Al-Shall Report

Oil sector continues to dominate, but shrinks by 2.3 pct

Non-oil sectors bolster Kuwait's Q1 growth

The Central Statistical Bureau published the week before last GDP figures at fixed prices for the first quarter of the year 2018. This is a commendable development because, unlike the past, it came in fixed prices and within a relatively short time. The significance of reading those numbers lies in two dimensions. The first is tracking their development, i.e. their growth, or the expansion or contraction of economy, and the second is reading the development within the components of that GDP to observe the strong or weak aspects therein. More importantly still is perhaps following up the impact of public policies on the remedy of its structural disorders, says Al-Shall Economic Report prepared by Al-Shall Consulting Co headed by Jassem Al-Saadoun.

Those figures at constant prices -real growth- estimate that a positive growth at 1.6% has been achieved between the first quarter of 2017 and the first quarter of 2018 while a negative growth at -1.1% was achieved between the fourth quarter of last year and the first quarter of this year. Most of the positive growth between the first quarter of 2017 and the first quarter of 2018 came mainly from non-oil sectors which expanded by about 2.7% while the overall growth rate dropped to 1.6% as mentioned due to weak the contribution by the oil sector to that growth by 0.7% only. GDP achieved negative growth by about -1.1% when it is compared with its level in the end of the fourth quarter of last year. All negative impact came from the oil sector which shrank by about -2.3% while non-oil sectors have maintained their positive growth, although it is fragile, at 0.3%.

What does not seem sound is that economic sustainability policies -diversifying income sources- which are advertised in all development plans and all Government statements, have achieved nothing. Indeed, production structural imbalance as indicated by the continued dominance of the oil sector on all GDP components is continuing as perceived from its overwhelming impact on the recently published figures. The contribution of the oil sector at constant prices is still higher than half of GDP volume which scored 54.6% in the first quarter of 2018 versus 55.2% in the first quarter 2017. This means that the contribution of all other sectors in the first quarter of 2018 does not exceed 46.4%, which is an unsustainable contribution but heavily supported by the oil sector. None of the other sectors' contribution achieved the 10% level, which means the country has no development identity. The closest sector to reaching the 10% limit was the public administration, defense and social security, which contributed by about 9.5% and is unrelated to any developmental approach.

In brief, the positive growth rate is too weak and the productive structural imbalance is settled in the country since the beginning of the oil age. A list by other sectors' contributions serves as an analysis paper that constantly suggests diseases of total direct and indirect reliance on oil which contradicts the economic sustainability principle.

The State's Financial Status

If published figures about the State's financial reserves in its two parts: the future generations reserves and the general reserves, are correct, then they are quite close to the figures published by Fitch Agency about their volume of about KD 178 billion, or about US$ 590 billion. The general reserves volume is known to be about KD 26 billion. This means that the volume of the Future Generations is about KD 152 billion, or about US$ 500 billion, and the general reserve is about US$ 90 billion. What we do not know is, first, whether that is the net or gross volume, i.e. whether the public financial commitments have been deducted or not, and secondly, is how well are their components and the precision of assessing value of those assets, and thirdly, if other public institutions have what may be added such as the going on debate about what the "KPC' may have.

Before going into detail, we should clarify that the title (The State's Financial Status), is wrong. The financial status is broader than giving reserves volume estimate because the financial status relates to the sustainability of public finance in the visible term and the reserves are part of their calculation components. And even presenting totals of such reserves value without reviewing their policies and sectoral and geographical components and the objectives of those distributions, performance expectations, and success in achieving them, is actually not tantamount to presenting status of those reserves. We certainly do not aspire to reach the presentation level of Norway Sovereign Fund whose details are available to any follower. Our aspiration is simply to reach a modest level of what we can read on their website every second.

The level reached by reserves remains the only positive and important merit of the oil market boom era which ceased in fall of 2014. One of the first priorities of building strategies for the public finance sustainability must be utilizing and building on the available strength element. Financial sustainability, which reflects the real financial situation of the State, is to finance the public finance from a sustainable source. In the current era, the income of those reserves is the main sustainable source. And changing the function of those reserves, which needs huge efforts and setting a goal for their revenues to finance about half of the public expenditure for the next five years, can rid the country of almost full dependence on oil revenues. And if we assume that the general reserve income is zero and that there will be focus on changing the function of the future generations to achieve 6% rate over the next five years, the minimum limits required for pension funds, and relying only on the its current size of US$ 500 billion, that means funding the public finance by about US$ 30 billion annually, or about KD 9 billion. And with real pressure for the cap of public expenditures that stops their waste and corruption, and with some tax policies, Kuwait will find itself moving closer to Norway steps, although with big difference.

The exceptional circumstances, such as long term weak oil market compared to the era when the Kuwaiti oil prices were over US$ 100 per barrel, keeping in mind that arrivals to the labor market from youth in 15 years are equal to the current number of more than 400 thousand, exceptional policies and procedures must be adopted. Despite all the sins of financial policies in the oil market boom era, there is a possibility in the future to contain what is much worse the sooner we adopt preemptive and exceptional solutions especially as the forthcoming finance fire is the most dangerous thing.

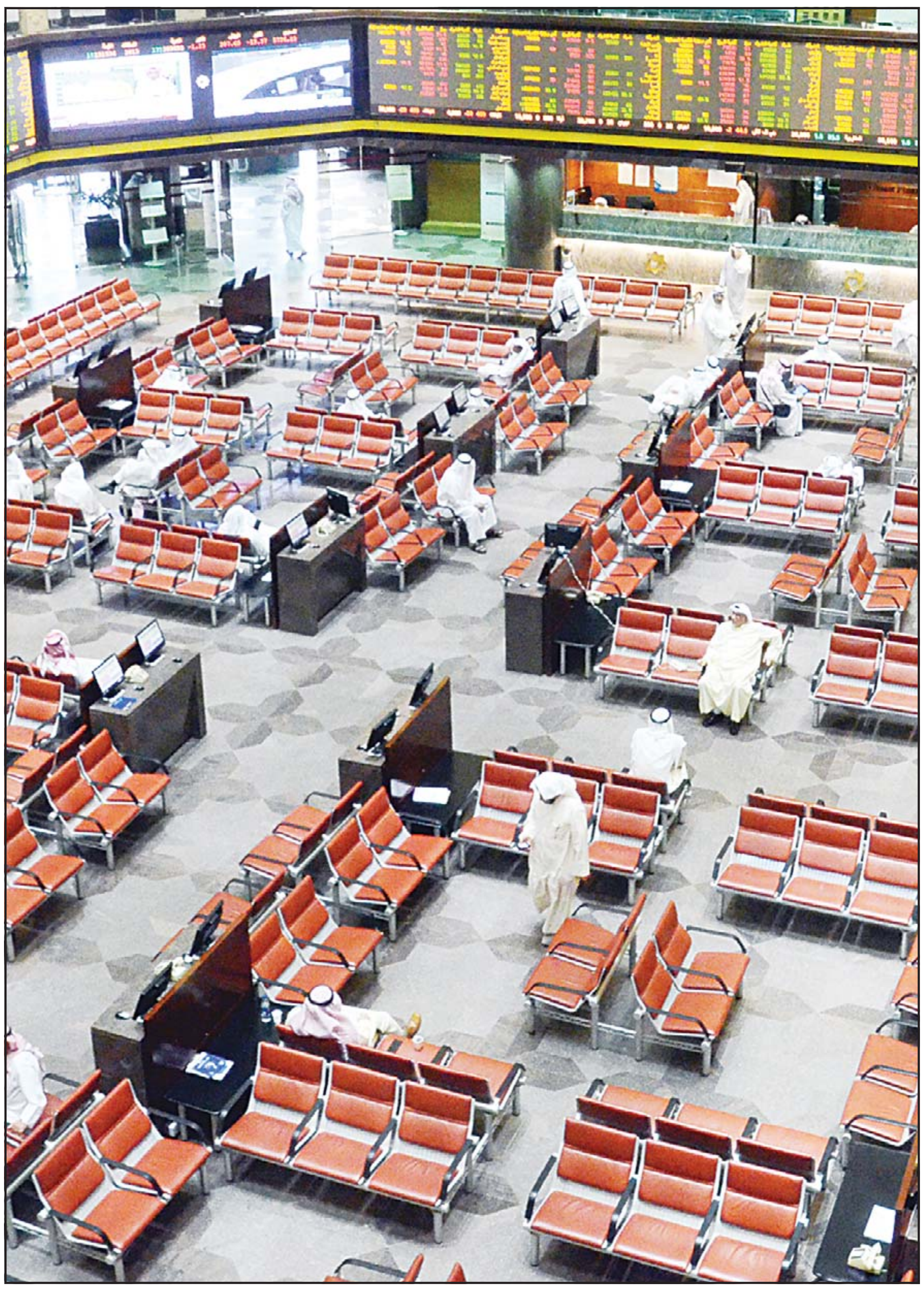


Photo by Bassam Abu Shanab

Photo shows a view of Boursa Kuwait trading floor. The market was buoyant during the week.

Trading Features at Boursa Kuwait – June 2018

Kuwait Clearing Company (KCC) issued its report regarding "Trading Volume According to Nationality and Category" for the period of 01/01/2018 to 28/06/2018 as published on the official website of Boursa Kuwait. The report indicated that individuals still form the largest trading category despite the drop in their share. They captured 38.8% of total value of purchased shares (51% for the first half of 2017) and 38.7% of total value of sold shares (51.6% for the first half of 2017). Individual traders purchased shares in the amount of KD 569.515 million and sold shares worth KD 568.959 million with a net purchased trading at KD 556 thousand.

The second largest contributor to the market's liquidity is the institutions and companies sector which captured 30.3% of total value of purchased shares (20.2% for the same period of 2017) and 26.2% of total value of sold shares (19.4% for the same period of 2017), and their contribution is increasing. This sector purchased shares worth KD 445.311 million and sold shares worth KD 385.108 million with the most net purchased trading value of KD 60.203 million.

The third contributor to market liquidity is the clients' accounts (portfolios) sector which captured 21.6% of total value of purchased shares (21.2% for the same period of 2017) and 19.4% of total value of sold shares (22.3% for the same period of 2017). This sector purchased shares worth KD 317.951 million and sold shares worth KD 285.550 million, with a net trading value of purchasing by KD 32.401 million.

The last contributor to liquidity is the investment funds sector which captured 15.6% of total value of sold shares (6.7% for the same period of 2017) and 9.3% of total value of purchased shares (7.6% for the same period of 2017), and their contribution is also increasing. This sector sold shares worth KD 229.922 million and purchased shares worth KD 136.763 million, making it the only sector with a net sold trading, of KD 93.160 million.

Boursa Kuwait still continues to be a domestic Boursa with more share for Kuwaiti traders being the biggest trading group. They sold shares worth KD 1.214 billion, capturing 82.6% of total sold shares (89.5% for the same period of 2017), and purchased shares worth KD 1.164 billion capturing 79.2% of total value of purchased shares (87.7% for the same period of 2017). Their net trading resulted in most selling, by KD 49.994 million. This indicates a continuous trend for the local investors to drop their investments in the domestic Boursa.

Percentage share of other investors out of the total purchased shares value, scored 15.1% (8.7% for the same period of 2017), and purchased shares worth KD 221.299 million and sold shares worth KD 165.336 million, 11.3% of total sold shares (7.2% for the same period of 2017); thus making their trading value the only one with a net purchased by KD 55.963 million. This means that the foreigner investor's confidence in the domestic Boursa is still high.

GCC Investors' share out of total value of sold shares scored 6.2% (3.3% for the same period of 2017), worth KD 90.609 million, while value of purchased shares scored 5.8% (3.6% for the same period of 2017) worth KD 84.641 million, with the net sold trading value of KD 5.968 million.

The relative distribution among nationalities differed slightly from its predecessor. Kuwaitis occupied 80.9%, other nationalities occupied 13.2% and GCC traders' share captured 6%, versus 88.6%, 8% and 3.4% for Kuwaitis, other nationalities and GCC traders respectively, for the same period of 2017. This means Boursa Kuwait remained domestic with most shares allocated to the local investor but their contribution is heading to a decrease. The non-Kuwaiti investors from outside the GCC outweighed that from within the GCC states, with the dominance of trading for individuals.

Number of active accounts between the end of December 2017 and the end of June 2018 dropped by -25.2%, compared with an increase by 25.6% between the end of December 2016 and the end of June 2017. Number of active accounts in the end of June 2018 scored 13,333 or 3.5% of total accounts versus 13,858 accounts in the end of May 2018, 3.6% of total accounts for the same month, a drop by -3.8% during June 2018.

Comparative Performance of Selected Stock Market – June 2018

Negative performance continued in June for most sample markets. 8 markets out of 14 were losers with substantial losses to some. 6 markets achieved gains most of which were from the Gulf region. However, the outcome of the first half of the current year was that 8 markets were losers compared with their performance in the beginning of the year while 6 markets achieved gains after adding Boursa Kuwait according to AlShall Index due to its recent adoption of its general index which began since the beginning of last April.

The biggest loser in June was the Chinese stock market whose index lost -8% which deepened its losses since the beginning of the year putting them to -13.9% as its losses since the beginning of the year were at -6.4% in the end of May. June losses made it the second biggest loser since the beginning of the year. The second biggest loser in June was Dubai stock market whose index lost -4.8% putting its losses since the beginning of the year to -16.3%. It remained at the bottom of the negative zone. The third loser in June was the German market whose index lost about -2.4% putting its losses since the beginning of the year at -4.7% from -2.4% in the end of May. Its rank moved from 8th position in the end of May to 10th position in the end of June.

The biggest winner in June was Boursa Kuwait in accordance with AlShall Index reading. It gained 4.8% but 1.5% according to its all-share index. Its gains from the beginning of the year scored 4.1% and thus became the third best performing sample market. Bahrain bourse was the second biggest gainer whose index gained about 3.6%. These gains were not adequate enough to promote it to the positive zone. However, this positive performance was adequate to reduce its losses from -4.9% in the end of May to -1.6% in the end of June. It ended as the second least loser since the beginning of the year. The Saudi market was the third biggest gainer in June by 1.9% gains which tightened its control on the 1st position since the beginning of the year by 15.1% gains. The fourth biggest gainer in June was the Qatari market which gained 1.6% in one month which moved it from the third position in May to the second position in June.

The paradox in the performance of the GCC markets is still there at the end of June. 4 out of 6 GCC markets occupied six gaining markets since the beginning of the year. The Indian market came 4th and the French market came 6th. The Saudi market achieved 15.1% gains as we stated, the second best performing market was the Qatari which gained 5.9% since the beginning of the year and then Boursa Kuwait which gained 4.1%. Abu Dhabi stock market came 5th by 3.7% gains. On the contrary, Dubai market was the biggest loser since the beginning of the year and the second biggest loser in June. Muscat market was the third biggest loser since the beginning of the year despite its improved performance in June.

Due to the dominance of politics and macroeconomic variables on the movement of those markets, it remains very difficult to give an opinion about the course of the future including the short term. Political disturbances including the threat of collapsing the government coalition in Germany, Italy problems, and the trade war initiated by the USA with its trade partners are variables which had a great impact in June and might extend to July. If we exclude the Indian bourse and the slight gains for the French market, all mature and emerging markets achieved losses in June. All are losers if compared with the beginning of the year levels with the heaviest losses went to China and then to Germany. The American market was not immune from losses. On the contrary, 6 GCC markets were gainers in June. The only exception was Dubai by pressures from impacts of potential bankruptcy of Abraj Company. GCC markets continued to occupy 4 out of the 6 ranks for gaining markets since the beginning of the year. Therefore, variation in performance of the two blocks is expected to continue in July. GCC markets will continue to achieve gains while performance of mature and emerging markets would fluctuate with more likelihood of sustaining losses by most of them.

The Weekly Performance of Boursa Kuwait

The performance of Boursa Kuwait for last week was more active compared to the previous one where the traded value, traded volume, the number of transactions and the general index all showed an increase. AlShall Index (value weighted) closed at 421.8 points at the closing of last Thursday, showing an increase by 20.8 points or by 5.2% compared with its level last week, while it increased by 34.8 points or by 9.0% compared with the end of 2017.

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

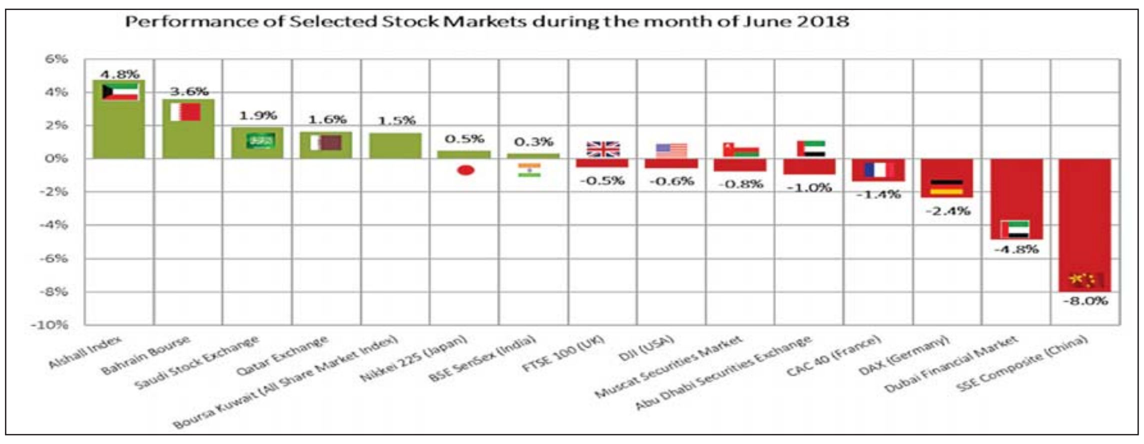
Description	Week 27 05/07/2018	Week 26 28/06/2018	Diff %
Working days	**5**	**5**	
AlShall index (34 Companies)	**421.8**	**401.0**	**5.2%**
Boursa Kuwait index (price)	**5,087.6**	**4,890.4**	**4%**
Value Trade (KD)	130,204,315	90,226,376	
Daily average (KD)	**26,040,863**	**18,045,275**	**44.3%**
Volume Trade (Shares)	574,987,566	416,753,857	
Daily average (Shares)	**114,997,513**	**83,350,771**	**38%**
Transactions	24,527	17,478	
Daily average (Transactions)	**4,905**	**3,496**	**40.3%**

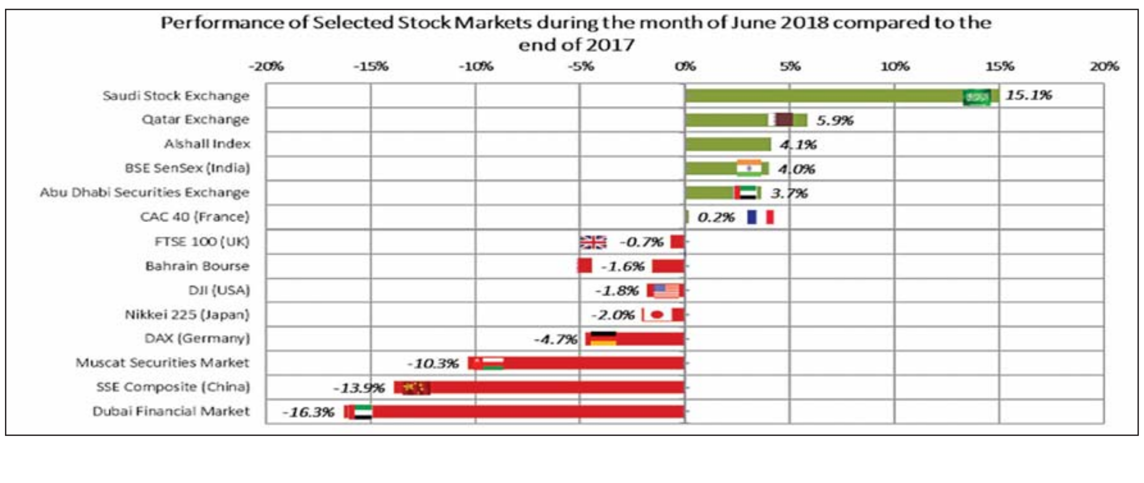
Most Active Sectors & Companies

Description Companies	Value Traded KD	% of Total Market
Kuwait Finance House	26,494,510	20.3%
National Bank Of Kuwait	21,198,843	16.3%
Mobile Teleco Co. K.S.C (ZAIN)	14,741,137	11.3%
Agility Public Warehousing Co	8,858,838	6.8%
Ahli United Bank (B.S.C)	5,944,279	4.6%
Total	**77,237,607**	**59.3%**

Description Sectors	Value Traded KD	% of Total Market
Banks Sector	71,382,692	54.8%
Telecommunications Sector	15,344,393	11.8%
Industrials Sector	14,327,749	11%
Financial Services Sector	13,236,287	10.2%
Real Estate Sector	6,596,734	5.1%

Al Shall Index	Week 27 05/07/2018	Week 26 28/06/2018
Increased Value (# of Companies)	22	20
Decreased Value (# of Companies)	8	10
Unchanged Value (# of Companies)	3	3
Total Companies	**33**	**33**





Al-Shall Index

From June 28, 2018 to July 05, 2018

	Company Name	Thu 05/07/2018	Thu 28/06/2018	Diff %	Close 2017	Diff %
1	National Bank Of Kuwait	492.0	466.2	5.5	429.7	14.5
2	Gulf Bank	195.0	192.6	1.2	193.4	0.8
3	Commercial Bank Of Kuwait	503.6	501.6	0.4	375.3	34.2
4	Al-Ahli Bank Of Kuwait	222.0	218.7	1.5	189.9	16.9
5	Kuwait International Bank	247.0	234.5	5.3	237.6	4.0
6	Ahli United Bank	285.6	284.6	0.4	331.9	(13.9)
7	Burgan Bank	276.4	271.1	2.0	299.9	(7.8)
8	Kuwait Finance Bank	1582.8	1446.6	9.4	1401.1	13.0
	Banking Sector	**480.6**	**456.3**	**5.3**	**430.2**	**11.7**
9	Commercial Facilities Company	122.7	118.4	3.6	122.7	0.0
10	International Financial Advisors	210.7	210.7	0.0	234.2	(10.0)
11	National Investments Company	117.7	113.4	3.8	123.3	(4.5)
12	Kuwait Projects Company (Holding)	580.3	582.6	(0.4)	746.5	(22.3)
13	Coast Investment & Devpt Company	45.8	46.3	(1.1)	44.4	3.2
	Investment Sector	**205.4**	**203.6**	**0.9**	**240.8**	**(14.7)**
14	Kuwait Insurance Company	65.0	62.8	3.5	60.6	7.3
15	Gulf Insurance Company	367.8	367.8	0.0	469.9	(21.7)
16	Al-Ahleia Insurance Company	154.7	151.3	2.2	174.6	(11.4)
17	Warba Insurance Company	51.0	49.2	3.7	52.8	(3.4)
	Insurance Sector	**137.8**	**135.7**	**1.5**	**158.1**	**(12.8)**
18	Kuwait Real Estate Company	82.1	81.2	1.1	92.1	(10.9)
19	United Realty Company	129.5	130.3	(0.6)	163.2	(20.6)
20	National Real Estate Company	300.2	272.4	10.2	282.1	6.4
21	Salhiah Real Estate Company	1332.5	1356.7	(1.8)	1429.4	(6.8)
	Real Estate Sector	**188.6**	**183.2**	**2.9**	**198.3**	**(4.9)**
22	The National Industries	147.4	141.2	4.4	134.0	10.0
23	Refrigeration Industries Co	603.0	610.5	(1.2)	708.5	(14.9)
24	Gulf Cable & Electrical Industries	155.5	150.3	3.5	167.5	(7.2)
	Industrial Sector	**187.1**	**184.6**	**1.4**	**198.1**	**(5.6)**
25	Kuwait National Cinemas	656.0	656.0	0.0	816.0	(19.6)
26	The Public Warehousing Co	3748.9	3516.8	6.6	3112.5	20.4
27	Mobile Telecommunications Co (ZAIN)	740.9	619.2	19.7	616.0	20.3
28	Safat Energy Co	29.4	29.2	0.7	11.3	160.2
	Services Sector	**1157.9**	**1047.9**	**10.5**	**991.1**	**16.8**
29	Livestock Transport & Trading Co	155.0	166.7	(7.0)	190.8	(18.8)
30	Danah Aalsafat Foodstuff Company	50.5	48.1	5.0	70.1	(28.0)
31	Kuwait Food Co	1122.3	1122.3	0.0	2561.9	(56.2)
	Food Sector	**457.0**	**459.5**	**(0.5)**	**421.4**	**8.4**
31	Sharjah Cement Co	329.1	316.6	3.9	375.0	(12.2)
32	Gulf Cement Co	306.4	322.6	(5.0)	322.6	(5.0)
33	Umm Al-Qaiwain Cement Industries	537.1	569.5	(5.7)	588.6	(8.7)
	Non Kuwaiti Companies	**218.8**	**221.6**	**(1.3)**	**230.2**	**(5.0)**
	General Index	**421.8**	**401.0**	**5.2**	**387.0**	**9.0**