



COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Upgrades outpace downgrades in first half of 2011

Fitch Ratings indicated that it downgraded 5% of global corporate issuers in the first half of 2011 and upgraded 7.4% of the issuers it rates. It said that it downgraded 2.2% of the issuers and upgraded 3.7% in the first quarter, while it downgraded 3.1% and upgraded 3.8% of issuers in the second quarter. It noted that the overall downgrade-to-upgrade ratio was at 0.6-to-1 in the first quarter, and 0.8-to-1 in the following period. It added that it downgraded 1.2% of emerging market issuers and upgraded 4.6% of such issuers, while it downgraded 3.9% of developed market issuers and upgraded only 3.5% of such issuers in the second quarter. The agency said that it downgraded 11.9% of corporate issuers in the Middle East & Africa, 7.7% of issuers in Europe, 4% of North American issuers, 2.1% of issuers in Asia-Pacific and 1.7% of issuers in Latin America & the Caribbean. Further, it upgraded 16.5% of corporate issuers in Latin America & the Caribbean, 8.3% of those in North America, 5.1% of European issuers, 4.9% of issuers in Asia-Pacific and 1% of those in the Middle East & Africa in the first half of the year. Also, it downgraded 6.9% of rated banks & securities' firms; 6.2% of finance, leasing companies & real estate investment trusts; 4% of issuers in the industrial sector; and 1.5% of insurance firms. In parallel, the agency upgraded 12.4% of finance, leasing companies & real estate investment trusts; 9.2% of industrial issuers; 4.7% of banks & securities firms; and 3.1% of rated insurers.

Source: Fitch Ratings

EMERGING MARKETS

Private equity investments at \$11bn in first half of 2011

Private equity funds dedicated to emerging markets raised \$22.6bn in the first half of 2011 compared to \$23.5bn raised in all of 2010. Emerging Asia funds raised \$16.4bn, with China accounting for \$10.3bn and India for \$2.5bn. Latin America & Caribbean funds raised \$4.2bn with Brazil receiving \$3bn, followed by Sub-Saharan Africa funds with \$1.1bn, CEE & CIS funds with \$631m, MENA funds with \$91m, and multi-regional funds with \$350m. In parallel, private equity investments in emerging markets totaled \$10.8bn in the first half of 2011 compared to \$18.3bn during 2010. Also, the number of transactions reached 431 deals in the first half compared to 434 deals in the same period last year. The average deal was worth around \$32.9m in the covered period relative to \$29.4m in the first half of last year. Emerging Asia attracted 76.3% of private equity investments by value, followed by the CEE & CIS region with 12.5%, Latin America & the Caribbean with 8.9%, Sub-Saharan Africa, with 1.8% and the MENA region with 0.5%. India and China attracted 68% of emerging markets private equity investment. Private equity fundraising is expected to exceed \$40bn this year.

Source: Emerging Markets Private Equity Association

Bond inflows at \$18.6bn, equity outflows at \$19bn in first 8 months of 2011, AUM at \$959bn

Capital flows to emerging market equity and bond funds posted net outflows of \$350m in the first 8 months of 2011, with bond inflows at \$18.6bn and equity outflows at \$18.9bn. Latin America accounted for \$6.5bn or 34.5% of bond inflows, followed by Emerging Asia with \$6.1bn or 32.5%, and Emerging Europe, the Middle East & Africa (EMEA) with \$6bn or 32.5% of the total. Further, Emerging Asia posted \$10.5bn in equity outflows year-to-August or 55.5% of total equity outflows from emerging markets, followed by Latin America with \$6.3bn in outflows or 33.4%, and the EMEA region with \$2.1bn in equity outflows or 11% of the total. Brazil was the biggest recipient of bond inflows with \$2.2bn, or 11.8% of total inflows into emerging market bonds and the largest source of equity outflows with \$4.6bn during the covered period. Taiwan was the largest recipient of equity inflows with \$1.1bn year-to-August. In parallel, assets under management (AUM) in emerging markets totaled \$959.4bn at the end of August 2011, with bonds accounting for \$217bn and equities for \$742.4bn. The EMEA region had \$86.8bn in AUM in bonds, followed by Latin America with \$75.3bn and Emerging Asia with \$54.9bn. Further, Emerging Asia accounted for \$475bn in equity-related AUM, followed by Latin America with \$138.5bn and EMEA with \$128.7bn. Mexico had \$25.9bn in bonds-related AUM, or 12% of the total, and China had \$154bn in equity-related AUM, or 20.8% of the total.

Source: Barclays Capital, Byblos Research

MENA

Equity markets down 13% in first 8 months of 2011

Arab stock markets decreased by 13% and GCC equity markets declined by 11% in the first 8 months of 2011 compared to increases of 1.1% and 1.3%, respectively, in the same period last year. Activity on the Iraqi stock exchange increased by 41% during the covered period and posted the best performance among Arab markets. It was distantly followed by the Palestine equity market with a marginal 0.3% rise. In parallel, the Damascus financial market dropped by 44.7% in the first 8 months and posted the worst performance among Arab equity markets. It was followed by the Egyptian equity market with a 35% retreat, the Kuwait bourse with a 16.7% fall, the Muscat stock exchange with a 14.6% decline, the Amman market with an 14.2% drop, the Beirut Stock Exchange with a 13.2% decrease, the Bahrain bourse with a 12.2% contraction, the Tunis exchange with an 11.8% decrease, the Saudi equity market with a 9.7% drop, the Casablanca stock market with a 9% regression, the Dubai financial market with an 8.5% downturn, and the Abu Dhabi and Doha exchanges with a 3.8% decline each. In comparison, emerging market equities dropped by 10% and global equities declined by 6.1% in the first 8 months of 2011. Arab stock markets regressed by 4.2% in August compared to drops of 10% for emerging market equities and 7.7% for global equities.

Source: Local stock markets, Dow Jones, Byblos Research

POLITICAL RISK OVERVIEW - August 2011

ALGERIA

The Algerian government granted asylum to the wife of the Libyan leader Muammar Qaddafi and three of his children on August 29th. The Libyan Transitional National Council (TNC) considered Algeria's action as an act of aggression. Further, 18 people were killed on August 26 in a suicide bombing of the military academy in the coastal town Cherchell and al-Qaeda in the Islamic Maghreb (AQIM) claimed responsibility. Another 29 people were injured in AQIM suicide bombing in eastern Tizi Ouzou.

EGYPT

Trial of ousted President Hosni Mubarak started on August 3 in a Cairo court, and he was accused to have been involved in the killing of protesters. The armed forces forcefully dispersed several dozen protesters from Cairo's Tahrir Square. Sectarian clashes started on August 7 in the Minya province, killing a Coptic Christian and wounding four Muslims. Five policemen were killed by the Israeli army on August 18 in response to a cross-border attack by militants on southern Israel.

IRAN

The Iranian Foreign Minister Ali Akbar Salehi said that Tehran is ready to resume negotiations over its nuclear program under the Russian proposal. A senior official in the International Atomic Energy Agency visited main atomic sites in Iran for the first time since 2008. Security forces killed three militants and arrested four others suspected of the gas pipeline blast in West Azerbaijan on July 29th. The authorities jailed two U.S. tourists for 8 years for spying. Supreme Leader Ayatollah Khamenei pardoned 100 prisoners on August 27 to mark Eid al-Fitr, including some arrested during the 2009 post-election protests.

IRAQ

Violence escalated during August with 90 people killed and 300 injured on August 15 in a series of over 40 nationwide attacks. The government announced its readiness to open formal discussions with the U.S. on keeping troops beyond the scheduled year-end withdrawal. Also, Turkey launched several airstrikes on the Kurdistan's Workers Party bases in Iraqi-Kurdistan. Several rockets fired from Iraq hit the border area with Kuwait near the site of the controversial Kuwaiti mega-port.

DEM REP CONGO

Violence continues in south Kivu, started by an attack in Mutungo by Mai-Mai militia and the FDLR displacing nearly 7,000 people. President Joseph Kabila ratified the electoral law on August 18, despite allegations of inadequate transparency in the electoral process and irregularities during voter registration. The date for elections was confirmed for November 28th. Angola denied allegations that 20,000 people were deported to the DRC since April.

LIBYA

Rebels took control of most of Western Libya in early August, seizing key towns including Zlitan and Zawiya, before taking most of Tripoli on August 21 and entering Qaddafi's Bab al-Azizia compound on August 23rd. The Transitional National Council (TNC) reported 400 people killed during the battle for Tripoli, amid reports of mass executions by pro-regime forces. During intense efforts to transfer frozen Libyan assets to the TNC, the UN Security Council (UNSC) agreed to unfreeze

\$1.5bn. UN Secretary General Ban Ki-moon declared UNSC support for the rapid deployment of the UN mission to Libya. At least 57 countries including Egypt and Tunisia have recognized the TNC.

SUDAN

Fighting slowed in south Kordofan despite reports of continued aerial attacks by the Sudanese Armed Forces (SAF). The Sudanese government agreed to allow UN supervised access to assess humanitarian needs. President Omar al-Bashir announced a unilateral ceasefire in the region. The government sent a letter to the UNSC accusing South Sudan of supporting the Sudan Peoples' Liberation Movement (SPLM) forces in the north. Foreign Minister Ali Karti accused the UNSC of manipulating the extension of the UNAMID mandate.

SOUTH SUDAN

Cattle raids by Murle tribesmen on three ethnic Nuer villages in Jonglei State killed 600 people, increasing fears of instability. Rebel leader Pater Gadet agreed to a ceasefire with President Salva Kiir and declared his intention to integrate his forces into the South Sudan Army. The government reached a tentative agreement with Sudan over border security and announced a new 29-member Cabinet on August 27th.

SYRIA

Thousands of people took part in anti-government protests across the country, despite the increased crackdown on major flashpoint cities. The United Nations reported on August 23 that government forces killed nearly 2,200 people since the unrest erupted in mid-March. Armoured forces backed by tanks and snipers continued to crush protests in Daraa, Damascus, Homs, Latakia, Deir el-Zour and elsewhere. At least 45 people were killed in military assault in Hama on August 3rd. Also, navy gunboats began firing on Latakia, killing at least 28 people. The Arab League condemned the action of Syrian authorities for the first time, and its Secretary General Nabil al-Arabi visited Syria on August 28th. The U.S. froze all Syrian assets under U.S. jurisdiction.

TUNISIA

The Tunisian Court sentenced to prison terms 25 relatives of ousted President Zine El Abidine Ben Ali including his wife. Also, former security Chief Ali Seriati was acquitted of forgery, but still faces charges of plotting against state security. Only 52% of potential voters reportedly registered for the October Assembly elections despite the extension of the deadline.

YEMEN

Hundreds of thousands of people continued to protest nationwide for President Ali Abdullah Saleh to step down. Renewed violence started between tribesmen loyal to Abdallah al-Ahmar and pro-government republican guards in Hasaba. The President said that he would return to Yemen soon and would not transfer power except through elections. The opposition's Joint Meeting Parties (JMP) issued a statement denying their connection with the June assassination attempt on the President. *Source: International Crisis Group*



OUTLOOK

SAUDI ARABIA

Budget increasingly vulnerable to oil price fluctuations and global slowdown

Barclays Capital indicated that the recent pressures on oil prices and rising downside risks to the global economy have increased the vulnerability of Saudi Arabia's budget to oil price fluctuations in light of the two fiscal spending packages approved last February. It estimated Saudi Arabia's buffer, or the differential between the Saudi oil export price and the budget breakeven price level, at \$19.6/bbl in 2011 compared to \$46/bbl in 2008. It said the nature of the recent expenditure increases have added to the rigidity of the breakeven price levels. It estimated the public sector wage bill to increase by 26% and to account for 56% of total current spending in 2011, raising considerably the rigidity of the budget. It also expected capital spending to increase by 67% and 13% year-on-year, to 17.4% of GDP and 18% of GDP in 2011 and 2012, respectively; and for up to 20% of the overall cost of the fiscal packages to be spread beyond 2012. As such, it expected the correlation between the fiscal stance and oil supply policies to remain strong beyond 2012. It estimated that the Kingdom is likely to have sufficient resources to finance its spending plans without drawing on its reserves or increasing its debt, as long as Saudi oil export prices remain above \$86/bbl and \$85/bbl in 2011 and 2012, respectively, and if oil production stays at 9.2 million b/d in 2011 and 9.2 million b/d in 2012.

Barclays' base case scenario projects Saudi oil production to reach an annual average of 9.2 million b/d in 2011, with an average Brent oil price of \$112/bbl. It said this would result in a fiscal surplus of 8.2% of GDP and current account surplus of 21.3% of GDP for the year. It added that in case annual average Brent oil prices drop to \$95-100/bbl in 2011, the Kingdom would be able to meet its spending needs without having a fiscal deficit only if it keeps production at or above the current annual average forecast of 9.2 million b/d. It said the Saudi budget would post a deficit in 2011-12 under a scenario in which Saudi oil export prices fall more than 20% and annual average production is cut by at least 0.5 million b/d.

Source: Barclays Capital

DEM REP CONGO

Economic growth to exceed 6.5% in 2011, inflation is key challenge

The International Monetary Fund expected the Democratic Republic of Congo's (DRC) real GDP growth to exceed the 6.5% rate it previously projected due to domestic demand and to favorable commodity prices for the country's mineral exports. It said economic performance continues to be strong despite the difficult global economic environment, but it warned that inflation is likely to remain well above the Banque Centrale du Congo's (BCC) single-digit target. It added that the increase in global food and fuel prices in the first few months of the year contributed to an acceleration of domestic inflation, but the pace of inflation has slowed down since then.

The Fund considered that maintaining ongoing macroeconomic policies will be important for containing inflationary pressures and safeguarding the fiscal position, especially in the run up to

the November presidential and parliamentary elections. It added that spending pressures ahead of the national elections are increasing and constitute the main risk, but noted that the government has succeeded in remaining within the targets set out in its economic program. It said that expenditure discipline and improved revenues supported the program. It also encouraged the government to increase domestic revenues in order to raise poverty-reducing expenditures and to compensate for the ongoing level of external budget support.

In parallel, the IMF said that the BCC needs to remain vigilant against the threat of accelerating inflation, which could destabilize the economy. It expected that maintaining the policy-interest rate at levels sufficiently positive in real terms will help lower inflation, reduce inflation expectations, and alleviate any potential downward pressure on the exchange rate.

Source: International Monetary Fund

GHANA

Real GDP growth at 15% in 2011

The Institute of International Finance projected real GDP growth in Ghana at 15% in 2011 compared to 7.7% in 2010 and to an average annual growth rate of 5.8% over the last decade. It attributed such growth to strong external sector activity led by record cocoa exports and new oil production. It estimated economic growth at 23% year-on-year in the first quarter of 2011, driven mainly by the external sector. It expected growth to moderate to 8.2% in 2012 as oil production peaks in 2011 and cocoa production reverts to a more normal trend. It noted that the country's current favorable conditions constitute an opportunity to improve fundamentals for more sustainable growth. It considered that oil proceeds should be directed towards areas that increase capacity and raise productivity, such as infrastructure and education, and away from those that feed into consumption.

The IIF indicated that maintaining macroeconomic stability in Ghana is vital, including further reduction in the inflation rate. It noted that Ghana has been successful in bringing down the inflation rate from a high of 20.7% in June 2009 to an 18-year low of 8.4% by July 2011. It projected the inflation rate at 9% in 2011 relative to 10.7% in 2010, which would be consistent with the inflation target set by the authorities. Further, it expected that improvements in revenue collection to reduce the fiscal deficit and to help direct more bank credit towards the private sector.

In parallel, the IIF forecast exports to be equivalent to 16% of GDP and 18% of GDP in 2011 and 2012, respectively, way above the annual average of 9% of GDP in the past five years. But it did not expect this trend be sustainable since both the record cocoa season and recent oil discoveries have been unanticipated events. It noted that oil production will reach a peak of 120,000 b/d this year and stabilize at that level, while increases in cocoa production are likely to revert to a more moderate trend.

Source: Institute of International Finance

ECONOMY & TRADE

MENA

IPOs down 67% in first half of 2011

Ernst & Young indicated that initial public offerings (IPOs) in the Middle East raised \$374.8m in the second quarter of 2011, constituting a decline of 51.7% from \$775.4m in the second quarter of 2010 and an improvement from \$24.1m raised in the previous quarter. It added that regional capital markets raised \$399m in the first half of the year, down 67% from \$1.2bn in the same period last year. It said that the region's IPOs raised only 0.6% of global funds in the second quarter of 2011. It added that there were six IPOs in the region with one IPO in each of Saudi Arabia, Jordan, Tunisia and Morocco and two listing in the UAE, including one property company, which constituted the first real estate firm to list in the UAE since 2007. Ernst & Young attributed the low IPO activity to the lack of confidence to list in the prevailing conditions in the region. It noted that there were 225 companies in the region that delayed their offerings or postponed going to market over the last three years. It said that these companies would proceed with listing when market sentiment improves and fund raising picks up.

Source: Ernst & Young

SYRIA

Insurance premiums up 6% to \$220m in first half of 2011

Figures released by the Syrian Insurance Supervisory Commission (SISC) show that total insurance premiums generated in the Syrian market during the first half of 2011 reached \$220.3m, constituting an increase of 6% from the same period last year. Premiums collected from health insurance increased by 24% year-on-year to \$73.9m, third-party car insurance dropped 1.2% to \$61.8m, all-risk car insurance premiums contracted by 12.3% to \$28.5m, marine premiums rose by 9.7% to \$12.6m, and engineering premiums grew by 5.9% to \$4.6m. Health insurance premiums accounted for 33.6% of the total, followed by third-party car insurance premiums with 28%, all-risk car insurance (13.8%), fire (12.3%), marine (5.7%), and engineering (2.1%), while other categories accounted for the remaining 4.5% of the market. Premiums generated from life insurance jumped by 19.7% year-on-year and accounted for 1.4% of total premiums. Health insurance premiums overtook third-party car insurance premiums for the first time in years due to the government's plan to insure all civil servants, a decision that benefits only the state-owned Syrian Insurance Company.

Source: Syria Report

ARMENIA

Sovereign ratings affirmed on reduced fiscal and external imbalances

Fitch Ratings affirmed Armenia's long-term foreign and local currency Issuer-Default Ratings (IDRs) at 'BB-' with a 'stable' outlook to the long-term IDRs. It also affirmed the country's long-term currency IDR at 'B' and the Country Ceiling at 'BB'. It attributed the affirmation to the authorities' continuous efforts to reduce fiscal and external imbalances in line with their IMF-backed economic policy program. But, it said that the economy

remain vulnerable to external shocks and added that the government's debt and the gross external debt levels remain significantly higher than before the global crisis. Fitch expected Armenia's fiscal deficit to drop to 3.9% of GDP in 2011 from 5% of GDP in 2010, due to consolidation plans that include a mixture of spending cuts and improving tax collection. It projected the fiscal deficit to decrease further to 3.2% of GDP at end-2012. It also forecast Armenia's real GDP growth at 4% in 2011 and 5% in 2013, which would be sufficient to stabilize the public debt at around 40% of GDP, barring further fiscal or exchange rate shocks. But it noted that the country's solvency ratio is unusually sensitive to exchange rate movements, as almost 90% of the government's debt is denominated in foreign currency. It added that the dram's depreciation would aid competitiveness and external adjustment, but would constitute a risk to the external balance sheet and to inflation.

Source: Fitch Ratings

Annual inflation at 4.8% in August

Inflation rate in Armenia reached 4.8% in August on an annual basis but decreased by 0.2% from end-2010 and by 0.6% from end-July. Inflation was driven by a rise in food prices that grew by 7.5% from August 2010, which led to a 6% annual rise in overall consumer goods prices. However, food prices decreased by 2.4% from end-2010 and by 1.2% month-on-month, which led to a 1.2% and 0.8% drop in overall consumer goods prices, respectively. In comparison, non-food prices grew by 3% year-on-year while service prices posted a 2.1% annual growth.

Source: National Statistical Service

RUSSIA

Ratings affirmed on strong sovereign balance sheet

Standard & Poor's affirmed Russia's long- and short-term foreign currency sovereign credit ratings at 'BBB/A-3', and long- and short-term local currency ratings at 'BBB+/A-2' with a 'stable' outlook. It also affirmed the national scale rating at 'ruAAA' and transfer and convertibility assessment at 'BBB'. It attributed its decision to the government's slight net asset position, which reflects past fiscal surpluses and current moderate deficits, as well to the economy's overall net external creditor position. But, it said that the ratings remain constrained by the economy's structural weakness, including the strong dependence on hydrocarbons and other commodities, and by political uncertainty. In parallel, Fitch Ratings affirmed Russia's long-term foreign and local currency Issuer Default Ratings (IDR) at 'BBB' with a 'positive' outlook. It also affirmed the country's short-term IDR at 'F3' and country ceiling at 'BBB+'. It said that Russia's shift to a more flexible exchange rate regime has the potential to help reduce its relatively high and volatile inflation rate, lower its vulnerability to oil price shocks and improve financial stability. The agency noted that foreign exchange reserves reached \$540bn in mid-August, the third-highest in the world after China and Japan, providing a formidable liquidity buffer against external financing or currency risks. It added that Russia is a substantial net external creditor, equivalent to 23% of GDP at end-2010, and has posted current account surpluses every year since 1997, despite volatile commodity prices.

Source: Standard & Poor's, Fitch Ratings



BANKING

SYRIA

Central Bank spends \$2bn to defend currency

The Central Bank of Syria (CBS) stated that it has spent \$2bn to defend the Syrian pound since the onset of turmoil in March. It said that the money came from a \$5bn fund that the government established two years ago to manage currency fluctuations and foreign exchange positions of banks. It said the fund has helped the CBS maintain its foreign-currency reserves, which decreased by \$800m since the onset of the unrest to \$17.7bn. The CBS added that the Syrian pound has lost 3% of its value against the dollar since the start of turmoil. It noted that it is closely monitoring the currency and the stability of the exchange rate. Further, it denied that any country transferred or offered to transfer any funds to the CBS to support the economy. In parallel, the CBS announced that it stopped all transactions in US dollars following the impositions of new U.S. sanctions on the Syrian government. But, it claimed that about SYP24bn in deposits have returned to the banking sector after the CBS raised deposit rates by two percentage points and lowered reserve requirements to 5% from 10% in May.

Source: Bloomberg, Syria Report

IRAQ

Central Bank pushes for sector consolidation

The Central Bank of Iraq (CBI) announced that it aims to reduce the number of private banks operating in Iraq from 36 currently to 22 institutions. It said that the CBI segregated shareholders from bank's management and doubled capital requirements to push the banks to consolidate, merge, or seek a foreign partner. The CBI noted that Standard Chartered Bank is in negotiation to acquire Warka Bank, which struggled to meet the new capital requirements, and added that three other banks are in merger talks. It expected more banks to consolidate to meet the requirements of the next phase of capital increases. There are 43 banks in Iraq, including 22 private banks, 8 Islamic banks, 7 state-owned banks and 6 foreign banks. State-owned banks account for 97.5% of total assets and about 85% of overall lending, with Rafidain Bank alone representing 88.7% of aggregate assets. Last year, the Iraqi Banking League urged private banks to consider mergers in order to increase their capital and benefit from economies of scale in light of new requirements by the CBI to raise their capital to IQD 150bn by end-June 2012 and IQD 250bn in 2013.

Source: The National, Byblos Research

LIBYA

NPLs write-offs equivalent to 1.5% of GDP

JP Morgan estimated the cost of writing off all the non-performing loans (NPLs) in Libya's banking system at less than 1.5% of GDP, or about \$1bn, reflecting the low level of financial intermediation in the country. It said that the NPLs level in banks operating in Libya was already the highest in the Middle East & North Africa region prior to the conflict, and is likely to rise in coming months. It considered that broad reforms of the banking system, especially of development banks, will be necessary during the transition period as the sector was underdeveloped prior to the start of the conflict. It noted that restoring confidence constitutes a key factor to the stability of the financial system.

It added that trade finance, which is expected to surge during the post-conflict period, will help banks recover. But, it expected the opening of the banking system to foreign competition to be delayed till after the elections, which are not likely to take place before the second half of 2013.

Source: JP Morgan

NIGERIA

Banks' ratings affirmed

Fitch Ratings affirmed the long-term foreign Issuer Default Ratings (IDRs) of Diamond Bank (Diamond) at 'B' and First Bank of Nigeria (FNB), Guaranty Trust Bank (GTB), Union Bank of Nigeria (Union), Zenith Bank (Zenith) and United Bank for Africa (UBA) at 'B+'. It assigned a 'negative' outlook to the long-term foreign IDRs of Diamond, FBN, Union and UBA and a 'stable' outlook to those of GTB and Zenith. It also downgraded Diamond's National long-term rating to 'BBB+(nga)' from 'A-(nga)' and UBA's Viability Rating to 'b-'. It said that the ratings on FBN, Diamond, Union and UBA depend exclusively on the authorities' high level of willingness to support the banks. But it warned that negative pressure on Nigeria's sovereign ratings may translate into lower ratings for these institutions. It attributed the downgrade of UBA's Viability Rating to the bank's recent trend of subdued financial performance and low Tier One capital ratio considering its risk profile. Further, it noted that the ratings on GTB and Zenith reflect the banks' strong franchises, acceptable levels of capitalization and improving financial performance indicators. It added that the write-downs and disposals of NPLs to the Asset Management Corporation of Nigeria supported the improvement of the two banks' asset quality indicators.

Source: Fitch Ratings

CHINA

Proposal to include the Renminbi in IMF currency basket

Credit Suisse indicated that China and France established a working unit to draft a proposal to include the Renminbi in the International Monetary Fund's Special Drawing Rights (SDR) currency basket. It said that the proposal is expected to be discussed during the G20 summit to be held this coming November. It added that a currency must represent a large proportion of international trading activities and to be fully used in global affairs in order to be considered for inclusion in the SDR basket. It noted that the Chinese currency meets the first condition, but does not yet meet the second. The current SDR basket includes the U.S. dollar, euro, Japanese yen and British pound. Credit Suisse noted that China launched a campaign last year to make the Renminbi an 'international currency' with the aim to make the Chinese currency a global trading, reserve and capital currency. It expected most convertibility issues to be completed by 2015, with some restrictions on capital inflows likely to remain.

Source: Credit Suisse



ENERGY / COMMODITIES

Brent crude up on lower U.S. stocks

Brent prices held steady above \$115 a barrel, after a \$3 surge in the previous session, in line with the rebound in equity markets. Prices were also supported by storms in the U.S. Gulf Coast that have already restrained about 37% of oil production from the region. Brent crude prices declined 22 cents on September 8 to \$115.6 a barrel after gaining \$2.9 to settle at \$115.8 a barrel, above its 100-day moving average. However, U.S. crude prices gained 19 cents to \$89.5 a barrel. Prices were also supported by a steep fall in oil stocks, where stockpiles of U.S. crude fell by 3 million barrels last week due to production shut-ins and lower imports. In addition, three tropical storms are posing threats to Mexico's Bay of Campeche, Puerto Rico and the U.S. East Coast. Further, markets are awaiting an end to the months-long conflict in Libya for the restoration of oil output in the nation.

Source: Thomson Reuters

EU bans import of Syrian crude oil

The European Union banned the import of Syrian crude oil to the 27-member countries. The EU oil embargo prohibits the purchase, transportation or the financing and insurance of purchases of crude oil and petroleum products from Syria, but do not prohibit European companies with operations in Syria from continuing their ventures. The EU stated that firms with existing contracts to buy Syrian oil have until November 15 to execute their contracts. Syria sold 99% of its crude oil exports to European countries in 2010. Germany accounted for 32% of Syrian crude oil exports in 2010, followed by Italy with 31%, France with 11%, the Netherlands with 9%, Austria with 7% and Spain and Turkey with 5% each. Oil exports account for around 40% of Syria's oil production, one-third of its total export revenues, 25% of its foreign currency earnings and about 20% of its budget revenues. Last month, the United States banned the import of Syrian petroleum or petroleum products, and prohibited any U.S. individuals or entities from engaging in any transactions or dealings related to petroleum originating from Syria. Syria exports approximately 150,000 barrels of oil per day.

Source: The Wall Street Journal, Syria Report

CNPC subsidiary to suspend operations in Syria

The Great Wall Drilling Company, a subsidiary of the China National Petroleum Corporation (CNPC), is suspending operations in Syria as well as in several other countries in the region due to the political unrest. Great Wall is an oil servicing firm that carries exploration works among others. There are currently about 24 international companies operating in the Syrian oil industry in exploration, production and related services. They include Royal Dutch Shell, Total E&P, Petro-Canada, INA Naftaplin, Gulfsands Petroleum, IPR, CNPC, Tatneft, Sinopec, Oil & Natural Gas Corporation, Kulczyk Oil Ventures, Maurel & Prom, Soyuzneftegaz, Schlumberger, Croscos and BGP.

Source: Syria Report

Base metals: Prices supported by demand in China and Japan, and tight supply

Base metal prices fluctuated in the past week, but overall they held up well given the backdrop of a much stronger U.S. dollar. Aluminum and tin prices increased 1.8% and 1.1% week-on-week on September 6, respectively, due to lower supply. Other base metals were marginally lower with copper prices and nickel prices down 0.7% and 0.6% week-on-week, respectively. Also, lead prices fell 1.1% week-on-week and zinc prices fell 2.1% on weekly basis.

Further, China's high growth is helping support copper, nickel and iron ore prices. The Chinese government has plenty of ammunition to reaccelerate the economy should the need arise, which limits the downside risks for Chinese demand. Also, Japanese demand for base metals is expected to rise in the months ahead, as reconstruction continues after the earthquake and following the 60% drop in vehicle production in April. China and Japan combined account for 45% of global base metal demand.

Source: Standard Chartered

Precious metals: Gold prices bounce back strongly on slower world economy

Gold prices were extremely volatile in recent weeks as confidence in the financial markets remains fragile amid the ongoing euro debt crisis and a slowing world economy. Gold prices are currently up 5.9% week-on-week on September 6 while silver prices increased 5.6% week-on-week. The platinum group metals were lifted by gold, but were held back by renewed risk aversion. Platinum prices are currently up 3.3% week-on-week and palladium prices rose 3% week-on-week. The U.S. dollar is currently 4% stronger week-on-week against the euro, which limited gains in the complex.

Also, physical ETFs for gold are currently down 3.3% from their most recent peak, and U.S. net speculative positions are down 16% month-on-month. Gold prices are expected to remain volatile in the weeks ahead. Gold prices are forecast at \$1,900 an ounce in 2012, up \$200 per ounce from the previous forecast as the global economy slowly gains momentum.

Source: Standard Chartered

Global Commodity Outlook			
(3-months LME, \$/ton)	2010	2011f	2012f
Aluminum	2,201	2,539	2,450
Copper	7,570	9,281	10,000
Lead	2,172	2,577	2,700
Nickel	21,913	24,551	23,000
Tin	20,448	28,168	30,000
Zinc	2,188	2,384	2,400
(Spot price, \$/ounce)			
Gold	1,227	1,643	1,900
Palladium	529	793	900
Platinum	1,613	1,832	2,050
Silver	20	38	41

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	-9.9	16.1	2.9	7.4	2.0	3.2	3.4	1.8
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	B	2.7	20.6	20.2	35.7	8.2	-	1.6	17.6
	Stable	Stable	Stable	-	Negative								
Egypt	BB	Ba3	BB	BB+	CCC	-8.2	74.2	14.3	66.5	4.6	88.3	-2.0	3.3
	Negative	Negative	Negative	Negative	Stable								
Ethiopia	-	-	-	-	B	-1.5	-	-	257.5	-	-	-3.9	0.3
	-	-	-	-	Stable								
Ghana	B	-	B+	-	BB	-10.8	-	34.9	50.0	-	-	-11.6	10.9
	Stable	-	Negative	-	Positive								
Ivory Coast	-	-	-	-	CCC	-0.2	-	50.1	111.2	-	-	6.8	1.8
	-	-	-	-	Stable								
Libya	BB	-	B	-	B	13.3	0	7.2	11.6	3.2	5.1	20.1	2.5
	Negative	-	Stable	-	Stable								
Mauritania	-	-	-	-	-	-4.5	88.5	69.8	128.4	-	1,220	-7.6	-1.3
	-	-	-	-	-								
Morocco	BBB-	Ba1	BBB-	BBB-	BB	-4.5	49.9	24.1	78.4	8.0	110.0	-5.3	0.9
	Stable	-	Stable	Stable	Stable								
Nigeria	B+	-	BB-	-	B	-7.9	14.1	5.0	14.2	0.7	-	13.0	0
	Stable	-	Negative	-	Stable								
Sudan	-	-	-	-	C	-3.7	71.4	57.4	343.6	-	3,780	-8.9	5.5
	-	-	-	-	Stable								
Tunisia	BBB-	Baa3	BBB-	BBB	B	-2.8	43.0	46.3	101.0	11.7	195.2	-4.4	3.7
	Negative	Negative	Negative	Stable	Stable								
Middle East													
Bahrain	BBB	BBa1	A-	BBB+	BBB	-5.4	32.8	139.6	170.2	6.8	946.6	5.2	9.9
	Negative	Negative	Negative	Negative	Stable								
Iran	-	-	B+	BB-	B	0.4	21.7	5.6	19.9	2.7	21.3	4.2	0.8
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	CCC	-14.2	42.2	41.8	65.4	-	75.3	-14.4	1.4
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	B	-6.3	63.0	19.2	44.8	4.8	48.6	-7.2	9.2
	Negative	Negative	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	17.1	6.5	46.2	72.2	3.7	224.0	30.1	-8.7
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B	B1	B	B	CCC	-7.2	136.7	160.8	240.3	14.7	212.2	-10.2	10.0
	Positive	-	Stable	Stable	Stable								
Oman	A	A2	-	A	A	5.3	5.7	15.4	22.6	-	63.7	5.8	3.9
	Negative	-	-	Stable	Stable								
Qatar	AA-	Aa2	-	AA-	AA	10.8	27.2	80.6	139.3	10.0	512.3	15.6	5.0
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	1.9	12.9	22.6	40.5	2.4	22.7	6.7	7.7
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	BB-	CCC	-4.3	26.9	14.9	48.0	-	52.9	-3.9	2.7
	-	-	-	Stable	Stable								
UAE	-	Aa2	-	AA-	BB	-2.7	24.7	53.1	57.7	7.3	360.4	5.4	0.6
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	CC	-5.5	45.8	21.4	70.5	-	139.6	-4.9	0.3
	-	-	-	Negative	Stable								

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-	-	-	-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	-	BB 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	BB Stable	-6.8	33.9	77.4	197.5	24.6	-	-5.5	3.8
Russia	BBB Stable	Baa1 Positive	BBB Stable	-	BBB 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+ Positive	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	09-Aug-11	No change	20-Sep-11
Eurozone	Refi Rate	1.50	04-Aug-11	No change	08-Sep-11
UK	Bank Rate	0.50	04-Aug-11	No change	08-Sep-11
Japan	O/N Call Rate	0-0.10	05-Aug-11	No change	07-Sep-11
Australia	Cash Rate	4.75	02-Aug-11	No change	06-Sep-11
New Zealand	Cash Rate	2.50	28-Jul-11	No change	15-Sep-11
Switzerland	3 month Libor target	0.00	16-Jun-11	Cut 25 bps	Sep-11
Canada	Overnight rate	1.00	19-Jul-11	No change	07-Sep-11
Emerging Markets					
China	One-year lending rate	6.56	06-Jul-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	09-Aug-11	No change	20-Sep-11
Taiwan	Discount Rate	1.88	24-Jun-11	No change	Sep-11
South Korea	Base Rate	3.25	11-Aug-11	No change	08-Sep-11
Malaysia	O/N Policy Rate	3.00	07-Jul-11	No change	08-Sep-11
Thailand	1D Repo	3.25	24-Aug-11	Raise 25bps	19-Oct-11
India	Reverse repo rate	8.00	26-Jul-11	Raise 50bps	16-Sep-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	5.75	04-Aug-11	Cut 50 bps	20-sep-11
South Africa	Repo rate	5.50	21-Jul-11	No change	22-Sep-11
Kenya	Central Bank Rate	6.25	27-Jul-11	No change	Sep-11
Nigeria	Monetary Policy Rate	8.75	26-Jul-11	Raise 75 bps	20-Sep-11
Ghana	Prime Rate	13.00	20-Sep-11	Cut 50 bps	Nov-11
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	08-Jul-11	No change	26-Aug-11
Brazil	Selic Rate	12.50	20-Jul-11	Raise 25bps	31-Aug-11
Armenia	Refi Rate	8.00	06-Sep-11	Cut 50bps	N/A
Romania	Policy Rate	6.25	01-Jul-11	Raise 25bps	N/A
Bulgaria	Base Interest	0.18	01-Aug-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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