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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Sovereign and corporate rating actions at 23-year high in 2009

Standard & Poor's indicated that it has downgraded 1,298 global issuers and upgraded 262 in 2009. It said the number of rating actions is the highest taken in a single year since 1987, including the previous record high of 1,207 downgrades and 222 upgrades in 2001. It said the United States accounted for 62% of the rating actions in 2009, followed by Europe with 16%, emerging markets with 15%, and other developed economies with 8%. The agency said all regions, with the exception of emerging markets, saw their downgrade ratios peak in the first quarter and then slow down before reaching lows for the year in the fourth quarter. The emerging markets' downgrade ratio peaked at 97% in the second quarter.
Source: Standard & Poor's

EMERGING MARKETS

FDI drops by 35%, mergers and acquisitions fall by 64% in 2009

Figures released by UNCTAD indicated that foreign direct investment to developing economies reached $406bn in 2009, constituting a decrease of 35% from $621bn in 2008 after six years of uninterrupted growth. It said shrinking corporate profits and falling stock prices have greatly diminished the value of, and scope for, cross-border mergers and acquisitions (M&As) globally, which has become an increasingly important mode of FDI entry to developing countries. FDI inflows to South, East and South-East Asia totaled $203bn, down 32% year-on-year. They were followed by Latin America & the Caribbean with $85.5bn, down 41% from 2008; South-East Europe and the Commonwealth of Independent States with $69bn, down 39% annually; Africa with $56bn, down 36% from the previous year; and West Asia with $51.3bn, down 43% year-on-year. It noted that FDI inflows to West Asia posted the steepest drop among all regions, as the worsening regional and global economic outlook, together with frozen global credit markets, negatively impacted the financing of mega development projects in the oil-rich countries of the region. Further, plummeting cross-border M&A activities and reduced intra-regional FDI flows contributed to the overall decline.

In parallel, the UNCTAD noted that cross-border M&As in developing economies dropped by 64% to $38bn in 2009. Cross-border M&As in in Latin America & the Caribbean fell by 128.5% to -$4.4bn, those in West Asia regressed by 86% to $2.3bn, while M&As in Africa regressed by 73% to $5.7bn. Further, cross-border M&As in South-East Europe and the CIS fell by 67% to $6.8bn South, and those in East and South-East Asia declined by 35% to $34bn. In comparison, global FDI regressed by 39% to $1,040bn, while Global M&As activity fell by 66% to $240bn.
Source: United Nations Conference for Trade & Development

MENA

Equity markets stagnate in January 2010

Arab stock markets were unchanged in January 2010, as they advanced by 0.1% during the month compared to a drop of 9% in same month last year. The Egyptian stock market increased by 8.8% for the month, posting the best performance among Arab markets. It was followed by the Tunis stock exchange with an 8.4% rise, the Casablanca stock market with a 4.6% increase, the Muscat bourse with a 2.6% growth, the Saudi equity market with a 2.1% improvement, the Palestine exchange with a 1.9% growth, the Bahrain stock market with a 1.4% rise, and the Kuwait exchange with a 0.3% increase. In parallel, the Dubai financial market posted the worst performance in the region with an 11.8% decrease, followed by the Iraqi equity market with a 6.8% decline, the Doha bourse with a 5.8% contraction, the Abu Dhabi market with a 4% drop, and the Beirut stock exchange with a 2.2% decline. In comparison, emerging market equities declined by 5.6% and global equities regressed by 4.3% in January.
Source: Local stock markets, Byblos Research

ANGOLA

First sovereign issuance to range between $0.5bn and $1bn

Investment bank Exotix Ltd stated that Angola may raise less than a quarter of planned Eurobonds issuance. Last year, Angola announced plans to issue Eurobonds worth $4bn in two tranches of $2bn each in 2010. The $4bn Eurobond would be the largest amount raised by any country in Sub-Saharan Africa in a single year. It expected Angola to delay the sale until it receives a rating and to look at a considerably smaller issue size. It said Angola is likely to sell between $500m and $1bn of the Eurobond assuming it receives a 'B' rating from Standard & Poor's and Fitch Ratings, which would be five notches below investment grade. It added that a 'B' rating would allow Angola to sell its planned dollar-denominated bond at a yield of between 9% and 10%. The securities are likely to have maturities of between 5 and 10 years.
Source: Exotix Ltd

LIBYA

Free trade zone approved

Libya's legislative body approved a law setting up a free trade zone in order to encourage investments in non-oil sectors and diversify the economy. The zone will facilitate the free movement of capital and goods, it will have its own courts and a stock exchange, and investors will benefit from a 10-year tax holiday. The idea of the free trade zone has been in development for several years. The zone will stretch about 100 km along the Mediterranean coast to the border with Tunisia.
Source: Thomson Reuters

POLITICAL RISK OVERVIEW - JANUARY 2010

ALGERIA

Algerian security forces killed at least 10 armed Islamists in the South-East of the capital on January 9th. Thousands of people demonstrated in Tizi Ouzou on January 12, calling for the autonomy of the Kabylie region. The authorities announced on January 21 that 29 new police brigades will be deployed in Kabylie in 2010.

ARMENIA

The main candidate of the opposition Armenian National Congress (HAK), Nikol Pashinian, lost parliamentary bi-elections on January 10th. The opposition claimed the polls were marred by reports of fraud and violence. Mr. Pashinian was sentenced to seven years in prison on January 19 for his alleged role in the country's violent 2008 election protests. High-level meetings were held with Russia on issues including the rapprochement with Turkey and the Nagorno-Karabakh conflict.

EGYPT

An Egyptian soldier was killed and at least 20 Palestinians were injured after violent clashes erupted on both sides of the Gaza-Egypt border during a Hamas-led demonstration against an anti-smuggling wall Cairo is building on the border. Egyptian security and International pro-Gaza activists bringing humanitarian supplies to Gaza clashed at the port of El-Arish on January 5, as Egypt refused to allow part of the convoy to pass. Foreign Minister Aboul Gheit said on January 9 that no further convoys would be allowed. Gunmen killed 7 people outside a Coptic Christian church in Nagaa Hammadi on January 6th. The killing followed the reported rape of a Muslim girl by a Christian man in November. The Muslim Brotherhood named Muhammad Badie as its new leader on January 16, following the resignation of Muhammad Akef. The authorities arrested 26 suspected members of the Islamic Jihad terrorist cell on January 31st.

IRAN

Opposition leader Musavi proposed on January 1st points for the resolution of the political crisis including a reformed election law, media freedoms and the release of detainees. Key reformists Khatami and Karrubi called for government openness and dialogue on January 11th. Exiled reformist intellectuals published a manifesto backing Mr. Musavi on January 3rd. Supreme Leader Khamenei called on "elites" on January 19 to avoid ambiguity and support the government as tensions between conservative political factions increased. The Parliamentary committee investigating post-election abuses said on January 10 that former prosecutor Mortazavi was responsible for the death of three detained protesters. The authorities executed two men accused of involvement in an armed anti-government group on January 28th. The 16 people detained in late December protests were put on trial on January 30th. The authorities accused the Kurdish group Pejak of killing a prosecutor on January 18 in Khoy. Several members of the group were killed on January 26th. The five permanent members of the UN Security Council plus Germany, held closed-door talks in New York on January 16 to decide further sanctions on Iran over its nuclear program but failed to reach an agreement.

IRAQ

The electoral commission barred over 500 candidates alleged by the Accountability and Justice Commission (AJC) to have Baath party links, including National Dialogue Front leader Saleh al-Mutlaq and Defence Minister al-Obeidi. President Talabani asked the Supreme Court to rule on the legitimacy of the AJC. Iraq executed on January 25 Ali Hassan al-Majeed Saddam Hussein's cousin known as "Chemical Ali" after receiving 4 death sentences for crimes against humanity. Al-Qaeda-linked Islamic State of Iraq claimed three car bomb attacks that killed 37 people near Baghdad hotels on January 25th. A bombing of the Interior Ministry facility killed 18 people on January 26th. Attacks targeting security force members in Anbar province between January 7 and 13 killed at least 14 people while simultaneous bombs hit Najaf on January 17th. Iraqi security forces arrested 25 people and seized explosives related to the January 12 security operation. Eleven Iraqis were sentenced to death on January 14 for Baghdad bombings in August. Iran and Iraq held talks between January 7 and 18 over border dispute. Former Prime Minister Allawi, jointly with Vice-President al-Hashimi and al-Mutlaq announced on January 16 the formation of the Iraqiya electoral bloc.

SUDAN

President Bashir resigned from his position of military commander-in-chief and confirmed his candidacy for the presidential election. The SPLM nominated party deputy Yassir Arman, while former Prime Minister Sadiq al-Mahdi announced his candidacy for the opposition Umma National Party. The NCP criticized the referendum law saying that it raised risks of North-South conflict. President Bashir held that NCP favored unity but would support secession if approved. Darfur peace talks resumed in Doha on January 24 without direct negotiation between the government and rebel parties. The Darfur rebel group SLA struck on January 13 an army-held town in Jebel Marra who allegedly had launched a series of assaults on SLA positions. Around 17 people were killed when armed civilians resisted official disarmament drive. The African Union Chair Jean Ping warned on January 28 that the southern independence vote poses high risks to Sudan's stability. Eritrean diplomat Haile Menkerios replaced Ashraf Qazi who stepped down from his post of UN Special Envoy to Sudan on January 18th.

SYRIA

Iranian Foreign Minister Mottaki met with President Assad in Damascus on January 11 to discuss bilateral ties. President Assad visited Saudi Arabia on January 13-15 to discuss regional issues. Also, U.S. Mideast envoy Mitchell met with Mr. Assad on January 20, noting that Syria has a significant role for peace in the region.

UKRAINE

In the first round of presidential elections held on January 17, opposition leader Viktor Yanukovych gained 35% of votes against 25% for Prime Minister Yulia Tymoshenko. The Incumbent President Viktor Yushchenko, brought to power in 2004 by the Orange Revolution, gained 5.5% of the votes. The Council of Europe election observation missions and western observers praised the election conduct. Russian President Medvedev appointed Mikhail Zurabov as ambassador to Ukraine on January 19, ending 5 months of freeze in diplomatic relations.

Source: International Crisis Group

OUTLOOK

WORLD

Positive outlook for Islamic finance, hurdles remain

Standard & Poor's considered that the outlook for Islamic finance worldwide is positive in 2010, supported by steady growth and geographic diversification. It said Islamic finance is poised to make further inroads in developed Western markets, while Southeast Asian countries will likely fuel the sector's advance in Asia. It noted the strong growth of Islamic finance in 2009, when many of the world's financial systems found themselves deleveraging amid the capital market dislocation and its spread to economies around the globe. It said assets of the top 500 Islamic banks expanded by 28.6% to total $822bn in 2009. The agency added that cumulative total issues topped the symbolic mark of $100bn at year-end 2009, compared with less than $500m at year-end 2001. It indicated that the market is slowly reviving after a major slowdown in 2008, as Sukuk issues totaled $23.3bn in 2009 relative to $14.9bn in 2008, adding that medium-term growth prospects for the world Sukuk market are positive. It said the pipeline is sizable and noted increased interest from issuers in both Muslim and non-Muslim countries. It noted, however, the existence of several obstacles to the development of Islamic finance. It said the various interpretations of Sharia law appear to have resulted in the fragmentation and lack of integration of the market for Islamic financial products. Also, Islamic financial institutions typically lack the necessary instruments for liquidity management. Further, the Sukuk market's small size and limited liquidity is a challenge in the context of assessing the possibility of future growth. Finally, human resources and expertise in Islamic finance are somewhat scarce.
Source: Standard & Poor's

SYRIA

Non-oil growth at 5% in 2010, key challenge is economic diversification and job creation

The International Monetary Fund estimated real GDP growth in Syria at 4% in 2009, down from 5.2% in the previous year. It said non-oil growth declined to 4.5% last year from 6% in 2008, while activity in the oil sector stagnated with growth of 0.2%. It noted that lower growth in manufacturing, construction and services was partially offset by a moderate recovery in agriculture. It added that the impact of the global financial crisis on Syria has been relatively limited, and was transmitted through linkages with the GCC countries and Europe. It noted that the crisis contributed to a decline in growth and in exports of goods and services, as well as in a rise in unemployment, which increased to almost 11% in 2009. The Fund considered that the key challenge for Syrian authorities is to diversify the economy and create jobs. It encouraged efforts to sustain high growth, including modernizing regulations, streamlining the extensive subsidies system, and further liberalizing trade.

The Fund projected real GDP growth at 5% in 2010, with non-oil growth at 5.5%. It expected the ongoing recovery in Syria's trading partners to contribute to a gradual increase in exports, remittances and FDI. It added that agricultural output is likely to continue to recover from the severe draught of the past two years and for credit to the private sector to remain strong and to rise by 27% this year. It also forecast inflation at 5% in 2010 compared to 2.5% in 2009. It expected the medium-term outlook to improve with the gradual global and regional recovery, and with progress in domestic economic reforms. It warned, however, that a delay in the global recovery or delays in reform implementation could worsen the outlook and affect Syria's economic growth. The IMF projected non-oil imports of goods and services to increase by 7% this year relative to a decline of 2.3% last year. It also forecast non-oil exports of goods and services to rise by 9.4% in 2010 compared to a drop of 4.1% in 2009.

The Fund considered that the widening of the fiscal deficit by 2.7% of GDP in 2009 was appropriate to mitigate the impact of the global recession, and projected a deficit of 4.4% of GDP for 2010 relative to 5.5% of GDP in 2009. It noted, however, that a gradual resumption of fiscal consolidation is necessary in order to preserve fiscal sustainability. In parallel, it forecast the current account deficit to narrow from 4.5% of GDP last year to 3.8% of GDP in 2010.
Source: International Monetary Fund

NIGERIA

Economic growth at 5% in 2010, credit to remain tight and reforms on hold

Fitch Ratings forecast Nigeria's real GDP growth at 5% in 2010, adding that higher oil production and prices would positively contribute to growth and improve public finances and the balance of payments this year. But it said that non-oil growth will be affected by reduced credit availability and consumer demand. Further, the planned deregulation of fuel prices and higher government spending are likely to keep inflation at double-digit levels in 2010. The agency warned that the president's prolonged absence from the country due to ill health is creating political uncertainty and reducing the government's effectiveness, and expected very little progress on reforms and in infrastructure development ahead of elections in April 2011.

Fitch Ratings indicated that measures to strengthen the Nigerian banking sector and monetary and exchange rate policy since mid-2009 have started to restore confidence. It said banks' exposure to toxic assets, and in particular to the downstream oil sector, is far higher than expected, and governance problems are far worse than anticipated. Further, credit availability is being constrained by higher provisioning, the need to recapitalize, and the inevitable tightening of credit criteria following the bank audit exercise. It expected that slower economic activity and further asset quality deterioration would continue to have a negative impact on the banks' profitability. It added, however, that bank reforms should help stabilize the sector and allow the emergence of a sounder banking system, able to better support economic development. It noted that the cost of the support measures so far has been relatively modest at 2.5% of GDP. It stated that liquidity conditions have improved, with the interbank rate falling from as high as 20% before action on the banks to less than 5% by the latter part of the year, while the foreign exchange market has stabilized after depreciating by 20% in the first half of last year.
Source: Fitch Ratings

SYRIA

Insurance premiums up 14% to $311m in 2009

Figures released by the Syrian Insurance Supervisory Commission show that total insurance premiums reached $311m in 2009, constituting an increase of 14.3% from the previous year, relative to growth of 34.6% in 2008. The state-owned Syrian Insurance Company continues to lead the market with total premiums of about $146m, accounting for 47% of the total, up from 43% in 2008. Its premiums increased by about 25.6% year-on-year. Premiums collected from third-party car insurance grew by 14.6% to $133m and accounted for 42.7% of the market. They were followed by all risk car insurance with premiums of $64m, up 16% and accounting for 20.6% of total premiums; fire with $42m, up 15.3% and representing a 13.5% market share; marine with $27.8m, up 1.1% and accounting for 9% of the market; health with $14.7m, up 70.6% and accounting for 4.7% of the total, and engineering with $10.2m, down 18.5% and accounting for 3.3% of total premiums, while other categories represented the remaining 6.1% of the market. Premiums generated from life insurance jumped by 19.2% year-on-year and accounted for 1.3% of total premiums.

Source: Syria Report

JORDAN

Jordan joins Data Dissemination Standard

The International Monetary Fund announced that Jordan subscribed to the IMF's Special Data Dissemination Standard (SDDS) in January 2010. It said Jordan's participation in the SDDS reflects the country's achievement in implementing internationally accepted best practices in statistics, as well as its commitment to transparency. The SDDS was established in 1996 and provides a framework to help countries provide economic and financial data to the public. The Fund noted that subscription to the SDDS is expected to enhance the availability of timely and comprehensive statistics, thereby contributing to the design and implementation of sound macroeconomic policies and the improved functioning of financial markets. The SDDS covers the coverage, periodicity and timeliness of data; access by the public; and the integrity and quality of the disseminated data. Jordan is the 67th country to participate in the SDDS.

Source: International Monetary Fund

EGYPT

Measures to boost bond market

The Ministry of Investment announced plans to introduce measures to stimulate bond trading in the country. Such measures include re-activating the repurchase (repo) market and introducing shelf registration and bond lending. The Egyptian Financial Supervisory Authority is currently amending the regulations governing the repo market in order to make it more transparent and liquid. It added that the government wants to introduce bond lending on treasury bonds to enable bondholders to lend them temporarily to other institutions that would like to trade them in the market. Also, the government plans to introduce shelf registration, where the regulator authorizes a corporation to issue a certain amount of bonds but gives it the flexibility to issue them in tranches rather than all at once. The government has recently streamlined the rules for both corporate and government instruments in an effort to set up a secondary bond market this year.

Source: Thomson Reuters

QATAR

Law on 100% foreign ownership approved

The Emir of Qatar approved a law allowing foreign investors to own up to 100% of companies in specific sectors. According to the new law, the new sectors where foreign investors are allowed to hold an equity stake ranging from 49% to 100% are consultancy services, information technology, distribution services, and services related to sports, culture and entertainment. Banking, insurance, commercial agencies, and real estate still remain closed to foreign investors.

Source: The Peninsula, EFG-Hermes

ROMANIA

Outlook revised to stable

Fitch Ratings revised the outlook on Romania's sovereign ratings to 'stable' from 'negative'. It also affirmed the long-term foreign and local currency Issuer Default Ratings at 'BB+' and 'BBB-', respectively. The agency said the passing of an austerity budget for 2010 and expected resumption of funding from the IMF and the European Union have significantly reduced fiscal and external financing risks and the threat of further macroeconomic instability. It added that the government has passed a 2010 budget targeting a deficit of 5.9% of GDP in line with commitments to the IMF and EU. As a result, the next loan tranches from the international support package, as well as those delayed since November 2009, will be released shortly. The tranches will total €3.4bn, of which €2.3bn is from the IMF and €1bn from the EU. It noted the downside risks relate to the implementation of politically-challenging policies, including the public sector wage freeze and the laying-off of some 100,000 public-sector workers.

Source: Fitch Ratings

DEM REP CONGO

Kinshasa backs spending limits in bid for debt relief

The Democratic Republic of Congo's National Assembly approved spending limits in the 2010 budget in order to meet targets needed to ensure the country qualifies for additional debt relief. Parliament reduced spending on public sector wages, canceled pay increases for elected officials, and instead raised the wages of the army and police forces. The country's president rejected an earlier version of the budget because it did not comply with accords signed with the International Monetary Fund and the World Bank. Last December, the IMF approved $624m in assistance for the DRC to support macroeconomic stability and reduce debt service payments. The Fund considered that the DRC is in debt distress with an external debt stock of about $13bn and debt service amounting to about 25% of total expenditures. It indicated that the country could benefit from debt relief of about $9bn by reaching the completion point under the enhanced Heavily Indebted Poor Countries Initiative. The Fund projected the central government's fiscal balance to post a deficit of 18% of GDP in 2010.

Source: Bloomberg, International Monetary Fund

BANKING

GCC

Most banking sectors exceed loans-to-deposits ceiling

The loans-to-deposits ratio of GCC banks reached 84% at the end of September 2009, unchanged from the end of 2008, but up from 77% at end-2007 and 78% at end-2006. Abu Dhabi's loans-to-deposits ratio reached 102% at end-September, constituting the highest such ratio in the GCC. It was followed by Qatar with 101%, Dubai with 91%, Oman with 88%, Bahrain and Kuwait with 79% each, and Saudi Arabia with 73%. The loans-to-deposits ratio at Abu Dhabi banks exceeded the mandated level of 100% set by the UAE Central Bank, while banks in Qatar have also surpassed the limit of 90% set by the Central Bank of Qatar. Further, banks in Bahrain and Oman have exceeded the limits of 75% and 88%, respectively, set by the sectors' regulators. In parallel, Dubai's loans-to-deposits ratio conforms to the UAE Central Bank's limit, Kuwait's loans-to-deposits ratio remains within the 85% limit set by the Central Bank of Kuwait, while the banking sector in Saudi Arabia is well below the 85% ceiling set by the Saudi Arabian Monetary Agency.

Source: KAMCO

JORDAN

Private sector lending stagnates in 2009

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD32bn at the end of 2009, constituting a rise of 3% from end-June 2009 and an increase of 7.3% from JD29.8bn at year-end 2008. Resident private sector deposits reached JD16.2bn, up 13.7% from the end of 2008, while deposits of non-bank financial institutions rose by 9.4% annually to JD149.2m. Resident private sector loans were stagnant, rising marginally by 1.3% year-on-year to JD12.7bn, while credit facilities to the non-resident private sector rose by 76.2% annually and by 23.4% since June to JD945m. Resident private-sector lending accounted for nearly 40% of total assets relative to 42% a year earlier. In parallel, central government deposits reached JD781m, up 39% year-on-year, while those of public non-financial institutions regressed by 31% to JD462m. Claims on the public sector rose by 19.5% year-on-year to JD5.2bn, with claims on the central government accounting for 91% of lending to the public sector compared to 85% at end-2008. Claims on the public sector accounted for 16.3% of total assets compared to 14.6% at end- 2008. Further, deposits at the Central Bank of Jordan totaled JD6.2bn, up from JD4.4bn a year earlier and accounted for 19.4% of total assets. Capital accounts and allowances rose by 15% annually to JD4.4bn.

Source: Central Bank of Jordan, Byblos Research

IRAQ

IFC and Japan help banks expand trade finance capacity

The International Finance Corporation announced it is providing training in trade finance to bankers in Iraq to help banks improve their trade finance skills and better serve businesses, therefore contributing to the growth of the Iraqi economy. The IFC, in cooperation with the government of Japan, is training professionals from private banks across the country on structuring trade finance transactions, managing trade finance risk, and increasing trade finance product offerings. It will also provide training on documentary credit, trade finance rules, guarantee instruments, and trade finance-related treasury mechanisms, as well as on applying IFC guarantees to trade finance transactions. The program falls under the IFC Global Trade Finance Program. The IFC said the program is helping restore access to trade finance, which has been negatively affected by the global financial crisis, adding that the program's training component is vital in helping banks in emerging markets provide trade finance to importers and exporters, particularly small and medium-size enterprises.

Source: International Finance Corporation

UAE

Ratings affirmed on two merged banks, outlook negative

Standard & Poor's affirmed its 'BBB/A-2' long- and short-term counterparty credit ratings on Dubai-based Emirates Bank International (EBI) and National Bank of Dubai (NBD), with 'negative' outlooks. It also withdrew the counterparty credit and debt ratings on both banks at their request. The two banks have been merged into Emirates NBD. It said the ratings reflect ENBD's weakening financial profile due to the depressed economic environment in Dubai and its high exposure to weakened Dubai government-related entities. It considered that these two factors will exert strong pressure on ENBD's asset quality and earnings, while potentially raising hurdles for the bank to refinance AED 7bn of wholesale debt coming due in 2010. It said the 'negative' outlook reflects the likely downward pressure on the banks' stand-alone credit profiles. ENBD is the UAE's largest banking group.

Source: Standard & Poor's

YEMEN

IMF supports cut in interest rates, exchange rate flexibility

The International Monetary Fund indicated that the main focus of the Central Bank of Yemen's monetary policy in 2009 shifted from containing inflation to providing liquidity due to low inflation, declining private sector credit, and a rapidly expanding fiscal deficit. It said the CBY re-injected sizeable liquidity in the banking system through a repurchase of its certificates of deposits, and adjusted the benchmark deposit rate for the first time in nearly 10 years by lowering the rate from 13% to 10%. The IMF encouraged further gradual rate cuts with a view to eventually liberalize Yemen's interest rate regime and considered monetary policy to be broadly appropriate. In parallel, the Fund said usable foreign exchange reserves declined by $1.6bn, or about one-fifth of initial reserves, between September 2008 and September 2009, but ended the year at a comfortable $6.6bn or about 9 months of imports of goods and services. It attributed the decline to the sharp drop in oil exports, as well as to strong import demand and a slowdown in FDI and remittance inflows. It emphasized the role of exchange rate flexibility in protecting foreign reserves. It noted that allowing the exchange rate to adjust over time, in line with fundamentals, would help facilitate the transition to a post-oil economy.

Source: International Monetary Fund

ENERGY / COMMODITIES

Oil falls below $77 as demand lags economic recovery

Oil fell toward $76 a barrel on February 4 as rising crude inventories in the United States indicated that a rebound in U.S. economic activity was failing to translate into higher demand. U.S. crude for March delivery declined by 59 cents to $76.39 a barrel, while London ICE Brent fell by 66 cents to $75.26. A government report on February 3 showed U.S. crude stockpiles rose by more than expected as imports jumped and refineries kept operating at unusually low rates. Although manufacturing has picked up, U.S. demand for distillate fuel, including diesel, was more than 9% lower in January than last year. U.S. oil refineries are now operating at just 77.7% of capacity. Oil has rebounded by more than $4 this week from a six-week low of $72.43 on January 29th. But prices are still far from a 15-month high close to $84 reached on January 11 and well below the record peak close to $150 in July 2008.

Key energy benchmarks declined in January, with WTI crude oil, heating oil, gasoline and U.S. natural gas prices all down. The MLCX Energy TR index returned -8.25% for January. In particular, WTI and Brent crude oil retracted from levels over $80 a barrel early in the month.
Source: Thomson Reuters, Merrill Lynch

Jordan approves renewable energy law

The Energy Ministry confirmed the issuance of a Royal Decree that approved the draft law for renewable energy law. The law provides the legal, regulatory and legislative framework to attract investment in the field of renewable energy. The law also allows the ministry to deal with all direct investment offers and tenders.
Source: Jordan Times

Syria's crude oil production at 376,000 bpd in 2009

Syria's Ministry of Petroleum said the country's average production of crude oil increased by 0.1% from year-end 2008 to 376,920 barrels per day (bpd) at year-end 2009. Light crude oil accounted for 40.5% of total production in 2009, while heavy crude accounted for 59.5%. The Syrian Petroleum Company's (SPC) production increased by 2.1% year-on-year and accounted for 53.3% of total production. Production by the six joint-venture firms established between SPC and foreign operators declined by 2.4% and accounted for 45.1% of the total.
Source: Syria Report

Syria's gas production increases by 7.4% in 2009

Syria's average production of natural gas increased by 7.4% year-on-year to 22.3 million cubic meters a day in 2009. It included 14 million cubic meters of non-associated natural gas and 8.3 million cubic meters of associated gas. The Syrian Petroleum Company produced 77% of total production. Syria imported a total of 778,754 million cubic meters of natural gas from Egypt for its domestic consumption in 2009. Starting early last September, it transferred over 50 million cubic meters of Egyptian gas to Lebanon for a total fee of $1.38m.
Source: Syria Report

Precious metals: gold de-hedging fades out, platinum demand to increase

The MLCX Precious Metals TR index yielded -1.36% for January. Gold de-hedging has been fading out, so there is set to be less price support from this sector going forward. Central banks are expected to maintain loose monetary policy and liquidity creation is positive for metals. Also, reserve diversification into gold continues, for instance by central banks, and gold demand is expected to increase from countries like China. However, gold is taking a backseat in asset allocation as the global economy recovers and high gold prices discourage buyers of physical gold. Platinum production remains challenging in South Africa. In parallel, demand from auto catalyst producers is expected to rebound this year. However, the platinum market is too small to sustain several ETFs, and inflows into these vehicles are set to support prices.
Source: Merrill Lynch

Base metals: World outside China to drive demand marginally in 2010

The New Year started with a sell-off, as almost all commodity markets experienced falling prices during January. The MLCX TR index returned -7.85%, the S&P GSCI TR index posted -7.89% and the DJ-UBS TR index yielded -7.28%. Industrials fell in the month, with zinc being the worst performer, as the MLCX Industrial Metals TR index returned -8.3% in January. Metal markets were saved by China in 2009, but a slowdown in China's metals demand is expected this year. After making a large negative contribution to metals demand, the world outside China will need to pick up some of the slack this year. Even though the world economy has its problems, such as uncertainty over the strength of labor markets, there seems to be scope for a rebound of metals demand. Therefore, metals are likely to remain supported. However, the recent economic uncertainty and de-risking highlight that 2010 will likely be an unstable year.
Source: Merrill Lynch

Performance of main commodity indices and MLCX sub-indices

	January	YOY
MLCX TR	-7.85%	22.26%
S&P GSCI TR	-7.89%	15.02%
DJ-UBS TR	-7.28%	16.60%
MLCX Energy TR	-8.25%	22.27%
MLCX Ind Metals TR	-8.30%	79.73%
MLCX Prec Metals TR	-1.36%	20.90%
MLCX Grains TR	-12.39%	-17.66%
MLCX Livestock TR	-0.93%	-8.17%
MLCX Softs TR	3.78%	50.83%

Source: Merrill Lynch

COUNTRY RISK METRICS

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

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-	-	-								
	-	-	Stable	-	-	-3.1	23.6	42.5	579.3	1.5	344.9	-0.8	0.9
Bulgaria	BBB	Baa3	BBB-	-	BB								
	Stable	-	Stable	-	Stable	-2.7	17.5	102.0	200.0	35.3	283.9	-8.0	8.2
Kazakhstan	BBB-	Baa2	BBB-	-	BB								
	Stable	-	Negative	-	Stable	-3.5	6.6	95.9	231.5	48.0	426.6	-7.6	9.2
Romania	BB+	Baa3	BB+	BBB-	BB								
	Negative	-	Stable	Negative	Stable	-5.1	20.8	61.5	202.5	15.9	348.0	-7.1	3.3
Russia	BBB	Baa1	BBB	-	BBB								
	Stable	Positive	Stable	-	Negative	-6.5	7.0	38.0	133.6	33.7	139.1	1.3	0.4
Turkey	BB-	Ba2	BB+	BB-	B								
	Stable	Stable	Stable	Stable	Stable	-6.0	47.6	47.3	198.3	31.2	434.4	-1.3	1.4
Ukraine	CCC+	B1	B	-	CCC								
	Stable	Positive	Negative	-	Stable	-4.0	22.1	86.6	223.7	20.1	407.1	-0.1	4.5

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	27-Jan-10	No change	16-Mar-10
Eurozone	Refi Rate	1.00	04-Feb-10	No change	04-Mar-10
UK	Bank Rate	0.50	04-Feb-10	No change	11-Mar-10
Japan	O/N Call Rate	0.10	26-Jan-10	No change	18-Feb-10
Australia	Cash Rate	3.75	02-Feb-10	No change	02-Mar-10
New Zealand	Cash Rate	2.50	28-Jan-10	No change	11-Mar-10
Switzerland	3 month Libor target	0.25	10-Dec-09	No change	11-Mar-10
Canada	Overnight rate	0.25	19-Jan-09	No change	02-Mar-10
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	27-Jan-10	No change	N/A
Taiwan	Discount Rate	1.25	24-Dec-09	No change	Mar-10
South Korea	Base Rate	2.00	08-Jan-10	No change	11-Feb-10
Malaysia	O/N Policy Rate	2.00	26-Jan-10	No change	04-Mar-10
Thailand	1D Repo	1.25	13-Jan-10	No change	10-Mar-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	14-Jan-10	No change	16-Feb-10
South Africa	Repo rate	7.00	26-Jan-10	No change	25-Mar-10
Kenya	Central Bank Rate	7.00	26-Jan-10	Cut 75bps	Mar-10
Nigeria	Monetary Policy Rate	6.00	05-Jan-10	No change	Mar-10
Ghana	Prime Rate	18.00	23-Nov-09	Cut 50bps	Feb-10
Mexico	Target Rate	4.50	15-Jan-10	No change	19-Feb-10
Brazil	Selic Rate	8.75	27-Jan-10	No change	N/A
Armenia	Refi Rate	5.50	Jan -10	Raise 50bps	N/A
Romania	Policy Rate	7.00	03-Feb-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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