Issue 178
August 19, 2010

BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global default rate at 4.5% in July

Standard & Poor's indicated that the 12-month-trailing global corporate speculative-grade default rate reached 4.51% in July 2010 compared to 5.05% in June, constituting the eighth consecutive monthly decline, while the emerging markets default rate rose to 1.93% from 1.77% over the same months. It added that the global corporate speculative-grade default rate reached 9.37% and the emerging market default rate 6% in 2009, while it reached 3.52% globally and 1.32% for emerging markets in 2008. The agency said that 54 issuers defaulted so far in 2010, affecting debt worth $33.5bn, compared to 264 defaults that affected debt worth $628bn in 2009, and 126 defaults that affected debt worth $433bn in 2008. In parallel, S&P indicated that the number of global weakest links totaled 133 in mid-August, down from 141 in July and from 278 in August 2009. It said weakest links are corporate issuers rated 'B-' and lower with a 'negative' outlook or ratings on CreditWatch negative, and added that the 133 weakest links have combined rated debt worth $146bn. The agency noted that global new issuance among corporate speculative-grade-rated entities started out strong in early 2010, slowed in May and June largely because of sovereign debt concerns in Europe, and picked up again in recent months. It said a total of $59.6bn in new issuance came to market in the second quarter of 2010 compared to $79.5bn in the first quarter, with $37bn issued so far in the third quarter. It noted that companies rated 'B-' and lower have a significant amount of debt coming due over the next four years.

Source: Standard & Poor's

EMERGING MARKETS

Fixed income trading volume up 57% to $1,551bn in second quarter 2010

Trading in emerging markets debt instruments stood at $1,551bn in the second quarter of 2010, constituting an increase of 57.5% from $985bn in the same period last year, and up 10.6% from $1,402bn in the second quarter of 2010. The volume of trades in local markets instruments stood at $1,076bn in the second quarter of 2010, up 79% from $600bn in the same quarter last year, and up 12% from $960bn in the first quarter of 2010. Local instruments turnover accounted for 69% of total emerging markets debt trades compared to 61% in the same period last year. In parallel, sovereign and corporate Eurobonds' trading volume stood at $465bn, an increase of 24% from $374bn in the second quarter of 2009 and up 9% from $426bn in the first quarter of this year. The survey said the increase in trading was concentrated in corporate bonds and local currency debt, with activity in the sovereign sector stagnating due to supply rather than demand factors.

Sovereign Eurobond volumes increased by 3% year-on-year and declined by 4% quarter-to-quarter to $245bn, while the volume of traded corporate Eurobonds reached $201bn, up 84% year-on-year and 27% quarter-to-quarter. Sovereign Eurobonds accounted for 16% of total debt trading, relative to 24% in the same period last year, and corporate debt represented 13% of the survey's volume compared to 11% in the second quarter last year. The most frequently traded instruments were Brazilian debt securities at 16% of the total, followed by Mexican assets with 12%, Hong Kong instruments with 9% and South African debt securities at 8%. Trading in Brazilian instruments rose by 28% year-on-year, in Mexican assets by 280%, and in Hong Kong debt by 102%. The most frequently traded sovereign Eurobonds included issues from Russia with $24bn, Brazil with $9bn, and Venezuela with $6bn.

Source: EMTA

MENA

SMEs' confidence higher than in most regions

The HSBC Small Business Confidence Monitor indicated that small and medium-size enterprises (SMEs) in the Middle East & North Africa have a positive economic outlook for the next six months and are more optimistic than SMEs in most other regions of the world. The survey shows that 49% of SMEs in the MENA region expect economic growth to improve during the next six months, compared to 34% of respondents globally, 47% in South-East Asia, 30% in North America, 28% in Latin America, 27% in India, 24% in Greater China, and 10% in Western Europe. Further, 50% of SMEs in the MENA region are looking to increase capital expenditures by the end of 2010 compared to 41% of respondents globally, 46% in South-East Asia, 43% in Latin America and 36% in Greater China. SMEs in Saudi Arabia posted the highest level of optimism in the region, with the SME confidence index in the kingdom registering a score of 145 points compared to the global index of 118 points. It was followed by Qatar with 137 points, the UAE with 120 points, and Egypt with 116 points. HSBC noted that regional SMEs are increasingly looking at international trade for new markets and opportunities, with the majority of Qatari and Saudi Arabian SMEs reporting international activity.

Source: HSBC

Funding and other priorities are main obstacles to CSR initiatives

A corporate social responsibility (CSR) survey of 151 organizations in the Middle East indicated that over 90% of respondents considered that credible CSR programs can help companies build and maintain a strong reputation, as well as attract and retain the best employees. Also, over 80% said that CSR can attract new customers and foster innovation, and over 70% believed that CSR can help capture new markets and market share, as well as attract further investments. However, more than 50% of respondents said it is difficult to secure funding for CSR initiatives, 40% have other priorities, and 40% noted a low level of awareness about CRS issues, while 30% found it challenging to define what CRS means for their business.

Source: Sustainability Advisory Group

EMERGING MARKETS

Key obstacles to M&As activity are uncertain operating outlook, limited availability of financing, need to deleverage

Fitch Ratings indicated that the prospects for sustained economic growth remain too uncertain for companies in the Middle East & Africa (MEA) and in Central & Eastern Europe (CEE) to consider significant acquisitions and market diversification. As such, it said most emerging market corporates will likely continue to focus investment activities on organic growth. It indicated that the key drivers for mergers and acquisitions (M&As) in the CEE and MEA regions will be vertical integration, portfolio rationalization, consolidation, and distressed sales. It noted, however, that several factors are limiting the appetite and capacity of many CEE and MEA corporates to be more active in M&As, such as the uncertain operating outlook, the need for organic capital expenditures, shareholder expectations of cash dividends, a desire to strengthen liquidity and reduce leverage, as well the limited availability of financing.

Fitch noted that telecommunications will continue to be one of the main sectors of M&As activity, especially in Africa where further deals are anticipated. In addition, industrial corporate M&As across the Commonwealth of Independent States are being driven by vendors who are looking to sell stakes in their companies to service or repay debt. It added that the CEE region has seen a rising level of interest and activity in the consumer segment, with developed market corporates looking to position themselves in anticipation that consumption levels will rise in emerging markets. Fitch also expected the Russian oil and gas industry to experience acquisition activity, as Russian producers are keen to acquire assets in the CEE to improve their vertical integration. In parallel, it anticipated M&As activity in the Gulf Cooperation Council region to remain depressed despite the fact that some sizeable transactions have been concluded so far in 2010.

Source: Fitch Ratings

ALGERIA

Government policies to restrict expansion of non-oil economy

The Economist Intelligence Unit projected Algeria's economic growth at 4.5% in 2010 and 4% in 2011 compared to 2.2% in 2009. it said government spending has supported the economy in a difficult international environment, and expected the expansion of the civil service and increases in public-sector wages to continue. It added that higher oil prices will support further large-scale investment projects, demand and government consumption, and will help to counteract slower expansion in hydrocarbon exports resulting from sluggish European growth. It noted the significant change in policy towards foreign investors since July 2008, with the imposition of a tougher tax regime, ceilings on foreign ownership and restrictive measures that make it harder to import goods. It anticipated this trend to continue during 2010, although there may be some relaxing of the cap on foreign ownership. It added that the country's tax system remains over-complicated and lacks transparency and the labor market is overly rigid. It said that infrastructure investment will improve slightly, but will depend on the settlement of several high-profile corruption investigations. It considered that resistance to reforms from vested interests will continue to hamper progress in many areas, and major shortcomings linked to weak institutions, corruption and rent-seeking behavior will continue to depress Algeria's business climate. In parallel, regional investment bank EFG Hermes indicated that the government's investor-unfriendly policies will significantly hamper efforts to expand the non-hydrocarbon economy, as it limits the benefits of technology and know-how transfer, as well as restricts FDI. It added that investment will continue to be driven by higher public spending, with the government planning to spend $286bn over the next five years mainly on infrastructure and housing.

Source: Economist Intelligence Unit, EFG Hermes

ANGOLA

Growth to average 10.6% in 2010-11, key vulnerability is dependence on oil

Standard & Poor's projected economic growth in Angola at 12% in 2010 and 8.3% in 2011 compared to 2.7% in 2009, adding that prospects for the oil sector and the economy are positive. It said the economy's structure is constrained by its heavy reliance on oil, as the latter accounts for 95% of the country exports and more than half of its GDP. It noted that the country's oil dependence has inhibited the development of the non-oil economy, as oil sector-driven inflation has pushed the real effective exchange rate to a level that undermines non-oil export competitiveness. However, it noted efforts towards diversification, adding that the non-oil economy has been growing strongly, though from a low base. The agency indicated that the quality of macroeconomic governance in Angola is poor compared to similarly-rated countries, as it does not have a long track record of managing an oil economy. It noted that Nigeria, Venezuela, and Gabon have all amassed significant reserves and have sovereign wealth or reserve funds, while Angola is only now planning to set up such funds. S&P considered that Angola's vast oil wealth and relatively low population bode well for its future economic prospects. It said Angola has about 13 billion barrels of proven oil reserves and an estimated 26 trillion cubic feet of gas, reflecting continuing favorable economic prospects as long as steady production is maintained.

S&P indicated that government revenues are highly reliant on oil, with around 80% coming from oil- and oil-related activities, and that revenue flexibility is likely to remain low despite efforts to diversify the tax base, simplify tax rules, and strengthen revenue collection. It also noted the limited flexibility on the expenditures side due to reconstruction needs. But it expected Angola to still be able to finance its vast infrastructure needs and post a balanced budget. It forecast the fiscal balance to post a deficit of 0.5% of GDP in 2010 and a surplus of 0.5% of GDP in 2011 relative to a deficit of 9.6% of GDP in 2009. In parallel, S&P estimated that Angola's external finances are strong, while its key vulnerability is its heavy reliance on oil exports. It forecast the current account to post a surplus of 1.9% of GDP in 2010 3.4% of GDP in 2011.

Source: Standard & Poor's

SAUDI ARABIA

Government approves five-year $385bn development plan

The Saudi Council of Ministers approved its Ninth Development Plan (NDP) that carries an estimated cost of SAR1,444.6bn, or $385.3bn, over the 2010-14 period. The NDP aims to enhance citizens' standard of living and quality of life, upgrade labor force skills, ensure balanced regional development across the country, diversify the production base, and raise the competitiveness of the Saudi economy. The plan emphasizes the need to pursue economic, social, and institutional reforms, including transparency, accountability, and through improving the business environment. The NDP aims to realize average annual real GDP growth of 5.2% during the five-year period, compared with an annual average growth of 3.7% in 2005-09 and 3.1% in 2000-04. It also projects non-oil real GDP to grow by an annual average of 6.6% and foresees a decline in the share of the oil sector in GDP from 30% currently to 19.6% in 2014. Further, it expects gross fixed capital formation to grow by10.4% annually for the next five years, as well as a rise in net exports and a moderate growth in consumption, which would help increase average per capita GDP at constant prices by 15% to approximately SAR53,200 in 2014. The NDP budgets an average yearly spending of SAR289bn, representing a rise of 67% from a yearly average OF SAR173bn i 2005-09. It said most of the prospective funding will be concentrated in the social sectors, in line with the government's plan to expand and improve the quality of education and health services across the country. The financing requirements of the three major development sectors, human resources, social and health development, and economic resources, are set to increase by 111%, 135%, and 221%, respectively. The three sectors represent 85% of the planned allocation.

Source: Barclays Capital

IRAQ

Exim Bank to help mitigate country risk for U.S. exporters

The Export-Import Bank of the United States (Exim Bank) announced that it has opened an office in Iraq to help finance short-term and medium-term sales of U.S. exports to Iraqi buyers in both the public and private sectors. It noted that Iraq's economy is growing, offering specific opportunities for exporters in a variety of industries. The bank said it can provide export-credit insurance, loan guarantees and direct loans for creditworthy export sales to Iraq, and help reduce repayment risks. It also offers short-term insurance for transactions with repayment terms of 180 days or less, and up to 360 days for capital goods. It added that it is providing medium-term insurance, loan guarantees and loans for transactions with terms of up to seven years. Also, Exim Bank indicated that it may provide long-term support where there are financing arrangements that eliminate or externalize country risks, such as asset-backed financings and structures that earn revenues offshore in a third country.

Source: Export-Import Bank of the United States

KUWAIT

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Kuwait's Long-term foreign and local currency Issuer Default Ratings (IDR) at 'AA' with a 'stable' outlook. It also affirmed the Country Ceiling at 'AA+' and the short-term foreign currency IDR at 'F1+'. It estimated Kuwait's fiscal breakeven oil price at $32/bpd in 2010, lower than for either Saudi Arabia or Abu Dhabi, and at $46/bpd for the more expansionary 2011 budget but still below that of peers. It said that Kuwait's balance sheet is among the strongest of rated sovereigns, as debt is low and foreign assets were worth over $284bn, or 238% of GDP, at end-2009, which gives Kuwait the resources to absorb the most conceivable oil price shocks and inject capital or liquidity in the financial system if needed. It noted that NPLs rose to 9.7% of total lending at end-2009 and Tier 1 capital was 16.8%, but NPLs were only 57%-provisioned. The agency added that under a pessimistic scenario where loan losses intensify and NPLs reach 18.5%, some banks' capital could be eroded below 8% of risk-weighted assets, and government support could become necessary. But it considered as unlikely the need for further solvency support. In parallel, Moody's Investors Service revised the outlook to 'stable' from 'negative' on the government's 'Aa2' foreign and local currency bond ratings and on the 'Aa2' country ceiling for foreign currency bank deposits. It attributed the change to parliamentary approval for a long-awaited development plan and of structural reform legislation, as well as to Kuwait's strong fiscal and external performance relative to its peers despite some adverse effects from the global financial crisis.

Source: Fitch Ratings, Moody's Investors Service

JORDAN

Government to issue first sovereign bond

The Ministry of Finance announced that Jordan will issue $500m in Eurobonds, constituting the first Eurobond issuance for the country. The government plans to offer debt maturing in five years, and iss considering issuing either conventional or Islamic bonds, known as sukuk. It said proceeds from the issuance will help finane the fiscal deficit, as this will keep liquidity in the local market for the private sector. The ministry projects the fiscal deficit, including grants, at about JD1bn, or $1.4bn, which is equivalent to 6% of GDP. It said overseas grants increased by 65% to JD158m in the first half of the year. In parallel, Standard & Poor's expected Jordan's public debt to continue to rise in the absence of sufficient fiscal consolidation, adding that the government has little room to maneuver in terms of its fiscal flexibility in the years ahead. It forecast Jordan's fiscal deficits to remain relatively high until 2012, reflecting both structural and cyclical factors. S&P projected the primary balance to post an average deficit of 3.8% of GDP in 2009-2012, compared with a small primary deficit of 0.4% of GDP on average in 2002-08. As such, it anticipated the public debt to increase to 66% of GDP in 2011 before stabilizing at a relatively high 69% of GDP by 2012. It anticipated that primary balances will be only marginally above the level needed to stabilize the debt after 2009.

Source: Bloomberg, Standard & Poor's

EMERGING MARKETS

Ratings trend improve in second quarter

Fitch Ratings indicated that banks' ratings in emerging markets improved in general, with Emerging Europe remaining impacted region from the Greek sovereign crisis. The agency said rating actions for emerging market banks regressed to 43 in the second quarter of 2010 from 86 in the first quarter and 64 in the same quarter last year. It added that there were 33 positive rating actions in the second quarter of 2010, constituting a decline from 79 in the first quarter of the year and 9 in the second quarter of 2009. In parallel, there were 10 negative rating actions in the second quarter, up from 7 in the first quarter and down from 60 in the second quarter of 2009. Further, there were 38 'negative' outlooks on emerging market bank ratings in the second quarter of 2010, down from 51 in the first quarter, and 126 in the same quarter last year. In parallel, the number of 'positive' outlooks increased to 19 in the second quarter from 4 in the first quarter, and 3 in the same quarter last year. Fitch said the ratio of 'positive' to 'negative' actions in emerging markets was +3.3 in the second quarter, down from +11 in the first quarter, but significantly up from -15 in the same quarter last year. It noted that 80% of bank outlooks in emerging markets remain at 'stable' and 10% at 'negative'. In Emerging Europe, 68% of outlooks are 'stable', 18% are 'negative' and 1% is 'positive', while 95% of outlooks in the Middle East & Africa are 'stable' and 5% are 'negative'. Also, 92% of outlooks in Emerging Asia are 'stable', 4.4% are 'negative' and 1.1% is 'positive'. It added that there were 14 rating upgrades and 8 downgrades in the second quarter, compared to 13 upgrades and 4 downgrades in the previous quarter and to one upgrade and 26 downgrades in the same quarter last year.

Source: Fitch Ratings

SUDAN

IMF calls for additional financial reforms

The International Monetary Fund indicated that Sudan's authorities have made progress in strengthening the financial sector, but noted the need for further efforts.

It said authorities have taken steps to improve the legal and regulatory framework, including in the areas of provisioning, risk management, and corporate governance. It also welcomed their renewed emphasis on increasing enforcement of prudential regulations by taking prompt corrective actions in cases of shortfalls. It encouraged authorities to continue taking measures to reduce NPLs, and to increase provisioning and capital. It also urged authorities to continue their efforts to enhance financial intermediation, including through developing non-bank financial institutions by putting in place an appropriate legal and supervisory framework. It stressed the need to modernize the insurance sector, develop the thin securities markets, and promote microfinance. It noted the need to further improve the operation of the credit information bureau. Also, the Fund identified other reforms priority such as improving further banking supervision and inspection and their enforcement; adopting and enforcing international best practice accounting and audit standards; and rehabilitating Omdurman National Bank.

Source: *International Monetary Fund*

NIGERIA

Parliament blocks anti-money laundering law

The Nigerian House of Representatives has suspended indefinitely the ratification of two bills on anti-money laundering and combating the financing of terrorism (AML/CFT), despite calls by the president to pass the bills so that the country can comply with commitments made earlier this year to the Financial Action Task Force (FATF) and the international community. A key point of contention included in the legislation stipulates that all cash transactions at banks in amounts over NGN 500,000, or $3,325 for individuals and NGN 1m for corporations should be reported to Nigeria's Financial Intelligence Unit. However, a change to that provision to NGN 5m for individuals and NGN 10m for corporations did not resolve the legislative impasse. The FATF recently indicated that Nigeria made progress in improving its AML/CFT regime since it made a high-level political commitment last February to work with the FATF and the FATF-style regional body GIABA. But it considered that certain strategic AML/CFT deficiencies remain. It called on Nigeria to adequately criminalize money laundering and terrorist financing; implement adequate procedures to identify and freeze terrorist assets; ensure that relevant laws or regulations address deficiencies in customer due diligence requirements and that they apply to all financial institutions; and demonstrate that AML/CFT supervision is undertaken effectively across the financial sector.

Source: Daily News, allAfrica.com, Financial Action Task Force

GHANA

Assets grow by 27% to $10bn at end-May 2010

The total assets of commercial banks operating in Ghana reached $10.2bn at the end of May 2010, constituting an increase of 27.1% year-on-year,. Credit to the private sector rose by 3.2% in nominal terms but fell by 3.4% in real terms year-on-year, reaching $4.1bn at end-May 2010. Also, the sectoral distribution of the loan portfolio shows that services accounted for 23.4% of total loans, followed by manufacturing and trade & finance with 14% each, and construction with 10%. Further, the sector's non-performing loans reached 18.7% of total gross loans at end-May, up from 11% in May 2009, but down from 20% in February 2010; while the risk-weighted capital adequacy ratio of banks reached 19.2% at end-May 2010, up from 14.5% a year earlier. In parallel, the average base rate quotations declined by less than 3% in the first half of 2010 to 28.7%, ranging between 24.7%–29.5%; while the average lending rates regressed by less than 1% to 31.8%, ranging between 23.5%–35% over the same period. Consequently, banks widened their spreads by 2.3% during the same period. Further, credit conditions showed a general net tightening of credit to small and medium sized enterprises and households for mortgages. Loans were tightened through increases in margin for riskier loans and security and collateral requirements. However, large enterprises benefited from a marginal ease in banks' credit stance. Decreases in margins on average loans and maximum size of credit lines were the main contributing factors for the easing of the credit stance for large enterprises.

Source: Bank of Ghana

ENERGY / COMMODITIES

Oil steady above $75 on strong dollar pressures

Oil prices remained steady above $75 per barrel due to strong dollar pressures and high U.S. petroleum inventories. U.S. crude for September fell 11 cents to $75.31 a barrel while ICE Brent fell 18 cents to $76.29 a barrel. Prices are close to this year's mid-point of the $64 to $87 trading range. The U.S. benchmark reached a six-week low at $73.83 a barrel after U.S. petroleum stockpiles increased to a 20-year high last week. Prices recorded around the OPEC's $70 to $80 range after the group relaxed compliance with 2008 production cuts. U.S. commercial crude and product inventories rose last week to the highest level since the U.S. government began tracking weekly data in 1990. The Energy Information Administration stated that total commercial crude and product stocks rose to 1.13 billion barrels in the week to August 13, above the previous weekly record high of 1.13 billion barrels set in September 1990. The rise in total commercial stocks came even as domestic crude stocks fell 818,000 barrels and gasoline by 39,000 barrels. Distillate stocks rose 1.1 million barrels, their 12th consecutive weekly increase. Inventories at Cushing in Oklahoma fell by 687,000 barrels to 37 million barrels.
Source: Thomson Reuters

Global oil demand on the rise

Global oil demand rose by 4.4 million barrels per day in the first half of 2010, of which 2.3 million barrels per day was from China and 0.7 million barrels per day was from the Middle East. OECD demand rose only by 0.2 million barrels per day as a decline in Europe was offset by increases in North America and Asia. Oil demand growth is expected to be weaker in the second half of 2010, where apparent demand growth dropped to 10.5% in June 2010 from a high of 24.2% in January. OPEC's price objectives may be edging higher than the previously implied $70 per barrel to $80 per barrel range given the global economy's apparent resilience to prices at these levels and a weakening U.S. dollar. WTI forecast prices are expected to increase from $80 per barrel in the third quarter of 2010 to $88 per barrel in the fourth quarter of 2010 due to improving confidence in global economic prospects for 2011 and some seasonal tightening of supply-demand balances.
Source: Standard Chartered

Iran to offer $3bn bonds to fund gas fields

Iran is planning to offer a $3bn domestic bond issue to fund the development of its South Pars gas fields. The funds will be raised in six stages during 2010 to March 2011. Apart from the domestic offering, Iran plans to issue international bonds of €2bn as part of an overall €3bn bond planned in 2010. Iran plans to invest $200bn in the energy sector over a five-year period to 2015. Iran, the second largest oil exporter of OPEC, also has the world's second largest natural gas reserves after Russia. The development of South Pars has been held back due to a lack of investment and technology as Western firms have either pulled out or delayed their commitments since new sanctions were imposed on the country over its nuclear program.
Source: AFP

Base Metals: Zinc surplus expands

Zinc prices fell due to excess supply which continued to build up over the last three months. Three-month LME zinc held below $2,000 per ton from mid-May to mid-July, reaching $1,580 per ton on early June. Prices have rebounded by 15% since late July on improving sentiment towards the base metals complex. LME stocks rose from 18 days of use in mid-May to 20 days in early August. The continued build-up of LME inventory indicates that the global zinc surplus has been expanding.

In parallel, global zinc output continued to post strong growth of 19% as new output capacity outside China reached full levels. Globally, consumers are trying to destock but the process is going slowly due to declining demand and the uncertainty about China's ability to absorb the surplus. The recent rise in prices is expected to end in the near term due to the summer holiday period. However, prices are projected to increase in the fourth quarter of 2010 when restocking in China resumes.
Source: Standard Chartered

Global Zinc Outlook

(kilo tons)	2007	2008	2009	2010f	2011f
Refined supply	11,219	11,555	11,267	11,717	12,186
(% change)	5.5	3.0	-2.5	4.0	4.0
Refined demand	11,202	11,146	10,365	11,402	12,200
(% change)	1.5	-0.5	-7.0	10.0	7.0
Balance	17	410	901	315	-14
Reported stocks (end-period)	798	1,208	2,109	2,425	2,411
Three-month price ($/ton)	3,249	1,896	1,690	2,132	2,300

Source: CRU, Standard Chartered

Precious Metals: Gold prices supported with concerns over economic growth

Gold held near $1,230 an ounce as concerns over economic growth supported prices. After prices declined in the past weeks, financial markets returning into "risk-off" mode supported them this week. A variety of economic disappointments made market participants believe that the actual condition of the world might be weaker than expected. "Risk off" was triggered by the U.S. Federal Reserve announcing slowing economic growth, which suppressed bond yields. News supporting gold came from China where production was below expectations. Also, weaker Greek growth figures and surging Irish bond yields supported prices.

Volatility is likely to stay high and "risk off" may be switched to "risk on" with a reverse effect on gold. Unless a major unexpected shock occurs, gold prices are not expected to trade significantly higher. Over the long-term, the problems that led to the gold rush of earlier this year have not been eliminated, such as high government deficits in Europe, continued mortgage-debt problem in the U.S., concerns over China's growth, and the level of "hidden inflation" in official figures worldwide.
Source: Julius Baer, BullionVault

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	- -	- -	- -	- -	BB Stable	-7.9	20.0	2.7	5.9	3.0	-	-2.4	0.9
Angola	B+ Stable	B1 Positive	B+ Positive	- -	B Stable	-1.9	20.2	21.2	39.7	9.5	116.6	-9.5	5.0
Egypt	BB+ Stable	Ba1 Stable	BB+ Stable	BBB- Stable	BB Stable	-7.0	73.2	16.8	43.9	10.2	107.7	-2.4	3.6
Ethiopia	-	-	-	-	CCC Stable	-2.3	-	12.2	220.5	-	-	-6.7	-
Ghana	B+ Negative	- -	B+ Negative	- -	B Stable	-9.8	-	34.5	94.7	-	-	-8.3	
Ivory Coast	- -	- -	- -	- -	CCC Stable	-1.6	-	49.4	107.6	-	-	7.3	-
Libya	A- Stable	- -	BBB+ Stable	- -	BB Stable	1.8	3.9	8.6	16.0	3.4	-	13.9	2.2
Mauritania	- -	- -	- -	- -	- -	-5.1	-	6.7	149.3	-	-	-12.7	-
Morocco	BBB- Stable	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-3.1	47.2	26.8	95.5	8.6	113.7	-5.0	1.5
Nigeria	B+ Stable	- -	BB- Stable	- -	B Stable	-4.4	12.3	5.5	18.5	0.7	-	12.4	3.1
Sudan	- -	- -	- -	- -	C Stable	-2.6	105.3	66.3	482.4	3.6	-	-5.2	-
Tunisia	BBB Stable	Baa2 -	BBB Stable	BBB Stable	BB Stable	-1.9	46.7	55.4	105.6	15.8	208.3	-2.8	3.9
Middle East													
Bahrain	A Stable	A2 -	A Stable	A Stable	BBB Stable	-5.2	24.2	169.6	246.4	7.2	991.9	1.4	0.8
Iran	- -	- -	B+ Stable	BB- Stable	B Stable	-0.9	17.0	3.5	13.4	3.2	-	0.1	0.25
Iraq	- -	- -	- -	- -	CC Stable	-4.6	-	97.7	178.7	2.2	165.3	2.1	1.4
Jordan	BB Stable	Ba2 -	- -	BB Stable	B Stable	-8.9	63.5	63.1	135.2	4.6	133.1	-5.5	10.1
Kuwait	AA- Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	15.4	6.9	20.7	38.8	4.0	133.0	25.3	-2.6
Lebanon	B Positive	B1	B Stable	B Stable	CCC Stable	-8.6	136.3	100.6	738.9	18.5	135.3	-10.8	8.0
Oman	A Stable	A2 -	- -	A Stable	A Stable	-9.1	6.5	28.1	46.9	-	109.1	0.6	4.3
Qatar	AA- Stable	Aa2 Stable	- -	AA- Stable	A Stable	10.4	32.4	74.9	202.7	15.2	412.0	14.3	8.8
Saudi Arabia	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	BBB Stable	1.1	13.2	22.5	42.7	2.7	20.2	4.9	5.4
Syria	- -	- -	- -	- -	B Stable	-9.4	30.1	15.0	63.6	1.0	43.3	-0.6	2.6
UAE	- -	Aa2 -	- -	AA- Stable	BB Stable	0.4	21.3	61.8	74.1	7.9	359.0	-2.6	-0.4
Yemen	- -	- -	- -	B Stable	CC Stable	-10.3	-	23.6	113.8	-	-	-8.2	

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	-	-	-8.2	40.4	55.7	654.2	-	248.4	-15.4	8.0
Bulgaria	BBB	Baa3	BBB-	-	BB								
	Stable	Stable	Stable	-	Stable	-3.8	14.8	77.3	159.8	19.8	220.1	-9.4	9.8
Kazakhstan	BBB-	Baa2	BBB-	-	BB								
	Stable	-	Negative	-	Stable	-3.9	9.3	94.7	230.8	40.1	553.7	-2.9	8.1
Romania	BB+	Baa3	BB+	BBB-	BB								
	Negative	-	Stable	Negative	Stable	-8.3	23.7	68.1	226.6	29.9	279.7	-4.5	3.8
Russia	BBB	Baa1	BBB	-	BBB								
	Stable	Positive	Stable	-	Stable	-5.7	7.1	38.3	136.3	11.6	110.9	4.0	-0.6
Turkey	BB	Ba2	BB+	BB	B								
	Positive	Stable	Stable	Stable	Stable	-5.5	45.5	45.1	194.5	45.1	400.1	-2.8	1.2
Ukraine	B+	B1	B	-	CCC								
	Stable	Positive	Negative	-	Stable	-6.4	30.2	88.6	191.1	43.9	407.9	-1.5	4.0

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	10-Aug-10	No change	21-Sep-10
Eurozone	Refi Rate	1.00	05-Aug-10	No change	02-Sep-10
UK	Bank Rate	0.50	05-Aug-10	No change	09-Sep-10
Japan	O/N Call Rate	0.10	10-Aug-10	No change	07-Sep-10
Australia	Cash Rate	4.50	03-Aug-10	No change	07-Sep-10
New Zealand	Cash Rate	3.00	29-Jul-10	Raise 25bps	16-Sep-10
Switzerland	3 month Libor target	0.25	17-Jun-10	No change	16-Sep-10
Canada	Overnight rate	0.50	20-Jul-10	Cut 25bps	08-Sep-10
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	10-Aug-10	No change	21-Sep-10
Taiwan	Discount Rate	1.38	24-Jun-10	Raise 12.5bps	Sept-10
South Korea	Base Rate	2.25	12-Aug-10	Raise 25bps	09-Sep-10
Malaysia	O/N Policy Rate	2.75	08-Jul-10	Raise 25bps	02-Sep-10
Thailand	1D Repo	1.50	14-Jul-10	Raise 25bps	25-Aug-10
India	Reverse repo rate	5.75	27-Jul-10	Raise 25bps	Sep-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	7.00	15-Jul-10	Raise 50bps	19-Aug-10
South Africa	Repo rate	6.50	22-Jul-10	No change	09-Sep-10
Kenya	Central Bank Rate	6.00	28-July-10	Cut 75bps	Sep-10
Nigeria	Monetary Policy Rate	6.00	05-Jul-10	No change	Sep-10
Ghana	Prime Rate	13.50	16-Jul-10	Cut 150bps	Sep-10
Angola	Rediscount rate	30.00	16-Jun-10	No change	N/A
Mexico	Target Rate	4.50	16-Jul-10	No change	N/A
Brazil	Selic Rate	10.75	21-Jul-10	Raise 50bps	01-Sep-10
Armenia	Refi Rate	7.25	10-Aug-10	No change	N/A
Romania	Policy Rate	6.25	04-Aug-10	No change	N/A
Bulgaria	Base Interest	0.17	01-Aug-10	Cut 1 bps	N/A
Kazakhstan	Refi Rate	7.00	01-Jul-10	No change	N/A
Ukraine	Discount Rate	7.75	08-Jul-10	Cut 75bps	N/A
Russia	Refi Rate	7.75	23-Jun-10	Cut 25 bps	N/A

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Karada - Salman Faeq Street
Facing Al Sheruk Building
P.O.Box: 3085 Al Elweyah - Iraq
Phone: (+ 964) 1 7177493
(+ 964) 1 7177294
E-mail: aabdelkader@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+ 971) 2 6338400
E-mail: byblosbankuae@byblosbank.com

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 37500 - Republic of Armenia
Phone: (+ 374) 10 530 362
Fax: (+ 374) 10 535 296

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433 / 4 / 5
Fax: (+ 357) 25 367139
E-mail: bybloscyprus@byblosbank.com

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+32) 2 551 00 20
Fax: (+32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+44) 207 493 35 37
Fax: (+44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+249) 183 566 444
Fax: (+249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC
4, Avenue du Marche
C/Gombe, Kinshasa, Democratic Republic of Congo
Phone: (+ 243) 817 070701
(+ 243) 991 009001
E-mail: melamm@byblosbank.com.lb