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BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bond and equity inflows at $29bn in the first five months of 2012, AUM at $927bn

Capital flows to emerging market equity and bond funds posted net inflows of $28.9bn in the first five months of 2012, with bond inflows at $14.7bn and equity inflows at $14.2bn. Latin America accounted for $6.1bn or 41.9% of inflows to bond funds; Emerging Europe, the Middle East & Africa (EMEA) for $5.1bn, or 34.5%; and Emerging Asia with $3.5bn or 23.6% of the total. Further, Emerging Asia posted $8.6bn in inflows to equity funds in the first five months of the year and accounted for 60.3% of equity inflows to emerging markets, followed by the EMEA region with $3bn (21.3%), and Latin America with $2.6bn (18.4%). Mexico was the biggest recipient of bond inflows with $1.6bn, or 11% of total inflows into emerging market bond funds in the first five months of the year; while China was the largest recipient of equity inflows with $3.1bn or 22.1% of total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled $926.6bn at the end of May 2012, with bonds accounting for $189.2bn and equities for $734.4bn. The EMEA region had $70.6bn in AUM in bonds, followed by Latin America with $68.2bn, and Emerging Asia with $50.4bn. Further, Emerging Asia had $457.9bn in equity-related AUM, followed by Latin America with $136.5bn and EMEA with $125bn. Mexico had $22.1bn in bonds-related AUM, or 11.7% of the total; and China had $155.2bn in equity-related AUM, or 21% of the total.
Source: Barclays Capital, Byblos Research

MENA

Youth unemployment rate at 27%, highest in the world

The International Labor Organization (ILO) projected youth unemployment rate in the Middle East at 26.9% and in North Africa at 27.8% in 2012. It said that both region's unemployment rates are significantly higher than the global rate of 12.7% as well as higher than youth unemployment rates in Developed Economies & the European Union (18%), Central & South-Eastern Europe & the Commonwealth of Independent States (17.5%), Latin America & the Caribbean (14.3%), South-East Asia & the Pacific (13.7%), Sub-Saharan Africa (11.5%), South Asia (9.8%), and East Asia (9.3%). It said that the youth unemployment rate in North Africa increased sharply following the Arab Spring, and rose by almost 5 percentage points (pps) between 2010 and 2011. It added that the ratios of youth-to-adult unemployment rates are at 4 in the Middle East and at 3.9 in North Africa, which are exceptionally high levels. The ILO indicated that youth unemployment in North Africa increased by 4.9 pps between 2008 and 2011, followed by Developed Economies & EU with a 4.7 pps increase, South Asia with a 1.3 pps rise, the Middle East with a 0.9 pps growth, Latin America & the Caribbean and Central & South-Eastern Europe and the CIS with a 0.6 pps increase each. In parallel, the ILO indicated that the gender gap in youth labor force participation was 33.6 pps for the Middle East and 27.4 pps for North Africa in 2011, constituting the second and third widest gaps in the world.
Source: International Labor Organization

Equity markets up by 3.7% in first five months of 2012

Arab stock markets increased by 3.7% and GCC equity markets rose by 4.7% in the first five months of 2012 compared to drops of 4.6% and 2.2%, respectively, in the same period last year. Activity on the Egyptian stock market increased by 27.4% in the first five months of 2012 and posted the best performance among Arab markets during the covered period. It was followed by the Dubai financial market with an 8.73% increase, Saudi Arabia's stock exchange with an 8.7% rise, the Tunis equity market with a 6.6% improvement, the Kuwait bourse with a 6.5% rise, the Abu Dhabi exchange with a 1.6% appreciation, the Muscat equity market with a 1% growth, and the Bahrain bourse with a 0.03% increase. In parallel, the Iraqi stock exchange dropped by 15.1% in the first five months of 2012 and posted the worst performance among Arab stock markets during the covered period. It was followed by the Casablanca stock exchange with a 6.7% drop, the Amman stock market with a 6.1% decline, the Palestine equity market with a 5.7% retreat, the Doha bourse with a 4.1% decline, the Beirut stock exchange with a 2.2% decrease, and the Damascus financial market with a 1% contraction. In comparison, emerging market equities declined by 1% and global equities decreased by 0.3% in the first five months of the year. Arab stock markets dropped by 6% in May compared to declines of 11.6% for emerging market equities and 9.3% for global equities.
Source: Local stock markets, Dow Jones Indices, Byblos Research

Arab accountants more optimistic about economic prospects than in other regions

The Association of Chartered Certified Accountants' Global Economic Conditions Survey indicated that 49.6% of professional accountants in the Middle East believe that the region's economy is recovering or about to do so, relative to 41.8% of accountants worldwide who consider that the global economy is recovering or about to do so. In comparison, 54% of accountants in Africa, 48.6% of respondents in the Americas, 48.5% of surveyed accountants in South Asia, 36.3% of respondents in the CEE, 34% of accountants in Asia Pacific, and 23.4% of respondents in Europe said that their region's economy was recovering or about to do so. Further, the survey pointed out that 42% of respondents in the Middle East consider that the region's economy is stagnating or getting worse compared to 53.8% of accountants worldwide who consider that the global economy is stagnating or getting worse.
Source: Association of Chartered Certified Accountants, Institute of Management Accountants

POLITICAL RISK OVERVIEW - MAY 2012

EGYPT

The results of the presidential elections ending on May 24 revealed that the Muslim Brotherhood's Mohamed Morsi will run-off against former Prime Minister Ahmed Shafiq in the coming elections that will take place on June 16 and 17. The results sparked mass protests across the country, with Shafiq's campaign headquarters raided by demonstrators. The Military Council announced on May 31 the end of a 31-year state of emergency. Also, 11 protesters holding demonstrations against the military rule outside of the Defense Ministry were killed by unidentified assailants.

IRAN

The International Atomic Energy Agency (IAEA) head Yukiya Amano announced that a deal on resolving outstanding issues with Iran is now closed. Further, the P5+1 countries ended their discussions with Iran without reaching an agreement to reduce Iran's enrichment programs or to lift the imposed western sanctions. Also, the United States' envoy to Israel stated that the U.S. would be ready to attack Iran if diplomatic talks fail, while Iranian sanctions were tightened on May 22nd. In the second round of parliamentary elections held on May 4, Iranian President Mahmoud Ahmadinejad's supporters won only 13 out of 65 available seats.

IRAQ

A series of bombings and shootings across the country killed several people, where a roadside bomb near Baghdad injured 24 Pakistani pilgrims on May 27th. Also, at least 13 people were killed in bombings on May 31 in Baghdad. The absentia trial of Vice President Tareq Al-Hashemi started on May 15, but Turkey refused to extradite Al-Hashemi despite an Interpol Red Notice for his arrest. Kurdistan Regional Government's Oil Ministery announced plans to export oil and gas directly to Turkey.

DEM REP CONGO

The fighting in the Kivu region escalated with over 40,000 people displaced, as the Armed Forces of the Democratic Republic of Congo (FARDC) continued to look for Bosco Ntaganda who is wanted by the International Criminal Court for war crimes. A new armed group, Movement for March 23 (M23), emerged on May 10th. The UN stated that 11 Rwandans were recruited to help M23 but there was no evidence of the Rwandan government's involvement. Also, UN peacekeepers were wounded by gunfire on May 15 during a protest at a UN base in South Kivu. Former Prime Minister Adolphe Muzito is under investigation by the Kinshasa police into corruption allegations.

LIBYA

The National Transitional Council (NTC) passed a series of laws prohibiting the praise of former President Muammar Qadhafi. It also demanded the amnesty of rebels that committed crimes during the political turmoil in Libya. The elections set for June 19 were postponed to an undecided date, while the registration to vote was extended to May 21st. Local forces clashed with rebel militias in Bani Walid, and the Mauritanian authorities announced that former Qadhafi intelligence chief Mohammed al-Senussi would face charges in Mauritania. The Tunisian Justice Ministry approved the extradition of former Prime Minister Ali al-Mahmoudi to Libya.

SUDAN

The Sudanese government filed a complaint at the United Nations Security Council (UNSC) accusing South Sudan of cross-border incursions, while South Sudan accused Khartoum of conducting air strikes against it and violating the UNSC resolution of a ceasefire. The UNSC adopted a resolution calling for the withdrawal of South Sudan and Sudan's armed forces from disputed areas, and the establishment of joint border security mechanisms endorsed by the African Union High Level Implementation Panel. President Omar al-Bashir stated that South Sudan's oil exports will not be allowed to pass through Sudan unless disputes over border security are resolved.

SOUTH SUDAN

The government said that Sudan bombarded the Werguet and Majak Woi regions, but Khartoum denied such allegations. Also, the UNSC extended the mandate of the Abyei peacekeeping force by six months. Doctors Without Borders accused the military of rape, torture, and killing of Muerle tribe members during the disarmament campaign initiated in March 2012. Jonglei state tribal leaders signed an agreement on May 5 to end the cycle of inter-ethnic clashes.

SYRIA

The UN reported that 108 people were killed on May 25 in Houla, with many residents executed and children massacred by pro-regime militia. Numerous countries including the U.S., France, and UK expelled their Syrian diplomats. Also, the UN found 13 people executed near Deir al-Zour. Bombings against the military intelligence building in Damascus killed 55 people and wounded another 372 people. Further, security forces stormed Aleppo University's campus on May 3 following an anti-regime protest by students, with five people killed and over 200 arrested. The Opposition Free Syrian Army (FSA) claimed that six senior regime officials were poisoned, including the head of Syrian intelligence Asif Shawkat. The United Nations Secretary General Ban Ki-moon said that Syria is moving towards a catastrophic civil war, and demanded that Syria implements the peace plan. The May 7 parliamentary elections were held with low turnout, amid the opposition boycott.

TUNISIA

The Head of Constituent Assembly Mustafa Ben Jaafar announced October 23, 2012 as the deadline for drafting the new Tunisian constitution. The interim President Moncef Marzouki issued a decree extending the state of emergency throughout the country until the end of July. The government recognized the first Salafist party, the Islah Front.

YEMEN

More than 100 people were killed on May 21 by a suicide bomb at a military parade rehearsal in Sanaa, where al-Qaeda in the Arab Peninsula claimed responsibility. On the same day, air strikes in Abyan province killed 16 suspected al-Qaeda militants. A U.S. drone strike on May 6 killed a senior al-Qaeda militant Fahd al-Quso. President Mansour Hadi announced the formation of a committee to begin preparations for a national reconciliation dialogue. U.S. President Barack Obama authorized the U.S. Treasury to freeze assets of anyone obstructing the implementation of the governmental transition plan.

Source: International Crisis Group

JORDAN

Economic growth to average 4% in 2012-14, fiscal challenges increasing

Standard & Poor's projected real GDP growth in Jordan at 3.2% in 2012 relative to 2.6% in 2011. It also forecast real growth to average 4.1% annually between 2012 and 2014, which is nearly half the 8% average annual growth rate posted during the 2005-08 period. It said that Jordan has yet to recover from the 2009 global slowdown, primarily due to a mix of external shocks such as the rise in commodity prices, regional unrest and lower tourism and investment. It added that the increase in merchandise exports and the authorities' efforts to stimulate small- and medium-sized enterprises have so far proven insufficient to compensate for weak external demand and lower inflows of remittances. It forecast net FDI inflows to slowly increase from 3% of GDP in 2011 to 3.4% in 2012, but to remain significantly lower than the average annual FDI inflows of 5% of GDP during the past 10 years.

In parallel, S&P said that Jordan's fiscal flexibility deteriorated significantly due to increased current expenditures and the high dependency on foreign grants. It forecast the fiscal deficit to decline only modestly to 5.8% of GDP in 2012 from 6.2% of GDP in 2011. It pointed out that the deficit would be higher without foreign grants, which accounted for 16% of government revenues in 2011. It expected the fiscal deficit to remain above 5% of GDP through 2013 despite unprecedented levels of foreign grants. It noted that the composition of public spending has shifted away from capital expenditures towards current spending, such as food and energy subsidies or transfer payments.

In parallel, S&P forecast the current account deficit to remain wide at 6.9% of GDP in 2012 compared to 7.3% of GDP in 2011 due to higher import prices as well as a decline in tourism receipts and remittance inflows. It estimated Jordan's gross financing needs at about 87% of usable reserves and current account receipts in 2012, and expected this ratio to remain stable over the medium term.
Source: Standard & Poor's

NIGERIA

Fiscal and external accounts increasingly vulnerable to an oil price shock

Merrill Lynch indicated that Nigeria is exposed to global risks through the oil price channel and that its fiscal and external accounts are currently more vulnerable to an oil price shock than they were before the global financial crisis. It projected economic growth in Nigeria at 6.6% this year compared to 7.4% in 2011. It said that this baseline outlook is based on oil prices averaging $111 per barrel in 2012. It warned that a disorderly Greek exist and a Eurozone breakup would lead to a collapse in oil prices to $60 per barrel in the third and fourth quarters, leading to oil prices averaging $87 per barrel in 2012. It said that this would imply further downside risks to Nigeria’s growth outlook with government spending and net exports at risk. It forecast Nigeria's real GDP growth to slow to 4.8% this year under this worst case scenario.

In parallel, it projected Nigeria's fiscal deficit at 3.5% of GDP under the baseline scenario, as government revenues would rise by 5% annually compared to a 54% surge in fiscal year 2011. But it expected the fiscal deficit to widen to at least 6% of GDP if oil prices collapse, as aggregate revenues would fall by at least 25% annually. It noted that lower buffers would result in a significant slowdown in capital spending. Further, it forecast the current account surplus at 8.8% of GDP this year under the baseline scenario, but expected it to narrow significantly to below 3% of GDP under the worst case scenario. It said that a collapse in oil prices would lead to a 33% decrease in oil exports, which account for over 90% of the country's export receipts. It also expected the naira to weaken to 180 against the US dollar even if the Central Bank of Nigeria increases the foreign currency supply by $5bn over two quarters. As such, it forecast foreign exchange reserves to decline below $30bn into next year. In comparison, it anticipated the naira's exchange rate at 155 per US dollar and for foreign exchange reserves to stand at $36.5bn under the baseline scenario.
Source: Merrill Lynch

DEM REP CONGO

Economic growth to average 7.5% in 2012-13, private investment to drive activity

Business Monitor International projected the Democratic Republic of Congo's (DRC) economic growth to accelerate from 6.6% in 2011 to 6.8% in 2012 and 8% in 2013. It expected growth to be driven by the booming mining sector, which already provides over 70% of export earnings and drives investment, and which will account for an increasing share of the economy. It said the DRC has the potential to become an economic giant with 71 million people, vast underexploited natural resources, and borders with many of Africa's fastest growing economies. However, it estimated that private consumption will grow by just 5% in 2012 and 5.8% in 2013, substantially slower than the economy as a whole, and will increase by only 35% by the end of 2021. But it noted that the DRC's large population makes the country an attractive market, especially for telecoms and other entry-level consumer goods.

In parallel, BMI indicated that private investment will be a major driver of headline growth in 2012 and estimated fixed capital formation to increase by 7.5% in 2012, driven almost exclusively by the expanding mining industry that is working to develop the DRC's large potential in copper, coltan, tin, gold, and other minerals. It noted that the government has actively courted FDI as a method to develop the country, especially by building infrastructure in remote areas. It forecast government consumption to increase by 4% in 2012 relative to 8% in 2011, given that the elections drove public spending growth last year.

BMI considered that deteriorating security conditions pose the most important domestic risk to the economic outlook; while the most significant external risk would be a substantial drop in global mineral prices. It added that a worse-than-expected slowdown in China would have serious repercussions on the DRC since the country exports 40% of its copper to China.
Source: Business Monitor International

MENA

North Africa's insurance market has long-term growth potential

Standard & Poor's indicated that the insurance markets in Algeria, Morocco and Tunisia have long-term growth potential due to low penetration rates, increasing needs for life and savings products, and demand for personal lines of business that remain either untapped or underdeveloped. It noted, however, that growth potential varies among the three markets, given their differing economic prospects, maturity, business mix, and development of distribution channels. It considered that financial market volatility, weak economic conditions, and intensifying competition could put insurers' operating performance stability at risk, and reflect the need to improve their risk management abilities. S&P said the underwriting earning profiles of insurers in the three markets are still highly concentrated on motor and to a lesser extent on industrial lines. It expected insurers' investment earnings to slow down in the coming years due to increased financial market volatility and lower interest rates. It noted that asset-related risks, particularly market risk, are likely to utilize the largest share of insurers' capital in the three markets.

Source: Standard & Poor's

UAE

Debt of government-related entities equivalent to 51.3% of GDP

The International Monetary Fund estimated the debt of government-related entities (GRE) that matures in 2012 at $30bn, of which $15.8bn in debt held by Abu Dhabi GREs, $14.6bn by Dubai GREs and $0.3bn by other emirates' GREs. It projected the country's GRE debt maturing in 2013 at $23.6bn, including $18.3bn in debt by Abu Dhabi GREs, $4.9bn by Dubai GREs and $0.4bn by other emirates' GREs. It said that GRE debt maturing in 2012 would account for 93.5% of the UAE's total debt that is due this year, and for 82.2% of debt maturing in 2013. Further, it estimated the aggregate debt of the country's GREs at $184.8bn at end-March 2012, equivalent to 51.3% of GDP; compared to $182.3bn or 61.2% of GDP at end-2010. It said the debt of Abu Dhabi's GREs stood at $100.6bn at end-March, equivalent to 45.6% of the emirate's GDP; relative to $92.9bn or 55% of GDP at end-2010. It added that the debt of Dubai's GREs totaled $84.3bn at end-March, or 60.4% of the emirate's GDP; down from $89.4bn or 69.4% of GDP at end-2010. The IMF noted that the GREs are a source of risks due to the lack of timely and aggregate information about their performance and financial situation, as well as to rollover risks given their high dependence on foreign funding. It added that the debt of Dubai's GREs is declining while that of Abu Dhabi's GREs is increasing.

Source: International Monetary Fund

LIBYA

Foreign investment in oil sector faces challenges

Business Monitor International identified the major challenges to foreign investments in Libya's oil sector as the unchanged and stringent contractual environment in the country; the lack of security; and a cyclical downturn in oil prices that would undermine the profitability of upstream projects. It said that Libya's regulatory environment and volatile political situation, combined with a downturn in light crude Mediterranean markets, raise uncertainties for foreign investors. It noted that Royal Dutch Shell's decision to offload its Libyan blocks, now that the bulk of production has been recovered, is indicative of the risks that are at play in the country. It warned that Libya's production outlook would be in jeopardy if other companies followed Shell's lead. BMI pointed out that the recovery of Libyan oil production since the 2011 war has been taking place at a significantly fast pace. It estimated crude oil production at approximately 1.4 million b/d and exports to have reached pre-war levels. It said that Libyan authorities are currently targeting the full resumption of pre-war crude production of about 1.65 million b/d by mid-2012. It forecast total output, including condensates, natural gas liquids and refinery gains, to average 1.69 million in 2012. It anticipated net exports to average 1.22 million b/d through 2012, given a local demand of approximately 477,000 b/d.

Source: Business Monitor International

AFRICA

Turmoil in North Africa affecting fiscal policies in Sub-Saharan Africa

Moody's Investors Service projected economic growth in Sub-Saharan Africa (SSA) at 5.4% in 2012 relative to 5.1% in the previous year, driven by domestic economic activity and elevated commodity prices. It said that continued strong growth will help bolster SSA's economic resiliency and, in turn, will attract growing investments into more diverse sectors of the region's economies. It expected SSA's exposure to the slowdown among trading partners in developed countries to be partially offset by the growing reorientation of its trade towards the more dynamic emerging economies. Moody's said that most SSA countries have yet to sufficiently rebuild the financial buffers needed to shield their economies from the adverse effects of a more pronounced global economic downturn. It forecast progress in this regard to be mixed across the region, with some countries better able to take advantage of elevated commodity prices to boost fiscal and external cushions, while others will be constrained by weak growth environments. Further, the agency said that the unrest in North African countries presents additional risks to SSA's political stability and is influencing its governments' socioeconomic policy decisions, which in turn is exerting intermittent pressure on public finances. But it noted that improving governance and political legitimacy in SSA significantly contains the risk of widespread domestic political unrest.

Source: Moody's Investors Service

BANKING

SYRIA

United States blacklists Syrian private bank

The U.S. Department of the Treasury blacklisted the Syria International Islamic Bank (SIIB), making it the first private bank in Syria to be sanctioned by the U.S. The Treasury Department said SIIB acted on behalf of the state-owned Commercial Bank of Syria (CBS) and provided services to the Syrian Lebanese Commercial Bank (SLCB), both of which are under U.S. and international sanctions. It added that SIIB has acted as a front for the CBS, which has allowed the latter to circumvent sanctions against it by the United States, the European Union and the Arab League. SIIB is an institution with Qatari strategic shareholders. According to the U.S. Treasury Department, SIIB facilitated from 2011 to 2012 financing worth almost $150m on behalf of the CBS. It noted that financial arrangements that were supposedly made by SIIB were actually made by the CBS. It added that SIIB facilitated this year several substantial payments for the SLCB. The SIIB was established in September 2007 and has 20 branches and three representative offices in Syria. Its entire board resigned after the announcement of the sanctions. The sanctions freeze SIIB's assets under U.S. jurisdictions and prohibit U.S. nationals and entities from conducting transactions with the bank.

Source: U.S. Department of the Treasury

SAUDI ARABIA

Banks' ratings affirmed, outlook 'stable'

Capital Intelligence affirmed the Financial Strength Rating (FSR) of National Commercial Bank (NCB), Al Rahji Bank (ARB), Samba Financial Group (SAMBA) and Riyad Bank (RB) at 'AA-'; and upgraded Saudi Hollandi Bank's (SHB) FSR to 'A-' from 'BBB+'. It also affirmed the long-term foreign currency rating of NCB, ARB, SAMBA and RB at 'AA-'; and that of SHB at 'A'. It maintained the short-term foreign currency rating of RB and NCB at 'A1+', ARB and SAMBA at 'A1', and that of SHB at 'A2'. It said that all banks' ratings carry a 'stable' outlook. The agency pointed out that the ratings on NCB and SAMBA reflect the banks' strong liquidity, continued cost control and ongoing improvement in asset quality. It added that the NPL portfolio and the NPL ratio at NCB have declined substantially through improved risk management and more aggressive use of write-offs, which has allowed the bank to boost its earnings while still posting one of the sector's best NPL coverage ratios in 2011. Also, CI said that ARB is the most profitable bank and has the best asset quality in the sector, but that its ratings are constrained by a high volume of new non-performing Islamic financing facilities, the recent decline in net financing income, and the bank's generally tighter liquidity than its peers. It attributed the upgrade of Saudi Hollandi Bank's FSR to improvements in its asset quality and capital adequacy.

Source: Capital Intelligence

QATAR

Banking sector has stable outlook, dependency on wholesale funding increases

Moody's Investors Service affirmed the outlook on Qatar's banking system at 'stable', reflecting the country's strong macro environment and high public spending levels that will continue to sustain growth and bank lending activity over the coming 12 to 18 months. It said that the 'stable' outlook reflects the sector's limited pressure on asset quality; its healthy capitalization levels; a stable deposit base and significant liquidity buffers; and strong earnings potential. But it warned from high concentration on both sides of the banks' balance sheet; the sector's dependence on the domestic economy, the heavy reliance on the oil and gas sector; and the credit risks related to the construction and real-estate sector. It expected the level of non-performing loans to remain relatively stable at around 2% of gross loans. It added that the sector's solid capital buffers provide high loss-absorption capacity, while its core liquid assets reflect sound liquidity buffers. But it warned that banks have increased their dependence on wholesale funding, which accounted for around 33% of total funding at end-2011. It said that this degree of exposure leaves the banks vulnerable to shifts in market conditions and investor sentiment. Further, it expected Qatari banks' interest rate margins to tighten in 2012 due to increased funding costs and the introduction of interest-rate caps on their retail portfolios. But it forecast the system's overall profitability to remain at comfortable levels, supported by higher lending volumes, low provisioning requirements and banks' low cost base.

Source: Moody's Investors Service

MOROCCO

Lending and deposits contract in April, liquidity remains tight

Figures issued by Bank Al-Maghrib show that total assets reached MAD1.1trillion, or about $125bn, at the end of April 2012, constituting a marginal increase of 0.3% from end-2011 and a rise of 13% from end-April 2011. The sector's aggregate loans totaled MAD678.8bn, decreasing by 1% from end-2011, by 0.7% from the preceding month, and rising by 6.9% year-on-year. The monthly decrease was mainly driven by a contraction in working-capital lending. Lending to the retail segment remains the main driver of lending growth, as it expanded by 11% year-on-year; while corporate lending continues to slow down. In parallel, the sector's aggregate deposits increased by 5% year-on-year, but dropped by 1% from the preceding month. The loans-to-deposits ratio stood at 99% at end-April 2012, unchanged since January 2012 mainly due to the slow growth in deposits. Liquidity in the Moroccan banking sector remains tight, which is prompting the large corporate sector to tap the bond market for better borrowing rates. Also, the sector's non-performing loans ratio was stable at 5% in April 2012, lower than the 8% average during the 2006-08 period.

In parallel, Moody's Investors Service placed on review for possible downgrade the'Baa3' and 'Prime-3' long- and short-term local-currency deposit ratings and the 'D' standalone bank financial strength rating (BFSR) of Banque Marocaine du Commerce Extérieur (BMCE), and broadened its review for downgrade of Crédit du Maroc to cover the bank's 'D' BFSR. The agency attributed its decisions to the banks' deteriorating operating environment and its impact on asset quality, combined with their relatively limited loss absorbing capacity.

Source: Bank Al-Maghrib, EFG Hermes, Moody's Investors Service

ENERGY / COMMODITIES

Brent above $100 on Eurozone optimism

Brent crude prices increased above $100 per barrel on June 7, on expectations that the United States will introduce measures to boost its economy and European policy-makers may rescue ailing Spanish banks. Brent crude increased by 32 cents to $101 a barrel on June 7, after rising to $101.2 a barrel in the previous session. Also, U.S. crude prices rose by 44 cents to $85.5 a barrel, gaining for a fourth straight day.

In parallel, brent fell below $100 a barrel for the first time since October 2011 on June 1st. The Energy Information Administration stated that U.S. crude inventories fell by 111,000 barrels on June 7 from the previous week. Gains in oil were capped by a smaller-than-expected drawdown in U.S. crude stockpiles last week after ten straight weeks of stock builds. Also, the Dow-Jones UBS Brent Crude Sub-index declined by 14.5% in May, while the WTI Crude Oil Subindex declined by 17.8% during the month.
Source: Thomson Reuters

Saudi Arabia increases oil output to 10 million b/d in May

Saudi Arabia, the Organization of the Petroleum Exporting Countries' (OPEC) largest producer, increased oil output by 80,000 barrels to 9.9 million barrels a day in May 2012, constituting the highest monthly level since January 1989. The increase in output aimed at dropping Brent crude prices to $100 a barrel. In parallel, OPEC production rose by 20,000 barrels to an average of 31.6 million barrels a day in May 2012 from 31.6 million barrels a day in April, posting the highest level since October 2008.
Source: Bloomberg

IAE expects natural gas consumption to increase by 17% in the coming five years

The International Energy Agency (IEA) anticipated natural gas consumption to grow by 17% by 2017 as Chinese and U.S. demand rises. It noted that Asia is expected to be the major force in raising consumption of natural gas to a projected 3.9 trillion cubic meters in five years. The IAE forecast Chinese consumption of natural gas to more than double to 273 billion cubic meters in 2017. It added that higher gas output is expected to moderate prices and therefore raise demand by more than 50% between 2010 and 2035. The United States is the top world consumer of natural gas, followed by Russia.
Source: AFP

Algerian Sonatrach to invest $68.2bn by 2016

Algeria's state energy firm Sonatrach announced plans to invest $68bn in the country's energy sector between 2012 and 2016. Algeria's hydrocarbon reserves are estimated at four billion tons of oil. Sonatrach has targeted exploration blocks in Niger, Mauritania and Libya, where the company's activities are due to resume shortly. Sonatrach's oil exports increased by 27% annually to $71.5bn in 2011.
Source: Thomson Reuters

Base metals: Copper prices increase after China cuts it benchmark rates

Prices of base metals were mixed in the past week, with copper prices increasing sharply after China decided to cut its benchmark lending and deposit rates for the first time since the global financial crisis. Three-month copper prices on the London Metal Exchange increased by 1.3% to $7,510 per ton on June 7th. Copper prices fell by 15% from this year's peak of $8,765 per ton due to persistent economic worries from China and Europe. Further, the United States raised concerns that global demand for commodities would decline. In parallel, aluminum prices increased by 0.53% to $1,986 per ton on June 7, while Nickel prices rose by 2.43% to $16,492 per ton. Further, the Dow-Jones UBS Aluminum Sub-index decreased by 6.6% in May, while the Copper Sub-index declined by 12.1%. Also, the Dow-Jones Nickel Sub-index declined by 9.5% and the Lead Sub-index decreased by 10.9% last month. Overall, the Dow-Jones Industrial Metals Sub-index declined by 9.7% in May.
Source: Standard Chartered, Bloomberg, Thomson Reuters

Precious metals: Prices to remain stable on loose U.S. monetary policy

Prices of precious metals are expected to remain stable in the near-term, sustained by a positive shift in expectations for U.S. monetary policy. Gold prices are forecast at around $1,700 per ounce in the coming weeks due to expectations of continued U.S. dollar resilience. Gold prices remain elevated by historical standards due to recurrent disappointing U.S. economic data, while prices are expected to average $1,675 per ounce in 2013 relative to an average of $1,650 per ounce in 2012.

In parallel, prices of silver, platinum and palladium are forecast to rise in the near-term. Silver currently is trading at $29.3 per ounce and is expected to reach $30.5 per ounce in the coming weeks, as silver prices are well correlated to that of gold. The Dow-Jones UBS Gold Sub-index decreased by 6.1% in May, while the Silver Sub-index declined by 10.5% during the month. Also, the Dow-Jones Platinum Sub-index decreased by 9.8% last month. Overall, the Dow-Jones Precious Metals Sub-index decreased by 7.1% in May.
Source: Business Monitor International

Global Commodity Outlook

(3-months LME, $/ton)	2011	2012f	2013f
Aluminum	2,424	2,161	2,400
Copper	8,833	8,429	10,000
Lead	2,391	2,191	2,500
Nickel	22,896	19,423	21,000
Tin	26,042	23,484	25,500
Zinc	2,212	2,085	2,350
(Spot price, $/ounce)			
Gold	1,573	1,685	1,900
Palladium	733	696	850
Platinum	1,720	1,665	1,950
Silver	35	32	35

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	-2.6	10.7	1.9	4.8	1.7	2.1	13.7	1.3
Angola	BB- Stable	Ba3 Stable	BB- Stable	- -	BB Negative	7.9	29.9	17.4	28.2	8.9	-	12.0	10.7
Egypt	B Negative	B1 Negative	BB- Negative	BB+ Negative	CCC Stable	-9.9	76.2	13.8	73.4	7.8	128.6	-1.9	2.4
Ethiopia	-	-	-	-	B Stable	-2.1	39.4	-	165.9	-	-	-6.3	0.7
Ghana	B Stable	- -	B+ Stable	- -	BB Positive	-4.2	38.1	19.4	50.1	-	-	-6.5	7.7
Ivory Coast	- -	- -	- -	- -	CCC Stable	-6.4	93.3	48.7	108.3	-	-	1.0	1.7
Libya	- -	- -	B Stable	- -	B Stable	-	-	8.6	-	2.0	-	-	3.6
Mauritania	- -	- -	- -	- -	- -	-2.8	62.0	70.0	96.6	-	700.0	-7.5	0.3
Morocco	BBB- Stable	Ba1 -	BBB- Stable	BBB- Stable	B Stable	-5.8	54.2	28.4	75.7	9.1	120.1	-5.2	0.8
Nigeria	B+ Positive	- -	BB- Stable	- -	B Stable	0.4	15.7	5.0	12.4	0.4	-	13.5	2.6
Sudan	- -	- -	- -	- -	C Stable	-2.8	78.2	61.0	301.6	-	4,825	-7.3	2.3
Tunisia	BB Stable	Baa3 Negative	BBB- Negative	BBB Stable	B Stable	-4.1	41.7	58.2	111.3	8.4	285.6	-5.7	3.2
Middle East													
Bahrain	BBB Negative	Baa1 Negative	BBB Negative	BBB+ Negative	BB Stable	-7.7	34.2	75.3	66.1	8.2	340.9	12.6	-0.9
Iran	- -	- -	B+ Stable	BB- Stable	CCC Stable	2.4	9.2	3.0	10.9	2.1	14.3	7.8	0.8
Iraq	- -	- -	- -	- -	CCC Stable	-8.7	42.3	37.1	53.2	-	72.4	-0.9	1.7
Jordan	BB Negative	Ba2 Negative	- -	BB Stable	B Stable	-6.1	68.5	23.8	53.4	5.1	59.8	-6.7	6.4
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	23.6	4.5	26.0	41.7	7.0	184.3	33.5	-1.5
Lebanon	B Negative	B1	B Stable	B Stable	CCC Stable	-8.3	134.0	158.0	264.7	14.7	208.5	-14.1	11.2
Oman	A Negative	A2 -	- -	A Stable	A Stable	10.9	4.0	12.3	17.2	-	59.0	14.5	2.9
Qatar	AA Stable	Aa2 Stable	- -	AA- Stable	AA Stable	7.7	38.2	70.1	115.5	7.8	703.9	32.6	2.9
Saudi Arabia	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	BBB Stable	9.4	7.1	18.0	30.1	2.1	19.7	20.6	5.4
Syria	- -	- -	- -	BB- Stable	CCC Stable	-11.0	27.5	11.0	36.8	-	43.6	-6.1	2.4
UAE	- -	Aa2 -	- -	AA- Stable	BB Stable	5.8	18.5	44.4	53.5	7.2	293.3	10.3	0.6
Yemen	- -	- -	- -	B- Negative	CC Stable	-7.1	42.9	18.0	58.4	-	244.4	-5.3	-1.3

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								
Asia													
Armenia	- -	Ba2 Negative	BB- Stable	- -	- -	-3.8	41.5	65.5	304.5	-	352.6	-11.7	6.4
China	AA- Stable	Aa3 -	A+ -	A Stable	BB Stable	-1.1	25.8	8.5	29.3	1.9	-	2.8	0.6
India	BBB- Negative	Baa2 -	BBB- -	BBB- Stable	BB Stable	-5.9	68.1	17.8	62.2	11.1	-	-2.8	0.6
Kazakhstan	BBB+ Stable	Baa2 -	BBB- Stable	- -	BBB Stable	1.7	12.9	67.7	138.4	40.5	312.9	5.9	1.5
Central & Eastern Europe													
Bulgaria	BBB Stable	Baa3 Stable	BBB- Stable	- -	BB Stable	-2.1	17.8	84.7	90.3	19.3	240.1	1.6	4.0
Romania	BB+ Stable	Baa3 -	BBB- Stable	BBB- Negative	BB Stable	-4.4	34.4	72.3	189.9	24.6	256.0	-4.5	2.1
Russia	BBB Stable	Baa1 Positive	BBB Stable	- -	BBB Stable	1.9	11.7	22.5	73.7	9.7	75.4	5.5	-0.7
Turkey	BB Stable	Ba2 Positive	BB+ Stable	BB Stable	B Stable	-0.8	40.3	44.2	184.9	28.6	361.8	-10.3	1.0
Ukraine	B+ Negative	B1 Negative	B Stable	- -	CCC Positive	-4.1	39.3	79.0	145.9	36.5	316.4	-3.9	4.2

Sources: International Monetary Fund; Economist Intelligence Unit - The above figures are estimated for 2011

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	24-Apr-12	No change	20-Jun-12
Eurozone	Refi Rate	1.00	06-Jun-12	No change	N/A
UK	Bank Rate	0.50	09-May-12	No change	07-Jun-12
Japan	O/N Call Rate	0-0.10	23-May-12	No change	15-Jun-12
Australia	Cash Rate	3.75	01-May-12	Cut 50bps	05-Jun-12
New Zealand	Cash Rate	2.50	26-Apr-12	No change	14-Jun-12
Switzerland	3 month Libor target	0.00	15-Mar-12	No change	14-Jun-12
Canada	Overnight rate	1.00	17-Apr-12	No change	05-Jun-12
Emerging Markets					
China	One-year lending rate	6.31	07-Jun-12	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	24-Apr-12	No change	20-Jun-12
Taiwan	Discount Rate	1.88	22-Mar-12	No change	28-Jun-12
South Korea	Base Rate	3.25	10-May-12	No change	08-Jun-12
Malaysia	O/N Policy Rate	3.00	11-May-12	No change	05-Jul-12
Thailand	1D Repo	3.00	02-May-12	No change	13-Jun-12
India	Reverse repo rate	8.00	17-Apr-12	Cut 50bps	18-Jun-12
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 100bps	N/A
Turkey	Base Rate	5.75	29-May-12	No change	21-Jun-12
South Africa	Repo rate	5.50	24-May-12	No change	19-Jul-12
Kenya	Central Bank Rate	18.00	May-12	No change	01-Jun-12
Nigeria	Monetary Policy Rate	12.00	21-May-12	No change	24-Jul-12
Ghana	Prime Rate	14.50	Apr-12	Raise 100bps	Jun-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	27-Apr-12	No change	08-Jun-12
Brazil	Selic Rate	8.50	30-May-12	Cut 75bps	11-Jul-12
Armenia	Refi Rate	8.00	08-May-12	No change	N/A
Romania	Policy Rate	5.25	30-Mar-12	Raise 25bps	N/A
Bulgaria	Base Interest	0.14	31-May-12	No change	N/A
Kazakhstan	Refi Rate	6.00	06-Apr-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.50	May-12	Cut 25bps	N/A
Russia	Refi Rate	8.00	26-Dec-11	Cut 25bps	N/A

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14
Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807
(+ 964) 780 9133031/2
(+ 964) 1 7177493
E-mail: baghdadbranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street
Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House - Suite 5
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 3537
Fax: (+ 44) 207 493 1233
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293