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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate default rate at 3.3% at end-November 2010

Moody's Investors Service stated that the rate of global speculative-grade corporate defaults reached 3.3% at the end of November 2010 compared to 13.6% a year earlier, and down from 3.7% in October and 13% at the end of 2009. The agency forecast the global speculative-grade default rate to fall to 2.9% at the end of the year and to 1.8% at the end of November 2011. It noted that default expectations remain stable but warned that risks could increase as a result of potential financing scarcity in the European markets. Measured on a dollar volume basis, the global speculative-grade bond default rate ended November at 1.4%, unchanged from October, but significantly lower than the 19.6% reached a year earlier. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 11.5% at end-November, down from 14.1% at the end of October, 19.3% at the end of 2009 and 24.2% a year earlier.

Source: Moody's Investors Service

Anti-dumping investigations down 30% in first half of 2010

The World Trade Organization stated that the number of new anti-dumping investigations decreased by 29% while the number of new measures applied decreased by 5% in the first half of the year compared to the same period last year. India reported the highest number of new initiations with 25% of total new anti-dumping investigations in the first half of 2010, followed by the European Union with 11.6%, Argentina with 10% and Brazil and Israel with 5% each. China's exports were targeted by one third of new anti-dumping investigations, down 30% from the same period last year, and were followed by the European Union with 16% of new investigations directed at its exports. The base metal sector was the subject of 29% of new anti-dumping investigations, followed by the plastics and rubber sector with 10% and the plaster and ceramic products sector with 9%. India was responsible of implementing 29% of total anti-dumping measures during the first half of the year, unchanged from the same period last year, followed by Turkey with 15%, and Argentina and China with 12% each. Chinese exports were the most frequent subject of new measures in the first half of the year with 42% of the total new, followed by the European Union with 10%.

Source: World Trade Organization, Byblos Research

EMERGING MARKETS

Fixed income trading volume up 74% to $1,950bn in third quarter 2010

Trading in emerging markets debt instruments stood at $1,950bn in the third quarter of 2010, constituting an increase of 74% from $1,129bn in the same period last year, and up 26% from $1,551bn in the second quarter of 2010. The volume of trades in local markets instruments stood at $1,404bn in the third quarter of 2010, up 116% from $650bn in the same quarter last year, and up 30% from $1,076bn in the second quarter of 2010. Local instruments turnover accounted for 72% of total emerging markets debt trades compared to 69% in the previous quarter. In parallel, sovereign and corporate Eurobonds' trading volume stood at $531bn, an increase of 16% from $458bn in the third quarter of 2009 and up 14% from $465bn in the second quarter of this year. The survey said the third quarter trading volume constitutes the largest quarterly volume on record, and attributed most of the growth to increased turnover in local instruments. Sovereign Eurobond volumes increased by 20% year-on-year and by 22% quarter-to-quarter to $300bn, while the volume of traded corporate Eurobonds reached $203bn, up 16% year-on-year and 1% quarter-to-quarter. Sovereign Eurobonds accounted for 15% of total debt trading, relative to 22% in the same period last year, and corporate debt represented 10% of the survey's volume compared to 16% in the third quarter last year. The most frequently traded instruments were Brazilian debt securities at 14.2% of the total, followed by South African assets with 14%, Hong Kong instruments with 10% and Mexican debt securities at 7%. Trading in Brazilian instruments rose by 78% year-on-year, in South African assets by 633%, and in Hong Kong debt by 27%. The most frequently traded sovereign Eurobonds included issues from Russia with $14bn, Brazil with $8bn, and Poland with $7.5bn.

Source: EMTA

Bond and equity inflows at $119bn in first 11 months of 2010, AUM at $945.3bn

Capital inflows to emerging market equity and bonds totaled $118.8bn in the first 11 months of 2010, with bonds receiving $40.5bn and equities $78.4bn. Latin America accounted for $14.7bn or 36.2% of bond inflows, followed by Emerging Europe, the Middle East & Africa (EMEA) with $13.1bn (32.4%), and Emerging Asia with 31.3%. Further, Emerging Asia accounted for $49bn or 62.5% of equity inflows to emerging markets, followed by EMEA with $15.6bn (20%), and Latin America with $13.9bn (17.7%). Brazil was the biggest recipient of bond inflows with $4.6bn, or 11.3% of total inflows into emerging market bonds, while China was the largest recipient of equities inflows with $15.6bn, or 19% of overall inflows into emerging market equities. In parallel, emerging markets assets under management (AUM) totaled $945.3bn at the end of November 2010, with bonds accounting for $147.2bn and equities for $798.2bn. The EMEA region had $54.1bn in AUM in bonds, followed by Latin America with $53.85bn and Emerging Asia with $39.2bn. Further, Emerging Asia accounted for $503bn in equity-related AUM, followed by Latin America with $168bn and EMEA with $135bn. Brazil had $18.5bn in bonds-related AUM, or 12.6% of the total, while China had $173.3bn in equity-related AUM, accounting for 21.7% of overall equities under management in emerging markets.

Source: Barclays Capital, Byblos Research

POLITICAL RISK OVERVIEW - NOVEMBER 2010

ALGERIA

Algerian Interior Minister Ould Kablia announced plans on November 2 to arm rural civilians to fight al-Qaeda in the Islamic Maghreb (AQIM). Five militants linked to AQIM were killed by security forces in Boumerdes region. A local businessman was killed on November 14 during a kidnapping attempt by AQIM-linked militant group in Freha in Kabylie region. About 2,500 people demonstrated after the killing, demanding security forces to protect them from militants.

DEM REP CONGO

The United Nations stated that over 650 rape cases occurred since September on the country's border with Angola during the latter's mass expulsion of around 7,000 illegal Congolese immigrants. The FDLR killed 21 civilians in an ambush at Mungazi in north Kivu, while 2,500 Congolese were displaced in Kisowa in south Kivu after a 10-day fight between FDLR and FARDC. The UN peacekeeping mission, MONUSCO, launched the "protection shield" operation on November 23, which aims at neutralizing armed groups and reinforcing the security of Fizi, Minembwe and Uvira areas' residents. Further, UN panel of experts stated in its report on the violation of arms embargo that 700 FNL fighters in south Kivu supported by the FDLR, as well as top FARDC commanders including General Gabriel Amisi, are involved in illegal exploitation and trade of natural mineral resources. The International Criminal Court trial started on November 22 for former Vice President and opposition leader Jean-Pierre Bemba.

EGYPT

Parliamentary elections that took place on November 28 showed indiscretion and reports of scattered violence. The ruling National Democratic Party (NDP) won 209 of 221 seats decided in the first round. None of the 130 candidates affiliated to the banned opposition party, The Muslim Brotherhood won seats in the first round. At least three people were killed during demonstrations and clashes with the police during voting, particularly in Nile Delta and the city of Suez. Ahead of the elections, more than 1,300 Muslim Brotherhood supporters were detained. One citizen was killed, dozens were injured and over 150 were arrested on November 24 after Christian groups clashed with the police in Giza over permission to build a Church.

IRAN

President Mahmoud Ahmadinejad said that Iran's right to have nuclear capabilities is non-negotiable and refused to allow the IAEA inspectors to access the country's nuclear facilities based on accusations of information leakage to the U.S. Further, the government denied allegations to have ceased uranium enrichment activities while the country's nuclear chief, Ali Akbar Salehi, noted that the Bushehr nuclear power plant is expected to be operational by January 2011. Iran's two senior nuclear scientists were targeted by two car bombs on November 29, killing one and injuring the other. After the attacks, the country's Interior Minister Mostafa Najjar accused the CIA and the Mossad for the attacks. The U.S. Secretary of Defense Robert Gates refused Israeli Prime Minister Benjamin Netanyahu's request to increase the U.S. military threat against Iran.

IRAQ

An agreement between the U.S. and Iran assisted in the formation of the Iraqi government, based on the sharing of power between the country's main parties. In line with the deal, the Council of Representatives elected the Iraqiya Sunni Member of Parliament, Osama al-Nujayfi, as the Parliament Speaker while Jalal Talabani, a senior Kurdish politician, was elected as the country's president. The latter reappointed Nouri al-Maliki as Prime Minister and ordered him to form a Cabinet within 30 days. Also, as part of the power-sharing agreement, a National Strategy Council is to be formed, headed by former Prime Minister Iyad Allawi. Attacks against Christian areas in Baghdad continued, killing four people and leaving 16 injured. Also, violence persisted in Basra where a car bomb killed 10 people and injured 35. In a separate attack, a high ranking army officer was assassinated in Saidiya district on November 24th.

SUDAN

Voter registration for referendum on southern independence commenced on November 15 at 2,700 centers in south Sudan, 165 centers in north Sudan and eight centers in Diaspora countries. A high turnout in the south prompted the official announcement, extending the registration process by one week. Sudan People's Liberation Army (SPLA) stated that 10 people were killed and six were injured during Sudan Alliance Forces helicopter gunship attacks on SPLA positions in Northern Bahr al-Ghazal state bordering Darfur. UNAMID Joint Special Representative Ibrahim Gambari warned of increased violence ahead of the referendum as reports of major movements of SAF to Darfur region threatened further military offensives.

SYRIA

The International Atomic Energy Agency (IAEA) report on November 23 stated that Syria refused the access of UN nuclear inspectors to multiple sites. Syria said that more information is needed from the IAEA before allowing the visit. Officials condemned the new Israeli law mandating national referendum on withdrawal from the Golan Heights. Israeli Foreign Minister Avigdor Lieberman declared that peace talks with Syria should not be pursued, while his Syrian counterpart Walid Moallem sated that Israel is not a partner for peace. U.S. Secretary of State Hillary Clinton addressed reports of arms smuggling from Syria to Hizbollah and said that Washington would not accept attempts to jeopardize Lebanon's security. Saudi Prince Abdel-Aziz bin Abdullah visited Damascus as Saudi-Syrian efforts intensified to defuse tension in Lebanon ahead of the release of the findings of the Special Tribunal on former Prime Minister's Hariri assassination.

YEMEN

Al-Qaeda in the Arab Peninsular (AQAP) claimed responsibility for the October 29 intercepted parcel bombs, and vowed more small-scale attacks against the United Sates. Violent clashes erupted on November 13 between Houthi rebels and government forces near the Saudi border, where at least 20 people were killed. Al-Qaeda suicide bombing on November 24 killed over 20 Houthi rebels, and injured at least 15 rebels in the northeast. A suicide car bombing killed at least 40 tribesmen on their way to the funeral of Houthi spiritual leader Badr al-Din al-Houthi.

Source: International Crisis Group

OUTLOOK

QATAR

Capital spending to rise 23% annually

Deutsche Bank indicated that Qatar's extra spending on World Cup-related infrastructure will lift capital expenditures by 23% annually for a decade, as well as increase private sector borrowing and add to population growth. It also expected Qatari banks to benefit, given the prominence of public sector loans and deposits in the banking sector, and anticipated public sector borrowing to increase in order to finance related projects. It said Qatar will spend the equivalent of 24% of its GDP on World Cup infrastructure, which largely surpasses South Africa's spending of 1% of GDP for the 2010 event, Brazil's 0.9% of GDP for 2014, and Russia's 3% of GDP for 2018. As such, it noted that the impact on the country's economy will be far more important than for other hosts of the World Cup. It added that Qatar has been spending heavily on infrastructure for several years, as average capital spending has been equivalent to 33% of total expenditures and to 31% of GDP on average since 2004. It expected Qatar to spend $30bn on additional infrastructure to host the World Cup and estimated that this will result, on a net present value basis, in $98.6bn in budgeted and new spending till 2022.

It also anticipated that the majority of domestic spending by corporates to be aimed at World Cup readiness, which will result in much stronger and more stable credit demand from the corporate segment at large. It said that population growth has always been a major weakness of the Qatar story, as it was widely seen as lacking sustainability. It noted, however, that the World Cup will generate significant population growth, as professionals of all categories will move to Qatar to help build and operate what is required to host the world's biggest sporting event. Deutsche Bank added that contractors will be on the forefront to reap the benefits from the additional infrastructure spending. It noted that Qatar is one of the few GCC countries without a major national contractor, which provides a unique opportunity for foreign contractors to get the lion's share of the works. It estimated that MENA contractors will have a significant role to play, even with the anticipated competition from European, Australian and South African players.

Source: Deutsche Bank

UAE

Non-oil growth at 3.5% in 2011, restructuring of Dubai conglomerates to impact activity

Barclays Capital projected economic growth in the UAE at 2% in 2010 and 3.7% in 2011, with non-hydrocarbon growth at 2.1% this year and 3.5% next year. It indicated that Dubai is in the middle of restructuring the debts of two of its conglomerates, Dubai Holding (DH) and Investment Corporation of Dubai (ICD), one year after Dubai World (DW) announced a standstill on its $25bn debt. It considered that progress over the coming months on negotiations and their completion with creditors will be a key driver of market sentiment towards the emirate. It added that, in turn, this will dictate the pace of Dubai's economic recovery in 2011 and beyond as it attempts to secure the capital needed to refinance its debt and fund much-needed growth-generating projects in the public and private sectors. It noted that Dubai's sovereign balance sheet has shouldered much of the restructuring over the past year. It said that, in addition to taking on explicit contingent liabilities, the government used part of the proceeds of its newly issued bonds to provide entities whose credit profile is weak with lifelines to repay some of their imminent obligations. It added that the Dubai government's cost of borrowing has increased, exacerbating further concerns about medium-term fiscal sustainability given the slow recovery in the emirate. It forecast the UAE to post a fiscal deficit of 4.8% in 2010 and a surplus of 2.2% of GDP in 2011, relative to a deficit of 9% in 2009.

In parallel, it noted that the UAE's non-oil sector activity, to which Dubai contributes about 55%, remains constrained by a subdued level of credit growth to the private sector. It said loan growth remains weak, particularly in Dubai, where restructuring is still weighing on employment and investment, and holding back banks from growing their lending portfolios. It added that government-sponsored projects in Abu Dhabi are driving credit extension of 4.5% year-on-year over the first 9 months of the year. It expected banks' balance sheet clean-up to persist until the end of 2011, allowing for a gradual increase in credit.

Source: Barclays Capital

GHANA

Growth forecast at 18% in 2011, key risk is reform complacency

Standard and Poor's projected economic growth in Ghana at 18% in 2011 compared to 4.7% in 2010, adding that falling interest rates and the emergence of the oil economy will keep growth at a yearly average of 6.2% in 2012 and 2013. It noted, however, that the oil sector may suffer from a lack of clear regulation, and recent moves by the government to interfere with the sale of privately-owned oil assets may delay production and affect investor sentiment. It indicated that inflationary pressures, initially driven by external factors and a fiscal stimulus, have eased and that the advent of the oil era will pose new liquidity and other challenges for monetary policy and exchange rate management. It forecast inflation at 11% in 2010 and 10% in 2011, down from 19% in 2009. It said that authorities have yet to firmly establish a trend of fiscal consolidation despite the expected oil revenues, and It forecast the fiscal deficit at 8.5% of GDP this year and 7% of GDP next year.

The agency noted that the current account deficit improved sharply in 2009 to an estimated 7.8% of GDP, but expected it to widen in 2010 to 11.4% of GDP because of oil industry-related imports. It estimated Ghana's gross external financing needs at 115% of current account receipts and usable reserves in 2010, which is above the median of similarly-rated sovereigns. But it expected that oil will alter the country's trade profile from 2011 and will strengthen its external liquidity. S&P considered that the main risk facing the economy is that the prospect of oil will weaken calls for structural reforms aimed at boosting fiscal performance and governance, despite the presence of an IMF program. It added that several public companies present contingent liabilities for the sovereign, primarily the money-losing state-owned Team Oil Refinery.

Source: Standard & Poor's

WORLD

Global house prices up 3% in third quarter 2010

Knight Frank's Global House Price Index indicates that the average annual growth of global house prices stood at 3.1% in the third quarter of 2010 compared to an increase of 4.3% in the previous quarter, and a contraction of 6.2% in the same period last year. It said Asia-Pacific posted the strongest growth in house prices with an average increase of 9.9% in the third quarter, while Europe posted the weakest growth at 0.8%. It noted that the key driver of the weaker quarter-to-quarter performance is the number of countries that posted negative growth in the third quarter, with 14 mostly European countries seeing negative price growth in the quarter after experiencing several quarters of rising prices. It added that 67% of all countries saw positive annual growth, while only 46% experienced growth in the third quarter. Latvia's housing market was the best performer in the world with a 26% annual increase in prices, followed by Hong Kong with 21%; while Croatia and Dubai were the worst performers with price drops of 9.5% and 6.1%, respectively.

Source: Knight Frank

SYRIA

Launch of Treasury bills market

The Finance Ministry announced the launch of a debt market in Syria through the issuance of Treasury bills in coordination wit the Central Bank of Syria (CBS). The ministry indicated that authorities will auction SP 1bn in three-year maturities and SP 1bn in six-month maturities on December 13, 2010. It added that the auction will be followed at a later stage by other auctions for longer term maturities of 12 months, 36 months and 60 months in amounts of SP 1bn each. The ministry said proceeds totaling SP 5bn will finance development and electricity projects. The development of a Treasury bills market is expected to shift the financing of the budget deficit from the CBS to the government, which would meet a longstanding request by the International Monetary Fund. It will also replace administrative tools for conducting monetary policy, and help absorb the large excess liquidity in the banking system.

Source: SANA, Byblos Research

MOROCCO

SWFs invest in tourism fund

Three Gulf Arab sovereign wealth funds and a UAE-based property developer committed $1.8bn for a tourism fund that aims to place Morocco amongst the world's top 20 tourist destinations. The four investors are Bahrain's Mumtalakat, the Kuwaiti Investment Authority, the Qatar Investment Authority and Al Maabar of the UAE. The fund aims to raise MAD100bn, or €9bn, and will finance resort developments in Morocco as part of a larger tourism development plan. The €15.8bn tourism development plan aims to double the number of tourists, increase tourism revenue from the current €5.4bn to €13.4bn and create 147,000 new jobs in the sector by 2020. The 2020 plan is an extension of the 2010 plan that allowed Morocco to increase the number of tourists from 4.4 million in 2001 to 9.2 million in 2010.

Source: Thomson Reuters, Magharebia News

MAURITANIA

Reforms remain key for stability

The International Monetary Fund estimated Mauritania's non-oil growth at 5.6% in 2010, adding that the economy is recovering and that authorities have made good progress in reestablishing macroeconomic stability. It said economic activity has picked up and the fiscal and external positions have improved on the back of a rebound in prices for Mauritania's main exports. It welcomed the authorities' commitment for continued fiscal consolidation, and noted that the draft 2011 budget is appropriate and consistent with medium-term sustainability. It noted that inflation is rising and authorities will have to remain alert to respond appropriately if there are signs of second round effects from higher food prices or if inflation pressures continue to build up. It encouraged authorities to maintain the momentum on structural reforms in order to promote a sustainable broad-based private sector growth. It said authorities should focus on enhancing financial intermediation, putting major state firms on a sound financial footing, and improve governance and the business climate.

Source: International Monetary Fund

ARMENIA

Yerevan to accede to WTO Government Procurement Agreement

The World Trade Organization invited Armenia to accede to the Agreement on Government Procurement (AGP), completing a process of negotiations that began with Armenia's application for accession to the Agreement in September 2009. The AGP aims to open up as much of government procurement as possible to international competition. It is designed to make laws, regulations, procedures and practices regarding government procurement more transparent, and to ensure they do not discriminate against the products or suppliers of other GPA countries. The WTO said Armenia's participation in the AGP brings real benefits in terms of access to other countries' markets for procurement of goods, services and construction services; as well as in the form of enhanced competition and transparency in Armenia's internal markets. It added that the decision reflects Armenia's political and legal commitment to good governance principles. Currently, the AGP covers 41 WTO members, with 8 other WTO Members in the process of negotiating their accession to the agreement

Source: World Trade Organization

KAZAKHSTAN

Recovery needs to be broad-based

The International Monetary Fund indicated that the recovery of Kazakhstan's economy needs to become more broad-based to be sustainable. It said growth is being driven mainly by oil and mineral-related industries and associated services sectors, including transportation and communications. It added that activity in construction and real estate remains subdued. It stressed the need to reinvigorate domestic demand by encouraging economic diversification and promoting efficient financial intermediation. It said the authorities' main challenge is to ensure that natural resource wealth supports the development of the domestic economy and financial system.

Source: International Monetary Fund

BANKING

MENA

Libya increases stake in ABC

The Arab Banking Corporation Group (ABC), a Bahrain-based offshore bank owned by the Abu Dhabi Investment Authority (ADIA), the Kuwait Investment Authority (KIA), and the Central Bank of Libya (CBL) announced that the CBL acquired ADIA's 17.7% stake in ABC. As such, the CBL increased its stake in ABC to nearly 60%. Last March, the CBL subscribed in full to ABC's capital increase, making it the largest shareholder in the bank and diluting the shares KIA and ADIA in the process. Following the latest transaction, the CBL holds a 59.4% stake in ABC, followed by KIA with 29.7%, and other shareholders with the remaining 11%. The Group posted net profits of $112m in the first 9 months of 2010, up 40% from the same period last year. It had total assets of $26.8bn and shareholder equity of $3.4bn at end-September. Established in 1980, ABC is engaged in trade finance, treasury, project & structured finance, syndications, corporate & institutional banking as well as Islamic banking. It has a presence in 21 countries in the MENA, Europe, the Americas and Asia.

Source: Arab Banking Corporation, Byblos Research

SAUDI ARABIA

Lending remains subdued

Figures issued by the Saudi Monetary Agency (SAMA) show that total assets of commercial banks reached SAR 1,375bn at the end of October, constituting a 0.1% decrease month-on-month and a 0.3% growth from end-2009; while lending to the private sector reached SAR 778bn up by 0.6% month-on-month and 5.9% from end-2009. Further, customer deposits totaled SAR 945bn at end-October, decreasing by 1.1% month-on-month and increasing marginally by 0.5% from end-2009. Public sector deposits declined for the sixth consecutive month, reflecting government efforts to fund infrastructure projects. The loans-to-deposits ratio was 82.3% at end-October relative to 78.1% at the end of 2009. In parallel, Saudi banks aggregated net profits reached SAR 22bn in the first 10 months of the year and increased by SAR 2.4bn in October relative to SAR 0.3bn in September. The October profits are attributed to better balance sheet management despite higher funding costs and provision charges compared to the previous month. The sector's profits are expected to remain subdued in the near term due to slow lending growth as well as increased impairment charges and provisioning.

Source: Deutsche Bank, Shuaa Capital

DEM REP CONGO

Bank assets at $1.4bn, private sector loans at $730m

Figures issued by the Banque Central du Congo indicate that the banking sector's total assets reached $1.4bn at the end of March, up 2.3% in the first quarter of the year and compared to $1.17bn at end-2008. The banks' net foreign assets totaled $621m at end-March, increasing by 8.6% from end-2009. Claims on the private sector reached $729m at the end of March, representing a 0.7% growth from $724m at end-2009 and compared to $725m at endf-2008. The distribution sector accounts for approximately 15.8% of overall credit, followed by transportation with 7.4%, manufacturing with 5.5%, mining with 4.2%, agriculture with 3.8%, energy with 2% and construction with 1.7%; with doubtful loans accounting for 4.5% of the total. In parallel, customer deposits totaled $1.3bn at end-March, increasing by 5.2% from $1.2bn at end-2009 and relative to $1.08bn at end-2008. Local currency deposits totaled $111m at end-March, up 5.7% in the first quarter, and foreign currency deposits reached $1.2bn at the end of March increasing by 5.2% from end-2009. The Democratic Republic of Congo's banking sector is dominated by private banks, with 16 banks having majority foreign ownership. The Congolese franc depreciated from CF 634 to the U.S. dollar in 2008 to CF903 per dollar in 2009 but has remained stable in the first part of this year.

Source: Banque Centrale du Congo, Byblos Research

ARMENIA

Capital adequacy at 28%, liquidity at 30%

The risk-weighted capital adequacy ratio of banks operating in Armenia reached 28.4% at the end of August of 2010, almost unchanged from the end of 2009 and relative to 27.5% at end-2008. The capital-to-assets ratio was 21.2% at end-August, nearly unchanged from 21% at end-2009 but down from 23% at end-2008; while the sector's liquid assets reached 29.5% of total assets at end-August 2010 relative to 34.2% at end-2009. Further, the sector's deposits-to-loans ratio decreased to 87.4% at end-August from 96.4% at the end of 2009, but was up from 81.4% at end-2008. Also, foreign currency liabilities accounted for 66.4% of total liabilities compared to 67.6% at end-2009, while foreign currency loans accounted for 56% of total loans at end-August relative to 54% at end-2009. The sector's non-performing loans reached 5% of total loans at end-August 2010 compared to 4.8% at end of 2009 and 4.4% at end-2008. Further, the sector's provisions-to-NPLs ratio regressed to 39.3% from 46.7% at end-December. In parallel, banks' return on assets reached 1.8% at end-August 2010 on an annualized basis, up from 0.7% in 2009 but down from 3.1% in 2008; while their return on equity reached 8.3% at end-August 2010 annually, up from 3.4% in 2009 but down from 13.6% in 2008.

Source: Central Bank of Armenia, Byblos Research

UKRAINE

Banking system outlook still negative

Moody's Investors Service indicated that the negative outlook for Ukraine's banking system reflects the very high level of non-performing loans that are unlikely to decline substantially in the near term, and the banks' subdued profitability. It said asset quality has continued to deteriorate in 2010 and is the principal concern for Ukrainian banks. It expected overdue and restructured loans to account for 40% of total loans at the end of 2010 and to gradually decrease in 2011. It noted that the capitalization of Ukrainian banks has improved, mainly due to capital injections from the Ukrainian government and foreign parent banks. It considered that the capital level of the whole system is sufficient to absorb expected and unexpected credit losses. It noted that the funding base of the banks has improved due to deposit inflows in the banking system during 2010, which restored the deposit base to pre-crisis levels.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Oil prices float around $89 a barrel

Oil prices rose by more than one dollar to float around $89 a barrel on December 9 as a result of a weak U.S. dollar, a 26-month high European shares levels as well as high performance of the Asian markets. Both the European and American markets acted on expectatios that the economic stimulus and the U.S. tax cut would stimulate U.S. consumption. After a $1.14 rise, U.S. light crude oil futures for January reached $89.42 a barrel before stabilizing at $89.1 a barrel. The front-month contract reached a 26-month high of $90.76 a barrel on December 7 but lost 41 cents the following day due to concerns about the growing U.S. deficit, while ICE Brent rose by 67 cents to $91.44. Traders and analysts are expected to be cautions in the near future trading due to a possible increase in Chinese interest rates. Also, OPEC is expected to analyze their members'output targets during their meeting in the Ecuadorian capital Quito.
Source: Thomson Reuters

Petrochemical production in the Gulf to rise to $80bn

Petrochemical production in the GCC is expected to rise from $40bn to $80bn by 2020, but it still not constituting a major share of global output in the sector. Petrochemical production increased by an average of 3.7% in the Gulf last year, with Saudi Arabia posting an increase of 6.3%, the UAE with 4.4%, Kuwait up by 3.2%, and Qatar with a 7.4% increase.
Source: Gulf News

OPEC oil production reaches 29.1 million barrels a day in November

According to the November Platts survey, the Organization of the Petroleum Exporting Countries (OPEC) crude oil production averaged 29.1 million barrels per day in November 2010, 70,000 barrels per day lower that the previous month level. It estimated a compliance level of 55.8% in November with a cut of 4.2 million barrels a day agreed since late 2008.
Source: Platts Survey

Abu Dhabi plans to run 25% of vehicles on CNG by 2012

One quarter of Abu Dhabi's vehicles are expected to be running on clean and cheaper Compressed Natural Gas (CNG) and Green Diesel as alternative fuels by 2012. According to the Environment Agency of Abu Dhabi, 17 CNG filling stations are already operational and more are being installed to help achieve the target on time. The CNG fuel will be available at these stations for AED1.28 per kilogram.
Source: Khaleej Times

Oil exports from Iraq's Kurdish region to resume next year

Iraqi Oil Minister Hussain Al Shahristani announced that crude oil exports from the country's self-ruled Kurdish region are expected to resume early next year after more than a year break over payments. He added that oil exports from the Kurdish region are expected to reach 150,000 barrels a day as per the Kurdish government prior commitment. Iraq is forecast to increase its oil exports from 1.9 million barrels a day to 2.25 million barrels a day by next year.
Source: Associated Press

Base metals: Aluminum prices trend higher into the year-end

Aluminum prices increased strongly through the third quarter of 2010 and into the beginning of the fourth quarter, with several positive factors. In particular, the global economy has begun to regain momentum, the U.S. dollar has weakened significantly and new ETFs for base metals are starting to emerge. Global demand was estimated to have increased by 22% in the first nine months of 2010. Also, aluminum production was estimated to have increased by 15% year-on-year in the first three quarters of 2010. China remains the key driver in supply with a 33% increase in the first nine months.

Prices are projected to further rise in 2011, as demand is outpacing supply and the market is expected to turn into a deficit next year. The aluminum industry is still suffering from the recent recession in the form of very high inventories. Over the next few years, the market is projected to slowly tighten, but prices are expected to remain soaring by high LME stocks and likely Chinese government sales. Investor activity will also be crucial, where prices have received support recently from speculation about physical ETFs.
Source: Standard Chartered

Global Aluminum Outlook

(kilo tons)	2009	2010f	2011f	2012f	2013f
Total supply	37,547	42,053	44,786	47,474	50,797
(% change)	(6.5)	12.0	6.5	6.0	7.0
Refined demand	34,800	40,717	43,974	47,931	51,766
(% change)	(7.0)	17.0	8.0	9.0	8.0
Balance	2,747	1,337	813	(458)	(969)
Reported stocks (end-period)	9,164	10,501	11,313	10,856	9,886
Three-month price ($/ton)	1,706	2,184	2,213	2,300	2,200

Source: Standard Chartered

Precious metals: Prices rally on inflation concerns

The precious metals complex has rallied significantly in recent weeks, with silver, palladium and gold all reaching multi-year highs on December 7th. This is driven by strong investor flows, with worries about inflation and the potentially damaging effect of quantitative easing programs. Increases in prices were the highest for silver and palladium, benefiting economic growth in China. The most recent data for gold had also been optimistic. Gold imports by China increased significantly in the first 10 months of 2010 to 209 tons, which is more than four times their 2009 level. This comes despite a 9% increase in China's gold production.

The IMF continued its previously announced sales program and it sold 20 tons of gold in October. However, by the end of October it had sold 371 tons of its announced 403 tons sales program. This suggests a tighter gold market ahead. Gold prices are still expected to trend higher through 2011. However, the US dollar is expected to tighten limit the upside for gold, especially during the first half of 2011.
Source: Standard Chartered

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- Negative	- -	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	- -	- -	- -	BB- Stable	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	Positive	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	03-Nov-10	No change	14-Dec-10
Eurozone	Refi Rate	1.00	02-Dec-10	No change	13-Jan-11
UK	Bank Rate	0.50	04-Nov-10	No change	09-Dec-10
Japan	O/N Call Rate	0-0.10	05-Nov-10	No change	21-Dec-10
Australia	Cash Rate	4.75	02-Nov-10	Raise 25bps	07-Dec-10
New Zealand	Cash Rate	3.00	28-Oct-10	No change	09-Dec-10
Switzerland	3 month Libor target	0.25	16-Sep-10	No change	16-Dec-10
Canada	Overnight rate	1.00	19-Oct-10	Raise 25bps	07-Dec-10
Emerging Markets					
China	One-year lending rate	5.56	19-Oct-10	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	03-Nov-10	No change	14-Dec-10
Taiwan	Discount Rate	1.50	30-Sep-10	Raise 12.5bps	23-Dec-10
South Korea	Base Rate	2.50	16-Nov-10	Raise 25bps	09-Dec-10
Malaysia	O/N Policy Rate	2.75	12-Nov-10	No change	27-Jan-11
Thailand	1D Repo	1.75	01-Dec-10	No change	12-Jan-11
India	Reverse repo rate	6.25	02-Nov-10	Raise 25bps	16-Dec-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	11-Nov-10	No change	16-Dec-10
South Africa	Repo rate	5.50	18-Nov-10	Cut 50bps	20-Jan-11
Kenya	Central Bank Rate	6.00	25-Nov-10	No change	Jan-11
Nigeria	Monetary Policy Rate	6.25	23-Nov-10	No change	Jan-11
Ghana	Prime Rate	13.50	24-Sep-10	No change	06-Dec-10
Angola	Rediscount rate	30.00	16-Jun-10	No change	N/A
Mexico	Target Rate	4.50	25-Nov-10	No change	21-Jan-11
Brazil	Selic Rate	10.75	20-Oct-10	No change	08-Dec-10
Armenia	Refi Rate	7.25	08-Dec-10	No change	N/A
Romania	Policy Rate	6.25	05-May-10	No change	N/A
Bulgaria	Base Interest	0.18	01-Dec-10	Raise 1bps	N/A
Kazakhstan	Refi Rate	7.00	01-Oct-10	No change	N/A
Ukraine	Discount Rate	7.75	10-Aug-10	Cut 75bps	N/A
Russia	Refi Rate	7.75	01-Jun-10	Cut 25 bps	N/A

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