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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bond and equity inflows at $76bn in first 11 months of 2012, AUM at $1,075bn

Capital flows to emerging market equity and bond funds posted net inflows of $76.4bn in the first 11 months of 2012, with bond inflows at $40.3bn and equity inflows at $36.1bn. Latin America accounted for $15.6bn or 38.6% of inflows to bond funds; Emerging Europe, the Middle East & Africa (EMEA) for $14.7bn, or 36.5%; and Emerging Asia for $10bn or 24.9% of the total. Further, Emerging Asia posted $22.9bn in inflows to equity funds in the first 11 months of the year and accounted for 63.5% of equity inflows to emerging markets, followed by Latin America with $7.5bn (20.7%) and the EMEA region with $5.7bn (15.9%). Mexico was the biggest recipient of bond inflows with $4.5bn, or 11.2% of total inflows into emerging market bond funds year-to-November; while China was the largest recipient of equity inflows with $8.7bn or 24.1% of total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled $1,075.3bn at the end of November 2012 compared to $933.2bn a year earlier, with bonds reaching $254.2bn and equities totaling $821bn. The EMEA region had $102.2bn in bonds-related AUM, followed by Latin America with $87.6bn, and Emerging Asia with $64.5bn. Further, Emerging Asia had $537.1bn in equity-related AUM, followed by the EMEA region with $144bn, and Latin America with $140bn.

Source: Barclays Capital, Byblos Research

Fixed income trading volume down 26% to $1,296bn in third quarter of 2012

Trading in emerging markets debt instruments totaled $1,296bn in the third quarter of 2012, constituting a decrease of 8% from $1,413bn in the second quarter of 2012 and a 26% decrease from $1,760bn in the same quarter last year. Further, local instruments turnover totaled $882bn, or 68% of overall trading volumes in the third quarter of 2012, constituting an 11% drop from $987bn in the second quarter of this year and a 34% decrease from $1,337bn in the third quarter of 2011. In parallel, sovereign and corporate Eurobonds' trading volume stood at $407bn in the third quarter of 2012, decreasing by 3% from $419bn in the second quarter of 2012 and dropping by 2% from $414bn in the third quarter of 2011. Sovereign Eurobond volumes totaled $211bn in the third quarter of the year, while the volume of traded corporate Eurobonds reached $188bn. Sovereign Eurobonds accounted for 52% of total debt trading relative to 57% in the second quarter of 2012, while corporate debt represented 46% of total trading compared to 36% in the preceding quarter. The most frequently traded instruments were Brazilian instruments with 19.1% of the total, followed by Mexican debt securities with 12.2%, Turkish instruments with 8.3%, Russian debt with 7.4%, and South African liabilities with 6.7% of total emerging markets debt trading volume. Trading in Brazilian debt rose by 26% and trading in Turkish instruments increased by 21% year-on-year.

Source: EMTA

MENA

Equity markets up 2% in first 11 months of 2012

Arab stock markets increased by 2.1% and GCC equity markets rose by 2.3% in the first 11 months of 2012 compared to drops of 14.8% and 10.8%, respectively, in the same period last year. Activity on the Egyptian stock market increased by 32.7% in the first 11 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 18.8% increase, the Abu Dhabi equity market with an 11.3% growth, Saudi Arabia's stock exchange with a 3.9% rise and the Kuwait bourse with a 2.2% improvement. In parallel, the Casablanca equity market dropped by 11.7% and posted the worst performance among Arab stock markets in the covered period. It was followed by the Damascus financial market with an 8.9% drop, the Bahrain bourse with an 8.4% decline, the Iraqi stock exchange with an 8.1% fall, the Beirut stock exchange with a 5.3% decrease, the Palestine equity market and the Qatar exchange with declines of 4.3% each, the Amman bourse with a 3.3% contraction, the Muscat equity market with a 2.8% decrease and the Tunis exchange with a 1.1% drop. In comparison, emerging market equities rose by 9.9% and global equities grew by 11.2% in the first 11 months of the year. Arab stock markets declined by 1.9% in November compared to an increase of 1.1% each for global and emerging market equities.

Source: Local Stock Markets, Dow Jones Indices, Byblos Research

GCC

Aggregate corporate profits up 8% to $15bn in third quarter of 2012

Net corporate earnings of companies listed on GCC stock markets totaled $14.6bn in the third quarter of 2012, unchanged from the previous quarter, and constituting an 8% increase from the same period last year. Saudi Arabia led the region's corporate earnings with $7.1bn in the third quarter of 2012, accounting for 48.8% of the total. It was followed by Qatar with $3bn, or 20.2% of the total, the UAE with $2.8bn (19.4%), Kuwait with $1bn (7.1%), Oman with $400m (2.7%) and Bahrain with $259m (1.8%). Corporate earnings in the UAE rose by 38% year-on-year in the third quarter of 2012, companies' profits in Qatar jumped by 7%, and those of Oman-based companies increased by 6%. Further, corporate earnings in Saudi Arabia and Kuwait increased by 4% and 3% year-on-year, respectively, while those in Bahrain contracted by 45% in the covered period. Corporate earnings in the banking, commodity and telecommunication sectors accounted for 74% of aggregate corporate profits in the GCC. The banking sector's income reached $5.6bn in the third quarter, increasing by 11% from the same period last year; the telecommunications sector's profit totaled $2.2bn, rising by 26% year-on-year; while that of the commodities sector amounted to $3bn, decreasing by 20% year-on-year.

Source: Kuwait Financial Center

POLITICAL RISK OVERVIEW - NOVEMBER 2012

EGYPT

President Mohammed Morsi issued a controversial constitutional declaration on November 22 that temporarily gives him more power and immunity from judicial review until the new constitution comes into effect. The Supreme Judicial Council stated that the constitutional declaration is an unprecedented attack on the independence of the judiciary system and its rulings. President Morsi justified his action as necessary to prevent the pro-Mubarak judges from sabotaging the transition proceedings, and made judiciary-proposed compromises to the decree. Anti-government protests and pro-Morsi counter-protests started simultaneously on November 23 across the country. Hundreds of people were injured in clashes between protestors and security forces. The Constituent Assembly saw further non-Islamist withdrawals and membership freezes during the month, and has finished the draft constitution on November 30th. President Morsi announced that a nationwide referendum on the draft constitution would be held soon if the public approves of it. President Morsi was credited for his key role in the negotiations of a cease-fire between Hamas and Israel.

IRAN

An Iranian warplane fired at a U.S. surveillance drone claiming that it had entered its airspace. Iran formally accused the U.S. Navy on November 23 of "illegal and provocative acts" near its coastline in letters addressed to the UN Secretary General Ban Ki-Moon and the UN Security Council. The U.S. unveiled new sanctions targeting top Iranian officials and national bodies related to media and internet censorship. The Iranian parliament withdrew a motion to question President Mahmoud Ahmadinejad on Iran's economic problems after the Supreme Leader Ayatollah Ali Khamenei publicly intervened.

IRAQ

Tensions between the Kurdistan Regional Government and the Iraqi Central Government increased in late November after a week-long standoff along the contested internal border. Military leaders from both sides agreed to work together to defuse the tensions. Shootings and bombings throughout the country caused 78 deaths and 103 injuries. Political rivals of Prime Minister Nouri al-Maliki began campaigning in an attempt to block the Shiite leader from running for a third term in 2014.

DEM REP CONGO

The M23 rebel movement launched an offensive against the Armed Forces of the Democratic Republic of Congo in the east. The M23 rebels took over the regional capital Goma, leading thousands of civilians to flee the region, while also extending their armed control to Sake, a town in the eastern province of North Kivu. President Joseph Kabila met with his Rwandan and Ugandan counterparts in an emergency regional meeting and called on the M23 rebels to withdraw from Goma. The UN Security Council extended the sanctions against rebel groups in the DRC to February 2014. The M23 leader, Colonel Sultani Makenga, announced on November 29 the withdrawal of his troops from Goma and Sake.

LIBYA

Prime Minister Ali Zeidan and two-thirds of his newly elected Cabinet were sworn in on November 14 under tight security arrangements in Tripoli. The trial of the Qadhafi-era Prime Minister Al-Baghdadi Al-Mahmoudi began on November 12 by charging him with corruption and the ordering of a mass rape.

SOUTH SUDAN

President Salva Kiir indicated that the delay in the resumption of oil production was due to Khartoum's new security demands, which included Juba's disarmament of the Sudan People's Liberation Movement-North. The government condemned Sudan on November 23 for "continuous unprovoked attacks" on the Bahr el-Ghazal region, west of the country, killing and injuring scores of civilians and displacing over 900 people.

SUDAN

The National Intelligence and Security Services announced on November 22 that it had arrested 13 people, including the former security chief Salah Gosh and top army officers, over a sabotage plot aimed at destabilizing the country. The Sudanese Islamic Movement held its 8th conference in Khartoum and adopted a new constitution under President Omar Al-Bashir's leadership. The Sudan People's Liberation Movement-North, the National Umma Party and the Popular Congress Party signed an agreement on coordinated opposition. The Justice and Equality Movement stepped up their military operations in Darfur, attacking a Sudan Armed Forces military convoy.

SYRIA

The Syrian opposition groups announced on November 12 a breakthrough formation of the National Coalition of Syrian Revolutionary and Opposition Forces, following a week of talks in Qatar. The Gulf Cooperation Council countries, France, Turkey, the United Kingdom and Spain formally recognized the newly-formed coalition as the sole legitimate representative of the Syrian people. Opposition commanders in Aleppo articulated their support for the Syrian National Coalition on November 20, while the Democratic Union Party rejected the coalition. Areas in the east and south of Damascus have seen some of the heaviest fighting since July. The largest airport in Damascus canceled all of its flights due to nearby fighting, while internet access disappeared across the country on November 29th. Rebel forces saw a number of strategic gains during the month, including the control of an oil field, a hydroelectric dam and several army bases. The Free Syrian Army captured Ras al-Ain on the Turkish border and the regime’s army responded with days of intense bombardment that occasionally spilled into Turkey.

TUNISIA

At least 200 people were injured as protesters clashed with police in Siliana, north of Tunisia, demanding jobs and economic development. Prime Minister Hamadi Jebali rejected calls for his resignation and accused both Salafists and liberal elites of harming Tunisia's economy and image through their conflict with each other. President Moncef Marzouki asked his Prime Minister to appoint a new Cabinet in response to violent protests over the economic hardship.

YEMEN

The National Dialogue was postponed by three weeks upon the request of the conference’s preparatory committee. A UN envoy announced that the political parties in Yemen have resolved the issue of the allocation of seats for the all-inclusive national dialogue conference. The UN Security General Ban Ki-Moon pledged to help rescue efforts to implement a power transfer deal. A drone strike carried out by the U.S. near Sanaa killed three suspected al-Qaeda members. A Saudi diplomat was killed in Sanaa and the Yemeni government offered a $25,000 reward to anyone that helps in capturing the killers.

Source: International Crisis Group

OUTLOOK

EMERGING MARKETS

Banking sectors to continue avoiding stress scenario

Fitch Ratings indicated that the credit cycle started to reverse in most large emerging market (EM) banking systems, as reflected in slower credit growth rates, greater margin pressure, and signs of increased potential or reported loan impairment. It attributed the turn in the credit cycle to a less favorable global and domestic economic environments. It did not expect an increase in stress in most EM banking sectors due to banks' largely sound credit fundamentals, solid funding structures and comfortable loss absorption capacity, as well as due to positive domestic economic growth. But the agency warned from the potential consequences of China's high credit growth on Chinese banks' asset quality and solvency. It added that the credit fundamentals of Indian state-owned banks are under pressure, as the slowdown in economic growth led to increases in non-performing loans (NPLs) and single-name and sector concentrations.

Further, Fitch Ratings expected the sharp slowdown in Turkey's economic and credit growth to result in a limited increase in NPLs, as positive growth, moderate corporate and household leverage and reasonable underwriting would support banks' asset quality. But it noted that downside risks exist for the Turkish banking sector, as loan books have yet to season after the rapid increase in credit. It pointed out that the solid performance and capital of many Russian banks, as well as positive economic growth, mitigate concerns about rapid retail loan growth, tighter capital, increasing deposit costs and legacy corporate asset quality problems in Russia's banking sector. In parallel, it said that asset quality deteriorated further in the southern part of Central and Eastern Europe, which weighed on banks' performance, reserve coverage and capital. It added that Kazakhstan and Ukraine were the most-affected markets in the Commonwealth of Independent States given that they made little progress with loan book clean-ups.

Source: Fitch Ratings

TURKEY

Real GDP growth to rebound to between 4% and 5% in 2013, external vulnerabilities remain

The Institute of International Finance projected Turkey's real GDP growth at 3.2% in 2012 compared to 8.5% in 2011 and 9.2% in 2010. It attributed the slowdown in economic growth to monetary tightening that was adopted till June 2012 and that was accompanied by a significant rebalancing away from domestic demand towards exports. It said that the decline in domestic spending reflected mainly a sharp slowdown in bank lending caused by tightened liquidity and increases in lending rates. It added that the rebound in exports partly reflected a shift from Europe towards new export markets in the Middle East and North Africa, as well as higher gold exports. It projected real GDP growth to range between 4% and 5% in 2013, driven by a rebound in domestic demand that would be supported by ongoing policy easing, further fiscal expansion and exports. It said that sluggish domestic demand helped contain price pressures, but it forecast inflation levels to remain above the Central Bank of Turkey's (CBT) target of 5% through 2014. It noted that stronger exports and stagnant imports would help narrow the current account deficit to 6.6% of GDP this year from 10% of GDP in 2011. But it expected the current account deficit to widen to 7.3% of GDP in 2013.

In parallel, the IIF said that the CBT eased the monetary policy since June 2012 in order to discourage short-term capital inflows and help contain appreciation pressures on the lira. It noted that the monetary easing has been accompanied by a significant fiscal easing this year through higher spending on wages, investment and healthcare, while tax revenues came weaker than projected. As a result, it expected the fiscal deficit to widen to 2.2% of GDP in 2012 and to 2.5% of GDP in 2013 from 0.6% of GDP in 2011.

In parallel, the IIF considered that the Turkish economy is vulnerable to shifts in market sentiment due to its large external financing needs and because of uncertainties surrounding the sovereign debt crisis in Europe. It said that the country's large current deficit is difficult to reduce through macroeconomic policy only due to the heavy reliance on imported energy and intermediate goods, as well as due to the low savings rate in the country. It added that the government has introduced some measures earlier this year to address the country's external imbalances problem. But it noted that the effect of such measures will only materialize over the medium to long-term.

Source: Institute of International Finance

CHINA

Risks of hard lending recede, power transition would not lead to policy changes

Credit Suisse revised upward its projections for China's economic growth to 7.7% in 2012 and 8% in 2013, from an earlier forecast of 7.5% and 7.7%, respectively, and relative to a growth rate of 9.2% in 2011. It said that the economy has stabilized and the risk of a hard landing has abated. It added that the rise in infrastructure investment over the past months increased economic activity and improved sentiment. But it noted that the rebound in investment has been driven almost entirely by public spending. It said that private investment has shrunk despite monetary easing, due to rising labor costs and large overcapacity. It cautioned that a further rebound in growth and a sustained recovery would be uncertain in the absence of a pick up in private investment. It considered that the economy is on track for an L-shaped recovery, given that a strong rebound is unlikely.

Credit Suisse considered that the power transition in China would not lead to changes in broad policy, with the growth target set at 7.5% for 2013, unchanged from 2012. It also expected the fiscal policy stance to remain "active", which means expansionary, leading to fiscal deficits of 1.6% of GDP in each of 2012 and 2013 relative to 1.1% of GDP in 2011. Further, it anticipated monetary policy to be set at "stable", which amounts to a neutral stance for 2013. It also expected the new leadership to place a higher priority on structural changes, especially in areas such as urbanization and corporate tax cuts. It noted that China needs to open up its service sector to private investment and dismantle the banking oligopoly.

Source: Credit Suisse

UAE

Abu Dhabi's ratings affirmed, debt of government-related entities at 50% of GDP

Standard & Poor's Ratings affirmed Abu Dhabi's long- and short-term sovereign credit ratings at 'AA/A-1+', with a 'stable' outlook on the long-term rating. It also affirmed the transfer & convertibility assessment at 'AA+'. It said that Abu Dhabi's ratings are supported by its strong fiscal and external positions. It added that the emirate's large financial assets and sizable fiscal surpluses provide fiscal flexibility, and a buffer to counter the negative impact of oil price volatility on economic growth, government revenues and external accounts. Further, S&P indicated that the ratings are constrained by weak political institutions, a lack of transparency and public accountability, and limited availability of timely financial and economic data, particularly on government assets. It added that contingent liabilities from government-related entities (GREs), limited monetary policy flexibility, and the underdeveloped domestic bond markets constrain the ratings. It estimated Abu Dhabi's net asset position at 191% of GDP in 2012, which would provide a comfortable buffer to meet future contingent liabilities from GREs. It said that the Abu Dhabi reviewed the pace of its GREs' spending and tightened its monitoring and control over public sector debt to ensure debt sustainability over the medium-term and to mitigate financial risks. It estimated the debt of Abu Dhabi's GREs at around 50% of its 2011 GDP. Further, it said that Abu Dhabi's new pipeline would limit its exposure to regional risks, as it allows the emirate to export around 20% of its oil output outside of the Strait of Hormuz.

Source: Standard & Poor's

CÔTE d'IVOIRE

Favorable economic outlook for 2013

The International Monetary Fund projected Côte d'Ivoire's real GDP growth at around 8.5% in 2012 due to a stronger-than-expected economic recovery following last year's real GDP contraction. It considered that the country's economic outlook is favorable next year. It said that the authorities' ambitious investment plan for 2013 would stimulate and enhance private investment and maintain economic expansion. It added that successful completion of the cocoa sector reforms would increase the purchasing power of farmers and reduce rural poverty. But it noted that growth prospects would depend on the magnitude and pace at which the private sector's engagement will materialize. It said that the government's 2012 fiscal program takes into account new expenditure needs, but it encouraged the government to contain current expenditures in 2013 in order to make room for increased public investment, as well as for urgent social needs and for spending that targets the poor. It noted that authorities are taking steps to implement the delayed structural reforms, including in the energy sector and public banks, and are continuing to strengthen overall debt management. In parallel, the IMF approved the disbursement of $99.8m to Côte d'Ivoire under the Extended Credit Facility arrangement, bringing total disbursements under the arrangement to about $324.4m.

Source: International Monetary Fund

SUDAN

Inflation rate at 45% annually in October

Figures released by the Central Statistics Office indicate that the Consumer Price Index in Sudan increased by 45.3% in October 2012 from October 2011, and by 0.2% month-on-month. Prices of recreation & culture increased by 112% year-on-year, followed by transportation (+70.2%), clothing & footwear (+66.6%), alcoholic beverages & tobacco (+51.3%), health care (+50.5%), furnishing & household equipment (+48.7%), food & non-alcoholic beverages (+48.6%), communication (+48.5%), miscellaneous goods & services (+45.4%), restaurants & hotels (+19.5%), education (+13.6%) and housing, water, electricity & gas (+13.5%). Further, prices of clothing & footwear increased by 8.4% month-on-month, followed by alcoholic beverages & tobacco (+3.6%), miscellaneous goods & services (+3.1%), restaurants & hotels (+2.8%), recreation & culture (+2.5%), furnishing & household equipment (+1.7%), and healthcare and housing, water, electricity & gas (+0.6%, each); while prices of communication decreased by 5.4% month-on-month, followed by transportation (-5.2%), education (-1.1%), and food & non-alcoholic beverages (-0.1%). The high inflation rate is attributed to the rise in the prices of imported food and consumer goods. The government expected inflation to maintain its upward trend for the remainder of the year as the impact of reduced fuel subsidies has not taken its full effect yet and because the Central Bank of Sudan devalued the Sudanese pound last July to reduce the gap with the black market exchange rate.

Source: Central Statistics Office, Byblos Research

DEM REP CONGO

Fiscal balance to remain in deficit over the near term

Business Monitor International projected the Democratic Republic of Congo's fiscal deficit at 3.7% of GDP in 2013. It anticipated that the DRC's fiscal balance will remain in deficit during the 2013-17 period due to administrative weakness, a narrow tax base, and persistently high expenditures, despite a high economic growth rate over the covered period. It said that growth in government revenues, which are dependent on income from the mining industry, will be more restrained in the coming years as global metal prices are unlikely to regain recent highs. It noted that the DRC has a very narrow tax base given that much of the rural population is engaged in subsistence farming, and that many urban inhabitants work in the informal economy. It expected public revenues to stagnate as a percentage of GDP despite the increase in absolute terms, due to statistical base effects caused by a rapidly growing GDP, and the need for structural reforms. It added that government expenditures will remain elevated due to pressing infrastructure needs and the political difficulty of cutting spending. In parallel, BMI pointed out that an improved security situation would lead to lower military spending, while a proposed new mining code would boost government revenues. But it noted that weak administrative systems and corruption make effective fiscal reforms difficult to achieve in the near-term. It said that the fiscal outlook would be vulnerable to an economic slowdown in China, as it would affect global commodity prices.

Source: Business Monitor International

BANKING

SAUDI ARABIA

Lending up 16% year-on-year

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR1,689.2bn at the end of October 2012, constituting an increase of 2.1% from the previous month, a growth of 9.4% from end-2011, and a rise of 10.1% from end-October 2011. Loans totaled SAR975.8bn, increasing by 15.2% from end-2011 and by 1.2% from the preceding month. Total loans grew 15.8% year-on-year, driven mainly by improving consumer and public spending as well as recovering corporate credit demand. The system's non-performing loans were equivalent to 2% of total loans at end-October 2012, while provisions coverage stood at 138%. In parallel, aggregate deposits reached SAR1208,3bn at end-October, increasing by 2.4% month-on-month and by 9.5% from end-2011. Total deposits grew by 13.1% year-on-year, driven by public sector deposits. The loans-to-deposits ratio fell for the first time this year to 80.7% in October 2012 from 81.7% at the end of the preceding month but remained higher than the 76.7% ratio at end-2011. The sector's aggregate profits reached SAR2.8bn in October 2012, up by 33.3% from the 2012 record low of SAR2.1bn in September 2012. But profits fell by 6% from the same month last year due to base effect, as October was the second most profitable month last year. The moderation in profits' growth in the first nine months reflects downward pressure on margins and an increase in risk costs.

Source: Saudi Arabian Monetary Agency, Deutsche Bank

KUWAIT

Annual loan growth at 5% in October, liquidity at comfortable levels

Figures issued by the Central Bank of Kuwait show that total assets of commercial banks reached KD46.3bn at the end of October 2012, constituting a decrease of 0.9% month-on-month, and a rise of 5.1% from end-2011 and 6.5% from end-October 2011. Lending to the private sector reached KD26.8bn at end-October 2012, constituting a 0.2% decrease from the preceding month as corporate lending declined by 0.3% month-on-month. Also, lending increased by 4.7% year-on-year, down from a 5.5% annual rise in the previous month. Retail lending remained strong and posted a 12% year-on-year growth, compared to a 4.5% rise in corporate lending. Also, the sector's aggregate deposits totaled KD32.7bn at end-October 2012, unchanged from the previous month, but up by 6.5% from end-2011 and by 9.2% from end-October 2011. The loans-to-deposits ratio regressed to 81.7% in October 2012 from 82% in the previous month, 83.3% at end-2011, and 85% in October 2011. Liquidity, which remains at comfortable levels, is weighing on the banking sector's asset yields given the prevailing slow growth in lending.

Source: Central Bank of Kuwait, EFG Hermes

NIGERIA

Ratings on three major banks upgraded

Standard & Poor's raised its long-term counterparty credit ratings on First Bank of Nigeria, Zenith Bank, and Guaranty Trust Bank to 'BB-' from 'B+', and revised the outlook on the ratings to 'stable' from 'positive'. It affirmed the 'B' short-term counterparty credit ratings on all three banks. It also upgraded the Nigeria national scale long-term ratings on the three banks to 'ngAA-' from 'ngA+', and affirmed their 'ngA-1' short-term ratings. The agency said that its rating actions on the three banks follow its earlier upgrade of Nigeria's long-term sovereign credit ratings to 'BB-' from 'B+' with a 'stable' outlook. It said that the improvement in the government's fiscal buffers and external position and the ongoing reform momentum would benefit the three banks, mainly through the expected strong economic growth, especially in the non-oil sector. It noted that treasury bills and other government or government-related debt account for about 25% to 30% of the three banks' total assets. It added that the 'stable' outlook on the three banks' ratings reflects that on the sovereign and the expectations that the banks' business and financial profiles will remain relatively unchanged over the next 12 months.

Source: Standard & Poor's

INDIA

NPLs on the rise

Fitch Ratings anticipated that the Indian banking system's reported gross non-performing loans (NPL) ratio will increase to around 4.2% for the fiscal year ending March 2013, as the economic downturn continues. It noted that restructured assetsm which are not included in the reported NPLs, have also increased significantly. As such, it estimated the banking sector's total NPLs and restructured assets ratio at above 10% in FY2012/13. It pointed out that the average NPL ratio for the top 10 government banks is approximately 3.7%. It said that gross NPLs in the 10 largest government banks rose by about 60% year-on-year and by 32% from the end of FY201/12 in the first half of FY2012/13. It expected this trend to continue, as the impact of the economic slowdown is fully reflected in the banks' asset quality performance. It added that the top 10 state-owned banks account for the bulk of the stock of NPLs' and restructured assets, and that they account for over 70% of the Indian banking system's assets and are a key driver in shaping system averages. Further, the agency said that prolonged stress in the infrastructure sector will significantly weigh on the sector's assets' quality and will lead to a large increase in problem loans. It noted that small and medium-sized Indian banks with concentrated regional profiles would be the most vulnerable if stress levels increase. It added that larger banks with diversified loan portfolios and better funding profiles would be able to absorb losses through profits alone.

Source: Fitch Ratings

Global oil output to grow by 2% in 2013

Global oil production is projected to reach 92.5 million barrels per day (b/d) in 2013, constituting an increase of 2.4% from 90.3 million b/d in 2012. The Organization of the Petroleum Exporting Countries' (OPEC) output is anticipated to account for 42% of global production in 2013. Crude oil production is forecast to reach 32.4 million b/d in 2013, equivalent to 83.5% of total OPEC supply; while natural gas liquids' production is projected at 6.4 million b/d in 2013, equivalent to 16.5% of total OPEC supply. In parallel, total non-OPEC output would represent 55.7% of global oil production in 2013. The Organization for Economic Cooperation and Development countries' production is projected to reach 20.2 million b/d, equivalent to 39.2% of total non-OPEC supply. It would be followed by Asia with 7.8 million b/d (15.1%), Latin America with 3.9 million b/d (7.6%) and Africa with 2.3 million b/d (4.5%). Brent crude prices are forecast to reach $103.8 a barrel on average in 2013 and to rise by 0.7% to $104.5 a barrel on average in 2014. Further, prices of Brent ICE futures increased by 1.9% in November to $111.2 a barrel, and prices of WTI NYMEX Futures rose by 3.4% to $89.5 a barrel in November. In parallel, U.S. crude imports rose by 112,000 barrels per day (b/d) on December 5 from the preceding week to about 8.2 million b/d; while U.S. crude output remained unchanged at 6.8 million b/d. Also, distillate stocks in the U.S. increased by 3 million barrels, against expectations of a 850,000 barrels rise on December 5th.
Source:Economic Intelligence Unit, Citigroup, Byblos Research

Libya announces new national oil company

The Libyan Oil & Gas Ministry proposed a plan to separate the National Oil Corporation's exploration and production capacities from refining. The suggested plan is for the establishment of a new corporation to engage in industrial operations, whether in oil refining or petrochemicals. The project is expected to cost about 45 billion dinars, or $5.8bn. Both corporations would be affiliated to the Oil & Gas Ministry and would have offices in Tripoli and Benghazi. The new company would oversee all existing oil-related companies, build new projects and secure funds.
Source: Magharebia News, Byblos Research

South Sudan to restart oil exports by end-2012

South Sudan is expected to restart its oil exports through Sudan's pipelines by the end of 2012, after successful talks between both countries on border security. The new border tensions have delayed the restart of oil production, which was originally scheduled for November 15th. Both countries agreed to withdraw their armies from the disputed border as a necessary step to resume oil exports. South Sudan declared its independence from Sudan last year after decades of civil war.
Source: Thomson Reuters

Iran oil exports to drop by 25% in December 2012

Iran's crude oil exports are projected to drop by 25% in December from the preceding month to 834,000 barrels per day, the lowest level since Western sanctions were imposed this year. Japan and South Korea's Iranian crude oil imports fell by 40% each year-on-year in October 2012, while Turkey's Iranian crude imports declined by 30% over the same period.
Source: Thomson Reuters

Base Metals: Global steel demand to grow by 5% in 2013

Global steel demand is forecast to reach 1,597.4 million tons in 2013, constituting an increase of 4.5% from 1,528.1 million tons in 2012. Chinese demand is expected to reach 703.2 million tons in 2013, equivalent to 44% of global steel demand. Other Asian countries would follow with 337.7 million tons (21.1%), the EU with 161.2 million tons (10.1%), and members of the North American Free Trade Agreement (NAFTA) with 136.5 million tons (8.5%). In parallel, global steel production is projected to reach 1,601.8 million tons in 2013, constituting an increase of 5.5% from 1,601.8 million tons in 2012. China's steel production is expected to reach 747 million tons in 2013, equivalent to 46.6% of global output. Other Asian countries would follow with 301.2 million tons of output (18.8%), the EU with 166.5 million tons of output (10.4%), and members of NAFTA with 129.5 million tons (8.1%). Global steel consumption growth is anticipated to accelerate to 4.5% in 2013 from 2.4% in 2012, and to slow down to 3.5% in 2014. In parallel, overall global steel production is forecast to grow by 5.5% in 2013 and by 3.3% in 2014. Also, EU steel prices are forecast to average $589 per ton in 2013 and to decrease to $557 per ton in 2014.
Source: Economic Intelligence Unit, Byblos Research

Precious Metals: Gold jewelry consumption to rise by 4% in 2013

Global gold demand is expected to reach 4,103 tons in 2013, constituting a rise of 4.2% from 3,936 tons in 2012. Global gold jewelry consumption is projected to reach 2,010 tons in 2013, equivalent to 49% of global gold demand. Global gold jewelry demand is forecast to increase by about 6.2% in 2013 relative to a 4.1% decline in 2012 due to an improved global economic outlook. China's gold jewelry consumption is expected to reach 615 tons in 2013, equivalent to 30.6% of global jewelry demand. It would be followed by India with 531 tons (26.4%), the U.S. with 102 tons (5.1%), Russia with 86 tons (4.3%), Turkey with 66 tons (3.3%), the UAE with 57 tons (2.8%) and Saudi Arabia with 51 tons (2.5%). China is anticipated to remain the world's largest jewelry consumer during 2013. In parallel, the price of gold decreased by 0.8% in November to $1,712.7 a troy ounce on November 30, while that of silver rose by 2.7% in November to $33.3 a troy ounce. Palladium prices increased by 12.6% in November to $688.2 a troy ounce and platinum prices rose by 1.5% to $1,604.6 a troy ounce. Gold prices are projected to rise by 7.3% year-on-year to average $1,803 a troy ounce in 2013.
Source: Economic Intelligence Unit, Byblos Research

Global Commodity Outlook

(3-months LME, $/ton)	2012e	2013f	2014f	2015f
Aluminum	2,057	2,100	2,175	2,250
Copper	7,970	7,965	7,775	7,500
Lead	2,060	2,090	2,200	2,250
Nickel	17,833	21,770	24,400	24,000
Tin	20,972	22,750	22,875	25,000
Zinc	1,956	2,040	2,125	2,220
(Spot price, $/ounce)				
Gold	1,679	1,749	1,655	1,540
Palladium	638	744	925	925
Platinum	1,556	1,675	1,775	1,825
Silver	31.3	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 Stable	-3.6	9.9	2.8	5.7	1.2	2.6	10.3	2.0
Angola	BB- Stable	Ba3 Stable	BB- Stable	- -	BB Stable	12.6	30.9	18.0	47.1	7.5	-	12.0	-
Egypt	B Negative	B1 Negative	B+ Negative	BB+ Negative	CCC Stable	-9.9	76.4	14.8	44.6	6.7	127.8	-2.0	-
Ethiopia	-	-	-	-	B Stable	-1.6	37.3	26.5	276.7	-	-	-6.3	0.2
Ghana	B Stable	- -	B+ Stable	- -	B Stable	-4.3	43.4	20.4	59.4	-	-	-6.5	3.2
Ivory Coast	- -	- -	- -	- -	B Stable	-5.7	67.9	47.3	100.0	-	-	1.0	0.3
Libya	- -	- -	B Stable	- -	B Stable	-	-	15.1	28.2	2.0	-	4.4	-
Mauritania	- -	- -	- -	- -	- -	-1.5	92.4	92.2	100.0	-	560.0	-6.5	0.01
Morocco	BBB- Negative	Ba1 -	BBB- Stable	BBB- Stable	B Stable	-6.9	54.4	24.6	81.2	8.9	131.3	-7.4	2.3
Nigeria	BB- Stable	Ba3 Stable	BB- Stable	- -	B Positive	1.1	17.9	4.2	7.5	0.4	-	13.5	9.7
Sudan	- -	- -	- -	- -	C Stable	-2.9	73.1	60.5	397.9	-	-	2.1	-
Tunisia	BB Stable	Baa3 Negative	BBB- Negative	BBB Stable	CCC Stable	-3.2	42.4	47.9	105.5	9.3	309.3	-7.4	1.1
Middle East													
Bahrain	BBB Negative	Baa1 Negative	BBB Stable	BBB+ Negative	BB Stable	-2.3	36.5	138.6	65.1	6.2	354.8	4.2	-
Iran	- -	- -	B+ Stable	BB- Negative	CCC Stable	0.2	9.0	3.4	9.8	1.5	11.3	10.7	3.8
Iraq	- -	- -	- -	- -	CCC Stable	7.4	86.9	76.8	61.4	-	83.1	7.9	1.5
Jordan	BB Negative	Ba2 Negative	- -	BB Stable	CCC Positive	-6.0	70.6	21.6	53.9	4.8	71.0	-9.5	1.4
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	31.0	4.1	18.0	25.3	7.0	126.1	41.8	-
Lebanon	B Negative	B1 Stable	B Stable	B Stable	CCC Stable	-5.6	136.2	174.5	536.4	14.7	92.5	-14.4	2.3
Oman	A Negative	A2 -	- -	A Stable	A Stable	8.2	5.1	11.5	19.1	-	65.7	13.2	0.2
Qatar	AA Stable	Aa2 Stable	- -	AA- Stable	AA Stable	8.0	32.5	72.6	123.1	9.1	642.6	28.4	-
Saudi Arabia	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	BBB Stable	15.2	7.5	16.3	29.8	2.1	19.7	24.4	13.0
Syria	- -	- -	- -	- -	CC Negative	-	-	-	87.7	-	-	-	1.1
UAE	- -	Aa2 -	- -	AA- Stable	BB Stable	2.9	16.9	41.0	59.3	6.6	445.1	9.2	5.5
Yemen	- -	- -	- -	B- Negative	CC Stable	-4.4	42.5	18.0	72.4	-	157.5	-3.5	-

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 (%)
Asia													
Armenia	- -	Ba2 Negative	BB- Stable	- -	- -	-2.7	35.1	65.5	453.3	-	357.9	-12.3	0.4
China	AA- Stable	Aa3 -	A+ Stable	A Stable	BBB Stable	-1.1	25.8	9.1	31.5	1.7	-	2.8	58.9
India	BBB- Negative	Baa2 Stable	BBB- Negative	BBB- Stable	BB Stable	-5.9	68.1	15.5	62.9	11.1	96.5	-2.8	16.8
Kazakhstan	BBB+ Stable	Baa2 -	BBB- Stable	- -	BBB Stable	5.7	10.9	76.1	136.2	29.7	432.4	7.6	8.4
Central & Eastern Europe													
Bulgaria	BBB Stable	Baa3 Stable	BBB- Stable	- -	BB Positive	-2.5	17.0	87.9	132.3	17.8	-	1.9	1.7
Romania	BB+ Stable	Baa3 -	BBB- Stable	BBB- Negative	BB Stable	-4.1	33.0	67.4	175.7	23.7	246.9	-4.2	2.6
Russia	BBB Stable	Baa1 Positive	BBB Stable	- -	BBB Stable	0.8	9.6	22.5	71.9	9.7	-	5.5	-
Turkey	BB Stable	Ba1 Positive	BBB- Stable	BB Stable	B Stable	-1.3	39.4	39.7	167.4	29.5	454.2	-9.9	13.4
Ukraine	B+ Negative	B1 Negative	B Stable	- -	CCC Stable	-4.0	36.5	76.4	142.1	34.9	-	-5.6	7.0

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	12-Nov-12	No change	12-Dec-12
Eurozone	Refi Rate	0.75	08-Nov-12	No change	06-Dec-12
UK	Bank Rate	0.50	08-Nov-12	No change	06-Dec-12
Japan	O/N Call Rate	0-0.10	20-Nov-12	No change	20-Dec-12
Australia	Cash Rate	3.25	06-Nov-12	Cut 25bps	04-Dec-12
New Zealand	Cash Rate	2.50	25-Oct-12	No change	31-Jan-13
Switzerland	3 month Libor target	0.00	13-Sep-12	No change	13-Dec-12
Canada	Overnight rate	1.00	23-Oct-12	No change	04-Dec-12
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	12-Nov-12	No change	12-Dec-12
Taiwan	Discount Rate	1.88	20-Sep-12	No change	27-Dec-12
South Korea	Base Rate	2.75	09-Nov-12	Cut 25bps	13-Dec-12
Malaysia	O/N Policy Rate	3.00	08-Nov-12	No change	31-Jan-13
Thailand	1D Repo	2.75	28-Nov-12	Cut 25bps	09-Jan-13
India	Reverse repo rate	8.00	30-Oct-12	No change	18-Dec-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	20-Nov-12	No change	20-Dec-12
South Africa	Repo rate	5.00	22-Nov-12	No change	22-Jan-13
Kenya	Central Bank Rate	11.00	07-Nov-12	Cut 200bps	Jan-13
Nigeria	Monetary Policy Rate	12.00	20-Nov-12	No change	Jan-13
Ghana	Prime Rate	15.00	Nov-12	No change	Jan-13
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	26-Oct-12	No change	30-Nov-12
Brazil	Selic Rate	7.25	28-Nov-12	Cut 50bps	16-Jan-13
Armenia	Refi Rate	8.00	06-Nov-12	No change	N/A
Romania	Policy Rate	5.25	02-Nov-12	No change	07-Jan-12
Bulgaria	Base Interest	0.03	01-Dec-12	Cut 1bps	N/A
Kazakhstan	Refi Rate	5.50	06-Aug-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.50	20-Aug-12	No change	N/A
Russia	Refi Rate	8.25	9-Nov-12	No change	N/A

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