

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global debt exceeds 318% of GDP at end-March 2018

The Institute of International Finance indicated that global debt, which includes the debt of corporates, governments and households, reached \$247.2 trillion at the end of March 2018, constituting an increase of 11% from \$222.6 trillion at end-March 2017. It noted that global debt rose by over \$8 trillion in the first quarter of 2018, its largest quarterly increase since the first quarter of 2016. It added that global debt was equivalent to more than 318% of global GDP at end-March 2018. The IIF pointed out that global non-financial corporate debt reached \$73.5 trillion, or 91.3% of GDP, at end-March 2018, followed by government debt with \$66.5 trillion (86.8% of GDP), financial sector indebtedness with \$60.6 trillion (80.5% of GDP) and household debt with \$46.5 trillion (59.5% of GDP). In parallel, it said that emerging market (EM) debt grew from \$59.9 trillion at the end of March 2017 to \$68.9 trillion at end-March 2018. It indicated that EM non-financial corporate debt totaled \$31.5 trillion, or 94.4% of GDP, at end-March 2018, followed by EM government borrowing at \$15.2 trillion (48.3% of GDP), EM household debt at \$11.9 trillion (36.2% of GDP) and financial sector indebtedness at \$10.4 trillion (32.2% of GDP). Further, the IIF noted that the debt of developed markets reached \$178.3 trillion at the end of March 2018 relative to \$162.7 trillion at end-March 2017.

Source: Institute of International Finance

MENA

Sovereign creditworthiness stabilizes

S&P Global Ratings indicated that overall sovereign creditworthiness in the Middle East & North Africa (MENA) region has broadly stabilized since January 2018. It noted that it upgraded the sovereign ratings of Egypt to 'B' due to stronger economic activity and increasing foreign currency reserves amid ongoing fiscal and economic reforms. In parallel, it affirmed the ratings on the other 12 MENA sovereigns that it rates. It pointed out that the MENA region's average sovereign rating has stabilized around 'BBB-', while the nominal GDP-weighted average sovereign rating is closer to 'BBB' due to the recovery in oil prices. As such, S&P pointed out that the average rating differs between the region's hydrocarbon- and non-hydrocarbon-based economies. It noted that the average sovereign rating of the region's hydrocarbon net exporters is currently close to 'BBB+' compared to an average of 'A+' prior to the drop in global oil prices in 2014. It added that the average rating of sovereigns for the net importers of hydrocarbon is close to 'BB+', similar to its pre-2014 level. S&P rates seven MENA sovereigns in the investment grade category with a 'BBB' rating or above, while the remaining six sovereigns are in the speculative grade category. Also, it has a 'stable' outlook on 12 MENA sovereigns, while it maintained a 'negative' outlook on the sovereign ratings of Qatar, reflecting the geopolitical and economic risks from the ongoing boycott by several Arab countries.

Source: S&P Global Ratings

Equity issuance up 68% to \$3bn in first half of 2018

Equity Capital Markets (ECM) issuance in the Middle East, which includes equity and equity-related issuances, totaled \$3bn in the first half of 2018, up by 68% from \$1.8bn in the first half of 2017. ECM issuance in the energy & power industry reached \$885m and accounted for 29.2% of ECM activity in the covered period, followed by the telecommunications sector with \$866m (28.5%), the financial sector with \$785m (25.9%) and the healthcare sector with \$217m (7.2%). Also, there were nine follow-on offerings, or shares issued after a company's initial public offering (IPO), in the first half of 2018 that raised \$1.8bn and accounted for 58.5% of ECM activity. In parallel, debt issuance in the region reached \$59.4bn in the first half of 2018, down by 2% from \$60.4bn in the same period of 2017. Also, Sukuk issuance decreased by 44% year-on-year to \$19.3bn in the covered period. Further, the value of announced mergers and acquisitions (M&A) in the Middle East, which includes inbound, outbound and intra-regional deals, totaled \$33.9bn in the first half of 2018, up by 73.4% from \$19.5bn in the same period of 2017. In addition, investment banking fees in the region stood at \$472.3m in the first half of 2018, down by 6.9% from \$507m in the first half of 2017. Syndicated lending fees totaled \$215.7m and accounted for 46% of the overall fee pool, followed by debt capital market fees at \$140.6m (30%), fees from M&A deals at \$59.6m (13%), and fees from equity capital markets transactions at \$56.4m (12%).

Source: Thomson Reuters

Cost of living varies among Arab cities

The Mid-2018 Cost of Living survey, produced by crowd-sourced global database Numbeo, ranked Doha as the most expensive city among 20 Arab cities and the 255th most expensive among 538 cities worldwide. Abu Dhabi followed in 269th place, then Beirut (275th), Manama (305th) and Amman (308th) as the five Arab cities with the highest cost of living. The Arab cities that have the lowest cost of living are Casablanca (441st), Algiers (470th), Tunis (508th), Cairo (513th) and Alexandria (522nd). The Cost of Living survey is a relative indicator of the prices of consumer goods and services, such as groceries, restaurants, transportation and utilities. Based on the same cities included in the mid-2017 and mid-2018 surveys, the rankings of 14 out of 20 Arab cities rose, reflecting an increase in the cost of living relative to other cities worldwide, while the rankings of six cities regressed from the mid-2017 survey. Further, the Rent Index shows that Abu Dhabi has the highest apartment rents regionally, while rents in Alexandria are the lowest. Also, the Groceries Index indicates that Doha is the most expensive city in terms of grocery prices in the region, while grocery prices in Alexandria are the lowest. In addition, the Restaurant Index shows that Beirut has the highest prices of meals and drinks at restaurants and pubs, while Tunis has the lowest such prices regionally. Numbeo relies on residents' inputs and uses data from official sources to compute the indices.

Source: Numbeo, Byblos Research

OUTLOOK

EMERGING MARKETS

Growth projected at 4.9% for 2018, prospects vary across regions

The International Monetary Fund projected real GDP growth in emerging markets and developing economies at 4.9% in 2018, unchanged from its April 2018 forecast, and compared to growth rates of 2.4% for advanced economies and 3.9% for the global economy. It indicated that growth prospects are becoming more uneven among emerging markets and developing economies, due to the combined impact of rising oil prices, higher yields on U.S. treasury bonds, escalating trade tensions, a stronger US dollar, as well as political and policy uncertainties. As such, it expected the outlook for individual economies to vary, depending on how these conditions interrelate with domestic factors. It added that tighter global financial conditions could lead to further declines in capital inflows, higher financing costs and pressures on exchange rates, mainly in economies with weak fundamentals or high political risks. Still, it anticipated financial conditions to remain supportive of growth in emerging markets this year.

The IMF projected economic growth in Emerging & Developing Asia at 6.5% in 2018, unchanged from its April forecast, amid an increase in India's economic activity and a moderation in China's growth. Also, it maintained its growth forecast for Emerging & Developing Europe at 4.3% in 2018. Further, it forecast the Middle East, North Africa, Afghanistan & Pakistan (MENAP) region's growth to reach 3.5% in 2018, relative to a forecast of 3.4% in April, driven by improved prospects for oil-exporting countries. But it expected the large fiscal adjustment needs and intensifying geopolitical risks to weigh on the MENAP region's growth prospects. In parallel, it projected Sub-Saharan Africa's real GDP growth at 3.4%, unchanged from its previous forecast, supported by higher commodity prices. Also, the Fund anticipated economic activity in the Commonwealth of Independent States at 2.3% in 2018, relative to its April forecast of 2.2%, driven by a recovery in Russia's economic growth and stronger activity in Kazakhstan. In parallel, it projected real GDP growth in Latin America & the Caribbean at 1.6% this year, down from its previous forecast of 2%, due to needed policy adjustment in Argentina, political and policy uncertainties in Brazil and Mexico, and lower oil output in Venezuela.

Source: International Monetary Fund

SAUDI ARABIA

Economic activity at 2.2% in 2018 on higher oil output and increased public spending

Jadwa Investment expected Saudi Arabia's economic activity to remain solid despite the implementation of major fiscal reforms since the beginning of 2018. As such, it projected real GDP to grow by 2.2% in 2018 following a contraction of 0.9% in 2017, due to improved hydrocarbon sector activity. It forecast hydrocarbon output to grow by 3.2% in 2018 relative to a contraction of 3% in 2017, driven by an increase in oil production following the OPEC and non-OPEC members' decision to raise output starting in July 2018. It anticipated Saudi Arabia's crude oil output to increase from an average of 10 million b/d in 2017 to 10.3 million b/d this year. Also, it projected non-oil growth at 1.4% in 2018 relative to 1% last year, supported by higher public spending. But it expected the implementation of the value-added tax (VAT)

and energy price hikes to weigh on growth in 2018. Further, it projected the inflation rate to average 3.1% this year relative to -0.8% in 2017, due to the introduction of the VAT and higher utility prices. It considered that downside risks to the outlook include lower-than-expected oil prices and delays in capital spending.

In parallel, Jadwa considered that higher oil prices and production in 2018 would improve the Kingdom's fiscal and external balances. It forecast the fiscal deficit to narrow from 9.3% of GDP in 2017 to 3.8% of GDP in 2018 on the back of higher oil output and receipts. It said that authorities have recently announced domestic and foreign debt issuances to finance the fiscal deficit, and expected them to issue further domestic bonds during 2018. As such, it anticipated the public debt level to grow from SAR443bn or 17.2% of GDP at end-2017, to SAR560bn or 19% of GDP at end-2018. Further, it projected the current account surplus to increase from 2.2% of GDP in 2017 to 9.3% of GDP in 2018, as it anticipated oil export receipts to rise from \$170bn last year to \$223bn in 2018. Also, it forecast foreign currency reserves at the Saudi Arabian Monetary Agency to increase from \$496bn at end-2017 to \$536bn at end-2018, due to higher oil export receipts and larger portfolio investment inflows.

Source: Jadwa Investment

BAHRAIN

Growth to average 2.9% in 2018-19, fiscal measures still needed

The International Monetary Fund projected Bahrain's real GDP growth to decelerate from 3.8% in 2017 to 3.2% in 2018 and 2.6% in 2019 due to sustained fiscal and external deficits resulting from the large and growing debt-servicing cost. It noted that Bahrain's fiscal and external vulnerabilities have increased significantly as a result of the drop in global oil prices since mid-2014. It anticipated hydrocarbon output to grow by 0.3% this year and 0.2% in 2019 following a contraction of 0.7% in 2017, while it forecast growth in non-hydrocarbon sector activity to decelerate from 4.8% in 2017 to 3.9% in 2018 and 3.1% in 2019. It indicated that downside risks to the outlook include delays in fiscal adjustment and changes in market sentiment as a result of tighter global financing conditions.

Further, the IMF expected Bahrain's fiscal deficit to narrow from 14.3% of GDP in 2017 to 8.9% of GDP in 2018 and 8.4% of GDP in 2019, amid higher global oil prices and the country's sustained fiscal consolidation efforts. Still, it forecast the deficit to remain wide in the medium term. Further, it said that the public debt level reached 89% of GDP at the end of 2017, and anticipated it to continue to grow in the medium term. The Fund encouraged the government to introduce a comprehensive set of reforms to reduce the fiscal deficit over the medium term. It called on authorities to introduce direct taxation, such as a corporate income tax, and to contain the public-wage bill. It encouraged the authorities to strengthen their macro-fiscal framework and increase fiscal transparency and accountability. In parallel, it projected the current account deficit to narrow from 4.5% of GDP last year to 2.3% of GDP in 2018 and 2.1% of GDP in 2019. It expected foreign currency reserves to decline from \$2.6bn, or 1.2 months of imports, at the end of 2017 to \$2.3bn, or one month of imports, at end-2018 and \$2.1bn, or 0.9 months of imports, at end-2019.

Source: International Monetary Fund

ECONOMY & TRADE

TURKEY

Sovereign ratings downgraded on heightened risks to macroeconomic stability

Fitch Ratings downgraded Turkey's long-term foreign- and local-currency Issuer Default Ratings (IDRs) from 'BB+/BBB-' to 'BB/BB+', with a 'negative' outlook. Also, it downgraded the short-term local-currency IDR from 'F3' to 'B', and affirmed the short-term foreign-currency IDR at 'B'. It also revised the Country Ceiling from 'BBB-' to 'BB+'. It attributed the downgrades to heightened risks to macroeconomic stability from a widening current account deficit, rising inflation, depreciating exchange rate, as well as more challenging global financing conditions. It forecast the current account deficit to widen to 6.1% of GDP in 2018, driven by higher imported fuel prices and household consumption. But it anticipated the deficit to narrow to 4.1% of GDP in 2019 due to the depreciation of the Turkish lira, lower forecasts for oil prices and the ongoing recovery in tourism activity. It projected the average inflation rate to stay elevated at 13% in 2018 and 10.8% in 2019, despite the Central Bank of Turkey's (CBT) tight monetary policy. It forecast real GDP growth at 4.5% in 2018 and 3.6% in 2019, supported by strong external demand, higher tourism receipts and infrastructure spending. In parallel, Moody's Investors Service noted that President Erdogan announced a number of legislative changes to the governance of the CBT that could threaten the latter's independence, given the CBT's role in addressing the growing imbalances in Turkey's economy and financial sector. It considered that any changes to the independence of the CBT and other public institutions would negatively affect investors' confidence and, in turn, weigh on the cost and the availability of foreign capital inflows.

Source: Fitch Ratings, Moody's Investors Service

JORDAN

Insurance sector faces challenging conditions

Rating agency A.M. Best indicated that insurance companies operating in Jordan are facing challenging market conditions, including high competition that is eroding their profit margins, as well as increased exposure to political, economic and financial risks. It noted that the high number of insurers and the concentration in the motor and medical insurance segments have intensified competitive pressures. It added that the government increased motor insurance premiums in 2002, which further reduced underwriting profitability in previous years. Further, it expected the regulatory environment for insurers to become more stringent in coming years, as the Central Bank of Jordan (CBJ) will become the supervisory and regulatory body for the insurance industry. In this context, it anticipated that the CBJ would strengthen the industry's regulatory and supervisory system in accordance with international standards and best practices, in order to ensure the stability and safety of the sector and enable it to support the economy. It added that Jordan's regulatory environment is improving and capital requirements for insurers continue to evolve. In parallel, the agency expected the insurance sector's financial health to remain highly correlated with domestic economic, political and social conditions. It said that ongoing regional challenges, such as political instability, reliance on volatile oil revenues and increased costs of living, constitute additional challenges to the development of the local insurance market.

Source: A.M. Best

NIGERIA

Growth prospects to remain challenging in 2018

The International Monetary Fund indicated that higher oil prices and portfolio inflows have strengthened Nigeria's fiscal and external balances. It noted that Nigeria's real GDP expanded by 2% year-on-year in the first quarter of 2018, while the inflation rate declined in May to its lowest level in more than two years. It added that foreign currency reserves have been stable at about \$47bn despite the reversal of foreign inflows since April 2018. But it said that activity in the non-oil and non-agricultural sectors remains weak, as lower purchasing power weighs on consumer demand and as credit risk continues to limit bank lending. As such, it anticipated Nigeria's outlook to remain challenging in 2018 under current policies and amid low private sector lending and the short-term nature of foreign currency inflows. It projected real GDP growth to reach 2% in 2018 and to be constrained by lower-than-expected hydrocarbon output and weak agricultural sector activity. Further, it projected the fiscal deficit to narrow slightly this year, as higher oil receipts would offset increased spending. It anticipated the inflation rate to pick up in the second half of 2018, as higher spending and supply constraints in the agricultural sector put pressure on prices. It expected the current account to remain in surplus in 2018, driven by higher oil export receipts, which would help stabilize foreign currency reserves, even with the current pace of foreign portfolio outflows. In this context, the Fund called on authorities to adopt a set of specific and sustainable policies to reduce existing vulnerabilities and stimulate growth, including tax measures and adherence to budget targets, tight monetary policy and structural reforms.

Source: International Monetary Fund

QATAR

Ratings affirmed, outlook revised to 'stable'

Moody's Investors Service affirmed Qatar's long-term issuer and foreign-currency senior unsecured debt ratings at 'Aa3', and revised the outlook on the long-term issuer ratings from 'negative' to 'stable'. It attributed the outlook revision to the resilience of Qatar's credit metrics, which would enable it to withstand the economic, financial and diplomatic boycott by Arab countries, without a significant deterioration of its sovereign credit profile. It added that the ratings are supported by the government's very large net asset position, estimated at 137% of GDP at end-2017, very high level of GDP per capita, substantial hydrocarbon reserves, as well as relatively low fiscal and external break-even oil prices, all of which would strengthen the country's capacity to absorb shocks. It said that the boycott's economic impact was only limited to the tourism and transportation sectors. Further, it considered that liquidity injections from the Qatar Central Bank and higher public sector deposits have maintained financial and macroeconomic stability in the country. It added that foreign currency reserves increased from \$13.2bn at end-2017 to \$23.3bn at end-May 2018, but remained below their pre-boycott level of \$33.7bn. Further, it expected the fiscal breakeven oil price to decline from \$47 p/b to \$20 p/b due to a drop in capital spending after the 2022 World Cup and to higher LNG production in the 2023-24 period. As such, it expected the fiscal balance to shift to a surplus in coming years, and for the debt level to decline from nearly 50% of GDP in 2017 to 40% of GDP in the medium term.

Source: Moody's Investors Service



BANKING

EMERGING MARKETS

Asian currencies least sensitive to negative shocks

Deutsche Bank indicated that Asian currencies are the least sensitive in emerging markets (EMs) to negative external shocks. It said that negative external shocks include nine variables that are a stronger US dollar; higher real interest rates on 10-year U.S. Treasury bonds; lower oil prices; lower gold prices; higher values for the Volatility Index; higher European stress measured by the widening average spread in 10-year bonds of Italy, Portugal and Spain against German Bunds; decline in equity indices such as the S&P and STOXX; as well as the widening of spreads between the Offshore and Onshore Chinese yuan. In contrast, it considered that any opposite movement in the previously stated factors reflects a positive external shock. It said that the Singaporean dollar is the least sensitive currency to negative external shocks, followed by the Chinese yuan, the South Korean Won and the Philippine Peso. In contrast, it noted that the Turkish Lira (TRY), the Mexican Peso (MXN), the South African Rand (ZAR), the Brazilian Real (BRL) and the Russian Ruble (RUB) are the most sensitive currencies in EMs to negative external shocks. Further, it indicated that the BRL, the ZAR, the RUB and the MXN could benefit the most from a positive external shock. It pointed out that currencies with the highest sensitivity to negative external shocks benefit the most during positive external shocks. As such, Deutsche Bank indicated that Asian currencies provide the best risk-reward, or assymmetric payoff, during periods of extreme external shocks, while the MXN, ZAR, TRY and Colombian Peso provide the lowest risk-reward.

Source: Deutsche Bank

ETHIOPIA

Additional efforts required to address strategic AML/CFT deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), declared that it continues to identify Ethiopia as a jurisdiction with strategic AML/CFT deficiencies. However, it noted that Ethiopia has made a high-level political commitment to work with the FATF and the FATF-style regional body ESAAMLG. It added that the country has made progress in improving its AML/CFT regime since February 2017, which includes developing a risk-based supervision manual for the designated non-financial businesses or professions (DNFBP). It added that authorities have started to supervise higher-risk DNFBPs and non-profit organizations. Overall, the FATF welcomed Ethiopia's commitment to its action plan. However, it said that authorities should continue to take additional steps to implement the action plan in order to address strategic AML/CFT deficiencies. As such, it called on authorities to fully implement the results of the national risk assessment, to completely integrate DNFBP into the country's AML/CFT regime, and to ensure that the proceeds and instrumentalities of crime are confiscated. It also encouraged authorities to apply terrorism-related targeted financial sanctions, to supervise non-profit organizations in line with a risk-based approach, as well as to implement terrorism-related targeted financial sanctions.

Source: Financial Action Task Force

IRAQ

Banks' profits down 63% in first quarter of 2018

The cumulative unaudited pre-tax profits of 27 listed banks on the Iraq Stock Exchange totaled \$20.3m in the first quarter of 2018, constituting a decrease of 62.7% from \$54.5m in the same quarter of 2017. National Islamic Bank posted \$3.6m in pre-tax profits in the covered quarter, equivalent to 17.8% of the banks' aggregate pre-tax profits. It was followed by Mansour Bank for Investment with \$3.56m (17.5%), Commercial Bank of Iraq with \$3.2m (15.7%), Kurdistan International Bank with \$3.1m (15.4%) and Iraq Noor Islamic Bank with \$2.9m (14%). In parallel, the pre-tax profits of Zain Al-Iraq Investment Bank increased by 297% in the first quarter of 2018, followed by Babylon Bank (+149%), the Iraq Noor Islamic Bank (+120%), Dar Es Salaam Investment Bank (+57%) and Mosul Bank (+54%). In contrast, the pre-tax profits of Iraqi Middle East Investment Bank declined by 98% in the covered quarter, followed by Bank of Baghdad (-79%), Gulf Commercial Bank (-77%), Sumer Commercial Bank (-76%), Kurdistan International Bank (-72%), Investment Bank of Iraq (-62%), Union Bank of Iraq (-53%), the National Islamic Bank (-43%), Iraqi Islamic Bank (-36%), Elaf Islamic Bank (-19%) and Trans Iraq Bank for Investment (-6%). In parallel, the losses of the International Islamic Bank widened by 136%, while those of Dijlah & Furat Bank, and North Bank shrank by 63.8% and 53.2%, respectively, from the first quarter of 2017. The results of Economy Bank, the National Bank of Iraq and United Bank shifted from profits to losses in the first quarter of 2018; while the results of Al-Arabiya Islamic Bank and Ashur Bank switched to profits in the covered quarter from losses in the first quarter last year.

Source: Rabee Securities, Byblos Research

EGYPT

Banking sector is profitable and well-capitalized

The International Monetary Fund indicated that Egypt's banking sector remains liquid, profitable and well-capitalized. It said that the banks' average risk-weighted capital adequacy ratio stood at 15.2% at the end of 2017 relative to 14% at end-2016, and was above the Central Bank of Egypt's (CBE) minimum requirement of 11.875%. It noted that the CBE's prohibition of dividend payments and restrictions on large lending transactions help preserve the banks' capital. It said that most banks have solid liquidity buffers and continue to manage their balance sheets in order mitigate interest rate and liquidity risks from their large holdings of government securities. It indicated that several smaller banks, whose capital adequacy, asset quality and profitability are below the sector's averages, do not pose significant risks to financial stability, and expected some of the banks to show a gradual improvement in their financial conditions in the next 12 months. Further, it pointed out that the banks' profitability remains strong, as their return on assets and return on equity were unchanged at 2% and 30.9%, respectively, in 2017. It expected the banks' profitability to remain sufficient to absorb any potential increase in credit risk despite the anticipated normalization in profits from the decline in interest rates. In parallel, the Fund indicated that the sector's non-performing loans (NPLs) ratio reached 4.9% at end-2017, down from 6% at end-2016.

Source: International Monetary Fund



ENERGY / COMMODITIES

Oil prices down on market-related concerns

ICE Brent crude oil front-month prices reached a three-month low of \$71.8 per barrel (p/b) on July 16, 2018, down from a two-month high of \$79.4 p/b recorded at end-June 2018, reflecting the persistent high volatility in the oil market. The decline in oil prices was mainly driven by the increase in oil output in Saudi Arabia, Russia and other OPEC countries. The compliance rate of OPEC members with their production quota decreased from 147% in May 2018 to about 120% in June, as oil producers continue to raise production. In addition, oil prices decreased as concerns about supply disruptions eased and as Libyan ports resumed oil-export activities. Also, the rise in U.S. crude oil inventories has weighed on oil prices, as it raised investors' concerns about higher global supply and weaker oil demand. The U.S. oil output reached an all-time high of 11 million b/d last week, driven by ongoing shale oil production. On the demand side, the ongoing trade dispute between the U.S. and its trading partners, including China, has increased investors' concerns about global economic activity and energy demand. Despite the positive global growth outlook, multiple factors such as a stronger dollar, heightened inflationary pressure, tightening liquidity, and trade tensions could weaken the global economy and, in turn, weigh on the physical demand for crude oil. In contrast, the decline in oil prices was in part limited by a higher-than-expected decrease in U.S. gasoline stocks. Overall, despite the recent decline in oil prices, the oil market has been sending mixed signals about future market dynamics. Overall, Brent oil prices are forecast to average \$73.7 p/b in the third quarter of 2018 and \$73.6 p/b in the fourth quarter of the year.

Source: Thomson Reuters, Byblos Research

OPEC's oil output up 0.5% in June 2018

Crude oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 32.33 million barrels per day (b/d) in June 2018, up by 0.5% from 32.2 million b/d in the preceding month. Saudi Arabia produced 10.4 million b/d in June 2018, or 32.2% of OPEC's total oil output, followed by Iraq with 4.53 million b/d (14%), Iran with 3.79 million b/d (11.8%) and the UAE with 2.9 million b/d (9%).

Source: OPEC, Byblos Research

Steel output up 4% in first five months of 2018

Global steel production reached 729.2 million tons in the first five months of 2018, constituting an increase of 4.3% from 699.3 million tons in the same period of 2017. Chinese steel production totaled 369.9 million tons in the covered period and accounted for 50.7% of global output. Japan followed with 44.2 million tons, or 6.1% of the total, then India with 44.1 million tons (6.05%) and the United States with 34.8 million tons (4.8%).

Source: World Steel Association, Byblos Research

ME&A's oil demand to rise by 2% in 2018

Crude oil consumption in the Middle East & Africa (ME&A) region is forecast to average 12.55 million barrels per day (b/d) in 2018, which would constitute an increase of 1.5% from 12.37 million b/d in 2017. The region's demand for oil would represent 38.3% of demand in developing countries and 12.7% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 2.75 million b/d in 2018, which would reflect an increase of 0.4% from 2.74 million b/d in 2017.

Source: OPEC, Byblos Research

Base Metals: U.S.-China trade tensions put pressure on copper prices

LME copper cash prices averaged \$6,283.7 per metric ton so far in July 2018, constituting a significant decline from \$6,965 per ton in June of this year. The drop in prices was mainly driven by concerns about the escalating trade tensions between the U.S. and China, a seasonal slowdown in the metal's demand, as well as a stronger US dollar. Copper prices decreased to a one-year low of \$6,116 per ton on July 17, as U.S. President Trump threatened China with tariffs of 10% on an additional \$200bn worth of Chinese imports, while China threatened to adopt retaliatory measures and filed a complaint with the World Trade Organization. In addition, recent data showed that the Chinese economy expanded at a slower pace in the second quarter of this year compared to the previous quarter, which raises concerns of a weakening in the metal's demand as a result of the ongoing trade war. Still, prices are expected to slightly recover to an average of \$6,532 per ton in the second half of 2018, supported by renewed concerns over supply disruptions amid the unresolved labor negotiations at Escondida, the world's largest copper mine in Chile, as well as due to low levels of inventories.

Source: ABN AMRO, Thomson Reuters, Byblos Research

Precious Metals: Platinum market to post production surplus in 2018

Platinum prices averaged \$940.4 per troy ounce in the first half of 2018, constituting a decline of 2% from \$959.4 an ounce in the same period of 2017. Also, the metal's price has been declining so far this year, as it decreased from an average of \$976.4 an ounce in the first quarter of 2018 to an average of \$904.4 per ounce in the second quarter of the year and to a 10-year low of \$810 an ounce on July 18, 2018. The drop in the metal's price is due to escalating trade tensions between the United States and China, a stronger US dollar, as well as the persistent production surplus in the platinum market. In fact, the market is expected to post its fourth consecutive annual production surplus in 2018, mainly due to lower demand in the automotive sector. In this context, prospects of higher demand for electric vehicles would weigh on platinum usage in catalytic converters. As such, the metal's price is projected to continue to decline in the remainder of the year, and to average \$825 an ounce in the second half of 2018. Overall, prices are forecast to decrease by 7% to an average of \$883 per ounce in 2018.

Source: CPM Group, ABN AMRO, 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 Stable	B3 Stable	B Positive	B Positive	B+ Positive	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
	B Stable	B1 Stable	B Stable	- -	B+ Stable								
Ethiopia	B Stable	B1 Stable	B Stable	- -	B+ Stable	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
	B Stable	B3 Stable	B Stable	- -	BB- Stable								
Ghana	B- Positive	B3 Stable	B Stable	- -	BB- Stable	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
	-	Ba3 Stable	B+ Stable	- -	B+ Stable								
Ivory Coast	- -	Ba3 Stable	B+ Stable	- -	B+ Stable	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
	-	-	B Stable	- -	B- Stable								
Libya	- -	- -	B Stable	- -	B- Stable	-16.4	78.2	-	-	-	-	-10.6	-
	CCC+ Stable	B3 Negative	- -	- -	CCC Stable								
Dem Rep Congo	-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
	B Stable	B2 Stable	B+ Negative	- -	BB- Stable								
Nigeria	B Stable	B2 Stable	B+ Negative	- -	BB- Stable	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
	- -	- -	- -	- -	CC Negative								
Sudan	- -	- -	- -	- -	CC Negative	-2.5	55.2	47.5	-	-	-	-4.7	-
	- -	B2 Stable	B+ Negative	- -	BB- Negative								
Tunisia	- -	B2 Stable	B+ Negative	- -	BB- Negative	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
	B Stable	- -	- -	- -	B+ Stable								
Burkina Faso	B Stable	- -	- -	- -	B+ Stable	-3.6*	33.3	23.1**	-	-	-	-7.2	-
	B Stable	B2 Stable	B+ Stable	- -	B+ Stable								
Rwanda	B Stable	B2 Stable	B+ Stable	- -	B+ Stable	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
	Middle East												
Bahrain	B+ Stable	B1 Negative	BB- Stable	BB Stable	BB+ Negative	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
	- -	- -	- -	BB- Negative	BB- Positive								
Iran	- -	- -	- -	BB- Negative	BB- Positive	0.7	29.2	2.0	-	-	-	5.3	-
	B- Stable	Caa1 Stable	B- Stable	- -	CC+ Stable								
Iraq	B- Stable	Caa1 Stable	B- Stable	- -	CC+ Stable	-4.2	60.0	38.8	-	-	-	-4.4	-
	B+ Stable	B1 Stable	- -	BB- Negative	BB+ Stable								
Jordan	B+ Stable	B1 Stable	- -	BB- Negative	BB+ Stable	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
	AA Stable	Aa2 Stable	AA Stable	AA- Stable	AA- Stable								
Kuwait	AA Stable	Aa2 Stable	AA Stable	AA- Stable	AA- Stable	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
	B- Stable	B3 Stable	B- Stable	B Stable	B- Stable								
Lebanon	B- Stable	B3 Stable	B- Stable	B Stable	B- Stable	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
	BB Stable	Baa3 Negative	BBB- Negative	BBB Stable	BBB- Positive								
Oman	BB Stable	Baa3 Negative	BBB- Negative	BBB Stable	BBB- Positive	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
	AA- Negative	Aa3 Stable	AA- Stable	AA- Negative	A+ Negative								
Qatar	AA- Negative	Aa3 Stable	AA- Stable	AA- Negative	A+ Negative	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
	A- Stable	A1 Stable	A+ Stable	A+ Stable	AA- Stable								
Saudi Arabia	A- Stable	A1 Stable	A+ Stable	A+ Stable	AA- Stable	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
	- -	- -	- -	- -	C Stable								
Syria	- -	- -	- -	- -	C Stable	-	-	-	-	-	-	-	-
	- -	Aa2 Stable	- -	AA- Stable	AA- Stable								
UAE	- -	Aa2 Stable	- -	AA- Stable	AA- Stable	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
	- -	- -	- -	- -	CC Negative								
Yemen	- -	- -	- -	- -	CC Negative	-6.0	77.4	20.3	-	-	-	-4.2	-



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	Negative	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	05-Jul-18	Raised 25bps	01-Aug-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	03-Jul-18	No change	07-Aug-18
New Zealand	Cash Rate	1.75	28-Jun-18	No change	08-Aug-18
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Jun-18	No change	20-Sep-18
Canada	Overnight rate	1.50	11-Jul-18	Raised 25bps	05-Sep-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	12-Jul-18	No change	31-Aug-18
Malaysia	O/N Policy Rate	3.25	11-Jul-18	No change	05-Sep-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	28-Jun-18	No change	16-Aug-18
Turkey	Repo Rate	17.75	07-Jun-18	Raised 125bps	24-Jul-18
South Africa	Repo rate	6.50	19-Jul-18	No Change	20-Sep-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	7.75	21-Jun-18	Raised 25bps	02-Aug-18
Brazil	Selic Rate	6.50	21-Jun-18	No change	01-Aug-18
Armenia	Refi Rate	6.00	26-Jun-18	No change	14-Aug-18
Romania	Policy Rate	2.50	04-Jul-18	No change	06-Aug-18
Bulgaria	Base Interest	0.00	29-Jun-18	No change	31-Jul-18
Kazakhstan	Repo Rate	9.00	09-Jul-18	No change	03-Sep-18
Ukraine	Discount Rate	17.50	12-Jul-18	Raised 50bps	06-Sep-18
Russia	Refi Rate	7.25	15-Jun-18	Cut 25bps	27-Jul-18



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (+961) 1 338 100
Fax: (+961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island – Sky Tower – Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293

