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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Speculative global default rate at 2.8% at end-2010, debt affected totals $97.5bn

Standard & Poor's indicated that 82 speculative-grade corporate issuers defaulted in 2010, affecting debt worth $97.5bn compared to 264 defaults that affected debt worth $627.7bn in 2009, and 126 defaults affecting debt worth $433bn in 2008. The United States accounted for 58 defaulters in 2010, followed by New Zealand with six, Canada with four; and Russia, Mexico and Argentina with two each as the main sources of defaults. The agency said the 12-month-trailing global corporate speculative-grade default rate fell to 2.8% in December 2010 from 2.91% in November, constituting its 11th consecutive monthly decline. The U.S. speculative-grade corporate default rate decreased for the 13th month in a row to 3.27% at end-December from 9.5% a year earlier; while it declined to 1.03% in Europe from 8.1% at end-2009 and to 1.23% at end-2010 from 6.1% a year earlier in emerging markets. S&P added that global new issuance among corporate speculative-grade rated entities totaled $355bn in 2010 compared to $203bn in 2009 and $56bn in 2008. Further, a total of $110bn new issues came to the market in the fourth quarter of 2010 compared to $93bn in the third quarter, $60bn in the second quarter and $82bn in the first quarter.

Source: Standard & Poor's

MENA

Political freedoms stagnate in region

In its annual survey of political freedoms in 194 countries, think tank Freedom House indicated that political freedoms slightly improved in Arab countries in 2010. The value of the index for the region reached 5.6 points in 2010, constituting a decline from 5.55 points in 2009 and 5.38 in 2008. The survey rates each country on political rights and civil liberties based on a scale of 1 to 7, with one representing the highest degree of freedom and 7 the lowest level. The combined average of each country's ratings determines an overall status of 'Free', 'Partly Free', or 'Not Free'. The rankings of two Arab countries improved, 14 were unchanged and three regressed, while the scores of two countries regressed and those of 17 were unchanged. Kuwait posted the worst decline in the regional rankings, dropping by 12 spots from 2009, and its score regressed by 13%, the steepest drop in the region. Four Arab countries came in the ‘Partly Free’ category, while the rest fell in the ‘Not Free’ segment. Lebanon had the highest level of political freedom among Arab countries and ranked in 118th place globally, while Sudan and Libya had the lowest level of political freedom in the region and ranked in 186th place each worldwide. The survey classified 87 countries in the 'Free' category accounting for 45% of the total, 60 countries in the 'Partly Free' category (31%), and 47 countries in the 'Not Free' category (24%). It also concluded that 43% of the global population is 'Free', whereas 22% is 'Partly Free' and 35% is 'Not Free'.

Source: Freedom House

MENA

Equity markets down by 3% in January

Arab stock markets decreased by 3% and GCC markets by 2.1% in January 2011 compared to a marginal rise of 3% in the same period last year. Activity on the Iraqi stock exchange increased by 15.3% in January and posted the best performance among Arab markets during the month. It was followed by the Muscat bourse with a 1.24% improvement, the Bahrain stock market with a 1.2% growth, the Doha exchange with a 0.7% rise and the Beirut Stock Exchange with a 0.2% increase while the Amman and Palestine stock markets remained unchanged. In parallel, the Egyptian stock market dropped by 21% in January, posting the worst performance among Arab stock markets. It was followed by the Tunis stock exchange with a 9.8% decrease, the Dubai financial market with a 6% contraction, the Abu Dhabi market with a 4.9% decline, the Saudi Arabia equity market with a 4% fall, the Kuwait bourse with a 1.4% downturn and the Casablanca equity market with a 0.4% decrease. In comparison, emerging market equities rose by 0.5% and global equities increased by 0.3% in January.

Source: Local stock markets, Byblos Research

EGYPT

M&A deals may be affected by political uncertainties

Standard & Poor's indicated that recent merger and acquisition (M&A) activity involving businesses and assets located in Egypt have not yet been affected by the recent political developments. But it added that the protests and government reorganization in the country, and the resulting financial turbulence, may eventually have an impact on already concluded and pending M&A transactions. It said that a total of 52 M&A transactions, with an aggregate value of $4.25bn, were completed in the past 12 months for deals involving an Egyptian company as a buyer, seller, or target. It noted that only one transaction was valued at more than $1bn, with each of the other deals having a value of $650m or less. It said the largest deal took place last November when Princesse Holding Group and National Mobile Telecommunications Co. of Kuwait entered into an agreement to acquire a 50% stake in Orascom Telecom Tunisia for $1.2bn from Cairo-based Orascom Telecom Holdings. In parallel, S&P identified 18 deals valued at $1.32bn of pending M&A transactions announced in the past 12 months that have Egyptian involvement. It said the largest such deal is the $571m acquisition of Beni Suef Cement Co. by Alexandria Portland Cement Co. The former is owned by Greek cement maker Titan and the latter by French cement group Lafarge. The second largest pending transaction is Electrolux's memorandum of understanding to acquire a 52% stake in Cairo-headquartered Olympic Group Financial Investments Co. for about $526m. S&P noted that the impact will be greater on non-U.S. buyers and sellers than on American players, as there were only seven transactions completed and one pending deal in the past 12 months involving U.S. companies.

Source: Standard & Poor's, Capital IQ

POLITICAL RISK OVERVIEW - JANAURY 2011

DEM REP CONGO

President Joseph Kabila promulgated a new constitution following its adoption in the Parliament on January 15th. The opposition boycotted the parliamentary vote and claimed that changes favor the President. Fizi in south Kivu witnessed escalated violence between civilians and FARDC soldiers. The FDLR attacked Mirangi in north Kivu where 6 were killed including two FARDC members.

EGYPT

Over 135 people were killed and more than 2,000 were injured in a security attack on anti-government protesters. Protests against authoritarian rule and poor living standards began on January 25 during an organized "day of revolt" inspired in part by the Tunisian uprising. Tens of thousands protested across the country with the most serious violence in Suez, Alexandria and Cairo. The army spread on January 28 to control the unrest and vowed not to use force against the protestors. President Husni Mubarak sacked the Cabinet and appointed Intelligence Chief Omar Suleiman as Vice President, but protesters continued calls for Mubarak to step down. Opposition figure Mohamed El Baradei claimed popular and political mandate, including backing of the Muslim Brotherhood, to negotiate the creation of a national unity government. U.S. President Barack Obama called for an orderly Egyptian-led transition of power.

IRAN

The second round of nuclear talks between Iran and P5+1 countries held in Istanbul on January 21 and 22 showed no progress. The country's Foreign Minister Ali Akbar Salehi announced that Iran is expected to make its own fuel for nuclear reactors during the year, making any nuclear swap deal meaningless. Israeli Prime Minister Benjamin Netanyahu considered that only a credible military threat led by the U.S. can stop Iran's nuclear program, while U.S. Secretary of State Hillary Clinton said that the U.S. is considering further unilateral sanctions against Iran.

IRAQ

The Iraqi Supreme Court ruling placed the country's independent commissions as well as its Central Bank under the authority of the Council of Ministers rather than the Parliament, while Iraqiya's Parliament Members considered the decision as a coup against democracy. The Kirkuk province cut off its electricity supplies to the national grid in a dispute over power rationing but reconnected after the Cabinet agreed on a 50% quota increase. Bombings across the country targeted Shiite pilgrims and security forces, killing 50 pilgrims and 65 police recruits. Further, Muqtada al-Sadr returned from a self-imposed exile in Iran on January 5 and urged U.S. troops to leave Iraq.

NORTH SUDAN

Confrontations increased between the government and rebel forces in Darfur, killing 21 rebels. The UN peacekeeping mission UNAMID noted that the government raided an Internally Displaced Persons camp without notifying the mission, violating the terms of agreement. Also, the Chairperson of the African Union High Level Implementation Panel on Sudan, Thabo Mvuyelwa Mbeki, called for all rebel groups to participate efficiently in the political process. In parallel, Abyei's self-determination referendum to join either North or South Sudan did not take place as scheduled on January 9 because of disagreement over voter eligibility. Consequently, the unresolved future status of Abyei, including border demarcation, resource sharing and citizenship issues led to localized deadly clashes between Misseriya's Arab nomads from the north and pro-southern Dinka Ngok. The government violently suppressed anti-government protests in the country.

SOUTH SUDAN

The results of the historic self-determination referendum of south Sudan held between January 9 and 15 indicate that 99% of voters are in favor of secession. International observers declared that the voting process was free, fair and in line with international standards. In parallel, the President of Northern Sudan Omar al-Bashir pledged its country's support to South Sudan.

SYRIA

President Bashar Assad claimed that there is no chance of popular uprising in Syria as the ruling hierarchy is closely linked to the beliefs of the people. President Assad stated that Syria will not grant IAEA inspectors unrestricted access because it would amount to violation of sovereignty. Saudi-Syrian efforts to mediate tensions in Lebanon broke down on January 11, after which the Lebanese coalition government collapsed. Syria, Qatar and Turkey held a trilateral summit on January 18 in Damascus to discuss efforts at easing tensions in Lebanon. Foreign Minister Walid Mouallem called on all parties in Lebanon to form a unity government under designated Prime Minister Najib Mikati.

TUNISIA

Tunisian President Zine al-Abidine Ben Ali fled to Saudi Arabia with his family on January 14 after weeks of riots and demonstrations over economic conditions and government corruption. Rallies started on December 17 after a Tunisian street vendor, Mohammed Bou Azizi, burned himself in protest of economic and political conditions. A new unity government was formed on January 17 under interim President Fouad Mebazaa. Also, former Prime Minister Mohammed Ghannouchi retained his position as did ministers of defense, interior and foreign affairs. Anti-government protests continued over inclusion of members linked to Ben Ali's former Constitutional Democratic Rally (RCD) party. The government named a new interim Cabinet, lifted ban on all political groups and announced amnesty for all political prisoners. Leader of long-outlawed Islamist party Ennahdha, Rachid Ghannouchi, returned from a 20-year exile. Also, Prime Minister Ghannouchi announced the country's first free elections since independence.

YEMEN

Anti-regime protests emerged on January 27 in the north and the south with around 15,000 people against presidency for life, hereditary succession and poor economic conditions. The Parliament voted in principle to adopt constitutional amendments including elimination of presidential term limits. At least 12 soldiers were killed on January 7 in al-Qaeda attacks in Abyan province. The leader of al-Qaeda in the Arab Peninsula (AQAP) declared jihad against northern Houthi Shiite rebels.

Source: International Crisis Group

OUTLOOK

WORLD

Global ETF assets to exceed $2,000bn by 2012

Figures issued by assets management firm BlackRock show that global assets under management (AUM) in exchange traded funds (ETFs) and exchange traded products (ETPs) are anticipated to increase by 20% to 30% annually over the next three years, taking the global ETF/ETP industry to approximately $2,000bn in AUM by early 2012. It said the global ETF and ETP industry combined had 3,503 products, with 7,311 listings and assets of $1,482bn from 168 providers on 50 exchanges around the world at the end of 2010. This compares to 2,672 products with 4,856 listings and assets of $1,156bn from 132 providers on 45 exchanges at year-end 2009. ETFs are index based open-ended funds that can be bought and sold like ordinary shares on a stock exchange. They have become widely used investment vehicles to facilitate many investment and diversification strategies. The ETP industry includes other product structures such as trusts, partnerships, commodity pools and notes. BlackRock expected AUM in ETFs to reach $2,000bn globally by the end of 2012, including $1,000bn in the U.S. in 2011 and $500bn in Europe in 2013. Further, it forecast the AUM of ETFs and ETPs together to reach $2,000bn in the U.S. by 2013 and $500bn in Europe in 2012.

BlackRock noted that factors driving the expanding use of the vehicle include the number and types of equity, fixed income, commodity and other indices covered; more fund platforms embracing ETFs; more active marketing of ETFs by online brokers; greater involvement by fee based advisors; the growing number of exchanges planning to launch new ETF trading segments; and regulatory changes in the U.S., Europe and many emerging markets that allow funds to make larger allocations to ETFs. It said that $169.4bn in net new assets went into ETFs/ETPs in 2010 compared to $176.3bn in 2009, with ETFs/ETPs tracking emerging market indices attracting $42.1bn in net new asset flows last year, up from $34.5bn in 2009.

Source: BlackRock

EGYPT

Political uncertainties to drag down growth, widen fiscal and current account deficits

Credit Suisse revised downward its estimate for Egypt's real GDP growth to 5% in fiscal year 2010/11 ending June 2011 from an earlier forecast of 5.8%. It said the current political environment and the likelihood of ongoing uncertainty over the future shape of Egypt's government will have adverse consequences for business and consumer sentiment in the near term. It added that foreign investment and private domestic investment will likely collapse in the near term, while government infrastructure spending will decline over the next two quarters. It considered that the outlook suggests that the monetary policy committee (MPC) will leave the policy rate on hold for several more quarters, and that rate hikes are unlikely until FY 2012/13, with a risk that the MPC loosens policy in FY 2011/12.

It estimated the most immediate risk to be a run on the banking system, but noted that the Central Bank of Egypt (CBE) will probably provide enough pound-liquidity to the banks to prevent a crisis. It considered that there are significant depreciation risks to the Egyptian pound's nominal exchange rate against the U.S. dollar in the near and medium term, but expected the CBE to intervene in support of the currency. It estimated the pound's nominal exchange rate to remain at around 5.90-6.00 against the dollar, but only following a significant drawdown of foreign currency reserves by the CBE. It said the CBE held at end-2010 around $36bn in official reserves and approximately $6.9bn in its special foreign reserves account with local banks. Credit Suisse did not expect portfolio investment and foreign direct investment to return to Egypt while uncertainty remains. It also anticipated tourism activity to resume only slowly, even under a best case scenario, and forecast a widening of the current account deficit to 2.8% of GDP this fiscal year from 1.5% of GDP in FY 2009/10.

Credit Suisse expected the fiscal deficit and debt ratios to deteriorate as growth slows and spending picks up due to the costs of subsidies, re-building and maintaining security. It projected the fiscal deficit to rise to 8.7% of GDP this fiscal year under a base case scenario from an earlier estimate of 8.3% of GDP, and compared to 8.1% of GDP in FY 2009/10. Also, it forecast the public debt level to remain broadly unchanged in FY 2010/11 at around 76% of GDP, compared to a previous forecast of a decline in the government's debt ratio to 74.5% of GDP in FY2010/11.

Source: Credit Suisse

SAUDI ARABIA

Contagion risks minimal

Capital Economics considered that the chances of events in Egypt and Tunisia spilling over to Saudi Arabia remain very low. It said that, in contrast to Egyptians and Tunisians, incomes and living conditions in the Kingdom have improved over the past decade. It pointed out to the country's high youth unemployment and high inflation as clear challenges, but added that the government's deep pockets and wealthier population should keep those risks at a minimum. It indicated that the government's key spending priorities are health care, education and developing the country's infrastructure, and added that it is following up on its plan with large budgets. However, it noted that institutions across local and national government are still unable to cope with the scale of government spending. In parallel, it said the economy is creating jobs, but labor market distortions mean that unemployment is still high in some parts of the domestic workforce. It added that young Saudis tend to prefer a career in the public sector, where both pay and conditions are better, but noted that the public sector cannot absorb all the new entrants to the labor market. Capital Economics added that inflationary pressures have started to creep up again. But it indicated that the Kingdom's huge budget surplus and commitment to a comprehensive food security program should ease pressures on the poorest Saudis. Further, the government is able to ease housing costs through its Real Estate Development Fund and other social housing initiatives.

Source: Capital Economics

MENA

Tourism arrivals grow by 12% in 2010

Figures issued by the World Tourism Organization indicate that tourist arrivals to the MENA region totaled 78.6 million in 2010, up 11.8% from 2009 and compared to a rise of 6.7% in global tourist activity. Arrivals increased by 14% to 60 million in the Middle East and rose by 5.8% to 18.6 million in North Africa last year. Arrivals to the Middle East and North Africa regions accounted for 6.4% and 2%, respectively, of the world's total. The growth rate of tourist arrivals to the Middle East changed from a drop of 5.7% in 2009 to a rise of 14% in 2010, constituting the biggest turnaround year-on-year globally and the strongest annual growth among all regions. The WTO attributed the increase in tourist arrivals to the Middle East to intra-regional travel stimulated by high oil prices, and expected tourist flows to the region to benefit from demand from neighboring countries. The WTO projected tourist arrivals to grow between 4% and 5% globally and by 7% to 10% in the Middle East in 2011.

Source: UNWTO, Byblos Research

SYRIA

Government to issue $643m in Treasury securities in 2011

The Finance Ministry indicated that it will sell SYP 30bn, or $643m, in Treasury securities this year. It said that the securities will include SYP 27bn in long-term bonds and SYP 3bn in short-term bills. The ministry will sell SYP 1bn in each of three-six- and nine-month Treasury bills. Further, it will auction SYP 5bn of one-year bonds, SYP 12bn of two-year bonds, SYP 6bn in three-year bonds, and SYP 4bn in five-year bonds. The first auction will take place on February 14 with the sale of SYP 1bn of six-month bills and SYP 2bn of three-year debt. Last December, the Finance Ministry announced the launch of a debt market in Syria through the issuance of Treasury bills in coordination with the Central Bank of Syria (CBS). It already auctioned SP 1bn in three-year maturities and SP 1bn in six-month maturities on December 13, 2010. The ministry said proceeds from the auctions 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: Bloomberg, Central Bank of Syria, Byblos Research

EGYPT

Rating agencies downgrade sovereign ratings on political uncertainties

Standard & Poor's lowered Egypt's long-term foreign currency sovereign ratings to 'BB' from 'BB+', and its long- and short-term local currency ratings to 'BB+/B' from 'BBB-/A-3'. It also placed the ratings on CreditWatch with negative implications, indicating that it may lower the ratings again in case of significant political instability. Further, it lowered to 'BB+' from 'BBB-' Egypt's transfer and convertibility assessment on the likelihood of the sovereign restricting access to foreign exchange needed for debt service by non-government borrowers. It expected the current political instability and violent conflict to affect Egypt's economic growth in 2011 and beyond, especially through the adverse impact on tourism. It added that the conflict and ensuing uncertainty may also weigh on Egypt's balance of payments if FDI or remittances decrease. It said that prolonged political instability and uncertainties may undermine investor confidence in long-term project financing, while volatile capital flows to Egypt such as portfolio investments are also vulnerable to a reversal. It expressed concern that the 2011 budget deficit could reach double digits if the government increases fuel and food subsidies without emergency spending cuts in other areas.

In parallel, Moody's Investors Service downgraded Egypt's government bond ratings to 'Ba2' from 'Ba1' and changed the outlook to 'negative' from 'stable'. It also downgraded the country ceiling for foreign currency bonds to 'Baa3' from 'Baa2', the country ceiling for foreign currency bank deposits to 'Ba3' from 'Ba2', the short-term country ceiling for foreign currency bonds to 'P-3' from 'P-2', and the local currency ceilings to 'Baa1' from 'A3'. It attributed the downgrades to a significant rise in political event risk and concern that the policy response could undermine Egypt's already weak public finances. It said it would downgrade the sovereign ratings again in case of a substantial escalation of political volatility, a large fiscal slippage, or evidence of lasting economic damage that threatened to impair credit fundamentals relative to similarly-rated peers. Further, Fitch Ratings revised the rating outlook on Egypt to 'negative' from 'stable' and affirmed its Long-term foreign and local currency Issuer Default ratings (IDR) at 'BB+' and 'BBB-', respectively, as well as the short-term foreign currency IDR at 'B' and Country Ceiling at 'BB+'. It warned that it would downgrade the ratings if the unrest threatens economic and financial performance, and derails economic reforms.

Source: Standard & Poor's, Moody's Investors Service, Fitch Ratings

GHANA

Start of oil production to push growth to 13.4% in 2011

The World Bank estimated economic growth in Ghana at 6.6% in 2010 compared to a growth of 4.7% in 2009, and relative to growth of 4.7% in Sub-Saharan Africa (SSA). It also projected Ghana's real GDP growth at 13.4% in 2011, compared to 5.3% in SSA this year. The Bank expected Ghana to have the fastest growing economy in sub-Saharan Africa, mainly stimulated by the start of oil production. Also, the World Bank revised the country's GDP upwards by 60%, placing it among lower-middle-income countries. It noted that non-oil growth is expected to post a high performance fueled by the construction services and heavy infrastructure projects. It warned that inadequate and imprudent management of inflows from oil sector could discourage agricultural exports. In parallel, the World Bank estimated Ghana's current account deficit at 3.6% of GDP in 2010 compared to a deficit of 2% of GDP for SSA. It also forecast the current account deficit at 3.1% of GDP this year compared to a deficit of 2.3% of GDP for the region.

Source: World Bank

BANKING

EGYPT

Agencies downgrade bank ratings on political instability

Moody's Investors Service downgraded the long-term foreign currency (FC) deposit rating to 'Ba3' and the Local currency (LC) deposit ratings to 'Ba1/NP' of National Bank of Egypt (NBE), Banque Misr, Commercial International Bank (CIB), Bank of Alexandria, and Banque du Caire. As such, it lowered the LC deposit ratings of the first four banks by two notches and the last one by one notch. It said the ratings on the five banks remain under review for possible further downgrade. The agency attributed the banks' downgrades to its reassessment of Egypt's capacity to support its banking system following the earlier downgrade of the country's sovereign ratings. It said the review for potential further downgrade reflects concerns that the current political and social unrest will negatively impact the economy and, ultimately, the financial health of the banks. Further, Standard & Poor's lowered the long-term ratings on NBE and CIB to 'BB' from 'BB+' and placed the 'BB/B' long- and short-term ratings on CreditWatch with negative implications. It attributed the decision to its earlier downgrade of Egypt's sovereign ratings due to the ongoing political instability and violent unrest, which may impact economic growth. It added that the downgrades reflect the risk of a negative effect on the financial profiles of the banks, particularly their asset quality and profitability; and the risk that the operating environment will affect the liquidity position of the banking sector.

In parallel, Fitch Ratings revised to 'negative' from 'stable' the outlooks on the Long-term Issuer Default Ratings (IDR) of NBE and its wholly-owned subsidiary, National Bank of Egypt (UK) Ltd, and on the ratings of CIB. It affirmed the banks' Long- and short-term IDRs at 'BB+' and 'B', respectively. It also revised the outlook on NBE's National Long-term Rating to 'negative' from 'stable'. The agency attributed the outlook revision to its earlier change of Egypt's sovereign ratings outlook to 'negative' following the recent upsurge in political protests, and to the uncertainty of the political and economic outlook ahead of the elections next September.

Source: Moody's Investors Service, Standard & Poor's, Fitch Ratings

ALGERIA

IMF calls for opening state-banks to foreign participation

The International Monetary Fund stressed the importance of accelerating financial sector reforms in Algeria, especially the strengthening of financial supervision and monitoring. It indicated that non-performing loans have declined recently, but emphasized the need to further reduce the high level of NPLs at public banks. It noted that improving the governance of public banks and modernizing their operational framework would help enhance financial intermediation. It encouraged authorities to bring the banks up to international standards, including through partnerships with foreign institutions.

Source: International Monetary Fund

NIGERIA

AMCON delays issuance of bonds worth $10bn

The Asset Management Corporation of Nigeria (AMCON), the state-owned company set up to buy non- performing loans from banks, postponed issuing 1.5trn naira ($9.8bn) of bonds, citing delays in obtaining all regulatory approvals in time. Last December, it issued zero-coupon consideration bonds valued at N1.04trn in exchange for bank NPLs worth N2.2trn, of which margin loans accounted 40% of the total. The bonds have a yield of 10.25% and will mature at the end of 2013. AMCON bought NPLs from 21 of the country's 24 banks on December 31 as part of measures to boost the industry after a 2008 debt crisis threatened it with collapse. It planned to replace the consideration bonds with fully tradable bonds by the end of January. AMCON still plans to issue an extra N500bn naira to absorb the remaining NPLs from other lenders when retiring the consideration bonds. The Central Bank of Nigeria (CBN) bailed out the banks with N620bn in August 2009 and fired the chief executives of eight lenders. AMCON Also, the CBN and the 24 deposit money banks in the country signed last month a Memorandum of Understanding on the establishment of a Banking Sector Resolution Cost Fund to meet any shortfalls that may arise from the management and realization of the eligible bank assets to be acquired by AMCON. The arrangement required the CBN to contribute N50bn to the fund every year over the next 10 years, while banks will make an annual contribution of 30 basis points of their total assets to a sinking fund.

Source: Bloomberg, Thomson Reuters

UKRAINE

Plan to develop market for distressed assets

The International Finance Corporation and the Perspektiva stock exchange announced plans to develop a market for distressed bank assets in Ukraine in order to improve banks' liquidity and help them resume lending. The two sides will develop recommendations to improve regulation and set transparent rules and standards for participants in the secondary distressed assets market. The cooperation will focus on bad asset evaluation standards, disclosure standards for financial institutions and qualified investors, turnover of securities issued in the process of distressed assets securitization, easing requirements for listing of such securities on the exchange, and tracking sales of distressed assets. The IFC said the measures will help banks resolve their distressed assets problem through the development of alternative platforms for their disposition. In turn, this will improve their balance sheet, support banks their recovery from the financial crisis, and reinstate their credibility. This is the first time IFC has supported the development of a securitized instrument for distressed assets in cooperation with a stock market. Perspektiva is the second largest stock exchange in Ukraine by trade volume, with a 28% market share.

Source: International Finance Corporation

Brent crude tops $103 a barrel as Egypt violence escalates

Brent crude for March increased by $1.03 to $103.4 a barrel, the highest intraday price since September 26, 2008, after violent clashes in Egypt raised concern of supply disruptions and unrest across the Middle East, overshadowing higher supplies in the United States. U.S. crude for March rose 54 cents to $91.4. The unrest spreading across the MENA region increased prices as the region produces more than one third of the world's oil supplies. Egypt controls oil flows on the Suez Canal and the Suez-Mediterranean oil pipeline, which together moved over 2 million barrels per day of crude and oil products in 2009. Prices would have increased at some point, regardless of developments in the Middle East, becasue of the increase in global demand since last summer. OPEC stated that it has no plan to meet its required target before its next scheduled gathering in June 2011.
Source: Thomson Reuters

Supply and demand gap for natural gas widening in the Middle East

The Gas Arabia Summit noted that the Middle East, the world largest natural gas producer, would not be able to export natural gas within 10 to 20 years. It attributed the trend to growing domestic demand as well as energy subsidy policies. It noted that the supply and demand gap for natural gas is fast growing in the region mainly in producing countries like the UAE, Qatar, Saudi Arabia and Iran, while it expected the region's demand for gas growth to exceed 5% annually. It advised producing countries to explore more clean and alternative energy sources to preserve their exports in the future.
Source: Khaleej Times

Iran’s Petrochemical exports at $7.6bn

The Petrochemical Commercial Company, a subsidiary of Iran’s National Petrochemical Company, stated that petrochemical products exports reached $7.6bn in the first 10 months of the current Iranian year which started on March 21 2010. It noted that it exported 11.8 million tons to countries in the Far East and Europe and that liquefied gas ranked first in volume followed by methanol and heavy cuts. Iran is the largest ethylene exporter to the European Union and the second largest to China.
Source: Iran Daily

OPEC to intervene if Egypt's crisis disrupts oil supplies

The Organization of Petroleum Exporting Countries (OPEC) stated that it would increase production if the Egyptian crisis disrupted oil supplies channeled through the Suez Canal and the Sumed oil pipeline. It noted that OPEC would intervene when disruption would exceed one million barrels per day but considered such an outcome unlikely to take place since the pipelines are well protected. It added that the market is well supplied and does not warrant such high oil prices.
Source: Dow Jones Newswires

Base metals: Tin at record highs, copper is the weakest performer

Base metals regained strength during the past week after improving confidence around China. Geopolitical problems in Egypt also helped boost the complex, with rising oil prices lifting operating costs for both mines and smelters. Price forecasts for 2011 and 2012 increased to reflect continued investor interest in the sector. Aluminum requires considerable energy to smelt and therefore has the greatest exposure to higher oil and coal prices. Similarly, the impact of high coal prices on swing producers in China is lifting nickel prices. Copper was the weakest performer in the base metals complex in the week, rising just 2% week-on-week. Tin prices increased to record highs at around $30,000 per ton, up 12% from the start of the year. In China, the number of small-scale tin miners has reportedly been cut from 400 to 116 and similar declines have been seen in Indonesia in recent years. Together, these two countries produce 65% of global tin mine output.
Source: Standard Chartered

Precious metals: Gold fails to benefit from Egyptian events

Precious metal prices remained under downward pressure during the past week. Gold and platinum fell marginally, palladium failed to make further gains, while silver bounced back after a very poor start to 2011. Gold was unable to make significant gains on the back of the events unfolding in Egypt and rising oil prices. This was a bearish signal and highlights the changed tone of the market, as the European banking crisis has eased and strong macroeconomic data from around the world has reversed safe-haven flows into gold. Investors have continued to reduce their long exposure to gold, a net speculative positions on U.S. exchanges fell by 3% week-on-week to their lowest level since July 2009.

Despite lower prices for gold and silver, the short-run bullish view remained for palladium and platinum. Investor flows continue to be supportive for cyclical commodities and the platinum group metals are still registering fresh inflows. ETPs for palladium and platinum increased by 5.6% yield-to-date. Platinum is expected to outperform palladium as the European auto sector gathers steam and the technical picture is bullish.
Source: Standard Chartered

Global Commodity Outlook

(3-months LME, $/ton)	2010	2011f	2012f
Aluminum	2,201	2,363	2,300
Copper	7,570	9,938	10,000
Lead	2,172	2,588	2,650
Nickel	21,913	25,500	23,000
Tin	20,448	31,000	28,000
Zinc	2,188	2,413	2,400
(Spot price, $/ounce)			
Gold	1,227	1,400	1,200
Palladium	529	863	900
Platinum	1,613	1,925	2,050
Silver	20	27	22

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	-9.9	16.1	2.9	7.4	2.0	3.2	3.4	1.8
Angola	B+ Stable	B1 Positive	B+ Positive	- -	B Stable	2.7	20.6	20.2	35.7	8.2	-	1.6	17.6
Egypt	BB Negative	Ba2 Negative	BB+ Negative	BBB- Stable	BB Stable	-8.2	74.2	14.3	66.5	4.6	88.3	-2.0	3.3
Ethiopia	-	-	-	-	CCC Stable	-1.5	-	-	257.5	-	-	-3.9	0.3
Ghana	B Stable	- -	B+ Negative	- -	B Stable	-10.8	-	34.9	50.0	-	-	-11.6	10.9
Ivory Coast	- -	- -	- -	- -	CCC Stable	-0.2	-	50.1	111.2	-	-	6.8	1.8
Libya	A- Stable	- -	BBB+ Stable	- -	BB Stable	13.3	0	7.2	11.6	3.2	5.1	20.1	2.5
Mauritania	- -	- -	- -	- -	- -	-4.5	88.5	69.8	128.4	-	1,220	-7.6	-1.3
Morocco	BBB- Stable	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-4.5	49.9	24.1	78.4	8.0	110.0	-5.3	0.9
Nigeria	B+ Stable	- -	BB- Negative	- -	B Stable	-7.9	14.1	5.0	14.2	0.7	-	13.0	0
Sudan	- -	- -	- -	- -	C Stable	-3.7	71.4	57.4	343.6	-	3,780	-8.9	5.5
Tunisia	BBB Stable	Baa3 Negative	BBB Stable	BBB Stable	BB Stable	-2.8	43.0	46.3	101.0	11.7	195.2	-4.4	3.7
Middle East													
Bahrain	A Stable	A3 Stable	A Stable	A Stable	BBB Stable	-5.4	32.8	139.6	170.2	6.8	946.6	5.2	9.9
Iran	- -	- -	B+ Stable	BB- Stable	B Stable	0.4	21.7	5.6	19.9	2.7	21.3	4.2	0.8
Iraq	- -	- -	- -	- -	CC Stable	-14.2	42.2	41.8	65.4	-	75.3	-14.4	1.4
Jordan	BB Stable	Ba2 -	- -	BB Stable	B Stable	-6.3	63.0	19.2	44.8	4.8	48.6	-7.2	9.2
Kuwait	AA- Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	17.1	6.5	46.2	72.2	3.7	224.0	30.1	-8.7
Lebanon	B Positive	B1	B Stable	B Stable	CCC Stable	-8.7	139.0	160.3	243.4	14.7	212.2	-11.1	10.5
Oman	A Stable	A2 -	- -	A Stable	A Stable	5.3	5.7	15.4	22.6	-	63.7	5.8	3.9
Qatar	AA- Stable	Aa2 Stable	- -	AA- Stable	A Stable	10.8	27.2	80.6	139.3	10.0	512.3	15.6	5.0
Saudi Arabia	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	BBB Stable	1.9	12.9	22.6	40.5	2.4	22.7	6.7	7.7
Syria	- -	- -	- -	BB- Stable	B Stable	-4.3	26.9	14.9	48.0	-	52.9	-3.9	2.7
UAE	- -	Aa2 -	- -	AA- Stable	BB Stable	-2.7	24.7	53.1	57.7	7.3	360.4	5.4	0.6
Yemen	- -	- -	- -	B Stable	CC Stable	-5.5	45.8	21.4	70.5	-	139.6	-4.9	0.3

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 (%)
Central & Eastern Europe													
Armenia	-	Ba2	BB-	-	-								
	-	-	Stable	-	-	-4.8	44.8	38.4	402.7	-	194.2	-14.6	9.2
Bulgaria	BBB	Baa3	BBB-	-	BB								
	Stable	Stable	Stable	-	Stable	-1.8	16.2	109.2	122.3	21.2	393.2	-6.2	9.8
Kazakhstan	BBB	Baa2	BBB-	-	BB								
	Stable	-	Stable	-	Stable	-2.8	16.0	86.4	182.9	30.3	350.4	3.2	8.8
Romania	BB+	Baa3	BB+	BBB-	BB								
	Negative	-	Stable	Negative	Stable	-6.8	33.9	77.4	197.5	24.6	-	-5.5	3.8
Russia	BBB	Baa1	BBB	-	BBB								
	Stable	Positive	Stable	-	Stable	-5.6	9.3	31.9	124.7	13.4	99.2	4.5	-0.6
Turkey	BB	Ba2	BB+	BB	B								
	Positive	Positive	Stable	Stable	Stable	-4.1	44.4	41.3	187.3	39.7	-	-3.4	1.0
Ukraine	B+	B1	B	-	CCC								
	Stable	Positive	Negative	-	Stable	-5.5	39.2	79.0	164.9	35.9	330.0	-2.0	4.0

Sources: International Monetary Fund; Economist Intelligence Unit - The above figures are estimated for 2010

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	26-Jan-11	No change	15-Mar-11
Eurozone	Refi Rate	1.00	13-Jan-11	No change	3-Feb-11
UK	Bank Rate	0.50	13-Jan-11	No change	10-Feb-11
Japan	O/N Call Rate	0-0.10	25-Jan-11	No change	15-Feb-11
Australia	Cash Rate	4.75	07-Dec-10	No change	01-Feb-11
New Zealand	Cash Rate	3.00	09-Dec-10	No change	27-Jan-11
Switzerland	3 month Libor target	0.25	16-Dec-10	No change	10-Mar-11
Canada	Overnight rate	1.00	18-Jan-11	No change	01-Mar-11
Emerging Markets					
China	One-year lending rate	5.81	25-Dec-10	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	26-Jan-11	No change	15-Mar-11
Taiwan	Discount Rate	1.63	30-Dec-10	Raise 12.5bps	Mar-11
South Korea	Base Rate	2.75	13-Jan-11	Raise 25bps	11-Feb-11
Malaysia	O/N Policy Rate	2.75	27-Jan-11	No change	11-Mar-11
Thailand	1D Repo	2.25	12-Jan-11	Raise 25bps	09-Mar-11
India	Reverse repo rate	6.50	25-Jan-11	Raise 25bps	17-Mar-11
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 50bps	N/A
Saudi Arabia	Repo rate	0.25	16-Jun-09	Cut 25bps	N/A
Egypt	Overnight Deposit	8.25	24-Dec-09	No change	N/A
Turkey	Base Rate	6.25	20-Jan-11	Cut 25 bps	15-Feb-11
South Africa	Repo rate	5.50	20-Jan-11	No change	24-Mar-11
Kenya	Central Bank Rate	5.75	28-Jan-11	Cut 25 bps	Mar-11
Nigeria	Monetary Policy Rate	6.50	25-Jan-11	Raise 25bps	Mar-11
Ghana	Prime Rate	13.50	10-Dec-10	No change	Feb-11
Angola	Rediscount rate	30.00	16-Jun-10	No change	N/A
Mexico	Target Rate	4.50	21-Jan-11	No change	04-Mar-11
Brazil	Selic Rate	11.25	19-Jan-11	Raise 50bps	02-Mar-11
Armenia	Refi Rate	7.25	11-Jan-11	No change	N/A
Romania	Policy Rate	6.25	05-May-10	No change	N/A
Bulgaria	Base Interest	0.18	01-Jan-10	Raise 1bps	N/A
Kazakhstan	Refi Rate	7.00	01-Jan-11	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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