Issue 256
April 5, 2012

BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate downgrades outpace upgrades in 2011

Fitch Ratings indicated that it downgraded 13.5% of global corporate issuers compared to 10.6% in 2010, and upgraded 11.1% of the issuers it rates in 2011 relative to 10.7% in 2010. It said that the overall downgrade-to-upgrade ratio was at 1.2-to-1 in 2011, worse than the 1-to-1 ratio recorded in 2010 but still reflecting a more balanced credit environment than in either 2008 or 2009. It noted that emerging markets' downgrade-to-upgrade ratio was at 0.4-to-1 last year compared to 1.7-to-1 in advanced economies. It said that the share of emerging market entities upgraded stood at 16% in 2011 similar to the 16.6% posted in 2010, while the emerging market downgrade rate was 6.1% compared to 5.4% in 2010. The agency said that it downgraded 23.6% of corporate issuers in Europe, 11.8% of issuers in the Middle East & Africa, 10.5% of North American issuers, 8.1% of issuers in Asia-Pacific, and 4.5% of issuers in Latin America & the Caribbean in 2011. Also, it upgraded 25.5% of corporate issuers in Latin America & the Caribbean, 13.8% of those in Asia-Pacific, 10.8% of issuers in North America, 7.3% of European issuers, and 1% of those in the Middle East & Africa last year. In parallel, it downgraded 21% of rated banks & financial firms; 8.8% of industrial firms, and 6% of insurance firms; while it upgraded 14.5% of industrial issuers, 8.1% of banks & financial firms, and 3.4% of insurers.

Source: Fitch Ratings

EMERGING MARKETS

Bond and equity inflows at $33bn in the first quarter of 2012, AUM at $1 trillion

Capital flows to emerging market equity and bond funds posted net inflows of $33.1bn in the first quarter of 2012, with bond inflows at $11.4bn and equity inflows at $21.7bn. Latin America accounted for $4.7bn or 41% of bond inflows; Emerging Europe, the Middle East & Africa (EMEA) for $3.9bn, or 34%; and Emerging Asia with $2.9bn or 25% of the total. Further, Emerging Asia posted $12.6bn in inflows from equity funds in the first quarter and accounted for 58.2% of equity inflows to emerging markets, followed by Latin America with $4.6bn (21.4%), and the EMEA region with $4.4bn (20.4%). Brazil was the biggest recipient of bond inflows with $1.2bn, or 10.1% of total inflows into emerging market bond funds in the first quarter of the year; while China was the largest recipient of equity inflows with $4.9bn or 22.6% total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled $1,001.6bn at the end of March 2012, with bonds accounting for $186.4bn and equities for $815.2bn. The EMEA region had $68.5bn in AUM in bonds, followed by Latin America with $67.5bn and Emerging Asia with $50.4bn. Further, Emerging Asia had $517.6bn in equity-related AUM, followed by Latin America with $158.4bn and EMEA with $139.3bn. Mexico had $21bn in bonds-related AUM, or 11.2% of the total; and China had $170.4bn in equity-related AUM, or 21% of the total.

Source: Barclays Capital, Byblos Research

MENA

Equity markets up by 13% in first quarter of 2012

Arab stock markets increased by 13% and GCC markets rose by 14.6% in the first quarter of 2012 compared to drops of 5.2% and 3.2%, respectively, in the same quarter last year. Activity on the Egyptian stock market increased by 36.4% in the first quarter of 2012 and posted the best performance among Arab markets in the covered period. It was followed by Saudi Arabia's equity market with a 22.1% rise, the Dubai financial market with a 21.8% increase, the Abu Dhabi exchange with a 6.3% improvement, the Kuwait bourse with a 6% appreciation, the Beirut stock exchange with a 4% growth, the Tunis and the Palestine equity markets with a 2.1% increase each, the Bahrain bourse with a 0.7% rise, and the Doha stock exchange with a 0.1% improvement. In parallel, the Iraqi stock exchange dropped by 10% in the first quarter of 2012 and posted the worst performance among Arab stock markets during the covered quarter. It was followed by the Casablanca stock exchange with a 0.7% drop, the Amman bourse with a 0.2% contraction, and the Muscat equity market with a 0.1% retreat. Activity on the Damascus financial market remained unchanged from the same quarter last year. In comparison, emerging market equities rose by 14.2% and global equities increased by 11.5% in the first quarter of the year.

Source: Local stock markets, Dow Jones Indices, Byblos Research

Economic growth environment improves slightly in Arab world in 2011

Goldman Sachs' Growth Environment Scores Index shows that the growth environment in the Arab world improved slightly in 2011 compared to the previous year, as the region's average numerical score reached 5.1 points compared to 4.9 points in 2010 and 4.1 points in 1997. The GES is a composite measure of economic growth conditions in 183 countries that summarizes the overall growth environment and that ranks countries according to their ability to achieve their growth potential. The GES consists of six broad categories of growth criteria that are Macroeconomic Stability; Macroeconomic Conditions such as investment rates and openness of the economy; Political Conditions; Human Capital; and the Microeconomic Environment, including the cost to start a business, the number of patent applications, and expenditures on research & development. The scores of 20 countries in the region improved year-on-year and three declined, while the ranks of 10 countries improved and 13 regressed. The UAE ranked in first place among Arab countries and in 22nd place globally, followed by Bahrain (24th) and Oman (26th); while Iraq (147th), Sudan (171st) and Yemen (172nd) came last. Further, none of the Arab countries ranked among the top 20 globally, while Sudan and Yemen came among the bottom 20 countries worldwide. Singapore had the best economic growth environment in the world, while the Democratic Republic of Congo had the least favorable climate among countries included in the survey.

Source: Goldman Sachs

POLITICAL RISK OVERVIEW - MARCH 2012

ALGERIA

A suicide attack on Tamanrasset military base killed 24 people on March 3, and al-Qaeda claimed responsibility. The leading opposition party Front of Socialist Forces (FFS), ended a 15-year elections boycott and announced its participation in the parliamentary polls. Also, the Algerian authorities approved seven new political parties.

EGYPT

Relations between Islamist parties deteriorated over the constitution-writing process. Liberal parties accused the Muslim Brotherhood and the al-Nour Party of dominating proceedings and announced a parallel constituent assembly to write a representative constitution. The Muslim Brotherhood demanded the ruling Supreme Council of the Armed Forces (SCAF) to hand over power, and threatened with a second revolution.

IRAN

U.S. President Barack Obama warned on March 2 against a defensive strike against Iran, and said that the U.S. prefers diplomacy but will not hesitate to use force. The U.S. introduced new sanctions on foreign banks trading Iranian oil. Further, President Mahmoud Ahmadinejad was questioned by the Parliament on March 14, where he denied challenging the authority of Ayatollah Khamenei. The authorities jailed reformist leader Ali Shakouri-Rad for speaking against the state. Also, the Supreme Court overturned a death sentence against the alleged U.S. spy Mirzai Hekmati.

IRAQ

Violence escalated by suspected al-Qaeda militants ahead of the Arab League summit in Baghdad, where five militants killed 27 policemen and senior officers in Haditha. Also, suicide attacks killed at least 12 people in Tal Afar. The Kurdish regional President Mustafa Barzani criticized Prime Minister Nour al-Maliki's monopolization of military power. An estimated one million supporters of Shiite Cleric Moqtada Sadr staged a demonstration in Basra marking the 2003 U.S.-led invasion.

DEM REP CONGO

The International Criminal Court found Thomas Lubanga, the alleged leader of the Patriotic Forces for the Liberation of the Congo militia, guilty of war crimes. The UN Joint Human Rights Office reported on March 20 that security forces loyal to President Joseph Kabila killed at least 33 people in Kinshasa during the November 2011 polls. Also, the United Nations High Commissioner for Refugees expressed concerns about the increased LRA attacks on civilians in Orientale Province.

LIBYA

The emerging eastern federalist movement announced the formation of the Congress of the People of Cyrenaica in Benghazi on March 6 to establish an autonomous Eastern province. Interim Preident Mustafa Abdul-Jalil proposed a decentralized system of administration and said that the federalist movement was infiltrated by Qadhafi loyalists and foreign powers. Anti-federalism protests took place in Tripoli on March 9th. Also, fighting between rival militias continued in Kufra and Sabha, killing 147 people. The ICC issued an arrest warrant against former Qadhafi Intelligence Chief Abdullah Senussi for crimes against humanity.

SUDAN

Fears of war with South Sudan increased as President Omar al-Bashir suspended planned talks with the South following clashes along the border. Further, security officials met with African Union mediator Thabo Mbeki to discuss the crisis and the two governments reached an agreement with Juba on the nationality and border demarcation process. Former UN official Mukesh Kapila said that the government is committing crimes against humanity and called for humanitarian access to the Nuba Mountains. In parallel, security forces killed five people and injured 21 people in Kabkabiya in Darfur. Further, President Omar al-Bashir defended the crackdown on press freedom, stating that the closed newspapers insulted the army and endangered national security.

SOUTH SUDAN

Clashes between the Sudan People's Liberation Movement (SPLA) and the Sudanese Armed Forces (SAF) sparked fears of return to war, as the SPLA accused SAF of bombing disputed areas while the SPLA claimed that it acted in self-defense. In parallel, South Sudan and Sudan reached an agreement on the nationality and border demarcation process, with negotiations being facilitated by the African High Level Implementation Panel. Also, South Sudan and Sudan renewed the commitment to negotiations on outstanding issues including oil.

SYRIA

Clashes between opposition armed groups and security forces increased, with growing humanitarian concerns and continuing anti-regime protests across the country. Further, Islamist group al-Nusra Front to Protect the Levant claimed responsibility for car bombs that targeted Damascus security buildings and killed 27 people on March 17th. The UN Security Council issued a non-binding presidential statement supporting the UN-Arab League Special Envoy Kofi Annan's six-points plan, which includes calls for UN supervised ceasefire and a humanitarian access. Syria accepted the peace plan on March 27, but many questions remain regarding the implementation process. Further, Russian President Dmitriy Medvedev considered that Annan's mission is Syria's last chance to avoid civil war.

TUNISIA

Rift between Salafists and Secularists worsened as militant Salafists and labor union activists clashed in Jendouba. Also, the Gathering of Tunisian Islamic Associations protested to demand the adoption of the Sharia law as the sole source of legislation, while thousands demonstrated in Tunis against the establishment of an Islamic state. Ennahda leadership stated that it would oppose the Sharia law as a constitution.

YEMEN

Violence increased significantly in South Yemen as militants attacked military bases, killing around 180 soldiers and taking over 70 hostages. Also, an alleged Ansar al-Sharia suicide bomber killed at least 9 soldiers near a checkpoint in the south, while the group claimed responsibility for the killing of an American teacher in the southern city of Taiz. In parallel, gunmen abducted the Saudi Deputy Consul in Aden. Thousands of protesters demanded the prosecution of former President Ali Abdullah Saleh.

Source: International Crisis Group

UAE

Non-hydrocarbon sector to grow by 3.5% in 2012, downside risks remain

The International Monetary Fund projected the UAE's real GDP growth at 2.3% in 2012 relative to 4.9% in 2011. It expected activity in the hydrocarbon sector to stagnate this year relative to real growth of 9.2% in 2011 due to the limited potential for further increases in oil production, given that production levels are already close to capacity. Also, it forecast real non-hydrocarbon growth at 3.5% in 2012 relative to 2.7% last year, and expected activity to be driven by trade, tourism, logistics, and manufacturing; despite the continued domestic de-leveraging and the oversupply in the real estate market. But it noted several downside risks to the outlook due to the UAE's reliance on hydrocarbon exports and its close links with international markets.

First, the IMF warned that a decline in global oil prices would reduce export earnings and fiscal revenues, and that a prolonged fall in oil prices would lead to reduced fiscal spending and non-hydrocarbon GDP growth as well as to an adverse impact on asset prices despite the UAE's significant financial buffers. Second, it said that a renewed worsening of global financing conditions would make it more difficult to roll over some of the GRE's maturing external debt, and would raise the overall cost of their borrowing from international markets. It expected around $32bn of sovereign and GRE debt to mature in 2012, including $15bn in Dubai. Third, it added that a more significant impact of the international sanctions on Iran would adversely impact the UAE economy through a reduction in bilateral trade, real estate demand, tourism, and financial services to Iran-based customers. Fourth, it considered that an economic slowdown in emerging Asia would affect trade, tourism, and external financing conditions. It pointed out that external demand from Asia has helped limit the impact on the UAE of the European recession and of the sanctions on Iran; while increasing capital flows from Asia reduced the impact of the European financial sector's de-leveraging on the UAE's foreign funding conditions.
Source: International Monetary Fund

IRAN

Sanctions to increasingly affect growth outlook

Business Monitor International forecast Iran's economy to contract by 1.6% in 2012 and by 0.3% in 2013 relative to an estimated growth rate of 0.9% in 2011. It said that international sanctions are hurting the country's economic prospects, as they have disrupted hydrocarbon exports and raised transaction costs for trade and investment.

BMI expected private consumption and gross fixed capital formation to remain subdued, as the rial continues to weaken and consumer prices increase further. It noted that the authorities devalued the currency by 8% in February 2012, resulting in the rial trading at 12,370 against the US dollar in the official market, while it was trading at IRR20,000 per dollar in the black market in March compared to IRR18,000 in January. It added that SWIFT's decision to disconnect 17 Iranian banks from its network, in order to comply with EU sanctions, will limit the ability of domestic firms to finance projects and to trade internationally. It added that subdued domestic demand will discourage investments, while lower hydrocarbon revenues will limit the government's ability to undertake large capital spending. As such, it projected gross fixed capital formation to grow by 0.5% and 1% in 2012 and 2013, respectively.

In parallel, BMI anticipated oil sanctions to reduce the government's fiscal buffers, as oil revenues account for 50% of its income. But it said that the price of oil in Iran's 2012 budget of $85 per barrel (p/b) is well below the average price of the OPEC oil basket of $111.5 p/b in 2012, which would provide the government with some room for maneuver. It noted that the current administration will not refrain from spending on areas such as healthcare and services in order to boost its popularity ahead of the 2013 elections. Further, BMI expected imports to drop by 12% and 6% in 2012 and 2013, respectively, as the rial loses value and sanctions limit the ability to pay foreign suppliers. It forecast exports to fall by 17% in 2012 and 10% in 2013, given that sanctions would reduce hydrocarbon exports, which account for around 85% of total exports.
Source: Business Monitor International

TURKEY

Elevated external financing needs keep vulnerabilities high

Standard & Poor's projected Turkey's real GDP growth at 2.2% in 2012 relative to an estimated growth of 8.4% in 2011. It said that Turkey's real GDP growth averaged more than 8% over the past two years and was mostly driven by rapid domestic credit expansion, which was mainly financed by short-term external funding to banks. It added that domestic demand, particularly via import-intensive private consumption and investment in non-tradable sectors, was the main contributor to the rapid economic growth. It forecast import-intensive domestic demand to moderate and for the external competitiveness of Turkish exports to improve given that the lira has weakened since the second half of 2011. But it considered that the competitiveness gains from weaker exchange rates would be partially offset by wage inflation through indexation.

In parallel, S&P estimated Turkey's gross external financing needs to have reached 144.2% of current account receipts (CARs) plus usable reserves in 2011, constituting one of the highest ratios for a rated sovereign worldwide. It defined external financing needs as the sum of the current account deficit and external debt service in a 12-month period. It expected such needs to reach 139% of CARs plus usable reserves in 2012, 144% in 2013, 145.5% in 2014 and 147.4% in 2015. It also projected Turkey's current account deficit at 8% of GDP in 2012 relative to 10% of GDP in 2011. It said that Turkey's heavy reliance on external savings exposes its economy to domestic shocks, which could lead to a rise in bad loans given the recent rise in credit growth. It noted that rising investor risk aversion may deter foreign investors and banks, and would lead to net capital outflows. It added that external shocks would likely result in the rapid depreciation of the Turkish lira, with a significant pass-through to inflation and a negative secondary effect on government borrowing costs.
Source: Standard & Poor's

TUNISIA

Fiscal and current account deficits to remain wide in 2012

Citigroup projected Tunisia's fiscal deficit at around 6.5% of GDP in 2012, up from 4.5% of GDP in 2011 and above the annual average deficit of 2.8% of GDP during the 2006-10 period. It also forecast a current account deficit of 6% of GDP this year relative to 7.4% of GDP in 2011, and above the annual average deficit of 3.1% of GDP during the 2006-10 period. It said that the recovery of tourism earnings constitutes a key factor for a sustained fall in the current account deficit. It noted that the projections are based on the government's real GDP growth forecast of around 3.5% this year after the contraction of 1.8% in real GDP last year. Citigroup expected the twin deficits to be easy to finance in 2012 despite their high level by historical standards. It said that the government is actively putting in place plans to borrow up to $500m from Qatar at an interest rate of 2.5%, and that authorities are looking at implementing legislation that will allow the government to issue Islamic bonds, or sukuk. It noted that the guarantee offered by the U.S. government on any new bond issue will allow the government to raise an additional $500m at a much lower spread over Libor than would be the case without the guarantee. It added that Tunisia's foreign exchange reserves declined from $13bn at end-2010 to $10.2bn at the end of February 2012. In parallel, Citigroup pointed out that the government's biggest challenge is meeting expectations caused by the political events of 2011, rather than maintaining macroeconomic stability, constitutes.

Source: Citigroup

YEMEN

Economy facing major challenges, IMF disburses $94m for balance of payments support

The International Monetary Fund approved the disbursement of about $93.8m to Yemen under the Rapid Credit Facility to support the country's economic recovery program and address its balance of payments needs. The Fund indicated that economic activity in Yemen fell sharply last year due to the deterioration in security conditions, fuel shortages, and lack of bank financing. It added that damages to a key pipeline, which carries around 33% of the country's oil production, exacerbated the situation and prompted the government to reduce spending. Further, the IMF said that Yemen is facing major economic challenges that require significant structural reforms, particularly to facilitate a smooth adjustment to declining oil production. It noted that strengthening medium-term prospects for non-hydrocarbon growth is critical to reduce the very high unemployment and poverty levels. It pointed out that the Fund-supported program will help the authorities address pressing economic challenges, and will give them time to formulate their medium-term strategy to address structural issues. It noted that the program focuses on maintaining macroeconomic stability, meeting basic needs, and safeguarding foreign exchange reserves. In parallel, the IMF expected financing needs to remain large and stressed on the role of donors in meeting these needs.

Source: International Monetary Fund

SAUDI ARABIA

Fall in oil prices is main economic and public finance risk

Fitch Ratings affirmed Saudi Arabia's long-term local and foreign currency Issuer Default Ratings (IDR) at 'AA-', with a 'stable' outlook; the Country Ceiling at 'AA' and the short-term foreign currency IDR at 'F1+'. The agency indicated that high oil revenues are allowing authorities to invest and implement the reforms needed to address structural challenges, as well as to build up savings. It noted that the budget posted a surplus of 14% of GDP in 2011, as the rise in oil revenues outweighed the impact of a 25% rise in spending, and forecast a surplus of at least 12% of GDP in 2012. It anticipated oil prices to average at least $40 per barrel above the $70 p/b needed to balance the budget in 2012. But it noted that the increase in public spending and the growing domestic use of oil may raise the breakeven oil price needed to balance the budget and erode the surplus over the medium-term. It said that government deposits at the Saudi Arabian Monetary Agency rose by $52bn, or 9% of GDP, in 2011, but that the value of future spending commitments continues to rise. It added that SAMA's international reserves rose by $108bn to $568bn last year, and that they will likely exceed $700bn by end-2013. It considered that the main risk to the economy and public finances is a steep fall in oil prices, but added that the government could use its growing deposits to cushion adjustment or deliver a counter-cyclical boost.

Source: Fitch Ratings

ANGOLA

IMF urges continuing reforms

The International Monetary Fund approved the payment of $133m to Angola under the 27-month Stand-by Arrangement (SBA), bringing total disbursements under the program to $1.33bn, which is the full amount that was approved in November 2009. The Fund said that the Angolan authorities successfully completed the SBA and restored macroeconomic stability through significant fiscal adjustment, the settlement of large domestic arrears, rebuilding foreign reserves, stabilizing the exchange rate, and reducing inflation. It added that authorities took decisive steps to improve accountability in public spending and the predictability of oil revenue transfers. It noted that Angola started to phase out quasi-fiscal operations by state oil company Sonangol and to incorporate them into the budget; and established inter-agency working groups to monitor and reconcile oil revenue flows to the treasury. It pointed out that authorities are developing a medium-term fiscal framework to improve the management of oil revenues and allow for a scaling up of public investment. Further, the Fund noted that the Central Bank needs to enhance its supervisory capacity to carefully manage the implementation of the new foreign exchange law for the oil sector. It added that the success of de-dollarization efforts will depend on sustained implementation of sound macroeconomic policies, continued progress in reducing inflation, and development of kwanza-denominated saving instruments. It stressed the need to sustain the reform momentum, continue to improve governance and transparency, and enhance the business environment to diversify the economy.

Source: International Monetary Fund

BANKING

SYRIA

Rating on Syrian pound downgraded, currency depreciation to continue

The Economist Intelligence Unit downgraded its rating on the Syrian pound from 'CCC' to 'CC', the fourth lowest rating on a scale of 10 notches. The EIU's rating on the Syrian currency was 'B' in January 2011. It attributed the downgrade to the adverse impact of the ongoing conflict on the economy and on the country's capacity to generate foreign currencies. It said the unrest has led to a depreciation of the Syrian pound against the US dollar, with an even greater fall in the black market rate, which is usually in line with the official rate. The Syrian pound has been pegged to the IMF's special drawing rights (SDR). Last December, the Central Bank of Syria (CBS) responded to renewed pressure on the pound by allowing banks to set their own foreign-currency rates for financing non-essential imports, in effect abandoning the peg to the SDR. The move has created a three-tier exchange-rate system that consists of the official rate, the black-market rate and the rate set by banks. The EIU forecast a sharp depreciation of the Syrian pound against the US dollar in 2012 and 2013 to an average of SYP67.5 per dollar, despite the momentary stabilization of the currency. It expected sanctions to hit oil exports in 2012, with alternative buyers in Asia likely to demand a discount of up to 25%; and forecast non-oil exports to decline in 2012-13 as the unrest continues to affect trade. It also expected that international sanctions and instability to limit Syria's ability to attract FDI.

Source: Economist Intelligence Unit

EGYPT

Tight liquidity at banks, Central Bank to cut reserve requirements again

Merrill Lynch indicated that domestic liquidity remains tight in the Egyptian banking sector given weak local currency deposit growth and large gross financing requirements. It said that growth in monetary aggregates (M2) decelerated steadily from 12.4% year-on-year in December 2010 to 6.9% in February 2012; while non-government local currency deposits grew by 5.9% year-on-year in February compared to the 15% annual growth rate recorded before the revolution. It noted that the deterioration of the banking sector's liquidity position is putting upward pressure on Treasury bill yields. It expected the Central Bank of Eypt's (CBE) recent cut of the required reserve ratio (RRR) by 200 basis points on Egyptian pound deposits to help alleviate the sector's liquidity strains. It anticipated that the RRR cut would help release EGP9bn to the banking system, unlock domestic liquidity, and moderately ease T-bill yields. It added that the RRR cut would also decrease the funding costs of banks in local currency and encourage them to attract Egyptian pound deposits in order to contain dollarization. It also expected the CBE to reduce the RRR by another 200bps for further near-term relief, but not before assessing the impact of the first cut.

Source: Merrill Lynch

TURKEY

Basel II rules to support lending

Fitch Ratings expected Turkish banks' switch to Basel II regulations for credit risk in July 2012 to release capital held against customer loans and facilitate lending. It said that the move to Basel II's standardized approach will especially benefit banks focused on retail and SME lending through lower risk weightings applied to these exposures. It anticipated the released capital to be used to extend new loans, and projected loan growth at 15% in 2012 despite the weaker economic performance. Further, Fitch considered that the capital release will not be credit negative, as more rigid measures for other asset exposures and high minimum capital requirements will prevent a build-up of leverage in the system. It said that banks' sound credit underwriting practices, the moderate overall leverage in the Turkish economy, and the absence of asset price bubbles would prevent a marked build-up of credit risk. It noted that banks' capital positions are currently strong, and forecast capital to grow through steady earnings retention. In parallel, it said that Turkish banks' capital adequacy ratios are likely to fall by around 0.5% to 1% when credit risks are measured under Basel II, mainly because the regulator assigned a 100% risk weight, up from zero risk-weight, to Turkish sovereign bonds denominated in foreign currency. It noted that foreign currency-denominated bank placements and reserve requirements will also require 100% risk weightings.

Source: Fitch Ratings

YEMEN

Banking sector severely affected by turmoil

Capital Intelligence affirmed the long and short-term foreign currency ratings of International Bank of Yemen (IBY) and National Bank of Yemen (NBY) at 'B-' and 'C', respectively. It also maintained the Financial Strength rating of IBY at 'B' and downgraded that of NBY to 'BB-'. It said that all ratings carry a 'negative' outlook. The agency said its actions reflect the severe weakness in the economy and the political situation, together with the attendant risk to the bank's financials, particularly asset quality and liquidity. It pointed out that credit risks are high in Yemen, reflecting the ongoing political turmoil and extreme fragility of the state, as well as the substantial deterioration in economic fundamentals and fiscal and balance of payments distress. It noted that all Yemeni commercial banks have been negatively affected by the deteriorating economic, political and security situation since the beginning of February 2011. It added that most Yemeni banks severely restricted their domestic banking activities to the management of foreign currency placements and Yemeni government Treasury bills. It pointed out that liquidity tightened following deposit withdrawals. Further, the agency said that IBY's loan portfolio is small as a proportion of total assets, with the major asset category comprising Yemeni government T-bills, in line with the banking sector profile. It noted that the bank's loan asset quality is poor due to a high level of NPLs, while the provisioning level is adequate. It said that short-term Yemeni T-bills represented 50% of NBY's total assets at end-September 2011.

Source: Capital Intelligence

Brent rises above $123 on supply disruption fears

Brent crude prices rose above $123 a barrel on April 5 after sharp falls in the previous session, lifted by growing concerns over Iranian supplies being disrupted due to Western sanctions. Front-month Brent crude prices rose $1 to $123.4 a barrel on April 5, after settling $122.34 a barrel on April 4. Oil prices fell sharply on April 4 after a government report showed U.S. crude stockpiles rise of 16.1 million barrels in the second half of March, their largest two-week gain since 2001. Also, U.S. crude futures gained 84 cents to $102.3 a barrel, after falling by $2.5 in the previous session. Prices were also supported by fresh signs of a recovery in the U.S. economy and easing fears of a sharp slowdown in China. Sentiment over China's economic prospects strengthened after the services sector expanded in March and business confidence hit an 11-month high.
Source: Thomson Reuters

Iraq approves $560m for oil companies in Kurdistan

The Iraqi Finance Ministry stated that the central government approved paying $560m to oil producers in the Kurdistan region. The Kurdish Regional Government decided to reduce its production to 50,000 barrels per day and threatened to stop it completely if Baghdad does not pay $1.5bn owed to foreign oil firms working in Kurdistan. The central government stated that $2.53bn had been set aside in the 2012 budget as payment for oil companies working in Iraq, including the $560m for oil producers in the Kurdish region.
Source: Aswat al-Iraq

Ghana's Jubilee production problems continue

Ghana's oil industry continues to be held back by production problems at the flagship Jubilee field. Production at the Tullow Oil-operated Jubilee field is expected to reach 87,000 barrels a day in 2012, well below the 120,000 barrels per day initially targeted by the operator. Oil demand is expected at 73,000 barrels per day in 2012, leaving 14,000 barrels per day for net exports. Tullow has encountered a number of complications largely due to problems relating to the design of well completions. However, production is projected to increase to full capacity of 120,000 barrels per day over the next 18 months.
Source: Business Monitor International

Chinese ship insurer to halt coverage of tankers carrying Iranian oil

Key ship insurer, China P&I Club announced that it will halt indemnity coverage for tankers carrying Iranian oil as of July 2012. This is the first sign that refiners in China, Iran's top crude buyer, may struggle to obtain the shipping and insurance to keep importing oil from Iran. Iran's other top customers, India, Japan and South Korea, are running into similar problems, which is raising questions about how Iran will be able to continue to export the bulk of its oil. As of July, European insurers and reinsurers will be barred from indemnifying ships carrying Iranian crude and oil products anywhere in the world, in line with sanctions on the country.
Source: Thomson Reuters

Base metals: Copper demand growth to increase in 2012 on Chinese rebound

Copper for three-month delivery increased by 0.2% to $8,364 a metric ton on April 5 at the London Metal Exchange. Copper stockpiles monitored by the LME rose by 2% to 264,775 tons, the highest increase since January 25. World consumption of refined copper increased by just 1.5% in 2011 on falling demand from China. However, global demand is expected to rebound to 3.4% in 2012, with Chinese demand growth at 6%. Also, austerity measures are projected to dampen copper consumption in the European Union.

In parallel, new investments in primary smelting and refining capacity is expected to raise copper production growth to an average of 3.5% in 2012-13. Growth will be achieved with record-high prices and falling inventories in the refined market, encouraging smelters and refineries to maximize output and consume inventories. Also, zinc for three-month delivery remained unchanged at $1,982 a ton on April 5, while aluminum rose by 0.4% to $2,101 a ton and nickel fell by 0.4% to $17,790 a ton. Lead prices declined 0.6% to $2,000 a ton and tin dropped by 0.9% to $22,500 a ton.
Source: Economist Intelligence Unit, Bloomberg

Precious metals: Gold prices rebound from a three-month low

Spot gold prices increased by 0.2% to $1,622 an ounce on April 5, up from a three-month low of $1,612 an ounce reached in the previous session. Diminishing hopes of more monetary stimulus from the U.S. and a weakened euro pushed gold prices to their lowest level in nearly three months in the previous session. Also, U.S. gold prices rose by 0.5% to $1,623.3 an ounce. The SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, stated that its holdings were unchanged at 1,287 tons by April 4th. Global gold demand grew by just 0.4% in 2011, with a 14% fall in Indian gold jewellery demand, the largest constraint on total growth. Gold demand is projected to rise by 4.9% in 2012 due to continued economic uncertainty and low global interest rates. Gold prices are expected to reach $1,750 an ounce in 2012, supported by concerns about the depreciation of currencies. Further, spot silver prices increased by 0.2% to $31.4 an ounce on April 5th.
Source: Economist Intelligence Unit, Thomson Reuters

Global Commodity Outlook

(3-months LME, $/ton)	2011	2012f	2013f
Aluminum	2,434	2,225	2,500
Copper	8,814	8,750	10,750
Lead	2,377	2,250	2,600
Nickel	22,940	21,375	21,000
Tin	26,347	26,000	25,500
Zinc	2,209	2,200	2,450
(Spot price, $/ounce)			
Gold	1,588	1,863	2,000
Palladium	732	700	850
Platinum	1,725	1,750	2,050
Silver	36	34	37

Source: Standard Chartered

COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	Moody's	Fitch	CI	EIU	Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Africa													
Algeria	- -	- -	- -	- -	BB Stable	-2.6	10.7	1.9	4.8	1.7	2.1	13.7	1.3
Angola	BB- Stable	Ba3 Stable	BB- Stable	- -	BB Negative	7.9	29.9	17.4	28.2	8.9	-	12.0	10.7
Egypt	B Negative	B1 Negative	BB- Negative	BB+ Negative	CCC Stable	-9.9	76.2	13.8	73.4	7.8	128.6	-1.9	2.4
Ethiopia	-	-	-	-	B Stable	-2.1	39.4	-	165.9	-	-	-6.3	0.7
Ghana	B Stable	- -	B+ Stable	- -	BB Positive	-4.2	38.1	19.4	50.1	-	-	-6.5	7.7
Ivory Coast	- -	- -	- -	- -	CCC Stable	-6.4	93.3	48.7	108.3	-	-	1.0	1.7
Libya	BB Negative	- -	B Stable	- -	B Stable	-	-	8.6	-	2.0	-	-	3.6
Mauritania	- -	- -	- -	- -	- -	-2.8	62.0	70.0	96.6	-	700.0	-7.5	0.3
Morocco	BBB- Stable	Ba1 -	BBB- Stable	BBB- Stable	B Stable	-5.8	54.2	28.4	75.7	9.1	120.1	-5.2	0.8
Nigeria	B+ Stable	- -	BB- Stable	- -	B Stable	0.4	15.7	5.0	12.4	0.4	-	13.5	2.6
Sudan	- -	- -	- -	- -	C Stable	-2.8	78.2	61.0	301.6	-	4,825	-7.3	2.3
Tunisia	BBB- Negative	Baa3 Negative	BBB- Negative	BBB Stable	B Stable	-4.1	41.7	58.2	111.3	8.4	285.6	-5.7	3.2
Middle East													
Bahrain	BBB Negative	Baa1 Negative	BBB Negative	BBB+ Negative	BB Stable	-7.7	34.2	75.3	66.1	8.2	340.9	12.6	-0.9
Iran	- -	- -	B+ Stable	BB- Stable	CCC Stable	2.4	9.2	3.0	10.9	2.1	14.3	7.8	0.8
Iraq	- -	- -	- -	- -	CCC Stable	-8.7	42.3	37.1	53.2	-	72.4	-0.9	1.7
Jordan	BB Negative	Ba2 Negative	- -	BB Stable	B Stable	-6.1	68.5	23.8	53.4	5.1	59.8	-6.7	6.4
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	23.6	4.5	26.0	41.7	7.0	184.3	33.5	-1.5
Lebanon	B Positive	B1	B Stable	B Stable	CCC Stable	-8.3	134.0	158.0	264.7	14.7	208.5	-14.1	11.2
Oman	A Negative	A2 -	- -	A Stable	A Stable	10.9	4.0	12.3	17.2	-	59.0	14.5	2.9
Qatar	AA- Stable	Aa2 Stable	- -	AA- Stable	AA Stable	7.7	38.2	70.1	115.5	7.8	703.9	32.6	2.9
Saudi Arabia	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	BBB Stable	9.4	7.1	18.0	30.1	2.1	19.7	20.6	5.4
Syria	- -	- -	- -	BB- Stable	CCC Stable	-11.0	27.5	11.0	36.8	-	43.6	-6.1	2.4
UAE	- -	Aa2 -	- -	AA- Stable	BB Stable	5.8	18.5	44.4	53.5	7.2	293.3	10.3	0.6
Yemen	- -	- -	- -	B- Negative	CC Stable	-7.1	42.9	18.0	58.4	-	244.4	-5.3	-1.3

COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	Moody's	Fitch	CI	EIU	Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Central & Eastern Europe													
Armenia	- -	Ba2 Negative	BB- Stable	- -	- -	-3.8	41.5	65.5	304.5	-	352.6	-11.7	6.4
Bulgaria	BBB Stable	Baa3 Stable	BBB- Stable	- -	BB Stable	-2.1	17.8	84.7	90.3	19.3	240.1	1.6	4.0
Kazakhstan	BBB Stable	Baa2 -	BBB- Stable	- -	BBB Stable	1.7	12.9	67.7	138.4	40.5	312.9	5.9	1.5
Romania	BB+ Stable	Baa3 -	BBB- Stable	BBB- Negative	BB Stable	-4.4	34.4	72.3	189.9	24.6	256.0	-4.5	2.1
Russia	BBB Stable	Baa1 Positive	BBB Stable	- -	BBB Stable	1.9	11.7	22.5	73.7	9.7	75.4	5.5	-0.7
Turkey	BB Positive	Ba2 Positive	BB+ Stable	BB Stable	B Stable	-0.8	40.3	44.2	184.9	28.6	361.8	-10.3	1.0
Ukraine	B+ Negative	B1 Negative	B Stable	- -	CCC Positive	-4.1	39.3	79.0	145.9	36.5	316.4	-3.9	4.2

Sources: International Monetary Fund; Economist Intelligence Unit - The above figures are estimated for 2011

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	13-Mar-12	No change	24-Apr-12
Eurozone	Refi Rate	1.00	08-Mar-12	No change	04-Apr-12
UK	Bank Rate	0.50	08-Mar-12	No change	05-Apr-12
Japan	O/N Call Rate	0-0.10	13-Mar-12	No change	10-Apr-12
Australia	Cash Rate	4.25	06-Mar-12	Cut 25bps	03-Apr-12
New Zealand	Cash Rate	2.50	08-Mar-12	No change	26-Apr-12
Switzerland	3 month Libor target	0.00	15-Mar-12	No change	14-Jun-12
Canada	Overnight rate	1.00	08-Mar-12	No change	17-Apr-12
Emerging Markets					
China	One-year lending rate	6.56	06-Jul-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	Mar-12	No change	24-Apr-12
Taiwan	Discount Rate	1.88	22-Mar-12	No change	28-Jun-12
South Korea	Base Rate	3.25	08-Mar-12	No change	13-Apr-12
Malaysia	O/N Policy Rate	3.00	09-Mar-12	No change	03-May-12
Thailand	1D Repo	3.00	21-Mar-12	No change	02-May-12
India	Reverse repo rate	8.50	15-Mar-12	No change	17-Apr-12
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	N/A
Saudi Arabia	Repo rate	0.25	16-Jun-09	Cut 25bps	N/A
Egypt	Overnight Deposit	9.25	24-Nov-11	Raise 100 bps	N/A
Turkey	Base Rate	5.75	21-Feb-12	No change	27-Mar-12
South Africa	Repo rate	5.50	Jan-12	No change	29-Mar-12
Kenya	Central Bank Rate	18.00	01-Feb-12	No change	Apr-12
Nigeria	Monetary Policy Rate	12.00	20-Mar-12	No change	21-May-12
Ghana	Prime Rate	13.50	Feb-12	Raise 100 bps	01-Apr-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	16-Mar-12	No change	27-Apr-12
Brazil	Selic Rate	9.75	07-Mar-12	Cut 75bps	18-Apr-12
Armenia	Refi Rate	8.00	07-Mar-12	No change	N/A
Romania	Policy Rate	5.50	03-Feb-12	Cut 25bps	N/A
Bulgaria	Base Interest	0.15	14-Mar-12	Cut 3bps	N/A
Kazakhstan	Refi Rate	7.00	14-Feb-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.75	10-Aug-10	Cut 75bps	N/A
Russia	Refi Rate	8.00	26-Dec-11	Cut 25bps	N/A

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

BYBLOS BANK GROUP

LEBANON

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

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

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

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14
Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807
(+ 964) 780 9133031/2
(+ 964) 1 7177493
E-mail: baghdadbranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

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

CYPRUS

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

BELGIUM

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

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House - Suite 5
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 3537
Fax: (+ 44) 207 493 1233
E-mail: byblos.europe@byblosbankeur.com

FRANCE

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

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

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

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

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