

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Fixed income trading up 17% to \$1,327bn in second quarter of 2018

Trading in emerging markets debt instruments reached \$1,327bn in the second quarter of 2018, constituting increases of 3.7% from \$1,280bn in the preceding quarter and of 17.2% from \$1,132bn in the second quarter of 2017. Turnover in local-currency instruments reached \$821bn in the second quarter of 2018, up by 20% from \$684bn in the first quarter of the year and by 28% from \$641bn in the second quarter of 2017. In parallel, trading in Eurobonds stood at \$497bn in the second quarter of 2018, down by 15.8% from \$590bn in the preceding quarter, but up by 1.6% from the same quarter last year. The volume of traded sovereign Eurobonds reached \$302bn and accounted for 60.8% of total Eurobonds traded in the covered quarter, while the volume of traded corporate Eurobonds reached \$187bn, or 37.6% of the total. In addition, turnover in warrants and options stood at \$8bn, while loan assignments reached \$179m in the second quarter of 2018. The most frequently-traded instruments in the second quarter of 2018 were Mexican fixed income assets with a turnover of \$254bn, or 19.1% of the total, followed by securities from Brazil with \$162bn (12.2%) and instruments from South Africa with \$104bn (7.8%). Other frequently-traded instruments consisted of fixed income securities from India at \$92bn and Argentina at \$91bn (6.9% each).

Source: EMTA

Private capital investments up 21% to \$30bn in first half of 2018

The Emerging Markets Private Equity Association indicated that Emerging Market (EM)-focused private equity, private credit, and private infrastructure & real assets funds raised \$31bn in the first half of 2018, constituting an increase of 10.7% from \$28bn raised in the first half of 2017, and relative to \$36bn raised in the second half of last year. Funds raised in emerging markets represented 20% of the funds raised globally in the first half of 2018. The amount of raised funds in emerging markets in the covered period was lower than in the United States (\$89bn) and Western Europe (\$34bn), while it was higher than that in other developed markets (\$3.4bn), that include Australia, Canada and Japan. In parallel, private capital invested in emerging markets totaled \$30bn in the first half of 2018, up by 21% from \$25bn in the first half of 2017, and compared to \$26bn of such investments in the second half of 2017. Private capital investments in emerging markets accounted for 11% of private capital invested globally in the first half of 2018. The amount of investments in emerging markets in the first half of the year was lower than in the United States (\$154bn) and Western Europe (\$65bn), while it was higher than in other developed markets (\$24bn).

Source: Emerging Markets Private Equity Association

MENA

M&A deals up 1% to \$24.3bn in first eight months of 2018

Figures issued by Bureau Van Dijk and Zephyr show that there were 344 merger & acquisition (M&A) deals targeting companies in the Middle East & North Africa (MENA) region for a total of \$24.3bn in the first eight months of 2018. In comparison, there were 400 M&A deals worth \$24.1bn in the first eight months of 2017. The figures reflect a decline of 14% in the volume of deals and an increase of 0.7% in their amount year-on-year in the first eight months of 2018. The amount of M&A transactions in the UAE reached \$10bn in the first eight months of the year, which accounted for 41.4% of the region's aggregate deal value in the covered period. Egypt followed with M&A deals of \$5.2bn (21.4%), then Saudi Arabia with \$2.7bn (11%), Morocco with \$1.5bn (6%), Kuwait with \$1.2bn (5%), Iran with \$1bn (4.3%), Oman with \$623m (2.6%), Jordan with \$616m (2.5%) and Libya with \$450m (1.9%), while the remaining \$945m worth of deals, or 3.9% of the total, targeted other MENA countries. In volume terms, the UAE had 95 M&A deals in the covered period, followed by Egypt with 79 transactions, Jordan with 35 deals, Saudi Arabia with 29 transactions, Oman with 24 deals, Morocco with 23 transactions, Kuwait with 16 deals and Tunisia with 12 transactions, while the remaining deals were in seven other MENA countries.

Source: Zephyr; Bureau Van Dijk, Byblos Research

UAE

Earnings of Abu Dhabi companies up 6%, profits of Dubai firms up 42% in first half of 2018

The net income of 64 companies listed on the Abu Dhabi stock exchange totaled AED20.2bn, or \$5.5bn, in the first half of 2018, constituting an increase of 5.6% from AED19.2bn or \$5.2bn in the first half of 2017. Listed banks generated net profits of \$3.2bn and accounted for 59.2% of the total earnings of publicly-listed firms in the first half of 2018. Telecommunication companies followed with \$1.4bn (25.5%), then real estate companies with \$313.8m (5.7%), insurers with \$132.8m (2.4%), services firms with \$104.1m (1.9%), energy companies with \$98.9m (1.8%), investment & financial services institutions with \$70.3m (1.3%), industrial firms with \$67.2m (1.2%) and consumer goods firms with \$51.1m (0.9%). In parallel, the cumulative net income of 62 companies listed on the Dubai Financial Market totaled AED20bn, or \$5.4bn, in the first half of 2018, constituting an increase of 42.4% from AED14.1bn or \$3.8bn in the same period of 2017. Listed banks generated net profits of \$2.8bn, or 51% of total net earnings in the covered period. Real estate & construction companies followed with \$1.9bn or 35.1% of the total, then telecom firms with \$259.5m (4.8%), transportation companies with \$242.1m (4.5%), investment & financial services institutions with \$120.1m (2.2%), insurers with \$105.4m (2%), industrial firms with \$91.7m (1.7%) and services firms with \$63.5m (1.2%).

Source: KAMCO

OUTLOOK

AFRICA

Policy response to portfolio outflows dependent on domestic outlook

Citi indicated that there are rising concerns about a generalized sell-off in emerging market assets, rather than an idiosyncratic sell-off in a limited number of countries. It noted that these concerns have started to materialize in Africa, as reflected in the selling of Egyptian and Nigerian assets. It said that the Egyptian pound and the Nigerian naira have remained stable despite outflows of foreign portfolio investments from their domestic debt markets. But it indicated that the foreign currency reserves of Egypt and Nigeria have started to come under pressure, which, along with a stronger US dollar, could raise concerns about the countries' currency stability. Further, it expected both countries to continue to face high inflation rates in coming years, which increases the possibility of a revaluation of both currencies. But it anticipated the policy response of the Central Bank of Egypt (CBE) and the Central Bank of Nigeria (CBN) to be different.

First, Citi noted that the period of portfolio outflows from Egypt coincided with strong remittance inflows, which contributed to the ongoing stability of the pound. It added that although some of the outflows were transferred through the interbank foreign exchange market, which would put pressure on the pound, a portion of the outflows was channeled through the CBE's existing repatriation mechanism, which limited the pressure on the interbank market. It considered that the CBE has significant capacity to meet further outflows from its Tier II foreign currency reserves that reached \$13bn at end-June 2018. But it expected the CBE to remain committed to a cautious easing of its monetary policy amid signs of economic improvement. Second, Citi pointed out that the CBN used portfolio inflows to rebuild its foreign currency reserves. It estimated portfolio inflows in Nigerian debt securities in the 12 months ending June 2018 at \$12.6bn. It added that the CBN resorted to open market operations (OMO), rather than to raising its official policy rate. It considered that the CBN has two advantages over the CBE, which are the higher oil prices and a greater willingness to continue to tighten monetary policy by allowing a sharp rise in interest rates through its OMOs.

Source: Citi Research

Business activity to recover as demand increases

Standard Chartered's Africa Business Insight Survey, a quarterly survey of companies in eight countries in Sub-Saharan Africa compiled by IHS Markit, showed that firms in Botswana, Côte d'Ivoire, Ghana, Kenya, Nigeria, Uganda and Zambia expected business activity to pick up in the next 12 months. It said that rising consumer demand will drive the recovery in activity.

It indicated that the optimism of firms in Nigeria reflects their anticipation of improved consumer demand in the country, as businesses plan to increase their investments to expand their output and workforce in order to meet the rising demand. In addition, the survey said that companies in Kenya anticipated strong consumer demand over the next 12 months and an expansion of public sector activity. However, it noted that a rise in global oil prices, tight external financing conditions and the Parliament's decision to keep the cap on interest rates could weigh on the country's positive outlook. Also, firms in Côte d'Ivoire anticipated business conditions to further improve over the coming 12

months amid political stability and expectations of better infrastructure. But it noted that companies are concerned about an increase in input costs amid higher fuel prices and customs taxes. Further, confidence among firms in Ghana regressed slightly quarter-on-quarter from a relatively high level, as more firms reported a deterioration in current business conditions due to the currency depreciation and new tax measures.

In parallel, the survey's results showed that respondents across the region expected inflationary pressure to return in the next 12 months due to higher fuel prices and weaker domestic currencies. It said that the currency outlook is a major concern in East Africa as the majority of firms in Kenya, Tanzania and Uganda expected exchange rate movements to negatively affect their businesses in the coming 12 months. In contrast, it noted that companies in Nigeria were more positive toward the potential impact of the exchange rate on their businesses, reflecting improvements in the functioning of their foreign exchange market.

Source: Standard Chartered Bank, IHS Markit

MENA

Opportunities to accelerate pro-growth agenda

The McKinsey Global Institute (MGI) indicated that emerging markets (EMs) in the Middle East & North Africa (MENA) need to overcome several challenges to achieve sustained high economic growth. The MGI assessed the long-term growth patterns of 71 EMs and classified them into four categories that are the "long-term outperformers", "recent outperformers", "middling performers" and "underperformers". It noted that Algeria, Egypt, Iran, Jordan and Morocco came in the "middling performers" category, while it classified Lebanon as an "underperformer" in terms of long-term growth. In parallel, it indicated that the six MENA economies have negative total factor productivity, limited income and demand growth, as well as the lowest improvement in education spending among all EMs. It said that the MENA region's total factor productivity, which reflects the efficient use of resources through technology and innovation, has declined substantially over the past years due to the slow adoption of technology and efficient production methods. It also noted that the six countries have the lowest growth rates in terms of household income and consumption among all EM regions, despite the relatively high levels of savings and investment, and the availability of credit to the private sector. Further, it indicated that government effectiveness in the MENA region is the lowest across EM regions, while its digital readiness is relatively low.

The MGI pointed out that opportunities exist for the six MENA economies to accelerate their pro-growth agenda. It considered that the main priorities for policy-makers are to translate the region's relatively high savings rates into productive investments, as well as to promote innovation and technological adoption. It added that other pressing priorities include improving education in order to increase productivity, and enhancing the quality of public institutions and reducing bureaucracy in order to ensure the successful implementation of policies. Further, it indicated that the six MENA countries have the potential to increase consumption and demand, given their favorable demographic trends. Also, it considered that there are opportunities to further diversify the six countries' export portfolio, as well as to improve the value-added of exported goods.

Source: McKinsey Global Institute



ECONOMY & TRADE

AFRICA

IMF programs and higher oil prices to stabilize public debt levels in Sub-Saharan Africa

Fitch Ratings indicated that the ratings on 12 out of the 18 sovereigns that it rates in the Sub-Saharan Africa (SSA) region have a 'stable' outlook and the ratings on four sovereigns have a 'negative' outlook, while the Republic of Congo and Mozambique are rated below the 'B' category with no outlook assigned. It indicated that it revised Kenya's and Angola's outlooks from 'negative' to 'stable' in February and April 2018, respectively, due to the improvement in their fiscal and external balances, and to an anticipated stabilization in their debt levels. Also, it said that it revised the outlook on Lesotho's 'B+' rating from 'stable' to 'negative' in August 2018 due to pressures on its public and external finances. In parallel, the agency expected the median real GDP growth in SSA to stabilize at about 3.7% in 2018 and 4.5% in 2019, as the recovery in economic activity of the region's largest economies and oil exporters will be offset by a slowdown in growth among strong performers such as Ethiopia and Côte d'Ivoire. It noted that higher commodity prices have reduced the external imbalances of the region's oil and commodity exporters. Still, it projected the current account deficits of the region's oil and commodity exporters to widen in 2019 and 2020, mainly due to large infrastructure investments. In parallel, Fitch indicated that foreign exchange liquidity has improved in Angola and Nigeria due to adjustments in their foreign exchange regimes, while several SSA countries faced downward currency pressures in the first half of 2018. It said that the IMF programs and rising oil prices will help stabilize the public debt level of several SSA sovereigns.

Source: Fitch Ratings

EGYPT

Sovereign ratings upgraded, outlook revised to 'stable'

Capital Intelligence Ratings upgraded Egypt's long-term foreign and local currency sovereign ratings from 'B' to 'B+', and revised the outlook from 'positive' to 'stable'. It attributed its rating action to a significant increase in Egypt's foreign currency reserves, a narrowing fiscal deficit, a decline in the public debt level, lower short-term financing risks, as well as improved macroeconomic management and stronger growth under the IMF program. It noted that real GDP growth increased from 4.2% in the fiscal year that ended in June 2017 to 5.2% in FY2017/18 due to improved domestic demand and higher tourism receipts. It expected growth to average 5.6% annually between FY2018/19 and FY2019/20, driven by government efforts to restore confidence and by support from regional allies and the IMF. Further, it said that foreign currency reserves reached a record high of \$44.3bn in June 2018 as a result of improved competitiveness, higher tourism receipts and renewed access to international markets, which would allow the government to cover its gross external financing needs and weather its external vulnerabilities. It added that the transition to a flexible exchange rate regime and the consequent devaluation of the Egyptian pound has ended the parallel market and helped channel foreign currency liquidity to the banking system. It said that Egyptian authorities remain committed to reforms, but that any reform slippage could potentially threaten future IMF disbursements and result in renewed financing risks.

Source: Capital Intelligence Ratings

ANGOLA

IMF program to support sovereign credit profile

Fitch Ratings indicated that Angola's request for an IMF-supported Extended Fund Facility (EFF) highlights the authorities' attempts to accelerate economic and fiscal reforms in the country. It noted that an EFF, which could bring \$4.5bn in funding, would make public finances more sustainable, improve the functioning of the foreign exchange market, and support Angola's sovereign credit profile. However, it said that reducing the economy's dependence on commodities and its reliance on public spending is a long-term process. It added that the country still faces significant challenges, including a high public debt level, weak governance, stagnant oil production and a shortage of foreign currency. Further, it noted that lower commodity prices have depleted Angola's fiscal and external buffers. In this context, it considered that an EFF would support the country's external liquidity and help anchor the economic reform program and fiscal consolidation. It anticipated the spread between the official and parallel exchange rate markets to continue to narrow, as the excess demand of foreign currency is gradually cleared and the exchange rate is allowed to depreciate. Further, Fitch indicated that the Banco Nacional de Angola used its reserves to support foreign currency supply, which led to a decline in its foreign currency reserves from \$24.4bn at end-2016 to \$18.2bn in July 2018. It added that higher oil prices or significant economic diversification could support the accumulation of foreign currency reserves, but that stagnating oil output would limit an increase in oil export receipts and, in turn, in foreign currency reserves. In parallel, it said that the general government debt level increased from 25% of GDP at end-2013 to above 60% of GDP at end-2017.

Source: Fitch Ratings

TURKEY

Private sector financial stress to persist

Moody's Investors Service considered that financial stress in Turkey has increased in recent months, as the Turkish lira has depreciated by about 40% since the beginning of the year, the inflation rate increased to 16% in July 2018, and the bond yields rose to over 20% in mid-August 2018. It also noted that the discrepancy between the Central Bank of the Republic of Turkey's (CBT) inflation forecasts and its inflation targets, as well as the lack of appropriate policies to achieve those targets, are weighing on the CBT's credibility. It added that delays in introducing and implementing a credible economic plan to address the underlying causes of the crisis raise additional concerns. The agency expected financial stress in the private sector to persist and to adversely affect Turkish banks and companies with elevated external funding needs, while it anticipated the continued economic and financial volatility to weigh on sovereign creditworthiness. It added that persisting pressure on the sovereign's creditworthiness would adversely affect domestic issuers, which are exposed to the macroeconomic environment and to the domestic banking sector. It noted, however, that Turkey's credit quality continues to be supported by a large and diversified economy and a relatively strong fiscal position, a moderate debt burden, as well as the authorities' track record of successfully managing previous economic and financial shocks.

Source: Moody's Investors Service

BANKING

UAE

Banking sector consolidation is credit positive for banks

Moody's Investors Service indicated that the proposed mergers of banks in the UAE would be credit positive for the country's banking sector. It noted that Abu Dhabi Commercial Bank (ADCB) has started negotiations over the possibility of a merger with Union National Bank, and about another separate merger with Al Hilal Bank. It anticipated the three-way merger to lead to the consolidation of the over-banked UAE banking sector, which will improve the banks' pricing power, reduce pressure on their funding costs, and increase their ability to meet sizeable investments. It said that the competition for deposit sources, along with the increase in U.S. interest rates, is contributing to an increase in the banks' funding costs. It considered that the elevated competitive pressures and funding costs have both contributed to a contraction in the banks' net interest margins. In addition, the agency indicated that the consolidation would expand the banks' scale and revenue base through improving their ability to meet sizeable investments related to compliance, digitalization and new accounting standards, such as IFRS 9. It said that the completion of bank mergers in Gulf Cooperation Council countries has historically been challenging because of shareholders' high pricing expectations and the healthy profitability of the banks. However, it noted that slower economic activity following the decline in oil prices is driving consolidation across the over-banked region.

Source: Moody's Investors Service

TURKEY

Agencies downgrade banks' ratings

Capital Intelligence Ratings downgraded by one notch the long-term foreign currency ratings (FCRs) of 16 Turkish banks, and by two notches the FCRs of two banks. It also downgraded by one notch the Financial Strength Ratings (FSRs) of three banks, by two notches those of 13 banks and by three notches the FSRs of two banks. It maintained a 'negative' outlook on all the banks' ratings. It noted that the downgrades follow the agency's similar action on Turkey's sovereign ratings and reflect increased risks and pressure on the banks' credit profiles, mainly due to the ongoing currency crisis. It considered that the availability of foreign funding for Turkish banks could become limited, which would lead to a slowdown in domestic credit growth. It added that the banks' access to funding, as well as their external rollover and liquidity risks have increased significantly in the previous month. In parallel, it pointed out that the banks' asset quality is at risk, given that supportive measures have been exhausted, and that the sharp currency depreciation and high inflationary pressure have weakened the private sector's borrowing and repayment capacity. Also, CI expected the adverse currency effects and lower profitability to weaken the banks' capital profiles and constrain their internal capital generation. In parallel, Fitch Ratings downgraded the long-term Issuer Default Ratings (IDRs) of four mid-tier banks. The downgrades follow the agency's similar action on 18 other banks that it downgraded earlier. Fitch attributed its downgrade to increased risks to the banks' performance, asset quality, capitalization, liquidity and funding profiles following the recent period of market volatility and reduced investor sentiment.

Source: Capital Intelligence Ratings, Fitch Ratings

QATAR

New accounting standard leads to stronger reserve coverage and weaker capital ratios

Fitch Ratings indicated that the adoption of the international accounting standard IFRS 9 by Qatari banks has led to stronger reserve coverage but has weakened the banks' capital ratios. It noted that the impact of IFRS 9 varies significantly among banks, as core capital ratios declined by between 60 basis points (bps) and 330bps. Still, it said that all the banks' capitalization remains above the minimum regulatory capital requirements. The agency said that, prior to the implementation of IFRS 9, Qatari banks had adequate reserve coverage for non-performing loans, with a sector average loan-loss allowance coverage ratio of 106% at the end of 2017. But it noted that the adoption of IFRS 9 has led banks to reevaluate Stage 2 loans, which are non-impaired loans with a significant increase in credit risk, loans that are 30 to 89 days past due and loans to obligors with downgraded credit ratings, as well as to calculate the lifetime expected credit loss provisions for these loans. As such, it indicated that reserve coverage at banks surged to more than 150% of impaired loans for most banks at end-March 2018. In addition, it said that the share of Stage 2 loans ranges from 3% to 45% across Qatari banks, which reflects mixed exposure to potential asset-quality deterioration. It added that lower oil prices and the regional boycott have weighed on Qatar's operating environment, pushed more loans into Stage 2, and weighed on the banks' provisioning needs. It expected banks with above-average exposure to the real estate and contracting sectors to have the highest share of Stage 2 loans, given subdued activity in these sectors.

Source: Fitch Ratings

MOROCCO

Agency affirms ratings of five banks

Capital Intelligence Ratings affirmed at 'BBB-' the long-term foreign currency ratings (FCRs) of Attijariwafa Bank (AWB), Banque Centrale Populaire (BCP), Société Générale Marocaine des Banques (SGMA), Banque Marocaine pour le Commerce et l'Industrie (BMCI) and Crédit du Maroc, and maintained a 'stable' outlook on the banks' ratings. Also, it maintained the Financial Strength Rating (FSR) of AWB at 'BBB', those of BCP, SGMA and BMCI at 'BBB-', and the FSR of Crédit du Maroc at 'BB+'. It revised the outlook on Crédit du Maroc's FSR from 'stable' to 'positive' to reflect the continued improvement in the bank's asset quality and profitability, while it maintained a 'stable' outlook on the remaining banks' FSRs. It noted that AWB's FSR is supported by the bank's sound profitability and liquidity metrics, low cost of funds, and its dominant banking franchise in Morocco. However, it said that the bank's FSR is constrained by its high level of non-performing loans (NPLs), modest loan-loss coverage, and weakening capital position. Also, CI pointed out that BCP's FSR reflects the bank's adequate earnings, low cost of funds, very good operating position and relatively low level of NPLs. Also, it noted that SGMA's FSR is underpinned by improved profitability metrics, solid capital adequacy and sound banking franchise, but is constrained by its high level of NPLs, tight liquidity, as well as modest loan and asset growth. It added that BMCI's FSR is supported by the bank's solid capitalization level and adequate loan-loss provisioning.

Source: Capital Intelligence Ratings



ENERGY / COMMODITIES

Oil market outlook remains uncertain

ICE Brent crude oil front-month prices continued to recover, and almost reached their highest level since December 2014 to close at \$79.7 per barrel (p/b) on September 12, supported by a decline in U.S. crude oil inventories, a decrease of 2.9% in Venezuela's output in August, as well as by expectations of tightening global supply due to upcoming sanctions on Iranian oil exports. Further, oil traders have become more concerned about the potential impact of U.S. sanctions on Iran, with hedge funds increasing their net long positions in crude oil contracts in the last two weeks. In parallel, OPEC reduced its projection for global oil demand growth in 2019 to 1.41 million barrels per day (b/d) from about 1.43 million b/d previously, mainly due to rising economic challenges in some emerging and developing economies. Overall, the oil market outlook will depend on whether the U.S. and Saudi Arabia can successfully collaborate, so that the enforcement of U.S. sanctions does not disrupt global oil supply. In fact, a potential increase in China's oil imports from Iran, as well as a rise in U.S. shale oil production and in OPEC output would ease the sanctions' effect on the market. The oil market outlook is also contingent on the future of Venezuelan output, as well as on developments in Libya. In case Venezuelan and Iranian exports continue to fall, the oil market could tighten and prices could further rise. Overall, Citi expected Brent oil prices to average \$75 p/b in the third quarter of 2018 and \$79 p/b in the fourth quarter of the year.

Source: Al Rajhi Capital, Thomson Reuters, Citi, IEA

OPEC's oil output at 33 million b/d in August 2018

Crude oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 32.57 million barrels per day (b/d) in August 2018, up by 0.9% from 32.29 million b/d in the preceding month. Saudi Arabia produced 10.4 million b/d in August 2018, or 31.9% of OPEC's total oil output, followed by Iraq with 4.7 million b/d (14.3%), Iran with 3.6 million b/d (11%) and the UAE with 3 million b/d (9.1%).

Source: OPEC, Byblos Research

DRC's mining revenues at \$865m in first half of 2018

The revenues of the Democratic Republic of Congo's (DRC) mining sector reached \$864.6m in the first half of 2018 and nearly tripled from \$294.3m in the same period of 2017. Also, receipts from the oil and gas sector declined by almost one third from \$100.5m in the first half of 2017 to \$67.8m in the same period of 2018. Overall, the two sectors together account for almost all of the DRC's export revenues. The country is the leading copper producer in Africa and the world's top miner of cobalt.

Source: Ministère des Finances, Thomson Reuters

OPEC's oil basket price down 1.4% in August 2018

The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged \$72.26 per barrel (p/b) in August 2018, down by 1.4% from \$73.27 p/b in the preceding month. The UAE's Murban posted a price of \$74.91 p/b, followed by Saudi Arabia's Arab Light at \$73.38 p/b and Nigeria's Bonny Light at \$73.29 p/b. In parallel, 14 out of the 15 prices included in the OPEC reference basket posted monthly decreases between \$0.51 p/b and \$2.99 p/b in August 2018.

Source: OPEC, Byblos Research

Base Metals: Zinc prices to decline in 2018 on over-supply and trade war concerns

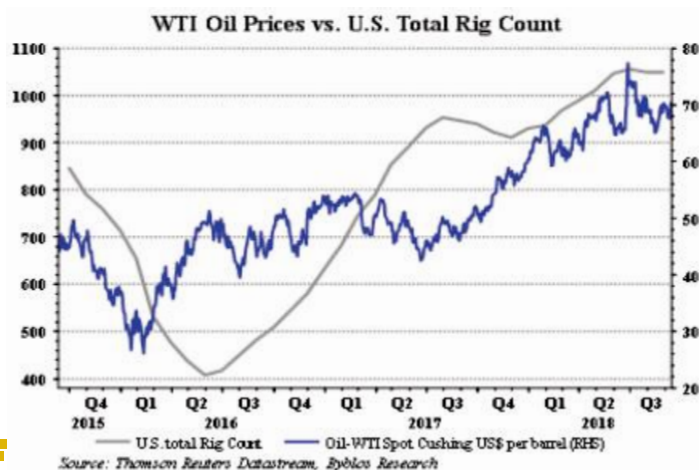
LME zinc cash price averaged \$2,513 per ton in August 2018, constituting a decline of 5.4% from \$2,656 per ton in July 2018, mainly due to persistent concerns about trade tensions between the U.S. and China. In parallel, S&P Global Ratings anticipated higher supply in the zinc market amid relatively subdued demand for the metal. It added that global zinc inventories have been building up after declining for more than two years. As such, it lowered its forecast for the prices of zinc for the rest of 2018 to \$2,800 per ton from a previous forecast of \$3,200 per ton, and to \$2,800 per ton in 2019 from \$3,000 per ton previously. Also it said that the revised prices reflect the marginal cost of production for about 75% of zinc producers globally. It also said that a price of \$2,800 per ton will act as a "natural" balance between the demand for and the supply of the metal in the market, despite a high degree in the volatility of the metal's price over the next few years. Further, S&P pointed out that downside risks to the metal's price forecast include escalating trade tensions as well as concerns about U.S. interest rate hikes.

Source: S&P Global Ratings, Thomson Reuters

Precious Metals: Platinum market to post second consecutive annual production surplus in 2018

Platinum prices have been on a downward trend so far in 2018, as they decreased from an average of \$988 per ounce in each of January and February 2018 to \$953.7 an ounce in March, \$924.1 per ounce in April, \$904.3 an ounce in May, \$884.9 per ounce in June, \$832.1 per ounce in July and \$804.6 an ounce in August 2018. The decrease in the metal's price mainly reflects a decline in automotive consumption resulting from lower demand for diesel cars, especially in Europe. Global platinum consumption is projected to decline by 2% to 7.6 million ounces in 2018, as decreases in automotive and jewelry demand would only partly be offset by a rise in industrial demand. The global automotive sector is expected to account for 41.1% of total platinum demand this year, followed by jewelry demand with 32.1%, industrial consumption with 23.5% and investment demand with 3.3%. In parallel, global mine supply is projected to decrease by 2.5% to six million ounces in 2018, equivalent to 76% of aggregate output, largely due to a 6% decline in Russian mine supply. As such, the production surplus in the platinum market is expected to remain nearly unchanged at 295,000 ounces this year, constituting the second consecutive annual production surplus.

Source: World Platinum Investment Council, Thomson Reuters



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 Positive	B Positive	B+ Stable	B+ Positive	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
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
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
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 Stable	B2 Stable	B+ Negative	-	BB-Stable	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
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 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	B2 Negative	BB-Stable	BB Stable	BB+ Negative	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
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+ Stable	B1 Stable	-	BB-Negative	BB+ Stable	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
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
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
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-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
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
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	AA-	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-6.0	77.4	20.3	-	-	-	-4.2	
	-	-	-	-	Negative								



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-								
	-	Positive	Positive	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Negative	Stable	Stable	-	Stable	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	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	13-Sep-18	Raised 25bps	25-Oct-18
Japan	O/N Call Rate	-0.10	31-Jul-18	No change	19-Sep-18
Australia	Cash Rate	1.50	04-Sep-18	No change	02-Oct-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	05-Sep-18	No change	24-Oct-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	31-Aug-18	No change	18-Oct-18
Malaysia	O/N Policy Rate	3.25	05-Sep-18	No change	08-Nov-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	24.0	13-Sep-18	Raised 625bps	25-Oct-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	03-Sep-18	No change	28-Sep-18
Kazakhstan	Repo Rate	9.00	03-Sep-18	No change	15-Oct-18
Ukraine	Discount Rate	18.00	06-Sep-18	Raised 50bps	25-Oct-18
Russia	Refi Rate	7.25	27-Jul-18	No change	14-Sep-18



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