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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Sovereign and corporate issuance at $166bn in first half of 2011

Merrill Lynch indicated that aggregate sovereign bond issuance in non-G10 emerging markets reached $34.7bn in the first half of 2011, compared to $77.3bn for all of 2010 and to a forecast issuance of $69.9bn for all of 2011. It said issuance in Emerging Europe, the Middle East & Africa (EEMEA) reached $25.7bn, or 74% of the total, followed by Asia with $5.5bn (15.85%) and Latin America with $3.6bn (10.4%). As such, issuance from the EEMEA region represented 36.8% of the area's projected issuance this year, while issuance from Asia accounted for 7.9% of forecast issues and year-to-date sovereign issues from Latin America represented 5.2% of the regions' expected issuance in 2011. In parallel, corporate bond issuance in non-G10 emerging markets reached $130.6bn in the first half of 2011 compared to $205.4bn for all of 2010. It said issuance in Latin America reached $48.6bn, or 37.2% of the total, followed by Asia with $42.3bn (32.4%), and the EEMEA with $39.7bn (30.4%). As such, total sovereign and corporate bond issuance reached $166.3bn in the first half relative to $283bn in 2010. The EEMEA raised $65.4bn or 39.3% of the total, followed by Latin America with $52.2bn (31.4%) and Asia with $47.7bn (28.7%).
Source: Merrill Lynch

Bond inflows at $15bn, equity outflows at $5bn in first half of 2011, AUM at $1,029bn

Capital inflows to emerging market equity and bond funds totaled $10bn in the first half of 2011, with bond inflows at $15.1bn and equity outflows at $5.1bn. Emerging Europe, the Middle East & Africa (EMEA) accounted for $5.5bn or 36.5% of bond inflows, followed by Latin America with $5.5 (36%) and Emerging Asia with $4.1bn or 27.3%. Further, Emerging Asia posted $3.7bn of equity outflows year-to-June, followed by Latin America with $3.3bn; while the EMEA region posted $1.9bn in equity inflows. Brazil was the biggest recipient of bond inflows with $1.8bn, or 12% of total inflows into emerging market bonds, while China was the largest source of equity outflows with $3.1bn and Taiwan the largest source of equity inflows with $2.8bn. In parallel, assets under management (AUM) in emerging markets totaled $1,029bn at the end of June 2011, with bonds accounting for $203.7bn and equities for $825bn. The EMEA region had $80.6bn in AUM in bonds, followed by Latin America with $72.2bn and Emerging Asia with $50.9bn. Further, Emerging Asia accounted for $518.3bn in equity-related AUM, followed by Latin America with $156.4bn and EMEA with $150.3bn. Mexico had $25.5bn in bonds-related AUM, or 12.5% of the total, while China had $169.5bn in equity-related AUM, or 20.5% of the total.
Source: Barclays Capital, Byblos Research

MENA

Equity markets down 7% in first half of 2011

Arab stock markets decreased by 6.8% and GCC equity markets declined 4% by in the first half of 2011 compared to decreases of 2.2% and 2%, respectively, in the same period last year. Activity on the Iraqi stock exchange increased by 41.4% during the covered period, and posted the best performance among Arab markets and was distantly followed by the Palestine stock exchange with a 0.6% rise. In parallel, the Damascus financial market dropped by 40% in the first half and posted the worst performance among Arab equity markets. It was followed by the Egyptian equity market with a 24.8% retreat, the Tunis bourse with a 14.9% decrease, the Muscat stock exchange with a 12.4% decline, the Amman equity market with an 11.8% drop, the Kuwait bourse with a 10.7% fall, the Beirut Stock Exchange with a 9.6% decrease, the Casablanca equity market with a 9% fall, the Bahrain stock market with a 7.9% contraction, the Dubai financial market with a 7% downturn, the Doha exchange with a 3.7% retreat, the Saudi equity market with a 0.7% decline and the Abu Dhabi market with a 0.6% decline. In comparison, emerging market equities dropped by 0.3% and global equities rose by 3.5% in the first half of 2011. Arab stock markets regressed by 2.4% in June compared to drops of 1.5% for emerging market equities and 1.7% for global equities.
Source: Local stock markets, Dow Jones, Byblos Research

Arab economies trail most of the world in innovation

INSEAD's Global Innovation Index (GII) for 2011 shows that the average score for the 15 Arab countries included in the survey reached 32.6 points in 2011 compared to a global average of 36.7 points and an average of 34.5 points for the Middle East and North Africa (MENA) region. The index rates the innovation state of each country on a scale of 0 to 100, with 100 being the most innovative market. The index included 125 countries that represent 93.2% of the world's population and 98% of the world's GDP. It covers the innovation input and output of countries; including an economy's institutions, human capital & research, infrastructure, market and business sophistication; as well as scientific and creative outputs. It said that the Arab region's average score was lower than that of North America (56.5 points), Europe & Central Asia (43 points), and East Asia & Pacific (42.5 points), but was above that of Latin America & the Caribbean (31.4 points), South Asia (30 points), and Sub-Saharan Africa (27 points). Qatar was the Arab world's top-ranked country on the index and came in 26th place globally, followed by the UAE in 34th place and Jordan in 41st place. In contrast, Yemen (123rd), Sudan (124th) and Algeria (125th) were the lowest ranked Arab economies and came at the bottom of the worldwide rankings. The ranking of one Arab country improved, that of 11 countries declined, and three Arab economies were included for the first time in the survey.
Source: INSEAD

POLITICAL RISK OVERVIEW - May 2011

EGYPT

Former President Hosni Mubarak and his two sons will stand trial on August 3 for the killing of protesters, while the former president's lawyer confirmed that Mubarak has stomach cancer and is too ill to be transferred to prison. Also, former Finance Minister Youssef Boutros-Ghali was sentenced in absentia to 30 years in prison for profiteering and abusing state and private assets. The Muslim Brotherhood's new non-theocratic Freedom and Justice Party announced that it will form a coalition with the liberal Wafd party while the ruling military council stated that it will not field a candidate in the forthcoming presidential elections.

IRAN

The government condemned foreign action against the Syrian government crackdown on anti-regime protesters, while the EU imposed sanctions on three Revolutionary Guard commanders for supporting the Syrian regime crackdown. Further, opposition groups reported that security forces attacked pro-reform demonstrators and arrested hundreds in Tehran. The Iranian nuclear chief Abbasi Davani accused the head of the International Atomic Energy Agency Yukiya Amano of pro-U.S. bias.

IRAQ

A triple bombing in southwest Baghdad left at least 34 persons dead on June 23rd. Also, five U.S. soldiers were killed by an attack on an army base in eastern Baghdad, constituting the deadliest attack on U.S. forces in 2 years and raising to 15 the number of American soldiers killed last month. U.S. Secretary of Defense Leon Panetta stated that about 1,000 al-Qaeda insurgents remain in Iraq. Panetta anticipated that Iraq will ask U.S. troops to stay beyond the planned withdrawal deadline at end-2011 but noted that the decision depends on Prime Minister Nouri al-Maliki request.

LIBYA

Rebel forces made a renewed effort to push towards Tripoli amid fierce resistance from Colonel Muammar Qaddafi's forces. The Qaddafi government proposed a referendum on Qaddafi's continued leadership, with negotiations being hosted by Tunisia. Further, several civilians and rebel fighters were killed by NATO airstrikes in June due to targeting errors and weapons malfunctions. Also, Italy and the Arab League called for a ceasefire to allow the delivery of humanitarian aid and to set negotiations, a proposal that was rejected by NATO. In parallel, the International Criminal Court issued arrest warrants for Qaddafi, his son and intelligence chief for killing civilians. France stated that it had supplied Berber Tribesmen with weapons and ammunition in unilateral airdrops, actions that were condemned by the African Union and Russia.

NORTH SUDAN

Fighting escalated in the Nuba Mountains in South Kordofan on June 5 between the Sudanese Armed Forces (SAF) and the Sudan People's Liberation Army (SPLA). Further, the UN indicated that at least 73,000 people fled South Kordofan and accused the government of blocking aid deliveries, intimidating peacekeepers and aid workers, as well as impersonating the Red Cross. The government and SPLM-North signed an agreement on June 28 on political and security arrangements for Blue Nile and South Kordofan. In parallel, clashes renewed in Abyei between SAF and the South Sudanese Army despite agreeing in Addis Ababa on demilitarization, the deployment of Ethiopian peacekeepers and the creation of a joint administration.

SOUTH SUDAN

Clashes continued between North and South Sudan over the Abyei region despite an agreement signed in Addis Ababa, while the SAF forces bombed the northern part of Unity State causing numerous casualties. As such, the UN warned from food shortages in the region and indicated that more than 200,000 were displaced and 1,556 killed in South Sudan in the first half of the year. In parallel, President Bashir threatened to shut oil pipelines if the South government does not give the North half of oil revenues or pay for pipeline use. The South stated that it favors fees payments.

SYRIA

The Syrian opposition stated that the number of people killed in ongoing regime crackdowns reached 1,400 persons since March, including 150 people killed near the Turkish border. The regime claimed that armed thugs and foreign conspirators were behind the violence and indicated that over 300 security forces members were killed. Further, the number of civilians who fled across the border to refugee camps in Turkey exceeded 12,000 civilians. In parallel, President Bashar al-Assad, in his third speech since the onset of uprising, promised reforms that included the formation of a committee to study constitutional amendments. The oppositions considered that such reforms were too little, too late and too vague, and dismissed the government's offer for talks to set a framework for dialogue.

TUNISIA

A Tunisian court convicted on June 20 former President Zine El Abidine Ben Ali and his wife Leila Ben Ali for embezzlement and sentenced them to 35 years in prison and levied a $66m fine. Interim Prime Minister Beji Caid Essebsi postponed the constitutional assembly elections to October 23, in line with the electoral commission's recommendation to ensure credibility and transparency. Further, the Islamist movement Ennahda stated that it has withdrawn from the national reform commission due to the lack of consensus.

YEMEN

President Ali Abdullah Saleh was injured during an attack on the presidential palace in Sanaa on June 3 and was transferred to Saudi Arabia for medical treatment. Acting president Abed-Rabbo Mansour al-Hadi raised uncertainties about Saleh's return to Yemen, while a message from Saleh relayed on State television called for dialogue with the opposition to implement the Gulf-brokered plan for transfer of power. Also, since Saleh's departure on June 5, anti-government tribesmen and government forces agreed to a ceasefire in the capital. In parallel, militants with possible links to al-Qaeda in the Arab Peninsula (AQAP) attempted to seize neighborhoods in Houta, the capital of Lahj, while 63 AQAP-affiliated inmates escaped prison in southern al-Makalla.

Source: International Crisis Group

OUTLOOK

WORLD

Downside risks to global growth up since April, outlook dependent on U.S. recovery and market confidence

The International Monetary Fund projected global economic growth at 4.3% in 2011 compared to an April forecast of 4.4%. It expected growth in advanced economy to reach 2.2% in 2011, slightly weaker than the April forecast of 2.4%; while it forecast output growth in emerging and developing economies at 6.6% in 2011, slightly up from its April forecast of 6.5%. It indicated that the global fundamental drivers of growth remain in place, such as overall accommodative macroeconomic conditions, a pent-up demand for consumer durables and investment, as well as strong growth potential in emerging and developing economies. It noted, however, that the global expansion remains unbalanced. As such, it expected growth in advanced economies that are facing fiscal and financial sector balance sheet problems to be sluggish, which would continue to weigh on employment. It added that output growth will continue to expand strongly in advance economies that are not facing such problems, as well as in emerging and developing economies.

The IMF said the downside risks to the outlook increased from its previous assessment in April. It indicated that market concerns about possible setbacks to the U.S. recovery, as well as heightened potential for spillovers from further deterioration in market confidence in the Eurozone periphery, constitute the most significant downside risks. It added that persistent fiscal and financial sector imbalances in many advanced economies pose various risks for the recovery. Further, it warned from the risk of the escalation of overheating pressures in some key emerging economies. The Fund considered that securing the transition from recovery to expansion will require a concerted effort at addressing diverse challenges. It said that strong adjustments, such as credible and balanced fiscal consolidation as well as financial sector repair and reform in many advanced economies constitute the key priority to enhance medium-term sustainability and support growth. It added that a prompter macroeconomic policy tightening and demand rebalancing in many emerging and developing economies would secure balanced growth in the medium-term.

Source: International Monetary Fund

MENA

Divergent political outlooks to determine economic growth

HSBC projected real GDP growth in the MENA region at 4.3% in 2011, unchanged from 2010, and at 5.4% in GCC economies relative to 3.6% last year. It said the impact of the political dynamics on the region's economic performance remains varied but widespread, and anticipated politics to be the key determinant of economic performance in the foreseeable future. It expected for economies still caught up in unrest, such as Libya, Yemen and Syria, to continue to face massive disruption and losses in output. It considered that the slump has bottomed in the post-revolutionary economies of Egypt and Tunisia, but did not expect growth to return to previous levels before at least two years. It forecast real private sector credit growth at 2.6% in the MENA region, with real credit growth of 5.2% in the GCC and a real credit contraction of 5.5% in oil importing economies.

HSBC noted that domestic and foreign private sentiment appears affected, even in economies where unrest has been less evident, which is weighing on growth in investment and impacting tourism sectors. It said that the governments of commodity-rich states have the resources to drive economies forward and persuade the private sector that better times lie ahead, but noted that the outlook is far more challenging for the rest of the region's economies. It warned that the challenge of generating and sustaining economic growth at a pace that will reduce the high levels of unemployment appears daunting, even in oil rich economies. HSBC projected the MENA region to post a fiscal surplus of 1% of GDP this year, with non-oil producers posting a deficit of 6.8% of GDP and GCC economies realizing a surplus of 6% of GDP.

Source: HSBC

IRAQ

Currency redenomination to increase confidence, revaluation not on the horizon

Merrill Lynch indicated that a revaluation of the Iraqi dinar is unlikely to take place until after the country substantially increases oil production over the coming 5 to 7 years, adding that the planned redenomination of the currency is not a prelude to the dinar's revaluation. It said the Central Bank of Iraq's plan to drop three zeros from the dinar reflects successful macroeconomic stabilization and will not alter the value of the currency or of that of Iraqi assets, but aims to make daily accounting and cash transactions easier. It noted that the redenomination will increase confidence in the local currency, will send a strong signal that the economy has normalized, and could effectively decrease the dollarization rate in the economy.

Merrill Lynch said that Iraq has managed over the past few years to improve its macro fundamentals in line with the requirements for successful currency redenomination, as authorities reduced inflation to low single digits, rendered fiscal policy more credible, and secured Paris Club debt relief, which reduced external debt from 348% of GDP in 2005 to about 50% of GDP currently. It added that oil revenues have allowed Iraq to build up foreign currency savings, as the country's foreign reserves stood at $55bn at end-June 2011 and represented 150% of total external debt.

Merrill Lynch considered that a large currency revaluation would cripple fiscal revenues, unless oil production increases massively. It said the large dependence on oil for government revenues, the elevated fiscal breakeven price of $100 per oil barrel, and the need for large domestic spending on reconstruction and infrastructure make revaluation an unlikely scenario in the short-term. It ruled out substantial appreciation pressures on the currency over the near term; and added that the dinar may appreciate by 3% to 5% at best annually from 2012 onwards if reserves continue to rise and inflationary pressures emerge.

Source: Merrill Lynch

UAE

Office rent down 69% in Dubai and 44% in Abu Dhabi from peak levels

Global Investment House indicated that selling prices of office units in Dubai dropped by 58% in the first quarter of 2011 from their peak in the fourth quarter of 2008. It expected downward pressures on selling prices to persist over the short- to medium-term, which would lead to further price declines of between 10% and 12% from current levels. It attributed the pressure on selling prices to high vacancy rates of 40% out of a total of 56 million square feet (sqf) in 2011, as well as to new supply of 19 million sqf that is expected to be added to Dubai's office market by end-2013. Further, it estimated the vacancy rate in Abu Dhabi's office segment at below 10% out of a total of 24 million sqf in 2011. But it expected the vacancy rate to increase significantly due to projected new supply of 13 million sqf by end-2013, which is equivalent to 54% of the existing supply in Abu Dhabi. In parallel, it said that office rents in Dubai dropped by 69% in the first quarter of 2011 from their peak in the fourth quarter of 2008, while those in Abu Dhabi fell by 44% over the same period. It estimated the current office market rental yield in Dubai at 6.9% compared to 8.6% in Abu Dhabi, and that rents in Abu Dhabi have a 76% premium over those in Dubai.

Source: Global Investment House

EGYPT

Deficit outlook depends on politics

Fitch Ratings indicated that Egypt's aim to reduce the budget deficit to 8.6% of GDP in fiscal year 2011/12 reflects its need to resume fiscal consolidation given its high deficit and debt levels compared to similarly-rated countries. It said the new target deficit is significantly lower than the 10.9% of GDP deficit previously targeted in the draft budget and the estimated deficit of 9.5% of GDP in FY2010/11. It noted that its decision also reflects a desire to not overly commit the government that will emerge from this year's elections, even though it will face difficult reform decisions such as the introduction of VAT and reducing energy subsidies. Fitch noted that Egypt turned down loans from the IMF and World Bank of over $5bn, adding that IMF backing for the country's economic program would have boosted confidence during the political transition. It said the outcomes of parliamentary and presidential elections in the second half of this year are very uncertain, but will be crucial for the pace of economic recovery. It added that the policy stance of the new government on fiscal consolidation and structural reform will be the key to Egypt's future credit profile.

Source: Fitch Ratings

DEM REP CONGO

Sweden to write off DRC debt

The Ministry of Finance of Sweden announced that the Swedish government plans to write off debts it is owed by the Democratic Republic of Congo. It said that it will drop claims to collect 980m Swedish kronor, or about $155m, from the DRC as part of the Enhanced Heavily Indebted Poor Countries initiative (HPIC) and based on multilateral agreements made at the Paris Club of official creditors. Last year, the International Monetary Fund and the World Bank approved $12.3bn in debt relief for the DRC, of which $2.32bn to be delivered by multilateral creditors and the balance by bilateral and commercial creditors. The IMF said the decision was reached after the DRC met the conditions for reaching the completion point under the HPIC initiative and qualified for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). The DRC's debt relief totals $11.1bn under the HPIC and $1.2bn under the MDRI; including relief from the World Bank and the IMF of $1.83bn and $491m, respectively.

Source: Dow Jones Newswires, Byblos Research

ARMENIA

Annual inflation at 8.5% in June

Armenia's inflation rate reached 8.5% in June on an annual basis and 3.5% from end-2010, but decreased by 1.4% month-on-month. Inflation was driven by a rise in food prices that grew by 15% from June 2010 and by 4.9% from end-December, which led to an 11.2% annual rise in overall consumer goods prices. However, food prices decreased by 2.9% from May 2011, which led to a 2% month-on-month drop in overall consumer goods prices. In comparison, prices of alcoholic beverages and tobacco increased by 0.5% annually and by 0.1% from May, while non-food prices grew by 2.9% year-on-year and by a marginal 0.1% monthly. Further, service prices posted a 2.8% annual growth in June and by a marginal 0.1% from the preceding month. In parallel, Armenia's producer price index of industrial production reached 9.1% in May on an annual basis but decreased by 1.3% from the previous month. The government has targeted inflation at 4%, with an upward or downward margin of 1.5% for 2011.

Source: National Statistical Service

ROMANIA

Sovereign ratings upgraded to investment grade

Fitch Ratings upgraded Romania's long-term foreign and local currency Issuer Default Rating (IDR) to 'BBB-' from 'BB+' and to 'BBB' from 'BBB-', respectively, with a 'stable' outlook. It also upgraded the Country Ceiling to 'BBB+' from 'BBB' and the short-term currency IDR to 'F3' from 'B'. It attributed the return to investment-grade level to the country's progress in recovering from the effects of the financial crisis, as reflected by a resumption of GDP growth, strong exports, narrowing of the current account deficit and declining budget deficit. It said the follow-up precautionary IMF/EU program approved last March and the new fiscal responsibility law should help anchor policy discipline, it expected the government to meet its 2011 fiscal deficit target of 4.9% of GDP. It indicated that the government has started to privatize and restructure inefficient state-owned enterprises, after major reforms to pensions and public employment last year. But, it noted that further policy measures would be required to reduce the budget deficit to meet the 3% of GDP target in 2012. It saw a moderate risk of fiscal slippage, with parliamentary elections scheduled for November 2012. Fitch added that the government has successfully accessed international capital markets and started to lengthen the maturity of its domestic debt, while Romania's overall downside risks have eased.

Source: Fitch Ratings

SYRIA

Central Bank clarifies new foreign currency measures, closes 30 exchange bureaus

The Central Bank of Syria (CBS) issued the rules clarifying the implementation of measures it announced in May that aimed to contain the flight of foreign currency deposits and support the Syrian pound. The measures authorized Syrians to open savings accounts in US dollars and euros of up to $120,000 as long as the amount is blocked for at least six months, and reduced retail dollar withdrawals to $5,000 from $10,000. The rules indicate that foreign currency purchases of up to $60,000 need to be in accounts with at least a six-month maturity, with the maturity increasing by one additional month for every additional $10,000 purchased. It said the maximum amount can reach $120,000 for a maximum maturity of one year. The rules also stipulate that depositors who decide to withdraw their money prior to maturity will receive the equivalent of their withdrawal in Syrian pounds. The CBS added that it will determine the interest rates to be paid on these accounts. Prior to the new measures, residents had the right to buy up to $10,000 per month. In parallel, Central Bank Governor Adib Mayaleh said the CBS has closed about 30 foreign exchange bureaus because they were conducting illegal operations, such as trading foreign currencies at rates different from the official rate. The Syrian pound is reportedly being traded at between 10% and 15% below the official exchange rate.

Source: Syria Report, Al-Thawra

SUDAN

Anti-money laundering deficiencies remain

The Financial Action Task Force, the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Sudan made in February 2010 a high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its strategic AML/CFT deficiencies. It said that, since then, Khartoum has taken steps towards improving its AML/CFT regime, including by issuing Financial Intelligence Unit regulations and circulars to financial institutions. But it considered that certain strategic deficiencies remain. It encouraged the authorities to address these deficiencies by implementing adequate procedures for identifying and freezing terrorist assets; ensuring a fully operational and effectively functioning Financial Intelligence Unit; ensuring financial institutions are aware of and comply with their obligations to file suspicious transaction reports in relation to ML and FT; and implementing a supervisory program for the regulators to ensure compliance with the provisions of the new law and regulations.

Source: Financial Action Task Force

EGYPT

Bank ratings affirmed, outlook negative

Fitch Ratings affirmed the 'BB' long-term foreign currency Issuer Default Ratings (IDR) of National Bank of Egypt (NBE) and Commercial International Bank (CIB) with a 'negative' outlook, and affirmed the banks' short-term IDRs at 'B'. It also affirmed the long-term National Rating of Suez Canal Bank (SCB) at 'BBB (egy)' and that of Crédit Agricole Egypt (CAE) at 'AA+(egy)' with a 'negative' outlook. It also affirmed SCB's short-term National Rating at 'F3(egy)' and the National Société Générale Bank Support Rating at '3'. It attributed the actions to its previous decision to affirm Egypt's soverign ratings. It said NBE's ratings remain in line with those of Egypt and are driven by the moderate probability of support from Egyptian authorities, in case of need. It noted that NBE is fully-owned by the Egyptian state and constitutes Egypt's largest bank by assets. It added that CIB's ratings reflect the strength of its local franchise and management, its consistently strong profitability and adequate risk management. It noted that SCB's ratings reflect the likelihood of support from the Egyptian authorities; while those of CAE reflect the moderate probability of support from Crédit Agricole SA, its majority shareholder.

Source: Fitch Ratings

LIBYA

Turkey takes control of Libyan bank

The Savings Deposit Insurance Fund of Turkey stated that it seized control of the Arab Turkish Bank (A&T), in line with United Nations sanctions against the regime of Moammar Qaddafi. The Libyan Foreign Bank owns 62.37% of the Turkey-based A&T bank. As such, the Fund will control the Libya Foreign Bank's stake in A&T, except for dividends rights. The Fund added that it removed the bank's director-general and five executive board members representing the Libyan Foreign Bank, and appointed their replacements. It noted that A&T's financial structure remains sound and that the bank will continue to exercise all banking activity and fulfill its obligations. The Turkish government enacted into national law UN sanctions against Libya, Qaddafi, his family and regime officials. As such, A&T's takeover will remain in place as long as U.N. Security Council Resolutions 1970 and 1973, and the related Turkish government decree, stay in effect.

Source: Agence France Presse

CHINA

Problem loans at 8% to 12%, near stress levels

Moody's Investors Service estimated that the Chinese banking system's non-performing loans could reach between 8% and 12% of total loans, which is much higher than anticipated and closer to its stress case scenario. The agency's base case scenario estimated NPLs at between 5% and 8%, while its stress case scenario envisaged them at between 10% and 18%. It attributed its higher estimate of NPLs to the higher exposure of banks to local government borrowers than previously anticipated. It indicated that banks funded $1.5 trillion, or 79%, out of $1.6 trillion of local government debt examined by China's National Audit Office (NAO). It said that the majority of loans to local governments are of good quality, but considered that the audit agency understated the sector's exposure to local governments by $540bn. Moody's noted that the NAO did not consider the $540bn to be real claims on local governments. As such, it noted that the overlooked loans were likely poorly documented and could pose the greatest risk of delinquency. It added that the credit outlook for the Chinese banking system could potentially turn to negative in the apparent absence of a clear master plan to deal with the NPLs issue as it would leave the banks to manage a portion of the problem loans on their own.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Oil declines to $114 a barrel on inventory drawdowns

Oil prices increased by 44 cents to around $114.11 a barrel on July 7, underpinned by higher than anticipated fall in U.S. crude stocks and expectations that China's monetary tightening cycle may be nearing its end. The American Petroleum Institute indicated that U.S. crude stocks fell by 3.2 million barrels last week, exceeding the projected 3 million barrel drop, gasoline stocks contracted by 1.9 million barrels against expectations of an increase of 100,000 barrels and distillate stocks dropped by 1.6 million barrels against projected gains of 700,000 barrels. Further, analysts expect one more hike in China's interest rates in August, constituting the end of China's policy tightening for 2011 after it increased interest rates for the third time this year on July 6th. Morgan Stanley stated that it was bullish on oil in the second half of the year, mainly due to inventory drawdowns while it expected the Organization of the Petroleum Exporting Countries to increase production, which would lower spare capacity.

Source: Thomson Reuters

Iraq signs $365m gas pipeline deal with Iran

Iraq's Energy Ministry signed a $365m contract with an Iranian company nominated by the Iranian government for the construction of a gas pipeline to supply Iraqi power plants with Iranian gas. It said that the pipeline will carry 25 million cubic feet of gas per day, which would generate 2,500 megawatts. It noted that the pipeline will feed three power plants. The Iraqi government stated that it will pay 25% of the total value of the contract to the Iranian company. The 130km long and 48 inches diameter pipeline is expected to be completed in 18 months.

Source: Gulf Oil and Gas

South Sudan plans to review oil contracts, build pipeline to Kenya

South Sudan government announced that it will review all oil exploration contracts signed by the Khartoum-based government with international companies before the establishment of the 2005 Comprehensive Peace Agreement (CPA). The CPA, which expires on July 9, mandates that the two regions split by half revenues from oil produced in the South. In parallel, the South's government is negotiating with a number of oil companies to set up a 200km oil pipeline that will be connected to a pipeline in Kenya. The new pipeline will enable the South to export oil to neighboring African countries. South Sudan will control 75% of the country's overall crude oil production, currently amounting to 500,000 barrels a day, when it secedes on July 9th.

Source:Thomson Reuters, Asharq al Awsat

Angola to start oil-sharing talks with DRC

Angola's Oil Ministry announced that it is ready to negotiate with the Democratic Republic of Congo (DRC) about sharing oil resources along their common maritime border. The ministry added that it had signed a similar agreement with the Republic of Congo, which is expected to pave the way for the start of joint oil production by end-2013 or early 2014.

Source: Bloomberg

Base metals: Fundamentals remain weak

Base metal markets pushed higher again last week, with copper and zinc leading the rally, as worries about Greece eased when the government passed its austerity package. Copper and zinc prices increased by 5.6% and 6.2% week-on-week, respectively, while lead and nickel prices rose by 2% and 5%, respectively. Aluminum was the notable exception as it was the weakest performing base metal in the past week and month, dropping by 0.2% week-on-week on the back of lower oil prices. Further LME stocks fell, with stocks declining by 58,000 tons week-on-week and by 206,000 tons month-on-month.

Sentiments in the base metals sector remain mildly bullish as LME stocks remain very low, inventory in China are drawn down and prospects look bright for demand. Fundamentals for aluminum, nickel and zinc remain weak while copper stands out as having strong fundamentals. But, an improvement in risk appetite could lift prices in the weeks ahead.

Source: Standard Chartered

Precious metals: Gold and Silver hold firm, other rally

Gold and silver held firm in the past week while palladium and platinum prices rallied as worries about a Greek default eased. Palladium and platinum prices increased by 2.5% and 1.7% week-on-week, respectively. Gold resilience was underpinned by a very strong Asian demand despite high prices. Gold demand in India, the world's largest gold-consuming country, increased by 11% in the first quarter according to the World Gold Council, while preliminary figures indicated that growth persisted in April and May. Gold coin sales increased by 9% in the U.K. in the first half of the year, while sales by the U.S. Mint were down 14% during the same period.

Further, the prospects of platinum and palladium markets will depend on the outcome of the current round of negotiations between mining companies and workers in South Africa. As such, a major strike is likely to mainly boost platinum prices and an increase in wage rates will also help to drive up its prices in the future. Gold maintained its bullish rating as well as both palladium and platinum in the short- and medium-term.

Source: Standard Chartered

Global Commodity Outlook

(3-months LME, $/ton)	2010	2011f	2012f
Aluminum	2,201	2,602	2,400
Copper	7,570	9,580	10,000
Lead	2,172	2,601	2,650
Nickel	21,913	25,317	23,000
Tin	20,448	30,191	30,000
Zinc	2,188	2,384	2,400
(Spot price, $/ounce)			
Gold	1,227	1,493	1,650
Palladium	529	798	900
Platinum	1,613	1,871	2,050
Silver	20	35	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	Ba3 Stable	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
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					Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Central & Eastern Europe													
Armenia	- -	Ba2 -	BB- Stable	- -	- -	-4.8	44.8	38.4	402.7	-	194.2	-14.6	9.2
Bulgaria	BBB Stable	Baa3 Stable	BBB- Stable	- -	BB Stable	-1.8	16.2	109.2	122.3	21.2	393.2	-6.2	9.8
Kazakhstan	BBB Stable	Baa2 -	BBB- Stable	- -	B Stable	-2.8	16.0	86.4	182.9	30.3	350.4	3.2	8.8
Romania	BB+ Stable	Baa3 -	BBB- Stable	BBB- Negative	B Stable	-6.8	33.9	77.4	197.5	24.6	-	-5.5	3.8
Russia	BBB Stable	Baa1 Positive	BBB Stable	- -	BB Stable	-5.6	9.3	31.9	124.7	13.4	99.2	4.5	-0.6
Turkey	BB Positive	Ba2 Positive	BB+ Stable	BB Stable	B Stable	-4.1	44.4	41.3	187.3	39.7	-	-3.4	1.0
Ukraine	B+ Stable	B1 Positive	B Negative	- -	CCC 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	09-Jun-11	No change	07-Jul-11
UK	Bank Rate	0.50	09-Jun-11	No change	07-Jul-11
Japan	O/N Call Rate	0-0.10	14-Jun-11	No change	12-Jun-11
Australia	Cash Rate	4.75	07-Jun-11	No change	05-Jul-11
New Zealand	Cash Rate	2.50	09-Jun-11	No change	28-Jul-11
Switzerland	3 month Libor target	0.25	16-Jun-11	No change	Sep-11
Canada	Overnight rate	1.00	31-May-11	No change	19-Jul-11
Emerging Markets					
China	One-year lending rate	6.31	06-Apr-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	22-Jun-11	No change	Sep-11
Taiwan	Discount Rate	1.75	24-Jun-11	Raise 12bps	Sep-11
South Korea	Base Rate	3.25	10-Jun-11	Raise 25bps	14-Jul-11
Malaysia	O/N Policy Rate	3.00	05-May-11	Raise 25bps	07-Jul-11
Thailand	1D Repo	3.00	01-Jun-11	Raise 25bps	13-Jul-11
India	Reverse repo rate	7.50	16-Jun-11	Raise 25bps	26-Jul-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	6.25	31-May-11	Raise 25 bps	Jul-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	27-May-11	No change	08-Jul-11
Brazil	Selic Rate	12.25	08-Jun-11	Raise 25bps	20-Jul-11
Armenia	Refi Rate	8.50	07-Jun-11	No change	N/A
Romania	Policy Rate	6.25	01-Jul-11	Raise 25bps	N/A
Bulgaria	Base Interest	0.17	01-Jul-11	Raise 5bps	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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