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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global trade grows by 22% in first quarter of 2011

The World Trade Organization indicated that global merchandise trade reached $8,500bn in the first quarter of 2011, constituting an increase of 22% from the same period in 2010 and a rise of 2.1% from the previous quarter. It said that world exports rose by 22.3% year-on-year to $4,229bn and global imports reached $4,271bn in the first quarter, up 21.5% from last year. It noted that exports from Europe totaled $1,596bn, up 18.4% year-on-year. Exports from the 27-member European Union totaled $1,460bn, with intra-EU trade rising 16.3% to $959bn and extra-EU trade increasing by 23.3% to $501bn. Further, exports from Asia totaled $1,359bn, up 24.8% year-on-year, and exports from North America grew by 18.7% to $540bn. Also, exports from the Commonwealth of Independent States (CIS) rose by 28% to $165bn and those from South & Central America increased by 29.7% to $163bn. In parallel, Imports to Europe totaled $1,678bn in the first quarter, up 19.8% from the same period in 2010, as imports to the EU reached $1,529bn, up 18.8% year-on-year. Asian imports rose 25.5% to $1,362bn, those to North America increased by 19% to $711bn, while imports to South & Central America improved by 26.9% to $155bn and those to the CIS increased by 38.6% to $108bn.

Source: World Trade Organization, Byblos Research

Upgrades outpace downgrades in first quarter of 2011

Fitch Ratings indicated that it downgraded 2.2% of global corporate issuers in the first quarter of 2011 and upgraded 3.7% of the issuers it rates. It noted that the overall downgrade-to-upgrade ratio was at 0.6-to-1 in the first quarter, constituting an improvement from the 1.4-to-1 ratio recorded in the same period last year. It added that it downgraded 2% of emerging market issuers and upgraded 3% of such issuers in the first quarter. The agency said that it downgraded 7.9% of corporate issuers in the Middle East & Africa, 3.2% of issuers in Europe, 1.8% of North American issuers, 0.6% of issuers in Asia-Pacific and 0.4% of issuers in Latin America & the Caribbean. Further, it upgraded 8.1% of corporate issuers in Latin America & the Caribbean, 4.2% of those in North America, 2.6% of European issuers and 2.1% of issuers in Asia-Pacific, while it did not upgrade any corporate issuer in the Middle East & Africa in the covered period. Also, it downgraded 3% of rated banks & securities; 1.4% of issuers in the industrial sector; 1% of finance, leasing companies & real estate investment trusts; and 1% of insurance firms. In parallel, the agency upgraded 7.2% of finance, leasing companies & real estate investment trusts; 4.7% of industrial issuers; 1.8% of banks & securities firms, and 1.5% of rated insurers. Fitch attributed all the downgrades of financial institutions in emerging markets to Egypt's and Bahrain's sovereign downgrades.

Source: Fitch Ratings

EMERGING MARKETS

Bond inflows at $10.7bn, equity outflows at $6.4bn in first 5 months of 2011, AUM at $1,035bn

Capital inflows to emerging market equity and bond funds totaled $4.26bn in the first 5 months of 2011, with bond inflows at $10.65bn and equity outflows at $6.4bn. Emerging Europe, the Middle East & Africa (EMEA) accounted for $4bn or 37.8% of bond inflows, followed by Latin America with $3.74 (35%) and Emerging Asia with $2.9bn or 27%. Further, Emerging Asia posted $6.38bn of equity outflows year-to-May, followed by Latin America with $3.11bn while the EMEA posted $3.1bn in equity inflows. Brazil was the biggest recipient of bond inflows with $1.33bn, or 12.5% of total inflows into emerging market bonds, while China was the largest source of equity outflows with $3.23bn and Russia the largest source of equity inflows with $3.44bn. In parallel, Assets under management (AUM) in emerging markets totaled $1,035bn at the end of May 2011, with bonds accounting for $197.3bn and equities for $837.6bn. The EMEA region had $78.3bn in AUM in bonds, followed by Latin America with $69.6bn and Emerging Asia with $49.36bn. Further, Emerging Asia accounted for $523.2bn in equity related AUM, followed by Latin America with $159.6bn and EMEA with $154.8bn. Mexico had $24.3bn in bonds related AUM, or 12.3% of the total, while China had $172bn in equity-related AUM.

Source: Barclays Capital, Byblos Research

MENA

Equity markets down 5% in first 5 months of 2011

Arab stock markets decreased by 4.6% and GCC markets by 2.2% in the first 5 months of 2011 compared to decreases of 0.1% and 1%, respectively, in the same period last year. Activity on the Iraqi stock exchange increased by 30.4% during the covered period, and posted the best performance among Arab markets. It was followed by the Palestine stock exchange with a 1.9% rise and the Saudi equity market with a 1.7% improvement. In parallel, the Damascus financial market dropped by 28.3% in the first 5 months and posted the worst performance among Arab equity markets. It was followed by the Egyptian stock market with a 22.7% retreat, the Tunis stock exchange with a 18.5% decrease, the Muscat bourse with an 11.7% decline, the Amman equity market with a 9% drop, the Kuwait bourse with an 8.35% fall, the Beirut Stock Exchange with an 8% decrease, the Bahrain stock market with a 6% contraction, the Dubai financial market with a 5.8% downturn, the Doha exchange with a 3.8% reduction, the Abu Dhabi market with a 3.6% decline and the Casablanca equity market with a 3.5% fall. In comparison, emerging market equities increased by 1.3% and global equities rose by 5.3% in the first 5 months of 2011. Arab stock markets regressed by 1.2% in May compared to drops of 3.2% for emerging market equities and 2.5% for global equities.

Source: Local stock markets, Dow Jones, Byblos Research

POLITICAL RISK OVERVIEW - May 2011

ALGERIA

Political consultations on proposed constitutional reforms began on May 21st. Proposed reforms were boycotted by opposition groups, describing the talks as a monologue against change. A journalist was killed on May 6 in Kabylie region, and a former militant was murdered by suspected al-Qaeda in the Islamic Maghreb (AQIM). Further, five soldiers were killed and five were wounded on April 6 in a suspected AQIM bomb attack in eastern Jijel province.

DEM REP CONGO

Presidential elections are currently set for November 28, despite a constitutional requirement that elections should be held 90 days before the end of the current mandate by September 6th. Violence escalated in the east, including a failed attack on Education Minister Léonard Mamba. FARDC forces killed a member of the Union of Congolese Patriots, General Floribert Kisembo. An independent U.S. study found that 400,000 rapes were committed in the DRC in a 12-month period between 2006 and 2007.

EGYPT

At least 12 Egyptians were killed and 230 were injured on May 7 in sectarian riots in Cairo between Coptic Christians and Muslims. Security forces detained 190 people for military trial and blamed Salafi and ex-regime incitement. Also, two people were killed and dozens were injured on May 14, as Christians held a sit-in protest in front of the state TV building against the lack of state protection. Former Interior Minister Habib el-Adly was sentenced to 12 years in prison for corruption. Further, military rulers said that parliamentary elections will be held by September 30th. Also, the Rafah border crossing with Gaza was

IRAN

The European Union and the U.S. extended sanctions against Iran on May 25 to pressure it to end its nuclear program. The International Atomic Energy Agency (IAEA) stated that it had new information alleging possible military dimension to Iran's nuclear program. Bahrain stopped the deal to import Iranian natural gas as it claimed that Iran is deliberately interfering in its domestic affairs. The government stated that 30 people were arrested as part of a suspected CIA spy-ring. The UN accused Iran of exporting banned weapons to Syria, while Syria denied the allegations.

IRAQ

A triple bombing in Kirkuk on May 19 killed 27 people, while Al-Qaeda in Iraq claimed responsibility for the May 5 suicide bombing that killed 24 policemen in Hilla. Prime Minister Nour al-Maliki said that he would extend the presence of U.S. troops after the 2011 deadline if the majority of political blocs supported his decision. Also, 18 people were killed on May 8, including 11 senior al-Qaeda militants in a failed jailbreak in Baghdad.

LIBYA

The deadlock between government forces and rebels continued despite some rebel gains and the escalation of international military action. Rebels claimed total control of the western city Misrata on May 11th. NATO airstrikes against government infrastructure increased, while reports said that a bombing targeted Muammar Qaddafi's compound in Tripoli. South African President Jacob Zuma began a mediation visit on May 30 intended to secure a ceasefire. The International Criminal Court issued arrest warrants for Muammar Qaddafi, Saif al-Islam Qaddafi and Abdullah al-Sanousi for crimes against humanity.

NORTH SUDAN

Clashes between North and South Sudan continued in May. The two sides agreed on a joint military withdrawal on May 5, where they plan to refrain from claiming Abyei province in draft constitutions. Also, talks in Addis Ababa between officials from the North and the South resulted in the signature of a preliminary border security agreement. Further, the Sudan Armed Forces killed at least 10 people during airstrikes on villages in Darfur.

SOUTH SUDAN

The government of South Sudan passed a draft transitional constitution without reference to Abyei, despite the opposition's objections over undemocratic measures. The constitution stipulates that the president will serve 4 years starting July 9 with no term limit and no date for new elections. The UN proposed a new peacekeeping force for South Sudan, the United Nations Missions in Sudan (UNMIS). At least 80 people were killed following rebel attacks on cattle herders.

SYRIA

Human rights groups reported more than 1,100 people killed and over 10,000 people detained, during a 10-week violent crackdown on nationwide anti-regime protests. Officials continued to blame violence on armed criminal gangs, and said that more than 120 members of security forces were killed. Further, the European Union and the U.S. expanded sanctions on the regime. U.S. President Barack Obama said that president Bashar Assad must allow political transition or step aside. Also, two people were killed and dozens were wounded on May 15 by Israel Defence Forces as pro-Palestinian protesters commemorating Nakba entered the Israeli-occupied Golan Heights. The Syrian government condemned Israel, while the U.S. accused Damascus of inciting border clashes to divert attention from the violent crackdown.

YEMEN

Violence escalated in Yemen with President Ali Abdullah Saleh facing opposition on several fronts. The Gulf Cooperation Council's transition plan collapsed on May 22 after President Saleh refused to sign. He vowed not to step down, and said that he would make no more concessions to those seeking his ouster. Further, over 100 people were killed in Sanaa in clashes between military forces loyal to Saleh and tribesmen loyal to Sadiq al-Ahmar, a preeminent Sheikh of Yemen's most powerful tribal confederation. Government forces continued the use of violence against nationwide anti-regime protests throughout the month as civil disobedience crippled major cities. U.S. Secretary State Hilary Clinton urged the cessation of violence and repeated the call for Saleh to step down. Further, hundreds of Islamic militants seized control of the capital of southern Abyan governorate on May 28, where over 40 soldiers and civilians were killed.

Source: International Crisis Group

EMERGING MARKETS

Net private capital inflows to increase by 5% to $1,041bn in 2011

The Institute of International Finance expected total net private capital flows to emerging markets to reach $1,041bn in 2011, up from $990bn in 2010 and from a January forecast of $960bn. It said private capital inflows to emerging economies recovered sharply in 2010, and expected inflows to remain relatively buoyant in 2011 and 2012, driven by ongoing strong growth and financial deepening. It attributed most of the $81bn upward revision of its earlier estimate for 2011 to higher inflows to China and Brazil. It noted that China accounts for about 30% of all private capital inflows to emerging economies, a share that is nearly twice as large as Brazil's and three times that of India. It added that it revised upwards by $55.7bn its forecast for inflows to Emerging Asia; by $44.8bn to Latin America, and by $18.6bn to Emerging Europe. In parallel, it revised downwards by $33.4bn its forecast for capital inflows to the Middle East & Africa in 2011. It said the significant upwards revisions for Emerging Asia and Latin America were partly offset by a reduction in flows to the MENA region du to the ongoing turmoil.

The IIF forecast net direct investment to improve to $423bn in 2011 and $435bn in 2012 from $371bn in 2010, as strong growth provides increasing investment opportunities. It estimated net portfolio investment in emerging markets at $200bn last year and expected inflows to fall to $151bn in 2011 due to the sharp fall of inflows to equity markets so far this year, but anticipated portfolio flows to pick up again to $175bn in 2012,. Also, it forecast net commercial bank lending to post net inflows of $194bn in 2011 and $191bn in 2012 relative to $172bn in 2010, but noted that they remain subdued relative to the standards of previous cycles. It estimated net non-bank private lending to rebound to $273bn in 2011 from $243bn in 2010, before falling to $256bn in 2012. It also projected net lending by official creditors to increase to $28bn this year from $25bn last year.

Source: Institute of International Finance

MENA

External financing need of oil importers at $165bn in 2011-13

The International Monetary Fund projected the external financing needs of the MENA region's oil importing economies at $165bn between 2011 and 2013 and estimated their fiscal financing need to total $145bn, excluding the financing requirements of a new growth agenda. It added that the region's economies would require real GDP growth to exceed 7.5% annually in order to create between 50 million and 75 million jobs over the next decade in order to absorb unemployment and new entrants to the labor force. It said that such growth rates require additional investment to improve the quality of infrastructure and services in less developed rural areas, and improved productivity. It added that growth has to be more inclusive, along with modern and transparent institutions, to foster accountability and good governance as well as to preserve macroeconomic stability. The Fund stated that the international community will meet most of the financing needs in the next 18 months, as it anticipated that global private debt and capital markets to remain cautious towards countries in the region, which would increase the latter's risk premium and cost of borrowing. As such, the international community plans to provide $60bn in support to the region over the coming few years as part of the Deauville Partnership with the Middle East that was launched by the Group of Eight (G8).

The Deauville Partnership, which includes the IMF, the World Bank, as well as other United Nations agencies and multilateral and regional development banks, also called for stronger bilateral assistance and deeper trade links with countries in the MENA region through trade agreements and investment. The partnership is based on a political process to support the democratic transition and foster governance reforms, and on an economic framework for sustainable and inclusive growth.

Source: International Monetary Fund

NIGERIA

Growth driven by non-oil sector, currency depreciation to continue

Merrill Lynch projected real GDP growth in Nigeria to exceed 7% this year, following the successful conclusion of elections in April, and given the recent windfall from high oil prices and continued expansion in the non-oil sector. it said Nigeria is on track to achieve growth that could exceed its historical trend, as the non-oil sector expanded by 8.5% year-on-year in the first quarter of 2011 on the back of strong economic activity in the services, trade and agriculture sectors, and compared to non-oil growth 2.9% in the same period last year. It added that the strong pace of growth could be further supported by key reforms in the power sector, which would help address chronic power shortages.

Merrill Lynch indicated that the Naira came under increased pressure earlier this year amid dollar demand in the build up to the April elections. This resulted in a decline of reserves at the Central Bank of Nigeria (CBN) in order to protect the currency from continued depreciation, with a policy goal of maintaining the currency within a band of +/-3 percentage points. It said that despite the CBN's efforts, the Naira continued to weaken after the elections and depreciated by 3% since January to a high of 157.5 to the US dollar towards the end of May. It expected the currency to continue to depreciate moderately, as the CBN plans to avoid a rundown of reserves and looks instead to address both inflation and the weaker currency through a further increase in interest rates, if necessary.

In parallel, Merrill Lynch added that fiscal consolidation looks more likely in the coming months, as President Jonathan signed a reduced budget of $28.6bn, which reflects a near 10% cut in the $31.7bn budget approved by Parliament earlier in March. It said that if the signed budget is adhered to, the fiscal deficit would fall to 3% of GDP in 2011 compared to the target deficit of 4.2% of GDP set in the budget passed in March. It noted that the final budget reflected a drop of 9% in recurrent expenditures, but noted that capital expenditures are set to increase by 22% from spending levels in the 2010 budget.

Source: Merrill Lynch

ECONOMY & TRADE

GCC

Aggregate corporate profits up 19% to $14bn in the first quarter 2011

Net corporate earnings of companies listed on GCC stock markets totaled $13.8bn in the first quarter of 2011, constituting a 19% increase from the same period last year and a 112% rise from the fourth quarter of 2010. Saudi Arabia led the region's corporate earnings with $5.8bn in 2010, accounting for 42% of the total. It was followed by the UAE with $2.8bn, or 20.3% of the total, Qatar with $2.4bn (17.4%), Kuwait with $2.2bn (16%), Oman with $338m (2.4%) and Bahrain with $315m (2.3%). Corporate earnings in Kuwait rose by 98% year-on-year in the first quarter, companies' profits in Saudi Arabia jumped by 23% and the profit of Qatar-based corporate increased by 13%. In parallel, the profits of Oman-based firms regressed by 26% year-on-year, net income in Bahrain decreased by 10%, and the income of UAE firms contracted by 1%. Corporate earnings in the banking, commodity and telecommunication sectors accounted for 80% of aggregate corporate profits in the GCC. The banking sector's income reached $5.2bn in the first quarter, increasing by 14% from the same period last year; the commodities sector's profit amounted to $3.3bn, growing by 51% year-on-year; and those of the telecommunications sector totaled $2.6bn, rising by 50% year-on-year.

Source: Kuwait Financial Center

BAHRAIN

Sovereign ratings downgraded, outlook negative

Moody's Investors Service downgraded Bahrain's government bond ratings by one notch to 'BBa1' from 'A3' and assigned a 'negative' outlook to the rating. It attributed its decision to the adverse effect of the recent political turmoil on the country's growth prospects and its public finances, continuing increases in the break-even oil price needed to balance the budget, and a weakening of the banking sector. It said that the significant deterioration in the country's political environment damaged economic growth, mainly in service sectors such as tourism, trade and financial services. It added that the expansionary budget for 2011-12 led to a rise in current expenditures, which reduced Bahrain's fiscal flexibility. It also attributed the downgrade to the continued rise in the break-even oil price for a balanced budget, exceeding $100 per barrel in 2010. Further, it said that the fundamental strength of Bahrain's large banking sector is likely to deteriorate due to the weakened asset quality, mainly related to loans for real estate or equity purchases. It considered that this would negatively affect the sovereign ratings, as banks potentially represent a contingent liability for the government. In parallel, it said it had downgraded the ratings by only one notch because it expected continuous strong political and financial support from Saudi Arabia and other Gulf Cooperation Council countries.

Source: Moody's Investors Service.

GHANA

IMF disbursements reach $330m, reforms to focus on fiscal consolidation

The International Monetary Fund approved the disbursement of $94.3m to Ghana under the three-year Extended Credit Facility (ECF) arrangement, bringing total disbursement to about $330.3m. The Fund approved the $613.1m three-year ECF arrangement in July 2009. It said that the rise in the fiscal deficit and the accumulation of domestic arrears negatively affected fiscal performance last year. As such, it noted that the government will focus in 2011 on restoring fiscal consolidation through a budget that requires savings of initial oil production revenues. It called for the acceleration of structural fiscal reforms, mainly the reinforcement of tax administration, the strengthening of expenditures monitoring and control through a new budget system, and the regularization of the country's domestic payments arrears. It also noted that the implementation of quarterly electricity tariff reviews constitute an important step towards addressing risks to the budget from energy pricing. Further, it warned that the economy faces inflation risks given the rise in global commodity prices, robust domestic growth and rapid liquidity expansion; and expected the Bank of Ghana to stand ready to tighten monetary conditions.

Source: International Monetary Fund

BELARUS

Sovereign ratings downgraded on increasing external vulnerabilities

Standard & Poor's lowered Belarus' local sovereign credit rating to 'B' from 'B+' and placed the rating on CreditWatch with negative implications. It also placed the long-term foreign currency rating and short-term foreign and local currency sovereign credit ratings of 'B' on CreditWatch negative. It attributed the downgrades to the devaluation of the currency, which led to an increase in the government's debt burden as well as to limited fiscal flexibility. As such, it expected the debt to reach 53% of GDP in 2011. It said that economic and political pressures as well as the very low level of usable reserves contributed to Belarus' increasing vulnerability to external funding pressures. It noted that the country's expansionary fiscal and monetary policies, aimed at supporting the domestic demand, widened the current account deficit to 15% of GDP in 2010. It expected current account deficits to remain in low double-digits through 2013, provided that the government secures the needed funding. It added that the recently announced currency devaluation by 34% could support a faster contraction in the current account deficit if the government manages to strengthen exports and contain imported inflation. Further, it said that the implementation of a flexible exchange rate regime and tighter fiscal and monetary policies could help to narrow the external financing gap and retain external investor. It said that it placed the ratings on CreditWatch negative due to the likelihood of a downgrade if the government fails to secure external funding for its large current account deficit or in the case of bank deposit outflows.

Source: Standard & Poor's

BANKING

SAUDI ARABIA

Private sector lending up 7% year-on-year

Figures issued by the Saudi Monetary Agency (SAMA) show that total assets of commercial banks reached SAR 1,504bn at the end of April 2011, constituting a 1.6% month-on-month increase and an 8.7% rise from a year earlier, and posting the highest year-on-year growth since mid-2009. Lending to the private sector increased by 0.5% month-on-month in April and by 6.9% from April last year to SAR 803bn, and posted the slowest month-on-month growth this year. In parallel, customer deposits totaled SAR 1,062bn at end-April, increasing by 1.8% from end-March, and by 16.5% from a year earlier and posting the highest year-on-year expansion since end-June 2009. Private sector deposits were the main contributor to deposit growth in April, growing by 4% month-on-month, while public sector deposits fell by 6%. The loans-to-deposits ratio was 75.5% at end-April relative to 82.3% a year earlier. The sector's aggregate net profits reached SAR 2.7bn in April, almost unchanged from the previous month due to pressure on net interest spreads from rising liquidity and to the maturity of high yielding government bonds.

Source: EFG Hermes, Shuaa Capital

BAHRAIN

Bank ratings downgraded on sovereign action

Moody's Investors Service downgraded the long-term deposit ratings of Bahrain-based BBK to 'BBa2' from 'A3', BMI Bank to 'Ba1' from 'Baa3', and National Bank of Bahrain to 'Baa1' from 'A3'and assigned a 'negative' outlook to the banks' ratings. It attributed the downgrades to its earlier decision to downgrade Bahrain's sovereign ratings by one notch. It added that the downgrades were prompted by the deterioration in the banks' operating environment in light of recent social and political turmoil in Bahrain, as well as to the reassessment of the government's capacity to provide systemic support to the banking sector. As such, it expected the likely damage to the country's growth prospects to adversely impact banks' asset quality, franchise strength and profitability over the near to medium term. It attributed the deterioration in asset quality to a potential further weakening in the real-estate sector, which accounts for more than 30% of the sector's domestic lending and to the high levels of corporate loan concentration. It expected NPLs to increase over the near- to medium-term due to the poor performance of the hospitality and retail-trade sectors and higher domestic unemployment. Further, it estimated that the economic slowdown would limit growth opportunities and lead to increased competition for domestic banking franchises, constraining margins and overall profitability. Separately, it lowered the long- and short-term issuer ratings of Bahrain Islamic Bank to 'Ba1/ Non-Prime' from 'Baa2/Prime-3' due to the material weakening in its stand-alone financial profile, given the significant losses posted in the last two years and the erosion of its capital base in the absence of new capital injections.

Source: Moody's Investors Service

CHINA

Loan growth to decelerate to 16% in 2011

Standard & Poor's indicated that the tightening measures implemented by the Chinese authorities to contain inflationary pressures, as well as other efforts to contain credit risks, could reduce the banking sector's profitability and lead to greater divergence in credit quality among major players and small lenders. It said that the increase in inflation levels prompted policymakers to restrain credit growth and absorb liquidity. It added that the People's Bank of China raised the deposit reserve ratio to 21% for large bank and increased various benchmark interest rates by around 100bps. As such, it estimated that the banking sector's loan growth would drop to between 14% and 16% in 2011 compared to growth of 19.6% in 2010 and 33% in 2009. It said the sector's strong loan growth over the past two years, as well as the loose underwriting standards for projects related to the government's stimulus package, weakened the average loan quality. It added that a significant slowdown in loan growth could crowd out highly leveraged borrowers and increase corporate delinquency rates. As such, it expected NPLs to increase in the coming years, as it estimated that a 100bps rise in the average cost of borrowing would lead to a 184bps growth in the NPLs ratio. It considered that top-tier banks would manage the effect of policy tightening due to stronger loss buffers and credit controls, while small institutions would face difficulties due their asset concentration and less favorable liquidity profile. It said that the the implementation of Basel III and the continuous hikes in loan-loss requirements could motivate banks to increase their credit risk buffers in the next two years.

Source: Standard & Poor's

NIGERIA

Central Bank grants licenses

The Central Bank of Nigeria (CBN) indicated that it had granted new international banking licenses to 9 banks, national licenses to 6 other banks and regional licenses to two lenders. Last year, the CBN abolished the universal banking licenses that allowed banks to offer multiple services and enforced new minimum capital requirements for different categories of lenders. As such, the new regime stipulated that international banks are required to have a minimum capital of NGN 50bn or about $320m, national banks to have a minimum of NGN 25bn or $160m; while regional banks, which are only allowed to operate in a maximum of 12 of Nigeria's 36 states, are required to have a minimum of NGN 10bn or the equivalent of $64m. Further, the new arrangement requires lenders to apply for separate licenses for each of the bank's operations, including commercial banking, microfinance banking, mortgage lending and investment banking. The CBN stated that four lenders will operate as holding companies, while those seeking single banking activity will have to sell non-core businesses by May 2012. The CBN granted international banking licenses to Access Bank, Diamond Bank, Fidelity Bank, First Bank, First City Monument Bank, Guaranty Trust Bank, Skye Bank, Zenith Bank and United Bank for Africa. It granted national licenses to Citi Bank, Ecobank, Stanbic IBTC, Standard Chartered, Sterling Bank and Unity Bank; and regional licenses to Equitorial Trust Bank and Wema Bank.

Source: Central Bank of Nigeria, Thomson Reuters

ENERGY / COMMODITIES

Oil prices decline on concerns of fading economic recovery

Oil traded near its lowest price this week in New York on concern that the global economic recovery is faltering and fuel demand will decline. U.S. crude for July reached $100.2 a barrel on June 2, while ICE Brent rose 55 cents to $115.1 a barrel. ICE Brent fell $2.2 to $114.5 a barrel the previous day, the lowest price since May 24th. Also, gasoline inventories increased by 1.5 million barrels to 212.7 million barrels on June 2nd. OPEC output rose 165,000 barrels or 0.6% to average 28.9 million barrels a day, led by supply increases in Saudi Arabia and Nigeria. Saudi Arabia increased its output by 75,000 barrels or 0.8% to 8.9 million barrels a day, the highest level since October 2008. Also, Nigerian production rose 75,000 barrels a day to 2.1 million barrels a day last month. Further, OPEC stated that output should be raised by as much as one million barrel a day to lower prices and fill the Libyan supply gap. Brent ICE Futures declined 8.4% month-on-month to $115.4 per barrel at the end of April, while the WTI NYMEX futures decreased by 10.9% to $102 per barrel.
Source: Bloomberg

Syria reduces gas oil price, raises subsidies bill to $3.9bn

The Syrian government decreased the retail cost of gas oil by 25%, increasing the cost for the Treasury by around SYP25bn this year. The reduction of the retail price of gas oil from SYP20 per liter to SYP15 per liter is expected to help reduce input costs for farmers and manufacturers as well as for households that use it for heating. The measure reverses a policy that took place since 2008 aiming to reduce government subsidies. Syria also subsidizes diesel oil, fuel oil and cooking gas among other energy products.
Source: Syria Report

Nigerian parliament fails to pass oil industry reform law

The two chambers of the Nigerian National Assembly have formally admitted on June 1 that the Petroleum Industry bill cannot be passed, and that it will be dealt with by the incoming parliament. The country hopes that the law will deal with issues including funding shortfalls at its joint ventures with foreign firms, insecurity in the Niger Delta, increasing local involvement in the industry, and production of more gas for domestic power. Operators in the Nigerian oil industry condemned the failure of the parliament to pass a key legislation intended to reform the industry.
Source: Platts

Saudi Arabia plans for nuclear and solar power

Saudi Arabia plans to expand its nuclear and solar power,by building 16 nuclear reactors and a 500 kilowatt solar power station. The nuclear plans call for two reactors within 10 years, followed by two more every year until 2030, and are expected to cost $300bn. Further, Showa Shell Sekiyu signed a memorandum of understanding with Saudi Electricity Company on June 1 to install a solar plant on Saudi Arabia's Farasan Island.
Source: Energy Intelligence

Base metals: Prices recover, led by aluminum

Base metal prices rose this week as aluminum and zinc prices increased by over 7%, with the other base metals up by 3% to 5% week-on-week on May 31st. While the macroeconomic backdrop has generally been challenging, the weakness of the U.S. dollar and the increased wire and cable shipments in China and Japan helped to take the whole complex higher. Aluminum is expected to benefit from power shortages in China, as prices are currently close to marginal production costs and the country is a dominant producer, accounting for around 40% of global supply. Further, copper physical premiums increased in China and reached a seven-month high of $120 per ton in late May, showing a tightening supply-demand balance in the domestic market. Also, the latest data from Chile, the world's largest copper producer showed a 3.9% year-on-year drop in supply. Despite the bullish short-term outlook for base metals, aluminum and nickel prices are not expected to grow fast.
Source: Standard Chartered

Precious metals: Prices rise on weaker dollar

Last week showed a higher confidence in the precious metal complex, with silver recovering some of its recent losses and the platinum group metals (PGMs) being lifted by the general rally in commodities. Both silver and palladium rose 5% week-on-week on May 31, while platinum increased 3% week-on-week. Gold also rose 1% week-on-week, consistent with portfolio inflows helping to offset safe-haven outflows. The precious metals complex performed better this week due to the weaker dollar, while ignoring the continued investor ETF selling which took place for all the precious metals, except for gold.

Silver holdings by major physical ETFs dropped 10.3% from the start of May and net speculative positions on U.S. exchanges were down by 41% in the same period. Further, gold is still expected to outperform silver in the months ahead, where Central banks continue to boost their holdings, helping to keep prices underpinned. Mexico and Russia added an additional 6 tons and 14 tons of gold, respectively, to their gold reserves in April. Overall, the price of gold decreased by 1.2% month-on-month to $1,537 per ounce by the end of May, while silver declined by 21.3% to $38.3 an ounce. Palladium prices decreased 3.7% to $763 per ounce in May 2011, and platinum decreased 3.1% to $1,809 per ounce.
Source: Standard Chartered

Global Commodity Outlook

(3-months LME, $/ton)	2010	2011f	2012f
Aluminum	2,201	2,595	2,400
Copper	7,570	9,597	10,000
Lead	2,172	2,619	2,650
Nickel	21,913	25,592	23,000
Tin	20,448	31,456	30,000
Zinc	2,188	2,391	2,400
(Spot price, $/ounce)			
Gold	1,227	1,491	1,650
Palladium	529	795	900
Platinum	1,613	1,873	2,050
Silver	20	37	38

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	BB- Stable	- -	B Negative	2.7	20.6	20.2	35.7	8.2	-	1.6	17.6
Egypt	BB Negative	Ba3 Negative	BB Negative	BB+ Negative	B Stable	-8.2	74.2	14.3	66.5	4.6	88.3	-2.0	3.3
Ethiopia	-	-	-	-	B Stable	-1.5	-	-	257.5	-	-	-3.9	0.3
Ghana	B Stable	- -	B+ Negative	- -	B Positive	-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	BB Negative	- -	B 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	- -	- -	- -	- -	CC Stable	-3.7	71.4	57.4	343.6	-	3,780	-8.9	5.5
Tunisia	BBB- Stable	Baa3 Negative	BBB- Negative	BBB Stable	B Stable	-2.8	43.0	46.3	101.0	11.7	195.2	-4.4	3.7

Countries	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 (%)
Middle East													
Bahrain	BBB Negative	BBa1 Negative	A- Negative	BBB+ Negative	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	BBB 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	B Stable	-7.2	136.7	160.8	240.3	14.7	212.2	-10.2	10.0
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	CCC 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- Negative	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-	-	B								
	Stable	-	Stable	-	Stable	-2.8	16.0	86.4	182.9	30.3	350.4	3.2	8.8
Romania	BB+	Baa3	BB+	BBB-	B								
	Negative	-	Stable	Negative	Stable	-6.8	33.9	77.4	197.5	24.6	-	-5.5	3.8
Russia	BBB	Baa1	BBB	-	BB								
	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	-	Positive	-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	22-Apr-11	No change	22-Jun-11
Eurozone	Refi Rate	1.25	05-May-11	No change	09-Jun-11
UK	Bank Rate	0.50	05-May-11	No change	09-Jun-11
Japan	O/N Call Rate	0-0.10	20-May-11	No change	14-Jun-11
Australia	Cash Rate	4.75	31-May-11	No change	07-Jun-11
New Zealand	Cash Rate	2.50	28-Apr-11	No change	09-Jun-11
Switzerland	3 month Libor target	0.25	17-Mar-11	No change	16-Jun-11
Canada	Overnight rate	1.00	12-Apr-11	No change	31-May-11
Emerging Markets					
China	One-year lending rate	6.31	06-Apr-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	22-Apr-11	No change	22-Jun-11
Taiwan	Discount Rate	1.75	31-Mar-11	Raise 12bps	24-Jun-11
South Korea	Base Rate	3.00	13-May-11	No change	10-Jun-11
Malaysia	O/N Policy Rate	3.00	05-May-11	Raise 25bps	Jul-11
Thailand	1D Repo	2.75	20-Apr-11	Raise 25bps	01-Jun-11
India	Reverse repo rate	7.25	03-May-11	Raise 50bps	16-Jun-11
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	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	25-May-11	No change	23-Jun-11
South Africa	Repo rate	5.50	12-May-11	No change	21-Jul-11
Kenya	Central Bank Rate	6.00	22-Mar-11	Raise 25 bps	31-May-11
Nigeria	Monetary Policy Rate	8.00	25-May-11	Raise 50 bps	Jul-11
Ghana	Prime Rate	13.00	May-11	Cut 50 bps	Jul-11
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	15-Apr-11	No change	27-May-11
Brazil	Selic Rate	12.00	20-Apr-11	Raise 25bps	08-Jun-11
Armenia	Refi Rate	8.50	10-May-11	No change	N/A
Romania	Policy Rate	6.25	05-May-10	Raise 25bps	N/A
Bulgaria	Base Interest	0.22	01-June-11	Raise 1bps	N/A
Kazakhstan	Refi Rate	7.50	01-Apr-11	No change	N/A
Ukraine	Discount Rate	7.75	10-Aug-10	Cut 75bps	N/A
Russia	Refi Rate	8.25	03-May-11	Raise 25bps	N/A

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