

Oil Market Monthly Report

June - 2018

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Oil prices remain range bound with all eyes on OPEC meeting...

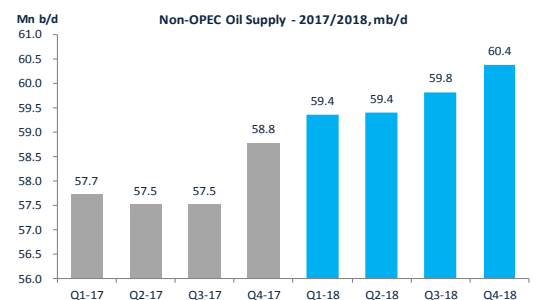
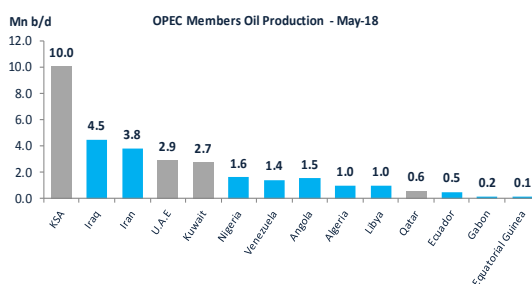
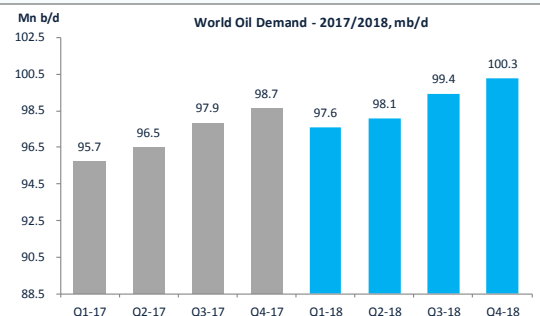
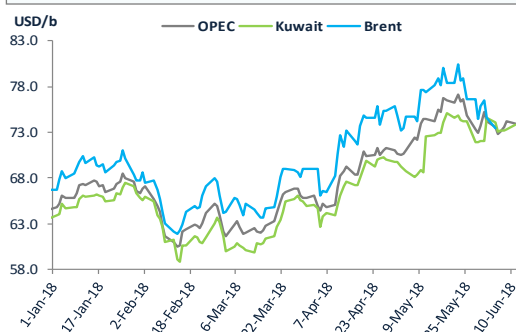
Oil prices remained elevated above the USD 70/b mark but receded from multi-year high levels on speculations that Saudi Arabia and Russia may raise output by as much as 1 mb/d to fill the output gap created by a decline in oil production in Venezuela and the proposed sanctions on Iran. However, although the production rate did witness a surge by the aforementioned producers, the increase was not large enough as was being speculated by the market resulting in a pause in oil price decline.

According to Bloomberg data, Saudi Arabia raised oil production rate by 110 tb/d during May-18 while a Russian news agency reported that the country's production had hit 11.1 mb/d in early June-18. OPEC's monthly report also pointed to a largely flat production during May-18 with an increase in production by Saudi Arabia, Algeria and Iraq offset by declining production by Nigeria, Venezuela and Libya. The much touted drop in Iranian oil production was not visible during the month as the country's production increased marginally during the month.

The oil market also saw a decline in volatility in the past week with all eyes now on the OPEC meeting to be held next week. Analysts would be looking on whether the group decides to raise production before the official deadline which ends in 2018, although there has been no indication from any of the producers in this regard. In addition, there should also be cues on the future course of the agreement beyond the current pact when the countries decide to gradually lift production rates or whether the agreement would take a completely new form.

The start of June-18 also witnessed several developments on the international geopolitical front. The G7 meet saw participating countries disagreeing on trade that could affect economic activity and oil demand. However, these concerns were brushed off after the successful meeting between the US President and his North Korean counterpart, sending positive signals across markets. In addition, interest rate decisions by the US Fed and the ECB this week would be keenly looked at by oil watchers as a change in strategy by the ECB and rising rates in the US have long term implications for currency including the USD in addition to oil prices.

Meanwhile, supply side concerns continued to haunt the oil market as US EIA reported a surprise weekly climb in domestic oil inventories, including the most recent API report that pointed to an inventory increase of 830 tb/d. According to EIA report, domestic US crude production increased by 31 tb/d to a weekly record of 10.8 mb/d during the week ended 1-Jun-18. Furthermore, according to data from Baker Hughes, oil rig count in the US increased for the third consecutive week adding one rig and taking the count to 862 oil rigs, the highest level since March-15. US drillers have added oil rigs in nine out of the past ten weeks with the most recent increase coming despite an oil price decline of 8% from the recent peak.



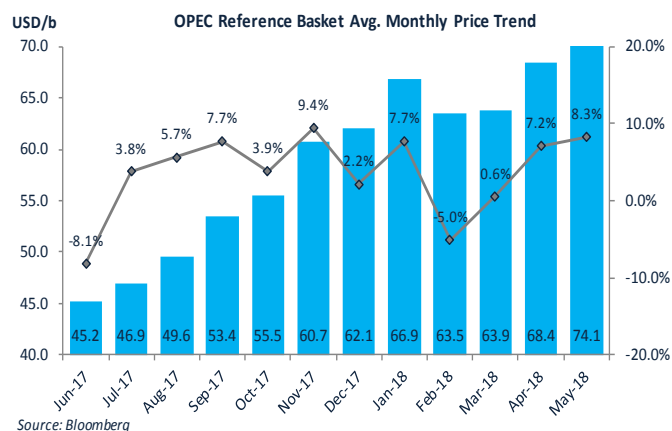
Faisal Hasan, CFA
 Head - Investment Research
 +(965) 2233 6907
faisal.hasan@kamconline.com

Junaid Ansari
 Assistant Vice President
 +(965) 2233 6912
junaid.ansari@kamconline.com

Source for the above charts : OPEC and Bloomberg

Oil Prices

Spot Brent crude closed above USD 80/b on two trading sessions last month but failed to sustain the momentum. Prices declined by almost 8% from the recent peaks on speculations of oversupply in the oil market, given speculations that Saudi Arabia and Russia may decide to raise production. A number of recent reports have highlighted the pressure on OPEC+ producers to raise output coming from the US and Russia followed by denials from members from within the OPEC, although no official comment has been made on the subject by relevant producers. Average OPEC crude prices during May-18 increased by 8.3%, the biggest monthly increase since November-17. The increase in Kuwait crude was in line with OPEC crude increase at 8.3% while Brent crude price increased at a slightly lower pace of 7.3%.



Meanwhile, the EIA, in its latest Short Term Energy Outlook, raised US crude output forecast for the current year from 10.72 mb/d to 10.79 mb/d, in line with the level seen recently, with higher price forecast for WTI and Brent at USD 64.53/b and USD 71.06/b, respectively. IEA also released its first demand outlook for 2019 and expects a growth of 1.4 mb/d, backed by economic growth and stable oil prices. The agency raised their non-OPEC supply forecast to 2 mb/d and expect a growth of 1.7 mb/d next year with 75% growth coming due to higher US production. IEA said that oil demand in 2018 was characterized by strong growth in 1H-18, partly due to colder weather conditions in the Northern Hemisphere that would be partly offset by an expected slowdown during 2H-18.

The increase in US crude was also reflected in the capital expenditure figures forecasted by Rystad Energy in its latest report. According to the report, non-OPEC capex (including exploration) increased by 6% in 2017 after declining by more than a quarter in the previous two years. For 2018, capex is expected to reach USD 290 Bn, a y-o-y increase of USD 14 Bn or 5%. Investments in North American tight oil, primarily in US, is expected to see the strongest growth of 17% in 2018 and is estimated to reach USD 110 Bn.

Average Crude Oil Prices, USD/b	Apr-18	May-18	Change	YTD-2017	YTD-2018
OPEC Reference Basket	68.4	74.1	5.7	51.3	67.5
Arab Light	68.9	74.7	5.8	51.4	68.1
Basrah Light	67.1	72.8	5.8	50.6	66.3
Bonny Light	72.8	77.7	5.0	53.1	70.9
Es Sider	70.4	75.3	4.8	51.2	68.8
Girassol	71.8	76.8	5.0	52.8	70.4
Iran Heavy	66.6	72.2	5.6	51.0	66.0
Kuwait Export	67.0	72.6	5.6	50.7	66.1
Qatar	67.6	73.4	5.7	52.1	66.9
Merey	60.2	68.2	8.0	45.8	60.6
Murban	71.0	76.7	5.7	54.2	69.9
Oriente	65.4	70.4	5.0	48.2	64.3
Rabi	70.6	75.9	5.3	51.7	68.9
Saharan Blend	72.1	77.3	5.1	52.5	70.6
Zafiro	71.4	76.7	5.3	52.4	69.9
Other Crudes					
Brent	71.6	76.9	5.3	52.8	69.9
Dubai	68.3	74.2	5.9	52.3	67.0
Isthmus	68.1	73.0	4.9	53.7	67.9
LLS	69.5	75.2	5.8	52.8	68.6
Mars	66.5	71.4	4.9	49.2	65.2
Minas	63.5	68.3	4.7	48.8	62.1
Urals	69.2	75.2	6.1	51.4	68.1
WTI	66.3	69.9	3.6	50.9	65.1
Differentials					
Brent/WTI	5.3	7.0	1.7	1.9	4.8
Brent/LLS	2.1	1.6	(0.5)	-	1.3
Brent/Dubai	3.3	2.7	(0.6)	0.4	2.9

Source: OPEC Monthly Oil Market Report - June-18

World Oil Demand

World oil demand growth estimates for 2017 was kept unchanged at 1.65 mb/d and is estimated to have averaged at 97.2 mb/d. Demand expectations for 2018 was also kept unchanged from previous month and is expected to grow at the same pace as in 2017 by 1.65 mb/d to average at 98.85 mb/d. Nevertheless, there were internal adjustments in demand figures by individual countries with upward revisions in the OECD region by around 0.02 mb/d offset by downward revisions of an equivalent quantity in the non-OECD region. The upward revision in the OECD came after better-than-expected demand data from the US led by new ethane capacity additions during Q1-18 that led to higher petrochemical feedstock demand, especially light distillates. This resulted in an overall increase in OECD Americas demand by 0.07 mb/d during the quarter. Oil demand data for the US continues to show positive trend. Almost all the indicators for the month of

World Oil Demand - 2016/2017, mb/d	2016	Q1-17	Q2-17	Q3-17	Q4-17	2017	Y-o-Y Growth	% Chg.
Americas	24.74	24.47	24.96	24.98	25.09	24.88	0.14	0.55
of which US	20.00	19.83	20.31	20.23	20.38	20.19	0.19	0.95
Europe	14.04	13.95	14.33	14.76	14.44	14.37	0.33	2.36
Asia Pacific	8.12	8.56	7.76	7.90	8.43	8.16	0.04	0.53
Total OECD	46.90	46.98	47.05	47.64	47.96	47.41	0.51	1.09
Other Asia	12.85	12.87	13.30	12.95	13.52	13.16	0.31	2.38
of which India	4.39	4.43	4.42	4.20	4.81	4.47	0.08	1.79
Latin America	6.47	6.26	6.49	6.80	6.46	6.51	0.04	0.57
Middle East	8.09	8.23	8.03	8.55	7.88	8.17	0.08	0.96
Africa	4.10	4.25	4.19	4.14	4.24	4.20	0.11	2.63
Total Developing Countries (DCs)	31.51	31.60	32.01	32.44	32.11	32.04	0.53	1.68
Former Soviet Union (FSU)	4.63	4.56	4.39	4.77	5.10	4.70	0.07	1.58
Other Europe	0.70	0.71	0.67	0.70	0.79	0.72	0.02	3.16
China	11.80	11.88	12.40	12.30	12.70	12.32	0.52	4.41
Total "Other Regions"	17.13	17.14	17.46	17.77	18.59	17.74	0.62	3.59
Total World	95.54	95.73	96.52	97.85	98.65	97.20	1.65	1.73

Source: OPEC Monthly Oil Market Report - June-18

March-18 recorded positive growth including a higher industrial production index that resulted in higher diesel demand, positive trucking activities, positive housing start index as well as rising jet fuel demand. Vehicle sales were the only indicator that showed a declining trend with a fall of 12% for the month of March-18, although gasoline demand remained positive. Preliminary data for April-18 and May-18 also showed continued rise in oil demand in the US. On the other hand, Mexico and Canada recorded a softer demand trend based on the latest available data, that offset the overall OECD Americas oil demand numbers. In OECD Europe, data for April-18 showed positive momentum after a marginal decline in March-18. Oil requirements showed solid growth in the European Big 4 countries based on preliminary data for April-18, with UK being the only country to show a decline. Overall, Q1-18 oil demand in the region remained upbeat backed by continuing strong industrial activity in Germany, France, the UK, Turkey and Spain.

In the non-OECD group, there was an upward revision to demand data for Other Asia and China for Q1-18 and Q2-18 that was offset by downward revisions in Latin America and the Middle East. China continued to show strong demand trends in April-18, while reduction in subsidy and substitution programmes in the Middle East affected demand for oil in the region.

World Oil Demand - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	24.88	24.91	25.17	25.22	25.35	25.16	0.29	1.15
of which US	20.19	20.36	20.53	20.47	20.58	20.48	0.30	1.46
Europe	14.37	14.07	14.41	14.86	14.52	14.47	0.10	0.68
Asia Pacific	8.16	8.62	7.77	7.88	8.44	8.18	0.01	0.17
Total OECD	47.41	47.61	47.35	47.96	48.31	47.81	0.40	0.84
Other Asia	13.16	13.40	13.69	13.33	13.89	13.58	0.42	3.18
of which India	4.47	4.75	4.66	4.32	4.97	4.67	0.21	4.66
Latin America	6.51	6.37	6.58	6.89	6.55	6.60	0.09	1.39
Middle East	8.17	8.21	8.10	8.63	7.97	8.23	0.06	0.69
Africa	4.20	4.36	4.33	4.27	4.38	4.33	0.13	3.11
Total Developing Countries (DCs)	32.04	32.33	32.69	33.13	32.79	32.74	0.70	2.17
Former Soviet Union (FSU)	4.70	4.66	4.50	4.89	5.21	4.82	0.12	2.45
Other Europe	0.72	0.73	0.69	0.73	0.82	0.74	0.03	3.48
China	12.32	12.28	12.84	12.71	13.12	12.74	0.42	3.40
Total "Other Regions"	17.74	17.68	18.03	18.33	19.15	18.30	0.56	3.15
Total World	97.20	97.61	98.07	99.42	100.25	98.85	1.65	1.70

Source: OPEC Monthly Oil Market Report - June-18

World Oil Supply

Global oil supply continued to rise during May-18 recording a growth of 0.27 mb/d and averaged at 97.86 mb/d, showing an increase of 1.74 mb/d as compared to May-17. Non-OPEC supply during the month accounted for the bulk of this increase with a growth of 0.23 mb/d and averaged at 65.99 mb/d (including OPEC NGLs), while OPEC oil production remained largely flat during the month (+0.04 mb/d).

For the full year 2017, non-OPEC oil supply estimate was marginally revised upward by 0.01 mb/d due to rounding to average at 57.89 mb/d resulting in a growth of 0.88 mb/d. Non-OPEC supply growth projections for 2018 was once again revised upward by 0.13 mb/d to

Non-OPEC Oil Supply - 2016/2017, mb/d	2016	Q1-17	Q2-17	Q3-17	Q4-17	2017	Y-o-Y Growth	% Chg.
Americas	20.61	21.10	20.95	21.39	22.42	21.47	0.86	4.17
of which US	13.63	13.81	14.12	14.32	15.18	14.36	0.73	5.33
Europe	3.85	3.98	3.84	3.73	3.77	3.83	(0.03)	(0.68)
Asia Pacific	0.42	0.38	0.40	0.41	0.38	0.39	(0.03)	(7.70)
Total OECD	24.89	25.46	25.18	25.53	26.56	25.69	0.80	3.21
Other Asia	3.71	3.65	3.60	3.57	3.60	3.60	(0.11)	(2.91)
Latin America	5.07	5.13	5.14	5.13	5.15	5.14	0.07	1.30
Middle East	1.28	1.24	1.24	1.25	1.22	1.24	(0.04)	(3.21)
Africa	1.78	1.82	1.85	1.86	1.88	1.85	0.07	3.91
Total Developing Countries (DCs)	11.84	11.84	11.82	11.81	11.85	11.83	(0.01)	(0.11)
Former Soviet Union (FSU)	13.86	14.13	14.14	13.90	14.07	14.06	0.20	1.44
of which Russia	11.08	11.25	11.24	11.06	11.14	11.17	0.09	0.79
Other Europe	0.13	0.13	0.13	0.13	0.12	0.13	(0.01)	(3.87)
China	4.09	3.96	4.03	3.95	3.96	3.97	(0.12)	(2.85)
Total "Other regions"	18.08	18.22	18.30	17.97	18.15	18.16	0.08	0.43
Total Non-OPEC Production	54.81	55.52	55.31	55.31	56.57	55.68	0.86	1.58
Processing gains	2.19	2.21	2.21	2.21	2.21	2.21	0.02	0.77
Total Non-OPEC Supply	57.01	57.73	57.52	57.52	58.78	57.89	0.88	1.55
OPEC NGLs and non-conventionals	6.14	6.21	6.26	6.35	6.42	6.31	0.17	2.77
OPEC Crude Oil Production	32.64	32.11	32.28	32.71	32.38	32.37	(0.27)	(0.83)
Total World Supply	95.79	96.05	96.06	96.58	97.58	96.57		

Source: OPEC Monthly Oil Market Report - June-18

a growth of 1.86 mb/d to average at 59.75 mb/d. The upward revision primarily reflected an 80 tb/d addition to Q1-18 production data for the OECD region, particularly for US and Canada, followed by an upward adjustment of 79 tb/d for Q2-18 production forecast for the OECD. Outside the OECD, supply estimates were raised by 215 tb/d for FSU and by 81 tb/d for China. Oil production in the US has shown consistent increase over the past few months. Preliminary data for April-18 and May-18 suggested a production rate of 10.58 mb/d and 10.74 mb/d, according to weekly data published by the US DoE. In OECD Europe, total liquids production in Norway, the UK and Denmark increased by 0.04 mb/d during April-18 and averaged at 3.1 mb/d. In Russia, data from the Ministry of Energy showed a production rate of 11.16 mb/d for May-18

Non-OPEC Oil Supply - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	21.47	22.82	22.92	23.47	23.68	23.23	1.76	8.19
of which US	14.36	15.52	15.96	16.11	16.23	15.96	1.60	11.11
Europe	3.83	3.91	3.79	3.80	4.01	3.88	0.05	1.34
Asia Pacific	0.39	0.40	0.40	0.40	0.39	0.40	0.00	0.88
Total OECD	25.69	27.13	27.12	27.67	28.08	27.50	1.81	7.06
Other Asia	3.60	3.62	3.57	3.60	3.60	3.60	(0.01)	(0.20)
Latin America	5.14	5.11	5.15	5.32	5.41	5.25	0.11	2.16
Middle East	1.24	1.21	1.25	1.23	1.22	1.23	(0.01)	(0.70)
Africa	1.85	1.86	1.88	1.91	1.91	1.89	0.04	2.02
Total Developing Countries (DCs)	11.83	11.80	11.85	12.06	12.14	11.96	0.13	1.12
Former Soviet Union (FSU)	14.06	14.13	14.12	13.89	13.94	14.02	(0.04)	(0.29)
of which Russia	11.17	11.16	11.16	10.98	10.98	11.07	(0.10)	(0.93)
Other Europe	0.13	0.12	0.12	0.12	0.12	0.12	0.00	(2.76)
China	3.97	3.94	3.95	3.84	3.85	3.90	(0.08)	(1.97)
Total "Other regions"	18.16	18.19	18.20	17.85	17.91	18.04	(0.12)	(0.68)
Total Non-OPEC Production	55.68	57.12	57.16	57.58	58.13	57.50	1.82	3.27
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	57.89	59.36	59.41	59.83	60.38	59.75	1.86	3.21

Source: OPEC Monthly Oil Market Report - June-18

OPEC Oil Production & Spare Capacity

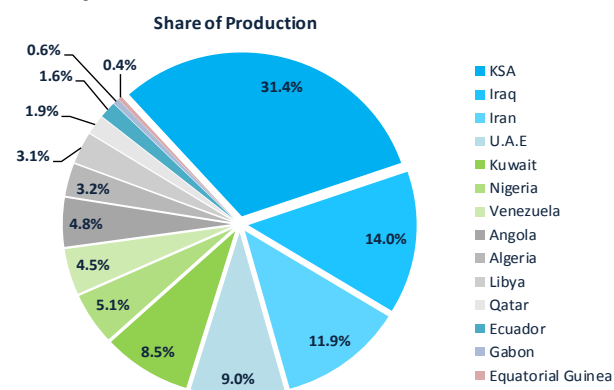
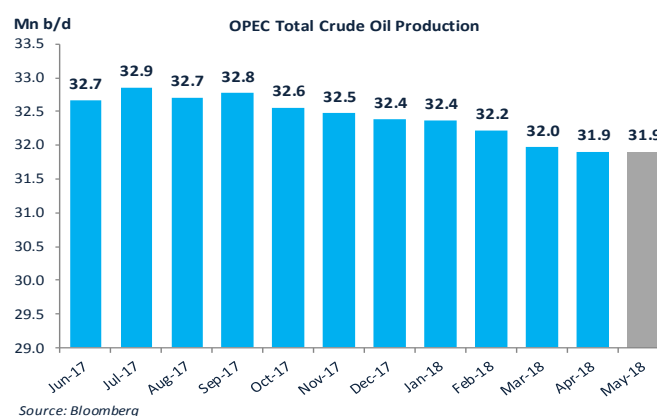
OPEC production remained largely unchanged during May-18 although there were significant changes in production by individual producers. Bloomberg data suggested flat production rate during the month at 31.9 mb/d, the lowest level since April-17 while data from OPEC's secondary sources showed a marginal increase of 35.4 tb/d during the month. According to OPEC, Saudi Arabia witnessed the biggest jump in production during the month by 85.5 tb/d and produced at an average rate of 9.987 mb/d. Algeria and Iraq also reported higher production by 39 tb/d and 27.7 mb/d. These increases were partly by a decline in production in Nigeria by 53.5 tb/d (Bloomberg data showed a decline of 190 tb/d) followed by a decline of 42.5 tb/d in Venezuela and 24.3 tb/d in Libya. Following the aforementioned hike in production by members that are a part of the ongoing production cut pact and a decline in production from exempt members led

Production ('000 b/d)	Apr-18	May-18	Change		Capacity	Spare Capacity
Total OPEC-13	31,900	31,900	0	0.0%	35,715	3,815
KSA	9,900	10,010	110	1.1%	11,500	1,490
Iraq	4,430	4,480	50	1.1%	4,700	220
Iran	3,780	3,810	30	0.8%	4,000	190
U.A.E	2,860	2,870	10	0.3%	3,150	280
Kuwait	2,700	2,710	10	0.4%	3,000	290
Nigeria	1,810	1,620	-190	-10.5%	1,900	280
Venezuela	1,490	1,440	-50	-3.4%	1,900	460
Angola	1,500	1,530	30	2.0%	1,710	180
Algeria	990	1,020	30	3.0%	1,150	130
Libya	990	990	0	0.0%	1,000	10
Qatar	610	600	-10	-1.6%	780	180
Ecuador	520	520	0	0.0%	555	35
Gabon	190	180	-10	-5.3%	220	40
Equatorial Guinea	130	120	-10	-7.7%	150	30
Total OPEC-12	27,470	27,420	-50	-0.18%	31,015	3,595

to a fall in compliance levels to the pact to 162% as compared to 171% during April-17, according to Bloomberg. Compliance level by Saudi Arabia dropped from 132% in April-18 to 115% in May-18 while Iraq's compliance dropped from 64% to 50%.

The decline in oil production in Nigeria came after outages in key pipelines during May-18 that pushed the country's oil production to the lowest in one year. Furthermore, Shell declared force majeure on Bonny Light crude shipments in May-18 following pipeline leaks in addition to delays in exports from the Forcados terminal. As a result, the country's exports are expected to fall to 1.43 mb/d in the coming months from around 1.8 mb/d recently. Production in Libya also dropped during the month following extreme weather conditions that halted turbines and affected oil-field equipment.

Meanwhile, in its latest monthly report, the IEA said that output from Iran and Venezuela could decline by almost 30% next year given US sanctions and political instability concerning both the producers. According to GlobalData, production in Venezuela could drop to around 1 mb/d by the end of 2018. This would require other members to compensate for the decline. KAMCO Research believes that any decision to raise output by the OPEC in the upcoming meeting would involve sharing the hike in production by almost all the members given ample excess spare capacity and would not focus solely on Saudi Arabia and Russia.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	Analyst	As Of	Q2 18	Q3 18	Q4 18	Q1 19
Itau Unibanco Holding SA	A. Passos	11/Jun/18	74.3	72.5	68.9	67.9
HSBC Holdings PLC	G. Gray	5/Jun/18	72.8	70.0	70.0	70.0
Guggenheim Securities LLC	M. Lamotte	4/Jun/18	75.0	78.5	79.0	78.0
Wells Fargo Securities LLC	R. Read	4/Jun/18	77.0	75.0	72.0	70.0
Commerzbank AG	E. Weinberg	1/Jun/18	73.0	70.0	65.0	63.0
Societe Generale SA	M. Wittner	30/May/18	67.0	80.0	78.0	73.0
BNP Paribas SA	H. Tchilinguirian	25/May/18	78.0	84.0	82.0	79.0
Intesa Sanpaolo SpA	D. Corsini	23/May/18	74.5	75.0	75.0	75.0
Citigroup Inc	E. Morse	22/May/18	75.0	78.0	79.0	
Capital Economics Ltd	T. Pugh	14/May/18	71.0	69.5	66.0	63.5
Lloyds Bank PLC	C. Paraskevas	14/May/18	70.0	72.0	74.0	76.0
HSH Nordbank AG	J. Edelmann	14/May/18	80.0	76.0	72.0	66.0
Emirates NBD PJSC	E. Bell	11/May/18	70.0	70.0	68.0	67.5
DZ Bank AG	A. Herlinghaus	10/May/18	72.5	67.5	65.0	65.0
Westpac Banking Corp	J. Smirk	8/May/18	75.0	71.7	66.7	58.3
Landesbank Baden-Wuerttemberg	F. Schallenger	7/May/18	71.0	73.0	75.0	75.0
Societe Generale SA	C. Narayanan	4/May/18	67.0	68.0	64.0	66.2
Citigroup Inc	A. Doshi	30/Apr/18	64.0	66.0	61.0	
Toronto-Dominion Bank/Toronto	B. Melek	26/Apr/18	72.0	70.0	70.0	70.0
Raiffeisen Bank International AG	H. Loacker	23/Apr/18	74.0	75.0	76.0	74.0
Banco Santander SA	J. Kenney	13/Apr/18	64.0	59.0	58.2	58.0
Bank of Nova Scotia/The	M. Loewen	9/Apr/18	68.0	71.0	73.7	76.0
Market Risk Advisory Co Ltd	N. Niimura	3/Apr/18	65.0	64.0	65.0	66.0
Bank of Tokyo-Mitsubishi UFJ Ltd/The	E. Khoman	3/Apr/18	65.7	62.2	61.4	60.2
CIBC World Markets Inc	J. Pinto	23/Mar/18	67.5	63.0		
ABN AMRO Bank NV	H. Van Cleef	22/Mar/18	70.0	70.0	73.0	78.0
Norddeutsche Landesbank Girozentrale	F. Kunze	8/Mar/18	68.0	68.0	68.0	61*
Natixis SA	J. Hancock	5/Mar/18	64.0	66.0	68.5	67.0
Nordea Bank Norge ASA	T. Saltvedt	1/Mar/18	65.0	66.0	67.0	67.0
Australia & New Zealand Banking Group Ltd/Melbourne	D. Hynes	27/Feb/18	67.0	70.0	67.0	68.0
DNB ASA	T. Kjus	21/Feb/18	62.0	62.0	62.0	69.0
Oxford Economics Ltd	D. Smith	2/Feb/18	69.0	65.0	65.0	65.0
Median			69.0	70.0	68.3	67.7
Mean			69.3	69.4	69.0	68.5
High			80.0	84.0	82.0	79.0
Low			61.0	59.0	58.0	57.5
Current Fwd			76.2	75.3	74.5	73.5
Difference (Median - Current)			-7.2	-5.3	-6.2	-5.8

Source: Bloomberg

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KAMCO Investment Company

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 1852626 Fax: (+965) 22492395

Email : Kamcoird@kamconline.com

Website : <http://www.kamconline.com>