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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

UKRAINE

President Yushchenko dissolves parliament, orders new elections

President Viktor Yushchenko dissolved parliament and ordered new parliamentary elections to be held May 27. Yushchenko attributed his decision to the violations of the constitution, including during the formation of the current coalition government in the summer of 2006. The pro-government majority in the Rada moved to defy the dissolution decree, voting to dismiss the central electoral commission and refusing to allocate funds for early elections. The parliament also called on the country's constitutional court to examine the dissolution decree and rule on its legitimacy.

The pro-Western president has been locked in a power struggle with Prime Minister Yanukovich since appointing him last August. The crisis came after months of mounting tension between Yushchenko, a strongly pro-West politician, and the coalition formed after the March 2006 parliamentary elections. Yushchenko accuses Yanukovych's coalition of trying to bolster its ranks by persuading members of parliament to change sides. The pro-Moscow coalition currently controls 250 of the 450 seats in parliament, and with 50 more could change the constitution to further weaken the president. Yushchenko's decree signals the onset of another period of extremely high political tensions. The stand-off is likely to continue for the foreseeable future.

Source: Reuters, AFP

IRAN

Standoff defused as Iran frees UK sailors

Fifteen British navy personnel left Tehran on Thursday morning after the Iranian crisis came to an end on Wednesday when Mahmoud Ahmadi-Nejad, Iran's president, announced that all the detainees would go free. Speaking after two days in which London and Tehran have intensified diplomatic efforts to resolve the crisis, Mr Ahmadi-Nejad said that the sailors and marines detained since March 23 would be released as a "gift to the British people" on the occasion of Easter and Passover. Mr Ahmadi-Nejad's decision defuses a dispute that had increased tensions in the Persian Gulf, threatened to overshadow the last days in office of British prime minister Tony Blair, and pushed up the price of oil.

Source: Financial Times

SYRIA

Pelosi conveys Israeli peace message to Syria

U.S. House Speaker Nancy Pelosi, on a visit to Syria opposed by the White House, said on Wednesday she conveyed an Israeli message to President Bashar al-Assad that the Jewish state was ready to resume peace talks. Pelosi, the most senior U.S. official to visit Syria in more than two years, said Assad told her he was also ready for negotiations with Israel. Syria wants the return of the Golan Heights, captured by Israel in the 1967 Middle East war. "(Our) meeting with the president enabled us to communicate a message from Prime Minister Olmert that Israel was ready to engage in peace talks as well," Pelosi told reporters in Damascus after talks with Assad. Syrian Foreign Minister Walid al-Moualem said that Syria was ready to resume talks with Israel based on an Arab peace plan calling for Israeli withdrawal from all Arab land for peace adopted at a summit last month. Prime minister Olmert said Israel is interested in peace with Syria, but Syria would first have to abandon the path of terror and providing support for terrorist groups.

Source: Reuters

RUSSIA

Russia seeks nuclear deal in Africa

Russia has offered to build a nuclear power plant in Namibia as Moscow seeks to break into the African nuclear market, according to Russia's nuclear chief Sergei Kiriyenko. Russian firms would also form a joint venture to mine uranium in the African state. He said Russia was looking at building a floating nuclear power plant for Namibia. Russia is pioneering efforts to build offshore nuclear power plants, shrugging off criticism by environmentalists who say they are inherently unsafe. Kiriyenko said Russian firms Renova, Vneshtorgbank (VTB) and Tekhsnabexport have agreed to form a joint venture to mine uranium in Namibia. Russia's is reorganizing its civilian nuclear sector as it seeks to widen sales of nuclear technology abroad.

Source: Interfax

MENA

Moody's opens regional office in Dubai

International rating agency Moody's Investors Service announced the official opening of its regional office in the United Arab Emirates. Located in the Dubai International Financial Center, Moody's Middle East Ltd will play a key role in serving financial market participants in the Middle East by covering corporate issuers and financial institutions in the GCC and other parts of the region. According to the agency, “Middle Eastern capital market participants are increasingly accessing the global capital markets to address their financing requirements.” Moody’s added that it seeks to address the growing regional demand for in-depth, globally comparable credit analysis and ratings.

Source: Moody's Investors Service

MARCH POLITICAL RISK OVERVIEW

ARMENIA

The entire government resigned en masse, as required by constitution, following the unexpected death from heart attack of PM Andranik Markarian on March 25.

ETHIOPIA

Ethiopian troops remained in Somalia despite pronouncements and ceremonies to the contrary. PM Meles Zenawi stated as soon as AU firmly established in Somalia, they'll move out completely. High Court adjourned its verdict on cases of jailed opposition leaders and journalists for third time.

EGYPT

Constitutional changes approved by parliament on March 19 were called into question by low-turnout for March 26 "lightening" referendum. Government said 27% of registered voters turned out, and 76% approved measures; democracy activists cited only 5% turnout. Muslim Brotherhood boycotted poll; rights organizations warned changes billed as reform in fact constitutionally enshrined emergency rule. Series of opposition activist arrests in run-up to vote, including at least 28 Muslim Brothers detained on March 13-15.

IRAN

Tensions escalated over seizure of 15 UK navy personnel Iran claimed entered its waters illegally, further complicating stalled nuclear diplomacy. Seizure occurred during UK operation in Shatt-al-Arab waterway between Iraq and Iran day before March 24 unanimous UN Security Council vote to impose second round of sanctions on Tehran for refusal to suspend uranium enrichment. Iran responded by partially halting cooperation with International Atomic Energy Agency. Former deputy defense minister, Ali Reza Asghari, disappeared while in Istanbul early March. U.S. and Iran had first formal contact in 2 years at March 11 security conference in Baghdad. Dispute over financing stalled Russia's construction work on nuclear plant at Bushehr.

IRAQ

U.S. military surge brought reduced violence but suicide bombings continued and month-end saw renewed Shiite retaliation for Sunni attacks. Over 70 killed by blasts on March 24, day after Deputy PM Salam Zaubai injured in bombing in Baghdad in which 9 died. Two truck bombs hit markets in northern Tal Afar town on March 27, killing 60 and prompting Shiite police to go on revenge shooting spree, killing 70. Tensions mounted in Kirkuk ahead of proposed late 2007 referendum to determine whether governorate will be assimilated into semi-autonomous Kurdish region; 3 car bombs exploded on March 19. U.S. House of Representatives voted on March 23 by a narrow margin to impose August 2008 deadline for U.S. withdrawal; Senate voted in favor of target date of March 2008; U.S. President Bush promised to veto any bill setting withdrawal timetable. The government announced plans to allow former Baath party members to return to official posts with 3-month period for ex-members to be challenged, after which they will be immune from prosecution for events during Saddam era. Baghdad security conference held on March 11 for Iraq's interested parties in step towards Baker/Hamilton-recommended regional diplomatic engagement.

KAZAKHSTAN

3 killed in clash between ethnic Kazakh and Chechen youth in Malovodnoye, near Almaty; authorities downplayed ethnic aspect of incident.

MOROCCO

Authorities pledged to pursue war against terrorism "without respite" after formerly convicted terrorist Abdelfattah Raydi blew himself up in an internet café in Casablanca slum on March 11 after discovered to be accessing terrorist sites. Security officials believe Raydi and 12 others planned to blow up foreign ships at Casablanca port and tourist facilities in Agadir, Marrakech and Essaouira; 24 suspects were arrested in connection.

NIGERIA

Election-related violence intensified with risk of major confrontation between President Obasanjo and Vice-President Atiku Abubakar camps around April polls. Electoral commission's disqualification of Action Congress (AC) presidential candidate Abubakar led to protests prompting threat of security crackdown. All 7 members of senate committee probing graft allegations against both Obasanjo and Abubakar resigned 21 March, saying senate leaders had pressured them to water down report later presented to Senate. Military Joint Task Force in Niger Delta freed 4 foreign hostages held by Niger Delta militants; 4 others released; militants vowed to carry out more kidnappings.

SUDAN

In March 6 letter to UNSG Ban Ki-moon, President Bashir backtracked on commitment to allow UN command and control for AU/UN hybrid force for Darfur. UK PM Blair and German Chancellor Merkel reiterated calls for tougher sanctions, including no-fly zone. Khartoum signed agreement with UN on March 28, repeating unfulfilled promise made 3 years ago to take "fast track" measures to remove bureaucratic obstacles to aid work in Darfur. Sudan Liberation Movement faction of Minni Minawi, sole signatory to May 2006 Darfur Peace Agreement, clashed with police on March 24 in Omdurman; 8 former rebels and 2 police were killed; agreement is at risk of collapse.

SYRIA

In first visit in 2 years EU foreign policy chief Solana urged Damascus to play positive role in Lebanon and Iraq and expressed support for Syria's aim of regaining Golan Heights. Kurdish political groups planned to boycott parliamentary elections on April 22 alleging 100,000 Kurds not allowed participating; majority of opposition parties are also not contesting poll. 10,000 candidates are due to contest 250 parliamentary seats; 167 are reserved for ruling Baath party and allies.

YEMEN

2 foreign students were killed by Shiite rebel attack on religious school in restive northern region on March 26. Battles between followers of deceased radical Shiite leader Hussein al-Houthi and government troops continued. Ali Mohammed Mujur was named new PM on March 31, after resignation of Abdul-Kader Bajammal.

Source: International Crisis Group

OUTLOOK

UKRAINE

Economic performance to regress

Increased global demand for steel and higher export prices helped improve economic performance in 2006 and limit near-term financial risks despite expansionary fiscal, incomes and monetary policies. A surge in import volumes and an 80% hike in natural gas import prices shifted the current account from a surplus to a deficit of 1.6% of GDP in 2006, which would have been larger but for the jump in steel export prices. Financial pressures were also contained by strong capital inflows from abroad, which kept foreign exchange reserves at 4.5 months' imports cover. Expansionary macroeconomic policies have intensified demand pressures, but government action to limit the passthrough of higher energy costs to households helped keep 12-month inflation little changed at 10%.

With structural reforms stalled, growing macroeconomic imbalances will increase medium term financial risks. Terms-of-trade losses and buoyant domestic demand are set to widen the current account deficit to near 7% GDP by 2008. Adhoc spending cuts should keep the general government deficit from exceeding 3.5% of GDP but further delays adjusting domestic energy prices will boost losses among state-owned utilities, widening the broader fiscal deficit to 6.5% of GDP next year. The risk of an abrupt hryvnia correction will grow, especially if global liquidity conditions tighten. A sharp currency correction could significantly affect domestic banks' asset quality, given the large share of foreign exchange loans and weaknesses in risk management and supervision.

Source: Institute of International Finance

ALGERIA

Strong levels of hydrocarbons output to support economic outlook

The hydrocarbons sector will remain the driving force of the economy. Oil and gas production is expected to rise from the limited growth seen last year owing to new fields coming on stream, improved hydrocarbons infrastructure, and development of liquefied natural gas and petrochemical projects. Prospects for the nonhydrocarbons economy appear mixed. Overall, real GDP growth is expected to average around 5.5% annually during 2007-08. The growth in consumption related to last year's public sector pay rise combined with continued fiscal expansion is likely to lead to higher inflation, with the CPI expected to rise by 3.5% in 2007 and 3.3% in 2008. Inflationary pressures will be sustained by the limitations of monetary policy, particularly the central bank lacking the tools to manage liquidity growth adequately.

The steady increase in the current account surplus as a percentage of GDP witnessed since 2003 appears to have peaked in 2006. However, the surplus over the next two years will remain large, averaging nearly $29bn. Despite the increase in import spending, export earnings of more than double the size of imports will produce substantial trade surpluses over the next two years.

Growth in net FDI will be modest as foreign hydrocarbons firms delay committing themselves to additional exploration and production activity until hydrocarbons policy becomes clearer. As a result of the policy to keep new lending limited, the net lending balance will move into surplus in 2008. The external debt stock is expected to drop to negligible levels ($0.9 billion, or about 1% of GDP) by end-2007. Similarly, the debt service ratio is expected to fall, to just 7% by end-2007. Based on continued high oil prices, a further substantial rise in international reserves, to near $140 billion is anticipated by end-2008, equivalent to almost four years of import cover.

Source: Economist Intelligence Unit

IRAQ

Real GDP growth under 3% in 2007-08

Given ongoing security problems, oil output has risen only modestly in 2006. In addition, development spending has been constrained by security costs and corruption, and the non-oil sector has been blighted by the lack of security and the slow pace of reconstruction and international aid and loan disbursement. As a result, real GDP growth in 2006 is estimated at under 2%. In 2007-08 this will rise only modestly, to an annual average of just under 3%, as oil output increases remain small and constraints on the non-oil economy continue. If the security situation deteriorates further, then even the modest projected increases in oil output will not be possible, and the non-oil sector will also suffer.

Anecdotal accounts of strong price rises in much of the country have led to assume that average prices in 2006 were markedly higher than in 2005, and inflation is estimated to average 52% over the year. These increases were partly a reflection of the recent easing of fuel subsidies. However, subsidies on fuel, along with those on a number of other goods, are expected to remain at least partly in place. Overall, this should limit the rise in inflation over the outlook period and inflation rate is expected to remain fairly constant in 2007-08.

The Central Bank of Iraq (CBI) is committed to maintaining what has become a de facto peg to the dollar, and its chief means to do this is the daily currency auction. The average official rate did not fluctuate much below NID1,470-1,475:US$1 between the third quarter of 2005 and November 2006, when an apparent policy of encouraging appreciation to reduce inflationary pressures led to the dinar trading at NID1,288:US$1 at the beginning of February 2007. Given the present security situation, pressure on the currency is expected to remain high, although CBI intervention should help to maintain a relatively stable, and slightly stronger, rate of around NID1,400-1,425:US$1 over 2007-08.

In 2006 oil revenue rose in line with the increase in average prices. Total export revenue is estimated to have jumped by almost 40% to around $31bn. Export earnings will decline by 8%, in 2007, to around $29bn, owing to an only modest rise in oil output and a decline in oil prices. Import spending will continue to expand in line with reconstruction needs and slowly strengthening domestic consumption, rising by an annual average of around 4% in 2007-08. Overall, the trade surplus will narrow from an estimated $10.4bn in 2006 to around $7bn over 2007-08.

Source: Economist Intelligence Unit

ECONOMY & TRADE

SYRIA

Syria prepares again to join WTO

The Syrian Government has announced that it had formed four committees to prepare for negotiations on Syria's access to the World Trade Organisation. Syria initially applied for WTO membership in October 2001, but faced strong opposition from the United States and Israel. In September 2005, it renewed its request to pursue WTO accession. The four committees will cover aspects related to trade in goods, trade in services, intellectual property as well as a fourth committee in charge of overall negotiations. The latter will be headed by the Minister of Economy while each of the other three committees will chaired by his deputies. The Ministry of Economy set-up last year a department dedicated to the WTO accession negotiations.
Source: Syria Report

Areeba's net profit up 31.5% to $74m in 2006

Mobile operator Areeba posted net profits of $74 million (SYP 3.71 billion) in 2006, up 31.5% from $56 million (SYP 2.82 billion) in 2005. Sales totaled SYP26.18 billion ($523m) in 2006, up 23% from SYP21.34 billion a year earlier, while operating expenses reached SYP 4.78 billion in 2006 compared to SYP 4.21 billion in 2005. Areeba, which operates one of the two GSM networks in Syria, indicated that the number of subscribers to its network reached 2.097 million at the end of 2006 and that the company covered 99.22% of Syria's population. Areeba held a 45.5% market share behind its only competitor Syriatel, which holds the balance 54.5%.

Syriatel has not yet published its annual results. In 2005, it had sales of SYP25.5 billion and net profits of SYP4.887 billion. Areeba's income statement also shows an increase in the annual license fee paid to the Syrian Telecommunication Establishment to SYP9.75 billion from SYP6.89 billion in 2005. Areeba's mother company and owner of 70% of its shares, Investcom LLC, was purchased by MTN, a South African-based operator of mobile networks in Africa and the Middle East, in a deal valued at $5.5 billion.
Source: Syria Report

WORLD TRADE

US to impose tariffs against Chinese exports

The U.S. Department of Commerce announced its decision to allow counter-veiling duties (CVDs) (i.e. tariffs) to be imposed in principal against Chinese exports. The CVD framework has been moribund for many years because it is hard to calculate product-specific subsidies in non-market economies like China. However, domestic pressure in the U.S. for 'something to be done' about China has forced the issue. It is likely that filings will take place from across U.S. textiles, steel and manufacturing, and China's MoFCOM has signaled it may escalate the case to the WTO. Legislation will likely pass before the summer unless big progress can be announced at the May meeting of the Strategic Economic Dialogue in Washington DC. This rise in protectionism is another USD negative.
Source: Standard Chartered

IRAQ

$124m World Bank loan for electricity project

The World Bank approved a $124 million loan for the Emergency Electricity Reconstruction Project. The total cost of the project is estimated at US$150 million. The primary objective of the project is to double the output of the Hartha Power Station from 400 MW to 800 MW, providing additional generating capacity to the national grid. The project will also help lay the groundwork for improved power system planning by building the capacity of the Ministry of Electricity to prepare, implement, and operate current and future projects.

The $124 million loan has a 35-year maturity with a 10-year grace period. The World Bank has approved an additional $6 million grant from the World Bank-administered Iraq Trust Fund; and the Iraqi government is contributing $20 million of its own resources. This is the second electricity project funded by the Bank in Iraq. It approved last December $40 million for the Dokan and Derbandikhan Emergency Hydropower Project.
Source: World Bank

TURKEY

Worse than expected trade gap

Turkey's trade gap narrowed 0.6% year-on-year to $3.7bn in February. The deficit was worse than consensus estimates of $3.5bn, reflecting higher-than-expected imports. Exports were strong, rising 25.7% year-on-year, while imports rose 15.7%. The country's trade balance widened by 13.3% in the first two months of the year.

The country's current account deficit is expected at $3bn in February, implying a slight improvement compared to the same month a year ago. The recent spike in oil prices is negative for Turkey's trade balance. However, the country's current account deficit is likely to narrow on the back of slowing domestic demand and a recovery in tourism revenues, with a full-year current account deficit estimated at 6.4% of GDP.
Source: Merrill Lynch

External debt at 52.3% of GDP

Turkey's gross external debt increased by $10.1bn in the final quarter of last year to $206.5bn, or 52.3% of GDP, up from 46.8% in 2005. The increase was almost entirely attributable to private sector borrowing, with public sector gross external debt rising by only $1.6bn in 2006 compared to a $36.1bn rise in private sector borrowing.
Source: Merrill Lynch

KAZAKHSTAN

Net public debt at 46.7% of GDP

Net public debt reached 46.7% of GDP at the end of 2006, down from 56% of GDP at the end of 2005. The debt figures represent a considerable decline in the indebtedness of the public sector from 84.8% of GDP in the aftermath of the 2001 crisis. Since then, net public debt has declined 7.5% of GDP on average every year. Also, gross public debt regressed from 104.4% of GDP at the end of 2001 to 60.7% at end-2006.
Source: Credit Suisse

BANKING

SUDAN

Bank of Beirut acquires stake in Sudan's second-largest privately owned bank

Bank of Beirut announced on Tuesday that it had acquired 17.76% of the Sudanese French Bank, the second-largest privately owned bank in Sudan. In a statement to the press, Bank of Beirut said that the move, which comes seven months after the bank completed major acquisitions in the United Kingdom, reflects the intention of the bank to expand internationally. Sudan is attracting several leading Lebanese banks that are searching for fresh markets in the region. Byblos Bank was the first Lebanese bank to establish a foothold in Sudan three years ago. Established in 1979, the Sudanese French Bank has total assets of more than $395 million. The agreement was signed by Bank of Beirut chairman Salim Sfeir and other senior officials from the Sudanese French Bank.

Source: The Daily Star

IRAQ

Central Bank enhances banks' liquidity

The Iraqi Central Bank said that its new monetary policy will enhance the ability of banks to manage short-term liquidity. A statement of the Bank said that this policy addresses the quality of growth in the amount of cash offers, the ability to manage liquidity and the tools of the monetary policy desired by it, pointing out that the new mechanism would include working with the currency and securities markets to create an effective system of payment that grants banks the trust to meet their payment obligations at reasonable cost, and the most costly in the provision of liquidity is the use of additional reserves such as money in treasuries and balances in excess of the legal reserve requirements. The statement confirmed that the margins of the difference between interest rates on deposits and loans can be reduced by allowing the banks to reduce the possession of the proceeds resulting from surplus requirements that have no interests, explaining that the ability of banks depend on reducing excess requirements through reliable media in the management of liquidity.

Source: Iraq Directory

KUWAIT

Repo rate cut by 12.5bps

The Central Bank of Kuwait cut its repo rate by 0.125%, bringing it to 5.75%. No reasons were given, but the Central Bank had previously said that it could take action to curb potential speculation-based buying of the Kuwaiti Dinar. It leaves the rate at which the central bank provides 1-week liquidity to the local banks above the one-month interbank offer rate, suggesting that the rate is unlikely to be actively used. Later in the week, the Central Bank also cut rates on one-year bonds to 5.5%, from 6.125%. This latest move appears to confirm that the Central Bank is acting against currency speculators.

Source: Standard Chartered, Shuaa Capital

BULGARIA

IMF calls for lifting credit restraints

The IMF declared that it concurs with Bulgarian authorities that temporary credit restraints introduced since early 2005 should lapse. It noted that banks had increasingly circumvented the restraints by selling part of their portfolio to non-bank or non-resident financial intermediaries. Removal of the restraints coincides with a tightening credit cycle in Europe, the introduction of Basel II and further liberalization of trade in financial services in the context of EU accession. In this environment, the authorities proposed to enforce adequate bank capitalization by requiring banks to follow a standardized risk-weighting approach when implementing Basel II, foregoing the bank-specific risk weighting (given insufficient historical data) that would have allowed banks to reduce their primary capital. Further, loan quality standards are enforced and loan provisions are almost 3% of total loans. The IMF agreed that financial sector vulnerabilities remain contained as banks are well capitalized and profitable, and only 2.2% of loans are overdue by more than 90 days. Moreover, stringent stress testing by the Bulgaria National Bank is reassuring. The risks of a possible pick-up in bank credit growth are likely to be at least partially shifted to non-bank financial institutions. In this context, the Financial Supervision Commission, which has benefited from the IMF's technical assistance, is modernizing supervision of the rapidly growing non-bank financial sector. The Fund encouraged the authorities to continue such efforts while facilitating the development of financial markets to ensure improved pricing and allocation of risks.

Source: IMF

UAE

Central Bank reduces CD rates

The Central Bank of the UAE has lowered rates on its one month and one-week certificates of deposits to 5% and 4.8%, respectively. In doing so, it did not follow suit with the U.S. Federal Reserve Bank, which left its own rates unchanged last week. A UAE Central Bank treasury official indicated that the recent interest rate moves were led by demand for CDs rather than concern about speculation of a revaluation, suggesting that the rate is inferred by market conditions.

Source: Standard Chartered, Shuaa Capital

KAZAKHSTAN

Central Bank keeps refinancing rate unchanged

The National Bank of Kazakhstan (NBK) decided in a regular quarterly meeting to leave the refinancing rate unchanged at 9%. The NBK stated that it is "inexpedient to relax monetary-credit policy, as the trend for a drop in annual inflation may turn out to be unstable." The lower end of the interest rate corridor is defined by the NBK deposit rate and is currently targeted at 4.5% which is half of the refinancing rate. We do not think the central bank will look to reduce the main policy rates this year and might actually hike the rate modestly before year-end.

Source: Bloomberg

ENERGY/ COMMODITIES

Oil weakens as Iran tensions ease

Oil prices weakened after the announcement on Wednesday that the 15 British sailors detained by Iran would be freed. The stand off between Iran and the UK following the detention pushed WTI crude oil prices up to a peak of $66 per barrel (pb) on concerns that supplies from Iran and, perhaps more widely, the Straits of Hormuz, could be disrupted. Prices have since retreated below $65 pb with the reduced geopolitical tension. However, falling gasoline inventories to the lower half of the historical range in the US limited the fall in the WTI price. Gasoline stockpiles fell by 5mn barrels at end-March, markedly above forecasts of 300,000 barrels. Furthermore, ongoing tensions surrounding Iran's nuclear programme and the implementation of UN sanctions will keep prices sustained at a relatively high level and prevent OPEC from further cutting output in anticipation of seasonal demand weakness in the second quarter.

However, looking forward, as OPEC's margin of spare capacity continues to widen, the cartel's price aspirations will once again determine the market. Where OPEC will decide to draw the line is conjecture at this point, as the cartel has given no guidance.

Source: Standard Chartered

Russia, Greece, Bulgaria sign long-delayed oil pipeline deal

Russian President Vladimir Putin signed a long-delayed agreement with Greece and Bulgaria to build a $900-million pipeline to carry Russian oil from the Black Sea to the Aegean coast. The signature of the agreement brings to an end 14 years of talks on building the 280 kilometer-long pipeline between the Bulgarian port of Burgas and the port at Alexandroupolis in Greece. The project has been repeatedly delayed, most notably because the Russians doubted whether it made economic sense. But soaring oil prices and the inauguration in July of the Baku-Tbilisi-Ceyhan pipeline, linking the Caspian Sea to the Mediterranean while bypassing Russia, prompted Bulgaria, Greece and Russia to speed up the signing of the deal. Work on the Burgas-Alexandroupolis pipeline is expected to begin next year and last 18 months. The pipeline will be able to transport between 35 and 50 million tons of Russian oil per year. The pipeline should ease constraints on the ability of Russian and Caspian oil firms to increase export shipments to Europe. The cost of the first stage of the project is estimated at €1bn. A Russian consortium of the Transneft, Rosneft and Gazprom energy companies will hold a 51% stake in the pipeline, while Greek and Bulgarian companies will split the remainder.

Source: Reuters, Credit Suissse

Oil Market		Closing of April 4	Previous Price	Daily Δ
OPEC Basket	▼	63.31	63.73	-0.6
Brent	▲	69.15	69.02	0.2
Dubai	▲	64.09	62.81	2.0
WTI	▲	65.96	64.66	1.9

Source: SHUAACapital

Base metals: Commodity imports to China keep on growing

The trend in base metal prices painted a rather mixed picture this past week. Weak data emanating from the US housing market led to a temporary dampening of market sentiment at the outset of the week. However, the general price trend for most base metal markets continues to point upward. Notwithstanding the waning US housing market data, the forecast continues to be strong for base metal prices - especially copper should hold up well - particularly in light of the growing demand from China. Imports of metals of which China is a net importer surged strongly once again in February. Besides copper, other base metals of which China is a net exporter are also likely to reap benefits - and aluminium should be especially interesting in this regard. China is the world's largest aluminium producer and a key supplier on the global market. However, aluminium exports from China plunged by 41% in February, which should underpin prices over the short to medium term.

Source: Credit Suisse

Precious metals: Prices continue on the road to recovery

Precious metal prices continued to stage a recovery in the course of the week in the wake of the correction at the end of February. For instance, the price of gold climbed above the US$665/oz mark, while in the interim, silver is trading at a price of more than US$3.30/oz again. Geopolitical risks have certainly played a role in these price increases in recent days. However, the fundamental outlook for the precious metal sector has continued to brighten up. Already in February, we had been anticipating the emergence of some turbulence on the precious metal market in the near term due to strong inflows of liquidity. The price correction at the end of February/beginning of March is an example of such market turbulence. Investors already liquidated a large share of their excess speculative long positions following this price correction. Hence, the path is clear for a more sustained spurt in precious metal prices. The combination of shrinking supply and growing demand should pave the way for further rising prices.

Source: Credit Suisse

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	192.9	185.2	178.8	0.2	23.0
LME metals price index	3877.0	3708.1	3632.6	4.9	37.3
Oil prices USD	66.2	59.0	64.8	7.2	-0.4
Oil prices SDRs	43.8	39.5	43.6	6.8	-5.4
Gold $/troy oz	660.2	631.7	627.8	-1.4	16.7
Silver cents/troy oz	1334.0	1292.9	1245.2	-6.8	22.7
Platinum $/troy oz	1241.0	1158.3	1179.1	0.2	16.5
Copper $/MT	6712.5	6500.9	6965.6	12.3	25.7
Nickel $/MT	45575.0	37138.7	30727.7	2.6	202.6
Aluminium $/MT	2714.0	2760.8	2661.9	-6.0	8.8
Zinc $/MT	3195.8	3838.0	3576.5	-7.8	23.3
Steel - HR coil dry $/MT	600.0	600.0	555.4	0.0	29.0

Source: Credit Suisse

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	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	EIU								
Africa													
Algeria	-	-	-	-	BBB								
	-	-	-	-	Positive	10.3	17.4	12.0	9.1	8.4	19.4	18.0	0.8
Angola	-	-	-	-	CCC								
	-	-	-	-	Stable	2.3	43.7	49.5	22.3	4.6	216.9	21.1	7.3
Egypt	BB+	Baa2	BB+	BB+	B								
	Stable	-	-	Stable	Stable	-6.9	99.0	29.7	68.0	6.6	150.3	1.6	5.6
Libya	-	-	-	-	BB								
	-	-	-	-	Stable	26.6	6.0	9.7	-130.9	2.7	7.8	31.4	2.8
Morocco	BB+	Baa2	-	BB+	BB								
	Stable	-	-	Stable	Stable	-4.1	67.1	29.8	68.1	8.0	91.2	1.7	2.0
Nigeria	BB-	-	BB-	-	BB								
	Stable	-	-	-	Stable	-1.0	10.7	5.2	9.7	1.9	14.18	9.7	1.6
Tunisia	BBB	A3	BBB	BBB	BB								
	Stable	-	-	Stable	Stable	-3.3	59.6	57.7	77.1	15.3	275.3	-2.6	6.6
Sudan	-	-	-	-	CC								
	-	-	-	-	Stable	-3.8	58.7	71.2	355.0	4.0	-	-13.8	5.8
Middle East													
Bahrain	A	A1	A-	BBB+	A								
	Stable	-	-	Stable	Stable	10.1	28.8	58.7	23.9	13.4	343.5	13.9	0.1
Iran	-	-	B+	-	BB								
	-	-	-	-	Negative	7.3	26.2	9.9	31.0	4.5	25.4	5.7	0.0
Iraq	-	-	-	-	D								
	-	-	-	-	Stable								
Jordan	BB	Baa3	-	BB	B								
	Stable	-	-	Stable	Stable	-4.8	73.4	91.1	18.5	13.7	266.6	-21.5	10.7
Kuwait	A+	Aa2	AA-	A+	A								
	Stable	-	-	Stable	Stable	38.8	10.8	13.7	8.9	2.7	129.3	44.5	-4.5
Oman	A-	A1	-	BBB+	A								
	Stable	-	-	Stable	Stable	16.0	6.5	14.1	18.0	5.0	101.6	19.4	1.9
Lebanon	B-	B2	B-	B-	CCC								
	Negative	-	-	Negative	Stable	-12.5	178.1	105.2	179.5	30.4	209.2	-15.6	4.5
Qatar	A+	Aa2	-	A+	A								
	Stable	-	-	Stable	Stable	17.6	19.1	46.5	55.3	8.4	440.6	35.8	4.3
Saudi Arabia	A+	Aa3	A+	A+	A								
	Stable	-	-	Stable	Stable	18.0	10.8	8.4	21.1	3.7	130.0	30.8	0.3
Syria	-	-	-	-	CCC								
	-	-	-	-	Stable	-3.6	41.9	30.8	68.0	5.6	146.9	2.0	1.6
UAE	-	Aa2	-	A+	A								
	-	-	-	Stable	Stable	30.4	10.7	38.2	10.0	1.8	248.7	25.8	5.1
Yemen	-	-	-	B-	B								
	-	-	-	Stable	Stable	-	38.8	28.9	69.2	2.8	73.9	-5.2	-
Central & Eastern Europe													
Ukraine	BB-	Ba3	BB-	-	BB								
	Stable	-	-	-	Stable	-2.5	19.6	42.8	58.7	2.8	188.4	-0.9	5.5
Russia	BBB+	A2	BBB+	-	BBB								
	Stable	-	-	-	Stable	7.2	10.9	30.4	81.3	3.6	96.9	14.4	0.8
Turkey	BB-	Ba1	BB-	BB-	B								
	Stable	-	-	Stable	Stable	-1.6	64.9	49.2	117.5	25.2	343.5	-8.2	4.5
Latin America													
Brazil	BB+	Ba1	BB	-	BB								
	Stable	-	-	-	Stable	-3.2	72.7	17.2	56.3	29.3	205.1	1.2	1.6

Sources: Moody's; EIU

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	5.25	21-Mar-07	No change	09-May-07
Eurozone	Refi Rate	3.75	08-Mar-07	No change	12-Apr-07
UK	Base Rate	5.25	08-Mar-07	No change	05-Apr-07
Japan	O/N Call Rate	0.50	20-Mar-07	No change	10-Apr-07
Australia	Cash Rate	6.25	03-Apr-07	No change	01-May-07
New Zealand	Cash Rate	7.50	07-Mar-07	Raise 25bps	25-Apr-07
Switzerland	3 month Libor target	2.25	15-Mar-07	Raise 25bps	14-Jun-07
Emerging Markets					
China	One-year lending rate	6.39	17-Mar-07	Raise 27bps	N/A
Hong Kong	Base Rate	6.75	08-Aug-06	No change	N/A
Taiwan	Discount Rate	2.75	28-Dec-06	Raise 12.5bps	29-Mar-07
South Korea	O/N Call Rate	4.50	08-Mar-07	No change	12-Apr-07
Malaysia	O/N Policy Rate	3.50	26-Feb-07	No change	27-Apr-07
Thailand	1D Repo	4.50	28-Feb-07	Cut 25bps	11-Apr-07
India	Reverse repo rate	6.00	31-Jan-07	No change	24-Apr-07
UAE	3M EBOR	5.50	N/A	N/A	N/A
Saudi Arabia	Repo Rate	5.20	29-Jun-06	Raise 20bps	N/A
Egypt	overnight lending	10.75	23-Mar-07	No change	N/A
Turkey	Base Rate	17.50	15-Mar-07	No change	14-Apr-07
South Africa	Repo rate	9.00	15-Feb-07	No change	12-Apr-07
Kenya	Central Bank Rate	10.00	03-Apr-07	No change	Jun-07
Nigeria	Monetary Policy Rate	10.00	22-Feb-07	New Policy rate	Apr-07
Ghana	Prime Rate	12.50	Feb-07	No change	May-07
Mexico	Target Rate	7.00	23-Mar-07	No change	27-Apr-07
Brazil	Selic Rate	13.00	07-Mar-07	Cut 25bps	18-Apr-07

Source: Standard Chartered - Countries in bold updated on April 5, 2007

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