

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate default rate at 3% at end-September 2012

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 3% at the end of September 2012, unchanged from the preceding month, and compared to 1.7% at the end of 2011 and 1.8% at the end of September 2011. It said that a total of 46 rated corporate debt issuers have defaulted so far this year, nine of which defaulted in the third quarter of 2012, compared to 17 corporates that defaulted in the first nine months of 2011. The agency said that the default rate has remained low and stable despite very weak economic fundamentals. It forecast the global speculative-grade default rate at 3% at the end of 2012. Measured on a dollar volume basis, the global speculative-grade bond default rate reached 2% at the end of September 2012, up from 1.2% at the same period last year. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 17% at the end of September 2012, down from 19.5% at end-June and from 24.6% in the same period last year.

Source: Moody's Investors Service

EMERGING MARKETS

Bond and equity inflows at \$53bn in first nine months of 2012, AUM at \$1,042bn

Capital flows to emerging market equity and bond funds posted net inflows of \$52.5bn in the first nine months of 2012, with bond inflows at \$30bn and equity inflows at \$22.5bn. Latin America accounted for \$11.9bn or 39.5% of inflows to bond funds; Emerging Europe, the Middle East & Africa (EMEA) for \$10.7bn, or 35.6%; and Emerging Asia for \$7.5bn or 25% of the total. Further, Emerging Asia posted \$12.3bn in inflows to equity funds in the first nine months of the year and accounted for 54.5% of equity inflows to emerging markets, followed by Latin America with \$5.3bn (23.6%) and the EMEA region with \$4.9bn (21.9%). Mexico was the biggest recipient of bond inflows with \$3.4bn, or 11.2% of total inflows into emerging market bond funds year-to-September; while China was the largest recipient of equity inflows with \$3.8bn or 16.7% of total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled \$1,041.7bn at the end of September 2012, with bonds reaching \$231.5bn and equities totaling \$810.2bn. The EMEA region had \$90.8bn in bonds-related AUM, followed by Latin America with \$80.5bn, and Emerging Asia with \$60.2bn. Further, Emerging Asia had \$524.8bn in equity-related AUM, followed by the EMEA region with \$142.9bn, and Latin America with \$142.5bn.

Source: Barclays Capital, Byblos Research

MENA

Equity issuance down 16% in first nine months of 2012

Figures issued by Thomson Reuters show that Equity Capital Markets (ECM) issuance in the Middle East reached \$7.5bn in the first 9 months of 2012, down 16% from the same period last year. The telecom sector was the most active sector during the covered period with total issuance of \$3.1bn and accounted for 41.6% of ECM activity, followed by the financial sector with \$1.8bn (23.7%). Also, debt issuance in the region totaled \$23.9bn in the first nine months of 2012, constituting an increase of 52% from the same period last year. Islamic debt issuance reached \$23.4bn from 63 issues during the covered period, constituting a rise of 50% from the same period last year. Further, the volume of mergers and acquisitions (M&A) reached \$15.7bn in the first three quarters of the year, up 109% from \$7.5bn in the same period of 2011 and posted the strongest nine months of M&A activity since 2008. In parallel, investment banking and advisory fees in the Middle East stood at \$402.2m year-to-September, constituting a rise of 23% from \$327.5m in the same period last year. Syndicated lending fees totaled \$135.5m and accounted for 34% of the overall fee pool, followed by fees from M&A deals with \$103.3m (25.7%), debt capital markets fees with \$81.9m (20.4%), and equity capital markets with \$81.5m (20.3%). Debt capital markets fees increased by 95.5% while M&A fees fell by 14% year-on-year.

Source: Thomson Reuters

Arab world's regulatory quality still lagging

The World Bank's annual World Governance Indicators for 2011 show that regulatory quality among Arab countries retreated in 2011. The Regulatory Quality indicator measures market-friendly policies and laws that permit and promote private sector development. It covers 214 countries and territories worldwide that are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes. The average score of 20 Arab countries was -0.30 points, down from -0.24 points in 2010. The region's score was worse than that of East Asia & Pacific (-0.17), Latin America & Caribbean (0.18), Europe & Central Asia (0.67) and North America (1.51), but better than that of Sub-Saharan Africa (-0.67) and South Asia (-0.71). Bahrain had the highest regulatory quality among Arab countries with a score of 0.8 points, followed by Qatar (0.44), the UAE (0.4) and Oman (0.39), while Syria (-0.97), Iraq (-1.1), Algeria (-1.16), Sudan (-1.3) and Libya (-1.52) received the lowest scores. In parallel, 43.7% of countries and territories in the world had a worse score than the region's average score on this dimension of governance.

Source: World Bank, Byblos Research

OUTLOOK

MENA

Oil-importing economies to grow by 1.2% in 2012 and 3.3% in 2013

The International Monetary Fund projected economic growth in the Middle East & North Africa at 5.3% in 2012 and 3.6% in 2013, down from a July forecast of 5.5% for 2012 and 3.7% for 2013, and compared to real GDP growth of 5.3% in 2012 and 5.6% in 2013 for emerging and developing economies and of 3.3% in 2012 and 3.6% in 2013 for the global economy. It expected the region's oil-exporting economies to grow by 6.6% in 2012 relative to a growth rate of 3.9% in 2011, driven mainly by the rebound in activity in Libya. Also, it forecast real GDP growth in oil-importing countries at 1.2% this year relative to 1.4% in 2011, reflecting the effects of social unrest and political instability, weak external demand and high global oil prices. But it expected political uncertainty to decrease as political transitions stabilize and external demand increases, leading to real GDP growth of 3.3% in oil-importing economies in 2013. It anticipated a growth rate of 3.8% for the region's oil exporting countries in 2013 as economic growth in Libya moderates.

The IMF indicated that lower global oil prices and slower global growth constitute the key risks for oil exporters' near-term outlook. It noted that declines in global oil prices would undermine the fiscal positions of oil-exporting economies given their large public spending. In parallel, it said that oil importers are vulnerable to trade spillovers in the event of downside risks to growth in major economies, while higher food and global fuel prices would lead to internal and external imbalances in these countries. It noted that the main risks for oil importers from a rise in global commodity prices are the deterioration in budget balances and the depletion of foreign exchange reserves, rather than higher inflation and the erosion of disposable income.

In parallel, the IMF pointed out that maintaining macroeconomic stability, while supporting strong and inclusive medium-term growth will be an important policy challenge for countries in the region. It added that structural fiscal reforms will be crucial to improve the fiscal outlook in oil-importing economies.

Source: International Monetary Fund

GCC

Banks' asset quality to remain stable

Barclays Capital expected that the asset quality profiles of banking sectors in the Gulf Cooperation Council (GCC) economies to remain broadly stable during the rest of 2012, with slight increases in non-performing loans (NPLs) ratios of banks operating Bahrain and the UAE, and minor decreases in those of banks in Saudi Arabia, Qatar and Kuwait. It said that NPL ratios fell in Saudi Arabia, Qatar and Oman, supported by strong credit expansion and favorable domestic economic conditions. But it noted that banks in the UAE have still elevated levels of corporate debt restructuring and those in Bahrain have been affected by social unrest, which has resulted in NPL ratios above 7% in both countries. In parallel, Barclays said that the stable operating environment in GCC countries, supported by high oil prices, continuous government spending, and negligible non-GCC credit exposures constitute positive drivers for future asset qual-

ity performance. It added that the stricter underwriting criteria generally adopted by banks since 2008 and tighter regulatory control and rules would lead to low levels of new NPL formation. But it considered that high geopolitical risks associated with the GCC region will remain a key challenge to asset quality, mainly as banks' loan books exhibit high single-name borrower or geographical concentration that results in rapid rises in NPL during stress periods. In parallel, Barclays indicated that GCC banks' capital levels are sufficient to support strong balance sheet expansion and help withstand any future unexpected asset quality shock. It noted that the pace of credit growth continues to vary across GCC banking systems, with the level of spending by governments and government-related entities remaining the key driver of business growth. It expected the current loan growth trajectories to persist across most banking sectors in the medium term.

Source: Barclays Capital

TURKEY

Global financial volatility is major risk to economic performance

The International Monetary Fund projected real GDP growth in Turkey at 3% in 2012 despite weak economic activity in the European Union. It said the conditions for the resumption of domestic demand growth are in place, with unemployment at a 10-year low, relatively healthy private sector balance sheets, and more supportive macroeconomic policies. As such, it forecast the economy to return to its long-term trend growth rate of around 4% by 2013. It noted that macroeconomic policies resulted in disinflation and a reduction in the current account deficit. It forecast inflation to exceed the Central Bank of Turkey's inflation target of 5% by the end of 2012, and expected the current account deficit to narrow to 7.5% of GDP in 2012; and anticipated modest improvements in both inflation and the external deficit in 2013.

In parallel, the Fund indicated that Turkey continues to face considerable risks given its large current account deficit and the volatile nature of global capital flows in an uncertain external environment. It expected the country's annual gross external financing needs to remain significantly high over the next few years. It said that the unstable global financial environment constitutes a major risk, as it could lead to a reversal in capital flows and force the economy into a sharp adjustment. It also expressed concern that the easing of monetary policy in advanced economies may lead to a resurgence of excessive credit growth in Turkey and reverse the improvement in inflation and the current account. It noted that Turkey's low domestic savings rate makes it heavily dependent on capital inflows and increases the impact of business cycles. In parallel, the IMF did not expect the government to meet its 2012 budget target due to weaker revenues that reflect the economic slowdown and because of spending above the budget ceiling. It noted that the budget has structural weaknesses such as an excessive dependence of revenues on domestic demand and rigid expenditures. It encouraged authorities to increase the primary surplus, adding that a tighter fiscal position over the medium-term would be essential to relieve pressure on monetary policy and to rebalance growth.

Source: International Monetary Fund



ECONOMY & TRADE

AFRICA

Sub-Saharan Africa continues to face challenges

Business Monitor International indicated that Sub-Saharan Africa (SSA) faces significant challenges despite its attractive macroeconomic profile that is reflected by natural resource wealth, a burgeoning consumer market and a broadly improving business environment. It said that inadequate physical infrastructure, mainly in the power and transport sectors, constitutes one of the region's biggest constraints to economic, social and political development. It pointed out that poor physical infrastructure limits headline real GDP growth in many SSA countries by negatively impacting productivity and raising production costs. It noted that inadequate infrastructure is one of the major obstacles to the broadening of the economic base in SSA countries that rely on one natural resource for export and fiscal revenues. It added that poor infrastructure limits the growth of SSA's manufacturing sector given that the competitive advantage of the region's cheap labor is more than offset by higher production costs associated with inadequate electricity and water supplies. It said that improving transport links would enhance the attractiveness of SSA's consumer market, increase competition, improve the quality of services, and raise intra-regional trade which is the lowest among regions globally. Further, BMI indicated that inadequate infrastructure will continue to exacerbate supply-side shocks, leading to elevated inflation rates. In parallel, it considered that SSA's other challenges include political risks as well as underdeveloped capital markets, which make firms' access to finance difficult and expensive.

Source: *Business Monitor International*

SYRIA

Annual inflation rate at 36% in July, Aleppo continues to be hardest hit

Figures issued by the Central Bureau of Statistics show that the Consumer Price Index increased by 36.1% in July 2012 from July 2011 and by 20% from end-December 2011. The prices of housing, water, electricity, gas & other fuel oils rose by 54.2% year-on-year in July 2012, followed by the prices of alcoholic beverages & tobacco with a 48.4% increase, household equipments & supplies and ordinary maintenance works (+43.7%), various goods & services (+37.9%), clothes & shoes (+34.7%), food & non-alcoholic beverages (+33.1%), transportation (+32.5%), hotels & restaurants (+24.7%), entertainment & culture (+20.2%), education (+18.1%), health care (+10.6%) and communications (+4.5%). In parallel, the Consumer Price Index increased by 39.8% annually in Aleppo, followed by Homs with a 38.4% rise, Idleb (+37.7%), Tartous (+37.5%), Rural Damascus (+37.4%), Hama (+37.2%), Al-Sweida (+37.2%), Deir-ez-Zor (+35.6%), Al-Hasakeh (+35.2%), Quneitra (+34.2%), Lattakia (+34%), Al-Rakka (+33.8%), Dar'aa (+32.9%) and Damascus (+31.7%). The ongoing turmoil, disruption in economic activity and of supply routes, as well as international sanctions, have all resulted in significant shortages of basic goods, energy products and household items.

Source: *Central Bureau of Statistics*

SUDAN

Khartoum is second largest recipient of IMF technical assistance in region

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Sudan accounted for 24% of its overall allocation of technical assistance delivery during fiscal year 2012, up from 11% in FY2011. Sudan was the second biggest recipient of such assistance among seven countries, coming behind Jordan. Khartoum received 217.5 days worth of assistance in FY 2012, equivalent to 43.5 Person Weeks, compared to 140 days and 28 Person Weeks in the preceding year. Revenue administration support accounted for 29.9% of Sudan's total assistance, followed by banking supervision support with 26.4%, debt management support with 18.4%, macroeconomic statistical support with 16.1%, and public financial management assistance with 9.2%. METAC continued to strengthen the function of the credit registry at the Central Bank of Sudan, and helped the Banking Supervision Department in enhancing its tools for monitoring liquidity risk at banks. Also, METAC assisted in the delivery of a prioritized and sequenced action plan for the development of an inter-bank market, and in enhancing taxpayer's database. Further, METAC reviewed the organizational structure of the debt management department and prepared a new organizational structure of a debt management office according to international standards.

Source: *International Monetary Fund, METAC*

ARMENIA

Country risk level lower than regional peers, ranks 80th globally

Euromoney magazine's quarterly survey on global country risk ranked Armenia in 80th place among 184 countries worldwide and in third place among 12 Commonwealth of Independent States (CIS) in the third quarter of 2012. Armenia ranked in 79th place globally and in fourth place regionally in the second quarter. Armenia's overall score reached 44.01 points, similar to its score in the preceding survey and compared to the global average of 42.34 points, and to the average score of 34.61 points for the CIS. Globally, Armenia ranked ahead of Georgia, Azerbaijan and Mongolia, and came behind El Salvador, Ghana and Jordan. Also, it had lower risks than Georgia, Azerbaijan and Ukraine and higher risks than Russia and Kazakhstan among the CIS. Armenia's Political Risk score was 15.32 points, better than the global average of 13.9 points and the CIS average of 10.92 points; while its Economic Performance received 14.5 points, above the global average of 13.31 points and the CIS average of 12.36 points. Further, Armenia's Credit Ratings score was 2.81 points compared to the global average of 3.22 points and the CIS average of 1.9 points; while its score on Access to Bank Capital & Capital Markets was 3.25 points relative the global average of 3.91 points and the CIS average of 2.79 points. Also, Armenia's score on Debt Indicators reached 3.26 points relative to the global average of 4.11 points and the CIS average of 3.25 points.

Source: *Euromoney, Byblos Research*



BANKING

SAUDI ARABIA

Stable outlook for banking sector

Moody's Investors Service indicated that the outlook for the Saudi banking system remains 'stable' due to a benign operating environment, low problem loan levels, strong loss-absorption capacity, a low-cost deposit base, and ample liquidity. However, it anticipated the sector's system-wide strengths to remain counterbalanced by structural weaknesses over the next 12 to 18 months, including high loan and deposit concentrations and a lack of financial transparency of certain family conglomerates. It expected the sector's credit growth to be supported by the positive effects of high government spending and increased private-sector business activity. It noted that robust economic and credit growth will drive a moderate improvement in the banks' asset quality. It projected the sector's problem loans-to-gross loans ratio to decline to less than 3%. But it said that asset quality remains exposed to event risks due to the high single-party exposures. It forecast the corporate sector to remain susceptible to vulnerabilities over the next 12 to 18 months. It noted that vulnerabilities include the relatively low transparency of family-owned conglomerates and the frequent combination of risky investment activities with operating activities that are typically more stable. In parallel, the agency pointed out that large non-interest-bearing deposits and good operational efficiency will continue to support the sector's high profitability. As such, it expected Saudi banks to continue to maintain robust internal capital-generation, allowing them to absorb substantial losses without eroding capital.

Source: Moody's Investors Service

MOROCCO

Slowdown in lending, easing of tight liquidity

Figures issued by Bank Al-Maghreb show that the total assets of commercial banks operating in Morocco reached MAD1,095bn, or about \$124.5bn, at the end of August 2012, constituting a marginal decline of 0.6% month-on-month, a growth of 4.5% from end-2011 and an increase of 10.4% from end-August 2011. The sector's aggregate loans totaled MAD705.1bn, down by a marginal 0.4% from the previous month, but up by 2.6% from end-2011. Also, total lending growth decelerated to 6.3% year-on-year in August 2012 from 7.4% annually in July 2012 due to a slowdown in corporate lending. Retail lending grew by 10% year-on-year driven mainly by mortgage lending that posted an annual increase of 19%. Deposits reached around MAD691bn at end-August 2012, contracting by a marginal 0.6% from the preceding month but rising by 3.2% from a year earlier. Retail deposits remain the main driver of deposit growth as they grew by 6% annually in August 2012. The loans-to-deposits ratio stood at 102% at end-August 2012, slightly up from 101% in the preceding month. Also, the sector's NPLs ratio stood at 5% in August 2012, remaining broadly unchanged since January 2009. Bank Al-Maghreb reduced the reserve requirements by 200bps to 4% in September 2012 in order to ease the tight liquidity in the market.

Source: Bank Al-Maghreb, EFG Hermes

INDIA

Assets quality to deteriorate

Fitch Ratings revised upwards its projection for the gross non-performing loans (NPL) ratio of the Indian banking sector to 4.2% in the financial year ending March 2013, from a previous estimate of 3.75%. It anticipated Indian banks to face sustained pressure on asset quality over the next few quarters, mainly from the infrastructure sector where banks' exposures are concentrated. It forecast the sector's stressed assets, including restructured assets, to exceed 10% in FY13. However, Fitch said that its stress test reflects the sector's resilience and absorption capacity in case of a higher level of stress. It noted that most banks' core equity is unimpaired given their adequate profits and general reserves. It added that most large state- and private-owned banks have passed the stress test, but that medium-sized banks with high asset concentration and weak equity are more vulnerable. Further, it pointed out that funding is a traditional strength and supports the standalone credit profiles of banks, with deposits accounting for most of the sector's funding. But it noted that banks' reliance on short-term funding is increasing and is most evident at smaller state-owned banks with concentrated regional franchises. In parallel, it said that the capitalization of state-owned banks is supported by the government's commitment towards a minimum Tier 1 ratio of 8%. It noted that the government has budgeted around INR160bn for bank recapitalization in FY13 and has drafted a 10-year recapitalization plan for state-owned banks.

Source: Fitch Ratings

AFRICA

Credit growth reflects financial development

Fitch Ratings indicated that rapid credit growth in the economies of sub-Saharan Africa (SSA) mainly reflects the expansion of the financial sector from a low base in a context of rapid economic development. It said that this mitigates financial and macroeconomic risks that are associated with high credit expansion. It noted that eight out of 15 rated countries in SSA posted annual real credit growth above 15% over the 2009-11 period. Further, it pointed out that SSA's median credit-to-GDP ratio is 21.6%. It said that low income levels, informal activity and weak institutions constitute the main constraints to credit expansion. But it said that credit has been growing rapidly in countries where private sector credit-to-GDP is small such as in Ghana and Angola. In parallel, it said that monetary policy in SSA countries tightened in 2012, which would constrain credit growth despite limited monetary policy transmission to private sector credit conditions. It noted that banks' lending policies have become more conservative as the rise in NPLs in 2009 and 2010 triggered reforms of the financial sector in some countries, such as better risk management in Nigeria. Further, it said that banks in SSA have high capital ratios with a median of 16.8% in 2011, and abundant liquidity with a median loan-to-deposit ratio of 76.6%. It added that NPLs are equivalent to 5.1% of total loans, while cross-border liabilities are low at a median of 3.6% of GDP, which limits external funding risks. It noted that the foreign ownership of banks accounts for around 64% of assets, which limits the potential for contingent liabilities for the sovereign.

Source: Fitch Ratings



ENERGY / COMMODITIES

Global oil consumption to slightly increase in 2012

Global oil demand is projected to reach 89.8 million barrels per day (b/d) in 2012, constituting an increase of 1% from 88.9 million b/d in 2011. Oil demand in the U.S. is expected to reach 19.1 million b/d in 2012, equivalent to 21.3% of global consumption. It would be followed by the EU with 9.9 million b/d (11%), China with 9.5 million b/d (10.6%), the Middle East & North Africa region with 9.2 million b/d (10.2%), Industrialized Asian economies with 4.9 million b/d (5.5%), and the Commonwealth of Independent States with 4.6 million b/d (5.1%). In parallel, global oil supply is expected to reach 89.8 million b/d in 2012, constituting an increase of 1.6% from 88.4 million b/d in 2011. OPEC is expected to supply 40.8% of the global oil production while non-OPEC supply would account for the rest. Also, Brent crude oil prices are projected to average \$106.2 per barrel (p/b) in 2012, constituting an increase of 2.1% from \$104 p/b in 2011, and to decrease to \$105.1 p/b in 2013. In parallel, the Dow Jones-UBS Brent Crude Sub-Index declined by 2% in September 2012, while the Dow Jones-UBS WTI Crude Oil Sub-Index decreased by 4.7% during the month. Sources: International Monetary Fund, International Energy Agency, Byblos Research, Dow Jones Indices

MENA countries to invest \$740bn in energy projects

Oil producers in the Middle East & North Africa plan to invest \$740bn in energy projects during the 2013-17 period. Saudi Arabia is expected to commit \$165bn in funds between 2013 and 2017, equivalent to 22.3% of total investments. It would be followed by the UAE with \$107bn (14.5%), Algeria with \$71bn (9.6%), Iran with \$68bn (9.2%) and Iraq with \$56bn (7.6%). Energy investment requirements in the MENA region are rising after a period of stagnation caused by the 2008 global turmoil. Sources: Arab Petroleum Investments Corporation, Byblos Research

Iraq to become second-largest oil exporter by 2035

Iraq's oil production is forecast to reach 6.1 million barrels per day (b/d) by 2020 and to reach 8.3 million b/d by 2035 compared to a more than three-decades high level of 2.6 million b/d in September 2012. Iraq is expected to become the largest contributor to global oil supply growth and the world's second-largest oil exporter after Saudi Arabia by 2035. Also, Iraq is forecast to gain almost \$5 trillion in revenues from oil exports over the period to 2035, equivalent to an annual average of \$200bn. But it will need cumulative energy investment of over \$530bn, equivalent to around \$25bn per year on average. Source: International Energy Agency

OPEC's oil production drops in September 2012

OPEC maintained its global oil demand forecasts for 2013, as uncertainties facing the world economy remain. It forecast world oil consumption to grow by 800,000 b/d in 2013. Production by OPEC members fell by 265,000 b/d to 31.08 million barrels in September 2012. Global supply rose by 440,000 b/d to 89.9 million barrels in September, with most of the increase coming from non-OPEC nations. Source: Organization of Petroleum Exporting Countries

Base Metals: Global copper supply to rise in 2013

Global refined copper supply is projected to reach 20.2 million tons in 2012, constituting a rise of 3% from 19.6 million tons in 2011, and to increase to 21 million tons in 2013. In parallel, global copper demand is expected to reach 20.3 million tons in 2012, constituting an increase of 2.5% from 19.8 million tons in 2011, and to rise to 20.9 million tons in 2013. The copper market deficit is expected to decrease to 64 million tons relative to a shortfall of 153 million tons in the preceding year, mainly due to a combination of a significant slower real global copper demand and a period of improving mine supply. Further, global copper consumption is expected to rise by 2.5% in 2012 from a growth of 2.9% in 2011, and to grow by 3.5% in 2013. Also, global copper production is forecast to expand by 3% in 2012 from a growth of 3.3% in 2011, and to grow by 3.9% in 2013. Global copper prices are projected to average at \$7,965 a metric ton in 2012, constituting a drop of 9.8% from \$8,829 a metric ton in 2011. In parallel, the Dow Jones-UBS Industrial Metals Sub-Index rose by 11% while the Dow Jones-UBS Aluminum Sub-Index increased by 10.7% in September, and the Copper Sub-Index rose by 8.7%. Also, the Dow Jones-UBS Nickel Sub-Index increased by 15.8% and the Lead Sub-Index decreased by 16.1% last month. Sources: Citigroup, Byblos Research, Dow Jones Indices

Sources: Citigroup, Byblos Research, Dow Jones Indices

Precious Metals: Diamond output to grow in 2012

Global rough-diamond production is projected to reach 145 million carats in 2012, and is expected to grow by a compound annual growth rate (CAGR) of 2.8% between 2010 and 2020. Global rough-diamond production reached 124 million carats in 2011, constituting a drop of 3.4% from 128.2 million carats in 2010. Further, global rough-diamond demand is forecast to reach 168 million carats in 2012, and is expected to grow by a CAGR of 6% between 2010 and 2020. Demand for rough-diamonds would continue to outpace supply in the next decade. Further, political instability, the rise of protectionist policies in diamond-producing countries and the ongoing effects of the decline in generic diamond marketing could negatively impact the diamond supply-demand balance. In parallel, global gold ETF holdings stood at \$147.1bn and global silver ETF holdings reached \$16.4bn in September 2012. Also, the Dow Jones-UBS Precious Metals Sub-Index rose by 6.2% in September, while the Dow Jones-UBS Gold Sub-Index increased by 5.1%, and the Silver Sub-Index rose by 10% during the month. Also, the Dow Jones-UBS Platinum Sub-Index increased by 8.3% last month. Sources: Bain & Company, Dow Jones Indices, Citigroup

Sources: Bain & Company, Dow Jones Indices, Citigroup

Global Commodity Outlook				
(3-months LME, \$/ton)	2012e	2013f	2014f	2015f
Aluminum	2,060	2,100	2,175	2,250
Copper	7,965	7,965	7,775	7,500
Lead	2,060	2,090	2,200	2,250
Nickel	18,360	21,770	24,400	24,000
Tin	21,265	22,750	22,875	25,000
Zinc	1,955	2,040	2,125	2,220
(Spot price, \$/ounce)				
Gold	1,680	1,749	1,655	1,540
Palladium	649	744	925	925
Platinum	1,557	1,675	1,775	1,825
Silver	31.6	31.0	26.5	23.3

Source: Citigroup

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	-3.6	9.9	2.8	5.7	1.2	2.6	10.3	2.0
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	BB	12.6	30.9	18.0	47.1	7.5	-	12.0	-
	Stable	Stable	Stable	-	Negative								
Egypt	B	B1	B+	BB+	CCC	-9.9	76.4	14.8	44.6	6.7	127.8	-2.0	-
	Negative	Negative	Negative	Negative	Stable								
Ethiopia	-	-	-	-	B	-1.6	37.3	26.5	276.7	-	-	-6.3	0.2
	-	-	-	-	Stable								
Ghana	B	-	B+	-	BB	-4.3	43.4	20.4	59.4	-	-	-6.5	3.2
	Stable	-	Stable	-	Positive								
Ivory Coast	-	-	-	-	CCC	-5.7	67.9	47.3	100.0	-	-	1.0	0.3
	-	-	-	-	Stable								
Libya	-	-	B	-	B	-	-	15.1	28.2	2.0	-	4.4	-
	-	-	Stable	-	Stable								
Mauritania	-	-	-	-	-	-1.5	92.4	92.2	100.0	-	560.0	-6.5	0.01
	-	-	-	-	-								
Morocco	BBB-	Ba1	BBB-	BBB-	B	-6.9	54.4	24.6	81.2	8.9	131.3	-7.4	2.3
	Stable	-	Stable	Stable	Stable								
Nigeria	B+	-	BB-	-	B	1.1	17.9	4.2	7.5	0.4	-	13.5	9.7
	Positive	-	Stable	-	Stable								
Sudan	-	-	-	-	C	-2.9	73.1	60.5	397.9	-	-	2.1	-
	-	-	-	-	Stable								
Tunisia	BB	Baa3	BBB-	BBB	B	-3.2	42.4	47.9	105.5	9.3	309.3	-7.4	1.1
	Stable	Negative	Negative	Stable	Stable								
Middle East													
Bahrain	BBB	Baa1	BBB	BBB+	BB	-2.3	36.5	138.6	65.1	6.2	354.8	4.2	-
	Negative	Negative	Stable	Negative	Stable								
Iran	-	-	B+	BB-	CCC	0.2	9.0	3.4	9.8	1.5	11.3	10.7	3.8
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	CCC	7.4	86.9	76.8	61.4	-	83.1	7.9	1.5
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	CCC	-6.0	70.6	21.6	53.9	4.8	71.0	-9.5	1.4
	Negative	Negative	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	31.0	4.1	18.0	25.3	7.0	126.1	41.8	-
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B	B1	B	B	CCC	-5.6	136.2	174.5	536.4	14.7	92.5	-14.4	2.3
	Negative	Stable	Stable	Stable	Stable								
Oman	A	A2	-	A	A	8.2	5.1	11.5	19.1	-	65.7	13.2	0.2
	Negative	-	-	Stable	Stable								
Qatar	AA	Aa2	-	AA-	AA	8.0	32.5	72.6	123.1	9.1	642.6	28.4	-
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	15.2	7.5	16.3	29.8	2.1	19.7	24.4	13.0
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	CC	-	-	-	87.7	-	-	-	1.1
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	BB	2.9	16.9	41.0	59.3	6.6	445.1	9.2	5.5
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	CC	-4.4	42.5	18.0	72.4	-	157.5	-3.5	-
	-	-	-	Negative	Stable								



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Asia													
Armenia	-	Ba2	BB-	-	-	-2.7	35.1	65.5	453.3	-	357.9	-12.3	0.4
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	A	BBB	-1.1	25.8	9.1	31.5	1.7	-	2.8	58.9
	Stable	-	Stable	Stable	Stable								
India	BBB-	Baa2	BBB-	BBB-	BBB	-5.9	68.1	15.5	62.9	11.1	96.5	-2.8	16.8
	Negative	Stable	Negative	Stable	Stable								
Kazakhstan	BBB+	Baa2	BBB-	-	BBB	5.7	10.9	76.1	136.2	29.7	432.4	7.6	8.4
	Stable	-	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB	Baa3	BBB-	-	BB	-2.5	17.0	87.9	132.3	17.8	-	1.9	1.7
	Stable	Stable	Stable	-	Stable								
Romania	BB+	Baa3	BBB-	BBB-	BB	-4.1	33.0	67.4	175.7	23.7	246.9	-4.2	2.6
	Stable	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	0.8	9.6	22.5	71.9	9.7	-	5.5	-
	Stable	Positive	Stable	-	Stable								
Turkey	BB	Ba1	BB+	BB	B	-1.3	39.4	39.7	167.4	29.5	454.2	-9.9	13.4
	Stable	Positive	Stable	Stable	Stable								
Ukraine	B+	B1	B	-	CCC	-4.0	36.5	76.4	142.1	34.9	-	-5.6	7.0
	Negative	Negative	Stable	-	Positive								

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	13-Sep-12	No change	24-Oct-12
Eurozone	Refi Rate	0.75	04-Oct-12	No change	08-Nov-12
UK	Bank Rate	0.50	04-Oct-12	No change	08-Nov-12
Japan	O/N Call Rate	0-0.10	05-Oct-12	No change	30-Oct-12
Australia	Cash Rate	3.25	02-Oct-12	Cut 25bps	06-Nov-12
New Zealand	Cash Rate	2.50	12-Sep-12	No change	25-Oct-12
Switzerland	3 month Libor target	0.00	13-Sep-12	No change	13-Dec-12
Canada	Overnight rate	1.00	05-Sep-12	No change	23-Oct-12
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	13-Sep-12	No change	24-Oct-12
Taiwan	Discount Rate	1.88	20-Sep-12	No change	27-Dec-12
South Korea	Base Rate	3.00	01-Oct-12	No change	11-Oct-12
Malaysia	O/N Policy Rate	3.00	06-Sep-12	No change	08-Nov-12
Thailand	1D Repo	3.00	05-Sep-12	No change	17-Oct-12
India	Reverse repo rate	8.00	17-Sep-12	No change	30-Oct-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	18-Sep-12	No change	18-Oct-12
South Africa	Repo rate	5.00	20-Sep-12	No change	22-Nov-12
Kenya	Central Bank Rate	13.00	05-Sep-12	Cut 350bps	Nov-12
Nigeria	Monetary Policy Rate	12.00	19-Sep-12	No change	20-Nov-12
Ghana	Prime Rate	15.00	10-Sep-12	No change	Nov-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	07-Sep-12	No change	26-Oct-12
Brazil	Selic Rate	7.50	29-Aug-12	Cut 50bps	10-Oct-12
Armenia	Refi Rate	8.00	04-Sep-12	No change	N/A
Romania	Policy Rate	5.25	27-Sep-12	No change	2-Nov-12
Bulgaria	Base Interest	0.03	01-Oct-12	Cut 1bps	N/A
Kazakhstan	Refi Rate	5.50	06-Aug-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.50	23-Mar-12	Cut 25bps	N/A
Russia	Refi Rate	8.25	14-Sep-12	Raise 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

The Country Risk Weekly Bulletin is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from the Country Risk Weekly Bulletin may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.



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

