

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Private equity funds raise \$426bn in 2018

Research provider Preqin indicated that 1,175 private equity (PE) funds raised a total of \$426bn in capital commitments worldwide in 2018, compared to 1,670 PE funds that raised \$565.8bn in 2017. Also, it said that 214 buyout funds raised \$229bn in 2018, or 53.8% of total capital commitments, followed by 605 venture capital funds with \$78.9bn (18.5%) in raised capital, 155 growth funds with \$59.1bn (13.9%) in capital commitments, 30 secondaries funds with \$20.7bn in raised capital (4.9%), 78 funds of funds with \$18.4bn in capital commitments (4.3%), and seven turnaround funds with \$2.3bn in raised capital. On a regional level, 639 PE funds with a primary focus on North America secured \$240.4bn in 2018, or 56.4% of total capital commitments, followed by 196 European-focused PE funds with \$89.5bn (21%), and 250 Asian-focused funds with \$80bn (18.8%). It said that the average fund size reached \$363m last year, which constituted an increase of 7.1% from \$339m in 2017 and represented the highest value since 2007. The survey indicated that there are 3,750 PE funds seeking to raise an aggregate of \$977bn in capital at the start of 2019, compared to 2,296 PE funds that were seeking to raise an aggregate of \$744bn in capital at the start of 2018.

Source: Preqin

Global government debt at \$66 trillion at end-2018

Fitch Ratings indicated that global government debt reached \$66 trillion at the end of 2018, nearly twice its 2007 level and equivalent to 80% of global GDP. It said that government debt in Developed Markets (DMs) reached \$51 trillion at end-2018, largely unchanged since 2012, while Emerging Markets' (EMs) government debt rose from \$10 trillion to \$15 trillion during the same period. It noted that 93% of global government debt carried an investment grade rating of 'BBB-' or higher at the end of 2018. It added that 11 'AAA'-rated sovereigns accounted for about 40% of global government debt, with the U.S. holding 32% of the total. Also, Japan and China, which are both rated in the 'A' category, held the second and third largest government debt stock of \$12 trillion and \$6 trillion, respectively, at the end of 2018. Further, Fitch pointed out that the number of sovereigns rated in the 'B' category or lower increased sharply in recent years, due to the downgrade of several 'BB'-rated commodity-exporting countries since 2014. It said that sovereigns in the 'B' category or lower accounted for 28% of the rated sovereigns, but that they accounted for only 3% of global government debt at end-2018. In parallel, the agency indicated that the credit quality of government debt deteriorated in recent years, as the debt-weighted average rating in DMs stood at slightly lower than 'AA' at end-2018, which is one notch below the average rating in 2011. It added that the debt-weighted average rating in EMs excluding China was slightly below 'BB+', its lowest level since 2005. In parallel, Fitch indicated that interest payments on the global debt reached a record high of \$1.7 trillion in 2018, with investment-grade sovereigns paying 84% of the total.

Source: Fitch Ratings

AFRICA

Creditworthiness improves in second half of 2018

S&P Global Ratings indicated that the overall sovereign creditworthiness in the Sub Saharan Africa (SSA) region slightly improved in the second half of 2018. It upgraded the long-term foreign currency rating of Ghana from 'B-' to 'B' on a more effective monetary policy, as well as the rating of the Republic of Congo from 'CCC+' to 'B-' on reduced legal risks of default and higher oil revenues. In contrast, it downgraded the rating of Zambia from 'B' to 'B-' due to the rising fiscal deficits and debt burden. Further, S&P revised the outlook on Rwanda from 'stable' to 'positive' due to stronger exports and economic growth in the first half of 2018. It noted that 15 out of the 18 rated-SSA countries carry a 'stable' outlook on their sovereign ratings, two have a 'positive' outlook, while Mozambique is in 'Selective Default'. It said that the average rating of SSA sovereigns was slightly higher than 'B' at end-2018 compared to an average of 'B+' at end-2014. It added that the average sovereign rating becomes slightly lower than 'B+' when the ratings are weighted by nominal GDP, largely due to South Africa, which is rated 'BB' and accounted for 29% of the aggregate GDP of the rated sovereigns in 2018. S&P noted that 17 out of the 18 rated sovereigns have a speculative-grade rating, while Botswana is the only country with an investment grade rating. In parallel, S&P indicated that the rated SSA sovereigns issued a record \$16.6bn in Eurobonds in 2018, with about 83% of Eurobonds issued in the first half of the year.

Source: S&P Global Ratings

MENA

Corruption perception varies across region

Global non-governmental organization Transparency International included 21 Arab countries on its 2018 Corruption Perception Index (CPI), which measures the perceived level of public sector corruption in 180 countries worldwide. The rankings are based on scores that range between zero and 100 points, with lower scores reflecting economies perceived as more corrupt. The UAE was perceived as the least corrupt Arab country and ranked in 23rd place globally. It was followed by Qatar (33rd), Oman (53rd), Jordan and Saudi Arabia (58th each), and Morocco and Tunisia (73rd each); while Libya (170th), Sudan (172nd) and Yemen (176th), Syria (178th) and Somalia (180th) were perceived as the most corrupt countries in the region. Arab countries received an average score of 34 points in 2018 relative to 33 points in the 2017 survey, lower than the global average of 43 points. The Arab economies' average score was higher than that of Sub-Saharan Africa (32 points), but it was lower than the average scores of the European Union & Western Europe (66 points), Asia Pacific and the Americas (44 points each), and Eastern Europe & Central Asia (35 points). Also, Gulf Cooperation Council (GCC) countries received an average score of 52 points in the 2018 survey compared to 50 in the 2017 survey, while non-GCC Arab countries had an average score of 27 points, unchanged from the 2017 survey.

Source: Transparency International, Byblos Research

OUTLOOK

SAUDI ARABIA

Non-hydrocarbon GDP growth projected at 2.3% in 2019

Bank of America Merrill Lynch (BofAML) expected Saudi Arabia's fiscal deficit to widen from \$36bn, or 4.6% of GDP in 2018, to \$61.5bn, or 7.7% of GDP in 2019, in case oil prices average \$70 p/b during the year. It noted that the actual deficit in 2019 would miss the government's 2019 budget target of a deficit of \$34.9bn, or 4.2% of GDP, as it considered that budgeted oil and non-oil revenues are difficult to reach. It said that budgeted oil revenues for 2019 are consistent with an average oil price of \$80 p/b and oil production of 10.2 million b/d, without any changes in domestic energy prices. Also, it did not expect the government's decision to lower the value-added tax registration threshold to add significant revenues, while it anticipated proceeds from expatriates' levies to fall short of targets. Further, it said that spending remains tight, with a focus on capital expenditures to support the non-oil economy, while it considered that the budgeted drop in the public-sector wage bill is unlikely to materialize. In addition, it projected the fiscal breakeven oil price at \$93.6 p/b in 2019, up by \$8 p/b from 2018 and by \$13 p/b from 2017. It said that the gradual and sticky increase in the fiscal breakeven oil price, along with the relative erosion of fiscal buffers since 2014, exposes the economy to a sustained drop in oil prices.

Further, BofAML expected the Kingdom's external financing needs at between \$22bn and \$33bn in 2019, in case oil prices average \$70 p/b, which it plans to raise through bond and sukuk issuances, as well as through loans. It projected the country's external borrowing needs to increase to between \$30bn and \$46bn in 2019, in case oil prices averaged \$60 p/b, as the fiscal deficit would reach 11% of GDP in this case.

In parallel, BofAML projected real GDP growth at 1.6% in 2019, compared to the government's forecast of 2.6%, and anticipated non-hydrocarbon real GDP growth at 2.3% this year, unchanged from the preceding year.

Source: Bank of America Merrill Lynch

ARMENA

Main risk to public finances is sharp dram depreciation

Fitch Ratings projected Armenia's real GDP growth to decelerate from an estimated 5% in 2018 to 4.2% in 2019, amid fiscal consolidation and due to statistical base effects. It said that the failure to resolve environmental concerns in the mining sector could weigh on mining activity and, in turn, on overall economic activity. It noted that environmental issues have forced the suspension of the construction of a key gold mine since mid-2018, and interrupted activity at some copper smelters. It noted that the under-execution of budgeted capital spending constitutes another downside risk to the outlook.

Further, the agency indicated that Armenia's external position continues to be weak, with a projected current account deficit of 4.4% of GDP in 2019. It estimated foreign exchange reserves to have recovered from a low of \$1.99bn at the end of June 2018 to \$2.1bn at end-October 2018. It indicated that the fluctuations in foreign currency reserves did not put pressure on the Armenian

dram. It considered that sustained private sector confidence, which resulted from improved economic policy credibility and financial stability during the "Velvet Revolution" of April-May 2018, has supported the currency. It noted that authorities could agree on a non-financial program with the IMF after the December 2018 parliamentary elections, which would further anchor confidence in the currency. Still, the agency expected a modest depreciation of the Armenian dram of about 3% in 2019.

Further, Fitch expected the fiscal deficit to slightly widen from 2.2% of GDP in 2018 to 2.6% of GDP in 2019, due to slower growth in public revenues amid the slowdown in economic activity. As a result, it projected the general government debt to rise from 57.3% of GDP in 2018 to 58.8% of GDP in 2019, before regressing to 56.2% of GDP by 2020. It pointed out that the main near-term risk to the debt trajectory is a sharp depreciation of the dram, as about 81% of the government's debt stock is denominated in foreign currency. Further, it said that monetary policy remains expansionary to offset tighter fiscal policy.

Source: Fitch Ratings

NIGERIA

Economic activity to pick up in second half of 2019

Citi Research expected the Nigerian economy and the naira to remain stable in the first half of 2019. It said that most politicians and policymakers are seeking to maintain macroeconomic stability in the country amid potential political uncertainty around the national elections that are scheduled in February 2019. It estimated that real GDP growth could have slightly increased in the fourth quarter of 2018, and expected it to further improve in the first half of 2019, despite the elections, in line with the gradual pickup that started in the first quarter of 2017. It attributed the anticipated steady state of the economy to better agricultural output, as well as to an increase in consumption amid higher election-related spending. It considered that a sustained expansion in economic activity is more likely in the second half of the year, in case the elections take place peacefully and business confidence strengthens afterwards.

Further, it expected the inflation rate at around 12% to 12.5% in the second half of 2019, mostly due to elevated food prices in the country. It noted that the slowdown in agricultural sector growth in 2018 has kept food prices high and has weighed on domestic consumption, as the sector is the main source of employment in the country. It added that food represents 51% of the consumer price index basket, which means that continuous elevated food prices in the country would keep inflation at high levels, with implications on monetary policy and bond yields. Given current inflation expectations and the tight fiscal position, it projected interest rates to remain elevated in the first half of 2019.

In parallel, Citi expected monetary policy to remain focused on maintaining the stability of the naira in the first half of 2019, despite the decline in oil prices. It anticipated that the Central Bank of Nigeria would continue to use open-market operations and cash reserve requirements to ensure tight monetary policy conditions in the first half of 2019. However, it considered that the main challenge facing policymakers is related to the direction of the exchange rate policy in the second half of the year, especially if the new administration allows a more flexible exchange rate.

Source: Citi Research

ECONOMY & TRADE

EMERGING MARKETS

Positive rating actions outweigh negative actions in 2018

Fitch Ratings indicated that it took positive sovereign rating actions in 2018 on 13 out of the 30 frontier markets that it rates, relative to six negative actions. It attributed the higher number of positive rating actions, in part, to an increase in commodity prices last year that improved the sovereign creditworthiness of oil exporters. However, it said that some frontier markets will face challenges in 2019, and that the nature of these challenges and vulnerabilities vary across countries and regions. Further, it pointed out that the ratings on 22 sovereigns are in the 'B' category, of which 14 have a 'stable' outlook, four carry a 'positive' outlook and four are on 'negative' outlook. It said that the low ratings reflect persistent vulnerabilities in frontier markets, including their weak public and external finances, exposure to global monetary tightening, and heightened political risks. Further, it indicated that higher oil prices and accelerated reforms have eased external vulnerabilities and supported growth among oil exporters in Sub-Saharan Africa. In parallel, it noted that the presence of IMF programs in the Middle East region provides a policy anchor, but that the implementation of these programs could be challenging. In addition, it pointed out that rating actions on Asian frontier markets were balanced in 2018, while Emerging Europe sovereigns are generally less exposed to global financial conditions, have more favorable growth prospects and have improved their economic policy frameworks.

Source: Fitch Ratings

GCC

Agencies take rating actions on two sovereigns

S&P Global Ratings affirmed at 'AA/A-1+' Kuwait's long- and short-term sovereign credit ratings, with a 'stable' outlook. It indicated that the ratings are supported by Kuwait's high fiscal and external buffers, with the general government's net asset position estimated at about 400% of GDP at end-2018. However, it noted that the ratings are constrained by Kuwait's weak institutional settings and high reliance on the hydrocarbon sector. S&P anticipated the central government's fiscal deficit to average 19.5% of GDP annually over the next four years when excluding investment income, due to lower oil revenues. It anticipated the government to finance its deficit through asset drawdowns from the General Reserve Fund, as well as by debt issuances. As such, it projected the government's debt level to rise from 16.9% of GDP at the end of 2018 to 52.8% of GDP by end-2022. In parallel, Capital Intelligence Ratings affirmed at 'AA-' Qatar's long-term foreign- and local-currency ratings, while it revised the outlook from 'negative' to 'stable'. It attributed the change in outlook reflects significant improvements in Qatar's budget and current account balances in 2018, as well as its expectations that the fiscal and external positions will remain stable in coming years. It added that the ratings are mainly supported by the sizeable government assets at the Qatar Investment Authority and low risks to domestic stability. However, it noted that the ratings are constrained by the economy's high reliance on hydrocarbon revenues and exposure to heightened geopolitical risks. It projected Qatar's gross external financing needs at 51.4% of GDP in 2019, driven by the high gross external debt rollover needs of domestic banks.

Source: S&P Global Ratings, Capital Intelligence Ratings

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AFRICA

Medium-term growth outlook subject to risks

The International Monetary Fund projected real GDP growth in the economies of the West African Economic & Monetary Union (WAEMU), which consist of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, at more than 6% annually over the medium term. It said that achieving this growth rate is conditional on all member countries making a strong commitment to implement their fiscal consolidation and development programs, which would improve competitiveness and encourage private investment. It noted that growth is subject to downside risks, including delays in implementing reforms, persistent security risks, as well as uncertainties about the global economic outlook and financial conditions. In parallel, the IMF indicated that the region's aggregate fiscal deficit narrowed from 4.3% of GDP in 2017 to 3.9% of GDP in 2018 amid fiscal consolidation. Still, it said that the public debt level and debt servicing cost increased in 2018, due to the still wide fiscal deficits and large public-sector operations. It noted that the convergence of budget deficits of member countries to the union criterion of 3% of GDP starting this year will be crucial to ensure macroeconomic stability and sustain economic growth. Further, the Fund pointed out that foreign currency reserves at La Banque Centrale des États de l'Afrique de l'Ouest increased from 3.9 months of import cover at the end of 2017 to 4.3 months of import cover at end-2018, supported by Eurobond issuances in Côte d'Ivoire and Senegal.

Source: International Monetary Fund

MOROCCO

Sustained reforms are key for growth and public finances

The International Monetary Fund approved on December 17, 2018 a new two-year \$3bn credit line for Morocco under the Precautionary and Liquidity Line Arrangement (PLL), following the expiration of the third PLL in July 2018. It noted that the arrangement will continue to provide Morocco with an insurance policy for meeting immediate financing needs if external risks materialize. It indicated that authorities managed to significantly reduce fiscal and external vulnerabilities despite a sharp increase in oil prices, through the implementation of reforms under the previous PLL arrangements. However, the Fund noted that much remains to be done, such as reducing the unemployment rate that reached 10% in the third quarter of 2018. It noted that the authorities' reform program includes sustained fiscal prudence, a more flexible exchange rate, and tax reforms, among others. It projected growth to accelerate from 3.1% in 2018 to 4.5% over the medium term, supported by a recovery in non-agricultural activity and in case authorities continue reforms to improve the business environment. It expected the fiscal deficit to narrow from 3.6% of GDP in 2018 to 3% of GDP by 2020, while it forecast the public debt level to decline from 65.3% of GDP in 2018 to about 60% of GDP over the medium term, in case of higher privatization revenues. Further, it projected the current account deficit to narrow from 4.5% of GDP in 2018 to 2.8% of GDP in the medium term in case of sustained export growth, higher tourism receipts and remittance inflows. The IMF noted that external downside risks are elevated amid heightened geopolitical risks, slow growth in Morocco's main trading partners, and global financial volatility.

Source: International Monetary Fund

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BANKING

JORDAN

Banking sector assessment maintained

S&P Global Ratings maintained Jordan's banking sector in 'Group 8' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '8' and industry risk score of '7'. The BICRA framework evaluates banking systems around the world based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 8' include Armenia, Argentina, Bolivia, Cyprus, Georgia, Honduras, Paraguay and Russia. In terms of economic risks, S&P indicated that the prolonged subdued economic growth has reduced the resilience of Jordanian banks to adverse economic developments. As a result, it revised its assessment of economic resilience from "very high risk" to "extremely high risk". In contrast, it considered that economic imbalances have declined, as reflected by slower lending growth and a slight decline in real estate prices in real terms. As such, it changed its assessment of economic imbalances from "high risk" to "intermediate risk". It continued to view credit risk in the economy as "very high". In parallel, S&P said that the industry score reflects the country's "high risks" in each of its institutional framework, competitive dynamics and system-wide funding, unchanged from its previous assessment. It indicated that the banking sector is adequately regulated and supervised. It expected Jordanian banks to continue to generate sufficient profits to absorb the costs of risk. It added that the banks' deposit base will likely remain ample and resilient despite the unstable environment. It said that the trend for the banking sector's industry and economic risks is 'stable'.

Source: S&P Global Ratings

EGYPT

Currency outlook dependent on capital inflows

Goldman Sachs did not expect the Central Bank of Egypt's decision to suspend the currency repatriation mechanism to make the exchange rate more volatile, despite its recent appreciation. It noted that the pound has been stable even though the majority of portfolio flows to the local bond market over the past two years have taken place outside the repatriation mechanism. It added that the depreciation pressure from the selloff of emerging markets bonds, including Egyptian bonds, between April and November 2018, has subsided. It anticipated that positive developments in Egypt's balance of payments would ease foreign currency liquidity constraints and support the Egyptian pound. It anticipated the trends in the oil and gas sector, as well as elevated remittance inflows and tourism receipts to help shift the current account deficit to a surplus in the fiscal year that ends in June 2020. It added that risks of capital outflows from Egypt are low, as they have already materialized in 2018, while it expected strong net capital inflows in 2019. However, it considered that its benign outlook for the Egyptian pound is contingent on continued improvements in the balance of payments, including in the current and capital accounts. It said that risks to the outlook include security risks that would derail the recovery in the tourism sector, with adverse consequences on the economy and foreign currency receipts. It noted that other risks include lower remittance inflows, the high vulnerability of economic growth to shocks and rising risks of fiscal slippage after the expiration of the IMF program.

Source: Goldman Sachs

UAE

Three-way bank merger is credit neutral

Moody's Investors Service affirmed the long-term local and foreign currency deposit ratings of Abu Dhabi Commercial Bank (ADCB) and Union National Bank (UNB) at 'A1', and the long-term issuer ratings of Al Hilal Bank (AHB) at 'A2'. It also maintained the 'stable' outlook on all the ratings. It noted that its rating actions follow the announcement that ADCB and UNB agreed to merge and operate under the brand name of ADCB, and to acquire AHB, which will become a separate Islamic banking entity within the group. Moody's expected the integration to be challenging for the newly-formed entity. However, it considered that the merger will be credit neutral for ADCB, given the similar and complementary credit profiles of ADCB and UNB, including the similar levels of problem loans and profitability. It anticipated that the newly created group will be able to sustain healthy levels of profits, while also ensuring good levels of capital retention. In addition, it expected the acquisition to be credit neutral for AHB, as the loss of government support from its previous shareholder, the Abu Dhabi Investment Council, will offset all the benefits for the bank from the acquisition. These include improvement in its credit profile, a very high parental support, as well as government support. In parallel, ADCB, UNB and AHB said that the new entity will constitute the third largest bank in the UAE and the fifth largest one in the Gulf Cooperation Council (GCC) economies with total assets of \$114bn, or a market share 15% of total assets in the UAE banking sector.

Source: Moody's Investors Service, ADCB, UNB and AHB

TUNISIA

Currency to depreciate by 15% to 20% in 2019

Citi Research indicated that the Tunisian dinar (TND) has been under pressure since early 2018, as the exchange rate depreciated by 20% in 2018. It attributed the weakening of the dinar to the sustained fiscal and current account deficits, as well as to the very limited progress in economic reforms, even though the country has a financial agreement with the International Monetary Fund that is linked to achieving pre-set targets. It expected limited fiscal consolidation this year in the run-up to the national elections that are scheduled at the end of 2019, and as Parliament enacted a relatively expansionary budget for 2019. Also, it noted that official foreign currency reserves have declined to a critical level of less than three months of import cover. It considered that, despite the previously mentioned challenges, it is still unclear if Tunisia has reached a critical economic or political point where the government will be forced to significantly adjust its exchange rate, similar to the adjustment that Egyptian authorities had to make to the Egyptian pound in November 2016. It noted that Tunisia has managed so far to avoid a currency adjustment due to its ability to attract considerable levels of international financial support, despite the slow pace of reforms. Overall Citi considered that the Tunisian dinar remains overvalued despite its significant depreciation since 2018. It expected the exchange rate to depreciate by only 15% to 20% and to reach TND3.5 against the US dollar by the end of this year, in case financial support from the international community persists.

Source: Citi Research



ENERGY / COMMODITIES

Brent oil prices at \$62 p/b in first quarter of 2019

ICE Brent crude oil front-month prices traded at between \$60 per barrel (p/b) and \$62 p/b in the week to January 30, 2019. Oil prices were supported by supply concerns, as the U.S. imposed sanctions on Venezuela's state-owned oil firm Petroleos de Venezuela. Also, prices were supported by Saudi Arabia's pledge to further cut oil production to 10.1 million barrels per day (b/d) in February, down from 10.2 million b/d in January. In addition, a lower-than-expected increase in U.S. oil inventories, as well as a decline in gasoline inventories supported oil prices. In fact, U.S. oil inventories rose by 919,000 barrels in the week to January 25 compared to expectations of a 3.2 million-barrel increase over the same period. In contrast, oil prices were pressured by concerns about China's economic growth, as well as by a rise in the active number of rigs in the week to January 25. Downside risks to the price outlook include prolonged trade tensions between the U.S. and China, a potential extension of the U.S. waivers for importers of Iranian oil, higher U.S. oil output, as well as low compliance to OPEC's oil production cut agreement. Overall, Goldman Sachs revised down its forecast for average Brent oil prices from \$75 p/b in the first quarter of 2019 and \$70 p/b in the second quarter of the year to \$62 p/b and \$65 p/b, respectively.

Source: Goldman Sachs, Thomson Reuters, CNBC

Egypt to develop 11 oil & gas projects in FY2019/20

Egypt intends to operate and develop 11 oil and gas projects in the fiscal year that ends in June 2020, in the Mediterranean Sea, the Nile Delta, the Gulf of Suez and the Western Desert. The planned projects are expected to increase gas output by 2.5 billion cubic feet of gas per day and crude oil and condensates by more than 32,000 barrels per day. The Ministry of Petroleum expected oil and gas projects to attract more than \$10bn in foreign investments in the current fiscal year.

Source: Thomson Reuters, Byblos Research

Iranian oil exports to Asia's top four importers down 21% in 2018

Iranian crude oil exports to Asia's top four buyers, namely China, India, Japan and South Korea, dropped to their lowest level in three years in 2018. Iranian oil exports to the four countries totaled 1.31 million barrels per day (b/d) in 2018, down by 21% from 2017. In December, Iranian oil exports to China exceeded 500,000 b/d for the first time in three months, while exports to India rose above 302,000 b/d, as the U.S. granted a waiver to the two countries in November 2018 that allows them to import Iranian oil for 180 days. Iranian oil exports to Asia are expected to remain stable at about 800,000 b/d until May 2019 when the waiver expires.

Source: Thomson Reuters, Byblos Research

Consumer demand for gold in Middle East up 6% in 2018

The Middle East region's consumer demand for gold, which includes demand for jewelry and bars & coins, totaled 255.3 tons in 2018, up by 6.3% from 240.1 tons in 2017. It was equivalent to 7.8% of global consumer demand for the precious metal. Consumer demand for gold in Iran was 91.2 tons in 2018 and represented 35.7% of the region's total demand, followed by Saudi Arabia with 49.5 tons (19.4%) and the UAE with 42 tons (16.4%).

Source: World Gold Council, Byblos Research

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Base Metals: Aluminum prices to decrease in 2019 due to expected increase in supply

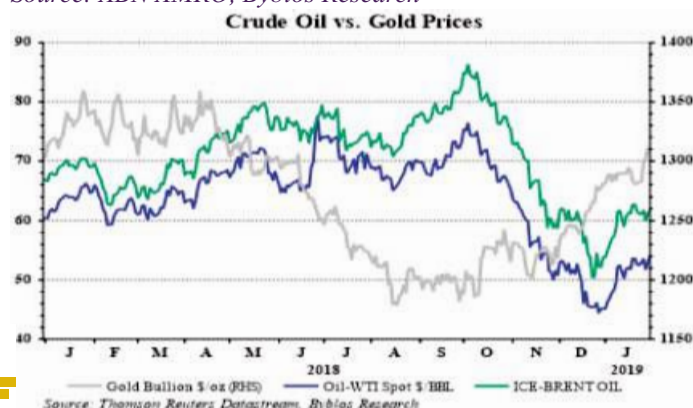
The LME cash price of aluminum reached \$1,846 per ton on January 28, 2019, down by 1% from \$1,863 per ton at the end of 2018, due to an ease in supply disruptions following the U.S. decision to lift the sanctions it imposed in April 2018 on the Russian company Rusal, the world's second-largest aluminum producer. However, the metal's prices recovered to \$1,891 per metric ton on January 30, 2019. The rally was mainly driven by a weaker US dollar and the U.S. Federal Reserve's decision to ease the pace of interest rate hikes, which, in turn, would avoid an increase in inventory financing costs. In addition, prices were supported by expectations of higher global demand, as the metal's top consumer, China, plans a new economic stimulus program for 2019, as well as by the large deficit in the aluminum market. Still, average aluminum prices are expected to drop from \$2,108 per ton in 2018 to \$1,978 per ton in 2019, due to higher output amid the lifting of U.S. sanctions on Rusal, the restart of production at the world's largest alumina refinery in Brazil, as well as the surge in Chinese exports.

Source: Thomson Reuters, Byblos Research

Precious Metals: Diamond industry to shift from stable to uncertain environment

The diamond industry is expected to shift from a relatively stable environment to a highly uncertain one, due to the expansion of the laboratory-grown diamonds segment. In fact, laboratory-grown diamonds are anticipated to begin their growth phase in 2019 and 2020, with manufacturers increasingly able to produce such diamonds in larger quantity and better quality. Also, with improved technologies and attractive margins in this segment, markets of higher quality natural stones will face competitive challenges. As such, ABN AMRO recommended a decrease in inventories of natural diamonds, given the uncertainties about their future value. It anticipated miners to be the most affected from the expansion of the laboratory-grown diamonds market. It noted that miners could speed up their mining activity to cash-in on their diamond reserves. It added that De Beers, the world's largest diamond producer, increased its output to 35 million carats in 2018, the highest level since 2008. ABN AMRO said that miners would stop searching for new mines, as future revenues from diamond sales might not cover the exploration costs. It expected diamond prices to decrease, mostly due to the anticipated decline in demand amid the uncertainty about the future value of diamonds. It also projected the prices of laboratory-grown diamonds to decline in case of higher production and better technology.

Source: ABN AMRO, Byblos Research



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COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	-	-	-	-	BB+	-6.1	32.9*	2.1	-	-	-	-9	-
	-	-	-	-	Negative								
Angola	B-	B3	B	-	B-	-0.8	80.5	42.1**	50.5	26.7	102.2	-2.1	1
	Stable	Stable	Stable	-	Stable								
Egypt	B	B3	B	B+	B+	-9.3	92.5	35.8	51.8	45	115.4	-2.6	3
	Stable	Positive	Positive	Stable	Positive								
Ethiopia	B	B1	B	-	B+	-3.7	59.5	30.5**	27.2	3.6	146.2	-6.2	4.1
	Stable	Stable	Stable	-	Stable								
Ghana	B	B3	B	-	BB-	-6	71.2	34.5**	38.9	31.9	121.8	-4.1	6
	Stable	Stable	Stable	-	Stable								
Ivory Coast	-	Ba3	B+	-	B+	-3.8	48.8	33.5**	-	-	-	-4.6	-
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-25.1	112.1	-	-	-	-	-1.5	-
	-	-	Stable	-	Stable								
Dem Rep Congo	CCC+	B3	-	-	CCC	-0.6	16.2	12.9**	4.4	3	104.1	0	2.8
	Stable	Negative	-	-	Stable								
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.2	64.4*	34.6	30.6	7.4	93	-4.3	2.1
	Negative	Stable	Stable	-	Stable								
Nigeria	B	B2	B+	-	BB-	-5.1	24.8	8.2**	67.6	22.8	104.2	2	0.7
	Stable	Stable	Stable	-	Stable								
Sudan	-	-	-	-	CC	-4.1	167.5	166.6	-	-	-	-14.2	-
	-	-	-	-	Negative								
Tunisia	-	B2	B+	-	BB-	-5.2	70.5	82.6	-	-	-	-9.6	-
	-	Negative	Negative	-	Negative								
Burkina Faso	B	-	-	-	B+	-5.1	41.2	23.7**	21	4.6	145.4	-8.6	2.8
	Stable	-	-	-	Stable								
Rwanda	B	B2	B+	-	B+	-2	42.6	38.4**	13.2	5.1	102.8	-8.9	2.9
	Positive	Stable	Stable	-	Stable								
Middle East													
Bahrain	B+	B2	BB-	BB	BB+	-8.9	88.4	169.4	201.7	22.3	327.6	-2.5	0.4
	Stable	Stable	Stable	Stable	Stable								
Iran	-	-	-	B+	BB-	-3.2	44.2	2.1	-	-	-	1.3	-
	-	-	-	Negative	Negative								
Iraq	B-	Caa1	B-	-	CC+	5.6	51.8	32.5	3.7	2.2	100.9	6.9	1.0
	Stable	Stable	Stable	-	Stable								
Jordan	B+	B1	-	BB-	BB+	-2.9	96.0	70.1	63.6	9.4	151.0	-9.6	4.5
	Stable	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	11.6	18.8	41.3	32.8	0.55	87.9	11.3	-5.5
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	Caa1	B-	B	B-	-9.7	150.0	183.3	136.8	50.1	136.2	-25.6	2.8
	Stable	Stable	Negative	Negative	Stable								
Oman	BB	Baa3	BB+	BBB	BBB	-2.0	48.7	80.7	44.9	4.5	140.3	-3.3	1.5
	Stable	Negative	Stable	Negative	Stable								
Qatar	AA-	Aa3	AA-	AA-	A+	3.6	53.4	84.6	60.9	3.4	173.9	4.8	-1.0
	Stable	Stable	Stable	Stable	Stable								
Saudi Arabia	A-	A1	A+	A+	AA-	-4.6	19.4	27.6	8.0	1.2	36.9	8.4	0.3
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	AA-	0.6	17.8	54.9	-	-	-	7.2	-0.8
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-10.7	62.5	19.4	-	-	-	-9.3	-
	-	-	-	-	Negative								



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-	-2.7	52.5	82.8	-	-	-	-3.8	-
	-	Positive	Positive	-	Stable								
China	A+	A1	A+	-	A	-4.1	50.1	-	40.0	2.1	64.2	0.7	0.8
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa2	BBB-	-	BBB	-6.6	69.6	-	39.5	19.4	90.7	-3.0	1.6
	Stable	Stable	Stable	-	Stable								
Kazakhstan	BBB-	Baa3	BBB	-	BBB	1.4	17.8	-	25.7	4.7	87.4	-0.2	1.5
	Stable	Stable	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB	-0.9	23.3	-	26.0	2.0	100.8	2.4	1.9
	Positive	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.6	37.2	-	25.8	4.2	95.1	-3.5	2.4
	Stable	Stable	Stable	-	Stable								
Russia	BBB-	Ba1	BBB-	-	BBB-	1.6	15.3	-	17.2	2.6	57.4	6.2	-1.3
	Stable	Positive	Positive	-	Stable								
Turkey	B+	Ba3	BB	BB-	B+	-4.0	32.3	-	84.3	5.9	176.4	-5.7	1.0
	Stable	Negative	Negative	Negative	Negative								
Ukraine	B-	Caa2	B-	-	B-	-2.5	70.5	-	59.3	9.3	129.2	-3.1	1.0
	Stable	Positive	Stable	-	Stable								

* Central Government

** External debt, official debt, debtor based

Source: International Monetary Fund; IHS Markit; S&P Global Ratings; Byblos Research - The above figures are projections for 2018



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	2.25-2.50	30-Jan-19	No change	20-Mar-19
Eurozone	Refi Rate	0.00	24-Jan-19	No change	07-Mar-19
UK	Bank Rate	0.75	20-Dec-18	No change	07-Feb-19
Japan	O/N Call Rate	-0.10	23-Jan-19	No change	15-Mar-19
Australia	Cash Rate	1.50	04-Dec-18	No change	05-Feb-19
New Zealand	Cash Rate	1.75	07-Nov-18	No change	13-Feb-19
Switzerland	3 month Libor target	-1.25-(-0.25)	13-Dec-18	No change	21-Mar-19
Canada	Overnight rate	1.75	09-Jan-19	No change	06-Mar-19
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	2.75	20-Dec-18	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	20-Dec-18	No change	21-Mar-19
South Korea	Base Rate	1.75	24-Jan-19	No change	28-Feb-19
Malaysia	O/N Policy Rate	3.25	24-Jan-19	No change	05-Mar-19
Thailand	1D Repo	1.75	19-Dec-18	Raised 25bps	06-Feb-19
India	Reverse repo rate	6.50	05-Dec-18	No change	07-Feb-19
UAE	Repo rate	2.75	19-Dec-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	3.00	19-Dec-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	27-Dec-18	No change	14-Feb-19
Turkey	Repo Rate	24.0	16-Jan-19	No change	06-Mar-19
South Africa	Repo rate	6.75	17-Jan-19	No change	28-Mar-19
Kenya	Central Bank Rate	9.00	28-Jan-19	No change	N/A
Nigeria	Monetary Policy Rate	14.00	22-Jan-19	No change	26-Mar-19
Ghana	Prime Rate	16.00	28-Jan-19	Cut 100bps	25-Mar-19
Angola	Base rate	15.75	28-Jan-19	Cut 75bps	28-Mar-19
Mexico	Target Rate	8.25	20-Dec-18	Raised 25bps	07-Feb-19
Brazil	Selic Rate	6.50	12-Dec-18	No change	06-Feb-19
Armenia	Refi Rate	5.75	29-Jan-19	Cut 25bps	12-Mar-19
Romania	Policy Rate	2.50	08-Jan-19	No change	07-Feb-19
Bulgaria	Base Interest	0.00	03-Dec-18	No change	01-Feb-19
Kazakhstan	Repo Rate	9.25	14-Jan-19	No change	04-Mar-19
Ukraine	Discount Rate	18.00	31-Jan-19	No change	14-Mar-19
Russia	Refi Rate	7.75	14-Dec-18	Raised 25bps	08-Feb-19



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