Issue 455
July 28, 2016

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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Sovereign credit quality deteriorates

S&P Global Ratings indicated that the average sovereign rating of the 20 emerging markets (EM) with the highest level of outstanding commercial debt stands at slightly below 'BB+' as of June 2016. It noted that 50% of sovereigns have an investment-grade rating, the lowest share since 2009, compared to a peak of 60% between May 2013 and December 2014. It attributed the decline in investment-grade ratings to the downgrade of the sovereign ratings of Russia and Brazil in January and September 2015, respectively. It added that 65% of the ratings are in the 'BBB' and 'BB' categories, down from 70% at the end of June 2011. Also, 25% of the ratings are in the 'B' or 'CCC' categories, up from 15% at end-June 2011, indicating a deterioration in the credit quality of EM sovereigns that are rated at the lower end of the group's range. S&P said that the average sovereign rating becomes closer to 'BBB+' when the ratings are weighted by nominal GDP, largely due to China, which is rated 'AA-' and which accounts for more than one-third of aggregate GDP of the 20 countries. It noted that the number of sovereigns with a 'negative' outlook on their ratings rose from three to nine over the past six months, the highest number on record. It added that nine out of the 20 EM countries carry a 'stable' outlook on their sovereign ratings, while only Pakistan and Indonesia have a 'positive' outlook on their ratings.

Source: S&P Global Ratings

MENA

Cost of living decreases in most Arab cities

The June 2016 Cost of Living Index, produced by crowd-sourced global database Numbeo, indicated that Kuwait City has the highest cost of living among 18 Arab cities and the 23rd highest among 372 cities worldwide. Dubai followed in 145th place, then Doha (157th), Beirut (181st) and Abu Dhabi (187th). The cost of living in Algiers is the lowest in the Arab world and ranked in 322nd place globally. Cairo preceded in 321st place, then Casablanca (289th), Rabat (282nd) and Tripoli (255th). Numbeo assesses the cost of living in each city based on a Rent Index and a Cost of Living Index that covers groceries, restaurants, transportation and utilities. It benchmarks all indices against New York City. Based on the same cities included in the January 2016 and June 2016 surveys, the rankings of 13 out of 17 Arab cities dropped, reflecting a year-on-year decrease in the cost of living in these cities. In contrast, the rankings of four cities rose from the January 2016 survey. Cairo's ranking regressed by 30 spots, posting the steepest decline in terms of cost of living in the region; while Manama's rank increased by 14 spots, registering the largest increase in the region. Further, the Rent Index showed that rents in Dubai are the highest among Arab cities, while rents in Cairo are the lowest. Numbeo relies on residents' inputs and uses data from official sources to compute the indices.

Source: Numbeo, Byblos Research

Capital inflows to grow by 10% to $97bn in 2016

The Institute of International Finance projected total non-resident private capital inflows to the Middle East & Africa (ME&A) region at $97bn in 2016, which would constitute a rise of 10.2% from $88bn in 2015 and a decrease of $7bn from its April 2016 forecast. The IIF anticipated net private capital inflows to the ME&A region to account for 17.6% of total net private inflows to emerging markets in 2016, down from 32.2% last year. It forecast net direct investment to grow from $32bn in 2015 to $34bn in 2016, while it projected inflows from portfolio investments to decrease from $13bn last year to $8bn this year. Further, it expected net commercial bank lending to reach $37bn this year relative to $33bn in 2015, while it estimated net non-bank private lending to improve from $11bn in 2015 to $18bn in 2016. In parallel, the IIF forecast resident private capital outflows from the ME&A region to regress from $122bn in 2015 to $71bn in 2016 due to a decrease of $54bn in resident lending outflows to $17bn in 2016. Overall, it expected net capital flows to the ME&A region to shift from net outflows of $26bn in 2015 to net inflows of $34bn in 2016, and to shift from net outflows of $31bn last year to net inflows of $34bn this year when including errors and omissions.

Source: Institute of International Finance

UAE

Up to 50% of ADIA's portfolio invested in North America, 20-year returns at 6.5%

The Abu Dhabi Investment Authority (ADIA), the emirate's sovereign wealth fund, indicated that its global investment portfolio is diversified across more than 24 asset classes and sub-categories that include indexed funds, listed equities, fixed income, real estate, private equity, alternatives and infrastructure. It said that approximately 60% of its assets are managed by external fund managers whose activities are closely monitored, and that nearly 50% of its assets are invested in index-replicating strategies. ADIA noted that the 20-year and 30-year annualized rates of return in US dollar terms for its portfolio were 6.5% and 7.5%, respectively, at end-2015 compared to 7.4% and 8.4%, respectively at end-2014. ADIA said that North America represents between 35% and 50% of its portfolio, followed by Europe with a 20% to 35% range, emerging markets with a range of 15% to 25%, and Developed Asia with a 10% to 20% range. Further, equities in developed markets account for 32% to 42% of its portfolio; followed by emerging markets equities and government bonds (10% to 20% each); credit, alternatives and real estate (5% to 10% each); private equity (2% to 8%); infrastructure and small cap equities (1% to 5% each); and cash (up to 10%). In parallel, ADIA stated that it takes its investment decisions independently and without reference to the government of the Emirate of Abu Dhabi. It added that it is not involved with, nor has any visibility about the spending requirements of the Abu Dhabi government and its related entities. It noted that its assets are not classified as foreign currency reserves.

Source: Abu Dhabi Investment Authority

OUTLOOK

GCC

Non-hydrocarbon growth at 3.5% in 2016-17

National Bank of Kuwait (NBK) projected real GDP growth in the economies of the Gulf Cooperation Council (GCC) to decelerate from 3.3% in 2015 to 2.2% in 2016 and 2.6% in 2017 due to the impact of fiscal consolidation on public and private spending. It forecast non-hydrocarbon growth to slow down from 4.1% in 2015 to 3.2% in 2016 and 3.7% in 2017, and for hydrocarbon growth to decelerate from 2.3% in 2015 to 0.8% in 2016 and 0.9% in 2017. It anticipated the economic performance of Qatar, Kuwait and the UAE to be better than that of other GCC economies, especially in terms of non-hydrocarbon sector activity, due to their ample financial resources. It forecast the inflation rate in GCC economies to average about 3.2% during the 2016-17 period relative to an average inflation rate of 2.8% in 2015.

In parallel, NBK indicated that GCC countries, with the exception of Kuwait, have implemented fiscal consolidation measures to address the adverse impact of low global oil prices on their public finances. It noted that local authorities have maintained infrastructure projects in order to support the economy, while they have reduced social benefits and energy subsidies. It added that local authorities in the GCC are planning to further reduce subsidies and to introduce a value-added tax. It considered that these measures would negatively affect economic activity over the short term but bode well for GCC economies over the medium- to long-term. As such, it forecast the consolidated fiscal deficit of the GCC countries to narrow from 9.6% of GDP in 2015 to 8.6% of GDP in 2016 and 3.7% of GDP in 2017. Further, it pointed out that authorities have used debt issuance, among other measures, to finance their fiscal deficits. It estimated sovereign debt issuance at $44bn in the first half of 2016. It said that debt issuance has been mostly in the domestic markets, but it noted that Abu Dhabi, Oman and Qatar have tapped the international markets and expected other GCC governments to follow.

Source: National Bank of Kuwait

EGYPT

Risks to short-term outlook on the rise

Barclays Capital indicated that external and domestic demand in Egypt has weakened since the start of 2016. It said that spillovers from security incidents in key sectors, such as tourism, have reduced foreign currency receipts and further exacerbated the shortages in foreign currency. It noted that the recent shortage in natural gas has disrupted manufacturing activity and weighed on investments and exports. It added that imports fell significantly in recent months, reflecting the sustained weakening of domestic demand. As such, it reduced its estimate for Egypt's real GDP growth to 3% in the fiscal year that ended in June 2016 from 3.6% previously. It anticipated the pressure on external and domestic demand to persist in 2017, as the elevated inflation rate would continue to weigh on consumption and because energy shortages are unlikely to ease anytime soon. Therefore, it reduced its growth forecast to 3.6% in FY2016/17 from 4.4% previously.

In parallel, Barclays considered that Egypt's external position is deteriorating due to declining remittance inflows, reduced official transfers, a narrowing surplus in the services balance, in addition to decreasing exports and tourism receipts. As such, it estimated the current account deficit to have widened from 3.7% of GDP in FY2014/15 to 6.6% of GDP in FY2015/16 and projected it to reach 7.6% of GDP in FY2016/17. It estimated Egypt's external financing needs at about $31.2bn in FY2016/17, which would necessitate an agreement with the International Monetary Fund to cover them, as FDI inflows are unlikely to increase beyond current levels and as portfolio inflows would not resume without an IMF program and before a major currency adjustment. It claimed that GCC countries have linked the disbursements of about $4bn in pledged support to an agreement with the IMF.

Further, Barclays projected Egypt's fiscal deficit to widen from 10.2% of GDP in FY2015/16 to 10.7% of GDP in FY2016/17. It expected the primary budget deficit to narrow from 1.7% of GDP in FY2015/16 to 1.3% of GDP FY2016/17, and it forecast the public debt to rise from 99% of GDP at end-June 2016 to 101.5% of GDP at end-June 2017. It added that the proposed budget for FY2016/17 includes unrealistic targets based on ambitious assumptions for oil prices and real GDP growth.

Source: Barclays Capital

ARMENIA

Growth to decelerate to 2.2% in 2016

The International Monetary Fund projected Armenia's real GDP growth to decelerate from 3% in 2015 to 2.2% in 2016, mainly due to the economic recession in Russia. It projected the inflation rate to average 1% in 2016 as a result of weak domestic demand and tight monetary conditions. It said that short-term risks to Armenia's outlook are elevated and include further deterioration in Russia's economic activity, lower copper prices, as well as uncertainty about global financial conditions. It noted that regional geopolitical developments and tensions pose additional risks to economic growth. The IMF expected Armenia's economic activity to recover gradually over the medium term, along with the anticipated recovery in Russia's activity and in the global economy. It indicated that the energy sector is undergoing major reforms, while reforms to improve the business environment are advancing. Still, it noted that additional structural reforms would be critical to support medium-term growth.

In parallel, the Fund expected authorities to resume fiscal consolidation in 2016, as the limited fiscal space significantly constrains the options for pursuing additional countercyclical measures and prevents a large increase in capital spending. It expected fiscal consolidation to continue over the medium term, supported by a new tax code that would increase tax revenues. As such, it projected the fiscal deficit to narrow from 4.8% of GDP in 2015 to 4.1% of GDP in 2016 and to 2.8% of GDP in 2017, and for the public debt level to rise from 48.7% of GDP in 2015 to 52.4% of GDP in 2016 and 54% of GDP in 2017. Further, it projected the current account deficit to remain low at 3% of GDP in 2016 as subdued economic activity and lower import prices reduce the import bill. The IMF indicated that the Central Bank of Armenia is limiting its intervention in the foreign currency market to periods of excessive market volatility, in order to allow greater exchange rate flexibility and preserve foreign currency reserves. It projected foreign currency reserves to cover 5.3 months of imports in 2016 and 5.4 months of imports in 2017.

Source: International Monetary Fund

EGYPT

IMF deal necessary to meet financing needs

Regional investment bank EFG Hermes estimated that Egyptian authorities could reach a final agreement with the IMF on a three-year $12bn Stand-By Agreement (SBA) program, once Parliament ratifies the VAT draft law. In addition, it considered that the IMF would demand a commitment from authorities for a more flexible exchange rate policy. It said that a successful float of the exchange rate would require building liquidity buffers to help the authorities stabilize the exchange rate and to minimize the inflationary impact of a currency depreciation. As such, it anticipated that authorities would adopt a more flexible exchange rate once they reach an agreement with the IMF rather than in the immediate future. Further, EFG indicated that the government plans to use the funding that will be available from the IMF to help cover a funding gap of about $21bn. As such, it noted that this would require additional sources of external financing to close the gap. It noted that Saudi Arabia and the UAE have already pledged $4.5bn in cash support that should be disbursed over the next few months, and they could announce additional support. In addition, it said that the government has access to a $3bn loan from the World Bank and a $1.5bn loan from the African Development Fund. Also, it indicated that the government aims to capitalize on the SBA program and on the implementation of critical fiscal reforms in order to issue about $2bn to $3bn in Eurobonds. In parallel, HSBC Bank considered that an IMF deal would improve the prospects for a recovery in FDI and portfolio inflows, and would facilitate Egypt's access to external funding.

Source: EFG Hermes, HSBC

IRAQ

Banking sector to finance 64% of 2016 deficit

The International Monetary Fund projected Iraq's fiscal deficit to reach ID26 trillion, or $22.8bn, and to widen from 14.3% of GDP in 2015 to 14.7% of GDP in 2016, despite the government's fiscal consolidation efforts. It anticipated the domestic banking sector to finance ID16.6 trillion, or 64% of the fiscal deficit, of which ID12.6 trillion will be refinanced at the discount window of the Central Bank of Iraq (CBI) due to the banks' tight liquidity. Also, it said that authorities plan to issue ID5 trillion of bonds to the general public, including to the Iraqi Diaspora. Further, the IMF pointed out that external financing will consist of loans from the Fund, the World Bank, the Group of Seven major economies and the European Union, as well as a $200m budget support loan from the Japanese International Cooperation Agency. It added that authorities plan to issue a $1bn Eurobond in the second half of 2016 to cover the financing gap. In parallel, the Fund anticipated that the CBI's indirect financing of the deficit would lead to a sharp increase in the public debt level from 63.9% of GDP in 2015 to 79% of GDP in 2016 and would contribute to a large drawdown of foreign currency reserves to finance government imports. It projected foreign currency reserves to fall from $53.4bn, or 9.9 months of imports cover, at end-2015 to $42.7bn or 7.8 months of imports cover at end-2016. Further, the IMF noted that Iraqi authorities would stop accumulating arrears from 2016 onward, and would clear outstanding arrears to international oil companies by the end of 2016.

Source: International Monetary Fund

NIGERIA

Economy to contract by 1% in 2016

The Institute of International Finance indicated that the Nigerian economy continues to face challenges from lower oil export receipts and the recurrent disruptions to its oil production. It added that the scarcity of foreign currency, disruptions to trade, delays in budget execution and lower oil production continue to weigh on economic activity. As such, it forecast real GDP to contract by 1% in 2016. However, it noted that the recent stabilization in global oil prices, the shift to a more flexible exchange rate regime, the gradual execution of the budget, along with the implementation of other reforms, would help economic activity to recover modestly going forward. Further, it forecast the fiscal deficit at 3.4% of GDP in 2016 relative to its earlier projection of a deficit of 4.4% of GDP, despite lower-than-budgeted oil production. It noted that a weaker naira and the under execution of planned capital spending would support fiscal consolidation this year. In parallel, the IIF considered that the recent reforms should enable authorities to secure funding from the World Bank and the African Development Bank, and to raise $1bn in Eurobond issuance in the next few months. But it noted that private sector capital flows have not recovered yet and expected foreign investment to remain subdued due to continued uncertainty. Further, it pointed out that external financing needs have eased significantly due to lower imports, as it projected the current account deficit to narrow from 3.1% of GDP in 2015 to 2.2% of GDP in 2016. Also, it noted that the inflation rate rose to a decade-high of 16.5% in June 2016.

Source: Institute of International Finance

TURKEY

Ratings downgrade to speculative grade would affect capital flows, currency and economic growth

Merrill Lynch anticipated that Turkey's economic growth rate would further decelerate if political tensions persist and if the country loses its investment grade rating. It noted that the weak tourism season would weigh on economic activity, while the failed coup attempt, the financial turmoil that followed and the resulting shock to confidence would push growth downward. It considered that authorities have room to support growth through a more expansionary fiscal policy rather than through aggressive rate cuts. It expected the Turkish lira to weaken and for capital outflows to accelerate in case Turkey's ratings are downgraded to speculative grade, which would make deeper rate cuts counterproductive. It anticipated that the weak local sentiment and the rising dollarization rate of private sector deposits would further weaken the lira. Overall, it considered that fiscal and monetary countercyclical responses would weigh on macroeconomic imbalances, increase inflationary pressure and would widen the fiscal and current account deficits, as consumption increasingly drives economic activity. In parallel, Merrill Lynch indicated that a downgrade of the sovereign ratings to below investment grade could significantly increase the cost of funding in US dollars for banks and corporates, which could put pressure on the lira, further weaken investments and weigh on growth. It noted that a sovereign downgrade would affect about $50bn of sovereign Eurobonds, $23bn of corporate bonds and $145bn of local bonds.

Source: Merrill Lynch

BANKING

QATAR

Banking sector outlook remains stable

Moody's Investors Service maintained its 'stable' outlook on Qatar's banking system, as it expected the banks' operating environment to continue to be favorable over the coming 12 to 18 months, supported by elevated public spending. It noted that sustained government spending would support credit growth and provide a relatively robust lending environment for banks. It projected the sector's non-performing loans (NPL) to rise from 1.5% of total loans at the end of 2015 to 2% at end-2016. But it noted that Qatar's NPL ratio would be the lowest among GCC banking systems. In addition, it expected the banks' underlying capital buffers to remain strong and their profitability to continue to be solid, even though profits have weakened. It estimated that the banks' return-on-assets would decline from 1.9% in 2015 to 1.7% in 2016, mainly due to rising funding costs, as well as to an increase in provisioning as loan delinquencies rise. However, the agency anticipated that Qatari banks would face a funding gap, as a result of continued credit growth and reduced deposit inflows from the government and its related entities. It noted that the government's deposits in the banking sector fell from 42% of total deposits at the end of 2013 to 32% at the end of March 2016. As such, it expected the banks to increase their reliance on market funding, which would raise refinancing risks and leave the banks more vulnerable to shifts in market sentiment.

Source: Moody's Investors Service

SAUDI ARABIA

Net profits down 3% in second quarter, customer deposits contract for first time in 11 years

The net profits of 12 listed banks in Saudi Arabia totaled SAR11.6bn, or $3.1bn, in the second quarter of 2016, constituting a decrease of 1% from SAR11.7bn in the preceding quarter and a drop of 3.2% from SAR12bn in the same quarter of 2015. The decline in profits in the second quarter of the year reflects mainly an 11% increase year-on-year in provisions as a result of investment impairments, and a 3.7% rise in operating expenses. Further, the banks' aggregate net interest income totaled SAR14.5bn in the second quarter of 2016, up by 4.7% from the first quarter of 2016 and by 7.8% annually; while non-interest income reached SAR6.5bn and regressed by 1% from the preceding quarter and by 1.2% year-on-year due to lower fees and commissions. In parallel, the banks' total assets reached SAR2,223bn, or $593bn, at the end of June 2016, constituting a rise of 2.2% from a year earlier. Net loans totaled SAR1,440bn, or $384bn, at the end of June 2016 and rose by 8.2% year-on-year. Further, the sector's customer deposits reached SAR1,662bn or $443.1bn, at the end of June 2016, down by 2.2% from SAR1,700bn at end-June 2015, which constituted the first year-on-year contraction in deposits in about 11 years. The drop in deposits indicates that liquidity pressure persists. Also, the loans-to-deposits ratio increased from 82.2% at the end of June 2015 to 84.3% at end-June 2016.

Source: EFG Hermes

NIGERIA

Naira to remain under pressure

Research and analytics provider IHS Markit indicated that the Central Bank of Nigeria's (CBN) interventions in the interbank, spot and forward markets show a strong bias toward a managed float exchange rate system rather than a fully flexible one. It said that the CBN has been reluctant to adopt a complete liberalization of the local foreign currency market. It noted that the CBN's decision to remove the cap on the spread between bids and asks in the foreign exchange interbank market has led to strong volatility in the forward market. It added that this reflects the underlying sentiment that the naira's exchange rate still needs to depreciate against major foreign currencies before it reaches an equilibrium that is in line with current market fundamentals. IHS expected the naira to further depreciate in the interbank market, in case the CBN does not intervene to prevent the market from determining a credible exchange rate based on prevailing liquidity conditions. It said that the naira could trade as low as NGN360 against the US dollar in the interbank market compared to about NGN310 currently, which could limit the activity on the parallel market but would not eliminate it, as import restrictions remain in place. In parallel, IHS noted that the CBN remains the main source of foreign currency supply. It added that supply continues to be tight, due in part to the CBN's unwillingness to liberally tap its limited foreign currency reserves and because of limited foreign currency inflows from the private sector.

Source: IHS Markit

TURKEY

Rating agencies take actions on banks

S&P Global Ratings downgraded the long-term counterparty credit ratings of Turkiye IS Bankasi, Yapi ve Kredi Bankasi, Turkiye Vakiflar Bankasi and Turkiye Garanti Bankasi from 'BB+' to 'BB', with a 'negative' outlook. It attributed the downgrade to its similar action on Turkey's sovereign ratings following the attempted coup on July 15. It considered that the risks to the banks' ability to roll over external debt have increased. It indicated that a potential erosion in investor confidence could affect the banks' funding, which relies heavily on foreign financing. Also, it pointed out that a significant weakening in economic growth could negatively affect the banks' asset quality, earnings and capitalization. It added that a rise in the volatility of the Turkish lira could weigh on the repayment ability of domestic corporate borrowers as they carry large open foreign exchange positions. Still, it considered that Turkish banks' sound asset quality, earnings and capitalization would provide a solid buffer to absorb elevated risks over the next 12 months. In parallel, Moody's Investors Service placed under review for downgrade the ratings of 17 Turkish banks following the coup attempt. It indicated that the review would allow it to assess the potential weakening of the government's capacity and willingness to support the banks in case of need, as well as the risk of a further deterioration in the domestic operating environment that could affect the banks' financials. It noted that a potential rise in the cost of funding, reduced profitability, more limited capital generation capacity and weakening asset quality, could weigh on the banks' performance over the coming quarters.

Source: S&P Global Ratings, Moody's Investors Service

ENERGY / COMMODITIES

Oil market oversupply to persist in near term

ICE Brent crude oil one-month future prices and WTI oil prices closed at a three-month low of $43.5 per barrel (p/b) and $41.9 p/b, respectively, on July 27, 2016. Brent prices regressed by 3.1% from the previous day but increased by 16.6% from the end of 2015; while WTI oil prices decreased by 0.6% day-to-day and grew by 12.8% from end-2015. Julius Baer indicated that the oil market continues to face an inventory overhang, despite strong demand growth and recent supply outages, including the Canadian wildfires and Nigerian pipeline attacks. It attributed the downward pressure on prices to growing concerns that the oil market could be oversupplied for a longer period of time. However, it projected the surplus oil in storage to decrease gradually over the coming years. It forecast crude oil prices to trade at around $45 p/b in the near term, while it did not expect a sustained price recovery. It said that headwinds in the near term could come from a stronger US dollar. It added that hedge funds and other investors have begun to unwind their excessive long positions, which could further weigh on oil prices. According to the International Monetary Fund, the probability of WTI and Brent oil prices rising above $60 p/b in the next 12 months decreased to 11.9% and 13.7%, respectively, in July 2016. Downside pressure on oil prices includes growth in oil production and sustained geopolitical risks, along with macroeconomic concerns following the UK's decision to leave the European Union.
Source: Julius Baer, IMF, Byblos Research

Middle East accounts for 10% of world's oil consumption in 2015

BP estimated the Middle East region's crude oil consumption at 9.6 million barrels per day (b/d) in 2015, up by 2.1% from 9.4 million b/d in the previous year, and equivalent to 9.8% of the world's oil demand. Saudi Arabia's oil consumption averaged 3.9 million b/d, or 40.7% of the region's total demand last year, followed by Iran with 1.9 million b/d (20.3%), the UAE with 0.9 million b/d (9.4%) and Kuwait with 0.5 million b/d (5.6%).
Source: BP, Byblos Research

LNG market to become undersupplied after 2020

Qatar National Bank (QNB) expected the liquefied natural gas (LNG) market to remain oversupplied during the next four years, but to become undersupplied beyond 2020 as the current low oil price environment makes the implementation of new projects economically unfeasible. It expected supply shortages beyond 2020 to be driven by the drying up of projects in the pipeline and the anticipated strong growth in demand. It indicated that demand for LNG has increased by 6.2% annually since 1990, and expected it to grow by 6% per year through 2020. Also, it projected LNG supply to grow by 8% annually through 2020. It noted that Qatar remains the world's leading supplier of LNG.
Source: Qatar National Bank

OPEC's oil output up 1% in June 2016

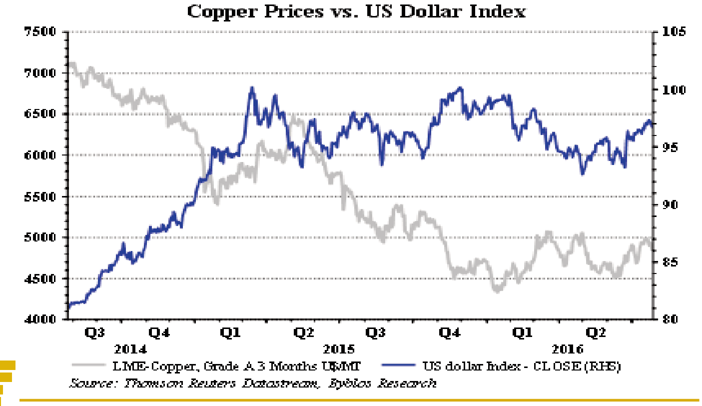
Crude oil production of the Organization of the Petroleum Exporting Countries averaged 32.86 million b/d in June 2016, constituting an increase of 0.8% from 32.59 million b/d in the preceding month. Saudi Arabia produced 10.31 million b/d in June, equivalent to 31.4% of OPEC's total oil output. It was followed by Iraq with 4.22 million b/d (12.8%), Iran with 3.64 million b/d (11.1%) and the UAE with 2.91 million b/d (8.9%).
Source: OPEC, Byblos Research

Base Metals: Copper prices to drop by 12% in 2016

LME Copper three-month future prices regressed by 1.6% day-to-day to close at a two-week low of $4,850 per metric ton on July 27, 2016. Prices recovered in mid-day trading on July 28, rising by about 1%, as the US dollar weakened following the U.S. Federal Reserve's decision to maintain interest rates at current levels. Prices averaged $4,688 per ton in the first quarter 2016 and $4,740 per ton in the second quarter and are forecast to average $4,400 per ton in the third quarter and $4,600 per ton in the fourth quarter of 2016. Overall, copper prices are expected to average $4,595 per ton in 2016, which would reflect a drop of 12% from $5,509 per ton in 2015. In parallel, global demand for refined copper is estimated to have increased by 6.3% year-on-year in the first four months of 2016, mainly due to higher Chinese demand for the metal. Demand for refined copper grew by 9% in Asia and by 6% in Europe, while it declined by 20% in Africa and by 4.5% in the Americas, and was nearly unchanged in Oceania in the first four months of 2016. In parallel, the metal's global refined production is estimated to have increased by 4.5% to 7.7 million tons in the first four months of 2016. China was the main contributor to growth in refined supply during the covered period.
Source: International Copper Study Group, Byblos Research

Precious Metals: Gold prices subject to increased volatility in rest of 2016 amid rising uncertainties

Gold prices grew by 0.6% day-to-day to close at $1,328 a troy ounce on July 27, 2016 as the US dollar weakened following the U.S. Federal Reserve's decision to keep interest rates unchanged. The metal's price is likely to be subject to further volatility during the remainder of 2016, as challenges may arise from the United Kingdom's long process of negotiations to exit the EU and the uncertain global economic consequences of the Brexit vote. Gold prices averaged $1,182 an ounce in the first quarter and $1,259 an ounce in the second quarter of 2016, and are forecast to increase to $1,330 an ounce in the third quarter and to $1,350 an ounce in the fourth quarter of 2016. Overall, prices are expected to increase by 10.4% in 2016 to an average of $1,280 an ounce, partly due to the probable delay in the normalization process of the US monetary policy, along with improved investor sentiment that is reflected by positive ETF inflows in 2016 after three years of outflows. In parallel, global gold demand is expected to grow by 1.7% in 2016, mainly due to a 44% rise in total investment demand. Further, gold jewelry demand is projected to account for 46.2% of total physical gold demand. On the supply side, gold mine production is forecast to decrease by 2.5% this year and to account for 71.7% of total supply.
Source: Deutsche Bank, 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	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B Stable	B1 Negative	B+ Negative	- -	B+ Stable	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B- Negative	B3 Stable	B Stable	B- Stable	B- Stable	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B Stable	B1 Stable	B Stable	-	B+ Stable	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B- Stable	B3 Negative	B Negative	- -	B+ Negative	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	- -	Ba3 Stable	B+ Stable	- -	B+ Stable	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	- -	- -	B Stable	- -	B- Negative	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B- Negative	B3 Stable	- -	- -	CCC Stable	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB- Stable	Ba1 Stable	BBB- Stable	- -	BBB Stable	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B+ Negative	B1 Negative	B+ Stable	- -	BB- Negative	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	- -	- -	- -	- -	CC Negative	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	- -	Ba3 Stable	BB- Negative	- -	BB+ Stable	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B- Stable	- -	- -	- -	B+ Stable	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B+ Negative	- -	B Positive	- -	B+ Stable	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB Stable	Ba2 Stable	BB+ Stable	BBB- Negative	BBB- Negative	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	- -	- -	- -	BB- Stable	BB- Stable	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B- Stable	(P)Caa1 Stable	B- Negative	- -	CC+ Stable	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB- Negative	B1 Stable	- -	BB- Stable	BB+ Stable	-3.4	90.4	64.5	141.2**	4 10.5	177.3	-6.4	5.5
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	AA- Stable	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B- Negative	B2 Negative	B Negative	B Negative	B- Stable	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB Stable	Baa1 Stable	- -	A- Negative	BBB Negative	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA Stable	Aa2 Negative	AA Stable	AA- Negative	AA- Stable	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A- Stable	A1 Stable	AA- Negative	AA- Negative	AA- Stable	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	- -	- -	- -	- -	C Negative	-	-	36.5	-	-	-	-	0.6
UAE	- -	Aa2 Negative	- -	AA- Stable	AA- Stable	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	- -	- -	- -	- -	CCC Negative	-10.0	67.3	17.3	-	-	197.2	-7.0	-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	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	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	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	CWN***	Stable	-	Negative	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB-								
	Negative	Stable	Stable	-	Stable	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Negative	Stable	-	Positive	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
Russia	BB+	Baa3	BBB-	-	BB+								
	Negative	CWN***	Negative	-	Negative	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
Turkey	BB	Baa3	BBB-	BB+	BB-								
	Negative	CWN***	Stable	Stable	Negative	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	Negative	-	-	Stable	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1

**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	27-Jul-16	No change	21-Sep-16
Eurozone	Refi Rate	0.00	21-Jul-16	No change	08-Sep-16
UK	Bank Rate	0.50	14-Jul-16	No change	04-Aug-16
Japan	O/N Call Rate	-0.10	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
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	27-Jul-16	No Change	N/A
Taiwan	Discount Rate	1.375	30-Jun-16	Cut 12.5bps	30-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	01-Sep-16
Kenya	Central Bank Rate	10.50	22-May-16	Cut 100bps	25-Jul-16
Nigeria	Monetary Policy Rate	14.00	26-Jul-16	Raised 200bps	20-Sep-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

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