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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global private equity fundraising down 42% to $45bn in third quarter of 2011

Preliminary figures released by reserach provider Preqin, indicate that global private equity fundraising reached $44.8bn in the third quarter of the year, constituting a decrease of 45% from $82.8bn in the previous quarter and a drop of 42% from $77.1bn in the same quarter last year. It added that 97 funds reached a final close in the third quarter of 2011 compared to 175 funds in the second quarter of the year and 150 funds in the third quarter of 2010. Also, 109 funds held interim closes and secured commitments totaling $42.7bn towards their fundraising targets. It said that 37 funds, primarily focusing on North America, reached a final close and raised $22.5bn in the third quarter of the year; followed by 28 Europe-focused funds with $11.3bn; and 32 funds focusing primarily on Asia and Rest of World that raised $11bn. It added that 19 buyout funds raised $14.4bn in the third quarter of 2011, followed by 16 real estate funds with $10.8bn, 5 distressed private equity funds with $6.5bn, 19 venture capital funds with $3.3bn, and 14 growth funds with $2.4bn. It noted that the average time for funds to close was 17 months in the third quarter of 2011, down from 20.4 months in overall 2010, but significantly above the 2007 average of 11.4 months. There were 1,728 funds seeking a combined $706bn at the end of the third quarter of 2011.

Source: Preqin

EMERGING MARKETS

Bond inflows at $15.5bn, equity outflows at $25bn in first 9 months of 2011, AUM at $915bn

Capital flows to emerging market equity and bond funds posted net outflows of $9.5bn in the first 9 months of 2011, with bond inflows at $15.5bn and equity outflows at $25bn. Emerging Asia accounted for $5.7bn or 36.8% of bond inflows, followed by Latin America with $5.2bn or 33.6%, and Emerging Europe, the Middle East & Africa (EMEA) with $4.6bn, or 29.6% of the total. Further, Emerging Asia posted $14bn in equity outflows year-to-September, followed by Latin America with $7.1bn in outflows, and the EMEA region with $3.9bn in equity outflows. Brazil was the biggest recipient of bond inflows with $1.85bn, or 12% of total inflows into emerging market bonds; while China was the largest source of equity outflows with $5.7bn during the covered period. Taiwan was the largest recipient of equity inflows with $2bn year-to-September. In parallel, assets under management (AUM) in emerging markets totaled $915.4bn at the end of September 2011, with bonds accounting for $209.6bn and equities for $705.9bn. The EMEA region had $82.4bn in AUM in bonds, followed by Latin America with $72.9bn and Emerging Asia with $54.3bn. Further, Emerging Asia accounted for $451.7bn in equity-related AUM, followed by Latin America with $131.8bn and EMEA with $122.3bn. Mexico had $25.6bn in bonds-related AUM, or 12.2% of the total; and China had $146.3bn in equity-related AUM, or 20.7% of the total.

Source: Barclays Capital, Byblos Research

Capital markets equivalent to 189% of GDP, account for 16% of global financial markets

The International Monetary Fund indicated that the total size of capital markets in emerging market (EM) economies stood at $40,628bn at end-2010, with bank assets accounting for 47.3%, equities for 30.9%, and debt securities for 21.9% of the total. EM capital markets were equivalent to 188.7% of the region's GDP. It said that Asia accounted for $23,428bn or 57.7% of total bonds, equities and bank assets in EM economies followed by Latin America & the Caribbean (LAC) with $8,742bn (21.5%), Emerging Europe (EE) with $4,347bn (10.7%), the Middle East & North Africa (MENA) with $2,579bn (6.3%), and Sub-Saharan Africa (SSA) with $1,533bn (3.8%). It said that bank assets in Asia totaled $12,029bn and accounted for 62.6% of EM bank assets, followed by LAC with $3,517bn (18.3%), EE with $1,719bn (8.9%), the MENA region with $1,399bn (7.3%), and SSA with $550bn (2.9%). Further, the stock market capitalization in Asia stood at $6,681bn and accounted for 53.3% of EM market capitalization, followed by LAC with $2,670bn (21.3%), EE with $1,610bn (12.8%), the MENA with $849bn (6.8%) and SSA with $727bn (5.8%). Also, debt securities in Asia reached $4,718bn and accounted for 53.1% of total debt securities in EM economies, followed by LAC with $2,555bn (28.8%), EE with $1,018bn (11.5%), the MENA with $332bn (3.7%) and SSA with $256bn (2.9%). The size of capital markets in emerging economies represented 16.2% of global capital markets. EM accounted for 19.2% of global bank assets, 22.8% of global stock market capitalization, and 9.4% of fixed income markets in the world.

Source: International Monetary Fund, Byblos Research

MENA

FDI in Arab world down 17% to $55bn in 2011

The Arab Investment and Export & Guarantee Corporation (AIEGC) projected aggregate foreign direct investment (FDI) in 21 Arab economies to reach $55.1bn in 2011, constituting a decline of 16.8% from $66.2bn in 2010. It forecast FDI in Saudi Arabia at $29bn, accounting for 52.6% of the total and making the kingdom the largest destination of FDI in the region this year. It was followed by Qatar and the UAE with $4bn each, representing 7.3% of the total each; Iraq with $3.5bn (6.4%), Lebanon with $3bn (5.4%) and Morocco and Oman with $2bn each (3.6%, each), Algeria with $1.7bn (3.1%), Jordan with $1.5bn (2.7%) and Tunisia with $1.2bn (2.2%) as the top destinations of FDI this year. As such, it noted that the top 10 destinations would account for 94.1% of the total. Further, it expected FDI in Djibouti to increase by 714.8% year-on-year, the highest such growth in the region, followed by Mauritania with a jump of 428.6%, Kuwait (394%), Iraq (145.4%), Morocco (53.4%), Yemen (39.2%), Saudi Arabia with (3.2%) and the UAE (1.3%). In parallel, it projected FDI in Egypt to decline by 92.2% in 2011, followed by Libya with a drop of 87%, Syria (-65%), Palestine (-56.5%), Lebanon (-39.5%), Sudan (-37.5%), Bahrain (-36%), Qatar (-27.7%), Algeria (-25.8%), Tunisia (-20.7%), Jordan (-14.3%), Somalia (-10.7%) and Oman (-2.2%).

Source: Arab Investment and Export & Guarantee Corporation

POLITICAL RISK OVERVIEW - SEPTEMBER 2011

ALGERIA

Libyan officials said that gunmen loyal to Muammar Gaddafi crossed into Libya from Algeria and killed at least six people. At least five members of al-Qaeda in the Islamic Maghreb militants were killed near Boumerdeson on September 26th. The Cabinet approved several reform measures promised by President Abdelaziz Bouteflika in April, including the partial privatization of broadcast media, to strengthen press freedoms.

EGYPT

A demonstration in Tahrir Square on September 9, calling for political reforms and the end of the emergency law, turned violent as thousands of people attacked the Israeli embassy. Three protesters were killed and over 1,000 were injured in clashes with the police. The ruling Military Council reactivated the emergency law after the attack on the embassy, and said that the law will remain in place until June 30, 2012. Prime Minister Essam Sharaf said that the peace deal with Israel is not "sacred", while his Israeli counterpart Benjamin Netanyahu said the treaty is dependant upon regional stability. The Military Council set November 28 as a date for the start of the parliamentary elections for the lower house, and January 22 for the upper house. Almost 60 political parties threatened to boycott the polls unless the Military Council amended the election law.

IRAN

The head of the Atomic Energy Organization of Iran Fereydoon Abbasi offered to allow international inspectors full supervision of the country's nuclear activities for the next five years, but on condition that sanctions will be lifted. The first nuclear power plant Bushehr, was officially launched on September 12 and is expected to begin full operations in December 2011. Two U.S. citizens were released on September 21, previously jailed for alleged spying. The Iranian military resumed operations against the Party of Free Life of Kurdistan (PJAK) militants along the Iraqi border.

IRAQ

The President of the Kurdistan Region in Iraq Masoud Barzani said that Iraq needs U.S. military presence beyond end-2011 for fear of civil war. More than 15 people were killed and 80 were injured in four successive explosions in Karbala. The head of leading anti-corruption body Judge Abd al-Amir al-Uqaili resigned on September 8 due to the government's failure to act on corruption.

DEM REP CONGO

Tensions continued to rise ahead of the presidential and legislative elections in November. Deadly clashes between the police and the opposition Union Pour la Démocratie et le Progrès Social (UDPS) supporters on September 1 injured several people, while two people were killed in Mbuji May. UDPS supporters were killed in riots in Kinshasa and at least three others were injured.

LIBYA

Clashes erupted between the Transitional National Council (TNC) forces and pro-Qaddafi fighters in Bani Walid and Sirte following the breakdown of negotiations. The TNC took control of Sabha on September 21, a traditional stronghold of Qaddafi's tribe. The International Committee of the Red Cross said that 13 mass graves were discovered containing executed rebels. Former Prime Minister Baghdadi Ali Mahmudi was arrested in Tunisia on September 21, and the TNC requested extradition. French President Nicolas Sarkozy announced the collective unfreezing of $15bn of Libyan assets.

SUDAN

Fears of intensifying fighting between the Sudanese Armed Forces (SAF) and Sudan People's Liberation Movement in the North (SPLM-N) followed heavy weaponry deployment in south Kordofan. President Omar al-Bashir declared a state of emergency on September 2 and discharged the elected SPLM-N Governor Malik Agar. The United Nations estimated that around 100,000 people were displaced by the unrest and said that the government denied access to aid agencies. The rebel Sudan Liberation Movement led by Abdel Wahid al-Nur (SLM-AW) reported that it had killed 33 SAF soldiers in Jebel Marra.

SOUTH SUDAN

Sudan and South Sudan reached an agreement on September 9 to ease border tensions in Abyei. The South's government announced its intention to pay its arrears for the use of Sudan's oil facilities until it reaches a final decision with Sudan on transit fees. The United Democratic Salvation Front (UDSF) head David Biel Jal was arrested on September 2 after criticizing the composition of the new Cabinet. The government re-committed to the Disarmament, Demobilization, and Reintegration (DDR) program and announced plans to demobilize 150,000 soldiers.

SYRIA

The United Nations reported that the military crackdown in Syria killed at least 2,700 people during the continued uprising against the regime. Syrian authorities claimed that 700 police and army were killed during the unrest. UN Secretary General Ban Ki-moon said that Bashar Assad has repeatedly broken promises of reforms and called for international action. Turkey imposed an arms embargo against Syria on September 23 for the brutal crackdown on demonstrators, while the European Union increased sanctions primarily on the oil sector. The U.S. Ambassador in Syria Robert Ford was mobbed by Assad supporters while visiting opposition figures in Damascus.

TUNISIA

Amid preparations for the constituent assembly elections on October 23, the Higher Body for Elections announced electoral lists. Security forces opened fire in Sbeitla to break up street fighting involving hundreds of people, and broke up tribal clashes in Metlaoui. Following several days of protests in Kasserine against high unemployment, five unemployed teachers attempted to hang themselves outside the Education Ministry building. Former Justice Minister Bechir Tekkeri was arrested on suspicion of bribing a witness in the trial of ousted President Zine al-Abidine Ben Ali's family member.

YEMEN

President Ali Abdullah Saleh returned to Yemen on September 19 from Saudi Arabia after an assassination attempt in June. President Saleh called for early elections, but made no pledge to step down. Violence erupted in Sanaa on September 18, when regime forces launched a brutal crackdown on protest camps killing more than 26 protestors. Over 100 people were killed in battles between forces loyal to opposition leader Ali Mohsen al-Ahmar and pro-Saleh forces in the capital.

Source: International Crisis Group

OUTLOOK

GCC

Non-hydrocarbon growth at 5.2% in 2011, downside risks increase

Barclays Capital projected real GDP growth in the GCC economies at 7.2% in 2011 compared to an earlier forecast of 6.8% and up from 5.2% in 2010, with non-hydrocarbon growth at 5.2% this year compared to 4.2% in 2010 and hydrocarbon activity at 9.7% relative to 5.4% last year. It said that the prevailing tight fundamentals in the oil markets, resulting in unexpected increases in oil production following Libya's output losses, remain the key driver for hydrocarbon growth in 2011. It attributed the strengthening of non-hydrocarbon growth in the GCC economies to the increase in public spending this year, along with slight improvements in credit expansion. As such, it projected Qatar's non-hydrocarbon real GDP growth at 11.2% this year relative to 9.8% a year earlier. It also forecast Saudi Arabia's non-oil sector to expand by 4.8% compared to 4.2% in 2010; that of the UAE to grow by 3.7% in 2011 from 2.1% last year; in addition to non-oil growth of 4% in Oman and 1.5% in Bahrain. However, Barclays warned that a financial crisis that would lead to a decline in global growth and world trade is a key downside risk to GCC growth, as a weakening of oil demand would lead to possible production cuts and declines in prices.

In parallel, Barclays anticipated the GCC economies to post a fiscal surplus of 8.7% of GDP this year relative to 5% of GDP in 2010. It said that spending increases introduced since the beginning of the year are likely to raise expenditures by almost 27% in 2011. It noted the increased sensitivity of GCC budgets to oil price fluctuations, compared to 2008, as spending packages are focusing on handouts and public sector employment, which is making budgets even more rigid. It expected major OPEC producers to cut production to shore up oil prices closer to their fiscal break even price, in case a global economic slowdown leads to a drop in oil demand and prices, even if this decision results in lower economic growth for a while.

Source: Barclays Capital

LIBYA

Oil and infrastructure to dominate new economic landscape

The Economist Intelligence Unit indicated that business opportunities in the early days of post-Qadhafi Libya will be concentrated in oil and infrastructure, as the new administration works to get the vital oil export business back on stream and to repair the damage done during the conflict. It added that other areas of the economy will become increasingly open to investment further down the line. It said the opportunities that will be available will be similar in many respects to those that businesses pursued during the latter part of the Qadhafi era, as the previous regime tried to make up for decades of stagnation by opening up to private investment. It noted that Libya's new start offers an opportunity for the emergence of a viable home-grown business sector. It expected the initial focus of a new government to be on diverting state funds to finance reconstruction. It added that, once this is under way, it will introduce reforms to enable the private sector to operate more effectively than under the highly restrictive Qadhafi regime. It noted that the National Transition Council has not formally outlined its policies in this area, except to state that it will try to create "effective economic institutions to eradicate poverty and unemployment".

According to the EIU, restoring oil production will be a priority, but the new government is also likely to devote considerable attention to repairing and upgrading infrastructure and investing in housing, as well as to fill the gaps in the regulatory system. In parallel, the EIU noted that the NTC indicated that it will honor the banking licenses issued by the previous regime, and that the NTC's commitment to privatization of the country's state-dominated financial sector will be closely watched by bankers around the world, as the Libyan banking sector represents one of the few remaining untapped markets. It noted that the new government's capacity to implement decisions, formulate budgets and dispense funds will be affected in the medium term by the lack of structure.

Source: Economist Intelligence Unit

AFRICA

Sub-Saharan Africa to grow by 5.2% in 2011, inflation risks remain high

The International Monetary Fund projected real GDP growth in Sub-Saharan Africa at 5.2% in 2011 and 5.8% in 2012, down from a June forecast of 5.5% and 5.9%, respectively, and compared to growth of 5.4% in 2010. It also forecast growth in oil exporting countries at 6% this year relative to 7.3% last year, and expected low-income economies (LICs) to expand by 5.9% in 2011, slightly up from 5.8% in 2010; and for middle-income economies to grow by 3.5% this year relative to 3.1% last year. The Fund said that the region's solid macroeconomic performance has been supported by robust private and public consumption. It added that the region is poised for continued economic expansion in the near term, provided that the recent rise in financial and economic instability in major advanced economies remains contained. It forecast growth in LICs economies to increase to 6.5% in 2012 due to the strengthening of investment, normalization of economic activity, and the start of large oil and mining projects. It expected growth in oil-exporting economies to accelerate to 7.5% in 2012, despite lower oil prices than previously anticipated, which mainly reflects continued strength in domestic public investment spending.

The IMF indicated that downside risks to the region's growth have risen, even though the global slowdown has not significantly affected the region so far. It said that inflation increased in a number of countries in the region and added that the surge in commodity prices risks fueling inflation further among LICs. It added that a further deterioration of the global economic environment could have substantial spillovers to the region. It noted that an uncertain U.S. or European recovery could undermine prospects for exports, remittances, official aid, and private capital flows. It considered that a continued surge in oil and non-oil commodity prices would result in large social and fiscal costs for the region's net oil and commodity importers. Further, it indicated that domestic risks, such as political uncertainty and weather shocks, have the potential to dampen growth prospects.

Source: International Monetary Fund

ECONOMY & TRADE

MENA

Equity markets down 14% in first 9 months of 2011

Arab stock markets decreased by 14.1% and GCC equity markets declined by 10.6% in the first 9 months of 2011 compared to increases of 7.3% and 7.5%, respectively, in the same period last year. Activity on the Iraqi stock exchange increased by 43.8% during the covered period and posted the best performance and the only increase among Arab markets. In parallel, the Damascus financial market dropped by 44.3% in the first 9 months and posted the worst performance among Arab equity markets. It was followed by the Egyptian equity market with a 42.1% retreat, the Bahrain bourse with a 18.6% contraction, the Muscat stock market with a 17.1% decline, the Beirut Stock Exchange with a 16.4% decrease, the Amman market with a 16.1% drop, the Kuwait bourse with a 15.9% fall, the Dubai financial market with an 12.2% downturn, the Casablanca stock market with a 9.4% regression, the Tunis exchange with an 8.2% decrease, the Saudi equity market with a 7.7% drop, the Abu Dhabi exchange with a 6.9% retreat, the Doha stock market with a 3.3% contraction and the Palestine equity market with a 0.3% drop. In comparison, emerging market equities dropped by 23.2% and global equities declined by 15.4% in the first 9 months of 2011. Arab stock markets regressed by 1.1% in September compared to drops of 14.7% for emerging market equities and 10% for global equities.

Source: Local stock markets, Dow Jones Indexes, Byblos Research

SYRIA

Recent ban on imports revoked, Central Bank to reduce export financing program

The Syrian government revoked its recent decision to ban the import of products that are subject to tariffs of more than 5%, due to strong protests from the business community. The government announced on September 23 that it has banned the import of about 14,000 items, with the aim to save at least $6bn in foreign currency reserves. The ban covered 25% of Syria's total import bill and exempted 51 products that included basic supplies not manufactured locally as well as foodstuffs and raw materials. The government later added textile yarns and fabrics as well as fresh fruits and vegetables to the exemption list, before reversing the ban altogether this week. It attributed its reversal of the ban to more negative repercussions than expected, such as a jump in the price of goods and the distortion of local production and consumption patterns. The Syrian Economy Ministry attributed the imposition of the ban to the sanctions imposed by the international community on Syria, and said it constituted a precautionary measure to protect the country's foreign currency reserves. The government added that it would resort to alternative methods to preserve Syria's foreign currency reserves, such as reducing the Central Bank of Syria's export financing program.

Source: New York Times, Syrian Arab News Agency

ARMENIA

Country risk rises in third quarter

Euromoney magazine's quarterly survey on global country risk shows that risk in Armenia deteriorated in the past 3 months. Armenia received a score of 44.2 in September 2011, down from 45.42 points in June 2011 and 49.7 points in March 2011. The survey ranked Armenia in 90th place among 184 countries, down from 98th place in June 2011 and 70th place in March 2011. Globally, Armenia ranked ahead of Ukraine, Tanzania and Argentina, and came behind Seychelles, El Salvador and Gabon. Also, it ranked in fifth place among 12 Commonwealth of Independent States (CIS), unchanged from the previous quarter, but down from second place in March 2011. It came ahead of Ukraine, Moldova and Belarus and before Azerbaijan, Kazakhstan and Georgia. Armenia's Political Risk score was 13.9 points, better than the global average of 13.7 points and the CIS average of 10.8 points; while its Economic Performance received 13.1 points, below the global average of 13.25 points but better than the CIS average of 12.4 points. Further, Armenia's Credit Ratings score was 2.81 points compared to the global average of 3.3 points and the CIS average of 1.8 points, while its score on Access to Bank Capital & Capital Markets was 2.25 points relative the global average of 4.5 point and the CIS average of 3.23 points.

Source: Euromoney, Byblos Research

RUSSIA

Sovereign ratings not affected by recent political announcements

Standard & Poor's indicated that recent political events in Russia do not have an immediate impact on the sovereign ratings. It said that President Dmitry Medvedev's announcement that he would stand back to enable Prime Minister Vladimir Putin to run again for the presidential elections in March 2012, ends more than three years of speculation as to which of the two would be the presidential candidate. The agency ruled out significant changes in current economic and fiscal policies, and expected Russian state capitalism and the close links between politics and business to remain unchanged. But, it considered that the change in roles and personnel could make it more difficult for Russia to deal with challenges, such as strengthening the country's long-term growth potential by improving the business environment, competition, and the productive infrastructure. It added that efforts to consolidate public finances, following strong expansionary measures during the recent economic crisis, could be complicated by the dependence of the economy and public finances on commodities, particularly oil, and by the possibility of a further global downturn that could see a decline in demand from Europe and the U.S. In parallel, S&P indicated that its ratings on Russia are constrained by structural weaknesses in the economy, such as strong dependence on hydrocarbons and other commodities as well as weak checks and balances between institutions. S&P rates Russia's long- and short-term foreign currency at 'BBB' and 'A-3', respectively, with a 'stable' outlook.

Source: Standard & Poor's

SAUDI ARABIA

Private sector lending up 9% year-on-year in August

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR 1,506bn at the end of August 2011, constituting a marginal rise of 0.2% from the previous month, but a significant rise of 6.4% from end-2010 and 10.8% from July 2010. Lending to the private sector reached SAR 837.5bn, up 0.7% month-on-month and 9.2% from a year earlier. The August slowdown in lending was mainly due to the holiday season and the holy month of Ramadan. Also, customer deposits totaled SAR 1,046bn at end-August, down 0.7% month-on-month, mainly due to a fall in high cost time deposits and a decline in government deposits. They increased by 13% from a year earlier and by 6.2% from end-2010. The loans-to-deposits ratio was 80.1% at end-August relative to 73.3% a year earlier. The sector's aggregate net profits reached SAR 2.7bn in August, constituting a drop of 10% month-on-month after a sharp recovery in July 2011, largely due to the seasonality impact which affected the transactional-driven fee income of banks.

Source: Saudi Arabian Monetary Agency, EFG Hermes

UAE

Asset quality trends stabilizing

Merrill Lynch indicated that UAE banks have made substantial progress since the onset of the global financial crisis in 2008, as reflected by a significant improvement in capitalization and funding. It added that they have already absorbed considerable asset quality stress, and expected them to be more resilient in the case of a second global downturn. It noted that asset quality continues to gradually improve with NPL generation stabilizing. It said NPL generation from the retail sector and from government-related enterprises has already peaked in 2010, and that total NPLs should peak in the second half of 2011. It also noted a decline in the levels of past dues relative to NPLs at the end of 2010 from end-2009, as well as the stabilizing pace of NPL generation in the first half of 2011. It expected further NPL generation to come from the real estate and construction sector. It said banks remain highly exposed to the sector, but considered that the risk of substantial and sudden NPL generation is unlikely, given that most major developers have either gone through restructuring or received substantial government support. It noted that, despite the overall improvement, UAE banks do not offer a growth story, as credit penetration is already at 117% of GDP.

Source: Merrill Lynch

KUWAIT

Loan growth subdued

Figures issued by the Central Bank of Kuwait (CBK) show that total assets of commercial banks reached KD 42.35bn at the end of July 2011, constituting a 2.3% rise from end-2010 and a 2.8% increase from end-July 2010. Lending to the private sector reached KD 25.2bn, unchanged from the previous month but slightly up by 1.1% from end-July 2010 and 0.2% from end-2010. The July annual growth rate in loans constituted the highest rise in 2011 due to a 2% year-on-year increase in corporate lending and a 3% year-on-year rise in retail loans. Also, customer deposits totaled KD 29bn at end-July, up 1.5% from the previous month and by 3.9% year-on-year, driven primarily by private sector deposits. The loans-to-deposits ratio was 87% at end-July, below the five-year average of 91% and relative to 89.4% a year earlier. Despite the pick up in lending in July, the recovery in credit will depend on the government's progress on its investment program.

Source: Central Bank of Kuwait, EFG Hermes

EGYPT

Private sector lending stagnates on economic uncertainties

Figures issued by the Central Bank of Egypt show that the sector's aggregate lending remained unchanged month-on-month in July, while it posted a growth of 2% from a year earlier. Retail lending reached EGP 100.3bn at end-July, constituting an increase of 1% month-to-month and a rise of 9% year-on-year; while private corporate lending stood at EGP 322.4bn at end-July, down 0.3% month-to-month and 1% from end-July 2010. The weak loan growth dynamics in the corporate sector reflect Egypt's current weak investment environment. Private corporate lending accounted for 71% of total loans at end-July 2011 and constituted the largest contributor to system lending. Further, the sector's aggregate deposits totaled EGP 973bn at end-July, constituting a rise of 1% from the previous month and an increase of 8% from a year earlier. The dollarization rate of deposits reached 21% at end-July, broadly unchanged from end-June, and two percentage points higher than the level at end-December 2010. The dollarization rate of deposits increased in the first two months of the year, but its level remained broadly stable afterwards. The aggregate loans-to-deposits ratio was 54% at end-July 2011.

Source: Central Bank of Egypt, EFG Hermes

BELARUS

Bank ratings downgraded on economic imbalances

Standard & Poor's lowered the long- and short-term counterparty credit ratings to 'B-/C' from 'B/B' of Savings Bank Belarusbank, Belvnesheconombank, BPS-Bank (BPS), and Belagroprombank (BAPB), with a 'negative' outlook. It attributed the downgrade to its earlier downgrade of the sovereign. It said that the current situation in Belarus may have a negative impact on the four banks, which account for about 75% of the system's assets and retail deposits, because of their high operational, funding, and asset exposures to the predominantly state-owned economy. It considered that the sovereign's ability to provide support to systemically important banks is currently materially constrained by the banks' considerable size and foreign currency-denominated obligations relative to the sovereign's foreign reserves. It anticipated liquidity and credit risks to dominate the risk profile of Belarusian banks in the short- to medium-term. It also expected deposit volatility to remain high in the coming months due to weakening economic conditions and the related uncertainty of customer sentiment because of high inflation and exchange rate imbalances.

Source: Standard & Poor's

Brent up to $104 per barrel

Oil prices increased due to growing expectations that Europe would take steps to support its banks and as economic and industry data suggested global growth may be stronger than anticipated. Further, oil production started to resume in Libya, and is expected to reach 450,000 barrels per day by end-2011 and 1.1 million barrels per day by end-2012. Brent crude futures for November were up 80 cents at $103.5 on October 6, while U.S. crude increased by $1.24 to $80.9 a barrel. The U.S. Energy Information Administration stated that oil crude stocks dropped 4.7 million barrels to 336.3 million barrels in the week to September 30th. Also, gasoline stocks fell an unexpected 1.14 million barrels, while distillates declined 744,000 barrels. In the past months, Brent prices have fallen sharply alongside other commodity markets in response to deteriorating sentiment and worries about global growth, given prolonged worries over the European sovereign debt crisis.

Source: Standard Chartered, Thomson Reuters

Syrian oil operators forced to cut production

Syrian oil operators have reportedly had to cut production, as the government struggles to find new buyers for its oil after the European Union imposed an embargo on Syrian oil exports. The latest firm to announce a reduction in production in Syria is the Croatian oil company INA Naftaplin. The company said that it was reducing its daily output by some 1,500 barrels. Also, Gulfsands Petroleum Plc announced a reduction in output to 14,000 barrels of oil per day from 24,000 barrels per day. Syria produced an average of 387,000 barrels per day of oil and exported 154,000 barrels per day in the first six months of 2011.

Source: Syria Report

Canada imposes oil sanctions on Syria

Canada announced new sanctions against Syria on October 4 targeting its oil exports and investments in its oil fields. The sanctions prohibit Canadian firms from purchasing oil or petroleum products from Syria or investing in Syria's oil industry. Canada's announcement came after the EU imposed a ban on investments in the Syrian oil sector on September 24 as part of its new set of sanctions against the country.

Source: AFP

Angola LNG to start production in the first quarter of 2012

Angola's first liquefied natural gas (LNG) plant is expected to start exporting gas in the first quarter of 2012. Oil major Chevron holds the highest stake of 36.4% in Angola LNG, followed by state oil company Sonangol with 22.8%, and Total SA, BP Plc and Eni Spa with 13.6% each. The oil majors agreed to build the terminal in the south of the capital Luanda. The cost of building the plant is estimated at between $8bn and $10bn, higher than previously expected. The plant is projected to produce around 5.2 million metric tons per year of LNG and related products that will be exported to the U.S., Europe and Asia.

Source: Thomson Reuters

Base metals: Prices rebound on supportive European policymakers

Prices of base metals dropped in the third quarter of 2011, where lead prices declined by more than 20% in the past three months and copper posted a monthly decline of more than 25% in August. LME inventories were mainly stable for aluminum and copper in the past quarter but declined for zinc and nickel. However, prices rebounded last week as investors were reassured by European policymakers' supportive comments on the financial sector, and a weak U.S. dollar also helped cement gains for industrial metals. LME copper prices rose 5% week-on-week to $7,130 per ton, while aluminum prices increased 1% to $2,191 a ton. Lead LME prices increased 1.8% week-on-week to $1,926 a ton, nickel prices rose 2% to $18,766 a ton, tin prices increased 2.6% to $21,653 a ton and zinc prices were up 1.5% week-on-week to $1,873 per ton.

In parallel, stocks-to-consumption ratios for nickel and aluminum fell recently, signaling that demand for these metals is rising. Further, Chinese imports of base metals have remained stable in recent months at fairly low levels, but are expected to rebound next year and thus support prices. Overall, base metals prices are forecast to increase by 20% annually by end-2012, and copper is expected to outperform aluminum in 2012.

Source: Danske Bank, Thomson Reuters

Precious metals: Fall in Gold prices reflects market correction

Gold prices reached $1,641 an ounce on October 6, down from a high of $1,920 an ounce reached last month. Gold prices saw its biggest decline in nearly three years last month as increased selling to cover heavy stock market losses pulled prices down by more than 20% from record highs and prompted a period of intense volatility. Gold is the primary safe-haven asset and thus remains in high demand given the current economic conditions. Also, due to the long-term bearish view on the U.S. dollar, gold prices are expected to remain high in the coming months. However, intermediate correction potential comes from further margin increases in the futures market if volatilities remain high. The stabilization of the euro zone debt crisis in the coming 12 months is expected to push prices towards $1,700 per ounce.

Source: Julius Baer, Bloomberg

Global Commodity Outlook

(3-months LME, $/ton)	2010	2011f	2012f
Aluminum	2,201	2,488	2,450
Copper	7,570	9,106	9,500
Lead	2,172	2,472	2,525
Nickel	21,913	23,883	23,000
Tin	20,448	26,917	27,000
Zinc	2,188	2,289	2,400
(Spot price, $/ounce)			
Gold	1,227	1,601	1,900
Palladium	529	765	900
Platinum	1,613	1,766	2,050
Silver	20	37	40

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	BB- 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	CCC 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+ Stable	- -	BB 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	- -	B Stable	13.3	0	7.2	11.6	3.2	5.1	20.1	2.5
Mauritania	- -	- -	- -	- -	- -	-4.5	88.5	69.8	128.4	-	1,220	-7.6	-1.3
Morocco	BBB- Stable	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-4.5	49.9	24.1	78.4	8.0	110.0	-5.3	0.9
Nigeria	B+ Stable	- -	BB- Negative	- -	B Stable	-7.9	14.1	5.0	14.2	0.7	-	13.0	0
Sudan	- -	- -	- -	- -	C Stable	-3.7	71.4	57.4	343.6	-	3,780	-8.9	5.5
Tunisia	BBB- Negative	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	- -	- -	- -	- -	CCC Stable	-14.2	42.2	41.8	65.4	-	75.3	-14.4	1.4
Jordan	BB Negative	Ba2 Negative	- -	BB Stable	B Stable	-6.3	63.0	19.2	44.8	4.8	48.6	-7.2	9.2
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	17.1	6.5	46.2	72.2	3.7	224.0	30.1	-8.7
Lebanon	B Positive	B1	B Stable	B Stable	CCC Stable	-7.2	136.7	160.8	240.3	14.7	212.2	-10.2	10.0
Oman	A Negative	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	AA 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 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	20-Sep-11	No change	02-Nov-11
Eurozone	Refi Rate	1.50	08-Sep-11	No change	06-Oct-11
UK	Bank Rate	0.50	08-Sep-11	No change	06-Oct-11
Japan	O/N Call Rate	0-0.10	07-Sep-11	No change	06-Oct-11
Australia	Cash Rate	4.75	06-Sep-11	No change	04-Oct-11
New Zealand	Cash Rate	2.50	15-Sep-11	No change	17-Oct-11
Switzerland	3 month Libor target	0.00	15-Sep-11	No change	15-Dec-11
Canada	Overnight rate	1.00	07-Sep-11	No change	25-Oct-11
Emerging Markets					
China	One-year lending rate	6.56	06-Jul-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	20-Sep-11	No change	02-Nov-11
Taiwan	Discount Rate	1.88	24-Jun-11	No change	29-Sep-11
South Korea	Base Rate	3.25	08-Sep-11	No change	13-Oct-11
Malaysia	O/N Policy Rate	3.00	08-Sep-11	No change	11-Nov-11
Thailand	1D Repo	3.50	24-Aug-11	Raise 25bps	19-Oct-11
India	Reverse repo rate	8.25	16-Sep-11	Raise 25bps	25-Oct-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	20-Sep-11	No change	Oct-11
South Africa	Repo rate	5.50	22-Sep-11	No change	10-Nov-11
Kenya	Central Bank Rate	7.00	14-Sep-11	Raise 75 bps	02-Nov-11
Nigeria	Monetary Policy Rate	9.25	20-Sep-11	Raise 50 bps	22-Nov-11
Ghana	Prime Rate	13.00	20-Sep-11	No change	Nov-11
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	26-Aug-11	No change	14-Oct-11
Brazil	Selic Rate	12.00	31-Aug-11	Cut 50bps	19-Oct-11
Armenia	Refi Rate	8.00	06-Sep-11	Cut 50bps	N/A
Romania	Policy Rate	6.25	01-Sep-11	No change	N/A
Bulgaria	Base Interest	0.20	01-Oct-11	Raise 2 bps	N/A
Kazakhstan	Refi Rate	7.50	01-Jul-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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