

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Corporate default rate at 10% in June**

Moody's Investors Service stated that the rate of global speculative-grade corporate defaults reached 10.1% in the second quarter of the year, up from 7.4% in the first quarter, from 4.1% at the end of 2008 and from 2% at end-June 2008. It said a total of 163 rated corporate debt issuers have defaulted in the first half of the year, of which 76 defaulted in the second quarter, compared to 36 defaults in the first half of 2008. Measured on a dollar volume basis, the global speculative-grade bond default rate ended the second quarter at 16.3%, up from 10.6% in the first quarter and from 1.3% in June 2008. The agency said default rate forecasts have been declining in recent months as high yield bond spreads have narrowed significantly. It noted, however, that spreads remain at very elevated levels by historical standards. Moody's expects the global default rate to reach 12.8% in the fourth quarter of 2009 and to regress to 6% in June 2010. It added that its speculative grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, closed at 36.7% at the end of June compared to 52.3% at end-March and a much lower 15.6% a year earlier.

Source: *Moody's Investors Service*

#### MENA

##### **Cost of living slightly declines in the Arab World**

The annual survey on the cost of living in 143 cities around the world by global consultants Mercer Human Resource Consulting showed that the cost of living in the Arab World in 2009 declined slightly from last year. The study evaluated the cities based on comparative costs of over 200 items in each location including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. The Arab countries' average score reached 77.7 points, down 1% from 78.5 points in 2008. The region's average score came below the global average of 82.1 points, denoting that the cost of living in the Arab world is lower on average than the global cost of living. The scores of 7 Arab countries increased and 6 declined, while the ranking of one country improved and 12 countries declined. The survey said that the significant declines in rankings from last year were not due to the increase in the cost of living in the countries witnessing this decline, as much as they were due to the massive swings in exchange rates. It added that the weakening of many currencies against the U.S. Dollar led to an increase in the cost of living in the countries with currencies pegged the U.S. Dollar. Dubai remained the most expensive city in the Arab world and Tunis the least costly. Globally, Tokyo replaced Moscow as the most expensive city, while Johannesburg in South Africa was least costly. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

Source: *Mercer Human Resource Consulting*

#### EMERGING MARKETS

##### **Trade finance funds start reaching developing economies**

The International Finance Corporation declared that donors formally committed funds to the \$50bn Global Trade Liquidity Program (GTLP), triggering the first disbursements to importers and exporters in developing countries to help reverse the decline in trade resulting from the economic crisis. Global trade is expected to decline by 10% in 2009, marking the biggest drop in at least 80 years. It said that developing countries, which are particularly dependent on trade, are especially vulnerable. It noted that the GTLP is designed to reduce this vulnerability by raising funds from international finance and development institutions, governments, and banks, and by working through global and regional banks to extend trade finance to importers and exporters. The IFC said the GTLP funds being disbursed will provide trade finance through a network of more than 500 banks in over 70 developing countries across all regions.

Source: *International Finance Corporation*

#### SYRIA

##### **Central Bank investigates 35 cases suspected of money laundering**

The Commission to Combat Money Laundering issued its third annual report detailing its activities in tracing dirty money in Syria. Established by the Central Bank of Syria in 2005 as an independent legal entity, the commission's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of the anti-money laundering law. The report indicated that the Commission received 78 suspected cases in 2008, of which 68 cases, or 87%, were local cases while 10 cases, or 13%, were referred from abroad. The Commission referred to judicial authorities 26 suspected cases of money laundering, of which 23 were referred from domestic sources and 3 from foreign governments and organizations. As a result, the Commission investigated a total of 35 out of 78 suspected cases in 2008. Counterfeiting and forgery accounted for 20.5% of reported cases, followed by embezzlement of private funds with 19.2%, drug crimes with 11.5%, weapons with 2.6% and terrorism financing with 1.3%, while the remaining 45% of cases were not categorized. Local security sources referred 37% of all cases, followed by banks with 32%, insurance firms (5.1%), the UN Security Council (5.1%), counterpart units (5.1%) and local judicial authorities (3.9%).

Source: *Central Bank of Syria*

# POLITICAL RISK OVERVIEW - JUNE 2009

## ALGERIA

Eight police and 2 teachers were killed by Islamic militants in Boumerdes region on June 3, while 24 police died in an attack east of Algiers on June 18th. The government reported killing 11 attack perpetrators on June 24th. There are increasing signs that the political elite is willing to consider an amnesty for al Qaeda militants who renounce violence.

## ARMENIA

President Serge Sarkisian's Republican Party of Armenia won a 46% plurality of seats in the May 31 municipal council elections for the capital Yerevan. Prosperous Armenia, a coalition partner, came in second with 22% of the vote, while the opposition party Armenian National Congress (HAK) placed third with 17%. Some opposition groups called the election fraudulent and HAK vowed to boycott the council. On June 8, President Sarkisian dissolved a commission investigating violence after the March 2008 parliamentary elections. Twenty-eight jailed opposition members were released after a parliamentary vote on prisoner amnesty. U.S. officials reduced aid to Armenia after saying that the country was failing to implement Millennium Challenge criteria.

## EGYPT

U.S. President Barack Obama called for a new beginning in US-Muslim relations during a speech at Cairo University on June 4th. A mob attacked a Coptic church south of Cairo on June 21 and destroyed nearby houses and farms. Russian President Dmitri Medvedev visited the country on June 23 to sign an agreement for cooperation on defense, trade, and energy. Seven members of the banned Muslim Brotherhood (MB) organization were arrested on June 28, while a court ordered the release of 13 more MB members on the same day.

## IRAN

Thousands took to the streets of Tehran and other cities in protests after the presidential election on June 12, which authorities claimed were won by current president Mahmoud Ahmadinejad with 63% of the vote. An estimated one million protestors joined a rally in the capital on June 15th. Police cracked down harder after a June 19 warning against protests by Supreme Leader Ali Khamenei. At least 17 people have been killed in clashes with security forces and pro-Ahmadinejad militias. Hundreds of activists and some journalists have been arrested. The Guardian Council, an appointed body of clerics loyal to Khamenei, affirmed election results on June 29th. Nine British embassy employees, accused of fomenting unrest, were arrested on 27 June 27th. All but one had been released by July 6th.

## IRAQ

An intense bombing campaign marked the month leading up to the June 30 hand-off of urban security from U.S. to Iraqi forces. A car bomb near Nasiriya killed more than 30 people on June 10, a truck bomb killed 75 near Kirkuk on June 20, and at least 78 people died in a Sadr City blast on June 24th. Tens died in smaller attacks. On June 4, the cabinet agreed to move back a vote on the U.S.-Iraqi security from July 2009 to January 2010, subject to parliamentary approval. The head of the largest Sunni bloc in parliament, Harith al-Obaidi, was killed on June 12th. The police arrested an alleged Al-Qaeda member accused of plotting his death on June 17th.

## KAZAKHSTAN

A wave of high-profile arrests continued, as the chairman of the government's Statistics Committee followed the head of the state nuclear company to jail. Defense Minister Danial Akhmetov was also sacked from the government.

## SUDAN

North-South tensions escalated in June, as officials in Southern Sudan accused Khartoum of fomenting sectarian divisions between tribal groups there and arming militant groups. The purpose of such action would be to divide and weaken the South ahead of a referendum on Southern independence due in 2011. Around 40 Southern Sudanese soldiers escorting a UN aid convoy were killed on June 12 by a tribal group. The ruling party in the North, NCP, accused the South's main political party, SPLM, of training antigovernment militias in Darfur. Northern diplomats and the U.S. Sudan envoy claimed solid results from a North-South summit in Washington on June 23-24, but Southern participants said that no progress was made. The U.S. envoy announced a week earlier that the Sudanese government was no longer engaged in coordinated genocide in Darfur. Four aid organizations were allowed back into the region following their expulsion in March.

## SYRIA

Syria's relations with the United States and its allies continued to improve this month. A group of U.S. officers traveled to Syria for talks on Iraq security on June 12th. U.S. special envoy to the Middle East George Mitchell met with President Bashar Assad on June 13 and called the country's role in a peace settlement "crucial". The U.S. unofficially announced on June 24 that it would station an ambassador in Damascus after a four-year absence, and Saudi Arabia announced on July 6 that it will also appoint an ambassador to the country. On June 22, President Assad said that Syria was willing to cooperate with a UN investigation of the murder of former Lebanese PM Rafik Hariri within conditions. The IAEA found traces of undeclared nuclear material at a second site in Syria on June 5th. Syria promptly denied any involvement in any illegal nuclear activities.

## TURKEY

The daily "Taraf" reported on June 12 that senior military officers were working to undermine the AKP government, which responded by calling for an investigation into the alleged plot. The parliament approved an extension of civilian courts' jurisdiction to uniformed soldiers on June 26th. Army chief Ilker Basbug met with PM Recep Erdogan on June 30 and asked him to consider striking down the new law. The PKK announced an extension of the unilateral cease-fire to July 15th. Four died in PKK-Government clashes in June, and Turkish planes bombed Kurdish bases in northern Iraq. Iraqi and Turkish military leaders signed a preliminary cooperation agreement on June 10th.

## UKRAINE

Ukraine's parliament scheduled the country's presidential election for January 2010. A deal which would have united the parties of former Orange Revolution allies President Yushchenko and Prime Minister Tymoshenko collapsed, meaning that the two will run separately against a pro-Russian candidate who currently leads in opinion polls. The parliament sacked the defense minister on June 5th.

*Source: International Crisis Group*

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# OUTLOOK

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## EMERGING MARKETS

### **Outlook vulnerable to low global growth and bank lending despite reduction in risks**

The International Monetary Fund considered that risks in emerging markets (EMs) have declined recently, reflecting the recovery of commodity prices and the resumption of portfolio inflows and rising asset prices. It noted, however, that the improvement has not been evenly distributed, and that cross-border banking flows to EMs remain weak, while strains remain and vulnerabilities persist in Emerging Europe particularly. The Fund indicated that emerging market assets have benefited from the recovery of commodity prices and improved growth prospects, while the return of risk appetite has led to a resumption of portfolio inflows from investors, and sovereign spreads have more than halved since their peak in October. Also, EM equities have rebounded between 30% and 60% since end-February, matching or outpacing mature market equities.

The IMF warned that despite these positive developments, the overall outlook for emerging markets remains vulnerable to lower than expected global growth and to constrained international bank lending. It said banks in advanced economies are reducing their cross-border positions at a faster rate than their domestic balance sheets, with cross-border de-leveraging leading to an unwinding of the rapid financial globalization that occurred over the past 10 years. It estimated that this trend will likely continue, placing additional pressure on banking systems that are heavily reliant on cross-border funding. It noted that Emerging Europe and the Commonwealth of Independent States are particularly vulnerable to contractions in cross-border funding and have not benefited as much from the market rebound seen elsewhere. The IMF added that EMs remain vulnerable to spillovers from mature economies that may result in a more general slowdown or stoppage of capital inflows. Also, corporate borrowers in EMs are particularly susceptible due to their high rollover requirements and limited access to alternative sources of finance. Further, localized problems in some individual EMs could have wider repercussions if not addressed effectively.

*Source: International Monetary Fund*

## JORDAN

### **Asset quality of banking sector to deteriorate**

Standard & Poor's expected the asset quality of the Jordanian banking sector to deteriorate in 2009 due to a less supportive economic environment, the dependence of Jordan's economy on some cyclical sectors, the banking system's high exposure to the real estate sector, its short track record of financial stability, and the risks from operating in the Palestinian territories. The agency considered the main sources of risk to be the real estate sector, which accounted for 17.6% of total bank loans at year-end 2008, as well as retail exposure that represents 22.6% of total loans, of which 40% are mortgage loans. It considered that the real estate sector is likely to go through a sharp correction, which could hurt the banks' asset quality. This could come from an expected slowdown in demand and the decrease in FDI in the sector, both of which fueled price increases in the past. It added that the banking system's direct and indirect exposure to the

stock market, through margin lending and borrowers using part of personal loans to invest in the market, could be a source of risk if the market does not stabilize. S&P estimated gross problematic assets in the Jordanian financial system at 25%-40% of private sector credit, which represents assets that are expected to experience payment delays of 90 days or more in a worst-case economic recession or slowdown.

S&P indicated that the increasing pressure on employment from the ongoing economic slowdown exacerbates the risk of asset quality deterioration. It said banks' exposure to the tourism industry, one of the main contributors to employment in Jordan and representing 2.8% of total loans, is also a potential source of risk in light of the gloomier outlook for this industry in 2009. It noted that, although the direct effects on banks of a decline in tourism should remain manageable, the indirect effects of tourism workers losing their jobs could be significant. Further, it considered that Jordanian banks have grown rapidly over the past five years amid a positive economic environment, which may have led to a looser approach toward risk-taking and could hurt their asset quality given the current difficult operating conditions. It added that the current tough economic environment could accelerate the consolidation of the system or push some players toward niche strategies.

*Source: Standard & Poor's*

## ARMENIA

### **Economy to contract by 6% in 2009 and 2% in 2010 from linkages to Russia**

In its updated outlook on the global economy, the World Bank estimated economic activity in Armenia to contract by 6% in 2009 compared to a contraction of 4.7% in Emerging Europe & Central Asia, 3.5% in transition countries and 6.2% in the Commonwealth of Independent States. It also forecast real GDP to contract by 2% in 2010 relative to growth of 1.6% in Emerging Europe & Central Asia, 1% for transition countries and 2.5% for the Commonwealth of Independent States. According to the World Bank, Armenia's projected GDP contraction for 2009 is better than that of Lithuania, Latvia, Russia and Ukraine; but worse than growth in Albania, Azerbaijan, Belarus, Bulgaria, Croatia, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Macedonia, Poland, Romania, Turkey, and Uzbekistan. It added that Armenia's real GDP activity in 2010 would be better than that of Lithuania and Latvia, and slower than the rest of the region's economies.

The World Bank said the sharp contraction in GDP in Russia would send damaging waves across the CIS, including Armenia, through intraregional trade flows and transfers. It added that small oil-importing countries in the CIS such as Armenia will be the most affected due to their close economic ties with Russia. The World Bank expected Armenia to post a current account deficit equivalent to 12.1% of GDP in 2009, similar to 2008. It noted that the country's current account deficit for this year would be similar to that of Moldova, narrower than deficits in Bulgaria and Georgia, and wider than deficits in other economies of the Eastern Europe & Central Asia region.

*Source: World Bank*



# ECONOMY & TRADE

## MENA

### IPOs raise \$1.2bn in first half of 2009

Companies in the Middle East raised \$1.2bn through 9 initial public offerings in the first half of 2009 compared to 24 IPOs that raised \$9.3bn in the same period last year. Saudi Arabia accounted for 67% of the number of IPOs in the region, followed by Qatar, Tunisia and Syria with 11% each. In value terms, Qatar accounted for \$952m, or 78.4% of the total, followed by Saudi Arabia with \$256m (21%), Syria with \$3.6m (0.3%) and Tunisia with \$2.4m (0.2%). Financial services accounted for 55.6% of all IPOs, followed by telecommunications with 33.3% and manufacturing with 11%. In parallel, telecommunications accounted for 85.2% of raised capital, followed by manufacturing with 8.8% and financial services with 6%. Vodafone Qatar was the largest IPO with \$952m raised in April. HSBC Bank Middle East and Qatar National Bank were the top two lead managers of IPOs in the region with \$476m or 39.2% of the total each.

Source: *Zawya.com*

## SAUDI ARABIA

### Syndicated loans of troubled groups at \$7.4bn

Figures issued Dow Jones Newswires indicate that a total of 88 firms have exposure of \$7.42bn in syndicated loans to troubled Saudi conglomerates Saad Group and Ahmad Hamad Al Gosaibi & Brothers Co. The two groups have reportedly faced liquidity problems recently. The loan figure does not include bilateral loans, trade finance or foreign exchange transactions. International lenders hold \$4.88bn of the total syndicated debt held by the groups, with the rest held by Middle Eastern firms, mostly banks but also holding companies. Almost half the 88 firms with exposure to the groups are from the Middle East, with 12 from the United Arab Emirates. There are 55 companies with exposure to the Saad Group through five syndicated loans worth \$2.8bn, \$2.75bn, \$300m, \$170m and \$440m each. Further, 58 firms are exposed to the three loans to the Al Gosaibi. The three loans are worth \$700m, \$50m and \$200m each. In parallel, EFG Hermes said that the size of the total exposure of the two groups is still not clear, but estimates range between \$15bn and \$16bn in aggregate outstanding loans of the two groups to international and GCC banks.

Source: *Dow Jones Newswires, EFG Hermes*

## SUDAN

### Aircraft production facility takes off

Sudan inaugurated the Safat Aviation Complex, the country's first plant for the production of airplanes. The Complex, which is located in Khartoum state, will carry out the assembling, manufacturing, development and maintenance of aircraft. Officials said a five-year plan was put in place to produce the first model of the plane named 'Safat-01' and 10 more will be forthcoming. The planes have up to 80% Sudanese input, with assistance from Chinese and Russian partners. The head of the complex said that the plane manufacturing and maintenance will be "Sudanized" in three years, adding that the maintenance section of the complex will primarily focus on civilian aviation. The Minister of Industry stressed that the new aviation complex aims to meet the growing need for aircrafts in the country,

adding that the plant would allow the Sudanization of the aviation industry, which is a strategic objective for the government. He expected the complex to become a regional center in North Africa.

Source: *Sudan Tribune*

## NIGERIA

### Sovereign ratings affirmed, outlook stable

Fitch Ratings affirmed Nigeria's long term foreign and local currency Issuer Default Ratings (IDR) at 'BB-' and 'BB', respectively, with a 'stable' outlook. It also affirmed the short-term foreign currency IDR at 'B' and the Country Ceiling at 'BB-'. Nigeria's strong overall and public net external creditor position, low government debt and a well-capitalized banking system have helped cushion the economy against the collapse in oil prices, the global recession, a reversal of capital flows and the banking sector's exposure to a sharp fall in equity prices. It added that Nigeria looks likely to weather the shocks, with signs of global stabilization and a recovery in oil prices. It expected growth to slow to around 3% in 2009, reflecting much lower fiscal spending, private credit growth, remittances and oil prices. However, this will be in line with regional growth and much higher than the 'BB' median. Fitch indicated that, despite a significant depletion of reserves by 28% to \$44.8bn in May 2009 since the peak of \$62.1bn in September 2008, low foreign liabilities of both the public and private sectors mean that Nigeria's external balance sheet remains robust and is still one of the strongest in the 'BB' category. Also, the recent increase in oil prices, if sustained, should slow the pace of reserves depletion. It warned, however, the reserves cushion has been eroded and any renewed bout of lower oil prices would likely trigger further downward pressure on the exchange rate, accelerate reserves depletion and is likely to bring negative rating action.

Source: *Fitch Ratings*

## UKRAINE

### Economy contracts by 20% in first quarter

Figures released by the State Statistics Agency show that GDP contracted by a record 20.3% year-on-year in the first quarter of 2009, worse than the market consensus of -18% and significantly worse than the 8% contraction in the fourth quarter of 2008. Construction activity suffered the biggest decline, dropping by 54.2% year-on-year, followed by manufacturing with a 36.5% annual drop. Also, utilities output collapsed by 19.3% year-on-year, retail trade contracted by 18.0% annually, mining & quarrying output regressed by 16.2% and communications contracted by 14.4% year-on-year, while agriculture rose by 1.3% on an annual basis. In parallel, fixed investment registered the largest decline with a 48.7% drop year-on-year, while final consumption fell by 8.6%, led by an 11.6% yearly decline in private consumption. Further, the volume of total imports fell 35.6% and total exports fell 15.9% annually.

Source: *Credit Suisse*

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# BANKING

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## SYRIA

### Private sector accounts for 42% of credits, private banks extend 13% of lending

Figures released by the Central Bank of Syria indicate that total credits extended by commercial banks reached SYP 994.7bn, or about \$20.9bn, at the end of the first quarter of 2009, constituting an increase of 1.3% from SYP 982bn at end-2008 and a rise of 27% from end-March 2008. Credits in Syrian pounds accounted for 97% of the total relative to 98% at end-2008, and foreign currency loans accounted for the remaining 3%. Loans to non-financial public enterprises accounted for 48% of total lending, up from 46% a year earlier, followed by resident private sector lending with 42% relative to 41% at end-March 2008, while the central government accounted for the remaining 10%. Households accounted for 77% of resident private sector lending, followed by businesses with 22.7% and other financial institutions with 0.2%. Households and businesses represented 82% and 21%, respectively, of private sector lending at end-March 2008. Further, the sectoral distribution of credit shows that wholesale & retail trade accounted for 54% of the total, up from 52% at end-March 2008; followed by building & construction with 14%; agriculture with 12%, down from 13% a year earlier; mining, manufacturing & utilities with 6%, while other activities accounted for the remaining 14% of lending. Also, public commercial banks accounted for 86% of total lending at end-March 2009, down from 88% a year earlier, while private commercial banks accounted for 13% relative to 11% at end-March 2008 and private Islamic banks for the remaining 2%. Loans & advances accounted for 46.4% of private banks' lending, followed by personally secured credits & overdrafts with 31.6%, and discounts with 21%.

Source: Central Bank of Syria, Byblos Research

## UAE

### Four Dubai banks downgraded

Standard & Poor's lowered its long- and short-term counterparty credit ratings on Dubai-based Emirates Bank International, National Bank of Dubai and Mashreqbank to 'A-/A-2' from 'A/A-1'. It also lowered its long-term counterparty rating on Dubai Islamic Bank to 'BBB+' from 'A-' and affirmed the bank's 'A-2' short-term rating. It said the outlooks on all the ratings are 'negative'. The agency attributed the rating actions to the impact on the banks of the difficult macroeconomic and financing environment in the Emirate of Dubai, adding that the risks to Dubai's economy have increased as the real estate sector has entered a sharp correction period. It expected the impact on Dubai's overall economy to be significant, as construction and real estate account for almost 50% of its GDP. It said the economic slowdown, stock market decline, and dropping real estate prices are raising significant hurdles for the banks. S&P expected these factors to significantly slow business growth and lead to a deterioration in asset quality and profitability. It also warned that the banks' ratings could come under further pressure if the operating environment continues to worsen and the banks' asset quality, financial performance, or capital ratios, become more affected than expected.

Source: Standard & Poor's

## NIGERIA

### Central Bank takes aggressive measures to boost liquidity and market confidence

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) reduced the Monetary Policy Rate by 200bps to 6% from 8%. The CBN also lifted all foreign exchange controls and removed the cap on banks' lending rates. Further, it guaranteed all interbank placements from banks and pension funds from July 2009 till March 31, 2010. The Bank also set the interest rate for its standing lending facility at 8%, and the rate for its deposit facility at 4%. Finally, the CBN mandated all commercial banks to adopt common accounting standards by the end of March 2010. The measures that were abolished were adopted earlier this year by the previous CBN governor against a backdrop of sharp naira weakness and a rise in banks' lending rates. The removal of all restrictions on the foreign exchange market signals a return to determining the exchange rate through the inter-bank market. The decisions also aim at reducing the divergence between the policy rate and the interbank rate, as the spread between lending and deposit rates was considered unacceptably wide. The guaranteeing of interbank placements should lead to a dramatic decline in interbank rates, which have remained high despite previous cuts in the policy rate as uncertainty over the amount of toxic assets in the banking system deterred banks from lending.

Source: Standard Chartered

## BELARUS

### State-owned banks' outlooks revised to negative

Fitch Ratings revised the outlooks of state-owned banks Belarusbank, Belagroprombank, BPS-Bank and Belinvestbank to 'negative' from 'stable'. It attributed the outlook revision to the weakening ability of the Belarusian authorities to support the banking system in case of need. It also took into account the potential for a marked deterioration in the banks' stand-alone financial profiles in the event of a sharp economic downturn, reduced state support for the corporate sector and a further depreciation of the local currency. Fitch also noted the ongoing erosion of Belarus' official foreign reserves and their reduced coverage of the banks' foreign currency liabilities, amid uncertain prospects for the financing of the country's external deficit in 2009. It said weaker external finances could lead to renewed downward pressure on the currency, which could spark further depositor flight to foreign currency savings or from the banking system, therefore damaging financial stability and increasing the risk of exchange rate and economic weakness. In parallel, it noted that financial support from the IMF and Russia remains a significant mitigating factor for Belarus' sovereign and external finances, and for the credit profiles of the state-owned banks.

Source: Fitch Ratings



# ENERGY / COMMODITIES

## Oil rises towards \$61 after fall on bearish inventories

Oil increased toward \$61 a barrel on July 9, up from a seven-week low that was reached due to weak oil data that outlined continued low demand. A larger-than-expected rise of 3.7 million barrels in U.S. distillates stocks last week left them at close to a 25-year high, underlining weak demand for industrial transportation fuels. U.S. light crude for August delivery rose 53 cents a barrel to \$60.67, having lost more than 4% on July 8 to settle lower for the sixth day in a row. London Brent crude gained 52 cents to \$60.95. The Energy Information Administration also reported a large 1.9-million-barrel rise in gasoline stocks, against a forecast for a lower 600,000 barrels build. OPEC's 2009 World Oil Outlook said world demand for oil may take years to recover from the drop in 2009 because of economic weakness and demand destruction. OPEC said consumption of its crude would not return to 31 million bpd, the level it averaged in 2008, until 2013.

Source: Thomson Reuters

## UAE supplies 22.7% of Japan oil imports

Japan's oil supplies from the UAE stood at 23.9 million barrels per day in May 2009, representing 22.7% of Japan's total oil imports. Arab crude oil formed 82.2% of Japan's oil imports for the month, with Saudi Arabia remaining the largest crude oil supplier to the country, while the UAE came second followed by Qatar, Iran and Kuwait.

Source: WAM

## Iran to invest \$70bn in gas

Iran is planning to invest around \$70bn in two major offshore natural gas fields by 2015. Around \$40bn would be needed to complete remaining projects in the South Pars field in a five-year economic plan, which runs until 2015. Iran also plans to take a €1bn bond with Asian banks to finance the development of South Pars.

Source: Thomson Reuters

## Nigeria, Algeria, Niger sign Trans-Saharan pipeline deal

Nigeria, Algeria and Niger signed an agreement to build a \$10bn Trans-Saharan pipeline that will ship natural gas from Nigeria to Europe. The project is expected to encourage the economic development of the three participating countries. African producers are increasing investments in natural-gas projects as Europe seeks to diversify its supplies of the fuel and reduce its dependence on Russian imports. The pipeline would run from the delta of the Niger River across Niger to Algeria and then across the Mediterranean to Spain, with possibly a branch going to Italy. It is scheduled to begin deliveries in 2015.

Source: Bloomberg

## Saudi SEC to sign deal for Rabigh plant

Saudi Electricity Company (SEC) said it will sign a contract on July 11 with a consortium led by Korea Electric Power to build a 1,200 megawatt power plant. The consortium includes Saudi firm ACWA Power international. The Rabigh power plant will be built in two phases with 600 megawatt added by 2012 and another 600 megawatt by 2013.

Source: Thomson Reuters

## Base metals: Lead prices rise, fundamentals mixed

Lead has been a strong performer in recent weeks, with the three-month price hitting a high of \$1,833 a ton in mid-June, before retreating. Problems at smelters increased speculative interest in the market, with the Doe Run plant in Peru suspended and Porto Vesme in Italy closed for extended maintenance. However, the physical market is not that supportive. The International Lead-Zinc Study Group estimated that the global lead market was in a surplus of 40 kilotons in the first four months of this year. It estimates that production rose by 1.5% year-on-year in the period, while consumption fell marginally. Also, lead treatment charges in China have increased in recent weeks, suggesting that the raw materials market is becoming better supplied. However, Chinese imports have remained very strong in recent months, and have been a major supportive factor for prices. Imports in May were down 30% month-on-month but were still high at 25 kilotons. Lead prices have increased sharply in the first half of this year on the back of firm fundamentals and robust demand. While lead demand has remained resilient through the global recession, LME stocks have continued to build. The market remains vulnerable to a wider pullback in the base metals complex, although prices should be well-supported through the third quarter of the year.

Source: Standard Chartered

## Precious Metals: Silver prices fall on precious metals sell-off

The decline in silver prices in the past few weeks has been dramatic. While falling gold prices contributed to some of this weakness, the 16% drop in silver prices was twice that of gold, highlighting silver's vulnerability to changing sentiment. Some support came from ETF investors, with the iShares ETF showing a 5% month-on-month increase in late June at 8,725 tons. There was also a 5% increase in net speculative positions on U.S. exchanges in the first half of June. However, with spot prices overextended, these factors were largely ignored. At their peak, silver prices reached a gold-silver ratio of 62 in early June. This was a significant move from the low of above 80 which was reached in late 2008. This ratio has averaged 60 over the past 10 years. Given that silver demand has been badly hit by the global downturn in industrial activity, the gold-silver ratio is expected to stay well above 60 for the remainder of this year, reflecting silver's relatively weak fundamental position. Gold is expected to push steadily higher during the next few months, which will help silver, but it will still underperform.

Source: Standard Chartered

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	181.6	167.8	186.3	-0.4	-33.3
LME metals price index	2453.3	2007.8	2411.5	4.2	-38.9
Oil prices USD	69.3	51.6	69.8	1.3	-51.0
Oil prices SDRs	44.7	34.2	45.8	1.4	-48.4
Gold \$/troy oz	926.8	916.0	874.1	-5.3	-1.7
Silver cents/troy oz	1365.0	1316.4	1287.3	-13.9	-22.3
Platinum \$/troy oz	1188.0	1098.7	1147.8	-2.1	-42.8
Copper \$/MT	5041.5	4067.0	4919.4	1.9	-42.1
Nickel \$/MT	15772.5	11722.5	13298.3	10.5	-27.4
Aluminium \$/MT	1609.8	1424.9	1864.0	13.0	-47.8
Zinc \$/MT	1544.3	1326.3	1400.8	-0.4	-18.5

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								
<b>Africa</b>													
Algeria	-	-	-	-	BBB	7.0	13.8	1.5	4.1	1.9	1.6	15.4	0.6
	-	-	-	-	Stable								
Angola	-	-	-	-	BB	3.2	8.8	8.4	9.0	12.6	-	-3.0	1.2
	-	-	-	-	Stable								
Egypt	BB+	Ba1	BB+	BBB-	BB	-7.7	74.5	17.8	51.4	5.4	105.9	-1.5	4.1
	Stable	-	Stable	Stable	Stable								
Ethiopia	-	-	-	-	CCC	-3.5	-	10.9	250.0	-	-	-6.1	-
	-	-	-	-	Stable								
Ghana	B+	-	B+	-	B	-10.8	-	39.0	103.6	-	-	-13.7	-
	Stable	-	Negative	-	Negative								
Ivory Coast	-	-	-	-	CC	-1.7	-	57.9	175.9	-	556.0	-1.8	-
	-	-	-	-	Stable								
Libya	A-	-	BBB+	-	BB	-17.3	7.8	17.5	31.1	4.9	-	-15.8	3.1
	Stable	-	Stable	-	Stable								
Mauritania	-	-	-	-	-	-5.1	-	73.8	183.3	-	-	-13.4	-
	-	-	-	-	-								
Morocco	BB+	Ba1	BBB-	BBB-	BB	-2.6	51.8	24.1	73.9	5.7	74.1	-0.1	3.3
	Stable	-	Stable	Stable	Stable								
Nigeria	BB-	-	BB-	-	B	-5.7	23.6	6.1	20.6	0.6	-	-13.2	2.4
	Negative	-	Stable	-	Stable								
Sudan	-	-	-	-	C	-6.8	107.5	62.7	532.4	6.3	-	-10.1	2.7
	-	-	-	-	Stable								
Tunisia	BBB	Baa2	BBB	BBB	BB	-3.1	49.8	50.6	105.6	12.3	235.5	-3.3	3.8
	Stable	-	Stable	Stable	Stable								
<b>Middle East</b>													
Bahrain	A	A2	A	A	BBB	-3.4	18.2	187.7	321.7	4.6	63.8	6.2	0.4
	Stable	-	Stable	Stable	Stable								
Iran	-	-	B+	BB-	B	-3.7	19.1	5.5	35.1	4.3	22.9	-4.6	0.2
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	CC	-34.4	-	71.8	214.4	3.8	157.7	-22.4	0.9
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	B	1.3	51.4	65.6	122.2	4.8	198.6	-10.0	11.4
	Stable	-	-	Stable	Stable								
Kuwait	AA-	Aa2	AA-	AA-	A	22.6	4.9	40.4	134.2	6.2	229.7	23.6	-9.9
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B-	B2	B-	B	CCC	-10.8	145.6	97.5	614.9	20.4	199.0	-12.0	9.0
	Stable	-	Stable	Stable	Stable								
Oman	A	A2	-	A	A	-1.9	3.5	21.4	68.7	-	113.0	-4.0	4.0
	Stable	-	-	Stable	Stable								
Qatar	AA-	Aa2	-	AA-	A	1.7	4.1	52.5	189.8	7.3	359.3	24.3	7.8
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	A1	AA-	AA-	BBB	9.8	9.9	8.5	28.3	4.0	89.1	6.1	0.2
	Stable	-	Stable	Stable	Stable								
Syria	-	-	-	-	CCC	-8.3	38.5	13.0	71.4	1.0	162.7	-5.1	1.9
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	BBB	16.7	10.6	79.3	125.2	2.3	287.4	11.4	2.4
	-	-	-	Stable	Stable								
Yemen	-	-	-	B	CCC	-17.2	-	29.6	161.9	-	-	-16.9	
	-	-	-	Stable	Stable								



# COUNTRY RISK METRICS

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	S&P	Moody's	Fitch	CI	EIU								
<b>Central &amp; Eastern Europe</b>													
Armenia	-	Ba2	BB	-	-	-2.2	13.9	32.5	496.8	1.2	311.3	-9.0	5.9
	-	-	Stable	-	-								
Bulgaria	BBB+	Baa3	BBB-	-	BB	-0.4	13.7	101.8	159.2	22.5	250.5	-15.3	9.8
	Stable	-	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB-	-	BB	1.7	6.0	86.4	267.8	56.6	528.0	-3.1	1.5
	Negative	-	Negative	-	Stable								
Romania	BBB-	Baa3	BB+	BBB-	BB	-4.9	16.2	61.9	171.7	21.8	319.6	-8.2	5.1
	Negative	-	Negative	Negative	Stable								
Russia	BBB+	Baa1	BBB	-	BBB	1.5	7.4	40.1	155.9	17.4	193.3	-0.7	0.4
	Negative	Positive	Negative	-	Negative								
Turkey	BB-	Ba3	BB-	BB-	BB	-3.9	43.5	56.0	238.4	41.2	587.4	-5.0	2.4
	Stable	-	Stable	Stable	Stable								
Ukraine	CCC+	B1	B	-	CCC	-1.1	20.7	80.4	202.3	28.5	411.6	-2.8	2.1
	Negative	Positive	Negative	-	Stable								

Sources: Moody's Investors Service; Economist Intelligence Unit - The above figures are estimated for 2009

\* Figures last updated in February 2009



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	24-Jun-09	No change	12-Aug-09
Eurozone	Refi Rate	1.00	02-Jul-09	No change	06-Aug-09
UK	Base Rate	0.50	09-Jul-09	No change	06-Aug-09
Japan	O/N Call Rate	0.10	16-Jun-09	No change	15-Jul-09
Australia	Cash Rate	3.00	07-Jul-09	No change	04-Aug-09
New Zealand	Cash Rate	2.50	11-Jun-09	No change	30-Jul-09
Switzerland	3 month Libor target	0.25	18-Jun-09	No change	30-Sep-09
Canada	Overnight rate	0.25	04-Jun-09	No change	21-Jul-09
<b>Emerging Markets</b>					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	24-Jun-09	No change	12-Aug-09
Taiwan	Discount Rate	1.25	25-Jun-09	No change	Sep-09
South Korea	Target Rate	2.00	09-Jul-09	No change	N/A
Malaysia	O/N Policy Rate	2.00	26-May-09	No change	29-Jul-09
Thailand	1D Repo	1.25	20-May-09	No change	15-Jul-09
India	Repo rate	3.25	21-Apr-09	No change	24-Jul-09
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 50bps	N/A
Saudi Arabia	Repo rate	0.25	16-Jun-09	Cut 25bps	N/A
Egypt	Overnight Deposit	9.00	19-Jun-09	Cut 50bps	N/A
Turkey	Base Rate	8.75	16-Jun-09	Cut 50bps	13-Aug-09
South Africa	Repo rate	7.00	25-Jun-09	No change	N/A
Kenya	Central Bank Rate	8.00	20-May-09	Cut 25bps	July 09
Nigeria	Monetary Policy Rate	6.00	07-Jul-09	Cut 200bps	N/A
Ghana	Prime Rate	18.50	12-May-09	No change	July 09
Mexico	Target Rate	4.75	19-Jun-09	Cut 50bps	17-Jul-09
Brazil	Selic Rate	9.25	10-Jun-09	Cut 100bps	22-Jul-09
Armenia	Refi Rate	5.50	07-Jul-09	Cut 50bps	N/A
Romania	Policy Rate	9.00	30-Jun-09	Cut 50bps	N/A
Bulgaria	Base Interest	2.21	30-Jun-09	Cut 110bps	N/A
Kazakhstan	Refi Rate	8.00	08-Jul-09	Cut 50bps	N/A



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