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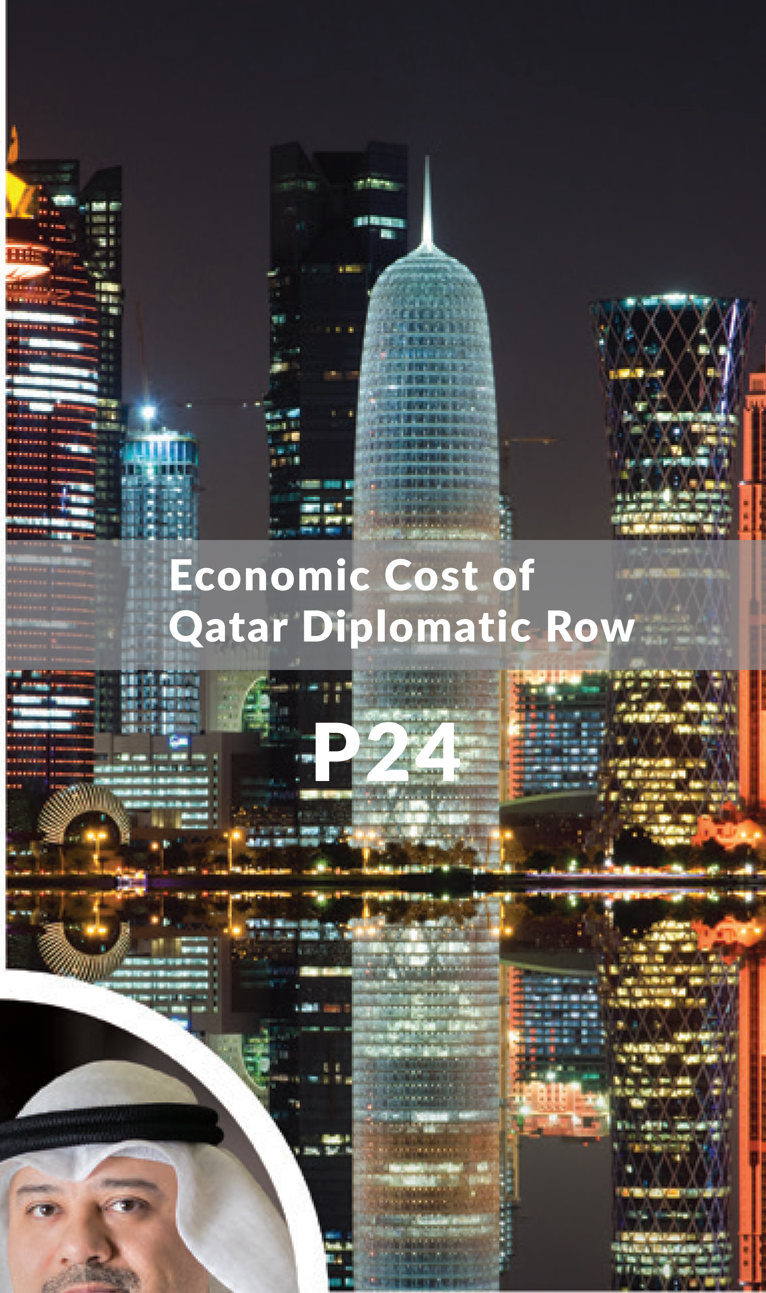
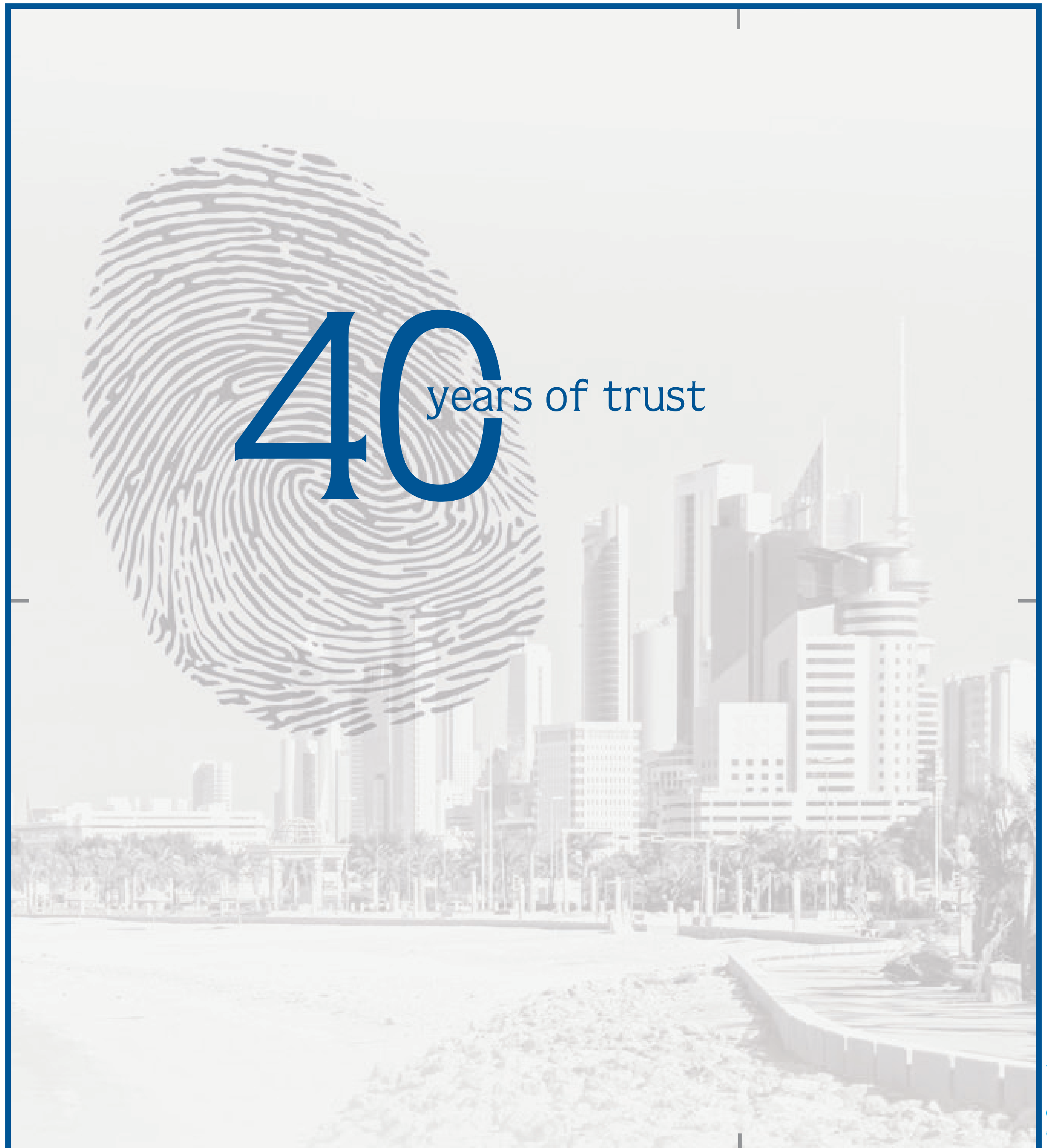




Foreword

In a lot of ways the year 2017 had been an interesting year for the GCC region as a whole. Crude oil prices stabilized above USD 60/bbl and continues to surge upwards following better compliance to the production cut agreements. OPEC, the major consortium of oil-exporting countries has been instrumental in influencing the prices despite widespread concerns that it had lost its influence on oil markets. Since late 2016, OPEC has been continuously setting production cuts and has orchestrated a nearly impossible feat of co-ordinating the supply cut.

Fiscal consolidation efforts and austerity measures such as curbs on subsidies, introduction of VAT and new taxes to augment non-oil revenues along with rise in oil price has effectively led to lowering of fiscal breakeven of oil prices. Cognizant of this, GCC governments have changed their fiscal stance and have started adopting expansionary budgets for 2018. On the downside, the GCC region which hitherto had remained least affected in a geopolitically volatile region was rocked by Qatar diplomatic crisis and Saudi Arabia corruption purge.

Shortfall in oil revenues has pushed the public organization and private entities to seek alternative avenues for finance. Though GCC Banks have traditionally operated with high levels of capital, implementation of Basel III, expectation of slower deposit growth and increasing cost of capital has led them to be selective in their lending. This has provided an attractive opportunity for the regional capital markets (equity and debt) to capitalize upon. Several reforms were initiated including establishment of specific exchanges for SMEs, market infrastructure upgrades and relaxation of regulations for greater participation of foreign investors. Subsequently, Kuwait was upgraded to FTSE Emerging Market Index and the upgrade of KSA to MSCI EM Index looks imminent.

The bulletin also sheds insight on the bitcoin's unprecedented rally that has uncanny resemblances with asset bubbles witnessed throughout the history. Fear of missing out on immediate attractive gains within a short span of time continues to pull people from walks of life to participate in the rally. However, those who have experienced the burst of dot com bubble could recollect the eerie similarities in bitcoin rally that is fuelled by human emotions rather than underlying fundamentals.

Importance of Kuwait's rank in ease of doing business cannot be overlooked anymore, as this forms an important metric to attract both investment and quality talent. Hence, to improve Kuwait's place, gaps have been integrated into Kuwait National Development Plan (KNDP). The issue of job creation is also addressed by KNDP, however, reform of education is critical for better aligned with the job market requirement.

Successful sovereign issues in the international market had led the GCC governments to institutionalize the process by setting up Debt Management Offices (DMO). GCC debt market offers attractive opportunities for global investors to hunt for yields in an environment where emerging market bond spreads are the tightest. GCC Governments began New Year on a positive note and the same is reflected in the expansionary budgets by Saudi Arabia, UAE and Qatar for 2018. As we head into 2018, unexpectedly the Qatar diplomatic crisis continues to drag on. However, if there is one thing that is certain in the region, it's that the oil prices matter the most.

MR Raghu,
Managing Director,
Marmore Mena Intelligence

FEATURED INTERVIEW

with ***Dr. Khaled Mahdi****, Secretary-General of the General Secretariat of the Supreme Council for Planning and Development (GSSCPD) of Kuwait*

> The focus has been on identifying the gaps, problems and reducing the time for each business process… Currently, building permits require three days instead of 352 days earlier. Electricity permits take less than a month.

Q1: Poor ranking of Kuwait in ease of doing business has worked as an impediment to attracting capital as well as talent. What should be done to improve the business environment in the country?

A: Since the past few years, Key Performing indicators (KPI) and global indices are gaining importance in the region. It is an important metric used by foreign investors to invest in the country. These indicators are being taken seriously as part of planning tools to take corrective measures. Kuwait's Ease of Doing Business ranking improved 6 places from 102 to 96 as a result of reform measures that were undertaken since the public release of the previous ranking. The focus has been on identifying the gaps, problems and reducing the time for each business process.

Under the leadership of Kuwait Direct Investment Promotion Authority's (KDIPA's) Director General Sheikh Dr. Meshaal Jaber Al Ahmad Al Sabah and the membership of several government entities (among which the General Secretariat of the Supreme Council for Planning and Development is present), along with the assistance of the World Bank advisors, a committee worked on improving the Ease of Doing Business Index. Upon the success of this exercise, the Ministers Council expanded the scope of the committee to include all other major Global Competitive Indices (GCI) and introduced the "Tahseen" Portal. Currently, the committee oversees and works towards implementing measures to improve the ease of doing business and enhance competitiveness, the new scope of the committee. Currently, building permits require three days instead of 352 days earlier. Electricity permits take less than a month. Law for credit facilitation is being looked into to improve insolvency. Gaps are being fixed related to customs, and issuing a license (by the Ministry of Commerce) has become easier.

Q2: What is the target ranking for Ease of Doing Business ranking in the country?

A: The target is to be in top 35 countries for the Ease of Doing Business ranking as well as all other major GCIs by 2035. To achieve that, an annual improvement rate between 10-20% is required. Most importantly some key laws, should be passed in the assembly. The insolvency law is one such important law. We have to bear in mind that mind that while Kuwait works towards improvement, other countries too are competing as well for better ranking.

The ministries council has now upgraded our scope to look into KPIs apart from the ones in the Ease of Doing Business rankings. Currently, 52 indices are prioritized where the gaps have been identified. They have been integrated into the Kuwait National Development Plan. There is high correlation among these indices, and any improvement in the underlying factors would be reflected in these indices, which is a holistic approach instead of an isolated one.

Q3: The majority of expat workforce comprises of low and unskilled labors. How can we attract highly skilled expats into the workforce?

A: It requires large scale optimization of the labor market. The first step would be reducing the marginal labor from labor market and creating room to incentivize high skilled labor. Marginal labor cannibalizes on skilled labor; so addressing this should be the logical first step.

Secondly, structural issues should be rectified. There is a need to improve ease of doing business and relax some of the laws. There is also a need to change the way expats are currently being attracted to Kuwait; and shift to a "smart admission system". This system will require certification and authentication for skilled labors to feed into the country. Skilled labor will subsequently enjoy competitive leverage because smart admission will cut marginal labor. Hence it will automatically expand the pool of technical and skilled labor market.

> "The first step would be reducing the marginal labor from labor market and creating room to incentivize high skilled labor."

We are in a transitional stage. Currently, demand for labour is unprecedented due the major strategic projects in the Kuwait National Plan requiring a different kind of labors. These are temporary labors. Simultaneously, we also want to retain skilled workers as well, which is challenging. We need to operate within a smart admission strategy and skilled authentication and certification policy framework. We do require a national jobs strategy in the country and currently we are working on that with the World Bank.

Q4: How do we create a sustainable ecosystem that results in job creation? Is privatization a solution or will it add to the problem?

A: Kuwait National Development Plan is trying to address it through job creation. However, it is essential to understand that job creation in Kuwait is distorted. The government sector is becoming an attractor for young graduates, which is contradictory to the long-term vision and needs to be fixed. The government initiated a project that would serve as a strategic alternative and will be implemented but may take time to be perceived positively by the public.

To solve the issue by labor market reform, a national jobs strategy, which includes both national and non-nationals, is under development in collaboration with the World Bank. Secondly, we need to restructure and synchronize the operations of the government entities responsible for the labor market (MGRP, MOSAL and the Civil Service Commission). These three entities should operate in a synchronized mode or better be centralized under one organization say, Ministry of Labor or Department of Labor.

To achieve that, we first need to restrict admission to the government sector. There is a need for smaller, agile and smart government that can create a buffer zone, which can be called "Public Administration Academy" for example. Its role will be to graduate civil servants similar to what is already happening across the globe. Collaboration with L'ena (a French School of government administration) is a step in that direction. Secondly, it is essential to enable the private sector to operate either by creating more PPP projects or through regulating government entrance. Third, we need to engage more on the FDI to increase investments in the country which would ultimately create more jobs. Fourth, empower entrepreneurship in the youthful population toward more SMEs contribution in the national economy. Finally, we need to build a knowledge economy to create an ecosystem that can commercialize the idea to be a part of the system, the building of the ecosystem already in progress with the National Knowledge Economy Center and Kuwait Knowledge Chair leadership.

With these enablers, the private sector is being expanded with a simultaneous shrinking of the government sector. Currently this is the approach, however half of the educated recruits go to the government sector and other half go to private sector either as a real or ghost employees. But at least the move towards adding more to the private sector has started. A gradual decline in the number of ghost employees is a natural phenomenon that happens everywhere in the world when an economy transits from the public sector to a private sector led model. Given that, the need is to come up with mechanics to align labor market with education.

We cannot produce graduates from an education system that is not in sync with labor market demand; alignment is critical. The Academies and the Universities should take in the feedback from the labor market and adjust their curriculum accordingly instead of merely pushing out academic knowledge that is not in sync with the labor market.

Lastly, there is no one cure and it is trial and error too; a lot of lessons are there to be learned. Many interesting policies, which sound good on paper, have not worked as planned—for example, the wage subsidy program, "Da'm al-'amala". There is a need to revamp the social contract between the people and government and restructuring the welfare structure in the country to create a new mindset. Currently, we see that public employment is treated as a form of a social welfare, which is not right, and there is an urgent need to detach public employment from welfare. Kuwait, before era of oil, was a private sector oriented society and it needs to go back to it in a healthy way without jeopardizing the quality of life for its citizens.

Q5: If we look at the successful model of world economies, the economy evolves from agrarian to industry and finally to service-oriented economy. In the context of GCC, we talk about oil economy and directly transforming into the knowledge economy. Is this change either through evolution or through radical changes viable or should Kuwait follow the footsteps of developed nations?

A: Radical changes should be discouraged. Radical changes made in the past, such as the sudden wealth distribution, still hurts the country today. Radical changes are suitable for education; but definitely not for the economy. It should be an evolutionary process and if done in a hurried manner it will lead to socio-economic imbalance. We have to realize that oil is both a strength

Currently, we see that public employment is treated as a form of a social welfare, which is not right, and there is an urgent need to detach public employment from welfare.

> Diversification away from oil requires a large-scale population and transformation….a proposition for which Kuwait is not yet ready."

and weakness of the country; a flaw that should be treated as an opportunity. Instead of focusing only on upstream and midstream opportunities, the focus should be on horizontal integration with the petrochemical sector. In fact, the largest project of a diversified economy pillar is Kuwait Integrated Petroleum Industries Company (KIPIC), an integrated petrochemical company responsible for the development of the petrochemical sector in Kuwait. It is a step toward further value proposition of Kuwait's only natural resource.

Petrochemical is a feedstock for other manufacturing industries and expanding it opens up the opportunity for different verticals. One of these vertical is the knowledge economy, since innovation is the key to stay ahead in the petrochemical industry. Knowledge economy is an interplay of innovation, human capital and networking, and creating product and services that can be commercialized. The knowledge economy is not necessarily in ICT, or digital or robotics. Digitization is only a part of the much larger knowledge economy. But knowledge economy starts with innovation, by creating ideas, by making change in the weak points like oil sector in case of Kuwait.

The dynamics of the oil market is changing; in the future oil will be used less for fueling transport and more as a petrochemical commodity. With petrochemical industry touching all parts of our lives including – the building that one is in, the chair that one sits and the building material that is used – it would be sensible to invest in this area. This is why Kuwait National Development Plan (KNDP) still invests close to 50% in oil and gas. Diversification away from oil requires a large-scale population and transformation of the country into a cosmopolitan center like Dubai; a proposition for which Kuwait is not yet ready. We need to be realistic and take it slowly.

Q6: What should be the first step towards reforms? Should it be public or private sector? Is there also a need for public sector administrative reform?

A: It is a subtle fact - the reform of education is the key. I call it the mother of all reforms. The education reform was initiated in collaboration with the World Bank in 2015, and the implementation started last September. Public sector administrative reforms are secondary reforms, which need to be done in a parallel by creating a buffer zone and reducing the public sector. Privatization through control of public sector will allow more Kuwaitization of the private sector. Private sector ideally should grow with more Kuwaiti engagement in the sector rather than competing or replacing expats. Instead of looking at government as Engineering, Procurement and Construction (EPC), it should be public-private partnership (PPP). Private sector should stop looking at government as a source of projects; instead they should partner with the government and be willing to share the risk. We do have some successful examples on which we will build on. That is the idea!

GCC Capital Market | Outlook for 2018

After years of adjusting to low oil prices and government austerity measures, one can breathe a sigh of relief as better compliance to OPEC deal has led oil prices to continuously march upwards. The GCC governments started the year on a positive note with record budgetary expenditures. We believe this coupled with ongoing reforms could revive economic activity and boost corporate earnings. Kuwait upgrade into FTSE EM Index and imminent upgrade of KSA into MSCI EM index bodes well for the investors. The regional debt issues have evinced strong global interest. Going ahead, commitment to fiscal targets, sustained pace of reform implementation, and handling geopolitical risks will underpin the outlook for 2018.

GCC ECONOMIC THEMES FOR 2018

Four economic themes cut across GCC as we step into 2018 in light of low oil price and heightened geopolitical tensions. They are:

1. **Expansionary government budgets**
2. **Capital market reforms**
3. **Reduced infrastructure spending and**
4. **Debt market opportunities**

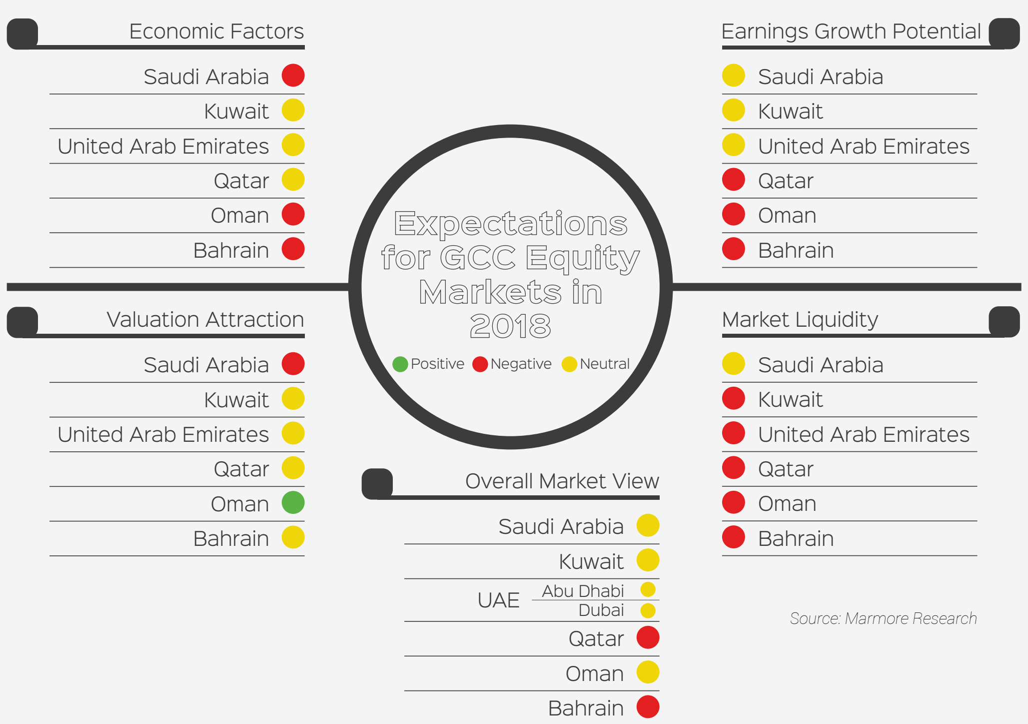
While there are many economic events that made headlines during 2017 including the Neom project, we believe that the above four themes are reshaping the economic landscape of GCC region.

After oil entered into a new normal range of $40 to $50/bbl, GCC governments suffering from high fiscal and current account break even oil price, started tightening their budgets as an immediate response to low oil revenues. Expenditures were pruned and subsidies were cut while new taxes were imposed to augment non-oil revenues and reduce the fiscal deficit. All these steps yielded results where we can see that the breakeven oil price has come down for many GCC countries, fiscal deficit as a percentage of GDP has also come down providing the needed relief. Given the increased geo political risk engulfing the region, as well as to alleviate the short term pain of lower subsidies, GCC governments are now entering back on expansionary budgets for 2018. We notice this in Saudi Arabia, UAE and Qatar.

The low oil price environment is pushing the government to open up other financing avenues and we can count capital markets (debt and equity) to be an important component of activity. The capital market authorities in the region were busy introducing path breaking reforms, notable of which is the introduction of short-selling in Saudi market and inclusion of GCC markets in major indices like MSCI and FTSE. Aspiring countries to these indices (Saudi Arabia and Kuwait) were leading in the fore front in terms of introducing capital market reforms including setting up debt management offices to manage huge sovereign issuances. GCC debt market is offering fantastic opportunities for global investors to hunt for yields in an environment where emerging market bond spreads are the tightest.

As an economic theme, last but not the least, is the impact low oil prices have on infrastructure spending. From $275 billion in 2008, infrastructure spending has come down to $53 billion in 2017. The tight fiscal situation prompted project cancellations and delays in payment to contractors. The small size project market also increased intense competition among contracting companies, already reeling in wafer thin margins and operational losses. We flag this as a major economic concern for 2018 and beyond.

EXPECTATIONS FOR GCC EQUITY MARKETS IN 2018



Source: Marmore Research

Despite the strengthening global economy, the economic outlook for the GCC region remains muted owing to the adjustments to the low oil price. Though the oil price recovered during 2017, the fiscal consolidation efforts and subdued business sentiment, sovereign ratings downgrade, along with increasing geopolitical risk on account of Qatar's diplomatic crisis and Saudi Arabia corruption purge in the region were some of the major themes that influenced the regional economies and stock market performance in 2017.

At the start of 2017, we were neutral on the Saudi Arabia, UAE and Kuwait, while remaining negative on Qatar. Qatar markets performed in-line with our expectations. However, the severity of underperformance was against our expectations and largely due to the diplomatic crisis which wasn't foreseen. The performance of Saudi Arabia, and UAE turned out to be in line with our expectations. Kuwait was the only contrarian to our earlier forecast. Kuwait's rally of 22.3% during the Q1 of 2017 assisted it to remain in the positive territory despite negative performance in the subsequent three quarters.

Economic growth in the Gulf region is set to improve during 2018, after two difficult years of low oil prices and government austerity measures. The recent improvement in oil prices has shed a positive sentiment on the economic activity in the non-oil sector and boosted economic confidence. Public finances now appear to be on a more sustainable path in most economies of the GCC region. This can be attributed to the upcoming Value-Added Tax (VAT) and the period of emergency austerity which saw public spending cut by almost 20% from 2015-2017.

Improving oil prices, which are narrowing fiscal deficits, as well as an ongoing commitment to public spending and a supportive stance towards government-related issuers will underpin the stable outlook on GCC economies during 2018. The improved oil market outlook would support investments in the non-oil sector of the economy as the GCC countries look to diversify away from dependence on the hydrocarbon sector. Growth in the overall earnings for GCC countries is expected to be moderate at 5% for 2018. On the whole, we foresee a flat 2018 for most of the GCC markets with negative outlook for Qatar and Bahrain.

GCC DEBT MARKET OUTLOOK FOR 2018

Debt markets around the world have witnessed a flurry of activity in the year 2017 supported by low interest rates and sovereign nations trying to raise funds for funding their future growth. Sovereign issuances from the GCC nations have been received with palpable investors' enthusiasm and have been mostly oversubscribed which have been helpful in these countries boosting their foreign reserves and managing their currency outflows. Most striking aspect of these debt issuances was the fact that the investors' enthusiasm was not dampened by the downgrades of the regional economies. Asian enthusiasm for higher yields and debt were partly responsible for such a scenario.

Financing mix of GCC countries are expected to be foreign reserves, foreign and domestic borrowings. Large part of these fund raising is done through the Central Banks and Treasury. In order to improve that process and reduce the burden of debt management from the Central banks the GCC governments have been active in setting up Debt Management Offices (DMO) in order to better understand and service their debt obligations.

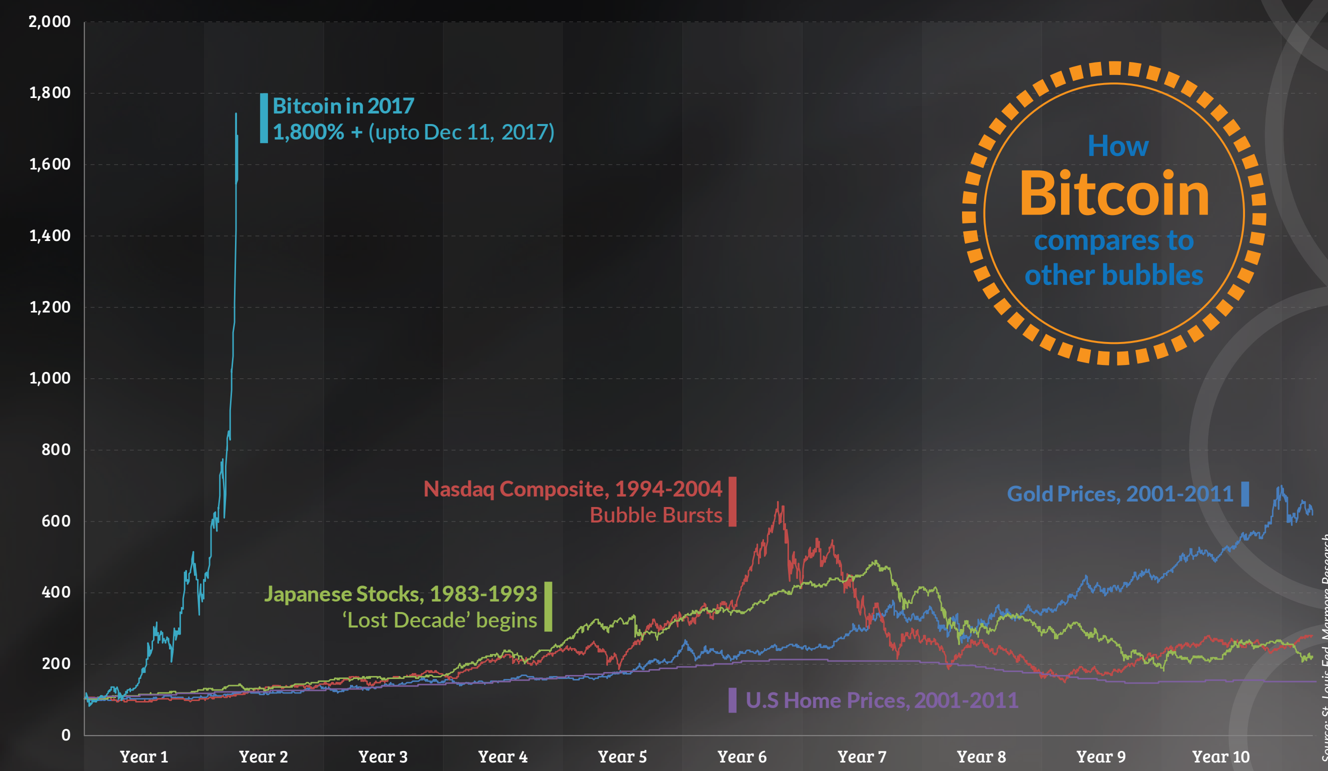
Corporates in the GCC market have just started to come out with bond issuances of their own prompted by tightening liquidity conditions. GCC corporates see the bond issuance route as the most viable route to raise funds given that banks in the region have been taking on more government debt and essentially crowding out the private sector.

Looking ahead, GCC countries' ambitious spending plans ensure a continued need for bond issuance. The GCC faces high infrastructure project spending requirements at USD 120-150bn annually (including transport-related projects) between now and 2019.

BITCOIN: A RALLY Like no other

"Those who cannot remember the past are condemned to repeat it."

- George Santayana



The world of finance has seen asset bubbles every few years and the occurrences of a crisis seem to have a shortened cycle in the past eighty years. Since the 1960's, the world has seen some extended and protracted asset bubbles – Japanese real estate (1980-2003), Japanese stocks (1982-1992), Tech Bubble (late 90's to early 2000), U.S. subprime crisis (2003-2011), Chinese stock market (2005-2008), Oil (2005-2008) are arguably some of the crisis that vaporised millions of dollars' worth of wealth. Some of the other historically remarkable crisis in the history includes Tulip mania (1619-1622), Mississippi Bubble (1716-1719) and South Sea Bubble (1719-1722). All of the crises share a similar trait – investor euphoria, hubris followed by an equal disbelief when prices comes crashing down. In all of these bubbles, investors strongly believe that they have made a good investment regardless of the price that they pay and there would always be someone to buy at a higher price.

In this light, bitcoin rally is nothing short of spectacular despite the warnings from industry watchers of bitcoin being a bubble. Some analysts called it a bubble when the bitcoin was trading at USD 1,000 but were left in the dust by the bitcoin's relentless rally. An interesting fact about bitcoin is that the rally has mostly been fuelled by individual groups without much participation from the stalwarts of Wall Street, which we see as being consistent with the currency's founding principles of being anti-establishment and fully decentralized. Search "Bitcoin" on Google and you'll be welcomed by a stream of advertisements that would most likely contain the phrases "Are you looking to invest in bitcoins?", "Bitcoin investment at low fees?" and "How to buy bitcoins?" Bitcoin started off as an utopian experiment that was aimed at solving the problem with fiat money and reducing the mechanics that go onto put the trust that fiat currencies have (central banks, treasury, full faith of the government etc. costs money and not always explicit). But the palpable enthusiasm with which bitcoin is trading now seems to undermine all that qualities that made it appealing in the first place and now risks being seen as merely speculative investment which could very well turn out to be a bubble.

Bitcoin enthusiasts argue that cryptocurrencies are rapidly transforming into mainstream currency and that it will offer serious competition and eventually replace the existing national currencies issued by central banks. Further, the current euphoria surrounding the rally is seen as a validation of bitcoin's claim as the currency of

future. Finite supply and the disruptive technology that underpins its functioning – 'block chain' has added to its exotic appeal.

On the other hand, financial commentators have been quick to point out the dot com bubble as a cautionary example. Acceptance of bitcoin as a widespread medium of exchange for the purpose of trade and commerce is yet to be seen. Recent research by Morgan Stanley noted that the bitcoin's acceptance is "virtually zero" and declining. It pointed out that only three of the top 500 online merchants accept bitcoin as a form of payment.

Are bitcoins in a bubble?

In financial markets, bubbles are spotted by comparing the traded price of an asset to its fair or fundamental value. For stocks, the earnings are compared to its stock price. For commodities such as oil or metals, the cost of production along with demand/supply dynamics dictates the price trends. For currencies, real effective exchange rates are of help. The primary problem with valuing or pricing bitcoin is the lack of a mechanism for valuing them or pricing them based on fundamentals; none exists. Bitcoin also does not fit in the framework of a conventional investment. With no clear cut way to establish valuation using the fundamental parameters, and no observable relationship with economic or other parameters, bitcoin price is established purely based on demand/supply dynamics. Price rise defy gravity when limited supply is met with insatiable demand. Bitcoin supply is capped at 21million and an estimated 16.7million has already been mined. Even among the existing supply, a few million is expected to have been lost forever due to hard disk damages and forgotten passwords. Scarcity premium and lack of means to establish fair value offers a fertile ground for speculators.

What explains the stellar rally?

The fear of missing out on stellar gains that could be achieved within a short span of time, days or even hours, has likely pulled people from all walks of life towards bitcoin. Traditional assets offering minimal yields in a low interest rate environment could have pushed investors into risky bets such as bitcoin. Those who have experienced the burst of dot com bubble could recollect the eerie similarities in bitcoin rally that is fuelled by emotion rather than underlying fundamentals.

Move Towards **Renewables**

Where is the Problem?

The renewable energy sector no longer remains at the periphery as an industry for social good alone; but has emerged as a profitable alternative to conventional sources of power generation. The case is even stronger for the GCC which is now at crossroads, as the oil slump extends into its third year. A shift to renewable energy will not only reduce cost of power production and carbon emissions but also free up more oil for exports. Currently, the utilization of renewables as a source of energy remains low in the GCC when compared to the rest of the world. We look at the reasons why and whether a move towards renewables could make a difference.

The total power generated through renewables in the GCC has grown from a meagre 20 GWh in 2010 to 620 GWh in 2015. But looking at the bigger picture, it constitutes to less than 1% of the total power generated in the region while the global figure is at 23.3%. Europe and North America stand at 34.2% and 22% respectively in 2016 with Norway leading the way with 97.87%.

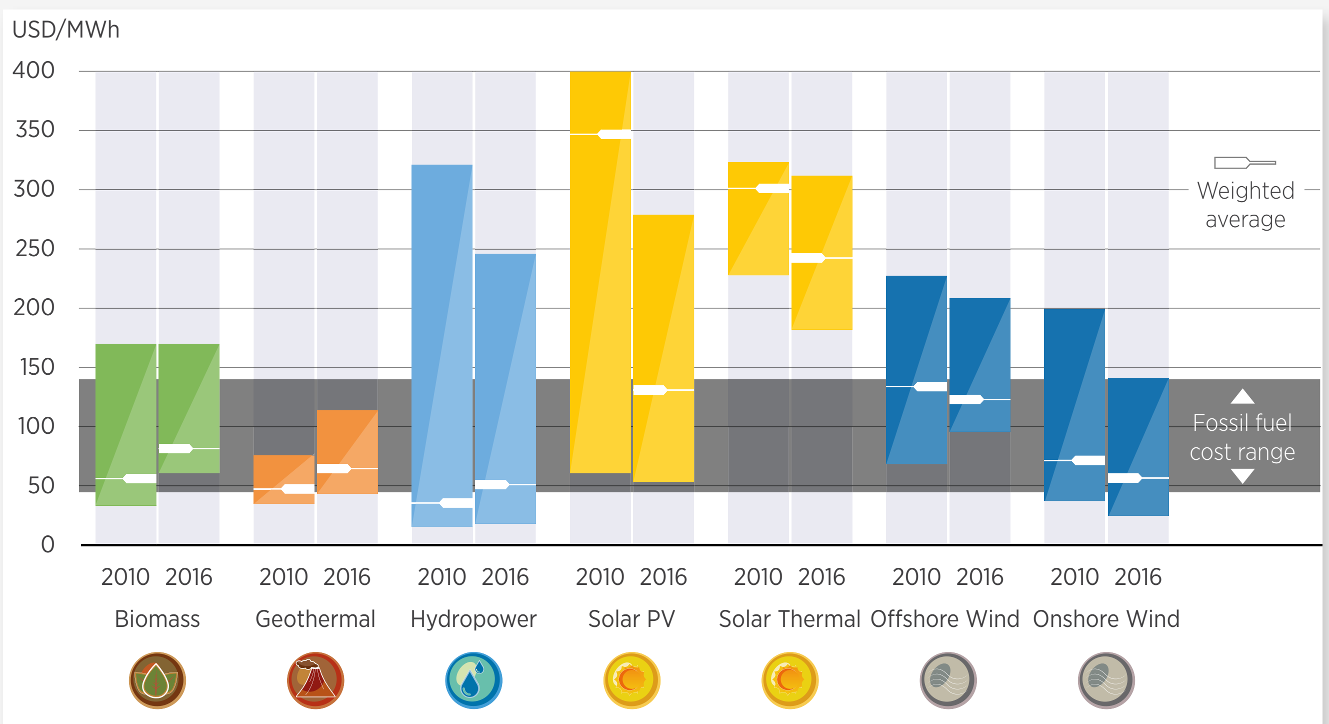
Norway has long been a pioneer in renewables with focus on clean energy despite having oil reserves comparable to countries like Oman. Prudent energy policies over the last few decades have enabled them to adopt renewables at a very early stage thereby allowing their oil resources to be used for exports. This has not only helped their economy grow, but also helped them achieve it without foregoing environmental sustainability.

While there is a huge scope for improvement in the GCC countries, we need to take into consideration the fact that historically, power generation through fossil fuel has been cost-effective for them. As renewables were not a lucrative option for energy production, there was no urge in considering alternatives. But the landscape has been changing lately as rapid urbanization has increased the need for energy. This has in turn led to increase in domestic consumption of resources and rise in air pollution which are forcing the hand of GCC countries to look at renewables.

COST OF RENEWABLE ENERGY

Globally, there has been a reduction in LCOE[1] (Levelised Cost of Energy) ranges of renewable energy sources between 2010 and 2016 with Solar PV's weighted average LCOE coming down by more than 50% from USD 350/MWh to USD 140/MWh. This brings the cost of power production by solar energy within the range of fossil fuels.

Cost of production of renewable energy is competitive in the GCC despite the recent fall in the prices of fossil fuels. The LCOEs of the solar PV projects at utility scale in the GCC region are comparable to the LCOE of electricity generation from oil when oil is priced at USD 20 per barrel. With crude oil priced at around USD 50 per barrel now, the case for greater integration of solar PV in the oil-based power sectors is strong.

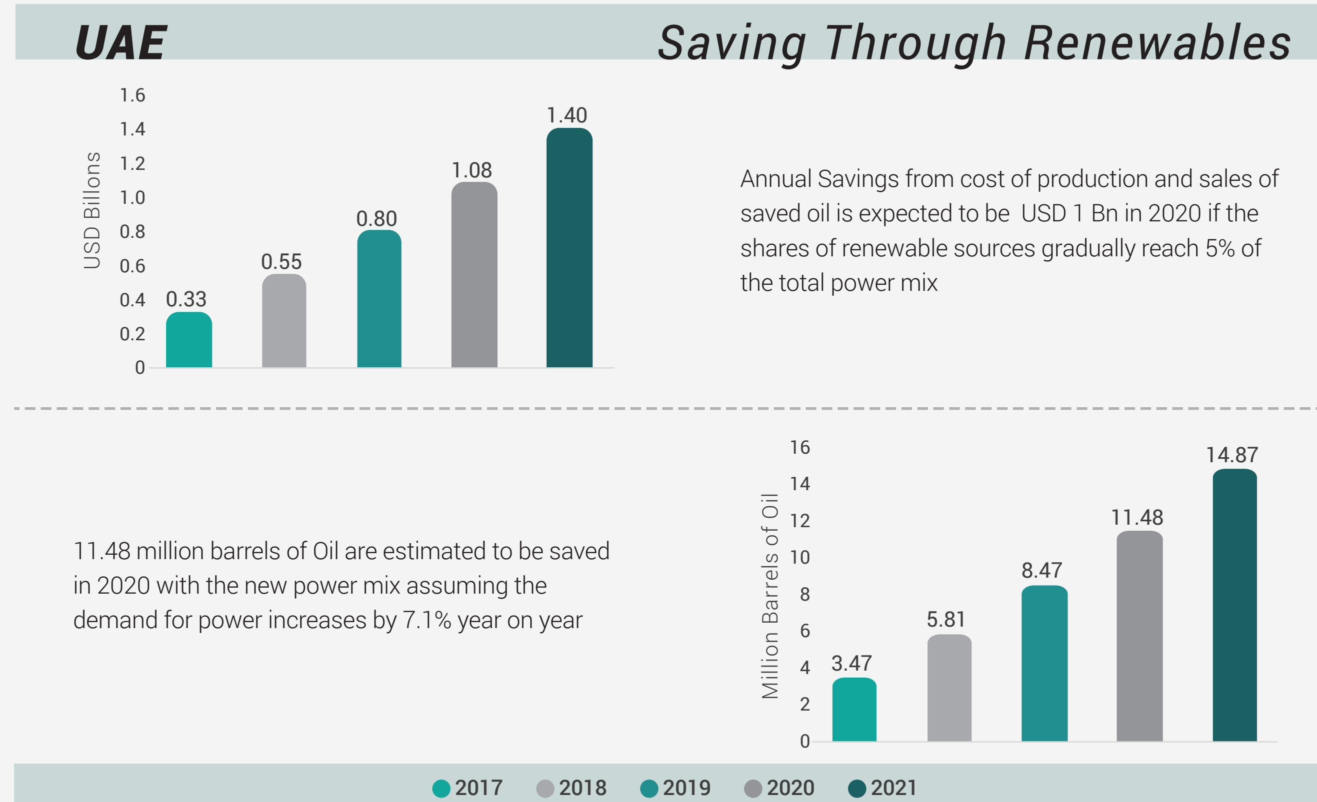


Source: IRENA Rethinking Energy Report

[1] *LCOE is calculated by dividing lifetime cost of project divided by the lifetime Energy production of project. LCOE is used to compare the relative cost of energy produced by different energy-generating sources*

WHAT IF 5% OF TOTAL POWER IS PRODUCED THROUGH RENEWABLES?

From an economic standpoint, we look at the savings made if there is a change in the power mix. We take the case of UAE, in 2016, only 0.23% of the total power in UAE was produced through solar energy. If it grows gradually to 5% by 2020, we estimate that it could translate into cumulative savings of around USD 4.1 Bn in the next 5 years through savings from cost of production and the export of saved oil.



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AGGRESSIVE TARGETS AND SIZABLE INVESTMENTS

Globally, renewable power generating capacity saw an increase of 9% in 2016 compared to the previous year. Investment flow towards renewables has been steady with the spending exceeding USD 200 Bn every year for the past 7 years. New investments of USD 264.8 Bn was seen in 2016 with main focus on solar power closely followed by wind power. In the same year, renewables accounted for an estimated 62% of net additions to global power generating capacity.

GCC countries have also made sizeable investments over the past few years and have set their long term targets.

Saudi Arabia, world's biggest exporters of crude oil is moving towards the construction of its first utility-scale wind-power project at Dumat Al Jandal. It also plans to develop 30 solar and wind projects over the next decade as part of a $50 billion program to increase

> "The late adoption of renewables in the GCC countries could be attributed to the abundance of fossil fuel and their cost effectiveness in the past decades."

power generation and reduce its oil consumption. Kuwait, one of the earliest advocates of renewable energy in the Middle East has set its sight to meet 15% of its energy requirements from renewable resources by 2030. Construction is now in progress for Phase I of the 2GW Shagaya Renewable Energy Park. Al-Abdaliyah Integrated Solar Combined Cycle plant is another power generation project under construction has an overall capacity of 280 MW. Kuwait has also planned to issue a tender to build the estimated USD 1.2 billion Dibdibah solar-power plant in the first quarter of 2018.

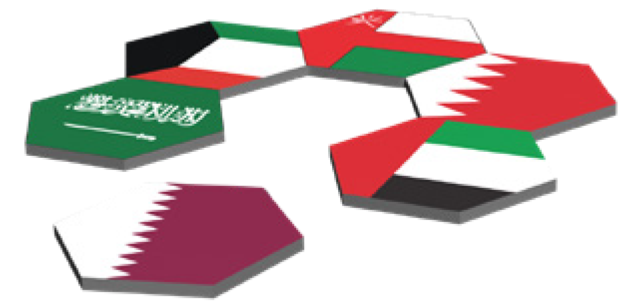
The United Arab Emirates is investing USD 163 billion in clean energy projects to ensure that half of the country's power needs are generated from renewable sources by 2050. Dubai's 13MW first phase of the Mohammad Bin Rashid Al Maktoum Solar Park received the International Renewable Energy Certificates (I-REC) issued in 2017, making it the first in the region to adopt the I-REC[2] system.

The late adoption of renewables in the GCC countries could be attributed to the abundance of fossil fuel and their cost effectiveness in the past decades. With majority of the power being produced by conventional sources it would take time for the shift to materialize. Considering the impact on the Power sector as a whole and the employment opportunities it generates could also be major reasons for this procrastination. Further, policies have generally been revolving around Oil while environmental sustainability has not been considered a priority. However, going forward the reducing cost of solar power generation, advancements in technology, favorable geographic conditions and the increasing need to sell more oil to compensate the lower prices would now make renewables an economical and environmentally viable option for power generation. As it stands, the growing investments in the past few years towards renewables could very well pave way for a paradigm shift towards a balanced energy dependency between fossil fuels and renewables in the years to come.

Country	Current Capacity from Renewables (in MW)**			Targetted Capacity from Renewables (MW)	Targetted % shares of total power from Renewables	Target Date
	Solar	Wind	Bio Energy			
Saudi Arabia	48	-	-	54000	30%	2040
UAE	138	-	1	5000	30%*	2030
Qatar	6	-	38	1800	20%	2030
Kuwait	30.5	10	-	11000	15%*	2030
Oman	-	0.7	-	600	10%	2020
Bahrain	5.2	0.7	-	250	5%	2025

*Source: IRENA (2016b) and Marmore research, *Electricity generation ** As of 2016*

[2] I-REC is a voluntary system for international trade in renewable-energy certificates.



ECONOMIC COST OF Qatar DIPLOMATIC ROW

On June 05, 2017 Saudi Arabia, Egypt, the United Arab Emirates (UAE) and Bahrain severed ties with Qatar, accusing the Qatari government of promoting instability in the region. The four Arab countries closed air and sea transport connections with Qatar, and also the three GCC countries—KSA, UAE and Bahrain — blocked their nationals from travelling to Qatar. Given the close trade and deep geographical links with the rest of the GCC, the severance of diplomatic relationship would have economic repercussions for Qatar. Trade, investments, equity and debt markets are the key areas that would be impacted, with ripples from these areas affecting the broader economy.

TRADE EXPOSURE

Qatar receives most of the essentials from its neighbors. About 80% of the food requirements are imported from U.A.E. and Saudi Arabia. Further, out of the total import bill in 2016, which was worth USD 32bn, almost 15% (USD 4.5bn) were from the nations that have pitted against Qatar. Qatar has lesser problems with its other major import partners and business proceeds as usual. However, these countries will face challenges related to logistics and banking. Shipping operators use Dubai's Jebel Ali transshipment hub to discharge Qatari-destined cargo.

Qatar is the world's biggest seller of liquefied natural gas and a majority of the gas export from Qatar is to the Asian countries. Out of the total exports, only 8% is to the GCC countries, out which exports to UAE were around 5.8% in 2016. UAE has so far avoided shutting down the pipeline supplying gas from Qatar. Though the diplomatic dispute is part of the "force majeure" clause and could close the gas pipeline to the UAE, Qatar has taken the decision against it.

Qatar's exports of oil and gas are unlikely to be significantly affected, with its main sea routes through Omani and Iranian waters still accessible. Additionally, Qatar's biggest trading partners Japan, South Korea, China, and India, are all outside the politically volatile.

FDI, CURRENCY & INVESTOR SENTIMENT

Despite a range of large capital projects related in construction and transport are being lined up as part of 2022 World Cup, the FDI in the Qatar has been very meagre. Besides, historically, more than 90% of the FDI in Qatar has been from USA (~20%), European Union (~30%), other American Countries (~35%) and Asia-excluding GCC (~5%)[1]. This clearly implies the non-significant impact of the ongoing crisis on the FDI inflow to Qatar.

Immediately after the crisis, forward contracts for the riyal jumped, indicating increased bets on Qatar devaluing its currency. However, the possibility of Qatar abandoning the peg is remote as the Qatar Central Bank has USD 34.5bn of net foreign reserves backed by an estimated USD 335bn of assets in its

[1] *Based on Qatar Foreign Investment Surveys by Ministry of Development Planning and Statistics*

sovereign wealth fund.

The severed diplomatic ties have dealt a blow to Qatar's credit rating. Standard & Poor's lowered its long-term rating on Qatar by one notch to AA- on June 07, 2017. The rating agency has affirmed that this could further be downgraded if the crisis deepens, taking into consideration the unfolding of several uncertainties as a consequence.

DEBT AND EQUITY MARKETS

Qatar Government's outstanding external sovereign debt was USD 35.8bn as of July-2017, and a majority which was issued in 2016. As a consequences of the much larger external debt load, external vulnerabilities for Qatar are somewhat larger than for highly-rated regional peers. With the chances of ongoing dispute resolving any time sooner appearing bleak, the cost debt is expected to increase as the balance sheet would deteriorate quicker. Additionally, the rising global interest rates would amplify the cost of debt for Qatar.

The diplomatic crisis has affected the investor sentiment. Qatar's reputation as financially sound, commodity-oriented economy that could maintain high credit ratings has disappeared as an outcome of the ongoing crisis. Qatari sovereigns', would have to reprice issuances taking into account the extra risk associated and it is no longer considered a safe haven. For sub-sovereign and private borrowers, the rise in spreads would be higher compared to the sovereign debt cost.

Qatar's stock index tumbled 8.8% in June, 2017, wiping out market capitalization equivalent to USD 11bn. Except real estate and insurance all the other sectors indices declined, with telecom, consumer goods and industrials being the worst hit. However, it is not the case that the Qatar's indices have only been underperforming as a consequence of the ongoing rift. Most of them have underperformed during YTD May-17. This clearly implies that most of the Qatar's sectors were under-stress even prior to the rift and the ongoing crisis acted as a double whammy further amplifying the woes.

Prior to the crisis, GCC and international investors held about 9% of Qatar's stock market. Since then the GCC institutional investors have reduced their holdings of Qatari shares. The Qatar Stock Exchange index was witnessing selling pressure, since the valuations based on which the investors had taken the position, no longer hold good given the high level of uncertainty. Qatar is currently in the MSCI EM index and a lower market cap and associated risks would result in a reduction in weightage. This might lead the passive fund managers to also sell their holdings thereby exacerbating the issue.

Marmore estimates the collective loss of revenue for listed companies and the unlisted flagship Qatar Airways, to be around USD 4.3bn. Out which the revenue loss of Qatar Airways alone could be around USD 3bn. The estimated revenue at risk (USD 1.3bn) for the Qatari listed companies amounts to only 3% of the total earnings of the companies in 2016. Out of the USD 1.3bn of revenue that is exposed to the conflict countries, more than 90% is expected to be from UAE. Financial Services and construction are the two major sectors that are likely to face dire challenges as an outcome of the ongoing blockade.

CONCLUSION

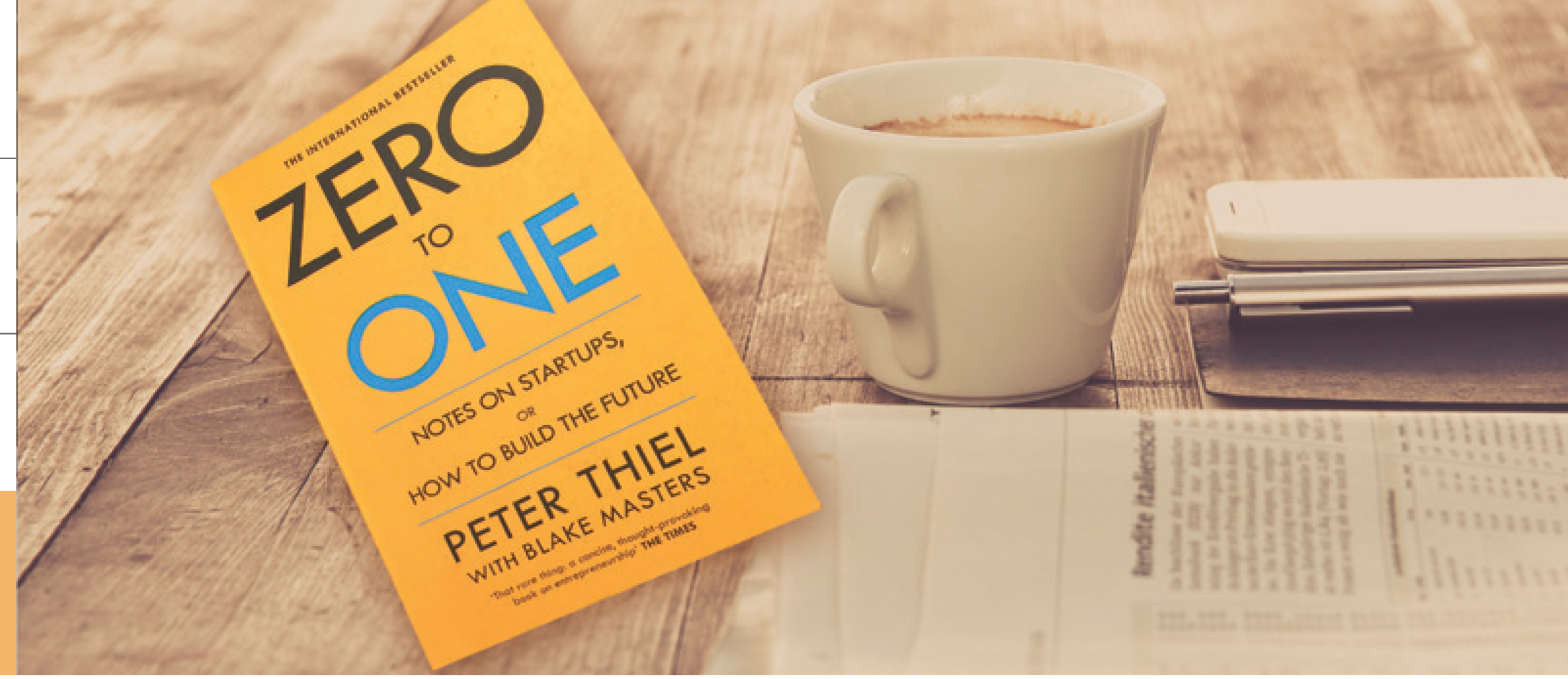
Given the close trade and deep geographical links with the rest of the GCC, especially the KSA and the UAE, the ongoing blockade would have short term financial ramifications on Qatar's economy. If the current embargo continues for a long-term, it is quite plausible to substitute the trade relationships with other neighboring countries. However the sentiments and attractiveness of the country as a safe haven may deteriorate. Increase in food prices, erosion of Qatari fiscal balances, and a rise in borrowing costs are some of the real risks that Qatar will continue to face if the situation is not settled amicably.

BookReview

Rakesh Khanna, CFA
Analyst, Marmore

Zero to One

By Peter Thiel with Blake Masters



Notes on Start-ups', or How to build the future

Peter Thiel, arguably one of the best serial entrepreneurs of recent times, shares his thoughts on start-ups, his philosophy and the need to go against the tide. He starts off with a very uncanny analogy of how incremental progress would only create a better iteration of an already existing product; but creating something new is where the real magic happens -- we go from zero to one.

It is a rather short book that helps one clearly see the kind of mentality a successful entrepreneur has. For instance, Thiel asks a rather intriguing question -- "What important truth do very few people agree with you on?" -- An intellectually tasking question that has no fixed right answer to it. But it is important for everyone to try answering this question, for the answers might reveal a contrarian truth that is hiding behind what is accepted as a conventional truth. This very question sets the tone for the rest of the book.

> *"The best entrepreneurs know this: every great business is built around a secret that's hidden from the outside. A great company is a conspiracy to change the world; when you share your secret, the recipient becomes a fellow conspirator."*

Short and succinct, Peter Thiel's tact seems to take any conventional thinking and toss it on its head, re-examine paradigms, and, at its heart, inspire the reader to create, to make something new. As one of the founders of PayPal and Palantir, one of the first outside investors into Facebook, a funder to SpaceX and LinkedIn, Thiel has a track record of finding and funding industry and society changing companies.

Peter Thiel is a contrarian, sometimes too contrarian for the likes of general public. He questions the conventional ideas that became rigid conventions among the Silicon Valley enthusiasts following the Dot-com bubble of the 2000s. He states that in order to change the future – incremental advances, staying lean and flexible, improving on competition and focusing on products and not on sales is just not going to cut it. He feels that taking on more risks, having a plan, however bad, is much better than no plan -- avoiding competition that destroys profits, and focusing on sales as much as product is the key to success. Perhaps, Mr. Thiel is wrong, but this is a book on entrepreneurship that appears to be an advocacy for the habit of going against the accepted truths.

> *"All failed companies are the same: they failed to escape competition."*

Some of the contrarian themes discussed in this book are avoiding competition and the last mover advantage. The author argues that having competition is what brings down profits and kills off your business. He gives a clarion call to avoid them and even goes on to say that one should not disrupt for the sake of disrupting; instead create a monopoly, but without bragging about it. He cites his own example of Further, Thiel argues that being the last mover in a field, making the greatest move in a specific field and enjoying the monopoly profits made from it for years to come, should what a company be in order to be successful.

> *"Sometimes you do have to fight. Where that's true, you should fight and win. There is no middle ground: either don't throw any punches, or strike and end it quickly."*

In the middle of the book, Thiel goes on a social tangent as to how the global society has changed since the 1980's and why the social conditioning that people have received over the years have reduced the need for planning or imagining the future. For e.g., Thiel asks why do people no more talk about having flying cars in the future? Taken at face value, this might sound rather silly but it just reiterates the fact that we as a society have stopped believing that future has a secret to tell us. Instead, we feel that answers to all of the secrets are known and don't expect any answers from the future.

"Every culture has a myth of decline from some golden age, and almost all peoples throughout history have been pessimists. Even today pessimism still dominates huge parts of the world. An indefinite pessimist looks out onto a bleak future, but he has no idea what to do about it."

Towards the close of the book, Thiel focuses on the pitfalls that an entrepreneur should avoid when starting a company. He calls for clear demarcation of ownership, possession and control. Thiel also warns aspiring entrepreneurs of risks of having people who are not fully aligned with the company, and warns against hiring outside consultants and even remote workers as misalignment might creep in when people are not in the same place.

Finally, Thiel talks about the effectiveness of having a strong team, an effective sales force, the complementary nature of human beings and computers, etc. Thiel also gives a set of questions that needs to be asked by a founder when starting a business. He ends the book with a chapter that is dedicated to character study of successful entrepreneurs. He cites examples of Steve Jobs, Bill Gates, Richard Branson, etc. Thiel's discussions on founders' traits gives some important insights about the behaviour of successful founders, and will allow entrepreneurs to see where they are likely to be in one or the other end of the spectrum. However, he cautions about mindlessly emulating leading examples.

"Above all, don't overestimate your own power as an individual. Founders are important not because they are only ones whose work has value, but rather because a great founder can bring out the best work form everybody at his company"

ABOUT THE AUTHOR

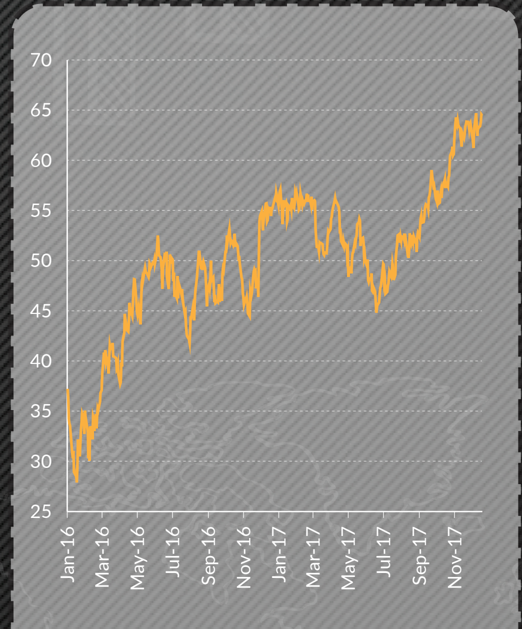
Peter Andreas Thiel is an American entrepreneur, venture capitalist, philanthropist, political activist, and author. Thiel was born in Frankfurt, and holds German citizenship. After graduation, he worked as a judicial clerk for Judge James Larry Edmondson, a securities lawyer for Sullivan & Cromwell, a speechwriter for former US Secretary of Education William Bennett and as a derivatives trader at Credit Suisse prior to founding Thiel Capital in 1996. He then co-founded PayPal in 1999, and served as chief executive officer until its sale to eBay in 2002 for $1.5 billion.

GCC 2017

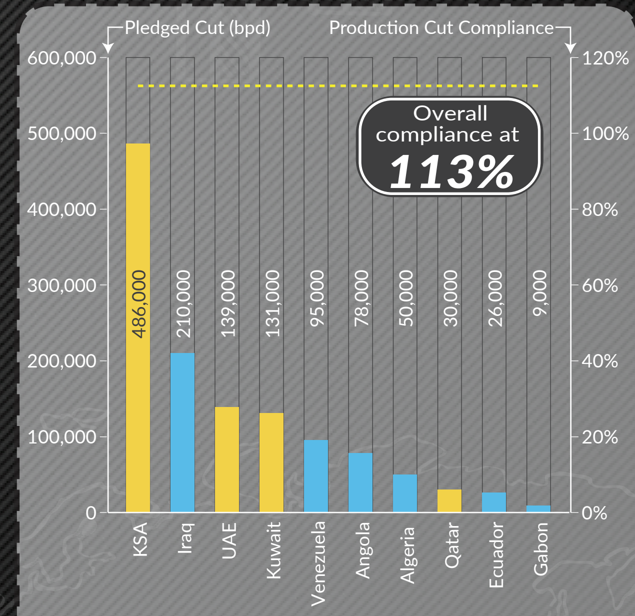
IN 10 CHARTS

Source: Marmore Research

01 OIL HELD ON TO ITS GAINS AND SURGED AHEAD IN 2017 FOLLOWING BETTER COMPLIANCE TO OPEC DEAL



IPE Brent, USD/bbl

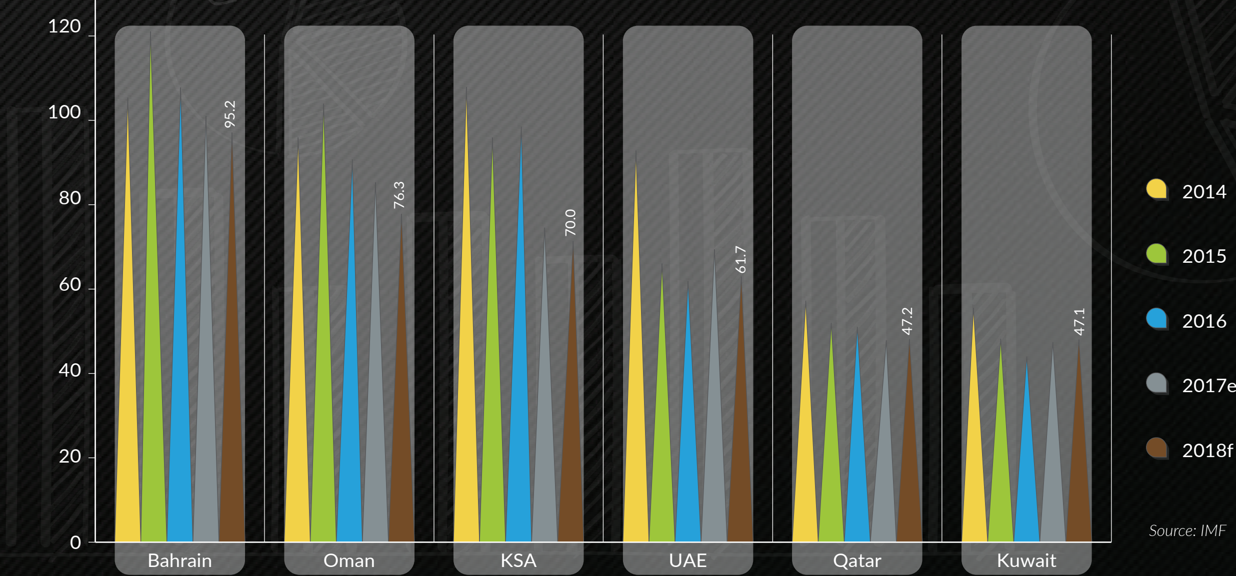


Pledged production cuts by OPEC members

Source: Reuters

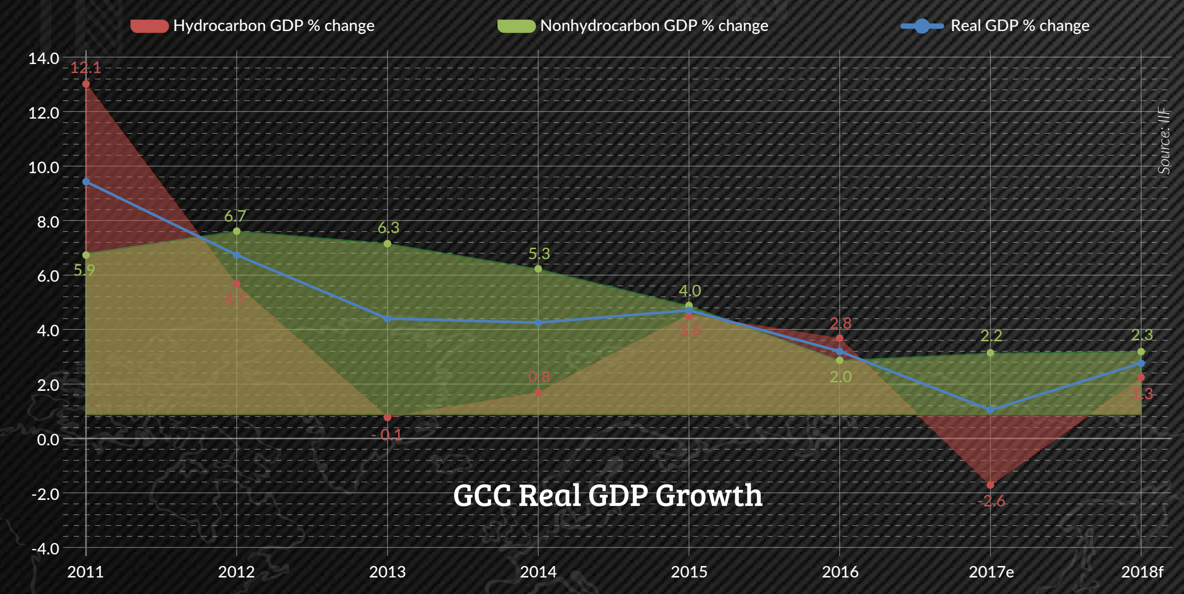
02 REINING EXPENDITURES HAS RESULTED IN LOWER FISCAL BREAKEVEN OIL PRICES

Fiscal Breakeven Oil Prices (USD/bbl)

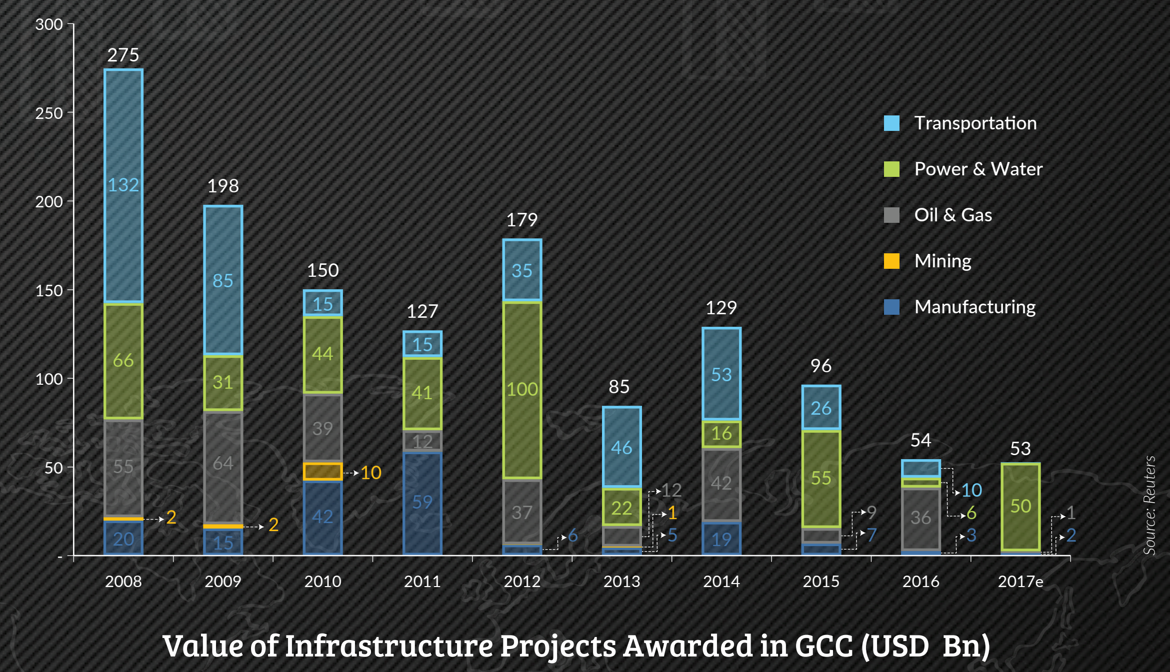


Source: IMF

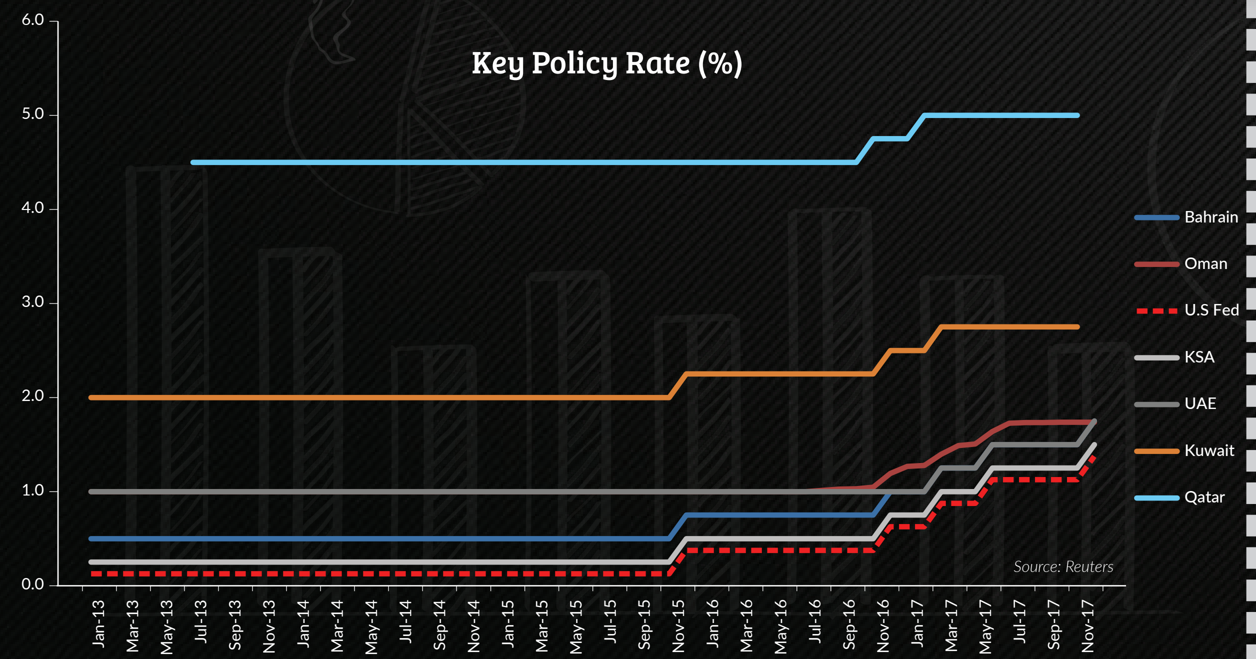
03 HOWEVER, IT TOOK ITS TOLL ON ECONOMIC ACTIVITY



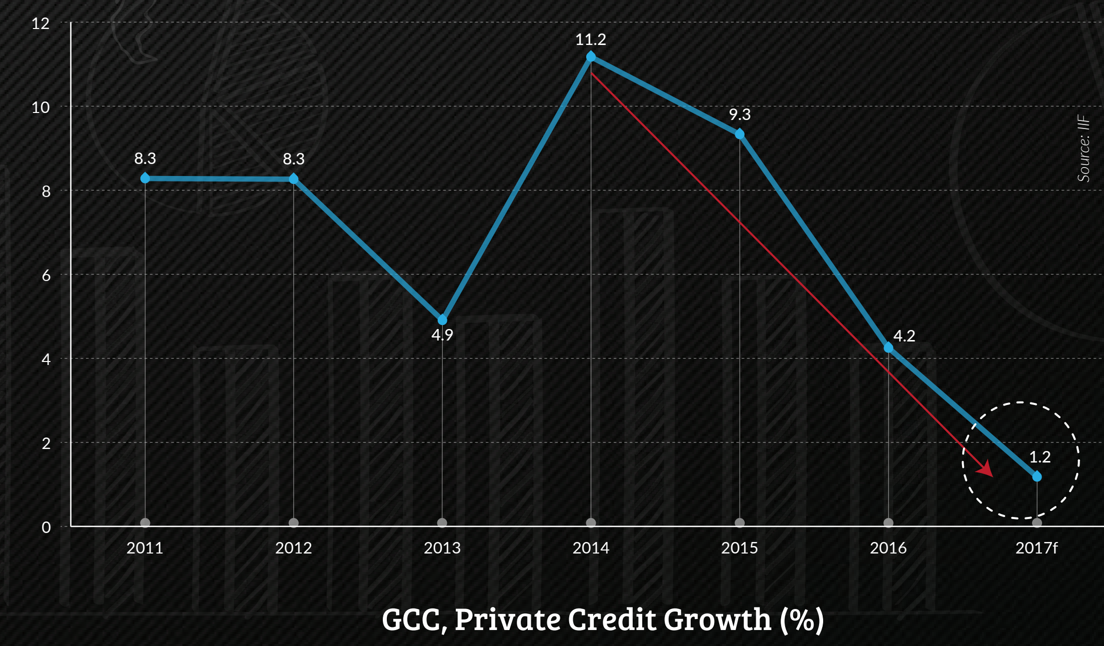
05 FISCAL CONSOLIDATION EFFORTS RESULTED IN LOWER PROJECT AWARDS



04 U.S MONETARY TIGHTENING POSES FURTHER HEADWINDS TO GCC ECONOMIC RECOVERY



06 PRIVATE SECTOR CREDIT OFFTAKE HAS BEEN SUBDUED



07 FISCAL POSITION OF BAHRAIN & OMAN CONTINUED TO DETERIORATE

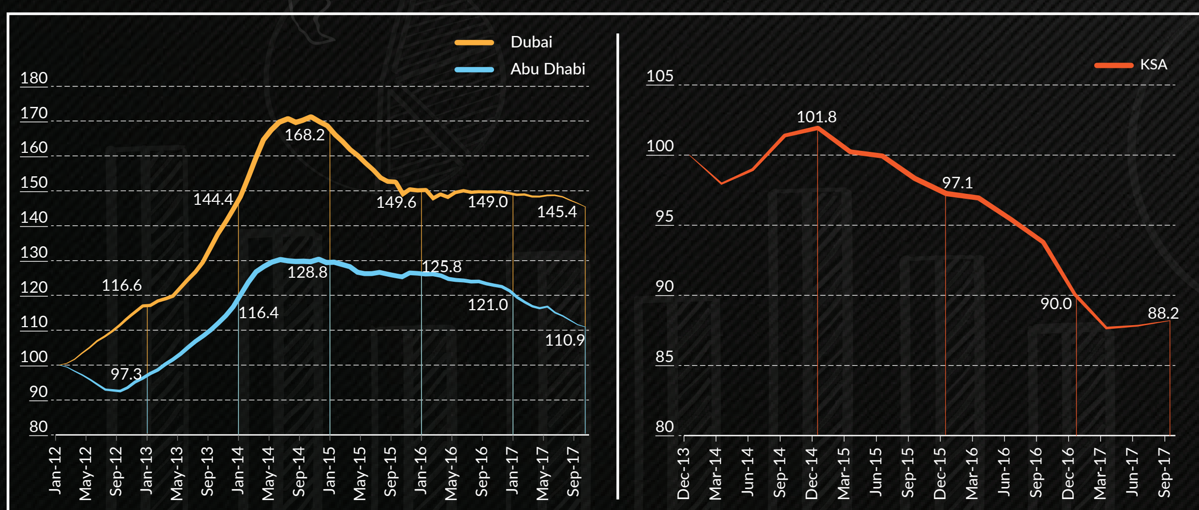
	Kuwait	Qatar	UAE	KSA	Oman	Bahrain
Previous	AA	AA	AA	A-	BBB-	BB-
Current	AA	AA-↓	AA	A-	BB↓	B+↓

S&P Rating Changes for GCC Countries in 2017

S & P RATINGS

Source: Reuters, S&P

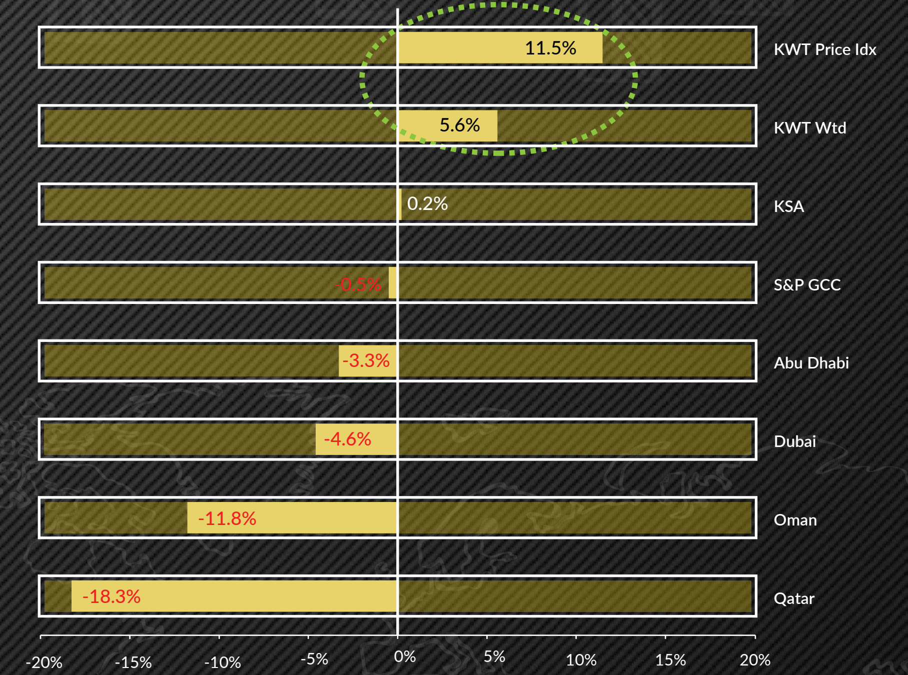
08 KEY RESIDENTIAL REAL ESTATE MARKETS REMAINS WEAK



Residential Property Price Index

Source: BIS

09 BOURSA KUWAIT OUTPERFORMED ITS PEERS IN 2017



Source: Reuters

10 GCC REMAINS A GOOD PLACE TO HUNT FOR FIXED INCOME YIELDS

S&P Rating	Country	YTM	Issue Date
AA	BELGIUM	0.81	17-01-2017
AA	NEW ZEALAND	1.01	12-01-2017
AA	FRANCE	1.28	22-03-2017
AA	SOUTH KOREA	2.87	12-01-2017
AA	UAE (Abu Dhabi)	3.19	03-10-2017
AA	KUWAIT	3.50	13-03-2017
AA-	CZECH REPUBLIC	3.19	29-06-2013
AA-	QATAR	3.37	25-05-2016
A-	LATVIA	1.06	09-02-2017
A-	MALAYSIA	3.18	20-04-2016
A-	SAUDI ARABIA	3.76	27-09-2017
BB	BRAZIL	4.67	03-10-2017
BB	PARAGUAY	4.70	22-03-2017
BB	OMAN	5.43	01-03-2017
BB	TURKEY	5.65	16-02-2017
BB-	VIETNAM	4.80	06-11-2014
BB-	BAHRAIN	6.65	21-02-2017

10 Year Sovereign Bonds : A Comparison of Yield to Maturity (YTM)

Source: Reuters, S&P, Marmore Research

MENA DATA AT A GLANCE

S. No.	Particulars	KSA	Kuwait	UAE	Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
1	Nominal GDP (USD Bn), 2018f	708.5	125.9	400.9	180.9	75.3	35.4		42.6	118.6
2	Real GDP Growth (%), 2018f	1.1	4.1	3.4	3.1	3.7	1.7	4.5	2.5	3.0
3	Share of Hydrocarbon GDP (as % of Nominal GDP), 2018f	42.9	53.0	29.6	48.3	41.1	18.4	NA	NA	NA
4	Hydrocarbon Revenues (as % of total government revenues), 2018f	65.2	62.6	47.0	45.2	71.3	75.0	NA	NA	NA
5	Fiscal Surplus/Deficit (as % of GDP), 2018f	-7.2	1.5	-2.2	0.5	-11.4	-11.9	-7.3	-0.4	-3.0
6	Current Account (as % of GDP), 2018f	0.4	-1.4	2.1	1.0	-13.2	-4.2	-3.8	-8.3	-2.9
7	Fiscal BEP, 2018f	70.0	47.1	61.7	47.2	76.3	95.2	NA	NA	NA
8	Crude Oil Reserves (Jan-2017) Billion Barrels	266.5	101.5	97.8	25.2	5.4	0.1	4.4	NA	NA
9	Inflation, 2018f	5.0	2.7	2.9	4.8	3.2	3.5	13.0	1.5	1.6
10	Population (in millions), 2018f	33.0	4.5	10.4	2.8	4.3	1.4	94.4	7.3	35.2
11	Market Cap (USD Bn) (as of 31-Dec-17)	448	93	239	130	20	20	43	22	67
12	Stock Market Performance, 2017	0.2%	Kwt Price: 11.5% Kwt Wtd Index: 5.6%	Dubai: -4.6% Abu Dhabi: -3.3%	-18.3%	-11.8%	9.1%	32.0%	-1.8%	6.4%
13	Market Turnover, 2017	45.9%	20.1%	14.6%	10.6%	8.9%	4.2%	53.6%	NA	NA
14	P/E (as of 31-Dec-17)	17.3	15.2	13.1	13.9	10.6	10.8	13.6	14.2	19.9
15	Ease of Doing Business Rank (June 2017)	92	96	21	83	71	66	128	103	69
16	Starting a Business Rank (June 2017)	135	149	51	89	31	75	103	105	35
17	Global Competitiveness Index (2017-2018)	30	52	17	25	62	44	100	65	71
18	GCI Infrastructure (2017-2018) Out of 137	29	64	5	13	36	33	71	58	54
19	GCI Health (2017-2018) Out of 137	64	54	40	38	46	42	87	68	88
20	GCI Higher Education & Training (2017-2018) Out of 137	43	95	36	37	71	39	100	63	101
21	GCI Innovation (2017-2018) Out of 137	40	103	25	21	76	45	109	46	94
22	Ethics & Perception (2017-2018) Out of 137	21	64	3	5	26	22	55	35	56

Source: Reuters, IMF, IIF, CIA, World Economic Forum