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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global trade grows by 26% in first half of 2010

The World Trade Organization indicated that global merchandise trade reached $14,352bn in the first half of 2010, constituting an increase of 26% from the same period last year. It said world exports rose by 26.7% year-on-year to $7,122bn and global imports reached $7,230bn in the first half of this year, up 25% from the same period last year. It noted that exports from Europe totaled $2,692bn, up 15.4% year-on-year. Exports from the 27-member European Union totaled $2,460bn, with intra-EU trade rising 13.3% to $1,627bn and extra-EU trade increasing by 19.3% to $833bn. Further, exports from Asia totaled $2,337bn, up 36% year-on-year, and exports from North America grew by 26% to $943bn. Also, exports from the Commonwealth of Independent States rose by 48.4% to $270bn, and those from South & Central America increased by 26% to $270bn, while exports from the Middle East & Africa rose by 35% year-on-year. In parallel, Imports to Europe totaled $2,794bn in the first half of the year, up 15.4% from the same period last year, as imports to the EU reached $2,557bn, up 15% year-on-year. Asian imports rose 41.4% to $2,278bn, those to North America increased by 27% to $1,265bn, while imports to South & Central America improved by 27% to $258bn and those to the CIS increased by 21% to $175bn. Imports to the Middle East & Africa improved by 10% year-on-year.

Source: World Trade Organization

Emerging markets' share of corporate bond issuance on the rise

Standard & Poor's indicated that global corporate bond issuance totaled $1,343bn in the first 7 months of 2010, including $831bn in investment grade, $159bn in speculative grade, and $355bn in unrated bonds. It said bond issuance in Europe totaled $576bn, followed by the United States with $388bn, Asia-Pacific with $296bn, Latin America with $42bn, Canada with $14bn, and Eastern Europe, the Middle East & Africa (EEMEA) with $14bn. It noted that the United States accounted for 27.6% of global bond issuance in the first 7months of 2010, down from 29.5% in 2009, and Europe represented 41% of the total in the covered period relative to 44.3% last year. In contrast, the share of issuance from emerging markets increased this year, as Asia-Pacific's share was 21.1% of the total relative to 19.6% in 2009, Latin America accounted for 3.1% year-to-July compared to 1.8% last year, and the EMEA region accounted for 2% year-to-July, up from 1.1% in 2009. The agency noted that new issuance rated at the 'B' level increased to more than 6% of total issuance in 2010 from just 2.75% in 2009 and 0.84% in 2008, reflecting investors' increasing comfort in lending to less creditworthy entities in exchange for better yields. S&P attributed the surge in bond issuance this year to strong investor demand for corporate debt at the investment- and speculative-grade levels, which companies to raise funds in order to expand their businesses, refund or pre-fund debt, or even undertake dividend recapitalizations. It added that expectations for a prolonged and sluggish economic recovery, or even another downturn, as well as the rising cost of borrowing have encouraged many entities to tap the bond markets for extra liquidity.

Source: Standard & Poor's

EMERGING MARKETS

Region's rated issuers account for 19% of global issuers, speculative-grade entities at 54% of total

Standard & Poor's indicated that the number of rated issuers from emerging markets reached 1,105 entities at the end of June 2010, accounting for 19.4% of the global pool of rated issuers. It said Eastern Europe, the Middle East & Africa accounted for 37% of emerging market rated issuers, followed by Latin America with 36%, and Asia with 28% of the total. It added that speculative-grade entities accounted for 54% of the total compared to 66.5% in 2001. The agency noted that 498 issuers, or 45% of the total, are in the financial sector; and 607, or 55%, in non-financial sectors. Further, 42% of financial firms and 64% of non-financial entities carried speculative ratings. S&P said the ratings on 96% of the emerging market entities were unchanged in the first half of 2010, while it downgraded 0.93% and upgraded 0.83% of the total. Also, 0.19% of entities defaulted and 2% had their ratings withdrawn year-to-June. S&P also downgraded about 2.4% of investment-grade entities and 4.3% of speculative-grade entities in the first half of 2010.

Source: Standard & Poor's

MENA

Equity markets up 2% in first 8 months of 2010

Arab stock markets increased by 2.1% and GCC markets grew by 2.3% in the first 8 months of 2010 compared to a rise of 20% in same period last year. Arab and GCC equity markets retreated by 0.6% and 0.4%, respectively, in August 2010. Activity on the Damascus stock exchange increased by 58% during the covered period, posting the best performance among Arab markets due to strict limits on share price movement. It was followed by the Tunis equity market with an 24% increase, the Casablanca stock market with a 12.4% improvement, the Saudi exchange with a 2.7% growth, the Doha equity market with a 3.8% rise, and the Egyptian stock exchange with a 3.2% growth. In parallel, the Dubai financial market dropped by 17.7%, posting the worst performance among Arab stock markets year-to-August. It was followed by the Amman stock market with an 11.2% decline, the Beirut Stock Exchange with a 9.4% decrease, the Iraqi stock exchange with an 9.3% downturn, the Abu Dhabi market with a 9% contraction, the Kuwait bourse with a 4.5% drop, the Bahrain stock market with a 2.7% retreat, the Muscat exchange with a 1.8% regression, the Saudi bourse with a 0.25% contraction, and the Palestine equity market with a 0.2% decline. In comparison, emerging market equities regressed by 2% and global equities decreased by 6.8% in the first 8 months of the year. They declined by 2.2% and 2.7%, respectively, in August 2010.

Source: Local stock markets, Byblos Research

POLITICAL RISK OVERVIEW - AUGUST 2010

ALGERIA

Al-Qaeda in the Islamic Maghreb (AQIM) reported to have an executed customs officer taken prisoner after killing 11 police officers near southern border with Mali. Four security guards were injured in two bomb attacks targeting the Trans-Mediterranean gas pipeline. Several terrorists were killed during August, including at least eight AQIM members killed by security forces in eastern Kabylie region.

ARMENIA

Armenian Defense Minister Seyran Ohanian announced that Armenia intends to acquire long-range precision weapons due to the risk of war with Azerbaijan over the Nagorno-Karabakh region. The Armenian and Russian presidents signed on August 20 a military agreement extending the Russian military presence in the country in return for security guarantees, which drew criticism from Armenian opposition.

DEM REP CONGO

The Democratic Republic of Congo saw clashes between the army and rebels in the East, where a leak of the draft UN report detailed massive violations of human rights and possible genocide between 1993 and 2003. In North Kivu, at least 179 women were raped by FDLR and Mai Mai militia occupation of Luvungi and at least three other villages. Over 50 suspected Mai Mai rebels attacked MONUSCO base on August 18 at Kirumba where three peacekeepers were killed and seven were injured. Heavy fighting occurred in Ituri district of Province Orientale between FARDC and Popular Front for Justice in Congo.

EGYPT

Officials alleged that Palestinians from Gaza that the Sinai Peninsula through tunnels and launched five rockets at Jordan and Israel, killing one and injuring five in the Jordanian port of Aqaba, but Hamas spokesman denied the claims. Security forces in Sinai seized on August 30, 100 kg of high explosives and 250 anti-aircraft missiles bound for Gaza.

IRAN

Iran started the Russian-built and supervised Bushehr nuclear plant on August 21, the country's first reactor. U.S. Chairman of Joint Chiefs of Staff Michael Mullen stated that the U.S. has a plan to attack Iran if necessary. Also, the U.S. announced further sanction measures on August 3rd. Iran stated that it will start building 10 uranium enrichment sites in March 2011 and signed a new law requiring the government to continue the 20% uranium enrichment. President Mahmoud Ahmadinejad said that Iran is ready for immediate nuclear fuel swap talks and would stop the 20% uranium enrichment if it receives fuel supply for its research reactor. The press was banned from publishing news on opposition leaders. Three judiciary officials were suspended on August 15 over mistreatment of prisoners following the disputed June 2009 elections. An sssassination attempt against Ahmadinejad was reported on August 4 but denied by state media.

IRAQ

U.S. President Barack Obama announced on August 31 the official ending of U.S. combat operations in Iraq. At least 50 people were killed during coordinated bombings and gun attacks on August 25 which were targeting security forces across the country. The attacks were claimed by the Islamic State of Iraq linked to Al-Qaeda. According to the Al-Qaeda affiliate, at least 46 citizens were killed in a suicide bomb at an army recruitment center on August 17 and two judges were killed in targeted attacks on the same day. Negotiations about a unified government in Iraq continued to be complicated. The Iraqi National Alliance ended their negotiations with Nour al-Maliki's State of Law.

MOROCCO

The appellate court upheld a life sentence for al-Qaeda associate Abdelkader Belliraj on July 16 who was convicted along with 35 other defendants for plotting terror attacks in Morocco, robberies in Europe and other crimes. King Mohammed called for improved relations with Algeria and reiterated his desire to work for reconciliation and solidarity between the two countries.

SUDAN

Tensions and violent confrontations persisted in Darfur IDP camps between opposing groups. The conflict led to eight people dead, dozens injured and thousands of refugees in UNAMID base. In response to UN’s refusal to hand over six IDPs accused of initiating violence, the government blocked humanitarian access to main the Kalma camp in South Darfur housing 90,000 IDPs. President Omar al-Bashir threatened to expel UNAMID if it delays the work of the authorities. During his visit to southern Sudan on August 21, U.S. representative Scott Gration assured that the U.S. will support the credible on-schedule referendum.

SYRIA

The U.S. representative of the International Atomic energy Agency claimed on August 3 that the agency is expected to begin special inspection of suspected arms sites in Syria. Israel charged three men to spy in the Syrian territories, but Foreign Minister Walid Muallem wrote a letter to UN Secretary General Ban Ki-moon saying that accusations were untrue. Reports emerged some months ago revealing new military cooperation between Hezbollah and Syria.

UKRAINE

President Viktor Yanukovych called for reform of constitution to strengthen presidential powers. Journalist Vasyl Klymentyev, a well known critic of authorities, was reported missing on 12 August after receiving threats. The Interior Minister stated that security forces were suspected of involvement in the case.

YEMEN

The Yemeni government announced that the army reacquired the southern town of Loder after several days of fighting following the killing of 11 soldiers in al-Qaeda ambush. At least 19 militants and three civilians were killed on August 24 and security officials said that nearly 80,000 civilians evacuated from the town. Al-Qaeda suicide bomber injured eight soldiers in southern city of Dalea. Seven people were killed on August 24 in fighting between Northern Shiite rebels and pro-government tribesmen. Government and Northern Houthi rebels signed Qatari-mediated accord in Doha and sides agreed to start political dialogue and strengthen ceasefire.

Source: International Crisis Group

UAE

Dubai problems to continue restraining growth, debt at 190% of GDP

Merrill Lynch projected real GDP growth in the UAE at 1% in 2010 and 2% in 2011 compared to a contraction of 1.4% in 2009. It considered that the UAE will continue to lag the rest of the GCC's economic growth given the Dubai World (DW) restructuring and heavy debt service schedule in the short to medium-term, as well as lower oil prices due to global double-dip concerns. It noted that while Abu Dhabi's non-oil sector will continue to grow relatively rapidly, there are numerous channels of contagion from Dubai such as consumer and business confidence, investment and spending plans, asset markets, and repercussions of financial intermediation extended to Dubai entities. Merrill Lynch expressed concerns about recent disclosures that push DW's debt, including all subsidiaries, to $52.9bn compared with the previous estimate of $26bn. As such, it revised upwards its estimate of total publicly-held Dubai debt at $136.2bn, up from an earlier estimate of $109.3bn in June. It said the new figure is equivalent to 170% of Dubai's GDP and excludes trade and customer liabilities across Dubai Inc. It added that when taking into account Nakheel's trade and customer liabilities, Dubai's total liabilities increase to a minimum of $150bn, or almost 190% of GDP.

Further, Merrill Lynch estimated that Dubai World has a funding gap of between $4bn and $8bn at the present values of its assets. It considered that the projected future asset values at the end of the requested 5-8 year standstill of $15.1bn-$19.4bn to be optimistic, as it would imply an annualized total return of 10% over an 8-year horizon, which looks unlikely in a global deflationary environment. It said the large implied funding gap is likely to lead to renewed pressures on Dubai and ultimately on Abu Dhabi through implicit support and increased external issuance. It viewed DW's debt restructuring as only a small part of Dubai's debt problem, as the global outlook does not help it to grow out of its debt overhang in the near term. It noted that even if the DW restructuring is completed successfully, Dubai Inc. still needs to service $20bn in 2011 and $17bn in 2012, which means that further restructuring of other Dubai Inc. entities, such as Dubai Holding, looks inevitable.

Source: Merrill Lynch

AFRICA

Continuing reforms to mitigate external shocks and support growth

Standard & Poor's indicated that the economies of Sub-Saharan Africa (SSA) are in a better position to deal with current shocks than they were a few years ago, due to the implementation of structural reforms and better macroeconomic and fiscal management. It considered, however, that the region faces challenges that have the potential to derail the economic recovery. It said the first challenge consists of widening or continuing fiscal imbalances and increasing government debt. It noted that SSA governments have generally let automatic stabilizers work or operated a countercyclical response to the downturn, but the risk exisits that governments might allow fiscal deficits to persist or continue to widen. It said this risk would be heightened in the event of either a slower-than-expected global recovery or a double-dip global recession. Second, it said an increase in risk aversion could disrupt the external financing channel for some SSA sovereigns through short-term portfolio inflows, as increased market concern regarding sovereign debt in developed countries led to rising investor risk aversion in the first half of 2010. But it added that such a scenario would more likely affect the bigger absorbers of portfolio inflows in the region. Third, it noted that the response of multilateral lenders following the crisis was quick and supportive, and expected a similar response should SSA sovereigns face a second round of externals shocks. But it noted that the outlook for bilateral aid is less certain given the fiscal constraints plaguing key donors. Fourth, it considered that the decline in oil prices was a timely reprieve for SSA oil importers. But oil prices have recovered substantially since the second half of 2010, and further gains could start having an effect on fiscal balances as governments attempt to reduce the shock by raising subsidies on the domestic consumption of oil derivatives. A such, it encouraged SSA governments to continue imlpementing economic and institutional reforms that provide a broader base for economic growth and enhance resilience in the face of external shocks.

Source: Standard & Poor's

SAUDI ARABIA

Non-oil growth at 4.3% in 2010, key challenge is job creation

The International Monetary Fund projected economic growth in Saudi Arabia at 3.7% in 2010 compared to 0.6% in 2009. It estimated non-oil real GDP growth at 4.3% this year relative to 3.8% last year, and oil growth at 2.3% this year compared to a contraction of 6% last year. It said the outlook for the economy is positive although vulnerabilities remain, with the key risk being a sharp decline in oil prices. It added that non-oil GDP activity will be supported by an expansionary fiscal stance and a pick-up in credit. It forecast the fiscal balance to post a deficit of 1.2% of GDP in 2010 relative to a deficit of 6% of GDP in 2009, and for the non-oil primary balance to post a deficit of 71% of non-oil GDP relative to a deficit of 69% of non-oil GDP in 2009. The Fund supported the authorities' plans to unwind the fiscal stimulus and return spending growth to sustainable levels once economic growth becomes self-sustaining. It also forecast the current account to post a surplus of 6.7% of GDP this year relative to 6.1% of GDP last year.

The IMF forecast inflation at 5.2% in 2010, reflecting persistence in rent and food inflation, and an expansionary fiscal and accommodative monetary stance. It expected inflation to gradually decline after 2010, in line with the anticipated rise in global interest rates and the gradual exit from the fiscal stimulus. It considered that monetary policy should continue to carefully balance supporting economic activity and controlling inflation, adding that excess liquidity will need to be absorbed in case inflationary pressures emerge. The Fund considered that Saudi Arabia's main medium-term challenge is to create jobs for a fast growing population through high and sustainable growth in the non-oil sector, which will require a multifaceted approach with structural reforms in various sectors of the economy.

Source: International Monetary Fund

ECONOMY & TRADE

GCC

Corporate profits up 13% to $22bn in first half of 2010

Figures released by the Kuwait Financial Center show that the profits of listed companies in the GCC reached $22bn in the first half of 2010, constituting an increase of 12.6% from the same period last year. Aggregate profits reached $10.7bn in the second quarter of the year, down 6% from the previous quarter and 7% from the same quarter last year. The figures exclude the one-time divestiture gains of $2.9bn by telecom operator Zain. It said Saudi Arabia and Kuwait accounted for 56% of GCC earnings in the first half and for 58% of profits in the second quarter, mainly due to rising petrochemical and commodity prices. Profits in Saudi Arabia rose by 42% in the first half of the year, followed by Kuwait with a 24% rise, and Bahrain with 5% increase; while earnings in Qatar were flat during the covered period, and declined by 12% in the UAE and by 18% in Oman. Further, Saudi Arabia's corporate profits rose by 14% in the second quarter of the year from the previous quarter and by 25% from the same period last year. In parallel, the UAE's corporate earnings dropped by 34% quarter-to-quarter and by 36% from the second quarter of last year; Kuwait's earnings fell 29% quarter-to-quarter and 44% year-on-year; Bahrain's profits dropped by 13% quarter-to-quarter but increased by 30% from the same quarter last year; and Oman's income regressed by 3% quarter-to-quarter and by 19% from the same period last year; while Qatar's earnings were flat in the second quarter and down 6% from the second quarter of 2009.

Source: Kuwait Financial Center

JORDAN

Debt level sustainable only with reforms

The World Bank indicated that Jordan can keep its public debt on a sustainable path if it continues to implement fiscal adjustment measures. It said the level of public debt declined significantly in 2008 by over 10 percentage points to 62.4% of GDP due to the Paris Club debt buyback as well as rapid nominal GDP growth, but noted that it rose to 66.8% of GDP by end-2009. It said the composition of the public debt has changed in 2009, with domestic debt amounting to around 65% of the total from 61% in 2008, and with short term domestic debt representing more than 70% of the increase in total debt. It said the net debt ratio remained at around the 60% ceiling envisaged under the public debt law. The World Bank added that authorities took some actions to contain expenditures in 2009, especially in the face of much weaker-than-expected revenue performance and grants. Further, the 2010 budget includes a significant reduction, equivalent to 6% of GDP, in public expenditures, particularly capital expenditures. Also, the government is planning to consolidate current expenditures through controlling wages and salaries and reducing or eliminating compensation transfers introduced mainly in 2008. It noted that stronger discipline in fiscal policy and keeping debt growth below the rate of growth of the economy would put the debt ratio on a downward path by 2012.

Source: World Bank

GHANA

Sovereign ratings downgraded on unrealistic fiscal targets

Standard & Poor's lowered Ghana's 'B+' foreign currency and 'B+' local currency long-term sovereign credit ratings to 'B', with a 'stable' outlook. It also lowered the transfer & convertibility assessment to 'B+' from 'BB-' and the recovery rating to '4' from '3'. It attributed the downgrade to the cumulative effects of a large fiscal deficit, substantial supplier arrears, high debt levels, loss-making state-owned enterprises, and problems in the banking sector. It also expressed concerns about the lack of clarity in oil sector regulations and in the management of the government's oil revenues. It said the government's medium-term fiscal deficit targets of 2.1% in 2011 and 1.6% in 2012 are unrealistic, and expected the deficit to be around 8.5% of GDP in 2010 and to only slightly decrease over the next few years. The agency considered that the trend of fiscal consolidation has not been firmly established despite the anticipated oil-related revenues, and expected the fiscal and external balances to remain in deficit over the next few years. It considered that falling interest rates and the emergence of the oil economy will lead to reasonable economic growth in the next few years. S&P based the stable outlook on expectations of sound economic growth and that fiscal and economic reforms will continue, as well as on expectations that oil-related revenues will support the external balances. It said the ratings could face downward pressure if the ongoing fiscal correction and the planned reduction in arrears are not implemented.

Source: Standard & Poor's

NIGERIA

Fiscal deterioration continues

Absa Capital indicated that Nigeria's fiscal situation deteriorated further after successive withdrawals from the Excess Crude Account (EAC) left it with a balance of only $460m. It said the EAC was set up in 2004 as a stabilization account in which oil revenues were saved, reaching a peak of about $20bn at the end of 2008. However, since the start of the global economic crisis and the sharp fall in oil prices, the government has gradually drawn down its oil savings with the proceeds being invested in urgent infrastructure projects, although the bulk has been distributed to states. It noted that $3bn was withdrawn in August and shared among the three tiers of government, while $1bn was set aside for the proposed Sovereign Wealth Fund, even though the framework for a SWF law is not ready yet, which make it unclear where the funds will be held. It expected the fiscal position to remain under pressure as the country also has plans to borrow $4.4bn externally to fund a new ‘supergrid’ to complement the country’s ageing transmission infrastructure. It noted that the near-depletion of the ECA means that the government has little further oil savings and could face a fiscal crisis unless it cuts spending across all three tiers of government. It said the government may not be able to meet the revised budget deficit estimate of 5.4% of GDP for 2010 given the ongoing level of spending and the additional spending pressures related to the upcoming elections.

Source: Absa Capital

EMERGING MARKETS

IMF expands crisis prevention facilities

The International Monetary Fund declared that it has expanded and enhanced its lending tools to help contain the occurrence of financial crises. The Fund said it has decided to increase the duration and credit available under the existing Flexible Credit Line (FCL) and to establish a new Precautionary Credit Line (PCL) for members with sound policies but that may not meet the FCL's high qualification requirements. It indicated that the new measures will allow the Fund to help its members protect themselves against excessive market volatility. It added that the new PCL will allow countries with imperfect economic track records to be pre-approved for substantial loans that they can draw down quickly in a crisis. The IMF said countries applying for the PCL will be assessed against five broad areas that include external position and market access, fiscal policy, monetary policy, financial sector soundness and supervision, and data adequacy. It noted that the availability of these credit lines to a broader spectrum of countries will contribute to a more stable international monetary system.
Source: International Monetary Fund

GCC

Cost of economic and financial turmoil at $21bn

Standard & Poor's indicated that GCC banks spent $21.2bn on loan-loss provisions and investment impairments since 2008, including $9.42bn in 2008, $8.42bn in 2009 and $3.37bn in the first half of 2010. The agency identified the losses by adding GCC banks' total new loan-loss provisions to impairment charges on securities, minus the recoveries they had on their impaired loans and securities. It said Kuwait accounted for 33.6% of the total cost, followed by Saudi Arabia with 27%, the UAE with 19.4%, Bahrain with 14%, Qatar with 4% and Oman with 2%. It expected additional provisions for the region's banks, which will mainly come from the still uncovered portion of their exposure to the Saad and Algosaibi groups; the exposure to Dubai World, the cost of which is uncertain until its creditors sign the restructuring agreements; the uncertainty regarding other Dubai-based government-related entities as another source of potential provisions; and, to a lesser extent, the deterioration in some sectors such as real estate and its related industries, the retail sector, and particularly the expatriate segment. S&P expected a decline in the banks' provisioning needs once these exposures are addressed and finalized, adding that asset quality should improve starting in 2011. It noted, however, that the upcoming challenges for GCC banks include improving liquidity, funding future growth, and refinancing the stock of existing debt. *Source: Standard & Poor's*

KUWAIT

Banks' profitability to remain pressured by high impairment charges

Fitch Ratings indicated that the profitability of most Kuwaiti banks will remain under pressure from high impairment charges this year, as banks increase loan-loss reserves due to the sharp deterioration in asset quality in 2009. It did not expect a significant weakening in asset quality for the remainder of 2010, but added that some banks may continue to see increases in impaired loans due to the lag effect of the weaker economic conditions of 2009 and high exposure to investment companies, real estate, construction, and lending for the purchase of equities. It noted that 55% of the banking system's loans are extended to these risky sectors, which exposes Kuwaiti banks to high market-induced credit risk. The agency expects slow loan growth for the remainder of 2010 due to a more cautious approach to lending and weaker demand for credit. It said the average NPL ratio nearly doubled to 11.3% in 2009 and was at 11.1% at end-June 2010, the highest reported average NPL ratio of any GCC banking system. It noted that the ratio is distorted by significantly higher levels of NPLs at Gulf Bank and Commercial Bank of Kuwait. Fitch said the average loan-loss reserve coverage ratio has weakened due to the sharp deterioration in asset quality in 2009, but banks have continued to build up loan loss reserves, and the average reserve coverage ratio was 92% at end-June 2010.
Source: Fitch Ratings

TUNISIA

Banking sector in need of further strenghtening

The International Monetary Fund indicated that the Tunisian authorities have made progress in strengthening the financial system, and that credit to the economy continues to grow strongly. However, it stressed that significant measures are still needed, particularly in strengthening the banking system, further deepening of the foreign exchange market, and improving the effectiveness of monetary policy transmission. It encouraged authorities to take measures that would help reduce the level of non-performing loans and improve financial sector supervision. The Fund considered that the authorities' medium-term objectives to move to inflation targeting, full convertibility of the dinar, and an open capital account could help the economy to adapt better to changes in the external environment. It noted that monetary and exchange rate policies should be geared toward avoiding a build-up of inflationary pressures and ensuring that the recent weakening of the external balance does not persist.
Source: International Monetary Fund

THE GAMBIA

Credit quality, profitability and capital adequacy weaken

The International Monetary Fund indicated that the number of banks in The Gambia has doubled since 2007 to reach 14 institutions, which has contributed to a rapid expansion of financial services but has also strained the Central Bank of Gambia's resources for banking supervision. It said the rapid expansion of the banking system has created opportunities for the economy, but also carries risks. It noted that competition among the high number of banks in a relatively small market has added to risks to the banking system, especially in the current environment with weaknesses in key sectors of the economy. It said this has been reflected by a recent weakening of credit quality, profitability and capital adequacy. The Fund supported steps to improve bank soundness, notably the timely increase in the minimum capital requirement, and stressed that building capacity in bank supervision should be given high priority.
Source: International Monetary Fund

Oil slips as investors observe U.S. jobs reports

Oil prices declined on September 2 as investors turned their attention to upcoming U.S. unemployment reports, following gains of almost 3% a day earlier. U.S. crude for October delivery declined 27 cents to $73.64 a barrel after an increase of $2 on September 1st. ICE Brent also decreased 34 cents to $76.01. Manufacturing in the United States and China accelerated in August, reviving confidence across markets.

The Energy Information Administration stated that U.S. crude stockpiles rose three times as much as expected in the week to August 27 by 3.4 million barrels as refineries cut usage rates. It added that distillate supplies fell 739,000 barrels going against forecasts for an increase, while gasoline inventories declined by 212,000 barrels. Also, U.S. petroleum stockpiles rose to a new high of 1.143 billion barrels last week, up from 1.139 billion the previous week for the highest inventory levels since 1990. The spread between first-month and second-month crude oil contracts reached $1.50, declining from $1.60 on August 31st.
Source: Thomson Reuters

RWE signs Nabucco cooperation deal with Iraq Kurds

Germany's RWE stated that it signed a cooperation agreement with the Kurdish Regional Government in Iraq that included future gas supply for the Nabucco pipeline project. Iraqi sources noted that up to 20 billion cubic meters of gas a year could be fed into the pipeline to bring gas to Turkey and Europe. RWE is a shareholder in the $10.1bn Nabucco plan, which aims to cut Europe's dependence on Russian gas by bringing Caspian region supplies directly to Turkey and Europe.
Source: Thomson Reuters

Iran to boost production at joint oilfields

Iran plans to pump more crude oil from three oilfields shared with Oman, the United Arab Emirates and Saudi Arabia in the Gulf. Production is expected to increase by 30,000 barrels per day where €400m were allocated for the development of the Esfandiar oil field out of the energy fund which Iran shares with Saudi Arabia. The Iranian Oil Ministry invested around $400m in a record time of two years to develop the project. The field is estimated to hold nearly 600m barrels of oil.
Source: Tehran Times

Kuwait-Saudi venture plans gas facilities at Khafji

Saudi Arabia announced a joint venture between the Kingdom and Kuwait to build gas and natural gas liquids collection and distribution facilities at the Khafji oilfield, with a capacity of around 610,000 barrels per day. Engineering firms have until September 27 to submit their bids for the project which is estimated to cost at least $50m. Al-Khafji Joint Operations Company (KJO) is split between Aramco Gulf Operations, a subsidiary of state oil firm Saudi Aramco, and Kuwait Gulf Oil Company (KGOC).
Source: Thomson Reuters

Base Metals: Nickel prices bounce back from June low

LME three-month nickel prices traded in the past few months in a range from $17,000 to $24,000 a ton. After hitting a 23-month high of $27,590 a ton on April 16, prices dropped by 37% within seven weeks to $17,425 a ton on June 7, the lowest level this year. This was due to concerns about Europe's debt crisis. Prices rallied by 26% since then, due to a weaker dollar and stronger equities. Also, there are some early signals that demand for stainless steel, a predominant consumer of nickel, may be approaching an end. World stainless steel output is expected to fall by 11% from the second quarter of 2010 led by a decrease in the United States, Germany and China. Chinese inventories in stainless trading fell 24% during late July and mid-August. Moreover, imports of nickel ores used as raw materials for NPI production rose by 12% month-on-month and 14% year-on-year in July. Although the revival of demand and the increase in investor interest are positive for prices, world nickel supply is set to rise in the second half as opposed to the first half of 2010. Therefore, nickel prices are forecast at $21,000 a ton in the fourth quarter of 2010.
Source: Standard Chartered

Global Nickel Outlook

(kilo tons)	2008	2009	2010f	2011f	2012f
Refined supply	1,379	1,310	1,395	1,465	1,538
(% change)	-4.0	- 5.0	6.0	5.0	5.0
Refined demand	1,283	1,257	1,383	1,494	1,583
(% change)	-4.0	-2.0	10.0	8.0	6.0
Balance	96	53	12	-29	-45
Reported stocks (end-period)	351	404	416	387	342
Three-month price ($/ton)	21,309	14,762	21,172	22,000	23,000

Source: Standard Chartered

Precious Metals: Gold demand on the rise with higher investor buying

Gold demand performed well in the second quarter of the year showing an increase of 36.5% from last year, while supply expanded by 17.5%. Demand was 82 tons lower than total supply, indicating another market surplus. Most of the rise in gold demand came from investor buying, which increased by 118% by about 290 tons in the second quarter of 2010 compared to the same period last year. This was mainly driven by higher demand for gold-backed funds, which saw inflows of more than 230 tons.

Since the outbreak of the financial crisis, demand in jewelry fell another 5% to 408 tons. Therefore, jewelry was again overtaken by investment demand in the second quarter of 2010 as the most important demand component. On the supply side, volume gains were mainly made up by recovering scrap supply. About 500 tons of gold were recycled, as high prices provided a strong incentive to sell old stocks of gold. Investor demand is expected to support the price of gold as long as risk aversion remains and investment alternatives are limited. The spot price of physical gold bullion touched its highest level on September 1 since late-June's record peak, extending August's record-high monthly close. The $1,247 price set a new record-high monthly close, beating June's $1,241. Gold price in US dollars ended with its best August performance since 1986, gaining 6.6% for the month.
Source: Julius Baer, BullionVault.com

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 Stable	- -	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	A3 Stable	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

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	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 Stable	Baa3 Stable	BBB- Stable	- -	BB Stable	-3.8	14.8	77.3	159.8	19.8	220.1	-9.4	9.8
Kazakhstan	BBB- Stable	Baa2 -	BBB- Negative	- -	BB Stable	-3.9	9.3	94.7	230.8	40.1	553.7	-2.9	8.1
Romania	BB+ Negative	Baa3 -	BB+ Stable	BBB- Negative	BB Stable	-8.3	23.7	68.1	226.6	29.9	279.7	-4.5	3.8
Russia	BBB Stable	Baa1 Positive	BBB Stable	- -	BBB Stable	-5.7	7.1	38.3	136.3	11.6	110.9	4.0	-0.6
Turkey	BB Positive	Ba2 Stable	BB+ Stable	BB Stable	B Stable	-5.5	45.5	45.1	194.5	45.1	400.1	-2.8	1.2
Ukraine	B+ Stable	B1 Positive	B Negative	- -	CCC 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	Raise 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	No change	09-Sep-10
Malaysia	O/N Policy Rate	2.75	08-Jul-10	Raise 25bps	02-Sep-10
Thailand	1D Repo	1.75	25-Aug-10	Raise 25bps	20-Oct-10
India	Reverse repo rate	5.75	27-Jul-10	Raise 25bps	16-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	No change	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	18-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	20-Aug-10
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

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