

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Government debt at \$14 trillion at end-2017, equivalent to 48% of GDP

The Institute of International Finance indicated that the level of general government debt in emerging markets (EMs) reached a record-high of \$14 trillion at the end of 2017, which is equivalent to 48% of aggregate EM GDP. It noted that government debt in EMs grew by \$6 trillion since the end of 2010, with significant increases in the public debt levels of Brazil, Colombia, Egypt, South Africa and Ukraine. Also, it pointed out that government debt in Asia is largely in local currency; while 79% of public debt in Argentina is in foreign currency, followed by Saudi Arabia with 48.3% of its debt, Turkey (39%), Poland (31%) and Colombia (30.5%). Further, it said that domestic banks held 86.1% of public debt in China at the end of 2017, followed by Egypt with 52.6% of its debt, Turkey (44.2%), Bulgaria (43.7%) and Russia (42.2%). It added that foreign investors held 62.3% of general government debt in Indonesia at end-2017, followed by Peru with 60.6% of its debt, Ukraine (56.6%), Colombia (53%), Romania (52%) and Uruguay (51.1%), while they held only 3% and 6.1% of government debt in China and India, respectively. In addition, the IIF expected financing needs in Egypt and Pakistan to exceed 15% of their GDP in 2018, while it estimated that the government financing needs of Chile and Russia would be below 5% of their GDP this year. It also anticipated a record-high of \$365bn in EM bonds and syndicated loans to mature in 2019, relative to \$160bn and \$185bn in maturing debt in 2017 and 2018, respectively. Further, it expected debt servicing on EM public debt to be equivalent to around 2% of aggregate EM GDP in the 2018-19 period, ranging from around 0.5% of GDP in Russia to over 6% of GDP in each of Brazil and Egypt.

Source: *The Institute of International Finance*

BAHRAIN

Aggregate earnings of listed firms up 14% to \$622m in first quarter of 2018

The net income of 38 companies listed on the Bahrain Stock Exchange totaled BHD233.7m, or \$621.5m in the first quarter of 2018, which constitutes an increase of 14.3% from BHD204.4m, or \$543.6m, in the same quarter of 2017. Listed commercial banks generated net profits of \$294.2m in the first quarter of 2018 and accounted for 47.3% of the total earnings of publicly-listed firms. Investment firms followed with \$150.1m, or 24.1% of the total, then industrial corporates with \$93.2m (15%), services firms with \$72.3m (11.6%), hotels and tourism companies with \$7.9m (1.3%), and insurers with \$3.9m (0.6%). Further, the net earnings of services companies grew by 43.6% year-on-year in the first quarter of 2018, followed by industrial firms (+26.5%), commercial banks (+13.4%), and investment firms (+4.1%). In contrast, the net profits of listed insurers regressed by 51.6% year-on-year in the first quarter of 2018, while the earnings of hotels & tourism companies decreased by 1.6% annually.

Source: *KAMCO*

MENA

Value of announced M&A deals down 27% to \$15.4bn in first quarter of 2018

Figures issued by EY show that there were 93 merger & acquisition (M&A) deals announced in the Middle East & North Africa (MENA) region for a total of \$15.4bn in the first quarter of 2018. In comparison, there were 119 M&A deals worth a total of \$21bn in the first quarter of 2017. The figures reflect a decrease of 26.7% in the value of deals and a decline of 21.8% in their volume year-on-year in the first quarter of the year. EY noted that there were 23 announced M&A deals in the UAE worth \$5.1bn in the first quarter of 2018, highest in the region. On a sectoral level, the value of announced M&A deals in the oil & gas sector reached \$7.2bn and accounted for 46.8% of the total value of announced deals in the first quarter of the year, followed by the chemicals industry with \$2.5bn (16.2%), the insurance sector with \$1.2bn (7.8%), and the healthcare and technological sectors with \$1bn each (6.5% each). It added that the value of inbound M&A deals increased by 138.7% year-on-year to \$7.4bn in the first quarter of 2018, while the value of outbound M&A deals decreased by 63.8% from the first quarter last year. In parallel, it pointed out that the value of domestic M&A deals declined by 28.2% year-on-year in the first quarter of 2018.

Source: *EY, Byblos Research*

Losses from software piracy at \$1.3bn in 2017

Software piracy-related losses in the Arab world reached \$1.31bn in 2017, constituting a decrease of 15.2% from \$1.54bn in 2015, and compared to losses of \$1.63bn in 2013 and \$1.58bn in 2011. They accounted for 2.8% of global piracy-related losses in 2017 relative to a share of 2.9% in 2015. Saudi Arabia had the highest piracy-related losses among Arab countries at \$356m, followed by the UAE (\$210m), Iraq (\$107m), Kuwait (\$86m) and Algeria (\$70m). Piracy losses in Libya rose by 1.5% from 2015, the only increase in the Arab world, while losses in Egypt dropped by 59.2%, the steepest decline in the region. In parallel, Libya had the highest piracy rate among Arab economies at 90%, followed by Yemen (88%), Iraq (85%) and Algeria (82%), while the UAE had the lowest rate in the region at 32%, followed by Qatar and Saudi Arabia (47% each), Bahrain (52%) and Jordan (55%). In addition, the software piracy rate dropped by two percentage points in Bahrain, Egypt, Saudi Arabia and the UAE, while it grew by one percentage point in Yemen, the only increase among Arab countries. In parallel, the Middle East & Africa region had the third highest piracy rate in the world at 56%, behind Asia-Pacific and Central & Eastern Europe (57% each). Also, the global average piracy rate was 37% in 2017 relative to 39% in 2015.

Source: *Business Software Alliance, Byblos Research*

OUTLOOK

SAUDI ARABIA

Growth to average 3.8% over the medium term

Samba Financial Group projected Saudi Arabia's real GDP to grow by 1.5% in 2018 following a contraction of 0.7% in 2017, supported by higher consumption, as well as by a pickup in government spending that would stimulate private investment in the second half of 2018. It expected real non-hydrocarbon growth at 2.2% this year relative to 1.1% in 2017, while it anticipated real hydrocarbon GDP to be weak this year amid nearly flat oil production. Also, it forecast growth to average 3.8% annually over the 2019-22 period, as the impact of slightly lower oil prices would be offset by an expected pickup in economic activity. It anticipated non-hydrocarbon activity to grow by an annual average of 4.6% during the covered period, as the government loosens its fiscal stance and increases spending. In addition, it forecast the average inflation rate at 3.2% in 2018 and at 3.5% annually during the 2019-22 period.

In parallel, Samba indicated that Saudi Arabia's fiscal balance has been improving, in line with the significant structural and fiscal adjustments under the Kingdom's "Vision 2030". It forecast the fiscal deficit to narrow from 9.3% of GDP in 2017 to 5.6% of GDP in 2018 and to average 3.7% of GDP annually over the 2019-22 period, as higher oil and non-oil revenues would more than offset the anticipated increase in government spending. It considered that the Kingdom's financing outlook is positive, given the narrowing fiscal deficits and the very low public debt level, which it projected at 20% of GDP at end-2018. It anticipated authorities to finance the deficit mainly through a combination of domestic and external debt issuances during the 2018-22 period. In parallel, Samba projected the current account surplus to increase from 2.2% of GDP in 2017 to 8.5% of GDP in 2018 and to average 7.4% of GDP annually over the 2019-22 period on the back of higher oil export receipts and lower imports.

Source: Samba Financial Group

IRAQ

IMF program to remain off-track

Bank of America Merrill Lynch (BofAML) expected that the recent parliamentary elections in Iraq and the recovery in global oil prices would put the IMF-supported economic program on hold or off-track. It noted that higher oil prices would ease sovereign financing constraints for Iraq and postpone any external bond issuance in the near term. However, it anticipated that the lack of reforms under the IMF program would expose the sovereign's balance sheet to oil price volatility. It said that the IMF program aims to stabilize spending in order to gradually close the fiscal gap, mainly through reforms to the public-sector wage bill, pensions, the electricity sector and non-oil revenues, among others. In parallel, it considered that the 2018 budget is not consistent with the IMF program's conditionality due to the government's failure to implement non-oil revenue tax measures, as well as to the decline in transfers to the Kurdistan Regional Government. It added that the government did not meet prior actions that were required for the completion of the third IMF review. It anticipated that the IMF could resume its discussions over an economic program with Iraqi authorities, in case oil prices declined

and a neutral Prime Minister takes office. In parallel, it indicated that fiscal pressures are receding and projected the fiscal deficit to reach 1.8% of GDP in 2018, which would reduce the authorities' incentives for reforms. It added that external pressures are also decreasing, with the Central Bank of Iraq's gross foreign assets reaching \$52bn, or 22% of GDP, in April 2018.

Further, BofAML pointed out that the alliance between Shia parties would reduce political instability and minimize risks of intra-Shia clashes following the election results. However, it expected that the formation of a new government of national unity could take several months, which would weaken the country's reform ability. It added that Iraq's relationships with the U.S. and the GCC countries depends on the appointment of a neutral figure as the next Prime Minister, on regional developments related to Iranian sanctions, as well as on incentives to maintain international financing prospects, mainly from Arab pledges.

Source: Bank of America Merrill Lynch

CÔTE d'IVOIRE

Robust medium-term outlook amid strong growth and low inflation

The International Monetary Fund indicated that Côte d'Ivoire's medium-term outlook is robust amid strong economic activity and low inflation. As such, it projected real GDP growth at 7.4% in 2018 and 7% in 2019 compared to 7.8% in 2017. Also, it forecast the average inflation rate at 1.7% this year and 2% next year relative to 0.8% last year. Further, it welcomed the authorities' sound macroeconomic policy management despite the domestic shocks and unfavorable cocoa export prices, and commended the country's good economic performance under the IMF-supported program. It noted that authorities have adopted a set of economic reforms to achieve a sustainable balance-of-payments position, to promote inclusive growth and to reduce poverty by investing in priority infrastructure and social projects.

In parallel, the IMF welcomed the authorities' efforts to narrow the fiscal deficit to about 3% of GDP by 2019, in line with the convergence criteria of the West African Economic and Monetary Union countries. It said that the government could achieve this objective through accelerating revenue administration reforms, implementing additional tax measures and prioritizing spending. In this context, it forecast the fiscal deficit to narrow from 4.2% of GDP in 2017 to 3.8% of GDP in 2018 and 3% of GDP in 2019. It considered that sustained fiscal consolidation would limit the country's recourse to external financing and would help mitigate risks from tighter global financing conditions. Further, it projected the public debt level to reach 48.7% of GDP at the end of 2018 and 47.3% of GDP at end-2019 relative to 46.8% at end-2017. It called on authorities to continue with their prudent debt and financial management in order to put the debt level on a downward path. Further, the IMF called on the government to accelerate the restructuring of the energy sector to preserve the sector's financial sustainability and support economic growth. It also encouraged the timely resolution of the arrears accumulated by the public sector, as well as the debt restructuring of the national oil refinery Société Ivoirienne de Raffinage.

Source: International Monetary Fund



ECONOMY & TRADE

AFRICA

Reliance on hydrocarbon sector exposes Nigeria and Angola to ongoing challenges

Moody's Investors Service indicated that Nigeria's and Angola's ongoing reliance on the hydrocarbon sector will expose them to several challenges in coming years, despite the expected stabilization of their fiscal and external positions as a result of higher oil production. It expected the rise in hydrocarbon production this year to support economic growth in both countries and help stabilize their deficits. However, it considered that Nigeria's main challenge will be to improve its ability to generate revenues, while Angola's key issue will be to manage the intensifying pressure on its foreign currency liquidity and its rising debt burden amid the depreciation of the Angolan kwanza. It expected the two countries to face challenges in attracting more investments in a low oil price environment. It said that the Nigerian government has faced challenges in reforming its oil sector, improving the regulatory environment and increasing transparency, while Angolan authorities have created a predictable and transparent environment for the oil sector. In parallel, Moody's anticipated the budget deficits of Nigeria and Angola to stabilize at about 2.6% of GDP and 2% of GDP, respectively, in 2018, amid higher oil receipts and sustained fiscal consolidation efforts. However, it said that increasing non-oil tax revenues remains a key challenge for both economies in coming years. Further, it expected Angola's debt burden to reach about 73% of GDP at the end of 2018, and to gradually improve afterwards due to higher nominal GDP growth and relatively narrower fiscal deficits. In parallel, it anticipated Nigeria's public debt level to stabilize at around 20% of GDP at end-2018. It forecast Angola's gross borrowing requirements at about 20% of GDP in 2018, while it estimated Nigeria's gross borrowing needs at about 6.2% of GDP this year.

Source: Moody's Investors Service

UAE

Abu Dhabi's economic stimulus to support growth

Fitch Ratings considered that the Emirate of Abu Dhabi's new three-year \$13.6bn economic stimulus program would have a limited impact on the sovereign's creditworthiness, given the Emirate's strong balance sheet and low fiscal break-even oil price. It also noted that Abu Dhabi's fiscal and external positions support its sovereign ratings, and are one of the strongest among rated oil producers, with the Emirate's sovereign net foreign assets at 281% of GDP and its public debt level at 8% of GDP. It indicated that the stimulus package, which is equivalent to 6% of the Emirate's GDP, aims to create jobs, support tourism and improve private sector development. Also, the agency projected Abu Dhabi's fiscal surplus to narrow from 3.2% of GDP in 2018 to 0.9% of GDP in 2019, provided that authorities gradually increase stimulus spending. Further, it expected the stimulus package, as well as higher global oil prices, to support Abu Dhabi's economic growth and to diversify its economy. As such, it forecast non-oil growth to accelerate from 1.8% in 2017 to 3.5% in 2018 and 4% in 2019. Still, it anticipated that the economy would remain highly dependent on oil production and government spending in the near term. It added that the stimulus package reflects an end to fiscal adjustment, and suggests that Abu Dhabi's fiscal policy is not rooted in a medium-term framework.

Source: Fitch Ratings

GCC

Expansionary fiscal policy to offset impact of monetary tightening

The Institute of International Finance indicated that the central banks of Bahrain, Qatar, Saudi Arabia and the UAE have raised their policy rates by 25 basis points, in line with the latest increase in U.S. interest rates. It noted that the monetary tightening and the increase in borrowing costs coincide with weak economic activity in the Gulf Cooperation Council (GCC) region and a slowdown in lending, amid weak consumer and government spending. It considered that a tighter monetary policy will weigh on non-oil economic activity in GCC economies. However, it anticipated that the expansionary fiscal stances of GCC economies, amid higher global oil prices, would offset the impact of monetary policy tightening. As such, it forecast the region's economic activity to grow by 2.2% in 2018 and 2.7% in 2019 compared to a contraction of 0.3% in 2017, supported by higher public spending and a gradual rise in hydrocarbon production, especially in Saudi Arabia. It pointed out that higher oil prices in 2018 have allowed GCC governments to increase public spending after three years of fiscal consolidation. It projected Saudi Arabia's government spending to increase by 18% in 2018, expenditures in Oman to grow by 7%, the UAE's government spending to rise by 6%, Qatar's expenditures to increase by 4%, and public spending in Kuwait and Bahrain to expand by 3.5% each this year.

Source: Institute of International Finance

ARMENIA

Sovereign ratings affirmed, outlook 'positive'

Fitch Ratings affirmed Armenia's long-term foreign- and local-currency Issuer Default Ratings (IDRs) at 'B+' with a 'positive' outlook. It indicated that the ratings are supported by the country's credible monetary policy framework, reduced external imbalances and higher income per capita than similarly-rated peers. But it said that the ratings are constrained by the country's wide fiscal deficits, rising public debt level, high external debt level and tensions with neighboring countries. It forecast real GDP growth at 4.7% in 2018 and 4% in 2019, supported by strong external and domestic demand, a recovery in consumption and investment, higher commodity prices, and sustained growth in remittance inflows and tourism receipts. Also, it pointed out that the fiscal deficit narrowed from 5.5% of GDP in 2016 to 4.8% of GDP in 2017, but underperformed the government's target deficit of 2.7% of GDP due to the disbursement and execution of a Russian defense loan of \$170m, equivalent to 1.5% of GDP. Still, it projected the deficit to narrow to 3.5% of GDP in 2018 and 3% in 2019 in the absence of further unanticipated external loan disbursements. As such, it expected the public debt level to decrease from 59% of GDP at the end of 2017 to 58.4% of GDP at end-2018. It noted that the public debt level is exposed to exchange rate volatility, given that 81% of the public debt is denominated in foreign currency. In parallel, Fitch forecast the current account deficit to slightly widen from 3.5% of GDP in 2017 to 3.8% of GDP in 2018, as the growth in export receipts and remittance inflows would be offset by strong import demand and rising energy prices. It said that the country's exchange rate flexibility, reduced external imbalances and access to external financing would reduce risks to the balance of payments in the near term.

Source: Fitch Ratings



BANKING

TURKEY

Increase in interest rates to weigh on asset quality and capitalization of banks

Bank of America Merrill Lynch (BofAML) considered that the Central Bank of the Republic of Turkey's decision to increase its policy rate by 500 basis points would weigh on the Turkish banks' profitability, asset quality and capitalization. It expected the banks' net interest margins to contract by 25 basis points in 2018 due to higher funding costs following the interest rate hike. Further, it anticipated the banks' net interest margins to recover in 2019, but to remain below the 2017 levels, as it did not expect the banks to increase their lending rates in response to the higher funding costs. Also, BofAML considered that the depreciation of the Turkish lira, as well as the interest rate hike, would lead to a deterioration in the banks' asset quality, mainly in loans to the corporate sector. It added that the large net open foreign currency position of corporate borrowers, which it estimated at about 25% of GDP, exposes the banks' asset quality to currency depreciation. It noted that some large corporates have been planning since the start of 2018 to restructure their debt, which it estimated at \$20bn, or 3% of the banking sector's lending. In addition, it anticipated the banks' ability to access foreign currency funding in the second half of 2018 to be challenging, following the downgrade of 17 Turkish banks by Moody's Investors Service. But it did not expect the downgrades to have an impact on the banks' capital ratios. It added that Fitch Ratings placed on negative watch several Turkish banks' ratings.

Source: Bank of America Merrill Lynch

ANGOLA

Banking sector resilient to macroeconomic shocks

The International Monetary Fund considered that the heavy reliance of Angolan banks on the oil sector constitutes a key risk, mainly for state-owned banks, while private banks are better positioned to weather the impact of an oil shock given their initial strong position. It indicated that the main channel of transmission of an oil shock is through fiscal activity, as lower oil prices would contain public spending and weaken non-hydrocarbon sector activity and, in turn, weigh on the banks' credit and liquidity metrics. In this context, the IMF assessed the resilience of the banking sector to macroeconomic shocks by conducting a stress test that measures the impact of the oil price shock of 2014 on the banks' non-performing loans (NPLs) and their capital adequacy ratios (CARs) over the 2013-16 period. The Fund assumed that the deteriorating macroeconomic conditions would put pressure on the private and public sectors, and would result in negative credit growth as well as in the deterioration of the banks' NPLs ratios to over 20%. It indicated that the stress test results showed that the system-wide CAR dropped from 22% in mid-2014 to 18.2% in mid-2016, but remained well above the regulatory minimum of 10%. It noted that 20% of banks breached the regulatory minimum of 10% by mid-2015, up from 4% of banks before the oil price shock. In parallel, it said that smaller banks have higher capital buffers and are generally risk averse, while most state-owned banks are weakly capitalized and exposed to both the sovereign and the private sector, and require significantly higher recapitalization needs to weather the impact of the shock.

Source: International Monetary Fund

ALGERIA

Capital adequacy at 19.6% at end-2017, NPL ratio at 12.3%

The International Monetary Fund indicated that Algeria's banking sector is adequately capitalized and profitable. It noted that the capital adequacy ratio of banks operating in Algeria increased from 18.9% at the end of 2016 to 19.6% at end-2017, while their Tier-One capital ratio declined from 16.3% at end-2016 to 15.2% at end-2017 as a result of higher credit growth. It also pointed out that the banks' return on assets was at 2% and their return on equity reached 17.8% in 2017. Also, the Fund noted that the banks' liquidity declined last year, with the sector's liquid assets accounting for 54% of short-term debt at the end of 2017, down from 58.4% of short-term debt at end-2016. Still, it said that the banks' liquid assets were sufficient to cover their short-term liabilities. Further, it noted that the banks' non-performing loans (NPLs) ratio grew from 11.9% at end-2016 to 12.3% at end-2017. But it considered that the banks' NPLs are moderate and well-provisioned, and expected the NPLs to decline as the government repays its arrears. In parallel, it indicated that the large liquidity injections in the banking sector, mainly from Banque d'Algérie's refinancing operations and from lower legal reserve requirements, have supported the banks' liquidity, which could increase credit growth and loosen lending standards. As such, it encouraged the authorities to conduct stress tests more frequently, as well as to introduce countercyclical capital buffers to protect the banking sector against losses that could be caused by cyclical systemic risks.

Source: International Monetary Fund

QATAR

Cancellation of banks' merger is credit negative

Moody's Investors Service indicated that Masraf Al Rayan, Barwa Bank and International Bank of Qatar have canceled a three-way merger that they had been negotiating since December 2016. It considered that the canceled merger is credit negative for the Qatari banking sector, because the consolidation would have balanced the competitive environment in Qatar's small but fragmented banking sector. Further, it said that the merger could have created the second-largest bank in Qatar with total assets of QAR173bn and a market share of about 14%. In parallel, it noted that Qatar National Bank (QNB) dominates the local banking sector with a market share of more than 40% of the sector's domestic assets. It said that QNB holds 48% of the sector's domestic loans, while other smaller banks compete for the remaining lending opportunities. In parallel, it indicated that consolidation in the sector would balance the competitive pressure on Qatar's concentrated depositor base, which is driving funding costs higher. But it noted that government deposits in the banking sector have increased since June 2017, following the country's political rift with other Arab countries. It said that government deposits accounted for 38% of total deposits at the end of March 2018, up from 26% of deposits before the beginning of the regional dispute, offsetting non-resident deposit outflows. It added that consolidation in the banking sector would have marginally eased the pressure on the banks' rising borrowing costs amid tight domestic funding sources.

Source: Moody's Investors Service



Oil market awaits outcome of OPEC meeting

Barclays Capital indicated that there are three possible scenarios for the upcoming OPEC meeting on June 22. It considered that the first possible outcome of the meeting, which is the most likely to materialize, would be an increase of OPEC's output by 700,000 to 800,000 barrels per day (b/d). In fact, Iran, which previously opposed a rise in oil production, may compromise on a small increase in oil output, while pressure from China and India, the world's major oil consumers, to reduce oil prices would also support the first outcome. It noted that the second scenario would be based on an increase in production of more than one million b/d by OPEC and Russia, which would offset Venezuela's supply disruption and Iran's potential decrease in output. Further, it pointed out that the third scenario would be a lack of consensus among OPEC members, which would lead to a rise in output from Saudi Arabia and Russia only. Barclays indicated that Saudi Arabia and Russia have already started to increase their oil output following a sharp decline in Venezuela's oil production. In parallel, it pointed out that demand-side risks are increasing, since most of the growth in oil demand is expected to come from emerging economies, that are becoming more sensitive to oil price fluctuations. As such, a sharp increase in oil prices could slow down the momentum of consumption growth in these economies. Overall, Barclays projected Brent oil prices at \$70 p/b in 2018.

Source: Barclays Capital, Byblos Research

Middle East accounts for 41% of world's proven natural gas reserves

BP estimated the Middle East region's proven natural gas reserves at 2,794.2 trillion cubic feet (tcf) at the end of 2017, equivalent to 41% of the world's natural gas reserves. Iran held the region's largest proven natural gas reserves with 1,173 tcf, or 42% of the Middle East's total reserves, at end-2017. Qatar followed with 879.9 tcf, or 31.5% of the region's total, then Saudi Arabia with 283.8 tcf (10.2%), the UAE with 209.7 tcf (7.5%), Iraq with 123.9 tcf (4.4%), Kuwait with 59.9 tcf (2.1%) and Oman with 23.5 tcf (0.8%).

Source: BP, Byblos Research

Iraq's oil exports up 8% in May 2018

Iraq's crude oil exports totaled 108.2 million barrels in May 2018, constituting an increase of 8% from 100.2 million barrels in April. The country's oil exports reached 3.5 million barrels per day (b/d) in May 2018 relative to 3.34 million b/d in the previous month. All exports in the covered month originated from the country's central and southern fields, as there were no shipments from the northern Kirkuk fields. Iraq's oil export receipts reached \$7.6bn in May 2018, up by 16.4% from \$6.5bn in April.

Source: Iraq Ministry of Oil, Byblos Research

OPEC's oil output unchanged in May 2018

Crude oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 31.87 million barrels per day (b/d) in May 2018, nearly unchanged from 31.83 million b/d in the preceding month. Saudi Arabia produced 9.99 million b/d in May 2018, or 31.3% of OPEC's total oil output, followed by Iraq with 4.46 million b/d (14%), Iran with 3.83 million b/d (12%) and the UAE with 2.87 million b/d (9%).

Source: OPEC, Byblos Research

Base Metals: Copper prices hit three-week low amid rising inventories

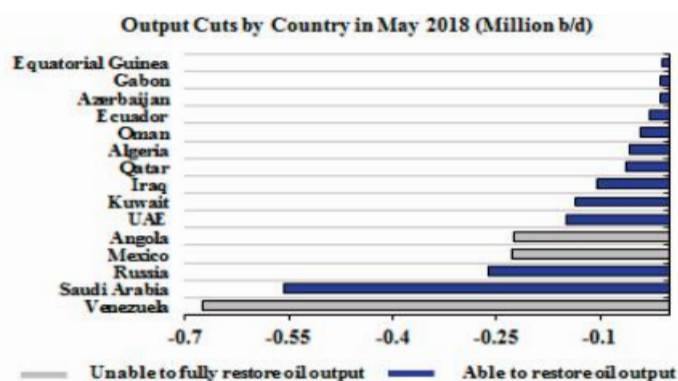
LME copper three-month future prices averaged \$7,096 per metric ton so far in June 2018, constituting an increase of 3.5% from \$6,854 per ton in May of this year. The increase in the metal's price was mainly driven by supply disruptions at the world's largest copper mine in Chile. But concerns over an escalating American-Chinese trade row pushed copper prices down earlier this week, as China and the U.S. both threatened further punitive measures. Copper prices closed at \$6,773 per ton on June 20, 2018, their lowest level in three weeks, following news of a 38% surge in global inventories from end-May 2018. In parallel, the latest available figures show that global demand for refined copper was 5.75 million tons in the first quarter of 2018, up by 1.8% from 5.65 million tons in the same quarter of 2017, as Chinese demand grew by 5%, while demand in the rest of the world decreased by 1% in the covered quarter. On the supply side, global refined copper production was 5.91 million tons in the first quarter of 2018, up by 3% from 5.74 million tons in the same quarter of 2017, mainly driven by a growth of 8% in Chilean production. On a regional basis, refined output grew by 7% in Africa and by 4% in Asia, while it was nearly unchanged in the Americas and in Europe.

Source: International Copper Study Group, Thomson Reuters

Precious Metals: Palladium prices to rise in 2018 on wider production deficit

Palladium prices averaged \$1,011 per troy ounce in the first five months of 2018, constituting an increase of 30% from \$777.9 an ounce in the same period of 2017, mainly driven by strong autocatalyst demand, especially in China, as well as by tighter global supply. Also, continued strong growth in autocatalyst consumption for palladium is expected to raise the metal's global demand from 10.1 million ounces last year to 10.3 million ounces in 2018. The global autocatalyst sector is projected to account for 78.6% of demand for palladium in 2018, followed by the electronics sector (8.3%), the chemical industry (4.8%), the dental sector (3.8%) and the jewelry industry (2.7%). In parallel, the metal's mine production is forecast to decline by 1.3% to 6.7 million ounces in 2018, mainly due to decreases of 1.8% in Russian output and of 4.4% in South African mine supply, which would be partly offset by an 8% increase in North American production. As such, the production deficit in the global palladium market is forecast to widen from 907,000 ounces in 2017 to 1.14 million ounces this year. Subsequently, prices are expected to rise by 20% from \$869 an ounce in 2017 to \$1,039 an ounce in 2018.

Source: GFMS Thomson Reuters, Byblos Research



Source: International Energy Agency, Byblos Research

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	-	-	-	-	BB+	-2.5	17.3	2.5	-	-	-	-12.3	
	-	-	-	-	Negative								
Angola	B-Stable	B3 Stable	B Stable	-	B-Stable	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B	B3	B	B	B+	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
	Stable	Stable	Positive	Positive	Positive								
Ethiopia	B	B1	B		B+	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
	Stable	Stable	Stable	-	Stable								
Ghana	B-	B3	B	-	BB-	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
	Positive	Stable	Stable	-	Stable								
Ivory Coast	-	Ba3	B+	-	B+	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-16.4	78.2	-	-	-	-	-10.6	-
	-	-	Stable	-	Stable								
Dem Rep Congo	CCC+ Stable	B3 Negative	-	-	CCC Stable	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
Morocco	BBB- Stable	Ba1 Positive	BBB- Stable	-	BBB Stable	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
Nigeria	B	B2	B+	-	BB-	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
	Stable	Stable	Negative	-	Stable								
Sudan	-	-	-	-	CC	-2.5	55.2	47.5	-	-	-	-4.7	-
	-	-	-	-	Negative								
Tunisia	-	B2	B+	-	BB-	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
	-	Stable	Negative	-	Negative								
Burkina Faso	B	-	-	-	B+	-3.6*	33.3	23.1**	-	-	-	-7.2	-
	Stable	-	-	-	Stable								
Rwanda	B	B2	B+	-	B+	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
	Stable	Stable	Stable	-	Stable								
Middle East													
Bahrain	B+	B1	BB-	BB	BB+	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
	Stable	Negative	Stable	Stable	Negative								
Iran	-	-	-	BB-	BB-	0.7	29.2	2.0	-	-	-	5.3	-
	-	-	-	Negative	Positive								
Iraq	B-	Caa1	B-	-	CC+	-4.2	60.0	38.8	-	-	-	-4.4	-
	Stable	Stable	Stable	-	Stable								
Jordan	B+	B1	-	BB-	BB+	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
	Stable	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	B3	B-	B	B-	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
	Stable	Stable	Stable	Stable	Stable								
Oman	BB	Baa3	BBB-	BBB	BBB-	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
	Stable	Negative	Negative	Stable	Negative								
Qatar	AA-	Aa3	AA-	AA-	A+	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
	Negative	Negative	Stable	Negative	Negative								
Saudi Arabia	A-	A1	A+	A+	AA-	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	AA-	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-6.0	77.4	20.3	-	-	-	-4.2	
	-	-	-	-	Negative								



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-								
	-	Positive	Positive	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Negative	Stable	Stable	-	Stable	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	BB-	Ba2	BB+	BB+	BB-								
	Stable	Stable	Stable	Negative	Stable	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	Stable	-	Stable	-3.0	89.8	144.5	226.4	32.1	827.4	-3.6	1.7

* including grants for Sub-Saharan African countries

** to official creditors

***Credit Watch Negative

Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are estimates for 2017



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	1.75-2.00	13-Jun-18	Raised 25bps	05-Jul-18
Eurozone	Refi Rate	0.00	14-Jun-18	No change	26-Jul-18
UK	Bank Rate	0.50	21-Jun-18	No change	02-Aug-18
Japan	O/N Call Rate	-0.10	15-Jun-18	No change	31-Jul-18
Australia	Cash Rate	1.50	05-Jun-18	No change	03-Jul-18
New Zealand	Cash Rate	1.75	10-May-18	No change	28-Jun-18
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Jun-18	No change	20-Sep-18
Canada	Overnight rate	1.25	30-May-18	No change	11-Jul-18
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.75	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	21-Jun-18	No change	27-Sep-18
South Korea	Base Rate	1.50	24-May-18	No change	12-Jul-18
Malaysia	O/N Policy Rate	3.25	10-May-18	No change	11-Jul-18
Thailand	1D Repo	1.50	20-Jun-18	No change	08-Aug-18
India	Reverse repo rate	6.25	06-Jun-18	Raised 25bps	01-Aug-18
UAE	Repo rate	2.25	14-Jun-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	2.50	14-Jun-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	17-May-18	Cut 100bps	28-Jun-18
Turkey	Repo Rate	17.75	07-Jun-18	Raised 125bps	24-Jul-18
South Africa	Repo rate	6.50	24-May-18	Cut 25bps	19-Jul-18
Kenya	Central Bank Rate	9.50	28-May-18	No Change	N/A
Nigeria	Monetary Policy Rate	14.00	22-May-18	No change	24-Jul-18
Ghana	Prime Rate	17.00	21-May-18	Cut 100bps	23-Jul-18
Angola	Base rate	18.00	24-May-18	No change	20-Jul-18
Mexico	Target Rate	7.50	17-May-18	No change	21-Jun-18
Brazil	Selic Rate	6.50	21-Jun-18	No change	01-Aug-18
Armenia	Refi Rate	6.00	15-May-18	No change	27-Jun-18
Romania	Policy Rate	2.50	07-May-18	Raised 25bps	04-Jul-18
Bulgaria	Base Interest	0.00	01-Jun-18	No change	29-Jun-18
Kazakhstan	Repo Rate	9.00	04-Jun-18	Cut 25bps	09-Jul-18
Ukraine	Discount Rate	17.00	12-Apr-18	No change	12-Jul-18
Russia	Refi Rate	7.25	15-Jun-18	Cut 25bps	27-Jul-18



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