

# COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

### WORLD

#### Corporate debt of \$11 trillion maturing between July 2018 and 2023

S&P Global Ratings indicated that \$11,018bn in corporate debt worldwide will mature between July 2018 and end-2023, constituting an increase of 3% from \$10,692bn that mature between July 2017 and end-2022. It noted that \$655.6bn in corporate debt is due in the second half of 2018, \$1,882bn in 2019, \$2,139bn in 2020, \$2,133bn in 2021, \$2,281bn in 2022 and \$1,927bn in 2023. The U.S. has \$4,883bn in maturing corporate debt between July 2018 and 2023 or 44.3% of the total, followed by Europe with \$4,200bn (38.1%), other developed countries with \$1,139bn (10.3%) and emerging markets with \$796bn (7.2%). Also, investment-grade corporate debt that matures during the covered period totals \$8,508bn, or 77.2% of maturing corporate debt. In parallel, non-financial corporate debt that matures during the 2018-23 period totals \$6,679bn and accounts for 60.6% of the debt that matures during the covered period. Maturing corporate debt in the oil & gas sector totals \$701.8bn and accounts for 10.5% of non-financial maturing corporate debt, followed by consumer products companies with \$684.8bn (10.3%) and the telecommunications sector with \$631.5bn (9.5%). S&P noted that several global risks could weaken credit quality or increase funding costs, including rising trade tensions, geopolitical risks, market volatility, and the potential for faster-than-expected increases in funding costs.

Source: S&P Global Ratings

### EMERGING MARKETS

#### Bank lending conditions deteriorate in second quarter of 2018

The Emerging Markets (EMs) Lending Conditions Index reached 48.7 points in the second quarter of 2018 relative to 50.4 in the preceding quarter. The Demand for Loans Index expanded marginally to 51.96 in the second quarter of 2018 from 51.9 in the previous quarter, as overall demand for corporate, residential, and commercial real estate loans improved. In parallel, the Trade Finance Index contracted to 50.9 in the covered quarter from 54.3 in the first quarter of 2018. Further, the Non-Performing Loans (NPLs) Index regressed to 50 in the second quarter of 2018 from 51.9 in the previous quarter. Also, the Credit Standards Index regressed to 46.5 in the covered quarter from 48.9 in the first quarter of 2018, while the Funding Conditions Index decreased to 43.5 in the second quarter of 2018 from 45.7 in the preceding quarter, as domestic funding conditions tightened, mainly in Latin America and Emerging Europe. In parallel, the Lending Conditions Index in Emerging Asia improved to 53 in the second quarter of the year from 51 in the preceding quarter. In contrast, the Lending Conditions Index in Sub-Saharan Africa regressed to 50.8 in the second quarter of 2018 from 51.4 in the previous quarter, while it retreated in Emerging Europe to 47.7 in the second quarter of the year from 51.2 in the first quarter. Further, the Index sharply declined in Latin America to 46.9 in the second quarter of 2018 from 51 in the preceding quarter, while it regressed in the Middle East & North Africa region to 44.4 in the covered quarter from 46.4 in the first quarter of 2018.

Source: Institute of International Finance

### MENA

#### Clients' risk profile leads 40% of banks to decline trade finance deals

The 2018 ICC Global Survey on Trade Finance indicated that 40% of banks in the Middle East refused to finance trade transactions due to the risk profile of the clients requesting trade financing, compared to 23% of banks globally that declined such requests for the same reason. Also, 20% of banks in the region rejected trade finance transactions due to incomplete or failed due diligence checks, specifically related to Know Your Customer requirements, relative to 10% of banks globally. Further, 30% of participants in the Middle East cited higher credit limits as the most requested client service, relative to 13% of banks globally that received the same request. The survey added that 20% of banks in the region named simpler and more efficient compliance procedures as the most requested client service, compared to 8% of banks globally; while 10% of respondents cited favorable pricing as the most requested client service relative to 34% of banks globally. In parallel, the survey indicated that 85% of banks in the region tapped new markets in the Asia-Pacific region, 55% of respondents explored new markets in Western Europe, and 36% of surveyed banks tapped new markets in Africa. It added that 60% of banks in the Middle East explored new trade financing opportunities in the region last year. In contrast, it noted that 36% of surveyed banks in the Middle East region exited from one or more markets in Africa last year, 11% withdrew from North America, and 9% reduced their presence in each of Latin America and Western Europe. It added that 30% of banks in the Middle East reduced their trade financing services in the region last year. The survey was conducted between December 2017 and February 2018.

Source: ICC Banking Commission

#### Property rights level varies across the region

The Property Rights Alliance's 2018 International Property Rights Index indicated that six out of 14 countries in the Arab world have a level of property rights below the region's average of 5.46 points, while eight Arab countries have a level lower than the global average of 5.74 points. The index measures the strength and protection of physical and intellectual property rights in a country. It is a composite of three equally weighted sub-indices that are the Legal & Political Environment Sub-Index, the Physical Property Rights Sub-Index and the Intellectual Property Rights Sub-Index. The index rates the property rights level of each country on a scale from zero to 10, with a score of 10 reflecting the highest level of property rights. The Arab region score is lower than that of advanced economies (7.5 points), but is higher than the average score of each of Emerging & Developing Asia and Emerging & Developing Europe (5.2 points), Latin America & the Caribbean (5.1 points), and Sub-Saharan Africa (4.8 points) and the Commonwealth of Independent States (4.7 points). The UAE has the highest level of property rights in the region and came in 21st place among 125 countries globally. It is followed by Qatar (25th), Oman (38th) and Jordan (42nd); while Mauritania (112th), Algeria (113th) and Yemen (124th) have the lowest levels of property rights in the region. The UAE ranked first on the three sub-indices.

Source: Property Rights Alliance, Byblos Research

# OUTLOOK

## EMERGING MARKETS

### Risks to economic growth increase

Goldman Sachs indicated that growth in emerging markets (EMs) has become more challenging amid a moderation in growth in developed markets (DMs), a tightening in EM and global financial conditions, the increase in global oil prices, as well as higher tariffs and the risks of a trade war. As such, it assessed the impact on growth in 17 EMs from 'shocks' related to growth in DMs, to global financial conditions, and to oil prices. It then quantified the combined impact on growth from changes in these three factors, before supplementing these results with separate estimates of the impact of the proposed tariffs.

First, it said that a one percentage point increase in economic activity in DMs would have a one-for-one effect on activity in EM economies, with the maximum impact on growth occurring within one to two quarters after the shock. It noted that the Czech Republic, Romania and Turkey would be the most positively affected from DM growth shocks, while China, Indonesia and Russia would have a relatively lower response to such shocks. Second, it pointed out that a tightening of 100 basis points in global financial conditions would typically reduce the level of real GDP in EMs by an average of 0.6 percentage points over a period of one to two years, with the maximum impact on growth from such a shock occurring within about three quarters following the shock. Third, it indicated that a 10% increase in oil prices would have a different impact across the region's oil exporters and importers. It said that such an increase would raise the level of real GDP by about 0.6 to 0.7 percentage points over a period of two to three years for oil exporters, with the biggest impact on growth occurring within two quarters after the initial increase. In contrast, it considered that a 10% rise in oil prices would lower the level of real GDP by about 0.2 to 0.3 percentage points in oil importers, with the biggest impact on growth occurring within about four quarters following the oil price shock. In addition, it indicated that the impact of the proposed tariffs on EMs would be negligible compared to the effect of other shocks, given that tariffs reduce imports and exports by similar amounts, which leads to a marginal impact on GDP growth.

*Source: Goldman Sachs*

## AFRICA

### Several challenges to constrain economic recovery

Financial services provider Absa projected real GDP growth in Sub-Saharan Africa (SSA) to accelerate from 3% in 2018 to 3.6% in 2019, mainly due to monetary policy easing, improved weather conditions and higher commodity prices. It expected economic activity to vary across SSA economies. It projected Ethiopia's real GDP growth at 10.1% in 2018 and 9.5% in 2019, supported by strong investment inflows and improved consumer and business confidence. It forecast Ghana's economic activity to remain strong at 6.8% in 2018 and 6.5% in 2019 despite oil output disruptions, driven by monetary policy easing and ongoing infrastructure investment. In parallel, it expected Angola's real GDP to grow by 2.2% in 2018 and 2.5% in 2019, supported by the increased availability of foreign currency, as well as higher global oil prices, domestic oil production and public spending. Further, it projected Nigeria's real GDP growth to increase from 1.9% this

year to 2.6% next year, but it anticipated the country's economic recovery to be constrained by political tensions ahead of the February 2019 general elections. Overall, it expected the SSA region's growth to be challenged by rising trade tensions and U.S. monetary policy tightening that would weigh on commodity prices and currencies in the region, as well as by weak fiscal conditions and heightened political and policy uncertainties.

In parallel, Absa projected the average inflation rate in the SSA region to decline from 9.5% in 2018 to 8.7% in 2019, amid accommodative monetary policies. It considered that Ghana, Kenya and Mozambique have scope for further monetary easing, while monetary authorities in other economies have become more cautious in recent months given the uncertain global outlook. In parallel, it noted that revenue shortfalls have increased risks of fiscal slippages in Botswana, Kenya, Namibia and Zambia. It added that Mozambique continues to work towards an agreement with bondholders to restructure its debt, while South Africa's fiscal challenges have put the revenues of the Southern African Customs Union under pressure, which would impact Botswana and Namibia in coming years. It added that the public debt level has increased sharply in Ethiopia, Gabon, Ghana, Kenya, Mozambique, Namibia and Zambia.

*Source: Absa*

## TURKEY

### Currency volatility to weigh on economic activity

S&P Global Ratings expected that the recent volatility of the Turkish lira, the significant tightening of external and domestic financing conditions, as well as reduced consumer and business confidence, would weigh heavily on economic activity in Turkey in the near term. As such, it projected real GDP to contract by 0.5% in 2019 relative to an average growth rate of more than 5% over the previous three years, mainly due to a sharp decline in consumption and investment. It noted that the lira's depreciation so far this year reflects Turkey's high reliance on external debt to finance growth, policy-makers' fiscal easing ahead of the June 2018 parliamentary and presidential elections, as well as the Central Bank of the Republic of Turkey's (CBT) relaxed monetary policy stance. Further, it projected the inflation rate to peak at 22% in the fourth quarter of 2018 and to remain above 20% in early 2019. In parallel, S&P noted that a credible government policy response that directly addresses Turkey's vulnerabilities could reduce the lira's volatility. But it said that the response from monetary and fiscal authorities has been limited so far. It considered that the measures that the CBT took recently address the symptoms rather than the root causes of the currency crisis.

Further, S&P pointed out that the CBT's buffers to weather a balance-of-payments risks are limited, since a large share of foreign currency reserves pertains to the CBT's liabilities in foreign currency to the banking sector and, as such, cannot be deployed for balance-of-payments interventions. It considered that an IMF program can provide an external anchor that would support portfolio inflows, stabilize the exchange rate and finance private sector debt rollovers. It added that a significant fiscal tightening could lead to a further contraction in economic activity. As such, it expected authorities to gradually moderate the fiscal stimulus.

*Source: S&P Global Ratings*

## ECONOMY & TRADE

### IRAQ

#### **Sovereign ratings affirmed, outlook 'stable'**

S&P Global Ratings affirmed at 'B-/B' Iraq's long- and short-term foreign and local currency sovereign credit ratings, with a 'stable' outlook. It noted that the ratings are constrained by the country's low financial wealth, weak economic activity and ineffective monetary policy due to the underdeveloped banking system. However, it indicated that Iraq's external debt is low, which reduces the country's vulnerability to external shocks. It expected economic growth to average 2.1% annually during the 2018-21 period, amid political instability, fiscal consolidation and weak non-hydrocarbon sector activity. It added that tackling corruption, as well as strengthening governance, accountability and transparency could support Iraq's economic growth. Also, it said that the \$30bn in pledges, loans and investments, which Iraq attracted at the donor conference in February 2018, would boost economic activity in the country, but that this would depend on the timing of disbursements. It noted that the financial stability of Iraqi banks is uncertain, and considered that the risk from the financial sector is a moderate contingent liability to the government. In parallel, S&P projected the current account balance to shift from a surplus of 2% of GDP in 2018 to an average deficit of 2.9% of GDP annually in the 2019-21 period, assuming oil prices moderate. It indicated that foreign currency reserves reached about \$48bn at end-2017, supported by the government's Eurobond issuance and higher oil prices, and expected them to remain at this level during the 2018-21 period. It anticipated that the Iraqi dinar's peg to the US dollar will remain in place for several years.

*Source: S&P Global Ratings*

### EGYPT

#### **Outlook on sovereign ratings revised to 'positive'**

Moody's Investors Service affirmed Egypt's long-term issuer ratings at 'B3', while it revised the outlook from 'stable' to 'positive'. It attributed the change in outlook to the sustained structural improvements in the country's fiscal and current account balances amid the ongoing implementation of the International Monetary Fund-backed reform program. It said that Egypt's 'B3' rating balances the country's large and diverse economy against its high refinancing risks stemming from the elevated debt level and debt servicing cost, which result in large annual financing needs. The agency expected the primary balance to shift from persistent deficits during the past two decades to a surplus starting from the fiscal year ending June 2019. As such, it projected the debt level to decline from a peak of 103.5% of GDP in FY2016/17 to 86% in FY2018/19 and to 82% by the end of 2020. In parallel, the agency noted that Egypt's foreign currency reserves improved to 6.5 months of import cover as of March 2018, which, in addition to a shift in the sources of financing external payments towards foreign direct investment, will reduce the country's vulnerability to changes in external economic and financing conditions. Further, it forecast the current account deficit to narrow from around 6% of GDP over the past two years to about 2.5% to 3% of GDP in the next few years, in case natural gas exports from the Zohr field start in 2019. In addition, it projected Egypt's real GDP growth to converge towards 6% in coming years in case of continued implementation of reforms, which would help absorb the country's rapidly expanding labor force.

*Source: Moody's Investors Service*

### TURKEY

#### **Policy response still insufficient to stabilize lira**

Fitch Ratings indicated that the policy response of Turkish authorities to the lira's depreciation cannot stabilize the currency and the economy, nor address the wide current account deficit, the high external financing requirements, the elevated inflation rate and the build-up in foreign currency debt. It noted that economic stability requires improvements in policy credibility, the independence of the Central Bank of the Republic of Turkey (CBT), tolerance of weaker growth by policy-makers, as well as a reduction in macroeconomic and financial imbalances. It considered that the CBT's measures, which include raising interest rates, reducing reserve requirements and restricting lira short-selling, along with Qatar's pledge to invest \$15bn in Turkey, have contributed to the stabilization of the lira. In parallel, Fitch indicated that currency mismatches and the reliance on short-term borrowing increase the pressure on Turkish corporates. It noted that Turkish firms rely on uncommitted bank credit lines, which may become less accessible if the currency crisis intensifies. However, it said that the authorities' efforts to limit banks' ability to reduce credit availability to companies are positive for the corporate sector in the short term, but could potentially increase risks for the banking sector in the long term. It added that the credit quality of Turkish insurers was affected by the downgrades of the sovereign and banks' ratings, given that the majority of insurers' assets are held as deposits at local banks and invested in Turkish government bonds. However, it said that insurers are not exposed to refinancing risks, given that they are entirely equity-financed.

*Source: Fitch Ratings*

### ANGOLA

#### **Persisting challenges trigger request for expanded IMF support**

Moody's Investors Service indicated that the Angolan government has recently requested the International Monetary Fund to adjust its economic support program by including a financing component under an Extended Fund Facility (EFF). It noted that the request for an EFF with funding reflects the country's urgent needs, given that Angola had originally applied for technical assistance through a Policy Coordination Instrument (PCI) without funding. It added that the upgraded request comes amid the government's ongoing economic and fiscal challenges, including the significant deterioration of the sovereign's balance sheet over the past three years. It considered that the financial and policy support from the EFF would improve the country's fiscal and external positions, as the government proceeds with its ambitious economic policies and structural reform agenda. Further, it noted that the maximum amount Angola could borrow under an EFF is \$1.1bn annually and \$3.2bn in total. It added that the government must submit a detailed plan each year on its objectives and policies to complete macroeconomic adjustments. It considered that Angola's compliance with an EFF will be more challenging than with a PCI. In parallel, Moody's noted that Angola's economic growth is still subdued and its budget deficit remains under pressure despite the increase in global oil prices. It expected real GDP to grow by 2.2% in 2018. Also, it projected the fiscal deficit at 2% of GDP, the public debt level to exceed 70% of GDP, and interest payments to remain above 20% of public revenues in 2018.

*Source: Moody's Investors Service*



# BANKING

## JORDAN

### Lending to resident private sector up 4% in first half of 2018

The consolidated balance sheet of commercial banks in Jordan indicated that total assets reached JD49.9bn or \$70.4bn at the end of June 2018, constituting increases of 1.7% from the end of 2017 and of 3.1% from end-June 2017. Claims on the resident private sector grew by 3.9% from end-2017 to JD23.4bn, while credit facilities to the non-resident private sector rose by 18.7% to JD593.8m, leading to an increase of 4.2% in overall private sector credit facilities in the first half of 2018. Lending to the resident private sector accounted for 46.8% of total assets at the end of June 2018 compared to 44.8% a year earlier. In parallel, resident private sector deposits reached JD27.1bn at the end of June 2018, up by 0.6% from JD26.9bn at end-2017 and by 2% from JD26.5bn at end-June 2017, while non-resident private sector deposits grew by 3.5% from the end of 2017 and by 9.5% from end-June 2017 to JD3.76bn. The government's deposits totaled JD1bn, up by 8% from end-2017, while those of public non-financial institutions increased by 11.3% to JD278.8m. In parallel, claims on the public sector accounted for 21.6% of total assets at end-June 2018 compared to 22.6% a year earlier. Further, the banks' reserves at the Central Bank of Jordan totaled JD5.5bn, or \$7.7bn at end-June 2018, up by 8% from JD5.1bn at end-June 2017; while capital accounts and allowances increased by 4.5% from end-June 2017 to JD7.5bn. Also, deposits at foreign banks reached JD3.4bn, or \$4.8bn, at the end of June 2018, down by 16.2% from end-2017; while the sector's foreign liabilities increased by 1.1% from end-2017 to JD6.9bn.

*Source: Central Bank of Jordan, Byblos Research*

## GHANA

### Bank of Ghana measures accelerating banking sector consolidation

IHS Markit indicated that the Bank of Ghana (BoG) has taken several steps to address the structural weaknesses in the banking sector and maintain financial stability. It noted that the BoG raised the minimum capital requirements for commercial banks and set the deadline for the banks to meet the new requirements by the end of 2018. Also, it said that the BoG is forcing consolidation in the banking sector, as it recently revoked the licenses of five small domestically-owned banks and established the Consolidated Bank Ghana Limited (CBG) as a 100% state-owned entity to absorb the entities. It noted that the CBG will operate as a bridge bank that will acquire some of the assets and liabilities of the five banks. It added that Sahel Sahara and Premium banks will merge with GN Bank, which means that eight Ghanaian banks will be consolidated into two entities, reducing the total number of banks in the sector from 34 to 28. It said that some of the banks included in the new consolidations had suffered liquidity challenges and high levels of non-performing loans, and were unable to access their capital. In parallel, it noted that the government has supported the forced merger of the five banks by reserving \$1.25bn to acquire all deposits and performing assets of the five banks. It added that the government will provide financial support to other domestic banks that could not access private funding, which would enable them to meet the new capital requirements.

*Source: IHS Markit*

## UAE

### Banks' funding and liquidity improving

Fitch Ratings indicated that the UAE banking sector's asset quality metrics deteriorated in 2017 as a result of the challenging operating environment and the pressure on the contracting, real estate and retail sectors. But it said that the banks' funding and liquidity continued to improve, with solid deposit growth and slower lending growth. It added that the banks' net interest margins were almost stable in 2017, as banks re-priced their loan books to offset the increase in the cost of funds from rising interest rates. It added that the sector's loans-to-deposits ratio stood at 93.9% in 2017, its lowest level in four years. In parallel, it pointed out that the banks' capital ratios increased slightly last year due to slower lending growth and reasonable internal capital generation, but that they are only adequate given the high concentration risks. It expected the banks' asset quality to be under pressure in 2018 despite the expected improvement in the operating environment. In parallel, Moody's Investors Service indicated that the net profits of the UAE's four largest banks, which are the First Abu Dhabi Bank, Emirates NBD, Abu Dhabi Commercial Bank and Dubai Islamic Bank, increased by 21% year-on-year to \$2.2bn in the second quarter of 2018 due to higher net interest income and lower loan-loss provisions. It anticipated the four banks' profitability to remain broadly stable over the next 12 to 18 months.

*Source: Fitch Ratings, Moody's Investors Service*

## TURKEY

### Agency takes rating actions on 18 banks

Moody's Investors Service downgraded by one notch the stand-alone baseline credit assessments (BCAs) of 14 banks, and by two notches the BCAs of four other banks following the agency's similar action on Turkey's sovereign rating. It attributed the downgrade of the banks' BCAs mainly to the higher risks associated with further negative shifts in investor sentiment that could lead to a decline in wholesale bank funding, as well as to the steeper-than-expected deterioration in Turkey's operating environment. In this context, Moody's lowered the Turkish banks' Macro Profile by one notch from 'Weak' to 'Weak-'. Further, it indicated that the performance of all banks is constrained by weaker funding conditions, given their high reliance on US dollar short-term market funding that represented about 41%, or \$77bn, of their foreign-currency market funding as at June 2018. It added that a shift in domestic investor sentiment could weigh on the banks' resident deposit base in foreign currency, which accounts for about 40% of the banking sector's total deposits. It considered that lower economic growth and a weaker local currency could have a worse-than-expected impact on the banks' asset quality and capital metrics. In parallel, Moody's downgraded by one notch the long-term foreign-currency deposit ratings of 12 banks, and by two notches the long-term foreign-currency deposit ratings of three more banks. It noted that the banks' ratings have a 'negative' outlook due to the vulnerability of the banks' foreign currency funding and deposits to a prolonged volatility of the exchange rate, or to a sudden drop in investor confidence. It added that the 'negative' outlook also reflects a considerably challenging financial environment, which would further negatively impact the banks' solvency.

*Source: Moody's Investors Service*



## Oil prices increase as countries reduce oil imports from Iran

ICE Brent crude oil front-month prices recovered from a four-month low of \$70.8 per barrel (p/b) reached on August 15, 2018 to about \$76 p/b on August 28. Despite an expansion in OPEC's oil supply and mounting concerns about trade conflicts, oil prices were supported by supply disruptions, including the outage of an oil sands plant in Canada, the sustained decline in Venezuela's and Angola's output, strikes in the North Sea, and uncertainties about Libya's output. Further, the imposition of U.S. sanctions on Iran's oil sector constitutes the major factor that is currently backing oil prices. In fact, Japan and South Korea have already reduced their oil imports from Iran, while Iranian oil shipments to Europe fell to 410,000 barrels per day (b/d) in July, relative to an average of 750,000 b/d in 2017. In contrast, China has been increasing its oil imports from Iran, while Turkey is expected to do the same in response to its conflict with the U.S. Further, the U.S. decided to sell 11 million barrels of oil from its Strategic Petroleum Reserve (SPR) between October and November to help bring down retail gasoline prices. In parallel, the decline in Iranian oil output could be offset by increased supply from Saudi Arabia and the U.S., especially if the latter accelerates its planned 288 million-barrels-drawdown from its SPR, which is scheduled between fiscal years 2017-25.

Source: Commerzbank, Institute of International Finance, Thomson Reuters

## ME&A's oil demand to rise by 1% in 2018

Crude oil consumption in the Middle East & Africa (ME&A) region is forecast to average 12.52 million barrels per day (b/d) in 2018, which would constitute an increase of 1.2% from 12.37 million b/d in 2017. The region's demand for oil would represent 38.2% 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

## South Sudan's oil production to reach 210,000 b/d by end-2018

South Sudan has resumed pumping 20,000 barrels per day (b/d) of crude oil from the Toma South oilfield, where production has been suspended since 2013. Production at five of the previously-suspended oilfields is expected to reach 80,000 b/d by the end of 2018. As such, South Sudan's oil output is expected to increase from 130,000 b/d currently to about 210,000 b/d by the end of 2018. South Sudan's output peaked at 350,000 b/d in 2011, but the country fell into civil war two years later, damaging multiple oil production facilities.

Source: Thomson Reuters

## Steel output up 5% in first seven months of 2018

Global steel production reached 1.04 billion tons in the first seven months of 2018, constituting an increase of 5.1% from 985.4 million tons in the same period of 2017. Chinese steel production totaled 532.8 million tons in the covered period and accounted for 51.3% of global output. India followed with 61.8 million tons (6%), then Japan with 61.4 million tons (5.9%) and the U.S. with 49.3 million tons (4.8%).

Source: World Steel Association, Byblos Research

## Base Metals: Copper prices drop amid ongoing trade tensions and easing supply concerns

LME copper three-month future prices averaged \$6,083 per metric ton so far in August 2018, constituting a drop of 3% from \$6,269 per ton in July 2018, due to escalating trade tensions between the U.S. and China, as well as increasing concerns about weaker Chinese demand for copper. Prices further decreased amid a stronger US dollar, as well as easing supply conditions following the deal reached between labor unions and management at Escondida, the world's largest copper mine in Chile. In parallel, the latest available figures show that global demand for refined copper was 9.8 million tons in the first five months of 2018, up by 1.1% year-on-year, as Chinese demand grew by 4%, while demand in the rest of the world declined by 1.5%. On the supply side, global refined copper production was 9.8 million tons in the first five months of 2018, up by 2% from 9.6 million tons in the same period of 2017, mainly driven by a growth of 6.5% in Chilean production, which was partly offset by a decline in the output of India, the U.S., Peru and Poland. On a regional basis, refined output grew by 11% in Africa, 4.5% in Latin America and by 2% in Asia, while it declined by 3% in North America and was nearly unchanged in Europe and Oceania.

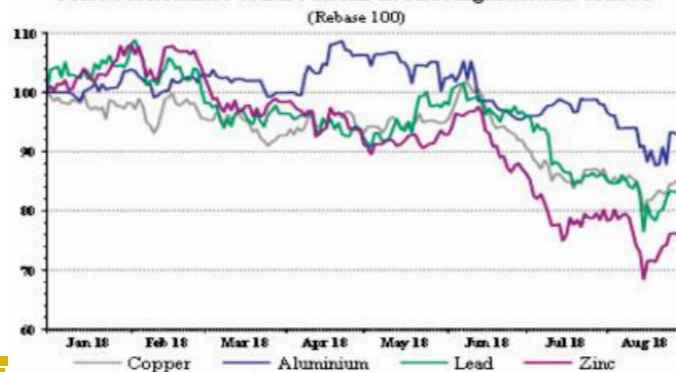
Source: International Copper Study Group, Thomson Reuters

## Precious Metals: Palladium prices to recover by end-2018 amid continued production deficit

Palladium prices averaged \$985.7 per troy ounce year-to-August 29, 2018, which constitutes an increase of 20.8% from an average of \$816 an ounce in the first eight months of 2017, mainly driven by strong autocatalyst demand. However, prices declined by 2.2% month-on-month to an average of \$913 an ounce so far in August 2018, amid worries that a potential global trade war between the U.S. and China would hurt global automotive demand. Still, prices are forecast to recover to \$950 an ounce by end-2018 and to \$1,000 an ounce by end-2019. The potential increase reflects expectations of a continued production deficit in the global palladium market due to resilient demand from the global automotive industry, which accounts for 80% of demand, as well as to subdued mine production. In addition, tighter global emissions regulations in Europe are expected to continue to raise demand for palladium-based catalytic converters this year, while autocatalyst demand in the U.S. and China is anticipated to grow only slightly. Downside risks to the price outlook include increased U.S.-China trade tensions, as palladium is positively correlated to equity markets, as well as the substitution of palladium with cheaper platinum in catalytic converters.

Source: Commerzbank, Thomson Reuters, Byblos Research

Price Performance of Base Metals in First Eight Months of 2018



Source: Thomson Reuters Datastream, 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                     | Positive     | 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+                         | B2           | 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    | Negative | Positive   |                               |                              |                         |                                             |                        |                               |                                   |                   |
| Qatar         | AA-                        | Aa3          | AA-         | AA-      | A+         | -7.0                          | 50.2                         | 130.0                   | 265.7                                       | 27.0                   | 664.0                         | -2.3                              | -3.0              |
|               | Negative                   | Stable       | 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    |                               |                              |                         |                                             |                        |                               |                                   |                   |
| <b>Asia</b>                         |                            |          |          |          |        |                               |                              |                         |                                             |                        |                               |                                   |                   |
| 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               |
| <b>Central &amp; Eastern Europe</b> |                            |          |          |          |        |                               |                              |                         |                                             |                        |                               |                                   |                   |
| 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                              | B+                         | Ba3      | BB       | BB+      | BB-    |                               |                              |                         |                                             |                        |                               |                                   |                   |
|                                     | Stable                     | Negative | 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     | 01-Aug-18    | No change    | 26-Sep-18    |
| Eurozone                | Refi Rate             | 0.00          | 26-Jul-18    | No change    | 13-Sep-18    |
| UK                      | Bank Rate             | 0.75          | 02-Aug-18    | Raised 25bps | 13-Sep-18    |
| Japan                   | O/N Call Rate         | -0.10         | 31-Jul-18    | No change    | 19-Sep-18    |
| Australia               | Cash Rate             | 1.50          | 07-Aug-18    | No change    | 04-Sep-18    |
| New Zealand             | Cash Rate             | 1.75          | 08-Aug-18    | No change    | 26-Sep-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    |
| <b>Emerging Markets</b> |                       |               |              |              |              |
| 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          | 08-Aug-18    | No change    | 19-Sep-18    |
| India                   | Reverse repo rate     | 6.50          | 01-Aug-18    | Raised 25bps | 05-Oct-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         | 16-Aug-18    | No change    | 27-Sep-18    |
| Turkey                  | Repo Rate             | 17.75         | 24-Jul-18    | No change    | 25-Sep-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         | 24-Jul-18    | No change    | 25-Sep-18    |
| Ghana                   | Prime Rate            | 17.00         | 23-Jul-18    | Cut 100bps   | 24-Sep-18    |
| Angola                  | Base rate             | 16.50         | 17-Jul-18    | Cut 150bps   | 24-Sep-18    |
| Mexico                  | Target Rate           | 7.75          | 02-Aug-18    | No change    | 04-Oct-18    |
| Brazil                  | Selic Rate            | 6.50          | 01-Aug-18    | No change    | 19-Sep-18    |
| Armenia                 | Refi Rate             | 6.00          | 14-Aug-18    | No change    | 25-Sep-18    |
| Romania                 | Policy Rate           | 2.50          | 06-Aug-18    | No change    | 03-Oct-18    |
| Bulgaria                | Base Interest         | 0.00          | 31-Jul-18    | No change    | 31-Aug-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          | 27-Jul-18    | No change    | 14-Sep-18    |



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