

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **ETF assets under management to exceed \$7 trillion by 2021**

A PwC survey of executives from about 60 financial firms around the world shows that the Exchange Traded Funds (ETF) market would grow rapidly over the next five years, as many ETF providers worldwide plan to develop their distribution channels and asset classes, as well as expand across borders. PwC indicated that 41% of surveyed participants expect global ETF assets under management (AUM) to reach at least \$7 trillion by 2021 relative to \$2.96 trillion in 2015. Surveyed ETF firms in North America expected their AUM to expand by a compound annual growth rate (CAGR) of 23% over the coming five years and to reach \$5.9 trillion by 2021. Also, ETF firms in Europe anticipated their AUM to post a CAGR of 27% and to reach \$1.6 trillion in five years, while those in Asia projected their ETF AUM to increase by 18% over the 2016-21 period and to reach \$560bn. In parallel, the survey expected financial advisors, online platforms and retail investors to be the top three segments that would drive global demand for ETFs over the coming five years. PwC anticipated that advances in technology and data analytics would encourage the creation of new products and the evolution of distribution channels, which would significantly add to the growth of ETF markets worldwide. However, it indicated that 47% of surveyed executives believe that regulations would pose a major obstacle to the growth of the ETF market, while 42% of participants cited the lack of effective distribution channels as a limiting factor.

Source: PwC

#### EMERGING MARKETS

##### **Total debt issuance at \$216bn in first half of 2016**

Emerging markets issued \$216bn in sovereign and corporate bonds in the first half of 2016. Debt issuance in Asia reached \$83.4bn or 38.6% of the total, followed by Latin America with \$64.2bn (29.7%), Emerging Europe, the Middle East & Africa (EEMEA) with \$40.7bn (18.8%) and Gulf Cooperation Council (GCC) countries with \$27.7bn (12.8%). Further, EM corporates issued \$132.6bn in bonds in the first half of the year, equivalent to 61.4% of total sovereign and corporate bond issuance. Asia issued \$73.5bn or 55.4% of total corporate issuance, followed by Latin America with \$33bn (24.9%), the EEMEA with \$15.9bn (12%) and GCC countries with \$10.3bn (7.8%). In parallel, EM sovereigns issued \$83.4bn in Eurobonds, or 38.6% of total sovereign and corporate bond issuance in the covered period. Latin America issued \$31.2bn or 37.4% of total sovereign issuance, followed by the EEMEA region with \$29.4bn (29.9%), GCC economies with \$17.4bn (20.9%) and Asia with \$9.9bn (11.9%). Merrill Lynch projected sovereign bond issuance in emerging markets at \$149.6bn in 2016, which would constitute a rise of 74.4% from \$85.8bn in 2015. It expected issuance in Latin America to reach \$38.5bn, followed by the EEMEA region with \$35.3bn, the GCC countries with \$34.4bn and Asia with \$14.5bn.

Source: Merrill Lynch

#### MENA

##### **Sovereign creditworthiness continues to deteriorate**

S&P Global Ratings indicated that overall sovereign creditworthiness in the Middle East & North Africa (MENA) region has deteriorated since January 2016. It noted that it downgraded the sovereign ratings of Bahrain, Oman and Saudi Arabia in February 2016, due to the adverse impact of lower hydrocarbon receipts on their fiscal and external balances. It pointed out that the MENA region's average sovereign rating is currently close to 'BBB', with eight out of the 13 rated sovereigns in the region having a rating in the 'BBB' category or above; while the ratings of the remaining five sovereigns are below investment grade. It said that the average sovereign rating becomes closer to 'BBB+' when the ratings are weighted by nominal GDP. But it noted that the weighted average sovereign rating has decreased more sharply over the past 12 months than the unweighted average due to the downgrade of Saudi Arabia, the region's largest economy. In comparison, the region's average sovereign rating was close to 'BBB+' in July 2015, while the weighted average was closer to 'A'. Further, S&P pointed out that the average rating for the region differs between hydrocarbon- and non-hydrocarbon-based economies. It noted that the average sovereign rating of the region's hydrocarbon exporters is currently close to 'BBB+' relative to 'A+' in July 2015, while the average rating of sovereigns with more limited hydrocarbon resources is below investment grade and stands close to 'BB+', almost unchanged from a year earlier. S&P indicated that it has a 'negative' outlook on the sovereign ratings of Egypt, Jordan and Lebanon.

Source: S&P Global Ratings

##### **Higher country risk level in Arab world in first quarter of 2016**

The Euromoney Group's quarterly survey on global country risk shows that the risk level in the Arab world increased slightly in the second quarter of 2016, as the average score of 19 Arab economies reached 39.4 points in the covered quarter compared to 39.5 points in the first quarter of 2016. The region's risk level was higher than the global risk level that averaged 42.7 points in the second quarter of the year. The GCC countries' average score slightly regressed to 62.4 points from 62.6 points in the preceding quarter, which reflects an increase in the region's risk level, while the average score of non-GCC Arab countries was nearly unchanged at 28.8 points in the second quarter of 2016. The Arab world's Political Risks level stood at 11.79 points, which was riskier than the global average of 13.73 points; while the Economic Performance score of 12.92 points was below the global average of 13.35 points. Further, the region's Credit Ratings averaged 2.8 points relative to the global average of 3.09 points; while the Access to Bank Finance & Capital Markets score was 3.43 points, lower than the global average of 3.8 points. Qatar had the best country risk rating in the Arab world and the 20th best globally, followed by the UAE (28th), Kuwait (29th), Oman (38th) and Saudi Arabia (44th); while the riskiest Arab countries were Yemen, that came in 159th place, followed by Mauritania (162nd), Sudan (165th), Syria (175th) and Djibouti (183rd).

Source: Euromoney Group, Byblos Research

# OUTLOOK

## EMERGING MARKETS

### Growth projected at 4% for 2016, outlook varies across regions

The International Monetary Fund projected real GDP growth in emerging markets and developing economies at 4.1% in 2016, unchanged from its April forecast, and relative to growth rates of 3.1% for the global economy and 1.8% for advanced economies. It noted that economic prospects vary across emerging markets and developing economies, with some improvement in a few large emerging markets, especially Brazil and Russia. The Fund indicated that Brexit-related revisions are limited to advanced European economies, with a relatively muted impact elsewhere.

The IMF projected economic growth in Emerging & Developing Asia at 6.4% in 2016, unchanged from its April forecast, and maintained its growth projection for Emerging & Developing Europe at 3.5% this year. In addition, it increased its projection to 3.4% from 3.1% for the MENA region plus Afghanistan and Pakistan. In contrast, it reduced its growth forecast to 1.6% from 4% for Sub-Saharan Africa, reflecting challenging macroeconomic conditions in SSA's largest economies that are adjusting to lower commodity revenues. In parallel, the IMF expected economic activity in the Commonwealth of Independent States to contract by 0.6% in 2016, and projected output to shrink by 0.4% in Latin America & the Caribbean.

The IMF indicated that risks to the outlook include a prolonged period of financial market turbulence, rising global risk aversion, disruptive adjustment in China, and geopolitical tensions. It said that policy challenges are diverse across emerging markets, but they include in most cases a need to strengthen medium-term growth prospects through structural reforms.

*Source: International Monetary Fund*

### Net private capital inflows to reach \$551bn in 2016

The Institute of International Finance projected non-resident private capital inflows to emerging markets (EMs) at \$551bn in 2016, which would constitute an increase of 101.8% from \$273bn in 2015 and a marginal drop from the April forecast of \$560bn. It indicated that capital inflows to EMs significantly recovered following a weak start of the year, supported by a pickup in portfolio investment inflows and reduced bank-related outflows from China. It added that EM appetite has benefitted from reduced concerns about China's economy, from signs of improving EM growth, and from stable commodity prices. It noted that Central & Eastern Europe has been the most affected region by the direct impact of the Brexit vote. It anticipated that economic spillovers to the broader emerging markets will be more limited and will be offset by additional declines in interest rates in most mature markets. It indicated that risks to the outlook include an aggressive increase in U.S. interest rates and a loss of confidence in China's capacity to keep the Chinese renminbi on a stable path. In parallel, the IIF revised upward its April forecast for inflows to Latin America by \$7bn to \$221bn and those to Emerging Europe by \$20bn to \$23bn; while it revised downward by \$29bn its inflows projections for Emerging Asia to \$210bn and those to the Middle East & Africa by \$7bn to \$97bn.

Further, the IIF forecast net direct investment in EMs at \$467bn in 2016, down from \$523bn in 2015. It expected net portfolio inflows to increase from \$19bn in 2015 to \$62bn in 2016. Also, it estimated net non-bank private lending to shift from net outflows of \$57bn in 2015 to net inflows of \$19bn in 2016, while it projected net commercial bank lending to shift from net outflows of \$212bn last year to net inflows of \$3bn this year. It revised upward by \$4bn its projections for net portfolio investment in 2016, while it revised downward by \$43bn its forecast for non-bank private lending and by \$7bn its projections for net direct investment.

In parallel, the IIF projected resident capital outflows from EMs to rise from \$385bn in 2015 to \$562bn in 2016. As such, it forecast net capital flows from EMs at \$195bn in 2016 relative to \$548bn in 2015, and at \$355bn this year compared to \$763bn last year when including errors and omissions.

*Source: Institute of International Finance*

## UAE

### Non-hydrocarbon growth to decelerate to 2.4% in 2016 on fiscal consolidation measures

The International Monetary Fund indicated that the low oil price environment and reduced hydrocarbon-related revenues are weighing on the UAE's economic sentiment and fiscal and external positions. But it noted that the UAE's large buffers have provided ample policy space to deal with the oil price shock, which has limited negative spillovers and contained the weakening of investor appetite. It projected non-hydrocarbon sector activity to decelerate from 3.7% in 2015 to 2.4% in 2016 due to fiscal consolidation, a stronger US dollar and tighter monetary and financial conditions. It forecast non-hydrocarbon growth to exceed 4% annually over the medium term due to the expected rise in global oil prices that would support domestic sentiment and financial conditions, as well as due to an anticipated pickup in private investment in the run-up to Expo 2020 and to stronger external demand.

The Fund estimated that the fiscal surplus shifted to a deficit of 2.1% of GDP in 2015, while the UAE's ample buffers have allowed it to proceed with a gradual fiscal adjustment in order to minimize the negative impact of low oil prices on economic activity. But the IMF considered that authorities need to implement stronger fiscal consolidation measures over the medium term. It welcomed the authorities' plan to introduce a value-added tax and increase the excise tax, which could be followed by the imposition of a corporate income tax. It called for the phasing out of the remaining energy subsidies and for containing other current expenditures. It considered that a consolidated medium-term fiscal framework would set the direction for fiscal policy and align public resources with the UAE 2021 vision. In addition, it encouraged authorities to strengthen the debt management framework to better account for contingent liabilities from government-related entities and from public-private partnership projects. Further, the IMF noted that the currency peg to the US dollar is an appropriate anchor for price and financial stability.

*Source: International Monetary Fund*



# ECONOMY & TRADE

## AFRICA

### Limited impact of Brexit on Sub-Saharan Africa

Moody's Investors Service anticipated that the United Kingdom's vote to leave the European Union (Brexit) would have a limited impact on sovereigns in Sub-Saharan Africa (SSA). It said that volatility in financial flows and financial markets, amid shifting risk perceptions from investors, is the main short-term challenge facing some SSA countries following the Brexit vote. It noted that the volatility in the global financial markets that followed the Brexit vote comes at a time when SSA economies are already dealing with the drop in commodity prices and the gradual economic slowdown in China. It indicated that South Africa is the most exposed SSA country to the immediate financial impact of the Brexit vote, due to its integration in global financial markets and its financial linkages with the United Kingdom. It added that Kenya would be most vulnerable to capital flight due to its developed financial markets, while Nigeria faces heightened risks to its portfolio inflows. In parallel, Moody's pointed out that potential challenges over the medium-term include a deterioration in SSA's trade, investment, tourism and aid flows. It said that small SSA countries, such as the Seychelles and Mauritius, are the most exposed through the trade and tourism channels. But it noted that SSA countries are currently more insulated than 10 years ago from a slowdown in tourism from the UK and trade with the UK due to their increased ties with Asian economies. In addition, it indicated that Sierra Leone, Nigeria, the Democratic Republic of Congo and Tanzania would be the most affected by reduced aid flows from the UK.

Source: *Moody's Investors Service*

## IRAQ

### IMF deal unlikely to have significant impact on public finances

Merrill Lynch considered the IMF's three-year \$5.4bn Stand-By Arrangement (SBA) with Iraq to be a weak program in terms of targeted policy adjustment, adding that large fiscal and external imbalances will persist. It indicated that the IMF targets only modest fiscal adjustment and has deferred most of the adjustment to a later stage. Further, it said that the IMF's oil-export targets and price assumptions are ambitious. It noted that the program projects oil exports at 3.6 million b/d in 2016 relative to actual exports of 3.2 million b/d in the first half of 2016, and that the actual weighted-average price of Iraqi oil exports is about \$9 p/b lower than the average Brent oil price between January and May 2016. Merrill Lynch indicated that large external imbalances would require additional external financing from international institutions, in order to prevent foreign currency reserves from declining further and to preserve the currency peg. It viewed the IMF program as a mean to provide and facilitate external financing for Iraq in order to stabilize the economy amid the ongoing war against the Islamic State militant group. It added that the program, and the relatively small IMF financing associated with it, reflect the country's weak implementation capacity and track record. As such, it anticipated that Iraq will need additional external funding to cover its financing needs and to support its currency peg to the US dollar. Therefore, it expected authorities to issue \$2bn in Eurobonds in the fourth quarter of 2016.

Source: *Merrill Lynch*

## TURKEY

### Rating agencies react to coup attempt

S&P Global Ratings downgraded Turkey's long-term foreign currency sovereign credit rating from 'BB+' to 'BB' and its local currency sovereign credit rating from 'BBB-' to 'BB+', with a 'negative' outlook. It attributed the downgrades to the coup attempt that has deepened Turkey's political divisions, which would undermine growth, capital inflows and the investment climate. It added that its rating action takes into account the increased risks to Turkey's ability to roll over its external debt. It estimated that Turkey has to roll over about 42% of its total external debt, or around \$170bn, over the next 12 months. In addition, it anticipated political uncertainties to negatively affect policy-makers' commitment to reforms that aim to reduce the economy's dependence on foreign financing. In parallel, Moody's Investors Service placed on review Turkey's 'Baa3' issuer and bond ratings in order to assess the medium-term impact of the coup attempt on Turkey's economic growth, policy effectiveness and external stability. The agency noted that risks to growth are tilted to the downside as the coup attempt could further weaken investor and consumer confidence, and due to elevated geopolitical risks. It anticipated pressure on the currency and capital flows to persist due to political and external risks facing the country. In parallel, Fitch Ratings said that downward pressure on Turkey's sovereign ratings will depend on the extent of the political divisions and the weakening of institutional independence. In contrast, Capital Intelligence considered that the failed military coup has no immediate credit implications on Turkey's sovereign ratings, as the latter already incorporate high levels of internal and external political risks.

Source: *S&P Global Ratings, Moody's Investors Service, Fitch Ratings, Capital Intelligence Ratings*

## UAE

### Sovereign ratings affirmed, outlook 'stable'

Capital Intelligence Ratings affirmed at 'AA-' the UAE's long-term foreign and local currency sovereign ratings, with a 'stable' outlook. It noted that the 'stable' outlook balances the country's strong external position and ample financial assets with its weak economic structure and institutions, high reliance on hydrocarbon revenues and vulnerability to external shocks. It estimated the consolidated budget deficit to have shifted from a surplus of 5% of GDP in 2014 to a deficit of about 5% of GDP in 2015, due to the drop in global oil prices. It said that authorities have adopted a fiscal consolidation plan for the 2015-17 period that includes broadening the tax base, limiting transfers to government-related entities, prioritizing capital projects and gradually lifting water and electricity subsidies. Still, the agency projected the fiscal deficit to reach 7% of GDP in 2016. In parallel, it pointed out that the government's consolidated debt level is almost fully matched by government deposits in the banking system. It anticipated that Abu Dhabi would be willing to support federal institutions and the Central Bank in the event of financial distress, given that the assets managed by the Abu Dhabi Investment Authority are at about \$770bn. Further, it expected that further declines in oil prices, higher geopolitical uncertainties and higher U.S. interest rates could lead to higher refinancing costs for local governments. It projected the current account surplus at about 0.5% of GDP in 2016 relative to 3.9% of GDP in 2015.

Source: *Capital Intelligence Ratings*



# BANKING

## MOROCCO

### **Banks' ratings affirmed, outlook 'stable'**

Fitch Ratings affirmed at 'BB+' the long-term foreign currency Issuer Default Ratings (IDR) of Attijariwafa Bank (AWB) and Banque Marocaine du Commerce Extérieur (BMCE), while it affirmed at 'BBB-' the long-term local currency IDRs of AWB and BMCE. It also affirmed at 'AA-(mar)' the national long-term ratings of AWB and BMCE and at 'AAA(mar)' those of Banque Marocaine pour le Commerce et l'Industrie's (BMCI). It maintained the 'stable' outlook on all the banks' ratings. It said that AWB and BMCE's ratings reflect the moderate probability of support from the Moroccan authorities in case of need, given the banks' importance in the country. Further, it indicated that BMCI's national ratings reflect a high probability of support from its majority shareholder BNP Paribas in case of need. In parallel, the agency maintained at 'bb-' the Viability Rating (VR) of AWB and at 'b+' that of BMCE. It said that the banks' VRs reflect their modest capital ratios and high risk appetite, as well as their moderate asset quality, solid funding and liquidity profiles and sound profitability. It pointed out that both banks have substantial activities in Sub-Saharan Africa, which expose them to the economic slowdown in SSA. It anticipated persistent economic uncertainties in Sub-Saharan Africa and a stagnating domestic economy to weigh on the banks' asset quality in 2016.

*Source: Fitch Ratings*

## BAHRAIN

### **Rising credit risks to affect banking sector**

S&P Global Ratings downgraded Bahrain's Banking Industry Country Risk Assessment (BICRA) from 'Group 6' to 'Group 7', as it reassessed the economic risks score from '6' to '7' and maintained the industry risks score at '6'. 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. It noted that other countries in BICRA's 'Group 7' include Bulgaria, Costa Rica, El Salvador, Indonesia, Jordan, Morocco, the Philippines, Portugal and Slovenia. S&P indicated that the rise in Bahrain's economic risks score reflects an increase in credit risks in the economy from "high" to "very high", while it maintained its assessment of economic resilience at "high risks" and that of economic imbalances at "intermediate risks". It noted that Bahrain's economic risks have intensified due to high geopolitical risks, unresolved domestic political tensions and socio-economic frustrations. It added that banks face elevated credit risks from their high industry and single-party lending concentration, especially to the construction and commercial real estate segments. In parallel, the agency pointed out that the industry score reflects the country's "very high risks" in its competitive dynamics and "intermediate risks" in its institutional framework and its system-wide funding. It noted that adequate banking regulations and supervision support domestic banks. But it considered that Bahrain's over-banked population increases competition among banks and weigh on their profitability. S&P indicated that the trend for economic and industry risks is "stable".

*Source: S&P Global Ratings*

## NIGERIA

### **Banking sector under pressure**

Merrill Lynch indicated that the Nigerian banking sector has come under pressure as a result of increasing credit risks. It said that oil and gas companies, which represent 26% of the sector's total lending, have come under intense pressure from continuous disruption to oil production. It added that state and local governments, which account for 7% of total loans, are experiencing financial difficulties and have received bailouts from the federal government. Also, it noted that the power sector, which accounts for 4% of total lending, is also under pressure due to currency mismatch, as privatized companies have borrowed in US dollars but generate revenues in Nigerian naira. It anticipated non-performing loans to rise in 2016, mainly due to problem loans in the oil & gas sector. It said that some banks have implemented proactive measures to address this issue, but it noted that the downturn in the oil & gas sector could be worse-than-previously anticipated. It indicated that the non-performing loans ratio at the largest Nigerian banks averaged 7% at the end of March 2016, exceeding the Central Bank of Nigeria's (CBN) prudential ceiling of 5%. In parallel, Merrill Lynch indicated that the CBN's decision to take over Skye Bank could raise concerns about the health of the banking system, especially in the context of subdued economic activity. It pointed out that the Nigerian authorities continue to be willing to support the banking sector in order to avoid a slowdown in lending. But it noted that the weak economy could compromise the CBN's ability to provide sustainable support.

*Source: Merrill Lynch*

## TURKEY

### **Banking risks increase following coup attempt**

Fitch Ratings indicated that downside risks on the credit profiles and ratings of Turkish banks have increased due to the military coup attempt and the higher political divisions that have followed. It noted that the banks' credit profiles are sensitive to country risks, access to foreign credit markets and the exchange rate. It said that the banking sector is fundamentally sound, as reflected by the investment-grade ratings of the largest banks, and that it does not anticipate any sharp deterioration in the banks' financial metrics in the near term. It added that the Central Bank of Turkey indicated that it would provide liquidity to banks in case of need. It considered that any significant weakening in creditor sentiment, which would result in net capital outflows, could put the banks' foreign-currency liquidity under pressure and would lead to a further depreciation of the Turkish lira. Further, it noted that the sharp depreciation of the lira following the military coup attempt highlights the banking sector's exposure to foreign-currency lending risks, given that foreign-currency lending represents about one-third of the sector's loans. It expected the banks to incur some losses on these exposures, but it considered that these losses would be manageable given the loans' long-term maturity and repayment structures. It cautioned that a further currency depreciation would weaken the banks' asset quality and weigh on their capital ratios. Also, it noted that the asset quality at some banks could come under pressure due to their exposure to the struggling tourism sector.

*Source: Fitch Ratings*



# ENERGY / COMMODITIES

## Crude oil prices to average \$45 p/b in 2016

ICE Brent crude oil prices closed at \$47.2 per barrel (p/b) on July 20, 2016, constituting an increase of 1.1% from the previous day and a rise of 26.5% from the end of 2015; while WTI oil prices grew by 0.7% day-to-day and by 21.1% from end-2015 to close at \$45 p/b. The increase in oil prices came after the American Petroleum Institute showed a ninth consecutive week of a draw-down in U.S. crude oil inventories, which eased investors' concerns about a global market oversupply. In fact, U.S. crude inventories fell by 2.3 million barrels last week compared to analysts' expectations of an increase of 2.1 million barrels. In parallel, Deutsche Bank expected the global crude oil market to post a slight production deficit in the third and fourth quarters of 2016, mainly driven by stronger demand from an improved U.S. economic outlook and by a slow recovery in production following outages in several oil-producing countries. It projected global oil demand to increase by 1.4 million barrels per day (b/d) to 96.1 million b/d in 2016, while it forecast global oil supply to remain unchanged at 96.4 million b/d this year. As such, it expected the market oversupply to decrease from 1.7 million b/d in 2015 to 300,000 b/d in 2016. Overall, it forecast Brent oil prices to average \$45.4 p/b in 2016, while it anticipated WTI prices to average \$43.6 p/b this year.

Source: Deutsche Bank, Byblos Research

## Middle East accounts for 32% of world's oil production in 2015

BP estimated the Middle East region's crude oil production at 30.1 million barrels per day (b/d) in 2015, up by 5.4% from 28.6 million b/d in the previous year, and equivalent to 32.4% of the world's oil supply. Saudi Arabia's production averaged 12 million b/d, or 40% of the region's total output last year, followed by Iraq with 4 million b/d (13.4%), Iran and the UAE with 3.92 million b/d each (13% each), Kuwait with 3.1 million b/d (10.3%), and Qatar with 1.9 million b/d (6.3%).

Source: BP, Byblos Research

## OPEC's oil basket price up 6% in June 2016

The oil reference basket price of the Organization of the Petroleum Exporting Countries reached \$45.84 per barrel (p/b) in June 2016, constituting a rise of 6.1% from \$43.21 p/b in May. Indonesia's Minas posted the highest price among the basket's components at \$51.6 p/b in June, followed by Abu Dhabi's Murban crude oil at \$49.3 p/b and Algeria's Saharan Blend at \$49 p/b. All 14 prices included in the OPEC reference basket posted increases of \$1.25 p/b to \$3.94 p/b in June 2016.

Source: OPEC, Byblos Research

## Oil reserves at 70 times current production

Global oil reserves are currently estimated at 2,092 billion barrels, equivalent to 70 times the current production rate of about 30 billion barrels of oil per year. Oil reserves in non-OPEC countries are estimated at 1,269 billion barrels, or 60.7% of global oil reserves, while those in OPEC economies are estimated at 823 billion barrels (39.3%). On a country basis, the United States currently holds about 264 billion barrels of oil reserves in its existing fields, equivalent to 12.6% of global oil reserves. Russia follows with 256 billion barrels (12.2%), then Saudi Arabia with 212 billion barrels (10.1%) and Canada with 167 billion barrels (8%).

Source: Rystad Energy

## Base Metals: Aluminum market oversupply to decrease by 2020

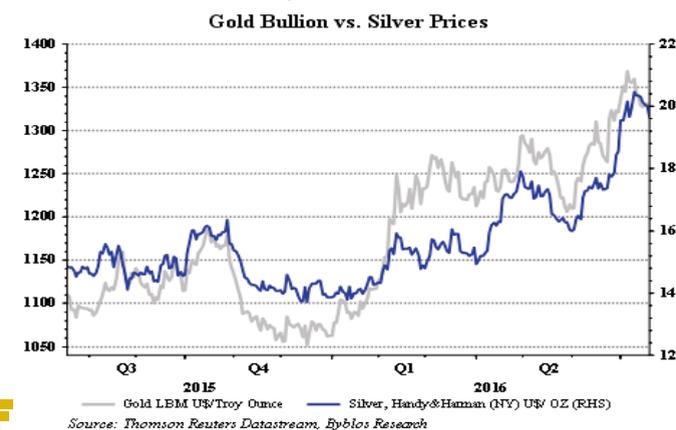
The London Metal Exchange Aluminum 3-month future prices closed at a three-week low of \$1,625 a ton on July 20, 2016, mainly due to a stronger US dollar and to growing uncertainties over demand from China for the metal amid a slower increase in Chinese housing prices in June. Prices averaged \$1,560 a ton so far this year, down by 13.4% from the first half of 2015, and are expected to trade at between \$1,500 a ton and \$1,700 a ton over the coming months. In parallel, growth in aluminum demand is expected to slow down from 4% in 2015 to 2.4% in 2016, given expectations of subdued global economic activity. On the supply side, global production for the metal is projected to grow by 0.3% in 2016, down from a growth rate of 8.7% in 2015, due to slower production growth in China. However, China is expected to remain the largest producer of the metal and to provide 55.7% of global aluminum supply in 2016. Overall, the metal is forecast to remain oversupplied during the 2016-20 period, but its production surplus is projected to decrease from 1.6 million tons in 2016 to 200,000 tons in 2020. As such, prices are forecast to rise from \$1,600 a ton in 2016 to \$1,625 a ton in 2017 and to reach \$1,750 a ton by 2020.

Source: BMI Research, Byblos Research

## Precious Metals: Industrial consumption to account for 49% of silver demand in 2016

Silver has outperformed gold so far in 2016, as its price grew by 41.8% from the end of 2015 compared to an increase of 24.1% in gold prices. Also, silver prices have rebounded following declines of 11.6% in 2012, 23.4% in 2013, 20.1% in 2014 and 17.8% in 2015. Prices have gradually decreased since they reached a two-year high of \$20.5 an ounce on July 11, given that the US dollar strengthened on renewed expectations of further increases in U.S. interest rates. Prices averaged \$14.9 an ounce in the first quarter and \$16.9 an ounce in the second quarter of 2016, and are forecast to increase to \$18.3 an ounce in the third quarter and to \$18.7 an ounce in the fourth quarter of 2016. In parallel, global physical silver demand is expected to grow by 5.9% in 2016, mainly due to a rise in coin & bar and jewelry demand. Further, industrial usage for the metal is projected to account for 48.8% of total physical silver demand, followed by jewelry (21%) and coins & bars (12.4%). In parallel, silver mine production is forecast to increase by 0.3% this year and account for 80.7% of total supply. Also, the metal's scrap supply is expected to rise by 24.5% in 2016 and represent 16.5% of total production.

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								
<b>Africa</b>													
Algeria	-	-	-	-	BB+	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B	B1	B+	-	B+	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B-	B3	B	B-	B-	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B	B1	B	-	B+	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B-	B3	B	-	B+	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3	B+	-	B+	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B	-	B-	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B-	B3	-	-	CCC	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B+	B1	B+	-	BB-	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	-	-	-	-	CC	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	-	Ba3	BB-	-	BB+	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B-	-	-	-	B+	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B+	-	B	-	B+	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
<b>Middle East</b>													
Bahrain	BB	Ba2	BB+	BBB-	BBB-	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB-	BB-	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B-	(P)Caa1	B-	-	CC+	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB-	B1	-	BB-	BB+	-3.4	90.4	64.5	141.2**	4	177.3	-6.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B-	B2	B	B	B-	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB	Baa1	-	A-	BBB	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA	Aa2	AA	AA-	AA-	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A-	A1	AA-	AA-	AA-	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	-	-	-	-	CCC	-10.0	67.3	17.3	-	-	197.2	-7.0	-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								
<b>Asia</b>													
Armenia	-	B1	B+	-	B-	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	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	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
	Negative	CWN***	Stable	-	Negative								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BBB-	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
	Negative	CWN***	Negative	-	Negative								
Turkey	BB	Baa3	BBB-	BB+	BB-	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
	Negative	CWN***	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1
	Negative	Negative	-	-	Stable								

\*to official creditors

\*\* external debt/current account receipts

\*\*\*Credit Watch Negative

Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; 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	15-Jun-16	No change	27-Jul-16
Eurozone	Refi Rate	0.00	21-Jul-16	No change	08-Sep-16
UK	Bank Rate	0.50	14-Jul-16	No change	08-Aug-16
Japan	O/N Call Rate	-0.06	16-Jun-16	No change	29-Jul-16
Australia	Cash Rate	1.75	05-Jul-16	No change	02-Aug-16
New Zealand	Cash Rate	2.25	08-Jun-16	No change	11-Aug-16
Switzerland	3 month Libor target	-1.25(-0.25)	16-Jun-16	No change	15-Sep-16
Canada	Overnight rate	0.50	13-Jul-16	No change	07-Sep-16
<b>Emerging Markets</b>					
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-Jul-16
Taiwan	Discount Rate	1.375	30-Jun-16	Cut 12.5bps	24-Sep-16
South Korea	Base Rate	1.25	14-Jul-16	No Change	11-Aug-16
Malaysia	O/N Policy Rate	3.00	13-Jul-16	Cut 25bps	07-Sep-16
Thailand	1D Repo	1.50	22-Jun-16	No change	03-Aug-16
India	Reverse repo rate	6.50	07-Jun-16	No change	09-Aug-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	12.25	16-Jun-16	Raised 150bps	28-Jul-16
Turkey	Base Rate	7.50	19-Jul-16	No change	23-Aug-16
South Africa	Repo rate	7.00	21-Jul-16	No change	22-Sep-16
Kenya	Central Bank Rate	10.50	22-May-16	Cut 100bps	25-Jul-16
Nigeria	Monetary Policy Rate	12.00	24-May-16	No change	26-Jul-16
Ghana	Prime Rate	26.00	18-Jul-16	No change	19-Sep-16
Angola	Base rate	16.00	30-Jun-16	Raised 200bps	29-Jul-16
Mexico	Target Rate	4.25	30-Jun-16	Raised 50bps	11-Aug-16
Brazil	Selic Rate	14.25	20-Jul-16	No change	31-Aug-16
Armenia	Refi Rate	7.50	28-Jun-16	Cut 25bps	16-Aug-16
Romania	Policy Rate	1.75	30-Jun-16	No change	04-Aug-16
Bulgaria	Base Interest	0.00	01-Jul-16	No change	01-Aug-16
Kazakhstan	Repo Rate	13.00	11-Jul-16	Cut 200bps	15-Aug-16
Ukraine	Discount Rate	16.50	23-Jun-16	Cut 150bps	28-Jul-16
Russia	Refi Rate	10.50	10-Jun-16	Cut 50bps	29-Jul-16



Economic Research & Analysis Department  
Byblos Bank Group  
P.O. Box 11-5605  
Beirut - Lebanon  
Tel: (+961) 1 338 100  
Fax: (+961) 1 217 774  
E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)  
[www.byblosbank.com](http://www.byblosbank.com)

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# BYBLOS BANK GROUP

---

## LEBANON

---

Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

## SYRIA

---

Byblos Bank Syria S.A.  
Damascus Head Office  
Al Chaalan - Amine Loutfi Hafez Street  
P.O.Box: 5424 Damascus - Syria  
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4  
Fax: (+ 963) 11 3348205  
E-mail: byblosbanksyria@byblosbank.com

## IRAQ

---

Erbil Branch, Kurdistan, Iraq  
Street 60, Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457/8/9 - 2560017/9  
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq  
Al Karrada - Salman Faeq Street  
Al Wahda District, No. 904/14, Facing Al Shuruk Building  
P.O.Box: 3085 Badalat Al Olwiya – Iraq  
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2  
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq  
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq  
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919  
E-mail: basrabranch@byblosbank.com.lb

## UNITED ARAB EMIRATES

---

Byblos Bank Abu Dhabi Representative Office  
Intersection of Muroor and Electra Streets  
P.O.Box: 73893 Abu Dhabi - UAE  
Phone: (+ 971) 2 6336050 - 2 6336400  
Fax: (+ 971) 2 6338400  
E-mail: abudhabirepoffice@byblosbank.com.lb

## ARMENIA

---

Byblos Bank Armenia CJSC  
18/3 Amiryan Street - Area 0002  
Yerevan - Republic of Armenia  
Phone: (+ 374) 10 530362  
Fax: (+ 374) 10 535296  
E-mail: infoarm@byblosbank.com

## CYPRUS

---

Limassol Branch  
1, Archbishop Kyprianou Street, Loucaides Building  
P.O.Box 50218  
3602 Limassol - Cyprus  
Phone: (+ 357) 25 341433/4/5  
Fax: (+ 357) 25 367139  
E-mail: byblosbankcyprus@byblosbank.com.lb

## BELGIUM

---

Byblos Bank Europe S.A.  
Brussels Head Office  
Rue Montoyer 10  
Bte. 3, 1000 Brussels - Belgium  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: byblos.europe@byblosbankeur.com

## UNITED KINGDOM

---

Byblos Bank Europe S.A., London Branch  
Berkeley Square House  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 7518 8100  
Fax: (+ 44) 20 7518 8129  
E-mail: byblos.london@byblosbankeur.com

## FRANCE

---

Byblos Bank Europe S.A., Paris Branch  
15 Rue Lord Byron  
F- 75008 Paris - France  
Phone: (+33) 1 45 63 10 01  
Fax: (+33) 1 45 61 15 77  
E-mail: byblos.europe@byblosbankeur.com

## SUDAN

---

Byblos Bank Africa  
Khartoum Head Office  
Intersection of Mac Nimer and Baladiyya Streets  
P.O.Box: 8121 - Khartoum - Sudan  
Phone: (+ 249) 1 56 552 222  
Fax: (+ 249) 1 56 552 220  
E-mail: byblosbankafrica@byblosbank.com

## NIGERIA

---

Byblos Bank Nigeria Representative Office  
161C Rafu Taylor Close - Off Idejo Street  
Victoria Island, Lagos - Nigeria  
Phone: (+ 234) 706 112 5800  
(+ 234) 808 839 9122  
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

## DEMOCRATIC REPUBLIC OF CONGO

---

Byblos Bank RDC S.A.R.L  
Avenue du Marché No. 4  
Kinshasa-Gombe, Democratic Republic of Congo  
Phone: (+ 243) 81 7070701  
(+ 243) 99 1009001  
E-mail: byblosbankrdc@byblosbank.com

## ADIR INSURANCE

---

Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293

