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BYBLOS BANK SAL
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NEWS HEADLINES

WORLD

Over-regulation and technology changes are main challenges to financial firms

A PwC survey of 176 banking & capital markets (BCM) CEOs across 62 countries shows that 87% of CEOs cited over-regulation as the main threat to their organization's growth prospects, followed by speed of technological change (81%), geopolitical uncertainties (76%), government response to fiscal deficits and the debt burden, and cyber threats (74% each), shift in consumer spending & behavior and the availability of key skills (72% each), the increasing tax burden and social instability (68% each) and the lack of trust in business (66%). It said that higher capital charges, liquidity demands and compliance costs are already forcing many BCM organizations to abandon profitable businesses. It noted that restructuring across the market will continue, with more than 10% of CEOs indicating that they plan to sell a majority interest in a business or exit a significant market over the next 12 months. Also, more than 66% of BCMs plan further cost cutting initiatives in the next 12 months. It indicated that lower-than-expected global growth would hold back demand for banking services, delay further interest rate rises, and constrain appetite for mergers & acquisitions. In parallel, 64% of CEOs intend to make significant changes in the way they define and manage risks in response to stakeholder expectations. PwC noted that the scope of risk management is broadening to adapt to fundamental changes in markets, business models and transactions. Further, it said that technological progress is transforming customer expectations, lowering barriers to market entry and opening up competition from financial technology entrants.

Source: PwC

MENA

Financial development level varies across region

The International Monetary Fund ranked Saudi Arabia in 38th place among 183 countries worldwide and in first place among 18 Arab countries on its Financial Development Index. It was followed by the UAE (41st), Qatar (44th) and Jordan (47th); while Syria (145th), Yemen (149th), Mauritania (154th) and Sudan (164th) have the lowest level of financial development among Arab countries. The index is composed of the Financial Institutions Sub-Index and the Financial Markets Sub-Index, which evaluate the development level of a country's financial institutions and markets, respectively, by assessing their depth, efficiency and access. As such, Lebanon (52nd), Morocco (55th), Jordan (58th) and the UAE (72nd) were the top ranked Arab countries on the Financial Institutions Sub-Index, which assesses the financial depth of banks, insurance companies, mutual funds and pension funds operating in a country. This category also measures the access to banking services and evaluates the banks' efficiency in intermediating savings to investment, their operational efficiency and their profitability. Further, Saudi Arabia (18th), the UAE (32nd), Qatar (36th) and Jordan (48th) led Arab countries on the Financial Markets Sub-Index, which assesses the depth of the equity and fixed income markets, as well as investors' access to these markets and their efficiency.

Source: International Monetary Fund, Byblos Research

More than half of Arabs believe that their government is serious about fighting corruption

A survey conducted by the Qatar-based Arab Center for Research & Policy Studies indicated that 54% of respondents in the Arab world are convinced that their government is serious about tackling corruption practices, while 44% of respondents in the region believe that their government is not serious about fighting graft. In parallel, 86% of respondents in Kuwait believe that their government is serious about addressing corruption, the highest such share among 12 Arab countries covered in the survey. They were followed by Saudi Arabia with 85% of respondents, Egypt with 80% of participants, Mauritania with 69% of adults, Jordan with 63% of respondents and Morocco with 60% of participants. In contrast, 13% of respondents in Lebanon were convinced that their government is serious about tackling corruption practices, constituting the lowest such share regionally. They were preceded by Iraq with 31% of adults, Sudan with 39% of respondents, Tunisia with 44% of participants, Algeria with 45% of adults and Palestine with 46% of respondents. The survey was conducted in 12 Arab countries and jurisdictions through face-to-face interviews between May and September 2015 as part of the Arab Center for Research & Policy Studies' 2015 Arab Opinion Index. It covered a sample of 18,311 respondents in the 12 Arab countries.

Source: Arab Center for Research & Policy Studies, Byblos Research

Five Arab countries attract 305 investments in technology startups between 2013 and October 2015

Figures released by ArabNet, a hub for Arab digital professionals and entrepreneurs, show that 305 private equity investments worth $583.3m were made in technology startups in five Arab countries between 2013 and October 2015. The UAE attracted 116 investments worth $183.4m during the covered period, followed by Jordan with 63 deals ($26.8m), Egypt with 52 investments ($232.7m), Saudi Arabia with 49 deals ($93.1m) and Lebanon with 45 investments ($47.4m) as the top five equity investment destinations in the region. Equity investors include angel networks, seed funds, accelerators, venture capital (VC) funds and growth-stage VC funds. Further, investors made 108 investments worth about $125m in technology startups in the MENA region during the first 10 months of 2015, compared to 185 deals worth $381m in full year 2014 and 111 investments worth $212m in full year 2013. ArabNet indicated that about 55% of investors in the deals are early stage investors, with accelerators and seed funds representing about 25% and 22%, respectively, of the investor funding. It added that the majority of deals executed in the region over the past three years have been early stage deals worth less than $500,000 each. It noted that the MENA region has witnessed a proliferation of new funding institutions in the past five years, with the number of investors increasing five-fold since 2010. The findings are based on data collected from 31 investors and accelerators in the UAE, Egypt, Lebanon, Jordan, Saudi Arabia, Morocco, Kuwait, Palestine, Tunisia and Bahrain.

Source: ArabNet

OUTLOOK

EMERGING MARKETS

Developing economies to grow by 4.3% in 2016

The United Nations projected growth in developing economies at 4.3% in 2016 compared to an estimated growth rate of 3.8% in 2015, and relative to growth rates of 2.9% for the global economy and 2.2% for developed economies. Also, it forecast real GDP in economies in transition to shift from a contraction of 2.8% in 2015 to a growth rate of 0.8% in 2016. It expected real GDP growth in South Asia to accelerate from 6% in 2015 to 6.7% in 2016, supported mainly by strong private consumption and the lifting of sanctions on Iran. It expected real GDP growth in East Asia to remain unchanged at 5.6% in 2016, but to rebound from 3.4% in 2015 to 4.1% in 2016 when excluding China.

Further, it projected Africa's real GDP growth to accelerate from 3.7% in 2015 to 4.4% in 2016 despite the uncertainty in the global economy and lower commodity prices. It noted that economic activity would be supported by rising domestic demand, better macroeconomic management, increasing public investment, a developing services sector, and the strengthening of trade and investment ties with emerging economies. It projected Western Asia's real GDP growth at 2.4% this year relative to 2% in 2015, supported by a partial recovery in countries experiencing conflicts. It noted that low oil prices and conflicts weigh on the region's overall growth. It forecast real GDP in Latin America & the Caribbean to shift from a contraction of 0.5% in 2015 to a growth rate of 0.7% in 2016.

In parallel, the United Nations anticipated that the external environment for developing countries would remain challenging due to subdued import demand in developed economies and elevated global financial risks. Also, it said that large developing countries, such as Brazil, China and South Africa, are dealing with structural economic challenges, which means that any growth recovery in coming years would be modest.
Source: United Nations

JORDAN

Banks to adjust to challenging operating environment

Fitch Ratings indicated that it has a stable outlook on the Jordanian banking sector as it expected the banks' financial metrics to remain broadly stable in 2016, despite the challenging operating environment. It anticipated the banks' profitability to be flat in 2016 due to weak credit growth and higher tax rates. It said that the banks' net interest margins are under pressure from cuts in interest rates and lower yields on government securities. It noted that holdings of government debt generate a considerable share of the banks' interest income due to limited lending opportunities and the excess in liquidity. It added that banks are focusing on fees and commission income, mainly from trade financing, to compensate for the drop in interest income. Further, the agency indicated that the banks' asset quality metrics improved in 2015 as banks continued to clean up their balance sheets from legacy impaired loans. It did not anticipate significant asset-quality problems this year. It noted that impaired loans are well covered by reserves and collateral, which would enable the banks to write off their impaired loans without affecting their profitability. In parallel, Fitch pointed out that Jordanian banks are largely funded by customer deposits, which account for about 90% of the banks' non-equity funding and are mostly denominated in local currency. It expected the banks to remain generally liquid, with an average loans-to-deposits ratio of 65%.

In parallel, the agency indicated that the sector's average capital adequacy ratio was 18.5% at end-June 2015, which is above the Central Bank of Jordan's minimum requirement of 12%. It considered this ratio to be adequate in the context of the banks' credit exposures and concentrations, the challenging operating environment and a zero risk-weight on government securities. It did not expect further pressure on capitalization in 2016 given the slowdown in lending growth.
Source: Fitch Ratings

NIGERIA

Growth prospects depend on lifting of foreign currency controls and currency adjustment

The Institute of International Finance projected Nigeria's real GDP growth to slightly accelerate from an estimated 3.1% in 2015 to 3.3% in 2016, but to come below the government's growth target of 4.4% for the year. It noted that several factors constrain a stronger rebound in economic activity. First, it anticipated that any support to economic growth from increased capital spending could come late this year as authorities still need to ratify the 2016 budget and secure external financing. Second, it considered that weather conditions could negatively affect the agricultural sector. Third, it said that foreign currency and import restrictions have adversely affected the manufacturing sector. Fourth, it expected hydrocarbon production to remain under pressure this year due to underinvestment and theft. Overall, it considered that better growth prospects would require an adjustment to the exchange rate and the removal of foreign exchange and import controls. It forecast the non-hydrocarbon sector to expand by 4.1% in 2016, nearly unchanged from 4% in 2015, and for hydrocarbon output to shrink by 4% this year following a 4.5% contraction last year. It projected the inflation rate to average 9.8% in 2016 relative to 9% in 2015.

Further, the IIF forecast the fiscal deficit to widen from 4.5% of GDP in 2015 to 4.7% of GDP in 2016, reflecting high capital spending, lower hydrocarbon revenues, and pressure on non-hydrocarbon revenues from the slowdown in economic activity. It anticipated the government to miss its target deficit of 2.2% of GDP due to overly ambitious non-hydrocarbon revenue targets. It considered that authorities may have to slow their capital spending in order to contain the fiscal deficit. The IIF forecast the current account deficit to widen from 3.2% of GDP in 2015 to 3.8% of GDP in 2016, and for foreign currency reserves to fall from $31.1bn or 5.5 months of import cover in 2015 to $26bn or 5.4 months in 2016. It noted that confidence remains weak despite the authorities' efforts to stabilize the exchange rate since March 2015 and to maintain foreign currency reserves. It considered that market pressure to devalue the currency has intensified with a widening currency spread between the official and black market rates. It did not expect a disorderly devaluation for the time being, and considered that a devaluation is a matter of time rather than a choice without a recovery in oil prices.
Source: Institute of International Finance

GCC

S&P downgrades ratings on three sovereigns

Standard & Poor's downgraded Saudi Arabia's long- and short-term foreign and local currency sovereign credit ratings by two notches to 'A-/A-2' from 'A+/A-1', and lowered Oman's sovereign ratings to 'BBB/A-3' from 'BBB+/A-2'. It also downgraded Bahrain's sovereign credit ratings by two notches to 'BB/B' from 'BBB-/A-3', which means that the country lost its investment grade ratings. The three sovereigns have a 'stable' outlook on their long-term ratings. Further, S&P downgraded Saudi Arabia's transfer & convertibility assessment to 'A' from 'AA-', that of Oman to 'BBB' from 'A-' and that of Bahrain to 'BB+' from 'BBB'. It noted that it reduced by about $20 p/b its oil price assumptions for the 2016-19 period, which led to cuts in the sovereign ratings of major oil producers. It anticipated that the drop in oil prices will have a marked and lasting impact on Saudi Arabia's public finances and economic conditions. It projected the fiscal deficit to average about 9% of GDP annually between 2016 and 2019, which is about 2% of GDP higher than its previous forecast. Also, it expected the government's debt level to rise by about 7% of GDP annually during the same period. Further, it anticipated that lower oil prices would weigh on Bahrain's already weak public finances, which would put its fiscal and debt metrics in line with a 'BB' rating. Also, it expected Oman's economic and fiscal outlooks to significantly deteriorate in coming years, as it forecast the country's GDP per capita to fall from $20,500 in 2014 to $14,600 in 2016, and for the government's debt level to increase by 5% of GDP annually during the 2016-19 period.

Source: Standard & Poor's

SYRIA

Total economic losses from conflict at $255bn, equivalent to 468% of 2010 GDP

The Syrian Center for Policy Research estimated the total economic losses in Syria from the start of the conflict in March 2011 up until the end of 2015 at SYP6,483bn in constant 2000 prices, equivalent to 468% of the country's 2010 GDP. It noted that total economic losses in current prices amounted to $254.7bn by the end of 2015. It said that output losses totaled $163.3bn during the covered period and accounted for 64.1% of total economic losses, followed by losses from damaged capital stock with $67.3bn (26.4%), additional government military spending with $14.5bn (5.7%), armed groups military expenditures with $6bn (2.3%) and the informal production of oil and gas with $3.6bn (1.5%). It defined the rise in military expenditures as the reallocation of resources from productive processes to non-productive or even destructive aims. It estimated total economic losses at $12.1bn in 2011, $49.9bn in 2012, $70.8bn in 2013, $62.3bn in 2014 and $59.6bn in 2015. In parallel, it estimated Syria's real GDP to have contracted by 4.7% in 2015 following contractions of 15.2% in 2014 and 36.5% in 2013. It estimated GDP losses at SYP4,159bn in constant 2000 prices during the 2011-15 period, equivalent to about three times Syria's 2010 GDP. It said that losses in the domestic trade segment accounted for 23.2% of total output loss during the covered period, followed by government services (15.9%), mining (15.2%), transport & communication (14.1%), agriculture (11.6%) and financial & real estate (5.7%).

Source: Syrian Center for Policy Research

UAE

Fiscal deficit to widen to 8% of GDP in 2016

The Institute of International Finance indicated that the UAE government faces big challenges to shield its fiscal balance from the adverse impact of the steep drop in global oil prices, despite its aggressive policy actions. It said that authorities cut energy and electricity subsidies and non-priority spending, which has reduced the consolidated public spending by 7% in 2015. But it noted that the sharp drop in hydrocarbon revenues has more than offset the cut in expenditures, and estimated the fiscal balance to have shifted from a surplus of 5.2% of GDP in 2014 to a deficit of 4.1% of GDP in 2015. It anticipated that the government would respond to the continuing decline in oil prices by limiting the increase in the public-sector wage bill, curbing capital transfers to government-related entities and introducing a 12% excise tax on cars. Still, it expected the fiscal deficit to widen to about 8% of GDP this year. In parallel, the IIF forecast the UAE's real GDP growth to decelerate from 3.3% in 2015 to 2.5% in 2016 due to the decline in public spending and the drop in competitiveness as a result of the appreciation of the US dollar. It added that the UAE economy would be affected by the slowdown in activity in other GCC countries, especially in Saudi Arabia, through lower demand for services. Further, the IIF considered that the drop in oil prices has not resulted in significant pressure on the currency peg to the US dollar. It said that the country's large foreign assets, relatively diversified economy and safe-haven status, as well as its policy response, have helped sustain market confidence.

Source: Institute of International Finance

ANGOLA

Sovereign ratings lowered to 'B', outlook 'stable'

Standard & Poor's downgraded Angola's long-term sovereign credit ratings to 'B' from 'B+', with a 'stable' outlook. It affirmed the short-term sovereign credit ratings at 'B'. It attributed the downgrade to the expected weakening of the country's external account and foreign assets, and to the slowdown in economic activity from lower-than-previously anticipated oil prices. It added that its rating action takes into account the increase in the government debt level and the currency depreciation. It forecast the current account deficit to widen from 8.1% of GDP in 2015 to 10% of GDP in 2016 and to gradually narrow to 3.2% of GDP by 2019. It noted that authorities would finance the deficit mainly by drawing down from government reserves and through external borrowing. Further, it forecast the fiscal deficit to reach 5.5% of GDP in 2016 and to gradually narrow to 2% of GDP by 2019. In parallel, it said that the currency lost more than 30% of its value currency over the last 12 months, which has exacerbated the public debt burden, given that 20% of the debt stock is denominated in foreign currency. As such, it noted that the public debt level rose from 27.4% of GDP in 2014 to 45.2% of GDP in 2015, and expected it to peak at 50% of GDP this year. However, it anticipated the government's assets to continue to be relatively healthy at an estimated 16% of GDP in 2016, which would result in a net government debt level of 34% of GDP this year. Further, it projected Angola's gross external borrowing requirements at about $31bn during the 2016-17 period, and expected them to exceed 100% of current account receipts in coming years.

Source: Standard & Poor's

WORLD

Outlook 'stable' on 74% of bank ratings

Fitch Ratings indicated that it downgraded 28 banks worldwide in the fourth quarter of 2015, of which 82% were in emerging economies and the remaining 18% were in developed countries. It indicated that banks in Central & Latin America accounted for 46% of total downgrades, followed by those in emerging Europe (18%), the Middle East & Africa (14%), developed Europe (11%), Asia-Pacific (7%) and emerging Asia (4%). It said that most of rating changes in emerging markets resulted from weakening sovereign support, weakening parental support and deteriorating operating environments. In contrast, it upgraded 12 banks globally in the fourth quarter of 2015, of which 66.7% were in developed economies and 33.3% in emerging markets. It said that banks in North America accounted for the largest share of downgrades globally with 33% of the total. They were followed by those in developed Europe (25%), emerging Europe (17%), and Asia-Pacific, Central & Latin America and emerging Asia (8% each). In parallel, Fitch said that 16% of bank ratings had 'negative' outlooks globally in the fourth quarter of 2015; while 10% of them had a 'positive' outlook in the covered quarter. Also, it indicated that the share of 'stable' outlooks reached 74% in the fourth quarter of the year. It added that the share of 'negative' outlooks in emerging markets remained fairly high at 22%, while only 4% of outlooks were 'positive' and 74% were 'stable'.

Source: Fitch Ratings

MENA

Bank lending conditions tighten in fourth quarter of 2015

The Emerging Markets Lending Conditions Index for the MENA region declined to 42.8 in the fourth quarter of 2015 from 45.8 in the third quarter of the year, constituting its lowest level since the fourth quarter of 2011. The deterioration in the region's lending conditions reflects the adverse impact of low commodity prices on banks' funding and non-performing loans (NPLs). As such, the MENA region had the least favorable lending conditions among emerging markets in the fourth quarter of 2015. The region's Trade Finance Index dropped to 49.1 in the fourth quarter of 2015 from 51.8 in the preceding quarter. Further, the NPLs Index decreased to 44 in the fourth quarter of 2015 from 46.4 in the third quarter of the year, reflecting a rise in NPLs at MENA banks. Also, most of the banks in the MENA region expected NPLs to rise significantly in the first quarter of 2016. In addition, the Demand for Loans Index decreased to 43.2 in the fourth quarter from 46.1 in the previous quarter, with demand for corporate and commercial real estate loans reaching their lowest levels on record. Further`, the Credit Standards Index fell to 41.7 in the fourth quarter of 2015 from 44.1 in the preceding quarter, with credit standards being tightened across all loan categories, especially for corporate and commercial real estate loans. In addition, the Funding Conditions Index regressed to 36.6 in the fourth quarter of 2015 from 42.1 in the preceding quarter, with the indexes for domestic and international funding conditions dropping to their lowest levels since the fourth quarter of 2011.

Source: Institute of International Finance

MOROCCO

Financial sector resilient to severe shocks

The International Monetary Fund's Financial System Stability Assessment indicated that risks to financial stability in Morocco are limited. The assessment covered eight banks that account for 90% of the sector's assets. The Fund noted that banks are well-capitalized, profitable and benefit from stable funding sources. It indicated that the banking system is resilient to severe shocks associated with prolonged weakness in Europe and global financial market volatility. However, it said that banks are vulnerable to corporate defaults and deposit withdrawals. It noted that the default of the three largest corporates could lead to the undercapitalization of each of the eight banks. It indicated that non-performing loans have increased recently due to weak activity in certain sectors, but that they are well-provisioned. It said that difficulties facing companies in the construction and real estate development sectors are unlikely to affect financial stability, but it called on authorities to closely monitor risky loans. Also, it said that the eight banks would maintain liquidity coverage ratios above the 60% regulatory threshold in the event of large deposit withdrawals, and that the ratio would fall to below 100% at two banks. Further, it indicated that risks from Moroccan banks' subsidiaries in Sub-Saharan Africa are contained. It welcomed the authorities' efforts to tighten bank regulations on concentration risks and to strengthen bank provisioning requirements. In parallel, the IMF expected the depreciation of the dirham to have a positive direct effect on the banking sector, given the banks' positive foreign exchange open position. Also, it anticipated that the indirect effects on credit quality would be limited because foreign currency loans account for less than 4% of total loans.

Source: International Monetary Fund

UAE

Non-interest income drives earnings in 2015

The net profits of nine listed banks in the UAE totaled AED33.1bn, or $9bn, in 2015, constituting a rise of 12.3% from AED29.5bn in 2014. The increase in profits reflects a 7.7% rise in net interest income, a 5.7% growth in non-interest income and a 9.6% drop in provisions. Aggregate net profits rose by 20.6% annually to $2.26bn in the first quarter of the year, by 14% to $2.31bn in the second quarter, by 6.4% to $2.25bn in the third quarter and by 9% to $2.2bn in the fourth quarter of 2015. The growth in the banks' earnings in the fourth quarter reflects higher non-interest income that grew by 16.7% year-on-year and by 18.6% quarter-on-quarter. Also, total operating expenses rose by 9.4% to AED1,734bn, or $472.4bn. In parallel, total assets reached AED1,699bn, or $462.8bn, at the end of 2015, constituting a rise of 11% from end-2014. Net loans totaled AED1,091bn, or $297.2bn, at the end of 2015 and rose by 10.3% from end-2014. However, the banks' credit appetite is softening and their credit standards are tighter. Further, customer deposits reached AED1,155bn, or $314.7bn, at the end of 2015 and increased by 7.9% from end-2014 relative to an annual rise of 3.1% at the end of September 2015. The loans-to-deposits ratio reached 94.4% at end-2015 relative to 92.4% at the end of 2014. Total financial investments by the banks reached AED191.6bn at the end of 2015 and grew by 6.3% during the year.

Source: EFG Hermes

ENERGY / COMMODITIES

Crude oil prices to drop by about 28% in 2016

ICE Brent crude oil front-month prices closed at $32.5 per barrel (p/b) on February 16, 2016, constituting a decrease of 9.1% from the end of 2015 and a drop of 5.4% from the end of January 2016. The provisional agreement between Saudi Arabia, Russia, Qatar and Venezuela to freeze their production at the January 2016 levels did not have a significant impact on prices. First, the deal is contingent on other key oil producers agreeing to follow suit. Second, the output freeze would be at record levels for Russia and Saudi Arabia, and for Iraq if it abides by the agreement. However, when Iran welcomed any measure to stabilize the markets, oil prices surged by 6.7% from January 16 to close at $34.6 a barrel on January 17. Still, Iran's willingness to freeze production is uncertain at a time when the country is committed to raising its output and regaining its market share. Overall, Brent oil prices are forecast to drop by 28.3% to an average of $37.5 p/b in 2016. According to the International Monetary Fund, the probability that Brent oil prices would rise above $50 p/b decreased, which reflects downward sentiment on oil prices over the next 12 months.

Source: U.S. Energy Information Administration, IMF

Kurdistan and Iraq agree on oil exports

The Kurdistan Regional Government (KRG) accepted Iraq's proposal to stop its direct oil sales to international markets and to sell its oil through the State Organization for Marketing of Oil in exchange for the full salary payment of the KRG's municipal employees. But the KRG indicated that it remains skeptical about Baghdad's ability to honor the deal. The KRG employs 1.4 million persons with salaries estimated at about $88.6m monthly. In parallel the KRG's crude oil exports totaled 18.66 million barrels in January 2016, up by 3% from 18.11 million barrels in the preceding month. On a daily basis, Kurdish oil exports rose by 3% month-on-month to an average of 601,811 b/d in January. About 75.1% of crude oil exports were extracted from fields operated by the KRG, while the remaining 24.9% came from fields operated by Iraq's North Oil Company.

Source: KRG Ministry of Natural Resources, Wall Street Journal

OPEC's oil output at 32.3 million b/d in January

The Organization of the Petroleum Exporting Countries' crude oil production averaged 32.3 million barrels per day (b/d) in January 2016, up by 0.4% from 32.2 million b/d in December 2015. Saudi Arabia produced 10.1 million b/d in January, equivalent to 31.2% of OPEC's total oil output. It was followed by Iraq with 4.4 million b/d (13.6%), Iran with 2.9 million b/d (9%), the UAE with 2.87 million b/d (8.9%) and Kuwait with 2.7 million b/d (8.5%).

Source: OPEC, Byblos Research

Middle East's jewelry demand down 7% in 2015

The Middle East region's demand for jewelry totaled 224.1 tons in 2015, reflecting a decrease of 6.9% from 240.8 tons in 2014, and accounting for 9.3% of global jewelry demand. The region's demand reached 62.3 tons in the first quarter, 54.2 tons in the second quarter, 56.3 tons in the third quarter and 51.4 tons in the fourth quarter of 2015. Consumption of gold jewelry in Saudi Arabia reached 68.9 tons last year and accounted for 30.7% of the region's total demand. It was followed by the UAE with 49.9 tons (22.3%), Iran with 38.5 tons (17.2%), Egypt with 36.5 tons (16.3%) and Kuwait with 12.7 tons (5.7%).

Source: World Gold Council, Byblos Research

Base Metals: Aluminium prices to drop in 2016 amid market oversupply

The LME cash price of aluminium is forecast to decrease by 9% from an average of $1,664 per metric ton in 2015 to $1,514 per ton in 2016. On a quarterly basis, aluminium prices are expected to average $1,455 per ton in the first quarter of 2016 and to gradually rise to $1,490 per ton in the second quarter, to $1,530 per ton in the third quarter and to $1,580 per ton in the fourth quarter of 2016. Global aluminium production is forecast to rise by 4.4% to 59.3 million tons in 2016, which would reflect a slowdown from 6.3% in 2015, as cuts in Chinese supply materialize. Chinese production is projected to grow by 7% in 2016, compared to growth levels of 11% in each of 2015 and 2014. Further, the metal's global consumption is forecast to increase by 4.3% from an estimated 56 million tons in 2015 to 58.4 million tons in 2016, compared to growth rates of 7.3% in 2014 and 4.2% in 2015. The slowdown in demand growth last year has been less steep than for most base metals, which allowed aluminium to gain market share from other industrial metals. As such, the market is expected to post an oversupply of 0.88 million tons this year. The oversupply in the market is projected to continue to weigh on aluminium prices until 2018.

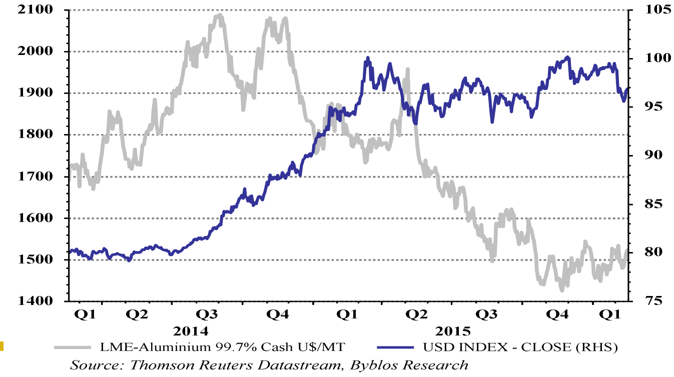
Source: Deutsche Bank, Byblos Research

Precious Metals: Silver prices to ease in the next 12 months

Silver prices averaged $14.5 a troy ounce in the first seven weeks of 2016, compared to an average of $14.1 per ounce in December 2015. Prices closed at $15.4 per ounce on February 17, constituting increases of 7.7% from the end of January and of 11.1% from the end of 2015. The increase in the metal's price lacked support from the physical market, as holdings of physically-backed silver products dropped by more than 200 tons since the end of 2015. The decline in physical demand mainly reflects investors' concerns that slow global growth would weigh on industrial demand for the metal, which accounts for more than 50% of total silver demand. In addition, further slowdown in China's economic activity or a recession in the U.S. would weigh on the silver market, given that China and the U.S. are the world’s largest industrial silver consumers. As such, industrial silver demand is unlikely to recover significantly from the low levels in previous years when a combination of high prices and high volatility caused many industries to substitute their production away from silver. As a result, silver prices are forecast to average $14.5 a troy ounce over the coming three months and to decline to $13.5 a troy ounce on average in the coming 12 months.

Source: Julius Baer, Byblos Research

Aluminium Prices vs. US Dollar Index



Source: Thomson Reuters Datastream, Byblos Research

COUNTRY RISK METRICS

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

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								
Asia													
Armenia	-	Ba3	B+	-	B-								
	-	Negative	Stable	-	Stable	-3.9	48.2	80.5	264.7	5.8	-	-4.9	3.1
China	AA-	Aa3	A+	-	A								
	Stable	Stable	Stable	-	Stable	-1.9	43.2	8.3	32.9	2.7	-	3.1	-
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-7.2	65.3	19.5	14.5	6.9	-	-1.4	-
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	Positive	Stable	-	Negative	-3.2	18.1	79.8	284.8	54.3	-	-3.3	-2.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB-								
	Negative	Stable	Stable	-	Stable	-2.0	28.6	101.2	142	23.2	-	1.0	-
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Negative	Stable	-	Positive	-1.8	40.9	65.4	133.5	21.1	-	-0.7	-
Russia	BB+	Baa3	BBB-	-	BB+								
	Negative	-	Negative	-	Negative	-5.7	20.4	40.4	120.2	23.3	-	5.0	-
Turkey	BB+	Baa3	BBB-	BB+	BB-								
	Negative	Negative	Stable	Stable	Negative	-0.8	32.1	54.0	128.0	31.4	-	-4.5	-
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	Negative	-	-	Negative	-4.2	94.4	122.0	199.0	28.4	-	-1.7	-

**to official creditors*

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

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25-0.50	27-Jan-16	No change	16-Mar-16
Eurozone	Refi Rate	0.05	21-Jan-16	No change	10-Mar-16
UK	Bank Rate	0.50	04-Feb-16	No change	17-Mar-16
Japan	O/N Call Rate	0.00-0.10	29-Jan-16	No change	15-Mar-16
Australia	Cash Rate	2.00	02-Feb-16	No change	01-Mar-16
New Zealand	Cash Rate	2.50	28-Jan-16	No change	10-Mar-16
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Dec-15	No change	17-Mar-16
Canada	Overnight rate	0.50	20-Jan-16	No change	09-Mar-16
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	27-Jan-16	No Change	16-Mar-16
Taiwan	Discount Rate	1.63	17-Dec-15	Cut 13bps	31-Mar-16
South Korea	Base Rate	1.50	16-Feb-16	No change	10-Mar-16
Malaysia	O/N Policy Rate	3.25	21-Jan-16	No change	09-Mar-16
Thailand	1D Repo	1.50	03-Feb-16	No change	23-Apr-16
India	Reverse repo rate	6.75	02-Feb-16	No change	05-Apr-16
UAE	Overnight repo rate	1.25	17-Dec-15	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	0.50	16-Dec-15	Raised 25bps	N/A
Egypt	Overnight Deposit	9.25	29-Jan-16	Raised 50bps	17-Mar-16
Turkey	Base Rate	7.50	19-Jan-16	No change	23-Feb-16
South Africa	Repo rate	6.75	28-Jan-16	Raised 50bps	17-Mar-16
Kenya	Central Bank Rate	11.50	16-Jan-16	No change	14-Mar-16
Nigeria	Monetary Policy Rate	11.00	24-Nov-15	Cut 200bps	22-Mar-16
Ghana	Prime Rate	26.00	29-Jan-16	Raised 100bps	21-Mar-16
Angola	Base rate	12.00	01-Feb-16	Raised 100bps	01-Mar-16
Mexico	Target Rate	3.25	04-Feb-16	No change	18-Feb-16
Brazil	Selic Rate	14.25	20-Jan-16	No change	02-Mar-16
Armenia	Refi Rate	8.75	11-Feb-16	Cut 25bps	N/A
Romania	Policy Rate	1.75	05-Feb-16	No change	31-Mar-16
Bulgaria	Base Interest	0.00	01-Feb-16	Cut 1bps	01-Mar-16
Kazakhstan	Repo Rate	17.00	01-Feb-16	Raised 100bps	N/A
Ukraine	Discount Rate	22.00	28-Jan-16	No change	03-Mar-16
Russia	Refi Rate	11.00	11-Dec-15	No change	18-Mar-16

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