



COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

IMF injects \$110bn in developing economies

The International Monetary Fund injected \$250bn in the global economy at the end of August to bolster countries' reserves as part of measures to combat the world economic crisis, and will be followed by a \$33bn allocation in September. It said about \$110bn in combined allocations will go to emerging markets and developing countries, of which low-income countries will receive over \$20bn. It added that the funding took place through the allocation of Special Drawing Rights to IMF members that are participants in the SDRs Department in proportion to their existing quotas in the Fund, which are based broadly on their relative size in the global economy. The operation will increase each country's allocation of SDRs by approximately 74% of its quota, and raise Fund members' total allocation to about \$283bn from nearly \$33bn. The IMF said SDRs allocated to members will count toward their reserve assets, acting as a low cost liquidity buffer for low-income countries and emerging markets and reducing the need for excessive self-insurance.

Source: *International Monetary Fund*

Sukuk issuance down 16% to \$9.3bn in first 7 months of 2009

Standard & Poor's indicated that new issuance of sukuk, or bonds compliant with Islamic law, reached \$9.3bn in the first 7 months of 2009, constituting a decline of 16.2% from \$11.1bn issued in the same period last year. It said the smaller amount of issuance was due to the still-challenging market conditions and drying up of liquidity, as well as to the less-supportive economic environment in the GCC countries, particularly in the UAE. It considered that the medium-term outlook for the sukuk market remains positive given the strong pipeline, with sukuk announced estimated at about \$50bn, along with efforts to resolve the major difficulties impeding the market's development. The agency said Malaysia accounted for about 45% of sukuk issuances in the first 7 months of 2009, while Saudi Arabia contributed another 22% of sukuk issued during the same period. It noted that the default of a couple of sukuk was partly responsible for the slowdown in issuance. S&P noted that major obstacles remain for the development of the sukuk, including difficult market conditions that are slowing the planned issuance of numerous sukuk; the lack of standardization, notably when it comes to Sharia interpretation; and the low liquidity of the sukuk market, which constrains investors trying to exit the market in times of turbulence or access the market looking for distressed sellers.

Source: *Standard & Poor's*

MENA

Equity markets up 20% in first 8 months of 2009

Arab stock markets rose by 19.6% in the first 8 months of 2009 compared to a drop of 15% in the same period last year and to a decline of 54.5% during 2008. The Cairo stock exchange increased by 46.3% in the first 8 months of the year, posting the best performance among Arab markets during the covered period. It was followed by the Tunisian stock market with a 30% rise, the Abu Dhabi equity market with a 21.2% increase, the Riyadh market with a 17.9% improvement, the Beirut bourse with a 18.7% rise, the Dubai bourse with an 17% increase, the Muscat stock market with a 16.6% improvement, the Palestine exchange with a 12.8% increase, the Doha bourse with a 3.4% improvement, the Kuwait exchange with a 1.7% rise and the Casablanca exchange with a 0.6% increase. In parallel, the Bahrain stock market posted the worst performance in the region with a 16% decrease year-to-August, followed by the Amman exchange with a 7% drop. In comparison, emerging market equities improved by 50.2% in the first 8 months of 2009.

Source: *Local stock markets, Byblos Research*

SAUDI ARABIA

Riyadh ratifies monetary union agreement

The Cabinet ratified the GCC monetary union agreement that will oversee the implementation of common monetary and fiscal policies, a common currency, as well as the establishment of the Monetary Council, the forerunner to the GCC Central Bank. Last December, the heads of states of Saudi Arabia, Kuwait, Qatar and Bahrain signed the monetary union agreement after the UAE abandoned the union in protest over a decision to base the joint central bank in Saudi Arabia. Oman already opted out of the union in 2006. The agreement still needs to be ratified by the other GCC governments.

Source: *Dow Jones Newswires*

LIBYA

Italy to start paying €1bn pledge

Libya's authorities announced that Italy will start making payments to Libya in 2010, in accordance with the Friendship, Partnership and Co-operation Agreement signed by the two sides in August 2008. Last year, Italy pledged €1bn over 25 years to Libya in compensation for the occupation of the country from 1911 to 1943. It will pay about €160m per year to Libya in the form of investments in infrastructure, including the construction of a coastline highway that runs about 1,600 kilometers between the Egyptian and Tunisian borders. In exchange for settling the dispute, Libya pledged increase patrols of its coastline to prevent African immigrants from traveling illegally to Italy. Italian companies, including oil and gas company Eni SpA, will also be able to expand their business in Libya.

Source: *ANSA*

POLITICAL RISK OVERVIEW - AUGUST 2009

ARMENIA

Armenia and Turkey announced on August 31 they would launch final talks aimed at establishing diplomatic ties. But they won't discuss the World War I-era massacres of Armenians under Ottoman rule. Both sides said in a joint statement they expected the talks, with continued mediation by Switzerland, to take six weeks and to end with an agreement setting up and developing ties. Armenia wants a reopening of the border that was closed after Armenian forces took control of the Azerbaijani region of Nagorno-Karabakh. However, Turkey said that opening the border was out of the question for now.

EGYPT

A group accused of plotting attacks in Egypt for the Lebanese Islamist group Hezbollah has gone on trial in Cairo on August 23rd. The 26 men, two Lebanese, five Palestinians and 19 Egyptians, are charged with spying and planning attacks against tourists and shipping in the Suez Canal. During his visit to Washington on August 18, President Mubarak discussed the Middle East peace process with U.S. President Obama.

IRAN

Political tensions over the re-election of President Ahmedinejad persisted for a third month. The Authorities closed down temporarily the newspaper of leading reformist Mahdi Karoubi, who angered hardliners by claiming opposition protesters had been tortured, raped and beaten to death in jail. The presidential candidate Mir-Hossein Mousavi declared on August 15 the creation of an opposition party called the Green Path of Hope. Several small-scale Tehran protests continued even after Iranian supreme leader confirmed the presidency of Ahmedinejad on August 3rd. President Ahmedinejad swore in the parliament on August 5th. A mass trial was held on August 8 to condemn Iranian opposition figures for being involved in the country's post election protests. President Ahmedinejad announced new Cabinet nominees on August 19th. However, the inclusion of inexperienced nominees and women in the parliament were severely objected. Iran allowed U.N. inspectors to access a nuclear reactor under construction after blocking visits for a year. Chief nuclear negotiator Saeed Jalili said Iran has prepared an updated nuclear proposal and is now ready to resume negotiations.

IRAQ

At least six bombs tore near government ministries and other targets in Baghdad killing over 100 people. The authorities arrested 11 senior security officers on August 20 to review whether they were negligent in the blasts. The authorities also arrested Baathist suspects on August 21st. Al-Qaeda group claimed responsibility for the attack on August 25th. More bombings throughout the country killed dozens of people, mainly in Baghdad and Mosul. U.S. commander Odierno announced on August 18 a proposal for joint U.S.-Kurdish-Iraqi army patrols along the sensitive trigger line. Prime Minister Maliki and Kurdistan region leader Barzani met on August 2 and agreed on further talks on oil and land issues. Shiite groups formed an alliance on August 24 for the January elections, including the Islamic Supreme Council and Sadrists, but excluding PM Maliki's Daawa party. Supreme Council leader Abd-al-Aziz al-Hakim died in Tehran on August 26th.

IVORY COAST

President Gbagbo appointed Paul Yao-N'dré, a senior member of his party FPI, as head of Constitutional Council, responsible for announcing election results. The opposition protested Yao-N'dré's lack of neutrality. The Defense Minister said on August 18 that the disarmament of ex-rebels would not be achieved by end of September, adding that the delay should not impact the presidential election that is scheduled for November 29th.

SUDAN

U.S. Special Envoy to Sudan Scott Gration witnessed the initialing of a bilateral agreement in Southern Sudan on August 19, between representatives of the Sudan People's Liberation Movement (SPLM) and the ruling National Congress Party (NCP) on advancing implementation of the CPA, including border demarcation and election preparation. But the parties have been unable to reach an agreement on several issues, namely a final determination on the use of census data. SPLM officials continued to accuse Khartoum of destabilizing the South by arming civilians. Around 185 people died in attacks between communities in the South. The UN stated that at least 180 people were killed in the South amid recent attacks by suspected LRA rebels, causing temporary suspensions of aid operations. Officials from Sudan, Egypt and Libya convened in Cairo on August 23 to coordinate peace efforts including on Darfur. UNAMID General Martin Agwai said that despite persistence of localized disputes, the war in Darfur was effectively over.

SYRIA

Iraq and Syria recalled their ambassadors on August 25 after Baghdad asked Damascus to hand over two people suspected for the bombings in Baghdad, killing almost 100 people. This came after Iraqi Prime Minister Maliki visited Damascus on August 18 for bilateral security talks. A delegation of U.S. military commanders arrived to Damascus on August 12 to discuss with Syrian officials greater cooperation in preventing the flow of al Qaeda militants and other foreign fighters into Iraq. EU foreign policy chief Solana visited Damascus on August 30 as part of a four-day trip to the Middle East to renew international efforts and resume peace talks between Israel and the Palestinians. Damascus refused Israeli claim of direct peace negotiations and insisted that a mediator is necessary.

UKRAINE

Russian President Medvedev criticized President Yushchenko's "anti-Russian" policies on August 11th. Prime Minister Tymoshenko said she wants to deepen ties with Moscow but President Medvedev said relations will not improve under the current Ukrainian leadership. Russia accused Kiev on August 27 of attempting to seize property belonging to its Black Sea Fleet in Ukraine.

YEMEN

Ongoing conflict between the government and Zaidi Shiite Houthi rebels in the North escalated as the government launched an offensive against rebels in Saada and Amran provinces on August 11th. The Government proposed on August 13 six conditions for ceasefire, including rebel withdrawals and the release of foreigners kidnapped in June. The proposal was rejected by the Houthis.

Source: International Crisis Group



OUTLOOK

SAUDI ARABIA

Banking sector health is key to growth prospects

The Institute of International Finance expected Saudi Arabia's economy to contract by 1% in 2009. It forecast real non-oil GDP to grow by 2.5% in 2009 and 3.7% in 2010, supported by services, and the government's massive public investment program. It warned, however, that an extended global slowdown or a double-dip recession could slow non-oil growth by reducing the scope for government fiscal stimulus. It forecast average inflation to fall to 4.5% in 2009 and 3.3% in 2010 from 9.9% in 2008, due to the decline in global commodity and services prices and to weaker domestic demand. It expected the fiscal surplus to drop to 6.4% of GDP this year from 33% of GDP in 2008 and for the current account surplus to fall to 2.3% of GDP from 28.8% of GDP last year. It projected the current account and fiscal surpluses to widen again in 2010 to 8.1% of GDP and 11.3% of GDP in 2010, respectively. Also, it forecast foreign assets to recover modestly, reaching \$474bn at end-2010.

The IIF stated that the impact of the global financial crisis on the banking system in Saudi Arabia has been relatively limited due to the sector's strong fundamentals. It said banks are well capitalized with a capital adequacy ratio of around 16% at the end of June 2009. It noted that the resilience of deposit growth and the weakness of private sector credit growth have provided the banking system with adequate liquidity, as the loan-to-deposit ratio declined to 79.5% in June 2009 from 86.8% at end-2008. But it expected lending to increase in the second half of the year as corporate prospects improve. It estimated the system's non-performing loans to be less than 2% of total loans and noted that the major banks have increased their provisions for bad loans. It added that exposure of banks to the real estate sector represents around 7% of total private sector credit. The IIF noted that risks have emerged in recent months, due to debt restructuring of two Saudi family conglomerates, but did not consider the troubled groups to pose systemic risk to the sector. It considered that the health of the banking sector remains at the core of the kingdom's economic growth outlook, with credit extension to key sectors largely determining future growth prospects.

Source: Institute of International Finance

NIGERIA

Reduced liquidity, deteriorating asset quality and low investor appetite are banking sector's near term risks

Merrill Lynch indicated that near terms risks in the Nigerian banking sector consist of reduced system liquidity, deteriorating asset quality and low investor appetite, following the takeover by the Central Bank of Nigeria (CBN) of 5 banks for being under capitalized and posing a systemic risk to the entire sector. It said tight regulations that impose a minimum of 25% in liquid assets of total assets, and the CBN guaranteeing placements in the inter-bank market, provide banks with a liquidity cushion. However, given the immature state of the market, it did not rule out an outflow of deposits from individual banks that could draw down their internal liquidity.

Merrill Lynch expressed concerns about asset quality across the sector following the disclosure of aggregate NPLs of 40% at the 5 rescued banks. It also expressed doubt about the reliability of disclosed NPL ratios in the single digits at the other banks, as it is difficult to have this kind of differential in asset quality across banks in the same market and with similar lending profiles. It expected that loan growth will suffer in the coming 6 to 12 months, as banks tighten lending standards and system liquidity pressures remain high, putting further pressure on NPLs. It noted that, following the very high credit growth rates of recent years, this will represent a significant shift in credit availability and could be a problem for collateral values in both the real estate and equity markets. It also noted the risk of a lack of willingness to pay in case the banking crisis deepens, as in other emerging market banking crisis where clients stop paying loans once they believe that banks are failing.

Finally, it expected selling pressure in both the equity and bond markets in the near term, as investor confidence declines amid the magnitude of the sector's problems. It noted that, even though investors have long applied a higher risk premia to Nigeria, governance problems, uncertainty, the lack of transparency and low confidence in reported figures will turn away many investors from the sector. Merrill Lynch noted that a clearer picture of the sector is only likely to merge in 2010, and that the aggressive reforms underway could help create a stronger and better-governed sector over the long-term.

Source: Merrill Lynch

RUSSIA

GDP to contract by 8% in 2009, economic prospects in doubt

Standard & Poor's projected Russia's real GDP to contract by 8% in 2009 and to grow by 2% next year. It indicated that the prospect of Brazil, Russia, India, and China (BRIC) collectively sustaining their rapid economic expansion through the global slowdown has been derailed by the severity of the downturn in Russia. It said economic growth started to take a downturn in Russia in the middle of last year and became sharply negative in the first quarter of 2009, reflecting the major weaknesses of an economic growth model based on commodity exports and massive foreign capital inflows. It expressed concerns about Russia's macroeconomic outlook, as the budget balance will shift from a large surplus to a significant deficit of about 8.5% of GDP this year.

The agency noted that the official projections assume a rapid depletion of the reserve fund and external borrowings of up to \$17.8bn in 2010. It said Russia will have to compete with other large sovereign borrowers in global capital markets, which means that the cost of financing is likely to be high in coming years. Also, the government will be injecting the equivalent of about 8% of GDP in the economy, fueling medium-term inflation pressures, as well as putting short-term downward pressure on the ruble exchange rate. S&P considered that Russia needs to further weaken the real effective exchange rate in order to help stimulate a more diversified and sustainable domestic economy.

Source: Standard & Poor's



ECONOMY & TRADE

SAUDI ARABIA

Financial crisis continues to affect most sectors

The D&B Business Optimism Index for Saudi Arabia covering the third quarter of 2009 shows that the global financial crisis continues to affect the majority of businesses, with 66% in manufacturing impacted; 50% in finance, insurance & real estate affected; 48% in transport & communication hurt; 45% in trade, restaurants & hotels impacted; and 43% in construction affected. Also, 43% of respondents in the oil & gas sector reported being affected by the financial crisis. The survey also shows that 62% of responding firms in the non-hydrocarbon sectors expect an increase in the volume of sales during the third quarter of 2009, 58% foresee a rise in net profits, and 66% expect a rise in new orders. Further, 60% of non-hydrocarbon firms expect to see no change in their number of employees and 5% plan to reduce their staffs. In parallel, prices of raw materials was the main concern of the non-hydrocarbon sectors with 44% of respondents expressing such concern, while the availability of finance continues to be the main concern of 53% of traders and 52% of finance, insurance & real estate firms. The main concern of hydrocarbon firms is related to project delays, with 50% of respondents highlighting such delays as their main issue.

Source: *Dun & Bradstreet*

JORDAN

Government reduces capital and current spending

The Cabinet reduced capital expenditures for this year by JD147m to JD1.2bn, or 7.9% of GDP, in an effort to contain the country's widening budget deficit. It postponed a number of projects that were not awarded yet and some not started. The budget deficit, including grants, will decline accordingly to between JD960m and JD1bn from the Finance Ministry's earlier expectation of JD1.1bn. The Cabinet has also lowered current expenditures by JD5m. Capital expenditures have been a major driver behind the widening deficit in 2009, rising 73% year-on-year in the first half of 2009. The lower capital expenditures is expected to cut the deficit by a full percentage point of GDP to 6.9% in 2009. In parallel, Jordan plans to borrow between \$250m to \$300m from the World Bank to finance its widening budget deficit. Jordan's debt to the World Bank stood at JD591m at end-June 2009. The Ministry is also working on restraining spending in the 2010 budget to offset an expected decline in tax revenues.

Source: *Al Doustor*

EGYPT

Second stimulus package under consideration

The Minister of Economic Development declared that the government is considering the introduction of a second stimulus package in FY2009/10 to provide additional support to economic growth, adding that it may spend an additional EGP15bn or 1.2% of GDP. It said the additional spending has not been accounted for in the FY2009/10 budget, and that the government has not yet decided how to finance the stimulus package. The government has also raised its forecasts for economic growth in FY2009/10 to between 5.3% and 5.5% from its earlier

forecast of 4%. The government will likely be looking for additional sources of revenue to finance the package rather than increasing its borrowings, due to is already stretched finances. Excluding additional spending, the budget deficit is forecast to widen to 8.6% of GDP in FY2009/10e from 6.7% of GDP in the previous year, as revenues fall sharply on slowing economic growth. But the deficit could widen to 9.8% of GDP when including the new fiscal stimulus and excluding additional sources of revenues.

Source: *Al Ahram, EFG Hermes*

ALGERIA

Government clarifies new rules for foreign importers

The Ministry of Finance announced that a law requiring foreign trading companies operating in Algeria to open at least 30% of their capital to Algerian importers will not be imposed on firms that are already established. It added that the decision applies only to ventures formed after the law went into force on July 26, 2009. Last February, the Ministry of Commerce announced the decision to change the legal status of foreign trading companies, following concerns about the increase in imports by 43% last year. The original announcement suggested that the measure would be retroactive, as it required the estimated 1,600 existing trading companies to amend their capital structure by end-September or leave the country. Article 58 of the supplementary budget law simply states that the activity of foreign trade may only be carried out by joint ventures in which the Algerian share amounts to at least 30% of the capital. The Finance Ministry's declaration ends a stream of contradictory statements from officials since the measure was first announced, with some saying that it would be retroactive and others denying it. The European Union said earlier that the decision contravened the terms of Algeria's Association Agreement with the EU that came into force in 2005.

Source: *Economist Intelligence Unit*

IVORY COAST

Debt rescheduling negotiations underway

The Ivory Coast has restarted negotiations to restructure about €2bn worth of its debt owed to the London Club of private creditors and may launch its new bonds later this year. The outstanding debt consists of three euro-denominated and three dollar-denominated bonds maturing in 2018 and 2028. The London Club said it is likely that most of the debt will be rescheduled over 20 years. The Ivory Coast reached a debt restructuring plan with the Paris Club of sovereign creditors earlier this year, involving the cancellation of \$845m in debt, the rescheduling of \$1.23bn, and the deferral of debts worth \$2.61bn. It cleared its external arrears with the World Bank in 2008 and with the African Development Bank in March. It is also part of the Heavily Indebted Poor Countries initiative, a debt relief program managed by the International Monetary Fund and the World Bank. The HIPC initiative aims to help Ivory Coast clear some \$3bn of its external debt, which was estimated at \$14.3bn at end-2007. It is now required to implement a series of economic and social reforms in key sectors like cocoa and oil in order to get the full debt-relief entitlement.

Source: *Down Jones Newswires, Thomson Reuters*



BANKING

SYRIA

Government tightens foreign labor rules at private financial institutions

The Labor Ministry issued a decree mandating financial institutions to reduce their non-Syrian workforce from 10% of the total to 3% of the total. The decision applies to all private sector financial institutions operating in Syria, including traditional and Islamic commercial banks, insurance firms, investment firms and brokerages. There are 11 private banks and 12 private insurance firms currently operating in Syria, in addition to 15 financial services company that received a formal operating license and 15 others that received a preliminary license. The 10% limit on non-Syrian labor remains unchanged for non-financial firms. Private banks operating in Syria have maintained a percentage of non-Syrian staff below the 10% limit but above the new 3% ceiling. The new decision was issued in July and went into effect immediately, but banks have requested from the ministry to extend the deadline until current work permits of foreign staff expire at the end of the year. The World Bank's 2009 Ease of Doing Business survey ranked Syria in 137th place globally, behind Cambodia and Malawi and ahead of Uzbekistan and Rwanda. Syria came in 16th place among 19 countries in the MENA region. It also ranked in 122nd place globally and in 16th place regionally in terms of employing workers.

Source: Ministry of Labor & Social Affairs, Ministry of Finance

UAE

Revision of minimum capital adequacy ratio raises uncertainty, could lead to banks' downgrade

Fitch Ratings indicated that the UAE Central Bank's revision of minimum capital adequacy requirements for the country's banks has increased uncertainty in the banking system, given that the Ministry of Finance's announcement in October 2008 stipulated higher capital requirements. The Central Bank's circular of August 30, 2009 stated that banks now only need to have a minimum Tier 1 capital ratio of 7% at end-September 2009 and 8% by end-June 2010, included in a minimum total capital ratio of 11% at end-September and 12% at end-June. The new temporary rules, which went into effect at end-August 2009, apply to national and foreign banks and will be reviewed at the start of 2011. The Central Bank had previously required a minimum Tier 1 capital ratio of 6% and a total capital ratio of 10%. Last October, the ministry required minimum Tier 1 capital ratios of 11% by end-June 2009 and 12% by end-June 2010 for national banks to gain access to federal government liquidity support programs. Fitch considered that the clarification of the regulator's requirements appear to have been made to stimulate bank lending, which dried up in the first half of 2009 as banks tried to meet the ministry's target capital ratios, faced funding constraints and became more cautious. In parallel, Fitch warned that it may downgrade the banks' individual ratings if they lower their capital ratios too closely to the revised minimum levels, adding that UAE banks still face risks of higher impairments on their retail and corporate loan portfolios.

Source: Fitch Ratings

SUDAN

ONB provisions at less than 2%

State-owned Omdurman National Bank (ONB), the largest bank in Sudan, announced net profits of SDG 45.7m or \$21.1m in 2008, up 12.6% from the previous year. The bank operates under Islamic banking principles. Sales & receivables revenues decreased by 27.9% to SDG 262.6m, while short-term investment revenues increased by 42% to SDG 108.2m year-on-year. Net operating revenues decreased by 5% to SDG 157.9m and total expenditures decreased by 8.3% to SDG 91.8m. Total assets reached SDG 6.25bn at the end of 2008, about \$2.9bn, constituting a 5% rise from end-2007, while sales receivables decreased by 3.7% to SDG 3.45bn and short-term investments decreased by 42.9% to SDG 669.1m. The bank increased its doubtful receivables provision by 27% in 2008, to reach SDG 71.1m, accounting for only 1.8% of its gross sales receivables. Further, ONB's current & saving deposits rose by 12.5% year-on-year to SDG 1.17bn. The bank's equity increased by 258% to SDG 669.1m year-on-year due to the capital injection of SDG 400m by the Central Bank of Sudan and of SDG 58.5m by the National Economic Corporation.

The International Monetary Fund attributes much of the NPLs problem in Sudan to ONB, which accounts for more than half of the NPLs and 28% of aggregate bank lending. It noted recently that the restructuring of ONB has yet to be implemented due to delays in completing the private audit of the bank, adding that authorities intend to formulate by end-2009 a strategy for restructuring or privatizing ONB. It considered that a quick resolution to the troubled ONB is critical, as the bank's financial position remains a cause for concern.

Source: Omdurman National Bank annual report, International Monetary Fund

Government bails out largest bank in the South

The Government of Southern Sudan and the Bank of Southern Sudan (BoSS), a branch of the Khartoum-based Central Bank of Sudan, have agreed to bail out the Nile Commercial Bank (NCB) after it ran out of cash. NCB was the first commercial bank to be established in Southern Sudan after the 2005 Comprehensive Peace Agreement and is the region's largest bank. The rescue package totals SDG 102m, or about \$42m, to be distributed equally by the government and BoSS. This constitutes the second attempt by the government to rescue the bank, as it put together a rescue package of SDG 19m in 2007. The bank's problems are attributed to weak and inexperienced management, as a large number of borrowers defaulted on loans that did not have collateral. The defaulters include government officials, civil servants, and merchants. The government agreed to bail out the bank on condition to replace the bank's management, which will be taken over temporarily by the BoSS.

Source: Sudan Tribune



ENERGY / COMMODITIES

Oil rises towards \$69 on economy hopes

Oil prices rose toward \$69 a barrel on September 3, drawing support from a sharp fall in U.S. gasoline inventories that revived hopes of a demand recovery in the United States. U.S. crude prices for October delivery were at \$69.98 a barrel and London Brent crude rose 61 cents to \$68.27 a barrel. U.S. weekly government data on September 2 showed that gasoline stocks fell by 3 million barrels, confounding analysts' expectations for a 900,000 barrel draw. This drop offset news of a lower-than-expected drop in crude inventories, as gasoline is taken as a more accurate gauge of U.S. demand. The bullish stock news helped to pull prices up from a two-week low of \$67.05 a barrel hit on September 2nd.

Analysts will be looking out for more signs that an economic recovery could be underway. But even if data is bullish for oil, the price is not likely to break out of the limits of its current range in the short-term. U.S. crude prices have been range bound between \$65 and \$75 a barrel since the start of August, fluctuating on the latest signs about the speed of an economic recovery. Traders were also eyeing news that big oil producers are increasing output. Russian oil output hit a record high in August, nearing 10 million barrels per day as the country launched a new giant field. OPEC is likely to leave output targets unchanged when it next meets on September 9 in Vienna.

Source: Thomson Reuters

Saudi Arabia drops price of oil to U.S.

Saudi Arabia has reduced the price of oil it exports to the U.S. and plans to keep crude allocations to the U.S. unchanged in October. Saudi Light oil will cost \$2.90 a barrel, a reduction of \$1.80. It also makes it cheaper than U.S. light crude. The availability of Saudi oil to the U.S. has been unchanged for months but shipments have been smaller due to weaker demand.

Source: Thomson Reuters

Yemen's oil production reaches 107 million barrels in 2008

Yemen's Ministry of Oil said the country produced over 107 million barrels of oil from 12 oil blocks in 2008. The minimum monthly production reached 8.4 million barrels in November 2008 while the maximum monthly production was 9.7 million barrels in January. Al-Masillah block No. 19 ranked first in oil production with 34.6 million barrels, or 32% of total production, followed by block No. 18 in Marib and Jawf.

Source: Saba

Oman to privatize power stations

Oman plans to privatize its existing power stations and invest \$7.8bn in new projects over the next six years, in a bid to boost the economy and reduce the budget deficit as electricity demand grows. Oman plans to sell partly or wholly government owned power stations to attract more international investors to the country.

Source: Thomson Reuters

Base metals: Copper drops for a third day on global equity decline

Copper prices declined for a third day in Asia as equities dropped on concern the global economic recovery is struggling and inventories gained. Copper prices declined by 4.7% in the past two days, pacing a drop in industrial metals, and tracking the slide in global stocks. Orders placed with U.S. factories rose less than forecast in July, and U.S. companies cut more jobs than forecast in August. Three-month delivery copper on the London Metal Exchange fell by 1% to \$6,115 a metric ton. The contract fell to \$6,025 on September 2, the lowest since August 21st. Copper for December delivery in New York lost 1.2% to \$2.7920 a pound, and December-delivery copper on the Shanghai Futures Exchange increased by 0.5% to \$6,983 a ton. Inventories of copper tallied by the London Metal Exchange stood at 302,950 tons on September 2, 68% higher than levels a year ago. Stockpiles in Shanghai are at a two-year high. Among other LME-traded metals, aluminum and zinc were little changed at \$1,850 a ton and \$1,820 a ton respectively. Lead was 0.5% lower at \$2,105 a ton, nickel dropped by 0.7% to \$17,980 a ton, and tin fell by 1.3% at \$13,775 in Singapore.

Source: Bloomberg

Precious Metals: Gold prices to remain range bound in the short-term

Prices of gold are expected to remain range bound in the short-term, as gold prices remain near historic highs. The price of gold is heavily influenced by investor demand on one side, and scrap and official gold sales on the other. On the supply side, the worldwide supply of gold comes from mine production and fabricated gold held by governments, financial institutions, industrial organizations, and private individuals. In recent years, mine production has accounted for 60% to 75% of the total annual supply of gold and remains at a fairly constant level. Official sector gold sales have accounted for a further 10% of gold supply over the past three years. On the demand side, gold is primarily used in product fabrication and as an investment. Historically, jewelry accounts for approximately 65% to 75% of the worldwide demand for gold, but fabricated gold is also used in electronics, dentistry, industrial and decorative uses, medals, medallions, and official coins. In the past three quarters, jewelry demand was only 48% of total overall demand. While pricing in the gold market has declined from a high of approximately \$1,000 an ounce in March 2008, gold remains near its highs on a historical basis. It is currently at approximately \$941 an ounce compared with the 10-year historical average of \$494 an ounce.

Source: Fitch Ratings

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	194.4	177.0	176.1	6.1	-22.7
LME metals price index	2894.5	2306.9	2246.7	8.7	-20.1
Oil prices USD	72.7	60.1	60.6	6.4	-38.6
Oil prices SDRs	46.7	39.4	39.9	6.3	-38.2
Gold \$/troy oz	945.6	929.3	881.8	-0.6	14.1
Silver cents/troy oz	1420.0	1363.5	1244.8	1.0	3.2
Platinum \$/troy oz	1234.0	1165.2	1068.3	1.9	-14.3
Copper \$/MT	6260.5	4825.1	4542.1	11.6	-17.9
Nickel \$/MT	19387.5	13888.8	13008.4	14.8	-5.0
Aluminium \$/MT	1832.5	1558.7	1685.2	0.3	-32.7
Zinc \$/MT	1817.5	1498.3	1385.2	6.6	2.2

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	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	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	B+	-	BB-	-	B	-5.7	23.6	6.1	20.6	0.6	-	-13.2	2.4
	Stable	-	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								
Middle East													
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-	BB	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								
Central & Eastern Europe													
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
	Positive	Positive	Negative	-	Stable								

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



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	12-Aug-09	No change	23-Sep-09
Eurozone	Refi Rate	1.00	06-Aug-09	No change	03-Sep-09
UK	Base Rate	0.50	06-Aug-09	No change	10-Sep-09
Japan	O/N Call Rate	0.10	11-Aug-09	No change	17-Sep-09
Australia	Cash Rate	3.00	01-Sep-09	No change	06-Oct-09
New Zealand	Cash Rate	2.50	30-Jul-09	No change	10-Sep-09
Switzerland	3 month Libor target	0.25	18-Jun-09	No change	30-Sep-09
Canada	Overnight rate	0.25	21-Jul-09	No change	10-Sep-09
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	12-Aug-09	No change	23-Sep-09
Taiwan	Discount Rate	1.25	25-Jun-09	No change	25-Sep-09
South Korea	Target Rate	2.00	11-Aug-09	No change	10-Sep-09
Malaysia	O/N Policy Rate	2.00	25-Aug-09	No change	28-Oct-09
Thailand	1D Repo	1.25	26-Aug-09	No change	21-Oct-09
India	Reverse repo rate	3.25	28-Jul-09	No change	27-Oct-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	8.50	30-Jul-09	Cut 50bps	17-Sep-09
Turkey	Base Rate	7.75	18-Aug-09	Cut 50bps	17-Sep-09
South Africa	Repo rate	7.00	13-Aug-09	No change	22-Sep-09
Kenya	Central Bank Rate	7.75	22-July-09	Cut 25bps	08-Sep-09
Nigeria	Monetary Policy Rate	6.00	07-Jul-09	Cut 200bps	Sep-09
Ghana	Prime Rate	18.50	21-July 09	No change	Sep-09
Mexico	Target Rate	4.50	21-Aug-09	Cut 25bps	18-Sep-09
Brazil	Selic Rate	8.75	02-Sep-09	No change	N/A
Armenia	Refi Rate	5.25	11-Aug-09	Cut 25bps	N/A
Romania	Policy Rate	8.50	04-Aug-09	Cut 50bps	29-Sep-09
Bulgaria	Base Interest	1.71	30-Jul-09	Cut 50bps	N/A
Kazakhstan	Refi Rate	7.50	07-Aug-09	Cut 50bps	N/A
Ukraine	Discount Rate	10.25	11-Aug-09	Cut 75bps	N/A
Russia	Refi Rate	10.75	07-Aug-09	Cut 25bps	N/A



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