Al-Shall Report

KSE performance during week more active

'Other reserves' can be strategic assets

Photo by Mohamed Morse

File photo shows trading in progress. KSE ends Thursday's session in red. — See Page 35

Financial Reserves

When the financial status of the State was reviewed behind closed doors at the National Assembly last July, unofficial leaked figures indicated that the future generations reserves are about US$ 400 billion and the general reserve is about US$ 144 billion, i.e. US$ 544 billion for both. In a former report, the Ministry of Finance estimated the realized average return of investing that reserve throughout 10 years was about 9%. We learned from our experience with the published official figures, neither can we confirm the figure nor the precision of reserves volume, nor the method of calculating their returns. We eventually deal with what is available, says Al-Shall Economic Report prepared by Al-Shall Consulting Co headed by Jassem Al-Saadoun.

Kuwait also has other reserves like those of the Kuwait Petroleum Corporation, the Kuwait Fund for Arab Economic Development and the Central Bank of Kuwait, which we know nothing about. Because the oil market has become critical, we believe in considering those reserves as strategic assets of paramount significance and consolidating them under one umbrella and assigning one specific and well-defined function for it. One consideration is to consider their return as renewable income to finance the general budget while the oil role becomes supplementary and decreasing throughout time, as in Norway.

When we fix the assets and rely on the return only, one aspect of sustainability is achieved. The return is achieved from the Administration's ability to employ those investments to serve the goals of the financial policy. The public administration's success is linked with building the return within a specific ceiling of risks. This orientation conforms to the goal of transforming Kuwait into a financial center. Direct management of those reserves means creating advanced opportunities for citizens and local institutions in various investment aspects across the world. However, that will not substitute expenditures control and diversifying public revenues; neither will it replace the necessity of the structural reforms of the economy. It only buys enough time until their reform and transforms reserves from an external factor and a black box irrelevant to domestic economy to one of its strength elements.

We are aware of the extent of the forthcoming economic and financial challenges created by the so-called sins of the oil market boom era. The extent of this challenge warrants fundamental changes, one of which is a fundamental change in the financial reserves function. We believe that rephrasing that function may relieve Kuwait from 5-10 years of financial pressures and some labor market pressures. More importantly, it provides an early change opportunity for policies which are no longer appropriate.

Kuwait Airways Corporation (KAC)

We repeatedly stated that the possibilities of the success or restoring the success of KAC services are almost impossible in the absence of one of two projects. The First is a state project which desires to become a connection station between East and West. The second is a serious and binding privatization project for the corporation that ends on a specific date and is irrevocable.

As for the first project, i.e. changing Kuwait into a connection station between east and west like Qatar, Dubai or Abu Dhabi, it seems that the public administration does not desire it nor is it capable of achieving it. One of its most important requirements is a wide openness for legislations to facilitate reception of all nationalities. More importantly is the development of the human services and capabilities which does not require any proof as evident from the miserable condition of Kuwait International Airport building and services, and the reality of other sea and land entries.

One last obstacle about running it as a public project was the Minister of Communications forwarding the Investigation Committee's report about developing the company's financial systems to the Anti-corruption Authority. Its last financial achievement was reducing its losses in 2014 KD 20 million (KD 33 million in 2013). The matter will not end here. The Minister has been threatened by a grill at the parliament due to the practices of its new Board of Directors unless it resigns or dismissed. This indicates the volume of the political dose in controlling an airline operation.

Reforming KAC project lasted 22 years during which its conditions got worse to the extent that insurance companies threaten of non-renewal of their policies, and international airports threaten of not allowing KAC's aircraft to land in. In addition, nothing changed in the ability and in the mentality of the public administration to succeed in future in what it failed throughout more than two decades.

We do not accuse anyone in the new KAC management with corruption or incompetence; but the general political environment will commence a struggle to dominate job its positions or get preference in its services. Subsequently, only those who joined it through the quota system will remain.

In a recent example, establishing and commencing operation of the Capital Markets Authority took 8 years (from 2006-2014) due that incubating environment. Kuwait paid for that in the current sufferings of its stock market and its project to transform into a financial hub. The ultimate end of the KAC's project as a self-independent public project will be much worse and similar to Kuwait's sports conditions.

Consumer and Installment Loans

AlRai newspaper quoted informed banking sources last Monday as saying that the Kuwait Banking Association is studying a proposal from a local bank to lift the ceiling of consumer and installment loans before submitting it to the Central Bank of Kuwait. The week ended and no denial or clarification was issued. Therefore, we opted to comment early on the content of the proposal. We shall apologize if such a denial or clarification was issued but we did not read or was issued at later date.

We believe that it is the right of any professional society or association to pursue what achieves the interests of its members. Likewise, it is the right of any party to comment on this pursuit positively or negatively. We believe that the Banking Association's proposal of lifting consumer loans from KD 15 thousand to KD 70 thousand and the installment from KD 70 thousand to KD 100 thousand is a wrong proposal. The banks' right in the proposal, if any, stems from the desire to increase its members' profits due to the high interest rate on such kind of loans with reduced risks due to the broad base of clients working in the public sector with guaranteed salaries. On the other hand, benefits of the macro-economy, if any, are limited and with high risks either due to the negative governmental history in dealing with clients' complaints or due to the probable austerity condition to confront the medium to long term weakness in the oil market.

The impact on the macro-economy performance will be positive when banks performance improves. Certainly, increased profits will support confidence in the most important stock exchange sector. It will also be reflected positively on their shareholders and services. But when banks expand in consumer or installment loans in the countries with broad production base like the USA -68% of economy is private consumption — it will be reflected positively on private consumption. In Kuwait, all economies exporting commodities and services will benefit, except Kuwait. It will lead to harmful greedy consumption and will impose more pressure on the Kuwaiti dinar whose exchange rate is supported.

More important still is the clients' tardiness in facing obligations which at a later stage will be transformed to a political issue while our public administration's weakness in the face of political pressures is well known starting with its intervention to purchase the debtors' assets at a cost of KD 150 million in 1978, passing through AlManakh Crisis and the Difficult Debt Law and ending by the Defaulting Debts Fund.

According to July 2015 statements, the installment and consumer loans balance scored about KD 9.9174 billion and if the proposal is approved their amount will double. Their coincidence with adopting financial and economic reform policies-reducing subsidies and controlling wages-clients' ability in meeting their obligations will decrease. Under scarce financing, a time bomb will be designed and built for a time when fenders will be extremely fragile making its explosion dangers multiplied. We know it is a proposal only and we do not dispute with any one in its submittal but it is the duty of its opponents to show its potential dangers at an early stage.

Global Economy Performance and the Oil Market

In its October 6, 2015 report global economic performance, IMF reduced its projections for 2015 to 3.1%, or by -0.4% below its projections in last April and -0.3% below growth rate for 2014. This asserts an unprecedented era of weak growth of global economy. The significance of this decline to oil producers this time is that it comes from the states which excelled in their support to demand oil since the 1980s, namely, China and Asia Tigers. China published its economic growth rate for the third quarter of this year which broke downwards the psychological barrier of 7% and scored 6.9%. China needs higher growth rate driven by the desire to create adequate jobs for the new arrivals to the labor market, the need to contain the migrating labor force from the countryside to cities which secure its political stability. Its slow growth threatens its new growth approach which it adopted in 2012 after learning lessons from the late global financial crisis, or changing prevalence of the growth support from exports and foreign investment as in the last three decades to domestic consumption like the American model. Weak growth threatens its efforts in creating a large middle class, of consumers.

If China's weak growth becomes permanent, its influence, being the biggest trade partner to all continents, will be reflected adversely on all emerging and developing global economies especially those exporting raw materials. Oil of course is the most important international trade commodity. Though the IMF report predicts that the Indian economy will excel that of China for the first time starting in 2015 by scoring 7.3% growth rate vis-a-vis 6.8% for China, it is unlikely that the Indian demand for oil will compensate the weak Chinese demand growth. The Chinese economy will remain small at US$ 2.2 trillion versus US$ 11.4 trillion for the Chinese economy. Further, the latter's structure is more consuming to raw materials. Its oil consumption is estimated at 11.5 million barrel/day in 2015 versus 3.7 million barrel/day for India.

This lengthy introduction aims at warning the public administrations in the oil producing countries against hesitation in confronting their disturbed financial conditions. They will coexist with a long period of weak oil market and to be negatively aggravated by the conflict over quotas among traditional oil producers, while their relations are as its worst. While the rock oil fixed a cap for its price at US$ 70 per barrel, the bottom has become much lower due to the quotas war among traditional oil producers. The financial administration in Kuwait should present facts to people and to deal with it surgically but not through conflict over deficit financing means as if it were provisional.

The Weekly Performance of Kuwait Stock Exchange

The performance of Kuwait Stock Exchange (KSE) for the last week was more active than the previous one, where all indexes showed an increase, the traded value, the traded volume, the number of transactions, and the general index also showed an increase, AlShall Index (value weighted) closed at 380.2 points at the closing of last Thursday, showing an increase of about 4 points or about 1.1% compared with its level last week, while it decreased by 63.8 points or about 14.4% compared with the end of 2014.

The following tables summarize last week's performance of KSE

Description	Week 42 22/10/2015	Week 41 13/10/2015	Diff %
Working days	5	3	
AlShall index (38 Companies)	380.2	376.2	1.1%
KSE index	5,780.8	5,731.3	0.9%
Value Trade (KD)	62,627,495	34,716,178	
Daily average (KD)	12,525,499	11,572,059	8.2%
Volume Trade (Shares)	750,215,939	381,113,716	
Daily average (Shares)	150,043,188	127,037,905	18.1%
Transactions	17,964	9,076	
Daily average (Transactions)	3,593	3,025	18.8%

Most Active Sectors & Companies

Description Sectors	Value Traded KD	% of Total Market
National Bank Of Kuwait	9,800,661	15.60%
Kuwait Finance House	3,143,568	5.00%
Al-Dar Ntn'l Real Estate Co. K.S.C.C	3,101,318	5.00%
Mobile Telecomms Company K.S.C	2,523,292	4.00%
Agility Public Warehousing Company	2,318,852	3.70%
Total	20,887,692	33.40%
Description Sectors	**Value Traded KD**	**% of Total Market**
Banks Sector	18,712,392	29.90%
Financial Services Sector	11,889,377	19.00%
Real Estate Sector	10,350,531	16.50%
Industrials Sector	8,827,456	14.10%
Telecommunications Sector	6,165,892	9.80%
Working days	5	3

Al Shall Index	Week 42 22/10/2015	Week 41 13/10/2015
Increased Value (# of Companies)	18	10
Decreased Value (# of Companies)	13	14
Unchanged Value (# of Companies)	7	14
Total Companies	**38**	**38**

Al-Shall Index

From October 13, 2015 to October 22, 2015

Company Name	Thu 22/10/2015	Tue 13/10/2015	Diff %	Close 2010	Diff %
1 The National Bank Of Kuwait	411.5	401.1	2.6	435.9	(5.6)
2 The Gulf Bank	219.4	223.5	(1.8)	224.4	(2.2)
3 Commercial Bank Of Kuwait	402.3	410.4	(2.0)	506.9	(20.6)
4 Al-Ahli Bank Of Kuwait	242.2	235.7	2.8	268.4	(9.8)
5 Kuwait International Bank	243.9	239.7	1.8	258.4	(5.6)
6 Ahli United Bank	432.2	424.2	1.9	465.7	(7.2)
7 Burgan Bank	369.1	373.9	(1.3)	428.3	(13.8)
8 Kuwait Finance House	1096.5	1074.2	2.1	1,306.8	(16.1)
Banking Sector	**420.3**	**413.6**	**1.6**	**464.5**	**(9.5)**
9 Commercial Facilities Co	134.2	142.9	(6.1)	198.5	(32.4)
10 International Financial Advisors	287.7	295.8	(2.7)	332.3	(13.4)
11 National Investments	135.9	135.9	0.0	191.3	(29.0)
12 Kuwait Investment Projects	1292.5	1292.5	0.0	1,559.9	(17.1)
13 Coast Investment & Development	50.6	51.9	(2.5)	79.3	(36.2)
Investment Sector	**360.3**	**364.4**	**(1.1)**	**455.4**	**(20.9)**
14 Kuwait Insurance Company	66.2	66.2	0.0	64.0	3.4
15 Gulf Insurance Company	342.2	342.2	0.0	342.2	0.0
16 Al-Ahleia Insurance Company	142.7	140.8	1.3	185.9	(23.2)
17 Warba Insurance Company	86.9	88.5	(1.8)	95.0	(8.5)
Insurance Sector	**133.8**	**133.5**	**0.2**	**143.8**	**(7.0)**
18 Kuwait Real Estate Company	101.8	98.5	3.4	116.5	(12.6)
19 United Realty Company	201.9	189.7	6.4	203.9	(1.0)
20 National Real Estate Company	192.2	168.2	14.3	274.6	(30.0)
21 Salhiah Real Estate Company	1271.9	1271.9	0.0	1,514.2	(16.0)
Real Estate Sector	**179.0**	**170.1**	**5.2**	**216.7**	**(17.4)**
22 The National Industries	130.4	126.9	2.8	169.8	(23.2)
23 Kuwait Cement Co	572.9	550.2	4.1	603.0	(5.0)
24 Refrigeration Industries Co	108.2	104.9	3.1	109.8	(1.5)
25 Gulf Cable & Electrical Industries	165.9	171.9	(3.5)	275.8	(39.8)
26 Contracting & Marine Services Co	69.7	69.7	0.0	72.1	(3.3)
Industrial Sector	**180.1**	**176.3**	**2.2**	**219.7**	**(18.0)**
27 Kuwait National Cinemas	596.3	627.7	(5.0)	615.2	(3.1)
28 Kuwait Hotels Company	107.8	107.8	0.0	97.9	10.1
29 The Public Warehousing Co	2173.3	2134.5	1.8	2,735.1	(20.5)
30 Mobile Telecommunications Co - ZAIN	447.5	478.7	(6.5)	915.7	(51.1)
31 Safat Energy Co	13.6	14.6	(6.8)	22.8	(40.4)
Services Sector	**707.6**	**721.9**	**(2.0)**	**1,074.4**	**(34.1)**
32 Livestock Transport & Trading Co	113.3	105.0	7.9	121.7	(6.9)
33 Danah Aalsafat Foodstuff Company	84.9	83.9	1.2	76.7	10.7
34 Kuwait United Poultry Co	59.3	56.0	5.9	60.0	(1.2)
35 Kuwait Food Co	2226.9	2246.6	(0.9)	2,759.0	(19.3)
Food Sector	**762.7**	**765.7**	**(0.4)**	**932.7**	**(18.2)**
36 Sharjah Cement Co	370.8	366.6	1.1	371.7	(0.2)
37 Gulf Cement Co	330.6	334.7	(1.2)	387.1	(14.6)
38 Umm Al-Qaiwain Cement Industries	603.3	596.0	1.2	750.5	(19.6)
Non Kuwaiti Companies	**231.8**	**231.6**	**0.1**	**249.2**	**(7.0)**
General Index	**380.2**	**376.2**	**1.1**	**444.0**	**(14.4)**

ASAR free seminar to feature KDIPA's Director General

Seminar set to address law regarding promotion of direct investment

KUWIT CITY, Oct 22: ASAR - Al Ruwayeh & Partners (ASAR), Kuwait's leading corporate, commercial and finance law firm, announced that it will be hosting a free seminar on Tuesday, 27 October 2015 at the JW Marriot Hotel in Kuwait City where KDIPA's Director General, Sheikh Dr. Meshaal Jaber Al Ahmad Al Sabah, senior officials from KDIPA and ASAR partners and lawyers will share their insight on the technical aspects of Law No. 116 of 2013 (Regarding the Promotion of Direct Investment in the State of Kuwait) and its executive regulations (the "Direct Investment Law").

The seminar will feature key note speeches by KDIPA's Sheikh Dr. Meshaal Jaber Al Ahmad Al Sabah along with other senior KDIPA officials. Part of the seminar will be comprised of a panel discussion with KDIPA officials and will include an interactive Q&A session with audience members. Key discussion points will shed light on the considerable incentives under the Direct Investment Law and practical issues currently facing investors in the course of the KDIPA application process and thereafter. Moreover, the seminar will also address the various exemptions available to investors under the Direct Investment Law with regards to foreign ownership restrictions (which allow foreign investors to own up to 100% of the shares in a Kuwait incorporated company), partial and full custom duties exemptions, and Kuwait income tax exemptions for a period of up to 10 years.

In addition to considering the applications of investors seeking to be licensed to operate under the terms of the Direct Investment Law, the seminar will also highlight the renewal of such licensing and the benefits being enjoyed on an ongoing basis.

As a leading corporate and finance law firm, ASAR is committed to organizing platforms bringing together prominent industry figures and legal experts in an effort to address and discuss key legal and practical issues affecting investors, governmental bodies and the State of Kuwait.

With dedicated offices in Kuwait and Bahrain coupled with its associated offices and relationships, ASAR provides clients across an extensive range of industry sectors with comprehensive legal advice and strategic support for their business activities in Kuwait, across member states of the Gulf Cooperation Council (GCC) and beyond.

The firm has been consistently rated as the leading corporate, commercial and finance law firm in Kuwait by reputable legal guides such as the Chambers Global Guide, International Financial Law Review (IFLR) and the Legal 500. In October 2014 ASAR won the "IFLR National Law Firm of the Year Award" for the 6th consecutive year and the "Project Finance Deal of the Year Award". In addition, ASAR also won the prestigious "2014 Commercial Litigation Law Firm of the Year" and the "2014 Best Banking and Finance Legal Team -Kuwait" awards from Acquisition International Magazine in 2014. ASAR lawyers also received multiple awards under different categories in the Fourth Edition of "Best Lawyers" in Kuwait.