

I have just returned from Dubai where I participated in Moody's 10th Annual GCC Credit Risk Conference as a guest speaker.

This full day event, which was held under the general theme of "After the Fall: Understanding Oil Trends and Consequences for the Gulf Region", centered on two sessions: GCC sovereign resistance to oil-market stresses and who will feel the pain from low oil. This was followed by three concurrent practical workshops: credit considerations for family-owned companies; Moody's new methodology for analyzing MENA banks; and a market overview of Islamic finance with a focus on hybrid sukuk.

While the conference was designed to gain new insights into the fairly sophisticated analyses of Moody's Investors Service, it also offered an opportunity to hear from external guest speakers. The first was Bassam Fattouh who assessed current developments in the oil markets, analyzing their causes and implications and exploring their global perspectives. The second was myself presenting the GCC energy investment outlook and highlighting new trends and challenges in the broader MENA context.

The oil market situation worked as a general introduction to the main topics of the conference. My take on Bassam's presentation is that the rapid growth in US light tight oil should not be seen as just a supply shock to the market. By shifting the perception of oil supply availability from scarcity to abundance, it has fundamentally affected both prompt prices and the longer prices. It has also changed the international dynamics and trade patterns of crude oil and oil products with far-reaching implications for price differentials and marketing strategies. Looking ahead, there are still many uncertainties, as oil markets balances will be shaped by the way supply and demand will ultimately adjust in response to low oil prices and changing market expectations and sentiments. Furthermore, the perception of a loss of an important supply feedback (stemming from the November 2014 shift in OPEC policy) will continue to affect market sentiments and volatility as well as increase the risk premium on investment in energy projects.

The latter conclusion offered a perfect transition to my own presentation. But since the overarching theme of the conference was about credit risk arising from investment activities, I will focus the remaining of this brief account on APICORP's perceptual mapping of the energy investment climate in the region, which clearly attracted the audience's interest.

The oil price collapse and the uncertainties surrounding its recovery have combined with persistent political turmoil to adversely, though unevenly, affect the region's business risk outlook. The degree to which this has been the case is often determined using a proxy indicator of country risk, most conveniently in the form of a sovereign credit rating. In recent years, the region's rating landscape has indeed dramatically evolved in response to the aftermath of the Arab uprisings: Tunisia, Egypt, and to a lesser extent Bahrain were downgraded, while Libya was suspended from being rated. Also, in the stir of Syria, the ratings of both Jordan and Lebanon were lowered. Whereas Algeria, Iraq, Iran, Syria, Yemen, Libya, Mauritania and Sudan have remained unrated. Nonetheless, despite Bahrain's lower credit rating and current negative outlook, the GCC countries have maintained their strong position. As a result, there has been a marked bifurcation trend between GCC and non-GCC countries (omitting from the latter unrated countries).

However, using sovereign ratings as a proxy means that we are relying on a definition of country risk that focuses on the likelihood that the sovereign borrower will meet its debt obligations. More relevantly, country risk should be related to the likelihood of events and policies impacting business and investment. In this respect, an alternative, less conventional measure of the degree to which MENA energy investment climate has been affected is provided using a 'perceptual mapping'. This is a multidimensional scaling analysis combining in our case three attributes: potential energy investment; country risk; and the enabling environment for the development of the oil, gas and energy industries. In the resulting 3D map each point has three coordinates corresponding to each country's scores of selected attributes. The map shows an Ideal Point, whose coordinates are the highest achievable scores. Countries' perceived investment climates appear at varying (Euclidean) distances from the Ideal Point taken as a benchmark. Notwithstanding considerable uncertainty, our perceptual mapping, if interpreted correctly, provides a more nuanced insight into the complex situation investors face in the region.

Accordingly at this time, Saudi Arabia appears well positioned, nearest to the benchmark. Next, are Qatar and the UAE putting some distance between themselves and Kuwait. The two remaining GCC countries, Oman and Bahrain, seem to have managed to secure the next best positions, in spite of Bahrain's vulnerability to lower oil prices. Beyond the GCC, Iran and Iraq continue to be pulled up by their respective investment potential

notwithstanding their deteriorating country risk and the enabling environment for business. Algeria has not managed to improve its position, despite some policy progress, while Libya has definitely regressed to being among the farthest from the ideal point, including Yemen and Syria. Looking ahead, it is difficult to foresee any significant improvement to the current mapping.

A detailed agenda of Moody's 10th Annual GCC Credit Risk Conference is available at:
www.moody.com/newsandevents/events/detail_/4400000009045/ed

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