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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bond inflows at $2bn, equity outflows at $11.5bn in first two months of 2011, AUM at $964bn

Capital outflows from emerging market equity and bonds totaled $9.5bn in the first two months of 2011, with bond inflows at $2bn and equity outflows at $11.5bn. Emerging Asia accounted for $769m or 37.8% of bond inflows, followed by Emerging Europe, the Middle East & Africa (EMEA) with $647m (31.8%) and Latin America with $616m (30.3%). Further, Emerging Asia posted $9.1bn of equity outflows year-to-February, followed by Latin America with $2.8bn while EMEA posted $413m in equity inflows. Brazil was the biggest recipient of bond inflows with $370m, or 18.2% of total inflows into emerging market bonds, while China was the largest source of equity outflows with $3.7bn, or 32.1% of overall outflows of emerging market equities. In parallel, Assets under management (AUM) in emerging markets totaled $964.4bn at the end of February 2011, with bonds accounting for $157.3bn and equities for $807.2bn. The EMEA region had $578bn in AUM in bonds, followed by Latin America with $56.2bn and Emerging Asia with $443.3bn. Further, Emerging Asia accounted for $504.8bn in equity related AUM, followed by Latin America with $160.2bn and EMEA with $142.2bn. Brazil had $18.9bn in bonds related AUM, or 12% of the total, while China had $163.8bn in equity-related AUM, accounting for 20.3% of overall equities under management in emerging markets.

Source: Barclays Capital, Byblos Research

Trading in Credit Default Swaps up 22% to $1,452bn in 2010

Trading in emerging markets Credit Default Swaps (CDS) reached $1,452bn in 2010, constituting an increase of 22% from $1,190bn in 2009. Trading in CDS reached $208bn in the fourth quarter of 2010, constituting a decrease of 41% from $349bn in the same period of the previous year, and a 47% drop from $394bn in the third quarter of 2010.The most frequently traded sovereign CDS contracts in the fourth quarter were those of Brazil at $43bn, followed by Turkey at $22bn, and Mexico at $17bn. The most frequently traded corporate CDS contracts were those on Gazprom at $7bn, followed by Pemex at $3bn and America Movil at $1bn in CDS trades. The survey covered data on CDS contracts for 19 emerging economies and 10 emerging market corporate issuers from 12 major international banks and broker-dealers. It noted that the growth rate of emerging markets CDS trading volume reflects increased liquidity in the CDS markets. It attributed this liquidity to standardization efforts in 2009, as well as to hedging needs caused by the rise in the Eurozone's sovereign risks in the second quarter of 2010.

Source: EMTA

MENA

Equity markets down by 9% in first two months of 2011

Arab stock markets decreased by 9.2% and GCC markets by 8.9% in the first two months of 2011 compared to increases of 3.6% and 5%, respectively, in the same period last year. Activity on the Iraqi stock exchange increased by 22.5% during the covered period, posting the best performance among Arab markets, and was followed by the Casablanca equity market with a 1.33% improvement. In parallel, the Egyptian stock market dropped by 21% in the first two months and posted the worst performance among Arab equity markets. It was followed by the Tunis stock exchange with a 19.6% decrease, the Dubai financial market with a 13.5% contraction, the Saudi Arabia equity market with a 10.3% fall, the Muscat bourse with a 9.1% decrease, the Doha exchange with an 8.6% reduction, the Kuwait bourse with a 6.8% downturn, the Damascus financial market with a 5.2% retreat, the Amman stock market with a 5.1% drop, the Abu Dhabi market with a 4.8% decrease, the Beirut Stock Exchange with a 3.7% contraction, the Palestine stock market with a 1.5% fall, and the Bahrain equity market with a 0.1% decline. In comparison, emerging market equities dropped by 3.6% and global equities increased by 4.5% in the first two months of 2011.

Source: Local stock markets, Byblos Research

IRAN

Tehran urged to address its anti-money laundering deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), called again on its members and other jurisdictions to apply counter measures to protect the international financial system from the ongoing and substantial money laundering and terrorist financing risks originating from Iran. It welcomed the recent steps that Iran took to engage with the FATF, but expressed concerns about Iran's failure to meaningfully address the ongoing and substantial deficiencies in its AML/CFT regime. The FATF urged Iran to immediately address its AML/CFT deficiencies, in particular by criminalizing terrorist financing and effectively implementing suspicious transaction reporting requirements. The FATF reiterated its call to all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also asked jurisdictions to protect against correspondent relationships being used to bypass or evade counter-measures and risk mitigation practices, and to take into account money laundering and terrorism financing risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. The FATF warned that, if Iran fails to take concrete steps to improve its AML/CFT regime, it will consider calling on all countries and jurisdictions to strengthen counter-measures in June 2011.

Source: Financial Action Task Force

POLITICAL RISK OVERVIEW - FEBRUARY 2011

BAHRAIN

Unprecedented anti-government protests started in Bahrain, led by the Shia majority against the Sunni absolute monarchy. Protests emerged on February 14 outside the capital Manama, where a protester was killed by the police. Opposition groups demanded the resignation of the government, the investigation of deaths and commitment to reform. King Hamad ibn Isa Al Khalifa released a number of political prisoners, reshuffled the Cabinet and allowed the return of exiled opposition leader Hassan Mashaima.

EGYPT

President Hosni Mubarak stepped down on February 11 following 18 days of massive protests, where up to 365 civilians and 32 policemen were killed. Also, around 5,500 civilians and 1,000 police were injured. The Supreme Military Council assumed control until promised presidential and parliamentary elections take place within six months. Reformists continued to press for the purge of all those linked to Mubarak and the lifting of a 30-year emergency law. The Military Council warned that it will not tolerate further protests or strikes due to disastrous effects on the economy. A new civilian Cabinet was formed on February 22 with 11 new ministers, including opposition and independent members. The Military Council proposed constitutional amendments to be put to referendum before planned elections, including term limits on the presidency and stronger judicial oversight of elections.

IRAN

Iranian security forces detained several activists and journalists ahead of February 14 anti-government rallies and placed opposition leaders Mehdi Karoubi and Mir Hossein Mousavi in a 'safe house' allegedly for their 'own safety'. Also, clashes with security forces during rallies in Tehran killed two Iranians, wounded dozens and led to the detention of hundreds. Further, pro-government supporters clashed with opposition supporters during a funeral of a student killed in the February 14 protests.

IRAQ

Protests over corruption, poor services and food shortages continued across the country, while clashes with security forces left at least 29 protestors killed. Prime Minister Nouri al-Maliki promised not to seek a third term in office, and gave the Cabinet a 100-day deadline to implement changes or assume consequences such as dissolution. Further, the governors of Kut, Basra and Babil stepped down amid protests, so Maliki called for early provincial elections to meet the people's demands for change. A suicide bombing of Shiite pilgrims near the city of Samarra killed 48 people and injured another 80.

LIBYA

Hundreds of people were killed and thousands injured during the ongoing violent unrest after demonstrations against President Muammar Qadaffi's 41-year rule began on February 16 in Benghazi. Tensions escalated on February 17 as security forces and mercenaries reportedly attacked protesters, where the worst violence was reported in Benghazi and Tripoli. Qadaffi's son, Saif al Islam warned of a civil war as unrest spread to Tripoli. Self-appointed opposition leaders declared an interim government on February 26, to be headed by former Justice Minister Mustafa Abd el-Jalil. The UNHCR estimated that 100,000 refugees had fled Libya, most of whom traveled to Egypt or Tunisia.

NORTH SUDAN

President Omar al-Bashir officially accepted the final results of Southern Sudan Referendum with 98.83% in favor of an independent South Sudan. Fights between Misseriya Arab nomads from the North and pro-Southern Dinka Ngok in Abyei area killed 10 people as talks stepped up to address post-referendum issues before the end of March. Further, the UN-AU peacekeeping mission in Darfur announced a strategy to increase patrols in order to improve civilian protection during heightened insecurity. The National Congress Party claimed that the current President would not stand in the next election as part of a reform package aimed at democratizing the country.

SOUTH SUDAN

Clashes between Sudan People's Liberation Army (SPLA) and militias loyal to renegade SPLA General George Athor killed over 200 people. The government announced that existing oil contracts would not be revoked, while it expected that current oil-sharing arrangements under the Comprehensive Peace Agreement to expire when the newly created South Sudan comes into effect in July.

SYRIA

A third peaceful protest in three weeks in Damascus was dispersed on February 23 by the police. The earlier planned "Day of Rage" on February 25 failed to draw any protesters. The government allowed access to Facebook and YouTube on February 9 after three years of blocking the websites. The Higher State Security Court sentenced a teenage blogger to five years in prison on charges of spying for the CIA. Two Iranian warships docked at Latakia port, the first Iranian navy vessels to pass through the Suez Canal since the Iranian revolution in 1979.

TUNISIA

Attempts were made in February to restore stability in the country following the ousting of fomer President Zine al-Abidine Ben Ali. The UN office of the High Commissioner for Human Rights (UNHCR) team stated that at least 219 people were killed during the January uprising. Interim Prime Minister Mohammad Ghannouchi announced his resignation on February 27th. The UNHCR warned of a humanitarian crisis following massive influx of refugees from Libya. The government issued a formal request to Saudi Arabia for the extradition of Ben Ali and is seeking to put him on trial for the killing of protesters.

YEMEN

The escalation of nationwide deadly protests demanding regime change, mainly in Sanaa, Taiz and Aden, left 24 dead in daily clashes with security forces. Also, Yemeni troops fired on protestors in Aden causing casualties, despite President Ali Abdullah Saleh's earlier order to protect pretestors. He also promised to form a national unity government, not to run in the 2013 elections and not to pass authority to his son. In parallel, after the President's statement on February 27 to fight 'with every drop of blood' to remain in power, the Joint Meeting Parties refused the president's offer to form a unity government, and continued demonstrations.

Source: International Crisis Group

GHANA

Economic growth at 13% in 2011, IMF urges arrears settlement

The International Monetary Fund projected Ghana's real GDP to grow by about 13% in 2011 compared to 6% in 2010. It expected this year's economic expansion to be evenly divided between the oil and non-oil sectors. It said inflation declined to 9% in 2010 from an average of nearly 20% in 2009, but added that risks to inflation have shifted to the upside this year due to rising demand pressures, global commodity prices, and easing domestic liquidity. It noted that policy tightening may be needed in 2011 to keep inflation in single digits. It also anticipated the balance of payments to remain in surplus despite further import growth. Also, buoyant global prices for gold and cocoa, combined with strong portfolio and other investment inflows, contributed to a buildup in foreign currency reserves to about 3.5 months of import cover, up from 2.75 months at end-2009. It said that Ghana graduated to lower middle-income status, due to rebased and revised national accounts issued in late-2010, which include an upward revision to national incomes of about 70%.

The Fund indicated that the government incurred again substantial payments arrears in 2010, contrary to agreed targets, reflecting commitments in 2008 and earlier years that continue to drive spending outlays. It encouraged the government to strengthen expenditures control and develop a comprehensive strategy for managing arrears and related obligations. The IMF encouraged additional efforts to strengthen the projected 2011 fiscal outturn, both to limit near-term financing needs and to put the budget on a sounder footing over the medium term. It noted that Ghana's tax revenues were equivalent to less than 14% of GDP in 2010, well below the average of 20% of GDP for lower middle-income countries. It estimated the public debt to have risen to 41% of GDP at end-2010, excluding the new domestic arrears, from 39% of GDP at end-2009. It also urged the Bank of Ghana to address non-performing loans in the banking sector.

Source: International Monetary Fund

NIGERIA

Non-oil growth projected at 7.7% in 2011, key risks are higher inflation and fiscal consolidation

The International Monetary Fund declared that Nigeria's economic growth is strong and that its medium-term prospects are favorable. It estimated the country's real GDP growth at 8.4% in 2010 and projected slower growth of 6.9% in 2011. It also estimated non-oil GDP growth at 7.9% in 2010 and forecast it to expand by 7.7% this year. It expected continued rapid economic expansion over the medium term, based on robust but declining activity in non-oil sectors. The Fund said risks to the outlook tend to the downside in the short term but are generally balanced, and pointed out the risks of lower oil production and high inflation. It said inflation has averaged 13.8% in 2010 and 12.5% in 2009, but projected it to decline to 9% by the end of 2011. It indicated that addressing infrastructure bottlenecks is critical for sustained high growth, but noted that public investment spending should be executed at a pace that does not jeopardize macroeconomic stability. It added that an increase in public investment could be a source of considerable waste if adequate quality control mechanisms are not put in place.

The Fund said fiscal policy in 2010 has been overly expansionary and the fiscal adjustment envisaged in the 2011 budget would help to rebuild safety buffers and provide much needed support to monetary policy. It noted, however, that the needed fiscal consolidation of about 7% of non-oil GDP is large and could be difficult to achieve in an elections year. It forecast the fiscal deficit at 0.4% of GDP this year compared to 7% of GDP in 2010. The IMF considered that the government's efforts to improve non-oil revenue collections will strengthen the overall fiscal position and reduce the vulnerability of public spending to volatile oil prices in the longer term.

In parallel, the IMF encouraged monetary policy to focus on reducing inflation, while allowing for more flexibility in interest rates and the exchange rate. It called for tightening monetary policy in view of continued inflationary pressures and the steady decline in international reserves. It supported the increases in policy rates that took place in September and November, and noted the need for additional increases if fiscal consolidation is not sufficient or timely. It added that monetary policy needs a well-defined nominal anchor, as the pursuit of multiple objectives by monetary authorities sends unclear signals about the future path of prices, interest rates, and international reserves.

Source: International Monetary Fund

TUNISIA

Economy to slightly contract in 2011 in best case scenario

Moody's Investors Service expected Tunisia's real GDP growth to be slightly negative in 2011, assuming a stabilization of the economy followed by a recovery in the last three quarters of the year. It expected the recent events to significantly affect fiscal performance and real growth this year, adding that a protracted crisis could potentially be very damaging to the country's economy, given its reliance on tourism and foreign direct investment (FDI). It added that the economy's current outlook reflects the ongoing political crisis that started with social unrest and led to an unexpected regime change, as well as the significant uncertainties surrounding both the economic and political outcome of regime change. The agency cautioned that FDI will be very weak in 2011 and that large investors are likely to delay projects until the restoration of political stability. It noted, however, that efforts to modernize the country and improve the attractiveness of the economy are likely to constitute a key priority for the new government, since it remains the only lasting solution to effectively tackle youth unemployment. Moody's expected the country to be able to rebound and to post growth rates of around 5% from 2013 onwards if the transition towards democracy is successful and if political stability can be assured.

Source: Moody's Investors Service

SYRIA

Insurance premiums up 31.6% to $404m in 2010

Total insurance premiums generated in the Syrian market reached $404.3m in 2010, constituting an increase of 31.6% from 2009. Premiums from third-party car insurance totaled $140.6m and accounted for 34.8% of the total. They were followed by all-risk car insurance with premiums of $79.6m, or 19.7% of the total; health insurance premiums with $79.6m (18.8%), fire with $49.3m (12.2%), marine with $25m (6.2%), engineering with $12.5m (3.1%), while other non-life categories accounted for the remaining 3.9% of the market. Health insurance premiums jumped by 425% year-on-year, all-risk car insurance rose by 25.7%, engineering increased by 23.6%, fire grew by 18.6% and third-party car insurance expanded 7% year-on-year; while marine premiums declined by 9.25%. Premiums generated from life insurance jumped by 47% year-on-year to $5.7m and accounted for 1.4% of total premiums. Insurance penetration remains very low, as aggregate premiums were equivalent to 0.7% of GDP and to $18.1 per capita in 2010.
Source: Insurance Supervisory Commission, Byblos Research

LIBYA

Sovereign ratings downgraded to speculative grade

Fitch Ratings downgraded Libya's long-term foreign and local currency Issuer Default Ratings (IDR) by three notches to 'BB' from 'BBB' and kept the ratings on Rating Watch Negative. It also lowered the country's short-term foreign currency IDR to 'B' from 'F3' and the Country Ceiling to 'BB' from 'BBB'. It attributed the downgrades to the country's increasing chaotic political and economic conditions that are no longer consistent with an investment grade rating, and to the fact that the sovereign's foreign assets, which underpinned the previous rating, were frozen by international sanctions. It said that the United Kingdom, the U.S. and the E.U. have frozen assets controlled by the Gadhafi family, while the U.S. has unilaterally banned transactions with the Central Bank of Libya and the Libyan Investment Authority. Further, it added that oil production decreased to around half of the country's potential and its installations are at risk of long-lasting damage. As such, it expected the disruption to the wider economy to increase as oil and gas account for the over half of the country's GDP, 90% of its current account receipts and 80% of government revenues.
Source: Fitch Ratings

QATAR

Government-related issuers downgraded

Moody's Investors Service downgraded by one notch to 'Aa2' the ratings of instruments issued by the government-related issuer (GRI) Ras Laffan Liquefied Natural Gas Company limited (Ras Laffan 1), Ras Laffan II and Ras Laffan 3. It also downgraded to 'Aa2' the senior bonds issued by Nakilat, the wholly-owned subsidiary of Gas Transport Company Ltd, and to 'Aa1' the Nakilat subordinated bonds. It attributed its action to a change in methodology that distinguishes between the ratings of GRIs and that of the supporting sovereign. It still expected support from the Qatari government if potential future stress scenarios occur, given the strategic importance of these issuers to Qatar. Further, the agency downgraded to 'Baa2' from 'Baa1' the local and foreign currency long-term issuer ratings of Qatar Real Estate Investment Company following a reassessment of the company's standalone credit fundamentals. The GRI is 60% owned by the government through various entities.
Source: Moody's Investors Service

ANGOLA

Sovereign ratings under review for possible upgrade

Moody's Investors Service placed under review for possible upgrade the ratings on Angola's 'B1' foreign and local currency government bond as well as the ratings on its foreign currency ceilings for bonds and deposits of 'Ba3' and 'Ba2', respectively. It attributed its decision to the strengthening of the country's fiscal and external accounts and to the significant progress in paying arrears. It noted that the government's prudent macroeconomic management and the recovery of oil prices last year led to a fiscal surplus of 7.5% of GDP and a current account surplus of 2.6% of GDP in 2010, up from deficits of 10% of GDP for each in 2009. The agency said it will assess if the improvement in Angola's metrics would be sustainable over the medium term. Moody's also expected the Angolan government to have repaid its arrears in full by the end of the first quarter this year. Further, it considered that the implementation of reforms linked to the 27-month stand-by agreement with the IMF could be credit-positive for Angola, as key reforms include the setting-up of a debt management agency and greater fiscal transparency. It said that Angola's institutional strength would progress if the reforms are successfully implemented, which would improve the country's creditworthiness.
Source: Moody's Investors Service

ARMENIA

Economic growth environment improves

Global investment bank Goldman Sachs ranked Armenia in 72nd place among 182 countries globally on its Growth Environment Scores index (GES) for 2010, up from 82nd place in 2009 and from 80th place in 1997. It also ranked Armenia in 33rd place among developing economies, up from 42nd place in 2009 and from 41st place in 1997. Armenia also ranked in second place among 12 countries that form the Commonwealth of Independent States (CIS), unchanged from the previous year but down from first place in 1997. The GES consists of five broad categories of growth criteria that are Macroeconomic Stability that covers inflation, government deficit and external debt as a percentage of GDP; Macroeconomic Conditions such as investment rates and openness of the economy; Human Capital, Technological Capabilities, and Political Conditions. Globally, Armenia tied with Greece, ranked ahead of Brazil and Trinidad & Tobago and came behind Albania and Grenada; while it ranked second to Belarus in the CIS. Armenia received a score of 5.53 points, above the global and CIS averages of 5.25 points and 4.87 points, respectively, and the developing economies' average of 4.75 points. The score of 10 countries of the CIS improved year-on-year and two declined.
Source: Goldman Sachs

BAHRAIN

Bank ratings on review for possible downgrade

Moody's Investors Service placed on review for possible downgrade the 'A3' long-term local and foreign currency deposit ratings and the 'C-' bank financial strength rating (BFSR) of National Bank of Bahrain and Bank of Bahrain and Kuwait, as well as the 'Baa3/Prime-3' local and foreign currency deposit ratings and the 'D' BFSR of BMI Bank. It attributed its action to its earlier decision to place the country's sovereign ratings on review for possible downgrade. It added that the rating actions are also driven by the probability of increased economic stress in the medium-term following the outbreak of serious anti-government protests in the country. It considered that the unrest would potentially have a credit-negative impact on the banks' standalone financial strength. Moody's warned about the impact of possible economic disruptions on asset quality, which could negatively affect the banks' large real-estate exposures. In parallel, it placed Gulf International Bank's 'A3' long-term foreign currency deposit ratings and 'D+' BFSR on review for possible downgrade. It said that its action is due to the ongoing weakness in the bank's financial performance and earnings capacity.

Source: Moody's Investors Service

TUNISIA

Bank ratings on negative outlook

Capital Intelligence assigned a 'negative' outlook to the Foreign Currency and Financial Strength ratings of Arab Tunisian Bank (ATB) and Banque de Tunisie. It affirmed ATB's long and short-term foreign currency ratings at 'BB+' and 'A3', respectively, and its financial strength rating at 'BB+'; as well as BT's long and short-term foreign currency ratings at 'BBB' and 'A3' respectively and its financial strength ratings at 'BBB+'. It attributed its action to the uncertain political situation and the spillovers on economic and financial performance, as growth is expected to be lower than previous forecasts with risks titled to the downside. It expected key economic sectors, such as tourism, to be negatively affected and to constitute a source of new NPLs going forward for the banking sector. Consequently, it expected both banks' performance and profitability to be weaker in 2011 due to a possible deterioration in asset quality and their limited asset expansion.

Source: Capital Intelligence

LIBYA

Agencies downgrade ABC

Standard & Poor's lowered its counterparty credit rating on the Bahrain-based Arab Banking Corporation (ABC) to 'BBB' from 'BBB+' and placed its' BBB' long-term and 'A-2' short-term ratings on CreditWatch negative. It attributed the downgrade to its earlier downgrade of Libya's sovereign ratings, as ABC is 59.4% owned by the Central Bank of Libya (CBL) and is considered a government-related entity. It said the CreditWatch placement reflects the risk of additional pressure on Libya's sovereign ratings as well as the political and social uncertainty in countries where ABC operates such as Tunisia, Egypt, Algeria, and Bahrain, which would have an impact on the bank's financial profile and asset quality. Further, Moody's Investors Service downgraded ABC's foreign currency deposits ratings to 'Baa3/Prime-3' from ‘A3/Prime-2' and kept the ratings on review for possible downgrade. It attributed its decision to the ongoing severe political crisis in Libya and the pressure the bank is likely to face as a result of its association with the CBL. It considered that the volatile political situation raises material uncertainty regarding the availability of parental support from the Libyan authorities. Also, Fitch Ratings downgraded ABC's Long-term foreign currency Issuer Default Rating (IDR) to 'BBB-' from 'BBB', as well as the bank's senior unsecured debt to 'BBB-' and subordinated debt to 'BB+'.

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

SAUDI ARABIA

Private sector lending up 6% in January

Figures issued by the Saudi Monetary Agency (SAMA) show that total assets of commercial banks reached SAR 1.4bn at the end of January 2011, constituting a 0.7% increase month-on-month and a 5.2% rise from a year earlier. Lending to the private sector increased by 0.8% month-on-month in January and by 6.2% form January last year to SAR 782bn. is distorted by a lower base in January 2010 after sector loans declined sharply in December 2009 Further, customer deposits totaled SAR 988bn at end-January, increasing by 0.3% from end-December, and by 7.7% from January 2010. The private sector deposits were the main contributor to deposit growth during the month, growing 2% month-on-month mostly from low cost deposits, such as demand deposits, while the public sector deposits fell by 2% month-on-month. The loans-to-deposits ratio was 79.1% at end-January relative to 80.2% a year earlier. In parallel, Saudi banks' aggregate net profits reached SAR 2.5bn in January, up from an average monthly profit of SAR 2.2bn in 2010. Aggregate profits for the sector rose by 32% month-on-month in January 2011, likely supported by lower provisioning costs, but profits regressed by 12% from the same month last year.

Source: EFG Hermes, Shuaa Capital

DEM REP CONGO

IMF urges Central Bank to strengthen capacity

The International Monetary Fund indicated that the Democratic republic of Congo's Central Bank, Banque Centrale du Congo (BCC), needs adequate laws and regulations, as well as strengthened institutional and administrative capacity in order to function adequately. It added that the BCC's recent intervention in a problem bank elevated the priority to address weaknesses in the financial sector, especially the regulatory and supervisory framework. It said the authorities are pursuing the liquidation of Banque Congolaise because of its poor financial condition and lack of prospects for restructuring, with a view to salvaging its branch network through a purchase and acquisition agreement with a healthy bank. The Fund said the fiscal cost of addressing the problem bank in a worst-case scenario could reach $180m, equivalent to 1.5% of GDP. The costs involve the government’s liabilities to the bank of $64m, covering the BCC’s exposure of $88m, and $28m in transactions costs related to the liquidation. It said authorities plan to align the banking law and regulations with international best practice to enhance the BCC's capacity to supervise the financial system more effectively.

Source: International Monetary Fund

Oil prices down towards $115 on the announcement of a peace plan for Libya

Brent crude futures fell more than $3 a barrel to an intraday low of $113.1 on March 3, before rebounding to around $114.5 a barrel. This came after the Arab League announced that a peace plan for Libya, proposed by Venezuela President Hugo Chavez, was under consideration. U.S. crude futures for April declined 60 cents to $101.6 a barrel after reaching $102.2 a barrel on March 2 as violence escalated in Libya, and exceeded the $100 per barrel for the first time since September 2008. Commerzbank considered that the peace plan for Libya will only have a passing impact on prices as it expected prices to head higher again. The unrest in Libya reduced the country's oil production by around 50%, while it is expected to affect and potentially destroy oil infrastructure.
Source: Thomson Reuters

MENA's rising geopolitical risks to keep oil prices high

Political tensions in the MENA pushed oil prices up by about $10 last week. However, the geopolitical risk premium is still small and could rise much further if spreading violence threatens more supply interruption from the region. The risks to the oil market emanating from the region are twofold, where the first is the potential near-term supply interruption that would produce a sharp spike in prices. The second is linked to medium-term supply concerns, heightened instability and a worsening investment climate in the region. Even though there is enough spare capacity to cover near-term supply interruption, increased instability in the MENA region greatly increases medium-term risks to oil prices. Therefore, a sustained pullback in oil is not expected, even as OPEC provides more supply to the market.
Source: BCA Research

Iraq oil exports at record-high since 2003

Iraq oil exports reached 2.2 million barrels a day in February, reaching a record-high since the U.S.-led invasion in 2003, while Iraq crude oil price averaged between $97 and $98 a barrel compared to an average of $90.8 a barrel in January. As such, Iraq oil revenues totaled $6bn in February, down from a year-high record of $6.1bn in the previous month. Iraqi oil officials expected output to exceed 3 million barrels a day by the end of 2011.
Source: Dow Jones Newswire

Armenia’s diamond exports record a 5.6-fold rise in 2010

Armenia's diamond exports totaled $91.9m in 2010, up from $61.4m in 2009, while diamond imports amounted to $94.7m in 2010, up from $67.9m in 2009. Diamond exports reached 477,000 carats, or a 5.6-fold rise from 2009, while diamond imports totaled 649,000 carats constituting a 3.2-fold increase from 2009. The U.S. and Europe were the main export destinations for Armenia's diamond in 2010.
Source: State Revenue Committee of Armenia

Base metals: Prices down on increased Chinese stocks

Base metal prices declined in the past week, as China's manufacturing Purchasing Managers' Index (PMI) for February fell to 52.2 points from 52.9 points in January. The unofficial PMI, which is biased towards smaller firms, showed a sharper contraction and weakening orders. Copper prices became volatile but generally held up well, while lead was the weakest performer and fell by 6% week-on-week. China's demand for copper is expected to improve gradually in the coming weeks with a higher recovery in late March. Copper stocks on the Shanghai Futures Exchange rose by 17% from October and by 22% year-to-date. Also, China's refined copper production hit a record high of 444 kilo tons in December, up 6% year-on-year. Total output reached 4.7 million tons in 2010, up 9% year-on-year. In the coming weeks, China's domestic inventory levels are likely to continue to face upward pressure, with demand picking up only moderately.
Source: Standard Chartered

Precious metals: Gold outperforms other markets, investor flows are mixed

Gold prices increased slightly in the past week and significantly outperformed the precious metals complex due to continued tensions in the Middle East, rising inflation and a weaker U.S. dollar. The most recent data shows that the net managed money position on U.S. exchanges for gold was up 46% from the start of February 2011. However, the major physical ETFs showed a net outflow of 0.9% or 0.6 million ounces.

Silver prices were volatile and the platinum group metals declined due to a weaker Chinese PMI. Also, the net managed money position of Silver was up 95% during February, while physical ETFs rose 1.5% for the month. Platinum investors expressed worries about the pace of growth in China, although there was still a net inflow of 0.4% into physical ETFs in February. Palladium investors were more confident and the physical contracts recorded a 1.7% net inflow in February to reach 2.35 million ounces.
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	1,413	1,200
Palladium	529	863	900
Platinum	1,613	1,925	2,050
Silver	20	28	22

Source: Standard Chartered

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Africa													
Algeria	- -	- -	- -	- -	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	BB+ Negative	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	BBB+ Negative	- -	BB Negative	- -	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- Negative	A3 Stable	A Negative	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 Negative	Ba2 Negative	- -	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	03-Feb-11	No change	3-Mar-11
UK	Bank Rate	0.50	10-Feb-11	No change	10-Mar-11
Japan	O/N Call Rate	0-0.10	25-Jan-11	No change	15-Feb-11
Australia	Cash Rate	4.75	01-Feb-11	No change	01-Mar-11
New Zealand	Cash Rate	3.00	09-Dec-10	No change	10-Mar-11
Switzerland	3 month Libor target	0.25	16-Dec-10	No change	17-Mar-11
Canada	Overnight rate	1.00	18-Jan-11	No change	01-Mar-11
Emerging Markets					
China	One-year lending rate	6.06	08-Feb-11	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	25-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	18-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	7.75	08-Feb-11	Raise 50bps	N/A
Romania	Policy Rate	6.25	05-May-10	No change	N/A
Bulgaria	Base Interest	0.19	01-Feb-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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