

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Majority of bank executives expect retail banking to be fully automated by 2020

A survey about the current and future state of retail banks shows that 64% of banking executives expect retail banking operations to be fully automated by 2020, while 49% of respondents believe that traditional transactions in the branch-based banking model will disappear in five years. Also, 65% of respondents believe that retail peer-to-peer lending will be available through banking platforms and 57% of executives expect more money to flow via financial technology firms by 2020 than through traditional retail banks. In addition, 52% of survey participants agree that customers would be willing to forgo human contact if the cost of services is low or free. In parallel, 27% of respondents in Europe indicated that new technology will have the biggest impact on retail banks in the coming five years, followed by 26% of respondents in Asia-Pacific, and 20% of executives in each of North America and the rest of the world. In addition, 35% of executives expect talent acquisition to be their company's top priority in the coming five years, followed by integrating front-end, back-office, compliance and other systems (34% of respondents), modernizing technology and updating legacy systems (31% of participants), and migrating client usage from physical to digital channels (30% of respondents). Further, 24% of executives indicated that technology improves client experience, 21% of participants said that it reduces compliance and reporting costs, and 18% of respondents noted that it lowers overall servicing costs. The survey's results are based on interviews with 203 senior retail banking executives around the world in December 2015.

Source: *Economist Intelligence Unit*

ETFs and ETPs assets at \$2.9 trillion at end-February 2016

Assets of global Exchange Traded Funds (ETFs) and Exchange Traded Products (ETPs) reached \$2,858bn at the end of February 2016, constituting a decrease of 4.5% from \$2,994bn at the end of 2015. ETFs are marketable securities that track an index, a commodity, bonds or a basket of assets. Net inflows in ETFs and ETPs reached \$10.81bn in February 2016 relative to net inflows of \$50.7bn in the same month of 2015. Fixed income ETFs and ETPs attracted net inflows of \$13.6bn in February 2016, followed by commodity ETFs and ETPs with \$8.9bn, while equity ETFs and ETPs posted net outflows of \$13bn. Global ETF assets stood at \$2,722bn and those of ETPs totaled \$136bn at end-February 2016. The U.S. ETF and ETP industry had assets of \$2,029bn and accounted for 71% of assets invested in both ETFs and ETPs worldwide, followed by the European industry with \$485bn (17%), Japanese ETFs and ETPs with \$131bn (4.6%), Asia-Pacific excluding Japan with \$108bn (3.8%), the Canadian ETF industry with \$65bn (2.3%) and Latin American ETFs with \$6bn (0.2%). The U.S. ETF industry accounted for 71.6% of global ETFs at end-February, while European ETFs represented 17% of the total. The global ETF and ETP industry has assets invested in 6,200 ETFs and ETPs listed on 64 exchanges in 51 countries.

Source: *ETFIGI, Byblos Research*

EMERGING MARKETS

More than 53% of rated firms are below investment grade

Standard & Poor's indicated that it rated 1,517 corporate issuers from emerging markets (EMs) as at the end of January 2016, which is almost twice the number of issuers it rated 10 years ago. It noted that the number of corporate issuers in Emerging Asia reached 528 and accounted for 34.8% of total rated issuers in EMs, followed by Latin America & the Caribbean with 511 issuers (33.7%) and Eastern Europe, the Middle East & Africa (EEMEA) region with 478 issuers (31.5%). S&P said that corporate issuers from Brazil represented 12% of total rated EM issuers as of end-January 2016, followed by those from Mexico (11%), Russia (8%), China (8%), Israel (7%), Taiwan (6%) and Hong Kong (5%). It indicated that the EMs' 12-month trailing speculative-grade default rate stood at 2.83% at the end of January 2016, reflecting a relatively low probability of default. Further, it said that the negative bias in EMs reached 30% as at the end of 2015, up from 28% in the third quarter of 2015. S&P defines negative bias as the proportion of issuers that either have a 'negative' outlook or whose ratings are on CreditWatch negative. It expected the EEMEA and Latin America regions to see significant rating downgrades in the next few quarters, as 41% and 35% of corporate ratings, respectively, have 'negative' outlooks or are on CreditWatch negative. Further, the ratings distribution of EM issuers shows that 0.5% of EM issuers are in the 'AAA' range, 2.8% belong to the 'AA' category, 14.3% are rated in the 'A' range, 29.2% are in the 'BBB' category, 29.3% are in the 'BB' range, and 21% are in the 'B' category, while 3.1% of EM firms are rated 'CCC' or lower.

Source: *Standard & Poor's*

Trading in Credit Default Swaps down 17% to \$1,288bn in 2015

Trading in emerging markets Credit Default Swaps (CDS) reached \$254bn in the fourth quarter of 2015, constituting decreases of 33% from the third quarter of 2015 and of 34% from \$385bn in the same quarter of 2014. Overall, CDS trading totaled \$1,288bn in 2015, constituting a drop of 17.4% from \$1,560bn in 2014. Trading reached \$383bn in the first quarter, \$275bn in the second quarter, and \$376bn in the third quarter of 2015. The most frequently-traded sovereign CDS contracts in the fourth quarter of 2015 were those of Brazil at \$37bn, followed by Turkey at \$26bn and Russia at \$25bn. The most frequently-traded corporate CDS contracts in the covered quarter were those of Mexico's Pemex and Brazil's Petrobras at \$2.1bn each. The survey covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers from 13 major international banks and broker-dealers.

Source: *EMTA*

OUTLOOK

EMERGING MARKETS

Challenging medium-term fiscal outlook for commodity exporters

Goldman Sachs indicated that an extended period of slower economic activity and lower public revenues in commodity-exporting emerging markets (EMs) could place significant pressures on EM fiscal balances. It considered that a large number of EMs need some degree of fiscal adjustment to sustain a stable debt-to-GDP ratio over the medium term. However, it did not expect this trend to become a systemic risk among major EMs unless their governments fail to implement fiscal adjustment measures, or in case economic growth was lower than expected, or if interest rates increase higher than anticipated. It considered that Brazil, Chile, Colombia, Mexico, Peru, Russia and South Africa are currently running primary deficits that are larger than their medium-term sustainable levels. It noted that EM commodity exporters are unlikely to see a significant increase in commodity-related revenues based on average Brent oil prices of between \$40 and \$45 p/b in 2016 and on expectations of lower metal prices.

Goldman Sachs indicated that Chile, Peru and Russia will have more time to deliver the required fiscal adjustment as they currently have low public debt levels, while the fiscal adjustment in Colombia, Mexico, Poland and South Africa is likely to be more vital as their debt levels are higher. Further, it noted that the fiscal adjustment for Brazil is essential, as the debt level is already high and increasing. In contrast, it expected China, Israel, the Philippines and Thailand to have a degree of fiscal space over the medium term, which they can potentially use for additional fiscal stimulus and/or debt reduction. It anticipated that higher interest rates across EMs would have a more negative effect on debt dynamics than a credit-induced economic slowdown. It noted that Romania, Russia and South Africa would face the largest debt increases by 2019.

Source: Goldman Sachs

AFRICA

Uncertain medium-term economic outlook for SSA economies

Barclays Capital anticipated the real GDP growth of 13 economies in Sub-Saharan Africa (SSA) to accelerate from 2.8% in 2015 to 3% in 2016. It forecast growth to vary across the region, with East Africa posting the highest growth rate, as it is less exposed than other African regions to the drop in global commodity prices. It expected Tanzania to post the highest real GDP growth rate among SSA economies at 6.5% in 2016 and for South Africa to post the lowest rate at 0.6%. It indicated that SSA's medium-term economic outlook is challenging, as global and local headwinds weigh on economic activity.

In parallel, Barclays projected the region's fiscal deficit to widen from 3.8% of GDP in 2015 to 4% of GDP this year, with Kenya posting the widest deficit at 8% of GDP in 2016. Also, it expected the current account deficit of SSA to widen from 5.1% of GDP last year to 6% of GDP in 2016. It forecast Mozambique to post the widest current account deficit in SSA at 45.2% of GDP in 2016 and for Botswana to post the narrowest deficit at 1.9% of

GDP. Further, it projected the average inflation rate in the region to increase to 9.9% in 2016 relative to 7.6% in 2015, with Zambia posting the highest inflation rate at 21.6% in 2016.

Barclays projected Nigeria's real GDP growth to accelerate from 2.7% in 2015 to 3.5% this year, but it noted that risks of lower growth have increased. It expressed concerns about President Muhammadu Buhari's continued support of the current monetary policy stance, as restrictive policies have weakened economic growth significantly, mainly in the industrial sector. In parallel, it expected Ghana's economic growth to recover from 3.6% in 2015 to 5.7% in 2016 due to improved activity in agriculture, electricity and mining. But it noted that concerns about the ability of the government to implement reforms ahead of the 2016 elections, despite strong progress on fiscal consolidation in recent quarters.

Source: Barclays Capital

SAUDI ARABIA

Slowdown in growth to persist in 2016

Credit Suisse projected Saudi Arabia's real GDP growth to decelerate from 3.4% in 2015 to 1.7% in 2016 due to reduced hydrocarbon revenues from low global oil prices. It expected non-hydrocarbon sector activity to grow by 2.2% in 2016 compared to a growth rate of 4% last year and to an average annual growth rate of 5.7% over the past five years. It noted that Saudi authorities have used the country's sizable foreign assets to support the non-oil economy as hydrocarbon revenues have dropped. It added that Saudi authorities have signaled further cuts to capital spending, with non-essential projects being delayed or canceled. But it anticipated that authorities would proceed with major development projects, given their importance to the country's medium-term development plans. It noted that authorities are looking to attract higher investment flows through public-private partnerships to finance projects in the pipeline. It added that the privatization of state-owned enterprises would add further support to the kingdom's non-oil revenues. In parallel, it forecast hydrocarbon real GDP growth to decelerate from 2.3% in 2015 to 0.9% in 2016, as crude oil production would rise by 0.9% to 10.2 million b/d this year relative to an increase of 6.2% in 2015. It indicated that risks to the kingdom's economic outlook include sustained low oil prices and regional conflicts.

Further, Credit Suisse projected Saudi Arabia's fiscal deficit to slightly widen from 15% of GDP in 2015 to 15.5% of GDP in 2016, based on average oil prices of \$36 p/b during the year. It estimated the fiscal deficit to widen to 20.2% of GDP in 2016 if oil prices average \$26 p/b during the year, and to narrow to 11.7% of GDP if oil prices average \$46 p/b in 2016. It noted that financing the large fiscal gap would reduce the Saudi Arabian Monetary Agency's net foreign assets from \$608.9bn at the end of 2015 to \$519.8bn at end-2016. It also forecast the government's debt level to rise from 5.8% of GDP in 2015 to 10.8% of GDP in 2016, as authorities would seek to alleviate some pressure on foreign currency reserves by issuing domestic debt. In parallel, Credit Suisse projected the current account deficit to widen from 6.3% of GDP in 2015 to 9.1% of GDP in 2016. It estimated that the deficit would reach 14.9% of GDP if oil prices average \$26 p/b and would narrow to 6.3% of GDP if oil prices average \$46 p/b.

Source: Credit Suisse



ECONOMY & TRADE

GCC

Fiscal deficit to widen to 12.5% of GDP in 2016

Moody's Investors Service anticipated lower global oil prices to weaken economic growth and increase budget deficits in Gulf Cooperation Council (GCC) economies in 2016. It noted that local governments in GCC countries have started to reduce public spending and introduce new revenue-enhancing measures. But it expected economic growth to remain positive and to be supported by sustained oil output and a slow decline in public expenditures. In parallel, Moody's noted that lower oil prices would negatively impact the GCC sovereigns' public finances, as it would erode their fiscal reserve buffers and increase their debt levels. It forecast the region's fiscal deficit to widen from 9% of GDP in 2015 to 12.5% of GDP in 2016. It expected the deterioration in the fiscal balance to be faster in Bahrain, Oman and Saudi Arabia than in Kuwait, Qatar and the UAE, where large foreign reserves allow for a more gradual fiscal adjustment. It said that funding the sustained fiscal deficits would increase the public debt levels and reduce governments' financial assets. It expected the deficit-funding mix to change going forward, as governments would seek external financing. It projected Bahrain's government debt-to-GDP ratio to increase by 35 percentage points between 2014 and 2016, followed by Oman with a rise of 18 percentage points, Saudi Arabia with a growth of 15 percentage points, and the remaining GCC economies with an increase of between 11 to 13 percentage points. It forecast the savings from the increase in fuel prices and the introduction of the value-added tax at 2.5% of GDP, which would fall short of addressing GCC's fiscal challenges.

Source: *Moody's Investors Service*

BAHRAIN

Outlook revised to 'negative' on weakening public finances and external balances

Capital Intelligence affirmed at 'BBB-' Bahrain's long-term foreign and local currency ratings and revised the outlook from 'stable' to 'negative'. It attributed the outlook revision to the sustained weakening of Bahrain's public finances and external balances, as well as to the limited prospects of a reversal in the deterioration of the government's debt dynamics over the medium term. It estimated the fiscal deficit to have widened from 3.6% of GDP in 2014 to 14.2% of GDP in 2015, and expected it to remain in double digits during the 2016-17 period, assuming oil prices average \$42 p/b during the period and authorities implement modest fiscal consolidation measures. It considered the government's announced measures to be insufficient to return the fiscal position to a healthy level. In parallel, it estimated the government's debt level to have surged from about 21% of GDP in 2009 to 67% of GDP in 2015, and expected it to exceed 80% of GDP by 2017. As such, it expected the government's net asset position to be fully depleted in coming years, which would further reduce fiscal flexibility. Further, the agency estimated the current account balance to have shifted from a surplus of 2.5% of GDP in 2014 to a deficit of 4.8% of GDP in 2015. It noted that the deterioration in the external balance could weigh on the country's foreign currency reserve buffers of \$4.5bn, or 4.5 months of imports, which could limit the country's shock absorption capacity.

Source: *Capital Intelligence*

ARMENIA

Sovereign ratings downgraded, outlook 'stable'

Moody's Investors Service downgraded Armenia's long-term issuer and government bond ratings from 'Ba3' to 'B1' with a 'stable' outlook. It also downgraded the long-term foreign currency deposit ceilings from 'B1' to 'B2' and the long-term local currency bond and deposit ceilings from 'Ba1' to 'Ba2'. The agency attributed the downgrade to the country's rising external vulnerabilities and worsening public finances. First, it noted that external vulnerabilities have increased due to declining remittance inflows from Russia, an uncertain outlook for FDI inflows following their decline in 2015, as well as potential exchange rate volatility and pressure on foreign currency reserves. It indicated that remittance inflows to Armenia from Russia fell by 35.6% in 2015, which resulted in an overall decline in remittances to Armenia of 23.5% in 2015. It expected remittance inflows to drop further and to weigh on private consumption in 2016, given Russia's ongoing economic problems. Further, it anticipated gross capital formation in the country to remain weak, which would weigh on the economy in the near term and constrain growth potential. In addition, it noted that Armenia's external debt level increased from 73.3% of GDP in 2014 to more than 80% of GDP in 2015, which leaves the country vulnerable to further worsening of external conditions. Second, Moody's estimated the public debt level to have increased from 43.5% of GDP in 2014 to 48.7% of GDP in 2015, mainly due to fiscal easing and to currency depreciation, after remaining broadly stable during the 2010-14 period. It projected the public debt level to maintain its upward trend and to exceed 50% of GDP in 2017, as it expected economic conditions to remain weak in coming years.

Source: *Moody's Investors Service*

NIGERIA

Outlook revised to 'negative' on pressure from lower oil prices and monetary policy

Standard & Poor's affirmed at 'B+/B' Nigeria's long- and short-term foreign and local currency sovereign credit ratings, and revised the outlook from 'stable' to 'negative'. It attributed the revision to the adverse impact of lower global oil prices on Nigeria's economic activity, as well as to the country's monetary policy that has weakened its credit profile and has disrupted activity in the real economy and in the financial market. Also, it said that the Central Bank of Nigeria (CBN) is committed to a fixed foreign exchange regime, as it maintained the exchange rate peg at NGN197 against the US dollar since February 2015. It noted that the CBN has imposed foreign exchange controls on current and capital transactions in order to defend the exchange rate. It added that exchange controls have widened the spread between the official and parallel exchange rates, as the latter currently stands at about NGN320 per dollar, and have negatively affected the banks' access to foreign currency. Further, S&P forecast the current account to shift from an annual average surplus of 2.8% of GDP during the 2011-14 period to an average deficit of 3.1% of GDP in the 2016-19 period. It expected Nigeria's gross external financing needs to average 134.5% of current account receipts and usable reserves during the 2016-19 period, up from 82.6% during the 2012-14 period.

Source: *Standard & Poor's*



WORLD

Revision of standardized approach to credit risk

Standard & Poor's indicated that the Basel Committee on Banking Supervision's (BCBS) latest proposal to revise the standardized approach for assessing banks' credit risk is an improvement from its initial version. It considered that the revisions addressed in a better way the problem of risk-sensitivity and simplicity in standardized capital requirements, but it noted that the proposed framework could still benefit from some additional enhancements. It indicated that the proposal allows the use of external ratings, under certain conditions, to derive the risk weights assigned to bank counterparties. However, it said that this is contingent on due diligence by the bank to conclude that the external ratings "appropriately and conservatively" reflect the credit risk of the exposure. It noted that unrated banks, or banks in jurisdictions that do not allow the use of external ratings, are required to classify exposures in three different risk categories, which would determine the risk-weights assigned to these exposures. In parallel, S&P considered that the BCBS' recommendations to use bank ratings that exclude government support would add complexity to the framework, even though it would likely reduce risk-sensitivity. It expected the overall impact of the revision on bank ratings to be limited, but to depend on the banks' strategic responses to the final calibration of the risk weights. In parallel, it pointed out that the proposed general framework that differentiates mortgages from other retail exposures is appropriate. But it suggested a more detailed breakdown of the retail asset classes to differentiate exposures that are less risky than average retail exposures, such as auto loans, from those that are riskier.

Source: *Standard & Poor's*

GCC

Banking sectors' liquidity tightening

Commerzbank indicated that liquidity across banking systems in the Gulf Cooperation Council (GCC) is tightening, mainly due to declining government deposits. It noted that the outlook for UAE and Qatari banks has become more challenging, as the steep drop in global oil prices and the probability of further U.S. interest rate hikes would result in tighter liquidity conditions and weigh on the sector's overall profitability and growth prospects. It expected government deposit outflows to moderate, as GCC governments are likely to withdraw funds directly from central bank accounts rather than triggering a liquidity squeeze at commercial banks. Commerzbank projected the operating performance of UAE and Qatari banks to outperform their GCC peers. It noted that Saudi banks are starting to feel some liquidity pressure even if their balance sheets are fundamentally strong. It added that the latest measures adopted by the Saudi Arabian Monetary Agency to enhance liquidity in the system should provide some relief and support banks' operating performance. Further, it expected that central banks in the GCC would continue to mirror the U.S. interest rate trajectory in order to defend their currency pegs to the US dollar.

Source: *Commerzbank*

EGYPT

Devaluation risks manageable for banks

Regional investment bank EFG Hermes considered that the 12% devaluation of the Egyptian pound would have a neutral impact on banks in Egypt. First, it said that the Central Bank of Egypt prohibits banks from carrying mismatches between foreign-currency denominated assets and liabilities, which means that the devaluation will not have a negative impact on the shareholders' equity of the banks. Second, it indicated that the devaluation will result in a higher value of the banks' foreign-currency denominated assets, liabilities and revenues when they are converted in local currency, which would lead to high growth rates of assets, liabilities and revenues in the first quarter of 2016. Third, it estimated that a weaker pound could negatively affect Egyptian banks through worsening credit quality and lower capital adequacy ratios. It did not expect banks to post strong increases in non-performing loans (NPL) over the short term, given that corporates can only borrow in foreign currency when their revenues are generated in foreign currency. But it noted that importers that sell goods in the domestic market in pound could drive higher NPL formation this year in case they are unable to raise prices and pass the higher costs to consumers. Fourth, it said that the currency devaluation could lead to higher imported inflation over the short term, which would negatively affect consumer demand and economic activity. Fifth, it expected the banks' capital adequacy ratios to weaken as loans in foreign currency would result in higher values when converted to local currency, which, in turn, would increase the risk-weighted assets. Overall, it considered the risks from currency devaluation to be manageable on the banks' asset quality and capital adequacy.

Source: *EFG Hermes*

YEMEN

FATF unable to assess anti-money laundering measures

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 Yemen has made progress to improve its AML/CFT regime since February 2010, when it made a high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its strategic AML/CFT deficiencies. In its June 2014 assessment, the FATF said that Yemen had substantially addressed its action plan at a technical level, including by adequately criminalizing money laundering and terrorist financing and by establishing procedures to identify and freeze terrorist assets. It added that Yemen has improved its customer due diligence and suspicious transaction reporting requirements, developed the monitoring and supervisory capacity of the financial sector supervisory authorities and the financial intelligence unit (FIU), and established a fully operational and effectively functioning FIU. As such, it considered that Yemen has completed its action plan agreed upon with the FATF. However, the latter said that, due to the prevailing security conditions in the country, it has not been able to conduct an on-site visit to assess if Yemeni authorities are actually implementing the required reforms and actions. The FATF said that it will conduct an on-site visit as soon as circumstances permit.

Source: *Financial Action Task Force*



ENERGY / COMMODITIES

Downward pressure on oil prices to persist in 2016

ICE Brent crude oil front-month prices closed at \$40.5 per barrel (p/b) on March 23, 2016, constituting a decrease of 3.2% from the previous day, due in part to a stronger US dollar; while WTI oil prices decreased by more than 7% to close at \$38.3 p/b after the U.S. reported a rise in oil supplies of about three times above market expectations. Overall, Brent oil prices rose by 37% and WTI prices by 33.5% in the past six weeks on hopes that major oil producers might agree to reduce their production levels at their upcoming meeting on April 17, 2016. In parallel, Deutsche Bank indicated that the global crude oil market could rebalance by 2018, as it expected the annual production surplus to decrease from 1.86 million b/d in 2015 to 762,000 b/d in 2016 and 225,000 b/d in 2017. As such, the decline in the market oversupply would support oil prices in the coming months. ICE Brent crude oil front-month prices are forecast to average \$33 p/b in the first quarter of 2016, \$42 p/b in the second quarter, \$45 p/b in the third quarter and \$50 p/b in the fourth quarter. Overall, Brent prices are forecast to average \$42.5 p/b in 2016, which would reflect a drop of 21.6% from an average of \$54.2 p/b in 2015. Further, WTI spot prices are expected to fall by 17.2% to an average of \$40.8 p/b this year. Upside risks to the price outlook include a sharp decline in U.S. shale oil production and a stronger-than-expected increase in demand for oil amid low prices. In contrast, downside risks include the normalization of Libyan and Iranian oil exports.

Source: Deutsche Bank, Byblos Research

ME&A's oil demand to rise by 2.5% in 2016

Crude oil consumption in the Middle East & Africa region is expected to average 12.5 million barrels per day (b/d) in 2016, which would reflect a rise of 2.4% from 12.21 million b/d in 2015. The region's demand for oil would account for about 13.3% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 3.56 million b/d in 2016, which would reflect a drop of 1.9% from 3.63 million b/d in 2015. It would account for 6.3% of global non-OPEC oil supply in 2016.

Source: OPEC, Byblos Research

Middle East's bar and coin demand drops in 2015

The Middle East region's demand for gold bars & coins totaled 64.6 tons in 2015, constituting a drop of 10.2% from 71.9 tons in 2014, and accounting for 6.4% of global demand for bars & coins. The region's demand for gold bars & coins reached 24.2 tons in the first quarter, 14.3 tons in the second quarter, 14.9 tons in the third quarter and 11.2 tons in the fourth quarter of 2015. Iran's demand for gold bars & coins was 32.4 tons in 2015 and represented 50.2% of the region's total demand. It was followed by Saudi Arabia with 15.7 tons (24.3%) and the UAE with 8.5 tons (13.2%).

Source: World Gold Council, Byblos Research

ME&A's steel output down 12% in first two months of 2016

The Middle East & Africa region's crude steel production totaled 6.35 million tons in the first two months of 2016, down by 12.1% from 7.2 million tons in the same period of 2015, and accounted for 2.6% of global steel output. Iran produced 2.7 million tons in the first two months of 2016, equivalent to about 43% of the region's total output. It was followed by South Africa with one million tons (15.8%) and Saudi Arabia with 0.8 million tons (12.2%).

Source: World Steel Association, Byblos Research

Base Metals: Copper prices to drop by 20% in 2016

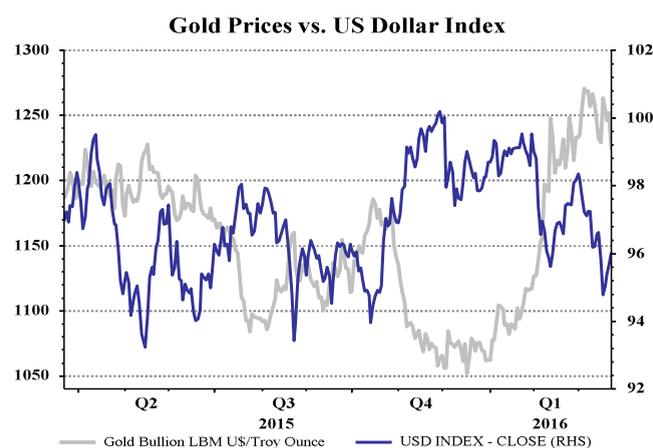
The LME cash price of copper reached its highest level in more than four months to close at \$5,096 per ton on March 17, 2016. However, the price increase was short-lived as the metal's price dropped by 2.4% to \$4,972 per ton on March 23, mainly due to a stronger US dollar, continued concerns about market oversupply and weaker demand from China, the world's largest copper consumer. Copper prices are forecast to average \$5,510 per ton in 2016, which would reflect a decrease of 19.5% from the preceding year. In parallel, global demand for refined copper was nearly unchanged year-on-year at 22.89 million tons in 2015. On a regional basis, demand for refined copper rose by about 4% in Africa and 2% in Asia, while it declined by 55% in Oceania, by 8% in Europe and by 1.5% in the Americas. In parallel, the metal's global refined production rose by 1.6% to 22.82 million tons in 2015.

Source: International Copper Study Group, Byblos Research

Precious Metals: Gold prices to grow by 2% in 2016

Gold prices closed at a four-week low of \$1,223 a troy ounce on March 23, as the US dollar strengthened to a one-week high against a basket of major currencies. Overall, prices grew by about 15% from end-2015 due in part to growing investments into gold-backed exchange traded funds, as ETF holdings in gold have increased by about 19% since the beginning of 2016. In parallel, Deutsche Bank indicated that gold prices are unlikely to fall below \$1,000 a troy ounce in the near term due to the prevalence of negative interest rates around the world and to slower-than-expected tightening of U.S. monetary policy. It said that negative interest rates on bank deposits in Switzerland, Sweden, Denmark, the Eurozone and Japan increases gold's attractiveness for investors. It expected prices to remain volatile in the short term due to the probability of a U.S. rate hike at upcoming U.S. Federal Reserve meetings. It noted that the upside risks for gold prices are capped in the near term, as the probability of another one-off devaluation of the Chinese renminbi eased. Further, it projected gold prices to rise toward the end of 2016 due in part to slowing global growth momentum and to sustained geopolitical risks. Deutsche Bank forecast gold prices to average \$1,188 a troy ounce in 2016, which would reflect an increase of 2.3% from \$1,161 an ounce in 2015. It anticipated global gold demand to increase by about 4% to 4,277 tons in 2016, with jewelry consumption accounting for about 53% of global consumption.

Source: Deutsche Bank, 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	-	B1	B+	-	B-	-3.9	48.3	81.6	168.2	23.6	612.8	-6.4	3.8
	-	Stable	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	17-Mar-16	No change	14-Apr-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	2.25	10-Mar-16	Cut 25bps	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	27-Apr-16
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	10.75	17-Mar-16	Raised 150bps	28-Apr-16
Turkey	Base Rate	7.50	23-Feb-16	No change	24-Mar-16
South Africa	Repo rate	7.00	17-Mar-16	Raised 25bps	19-May-16
Kenya	Central Bank Rate	11.50	16-Jan-16	No change	14-Mar-16
Nigeria	Monetary Policy Rate	12.00	22-Mar-16	Raised 100bps	24-May-16
Ghana	Prime Rate	26.00	21-Mar-16	Raised 100bps	16-May-16
Angola	Base rate	12.00	29-Feb-16	No change	28-Mar-16
Mexico	Target Rate	3.75	18-Mar-16	Raised 25bps	1-Apr-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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