

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Gold holdings at \$1.1 trillion at end-2015

Figures released by the World Gold Council show that the world's gold holdings reached 32,813 tons as at the end of 2015 and increased by 2.4% from 32,030.7 tons at end-2014. Global gold holdings include those held by 107 countries, the International Monetary Fund, the West African Economic Monetary Union, the European Central Bank and the Bank for International Settlements. On a country basis, the United States held the largest volume of gold reserves worldwide at 8,133.5 tons at the end of 2015 and accounted for 24.8% of global gold holdings. It was followed by Germany with 3,381 tons (10.3% of the total), Italy with 2,451.8 tons (7.5% of the total), France with 2,435.6 tons (7.4% of the total) and China with 1,762.3 tons (5.4% of the total). Further, the value of gold reserves worldwide was equivalent to \$1.12 trillion at the end of 2015, based on a gold price of \$1,060 per troy ounce that was published by the London Bullion Market Association. In parallel, Tajikistan's gold holdings were equivalent to 87.5% of the country's total foreign currency reserves at the end of 2015, followed by the United States with gold accounting for 73.3% of the total, Portugal (68.6% of total reserves), Germany (67.4% of total reserves) and Venezuela (66.8% of total reserves) as the top five countries in terms of gold as percentage of total foreign currency reserves.

Source: World Gold Council

New capital targeting commercial real estate up 3% to \$443bn in 2015

Property consultants Cushman & Wakefield estimated new capital targeting commercial real estate to have increased by 3% in 2015 to a record high of \$443bn. New capital includes funds that were raised during the year and those that are being currently raised. It noted that the growth in available capital targeting commercial real estate in 2015 decelerated from 21% in 2014 to 3% last year, as investment activity is approaching record levels in some markets. It said that available capital in the Americas reached \$169bn at the end of 2015 and accounted for 38.1% of the total, followed by Europe, the Middle East & Africa (EMEA) with \$143bn (32.3%) and the Asia-Pacific region with \$131bn (29.6%). Global growth was driven by an 8% increase in available capital in the Asia-Pacific region, while capital expanded by less than 2% in each of the EMEA region and the Americas. In parallel, Cushman & Wakefield indicated that 23% of the new capital is targeting the residential segment, followed by retail (19%), industrial (18%), office (16%), hotels (10%), and other assets (14%). Further, it noted that about 58% of investors are concentrated on a single region, almost unchanged from 59% a year earlier, while multi-country funds represent 42% of capital. It added that 56% of the available capital is with unlisted funds, followed by listed companies (23%) and institutions (16%), while sovereign wealth funds and other parties hold the remaining 5%.

Source: Cushman & Wakefield

EMERGING MARKETS

Sovereign borrowing from commercial sources at \$1,156bn in 2016

Standard & Poor's projected the sovereign borrowing from commercial sources by emerging economies at \$1,156bn in 2016, which would reflect an increase of 4.1% from \$1,111bn in 2015. The figures cover 20 emerging markets with the highest debt stock. S&P expected Emerging Asia to account for 55% of total commercial long-term borrowing in 2016, followed by Latin America (29.7%) and Emerging Europe, the Middle East & Africa (15.3%). It forecast China's gross sovereign commercial borrowing to account for 29.5% of the total, followed by Brazil with 16.4% and India with 13.7%. It indicated that \$594bn, or about 51.4% of total sovereign borrowing, would refinance maturing long-term debt, which would result in an estimated net borrowing requirement of \$562bn in 2016. In parallel, S&P forecast the total sovereign commercial debt stock of the 20 countries at \$6,808bn at the end of 2016 relative to \$6,222bn at end-2015, which would consist of \$601bn in short-term debt and \$6,207bn in medium- and long-term debt. It projected China's debt to account for 27% of the commercial debt stock at end-2016, followed by India (23%) and Brazil (11.1%). Further, gross long-term sovereign commercial borrowing would be equivalent to 6.7% of the aggregate GDP of the 20 economies this year, while the commercial debt stock would be equivalent to 41% of their GDP.

Source: Standard & Poor's

GCC

GCC salaries to increase by 5.2% in 2016

GulfTalent's 2016 survey of employment and salary trends across the six countries of the Gulf Cooperation Council (GCC) shows that salaries in GCC economies increased by 5.7% in 2015 compared to a growth rate of 6.7% in 2014. Salaries in Qatar and Oman rose by 6.1% each last year, followed by Saudi Arabia (+5.9%), the UAE (+5.6%), Kuwait (+5.4%) and Bahrain (+4.1%). Also, salaries in the retail sector grew by 6.6% in 2015, followed by construction (+6.1%), the banking sector (+6%), the oil & gas sector (+5.9%), the telecommunications & IT sector (+5.7%), logistics (+5.5%), the real estate sector (+5.4%), healthcare (+5.2%), education (+4.3%) and the hospitality sector (+3.7%). Further, the survey projected salaries across GCC economies to increase by 5.2% in 2016, which would constitute the lowest growth rate since the survey was launched in 2005. It expected salaries in Saudi Arabia to grow by 5.9% this year, followed by the UAE (+5.3%), Qatar (+4.7%), Kuwait (+4.6%), Oman (+4.4%) and Bahrain (+3.7%). In parallel, the survey shows that 14% of firms in Saudi Arabia are planning to cut staff in 2016, followed by 10% of firms in Oman, 9% of firms in the UAE and 8% of companies in Qatar. It noted that firms across the GCC have become increasingly cautious about hiring. Also, it said that there is growing demand for multi-tasking generalists who can undertake a wide range of duties. The study is based on a survey of 25,000 professionals and 700 executives and human resource managers working in GCC economies.

Source: GulfTalent

OUTLOOK

GCC

Borrowing and assets drawdown to finance deficits

Commerzbank projected real GDP growth in the economies of the Gulf Cooperation Council (GCC) to decelerate from 3.3% in 2015 to 2.5% in 2016. But it considered economic performance in GCC economies to be satisfactory, given the 70% drop in global oil prices from the June 2014 peak. It said that local governments continue to be committed toward most of the large infrastructure projects in order to sustain non-hydrocarbon activity. But it noted that the strengthening of the US dollar could have a negative impact on the real estate and hospitality sectors, especially in Dubai. It added that the slowdown in China's economic activity could affect GCC economies, given that Asia is their largest hydrocarbon export destination.

In parallel, Commerzbank expected most of GCC economies to post fiscal and current account deficits in 2016. But it anticipated the fiscal and external positions to start improving in 2017, assuming a modest recovery in oil prices and a gradual implementation of major structural reforms. It said that the UAE and Qatar have the highest fiscal flexibility and their fiscal deficits should remain at comfortable levels in the coming two years. It projected Saudi Arabia's fiscal deficit at nearly 15% of GDP this year, in case it follows budgeted spending cuts and implements announced reforms. It added that Kuwait has sufficient reserves to fund its growing deficit without a negative impact on its credit profile. In contrast, it said that Bahrain and Oman have the weakest fiscal flexibility among GCC countries and are at risk of missing their budget targets. Further, it indicated that local authorities have announced plans to gradually phase-out most subsidies, increase utility service charges, freeze government salaries and bonuses and introduce taxes.

In parallel, Commerzbank expected GCC governments to continue using their foreign currency asset buffers and to divest highly liquid international securities from sovereign wealth funds to finance their wide fiscal gaps. It noted that most of GCC sovereigns are likely to tap the international bond market this year, with potential issuances totaling \$15bn.

Source: Commerzbank

NIGERIA

Multiple challenges to limit economic growth

Credit Suisse projected Nigeria's real GDP growth to accelerate from 2.8% in 2015 to 3.9% in 2016. But it noted that the authorities' foreign currency policy, business challenges, as well as the continued weakness in the oil sector and negative spillovers to the non-oil economy would keep overall real GDP growth below trend over the medium term. It added that the authorities' protectionist policies would fuel market uncertainty that may result in low levels of job creation and private sector lending, and lead to renewed weakness in the manufacturing sector, as firms struggle to import raw material. It said that the inflation rate reached a three-year high of 9.6% in January 2016 and projected it to reach 11.2% by the end of the year.

Further, Credit Suisse projected Nigeria's fiscal deficit to widen from 1.4% of GDP in 2015 to 2.7% of GDP in 2016, reflecting the government's expansionary policy. It estimated that the gov-

ernment would need to roll over or issue the equivalent of \$32bn in debt in 2016 to finance its expansionary budget and maturing sovereign debt. It anticipated that authorities would likely roll over or raise a significant share of financing in the local-currency debt market. It forecast the government's debt level to rise from 13.7% of GDP in 2015 to 17.6% of GDP in 2016.

In parallel, Credit Suisse projected the current account deficit to widen from 16.1% of GDP in 2015 to 18.4% of GDP in 2016. It estimated the balance-of-payments requirements at \$18bn in 2016, which would be mainly financed from foreign currency reserves and additional borrowing. As such, it forecast foreign currency reserves to drop by \$6bn in 2016 to \$23.1bn, equivalent to 4.4 months of import cover. It considered that the Central Bank of Nigeria would be forced to devalue the naira by 30% to NGN260 against the US dollar by the end of 2016.

Source: Credit Suisse

IRAN

Growth dependent on reforms and investments

The Institute of International Finance projected Iran's real GDP growth to accelerate from 1.1% in the fiscal year that ends in March 2016 to 4.8% in FY2016/17 as a result of the lifting of sanctions and in case reforms are implemented, and to be driven by a surge in exports and private investment. It forecast non-hydrocarbon activity to grow by 2.5% in FY2016/17 relative to an estimated growth rate of 1.1% in FY2015/16; while it expected hydrocarbon output to expand by 20% in FY2016/17 relative to a growth of 1.2% in FY2015/16. It considered that the victory of moderates in the recent elections would help the government proceed with its economic reforms. It said that reforms include opening the country to foreign investment and updating the commercial code, among others. But it noted that hardliners still have to approve many laws, which means that the government's plan to attract \$50bn in foreign investment may not materialize.

In parallel, the IIF indicated that it is uncertain whether Iran will agree with other OPEC members and Russia to freeze oil output at the next meeting on March 20th. It noted that Iran is seeking to freeze its oil output at a level closer to its pre-sanctions level of about 3.6 million b/d rather than at the January 2016 level of 3 million b/d. It anticipated that the failure to reach an agreement would lead to an average oil price of \$35 p/b in 2016, down from \$53 p/b last year. It projected Iran's oil export receipts at about \$32bn in 2016, unchanged from the preceding year, and at 30% below pre-sanctions levels. It noted that, in this case, Iran's gain from rising hydrocarbon exports would be entirely offset by low oil prices. Under these conditions, it projected the fiscal deficit to narrow from 3.3% of GDP in FY2015/16 to 3.1% of GDP in FY2016/17, and for the breakeven fiscal oil price to drop from \$95.2 p/b in FY2015/16 to \$78.5 p/b in FY2016/17.

The IIF did not expect Iran's crude oil production to exceed pre-sanctions levels in the coming three years without a surge in foreign investment. It noted that the energy sector requires at least \$50bn in investments over the next five years in order to make up for under-investments during the past decade. It noted that the sanctions could be reinstated if Iran violates the terms of the nuclear deal, which creates uncertainties for investors.

Source: Institute of International Finance



ECONOMY & TRADE

ALGERIA

Fiscal adjustment and structural reforms needed

The International Monetary Fund indicated that Algeria faces important challenges amid the low hydrocarbon price environment. It noted that the fiscal deficit nearly doubled to 16% of GDP in 2015 and the current account deficit widened significantly due to lower hydrocarbon revenues. It added that the country's foreign currency reserves declined by \$35bn in 2015 to \$143bn. But it noted that the impact of lower oil prices on Algeria's economic activity has been limited, as it estimated real GDP growth at 3.7% in 2015, with the non-hydrocarbon sector growing by 5%. It considered that authorities need to implement sustained fiscal adjustment and wide-ranging structural reforms to respond to the oil price shock and to address long standing vulnerabilities. It said that the country's fiscal and external buffers provide an opportunity to gradually implement such reforms. It welcomed the fiscal measures in the 2016 budget and called on authorities to control current spending, mobilize more non-hydrocarbon revenues, pursue further subsidy reforms and increase the efficiency of investment. It noted that Algeria will have to increasingly rely on borrowing to finance its future deficits, given its rapidly declining fiscal savings. Further, the Fund expected economic activity to decelerate in 2016 due to the adverse impact of fiscal consolidation on the non-oil economy. It considered that authorities need to implement structural reforms to diversify the economy and achieve high growth rates over the medium term. It noted that reforms include improving the business climate, opening up the economy, improving access to finance, as well as strengthening governance, competition and transparency.

Source: *International Monetary Fund*

QATAR

Robust economic activity in 2016, fiscal metrics to deteriorate

The Institute of International Finance projected Qatar's non-hydrocarbon growth to decelerate from 7.5% in 2015 to 6% in 2016, mainly due to fiscal consolidation. It noted that authorities have reviewed ongoing projects to prioritize them and reduce costs as a result of the sharp decrease in public revenues. Also, it said that hydrocarbon sector growth continues to be subdued due to the suspension of exploitation work in the North Field, delays in the Barzan project and the decline in crude oil production from maturing fields. It anticipated the Barzan project to come on stream in the second half of 2016, which would offset the decline in production elsewhere this year. In parallel, the IIF projected Qatar's fiscal balance to shift from a surplus of 0.7% of GDP in 2015 to a deficit of 3.4% of GDP in 2016. It noted that authorities are cutting public spending to address the emerging fiscal deficit, and expected them to further increase utility and fuel prices, to raise fees for public services and to introduce taxes. It considered that these measures, along with the gradual increase in oil prices, would narrow the fiscal deficit in coming years and shift it back to a small surplus by 2020. Further, the IIF indicated that the Qatari authorities decided to finance the deficit through debt issuance rather than tapping their foreign assets that are estimated at more than 200% of GDP. As such, it forecast the public debt level to rise from 39% of GDP in 2015 to 43% of GDP in 2016.

Source: *Institute of International Finance*

CÔTE D'IVOIRE

Favorable medium-term economic prospects

The International Monetary Fund indicated that Côte d'Ivoire's macroeconomic prospects are positive for 2016 and over the medium term. It forecast the country's real GDP growth at 8.5% in 2016, nearly unchanged from an estimated growth rate of 8.6% in 2015, within a low inflation environment. It said that the fiscal deficit reached 3% of GDP in 2015 compared to an official target deficit of 3.7% of GDP, mainly due to the under-execution of capital expenditures and higher-than-budgeted proceeds from the sale of telecom licenses. The Fund welcomed the broad objectives and reforms in the National Development Plan (NDP) for the 2016-20 period. It called on authorities to ensure that lower global commodity prices and tighter financing conditions would not disrupt the NDP's implementation. As such, it noted that a disciplined fiscal policy would help build sufficient buffers to allow for counter-cyclical policy measures in case of need, as well as preserve debt sustainability. It called on the government to increase revenue mobilization, mainly through reforming tax exemptions, broadening the tax base and maintaining a prudent debt policy. It estimated the current account deficit at 1.7% of GDP last year, as higher imports have more than offset the increase in exports. In parallel, the IMF indicated that the country's economic performance under the Extended Credit Facility program has been impressive over the past four years, and has been supported by strong growth rates and macroeconomic stability.

Source: *International Monetary Fund*

RWANDA

Ratings affirmed, outlook revised to 'negative'

Standard & Poor's affirmed Rwanda's long- and short-term foreign and local currency sovereign credit ratings at 'B+' and 'B', respectively, and revised the outlook from 'stable' to 'negative'. It attributed the outlook revision to the increased pressure on Rwanda's external and fiscal positions from lower global commodity prices and to the gradual shift in donor financing from grants to loans. It projected the current account deficit at 15% of GDP in 2016, with the narrow net external debt level rising from 89% of current account receipts in 2015 to 104.3% this year. But it expected the deficit to narrow from 2017 onwards to 8.8% of GDP in 2019, driven by strong export growth and higher commodity prices. It noted that downside risks to the outlook include a weaker-than-anticipated performance of the mining sector, and the changing of deficit financing from grants to concessional loans. Further, it noted that the wide current account deficit has increased the pressure on the currency that depreciated by about 8% in 2015 and on foreign assets that fell by about 15% to \$900m at end-2015. It projected the currency to further weaken in coming years. In parallel, the agency expected the fiscal deficit to average 4.3% of GDP annually during the 2016-19 period, up from a September forecast of 3.2% of GDP, reflecting higher public spending and a slightly weaker growth outlook. Further, S&P indicated that the ratings are supported by the country's strong economic activity, modest public debt levels, the government's commitment to fundamental reforms and the flexible exchange rate regime. It expected real GDP growth to average 6.5%, and for the public debt level to average 38.1% of GDP annually during the 2016-19 period.

Source: *Standard & Poor's*



BANKING

EGYPT

Pound devaluation narrows gap with parallel rate

Regional investment bank EFG Hermes indicated that the Central Bank of Egypt's (CBE) decision to adopt a more flexible exchange rate regime is a step toward a return to the managed float regime that existed between 2004 and 2011. It noted that the CBE devalued the currency on March 14 from EGP7.73 against the US dollar to EGP8.85 per dollar, close to the parallel market exchange rate. It expected the CBE to use its foreign currency reserves and interest rates to stabilize the official exchange rate at current levels over the coming weeks. It anticipated the CBE to link the Egyptian pound to a basket of currencies of Egypt's trading partners, especially the Eurozone, the U.S., GCC economies and China. It said that this would lead to further downside pressure on the pound and projected the currency to gradually depreciate by an additional 5% during the year to reach EGP9.25 per dollar by the end of 2016.

In parallel, EFG Hermes indicated that the CBE plans to increase its foreign currency reserves from \$16.5bn currently to \$25bn by the end of 2016 through several channels. First, it expected the CBE to focus on attracting foreign currency from the parallel market to the banking system. It noted that state-owned banks have started to offer three-year certificates of deposits in foreign currency with 15% annual returns. Second, it said that the CBE would improve foreign currency inflows to the banking system through potential support from GCC economies or an agreement with the IMF. It noted that such inflows would allow the CBE to build a buffer and inject liquidity in the market to help eliminate the gap between the official and the parallel market rates. It anticipated that the CBE would focus on attracting foreign capital to the country's Treasury bill market. Also, it anticipated the CBE to introduce additional measures to control imports and reduce demand for foreign currency.

Source: EFG Hermes

IRAQ

Anti-money laundering deficiencies remain

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Iraq has taken steps to improve its AML/CFT regime since October 2015, including by adopting a new AML/CFT law. But it noted that certain strategic AML/CFT deficiencies remain. It said that Iraq has made a high-level political commitment to work with the FATF and the MENAFATF to address its AML/CFT deficiencies in October 2013. The FATF called on Iraqi authorities to continue implementing their action plan in order to address the remaining deficiencies, including by adequately criminalizing money laundering and terrorist financing; by establishing and implementing an adequate legal framework for identifying and freezing terrorist assets; by introducing effective customer due diligence measures; by introducing suspicious transaction reporting requirements; by ensuring a fully operational and effectively functioning Financial Intelligence Unit and by establishing and implementing an adequate AML/CFT supervisory and oversight program for the financial sector.

Source: Financial Action Task Force

SAUDI ARABIA

Negative outlook on banking sector

Moody's Investors Service revised its outlook on Saudi Arabia's banking system from 'stable' to 'negative', as it expected the banks' operating environment to weaken over the next 12 to 18 months amid persistently low oil prices and a 14% cut in public spending this year. It expected credit risks across the banking system to increase due to the deteriorating operating environment. It forecast lending growth to decelerate from 8% in 2015 to between 3% and 5% in 2016, reflecting the slowdown in economic activity. It projected the banking sector's non-performing loans ratio to rise from 1.4% in September 2015 to about 2.5% over the next 12 to 18 months. It added that Saudi banks would continue to be exposed to event risks resulting from high single-party exposures. In parallel, the agency anticipated the banks' capital buffers to remain solid and estimated the sector's average tangible common equity ratio at 15.7% at the end of 2016, almost unchanged from 15.4% at end-September 2015. Further, it expected the banks' profitability levels to be strong despite the rise in funding costs and loan-loss provisions, and to be supported by the banks' lean cost structure and the lack of a corporate tax rate. Moody's indicated that tightening liquidity from moderating public-sector deposit inflows and lower corporate profits would expose Saudi banks to greater funding volatility. But it expected the liquidity squeeze to be manageable and the banks' funding structures to remain relatively stable due to the banks' broad and growing depositor base.

Source: Moody's Investors Service

KUWAIT

Improved regulatory framework offset rising economic risks

Standard & Poor's maintained Kuwait's Banking Industry Country Risk Assessment (BICRA) in 'Group 4', as it estimated that the improved industry risk score from '5' to '4' would mitigate the deterioration in economic risks from '4' to '5'. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky sectors. The agency anticipated some pressure on Kuwaiti banks' operating revenues as a result of the expected slowdown in lending growth and the increasing cost of funding from the changing liquidity conditions. It projected the banking sector's non-performing loans (NPLs) to increase over the coming two years, which would push up credit losses. It indicated that Kuwait's economic risk reflects the downgrade of its assessment of economic resilience from "low risks" to "intermediate risks", as it kept its assessment of "intermediate risks" in economic imbalances and "high risks" in credit risks in the economy. Further, S&P pointed out that Kuwait's industry risks receded due to the strengthening of the regulatory framework. It indicated that the industry score reflects the improvement in its assessment of institutional framework from "very high risks" to "high risks", as it maintained its assessment of "intermediate risks" in competitive dynamics and "low risks" in system-wide funding.

Source: Standard & Poor's



Low oil price environment to persist in 2016

ICE Brent crude oil front-month prices closed at \$40.3 per barrel (p/b) on March 16, up by 4.1% from the previous day and by 8.2% from the end of 2015. The price increase is mainly due to news that Saudi Arabia and other major oil producers may limit their output even if Iran does not cooperate, and to the U.S. Federal Reserve keeping interest rates unchanged. In parallel, Standard & Poor's indicated that crude oil prices would remain at low levels for longer than previously expected. It indicated that marginal production costs have declined due to improved drilling efficiencies and cost reductions, especially in US shale formations. It said that drillers have introduced new techniques that have resulted in more permanent cost reductions in order to cope with the low oil price environment. S&P expected the oil market to remain oversupplied through most of 2016. It added that global oil production still outweighs demand, while the resulting increases in crude and product inventories are putting downward pressure on spot and near-term future prices. Also, it said that oil demand from China remains uncertain and continues to weigh on oil prices. In parallel, S&P said that the market is concerned about the additional 500,000 barrels per day of Iranian crude oil coming to the market in coming months. It forecast crude oil prices to average \$40 p/b in 2016 and \$45 p/b in 2017.

Source: Standard & Poor's, Wall Street Journal, Byblos Research

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

Crude oil production of the Organization of the Petroleum Exporting Countries averaged 32.28 million barrels per day (b/d) in February 2016, down by 0.5% from 32.45 million b/d in the preceding month. Saudi Arabia produced 10.14 million b/d in February, equivalent to 31.4% of OPEC's total oil output. It was followed by Iraq with 4.16 million b/d (12.9%), Iran with 3.13 million b/d (9.7%), the UAE with 2.86 million b/d (8.9%) and Kuwait with 2.77 million b/d (8.6%).

Source: OPEC, Byblos Research

Nigeria's hydrocarbon export receipts up 8% in January 2016

Nigeria's crude oil & condensate export receipts totaled \$408m in January 2016, up by 107% from \$197.2m in the preceding month and by 8.3% from \$376.6m in January 2015. Export receipts consisted of \$202m of crude oil exports, \$136m of gas exports and \$70m of other receipts. The authorities used all the hydrocarbon receipts to pay international oil companies, and did not transfer any funds to the Federation Account during the covered month. Nigeria is Africa's largest crude oil producer, with an average daily oil output of about 2 million barrels.

Source: Nigerian National Petroleum Corporation

OPEC's oil basket price up 8% in February 2016

The oil reference basket price of the Organization of the Petroleum Exporting Countries reached \$28.7 per barrel (p/b) in February 2016, constituting an increase of 8.4% from \$26.5 p/b in January. Abu Dhabi's Murban crude oil posted the highest price among the basket's components at \$34.15 p/b in February, followed by Algeria's Saharan Blend at \$33.26 p/b and Angola's Girassol at \$32.28 p/b. In parallel, 12 out of the 13 prices included in the OPEC reference basket increased last month, while Indonesia's Minas crude oil posted the only decline.

Source: OPEC, Byblos Research

Base Metals: Copper prices to rise in 2016

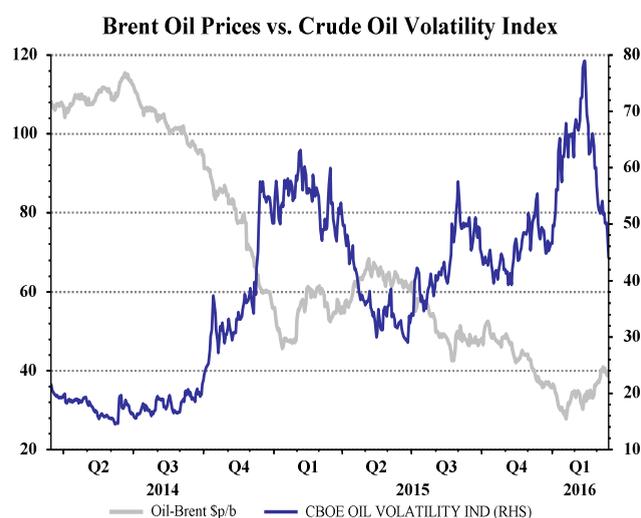
Standard Chartered Bank expected copper prices to face downside pressure in March and possibly in April, as copper consumption for new property developments in China remains weak, given plans to reduce the country's property inventory. However, it projected the downside pressure on prices to be limited and short-lived due in part to prevailing constraints on mine and scrap supply. Also, it anticipated the copper market balance to post a deficit of 216,000 tons in 2016 and of 335,000 tons in 2017. It added that a higher cost environment and expectations of a rebound in oil prices could push copper prices upward later in 2016. Standard Chartered forecast the metal's price to average \$5,000 per ton in the second quarter, \$5,500 per ton in the third quarter and \$6,000 per ton in the fourth quarter of 2016. In parallel, the Bloomberg Copper Sub-Index grew by 3.1% in February and was flat in the first two months of 2016. The LME cash price of copper closed at \$4,950 per ton on March 16, constituting an increase of 5.2% from end-2015.

Source: Standard Chartered Bank, Bloomberg Indexes

Precious Metals: Gold prices to drop in second half of 2016

Gold prices traded at levels higher than \$1,265 a troy ounce on March 17, following the U.S. Federal Reserve's decision to lower the number of planned interest rate hikes this year. Prices grew by more than 8% so far in 2016 due, in part, to high volatility across financial markets. However, gold prices are expected to decline in the second half of 2016 as benchmark interest rates move higher. Prices are forecast to average \$1,170 per troy ounce in the first quarter, \$1,125 an ounce in the second quarter, \$1,090 per troy ounce in the third quarter and \$1,050 an ounce in the fourth quarter of 2016. According to the International Monetary Fund, the probability of the 12-month forward gold prices dropping below \$1,000 a troy ounce decreased to 18.8% from 35.7% in January 2016, while the probability of gold prices rising above \$1,300 a troy ounce increased to 21.7% from 10.5% previously, reflecting a rise in investor demand for the metal. In parallel, the Bloomberg Precious Metals Total Return Sub-Index grew by 9% in February and by 14.2% in the first two months of 2016, while the Gold Sub-Index increased by 10.6% last month and by 16.5% from end-2015.

Source: Emirates NBD, Bloomberg Indexes, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central govt. 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+	-12.2	25.4	3.6	15.8	-	-	-15.6	1.0
Angola	B	Ba2	B+	-	B+	-1.4	53.0	36.4*	90.8	7.3	14.4	-5.6	2.0
Egypt	B-	B3	B	B-	B-	-10.3	92.7	20.7	154.6	10.0	302.8	-3.8	2.6
Ethiopia	B	B1	B	-	B+	-2.8	23.5	25.4*	159.6	4.3	634.6	-9.3	4.1
Ghana	B-	B3	B	-	B+	-5.3	72.4	44.3	110.4	10.3	371.8	-7.4	7.7
Ivory Coast	-	Ba3	B+	-	B+	-3.5	45.1	29.0	62.9	2.7	169.6	-2.9	2.9
Libya	-	-	B	-	B-	-47.7	108.8	17.4	38.9	-	-	-44.8	-3.8
Dem Rep Congo	B-	B3	-	-	CCC	0.0	21.5	16.0*	41.6	2.1	6.5	-7.7	4.6
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	64.4	32.7	114.4	6.3	185.6	-8.0	4.8
Nigeria	B+	Ba3	BB-	-	BB-	-4.7	13.8	5.6	80.2	0.7	63.2	-3.8	1.2
Sudan	-	-	-	-	CC	-1.3	74.0	43.5	-	-	-	-6.9	1.6
Tunisia	-	Ba3	BB-	-	BB+	-5.5	56.2	84.8	179.6	15.7	423.9	-12.7	4.1
Burkina Faso	B-	-	-	-	B+	-3.0	32.2	23.8*	-	-	-	-7.8	0.8
Rwanda	B+	-	B	-	B+	-3.1	34.8	27.0*	-	-	-	-9.6	3.2
Middle East													
Bahrain	BB	Ba1	BBB-	BBB-	BBB	-11.3	67.6	159.0	-	24.6	-	-3.3	-0.2
Iran	-	-	-	BB-	BB-	-2.8	16.4	1.9	8.8	-	-	-1.8	-
Iraq	B-	(P)Caa1	B-	-	CC+	-17.5	79.1	54.7	178.3	-	-	-12.4	-
Jordan	BB-	B1	-	BB-	BB+	-3.2	92.5	76.6	187.5	10.5	177.3	-1.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-	-7.1	12.5	28.9	-	10.5	107.6	-16.5	-8.4
Lebanon	B-	B2	B	B	B-	-8.4	142.2	165.5*	-	23.4	151.1	-16.2	1.3
Oman	BBB	A3	-	A-	A-	-14.5	10.5	25.3	41.1	5.6	-	-11.8	-1.0
Qatar	AA	Aa2	AA	AA-	AA-	-4.3	44.0	113.7	254.2	24.9	-	-13.6	-1.8
Saudi Arabia	A-	Aa3	AA	AA-	AA-	-12.7	16.1	17.1	53.5	4.2	-	-11.0	0.8
Syria	-	-	-	-	C	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-	-2.1	51.9	48.3	50.9	4.0	-	2.4	1.1
Yemen	-	-	-	-	CCC	-35.3	-	43.9	-	-	197.2	-10.5	-0.2

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-	-3.9	48.3	81.6	168.2	23.6	612.8	-6.4	3.8
	-	Negative	Stable	-	Stable								
China	AA-	Aa3	A+	-	A	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-6.0	47.1	22.9	112.4	7.3	156.2	-0.6	1.0
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-0.2	22.8	127.9	325.8	33.6	824.6	-2.2	3.5
	Negative	CWN**	Stable	-	Negative								
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB-	-1.6	29.6	89.9	135.0	28.0	236.3	0.2	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-2.6	41.5	49.4	101.0	14.4	224.0	-1.5	1.7
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-3.9	21.0	40.4	98.2	19.6	150.3	5.4	-1.7
	Negative	CWN**	Negative	-	Negative								
Turkey	BB+	Baa3	BBB-	BB+	BB-	-0.8	32.6	54.4	154.2	19.8	405.8	-4.7	0.7
	Negative	Negative	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-3.7	92.1	139.5	211.4	22.4	663.6	-1.7	1.1
	Negative	Negative	-	-	Negative								

*to official creditors

**Credit Watch Negative

Source: Institute of International Finance; International Monetary Fund; IHS Global Insights; Moody's Investors Service; Byblos Research - The above figures are forecasts for 2016



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25-0.50	16-Mar-16	No change	27-Apr-16
Eurozone	Refi Rate	0.00	10-Mar-16	Cut 5bps	21-Apr-16
UK	Bank Rate	0.50	04-Feb-16	No change	17-Mar-16
Japan	O/N Call Rate	0.00-0.10	15-Mar-16	No change	28-Apr-16
Australia	Cash Rate	2.00	01-Mar-16	No change	05-Apr-16
New Zealand	Cash Rate	2.50	10-Mar-16	No change	28-Apr-16
Switzerland	3 month Libor target	-1.25-(-0.25)	17-Mar-16	No change	16-Jun-16
Canada	Overnight rate	0.50	09-Mar-16	No change	13-Apr-16
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	16-Mar-16	No Change	N/A
Taiwan	Discount Rate	1.63	17-Dec-15	Cut 13bps	24-Mar-16
South Korea	Base Rate	1.50	10-Mar-16	No change	19-Apr-16
Malaysia	O/N Policy Rate	3.25	09-Mar-16	No change	19-May-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	17-Mar-16	Raised 50bps	28-Apr-16
Turkey	Base Rate	7.50	23-Feb-16	No change	24-Mar-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	29-Feb-16	No change	28-Mar-16
Mexico	Target Rate	3.75	04-Feb-16	Raised 25bps	18-Mar-16
Brazil	Selic Rate	14.25	02-Mar-16	No change	27-Apr-16
Armenia	Refi Rate	8.50	11-Feb-16	Cut 25bps	29-Mar-16
Romania	Policy Rate	1.75	05-Feb-16	No change	31-Mar-16
Bulgaria	Base Interest	0.00	01-Mar-16	No change	01-Apr-16
Kazakhstan	Repo Rate	17.00	01-Feb-16	Raised 100bps	05-May-16
Ukraine	Discount Rate	22.00	03-Mar-16	No change	21-Apr-16
Russia	Refi Rate	11.00	18-Mar-16	No change	29-Apr-16



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