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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate venture capital investment up 65% to $28bn in 2015

EY indicated that corporate venture capital investment totaled $28bn in 2015, constituting an increase of about 65% from $17bn in 2014 and relative to $9bn in 2013. Corporate venture capital is the investment of corporate funds in non-affiliated start-ups. Corporate venture capital investment fluctuated between $5bn and $9bn per year during the 2005-13 period, but then almost doubled in 2014 and grew by 1.6 times in 2015. The number of deals has been on an upward trend since 2009, as it gradually rose from 395 deals in 2009 to 1,063 deals in 2015. The number of deals grew by 20.2% in 2015 following a rise of 22.4% in 2014. The median deal value fluctuated in a narrow range of $8m and $10m between 2005 and 2015. Further, the travel & leisure sector attracted $5.8bn in investments in 2015, equivalent to 20.7% of total investments, followed by consumer information services with $4.6bn (16.4%), business support services with $3.4bn (12.1%), biopharmaceuticals with $2.9bn (10.4%), financial institutions & services with $2.4bn (8.6%), software with $2.3bn (8.2%), media & content with $1bn (3.6%) and electronics & computer hardware with $0.7bn (2.5%). In parallel, EY indicated that 52 new corporate venture funds were launched worldwide in 2015, of which 16 in China, 13 in Japan, 11 in the United States, and two in each of Germany, India and South Korea.
Source: EY

EMERGING MARKETS

Total debt issuance at $118bn in first four months of 2016

Emerging markets issued $117.8bn in sovereign and corporate bonds in the first four months of 2016. Issuance in Asia reached $46.1bn or 39.1% of the total, followed by Latin America with $43.1bn (36.6%), Emerging Europe, the Middle East & Africa (EEMEA) with $25.7bn (21.8%) and Gulf Cooperation Council (GCC) countries with $2.9bn (2.5%). Further, EM corporates issued $62.7bn in bonds in the first four months of the year, equivalent to 53.2% of total sovereign and corporate bond issuance. Asia issued $39.6bn or 63.2% of total corporate issuance, followed by Latin America with $12.6bn (20.1%), the EEMEA with $8.6bn (13.7%) and GCC countries with $1.8bn (2.9%). In parallel, EM sovereigns issued $55.1bn in Eurobonds, or 46.8% of total sovereign and corporate bond issuance in the covered period. Latin America issued $30.5bn or 55.4% of total sovereign issuance, followed by the EEMEA region with $17bn (30.9%), Asia with $6.5bn (11.8%) and GCC economies with $1.1bn (2%). Merrill Lynch projected sovereign bond issuance in emerging markets at $129.3bn in 2016, which would constitute a rise of 50.7% from $85.8bn in 2015. It expected issuance in Latin America to reach $38.5bn, followed by the EEMEA region with $36.5bn, and Asia and GCC countries with $14.5bn each.
Source: Merrill Lynch

MENA

Equity markets up 0.4% in first four months of 2016

Arab stock markets increased by 0.4% and Gulf Cooperation Council (GCC) markets grew by 0.2% in the first four months of 2016, compared to increases of 6.6% and 9.9%, respectively, in the same period of 2015. Arab and GCC stock markets improved by 5.2% and 5.7%, respectively, in April 2016 from the preceding month. In comparison, global equities increased by 1.2%, while emerging market equities rose by 5.5% in the first four months of 2016. Activity on the Damascus Securities Exchange grew by 27.1% in the first four months of 2016 and posted the best performance among Arab markets in the covered period. It was followed by the Casablanca Stock Exchange with an 11.8% increase, the Egyptian Exchange with an 11% improvement, the Dubai Financial Market with a 10.8% growth, the Muscat Securities Market with a 9.9% rise, the Tunis Bourse with a 6.2% increase and the Abu Dhabi Securities Exchange with a 5.5% improvement. In contrast, activity on the Iraq Stock Exchange dropped by 31.2%, followed by the Bahrain Bourse with an 8.7% decline, the Beirut Stock Exchange with an 8.5% decrease, the Khartoum Stock Exchange with a 6.6% contraction, the Palestine Exchange with a 6% fall, the Kuwait Stock Exchange with a 4% drop, the Qatar Stock Exchange with a 2.3% decline, the Amman Stock Exchange with a 1.9% contraction and the Saudi Stock Exchange with a 1.5% decrease. In parallel, the Tehran Stock Exchange rose by 27.1% in the first four months of 2016.
Source: Local stock markets, Dow Jones Indices, Byblos Research

Majority of respondents consider that corruption worsened in the past year

Transparency International's 2016 Global Corruption Barometer, a survey about the general public's views and experiences on corruption, indicates that 61% of respondents in the Middle East & North Africa region consider that the level of corruption in their country increased during the past 12 months. In contrast, 19% of respondents in the MENA region believe that the level of corruption in their country was unchanged from the past 12 months, while 15% think that graft decreased from a year earlier. On a country level, 92% of respondents in Lebanon believe that the level of corruption in their country increased during the previous 12 months, followed by 84% in Yemen, 75% in Jordan, 70% in Palestine, 64% in Tunisia, 61% in Sudan, 51% in Algeria, 28% in Egypt and 26% in Morocco. Further, 68% of respondents in the region consider that their government is ineffective in fighting corruption, while 26% of participants think that their government is doing well in tackling graft. Also, 30% of respondents in the MENA region indicate that they had to pay a bribe in the past 12 months to receive government services, reaching a high of 77% in Yemen and a low of 4% in Jordan. The survey was conducted through face-to-face interviews between September 2014 and November 2015, and covered a sample of 10,797 respondents in the MENA region.
Source: Transparency International

POLITICAL RISK OVERVIEW - April 2016

EGYPT

The government's announcement on April 9 that it would transfer to Saudi Arabia two strategic Red Sea islands sparked public outrage. Demonstrators called on April 15 for the "regime's downfall", in one of the largest protests since 2013. Egyptian security forces dispersed the protestors with tear gas and arrested at least 382 people in the days leading up to and during the peaceful protests. Italy withdrew its ambassador in Egypt in protest of the authorities' lack of collaboration in the murder investigation of Italian student Giulio Regeni. Violence in the Sinai Peninsula continued.

IRAN

The government continued its efforts to gain access to $52bn in outstanding unfrozen assets, following the lifting of sanctions in January 2016. Supreme Leader Ayatollah Ali Khamenei's indirect accusations of treason of former President Akbar Hashemi Rafsanjani undermined the latter's chances of being elected as the chair of the Assembly of Experts. The Organization of Islamic Cooperation conference condemned Iran for supporting terrorism and interfering in Arab affairs, which prompted President Hassan Rouhani to boycott the closing session. Jordan withdrew its ambassador in Tehran, citing Iranian interference in the domestic affairs of Arab countries.

IRAQ

Political disarray intensified in Baghdad amid a standoff over an attempted Cabinet reshuffle. Prime Minister Haider al-Abadi proposed a new Cabinet line-up in early April, after key political groups, including the Shiite Islamic Supreme Council of Iraq and the Sunni Mouttahidoun group, rejected the Cabinet's proposal of late March. Parliament Speaker Salim al-Jibouri postponed on April 14 a parliamentary vote on the second Cabinet line-up due to a lack of quorum. The proposed Cabinet changes have been opposed by powerful political parties. Iraqi lawmakers approved five candidates for a new Cabinet on April 26 after weeks of delays and chaos in Parliament. But some Members of Parliament were barred from attending after calling for the Parliament Speaker's resignation. Thousands of protesters broke into Baghdad's Green Zone and Parliament on April 30, prompting authorities to declare a state of emergency. The protests have been sparked by a speech from Shiite cleric Moqtada al-Sadr, who has been repeatedly calling for government reforms to tackle corruption. Violence and acts of terrorism in Iraq led to 741 deaths and 1,374 injuries in April 2016.

DEM REP CONGO

Modest progress was made toward a national dialogue. The African Union appointed Mr. Edem Kodjo, former Prime Minister of Togo, as the facilitator for the national dialogue in the DRC. The Electoral Commission indicated in mid-April that the creation of a new voter list would start in July 2016. A UN Security Council resolution urged the government to take the necessary steps to hold presidential elections in November 2016, as required by the constitution. Security forces fired shots and tear gas to break up protestors in the city of Lubumbashi during demonstrations led by opposition leader Moise Katumbi. The Congolese Army renewed its offensive against rebel groups in the North Kivu province, including les forces démocratiques de libération du Rwanda.

LIBYA

UN-backed Prime Minister Fayez al-Sarraj made some progress in forming a Government of National Accord (GNA) after he arrived in Tripoli on March 30 with six Presidential Council members. Libya's UN-backed unity government has taken administrative control of seven ministries in Tripoli, including the Foreign Ministry. Members of the Tobruk-based House of Representatives repeatedly delayed a vote to endorse the GNA.

SOUTH SUDAN

Mr. Riek Machar, leader of the armed Sudan People's Liberation Movement/Army-In Opposition (SPLM/A-IO), was sworn in as First Vice-President after he returned to Juba on April 26. The government, along with the SPLM/A-IO and other political groups, formed a transitional government on April 28, led by President Salva Kiir and Vice-President Machar. The SPLM/A-IO armed personnel continued to arrive in Juba, reaching more than 1,500. The Ethiopian army crossed the border to South Sudan to rescue more than 100 Ethiopian children who were kidnapped during a cross-border raid that killed over 200 people.

SUDAN

A referendum was held in Darfur on whether the region's five states should be reunited into one, amid reports of low turnout and ongoing fighting. The Darfur Referendum Commission announced that 97% of registered voters chose the status-quo and 2% voted for unification and semi-autonomy. Armed opposition groups, the Justice and Equality Movement, and factions of the Sudan Liberation Movement led by Minni Minawi and Abdel Wahid al-Nur, boycotted the referendum and accused the government of rigging the vote. Fighting between the Sudan Armed Forces and the Sudan People's Liberation Movement-North continued in South Kordafan. The rebel coalition Sudan Revolutionary Front announced on April 24 its willingness to accept a six-month ceasefire in Darfur, South Kordofan and Blue Nile. Also, it urged African Union mediators to facilitate a meeting with the government to discuss the implementation of the ceasefire.

SYRIA

The ceasefire agreement that was brokered on February 27 ended in April as fighting between warring parties resumed. Violence escalated in the city of Aleppo as regime and Iran-backed militias began a major offensive in mid-April, while non-jihadist rebel factions joined Jabhat al-Nusra in counter-attacks. The Syrian opposition suspended on April 19 its participation in the Geneva peace talks, citing continued regime strikes and a lack of progress in improving humanitarian conditions. UN Special Envoy Staffan de Mistura urged Russia and the United States to help revitalize peace talks. Syrians voted in parliamentary elections on April 13 in areas controlled by President Bashar al-Assad's regime. The anti-Assad opposition, and western and some Arab countries dismissed the elections as a scheme designed to demonstrate the sovereignty and independence of the Syrian state. The Syrian regime announced on April 30 a temporary cessation of hostilities known as a "regime of calm" around Damascus. Islamic State militants seized villages in the north of Aleppo and made further advances near the border with Turkey. Also, clashes erupted between the Kurdish forces and the Syrian regime in the northeastern city of Al-Qamishli.

TUNISIA

Political tensions between supporters and opponents of Tunisia's transitional justice process, which aims to restore citizens' confidence in public institutions and promote economic growth, are delaying the implementation of economic policies and the fight against corruption. The state of emergency that was imposed in November 2015 was extended to June 22, 2016.

YEMEN

UN-sponsored peace talks between President Abd-Rabbu Mansour Hadi's government and the Huthi/Saleh bloc began on April 21, although fighting continued. Parties agreed on a new agenda for the talks on April 26. The government suspended its participation in the peace talks in early May after the Huthis seized the Amaliqa military base, north of Sanaa, on April 30. Fighting continued in the cities of Taiz, Marib and Nihm.

Source: International Crisis Group, Newswires

OUTLOOK

MENA

Growth at 3.5% in 2016-17 in oil-importers

The International Monetary Fund projected real GDP growth in the oil-importing economies of the Middle East & North Africa region to accelerate from an annual average rate of 3% between 2011 and 2014 to 3.5% during the 2016-17 period. It said that lower global oil prices, the limited impact of fiscal consolidation on economic activity, and the implementation of reforms have supported the economic recovery and helped offset the negative impact of rising security risks and regional conflicts. It said that investment growth is gradually strengthening, mainly because savings from subsidy reforms and lower oil prices have been channeled toward public infrastructure spending. It indicated that consumption is growing steadily, but it noted that security risks and spillovers from conflicts would continue to weigh on domestic demand. The Fund said that the pick-up in activity is uneven, as heightened security threats have negatively affected confidence and tourism in Tunisia, while spillovers from Syria have weighed on confidence in Jordan and exacerbated difficulties in Lebanon. It added that concerns over security and rising external vulnerabilities are holding back growth in Egypt, while lower agricultural production will slow down activity in Morocco.

The IMF forecast MENA oil-importers' fiscal deficit to narrow from 8.6% of GDP in 2015 to 8.2% of GDP in 2016 and 7.2% of GDP in 2017 due to fiscal consolidation and lower oil prices. It projected the aggregate current account deficit to narrow from 6.3% of GDP in 2015 to 6.1% of GDP in 2016 and 5.9% of GDP in 2017. It expected foreign currency reserves to rise from 6.5 months of imports in 2015 to 6.6 months of imports in 2016 and 6.7 months of imports in 2017. But it noted that reserve coverage is very low in some oil-importers, such as Egypt and Sudan.

The IMF pointed out that risks to the outlook are tilted to the downside. It said that worsening security conditions, social tensions, delays in reforms or increased spillovers from regional conflicts could derail policy implementation and weaken economic activity. Also, it indicated that weaker growth in GCC countries could reduce remittance flows, tourism, exports, investment and official support to oil-importers.

Source: International Monetary Fund

ARMENIA

Real GDP to grow by 2.2%, current account deficit at 4.7% of GDP in 2016-17

The International Monetary Fund projected Armenia's real GDP to grow by 1.9% in 2016 and by 2.5% in 2017, compared to a growth rate of 3% in 2015. It estimated the country's nominal GDP at $10.8bn in 2016 and at $11.2bn in 2017. It forecast the annual average inflation rate at 2.6% in 2016 and 4% in 2017 relative to an average rate of 3.7% in 2015. Also, it forecast broad money to grow by 5.5% in 2016 and by 6.8% in 2017, compared to 10.7% in 2015.

In parallel, the Fund projected the fiscal deficit to narrow from 4.9% of GDP in 2015 to 4.1% of GDP in 2016 and 2.9% of GDP in 2017. It estimated government revenues, excluding grants, at 20.8% of GDP in 2016 and 21.6% of GDP in 2017, and total expenditures at 25.9% of GDP in 2016 and 25.8% of GDP in 2017. It expected the gross public debt level to rise from 46.6% of GDP at end-2015 to 48.5% of GDP at end-2016 and 49% of GDP at end-2017. It also forecast the gross external debt to decrease from 81% of GDP at the end of 2015 to 78.6% of GDP at end-2016 and 77% of GDP at end-2017.

Further, the IMF estimated Armenia's exports of goods & services to regress from $3.2bn in 2015 to $3bn in each of 2016 and 2017, and for imports of goods & services to remain nearly unchanged at $4.3bn in 2016 and $4.4bn in 2017. It projected the country's current account deficit to widen from 3.2% of GDP in 2015 to 4.3% of GDP in 2016 and 5.1% of GDP in 2017. The Fund forecast the country's gross official reserves at $1.8bn at end-2016, unchanged from a year earlier, and to rise to $2bn at end-2017.

Source: International Monetary Fund

TURKEY

Economic outlook to face significant risks

The International Monetary Fund projected Turkey's real GDP to grow by 3.8% in 2016, unchanged from the preceding year, supported by a 30% increase in the minimum wage, the relaxation of macroprudential policies and accommodative fiscal and monetary policies. It noted that exports continue to be subdued due to the slow growth in the Eurozone and in oil exporting countries, and because of Russian sanctions imposed on the country. It forecast growth to decelerate to 3.4% in 2017 due to slower growth in real wages, recovering oil prices and planned fiscal consolidation. It expected real GDP growth to stabilize at around 3.5% over the medium term, supported by domestic demand. It did not anticipate the contribution of net exports to growth to increase substantially, unless reforms improve competitiveness. It forecast the inflation rate to average 9.8% in 2016 relative to 7.7% in 2015 due to the minimum wage increase. It said that risks to the outlook include tighter or more volatile global financial conditions, weak growth in Europe, loose domestic policies and geopolitical uncertainties.

The Fund expected the current account deficit to narrow from 4.4% of GDP in 2015 to 3.5% of GDP in 2016, mainly due to low oil prices and despite reduced exports. But it projected the deficit to widen to 4.4% over the medium term due to higher energy prices, low competitiveness and higher interest rates. It forecast Turkey's external debt level and net international investment position to stabilize at around 56% of GDP and 60% of GDP, respectively, over the medium term. It anticipated Turkey's external financing requirements to remain at around 26% of GDP over the medium, which makes the economy vulnerable to shifts in global liquidity and international investor appetite.

The IMF considered that Turkey faces a pressing need to reduce its sizable external imbalances. As such, it called for the implementation of structural reforms to increase domestic savings, as well as for tighter fiscal and monetary policy and higher foreign currency reserves. It noted that these measures would reduce economic activity over the short term but would increase output and stabilize the net international investment position over the medium term.

Source: International Monetary Fund

SAUDI ARABIA

Cumulative funding gap at $388bn between 2016 and 2020

Samba Financial Group projected Saudi Arabia's fiscal deficit to narrow from 16.9% of GDP in 2016 to 7.1% of GDP in 2017 and to reach 3.5% of GDP in 2020. It estimated that the fiscal deficits would result in a cumulative funding gap of about SAR1,035bn, or $388bn, between 2016 and 2020. First, it said that commercial banks' total liquid assets, excluding existing holdings of government debt, reached about SAR615bn at the end of 2015. It considered that banks would use up to 60% of their liquid assets to buy government debt. As such, it estimated that commercial banks would finance SAR311bn or 30% of total financing requirements during the 2016-20 period. Second, it anticipated that public institutions, such as the General Organization for Social Insurance and the Public Investment Fund, would provide SAR355bn in financing to the government over the coming five years, equivalent to about 34% of the government's needs. Third, it estimated that foreign debt would cover a small share of the funding gap. It noted that Saudi Arabia secured a $10bn syndicated loan in 2016 and expected a similar loan to follow in 2017. It noted that authorities could also issue Eurobonds, but considered that syndicated loans provide better terms in the context of the sovereign ratings downgrade. As such, it noted that external debt issuance would cover about 7% of the government's needs between 2016 and 2020. Fourth, it expected authorities to use a total of SAR294bn in foreign reserves between 2016 and 2020 to finance the remaining government needs. It projected the public debt level to rise from 15% of GDP in 2016 to 25% of GDP by 2020, and for the government's net financial assets to drop from $461bn or 75.4% of GDP in 2016 to $383bn or 42% of GDP by 2020.

Source: Samba

BAHRAIN

Elevated fiscal and external vulnerabilities to continue in the medium term

The International Monetary Fund projected real GDP growth to slow down from 3.2% in 2015 to 2.2% in 2016 due to weakening investor sentiment and to fiscal consolidation. It forecast non-hydrocarbon sector activity to decelerate from 3.9% in 2015 to 2.7% in 2016, and for hydrocarbon output to stagnate in 2016 following a marginal growth rate of 0.2% last year. It anticipated the current account deficit to widen from 3.2% of GDP in 2015 to 8.2% of GDP in 2016, and expected foreign currency reserves to drop from $4.4bn, or 2.6 months of imports, at the end of 2015 to $4.3bn, or 2.3 months of imports, at end-2016. It noted that authorities have implemented significant fiscal measures to strengthen revenues, including increases in fuel, electricity and water prices. Still, it anticipated the fiscal deficit to widen from 12.5% of GDP in 2015 to 19.5% of GDP in 2016 and to remain large over the medium term due to the low oil price environment. As such, the Fund urged authorities to implement additional fiscal adjustments, such as reducing the public-sector wage bill, raising non-oil revenues and further cutting energy subsidies, to narrow the fiscal deficit and reduce the public debt level.

Source: International Monetary Fund

NIGERIA

Sovereign ratings lowered to 'B1', outlook 'stable'

Moody's Investors Service downgraded Nigeria's long-term issuer ratings from 'Ba3' to 'B1', with a 'stable' outlook. It also lowered Nigeria's long-term foreign-currency bond ceiling from 'Ba2' to 'Ba3', its long-term foreign-currency deposit ceiling from 'B1' to 'B2', and its long-term local-currency bond and deposit ceilings from 'Baa3' to 'Ba1'. It attributed the downgrades to rising external vulnerabilities, execution risks of the planned transition to a less oil-dependent budget, and elevated debt servicing costs. First, it indicated that Nigeria's external accounts have come under more pressure than previously expected in the context of lower oil prices, and that capital controls have deterred foreign investments. It forecast the current account deficit at 2.3% of GDP in 2016, and for foreign currency reserves to drop from $28.4bn at the end of 2015 to $25bn at end-2016. It anticipated the pressure on the Nigerian naira to continue until the gap between the supply and demand of/for foreign currency narrows, either through a currency devaluation and accumulation of foreign currency reserves, or through fiscal surpluses. Second, the agency considered that the 2016 budget, which aims to generate 70% of revenues from non-hydrocarbon sources, is extremely ambitious. It noted that the government's failure to reach its objectives would keep economic activity subdued and would further weigh on public finances. Also, it said that the shift in the structure of the budget from current to capital spending carries substantial execution risks and could reduce the strength of the government's balance sheet over the short term. Third, Moody's expected debt servicing to absorb 21% of revenues in 2016.

Source: Moody's Investors Service

ANGOLA

Sovereign ratings downgraded, outlook 'negative'

Moody's Investors Service downgraded Angola's long-term issuer and senior unsecured debt ratings from 'Ba2' to 'B1', with a 'negative' outlook. It also lowered Angola's long-term local-currency bond and deposits country ceilings from 'Baa3' to 'Ba1', its long-term foreign-currency bond ceiling from 'Ba1' to 'Ba3', and its long-term foreign-currency deposit ceiling from 'Ba3' to 'B2'. It attributed the downgrades to the deterioration of Angola's public finances and external position, as well as to the weakening of the country's near-term growth prospects due to the prolonged period of low oil prices. The agency said that Angola's fiscal and current account surpluses shifted to deficits of 1.6% of GDP and 5.7% of GDP in 2015, respectively. It added that the kwanza has depreciated by about 56% since the start of 2015, which helped maintain foreign currency reserves and support fiscal revenues. But it noted that the currency depreciation, along with subsidy cuts, have fueled inflationary pressure and weakened the government's debt metrics. It indicated that the debt servicing cost rose from 2% of total revenues in 2013 to 8.2% in 2015, and that the share of foreign debt increased from 40% of total debt in 2013 to 51% in 2015. Also, it said that the government's debt-to-GDP ratio grew from 25% in 2013 to 47% in 2015 and projected it to exceed 50% in 2016. Still, it noted that Angola's $5bn sovereign wealth fund and its liquid fiscal reserves, which reached $9.7bn at the end of March 2016, continue to represent a substantial fiscal buffer.

Source: Moody's Investors Service

BANKING

WORLD

New interest-rate risk regulations improve consistency and transparency

Fitch Ratings considered that the Basel Committee on Banking Supervision's final standards on how banks should measure and control interest-rate risk in the banking book would improve consistency and facilitate data comparison across banks and banking systems. It said that the new rules will force banks to follow specific principles and apply six common shock and stress scenarios. It added that the new rules standardize behavioral and modelling assumptions, and enhance disclosure requirements. Further, it indicated that banks will be allowed to use internal processes and assumptions to calculate risks, but under narrower guidelines. In parallel, Fitch said that the new standards require banks to hold capital explicitly against credit spread risks in the banking book. It noted that credit spread risks arise from variations in the premium that the market requires for different types of instrument, reflecting both credit and other market risks, such as liquidity risk. It added that the new requirement will limit incentives for arbitrage between the banking and trading book assignment. It noted that banks will have to disclose their interest-rate risk requirements under the new enhanced standards from January 2018.

Source: Fitch Ratings

QATAR

Agency takes rating actions on banks following banking sector's reassessment

Standard & Poor's downgraded Qatar's Banking Industry Country Risk Assessment (BICRA) from 'Group 4' to 'Group 5', as it reassessed the economic risks score from '4' to '5' and maintained the industry risks score at '5'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. S&P attributed the increase in economic risks to the sharp drop in global oil prices that have led to a slowdown in the Qatari economy and that have resulted in the deterioration of the operating conditions for local banks. It expected the banks' operating revenues to come under pressure, given the anticipated slowdown in lending growth and the rise in the cost of funds from tighter liquidity conditions. Also, it expected the banks' non-performing loans to increase between 2016 and 2018, which would lead to higher credit losses and lower profitability. As a result, S&P took several actions on rated Qatari banks. It downgraded from 'A-' to 'BBB+' the long-term counterparty credit rating of Commercial Bank of Qatar (CBQ), as it expected its asset quality to remain weaker than its peers over the next two years. It noted that CBQ's ratings have a 'negative' outlook given its weak capitalization trend. Also, it affirmed at 'A-/A-2' the long- and short-term counterparty credit ratings of Doha Bank and Qatar Islamic Bank, and revised the outlook on the banks' long-term ratings from 'stable' to 'negative' due to increased pressure on their asset quality. In addition, it affirmed at 'A+/A-1' the long- and short-term counterparty credit ratings of Qatar National Bank, with a 'stable' outlook due its strong core business in Qatar and its ability to deal with the pending acquisition of Turkish Finansbank.

Source: Standard & Poor's

UAE

Earnings down 7% in first quarter of 2016

The net profits of nine listed banks in the UAE totaled AED7.7bn, or $2.1bn, in the first quarter of 2016, constituting a drop of 6.9% from AED8.3bn in the same quarter of 2015, and reflecting the first contraction in earnings since the second quarter of 2012. The decrease in profits is due to a nearly flat year-on-year growth in total income and a 9.6% rise in provisions. Also, operating expenses grew by 4.9% year-on-year to AED5.4bn, or $1.5bn, in the first quarter of 2016. In parallel, total assets reached AED1,752bn, or $477.3bn, at the end of March 2016, constituting a rise of 7.7% from end-March 2015. Net loans grew by 8.9% year-on-year to AED1,104bn, or $300.8bn, at the end of March 2016 compared to a 10% growth at the end of 2015. Further, customer deposits reached AED1,173bn, or $319.5bn, at the end of March 2016 and increased by 5.9% from end-March 2015, relative to a rise of 7.9% at the end of 2015. The loans-to-deposits ratio was 94.2% at end-March 2016 relative to 91.5% a year earlier. Total financial investments by the banks reached AED202.7bn, or $55.2bn, at the end of March 2016 and grew by 15.4% from a year earlier. EFG Hermes expected credit quality and liquidity to be the main concerns for UAE banks throughout 2016.

Source: EFG Hermes

NIGERIA

Banking sector faces elevated economic risks

Standard & Poor's maintained Nigeria's Banking Industry Country Risk Assessment (BICRA) in 'Group 9', and its economic and industry risks scores at '9' each. 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 banking sectors. The agency noted that other countries in 'Group 9' include Argentina, Azerbaijan, Cambodia, Kenya, Papua New Guinea, Tunisia and Vietnam. It indicated that Nigeria's economic risk score reflects its "extremely high" credit risks in the economy, "very high risks" in its economic resilience and "high risks" in its economic imbalances. It considered the banks' exposure to the upstream oil & gas and power sectors, as well as their large share of lending in US dollars, to be their major weaknesses. It expected the banks' asset quality indicators to deteriorate, and for the banking sector's credit losses to increase from about 2% in 2015 to 3% in 2016 due to slower economic activity and high credit concentration. Further, S&P pointed out that the industry score reflects the country's "extremely high risks" in its institutional framework, "very high risks" in its system-wide funding and "high risks" in its competitive dynamics. It said that the country's restrictive foreign currency regime is limiting the banks' access to foreign currency, and that many banks are currently relying on the Central Bank to pay their trade obligations. It noted that the shortage of US dollars could affect Nigerian banks' ability to repay their dollar liabilities in the context of a weak naira and declining foreign currency reserves. S&P indicated that the trend for economic and industry risks is 'negative'.

Source: Standard & Poor's

ENERGY / COMMODITIES

Oil market to rebalance in second half of 2016

Brent crude oil prices averaged $37.3 p/b in the first four months of 2016, down by 33.2% from the same period last year; while WTI prices fell by 29.5% year-on-year to an average of $35.3 p/b in the covered period. The oil market is projected to start rebalancing in the second half of 2016 on the back of further declines in non-OPEC output and stronger demand ahead of the U.S. summer driving season. Indeed, U.S. shale oil production is expected to decrease significantly in the coming quarters amid tighter financing conditions and a further slowdown in drilling activity, which would lead the market closer to balance. Voluntary reductions in OPEC output are unlikely to materialize in the next six-to-24 months. Overall, Brent oil prices are forecast to average $46.5 p/b in 2016, while WTI spot prices are expected to average $46 p/b this year. Upside risks to the price outlook include an agreement between OPEC and non-OPEC members to freeze production levels, a sharp increase in demand ahead of the U.S. summer season and a rise in unplanned supply outages. In contrast, downside risks include a stronger-than-expected return of Libyan oil exports and increased tension between Saudi Arabia and Iran.
Source: BMI Research, Bloomberg, Byblos Research

Iraqi crude oil export receipts up 16% in April 2016

Preliminary figures released by Iraq's Ministry of Oil show that Iraqi crude oil exports reached 100.9 million barrels in April 2016, down by 0.9% from 101.9 million barrels in the preceding month. Also, the country's oil exports averaged 3.36 million barrels per day (b/d) in April, up by 2.3% from 3.29 million b/d in March 2016. Iraq generated about $3.34bn in oil export receipts in the covered month, up by 15.5% from $2.89bn in March 2016, based on an average price of $33.26 per barrel. Iraq is currently the second-largest crude oil producer among OPEC countries.
Source: Iraq's Ministry of Oil, Byblos Research

ME&A's global wind energy capacity up 38% at end-2015

Figures released by the Global Wind Energy Council show that the Middle East & Africa region's wind power capacity stood at 3.5 gigawatts (GW) at the end of 2015, up by 37.6% from 2.5 GW a year earlier, and accounted for 0.8% of global wind capacity. The aggregate installed wind power capacity in South Africa reached 1.05 GW and accounted for 30.2% of the region's aggregate capacity, followed by Egypt with 810 megawatts (MW) or 23.2% of the total, Morocco with 787 MW (22.6%), Ethiopia with 324 MW (9.3%), Tunisia with 245 MW (7%) and Jordan with 119 MW (3.4%).
Source: Global Wind Energy Council, Byblos Research

MENA's natural gas exports to remain flat in 2016

The Middle East & North Africa region's natural gas exports are forecast to average 4.61 million barrels of oil equivalent per day (boe/d) in 2016, unchanged from 2015. The Gulf Cooperation Council (GCC) countries' natural gas exports would account for 77% of the region's gas exports in 2016, while non-GCC exporters would represent the remaining balance of 23%. Qatar's natural gas exports are projected at 2.68 million boe/d in 2016, equivalent to 58% of the region's gas exports, followed by Algeria at 0.86 million boe/d (19%) and the UAE at 0.51 million boe/d (11%).
Source: International Monetary Fund, Byblos Research

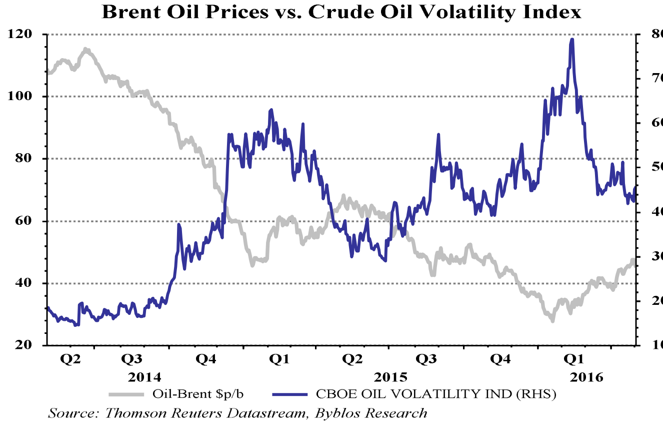
Base Metals: Aluminum production up 1% in March 2016

The London Metal Exchange Aluminum 3-month future prices averaged $1,530 a ton in the first four months of 2016, down by 15.6% from the same period of 2015. However, aluminum prices reached their highest levels in nine months and closed at $1,679 a ton on April 29th, due to a weaker US dollar and to new favorable Chinese economic data. The global aluminum market is expected to remain in surplus in coming months due to increased Chinese production. In parallel, global primary aluminum production reached 4.86 million metric tons in March 2016, constituting an increase of 16% from 4.19 million metric tons in February and of 0.7% from 4.82 million metric tons in March 2015. China's aluminum production totaled 2.62 million metric tons in March, equivalent to 54% of global supply. It was followed by Gulf Cooperation Council (GCC) economies with 442,000 metric tons (9.1%), Western Europe with 339,000 metric tons (7%), Eastern & Central Europe with 337,000 metric tons (6.9%), North America with 329,000 metric tons (6.8%), Asia excluding China with 275,000 metric tons (5.7%), Oceania with 167,000 metric tons (3.4%), Africa with 142,000 metric tons (2.9%) and South America with 115,000 metric tons (2.4%).
Source: International Aluminium Institute, Byblos Research

Precious Metals: Gold prices to average $1,150 a troy ounce in next 12 months

Gold prices grew by 21% from the end of 2015 to close at $1,282 a troy ounce on May 4, 2016. The double-digit rise is due to an increase in investors' demand for the safe-haven asset as a result of a weaker US dollar, volatility in equity markets and growing concerns about a global economic slowdown. The metal's price reached its highest level since January 2015 to close at $1,294 a troy ounce on May 2, 2016, as the US dollar weakened against a basket of major currencies. The gold market remains focused on the timing of the increase in U.S. interest rates. Indeed, the metal is highly sensitive to rising U.S. interest rates as the latter increases the opportunity cost of holding non-yielding assets. Gold prices are expected to fluctuate around $1,200 an ounce during the next three months and to decline to $1,150 an ounce on average in the next 12 months. Under an optimistic scenario, a global economic slowdown would increase demand for gold and would delay the increase in U.S. interest rates, which would support gold prices. In contrast, an unexpected acceleration in growth in the U.S. would lead to a quicker rise in interest rates, which would strengthen the US dollar and lead investors to start selling gold.
Source: Julius Baer, Byblos Research

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

COUNTRY RISK METRICS

Countries	LT Foreign currency rating S&P	Moody's	Fitch	CI	IHS	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 (%)
Asia													
Armenia	-	B1	B+	-	B-								
	-	Stable	Stable	-	Stable	-3.9	48.3	81.6	168.2	23.6	612.8	-6.4	3.8
China	AA-	Aa3	A+	-	A								
	Stable	Stable	Stable	-	Stable	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-6.0	47.1	22.9	112.4	7.3	156.2	-0.6	1.0
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	CWN**	Stable	-	Negative	-0.2	22.8	127.9	325.8	33.6	824.6	-2.2	3.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB-								
	Negative	Stable	Stable	-	Stable	-1.6	29.6	89.9	135.0	28.0	236.3	0.2	2.5
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Negative	Stable	-	Positive	-2.6	41.5	49.4	101.0	14.4	224.0	-1.5	1.7
Russia	BB+	Baa3	BBB-	-	BB+								
	Negative	CWN**	Negative	-	Negative	-3.9	21.0	40.4	98.2	19.6	150.3	5.4	-1.7
Turkey	BB+	Baa3	BBB-	BB+	BB-								
	Negative	Negative	Stable	Stable	Negative	-0.8	32.6	54.4	154.2	19.8	405.8	-4.7	0.7
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	Negative	-	-	Stable	-3.7	92.1	139.5	211.4	22.4	663.6	-1.7	1.1

**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 Date	Last meeting Action	Next meeting
USA	Fed Funds Target Rate	0.25-0.50	27-Apr-16	No change	15-Jun-16
Eurozone	Refi Rate	0.00	21-Apr-16	No change	02-Jun-16
UK	Bank Rate	0.50	14-Apr-16	No change	12-May-16
Japan	O/N Call Rate	0.00-0.10	28-Apr-16	No change	16-Jun-16
Australia	Cash Rate	1.75	03-May-16	Cut 25 bps	07-Jun-16
New Zealand	Cash Rate	2.25	28-Apr-16	No change	08-Jun-16
Switzerland	3 month Libor target	-1.25-(-0.25)	17-Mar-16	No change	16-Jun-16
Canada	Overnight rate	0.50	13-Apr-16	No change	25-May-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	15-Jun-16
Taiwan	Discount Rate	1.50	24-Mar-16	Cut 13bps	30-Jun-16
South Korea	Base Rate	1.50	19-Apr-16	No change	13-May-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	11-May-16
India	Reverse repo rate	6.50	05-Apr-16	Cut 25bps	07-Jun-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	28-Apr-16	No Change	16-Jun-16
Turkey	Base Rate	7.50	20-Apr-16	No change	24-May-16
South Africa	Repo rate	7.00	17-Mar-16	Raised 25bps	19-May-16
Kenya	Central Bank Rate	11.50	14-Mar-16	No change	22-May-16
Nigeria	Monetary Policy Rate	12.00	22-Mar-16	Cut 200bps	24-May-16
Ghana	Prime Rate	26.00	21-Mar-16	Raised 100bps	16-May-16
Angola	Base rate	12.00	28-Mar-16	Raised 200bps	25-May-16
Mexico	Target Rate	3.75	01-Apr-16	No change	05-May-16
Brazil	Selic Rate	14.25	27-Apr-16	No change	08-Jun-16
Armenia	Refi Rate	8.25	29-Mar-16	Cut 25bps	17-May-16
Romania	Policy Rate	1.75	05-May-16	No change	30-Jun-16
Bulgaria	Base Interest	0.00	02-May-16	No change	01-Jun-16
Kazakhstan	Repo Rate	15.00	05-May-16	Cut 200bps	06-Jun-16
Ukraine	Discount Rate	19.00	21-Apr-16	Cut 300bps	26-May-16
Russia	Refi Rate	11.00	29-Apr-16	No change	10-Jun-16

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