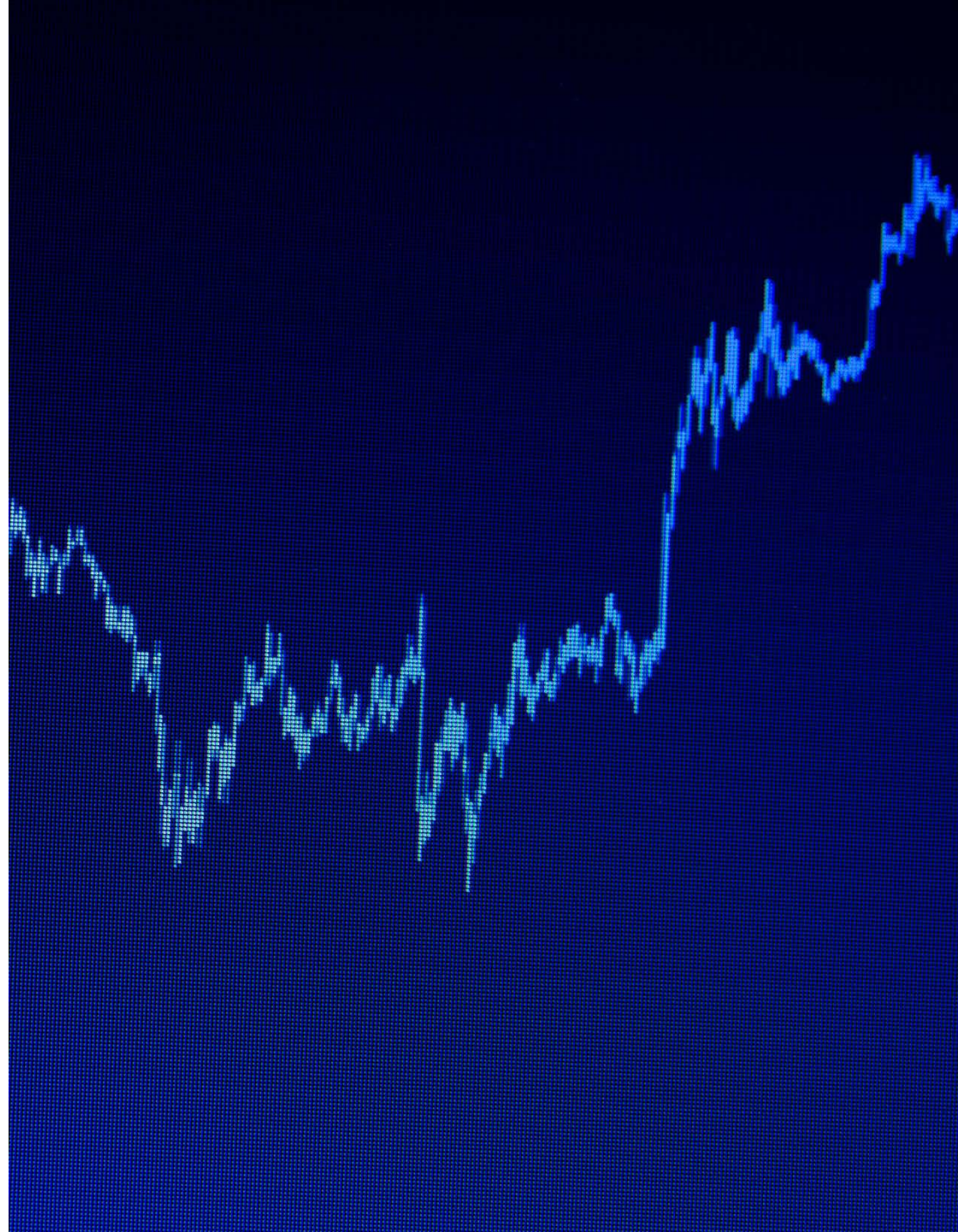


# GCC Capital Markets Review

July 2020



# Market Commentary, July 2020

- GCC equity markets extended their positive run for the fourth consecutive month in July, aided by easing of lockdown restrictions and the rise in oil prices. Global markets buoyant as central banks continue to flood the markets with liquidity.
- Despite the positivity in global and other GCC markets, Kuwait equities witnessed a decline of 3.2% in July as there were further delays in passing the country's debt law, which is key for funding Kuwait's deficits. Among sectors, healthcare index was the top gainer, rising 2.2% while Basic materials index saw the biggest decline, down 6.7% for the month.
- Regionally, the S&P GCC composite index gained 1.7%, with all markets barring Kuwait and Dubai staying in the green. Qatar's gained 4.1% in July followed by Saudi Arabia and Oman markets which gained 3.3% and 1.5% respectively. OPEC+ agreement to cut production by 7.7 million barrels a day from August encouraged GCC investors.
- Among GCC Blue Chip companies, TAQA (Abu Dhabi) and Ezdan Holdings (Qatar) saw huge gains in July, rising by 94% and 25% respectively. TAQA's stock price shot up, spurred by the company's closing of Fujairah F3 power project agreement, valued at USD 1.14 billion.
- Global markets were upbeat, driven by influx of liquidity by central banks and the EU leaders' agreement over the Coronavirus recovery deal. U.S. (S&P 500) gained 5.5% in July and erased its losses on a year-to-date basis. MSCI World posted monthly gains of 4.7% while emerging markets witnessed strong buying, rising 8.4% for the month.
- Oil prices continued to recover, closing the month at USD 43.3 per barrel, which is still 34.4% loss for the year. Demand for precious metals spiked during the month, with Gold adding 10.9% gains during the month to extend its year-to-date gain 30.2%.

# COVID-19 created uncertainty – What we did to help?



## GCC Coronavirus Dashboard

To capture the latest trends of COVID-19 cases and provide meaningful insights GCC Coronavirus Dashboard was prepared with daily frequency



## Mobility Report

Lockdowns imposed a typical issue of restricted mobility, this issue was analyzed by a detailed study of impact of mobility restrictions on Kuwait economy



## Impact of COVID-19 on venture capital

For one of our client, we did a deep dive study on COVID-19 impact on VC industry



## Investment Dashboard

To capture the financial market trends amid COVID-19 GCC Investment Dashboard was prepared with daily frequency



## COVID Impact articles

We published several articles covering the impact of COVID-19 on various sectors, economy and policy



## Sector Factsheet

To assess the impact of COVID-19 on different sectors in Kuwait, factsheets was prepared



## COVID Impact on GCC Automobile report

Marmore also published a report on GCC Automobile updated for COVID-19 impact

Marmore is quick to adopt to changes. Its experienced team is equipped to account for changing business environment and provide actionable research on time.

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with us  
today!*

# Tripling of VAT in Saudi Arabia

- Saudi Arabia had announced several austerity and revenue generation measures on 10th May 2020 to shore up its finances in a low oil price environment. The tripling of Value Added Tax (VAT) rate from 5% to 15% was one of them. The tax levy came into effect on 1st July 2020.
- In 2018, VAT collections have been SAR 46.7 billion (1.6% of GDP) and non-oil revenue was at 10% of GDP. Considering the increased VAT rate for second half of 2020, the revenue from VAT for 2020 would increase to 3.2% of GDP (SAR 77.3billion) and non-oil revenue would be at 12% of GDP.
- While there seems to have been a sharp uptick in retail sales before VAT hike as people sought to stock up, a slowdown was reported after the tax hike. The impact has been apparent in real estate sales that has reportedly dropped by 85% between the last week of June and a week later when the tax came into effect.
- Consumer price inflation had remained around 1% in recent months. Analysts expect it to surge by up to 6% year-on-year in July owing to increase in VAT.
- IMF has opined that it might not be advisable to hike consumption taxes during current times. Though curfews have been completely lifted, salary cuts, job losses and uncertainty over duration of COVID-19 are still in the air.
- The hike in VAT might not be a popular move given the timing and the steep increase. However, it could help in generation of stable non-oil revenue for the government in the long run.

*Note: GDP based on IIF estimates*



# Draft Law on Quota System for Expats in Kuwait

- Kuwait has a population of 4.4 million, of which about 3.1 million are non-Kuwaitis. There have been calls for reduction in expatriate numbers to enable availability of more job opportunities to nationals and to reduce pressure on public services.
- In early July, a draft law proposing a quota for expatriates was approved as constitutional by Kuwait's National Assembly committee. The bill would be referred to the concerned committee for consideration. According to the proposed quota system, the non-nationals are not to exceed a certain percent of total number of Kuwaitis. For example, number of Indians is not to exceed 15% of the total number of Kuwaitis, while the number of Egyptians is not to exceed 10% of the Kuwaitis.
- Kuwait Assembly Speaker Marzouq Al-Ghanem has opined that it is difficult at this stage to impose quotas with specific percentages for different nationalities and that a gradual reduction of about 5% a year from the present 70% would be better.
- Another draft bill on updating Kuwait's residency law is also being proposed. This would limit the number of foreign nationals recruited by companies each year and will include regulations based on skills. This is to be forwarded to the National Assembly. The Kuwait parliament aims to have the legislation ready by October, prior to the November elections.
- Over 158,000 expat workers have already left the country from March 16 until July 9, 2020. In all, about 1.5 million workers are expected to leave Kuwait by year-end because of job losses due to COVID-19 and government regulations.
- A sudden and steep reduction in the expat numbers might affect labour force availability, increase in cost of labour, demand and rentals in real estate, retail consumer demand etc., even as businesses are trying grapple with the impact of COVID-19. Other countries whose nationals are working in Kuwait could see a drop in remittances and a pressure on their labour markets.

*Source: Population 2019 - Central Statistical Bureau; No, of expats to leave Kuwait- Zawya;*

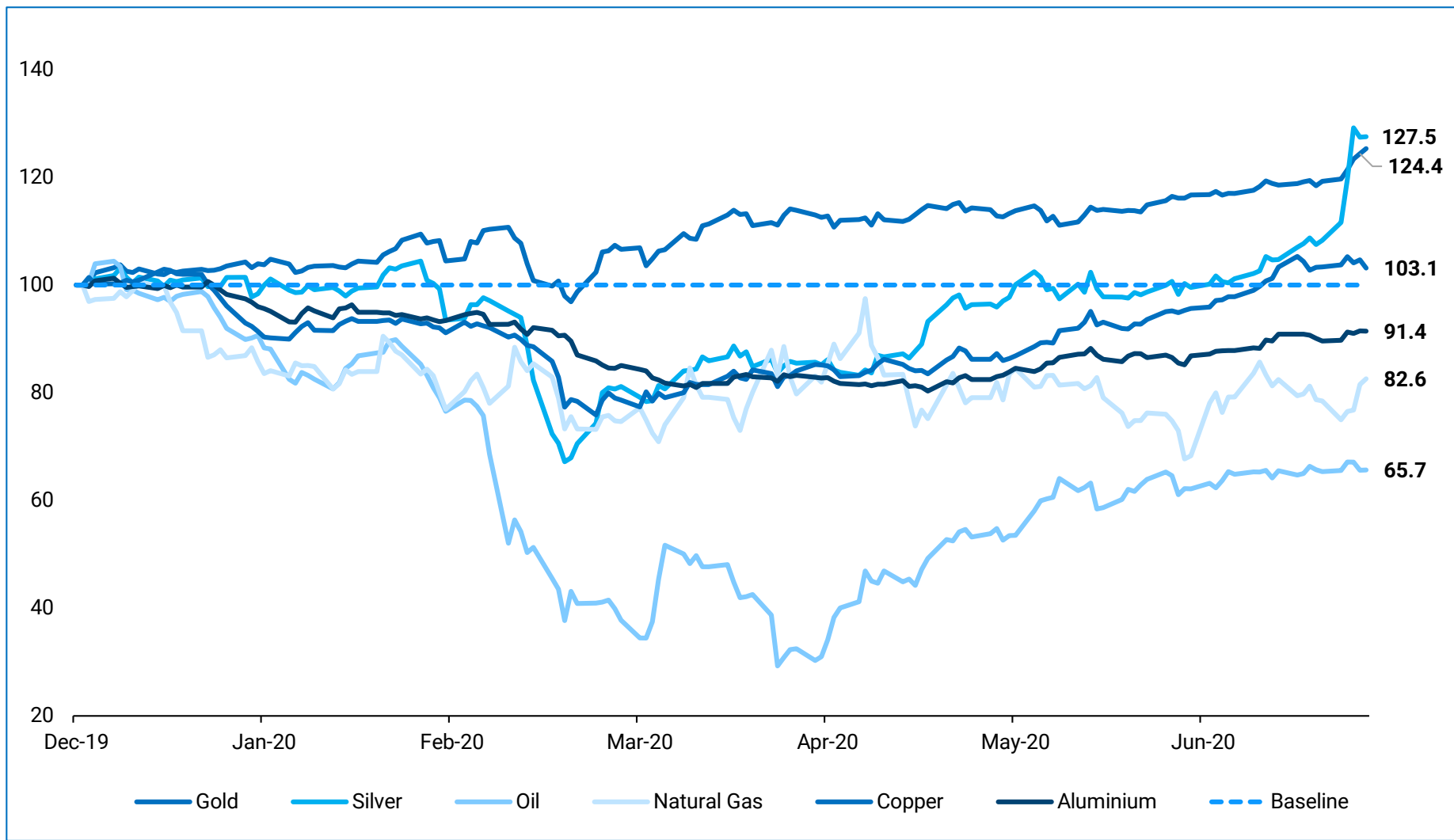
# Funding Kuwait's Fiscal Deficit

- Kuwait's fiscal deficit in FY2020 is expected to widen due to COVID-19 and lower oil revenue. Access to debt markets would help the country fund its deficit. However, Kuwait has not been able to tap debt markets as its Public Debt Law, which facilitates external debt issuance, expired in 2017.
- Kuwait's government has submitted a draft public debt law to parliament which would allow it to borrow KD 20 billion over 30 years. The bill is still under discussion in the parliament with the main issue of contention being the use of the funds and repayment plans.
- If the law is approved, Kuwait plans to issue between KD 4 billion and 5 billion in public debt by March 2021, according to a Reuters report. After the passage of debt law, the preparation for a debt sale would reportedly take 3 to 4 months.
- Though Kuwait has substantial sovereign wealth assets, the portion readily available for budgetary needs, the General Reserve Fund (GRF) is used to fund deficits. The GRF reportedly has KD 1.1 billion as of early July. However, the fiscal deficit is expected to be 9.3% of GDP amounting to KD 3.1 billion. This raises concerns of whether the GRF would be sufficient to cover the fiscal deficit.
- S&P has downgraded the Kuwait's outlook from stable to negative citing that the GRF might not be sufficient to cover its deficit. The agency expects that Kuwait would access debt markets in 2021, after debt law is passed.
- In the event of further delay in passage of debt law, the country might have to consider other options such as drawing from the Future Generations Fund.

*Funds in GRF - Reuters; Fiscal Deficit - IIF*

# How are commodities shaping up during this pandemic?

Commodity Indices in 2020 (Rebased=100)



Source: Refinitiv; Data as of July 26<sup>th</sup> Close

# How are commodities shaping up during this pandemic?

## Gold

- Gold prices breached all-time high, gaining from the flight to safety due to the economic impact of COVID-19 and deterioration of U.S. China relations.
- Investors who earlier saw U.S. dollar as a safe haven have started moving to Gold and Silver as the prospects for the U.S. dollar have been weakened by growing U.S. debt, tussles with China and rising coronavirus cases in the U.S.

## Silver

- The rally in gold initially during the year left silver behind, but as the U.S. dollar started to depreciate, Silver's rally began in Q2 2020.
- Silver has the dual advantage of being a precious metal and being used for industrial purposes (Solar panels and electronics). With economic conditions picking up outside the U.S., Silver prices have shot up during the month of July, surpassing Gold's gains for the year.

## Copper

- Copper prices fell sharply in March due to weak macro sentiment but has bounced back as economic activity has started to rebound.
- Price rise in June and July arise from supply-side concerns from Peru and Chile where COVID-19 outbreak is still hurting mining and production.

## Aluminium

- Aluminium prices slid to 4-year lows and has partly recovered its losses after China started reducing production to support prices.
- High exposure to sectors like construction and transport, where demand resurgence will take time, has kept prices lower on year to date basis.

## Crude Oil

- Crude oil prices plummeted during March-April due to demand concerns from COVID-19 and supply concerns from the oil price war.
- OPEC+ production cuts revived oil prices from multi year lows. As demand is expected to be stagnant this year, further price upside appears low.

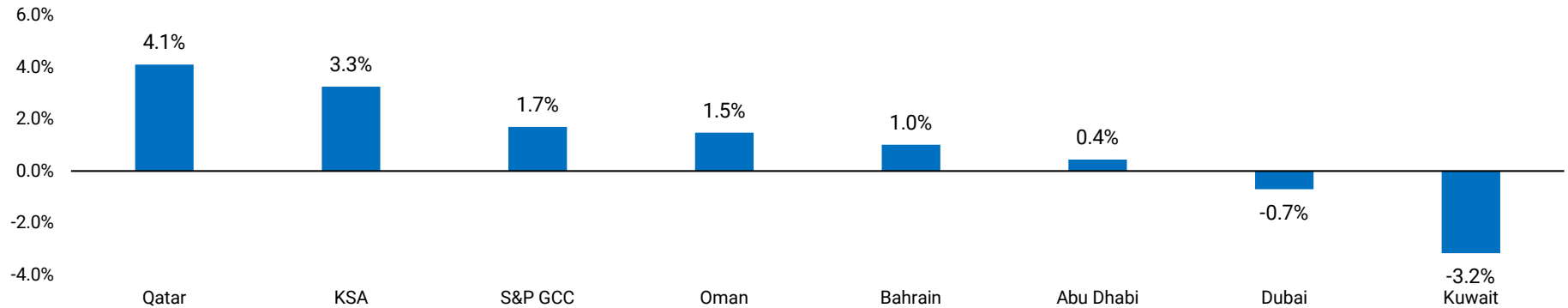
## Natural Gas

- Natural gas followed a similar trajectory as oil until February but has remained much more resilient since.
- As electricity generation and industrial usage are the primary uses of natural gas, it faced lesser impact than oil that is mainly used for transport.

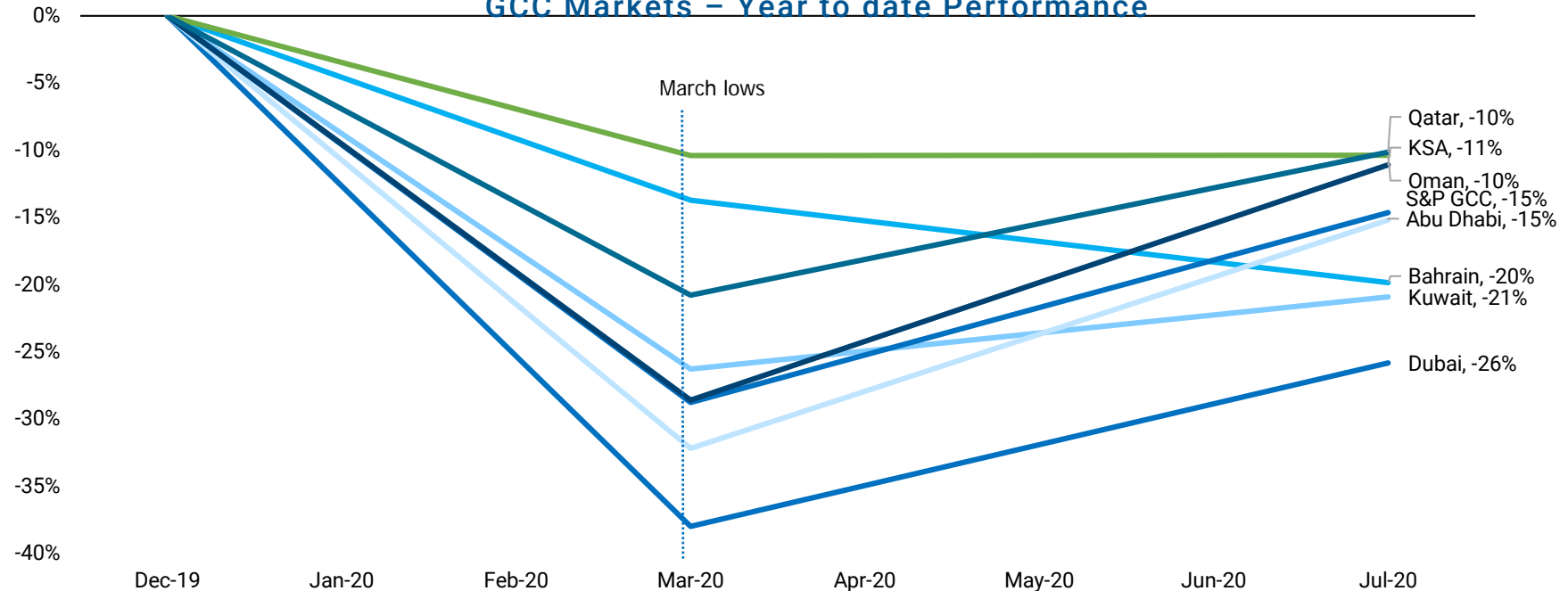


# GCC Equity Market performance, July 2020

GCC Markets - Monthly Price Performance

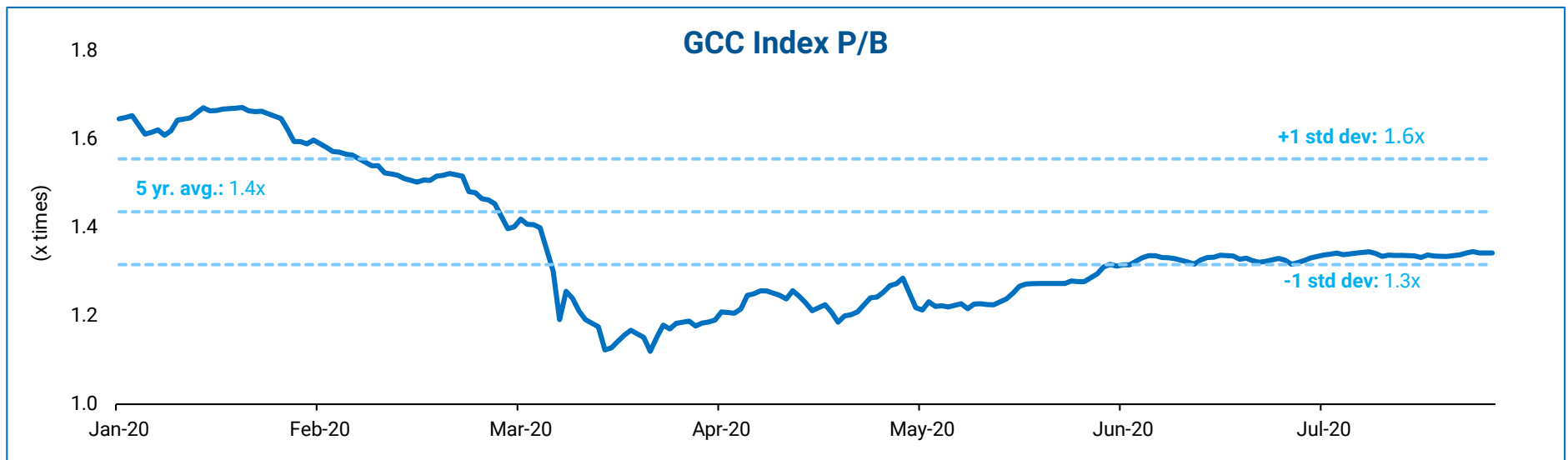
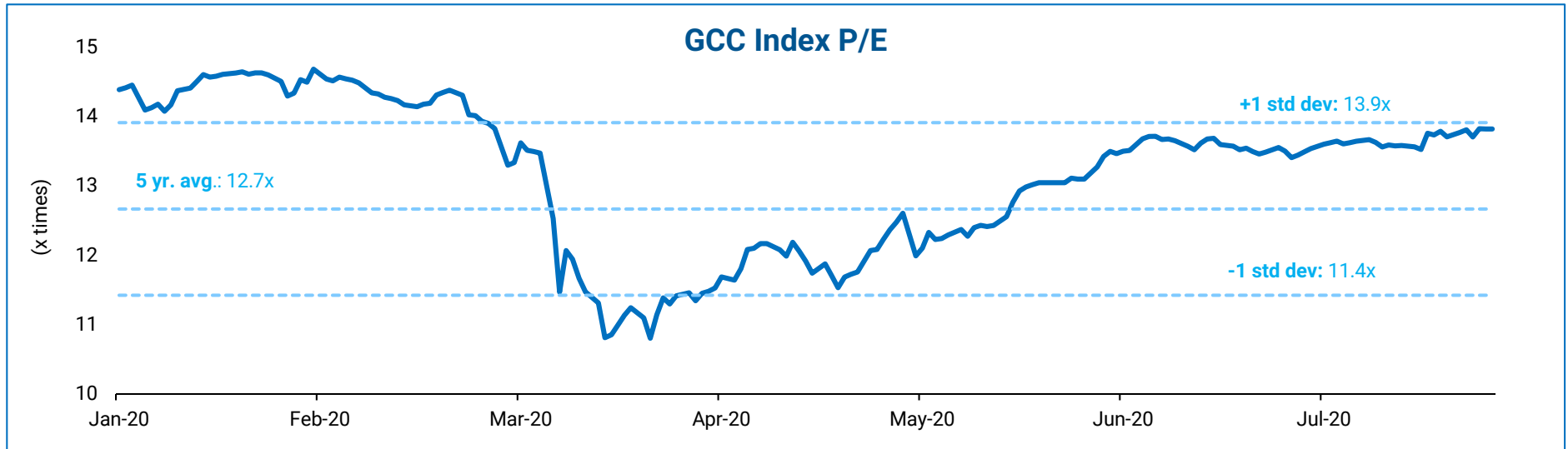


GCC Markets - Year to date Performance



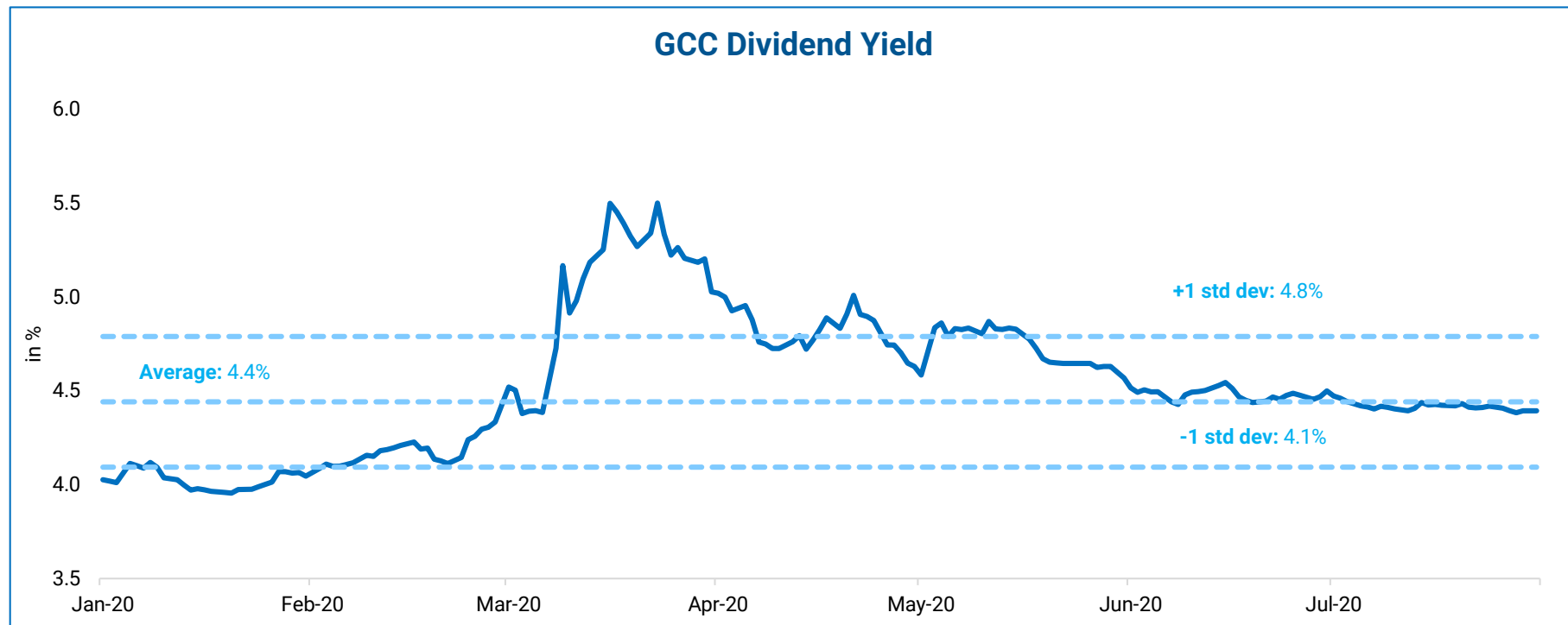
Source: Refinitiv; Data as of July 31, 2020

# GCC Equity Market valuation



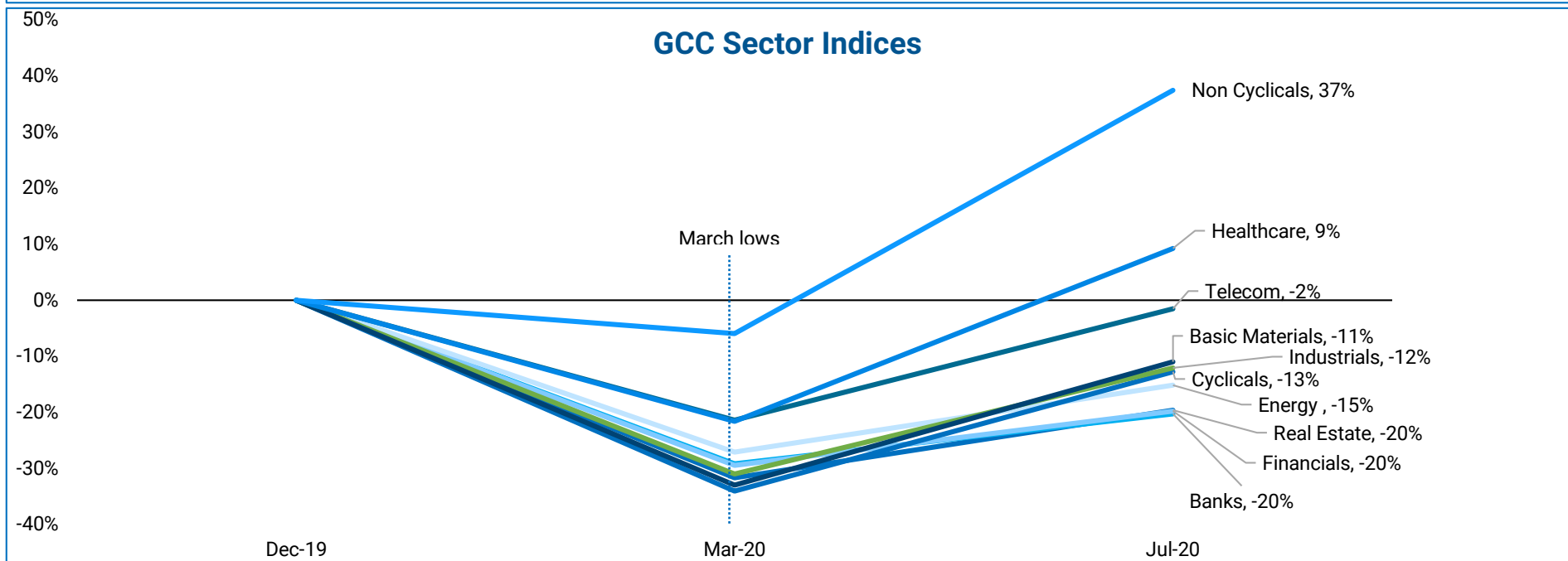
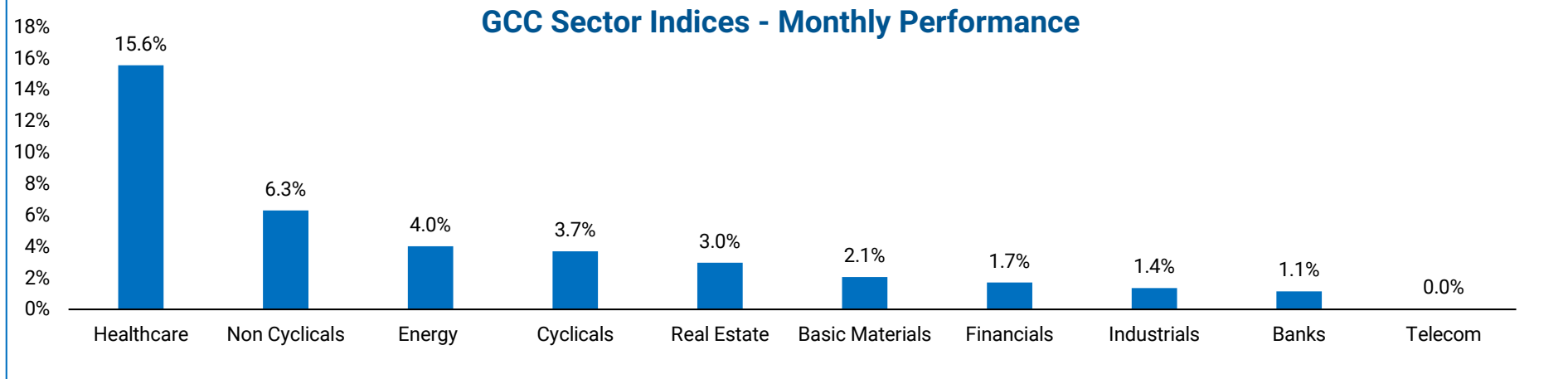
Source: Refinitiv; Data as of July 31, 2020

# GCC Equity Market valuation



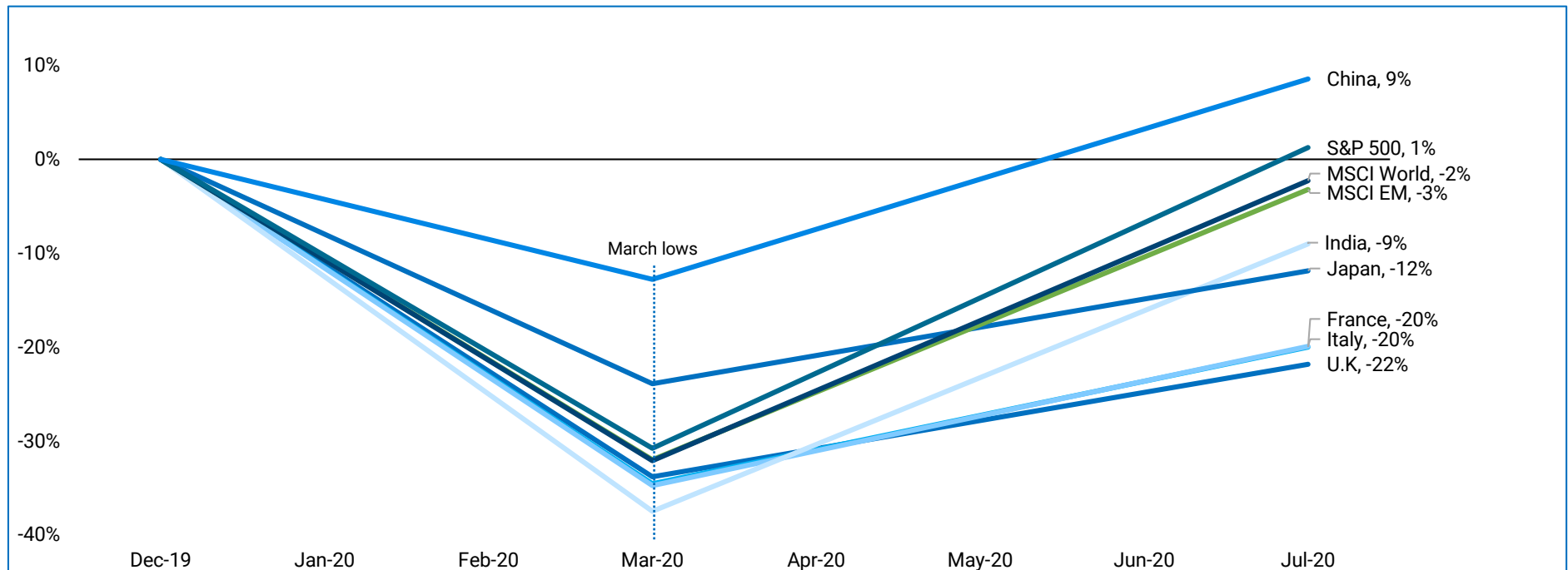
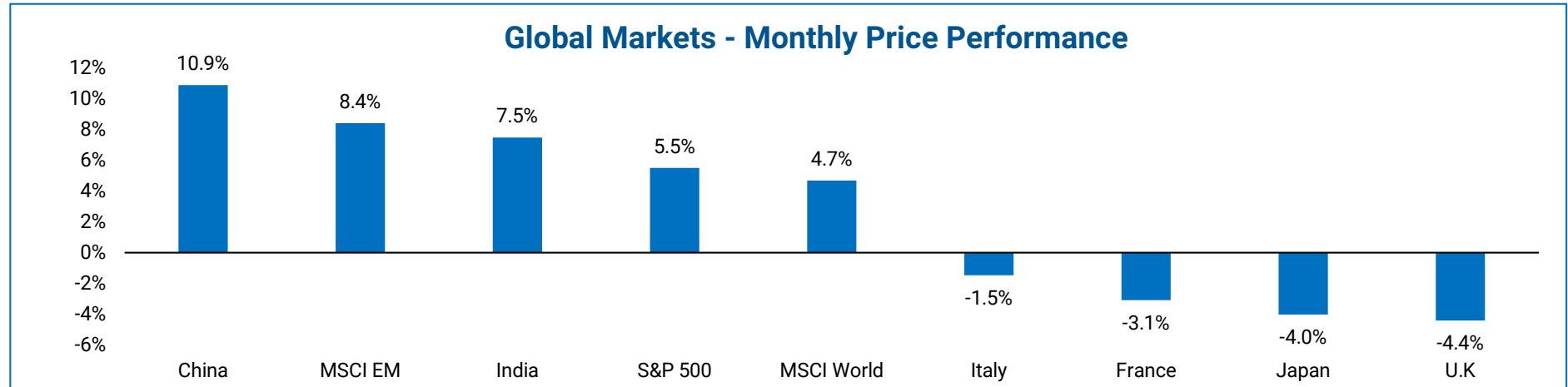
Source: Refinitiv; Data as of July 31, 2020

# GCC Sectoral performance, July 2020



Source: Refinitiv; Data as of July 31, 2020

# Global Equity Market performance, July 2020



Source: Refinitiv; Data as of July 31, 2020

# Monthly Returns and Value of USD 1 Invested

## Saudi Arabia

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	6.5%	4.9%	-5.7%	12.0%	-1.5%	-6.2%	0.1%	-17.3%	-1.6%	-3.8%	1.6%	-4.5%	-17.1%	0.83
2016	-13.2%	1.6%	2.1%	9.4%	-5.3%	0.8%	-3.0%	-3.5%	-7.5%	6.9%	16.4%	3.0%	4.3%	0.87
2017	-1.5%	-1.8%	0.4%	0.2%	-2.0%	8.1%	-4.5%	2.3%	0.3%	-4.8%	1.0%	3.2%	0.2%	0.87
2018	5.9%	-3.0%	6.1%	4.3%	-0.6%	1.9%	-0.2%	-4.2%	0.6%	-1.2%	-2.6%	1.6%	8.3%	0.94
2019	9.4%	-0.8%	3.8%	5.5%	-8.5%	3.6%	-1.0%	-8.2%	0.9%	-4.3%	1.5%	6.7%	7.2%	1.01
2020	-1.7%	-7.5%	-14.7%	9.3%	1.4%	0.2%	3.3%						-11.1%	0.90

## Kuwait

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	0.6%	0.4%	-4.8%	1.5%	-1.3%	-1.4%	0.8%	-6.9%	-1.6%	0.9%	0.5%	-3.2%	-14.1%	0.86
2016	-8.9%	1.8%	0.4%	3.1%	0.2%	-0.7%	1.6%	-0.6%	-0.4%	0.0%	2.8%	3.5%	2.4%	0.88
2017	18.9%	-0.7%	3.6%	-2.7%	-0.8%	-0.3%	1.3%	0.6%	-3.1%	-2.5%	-4.9%	3.4%	11.5%	0.98
2018	4.4%	1.3%	-2.1%	-4.0%	-1.3%	3.3%	5.7%	-0.7%	-0.1%	-1.7%	1.3%	-0.6%	5.2%	1.03
2019	2.5%	0.5%	7.4%	0.2%	1.8%	1.8%	4.9%	-2.9%	-4.4%	0.7%	3.7%	6.0%	23.7%	1.28
2020	0.7%	-4.0%	-20.6%	3.2%	0.4%	2.7%	-3.2%						-20.9%	1.01

Source: Refinitiv; Data as of July 31, 2020



# Monthly Returns and Value of USD 1 Invested

## Abu Dhabi

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	-1.6%	5.1%	-4.7%	4.0%	-2.6%	4.3%	2.3%	-7.0%	0.2%	-4.0%	-2.0%	1.7%	-4.9%	0.95
2016	-5.9%	7.3%	0.9%	3.5%	-6.5%	5.8%	1.7%	-2.3%	0.1%	-3.9%	0.2%	5.5%	5.6%	1.00
2017	0.1%	0.1%	-2.4%	1.8%	-2.1%	0.0%	3.2%	-2.1%	-1.6%	1.9%	-4.4%	2.7%	-3.3%	0.97
2018	4.6%	-0.1%	-0.3%	1.8%	-1.4%	-1.0%	6.6%	2.6%	-1.0%	-0.7%	-2.7%	3.0%	11.7%	1.09
2019	2.6%	1.8%	-1.2%	3.6%	-4.8%	-0.5%	6.8%	-2.9%	-2.1%	1.0%	-1.5%	0.9%	3.3%	1.12
2020	1.6%	-4.9%	-23.8%	13.3%	-2.1%	3.5%	0.4%						-15.2%	0.95

## Dubai

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	-2.6%	5.2%	-9.1%	20.3%	-7.2%	4.2%	1.4%	-11.6%	-1.9%	-2.5%	-8.5%	-1.7%	-16.5%	0.83
2016	-4.9%	8.1%	3.6%	4.1%	-5.1%	-0.1%	5.2%	0.6%	-0.9%	-4.1%	0.9%	5.1%	12.1%	0.94
2017	3.2%	-0.3%	-4.1%	-1.9%	-2.2%	1.6%	7.1%	0.1%	-2.0%	2.0%	-5.9%	-1.5%	-4.6%	0.89
2018	0.7%	-4.4%	-4.2%	-1.4%	-3.3%	-4.8%	4.8%	-3.9%	-0.2%	-1.8%	-4.2%	-5.2%	-24.9%	0.67
2019	1.5%	2.7%	0.0%	5.0%	-5.3%	1.5%	9.8%	-5.5%	0.8%	-1.2%	-2.5%	3.2%	9.3%	0.73
2020	0.9%	-7.2%	-31.6%	14.4%	-4.0%	6.2%	-0.7%						-25.8%	0.54

Source: Refinitiv; Data as of July 31, 2020

# Monthly Returns and Value of USD 1 Invested

## Qatar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	-3.1%	4.6%	-5.9%	3.9%	-1.0%	1.3%	-3.4%	-1.9%	-0.9%	1.2%	-13.0%	3.4%	-15.1%	0.85
2016	-9.1%	4.3%	4.9%	-1.8%	-6.4%	3.6%	7.3%	3.6%	-5.0%	-2.5%	-3.7%	6.6%	0.1%	0.85
2017	1.5%	1.0%	-2.9%	-3.1%	-1.6%	-8.8%	4.2%	-6.4%	-5.5%	-1.8%	-5.5%	10.5%	-18.3%	0.69
2018	8.0%	-6.0%	-0.9%	6.3%	-2.5%	1.6%	8.9%	0.6%	-0.7%	5.0%	0.6%	-0.6%	20.8%	0.84
2019	4.1%	-5.7%	0.0%	2.7%	-1.0%	1.8%	0.5%	-2.6%	1.3%	-1.7%	-0.4%	2.7%	1.2%	0.85
2020	0.2%	-9.1%	-13.5%	6.8%	0.9%	1.7%	4.1%						-10.1%	0.76

## Oman

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	3.4%	0.0%	-4.9%	1.4%	1.0%	0.6%	2.1%	-10.5%	-1.4%	2.4%	-6.4%	-2.6%	-14.8%	0.85
2016	-4.2%	4.2%	1.3%	8.7%	-2.2%	-0.6%	1.2%	-1.9%	-0.2%	-4.3%	0.1%	5.4%	7.0%	0.91
2017	-0.1%	0.1%	-4.0%	-0.7%	-1.7%	-5.6%	-1.8%	0.6%	1.7%	-2.5%	2.0%	-0.2%	-11.8%	0.80
2018	-1.9%	0.1%	-4.6%	-0.9%	-2.6%	-0.8%	-5.1%	1.9%	2.8%	-2.7%	-0.2%	-2.0%	-15.2%	0.68
2019	-3.6%	-0.5%	-3.9%	-1.0%	-0.3%	-1.3%	-3.2%	6.5%	0.3%	-0.4%	1.6%	-2.0%	-7.9%	0.63
2020	2.5%	1.3%	-16.5%	2.6%	0.1%	-0.8%	1.5%						-10.4%	0.56

Source: Refinitiv; Data as of July 31, 2020

# Monthly Returns and Value of USD 1 Invested

## Bahrain

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	\$1 invested in 2015
2015	-0.2%	3.5%	-1.7%	-4.1%	-1.9%	0.3%	-2.6%	-2.4%	-1.8%	-2.0%	-1.4%	-1.4%	-14.8%	0.85
2016	-2.4%	-0.7%	-4.0%	-1.8%	0.1%	0.6%	3.3%	-1.2%	0.7%	-0.1%	2.2%	3.9%	0.4%	0.86
2017	6.8%	3.5%	0.5%	-1.5%	-1.2%	-0.7%	1.4%	-1.9%	-1.5%	-0.5%	0.5%	3.7%	9.1%	0.93
2018	1.4%	1.4%	-3.8%	-4.6%	0.6%	3.6%	3.6%	-1.5%	0.0%	-1.8%	1.1%	0.6%	0.4%	0.94
2019	4.0%	1.5%	0.0%	1.5%	0.0%	2.6%	5.2%	-0.9%	-1.1%	0.4%	0.2%	5.5%	20.4%	1.13
2020	2.9%	0.2%	-18.7%	-3.0%	-3.1%	0.6%	1.0%						-19.8%	0.90

Source: Refinitiv; Data as of July 31, 2020

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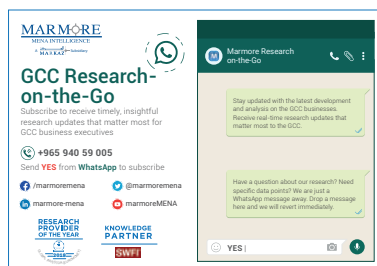


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