

Oil Market Monthly Report

April - 2018

In this Report...

- Oil Prices 2
- Oil Demand 3
- Oil Supply 4
- Reserve & Capacity 5
- Oil Price Forecast 6

Geopolitical events push oil prices above USD 70/b to 3.5 year high...

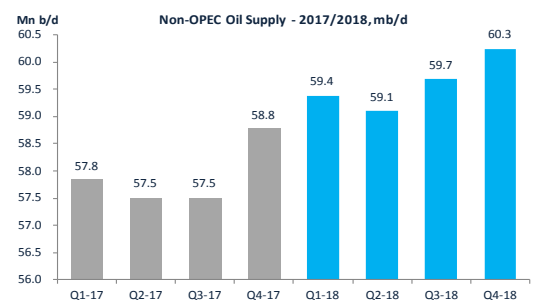
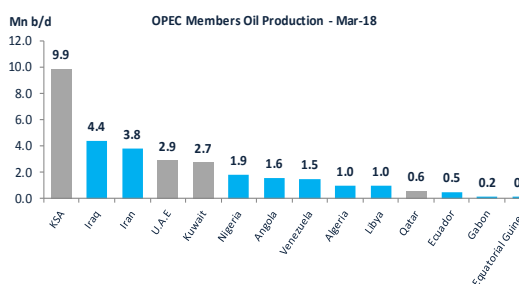
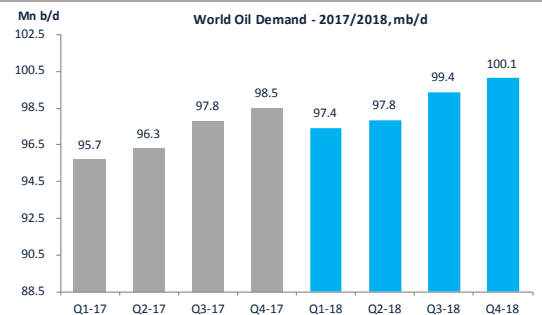
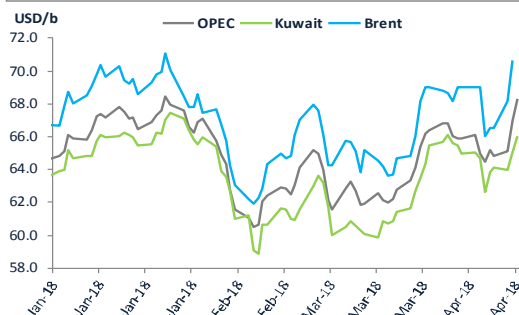
Oil prices were the ultimate beneficiary from a number of geopolitical events that took place over the past few weeks that led to increased volatility in the oil market and making oil the only asset class to scale new highs in 2018. The first push came from the ongoing US/China trade talks with the two countries trying to restrict flow of goods and services between these countries by way of tariff impositions. This initially resulted in a trade war like situation by the end of March-18 pushing oil prices down as it would've threatened global economic growth, but positive attempts were made in the last week to diffuse the situation resulting in a positive impact on oil prices. IEA, in its monthly report, also highlighted the risk on oil demand coming from the US/China trade tariffs. These concerns also impacted gold prices, as prices moved closer to the highest level witnessed in two years.

Meanwhile, the geopolitical situation in the Middle East escalated to new high since the start of April-18 sending shockwaves across the oil market. Prices reached the highest level since 2014 after news of US intervention in the region led to Brent crude surpassing the USD 72/b mark. The market is also looking at whether the US and the European Union would reimpose sanctions on Iran with a possible decision sometime in May-18 that has the potential to result in supply disruptions in the oil market.

In terms of OPEC supply, the group lowered the production even further by 201 tb/d, according to OPEC secondary sources, while Bloomberg data showed a decline of 170 tb/d while producing at an average rate of 32.04 mb/d, the lowest level since May-17. The decline came primarily on the back of lower production in Venezuela, Libya, Algeria and Angola partially offset by higher production in UAE and Nigeria. This pushed up OPEC compliance to the ongoing production cuts to a record 163% for the fifth consecutive month, according to IEA.

Moreover, the recent oil price rise was not just led by supply-side factors. Oil demand is also said to have risen, especially from the OECD countries, according to OPEC monthly report. This prompted an upward revision in oil demand growth for 2018 by 30 tb/d, as compared to last month's forecast, to a growth of 1.63 mb/d. On the other hand, although IEA kept its global oil demand growth forecast for 2018 unchanged at 1.5 mb/d, the agency also highlighted strong demand in OECD during Q1-18 led by cold weather in the US and the start-up of a petrochemical project.

As highlighted in our previous reports, KAMCO Research reiterates that the current surge in oil prices are backed by numerous fragile factors. We see that fundamentals have taken a backseat currently and markets are moving on external factors. Also, higher oil prices makes the production cut agreement more susceptible to opposition from members seeking to take advantage of the prices rather than allowing the US to produce unabated.



Source for the above charts : OPEC and Bloomberg

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

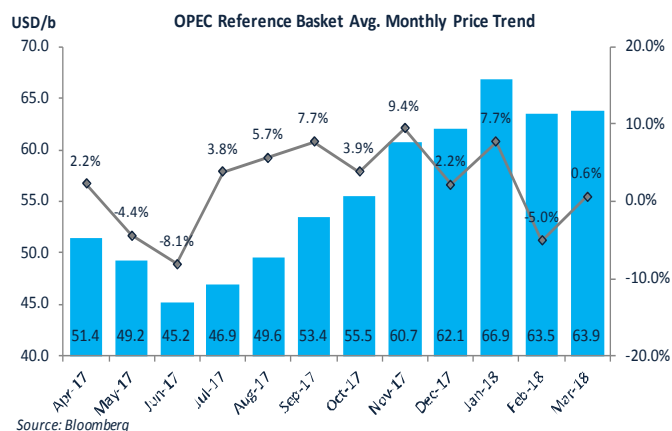
Junaid Ansari
 Assistant Vice President
 +(965) 2233 6912
junaid.ansari@kamconline.com

Oil Prices

Average monthly oil prices were almost flat m-o-m during March-18 after healthy gains during the third week of the month were offset by declines towards the close of the month led by trade conflicts between US and China. The weakness extended during the initial trading days in April-18 but geopolitical concerns in the Middle East coupled with signs of healthy oil demand and continued low supply pushed prices up during the second week. Average OPEC crude grade prices were recorded at USD 63.8/barrel while Kuwait crude and Brent Spot were at 62.23/barrel and USD 65.9/barrel, respectively.

Crude oil inventories in the US continued to fluctuate on a weekly basis with the latest report pointing to a build as against analyst expectations of a small draw. Production in the US reached another record high of 10.5 mb/d which along with higher imports resulted in higher inventory levels. API reported an inventory build of 1.8 million barrels during the week ended 6-April-18 while EIA weekly report showed an almost double inventory build of 3.3 million barrels. Nevertheless, average inventories for the last four weeks were reportedly stable as compared to the same period last year.

On the other hand, the IEA kept its global oil demand growth estimates for 2018 unchanged at 1.5 mb/d after higher demand from OECD countries and from India was offset by a downward revision to demand data for non-OECD countries, including China. According to the monthly report, global oil supply declined by 120 tb/d during March-18 led by higher compliance from OPEC producers, although rising US output partially offset this decline. In one of the significant developments, the IEA report said that OECD commercial stocks declined by 26 million barrels to reach 2,841 million barrels, merely 30 million barrels above the five-year average, the indicator used to gauge the effectiveness of OPEC's production cuts. It is expected that the average could be reached by May-18, post which the direction on the future cuts would be expected.



Average Crude Oil Prices, USD/b	Feb-18	Mar-18	Change	YTD-2016	YTD-2017
OPEC Reference Basket	63.5	63.8	0.3	52.0	64.8
Arab Light	64.0	64.4	0.4	52.1	65.3
Basrah Light	62.3	62.3	(0.0)	51.3	63.6
Bonny Light	66.0	67.1	1.0	54.0	67.7
Es Sider	64.4	64.9	0.5	52.1	65.9
Girassol	66.1	66.9	0.8	53.8	67.6
Iran Heavy	62.3	62.2	(0.1)	51.7	63.5
Kuwait Export	62.1	62.2	0.1	51.3	63.4
Qatar	63.1	63.4	0.3	52.7	64.4
Merey	57.7	56.9	(0.8)	45.9	57.9
Murban	65.9	66.3	0.4	55.0	67.0
Oriente	60.3	61.2	0.9	48.4	61.7
Rabi	64.2	64.9	0.7	52.5	65.8
Saharan Blend	66.0	66.7	0.7	53.7	67.6
Zafiro	65.2	65.9	0.7	53.4	66.8
Other Crudes					
Brent	65.2	65.9	0.7	53.7	66.8
Dubai	62.7	62.8	0.1	53.0	63.9
Isthmus	64.8	65.4	0.6	54.4	66.0
LLS	64.4	65.1	0.7	53.4	65.8
Mars	60.9	62.1	1.2	49.6	62.4
Minas	58.2	58.9	0.8	50.0	59.4
Urals	63.0	63.6	0.6	52.3	65.2
WTI	62.2	62.8	0.6	51.7	62.9
Differentials					
Brent/WTI	3.0	3.1	0.1	1.9	3.9
Brent/LLS	0.7	0.8	0.0	0.2	0.9
Brent/Dubai	2.5	3.1	0.7	0.6	2.9

Source: OPEC Monthly Oil Market Report - April-18

World Oil Demand

World oil demand growth estimates for 2017 was revised up by 30 tb/d to 1.65 mb/d reflecting updated data for OECD and non-OECD regions. Oil demand data for Q4-17 was updated for OECD Europe with an upward revision of 0.12 mb/d reflecting data for Turkey, Poland and France driven by higher middle distillates requirements. For the same quarter, data for China and Other Asia in the non-OECD group was also revised upwards by 20 tb/d each backed by positive oil demand growth in these regions.

Demand expectations for 2018 was also revised up by an equivalent amount to a growth of 1.63 mb/d to reach 98.7 mb/d with Q4-18 demand expected to reach a historical significance level of 100 mb/d. The revision reflected better-than-expected data from OECD countries for Q1-18 with an increase of 0.13 mb/d on the back of higher industrial activity, colder-than-expected weather conditions and

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	24.62	25.03	25.11	25.12	24.97	0.23	0.93
of which US	20.00	19.94	20.32	20.29	20.38	20.23	0.23	1.16
Europe	14.04	13.83	14.18	14.66	14.39	14.27	0.23	1.61
Asia Pacific	8.12	8.60	7.72	7.92	8.41	8.16	0.04	0.51
Total OECD	46.90	47.04	46.92	47.69	47.93	47.40	0.50	1.06
Other Asia	12.85	12.87	13.30	12.95	13.52	13.16	0.31	2.37
of which India	4.39	4.43	4.42	4.20	4.81	4.47	0.08	1.80
Latin America	6.47	6.27	6.51	6.82	6.47	6.52	0.05	0.76
Middle East	7.97	8.11	7.91	8.42	7.76	8.05	0.08	0.98
Africa	4.10	4.25	4.19	4.14	4.24	4.20	0.11	2.63
Total Developing Countries (DCs)	31.39	31.49	31.90	32.33	31.99	31.93	0.54	1.72
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	3.15
China	11.80	11.88	12.40	12.30	12.70	12.32	0.52	4.40
Total "Other Regions"	17.13	17.14	17.46	17.77	18.59	17.74	0.61	3.58
Total World	95.42	95.68	96.28	97.79	98.50	97.07	1.65	1.73

Source: OPEC Monthly Oil Market Report - April-18

strong mining activity in OECD Americas (US) and OECD Asia Pacific (Japan, South Korea and Australia). On the non-OECD side, the Other Asia region saw a demand upgrade of 30 tb/d for Q1-18 reflecting better-than-expected demand from industrial and transportation sectors. Downward adjustments were made in demand growth figures for the Middle East region by 30 tb/d for Q1-18 highlighting lower-than-expected regional oil demand developments. In the US, gasoline demand was reportedly up in January-18 after a two month slump based on latest available figures backed by higher mileage. The increase in diesel demand was even higher by 0.6 mb/d or 16.2% y-o-y on the back of higher demand in transportation and industrial sectors coupled with colder weather in large parts of the country. Preliminary data for February-18 and March-18 also showed a continued trend of increasing oil demand in the US, although at a slightly lower pace supported by road transportation and industrial fuels segments. In OECD Europe, average oil demand data for the first two months of the year remained positive as a decline in January-18 was offset by a bigger growth in February-18, on the back of positive economic developments in large parts of OECD Europe and strong vehicle sales. Oil demand in China was also positive during February-18 led by higher gasoline and jet fuel usage in the road transportation sector and LPG demand in the petrochemical sector.

World Oil Demand - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	24.97	24.93	25.24	25.36	25.38	25.23	0.26	1.02
of which US	20.23	20.21	20.54	20.53	20.58	20.46	0.23	1.16
Europe	14.27	13.95	14.26	14.76	14.48	14.36	0.10	0.68
Asia Pacific	8.16	8.63	7.73	7.89	8.42	8.17	0.01	0.07
Total OECD	47.40	47.51	47.22	48.01	48.27	47.76	0.36	0.76
Other Asia	13.16	13.29	13.69	13.33	13.89	13.55	0.39	2.97
of which India	4.47	4.70	4.66	4.32	4.97	4.66	0.20	4.39
Latin America	6.52	6.37	6.60	6.92	6.57	6.61	0.10	1.46
Middle East	8.05	8.17	7.99	8.53	7.86	8.14	0.09	1.09
Africa	4.20	4.39	4.33	4.27	4.38	4.34	0.14	3.28
Total Developing Countries (DCs)	31.93	32.21	32.61	33.04	32.71	32.64	0.71	2.23
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	12.82	12.71	13.12	12.73	0.42	3.37
Total "Other Regions"	17.74	17.68	18.01	18.33	19.15	18.30	0.56	3.13
Total World	97.07	97.40	97.84	99.38	100.13	98.70	1.63	1.67

Source: OPEC Monthly Oil Market Report - April-18

World Oil Supply

According to preliminary data, global oil supply increased by 0.18 mb/d m-o-m to reach 98.15 mb/d in March-18 (including OPEC NGLs) as a result of higher non-OPEC oil supply to the tune of 0.38 mb/d to average 66.2 mb/d. In terms of individual producers, US, Norway, UK, Bahrain, Brazil, Latin America, Russia and China increased production during the month that was partially offset by decline in production in Colombia, Oman and Kazakhstan.

Non-OPEC oil supply estimates for 2017 was revised upwards by 0.03 mb/d to an average of 57.9 mb/d indicating a growth of 0.9 mb/d led by revisions in historical production data for Canada to show a growth of 0.9 mb/d for the full year. Non-OPEC supply growth figures

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	21.08	20.91	21.34	22.37	21.43	0.82	3.98
of which US	13.63	13.79	14.08	14.28	15.14	14.33	0.69	5.08
Europe	3.81	3.93	3.79	3.68	3.73	3.78	(0.02)	(0.62)
Asia Pacific	0.42	0.38	0.40	0.41	0.38	0.39	(0.03)	(7.57)
Total OECD	24.84	25.40	25.10	25.43	26.48	25.60	0.76	3.07
Other Asia	3.71	3.67	3.62	3.59	3.62	3.62	(0.09)	(2.38)
Latin America	5.10	5.19	5.20	5.19	5.20	5.20	0.10	1.91
Middle East	1.28	1.24	1.24	1.25	1.22	1.24	(0.04)	(3.21)
Africa	1.79	1.84	1.85	1.86	1.89	1.86	0.07	3.73
Total Developing Countries (DCs)	11.88	11.94	11.91	11.89	11.94	11.92	0.04	0.30
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	4.10	4.02	4.03	3.95	3.96	3.99	(0.11)	(2.62)
Total "Other regions"	18.09	18.28	18.30	17.97	18.15	18.17	0.09	0.48
Total Non-OPEC Production	54.81	55.61	55.30	55.29	56.56	55.69	0.89	1.62
Processing gains	2.19	2.21	2.21	2.21	2.21	2.21	0.02	0.77
Total Non-OPEC Supply	57.00	57.83	57.51	57.50	58.77	57.90	0.90	1.58
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	32.73	32.40	32.38	(0.26)	(0.81)
Total World Supply	95.78	96.15	96.05	96.58	97.59	96.59		

Source: OPEC Monthly Oil Market Report - April-18

for 2018 were also revised upwards by 0.08 mb/d to a growth of 1.71 mb/d to reach an average of 59.61 mb/d led by higher-than-expected supply from Russia and the US during Q1-18. Revisions to supply estimates included Canada (+51 tb/d), the US (+36 tb/d), Malaysia (+28 tb/d), Brunei (+20 tb/d), Russia (+19 tb/d) and China (-35 tb/d). Non-OPEC supply during March-18 witnessed a m-o-m growth of 0.38 mb/d, based on preliminary numbers, to average at 59.74 mb/d. The month saw higher production in all the regions except in Other Asia and Russia. The higher supply estimates for Canada was due to the starting and ramping of several new projects that will also be reflected in the coming months, although Q2-18 will see heavy maintenance activity. Brazil is also expected to raise production in 2018 by around 0.21 mb/d led by installation of eight new FPSOs this year.

Non-OPEC Oil Supply - 2017/2018, mb/d	2017	Q1-18	Q2-18	Q3-18	Q4-18	2018	Y-o-Y Growth	% Chg.
Americas	21.43	22.72	22.81	23.36	23.57	23.12	1.69	7.88
of which US	14.33	15.40	15.79	16.00	16.12	15.83	1.50	10.50
Europe	3.78	3.88	3.75	3.75	3.96	3.84	0.05	1.41
Asia Pacific	0.39	0.40	0.40	0.40	0.39	0.40	0.00	0.73
Total OECD	25.60	27.00	26.96	27.50	27.91	27.35	1.74	6.81
Other Asia	3.62	3.59	3.61	3.61	3.60	3.60	(0.02)	(0.48)
Latin America	5.20	5.21	5.29	5.38	5.49	5.34	0.15	2.81
Middle East	1.24	1.21	1.23	1.23	1.21	1.22	(0.02)	(1.36)
Africa	1.86	1.90	1.91	1.91	1.92	1.91	0.05	2.65
Total Developing Countries (DCs)	11.92	11.92	12.04	12.13	12.22	12.08	0.16	1.35
Former Soviet Union (FSU)	14.06	14.14	13.86	13.85	13.90	13.93	(0.13)	(0.90)
of which Russia	11.17	11.15	10.98	10.98	10.98	11.02	(0.15)	(1.32)
Other Europe	0.13	0.12	0.13	0.12	0.12	0.12	0.00	(1.77)
China	3.99	3.96	3.87	3.84	3.85	3.88	(0.11)	(2.69)
Total "Other regions"	18.17	18.22	17.85	17.81	17.87	17.94	(0.24)	(1.30)
Total Non-OPEC Production	55.69	57.14	56.85	57.44	58.00	57.36	1.67	3.00
Processing gains	2.21	2.25	2.25	2.25	2.25	2.25	0.04	1.67
Total Non-OPEC Supply	57.90	59.39	59.10	59.69	60.25	59.61	1.71	2.95

Source: OPEC Monthly Oil Market Report - April-18

OPEC Oil Production & Spare Capacity

OPEC production during March-18 was the lowest since May-17 after recording a decline of 170 tb/d to record a production rate of 32.04 mb/d, according to data from Bloomberg. According to OPEC secondary sources, the decline was even higher at 201 tb/d and averaged at 31.958 mb/d resulting in a share of 32.6% in total global production for the OPEC countries. The decline came primarily on the back of lower production in Venezuela (-100 tb/d), Libya (-60 tb/d), Algeria (-40 tb/d) and Angola (-30 tb/d) partially offset by higher production in UAE (+60 tb/d) and Nigeria (+50 tb/d). Production in Saudi Arabia was recorded at 9.87 mb/d, according to Bloomberg, the lowest production rate since January-17. The lower OPEC production during March-18 also resulted in another record compliance to the ongoing production cut agreement at 163%, according to IEA.

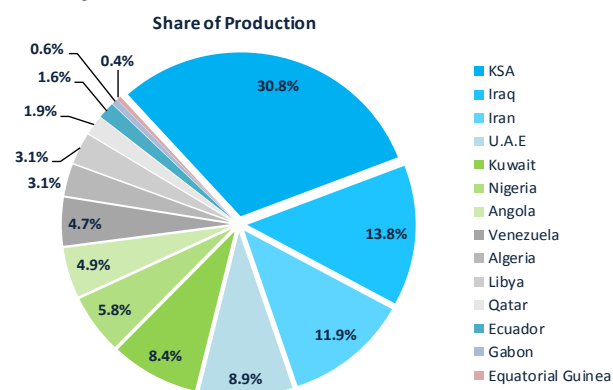
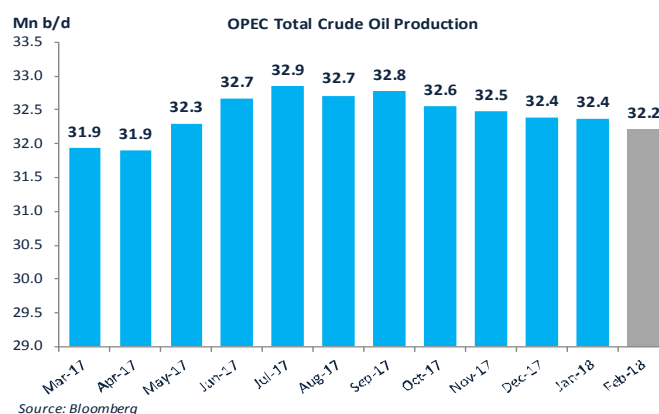
Production ('000 b/d)	Feb-18	Mar-18	Change		Capacity	Spare Capacity
Total OPEC-13	32,210	32,040	-170	-0.5%	35,715	3,675
KSA	9,880	9,870	-10	-0.1%	11,500	1,630
Iraq	4,430	4,430	0	0.0%	4,700	270
Iran	3,830	3,810	-20	-0.5%	4,000	190
U.A.E	2,800	2,860	60	2.1%	3,150	290
Kuwait	2,700	2,700	0	0.0%	3,000	300
Nigeria	1,800	1,850	50	2.8%	1,900	50
Angola	1,600	1,570	-30	-1.9%	1,710	140
Venezuela	1,610	1,510	-100	-6.2%	1,900	390
Algeria	1,040	1,000	-40	-3.8%	1,150	150
Libya	1,050	990	-60	-5.7%	1,000	10
Qatar	620	610	-10	-1.6%	780	170
Ecuador	520	520	0	0.0%	555	35
Gabon	200	190	-10	-5.0%	220	30
Equatorial Guinea	130	130	0	0.0%	150	20
Total OPEC-12	27,780	27,610	-170	-0.61%	31,015	3,405

Oil production in Iran declined by 20 tb/d during March-18 as the country faces economic issues, especially on the exchange rate front. Moreover, there is a looming threat of new economic sanctions on Iran from the US and European Union and decision is expected in May-18.

Oil production in Libya declined by 60 tb/d to 990 mb/d in March-18 due to a continuing outage at its El Feel oilfield since late February-18 that produces at 70 tb/d, in addition to a force majeure on crude loadings at the Mellitah oil terminal due to protests. Meanwhile, Nigeria raised production by 50 tb/d to 1.85 mb/d. The country aims to start work on a new oilfield with an average investment of USD 10 Bn over the next three years.

Oil production in Venezuela reached a new low during March-18 at 1.5 mb/d, according to OPEC secondary sources, as economic and political crisis crippled the country's oil sector. It was reported that the government is trying to halt the slide in output with the help of new measures that includes reorganization of operations and minimization of bureaucracy.

A MEED report said that Iraq, which produced at 4.43 mb/d in March-18, has slashed its near term production target of 7 mb/d by 2022 to 6.5 mb/d as a number of oil projects in the country have seen slower progress hindered by financial and political problems. The number of active oil projects in Iraq was reported at USD 84 bn, a 17% drop from February-17.



Brent Crude Oil Price Forecast by Various Research Houses

Firm	Analyst	As Of	Q2 18	Q3 18	Q4 18	Q1 19
Westpac Banking Corp	J. Smirk	10/Apr/18	66.0	65.0	62.0	57.0
Wells Fargo Securities LLC	R. Read	6/Apr/18	62.8	58.8	61.0	
Toronto-Dominion Bank/Toronto	B. Melek	5/Apr/18	67.0	65.0	65.0	64.0
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
Citigroup Inc	E. Morse	30/Mar/18	58.0	60.0	52.0	
BNP Paribas SA	H. Tchilinguirian	29/Mar/18	66.0	73.0	69.0	64.0
Commerzbank AG	E. Weinberg	29/Mar/18	62.0	60.0	60.0	60.0
HSH Nordbank AG	J. Edelmann	28/Mar/18	72.0	75.0	66.0	62.0
Emirates NBD PJSC	E. Bell	27/Mar/18	59.0	58.0	55.0	
Societe Generale SA	M. Wittner	23/Mar/18	67.0	68.0	64.0	64.0
CIBC World Markets Inc	J. Pinto	23/Mar/18	67.5	63.0		
Intesa Sanpaolo SpA	D. Corsini	21/Mar/18	65.0	65.0	65.0	67.0
Itau Unibanco Holding SA	A. Passos	12/Mar/18	63.2	61.0		
Norddeutsche Landesbank Girozentrale	F. Kunze	8/Mar/18	68.0	68.0	68.0	61*
Banco Santander SA	J. Kenney	7/Mar/18	61.0	57.5	55.0	55.0
Natixis SA	J. Hancock	5/Mar/18	64.0	66.0	68.5	67.0
Capital Economics Ltd	T. Pugh	1/Mar/18	64.0	63.0	61.0	59.5
Nordea Bank Norge ASA	T. Saltvedt	1/Mar/18	65.0	66.0	67.0	67.0
Citigroup Inc	A. Doshi	28/Feb/18	58.0	54.0	52.0	
Australia & New Zealand Banking Group Ltd/Melbourne	D. Hynes	27/Feb/18	67.0	70.0	67.0	68.0
Landesbank Baden-Wuerttemberg	F. Schallenberger	26/Feb/18	65.0	65.0	68.0	72.0
DNB ASA	T. Kjus	21/Feb/18	62.0	62.0	62.0	69.0
DZ Bank AG	A. Herlinghaus	16/Feb/18	62.0	60.0	63.0	
Oxford Economics Ltd	D. Smith	2/Feb/18	69.0	65.0	65.0	65.0
Raiffeisen Bank International AG	H. Loacker	2/Feb/18	63.0	65.0	67.0	65.0
Guggenheim Securities LLC	M. Lamotte	26/Jan/18	69.0	74.0	77.0	77.0
HSBC Holdings PLC	G. Gray	26/Jan/18	65.0	65.0	67.0	
Raymond James & Associates Inc	M. Adkins	24/Jan/18	70.0	70.0	75.0	65.0
KLR Group LLC	J. Gerdes	23/Jan/18	65.0	65.0	65.0	
Incrementum AG	R. Stoeferle	23/Jan/18	63.0	74.0	80.4	77.0
Deutsche Bank AG	M. Hsueh	23/Jan/18	63.0	60.0	60.0	62.0
Bank of China International UK Ltd	X. Fu	10/Jan/18	64.0	64.0	60.0	
Median			65.0	65.0	65.0	65.0
Mean			64.6	64.6	64.6	65.3
High			72.0	75.0	80.4	78.0
Low			58.0	54.0	52.0	55.0
Current Fwd			71.1	69.9	68.5	67.2
Difference (Median - Current)			-6.1	-4.9	-3.5	-2.2

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>