

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Mergers and acquisitions down 36% to \$1,178bn in 2009

Bloomberg indicated that more than 20,000 merger and acquisition (M&A) deals worth more than \$1,700bn were announced globally in 2009. However, the number of closed deals reached 7,056, constituting a 14% rise from 2008, while the value of the deals totaled \$1,178bn, a decline of 36% from \$1,842bn in 2008. It said North America accounted for 42% of total deals in value terms, followed by Western Europe with 29%, emerging markets with 16% and Asia Pacific with 13%. It said Asia-Pacific and emerging markets proved more resilient than North America and Western Europe, as they were able to increase their share in global volumes. It noted that banks were the leading sectors for M&A with about \$275bn in deals, followed by investment firms with nearly \$230bn, oil & gas with \$200bn, financial services with \$175bn, and pharmaceuticals with about \$170bn as the top 5 sectors for M&A globally. It indicated that, despite the rebound in equity markets since March 2009, the falling trend in M&A values continued well into the second half of 2009, with some recovery only in the fourth quarter.

Source: Bloomberg

EMERGING MARKETS

Sovereign and corporate debt issuance projected at \$211bn in 2010

Merrill Lynch projected aggregate sovereign and corporate bond issuance in emerging markets at \$211bn in 2010 compared to an estimated \$213bn in 2009. It said that the issuance forecast covers including the issuance in non-G10 countries rated 'A' or even 'AA' in emerging regions. It expected sovereign issuance at \$103bn this year, constituting an increase of 19.8% from the previous year, and forecast corporate bond issuance at \$108bn, down 15% from \$127bn in 2009. It attributed the higher sovereign issuance forecast primarily to Russia's expected \$10bn-15bn in Eurobonds, and the lower corporate issuance to a more cautious second half of the year despite a positive first half as well as to concerns related to Dubai's debt problems. It expected inflows to continue in emerging market debt and that issuers will continue to raise the volume of issuance to meet the demand. In parallel, Merrill Lynch estimated sovereign issuance in the 30 emerging market economies included in its Emerging Markets IGOV Index at \$62.4bn in this year, up 36.2% from last year. The 30 sovereigns are rated below investment grade. It projected issuance in Emerging Europe, the Middle East & Africa at \$34.5bn, accounting for 55.3% of the total, followed by Latin America with \$20bn, or 31.4% of the total, and Asia with \$9bn or 14.4% of the total.

Source: Merrill Lynch

Third largest free trade area in the world takes off

A free-trade agreement between China and 10 member states of the Association of Southeast Asian Nations (ASEAN) came into force on January 1, 2010, liberalizing trade and investment in an economic zone covering 1.9 billion consumers, more than any other regional economic block. It constitutes the world's third largest free-trade area, after the European Union and the North American Free Trade Area. Coming into effect, the ASEAN-China Free Trade Agreement (ACFTA) is set to cover a combined GDP of \$6,000bn and an estimated trade volume of \$1,200bn. The FTA is a key milestone for Asian regional integration, heralding a more open market for goods and services in the region. Under the ASEAN-China Free Trade Agreement (ACFTA) signed in 2002, China, Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand agreed to eliminate barriers to investment and enforce zero tariffs for 90% of the agreed products, ranging from textiles to steel and vegetable oils. This required the average tariff rates charged by ASEAN countries on Chinese products to be cut to 0.6% from 12.8%, while average tariffs imposed by China on ASEAN goods are set to fall from 9.8% to 0.1%. The late participants to ASEAN, Cambodia, Laos, Myanmar, and Vietnam, will follow behind gradually reducing tariffs and totally eliminating them by 2015.

Source: Global Insight

MENA

Equity markets up 17% in 2009

Arab stock markets rose by 16.8% in 2009 compared to a drop of 54.5% during 2008. The Baghdad stock exchange increased by 72.8% for the year, posting the best performance among Arab markets during the year. It was followed by the Tunis stock market with a 48.3% rise, the Egyptian equity market with a 35.1% increase, the Beirut stock exchange with a 33% increase, the Saudi stock market with a 27.5% improvement, the Muscat exchange with a 17% rise, the Abu Dhabi equity market with a 14.8% increase, the Palestine market with an 11.6% improvement, the Dubai exchange with a rise of 10.2% and the Doha bourse with 1% improvement. In parallel, the Bahrain stock market posted the worst performance in the region with a 19.2% decrease year-on-year, followed by the Kuwait exchange with an 10% drop, the Amman bourse with an 8% drop, and the Casablanca stock market with a 5% decline. In comparison, emerging market equities improved by about 73% and global equities rose by 32% in 2009.

Source: Local stock markets, Byblos Research

POLITICAL RISK OVERVIEW - DECEMBER 2009

ARMENIA

Fourteen Armenian opposition parties appealed on December 3 to the country's Constitutional Court, without the participation of the Armenian National Congress (HAK), seeking a ruling that would declare Yerevan's rapprochement agreement with Turkey unconstitutional. State prosecutors required that opposition leader and newspaper editor Nikol Pashinian be sentenced to eight years in prison for his alleged role in the deadly street violence which followed the February 2008 presidential election. The Council of Europe Parliamentary Assembly criticized the government report justifying use of force against protesters following the 2008 elections, and asked for a new inquiry.

EGYPT

Egypt implicitly confirmed the construction of a 10 kilometers underground barrier on the border with Gaza, saying it is aimed at protecting its territory from security threats. The country reinforced the security at the border on December 19, following shots at the construction sites from the Gaza side. The Muslim Brotherhood (MB) held elections for its leading council on December 19 and most of the voted members were conservatives. Many senior MB members were arrested on December 5th. MB leader Ezzat said 227 members are now imprisoned.

IRAN

The political crisis deepened as anti-government demonstrations intensified. At least eight people were killed on December 27, including the nephew of opposition leader Musavi, when the security forces fired on large protests in Tehran and other cities marking the Shiite holy day Ashura. The government held rallies on December 30, denouncing the opposition. Mr. Musavi proposed on January 1st points for the resolution of the conflict including a reformed election law, media freedoms and the release of detainees. Tens of thousands, including opposition leaders, attended the protest rally in Qom for the funeral of the senior dissident cleric Montazeri on December 21st. The U.S., France and the UK warned of further sanctions over the Iranian nuclear program on December 10th. Foreign Minister Mottaki reaffirmed on December 12 the country's plan to build 10 to 15 new nuclear plants. Mr. Mottaki said on December 25 that Iran does not have a problem with Turkish soil as the location for an exchange of enriched uranium for nuclear fuel.

IRAQ

The Parliament approved a new electoral law on December 6, raising the number of seats from 275 to 325 to accommodate Sunni and Kurdish claims. The government scheduled the parliamentary elections for March 7, 2010. The U.S. said the new date will not affect troop drawdown plans. At least 127 people were killed by 5 bombings in central Baghdad on December 8th. Al-Qaeda claimed responsibility. Prime Minister Maliki also blamed ex-Baathists, noting that at least 45 security force members were involved. Around 24 people were killed and Anbar province governor was wounded in a twin suicide bomb blasts in Ramadi on December 30th. Dozens of Shiite pilgrims were killed in separate sectarian attacks during Ashura pilgrimage. The government accused Iranian military of occupying Fakka oil well in the disputed border area. Iranians withdrew from the well on December 20th. Further contracts to develop oilfields were awarded to European and Asian firms on December 11-13th.

SUDAN

Gunmen attacked UNAMID soldiers on December 4 and 5 in North Darfur killing five Rwandan peacekeepers. The electoral commission reported that at least 75% of the eligible voters have registered by December 7th. Carter Center described the high registration figure as encouraging despite logistical and security problems, as well as unequal participation across the country. All Political Parties' Conference parties rallied in Khartoum on December 7 calling for legal reforms ahead of the April 2010 polls where the police arrested and briefly detained three senior members of South Sudan's main political party and fired tear gas to disrupt the protest. Leaders of the NCP and the SPLM agreed on December 13 on the terms of South Sudan referendum bill, the Abyei referendum voter eligibility, and the implementation of popular consultation bill on two border states. The Sudanese Parliament passed a controversial national security bill on December 20 despite opposition protests. The Sudanese Parliament endorsed the final and amended version of the referendum law on December 29th.

SYRIA

Lebanese Prime Minister Hariri visited Syria on December 19-20 in an attempt to renew ties and strengthen cooperation between the two countries. Iranian Defense Minister Vahidi met with his Syrian counterpart Habib during the first session of the Iran-Syria joint defense commission, which was held in Damascus on December 9th. Mr. Vahidi said the enhancement of Iran-Syria ties in the area of defense would help counter Israel's threats, which undermine the security of the region. Security officials detained four of the lead Kurdish activists on December 26, after asking for the autonomy of Syrian Kurds.

YEMEN

Heavy fighting between government forces and Houthi-led rebels continued in Saada province. Over 120 civilians were killed in the Razez district by Saudi airstrikes on December 13 and 20th. The government claimed on December 20 that rebel leader Abd al-Malik al-Houthi was seriously injured. Al-Houthi welcomed President Saleh's call for a ceasefire on January 2 if the government's operations stopped. Rebels also called for talks with the Saudi government on December 31st. Britain and the U.S. decided to assist a counterterrorism police unit in Yemen amid fears of an increasing threat of international terrorism emanating from the country. Air and ground strikes in the southern Abyan province and in Arhab killed 34 members of the al Qaeda in the Arabian Peninsula (AQAP) on December 17th. More than 30 AQAP members, including senior figures, were also killed on December 24 in the Shabwa province.

UKRAINE

The leaders of the European Union and Ukraine met in Kiev on December 4, at the annual EU-Ukraine Summit. The EU urged Ukraine to be a more predictable energy partner and to proceed with reforms. Russia and Ukraine signed on December 29 a new agreement on Russian oil transits via Ukraine to Europe for 2010. Kiev asked Russia to withdraw its Black Sea Fleet from Sevastopol.

Source: International Crisis Group



OUTLOOK

IRAQ

Non-oil growth to average 5.5% in 2010-11, policy challenges to slow full recovery

The Institute of International Finance forecast economic growth in Iraq at 3.9% in 2009 and projected growth of 5% in 2010 and 5.2% in 2011. It estimated non-oil GDP growth at 5% in 2009 and at 5% in 2010 and 6% in 2011. It indicated that prospects for growth appear to have relatively improved with the steady improvement in the security situation. It noted, however, that growth remains significantly below potential, largely due to weaker real hydrocarbon production. It said that the oil sector remains weak, burdened by aging infrastructure and technology, and poor management; while non-oil sector activity, largely import services, some financial services, and small-scale agriculture and manufacturing, is recovering but from a very low base. It added that the recovery in investment from a low base would more than offset a modest weakening of growth in domestic consumption. It estimated inflation at 7.5% for 2009, adding that price pressures could rise in the coming 18 months due to a further increase in food prices from supply bottlenecks in the face of rising consumption and investment pressures and a firming up in some global commodity prices. It forecast inflation at 10.2% in 2010 and 11.9% in 2011.

The IIF considered that the recovery and the transition to a more normal operating environment would be slow and protracted, far below the rates expected for an economy recovering from war and with potentially ample financial resources from oil revenues. It said major threats to internal security remain the principal factor in delaying the full recovery, while continued weakness in public finances will slow progress on spending on much-needed infrastructure and social needs to help promote internal stability. It indicated that a government challenge will be to manage the impact of the fall in oil prices from their 2008 peak levels and to diversify the revenue base, while balancing recurrent spending with large reconstruction needs.

The IIF estimated the fiscal deficit at 20% of GDP in 2009 due to lower average oil prices and an increase in spending during the year, and at 13.3% of GDP in 2010 and 11% of GDP in 2011. It forecast the current account to post a deficit of 12% of GDP in 2009 relative to a surplus of 16.5% of GDP in 2008 due to a drop in oil revenues, a rise in imports and increased domestic demand.

Source: Institute of International Finance

UAE

Non-oil growth at 2% in 2010, Dubai problems to slow recovery

Credit Suisse estimated the UAE's economic activity to contract by 3% in 2009 given lower oil prices, cutbacks in oil output, the real estate slump, and weak external demand. It said the global economic crisis impacted the UAE more than other GCC economies, with the Emirate of Dubai hit especially hard. It expected non-oil GDP to fall 0.2% in 2009 as the financial services, manufacturing, retail, and hospitality sectors have been impaired by the downturn in regional and global growth. It expected growth to recover in 2010 due to the government's

strong response to the global crisis, improving oil-market conditions, and the anticipated recovery in the world economy. However, it revised downward its growth forecast to 2.1% for 2010 from 3.1% earlier, as Dubai's debt problems mean a slower recovery than previously forecast. It expected the government's stimulus measures to lead to a low recovery in the non-oil sector this year, and forecast non-oil GDP growth at 1.8% in 2010, well below its 7% average of the past five years. It said consumers and businesses are likely to remain cautious about spending and investing, as credit remains tight and concerns linger over the sustainability of the global recovery. It noted that some sectors such as trade may have already completed their contraction phase, but others such as construction and real estate appear set for a protracted adjustment. It considered that recovery prospects look poor for Dubai, while Abu Dhabi will likely see a moderate but healthy rebound in non-oil growth this year. It added that the overall UAE economy should be on more solid footing by 2011, with GDP growth accelerating to about 5%. It cautioned, however, that the UAE's outlook remains contingent on oil prices and the strength of the global recovery.

Credit Suisse expected the fiscal balance to post a deficit of 1.8% of GDP in 2009 due to a 43% drop in oil receipts and a 15% fall in on-oil revenues, but to post a surplus of 3.4% in 2010 based on an oil price average of \$80 per barrel and growth in oil production. It forecast the foreign trade surplus to rise to \$54bn, or 23% of GDP, and for the current account surplus to edge up to \$31bn, or 13.1% of GDP in 2010.

Source: Credit Suisse

ANGOLA

Reforms critical for non-oil sector growth

The International Monetary Fund indicated that the government's broader economic program, supported by an IMF's Stand-By Arrangement (SBA), aims at restoring macroeconomic stability and rebuilding international reserves. It said the immediate goal of the program is to mitigate the repercussions of the global economic crisis on Angola, adding that the SBA also includes a focused reform agenda aimed at medium-term structural issues, which will be critical for long-term non-oil sector growth. It said the 2010 budget appropriately provides resources for both social spending and infrastructure development, adding that it will continue to work with the National Bank of Angola to deepen reforms in the foreign exchange market. It considered that a prudent fiscal policy that aims to reduce the non-oil primary fiscal deficit and strengthen public financial management, including through the government's Sovereign Wealth Fund, should help improve the management of the oil wealth. It added that reducing the non-oil fiscal deficit to sustainable levels will help support the decline in inflation, ease the burden on monetary policy and provide room for private sector growth. The IMF welcomed the government's strong commitment to enhancing fiscal transparency, especially in the oil sector. It warned, however, of significant risks to the program, including a balance of payments crisis with destabilizing economic and social consequences, if the program is not fully implemented.

Source: International Monetary Fund

ECONOMY & TRADE

KUWAIT

Parliament approves bailout for indebted nationals

The National Assembly ratified a draft bill of a substantial bailout for indebted nationals worth up to KD6.7bn, or \$23.4bn. The plan stipulates that the state would reschedule repayments of the principal in interest-free installments over 15 years after waving current interest, estimated at more than \$5.2bn. It said repayment cannot exceed 35% of income, and all monthly instalments will be divided equally between the creditor and the government. The bill covers all Kuwait nationals who have financial obligation to banks, but who do not have any deposits or investments. The law covers citizens' debt outstanding up to December 14, 2009. The bill states that all funding required for the implementation of the bailout will be taken from the state reserve funds. Banks and financial institutions will not incur any financial burden should the law be implemented, as the government will most likely compensate the losses of future interest income in the form of free deposits at banks. The government has strongly opposed the draft bill, warning of serious economic consequences.

Source: *Dow Jones Newswires, EGF Hermes*

SAUDI ARABIA

Expenditures up 14% in 2010 budget, deficit forecast at 4.6% of GDP

The Council of Ministers endorsed the government's budget for 2010 that forecasts revenues at SAR 470bn and expenditures at SAR 540bn, leading to the largest ever deficit in nominal terms of SAR 70bn, but equivalent to only 4.6% of GDP. The budget projects a 14% rise in spending from last year's budget, but is SR 10bn below actual spending in 2009. Capital spending is forecast to increase by 16% to SR 260bn, which is seven times the amount of 2004 and greater than the total from 1993 to 2004. Also, current spending, primarily wages and salaries, is projected to rise by SR 30bn to SR 280bn. The budget emphasizes both human and physical capital expenditures to support non-oil growth. Spending on education and training is up by 13% to SR 138bn, health & social affairs expenditures are up 17% to SR 61bn, water & agriculture spending is up 31% to SR 46bn, and transport & telecom spending is up 24% to SR 24bn.

Source: *National Commercial Bank, Jadwa Investment*

BAHRAIN

Sovereign ratings affirmed

Standard & Poor's affirmed Bahrain's 'A' long-term and 'A-1' short-term sovereign credit ratings with a 'stable' outlook. It said the outlook balances Bahrain's fiscal and external asset positions against political risks, limited oil resources, and the challenge of implementing structural reforms needed for economic diversification. S&P considered that the ratings would come under pressure if there was a sustained deterioration in fiscal or economic performance. It said banks' exposure to Dubai public enterprises is modest, adding that banks have felt the turbulent financial conditions in the rest of the Gulf via a slow-down in the financial sector and wider economic activity. In parallel, Fitch Ratings affirmed Bahrain's Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' and 'A+'

respectively, Short-term foreign currency IDR at 'F1' and Country Ceiling at 'A+'. It noted that the economy's dependence on oil revenues is high compared to peers, making fiscal revenues volatile and warranting a cautious fiscal policy. It said that growth has slowed and the budget has posted a large deficit, but government and external debt ratios will remain better than rated peers. Fitch said domestic banks' exposure to the property sector will continue to exert pressure on asset quality.

Source: *Standard & Poor's, Fitch Ratings*

MAURITANIA

Aid resumes with return to constitutional rule

The International Monetary Fund pledged about \$100m to support a new three-year macroeconomic program that would focus on fiscal consolidation, continued prudent monetary policy, and accelerated structural reforms, particularly in public financial management and the financial sector. The return to constitutional rule last year has led to a rapid improvement in relations with the country's traditional donors. In December 2007, international donors pledged \$2.18bn in support of the newly democratic government's 2008-10 public investment program, but most non-humanitarian programs were frozen after a military coup in August 2008. The resumption of IMF assistance is expected to lead to a significant increase in funds from other donors. The World Bank unblocked \$14m in aid for rural infrastructure and the European Union announced plans to release some €156m in aid frozen since the coup. Further, the international contact group for Mauritania, which was responsible for mediating the return to constitutional rule, has called on foreign powers to show their support for the country's new democratic government by increasing financial assistance.

Source: *International Monetary Fund, Economist Intelligence Unit*

RUSSIA

Outlook revised to stable on balance sheet improvement

Standard & Poor's revised its outlook on Russia to 'stable' from 'negative', and affirmed its 'BBB/A-3' foreign currency and 'BBB+/A-2' local currency sovereign credit ratings. It attributed the change in outlook to expectations that Russia's budgetary and balance sheet performance will gradually improve, due to the stabilization of the country's terms of trade and the authorities' stated commitment to consolidate the fiscal position over the next several years. The agency expected that the original government deficit target of 8.3% of GDP for 2009 will turn out to be lower by at least 1%-2% of GDP. It added that the deficit targets of 7.5% of GDP for 2010 and 4.3% of GDP for 2011 are based on a conservative average oil price assumption of \$59 per barrel. It expected Russia's budgetary position to shift back to surplus by 2012 in the absence of a sharp decline in oil prices below \$60 per barrel. As a result, it projected that fiscal reserves will return to 2008 levels by the end of 2012 in absolute dollar terms, adding that this would enable Russia to preserve its net creditor position over the covered period, even while gross debt increases. S&P said the 'stable' outlook balances the risks to Russia's public finances from sensitivity to oil prices and the need for additional capital injections in the financial system.

Source: *Standard & Poor's*

BANKING

SYRIA

Bank capital requirements raised to \$216m

A Presidential decree ratified amendments to existing banking laws that would require private commercial banks operating in Syria to increase their minimum share capital to SYP 10bn, or about \$217m, constituting an increase of more than six times from the current minimum level of SYP 1.5bn. Last July, the Central Bank of Syria said the minimum requirement would be raised to around SYP 4bn–SYP 4.5bn or \$80m–\$100m, but indicated in September that the capital would be set at \$300m. Further, the minimum capital for Islamic banks will increase to SYP 15bn, or \$326m, from SYP 5bn currently. Existing banks will have a three-year period to implement the capital increase, while newly-licensed banks must have the minimum capital in full. The government attributed the decision to the need to be in line with Basel II standards and to hedge against the risks posed by the growing integration of local banks into global markets. *Source: Dow Jones Newswires*

Mortgage finance authority established

A Presidential decree established a Mortgage Finance Supervisory Authority (MFSA), a step that aims to ease access to finance in the real estate sector. The MFSA will operate as the regulator of mortgage finance in Syria and will have the authority to issue laws that will authorize the licensing of mortgage finance firms. The MFSA will be responsible for issuing all mortgage finance-related legislations and regulations including standards contracts, licensing instructions to mortgage companies and funds, as well as the establishment of a national mortgage institution. Housing loans by banks have remained very limited because of the cumbersome regulatory and legislative framework. Law 39/2009, which was passed on December 30, establishes a 13-member MFSA Board of Directors that is chaired by the Minister of Finance. The other members will include 3 experts from the private sector and officials from state-affiliated institutions as well as the heads of the Damascus Securities Exchange, the Real Estate Development and Investment Commission and the Insurance Supervisory Commission.

Source: Syria Report

UAE

Credit growth to be affected by recent developments

Credit Suisse indicated that measures implemented by the UAE Central Bank to stabilize financial conditions appear to be working, but expected only gradual improvements in lending conditions in 2010. It said liquidity conditions have improved in the banking system in recent months, but credit remains relatively tight and banks are cautious about lending because of concerns over potential fallout from the price correction in the real estate market. It considered that exposure to Dubai World and other struggling companies in the region will hamper the banking sector's recovery. It noted that banks' asset quality will probably deteriorate further with the Dubai World developments, and there might be a need for greater loan provisioning, although provisioning for the NPLs was already up 47% in October from end-2008. Also, some Dubai banks might need to

raise additional capital. In parallel, EFG Hermes expected the impact of Dubai's debt problems on UAE banks to be wide-ranging. It noted that, in addition to the direct impact of any potential debt shortfall, banks are likely to be affected from deterioration in business and consumer confidence and potential delay or restructuring in the cash flows of their clients. It also expected banks in Dubai to be more affected than those in Abu Dhabi. It said the main impact on banks will be on provisioning, and anticipated Dubai and the Northern emirates to go through a period of deleveraging, with only Abu Dhabi's public sector growth ensuring continued credit expansion.

Source: Credit Suisse, EFG Hermes

KUWAIT

Credit risk downgraded on higher economic risks

Standard & Poor's revised downwards its Banking Industry Country Risk Assessment (BICRA) for Kuwait to Group 5 from Group 4. It attributed the BICRA change to the increase in economic risks in Kuwait due to the global economic downturn and its impact on local banks and their corporate customer base, especially on banks that are vulnerable to price volatility in the real estate and equity markets. It said high concentrations of lending to the property sector and to investment companies represent important vulnerabilities in the banks' financial profiles. It noted that strong ongoing funding support from the Kuwaiti authorities and customer deposits from Kuwait's public sector entities have, at least temporarily, helped alleviate pressure on the availability and cost of funding. It expected that banks will eventually have to reduce current mismatches in their balance sheet, lengthen the maturity of their liabilities, and prepare for a reduction in the availability of government funding. S&P considered that the government would support the systemically important private sector banks if needed, as its comfortable net asset position reflects its ability to provide extensive support.

Source: Standard & Poor's

TUNISIA

Banks' deposit ratings downgraded on reassessment of systemic support

Moody's Investors Service downgraded the local and foreign currency deposit ratings of four Tunisian banks as part of its assessment of the ability of the national government to support its banks. It said Tunisia's ability to provide support to its banking system, if needed, is closely aligned with the government's own debt capacity. It downgraded Amen Bank's global local currency (GLC) and foreign currency (FC) deposit ratings to 'Baa3/P-3' from 'Baa2/P-2' and kept the bank's 'D-' Bank Financial Strength Rating (BFSR) unchanged with a 'stable' outlook. It also downgraded Banque de Tunisie's GLC deposit ratings to 'Baa2/P-2' from 'Baa1/P-2' and kept the 'Baa2/P-2' foreign currency deposit ratings and the 'D+' BFSR unchanged with a 'stable' outlook. Further, it downgraded Banque Internationale Arabe de Tunisie's GLC deposit ratings to 'Baa2/P-2' from 'Baa1/P-2' and kept the 'Baa2/P-2' foreign currency deposit ratings and the 'D' BFSR unchanged with a 'stable' outlook. Further, it downgraded Société Tunisienne de Banque's GLC and foreign currency deposit ratings to 'Baa3/P-3' from 'Baa2/P-2' and left unchanged the 'E+' BFSR with a 'stable' outlook.

Source: Moody's Investors Service



ENERGY / COMMODITIES

Oil slips below \$83 as China shows tighter policy

Oil slipped below \$83 a barrel on January 7, falling from a 15-month high a day earlier, as China's central bank surprised markets by raising the interest rate in a 3-month bill auction, which the markets took as a signal of policy tightening, hitting commodities across the board. China's rapidly expanding economy and increasing demand for oil has been seen as one of the main reasons crude prices have more than doubled in the past 12 months, despite the lingering impact of the economic crisis. U.S. crude for February delivery fell 80 cents to \$82.38 a barrel and London Brent crude fell 74 cents to \$81.15. The U.S. labor market is improving and the economy is close to the point where the unemployment rate will start to fall. But any demand recovery in the United States is not expected soon. U.S. Energy Information Administration (EIA) data released showed an unexpected 1.3-million-barrel increase in crude oil stockpiles last week.

Arctic winds have pushed down into the Northern Hemisphere, freezing Europe and parts of Asia, and boosting demand for heating in the United States by some 21% above normal. European energy demand has also surged, especially in Britain and France, while heavy snow and record low temperatures in China incited cities across eastern and central parts of the country to begin rationing power. Price support also came from the continuing talks between Belarus and Russia over the supply of Russian oil for 2010. Belarus has insisted Russia should continue billions of dollars in oil subsidies, complicating talks aimed at resolving a dispute over a pipeline that brings 10% of Europe's crude.

Source: Thomson Reuters

Sudan considering joining OPEC

The Sudanese government announced it is considering joining the Organization of Petroleum Exporting Countries (OPEC) as a full fledged member. Sudan is currently an observer in the organization. In parallel, the Energy Ministry said Sudan's oil production is expected to drop by 10% by 2019, adding that the government is getting ready to produce oil in Darfur, White Nile and Red Sea. Sudan currently produces about 500,000 barrels a day of oil and expects to maintain the same output level this year.

Source: Sudan Tribune

Qatar Petroleum and ExxonMobil sign \$6bn petrochemical plant deal

ExxonMobil and Qatar Petroleum signed an agreement for the development of a \$6bn petrochemical complex in Ras Laffan. The complex will feature the world's largest steam cracker and polyethylene plants in addition to one of the largest ethylene glycol plants. The facility is scheduled for start-up in the last quarter of 2015 and will produce a range of petrochemical products that will particularly focus on the growing demand of Asian and European markets. The project will be 51% owned by Qatar Petroleum and 49% owned by ExxonMobil Chemical Qatar, a subsidiary of ExxonMobil Corporation. In parallel, Qatar announced that it is in talks with investors for the establishment of a \$1bn solar power project.

Source: Gulf Times, Thomson Reuters

Gold market to post surplus in 2010

Just after peaking above \$1,200 an ounce, gold was hit hard following the positive surprise provided by the latest U.S. labor market data. It subsequently continued to move downwards on improved macroeconomic data that supported the US dollar. Recent turmoil surrounding Greece and Dubai further enhanced the US dollar's appeal, to the detriment of gold. Total gold supply, which consists of mine production and scrap material, is expected to decline in 2010 as less material will be recycled. Mine output is projected to gradually increase due to higher gold prices, which would lead to the first expansion since 2001. On the demand side, industrial and jewellery consumption are expected to remain slow. Overall, the gold market is expected to be in surplus again in 2010, which will, however, be a little smaller than in 2009. Still, the surplus is projected to be well above historical averages, again leaving it up to investors to fill the gap. Therefore investor demand is considered to be a very important influence for gold movements this year.

Gold price forecasts USD/oz

Quarter	Q1 10	Q2 10	Q3 10	Q4 10
	1,150	1,100	1,050	1,100
Year	2010	2011	2012	
	1,100	950	900	

Source: Julius Baer (forecasts are the period's average)

Total commodity returns in 2009: copper tops the list

In early 2009, commodity prices experienced first a drop due to continued concerns on global economic activity, then a depression at the end of the first quarter of the year, and finally a strong recovery in the second half of 2009. Cross-commodity correlations started out the year at very high levels as economic activity collapsed, but started to decline throughout the year as each sector responded to physical supply and demand fundamentals. The base metals sector posted year-on-year gains of almost 90% in 2009 and copper returns topped the list with 138% year-on-year. Sugar also rallied significantly. Consequently, industrial metals and soft commodities were the top-performing commodity sectors last year. Gold also had a strong year, although it experienced a significant fall in late December. U.S. natural gas, livestock, corn and wheat total return indices posted losses for the year, mostly on the back of negative roll returns. Overall, the main commodity indices posted positive total returns in 2009.

Total Returns per month, year & decade

Total Return	Dec 09	2009	Decade
MLCX Energy	0.79%	24.63%	354.82%
MLCX Precious metals	-7.55%	26.25%	257.84%
MLCX Ind Metals	7.64%	89.52%	255.74%
MLCX Softs	8.24%	55.20%	89.82%
MLCX Livestock	0.19%	-13.73%	33.31%
MLCX Grains	-4.00%	-10.81%	0.87%
MLCX Copper	6.27%	137.58%	581.77%
MLCX Gold	-7.26%	23.04%	262.37%
MLCX Silver	-9.06%	48.04%	199.76%
MLCX Zinc	9.80%	100.26%	91.85%

Source: Merrill Lynch



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	-11.5	7.8	1.9	3.4	1.7	1.9	-3.0	0.8
	-	-	-	-	Stable								
Angola	-	-	-	-	B	4.6	19.1	17.4	25.4	9.4	-	7.6	7.2
	-	-	-	-	Stable								
Egypt	BB+	Ba1	BB+	BBB-	BB	-7.9	73.8	17.0	47.0	5.8	100.6	-2.9	3.2
	Stable	Stable	Stable	Stable	Stable								
Ethiopia	-	-	-	-	CCC	-2.3	-	14.1	263.0	-	-	-7.2	-
	-	-	-	-	Stable								
Ghana	B+	-	B+	-	CCC	-10.1	-	35.6	-101.7	-	-	-17.0	-
	Stable	-	Negative	-	Stable								
Ivory Coast	-	-	-	-	CC	-1.4	-	55.7	134.4	-	556.0	0.3	-
	-	-	-	-	Stable								
Libya	A-	-	BBB+	-	BB	-2.0	6.5	15.5	20.0	3.3	-	15.5	2.8
	Stable	-	Stable	-	Stable								
Mauritania	-	-	-	-	-	-3.1	-	47.6	92.7	-	-	-4.7	-
	-	-	-	-	-								
Morocco	BB+	Ba1	BBB-	BBB-	BB	-3.6	52.8	24.2	79.5	0.5	95.6	-2.1	3.3
	Stable	-	Stable	Stable	Stable								
Nigeria	B+	-	BB-	-	B	-3.0	12.3	5.0	16.5	0.3	-	-5.6	1.6
	Stable	-	Stable	-	Stable								
Sudan	-	-	-	-	C	-3.3	104.5	67.2	428.5	3.2	-	-5.1	2.4
	-	-	-	-	Stable								
Tunisia	BBB	Baa2	BBB	BBB	BB	-4.0	51.0	53.0	114.6	9.7	232.0	-2.6	3.8
	Stable	-	Stable	Stable	Stable								
Middle East													
Bahrain	A	A2	A	A	BBB	-6.4	22.7	178.0	220.3	15.9	934.9	-2.9	0.9
	Stable	-	Stable	Stable	Stable								
Iran	-	-	B+	BB-	B	-4.8	19.3	5.2	20.1	2.8	23.1	0.6	0.2
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	CC	-12.7	-	67.3	128.4	2.3	112.8	-0.1	0.9
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	B	-1.2	59.0	65.4	131.2	8.1	183.0	-10.7	6.9
	Stable	-	-	Stable	Stable								
Kuwait	AA-	Aa2	AA	AA-	A	12.9	7.5	31.7	57.7	2.8	221.2	25.8	-2.0
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B	B2	B-	B	CCC	-12.6	154.3	96.3	631.1	15.0	168.6	-10.4	5.5
	Positive	Positive	Stable	Stable	Stable								
Oman	A	A2	-	A	A	-5.1	6.0	30.9	45.9	5.4	117.1	-0.3	2.0
	Stable	-	-	Stable	Stable								
Qatar	AA-	Aa2	-	AA-	A	4.2	10.4	72.8	157.3	8.4	603.4	8.7	7.9
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	A1	AA-	AA-	BBB	-4.7	11.3	9.7	18.8	2.0	89.1	-6.1	0.3
	Stable	-	Stable	Stable	Stable								
Syria	-	-	-	-	CCC	-7.9	32.3	14.6	75.3	1.0	151.1	-2.9	1.4
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	BB	0.7	12.7	63.8	74.1	3.9	420.3	-5.3	0.7
	-	-	-	Stable	Stable								
Yemen	-	-	-	B	CC	-11.2	-	22.5	112.7	-	-	-9.7	-
	-	-	-	Stable	Stable								



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								
Central & Eastern Europe													
Armenia	-	Ba2	BB-	-	-	-3.1	23.6	42.5	579.3	1.5	344.9	-0.8	0.9
	-	-	Stable	-	-								
Bulgaria	BBB	Baa3	BBB-	-	BB	-2.7	17.5	102.0	200.0	35.3	283.9	-8.0	8.2
	Stable	-	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB-	-	BB	-3.5	6.6	95.9	231.5	48.0	426.6	-7.6	9.2
	Negative	-	Negative	-	Stable								
Romania	BB+	Baa3	BB+	BBB-	BB	-5.1	20.8	61.5	202.5	15.9	348.0	-7.1	3.3
		-	Negative	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	-6.5	7.0	38.0	133.6	33.7	139.1	1.3	0.4
	Stable	Positive	Negative	-	Negative								
Turkey	BB-	Ba3	BB+	BB-	B	-6.0	47.6	47.3	198.3	31.2	434.4	-1.3	1.4
	Stable	-	Stable	Stable	Stable								
Ukraine	CCC+	B1	B	-	CCC	-4.0	22.1	86.6	223.7	20.1	407.1	-0.1	4.5
	Stable	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	16-Dec-09	No change	27-Jan-10
Eurozone	Refi Rate	1.00	03-Dec-09	No change	14-Jan-10
UK	Base Rate	0.50	07-Jan-10	No change	01-Feb-10
Japan	O/N Call Rate	0.10	18-Dec-09	No change	22-Jan-10
Australia	Cash Rate	3.50	01-Dec-09	Raise 25bps	02-Feb-10
New Zealand	Cash Rate	2.50	10-Dec-09	No change	28-Jan-10
Switzerland	3 month Libor target	0.25	10-Dec-09	No change	11-Mar-10
Canada	Overnight rate	0.25	08-Dec-09	No change	19-Jan-10
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	16-Dec-09	No change	27-Jan-10
Taiwan	Discount Rate	1.25	24-Dec-09	No change	Mar 2010
South Korea	Target Rate	2.00	10-Dec-09	No change	08-Jan-10
Malaysia	O/N Policy Rate	2.00	24-Nov-09	No change	26-Jan-10
Thailand	1D Repo	1.25	02-Dec-09	No change	13-Jan-10
India	Reverse repo rate	3.25	27-Oct-09	No change	29-Jan-10
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	8.25	24-Dec-09	No change	N/A
Turkey	Base Rate	6.50	17-Dec-09	Cut 25 bps	14-Jan-10
South Africa	Repo rate	7.00	17-Nov-09	No change	26-Jan-10
Kenya	Central Bank Rate	7.00	24-Nov-09	Cut 75bps	Jan-10
Nigeria	Monetary Policy Rate	6.00	03-Nov-09	No change	5-Jan-10
Ghana	Prime Rate	18.00	23-Nov-09	Cut 50bps	Jan-10
Mexico	Target Rate	4.50	27-Nov-09	No change	15-Jan-10
Brazil	Selic Rate	8.75	09-Dec-09	No change	27-Jan-10
Armenia	Refi Rate	5.00	08-Dec-09	No change	N/A
Romania	Policy Rate	7.50	06-Jan-10	Cut 50bps	N/A
Bulgaria	Base Interest	1.46	01-Oct-09	Cut 11bps	N/A
Kazakhstan	Refi Rate	7.00	04-Sep-09	Cut 50bps	N/A
Ukraine	Discount Rate	10.25	11-Aug-09	Cut 75bps	N/A
Russia	Refi Rate	10.00	30-Sep-09	Cut 50bps	N/A



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