Al-Shall Report

Qatari stocks outperform region in January

Revenues total KD11.15b in 9M of 2017-18

Photo by Bassam Abo Shanab

Photo shows the Boursa Kuwait trading floor. The price index closed higher on Thursday.

The Monthly Report of the State, Financial Administration Accounts – December 2017

In its monthly follow-up report for the State's Financial Administration until December 2017 (published on its website), the Ministry of Finance indicates that total collected revenues in the end of the ninth month of the current fiscal year 2017/2018 amounted to approximately KD 11.150 billion, about 83.6% of the total estimated revenues for the entire current fiscal year in the amount of approximately KD 13.344 billion., says Al-Shall Economic Report prepared by Al-Shall Consulting Co headed by Jassem Al-Saadoun.

In details, the bulletin estimates actual oil revenues until 31/12/2017 by about KD 10.152 billion, i.e. 86.7% of estimated oil revenues for the entire current fiscal year in the amount of KD 11.711 billion, or about 91% of total collected revenues. The average Kuwaiti oil price scored about US$ 51.6 per barrel for the past part of the current fiscal year 2017/2018. KD 998.333 million were collected from non-oil revenues during the same period, a monthly average by KD 110.926 million versus, the total estimated amount for the entire current fiscal year by KD 1.634 billion. This means the realized amount, if it continues, will be less for the entire current fiscal year by about KD -302.4 million than the estimated.

Expenditures allocations for the current fiscal year were estimated at about KD 19.9 billion, of which an amount of KD 11.112 billion were actually spent -according to the bulletin- until 31/12/2017. An amount of KD 1.401 billion were obligated and as if they were spent. Thus, total actual expenditures scored about KD 12.513 billion. Monthly spending average scored KD 1.390 billion or about KD 16.7 billion for the entire current fiscal year at this average. Although the bulletin concludes that the budget deficit in end of the first nine months of the current fiscal year scored about KD 1.363 billion before deducting the 10% of revenues for the Future Generations Reserves, we publish it without recommending its endorsement. Deficit figure relies mainly on oil prices and its production quantity in the remaining part of the current fiscal year. As for us, we expect the deficit will be about KD 3-3.5 billion when the final account will be issued if oil prices continue at their present level.

Oil Prices

Brent blend prices were close to US$ 70 per barrel in current January while the average price of the same crude for the entire 2017 year scored approximately US$ 54.12 a barrel. Its lowest price in the past year scored about US$ 43.98 per barrel (June 20, 2017) and its highest price scored US$ 66.80 per barrel (on 28 December 2017). This sharp fluctuation occurred also in 2016 when the average Brent crude price scored US$ 43.64 a barrel. Its lowest price scored about US$ 26.01 (January 20, 2016) and its highest price scored about US$ 54.97 per barrel (December 29, 2016). Here we hint at two things. First, reading of oil prices should be based on its annual average and not on the last price; the second is that the sharp price volatility during the year is a risky indicator of a case that confirms the instability of its market.

Brent blend price in the first three weeks of current January totaled approximately US$ 69. As we mentioned above about the instability of the market, such a high level may be deceptive, and the potential risks, if realized, would drop its prices. The first factor is that this high level would greatly improve the economics of producing non -conventional oil- shale. Later on this year, we may see abundant increase in its supply. Second, the current high price level is the outcome of artificial support by voluntary reduction of production to countries in and out of OPEC states. There is a permanent likelihood that the agreement would fall apart with a much worse impact on oil prices than shale oil production increase.

These risks are for the short term. The concern lies in the possibility of preparing the 2018/2019 draft budget, which is pretty much finished, with calmness in controlling public expenditures being encouraged by the unsustainable current price level. Risks seem bigger in the medium to the long term when oil consumption starts to decrease from its current level of 98 million barrels a day.

Dealing with the State's public finance would better adopt the worst case scenario for the oil market, or at least the scenario with the best chance for realization. This means adopting prices much less than the current prices of current January. Here, we do not mean the hypothetical budget price, which is meaningless, but the price which controls the sustainable public expenditures. What we mean is to control the public spending level in line with that probable price. Truly, lowering overhead costs is an inflexible decision; costs of their rise are unbearable in the medium to the long term.

In the latest report of the parliamentary Budgets and Final Account Committee, its Chairman Mr. "Adnan Abdul Samad" stated that the State's obligations arising from the expansion of issuing bonds and sukuk have become very close to the value of the General Reserve assets and the turn on the Future Generation Reserve. Their inflation wheel and the burden of its items on public expenditures will gain accelerated momentum by time and coinciding with a weakness for oil prices. Any hesitation to control public expenditures will enlarge the legacy of that problem to exceed the endurance capacity of the oil market.

Performance of GCC Stock Exchange Indexes – January 2018

Though January is not yet completed, but we perceived the importance of monitoring the GCC stock markets performance in the beginnings of 2018 and compare them with their performance in early 2017 which was concluded with a negative performance for most of them. Five of them (out of seven) were losses and two achieved relatively modest gains. 2017 was full of violent geopolitical and domestic disturbances in the regional states with heavy losses for those stock exchanges. The early follow up of their performance in 2018 is to check whether the falling prices in 2017 would form an incentive to support 2018 trading, or whether it is a new reality to be coped with.

The figures of the seven stock exchange markets' performance until the end of 24 January 2018 and its estimated performance until the end of January indicate that the performance of six of them was positive and even contrary to negative liquidity trends for six out of the seven markets. The biggest winner during that period was the Qatari stock exchange market whose index achieved gains by about 9.8% in less than a month. It is also the only stock market whose liquidity level rose compared with January 2017 liquidity by 10.5% and had the biggest losses in 2017. Despite the significant drop in the liquidity for Abu Dhabi stock exchange market by -47.2% from January 2017 and January 2018, it was the second biggest gainer by adding approximately 5.2% gains.

The third largest gainer was Boursa Kuwait weighted index by 4.3% gains in less than a month despite a sharp decline in the Boursa Kuwait liquidity in January by about -73.5% compared with exceptional liquidity of January 2017. The fourth largest gainer was the Saudi stock exchange market by 3.5% gains despite the decline in liquidity between the two months by approximately -28.7%. Dubai stock exchange market gained 2.8% while its liquidity dropped by -59.7%. Bahrain stock exchange market achieved slight gains by 0.4% but with a major decline in liquidity by -20%. Muscat stock exchange market alone achieved losses in January by about -2.5% and its liquidity dropped by -36.9%. Muscat stock exchange market was the second biggest losses in 2017.

Although the general trend on the price level for most of the Gulf region stock markets seems encouraging, we only recommend following up the performance without any recommendation for investing or not. Our reservation has two justifications. First, time is still early to make judgments as the follow up covers only less than one month; results of listed companies' performance though encouraging, their positive impact is less than the influence of the geopolitical and oil price variables if the outcome of those variables resulted oppositely after the announcements' period. The second justification is that the directions of the price and liquidity movements are opposite, for which the liquidity of 6 markets declined while their prices inclined, which may not last except for a short term. Unless liquidity level rises, prices must fall, and vice versa.

Global Economy Performance

IMF issued a report last week about the global economy performance and the Fund's outlook for the most optimistic future by a large margin compared with the World Bank in its current January report and the Economist Economic Intelligence Unit's (EIU) last December's report. The IMF report expects the world economy to grow in 2018 and 2019 by 3.9% rate for each, while the World Bank forecasts a drop to 3.1% in 2018 and 3% for 2019. EIU forecasts are quite far away for the growth rates in 2018 and 2019 to be 2.2% for each. This big difference in the estimates reflect the high uncertainty level all over the world some of which are logical because the world is passing through a new experience after the 2008 global financial crisis which is different from what happened to the economy after 1929 crisis. The major bulk of it comes from political instability and the unexpected return of the world to the Cold War era.

While the E.I.U takes the high uncertainty state to have negative impact even in the short term, the two reports confirm that high and optimistic growth is guaranteed only in the short term because it is unsustainable. The current support levels will fade out backed by main economies reaching the full employment level. The last report, i.e. IMF, attributes strong growth to the support of most major economies to it like the United States, Europe, China, and India; it excludes the Middle East and sub-Sahara Africa despite the rise in raw materials' prices. It expects weaker growth rates for all global economies than the pre-2008 crisis levels in the future. It expects the main economies will lose one third of their present growth rates' level estimated at 2.3% for 2018 to 1.5% in the future, which is a weak average.

What the report says is that the world politicians should not feel jubilant by temporary booming news for their economies as there are huge risks to the economy's performance that may reverse economy's performance to worse than the 2008 crisis repercussions within two years from now. At the same time, the three reports concur that our region is exception from that boom. Saudi Arabia, the biggest and most important economies in the region with a reform vision, is expected to have weak growth by 1.6% and 2.2% rates according to IMF report in 2018 and 2019, and around 1.2% and 2.1% according to the World Bank report, and 1% and 2% according to "E.I.U" report. Some dreaming politicians in Kuwait believe that benefiting people is by focusing on their present, like granting them unreal and unsustainable jobs, and with wages irrelevant to productivity, and by rewarding retirement, and by encouraging expansion of borrowing. It is fine even if education is of bad quality. By so doing they sell the future of these people with shortened timeframe to reach unbearable situation. They are, most of the people, the ones who will pay dearly for that.

The Weekly Performance of Boursa Kuwait

The performance of Boursa Kuwait for last week was less active compared to the previous one, where all indexes showed a decrease, the traded value index, the traded volume index, number of transactions index, and the general index. AlShall Index (value weighted) closed at 406.5 points at the closing of last Thursday, showing a decrease of about 0.7 points or about 0.2% compared with its level last week while it increased by 19.5 points or about 5% compared with the end of 2017.

The following tables summarize last week's performance of Boursa Kuwait,

Description	Week4 25/01/2018	Week3 18/01/2018	Diff %
Working days	**5**	**5**	
AlShall index (34 Companies)	**406.5**	**407.2**	**-0.2%**
Boursa Kuwait index (price)	**6,651.9**	**6,639.4**	**0.2%**
Value Trade (KD)	68,301,210	78,395,403	
Daily average (KD)	**13,660,242**	**15,679,081**	**-12.9%**
Volume Trade (Shares)	593,962,136	688,570,812	
Daily average (Shares)	**118,792,427**	**137,714,162**	**-13.7%**
Transactions	21,789	24,395	
Daily average (Transactions)	**4,358**	**4,879**	**-10.7%**

Most Active Sectors & Companies

Description	Value Traded	% of Total
Sectors	KD	Market
National Bank Of Kuwait	9,242,760	13.5%
Kuwait Finance House	6,269,391	9.2%
Mobile Tele Co. K.S.C (Zain)	5,388,358	7.9%
Gulf Bank Of Kuwait	3,237,702	4.7%
Alimtiaz Investment Co. K.S.C.C	3,080,819	4.5%
Total	**27,219,030**	**39.9%**
Description	**Value Traded**	**% of Total**
Sectors	**KD**	**Market**
Banks Sector	26,925,593	39.4%
Financial Services Sector	11,131,120	16.3%
Industrials Sector	9,711,178	14.2%
Real Estate Sector	9,273,601	13.6%
Telecommunications sector	5,650,196	8.3%
Al Shall Index	**Week 04 25/01/2018**	**Week 03 18/01/2018**
Increased Value (# of Companies)	13	16
Decreased Value (# of Companies)	16	13
Unchanged Value (# of Companies)	5	5
Total Companies	**34**	**34**

Al-Shall Index

From Jan 18, 2018 to Jan 25, 2018

	Company Name	Thu 25/01/2018	Thu 18/01/2018	Diff %	Close 2017	Diff %
1	The National Bank Of Kuwait	456.7	457.3	(0.1)	429.7	
2	The Gulf Bank	204.8	195.8	4.6	193.4	
3	Commercial Bank Of Kuwait	375.3	375.3	0.0	375.3	
4	Al-Ahli Bank Of Kuwait	208.2	207.5	0.3	189.9	
5	Kuwait International Bank	245.9	244.9	0.4	237.6	
6	Ahli United Bank	333.8	332.8	0.3	331.9	
7	Burgan Bank	306.9	311.9	(1.6)	299.9	
8	Kuwait Finance House	1495.3	1465.7	2.0	1401.1	
	Banking Sector	**453.9**	**451.4**	**0.6**	**430.2**	
9	Commercial Facilities Co	128.5	129.9	(1.1)	122.7	4.7
10	International Financial Advisors	256.9	256.9	0.0	234.2	9.7
11	National Investments	129.6	132.1	(1.9)	123.3	5.1
12	Kuwait Investment Projects	681.9	688.6	(1.0)	746.5	(8.7)
13	Coast Investment & Development	48.4	49.2	(1.6)	44.4	9.0
	Investment Sector	**233.7**	**236.2**	**(1.1)**	**240.8**	**(2.9)**
14	Kuwait Insurance Company	61.5	61.5	0.0	60.6	1.5
15	Gulf Insurance Company	399.2	410.6	(2.8)	469.9	(15.0)
16	Al-Ahleia Insurance Company	161.5	161.5	0.0	174.6	(7.5)
17	Warba Insurance Company	54.3	53.3	1.9	52.8	2.8
	Insurance Sector	**143.3**	**145.2**	**(1.3)**	**158.1**	**(9.4)**
18	Kuwait Real Estate Company	96.0	96.5	(0.5)	92.1	4.2
19	United Realty Company	144.8	155.0	(6.6)	163.2	(11.3)
20	National Real Estate Company	279.8	286.6	(2.4)	282.1	(0.8)
21	Salhiah Real Estate Company	1368.8	1352.7	1.2	1429.4	(4.2)
	Real Estate Sector	**192.1**	**195.1**	**(1.5)**	**198.3**	**(3.1)**
22	The National Industries	147.4	143.8	2.5	134.0	10.0
23	Refrigeration Industries Co	708.5	711.5	(0.4)	708.5	0.0
24	Gulf Cable & Electrical Industries	174.7	180.7	(3.3)	167.5	4.3
	Industrial Sector	**204.9**	**204.9**	**0.0**	**198.1**	**3.4**
25	Kuwait National Cinemas	715.6	696.1	2.8	816.0	(12.3)
26	The Public Warehousing Co	3434.6	3477.3	(1.2)	3112.5	10.3
27	Mobile Telecommunications Co (ZAIN)	765.9	812.7	(5.8)	616.0	24.3
28	Safat Energy Co	36.3	35.0	3.7	11.3	221.2
	Services Sector	**1123.6**	**1155.8**	**(2.8)**	**991.1**	**13.4**
29	Livestock Transport & Trading Co	189.2	187.5	0.9	190.8	(0.8)
30	Danah Aalsafat Foodstuff Company	71.1	71.6	(0.7)	70.1	1.4
31	Kuwait Food Co	1039.6	1039.6	0.0	1095.7	(5.1)
	Food Sector	**403.3**	**403.0**	**0.1**	**421.4**	**(4.3)**
32	Sharjah Cement Co	312.9	374.5	(16.4)	375.0	(16.6)
33	Gulf Cement Co	350.8	346.8	1.2	322.6	8.7
34	Umm Al-Qaiwain Cement Industries	596.0	588.6	1.3	588.6	1.3
	Non Kuwaiti Companies	**227.4**	**234.3**	**(2.9)**	**230.2**	**(1.2)**
	General Index	**406.5**	**407.2**	**(0.2)**	**387.0**	**5.0**

Discount between WTI & Brent spot prices less than $5 pb

OPEC's output restraint tightens oil inventories and spreads

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By John Kemp

OPEC and its allies insist more needs to be done to reduce global oil inventories but the market already shows unmistakeable signs of becoming very tight.

Brent futures have moved into the largest and most sustained backwardation since June and July 2014, before the slump began and when the spot price was still trading above $100 per barrel.

The six-month calendar spread closed in a backwardation of $2.50 per barrel on Jan 24, up from a contango of $1.85 twelve months ago.

Brent spreads regularly cycle between contango and backwardation as the global oil market alternates between periods of over- and undersupply.

Contango is associated with periods of high and rising stocks while backwardation is associated with low and falling inventories.

The current six-month spread is already in the 83rd percentile of the entire distribution from 1990 through 2018, a sign traders think stocks are tight and will tighten further.

Until recently, spreads in US crude (WTI) lagged behind Brent, reflecting the high levels of stocks around the WTI contract's delivery point at Cushing in Oklahoma.

But stocks at Cushing have drawn down sharply over the last two and a half months, from more than 64 million barrels to just 39 million barrels.

Cushing crude stocks are now 26 million barrels below the same point in 2017, according to an analysis of data from the US Energy Information Administration (EIA).

Cushing stocks are less than 2 million barrels above the 10-year average, down from almost 30 million barrels over the seasonal average at the start of November.

Over the same period, the six-month WTI calendar spread has swung into a backwardation of more than $2.50, from a small contango 12 weeks ago, catching up with Brent.

Tightening stocks and spreads on US crude have narrowed the discount between WTI and Brent spot prices to less than $5 per barrel from more than $7 late last year.

The drawdown in crude stocks at Cushing reflects a broader reduction in crude and products inventories across the OECD.

Commercial oil stocks remain more than 100 million barrels above the five-year average, which is still OPEC's official target.

But given the growth in global consumption since 2013, the five-year average is almost certainly too low and would leave the market feeling exceptionally tight.

Global liquid fuels consumption is forecast to average more than 100 million barrels per day (bpd) in 2018, up from just 92 million bpd in 2013, according to the US EIA.

OPEC ministers have signalled they want to draw down stock levels even further and intend to keep current production curbs in place through at least the end of 2018.

But the market already feels tight and if OPEC sticks to its current course is likely to tighten further, pushing spot prices and calendar spreads even higher.

Experience suggests OPEC normally tightens the market too much after a price slump and that spot prices and spreads will overshoot first before correcting later.

OPEC's strategy and the movement in spot prices and spreads bears striking similarities with earlier episodes in 2000 and 2011 when prices shot well above the organisation's initial targets.

Global oil consumption is growing strongly owing to synchronised growth in the major consuming economies and a cyclical acceleration in global industrial activity and freight movements.

If OPEC sticks to its current output levels, global crude and products stocks will feel very tight by the second half of 2018.

The market will respond by driving spot prices and spreads higher to encourage more production from shale producers and moderate demand growth. (RTRS)