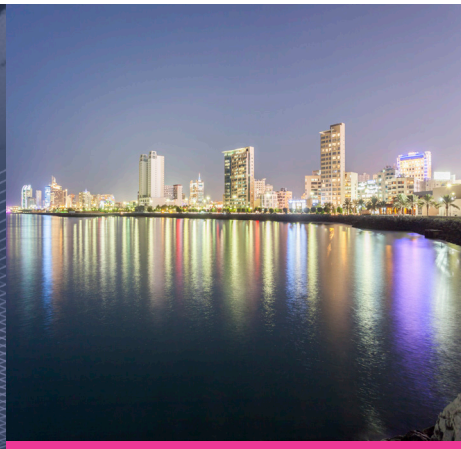
January 2016

Oil prices close 2015 at new lows, weighing on equities; October credit growth improves to 6.6%; November real estate sales see best level in months



An update of recent developments in select sectors in Kuwait published by Economic Research at NBK

Kuwait **Economic** Brief

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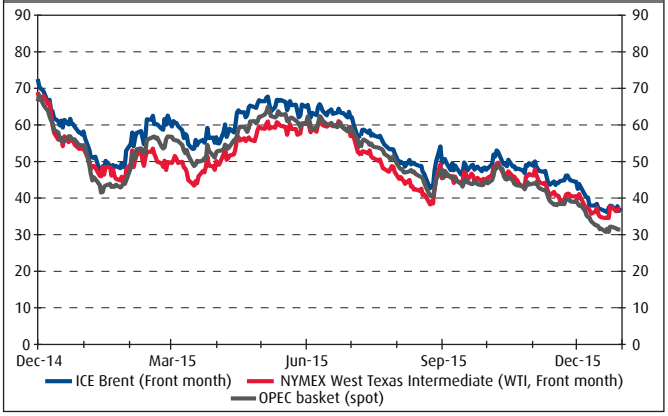
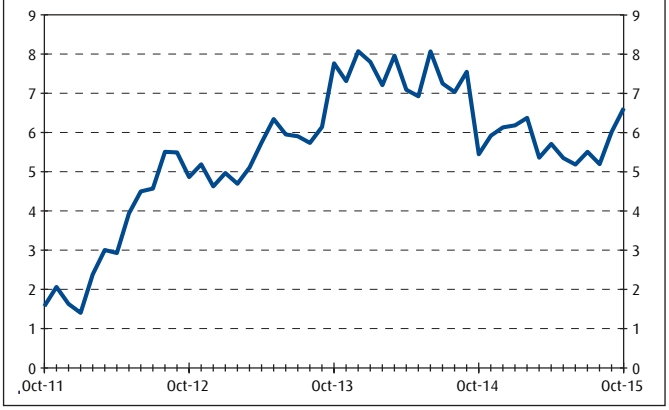
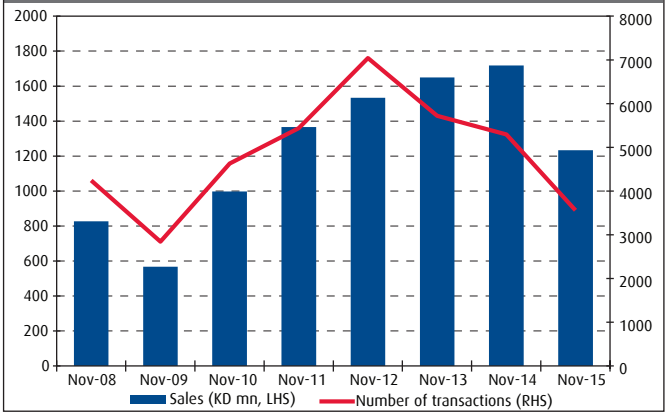
CRUDE OIL PRICES, $/BBL



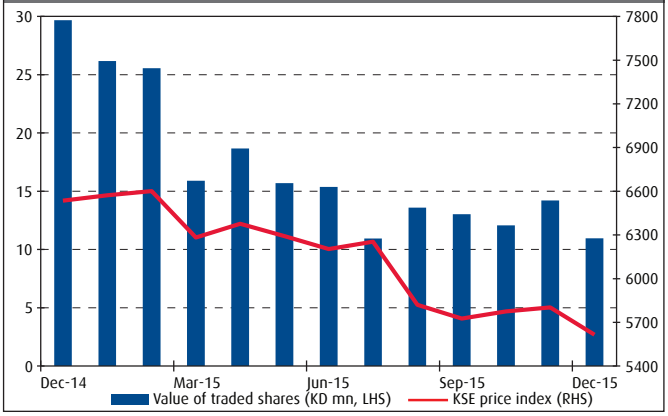
CREDIT FACILITIES, Y/Y PERCENT GROWTH



RESIDENTIAL REAL ESTATE YTD



KUWAIT STOCK EXCHANGE



Oil Markets

Oil prices close 2015 near 11-year lows; supply glut to extend into late 2016

- Brent and WTI closed the year at $37/bbl, just off 11-year lows.
- Prices were pressured by a combination of persistent over-supply, slowing demand growth, continued stock builds and a stronger US dollar; OPEC's decision not to rein in output was another factor.
- The IEA expects world oil demand growth to slow in 2016, from 1.8 mb/d in 2015 to 1.2 mb/d, on weaker global economic growth.
- OPEC crude oil production in November reached a 7-year high of 31.7 mb/d on surging output from Iraq.
- Non-OPEC supply is forecast to contract in 2016 by -0.6 mb/d, as low oil prices force higher cost producers to pare back production.

Oil prices close 2015 near 11-year lows, down more than 30% y/y as supply glut projected to extend into late 2016

As 2015 came to an end, oil prices hovered near 11-year lows at $37.0 per barrel (bbl), weighed down by a combination of unremitting crude supply, continued stock builds, a weaker economic backdrop and a stronger US dollar. OPEC's decision in early December to keep producing at will was also another important source of downward pressure. Absent a price floor, ICE Brent crude, the international marker, actually fell to an 11-year low on 22 December when it closed at $36.1; July 2004 was the last time that prices were at this level.

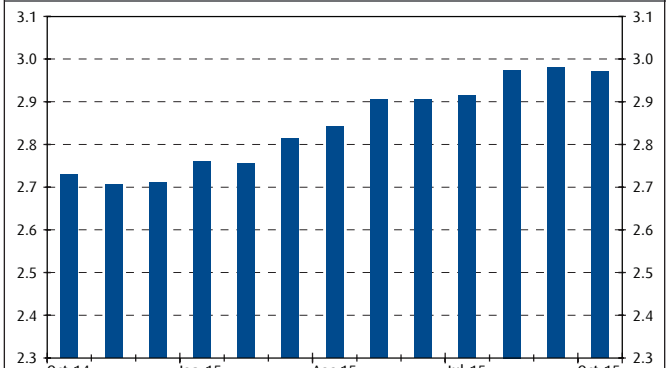
Moreover, Brent also traded below West Texas Intermediate (WTI), the US benchmark, for the first time in more than five years. The difference or spread between the two crude markers has gradually narrowed over the course of 2015, from a peak of more than $12/bbl in late February to parity and then a slight increase in favor of WTI. The narrower spread and then reversal in December are a reflection of the lifting of the 40-year old US crude export ban, stronger US demand and an uptick in North Sea crude output.

2015 was the third year in a row of declining oil prices; Brent declined by 35% y/y and WTI by 30.5% y/y. While the price decline in 2015 was smaller than the 49% drop witnessed in 2014, market sentiment going into 2016 is bearish amid at least 1 million barrels per day (mb/d) of excess supply; Iran's expected return to international markets in 2016 is only likely to exacerbate this glut.

Indeed, according to the International Energy agency (IEA), the surplus is likely to persist until late 2016. The IEA expects the buildup of global crude stocks to continue this year, with another 300 million barrels, or roughly 10% of current inventory levels, expected to fill storage tanks before year-end. Storage limits are not likely to be reached in 2016, according to the agency, due to the likelihood of additional capacity coming on line this year. The rate of stock buildup is projected to slow down, however, to about half its pace in 2015. OECD commercial crude and product stocks drew down for the first time in seven months in October, to 2.97 billion barrels, as refining activity moderated due to the onset of the autumn refinery maintenance period. Product stocks provided 31.7 days of forward cover, down slightly compared to September, though still 2.1 days above a year earlier.

Looking out to 2020, the Brent forward curve shows the price of Brent crude ranging up to $57.2/bbl, with the slope remaining in contango over this period (where prices for

OECD COMMERCIAL CRUDE STOCKS, BILLION BARRELS

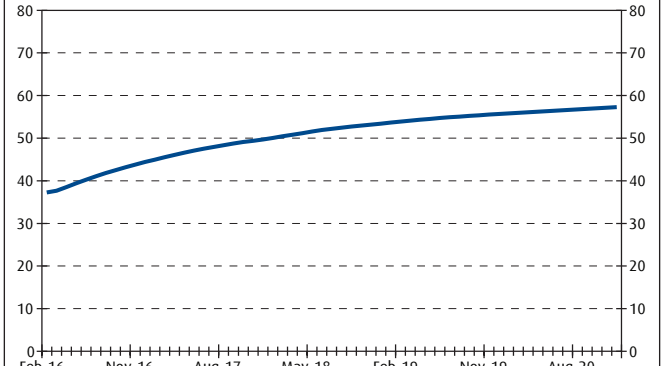


Source: International Energy Agency (IEA)

BRENT-WTI SPREAD, $/BBL

Source: Thomson Reuters Datastream

BRENT FORWARD CURVE, $/BBL



Source: Thomson Reuters Datastream

prompt delivery are lower than for later delivery). Despite concerns over dwindling crude storage capacity, the spread between the front-month price and the 12-month price remained consistent, at around $7/bbl, during December. Hedge funds, meanwhile, ended the year staking record numbers of short positions on the expectation that prices would fall rather than rise. Total short positions reached 360 million barrels, which is the equivalent of four days of global oil demand.

Demand growth to moderate in 2016 on weaker economic growth after reaching a 5-year high in 2015

The IEA estimates that world oil demand growth will slow back down to its long term average of 1.2 mb/d in 2016, having likely peaked in 2015 at a five-year high of 1.8 mb/d. This comes as the stimulus of lower oil prices on crude oil demand appears to be subsiding. Preliminary demand data for the fourth quarter of 2015 (4Q15) pointed to outright declines in several OECD countries including the US, Japan, France and Germany.

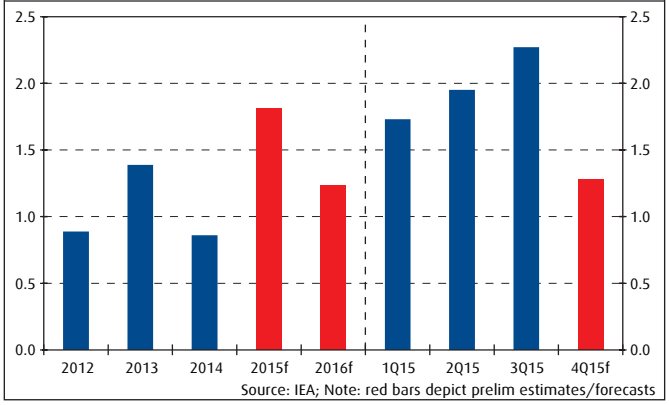
The demand slowdown is likely to continue into 2016 in the context of a number of factors including a warmer-than-expected winter in the northern hemisphere, slowing global economic growth and a tighter monetary environment. The International Monetary Fund (IMF) has already noted, in its October World Economic Outlook, that growth in emerging markets, and emerging market commodity exporters especially, will be vulnerable to the effects of the rise in US interest rates and a further strengthening of the US dollar.

OPEC production hits a post-financial crisis high in November on surging Iraqi output

On the supply side, OPEC producers continued to defy low oil prices in November, by increasing output to a post-financial crisis high of 31.7 mb/d, according to OPEC secondary sources. Total output stood 280,000 b/d higher than in October and a significant 1.6 mb/d higher than a year earlier, with Iraq and Saudi Arabia posting the largest year-on-year gains of 0.9 mb/d and 0.5 mb/d, respectively. November is the ninth consecutive month that output has exceeded the group's 30 mb/d target. The ceiling itself, which has been in place since January 2012, was effectively abandoned at the OPEC meeting on 4 December when the group, led by Saudi Arabia, decided against curtailing output. Once again, the group was unwilling to attempt to set a floor to oil prices, or to make provisions for Iran's likely return to the oil markets in 2016.

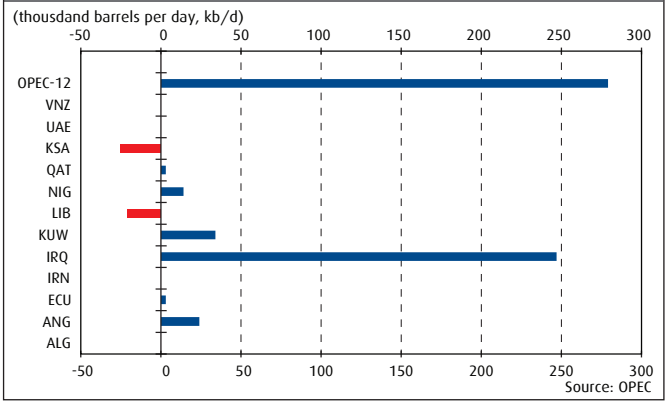
November's production figure for Saudi Arabia, OPEC's largest producer, continued to show the kingdom pumping at an elevated level of 10.1 mb/d, though it continued to retreat. This is the ninth consecutive month that Saudi production has topped 10 mb/d, and comes in response to buoyant export demand from the Far East especially.

WORLD OIL DEMAND GROWTH, MB/D



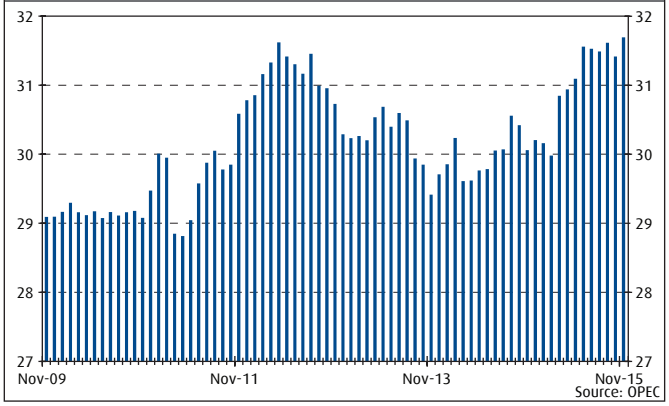
Source: IEA; Note: red bars depict prelim estimates/forecasts

OPEC PRODUCTION CHANGE IN NOVEMBER



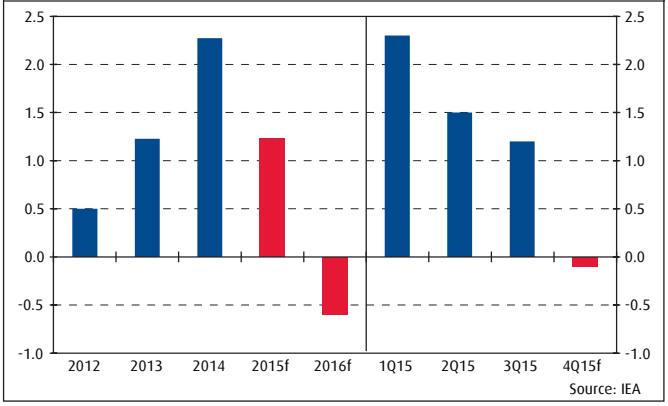
Source: OPEC

OPEC CRUDE PRODUCTION, MB/D



Source: OPEC

NON-OPEC SUPPLY GROWTH, MB/D



Source: IEA

Iraqi output, meanwhile, surged to an all-time high of 4.3 mb/d in November. Exports from both the south of the country and the north via the Kurdistan Regional Government's (KRG) pipelines are running at record levels. Production gains in 2016, however, may not be as forthcoming, since output is running close to capacity and the investment budgets of both the KRG and the federal government in Baghdad look likely to be cut amid increasing financial strain. Moreover, the KRG has reportedly cut its allocation to Iraq's State Oil Marketing Organization (SOMO) in a continuing dispute with Baghdad over budget payments and export rights.

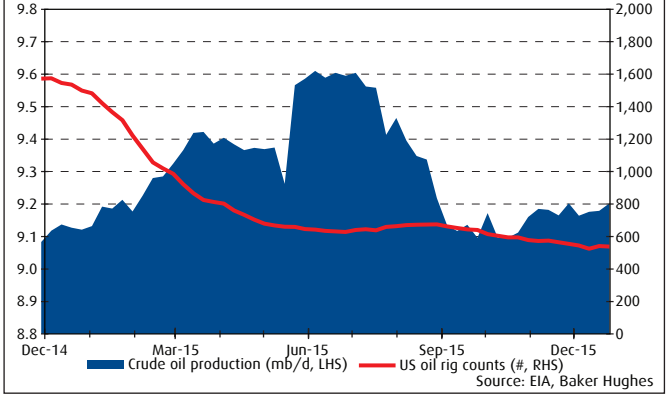
Kuwait was the only other Arab OPEC member to raise output in November. With scheduled maintenance at a crude oil gathering center completed, Kuwait was able to increase production by 30,000 b/d to 2.7 mb/d. The country is investing heavily in its oil infrastructure in order to boost sustainable production capacity, from just over 3.0 mb/d to 4.0 mb/d, by 2020. Restarting stalled production from the shared Neutral Zone will need to figure in the country's calculations. Kuwait and Saudi Arabia share ownership of the estimated 500,000 b/d of Neutral Zone oil output capacity.

2016 is likely to be a significant year for Iran, with the Islamic Republic expected to ramp up oil production, by 500,000 b/d, immediately once international sanctions are lifted (assuming Iran's compliance) sometime in 1Q16. The Iranian authorities are confident that they could bring an additional 500,000 b/d by year's end, although that figure is deemed too optimistic by most observers.

Non-OPEC supply set to contract in 2016 as low oil prices drive out higher cost producers

Preliminary estimates of non-OPEC supply in 4Q15 show annual growth slowing considerably to register a small 0.1 mb/d decline, following a 1.2 mb/d increase in 3Q15. For 2016 as a whole, the IEA is forecasting non-OPEC supply to contract by -0.6 mb/d, from an estimated 1.3 mb/d in 2015, to 57.7 mb/d.

US CRUDE PRODUCTION AND OIL RIGS



Source: EIA, Baker Hughes

A large part of the projected decline is due to falling US output, and specifically, light tight oil production (LTO), or shale, which, due to its higher cost structure, has generally been more sensitive to falling oil prices than conventional oil production. Since US output reached a peak of 9.6 mb/d in early June, production has fallen by at least 68,000 b/d each month, or 408,000 b/d in total. As of 25 December, US output was back down to 9.2 mb/d—close to where it had started the year.

As 2016 kicks off amid slowing oil demand growth and persistent oversupply, markets will be waiting expectantly for the first sign of significant cuts to crude output. With OPEC sticking to its 'market share over price' strategy, those potential cuts will have to come from the US and other non-OPEC producers.

Monetary Developments

Credit growth at 6.6% in Oct; CBK raises discount rate by 25 bps

Credit saw a small decrease of KD 22 million in October on the heels of an exceptionally large increase the month before (KD 692 mn). Despite the small decline, credit growth still rose to 6.6% year-on-year (y/y), the most rapid pace in over a year. A large decline in lending for securities weighed on the October figure. Meanwhile, household borrowing recorded a good gain, while business credit did relatively well. Deposits resumed their month-on-month declines following one positive month in September.

The Central Bank of Kuwait (CBK) increased its key policy rate in December following the much anticipated policy rate hike by the US Federal Reserve. The CBK increased its discount rate by 25 basis points (bps) to 2.25%; the rate had remained unchanged at 2% for over three years. The increase will see some bank lending rates rise as a result. Interbank rates have already been rising in anticipation and as bank liquidity came under some pressure. Deposit and interbank rates remained relatively steady during October, though the data did reflect the start of a pickup in interbank rates that continued into December.

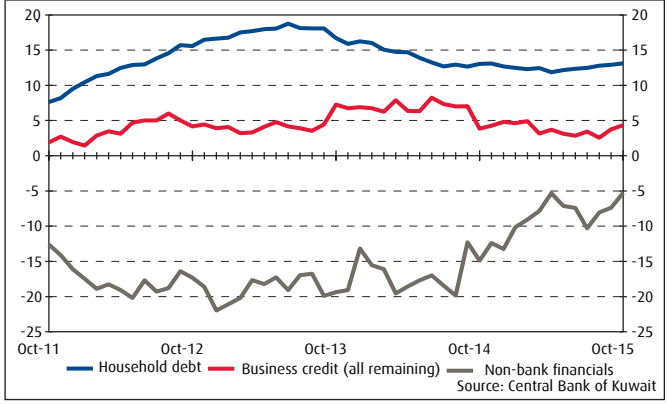
Household debt saw an average sized gain in October of KD 107 million, with growth accelerating to 13.1% y/y. Installment loans (primarily housing) continued to be the sole source of growth, with growth there accelerating to 16.2%. Consumer loans (car, etc.), on the other hand, saw a small decrease in October and registered a 0.2% decline y/y.

Non-bank financial companies resumed their net reduction of bank credit, with a decline of KD 27 million. Still, the sector's pace of deleveraging has been easing, dropping to 5.3% y/y in October. It is now less than half its size at its height, back in 2009.

All remaining credit declined by KD 101 million, though growth rose to 4.3% y/y thanks to a basis effect. The monthly decline was due to a large KD 189 million drop in lending for the purchase of securities. Other sectors did relatively well, adding around KD 89 million. This came largely from industry, real estate and construction.

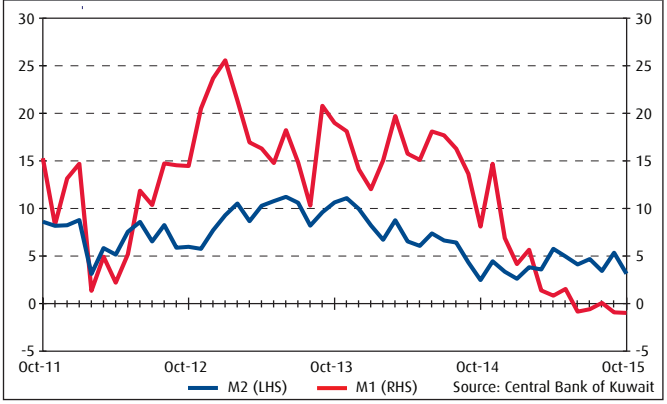
Private deposits resumed their decline in October, registering a relatively large drop of KD 776 million. As a result, money supply (M2) growth eased to 3.1% y/y, while narrower money supply (M1) remained down by 1.0% y/y. Deposits have declined in four of the last five months, with September the only exception. During the period from May through October, deposits shrank by KD 1.7 billion, or 4.8%. The decline in deposits during October was largely in KD sight deposits (-KD 323 million) and foreign currency deposits (-KD 407 million).

CREDIT COMPONENTS, % Y/Y GROWTH



Source: Central Bank of Kuwait

MONEY SUPPLY, % Y/Y GROWTH

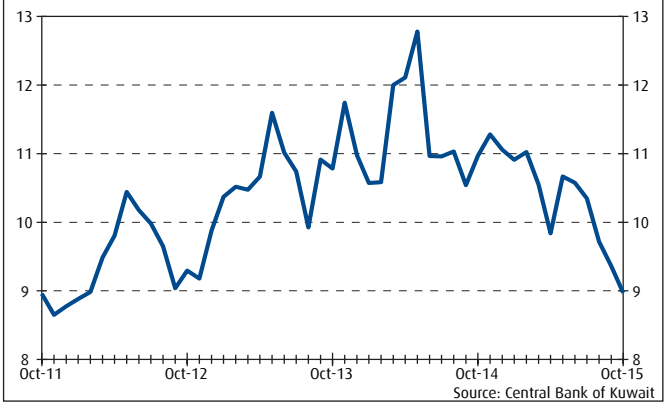


Source: Central Bank of Kuwait

MONETARY HIGHLIGHTS

	Oct- 2015	Change m/m	Change 3-mnth	Change y/y
	KD mn	%	%	%
Local Bank Assets	**56,374**	**-1.1**	**-0.9**	**4.6**
of which:				
Claims on Government	1,580	0.0	0.2	1.2
Credit to Residents	32,389	-0.1	2.4	6.6
Foreign Assets	12,150	1.2	-0.3	11.5
Money Supply (M2)	**33,926**	**-2.4**	**3.7**	**3.1**
Private Deposits	32,529	-2.3	-3.5	3.5
KD Sight Deposits	7,635	-4.1	-4.6	-0.1
KD Savings Deposits	4,672	-0.4	-4.0	-4.5
KD Time Deposits & CDs	16,787	-0.2	0.5	2.3
FC Deposits	3,436	-10.6	-16.9	38.6

BANK LIQUID RESERVES, % OF BANK ASSETS



Source: Central Bank of Kuwait

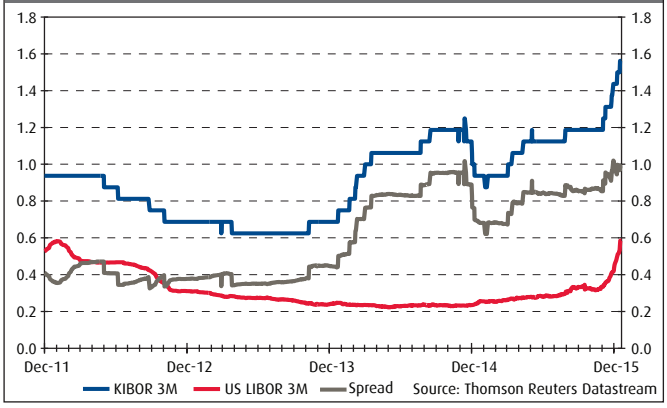
Government deposits have helped offset some of the decline in private sector deposits in recent months. Government deposits with domestic banks rose by KD 219 million in October and were up by KD 527 million since July 2015. The ratio of government deposits to bank assets rose from 9% in July 2015 to 10% in October, which is where it stood a year ago.

System liquidity is still relatively comfortable, though it has come under some pressure recently. Banks' core liquid assets (which include cash and deposits with the CBK, as well as CBK bonds) stood at KD 5.1 billion in October 2015, or 9.0% of total bank assets, down from 10-11% before the summer.

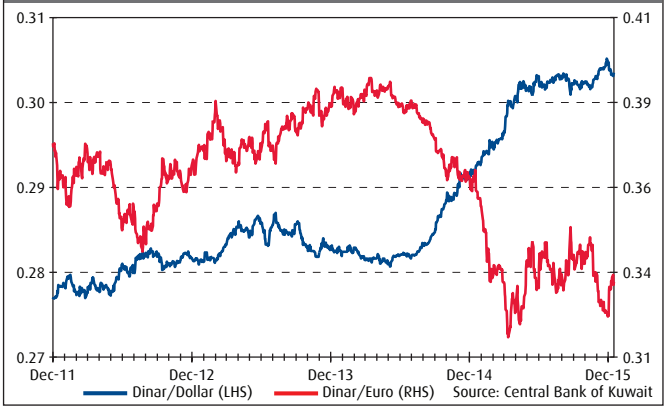
Dinar interbank rates have been moving upward as liquidity tightened and in anticipation of the Fed hike. The 3-month rate was steady at 1.31% in October, though it was up 26 basis points year-to-date. The rate has risen further since, recording a gain of more 60 bps ytd by late December 2015, rising to 1.56%.

Customer interest rates on dinar time deposits were relatively steady in October. Average rates on the 1-month, 3-month and 6-month time deposits saw a decline of a basis point each to settle at 0.61%, 0.78%, and 1.00%, while 12-month rates added 12 bps to reach 1.24%.

INTERBANK RATES, %



EXCHANGE RATES



Trade

Trade balance retreats in 3Q15, but maintains a healthy surplus

Kuwait's trade surplus narrowed in 3Q15 on the back of lower oil revenues. However, the surplus remains relatively healthy at 17% of GDP. The surplus slipped to KD 1.8 billion in the third quarter of 2015 as lower oil prices continued to weigh down on revenues. The trade surplus is expected to shrink still further in 4Q15 on weaker oil prices.

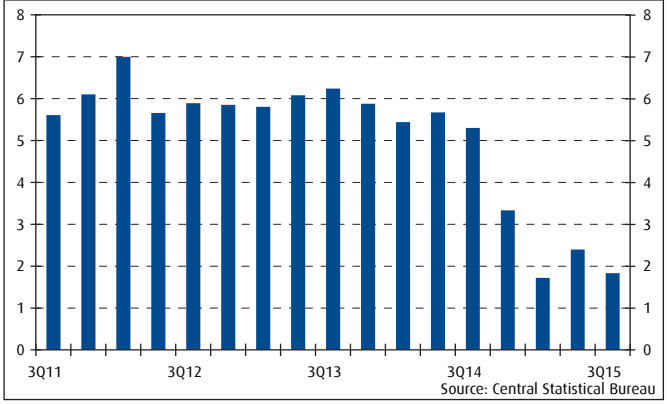
Oil export revenues fell from KD 4.3 billion in 2Q15 to KD 3.7 billion in 3Q15 as oil prices edged lower. Kuwait export crude (KEC) slid from an average of $58 per barrel in 2Q15 to $47 per barrel in 3Q15. As a result of the lower oil price, oil export receipts have declined by 48% year-on-year (y/y). We expect oil revenues to come in lower in the coming quarters as downward pressures on oil prices persist. KEC averaged $38 per barrel in 4Q15.

Growth in non-oil exports declined further in 3Q15, falling by 8% y/y. Non-oil export growth was driven lower by a drop in ethylene prices and a stronger Kuwaiti dinar against most major currencies (with the exception of the US dollar). Relative to the previous quarter, ethylene prices were down 10%. The dinar index (reflecting the currency's trade-weighted price) rose by 2.4% in 3Q15. Non-oil exports are expected to maintain their downward trend in the near-to-medium term, amid still softer ethylene prices.

Import growth witnessed a marked slowdown in 3Q15, though this is likely to be a temporary softening. Growth in imports slowed from 9.7% y/y in 2Q15 to 1.4% y/y in 3Q15. The slowdown in imports in 3Q15 may be a one-off, after having witnessed robust growth rates over the past year.

Despite the slowdown in imports, growth in capital goods imports, a bellwether of growth in aggregate investment in the economy, remained strong. Capital goods imports rose by 18.5% y/y in 3Q15, pointing to healthy levels of investment spending in the quarters ahead. This is in line with our outlook for aggregate investment in the economy that is being boosted by the improving implementation of the government's development projects. Meanwhile, growth in transport and consumer goods imports were weaker in 3Q15.

BALANCE OF TRADE IN GOODS, KD BILLION



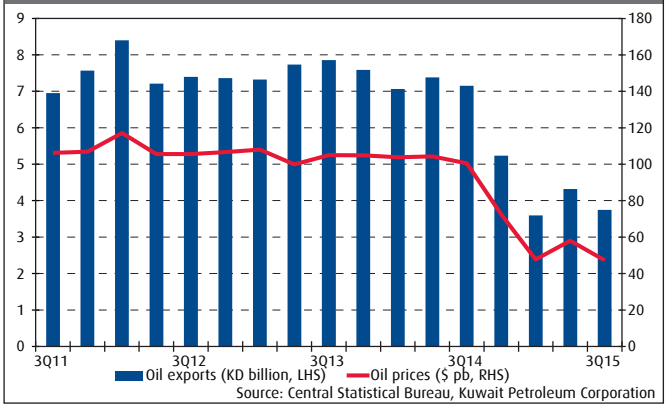
Source: Central Statistical Bureau

FOREIGN TRADE, KD MILLION

	1Q15	2Q15	3Q15	q/q	% y/y
Total exports	**4,064**	**4,842**	**4,171**	**-672**	**-45.2**
Oil	3,594	4,319	3,747	-572	-47.6
Non-oil	311	337	311	-26	-8.0
Re-exports	159	186	113	-73	-4.0
Imports	**2,342**	**2,442**	**2,335**	**-107**	**1.4**
Capital goods	545	537	528	-9	18.5
Trade balance	**1,722**	**2,401**	**1,836**	**-565**	**-65.4**

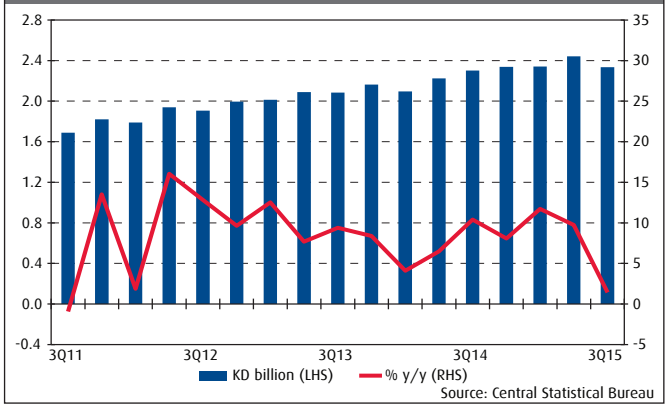
Source: Central Statistical Bureau

OIL EXPORTS



Source: Central Statistical Bureau, Kuwait Petroleum Corporation

IMPORTS



Source: Central Statistical Bureau

Consumer Price Inflation

Inflation a tick higher at 3.2% in October; expected at 3.4% in 2015

Inflation in consumer prices was just a tick higher in October, rising from 3.1% year-on-year (y/y) in September to 3.2% y/y. Inflation across most components remained broadly stable; clothing & footwear inflation appears to have gained the most momentum on a month-on-month basis. Core inflation (which excludes food items) also saw a slight uptick, rising from 2.8% y/y to 2.9%. Food price inflation came in slightly lower against a backdrop of declining global prices. With inflation in most components set to remain in-check until the end of 2015, we expect annual inflation to average close to 3.4% in 2015, before easing to 3% in 2016.

Inflation in local food prices slowed slightly from 4.4% y/y in September to 4.3% in October, as global food prices continued to decline. According to the Commodity Research Bureau's global commodity index, international food prices fell by around 13% y/y in October. Given the ongoing weakness in international food inflation, we expect upward pressures on local food inflation to be limited in the near-to-medium term.

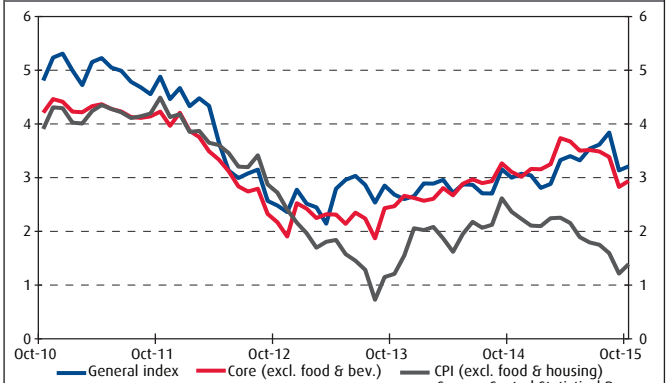
Inflation in housing services was unchanged from September's 5.7% y/y reading. Inflation in this segment (a bulk of which is made up of housing rents) witnessed strong gains over the past year, particularly in 4Q14 and 1Q15. It appears to have peaked in 2Q15 and we may see it continue to recede over the following months.

Inflation in furnishings & household maintenance continued to ease and clothing & footwear prices remained in decline. Inflation in furnishings & household maintenance came in marginally lower in October, at 2.5% y/y. Clothing & footwear inflation appears to have bottomed out; nonetheless prices in this segment continued to decline for the seventh consecutive month. Inflation in clothing & footwear costs is seeing a large correction, following a high base around the same period last year. The stronger dinar has helped keep inflationary pressures in this segment down, especially as most items are imported.

Inflation in the 'other goods & services' segment also maintained its downward trend in October. Inflation in this segment, which includes prices of personal care products and jewelry and certain business charges, continues to see a downward correction. Given that a bulk of the items in this component is imported, the slowdown can also be explained by the stronger dinar.

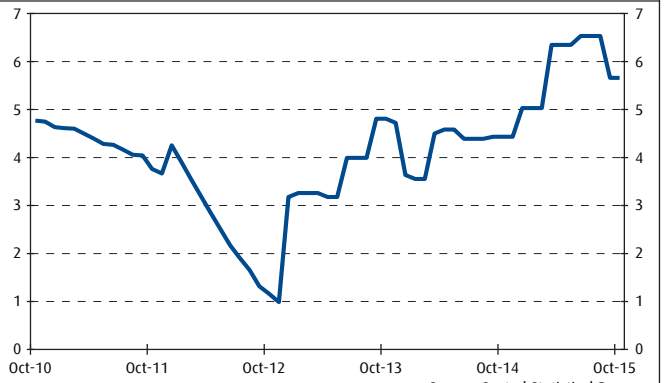
Wholesale price inflation eased in the third quarter of this year, mainly as upward inflationary pressures from its manufacturing component subsided. Inflation in the wholesale price index (WPI), updated quarterly, fell from 3.4% y/y in June (its last update) to 2.6% in September,

CONSUMER PRICE INFLATION, % Y/Y



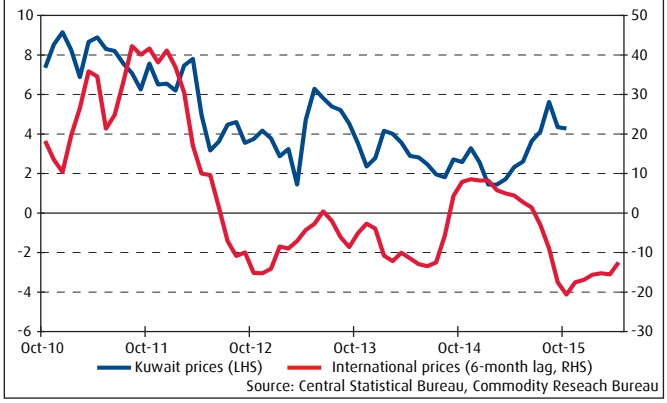
Source: Central Statistical Bureau

INFLATION IN HOUSING SERVICES, % Y/Y



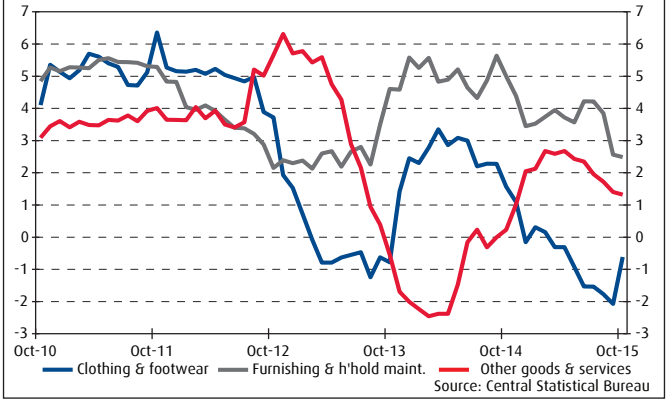
Source: Central Statistical Bureau

INFLATION IN FOOD PRICES, % Y/Y



Source: Central Statistical Bureau, Commodity Reseach Bureau

INFLATION IN OTHER SECTORS, % Y/Y

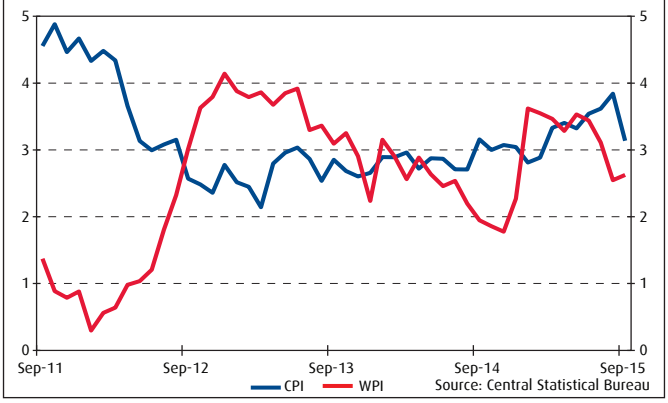


Source: Central Statistical Bureau

as a slowdown in inflation in manufacturing was offset by inflationary gains in agriculture, livestock & fishing, and mining & quarrying. The agriculture, livestock & fishing component gained some ground in 3Q15 on the back of a hike in fish & seafood prices during the same period. However, inflation in this segment is forecast to subside in 4Q15 after fish & seafood prices were lowered.

Inflation in the WPI is forecast to be moderate in the near-to-medium term. This will help keep inflation in the consumer price index in check and lead to an annual average close to our 3.4% forecast in 2015.

WHOLESALE & CONSUMER PRICE INFLATION, % Y/Y



CONSUMER PRICE INFLATION, %

	Month Change		Year-on-year		Annual Avg.	
	Sep-15	Oct-15	Sep-15	Oct-15	2013	2014
Food & beverages	-0.4	0.0	4.4	4.3	4.0	2.9
Tobacco & cigarettes	0.1	0.1	1.7	1.5	7.1	7.8
Clothing & footwear	0.0	0.9	-2.1	-0.6	-0.1	2.2
Housing services*	0.0	0.0	5.7	5.7	3.8	4.4
Furnishing & h'hold maint.	0.7	0.1	2.6	2.5	3.2	4.8
Healthcare	0.2	0.1	1.6	1.3	1.2	-0.6
Transportation	-0.2	0.0	0.2	0.1	1.3	1.5
Communication	0.0	0.0	0.8	0.8	0.0	-0.8
Recreation & culture	0.7	-0.2	-0.3	-0.5	1.9	0.9
Education	1.7	0.0	2.7	2.7	0.8	4.7
Restaurants & hotels	1.7	0.1	7.0	7.1	0.5	3.1
Other goods & serv.	-0.2	0.1	1.4	1.3	2.3	-0.7
Core**	**0.3**	**0.1**	**2.8**	**2.9**	**2.3**	**2.9**
General Index	**0.1**	**0.1**	**3.1**	**3.2**	**2.7**	**2.9**

Source: Central Statistical Bureau
*Updated once every quarter
**Excludes food & beverages; estimated by NBK

Public Finance

Government spending in line with budget projections

The interim public finance figures for the first eight months of fiscal year 2015/16 (FY15/16) point to a decline in government spending, as the price of oil fell to a seven-year low. However, despite the decline in overall spending, wages & salaries and capital spending still rose. The latter continued to reflect an accelerated pace of project execution. Meanwhile, nonoil revenues remained well below their 5-year average. The government recorded a preliminary deficit of KD 1.9 billion during the period before the transfer to the Reserve Fund for Future Generations (RFFG). We estimate FY15/16 will close with a deficit of KD 3.9 billion or 9.8% of GDP.

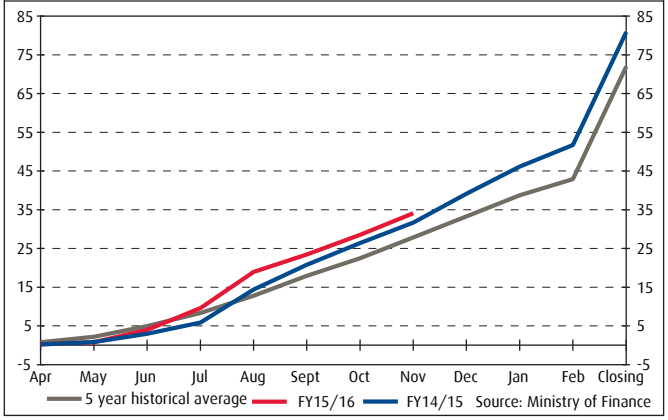
As of November, reported government spending stood at KD 6.6 billion fiscal-year-to-date (fytd); this figure was 22% lower than during the same period last year. However, at 35% of the FY15/16 budget, the spending rate is slightly lower than the five-year November average of 37%. Actual spending was even higher at KD 11.2 billion according to new data being published by the Ministry of Finance on actual withdrawals made from the government accounts at the Central Bank of Kuwait. This accounting difference is related to delays in reporting expenditures by some ministries. Also, the government has payments due of KD 1.14 billion to the Ministry of Electricity and Water (MEW) and the Public Institute for Social Security (PIFSS).

Current spending, the bulk of total spending, came in at KD 5.8 billion fytd, down 25% y/y. The decline in current spending was driven mainly by the 'miscellaneous expenditures & transfers' chapter, which includes military salaries and transfers to PIFSS. Wages & salaries stood at KD 2.4 billion fytd, up 9% y/y. Miscellaneous expenditures & transfers came in at KD 3.1 billion fytd, down 28% year-on-year (y/y), mainly due to a significant drop in support to refined products and LNG. Goods & services (Chapter 2) stood at KD 0.4 billion fytd, down by 72% y/y as spending on fuel for electricity and water (MEW) declined by 88% y/y.

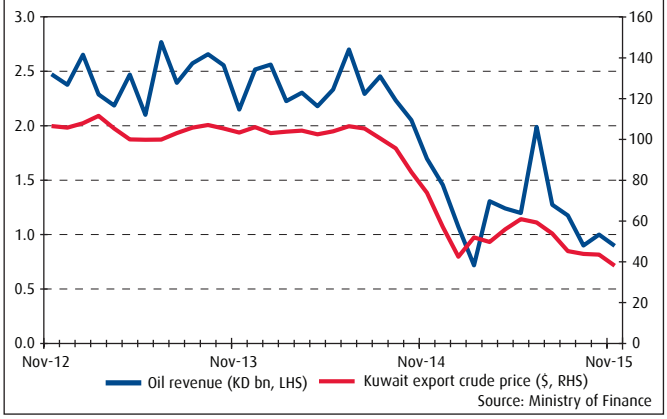
Capital spending rose by 11% y/y to KD 0.8 billion fytd. Capital spending is currently at 34% of the full-year budget, compared to the five-year average of 28%. This reflects the government's commitment to the strategic projects of the development plan. Spending on projects, maintenance & land purchases (chapter 4) reached KD 740 million, up by 8.5% y/y. The Ministry of Electricity and Water (MEW) and Ministry of Public Works recorded the highest ratios of spending to budget in Chapter 4, at 41% and 48%, respectively.

Total government revenues were KD 10.4 billion in the eight months, down 45% y/y. Both oil and non-oil revenues witnessed significant declines, recording drops of 46% and 32% y/y, respectively. Oil revenues remain low as oil prices fell to a seven-year low and below last year's average. The Kuwait export crude (KEC) price averaged $50 per barrel during the first eight months of FY15/16 and $38.2 in November. Oil prices are likely to remain subdued for the remaining months of the fiscal year; still, we expect oil revenues to reach KD 12.9 billion by the end of the fiscal year, surpassing the government's official projections by 20%.

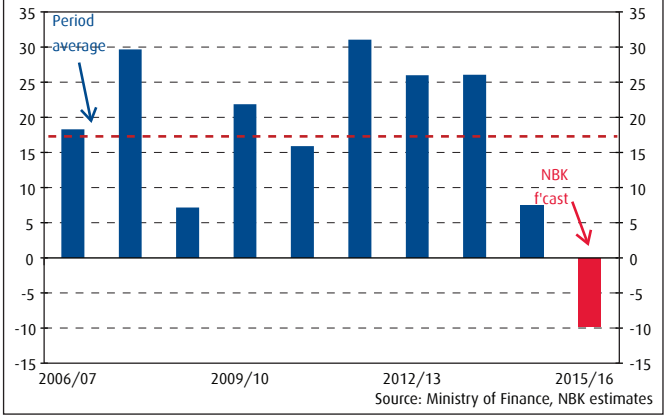
CAPITAL SPENDING, % OF FULL-YEAR BUDGET



MONTHLY OIL REVENUES AND PRICES



BUDGET BALANCE, % OF GDP



Non-oil revenues were also weaker mainly due to the postponement of payments from the UN Compensation Commission (UNCC). Because of that, nonoil revenues were down 32%. The UNCC still owes Kuwait KD 1.4 billion, but payments have been postponed until early 2017. During FY14/2015, Kuwait received KD 1.1 billion in UNCC payments; the latest payment was in March 2015.

GOVERNMENT REVENUES AND EXPENDITURES

	Actual (8 months)			8 months: actual to full-year budget	
	FY15/16	FY14/15		FY15/16	Average[1]
	KD bn	KD bn	% y/y	%	%
Revenues	**10.4**	**19.0**	**-45.2**	**85.3**	**128.3**
Oil	9.7	17.9	-46.1	90.0	132.0
Non-oil	0.7	1.1	-31.5	50.9	91.6
Expenditures	**6.6**	**8.5**	**-21.7**	**34.7**	**37.2**
Wages	2.4	2.2	9.4	44.1	38.8
Goods & services	0.4	1.3	-71.9	14.4	35.7
Vehicles & equipment	0.07	0.05	42.2	22.9	15.3
Projects, maint. & land	0.7	0.7	8.5	35.6	29.9
Miscellaneous & transfers	3.1	4.3	-27.5	35.0	39.5
Balance	**3.8**	**10.5**	-	-	-
After RFFG	2.7	5.8	-		
Actual expenditures*	**11.2**	-	-	-	-
Unclassified expenditures	4.6	-	-	-	-
Deferred payments	**1.1**	-	-	-	-
Ministry of Electricity & Water	0.5	-	-	-	-
Public Institute for Social Security	0.6	-	-	-	-
Actual balance	**-1.9**	-	-	-	-
Note:					
Current expenditures[2]	5.8	7.8	24.8	34.7	37.0
Capital expenditures	0.8	0.7	10.7	34.1	27.9
Oil production (mbpd)	2.85	2.86	-0.3	-	-
Oil prices ($/bbl, KEC)	50.1	96.6	-48.1	-	-

Source: Ministry of Finance, Kuwait Petroleum Company (KPC), NBK estimates

[1] 5-year average for comparable period.

[2] Includes the wages & salaries, goods & services, and miscellaneous & transfers categories.

* Withdrawals made from government accounts at the Central Bank of Kuwait.

Real Estate

November real estate sales improve, best levels in four months

Sales improved in November 2015 posting their best levels, across sectors, in four months, or since the summer. However so far this year, as of November, total real estate sales reached KD 2.8 billion, down 29% from the same period last year. Prices action remains soft with most of the price indices logging negative annual growth; the exception was the residential land price index which was supported by a strong performance this month.

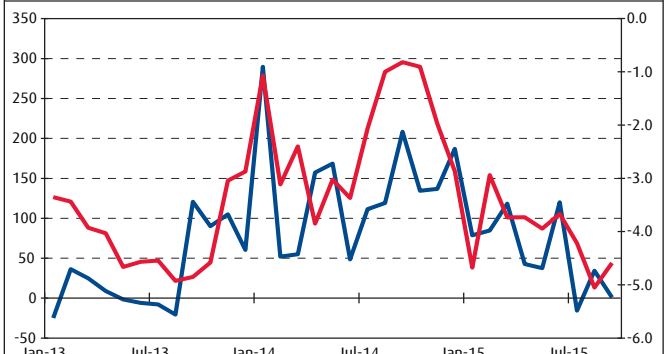
Total residential sales reached KD 1,233 million in 2015 year-to-date (ytd) and KD 95.1 million in November. KD volumes and number of units sold ytd were both down 28% and 33%, respectively, compared to the same period last year. Plots made up 45% of residential transactions in November, well below the 64% average recorded in 2014, likely reflecting a decline in speculative activity in the residential land sector as well as a decline in the distribution of vacant plots in Sabah Al-Ahmed City, which accounted for 50% of all residential transactions in 2014.

Sales in the investment sector (mostly apartment buildings) rebounded in November to KD 121 million, almost doubling month-on-month and rising for the first time in four months. Ytd, total KD volumes reached KD 1,148 million, a 32% decline from the same period last year. In terms of transactions, 1,312 sale contracts were executed ytd, 18% lower than last year.

The commercial sector remains active with sector transactions up year-to-date. KD volumes totalled KD 412 million ytd, a slowdown of 21% from the same period last year, while ytd transactions in November dropped 1% from the same period last year. In November, the sector recorded six transactions worth KD 81.2 million. The largest transaction was recorded for a 7,600 sqm shopping mall in Salmiya for KD 70 million and which resulted in the best sales volume since November of 2014.

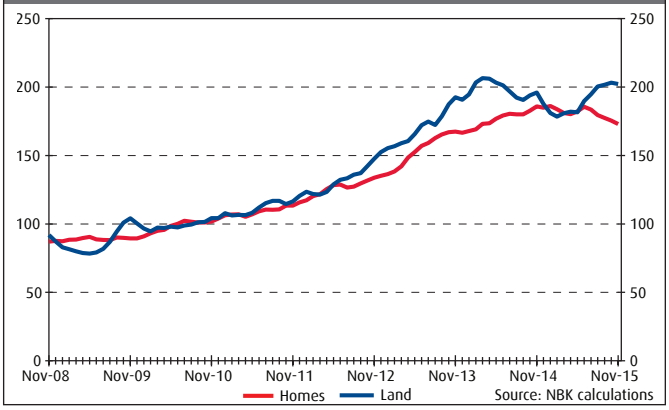
Private construction activity has been slowing since mid-2014 as evident by the number of construction permits issued this year, in sync with slower real estate. According to Kuwait Municipality's annual report, the total number of

WPI CONSTRUCTION MATERIALS, % Y/Y



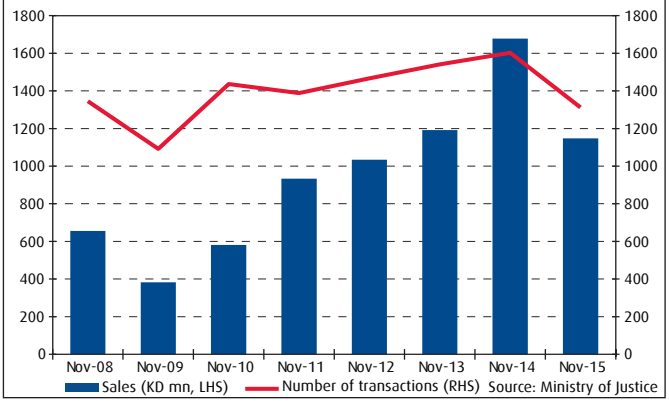
Source: Central Statistical Bureau, Ministry of Commerce and Industry

RE RESIDENTIAL PRICE INDICES, 3MMA



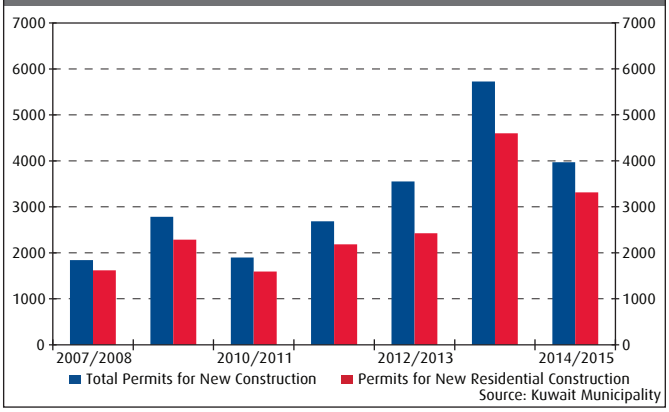
Source: NBK calculations

INVESTMENT REAL ESTATE, YTD



Source: Ministry of Justice

NEW CONSTRUCTION PERMITS



Source: Kuwait Municipality

INVESTMENT-BUILDING PRICE INDEX, 3MMA

Source: NBK estimates

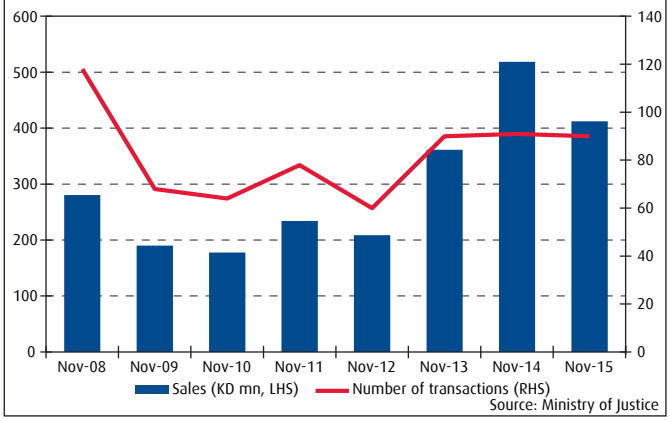
permits issued for new construction, across all three sectors, declined by 31% year-on-year (y/y) during the fiscal year 2014/15 (FY14/15) compared to a record growth of 61% y/y in 2013/14. The residential sector was granted 3,314 permits for new construction in FY14/15 down from 4,597 permits the previous year, a 28% decline. Similarly, permits for new construction in the investment sector declined by 27% y/y. As a result, prices of basic construction materials in Kuwait have been easing. Not surprisingly, inflation in iron and steel appears to be correlated with the amounts of subsidised iron bought for construction purposes.

The pressure of external macroeconomic factors may have incentivised speculators to exit the real estate market. Real estate price indices remained under pressure in November, struggling to maintain positive year-on-year growth. The residential-land index was the only one to generate positive growth this month, registering a 2.6% increase y/y. The investment building price index and the residential-home price index remained in negative territory.

The residential home index continued to trend downward. In November, the NBK residential-home index stood at 173.0 points, 7% lower y/y. The last time the index logged a similar y/y decline was back in August 2009.

The residential land index is the only one to remain in positive territory. The index, at 201.1 points, is up 2.6% for

COMMERCIAL REAL ESTATE, YTD



Source: Ministry of Justice

LAND PRICE/SQM IN SELECTED HIGHLY ACTIVE RESIDENTIAL AREAS

	Average Price/sqm			% Change	
	Nov-15	Oct-15	Nov-14	m/m	y/y
Al Salam	1,375	1,201	1,109	14.5	24.0
Al Shuhada	1,300	1,300	969	0.0	34.2
Al Sadeeq	1,000	1,000	969	0.0	3.2
Hatin	1,056	1,045	1,000	1.0	5.6
Abou Fatira	675	1,087	703	-37.9	-3.9
Al Fneitis	681	665	741	2.4	-8.1
Al Massila	1,000	1,000	632	0.0	58.3
Al Aquila	595	548	603	8.7	-1.3
Subah Al Ahmad	403	378	371	6.5	8.5

Source: Ministry of Justice, NBK estimates

REAL ESTATE SALES & KCB HOUSING LOANS

Real estate sales	Year average		2015			m/m	y/y
	2013	2014	Sept	Oct	Nov	%	%
Sales values (KD mn)	**300.2**	**355.8**	**195.5**	**174.2**	**297.2**	**70.6**	**-28.2**
Residential	150.5	158.3	82.2	73.2	95.1	29.9	-46.5
Investment	116.6	151.0	67.2	66.6	120.9	81.7	15.4
Commercial	33.1	46.4	46.1	34.5	81.2	135.7	-38.0
Number of transactions	**669.1**	**635.1**	**315**	**331**	**458**	**38.4**	**-35.0**
Residential	515.8	483.6	214	233	308	32.2	-48.1
Investment	144.9	143.2	90	89	144	61.8	45.5
Commercial	8.4	8.3	11	9	6	-33.3	-53.8
Average transaction value (000 KD)	**449.1**	**557.1**	**620.7**	**526.4**	**648.9**	**23.3**	**10.6**
Residential	293.1	334.0	384.1	314.2	308.8	-1.7	2.9
Investment	804.7	1,084.7	747.0	747.8	839.5	12.3	-20.7
Commercial	4,379.0	4,936.8	4,191.7	3,829.6	13,536.8	253.5	34.2
KCB housing loans							
Value of approved loans (KD mn)	**32.8**	**25.4**	**21.0**	**18.0**	**20.0**	**11.0**	**-1.8**
New construction	27.6	20.8	17.4	13.1	15.3	16.2	6.0
Purchase of existing homes	3.6	3.3	2.4	3.4	3.0	-13.3	-5.9
Additions & renovations	1.6	1.3	1.2	1.5	1.8	20.0	80.7
Number of approved loans	**562.1**	**423.3**	**620**	**498**	**367**	**16.9**	**9.2**
New construction	400.5	303.3	254	193	231	19.7	-2.5
Purchase of existing homes	57.8	52.2	254	193	63	8.6	40.0
Additions & renovations	103.8	67.8	112	112	73	15.9	35.2
Value of disbursed loans (KD mn)	**12.2**	**16.9**	**16.9**	**20.2**	**24.6**	**21.9**	**21.2**
New construction	7.8	13.1	13.3	15.3	19.9	30.0	22.5
Purchase of existing homes	2.7	2.5	2.4	3.4	3.0	-13.3	10.2
Additions & renovations	1.7	1.2	1.2	1.5	1.8	20.0	27.8

Source: Ministry of Justice / Kuwait Credit Bank

Note: Our real estate indexes database comprises 62,000 transactions. Each index combines monthly average prices (per sqm when possible) in select, more active, areas of Kuwait; it is then adjusted for volatility. The indexes are based in 2010, i.e. 2010 price index equals 100. The indexes are not adjusted for seasonality nor for number of business days. They also do not cover the commercial sector.

the year. Out of the 16 areas included in the index, only three areas exhibited a price increase this month whereas four out of the 16 areas included in the index were inactive.

The investment building index was down 1.4% for the year. Recording its first negative y/y loss since July 2012, the sector has managed to maintain positive price growth throughout the year. Three out of the eleven areas included in the index were inactive, and only one registered an increase for the month.

Kuwait Stock Exchange

Oil prices weigh on Kuwaiti bourse in 2015

Like all other GCC markets, Kuwait's bourse lost ground in 2015 on the back of declining oil prices. While Kuwait and regional markets fared worse than their international counterparts, equities in general were thrashed in 2015. Activity in the market remained weak with market liquidity dropping further below historic averages. Market capitalization was KD 26.2 billion at the end of December, having shed around KD 3.5 billion during the year.

The value-weighted index retreated by 13% in 2015. The price index underperformed slightly, dropping 14% and indicating a worse performance by small caps. With the exception of insurance, which was up 9.8%, all sectors were down on the year. The oil and gas sector was unsurprisingly the worst performing sector, dropping 33% on the year. Financial services followed with a decline of 25% as the global equity correction hit the companies' portfolios, bottom lines and valuations.

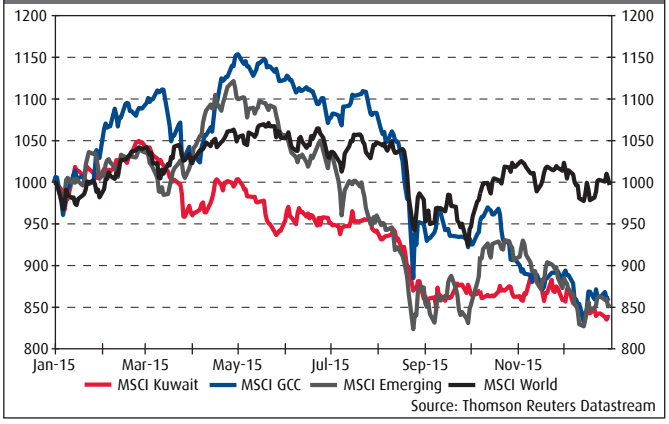
Market liquidity declined further in 2015, with the daily traded value averaging KD 16 million, down 36% compared to the previous year. With liquidity remaining below historic averages and equities trading well below book value, four companies voluntarily delisted from the KSE in 2015 and a handful of others are expected to do so in the first half of this year. However, the dozen or so companies in question are all relatively small and have little impact on market capitalization.

The share of foreign buyers was stable in the first ten months of 2015 compared to the previous year. At 15% of total buying volumes, foreign inflows to the local bourse has picked up notably from two years ago. One factor was the increase in Kuwait's share of some "frontier market" benchmarks, a consequence of the UAE and Qatar becoming "emerging markets".

On the regulatory front, the CMA issued the final amendments to its bylaws late in 2015, a step generally seen as positive for the market. This year should conclude the transition of KSE's oversight committee to the Kuwait Bourse Company. The newly established company will be 50% owned by nationals, 6% by the state and 44% by a global operator.

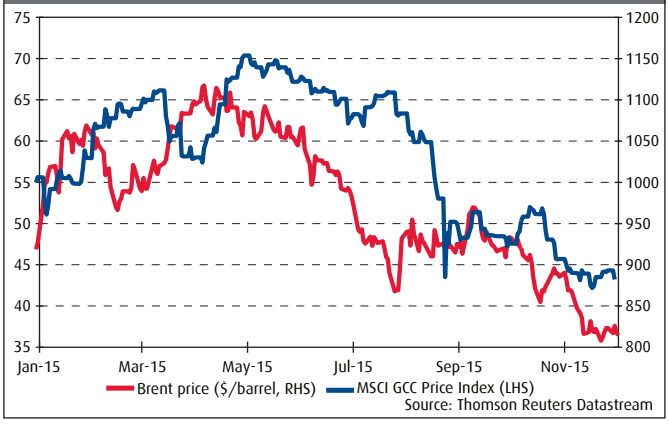
The market continues to be hampered by the absence of a domestic catalyst, keeping the direction of the local market somewhat dependent on international factors such as China's outlook, interest rates, regional geopolitics, and oil

REGIONAL MARKETS (REBASED INDEXES)



Source: Thomson Reuters Datastream

GCC MARKETS & OIL



Source: Thomson Reuters Datastream

KSE PERFORMANCE BY SECTOR, DECEMBER 2015

	Price Index	Weighted Index	% Change Price Index		% Change Weighted Index		Market Cap. (KD mn)	% of Market	Trading Activity (daily average)		Price to Earnings*
	31-Dec-15	31-Dec-15	m/m	ytd	m/m	ytd	31-Dec-15		mn shares	KD mn	31-Dec-15
KSE	**5615**	**382**	**-3.2**	**-14.1**	**-2.9**	**-13.0**	**26,216**	**100.0**	**104.0**	**11.0**	**15.3**
Banks	907	464	-2.4	-9.8	-2.9	-10.1	13,155	50.2	10.6	3.6	14.7
Basic Materials	986	538	-3.4	-12.8	-3.3	-11.5	578	2.2	0.3	0.1	27.3
Consumer Goods	1095	811	-1.9	-10.7	-8.0	-18.2	1,236	4.7	0.7	0.6	16.9
Consumer Services	1009	467	-3.2	-6.7	-1.8	-6.1	728	2.8	2.1	0.3	...
Financial Services	595	417	-6.0	-28.5	-4.0	-24.6	2,392	9.1	48.2	2.1	21.8
Healthcare	925	473	-6.0	-1.6	-8.3	-0.1	182	0.7	0.0	0.0	17.7
Industrials	1043	499	-2.8	-2.6	-3.1	-13.0	2,349	9.0	6.7	0.8	14.2
Insurance	1127	672	2.6	-4.3	7.1	9.8	390	1.5	0.0	0.0	12.9
Oil & Gas	819	317	4.5	-23.0	3.9	-32.7	256	1.0	3.3	0.2	...
Real Estate	941	582	-3.9	-16.7	-0.7	-2.1	2,313	8.8	26.4	1.4	13.9
Technology	820	372	-5.8	-10.5	-5.3	-11.5	50	0.2	0.1	0.0	20.2
Telecommunications	599	297	-4.9	4.9	-3.0	-22.7	2,588	9.9	5.5	1.8	11.6
Parallel	1222	419	-1.1	0.0	-0.6	-15.3	...	...	...	...	...

Source: Kuwait Stock Exchange, Thomson Reuters Datastream

* PE is calculated using market cap as of month close and 12 months trailing earnings.

prices. Domestically, Saudi telecom operator STC's possible acquisition of KSE-listed Viva might be a main driver for the market in the first few weeks of the year. Investors' focus will also turn to the upcoming annual profit releases by listed companies that usually commence with the banks.

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