

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Upgrades potential improves year-to-April

Standard & Poor's indicated that the number of issuers poised for upgrades reached 219 globally at the end of April, exceeding the trailing 12-month average by 40 issuers. It said the potential to upgrade issuers improved since September, when the number exceeded the trailing 12-month average for the first time in nearly two years. The agency defines potential upgrades as issuers that have either a positive outlook or ratings on CreditWatch with positive implications across the 'AA+' to 'B-' rating categories. In parallel, S&P said that the number of global corporate defaults reached 31 in the first four months of 2010. The U.S. led all regions with 22 defaults, followed by two in Europe, two in emerging markets, and five in the other developed economies of Australia, Canada, Japan, and New Zealand. It noted that 38% of defaulters had negligible expectations of recovery with a recovery rate of 0% to 10%; 12% of issues had modest recovery prospects of 10%-30%; and another 12% had average recovery prospects of 30%-50%.

Source: Standard & Poor's

EMERGING MARKETS

Net private financial flows to recover to \$210bn in 2010

The International Monetary Fund expected total net private financial flows to emerging markets and developing economies to recover to \$210bn in 2010, up from \$180bn in 2009, and to reach about \$211.5bn in 2011. The IMF forecast net direct investment to improve to \$294bn in 2010 and \$322.6bn in 2011 from \$275bn in 2009. It estimated net private portfolio flows in emerging markets to shift from a net inflow of \$23.2bn last year to net outflows of -\$27.8bn in 2010 and -\$22.4bn in 2011. Also, it forecast other private financial flows to decline from -\$118bn in 2009 to -\$56.5bn in 2010 and -\$89bn in 2011. It also projected net official financial flows to have reached \$80bn last year and to turn negative to -\$2.3bn this year and -\$85.6bn next year. Further, it estimated foreign currency reserves to increase by \$632.4bn in 2010 and \$608bn in 2011. In parallel, it estimated that Latin & Central America to be the largest recipient of net private financial flows in 2010 with \$80bn or 38% of the total, followed by Developing Asia with \$76bn or 36.2%, Central & Eastern Europe with \$57bn or 27.2% of the total, Sub-Saharan Africa with \$40.6bn or 19.4%, and the Middle East & North Africa with \$12.9bn or 6.1%, while it expected the Commonwealth of Independent States to post net outflows of \$56.5bn this year. The IMF's estimates for private financial flows to emerging and developing economies for 2010 differ considerably from the Institute of International Finance's forecast of \$709bn for this year.

Source: International Monetary Fund

MENA

Equity markets up 14% in first four months of 2010

Arab stock markets increased by 13.6% in the first four months of 2010 compared to a rise of 2.7% in same period last year. The Damascus stock exchange increased by 25.6% during the covered period, posting the best performance among Arab markets. It was followed by the Egyptian stock exchange with a 20% rise, the Casablanca stock market with a 17.6% increase, the Tunis equity market with 12.8% improvement, the Saudi exchange with 12.2% increase, the Bahrain stock market with a 9.2% rise, the Doha equity market with an 8.5% growth, the Muscat exchange with a 7.3% increase, the Kuwait bourse with a 4.2% improvement, the Palestine equity market with a 1.8% growth, the Amman stock exchange with a 1.7% increase, and the Abu Dhabi market with a 1.2% improvement. In parallel, the Beirut Stock exchange was unchanged, the Dubai financial market dropped 3.5%, while the Iraqi stock exchange posted the worst performance in the region with a 6.7% decrease. In comparison, emerging market equities rose by 3.1% and global equities increased by 2.7% in the first four months of the year.

Source: Local stock markets, Byblos Research

Region's brand perception improves in first quarter of 2010

The Nation Brand Perception Index indicated that the brand perception of the Middle East & North Africa region improved in the first quarter of 2010 from the fourth quarter of 2009, as the average index score of the 20 MENA countries included in the index reached 43 points, up from 42.1 points in the fourth quarter of 2009. The index analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. It said the number of times a country is mentioned reflects the strength of the brand, but not necessarily its quality. However, the MENA region continues to have the worst brand perception in the world, as its score was lower than the global average of 49.9 points as well as below the average score of South America (48.2 points), the Commonwealth of Independent States (48.4 points), Africa (48.7 points), Central America (49.8 points), Asia (51.8 points), Europe (52.2 points), Oceania (52.3 points), and North America (60.2). Kuwait had the best brand perception in the region and ranked in 6th place globally, followed by Bahrain, Qatar and Oman; while Iran, Yemen and Iraq were the worst perceived countries in the region, ranking in the 196th, 197th and 198th place worldwide, respectively.

Source: East West Communications, Byblos Research

POLITICAL RISK OVERVIEW - APRIL 2010

ALGERIA

Algeria signed an agreement on judicial anti-terrorism with the U.S. on March 7th. A roadside bomb killed two civilians in Tizi-Ouou and eight were killed by bombs targeting security guards near Bejaja. The army launched broad anti-terrorist operations on April 13 in several regions.

ARMENIA

U.S. President Barack Obama avoided the term genocide in the statement of the anniversary of the 1915 Ottoman killings of Armenians on April 24th. Turkish Prime Minister Tayyip Erdogan reiterated Turkey's approval of the Armenia-Azerbaijan agreement regarding the Nagorno-Karabakh conflict. Armenian President Serzh Sarkisian opposed the establishment of a historical sub-commission predicted by protocols, before Turkey recognizes the 1915 killings of Armenians as genocide. A continued deadlock followed the meeting on April 12 between President Sarkisian and PM Erdogan on the sideline of the nuclear security summit in Washington DC.

DEM REP CONGO

The security situation deteriorated in several provinces, where Enelele rebels occupied the Equateur provincial capital, Mbandaka, and 21 people were killed in clashes with the Forces Armées de la République Démocratique du Congo (FARDC) and the MONUC forces. MONUC and FARDC continued joint actions against rebels despite the tensions between the MONUC forces and the government. UN Secretary-General Ban Ki-moon recommended a two-phase MONUC drawdown, where 2,000 troops are to withdraw on June 30 from the West and eastern troops are to withdraw after a UN-government periodic review. Interior Minister Adolphe Luman stated that elections will be held in 2011 and the electoral commission announced the revision of electoral lists by May 19th.

EGYPT

Former International Atomic Energy Agency head Mohamed El Baradei held a rally in Mansura in campaign for democratic reform. Kuwaiti authorities deported 21 El Baradei supporters from Kuwait. The police broke up a protest held by the pro-democracy movement in central Cairo, while the U.S. State Department criticized the action. Several senior members of the Muslim Brotherhood were arrested for an alleged secret militant cell and then released on bail on April 8th. A State Security court convicted 26 members of the Hizbollah cell arrested early 2009 for planning attacks in Egypt.

IRAN

Iran held negotiations on the UNSC sanctions resolution over its nuclear program, where Foreign Minister Manouchehr Mottaki repeated Iranian willingness to agree on the nuclear fuel swap with Russia and France but only if taking place simultaneously and inside the Iranian territory. Prison sentences were confirmed for several leading reformist activists detained after the June elections.

IRAQ

Iraq continued negotiations to form a coalition government following the March elections. After Prime Minister Nour Maliki's call for vote recount in five provinces, the election complaints panel also ordered a recount in Baghdad. Former Prime Minister

Ayad Allawi called for an internationally monitored interim government to prevent the manipulation of election results, but PM Maliki denounced the call as a foreign intervention. The Sadrist movement held a referendum on prospective prime minister candidates, and favored former PM Ibrahim Jaafari over Maliki and Allawi. Leading parties sent delegations to Tehran and Riyadh, where the Iranian ambassador stated that Sunnis should participate in the new government. Over 40 people were killed in bombing attacks targeting different embassies on April 4th. The bombings were claimed by the al-Qaeda-linked Islamic State of Iraq. At least 49 people were killed in Shiite residential areas on April 6th. Iraqi authorities stated that senior al-Qaeda leaders Abu Ayub al-Masri and Abu Omar al-Baghdadi were killed on April 18 while conducting an operation near Tikrit.

SUDAN

Sudan's first multiparty election since 1986 started on April 11 accompanied by widespread confusions. Sudan's People Liberation Movement announced its boycott of the national presidency race and parliamentary polls in most regions of the North. The National Elections Commission announced a two-day extension of voting till April 15, and said it was pleased with the overall turnout. Presidential results were released on April 26, where President Omar Bashir was re-elected with 68% of total votes and South Sudan President, Salva Kiir, was re-elected with 93% of the votes. The Ruling National Congress party won seats in all northern states except Blue Nile, and Sudan's People Liberation Movement won nine of 10 seats in the South. The Carter Center and the European Union stated that elections fell short of international standards. Around 58 people were killed during clashes between Darfuri nomads and South Sudan Army.

SYRIA

The Israeli President, Shimon Peres, charged Syria with supplying Scud missiles to Hizbollah in Lebanon, while the Syrian Foreign Ministry declared the claim as made-up. International Atomic Agency Inspectors visited the Damascus nuclear research reactor on April 6 but were denied access to controversial military sites. U.S. officials, including Secretary of State Hillary Clinton, defended the appointment of a U.S. ambassador to Syria despite increased domestic criticism.

UKRAINE

President Viktor Yanukovich and Russian President Alexander Medvedev signed an agreement to extend the lease for Russia's Black Sea Fleet at the Sevastopol port in Crimea by 25 years after its expiration in 2017. Several thousands people rallied in front of the parliament in Kyiv describing the deal as a destruction of national sovereignty. President Yanukovich committed during the nuclear summit in Washington to completely remove the country's weapons-grade uranium by 2012.

YEMEN

The ceasefire between the government and Houthi-led rebels in Saada was strained by random violence. At least 10 people were killed in clashes between rebels and pro-government tribes. The Saudi authorities handed bodies of 32 rebels to the Yemeni government. A Suicide bomber attempted to kill the UK ambassador in Sanaa on April 26th.

Source: *International Crisis Group*



OUTLOOK

WORLD

Basel III to strengthen banks' liquidity, may constrain profitability

Standard & Poor's considered that the Basel III liquidity framework could serve to strengthen significantly banks' liquidity positions and the supervisory review process. It indicated that the framework proposes two new internationally harmonized measures of liquidity risk exposure that aim to improve banks' resilience to liquidity stress. First, the short-term metric, named the liquidity coverage ratio (LCR), introduces a specified stress scenario and requires banks to maintain liquidity buffers sufficient to cover net cumulative cash outflows at all times during a 30-day period. Second, the structural funding metric, named the net stable funding ratio (NSFR), introduces minimum requirements for the use of longer-term and more stable funding sources, which include equity and long-term debt with a maturity of more than one year, to finance less liquid assets. It considered that globally harmonized liquidity measures could significantly increase the analytical tools used by market participants to make comparisons among banks and track changes in their liquidity positions over time.

S&P warned, however, that an overly restrictive approach to the definition of liquid assets and requirements for funding certain types of assets with long-term funds could constrain banks' profitability on lending and trading activities due to lower net interest spreads, and cause displacements in markets for high-quality liquid securities by distorting supply and demand fundamentals. The agency considered that material changes in regulation require extended transition periods and that banks will need to implement the LCR and NSFR methodologies in a timely, internationally comparable, and comprehensible manner in order to maximize their utility. It expected the final standard to become effective in 2013. S&P noted that once the proposed liquidity framework is finalized and applied, it could reveal existing weaknesses or strengths within banks that were not apparent previously. It expected smaller, deposit-funded retail banks to find it easier to comply with more stringent requirements than larger wholesale-funded institutions with extensive trading operations or large loan books and securities holdings. It considered that the larger banks will likely need to make more significant changes to their balance sheet structures, as the new liquidity and funding requirements could make holding illiquid assets less attractive.

Source: Standard & Poor's

GHANA

Economy to grow by 20% in 2011, inflation to ease to 9%

The International Monetary Fund projected Ghana's real GDP growth at 4.5% in 2010 and 20.1% in 2011, up from 3.5% in 2009. In parallel, it forecast growth at 4.7% in 2010 and 5.8% in 2011 for Sub-Saharan Africa (SSA), and at 5.1% in 2010 and 7.5% in 2011 for low-income countries. It projected the country's annual average inflation rate at 10.6% in 2010, down from 19.3% a year earlier, compared to average inflation of 7.9% in SSA and 6.8% in low-income countries. It also forecast the country's average inflation to decline to 8.9% in 2011 relative to

6.9% for SSA and 6.3% for low-income countries. Further, it expected broad money to grow by 20% this year and 32% next year relative to 27% last year. It added that claims on the non-financial private sector would account for 64.5% and 60% of broad money in 2010 and 2011, respectively, relative to 63.3% this year and 61.3% next year for low-income countries.

The Fund projected the central government's fiscal balance to post a deficit of 13.1% of GDP in 2010 and 7.9% of GDP in 2011, down from 14.7% of GDP in 2009. It estimated public revenues at 25.8% of GDP in 2010 and 25.9% 2011, and total expenditures at 39% of GDP in 2010 and 33.8% of GDP in 2011. The IMF expected the country's external debt to official creditors to reach 34.5% of GDP at end-2010 and 29.4% of GDP at end-2011. It estimated total investment at 34.8% of GDP in 2010 and 32.9% in 2011, up from 30% of GDP in 2009. Further, it projected the country's current account deficit at 12.8% of GDP in 2010 and at 8.1% of GDP in 2011, up from 5.1% of GDP in 2009. The Fund expected the country's gross official reserves to reach 2.6 months of imports of goods and services at end-2010 and 2.9 months at end-2011, compared to 2.9 months at end-2009.

Source: International Monetary Fund

ANGOLA

Economic growth to average 7.7% in 2010-11, current account to post surplus of 3.3% of GDP

The International Monetary Fund projected economic growth in Angola at 7.1% in 2010 and 8.3% in 2011 relative to a contraction of 0.4% in 2009 and compared to growth in oil exporting countries of 6.5% in 2010 and 6.8% in 2011. It expected the country's real non-oil GDP to grow by 7.7% in 2010 and 10% in 2011, up from 6.7% in 2009, and compared to non-oil GDP growth of 7.1% in 2010 and 7.3% in 2011 in oil exporting countries. The Fund forecast Angola's annual average inflation rate at 15% in 2010 and 9.8% in 2011, compared to 14% in 2009 and to inflation rates of 10.8% and 8.6% in 2010 and 2011, respectively, for oil exporting economies. It estimated total investment at 15% of GDP in 2010 and 14.3% in 2011, down from 17.5% of GDP in 2009. It also expected the growth of broad money at 20.2% this year and 19.6% next year, compared to 20.3% last year.

The Fund projected the central government's fiscal balance to post a surplus of 3% of GDP in 2010 and 4.4% in 2011, compared to a surplus in oil exporting peers of 2.4% in 2010 and 3.1% in 2011. It estimated public revenues at 39.3% of GDP this year and 38.2% of GDP in 2011, and total expenditures at 36.3% of GDP in 2010 and 33.7% of GDP in 2011. Further, it expected the country's current account to post surpluses of 3.6% of GDP in 2010 and 3.1% of GDP in 2011 compared to a deficit of 3.3% of GDP in 2009. In comparison, it forecast oil exporting countries to post current account surpluses of 6.9% of GDP this year and 6.5% of GDP next year. The Fund expected the country's gross official reserves to reach 4.9 months of imports of goods and services at end-2010 and 5.5 months of imports of goods and services at end-2011, compared to 5.1 months at end-2009.

Source: International Monetary Fund



ECONOMY & TRADE

MENA

Net private financial flows at \$13bn in 2010

The International Monetary Fund projected total net private financial flows to the Middle East & North Africa region at \$12.9bn in 2010, constituting a decrease of 23% from \$16.8bn in 2009, and accounting for 6% of overall flows to emerging and developing economies this year. It forecast net private direct investment to the region at \$71.7bn in 2010 and \$77.8bn in 2011, up from \$70bn in 2009; while it expected net private portfolio flows at -\$56.2bn in 2010 and -\$63.3bn in 2011 relative to -\$44.8bn in 2009. Also, it forecast other net private financial flows at -\$2.5bn in 2010 and -\$9.8bn in 2011 compared to -\$8.4bn in 2009. It also projected net official financial flows to have reached -\$28.3bn last year and to turn to -\$75.8bn this year and -\$104.6bn next year. Further, it estimated foreign currency reserves to increase by \$60bn in 2010 and \$71bn in 2011.

Source: *International Monetary Fund*

GCC

M&As activity to pick up this year, valuations are key catalyst

A survey of investment bankers about mergers and acquisitions (M&As) across the GCC indicated that almost 60% of respondents believe the first quarter of this year was better than the same period last year and expect this year to be better or much better than 2009. The survey revealed that a small number of key sectors in the GCC will be the focus for M&As in 2010 and beyond such as health care, energy, telecoms, IT & technology, general industry & basic materials, and financial services. Also, most respondents cited Saudi Arabia as the leading market for M&As in the region, followed by the UAE where Abu Dhabi is seen as an interested purchaser and Dubai remaining the target for vulture buyers and strategic acquirers. Further, the majority of respondents considered that the most significant catalyst for the next wave of M&As will be the increasingly attractive valuations. In parallel, more than 45% of participating bankers expect M&As in the region to be financed through a combination of debt and equity in 2010 and 2011, while other respondents saw equity finance as the trend for 2010 with debt financing becoming more popular next year. Also, more than 50% ranked the lack of liquidity as the number one barrier to increased M&As this year, with a further 34% ranking it as the second most significant barrier. According to the majority of participating bankers, most M&As activity in the GCC will be regional and led by mid-market transactions, local private equity houses and financial institutions.

Source: *Zawya*

SYRIA

WTO accepts Syria membership talks

The World Trade Organization declared that its General Council agreed to establish a working party to examine Syria's request for WTO membership after member states agreed to open negotiations on the country's long-standing bid to join the organization. It invited Syria to attend meetings of the General Council and, as appropriate, meetings of other WTO bodies as an observer. Syria's previous request to join the global trade

body has been declined three times. Syria was one of the founder members in 1947 of the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), but stopped participating in its work and did not join the WTO when it was created in 1995. The WTO has 29 governments currently negotiating to join, including Iran, Iraq, Lebanon, Algeria and Libya from the MENA region. Egypt, Jordan, Oman, Bahrain, Qatar, Tunisia, Saudi Arabia, the UAE are already WTO members.
Source: *World Trade Organization, Bloomberg*

EGYPT

Government suspends privatization program

The Ministry of Investment stated that the government has suspended its privatization program and that it will not sell any of the 150 state-owned companies to strategic investors. It added that the portfolio of companies that are still controlled by the state, whether profitable or loss-making, will remain under state ownership. It added that the government might offer small non-controlling stakes to Egyptian nationals through IPOs. The government announced in 2008 a mass-privatization program that aimed at offering minority and majority stakes of state-owned companies to Egyptians through IPOs, but the program did not generate enough interest. The suspension of privatization covers state-owned banks as well, which still account for about 80% of the banking sector's total assets. Recently, the International Monetary Fund considered that one of the government's priorities should be reducing banking sector concentration through further privatization or significant balance sheet reduction of state-owned banks.

Source: *Al Mal, EFG Hermes*

ANGOLA

Government halts rating plan, may sell more local bonds

The Finance Ministry indicated that Angola suspended plans to seek a credit rating from agencies ahead of a Eurobond sale, and will instead sell as much as \$2bn of government bonds locally. It said that officials held several meetings with Fitch Ratings, Moody's Investors Service, and Standard & Poor's without reaching an agreement. Last month, the ministry said that Angola plans to issue between \$1bn and \$2bn in Eurobonds this year, down from an earlier target of \$4bn, and that it will request ratings from the major international rating agencies. The government has traditionally relied on bilateral, multilateral and syndicated loans for its external financing needs, so tapping the international capital markets is a step towards diversification of financing for its development needs. Angola started selling kwanza-denominated bonds a year ago to fund spending as the global economic crisis reduced its oil revenues. It also discontinued the fixed exchange rate for the kwanza last October after a decline in oil receipts reduced the Banco Nacional de Angola's ability to defend the currency. Since then, the currency has weakened by 17% against the US dollar. Angola, which is rebuilding its infrastructure after a 27-year civil war that ended in 2002, has delayed payments to construction companies and owed four Brazilian construction firms \$2bn as of last October.

Source: *Bloomberg, Standard Chartered*

BANKING

EMERGING MARKETS

Deposit withdrawals key to bank defaults during crisis

Moody's Investors Service indicated that deposit withdrawals during the global financial crisis contributed to more than half of bank defaults in the Commonwealth of Independent States (CIS) between September 2008 and December 2009. It said the affected banks lost around one third of their customer funds, and the factors that triggered the run on deposits were beyond the banks' control. It added that the global financial crisis led to the failure of nearly 60 rated and unrated banks in Russia, Ukraine and Kazakhstan. It also identified heavy reliance on market funding, risky lending strategies and market risk exposures as major contributors to default. It said 23 CIS-based financial institutions that Moody's rates have defaulted since the beginning of the crisis, bringing to an end an extended period of no defaults among rated banks in the region since the Russian crisis of 1998. It noted that all 23 cases of defaults were institutions with speculative grade ratings. In parallel, it said that key bank-specific default drivers include high reliance on market funding such as wholesale debt or repurchase agreements; lending to related parties; large exposures to the highly cyclical construction or real estate sectors; and extensive market risk exposures at a time when equity prices fell and local currencies depreciated.

Source: Moody's Investors Service

JORDAN

Private sector lending continues to stagnate in first quarter

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD32.4bn at the end of March 2010, constituting a rise of 1.4% from end-2009 and an increase of 7.3% from JD30.2bn in March 2009. Resident private sector deposits reached JD16.5bn, up 1.7% from the end of 2009 and up 2.4% from a year earlier, while deposits of non-bank financial institutions declined by 14% in the first quarter and rose by 13% annually to JD128m. Resident private sector loans were stagnant, rising marginally by 0.8% in the first quarter and by 1.9% year-on-year to JD12.8bn, while credit facilities to the non-resident private sector contracted by 1.2% in the first quarter but rose by 45% since March 2009 to JD934m. Resident private-sector lending accounted for 39% of total assets relative to 41.5% a year earlier. In parallel, central government deposits reached JD833m, up 27% year-on-year, while those of public non-financial institutions regressed by 35% to JD449m. Claims on the public sector regressed by 4.5% in the first quarter but rose by 9.3% year-on-year to JD5bn, with claims on the central government accounting for 90% of lending to the public sector compared to 91% at end-2009. Claims on the public sector accounted for 15.3% of total assets compared to 16.3% at end-2009. Further, deposits at the Central Bank of Jordan totaled JD6.5bn, up from JD4.9bn a year earlier and accounted for 20% of total liabilities. Capital accounts and allowances rose by 17.3% annually to JD4.7bn.

Source: Central Bank of Jordan, Byblos Research

SUDAN

Khartoum looking to drop US dollar currency peg

The Bank of Sudan indicated that the country is seeking to drop the national currency's peg to the US dollar and replace it with a basket of international currencies, especially from countries that have large trade volumes with Sudan. It said the basket could include the Euro, British Sterling Pound and the Chinese Yuan, and expected the change to take place in the last quarter of the year. It added that the move could help curb inflationary pressure and reduce it to single digits. Sudan has a managed float currency system where the Bank of Sudan calculates an indicative rate based on previous day's transactions and intervenes on the market if quotes break away from a +/-3% corridor around that rate. The IMF estimates gross foreign currency reserves at \$1bn at the end of 2009, equivalent to 1.3 months of imports of goods and services. The Bank of Sudan wanted to bring annual inflation to a range of between 7% and 9%. The IMF estimated that inflation would averaging 9% in 2010 after to averaging 11% in 2009.

Source: Thomson Reuters

NIGERIA

Senate ratifies bill to set up bad bank

Nigeria's Senate approved a bill to establish a 'bad bank,' or Asset Management Company (AMC) that would buy problem loans and troubled assets from banks in order to improve the sector's liquidity and protect bank earnings. Last summer, an audit of 24 banks operating in the country found 10 banks to have liquidity or capitalization problems. As a result, the Central Bank of Nigeria (CBN) injected NGN 600bn, or \$3.9bn, in 9 of those banks for being undercapitalized. The AMC will have NGN 250bn, or about \$1.7bn, in capital to buy up problem loans and will be partially funded through the sale of 10-year bonds guaranteed by the Finance Ministry. The CBN will own 60% and the Finance Ministry 40% of the company. It said the company's life will be 10 years, giving it enough time to perform its function. The CBN added that assets bought by the AMC will not be sold back in the market for at least three years in order to allow the market to recover, and that the AMC prepares the banks for the next stage of mergers and acquisitions. The Senate and House of Representatives still need to agree on a final version of the bill before it is signed into law. Last March, Renaissance Capital estimated that the distressed banks have \$8bn in negative equity and that they may need \$14bn to meet the capital-adequacy ratio required by regulators and to pay back the CBN.

Source: Bloomberg, The Guardian

UAE

Bank profits down 1.6% in first quarter of 2010

The aggregate net profits of banks in the UAE reached AED 5.36bn, or \$1.46bn, in the first quarter of 2010, constituting a decline of 1.6% from AED5.45bn in the same period last year, while the total net income of the Dubai-based Emirates NBD, Commercial Bank of Dubai, Dubai Islamic Bank and Mashreqbank dropped by 21.7% to \$490m in the first quarter of this year.

Source: Al-Bayan, Al-Ittihad



ENERGY / COMMODITIES

Oil rises towards \$84 with higher U.S. demand

Oil fell by more than \$1 to a six-week low under \$79 a barrel on May 6, as the euro fell while global stock markets dropped on fears that Greece's economic crisis may spread to other European nations. U.S. crude for June delivery fell by around 1.3% to \$78.87 a barrel, the lowest intraday price since March 22 when it hit \$78.57. The contract dropped by more than 3% on May 5 to below \$80 a barrel for the first time in six weeks after U.S. government data showed that crude stocks at the key storage hub in Cushing, Oklahoma, rose by 1.6 million barrels to a record of 36.2 million barrels. London Brent crude fell by 85 cents to \$81.76 a barrel. Investors are doubtful that Greece will be able to carry out the tough measures it promised in return for a €10bn aid package from the European Union and the International Monetary Fund. Also, news of the death of Nigeria's president may create more uncertainty about the country's oil production. The Energy Information Administration data showed gasoline stocks rose by 1.2 million barrels to 224.9 million barrels, well above the forecasts.

Source: Thomson Reuters

Iraq resolves oil dispute with Kurdistan

Iraq's Oil Ministry indicated that an oil dispute with the autonomous northern region of Kurdistan has been resolved. It said it reached an agreement with the Kurds that all revenues will be handed over to the country's State Oil Marketing Organization (SOMO), and that the Iraqi government will be responsible for paying the extraction expenses in Kurdistan. Iraqi Kurdistan halted oil exports last October due to a payment dispute with Baghdad.

Source: AFP

Egypt to build largest oil refinery

Egypt plans to build its largest oil refinery with Chinese investment worth \$2bn to supply the domestic market as well as to export to China. The refinery will produce 30 million metric tons of refined products per year. The Chinese firms will operate the refinery for 25 years and then gradually transfer ownership to Egypt. It will produce jet fuel and diesel for the domestic market and naphtha to be exported to China, among other products.

Source: Bloomberg

Iran, Iraq to develop 5 oilfields

The Iranian Central Oil Fields Company (ICOFC) said Iran and Iraq have agreed to provide a Master Development Plan (MDP) for the development of 5 shared oilfields.

Source: Iran Daily

Sudan signs gold exploration agreements

Sudan signed gold exploration agreements with five international companies. The companies include one from Chechnya, two from India and one from Turkey. Sudan has also been handing out mining concessions in its Northern and Southern Kordofan states.

Source: Sudan Tribune

Base metals: Copper down by 2%, nickel falls from early gains

London copper futures fell by nearly 2% on May 6, reversing an earlier 1.8% gain, weighed down by a slide in the euro to its lowest in more than a year on growing worries about the euro zone debt. Three-month copper futures on the London Metal Exchange fell to as low as \$6,825 a ton. Nickel fell by 6.7% to \$20,450 a ton, adding to its 11% loss in the previous session, as worries about the Greek debt threat spread.

Source: Thomson Reuters

Precious metals: Gold supported by weak European currencies

Gold is generally considered as a hedge against the dollar, given that the benchmark view is that US dollar gold prices tend to rise when the dollar weakens. However, since the start of the year and because European investors have been concerned over Greece, gold prices and the US dollar have moved in the same direction, which is an indication of gold's prevailing strength. When looking at the last 40 years and the four-month rolling performance of gold and the US dollar index, only 15% of the observations showed a parallel upwards movement. For non-US dollar investors, this unusual situation provides a boost to gold prices in their local currency from increasing gold prices measured in US dollars, and the appreciation of the dollar versus their domestic currency. These two positive effects lead to a considerable outperformance of gold denominated in domestic currencies. For euro investors, the impact was the most pronounced since the beginning of the year, since the Greek crisis led to a strong devaluation of the euro versus the US dollar. Therefore, when looking at gold measured in euros, investors received an additional currency-related boost in performance of nearly 7%.

Source: Julius Baer

Commodities post another positive month

Commodities indices appreciated in April, with the MLCX TR index up 3.6%, the S&P GSCI TR index returning 2.8% and the DJ-UNS TR index at 1.94%. Energy, precious metals and grains posted strong performance while industrial metals and softs suffered during the month. The S&P 500 TR index returned 1.58% and the ML Broad Market bond index returned 1.06% during April.

Performance of main commodity indices and MLCX sub-indices

	Apr-10	YTD	YOY
MLCX TR	3.59%	1.57%	33.35%
S&P GSCI TR	2.77%	1.86%	30.56%
DJ-UNS TR	1.94%	-3.18%	21.98%
MLCX Energy TR	4.32%	5.69%	43.35%
MLCX Industrial Metals TR	-3.01%	2.71%	64.05%
MLCX Precious Metals TR	5.99%	8.05%	34.35%
MLCX Grains TR	5.94%	-10.56%	-13.69%
MLCX Livestock TR	2.32%	8.62%	4.04%
MLCX Softs TR	-5.53%	-28.70%	0.81%

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	-
	Negative	-	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	BBB-	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	B1	B	B	CCC	-12.6	154.3	96.3	631.1	15.0	168.6	-10.4	5.5
	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-	Aa3	AA-	AA-	BBB	-4.7	11.3	9.7	18.8	2.0	89.1	-6.1	0.3
	Stable	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

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	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	-	Stable								
Kazakhstan	BBB-	Baa2	BBB-	-	BB	-3.5	6.6	95.9	231.5	48.0	426.6	-7.6	9.2
	Stable	-	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	-	Stable	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	Stable	-	Negative								
Turkey	BB	Ba2	BB+	BB-	B	-6.0	47.6	47.3	198.3	31.2	434.4	-1.3	1.4
	Positive	Stable	Stable	Stable	Stable								
Ukraine	B-	B1	B	-	CCC	-4.0	22.1	86.6	223.7	20.1	407.1	-0.1	4.5
	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	28-Apr-10	No change	24-Jun-10
Eurozone	Refi Rate	1.00	06-May-10	No change	N/A
UK	Bank Rate	0.50	08-Apr-10	No change	10-May-10
Japan	O/N Call Rate	0.10	30-Apr-10	No change	N/A
Australia	Cash Rate	4.50	04-May-10	Raise 25bps	04-May-10
New Zealand	Cash Rate	2.50	29-Apr-10	No change	10-Jun-10
Switzerland	3 month Libor target	0.25	11-Mar-10	No change	17-Jun-10
Canada	Overnight rate	0.25	20-Apr-10	No change	01-Jun-10
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	28-Apr-10	No change	24-Jun-10
Taiwan	Discount Rate	1.25	25-Mar-10	No change	24-Jun-10
South Korea	Base Rate	2.00	09-Apr-10	No change	12-May-10
Malaysia	O/N Policy Rate	2.25	04-Mar-10	Raise 25bps	13-May-10
Thailand	1D Repo	1.25	21-Apr-10	No change	02-June-10
India	Reverse repo rate	3.75	20-Apr-10	No change	27-July-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	13-Apr-10	No change	18-May-10
South Africa	Repo rate	6.50	25-Mar-10	Cut 50bps	13-May-10
Kenya	Central Bank Rate	6.75	23-Mar-10	Cut 25bps	May-10
Nigeria	Monetary Policy Rate	6.00	16-Apr-10	No change	02-May-10
Ghana	Prime Rate	15.00	16-Apr-10	Cut 100bps	June-10
Angola	Rediscount rate	30.00	01-Oct-09	Raise 500bps	N/A
Mexico	Target Rate	4.50	16-Apr-10	No change	21-May-10
Brazil	Selic Rate	9.50	28-Apr-10	Raise 75bps	09-Jun-10
Armenia	Refi Rate	7.00	13-Apr-10	Raise 50bps	N/A
Romania	Policy Rate	6.25	04-May-10	Cut 25bps	N/A
Bulgaria	Base Interest	0.17	01-Apr-10	Cut 1 bps	01-May-10
Kazakhstan	Refi Rate	7.00	01-Jan-10	No change	N/A
Ukraine	Discount Rate	10.25	11-Aug-09	Cut 75bps	N/A
Russia	Refi Rate	8.25	24-Feb-10	Cut 25 bps	N/A



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