

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### WTO members implement 700 trade measures

The World Trade Organization (WTO) indicated that member countries have introduced 697 new trade measures between mid-October 2014 and mid-October 2015, consisting of trade-remedy measures, trade-facilitating measures and trade-restrictive measures. It noted that 297 trade-remedy measures, or an average of 24.8 measures per month, were recorded during the covered period. It added that 241, or 81.1% of trade-remedy measures, were anti-dumping actions, 11.8% were countervailing and 7.1% were safeguard actions. In parallel, the WTO said that member countries have implemented 222 trade-facilitating measures between mid-October 2014 and mid-October 2015, equivalent to an average of 18.5 measures per month, the second highest number on record. The distribution of trade-facilitating measures shows that 86.5% were import-related and 11.7% were export-related, while the remaining 1.8% represented other trade-facilitating measures. In parallel, the WTO indicated that its members introduced 178 new trade-restrictive measures during the covered period, or an average of 14.8 measures per month. Import-related restrictions accounted for 76.4% of total restrictive measures during the 12-month period. In parallel, the WTO indicated that only 642 or 25% of restrictive measures recorded since October 2008 have been eliminated. As such, it noted that the stockpile of trade restrictions stood at 1,915 as of October 2015, up by about 17% since mid-October 2014.

Source: World Trade Organization, Byblos Research

#### MENA

##### Higher country risk level in Arab world in fourth quarter of 2015

The Euromoney Group's quarterly survey on global country risk shows that the risk level in the Arab world deteriorated in the fourth quarter of 2015, as the average score of 19 Arab economies reached 39.9 points in the covered quarter compared to 40.9 points in the third quarter of 2015. The region's risk level remains higher than the global risk level that averaged 42.9 points in the fourth quarter of the year. The GCC countries' average score regressed to 63.6 points from 65.3 points in the preceding quarter, which reflects an increase in the region's risk level, while the average score of non-GCC Arab countries decreased to 28.9 points from 29.6 points in the third quarter of 2015. The Arab world's Political Risks level stood at 11.82 points, which was riskier than the global average of 13.76 points; while the Economic Performance score of 13.06 points was below the global average of 13.41 points. Further, the region's Credit Ratings averaged 2.95 points relative to the global average of 3.14 points; while the Access to Bank Finance & Capital Markets score was 3.58 points, worse than the global average of 3.88 points. Qatar has the best country risk rating in the Arab world and the 20th best globally, followed by the UAE (28th), Kuwait (30th), Oman (34th) and Saudi Arabia (39th); while the riskiest countries in the region are Yemen that came in 160th place, followed by Mauritania (163rd), Sudan (164th), Syria (174th) and Djibouti (183rd).

Source: Euromoney Group, Byblos Research

##### Deterioration in sovereign creditworthiness

Standard & Poor's indicated that overall sovereign creditworthiness in the Middle East & North Africa (MENA) region has deteriorated since mid-2015. It noted that it downgraded Saudi Arabia and Oman's sovereign ratings in October and November 2015, respectively, due to the widening of their fiscal deficits from the drop in global oil prices and sustained high levels of government expenditures. Also, the agency assigned new long- and short-term foreign and local sovereign credit ratings to Iraq. It pointed out that the region's average sovereign rating is currently close to 'BBB', with nine out of the 13 rated sovereigns in the MENA region having a rating in the 'BBB' category or above; while the remaining four sovereigns are speculative grade. It said that the average sovereign rating, weighted by nominal GDP, has decreased more sharply than the unweighted average over the past six months, reflecting the downgrade of Saudi Arabia, the region's largest economy. It pointed out that the average rating for the region masks clear differences between hydrocarbon- and non-hydrocarbon-based economies. It noted that the average sovereign rating of the region's hydrocarbon exporters is currently close to 'A', while the average rating of sovereigns with more limited hydrocarbon resources is below investment grade and stands close to 'BB+'. S&P indicated that nine out of the 13 rated sovereigns have a 'stable' outlook despite the challenging political and economic environments in the region. It added that Bahrain, Lebanon, Oman and Saudi Arabia have 'negative' outlooks on their sovereign ratings.

Source: Standard & Poor's

##### Equity issuance down 50% to \$5.7bn in 2015

Equity Capital Markets' (ECM) issuance in the Middle East, which include equity and equity-related issuances, totaled \$5.74bn in 2015 and constituted a drop of 50% from \$11.4bn in 2014. This represented the lowest annual issuance level in the region in two years. The financial sector had a total issuance of \$2.5bn during 2015 and accounted for 44.3% of ECM activity, followed by the industrial sector with \$1.1bn (18.5%) and the healthcare sector with \$675m (11.8%). Also, there were 11 initial public offerings conducted in 2015, raising a total of \$2.6bn and accounting for about 45% of ECM activity in the region. In parallel, debt issuance in the region reached \$30.2bn in 2015, down by 19.3% from \$37.4bn in 2014 and representing the lowest annual value since 2011. Further, international Islamic debt issuance reached \$28.9bn last year and regressed by 23% year-on-year. Moreover, the value of announced mergers and acquisitions (M&A) in the Middle East, which include inbound, outbound and inter-regional deals, reached \$56.2bn in 2015, up by 12.6% from the preceding year and constituted the highest annual value since 2008. In parallel, investment banking fees in the region stood at \$636.4m last year, down by 15.6% from 2014, and constituted the lowest annual value of such fees since 2012. Also, syndicated lending fees totaled \$278.6m and accounted for 43.8% of the overall fee pool, followed by fees from M&A deals with \$213.1m (33.5%), fees from equity capital markets with \$85.6m (13.4%) and debt capital market fees with \$59.1m (9.3%).

Source: Thomson Reuters, Freeman Consulting

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# OUTLOOK

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## EMERGING MARKETS

### Growth projected at 4.3%, major risks ahead

The International Monetary Fund projected real GDP growth in emerging markets and developing economies at 4.3% in 2016, down from its October forecast of 4.5% and relative to an estimated growth rate of 4% in 2015. It attributed the year-on-year pickup in economic activity to a steady improvement of growth rates in countries that are currently in economic distress, such as Russia and Brazil, and in some Middle Eastern countries. It noted that new economic or political shocks could adversely affect the expected gradual recovery in these countries. It pointed out that the slowdown and rebalancing of the Chinese economy, lower commodity prices and difficulties in large emerging market economies will continue to weigh on emerging markets' economic prospects in the coming two years.

The Fund projected economic growth in Emerging & Developing Asia at 6.3% in 2016, down from its 6.4% forecast in October 2015, with China's real GDP decelerating from 6.9% in 2015 to 6.3% in 2016. It noted that India and the rest of emerging Asia would broadly continue to grow at a strong pace, but some countries could face adverse spillovers from the slowdown in China. The IMF also reduced its projection to 4% in 2016 from 4.3% for Sub-Saharan Africa, as the adjustment to lower commodity prices and higher borrowing costs would continue to heavily weigh on some of the region's largest economies. Also, it lowered its forecast to 3.6% from 3.9% for the MENA region plus Pakistan and Afghanistan, as lower oil prices and geopolitical and domestic tensions continue to weigh on the outlook. It expected economic activity in the Commonwealth of Independent States countries to post no growth in 2016 relative to an earlier forecast of a 0.5% growth, and projected output to shrink by 0.3% in Latin America & the Caribbean. In contrast, it raised its growth forecast for Emerging & Developing Europe to 3.1% in 2016 from 3% previously.

The IMF indicated that downside risks to the outlook include a sharper-than-expected slowdown in China, funding challenges from further US dollar appreciation and tighter global financing conditions, as well as the escalation of ongoing geopolitical tensions. It added that a sudden rise in global risk aversion would lead to steeper currency depreciation and financial difficulties in vulnerable emerging economies.

*Source: International Monetary Fund*

### Net private capital inflows to more than double to \$490bn in 2016

The Institute of International Finance projected non-resident private capital inflows to emerging markets (EMs) at \$490bn in 2016, which would constitute an increase of 112% from \$231bn in 2015. It noted that the current projections for the year are significantly lower than the October forecast of \$727bn and the annual average inflows to EMs of \$1.2 trillion during the 2010-14 period. It expected the tightening of U.S. monetary policy to have a limited impact on EMs flows as long as it is gradual. But it noted that market developments so far this year have worsened, as concerns about growth and financial stability in China weighed heavily on commodity prices, and resulted in heightened volatility in financial markets.

In parallel, the IIF revised downwards its October forecast for inflows to Latin America by \$35bn to \$222bn, to Emerging Asia by \$215bn to \$129bn and to Emerging Europe by \$11bn to \$32bn; while it revised upwards its inflows projections to the Middle East & Africa by \$23bn to \$107bn.

The IIF forecast net direct investment in emerging economies at \$476bn in 2016 compared to \$492bn in 2015. It expected net portfolio investment to shift from net outflows of \$4bn in 2015 to net inflows of \$56bn in 2016. Also, it estimated net non-bank private lending to shift from net outflows of \$57bn in 2015 to net inflows of \$35bn in 2016, while it projected outflows from net commercial bank lending to drop from \$200bn in 2015 to \$77bn in 2016. It revised downwards by \$77bn its forecast for non-bank private lending in 2016, by \$40bn for net portfolio investment and by \$27bn its projections for net FDI.

In parallel, the IIF projected resident capital outflows from EMs to rise from \$295bn in 2015 to \$580bn in 2016. As such, it forecast net capital flows to be negative for the second consecutive year with net outflows from EMs at \$348bn in 2016 relative to \$531bn in 2015, and at \$448bn this year compared to \$735bn last year when including errors and omissions.

*Source: Institute of International Finance*

## IRAQ

### Outlook dependent on reforms and oil production

The International Monetary Fund projected Iraq's real GDP growth to accelerate from 1.5% in 2015 to 10.6% in 2016, supported by a 20% increase in oil production. It forecast non-hydrocarbon GDP in the part of the country that is not occupied by Islamic State (IS) militants to post no growth this year following an 8% contraction in 2015. It noted that the IS insurgency has significantly affected the non-oil economy through the destruction of infrastructure and assets, disruptions in trade, and deterioration of investor confidence.

Further, the Fund projected the current account deficit at 5.5% of GDP in 2016, as lower oil prices would continue to weigh on the country's external position. It expected the balance-of-payments to post a deficit of 6.2% of GDP in 2016 due to debt amortization, arrears repayment and private capital outflows. It noted that the financing of the balance-of-payments deficit would involve a large drawdown of foreign currency reserves. As such, it forecast foreign reserves to fall from \$51.1bn in 2015, or 8.4 months of imports of goods and services, to \$42.5bn in 2016, or 6.8 months of imports cover.

In parallel, the IMF expected the fiscal deficit to narrow from 14.5% of GDP in 2015 to 10.2% of GDP in 2016, provided continued fiscal consolidation. It noted that the banking sector would continue to finance the large deficit. It projected the public debt level to rise from 61.7% of GDP in 2015 to 66% of GDP in 2016. It said that the country's medium-term outlook would improve if fiscal adjustment is implemented, oil production expands, oil prices recover and if Iraq retakes more territories controlled by IS militants. It added that risks to the outlook remain very high, and include lower oil prices, intensification of the conflict, sustained political tensions and poor policy implementation.

*Source: International Monetary Fund*



# ECONOMY & TRADE

## AFRICA

### WAEMU's Country Ceiling affirmed at 'BBB-'

Fitch Ratings affirmed the Country Ceiling of the West African Economic and Monetary Union (WAEMU) at 'BBB-'. It noted that the Country Ceiling captures the transfer and convertibility (T&C) risks of the WAEMU's eight members, and balances the long-standing monetary arrangement with France, with existing controls on capital transfers outside the union. It indicated that the support provided by France under the monetary arrangement significantly reduces the relationship between T&C risks and sovereign risks. It noted that WAEMU's Central Bank deposits at least half of its foreign currency reserves in a dedicated account at the French Treasury. In turn, it said that the French Treasury would back the convertibility of the CFA franc at a fixed rate of CFA655.957 against the euro, through an unlimited overdraft of the account. Fitch considered that this mechanism provides significant foreign currency liquidity support to WAEMU member countries in case they suffer from a temporary shortage of foreign currency. However, it cautioned that an unsustainable drain of the account would likely trigger adjustment measures, such as the 50% CFA franc devaluation in 1994. Overall, it considered that the monetary agreement is supported by tight control mechanisms that ensure sufficient external liquidity in the region. In contrast, the agency pointed out that the Country Ceiling is constrained by controls and delays on capital transfers on most transactions with non-residents. It added that most outward transactions in foreign currency require the approval of the Central Bank or the relevant finance ministries before execution.

*Source: Fitch Ratings*

## GHANA

### Fiscal consolidation crucial to ease risks

The International Monetary Fund indicated that Ghana's economic prospects continue to be challenging with risks tilted to the downside. It noted that the public debt level continues to be on an upward trajectory, while financing the government's needs is a challenge. As such, it considered that authorities should abide by their policy of strict expenditure controls by maintaining the public-sector wage bill within the budget limits, and controlling discretionary spending. It called on the government to continue its plan to clear domestic arrears and to avoid incurring new domestic or external arrears. It welcomed the authorities' commitment to take corrective measures if fiscal risks materialize. Further, the Fund encouraged authorities to broaden the tax base, enhance tax compliance, strengthen the control of the wage bill and improve public financial management in order to preserve the fiscal consolidation gains over the medium term. It called on authorities to address the difficult financial situation of several state-owned enterprises in the utilities sector to avoid additional pressures on the budget. Further, the IMF welcomed the government's new medium-term debt management strategy amid the large financing needs and tight domestic and external conditions. It noted that the strategy would help reduce near-term financing risks and balance domestic and external financing. In addition, it considered that the Bank of Ghana should further tighten its monetary policy if inflationary pressures do not recede as expected.

*Source: International Monetary Fund*

## TURKEY

### External financing needs pose risks

Citi anticipated Turkey's external financing prospects to remain challenging in 2016, despite the narrowing of the current account deficit. It expected capital inflows to be at low levels in 2016, and for their composition to constitute potential risks. It indicated that the composition of capital inflows shows that banks and corporates have increased their external borrowing since the first quarter of 2015 to compensate for the decline in portfolio and FDI inflows, and to help finance the current account deficit. As such, it did not consider the recent rise in rollover ratios as a sign of strength. Further, Citi expected portfolio flows to shift from outflows in 2015 to inflows in 2016, and for FDI inflows in 2016 to be similar to those posted last year. However, it anticipated that other investment inflows, which mainly consist of foreign loans by banks and corporates, as well as deposits held abroad by residents, would fall to their lowest level since 2009. It noted that Turkish banks could become less eager to borrow externally given that the loans-to-deposits ratio in local currency stands at about 140%, which could lead to a forced external adjustment. It said that the drop in foreign loans would have a negative impact on domestic economic activity and could lead to further depreciation of the Turkish lira. It noted that lower foreign loans, along with the buildup of macroeconomic imbalances and financial vulnerabilities since the global financial crisis, would result in higher economic and financial volatility in 2016.

*Source: Citi*

## RWANDA

### Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Rwanda's long-term foreign and local currency Issuer Default Ratings (IDRs) and the Country Ceiling at 'B+', with a 'stable' outlook. It said that its rating action reflects the implementation of a policy framework that supports the shift in the structure of foreign aid from grants to loans, in addition to strong economic activity and low inflation. It indicated that foreign grants fell to 30% of total revenues in the fiscal year that ended in June 2015 from an annual average of 40% of revenues between June 2011 and June 2015, and expected them to drop to below 20% of revenues in FY2017/18. But it considered that achieving this goal is contingent on the government's ability to implement structural reforms that would increase public revenues, such as the planned changes to the agricultural and mining tax regimes. It forecast the budget deficit at 4.5% of GDP in FY2015/16, and expected it to narrow in FY2016/17 due to lower spending and higher revenues. Further, Fitch forecast the country's economic growth rate at 6.3% in 2016, supported by sustained growth in private consumption and a rebound in exports. Further, it expected the current account deficit to widen from 13.6% of GDP in 2015 to over 14% of GDP in 2016, as exports relative to GDP would be lower this year. It noted that falling export receipts have led to a drawdown in foreign currency reserves. The agency said that President Paul Kagame's decision to run for a third term, following the amendments to the constitution, could represent an issue between Rwanda and its donors. But it expected Rwanda to reach an agreement with its donors, and for most of the donor flows for 2016 to be disbursed as scheduled.

*Source: Fitch Ratings*



# BANKING

## AFRICA

### Banks face increasing challenges

Fitch Ratings said that Sub-Saharan African (SSA) banks are facing increasing challenges from weaker domestic economic activity, tightening local policies, tougher domestic banking rules and external pressures. First, it noted that SSA banks are exposed to the challenging domestic operating environment, as well as to sovereign risks, by either lending to government-related entities or holding large portfolios of government bonds. Second, it anticipated that authorities in SSA countries would take additional actions this year, such as higher reserve requirements, interest rate rises, currency devaluation and foreign currency controls. It noted that the lack of foreign-currency funding would lead to additional pressure on the banks' asset quality, especially in Nigeria where access to foreign currency has tightened substantially. It forecast the NPL ratio at SSA banks to rise in 2016 due to slower economic growth, decreasing commodity prices and depreciating currencies. Third, it noted that regulators have increased supervision and enforced tighter rules to prevent a crisis. It expected SSA banks to face lending limits on more sectors, controls on foreign-currency loans and more stringent liquidity and capital requirements. Finally, it said that SSA banks are directly and indirectly affected by external pressure such as the slow growth mainly in China, the region's largest export destination; and capital outflows from the increase in U.S. interest rates and investors' concerns about emerging markets. It considered that this would make offshore borrowing increasingly difficult and expensive. Overall, it expected SSA banks' financial profiles to further weaken in 2016 amid lower operating profitability, higher NPLs and increasing pressure on liquidity and capital ratios.

Source: Fitch Ratings

## LIBYA

### Banking sector's profits down 47% in first nine months of 2015

The banking sector's pre-tax profits reached LYD140.3m, or \$105.1m in the first nine months of 2015, constituting a drop of 47% from pre-tax earnings of LYD264.9m in the same period of 2014. Total assets reached LYD99.4bn, or \$75.1bn at the end of September 2015, constituting an increase of 4.9% from the end of 2014. Liquid assets totaled LYD64.4bn, or \$48.7bn at end-September 2015, unchanged from end-2014; while they accounted for 64.8% of total assets, down from 68% at end-2014. Commercial banks' lending reached LYD20.5bn, or \$15.5bn at the end of September, up by 2.9% from the end of 2014. Total loans accounted for 20.7% of aggregate assets relative to 21.1% at the end of 2014. In parallel, commercial banks' aggregate deposits totaled LYD80.1bn, or \$60.5bn at the end of September, reflecting an increase of 2.1% from end-2014. Demand deposits represented 73% of total deposits at end-September 2015. Further, total deposits accounted for 80.6% of aggregate liabilities at the end of September relative to 82.8% at the end of 2014. The loans-to-deposits ratio was nearly unchanged at 25.6% at the end of September 2015. Also, the banks' annualized pre-tax return on equity was 2.9% in September 2015 compared to 5.7% a year earlier; while their annualized pre-tax return on assets was 0.1% relative to 0.3% in September 2014.

Source: Central Bank of Libya, Byblos Research

## SAUDI ARABIA

### Operating environment to become more challenging

Standard & Poor's anticipated the operating conditions for banks in Saudi Arabia to become increasingly difficult over the coming two years, due to the pressure on government spending from lower oil prices and the resulting impact on the domestic economy. It expected credit growth to decelerate to around 5% in 2016 from about 9% to 10% in 2015, as lending opportunities diminish from reduced government spending. Also, it anticipated the government's debt issuance program to reduce the liquidity available for lending to the private sector. It noted that the banking sector can absorb about \$75bn to \$100bn in sovereign debt in 2016, equivalent to between 11% and 15% of GDP. But it cautioned that the banks' capacity to lend to the private sector would gradually decrease afterwards if government issuance continues to rely only on the domestic market. Further, it expected deposit growth to remain subdued at mid-single digits in 2016, due to additional decreases in government and public-sector deposits. It noted that Saudi banks have reduced their holdings of other assets in order to fund the government's local debt issuance program. As such, it expected banks to continue shifting assets to longer-term government securities from short-term liquid assets, which would result in a larger maturity gap between asset and liability. In parallel, it anticipated credit conditions for banks to deteriorate this year, which would lead to higher credit losses and non-performing loans. But it considered that banks are able to manage the decline in asset quality, given their low NPL ratio and their sufficient loan-loss reserves.

Source: Standard & Poor's

## NIGERIA

### Currency peg to dollar unsustainable

Credit Suisse indicated that the de facto Nigerian naira currency peg of NGN197 against the US dollar has become increasingly unsustainable. It noted that the additional drop in oil prices since the start of the year, the recent increase in U.S. interest rates and increased risk aversion towards emerging markets have negatively affected the Central Bank of Nigeria's (CBN) ability to manage the peg. Also, it said that the CBN stopped on January 11, 2016 the supply of foreign currency to Bureaux de Change (BDC) operators in the parallel foreign exchange market due to low foreign currency reserves. It noted that the CBN's decision could negatively affect economic activity, given that BDC operators have few alternative sources to get foreign currency and because commercial banks are still not supplying foreign currency directly to BDC operators. It indicated that the naira reached a record low of NGN282 against the US dollar on the black market following the CBN's decision on January 11, and has reportedly further depreciated to about NGN300 per dollar in past days. Credit Suisse does not anticipate the CBN to move to a complete free-float system in the near term, but it noted that political conditions support greater exchange-rate flexibility. It expected the CBN to widen its current intervention band of +/-5% of NGN197 per dollar. It forecast the naira to trade at NGN220 against the dollar at the end of March 2016 on the official market and at NGN260 per dollar at the end of the year.

Source: Credit Suisse



# ENERGY / COMMODITIES

## Weak market fundamentals to weigh on oil prices in 2016

Barclays Capital reduced its average Brent crude oil price forecasts by \$23 to \$37 per barrel (p/b) in 2016; while it reduced its WTI oil price outlook by \$19 to \$37 p/b this year. It attributed the price revisions to the recent deterioration in the oil market's fundamentals. It noted that the lack of unity among OPEC members in terms of production strategy, as well as the recent deterioration in relations between Saudi Arabia and Iran, reduced the possibility of a reduction in output from the organization. Also, it indicated that U.S. shale producers have been more resilient in the face of lower oil prices than was previously expected. Finally, Barclays said that the global economic outlook continues to worsen, which would cause a further deceleration in global oil demand growth this year. It expected crude oil prices to improve in the second half of 2016, but from a lower base and at a much slower pace than previously expected. It forecast Brent crude oil prices to average \$30 p/b in the first quarter of the year, and to pick up to \$36 p/b in the second quarter, \$40 p/b in the third quarter and \$43 p/b in the fourth quarter of 2016. It also projected WTI oil prices to average \$29 p/b in the first quarter and rise to \$45 p/b by the fourth quarter of 2016.

Source: Barclays Capital, Byblos Research

## Iran to increase oil output in 2016

Iran announced plans to increase its crude oil output by 500,000 barrels per day (b/d), following the lifting of international sanctions in January 2016. However, the International Energy Agency estimates a more measured rise of about 300,000 b/d by the end of first quarter of 2016. Iran's crude oil production has been relatively flat over the past three years, averaging 2.8 million b/d in 2015. The United States, the EU, and the United Nations have lifted nuclear-related sanctions against Iran, which include oil-related sanctions that have limited Iran's ability to sell its oil on the global market since late 2011.

Source: Thomson Reuters, IEA, U.S. EIA

## Global clean energy investments at a record-high of \$329bn in 2015

The value of new investments in clean energy projects worldwide reached a record-high of \$329.3bn in 2015, constituting an increase of 4.2% from \$316bn in 2014. Investments in clean energy include those in renewables, such as biofuels, solar, wind and geothermal power, as well as in energy-smart technologies and low-carbon services. On a regional level, clean energy investments were the highest in the Asia Pacific region with \$179bn, or 54.4% of total investments; followed by the Americas with \$78bn (23.7%) and Europe, the Middle East and Africa region with \$72bn (21.9%).

Source: Bloomberg New Energy Finance, Byblos Research

## OPEC's oil basket price down 49% in 2015

The Organization of the Petroleum Exporting Countries' oil reference basket price reached \$49.5 per barrel (p/b) in 2015, constituting a decrease of 48.6% from \$96.3 p/b in 2014. Nigeria's Bonny Light crude oil posted the highest price among the basket's components at \$52.95 p/b last year, followed by Algeria's Saharan Blend at \$59.79 p/b and Abu Dhabi's Murban at \$53.87 p/b. Also, all 12 prices included in the OPEC reference basket fell in 2015.

Source: OPEC, Byblos Research

## Base Metals: Copper prices to remain under pressure in 2016

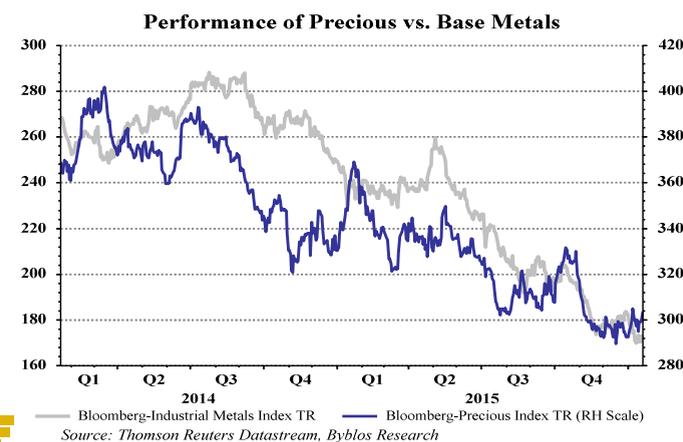
Global copper consumption is forecast to increase by 2.6% to 22.59 million tons in 2016 and to grow to 23.22 million tons next year, while the metal's global production is expected to rise by 1.3% to 22.68 million tons this year and to increase further to 23.31 million tons in 2017. As such, the market is projected to be relatively balanced and to post a minor oversupply of 90,000 tons over the coming two years. Downside pressure on the metal's price is forecast to stem in part from the continuing economic slowdown in emerging markets, especially in China, the world's largest consumer of copper. But an improvement in apparent demand, which is defined as production plus imports minus exports, is expected to support prices in 2016. LME copper's cash prices are forecast to average \$4,575 a ton in 2016, which would reflect a drop of 17% from \$5,505 a ton in 2015, and to pick up by 3.3% to \$4,725 a ton on average in 2017. On a quarterly basis, copper prices are projected to average \$4,600 per ton in the first quarter, \$4,800 a ton in the second quarter, \$4,500 a ton in the third quarter and \$4,400 per ton in the fourth quarter of 2016.

Source: Deutsche Bank, Byblos Research

## Precious Metals: Gold prices to remain volatile in 2016

Gold prices averaged \$1,086 per troy ounce so far in 2016, trading at a low of \$1,062 per ounce and a high of \$1,104 per ounce. The metal's price rallied during the first week of 2016, rising from \$1,060 per ounce at the end of 2015 to about \$1,104 per ounce on January 7th. The slight rebound in prices was mainly due to the volatility in the Chinese stock market and the Chinese Yuan, which led to a global sell-off of risky assets and triggered demand for safe-haven assets such as gold. Also, weaker-than-expected U.S. data about the manufacturing and construction sectors in the fourth quarter of 2015 decreased investors' expectations of a further hike in U.S. interest rates, and supported gold prices in early 2016. Prices are projected to remain volatile during 2016, trading at between \$920 per ounce and \$1,178 per ounce, contingent on the fluctuation of U.S. interest rates and the strength of the US dollar against the euro. Prices are forecast to average \$1,075 a troy ounce in the first quarter of 2016, \$1,060 an ounce in the second quarter, \$1,050 a troy ounce in the third quarter and \$1,030 a troy ounce in the fourth quarter of the year. Overall, the metal's price is forecast to average \$1,054 per troy ounce in 2016, which would reflect a drop of 9.1% from \$1,160 per ounce in 2015.

Source: Barclays Capital, Byblos Research



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Africa</b>													
Algeria	-	-	-	-	BB+	-14.8	16.6	1.6	7.3	1.0	-	-18.5	1.1
Angola	B+	Ba2	B+	-	B+	-3.5	57.4	38.3*	101.7	13.5	-	-7.6	-1.8
Egypt	B-	B3	B	B-	B-	-10.3	92.7	20.7	154.6	6.1	-	-3.8	-
Ethiopia	B	B1	B	-	B+	-2.8	22.6	24.5*	-	-	-	-12.5	3.5
Ghana	B-	B3	B	-	B+	-7.3	72.8	44.9	117	-	-	-8.7	8.2
Ivory Coast	-	Ba3	B+	-	B+	-3.7	47.9	38.8	-	-	-	-2.3	-2.1
Libya	-	-	B	-	B-	-60.8	61.8	16.3	38.7	6.5	-	-53.7	-
Dem Rep Congo	B-	B3	-	-	CCC	0.5	19.7	14.9*	-	3.4	-	-7.5	4.7
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.7	61.6	43.4	114.2	16.8	-	-2.0	2.6
Nigeria	B+	Ba3	BB-	-	BB-	-3.9	11.9	4.9	39.2	0.5	-	-1.6	0.4
Sudan	-	-	-	-	CC	-1.8	71.5	57.8	-	-	-	-5.8	-
Tunisia	-	Ba3	BB-	-	BB+	-6.5	54.4	81.5	173.0	11.5	-	-13.5	2.3
Burkina Faso	B	-	-	-	B+	-2.5	33.2	23.3*	-	-	-	-7.9	0.5
Rwanda	B+	-	B	-	B+	-3.2	32.7	25.9*	-	-	-	-10.6	3.3
<b>Middle East</b>													
Bahrain	BBB-	Baa3	BBB-	BBB-	BBB	-12.7	59.3	165.4	-	-	-	-2.6	-
Iran	-	-	-	B+	BB-	-3.1	15.7	1.8	8.2	-	-	-0.8	-
Iraq	B-	(P)Caa1	B-	-	CC+	-21.9	66.9	51.6	169.6	-	-	-13.5	-
Jordan	BB-	B1	-	BB-	BB+	-3.9	92.8	75.4	188.8	-	-	-2.7	-
Kuwait	AA	Aa2	AA	AA-	AA-	7.0	10.4	34.8	50.6	-	-	9.7	-
Lebanon	B-	B2	B	B	B-	-7.6	140.1	162.4	-	18.3	-	-14.9	5.5
Oman	BBB+	A1	-	A	A-	-15.6	8.3	22.1	35.5	-	-	-12.5	-
Qatar	AA	Aa2	AA	AA-	AA-	1.5	39.9	101.0	180	-	-	4.4	-
Saudi Arabia	A+	Aa3	AA	AA-	AA-	-21.0	8.2	16.5	41.6	-	-	-2.8	-
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-	-4.0	-	46.5	48.9	-	-	2.6	-
Yemen	-	-	-	-	CCC	-	-	-	-	-	-	-	-



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Asia</b>													
Armenia	-	Ba3	B+	-	B-	-3.9	48.2	80.5	264.7	5.8	-	-4.9	3.1
	-	Negative	Stable	-	Stable								
China	AA-	Aa3	A+	-	A	-1.9	43.2	8.3	32.9	2.7	-	3.1	-
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-7.2	65.3	19.5	14.5	6.9	-	-1.4	-
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BBB-	-3.2	18.1	79.8	284.8	54.3	-	-3.3	-2.5
	Stable	Positive	Stable	-	Negative								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BBB-	-2.0	28.6	101.2	142	23.2	-	1.0	-
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-1.8	40.9	65.4	133.5	21.1	-	-0.7	-
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-5.7	20.4	40.4	120.2	23.3	-	5.0	-
	Negative	-	Negative	-	Negative								
Turkey	BB+	Baa3	BBB-	BB+	BB-	-0.8	32.1	54.0	128.0	31.4	-	-4.5	-
	Negative	Negative	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-4.2	94.4	122.0	199.0	28.4	-	-1.7	-
	Negative	Negative	-	-	Negative								

\*to official creditors

Sources: International Monetary Fund; Economist Intelligence Unit; Institute of International Finance; Moody's Investors Service; Byblos Research - The above figures are forecasts for 2015



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25-0.50	16-Dec-15	Raised 25bps	27-Jan-16
Eurozone	Refi Rate	0.05	03-Dec-15	No change	21-Jan-16
UK	Bank Rate	0.50	14-Jan-16	No change	04-Feb-16
Japan	O/N Call Rate	0.00-0.10	18-Dec-15	No change	29-Jan-16
Australia	Cash Rate	2.00	01-Dec-15	No change	02-Feb-15
New Zealand	Cash Rate	2.50	10-Dec-15	Cut 25 bps	28-Jan-16
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Dec-15	No change	17-Mar-16
Canada	Overnight rate	0.50	02-Dec-15	No change	20-Jan-16
<b>Emerging Markets</b>					
China	One-year lending rate	4.35	21-Oct-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	16-Dec-15	Raised 25bps	27-Jan-16
Taiwan	Discount Rate	1.63	17-Dec-15	Cut 13bps	31-Mar-16
South Korea	Base Rate	1.50	14-Jan-16	No change	16-Feb-16
Malaysia	O/N Policy Rate	3.25	21-Jan-16	No change	09-Mar-16
Thailand	1D Repo	1.50	16-Dec-15	No change	03-Feb-16
India	Reverse repo rate	6.75	01-Dec-15	No change	02-Feb-16
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	N/A
Saudi Arabia	Reverse repo rate	0.50	16-Dec-15	Raised 25bps	N/A
Egypt	Overnight Deposit	9.25	17-Dec-15	Raised 50bps	N/A
Turkey	Base Rate	7.50	19-Jan-16	No change	23-Feb-16
South Africa	Repo rate	6.25	19-Nov-15	Raised 25bps	28-Jan-16
Kenya	Central Bank Rate	11.50	16-Jan-16	No change	N/A
Nigeria	Monetary Policy Rate	11.00	24-Nov-15	Cut 200bps	22-Mar-16
Ghana	Prime Rate	26.00	16-Nov-15	Raised 100bps	25-Jan-16
Angola	Base rate	11.00	21-Dec-15	Raised 50bps	25-Jan-16
Mexico	Target Rate	3.25	17-Dec-15	Raised 25bps	04-Feb-16
Brazil	Selic Rate	14.25	20-Jan-16	No change	04-Mar-16
Armenia	Refi Rate	8.75	22-Dec-15	Cut 100bnps	N/A
Romania	Policy Rate	1.75	07-Jan-16	No change	05-Feb-16
Bulgaria	Base Interest	0.01	30-Dec-15	No change	01-Feb-16
Kazakhstan	Repo Rate	16.00	02-Oct-15	Raised 400bps	N/A
Ukraine	Discount Rate	22.00	17-Dec-15	Cut 500bps	28-Jan-16
Russia	Refi Rate	11.00	11-Dec-15	No change	18-Mar-16



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