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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

MENA

Equity markets down 14% in 2011

Arab stock markets decreased by 13.6% and GCC equity markets declined by 8.5% in 2011 compared to increases of 12.2% and 12.8%, respectively, in 2010. Activity on the Iraqi stock exchange increased by 34.7% last year and posted the best performance among Arab markets, followed distantly by the Doha stock market with a 1.1% increase. In parallel, the Damascus financial market dropped by 49.4% in 2011 and posted the worst performance among Arab equity markets. It was followed by the Egyptian stock market with a 48.5% retreat, the Beirut Stock Exchange with a 20.3% decrease, the Bahrain bourse with a 20.1% contraction, the Dubai financial market with a 17% downturn, the Kuwait bourse with a 16.4% decrease, the Amman exchange with a 16% drop, the Muscat equity market with a 15.7% decline, the Casablanca stock market with a 13% regression, the Abu Dhabi exchange with an 11.7% decline, the Tunis bourse with a 7.1% drop, the Saudi equity market with a 3.1% decline and the Palestine stock market with a 2.6% contraction. In comparison, emerging market equities dropped by 21% and global equities declined by 10% in 2011. Arab stock markets increased by 1.4% in December compared to drops of 1.6% for emerging market equities and 0.5% for global equities.
Source: Local stock markets, Dow Jones Indexes, Byblos Research

IPOs down 69% in 2011

Ernst & Young indicated that initial public offerings (IPOs) in the Middle East raised $844m in 2011, constituting a decline of 69.3% from $2.8bn in 2010. It said that low investor interest prevailed in the region as companies chose Islamic funding such as Sukuk, which saw a record year, as the preferred route for fundraising over IPOs. It said that Saudi Arabia raised $460.5m last year and accounted for 54.6% of the funds raised through IPOs in the region in 2011, followed by the UAE with $271.3m (32%) and Oman with $63.9m (7.6%). Funds raised through IPOs in Morocco, Tunisia, Jordan and Syria accounted for the remaining 5.7%. It added that there were five IPOs in each of the manufacturing and financial sectors, two in the telecommunications sector and one IPO in each of the power & utilities, real estate and retail sectors. The largest IPO in the region was the UAE's Eshraq Properties Company at $229.1m, followed by Saudi Arabia's Hail Cement Company at $130.5m and the United Electronic Company at $105.6m. Ernst & Young added that investors and issuers in the region remain concerned over the volatility of capital markets and expected this trend to likely continue in coming quarters. But, it anticipated a significant increase in the number of IPOs in the region if economic conditions and investor sentiment improve.
Source: Ernst & Young

UAE

Dubai GREs face refinancing risk

Standard & Poor's indicated that the weakening global economic outlook, the regional turmoil, and the volatile equity and bond markets constitute key risks for Dubai-based Government-Related Entities (GREs) due to their large debt maturities and refinancing needs in 2012. It considered that the main issues at this stage are which GREs the government is likely to support and whether support would be timely and sufficient to avoid a default. It expected that GREs rated in the 'B' category and below and that carry large short-term debt maturities, such as DIFC Investments (DIFC) and Jebel Ali Free Zone (JAFZ), to likely struggle to refinance their debt without government support. It said the likelihood that the government of Dubai would provide support in case of financial distress for Dubai Electricity & Water Authority (DEWA) is "very high" given its role in providing essential power generation, transmission and distribution services, and in meeting key government economic and social objectives. It considered the likelihood of extraordinary government support to JAFZ to be "moderate", partly due to the Dubai government's reluctance to offer support to other Dubai World entities undergoing debt restructuring and the sizable amount of support that JAFZ could potentially need. It added that the likelihood that the Dubai government would provide extraordinary support to DIFC is "high, and to Emaar is "low". S&P said that it is unlikely that DEWA, JAFZ and DIFC will default under its base-case scenarios.
Source: Standard & Poor's

IRAN

U.S., EU impose new sanctions

The United States imposed new sanctions on the Central Bank of Iran (CBI) and the Iranian banking sector. The sanctions prohibit any entity that transacts with the CBI from access to the U.S. financial system. They also prohibit the opening in the U.S., and impose strict conditions on maintaining at U.S. financial institutions, a correspondent banking account or a payable-through account by a foreign financial institution that has knowingly conducted or facilitated any significant financial transaction with the CBI or other Iranian financial institutions. In effect, the measures put any refiner or trader that buys Iranian crude oil under the threat of being sanctioned, as such transactions must pass through the CBI. The U.S. sanctions also freeze the assets under U.S. jurisdiction of Iranian financial institutions, and prohibit U.S. nationals and institutions from engaging in commercial or financial transactions with them. In parallel, EU governments have agreed in principle to tighten EU sanctions on Iran by banning oil imports from Iran. The EU imported around 5.8% of its total oil imports from Iran in 2010, with Spain, Italy and Greece being the largest importers of Iranian oil.
Source: U.S. Department of the Treasury, Bloomberg

POLITICAL RISK OVERVIEW - DECEMBER 2011

ALGERIA

Algerian President Abdelaziz Bouteflika promised that international observers will supervise the May 2012 legislative elections and that new political parties will be allowed to form for the first time since 1999. Also, Algeria approved a new law that bans non-governmental groups from receiving foreign financial assistance. Further, the Parliament adopted a law that prohibits former members of the banned Islamic Salvation Front from participating in politics.

EGYPT

Clashes between protesters and security forces in Cairo killed 17 people as violence erupted after military forces attempted to disperse a three-week sit-in of Tahrir Square by force. The sit-in demands Egypt's ruling generals to immediately hand power to a civilian authority. Further, security forces raided NGO offices across the country in an investigation of foreign funding. Muslim Brotherhood's Freedom & Justice Party (FJP) received 37% of votes during the first round of parliamentary elections, followed by the Salafi al-Nour Party with around 24% of votes and the liberal Egypt Bloc and Wafd with 13% and 7%, respectively. Unofficial results of the second round indicated that FJP received around 36% of votes, followed by al-Nour party with 29% and Wafd with 10%. The third round took place on January 3rd and 4th.

IRAN

The Iranian government rejected U.S. President Barack Obama's request to return the captured surveillance drone. Tehran's chief prosecutor indicted 15 people for spying for the U.S. and Israel. Further, Intelligence Minister Heydar Moslehi visited Riyadh to improve strained relations following the alleged Iranian plot to kill the Kingdom's ambassador to the U.S. In parallel, the Iranian government threatened to close the Strait of Hormuz if the West imposed further oil sanctions. The U.S. issued new sanctions against the Central Bank of Iran and the country's financial sector.

IRAQ

The Iraqi political situation deteriorated sharply following the official withdrawal of the last U.S. combat troops, as a wave of bombings killed at least 72 people and injured over 200 in Baghdad. The Iraqi authorities issued an arrest warrant for Vice President Tariq Al-Hashimi, accusing him of involvement in acts of terrorism, mainly assassinations. Hashimi and other senior Sunni leaders fled to the Kurdistan region. The Iraqiya Alliance boycotted the parliament and Cabinet sessions. Prime Minister Nouri al-Maliki threatened to abandon the power sharing agreement and warned Kurds of serious problems if they protected Hashimi. In parallel, Diyala's Provincial Council voted in favor of forming a federal region, constituting the fourth province to do so.

DEM REP CONGO

Tensions remained high following the disputed November elections, with continued deadly violence and repression by security forces. President Joseph Kabila was sworn in despite major and widespread irregularities reported in the vote. President Kabila admitted the flaws in the elections but rejected reports by international observers that results lacked credibility. Counting of ballots for legislative polls continues.

LIBYA

Violence erupted between armed militias amid major anti-government protests, mainly in the east of the country. Defense Minister Osama Al-Juwali stated that it will take weeks to disband the militias that ousted Muammar Gaddafi, and months to form an army fit to take their place. Al-Juwali also announced a plan to integrate around 50,000 ex-rebels into the army, police and security forces. Around 30,000 protestors in Benghazi called for greater government transparency and fair representation of the east in the National Transitional Council. The International Criminal Court stated that the killing of Muammar Qadhafi may have been a war crime. The UN Security Council lifted sanctions on the Central Bank of Libya.

SUDAN

Sudan Rebel Justice and Equality Movement (JEM) escalated its military operations in North Kordofan, stimulated by the killing of its leader Khalil Ibrahim in an airstrike. African Union mediators announced that the two states will resume oil talks in January. The government criticized the UN Secretary General Ban Ki-moon’s call for the withdrawal of the Sudanese Armed Forces from Abyei, as it considered that the region belongs to the North.

SOUTH SUDAN

South Sudan tensions with Sudan continued to escalate as their armed forces clashed on a disputed territory. South Sudan accused Sudan of trying to destabilize the country with cross-border militia raids and bombings. The U.S. Administration amended its economic sanctions to allow U.S. investments in the South Sudan oil sector.

SYRIA

The United Nations reported that over 5,000 people were killed during the ongoing anti-regime protests. The European Union imposed sanctions on three Syrian oil firms, including state-owned Sytrol. The government signed the Arab League's peace plan on December 12, agreeing to let in monitors, free political prisoners and start negotiations with the opposition. Ahead of the arrival of Arab League observers, 200 people were killed. Twin car bomb attacks took place on December 23 in Damascus and killed 44 people and injured over 150 others. Officials blamed al-Qaeda, while opposition figures accused the government of staging the attack. The government announced on December 28 that 755 prisoners were released in compliance with the Arab League plan.

YEMEN

Vice President Mansur al-Hadi issued a decree on December 7 paving way for the creation of a unity government in preparation for the presidential elections on February 21st. An opposition-led government was formed on December 10 with ministries divided equally between President Ali Abdullah Saleh's General People's Congress Party and the opposition. Nine protesters were killed during a rally from Taiz to Sanaa demanding Saleh's stand trial for killing demonstrators during the uprising. Also, nationwide government worker strikes began on December 28 over alleged corruption. Nearly 200 people were killed in fighting between Shiite Huthi rebels and Salafists in northern Saada governorate.

Source: International Crisis Group

OUTLOOK

ARMENIA

Limited financing options in case of global downturn

The International Monetary Fund indicated that Armenia's financing options would be more constrained in the event of a second global downturn compared with the 2008-09 crisis, due to debt sustainability concerns and the reduced availability of funding. It said that Armenia recovered well from the 2008-09 crisis, with strong export growth and a recovery of remittances, FDI, bank deposits, and reserves. But it said that these flows, with the exception of foreign currency reserves, are mostly from Russia, which is vulnerable to lower oil prices and financial spillovers from the euro area. Further, the Fund pointed out that banks' funding in Armenia is relatively stable, and relies largely on retail deposits and foreign exchange credit lines of parent banks and international financial institutions. It said that financial turbulence could lead to a reduction or reversal of retail deposits and foreign exchange credit lines of parent banks and international financial institutions. But it expected the impact of exchange rate movements to be limited, as the net foreign exchange open position is small.

In parallel, the IMF indicated that fiscal revenues could decline in the event of a global downturn, as they dropped by 14% in real terms in 2009. It said that the recent rise in the nominal size of the public debt, as well as the increase of the legislative debt ceiling to 50% of GDP would encourage spending cuts in order to reach a deficit of 3% of GDP, although the political cycle and recent reduction in expenditures would make these cuts challenging. In parallel, the IMF pointed out that Armenia's gross foreign currency reserves which currently stand at nearly five months of imports, constitute a large buffer. It noted that authorities utilized sizable reserves to support the dram in 2008 and 2009, but it warned that large repayments of crisis-related support are due in 2012, which would limit the use of reserves as a support for the exchange rate. As such, it said that exchange rate flexibility will be critical in the event of another global downturn. Further, the Fund warned that wider fiscal deficits would be more challenging in the event of a second slowdown, in light of higher debt ratios and limited availability of financing.

Source: International Monetary Fund

TURKEY

Banking sector to face increasingly challenging conditions in 2012

Business Monitor International lowered its forecast for Turkey's banking sector asset and loan growth to 6% and 8%, respectively, in 2012; compared to an estimated growth rate of 23% and 33%, respectively, in 2011. It said the 2012 forecasts would constitute a worse performance for the banking sector than at the height of the global financial crisis in 2009. It attributed the lower growth prospects to the need for tighter monetary policy by the Central Bank of Turkey (CBT) in light of overheating risks, as well as to deteriorating market conditions arising from the Eurozone debt crisis. It said that the CBT's decision to widen the interest rate corridor and to move towards a flexible system, whereby inter-bank rates could change on a day-to-day basis, increased banks' funding costs and raised uncertainty over future CBT policy moves. In parallel, it expected external factors, mainly the European crisis, to affect Turkish banks' assets and loans growth. It warned that banks could face increasing rollover risks in 2012, while severe short-term funding pressures could lead to a significant drop in domestic lending.

In parallel, BMI warned that a slowdown of the Turkish economy would lead to significantly higher non-performing loans and would limit banks' ability to generate profits. It indicated that loan quality continued to improve despite the headwinds facing the sector, with NPLs posting a multi-year low of 2.9% at end-November 2011 compared to 4.4% a year earlier. However, it projected this trend to reverse, as the domestic economy slows considerably in 2012 and as banks attempt to pass on higher funding costs to households. BMI pointed out that the Turkish banking sector has relatively healthy risk metrics despite the negative outlook. It said the industry does not suffer from over-leverage, with the assets level below 100% of GDP and the loans-to-deposits ratios still lower than 100%. It added that the sector's aggregate capital was equivalent to 12.6% of total liabilities at end-November 2011, which would help banks weather a downturn in the domestic economy.

Source: Business Monitor International

CÔTE D'IVOIRE

Economic outlook dependent on political risks

Business Monitor International revised downward its projection of economic growth in Côte d'Ivoire to 7.4% in 2012 from a previous forecast of 7.7%. It attributed the change to a faster-than-expected recovery in 2011 from the post-election crisis and significantly lower cocoa prices in 2012. It said the fast economic recovery, highlighted by a limited GDP contraction of 4.8% in 2011, reduces the scope for high growth in 2012. In parallel, BMI revised upwards its medium-term forecasts for Côte d'Ivoire as it expected annual real GDP growth to exceed 5% up to 2015. It said that the government is also likely to benefit from significant financial support from the international community as it seeks to implement an ambitious reform agenda that should lay the foundations for higher long-term growth. It warned, however, that Côte d'Ivoire's political situation presents significant downside risks to this outlook.

BMI expected private consumption to grow by 7% in real terms in 2012 as it continues to recover from the 2011 post-election crisis. It said that inflation is likely to continue its downward trend to 3% by the end of 2012 relative to 9% in April 2011, which would further strengthen consumers' purchasing power. In parallel, it forecast gross fixed capital formation to expand by 15% in real terms this year, as the government implements its investment program and the private sector continues to rebuild. It noted that the government plans to increase public investment from 3.9% of GDP in 2011 to 5% in 2012 as it seeks to reverse the trend of under-investment in the country's infrastructure. It added that the continued normalization of political life should foster increased private investment, but it warned that a poor business environment and weak financial system will constrain private investment in 2012. It expected real exports to grow by just 2.7% in 2012 but anticipated an acceleration of exports after 2012 as gold mining expands and oil production increases.

Source: Business Monitor International

ECONOMY & TRADE

SYRIA

Sovereign risk rating downgraded

Information provider IHS Global Insight downgraded Syria's medium-term Sovereign Risk Rating from 70 to 75, equivalent to 'CC' or default level on the generic scale. It also downgraded Syria's short-term creditor and political relations score, as well as the arrears and transfer payment delays score, both to 20 from 15. It kept the outlook on both ratings at 'negative'. It attributed the downgrades to the severity and scope of the current economic downturn as a result of the ongoing crisis. It considered that the outlook on the economy will remain bleak until the crisis is resolved. It said foreign capital inflows have dropped dramatically and state revenues have declined, both of which will exacerbate the economic downturn. It added that the economy will suffer from the effects of sanctions that were imposed by the United States, the European Union, the Arab League, and Turkey. It noted that the EU sanctions cut off the only destination markets for Syria's oil, which is a prime generator of the country's foreign exchange reserves. It expected the current upheaval to reduce economic growth by several percentage points in 2011 and into 2012, from real GDP growth of 3.2% posted in 2010.
Source: IHS Global Insight

Canada imposes new sanctions on Syria

The Canadian government imposed a fourth round of sanctions on Syria under the Special Economic Measures Act. The sanctions prohibit the importing, purchasing, acquiring, carrying or shipping of any goods from Syria, with the exception of food for human consumption. They also ban new investments in Syria and prohibit the export of any equipment to Syria, including software used for monitoring telecommunications. Last October, the Canadian government expanded its targeted sanctions by banning the import of petroleum products from Syria and new investments in the Syrian oil industry.
Source: Foreign Affairs & International Trade Canada, Syria Report

EGYPT

Sovereign ratings downgraded on reserves depletion

Fitch Ratings downgraded Egypt's long-term foreign currency Issuer Default Rating (IDR) to 'BB-' from 'BB' and long-term local currency IDR to 'BB' from 'BB+' with a 'negative' outlook. The agency also downgraded the Country Ceiling to 'BB-' and affirmed the short-term foreign currency IDR at 'B'. It attributed the downgrades to the significant and continuous erosion of Egypt's foreign currency reserves in 2011. It added that the ongoing political turbulence is delaying the economic recovery and is contributing to worsened debt dynamics. It indicated that Egypt's foreign reserves fell by 44% in 2011 to just over $20bn in November, but they remain above three months of current external payments. It said that the pace of decline constitutes a key risk in the absence of significant external assistance. It attributed the continuing reserve loss to the weakening of the capital account since February, a drying up of FDI and substantial exit of foreign portfolio investment, along with the Central Bank of Egypt's efforts to preserve exchange rate stability. Further, it pointed out that Egypt's public finances have weakened, with the public debt level rising again and likely to exceed 80% of GDP in 2012. It expected Egypt's fiscal deficit to exceed of 11% of GDP in FY2011/12 compared to a budgeted deficit of 8.6% of GDP, mainly due to weaker than expected revenue performance. It projected growth to be less than 2% in FY2011/12, similar to the previous fiscal year.
Source: Fitch Ratings

JORDAN

Reducing fiscal deficit and debt level are key challenges

The Institute of International Finance considered that Jordan's principal macroeconomic challenges consist of containing the fiscal deficit and lowering the debt-to-GDP ratio. It said that the onset of the 2008-09 global economic crisis and the recent regional turmoil reversed the fiscal progress that the country achieved during the 2003-08 period. It pointed out that Jordan is unlikely to achieve fiscal sustainability in the near term, as fiscal consolidation is likely to generate further protests in the country. It added that the government may reduce subsidies but would replace them with others that are cheaper and can better target lower-income households. In parallel, it expected Jordan to become increasingly dependent on foreign grants, especially from the Gulf Cooperation Council (GCC) countries. It added that closer association with the GCC countries would provide more systematic, direct and implicit grants, constituting a more reliable source of budgetary support. The IIF indicated that there is a growing need to rationalize public spending, and to reduce subsidies. It noted that it is essential to return to a policy aimed at achieving the deficit targets set by the government, especially by reducing the debt level to below 60% of GDP from the estimated 70% of GDP in 2011.
Source: Institute of International Finance

NIGERIA

Outlook revised to positive on reform progress

Standard & Poor's affirmed Nigeria's 'B+/B' long- and short-term issuer credit ratings and the 'ngA+/ngA-1' long- and short-term Nigeria national scale ratings, and kept the transfer and convertibility assessment unchanged at 'B+'. It also revised the outlook on Nigeria to 'positive' from 'stable'. It said that the outlook revision could lead to a ratings upgrade if Nigeria's reform initiatives support economic growth, build stronger buffers against the economy's dependence on oil revenues, and reduce pressure on the exchange rate. It noted that reforms included cutting fuel subsidies, working on the Petroleum Industry Bill, rehabilitating the country's electricity sector, creating the Asset Management Corporation of Nigeria, and setting up a sovereign wealth fund. It indicated that Nigeria's ratings are supported by low fiscal and external debt burdens, as well as high oil prices that have contributed significantly to exports and government revenues in recent years. But it said the ratings are constrained by internal political tensions, weak political institutions, and faltering efforts to institute buffers that would allow countercyclical policy options. S&P indicated that it would revise the outlook downward if the fiscal and external balances deteriorate, or if political tensions or violence increase substantially.
Source: Standard & Poor's

BANKING

GCC

Banking sector not immune to global slowdown

Fitch Ratings expected the outlook for banks in the economies of the Gulf Cooperation Council (GCC) to be generally stable in 2012 due to the probability of sovereign support. It anticipated asset quality of GCC banks to recover in 2012, and for the banks to have generally lower impairment charges. It noted that margins and fee income have been under pressure due to low interest rates and subdued volume growth, but it expected lower impairment charges and cost control to lead to a gradual improvement in the banks' profitability. It also projected some loan growth in 2012 in GCC economies, as confidence improves and infrastructure projects come on stream. But it noted that these projections depend on developments in the global economy. In parallel, it said that most banks in the region are funded by customer deposits, with little or no reliance on the debt markets. It added that some banks accessed the international debt capital markets through bonds and Sukuk to address funding mismatches and refinance maturing debt. It said that such trend will continue in 2012, but will dependent on market conditions and international investor confidence. It pointed out that capital levels are not generally a constraint for GCC banks, and that in most cases additional capital would be available from shareholders and from governments. In parallel, Fitch indicated that problems in the Euro zone would have a negative impact on confidence in the region's banking sector and appetite for investment in the region's debt issuance.

Source: Fitch Ratings

EGYPT

Bank ratings downgraded due to sovereign exposure

Moody's Investors Service downgraded by one notch the local currency deposit ratings of state-owned National Bank of Egypt, Banque Misr and Banque du Caire to 'B2' from 'B1'; those of Commercial International Bank to 'B1' from 'Ba3'; and those of Bank of Alexandria to 'Ba3' from 'Ba2'. It also lowered the foreign currency deposit ratings of all five banks to 'B3' from 'B2'. It added that the banks' long-term deposits ratings remain on review for further downgrade. It attributed the downgrades to its earlier decision to downgrade Egypt's government bond ratings and country ceiling foreign currency bank deposits. It added that the banks' high and increasing exposures to Egyptian government securities and related instruments link the banks' credit strength to the sovereign's creditworthiness and raises the banking system's vulnerability to event risk. It added that the downgrades reflect the weakening operating and macroeconomic environment in Egypt, which would exert additional pressure on banks' asset quality, profitability and liquidity metrics. It expected the full extent of asset quality issues to emerge in the next few quarters, which would progressively affect the banks' profitability. It added that overall market liquidity is tightening because the banks are diverting their liquidity towards government financing, which would deprive the private sector from access to credit.

Source: Moody's Investors Service

ARMENIA

Banking sector liquidity declines

The risk-weighted capital adequacy ratio of banks operating in Armenia reached 19.6% at the end of September of 2011 relative to 22.2% at the end of 2010 and 28.3% at end-2009; while the capital-to-assets ratio was 18.5% at end-September, down from 20.4% at end-2010 and 21% at end-2009. Also, the sector's liquid assets regressed to 28.3% of total assets at end-September 2011 from 29.5% at end-2010 and 34.2% at end-2009; and declined to 125% of short-term liabilities at end-September from 131.5% at end-2010 and 142.1% at end-2009. In parallel, foreign exchange liabilities stood at 66% of total liabilities, up from 65% at end-2010 and 67.6% at end-2009; while foreign currency loans increased to 60.2% of total loans at the end of September 2011 from 58% at end-2010 and 54% at end-2009. Further, the sector's deposits-to-loans ratio increased to 89.3% at end-September from 87.2% at the end of 2010, but dropped from 96.4% at end-2009. The sector's non-performing loans (NPLs) ratio stood at 4.8% at end-September, relative to 3.1% at end-2010 and 4.8% at end-2009. Further, the sector's provisions-to-NPLs ratio fell to 41.3% from 56.7% at end-2010 and 46.7% at end-2009. In parallel, banks' return on assets reached 1.9% at end-September 2011 on an annualized basis, down from 2.2% in 2010 but up from 0.7% in 2009; while their return on equity reached 9.8% in September annually compared to 10.2% in 2010 and 3.4% in 2009.

Source: International Monetary Fund

IRAN

Bank ratings affirmed, outlook stable

Capital Intelligence affirmed the long- and short-term foreign currency ratings of Bank Tejarat (BT) and Export Development Bank of Iran (EDBI) at 'BB-/B', while it affirmed BT's Financial Strength Rating (FSR) at 'B+' and that of EDBI at 'BB+'. It has a 'stable' outlook on the ratings of both banks. The agency said that BT's ratings reflect its poor asset quality, weak capital adequacy, and the constraints imposed by the difficult operating environment. It expected BT's capital adequacy to remain weak due to ongoing sanctions on Iran and the prevailing weakness in the operating environment despite a diversified credit portfolio and increased efforts to strengthen the bank's risk management. It noted that the bank's ratings could come under pressure due to heightened political risks in Iran, which would affect both the sovereign rating and the Iranian government's capacity to provide support. It pointed out that BT's deposits represent around 14.3% of the banking system aggregate deposits and that it is one of the five state-owned banks that were included in the government's privatization program. In parallel, it indicated that EDBI's ratings reflect its very strong capital adequacy, improved liquidity and growth in net profits, despite its weak asset quality, high level of contingent commitments and the challenges posed by international economic sanctions. It said that further closure of international markets to Iranian exports, or increased obstacles to trade finance for Iranian banks would also pressure the ratings as they would significantly disrupt EDBI's operations and further impact its asset quality, funding capacity and profitability.

Source: Capital Intelligence

ENERGY / COMMODITIES

Oil prices rise on possible supply disruptions from Iran

Brent crude prices reached their highest level in seven weeks on January 5, supported by the possibility of supply disruptions from Iran and by strong economic data from Germany, the United States and China. Brent crude for February delivery rose 4 cents to $113.7 a barrel on January 5, while U.S. crude prices declined 71 cents to $102.2 a barrel. Iran threatened to shut down the Strait of Hormuz, an important route for oil exports out of the Gulf, which might push prices sharply higher. While pipeline alternatives exist, they do not have sufficient capacity to compensate for the loss of around 17 million barrels per day of crude oil that travels through the strait. Further, OPEC's oil output in December reached the highest level since October 2008, mainly due to a further recovery in Libya's production. Overall, Brent ICE futures decreased by 2.8% in December and increased by 13.3% in 2011 to $107.4 a barrel on December 30th.

Source: Thomson Reuters, Standard Chartered

Tatneft suspends operations in Syria

Russia's Tatneft announced the suspension of its operations in Syria. The company made a small discovery in Syria in Block 27 located on the border with Iraq that contains 38.2 million barrels of oil. Also, the Croatian oil company, INA Nafte, suspended the trading of its shares on the London and Zagreb stock exchanges due to disruptions of its operations in Syria. Several international oil companies have announced a suspension of their operations in Syria due to recent sanctions and the difficult security and political environment. They include Shell, Total, Suncor Energy, and Gulfsands Petroleum.

Source: Syria Report

Nigeria abolishes fuel subsidies on gasoline

Nigeria announced on January 1 that it was abolishing fuel subsidies on gasoline, while diesel prices are expected to remain unchanged. This resulted in the rise of official gasoline pump prices by 115%. The eliminated subsidies were estimated to cost the country up to $8bn per year. Further, the decision has also affected motorcycle and minibus taxi fares, which in some cases have more than doubled or tripled. The removal of gasoline subsidies is expected to improve the efficiency of Nigeria's economy, as well as boost refining capacity through increased downstream investment.

Source: Business Monitor International

Regulatory reform in Algeria to improve business environment

The Algerian Energy Ministry announced changes to the hydrocarbon law to improve the oil and gas regulatory framework, which are expected to improve the business environment and margins for foreign operators. The main amendment states that taxes will be calculated based on the profit from a project instead of turnover. However, the rule that requires state-owned Sonatrach to hold a 51% stake in all upstream projects will not be amended. Algeria's oil production is projected to rise from 2.1 million b/d in 2011 to 2.4 million b/d in 2016.

Source: Business Monitor International

Base metals: Copper prices to decline on lower demand in 2012

Three-month copper prices fell 1.8% to $7,650 a metric ton on January 4th. Prices are projected at $7,600 per ton in 2012, well below the previous expectations of $10,000 per ton, due to the lower forecast of global demand. Also, the appetite for speculative investment in risky assets such as commodities will remain subdued in 2012. A surplus of copper production is expected at 69,000 tons in 2011 and 113,000 tons in 2012, mainly due to the projected slowdown in Chinese economic growth in 2012 led by a sharp contraction in gross fixed capital formation.

Further, global refined copper production is expected to increase in 2012, having been restrained by disrupted mine supply and natural disasters in 2011. A slight slowdown in Chinese production will be offset by faster growth in other major producers such as Chile and Japan. Overall, copper prices decreased 21% annually to $7,560 per ton on December 30th. Also, slowing construction activity in China and weak demand in developed markets will provide downward pressure to nickel prices.

Source: Business Monitor International, Bloomberg

Precious metals: Gold prices increase on higher Chinese demand

Gold prices increased in a fifth session of gains on January 5, as growing anxiety about Iran boosted gold’s safe-haven appeal, and rising seasonal demand in China sustained sentiment. Spot gold prices rose 0.9% to $1,624.3 an ounce on January 5th. Holdings of SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, remained unchanged at 1,254.6 tons for the seventh session.

Gold prices averaged around $1,540 per ounce in 2011. The outlook is bullish in the medium-term due to higher expected prices on a stronger U.S. dollar, and increased net speculative positions for gold. The key driver of the uptrend in gold prices, namely negative real interest rates in developed states, will remain in place during 2012. Overall, the price of gold decreased by 8.8% month-on-month and increased 11.2% annually to $1,567 per ounce on December 30th. The price of silver declined 13.3% month-on-month to $27.9 an ounce. Palladium prices increased by 12.8% month-on-month to $656 per ounce on December 30 and platinum declined by 9.4% to $1,405 per ounce.

Source: Business Monitor International, Thomson Reuters

Global Commodity Outlook

(3-months LME, $/ton)	2010	2011f	2012f
Aluminum	2,201	2,434	2,225
Copper	7,570	8,814	8,750
Lead	2,172	2,377	2,250
Nickel	21,913	22,940	21,375
Tin	20,448	26,347	26,000
Zinc	2,188	2,209	2,200
(Spot price, $/ounce)			
Gold	1,227	1,588	1,875
Palladium	529	732	700
Platinum	1,613	1,725	1,750
Silver	20	36	39

Source: Standard Chartered

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Africa													
Algeria	- -	- -	- -	- -	BB Stable	-9.9	16.1	2.9	7.4	2.0	3.2	3.4	1.8
Angola	BB- Stable	Ba3 Stable	BB- Stable	- -	B Negative	2.7	20.6	20.2	35.7	8.2	-	1.6	17.6
Egypt	B+ Negative	B1 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- Stable	- -	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	Baa1 Negative	BBB 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					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 Negative	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 Negative	B Stable	- -	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	13-Dec-11	No change	25-Jan-12
Eurozone	Refi Rate	1.00	08-Dec-11	Cut 25bps	12-Jan-12
UK	Bank Rate	0.50	08-Dec-11	No change	12-Jan-12
Japan	O/N Call Rate	0-0.10	16-Nov-11	No change	21-Dec-11
Australia	Cash Rate	4.25	06-Dec-11	Cut 25bps	06-Feb-12
New Zealand	Cash Rate	2.50	08-Dec-11	No change	26-Jan-12
Switzerland	3 month Libor target	0.00	15-Dec-11	No change	15-Mar-12
Canada	Overnight rate	1.00	06-Dec-11	No change	17-Jan-12
Emerging Markets					
China	One-year lending rate	6.56	06-Jul-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	13-Dec-11	No change	Jan-12
Taiwan	Discount Rate	1.88	30-Jun-11	Raise 12.5bps	29-Dec-11
South Korea	Base Rate	3.25	08-Dec-11	No change	Jan-12
Malaysia	O/N Policy Rate	3.00	11-Nov-11	No change	31-Jan-12
Thailand	1D Repo	3.25	30-Nov-11	Cut 25bps	25-Jan-12
India	Reverse repo rate	8.50	25-Oct-11	Raise 25bps	16-Dec-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	9.25	24-Nov-11	Raise 100 bps	N/A
Turkey	Base Rate	5.75	23-Nov-11	No change	22-Dec-11
South Africa	Repo rate	5.50	10-Nov-11	No change	Jan-12
Kenya	Central Bank Rate	18.00	1-Dec-11	Raise 150 bps	1-Feb-12
Nigeria	Monetary Policy Rate	12.00	22-Nov-11	No change	Jan-12
Ghana	Prime Rate	12.50	Nov-11	No change	Dec-11
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	02-Dec-11	No change	20-Jan-12
Brazil	Selic Rate	11.00	30-Nov-11	Cut 50bps	18-Jan-12
Armenia	Refi Rate	8.00	06-Dec-11	No change	N/A
Romania	Policy Rate	6.00	03-Nov-11	Cut 25bps	N/A
Bulgaria	Base Interest	0.22	01-Dec-11	No change	N/A
Kazakhstan	Refi Rate	7.50	01-Oct-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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