year-on-year (y/y) rise of almost 10 percent.

The closely-watched oil market report by the International Energy Agency (IEA) is also unlikely to provide much comfort. In its most

recent edition, the IEA confirmed what many analysts and market traders had long suspected, which is that OECD commercial crude and petroleum product stocks increased rather than decreased in the first

der that oil markets are despondent. Calls for OPEC to consider deeper cuts, in order to accelerate the stock drawdown, are growing louder. In view of the fact that previous instances of OPEC market

OPEC's much-coveted 'balance' Nevertheless, there may be a glimmer of light at the end of the tunnel. US crude and petroleum product stockpiles are slowly drawing down as the peak summer demand gets into full swing. And there is certainly scope for more sizeable inventory declines before the autumn refinery maintenance period. According to the IEA, demand growth is expected to firm up to an average of 1.5 mb/d in 2H17 compared to 1.1 mb/d in 1H17.

With demand outstripping supply since the beginning of 2Q17, the demand/supply balance or stock change has swung into negative territory. Barring demand growth moderating and/or supply growth accelerating during the remainder of the year, the much-touted stock draw should indeed finally take place. Based on our own estimates, for the end of 4Q17, a cumulative stock draw of around 240 million barrels could be on the cards. This would bring OECD stocks back down to 2.8 billion barrels, not far off OPEC's 5-year average target of 2.75 billion barrels. 2018 thus looms large as the make-or-break year.

Highlights

- Oil prices declined for a second consecutive month in June, with both Brent and WTI falling by 5% to \$47.9/bbl and \$46.0/bbl, respectively.
- Sentiment remains resoundingly bearish, despite a recent 8-day bull run that saw Brent approach the symbolic \$50 level.
- US crude production continues to increase, rising to a high of 9.35 mb/d in June, driven by shale production.
- US/OECD crude stocks are not drawing down fast enough to buoy the markets.
- OPEC output rose in May to 32.1 mb/d, thanks to a ramp up in Libyan and Nigerian output, while compliance fell slightly to 105%.
- Markets swung into supply deficit territory in 2Q17, with the deficit expected to widen in 2H17; stock drawdowns should accelerate.

quarter of this year. Four months into the OPEC/non-OPEC agreement and total OECD stocks had reversed course and gained 60 million barrels to reach 3.044 billion barrels by April. OPEC's target of bringing global crude and petroleum stocks back to the 5-year average level of around 2.75 billion barrels appears to be even farther away, possibly into 2018 at the current rate.

Moreover, OPEC's own production is heading in the wrong direction, away from its aggregate production target of 31.75 mb/d. According to OPEC secondary source data, the group's total output climbed back over the 32 mb/d level in May to 32.14 mb/d, thanks to output gains in Nigeria and Libya. These two OPEC members are not subject to output restrictions under the terms of the November agreement. But compliance levels among quota members also deteriorated slightly in May, to 105 percent from 107 percent in April, as a result of output increases in Iraq, Iran and Algeria. Little won-

intervention, most notably in late 2008, have tended to involve several production cuts, rather than one, it is not entirely wishful thinking on the part of the oil bulls. Stock draws to accelerate in 2H17 but 2018 is looking more likely for

Chart 3: US commercial crude stocks and refinery runs

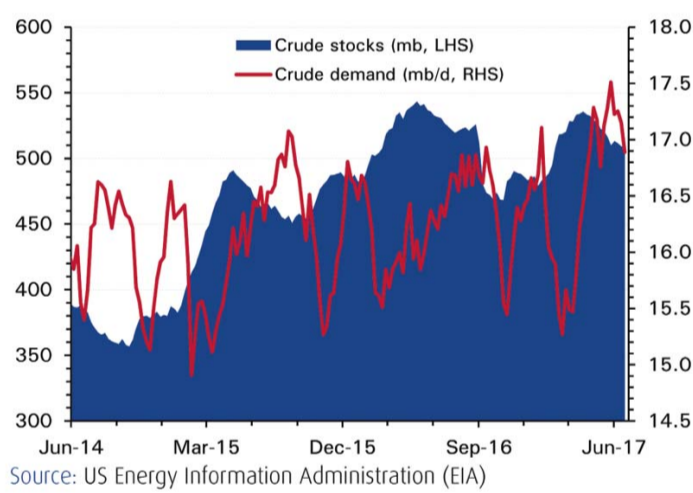


Chart 4: US crude oil production and rig counts

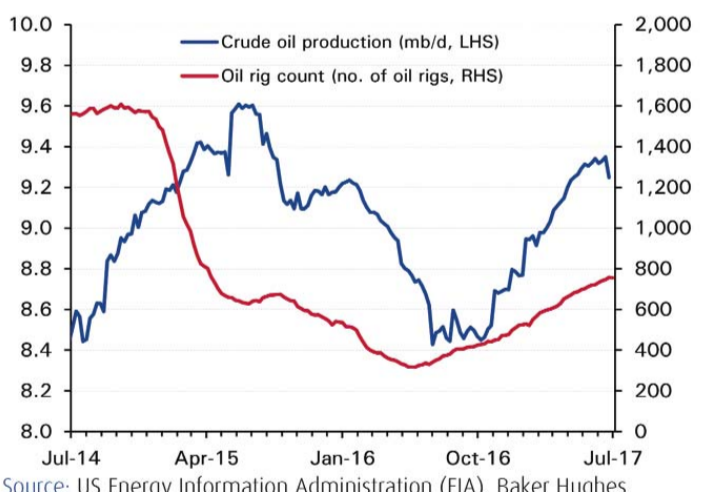
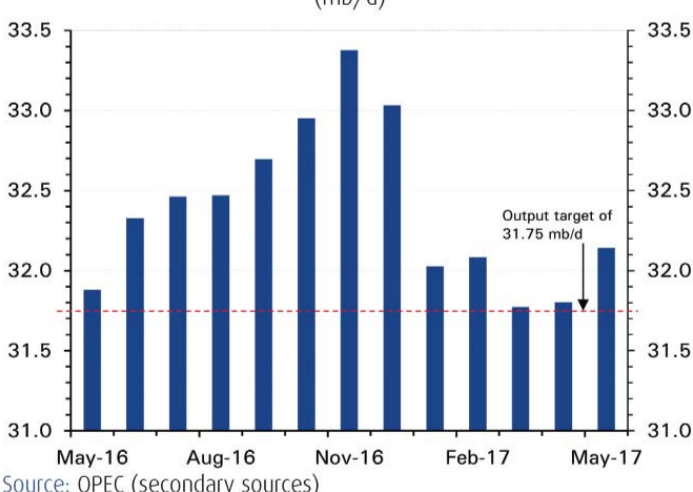


Chart 5: OPEC crude oil production (mb/d)



INDEBTED UK TO SCRAP CREDIT CARD CHARGES

LONDON: The British government yesterday said it would ban companies from charging consumers for paying by debit and credit cards, as the country struggles to bring down its debt.

"This is about fairness and transparency, and so from next year, there will be no more nasty surprises for people at the check-out just for using a card," Economic Secretary to the Treasury, Stephen Barclay, said in a statement. Consumers making purchases in Britain are being asked to pay up to 20 percent more on their bills, such as for flights, for using a card rather than cash, the Treasury said. "With many feeling the squeeze in the cost of living, people shouldn't be hit with unexpected fees," said Guy Anker, managing editor at consumer website, MoneySavingExpert.com.

But he cautioned that following the change, some companies would likely raise prices of their goods and services "to compensate for the loss, which could hit those who currently pay in cash". Currently, businesses face charges from card companies for non-cash transac-

tions. According to the Treasury, the total value of surcharges for debit and credit cards was an estimated £473 million in 2010. "This action forms part of our wider help for families with the cost of living by helping to raise their incomes and keep more of what they earn," the Treasury said. Britain's economy is slowing as high inflation and low wage growth cuts consumer spending and raises household debt.

The Bank of England last month noted that UK consumer credit for items such as cars jumped by 10.3 percent in the year to April, or much faster than growth in household incomes.

Meanwhile in May, union umbrella group, the TUC, said in a report that unsecured, or non-mortgage, debt per household would reach a record high of £13,900 this year (£18,118, 15,708 euros). Britain's Conservative government is meanwhile struggling to bring down the national deficit and debt, which ballooned following the global financial crisis that sparked bank bailouts. —AFP



GAHARA, Rwanda: A man chops wood at a small factory in Gahara in the Southeast of Rwanda on April 28, 2017. Last year, Rwanda exported around 14 tons of essential oils — geranium, moringa, patchouli and tagetes — bringing in \$473,000, according to the National Agricultural Export Development Board. —AFP

RWANDA'S ESSENTIAL OILS OFFER BIG PROFITS FROM LITTLE LAND

GAHARA, Rwanda: Inside a metal shed in southeastern Rwanda, Nicholas Hitimana brandished a plastic container holding a green liquid: geranium essential oil, freshly distilled and ready for export at more than \$200 (175 euros) a kilo.

The pioneer of essential oils in Rwanda, Hitimana said he understood over a decade ago "the need to develop high-value crops" in his hilly nation of just 2.6 million hectares (6.4 million acres).

Agriculture accounts for nearly a third of GDP and employs four-fifths of the population and, as a result, there is "little arable land" remaining. "On a hectare, if we grow beans, we earn about \$2,000 a year, whereas on the same land, if we grow geranium, the income can reach \$6,000 or even \$8,000," Hitimana says. The trained agronomist embodies Rwanda's ambition of diversifying its agriculture and increasing the value of exports by getting into the lucrative global market for essential oils. To this end, Hitimana has been importing geraniums from South Africa since 2004.

At the time the flower was virtually unknown in Rwanda, but Hitimana was convinced of the "great potential" of the essential oil sector.

Four crops a year

"In South Africa there can only be two harvests a year, but here, as there is no winter, it is possible to get up to four crops a year," says Hitimana, whose company Ikirezi Natural Products has since grown and diversified. With 25 hectares of plantations, it produces 1,000 kilograms of essential oils derived from patchouli, lemon grass and eucalyptus as well as geraniums. The oils are exported to Canada, South Africa, the US and elsewhere for use in the perfume industry. The company employs 70 farmers.

"At first, it was not easy to convince them to abandon subsistence for commercial agriculture," he says, adding the work is more precise than growing beans.

"We need to plant on time, manure on time, hoe, turn the soil, irrigate and harvest on time," or risk a "drastically" reduced yield, Hitimana says, noting that it takes between 600-1,000 kilos of geraniums to produce a single kilo of oil. A few years on, and the employees seem convinced. "Since I've been working here, I've been able to build a house with a tin roof, I can pay for my son's schooling and buy everything I need," says 55-year-old Stephanie Mukamana, busily weeding around a geranium plant.

Last year, Rwanda exported around 14 tonnes of essential oils-geranium, moringa, patchouli and tagetes-bringing in \$473,000, according to the National Agricultural Export Development Board. Rwanda is also cultivating pyrethrum, used in natural insecticides.

Growth market

According to the India-based firm Market Research Future (MRFR), essential oils are increasingly in demand in richer countries for use in cosmetics, food and pharmaceuticals. The world market is forecast to grow by seven percent between 2017 and 2022, says MRFR. To get its share of the cake, Rwanda opened an essential oil laboratory three years ago, the first of its kind in the region, allowing quality control.

"One of the main challenges facing Rwanda is a growing trade deficit and a limited number of competitive companies that can meet regional and international export standards," says Patience Mutesi, Rwanda director for TradeMark East Africa, which promotes regional trade and helped fund the lab project. — AFP

EXCHANGE RATES

AL-MUZAINI EXCHANGE CO.

ASIAN COUNTRIES	
Japanese Yen	2.706
Indian Rupees	4.713
Pakistani Rupees	2.887
Sri Lankan Rupees	1.971
Nepali Rupees	2.953
Singapore Dollar	228.800
Hongkong Dollar	38.886
Bangladesh Taka	3.731
Philippine Peso	5.978
Thai Baht	9.052
GCC COUNTRIES	
Saudi Riyal	80.974
Qatari Riyal	83.400
Omani Riyal	788.591
Bahraini Dinar	806.300
UAE Dirham	82.673
ARAB COUNTRIES	
Egyptian Pound - Cash	21.100
Egyptian Pound - Transfer	16.830
Yemen Riyal/for 1000	1.219
Tunisian Dinar	125.910
Jordanian Dinar	428.480
Lebanese Lira/for 1000	2.023
Syrian Lira	2.164
Morocco Dirham	32.111
EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	303.450
Euro	351.400
Sterling Pound	399.190
Canadian dollar	241.120
Turkish lira	86.640

Swiss Franc	317.920
Australian Dollar	241.090
US Dollar Buying	302.250
GOLD	
20 Gram	249.070
10 Gram	127.450
5 Gram	64.570

DOLLARCO EXCHANGE CO. LTD

Rate for Transfr	Selling Rate
US Dollar	303.100
Canadian Dollar	240.555
Sterling Pound	396.465
Euro	351.205
Swiss Frank	291.315
Bahrain Dinar	803.920
UAE Dirhams	82.920
Qatari Riyals	84.135
Saudi Riyals	81.720
Jordanian Dinar	427.420
Egyptian Pound	16.954
Sri Lankan Rupees	1.971
Indian Rupees	4.713
Pakistani Rupees	2.878
Bangladesh Taka	3.746
Philippines Peso	5.967
Cyprus pound	167.275
Japanese Yen	3.705
Syrian Pound	2.413
Nepalese Rupees	2.951
Malaysian Ringgit	71.560

Chinese Yuan Renminbi	45.280
Thai Bhat	10.000
Turkish Lira	86.255

BAHRAIN EXCHANGE COMPANY WLL

CURRENCY	BUY	SELL
Europe		
British Pound	0.388741	0.398741
Czech Korune	0.005379	0.017379
Danish Krone	0.042973	0.047973
Euro	0.344374	0.353374
Norwegian Krone	0.033419	0.038619
Romanian Leu	0.076613	0.076613
Slovakia	0.009055	0.019055
Swedish Krona	0.032473	0.037473
Swiss Franc	0.310833	0.321833
Turkish Lira	0.081072	0.091372
Australasia		
Australian Dollar	0.232202	0.244202
New Zealand Dollar	0.217354	0.226854
America		
Canadian Dollar	0.234565	0.243565
Georgina Lari	0.137053	0.137053
US Dollars	0.299350	0.303770
US Dollars Mint	0.299850	0.303770
Asia		
Bangladesh Taka	0.003390	0.003974
Chinese Yuan	0.043352	0.046852
Hong Kong Dollar	0.036783	0.039533

Indian Rupee	0.004247	0.004935
Indonesian Rupiah	0.000018	0.000024
Japanese Yen	0.002622	0.002802
Kenyan Shilling	0.002911	0.002911
Korean Won	0.000260	0.000275
Malaysian Ringgit	0.067319	0.073319
Nepalese Rupee	0.002983	0.003153
Pakistan Rupee	0.002676	0.002966
Philippine Peso	0.005931	0.006231
Sierra Leone	0.000037	0.000043
Singapore Dollar	0.216373	0.226373
South African Rand	0.017435	0.025935
Sri Lankan Rupee	0.001602	0.002182
Taiwan	0.009861	0.010041
Thai Baht	0.008667	0.009217
Arab		
Bahraini Dinar	0.797806	0.806306
Egyptian Pound	0.015158	0.021066
Iranian Riyal	0.000084	0.000085
Iraqi Dinar	0.000190	0.000250
Jordanian Dinar	0.432391	0.432391
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.019702	0.043702
Nigerian Naira	0.000391	0.001026
Omani Riyal	0.781762	0.787442
Qatar Riyal	0.079060	0.084000
Saudi Riyal	0.079833	0.081133
Syrian Pound	0.001286	0.001506
Tunisian Dinar	0.121409	0.129409
Turkish Lira	0.081072	0.091372
UAE Dirhams	0.081193	0.082893
Yemeni Riyal	0.000986	0.001066